



The National Committee for Macroprudential Oversight

Annual Report 2024



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

NOTE

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National Bank of Romania

25, Lipscani St., postal code 030031, Bucharest – Romania

Telephone: 40 21/312 43 75; Fax: 40 21/314 97 52

<http://www.cnsrmro.ro/>

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Organisation

The National Committee for Macroprudential Oversight (NCMO) comprises:



The National Bank of Romania. The NBR has an intrinsic role in maintaining financial stability, given its responsibilities arising from its multiple capacity as monetary, prudential, resolution and payment system oversight authority. Financial stability objectives are pursued both by way of its prudential, regulatory and resolution functions exerted on the institutions under its authority, and by the design and efficient transmission of monetary policy measures, as well as by overseeing the smooth functioning of systemically important payment and settlement systems.



The Financial Supervisory Authority. The FSA contributes to the consolidation of an integrated framework for the functioning and supervision of non-bank financial markets, of the participants and operations on such markets.



The Ministry of Finance. The MF is organised and run as a specialised body of central public administration, with legal status, subordinated to the Government, which implements the strategy and Government Programme in the field of public finance.

Overview

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.

1. The National Committee for Macroprudential Oversight's activity in 2024

1.1. Macroprudential policy framework in Romania and the European Union

Macroprudential policies contributed to maintaining price stability in Romania and the other EU Member States in 2024 as well, in a context marked by lingering electoral and geopolitical uncertainties worldwide.

In contrast to an increasingly risk-ridden environment, the solvency and profitability of credit institutions show a resilient banking sector.

During its last meeting of 2024, the General Board of the European Systemic Risk Board (ESRB) concluded that the risks to financial stability in the EU had increased in the latter half of the year, on the back of political uncertainty and ever stronger geopolitical tensions. The potential drivers of tail risk scenarios include the introduction of new trade restrictions, the escalation of the conflict between Russia and Ukraine, as well as the tensions in the Middle East, accompanied by cyberattacks and acts of hybrid warfare.

These movements might amplify macroeconomic, credit and market risks, triggering heightened volatility in financial and commodity markets.

The General Board of the ESRB drew attention to the risk of a disorderly adjustment in global financial markets, highlighting potential overvaluations of certain assets, such as US stocks, crypto-assets and high-yield bonds. Moreover, looser regulatory standards in some non-EU jurisdictions could boost additional risk-taking.

In light of these developments, the ESRB emphasised the need for the EU to reconsider its priorities, fostering internal preparedness and cooperation, maintaining or even strengthening regulatory and supervisory standards, with a particular focus on reinforcing the crypto-asset framework.

In addition, following the European Commission's consultation with the ESRB, the latter published a report¹ assessing the adequacy of macroprudential policies for non-bank financial intermediation.

¹ A system-wide approach to macroprudential policy, ESRB, 2024

During the first half of the legislative term, the ESRB requires the EC to close gaps in the regulatory framework and facilitate the sharing of data among authorities, drawing special attention to the vulnerabilities in money market funds and investment funds, as well as to implement the international recommendations on margining to ensure liquidity preparedness for margin calls.

As far as crypto-assets are concerned, the ESRB highlights the need for the EC to clarify the regulatory perimeter for crypto activities and harmonise the classification of crypto-assets across EU Member States, while ensuring that authorities have the essential data and analytical resources.

Cyber risks have also been a topic on the agenda of the General Board of the ESRB over the past years, becoming increasingly relevant amid digitalisation and the tensions surrounding international relations. The ESRB emphasised concentration risk among third-party providers and hybrid threats to critical infrastructure, which call for better data collection and coordination among the authorities.

1.2. Topics discussed during the NCMO meetings

During 2024, the Chairman of the NCMO convened four ordinary meetings of the National Committee for Macroprudential Oversight, which were held at the NBR headquarters on 28 March, 18 June, 17 October and 16 December.

During the four meetings, papers on topics concerning the macroprudential policy and the systemic risk to financial stability in Romania were presented to Board members. These papers were subject to debates and analyses based on which measures were adopted for NCMO member authorities.

In line with its mandate and complying with the principle of transparency and institutional accountability, the NCMO continued its communication to the public in 2024, by posting on its website press releases after each General Board meeting. The NCMO General Board members discussed, agreed on and approved the contents of press releases during the meetings.

The NCMO General Board meeting of 28 March 2024. The NCMO General Board members met in early 2024 to discuss the recalibration of the countercyclical capital buffer, as well as the draft *Annual Report* of the National Committee for Macroprudential Oversight for 2023. The agenda also included reports on: (i) the actions taken by the addressees in order to implement the recommendations issued by the NCMO in 2023, as well as those issued in the previous period, (ii) the calendar for implementing measures domestically in view of the ESRB recommendations, (iii) the systemic risks to financial stability identified by member authorities as per their specific area of competence, (iv) the risks generated by the commercial real estate market, (v) the financing of companies and households, and

(vi) the credit institutions' compliance with the minimum requirement for own funds and eligible liabilities (MREL) as at the reference date of 1 January 2024 (the end of the transition period laid down in the European framework), which shall be further met on a permanent basis.

During the meeting, the following acts were approved:

- NCMO Recommendation No. R/1/2024 on the countercyclical capital buffer in Romania, whereby the National Bank of Romania was recommended to maintain the countercyclical buffer rate at 1 percent, as well as to further monitor developments in the economy and lending, given the multiple sources of uncertainty internationally and in the region;
- NCMO Decision No. D/1/2024 on the *Annual Report* of the National Committee for Macroprudential Oversight for 2023.

The NCMO General Board meeting of 18 June 2024. On the agenda of the June 2024 meeting were topics concerning macroprudential policy and systemic risk, namely: (i) the regular analysis on the recalibration of the countercyclical capital buffer, (ii) complying with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators, (iii) not applying through voluntary reciprocity the macroprudential policy measure adopted by Portugal, and (iv) keeping the Republic of Moldova's material third country status for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates. Moreover, the NCMO General Board was informed of: (i) the regular analysis on the recalibration of the systemic risk buffer, (ii) the systemic risks to financial stability identified by NCMO member authorities as per their specific area of competence, and (iii) the financing of companies and households.

The meeting ended with the approval of the following acts:

- NCMO Recommendation No. R/2/2024 on the countercyclical capital buffer in Romania, whereby the National Bank of Romania was recommended to maintain the countercyclical buffer rate at 1 percent, given the context marked by multiple sources of geopolitical uncertainty, as well as a macroeconomic environment dominated by the twin deficit issue;
- NCMO Recommendation No. R/3/2024 on compliance with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators, whereby the National Bank of Romania and the Financial Supervisory Authority were recommended to comply with the provisions of Guidelines EBA/GL/2023/10 from the date when there are relevant institutions (G-SIIs) within their jurisdiction and to ensure their enforceability against the relevant institutions;
- NCMO Decision No. D/2/2024 on the NCMO intention to comply with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators, according to which the NCMO intends to comply

with Guidelines EBA/GL/2023/10 by transposing its provisions into the NCMO practices from the date when there is a relevant institution (G-SII) within its jurisdiction;

- NCMO Decision No. D/3/2024 on identifying material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates, according to which the Republic of Moldova was identified as a material third country for 2024 too;
- NCMO Decision No. D/4/2024 on not applying through voluntary reciprocity the macroprudential policy measure adopted by Portugal. Given that the eligible exposures of the Romanian banking sector to this country are immaterial, the macroprudential policy measure adopted by the Portuguese authorities, set forth by Recommendation ESRB/2023/13, shall not be reciprocated.

The NCMO General Board meeting of 17 October 2024. During the October 2024 meeting, Board members assessed analyses and adopted measures concerning macroprudential policy and systemic risk, namely: (i) the regular analysis on the recalibration of the countercyclical capital buffer, (ii) the regular analysis on the identification of systemically important institutions, (iii) the results of the regular analysis on the systemic risk buffer, and (iv) not applying through voluntary reciprocity the macroprudential policy measures adopted by Italy and Denmark. In addition, the NCMO General Board was informed of: (i) the impact of credit institutions' funding plans on the flow of credit to the real economy, (ii) the systemic risks to financial stability identified by NCMO member authorities as per their specific area of competence, (iii) the characteristics and risks associated with banking sector exposures to the government sector, (iv) the systemically important non-financial corporations in Romania, and (v) the calendar for national measures that should be adopted pursuant to ESRB recommendations.

The NCMO meeting ended with the approval of the macroprudential policy measures below:

- NCMO Recommendation No. R/4/2024 on the countercyclical capital buffer in Romania, whereby the National Bank of Romania was recommended, in the context of tensions surrounding macroeconomic equilibria, to maintain the countercyclical buffer rate at 1 percent;
- NCMO Decision No. D/5/2024 on not applying through voluntary reciprocity the macroprudential policy measure adopted by Italy, whereby the NCMO General Board decided not to reciprocate the macroprudential policy measure adopted by the Italian authorities, set forth by Recommendation ESRB/2024/2;
- NCMO Decision No. D/6/2024 on not applying through voluntary reciprocity the macroprudential policy measure adopted by Denmark. Given that the eligible exposures of the Romanian banking sector to this country are immaterial, the macroprudential policy measure adopted by the Danish authorities, set forth by Recommendation ESRB/2024/3, was not reciprocated.

The NCMO General Board meeting of 16 December 2024. On the agenda of the NCMO General Board's last meeting in 2024 were topics concerning macroprudential policy and systemic risk, namely: (i) the regular analysis on the recalibration of the countercyclical capital buffer, (ii) the analysis on the recalibration of the capital buffer applicable to systemically important institutions identified at national level (O-SII buffer) for 2025, alongside the proposals on (iii) establishing an NCMO working group on credit guarantee government programmes, and (iv) submitting to the ESRB the final report on the implementation of Recommendation A of Recommendation ESRB/2019/18 on exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country. In addition, the NCMO General Board was informed of: (i) the possibility of using capital buffers in relation to other minimum requirements applied to credit institutions, (ii) the regular analysis on the systemic risks to financial stability identified by NCMO member authorities as per their specific area of competence, (iii) the solvency stress test results for the banking sector, (iv) the calendar for adopting measures domestically in view of implementing the ESRB recommendations, and (v) the macroprudential measures taken by member states of the European Economic Area (EEA) in 2024.

During the meeting, Board members adopted the following recommendations and decisions on national macroprudential policy:

- NCMO Recommendation No. R/5/2024 on the countercyclical capital buffer in Romania, whereby the National Bank of Romania was recommended to maintain the countercyclical buffer rate at 1 percent, in an environment marked by uncertainty and geopolitical challenges, but also in the context of tensions surrounding macroeconomic equilibria;
- NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania, whereby the National Bank of Romania was recommended to impose, starting 1 April 2025, a capital buffer for other systemically important institutions (O-SII buffer), on an individual or consolidated basis, as applicable, calculated based on the total risk exposure amount for all the credit institutions identified as having a systemic nature according to the data reported as at 30 September 2024;
- NCMO Decision No. D/7/2024 to establish an NCMO working group on credit guarantee government programmes within the Technical Committee on systemic risk. The working group is tasked with: (i) identifying measures to better direct state-guaranteed loans to systemically important sectors, concurrently with reducing this type of exposure over time, and (ii) analysing how risks stemming from state-guaranteed loans to non-financial corporations could affect the banking system and real economy.

1.3. The activity of working groups within the NCMO

NCMO Working Group on addressing vulnerabilities stemming from the widening of the agri-food trade deficit. NCMO Decision No. D/4/16 December 2019 set forth the establishment of a Working Group tasked with the identification of possible solutions to mitigate risks stemming from the widening agri-food trade deficit. The Working Group carried out its activity over the course of 2020, the results being presented in the analysis published on the NCMO website.

NCMO Working Group on supporting green finance. It was established according to NCMO Decision No. D/4/14 October 2020, with the aim of identifying possible solutions to support green finance. The Working Group conducted its activity throughout 2021, the results being presented in the analysis published on the NCMO website.

NCMO Working Group on sustainable increase in financial intermediation. The third NCMO Working Group was established pursuant to NCMO Decision No. D/7/15 December 2021 and was tasked with identifying possible solutions for the sustainable increase in financial intermediation. The Working Group carried out its activity over the course of 2022, the results being presented in the analysis published on the NCMO website.

The key proposals of the Working Groups' analyses and their implementation are detailed in Chapter 4 of this *Report*.

In its last meeting of 2024, the NCMO General Board approved Decision No. D/7/16 December 2024 establishing an NCMO Working Group on government credit guarantee programmes. The purpose of this Working Group is to identify possible measures to better allocate state-backed loans for sectors of strategic importance. The NCMO Working Group will carry out its activity over the course of 2025 and will complete it by drafting a report with proposals for the possible measures identified as recommendations to the three NCMO member institutions (the National Bank of Romania, the Government and the Financial Supervisory Authority).

1.4. Collaboration of NCMO member authorities with the macroprudential authority at EU level

In order to ensure financial stability in the single market and identify the best macroprudential supervisory practices, especially as regards the adoption of effective and efficient measures, the coordination of macroprudential policies and the cooperation between the relevant national and European authorities need to be further developed. To this end, each NCMO member authority participates in national working groups, such as the NCMO working groups, and in those established by the European Systemic Risk Board (ESRB). Specifically, in 2024, representatives of the National Bank of Romania, the Financial Supervisory

Authority and the Ministry of Finance participated in the meetings of the following ESRB working groups:

- The Working Group on the use of a positive neutral countercyclical capital buffer (PN CCyB) rate in the European Economic Area, which carried out its activity over the course of 2024, focused on peer learning to foster a shared understanding of the use of a positive neutral CCyB rate across EU countries. This practice gained traction after the COVID-19 pandemic, when several countries started to implement such a rate even when cyclical systemic risks were neither very low nor high, with the aim of strengthening the banking sector's resilience to various shocks. The activity of the Working Group concluded with the publication on the ESRB's website of a report on using the countercyclical capital buffer (CCyB) to build resilience early in the cycle. The report – *Joint ECB/ESRB Report on the use of the positive neutral CCyB in the EEA* – builds on an extensive survey conducted among all ESRB member institutions and analyses the experiences of jurisdictions having implemented or considering the implementation of a PN CCyB as well as the views of those that have not implemented it. Through this analysis, the report allows for a deeper understanding of different perspectives and identifies potential obstacles to the use of a PN CCyB approach. For further details, see Box B. The use of the positive neutral countercyclical capital buffer rate approach in the European Economic Area.
- The Task Force on the overlap between capital buffers and other minimum requirements for credit institutions became operational at end-2024 and aims to further develop the existing technical toolkit on this topic. It serves as a forum for the exchange of ideas and views between Member States, the ESRB Secretariat and the ECB, on the experience gained in implementing methodologies to assess the extent to which capital buffers can be used.
- Compliance Assessment Team for Recommendation A of Recommendation ESRB/2022/9 on vulnerabilities in the commercial real estate sector in the European Economic Area and Recommendation F of Recommendation ESRB/2016/14 on closing real estate data gaps. Experts from the national authorities of Member States, including a representative of the National Bank of Romania, participated in the Working Group. The activity of the Working Group started in March 2024 and continued throughout the year, culminating in a *Compliance Report* on the ESRB recommendations, which is to be published on the ESRB's website in 2025.
- The ATC Analysis Working Group of the ESRB (AWG) is a permanent sub-group of the ESRB Advisory Technical Committee (ATC), tasked with identifying the main systemic risks, both through regular analyses and by addressing topical issues, depending on developments in the risk environment. The first category includes the quarterly *Risk Dashboard*, the ESRB Bottom-Up Survey, the assessment of risks and policy priorities, etc. In 2024, other topical issues were also analysed, such as the geopolitical risk and economic fragmentation, the cyber risk, the real estate market risks, the systemic liquidity risk, the interest rate risk and the climate-related risks.

- The European Banking Authority (EBA), the European Insurance Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA) are required, under the legislation in force, to assess the resilience of the banking sector, insurance companies, investment funds, and central counterparties in Europe in the event of adverse macroeconomic developments materialising. These stress tests rely on EU-wide macroeconomic narratives and harmonised scenarios for possible developments in the macroeconomic environment and financial markets, which are prepared in collaboration with the ESRB, within the Task Force on Stress Testing (TFST)². In 2024, the TFST activity focused on outlining the adverse scenario used for the 2025 EU-wide stress test assessing the solvency of EU banks³. The adverse scenario is designed to ensure a significant severity of various macroeconomic and financial shocks across all EU countries. It is based on a hypothetical severe escalation of geopolitical tensions, accompanied by trade policies that would cause an increase in energy and commodity prices, supply chain disruptions and adverse effects on private consumption and investment coupled with a worldwide economic contraction. In addition, the TFST defined the adverse scenario for ESMA's 2025 stress test exercise on money market funds (MMFs). Furthermore, numerous studies relevant to the stress testing of financial institutions were discussed within the TFST. They covered a wide range of topics focused on aligning with best practices and methodologies used in designing macro-financial scenarios for testing the resilience of the European financial system.

² The TFST Working Group brings together experts from the national regulatory and supervisory authorities, including the NBR.

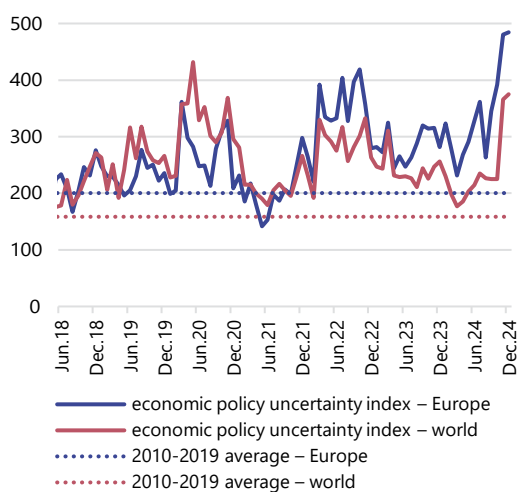
³ <https://www.eba.europa.eu/publications-and-media/press-releases/eba-launches-its-2025-eu-wide-stress-test>

2. Overview of the main risks and vulnerabilities to financial stability

2.1. Assessment of risks and vulnerabilities at global level

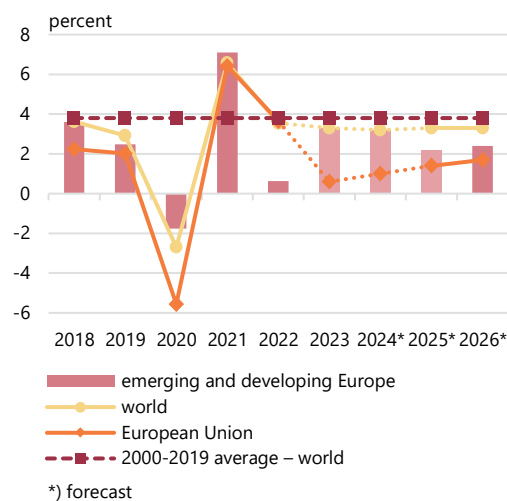
During 2024, risks to financial stability at global level saw mixed developments. The external macroeconomic environment continued to be marked by multiple uncertainties, owing to the escalation of geopolitical tensions, as well as amid the important election year internationally, with implications for the policy mix applied in the world's major economies, especially with respect to global trade (Chart 2.1). The uncertainties surrounding trade and fiscal policies were particularly relevant given that the world economy was already relatively fragmented following the successive shocks over the past years and in the context of high public debt worldwide.

Chart 2.1. Economic policy uncertainty indices for Europe and worldwide



Source: Baker, Bloom & Davis (2016)

Chart 2.2. Economic growth worldwide, in the EU and in European emerging countries



Source: IMF (*World Economic Outlook Update*, January 2025)

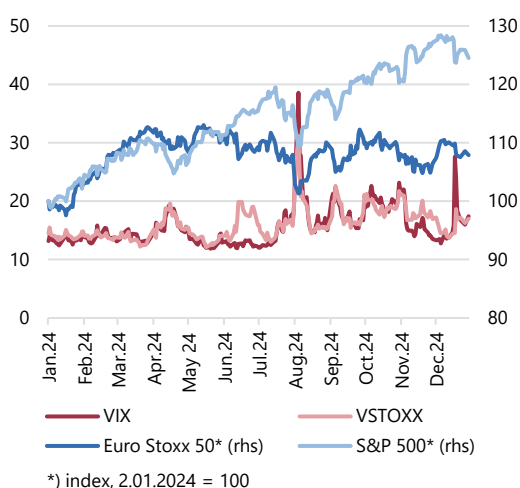
According to the latest IMF estimates⁴, global economic growth stood at 3.2 percent in 2024, with heterogeneous developments internationally (Chart 2.2). The US economy did better than expected, also on the back of the robust domestic demand, recording a 2.8 percent growth rate, while the EU economic activity posted a significantly lower pace of increase, i.e. 1 percent⁵. Disinflation continued at global level, the convergence of

⁴ *World Economic Outlook Update*, January 2025

⁵ Looking ahead, these divergences are expected to persist, also as a result of structural and competitiveness issues at the EU level. For further details, see, for instance, IMF, *Regional Economic Outlook for Europe*, October 2024, or Mario Draghi's report "The Future of European Competitiveness – A Competitiveness Strategy for Europe", 2024.

inflation to its target being relatively faster in advanced economies⁶. In this context, most major central banks began to ease monetary policy during 2024. Specifically, both the Fed and the ECB made successive policy rate cuts (by a cumulative 100 basis points each throughout 2024).

Chart 2.3. Stock market indices and their implied volatility in the US and Europe



Source: Refinitiv, CBOE, FRED, NBR calculations

These developments supported the upward trend in the prices of more risky international financial assets, despite temporary corrections and short episodes of heightened volatility, which exerted a relatively limited impact on the financial system as a whole (Chart 2.3). In this vein, the large fluctuations recorded in early August 2024, particularly in capital markets in Japan and the US, but also in forex and sovereign bond markets, amid the substantial unwinding of carry trades with the Japanese yen as funding currency⁷, stand out.

Government bond yields in developed economies witnessed relatively high volatility throughout 2024, against the background of increased uncertainties surrounding developments in economic activity and inflation, as well as in the context of the successive revisions of investor expectations on the monetary

policy stances of the major central banks. Electoral events were also relevant from this perspective, in an important election year worldwide, likely to exacerbate the risks related to fiscal policy stances, amid high public debt globally. At the European level, political and fiscal uncertainty increased investors' concerns about sovereign debt sustainability⁸, contributing to the rise in government bond yields in some EU Member States (especially in France).

2.2. Main challenges at national level

In Romania, risks to financial stability remained elevated in 2024, similarly to the situation at European level. Behind this stood the numerous uncertainties worldwide, fuelled by heightened geopolitical tensions as well as by the widening twin deficits and the modest economic expansion. Specifically, two severe risks were identified, namely global

⁶ Compared with emerging markets and developing economies. Nevertheless, mention should be made of the persistent inflation in the services sector in both the US and the euro area.

⁷ For further details, see, for instance, "The market turbulence and carry trade unwind of August 2024", *BIS Bulletin*, No 90.

⁸ Also reflected by fluctuations in the cost of credit risk protection (i.e. the CDS rates on bonds issued by some EU Member States). For further details, see, for instance, *BIS Quarterly Review*, September 2024.

uncertainties amid the multiple geopolitical events, the outlook pointing to a deterioration in the period ahead, and worsening of domestic macroeconomic equilibria. Adding to these are two other moderate risks: the default risk for loans to the private sector and the risk associated with challenges to cybersecurity and financial innovation.

Cyclical risks to financial stability may be compounded by structural vulnerabilities specific to the domestic economy, which are also seen to amplify in 2024. The main persistent vulnerabilities are (i) weak payment discipline in the economy and vulnerabilities in companies' balance sheets, (ii) low financial intermediation, (iii) the demographic problem and the skilled labour shortage, and (iv) climate change. In order to address these vulnerabilities, comprehensive and adequate policies should be prioritised at national level. In particular, the implementation of solutions aimed to fulfil firms' capitalisation requirements and improve payment discipline in the economy is likely to ease the pressure on the government support programmes for the economy and, implicitly, on the government budget by cutting expenses and laying the groundwork for increasing revenues, as a result of enhanced tax compliance and financial discipline overall.

Economic growth was modest, i.e. up 0.8 percent⁹ in 2024 versus 2023, being driven mainly by consumption (+3.8 percentage points) and the change in inventories (+0.8 percentage points). By contrast, net exports made a negative contribution to GDP expansion (-2.9 percentage points), the same as investment (-0.9 percentage points). The outlook points to a gradual rebound in activity by the end of 2025, with an estimated economic growth between 2.5 percent¹⁰ and 3.3 percent¹¹. Boosting investment with the help of non-repayable EU funds, in particular those under the National Recovery and Resilience Plan (NRRP), becomes all the more important as, according to the European Commission studies¹², they lead to significant additional economic growth (up to 3.7 percent by 2026). Nevertheless, the European Commission's *Report on the implementation of the Recovery and Resilience Facility*¹³, shows that Romania records significant delays in the implementation of the NRRP, with effects on future financial flows and additional pressures on the fiscal balance. By the end of 2024, a third of the NRRP funds (EUR 9.4 billion) had been cashed in, but only 65 percent (EUR 6.1 billion) of these funds had actually been spent. In addition, Romania is the only country which, due to insufficient measures to correct the excessive deficit¹⁴, was close to the suspension of commitments and payments of EU funds, with EUR 19.1 billion still available for collection.

Macroeconomic equilibria continued to deteriorate, with the wide twin deficits remaining among the main risk factors to financial stability. The 2024 budget execution ended with a deficit 1.7 times larger than in the previous year, equivalent to 8.7 percent of GDP

⁹ NIS Press Release No 88/10 April 2025 (Romanian only)

¹⁰ European Commission's Economic Forecast for Romania, November 2024

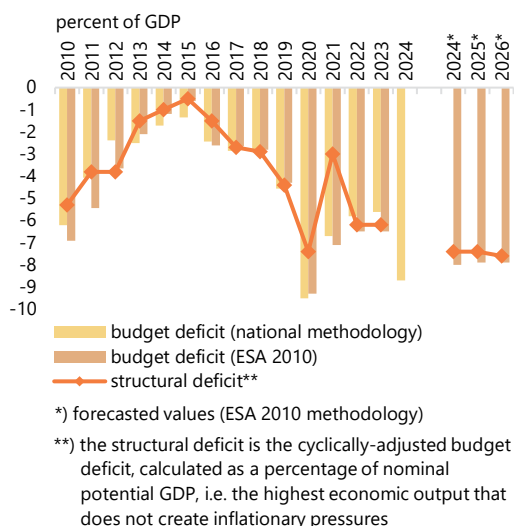
¹¹ *World Economic Outlook*, October 2024

¹² Pfeiffer, P., Varga, J., Veld, J., Quantifying Spillovers of Next Generation EU Investment, European Commission's Discussion Paper 144, July 2021

¹³ Recovery and Resilience Facility Annual Report

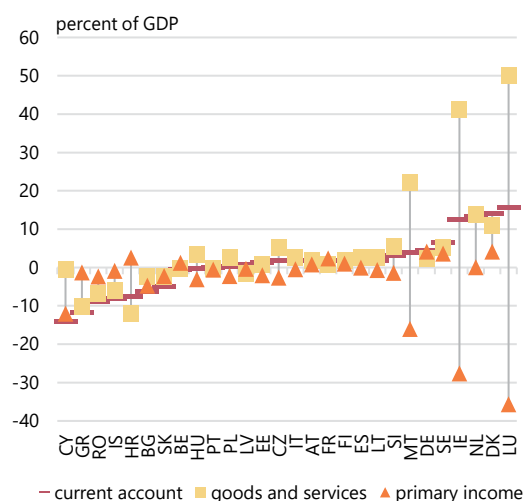
¹⁴ Recovery and Resilience Facility Annual Report

Chart 2.4. Budget deficit



Source: MF, European Commission

Chart 2.5. Current account and its main components in EU Member States (2024 Q4)



Source: Eurostat

(+3.1 percentage points versus 2023), close to the peak reached during the pandemic (-9.5 percent of GDP in 2020). Even though revenues stood 10 percent higher, expenditures grew at a faster pace (19 percent), reaching 41.2 percent of GDP, especially capital expenditure (68 percent), staff costs (24 percent) and goods and services expenses (21 percent). Revenue growth was underpinned by receipts from current income (17.4 percent), mainly insurance contributions, VAT, excise duties, wage and income tax, corporate income tax and non-tax revenues. Improving revenue collection should remain a top priority, especially given that Romania has the highest VAT collection gap in the EU (30.6 percent¹⁵ versus 7 percent). Estimates¹⁶ for the years ahead point to the budget deficit remaining the highest at EU level (-7.9 percent in 2025 and 2026), reflecting both structural and conjunctural factors (Chart 2.4). Specifically, uncertainties still linger over the fiscal and income policy, calling for convincing fiscal consolidation in compliance with tax rules¹⁷. In this vein, the Romanian Government has committed to implementing the medium-term fiscal-structural plan approved by the European Commission, which envisages the gradual narrowing of the budget deficit to below 3 percent of GDP over the next 7 years.

The external position worsened further, with Romania posting one of the highest current account deficits in the EU (-8.9 percent of GDP, 2024 Q4), significantly above those recorded by its peers in the region (-6.3 percent in Bulgaria, -0.3 percent in Hungary, 0.3 percent in Poland and 1.7 percent in Czechia, 2024 Q4, Chart 2.5). According to data for January-December 2024, the current account deficit reached EUR 29.4 billion, up 36.7 percent from the same year-ago period. The current account deficit is mainly driven by the deficit on trade in goods and services (EUR -21.4 billion, +36.1 percent in annual terms), specifically the goods deficit (EUR -32.9 billion, +13.3 percent). Vulnerabilities from Romania's net investment position became more pronounced, standing beyond the -35 percent alert threshold set by the European Commission.

¹⁵ EU VAT Gap Report 2024

¹⁶ According to European Commission estimates (AMECO database)

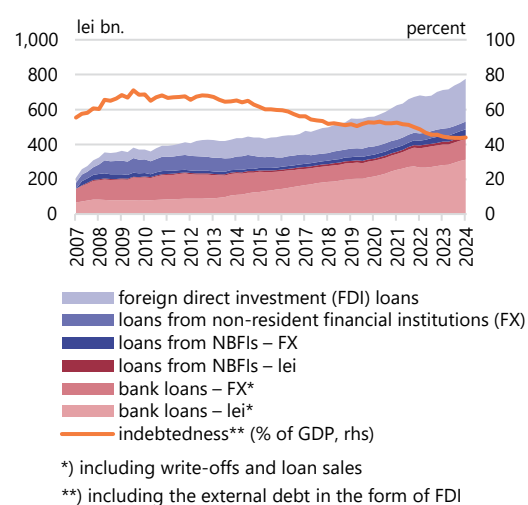
¹⁷ Fiscal Council of Romania's Position Note on the Public Budget and Fiscal Rules

Public debt continued its upward trend in 2024, i.e. up from 48.9 percent of GDP in 2023 to 54.6 percent in December 2024, with estimates pointing to a value close to 60 percent by 2026¹⁸. The long-term external debt service ratio declined marginally to 16.5 percent in December 2024 versus 16.7 percent in 2023, while the coverage of imports of goods and services was 5.8 months, compared with 5.6 months at 31 December 2023. The ratio of foreign exchange reserves held at the NBR to short-term external debt by remaining maturity stood at 100.3 percent at end-2024 against 99.7 percent at end-2023. The electoral events that took place in the last months of 2024, as well as the presidential elections of 2025, in conjunction with the fragility of Romania's sovereign rating, currently in the last investment grade category, with two rating agencies revising their outlook from "stable" to "negative", are likely to fuel investor concerns about the fiscal and external positions of the economy and increase the cost of government debt financing.

