

NATIONAL
BANK OF
ROMANIA

Financial Stability Report

June 2025

Year X (XX), No. 18 (28)
New series

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NOTES

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National Bank of Romania
25 Lipscani Street, postal code 030031, Bucharest
Telephone: +4021/312 43 75; Fax: +4021/314 97 52
Website: <http://www.bnr.ro>

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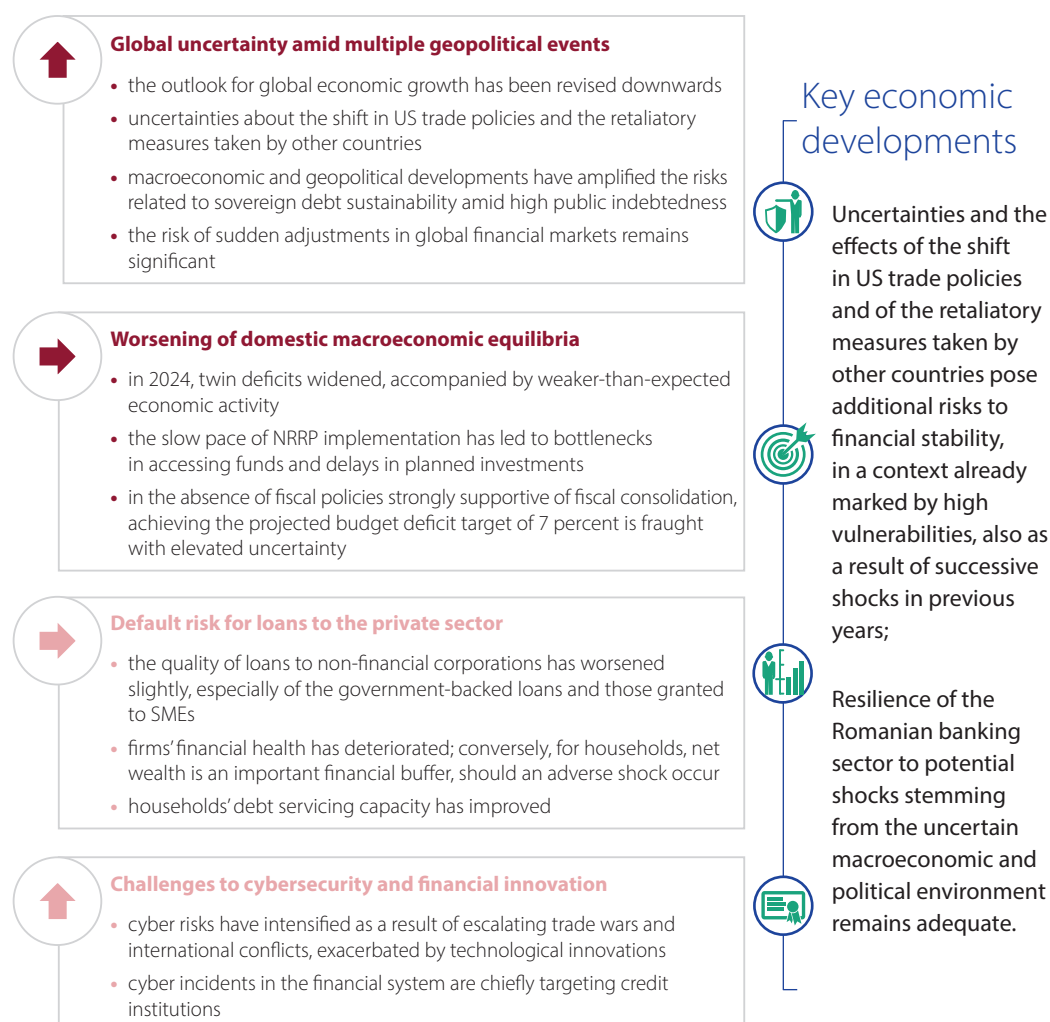
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OVERVIEW

Since the previous *Report*, the economic and financial environment has been marked by high uncertainty, which has fuelled and amplified systemic risks. On the domestic front, financial conditions have been affected by the electoral context, with significant implications for interest rates and the exchange rate. At global level, novel uncertainties caused by the reshaping of US trade policies have added to the already existing ones, stemming from armed conflicts and geopolitical tensions.

Figure 1. Map of risks to financial stability in Romania



Considering the complex geopolitical landscape, the main systemic risks to financial stability in Romania remain significant, similarly to those at European level. From a cyclical perspective, two severe risks and two moderate systemic risks have been identified. The severe risks are: (i) global uncertainty amid the multiple geopolitical events, which is seen increasing in the period ahead, and (ii) the worsening of domestic macroeconomic equilibria. The following two systemic risks were identified as moderate, namely: (i) default risk for loans to the private sector and (ii) challenges to cybersecurity and financial innovation, the outlook for the latter pointing to an intensification over the period ahead.

Global risks have increased since the previous *Report*. The direct and indirect effects arising from the expansion of trade protectionism, amid the shift in US trade policies and the retaliatory measures taken by other countries, pose additional risks to financial stability. The trade frictions come at a time of already relatively high vulnerabilities, also as a result of successive shocks in previous years and persistent geopolitical tensions, amid the protracted war in Ukraine and Middle East conflicts. These developments have considerably amplified the uncertainty surrounding economic policies, with the related indicators hitting all-time highs.

The outlook for global growth has been revised downwards and recent macroeconomic and geopolitical developments have increased the risks associated with sovereign debt sustainability, amid high public indebtedness worldwide. Investor sentiment was affected by heightened uncertainty about economic policies, which led to surging volatility in international financial markets, especially from April onwards. Looking ahead, the risk of sudden adjustments in global financial markets remains significant, as valuations are further high in some segments of equity and corporate bond markets. However, the financial system overall has remained resilient so far.

Domestic macroeconomic equilibria have continued to worsen since the previous *Report*. In 2024, economic activity lost significant momentum, below the previous expectations, as real GDP grew by 0.8 percent, the smallest increase in the last decade, except 2020, which was severely hit by the COVID-19 pandemic. Economic activity advanced at a sluggish pace in 2025 Q1 as well, standing 0.3 percent higher in annual terms¹, due to slowing consumption and a stronger negative contribution from net exports. The most recent forecasts² point to a gradual, weaker-than-previously-anticipated pick-up in economic activity to 2.8 percent in 2026, while for 2025 projections were revised downwards, to 1.6 percent from 3.3 percent.

The slowdown in economic growth was accompanied by a wider fiscal deficit, amid the sharp rise in public spending. The fiscal deficit-to-GDP ratio stood at 9.3 percent in 2024 (ESA 2010), the highest among EU Member States, at a considerable distance from the second-largest shortfall, i.e. 6.6 percent in Poland. The first four months of 2025 ended on a deficit of 2.95 percent of GDP (cash-based), 0.3 percentage points lower than in the same year-ago period³. In the absence of fiscal policy measures

¹ NIS Press Release No. 138/6 June 2025

² IMF, *World Economic Outlook*, April 2025

³ In April 2024, pensions were paid in advance for May 2024, which had a significant impact on the deficit over that period. Therefore, the reference to the adjusted deficit does not point to an improvement.

strongly supportive of fiscal consolidation, achieving the 7 percent budget deficit target projected in the *National Medium-Term Fiscal-Structural Plan* is fraught with elevated uncertainty, especially since, from a historical perspective, budget execution has steadily veered off from the medium-term objectives committed to in the budget planning documents.

Political instability coupled with worsening macroeconomic equilibria prompted the three major rating agencies to change their outlook on Romania's sovereign rating from 'stable' to 'negative' in late 2024 and early 2025. A downgrading of the country rating would put Romania in the 'junk' category, which could pose challenges to fiscal deficit financing. Risks are amplified by the rigid or permanent nature of a substantial part of public spending – such as public sector wages, pensions or other social transfers –, which reduces budget flexibility and the ability to swiftly adjust in the face of external shocks or higher financing costs. With government securities holdings already accounting for a significant share of assets of some institutional sectors such as banks or pension funds, continuing and extending the strategy of investor base diversification to other sectors is likely to mitigate the risks arising from the strong link between the public sector and certain components of the financial system.

In this context, stepping up the absorption rate of non-repayable EU funds should be a national priority. An efficient take-up of EU funds can significantly help strengthen Romania's economy via reforms and investments, raising its resilience and competitiveness, particularly in the present challenging domestic and global environment. However, the slow-paced implementation of the National Recovery and Resilience Plan (NRRP), marked by the non-fulfilment of the targets and milestones when due, led to delayed submission of payment requests and, hence, to bottlenecks in accessing funds as well as to the postponement of planned investments. Since the start of the programme in 2021 until June 2025, Romania received EUR 10.72 billion, of which EUR 4.32 billion in loans and EUR 6.4 billion in grants, accounting for a little over a third of the total allocation. Romania is among the economies with the least progress in implementing the NRRP, with a fulfilment rate of milestones and targets standing at 27 percent, below the EU average of 32 percent reported in June 2025. The poor track record of achievements over the four-year period and the deadline for the completion of all milestones and targets make it little likely that delays will be recovered within the remaining time frame. This scenario involves the loss of substantial EU funds and the failure to implement major reforms and investment plans that could underpin Romania's transition to a sustainable growth pattern.

Another macroeconomic risk factor is the worsening of Romania's external equilibrium, amid the negative contribution from the trade balance. On the one hand, behind the fall in exports stood the upsurge in unit labour costs, mirrored by the considerable gap between labour productivity and wage costs. On the other hand, the weaker economic environment in Romania's main trading partners dampened exports to these markets.

Private sector debt servicing capacity has seen mixed developments since the latest *Report*. On the one hand, the quality of loans to non-financial corporations worsened from the end of last year, after the non-performing loan (NPL) ratio hit an all-time low

of 3.7 percent in October 2024. In March 2025, the NPL ratio climbed to 4.4 percent, up 0.6 percentage points over the year before, the increase being more visible for the loans granted to SMEs. On the other hand, the quality of bank loans to households improved as from end-2024, with the non-performing loan ratio standing below 3 percent in March 2025 (down 0.3 percentage points compared to March 2024). Credit risk is higher for certain types of loans, namely government-backed loans to firms (their NPL ratio was 5.3 percent in March 2025, up 2 percentage points over the year before, and they accounted for 21 percent of non-performing loans), exposures to the commercial real estate market (NPL ratio of 5.1 percent in March 2025, up 0.3 percentage points against March 2024), loans to SMEs (NPL ratio of 5.2 percent versus 2.8 percent for large companies), and consumer credit, including credit cards and overdrafts, to households (NPL ratio of 5 percent compared to 1.6 percent for housing loans).

Government guarantee programmes remain a significant component of the stock of loans to non-financial corporations, accounting for 17.5 percent of the loan stock at end-March 2025. The credit risk associated with government-backed loans stayed on an uptrend in 2025 Q1 as well. The volume of non-performing loans expanded by 60 percent and the NPL ratio exceeded that of non-financial corporations as a whole. For a more efficient allocation of government resources to strategic areas, a working group was set up within the NCMO to identify possible measures that would render a better target to government guarantee programmes. The working group's activity is structured on three main pillars: (i) drawing lessons from existing programmes, (ii) improving the allocation of government-backed loans to strategic sectors and (iii) identifying new solutions for credit guaranteeing. However, such initiatives should also be doubled by efforts undertaken by non-financial corporations. Raising firms' capitalisation and improving their payment discipline are measures that take pressure off government support programmes. Such positive developments provide an underpinning to both the private sector, by mitigating the risk of contagion and improving access to financing, and the public sector, by reducing the pressure on the public budget.

Another portfolio requiring close monitoring in the period ahead is that of foreign currency-denominated loans to non-financial corporations. This type of financing continued to rise (up 8 percent in annual terms, March 2025), with the share of these loans in banks' portfolio reaching 46 percent. Although this portfolio presently posts a better performance than that in domestic currency (NPL ratio of 3.4 percent versus 5.3 percent, March 2025), only a small share of these companies' exposures are naturally hedged against currency risk. Companies with foreign currency borrowings have lower returns on equity and assets, but also a lower level of indebtedness, amid a relatively similar current ratio (a measure of overall liquidity) and a higher capacity to collect receivables. Estimates on the probability of default of firms with foreign currency loans show a better repayment capacity over the period ahead compared to the entities with leu-denominated loans.

The outlook for households' and firms' repayment capacity is surrounded by uncertainty, fuelled by heightened geopolitical and trade tensions, which generate additional vulnerabilities to macroeconomic equilibria and the financial resilience of the real

sector. According to the baseline macroeconomic scenario, credit risk is seen rising for non-financial corporations in 2025, the average probability of default being estimated at 4.4 percent. Similarly, looking at household loans, the default rate one year ahead is forecasted to pick up from 0.2 percent in March 2025 to 0.23 percent in March 2026 for housing loans and from 2.94 percent to 3.1 percent for consumer credit over the same period.

The financial health of households and firms plays a key role in determining their ability to meet financial obligations. From this perspective, contrasting developments are manifest in the two segments.

On the one hand, households' net wealth surged during the past decade, providing a notable financial buffer to households, should an adverse shock occur. The stock of real estate assets doubled between 2014 and 2024, while households' financial assets nearly trebled over the same period. Nevertheless, polarisation is still significant. For instance, although approximately 68 percent of individuals over 15 years old hold a bank deposit, a small share of depositors (0.6 percent, or 84.4 thousand) hold 28 percent of total deposits (March 2025).

On the other hand, non-financial corporations' financial position deteriorated in 2024 H1, following the trend of the past two six-month rounds, yet it remains outside the risk area. The main challenges faced by companies in Romania since the previous *Report* have concerned the elevated costs, the availability of skilled workforce and high taxation. Financial discipline in the non-financial corporations sector worsened at all levels under review, hinting at weaker corporate resilience in a business environment characterised by lingering uncertainties and challenges. Overdue payments to non-banks posted a significant annual rise of 22 percent, which was driven chiefly by an upswing in overdue payments to suppliers, but also to the government. The period from April 2024 to March 2025 also saw an increase in the number of insolvent firms to 24.4 thousand (up 4.3 percent against the previous period), amid more newly insolvent companies than those exiting such proceedings. In addition, the number of major payment incidents went up approximately 1 percent April 2024 through March 2025 compared to the previous 12-month period, whereas total amounts involved soared by about 38 percent to lei 1.4 billion, owing largely to microenterprises.

In the present context, marked by digitalisation and ongoing geopolitical conflicts, cyber risks are becoming increasingly relevant. This climate is marked by pronounced global fragmentation and an increasing resort to cyberattacks as a tool in hybrid conflicts. While the total number of cyberattacks remains unknown, publicly available information hints at a significant expansion over the past decade, including a higher incidence of nation-state attacks⁴. At the same time, certain countries also turn to cybercrime groups to carry out such actions. Furthermore, the swift expansion of advanced technologies in use has entailed a significant reliance on digital infrastructures, exposing organisations (*inter alia* financial institutions) to a growing spectrum of cyber threats.

⁴ ENISA Threat Landscape 2024, Microsoft Digital Defense Report 2024

The main cyber risk trends Europe-wide are manifest in Romania as well. The most common incidents faced by local banks were DDoS and phishing attacks, with banks continuously investing in digital infrastructure to ensure they can cope with digitalisation challenges. Social engineering campaigns (such as phishing, smishing and vishing) have also become more prevalent recently, targeting individuals in particular. In this case, it is necessary to raise awareness of cyber risks among individuals by supplying as much accurate information as possible on the types of attacks frequently occurring in the present context. The National Bank of Romania also draws attention to fraud attempts on its behalf, stating that it would never require individuals to disclose information such as customer financial data or personal data, or to make bank transfers⁵.

With a view to reinforcing cyber risk awareness, the NBR performed in 2024 the first cyber stress test among credit institutions. In collaboration with national and international authorities, two scenarios were outlined (with different stress levels), together with a questionnaire addressed to banks. At individual level, assuming the materialisation of the tested scenarios, no significant operational vulnerabilities were identified, as banks were generally prepared to implement the necessary measures in these circumstances, such as the activation of business continuity plans and other cyber crisis management procedures. At the same time, banks have alternative channels of communication should the main channel become unavailable. Nevertheless, the analysis showed that certain more intense cyber incidents could considerably amplify withdrawals of banks' funding sources, particularly deposits from non-financial corporations (given that they are guaranteed in a lower proportion than those of households). Banks estimate average withdrawals of funding sources to be markedly above historical volatility over a full business cycle (2008-2024) in both scenarios involving a cyberattack.

Strengthening cyber protection should be a priority in the period ahead as well. In this vein, banks should regularly assess: (i) cyber risks that could affect their critical infrastructure, (ii) compliance with specific cyber incident reporting requirements, (iii) development of robust incident response and business continuity plans, and (iv) risk management of ICT third-party service providers. Moreover, the implementation of training programmes for employees is crucial to identify and respond effectively to security incidents, but also to ensure compliance with the numerous regulatory requirements in the field. Such a comprehensive approach may ensure long-term resilience of the financial system to cyber threats. Additionally, raising awareness and providing accurate information about cybersecurity threats on a continuous basis to the general public could significantly reduce the effects of cyber risk materialisation.

⁵ *Informare privind tentative de fraudă în numele BNR*

Banking sector

The Romanian banking sector's resilience to potential shocks stemming from the uncertainty-ridden macroeconomic and political environment remains adequate. The main financial soundness indicators are in the low-risk bucket in terms of solvency (total capital ratio: 24.9 percent, December 2024), liquidity (liquidity coverage ratio: 252.4 percent, March 2025, net stable funding ratio: 194.5 percent, March 2025), asset quality (NPL coverage by provisions: 66.1 percent, NPL ratio: 2.5 percent, March 2025) and profitability (ROE: 18.2 percent, ROA: 1.7 percent, March 2025). Profitability is further a key pillar for enhancing the resilience of the banking sector, although the specific indicators remain at levels significantly lower than those recorded in the real sector (ROA of non-financial corporations: 8 percent, June 2024), while the operational efficiency of banks decreased slightly (cost-to-income ratio: 51.4 percent, March 2025), due *inter alia* to the effects of the tax on bank assets and the rise in staff costs.

The results of the latest solvency stress test confirm the capital adequacy to risks, considering the capital surplus above the overall capital requirements and the good capacity to cover losses from the current operating profit. Resilience is supported by the conservative dividend distribution policy pursued over the past years, in line with the NBR recommendations.

Structural developments point to the growth of deposits from the real sector, with overnight deposits further holding a prevailing share, as well as to the increase in lending to the real sector, predominantly in domestic currency, but to a smaller extent than lending to the general government, which helped strengthen the link between the government and banking sectors. There are significant unused resources that could contribute to supporting loans to the real sector to a greater extent, as shown by the loan-to-deposit ratio (LTD⁶: 62.9 percent, March 2025).

For the period ahead, the main challenges to the banking sector include: (i) credit risk management, as a result of the uncertain macroeconomic environment and the structural imbalances, (ii) slowdown in the dynamics of operating income, with an impact on profitability, (iii) strong link with the government sector (direct exposures via loans granted and holdings of government securities accounted for 27 percent of assets, March 2025) and the potential rise in sovereign risk, (iv) increased relevance of cyber risk and the need for the precautionary management of such risks in the context of digital transition.

⁶ Loan-to-deposit ratio for households and non-financial corporations

Table 1. Risk indicators for the banking sector

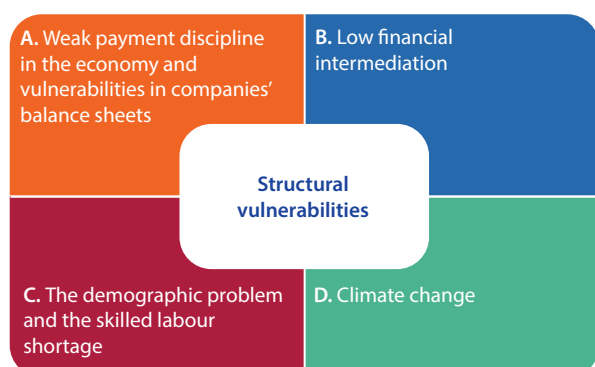
Risk indicators	EBA-defined prudential range	Romania								EU average	
		2018	2019	2020	2021	2022	2023	2024	Mar. 2025	Dec. 2024	
Solvency											
Tier 1 capital ratio	<div><div>>15%</div><div>[12%-15%]</div><div><12%</div></div>	18.64	20.05	23.22	20.86	20.48	20.66	22.15			17.5
CET1 capital ratio	<div><div>>14%</div><div>[11%-14%]</div><div><11%</div></div>	18.64	19.95	23.11	20.76	19.98	20.21	21.73			16.1
Total capital ratio		20.71	22.00	25.14	23.32	23.40	23.60	24.90			20.2
Asset quality											
Non-performing loan ratio	<div><div><3%</div><div>[3%-8%]</div><div>>8%</div></div>	4.96	4.09	3.83	3.35	2.65	2.37	2.48	2.53		1.9
Non-performing loan coverage by provisions	<div><div>>55%</div><div>[40%-55%]</div><div><40%</div></div>	58.51	60.75	63.31	66.10	65.55	64.61	66.00	66.08		41.2
Ratio of restructured loans and advances	<div><div><1.5%</div><div>[1.5%-4%]</div><div>>4%</div></div>	3.26	2.49	2.40	2.60	1.96	1.57	1.35	1.28		1.4
Profitability											
ROE	<div><div>>10%</div><div>[6%-10%]</div><div><6%</div></div>	14.59	12.21	8.66	13.28	16.40	20.13	18.44	18.21		10.5
Cost-to-income ratio	<div><div><50%</div><div>[50%-60%]</div><div>>60%</div></div>	53.17	54.32	53.84	53.92	52.11	47.64	50.82	51.38		53.8
Balance sheet											
Loan-to-deposit ratio for households and non-financial corporations	<div><div><100%</div><div>[100%-150%]</div><div>>150%</div></div>	71.89	69.48	63.61	63.96	65.66	61.00	62.44	62.88		104.9
Liquidity Coverage Ratio – LCR	<div><div>>140%</div><div>[110%-140%]</div><div><110%</div></div>	237.84	242.59	292.48	238.77	209.16	280.61	254.68	252.38		163.4
<div><div></div> best bucket</div> <div><div></div> intermediate bucket</div> <div><div></div> worst bucket</div>											
Source: NBR, EBA											

Structural vulnerabilities

Recent developments have heightened the structural vulnerabilities specific to Romania's economy, creating conditions for the increase in cyclical risks to financial stability, Figure 2.

A. Nearly a third (31 percent, 2023) of the firms operating in Romania have equity below the regulatory threshold, which triggers a series of other vulnerabilities, such as the limited access to finance and the low level of financial intermediation, as well as the weak payment discipline in the economy. In June 2024, 8.3 percent of companies had equity below the regulatory threshold as compared to 31 percent of the firms reporting at year-end. The recapitalisation needs of these companies are estimated

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



at approximately lei 35 billion, coming mainly from firms with domestic private capital (in terms of number) and foreign private capital (in terms of value), both categories witnessing increases over the past four half-yearly periods. The recapitalisation needs of the firms reporting in June 2024 accounted for roughly 24 percent of the recapitalisation needs of total firms at end-2023 (lei 147 billion).

At the end of 2024 H1, undercapitalised companies made a small contribution to the overall activity of non-financial corporations, generating 6 percent of the turnover, hiring 6.9 percent of the total number

of employees and accounting for 6 percent of total assets. However, they can exert a stronger impact through contagion effects at sector level, given that they hold 12 percent of non-financial corporations' debt.

These firms generated a third of the overdue payments to non-banks in June 2024, down by approximately 10 percentage points as compared to June 2023. Behind this evolution stood the adjustment of overdue payments to the general government budget, which dropped to half from the previous six-month period.

This practice, fuelled by the poor financial education of entrepreneurs and managers of firms, together with potential tax optimisation measures, reflects in a worsening of payment discipline, with multiple negative effects on the economy in both the short and the long run: increases in credit risk and insolvencies, slowdown in the economic activity amid the contraction in investment and production, as well as a negative impact on the public budget by affecting general government revenues. A better capitalisation of the firms experiencing such deficiencies could also help enhance their capacity to raise funds from external sources.

The average payables payment period rose gradually to 84 days (June 2024), showing firms' tendency to preserve liquidity by extending payment periods. This can also be the result of an increased market power of some companies. The inventory conversion period remained unchanged at 78-79 days, hinting at a standstill in logistical efficiency. At the same time, revenue collection slowed down, the receivables collection period increased to 82 days, well above the maximum period of 60 days established by Law No. 72/2013⁷. Overall, these developments led to the extension of the cash conversion cycle, which implies a longer period needed to turn invested resources into available liquidity, thus putting more pressure on cash flows and highlighting the need for measures to optimise the working capital. Despite trade debt risks, companies continue to rely heavily on this type of financing. The volume of trade debt grew by approximately 11 percent in June 2024, the related non-performing ratio (calculated as a share of overdue payments to suppliers in total trade debt) being 9 percent, i.e. twice as much as the non-performing ratio for bank loans.

⁷ Law No. 72/2013 on measures to combat late payment of obligations resulting from contracts concluded between professionals and between the latter and the contracting authorities

B. Romania still ranks last among EU Member States in terms of financial intermediation (49.8 percent in 2024 Q3, calculated as bank assets-to-GDP ratio), trailing significantly behind the next country in the indicator hierarchy (Lithuania: 86.5 percent) and the peer countries in the region (Czechia: 130.8 percent, Hungary: 105.7 percent, Bulgaria: 92.7 percent, Poland: 92.6 percent). A number of distinctive characteristics of Romania contribute to the persistence of this situation, namely: (i) firms' dependence on trade credit as a prevailing short-term funding source, with trade debt and deferred income accounting for a quarter of the assets of firms that submitted financial statements at mid-2024, whereas domestic loans from banks and NBFIs held only 9 percent, (ii) preference of a high number of large companies, particularly those with foreign capital, for external loans in foreign currency from foreign financial institutions, (iii) increased number of firms with capital shortfall or negative equity that have limited access to bank financing or (iv) cash-based financing of a significant part of real estate transactions to the detriment of bank loans (only 41 percent of real estate transactions conducted in January-March 2025 and 37 percent of those performed in 2024 were loan-financed⁸).

C. Demographic changes, especially population ageing and the decreasing birth rate, entail major effects on the labour market. In Romania, the ageing problem has worsened, with a number of 132.4 elderly per 100 young people in January 2025, up from 126.8 elderly persons a year ago. The mean age of the population grew by 0.4 years, to 42.9 years, versus January 2024. The narrower share of working-age persons leads to a shortage of skilled workers, with a detrimental impact on productivity, competitiveness and firms' capacity to expand. The demographic effects put upward pressure on pension expenditure, which is forecast to exceed 10 percent of GDP in the 2028-2054 period⁹, while contributions to the public pensions system are estimated to decline slightly, to around 5.5 percent of GDP in 2040, and to stay at this level until the end of the projection horizon (2070).

These developments call for tailored economic policies, such as incentivising labour market participation (particularly in the case of women, young people and the active elderly), reforming pension systems, investing in automation and digitalisation, as well as attracting labour from abroad.

Demographic developments compound both the labour and the skills shortage, the most significant disequilibria being recorded for high-skilled occupations, especially information and communication technologies (ICT), science and engineering specialists. Looking at elementary occupations, skill mismatches prevail for all occupational categories¹⁰.

D. Extreme weather events, such as heat waves, droughts or floods, count among increasingly frequent climate changes. Romania has seen longer and more frequent heat waves, as well as wider areas affected by drought. Most regions in the country have faced increases in the duration of heat waves ranging between 10 and 15 days,

⁸ The ratio of the number of new housing loans to the number of real estate transactions (number of dwellings), according to the National Agency for Cadastre and Land Registration (ANCP).

⁹ European Commission, 2024 Ageing Report, Romania – Country Fiche

¹⁰ Cedefop Labour and Skills Shortage Index

while the land surface affected by aridity, with significant effects on agriculture and food security, has expanded from 10.9 percent in the 1971-1980 period to 40.8 percent 2011 through 2020 and to 41.5 percent in recent years¹¹.

Against this background, increasing the efficiency of energy use and promoting renewable sources must be a priority, as the lack of action in addressing climate change represents a high-impact risk to the financial system and the economy alike. Climate-relevant (brown) non-financial corporations further have a significant contribution at national level. According to the mid-2024 financial statements, these firms generated 40.3 percent of gross value added at aggregate level, held 45.9 percent of total assets and hired 32.2 percent of total employees of non-financial corporations. The volume of bank credit to these companies stood at lei 85.2 billion at end-March 2025, accounting for 50.8 percent of the total portfolio of loans to non-financial corporations.

Green loans, used to finance environmentally friendly projects or investments, can play a major role in ensuring the green transition. Households have been showing higher awareness in this respect, with green loans accounting for 7 percent of the total bank loans to households, yet posting an annual pace of increase of 57 percent, to lei 12.8 billion (March 2025). With a similar annual growth rate (58 percent), but from a lower value, green loans to non-financial corporations hold 4 percent of total bank credit to firms (lei 8 billion, March 2025).

The sustainable increase in access to finance for projects on the climate change agenda has also been identified by the NCMO as having a major role in addressing the effects of climate change, and hence NCMO Recommendation No. R/6/2021 on supporting green finance was issued in 2021.

Special feature

The special feature of this *Report* examines the implications of the changes in global trade policies for financial stability. The reshaping of the US trade policy – considering the size and broad spectrum of the new customs tariffs, as well as the low degree of predictability regarding their evolution in the period ahead – calls for close scrutiny of the implications for exporting companies in Romania and for financial stability.

As far as Romania is concerned, the direct impact of these measures is estimated to be limited, given the low level of exports to the United States (2.5 percent of total exports in 2024, with the average for the past five years standing at around 2 percent). At a sectoral level, exporting companies operate primarily in industry, in sub-sectors such as: metallurgy, electrical equipment, rubber and plastic products, motor vehicles, and machinery and equipment. The impact on the other firms in the economy via the direct trade channel is estimated to be modest, even if these firms have a relatively high degree of integration. The importance of trade flows for suppliers is low, as the share of sales in turnover stands at a mere 1 percent (median value). From the perspective of financial stability, the financial sector exposure is

¹¹ Starea Climei România 2024 Report (Romanian only)

also low. Of the total portfolio of bank and NBFIs loans to non-financial corporations, only 0.3 percent is held by credit to firms with a sizeable volume of exports to the US (December 2024). Nevertheless, the high degree of concentration at both debtor and financial institution levels calls for closer monitoring, the quality of the portfolio being determined by the financial performance of a small number of firms, especially in the case of some NBFIs.

Unlike the implications via the direct trade channel, the indirect ones can be much more significant, through the exposures to other countries, following the pass-through of shocks by those countries' exporting firms onto their trade relations with companies in Romania. Germany is Romania's main trading partner, with Romanian exports to this country accounting for 20.5 percent of total exports in 2024. Next in line by the relevance of Romanian exports, yet with much smaller shares, are Italy (9.5 percent) and France (6.3 percent). Economic relations with Germany are also important in terms of capital flows, as this country generates the largest volume of foreign direct investment to Romania (14.5 percent in 2023). Under the circumstances, the US customs tariffs on EU-originating goods can trigger major adverse indirect effects following German firms' weaker demand for Romanian goods, both in the short run, through a decline in orders, and over the medium and long term, via an adjustment of business strategies for production and investment.

Looking at the firms exporting to Germany, around half are more vulnerable to a shock from the German market (903 of 1,853 firms), with receipts from the exporting activity vis-à-vis this country making up more than 10 percent of their turnover. These companies have a much lower capacity to redirect exports towards other destination markets, compared with firms exporting to the US. Effects on the economy can be more sizeable, but are estimated to remain manageable. Exporters to Germany have a relatively high degree of integration in the economy, in terms of number of trade relations and the importance of trade flows particularly for suppliers. The impact on the financial sector is estimated to be contained, however, given the small volume of loans taken by firms exposed to the shock of a drop in external demand from Germany. Only half of these firms have bank loans, while the volume of loans accounts for merely 3 percent of total credit to non-financial corporations.

1. INTERNATIONAL AND DOMESTIC ECONOMIC AND FINANCIAL ENVIRONMENT

Risks to financial stability at international level have increased since the previous *Report*. Uncertainties and the effects arising from the expansion of trade protectionism, amid the shift in US trade policies and the retaliatory measures taken by other countries, pose additional risks to financial stability, in a context already marked by relatively pronounced vulnerabilities, reflecting the cumulative impact of the successive shocks in prior years. The outlook for global growth has been revised downwards and recent macroeconomic and geopolitical developments have increased the risks associated with sovereign debt sustainability, amid high public indebtedness worldwide. Investor sentiment was visibly affected by heightened uncertainty about economic policies, which led to surging volatility in international financial markets, especially from April onwards. This climate of uncertainty has already led to the postponement of certain investment and consumption decisions, reflecting greater prudence among economic agents. Looking ahead, the risk of sudden adjustments in global financial markets remains significant, as valuations are further high in some segments of equity and corporate bond markets. However, the financial system overall has remained resilient so far.

Domestic macroeconomic equilibria have continued to worsen since the previous *Report*. In 2024, economic activity lost significant momentum, below the previous expectations, as real GDP grew by merely 0.8 percent¹², the smallest increase in the last decade, except 2020, which was severely hit by the COVID-19 pandemic. Subdued economic growth contributed to the widening of the budget deficit, but this was mainly driven by the sharp rise in public expenditure. According to the ESA 2010 methodology, the fiscal deficit reached 9.3 percent of GDP in 2024, the highest level in the European Union, at a considerable distance from the second-largest shortfall, i.e. 6.6 percent in Poland. The first four months of 2025 ended on a deficit of 2.95 percent of GDP (cash-based), 0.3 percentage points lower than in the same year-ago period. In the absence of fiscal policy measures strongly supportive of fiscal consolidation, achieving the 7 percent budget deficit target projected in the National Medium-Term Fiscal-Structural Plan is fraught with elevated uncertainty, especially since, from a historical perspective, budget execution has steadily veered off from the medium-term objectives committed to in the budget planning documents.

In this context, stepping up the absorption rate of non-repayable EU funds should be a national priority. An efficient take-up of EU funds can significantly help strengthen

¹² NIS Press Release No. 88/10 April 2025

Romania's economy via structural reforms and strategic investments, raising its resilience and competitiveness, particularly in the present challenging domestic and global environment. However, EU funds absorption features significant delays. Romania is among the economies with the least progress in implementing the NRRP, with a fulfilment rate of milestones and targets standing at 27 percent in June 2025, below the EU average of 32 percent¹³. The poor track record of achievements over the four-year period and the nearing deadline for the completion of all milestones and targets (August 2026) make it little likely that delays will be recovered within the remaining time frame. This scenario involves the loss of substantial EU funds and the failure to implement reforms and investment plans essential for Romania's transition to a sustainable growth pattern.

The subdued economic growth in 2024 was correlated with the worsening of Romania's external equilibrium, amid the negative contribution from the trade balance. On the one hand, behind the fall in exports stood the upsurge in unit labour costs, mirrored by the considerable gap between labour productivity and wage costs. On the other hand, the weaker economic environment in Romania's main trading partners dampened exports to these markets.

Private sector debt remained on an upward trend in 2025 Q1 (+7.6 percent), increasing at a faster pace than that in the year before (+6.1 percent). At end-March 2025, the debt volume amounted to lei 770.7 billion, accounting for around 43 percent of GDP (down by 0.8 percentage points against the same year-ago period, amid stronger GDP dynamics). Compared to the other EU Member States, Romania recorded one of the fastest growth rates of bank lending to the real sector in 2024, while still ranking last in the EU in terms of financial intermediation.

