Financial Stability Report

December 2024

– Overview –

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OVERVIEW

The main risks to financial stability in Romania remained at elevated levels, relatively similar to those signalled in the previous *Report* and to the risk assessments EU-wide, given the persistent multiple uncertainties at global level. The uncertainties owe to the escalation of geopolitical tensions and the heightening of armed conflicts, as well as to the important election year internationally, likely to change the policy mix applied in the world's major economies. On the domestic front, growth in economic activity has continued to be subdued and the widening of twin deficits is still the most important risk factor.

Figure 1. Main risks to financial stability in Romania

Global uncertainty amid multiple geopolitical events

- fuelled by the escalation of geopolitical tensions and the heightening of armed conflicts amid an important election year internationally
- sensitivity of financial markets to macroeconomic developments in advanced economies and fragility of investor confidence are at high levels
- vulnerabilities associated with financial stability are amplified by a large sovereign debt worldwide

Tensions surrounding domestic macroeconomic equilibria

- twin deficits widened, fiscal consolidation is long in coming
- second-quarter economic growth was subdued, lagging behind the EU average and the economies in the region
- implementation of the NRRP by Romania is significantly delayed. These delays might affect the absorption of available financial flows.

Default risk for loans to the private sector

- there are signs of a slight worsening of the quality of loans to households, particularly consumer credit
- for loans to non-financial corporations, the asset quality has improved
- firms' financial performance has weakened, yet household wealth and resilience have strengthened

Challenges to cybersecurity and financial innovation

- cyber risks remain a vulnerability factor in the tension-marred geopolitical context and the continuous advance of digitalisation and artificial intelligence, with financial system incidents on the rise in recent years.

Key economic developments

On the external front, subdued growth prospects and high uncertainty linger, as a result of escalating geopolitical tensions;

The resilience of the banking sector to potential adverse macroeconomic developments has strengthened, as illustrated by the dynamics of key capital adequacy indicators and the results of the solvency stress test covering the 2024-2026 period.

severe systemic risk, high systemic risk, moderate systemic risk, low systemic risk

Notes: The colour of arrows shows risk intensity. Their direction indicates the outlook for risk in the period ahead.

Against this background, the most important two systemic risks, classified as severe, are as follows: (i) global uncertainty amid the multiple geopolitical events, which is seen to increase in the period ahead, and (ii) tensions surrounding domestic macroeconomic equilibria. Adding to the two severe systemic risks are two moderate systemic risks, namely (i) default risk for loans to the private sector and (ii) challenges to cybersecurity and financial innovation.

At global level, risks to financial stability have seen mixed developments. On the one hand, disinflation continued in most economies, also without any substantial drop in economic activity (i.e. amid a soft landing), which supported the appetite for risk on world's financial markets. On the other hand, the external environment is further marked by subdued economic growth prospects, especially in Europe, as well as by elevated uncertainty. Risks to financial stability worldwide are amplified by a high level of sovereign debt that constrains the fiscal space needed to manage potential new shocks in the current geopolitical context. Moreover, indebtedness remains elevated across the private sector and there are signs of deteriorating credit quality in some segments of the market, especially in commercial real estate, although the impact on the banking system has been contained so far.

Geopolitical events may also have significant implications for financial stability, posing challenges to both households and firms. Such events may disrupt global trade and send commodity prices higher. Furthermore, they may fuel financial market volatility, impacting capital flows, exchange rates and interest rate spreads. Strong, albeit short-lived, capital market swings in August have shown how leverage positions can amplify responses to negative macroeconomic news from the US regarding the labour market and central bank actions[1], unveiling structural vulnerabilities in the global financial system that could affect financial stability in the EU. Specifically, the risk of sudden corrections in global financial markets remains significant given that the prices of more risky financial assets stayed on an upward trend overall since the previous *Report*, temporary corrections and heightened volatility episodes notwithstanding. Although the corrections were short-lived, they highlight the sensitivity of financial markets to macroeconomic developments in major advanced economies and the fragility of investor confidence in the current environment saddled with macroeconomic and geopolitical uncertainties.

