
Romania: Recent Macroeconomic & Banking System Developments

Cristian Popa, CFA, Member of the Board; August 2021

The NBR's main measures since the start of the pandemic (1)

	2020					2021
	March	May	June	August	November	January
Monetary policy	<ul style="list-style-type: none"> monetary policy rate cut by 0.5 pp, to 2.0 percent the symmetrical corridor defined by interest rates on standing facilities around the key rate was narrowed to ± 0.5 pp. Thus, the deposit facility rate stood at 1.5 percent, while the lending facility rate was lowered to 2.5 percent 	<ul style="list-style-type: none"> monetary policy rate cut by 0.25 pp, to 1.75 percent the deposit facility rate was reduced to 1.25 percent and the lending facility rate to 2.25 percent 		<ul style="list-style-type: none"> monetary policy rate cut by 0.25 pp, to 1.5 percent the deposit facility rate was lowered to 1.0 percent and the lending facility rate to 2.0 percent 	<ul style="list-style-type: none"> reserve ratio on foreign currency-denominated liabilities of credit institutions cut to 5 percent from 6 percent 	<ul style="list-style-type: none"> monetary policy rate cut by 0.25 pp, to 1.25 percent the deposit facility rate cut by 0.25 pp, to 0.75 percent the lending facility rate cut by 0.25 pp, to 1.75 percent
Liquidity provision	<ul style="list-style-type: none"> repo transactions directed towards providing liquidity to credit institutions purchases of leu-denominated government securities on the secondary market 					
Repo lines	<ul style="list-style-type: none"> repo line of EUR 4.5 billion between the ECB and NBR (extended until March 2022) 					

The NBR's main measures since the start of the pandemic (2)

		2020				
		March	May	June	August	November
Bank resolution and supervision, payment systems		<ul style="list-style-type: none">measures to ensure the smooth functioning of payment and settlement systemsincreased regulatory flexibility, so that pandemic-related requests to defer loan payments benefit from special treatmentallowed credit institutions to use the previously built capital buffers and not to comply with the minimum liquidity ratio (as long as no dividends are payed)postponed the deadline for collecting contributions to the bank resolution fund and delay the reporting deadlinesallowed the non-bank financial lenders entered in the Special Register not to temporarily comply with credit exposure limits			<ul style="list-style-type: none">implementation of the NCMO recommendation on restriction of dividend distributions during the COVID-19 pandemic, in line with the ESRB recommendation	
	NBRs own operations		<ul style="list-style-type: none">Significant HR, IT, OPS adjustments/response<ul style="list-style-type: none">Similar to corporate approach<ul style="list-style-type: none">Digitalization initiativeIntroduced WFH, up to 70% of staff during lockdown, 30-40% on an ongoing basis			

Recent macroeconomic developments

□ CPI inflation:

✓ Annual rate:

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

+2.06% (Dec. 2020/~~Dec.~~ Dec. 2019)

+4.95% (Jul. 2021/~~Jul.~~ Jul. 2020)

✓ Average annual rate:

+3.8% in 2019

+2.6% in 2020

+3.1% in (Aug. 2020 – Jul. 2021)/(Aug. 2019 – Jul. 2020)

□ GDP growth:

2019: +4.1%

2020: -3.9%

2021 H1/2020 H1: +6.5% (flash estimate)

□ Current account deficit:

2019: EUR 10,912 mn., up 14.9% yoy; 4.9% of GDP; 70.6% covered by FDI and capital account

2020: EUR 11,422 mn., up 4.7% yoy; 5.2% of GDP; 52.8% covered by FDI and capital account?

Jan.-Jun.2021: EUR 7,040 mn., up 73.5% yoy; 64% covered by FDI and capital account?

Recent macroeconomic developments (2)

❑ Foreign Direct Investment:

2019: EUR 4,849 mn., down 1.9% yoy

2020: EUR 1,856 mn., down 61.7% yoy

Jan.-Jun. 2021: EUR 3,114.1 mn., up 217.7% yoy

❑ Fiscal balance (ESA2010 Methodology):

2018: -2.9% of GDP

2019: -4.4% of GDP

2020: -9.2% of GDP

❑ International reserves (including gold):

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

2020: EUR 42.5 bn.; forex reserves EUR 37.4 bn.

July 2021: EUR 44.1 bn.; forex reserves EUR 39.0 bn.

(the latter covering 5.3 months of prospective goods-and-services imports)

❑ Financial intermediation:

2018: 26.4% of GDP

2019: 25.3% of GDP

2020: 26.8% of GDP

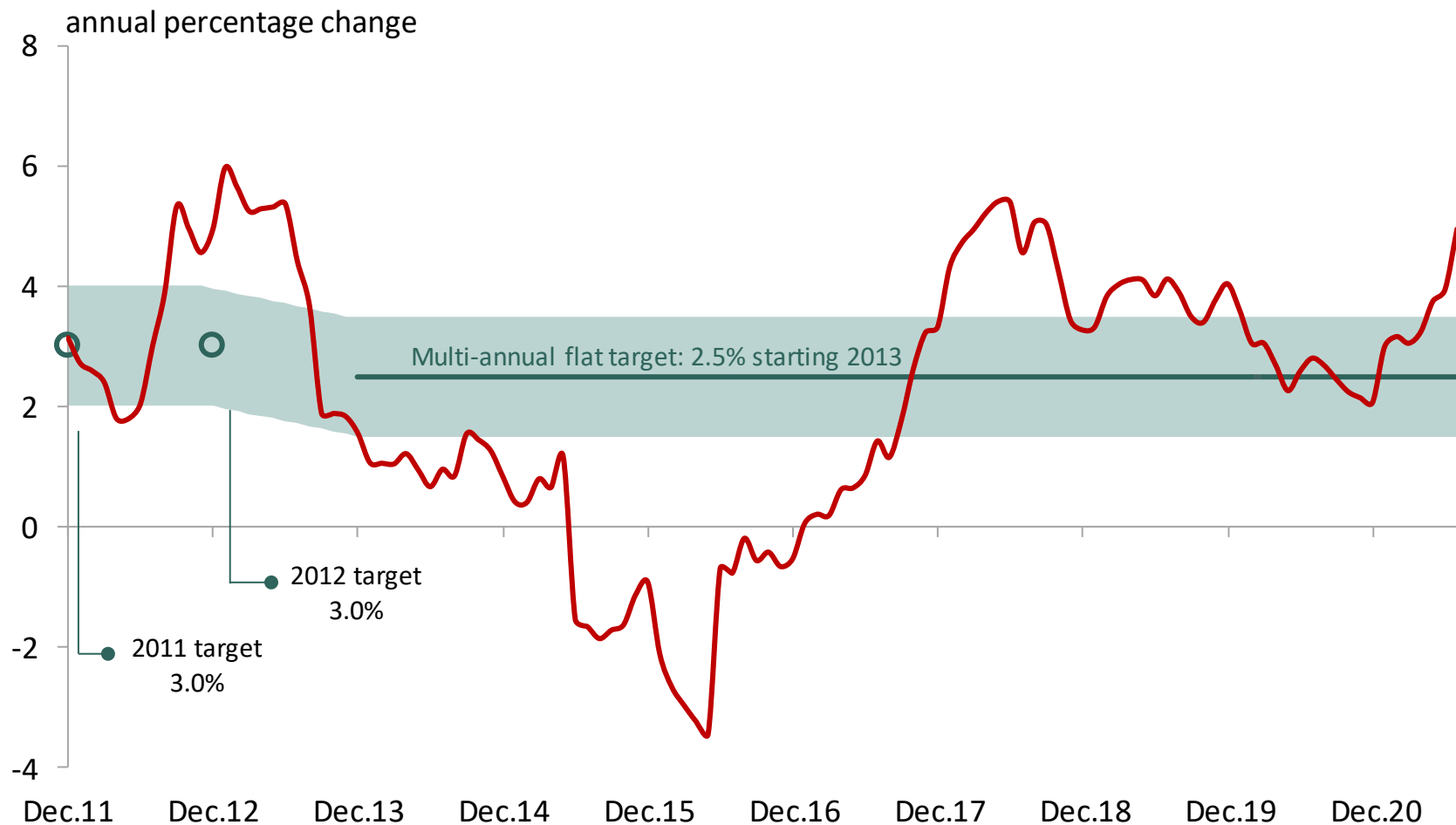
❑ Real growth of loans to the private sector:

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

2020/2019: 3.4% (RON: 6.3%; foreign currency: -2.6%)

Jun. 2021/Jun. 2020: 7.0% (RON: 12.2%; foreign currency: -4.0%)