1.1. International economic and financial development

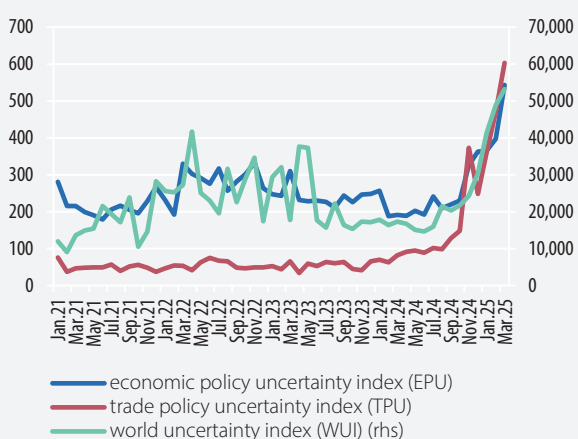
Risks to financial stability from external sources have intensified since the previous *Financial Stability Report*. The expansion of trade protectionism, mainly on the back of the shift in US trade policies and the retaliatory measures taken by other countries, creates the conditions for the emergence of additional risks to financial stability. The trade frictions come at a time of already relatively high uncertainties and vulnerabilities, also as a result of successive shocks in previous years and persistent geopolitical tensions, amid the protracted war in Ukraine and Middle East conflicts. These developments have considerably amplified the uncertainty surrounding economic policies (Chart 1.1), with the related indicators hitting all-time highs. The elevated level of uncertainty has significant implications for global economic activity, trade and capital flows, as well as for investor risk aversion, with effects also at regional level.

International financial markets have witnessed price corrections and higher volatility since the beginning of April, affecting equity, bond and foreign exchange markets alike. Nevertheless, financial stability is further robust and the international financial

¹³ Recovery and Resilience Scoreboard

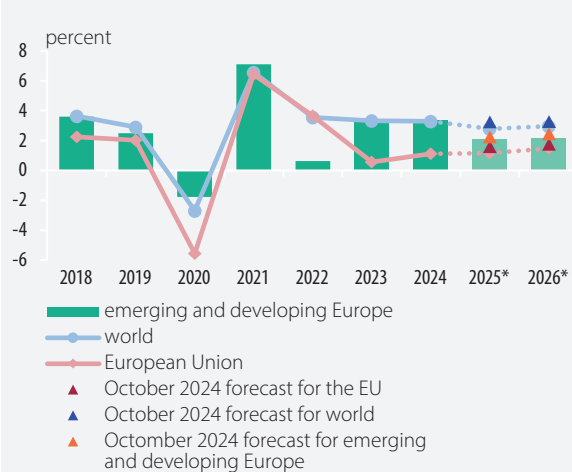
system has preserved its resilience to date. In this context, the IMF identifies three main vulnerabilities associated with global financial stability¹⁴: (i) the risk of additional price adjustments in global financial markets, as valuations are further high in some segments of equity and corporate bond markets, (ii) the elevated indebtedness of some non-bank financial institutions, likely to amplify volatility under financial stress, as well as their interconnections with the banking sector, bearing implications for the contagion risk, and (iii) the vulnerabilities related to sovereign debt sustainability, amid historically high levels of public debt and rising financing costs.

Chart 1.1. World uncertainty index and economic and trade policy uncertainty indices



Source: Ahir, Bloom & Furceri (2022); Baker, Bloom & Davis (2016); Caldara, Iacoviello, Molligo, Prestipino & Raffo (2019)

Chart 1.2. Economic growth worldwide, in the EU and in European emerging countries



Source: IMF, *World Economic Outlook*, April 2025

Uncertainties and the effects arising from the expansion of trade protectionism contributed to a worsened outlook for global economic growth (Chart 1.2). The IMF revised downwards its growth forecast for 2025¹⁵, both globally (by 0.5 percentage points in the baseline scenario compared to the January 2025 forecast) and for the US and the euro area (by 0.9 percentage points and 0.2 percentage points respectively, to 1.8 and 0.8 percent). At the same time, the high frequency and the magnitude of revisions to the growth outlook in this forecast round emphasize the increased uncertainty generated by the shift in trade policies. At EU level, the downward revision was relatively broad-based among Member States, and significant heterogeneity persisted among them in terms of economic growth prospects. In Central, Eastern and South-Eastern Europe (CESEE countries), the downward revision was sharper than in the euro area, mainly due to the greater importance of the manufacturing sector, which is relatively more exposed to changes in trade policies. The increase in public expenditure at European level, including in the context of the Readiness 2030 plan¹⁶ and the legislative changes in Germany, aimed at raising the fiscal deficit to accommodate higher defence and infrastructure spending,

¹⁴ IMF, *Global Financial Stability Report*, April 2025

¹⁵ IMF, *World Economic Outlook*, April 2025

¹⁶ See European Commission, *White Paper for European Defence – Readiness 2030*.

is expected to have a positive impact on economic growth in the EU over the coming years¹⁷.

The recent macroeconomic and geopolitical developments are likely to amplify risks to sovereign debt sustainability, against a background where public indebtedness is at historically high levels, also as a result of the extended support measures implemented in response to the successive shocks in previous years. At end-2024, the public debt-to-GDP ratio worldwide rose by 1 percentage point versus end-2023, reaching 92.3 percent, amid persistently large fiscal deficits, partly driven by increased interest expenditure (Chart 1.4), and the lingering effects of post-pandemic fiscal measures¹⁸. At OECD level, the interest expenditure as a share of GDP climbed to 3.3 percent at end-2024, surpassing, for instance, government defence spending¹⁹. Looking ahead, these pressures are expected to persist, as around 45 percent of OECD countries' sovereign debt is set to mature by 2027. Given that a significant part of this debt was issued at relatively low fixed interest rates, these dynamics amplify the public debt refinancing needs under tighter market conditions²⁰.

Government bond yields in major developed economies witnessed a series of relatively large swings during the analysed period. For the US and Germany, long-term (10Y) government bond yields continued to increase in the first part of the period under review (December 2024 – January 2025); these developments were also influenced by the rise in term risk premia²¹. Subsequently, starting mid-January, these yields recorded downward corrections in a context marked by higher volatility, especially since the beginning of April, driven by the escalating trade protectionism measures and the associated uncertainties. This is particularly relevant given that the dynamics of US government bond yields have recently exerted a greater influence on sovereign financing costs in other advanced economies²². Long-term government bond yields in major European economies saw notable upward adjustments in early March – amid announcements regarding fiscal policy changes in Germany aimed at increasing defence and infrastructure spending. These increases were subsequently reversed in March and April, also against the background of rising investor risk aversion and flight-to-safety flows triggered by escalating global trade tensions. As short-term (2Y) government bond yields further followed a downward path, reflecting *inter alia* the ongoing monetary policy easing cycle pursued by the Fed and the ECB²³, the yield curve continued to steepen its positive slope in both the US and major European economies (Chart 1.3).

¹⁷ For further details, see European Commission, *European Economic Forecast, Spring 2025*, Special Issue 3, "The economic impact of higher defence spending", and Box 1.4.1, "The potential economic impact of the reform of Germany's fiscal framework".

¹⁸ IMF, *Fiscal Monitor*, April 2025

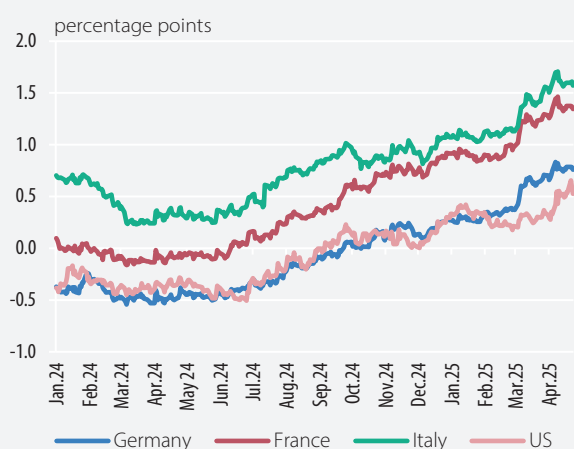
¹⁹ OECD, *Global Debt Report*, March 2025

²⁰ For a broader discussion, see OECD, *Global Debt Report*, March 2025.

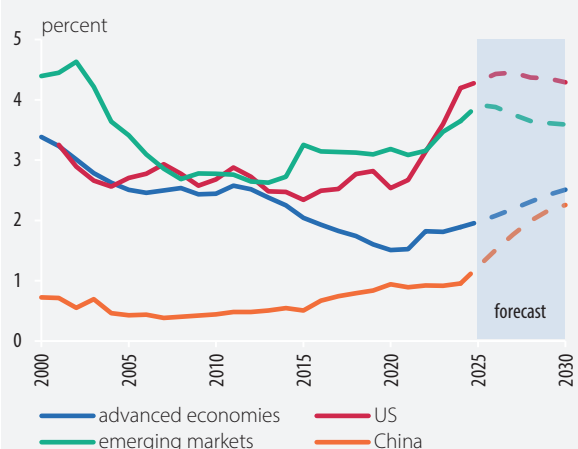
²¹ Reflecting the additional compensation requested by investors for making long-term investments to the detriment of rolling over short-term instruments. For a broader discussion, see *BIS Quarterly Review*, March 2025.

²² For a broader discussion, see *BIS Quarterly Review*, March 2025, Box A.

²³ Since the release of the previous *Report*, the Fed cut the policy rate by 25 basis points at its December meeting, and then kept it unchanged at its January, March and May meetings. In parallel, the European Central Bank implemented successive policy rate cuts of 25 basis points each at its December, January, March and April meetings.

Chart 1.3. Spread between yields on 2Y and 10Y government bonds issued by the US and the major EU economies

Source: Refinitiv, NBR calculations

Chart 1.4. General government interest expenditure as a share of GDPSource: IMF, *Fiscal Monitor*, April 2025

Over the short term, the volatility of government bond markets is expected to remain high, given the persistence of fiscal deficits in major global economies and the considerable uncertainty about the future direction of fiscal policies – factors that continue to fuel tensions regarding sovereign risk perception. These developments overlap the gradual reduction in asset holdings by major central banks, leading to a gradual shift in the investor base for government bonds, with potential implications regarding term risk premia and yield volatility²⁴. In the US, volatility could also be amplified by a potential reversal of sizeable positions held by some highly leveraged financial institutions, mainly hedge funds, involving purchases of government bonds and the short sale of futures contracts on the same bonds (Treasury basis trade)²⁵. In the event of abrupt price corrections, forced selling of government bonds could enhance volatility, as evidenced, for instance, by the developments in March 2020²⁶.

At the same time, potential abrupt price corrections in government bond markets may also have implications for the banking sector, especially in economies where credit institutions hold significant volumes of sovereign bonds. At European level, the sovereign-bank nexus became more pronounced, as EU banks' sovereign exposures increased by more than 3 percent from the previous quarter, reaching EUR 3.64 trillion at end-2024²⁷. The European banking sector continued to be resilient, based on strong capital and liquidity positions, also against the background of recent high profitability. The quality of the loan portfolio remained stable in 2024 Q4, with the non-performing loan ratio declining broadly across lending segments, except for commercial real estate (CRE) loans whose NPL ratio rose marginally compared to the prior quarter.

²⁴ See IMF, *Global Financial Stability Report*, April 2025 and OECD, *Global Debt Report*, March 2025.

²⁵ IMF, *Global Financial Stability Report*, April 2025

²⁶ See, for instance, Schrimpf A., Shin, H. S., and Sushko, V., "Leverage and margin spirals in fixed income markets during the Covid-19 crisis", BIS Bulletin No. 2, 2020 or Banegas, A., Monin P. J., and Petrasek L., "Sizing hedge funds' Treasury market activities and holdings", FEDS Notes, 2021.

²⁷ EBA Risk Dashboard, 2024 Q4

In the first part of the period under review (December 2024 – February 2025) investor sentiment remained generally positive, supporting the valuations of higher-risk assets in international financial markets, including equity and corporate bonds. European equity markets outperformed their US counterparts during this period, supported also by a risk premium compression²⁸. Moreover, the interest rate differential between corporate and government bond yields continued to narrow in the EU during this period, both in the high-yield and investment-grade segments. Subsequently, starting in early April after the announcement of the new measures on expanding trade protectionism, the prices of higher-risk assets witnessed relatively steep downward adjustments and heightened volatility, partially reversed in the next period. Against this background, the risk of further price corrections in international financial markets remains high, as there are signs of potential overvaluations in certain segments of the equity and corporate bond markets²⁹.

1.2. Domestic macroeconomic developments

Domestic macroeconomic equilibria have continued to worsen since the previous *Report*. In 2024, economic activity lost significant momentum, below the previous expectations, as real GDP grew by merely 0.8 percent³⁰ (Chart 1.5), the smallest increase in the last decade, except 2020, which was severely hit by the COVID-19 pandemic. Household consumption and the change in inventories made positive contributions to GDP growth of +3.8 percentage points and +0.8 percentage points respectively, yet these were almost entirely offset by the negative contributions of net exports and investment, i.e. -2.9 percentage points and -0.9 percentage points, respectively. Economic activity advanced at a sluggish pace in 2025 Q1 as well, standing only 0.3 percent higher in annual terms³¹, due to slowing consumption and a stronger negative contribution from net exports. The most recent forecasts³² point to a gradual, weaker-than-previously anticipated pick-up in economic activity to 2.8 percent in 2026, while for 2025 projections were revised downwards, to 1.6 percent from 3.3 percent.

The slowdown in economic growth was accompanied by a wider fiscal deficit (Chart 1.6), amid the sharp rise in public spending. The fiscal deficit-to-GDP ratio stood at 9.3 percent in 2024 (ESA 2010), the highest among EU Member States, at a considerable distance from the second-largest shortfall, i.e. 6.6 percent in Poland. The general government deficit-to-GDP ratio exceeded the 3 percent threshold set by the Stability and Growth Pact in terms of both EU and euro area averages (-3.2 percent and -3.1 percent of GDP, respectively), as well as in 12 out of 27 EU Member States, with Romania being subject to the excessive deficit procedure since before the outbreak of the COVID-19 pandemic.

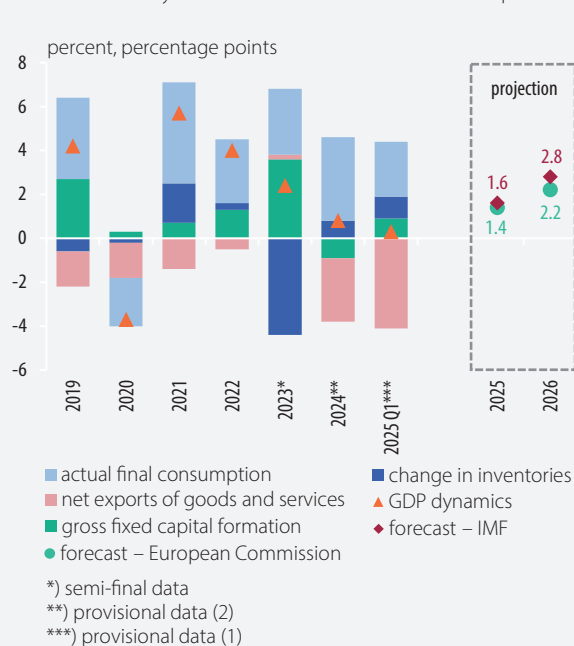
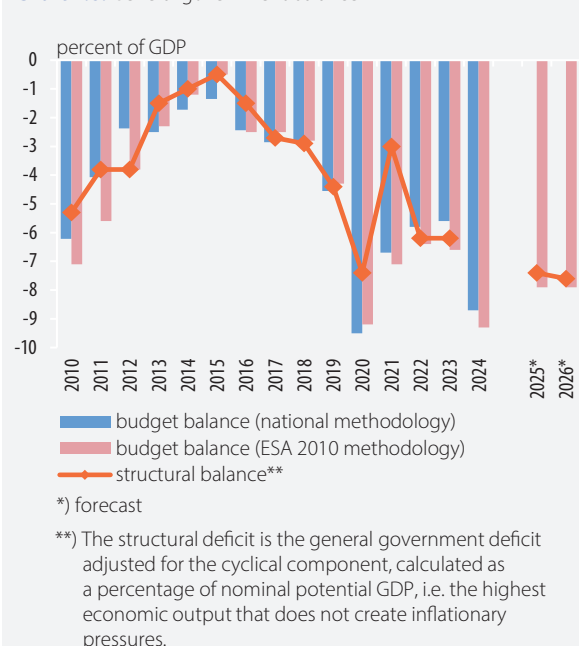
²⁸ See *BIS Quarterly Review*, March 2025, Box B.

²⁹ IMF, *Global Financial Stability Report*, April 2024

³⁰ NIS Press Release No. 88/10 April 2025

³¹ NIS Press Release No. 138/6 June 2025

³² IMF, *World Economic Outlook*, April 2025

Chart 1.5. GDP dynamics and the contribution of its componentsSource: NIS, European Commission, IMF³³**Chart 1.6.** General government balance

Source: MF, European Commission

The first four months of 2025 ended on a deficit of 2.95 percent of GDP (cash-based), 0.3 percentage points lower than in the same year-ago period³⁴. In the absence of fiscal policy measures strongly supportive of fiscal consolidation, achieving the 7 percent budget deficit target projected in the National Medium-Term Fiscal-Structural Plan³⁵ is fraught with elevated uncertainty, especially since, from a historical perspective, budget execution has steadily veered off from the medium-term objectives committed to in the budget planning documents³⁶.

In this context, stepping up the absorption rate of non-repayable EU funds should be a national priority. An efficient take-up of EU funds can significantly help strengthen Romania's economy via reforms and investments, raising its resilience and competitiveness, especially in the present challenging domestic and global environment. However, EU funds absorption features significant delays. Specifically, the absorption rate for programmes financed under the 2021-2027 EU Cohesion Policy stood at 10.5 percent at end-May 2025³⁷ (pre-financing and interim payments), broadly in line with regional peers (Bulgaria 9.8 percent, Hungary 9.1 percent), except for Czechia, which recorded a notable lead (17.2 percent), and well below the levels seen in the Nordic countries, which top the ranking from this perspective (Denmark 19.3 percent, Finland 19 percent, the Netherlands 18 percent).

³³ European Commission Spring 2025 Forecast; IMF forecast, April 2025

³⁴ In April 2024, pensions were paid in advance for May 2024, which had a significant impact on the deficit over that period. Therefore, the reference to the adjusted deficit does not point to an improvement.

³⁵ <https://mfinante.gov.ro/static/10/Mfp/buletin/Nationalmedium-termfiscal-structuralplanRO.pdf>

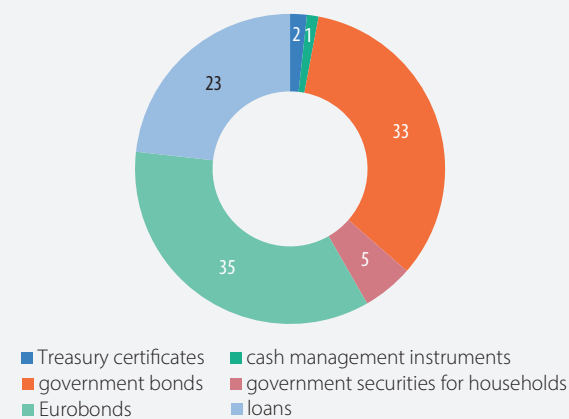
³⁶ Romanian Fiscal Council, Notă privind Planul bugetar-structural pe termen mediu (Note on the Medium-Term Fiscal-Structural Plan)

³⁷ Cohesion Open Data Platform

In addition, Romania benefits from substantial allocations of funds under the Recovery and Resilience Facility amounting to EUR 28.5 billion in grants and loans at favourable conditions. However, the slow-paced implementation of the National Recovery and Resilience Plan (NRRP), marked by the non-fulfilment of the targets and milestones when due, led to delayed submission of payment requests and, hence, to bottlenecks in accessing funds as well as to the postponement of planned investments. Since the start of the programme in 2021 until June 2025, Romania received EUR 10.72 billion, of which EUR 4.32 billion in loans and EUR 6.4 billion in grants, accounting for a little over a third of the total allocation. Romania is among the economies with the least progress in implementing the NRRP, with a fulfilment rate of milestones and targets standing at 27 percent, below the EU average of 32 percent reported in June 2025³⁸. The poor track record of achievements over the four-year period and the deadline for the completion of all milestones and targets make it little likely that delays will be recovered within the remaining time frame. This scenario involves the loss of substantial EU funds and the failure to implement major reforms and investment plans that could underpin Romania's transition to a sustainable growth pattern. The impact of these reforms, which spans from the speed-up in green and digital transition to the upgrade in infrastructure, the restructuring of the economy and increased competitiveness, would also make a substantial contribution to mitigating or, as the case may be, even fully offsetting the contractionary effects of fiscal consolidation.

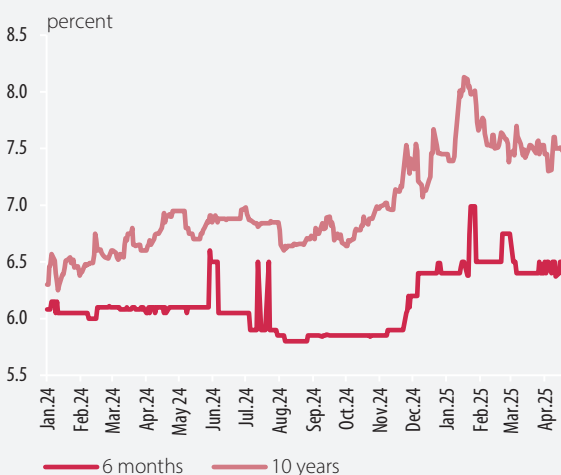
Chart 1.7. Composition of government debt by instrument (February 2025)

percent



Source: MF, NBR calculations

Chart 1.8. Yields on 6-month and 10-year government securities

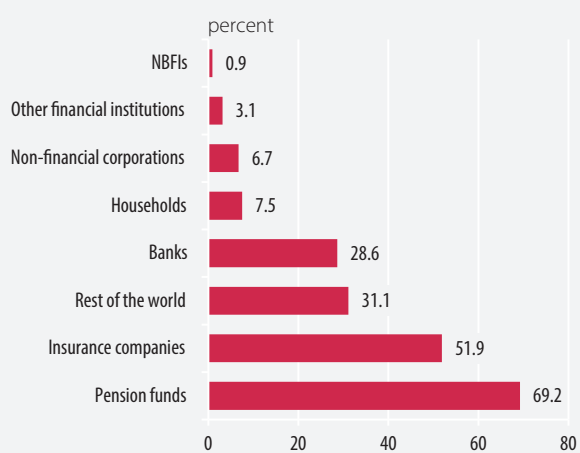


Source: Refinitiv

The profile of the sovereign debt deteriorated during 2024, its share increasing to 54.8 percent of GDP from below 49 percent of GDP in 2023 (+5.9 percentage points), yet remaining below the 60 percent reference value. The Romanian government mostly raises funds through bond issuance (Chart 1.7), relatively evenly split between the domestic and international markets (of total debt, 33 percent was issued on the domestic market and 35 percent on the external market, February 2025). Households increased their contribution to government financing on the back of government

³⁸ Recovery and Resilience Scoreboard

Chart 1.9. Claims on the government sector as a share of total claims of the institutional sector

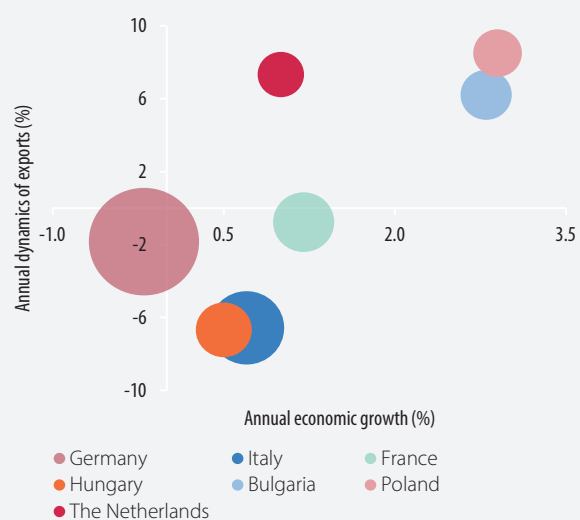


Source: NBR

securities issues under the “Fidelis” and “Tezaur” programmes at attractive yields, accounting for approximately 5 percent of government debt (from 2.5 percent in 2021). The breakdown by currency shows that 37 percent of the government debt is denominated in EUR, 9 percent in USD and 0.2 percent in JPY. Among non-euro area EU Member States, Romania posts the highest amount of foreign currency-denominated debt securities issues (USD equivalent 70.6 billion versus USD equivalent 45.7 billion in Poland and USD equivalent 33.8 billion in Hungary, data as at 2024 Q2)³⁹.

With government securities holdings already accounting for a significant share of assets of some institutional sectors such as banks or pension funds, continuing and extending the strategy of investor base diversification to other sectors is likely to mitigate the risks arising from the stronger link between the public sector and certain components of the financial system (Chart 1.9).

Chart 1.10. Relationship between the value of exports to Romania's main trading partners and their economic growth (2024)



Note: The size of the bubble depends on the total value of Romania's exports to the said country.

Source: Eurostat, NBR calculations

Political uncertainty on the domestic front in 2024 had a significant impact on the yield curve of long-term government securities. Although the yield on 10-year government bonds remained relatively stable throughout most of 2024, once with the tensions arising from the presidential elections at end-2024, its volatility and level increased considerably (Chart 1.8). Political instability coupled with worsening macroeconomic equilibria prompted the three major rating agencies to change their outlook on Romania's sovereign rating from 'stable' to 'negative' in late 2024 and early 2025. A downgrading of the country rating would put Romania in the 'junk' category, which would cause major difficulties with respect to the access to public debt financing and refinancing. Risks are amplified by the rigid or

permanent nature of a substantial part of public spending – such as public sector wages, pensions or other social transfers –, which reduces budget flexibility and the ability to swiftly adjust in the face of external shocks or higher financing costs.

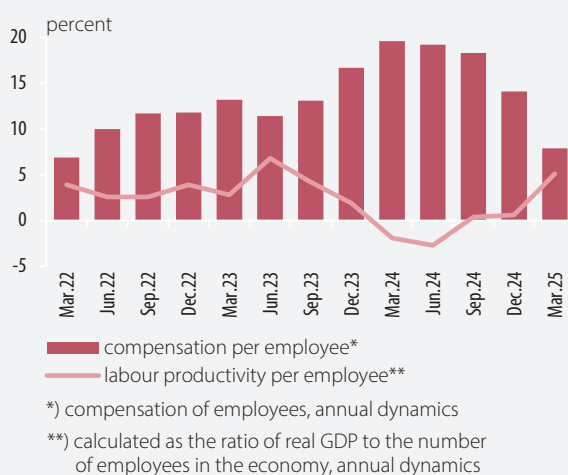
Another macroeconomic risk factor is the worsening of Romania's external equilibrium, amid the negative contribution from the trade balance. On the one hand, behind the fall in exports stood the upsurge in unit labour costs, mirrored by the considerable gap between labour productivity and wage costs (Chart 1.11). On the

³⁹ BIS, Central and general government debt securities, by currency

other hand, the weaker economic environment in Romania's main trading partners dampened exports to these markets. Particularly Germany, which accounts for over 20 percent of Romania's exports, witnessed a 0.2 percent contraction in economic activity in 2024 (Chart 1.10). In addition, imports were boosted by the advance in household consumption, fuelled by the swift growth of household disposable income. In this context, in 2024 the current account deficit stood at 8.4 percent of GDP, being the highest among EU Member States and having widened by 1.8 percentage points versus the previous year.

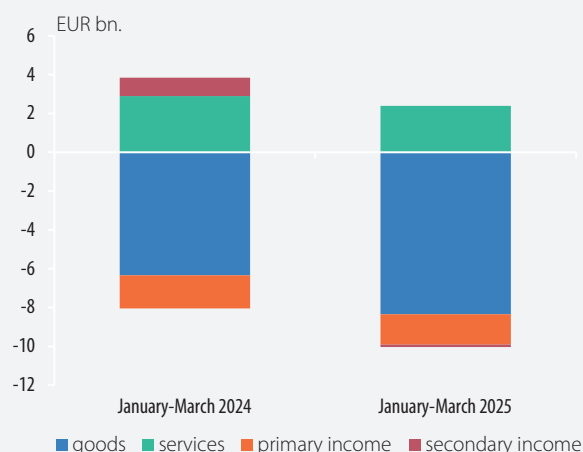
In 2025 Q1, the current account deficit rose to EUR 7.7 billion, standing 1.8 times higher than in the same year-earlier period (Chart 1.12). The deficit on trade in goods and services (EUR 5.9 billion, +72 percent in annual terms), particularly the goods deficit (EUR 8.3 billion, +31 percent in annual terms), had the strongest negative impact on the current account deficit. This was only partly offset by the surplus on trade in services (EUR 2.4 billion, -17 percent in annual terms). In the period under review, international reserves covered 5.7 months of imports of goods and services, down slightly from 6.1 months in the same year-ago period.

Chart 1.11. Labour competitiveness



Source: Eurostat, NBR calculations

Chart 1.12. Balance of payments current account by main components



Source: NBR

With a view to addressing the vulnerabilities triggered by the twin deficits, the European Commission recommends that Romania⁴⁰ take the necessary action in 2025 and 2026 to: (i) considerably tighten fiscal policy to comply with the excessive deficit correction path and bolster the external position, (ii) urgently accelerate the implementation of the recovery and resilience plan and make optimal use of EU instruments, (iii) improve the quality and effectiveness of public administration and the predictability of decision-making, (iv) reduce the reliance on fossil fuels by speeding up the roll-out of renewable energy and concurrently wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, (v) strengthen labour market participation of women and

⁴⁰ Recommendation for a COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Romania

young people through improving effectiveness of active labour market policies and participation in early childhood education and care and (vi) reduce poverty and social exclusion risks by extending social protection and improving its effectiveness.

1.3. Non-financial sector indebtedness

Romania's economy has been in the downward phase of the debt cycle since the pandemic period (Chart 1.13).

Chart 1.13. The debt cycle⁴¹

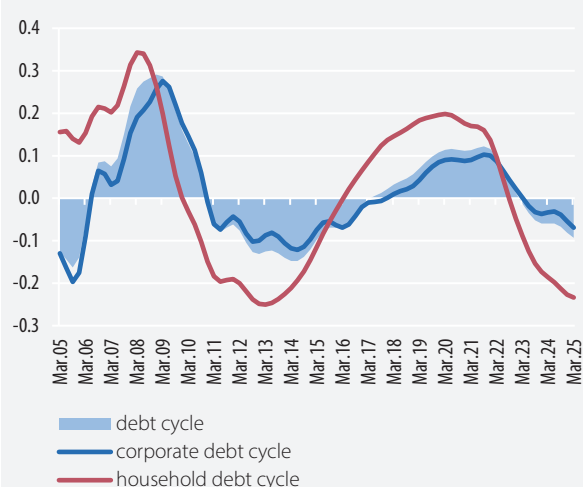
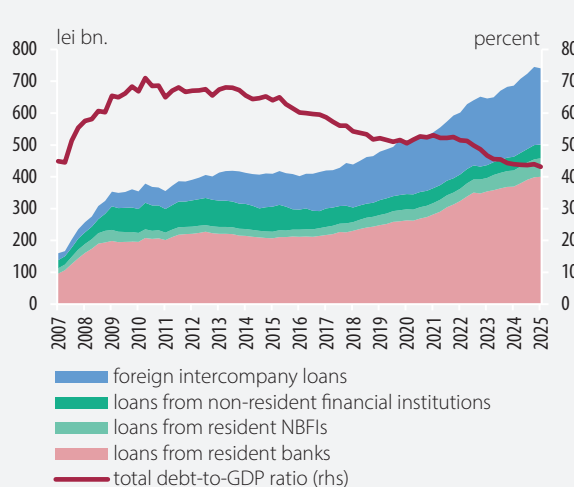


Chart 1.14. Corporate and household debt



Private sector debt remained on an upward trend in March 2025 (+ 7.6 percent versus March 2024), increasing at a faster pace than that in the previous period (+ 6.1 percent). At end-2025 Q1, the debt volume reached lei 770.7 billion, accounting for approximately 43 percent of GDP, down by 0.8 percentage points against the same year-ago period (Chart 1.14). Loans from non-residents rose by 6 percent, the breakdown showing that their dynamics were supported by loans from parent companies, with an increase of 7.3 percent, while external loans from financial institutions declined by 1.2 percent. On the domestic front, loans from local financial institutions, accounting for 63.4 percent of total private sector debt, also picked up, both in the banking segment and in that of non-bank financial institutions (NBFIs), by 8.3 percent and 13.3 percent respectively.

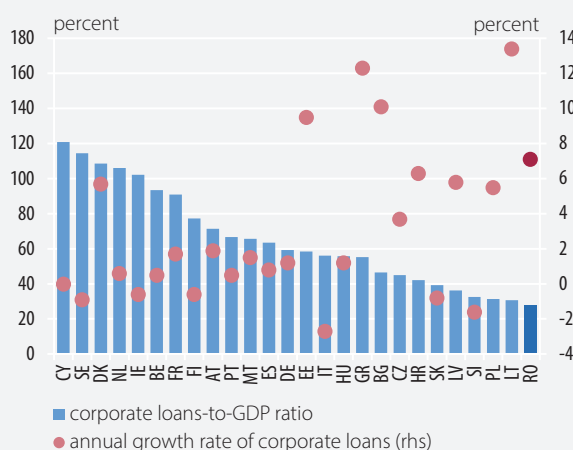
The analysis by sector shows that non-financial corporations as well as households saw their debt increase at a brisk pace. Non-financial corporate debt picked up by 7.1 percent to lei 550.7 billion, i.e. 30.8 percent of GDP, while household debt rose by 9 percent to lei 217.7 billion, i.e. 12.3 percent of GDP. Loans from credit institutions make up around 38 percent of non-financial corporations' debt, while intercompany loans account for 43.5 percent of total, similarly to previous periods. Unlike the

⁴¹ The cycle is calculated using the Christiano-Fitzgerald filter assuming the length of the cycle is 14 years.

corporate sector, households take out primarily bank loans (87.7 percent), with NBFI credit making a modest contribution (only 5.8 percent).

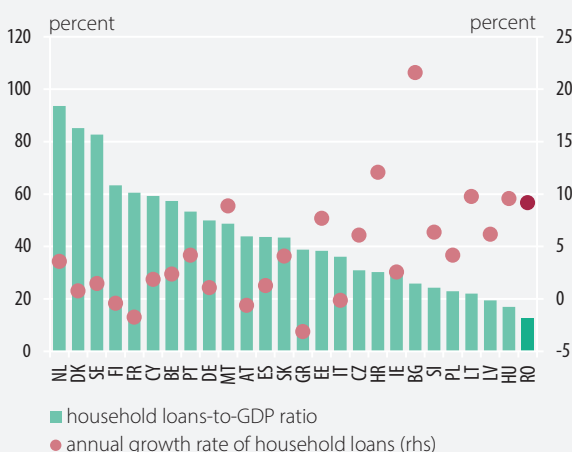
Compared to the other EU Member States, Romania recorded one of the fastest growth rates of bank lending to the real sector in 2024, while still ranking last in the EU in terms of financial intermediation. Specifically, Romania ranks fifth in terms of growth rate, behind Bulgaria, Croatia, Lithuania and Hungary, for both households and non-financial corporations, with increases of 9.2 percent and 10 percent, respectively (Chart 1.15 and Chart 1.16). This uptrend was driven by rising loan demand, bolstered by the continued implementation of government guarantee programmes (albeit to a lesser extent than in 2023) and by the higher household disposable income.