The worsening of domestic macroeconomic equilibria continues to be one of the main systemic risks countrywide. Data for the first part of 2024 point to wider twin deficits than in the previous *Report*, and Romania is expected[2] to report at the end of this year some of the highest (fiscal and current account) deficits at European level, reflecting both structural and conjunctural factors. The risks associated with the twin deficits may be increased by the rising levels of sovereign debt and external debt. However, correcting these imbalances is critical to mitigate risks to financial stability, both in the short term – to prevent investor confidence from eroding, thereby reducing risks to the sovereign risk premium and potential exchange rate

1 Todorov, K. and Vilkov, G., "Anatomy of the VIX spike in August 2024", *BIS Bulletin,* No. 95, 2024

2 According to European Commission estimates (AMECO database), in 2024 Romania is forecasted to post the widest budget deficit in the EU (-8 percent of GDP) and the second-highest current account deficit, after Cyprus.

pressures – and in the longer run – to reinforce the resilience to potential new adverse developments in the current geopolitical environment.

On the domestic front, economic growth was further subdued, driven mainly by consumption and, to a lower extent, by investment. In 2024 Q2, the pace of increase of economic activity slowed down to 0.9 percent in annual terms, the sharp rise in consumption (adding 4.7 percentage points to GDP growth) being almost entirely offset by the performance of net exports (taking 4.5 percentage points off GDP growth). Compared to 2024 Q1, economic growth gathered momentum from 0.1 percent.

The notable contribution of consumption to GDP growth was the result of higher real disposable income, given the rise in nominal wages and pensions, along with ongoing disinflation, but also of expectations of further increases in real income. At the same time, these dynamics were also supported by the improvement in consumer confidence and the easing of bank credit standards, which helped ramp up new consumer credit targeting particularly durable and semi-durable goods. These developments boosted imports of goods and services (up 6.2 percent in 2024 Q2 versus 2023 Q2), thus contributing to the widening of the external imbalance. Risks to financial stability coming from the external position are still strong, as Romania has recorded the highest current account deficit EU-wide. In 2024 Q2, the current account deficit-to-GDP ratio ran at 9.1 percent, up from 7.1 percent in the same year-ago period.

Implementation of structural reforms aimed at assuaging these vulnerabilities is necessary both to maintain investor confidence and to render the economy more resilient to potential new adverse developments. At the same time, reforms should also lead to a shift in the growth pattern towards one with higher added value and focused on strategic areas such as food security, green transition and energy security, or the development of infrastructure and defence. Under the circumstances, absorption of non-repayable EU funds becomes even more important, especially those in the National Recovery and Resilience Plan (NRRP) whereby Romania was allocated EUR 13.6 billion in grants and EUR 14.9 billion in loans, equivalent to 8.8 percent of GDP[3]. According to the European Commission's report on the implementation of the Recovery and Resilience Facility[4], Romania is a laggard in implementing the NRRP. The delays might affect the raising of still available funds, i.e. about EUR 19 billion, which will be collected if the 448 remaining targets and milestones (out of 518) are complied with. By the end of September 2024, EUR 9.4 billion (pre-financing included) were collected, cumulatively since the start of the programme, pointing to the fulfilment of about 14 percent of the targets and milestones. Even though a third of the allocated funds was collected, the amounts actually spent are low. According to the budget execution, about EUR 2.8 billion of the amounts collected via the NRRP were spent January through September, while EUR 4.1 billion, i.e. 44 percent of the NRRP funds collected, have actually been spent since the start of the programme. Furthermore, Romania was the only country at risk of having commitments or payments suspended in virtue of Article 10 of the

3 Recover and Resilience Scoreboard

4 *Recovery and Resilience Facility Annual Report*

Regulation establishing the Recovery and Resilience Facility[5], which sets forth this measure in case an EU Member State fails to take effective action to correct its excessive deficit.

