
Romania: Financial Sector

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Deputy Governor

Bucharest, 15 March 2017

The role of National Bank of Romania

- ❑ The role of Central Banks: secure price stability; additionally, secure financial stability and exchange rate stability
- ❑ NBR has reached all three stabilities

Price stability

- Interest rates historically low
- Low inflation, not deflation

Financial stability

- Reduced risk of legislative uncertainty
- Banking sector has been consolidated
- NPL ratio decreased
- No use of public money to save banks

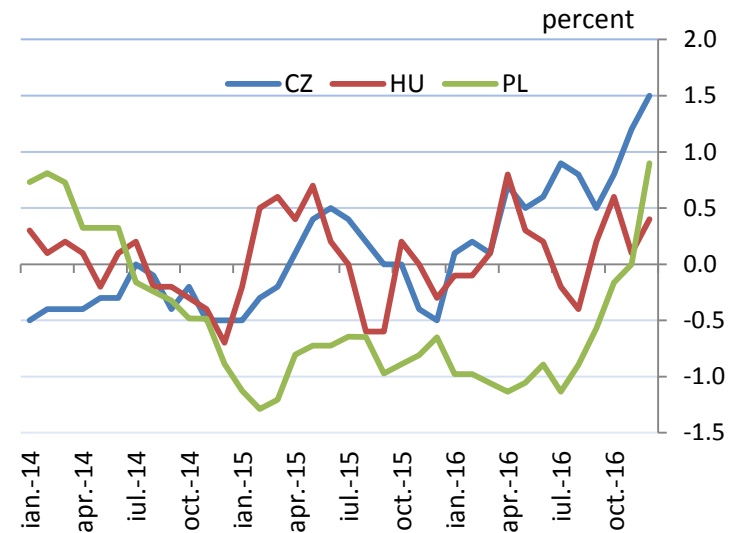
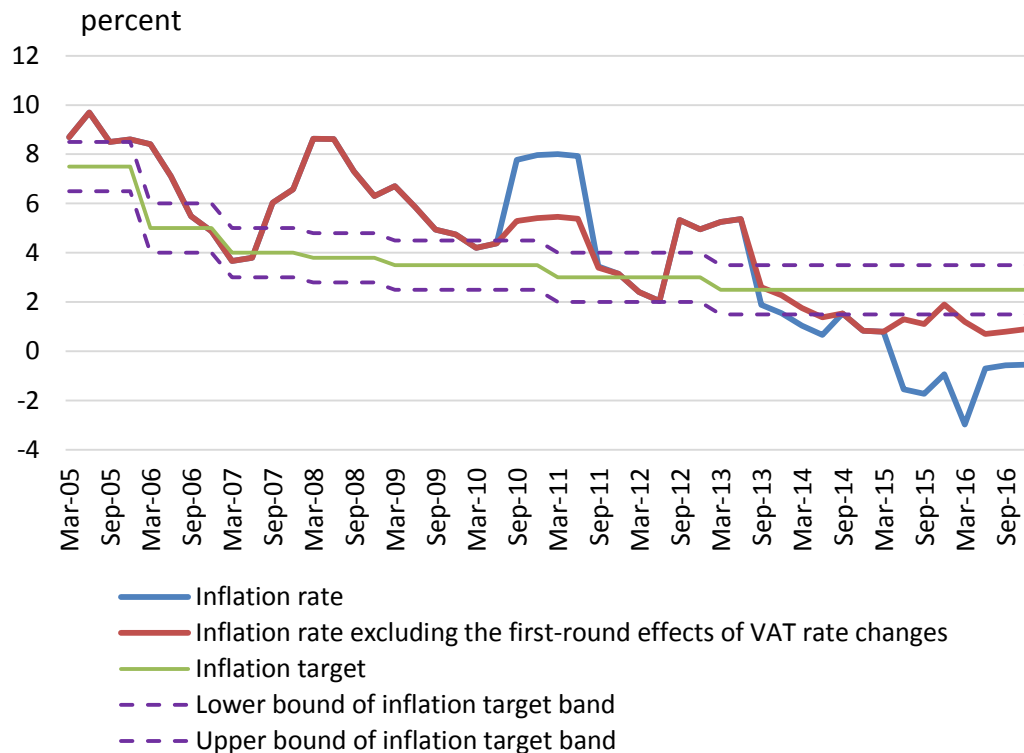
Exchange rate stability

- Higher net international reserves
- Low volatility of the exchange rate

I. Price stability

I.1. Low inflation, not deflation

Inflation rate

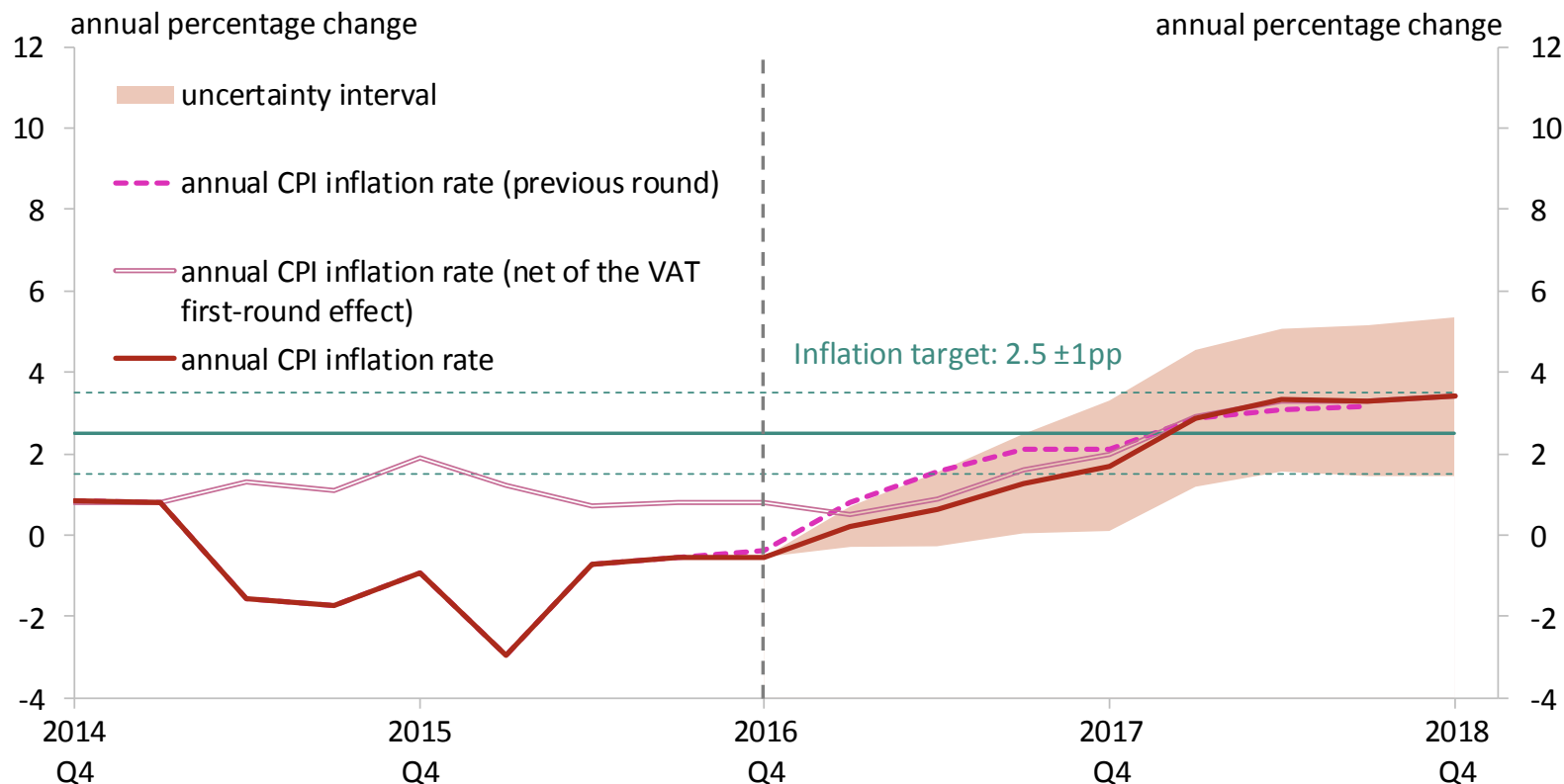


Negative inflation was driven by fiscal measures, while inflation excluding VAT cuts remained close to our target band

Source: NBR

Inflation has re-entered into the positive territory

Inflation Forecast

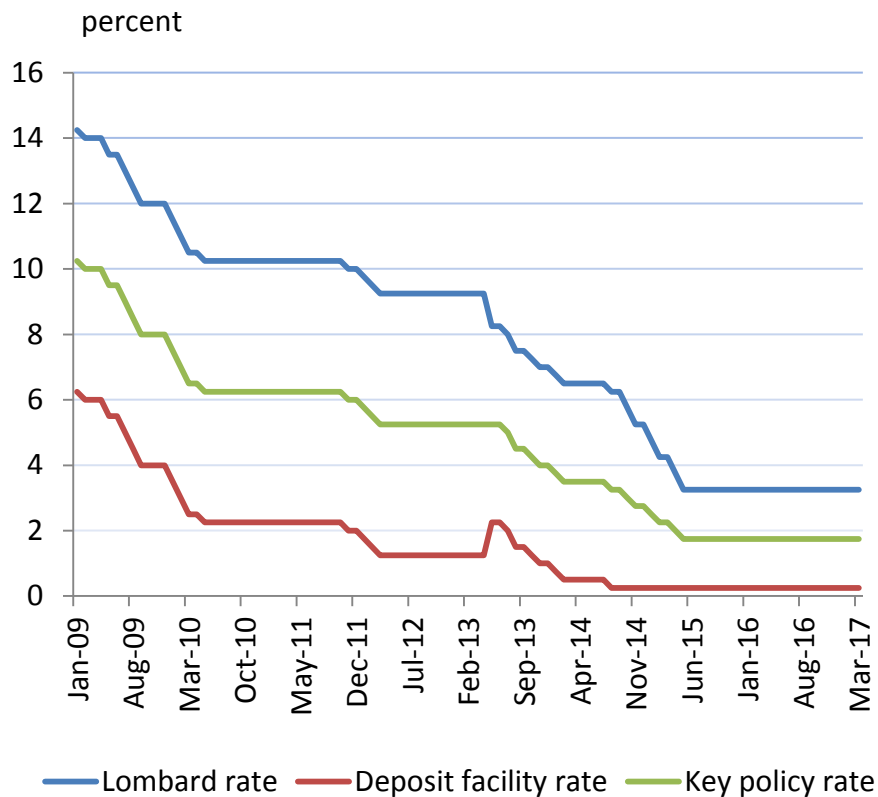


Note: According to the February 2017 Inflation Report. The uncertainty interval was calculated based on the forecast errors in the NBR projections during 2005-2016. The magnitude of forecast errors is positively correlated with the time horizon they refer to.

