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**Balancing Prudential Regulation and Competition Considerations in Banking – Note by
Romania**

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Romania

1. Relevant competition issues in financial services

1. Over the past decade, the Romanian banking landscape has reconfigured rapidly: market concentration has increased, large banks have gained a disproportionate competitive force vis-à-vis medium and small players, and digitalisation – coupled with a change in customer profile – has forced a revision of the business model.

2. The period of the last 10-12 years is one characterised by an accelerated structural consolidation trend of the Romanian banking sector, reflected in an upward evolution of the HHI indicator during the period under review. The level of profitability was, after 2014, among the highest compared to the average of the European banking system or that of the CEE area. There was a strong asymmetry in the ability to generate profit relative to the size of the bank, signalling the potential for further bank consolidation.¹

3. The high cash appetite of the population is determined by several factors: limited access to financial services in certain geographical areas, low degree of financial education and digital skills, high proportion of the population (employees and pensioners) receiving their income in cash in Romania.

4. Operational efficiency places the Romanian banking sector, in 2018, in a medium-risk range and shows room for improvement, especially at the level of some small and medium-sized banks.

5. The barriers identified when entering the market, according to the conclusions of a sectoral investigation conducted by the Competition Council, were the network of territorial units (branches/subsidiaries) and customer inertia. To these is added trust and reputation as a psychological barrier (customers do not easily change the bank).

6. The criteria by which banks assess the ability of customers to repay a loan and on the basis of which they grant or not the loan are not always clearly explained - neither the list of factors with influence in this decision nor their weight in this respect are well known. The fact that, in Romania, the financial and digital education of customers is deficient can be considered a factor contributing to the manifestation of a certain inertia on their part, to which is added the information asymmetry already mentioned. Often, the decision to change the service provider in this situation is made only on the basis of information related to the bank's brand/reputation, marketing messages promoted by credit institutions or a history of the contractual relationship with that bank. In addition, free tools to help them compare offers correctly and in real time (bank product comparisons, ANPC information on commissions) are known only to a small extent and used far below potential by consumers. The result is an *asymmetry of information*: customers may in practice remain captive and with limited bargaining power, and competition is not normal as price and quality pressure from demand is alleviated. To this is added the profile of customers, as reflected in various studies and research, which indicate

¹ Study Papers No. 59 - Simona Ichim, Angela Pîslaru, Claudia Voicilă - *Determinants of interest margins in the Romanian and Central Eastern-European banking sector* (July 2022).

poor financial and digital education. The European Commission's Digital Economy and Society Index (DESI)² shows a large room for growth in terms of basic and above-basic digital skills, use of banking and shopping services, cross-border online sales, number of SMEs selling online e-commerce turnover, digital public services for businesses.

2. Interaction between prudential regulation and competition

7. FinTechs and NBFIs (Non-Banking Financial Institutions) brought about a structural change in the Romanian financial market.

8. In the financial sector, prudential regulation and competition policy pursue distinct but interdependent objectives. Prudential regulation aims at system stability and depositor protection by imposing capital, liquidity, governance and risk management requirements. Competition policy, on the other hand, aims at the efficient functioning of markets, preventing excessive concentration and stimulating innovation and consumer choice.

9. In practice, balancing these two dimensions is essential. Overly strict prudential rules can create barriers to market entry and strengthen the positions of large institutions, reducing competitive pressure. On the other hand, excessive liberalisation can lead to systemic risk-taking and loss of confidence in financial stability. The middle ground is a proportionate, technology-neutral regulatory framework.

10. In Romania, the National Bank (BNR) and the Competition Council are the main institutional actors in defining this balance. The NBR sets prudential requirements for banks and non-bank financial institutions (NBFIs), while the Competition Council oversees market behaviours and structures.

11. Some prudential rules may lead to side effects on competition. For example, limited access to payment infrastructures can be a barrier for new entrants (payment institutions, fintechs), who depend on bilateral agreements with banks.

12. The asymmetry of prudential requirements between banks and NBFIs is also a challenge. The NBFi regime, regulated by Law no. 93/2009, is adapted to the risks specific to these institutions, but differences in reporting, capital requirements and remote supervision may generate forms of regulatory arbitrage.

13. At the same time, the transposition of Directive (EU) 2015/2366 (PSD2), through Law No 209/2019, had an important pro-competitive objective. By introducing third-party access to accounts (AIS/PIS) and API standards, Romania has created the premises for the development of a dynamic and transparent fintech market, where customers can compare and migrate more easily between suppliers.

