



Romania: Recent Macroeconomic & Banking System Developments

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Recent macroeconomic developments

□ CPI inflation:

✓ Annual rate:

+3.27% (Dec. 2018/Dec. 2017)

+4.04% (Dec. 2019/Dec. 2018)

+3.60% (Jan. 2020/Jan. 2019)

✓ Average annual rate:

+4.6% in 2018

+3.8% in 2019

+3.8% in (February 2019 – January 2020)/(February 2018 – January 2019)

□ GDP growth:

2017: +7.1%

2018: +4.4%

2019: +4.1% (flash estimate)

□ Current account deficit:

2017: EUR 5,218 mn., up 121.7% yoy; 2.8% of GDP; 136.1% covered by FDI and capital account

2018: EUR 8,960 mn., up 71.7% yoy; 4.4% of GDP; 83.3% covered by FDI and capital account

2019: EUR 10,478 mn., up 16.9% yoy; 77.6% covered by FDI and capital account

Recent macroeconomic developments (2)

❑ Foreign Direct Investment:

2017: EUR 4,883 mn., up 8.2% yoy

2018: EUR 4,945 mn., up 1.3% yoy

2019: EUR 5,261 mn., up 6.4% yoy

❑ Fiscal balance (ESA2010 Methodology):

2016: -2.6% of GDP

2017: -2.6% of GDP

2018: -2.9% of GDP

❑ International reserves (including gold):

2018: EUR 36.8 bn.; forex reserves EUR 33.1 bn.

2019: EUR 37.5 bn.; forex reserves EUR 32.9 bn.

Jan.2020: EUR 40.3 bn.; forex reserves EUR 35.5 bn.

(the latter covering 4.7 months of prospective goods-and-services imports)

❑ Financial intermediation:

2016: 28.8% of GDP

2017: 27.1% of GDP

2018: 26.4% of GDP

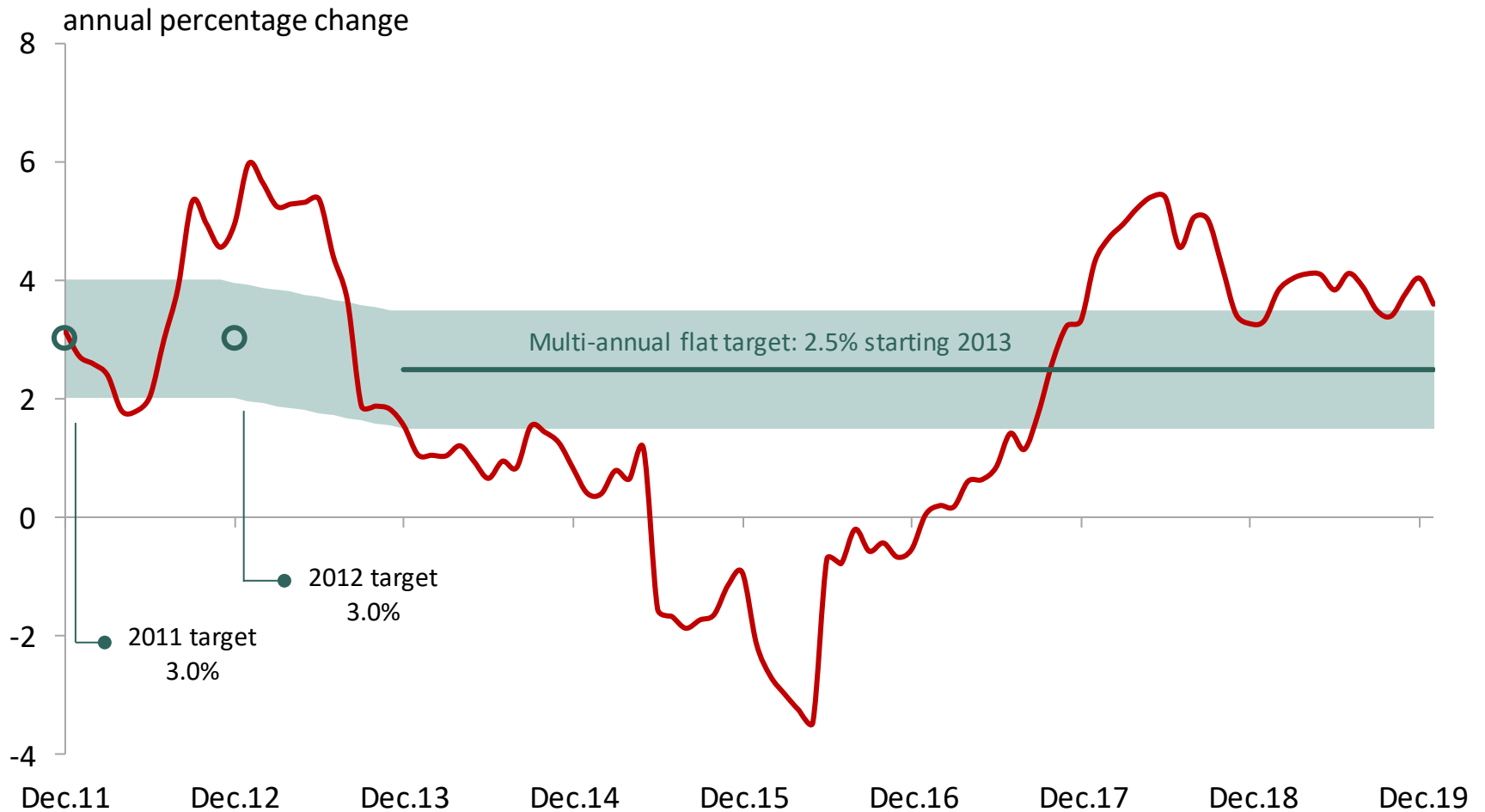
❑ Real growth of loans to the private sector:

2017/2016: 2.3% (RON: 12.2%; foreign currency: -11.0%)

2018/2017: 4.5% (RON: 9.9%; foreign currency: -4.4%)

2019/2018: 2.4% (RON: 5.0%; foreign currency: -2.6%)

Inflation rate



Note: Variation band of the target is ± 1 percentage point.

Source: National Institute of Statistics, National Bank of Romania

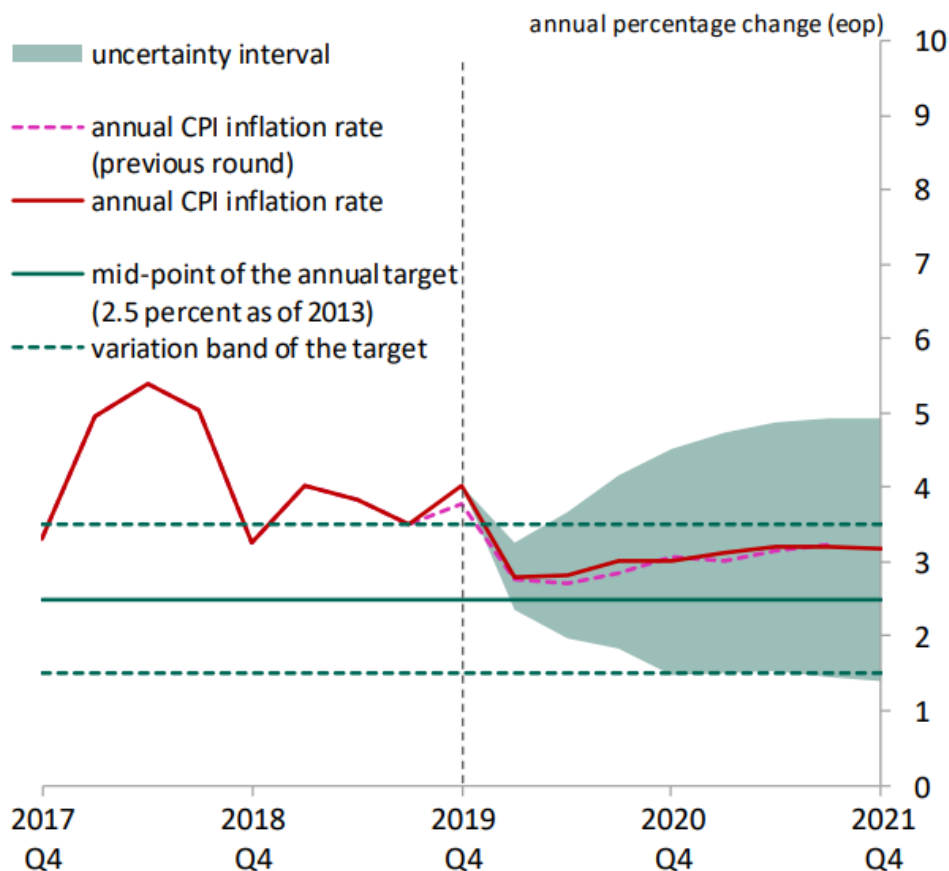
Annual CPI inflation projection

Forecasted values (in parentheses, differences from the November 2019 IR):

- ✓ **3.0 percent** in December 2020 (-0.1 pp)
- ✓ **3.2 percent** in December 2021

The annual CPI inflation rate:

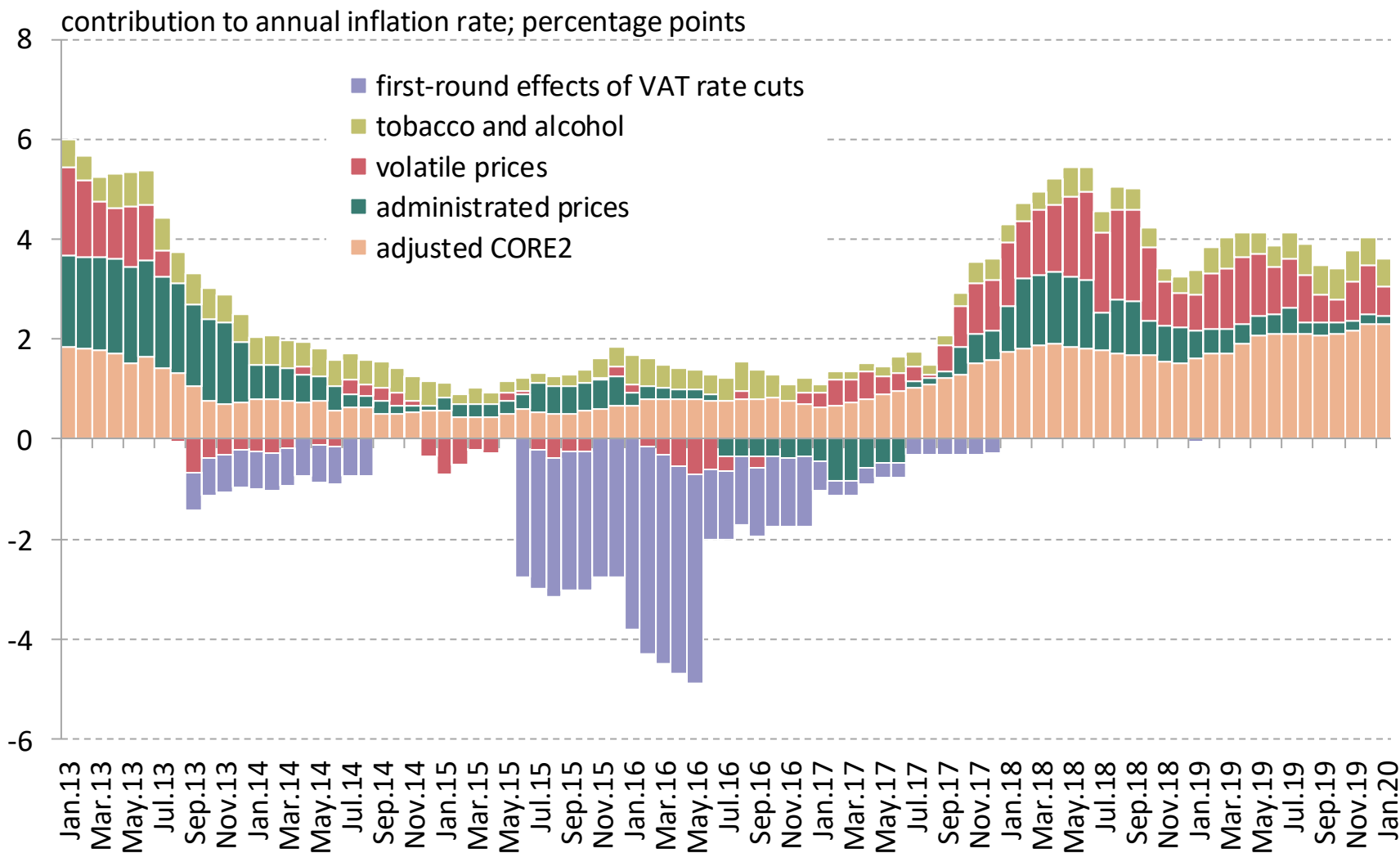
- ✓ Projected to re-enter the variation band of the target starting 2020 Q1 (2.8 percent), amid the fading of the effects of supply-side shocks that occurred in 2019
- ✓ Will subsequently follow an upward path, driven by core inflation pressures, but will remain inside the target band



Note: The uncertainty interval is calculated based on the forecast errors of the annual CPI inflation rate in the NBR projections during 2005-2019. The magnitude of forecast errors is positively correlated with the time horizon they refer to.

Source: NIS, NBR calculations and projections

Contributions to annual inflation rate



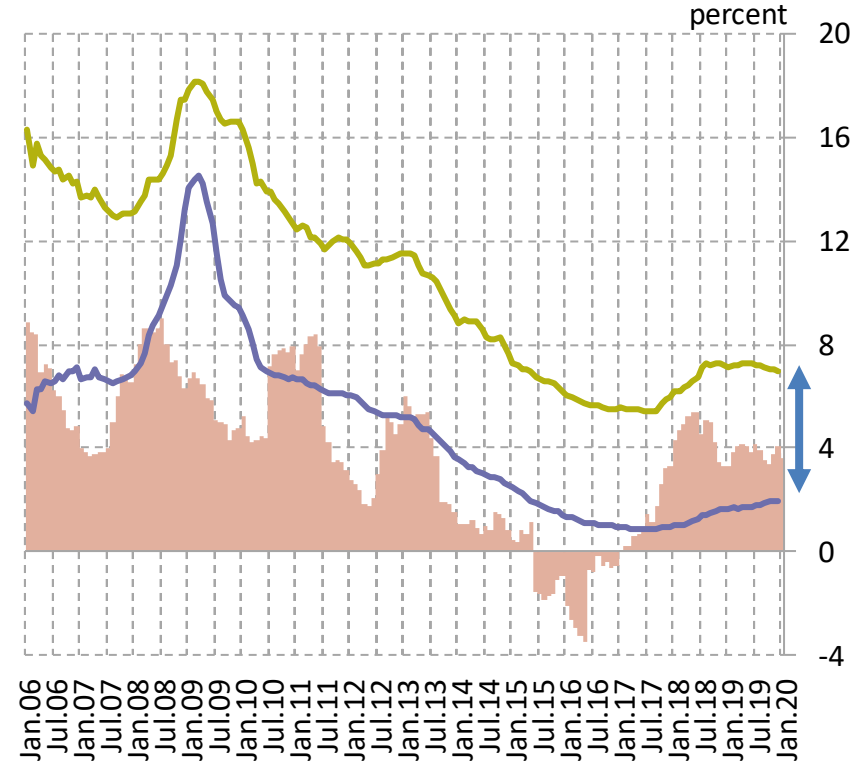
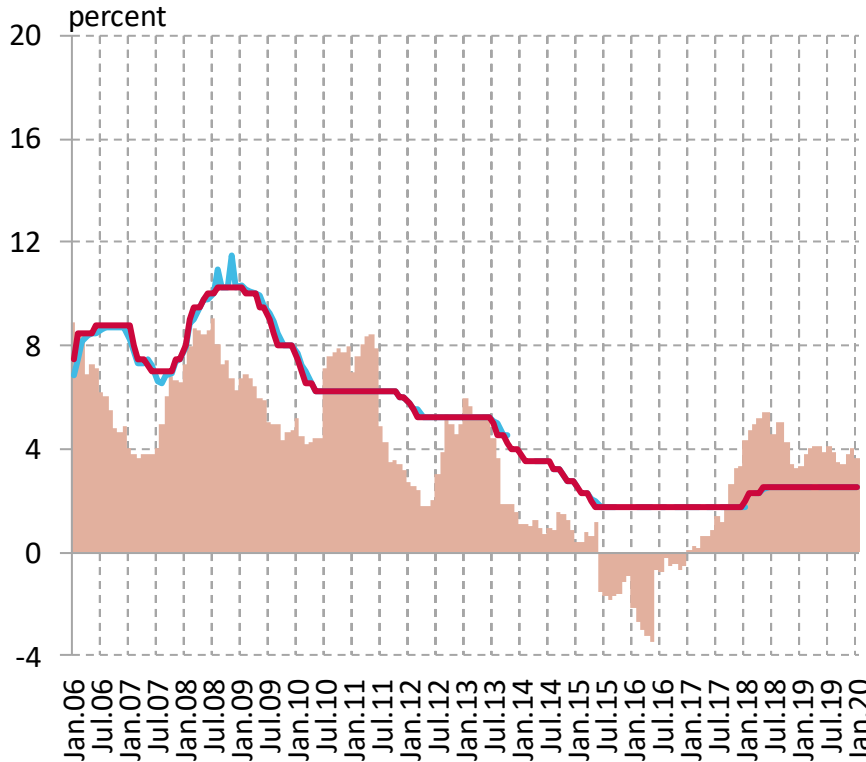
Source: National Institute of Statistics, National Bank of Romania calculations

Decisions of the NBR Board*

- ❑ To keep the monetary policy rate at 2.50 percent per annum
- ❑ To leave unchanged the deposit facility rate at 1.50 percent per annum and the lending facility rate at 3.50 percent per annum
- ❑ To cut the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 6 percent from 8 percent starting with the 24 February – 23 March 2020 maintenance period and to maintain the minimum reserve requirement ratio on leu-denominated liabilities at 8 percent

*) meeting of 7 February 2020

Inflation rate and interest rates



- inflation rate (percentage change against the same year-earlier period)
- interest rate on monetary policy operations (stock; % p.a.)
- NBR policy rate (% p.a.)