Chart 1.15. Credit to non-financial corporations in the EU: growth rate and share in GDP



Source: ECB

Chart 1.16. Credit to households in the EU: growth rate and share in GDP

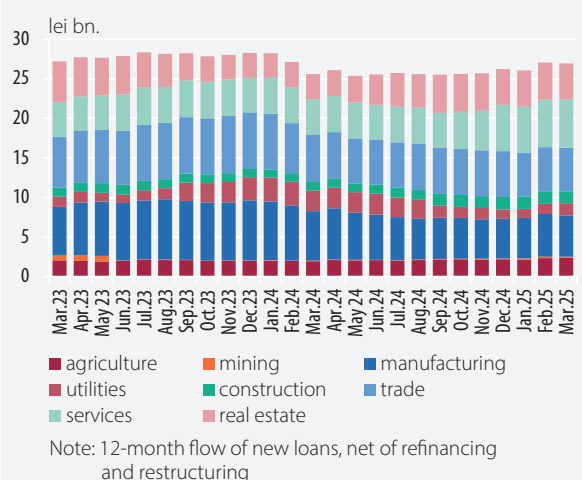


Source: ECB

The low financial intermediation is a major concern, due to the potential implications of credit growth for financial stability. In 2022, the National Committee for Macroprudential Oversight (NCMO)⁴² set up a working group to identify and analyse the main factors hindering the sustainable increase in financial intermediation in Romania. The proposed measures include supporting the structural transition of the economy to a higher value-added one, *inter alia* by using European funds more extensively; improving entrepreneurs' financial education and enhancing the professional training of staff in the financial sector; and sustainably diversifying the sources that could contribute to the increase in financial intermediation.

The 12-month flow of new loans to non-financial corporations followed an upward path in 2025 Q1, while the flow of housing and consumer loans to households levelled off after a series of successive increases. Most new loans taken out by non-financial corporations were primarily channelled towards services, trade and manufacturing (22.5 percent, 20.5 percent and 19.4 percent, respectively), with

⁴² NCMO Recommendation No. R/3/2022

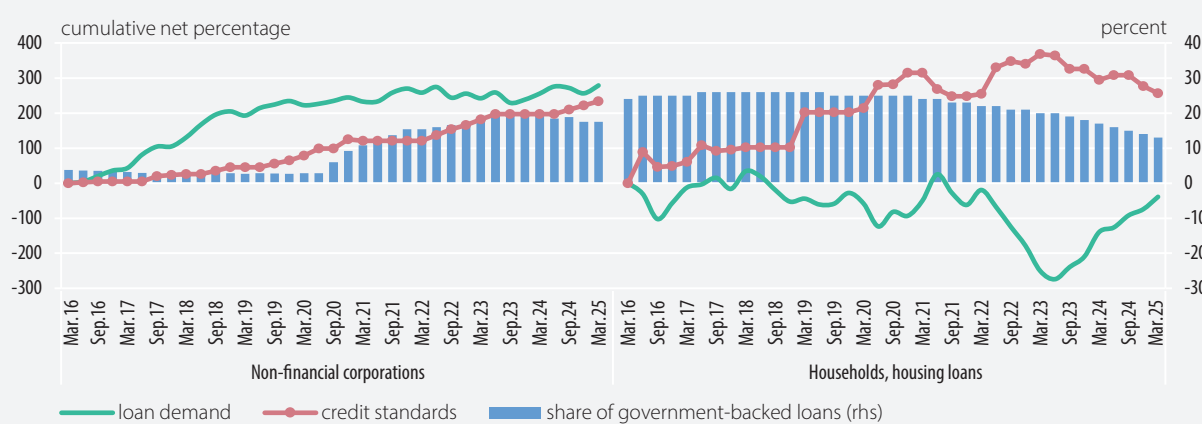
Chart 1.17. New loans to non-financial corporations by sector

Source: NBR

foreign currency-denominated loans holding the larger share, i.e. 55 percent as of March 2025 (Chart 1.17).

As regards credit terms and conditions, in 2025 Q1, local banks⁴³ tightened credit standards for loans and credit lines granted to non-financial corporations, amid changes in the share of non-performing loans in their portfolios. Loan demand from non-financial corporations increased (Chart 1.18). For 2025 Q2, banks expect credit standards to remain unchanged and demand for loans to non-financial corporations to rise. Despite the tightening of credit standards for non-financial corporations over recent years, credit demand has continued to increase, largely driven by government-backed loans under state guarantee schemes. These jointly account for a significant share

of the corporate portfolio, i.e. approximately 18 percent of the total loan portfolio and 5 percent of the 12-month flow of new bank loans to non-financial corporations (March 2025).

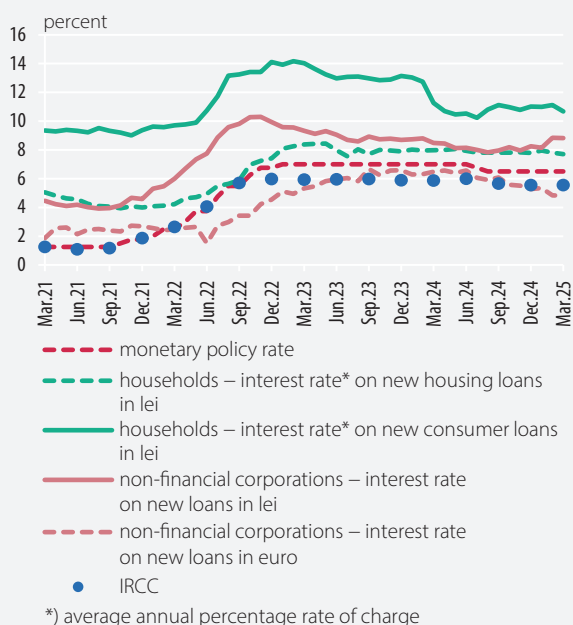
Chart 1.18. Credit standards and loan demand across the real sector

Note: Rising values indicate tightening credit standards and an increase in loan demand, while declining values point to an easing of credit standards and a decrease in loan demand.

Source: NBR, NBR calculations

Household loans posted mixed developments across loan categories in 2025 Q1. Credit standards for consumer loans were tightened, mainly due to the risk from borrower's creditworthiness and the pressure from bank competition. Loans for house and land purchase saw an easing of credit standards, reflecting expectations regarding the general economic activity and the real estate market, as well as the pressure from bank competition. Household demand for consumer loans declined, while that for loans for housing and land purchase increased. Credit standards

⁴³ NBR, *Bank Lending Survey*, 2024 Q4

Chart 1.19. Interest rates on loans in lei and euro

Source: NBR

are expected to show mixed developments in 2025 Q2. Credit institutions anticipate looser standards for both housing and consumer loans. For the same period, banks envisage demand to become stronger for housing loans and weaker for consumer loans.

Firms faced, on average, slightly higher borrowing costs for leu-denominated loans, with an increase of 0.3 percentage points March 2024 through March 2025, while interest rates on euro-denominated loans saw a significant decline of 1.7 percentage points over the same period (Chart 1.19). In the household segment, average interest rates on leu-denominated loans fell for housing loans by 0.3 percentage points and for consumer loans by 0.6 percentage points. For housing loans, the pass-through of changes in interest rates is slower, as the quarterly benchmark index for loans to consumers (IRCC), which underlies the calculation of the interest rate on housing loans, is adjusted

with a delay. The IRCC remained on a downward trend, reaching 5.55 percent in 2025 Q1 (down 0.3 percentage points from 2024 Q1).

2. REAL SECTOR

The main challenges faced by companies in Romania since the previous *Report* have concerned the elevated costs, the availability of skilled workforce and high taxation, in an economic environment marked by a high level of uncertainty, especially as regards trade policies. In view of the economic context, the financial health measure of companies in Romania deteriorated slightly in the first half of 2024, following the trend of the previous two six-month rounds, mainly owing to a less efficient use of assets (turnover-to-total assets ratio). However, this measure remained outside the risk area. Profitability, albeit still positive, declined, while the level of indebtedness remained relatively steady.

The financial discipline of the non-financial corporations sector worsened at all levels under review, hinting at weaker corporate resilience in a business environment characterised by lingering uncertainties and challenges. In line with previous expectations, the quality of the portfolio of bank loans to non-financial corporations deteriorated. In March 2025, the non-performing loan (NPL) ratio climbed to 4.4 percent (up 0.6 percentage points from March 2024). In addition, overall developments in overdue payments to non-banks reflect a gradual decrease in financial discipline in the business environment. Their volume posted a significant annual rise of 22 percent, which was driven chiefly by an upswing in overdue payments to suppliers, but also to the government. The period from April 2024 to March 2025 also saw an increase in the number of insolvent firms to 24.5 thousand (+4.3 percent against the previous period) amid more newly insolvent companies than those exiting such proceedings. In addition, the number of major payment incidents decreased by approximately 1 percent April 2024 through March 2025 compared to the previous 12-month period, whereas total amounts involved soared by about 38 percent to lei 1.4 billion, owing largely to microenterprises.

Households' net wealth surged during the past decade, providing a notable financial buffer to households should an adverse shock occur. Households' capacity to service debt has remained robust since the previous *Report* amid favourable developments in the labour market, namely higher wage earnings and further moderate labour market tightness. Specifically, banks' non-performing loan ratio stood below 3 percent in March 2025, with leu-denominated loans – which hold the majority share of the household loan portfolio (91 percent, March 2025) – reporting a 2.58 percent NPL ratio.

The credit risk associated with consumer loans is higher, as they generated 68 percent of banks' total non-performing loans (March 2025). Of these, consumer loans to borrowers with a level of indebtedness exceeding 45 percent are characterised by significantly higher NPL ratios (7.9 percent versus 5.2 percent), yet they make up a small share of the portfolio (15 percent of consumer loans).

Amid the NBR's measure to cap the level of indebtedness, only 20 percent of the new loans have a debt service to income at origination (DSTI-O) of over 40 percent.

The outlook for households' repayment capacity is surrounded by uncertainty fuelled by heightened geopolitical and trade tensions, which generate additional vulnerabilities to macroeconomic equilibria, with implications for fiscal and income policy, and to households' financial resilience. Looking at household loans, the default rate one year ahead is forecasted to pick up from 0.2 percent in March 2025 to 0.23 percent in March 2026 for housing loans and from 2.94 percent to 3.1 percent for consumer credit over the same period.

The banking sector's exposure to the residential real estate market remained significant, accounting for approximately 63 percent of total portfolio of loans to households (March 2025). Real estate investment loans expanded by 5.2 percent in annual terms in March 2025, despite the steep decline in loans granted under the "First Home"/"New Home" government programme (18.5 percent in annual terms, March 2025). The non-performing loan ratio is higher for loans with a low loan-to-value (LTV) ratio, namely 6.1 percent for loans with an LTV above 85 percent compared to 1.4 percent for loans with an LTV below 85 percent (March 2025). The loss given default is higher in their case, the borrower-based macroprudential measures implemented by the National Bank of Romania being aimed at enhancing the resilience of both debtors – by supporting a sustainable level of indebtedness – and credit institutions.

The vulnerabilities posed by the commercial real estate sector in Romania are currently manageable. However, escalating geopolitical tensions, with potential effects on supply chains and the volatility of international financial conditions, are likely to amplify existing vulnerabilities to financial stability. The framework for monitoring systemic risks stemming from the commercial real estate market in Romania was assessed as appropriate, continuously improving and fully compliant with Recommendation A of Recommendation of the European Systemic Risk Board on vulnerabilities in the commercial real estate sector in the European Economic Area.

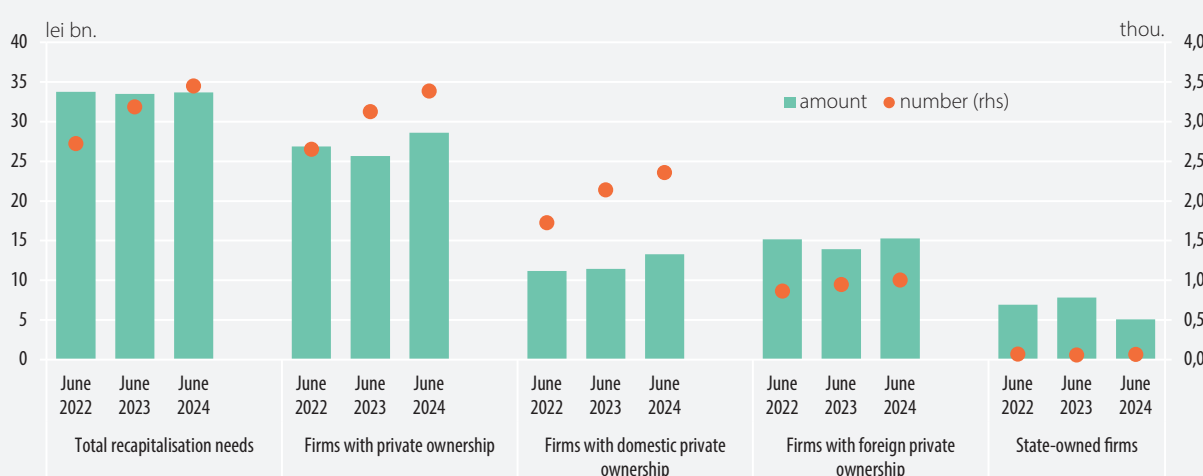
2.1. Non-financial corporations

2.1.1. Non-financial corporations' economic and financial performance

The information presented in this section is based on the financial statements as at end-June 2024 submitted to the Ministry of Finance. The obligation to submit semi-annual financial statements to the Ministry of Finance lies only with companies that reported a turnover of over EUR 1 million at the end of the previous year. In June 2024, their number stood at approximately 41.4 thousand, i.e. 3 percent of the number of active firms at end-2023. Given the turnover threshold criterion, half-yearly reports are prepared by large companies and only by a small part of SMEs (merely 5 percent of those that submitted reports in 2023 also reported in June 2024).

These firms generate 86 percent of the economy's turnover, hold 81 percent of total assets and hire 65 percent of employees (percentages of the values reported at end-2023). Moreover, only 8.3 percent of these companies have equity below the regulatory threshold as compared to 31 percent of firms reporting at year-end. The recapitalisation needs of these companies are estimated at approximately lei 35 billion, coming mainly from firms with domestic private capital (in terms of number) and foreign private capital (in terms of value), both categories witnessing increases over the past four half-yearly periods (Chart 2.1). The recapitalisation needs of the firms reporting in June 2024 accounted for about 24 percent of the recapitalisation needs of all undercapitalised firms at end-2023 (lei 147 billion).

Chart 2.1. Recapitalisation needs by firms' ownership



Source: NBR, MF, NTRO

At the end of 2024 H1, undercapitalised companies made a small contribution to the overall activity of non-financial corporations, generating 6 percent of turnover, hiring 6.9 percent of the total number of employees and accounting for 6 percent of total assets. However, they can exert a stronger impact through contagion effects at sector level, given that they hold 12 percent of non-financial corporations' debts.

These firms generated a third of overdue payments to non-banks in June 2024, down by approximately 10 percentage points as compared to June 2023. Behind this evolution stood the adjustment of overdue payments to the general government budget, which dropped to half from the previous six-month period.

At sectoral level, the number of companies with capital shortfalls went up in agriculture, services and construction. The pick-up in the number of undercapitalised firms in these areas also triggered, overall, a hike in debts, particularly in agriculture (+27 percent) and services (+13 percent) compared to June 2023. In addition, the vulnerabilities in the real estate sector also grew, as firms with capital shortfalls in this sector incurred a 20 percent higher volume of debts.

The main challenges faced by companies in Romania since the previous *Report* were high costs, the availability of skilled workforce or high fees and taxes⁴⁴, in an economic environment characterised by an elevated level of uncertainty, especially as regards trade policies. The same as in the previous periods, non-financial corporations saw, overall, rises in operating costs (+5 percent), yet the pace of increase decelerated significantly (from 30 percent in June 2021 – June 2022). The slowdown in the growth rate of operating costs was mainly driven by a near-stagnation of the cost of goods for resale, alongside a fall in utility expenses. The latter shed 12 percent (in annual terms) in June 2024 amid lower electricity and natural gas prices in regional and international markets and the government's price capping and compensation schemes. Personnel expenses further followed an upward trend (+17 percent). Against this background, Romania witnessed the highest increase in hourly labour costs in the EU in 2024 Q1 compared to 2023 Q1⁴⁵. Labour shortage saw mixed developments, with large companies particularly experiencing increased difficulties⁴⁶. Other challenges for the corporate sector referred to the negative fallout of climate conditions (persistent drought and high temperatures in 2024) and the subdued dynamics of external demand, especially in EU markets⁴⁷. The high uncertainty surrounding trade policies is likely to continue to weigh on economic activity in the period ahead too.

Chart 2.2. Overall financial health measure of the non-financial corporations sector

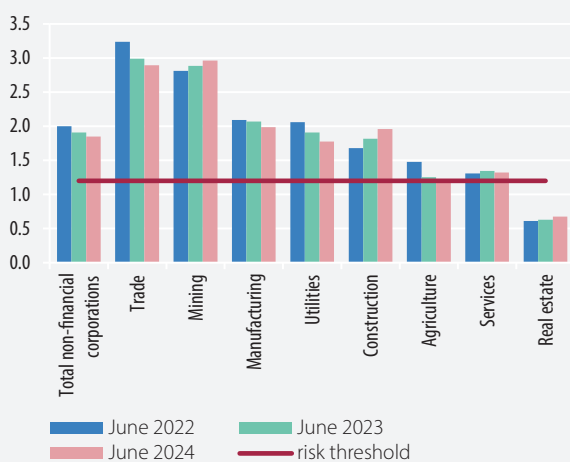
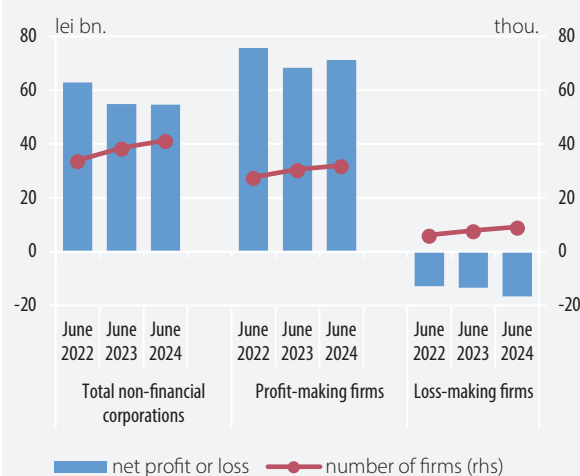


Chart 2.3. Net profit or loss of non-financial corporations



The financial health measure of firms in Romania⁴⁸ posted a slight deterioration, following the trend of the last two rounds (Chart 2.2), mainly owing to a less efficient use of assets (the turnover-to-total assets ratio). The financial health measure by

⁴⁴ Survey on the access to finance of non-financial corporations in Romania, December 2024

⁴⁵ Eurostat, Hourly Labour Costs

⁴⁶ Survey on the access to finance of non-financial corporations in Romania, December 2024

⁴⁷ Inflation Report, February 2025, NBR

⁴⁸ The overall financial health measure of the non-financial corporations sector was determined based on the methodology developed by Edward Altman in *Predicting financial distress of companies: Revisiting the Z-score and ZETA models*, 2000. Considering that the non-financial corporations sector in Romania is overwhelmingly made up of unlisted firms, the indicator was calculated based on the method adapted for private firms. Z-score was built based on the following formula: $Z' = 0.717(X1) + 0.847(X2) + 3.107(X3) + 0.420(X4) + 0.998(X5)$, where: X1 – Net current assets/Total assets; X2 – Net retained earnings/Total assets; X3 – EBIT/Total assets; X4 – Equity/Debt; X5 – Turnover/Total assets.

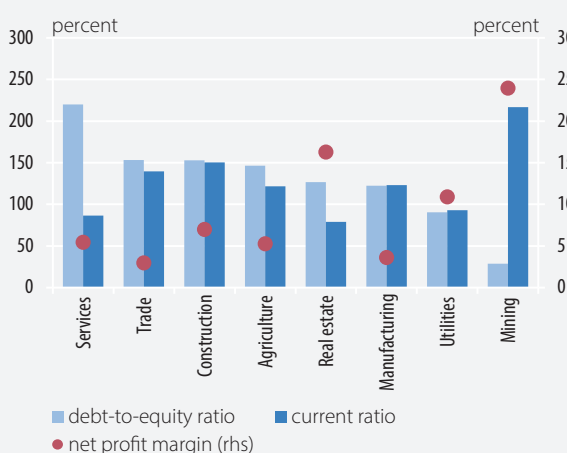
sector shows a deterioration across firms in agriculture in June 2024, while firms in the real estate sector remained in the risk area. Moreover, the financial health of companies in the manufacturing, utilities and trade sectors weakened. By contrast, firms in mining and construction recorded positive developments.

The turnover went up by 4.5 percent at aggregate level in June 2024 compared to the same year-earlier period. The hike in revenues offset only to a certain extent the increase in expenses, so that the profitability of non-financial corporations in the first six months of 2024 decreased slightly (-0.6 percent, with net profit standing at lei 54.6 billion). The financial standing of non-profitable firms worsened, as reflected by the rise in both the incidence (22 percent in terms of number, +2 percentage points, in annual terms, in June 2024) and the volume of losses (+25 percent) compared to the previous period (Chart 2.3).

The return on equity and the return on assets declined mildly to 18.8 percent (-2.2 percentage points) and 8 percent (-0.7 percentage points), respectively, while the level of indebtedness remained approximately unchanged at aggregate level, with the debt-to-equity ratio standing at 1.3.

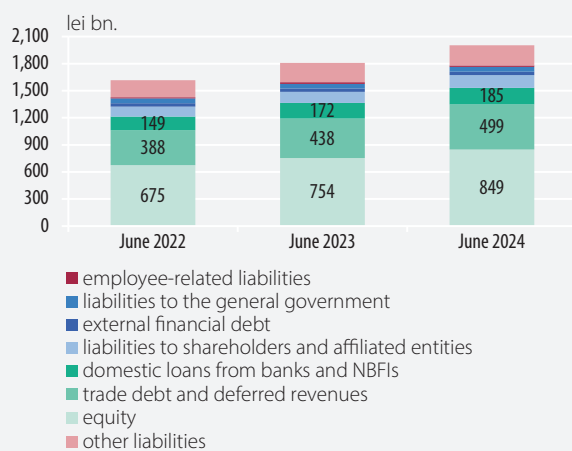
In June 2024, the current ratio rose slightly for SMEs (133 percent, +1 percentage point versus June 2023, Chart 2.4), but declined further for large companies (104 percent, -5 percentage points). The quick ratio remained stable at aggregate level, posting a pick-up for micro and small enterprises, but decreasing for large companies. At sectoral level, mining, construction and trade recorded the highest current ratios, in a range from 140 to 217 percent. Firms in services reported the highest level of indebtedness (calculated as the debt-to-equity ratio), i.e. above the 200 percent signalling threshold, and the lowest liquidity; by contrast, mining recorded the highest net profit margin. Trade and manufacturing posted the lowest efficiency in turning revenues into net profit.

Chart 2.4. Performance indicators of non-financial corporations by sector



Source: MF, NBR calculations

Chart 2.5. Composition of liabilities and owners' equity of non-financial corporations



Source: MF, NBR calculations

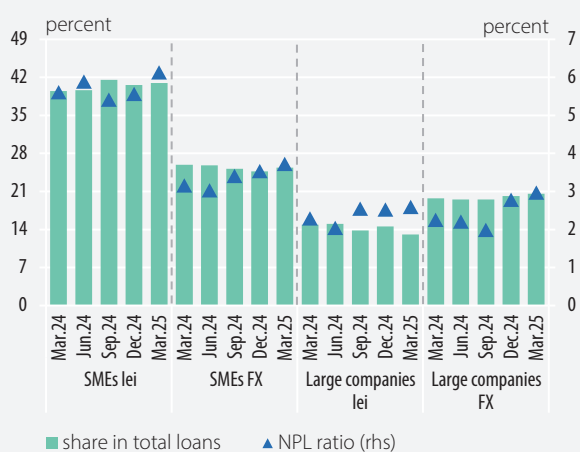
At aggregate level, although the main funding sources rose markedly, in absolute terms, over the past three years, the composition of liabilities and owners' equity remained relatively unchanged. Trade debt continued to account for a large share (25 percent of total balance sheet). Conversely, the funding via loans from local financial institutions took less than 10 percent of total balance sheet (Chart 2.5). Despite the risks associated with trade debt, companies continued to rely significantly on this type of financing. The volume of trade debt expanded by approximately 11 percent in June 2024, its non-performing ratio (the share of overdue payments to suppliers in total trade debt) running at 9 percent, i.e. more than double the non-performing ratio for bank loans.

2.1.2. Financial discipline of non-financial corporations

Lending to non-financial corporations in relation to banks

In line with previous expectations, the quality of the portfolio of bank loans to non-financial corporations deteriorated. In March 2025, the non-performing loan (NPL) ratio climbed to 4.4 percent (up 0.6 percentage points from March 2024), amid a faster rise in non-performing loans relative to total exposures (+24 percent versus +7.3 percent over the same period). Approximately 49 percent of non-performing loans are classified as such following indications of unlikelihood to pay, while still not being more than 90 days past due.

Chart 2.6. NPL ratio and the share of exposures in the stock of loans, by currency and company size



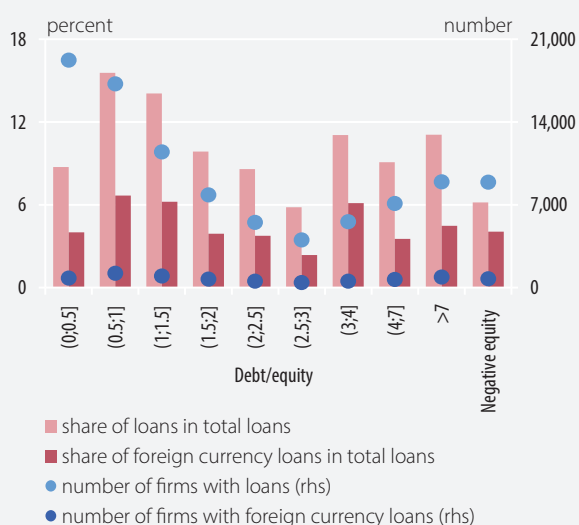
Source: MF, NBR, NBR calculations

Credit risk is considerably higher among SMEs, particularly in the case of leu-denominated loans, for which the non-performing loan ratio reached 6.1 percent, standing 2.4 percentage points above that for foreign currency-denominated loans to SMEs. The situation is similar for large companies, with domestic currency loans showing slightly lower quality than foreign currency loans, as reflected by a 0.2 percentage point higher NPL ratio for leu-denominated loans (Chart 2.6).

By sector, the mining industry recorded the highest NPL ratio, i.e. 18.8 percent in March 2025 (down 6.7 percentage points from a year before), while utility companies continued to post a low NPL ratio of 0.8 percent (up 0.2 percentage points).

The composition of lending shows significant polarisation, in terms of both level of indebtedness and currency denomination of loans (Chart 2.7). A large share of loans are granted to firms with low indebtedness (debt-to-equity ratio below 1), reflecting banks' preference for low-risk, well-capitalised borrowers. At the same time, a considerable share of loans (around 50 percent) continue to be granted to firms with a level of indebtedness above the signalling threshold, i.e. a debt-to-equity ratio above 2. In this segment, foreign currency-denominated

Chart 2.7. Distribution of firms' level* of indebtedness by loan portfolio



*) firms with loans as at March 2025, based on their debt-to-equity ratio reported for 2023

Source: NBR, MF

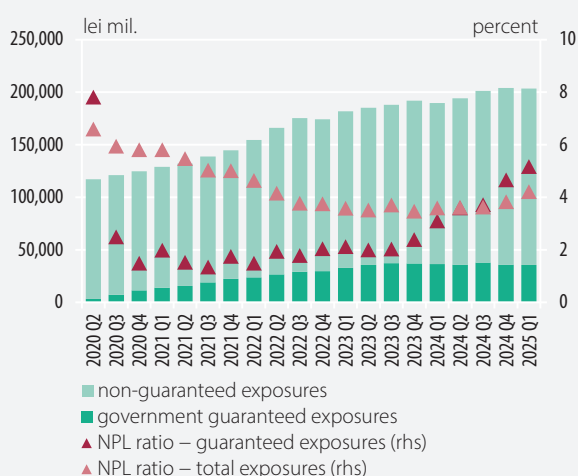
loans also account for a larger share, indicating additional exposure to currency risk among more vulnerable entities. These firms can amplify risks to the non-financial corporations sector, especially in times of uncertainty, marked by high volatility and potential domestic currency depreciation.

Foreign currency-denominated loans to non-financial corporations continued to rise (up 8 percent in annual terms, March 2025), with the share of these loans in banks' portfolio reaching 46 percent. Although this portfolio presently posts a better performance than that in domestic currency (NPL ratio of 3.4 percent versus 5.3 percent, March 2025), close monitoring of these borrowers by credit institutions is needed, given that only a small share of these companies' exposures are naturally hedged against currency risk⁴⁹ (5.4 percent). Companies with foreign currency borrowings have lower returns on equity and assets, but also a lower level of indebtedness, amid a relatively

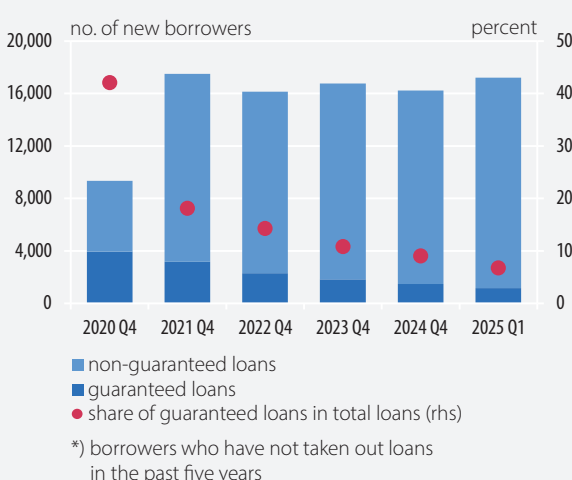
similar current ratio (a measure of overall liquidity) and a higher capacity to collect receivables. However, estimates on the probability of default of firms with foreign currency loans show a better repayment capacity over the period ahead compared to the entities with leu-denominated loans. At the same time, firms with foreign currency loans that are not naturally hedged against the currency risk are forecasted to display a probability of default similar to that of the overall foreign currency corporate portfolio.

Government guarantee programmes remain a significant component of the stock of loans to non-financial corporations, accounting for 17.5 percent of the loan stock at end-March 2025. They continued to support lending and improve access to finance, as reflected by a significant number of new borrowers taking out such loans, making up over 40 percent of total new borrowers (Chart 2.9). More than 90 percent of government-backed loans are contracted for working capital purposes, being granted primarily to firms in construction, services and agriculture, in line with the composition of the aggregate portfolio. The credit risk associated with government-backed loans stayed on an uptrend in 2025 Q1 as well. The volume of non-performing loans expanded by 60 percent, with the NPL ratio coming in at 5.3 percent in March 2025 (up 2 percentage points from the previous year, Chart 2.8), exceeding that of non-financial corporations as a whole. A marked deterioration in credit quality is visible after the expiry of the grace period, with the NPL ratio remaining significantly lower during the first two years after loan origination compared to that of loans that have exceeded this threshold.

⁴⁹ Companies are considered naturally hedged against currency risk when their net export income over the past four quarters exceeds their annual debt service, meaning that the ratio of net exports to debt service is above 1. Partially hedged companies are defined as those with a net exports-to-debt service ratio between 0.5 and 1. Fully and partially hedged companies include all firms with a ratio above 0.5.

Chart 2.8. Guaranteed/non-guaranteed exposures and NPL ratios

Source: MF, NBR calculations

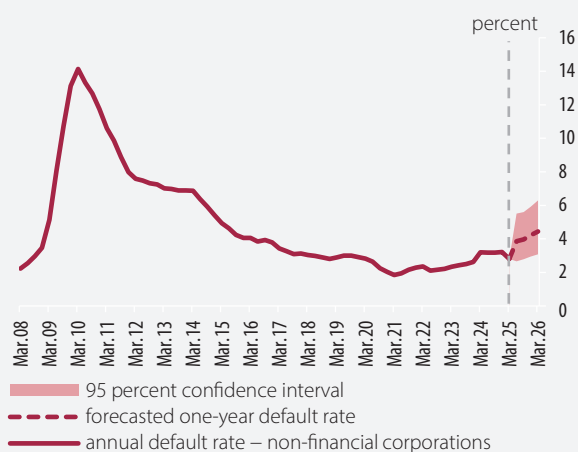
Chart 2.9. Number of new borrowers*

Source: MF, NBR calculations

Against this background, a working group was set up within the NCMO to identify possible measures that would render a better target to government guarantee programmes. The working group's activity is structured on three main pillars: (i) drawing lessons from existing programmes, (ii) improving the allocation of government-backed loans to strategic sectors, and (iii) identifying new solutions

for credit guaranteeing. However, such initiatives should also be doubled by efforts undertaken by non-financial corporations. Raising firms' capitalisation and improving their payment discipline are measures that take pressure off government support programmes. Such positive developments provide an underpinning to both the private sector, by mitigating the risk of contagion and improving access to financing, and the public sector, by reducing the pressure on the public budget.

Over the next 12 months, according to the baseline macroeconomic scenario, credit risk in the non-financial corporations sector is expected to increase, with the average probability of default being estimated to run at 4.4 percent in March 2026 (Chart 2.10).

Chart 2.10. Annual default rate and one-year forecast, the non-financial corporations sector

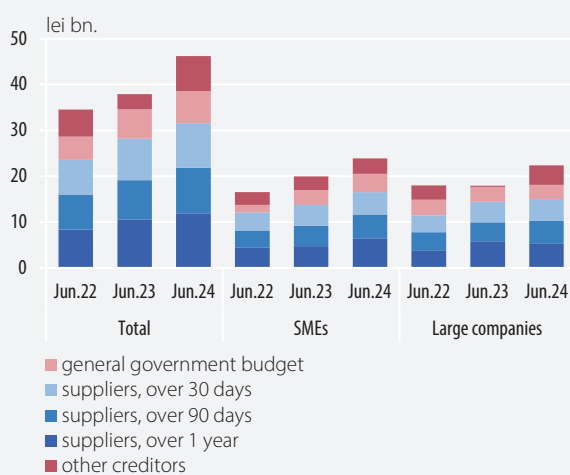
Source: NBR, MF, NBR calculations

Payment discipline in the economy

Overall developments in overdue payments to non-banks reflect a gradual worsening of financial discipline in the business environment. Their volume posted a significant annual increase of 22 percent, exceeding lei 46 billion in June 2024. This was driven chiefly by an upswing in overdue payments to suppliers, particularly those overdue by more than 90 days (+16.5 percent) and over one year (+12.3 percent), Chart 2.11. Overdue payments to the general government budget continued to rise, albeit at

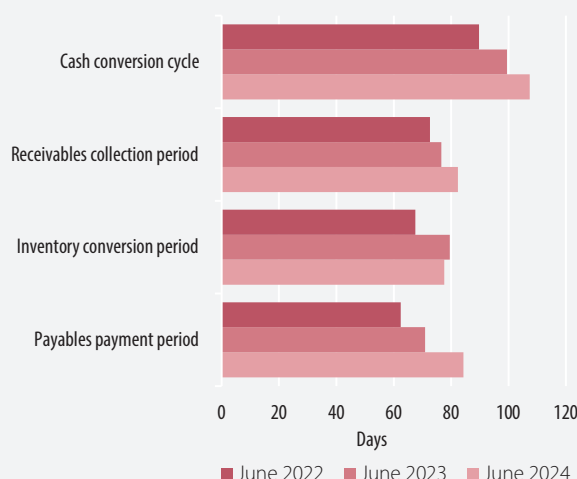
a slower pace than previously recorded, with an annual growth rate of 10 percent in June 2024, compared to 26 percent a year prior. SMEs remain the main contributor to total arrears, accounting for more than half of overdue payments and indicating persistent liquidity pressures on these firms. By contrast, large companies witnessed more stable developments in overdue payments, with a notable increase, however, in other arrears compared to June 2023.

