Deputy Governor Badea,
Dear participants in this important conference,

First, I want to congratulate the NBR on another version, the 14th!, of its long-running and very successful annual seminar program on financial stability. It is an honor for the IMF to co-organize such an event with the NBR. The presence of other central banks from our Constituency has been the rule, and this edition is no different. The NBR has really made a name for itself in this rapidly developing area of central banking. And, again, it is on a very topical issue and one of the newest challenges to financial stability, namely what we in Washington call the **macrocritical dimension.** Let me make the following points on that.

I will first note that as central banks over time we have made an important move from macro to macrofinancial to macrocritical considerations. The focus has thereby moved first from purely macroeconomic (monetary and fiscal) stability, to also including the important dimension of financial stability, and now to the broader concept of sustainability, as a key objective of economic policy. All three aspects of course remain important.

This, incidentally, is mirroring the move that the IMF has made from being very much an International *Monetary* Fund (IMF) in the 1950s and 60s, to a strong fiscal orientation (*"It's Mostly Fiscal"*) in the 70s and 80s, to a focus on financial sector aspects (*"It's Mostly Financial"*) in the 90s, and now to what one can describe as an Integrated *Macro* as well as *Macrocritical* Fund. Macrocritical in this context is everything that is not essentially macro, but that is *critical to the macro*. Key examples are climate, digitalization and inequality, three very important current topics. These are exactly the themes that this conference will be all about.

It was the Global Financial Crisis that stressed the need to strongly enhance the **macroprudential policy framework**. The NBR was a forerunner in implementing macroprudential measures well before the financial crisis. The role of macroprudential policy in preserving financial stability became even more relevant during the recent pandemic crisis, when monetary and fiscal policies stepped in to support the economy. It was macroprudential policies, through the available toolkit, taking the stage in monitoring and managing old and new vulnerabilities and risk taking.

Governor Isărescu mentioned his 2016 opening speech for the 10th edition of the seminar that "…when we study the European economic history from the last few centuries, we understand that the greatest enemy for both price and financial stability is war." Russia's unprovoked and illegal war in Ukraine disrupted the global economy and substantially increased financial stability risks. But nobody has greater merits in dealing with such risks than our fellow colleagues from the Constituency, the National Bank of Ukraine. I am happy to see them being here today.

Currently, risks emanating from the Russia's war, lower than expected growth rates, prolonged above-target inflation and higher for longer interest rates could potentially test the robustness and the efficiency of the macroprudential frameworks in place.

The recent pandemic crisis also resulted in increased adoption of **digitalization**, shielding the economies from larger disruptions, preserving jobs and increasing productivity. For example, in Romania, the percent of firms with a high and very high level of digitalization, almost doubled in 2022 relative to 2019[1]. Governments increasingly used technology to interact with the population[2]. Last but not least, faced the disruptions brought by the pandemic, consumers resorted more and more to digital solutions, with the

[1] The figures for Romania (EU) are 10.5% (25.3%) in 2019, 19.5% (32.4%) in 2022. Source: Eurostat, financial sector not included.
[2] E-government activities of individuals via websites for Romania (EU): 7.4% (44.3%) in 2019, 10.8% (47.4%) in 2022. Source: Eurostat.

percentage of individuals making internet purchases almost doubling in Romania in only a few years: from 14.6% in 2019 to 27.1% last year[3].

New technologies can have a significant impact on monetary and macro relationships and financial stability. Advances in data processing brought by AI or machine learning can have large beneficial effects for risk assessments in the financial industry. Digitalization can help in better channeling (financial) resources towards a greener economy and help during the transition period. In the end, it can have important benefits in terms of efficiency and profitability but can also result in risks to financial stability (cyber risks, new monopolies, procyclicality (over-investment), etc.).

Besides investments in digitalization, policies should create a framework that facilitates broad access to it, both at national and international level. At the EU level, ample resources are allocated through the Next Generation EU program for investment in highly digitalized sectors, public administration digitalization, and education and development of digital skills.

Inequality impacts our economic and financial systems. It can undermine support for reforms and become an impediment to growth and development. Higher inequality is usually associated with lower, less robust growth, with direct effects on financial stability.

Together with the World Bank we promote policies aimed at easing access to quality education and (financial) inclusion to reduce such negative effects. They are complementary in reducing financial stability risks. In this context, I welcome the financial education programs many of your banks have been implementing. Moreover, this responsibility should be a shared one with the private sector.

[3] Eurostat data. The same figures for EU were 49.0% in 2019 and 56.1% in 2022.

Last but not least, maybe the most important macrocritical development is that of **climate change**. With 2023 being on track to be the hottest year ever, addressing climate change is the only way forward. This is certainly an area that the Fund, together with the World Bank, is very much focused on, supporting consistent and coordinated efforts by policymakers trough targeted research and policy advice for “greener”, resilient growth.

Acting now and acting strong is of paramount importance if the targets set up in the Paris Climate Agreement are to be reached.

But risks are present. The transition might not be smooth or coordinated, given the interaction with factors such as the need for immediate energy security, higher energy prices and inflation. All these can have a potential negative (indirect) impact on financial stability. Incorporating aspects related to (the effects of) climate change (policies) in the early assessments of financial sector’s resilience, as well as in public debt sustainability analyses becomes crucial.

For EU countries, the resources are generous. Over the course of the 2021-2027 period, the EU is set to spend almost a third of its budget on climate-relevant objectives. This will substantially ease fiscal sustainability concerns. For emerging and developing economies with fiscal constraints, the IMF stands ready to help through its Resilience and Sustainability Trust (RST).

In summary, I think that in the following two days we will see again that financial stability is very much a developing topic and a moving target. New challenges and risks come up, and they must be addressed swiftly and appropriately. And central banks and international organizations are constantly further developing their analytical and empirical skills in these areas. This process will continue, and I look forward to our discussions on this in beautiful Sinaia.