Opening remarks for the 13th edition of the Regional Seminar on Financial Stability

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Ladies and gentlemen, good morning and welcome!

This is the thirteenth edition of our international seminar on financial stability organized by the National Bank of Romania together with the International Monetary Fund. We would like to express our gratitude for the IMF's constant involvement and support in the successful outcome of this international seminar.

Traditionally, the seminar takes place at the NBR training center in Sinaia, an enchanting place at the foot of the mountains, where the effects of autumn on the vegetation can be admired. This year we have decided that the seminar is to be held in Bucharest, because these days Bucharest is the host of the International George Enescu Music Festival, which you will attend tonight.

We are happy to welcome representatives from central banks in the region, from our Dutch-Belgian IMF Constituency, as well as academia and think tanks.

Last year's edition was about the lessons we drew after the global financial crisis from a macroprudential perspective, but throughout time, various topics have been addressed, as well, like:

- resolution and financial intermediation;
- macrostability and systemic risks;
- macroprudential instruments and policy framework.

Ladies and gentlemen,

The seminar makes every effort to put forward challenging topics and I hope this year's edition is no exception. Over the next two days, we will cover subjects in the area of financial inclusion, Small and Medium Enterprises financing, climate-related risks and their implications for financial stability. These topics are relatively new. They were not on the agenda of macroprudential policymakers a decade ago. Nowadays, these subjects, along with fintech, aging or inequality are high on the agenda of policy discussions, not only in the financial stability fora, but also in monetary policy meetings. Therefore, we consider it worthwhile to dwell more on some of these topics during the seminar.

I am confident the discussions will be very interesting, just by looking at the diversity of panelists: central bankers, representatives of the Bank for International Settlements, the European Commission, Bruegel or the Council for Economic and Policy Research. Not to mention our partners from the International Monetary Fund who will also provide their perspective.

Lower financial inclusion is an increasing concern across countries, especially in emerging economies. The topic is linked with another concern represented by income inequality. The financial system can play an important role in amplifying or cutting down both. However, macroprudential authorities might not be among the best-suited institutions to deal with such phenomena. The evidence we have so far shows that, in the short term, macroprudential policies may reduce financial inclusion when implementing credit constraints, especially for borrowers that are more vulnerable to possible income or interest rate shocks (generally, lower-income individuals). Macroprudential instruments like debt service-to-income (DSTI) or loan-to-value (LTV) are very powerful in preserving financial stability, but the access to credit for households from the lower income percentile might be affected.

However, in the long run, these macroprudential policies might have a positive contribution to preserving the wealth of borrowers, underpinning also financial inclusion. This is also the Romanian experience.

When we entered the European Union in 2007, we had to get rid of all our macroprudential measures like LTV (loan-to-value) or DSTI (debt-service-to-income), because at that time such instruments were considered to hinder the free movements of capital. We reintroduced these measures in 2009, after the outbreak of the crisis. The bulk of non-performing loans we witnessed came exactly from exposures dating back to the time when the above-mentioned measures had been lifted (2007-2008) and the most affected borrowers were from lower-income buckets. For these individuals, higher access to finance and better financial inclusion in the short run implied over the medium and long term difficulties in repaying debts and, in many cases, negative equity for their balance sheets. Our lesson is that improving financial inclusion should take place in a sustainable manner. Macroprudential instruments might hurt this inclusion in the short term, but they will support it in the medium and long run. Our active involvement in raising the degree of financial education of the population is crucial for reaching the same objective. I am very interested to hear your views and experience on this matter. The first day of our seminar is dedicated to this topic.

The second day of the seminar targets mainly the corporate sector. The Small and Medium Enterprises' access to finance is also important for financial stability. Small and Medium Enterprises constitute the overwhelming majority (99 percent) of businesses at European level, with important contributions both in terms of value added generated by non-financial corporations (57 percent) and employment (67 percent). Increasing access to finance in this sector is among the EU priorities. It is also true that this portfolio accounted for the highest post-crisis NPL ratio in the European Union. At its peak, the average NPL ratio for Small and Medium Enterprises reached around 20 percent at European Union level. In Romania, the ratio was 35 percent, while the NPL ratio for microenterprises accounted for 53 percent. Therefore, the same lesson learnt from the household sector also applies here: the Small and Medium Enterpises' financial inclusion should unfold in a sustainable way.

On the other hand, the experience with macroprudential instruments for companies is extremely limited at the European level. For example, France has recently implemented a measure focusing on highly indebted firms, but it applies only to large companies. Therefore, I think that deepening this area of research is very useful for macroprudential policymakers. In Romania we have also tried to come up with solutions that might improve Small and Medium Enterprises' financial inclusion. Our macroprudential authority – the National Committee for Macroprudential Oversight, comprising representatives from the central bank, the Ministry of Public Finance, and the Financial Supervisory Authority – adopted last year a recommendation to the Government, seeking to improve financial discipline in the economy and the financial soundness of firms. I strongly believe that addressing these structural vulnerabilities in the corporate sector will significantly increase the number of bankable firms and enhance the financial inclusion of Small and Medium Enterprises.

Last, but not least, the climate-related topics have become more and more prominent worldwide. The financial system should not ignore the effects of climate risks. Central banks and supervisory authorities have joined the scene. There is a significant interest at EU level in the role of sustainable finance, a High-Level Expert Group on Sustainable Finance being established by the Union. The Network for Greening the Financial

System, that brings together 34 members, out of which 8 are central banks and supervisory authorities, highlighted the role of climate risks as a source of financial vulnerabilities. Not only the increased frequency and severity of extreme weather can translate into economic and financial losses for the real economy and the financial system, but consequences can also arise from transitioning to a low-carbon economy. Governments' climate policy, new technologies and consumer preferences will be the main drivers influencing the developments in carbon-intensive sectors. Having in mind the important ramifications, a coherent policy mix is needed in order to ensure a smooth transition to low-carbon economies and to preserve financial stability. This is a new challenge that the corporate sector should face as well.

Ladies and gentlemen,

From the beginning, the aim of this seminar was to bring together experts from the region to discuss current financial stability challenges and to exchange knowledge in dealing with such challenges. A constant, over the past three years, is the special session dedicated to young professionals' research at the central banks.

Along with the IMF's involvement, we intend to continue and build on the tradition of this international seminar, bringing together experienced central bankers both from advanced, as well as emerging market and developing economies for an open and enriching exchange of views on relevant financial stability issues.

On this note, allow me to stop here and wish every success to the works of this seminar.

Thank you!