Chart 2.11. Overdue payments in the economy by company size



Source: MF, NBR

Chart 2.12. Operational efficiency indicators



Source: NBR, NTRO

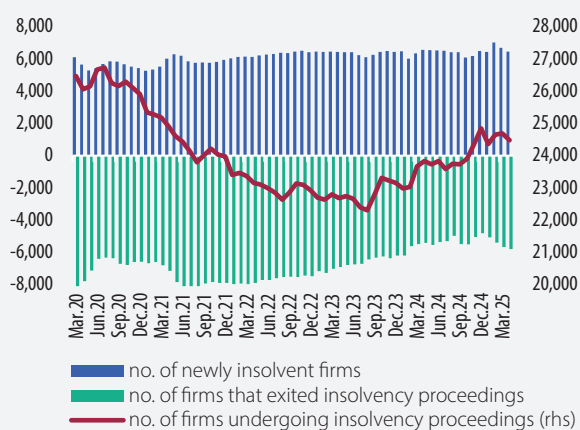
Operational indicators point to a broad-based lengthening of payment and collection periods, adversely affecting companies' cash flow (Chart 2.12). The average payables payment period rose gradually to 84 days (June 2024), showing firms' tendency to preserve liquidity by extending payment periods. This can also be the result of stronger market power of some companies. The inventory conversion period remained unchanged at 78-79 days, hinting at a standstill in logistical efficiency. At the same time, revenue collection slowed down, the receivables collection period increased to 82 days, well above the maximum period of 60 days established by Law No. 72/2013⁵⁰, yet broadly in line with previous periods. Overall, these developments led to the extension of the cash conversion cycle, which implies a longer period required to turn invested resources into available liquidity, thereby increasing pressure on cash flows and highlighting the need for measures to optimise the working capital.

The number of major payment incidents decreased by approximately 1 percent between April 2024 and March 2025 compared to the previous 12-month period. Nevertheless, total amounts involved soared by about 38 percent to lei 1.4 billion, owing largely to microenterprises, which accounted for 36 percent. Companies operating in the construction and trade sectors make up the largest share of major payment incidents by value. The concentration level remains significant, with the

⁵⁰ Law No. 72/2013 on measures to combat late payment of obligations resulting from contracts concluded between professionals and between the latter and the contracting authorities

top 100 companies by the value of major incidents generating 53 percent of their total amount.

Chart 2.13. The 12-month flow of newly insolvent firms, firms that exited insolvency proceedings, and firms undergoing insolvency proceedings



Source: NTRQ, NBR

The period from April 2024 to March 2025 saw an increase in the number of insolvent firms to 24.5 thousand (up 4.3 percent against the previous period), amid more newly insolvent companies than those exiting such proceedings (Chart 2.13). This points to a weakening of corporate resilience in a business environment marked by persistent uncertainties and challenges. Insolvent firms make a modest contribution to the economy, accounting for only 1.6 percent of gross value added (GVA) and 1.7 percent of total assets in the non-financial corporations sector as at June 2024. Nevertheless, such firms are significant in terms of the volume of non-performing loans they generate, i.e. 23 percent of bank loans to non-financial corporations in March 2025. The stability of the financial system also depends on improving the efficiency of

the insolvency framework. The World Bank⁵¹ recommends simplifying insolvency proceedings for SMEs, particularly in light of the complexity of the process and the high associated costs. It advocates for a simplified, less costly framework, with greater digitalisation and reduced court involvement, aimed at lowering barriers to firms' access to recovery mechanisms and at boosting restructuring rates.

2.2. Households

2.2.1. Households' balance sheet and saving behaviour

Households' net wealth surged during the past decade, providing a notable financial buffer to households should an adverse shock occur (Chart 2.14). The stock of real estate assets doubled between 2014 and 2024, while households' portfolio of financial assets nearly trebled over the same period. On the one hand, households' behaviour, characterised by a negative saving rate⁵² (Chart 2.15), reflects a tendency towards spending on consumption more than their disposable income, indicating the use of either external funding sources, such as loans, or previously accumulated liquidity. On the other hand, households choose to invest – usually in dwellings – even in the absence of a current saving capacity, the investment rate⁵³ staying strongly positive over time (Chart 2.15). This behaviour contributes to the home ownership rate

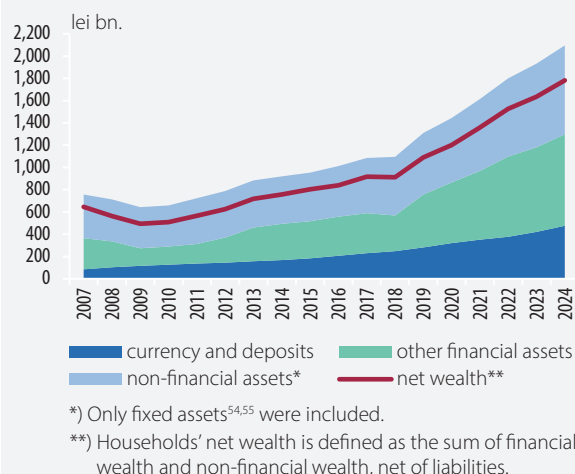
⁵¹ *Subnational Business Ready in the European Union 2024: Romania* ([https://www.worldbank.org/content/dam/sites/b-ready/subnational/document/country/2024/romania/Subnational-B-READY-in-Romania-2024%20-FULL-REPORT-\(EN\)-2.pdf](https://www.worldbank.org/content/dam/sites/b-ready/subnational/document/country/2024/romania/Subnational-B-READY-in-Romania-2024%20-FULL-REPORT-(EN)-2.pdf))

⁵² The saving rate is calculated as the ratio of gross saving to adjusted disposable income (4-quarter moving sum).

⁵³ The investment rate is calculated as the ratio of gross fixed capital formation to adjusted disposable income (4-quarter moving sum).

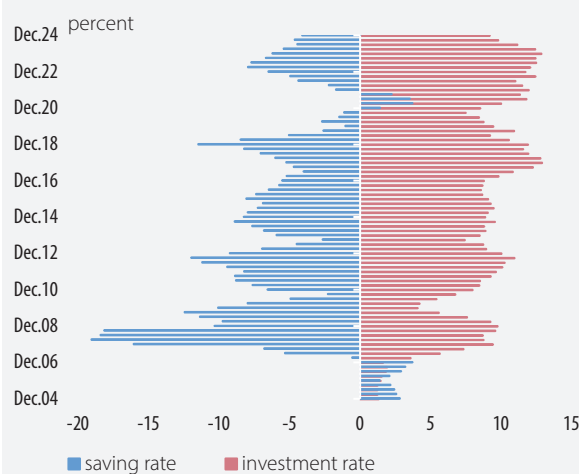
remaining the highest in the EU (94.3 percent, 2024), being observed also in the case of people at risk of poverty (with income below 60 percent of the median income).

Chart 2.14. Households' net wealth



Source: NBR, NIS, NBR calculations

Chart 2.15. Households' saving and investment rates



Source: NIS, NBR calculations

Income inequality continues to be sizeable, with the top 10 percent of the population holding 41 percent of the national income before taxes⁵⁶, which reflects in the high level of inequality in the banking sector as well. Although 68 percent of the population aged above 15 holds a bank deposit⁵⁷, polarisation is still significant (Chart 2.16). A small share of depositors (0.6 percent, 84.4 thousand) hold 28 percent of total deposits (March 2025), with an average deposit value of lei 1.06 million (equivalent to EUR 210 thousand). By contrast, the remaining 99.4 percent of depositors (14.9 million) have savings in the form of deposits of an average of lei 15.5 thousand (equivalent to EUR 3 thousand). However, progress has been made towards reducing income inequality. The share of total resources that should be redistributed to achieve a perfectly equal distribution (Gini coefficient) decreased to 31 percent in 2023 from 35 percent in the pre-pandemic period (2019) and over 38 percent in 2007.

Consumer confidence improved amid the successive hikes in the minimum wage economy-wide⁵⁸ and the relatively unchanged financial conditions, which favoured household consumption (households' actual individual consumption went up by 14 percent in annual terms in 2024 Q4). Borrowed funds played a significant part in these developments, as new loans granted by credit institutions to households

⁵⁴ Fixed assets are produced non-financial assets used repeatedly or continuously in production processes for more than one year. These include dwellings, other buildings, machinery and equipment, etc.

⁵⁵ Since 2020, the National Institute of Statistics has published non-financial assets, according to the national accounts methodology, prepared in line with ESA 2010. The annual values were linearly interpolated to obtain quarterly data, whereas for 2023 and 2024 the values were extrapolated, considering an annual growth rate of 6 percent (i.e. the average growth rate for 2003-2021) and a quarterly growth rate of 1.5 percent.

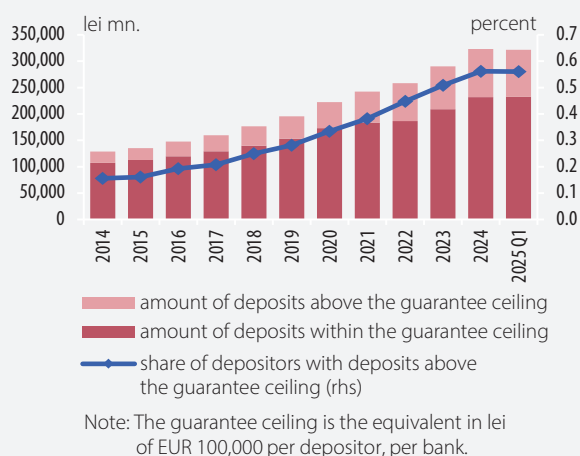
⁵⁶ World Inequality Database, 2023 values

⁵⁷ Global Findex, 2021

⁵⁸ The minimum gross wage economy-wide was raised to lei 3,700 starting 1 July 2024, and as of 1 January 2025, it went up to lei 4,050.

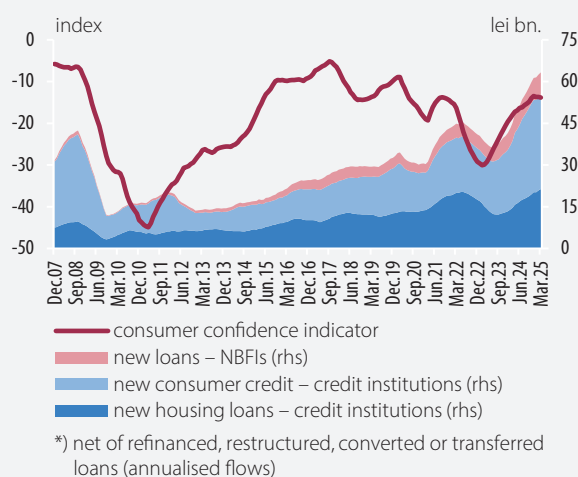
increased by 41.7 percent in April 2024 – March 2025, posting important dynamics on both lending segments (consumer credit and housing loans), Chart 2.17. However, the pace of growth of new loans reached a turning point in December 2024, with the advance in household lending abating visibly in the first months of 2025.

Chart 2.16. Bank deposits by position against the guarantee ceiling



Source: BDGF

Chart 2.17. New loans* and consumer confidence



Source: NBR

Under the circumstances, households' total debt further increased at a swift pace throughout 2024, reaching lei 218 billion at the end of the year, after a 9 percent rise (compared to 2 percent in December 2023). The prospects for future developments in household consumption and debt are, nevertheless, marked by high uncertainty, generated by mounting global trade tensions, with implications for households' consumer behaviour and disposable income.

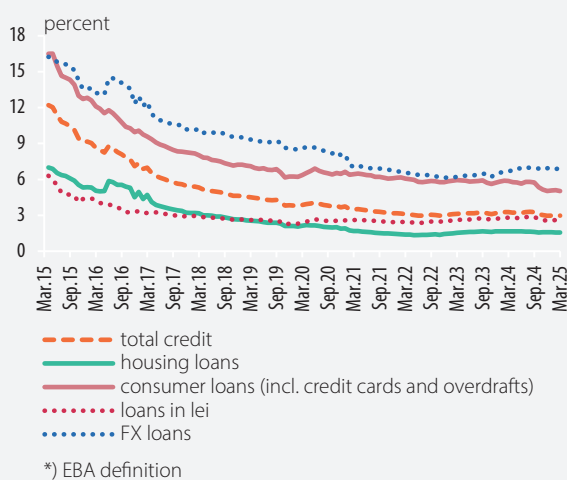
2.2.2. Households' capacity to service debt

Households' capacity to service debt has remained robust since the previous *Report* amid favourable developments on the labour market, particularly related to the hike in wage earnings. Specifically, banks' non-performing loan ratio stood below 3 percent in March 2025 (-0.29 percentage points versus the same year-ago period), with leu-denominated loans, which hold the majority share of the household loan portfolio (91 percent, March 2025), reporting a 2.58 percent NPL ratio (-0.22 percentage points against March 2024), Chart 2.18. The significant decrease in the stock of foreign currency-denominated loans and, implicitly, in the currency risk related to household loans, was attributable to the borrower-based measures implemented by the NBR, differentiated by the currency of the loan.

The credit risk associated with consumer loans is higher, as they generated 68 percent of banks' total non-performing exposures to households (March 2025). Of these, consumer loans to borrowers with a level of indebtedness exceeding 45 percent are characterised by significantly higher NPL ratios (7.9 percent versus 5.2 percent), yet they make up a small share of the portfolio (15 percent of consumer loans). Amid the

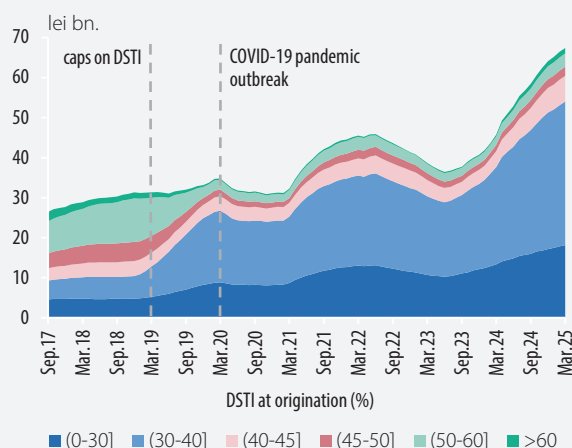
NBR's measure to cap the level of indebtedness, only 20 percent of the new loans have a debt service to income at origination (DSTI-O) of over 40 percent⁵⁹ (Chart 2.19). Thus, the median DSTI-O stands at 35 percent for consumer loans and at 36 percent in the case of loans for house and land purchase (March 2025).

Chart 2.18. Banks' NPL ratio* by type of loan



Source: NBR, CB, NBR calculations

Chart 2.19. New loans by debt service to income (DSTI) at origination (annualised flows)



Source: NBR, CB, NBR calculations

Households' awareness of interest rate risks increased significantly once interest rates embarked on an upward trend in 2022 and stabilised at higher levels⁶⁰. Specifically, the share of floating-rate loans contracted considerably to under 50 percent (46 percent in March 2025, compared to 82 percent in May 2022⁶¹) in the case of housing loans and 10 percent (compared to 30 percent in May 2022) in the case of consumer credit.

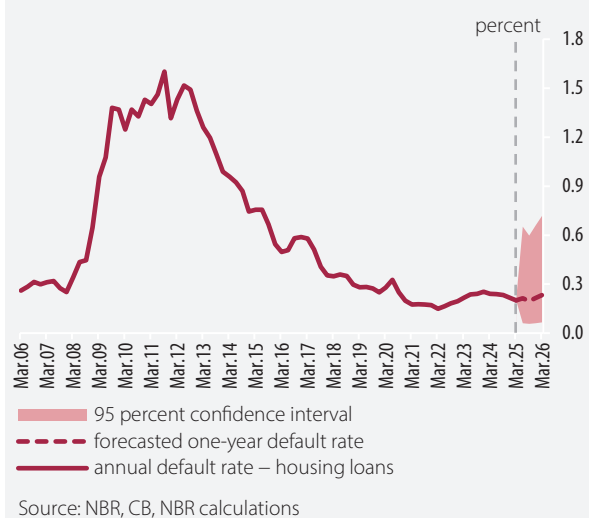
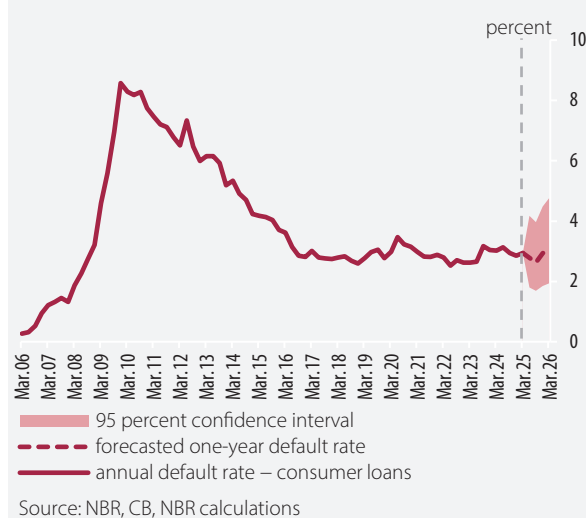
The annual default rate⁶² has improved since the latest *Report*, falling gradually throughout 2024 and further declining in early 2025, to 0.20 percent in March 2025 (-0.04 percentage points against the same year-ago month) for housing loans and to 2.94 percent (-0.08 percentage points versus a year earlier) in the case of consumer credit. The outlook for households' repayment capacity is surrounded by significant uncertainty, fuelled by heightened geopolitical and trade tensions, which generate additional vulnerabilities to macroeconomic equilibria and to households' financial resilience. The default rate one year ahead is forecasted to pick up from 0.20 percent in March 2025 to 0.23 percent in March 2026 for housing loans (Chart 2.20) and from 2.94 percent to 3.1 percent for consumer loans over the same period (Chart 2.21).

⁵⁹ The 40 percent cap on the level of indebtedness for leu-denominated loans was exceeded due to the implemented flexibility measures, i.e. the 5 percentage point increase in the cap on the level of indebtedness for housing loans for first-time buyers and the non-applicability of the limit on the level of indebtedness for maximum 15 percent of the arithmetic mean of quarterly volumes of consumer loans granted in each of the previous four quarters.

⁶⁰ The benchmark index for loans to consumers (IRCC) fluctuated in September 2022 – December 2024 between a high of 5.99 percent (2022 Q2) and a low of 5.55 percent (2024 Q4).

⁶¹ Reporting on the indicator regarding the initial rate fixation period was introduced in the Central Credit Register starting May 2022.

⁶² According to the 90 days past due criterion

Chart 2.20. Forecasted one-year default rate for housing loans**Chart 2.21.** Forecasted one-year default rate for consumer loans

Borrowers encountering difficulty in their relationship with banks or NBFIs can resort to the Alternative Banking Dispute Resolution Centre (ABDRC), which is an institution that offers amicable, free, and out-of-court dispute resolution (Box 1).

Box 1. The role of the Alternative Banking Dispute Resolution Centre (ABDRC) in supporting financial stability

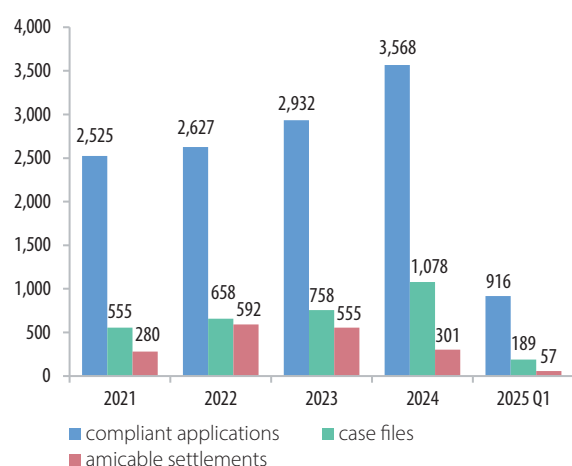
The ABDRC encourages consumers to be open to building a trust-based relationship with banks. Banks understand and acknowledge the issues raised by consumers, particularly when these are justified and reasonable. The improvement in conciliation mechanisms, along with the willingness and flexibility of banks in handling customer requests, led to a steady increase in the number of applications received, as well as in the number of cases resolved, with an input from all parties involved in the conciliation process. The results of the ABDRC's operational activities are presented below.

The primary role of the ABDRC, i.e. to amicably settle disputes that may arise in contractual relations between consumers of financial services and banks or NBFIs, is complemented by an important financial education component as well. The ABDRC's communication strategy for 2025 focuses on financial education, including a dedicated section on the Centre's website and podcasts on financial education topics, featuring experts from commercial banks, conciliators, and representatives of the NBR, ARB, and ABDRC. The ABDRC maintains a strong presence in both traditional and social media, through media partnerships and via the dissemination of video and written materials provided by the Centre as part of year-round financial information and education campaigns.

The fifth season of the ABDRC Podcasts, which started in April this year, explores topics inspired by the types of negotiation requests submitted by consumers to the Centre in their dealings with banks. Specifically, such topics include cards

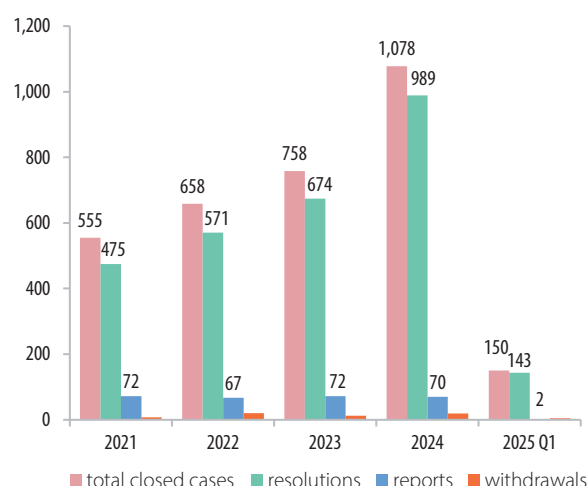
and payments, bank loans, banking fraud, foreclosures, court proceedings versus alternative dispute resolution, among others. The sessions hosted by the ABDRC bring together experts in the fields under discussion, credit brokers, fraud prevention specialists, bailiffs, etc. The debates will be moderated by financial analysts, financial education experts and well-known economic journalists. The productions will be promoted across traditional and social media, with each podcast benefiting from a dedicated national promotion campaign.

Chart A. Annual dynamics: compliant applications, case files and amicable settlements



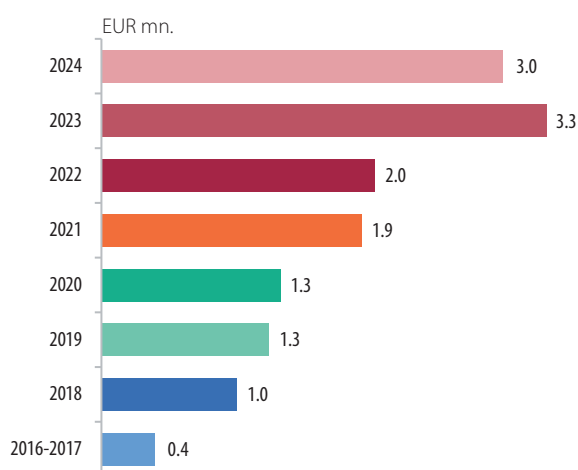
Source: ABDRC

Chart B. Closed cases: resolutions versus reports



Source: ABDRC

Chart C. Value of negotiated benefits



Source: ABDRC

In 2024, the ABDRC received 3,568 applications from consumers requesting banks and NBFIs to enter negotiations through the Centre. The number of requests for conciliation reached 916 in 2025 Q1 (723 related to banks and 193 to NBFIs). Specifically, the share of NBFI-related requests decreased slightly compared to the value recorded in the same period of the previous year, from 32 percent of the total in 2024 Q1 to approximately 21 percent in 2025 Q1. Conversely, the share of bank-related requests increased from 68 percent of the total at end-2024 Q1 to 79 percent in 2025 Q1.

The total number of case files opened in 2025 Q1 stood at 189. One negotiation file concerning an NBFI was formed, while 188 involved banks.

By comparison, 241 case files were opened in the first three months of 2024, marking a 22 percent decrease in this statistical indicator in the period under review. Of the case files formed and closed in 2025 Q1, 143 concluded with a resolution (the parties accepted the solution proposed by the conciliator), while another 39 case files were still being processed at the end of the period under review. In two case files, one party rejected the solution proposed

by the conciliator, resulting in a report being issued, while in five case files one of the parties withdrew from the procedure.

At end-2025 Q1, the negotiation procedures between consumers and banks, conducted via the ABDRC, resulted in benefits of approximately EUR 0.542 million. Specifically, the total amount of negotiated benefits over more than nine years of the Centre’s activity is approximately EUR 14.9 million.

2.3. Real estate sector

2.3.1. Residential and commercial real estate markets

The residential real estate market

In 2024 Q4, residential property prices further increased, albeit at a slower pace than that recorded in H1 (4 percent in 2024 Q4 versus 6.8 percent in 2024 Q2) and as compared with the peer economies in the region (18.3 percent in Bulgaria, 13 percent in Hungary, 10.4 percent in Poland and 8.4 percent in Czechia) and the EU average (4.9 percent). In real terms, however, Romania saw the strongest decline among EU Member States, along Finland (-4 percent in 2024 Q4), behind this standing several economic, demographic and structural factors. Real growth is partly dampened by inflation, as well as by a number of characteristics that weaken the residential real estate market dynamism.

Chart 2.22. Annual dynamics of the price* per square metre of a 2-room flat by county (2024 Q4)

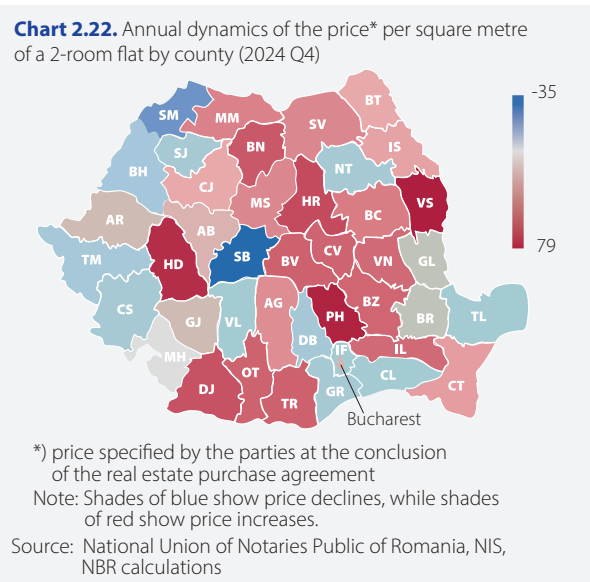
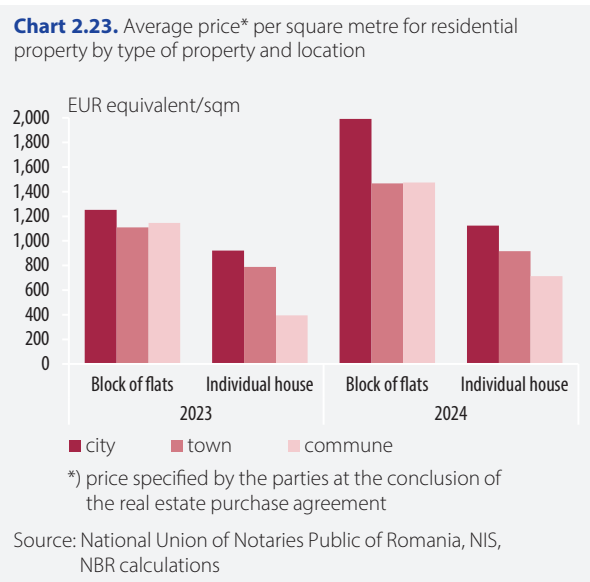


Chart 2.23. Average price* per square metre for residential property by type of property and location



Nonetheless, the breakdown by county shows further important disparities, with marked differences in terms of both prices in absolute terms, in a range of lei 4,506

per square metre in Botoşani to lei 8,235 per square metre in Bucharest⁶³ (data as at 2024 Q4), and their annual growth rate (Chart 2.22). The price per square metre also differs significantly depending on the type of property and its location, the highest prices being posted by flats in cities (Chart 2.23).

Households' real disposable income grew at a faster pace than residential property prices, leading to improved housing affordability. Thus, the average number of years needed to purchase a 2-room flat in a block of apartments at national level is approximately 7.8 years⁶⁴ (2024 Q4), down from 9 years the year before. In Bucharest it takes about 6.9 years to make a similar purchase, on the back of higher wages.

The rising construction costs have been an important driver of the movements in property prices over the past years. Unlike in 2021 and 2022 H1, when construction costs for residential buildings grew faster than prices of new dwellings, as of 2022 H2 the developments have been relatively similar (Chart 2.24). These dynamics translated into a decline in residential construction works by around 12 percent, on average, in April 2024 – March 2025 as compared to the previous corresponding period.

Chart 2.24. Dynamics of residential property prices (new buildings) and of construction costs

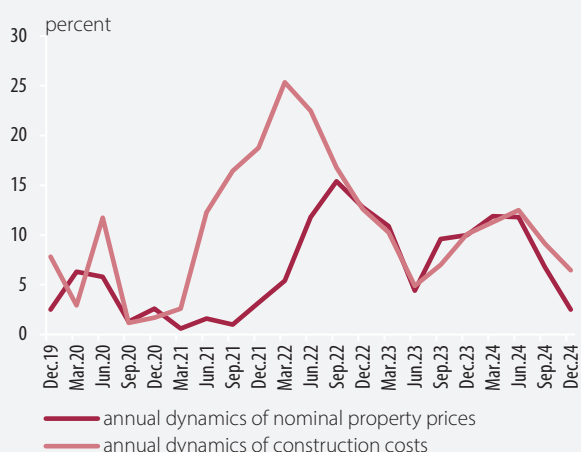
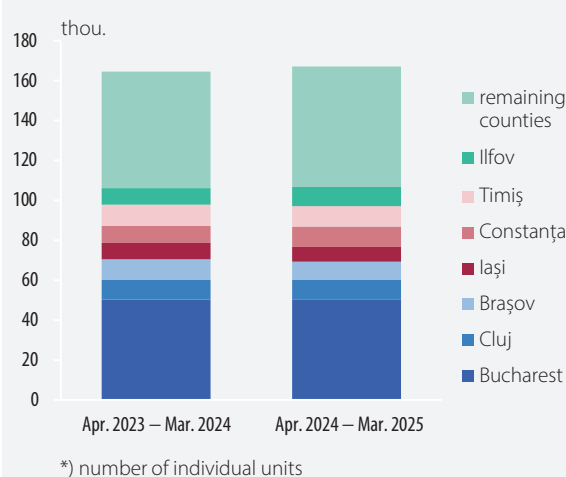


Chart 2.25. Number of real estate transactions*



The supply of homes available for sale is further weak relative to demand, with 1.36 buyers for a property⁶⁵, even though both segments posted decreases in 2024 Q4 (-6 percent for demand and -13 percent for supply). While in Bucharest the number of real estate transactions remained virtually unchanged, on the aggregate it added 1.5 percent in April 2024 – March 2025 from the previous 12-month period (Chart 2.25), amid the advance in sales in the remainder of the country. Counties such as Constanţa (+22.5 percent) or Ilfov (+16.5 percent) were the driving forces of trading.

⁶³ According to the price specified by the parties in the real estate purchase agreement, at the time it was authenticated by the notary public.

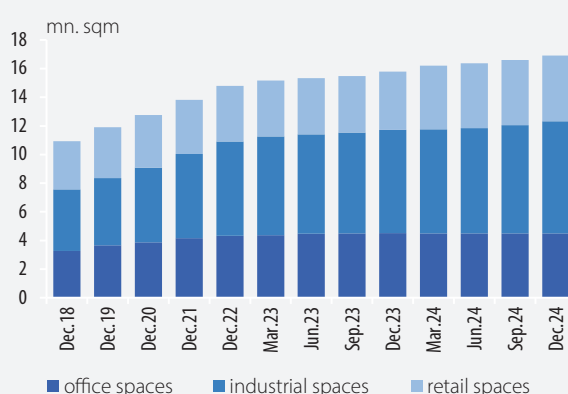
⁶⁴ Taking into account the average price specified by the parties in the real estate purchase agreement for a 2-room flat and the average net wage income from which subsistence expenses equal to the net minimum wage economy-wide in force in December 2024 (lei 2,363) were deducted.

⁶⁵ Potential buyers correlated with the existing supply. Imobiliare.ro Report, 2024 Q4

The commercial real estate market

The volume of commercial real estate transactions signed in 2024 exceeded EUR 730 million, an about 50 percent year-on-year growth, pointing to a strong recovery of the market. Two thirds of the funds invested in the CRE market originated in just three countries, namely Belgium (29 percent), Czechia and Romania (23 percent each), yet a wide pool of investors from Europe and Asia accounts for the remaining investments. Industrial assets were the focus of investment activities, holding 40 percent of total transactions.

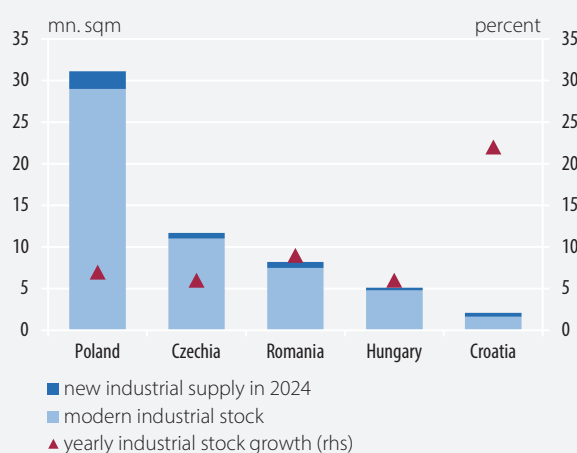
Chart 2.26. Modern rental stock



Note: Data refer to the stock of buildings built or refurbished starting with 2000, with a gross leasable area (GLA) of at least 2,000 sqm.

Source: iO Partners, NBR calculations

Chart 2.27. Industrial market in Central and Eastern European countries



Source: Avison Young, NBR calculations

The modern real estate stock has picked up gradually over the past years, across all market segments (Chart 2.26), but the industrial market stands out as a strong pillar in Romania's real estate landscape – with significant dynamics on both the demand and supply sides. The modern industrial stock continued its sustained rise in 2024 (+9 percent year on year and +82 percent versus 2018), making almost half of the total stock of commercial spaces by area. The demand for such spaces has remained on the upward trend it had embarked on during the pandemic, vacancy rates reaching historical lows of 4.3 percent at national level and 4.4 percent in Bucharest⁶⁶. Nevertheless, the market has still plenty of room to grow, both in comparison with the peer economies in the region (Chart 2.27) and domestically, with marked disparities in terms of geographical distribution. Almost half of the modern industrial stock is located in the Bucharest area, while more than 50 percent of the modern industrial and logistic spaces countrywide are located at less than 5 km to a highway entry.