Real sector debt expanded at a faster pace in 2024 than in the previous year (9 percent versus 4.5 percent), amid the easing financial conditions and the pick-up in household consumer demand. Thus, private sector's total debt amounts to lei 776 billion (December 2024), accounting for 44 percent of GDP (Chart 2.6). The breakdown shows that households' financial debt grew at a brisker tempo than corporate debt (8.9 percent versus 7.7 percent at end-2024). By creditor, the largest share of corporate and household debt (51 percent, December 2024) is financed by banks and, to a lesser extent, by NBFIs (7 percent at end-2024). External intercompany loans make up a significant share of total debt (44 percent of corporate debt and 32 percent of real sector debt, December 2024), posting faster annual growth than that of financial debt (10.5 percent versus 7.7 percent in December 2024, in annual terms). Households' foreign currency-denominated loans are further on the wane (-17 percent at end-2024 in annual terms) and account for 9 percent of total sector debt, while loans in foreign currency from banks and NBFIs continued to post positive dynamics, but at a slower pace of increase (7 percent at end-2024, annual change). The slowdown in foreign currency-denominated loans to companies was driven by the narrower interest rate differential between leu- and EUR-denominated loans, on the back of the monetary policy decisions taken in the euro area.

Against this background, in 2024 Q4, banks pointed to a tightening of credit standards associated with the loans to non-financial corporations and consumer loans to households, and an easing of credit standards associated with the loans for house and

Chart 2.6. Private sector indebtedness by type of lender and currency



Source: NIS, NBR, NBR calculations

¹⁸ According to European Commission estimates (AMECO database)

land purchase. For 2025 Q1, credit institutions expect lending conditions for companies to remain unchanged, while those for households to ease for consumer loans and to tighten for housing loans.

Despite the positive developments and the rebound in lending to the real sector in 2024, financial intermediation in Romania remains modest (49.8 percent, calculated as bank assets-to-GDP ratio, 2024 Q3), being the lowest at European level, trailing significantly behind the EU average (213 percent) and peer countries in the region (93 percent in Poland and Bulgaria, 105.7 percent in Hungary). In terms of private sector credit as a share in GDP, Romania also ranks last among EU Member States, i.e. 39.8 percent versus 118.3 percent (EU average, 2024 Q3). Achieving a sustainable increase in financial intermediation requires that lending should focus on the companies in strategic business sectors such as those with high added value, knowledge-intensive industries, food or energy security and the defence industry, especially in view of the armed conflicts on the border with Romania.

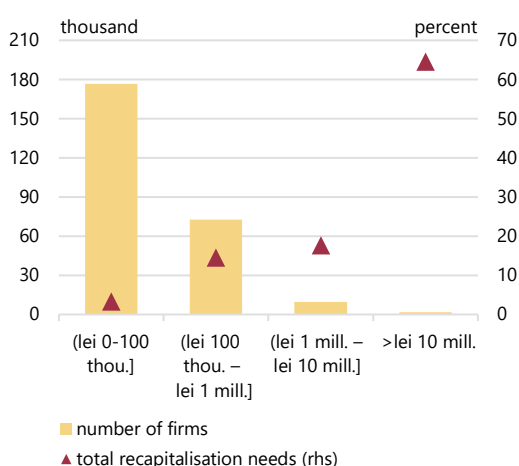
The resilience of non-financial corporations has been repeatedly tested in recent years, in 2023 the major challenges including the increases in costs, especially those of labour, commodities and materials, but also of financing, not matched by a corresponding growth of productivity. Against this background, the financial health of firms in Romania worsened in 2023 from the prior year, but was better than that recorded in 2021. The financing

pattern of companies, mainly through trade credit (31 percent of debt), remained unchanged in 2023 as well and could generate significant liquidity, payment discipline and contagion problems and hamper access to bank loans. Moreover, firms' capacity to meet their interest expense payments (interest coverage ratio – ICR, calculated as the EBIT-to-interest expenses ratio) eroded, with almost a third of firms reporting interest expenses being vulnerable to interest rate hikes (EBIT-to-interest expenses ratio below 2.5), i.e. 35 percent more than in the previous exercise.

The further chronic undercapitalisation of firms is closely related to the financing pattern and the modest financial education of companies in Romania. The number of firms with capitalisation shortfalls amounts to 260.5 thousand, or 31 percent of total firms in the economy, after having risen by 9 percent

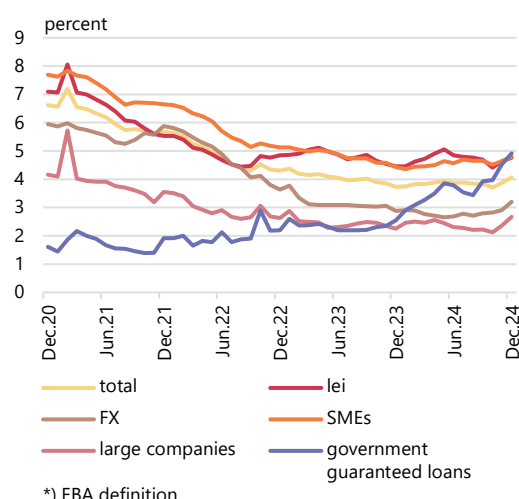
in annual terms. The recapitalisation needs of these companies total approximately lei 147 billion, being the equivalent of EUR 29.5 billion, i.e. a value exceeding the NRRP funds allocated to Romania (EUR 28.5 billion). At the same time, a small number of undercapitalised firms (approximately 1,700 or 1 percent) account for about 65 percent of total recapitalisation needs (Chart 2.7).

Chart 2.7. Distribution of undercapitalised firms and share of recapitalisation needs by capital shortfall



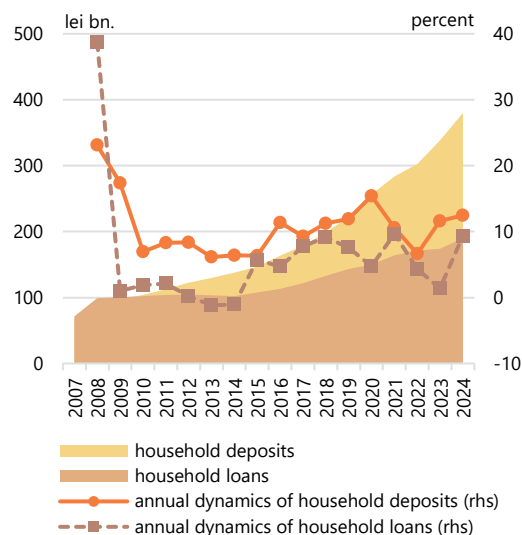
Source: MF, ONRC, NBR calculations

Chart 2.8. NPL ratio* of non-financial corporations in the post-pandemic period



Source: NBR

Chart 2.9. Households' loans and deposits



Source: NBR, NBR calculations

Loans to non-financial corporations continued to grow in 2024 (+7 percent in annual terms), albeit at a slower pace than in the preceding years (10 percent in 2023 and 19 percent in 2022), amid a lower volume of new business (-7 percent, 12-month cumulative flows, in December 2024 versus December 2023). The debt servicing capacity of non-financial corporations continued to improve throughout 2024, with signs of a slight worsening over the past two months. Specifically, the NPL ratio rose to 4.1 percent at end-2024, from 3.7 percent at end-2023, the increases being related to both SMEs (4.8 percent in December 2024, up 0.4 percentage points in annual terms) and large companies (2.7 percent in December 2024, +0.4 percentage points in annual terms), Chart 2.8. A sizeable contribution thereto made government-backed loans, as their volume of non-performing loans almost doubled from end-2023, pushing the NPL ratio higher, at 4.9 percent in December 2024 (+2.4 percentage points against December 2023), although the stock of these loans on banks' balance sheets declined by 3 percent in the same reviewed period.

Households continued to strengthen their wealth and resilience to shocks, amid the rise in financial assets and the decline in debt service-to-income ratio. In the latter case, the evolution was underpinned by the borrower-based macroprudential measures implemented by the NBR, which caused the indicator to drop to half as compared to the post-financial crisis period (2007-2008), supporting a sustainable level of indebtedness and enhancing the resilience of debtors to the multiple challenges faced in recent years. At the same time, households' net creditor position vis-à-vis the banking sector continued to strengthen, amid the faster growth in household saving in the form of deposits as compared to loans (12 percent versus 9 percent, December 2024, Chart 2.9). Nonetheless, new loans to households recovered significantly in 2024 (up 51 percent at end-2024, 12-month flows, annual terms), following a contraction in the previous year (-1 percent at end-2023). Behind this stood consumer loans (up 50 percent at end-2024, 12-month flows, annual terms), accounting for 67 percent of the annual volume of new business, amid the higher wage income and the stronger appetite for consumption of households. From 2024 H2 onwards, the dynamics of housing loans have also returned to positive territory, stepping up to 54 percent in December 2024 (12-month flows, annual terms).

Even though the debt servicing capacity of households worsened January through September 2024, it improved significantly towards the end of the year, with the non-performing loan ratio falling below 3 percent in December, from over 3.2 percent until October. The quality of consumer loans is lower than that of housing loans (NPL ratio of 5 percent versus 1.6 percent at end-2024), but the latter are more exposed to interest rate risk (58 percent of the volume of housing loans are granted without any interest rate fixation period between the time of origination and the maturity date). Foreign currency-denominated loans carry an increased credit risk, the associated NPL ratio standing

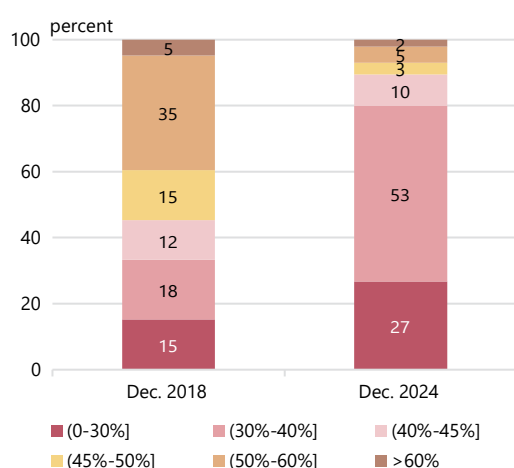
at 6.9 percent (December 2024) against 2.6 percent for leu-denominated loans, but their importance in the portfolio has decreased steadily (9 percent in December 2024 from 12 percent a year earlier), the new foreign-currency denominated loans accounting for less than 1 percent of the credit flow. In this vein, borrower-based macroprudential measures, differentiated by loan currency, played an important role, so that the largest share of forex loans on banks' balance sheets was granted before the NBR implemented the measures to limit lending in foreign currencies in October 2011 and 2012¹⁹.

Given the measure to cap indebtedness to a sustainable and differentiated level depending on the loan currency starting in 2019, borrowers' debt currently stands at adequate levels (median of 35 percent for new consumer loans and 36 percent for new housing loans, December 2024). Specifically,

the share of the volume of new loans (12-month cumulative flow) granted with a DSTI over 40 percent declined from 67 percent at end-2018 (prior to the cap implemented as of January 2019) to about 20 percent²⁰ at end-2024 (Chart 2.10).

During 2024, demand on the residential real estate market saw a rebound amid higher wage income, with the number of transactions standing 7 percent higher than in 2023. However, a large part of real estate transactions (about 60 percent) occurred in the main regional centres (Bucharest, Cluj, Braşov, Iaşi, Constanţa, Timiş), highlighting important regional disparities. Conversely, the supply of properties available for sale has declined steadily amid the sustained growth of construction costs, putting pressure on house prices. Against this backdrop, residential property prices continued to rise, albeit at a slower pace than in 2024 H1 (4 percent in 2024 Q4 versus 6.8 percent in 2024 Q2, in annual terms).

Chart 2.10. Composition of new loans by level of indebtedness at origination (12-month cumulative flows)



Source: NBR

¹⁹ To incorporate the Recommendation of the European Systemic Risk Board on lending in foreign currencies (ESRB/2011/1), new requirements were introduced via NBR Regulation No. 17/2012 on certain lending conditions.

²⁰ The 40 percent cap on the level of indebtedness for leu-denominated loans was exceeded due to the flexibility measures, i.e. the 5 percentage point increase in the cap on the level of indebtedness for housing loans for first-time buyers and the exception to the cap on the level of indebtedness for up to 15 percent of the arithmetic mean of quarterly volumes of consumer loans granted in each of the previous four quarters.

At the same time, Romania posted a growth rate below the EU average (4.9 percent), trailing significantly behind peer countries in the region (18.3 percent in Bulgaria, 13 percent in Hungary, 10.4 percent in Poland and 8.4 percent in Czechia). The banking sector's exposure to the residential real estate market is elevated, amounting to lei 116.1 billion (63 percent of total bank loans to households at end-2024), yet the quality of housing loans portfolio is further high (NPL ratio of 1.6 percent at end-2024). The borrower-based macroprudential measures implemented by the NBR, regulating the loan-to-value ratio based on the number of properties held by one borrower, play a key role in this respect.

The commercial real estate market showed signs of recovery in 2024, both at European and local level. The volume of investment in Central and Eastern Europe increased by approximately 70 percent in 2024, standing just below the five-year average for the region. The preliminary results show that the rebound in the region's activity was higher than that at European level²¹. The volume of investment in Romania reached EUR 733 million in 2024, exceeding by 47 percent the traded volumes in 2023²². Industrial and logistics emerged as the largest capital generator (40 percent of total investment volume), Romania's attractiveness in terms of this type of commercial property being estimated to grow further once it has fully joined the Schengen Area. Developments in the real estate sector are increasingly relevant for financial stability, both in terms of interactions with the financial system and due to their role in the economy and in creating value added. Romania was assessed as fully compliant with Recommendation A of Recommendation ESRB/2022/9 on vulnerabilities in the commercial real estate sector in the European Economic Area²³, with the monitoring of systemic risks stemming from the commercial real estate market being deemed as adequate and steadily improving²⁴.

2.2.1. Banking sector

The financial position of the Romanian banking sector is characterised by favourable developments, as reflected by adequate indicators related to solvency, liquidity, and asset quality, while the results of the latest stress tests confirm the capital adequacy to risks. Banking sector profitability remained at historically high levels, thus strengthening bank capitalisation. Despite the good prudential standing, risks that impact financial stability persist. Geopolitical tensions and macroeconomic uncertainty fuelled by twin deficits may negatively influence borrowers' creditworthiness and play a part in heightening cyber risk, which calls for increased prudence from credit institutions. Amid further low financial intermediation, the link between the banking sector and the government sector continued to strengthen, entailing a higher concentration risk and interest rate risk, especially amid the worsening of the sovereign rating outlook at end-2024.

²¹ Colliers, The CEE Investment Scene 2024-2025

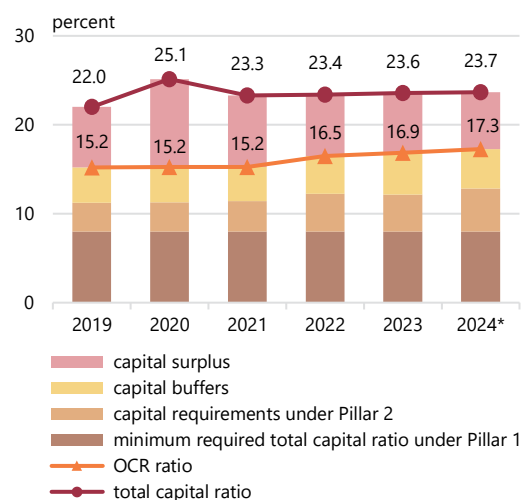
²² CBRE, Romania Real Estate Investment, Volumes Q4 2024

²³ <https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation221201.cre~65c7b70017.en.pdf>

²⁴ Summary Compliance report of Recommendations ESRB/2022/9 & ESRB/2016/14 on closing data gaps

The solvency of the banking sector in Romania witnessed an upward trend in 2024, the total capital ratio reaching 23.7 percent in December (Chart 2.11, preliminary data), above the EU average of 20.2 percent. The increase in own funds was particularly ascribable to profit retention during the last 10 years. Over the past decade, banks in Romania have

Chart 2.11. Total capital ratio components



*) preliminary, unaudited data

Source: NBR

pursued a conservative dividend distribution policy, with an annual profit retention rate of 59 percent, also favoured by both micro- and macroprudential policies. The balance sheet structure focused on claims on the government sector led to a decline in the overall risk ratio to 27.4 percent (December 2024) from 32.7 percent in December 2020 or 50.7 percent in December 2008, which helped improve solvency ratios and strengthen the link with the government sector. The capital surplus in excess of the overall capital requirement (17.3 percent) is substantial and allows for the absorption of unexpected shocks, as confirmed by the latest solvency stress test covering the 2024-2026 period.

The results of this stress test show the adequate resilience of the banking sector, supported by a robust operational capacity and a strong starting point, especially among large banks. Some

small-sized banks, with low operational efficiency, may record capital shortfalls by the end of the forecast horizon. According to the baseline scenario, the total capital ratio would increase gradually to 28.2 percent in 2026, assuming the non-distribution of dividends, whereas in the adverse scenario, the solvency ratio would decrease to approximately 20.2 percent in 2026.

In 2024, the transitional changes provided in the CRR3 package (Regulation (EU) 2024/1623) entered into effect. These refer to the exposures to the central bank and the general government of Romania when they are denominated in the currency of another Member State. Banks will further receive a favourable treatment until 2026, yet this will be phased out starting in 2025.

The profitability of the banking sector strengthened in 2024. Credit institutions reported a net profit of lei 14.1 billion, a record high for the past few years, due to the increase in operational efficiency, as well as a result of a low level of net impairment loss on financial assets. The market share of loss-making banks was further small (0.26 percent), yet the discrepancy between large banks and the rest is high, as reflected by the low operational efficiency of small- and medium-sized banks (Chart 2.12). Return on equity (18.4 percent, 2024) remained at a level above the European average, but below the average for non-financial corporations (24.3 percent, 2023), following a downward trend. The profit-making capacity of small- and medium-sized banks (ROE of 7 percent) is significantly lower than that of large banks (ROE of 21.3 percent), which may point to the

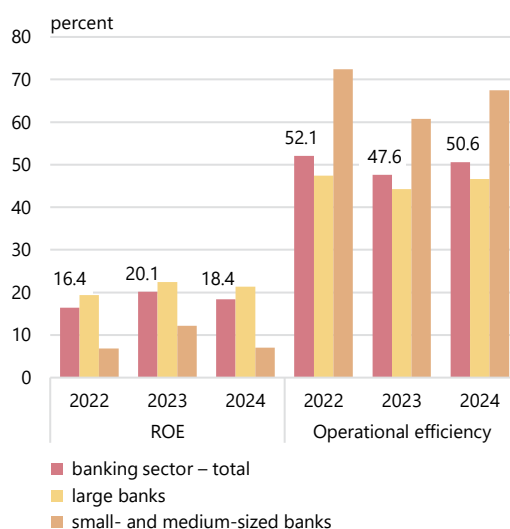
need for further banking sector consolidation. In fact, several mergers and acquisitions took place during 2024 (Banca Transilvania and OTP Bank or Unicredit and Alpha Bank), impacting business models.

Although current profitability is adequate, as shown by stress test results, a series of elements may contribute to a shift in outlook, following a possible increase in expenses related to credit risk under the influence of the macroeconomic environment, political uncertainty, the unpredictable path of interest rates owing to the current geopolitical context, the taxation of banks' turnover over an indefinite time horizon. The tax on banks' turnover amounted to about lei 1.29 billion (December 2024), negatively impacting operational efficiency in 2024 (50.6 percent – in the EBA's medium-risk bucket), compared to 2023 (47.6 percent, Chart 2.12). Expenses with fees and taxes led to a significant increase in administrative expenses and changed the improving trend seen by operational efficiency over the past few years, also stimulated by the banking sector consolidation process. The annual dynamics of operating income were slower (+13.8 percent, December 2024) than those of operating expenses (+20.9 percent), given the marked annual rise in administrative expenses (+38 percent). Profitability is driven by the change in net interest income (annual growth rate of 14.6 percent) – the main component of operating income. The most significant net interest income-generating items in banks' balance sheets result from the relationship with the real sector (non-financial corporations and households, accounting for 53.2 percent of total); however, their contribution has declined sharply since 2022 (78.5 percent of net interest income), mainly in favour of exposures to the general government, consisting particularly of debt securities.

The structural developments in the local banking sector's balance sheet ensured a good profit-making capacity in 2024, with positive effects on strengthening the solvency and liquidity positions, due to: (i) the increase in deposits, while maintaining a significant share of demand deposits (a stable low-cost funding source); (ii) lending primarily in domestic currency, unlike previous years when there was a preference for euro; (iii) the further strong interconnection with the government sector, as a result of direct and indirect exposures to the general government.

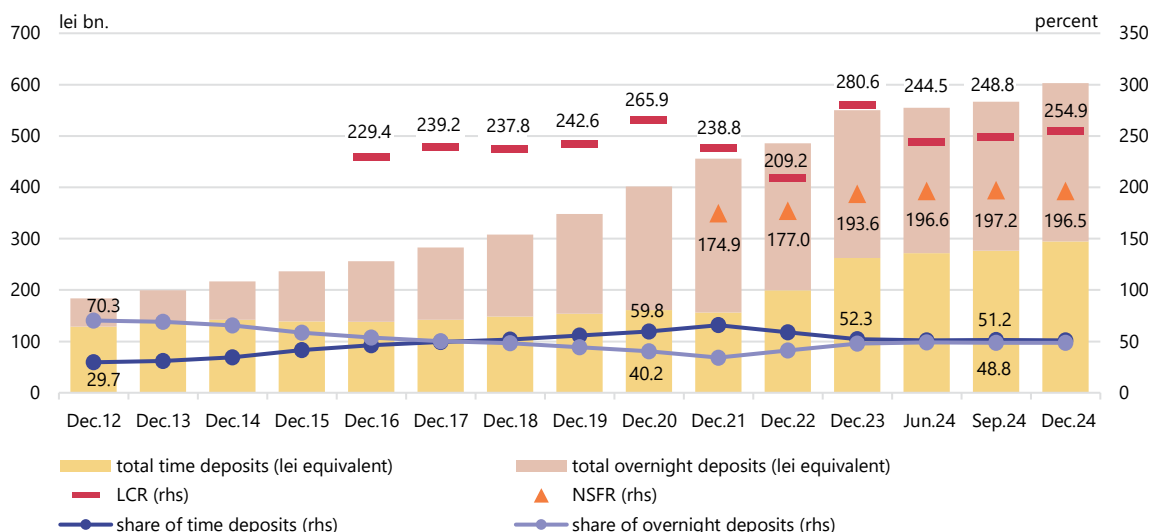
The annual growth rate of time deposits of the real sector was higher than that of overnight deposits in 2024: 12.1 percent versus 7.3 percent (Chart 2.13). The breakdown shows that overnight deposits further prevailed, accounting for 51.2 percent of the total deposits of the real sector.

Chart 2.12. Operational efficiency and profitability



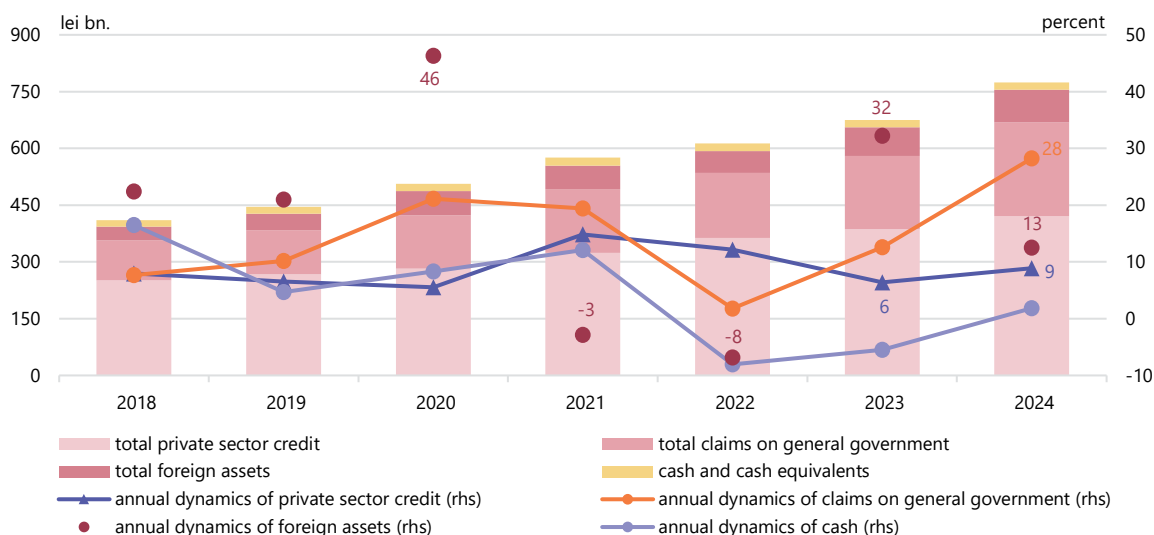
Source: NBR

Chart 2.13. Composition of deposits from the real sector and key liquidity indicators



Source: NBR

Chart 2.14. Developments in some balance sheet assets



Source: NBR

However, the funding costs of leu-denominated time deposits of the real sector followed a downtrend, reaching 5.1 percent in December 2024 (compared to 6.1 percent at end-2023), which contributed to the increase in banks' net interest income. The relatively steady interest rate on leu-denominated overnight deposits during 2024 (0.73 percent), along with the latter's significant share in total deposits, strengthened operating income. EUR-denominated time deposits were remunerated at relatively steady interest rates throughout 2024 (2.1 percent, December 2024) and maintained their importance, with annual dynamics of 13.4 percent, accounting for 26 percent of total deposits of the real sector.

On the assets side, credit to the private sector rose by 8.9 percent in 2024, with household loans posting a swifter advance than corporate lending, i.e. 9.3 percent versus 7.1 percent.

The expansion of credit to the real sector was mainly driven by leu-denominated loans (annual increase of 11.5 percent, December 2024), which hold a 70 percent share in total private sector credit. The average lending rate on leu-denominated loans to the real sector followed a downward trend during 2024, reaching 8.4 percent in December 2024 (compared to 9.1 percent in December 2023).

Foreign assets further held a small share in the asset portfolio, though they have been on an upward path over the past years (to 9.4 percent in December 2024). These investments are made primarily to manage foreign currency liquidity, as banks seek to avoid excessive short positions in forex.

Although cash holds a relatively small share in banks' balance sheets (2 percent of assets), it adequately satisfies customer demand in Romania. Cash availability remained at somewhat similar levels compared to the previous year, standing at around lei 19.1 billion (annual growth rate of 2.4 percent, December 2024). The relevance of customers' access to cash is analysed in Box A.

Box A. Access to cash through banking infrastructure

Ensuring customers' access to cash in line with their needs is a pillar that strengthens confidence in banking sector stability. The use of cash followed an upward trend in Romania over the past decade (average annual growth of 11 percent in 2015-2024), more visibly during the pandemic, as well as at the onset of the conflict in Ukraine (6.9 percent of GDP in 2024 versus the 8.3 percent high in March 2021). Cash further plays a significant role at the EU level too (10.7 percent of GDP in the euro area). Even though the move towards cashless payments is on the rise, in the euro area cash remains the predominant payment method at the point of sale (POS), i.e. 59 percent of the total number of payments, 2022, ECB²⁵, and in person-to-person (P2P) transactions.

The banking sector in Romania has a network of ATMs and units that generally accommodates the characteristics and needs of customers in a proper manner. In terms of population coverage (per 100,000 adults), Romania has a wider network of ATMs and bank units (63.8 and 21.1, IMF, 2023) than Czechia, but similar to that of Poland, yet smaller than that in Bulgaria. Nonetheless, territorial coverage is heterogeneous, Romania ranking last by the number of ATMs and bank branches per 1,000 km² alike (44.5 ATMs and 14.7 bank units, IMF, 2023). Bucharest is equipped with the largest number of ATMs (1,604), having the highest density of ATMs per 1,000 inhabitants (one ATM per 1,160 inhabitants) and also per km² (6.37 ATMs per km²). The county posting the lowest number of ATMs (77) is Giurgiu, with one ATM per 3,386 inhabitants and per 46.7 km² respectively.

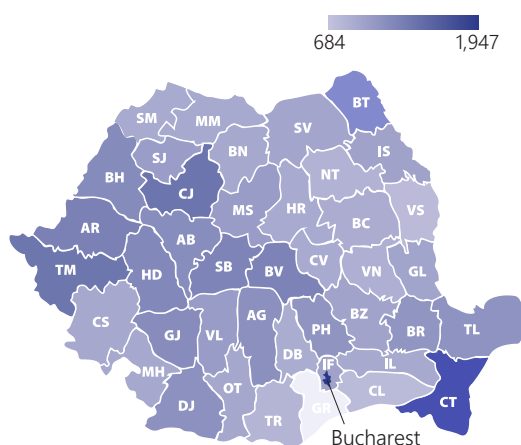
Romania has 10,229 ATMs, spread in more than 30 percent of its administrative-territorial units (ATUs), covering 71 percent of total resident population aged above 15.

²⁵ ECB's *Study on the payment attitudes of consumers in the euro area* (SPACE 2022)

The number of ATMs and the level of economic development by county, measured via GDP per capita, are closely linked and highlight the regional economic disparities, with implications for access to financial services as well. The counties with a high GDP per capita, increased purchasing power and more intense economic activity are equipped with the largest number of ATMs to accommodate household and corporate needs. In the regions with an elevated employment rate, bank transactions and the demand for cash are higher, which leads to a higher density of ATMs and bank units (a 97 percent correlation between the employment rate and the number of ATMs/bank units).

The banking sector in Romania has a territorial network that is generally tailored to the characteristics and needs of customers. The high degree of cash availability (98 percent – almost all ATMs are operational and replenished) points to adequate cash accessibility, in terms of both money supply and ATM functionality.

Chart A.1. Average monthly cash withdrawals from ATMs by county (lei/person, 2023)



Source: NBR survey, 2024

Households in Romania display a keen appetite for cash. The average value of monthly cash withdrawals from ATMs in Romania (lei 1,036 per month) varies considerably among counties (Chart A.1), being closely connected to income distribution, while also indicating areas with lower access to ATMs (such as Tulcea county). In higher-income regions (Bucharest, Cluj and Timiş), cash withdrawals are significantly larger (an average amount of lei 1,574 per month). Conversely, the counties with modest-income earners, which are often representative of the rural area, report substantially lower cash withdrawals, which may mirror both a preference for collecting income in cash and limited access to modern banking services. These issues, as well as the low degree of financial education and the population ageing trend, call for a gradual approach to transitioning to the digital economy.