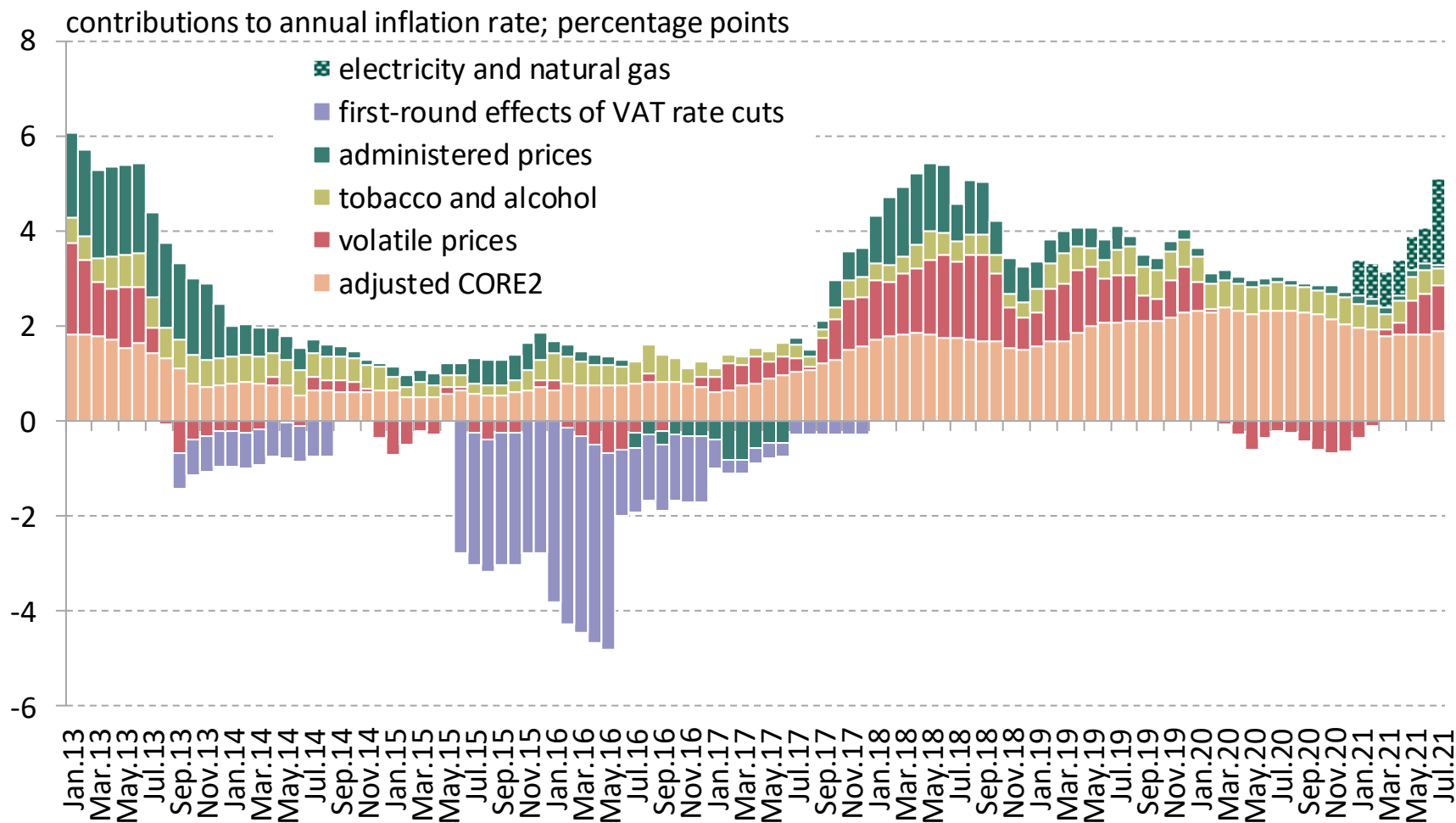
Inflation rate



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

Source: National Institute of Statistics, National Bank of Romania

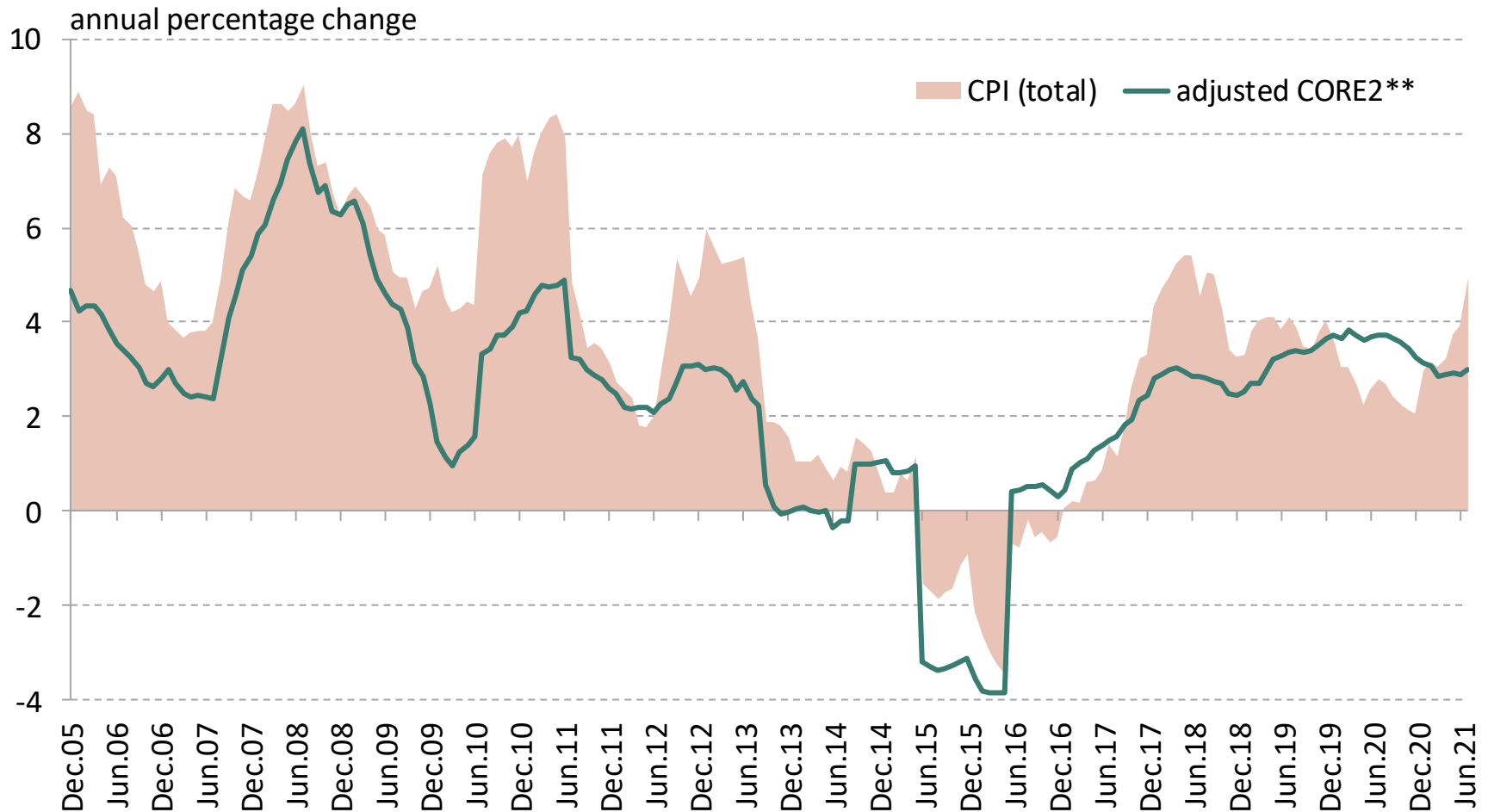
Contributions to annual inflation rate



Note: Starting with January 2021, prices of natural gas and electricity are no longer administered.

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

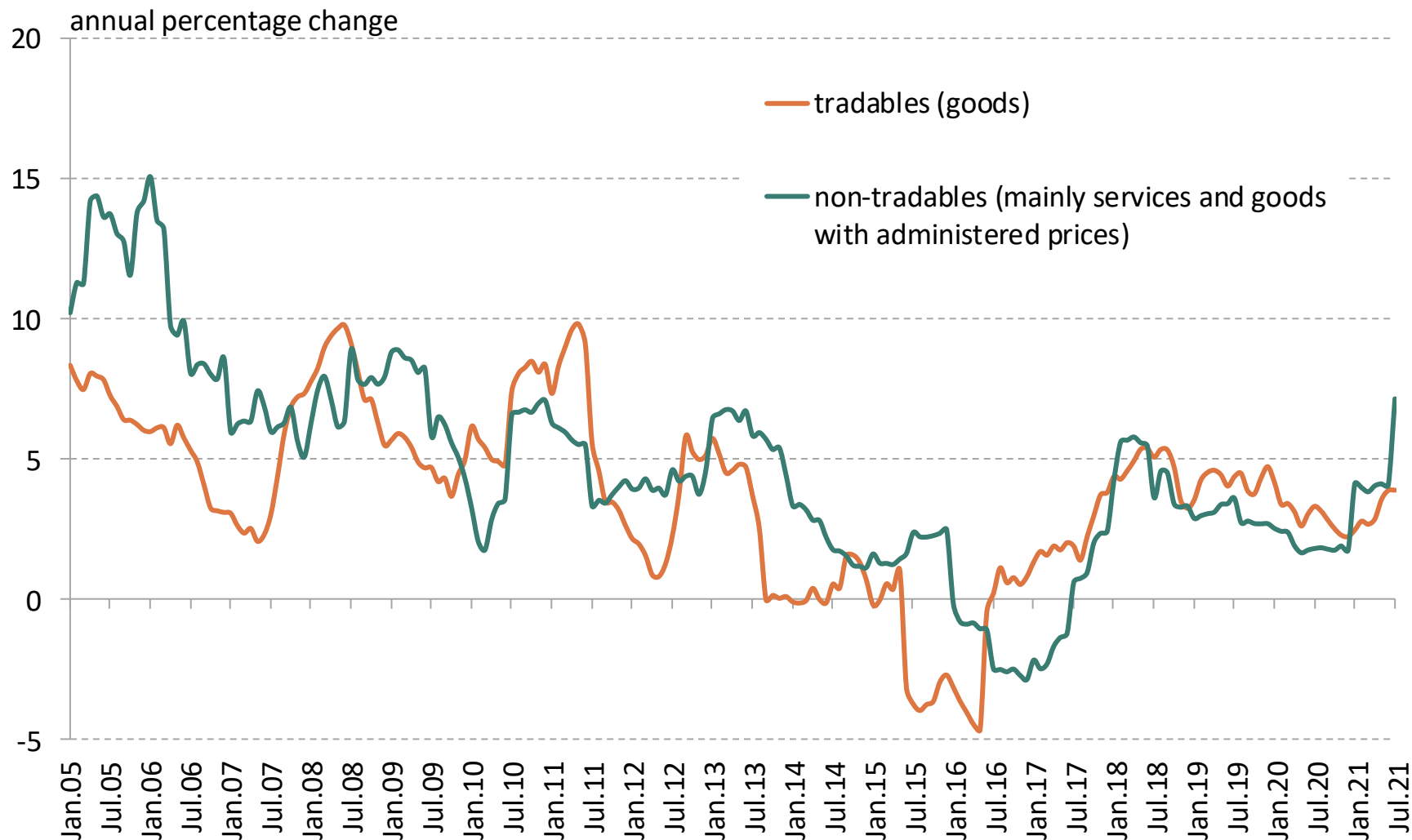
Headline inflation and CORE inflation



*) structure similar to that prior to the energy market liberalisation

Source: National Institute of Statistics

Tradables and non-tradables prices



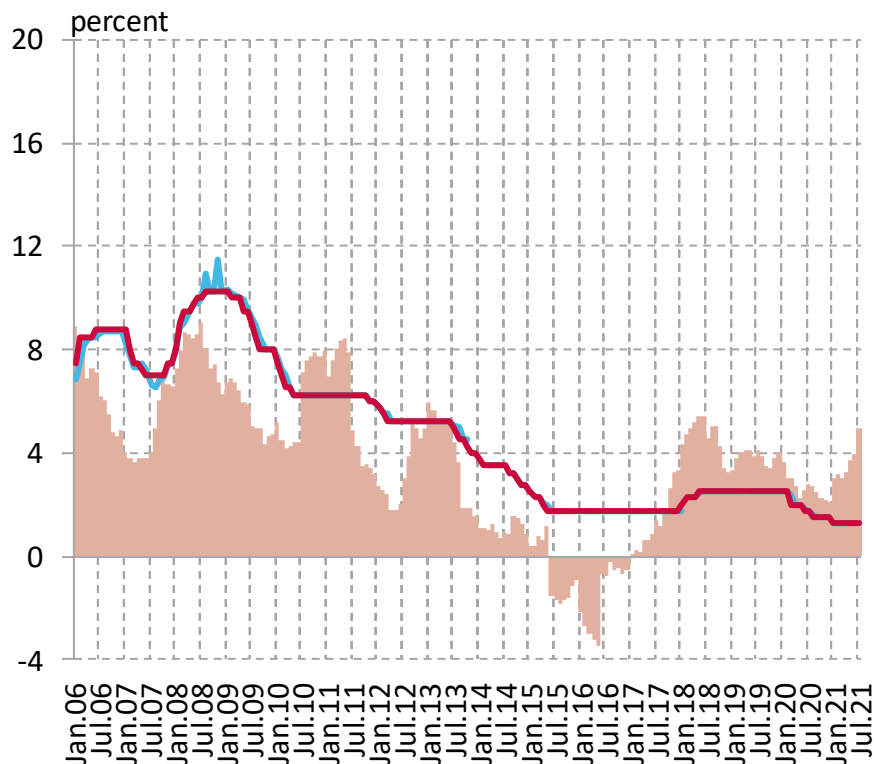
Source: National Institute of Statistics, National Bank of Romania calculations

Decisions of the NBR Board*

- ❑ To keep the monetary policy rate at 1.25 percent per annum
- ❑ To leave unchanged the deposit facility rate at 0.75 percent per annum and the lending (Lombard) facility rate at 1.75 percent per annum
- ❑ To maintain the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions

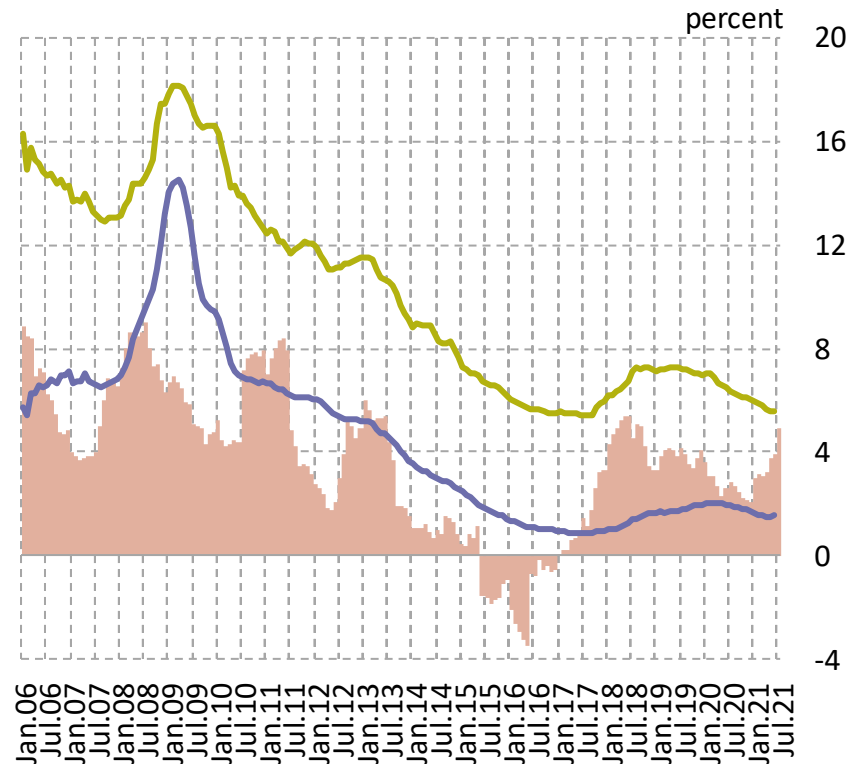
*) meeting of 6 August 2021

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.)

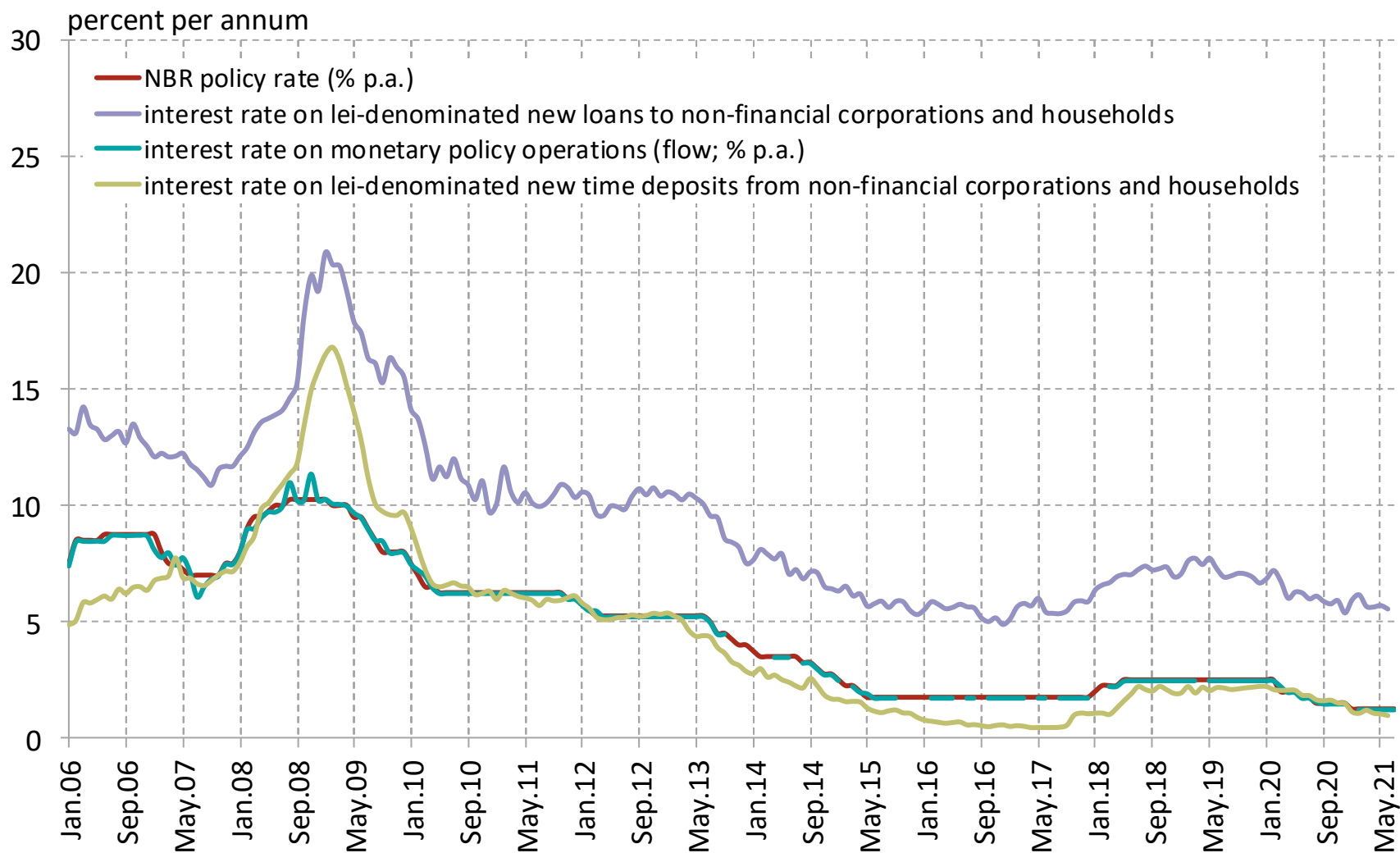
NBR policy rate: 1.25% starting with January 18, 2021



- 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.)