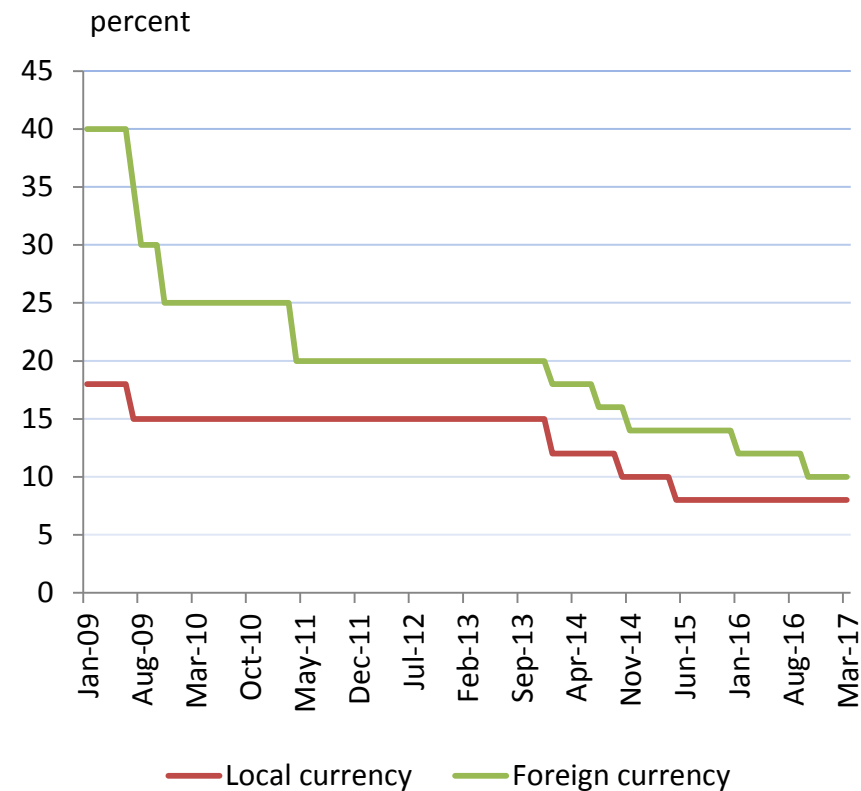
Source: National Institute of Statistics, National Bank of Romania projections and calculations

I.2. Favourable monetary conditions: Monetary policy rate at historical lows

Central bank's interest rates



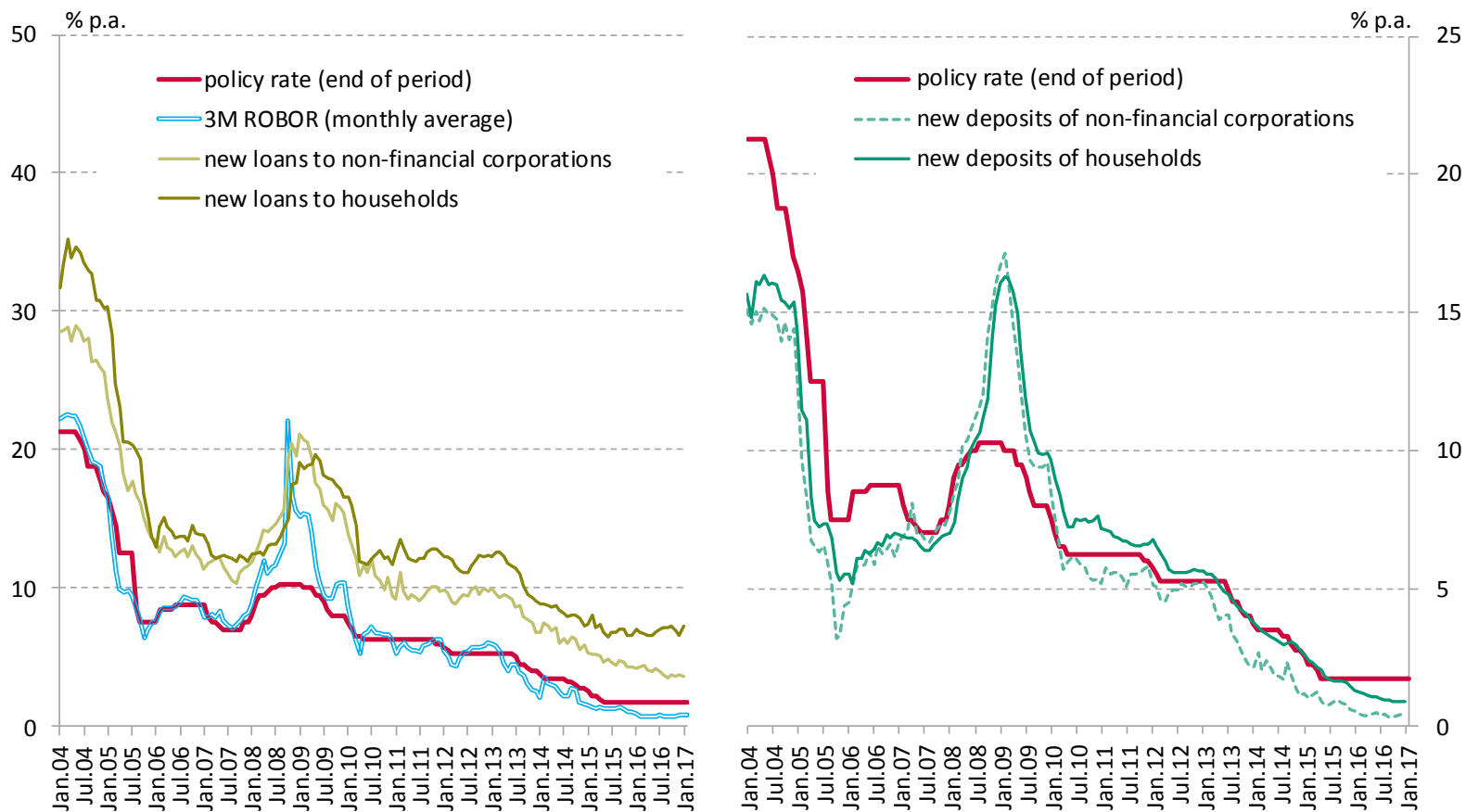
Minimum reserve requirements



Source: NBR

Interbank rates declined in line with the policy rate

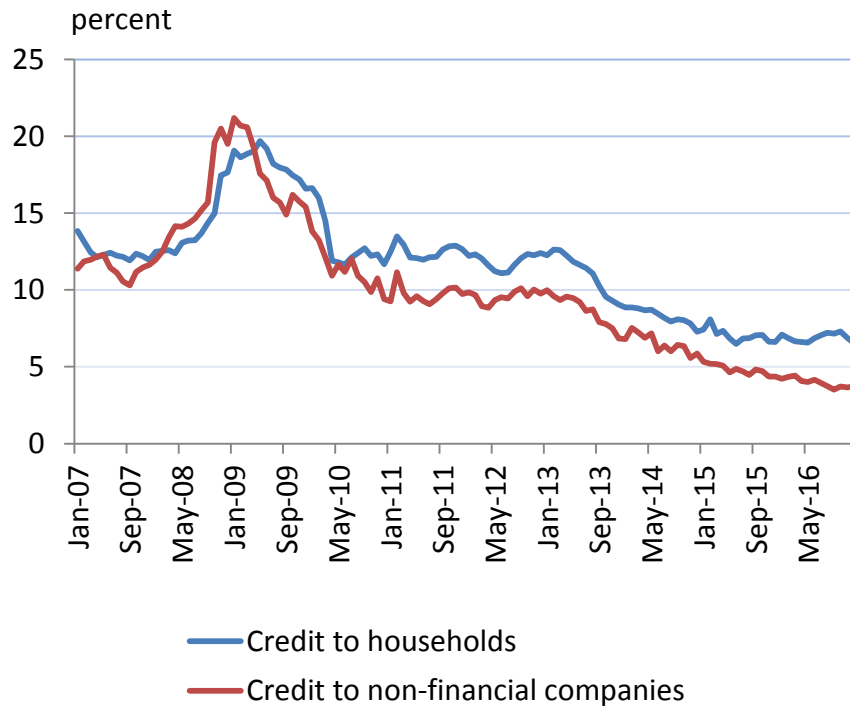
Policy Rate and Bank Interest Rates to Non-Bank Clients



Source: National Bank of Romania

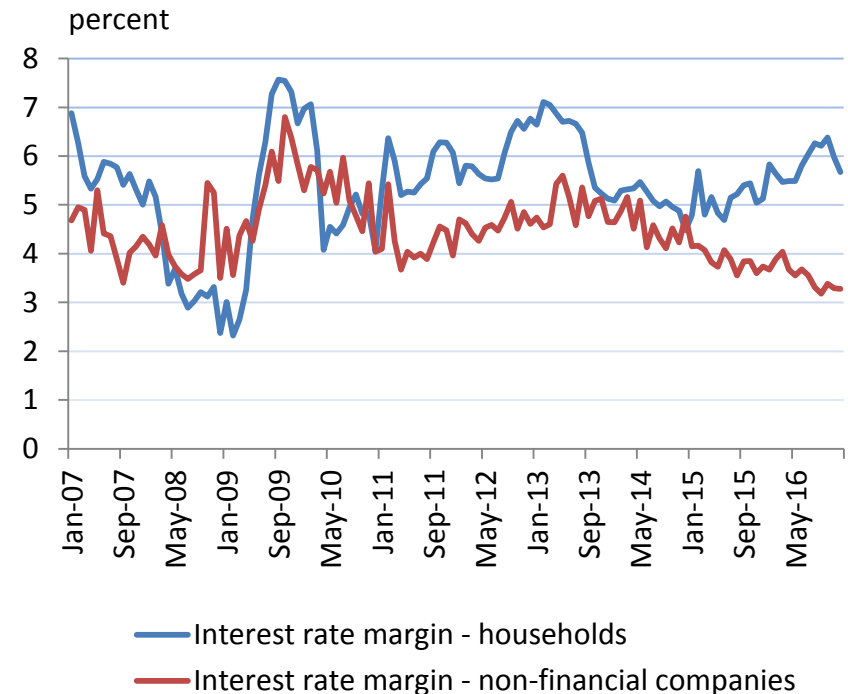
Lower policy rate led to lower interest rates for loans to households and companies

Interest rates for local currency loans to households and non-financial companies



Source: NBR

Interest rate margins (local currency)



Source: NBR

II. Financial stability

II.1. Reducing the risk of legislative uncertainty

☐ **Datio in solutum (giving in payment) law**

NBR warned repeatedly, through all Executive Board members, against the negative impact of this law on financial stability.

BNR intervened in this debate because it answered to the requests from the President and Parliament.

Financial Stability Report 1/2016 considered legislative uncertainty as a severe systemic risk.

Three amendments proposed by NBR were adopted, limiting the amount and destination of loans, and excluding First House loans.

Other amendments proposed by NBR referring to loan to value and debt service to income limits were rejected.

NBR's position was aimed at preserving financial stability, while making sure that the law helped only those debtors who could not afford to pay anymore, not those who didn't want to pay anymore.

II.1. Reducing the risk of legislative uncertainty

Datio in solutum law (cont.)

The Constitutional Court decided that the law must respect the Civil Code, so the debtor must prove that: he/she entered into default because of unpredictable circumstances (the debtor can't pay); and that he/she tried to settle with the bank; and a court of law must decide that.

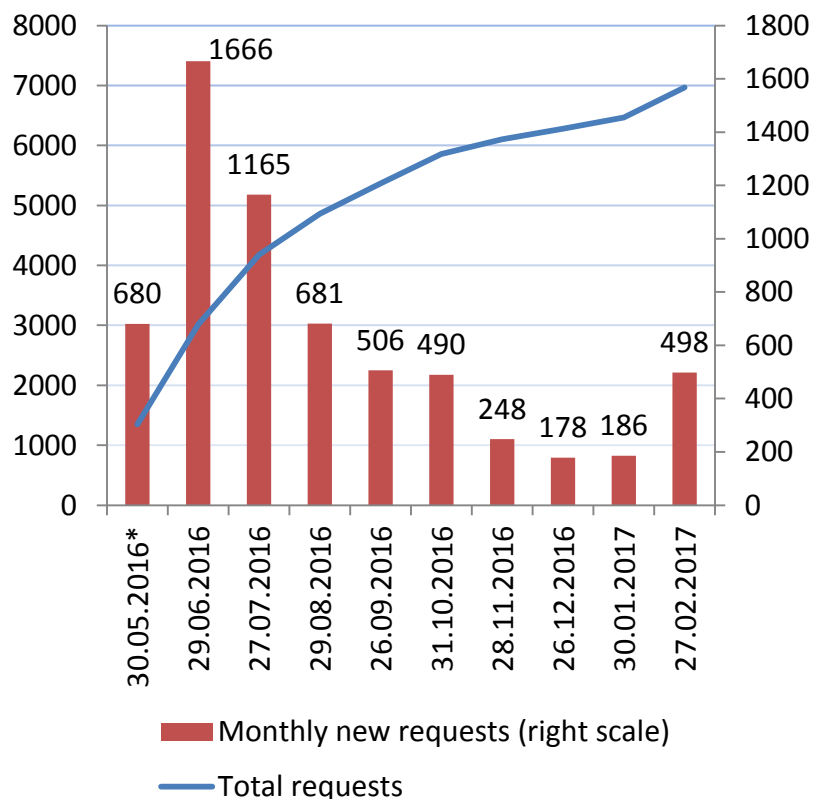
Therefore, the law is no longer a loss event for banks at the moment of adoption, but only on a case by case situation, when a court decides so. Losses are phased-out over many years.

