



# **Lending in Romania: Recent Developments and Perspectives**

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# OVERVIEW

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I. Recent developments of lending

II. Policy responses to the financial crisis

II.1. Proactive measures undertaken by the National Bank of Romania for mitigating the effects of the financial crisis

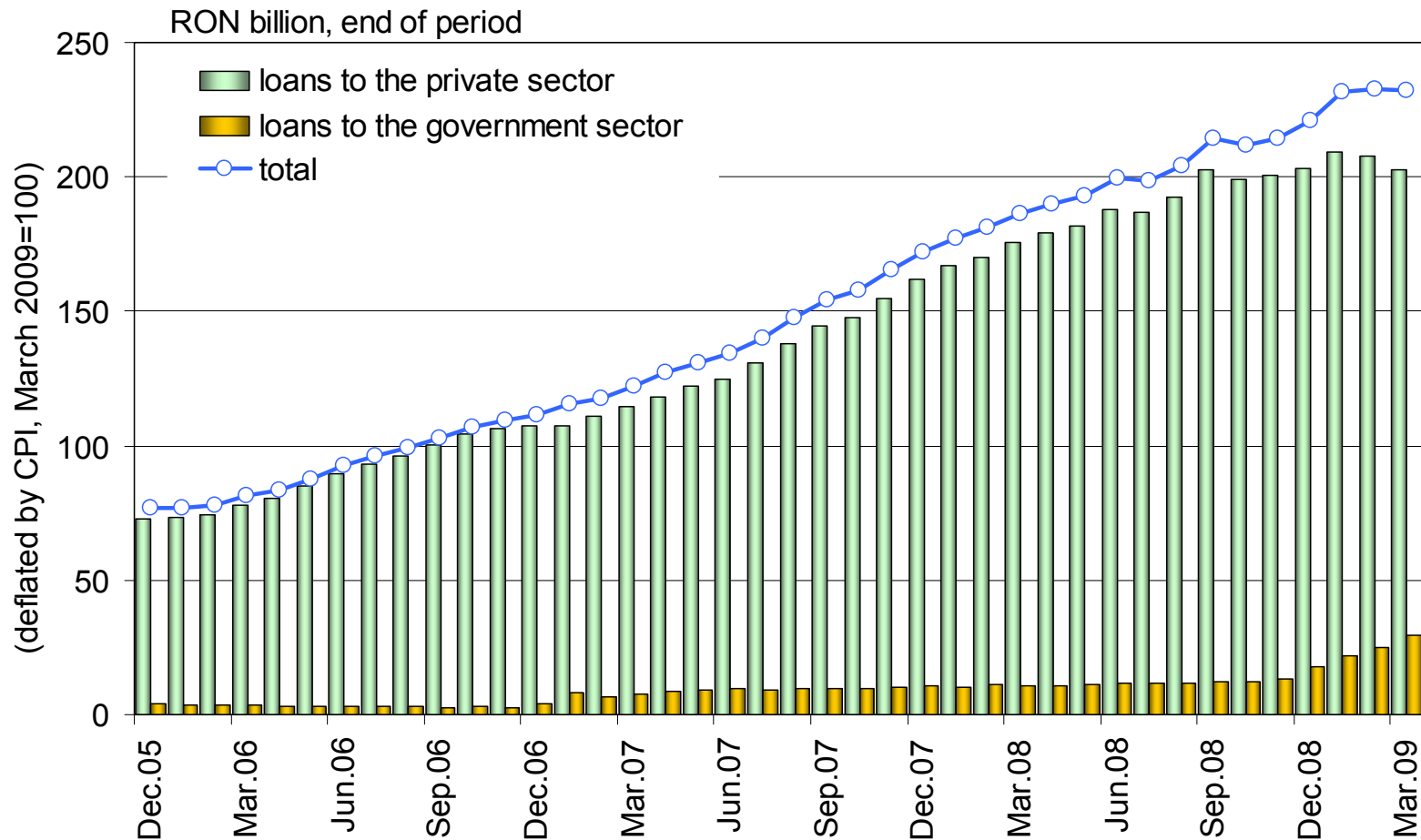
II.2. The IMF Stand-By Arrangement – actions for further strengthening of the financial sector