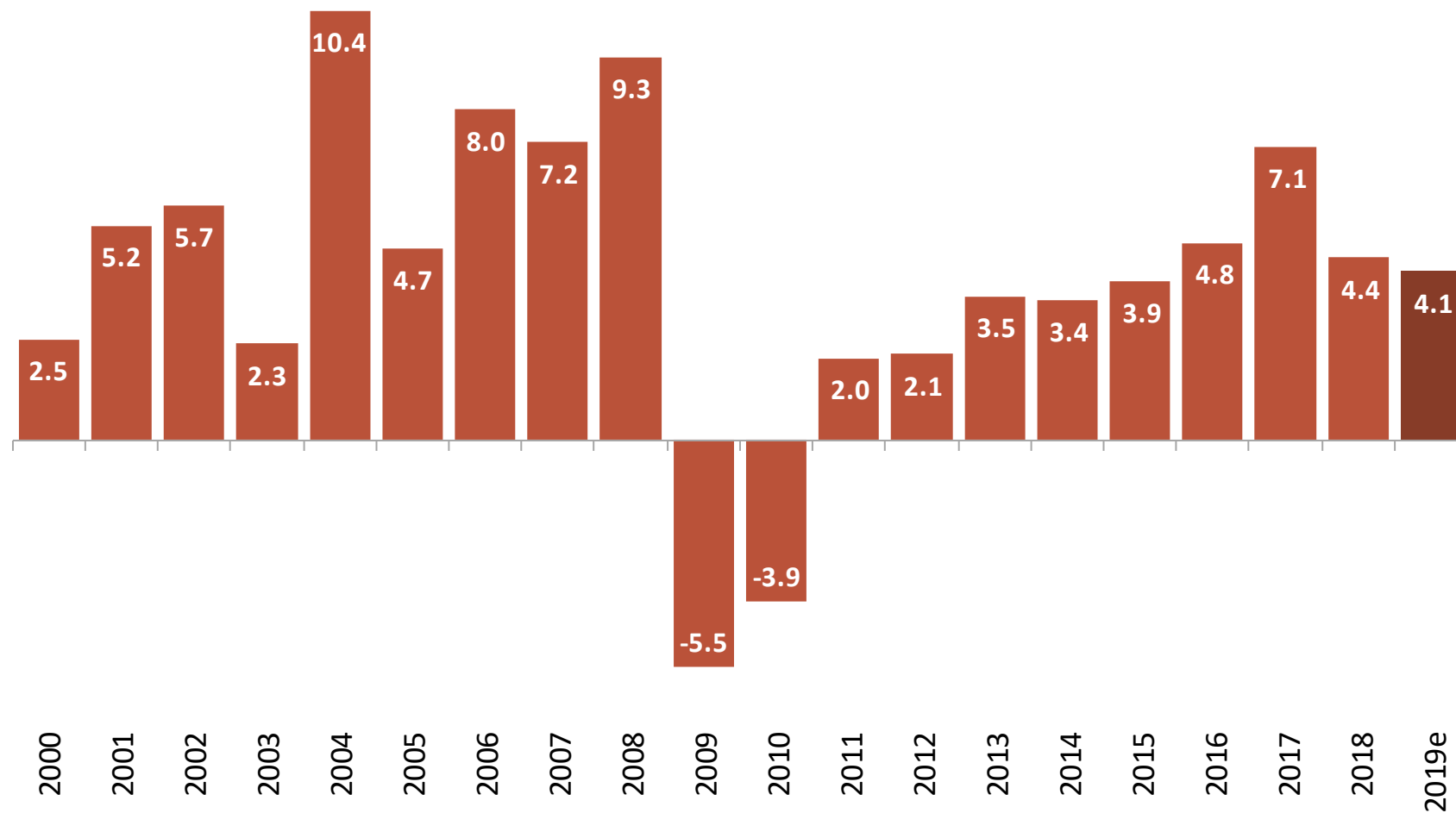
- inflation rate (percentage change against the same year-earlier period)
- average interest rate on lei-denominated loans to non-financial corporations and households (% p.a.)
- average interest rate on lei-denominated time deposits from non-financial corporations and households (% p.a.)

NBR policy rate: 2.50% starting with May 8, 2018

Source: National Institute of Statistics, National Bank of Romania

Real GDP

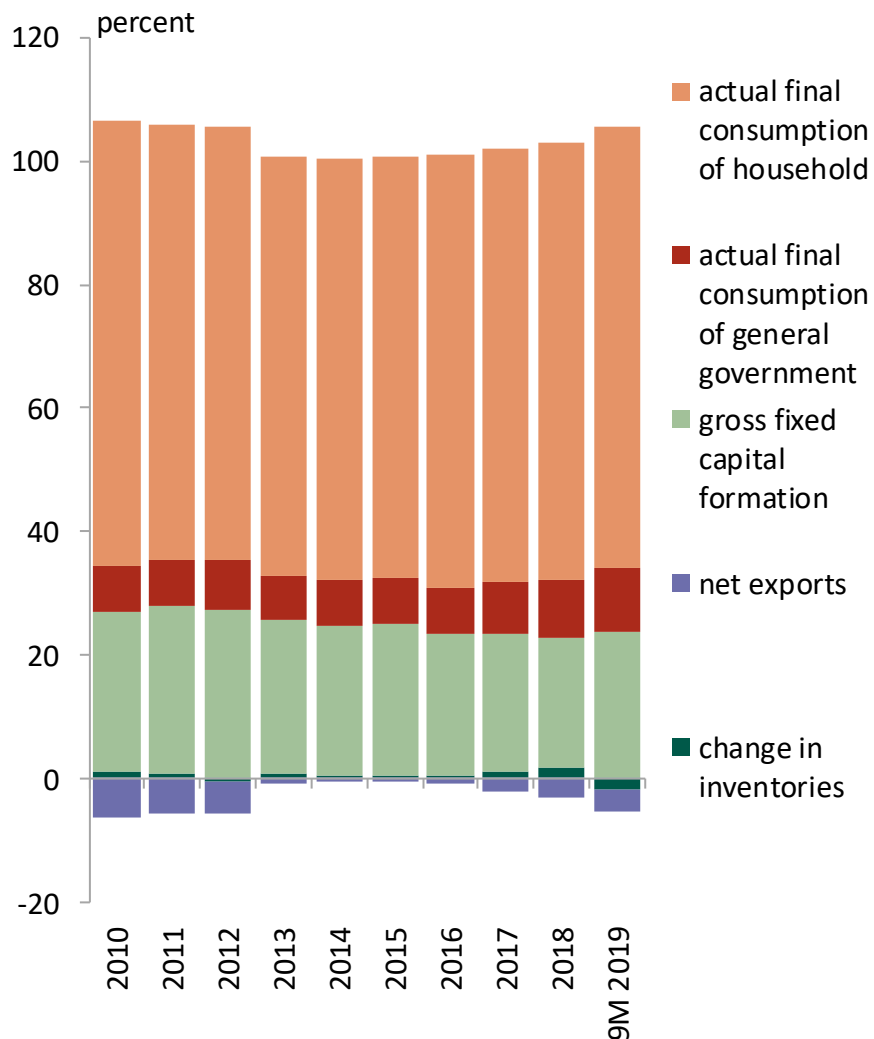
annual percentage change; gross data



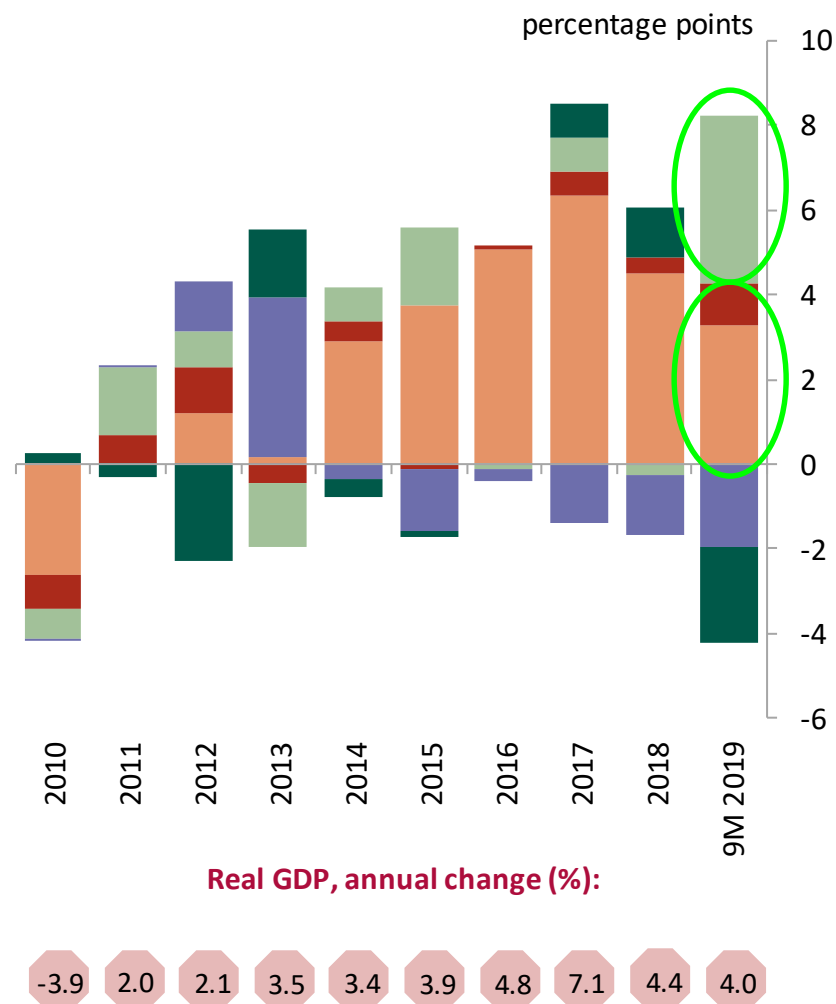
e) flash estimate

Source: National Institute of Statistics

GDP structure by expenditure

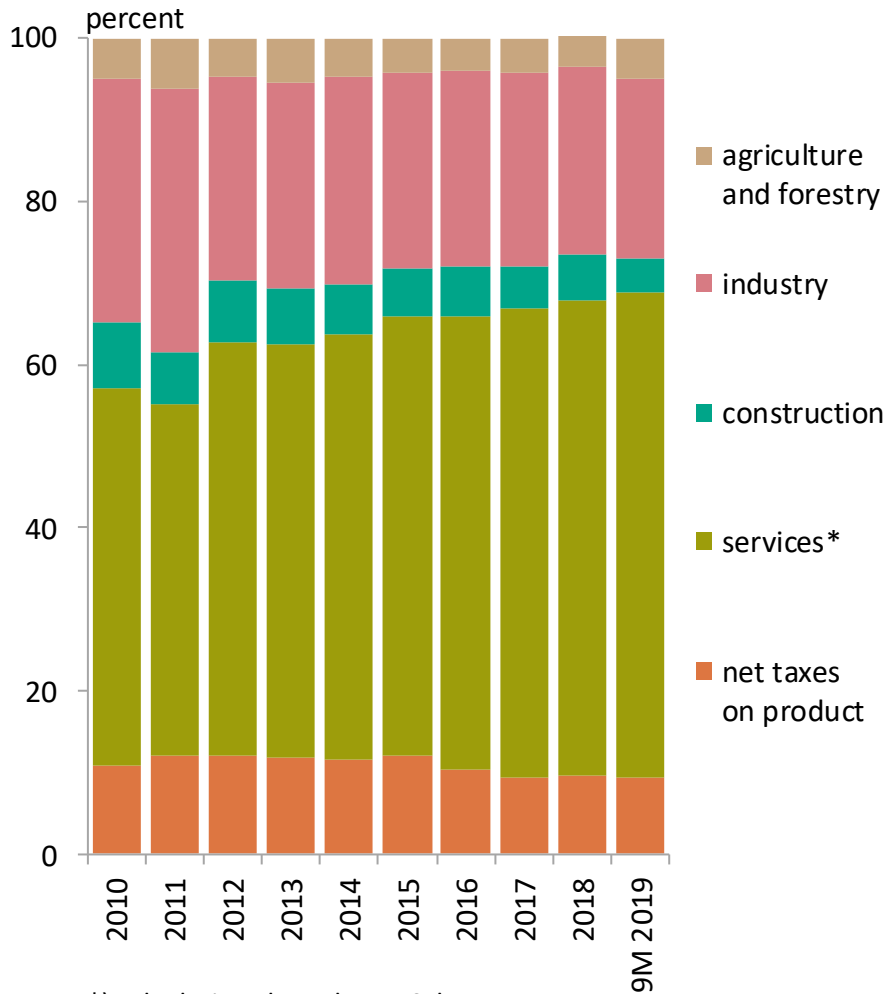


Contribution of demand components to GDP annual growth

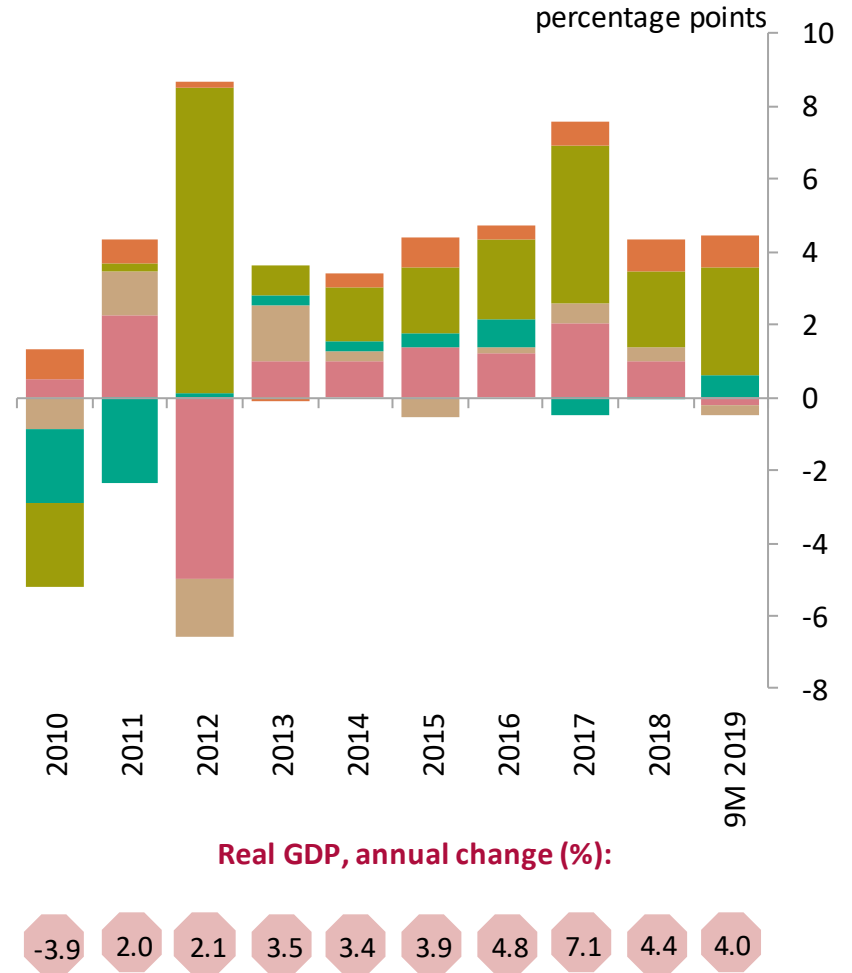


Source: National Institute of Statistics, National Bank of Romania

GDP structure by source



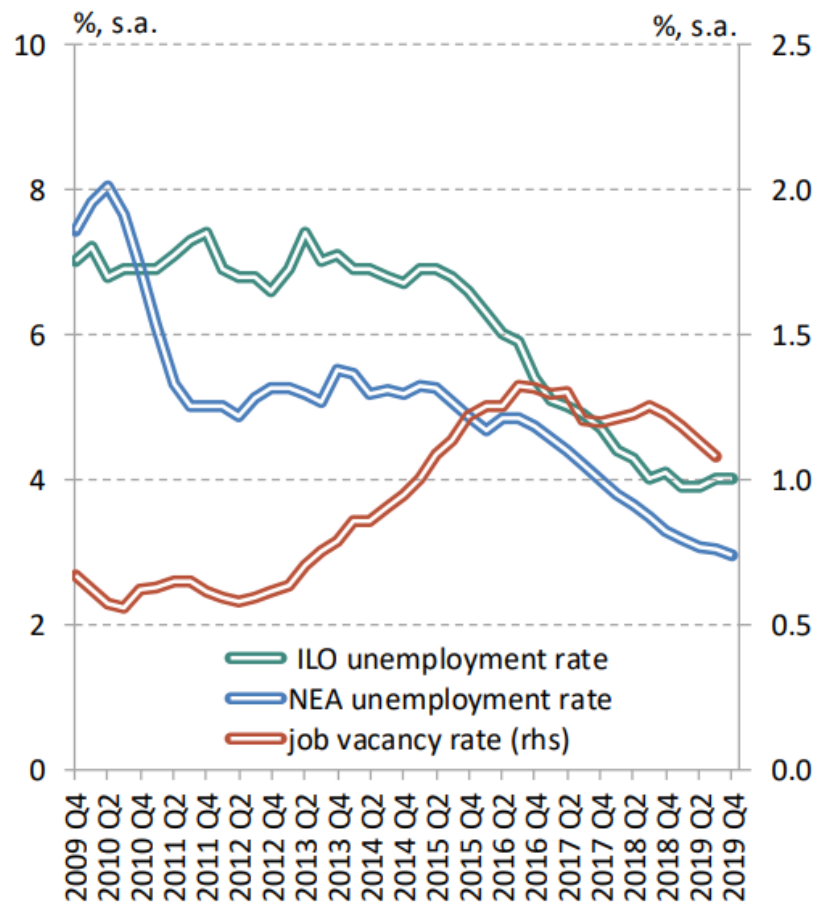
Contribution of supply components to GDP annual growth