However, problems remain: debt does not go away, and the need for a solution remains. There is no standard for what unpredictable means (what is the trigger?)

Common understanding and common practice is still needed.

Number of notifications for giving in payment has consistently declined

Notifications for giving in payment



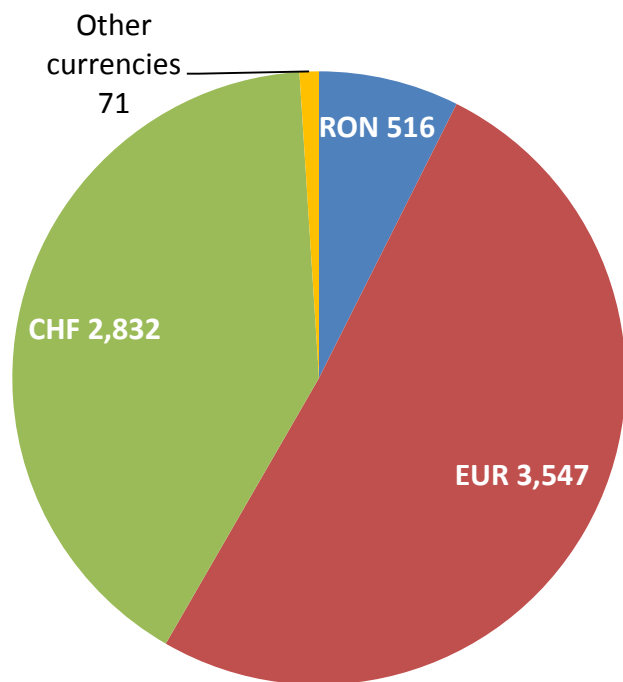
- 6966 notifications (of which 99% from physical persons)
- 6023 debtors (of which 755 notified more than one loan)
- loans amounting to 2 billion lei
- 67% are on balance sheet
- 93% are for foreign exchange loans (40% in CHF)
- 62% are NPLs
- 76% were granted in 2007-2008
- More than 90% have LTV>1

Source: NBR

Source: NBR

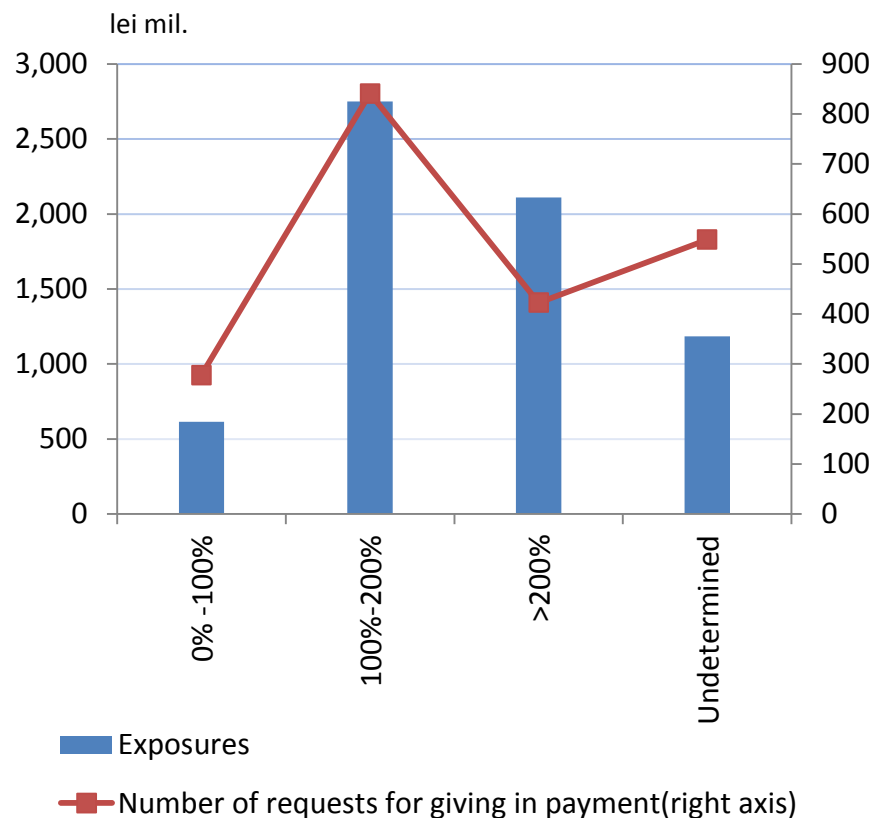
Majority of giving in payment notifications are for FX loans and for loans with LTV above 1

Structure of the giving-in-payment requests by denominating currency



Source: NBR

Distribution of giving in payment loans by LTV



Source: NBR

II.1. Reducing the risk of legislative uncertainty (cont.)

CHF conversion law

The CHF conversion law was adopted by the Parliament, but the Constitutional Court decided that the law is not constitutional.

The NBR advocated for a bilateral negotiation between banks and debtors with CHF loans. One size fits all is not the best option, each particular case requires individual solution.

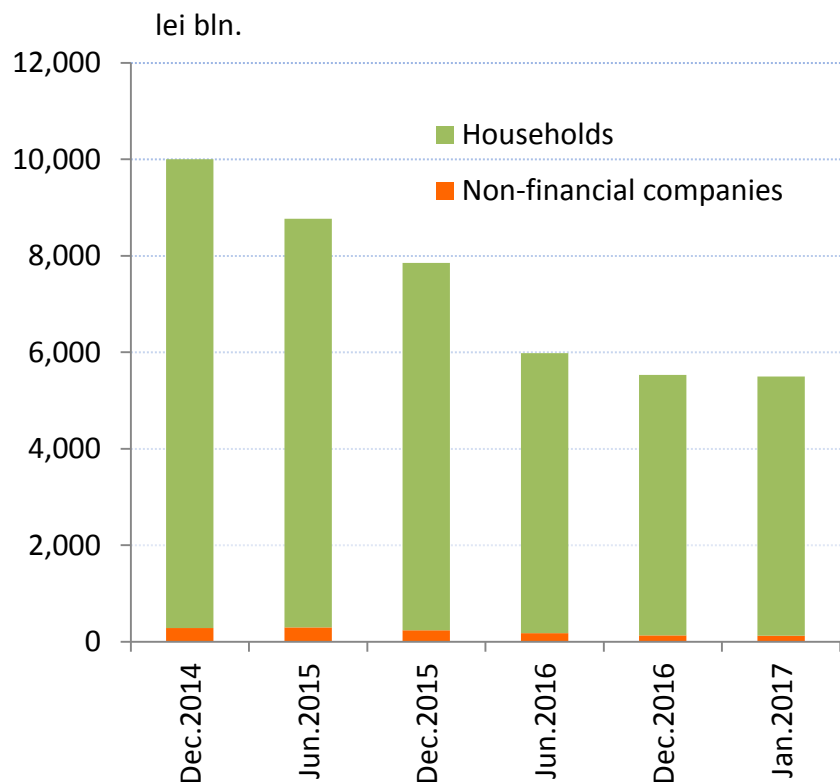
As of December 2016:

- 38519 CHF debtors (vs. 75412 at end-2014)
- Volume: 5.4 billion lei (vs. 10 bn. At end-2014)
- 40% not backed by mortgages

Since January 2015, banks received 59411 requests from debtors regarding CHF loans, of which they admitted 37366 (62.9%): 24853 conversions and 12513 restructurings.

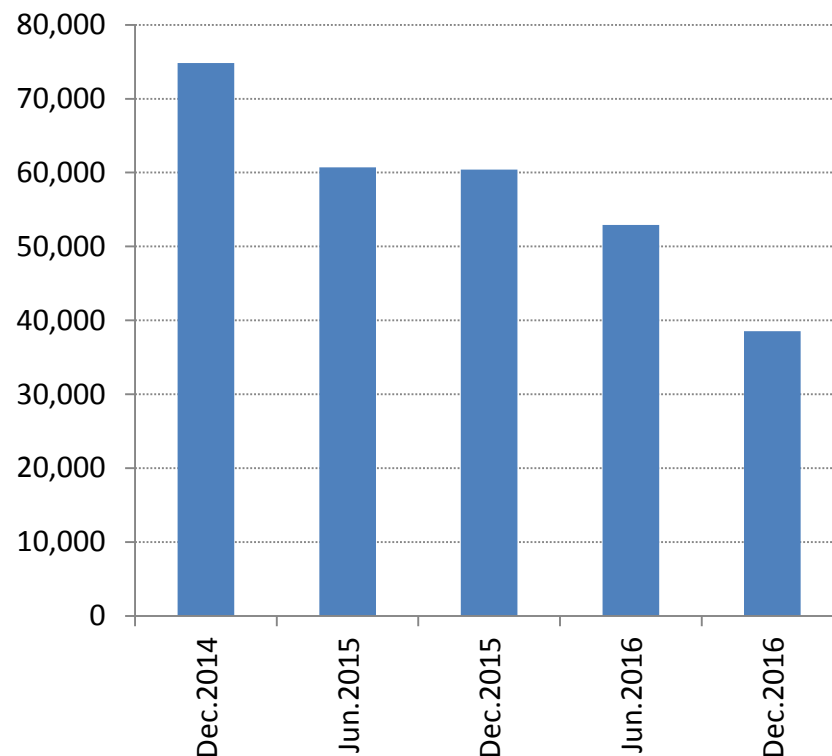
Stock of CHF loans significantly declined, as well as the number of debtors with CHF loans