III. The perspectives of lending

# I. Recent developments of lending in Romania

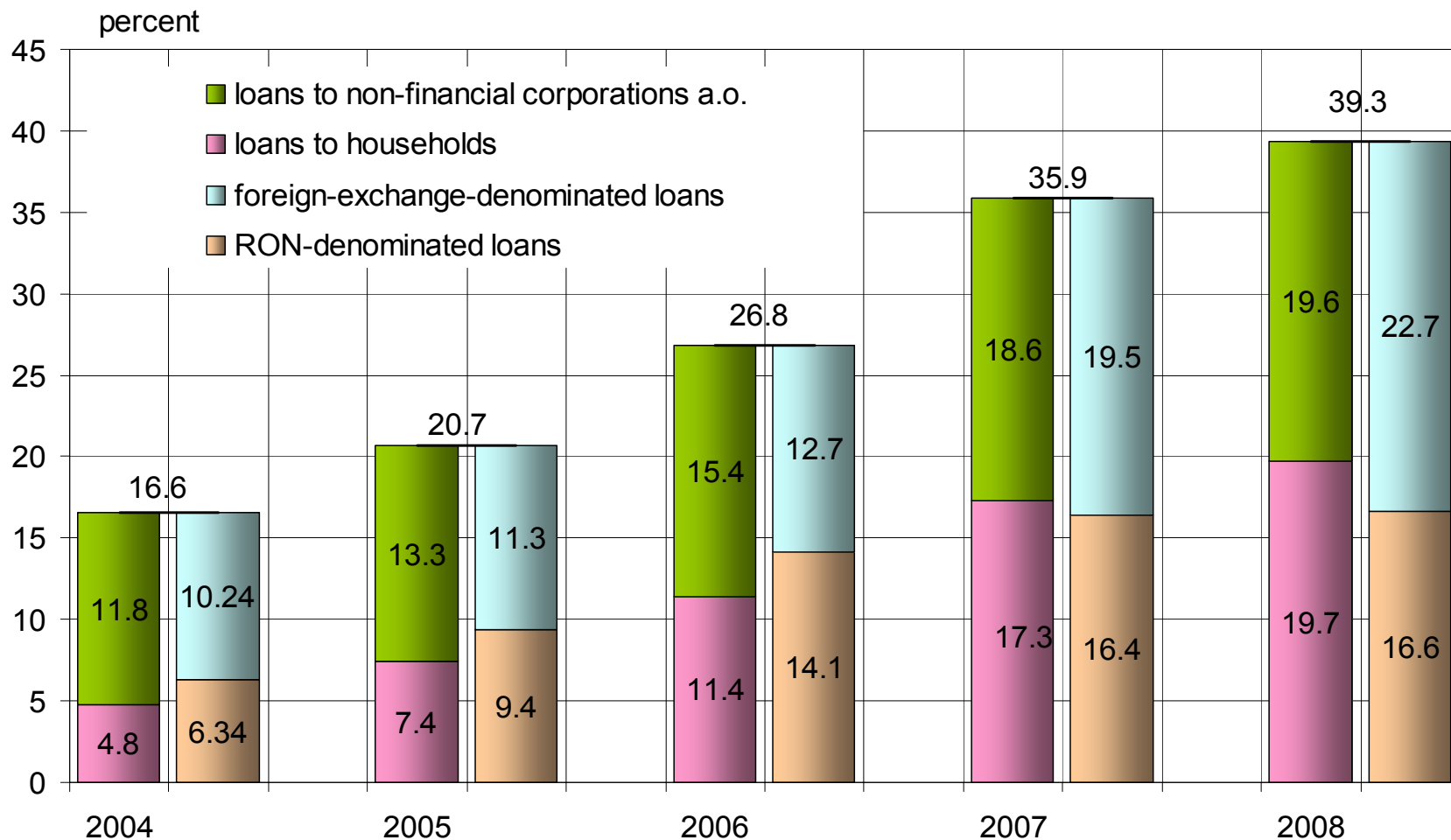
# Evolution of Domestic Credit

(in real terms)