The outlook for the period ahead is dampened by heightened uncertainty, amid geopolitical and trade tensions, with a potential negative impact on supply chains and the costs of building materials, which have already increased considerably

⁶⁶ Avison Young, *Romanian Real Estate Market Overview, 2024*

over the past years (+28 percent in 2022, +6 percent in 2024, annual averages). These developments reflect in the total construction costs for non-residential buildings, which grew at a sustained pace in the post-pandemic period (+19 percent in 2022, +7 percent in 2023 and +10 percent in 2024, in annual terms), with effects on non-residential construction works. In February 2024 – January 2025, the latter contracted by 6 percent year on year, whereas the useful floor area stipulated in non-residential building permits declined by 1.2 percent in March 2024 – February 2025 as compared with the previous corresponding period.

2.3.2. Risks generated by the residential real estate sector and real estate lending to households

The banking sector's exposure to the residential real estate market⁶⁷ remained significant, accounting for approximately 63 percent of the total portfolio of loans to households (March 2025). Real estate investment loans expanded by 5.2 percent in annual terms in March 2025, despite the steep decline in loans granted under the "First Home"/"New Home" government programme. Demand for the latter loans has fallen steadily as of late, amid banks' supply of more advantageous standard housing loans, so that new "First Home"/"New Home" loans dropped markedly (-60.6 percent in April 2024 – March 2025 versus the previous 12-month period). Access to housing loans improved, against the background of the advance in wage income (by 10 percent in Bucharest and by 11 percent at national level in December 2024 versus the same year-earlier period), alongside the drop in financing costs (the average annual percentage rate of charge on leu-denominated housing loans shrank from 7.9 percent in December 2023 to 7.71 percent in March 2025). Thus, the housing affordability index⁶⁸ rose to 1.3 at national level in December 2024 from 1.2 in the same year-ago period (the average net monthly income is about 30 percent higher than the optimal income needed to take out a housing loan).

Most real estate transactions were financed from own sources, solely 22.2 percent⁶⁹ of them being funded by a housing loan (as at 2024 Q4). The average loan amount for the aggregate portfolio of housing loans was lei 242 thousand in March 2025, rising from around lei 218 thousand two years before (+11.1 percent), Table 2.1. Almost half of the debtors who took a housing loan in 2025 Q1 were aged 30 to 40 (Chart 2.28). Non-first time buyers have a lower debt service-to-income at origination (DSTI-O) than first-time buyers, i.e. 34.8 percent versus 35.9 percent, median. This is suggestive of either a better financial standing of the former debtors, namely a higher income, or their build-up of savings and holding of a larger down payment at the loan origination date, as indicated by the higher LTV ratio (63.7 percent against 72.3 percent, median), Chart 2.29.

⁶⁷ Housing loans and mortgage-backed consumer loans are taken into consideration.

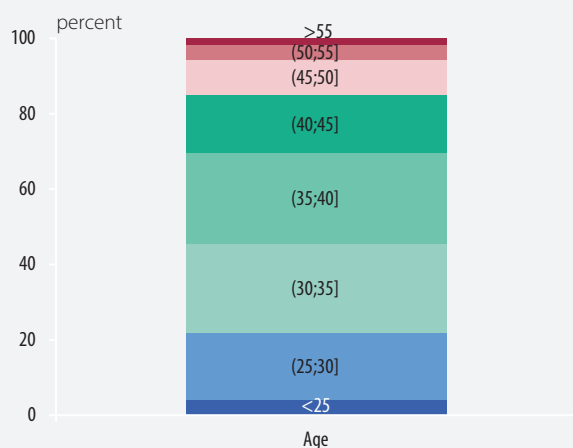
⁶⁸ The housing affordability index measures the average net income relative to the income needed to purchase a dwelling, at a 15 percent down payment, a 45 percent debt service-to-income ratio and a 25-year maturity. The average price specified by the parties in the real estate purchase agreement for a 2-room flat was taken into account.

⁶⁹ According to data provided by the National Union of Notaries Public of Romania in its reports to the NIS

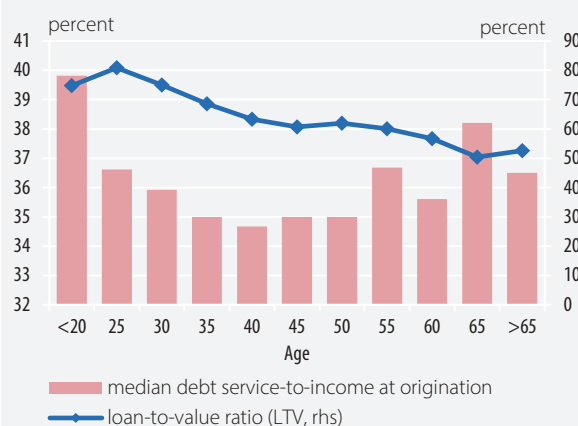
Table 2.1. Statistics on real estate lending

	3/2019	3/2021	3/2023	3/2025	
Volume of housing loans (lei bn.)	75	91	105	111	
No. of debtors	450,199	512,920	546,047	540,716	
Share of debtors who took "First Home"/"New Home" loans (%)	48	45	39	31	
No. of loans	465,784	560,142	592,462	578,618	
Share of "First Home"/"New Home" loans (%)	46.6	41.1	36.2	28.8	
Average loan amount (lei)	191,291	195,828	217,665	241,870	
Average down payment* (%)	20	35	36	37	
Average original maturity (years)	25.1	23.9	23.4	22.2	
Average monthly instalment (lei)	1,182	1,114	1,623	1,720	
Annualised average interest rate (%)	5.0	4.3	7.4	6.7	
Average debt service-to-income at origination* (%)	40	39	37	36	
Share of foreign currency-denominated loans (%)	33	23	16	11	
Share of debtors who took multiple housing loans (%)	3	8	8	6	

*) "First Home"/"New Home" loans are excluded.

Chart 2.28. Distribution of individuals who took housing loans in 2025 Q1 by age

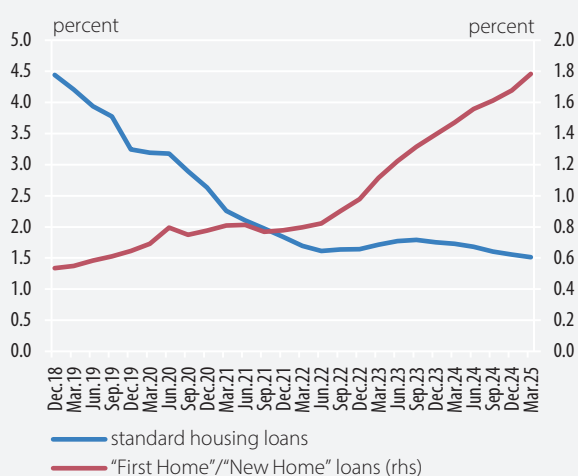
Source: NBR

Chart 2.29. Distribution of the median debt service-to-income and of the loan-to-value ratio for individuals who took housing loans in 2025 Q1 by age⁷⁰

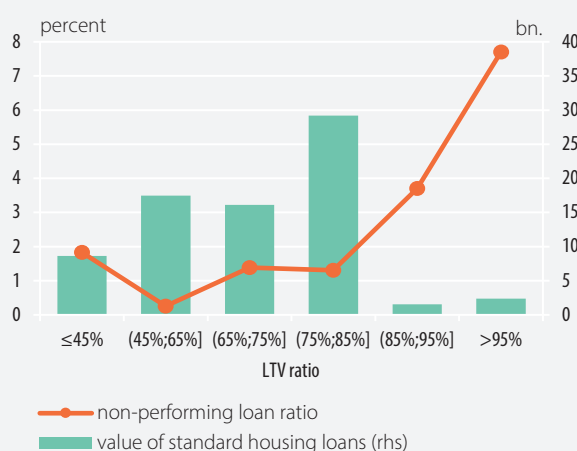
Source: NBR

Even though "First Home"/"New Home" loans boasted better quality than standard housing loans over time, this trend has recently reversed, the NPL ratio for "First Home"/"New Home" loans exceeding that for standard housing loans (1.78 percent versus 1.51 percent, March 2025, Chart 2.30), also amid their floating rate and higher costs. In their case, the deteriorating credit quality is not driven by the increase in delayed payments, but by banks classifying debtors, to a greater extent, as unlikely to pay.

⁷⁰ For debtors over 60, the average maturity is below 10 years.

Chart 2.30. NPL ratio for housing loans by type of loan

Source: NBR

Chart 2.31. LTV ratio and NPL ratio for standard housing loans (March 2025)

Source: NBR

The non-performing loan ratio is higher for loans with a low loan-to-value (LTV) ratio ("First Home"/"New Home" loans excluded), namely 6.1 percent for loans with an LTV above 85 percent compared to 1.4 percent for loans with an LTV below 85 percent (March 2025, Chart 2.31). The loss given default is higher in their case, the macroprudential measures implemented by the National Bank of Romania being aimed at enhancing the resilience of both debtors – by supporting a sustainable level of indebtedness – and credit institutions. Thus, the median LTV ratio for new loans ("First Home"/"New Home" loans excluded) was 72.6 percent (-0.7 percentage points in March 2025 from March 2024), whereas the median LTV ratio for the entire housing loan stock stood at 65.6 percent (-3.1 percentage points in March 2025 against the previous year).

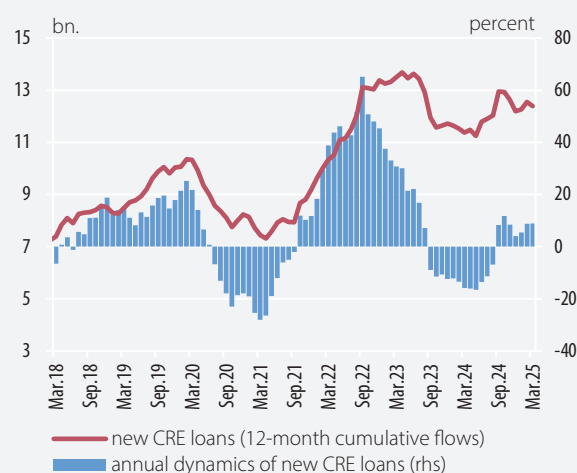
2.3.3. Risks generated by the commercial real estate sector and mortgage-backed lending to non-financial corporations

The banking sector's exposure to the commercial real estate market remained significant, commercial real estate loans (CRE loans) accounting for 49 percent of the portfolio of loans to non-financial corporations (lei 100.4 billion in March 2025, up by 6.4 percent year on year). Direct exposures to construction and real estate companies made up 39 percent of total CRE loans (lei 39.1 billion, March 2025), the remainder of exposures being indirect exposures, namely loans secured by real estate extended to firms operating in other business sectors (lei 61.3 billion, March 2025). CRE loans⁷¹ classified based on the definition of the European Systemic Risk Board (ESRB definition), which cover loans granted as of May 2022, held 37 percent of total CRE loans and totalled lei 36.8 billion (March 2025).

⁷¹ The classification of loans according to Recommendation ESRB/2016/14 groups loans secured by real estate into commercial real estate loans (CRE loans) and residential real estate loans (RRE loans).

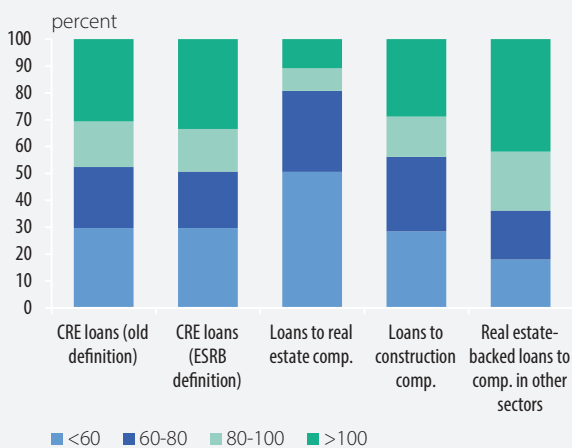
New CRE loans resumed their upward path towards the end of 2024, the volume of such new loans (12-month cumulative flows, Chart 2.32) increasing by 9 percent in April 2024 – March 2025, in line with the estimations regarding a rebound in the commercial real estate market.

Chart 2.32. New CRE loans



Source: NBR

Chart 2.33. Distribution of CRE loans by definition and the LTV ratio (March 2025)



Source: NBR

The quality of the CRE loan portfolio has improved substantially over the past years, even though it is still lower than that of the aggregate portfolio of loans to non-financial corporations (an NPL ratio of 5.1 percent versus 4.4 percent, March 2025). Loans secured by real estate granted to companies operating in other business sectors than construction and real estate have a higher credit risk, their NPL ratio standing at 5.5 percent against 4.6 percent for loans to construction and real estate firms. In addition, loans with an above-one LTV ratio have a higher risk of loss given default, requiring closer monitoring (Chart 2.33). Thus, about a third of the commercial real estate loans (CRE loans) in the balance sheets of credit institutions post an LTV ratio higher than 100 percent, indicating debtors', as well as banks', significant exposure to the risk of a decline in the value of loan collateral.

Cross-border exposures of construction and real estate companies in the form of medium- and long-term external debt were mainly financed by foreign private investors (65 percent, December 2024), ahead of foreign banks (24 percent). Moreover, only three countries (the Netherlands, Austria and Cyprus) accounted for 67 percent of the long-term external debt of construction and real estate firms.

The vulnerabilities posed by the commercial real estate sector in Romania are currently manageable. However, the uncertainty generated by the US trade policy and the escalating geopolitical tensions, with potential effects on supply chains and the volatility of international financial conditions, are likely to amplify the existing vulnerabilities to financial stability. The framework for monitoring the systemic risks

stemming from the CRE market in Romania was assessed as appropriate, continuously improving and fully compliant with Recommendation A of Recommendation of the European Systemic Risk Board on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9)⁷².

⁷² *Summary Compliance Report for Recommendations ESRB/2022/9 and ESRB/2016/14*

3. THE FINANCIAL SECTOR

The Romanian banking sector's resilience to potential shocks stemming from the uncertainty-ridden macroeconomic and political environment remains adequate. The main financial soundness indicators are in the low-risk bucket in terms of solvency (total capital ratio: 24.9 percent, December 2024), liquidity (liquidity coverage ratio: 252.4 percent, March 2025, net stable funding ratio: 194.5 percent, March 2025), asset quality (NPL coverage by provisions: 66.1 percent, NPL ratio: 2.5 percent, March 2025) and profitability (ROE: 18.2 percent, ROA: 1.7 percent, March 2025). The results of the latest solvency stress test confirm the capital adequacy to risks, considering the capital surplus above the overall capital requirements and the good capacity to cover losses from the current operating profit. Resilience is supported by the conservative dividend distribution policy pursued over the past years, in line with the NBR recommendations.

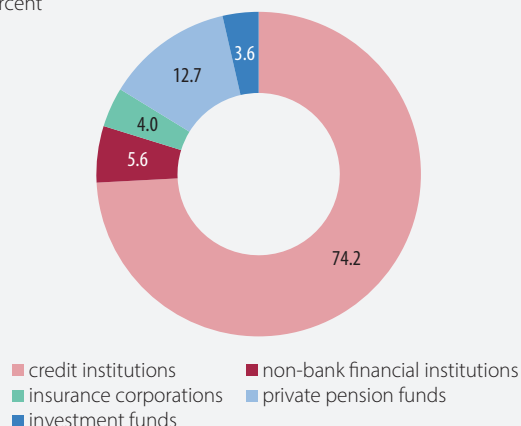
Structural developments point to the growth of deposits from the real sector, with overnight deposits further holding a prevailing share, as well as to the increase in lending to the real sector, predominantly in domestic currency, but to a smaller extent than lending to the general government, which helped strengthen the link between the government and banking sectors. There are significant unused resources that could contribute to supporting loans to the real sector to a greater extent, as shown by the loan-to-deposit ratio (LTD: 62.9 percent, March 2025).

For the period ahead, the main challenges to the banking sector include: (i) credit risk, as a result of the uncertain macroeconomic environment and the structural imbalances; (ii) slowdown in the dynamics of operating income, with an impact on profitability; (iii) strong link with the government sector (direct exposures via loans granted and holdings of government securities accounted for 27 percent of assets, March 2025) and the potential rise in sovereign risk; (iv) increased relevance of cyber risk and the need for the precautionary management of such risks in the context of digital transition.

In 2024, non-bank financial institutions further followed the upward path seen in recent years, playing an increasingly relevant role in financial intermediation in Romania. New loans granted to non-financial corporations were mostly directed towards the services and trade sectors, accounting for approximately 35 percent and 32 percent, respectively, of total new loan flows during the period March 2024 – February 2025. The foreign currency lending to non-financial corporations is a risk factor for non-bank financial institutions, given the high share of foreign currency exposure (around 84 percent of the stock as at December 2024) and the upward trend in foreign currency lending in recent years.

Chart 3.1. Distribution of assets in the Romanian financial system (2024 Q4)

percent



Source: NBR, FSA, NBR calculations

Throughout 2024, the Romanian financial system continued to expand, with total assets rising by 9.6 percent and reaching lei 1,234 billion in December 2024. Among its components, investment funds and pension funds posted the largest increases (19.8 percent and 19 percent, respectively). The insurance sector also witnessed similar developments (annual dynamics of approximately 16 percent), while the most significant component of the financial system, namely the banking sector (Chart 3.1), grew by 7.4 percent versus December 2023, at a rate below the average for the overall financial system.

However, amid a swifter pick-up in economic activity in nominal terms, the size of the financial system declined as a share in GDP (69.9 percent in December 2024 compared to 70.2 percent in the same month of the previous year).

Pension funds, both privately managed (Pillar II) and voluntary (Pillar III), are gaining importance within the financial system, with a fast pace of increase of assets for both categories (total assets amount to lei 156.4 billion, equivalent to approximately 9 percent of GDP at end-2024). These dynamics were also driven by the measures that entered into force in January 2024, which raised the Pillar II contribution by one percentage point to 4.75 percent. Although Pillar II is the most important component, voluntary pension funds also posted a considerable growth rate in 2024, i.e. around 17 percent, amid a diversification of saving sources across households.

The insurance protection gap for natural catastrophes in Romania is among the largest in Europe, following Greece and Italy⁷³. According to data published by the Natural Disaster Insurance Pool (PAID), only 23.9 percent of dwellings in Romania were covered by a mandatory insurance policy (PAD) as at March 2025. Although the insurance market recorded positive dynamics in 2024 (an annual increase in gross premiums written of 11 percent, amounting to lei 23.4 billion⁷⁴), non-life insurance remains the more significant segment, accounting for 81 percent of the total. Within this category, motor insurance further prevails, making up for approximately 73 percent of total non-life insurance⁷⁵.

The interlinkages between institutional sectors highlight several important cross-sectoral connections (Chart 3.2). The banking sector has a traditional business model, based on deposit taking and lending to households and non-financial corporations. However, there is a growing relationship with non-bank financial institutions (NBFIs), as bank finance accounts for about 49 percent of total funds raised by NBFIs, up by

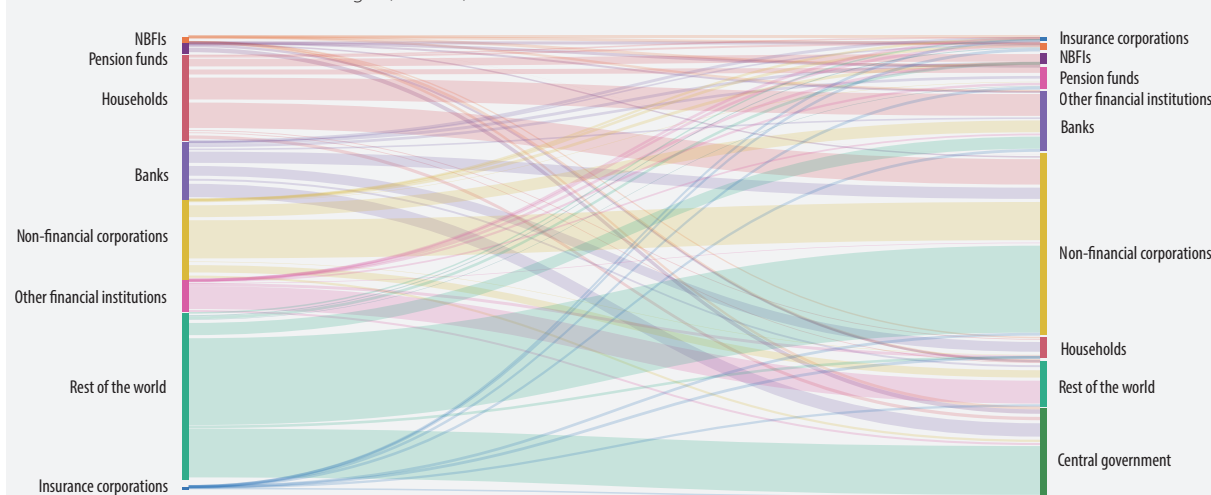
⁷³ EIOPA, The dashboard on insurance protection gap for natural catastrophes in a nutshell, November 2024

⁷⁴ This includes not only the premiums written by the 25 insurance companies, but also those written by the 14 branches operating in Romania.

⁷⁵ Source: the FSA Report entitled "Evoluția pieței asigurărilor în anul 2024".

1 percentage point against the previous year. Nevertheless, bank exposures to NBFIs take up 2.9 percent of total bank assets.

Chart 3.2. Institutional sector interlinkages (2024 Q3)



Source: NBR

In the current international environment, marked by an unprecedented level of uncertainty, another potential risk spillover channel is the external one, which is the most relevant for non-financial corporations and the public sector.

3.1. Banking sector

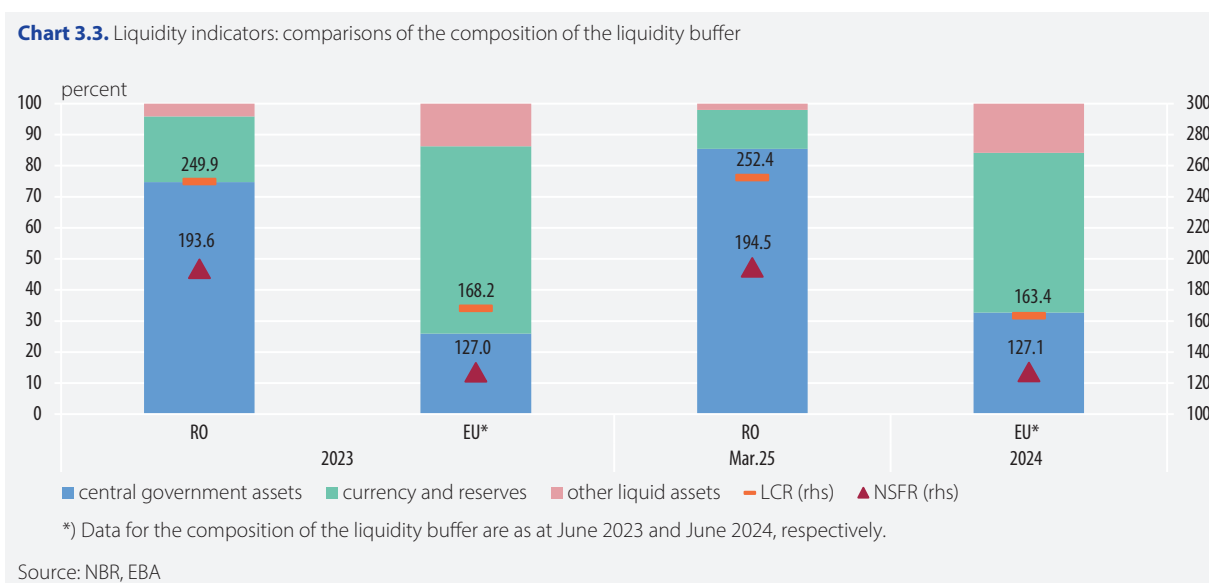
3.1.1. Resilience of the banking sector

The Romanian banking sector has proven resilient in the recent period, as reflected by asset quality, liquidity and solvency indicators remaining at adequate levels, in the context of high profitability. However, banks need to continue to exhibit prudent behaviour in the period ahead, amid strong uncertainties related to multiple geopolitical events and domestic macroeconomic imbalances, with potential negative effects on borrowers' financial standing and creditworthiness. At the same time, higher cyber risk calls for greater vigilance from credit institutions, as digitalisation of financial services and the connection with third-party service providers have increased.

Since the previous *Report*, the Romanian banking sector has shown good liquidity management, in spite of the challenges posed by the unfavourable developments in the macroeconomic and geopolitical environment. The resilience of the local banking sector is ensured both by the traditional funding model (based primarily on attracting deposits from households) and by a substantial reserve of liquid assets. The breakdown shows that the liquidity buffer (the numerator of the liquidity coverage ratio – LCR) mostly consists of exposures to the central government, mainly in the form of government securities (85.5 percent, December 2024, Chart 3.3) and

currency and reserves (12.5 percent, December 2024). The liquidity buffer of the local banking sector has a different structure compared to other European banking sectors. At EU level, the liquidity buffer is largely made up of currency and reserves (51.5 percent, June 2024), with central government assets accounting for 32.7 percent. At the same time, at European level, there is a better diversification of assets that make up the liquidity buffer, with other liquid assets accounting for 15.8 percent (compared to only 2 percent in the case of banks in Romania). This concentration of the liquidity buffer reflects the strong interconnection between the banking sector and the government sector. Compared to the same year-ago period, banks' appetite for exposures to central government grew, with their share in liquid assets posting increases both at European level (+6.8 percentage points) and in the case of local banks (+10.7 percentage points).

In March 2025, the LCR stood at 252.4 percent (Chart 3.3), comfortably exceeding both the minimum required level and the EU average (163.4 percent). The net stable funding ratio (NSFR) amounted to 194.5 percent in March 2025, significantly above the EU average of 127.1 percent.



The adequate level of prudential indicators of credit institutions in Romania has a positive effect on depositors' confidence in banks' capacity to service maturing debts, allowing further low costs of funding sources and ensuring their stability.

Despite the favourable liquidity situation of banks in Romania, there are a series of exogenous factors, stemming from the current uncertain environment (characterised by escalating geopolitical tensions), which could trigger potential imbalances. Moreover, the fast development of digital services and the progress made in artificial intelligence led to heightened cyber risks, so that the quantification and management models for traditional risks need to be reviewed. Cyberattacks, even those with an initially low financial impact, may lead to bank runs, in the event of improper management. Specifically, banks must continue to invest in identifying advanced cybersecurity solutions in order to address the possible effects of cyberattacks (Box 2).

Box 2. Cyber risk in the context of banking digitalisation

In the present context, marked by digitalisation and mounting geopolitical tensions, cyber risks are becoming increasingly important. The swift expansion of advanced technologies in use has entailed a significant reliance on digital infrastructures, exposing organisations (*inter alia* financial institutions) to a growing spectrum of cyber threats.

According to the *ENISA Threat Landscape 2024* report, 9 percent of the cybersecurity incidents observed from July 2023 to June 2024 at European level targeted the finance sector (the third most attacked sector after public administration and transport). Moreover, 12 percent of the incidents with a significant impact reported in 2023 affected the European finance sector. In its first report⁷⁶ covering the finance sector in Europe, ENISA outlines the main cybersecurity risks and the prospects for the future evolution of digital threats. Among financial institutions, banks were the most frequently affected by cybersecurity incidents (46 percent), followed by public sector organisations related to finance⁷⁷ (13 percent). DDoS (distributed denial-of-services) attacks are further the most frequent cyber incidents (46 percent). Their incidence has increased in the context of geopolitical events and they generally target credit institutions (58 percent).

In addition, social engineering campaigns (such as phishing, smishing and vishing⁷⁸) have recently become more prevalent, targeting individuals in particular (38 percent). In general, the attackers impersonate bank officials, attempting to commit financial fraud and compromise sensitive data. Overall, frauds accounted for 6 percent⁷⁹ of all reported incidents, affecting primarily individuals and credit institutions.

The finance sector has constantly suffered from data-related incidents, due to the high value of the personal data it manages. Data breaches or leaks have mainly been observed to occur in credit institutions (39 percent). Ransomware attacks⁸⁰ have particularly affected service providers (29 percent) and insurance organisations (17 percent), causing financial and data losses, and operational disruption. Attacks on the finance sector often target IT systems, the financial institutions depending largely on the integrity and availability of their IT infrastructure. These cyberattacks can cause extensive interruptions of services (online banking platforms, transaction or payment processing systems, etc.).

⁷⁶ ENISA – *Threat Landscape: Finance Sector*, January 2023 – June 2024. Data source: EU and neighbouring countries (Albania, Iceland, Liechtenstein, Moldova, Norway, Switzerland, United Kingdom and Ukraine)

⁷⁷ Public sector organisations related to finance include the government or public institutions that regulate, supervise or manage financial activities.

⁷⁸ Social engineering encompasses a broad range of activities that attempt to exploit human error or human behaviour with the objective of gaining access to information or services, such as fraud attempts using scam e-mails (phishing), SMS (smishing) or phone calls (vishing).

⁷⁹ The number of fraud incidents may be higher, but fraud is often seen as a secondary consequence of other types of cyber incidents, such as phishing or data breaches, which might be reported under these categories.

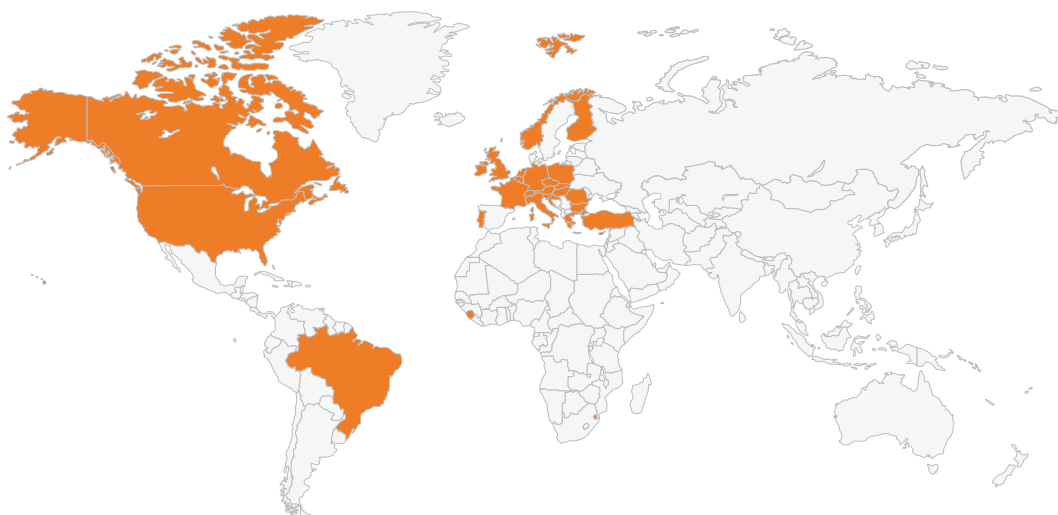
⁸⁰ Ransomware is a type of malware that prevents the victim from accessing their files or devices, usually by file encryption. Perpetrators use these incidents to demand a ransom in exchange for the return of access to files or devices.

The main cyber risk trends Europe-wide are manifest in Romania as well (according to the NBR's *2023 Survey on recent developments and prospects for digitalisation*). The most common incidents targeting local banks were DDoS and phishing attacks, with banks continuously investing in digital infrastructure to ensure they can cope with digitalisation challenges.

With a view to reinforcing cyber risk awareness, the NBR performed in 2024 the first cyber stress test among credit institutions. In collaboration with national and international authorities, two scenarios were outlined (with different stress levels), together with a questionnaire addressed to banks⁸¹. At individual level, assuming the materialisation of the tested scenarios, no significant operational vulnerabilities were identified, as banks were generally prepared to implement the necessary measures in these circumstances, such as the activation of business continuity plans and other cyber crisis management procedures. At the same time, banks have alternative channels of communication should the main channel become unavailable.

Nevertheless, the analysis showed that certain more intense cyber incidents could considerably amplify withdrawals of banks' funding sources, particularly deposits from non-financial corporations (given that they are guaranteed in a lower proportion than those of households). Banks estimate average withdrawals of funding sources to be markedly above historical volatility over a full business cycle (2008-2024) in both scenarios involving a cyberattack.

Chart A. Spatial representation of origin countries of ICT service providers for the banking sector in Romania



Source: NBR

According to an NBR survey on ICT service and solution providers, banks in Romania have used the services of local suppliers (approximately 50 percent), the list including also suppliers from the US, the UK and EU countries in particular (Chart A). The ICT suppliers of local banks are generally based in countries with

⁸¹ Credit institutions, Romanian legal entities (except home loan banks) and ING Bank N.V. Amsterdam, the Bucharest branch.

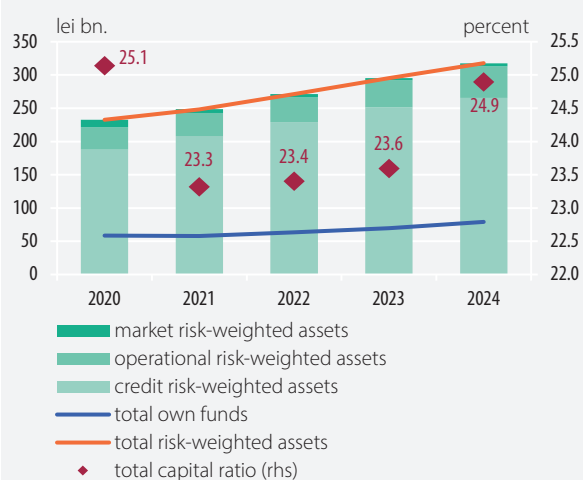
developed network infrastructure, which are not affected by geopolitical conflicts and which are less exposed to long-lasting discontinuation of services.

Most contracts concluded between banks and ICT service providers are intended for purchasing software licenses (35 percent) and developing ICT infrastructure (19 percent). The vast majority of banks rely completely (63 percent) or significantly (11 percent) on ICT service providers, which are considered difficult to replace (58 percent).

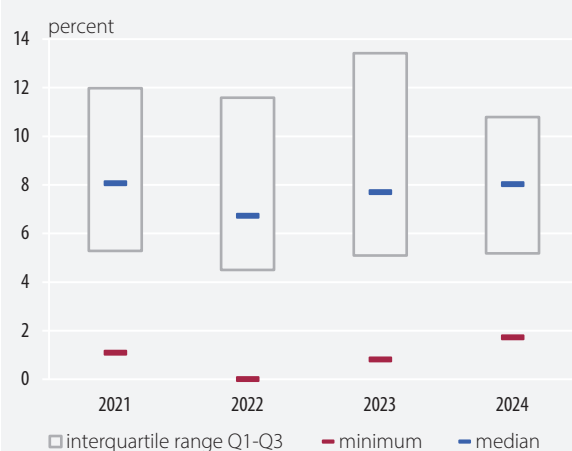
In the *Cybersecurity Threats Fast-Forward 2030* report, ENISA identifies ten emerging cybersecurity threats, including attacks on software supply chains, advanced disinformation campaigns and artificial intelligence abuse. These trends highlight the need for a proactive approach to cyber risks. Consequently, an investment strategy is necessary to strengthen the cyber defence of financial institutions (credit institutions, in particular), entailing an increase in operating expenses. This implies the allocation of funds for the effective management of ICT supply chain and the improvement in incident response. Compliance with the legislative framework, including the General Data Protection Regulation (GDPR), the Network and Information Systems Directive (NIS) and the Digital Operational Resilience Act (DORA), is of the essence. To this end, banks should regularly assess: (i) cyber risks that could affect their critical infrastructure, (ii) compliance with specific cyber incident reporting requirements, (iii) development of robust incident response and business continuity plans, and (iv) risk management of ICT third-party service providers. Moreover, the implementation of training programmes for employees is crucial to identify and respond effectively to security incidents, but also to ensure compliance with the numerous regulatory requirements in the field. Such an extensive approach can ensure the long-term resilience of the financial system to cyber threats. Additionally, raising awareness and providing accurate information about cybersecurity threats on a continuous basis to the general public could significantly reduce the effects of cyber risk materialisation.