Stock of CHF loans



Source: NBR

Number of persons with CHF loans

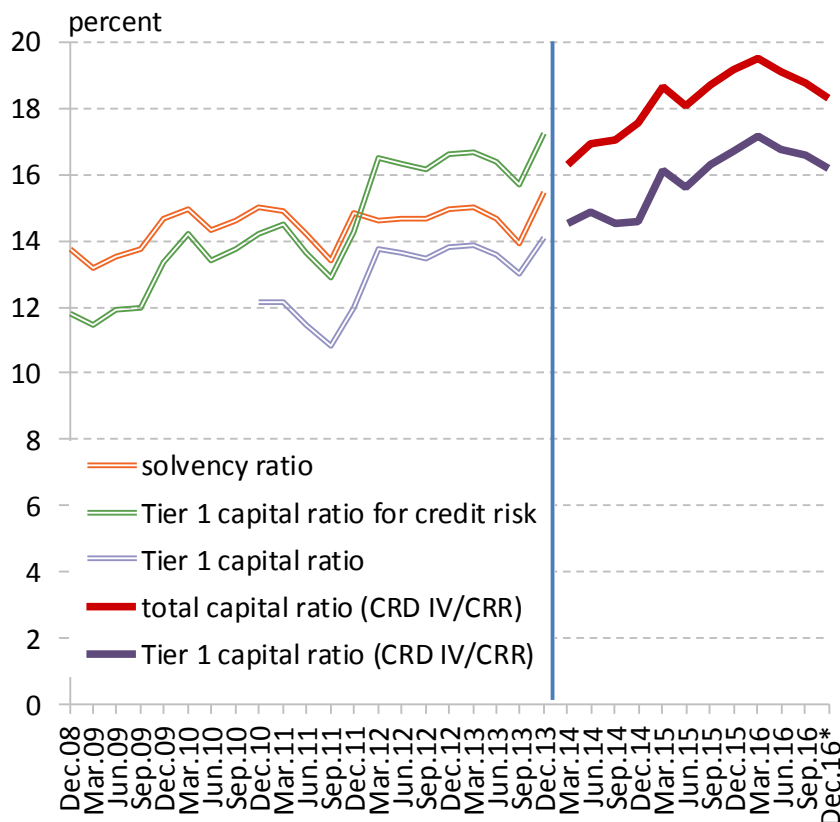


Source: NBR

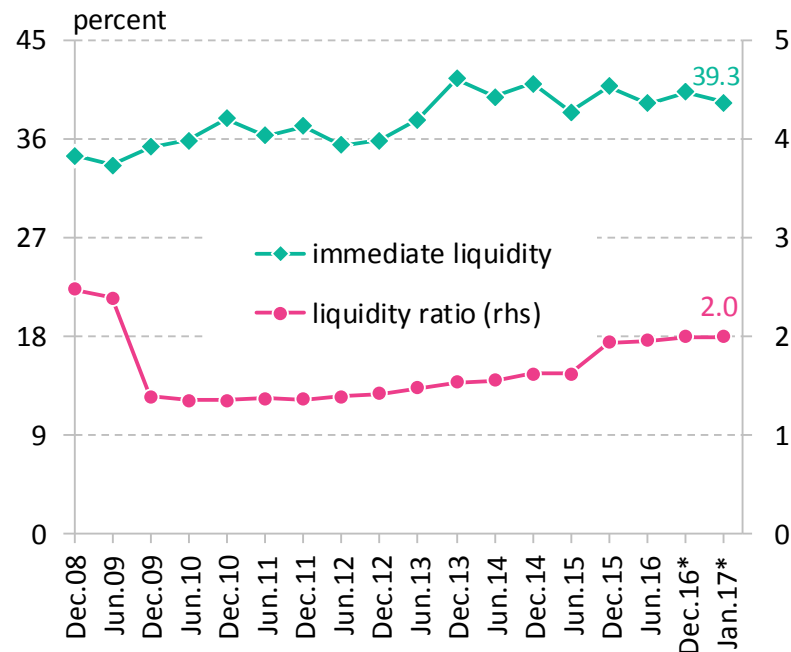
II.2. Banking sector

Analysis Ratios for the Banking System

Capital Adequacy Indicators



Liquidity Indicators



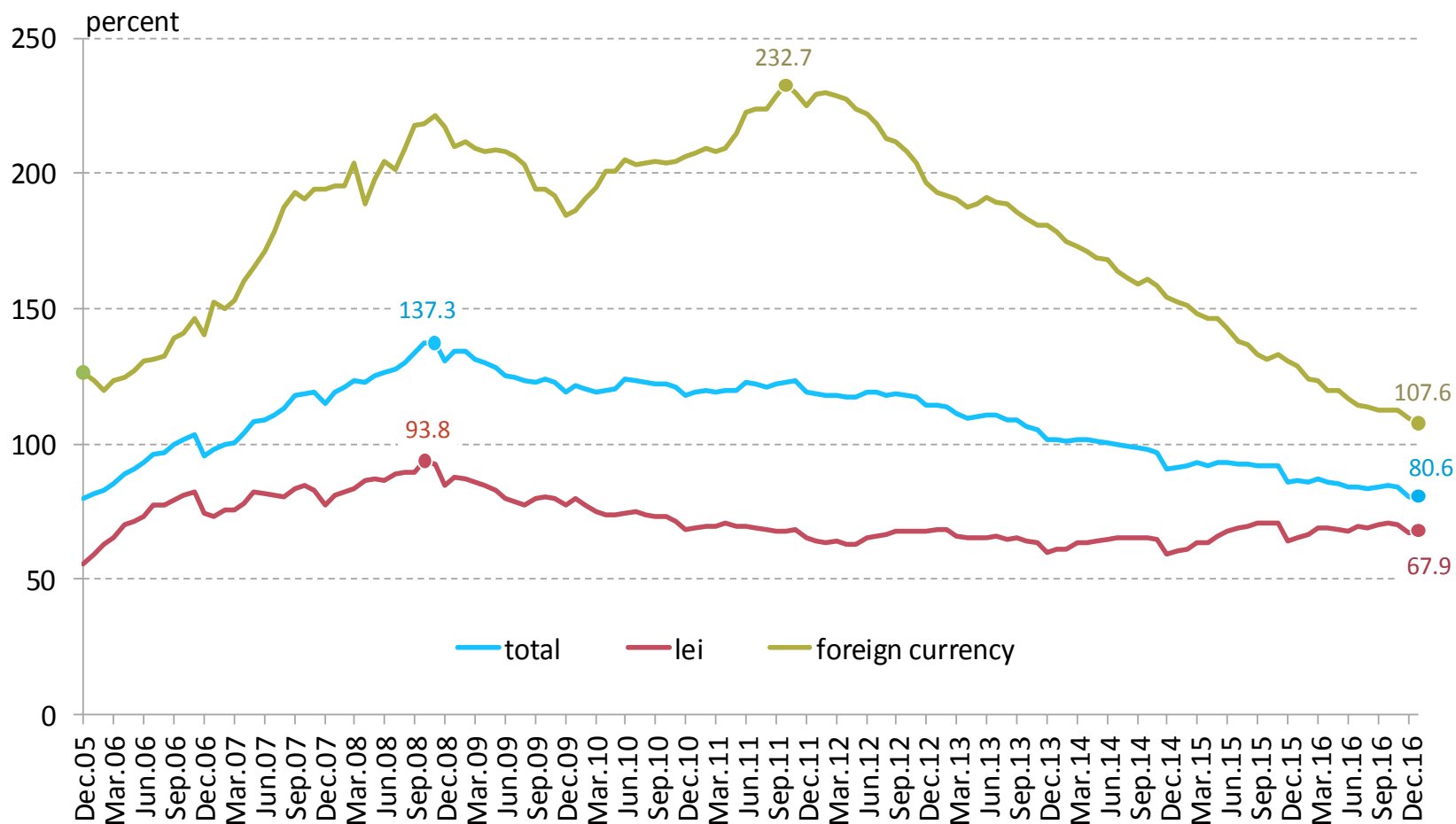
Immediate liquidity = (cash, demand deposits and time deposits with banks+unpledged government securities)/
Total liabilities (prudent level > 30%)

Liquidity ratio = effective liquidity/required liquidity
(regulated threshold = 1)

*) Indicators are calculated based on data in prudential reports, prior to submission of audited annual accounts.