Source: National Bank of Romania

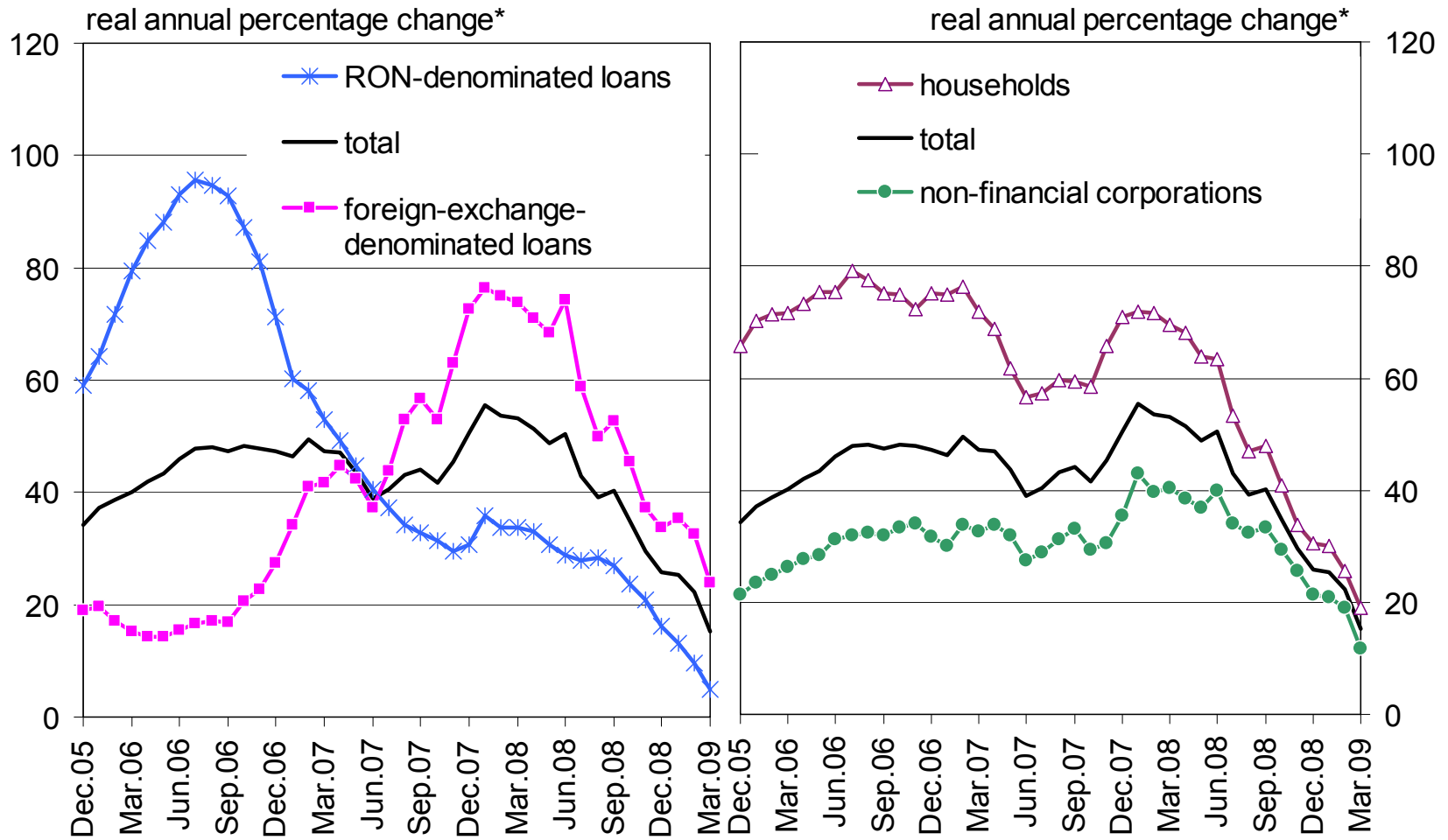
# Financial Intermediation\*



Source: National Bank of Romania, National Institute of Statistics

\*) loans to the private sector / GDP