In rural areas and in less developed regions, access to ATMs is lower (around 11 percent of the total number of ATMs are in rural areas), which underlines the importance of financial infrastructure and the need to expand access, chiefly from a digital perspective, in order to ensure financial inclusion, particularly in isolated or deprived communities. Enhancing the digital skills of the population also plays a part in ensuring more readily accessible financial services.

The regional disparities in cash withdrawals emphasise not only consumers' different financial preferences, but also the opportunities for developing Fintech solutions and stepping up the digitalisation of the banking sector in Romania and its customers. Banks work with various Fintechs to improve banking services: digital onboarding, lending, payments, loyalty programmes, lending solutions, and incorporating AI/ML techniques for analysis and customisation.

The step-up in digitalisation efforts, which was especially visible after the outbreak of the COVID-19 pandemic, also caused banks in Romania to stick to the trend of cutting down on their territorial footprint (the number of bank units in Romania declined by approximately 30 percent over the past decade). Nonetheless, banks managed to keep a proper balance between digital services and client counselling within branches, thus meeting customer expectations to the best of their ability.

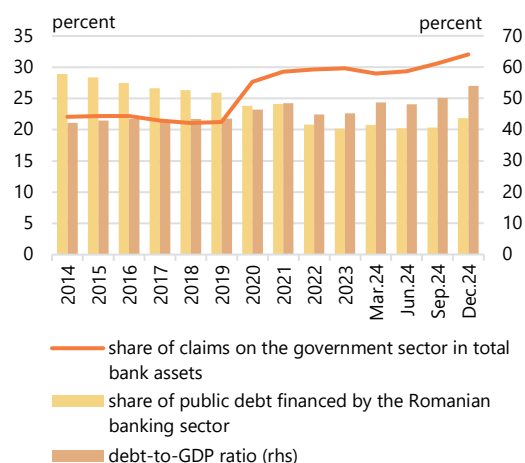
There has been a significant increase in claims on the general government (government securities and loans), which reached lei 247 billion at end-2024 (annual increase of 28.2 percent, Charts 2.14 and 2.15, of which lei 196.9 billion were government securities). Therefore, 2024 was characterised by banks' stronger appetite for financing the Romanian government compared to lending to the real sector, given the benefits of the related prudential treatment, as well as the higher government financing needs.

Around a third of banks' holdings of government securities are denominated in euro and other currencies (an equivalent of approximately lei 68 billion, December 2024). These exposures are subject to a particular prudential treatment in accordance with Regulation No 575/2013 (CRR3).

In terms of the treatment applicable to large exposures, banks will have to comply with the following exposure limits: 100 percent of their Tier 1 capital by 31 December 2025, 75 percent between 1 January and 31 December 2026, and 50 percent between 1 January and 31 December 2027. As regards the prudential treatment of debt instruments issued in the currency of another EU Member State, assuming that the sovereign rating remains at the current level, these exposures will be assigned a risk weight of 10 percent during 2025 and of 25 percent beginning with 2026.

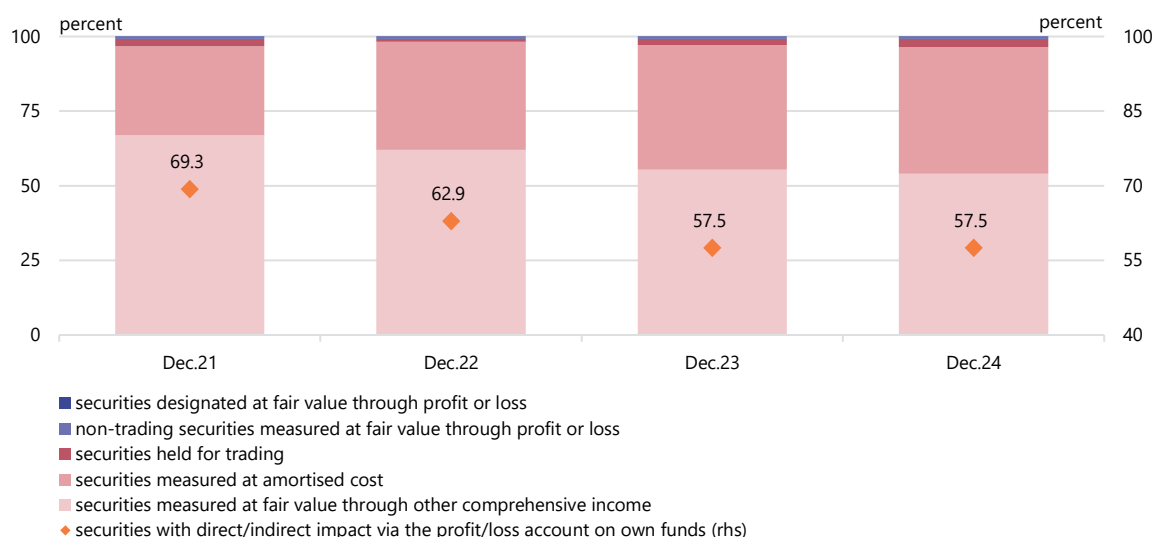
The link between the banking and government sectors in Romania has become stronger, as the importance of claims on the government, as a component of assets, has grown significantly over the past year, to 27 percent of banks' balance sheets (December 2024, Chart 2.15). The Romanian banking sector holds 22.5 percent of the public debt, a declining share compared to the pre-pandemic period, when the government's investor base diversification was lower, but the volume of these banks' holdings doubled compared to end-2019. Claims on the government sector consist mainly of government securities (21.5 percent of total bank assets in December 2024) and loans (5.5 percent of total bank assets, December 2024). Moreover, credit institutions in Romania have indirect exposures to the government accounting for 4.8 percent of assets (December 2024), which are secured via credit programmes for the real sector, such as "First Home", "New Home", IMM Invest, IMM Invest plus, etc.

Chart 2.15. Share of claims on the government sector in banks' balance sheets and the role of banks in government financing



Source: NBR, MF

Chart 2.16. Accounting treatment of debt securities



Source: NBR

Despite having a positive effect on the liquidity of credit institutions, significant government securities holdings heighten a recurring vulnerability of the banking sector, generating a notable concentration risk, with negative effects in the event of unfavourable developments in sovereign risk. With regard to the accounting treatment of these holdings, in December 2024, 54 percent were measured at fair value through other comprehensive income, whereas 42.5 percent were measured at amortised cost. Only 2.7 percent of the total were securities held for trading. As a consequence of the accounting classification, the unrealised losses stemming from the marking to market of securities in the context of adverse developments in the sovereign debt may have a rapid impact on own funds (Chart 2.16).

The liquidity position of the domestic banking sector remained adequate throughout 2024, in spite of an uncertain macroeconomic environment. However, banks need to adopt a prudent behaviour in the period ahead, as a result of both the persistence of tense macroeconomic and geopolitical conditions, and the potential fiscal consolidation measures that are envisaged. The liquidity indicators (LCR – the liquidity coverage ratio and NSFR – the net stable funding ratio) are above the EU average.

The LCR reached 254.9 percent in December 2024 (Chart 2.13), comfortably above the minimum requirement, albeit on a downward trend from December 2023 (280.6 percent). Behind this stood the steeper rise in net liquidity outflows (+19.1 percent, the denominator of the LCR) compared to the liquidity buffer (+8.2 percent). The increase in net liquidity outflows was driven by unsecured transactions/deposits (lei 10.4 billion, of which 68 percent are non-operational deposits) and retail deposits (lei 2.4 billion versus December 2023). The breakdown shows that the liquidity buffer (the numerator of the LCR) consists mostly of central government assets (85.5 percent, December 2024), currency (7.1 percent), and holdings with the central bank (5.4 percent). The prevailing share of government securities in the liquidity buffer allows credit institutions' access to refinancing operations with the central bank. According to the liquidity stress test results, banks in Romania have a good capacity to withstand potential shocks associated with withdrawals, as the liquidity and funding risk was assessed as moderate. At the same time, in the recent period, banks recorded a substantial liquidity surplus, which

was placed with the central bank via the deposit facility (with average daily transactions amounting to lei 18.8 billion, December 2024).

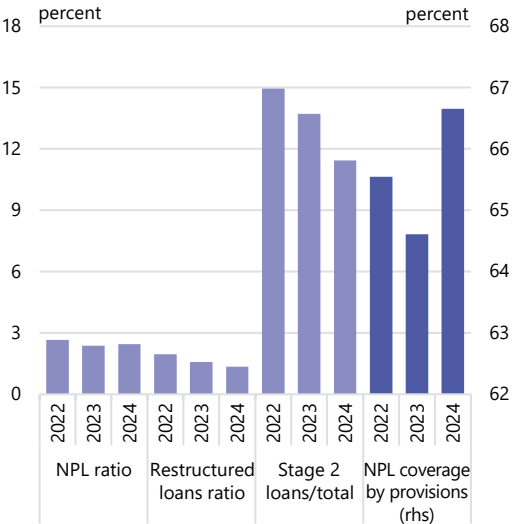
The aggregate net stable funding ratio (NSFR) ran at 196.5 percent in December 2024 (Chart 2.13), rising slightly from end-2023 (193.6 percent). Thus, banks do not rely excessively on short-term funding sources (considered unstable), instead they have a balanced mix of stable funding to support their asset holdings.

Although local banks’ liquidity risk is not assessed as high, the current environment (characterised by increases in geopolitical tensions and digital services, as well as by the emergence of new risks linked to the implementation of artificial intelligence technologies in the financial field) requires maintaining a high level of prudence and rethinking the methods currently used to identify and address traditional banking risks. Cyberattacks can transform an operational crisis (with relatively low direct losses) into a liquidity crisis, by way of a bank run if there is panic induced by uncertainties surrounding the attacked entities’ capacity to resume their activity under normal conditions. Therefore, credit institutions need to invest in advanced cybersecurity solutions to mitigate the effects of cyberattacks, which may become systemic and impact financial stability.

Asset quality indicators play an important part in maintaining a positive picture of the banking sector. The NPL ratio (2.46 percent, December 2024) increased marginally compared to 2023, while the NPL coverage by provisions keeps Romania among the EU Member States with the highest values of this indicator (66.7 percent versus the EU average of 41.6 percent, September 2024). The number of banks with an NPL ratio above 5 percent or with an NPL coverage by provisions below 55 percent decreased at end-2024, which reduces the scope of the systemic risk buffer that is calibrated depending on these two indicators.

From the perspective of the early warning indicator of asset quality worsening – the share of loans in Stage 2 of impairment under IFRS 9 in total loans and advances – the banking sector held a smaller share from the previous year (11.5 percent, December 2024, Chart 2.17), albeit above the EU average (9.2 percent, September 2024). The restructured loans ratio declined gradually in 2024, down to 1.35 percent. Non-financial corporations made the largest contribution to the stock of restructured loans (79 percent).

Chart 2.17. Quality of bank assets



Source: NBR

2.2.2. Non-bank financial markets

Non-bank financial markets

On the Bucharest Stock Exchange (BSE), the BET index stood 8.78 percent higher in 2024, but market volatility receded compared to a year earlier. Total value traded on the regulated market and the Multilateral Trading System (MTS) amounted to lei 37 billion (down 2.6 percent from 2023), given that the number of transactions grew by 32 percent. Market capitalisation went up 19 percent against end-2023, reaching lei 350.2 billion. Shares held a prevailing share in the capital market (46.79 percent of total transactions), while trades in government securities were on the rise.

25 insurance companies and 14 foreign branches operate in Romania. Gross premiums written totalled lei 23.4 billion in 2024, up 11 percent from 2023. The SCR ratio of the insurance market decreased slightly, but remained above the safety level. The liquidity ratio for non-life insurance fell mildly, but it increased for life insurance. Total investments of insurance companies amounted to lei 31.6 billion (+17 percent versus 2023), mainly in government securities (66 percent of total). Gross compensations²⁶ paid equalled lei 10.6 billion, of which 82 percent were for non-life insurance.

In terms of interconnectedness and credit risk, the insurance companies licensed and supervised by the FSA invest chiefly in fixed-income financial instruments, with a high exposure to government bonds. Most of them are government securities issued by the Ministry of Finance. Therefore, insurance companies in Romania are more cautious in this respect, with no high direct exposures to either complex financial instruments or alternative assets. The significant investments in government securities by insurance companies in Romania show an exposure of portfolios to interest rate risk, while the risk of falling share prices would have a softer impact on the local insurance market, given the limited holdings in this asset class.

At end-2024, there were 17 private pension funds managed by 10 entities, with assets totalling lei 156.44 billion, up 19 percent versus the year before. Pension fund investments comprise mainly government securities (67 percent), most of them maturing by 2034. Pension funds are major investors in the capital market, with 23.17 percent of assets being invested in shares. The average rate of return on Pillar II pension funds was 6.19 percent, whilst that on Pillar III pension funds stood between 4.65 and 5.78 percent.

Private pension funds in Romania reported positive dynamics of assets in 2024, as the system is currently still in an accumulation phase, under no pressure to sell, due to the very low, albeit rising, level of payouts. The investment policy used for private pension funds' asset portfolios is focused on the local financial market, with the share of investments in fixed-income instruments accounting for 72 percent of the total investment portfolio of private pension funds, whereas equity investments made up 23 percent.

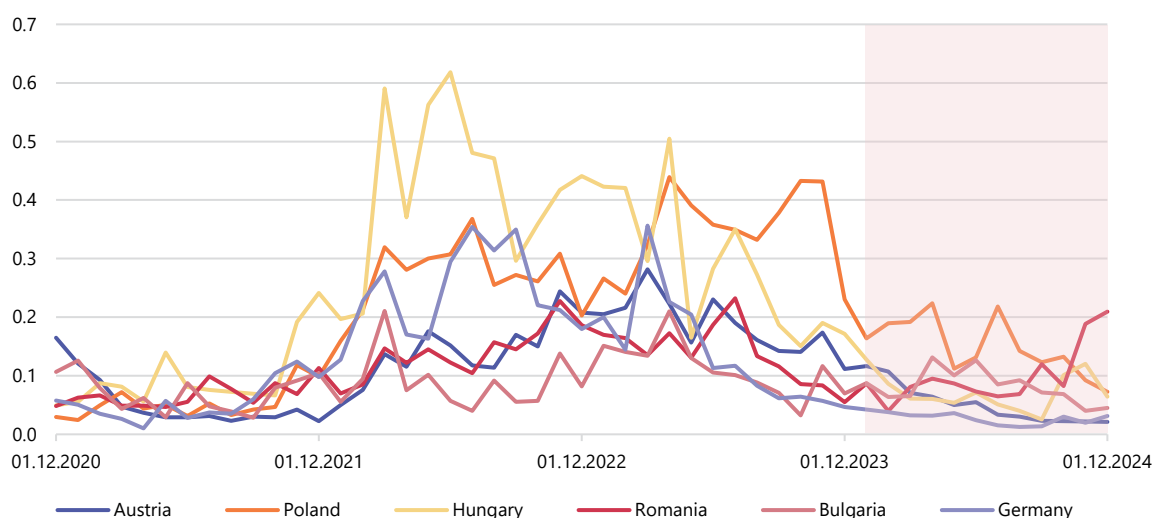
²⁶ Branches included

Financial stress levels fluctuated markedly between 2020 and 2023. The highest increases were detected between the end of 2021 and the beginning of 2022, most likely due to global economic disruptions such as the post-pandemic recovery, rising inflation and the economic effects of the war in Ukraine. From 2022 onwards, stress levels decreased gradually, despite some episodes of instability seen throughout 2023. Hungary witnessed the widest fluctuations, with several financial stress peaks, pinpointing the country's high sensitivity to economic and geopolitical factors. Poland reported a similar trend to Hungary, but with less extreme variations. The episodes of maximum stress largely overlap those of Hungary. Austria experienced low levels of financial stress, with smaller changes, suggesting a more robust financial system.

Romania and Bulgaria recorded relatively similar trends, with moderate increases in times of crisis, but no extreme fluctuations. Germany reported a more stable evolution, with lower fluctuations than those in Central and Eastern European countries.

Developments in 2024 point to a reduction in financial stress compared to 2023. This trend hints at an improvement in economic conditions upheld by a stabilisation of financial markets.

Chart 2.18. Country-Level Index of Financial Stress (CLIFS)



Source: ECB, FSA adaptation

Chart 2.18 sets out the high co-dependence of CLIFS indicators for the economies under review in 2024.

Capital market

Most of stock market indices in Romania fared well in 2024, with positive year-end readings compared to those seen in December 2023, as the BET benchmark index (which mirrors developments in the most heavily traded companies on the BSE regulated market) stood 8.78 percent higher.

Volatility is used to measure risk and gauge the uncertainty faced by investors when buying/selling financial assets. In times of uncertainty, market volatility increases, along with contagion effects on financial markets, and correlations between financial assets are much higher.

Table 2.1. Capital market yields

Global market indices (%)	3M	6M	12M	BSE indices (%)	3M	6M	12M
EA (EUROSTOXX)	-2.14	0.72	6.55	BET	-5.09	-8.35	8.78
FR (CAC 40)	-3.34	-1.32	-2.15	BET-BK	0.17	5.54	4.57
DE (DAX)	3.02	9.18	18.85	BET-FI	-3.08	-7.57	7.04
IT (FTSE MIB)	0.18	3.11	12.63	BET-NG	-4.78	-7.13	10.03
GR (ASE)	1.22	4.66	13.65	BET-TR	-4.96	-7.38	8.75
IE (ISEQ)	-1.41	4.71	11.38	BET-TRN	-5.16	-8.36	8.48
ES (IBEX)	-2.38	5.95	14.78	BET-XT	-5.04	-7.24	16.15
UK (FTSE 100)	-0.78	0.11	5.69	BET-XT-TR	-4.73	-6.16	16.81
US (DJIA)	0.51	8.76	12.88	BET-XT-TRN	-5.05	-7.33	15.52
IN (NIFTY 50)	-8.39	-1.52	8.80	BETAeRO	-4.74	-6.24	16.22
SHG (SSEA)	0.46	12.94	12.64	BETPlus	-9.88	-17.48	-10.85
JPN (N225)	5.21	0.79	19.22	ROTX	-4.78	-7.15	10.11

Note: 1M = 30 December 2024 vs. 29 November 2024; 3M = 30 December 2024 vs. 30 September 2024; 6M = 30 December 2024 vs. 28 June 2024; 12M = 30 December 2024 vs. 29 December 2023

Source: FSA calculations based on Refinitiv Datastream data

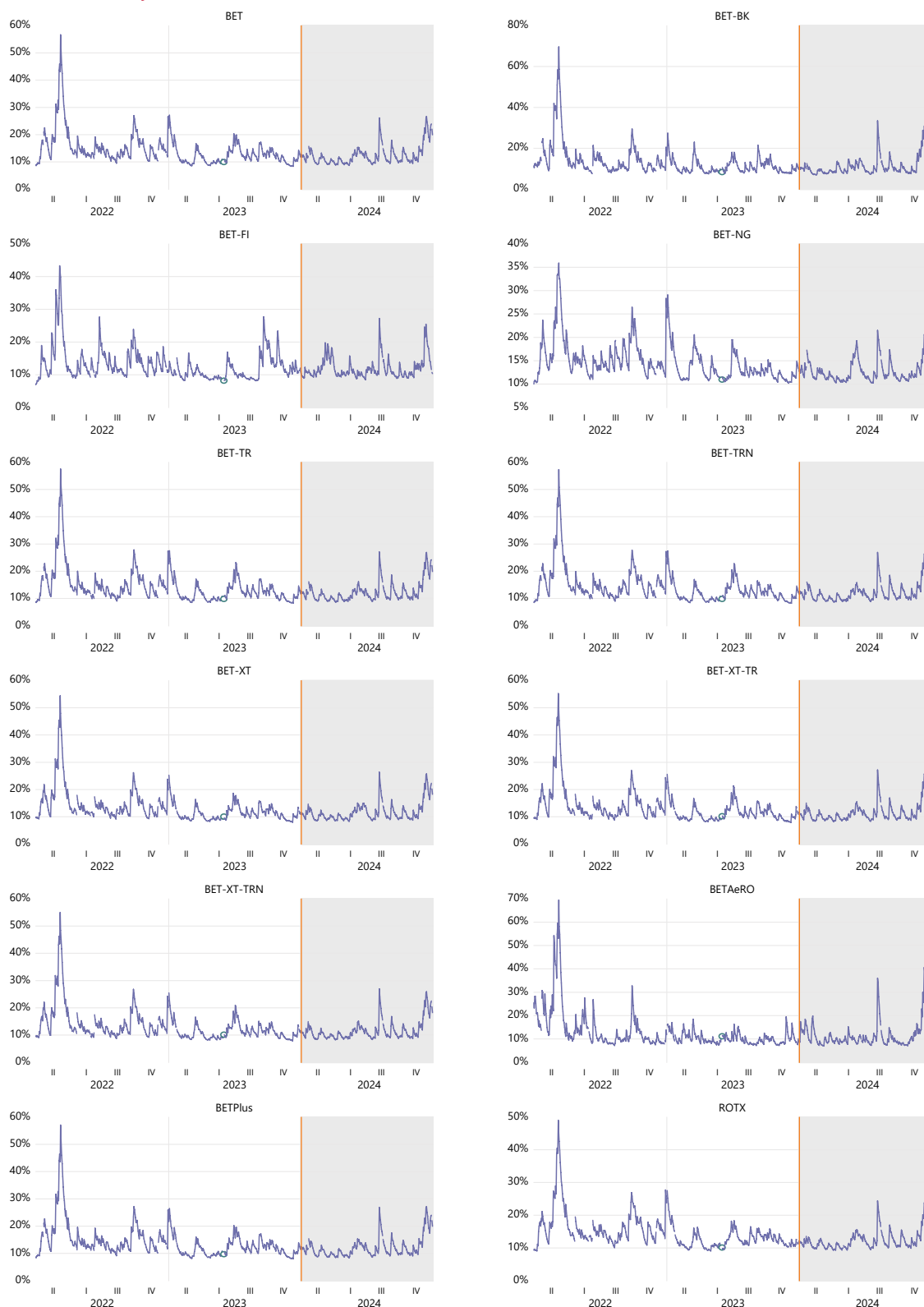
During 2024, the volatility of Bucharest Stock Exchange indices (Chart 2.19) was lower than a year earlier. Thus, the highest volatility recorded by the BET index was 26 percent in 2024 compared to 28 percent in 2023, with similar developments in the other BSE indices as well. The lower volatility was also supported by an increase in the BET index that was mainly driven by endogenous factors. The end of 2024 was marked by heightened volatility across the entire range of indices shown in Chart 2.19. The highest levels of volatility were observed for the BETAeRO and BET-FI indices.

Total turnover on the BSE regulated market and through the multilateral trading system (MTS) reached lei 37 billion at the end of 2024, down 2.6 percent from the same year-earlier period. The number of trades performed on the BSE over the four quarters of 2024 grew by 32 percent compared to the same period in the year before. Approximately 97.7 percent of the total value of trades was recorded on the BSE regulated market, the remainder being carried out via the MTS.

The value of dealings in government securities as at 30 December 2024 rose year on year, standing at approximately lei 5.09 billion. Stocks are further the prevailing asset class, accounting for 46.79 percent of BSE trades at end-December 2024.

Over the same period, regulated market capitalisation reached lei 350.2 billion, up by about 19 percent versus end-December 2023.

Chart 2.19. Volatility of BSE indices, GARCH model (1,1), Student-t distribution



As at end-2024 Q4, trading on the BSE regulated market were 26 intermediaries, of which 16 financial investment services companies, three local credit institutions and seven entities licensed in other EU Member States.

Over the same period, financial investment services companies recorded the heaviest trading on the BSE (regulated market and MTS), with a total turnover of roughly lei 42.37 billion. Local intermediaries (financial investment services companies and credit institutions) made up about 91 percent of the total value of trades. Out of the intermediaries licensed in other EU Member States that conducted trades on spot markets, investment firms reported the heaviest trading, with a 7 percent market share.

Assets of undertakings for collective investment (UCIs) in Romania amounted to approximately lei 44.3 billion as at 30 December 2024, up by approximately 21.6 percent from end-2023.

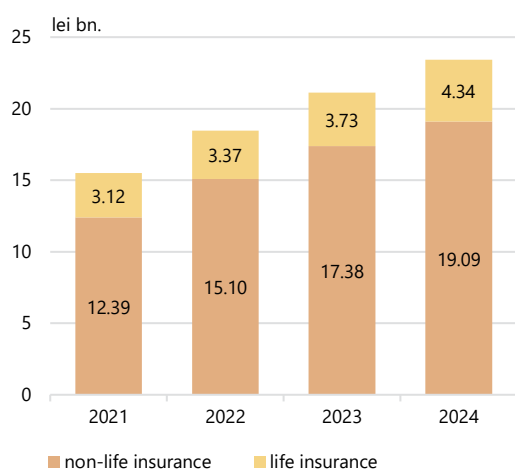
At the end of 2024, operating in Romania were 16 administrators, of which 6 were licensed solely as investment management companies, 2 were licensed solely as alternative investment fund managers, and 8 were dual-licensed. Moreover, as at 30 December 2024, licences were granted to 92 undertakings for collective investment in transferable securities (UCITS), 37 alternative investment funds (AIFs) including the six financial investment companies (FICs) and Fondul Proprietatea. Depository services for the 129 UCIs were provided by four depositories.

In this quarter too, banking groups remained the largest category of administrators, controlling the bulk of assets managed by investment management companies.

Insurance market

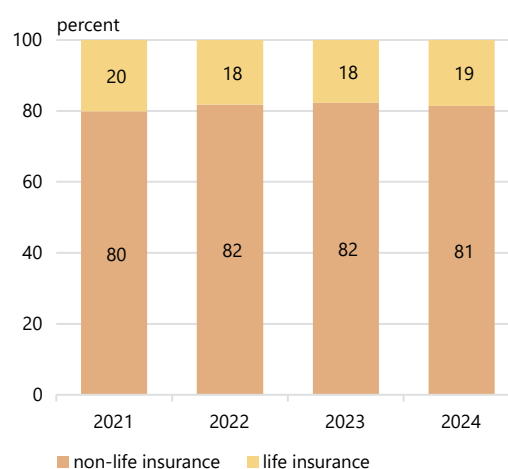
On the insurance market in Romania, 25 insurance companies are licensed by the FSA to operate, whereas 14 branches carry out activities based on the freedom of establishment (FoE).

Chart 2.20. Volume of gross premiums written by life and non-life insurance (FSA-authorised companies and branches)



Source: FSA, Insurance market report (January-September 2024)

Chart 2.21. Breakdown of the volume of gross premiums written by life and non-life insurance (FSA-authorised companies and branches)



Source: FSA, Insurance market report (January-September 2024)

The total underwriting volume (including branches) amounted to lei 23.4 billion in 2024, of which 81 percent were gross premiums written for non-life insurance and 19 percent for life insurance. Underwriting recorded positive dynamics in 2024 compared to 2023, up by 11 percent, driven both by the advance in gross premiums written by insurance companies licensed by the FSA (+9 percent) and by the higher volume of gross premiums written by branches operating on the territory of Romania (+23 percent).

The total value of gross premiums written for compulsory motor third party liability insurance (RCA) by insurance companies licensed and regulated by the FSA, branches and companies operating under the freedom of services (FoS) amounted to approximately lei 9.94 billion in 2024, up by 7 percent from the previous year.

With regard to the solvency of insurance companies licensed and regulated by the FSA, the ratios of this indicator in the insurance market remained above one at end-December 2024. Against the previous year, the SCR ratio contracted, amid the faster increase in the solvency capital requirements (+22 percent) compared to the dynamics of own funds eligible to cover solvency capital requirements (+18 percent).

The liquidity ratio for non-life insurance (3.09) went down slightly from end-2023 (3.14). The value of liquid assets rose by 20 percent, while insurance companies' short-term liabilities increased by 23 percent. The liquidity ratio for life insurance went up, as the liquidity in this segment improved amid the 18 percent rise in liquid assets, whereas short-term liabilities advanced at a slower pace (+15 percent) compared to end-2023.

The total volume of gross claims paid (including branches) stood at around lei 10.6 billion in 2024, of which 82 percent accounted for gross claims paid for non-life insurance and 18 percent for life insurance.

Total investments of insurance companies (including assets backing unit-linked products) amounted to lei 31.6 billion, up 17 percent from end-2023. Insurance companies in Romania primarily invest in fixed-income instruments, mainly government bonds, holding an approximately 66 percent share in total investments at end-2024 Q4.

In 2024, there were no significant changes in the investment portfolio compared to end-2023. The share of investments in government bonds in total investments widened by 3.3 percentage points, amid the 24 percent increase in the value of investments in government securities.

At end-2024, the value of technical reserves in accordance with the Solvency II regime was lei 22.1 billion, up 19 percent from the previous year. The positive dynamics were driven by the higher values of technical reserves for both non-life insurance (+23 percent) and life insurance (+15 percent). Out of the total, 59 percent were technical reserves for non-life insurance and 41 percent for life insurance.

The outwards reinsurance in terms of gross premiums written for non-life insurance fell significantly compared to the same year-ago period, as well as to the other periods under review.

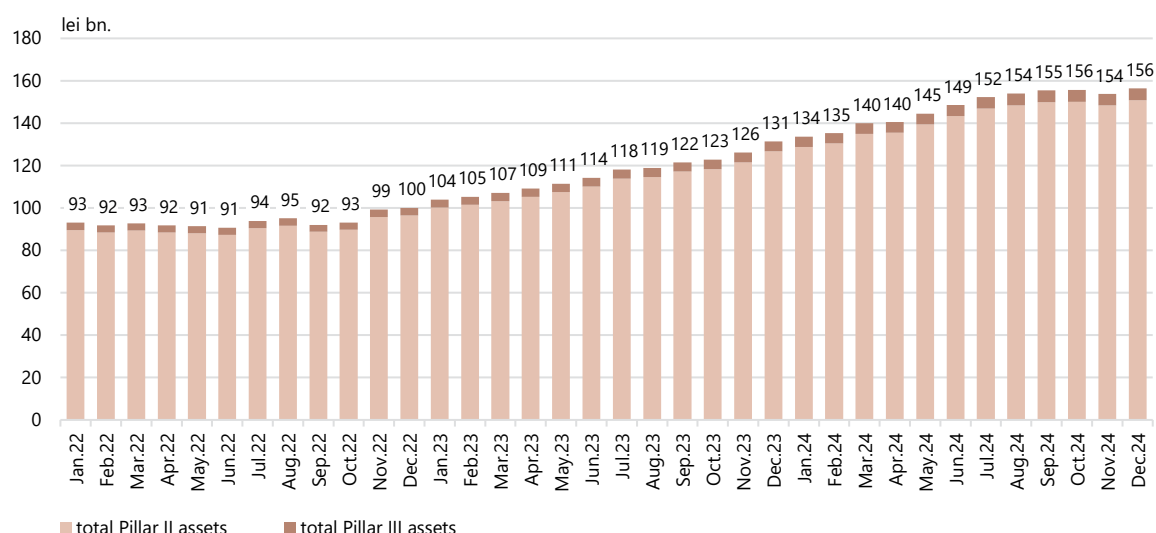
The premiums distributed by brokers for Romanian insurers and branches (non-life and life insurance) increased by approximately 10 percent from the previous year, amid the upward trend in the volume of premiums distributed for both non-life insurance (+10 percent) and life insurance (+19 percent).