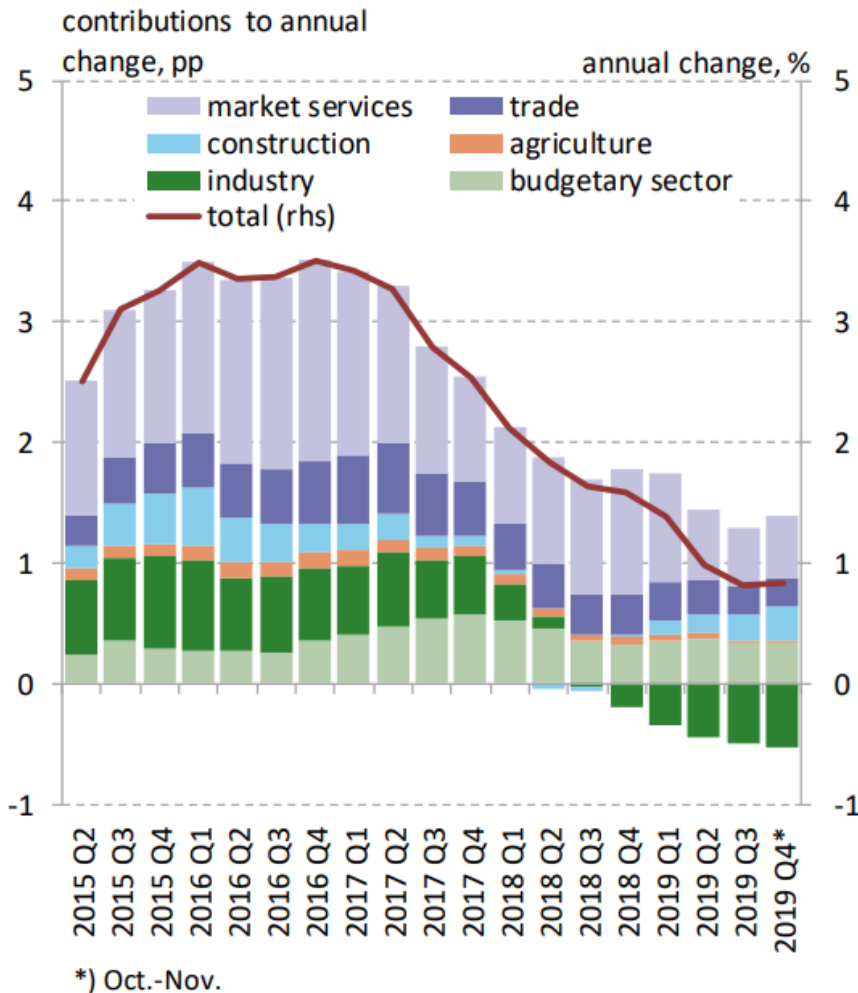
Source: National Institute of Statistics, National Bank of Romania

Persistent, only slightly easing, labour market tensions;
 hirings in construction and services offset the contraction of payrolls in industry, ...

Labour demand and supply



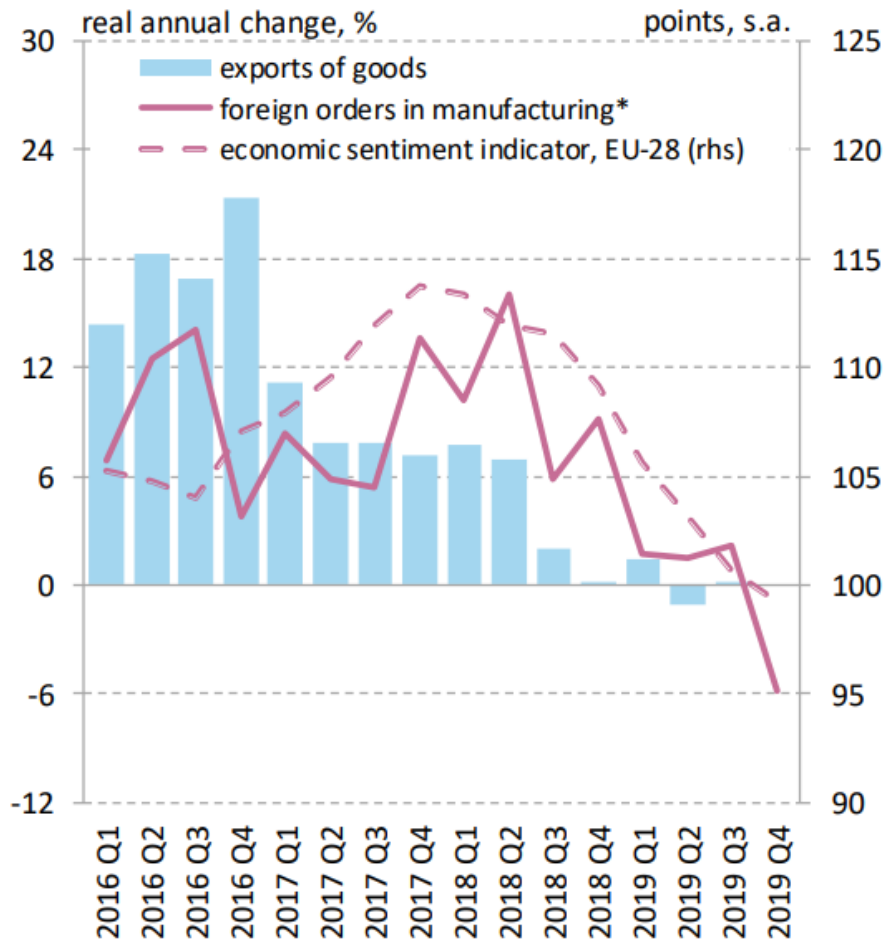
Number of employees economy-wide



Source: NIS, NEA, Eurostat, NBR calculations

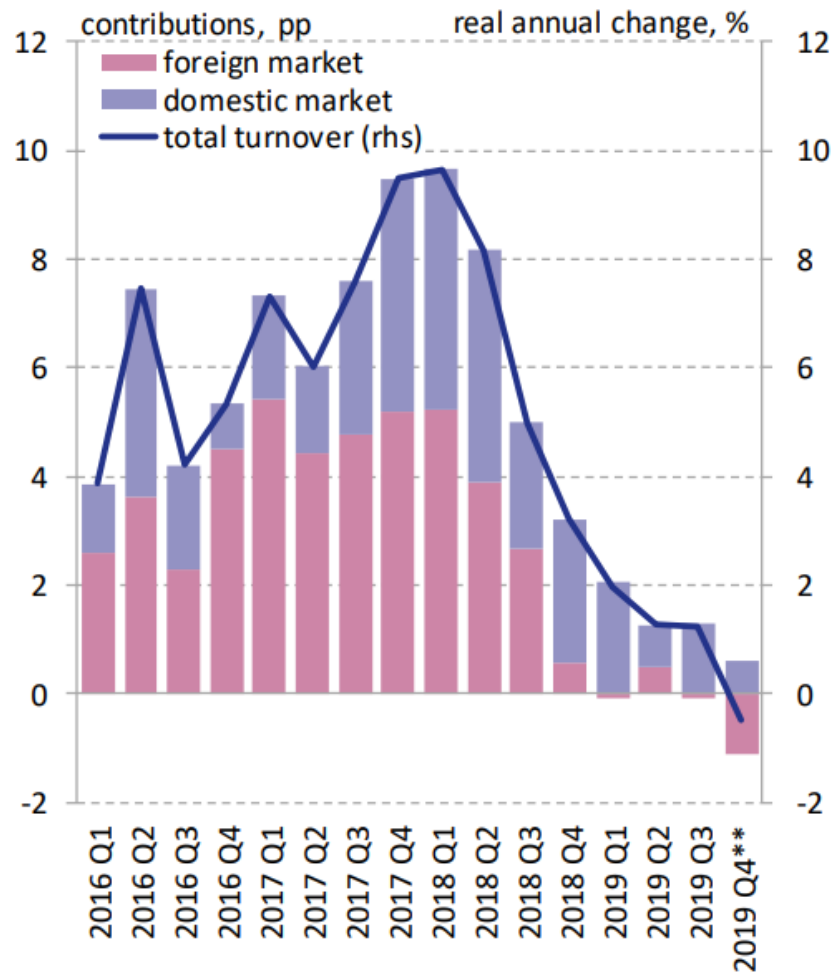
... further affected by the weakening external demand

External demand



*) the latest observation: Oct.-Nov. 2019

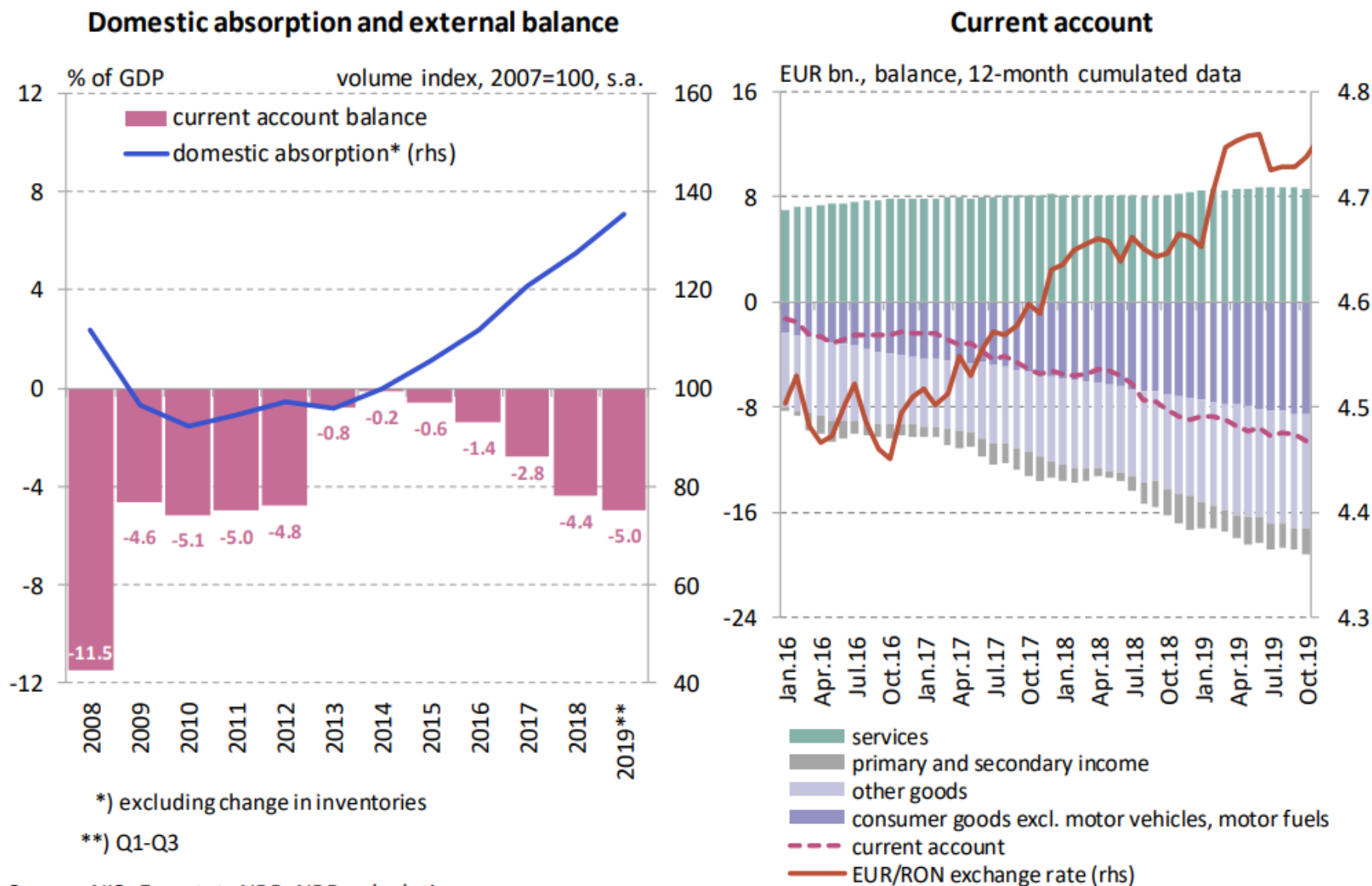
Industrial activity



**) Oct.-Nov.

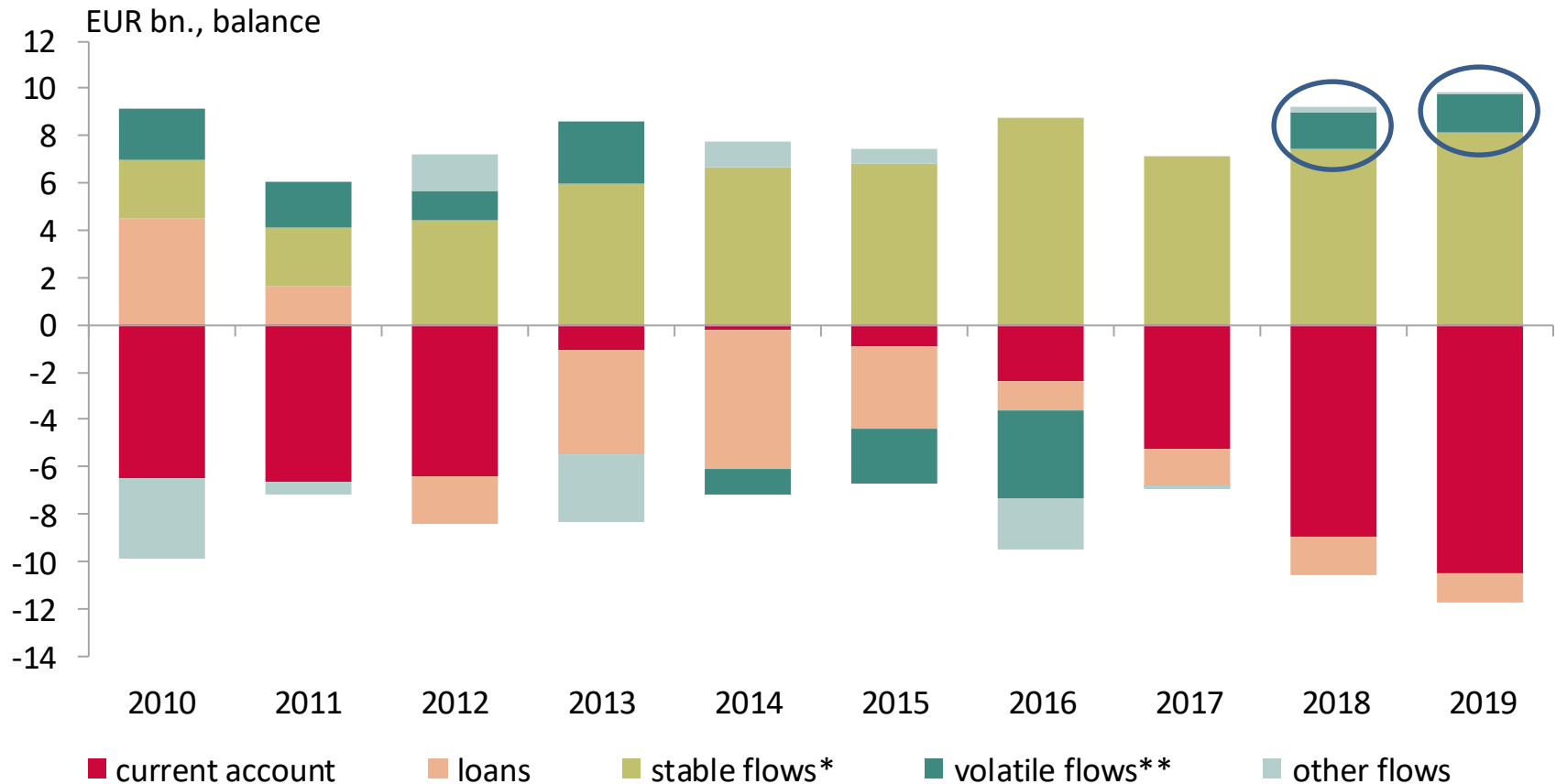
Source: NIS, EC-DG ECFIN, NBR calculations