# Loans to Private Sector

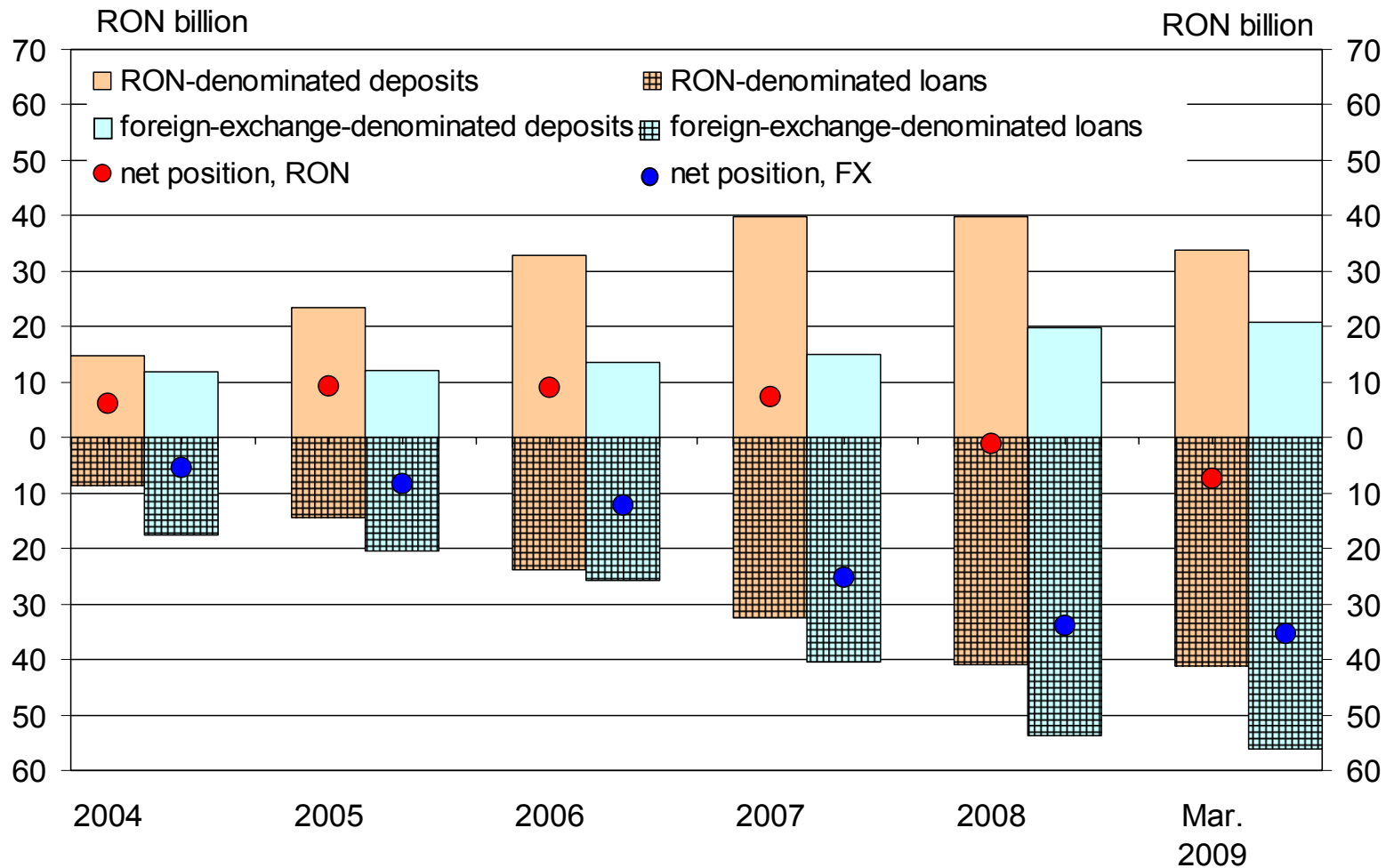


Source: National Bank of Romania, National Institute of Statistics

\*) based on CPI

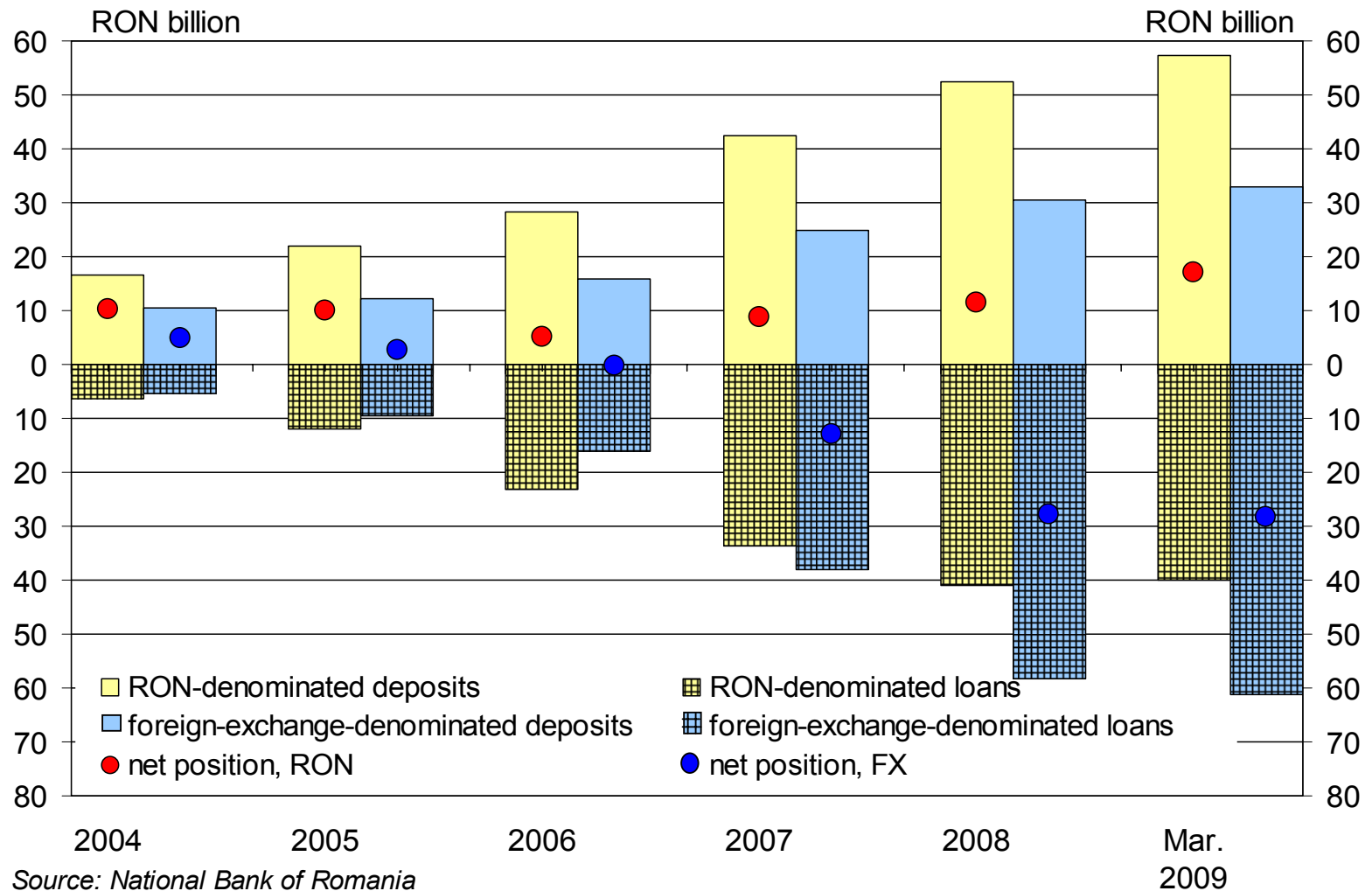