In 2024, brokers distributed approximately 69 percent of the total volume of gross premiums written for Romanian insurers and branches. The level of intermediation was 81.40 percent for non-life insurance and 13.39 percent for life insurance.

Private pension market

At end-December 2024, 17 private pension funds (of which 7 in Pillar II and 10 in Pillar III) were registered with the Electronic Register of the Financial Supervisory Authority. These funds are managed by 10 administrators, while their assets are entrusted for safekeeping to three banks in Romania acting as depositaries.

Chart 2.22. Total assets of the private pension system



Source: FSA calculations

Private pension funds in Romania totalled assets worth lei 156.44 billion at end-December 2024, up 19 percent from end-2023. Compared to June 2024, total assets of private pension funds increased by 5.3 percent. Specifically, at end-2024, total assets of privately administered pension funds (Pillar II) and of voluntary pension funds (Pillar III) amounted to lei 150.88 billion and lei 5.55 billion respectively, up by 19 percent and 17 percent compared to the same period of the previous year. As a share of GDP, total assets of the private pension system stood at 9.06 percent at end-December 2024²⁷.

²⁷ GDP was calculated as the sum of the past four quarters (2023 Q4 – 2024 Q3), gross series, current prices.

Financial instruments in private pension fund portfolios traded on financial markets are subject to mark-to-market valuation, regardless of the duration they are expected to be held in portfolios. Consequently, the evolution of the net asset value per share of private pension funds may be affected by short-term episodes of volatility. Nevertheless, private pension funds have a long-term investment horizon and have demonstrated good resilience to past shocks affecting financial markets.

As at 31 December 2024, the 17 private pension funds had 9.12 million participants, compared to 8.86 million at end-2023. The number of participants in privately managed pension funds came in at 8.29 million versus 8.15 million in December 2023, while that of participants in voluntary pension funds stood at 833 thousand against 710.8 thousand as at 31 December 2023.

Between January and December 2024, gross contributions to Pillar II pension funds totalled lei 17.90 billion, up 40 percent from the same year-earlier period, while those to Pillar III amounted to lei 752 million in 2024, up by 25 percent from end-2023.

The investment policy of private pension funds was further predominantly oriented towards the local financial market, with the share of investments in fixed-income securities accounting for 72 percent of the total investment portfolio of private pension funds. Government securities, making up 67 percent of the portfolios of private pension funds, are issued by the Romanian government, being denominated in lei (89.8 percent), EUR (9.4 percent) and USD (0.8 percent). The breakdown by maturity shows that most holdings have a medium-term investment horizon, with maturity dates up to 2034 (approximately 87 percent of total government securities), the remainder being long-term issues maturing by 2053.

Private pension funds are significant institutional investors in the capital market, investing in issuers that comply with corporate governance principles and ensure transparency. As at 31 December 2024, the Romanian private pension system invested 23.17 percent of its assets in equity funds, with 86.4 percent of this share concentrated in 10 companies ranked among the most traded on the Bucharest Stock Exchange's regulated market.

Private pension funds' investments in corporate bonds accounted for 4.49 percent of the total assets of the private pension system. Specifically, private pension funds invested in corporate bonds issued both domestically and abroad, primarily by financial or banking groups. Most of these bonds were issued in Romania (63.6 percent), Spain (13.5 percent) and the United States (11.4 percent).

Pension funds' investments in undertakings for collective investment in transferable securities (UCITS) accounted for 2.78 percent of the total assets of the private pension system, while current accounts and bank deposits made up 1.91 percent of total assets.

As at 31 December 2024, the weighted average rate of return on Pillar II privately managed pension funds was 6.19 percent, while that on Pillar III voluntary pension funds stood at 5.78 percent for high-risk funds and 4.65 percent for medium-risk funds.

3. Measures implemented for achieving national macroprudential objectives

3.1. Capital buffers

At end-2024, most countries adjusted their general macroprudential policy framework, with a view to recalibrating or operationalising macroprudential instruments in order to strengthen the resilience of banking and financial systems in the EEA.

The adjustment of the macroprudential toolkit targeted both capital buffers and borrower-based measures (Table 3.1). In addition to the common developments and uncertainties identified at European level, national authorities also took into account the vulnerabilities specific to their jurisdictions.

Table 3.1. Summary of macroprudential measures taken in 2024

Country	Capital buffers				Borrower-based measures		
	CCoB ²⁸	CCyB	O-SII	SyRB	LTV	DSTI	DTI
Austria							
Belgium							
Bulgaria							
Croatia							
Cyprus							
Czechia							
Denmark							
Estonia							
Finland							
France							
Germany							
Greece							
Hungary							
Ireland							
Iceland							
Italy							
Latvia							
Liechtenstein							
Lithuania							
Luxembourg							

²⁸ The capital conservation buffer (CCoB) has been set at 2.5 percent for all EEA countries since 2019.

– continued –

Country	Capital buffers				Borrower-based measures		
	CCoB ²⁸	CCyB	O-SII	SyRB	LTV	DSTI	DTI
Malta							
Netherlands							
Norway							
Poland							
Portugal							
Romania							
Slovakia							
Slovenia							
Spain							
Sweden							

Note: The Table is based on ESRB information available as at 27 November 2024 and shows the decisions to adjust the macroprudential instruments applied or announced in 2024, as well as the increases resulting from phase-in decisions adopted in previous years and applicable in 2024 or planned to take effect in 2025. As for the CCyB rate, phase-in decisions were also considered for countries where at least two successive measures were taken to raise the buffer rate.

Legend:

- the instrument is not applicable in that country or its rate is zero
- the instrument's rate and scope have remained unchanged
- the instrument's rate and scope have been adjusted to strengthen the requirements
- the instrument's rate and scope have been adjusted to ease the requirements or replace it with another measure
- the instrument has an uncertain impact from the perspective of the macroprudential policy stance; in Luxembourg, the number of systemically important institutions declined compared to the previous year (policy easing), yet the magnitude of the minimum-to-maximum range of this buffer narrowed (policy tightening)

Source: ESRB, NBR adaptation

The main macroprudential instrument used by national authorities in 2024 was the countercyclical capital buffer (CCyB), with 13 countries adopting decisions to raise the buffer rate, implemented in 2024 or planned to take effect in 2025. The CCyB has been used with increasing frequency in recent years, both in terms of decisions to raise the buffer rate taken by EEA countries and the magnitude of the applicable rates, with some countries announcing a level of 2.5 percent, i.e. the standard threshold set by European regulations. This trend was driven, on the one hand, by the economic recovery, alongside the pick-up in lending and the intensification of vulnerabilities and, on the other hand, by the need to create room for manoeuvre for macroprudential policy in case cyclical or exogenous risks materialise, amid elevated uncertainty at both global and regional levels.

As regards the buffer for other systemically important institutions (O-SIIs), most countries acted to strengthen the requirements, by identifying several credit institutions as systemically important and by widening the minimum-to-maximum buffer range for certain institutions within their jurisdiction. However, in 2024, some countries (Germany, Malta, Portugal and Sweden) calibrated the buffer rate to ease prudential requirements.

Another macroprudential instrument increasingly used by national authorities in the recent period due to its inherent flexibility is the systemic risk buffer (SyRB). In 2024, two more countries (Italy and Denmark) decided to introduce a sectoral systemic risk buffer, while one country (Czechia) decided to implement the buffer after it had been deactivated in 2021. These measures were adopted to address the specific risks stemming from the economic specificities of each country.

As for borrower-based measures, lending conditions generally tended to tighten. In 2024, three countries amended the LTV limits (Finland, Greece and Hungary), while five countries revised the limits on the DSTI ratio (Estonia, Finland, Greece, Latvia and Slovenia).

The decisions to tighten the macroprudential instruments adopted in recent years for the Romanian banking sector are in line with the European trends in macroprudential policy stance. Moreover, in terms of the applied toolkit, Romania has activated instruments from both categories, namely all four capital buffers provided for under the European regulatory framework, alongside borrower-based measures implemented under national legislation.

3.1.1. The countercyclical capital buffer

Implementation framework of the macroprudential instrument

The global financial crisis has shown that the amplification of pro-cyclical financial shocks through the banking sector as well as financial markets has had a strong and destabilising impact on the real economy. This is why the European authorities have taken steps to tighten the resilience of banks in the system to pro-cyclical developments. The Basel Committee on Banking Supervision (BCBS) published a first set of measures to strengthen the regulation of the banking sector, which were subsequently implemented at EU level through Directive 2013/36/EU²⁹ (CRD IV). In line with the Directive, designated authorities in each Member State and the European Central Bank (ECB) are responsible for setting countercyclical buffer rates, while the European Systemic Risk Board (ESRB) provides guidance to designated authorities on setting and recalibrating the CCyB rate.

In line with the provisions of the European regulatory framework, the countercyclical capital buffer should be built up in periods of excessive credit growth, as well as of growth in other asset classes with a significant impact on the risk profile of credit institutions and investment firms, and drawn down or fully released during stressed periods, associated with a contraction in lending. In order to promote international consistency in setting countercyclical buffer rates, the BCBS has developed a methodology on the basis of the ratio between credit and GDP. This should serve as a common starting point for decisions on buffer rates by the relevant national authorities, but should not give rise to an automatic buffer setting or bind the designated authority.

In order to provide guidance for setting countercyclical buffer rates across Member States, the European Systemic Risk Board issued Recommendation ESRB/2014/1. This recommendation establishes the principles to be taken into account by Member States when

²⁹ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

setting countercyclical buffer rates, namely the purpose for which it should be recalibrated, the periods during which it should be released, and the strategy for communicating the decisions on the countercyclical capital buffer. At the same time, the recommendation also specifies guidance on the indicators that should be calculated to determine the benchmark buffer rate.

The countercyclical capital buffer rate may range between 0 percent and 2.5 percent and be calibrated in minimum steps of 0.25 percentage points. However, in exceptional cases, where systemic risks are very high, a CCyB rate above 2.5 percent may be used. For the purposes of determining the countercyclical capital requirement, the CCyB rate shall be applied to the total risk exposure amount of the credit institution. At the same time, the designated authorities of the European Economic Area (EEA) member states assess the intensity of cyclical systemic risk and the appropriateness of the CCyB rate on a quarterly basis and adjust the countercyclical buffer rate if necessary. Following these decisions, the authorities shall also publish on their websites information on the applicable countercyclical buffer rate; the relevant credit-to-GDP ratio and its deviation from the long-term trend; the buffer guide; the justification for that buffer rate; where the buffer rate is increased, the date from which institutions shall apply the increased buffer rate for the purposes of calculating the institution-specific countercyclical capital buffer; where that date is less than 12 months after the date of the publication under this paragraph, a reference to the exceptional circumstances that justify that shorter deadline for application; where the buffer rate is decreased, the indicative period during which no increase in the buffer rate is expected, together with a justification for that period.

The predictability of the measure is an important element distinguishing the CCyB buffer from the other applicable buffers. Where the measure is intended to raise the CCyB rate, it is usually necessary to maintain a 12-month period between the date on which the measure was publicly communicated and the effective date of implementation. This period prior to the implementation of the measure is meant to give credit institutions the time to prepare before imposing the new capital requirement for the CCyB buffer. The procedure also helps the national macroprudential authority, because it offers flexibility regarding the implementation of the measure, in the sense that, if market conditions change, the increase in the CCyB rate can be cancelled. Unlike the measures to raise the buffer, where the macroprudential authority decides to lower the buffer rate, the measure can be applied immediately after the decision is made public, in which case a preparatory period is no longer required, the measure resulting in easing capital requirements.

The measures taken to implement and regularly recalibrate the CCyB buffer are periodically assessed by the European Systemic Risk Board. In line with Recommendation ESRB/2014/1, designated authorities should send every three years a report to the ESRB, the Council of the European Union and the European Commission explaining the measures taken to comply with this Recommendation. The first deadline for submitting the report on the implementation measures was 30 June 2016. The second reporting, due at the end of June 2019, was initially postponed by one year, being subsequently fully cancelled, owing

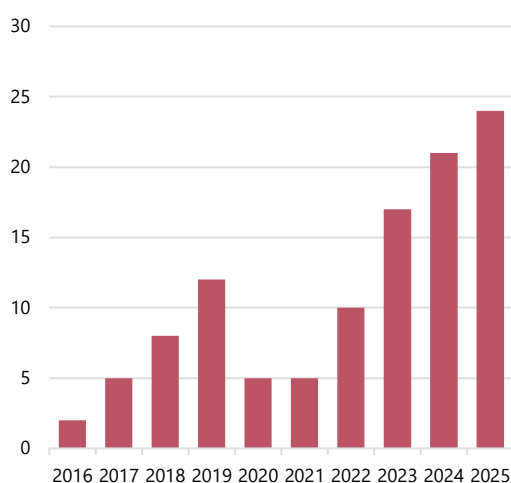
to effects of the COVID-19 pandemic, by Decision ESRB/2020/10³⁰. Following these events, the second report on the implementation of Recommendation ESRB/2014/1 was due by 30 June 2022 and the third report should be submitted by the end of June 2025. After the first reporting, the ESRB published the results of the assessment of the implementation of the Recommendation in the course of 2019, while the results of the assessment of the second reporting were released in the course of 2024. In both assessment rounds, Romania was among the European countries that was given an overall grade of fully compliant (FC) with the Recommendation.

The experience across the EU

The group of European Economic Area countries applying a CCyB rate higher than 0 percent expanded during 2024, and, in view of the measures planned for 2025, a further expansion is envisaged in the near future as well. Tracking the implementation of this buffer in EEA countries, it can be noted that the trend to build up the CCyB buffer at European level was visible during two periods. The first one started at the close of 2016 and ended in late 2019, when 12 countries applied positive CCyB rates. Subsequently, due to the effects

of the COVID-19 pandemic, only 5 countries still applied positive CCyB rates at end-2020. The buffer rates were again raised starting in 2022 and this trend continued for two years. At the end of 2024, 21 EEA countries applied CCyB rates higher than 0 percent, and by the end of 2025, the number of countries would increase to 24 (Chart 3.1).

Chart 3.1. Number of countries applying a CCyB rate higher than 0 percent



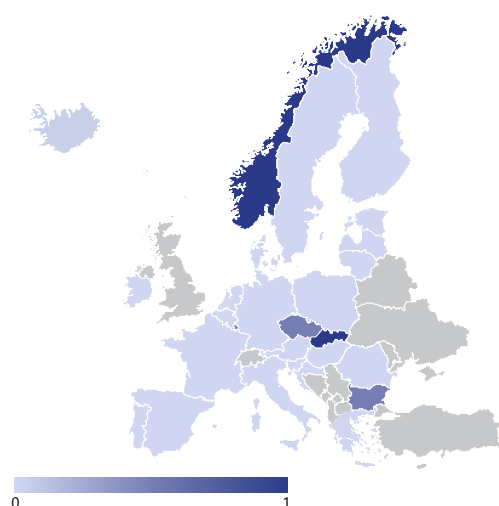
Source: ESRB

The countercyclical buffer rate applied in the EEA countries is yet another important aspect. At end-2020, owing to the effects of the COVID-19 pandemic, the maximum CCyB rate applicable in Member States was 1 percent (Chart 3.2). However, following the measures announced in 2024, until the end of 2025 three countries (Denmark, Iceland and Norway) were to apply maximum CCyB rates of 2.5 percent (Chart 3.3). Moreover, the average CCyB rate in the EEA countries applying positive buffer rates rose from 0.65 percent at end-2020 to 1.36 percent at end-2024.

During 2024, nine countries decided to raise the CCyB rate, while Czechia was the only country to lower the buffer rate. The authorities in the Netherlands and Belgium took measures to significantly raise the CCyB rate, i.e. by 1 percentage point during 2024. Seven other countries (Iceland, Croatia, Ireland, Cyprus, France, Hungary and Latvia) increased the

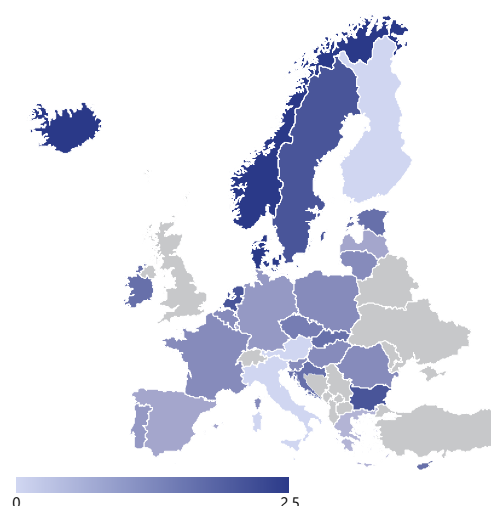
³⁰ Decision ESRB/2020/10 on the cancellation of certain reports on actions taken and measures implemented in accordance with Recommendation ESRB/2014/1 and Recommendation ESRB/2015/2 of the European Systemic Risk Board

Chart 3.2. CCyB rate in EEA countries at end-2020



Source: ESRB

Chart 3.3. CCyB rate in EEA countries announced for 2025



buffer rate by 0.5 percentage points. Two of these countries, namely Hungary and Latvia, raised the buffer rate for the first time since its implementation. Only Czechia decided to reduce the CCyB rate in two successive steps, as follows: from 2 percent to 1.75 percent and then to 1.25 percent.

Chart 3.4. Measures to increase or decrease the CCyB rate during 2024



Note: The arrow base shows the CCyB rate at end-2023, while the arrow tip indicates the CCyB rate at end-2024. The red arrow highlights the measures to increase the CCyB rate, while the green arrow points to a measure to decrease the buffer rate.

Source: ESRB

At the end of 2024, 21 EEA countries applied positive CCyB rates, their number being expected to rise to 24 by the end of 2025 (Table 3.2). The measures to increase the buffer were adopted in 2024 and are to be implemented in the course of 2025 by Greece, Hungary, Poland, Slovenia and Spain. Three of them, i.e. Greece, Poland and Spain, will set positive buffer rates for the first time. The steps of increase differ significantly from one country to another: in Greece, the CCyB rate increased by only 0.25 percentage points, in Spain, by 0.5 percentage points, i.e. twice as much, and in Poland, by 1 percentage point. At the same

time, two other countries, namely Hungary and Slovenia, decided to raise again the CCyB rate from 0.5 percent to 1 percent, although they had been applying a positive buffer rate.

Table 3.2. CCyB rates applicable in EEA countries at end-2024 and CCyB rates announced for 2025

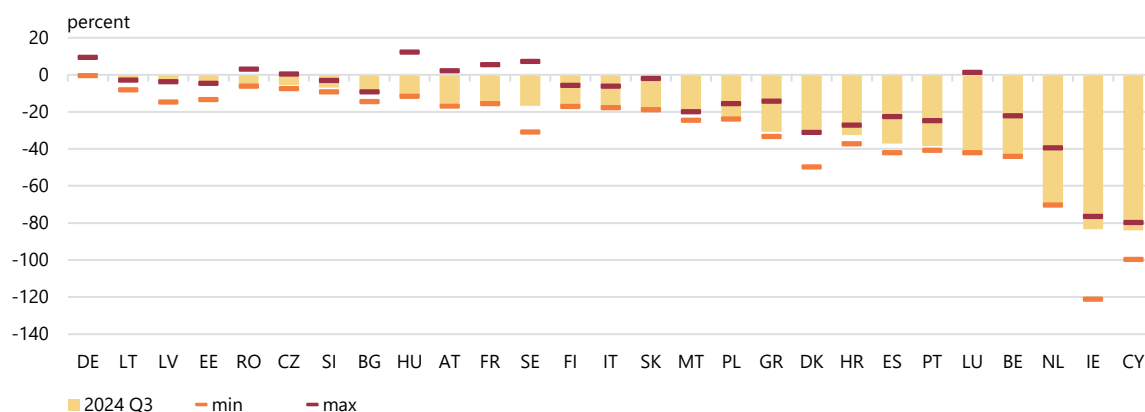
Country	CCyB rate at 31 December 2024	CCyB rate announced for 2025
Austria	0	0
Belgium	1	1
Bulgaria	2	2
Croatia	1.5	1.5
Cyprus	1	1
Czechia	1.25	1.25
Denmark	2.5	2.5
Estonia	1.5	1.5
Finland	0	0
France	1	1
Germany	0.75	0.75
Greece	0	0.25
Hungary	0.5	1
Iceland	2.5	2.5
Ireland	1.5	1.5
Italy	0	0
Latvia	0.5	0.5
Liechtenstein	0	0
Lithuania	1	1
Luxembourg	0.5	0.5
Malta	0	0
Netherlands	2	2
Norway	2.5	2.5
Poland	0	1
Portugal	0	0
Romania	1	1
Slovakia	1.5	1.5
Slovenia	0.5	1
Spain	0	0.5
Sweden	2	2

unchanged
 0.25 pp increase
 0.50 pp increase
 1 pp increase

Source: ESRB

As for the rationale behind the measures to raise the CCyB rate, most of the countries cited potential risks that could come from the dynamics of the real estate market or the developments in lending. Poland announced it would implement a positive neutral CCyB rate, the macroprudential authorities of Slovenia and Hungary sending out a similar signal. Although none of the above-mentioned countries had a positive credit-to-GDP gap (Chart 3.5), in taking the measures to raise the buffer rates they took into account other variables to substantiate their calibration decisions.

Chart 3.5. Credit-to-GDP gap in Member States (2024 Q3)



Note: The values calculated by the ESRB may differ from those calculated by the national macroprudential authorities, due to different calculation methodologies.

The MAX variable represents the maximum credit-to-GDP gap (2021 Q3 – 2024 Q2).

The MIN variable represents the minimum credit-to-GDP gap (2021 Q3 – 2024 Q2).

Source: ECB, ESRB

At the same time, the approach based on which the CCyB frameworks could be revised to include the setting of a positive neutral CCyB rate even when cyclical systemic risks are not elevated is becoming increasingly popular. Box B takes an in-depth look at applying a positive neutral CCyB rate.

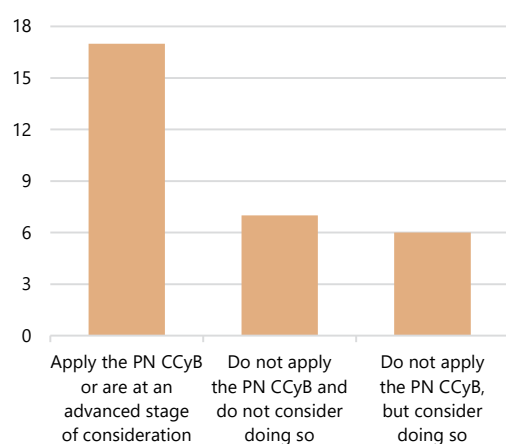
Box B. The use of the positive neutral countercyclical capital buffer rate approach in the European Economic Area

Introduced for the first time by the United Kingdom, the positive neutral countercyclical capital buffer (PN CCyB) approach has been adopted in recent years by an increasing number of European countries. So far, 17 out of the 30 European Economic Area (EEA)

countries have set a positive neutral rate for the countercyclical capital buffer, raising the CCyB rate already at times when cyclical systemic risks were at a standard level. Although the use of the CCyB buffer is comparable among the EEA countries, the implementation of the PN CCyB approach has been uneven. In this respect, there are significant differences between countries when it comes to both the target rate and the main factors that led to the introduction of this approach.

Target PN CCyB rates vary across countries, ranging from 0.5 percent to 2 percent. This variation reflects the different calibration methods, the specificities of each economy and the preferences of policymakers.

Chart B.1. Distribution of EEA countries depending on their stage of consideration of the PN CCyB



Source: ESRB

The conditions for activating a non-zero CCyB rate also differ, but many countries rely on the concept of a “neutral” risk environment, where cyclical systemic risks are not yet elevated.

According to the joint ECB/ESRB report³¹, 17 EEA countries apply a positive neutral CCyB approach, i.e. Cyprus, Czechia, Denmark, Estonia, Spain, Greece, Hungary, Ireland, Iceland, Lithuania, Latvia, the Netherlands, Norway, Poland, Portugal, Slovenia and Sweden. Out of the 13 jurisdictions that do not have such a framework in place, 6 are open to introducing a positive neutral rate in the future, while 7 countries do not take this framework into account (Chart B.1). Most EEA countries that were open to this approach introduced a PN CCyB framework in the post-COVID-19 pandemic period (as of 2021). However, countries such as Denmark (DK), Lithuania (LT), Ireland (IE) and Czechia (CZ) were among the first to adopt more flexible approaches in using CCyB much earlier, in 2017 (DK and LT), 2018 (IE) and 2019 (CZ).

Another important aspect refers to defining the standard level of risk. In most cases, it denotes a situation where cyclical systemic risks are neither low nor high. Among its characteristics are sustainable credit growth, a moderate growth of asset prices and a profitable banking sector. Such a context occurs, for example, when the economy has recovered from a recession, the financial cycle is picking up and the cyclical systemic risk remains low or moderate.

Figure B.1. Main reasons for adopting a PN CCyB

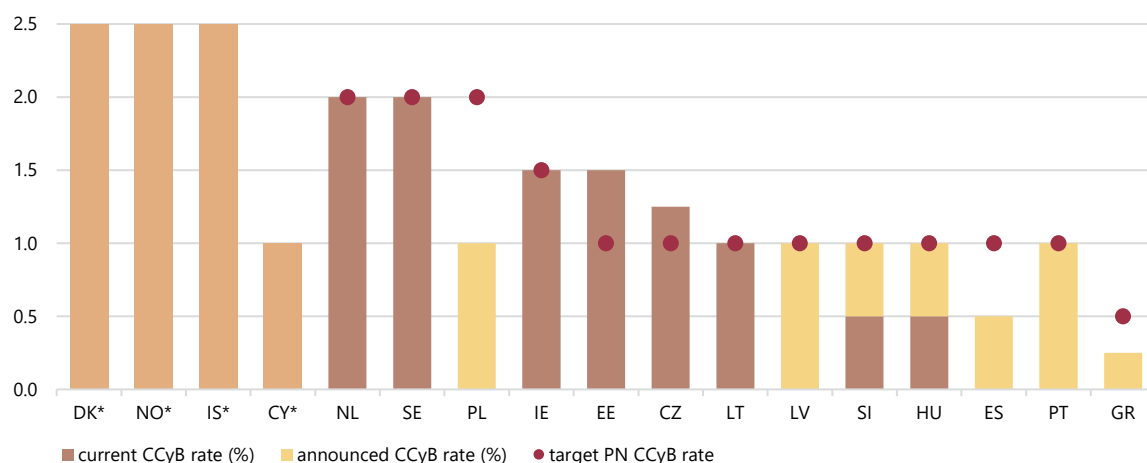


Source: ESRB

The framework governing the use of a PN CCyB is mainly based on the need for a more efficient synchronisation of buffer build-up and on an increase in releasable buffers. Many states justify the adoption of this approach through a variety of factors. Specifically, most countries that have already adopted or intend to adopt a PN CCyB framework cite five main factors, as shown in Figure B.1.

³¹ Using the countercyclical capital buffer to build resilience early in the cycle

Chart B.2. Announced PN CCyB rates and effective CCyB rates



*) Denmark and Norway did not specify exactly the target PN rate, while Iceland and Cyprus set a minimum PN rate of 2 percent and 0.5 percent respectively.

Source: ESRB

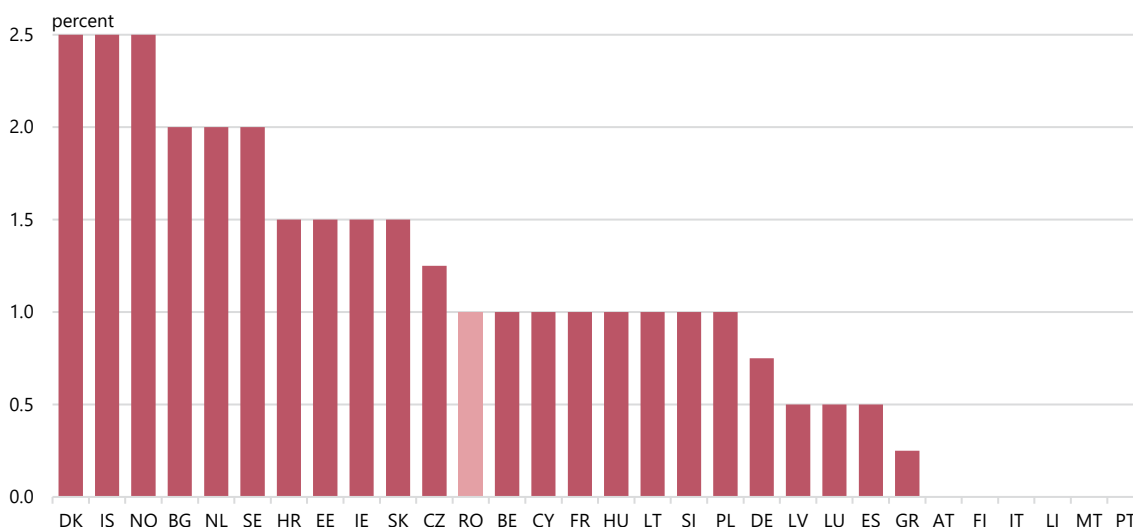
Some countries have already taken the necessary measures to raise the countercyclical capital buffer to the target rate announced for the positive neutral rate. These include the Netherlands and Sweden, where the current CCyB rate corresponds to the positive neutral threshold of 2 percent. Other countries, such as Poland, Spain and Greece, have started to implement this rate, but further steps are needed to reach the desired level. There are also countries, such as Estonia and Czechia, which apply buffer rates above the positive neutral level. In Czechia, the CCyB rate exceeds the positive neutral target by 0.25 percentage points, while in Estonia the difference is 0.5 percentage points.

Implementation of the countercyclical capital buffer in Romania

Starting with 2016, the countercyclical capital buffer has been implemented in 28 EEA countries, including Romania. In Romania, the countercyclical capital buffer was maintained at 0 percent since its implementation until 2021, as the analyses on the recalibration of this instrument did not identify cyclical systemic risks warranting an adjustment of this level. The NCMO General Board decided to raise the CCyB rate for the first time during its meeting of 14 October 2021. According to the regulations in force, a decision to adjust the buffer rate usually becomes applicable at least 12 months after its announcement, hence the CCyB rate was increased from 0 percent to 0.5 percent starting with 17 October 2022. According to NCMO Recommendation No. R/7/2021 on the countercyclical capital buffer in Romania, among the reasons behind this measure were: (i) the fast increase in lending, (ii) the tensions surrounding macroeconomic equilibria, especially via the twin deficits, (iii) the high levels of voluntary capital reserves built up by the banking sector and of liquidity indicators, exceeding the EU averages, and (iv) the access to finance for eligible borrowers, with credit institutions estimating credit standards to remain unchanged.

