Opening Remark at the Annual Regional Seminar on Financial Stability Issues

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Sinaia, Romania, October 19, 2016

Governor Isarescu, Deputy Governor Voinea, distinguished guests, ladies and gentlemen, it is my pleasure to welcome you to the annual regional seminar on financial stability issues. It is a great pleasure and an honor for the IMF to co-organize this event with the National Bank of Romania. The IMF remains fully supportive of Romania through our analysis and advice and, importantly, through organizing events such as these.

The goal of this seminar is to have a candid discussion amongst policymakers, academics and practitioners on a topic that we consider of the utmost importance: macrofinaincal stability. This year's event is particularly important, as it marks the 10th edition of the seminar, and we are pleased to have distinguished speakers from national central banks in Europe, international organizations, and the academic world to join us on this occasion.

In my opening remarks I would like to say a few words on some of the panels. But before I do that, a word about the our co-host the NBR. It is a most fitting venue to have a discussion on financial stability issues in Romania. Over the past few years, the NBR has made significant efforts in safeguarding and enhancing the resilience of the financial system. Some of you may remember an event a few months ago that was organized with the European Commission at the NBR premises on the progress made by Romania in reducing the ratio of non performing loans. For those who may not be aware, Romania halved the ratio of NPLs from 22 percent to around 11 percent between 2014 and 2016. The level of NPLs is still high but at the same time what stands out is the progress made to reduce it while several other countries, including some large ones in Europe, struggle to bring it down. More generally several other indicators of the banking system on average compare favorably to the EU average and EBA benchmarks.

At the same time while the NBR has made progress in strengthening the resilience of the banking system, it also faces heightened risks. There are several initiatives—some that have already been legislated—and some some that are under discussion that would adversely affect the banking system and its ability to provide credit at appropriate rates to Romanian businesses and households. Examples include the giving-in-payment law and the conversion of foreign exchange loans. These initiatives have wider implications as well—an ex post change in contracts and rules of the game threatens the investment climate and scares foreign investors. Thus while the NBR has made progress on its part, it cannot afford to rest easy as risks loom large.

In light of this background, the first panel for this seminar will appropriately have a discussion on new tools for monitoring systemic risks. I don't need to say much about the importance of this area so let me say a bit more on the second panel: financial inclusion. For those of you who may have followed this year's World Bank and IMF annual meetings, you would have seen that this emerged as one of the more important themes. In the words of the managing director of the IMF, Christine Largarde, global growth has benefited "too few" people and inequality remains high in many countries. It is also true that financial development has been benefiting too few. Recent estimates suggest that, in developing economies, more than half of the poorest 40 percent are without accounts and 35 percent of small firms are facing difficulties accessing formal financial services. I look forward to the discussion in this panel on what we know about research in this area.

I would not have time to talk about each panel—all of them are very topical and very relevant—but let me say a few words on the panel on living in a low interest rate environment scheduled for tomorrow morning. As noted in the IMF's recently published Global Financial Stability Report, the world has been in an environment of low growth and low interest rates for too long. Eight years after the financial crisis, monetary policy is still accommodative. And markets now expect policy rates in Euro and Japan to remain in negative territory through the end of this decade.

As noted in a recent NBR paper by board member, Daniel Daianu, the prolonged period of low interest rate has triggered heated debate among economist and policy makers on its causes and consequences. BIS has repeatedly warned about side-effects of non-standard measures and policy rates need to move upwards to combat new speculative bubbles. In the recent Global Financial Stability Report, the IMF acknowledged that accommodative monetary policies have benefited the financial system by improving growth and bringing capital gains. But it also pointed out that a protracted period of low and negative policy rate and flat yields could undermine financial resilience in the medium term.

I look forward to the discussion in this session on these and other unsettled topics. With that let me turn to Deputy Governor Voinea for the first panel.