The total capital ratio continued to increase over the past three years at a slow and sustainable pace, reaching 24.9 percent in December 2024 (Chart 3.4), amid the faster dynamics of total own funds compared to those of risk-weighted assets. This was ascribable to the retention of a significant share of net earnings, as well as to the shift towards low-risk assets (overall risk ratio of 27.4 percent, December 2024).

Capital adequacy indicators in Romania stand above the EU average (20.2 percent as at December 2024) and ensure a significant capital surplus above the overall capital requirements (OCR – 17.3 percent as at December 2024). On the one hand, the median capital surplus increased slightly (up to 8 percentage points, Chart 3.5), and on the other hand, the dispersion of values among banks declined. The substantial capital reserve and the good capacity to cover losses from the current operating profit provide resilience in the event of worsening macroeconomic conditions, which was also highlighted by the latest solvency stress test.

Chart 3.4. Breakdown of total capital ratio components

Source: NBR

Chart 3.5. Distribution of bank capital surplus above the overall capital requirements

Source: NBR

The entry into effect as of 1 January 2025 of the most recent reforms to the regulatory framework via the CRD VI/CRR III legislative package (Box 3) will have a significant impact on credit institutions' capital position, especially due to the revision of the calculation methodologies for risk-weighted assets for the standardised approach to credit risk.

Box 3. Relevant provisions introduced in the CRD VI/CRR III legislative package for the adoption of the Basel III framework

The CRD VI⁸² and CRR III⁸³ legislative package, which is part of the implementation of Basel III in the European Union, was adopted in 2024 and entered into force as of 2025, including several transitional provisions. The new revised prudential framework aims to strengthen the resilience of the EU banking sector, the most relevant issues from the perspective of the implications for the Romanian banking sector being as follows:

(1) Revision of the credit risk treatment under the standardised approach:

- The exposures secured by real estate are tackled in a more detailed manner – the applicable risk weights become more granular depending on the type of collateral, borrower characteristics, the loan-to-value (LTV) ratio, the income producing feature of the immovable property or the purpose of the immovable property/loan, denomination and natural currency hedge, applying penalties to riskier exposures. For an exposure secured by a mortgage on residential property, the part of the exposure up to 55 percent of the property value shall be assigned a risk weight of 20 percent, while the remaining part of the exposure shall be risk weighted depending on the above-mentioned criteria.

⁸² Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks

⁸³ Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

Land acquisition, development and construction (ADC) exposures shall receive a particular treatment, being assigned a risk weight that may be 100 percent or 150 percent.

- A distinct treatment shall be introduced for exposures with a currency mismatch, which implies that the applicable risk weight shall be multiplied by a factor of 1.5 where the conditions for natural currency hedge are not met.
- A transitional treatment shall be applied to exposures to the central government or to the central bank denominated in the domestic currency of another Member State, which, in the assumption of Romania's current rating, would be the equivalent of applying a risk weight of 10 percent during 2025, 25 percent in 2026 and 50 percent starting in 2027.

- (2) Standardisation of the operational risk approach – previous approaches for calculating capital requirements for operational risk were replaced by a single standardised approach.
- (3) Limitation of the variability in the own funds requirements produced by internal models for credit risk by using a phased-in output floor relative to the equivalent requirements that would result from the standardised approach.
- (4) Adaptation to Basel requirements⁸⁴ with respect to the measurement of trading book risks (for instance, the introduction of the concept of “expected shortfall” in tests for market risk).
- (5) Introduction of explicit requirements on the identification, assessment, reporting and management of environmental, social and governance (ESG) risks.

3.1.2. Asset quality

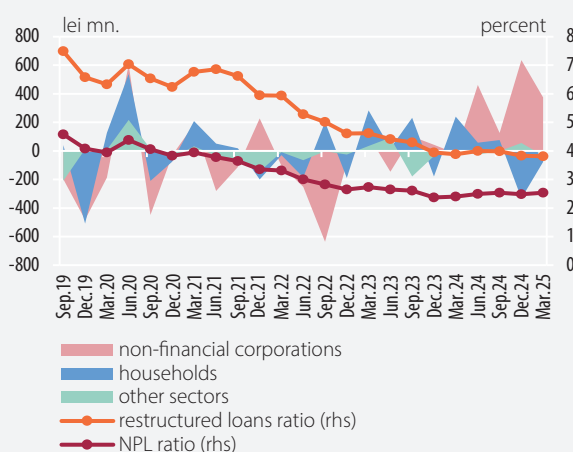
Asset quality indicators, such as the non-performing loan ratio, the non-performing loan coverage by provisions or the restructured loans ratio, place Romania's banking sector in the EBA-defined low-risk bucket. The non-performing loan (NPL) ratio was similar to that reported in the previous *Report* (2.5 percent, March 2025, Chart 3.6), standing above the EU average of 1.9 percent (December 2024). The components of the indicator made relatively equal contributions to this stabilisation: loans and advances rose by 4.9 percent and non-performing loans by 4.7 percent versus September 2024.

The increase in the volume of non-performing exposures was mainly attributable to the non-financial corporations sector, with positive net flows of non-performing loans of around lei 1 billion since the end of 2024 Q3. In fact, this portfolio accounts for 58.8 percent of total stock of non-performing loans (NPLs), and this share has been on an upward trend since the release of the previous *Report*. Positive net quarterly

⁸⁴ Fundamental Review of the Trading Book – Basel

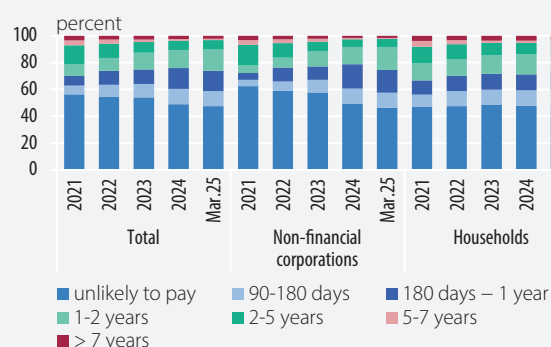
flows of non-performing loans were mainly on the part of the SMEs, which also report a growing non-performing loan ratio (for details, see Section 2.1). Households posted net outflows of non-performing loans in recent quarters, also due to write-offs (Chart 3.6).

Chart 3.6. Key asset quality indicators and quarterly net flows of non-performing loans



Source: NBR; credit institutions, Romanian legal entities

Chart 3.7. Composition of non-performing loans by the days past due bucket and portfolio type



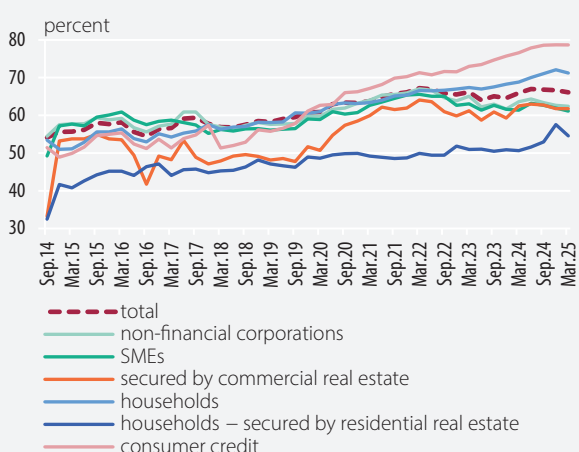
Note: "Unlikely to pay" includes non-performing exposures with low probability of full loan repayment without recourse to collateral, despite the absence of more than 90-day past-due loans.

Source: NBR; credit institutions, Romanian legal entities

The composition of non-performing loans by the days past due bucket reveals a proactive behaviour of banks in classifying loans as non-performing in recent years. The indications of unlikeliness to pay, led to an allocation of loans to non-performing loans, with 47.6 percent of total non-performing loans being classified under "unlikely to pay" in March 2025. However, this ratio has been following a downward trend, from 56.4 percent in December 2021, as the indications of unlikeliness to pay initiated proactively materialise gradually into increasingly long delays (42 percent of non-performing exposures are past due between 90 days and 2 years, compared to 22.1 percent in December 2021) (Chart 3.7). Behind this development stood the

loans to non-financial corporations, their worsening being more pronounced and persistent than in the case of loans to households (Chart 3.7).

Chart 3.8. Non-performing loan coverage by provisions – total and by type of portfolio



Source: NBR; credit institutions, Romanian legal entities

The ratio of restructured loans has fallen in recent months and the level of 1.3 percent recorded in March 2025 (Chart 3.6), below the EU average of 1.4 percent, places Romania's banking sector in the low-risk bucket. Restructured loans are classified, to a large extent, as non-performing (56 percent), being concentrated in the non-financial corporations sector (78 percent).

Non-performing loan coverage by provisions remained elevated (66.1 percent, March 2025) and significantly above the EU average (41.2 percent, December 2024), also in terms of the breakdown

by the main exposure class (Chart 3.8). This prudence reflected in the proactive recognition of losses from non-performing exposures is higher for unsecured loans (78.7 percent for consumer loans). The existence of real estate collateral ensures a higher level of loss recovery, the coverage ratio being lower (54.6 percent for loans secured by residential property and 61.8 percent for loans backed by commercial real estate, March 2025).

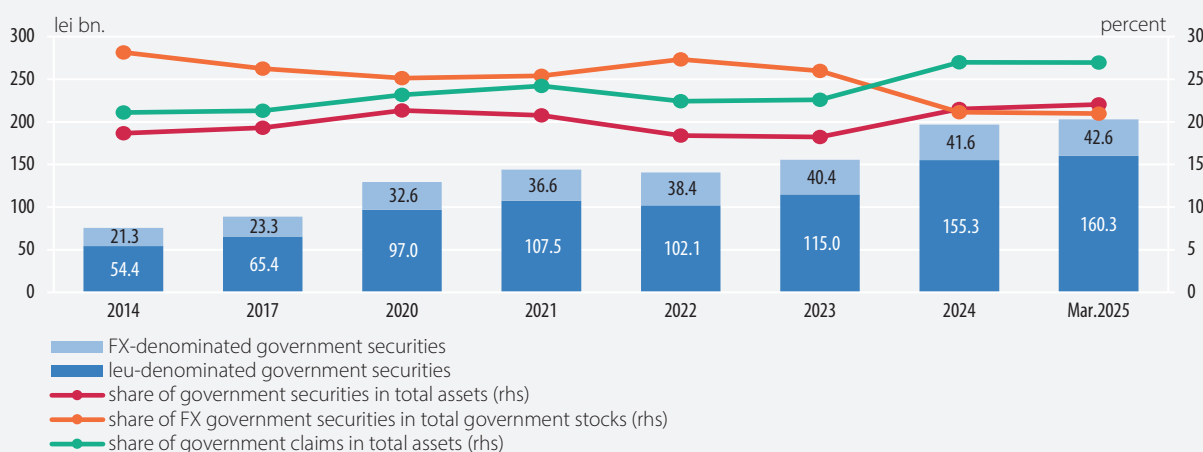
The share of loans in Stage 2 of impairment in total loans and advances narrowed (11 percent in March 2025 versus 12 percent in September 2024), amid the granting of new loans (initially characterised by low credit risk) and a marginal transition to Stage 3 of impairment, which is specific to non-performing exposures.

3.1.3. Interconnection of banks with the government sector

The interconnection of the banking and government sectors has strengthened further since the previous *Report*. Among the balance sheet items, holdings of government securities posted the fastest annual growth rate (Chart 3.9). Direct exposures of banks to the general government accounted for 26.9 percent of assets in March 2025. Indirect exposures, via the amount of the government-backed portion of loans to the real sector, added 4.7 percent of assets, whereas the quality of these loans has tended to worsen (see Chapter 2). State-owned banks accounted for 16.1 percent of net assets in March 2025, thus helping strengthen the link between banks and the government sector.

Banks' appetite for government securities prompted a rise in their balance sheet share to 22 percent in March 2025 and reinforced the role of credit institutions in funding the general government (Chart 3.9). The breakdown of these instruments shows that government securities denominated in local currency prevailed (79.0 percent of total government securities in banks' portfolios, in the amount of lei 160.3 billion).

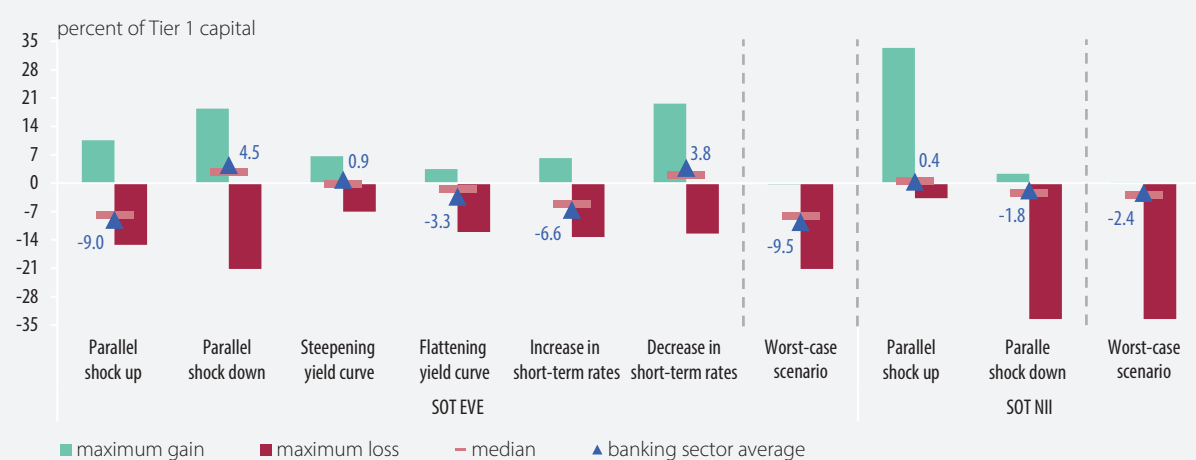
Chart 3.9. Breakdown and importance of the banking sector's holdings of government securities by currency and direct exposures of banks to general government



Source: NBR

The substantial share of securities in banks' total exposures to the general government and in total bank assets exerts positive effects on profitability, implies low credit risk and enhances liquidity. Nevertheless, these exposures contribute to an increase in sensitivity to interest rate risk, which implies compliance with Pillar 1 capital requirements if the securities belong to the trading book – a practice seldom resorted to by banks in Romania – or with microprudential capital requirements when the securities are part of the banking book (interest rate risk in the banking book – IRRBB).

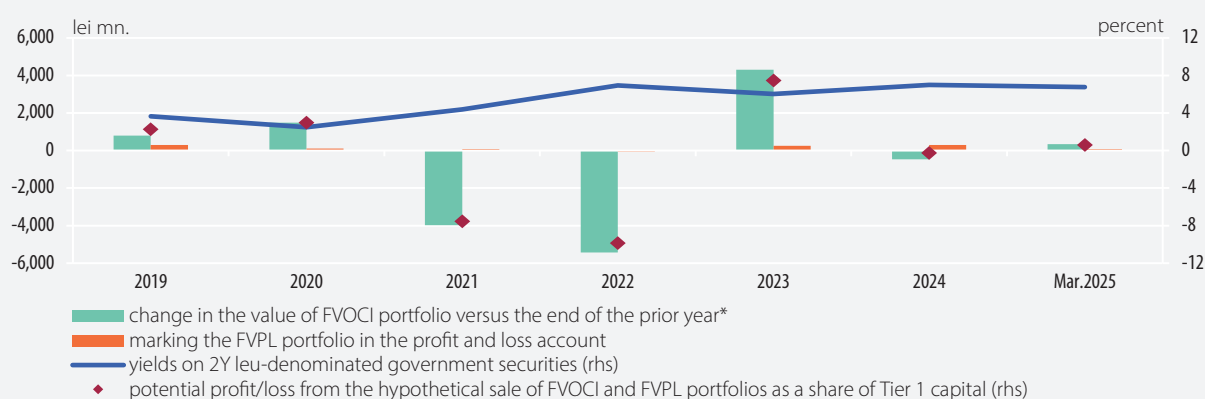
Chart 3.10. The impact of interest rate shock scenarios on the economic value of equity (SOT EVE) and the value of net interest income (SOT NII), December 2024



Source: NBR, specific IRRBB reports

According to EU-wide regulations, the regular assessment of exposure to interest rate risk in the non-trading book implies conducting supervisory outlier tests (SOT) on the impact on the economic value of equity (SOT EVE – with a signal threshold of -15 percent of Tier 1 capital) and on net interest income (SOT NII – with a signal threshold of -5 percent of Tier 1 capital) under extreme scenarios⁸⁵. These scenarios show that the interest rate risk arising from non-trading book activities (IRRBB) would imply a decline in the economic value of equity by up to 9.5 percent of Tier 1 capital (December 2025, SOT EVE), the test on the economic value of equity having a stronger impact than that on net interest income (SOT NII – a 2.4 percent decrease in Tier 1 capital under the most severe scenario) (Chart 3.10). The stronger impact of the SOT EVE test is ascribable to the large amount of government securities on banks' balance sheets, fixed-income items that help lengthen asset duration; the possible increase in the share of these exposures in the balance sheet, as a means to finance the rising government debt, contributes to a sharper adjustment of the economic value of equity, carrying the potential for penalties by triggering additional microprudential capital requirements.

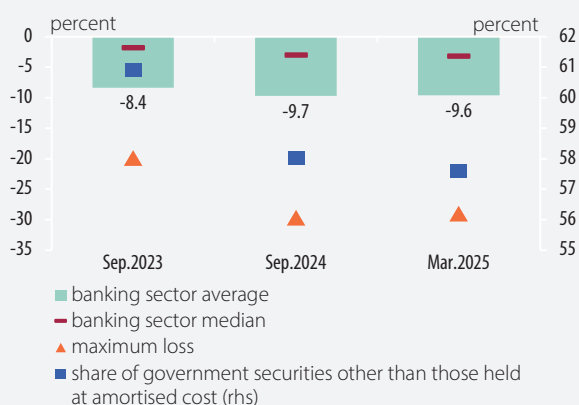
⁸⁵ Six supervisory shock scenarios for SOT EVE and the first two for SOT NII, detailed in *Commission Delegated Regulation (EU) 2024/856*. The two scenarios common to the two tests are as follows: (1) a parallel shock up, where there is a parallel upward shift of the yield curve with the same positive interest rate shock for all maturities of 350 basis points for lei and 200 basis points for euro, and (2) a parallel shock down, where there is a parallel downward shift of the yield curve with the same negative interest rate shock for all maturities of 350 basis points for lei and 200 basis points for euro.

Chart 3.11. Marking to market of the portfolio of government securities measured at fair value in the period 2019-2025

*) the difference between the outstanding balance of the on-balance sheet items "Changes in the fair value of debt instruments measured at fair value through other comprehensive income" at the reference date and that as at December of the prior year; credit institutions, Romanian legal entities

Source: NBR

Over the short term, the effects of sharp changes in interest rates on banks' portfolios of government securities are relevant especially if these holdings are recognised at fair value. The upsurge in government securities yields in the period 2021-2022 initially led to unrealised losses on portfolios of securities held at fair value (Chart 3.11).

Chart 3.12. Distribution of the potential impact on Tier 1 capital of a parallel upward shock on the yield curve for the portfolio of government securities measured at fair value held by credit institutions, Romanian legal entities

Source: NBR

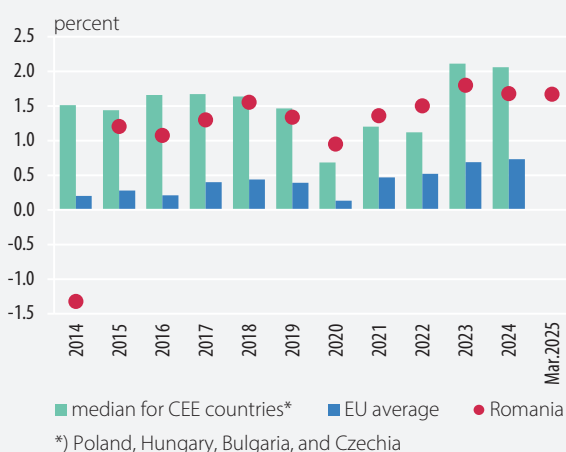
The specific feature of Romania's banking sector, i.e. measuring financial instruments at fair value through other comprehensive income (FVOCI⁸⁶, 53.5 percent, March 2025), may lead to an overestimated impact of an interest rate shift if the securities are held to maturity (the average cost of holding securities portfolios generally undergoes less significant changes than those reflected in the forward rates used in measuring market value). Nevertheless, the sensitivity of the securities portfolio in the event of extreme interest rate shocks is relevant, given the growing amount of banks' exposures in the form of government securities. Specifically, for the credit institutions' portfolio of government securities measured at fair value, a parallel upward shock on the yield curves of leu- and euro-denominated government securities (a shift of 350 basis points for the former yield curve and 200 basis points for the latter) could entail a decline in Tier 1 capital by approximately 9.6 percent in the banking sector, and could fall as much as 29 percent in the case of certain credit institutions (Chart 3.12).

⁸⁶ FVOCI – fair value through other comprehensive income; FVPL – fair value through profit or loss

3.1.4. Structural developments and implications for profitability

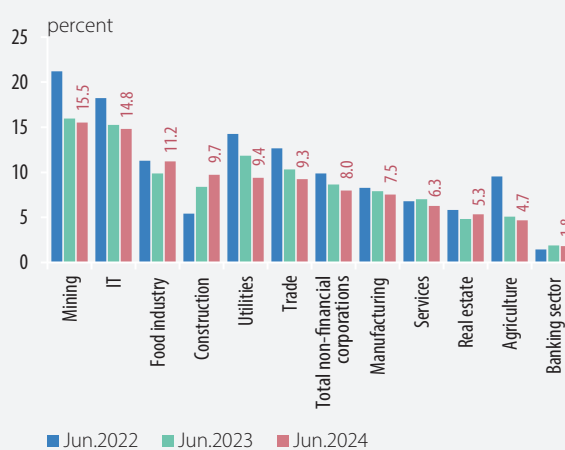
Profitability is an important pillar of enhancing banking sector resilience. Net profit was lei 14.2 billion in 2024 and lei 3.7 billion in 2025 Q1, but the relevant indicators followed a downward trend after 2023. The cumulative market share of loss-making credit institutions is small (0.9 percent of total bank assets), albeit on a slight increase. The return on assets (ROA) reached 1.7 percent in March 2025, whereas the return on equity (ROE) was 18.2 percent. The ROA is above the EU average (0.7 percent, December 2024), yet close to the median of Central and Eastern European countries (2.1 percent, Chart 3.13), but, at the same time, it is significantly lower than that of non-financial corporations in Romania (8 percent, June 2024). Compared to other economic sectors, the banking sector has the lowest return on assets (Chart 3.14).

Chart 3.13. Return on assets (ROA) of the Romanian banking sector – comparisons with EU countries



Source: EBA, NBR

Chart 3.14. Return on assets (ROA) in the banking sector and main economic activities



Source: NBR, MF, NBR calculations

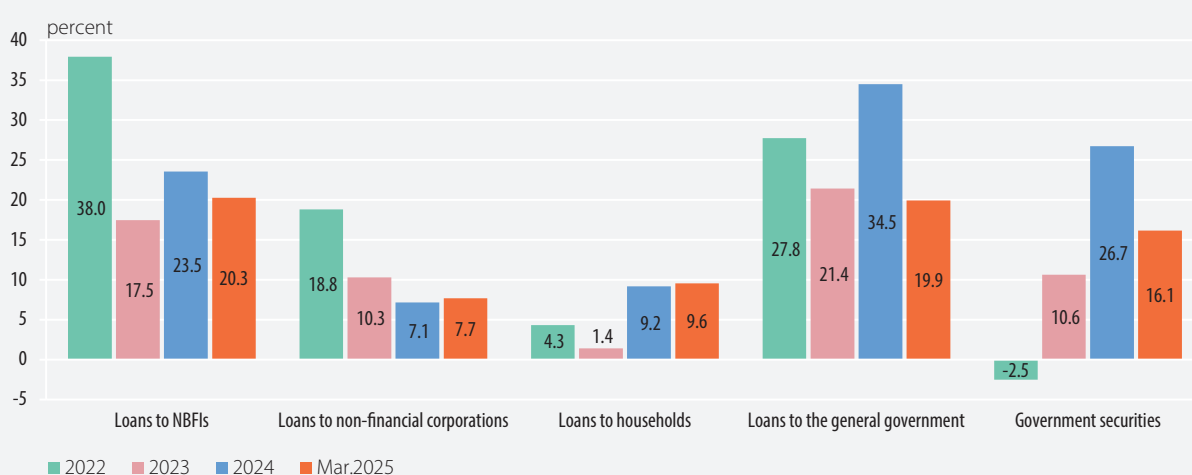
Net interest income is the main source of operating income (72 percent, with an annual increase of 6.5 percent in March 2025). Net fee and commission income accounted for 15 percent of operating income (an annual increase of 5.6 percent, March 2025), while net exchange rate differences made up 6.1 percent of operating income. The annual growth of operating expenses (9.6 percent, March 2025) reflects rising cost pressure.

Since the previous *Report*, the following structural developments have occurred: (i) strengthening of the outstanding deposits taken from the real sector, with overnight deposits of this sector further holding a prevailing share; (ii) an increase in lending to the real sector, predominantly in domestic currency, but to a smaller extent than lending to the general government; (iii) maintaining a loan-to-deposit ratio far below one, reflecting a potential growth in lending to the real sector (LTD of 62.9 percent⁸⁷, March 2025).

⁸⁷ Loan-to-deposit ratio for households and non-financial corporations

The assets of the Romanian banking sector have strengthened since the previous *Report*, i.e. to lei 920.5 billion in March 2025, mainly due to the rise in holdings of government securities issued by general government (annual dynamics of 16.1 percent in March 2025, Chart 3.15). Private sector credit went up by 9.2 percent year on year (March 2025), with households posting a relatively similar pace of increase (9.6 percent) to that of non-financial corporations combined with non-monetary financial institutions. The breakdown shows that credit growth was mainly ascribable to leu-denominated loans, whose stock recorded an annual change of approximately lei 29.2 billion (March 2025), whereas the stock of EUR-denominated loans witnessed a more modest change (+lei 8 billion, March 2025). Leu-denominated loans accounted for around two thirds of the total loan stock granted by local banks (March 2025).

Chart 3.15. Annual growth rate of the stock of main bank assets

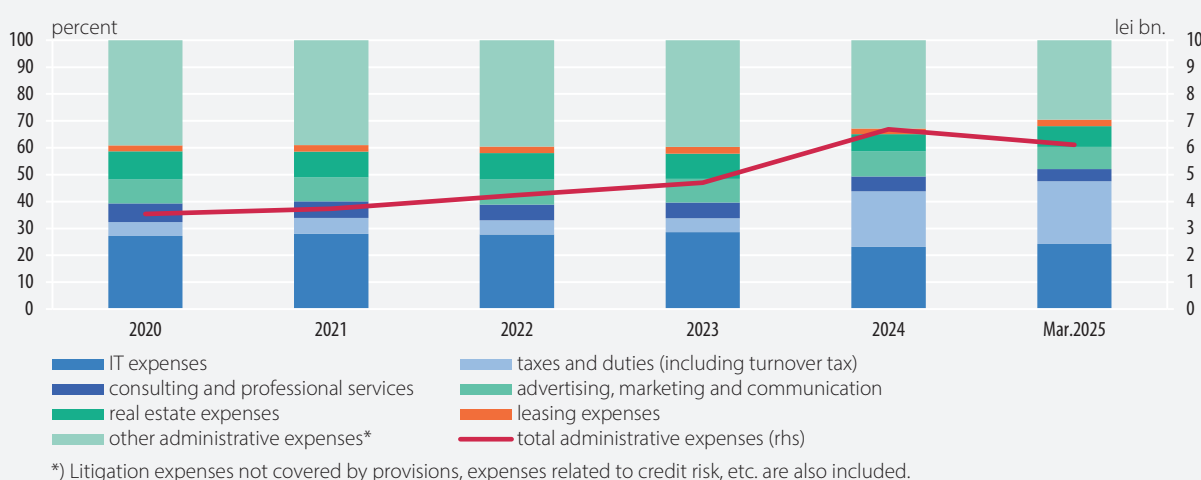


Source: NBR

Banks' resilience was favoured by their traditional funding model, based on raising deposits from the real sector, with a large share of overnight deposits, associated with low costs.

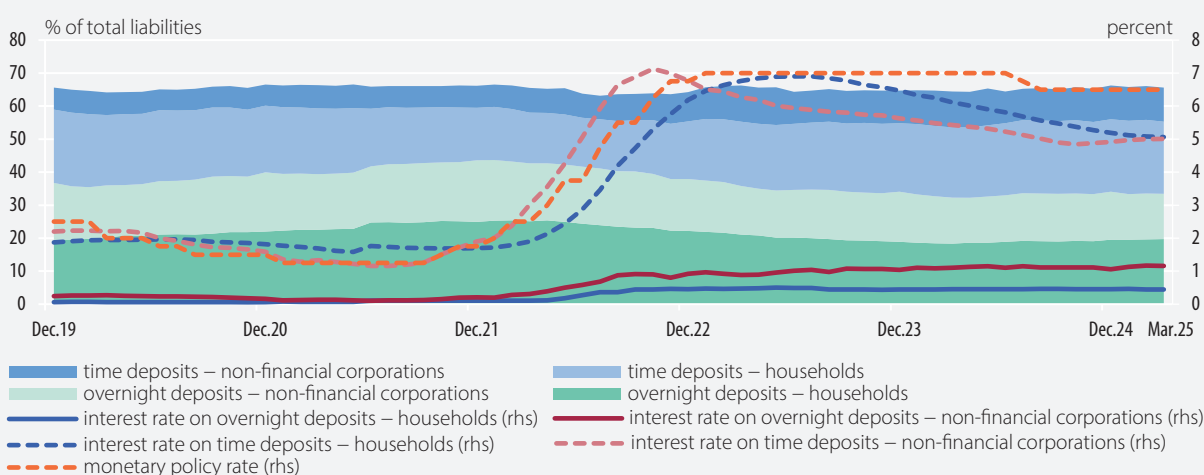
The deposits raised by the Romanian banking sector amounted to lei 736.3 billion, with 85.4 percent of these from the real sector, the average deposit funding cost coming in at 2.5 percent⁸⁸ (March 2025), trending slightly downwards. The breakdown shows that overnight deposits made up 50.4 percent (March 2025) of total deposits from the real sector, accounting for 34.5 percent of the total balance sheet (March 2025). The granularity of deposits is high: households' overnight deposits stood at 19.7 percent of the total balance sheet (Chart 3.17, March 2025), while non-financial corporations' overnight deposits had a sizeable, yet lower contribution to the balance sheet (13.8 percent, March 2025).

⁸⁸ Calculated based on the financial reports of credit institutions, Romanian legal entities, including all types of deposits

Chart 3.16. Composition of administrative expenses – component of operating expenses

Source: NBR

The time deposits of the real sector and NBFIs accounted for 33.9 percent of the total balance sheet (March 2025, Chart 3.17), with households' time deposits holding the prevailing share (21.9 percent of the total balance sheet, March 2025). The average interest rates on time deposits are strongly correlated with the monetary policy rate (Chart 3.17).

Chart 3.17. Breakdown of banks' deposits and interest rates

Source: NBR

Net fee and commission income is the second component in terms of size of operating income, making up 15 percent of the total (March 2025). This share is significantly lower than that at EU level, where 28 percent of total operating income comes from fees and commissions, given the depth of financial intermediation. The breakdown shows that fee and commission income and expenses are concentrated in payment services (69 percent) and, to a lesser extent, in clearing and settlement operations (4 percent of income and 13 percent of expenses, respectively). Income from fees and

commissions related to loans, guarantees granted, management of structured finance or of loans amounted to approximately 10 percent (March 2025).

Operational efficiency indicators (net interest margin – NIM and cost-to-income ratio) are heterogeneous and, at the same time, dependent on the size of credit institutions.

Strategies to consolidate operations and create synergies following acquisitions or mergers, as well as the shift towards digitalisation, coupled with the reduction in the number of employees and bank units, contributed to improving operational efficiency at aggregate level in 2022-2023 (the indicator values falling within the EBA-defined low-risk bucket). Subsequent developments showed a slightly worsening trend for the operating cost-to-income ratio (51.4 percent in March 2025).

The most important category of operating expenses is staff costs (46 percent, March 2025). Although the number of employees has been declining over the past decade, staff costs posted positive dynamics (11.9 percent in 2024), in line with labour market developments (substantial wage increases). Moreover, bank strategies focused on centralising and digitalising their activity, *inter alia* by concentrating employees at the head office to the detriment of branches (50 percent in 2024 compared to 44 percent in 2020), with higher average compensation. A series of structural changes occurred in administrative expenses, which accounted for 43 percent of operating expenses (March 2025) and have witnessed swift dynamics since 2024. The introduction of the turnover tax in 2024 has had a material impact on operating expenses (estimated at lei 1.29 billion for 2025 by annualising the first-quarter amount, similarly to 2024, when it recorded lei 1.3 billion), leading to a higher share of taxes and duties in total administrative expenses (23.3 percent, March 2025, Chart 3.16). At the same time, IT expenses held a sizeable share (24.2 percent of administrative expenses, March 2025, Chart 3.16), yet they have been contributing to improving banking efficiency in the long term. The costs of outsourcing IT services made up more than a third of IT expenses, while monitoring ICT service suppliers is a key element introduced by the DORA Directive, *inter alia* in terms of cyber risk (Box 2).

A series of risks to financial stability might affect future structural developments and profitability. Among these are the following: occurrence of higher credit risk as a result of the uncertain macroeconomic environment and the structural imbalances; slowdown in the dynamics of operating income; strong link with the government sector and the potential rise in sovereign risk; the need for digital adaptation, which implies higher initial operating costs, also for managing the related cyber risks.

3.2. Non-bank financial institutions

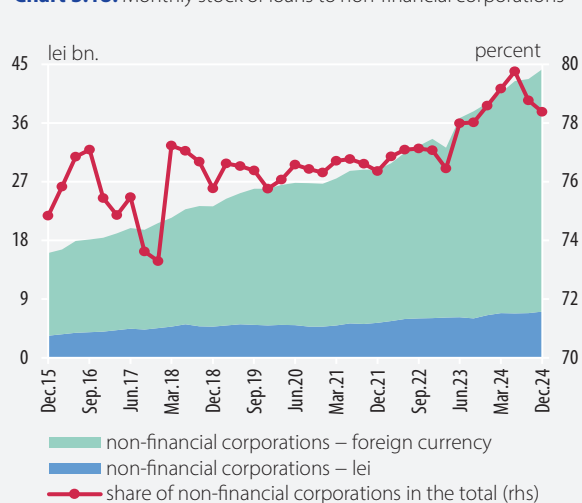
In 2024, non-bank financial institutions further followed the upward path seen in recent years, playing an increasingly relevant role in financial intermediation in Romania. The total assets held by NBFIs reached lei 71.3 billion in December 2024, after having increased by approximately 12 percent in annual terms; these dynamics

were driven by credit to non-financial corporations (+14 percent versus December 2023).