14. The Competition Council can intervene through sectoral investigations or through opinions on secondary legislation to ensure that prudential regulation is not used as an anti-competitive barrier. The sectoral investigation of the Competition Council on the retail banking market recommended the adoption of a common API³

² <https://digital-strategy.ec.europa.eu/en/policies/desi-romania>.

³ APIs are the key to digital services used on computers and smartphones. They can be used to disseminate, in a secure environment, information (such as prices and terms/conditions of banking products), but also transaction history (with the client's consent) to allow access to personalized comparisons in terms of current account and other services.

(application programming interfaces) for the Romanian banking system. While the PSD2 Directive provides for the need to open up customer databases to fintech companies, it does not impose a specific approach (common APIs or individual solutions), leaving national regulators free to adopt the approach most suited to the market they regulate. Consultations were held with both banks and fintechs and with bank associations and other market players. The competition authority considered that a common API would create equal opportunities for all financial service providers and allow small banks to maintain their level of competitiveness. In addition, integration with banking or non-banking institutions in other EU countries could be simplified by using a standard already known and adopted (e.g.: Open Banking UK, Berlin Group).

15. From the information provided by these associations and some credit institutions, it appeared that the practical implementation of the Recommendation could have led to delays in making available, on that date⁴, banks' testing platforms allowing third-party providers to test the software and applications used.

16. Currently, the Fintech sector in Romania is developing. The biggest problems faced by fintechs are:⁵ expansion in foreign markets, inadequate regulation of industry, access to finance, but also difficult access to open data. Regulations can make the sector closed and make it difficult for FinTech companies to navigate through the regulatory process⁶.

2.1. NBFIs

17. NBFIs, in turn, contributed to the financial inclusion of segments underserved by the banking system, in particular through micro-credit and consumer credit products.

18. The asymmetry of prudential requirements between banks and NBFIs is a challenge. The NBFi regime, governed by Law No 93/2009, is adapted to the risks specific to these institutions. The legal regime of non-bank financial institutions, established by Law no. 93/2009, is based on the principle of proportionality, being adapted to the size and nature of the activity of these entities, which do not attract deposits from the public and do not generate systemic risks comparable to those of banks. However, differences from the regime applicable to credit institutions – in particular in terms of reporting requirements, level of equity and intensity of supervision – may influence the competitive balance between participants offering similar financial products, to the extent that they are reflected in the costs and operating conditions of each category of entity.

19. The role of non-bank financial institutions in lending to the real sector has increased in recent years,⁷ the volume of loans granted by NBFIs recording double-digit dynamics in the post-pandemic period (13.6% in 2024, 14.2% in 2023 and 15.2% in 2022), following the modest developments during the COVID-19 pandemic (+2% in 2020 and +8% in 2021). A significant proportion of loans

⁴ 14.03.109

⁵ According to the FinTech Report Romania 2022 by RoFinTech (Romanian Fintech Association) - <https://nocash.ro/fintechs-in-Romania-will-expand-international-improve-legislation-and-create-a-sandbox-report-rofintech/>

⁶ FINTECH REPORT ROMANIA & BULGARIA 2023 (https://rofin.tech/RoFin.Tech_Romania-Bulgaria_Report2023_ebook.pdf), p. 32.

⁷ NBR, Annual Report, 2024.

granted by NBFIs are directed to non-financial corporations (78%, December 2024). Loans granted by NBFIs to households are mainly consumer loans denominated in national currency (90%, December 2024).

20. Loans granted by NBFIs carry a higher credit risk, the difference in the quality of NBFIs' assets compared to the banking sector being visible both at aggregate level and by main loan segments. Thus, the quality of the portfolio of loans granted by NBFIs to households is lower than that associated with the same type of bank loans (NPL rate of 7.9% versus 1.4%, according to the definition of overdue payments of more than 90 days, December 2024).

21. Poor coverage with rural territorial units/ATMs creates entry barriers for small banks and digital-only fintechs that, without physical infrastructure/partnerships, have difficulty capturing cash and local loyalty.