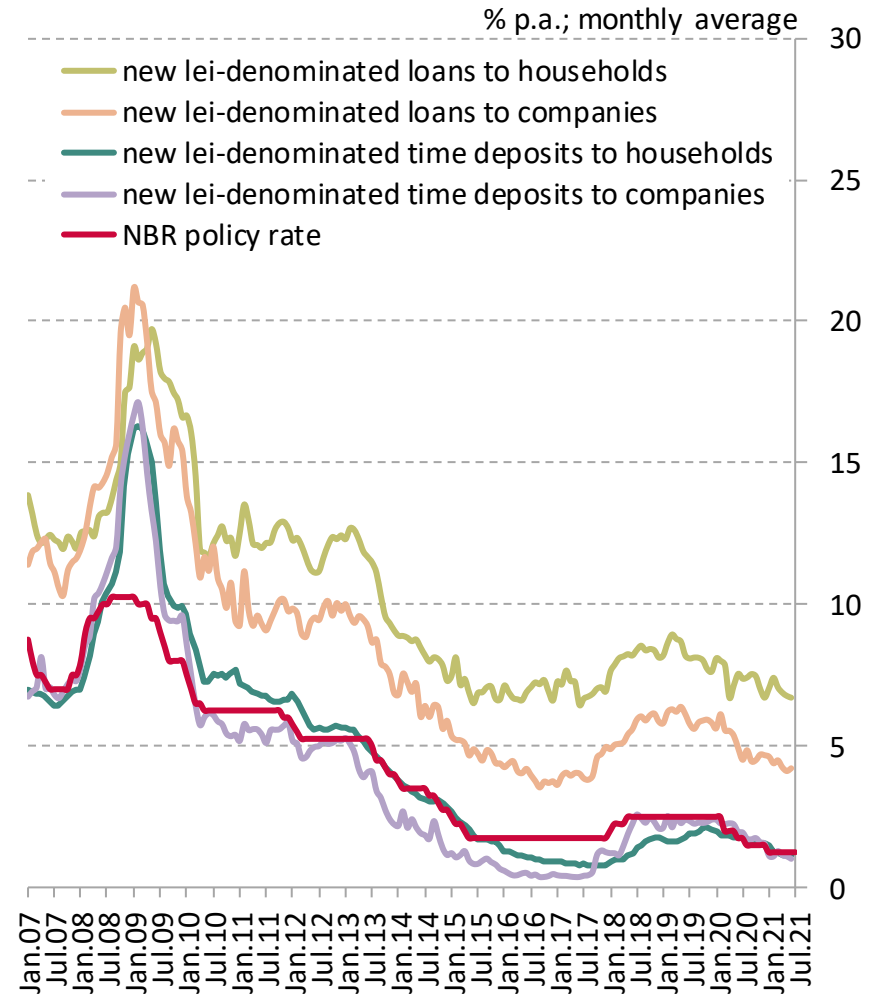
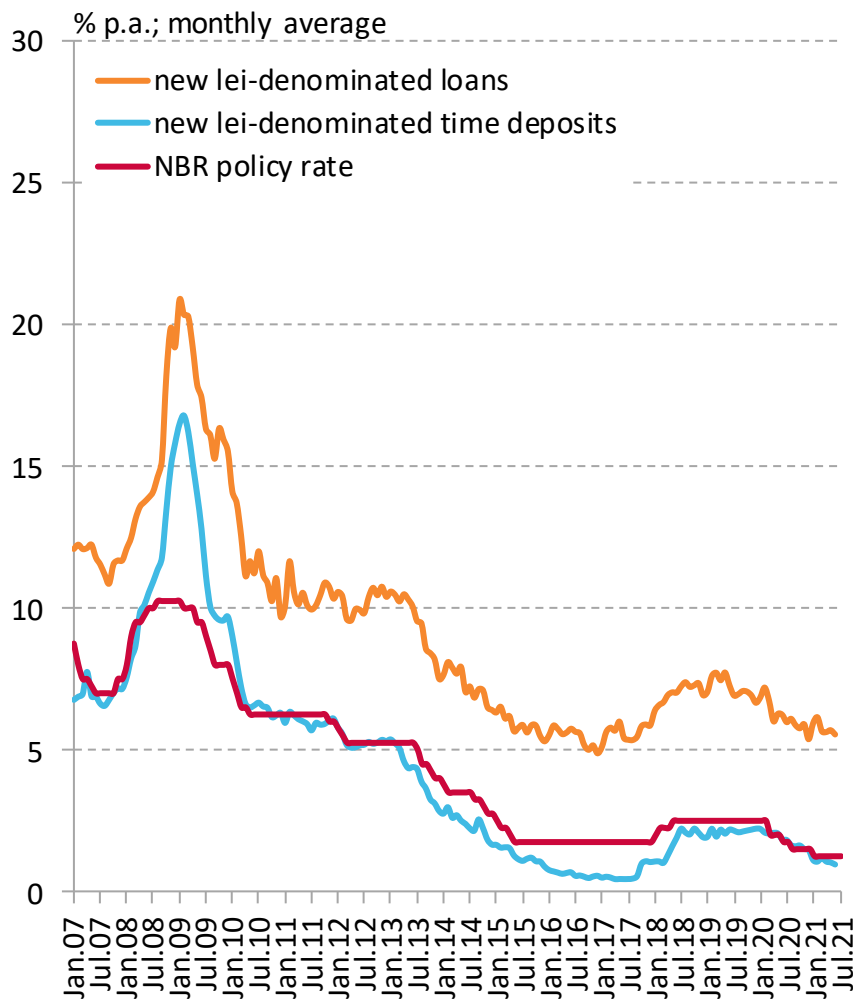
Source: National Institute of Statistics, National Bank of Romania

Interest rates in the banking system



Source: National Bank of Romania

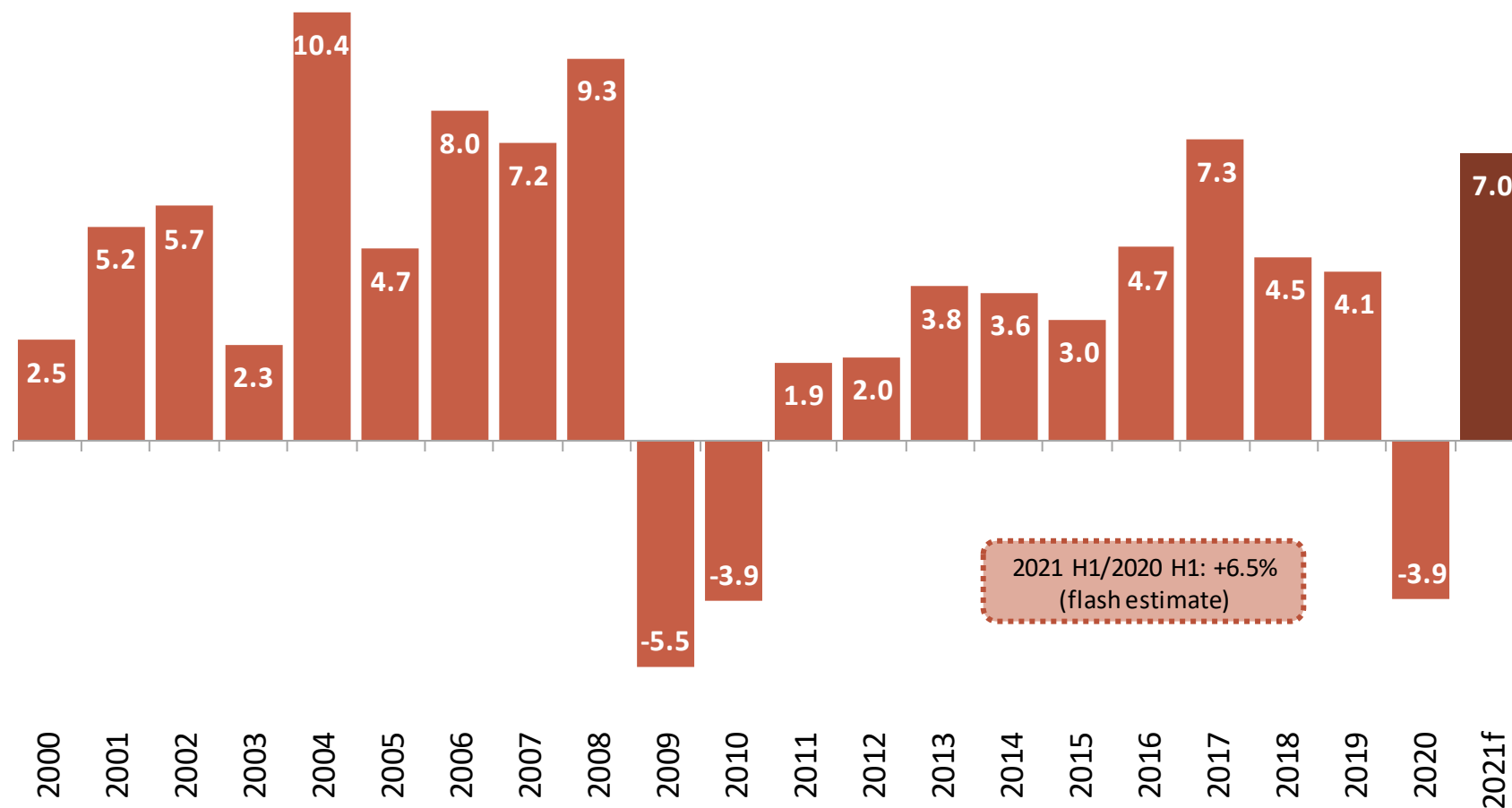
Policy rate and bank interest rates to non-bank clients