Source: National Bank of Romania

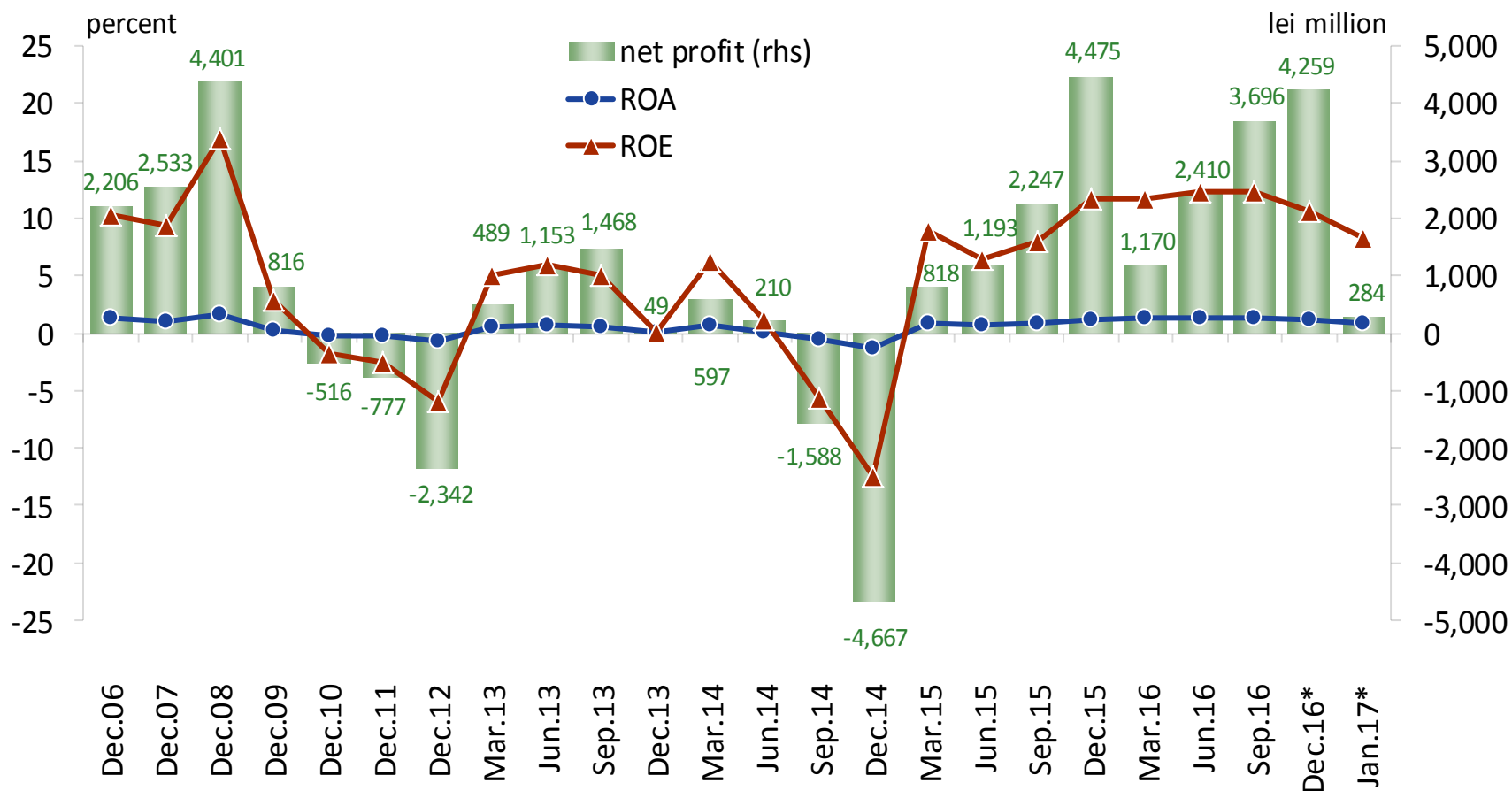
Loan-to-Deposit Ratio*



* based on data in the monetay balance sheet

Source: National Bank of Romania

Banking System Profitability



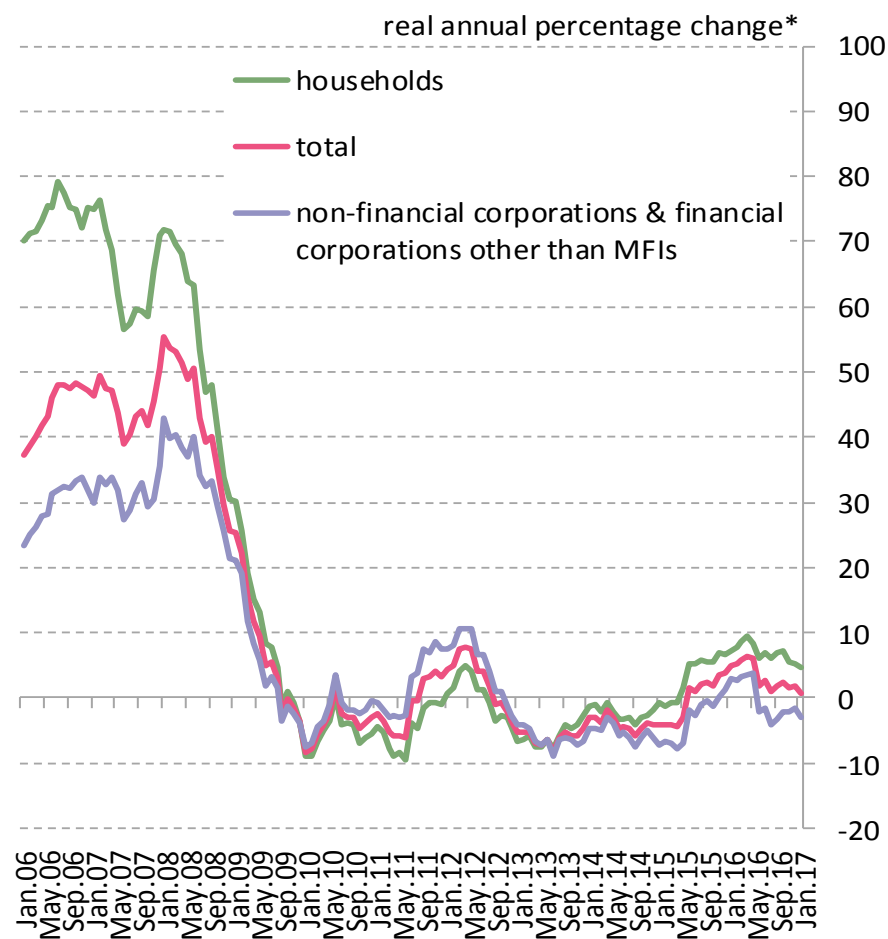
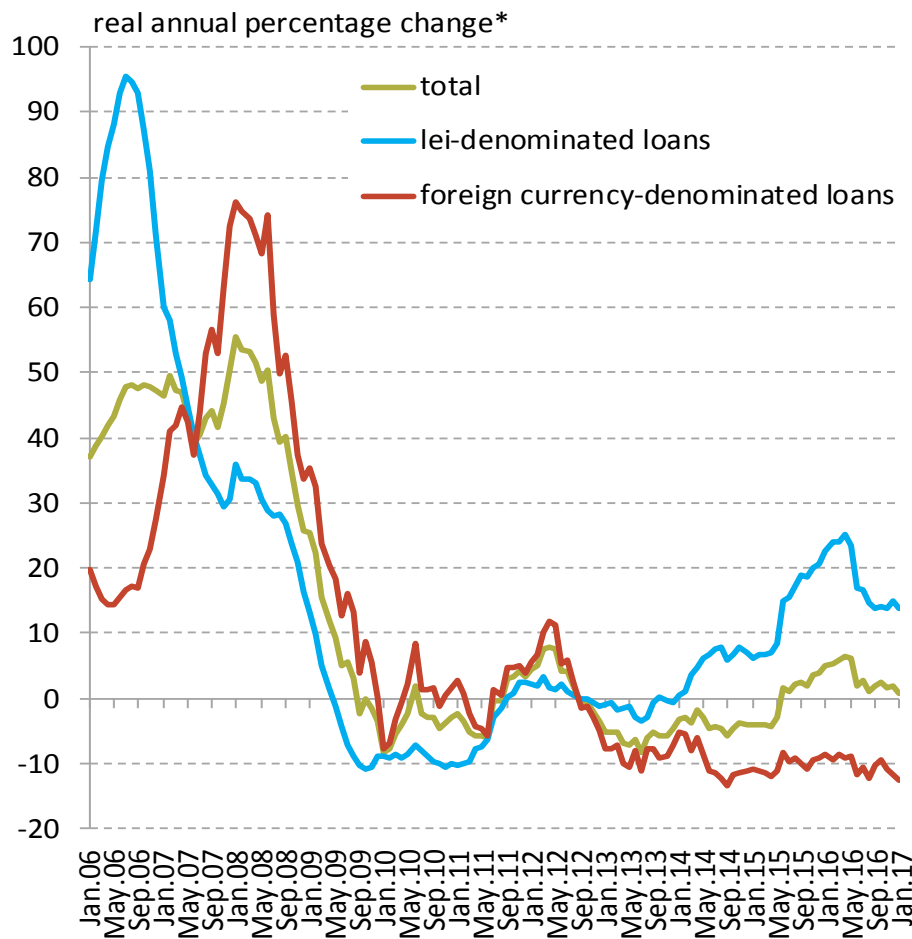
*) Indicators are calculated based on data in prudential reports, prior to submission of audited annual accounts.

Note: Starting January 1, 2012, Romanian credit institutions apply the IFRS for accounting purposes.

Source: National Bank of Romania

Loans to the Private Sector

– stock –

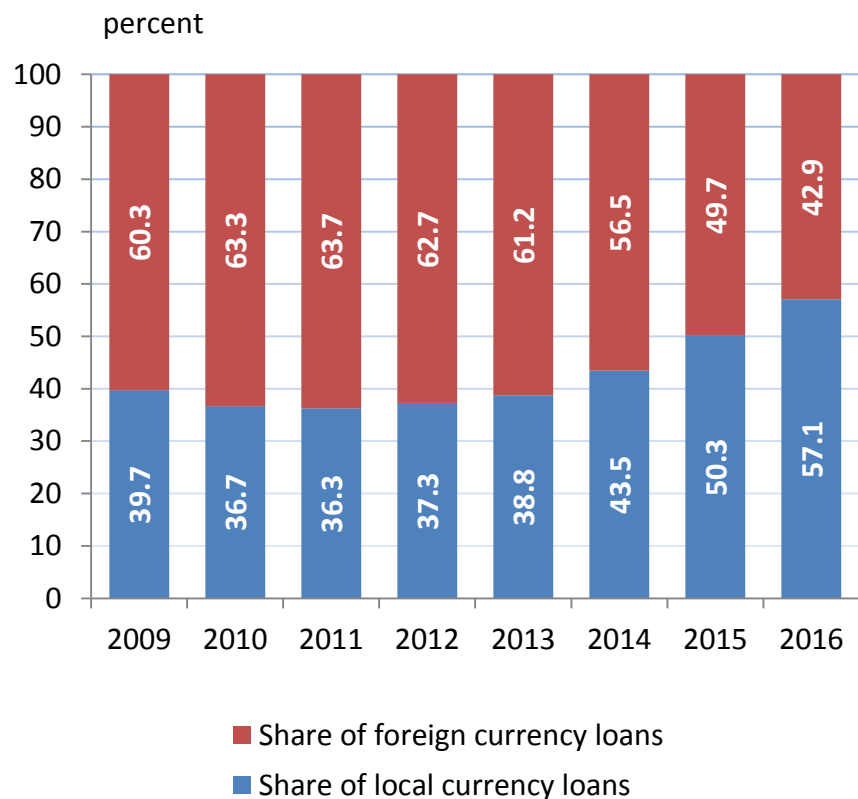


*) based on CPI

Source: National Institute of Statistics, National Bank of Romania

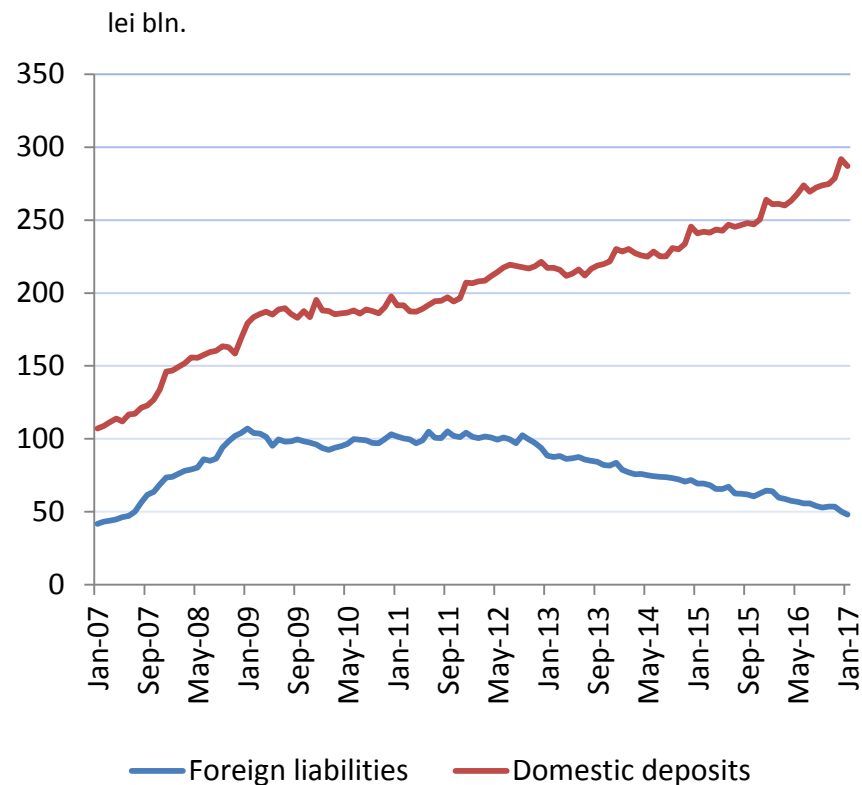
Reduced contagion risk

Structure of banks' credit portfolios by currency (end of year)



Source: NBR

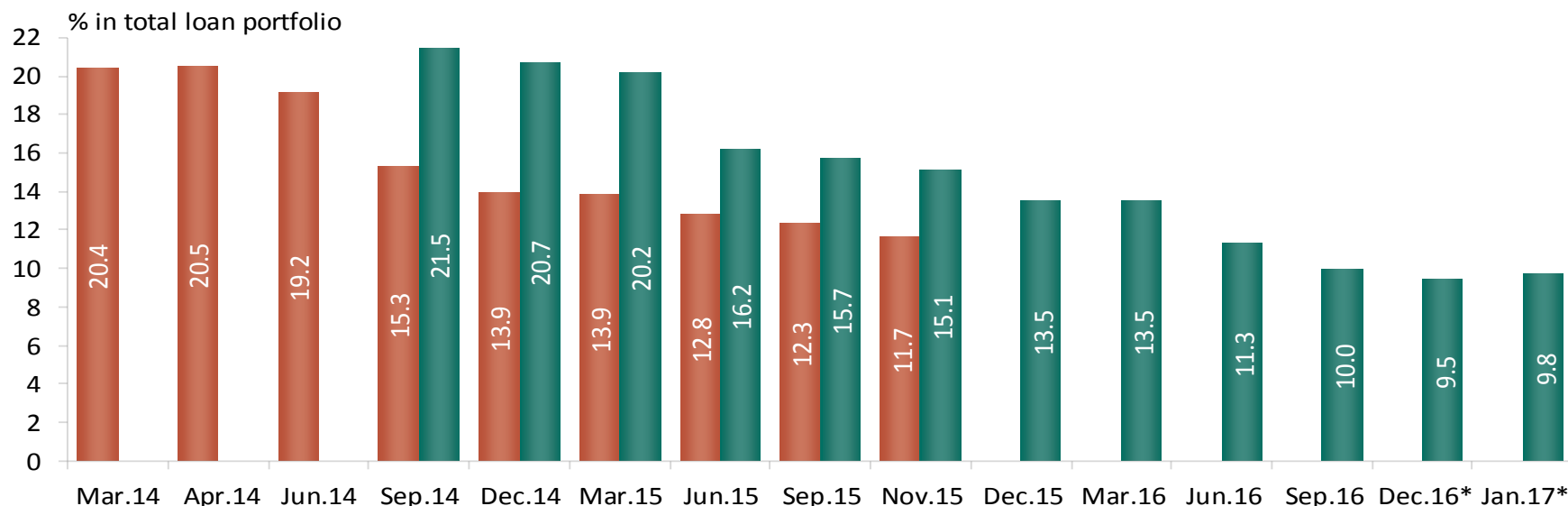
Banks' funding



Source: NBR

II.3. NPLs continued to decline

Developments in Non-Performing Loans



*) Indicators are calculated based on data in prudential reports, prior to submission of audited annual accounts.

Indicator calculated based on prudential reports submitted by all banks (both banks that determine the minimum capital requirement for credit risk based on the standardised approach and banks using internal models-based approach) for loans meeting the non-performance criteria (debt service longer than 90 days and/or where judicial proceedings have been initiated).