The NCMO General Board decided to raise the CCyB rate, i.e. from 0.5 percent to 1 percent, for the second time during its meeting of 20 October 2022. The measure was also implemented one year after its adoption, as of 23 October 2023. In line with NCMO Recommendation

Chart 3.6. CCyB rates in EEA countries³²



Source: ESRB

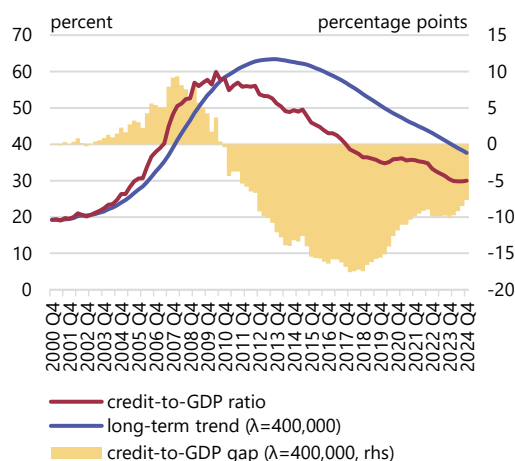
No. R/3/2023 on the countercyclical capital buffer in Romania, the decision to increase the CCyB was taken given that: (i) the consolidation trend of banking sector profitability continued; (ii) the liquidity and solvency levels of the banking sector did not indicate any constraints with regard to meeting prudential requirements, likely to affect the loan supply to eligible borrowers; (iii) geopolitical tensions and global uncertainty were on the rise, and (iv) Romania ranked among the top EU countries regarding twin deficits.

During 2024, the four analyses on the recalibration of the countercyclical capital buffer were presented at the quarterly meetings of the NCMO General Board. Based on these analyses, the NCMO General Board issued recommendations to the NBR to maintain the CCyB rate at the same level. Thus, with a countercyclical capital buffer of 1 percent in place, Romania is in the mid-range of EEA countries in terms of the CCyB rate (Chart 3.6).

The analysis on the recalibration of the countercyclical capital buffer is carried out on a quarterly basis and includes a number of lending indicators, both at aggregate and sectoral level, the developments in the real estate market, indicators on the financial health of the banking sector, credit standards, such as the DSTI and LTV ratios for consumer loans and new housing loans, as well as macroeconomic indicators. One of the indicators used to substantiate the decisions on setting the CCyB rate is the standard Basel indicator, which measures the credit-to-GDP gap, being particularly relevant for developed economies. This is one of the indicators recommended by the ESRB at European level for adopting decisions to recalibrate the countercyclical capital buffer, in line with Recommendation ESRB/2014/1 on guidance for setting countercyclical buffer rates. However, in order to adjust the buffer rate to the specificities of each national financial system, the ESRB also recommends the calculation of an alternative indicator for the evolution of the financial cycle, which is included in the quarterly CCyB rate review.

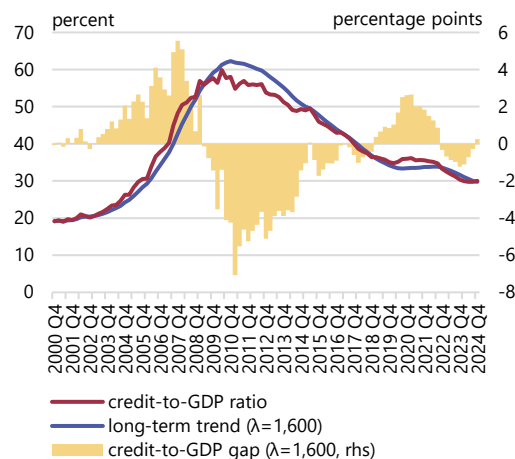
³² The CCyB rate taken into account is that announced for 2025.

Chart 3.7. Analysis of the countercyclical capital buffer in Romania (2000 Q4 – 2024 Q4), assuming a long financial cycle (Basel indicator)



Source: NBR, NIS, NBR calculations

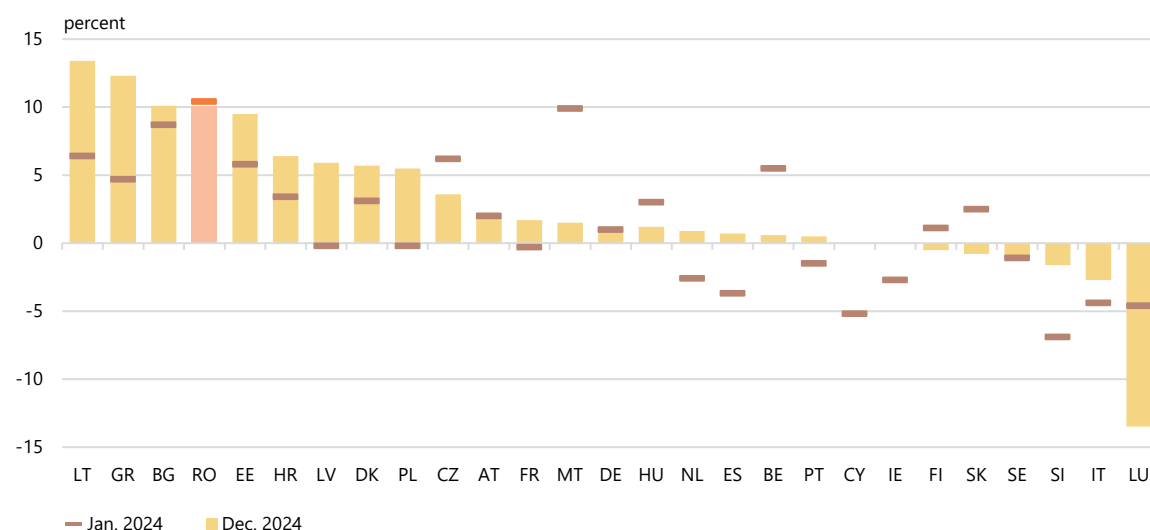
Chart 3.8. Analysis of the countercyclical capital buffer in Romania (2000 Q4 – 2024 Q4), assuming a short financial cycle³³ (alternative indicator)



Source: NBR, NIS, NBR calculations

The recalibration exercises carried out during 2024 showed that both the standard and additional Basel indicators were in negative territory, without signalling the need for measures to increase the CCyB rate. Assuming a long financial cycle, credit-to-GDP gap was close to -7.68 percentage points at end-2024, the series further nearing the trend (Chart 3.7). Turning to the additional Basel indicator, it remained in negative territory during the first three quarters of 2024, but re-entered positive territory at end-2024, reaching the 0.25 percentage point threshold (Chart 3.8).

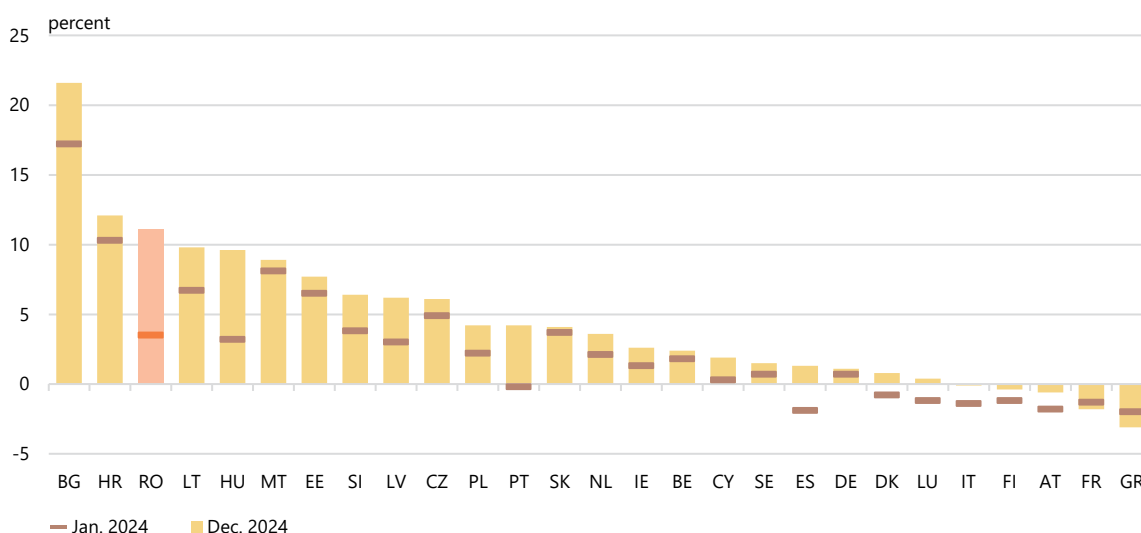
Chart 3.9. Annual growth rates of loans to non-financial corporations



Source: ECB

³³ The smoothing parameter (λ) of 1,600 is used in cycles similar in length to business cycles, referred to in the literature as short cycles (less than 8 years).

Chart 3.10. Annual growth rates of loans to households



Source: ECB

The analysis on lending dynamics is also essential for calibrating the CCyB rate. End-2024 data show that Romania ranked fourth among EU Member States in terms of the annual growth rate of loans to non-financial corporations (Chart 3.9). However, the year-end level is slightly below that posted at the beginning of the same year, when Romania was first in the EU.

In recent months, lending to households posted significant developments in Romania. End-2024 data show that Romania ranked third among EU Member States in terms of the annual growth rate of loans to households, being exceeded only by Bulgaria and Croatia. However, this picture is quite different from that recorded at the beginning of 2024, when Romania came in ninth in the EU (Chart 3.10). Looking at the components of loans to households, a significant contribution came from the strong performance of consumer credit in 2024.

3.1.2. Buffer for other systemically important institutions

Implementation framework of the macroprudential instrument

Following the global financial crisis, the international authorities made efforts to identify the procyclical mechanisms that triggered the outbreak of crisis and aggravated its effects. The Financial Stability Board (FSB), the Basel Committee for Banking Supervision (BCBS) and G-20 issued recommendations to mitigate the procyclical effects of financial regulations. In December 2010, the BCBS published new international regulatory standards on bank capital adequacy (Basel III rules), including rules imposing the build-up of capital buffers to mitigate specific bank risks. In 2016, the European CRD IV regulatory framework establishing the capital buffers that credit institutions should apply for the proper management of structural or cyclical risks came into force. In order to prevent the build-up of systemic risks generated by the misaligned incentives and moral hazard implied by systemically important institutions, the ESRB recommends national authorities to use, as a dedicated

macroprudential instrument, the capital buffers applicable to O-SIIs³⁴ in the national financial system or G-SIIs³⁵ at international level.

During the implementation of the new macroprudential instruments, national authorities in the EU identified certain limitations in the initial set-up of the O-SII buffer. In this context, they made several proposals to increase the flexibility of this instrument, so as to enable the adequate coverage of risks that systemically important institutions could have transferred to the national financial sector and the real economy. Specifically, according to the CRD V regulatory framework, the O-SII buffer rate that Member States' competent authorities can impose in the country of origin on banks with domestic capital was increased to 3 percent of the total risk exposure amount (as compared to the previous threshold of 2 percent). The maximum amount the authorities in host countries may set for foreign bank subsidiaries was also raised³⁶. Moreover, the CRD V regulatory framework reset the implementation of O-SII and SyRB buffers, meaning that the systemic risk buffer may be cumulative with the O-SII buffer in the case of systemically important banks subject to a systemic risk buffer, given that the two instruments are meant to cover different risks. Where Member States intend to impose on systemically important banks an O-SII buffer higher than 3 percent or where the sum of the O-SII buffer rate and the SyRB rate is higher than 5 percent, competent/designated national authorities shall request the European Commission's approval before the measure becomes effective. The authorities should ensure that this approach does not entail disproportionate adverse effects on the whole or parts of the financial system in other Member States or in the Union as a whole, forming or creating an obstacle to the functioning of the single European market.

According to the literature, the objectives to impose additional capital requirements on systemically important institutions are as follows: (i) enhance their loss-absorption capacity, with positive effects on mitigating the systemic risk generated by the size of institutions, (ii) lower the likelihood of financial difficulties for systemic banks, (iii) reduce the severity of the potential impact of financial stress episodes that large banks could face, (iv) build up capital reserves that can ensure the continued financial intermediation during the downturn of business and financial cycles and (v) correct the advantages of "too big to fail" institutions as a result of implicit government guarantees, promoting a level playing field in the market for all credit institutions.

Amid a challenging macroeconomic framework and geopolitical tensions, the capital requirements for the O-SII buffer in the EU were generally maintained for the same institutions and at the levels recorded in the year before. In Romania, the concentration

³⁴ Other Systemically Important Institutions

³⁵ Global Systemically Important Institutions

³⁶ In accordance with the CRD V regulatory framework, where an O-SII is a subsidiary of either a G-SII or an O-SII which is either an institution or a group headed by an EU parent institution, and subject to an O-SII buffer on a consolidated basis, the buffer that applies on an individual or sub-consolidated basis shall not exceed the lower of: (a) the sum of the higher of the G-SII or the O-SII buffer rate applicable to the group on a consolidated basis and 1 percent of the total risk exposure amount; and (b) 3 percent of the total risk exposure amount or the rate the Commission has authorised to be applied to the group on a consolidated basis.

trend continued in the domestic banking sector in 2024, for reasons related to the growth of operational efficiency, with an impact on increasing the systemic importance of some credit institutions.

The experience across the EU

In order to ensure a level playing field in the EU banking market with regard to identifying and designating systemically important institutions, the European Banking Authority (EBA) developed a common methodology (Guidelines EBA/GL/2014/10³⁷), with the help of national authorities. The Guidelines specify the adequate methodology to make a standardised assessment of systemically important institutions, while also leaving room for manoeuvre to the national authorities, given the significant differences in the specificities of Member States' financial systems.

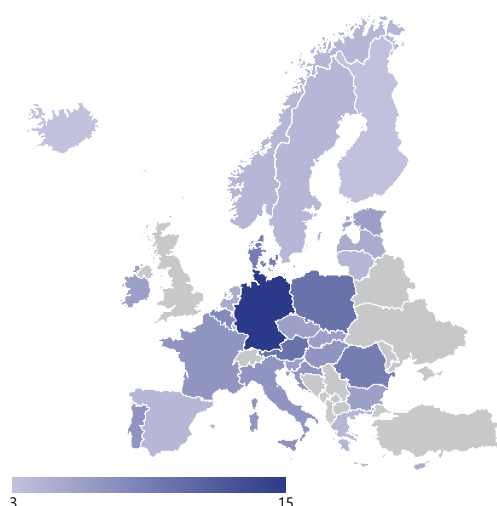
The methodology comprises two steps. In the first step (which is common at EU level), 10 indicators are calculated based on the following criteria: (a) size, (b) importance for the economy of the relevant Member State, capturing substitutability and the financial institution infrastructure, (c) complexity of cross-border activity and (d) interconnectedness of the institution or group with the financial system. This step ensures comparability and transparency in the assessments to designate systemically important institutions at the level of Member States. In the second step, the specificities of the national financial systems are taken into account and a set of optional indicators may be used, so as to capture other relevant aspects of the banking sector, which have not been identified in the first stage of assessment. Following the annual assessments to identify systemically important institutions, all EU Member States submit the results to the ESRB.

In 2024, 185 systemically important institutions were identified in EEA countries (Chart 3.11), on a rise from the year before, when 182 entities were classified as O-SIIs. The countries that reported a larger number of systemically important institutions were Estonia (+2 O-SIIs) and Norway (+1 O-SII). Conversely, unlike the 2023 identification exercise, the number of O-SIIs did not decrease in any EEA countries. The number of O-SIIs varies across EEA countries, from a maximum of 15 in Germany to a minimum of 3 in countries such as Finland, Iceland and Liechtenstein, depending on the specificities of each banking sector and the related level of concentration.

As regards the calibration of the O-SII buffer, only the Netherlands adjusted the maximum buffer rate, from 2.5 percent in 2023 to 2 percent in 2024 (Chart 3.12). On the other hand, two countries, i.e. the Netherlands and Portugal decided to raise the minimum buffer rate by 0.75 percentage points and 0.25 percentage points respectively. The minimum buffer rate was decreased only in Hungary (-0.25 percentage points).

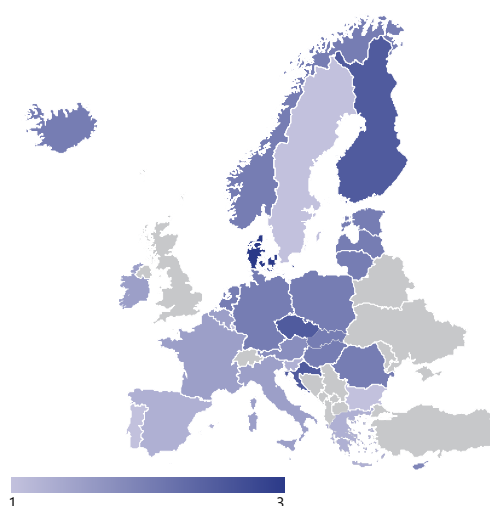
³⁷ Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) – EBA-GL-2014-10

Chart 3.11. Number of O-SIIs in EEA countries in 2024



Source: ESRB

Chart 3.12. Maximum O-SII buffer rate in EEA countries in 2024



Moreover, in 2024, seven systemically important banks were identified in Europe, similarly to the year before. These institutions are based in France (4), Germany (1), the Netherlands (1) and Spain (1). The four Member States apply different O-SII buffer rates, as follows: (i) between 1 percent and 1.5 percent in France, (ii) 1.5 percent in Germany and (iii) 1 percent in the Netherlands and Spain.

While the identification of systemically important banks is harmonised at European level according to Guidelines EBA/GL/2014/10 (as all Member States have to apply the scoring methodology based on the calculation of mandatory indicators), setting the O-SII buffer rate falls within the scope of national authorities in Member States, given the significant differences in the specificities of national banking sectors (the share of the banking sector in the national financial system, the volume of bank assets as a share of GDP, banking sector concentration, banking sector structure by size of institutions, etc.).

Implementation of the systemic risk buffer in Romania

The analyses on the identification of systemically important banks and the recalibration of additional capital requirements for other systemically important institutions in Romania (O-SII buffer) are carried out on a yearly basis³⁸. In Romania, the National Committee for Macroprudential Oversight (NCMO) is tasked with identifying the financial institutions and structures that are systemically relevant³⁹, while also acting as a designated authority within the meaning of provisions contained in Sections I and II, Chapter 4, Title VII

³⁸ Art. 24 para. (2) of Regulation NCMO No. 2/2017 on the methodology and procedures used for setting capital buffers and the scope of these instruments, as subsequently amended and supplemented: (2) The Committee shall revise annually the identified O-SIIs and shall report the result to institutions concerned and the ESRB [...]. Art. 23² para. (6) of the same Regulation: (6) The O-SII buffer must be reviewed by the Committee at least annually.

³⁹ Art. 3 para. (1) letter c) of Law No. 12/2017 on the macroprudential oversight of the national financial system: (1) With a view to achieving the fundamental objective laid down in Art. 2(1), the Committee shall carry out the following tasks: [...] c) identifying the systemically important financial institutions and financial system structures [...].

of Directive 2013/36/EU with regard to capital buffers. The National Bank of Romania, in its capacity as sectoral supervisory authority, implements the O-SII buffer at the level of systemically important banks, following the recommendations issued by the NCMO.

A methodology to recalibrate the O-SII buffer rates, which implements the provisions of the European regulatory framework (CRD V)⁴⁰ has been used since 2022. Given that the recalibration uses the scores calculated based on the mandatory indicators the EBA set forth in Guidelines EBA/GL/2014/10, the O-SII buffer rate is correlated with the systemic footprint of the institutions, based on the bucketing approach. The six buckets have 500 basis points each, which are assigned O-SII buffer values in ascending order based on systemic importance, in equal increments of 0.5 percentage points. The O-SII buffer rate can have values between 0.5 percent and 3 percent (Table 3.3).

Table 3.3. O-SII buffer calibration methodology based on the bucketing approach

Bucket	Limits (minimum – maximum) (basis points)	O-SII buffer rate (% of total risk-weighted exposures)
1	27-500	0.5
2	501-1 000	1.0
3	1 001-1 500	1.5
4	1 501-2 000	2.0
5	2 001-2 500	2.5
6	above 2,500	3.0

Note: The first bucket has a minimum threshold of 275 basis points, from which banks are automatically designated as being systemically important, according to the national methodology. Where a bank is assessed as being systemic based on additional indicators, but its score assigned by the mandatory indicators stands below the 275 basis point threshold, then the institution falls within the first bucket.

Source: NBR

Mention should be made that, during the assessments made in 2023-2024, systemically important institutions were identified in the Romanian banking sector in the first stage (based on the mandatory indicators recommended by the EBA), as well as in the second stage (calculation of optional indicators)⁴¹.

⁴⁰ The provisions of CRD V on the O-SII buffer were implemented via NCMO Regulation No. 1 of 18 December 2020 amending and supplementing NCMO Regulation No. 2/2017 on the methodology and procedures used for setting capital buffers and the scope of these instruments. As regards the O-SII buffer rate, Art. 23 para. (1) of the Regulation stipulates that: "Based on the criteria for the identification of O-SIIs, the Committee may recommend the national sectoral financial supervisory authorities to require O-SIIs to maintain an O-SII buffer of up to 3 percent of the total risk exposure amount [...]". The NCMO may recommend the national sectoral financial supervisory authorities to require systemically important banks to maintain an O-SII buffer rate higher than 3 percent of the total risk exposure amount, subject to approval by the European Commission (Art. 23¹ of the Regulation).

⁴¹ According to the national methodology, the optional indicators used for the in-depth review of systemically important banks are as follows: a) the contribution of the credit institution to finance the real economy, calculated based on the volume of loans granted to non-financial corporations and the substitutability of non-financial corporations' lending activity; b) the contribution of the credit institution to financial intermediation, calculated based on the volume of deposits from households and non-financial corporations; c) the activity of the credit institution on the interbank market and quantifying the contagion effects; d) the assessment of systemically important institutions in the ReGIS payment system; e) the vulnerability to contagion as regards the relationship between parent undertakings and their affiliates via the common lender channel (country of origin of capital).

NCMO Recommendation No. R/4/2023 on the capital buffer for other systemically important institutions in Romania⁴² is applicable from 1 January 2024 to 31 March 2025. The National Bank of Romania is recommended to impose, starting 1 January 2024, a capital buffer for other systemically important institutions (O-SII buffer), on an individual or consolidated basis, as applicable, calculated based on the total risk exposure amount for all the credit institutions identified as systemically important based on the data reported as at 31 December 2022, as follows: (i) 2 percent for Banca Transilvania S.A. (consolidated level), (ii) 1.5 percent for UniCredit Bank S.A. (consolidated level), Banca Comercială Română S.A. (consolidated level), BRD – Groupe Société Générale S.A. (consolidated level), (iii) 1 percent for Raiffeisen Bank S.A. (consolidated level), CEC Bank S.A. (individual level) and (iv) 0.5 percent for OTP Bank România S.A. (consolidated level), Alpha Bank România S.A. (individual level), and EXIM Banca Românească S.A. (individual level). The identified systemically important institutions, the scores obtained during the assessment based on the reports available as at 31 December 2022 and the O-SII buffer rate applied as of 1 January 2024 are presented in Table 3.4.

Table 3.4. O-SIIs and the O-SII buffer rate applicable from 1 January 2024 to 31 March 2025

Credit institution	Score based on mandatory/additional indicators	O-SII requirement (% of the total risk exposure amount)	Applicability of O-SII buffer
A. Credit institutions in the first assessment stage, having recorded a score above the threshold of 275 basis points, based on the mandatory indicators recommended by the EBA for the reference date of 31 December 2022			
Banca Transilvania S.A.	1,681 basis points	2.0	consolidated basis
BRD – Groupe Société Générale S.A.	1,297 basis points	1.5	consolidated basis
Banca Comercială Română S.A.	1,250 basis points	1.5	consolidated basis
UniCredit Bank S.A.	1,237 basis points	1.5	consolidated basis
Raiffeisen Bank S.A.	834 basis points	1.0	consolidated basis
CEC Bank S.A.	516 basis points	1.0	individual basis
OTP Bank România S.A.	492 basis points	0.5	consolidated basis
Alpha Bank România S.A.	343 basis points	0.5	individual basis

⁴² NCMO Recommendation No. R/4/2023 on the capital buffer for other systemically important institutions in Romania is published on the NCMO website (https://www.cnsmro.ro/res/ups/Recomandare-CNSM-nr.4_2023-amortizor-O-SII-aplicabil-in-2024_EN.pdf).

Credit institution	Score based on mandatory/additional indicators	O-SII requirement (% of the total risk exposure amount)	Applicability of O-SII buffer
B. Credit institutions identified in the second assessment stage, implying the calculation of additional indicators – the threshold from which credit institutions are classified as O-SIIs is 2.75 percent			
Exim Banca Românească S.A.	A – The contribution of the credit institution to finance the real economy, calculated based on the volume of loans granted to non-financial corporations and the substitutability of non-financial corporations' lending activity: the bank is systemically important in the four quarters under review: 2022 Q4 (5.81 percent), 2022 Q3 (5.04 percent), 2023 Q1 (4.37 percent) and 2023 Q2 (5.22 percent). B – The contribution of the credit institution to financial intermediation, calculated based on the volume of deposits from households and non-financial corporations: the bank is systemically important in 2023 Q1 (2.96 percent) and 2023 Q2 (2.88 percent). C – The activity of the credit institution on the interbank market and quantifying the contagion effects: the bank is systemically important in the three quarters under review, starting with 2022 Q4. D – Assessment of systemically important institutions in the ReGIS payment system: the bank is systemically important in 2023 Q2 (3.60 percent).	0.5	individual basis

Source: NCMO

The NBR implemented NCMO Recommendation No. R/4/2023 on the capital buffer for other systemically important institutions in Romania by issuing Order No. 9/2023 on the buffer for credit institutions authorised in Romania and identified as other systemically important institutions (O-SIIs)⁴³.

In 2024, a new analysis was made to identify systemically important banks using the reports with the reference date of 30 September 2024. The assessment was made at the highest consolidation level, according to the applicable European framework, and showed there are seven systemically important banks, as follows:

- six banks were identified in the first stage of analysis (calculation of the mandatory indicators recommended by the EBA), when they recorded scores higher than the 275 basis point threshold, used for the automatic designation of systemically important institutions, namely Banca Transilvania (2,187 basis points), UniCredit Bank (1,450 basis points), Banca Comercială Română (1,392 basis points), BRD – Groupe Société Générale (1,300 basis points), Raiffeisen Bank (833 basis points) and CEC Bank (624 basis points);

⁴³ NBR Order No. 9/2023 on the buffer for credit institutions authorised in Romania and identified by the National Bank of Romania as other systemically important institutions (O-SIIs) was published in *Monitorul Oficial al României*, Part I, No. 1177 of 27 December 2023.

- ➔ one bank was identified in the second stage of analysis (calculation of additional indicators relevant for the Romanian banking sector), when they recorded scores higher than the 2.75 percent threshold from which credit institutions are classified as O-SIIs on the analysed market: EXIM Banca Românească S.A. was identified as systemically important, according to criteria A – The contribution of the credit institution to finance the real economy, calculated based on the volume of loans granted to non-financial corporations and the substitutability of non-financial corporations' lending activity, with a score of 5.63 percent, and B – The contribution of the credit institution to financial intermediation, calculated based on the volume of deposits from households and non-financial corporations, with a score of 2.98 percent.

The assessment was reviewed during the NCMO meeting of 16 December 2024, when the General Board decided to issue NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania whereby the National Bank of Romania is recommended to impose, starting 1 April 2025, a capital buffer for other systemically important institutions (O-SII buffer), on an individual or consolidated basis, as applicable, calculated based on the total risk exposure amount for all the credit institutions identified as having a systemic nature based on the data reported as at 30 September 2024, as follows: (i) 2.5 percent for Banca Transilvania S.A. (consolidated level), (ii) 1.5 percent for UniCredit Bank S.A. (consolidated level), Banca Comercială Română S.A. (consolidated level), BRD – Groupe Société Générale S.A. (consolidated level), (iii) 1 percent for Raiffeisen Bank S.A. (consolidated level), CEC Bank S.A. (consolidated level) and (iv) 0.5 percent for Exim Banca Românească S.A. (individual level).

The systemically important institutions and the O-SII buffer rate applied as of 1 April 2025, as well as the scores obtained during the assessment based on the reports available as at 30 September 2024 are presented in Table 3.5.

Table 3.5. O-SIIs and the O-SII buffer applicable as of 1 April 2025

Credit institutions included in the group of systemically important banks as of 1 April 2025	Score obtained for the reference date of 30 September 2024	O-SII buffer rate recommended to be applied as of 1 April 2025	The consolidation level at which the recommended O-SII buffer is to be applied to the bank as of 1 April 2025
A. Credit institutions in the first assessment stage, having recorded a score above the threshold of 275 basis points, based on the mandatory indicators recommended by the EBA			
Banca Transilvania S.A.	2,187 basis points	2.5%	consolidated basis
UniCredit Bank S.A.	1,450 basis points	1.5%	consolidated basis
Banca Comercială Română S.A.	1,392 basis points	1.5%	consolidated basis
BRD – Groupe Société Générale S.A.	1,300 basis points	1.5%	consolidated basis
Raiffeisen Bank S.A.	833 basis points	1.0%	consolidated basis
CEC Bank S.A.	624 basis points	1.0%	consolidated basis

– continued –

Credit institutions included in the group of systemically important banks as of 1 April 2025	Score obtained for the reference date of 30 September 2024	O-SII buffer rate recommended to be applied as of 1 April 2025	The consolidation level at which the recommended O-SII buffer is to be applied to the bank as of 1 April 2025
B. Credit institutions identified in the second assessment stage, implying the calculation of additional indicators – the threshold from which credit institutions are classified as O-SIIs is 2.75 percent			
Exim Banca Românească S.A.	A – The contribution of the credit institution to finance the real economy, calculated based on the volume of loans granted to non-financial corporations and the substitutability of non-financial corporations' lending activity: 5.63% B – The contribution of the credit institution to financial intermediation, calculated based on the volume of deposits from households and non-financial corporations: 2.98%	0.5%	individual basis

Source: NCMO

As compared to the results obtained following the previous assessment, the number of systemically important banks fell from nine to seven, due to: a) the takeover of a systemically important bank (OTP Bank România) by Banca Transilvania, an operation that increased the systemic footprint of the purchasing bank and b) the reduction of the systemic importance of Alpha Bank, following the withdrawal from Romania of the Greek Alpha Bank Group, the Romanian subsidiary being taken over by UniCredit Italia in November 2024. According to the information submitted by the purchasing bank, the operation would be completed in 2025 through the merger by absorption of assets of Alpha Bank România by UniCredit Bank S.A.