The robust dynamics of domestic demand caused the widening of external imbalance



Source: NIS, Eurostat, NBR, NBR calculations

Current account deficit financing



*) direct investment and capital account

**) portfolio investment and deposits

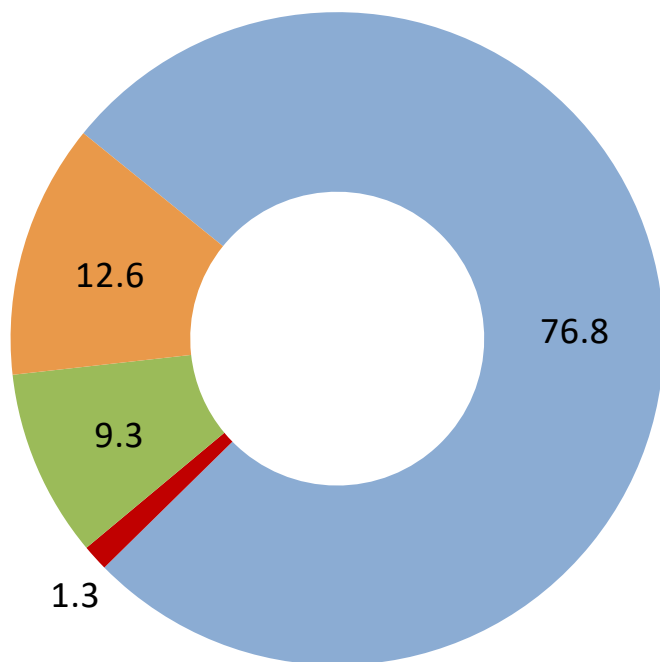
“+” inflows; “-” outflows

Source: National Institute of Statistics, National Bank of Romania

Foreign trade by group of countries*

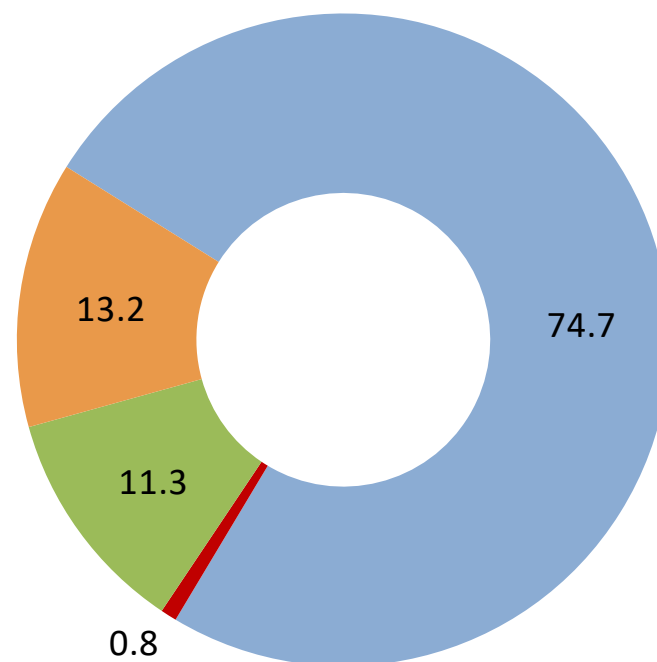
Exports

percent



Imports

percent

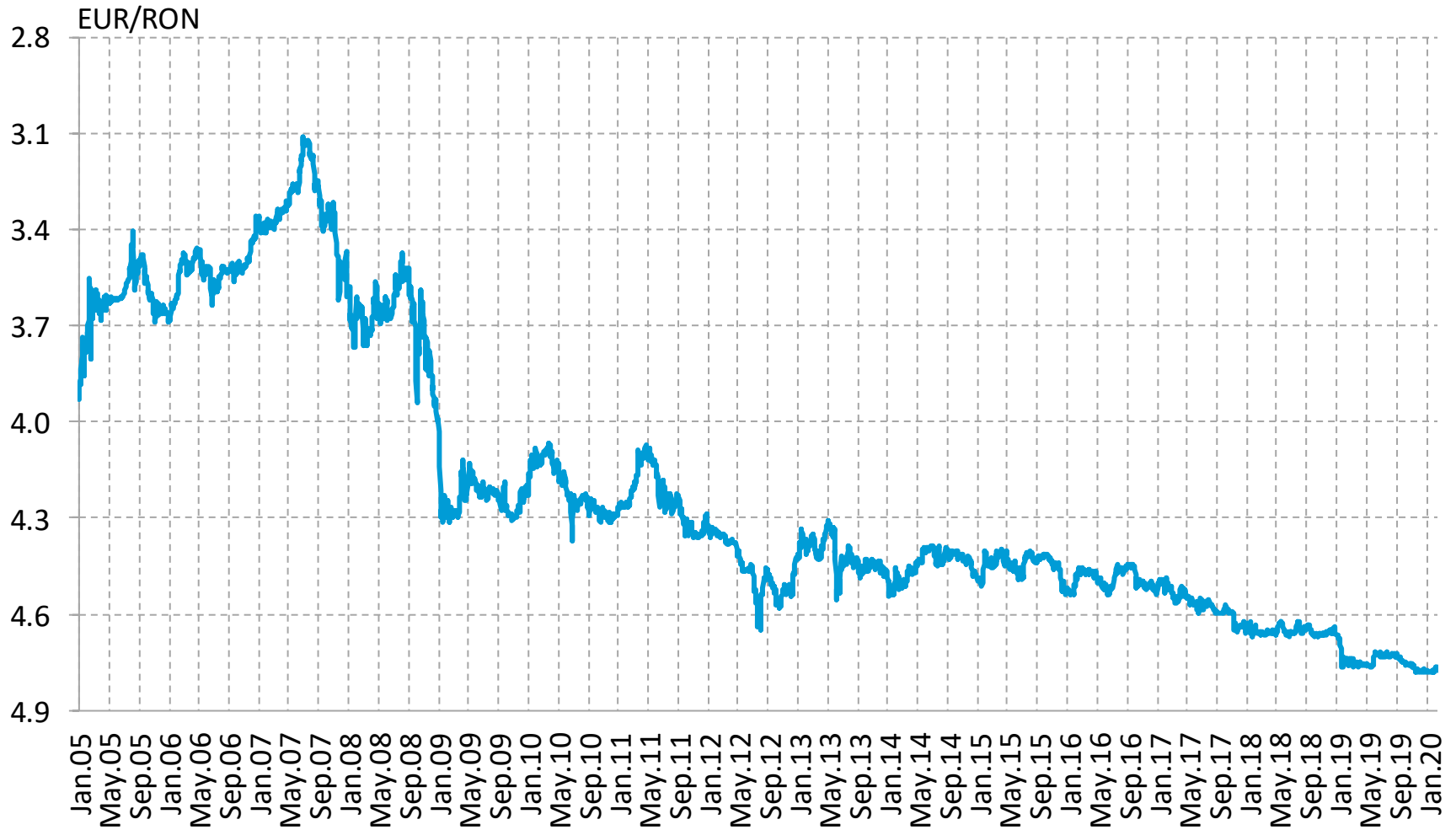


■ EU ■ EFTA ■ other European countries ■ other countries

*) January-October 2019

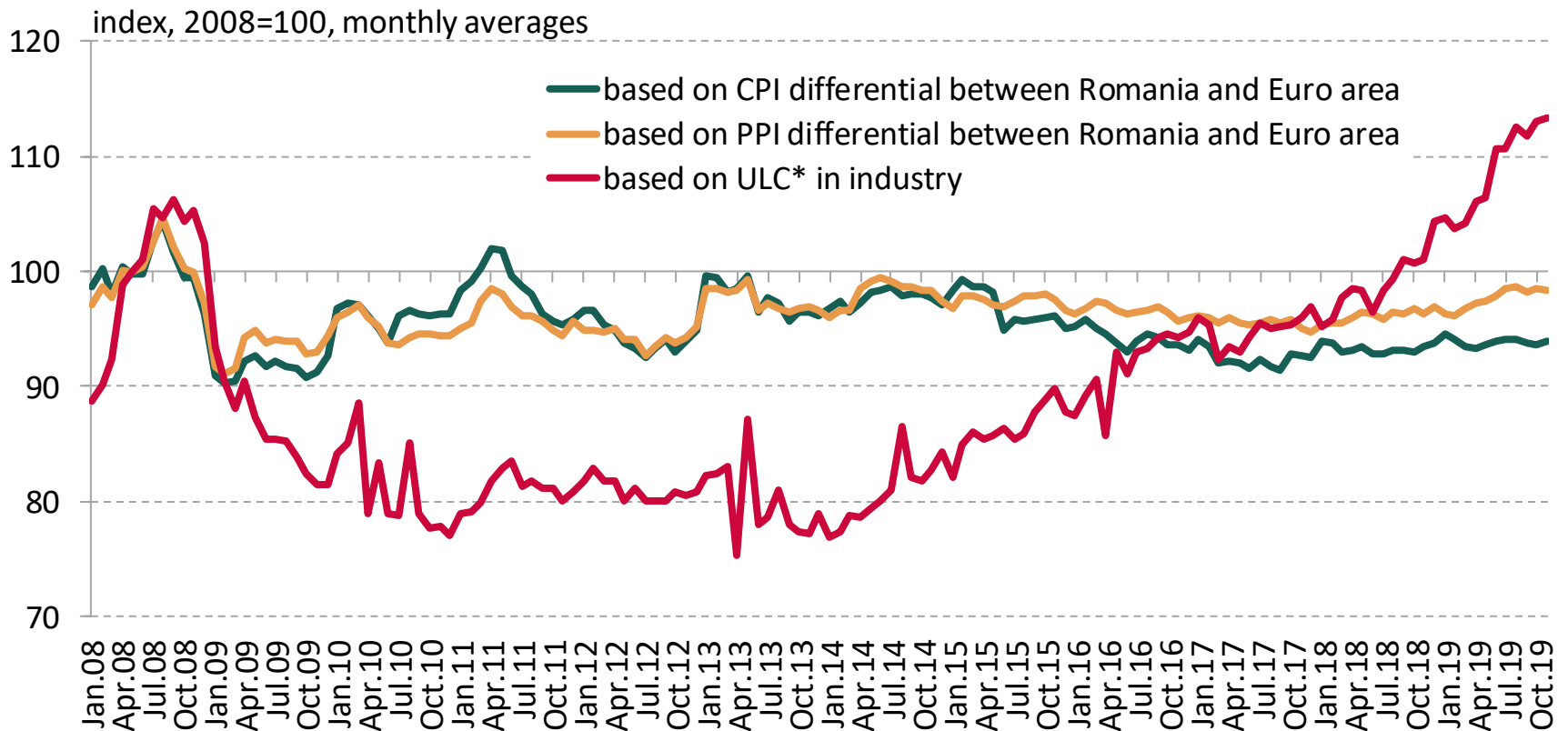
Source: National Institute of Statistics

Nominal exchange rate (daily data)



Source: National Bank of Romania

Real exchange rate of the RON against the EUR

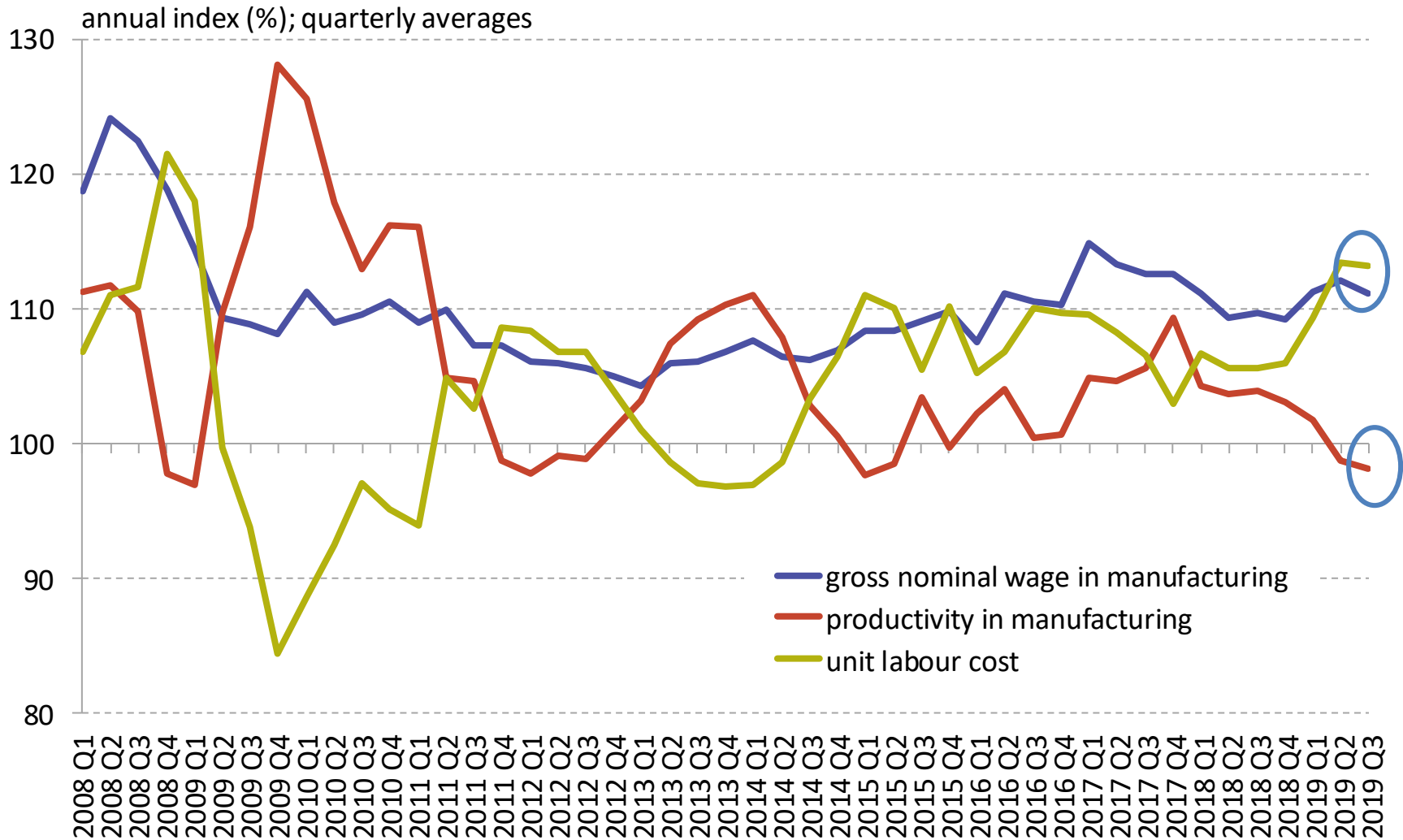


*) seasonally adjusted series

Note: Starting January 2018 (until December 2018), the annual dynamics of the gross wage are adjusted for the effect of changing the way social security contributions are levied and their overall level (from 16.5 percent and 22.75 percent for employees and employers respectively to 35 percent and 2.75 percent), as well as of the decline in income tax from 16 percent to 10 percent, so that the resulting values should reflect developments in unit labour costs.