2.2. Institutional coordination and cooperation

22. The balance between stability and competition cannot be achieved without a constant and efficient cooperation mechanism between authorities. In Romania, the NBR and the Competition Council collaborate in the analysis of mergers in the banking sector and in the assessment of the market effects of some prudential regulations. In 2019, the NBR also created a FinTech Innovation Hub, a platform for dialogue with industry, aimed at clarifying the compliance expectations of the authority and supporting controlled testing of innovations. The aim is thus to create a secure environment for the development of innovations in the field of payment services, which will support its mission of maintaining the stability of the financial and banking system and, at the same time, of increasing financial inclusion, by facilitating the access of consumers and businesses to payment services and other safe, efficient and convenient financial services, in line with their needs.

23. Balancing prudential regulation with competition policy is not a static exercise but a continuous process of adjustment. For Romania, the main strategic directions can be summarised as follows:

1. **Applying the 'same risk – same rules' principle** by regularly reviewing the requirements for substitutable products offered by banks, NBFIs or fintechs.
2. **Open access to payment infrastructures** for all providers complying with safety and compliance standards, avoiding discriminatory barriers.
3. **Strengthening the dialogue between the NBR, the Competition Council and industry**, through formal mechanisms for consulting and assessing the competitive impact of prudential regulations.
4. **Continuous monitoring of market concentration, entry barriers and digital innovations** through common horizon scanning analyses, i.e. collaboration between prudential authorities (e.g. the NBR, the FSA) and the competition authority, which combine their perspectives – the assessment of systemic, prudential and operational risks and the impact on market structure and entry barriers.

3. Enforcement challenges

24. Over time, the Competition Council's concerns have materialized in its involvement, both in the processes of adopting regulations specific to the banking sector,

as well as in the authorization of merger operations, in conducting sectoral investigations and in activities to detect possible malfunctions of the sector.

25. It is worth mentioning the recommendations and involvement of the Competition Council in eliminating the early repayment fee for all variable interest loans for individuals and reducing the early repayment fee for all fixed interest loans for individuals.

26. The competition authority followed and was involved in the transposition into national law of European directives and regulations related to the banking sector (e.g.: PSD2 Directive, etc.).

27. There was also a sector inquiry into the identification of possible anti-competitive practices in the card payment services market and its potential failures, which act to the detriment of consumer welfare, and, after several years, a sector inquiry into the retail banking market.

28. Instead of a fragmented market with more than 40 entities active in 2013, there has been a gradual reduction in the number of credit institutions through several mergers:

- successive mergers and acquisitions (BT–Volksbank, BT–Bancpost, BT–Idea, BT–OTP, Exim–Banca Românească, Vista–Crédit Agricole, First–Leumi, UniCredit–Alpha, etc.);
- market exits (RBS, Bank of Cyprus, Montepio, Veneto, Alior, Italo Romena, etc.);
- Rare and controlled inflows (Revolut Bank UAB, Bank of China).

29. In 2020, the competition authority concluded an investigation into an exchange of commercially sensitive information in the financial leasing market, which resulted in fines for an exchange of sensitive information that led to excessive market transparency, allowing competitors to adapt their business strategies accordingly.

30. At this moment, the competition authority has two ongoing investigations in the banking sector:

- one concerns the way in which banks calculate ROBOR/ROBID benchmarks, which are the basis for setting interest rates;
- the other is based on suspicions that the shareholders of the Credit Bureau would limit the access of individual consumers to bank lending products and services through a series of actions related to the establishment and application of the FICO score (depending on which the ability of a customer to repay a loan is assessed).

31. In its activity, for a realistic perspective on the sector's problems, the Competition Council promoted the constructive dialogue and initiated discussions with government authorities, but also with representatives of the business environment and of some profile associations.

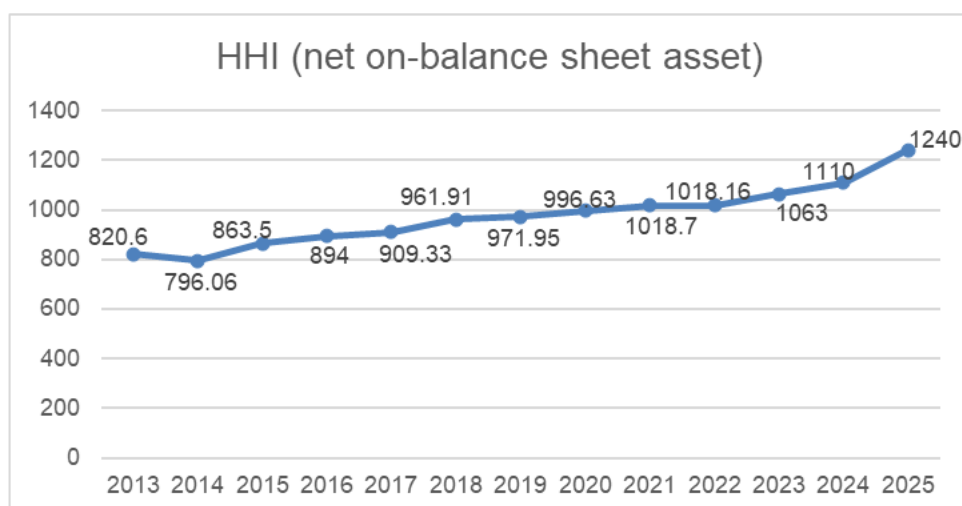
Annex A. Annex Statistics on the banking sector in Romania