Three of the seven banks identified as having systemic importance during the latest assessment have domestic capital (CEC Bank and Exim Banca Românească) or majority domestic capital (Banca Transilvania), the NBR acting as competent authority (sectoral supervisory authority). The remaining four credit institutions are subsidiaries of foreign banks in other EU Member States (Austria – BCR, Raiffeisen; Italy – UniCredit; France – BRD), which are O-SIIs in their home countries or global systemically important institutions (G-SIIs) and need to maintain additional capital requirements at a consolidated level, as follows:

- ➡ according to the notification sent to the ESRB by the Austrian Financial Market Authority in November 2024, banking groups Erste Group Bank AG and Raiffeisen Bank International AG need to meet a capital requirement for other systemically important institutions (O-SII buffer), on a consolidated level, of 1.75 percent of the total risk-weighted exposure amount as of 1 January 2025;
- ➡ the Autorité de Contrôle Prudentiel et de Résolution (ACPR) in France declared that banking group Société Générale ranks among global systemically important institutions (G-SIIs) and is applied a capital requirement (G-SII buffer) of 1 percent of

the total risk-weighted exposure amount during 2025, similarly to the previous year. At the same time, the ACPR notified the ESRB that Société Générale was identified as a systemically important institution at national level, in which case it is subject to an O-SII buffer of 1 percent of the total risk-weighted exposure amount as of 1 January 2025. According to the provisions of the European regulatory framework, systemic banks are applied the higher of the G-SII or O-SII buffer rate, therefore Société Générale has to hold an additional capital buffer of 1 percent of the total risk-weighted exposure amount, in view of its systemic importance;

- ➔ Banca d'Italia identified Unicredit Group spa as a globally systemic important institution (G-SII), which was applied a G-SII buffer equal to 1 percent of the total risk-weighted exposure amount. Moreover, Unicredit Group spa was also identified as a systemically important institution at national level, the applicable O-SII buffer standing at 1.5 percent as of 1 January 2024. Under the circumstances, according to CRD V provisions, Unicredit Group spa has to meet a capital requirement of 1.5 percent of the total risk-weighted exposure amount, considering the structural risk relative to the size of the institution.

The O-SII buffer applicable as of 1 April 2025 to other systemically important institutions in Romania that are subsidiaries of the aforementioned foreign banks was set considering the limits established by the European legislation (CRD V) effective at national level⁴⁴.

The recalibration of the O-SII buffer, which was approved in the NCMO meeting of 16 December 2024, was subject to prior notification to the ESRB⁴⁵, a 30-day process, in line with the applicable provisions. No observations or comments were made by the ESRB, the European Commission, the European Supervisory Authorities or national competent authorities in the home countries of parent banks having subsidiaries in Romania with regard to the implementation of the O-SII buffer at national level.

In this context, the NBR took the necessary steps to implement NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania, which resulted in the issue of NBR Order No. 1/2025 on the buffer for credit institutions authorised in Romania and identified by the National Bank of Romania as other systemically important institutions (O-SIIs)⁴⁶.

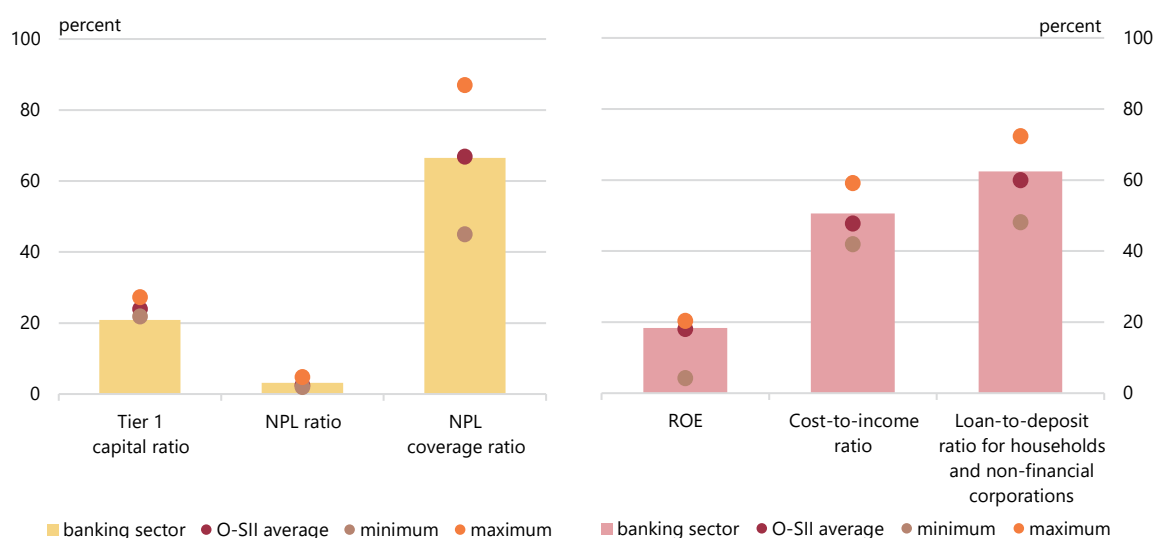
⁴⁴ The national macroprudential authority implemented the CRD V European framework by way of NCMO Regulation No. 1/2020 amending and supplementing NCMO Regulation No. 2/2017 on the methodology and procedures used for setting capital buffers and the scope of these instruments.

⁴⁵ Article 131(7) of 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 sets forth the following: "(7) Before setting or resetting an O-SII buffer, the competent authority or the designated authority shall notify the ESRB one month before the publication of the decision referred to in paragraph 5 [...]. The ESRB shall forward such notifications to the Commission, to EBA and to the competent and designated authorities of the Member States concerned without delay". CRD V provisions were implemented by way of Article 23 para. (2) of NCMO Regulation No. 2/2017 on the methodology and procedures used for setting capital buffers and the scope of these instruments, as amended by NCMO Regulation No. 1 of 18 December 2020 (https://www.cnsmro.ro/res/ups/Regulament-CNSM-1_2020_EN.pdf).

⁴⁶ NBR Order No. 1/2025 on the buffer for credit institutions authorised in Romania and identified by the National Bank of Romania as other systemically important institutions (O-SIIs) was published in *Monitorul Oficial al României*, Part I, No. 168 of 25 February 2025.

The O-SIIs identified for 2025 play a decisive role for the Romanian banking sector, as shown by the following indicators: (i) they held 78.9 percent of bank assets as at 30 September 2024; (ii) they provide a significant share of financial services to the real economy, i.e. 75.9 percent of loans in stock, 76.7 percent of deposits taken, and 64.1 percent of payments made; (iii) in terms of complexity, they conduct 92.9 percent of transactions in OTC derivatives, invest 95.4 percent of cross-border assets and raise 74.3 percent of foreign liabilities, while (iv) in terms of interconnectedness with the other undertakings conducting financial activities, they provide 78.4 percent of intra-financial assets, use 72.8 percent of intra-financial liabilities and hold 99.2 percent of bonds issued.

Chart 3.13. Prudential and efficiency indicators of systemically important institutions (December 2024)



Source: NBR, prudential reports

The analysis of credit institutions from a macroprudential perspective shows that the capitalisation of systemically important banks improved from the year before (23.9 percent versus 22.5 percent), above the capitalisation of the banking sector (20.9 percent in December 2024). Asset quality (indicated by the NPL ratio) saw a slight deterioration from the previous year in the case of systemically important institutions (2.5 percent versus 2.32 percent) yet remained in the green “best bucket” of the EBA classification (NPL ratio below 3 percent). However, at sector level, this indicator marginally exceeded the 3 percent threshold, reaching 3.13 percent in December 2024. The NPL coverage by provisions remained relatively unchanged from 2023 (67 percent) in the banking sector as a whole and at the level of O-SIIs. This figure significantly exceeded the EU average of 41.2 percent as at 31 December 2024.

In terms of profitability and efficiency, analysing the return on equity (ROE), the position of systemically important institutions worsened, reaching 18 percent in December 2024 (compared to 20.05 percent in the previous year), whereas the sector average stood at 18.4 percent. The cost-to-income ratio was 47.76 percent as compared to 46.34 percent in the previous year for O-SIIs and 50.61 percent sector-wide. These indicators are in the

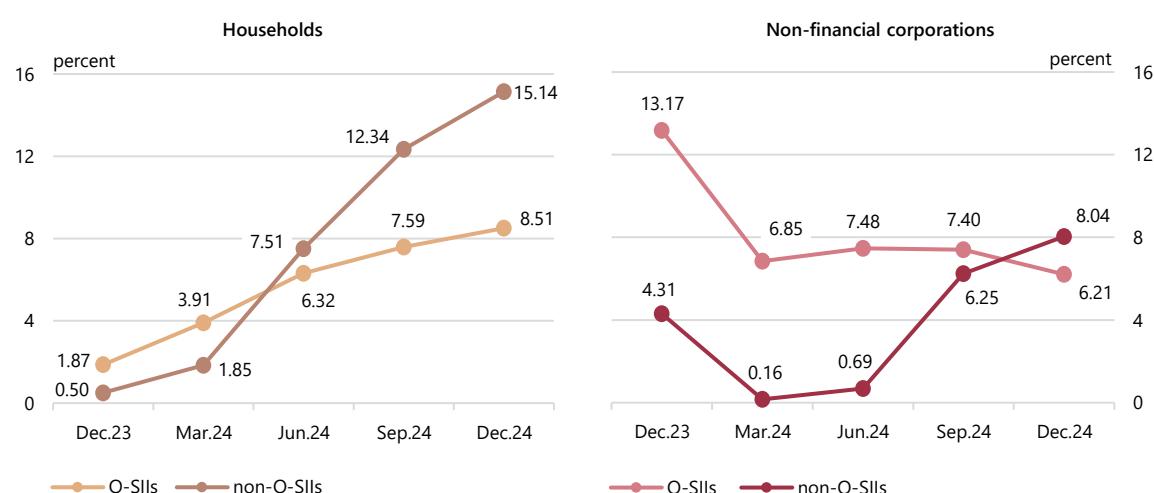
EBA's green "best bucket" and above the EU average (ROE: 10.5 percent, cost-to-income ratio: 52.6 percent, at the reference date of 31 December 2024). The analysis of the loan-to-deposit ratio for households and non-financial corporations shows a marginal increase in this indicator at the level of O-SIIs, i.e. from 59.34 percent in December 2023 to 60 percent in December 2024. The same trend is visible in the banking sector as well, where the loan-to-deposit ratio went up 1.33 percentage points, i.e. from 61.1 percent in December 2023 to 62.43 percent in December 2024. These developments may be ascribed to the further high-interest rate macroeconomic environment, a context in which both households and non-financial corporations chose to adopt deposit-based investments, the loan-to-deposit ratio narrowing as a result of the denominator effect. The loan-to-deposit ratio of banks in Romania is in the best bucket, according to the EBA-defined thresholds (below 100 percent – green area), while also reflecting the need to improve strategies to increase financial intermediation and inclusion.

As for lending to the real sector, in 2024 the growth rates of loans rose for households and declined for non-financial corporations, both in the banking sector as a whole and at the level of O-SIIs. As compared to the year before, when systemically important banks contributed primarily to the advance in loans to the real economy, in 2024, the rates of increase of loans granted by O-SIIs and non-O-SIIs underwent a reversal, especially for households (annual rises of 8.51 percent for O-SIIs and 15.14 percent for non-O-SIIs). In the segment of non-financial corporations, the growth rate of loans decreased for O-SIIs (from 13.17 percent in December 2023 to 6.21 percent in December 2024), the differential between O-SIIs and non-O-SIIs narrowing down to zero and therefore the trend was reversed towards the end of the year, when non-O-SIIs posted an 8.04 percent growth rate of credit to non-financial corporations. In 2024, foreign currency loans further played a major role in supporting lending dynamics, particularly in the corporate segment, given the significant interest rate differential. Worth noting is the fact that the growth pace of loans granted by large credit institutions, classified as O-SIIs, was below that of bank loans on the aggregate; practically, there is a narrow gap between the two categories of institutions. One likely explanation for these developments may be that O-SIIs channelled their resources primarily towards the government sector financing.

In accordance with the European Banking Authority's Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) – EBA/GL/2014/10⁴⁷, the first step in the yearly assessment to determine O-SIIs, namely calculating the mandatory indicators, is scored at the highest consolidation level, based on the financial reports submitted by credit institutions. Specifically, in the case of banking groups, all the entities in the group's scope of consolidation are included in the calculation. In this context, the analysis on the identification of systemically important banks takes into account the acquisitions, takeovers, mergers or divisions in the national banking sector, so that the

⁴⁷ <https://eba.europa.eu/sites/default/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20%28Guidelines%20on%20O-SIIs%20Assessment%29.pdf>

Chart 3.14. Annual growth rate of loans and advances granted to households and non-financial corporations by O-SIIs and non-O-SIIs



Source: NBR, prudential reports

results of the assessment capture the real size of the systemic footprint of banking groups. In Romania, four takeovers and acquisitions were initiated in 2024 in the banking sector, as presented in Box C.

Box C. Takeovers and acquisitions initiated in 2024 in the Romanian banking sector

In accordance with the notifications sent by credit institutions to the National Bank of Romania, in its capacity as supervisory authority, the takeovers and acquisitions initiated in the Romanian banking sector in 2024 were as follows:

- a) the takeover of Porsche Bank S.A. by two Romanian shareholders that jointly hold a 100 percent stake in the share capital and voting rights of the bank. The transaction closed on 31 July 2024 and the bank's name was changed to Credex Bank S.A. As of the date of the transaction, the institution has become part of the group of banks with Romanian capital. While the former Porsche Bank was a niche bank, focused on a single product (motor vehicle loans), Credex Bank will be, as stated by the new stakeholders, an entrepreneurial bank built on a digital foundation and will offer a full range of products and benefits for customers, both individuals and legal entities;
- b) the takeover of First Bank by Intesa Sanpaolo S.p.A. (Italy) – the transaction closed on 31 May 2024. The acquirer has been present in Romania since 1996 through Intesa Sanpaolo Bank România and the transaction completed in 2024 was intended to strengthen the group's position on the local market. According to the new shareholder's statements, Intesa Sanpaolo Bank România and First Bank have assets worth approximately EUR 3.2 billion in total, serve about 143,000 customers and have over 1,500 employees. Moreover, the customers, Romanian individuals and legal entities, will benefit from an extensive network of branches and ATMs, complemented by an advanced digital and remote services platform. In Italy, the Intesa Sanpaolo group ranks second by size in the banking sector and thus intends to promote tighter business ties between the two countries via the Italian companies doing business in Romania;

- c) the acquisition of OTP Bank România by Banca Transilvania – the transaction was finalised on 30 July 2024 and the first financial report to include the newly acquired institution in the consolidation had the reference date of 30 September 2024. Until the acquisition, OTP Bank România was a systemically important institution (with an applicable O-SII buffer rate of 0.5 percent of total risk exposure amount, after receiving a score of 492 basis points following the assessment made at the reference date of 31 December 2022). The integration of OTP Bank România into Banca Transilvania concluded on 28 February 2025 with the merger of the two banks. After the acquisition of OTP Bank România, the acquirer significantly increased its systemic footprint (from 1,681 basis points, based on the assessment made at the reference date of 31 December 2022, to 2,187 basis points, for the reference date of 30 September 2024, when OTP Bank România was included in the consolidation of Banca Transilvania). This change determined the increase in the applicable O-SII buffer rate from 2 percent to 2.5 percent of the total risk exposure amount, implemented as of 1 April 2025;
- d) the acquisition of Alpha Bank România S.A. by UniCredit S.p.A. – in July 2024, UniCredit S.p.A. Italy submitted a prior notification to the National Bank of Romania, pursuant to the provisions of Article 25(1) of Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented, on its intent to acquire a qualifying holding, accounting for 90.1 percent of the shares issued by Alpha Bank România S.A. The transaction was made on 4 November 2024. According to the documents sent to the NBR, in its capacity as supervisory authority, the acquisition marks the start of the process of gradual integration of Alpha Bank România into the UniCredit Group, which will be finalised with the merger through absorption of Alpha Bank România S.A. by UniCredit Bank S.A., estimated to take place in the second half of 2025. According to the statements made by the acquirer, the merger will bring together two complementary banks, both with long-lasting relationships and expertise on the Romanian market, which will strengthen the resulting credit institution's position on the banking market. Worth mentioning is that the Greek shareholder Alpha Services and Holdings will maintain its long-term presence on the Romanian market, and will hold, after the merger is completed, a 9.9 percent stake in UniCredit Bank S.A. The transaction is part of the strategic partnership between UniCredit and Alpha Services and Holdings, announced in October 2023.

3.1.3. The systemic risk buffer

Implementation framework of the macroprudential instrument

The systemic risk buffer (SyRB) remained an instrument frequently resorted to by macroprudential authorities, given its advantage of being the most flexible of the four buffers laid down in the European regulatory framework. The SyRB, as part of macroprudential measures, can be used both to strengthen the resilience of financial infrastructures and to

moderate the accelerated increase in lending in certain segments⁴⁸. The advantage of using the buffer reflects both in the flexibility of calibration, specifically tailored to the structure and vulnerabilities of each domestic financial system, and in its applicability, which may cover all credit institutions or a subset of credit institutions.

The buffer flexibility has been enhanced via the changes brought about by the CRD V regulatory framework, which allows for the application of combined buffer requirements. The SyRB may apply to both total and sectoral exposures, including exposures located in third countries or sectoral exposures located in other Member States. A significant amendment in terms of calibrating the instrument to achieve the intermediate objectives of macroprudential policy is that the SyRB may be cumulatively applied to several types of exposures or to total exposures. The buffer value is determined as the sum of individual requirements (Article 133(2) of CRD V):

$$B_{SR} = r_T * E_T + \sum_i r_i * E_i$$

where B_{SR} is the combined buffer requirement applicable to an institution, $r_T * E_T$ is the requirement applied to total exposures (calculated as the product of the buffer rate and the total exposure amount), while $r_i * E_i$ is the requirement applied to a subset of exposures i (calculated similarly to the requirement for total exposures).

Moreover, the amendments to CRD V clarified and consolidated the delineation between the SyRB and the other capital buffers (CCyB, O-SII and G-SII), by repealing the provision according to which the SyRB could be used to counter non-cyclical long-term systemic risks. Another important change is that the SyRB shall be cumulative with the O-SII buffer. Where the sum of the O-SII buffer rate and the SyRB rate is higher than 5 percent, the national authorities shall request the European Commission's approval before the measure becomes effective. Pursuant to the former provisions of CRD IV, systemically important credit institutions had to set up the buffer with the higher of the O-SII or the systemic risk buffer rate, where the latter applied to total exposures.

The methodology for the sectoral implementation of the systemic risk buffer has been set at European level via Guidelines of the European Banking Authority on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133(5)(f) of Directive 2013/36/EU – EBA/GL/2020/13. They set forth the implementation principles, the eligibility criteria and the types of exposures that may come under the scope of applying a systemic risk buffer by competent or designated authorities.

Table 3.6 lists a series of metrics for measuring structural systemic risks, which can be used to calibrate the SyRB.

⁴⁸ Aliman, M., Amza, A., Grecu, R., Hoholea, G., Kubinski, M., Sirbu, N., Uzum, L., "Evaluarea politicii macroprudențiale din România – rolul amortizoarelor de capital", *Occasional Paper No. 62/2024*, National Bank of Romania

Table 3.6. Indicators used for SyRB calibration

Indicators of propagation and amplification of shocks within the financial system	Exposure concentration
	Banks' CRE/RRE loans as a percent of total assets
	Financial interconnections and contagion
	Intra-financial assets (as a percent of total assets)
	Intra-financial liabilities (as a percent of total liabilities)
	Commonality in bank business models
Indicators reflecting the structural characteristics of the banking sector	Structure of banks' liabilities (other than interbank deposits)
	Banking sector size and concentration
	Total (consolidated) assets as a percent of GDP
	Banking sector importance for the financing of the economy
	Share of bank credit to the private non-financial sector out of broad credit
	Foreign ownership
	Assets held by foreign subsidiaries and foreign branches (as a percent of total assets)
Indicators of risks to the banking sector stemming from the real economy	Other potential structural risks
	Aggregate banks' non-performing loans
	Economic openness
	Current account balance-to-GDP ratio
	Sectoral risks from the private non-financial sector, households and the public sector
	Identification of relevant sectors (total credit extended to each sector, total debt of the sector as a percent of value added)

Source: adapted from the ESRB

The experience at European level

At end-2024, 21 countries either applied the systemic risk buffer or announced their intention to apply it in the following year. Six of them apply the buffer to all exposures, four to domestic exposures, and the remaining 11 to sectoral exposures. Member States display a high degree of heterogeneity in terms of both buffer rate and exposures depending on which the decisions on the calibration of this buffer are taken (Table 3.7). However, the national authorities use primarily the systemic risk buffer with a view to mitigating the vulnerabilities generated by the structural characteristics of the banking sector, followed by the risks stemming from the real economy. The latter category of risk is flagged by most CEE countries (Romania, Czechia, Poland, Slovenia and Croatia), considering that higher domestic macroeconomic volatility or the emergence of external shocks can have a significant impact on banking sectors in this region.

Table 3.7. SyRB calibration in EEA countries

Country	SyRB rate (%), December 2024	Exposures to which it applies	Rationale	Indicators used for calibration
Austria	0.5-1	All exposures	Systemic vulnerability, systemic cluster risk	Several indicators such as: total assets at institution level, volume of secured deposits, public ownership, CESEE exposure
Belgium	6	Sectoral – IRB retail exposures secured by residential immovable property	Vulnerabilities associated with retail exposures secured by residential property	The main indicators are: house prices (including indicators for price valuation), household debt ratio, mortgage loan growth, credit standards (LTV, DSTI, mortgage loan maturity, banks' interest rate margins)
Bulgaria	3	Domestic exposures	Structure of the banking sector and its activities	Several indicators pertaining to bank assets and liabilities, degree of concentration, capital adequacy, profitability and macroeconomic developments
Croatia	1.5	All exposures	Volume of government debt, exposure of banks to the government, macroeconomic vulnerabilities	Several indicators such as: public/private/external debt, banks' degree of concentration, unemployment rate, total bank assets (individual level)
Czechia	0.5*	All exposures	Vulnerabilities to structural systemic risks, such as high economic openness, concentration of foreign trade and of production, vulnerability to the transformation of the energy-intensive domestic economy, growth in cyber risk and technological change, compounded by geopolitical tensions	Stress tests and expert judgement
Denmark	7	Sectoral – Exposures to non-financial corporations involved in real estate activities, construction or development of building projects	Vulnerabilities associated with exposures to non-financial corporations involved in real estate activities, construction or development of building projects	Several indicators, among which the volume of exposures secured by commercial and residential properties, the growth rate of non-performing exposures secured by commercial and residential properties, the evolution of prices on the real estate market
Denmark	3	Domestic exposures (Faroe Islands)	Vulnerabilities associated with a small open economy	Five indicators, among which the export of some fish species, economic growth and banks' exposure to certain sectors
Finland	1	All exposures	Structural vulnerabilities of the economy and of the financial system	Ten indicators on banks' exposure to certain sectors, as well as household and corporate debt

Country	SyRB rate (%), December 2024	Exposures to which it applies	Rationale	Indicators used for calibration
France	3	Sectoral – Exposures to French non-financial corporations	Vulnerabilities associated with risk concentration to highly indebted non-financial corporations in the banking sector	The main indicators are: (i) credit growth (total and for large firms): loans and debt securities, (ii) indebtedness (total and for large firms): gross debt/EBITDA, and (iii) concentration of banks' exposures to a selection of large non-financial corporations measured via the share of the final exposure in percentage of Tier 1 capital
Germany	2	Sectoral – Exposures secured by residential property	Vulnerabilities associated with exposures secured by residential property	Several indicators, among which the overvaluation of residential real estate, high rates of residential property price increases, mortgage loan growth, household debt ratio
Iceland	3	Domestic exposures	Vulnerabilities associated with a small open economy	The volatility of key economic variables such as: GDP growth, private consumption, investment, foreign trade, exchange rates and inflation, credit institutions' exposures to a limited range of domestic based industries and consumer markets, and the sectoral concentration and composition of exports
Italy	0.5	Sectoral – Domestic credit and counterparty credit risks exposures	Vulnerabilities associated with domestic credit and counterparty credit risks exposures	Several indicators, among which the share of private sector credit in total credit, NPL ratio (for households and companies), ROE, capital ratio
Liechtenstein	1	Sectoral – Exposures to natural persons secured by residential property and exposures to legal persons secured by commercial immovable property	Vulnerabilities associated with both residential and commercial real estate markets	Several indicators, including mortgage loan volume, mortgage loan growth, household debt ratio, price dynamics of residential real estate, building activity
Lithuania	2	Sectoral – Retail exposures secured by residential property	Vulnerabilities associated with the real estate market, retail exposures secured by residential property	Several indicators pertaining to: (1) the structural characteristics of the banking sector, (2) the financial system, (3) specific sectors of the real economy that would affect the banking sector
Malta	1.5	Sectoral – Retail exposures secured by residential property	Vulnerabilities associated with exposures secured by residential property	The main indicators are: annual growth in resident mortgage lending, share of resident mortgage lending in overall resident loans, household debt-to-financial assets, household debt-to-GDP, household debt-to-disposable income, annual growth in property prices, advertised property price-to-per capita income ratio, house price misalignment index
Norway	4.5	Domestic exposures	Structural vulnerabilities of the economy and of the financial system	Ten indicators, among which the funding structure of credit institutions, households' debt burden, and total banking sector assets as a percentage of GDP

Country	SyRB rate (%), December 2024	Exposures to which it applies	Rationale	Indicators used for calibration
Portugal	4	Sectoral – IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal	Vulnerabilities associated with exposures secured by residential property	Main indicators used: house prices; average probability of default (PD); loss given default (LGD); average risk weights under the IRB approach of RRE exposures in Portugal; expected RRE losses under an adverse macroeconomic scenario
Romania	0-2	All exposures	Non-performing loans	NPL ratio and NPL coverage by provisions (coverage ratio)
Slovenia	1 or 0.5	Sectoral – Retail exposures secured by residential property or Other exposures to natural persons	Vulnerabilities associated with the residential real estate market	Several indicators, among which: the overvaluation indicator of residential real estate, price dynamics of residential real estate, mortgage loan growth, household debt, the ratio of real estate prices to disposable income, exposure of banks to the real estate market, distribution of LTV for new housing loans
Sweden	3	All exposures	Large, interconnected banks	Several indicators such as the largest banks' exposures and financing, the share of total assets in GDP
Hungary	0**	Sectoral exposures	Vulnerabilities associated with the commercial real estate market	Several indicators, among which the volume of commercial real estate loans, growth rate of non-performing commercial real estate exposures, developments in commercial real estate loans by purpose

*) With effect from January 2025

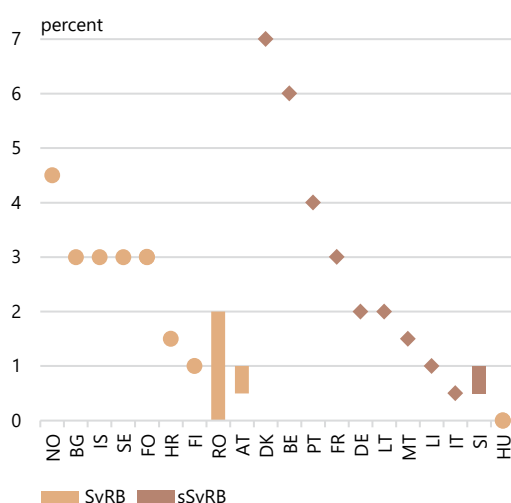
**) The buffer can be calibrated between 0 and 2 percent, but all banks are applied a 0 percent rate.

Source: ESRB, websites of designated national authorities

Over the course of 2024, one Member States decided to introduce a new SyRB (Czechia), while two countries (Denmark and Italy) opted for a sectoral SyRB. Specifically, given the systemic risks related to the degree of openness of the Czech economy, the high foreign trade concentration and strong concentration of production and employment by economic activity, as well as the growth in cyber risk and technological change, the macroprudential authority in Czechia decided to apply a 0.5 percent rate to all exposures, starting 1 January 2025. The central bank of Italy decided in 2024 on the gradual implementation of a sectoral SyRB (sSyRB) that takes into account domestic credit and counterparty credit risks exposures, at a rate of 0.5 percent, which will turn to 1 percent as of 30 June 2025. Another Member State that decided to implement a new sSyRB in 2024 is Denmark. The Danish macroprudential authority decided to implement a sectoral SyRB at a 7 percent rate, applied to all types of exposures located in Denmark to non-financial corporations engaged in real estate activities and development of building projects. At the same time, the measure exempts the part of each exposure that lies in the 0-15 percent LTV-band.

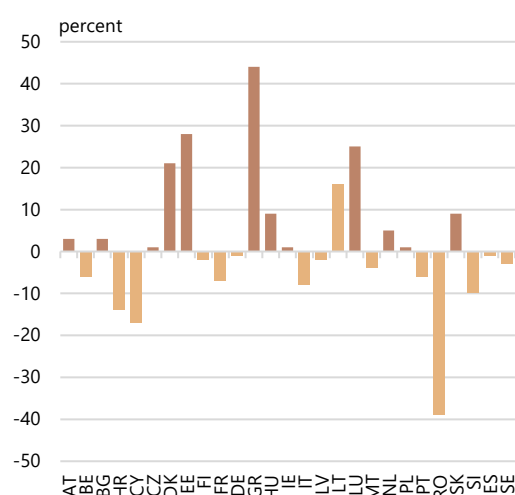
Looking at the rates applicable to sectoral exposures, they range between 0 and 7 percent (Chart 3.15). In all these cases, except for France and Italy, the common trait is that the purpose of the buffer is to strengthen banking sector resilience to systemic risks that may

Chart 3.15. Current and pending SyRB and sSyRB rates across the EEA as at end-2024



Source: ESRB, websites of designated national authorities

Chart 3.16. Degree of over/undervaluation of the real estate market, 2024 Q3



Source: ECB

arise from real estate markets. It is worth mentioning that, in these situations, a systemic risk buffer rate on all exposures is not applied.

According to ECB estimates on residential real estate over/undervaluation, by using Bayesian static equations, this degree seems to be heterogeneous across EEA countries (Chart 3.16). Available data for 2024 Q3 show the strongest undervaluation in terms of residential property prices in Romania, i.e. 39 percent, whereas the most overvalued state from the perspective of this indicator is Greece (44 percent). The real estate market constitutes an indicator of systemic risk, carrying the potential to generate significant vulnerabilities in the financial system. Thus, periods characterised by real estate overvaluation can be followed by significant price corrections, which ultimately reflect in credit institutions' solvency positions, with negative effects on the real economy.

Implementation in Romania

In Romania, the SyRB in its current setup has been applied since 30 June 2018, based on NCMO recommendations, aiming to: (i) ensure adequate management of credit risk from a macroprudential perspective and (ii) safeguard financial stability, amid the tensions surrounding domestic macroeconomic equilibria and the potentially lingering regional and global uncertainties.