# Non-Financial Corporations' Loans and Deposits



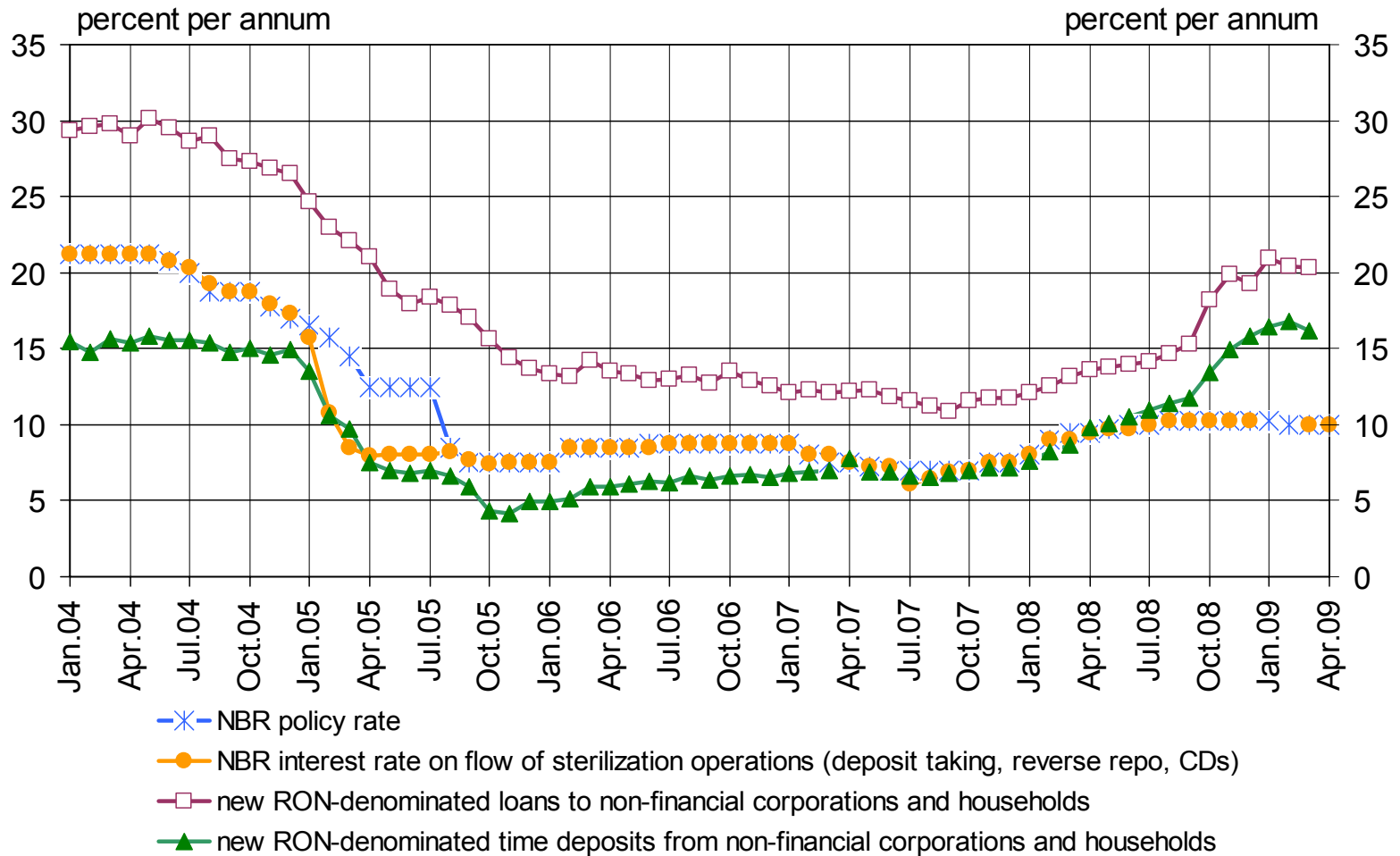
Source: National Bank of Romania

# Households' Loans and Deposits



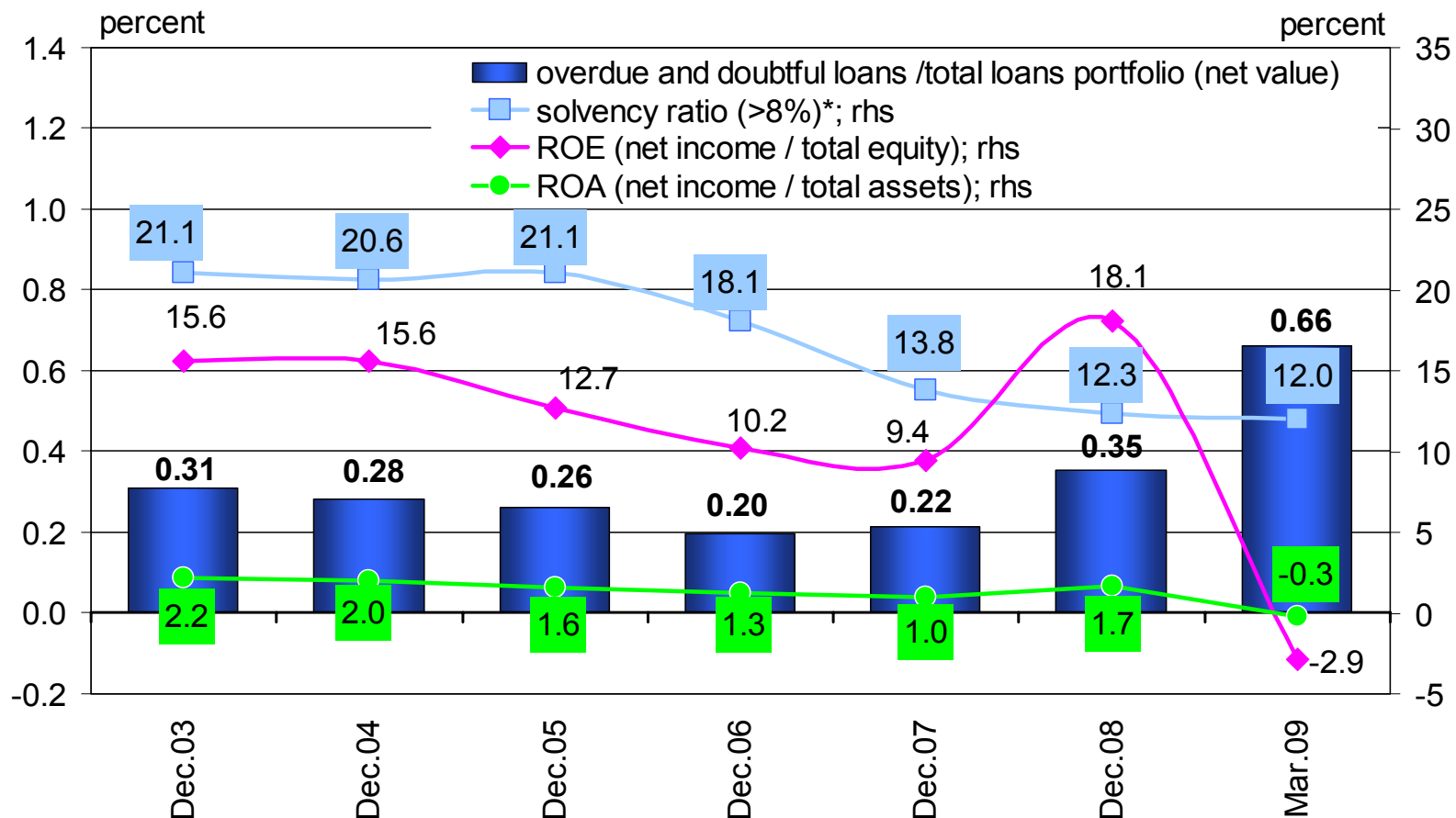


# Interest Rates in the Banking System



Source: National Bank of Romania