Although the materialisation of credit risk has been contained so far, concerns still linger. Overall, the debt servicing capacity of the real sector has seen mixed developments since the previous *Report*, but remains at adequate levels. On the one hand, since the beginning of 2024, the quality of the loans extended to non-financial corporations by credit institutions has improved, with the non-performing loan ratio standing at 3.8 percent in September 2024. On the other hand, looking at loans to households, there are signs of a slight deterioration in the quality of bank assets. Specifically, the non-performing loan ratio reached 3.3 percent in September 2024, from around 3.2 percent in the course of 2023 and a low of 2.96 percent in June 2022. However, for certain loan segments, credit risk is higher, namely for loans to SMEs (an NPL ratio of 4.7 percent versus 2.2 percent for large companies, September 2024), exposures to the commercial real estate market (an NPL ratio of 4.6 percent against 3.8 percent for non-financial corporations at aggregate level) and consumer loans to households (an NPL ratio of 5.7 percent compared with 3.3 percent for households at aggregate level).

The persistence of multiple economic uncertainties brought about mixed developments as regards the outlook for credit risk as well. Estimates over a 12-month horizon (September 2024 – September 2025) point to increases in the probability of default across all main loan segments (+1.4 percentage point to 4.6 percent for loans to non-financial corporations; +0.6 percentage points to 3.5 percent for consumer loans to households; and +0.02 percentage points to 0.25 percent for housing loans).

The balance sheet position of households and firms has a significant influence on their debt servicing capacity, with mixed developments since the previous *Report*. On the one hand, firms' financial health worsened in 2023 in annual terms, as seen in most financial indicators. Against this background, the financial health measure of companies in Romania deteriorated at the end of 2023 compared to a year earlier, yet it remains comfortably above the risk area. Conversely, the household sector strengthened its wealth and resilience to shocks, amid the sustained rise in financial assets (7 percent in June 2024 in annual terms), together with the decline in the debt service-to-income ratio. Households' net wealth accounts for around 39 percent of national net wealth, while their financial assets make up approximately 27 percent of total financial assets in the economy.

Cyber risks remain strong in the tension-ridden geopolitical landscape and the evolution of digitalisation and artificial intelligence, with the banking sector facing a growing number of incidents in recent years. Russia's war against Ukraine triggered large-scale cyberattacks against EU-based entities. The risk assessment questionnaire initiated by the EBA shows that cyber risks and data security continue to be by far the most prominent driver of operational risk for banks, ahead of conduct and legal risks, as well as fraud risk. The European Central Bank concluded its cyber stress test,

5 *Recovery and Resilience Facility Annual Report*

which gauged how banks would respond to and recover from a severe but plausible cybersecurity incident. Overall, the stress test showed that banks have response and recovery frameworks in place, but areas for improvement remain. In addition, the entry into force of the Digital Operational Resilience Act (DORA), the EU Regulation that will apply as of 17 January 2025, will provide a robust framework requiring banks to step up their efforts towards promoting a culture of continuous cyber risk management. The new piece of legislation aims to strengthen the IT security of financial entities and ensure that the EU's financial sector can stay resilient should a severe operational business disruption occur.

Developing artificial intelligence EU-wide is another priority of the European Commission[6]. Accordingly, the bloc should strive to become a leader in AI development for its sectors of strength, to regain and retain control over data and sensitive cloud services, and to have a solid financial backing and adequate labour force for supporting innovation in areas such as IT and AI.

Banking sector

The Romanian banking sector's soundness strengthened further, as shown by the persistence of adequate levels of solvency, liquidity and asset quality indicators, on the back of high profitability, Table 1. However, banks need to show caution in the following period, given the uncertainties, also in terms of the envisaged fiscal consolidation measures dictated by persistent budget deficits and higher public debt, with potential negative effects on borrowers' financial standing and creditworthiness. Moreover, the heightening of climate and cyber risks calls for strong bank alertness, amid the increase in digitalisation of financial services and in the connections with third-party service providers.

Although the liquidity risk facing local banks is low, the current environment – characterised by further subdued economic prospects worldwide and escalating geopolitical tensions, along with enhanced digital services and the emergence of new risks related to the implementation of artificial intelligence techniques in the financial sector – calls for maintaining increased prudence and rethinking the methods that are currently used to identify and address traditional banking risks. Additionally, credit institutions need to invest in advanced cybersecurity solutions in order to mitigate the effects of cyberattacks, including indirect ones, which may become systemically important and affect financial stability.