Source: Eurostat, National Institute of Statistics, National Bank of Romania calculations

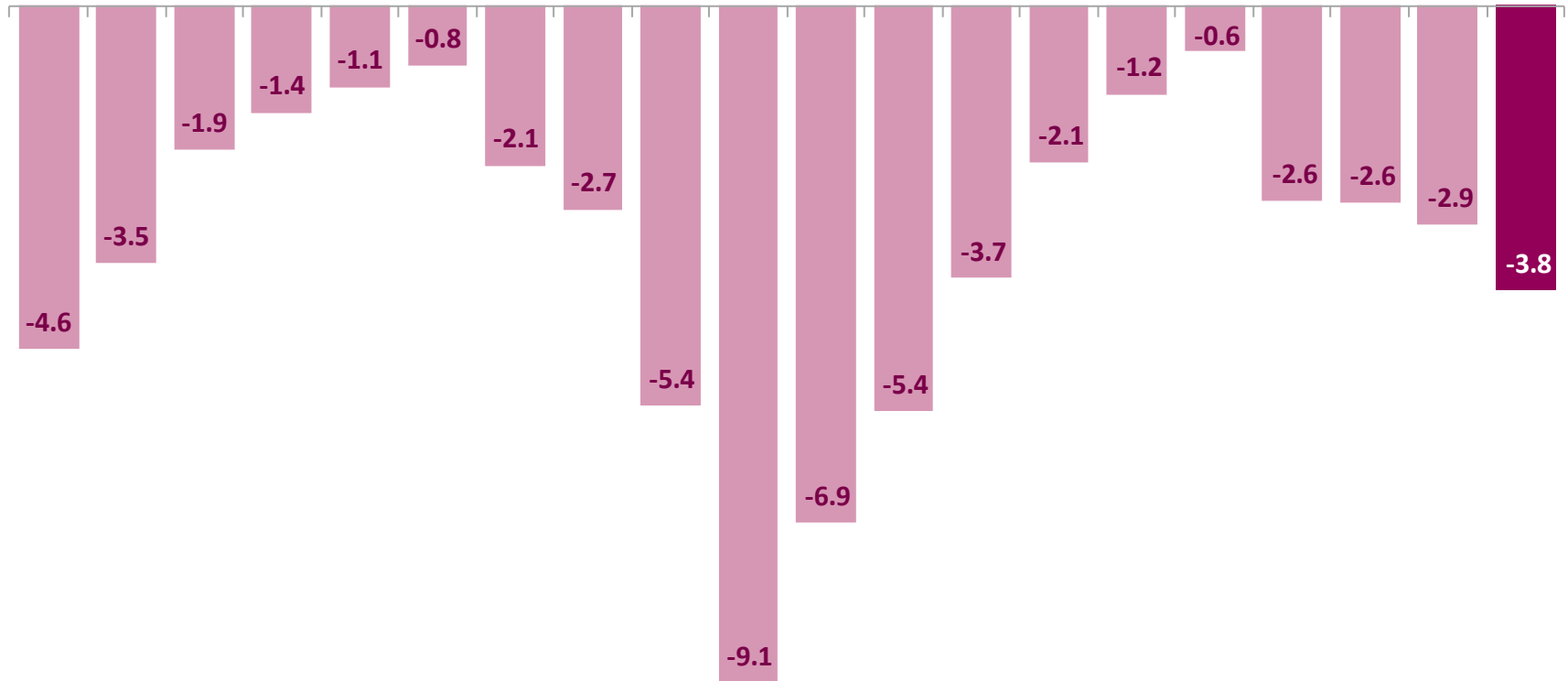
Labour cost in manufacturing



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

General government balance (according to ESA 2010)

percent of GDP



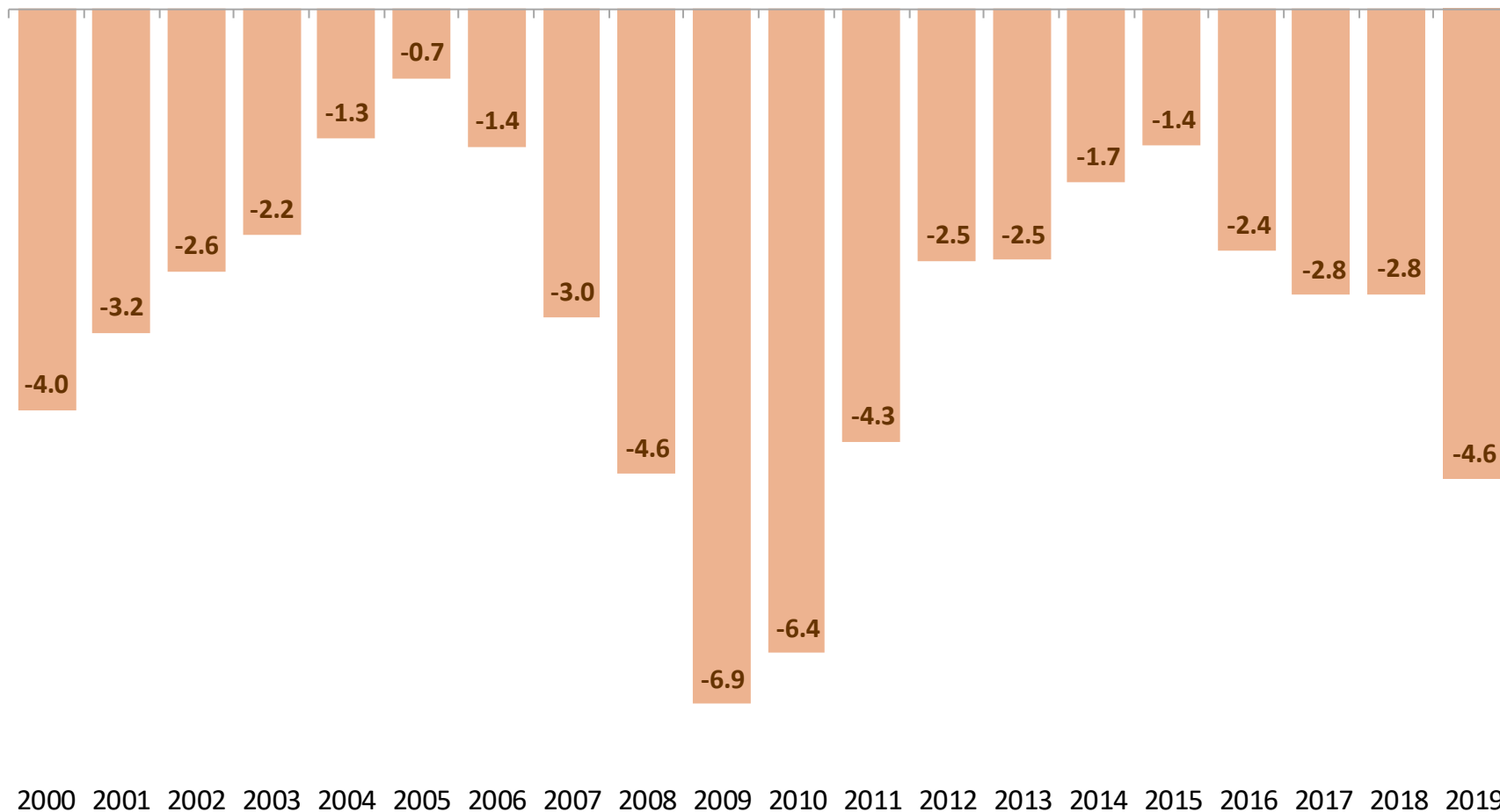
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019f

f) forecast; Fiscal Policy Strategy for 2020-2022

Source: Ministry of Public Finance, National Institute of Statistics

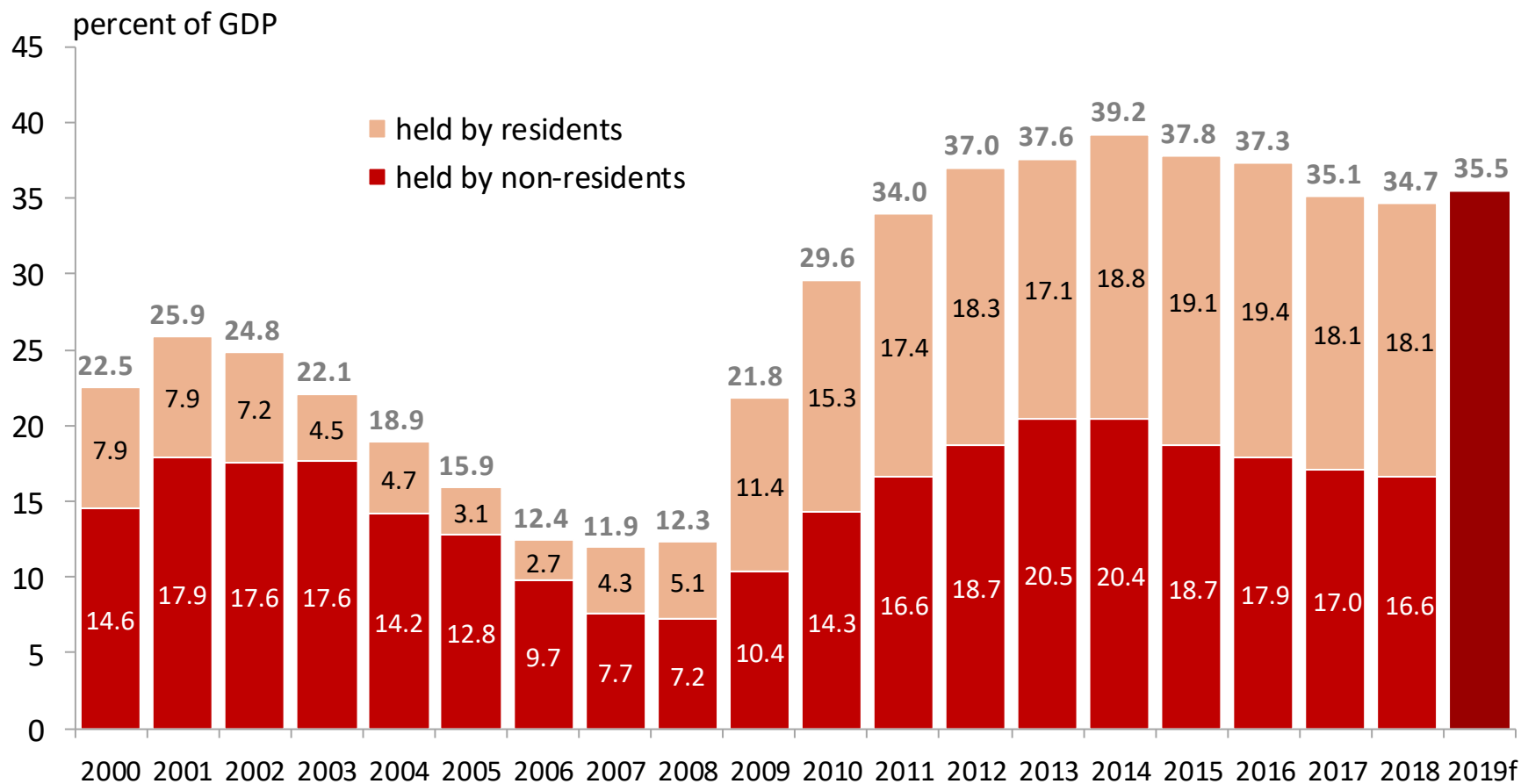
General government balance (national methodology)

percent of GDP



Source: Ministry of Public Finance, National Institute of Statistics

Public debt (according to ESA 2010)



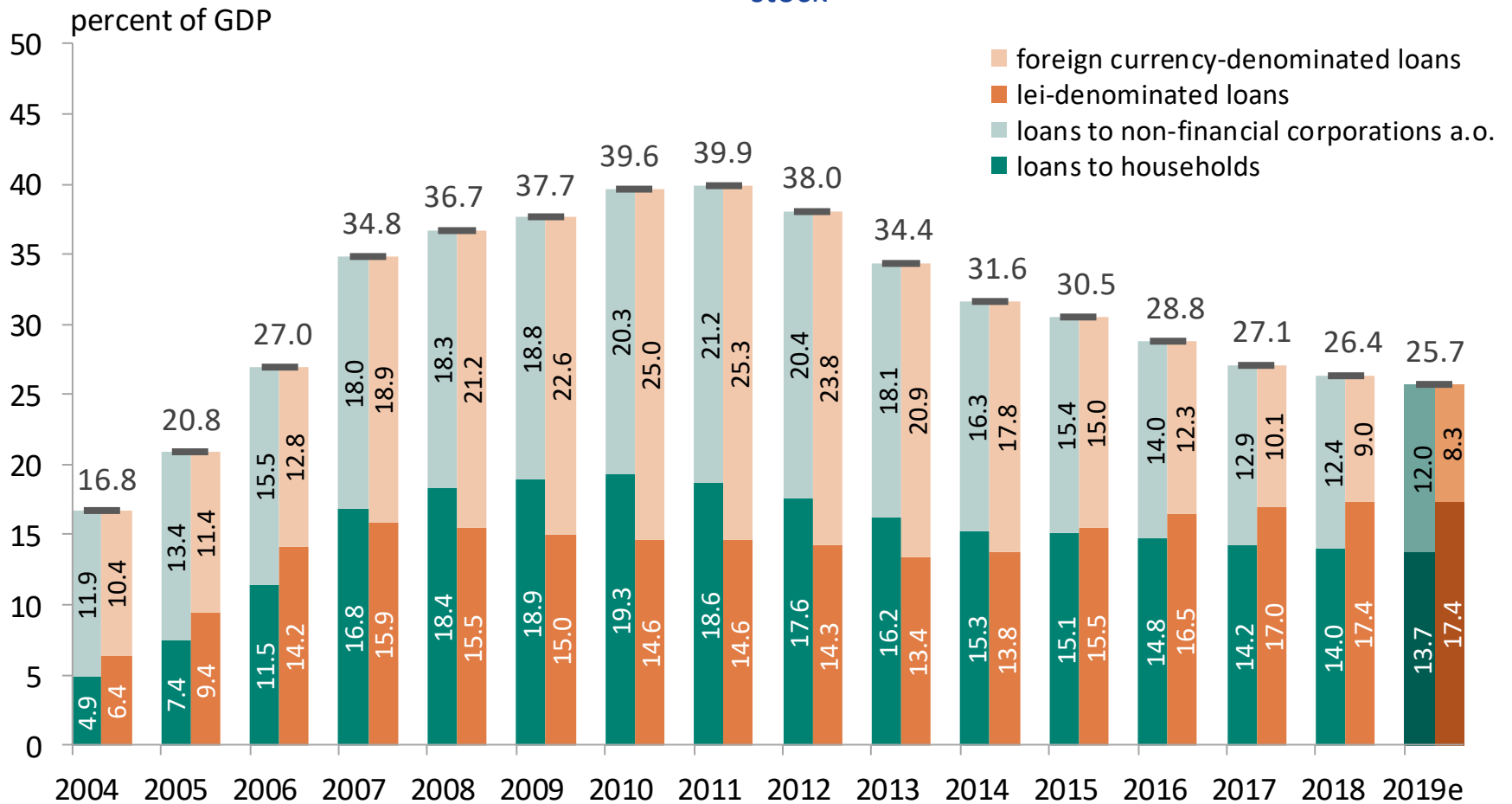
f) European Commission – Autumn 2019 Economic Forecast

Note: Government securities in MFIs portfolio as a share of GDP in Dec.08=2.0%, Dec.09=6.7%, Dec.10=9.5%, Dec.11=10.8%, Dec.12=11.6%, Dec.13=11.1%, Dec.14=11.3%, Dec.15=11.2%, Dec.16=10.8%, Dec.17=10.4%, Dec.18=10.1% and Dec. 19=10.2%.