Source: National Bank of Romania

Real GDP

annual percentage change; gross data



f) forecast

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

GDP - Gross domestic product

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$$

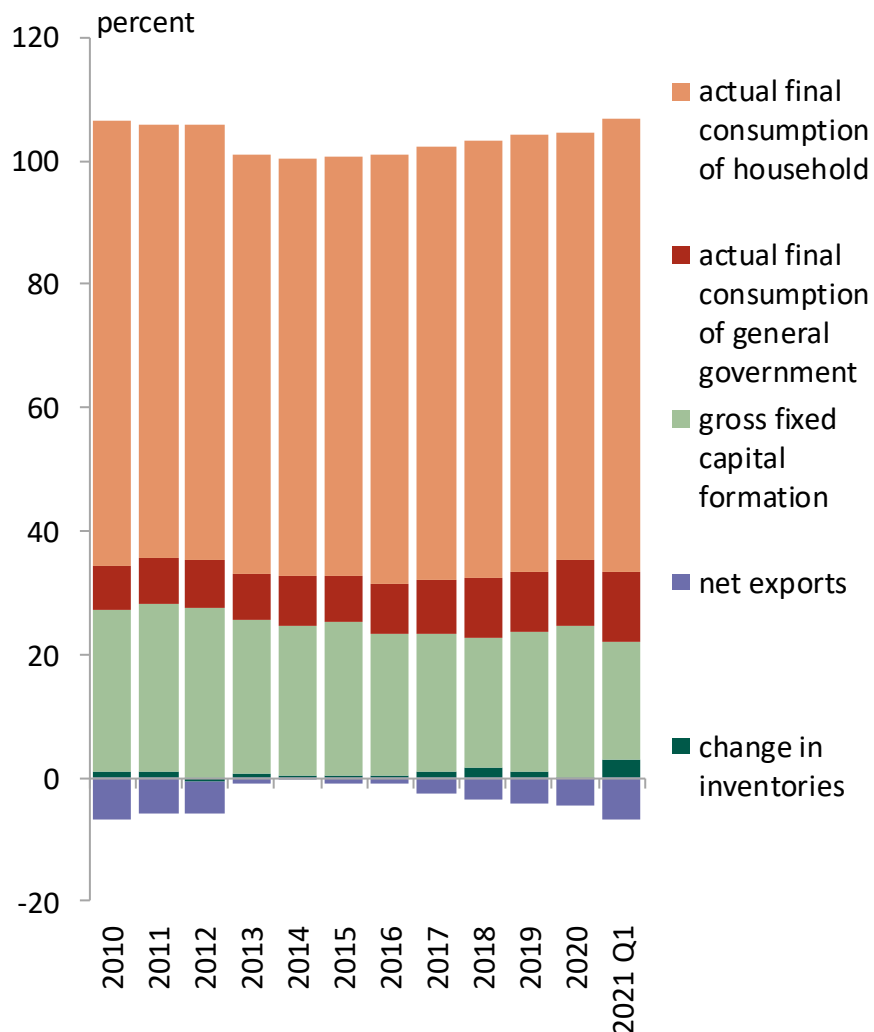
or more succinctly as

$$\text{GDP} = C + I + G + \text{NX}$$

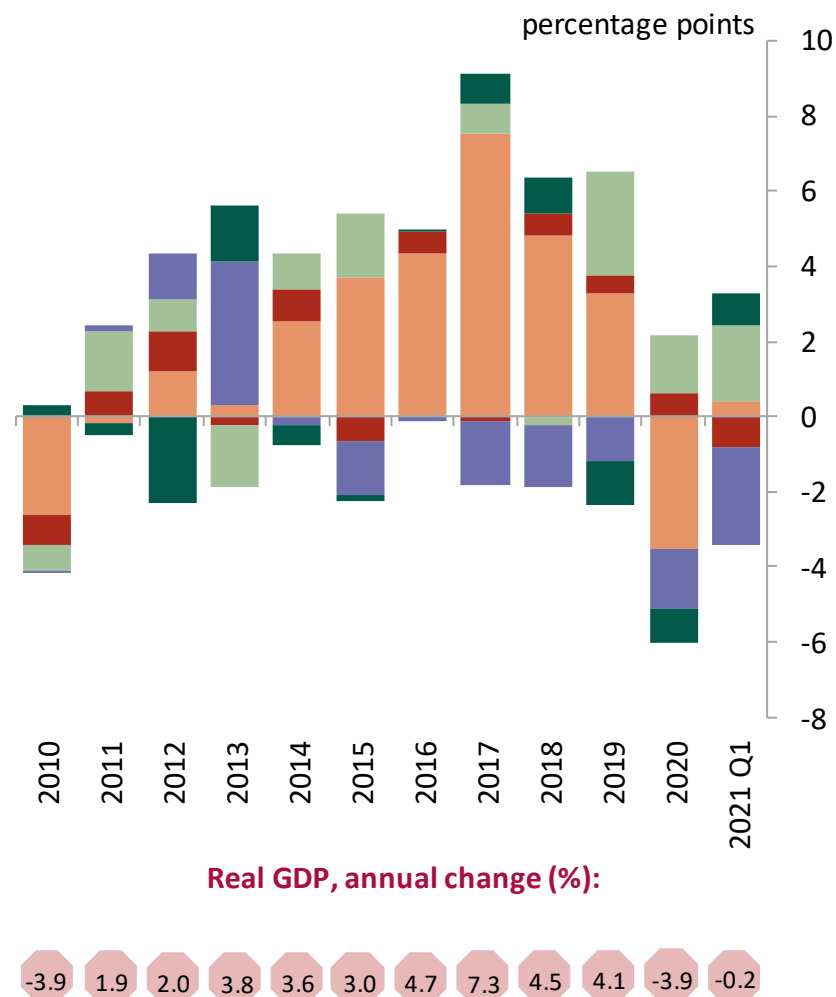
where consumption (C) represents private-consumption expenditures by households and nonprofit organizations, investment (I) refers to business expenditures by businesses and home purchases by households, government spending (G) denotes expenditures on goods and services by the government, and net exports (NX) represents a nation's exports minus its imports.

The expenditure approach is so called because all three variables on the right-hand side of the equation denote expenditures by different groups in the economy. The idea behind the expenditure approach is that the output that is produced in an economy has to be consumed by final users, which are either households, businesses, or the government. Therefore, the sum of all the expenditures by these different groups should equal total output—i.e., GDP.

GDP structure by expenditure

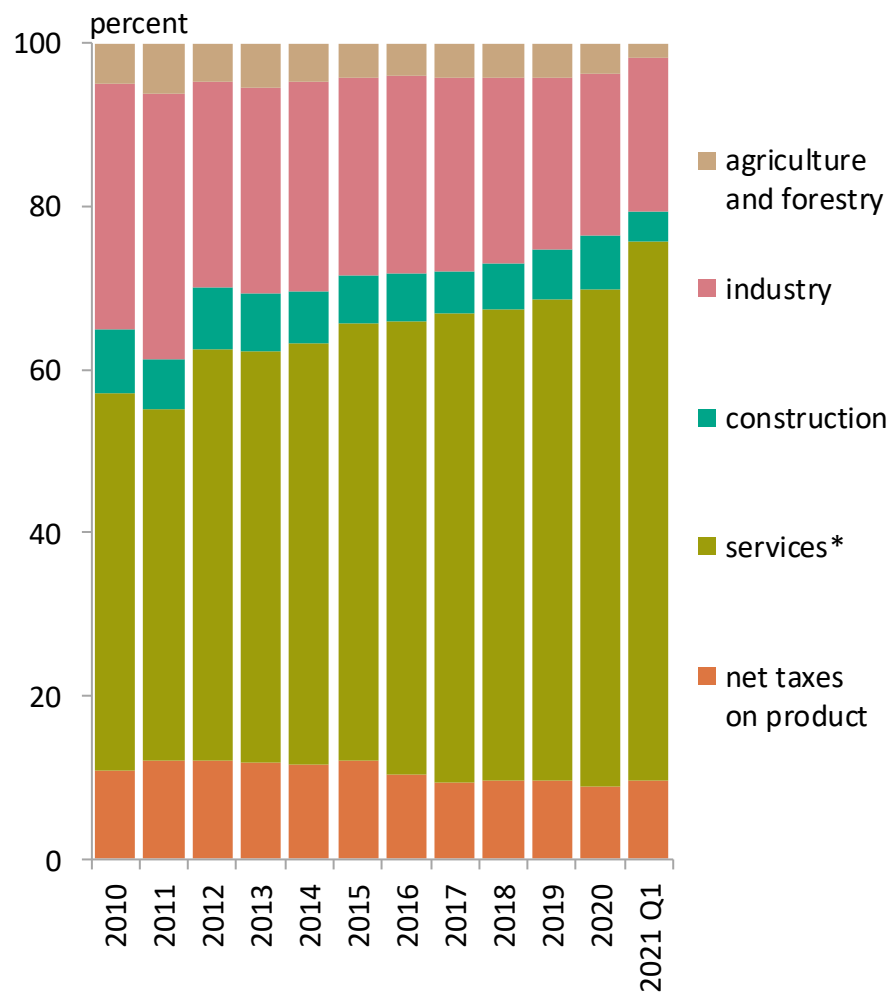


Contribution of demand components to GDP annual growth



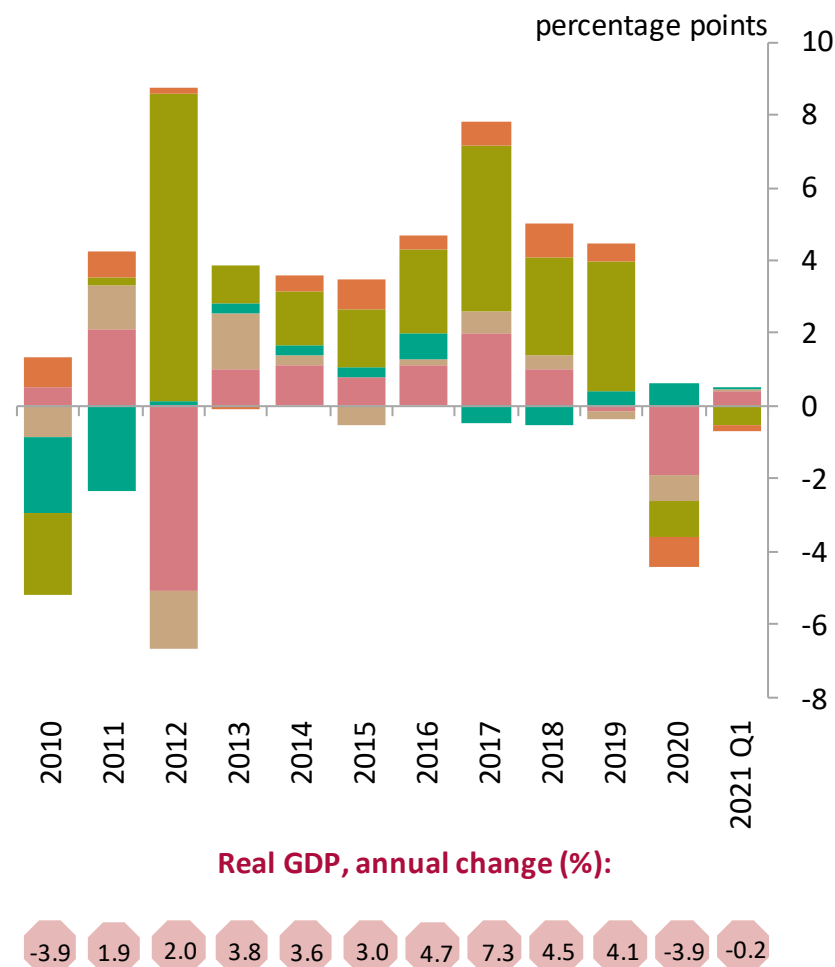
Source: National Institute of Statistics, National Bank of Romania

GDP structure by source



*) calculations based on NIS data

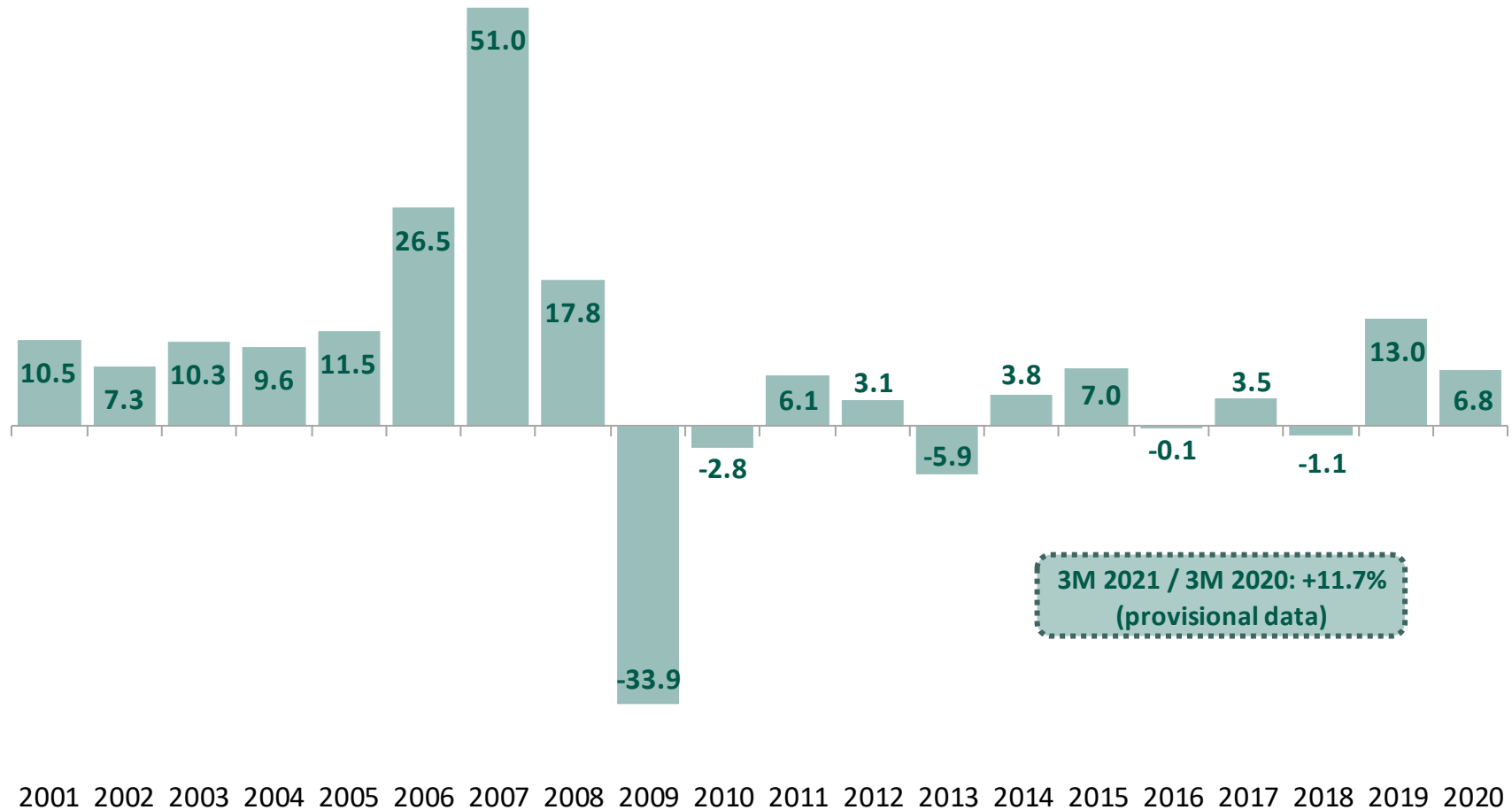
Contribution of supply components to GDP annual growth



Source: National Institute of Statistics, National Bank of Romania

Gross fixed capital formation (GDP component)