The banking sector has shown stronger resilience to potential adverse macroeconomic developments, as pointed out by the dynamics of key capital adequacy indicators and the results of the solvency stress test for the 2024-2026 period.

In 2024, the Romanian banking sector has fared well in terms of asset quality indicators. Similarly to developments in the EU, the NPL ratio has increased marginally from end-2023, i.e. by 0.2 percentage points to 2.54 percent (September 2024).

6 *The Future of European Competitiveness – A Competitiveness Strategy for Europe*, 2024

Table 1. Risk indicators for the banking sector

Risk indicators	EBA-defined prudential range	Romania								EU average
		2018	2019	2020	2021	2022	2023	June 2024	Sep. 2024	June 2024
Solvency										
Tier 1 capital ratio	>15% [12%-15%] <12%	18.64	20.05	23.22	20.86	20.48	20.66	21.12	22.02	17.5
CET1 capital ratio	>14% [11%-14%] <11%	18.64	19.95	23.11	20.76	19.98	20.21	20.68	21.58	16.1
Total capital ratio		20.71	22.00	25.14	23.32	23.40	23.60	24.05	24.65	20.1
Asset quality										
Non-performing loan ratio	<3% [3%-8%] >8%	4.96	4.09	3.83	3.35	2.65	2.37	2.49	2.54	1.9
Non-performing loan coverage by provisions	>55% [40%-55%] <40%	58.51	60.75	63.31	66.10	65.55	64.61	66.96	66.81	42.0
Ratio of restructured loans and advances	<1.5% [1.5%-4%] >4%	3.26	2.49	2.40	2.60	1.96	1.57	1.51	1.45	1.4
Profitability										
ROE	>10% [6%-10%] <6%	14.59	12.21	8.66	13.28	16.40	20.13	20.15	20.17	10.9
Cost-to-income ratio	<50% [50%-60%] >60%	53.17	54.32	53.84	53.92	52.11	47.64	50.45	49.89	53.2
Balance sheet										
Loan-to-deposit ratio for households and non-financial corporations	<100% [100%-150%] >150%	71.89	69.48	63.61	63.96	65.66	61.00	61.28	64.69	106.5
Liquidity Coverage Ratio – LCR	>140% [110%-140%] <110%	237.84	242.59	292.48	238.77	209.16	280.61	244.51	248.83	163.2

best bucket
intermediate bucket
worst bucket

Source: NBR, EBA

The funding structure of banks, relying on deposits from the real sector, has changed slightly, amid the increase in issues of debt securities, generally in order to cover resolution requirements.

The interlinkage of the banking sector in Romania and the government sector has become stronger, recording the highest level among EU countries. It manifests directly, via the loans granted and holdings of government securities (25 percent of assets, September 2024), indirectly, through the government-backed loans to the real sector (5.3 percent of assets), as well as through the state ownership of banks (14 percent of bank assets). Holdings of government securities help improve solvency ratios (due to low risk weights) and liquidity indicators, but expose the

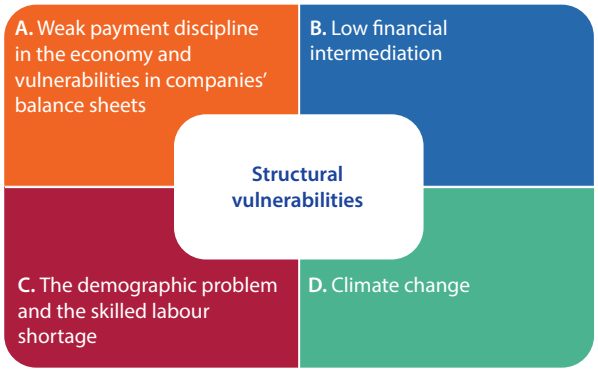
banking sector to the concentration and interest rate risks, being less favourable to financial intermediation (the annual dynamics of government securities holdings were 24 percent, as compared to 8.4 percent for credit to the real sector, September 2024). The funding risk for the Romanian banking sector remains low, given credit institutions' preference for traditional funding sources, such as retail deposits. Over the past years, there has been an increase in security-based funding, especially for meeting the minimum requirement for own funds and eligible liabilities (MREL), which incurs higher costs than those of deposits.