Source: Ministry of Public Finance, National Bank of Romania, National Institute of Statistics, National Commission for Strategy and Prognosis

Financial intermediation*

– stock –



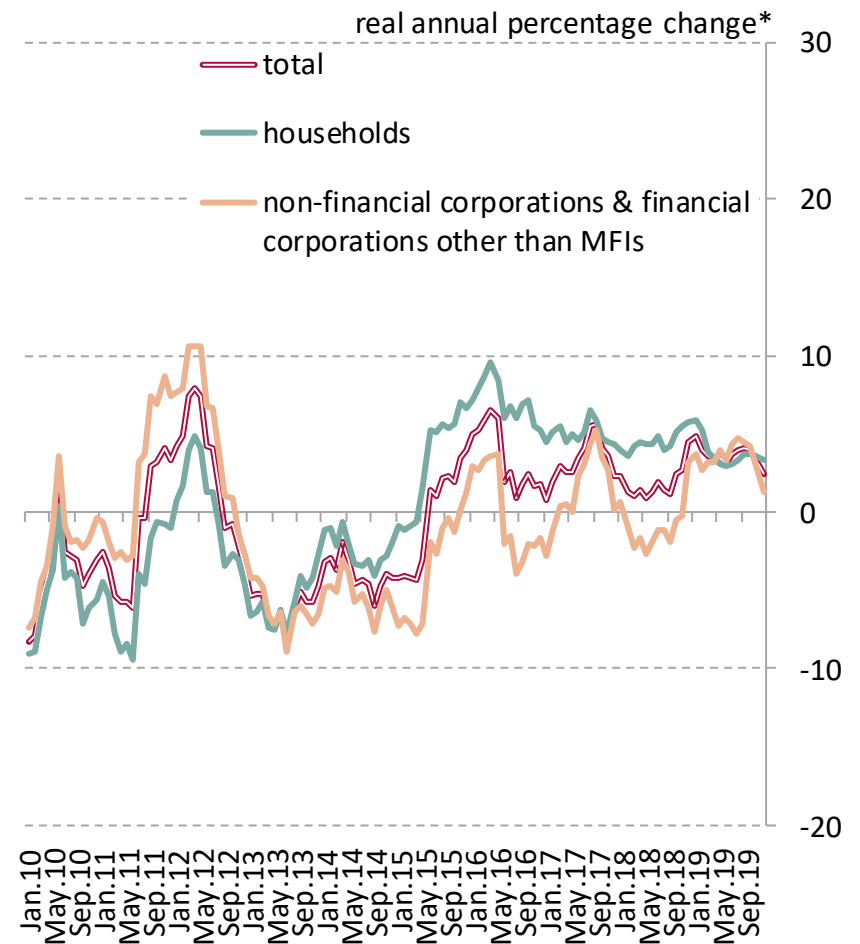
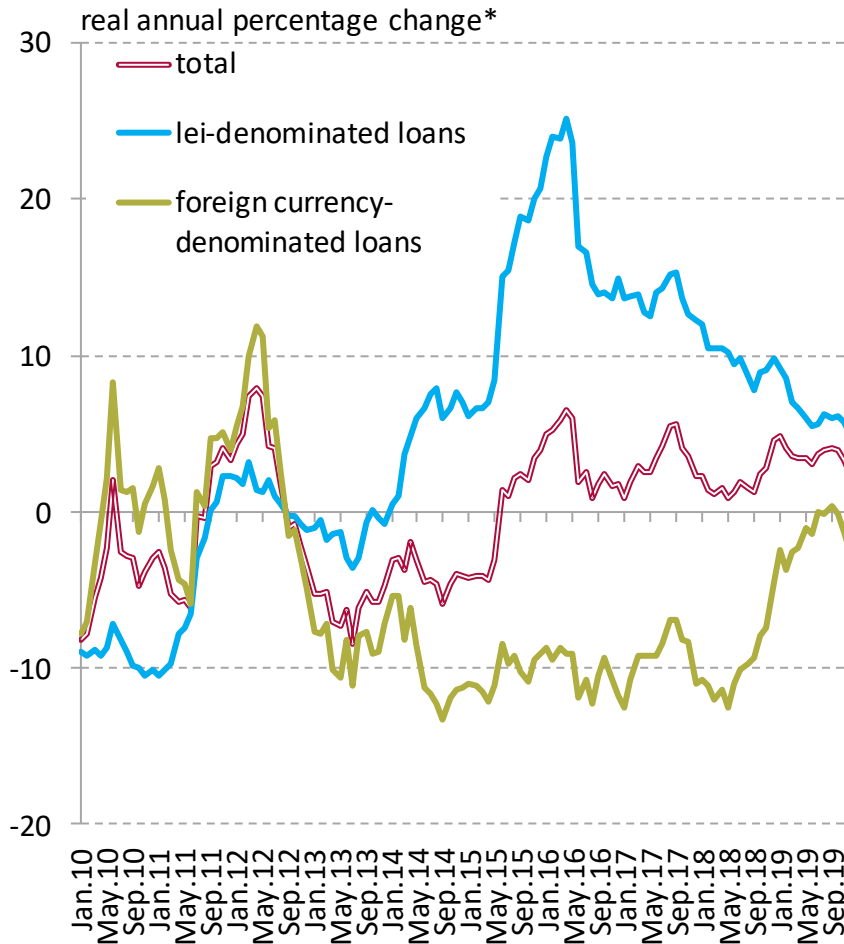
e) estimate

*) loans to the private sector / GDP

Source: National Institute of Statistics, National Bank of Romania, National Commission for Strategy and Prognosis

Loans to the private sector

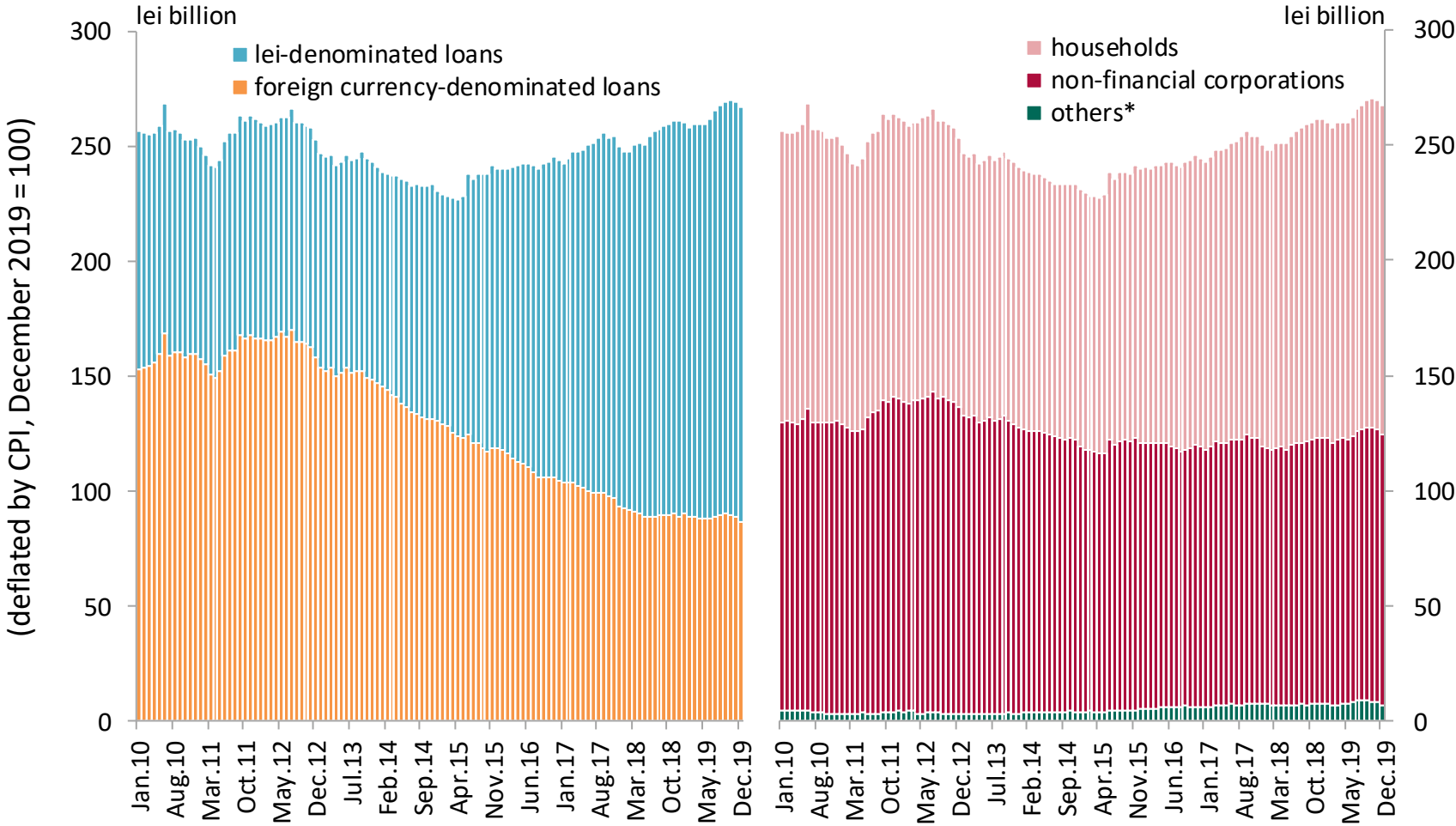
– stock –



*) based on CPI

Source: National Institute of Statistics, National Bank of Romania

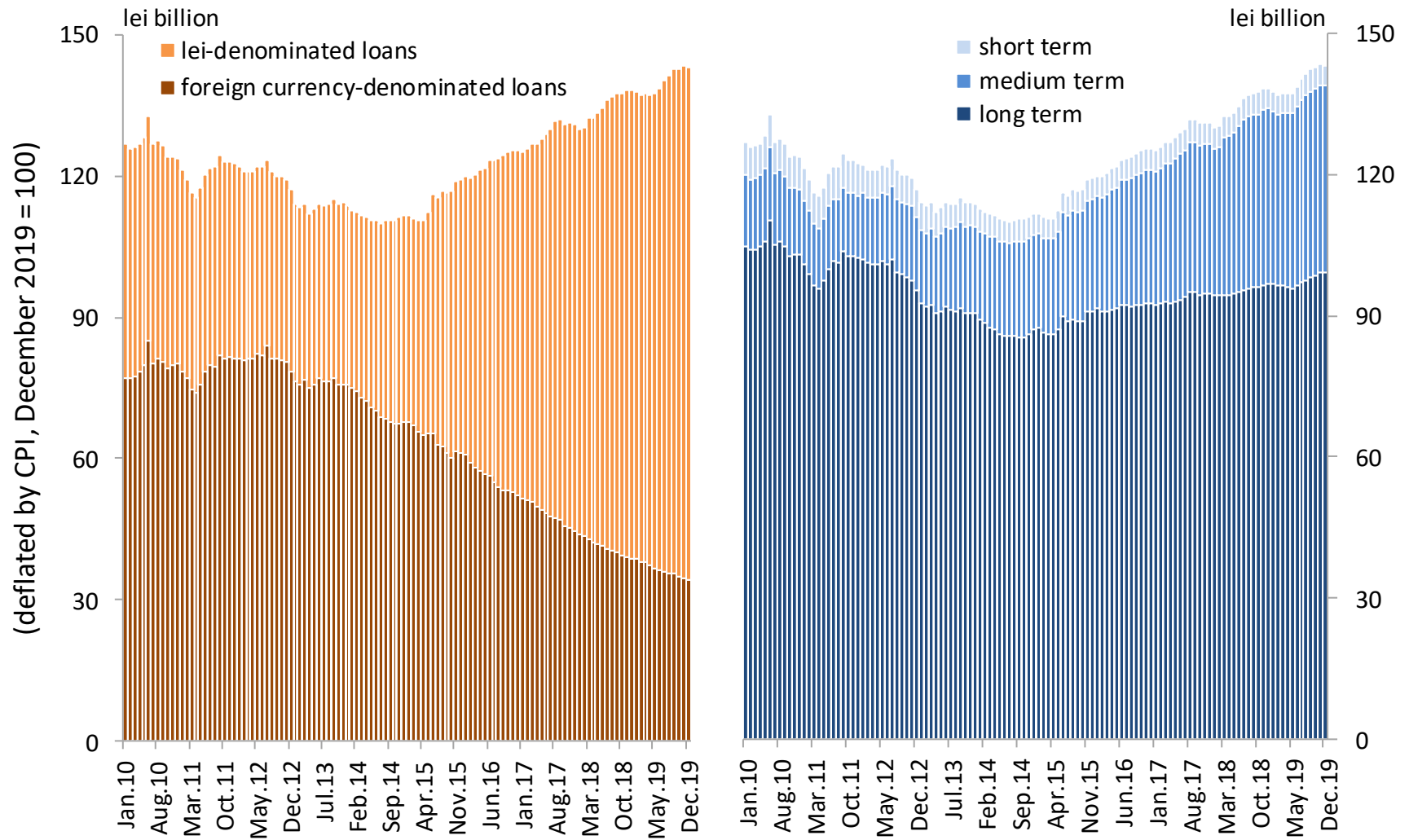
Loans to the private sector (in real terms)



*) insurance corporations, other financial intermediaries and financial auxiliaries

Source: National Institute of Statistics, National Bank of Romania

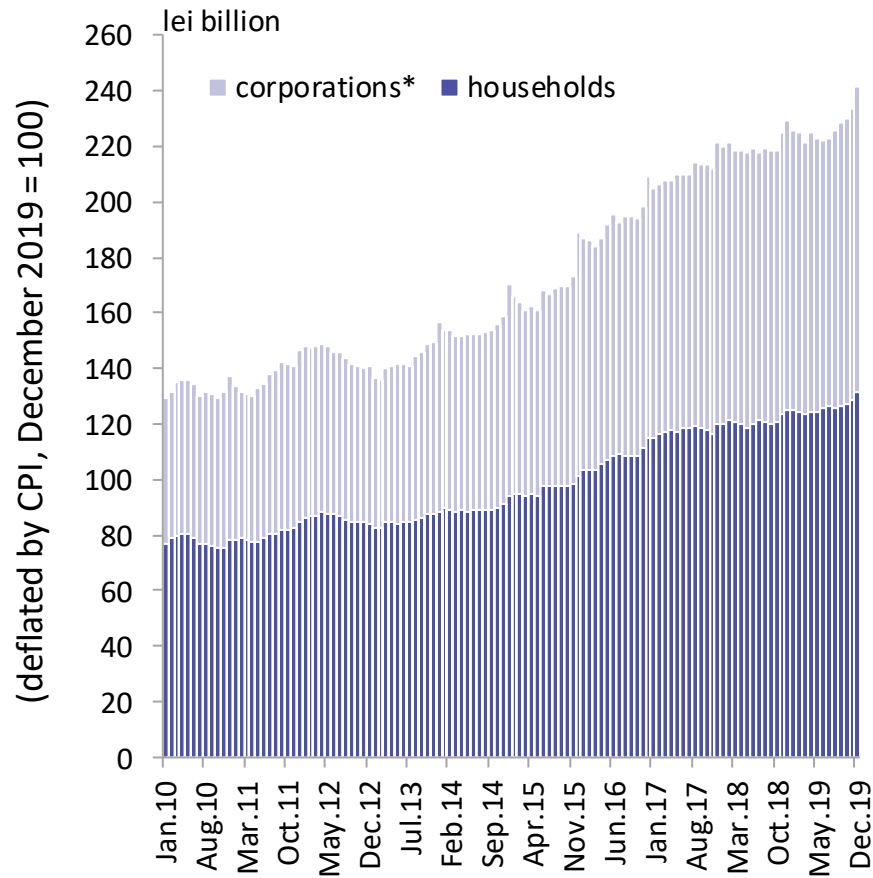
Loans to households (in real terms)



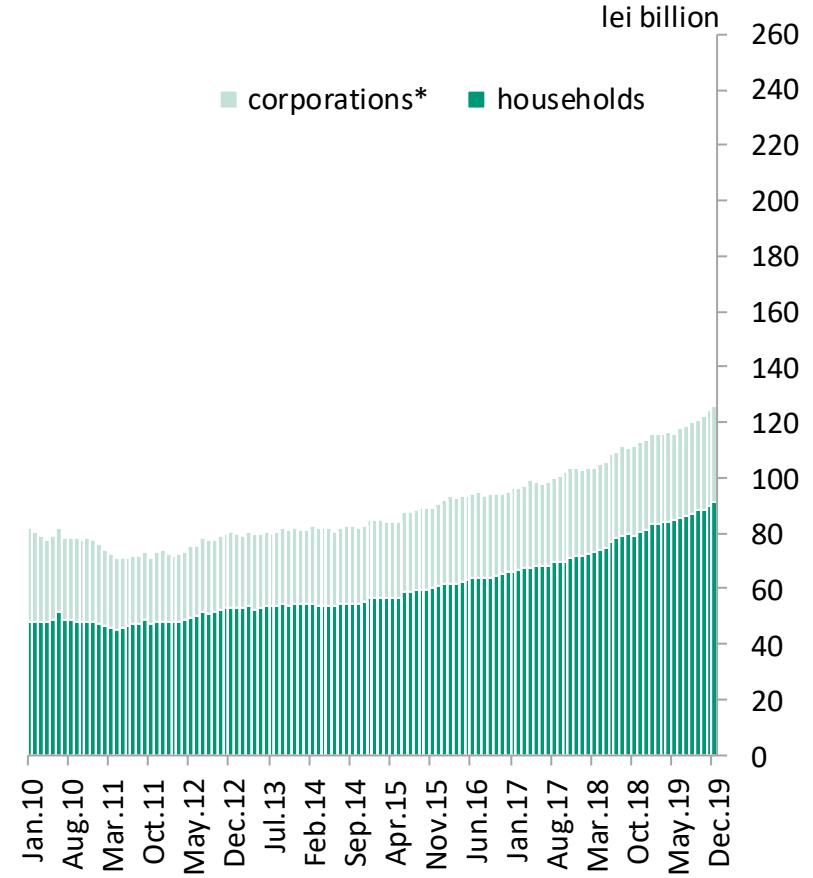
Source: National Institute of Statistics, National Bank of Romania

Private sector deposits (in real terms)