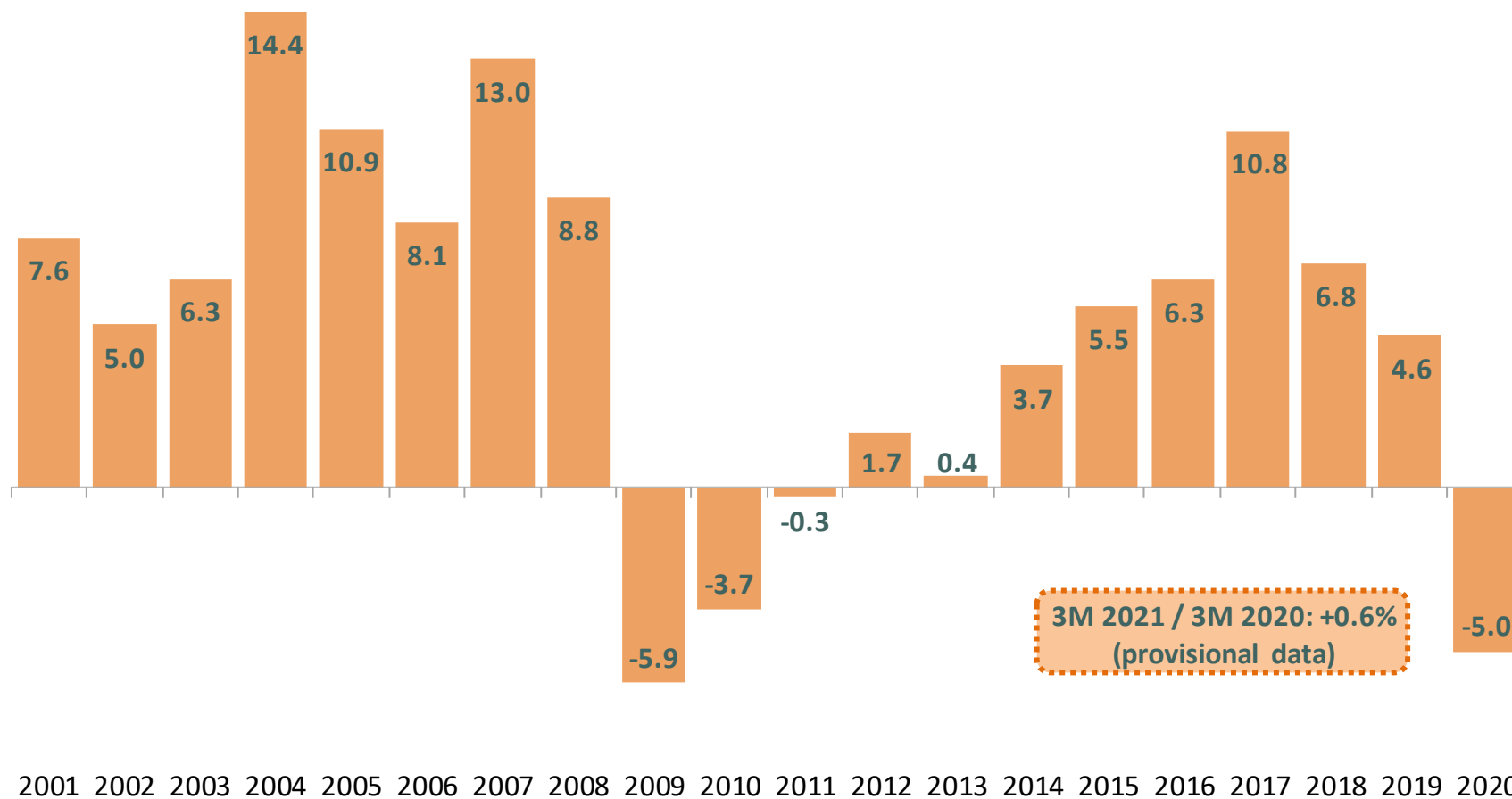
annual percentage change; gross data



Source: National Institute of Statistics

Final private consumption (GDP component)

annual percentage change; gross data



Source: National Institute of Statistics

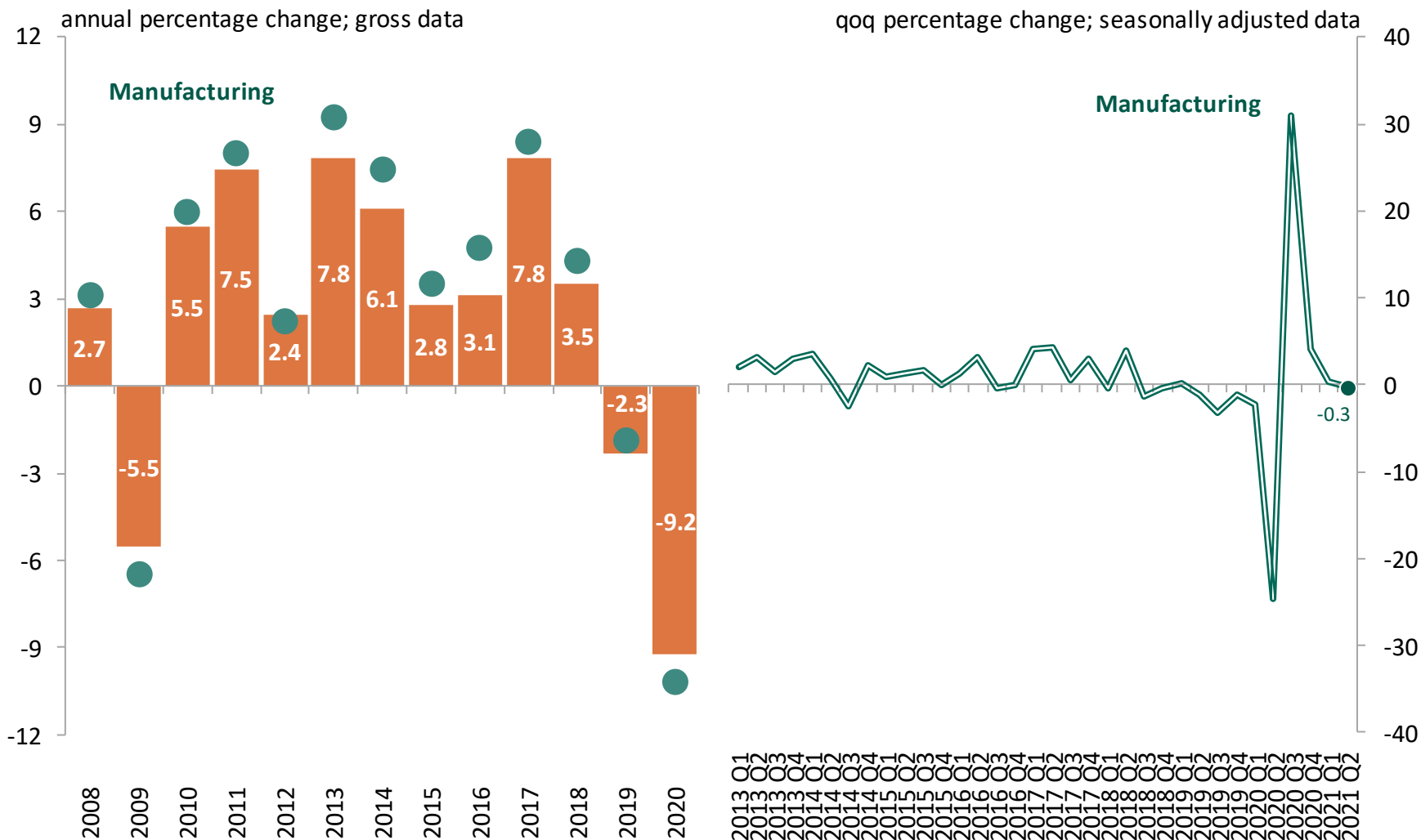
Government consumption (GDP component)

annual percentage change; gross data



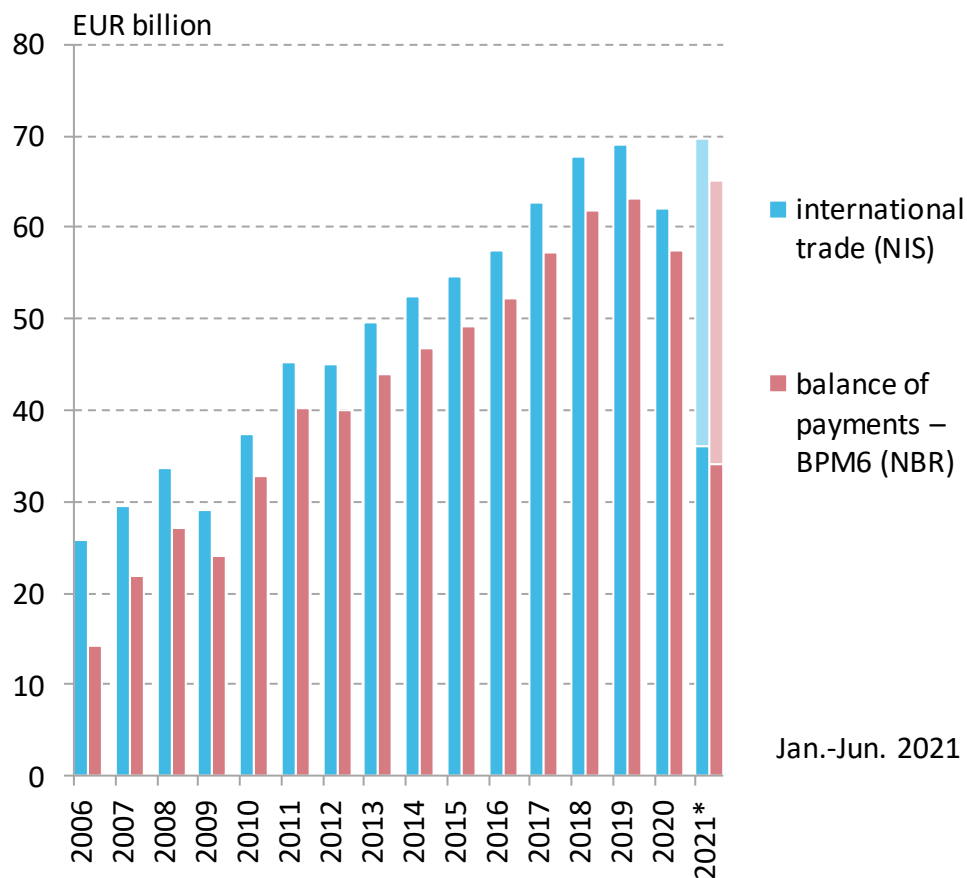
Source: National Institute of Statistics