1. Level of market concentration

32. The number of active credit institutions has steadily declined, amid a wave of mergers and acquisitions, market exits and rare inflows of new players into the market. The main developments in the market were marked by mergers and acquisitions, the cessation of the activity of some credit institutions and only a few market entries. This process led to the formation of a core of systemic banks (Banca Transilvania, BCR, CEC, BRD, Raiffeisen, ING, UniCredit), which together hold about 86% of the market.

33. The restructuring of the banking sector meant a continuous reduction in the number of credit institutions operating in Romania, from 40 in 2013 to 32 in 2024. Thus, an upward trend in the HHI indicator is observed over the period under review, as shown in the graph below.

Figure A A.1. HHI indicator (2013-2025)



34. The market share of the seven largest banks in the system increased from 67% in 2013 to 86% in 2025.

35. These developments point to a banking market characterised by an increasing degree of concentration, which may influence the level of competition and the conditions of access of new market participants.

2. Profitability of banks

36. At the end of 2021, the Romanian banking sector recorded a record profit at that time, amid an operational efficiency⁸ below the EU median.⁹ In 2022 the profitability of the banking sector strengthened, with 25 out of 32 credit institutions reporting positive

⁸ Determined by the cost/income indicator.

⁹ NBR Annual Report, 2021.

financial results.¹⁰ Operating profit increased by 21.6% compared with 2021¹¹ (the increase in operating income being mainly due to higher net interest income).¹²

37. In 2017-2021, the group of systemically important banks continuously had a solvency, profitability and liquidity position above the average of the banking sector¹³ (implicitly above the level of non-systemic banks), and in 2007-2021 the value of the net interest margin in Romania was above the EU average. There was a *strong asymmetry in the ability to generate profit relative to the size of the bank*, signalling the potential for further bank consolidation.¹⁴

38. In 2022, credit institutions continued to be polarised in terms of financial profitability, with small credit institutions having low operational efficiency.¹⁵

39. In 2023, profitability strengthened, the financial result being higher than in the previous year, with the share of credit institutions that ended the year with positive financial results standing at 78%, as in 2024.

40. Operating profit in 2024 was 6.6 percent higher than in the previous year.

41. The analysis of the structure of operating revenue highlights the continued predominance of net interest income, which accounted for 70.9% of total operating revenue at the end of 2024.

42. Bank profitability remains above the European average (18.4% in Romania vs. 10.5% in the EU, December 2024).

43. The variability of the NPL ratio across banks declined in 2024. A discrepancy remains between large and non-large banks in terms of asset quality. Large banks have a lower NPL ratio (2.4%), i.e. a higher NPL coverage ratio (69%) than other banks.

3. Territorial network¹⁶

44. From a territorial perspective (at unit/km² level), Romania needs to improve its level, both in terms of the number of ATMs and banking units.

45. Banking infrastructure is less developed in rural areas, although it concentrates almost half of the country's population.

46. Access infrastructure fosters the advantages of market leaders. This less developed network in the territory favours large banks with physical coverage, which can serve large areas and capture deposits/cash flows in the territory.

¹⁰ NBR Annual Report, 2022.

¹¹ NBR Annual Report, 2022.

¹² The share of net interest income in operating income in 2022 was 70.6%.

¹³ NBR Annual Report 2021.

¹⁴ Study Papers No. 59 - Simona Ichim, Angela Pişlaru, Claudia Voicilă - *Determinants of interest margins in the Romanian and Central Eastern-European banking sector* (July 2022).

¹⁵ NBR Annual Report, 2022.

¹⁶ NBR – Financial Stability Report, December 2024, pp. 112-113.