# Analysis Ratios for the Banking System



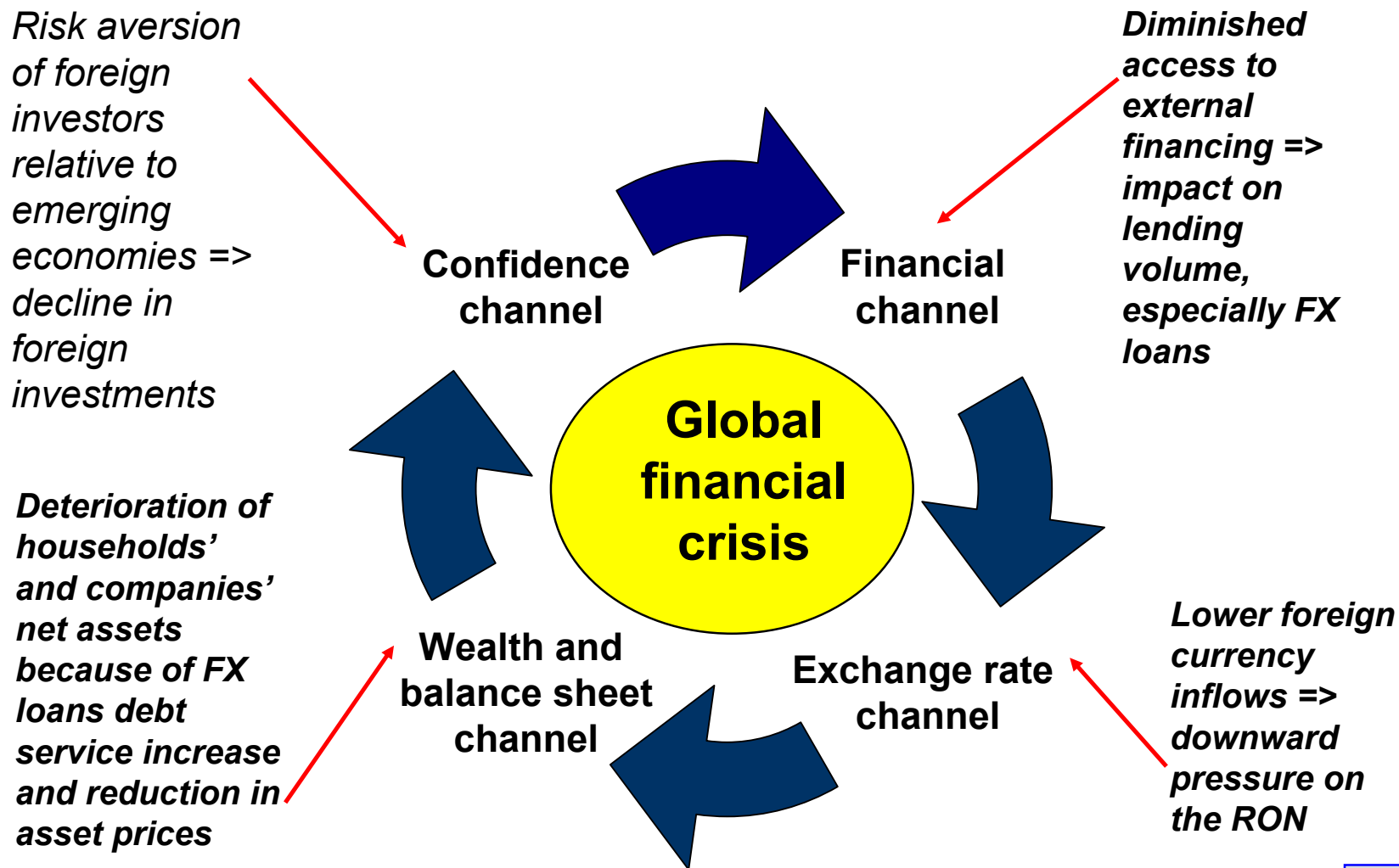
\* Starting with 2007, according to Regulation No.13/2006 and Order No.12/2007; (>12%) until end-2006.

