SWIFT Business Forum Romania – 8th edition

25 Years of SWIFT in Romania

The Romanian Banking System 2020 Vision

Ladies and gentlemen,

Dear guests,

We are celebrating today a quarter of a century since the banking community from Romania connected to SWIFT, a fact which represents a milestone in the history of the Romanian financial industry *post* December 1989. One year ago, we celebrated 25 years since the setting up of the Romanian Association of Banks, an organization which embarked on a journey with a view to support in a transparent manner the activity of a sector vital for both the economy as well as for the people's welfare - the banking sector.

For quite a while now, the Romanian Association of Banks has been committed to an open and constructive dialogue with all the banking sector's stakeholders, with a view to represent the interests of its members, but also to identify the most sustainable public policy actions with direct impact upon Romania's economy, thus contributing to enhancing the welfare of Romanians.

We are convinced - the 26 years of activity stand as pledge of our experience - that, per se via real and objective debates, the best policy recommendations can be identified, policies that answer both the Romanian citizens' expectations, as well as the banking sector's stability and credibility criteria.

If, at European level, there are discussions now about the need to enhance the integration of the new EU 27 union and to mitigate the consequences of Brexit, internally, we could establish and commit to two possible objectives which could transform Romania's economy; these could be Romania's joining both the Organization for Economic Cooperation and Development and the euro monetary area. These two anchors are an additional guarantee to focus national policies on gaps recovery in relation to the European Union countries' averages.

We are here to look into the future, namely into the year 2020, but, in order to look into the future, first we must make sure that we start our journey after having learnt very well the lessons of the past. These days we also celebrate 10 years since Romania joined the EU family, a situation which helped us connect fast to all the changes taking place on more developed markets.

In the 10 years which elapsed since we joined the European Union, Romania has developed significantly from both an economic and social point of view. We should bear in mind that the GDP almost doubled during this period of time, although we experienced the worst economic and financial crisis, next to a sovereign debt crisis in Europe, in the last century. We have also significantly closed some gaps compared to EU averages – if we refer to the

GDP/capita against the Standard Purchasing Power, Romania is close to 60% of the EU28 average, compared to 43% in 2007.

I think that there is little doubt among the people with an intermediate level of economic literacy as regards the direct, proportionality link between more economic welfare on the one hand and a country's standard of living and its level of financial intermediation on the other hand.

This correlation is valid for all the countries in the world and this is even more obvious when it comes to the European Union Member States, countries we compare with. When the European Union defines its strategic objectives for the Europe 2020 plan, it usually mentions three priorities, namely to become a **smart and sustainable** e**conomy favourable to inclusion.** At its turn, Romania should carefully decide its pace and define its own "**flight schedule"**, so as to make progress regarding its economic convergence plan.

This "flight schedule" should envisage also a "flight path" - in other words, the optimization of the route so that we reach our objective at minimal costs - alongside the "flight altitude" - so that we reach our destination without major risks. This flight schedule should be thoroughly debated by our society for each economic sector while each institution has somehow a role in the optimal execution of this schedule.

Obviously, as we mentioned, in this convergence flight toward a new destination, i.e. toward more economic welfare – let's say $20,000/capita – the role of financial markets is not only critical but also essential.

In other words, without a smooth functioning of the financial markets, this plan cannot be successful.

And what does a smooth functioning of financial markets actually mean?

Essentially, nothing very complicated: these markets should carry out their financial intermediation mandate, i.e. to allocate capital with low risk between those who save and those who need capital, in order to develop; to enter new markets; or to enhance the living standard and education via consumption or via personal investments. But all these things should never forget the goal of enhancing financial inclusion.

Romania should resynchronize its economic cycle with its financing cycle that has had a moderate growth, so that, in the end, the enhancing of the production capacity and of the entrepreneurship outcome, of productivity in general, are able to generate the virtuous cycle of multiplication via credit.

We have to increase the financial intermediation from the lowest level in the European Union (29 %) to a level closer to our peer countries or at least to the level we had in 2008, i.e. 40% non-government credit as GDP percentage; the banking sector is ready from the point of view of its structural ratios to carry out this desideratum.

The directions where we could have a convergence advantage (that is to say our cruising speed becomes higher than the speed of the group we are chasing) would be precisely the ones where Romania ranks last in Europe now. The paradox is that, generally speaking, our opportunities may come from areas where one could say we have a problem today. And I will mention here but three fields: financial inclusion (only 62% in Romania compared to over 90% at European level), the digital agenda (we rank last in Europe based on the DESI index but we rank second in high speed connectivity) and financial literacy, where Romania ranks last in Europe 28 and where, with little effort, we could have special traction in sustainably enhancing financial intermediation.

Building the digital economy has been a constant concern at European level, and the banking community, represented by the Romanian Association of Banks, has been actively involved in adopting digital solutions for financial and banking services, being certain that this will generate numerous benefits for customers and for the entire financial and banking ecosystem for that matter.

Digitalization has all the premises to support the acceleration of the existing economy – productivity increases, cost cuts, a level playing field for all, financial inclusion fostered, the cut of the underground economy supported. These are but a few of the benefits of digitalization which would speed up the pace of closing the gaps between Romania and the other EU countries.

In this context, RAB's initiative to implement a banking sector strategy targeting this national interest - growing economic welfare - should be praised. The banking community's projects have as target to speed up the introduction of digital technologies in financial & banking services via the Platform for the Digital Agenda, to enhance the level of financial literacy via the Financial Literacy Platform and to integrate financial intermediation with a view to enhance the rate of accessing European funds, develop Public Private Partnerships and finance large investment projects.

It is but natural that banks be concerned with enhancing mainly SMEs capacity to be granted loans. The more resources an economy needs - consequently a higher level of financial intermediation can be generated - the higher the economic outcome on the overall can be.

As regards our industry, we can proudly state that the Romanian banking sector has gone through the global financial crisis without the Romanian state's bailing out any bank - as things happened in other 23 European Union Member States. Only 5 EU countries did not contribute with tax-payers' money from the state budget to bailing out banks and Romania is one of them. The losses inherent to this period - losses incurred by banks operating in Romania - were borne exclusively by the shareholders. During the eight years of crisis, the shareholders' equity contributions amounted to about €3.5 billion across the whole banking sector. Consequently, the Romanian banking sector can successfully carry out its mandate of the main financier of economic growth in the country.

Nowadays, the Romanian banking sector has strengthen its structural stability, being one of the best capitalized European banking sectors. In Romania, the banking sector has had a performance that can be assimilated to the concept of "best practice" at European level, due to the fast decrease of the NPL ratio in less than 3 years - from 23.7% to 8.2%. Our objective for this indicator is reaching the average European level of 6% by the end of 2017.

During this entire period, the banking sector has demonstrated its resilience to external and internal factors (including populist legal initiatives) and regained its profitability and amenity for investors.

With a high solvency level, we are certain that the banking sector will contribute decisively to enhancing the country's economic welfare via its capacity to support a robust growth of financial intermediation.

As regards an outlook, I am of the opinion that when it comes to the banking sector, the challenges which could occur pertain to the movements of interest rates - today at historically low levels – to the preparation for the IFRS9 implementation in 2018 and to the AQR test which could take place next year. And again, the outlook is related to trust, as the main characteristic of financial markets. We are all accountable for maintaining a climate of trust which, if affected, can turn instantly an opportunity into a risk, all the more that we have been concerned about financial stability - so much needed for the balance of the whole economy.