Table 3.8. Calculation methodology of the systemic risk buffer

NPL ratio	NPL coverage by provisions	Buffer rate ⁴⁹
<5%	>55%	0
>5%	>55%	1
<5%	<55%	1
>5%	<55%	2

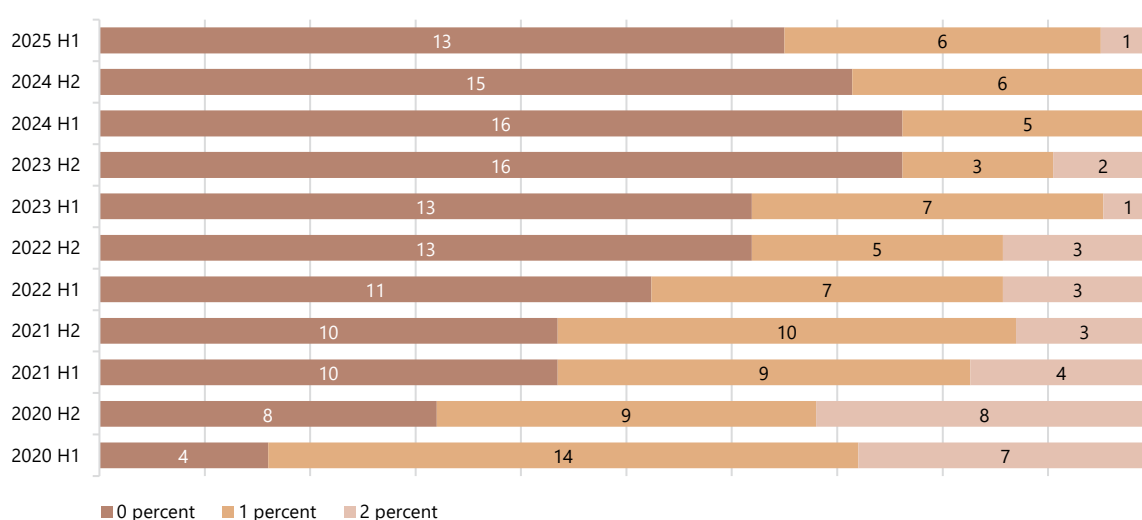
Source: NCMO

⁴⁹ The buffer rates are applied to all exposures of the credit institution, at the highest consolidation level.

In terms of calibration methodology, the buffer level is determined based on the NPL ratio and the coverage ratio. Thus, depending on the averages recorded by the two indicators over a 12-month period prior to application, the SyRB rate is set at 0 percent, 1 percent or 2 percent, in relation to the reference thresholds (Table 3.8).

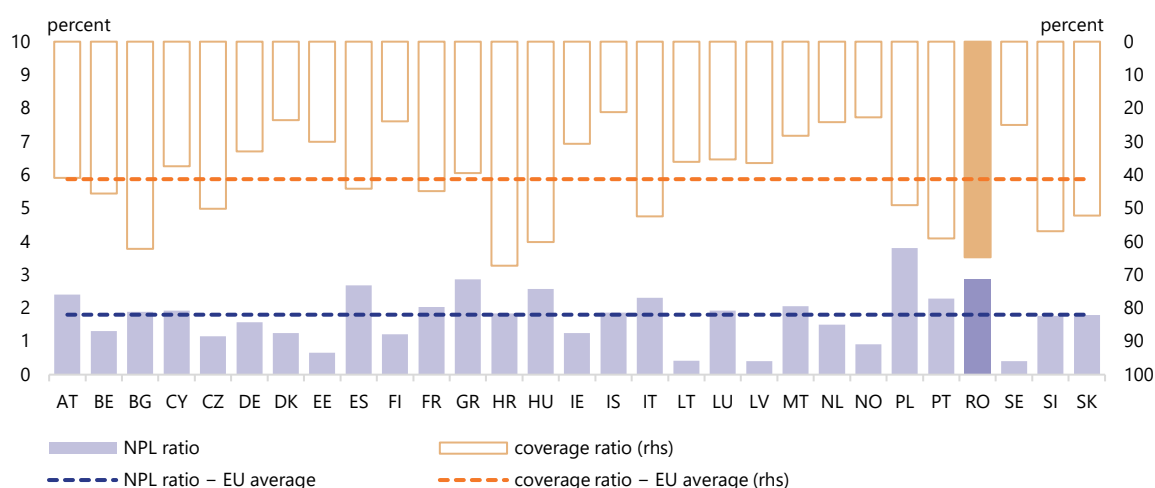
The buffer has proven its effectiveness in Romania ever since its implementation. Non-performing loans trended downwards during this period, with small exceptions related to the beginning of the COVID-19 pandemic (2020 H1). While the NPL ratio was 6.16 percent prior to SyRB application, it stood at 2.54 percent in 2024 Q3, according to NBR data.

Chart 3.17. Number of institutions depending on the SyRB rate



Source: NBR

Chart 3.18. NPL ratio and coverage ratio in EEA countries (2024 Q4)



Note: Data based on the EBA technical reporting standards, set in line with Regulation EU No. 680/2014 as subsequently amended.

Source: EBA

Looking at the distribution of credit institutions based on the SyRB rate, it can be noted that since the introduction of the macroprudential instruments, they have migrated towards categories with lower buffer rates.

According to the regular analysis on applying the systemic risk buffer in the period from January to June 2025, only one credit institution, with a very small market share, applies the maximum buffer rate of 2 percent. Moreover, the number of institutions with a 0 percent SyRB rate has risen in recent years from 4 to 13 (Chart 3.17).

In spite of credit institutions' sustained efforts to clean up their balance sheets and of the positive dynamics of the NPL ratio, Romania still stands above the 1.8 percent average recorded in EEA countries overall (Chart 3.18). However, Romania boasts one of the highest NPL coverage ratios in the EEA. At the end of 2024, this indicator reached 64.8 percent (according to EBA data), significantly exceeding the EEA average of 41 percent.

3.2. Other instruments with an impact on financial stability

The instruments described below are implemented by the NBR at the recommendation of the NCMO and are applicable to the banking sector. They provide important information in the implementation of measures, but are not macroprudential tools *per se*. Moreover, they help enhance financial system resilience via other channels than the previously described instruments.

3.2.1. Implementation through voluntary reciprocity of macroprudential policy measures taken by other Member States

The implementation of macroprudential policy measures can improve the stability of the financial system as a whole and thus reduce the likelihood and severity of financial crises. The EU's financial system shows strong interconnectedness and cross-border financial intermediation is high. As a result, the adoption of macroprudential measures at national level can also exert negative cross-border financial effects. Thus, a case in point are the macroprudential measures that may be circumvented via banks that are not targeted by the relevant measure. To ensure a level playing field, the concept of voluntary reciprocity was introduced in the EU's macroprudential policy framework with a view to increasing the efficiency of the measures taken, via Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures. At the same time, reciprocation implies extending the applicability of macroprudential measures also to the exposures of non-resident banks in that Member State to mitigate the risk of cross-border externalities and regulatory arbitrage.

At end-2024, the list of active measures recommended by the ESRB for reciprocation consisted of 10 macroprudential measures (Table 3.9).

Table 3.9. Measures recommended for reciprocation in Recommendation ESRB/2015/2

Country	Measure	Materiality threshold ⁵⁰	Reciprocating countries
Italy	A sectoral systemic risk buffer (sSyRB) rate of 0.5 percent on all credit risk exposures and counterparty credit risk exposures located in Italy, applicable from 31 December 2024 until 29 June 2025; increasing to a 1 percent systemic risk buffer rate on all credit risk exposures and counterparty credit risk exposures located in Italy, applicable from 30 June 2025.	EUR 25 billion, at credit institution level	By the end of 2024, no country had expressed its intention to reciprocate the macroprudential measure implemented by Italy.
Denmark	A sectoral systemic risk buffer (sSyRB) rate of 7 percent for all types of exposures located in Denmark to non-financial corporations engaged in real estate activities and construction projects identified in compliance with the statistical classification of economic activities in the European Community (NACE), stipulated in Regulation (EC) No 1893/2006, except for the fact that the part of each exposure in the 0 to 15 percent loan-to-value range is excluded from the exposures to which the sectoral systemic risk buffer (sSyRB) rate is applied.	EUR 200 million, at credit institution level	Sweden
Portugal	A 4 percent sectoral systemic risk buffer (sSyRB) rate on all IRB retail exposures to natural persons secured by residential immovable property for which the collateral is located in Portugal.	EUR 1 billion, at credit institution level	Belgium and Spain
Belgium	A 6 percent systemic risk buffer rate on all IRB retail exposures to natural persons secured by residential immovable property for which the collateral is located in Belgium.	EUR 2 billion, at credit institution level	France, Lithuania and the Netherlands
Sweden	(i) An exposure-weighted average risk weight floor of 35 percent for certain corporate exposures secured by commercial properties located in Sweden; the floor is credit institution-specific and is applied at the portfolio level of credit institutions that use the IRB approach for calculating regulatory capital requirements; (ii) An exposure-weighted average risk weight floor of 25 percent for certain corporate exposures secured by residential properties located in Sweden; the floor is credit institution-specific and is applied at the portfolio level of credit institutions that use the IRB approach for calculating regulatory capital requirements.	SEK 5 billion, at credit institution level	(i) Belgium, Finland, France and Lithuania (ii) Finland and France
Norway	(i) A 4.5 percent systemic risk buffer rate for all exposures located in Norway, as applicable to all credit institutions authorised in Norway; (ii) A 20 percent floor for (exposure-weighted) average risk weights for exposures to residential real estate located in Norway, as applicable to credit institutions authorised in Norway using the IRB approach for calculating regulatory capital requirements; (iii) A 35 percent floor for (exposure-weighted) average risk weights for exposures to commercial real estate located in Norway, as applicable to credit institutions authorised in Norway using the IRB approach for calculating regulatory capital requirements.	(i) NOK 5 billion, at credit institution level (ii) NOK 32.3 billion (iii) NOK 7.6 billion	(i) Germany, Denmark, Finland, France, Ireland, the Netherlands and Sweden (ii) Finland and Sweden (iii) Finland and Sweden

⁵⁰ As proposed by the designated national authority requesting the measure. If the NCMO reciprocates a measure, it may set a lower threshold for credit institutions in Romania, depending on the materiality of exposures.

– continued –

Country	Measure	Materiality threshold ⁵⁰	Reciprocating countries
Germany	A 2 percent systemic risk buffer (SyRB) rate on all exposures to natural and legal persons secured by residential real estate located in Germany.	EUR 10 billion, at credit institution level	Belgium, France, Italy, Lithuania, the Netherlands and Norway
Lithuania	A 2 percent sectoral systemic risk buffer (sSyRB) rate on all retail exposures secured by residential immovable property.	EUR 50 million, for the amount of exposures arising from loans granted to borrowers in Lithuania	Belgium, France, Norway and Sweden
Netherlands	A minimum average risk weight of 12 percent applied in relation to exposures to natural persons secured by residential property located in the Netherlands that is assigned to the portion of the loan not exceeding 55 percent of the market value of the property that serves to secure the loan and a 45 percent minimum average risk weight that is assigned to the remaining portion of the loan.	EUR 5 billion, at credit institution level	France, Germany, Lithuania and Norway
Luxembourg	Legally binding loan-to-value (LTV) limits for new mortgage loans on residential real estate located in Luxembourg, with different LTV limits applicable to different categories of borrowers: (i) LTV limit of 100 percent for first-time buyers acquiring their primary residence; (ii) LTV limit of 90 percent for other buyers, i.e. non first-time buyers acquiring their primary residence; (iii) LTV limit of 80 percent for other mortgage loans (including the buy-to-let segment).	EUR 350 million (1 percent of the total residential real estate mortgage market in Luxembourg) or EUR 35 million (institution-specific materiality threshold for the total cross-border mortgage lending to Luxembourg)	Belgium, France, Germany, Lithuania, Norway and Portugal

Source: ESRB

In 2024, the NCMO examined, at national level, the macroprudential policy measures taken by Portugal, Italy and Denmark to assess the appropriateness of reciprocating them on a voluntary basis (the other measures included in Table 3.9 were discussed in the previous years)⁵¹.

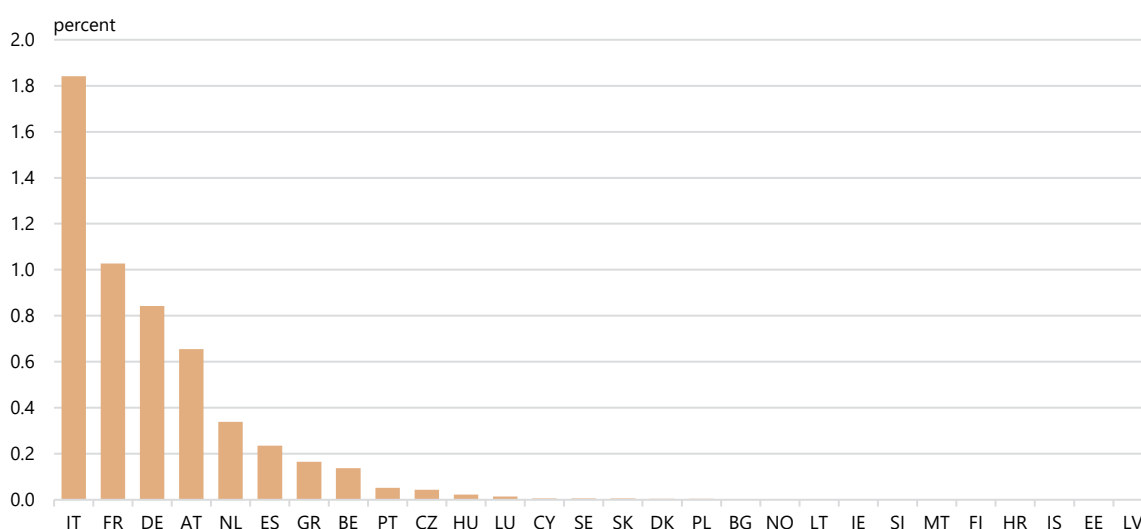
During the meeting of 18 June 2024, the NCMO issued NCMO Decision No. D/4/2024 on not applying through voluntary reciprocity the macroprudential measure of Portugal, given that the exposures of credit institutions, Romanian legal entities, to this country are immaterial. The measure referred to a 4 percent sectoral systemic risk buffer (sSyRB) rate on all IRB retail exposures to natural persons secured by residential immovable property for which the collateral is located in Portugal. Thus, based on the data available as at 30 April 2024, 11 credit institutions, Romanian legal entities, had total exposures to Portugal worth approximately lei 619 million (EUR 124 million), accounting for around 12.44 percent of the materiality threshold suggested for a single credit institution. The relevant exposures, loans to natural persons secured by residential immovable property, amounted to around lei 1.4 million (EUR 0.3 million), making up 0.3 percent of the materiality threshold associated with this measure.

⁵¹ See the dedicated sections on reciprocation measures in the previous NCMO *Annual Reports*, as well as the specific section on the NCMO website. Measures recommended for reciprocity to Recommendation ESRB/2015/02 between 2017-2025 | National Committee for Macroprudential Oversight (cnsmro.ro)

During the meeting of 17 October 2024, the NCMO General Board issued NCMO Decision No. D/5/2024 on not applying through voluntary reciprocity the macroprudential measure of Italy, namely: (i) a sectoral systemic risk buffer (sSyRB) rate of 0.5 percent on all credit risk exposures and counterparty credit risk exposures located in Italy, applicable from 31 December 2024 until 29 June 2025; (ii) increasing to a 1 percent systemic risk buffer rate on all credit risk exposures and counterparty credit risk exposures located in Italy, applicable from 30 June 2025. Based on COREP data as at 30 December 2023, the total exposures of credit institutions, Romanian legal entities, to Italy equalled lei 10.7 billion (EUR 2.1 billion). In view of the materiality threshold of EUR 25 billion proposed by the national authorities in Italy, the cumulated exposure of all credit institutions, Romanian legal entities, to Italy, worth EUR 2.1 billion, accounts for only 8.6 percent of this threshold, indicating a low level as compared with the set reference threshold.

In the same meeting, the NCMO General Board issued NCMO Decision No. D/6/2024 on not applying through voluntary reciprocity the macroprudential measure of Denmark. The authorities in this country decided to apply a sectoral systemic risk buffer (sSyRB) rate of 7 percent for all types of exposures located in Denmark to non-financial corporations engaged in real estate activities and construction projects identified in compliance with the statistical classification of economic activities in the European Community (NACE), stipulated in Regulation (EC) No 1893/2006, except for the fact that the part of each exposure in the 0 to 15 percent loan-to-value range is excluded from the exposures to which the sectoral systemic risk buffer (sSyRB) rate is applied. Based on the data available as at 31 July 2024, 12 credit institutions, Romanian legal entities, had total exposures to Denmark worth approximately lei 22 million (EUR 4.4 million), accounting for 2.2 percent of the materiality threshold associated with this measure (EUR 200 million). Most of these exposures were to the financial sector (lei 18.25 million, EUR 3.7 million), whereas relevant exposures – to non-financial corporations – were close to nil.

Chart 3.19. Share of Romanian banks' exposures to EEA countries (December 2024)



Source: NBR

Based on the analysis of monetary balance sheet data as at 31 December 2024 (reference date), the total exposures of credit institutions, Romanian legal entities, equalled lei 656.3 billion (EUR 131.9 billion). Out of them, domestic exposures accounted for 94.6 percent, while in terms of European exposures, the largest were those to Italy, France, Austria and Germany (Chart 3.19). Thus, it can be observed that the share of exposures of the Romanian banking sector to EEA countries is not likely to pose contagion risks via the external credit channel. The NCMO monitors the related exposures on a regular basis and will take the necessary measures should they become material.

3.2.2. Assessment of materiality of third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates

Member States establish the third countries to which their national banking sectors have material exposures, relying primarily – but not necessarily exclusively – on the quantitative information regarding the exposures of domestically authorised institutions. Moreover, Member States monitor the dynamics of these exposures in order to identify potential excessive credit growth in third countries.

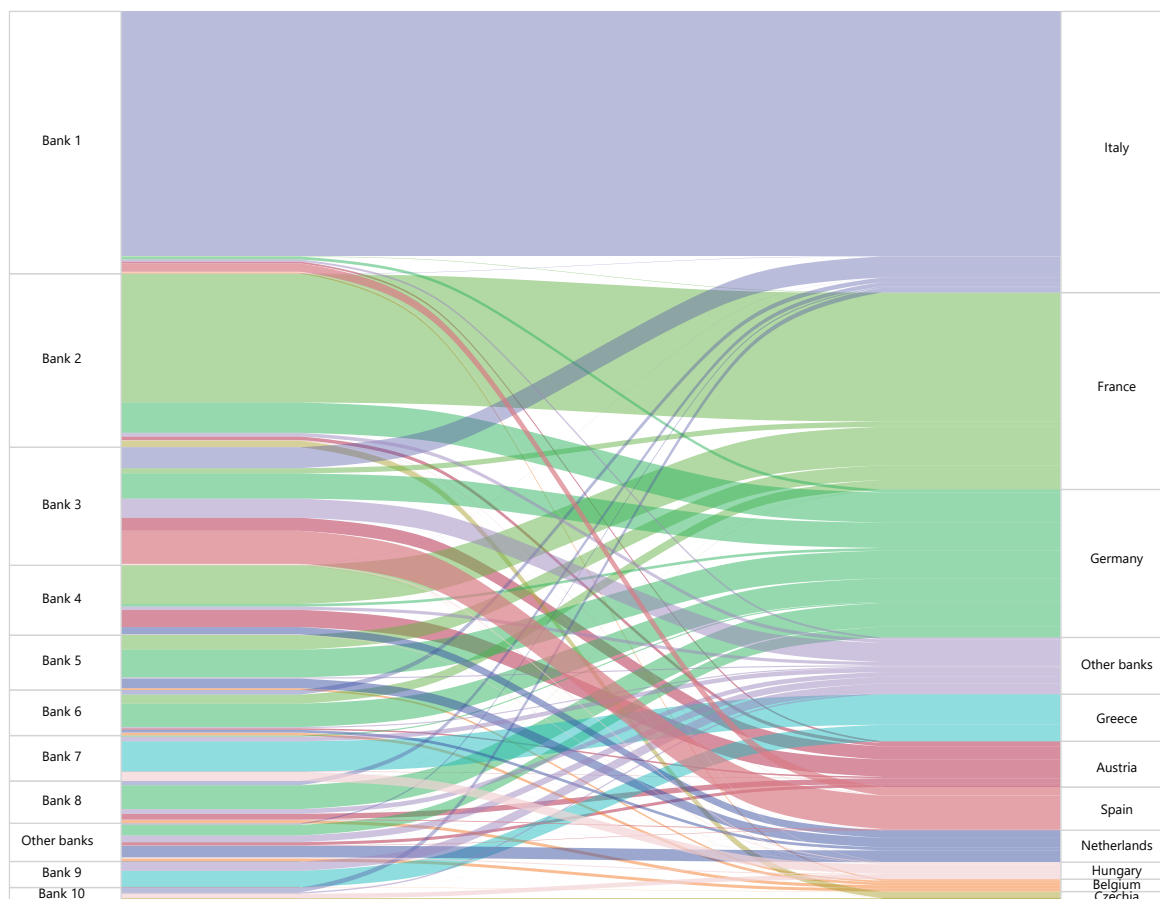
Thus, besides the material third countries identified by the ESRB, national authorities have also identified other relevant states for the domestic financial sector.

Similarly to other Member States, the methodology used by the NBR for this purpose has been developed starting from the ESRB procedures to assess the materiality of third countries for the EEA banking sector in terms of recognising and setting countercyclical buffer rates. To ensure the robustness of the results, the ESRB approach was supplemented, at national level, with additional indicators, which would allow non-domestic exposures to be determined most precisely, in line with the methodology approved in the NCMO meeting of 14 June 2017.

After material third countries are identified, they are monitored and, where the risks arising from exposures to those countries are not considered to be satisfactorily addressed, CCyB rates may be set for those exposures.

The analysis conducted based on the data available for end-2023 shows that the banking sector in Romania has continued to target mainly the financing of the domestic economy (93.5 percent). The breakdown of Romanian banks' foreign loans (Chart 3.20) shows that the most important foreign exposures are vis-à-vis Italy, France, Germany, Greece, Austria, Spain and the Netherlands. The non-EU countries with the largest exposures are Switzerland, the United Kingdom and the United States, but each of them accounts for less than 0.1 percent of the total loans granted. Moreover, there is no record of credit granted directly to the real sector in third countries.

Chart 3.20. Connection between banks in Romania and other countries via on-balance-sheet loans



Source: NBR

There is generally a close connection between credit institutions, subsidiaries of foreign groups, with the countries where parent banks operate. Compared with the earlier analysis, detailed in the previous Report, an increased diversification of cross-border exposures is noticeable for most banks, whereas back in 2021 there were banks with investments in a small number of countries. There are further two types of countries: (i) those in which most exposures come from the investments of a limited number of banks (France, Greece, Spain, the Netherlands, Hungary and Czechia) and (ii) those with exposures from a higher number of institutions (Italy, Germany, Austria, Belgium).

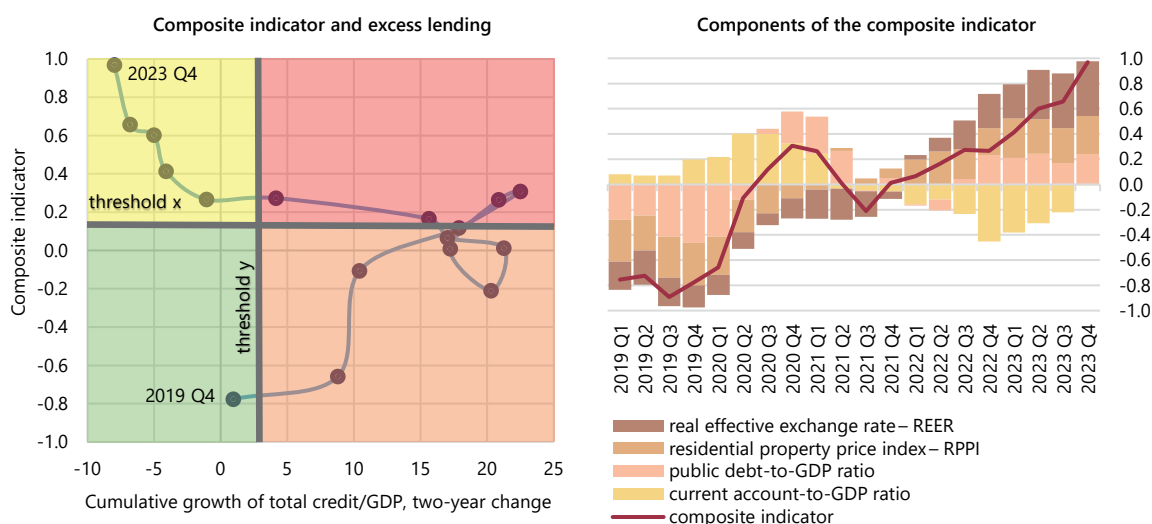
Pursuant to Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to third countries, after material third countries are identified, they are monitored and, where the risks arising from exposures to those countries are not considered to be satisfactorily addressed, CCyB rates may be set for those exposures.

Following the Republic of Moldova's identification as a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates for 2023, the NBR has monitored the economic and financial developments in this country, signalling to the NCMO General Board the need to set such a buffer.

According to the analysis conducted and submitted to the NCMO General Board in June 2024, exposures to the Republic of Moldova no longer meet the two requirements for a state to be identified as a material third country, namely at least one of the three indicators in the methodology, i.e. risk-weighted exposures, original exposures, and defaulted exposures, is equal to or higher than 1 percent in each of the last two quarters and, on average, in the eight quarters preceding the reference date. On the other hand, a third country is dropped from the list of material third countries if all the three indicators are lower than 1 percent in each of the last two quarters and, on average, in the twelve quarters preceding the reference date. The calculations showed that the criterion regarding the below-one average of exposures for the past 12 quarters had not been fulfilled, and therefore the Republic of Moldova remained a material third country in relation to the banking sector in Romania during 2024 as well.

The monitoring was based on a list of indicators providing a snapshot of the macroeconomic and financial conditions in the Republic of Moldova. In addition, similarly to the ESRB methodology, two key components were also considered, i.e. an early-warning composite indicator and an excess credit growth metric (Chart 3.21). The composite indicator for the Republic of Moldova is based on four of the five ESRB indicators, given the absence of the equity price index. The thresholds of the composite indicator were kept at the levels used by the ESRB in 2022, in the report on monitoring third countries identified as material from a European Economic Area (EEA) perspective.

Chart 3.21. Composite indicator and credit developments



Source: National Bank of Moldova, National Bureau of Statistics of the Republic of Moldova, Refinitiv, NBR calculations

The two-dimensional approach places the Republic of Moldova in the yellow area, reflecting situations where credit is not seen as excessive, but other imbalances captured by the composite indicator are flagged as significant. In the post-pandemic period, the sub-components of the composite indicator recorded above-average developments, except for the current account-to-GDP ratio, which has steadily narrowed its gap.

3.2.3 Assessment of the impact of credit institutions' funding plans on the flow of credit to the real economy

The annual assessment of the impact of credit institutions' funding plans on the flow of credit to the real economy was presented in the NCMO meeting of 17 October 2024. The assessment was made under Recommendation A(3) of Recommendation of the European Systemic Risk Board of 20 December 2012 on funding of credit institutions (ESRB/2012/2) setting forth that national supervisory authorities and other authorities with a macroprudential mandate are recommended "to assess the impact of credit institutions' funding plans on the flow of credit to the real economy". In light of the ESRB recommendation, the NCMO issued, at a national level, NCMO Recommendation No. 10/2017 on the impact of credit institutions' funding plans on the flow of credit to the real economy, whereby the National Bank of Romania was recommended to assess that impact on a regular basis.

From a macroprudential policy perspective, this assessment is particularly useful, as the data submitted by credit institutions make it possible to extract forward-looking information on lending developments and on identifying at an early stage vulnerabilities and potential risks to financial stability. This, in turn, helps create the conditions for the timely activation/deactivation of macroprudential instruments, thereby enhancing their efficiency and effectiveness. On the other hand, the annual monitoring of credit institutions' funding plans: (i) provides an overview of the lending growth outlook, both in general and by component, as well of potential structural changes in credit institutions' activity, (ii) serves as a backtesting measure, by comparing actual with projected values reported by credit institutions in order to assess data reliability and (iii) allows for the identification of changes in credit institutions' risk appetite. Furthermore, since these data are based on forecasts, they can also be used alongside other analyses, such as the Bank Lending Survey, the Systemic Risk Survey, and stress-testing exercises, among others, so as to provide valuable signals regarding the appropriate implementation of macroprudential policy instruments.

The annual reporting of credit institutions' funding plans takes place in the first quarter of the year and comprises three-year forecasts.

Nine reporting banks⁵², all of them being systemically important, participated in this annual assessment. As at 31 December 2023, the credit institutions that had submitted reports jointly accounted for approximately 81 percent of total assets and 80 percent of loans to the private sector, ensuring good representativeness of the sample for the Romanian banking sector.

The assessment of reporting institutions' funding plans showed that the cumulative three-year rise in credit to the private sector reflects the following projected developments: (i) an increase in financing for both the real and financial sectors, more pronounced in the

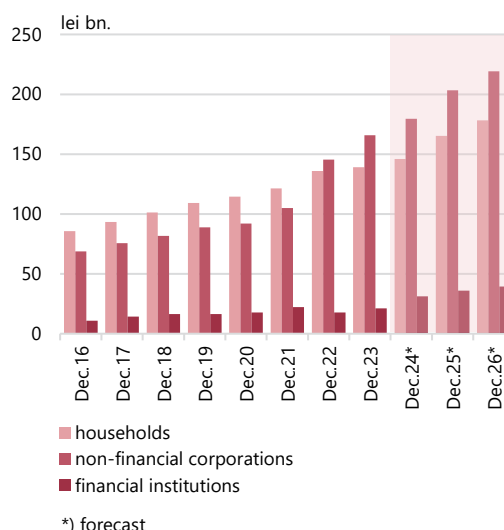
⁵² Reports on funding plans were submitted, on a consolidated basis by Banca Transilvania, Banca Comercială Română, BRD – Groupe Société Générale, Raiffeisen Bank, UniCredit Bank, OTP Bank and CEC Bank, and on an individual basis by Alpha Bank and Exim Banca Românească.

Chart 3.22. Lending developments



Source: NBR, credit institutions' reports on funding plans

Chart 3.23. Breakdown of credit by component



Source: NBR, credit institutions' reports on funding plans

latter case (+86.7 percent), (ii) a rise in credit to the real sector (+30.4 percent), estimated for both households (+28.2 percent) and non-financial corporations (+32.3 percent) (Charts 3.22 and 3.23⁵³), and (iii) a slower pace of growth in debt securities than in non-government lending (+19.2 percent, three-year cumulative figure).

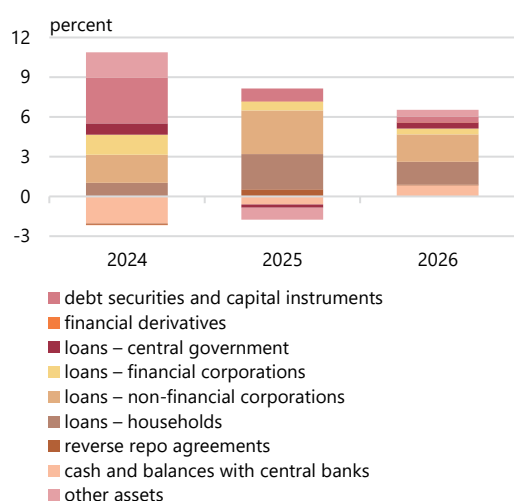
The strong increase in corporate lending in recent years, driven by government support programmes, led to a widening of the gap between household and corporate loans as a share in total assets in 2023, in favour of the latter, whose share in total assets was 4 percentage point higher than that of the former. For comparison, in 2022, household loans had a 1.7 percentage point lead in total assets over loans to non-financial corporations. According to the reported data, the gap is expected to persist (corporate lending expanding at a faster pace than loans to households as a share in total assets), and to peak at 5 percentage points in 2026.