Source: National Bank of Romania

## II. Policy response to the financial crisis

II.1. Proactive measures undertaken by the National Bank of Romania for mitigating the effects of the financial crisis

# Effects of the Global Financial Crisis on Romania from the Lending Perspective



## ***II.1. Proactive Measures by the NBR since September 2008 when the Crisis Emerged (1)***

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### **a. Liquidity management and money market functioning measures**

- ✓ Use of lending facility, FX swaps and repo operations
- ✓ Minimum reserve requirement reduction:
  - for RON-denominated liabilities from 20% to 18% => starting with Nov. 2008
  - for FX-denominated liabilities with residual maturities of over 2 years from 40% to 0% => starting with May 2008
- ✓ Amending rules for interbank interest rates

### **b. Interest rate decisions (monetary policy rate)**

- ✓ Feb. 2008 => rate cut from 10.25% to 10%
- ✓ May 2009 => rate cut from 10% to 9.5%

## ***II.1. Proactive Measures by the NBR since September 2008 when the Crisis Emerged (2)***

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### **c. Supervisory actions**

- **Liquidity:** Strengthening of bank liquidity monitoring  
Recommendations to diversify financing resources  
Request for alternative financing arrangements etc.
- **Solvency:** Strengthening of solvency monitoring  
Requests for capital increases  
Requests for maintaining solvency ratios above minimum level of 8% etc.
- **Lending:** Recommendations to reduce sectoral concentrations  
Requirements to improve banks' risk management frameworks etc.

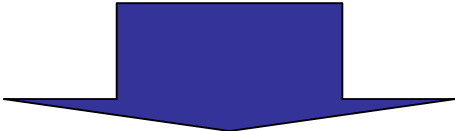
### **d. Regulatory actions**

- **Simplify mortgage lending rules** (NBR Regulation 2/2009)
- **Adapt provisioning requirements for loans overdue for more than 90 days** (NBR Regulation 3/2009)
- **Allow for interim profit to be included in own funds** (NBR/NSC Regulation 6/3/2009) etc.

## II. Policy response to the financial crisis

II.2. The IMF Stand-By Arrangement – actions for further strengthening of the financial sector

# ***Rationale for Banking System Actions***

<b>Strengths</b>	<b>Challenges</b>
<ul style="list-style-type: none"><li>➤ Banking system is sound and well capitalized</li><li>➤ The parents of the main banks operating in Romania have pledged any support necessary for their subsidiaries, committing to maintaining their global exposures to Romania and to recapitalizing subsidiaries</li></ul>	<ul style="list-style-type: none"><li>➤ The macroeconomic environment is difficult, including from the perspective of the economic downturn</li><li>➤ The global economic and financial outlook is still negative, which maintains the investors' uncertainty and risk aversion</li></ul>
 <p><b>Need for actions aimed at further strengthening the banking system</b></p>	



# ***Main Actions Part of the Stand-by Arrangement (1)***

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- I. Maintain a strong capitalization of the banking system on the medium term***
  - Banks are required to secure by 30 September 2009 sufficient resources to ensure solvency ratios above 10%
  
- II. Improve the capacity to respond in a timely and effective fashion in the event of bank distress***
  - Strengthen the special administrator's ability to deal with banks in weak financial positions
  - NBR's will be empowered to request that significant shareholders financially support the bank and to prohibit or limit profit distribution
  - Other legal amendments: simplify and strengthen the court-based proceedings for winding-up of banks

## **Main Actions Part of the Stand-by Arrangement (2)**

### **III. *Ensure the confidence in the banking system***

- RDGF will have access to government privatization receipts
- Deposit insurance payment period will be shortened to 20 working days

### **IV. *Continuously improve the supervision and regulation framework***

- Improve bank liquidity regulations
- Raise minimum level of the capital adequacy ratio from 8% to 10%
- Adopt International Financial Reporting Standards (IFRS)

### **V. *Promote some measures to ease the debt servicing by borrowers during the crisis***

- Seek an agreement with commercial banks to facilitate the restructuring of household debt contracted in foreign currency

# Main Actions Part of the Stand-by Arrangement (3)

## *“Vienna Initiative”*

- ❖ The continuing involvement of foreign banks in Romania enhances the successful implementation of the macroeconomic reform program
  
- ❖ **On March 26 in Vienna**, the parent banks of the nine largest foreign banks (from Austria, Greece, France and Italy) operating in Romania have committed to:
  - maintain their overall exposure to our country and
  - increase the capital of their subsidiaries if needed.

