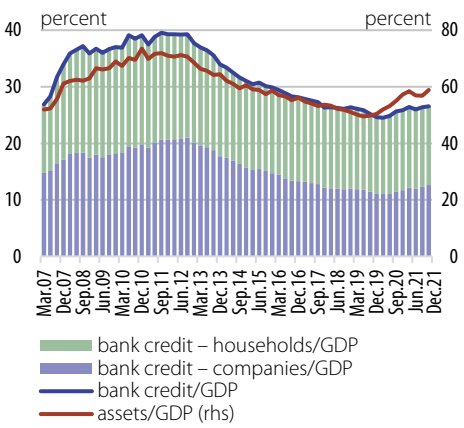
Box 6. Sustainable increase in financial intermediation in Romania

The development of financial intermediation in Romania can make a significant contribution to economic growth, by ensuring easier access to financial resources and improving corporate governance and payment discipline in the economy. It can also entail an improvement in the capacity to monitor the funded projects[1]. Nevertheless, excessive credit growth can lead to the build-up of vulnerabilities in the financial system and, subsequently, to financial crises[2]. In addition, the benefits of financial development decrease when a financial system becomes oversized[3]. Given the importance of financial development to the economy and that it needs to be achieved by complying with prudential requirements, the sustainable increase in financial intermediation was included among the intermediate objectives of macroprudential policy[4].

Chart A
Financial intermediation in Romania



Note: Calculations made based on annualised GDP.

Source: NIS, NBR calculations

Romania has one of the lowest levels of financial intermediation across the EU. Specifically, the shares in GDP of bank assets and bank credit stood at 58.9 percent and 27.4 percent respectively in December 2021 (Chart A). They are well below the EU average and the levels reported by countries in the region, such as Poland, Czechia and Hungary. The analysis on the developments in the level of intermediation shows that the key structural factors that contributed to this evolution are specific to Romania's economy. In order to identify the best measures to tackle these issues, the NCMO decided to set up, in December 2021, an interinstitutional working group on the sustainable increase in financial intermediation. The working group will submit to the NCMO General Board the preliminary conclusions in June 2022 and the final report in the NCMO meeting of December 2022.

The NCMO working group will assess the following main areas considered to play a major role in the development of financial intermediation in Romania:

A. Participation of the financial sector in co-financing the contribution of beneficiaries to the projects deemed eligible for EU funding, in general, and for funds under the National Recovery and Resilience Plan, in particular;

B. Digitalisation of financial services and the role of the FinTech sector in enhancing financial intermediation;

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1 Levine, R. – "Finance and growth: theory and evidence", *NBER Working Paper*, No. 10766, 2004; Demirguc-Kunt, A., & Levine, R. – "Finance, financial sector policies, and long-run growth", *World Bank Policy Research Working Paper*, (4469), 2008.

2 Laeven, L. and Valencia, F. – "Systemic banking crises database", *IMF Economic Review*, 61(2), pp. 225-270, 2013; Lo Duca, M., Koban, A., Basten, M., Bengtsson, E., Klaus, B., Kusmierczyk, P. and Peltonen, T. A. – "A new database for financial crises in European countries: ECB/ESRB EU crises database", *ECB Occasional Paper*, (194), 2017.

3 Pagano, M., Langfield, S., Acharya, V. V., Boot, A., Brunnermeier, M. K., Buch, C., Hellwig, M. F., Sapir, A. and van den Burg, I. – "Is Europe overbanked?", *Reports of the Advisory Scientific Committee*, No. 4, 2014.

4 The Overall Macroprudential Strategy Framework of the National Committee for Macroprudential Oversight (https://www.cnsmro.ro/en/politica-macroprudentiala/cadrul-de-ansamblu-privind-strategia-politicii-macroprudentiale/).

C. Action of public institutions to improve the legislation on the capitalisation of companies and insolvency, and to reduce payment indiscipline in the economy, which would allow the increase in financial system's contribution to corporate lending;

D. Financial education of entrepreneurs and professional training of financial system employees;

E. Financial system contribution to the structural shift of the economy towards a higher value-added one: support the financing of innovative sectors, of green projects, etc.

The borrowing potential of non-financial corporations is significant, while high-tech and knowledge-intensive sectors, as well as those supporting the economy's transition to an environmentally-friendly growth pattern are under-represented in the loan portfolios of banks. Specifically, loans to high-tech companies account for only 1 percent of total corporate loans, whereas the financing extended to knowledge-intensive services firms holds 8 percent of total loans.