According to banks' estimates, the growth rate of housing loans to residents is expected to stand at around 27.3 percent. The share of housing loans in total household credit is forecasted to remain at around 63 percent over the entire reporting horizon. No material changes are foreseen in banks' lending strategy for non-financial corporations over the next three years, with the share of loans to SMEs in total corporate loans declining marginally from 61 percent in 2023 to 59 percent in 2026.

An in-depth analysis of banks' forecasts on the increase in credit to the real sector shows enhanced heterogeneity. Over the entire forecast horizon, credit growth is expected to range between -0.8 percent and 28.7 percent. It is worth noting that, for 2024, only one bank anticipated a contraction in its loan portfolio relative to 2023, followed by stagnation in 2025 and 2026. According to forecasts for the coming years, the top three positions of the ranking of banks by loan portfolio size are expected to change starting in 2024.

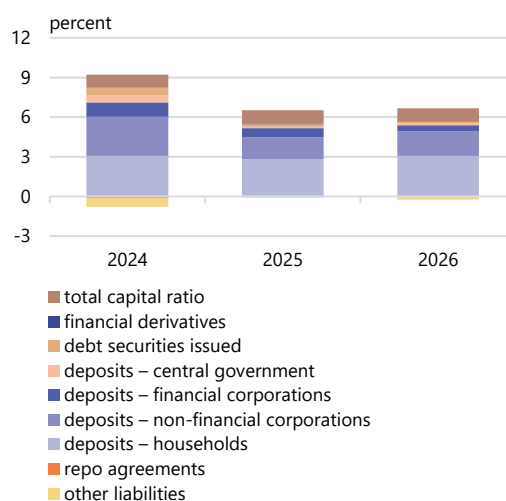
⁵³ Both charts refer to credit to the private sector.

Chart 3.24. Contribution of assets to the annual increase (forecast)



Source: NBR, credit institutions' reports on funding plans

Chart 3.25. Contribution of liabilities to the annual increase (forecast)



Source: NBR, credit institutions' reports on funding plans

The nine reporting banks forecasted a 23.3 percent cumulative growth in assets between 2024 and 2026 versus December 2023, while the cumulative growth rate of assets at EU level is expected to reach 6.85 percent⁵⁴. The breakdown by balance sheet component shows that the main assets contributing to the three-year cumulative increase in the balance sheets of the nine banks are loans to the real sector, debt securities, capital instruments and cash. Loans to non-financial corporations and households contribute 8.1 percentage points and 5.9 percentage points respectively to the rise in total assets, while debt securities make a 5 percentage point contribution (Chart 3.24). As compared to the previous reporting, the order of the top three asset classes changed, with loans to households gaining in importance at the expense of debt securities, as a result of declining interest rates and borrowing costs. Debt securities continue to make a significant contribution to the increase in banking sector assets, as yields on the Romanian government securities remain above those of peer economies, thus providing attractive investment opportunities. Currency makes a negative contribution to asset growth, virtually marking a reversal of the trend seen in recent years (-1.8 percentage points, from 5.4 percentage points a year earlier). This may indicate banks' increased confidence in macroeconomic developments, as well as a stronger inclination towards the digitalisation of banking operations.

As regards the projected annual growth of liabilities, the largest contributions come from household and non-financial corporation deposits (Chart 3.25). Specifically, in the period from 2024 to 2026, deposits will further be the main source of funding, their share in liabilities remaining unchanged at approximately 82 percent. The share of deposits covered by a guarantee scheme is expected to hover around 56 percent throughout the reporting horizon. Looking at the profit and loss account, banks' expectations may be summarised as follows: (i) banks' profit will increase in the period under review due to a faster-paced rise in operating income than in operating expenses, (ii) the ROE will decrease slightly over the

⁵⁴ According to EBA's report Asset side | European Banking Authority (europa.eu)

next years, (iii) the cost-to-income ratio (a measure of operational efficiency) will remain close to 49 percent for this group of banks, and (iv) the NPL ratio will rise in the coming years, especially for households.

3.3. The interaction between capital buffers and other minimum requirements for credit institutions

The European legislation (CRD V/CRR II and BRRD II/SRMR II⁵⁵) comprises three parallel frameworks for capital requirements applicable to banks (Table 3.10), namely: (i) a risk-weighted framework that refers to banks' resilience depending on the risks taken, which also includes capital buffers, (ii) a leverage ratio framework, which constrains leverage build-up, in addition to the risk-weighted framework, by taking into consideration the non-risk-weighted, on- and off-balance sheet exposures and (iii) a recovery and resolution framework.

Table 3.10. Overview of parallel frameworks established by the European legislation

Regulatory requirement	Purpose	Denominator of the ratio used to determine regulatory requirements	Numerator of the ratio used to determine regulatory requirements
Risk-weighted (RW) capital requirement	Prevent institutions from taking more risks to increase profitability without having an adequate level of own funds to cover risks	Total risk-weighted exposure amounts	Common Equity Tier 1 (CET1) capital, additional Tier 1 capital (AT1) and Tier 2 capital (T2)
Leverage ratio (LR) capital requirement	Limit the build-up of leverage in the expansion phase of the cycle and mitigate risks that can arise from underestimated capital requirements, determined based on internal models	Total exposures	Tier 1 capital (T1): CET1 and AT1
Minimum requirement for own funds and eligible liabilities (MREL)	Allow loss absorption in case of resolution and bank recapitalisation after the implementation of measures in the resolution plan	Total risk-weighted exposure amounts (MREL-RW) and total exposures (MREL-LR)	Own funds (CET1, AT1, T2) and eligible debt (subordinated eligible debt and other eligible debt)

Source: NBR adaptation

The overlapping requirements stem from the same Common Equity Tier 1 (CET1) capital elements that can be used to simultaneously cover the three types of requirements. Specifically, if requirements under the first framework are cumulative, i.e. capital buffers add to Pillar 1 and Pillar 2 requirements, there is no impediment regarding the use of CET1 capital, i.e. those funds making up capital buffers, to cover the leverage ratio (LR) requirements or the leverage-ratio-based minimum requirement for own funds and eligible

⁵⁵ CRD V – Capital Requirements Directive V; CRR II – Capital Requirements Regulation II; BRRD II – Bank Recovery and Resolution Directive II; SRMR II – Single Resolution Mechanism Directive II

liabilities (MREL-LR⁵⁶). The overlapping requirements are particularly relevant in the context of using/releasing capital buffers, a key element of their functioning. In practice they might not be employed, as the same CET1 funds that were used to meet capital buffer requirements are also necessary for covering the requirements related to the leverage ratio or MREL. In such cases, only that part of capital buffers which is not already used to cover other obligations remains available. In other words, using the same CET1 elements for multiple purposes can directly affect banks' capacity to use their capital buffers and the effectiveness of macroprudential tools, when other requirements act as a constraint.

For every legislative framework, the applicable EU regulations designate a competent authority or impose on Member States the obligation to designate an authority with specific tasks in that field. In this context, it is particularly important to pursue a coherent approach and ensure cooperation at intra- and interinstitutional levels between the authorities responsible for implementing the different capital requirements. In Romania, the NBR acts in its capacity as microprudential supervisory authority and resolution authority for credit institutions, while the NCMO is the authority designated to set up capital buffers.

For the designated authority responsible for setting capital buffers, it is particularly important to assess all capital requirements applicable to credit institutions, both in the build-up and release phases of the buffer. Thus, if considering only the risk-weighted framework (which includes capital buffers), the excess capital might be overestimated. Moreover, a decision to reduce capital buffer requirements in order to support the economy during a downturn may not be made de facto in case of an overlap between capital buffer requirements and other minimum capital requirements. This may affect the efficiency and effectiveness of capital buffers.

The analysis on this topic made in 2024 focused on examining the interaction among the three parallel frameworks, namely: (i) the overlap between capital buffers and leverage ratio (LR) requirements, (ii) the overlap between capital buffers and MREL and (iii) the overlap between all three requirements.

(i) The overlap between capital buffers and leverage ratio (LR) requirements

The leverage ratio (LR) requirement was laid down in CRR II with the aim of serving as a backstop to risk-based capital requirements by limiting the build-up of excessive leverage during economic upturns. The leverage ratio requirement implies maintaining an adequate level of Tier 1 capital in relation to the total exposure of banks. This exposure measure is calculated based on non-risk-weighted assets as well as off-balance sheet items, and will be accordingly adjusted⁵⁷.

⁵⁶ MREL is determined with respect to two calculation bases, i.e. risk-weighted assets (RWA) and leverage ratio exposure (LRE).

⁵⁷ The leverage ratio shall be calculated in accordance with Article 429(a) to (f) of CRR II.

The minimum leverage ratio is 3 percent and has been applied since 28 June 2021. In addition, CRD V allows national supervisory authorities to impose additional leverage ratio requirements, individually calibrated for each credit institution.

Although the range of eligible capital items is broader than that of capital buffers – given that the latter consist solely of Common Equity Tier 1 (CET 1) capital, there is an overlap between the balance sheet items used to meet both requirements, especially in the case of less complex banks that do not use additional Tier 1 (AT1) instruments.

Buffer usability or excess capital are affected if the CET1 component of the minimum leverage ratio requirement is higher in nominal terms than the CET1 component of the minimum risk-weighted requirement.

As for the Romanian banking sector, the NBR's calculations based on data reported as at 30 June 2024, at the highest level of consolidation, show that the leverage ratio requirements do not hinder the use/release of the cyclical and structural capital buffers set by the NCMO. Also, no potential temporary use of the capital conservation buffer is restricted by the minimum LR requirements⁵⁸.

(ii) The overlap between capital buffers and MREL

The financial crisis that started in 2007 highlighted major deficiencies in the way financial institutions deal with financial distress. Thus, many global systemically important institutions were rescued with public funds, using the money collected from taxpayers. In order to prevent future instances where private institutions are bailed out with public funds, the EU resolution framework was strengthened through the issuance of the Bank Recovery and Resolution Directive (BRRD) in 2014 and updated in 2019 (BRRD II).

The resolution framework is relevant in the context of overlapping capital requirements, as banks need to maintain minimum levels of own funds and eligible liabilities in order to meet the specific targets set by resolution authorities. The legislation stipulates the maintenance of two types of MREL:

- MREL-RW is a target calculated as a percentage of banks' risk-weighted assets;
- MREL-LR is a target calculated as a percentage of the total exposure used to determine the leverage ratio.

While in the former case the possibility of overlapping is limited by the legal provisions establishing that capital buffers cannot be used to meet other risk-based capital requirements (known as combined buffer requirements (CBR) on top), the information

⁵⁸ According to the EU regulatory framework, unlike the other capital buffers which are set by the designated authorities in each Member State based on national specificities, the capital conservation buffer is uniformly set at European level at a rate of 2.5 percent and cannot be reduced/released by the authorities. However, credit institutions can use it at their discretion, due to buffer flexibility in general, by observing restrictions on distributions and preparing capital conservation plans.

available for the reference date of 30 June 2024 suggests that all credit institutions meet the MREL-LR requirements without using the capital held in buffers, which indicates no overlaps between these requirements. Moreover, most banks meet this target via eligible liabilities and minimum solvency capital requirements.

(iii) The overlap between all three requirements

In the previous two points, prudential capital requirements were analysed from the perspective of their overlap with either leverage ratio or resolution requirements, but credit institutions should simultaneously meet all three types of capital requirements. Thus, corroborating previous analyses, a definitive conclusion can be reached about the overlap between the three requirements. Results confirm that, based on the reports with 30 June 2024 as reference date, there is no overlap between these measures that would impact capital buffers.

4. Implementation of macroprudential policy

In accordance with the provisions of Art. 1 para. (2) of Law No. 12/2017 on the macroprudential oversight of the national financial system, the National Committee for Macroprudential Oversight is mandated to ensure coordination in the field of macroprudential oversight of the national financial system by setting the macroprudential policy and the appropriate instruments for its implementation.

In order to implement the measures necessary for preventing and mitigating systemic risks at a national level, pursuant to the provisions of Art. 4 para. (1) letters a) and b) of Law No. 12/2017, the NCMO is empowered to: (a) issue recommendations and warnings to the National Bank of Romania and the Financial Supervisory Authority, in their capacity of national financial supervisory authorities at a sectoral level; (b) issue recommendations to the Government for the purpose of safeguarding financial stability.

Considering that in Romania, the NCMO was established as an interinstitutional cooperation structure without legal personality, the recommendations issued by its General Board are implemented by member authorities (the National Bank of Romania, the Financial Supervisory Authority, the Government), which are the recipients of the NCMO recommendations. In accordance with the provisions of Art. 4 para. (2) of Law No. 12/2017, the recipients of the NCMO recommendations or warnings may adopt the appropriate measures, including the issuance of regulations in order to observe the recommendations or, where appropriate, may take action to mitigate the risks they were warned about. The recipients shall inform the NCMO of the measures adopted or, in cases where they have not taken such measures, they should provide adequate justification for any inaction.

The NCMO General Board has the power to monitor the measures taken by the recipients following the warnings and recommendations issued by the NCMO, based on the information provided by authorities. The analyses regarding the manner of implementation of NCMO recommendations and warnings by recipients are carried out on a yearly basis.

In the period from January to December 2024, the NCMO issued six recommendations, as follows:

- ➡ in its meeting of 28 March 2024 – NCMO Recommendation No. R/1/2024 on the countercyclical capital buffer in Romania;
- ➡ in its meeting of 18 June 2024 – NCMO Recommendation No. R/2/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/3/2024 on compliance with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators;

- ➡ in its meeting of 17 October 2024 – NCMO Recommendation No. R/4/2024 on the countercyclical capital buffer in Romania;
- ➡ in its meeting of 16 December 2024 – NCMO Recommendation No. R/5/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania;

The implementation progress made by the recipients of NCMO recommendations issued from January to December 2024, as well as in the previous period, which were not completed or which are applicable on a permanent basis, is as follows:

- (i) six recommendations were implemented by the recipient authorities: NCMO Recommendation No. R/1/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/2/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/3/2024 on compliance with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators; NCMO Recommendation No. R/4/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/5/2024 on the countercyclical capital buffer in Romania; NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania;
- (ii) four recommendations are currently being implemented:
 - a) NCMO Recommendation No. 3 of 14 June 2017 on enhancing statistical information required for the analyses on the real estate market – the ESRB issued Recommendation of 21 March 2019 amending Recommendation ESRB/2016/14 on closing real estate data gaps (ESRB/2019/3), which sets forth new deadlines for submitting to the ESRB the reports on the availability of indicators. Thus, the national macroprudential authorities shall deliver their final reports regarding subrecommendation D by 31 December 2025 (if the information referred to in point (a) of recommendation D(2) is not available by 31 December 2021);
 - b) NCMO Recommendation No. R/6/2020 on addressing vulnerabilities from the widening of the agri-food trade deficit – most of the measures which are the government's responsibility, namely those for implementing a strategy in agriculture have an implementation period of 1-3 years, whereas the measure regarding the implementation of an industrial policy for the food sector that should lead to the better fulfilment of the government's role in underpinning the agri-food sector has an implementation period of 3-5 years. Moreover, the NBR's responsibilities to review, at least once every two years, the methodology for identifying the firms that could be viewed as potential national champions in the agri-food sector and to disseminate additional statistical data for improving agri-food firms' access to finance have a regular implementation period starting December 2020. Thus, the tasks deriving from the aforementioned subrecommendations become permanent; the lines of action are compliant

with the recommendations; some of the subrecommendations were completed, while the rest are in different stages of implementation;

- c) NCMO Recommendation No. R/6/2021 on supporting green finance – some of the subrecommendations were completed, while the rest are in different stages of implementation;
 - d) NCMO Recommendation No. R/3/2022 on the sustainable increase in financial intermediation – some of the subrecommendations were completed, while the rest are in different stages of implementation.
- (iii) three recommendations are applicable on a permanent basis, requiring recipients to carry out analyses on a regular basis. All three recommendations in this category (NCMO Recommendation No. 2 of 14 June 2017 on material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates, NCMO Recommendation No. 10 of 18 December 2017 on the impact of credit institutions' funding plans on the flow of credit to the real economy, NCMO Recommendation No. R/4/2018 on implementing macroprudential instruments for achieving the intermediate objectives included in the Overall Macroprudential Strategy Framework of the National Committee for Macroprudential Oversight) were implemented by the recipients via the analyses made in 2017, 2018, 2019, 2020, 2021, 2022, 2023 and 2024, which were reviewed by the NCMO General Board.

As for the NCMO recommendations that are currently being implemented, it should be noted that the implementation deadlines for some subrecommendations are overdue, which prompts the recipient authorities to make greater efforts to complete their implementation.

Further details on the measures adopted by recipients to implement the NCMO recommendations issued in 2024, whose implementation is completed, as well as those that are applicable on a permanent basis, are disclosed in the Annex.

As regards the recommendations that are currently under implementation, the details concerning the measures adopted so far by the recipient authorities are published on the NCMO website.

Annex

The measures adopted by recipients to implement the NCMO recommendations issued in 2024, whose implementation is completed, as well as those that are applicable on a permanent basis

NCMO recommendation	Recipient	Manner of implementation of the recommendation*
NCMO Recommendation No. R/2 of 14 June 2017 on material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates (permanent basis)	NBR	The recommendation was implemented based on the NBR's regular assessments that were reviewed and decided upon by the NCMO General Board, resulting in the adoption of the following: (i) NCMO Decision No. D/8/2018 on identifying material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates; (ii) NCMO Decision No. D/2/2019 on identifying material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates; (iii) NCMO Decision No. D/3/2020 on the assessment of materiality of third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates; (iv) NCMO Decision No. D/5/2021 on the assessment of materiality of third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates; (v) NCMO Decision No. D/5/2022 on the assessment of materiality of third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates. According to the above-mentioned decisions, for 2018, 2019, 2020, 2021 and 2022, no material third countries were identified for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates. In 2023, based on the assessment carried out by the NBR, NCMO Decision No. D/2/2023 on the assessment of materiality of third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates was issued, stating that for 2023 the Republic of Moldova is a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates. The NBR resumed the assessment in 2024, when NCMO Decision No. D/3/2024 on identifying material third countries for the Romanian banking sector in terms of recognising and setting countercyclical buffer rates was adopted; it states that for 2024 the Republic of Moldova is a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates.
NCMO Recommendation No. R/10 of 18 December 2017 on the impact of credit institutions' funding plans on the flow of credit to the real economy (permanent basis)	NBR	The recommendation was implemented through the assessments made in 2018 (based on the reports with the reference date of 31 December 2017), in 2019 (based on the reports with the reference date of 31 December 2018), in 2020 (based on the reports with the reference date of 31 December 2019), in 2021 (based on the reports with the reference date of 31 December 2020), in 2022 (based on the reports with the reference date of 31 December 2021), in 2023 (based on the reports with the reference date of 31 December 2022) and in 2024 (based on the reports with the reference date of 31 December 2023) on the impact of credit institutions' funding plans on the flow of credit to the real sector, also in terms of macroprudential policy, which were submitted in the course of the NCMO General Board meetings. The analyses showed the projected developments in credit to the real sector (for both non-financial corporations and households) and the level of financial intermediation, the total debt-to-GDP ratio, the dynamics of the funding and liquidity profile of credit institutions, and the impact of credit institutions' funding plans on solvency and profitability ratios.

NCMO recommendation	Recipient	Manner of implementation of the recommendation*
NCMO Recommendation No. R/4/2018 on implementing macroprudential instruments for achieving the intermediate objectives included in the Overall Macroprudential Strategy Framework of the National Committee for Macroprudential Oversight (permanent basis)	NBR, FSA	National Bank of Romania The NBR makes regular assessments of the risks and vulnerabilities in the financial system and the real economy, as well as of the appropriateness of implementing/recalibrating/deactivating macroprudential instruments, which are presented to the NCMO General Board for review and decision. To date, the NBR has implemented the following macroprudential instruments: the capital conservation buffer; the countercyclical capital buffer (CCyB); the buffer for other systemically important institutions (O-SII buffer); the systemic risk buffer (SyRB); requirements for the loan-to-value ratio (LTV); requirements for the debt service-to-income ratio (DSTI). Financial Supervisory Authority (FSA) The FSA makes regular assessments of the risks and vulnerabilities identified in the three non-bank financial markets under its supervision, as well as of the appropriateness of implementing the existing macroprudential instruments. For financial investment companies (FICs), the Financial Supervisory Authority (FSA) implemented the capital conservation buffer in four annual increments of 0.625 percent of the total risk-weighted exposure amount from 1 January 2016 to 1 January 2019. Afterwards, the level of 2.5 percent will be maintained: • From 1 January 2016 – 0.625 percent • From 1 January 2017 – 1.25 percent • From 1 January 2018 – 1.875 percent • From 1 January 2019 – present time – 2.5 percent With regard to the countercyclical capital buffer and the systemic risk buffer, they remain at 0 percent, as no conditions have been identified that would warrant their increase for financial investment companies. The prudential regime set forth by the IFD/IFR legislative package (Regulation (EU) 2019/2033 and Directive (EU) 2019/2034) no longer imposes capital buffers for investment firms. Capital buffers apply only to companies subject to supervision, according to the provisions of Directive 2013/36/EU, and which meet the following conditions: (a) the total value of the consolidated assets of the investment firm is equal to or exceeds EUR 15 billion, calculated as an average of the preceding 12 months, less the individual assets of any non-EU subsidiary carrying out any of the activities referred to in this paragraph; (b) the total value of the consolidated assets of the investment firm is less than EUR 15 billion, and the investment firm is part of a group in which the total value of the consolidated assets of all undertakings in the group that individually have assets of less than EUR 15 billion and carry out any of the activities referred to in points (3) and (6) of Section A of Annex I to Directive 2014/65/EU is equal to or exceeds EUR 15 billion, all calculated as an average of the preceding 12 months, less the individual assets of any non-EU subsidiary carrying out any of the activities referred to in this paragraph; or (c) the investment firm is subject to a decision of the competent authority in accordance with Article 5 of Directive (EU) 2019/2034. According to the most recent assessment, no financial investment services companies were identified as meeting any of the three above-mentioned criteria. Where the FSA identifies financial investment services companies that apply the prudential regime for credit institutions, it shall maintain capital buffers at least at the levels mentioned above.

NCMO recommendation	Recipient	Manner of implementation of the recommendation*
		For insurance companies, the following macroprudential instruments are implemented: – the liquidity indicator of insurance companies: monitoring and analysis of the liquidity coefficient of insurance companies, at least on a quarterly basis; – the recovery plan: between 2017-2022, the financial recovery procedure was used for six insurance companies. – Certasig - Societate de Asigurare și Reasigurare S.A. (Decision No. 479/ 19.04.2018) – Gothaer Asigurări-Reasigurări S.A. (currently Allianz-Țiriac Unit Asigurări S.A.) (Decision No. 781/6.06.2019) – Ergo Asigurări de Viață S.A. (currently Signal Iduna Asigurări de Viață S.A.) (Decision No. 1461/22.11.2019) – Euroins România Asigurare-Reasigurare S.A. (Decision No. 1137/ 28.09.2020) – City Insurance (Decision No. 325/10.03.2021) – Euroins România Asigurare-Reasigurare S.A. (Decision No. 1162/ 21.12.2021) – ABC Asigurări-Reasigurări S.A. (Decision No. 880/11.07.2022) Between 2023-2024, the financial recovery procedure was not used for any insurance company. – Between 2017 and December 2021, the Policyholders Guarantee Fund (PGF) made payments of approximately lei 1 billion to creditors of insolvent/bankrupt companies (Astra, Carpatica and Forte, Grup AS, Metropoli Lig, Certasig, and City Insurance). In all these cases, the Fund makes indemnity/compensation payments from voluntary and compulsory insurance contracts, in accordance with the law, and in compliance with the legally-stipulated guarantee ceiling of lei 450,000 per insurance creditor of the insolvent insurer. According to the Policyholders Guarantee Fund (PGF), the total amount of payments made in 2022 was lei 665.6 million. Of the total claims reviewed in 2022, 60,686 were related to the insurance creditors of Societatea de Asigurare-Reasigurare City Insurance S.A., with a paid value of lei 583.2 million. The value of PGF payments in 2023 was lei 846,930,379. In 2023, 76.92 percent of payments were made to creditors of S.A.R. City Insurance (lei 651,500,399), 19.02 percent to creditors of Euroins (lei 161,107,211), 2.84 percent to creditors of Carpatica (lei 24,014,942) and 1.10 percent to creditors of Astra (lei 9,348,144). In the first nine months of 2024, the amount approved by the PGF for payments of claims totalled approximately lei 930 million, of which around 98 percent for compulsory motor third party liability insurance (RCA). The total value of PGF payments between 2016 and September 2024 for insolvent companies stood at lei 3.5 billion, of which 68 percent (lei 2.35 billion) were payments made for City Insurance and Euroins România. As for the private pension market, in 2017-2022 the FSA kept in place the macroprudential instrument setting limits to significant exposures under Law No. 411/2004 on private pension funds, Law No. 204/2006 on voluntary pension funds, and Norm No. 11/2011 on investing and evaluating the assets of private pension funds, as subsequently amended and supplemented. With regard to private pension fund managers, in order to avoid concentration on a small number of issuers, exposure to a single issuer is limited to 5 percent of net assets, whereas exposure to a group of issuers and their affiliates may not exceed 10 percent of the private pension fund's assets.

NCMO recommendation	Recipient	Manner of implementation of the recommendation*
		At the same time, the FSA supported the adoption by the Romanian Government of the Emergency Ordinance amending and supplementing some legal acts governing private pensions, amending Law No. 411/2004 on private pension funds, republished, as subsequently amended and supplemented, Law No. 204/2006 on voluntary pensions, as subsequently amended and supplemented, and Law No. 187/2011 on the establishment, organisation and functioning of the Fund for guaranteeing the rights in the private pension system. These amendments aimed to improve corporate governance, the investment framework and the sanctions regime. The FSA applies IT security requirements to all entities under its supervision, based on Norm No. 6/2015 on the management of the operational risks arising from the information systems used by the entities regulated, authorised/licensed and/or supervised by the Financial Supervisory Authority, according to which the non-bank financial entities under supervision shall submit annually to the FSA self-assessments about IT risks as well as IT audit reports (the frequency of which varies depending on the risk category of each entity). Following the analysis of the collected information, the FSA has strengthened the requirements for the security of IT systems by issuing Norm No. 4/2018, as subsequently amended and supplemented, which repeals Norm No. 6/2015 and additionally introduces the requirement to conduct regular penetration tests and vulnerability scans. In 2022, due to the increasing occurrence of cyber risks, Norm No. 24/2022 was adopted (amending and supplementing Norm No. 4/2018), establishing the entities classified as high-risk in terms of operational risks that may be generated by IT systems. For these entities, IT audit missions are to be conducted on an annual basis. In 2024, further additions were made via Norm No. 26/2024 (effective since January 2025) detailing, <i>inter alia</i>, IT audit cycles.
NCMO Recommendation No. R/1/2024 on the countercyclical capital buffer in Romania	NBR	The NBR implemented the NCMO recommendation on maintaining the countercyclical buffer (CCyB) rate at 1 percent as of 23 October 2023 by issuing NBR Order No. 7/2022 amending NBR Order No. 12/2015 on the capital conservation buffer and the countercyclical capital buffer (published in <i>Monitorul Oficial al României</i> , Part I, No. 1187/12 December 2022).
NCMO Recommendation No. R/2/2024 on the countercyclical capital buffer in Romania	NBR	The NBR implemented the NCMO recommendation on maintaining the countercyclical buffer (CCyB) rate at 1 percent as of 23 October 2023 by issuing NBR Order No. 7/2022 amending NBR Order No. 12/2015 on the capital conservation buffer and the countercyclical capital buffer (published in <i>Monitorul Oficial al României</i> , Part I, No. 1187/12 December 2022).
NCMO Recommendation No. R/3/2024 on compliance with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators	NBR, FSA	Taking into account the NCMO recommendation on compliance with Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators, the NBR Board decided, in its meeting of 11 June 2024, that once a global systemically important institution (G-SII) established as a Romanian legal entity is identified, the NBR's specialised department shall ensure enforceability vis-à-vis the credit institutions covered by the EBA Guidelines, by conducting an analysis to identify the optimal solution for supplementing the regulatory framework (through the issuance of an instruction or a regulation/order setting out the reporting requirements applicable to G-SIIs). So far, no global systemically important institutions (G-SII) were identified within the Romanian banking system, given the relatively small-sized institutions active in the domestic banking market compared with large international banks. According to paragraph 6 of EBA/GL/2020/14, an entity may be classified as a G-SII where its leverage ratio exposure measure exceeds EUR 200 billion, on a consolidated or individual basis.
NCMO Recommendation No. R/4/2024 on the countercyclical capital buffer in Romania	NBR	The NBR implemented the NCMO recommendation on maintaining the countercyclical buffer (CCyB) rate at 1 percent as of 23 October 2023 by issuing NBR Order No. 7/2022 amending NBR Order No. 12/2015 on the capital conservation buffer and the countercyclical capital buffer (published in <i>Monitorul Oficial al României</i> , Part I, No. 1187/12 December 2022).

NCMO recommendation	Recipient	Manner of implementation of the recommendation*
NCMO Recommendation No. R/5/2024 on the countercyclical capital buffer in Romania	NBR	The NBR implemented the NCMO recommendation on maintaining the countercyclical buffer (CCyB) rate at 1 percent as of 23 October 2023 by issuing NBR Order No. 7/2022 amending NBR Order No. 12/2015 on the capital conservation buffer and the countercyclical capital buffer (published in <i>Monitorul Oficial al României</i> , Part I, No. 1187/12 December 2022).
NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania	NBR	The NBR implemented NCMO Recommendation No. R/6/2024 on the capital buffer for other systemically important institutions in Romania by issuing Order No. 1/2025 on the buffer for credit institutions authorised in Romania and identified by the National Bank of Romania as other systemically important institutions (O-SIIs) (published in <i>Monitorul Oficial al României</i> , Part I, No. 168/25 February 2025).

Abbreviations

BSE	Bucharest Stock Exchange
CCoB	Capital Conservation Buffer
CCyB	Contercyclical Capital Buffer
CLIFS	Country-Level Index of Financial Stress
COREP	Common Reporting Framework
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DSTI	debt-service-to-income
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	Foreign direct investment
FSA	Financial Supervisory Authority
GDP	Gross domestic product
G-SII	Global Systemically Important Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal Rating Based approach
LCR	Liquidity coverage ratio
LTV	Loan-to-value
MF	Ministry of Finance
NBFI	Non-bank financial institution
NBR	National Bank of Romania
NCMO	National Committee for Macroprudential Oversight
NIS	National Institute of Statistics
NPL	non-performing loans
NRRP	National Recovery and Resilience Plan
O-SII	Other Systemically Important Institutions
ROE	return on equity
SMEs	Small- and medium-sized enterprises
SyRB	Systemic Risk Buffer
sSyRB	Sectoral Systemic Risk Buffer

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