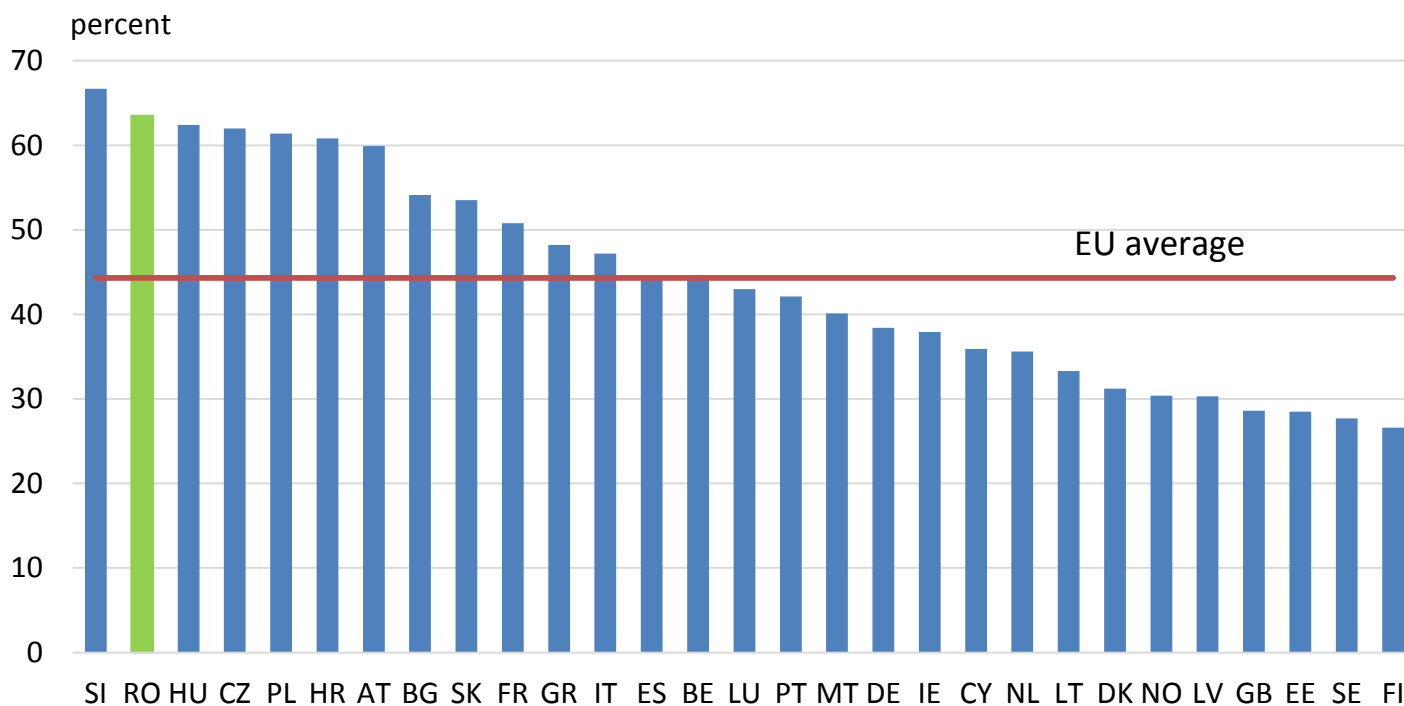
EBA – defined indicator, determined as the ratio between **a) the total non-performing exposures represented by loans and advances** (where non-performing exposure is defined as any exposure satisfying any of the following criteria: (i) material exposures which are more than 90 days past due; (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due) and **b) total exposures represented by loans and advances**.

In June 2015, the methodological notes on the FINREP framework at solo level were amended so as to include cash balances with the central bank and other demand deposits with credit institutions in the non-performing exposure report form.

Source: National Bank of Romania

Coverage ratio amongst the highest in EU

NPL coverage ratio in the EU (2016 Q3)

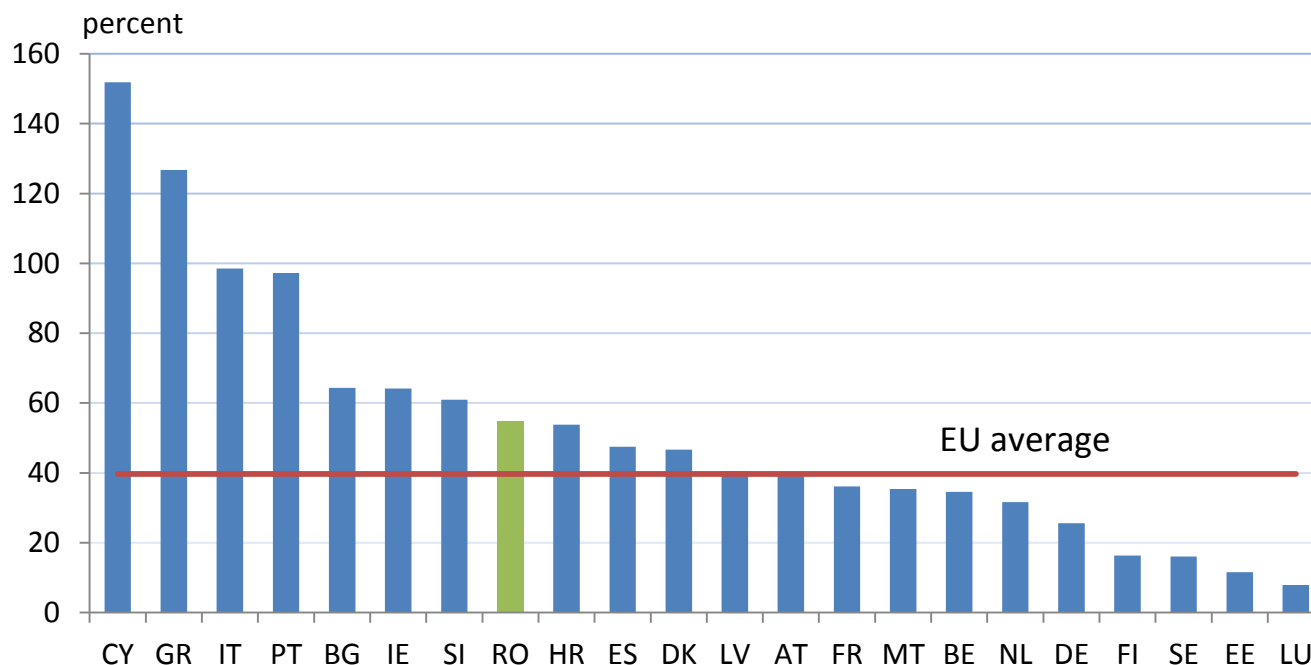


Note: Coverage ratio equals provisions divided by total non-performing loans

Source: EBA Risk Dashboard – 2016 Q3

NPL coverage ratio is among the highest in the EU

Texas ratio (September 2016)



Note: Texas ratio is the ratio of non-performing loans as defined by EBA to the sum of the Tier 1 capital and loan loss provisions

Source: ECB, consolidated data

II.4. Romania, one of the five EU countries which haven't used public funds to support financial system during the crisis

Costs/revenues for governments to support financial institutions (EUR mill.)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BE	-	-30.0	-0.7	280.9	-193.3	-2,116.3	600.8	-93.6	-97.9
BG	-	-	-	-	-	-	-	-739.2	-95.3
CZ	-	-	-	-	-	-	-	-	-
DK	-	0.6	162.1	562.1	-180.4	511.3	326.1	163.3	11.3
DE	-	-3,071.5	-2,980.3	-33,004.4	173.6	-1,168.2	1,435.6	577.6	-491.5
EE	-	-	-	-	-	-	-	-	-
IE	-	-	-3,767.0	-35,543.7	-6,370.5	354.9	438.7	14.6	-1,765.6
EL	-	-	373.0	960.0	633.0	-5,347.0	-19,446.0	136.0	-7,171.0
ES	-	-12.0	696.0	771.6	-3,515.0	-38,289.0	-3,277.0	-1,350.0	-535.0
FR	-	48.0	1,356.0	995.0	601.0	-2,198.0	238.0	27.5	-18.2
HR	-	-	-	-61.7	-3.0	-29.5	-3.9	-4.0	-69.8
IT	-	-	-16.5	88.0	177.4	-86.3	-150.0	361.9	-3,534.8
CY	-	-	10.0	27.0	25.0	-40.5	-31.0	-1,486.0	-161.0
LV	-	2.1	-183.9	-401.7	-70.3	-101.5	33.1	-79.5	-8.4
LT	-	-	-	-32.3	-888.7	-41.3	-174.9	475.5	212.0
LU	-	-20.4	-68.7	50.7	54.7	27.7	-3.0	46.3	71.6
HU	-	-	4.3	7.4	9.8	0.8	-	-	-
MT	-	-	-	-	-	-	-	-	-
NL	-	-161.0	-2,304.0	-1,082.0	-112.0	-221.0	-1,188.0	-50.0	412.0
AT	-	2.2	-2,656.6	-327.0	-292.4	-1,318.9	-1,489.8	-5,338.9	-2,201.5
PL	-	-	-	-	-	-	-	-	-
PT	-	2.4	12.2	-2,219.3	-866.3	-932.0	-585.2	-5,126.5	-2,822.6
RO	-	-	-	-	-	-	-	-	-
SI	-	-	3.7	13.5	-236.9	-62.1	-3,671.1	-693.4	-529.9
SK	-	-	-	-	-	-	-	-	-
FI	-	-	-	-	-	-	-	-	-
SE	-	-1.5	128.7	262.1	228.4	134.1	111.8	6.9	1.7
UK	61.4	-5,587.2	-8,076.9	1,522.4	1,077.3	2,009.0	-1,225.8	-769.1	-564.9

Source: Eurostat

General government assets (EUR mill.)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BE	-	21,546.0	19,503.2	17,921.7	17,549.9	18,502.5	15,044.0	14,535.7	13,224.2
BG	-	-	-	-	-	-	-	1,201.6	1,086.5
CZ	-	-	-	-	-	-	-	-	-
DK	-	586.6	10,072.1	9,452.5	7,734.3	6,381.2	5,867.6	1,099.6	2,953.5
DE	-	47,434.4	85,303.5	267,412.9	234,697.0	250,216.8	210,925.3	197,927.4	185,538.0
EE	-	-	-	-	-	-	-	-	-
IE	-	-	7,000.0	6,634.1	36,419.0	31,621.0	22,288.9	11,744.0	8,245.4
EL	-	-	3,983.0	3,911.0	4,959.0	30,875.0	29,535.0	16,778.0	10,457.0
ES	-	9,337.0	19,335.0	25,918.0	19,200.0	9,824.0	6,981.0	6,095.0	6,095.0
FR	-	10,823.0	6,751.0	2,463.0	30.0	30.0	30.0	30.0	30.0
HR	-	-	-	69.2	63.7	40.6	40.2	22.4	74.7
IT	-	-	4,050.0	4,050.0	2,600.0	2,600.0	4,071.0	1,071.0	-
CY	-	-	-	-	-	1,796.1	-	-	-
LV	-	951.4	929.6	1,473.8	731.1	690.0	524.9	367.9	179.1
LT	-	-	-	-	1.7	1.4	6.5	8.7	8.7
LU	-	2,506.2	2,534.7	2,534.7	2,534.7	2,607.7	2,607.7	2,607.7	2,607.7
HU	-	-	1,758.0	995.3	498.9	-	-	-	-
MT	-	-	-	-	-	-	-	-	-
NL	-	81,431.0	56,013.0	49,926.0	43,263.0	40,212.0	44,485.0	38,001.0	27,522.0
AT	-	900.0	40,438.1	21,217.4	17,966.2	15,302.0	11,322.2	26,000.5	31,922.1
PL	-	-	-	-	-	-	-	-	-
PT	150.0	930.0	1,930.0	6,374.6	6,374.6	12,709.1	12,679.1	9,200.8	9,811.6
RO	-	-	-	-	-	-	-	-	-
SI	-	-	1,430.0	1,430.0	1,472.0	1,524.0	3,493.0	5,098.9	3,576.7
SK	-	-	-	-	-	-	-	-	-
FI	-	-	-	-	-	-	-	-	-
SE	-	221.9	2,016.5	2,313.8	1,694.5	2,052.0	-	-	-
UK	-	62,489.2	105,793.3	207,359.9	158,233.0	173,117.3	157,677.8	158,549.2	111,043.0

Source: Eurostat

General government liabilities (EUR mill.)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BE	-	21,576.0	21,405.3	21,046.3	24,786.7	22,863.8	16,337.7	16,486.5	13,831.6
BG	-	-	-	-	-	-	-	1,201.6	1,086.5
CZ	-	-	-	-	-	-	-	-	-
DK	-	586.6	10,072.1	9,452.5	7,734.3	6,381.2	5,867.6	1,099.6	340.2
DE	-	52,367.7	94,697.0	306,567.7	292,534.6	295,195.7	248,709.3	238,784.3	224,679.8
EE	-	-	-	-	-	-	-	-	-
IE	-	-	10,767.0	46,374.9	82,580.6	80,408.7	70,645.9	59,220.4	58,321.4
EL	-	-6.0	3,947.0	3,407.0	5,081.0	35,710.0	42,080.0	39,809.0	45,220.0
ES	-	9,349.0	18,651.0	24,462.0	21,260.0	50,173.0	50,607.0	51,071.0	51,606.0
FR	-	11,452.0	5,896.0	801.0	-	2,585.0	2,654.0	2,720.0	2,780.0
HR	-	-	-	61.0	62.6	91.9	95.0	98.6	168.4
IT	-	-	4,050.0	4,050.0	2,600.0	2,600.0	4,071.0	1,071.0	1,550.0
CY	-	-	-	-	-	1,888.6	1,987.2	3,487.2	3,662.2
LV	-	949.3	1,110.5	1,719.3	1,449.5	1,354.5	1,290.2	1,330.6	1,207.3
LT	-	-	-	32.3	867.2	695.0	834.7	337.3	92.6
LU	-	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0
HU	-	-	1,758.0	995.3	498.9	-	-	-	-
MT	-	-	-	-	-	-	-	-	-
NL	-	81,592.0	58,064.0	52,883.0	44,506.0	41,340.0	43,804.0	36,792.0	29,787.0
AT	-	897.5	22,844.9	22,179.4	20,380.1	18,841.1	16,483.2	28,061.1	37,255.6
PL	-	-	-	-	-	-	-	-	-
PT	150.0	547.6	1,535.4	6,399.5	7,266.2	14,722.1	15,277.2	16,925.4	20,609.8
RO	-	-	-	-	-	-	-	-	-
SI	-	-	1,426.3	1,412.8	1,691.7	1,804.5	5,152.3	6,680.5	6,556.2
SK	-	-	-	-	-	-	-	-	-
FI	-	-	-	-	-	-	-	-	-
SE	-	221.9	547.2	625.7	629.5	653.7	-	-	-
UK	-1.4	66,683.5	127,473.3	205,474.3	192,936.7	185,302.0	163,584.0	162,520.2	131,424.5

Source: Eurostat

Contingent liabilities (EUR mill.)