Lei-denominated deposits



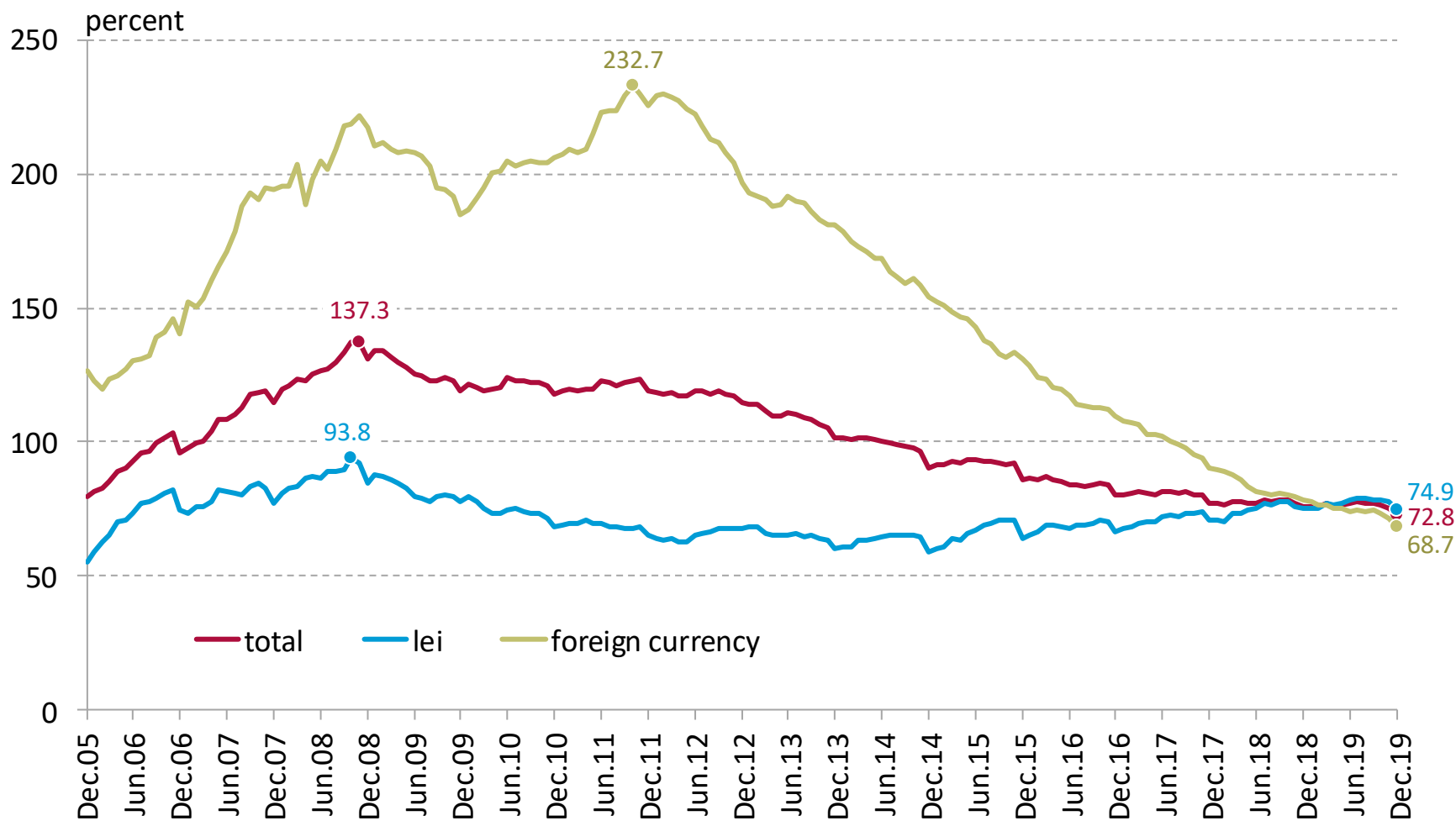
Foreign currency-denominated deposits



*) non-financial corporations and financial corporations other than MFIs

Source: National Institute of Statistics, National Bank of Romania

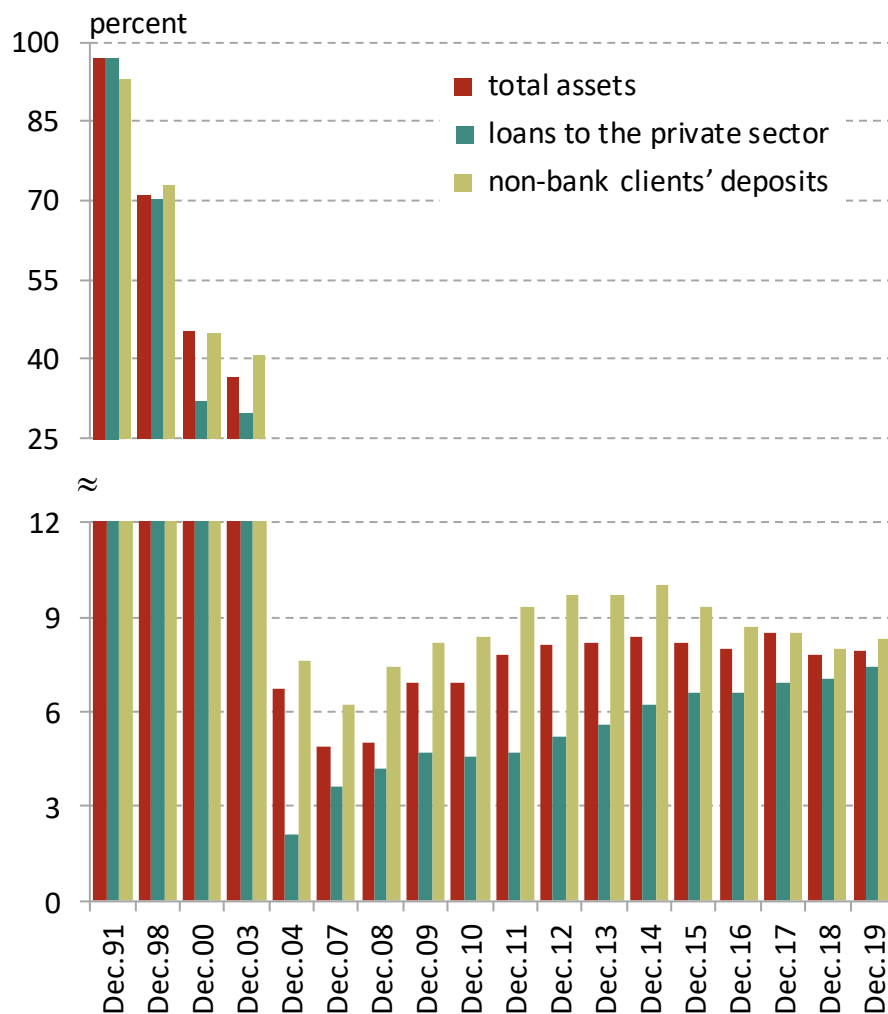
Loan-to-deposit ratio*



*) based on data in the monetary balance sheet

Source: National Bank of Romania

Share of majority state-owned banks in total banks

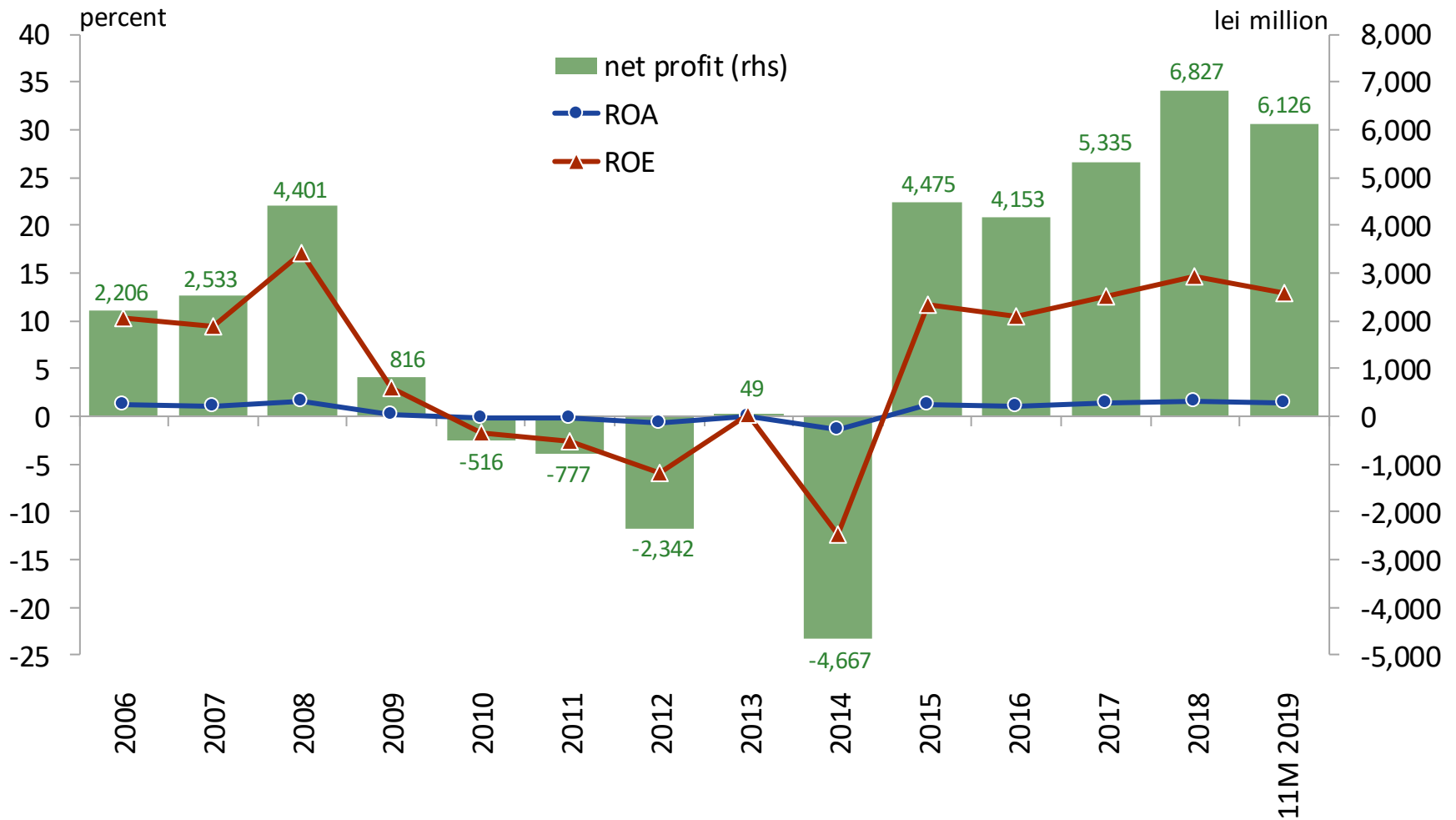


share in total banks (%); December 2019

	Total assets	Loans to the private sector	Non-bank clients' deposits
Banks with majority foreign capital	74.5	76.7	72.1
Banks with majority domestic private capital	17.6	15.9	19.6
Banks with majority state-owned capital	7.9	7.4	8.3

Source: National Bank of Romania

Banking system profitability

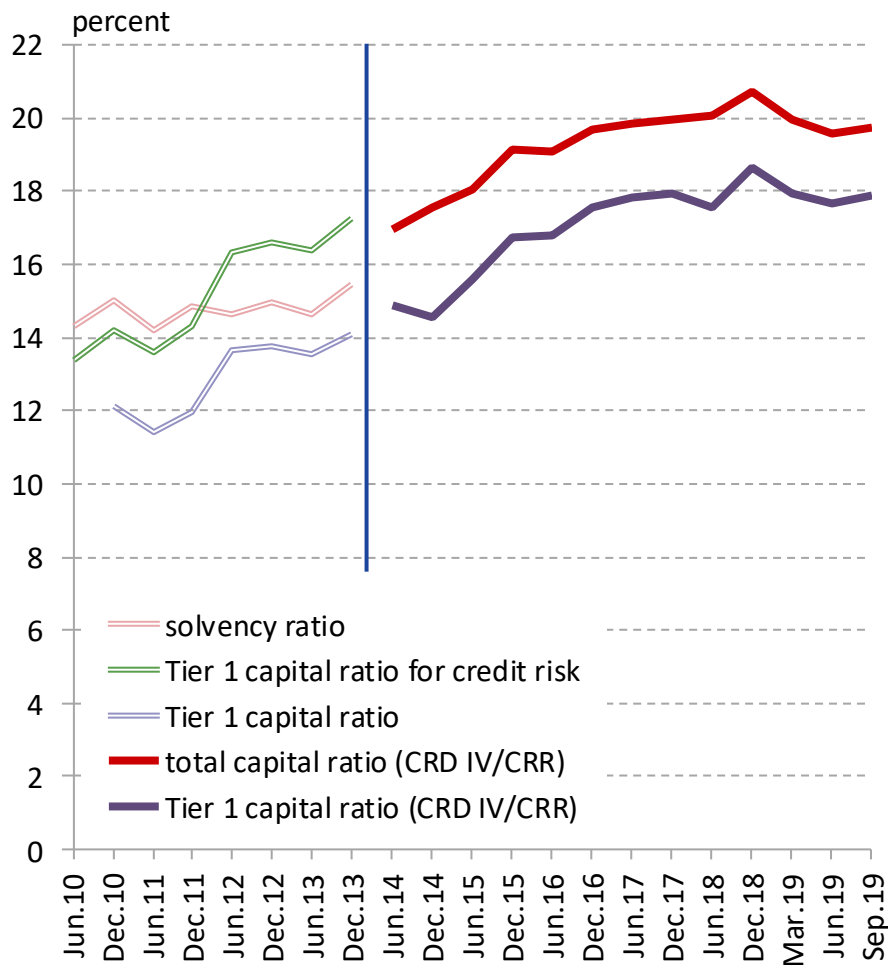


Note: Starting January 2012, indicators are calculated based on IFRS-compliant reports.

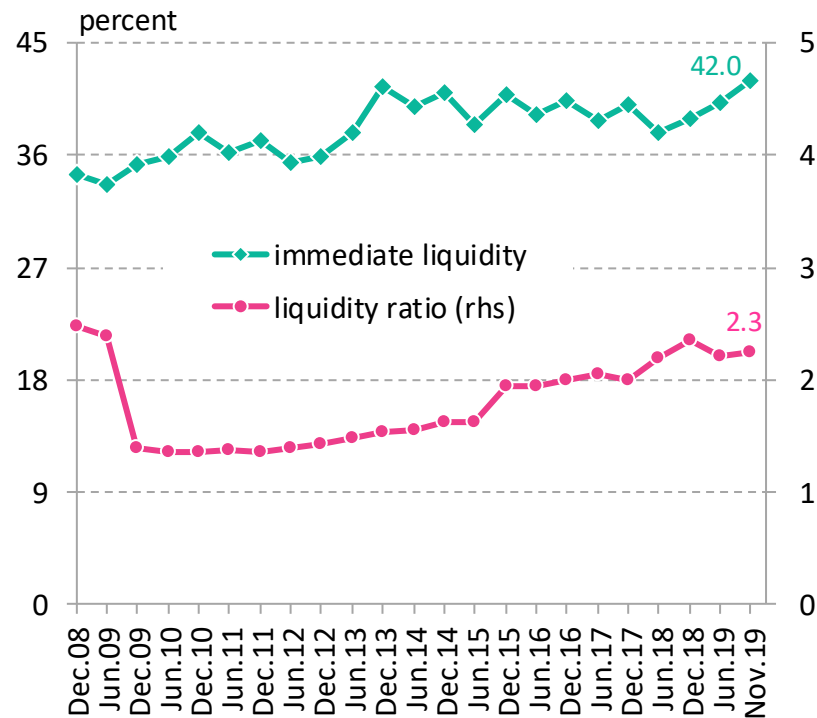
Source: National Bank of Romania

Analysis ratios for the banking system

Capital adequacy indicators



Liquidity indicators



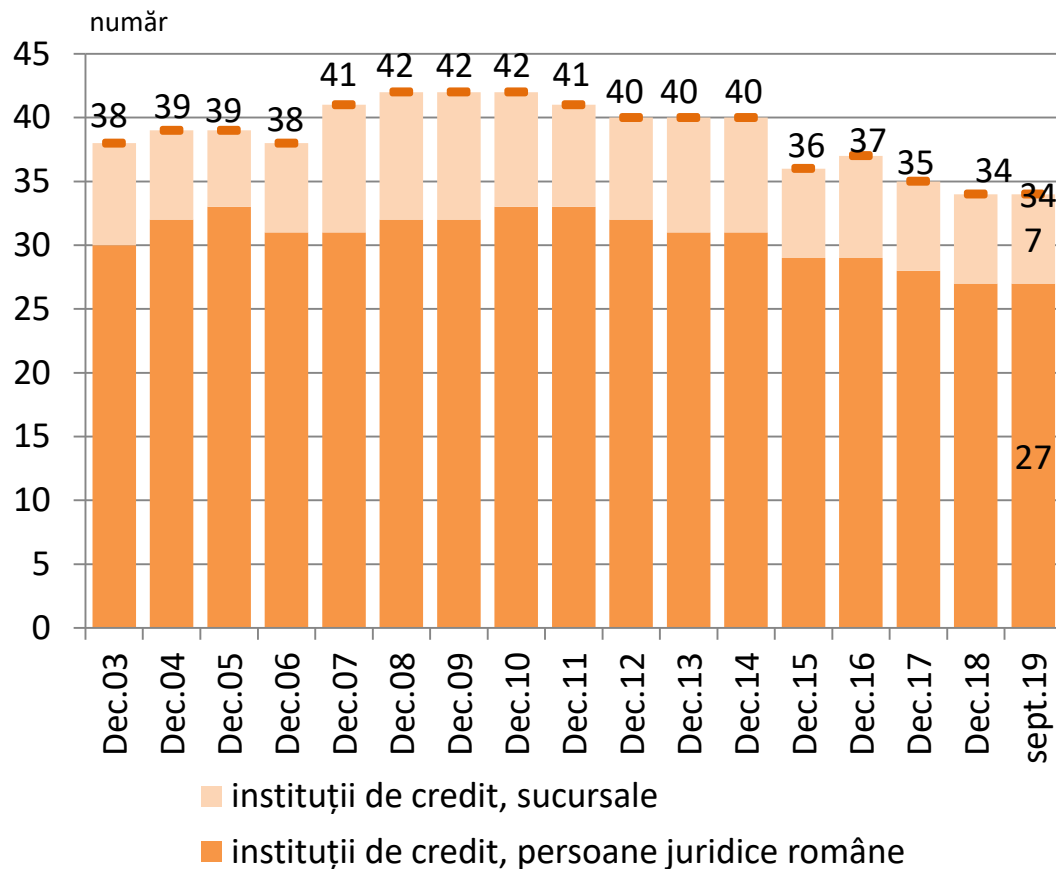
Immediate liquidity = (cash, demand deposits and time deposits with banks + unpledged government securities + unencumbered bonds) / Total liabilities (prudent level > 30%)