Industrial output

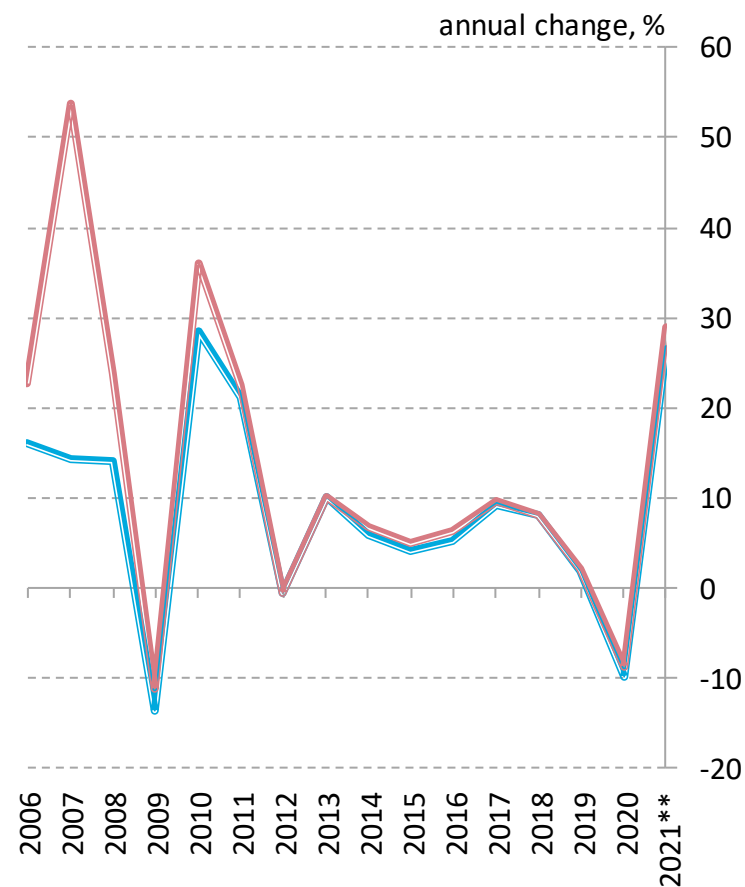


Source: National Institute of Statistics

Exports of goods



*) 12-month rolling window

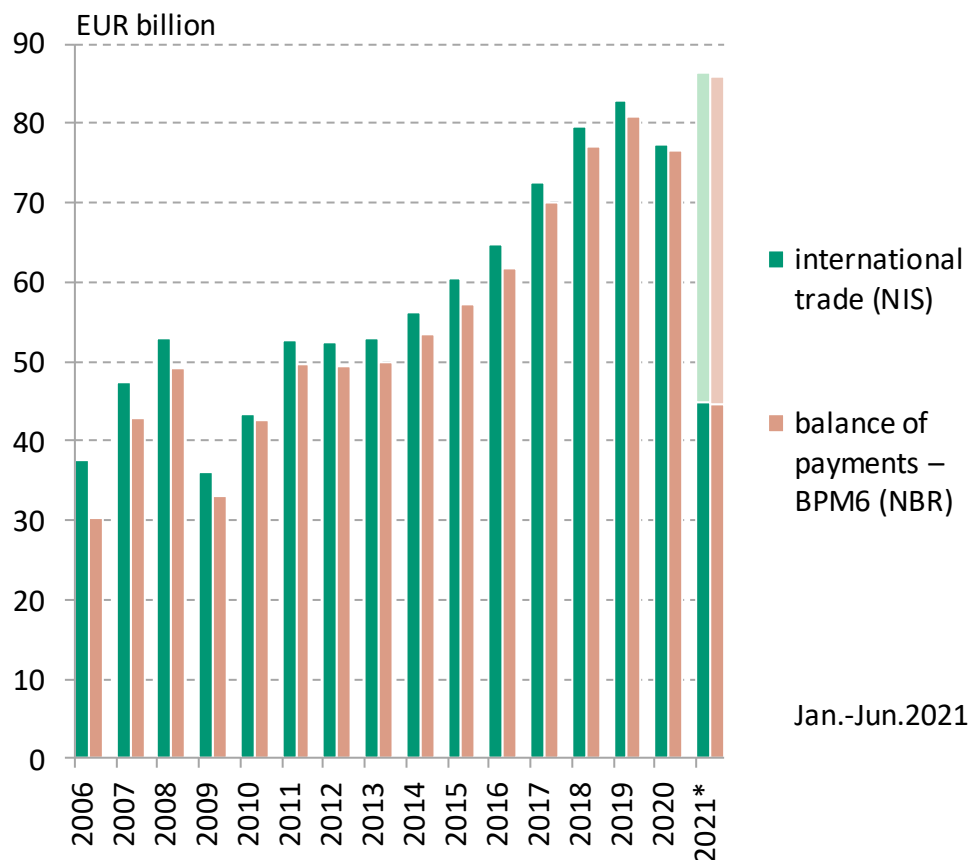


**) January-June

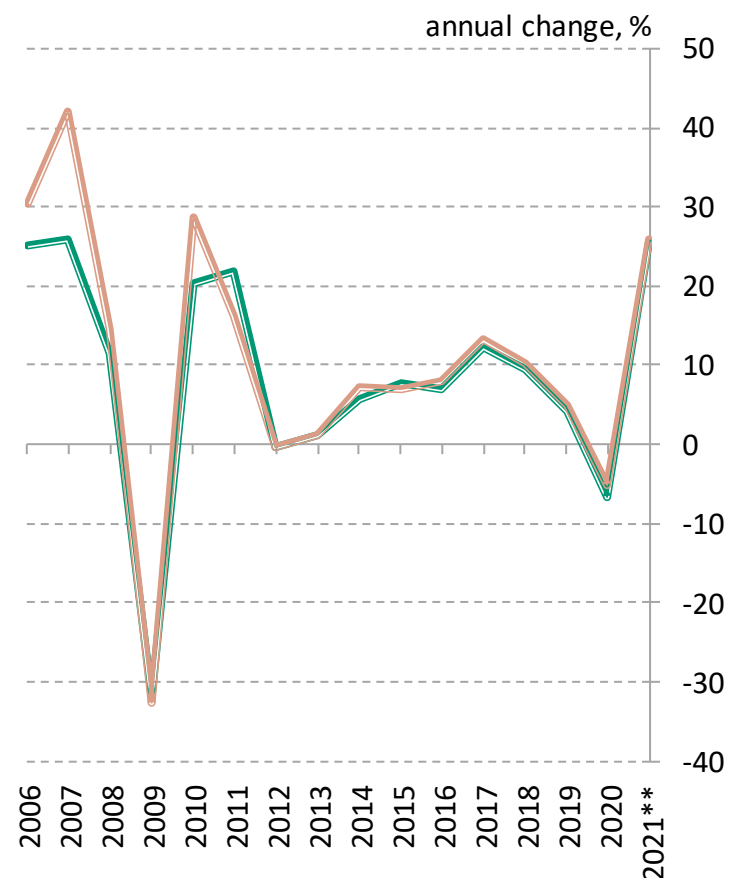
Note: The main difference between the two methodologies comes from the item manufacturing services on physical inputs owned by others which have been reclassified from Goods to Services according to BPM6.

Source: National Institute of Statistics, National Bank of Romania

Imports of goods (fob)



*) 12-month rolling window



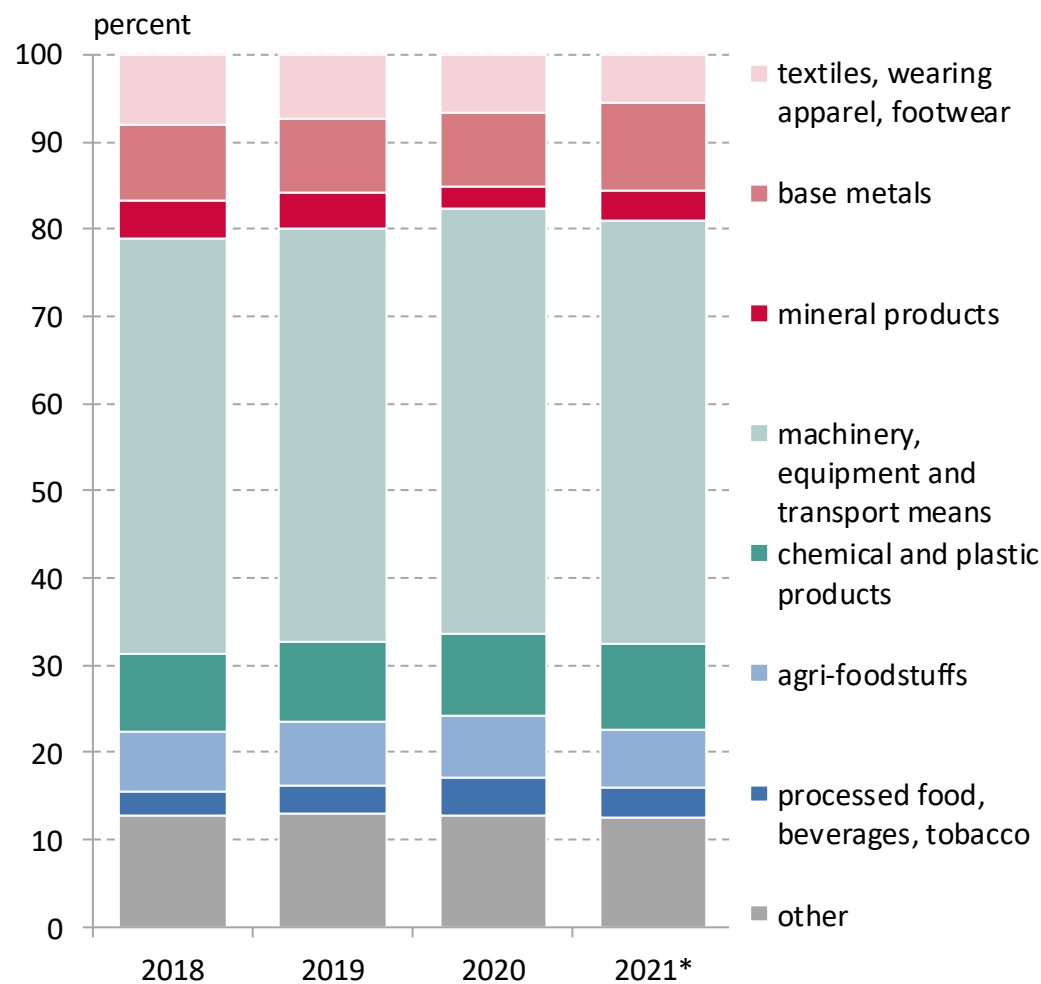
**) January-June

Note: The main difference between the two methodologies comes from the item manufacturing services on physical inputs owned by others which have been reclassified from Goods to Services according to BPM6.

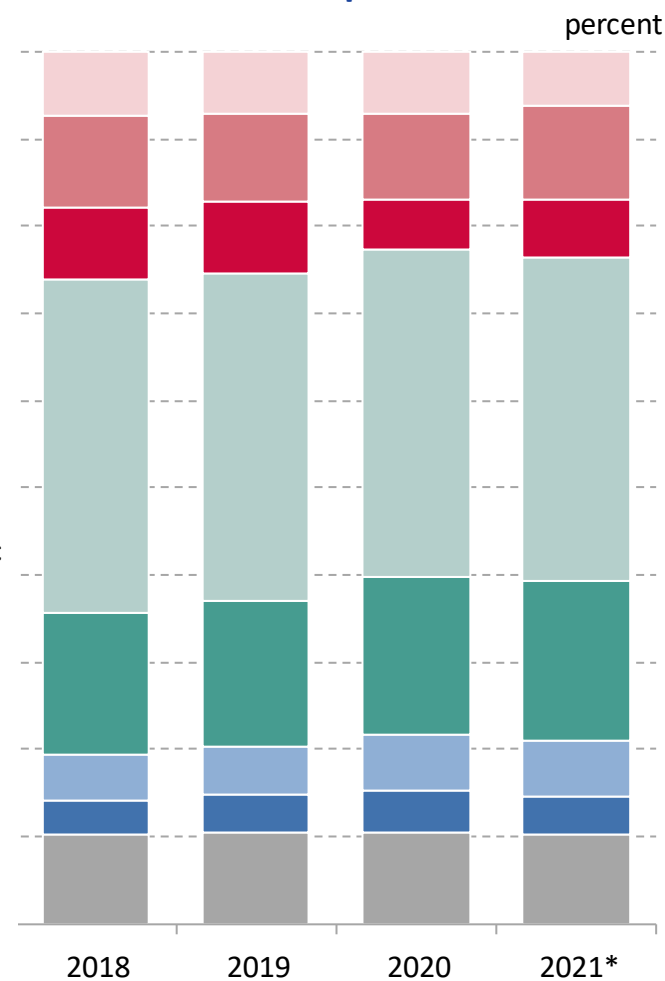
Source: National Institute of Statistics, National Bank of Romania

Foreign trade by group of goods

Exports



Imports



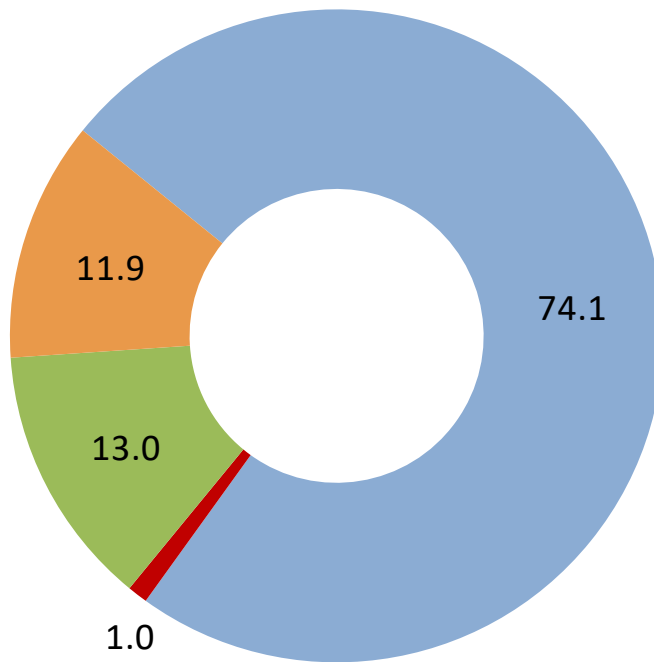
*) January-May 2021

Source: National Institute of Statistics

Foreign trade by group of countries*

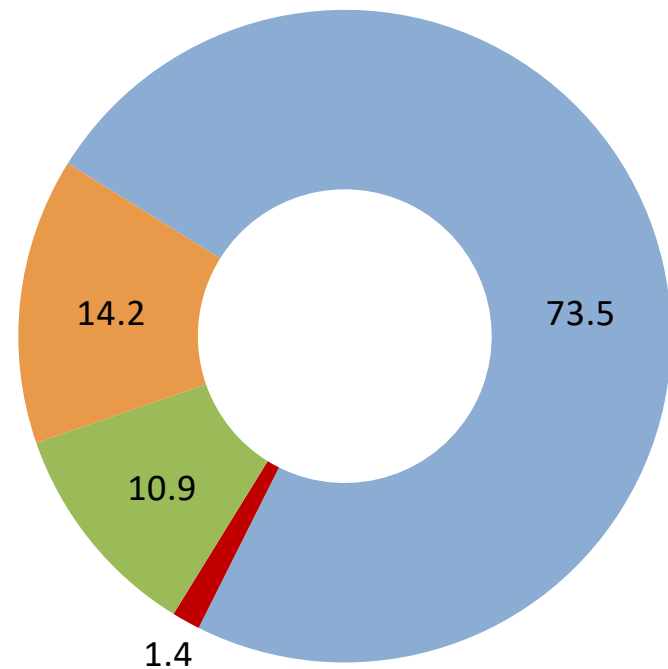
Exports

percent



Imports

percent



■ EU

■ EFTA

■ other European countries

■ other countries

*) January-May 2021

Source: National Institute of Statistics

Current account - basics

What Is Current Account?