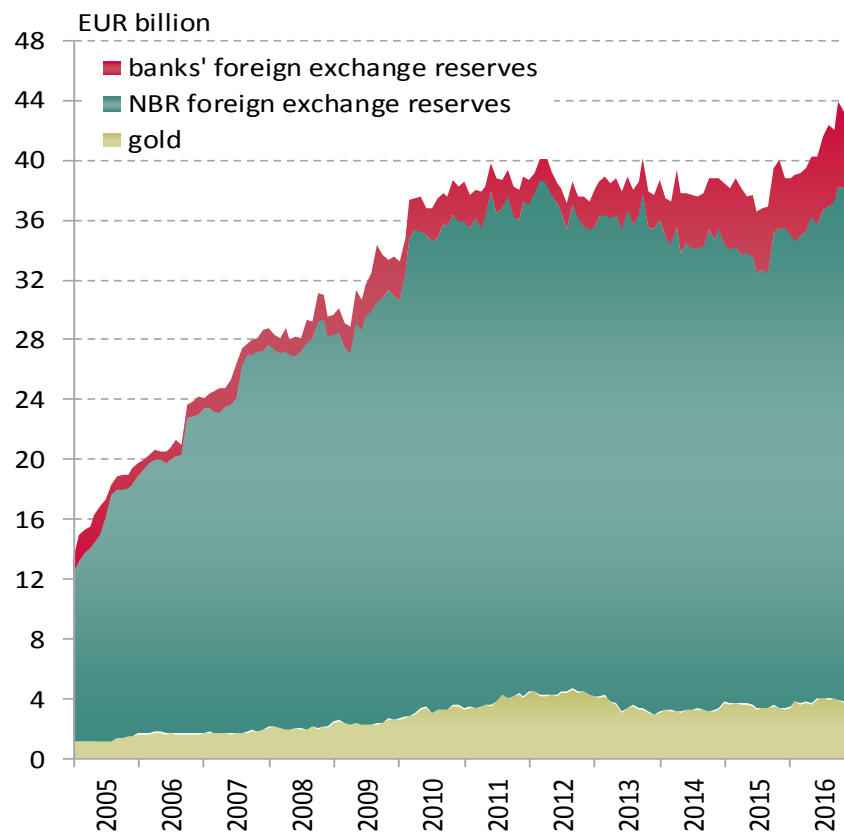
	2007	2008	2009	2010	2011	2012	2013	2014	2015
BE	-	36,234.6	62,046.8	55,829.3	46,959.7	59,057.1	45,355.8	37,564.8	31,506.1
BG	-	-	-	-	-	-	-	-	-
CZ	-	-	-	-	-	-	137.1	78.6	14.7
DK	-	-	7,148.8	27,169.5	22,369.6	9,471.8	1,270.5	692.7	-
DE	-	66,300.0	159,030.0	82,801.0	61,931.0	50,255.0	36,860.0	22,174.0	22,178.0
EE	-	-	-	-	-	-	-	-	-
IE	-	352,329.0	281,176.0	156,979.2	137,404.0	114,240.0	54,709.0	23,838.0	11,299.0
EL	-	1,890.0	5,617.0	55,834.0	67,801.0	54,111.0	51,145.0	51,110.0	44,726.0
ES	-	-	49,008.0	59,506.0	64,659.0	105,093.0	95,604.0	55,090.0	46,385.0
FR	-	39,211.0	100,112.0	90,417.0	70,233.0	50,605.0	68,848.0	47,297.0	40,212.0
HR	-	-	-	-	-	-	-	-	-
IT	-	-	-	-	43,715.0	85,679.0	81,679.0	23,375.0	6,421.0
CY	-	-	2,229.0	2,962.0	2,769.0	1,000.0	1,000.0	1,000.0	1,000.0
LV	-	-	663.0	355.8	127.2	127.6	126.6	-	-
LT	-	-	-	-	-	-	-	-	-
LU	-	1,776.9	1,513.2	1,333.3	1,377.8	2,210.1	2,262.1	2,190.4	1,838.5
HU	-	-	-	-	-	-	-	-	-
MT	-	-	-	-	-	-	-	-	-
NL	-	2,740.0	79,462.0	39,948.0	34,125.0	18,192.0	10,843.0	-	-
AT	-	7,000.0	16,550.6	15,630.0	10,048.4	6,383.6	3,155.6	100.0	1,700.0
PL	-	-	-	-	-	-	-	-	-
PT	-	1,750.0	8,350.0	5,275.0	15,850.0	16,525.0	16,275.0	6,300.0	6,300.0
RO	-	-	-	-	-	-	-	-	-
SI	-	-	2,000.0	2,200.0	1,554.9	199.9	398.1	119.0	-
SK	-	-	-	-	-	-	-	-	-
FI	-	115.0	-	-	-	-	-	-	-
SE	-	13,622.5	26,406.2	19,669.5	10,181.2	3,537.1	1,007.8	99.5	-
UK	36,721.9	325,007.9	620,685.7	424,720.3	201,364.8	9,802.7	-	-	-