The prospects for banking sector stability are good, but a number of elements can negatively impact the developments in risk indicators: (i) the expected increase in risks that need to be managed in the uncertainty-ridden domestic and international macroeconomic environment, (ii) the unpredictable path of interest rates, owing to the geopolitical context, and (iii) the taxation of turnover over an indefinite time horizon.

Structural vulnerabilities

The Romanian economy-specific structural vulnerabilities have become more pronounced since the previous *Report* and are likely to intensify short-term risks to financial stability, Figure 2.

Figure 2. Map of structural vulnerabilities to financial stability in Romania



A. The low capitalisation of firms is one of the persistent structural vulnerabilities to financial stability in Romania, with direct implications for payment discipline and access to finance.

The number of undercapitalised firms grew by 9 percent in 2023 to 260.5 thousand, holding a significant share (31 percent) in total firms economy-wide. They have recapitalisation needs of approximately lei 147 billion (the equivalent of EUR 29.5 billion, up 5.8 percent versus 2022) and hire 11.7 percent of total employees in the non-financial corporations sector. They contribute by 5.2 percent to the value added in the economy and by about 10 percent to the turnover, whereas their share in total overdue payments to the general government budget is 82 percent, according to 2023 data. Out of these firms, 97 percent, namely 253.8 thousand, are companies with negative equity. They make up 30.5 percent of the number of active non-financial corporations at end-2023. Companies with negative equity have recapitalisation needs of lei 141.1 billion (the equivalent of EUR 28.4 billion, up 5.5 percent from 2022). The recapitalisation needs of companies with negative equity account for 96 percent of total recapitalisation needs. The weak payment discipline is visible not only in relation to the general government or suppliers, but also to banks, in which case even though their total exposures to undercapitalised firms amount to only 8.6 percent, the share of related non-performing exposures runs at 25 percent.

At national level, the low payment discipline in the economy is one of the main structural vulnerabilities, likely to weaken firms' resilience in times of stress and impair their access to finance. About half of local firms have had problems due to the delayed collections from trading partners in the period from March 2023 to February 2024[7], with late payments affecting payments to suppliers for a fourth of firms. Romania has the highest rate of use of trade credit among EU countries. In 2023, the trade debt of non-financial corporations rose by 7 percent from the year before to lei 421 billion, with a non-performing ratio (calculated as a share of overdue payments to suppliers in total trade debt) of 11 percent, i.e. three times higher than the non-performing ratio for bank credit.

The receivables collection period remains well above the maximum period of 60 days established by Law No. 72/2013 and above the EU average (55 days), i.e. at 86 days, the same as in the previous periods. Large companies collect their receivables significantly faster than small- and medium-sized enterprises (70 days versus 102 days in 2023). The receivables collection period for micro-enterprises is of 149 days. Real estate and agricultural firms face the highest difficulties in collecting receivables, i.e. 232 days and 142 days respectively, on average. Trade is the only sector where time periods are, on average, law compliant. Companies with foreign private capital have the shortest receivables collection period (77 days), ahead of companies with domestic private capital (90 days), while state-owned enterprises report, on average, the longest receivables collection period (149 days).

B. Low financial intermediation remains one of Romania's structural problems, with an impact on economic development. Romania ranks last among EU Member States in terms of financial intermediation (50.6 percent, calculated as bank assets-to-GDP ratio, 2024 Q2), trailing significantly behind peer countries in the region (Poland 92 percent, Bulgaria 93 percent, Hungary 108.5 percent) and the EU average (215 percent).

The low degree of financial intermediation is closely linked to the way in which firms prefer to finance their activity (i.e. significantly via trade debt, standing highest in Romania among Member States from this perspective, or through loans from shareholders/associates), alongside the structural vulnerabilities of the non-financial corporations' sector.

