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

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Distinguished Guests,
Ladies and Gentlemen,

- We have reached the end of the 13th edition of the Regional Seminar on Financial Stability and it is my pleasure to provide some closing remarks.
- After two days of interesting presentations and intense debates, I will try to summarize some of the ideas presented here.
- In this year's edition of the Financial Stability Seminar, whose topics was **"Inclusion and Financial Stability",** we have discussed about:
    - Financial inclusion and income inequality
    - Correlation between macroprudential policy and financial inclusion
    - Access to banking financing
    - Climate-related risks

All these were discussed in the context of financial stability.

- Some of the subjects, like macroprudential policy and its effects, were discussed in-depth these days, but also in the previous editions of the seminar. And that's how it should be. This policy represents a key element in ensuring financial stability.
- **Macroprudential policy**, according to ESRB recommendation, has "the ultimate objective to contribute to the safeguard of the stability of the financial system as a whole, including by strengthening the resilience of the financial system and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to economic growth". On the other hand, the focus of **micro-prudential supervision** is to safeguard individual financial institutions from idiosyncratic risks and prevent them from taking too much risk, while ensuring the consumer protection of both investors and depositors.
- In the past years, many of these issues have been addressed. In terms of macroprudential policy, we have seen in all the European countries measures implemented on the supply side, namely capital buffers, and in some member states even measures on the demand side. This is also the case for Romania which introduced debt service-to-income and loan-to-value requirements.

- Some of the topics, like financial inclusion and inequality are just as important as macro and microprudential policies and I welcome the fact that some presentations addressed these aspects.
- Financial inclusion and income inequality are more and more a subject of interest for central banks. It is a topic that was on the agenda of a previous financial stability seminar and today's also, and in my opinion, it deserves a special attention.
- The papers discussed these days lead to the idea that higher financial inclusion will reduce inequality, but what I would like to emphasize is that in low income and developing countries in general, the most important factor in reducing inequalities stays within the national authorities competencies.
- Proper economic policies must be implemented in order to ensure inclusive economic growth, which generates the reduction of inequality. As it was very well underlined previously, households in Romania borrow more than the inhabitants of peer countries. However, credit to low-income people does not come from banks, where they are not eligible. They resort to non-financial institutions instead, where looser credit standards come at the cost of higher interest rates.
- Adequate economic policies will help increase the credit worthiness level of low-income citizens, which then can apply for sustainable loans.
- Also, good economic policies means an increase in the quality and complexity of manufactured products within an inclusive economic growth. It means higher research and development expenditures that will determine an increase in the supply of medium and high tech goods.
- The global economy is still in a favorable position, albeit decelerating, while the uncertainty is rising. New opportunities, but also new risks and new challenges emerge, such as Brexit, the trade and currency war, the cold war of technology, the debt crisis, money laundering, climate changes, higher inequality. All these aspects must be addressed as complementary to current policies.
- Besides the discussions that took place here, related to the soundness of the financial sector and the need to have financial services widely accessible, I would like to underline **two main points,** in which I strongly believe.

The first one is that "There is no financial inclusion without social inclusion"

- As we look at the development indicators, we can notice, on the one hand, that significant quantitative progress have been achieved in reducing the worldwide poverty across countries. One the other hand, however, there are still important and rising differences related to the living standard, healthcare, education, sanitary conditions within the countries.
- Inequality among the citizens affects their living standards, state of mind and the democracy itself.
- Interest in social spending issues has risen globally over the last decade. The IMF has voiced increased concerns about rising inequality, the need to support vulnerable groups, to address demographic, technological and climate developments. In their 2019 report, social spending is mentioned as a key policy in maintaining social and political stability.
- Even companies seem to intend to change their strategy. After being accused of an obsession with short-term earnings while neglecting investment, depressing wages and failing to pay for the negative externalities they created, some changes in the corporate decision-making are expected.

The second point is that "There is a strong link between financial stability, on the one hand, and capital and financial discipline, on the other."

- A competitive and stable economic framework has to ensure an appropriate balance between rights or liberties and obligations or accountability of entrepreneurs.
- While many efforts have already been made on the macroprudential side, we should also pay attention to the micro level. When a crisis hits, you have to have your house in order. That means you have to address preemptively your own vulnerabilities.
- At the heart of any economy lies the capital, which in developing countries is the main factor of production. The quantity and quality of capital ensure the competitiveness of the economy, which creates the conditions for reaching an optimal macroeconomic equilibrium.
- The segregation between freedom and responsibility at the level of firms seriously undermines the foundation of the market economy and creates deep social disparities.

- Besides a strong capital base, a fully functional market economy needs strong financial and payment discipline. Without these, financial instability would likely appear.

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- And, I would like to conclude by expressing, on behalf of the National Bank of Romania, our appreciation to all the participants for attending the seminar and to the IMF for their constant support in organizing such useful debates.
- As the purpose of the seminar is to discuss current financial stability challenges and to exchange knowledge in dealing with such challenges, I believe that the objective has been achieved during these two days event.
- Finally, taking into account: first, the issues I have mentioned above; second, the direct and strong correlation between the capital and the real economy and third, the fact that the distinguished participants who will take part in the next year seminar can offer the possibility to share experience among countries and institutions, I would like to suggest that the 2020 event topic to be "*The capital in the real economy as a cornerstone of the financial stability*".