The portfolio of loans granted by NBFIs is mostly focused on non-financial corporations (78.4 percent, up from 74.8 percent ten years earlier), chiefly in the form of financial leases (66 percent). Households have lost some relevance (12.6 percent of the total compared to 15.8 percent ten years ago), with NBFIs granting almost entirely consumer loans to this segment.

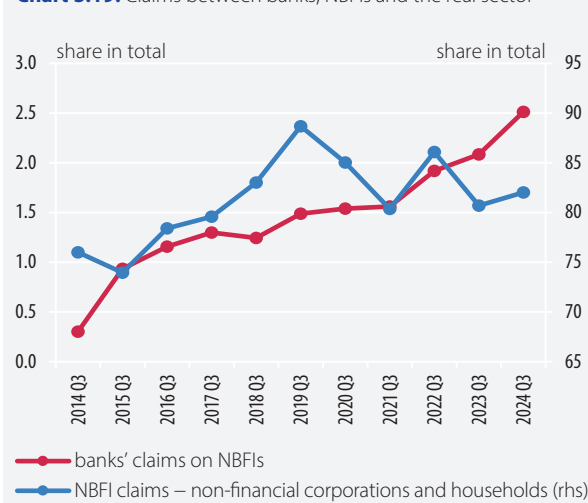
Corporate loans granted by NBFIs are overwhelmingly denominated in foreign currency (87 percent, Chart 3.18), which may be a vulnerability, particularly in times of high uncertainty, especially given that only a small share of foreign currency-denominated exposures are granted to borrowers that are naturally hedged against the currency risk. However, companies with foreign currency loans from NBFIs have a stronger financial performance than firms with leu-denominated loans, being characterised by a lower level of indebtedness and better liquidity, given the relatively similar profitability. For households, the impact of a depreciation of the domestic currency would not have the same magnitude, given that only 10.4 percent of the loan stock is granted in foreign currency.

Chart 3.18. Monthly stock of loans to non-financial corporations



Source: NBR

Chart 3.19. Claims between banks, NBFIs and the real sector



Source: NBR

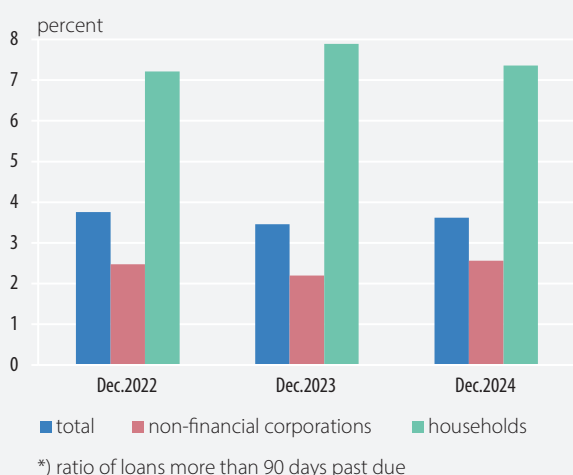
Apart from the rising importance in lending to the real sector, the stronger interlinkages of the NBFIs sector with the banking system is highlighted by the developments in bank exposures to NBFIs over the past decade (Chart 3.19).

The quality of the portfolio of loans granted by NBFIs deteriorated slightly during 2024, the evolution of the ratio of loans past due by more than 90 days being mainly influenced by the loan repayment capacity of non-financial corporations, which hold a significant and constantly growing share in the total (Chart 3.20).

A major component of lending to non-financial corporations is the lease segment, accounting for 67 percent of total exposures, with positive dynamics of 14 percent

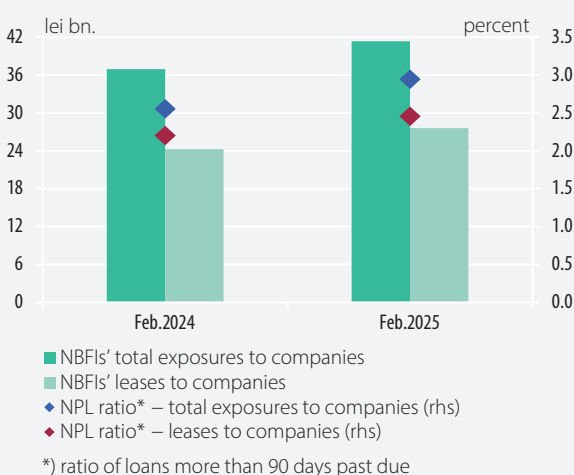
in annual terms (slightly above the increase in the entire exposure to companies, i.e. 12 percent). At sectoral level, leases are NBFIs' most significant lending solution for companies operating in mining (87.3 percent of the total, February 2025), construction (83.7 percent), manufacturing (79.2 percent), and services (79 percent). However, the highest rise in sectoral exposures was in the case of trade companies (64.9 percent from 61.7 percent one year earlier).

Chart 3.20. NPL ratio* for the portfolio of loans granted by NBFIs



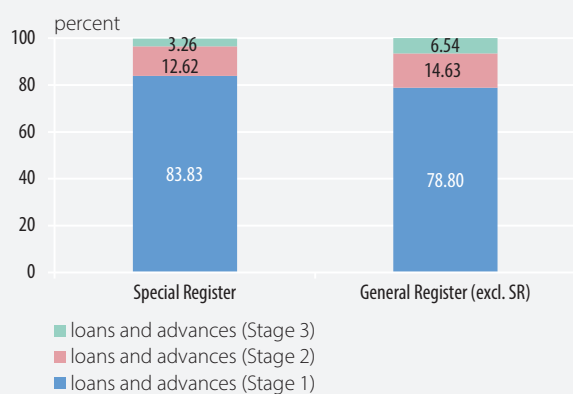
Source: NBR

Chart 3.21. Leases – exposures and NPL ratio



Source: NBR

Chart 3.22. Assets by IFRS 9 impairment stage as a share in total loans and advances, March 2025*



*) The difference up to 100 percent consists of purchased or issued financial assets that became depreciated.

Source: NBR, CB, NBR calculations

A small deterioration in portfolio quality can be observed in the case of leases as well, albeit to a lower extent compared to credit to the non-financial corporations sector on aggregate (0.25 percentage points versus 0.39 percentage points), Chart 3.21.

Looking at the International Financial Reporting Standards (IFRS) 9, according to March 2025 data, the share of loans and advances for which credit risk has not increased significantly since the initial recognition (Stage 1) stood at 83.8 percent for NBFIs in the Special Register and 78.8 percent for NBFIs in the General Register, with annual dynamics of -1.6 percentage points in the case of NBFIs listed in the latter register only, and -1.7 percentage points in the case of NBFIs listed in the former. The share of Stage 3 loans and advances of NBFIs in the Special

Register reached 3.3 percent at end-March 2025, up by 0.7 percentage points versus March 2024 (Chart 3.22).

4. FINANCIAL SYSTEM INFRASTRUCTURE – STABILITY OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS⁸⁹

During the period under review, all payment and securities settlement systems in Romania continued to function smoothly, without major operational incidents.

The National Bank of Romania has been steadily monitoring financial market infrastructures in order to ensure their effective and safe operation with a view to maintaining financial stability. This implies, *inter alia*, monitoring and testing the action plans where improbable but predictable risks materialise. The oversight by the National Bank of Romania is based on the international oversight standards set out in the Principles for financial market infrastructures and implemented by way of NBR Regulation No. 3/2018.

4.1. Stability of payment systems

Functioning of ReGIS⁹⁰

In the period under analysis, the ReGIS system rules remained unchanged.

Looking at the system activity, in 2024 H2 the number of transfer orders went up to 6.65 million from 5.80 million in 2024 H1. However, the value of payments processed in ReGIS saw a decline to lei 14,483 billion from lei 17,904 billion in 2024 H1.

On 20 December 2024, the system reported a peak number of payments per day, i.e. 90,065 payment instructions. It is worth mentioning that, in spite of this elevated volume⁹¹, the system faced no problems in terms of processing capacity.

⁸⁹ This chapter was prepared by the Financial Market Infrastructures and Payments Oversight Department.

⁹⁰ ReGIS is the most important payment system in Romania, ensuring the real-time gross final settlement of participants' transfer orders and of net positions arising from ancillary systems.

⁹¹ According to the oversight standards in the field, ReGIS is designed to take in, within one hour, 40 percent of the estimated highest daily volume of payments in order to process in a short period of time a large volume of payments left unprocessed in the aftermath of a major, lengthy incident (including a cyber incident). At the same time, the processing power of ReGIS servers is scalable, so as to quickly accommodate sustained increases in the volume of payments.

The average settlement ratio⁹² amounted to 100 percent, reflecting a good settlement discipline. Furthermore, the average monthly availability ratio⁹³ came in at 100 percent, indicating that the system, which functions on the technical platform operated by the central bank, was fully reliable.

The probability for the liquidity risk to materialise remains low, as reflected by the absence of gridlock situations in the waiting queues. At the same time, the number of intraday loans required by the participants to facilitate payments in ReGIS increased significantly from 9 in 2024 H1 to 176 in 2024 H2.

The number of participants in ReGIS remained unchanged at 34 entities, including ancillary systems.

The concentration ratio⁹⁴ of the system posted a slight increase in terms of both the volume and the value of transactions processed. In terms of the transaction volume, the concentration ratio went up from 63.1 percent to 63.96 percent, while in terms of the transaction value it continued to rise from 60.7 percent to 62.4 percent. This does not indicate an increased risk. The relatively steady concentration ratio supports the resilience of the system and suggests a low likelihood for the contagion risk to become manifest.

Functioning of SENT⁹⁵

In the period under analysis, the SENT system rules remained unchanged.

Looking at the activity of SENT, administered by TRANSFOND S.A., the value of netted orders in lei in SENT totalled lei 308 billion, up from lei 280 billion in 2024 H1. At the same time, the number of transactions rose from 79.2 million to 80.9 million.

Looking at transactions in euro, the value of netted orders rose from EUR 1.97 billion to EUR 2.19 billion. Similarly, the number of payment transactions in euro went up, from 289 thousand to 297 thousand in the period under review.

The monthly availability ratio of SENT stood at 100 percent⁹⁶ for both multiple payments in lei and multiple payments in euro, which proves the smooth functioning of this system.

The settlement ratio⁹⁷ of leu-denominated payment instructions remained elevated, i.e. 99.45 percent, which indicates a good settlement discipline. At the same time,

⁹² Calculated as a ratio of transfer orders settled in the system to the accepted transfer orders.

⁹³ The availability ratio is defined as a ratio of the actual operating time to the scheduled operating time, during the system's normal operating hours.

⁹⁴ Calculated as the sum of the five largest individual market shares in terms of the value or volume of settled transfer orders. The alert threshold stands at 80 percent, with higher values indicating a significant probability for the systemic risk to materialise.

⁹⁵ SENT is an electronic system for the multilateral netting of retail interbank payments among participants, during several daily sessions.

⁹⁶ The system rules set forth a minimum accepted limit of 99 percent.

⁹⁷ Calculated as a ratio of the value of netted-settled transfer orders to the value of processed transfer orders.

the netting ratio was 26.6 percent compared to 26.7 percent in the previous six-month period, which reflects an efficient management of leu-denominated liquidity, without significant risks⁹⁸. The settlement ratio of EUR-denominated payment instructions remained at 100 percent, which shows a strong payment discipline.

The number of participants in SENT remained flat, i.e. 35 institutions. In terms of the volume of transfer orders in lei settled in SENT, the participants' concentration ratio posted a moderate decline from 63.6 percent to 63.4 percent, while in terms of value it rose from 62.55 percent to 62.62 percent. These developments show a lower likelihood for the contagion risk to materialise in the SENT system.

4.2. Securities settlement systems

Functioning of SaFIR

In the period under analysis, the SaFIR system rules remained unchanged.

SaFIR functioned optimally, the availability ratio⁹⁹ standing at 100 percent.

The aggregate value of leu-denominated securities recorded in SaFIR reached lei 396 billion compared to lei 362 billion in the previous six-month period. The number of transactions increased from 23,474 to 26,644¹⁰⁰, while their value amounted to lei 560 billion compared to lei 359 billion in 2024 H1.

The number of EUR-denominated transactions went up from 341 to 523 in the period under review, while their value increased from EUR 0.82 billion to EUR 1.5 billion.

At the same time, free-of-payment transfers picked up in terms of volume, i.e. from 3,587 in 2024 H1 to 4,022 in 2024 H2.

The settlement ratios¹⁰¹ continued to be high, standing at 99.58 percent for transactions in lei and at 100 percent for transactions in euro, which indicates a good settlement discipline.

The number of participants in SaFIR amounted to 33 institutions, of which: 28 credit institutions, 3 central depositories, the National Bank of Romania and the Ministry of Finance.

⁹⁸ The alert threshold consists in a netting ratio below 10 percent, coupled with large-value net debit positions, which can pose systemic risks if a critical participant does not participate in the settlement.

⁹⁹ The availability ratio is defined as a ratio of the actual operating time to the scheduled operating time, during the system's normal operating hours.

¹⁰⁰ The system's processing capacity allows for much larger volumes of instructions to be settled.

¹⁰¹ Calculated as a ratio of the value of netted-settled transfer orders to the value of processed transfer orders.

Functioning of RoClear

During the period under review, the Central Depository, the administrator of the securities settlement system RoClear, did not change the system rules.

RoClear continued to function smoothly, without operational incidents.

4.3. Operational and security incidents affecting payment services providers

In 2024 H2, 11 payment services providers (PSPs) reported to the central bank 10 major operational incidents and 2 major security incidents out of which one was reclassified as non-major, based on an ongoing assessment. The major incidents that

occurred affected the availability of some payment services relating to: (i) credit transfers performed by means of internet or mobile banking applications, (ii) card payment acceptance (e.g. the impossibility of using POS/ATM terminals), (iii) card payment transactions and cash withdrawals from a payment account and (iv) direct debit payment transactions.

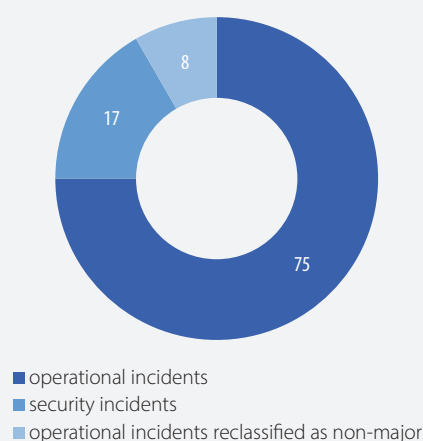
These major incidents were caused by both internal and external issues, as reported by PSPs. For example, mention should be made of: (i) a Distributed Denial of Service (DDoS) attack, (ii) system or human errors and (iii) system disruptions facing some third-party service providers.

The average number of payment services users affected by major incidents, including incidents subsequently reclassified as non-major, stood at

67,500, while the average number of payment operations affected came in at 37,300. These values are estimates made by PSPs, as compared to the normal level for the previous year.

Chart 4.1. Major incidents in 2024 H2

percent



Source: NBR

4.4. Technological innovation and payment services security

The National Bank of Romania monitors, on an ongoing basis, the innovative solutions in the field of payment services and payment instruments by means of the FinTech Innovation Hub contact point through which two new applications were sent in 2024 H2. Thus, the total number of applications received via this platform by the end of 2024 amounted to 69. In addition, the monitoring is also based on the information presented at conferences/events attended by central bank representatives.

In 2024 H2, one Fintech entity was authorised as an electronic money institution and 11 other Fintech entities initiated a prior consultation process or a procedure to obtain an authorisation as a payment institution.

Looking at the innovations in the payments field in Romania, it is worth noting the RoPay scheme – managed by ARB (the Romanian Association of Banks) and Transfond S.A., launched in October 2024. The operationalisation of this scheme is an important step in the evolution of payments as it provides users with the latest technological developments and thus fast and secure solutions will be offered for daily transactions. The RoPay scheme enables payment services providers to provide modern instant payment services based on the scanning of a QR code, the use of the mobile phone number to identify the payee, deep-linking and the contactless technology, all of them integrated in mobile banking applications provided by payment services providers in Romania that have joined this scheme. At present, three credit institutions in Romania already participate in the RoPay scheme and three other credit institutions are now implementing the service.

The NBR's activity related to the ongoing monitoring of the evolution of fraud and fraud patterns, as well as to promoting payment security, revealed that the most frequent fraud scenarios continued to refer to social engineering (payer manipulation). Among the scenarios identified were: (1) smishing, a type of phishing through SMS, (2) spoofing, a tactic where perpetrators fake the source of their messages or phone calls by using various technologies (i.e. e-mail addresses, caller IDs, websites, or DNS (Domain Name System) servers), (3) remote access, which involves a fraudster convincing a victim to download a remote access app that allows them to take control of the device and gain access to users' payment accounts, (4) investment scams, which consist of false promises of quick and/or guaranteed investment gains, whereby victims are persuaded to transfer money to fraudsters.

5. FINANCIAL STABILITY, REGULATORY FRAMEWORK AND MACROPRUDENTIAL POLICIES

5.1. Capital buffers applicable to credit institutions, Romanian legal entities

The uncertainties associated with financial markets as well as with geopolitical tensions are major sources of concern for macroprudential policy decision-makers. In this context, during the 57th meeting of the European Systemic Risk Board (ESRB), the focus was on the European Commission's priorities for the creation of a Savings and Investments Union. The ESRB General Board highlighted the importance of swiftly implementing these priorities for better integrated financial markets across the EU and greater financial stability through improved economic growth prospects and diversification of funding channels.

While markets generally showed notable resilience, the ESRB General Board acknowledged that heavy trade restrictions or escalating geopolitical tensions could exacerbate macroeconomic, credit and market risks, leading to higher corporate insolvencies and weaker household balance sheets. Nevertheless, markets were able to weather the increasing volatility, banks and other market participants remained resilient and capital inflows demonstrated that the EU was regarded as a safe destination for investment.

Moreover, it was agreed that the EU should closely follow global policy developments and anticipate the possible repercussions for financial stability, including in the event of a disorderly adjustment in global financial markets. Following the last ESRB meeting, heightened volatility was observed in the US stock markets and in crypto-assets, in parallel with the increase in the yields on global sovereign bonds. The General Board agreed that financial markets had remained vulnerable in the face of rapid adverse developments and further geopolitical tensions or trade restrictions could trigger a disorderly market correction.

In addition, the ESRB General Board recognised the increased security needs of the EU and its Member States, highlighting the importance of sovereignty and a united Europe as a precondition for financial stability. In this vein, the financing of defence spending should combine national and European tools, meant to ensure sovereign debt sustainability. Creating a European safe asset could help significantly support this endeavour.

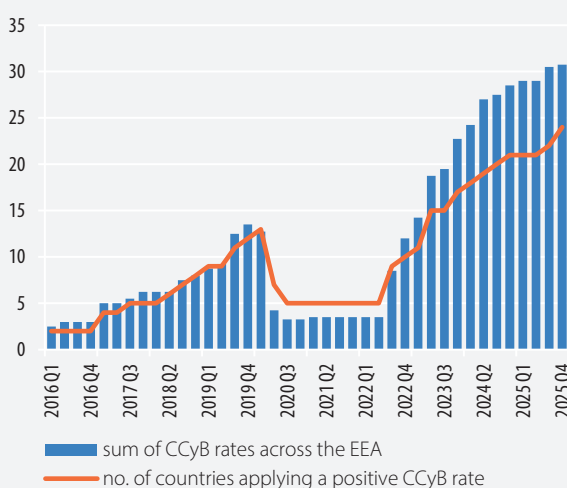
As regards the macroprudential policy, the countercyclical capital buffer (CCyB) was one of the most frequently used instruments. According to European regulations,

this buffer should be activated in periods of excessive credit growth and decreased or even deactivated during crises, marked by the contraction of the financial cycle, in order to ensure the continued financing of the real economy.

Concerning the buffer implementation, at end-2016 (when the CCyB was set up in accordance with the CRD IV regulatory package), 28 out of 30 European countries had introduced into national law provisions regarding this macroprudential instrument. However, only two countries had applied a CCyB rate above zero. As of 2017, an ever-growing number of European Economic Area (EEA) countries started to raise the CCyB rate, a trend that continued by the end of 2019, when 12 countries had already applied a positive CCyB rate, while others had announced their intention to introduce a positive CCyB rate in the course of 2020.

Against the background of uncertainties generated by the COVID-19 pandemic, most countries chose to decrease or even completely deactivate the buffer, so that, at end-2020, only five countries still applied a positive CCyB rate. Starting in 2022, the trend to build up the CCyB has been resumed; thus, at end-2023, 15 countries had already implemented a positive CCyB rate, their number rising to 21 in 2024 and being expected to stand at 24 by end-2025 (Chart 5.1). In Romania, the CCyB rate was set at 1 percent, which is an intermediate level among EEA countries in terms of using this macroprudential instrument.

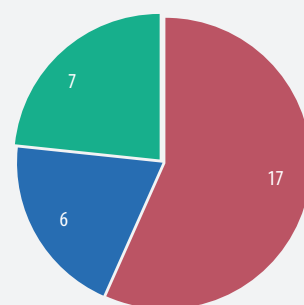
Chart 5.1. CCyB rates in EEA countries



Source: ESRB

Chart 5.2. Distribution of EEA countries depending on their stage of consideration of the PN CCyB

number



■ apply the PN CCyB or are at an advanced stage of consideration
 ■ do not apply the PN CCyB, but consider doing so
 ■ do not apply the PN CCyB and do not consider doing so

Source: ESRB

An increasingly widespread trend in the EU is that of adopting a positive neutral CCyB rate (PN CCyB). Based on this approach, the CCyB rate should be increased even in the periods when cyclical systemic risks remain at a level deemed normal, in order to enhance the financial system resilience to potential shocks by building countercyclical capital buffers that may be released when needed. According to the *Joint ECB/ESRB Report*¹⁰², 17 EEA countries have already implemented this strategy, while other six countries have expressed their intention to apply a positive neutral CCyB rate in the

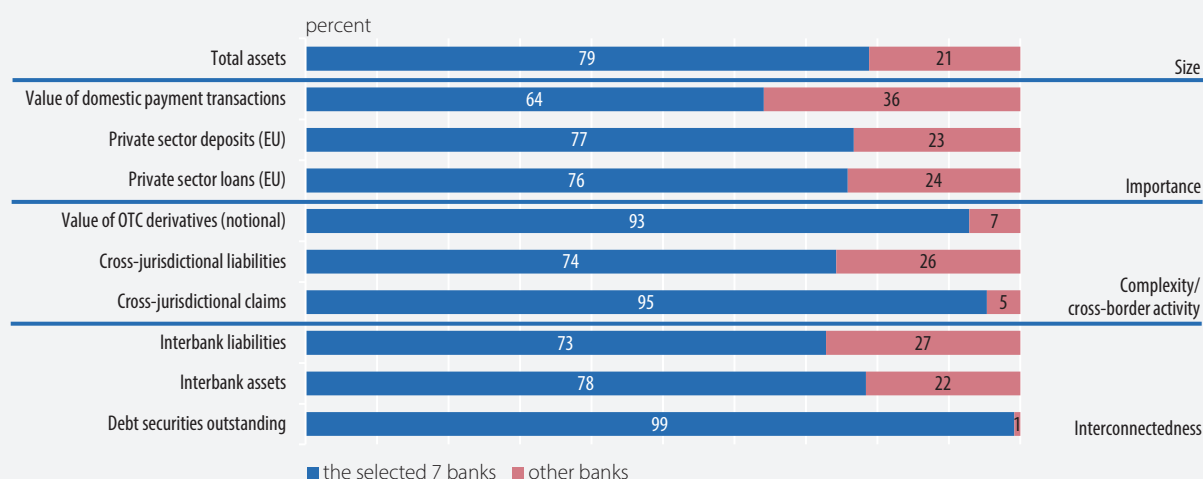
¹⁰² Using the countercyclical capital buffer to build resilience early in the cycle

future (Chart 5.2). Despite the common approach used by most European countries, the target PN rate varies significantly across countries, ranging between 0.5 percent and 2 percent.

Turning to the O-SII¹⁰³ buffer, based on the latest O-SII identification and calibration exercise for the reference date of 30 September 2024, the NCMO recommended the NBR to impose starting 1 April 2025 O-SII buffer requirements, on an individual or consolidated basis, as applicable¹⁰⁴, as follows: (i) 2.5 percent for Banca Transilvania S.A. (consolidated level), (ii) 1.5 percent for UniCredit Bank S.A. (consolidated level), Banca Comercială Română S.A. (consolidated level), BRD – Groupe Société Générale S.A. (consolidated level), (iii) 1 percent for Raiffeisen Bank S.A. (consolidated level), CEC Bank S.A. (consolidated level) and (iv) 0.5 percent for Exim Banca Românească S.A. (individual level).

The O-SIIs play a decisive role for the Romanian banking sector, as shown by the indicators in Chart 5.3.

Chart 5.3. Importance of O-SIIs in the Romanian banking sector as at 30 September 2024



Source: NBR, NBR calculations

At European level, the number of credit institutions identified as systemically important saw a relative stagnation in 2024 as compared to 2023, i.e. 185 versus 182. The O-SII buffer rates applied to those institutions painted a similar picture, as only three countries decided to change the buffer levels: one state lowered the maximum rate, while two countries raised the minimum buffer rate.

Another capital buffer widely used across the European Union is the systemic risk buffer (SyRB). Unlike the other buffers, regulated by a number of European guidelines on the buffer calibration in EU Member States, the SyRB is the most flexible instrument in terms of implementation. Specifically, this buffer is aimed at countering

¹⁰³ Other Systemically Important Institutions (O-SIIs)

¹⁰⁴ In accordance with the provisions of the European regulatory framework, implemented at national level, the O-SII buffer is applied at the highest consolidation level.

the vulnerabilities specific to every domestic financial system, which justifies the (significant) calibration differences among countries.

In Romania, the SyRB is aimed at improving the quality of loan portfolios in banks' balance sheets, being calibrated in relation to the NPL ratio and the NPL coverage by provisions. This macroprudential instrument has proved effective in time, contributing, together with other measures, to the sharp decline in the NPL ratio, i.e. from 6.16 percent before being implemented to 2.46 percent at end-2024. The NPL coverage by provisions fared well too, with Romania coming in second, after Croatia, in the ranking of EU countries by this indicator.

In view of these favourable developments, the majority of credit institutions in Romania applied in 2025 H1 a SyRB rate of 0 percent (meaning that they did not have to build additional capital reserves), in contrast to the situation in place at end-2018, when most banks had applied a SyRB rate of 2 percent.

Amid the coordination of macroprudential measures at European level to mitigate regulatory arbitrage risks, the NCMO General Board decided, after the release of the previous *Report*, not to apply through voluntary reciprocity the macroprudential measure adopted by Norway¹⁰⁵, given that the exposures of the Romanian banking sector to this country are immaterial.

5.2. The activity of the NBR in its capacity as resolution authority¹⁰⁶

The bank resolution activity continued to focus on resolution planning, as no major disruptions affected banking operations in Romania. International cooperation remained an important part of this process, special mention deserving, *inter alia*, the working meeting with the delegation of the Single Resolution Board (SRB) at the head office of the National Bank of Romania, in the context of the visits made by SRB representatives in the EU countries that are not members of the banking union. This showed the firm commitment of both institutions to strengthen the existing cooperation relationship, in order to enhance the preparedness of authorities for withstanding a potential banking crisis and safeguarding financial stability.

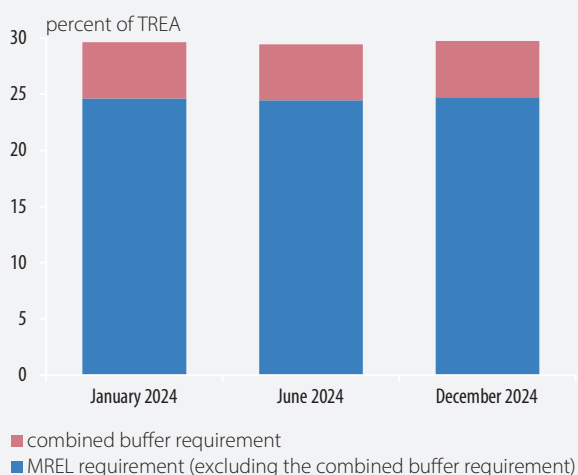
Following the review of resolution plans, the resolution strategies set in the previous planning cycle were maintained. Large local banks or the subsidiaries of cross-border groups with MPE resolution strategies continued to prefer the bail-in tool, whereas the subsidiaries of cross-border groups with SPE resolution strategies preferred to resort to write-down or conversion of capital instruments and eligible debt instruments. Conversely, for medium-sized local credit institutions the sale of business or the bridge bank tool remained the main options considered.

¹⁰⁵ The macroprudential measure is presented in Recommendation ESRB/2024/7.

¹⁰⁶ This section was prepared by the Bank Resolution Department.

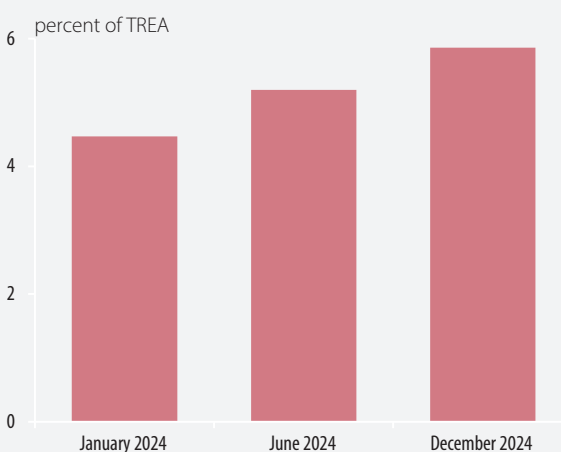
In addition to updating the resolution strategy, the resolution planning focused on functional aspects. The steps taken by credit institutions to improve resolvability were further monitored, *inter alia* as regards the compliance with EBA Guidelines. Banks' self-assessment reports were centralised at end-2024 based on the NBR-RA template, indicating some progress on improving resolvability, also correlated with the results of the NBR-RA assessments.

Chart 5.4. MREL requirement



Source: NBR

Chart 5.5. Surplus against the MREL target including the combined buffer requirement



Source: NBR

The aggregate minimum requirement for own funds and eligible liabilities (MREL) increased by 0.3 percentage points in 2024 H2 to 24.74 percent of the total risk exposure amount (TREA) of resolvable institutions, excluding the combined buffer requirement, whose weighted average remained unchanged at 5 percent of the TREA (Chart 5.4). The average MREL (without the combined buffer requirement) is 24.71 percent of the total risk exposure amount for credit institutions that are resolution entities¹⁰⁷ and 24.81 percent for institutions that are not resolution entities¹⁰⁸.

The surplus of eligible resources against the MREL target (with the combined buffer requirement) reached 5.86 percent (Chart 5.5).

MREL eligible resources continued to be raised via issues of senior non-preferred (SNP) bonds on the international capital market and SNP loans from parent banks by non-resolution entities (subsidiaries of cross-border banking groups with Single Point of Entry resolution strategies).

Bank Resolution Fund

At end-2024, the Bank Resolution Fund's resources amounted to lei 3.37 billion (up by lei 0.36 billion from end-2023). The target level of at least 1 percent of the

¹⁰⁷ Banks in cross-border groups with a multiple point of entry (MPE) resolution strategy or local credit institutions subject to the resolution measures set forth in the resolution plan

¹⁰⁸ Banks in cross-border groups with a single point of entry (SPE) resolution strategy

amount of covered deposits of all the credit institutions authorised on the territory of Romania, which was required to be met for the first time at the end of 2024, was fulfilled to a degree of 100.6 percent, given that the total amount of the calculation base was lei 335 billion at the end of the reference period. For 2025, the NBR-RA has communicated to credit institutions as early as the end of 2024 the estimated non-binding contributions to be paid to the Bank Resolution Fund in order to facilitate the budget planning of contributing banks.

Regulatory framework for bank resolution

The resolution framework was extended at the level of primary legislation through the transposition into national law of Directive (EU) 2024/1174 of the European Parliament and of the Council of 11 April 2024 amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities (Daisy Chain Directive). Specifically, since the entry into force of the legal act amending Law No. 312/2015, the resolution authority will no longer determine nor impose the MREL to credit institutions resolvable through liquidation under insolvency proceedings, except when it deems necessary to set the MREL above own funds, namely the loss absorbing capacity, taking particularly into account any potential impact on financial stability and contagion risk in the financial system, including with respect to the financing capacity of deposit guarantee schemes.

Moreover, Directive (EU) 2022/2556 as regards digital operational resilience for the financial sector (DORA Directive), together with Regulation (EU) 2022/2554¹⁰⁹, was transposed¹¹⁰ into national law. The main provisions in the field of bank resolution aim to demonstrate the capacity of ensuring digital operational resilience and assess the reliability of contractual arrangements on the use of ICT services in terms of robustness and enforceability in the event of resolution of the institution, particularly the networks and systems supporting critical functions and core business lines of the credit institution. Specifically, the additional elements will be integrated in resolution planning and resolvability assessment.

In addition, the NBR-RA continued to actively support, from a technical perspective, the negotiations on the European Commission's proposal to review the bank crisis management and deposit insurance (CMDI) framework, published in 2023, which is subject to interinstitutional negotiations between representatives of the European Parliament, the Council of the European Union and the European Commission.

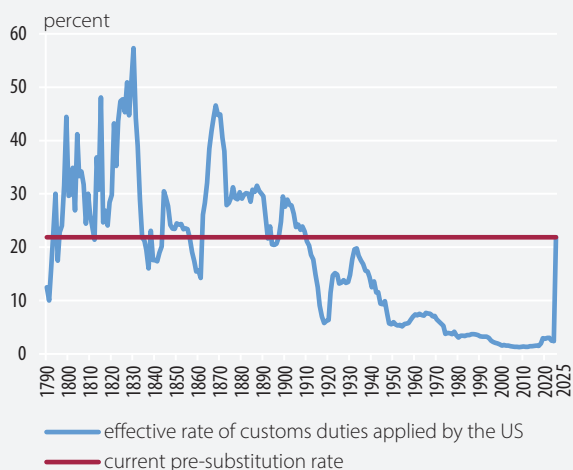
¹⁰⁹ Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011

¹¹⁰ The law transposing the DORA Directive was adopted and published in *Monitorul Oficial al României*, Part I, No. 234 of 17 March 2025 – Law No. 16/2025 on amending and supplementing some legal acts in the financial field.

Special feature. Implications of the changes in global trade policies for financial stability

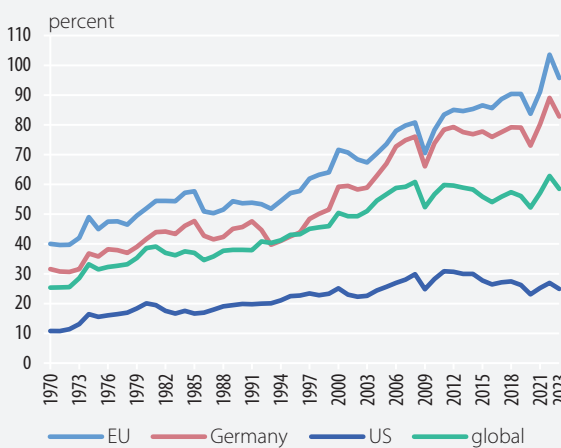
The changes in the US trade policies, regarding the imposition of tariffs on imports from partner countries, led to a major escalation of global trade tensions. While some protectionist measures were anticipated with the inauguration of the new administration in early 2025, their quick-paced implementation, as well as the size and the broad-based nature of the tariff package announced in early April considerably exceeded expectations. Specifically, the average effective US tariff rate was estimated to reach the highest level in the past century (Chart 1). Afterwards, the announcement of selected exemptions and of implementation delays, as well as the start of bilateral talks and the adoption of retaliatory measures by other countries, considerably compounded the uncertainty surrounding the global macroeconomic context and the future path of international trade.