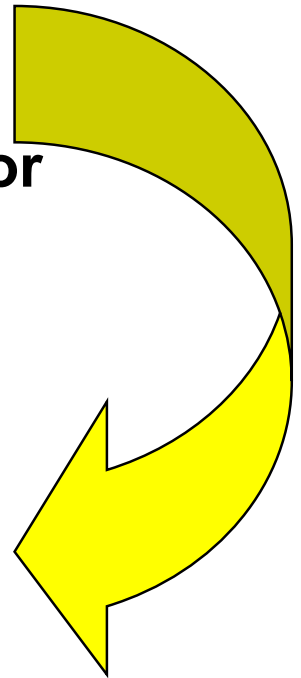
### III. The perspectives of lending

# ***Measures Already Undertaken and Those Announced Started Improving Fundamentals***

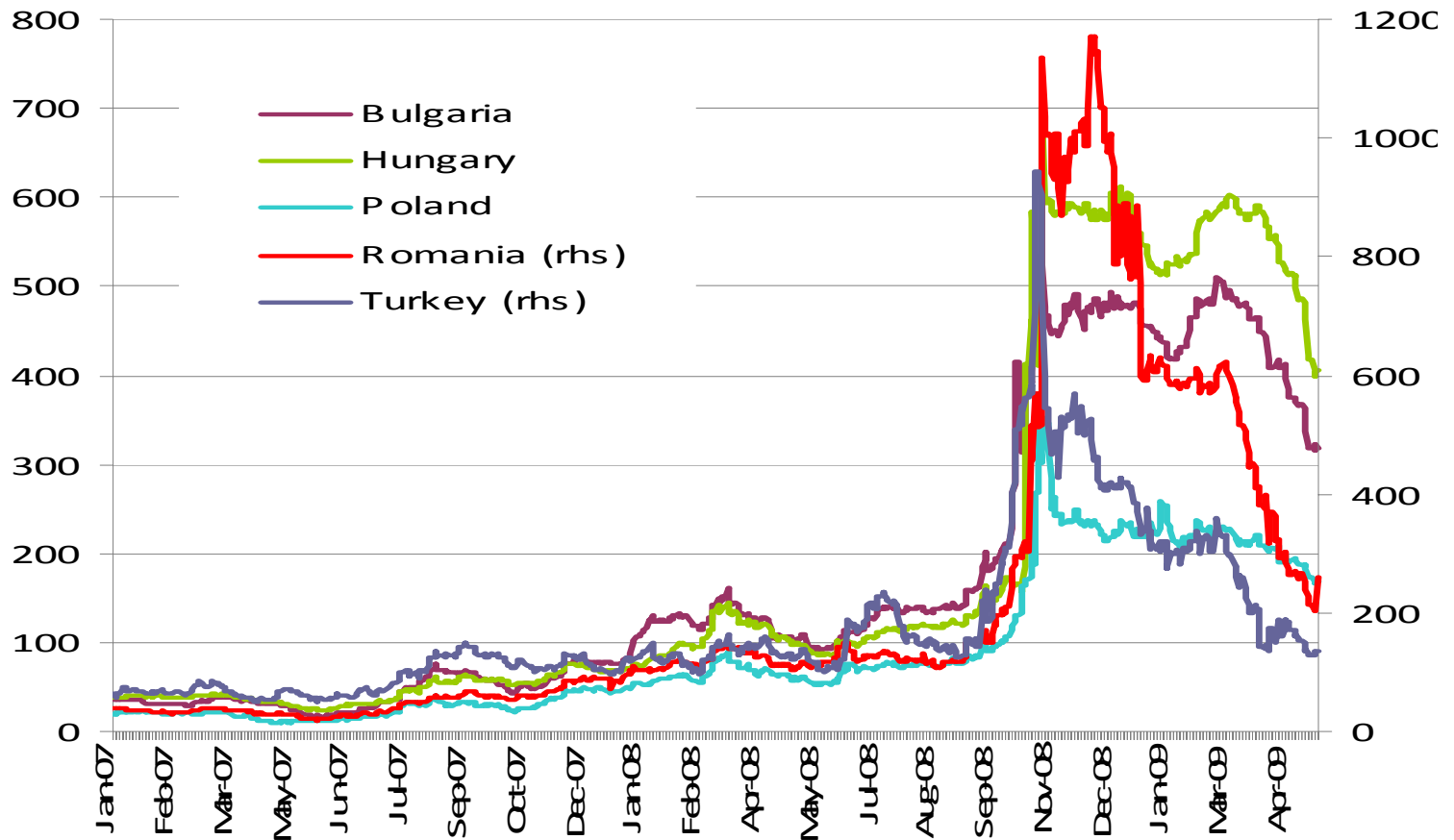
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- **Increased confidence in Romania**
- **Sound macroeconomic and financial sector policies**

**are creating strong fundamentals for  
lending revitalization**



# Confidence Effect: Spreads on Eurobonds (German Benchmark) Have Decreased Significantly



## *The Perspectives of Lending (1)*

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- ❖ **NBR is prepared to undertake further measures which will have a positive effect on bank lending, including a gradual ease of the reserve requirements if monetary and macroeconomic conditions have favorable developments**
- ❖ **The external financing from IFIs will increase the availability of funds in the economy, which will encourage lending expansion**
- ❖ **However much will depend on how the supply and the demand for loans will adjust to the new conditions**

# *The Perspectives of Lending (2)*

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## **Supply of loans**

- Bank lending will resume, although the pace of growth will be slower than that recorded previously (e.g. 2007)
- A downward adjustment is expected for deposit interest rates, which will also push down lending interest rates
- The banks will undergo a restructuring process following increasing pressure on profitability and from competitors

## **Demand for loans**

- The decreasing cost of borrowing will stimulate the demand for loans
- Any measures supportive of borrowing, such as supplementing the capacity of guaranteeing the loans will be beneficial
- Confidence will increase as economic prospects improve