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

Source: National Bank of Romania

Banking sector consolidation

No. of credit institutions in Romania

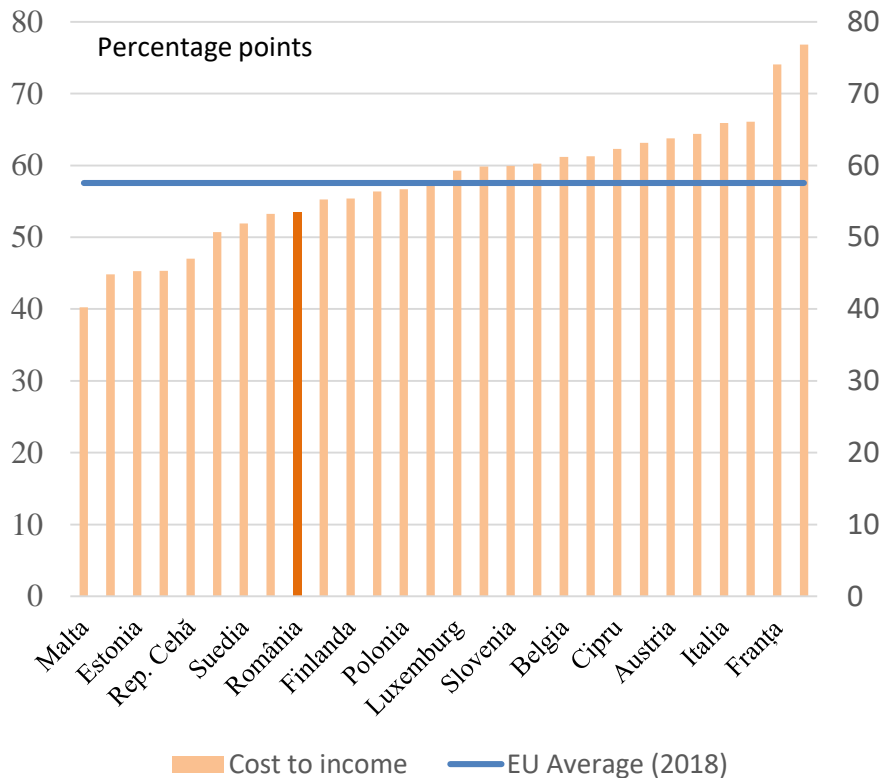


Source: NBR, as of Sept.19

- Gradual consolidation started after 2008 crisis.
- Trend caused by strategic decisions of shareholders and the need for economies of scale.
- Cost of regulation has also increased.

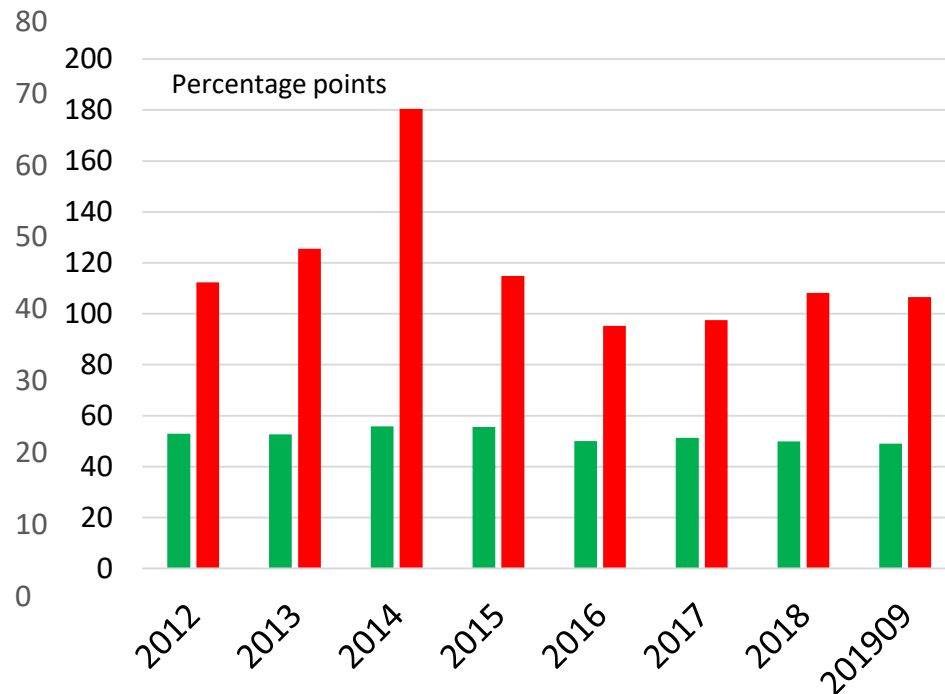
Asymmetrical operational efficiency

Operational efficiency: international peers



Sursa: NBR

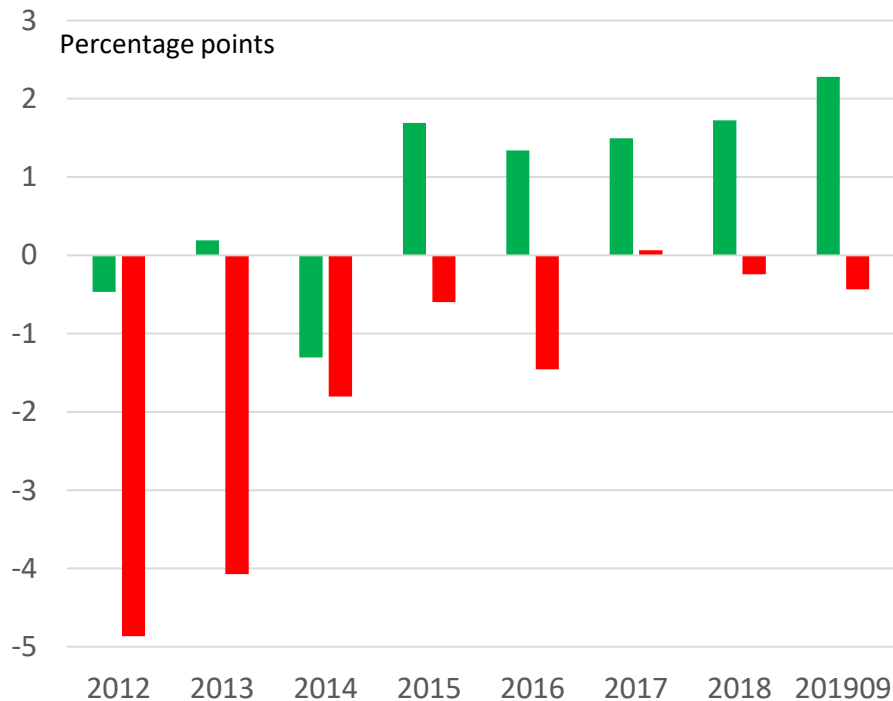
Cost/Income: Top 10 vs. Bottom 10 banks by market share



Source: NBR, data as of Sept.19

Profit polarization according to market share. Size matters.

ROA for Top 10 and Bottom 10 banks by market share

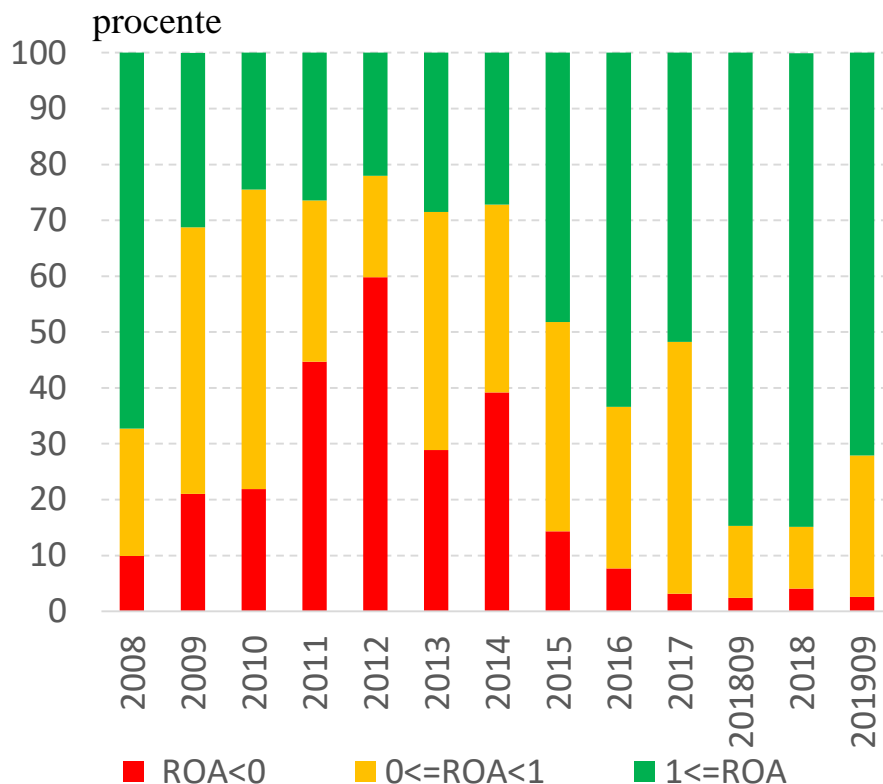


Source: NBR, as of Sept.19

- Profits are concentrated to big banks books (85% of the entire sector profits for top 10)
- Fixed costs are better spread across bigger balance sheets. Financing costs can also be lower.
- Operational efficiency is dependent on size.
- Smaller banks: modest financial results mitigated by higher capitalization ratios.

Profitability distribution

Market share of banks, split by ROA.



- Volatile P&L results in the last decade due to CoR.
- Significant improvement of profitability in the last years, on favorable macro background and lower CoR.
- Loss-making banks: 2,6% market share, down from 57% in 2012.

Sursa: BNR, as of Sept.19

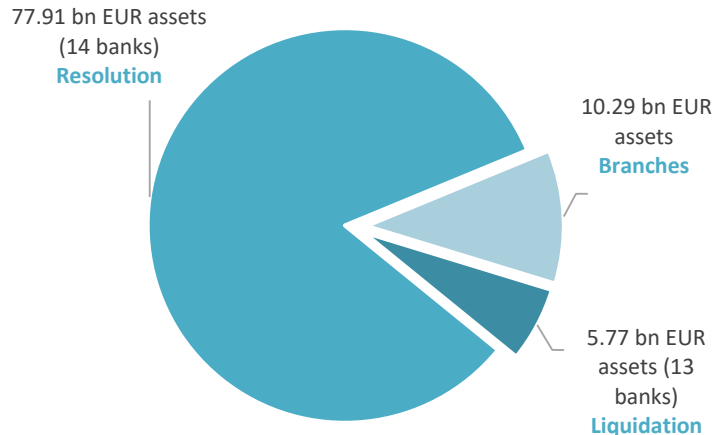
Facts and figures regarding the resolution framework in Romania

Romania is predominantly a “host” country

Credit institutions (*)	#	Assets (bn EUR)	Aggregated market share by assets (%)	Average RWA (% of total assets)
- under direct remit of NBR	11	27.6	29.3%	55.1%
- part of a cross-border group under the direct remit of the resolution authority from home member state	5	4.1	4.4%	65.0%
- part of a cross-border group under the remit of SRB	11	52.0	55.3%	52.1%

11 for 11% aggregated market share.

Structure of the banking sector by strategy (aggregated assets)

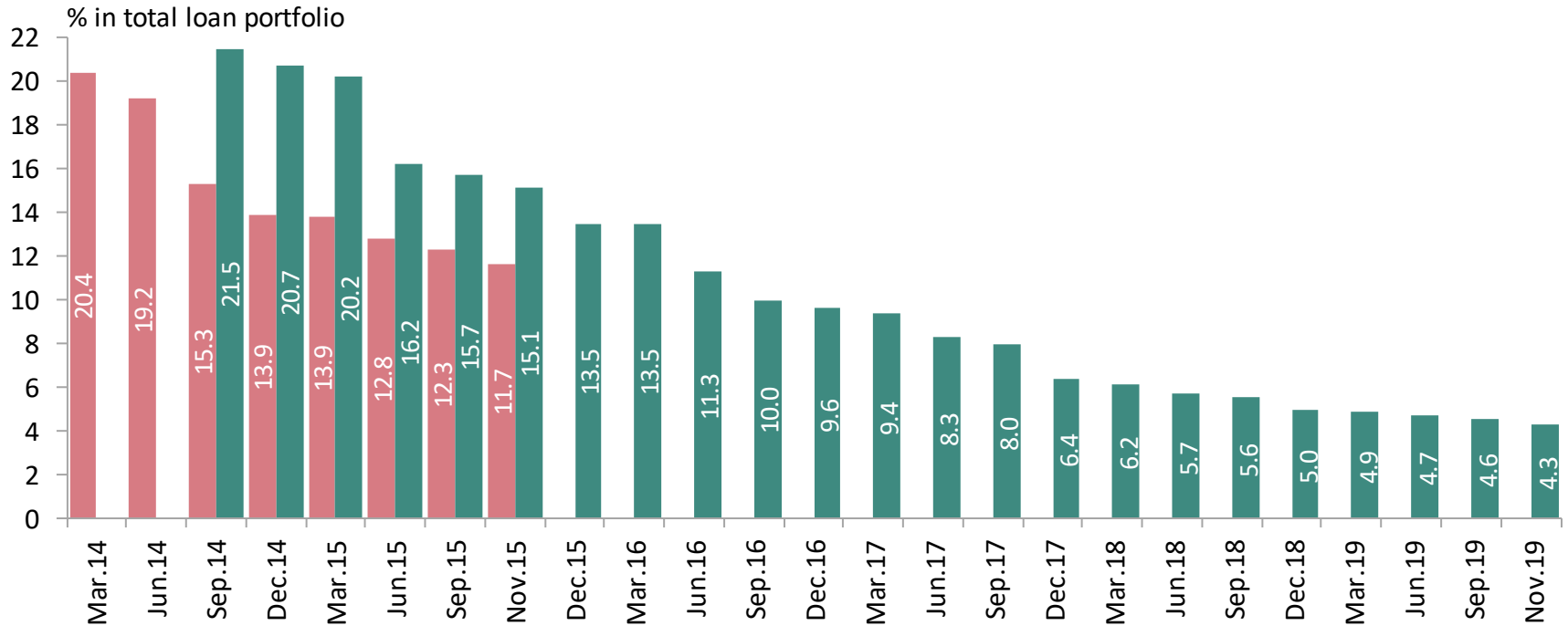


Overview of MREL

Current context of the Romanian banking sector considered for the purpose of setting MREL requirements:

- Relatively high RWA density
- Existing high level of capital requirements
- Very few issuances of senior debt

Developments in non-performing loans



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

Maastricht Criteria (Nominal Convergence Indicators)

Nominal Convergence Indicators	Maastricht Criteria	Romania	Fulfilment of the criteria
Inflation rate (HICP) (percent, annual average)	≤1.5 pp above 0.4% (average of the three best performing Member States*)	3.9 (December 2019)	No
Long-term interest rates (percent per annum, annual average)	≤2 pp above 1.5% (average of the three best performing Member States in terms of price stability*)	4.5 (December 2019)	No
Exchange rate (vs. euro)** (percentage change)	±15 percent	+0.3/-3.1	Yes
General government deficit*** (percent of GDP)	≤3 percent	2.9	Yes -> No
Government debt*** (percent of GDP)	≤60 percent	34.7	Yes

*) Cyprus, Greece, Portugal.

**) Maximum percentage deviations of the bilateral exchange rate against the euro from its December 2017 average level in January 2018 to December 2019 based on daily data at business frequency. An upward/downward deviation implies that the currency was stronger/weaker than the average exchange rate in December 2017.

***) 2018; ESA 2010 methodology.

Source: Eurostat