A broader focus on lending to non-financial corporations, especially those in business sectors that can be considered strategic, such as (i) sectors with high value added; (ii) knowledge intensive services; (iii) food security; (iv) energy security and, amid the geopolitical tensions; (v) the defence industry, will contribute to the sustainable increase in financial intermediation in Romania. However, the sustainable rise in financial intermediation also requires the solving of demand-side problems in the non-financial corporations' sector, such as weak capitalisation (details in Section 2.1). Looking at non-financial corporations, there are 22,455 performing firms[8] (accounting for 2.7 percent of the total number of companies), of which 11,700 have a level of indebtedness below 1 and over time could have a borrowing potential of

7 NBR's *Survey on the access to finance of the non-financial corporations in Romania*, June 2024.

8 Performing companies have been defined according to the methodology developed by Neagu *et al.* (2017), "Pregătiți pentru viitor? O nouă perspectivă asupra economiei României", *NBR Occasional Paper Series*, No. 46/2017.

lei 213 billion. Of these, around 19,000 are companies with majority domestic private capital (86 percent), 2,600 are firms with majority foreign private capital (12 percent), and 291 are state-owned enterprises (1 percent).

In addition, there is room for improvement in the level of financial education of both households and non-financial corporations. To this end, the NBR in collaboration with important players in the financial sector and academia launched the "Antreprenoriat de TOP" (TOP Entrepreneurship) project. The objectives of this project are to increase the level of financial and economic education of Romanian entrepreneurs and improve financial inclusion, by encouraging a broader use of financial products and services and stepping up the efforts to enhance the digitalisation of financial and business activities.

C. Romania is faced with the contraction and the ageing of resident population. According to data as at 1 July 2024, Romania's population shrank further, shedding 1 percent versus the same year-earlier period. Moreover, the demographic ageing trend steepened, as the share of the elderly (aged 65 and above) widened 0.4 percent and that of the young (0-14 years) witnessed a decline of almost the same magnitude (0.3 percent).

These demographic developments primarily affect the labour market, given the challenges firms face in recruiting skilled workforce. By the end of 2030, Romania's working-age population (15-64 years) is estimated to drop by 4 percent[9], more sharply than the EU average (-2 percent). Apart from the negative natural change of population, emigration is another factor contributing to the labour shortage. Romania is the EU Member State with the largest number of persons living in other EU countries (around 3.2 million, 34 percent of them in Italy alone[10]), with 76 percent of emigrants representing active workforce (15-64 years). Against this background, recruiting adequately skilled workers is one of the most pressing problems for local companies, as four in five employers reported difficulty in finding the skilled talent they need[11]. One solution might be to encourage and pave the way for the people fit for work who have reached retirement age to remain active. At EU level, 3.1 percent of employed persons are aged 65+, as compared to 1.1 percent in Romania (2023 data).

The lack of adequate skills of the workforce also affects companies' performance and investment capacity. According to a European Investment Bank survey[12], the low availability of skilled staff ranks among the most cited obstacles to long-term investment, being flagged by 79 percent of local firms participating in the survey. Thus, skill improvement in the active population in Romania could set long-term investment in motion and help increase the competitiveness of the economy.

9 Eurostat, Population on 1st January by age, sex and type of projection

10 Eurostat, EU and EFTA citizens who are usual residents in another EU/EFTA country as of 1 January

11 Manpower Group, *2023 Global Talent Shortage*

12 *EIB Investment Survey*, 2023

Labour shortage is a more pressing problem when it comes to certain specific skills, starting with digital ones[13]. From this perspective, Romania ranks last in the EU, with the smallest share of population aged 16-74 having at least basic digital skills (28 percent vs. 56 percent at EU level, according to 2023 data[14]), trailing behind Bulgaria (36 percent) and Poland (44 percent).

On the domestic front, the National Committee for Macroprudential Oversight (NCMO) highlighted the need to step up the financial services digitalisation process, to improve the financial education of entrepreneurs and the professional training of staff in the financial system, as well as to support the structural shift of the economy to a higher value added economy, by making specific recommendations to the relevant authorities via NCMO Recommendation No. R/3/2022 on the sustainable increase in financial intermediation.

D. Climate change-related risks to financial stability are very diverse, and the magnitude of their effects has yet to be fully grasped. There are several channels whereby climate change might affect financial stability, its future evolution depending on mitigation and adaptation efforts globally.

According to data from the European Environment Agency, economic losses caused by climate-related extremes between 1980 and 2023 in Romania stood at EUR 19.6 billion, the equivalent of EUR 916 per inhabitant, representing 2.7 percent of the amount recorded in the EU at aggregate level. Moreover, only 1 percent of losses were insured.