Chart 1. US effective tariff rate¹¹¹



Source: Yale Budget Lab (State of U.S. Tariffs: May 23, 2025)

Chart 2. Trade openness of the economy – global, US, EU, Germany



Source: Our World in Data, World Bank, OECD

These developments have occurred in a tense geopolitical environment, with already existing signs of global trade fragmentation following the previous years' successive shocks. After a period of swift growth, global trade dynamics entered a quasi-standstill phase in the aftermath of the 2008 global financial crisis. The COVID-19 pandemic and the recent geopolitical tensions contributed to a strengthening of trends towards a strategic shift in trade relations and to the emergence of trade and industrial policies pursuing economic security objectives and aimed at consolidating domestic

¹¹¹ The chart shows the estimated average effective tariff rate, taking into consideration the measures announced until 23 May, without incorporating the import substitution effects. For further details, see Yale Budget Lab, *State of U.S. Tariffs: May 23, 2025* and earlier issues.

production capacities and reducing reliance on foreign inputs. Also noteworthy is the increase in trade flows between economies that are relatively aligned in geopolitical terms, compared to those between countries with divergent strategic positions¹¹². Even though the fragmentation observed so far is relatively low from a historical perspective, the process may be gradual in the early stages, but susceptible to sudden accelerations amid the build-up of successive trade and geopolitical tensions¹¹³. Such an intensification of the fragmentation process can generate significant risks to economic activity and, hence, to financial stability, considering the strong economic interlinkages globally, particularly in the case of the EU, given its high degree of economic openness (Chart 2)¹¹⁴.

The US is the most important trade partner for the EU's exports of goods, and the volume of bilateral trade has increased significantly starting 2010, despite the overall stagnation of the degree of trade openness globally. Trade in goods constitutes the main component of transatlantic trade. According to the European Commission, in 2024, the EU exported goods worth EUR 532 billion to the US (accounting for around 21 percent of total EU exports), generating a trade surplus of EUR 197 billion. EU exports to the US market consist mainly in highly processed goods, especially medical and pharmaceutical products, motor cars and motor vehicles, as well as industrial equipment and machinery. EU most imported goods from the US were mainly energy products (petroleum oils, in particular), ahead of medical and pharmaceutical products, reflecting *inter alia* the adjustments of trade flows after the outbreak of the war in Ukraine. By Member State, Germany, Ireland and Italy were the three largest exporters of goods to the US, while Germany, the Netherlands and France were the main importers of US goods. Looking at services, bilateral trade totalled EUR 746 billion in 2023. The EU exported services worth EUR 319 billion to the US, while imports of services from the US stood higher, totalling EUR 427 billion.

Against this background, the uncertainties and effects generated by the expansion of trade protectionism carry the potential to affect financial stability in Romania via several channels (Figure 3). This can occur both through trade channels – denting exporters' activity, with an impact on the economy and financial institutions alike via higher credit risk – and through other transmission mechanisms, affecting *inter alia* the international capital flows, investment and consumption decisions, and entailing higher financial market volatility and disruptions in global supply chains, etc. Looking at the direct trade channel, the implementation of the new customs tariffs by the US can affect Romanian exporters to this market, particularly in sub-sectors with a higher exposure, such as metallurgy and manufacture of motor vehicles¹¹⁵. Even though the share of Romania's exports to the US is relatively subdued, a decline in external demand in these segments might dampen companies' revenues and profitability, increasing credit risks in local financial institutions' balance sheets. As for the indirect

¹¹² For a more in-depth analysis, see, for example, "Navigating a fragmenting global trading system: Insights for central banks" (ECB, 2024), "Deconstructing global trade: The role of geopolitical alignment" (BIS, 2024) or *Global Trade Outlook and Statistics* (WTO, April 2025).

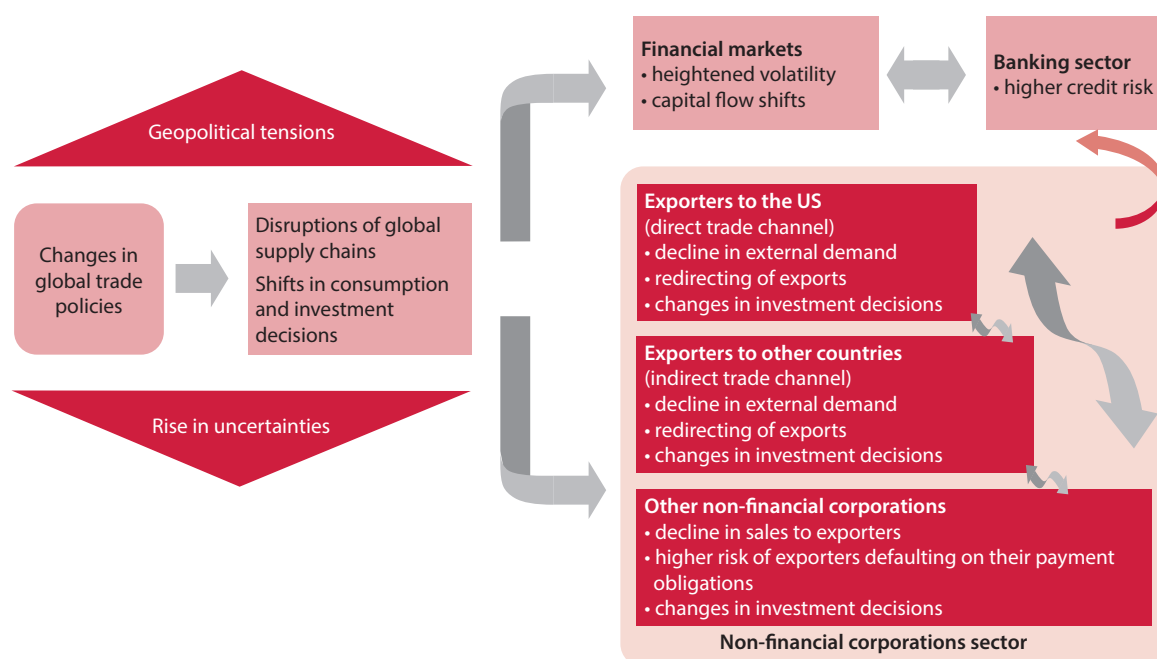
¹¹³ See Gopinath *et al.* (IMF, 2024), "Changing global linkages: A new cold war?".

¹¹⁴ See also Special feature B, "Risks to euro area financial stability from trade tensions", of the *Financial Stability Review*, ECB, May 2025.

¹¹⁵ For an analysis on the impact brought about by the import substitution effect on economic sectors, see Box 1, "The impact of the new US customs tariffs on Romania's international trade relations" in the *Inflation Report*, NBR, May 2025.

trade channel, Romania is relatively more vulnerable due to the close ties with the main trading partners in the euro area – especially Germany, Italy and France – holding a significant share of EU exports to the US. A potential slowdown in these countries' economic activity, brought about by weaker external demand and higher uncertainty, could reduce demand for Romanian exports, thus weighing on the industrial sectors integrated in the European value chains and compounding credit risks for local financial institutions. In addition, the escalation of trade tensions can contribute to the worsening of investor sentiment and to the increase in international financial market volatility, with an impact regionally as well.

Figure 3. Main transmission channels of the shocks to financial stability following the changes in global trade policies



Source: NBR calculations

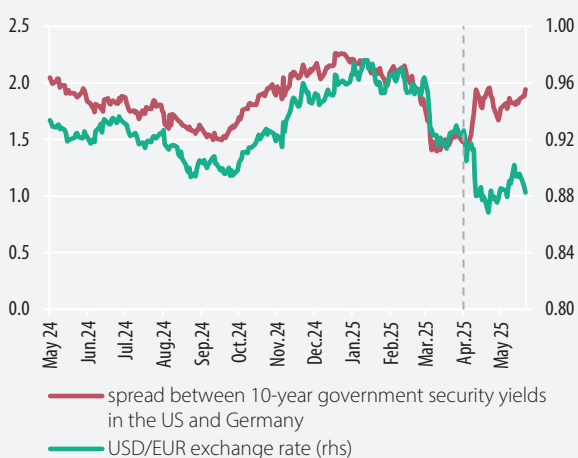
Financial markets

The expansion of trade protectionism occurred in an environment in which financial market volatility stood at relatively low levels given the existing macroeconomic and geopolitical uncertainties¹¹⁶. In this context, the escalation of trade tensions generated negative adjustments on equity markets in the US, with major equity indices witnessing downward corrections starting February 2025. Following the announcements at the beginning of April on the expanded package of customs duties, these corrections steepened and spread globally, being accompanied by a surge in volatility, both in equity markets and on forex and bond markets.

The rise in investors' risk aversion initially triggered a flight to safety, contributing to the increase in prices of assets perceived as safe by investors, including to the appreciation of safe haven currencies, such as the Japanese yen and the Swiss franc. The US dollar weakened on international financial markets, while long-term

¹¹⁶ See also the *Global Financial Stability Report*, IMF, October 2024.

Chart 3. USD/EUR exchange rate and the spread between 10-year government security yields in the US and Germany

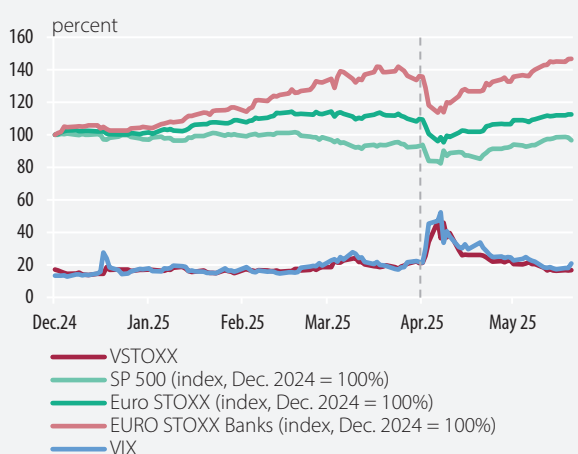


Source: Refinitiv, NBR calculations

US Treasury yields went up, a somewhat atypical performance amid a financial stress episode.

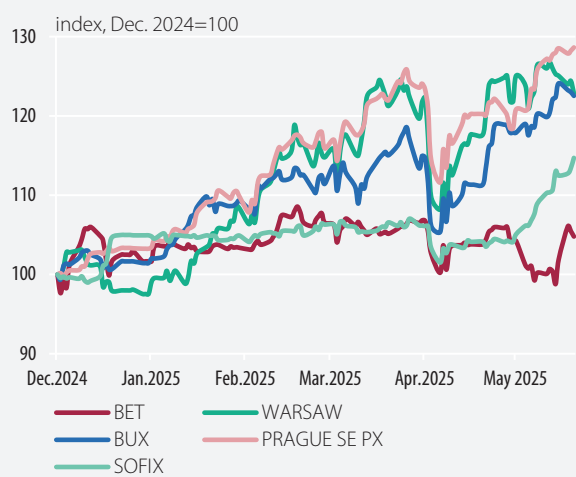
These dynamics could reflect, on one hand, (i) the sell-off in US sovereign bonds by investment funds to meet margin calls and fund redemptions amid elevated market volatility, as well as the unwinding of some basis trade positions (see also Section 1.1) and, on the other hand, (ii) a possible repricing of USD-denominated assets by investors and a potential rise in the associated risk premia, amid the significant heightening of uncertainties about the US economic policies¹¹⁷. In relation to the euro, the US dollar depreciated 6.3 percent in the period from 1 to 21 April, despite the widening interest rate differential between US Treasuries and German Bunds (Chart 3).

Chart 4. Equity market and implied volatility indices in the US and Europe



Source: Refinitiv, CBOE, NBR calculations

Chart 5. Equity market indices in Central and Eastern Europe



Source: Refinitiv, NBR calculations

On equity markets, corrections were relatively abrupt, yet short-lived. In the US, major equity indices saw hefty declines during 2-8 April, of approximately 12 percent in the case of S&P 500, alongside a spike in volatility, with the VIX reaching levels comparable to those recorded in the pandemic period. These developments then saw a reversal, prompted by the 9 April announcement of a 90-day pause on the new tariffs (Chart 4). Similar dynamics were observed in euro area equity markets as well, which witnessed sizeable drops (of about 10 percent for EUROSTOXX 50 during 2-8 April 2025), followed by a relatively swift recovery. From a sectoral perspective, the most affected were companies in the industrial, automotive, financial, IT and consumer goods sectors¹¹⁸. Similar developments were also recorded in corporate bond markets in the US and Europe, where the spreads between corporate and

¹¹⁷ For further details, see the *Global Financial Stability Report*, IMF, April 2025, or the *Financial Stability Review*, ECB, May 2025.

¹¹⁸ For a more in-depth analysis of the European sectors affected by the resurgence of trade tensions, see Box A in Special feature B, "Risks to euro area financial stability from trade tensions", of the *Financial Stability Review*, ECB, May 2025.

government bond yields widened relatively abruptly, especially in the high-yield segment, before narrowing towards earlier levels. Looking at the region, the declines in key stock market indices ranged between 2.7 percent and 9.7 percent (during 2-8 April 2025), the most visibly hit being the equity markets in Poland, Czechia and Hungary (Chart 5).

Effects of changes in the US trade policy on the non-financial corporations sector in Romania¹¹⁹

The reshaping of the US trade policy – considering the size and the broad spectrum of the new customs tariffs, as well as the low degree of predictability regarding their evolution in the period ahead – calls for close scrutiny of the implications for exporting companies in Romania and for financial stability. In the short run, these measures can lead to a reduction or even reconfiguration of trade in goods destined for the US market. Over the medium and long term, the uncertainty about where the US trade policy is headed, in view of these distortionary taxes, might prompt companies to redirect their activity towards other markets, particularly countries that have in place a preferential customs regime in relation to the US. This section examines the potential risks generated by the change in the US trade policy, focusing on the possible channels whereby shocks are transmitted to supply chains locally and to the financial sector in Romania.

Direct channel

As far as Romania is concerned, the direct impact of these measures is estimated to be limited, given the low level of exports to the United States (2.5 percent of total exports in 2024, with the average for the past five years standing at around 2 percent). At a sectoral level, exporting companies operate primarily in industry, in sub-sectors such as: metallurgy (basic metals), electrical equipment, rubber and plastic products, motor vehicles, and machinery and equipment.

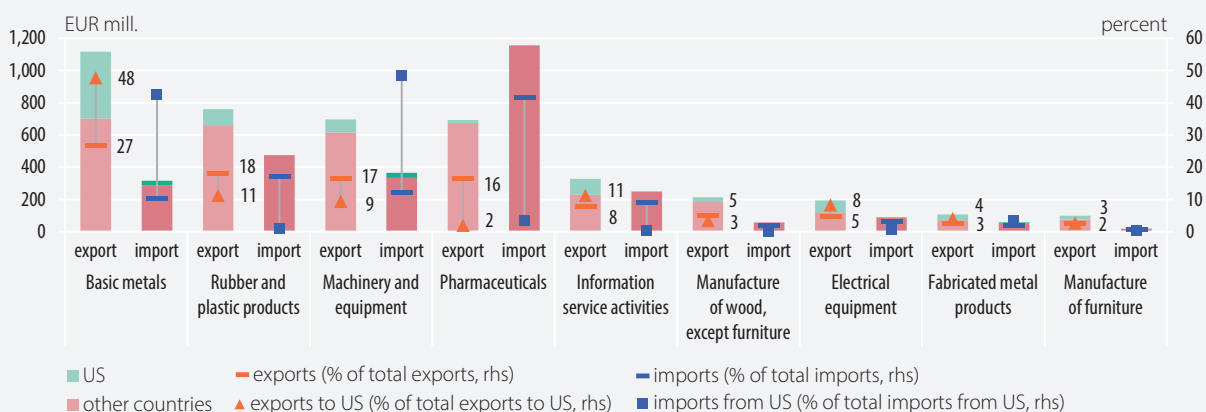
Assuming that tariffs are kept in place at their April 2025 level, potential losses can reach up to one third of the value of exports to the US, with a heavier impact on metallurgy. In case of a rise in tariffs from 10 percent to 50 percent on EU-originating goods, losses could grow in other sectors as well, such as electrical equipment and machinery and equipment.

Exports to the US are carried out by a small number of firms (346), which account, however, for a significant share of Romania's total exports (28 percent in 2024). Moreover, these firms are highly reliant on the export activity, with sales from external deliveries making up 82 percent of their turnover (median value, data for 2023). The US market has a strategic relevance for only about one fourth of these companies, with the share of exports to the US exceeding 10 percent of turnover.

¹¹⁹ The exporters under review in this section have a significant export volume in relation to a certain country or region, i.e. more than EUR 100,000 during one quarter.

From a sectoral perspective, metallurgy firms are the most exposed to a shock from a decline in export receipts, given the much higher US customs duties on the goods manufactured by this industry, but also the possibly stronger effect entailed by the relatively better capacity of US firms to shift demand towards lower-priced products¹²⁰. The reduction in sales to the US could be partially cushioned by redirecting exports towards other destination markets, considering the relatively high degree of these firms' geographic diversification of exports (Chart 6). Specifically, the share of exports to the US averages out at merely 25 percent of total exports and at about 40 percent in the case of metallurgy firms.

Chart 6. Activity of foreign trade companies with a sizeable volume of exports to the US



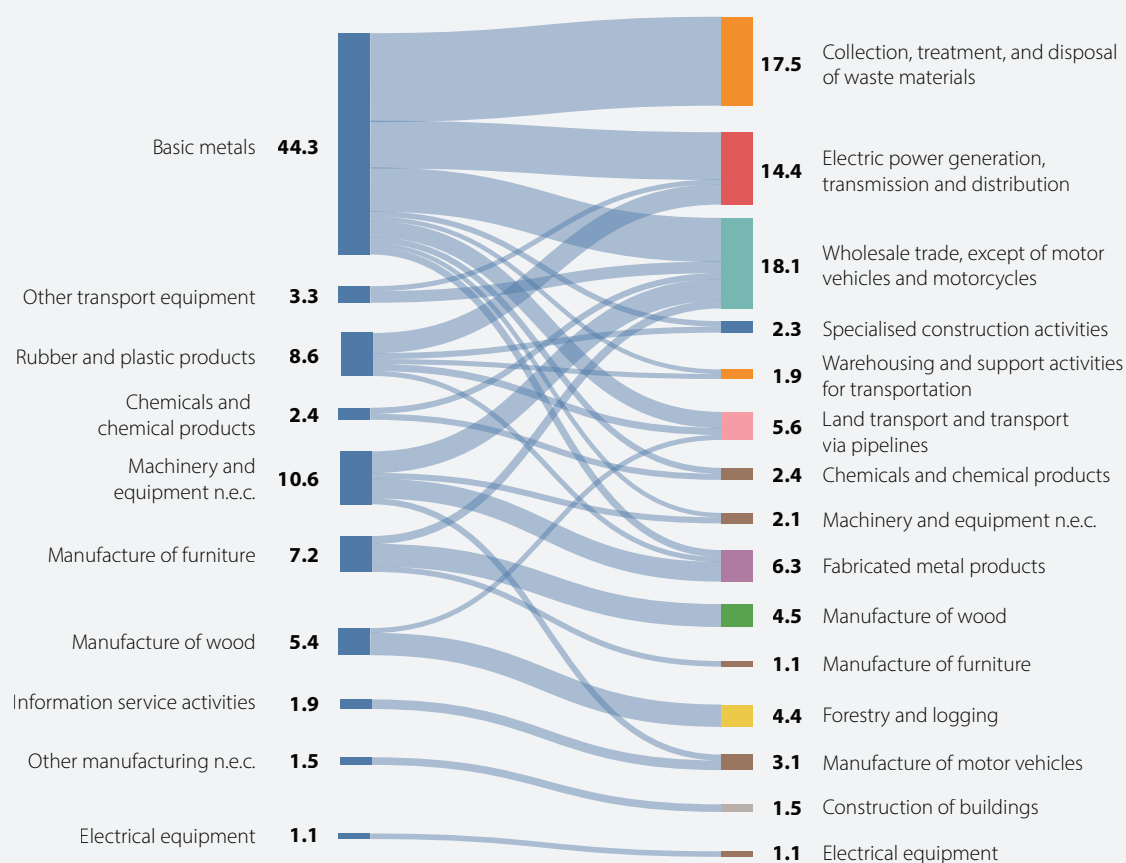
Note: The chart shows the nine most important economic sub-sectors in terms of export volume reported by firms with a sizeable volume of exports to the US (more than 10 percent of turnover).

Source: NBR, NIS

The impact on the economy via the direct trade channel is estimated to be modest, even if these firms have a relatively high degree of integration (Chart 8). Specifically, in 2023 these companies reported trade with more than 270 suppliers and approximately 13 customers (number of trade partners per firm, median values). However, the importance of trade flows for suppliers is low, as the share of sales in turnover stands at a mere 1 percent (median value). The most sizeable trade flows were recorded for suppliers in the collection, treatment, and disposal of waste materials (10.3 percent of suppliers' turnover and 17.5 percent of the value of exporters' goods sold to the US, Chart 8). These supplier firms account for only half of the said sector's gross value added.

From the perspective of financial stability, the financial sector exposure is also low. Of the total portfolio of bank and NBFIs loans to non-financial corporations, only 0.3 percent is held by credit to firms with a sizeable volume of exports to the US (December 2024). Nevertheless, the high degree of concentration at both debtor and financial institution levels calls for closer monitoring, the quality of the portfolio being determined by the financial performance of a small number of firms, especially in the case of some NBFIs.

¹²⁰ Box 1, "The impact of the new US customs tariffs on Romania's international trade relations" in the *Inflation Report*, NBR, May 2025

Chart 7. The trade relations with suppliers* of firms reporting a sizeable volume of exports to the US¹²¹

*) The values represent the share of spending on purchases of goods and services from suppliers (resident non-financial corporations) reported by firms with a sizeable volume of exports to the US in total receipts from the exporting activity towards the US (data for 2023). On the left side are the exporters to the US by economic activity (two-digit NACE codes). On the right side are non-financial corporations in Romania, suppliers of the exporters to the US (two-digit NACE codes). The diagram includes the most important two thirds of trade relations by the volume of trade described above.

Source: MF, National Agency for Fiscal Administration, NBR calculations

Indirect channel

Unlike the implications via the direct trade channel, the indirect ones can be much more significant, through the exposures to other countries, following the pass-through of shocks by those countries' exporting firms onto their trade relations with companies in Romania. The microeconomic analysis in this section assesses the vulnerability to such a shock of exporters to Germany, as well as their capacity to manage risks.

Germany is Romania's main trading partner, with Romanian exports to this country accounting for 20.5 percent of total exports in 2024. Next in line by the relevance of Romanian exports, yet with much smaller shares, are Italy (9.5 percent) and France (6.3 percent). Economic ties with Germany are also important in terms of capital

¹²¹ The value of goods exported to the US accounts for more than 10 percent of exporters' turnover.

flows, as this country generates the largest volume of foreign direct investment to Romania¹²². Under the circumstances, the US customs tariffs on EU-originating goods can trigger major adverse indirect effects following German firms' weaker demand for Romanian goods, both in the short run, through a decline in orders, and over the medium and long term, via an adjustment of business strategies for production and investment.

Looking at the firms exporting to Germany, around half are more vulnerable to a shock from the German market (903 of 1,853 firms), with receipts from the exporting activity vis-à-vis this country making up more than 10 percent of their turnover. These firms play a major role in Romania's foreign trade, concentrating about 25 percent of total exports at aggregate level, but have a modest role in the economy. They account for 5 percent of the gross value added of the non-financial corporations sector and hire 6 percent of the workforce.

These companies have a much lower capacity to redirect exports towards other destination markets, compared with firms exporting to the US. Specifically, less than half of exports carried out by exporters to Germany are oriented towards other countries. Moreover, these firms are dependent on the exporting activity, with receipts from external sales making up 86 percent of their turnover (median value, 2023), which points to a higher degree of vulnerability to a possible shock from external markets. In addition, the distribution of exports to Germany at company level is characterised by high concentration: five companies cumulatively generate 30 percent of the total export volume, while the rest record marginal individual contributions.

The most important exporters to Germany operate in industrial sub-sectors such as the manufacture of motor vehicles and trailers, rubber and plastic products, electrical equipment, as well as machinery and equipment. The enforcement of the new customs tariffs by the US, assuming a full pass-through of the falling demand shock to firms in Romania, is estimated to trigger losses at a sectoral level of up to one fifth of the value of exports to Germany. The most affected industries, by the size of losses, would be the manufacture of motor vehicles, metallurgy, and electrical equipment¹²³. In the event of an increase in the tariff level applied to all products imported from the EU from 10 percent to 50 percent, other sub-sectors with significant losses would be machinery and equipment and rubber and plastic products.

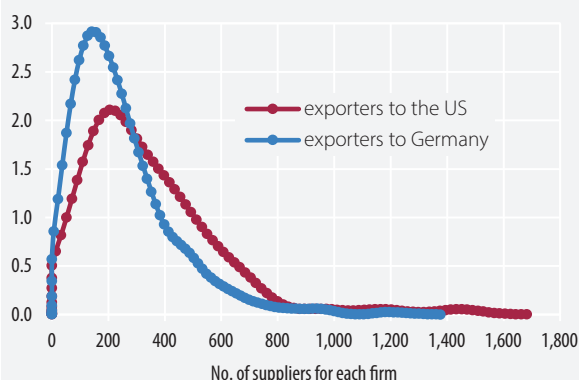
Effects on the economy can be sizeable, but are estimated to remain manageable. On one hand, exporters to Germany have a relatively high degree of integration in the economy, these firms reporting in 2023 trade with more than 200 suppliers and approximately 12 customers (number of trade partners per firm, median values). By the number of trade relations, these firms have a degree of interconnection similar to exporters to the US (Chart 8). On the other hand, the importance of trade flows (calculated as the share of sales of goods in suppliers' turnover) is higher for the

¹²² Resident entities in this country hold, both directly and via the subsidiaries and branches of German firms in intermediate countries, 14.5 percent of foreign direct investment (December 2023).

¹²³ Box 1, "The impact of the new US customs tariffs on Romania's international trade relations" in the *Inflation Report*, NBR, May 2025

suppliers of exporters to Germany than for the suppliers of exporters to the US. The former supplier firms contribute more to the gross value added of the sector they belong to than the latter (Chart 9).

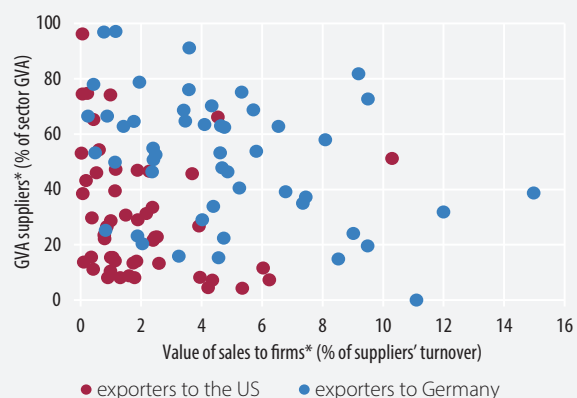
Chart 8. Distribution¹²⁴ of the number of suppliers for each firm with a sizeable volume of exports* to the US and Germany



*) value of exports exceeding 10 percent of turnover; the distribution was estimated

Source: MF, National Agency for Fiscal Administration, NBR calculations

Chart 9. The importance of trade relations for suppliers, resident non-financial corporations



*) aggregate values by sector (two-digit NACE Rev.2 codes)

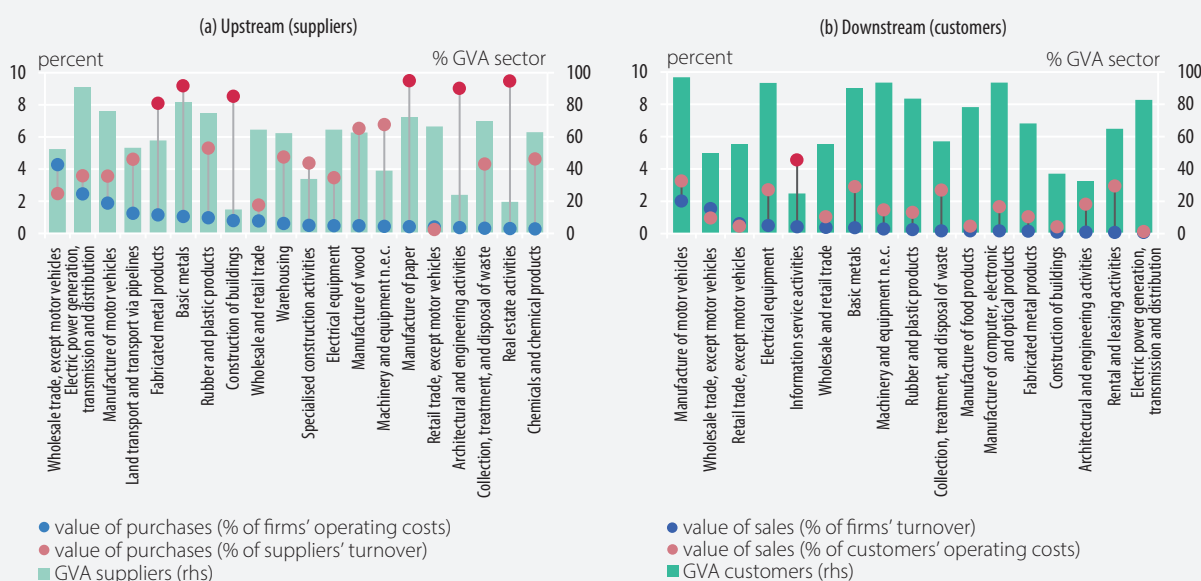
Source: MF, National Agency for Fiscal Administration, NBR calculations

The sectoral analysis shows the relatively higher importance of the shock transmission channel from exporters to Germany towards suppliers relative to customers, the shares of the trade flows in customers' total operating costs standing below 5 percent for the most important economic sub-sectors (in terms of trade volume) compared with up to 10 percent of the turnover in the case of suppliers (Chart 10). From the perspective of relations with suppliers, the most vulnerable firms to a shock passed through by exporters to Germany are those operating in fabricated metal products, metallurgy, construction of buildings, manufacture of paper, architectural and engineering activities, and real estate activities. Firms in the first two sectors and in the manufacture of paper are of major relevance (accounting for more than 70 percent of these sub-sectors' gross value added), yet the share of expenses in total operating costs of exporters is very small, which implies a low likelihood for a possible shock to feed through.

The impact on the financial sector is estimated to be contained, given the small volume of loans taken by firms exposed to the shock of a drop in external demand from Germany. Only half of these firms have bank loans, while the volume of loans accounts for merely 3 percent of total credit to non-financial corporations. Firms that obtained credit from financial institutions report a marginally better economic performance, but have a slightly higher financial risk profile, compared with exporters to Germany that did not resort to this type of financing. Both return on equity and productivity (expressed as a ratio of gross value added to the number of employees) are higher for these firms. Moreover, the liquidity position is satisfactory, but companies record a higher level of indebtedness (Chart 11).

¹²⁴ The probability distribution function is obtained through a kernel estimation based on the normal distribution function.

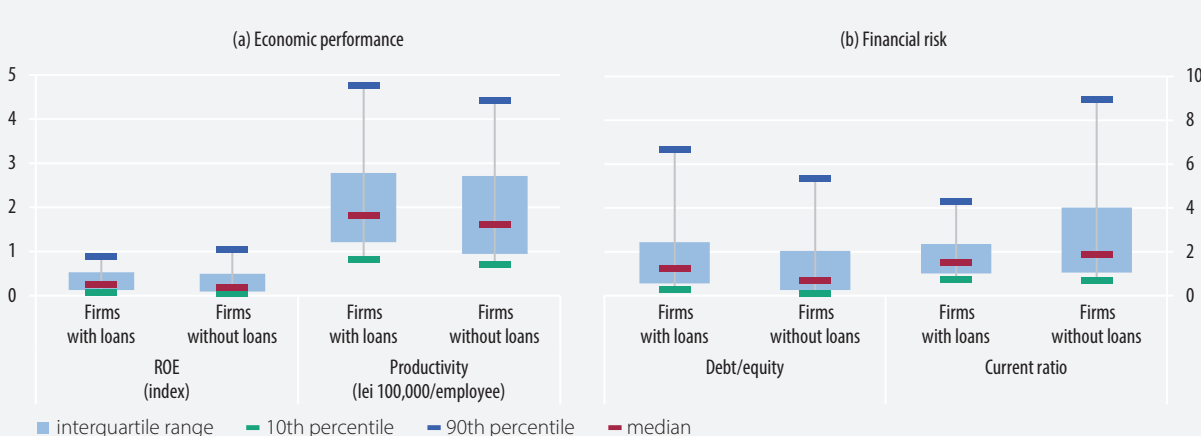
Chart 10. Sectoral analysis of the importance of trade relations for exporters to Germany with suppliers and customers, resident non-financial corporations



Source: MF, National Agency for Fiscal Administration, NBR calculations

The concentration analysis points to a high level in terms of both borrowers (only five firms account for half of the credit volume) and financial institutions (five banks make up two thirds of the volume of loans). Moreover, these exposures are primarily vis-à-vis firms in economic sub-sectors more vulnerable to shocks brought about by the changes in the US trade policy, i.e. manufacture of motor vehicles and metallurgy. As regards the portfolio quality, the NPL ratio stands above the average for the non-financial corporations sector (+2 percentage points, namely 6 percent, December 2024), credit institutions assessing these firms with an increased level of prudence. Thus, more than 90 percent of the non-performing exposures of firms with a sizeable volume of exports to Germany occurred after banks classified them as unlikely-to-pay.

Chart 11. Financial indicators for exporters to Germany*



*) firms with the value of goods exported to Germany of more than 10 percent of turnover. Companies with negative equity and without employees have been removed from the calculation of these indicators.

Source: NBR, MF, NIS, NBR calculations

Against this background, close monitoring of the developments entailed by changes in global trade policies and the adequate assessment of associated risks are essential for preserving financial stability. Furthermore, consolidating companies' capacity to diversify their export markets and sources of finance should be a priority for strengthening economic resilience over the medium and long term.

Abbreviations

ANCP	National Agency for Cadastre and Land Registration
BIS	Bank for International Settlements
CEE	Central and Eastern Europe
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European System of Accounts
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FDI	Foreign direct investment
FSA	Financial Supervisory Authority
GDP	Gross domestic product
GVA	Gross value added
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRCC	benchmark index for loans to consumers
MF	Ministry of Finance
NBFIs	Non-bank financial institutions
NBR	National Bank of Romania
NCMO	National Committee for Macroprudential Oversight
NIS	National Institute of Statistics
NPL	Non-performing loans
NTRO	National Trade Register Office
OECD	Organisation for Economic Co-operation and Development
O-SII	Other Systemically Important Institutions
ReGIS	Romanian electronic Gross Interbank Settlement
ROA	Return on assets
ROBOR	Romanian Bid Offered Interest Rate
ROE	Return on equity
SaFIR	Government securities depository and settlement system
SENT	Electronic Net Settlement System
SMEs	Small- and medium-sized enterprises
VAT	Value added tax

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