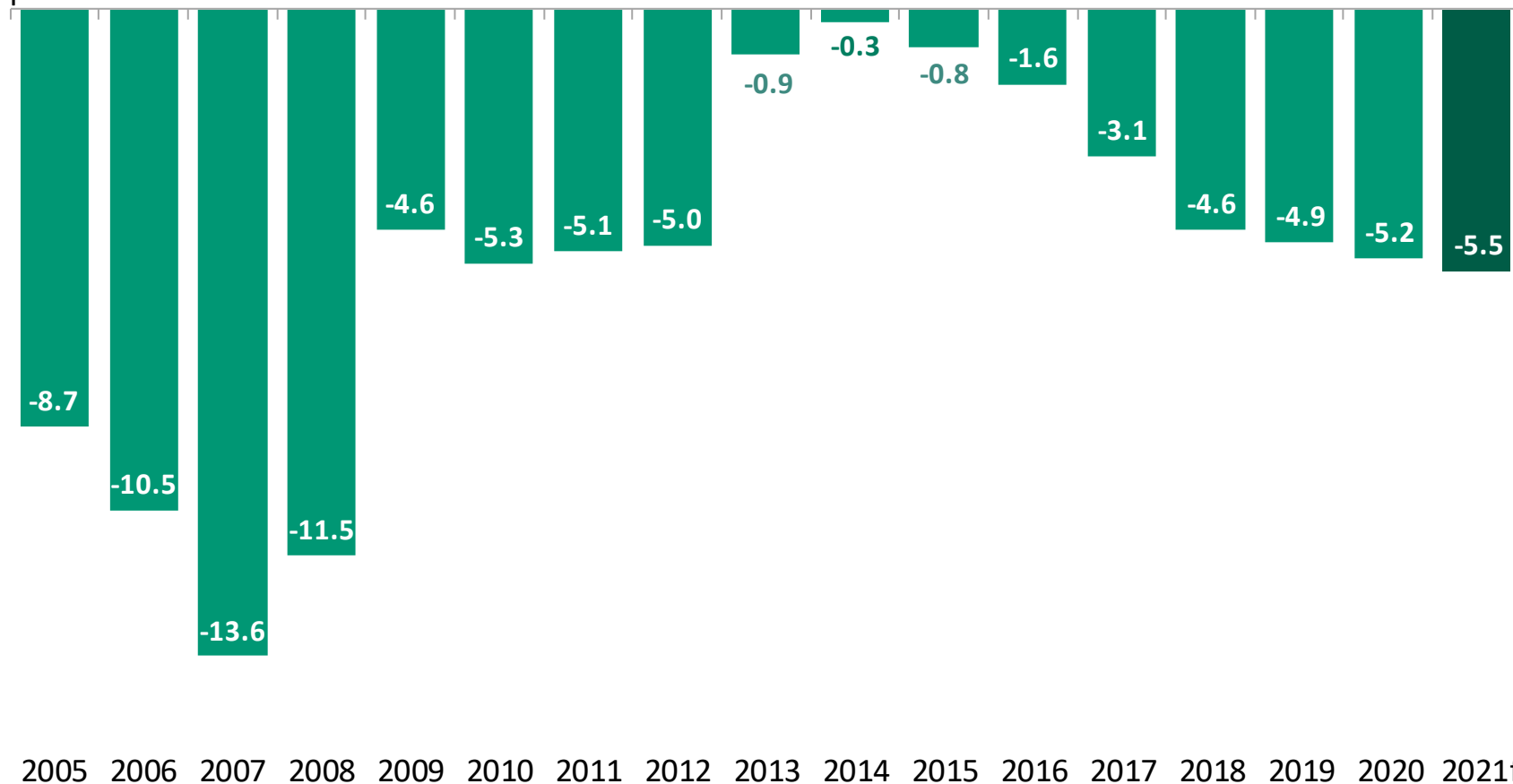
The current account records a nation's transactions with the rest of the world—specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments—over a defined period of time, such as a year or a quarter. According to Trading Economics, the [quarter two 2019 current account](#) of the United States was \$-128.2 billion. ^[1]

KEY TAKEAWAYS

- The current account represents a country's imports and exports of goods and services, payments made to foreign investors, and transfers such as foreign aid.
- The current account may be positive (a surplus) or negative (a deficit); positive means the country is a net exporter and negative means it is a net importer of goods and services.
- A country's current account balance, whether positive or negative, will be equal but opposite to its capital account balance.
- The United States has a significant deficit in its current account.

Current account balance

percent of GDP



f) forecast

Note: The current account posted a deficit of EUR 7,039.9 mn. in Jan.-Jun. 2021 against a deficit of EUR 4,058.6 mn. in Jan.-Jun. 2020.

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

Capital Account - basics

What Is a Capital Account?

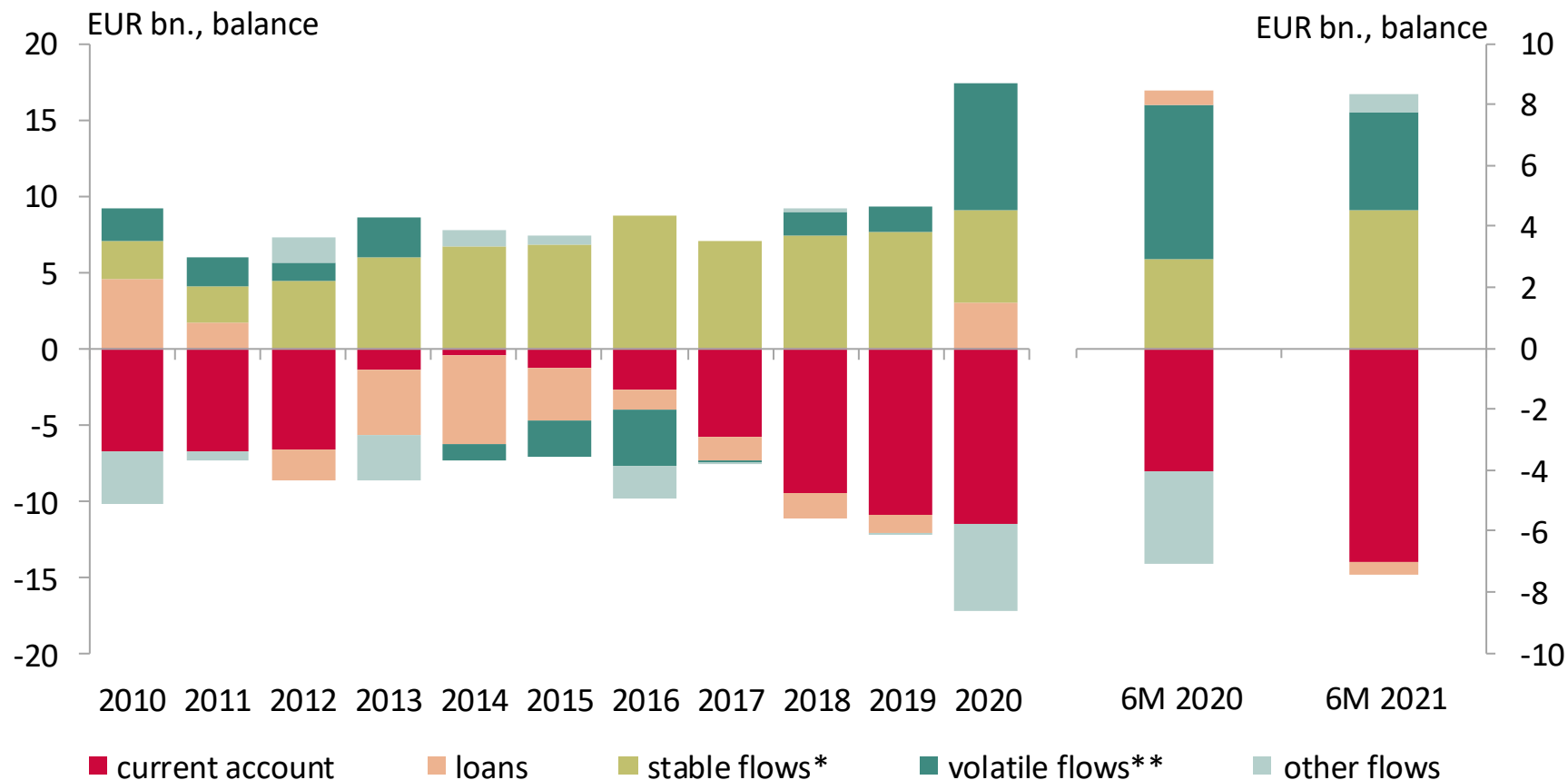
The capital account, in international [macroeconomics](#), is the part of the balance of payments which records all transactions made between entities in one country with entities in the rest of the world. These transactions consist of imports and exports of goods, services, [capital](#), and as transfer payments such as foreign aid and remittances. The balance of payments is composed of a capital account and a [current account](#)—though a narrower definition breaks down the capital account into a financial account and a capital account. The capital account measures the changes in national ownership of assets, whereas the current account measures the country's net income.

In accounting, the capital account shows the net worth of a business at a specific point in time. It is also known as owner's equity for a sole proprietorship or [shareholders' equity](#) for a corporation, and it is reported in the bottom section of the [balance sheet](#).

KEY TAKEAWAYS

- The capital account, on a national level, represents the balance of payments for a country.
- The capital account keeps track of the net change in a nation's assets and liabilities during a year.
- The capital account's balance will inform economists whether the country is a net importer or net exporter of capital.

Current account deficit financing



*) direct investment and capital account

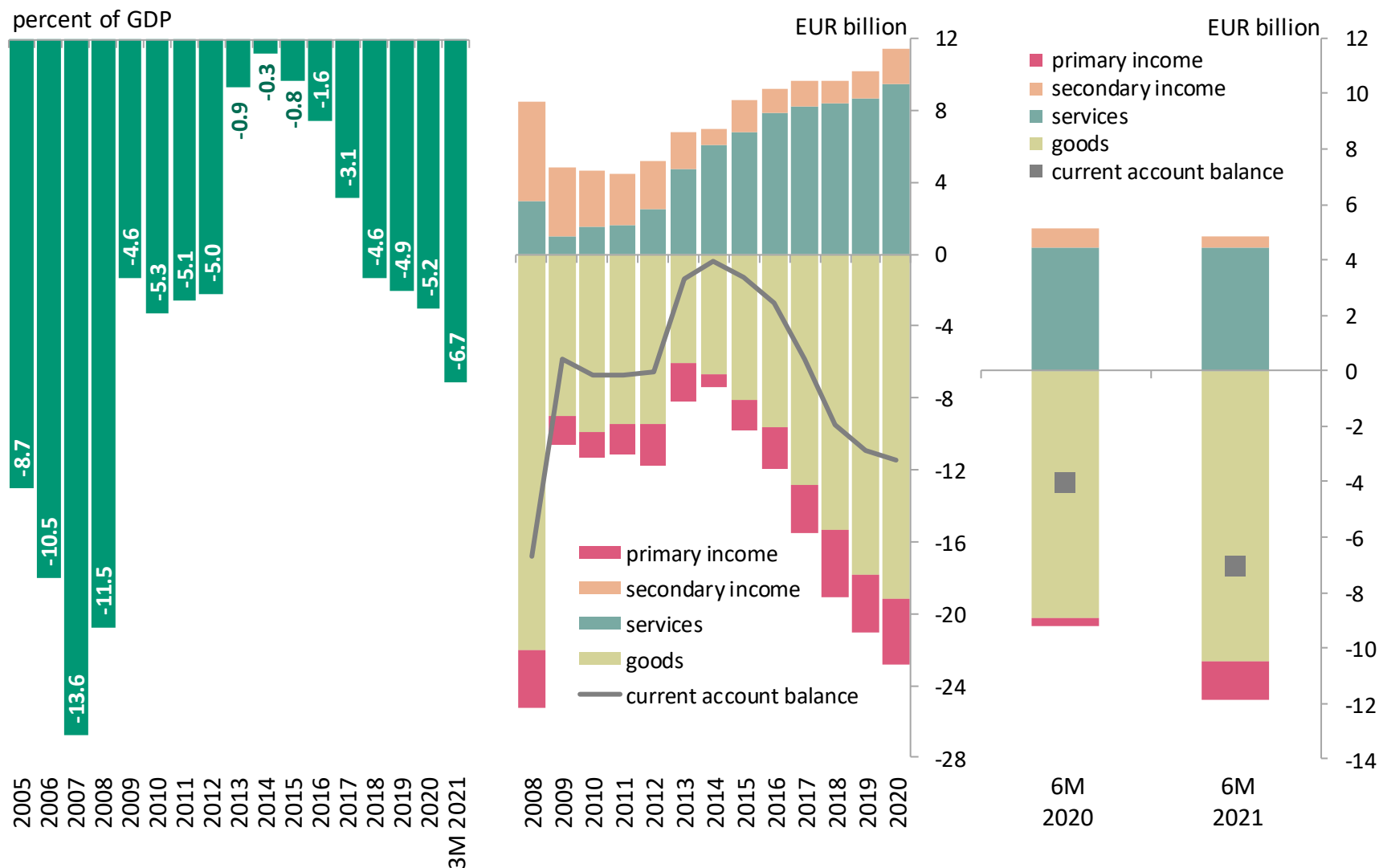
**) portfolio investment and deposits

“+” inflows; “-” outflows

Note: External sector statistics for the period 2013-2018 were subjected to a benchmark revision.

Source: National Bank of Romania

Current account balance



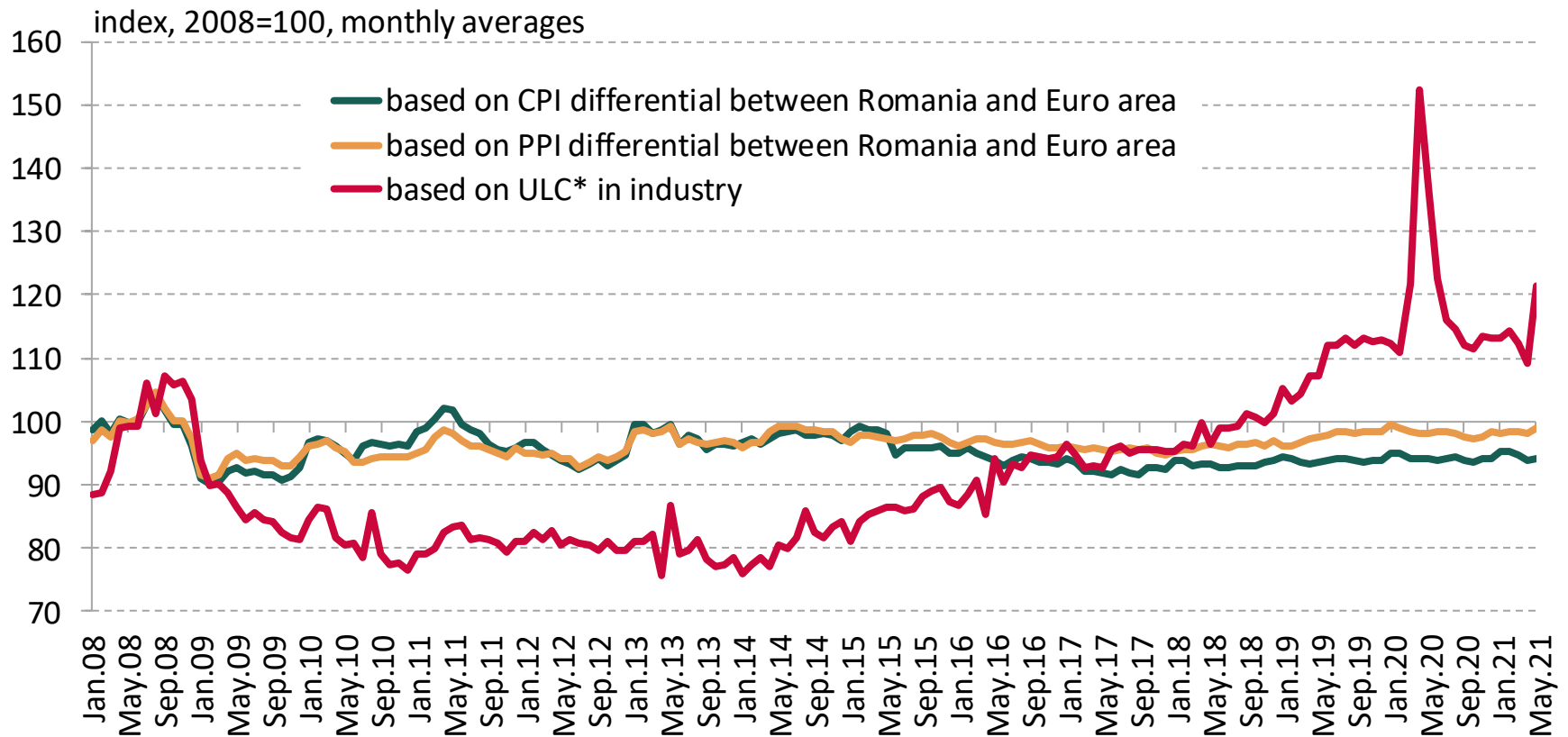
Source: National Institute of Statistics, National Bank of Romania