Domestically, climate-relevant (brown) companies are further important for the real economy. In 2023, these companies generated 40.6 percent of the gross value added at aggregate level, held 48.4 percent of total assets and hired 32.6 percent of total employees of non-financial corporations. Banks' exposure to these companies reached lei 100.9 billion at end-September 2024, accounting for 51.4 percent of total exposure to non-financial corporations. By contrast, even though green lending has stepped up slightly in recent years, there is still ample room for this segment to develop. Merely 4 percent of banks' exposures to firms and households are green loans, worth lei 16.4 billion (September 2024), of which only 39 percent were granted to non-financial corporations, almost half being for green buildings (49 percent).

Against this background, raising awareness about the impact of risks generated by climate change on the economy proves essential. To this end, in 2021, the NCMO issued Recommendation No. R/6/2021 on supporting green finance, aimed at: (i) increasing access to finance for projects on the climate change agenda; (ii) supporting the structural shift of the economy to a higher value added economy, and (iii) enhancing transparency and raising awareness on the impact of climate change in the society and the financial system.

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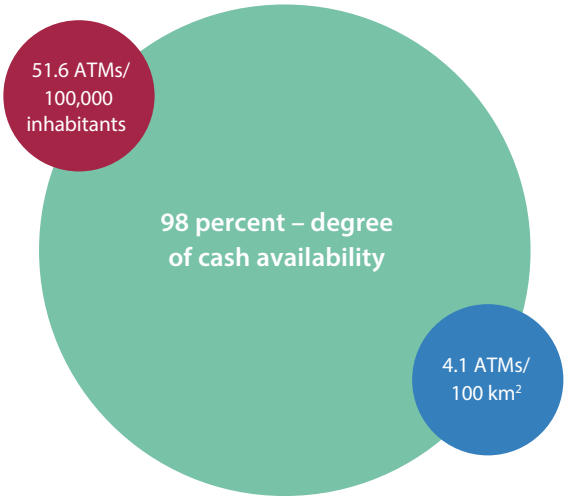
13 *The Future of European Competitiveness – A Competitiveness Strategy for Europe*, 2024

14 *Digitalisation in Europe*, 2023 edition

Special feature

One of the steady concerns of the National Bank of Romania is to ensure economic agents' access to cash, in line with their real needs. For households and companies alike, access to cash plays a major role in ensuring participation in economic activities, both as a means of extinguishing obligations between parties and as an instrument securing financial inclusion, particularly in rural areas and in regions with underdeveloped financial infrastructure. Moreover, access to cash ensures a higher degree of freedom and autonomy. Aside from the important role that cash plays in normal circumstances, it can prove all the more relevant in times of crisis, especially considering the step-up in cyber risk amid geopolitical developments.

Figure 3. Statistics on access to cash



The banking sector in Romania has a network of ATMs and units that generally accommodates properly the characteristics and needs of customers. In spite of a good outreach, there is a higher density of population with more difficult access to the ATM network, particularly in certain areas in Moldavia and part of the South-West Oltenia and South Muntenia regions. The territorial coverage shows that banks have adopted strategies for optimising their physical presence to meet a wide range of customer needs, irrespective of geographical location, thus helping preserve a constant cash flow in the economy.
As for bank units, their number has been declining steadily over the past decade, amid the ongoing digitalisation of banking services, yet credit institutions still have good territorial coverage.

Households display a keen appetite for cash, given the large volumes of lei and euro cash drawn from ATMs and bank units, but also the steadily rising values of currency in circulation. Under the circumstances, the high degree of cash availability (98 percent) points to adequate cash accessibility, in terms of both money supply and ATM functionality or a potential cyberattack that would freeze digital payments for a short while.

The use of cash in Romania remains essential, especially given the limited access to financial services in certain geographical areas and the low degree of financial education and digital skills. In rural areas and in less developed regions, access to ATMs is lower, which underlines the importance of financial infrastructure and the need to expand access, also from a digital perspective, in order to ensure financial inclusion, particularly in isolated or deprived communities.