Source: Eurostat

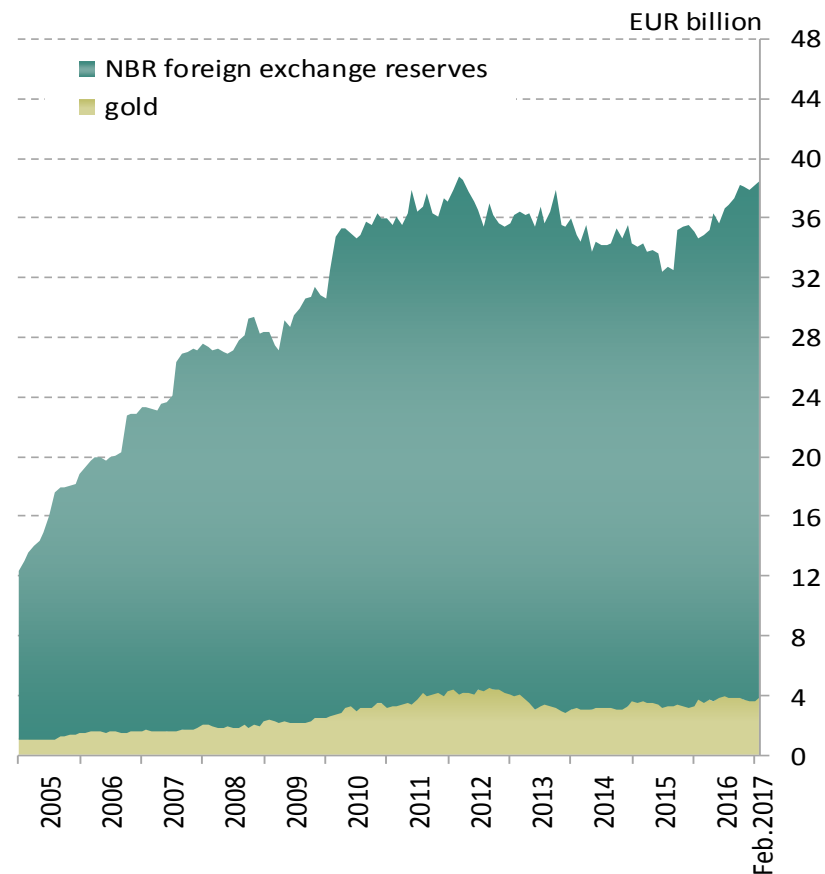
III. Exchange rate stability

III.1 Higher international reserves

Romania: Foreign Reserve Assets

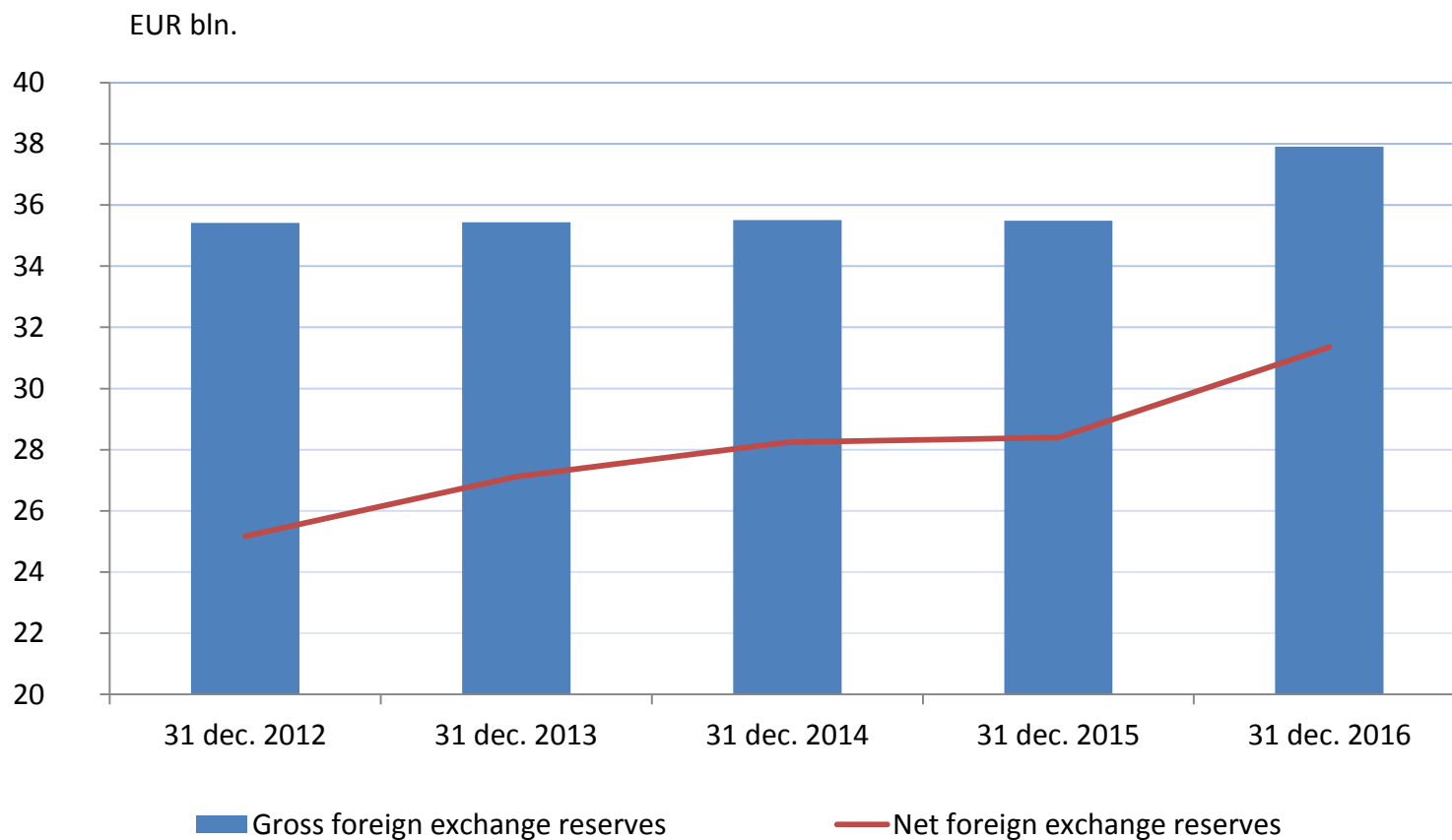


Romania: International Reserves



Source: National Bank of Romania

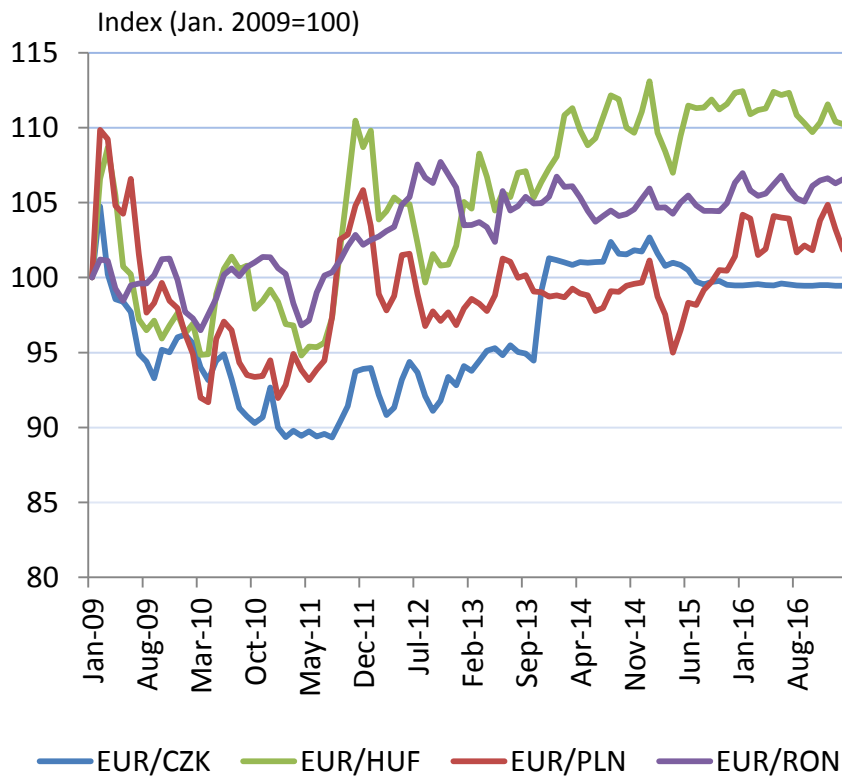
Net forex reserves increased



Source: NBR

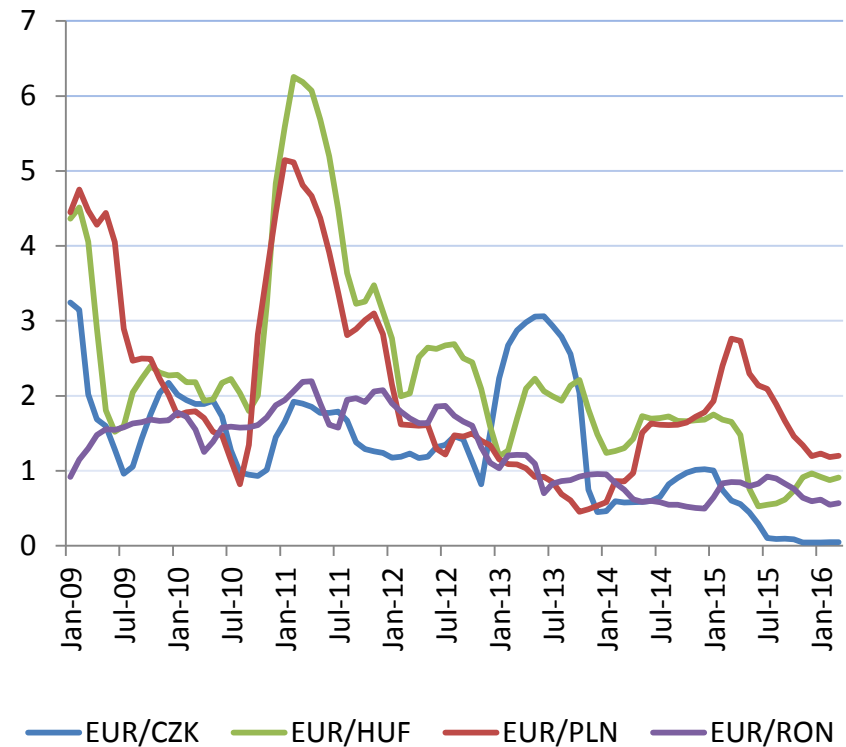
III.2. Low exchange rate volatility

Exchange rate against euro



Source: Eurostat

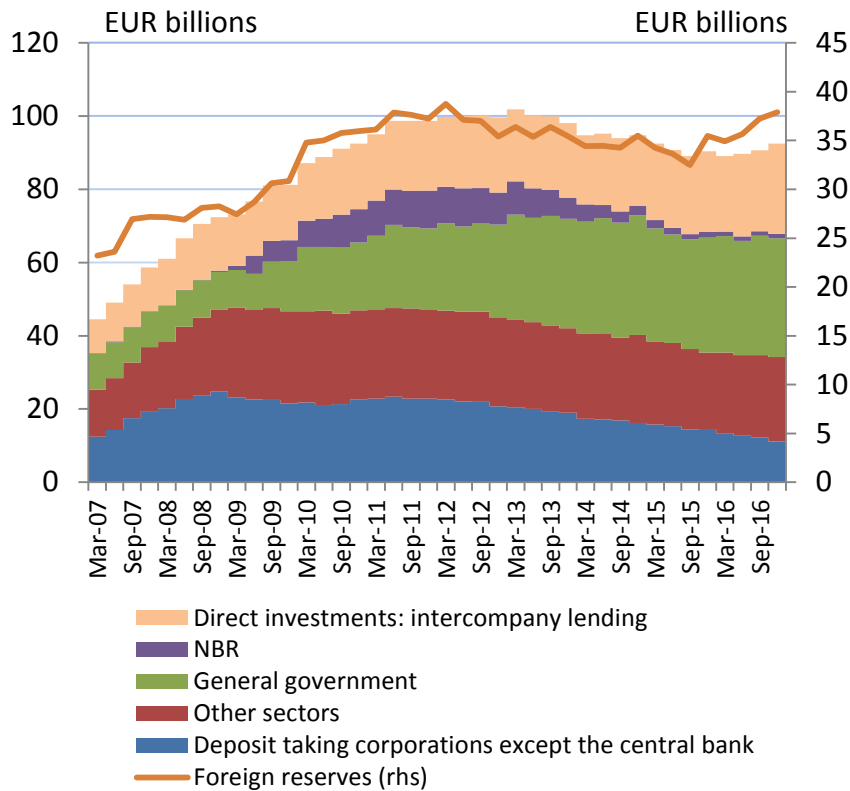
Volatility of the exchange rate against euro



Source: Eurostat, author's calculations

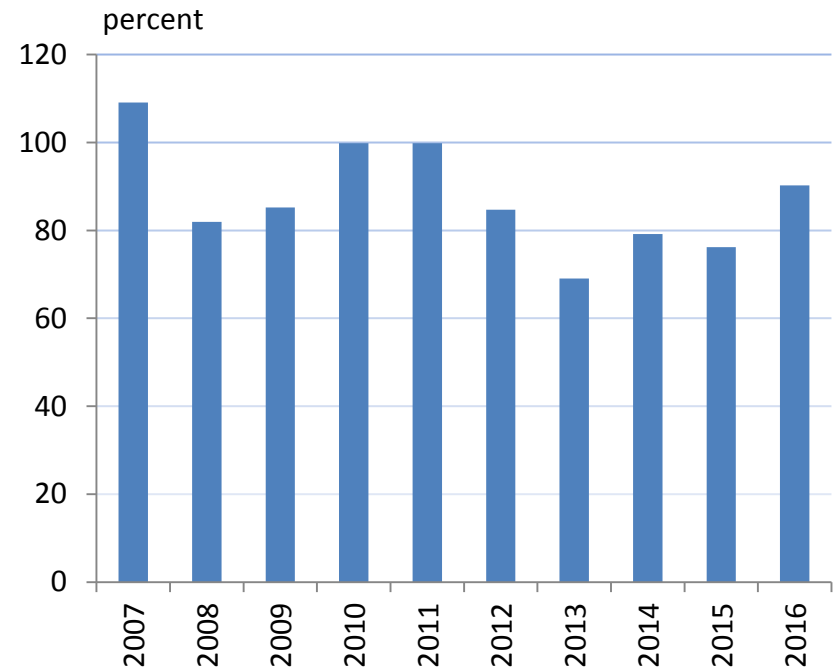
International liquidity increased

External debt



Source: NBR

International liquidity (Guidotti ratio)

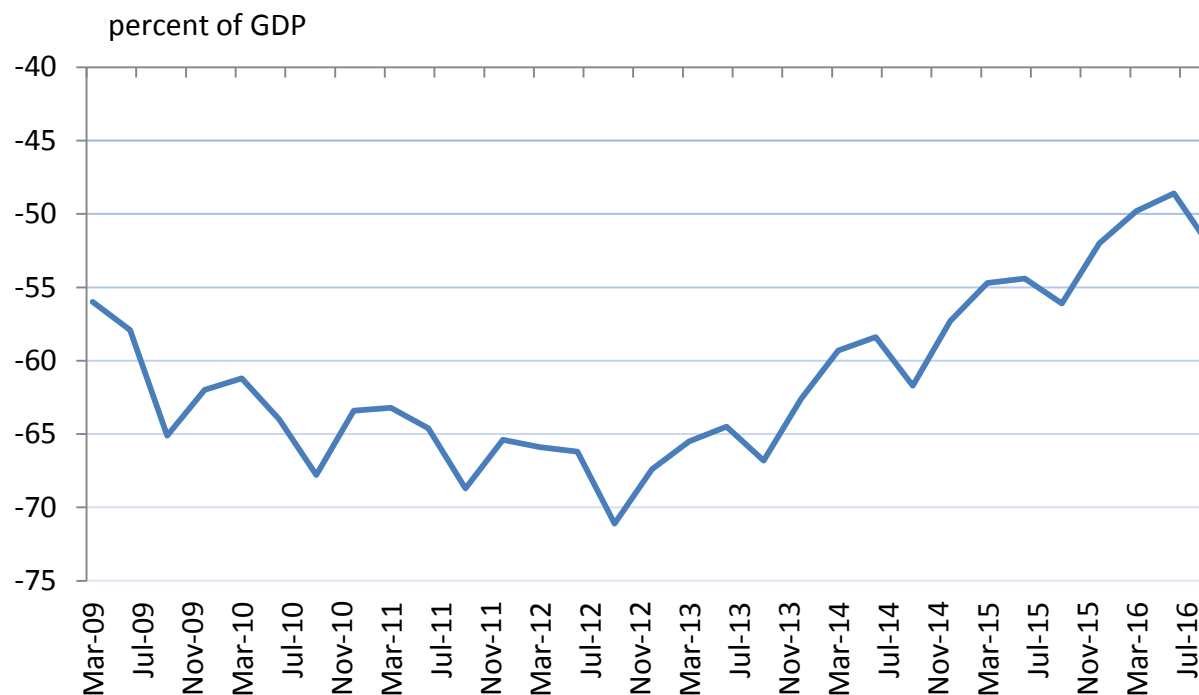


Note: Guidotti ratio = (Short term external debt + debt service of long term external debt in the following 12 months)/ Foreign exchange reserves

Source: NBR

International investment position has improved

Net international investment position



Source: Eurostat

IV. Key messages

- ❑ NBR has reached all three stabilities: price stability, financial stability and exchange rate stability.
- ❑ Low inflation, but no deflation.
- ❑ Interest rates at historical lows stimulate local currency lending.
- ❑ NBR contributed to reducing the risk of legislative uncertainty.
- ❑ Romania is one of the 5 EU members which haven't used public funds to support the financial sector since the crisis hit.
- ❑ Banks continued to clean-up their balance sheets from non-performing loans.
- ❑ Banks are well capitalized and liquid. Contagion risk declined.
- ❑ Larger net foreign exchange reserves and improved international liquidity.

