Opening Remarks, Financial stability Seminar, Sinaia, October 3-5.

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Governor, colleagues, ladies and gentlemen, I also have the privilege to offer some opening remarks.

I am Jan Kees Martijn and I am the head of the Romania team at the International Monetary Fund.

This is the second time that I am attending this important seminar. Last year, it was a very successful event, at which I learned a lot. And I have high expectations for this time as well.

I should admit that, unlike many of you, am not a true specialist in issues of financial sector stability. I am a international macroeconomist, and the financial sector is only one of the sectors that I try to analyze, together with my colleagues at the IMF. My following remarks probably reflect this background.

Let me take a step back and reflect on financial stability in Romania and peer countries over the last few years.

In some ways, what central banks and financial supervisory authorities in the region have accomplished, is admirable, and great importance.

Let me explain why: Our recent history has been marked by at least two unprecedented global shocks that few people could have imagined:

- First, we had the first global pandemic in a century. There were millions of victims across the world. As all of you remember, there was also a significant economic toll: During the peak of the pandemic, there was a virtual standstill of activity in whole sectors and a deep recession across the world.

- Then in 2022, while the world was still recovering from Covid, we witnessed the onset of Russia's war in Ukraine, by far the largest war in Europe since World War II, with hundreds of thousands of victims and millions of displaced people. This sent food and energy prices surging and may accelerate geo-economic fragmentation.

So the shocks were really enormous in scale and breadth. In some ways, Romania and regional peer countries were especially exposed to Russia's war in Ukraine, given their proximity. And in the aftermath, there were also the failures of large banks in the U.S. and Switzerland.

During these huge shocks, what happened in the financial sectors and to overall macroeconomic stability in Romania and its peers? Relative to the scale of the shocks, the impact was truly modest, and probably much less than most experts would have predicted had they anticipated these two shocks. We did not see bank runs, currency crises, hyper-inflation, ballooning of non-performing loans, failures of financial institutions, market panic. Quite to the contrary: In the case of Romania, the financial sector has been very resilient. In our most recent IMF reports we did not need to spend a lot of space on the financial sector, which remained sound and stable.

This did not come out of nowhere: Central banks of the region acted swiftly and decisively when signs of inflation emerged in late 2021. They acted while other major central banks were still discussing whether

monetary policy should be tightened at all. And this proactive response created confidence in financial markets, and greatly limited stress in financial flows and exchange rates.

Romanian and other supervisors in the region had also done what we usually advise: They fixed their roofs while the sun was shining in the pre-pandemic period, including by putting in place stronger macroprudential frameworks which increased the resiliency of financial sectors. This helped to contain the fallout from the shocks and also created trust in the financial system.

So is everything good then? I would hesitate to say yes. Financial stability continues to face real challenges. And that brings me back to why I am looking forward to this conference.

First, there are legacies of the big two shocks that I mentioned. Here, I am thinking foremost of the surging public debt. This is certainly a critical issue for Romania, where fiscal deficits remain far too large. And financial markets are paying attention. Resolving this problem is probably beyond the scope of this conference, but nonetheless highly relevant for financial stability. Expansionary fiscal policy has also created a further headwind for a central bank that tries to accomplish the last mile of disinflation.

Another important legacy from the recent big shocks is the threat of geoeconomic fragmentation which can have many lasting effects. Here, the effects are ambiguous: One could imagine that there might be positive direct implications for eastern and central European countries as a result of nearshoring of manufacturing by advanced EU countries. But these advantages could well be more than offset if some of Romania's main European trading partners were hard hit by lower investment and exports, which could have profound financial stability implications.

- *Second, in addition to immediate legacies of the recent shocks, we should also look for lessons from recent years.* Overall, as I mentioned there were no major financial stability disasters, but there were still potential vulnerabilities that became apparent. For example, the surging of foreign currency debt of nonfinancial corporations in Romania and some peers, especially in the beginning of the inflationary episode when monetary tightening went ahead of the ECB.

- *Third and last, there are new trends that are here to stay.* Two examples are digitalization and climate change. I know that at the least one aspect of the first example, namely AI, will be discussed in depth during this seminar.

To conclude, this conference is a timely occasion to confront these issues, or at least some of them, head-on.

I leave it at that, and I'm looking forward to the insights and discussions that will emerge in the coming days.

Thank you.