Nominal exchange rate (daily data)



Source: National Bank of Romania

Real exchange rate of the RON against the EUR

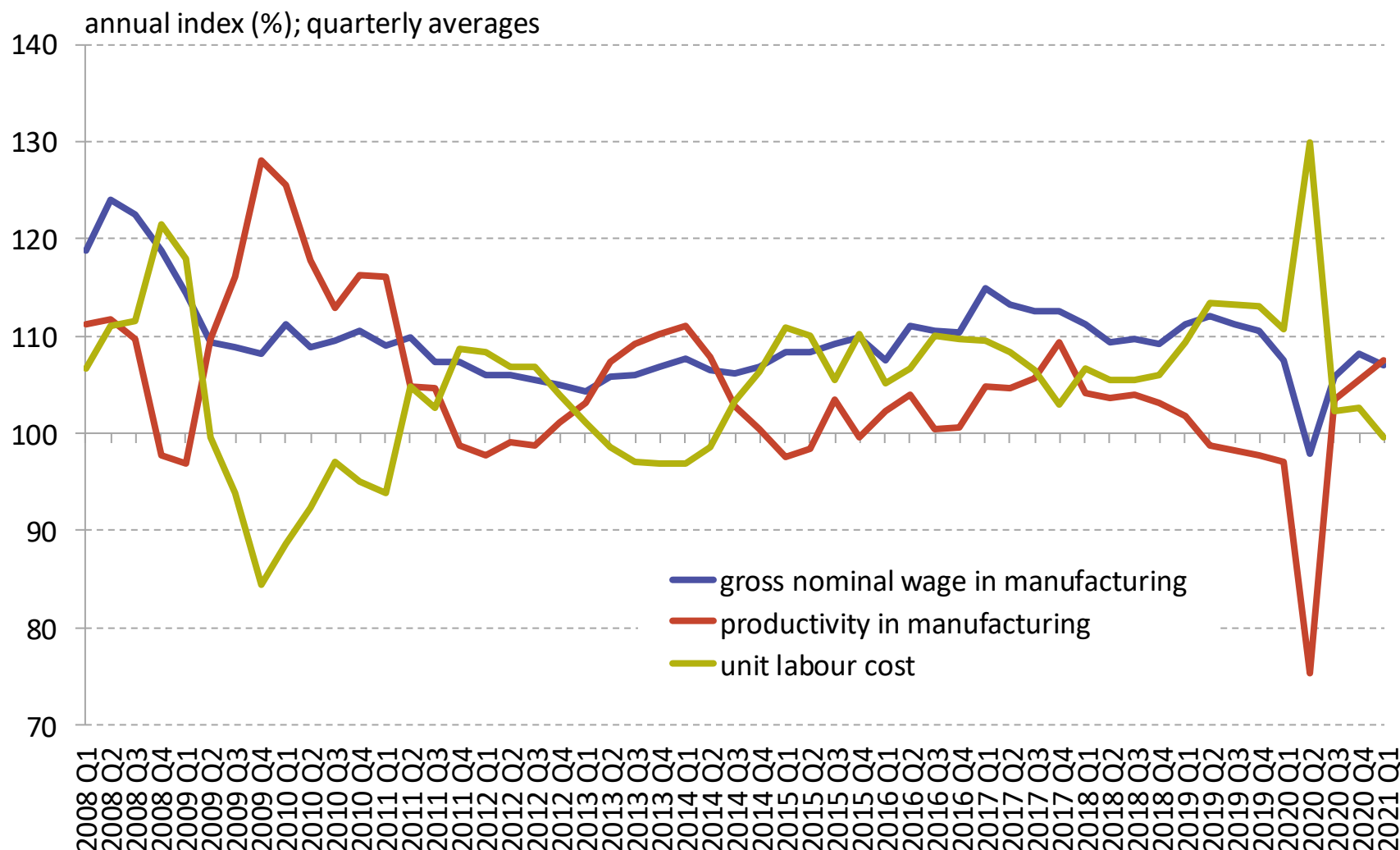


*) seasonally adjusted series

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.

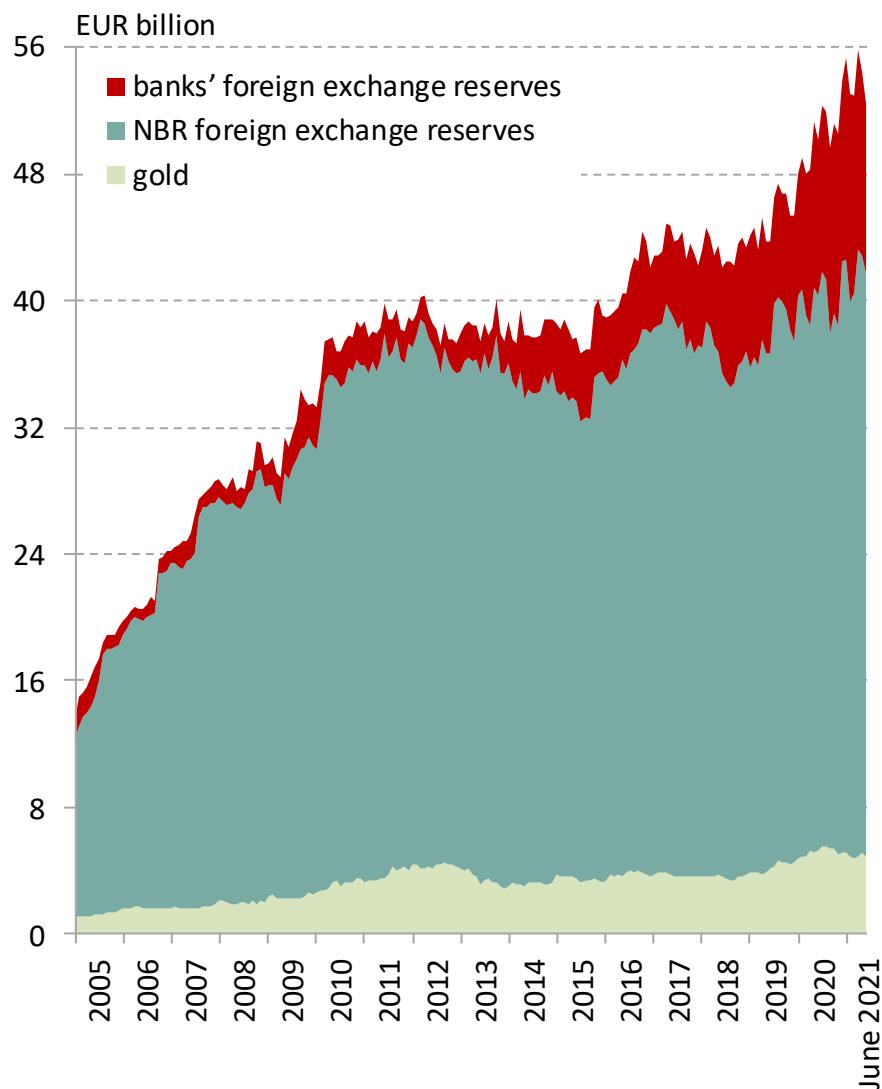
Source: Eurostat, National Institute of Statistics, National Bank of Romania calculations

Labour cost in manufacturing

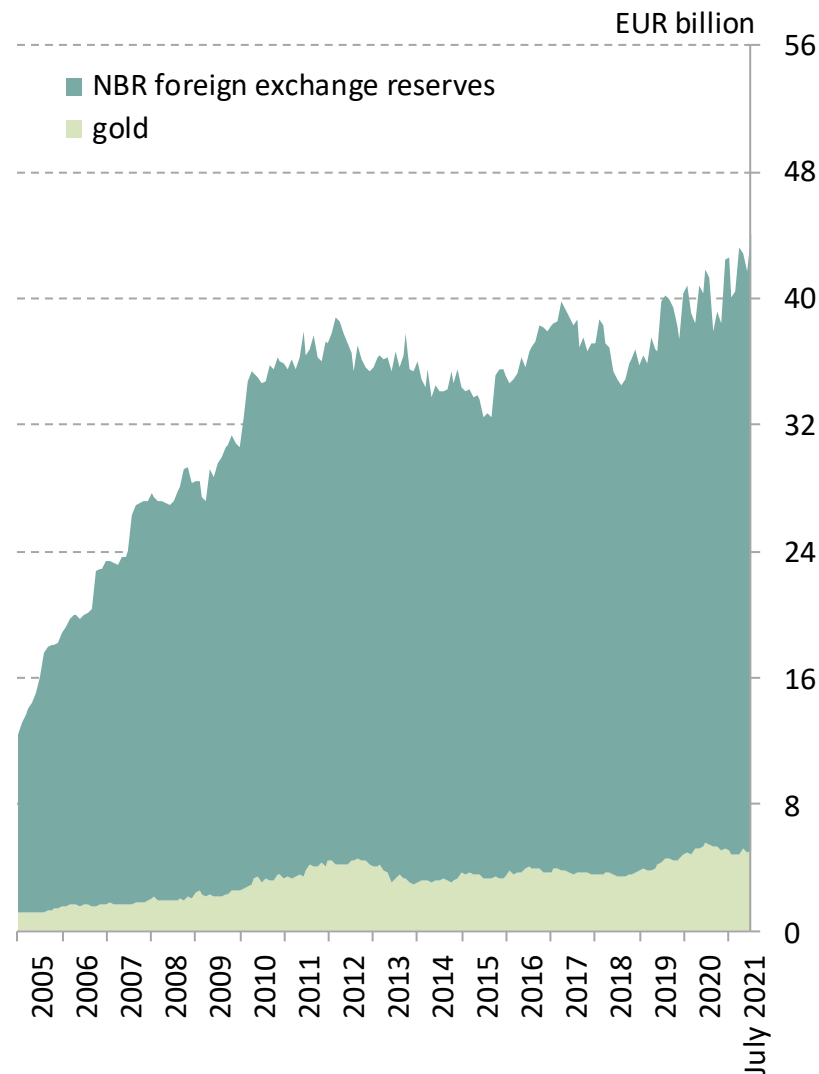


Source: National Institute of Statistics, National Bank of Romania calculations

Romania: Foreign reserve assets

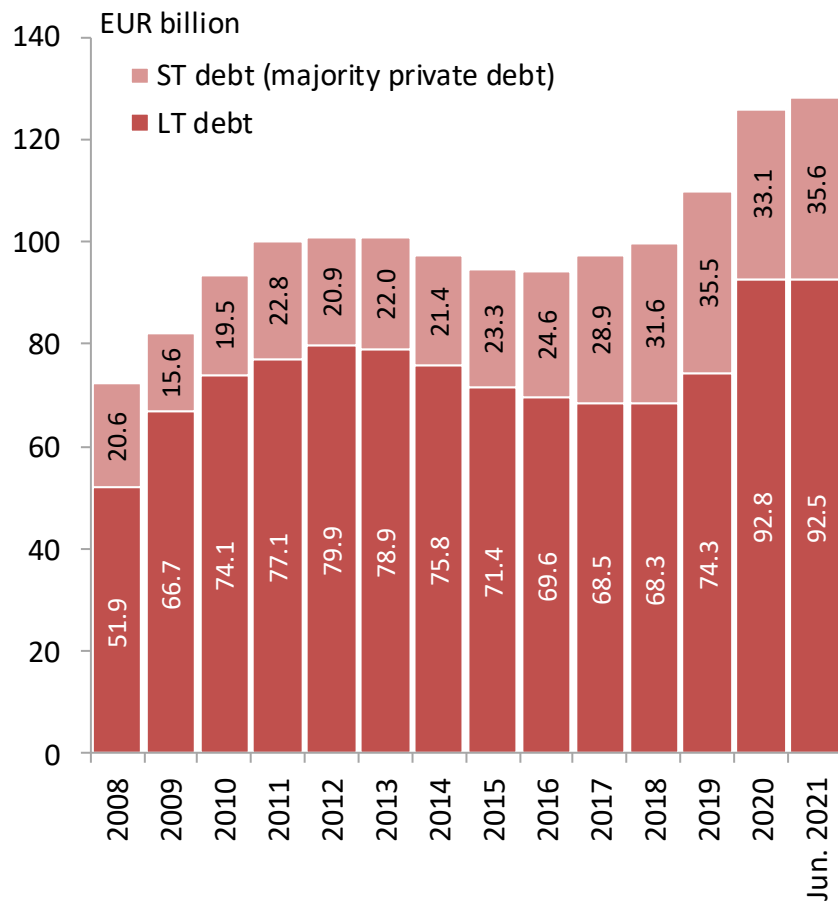


Romania: International reserves

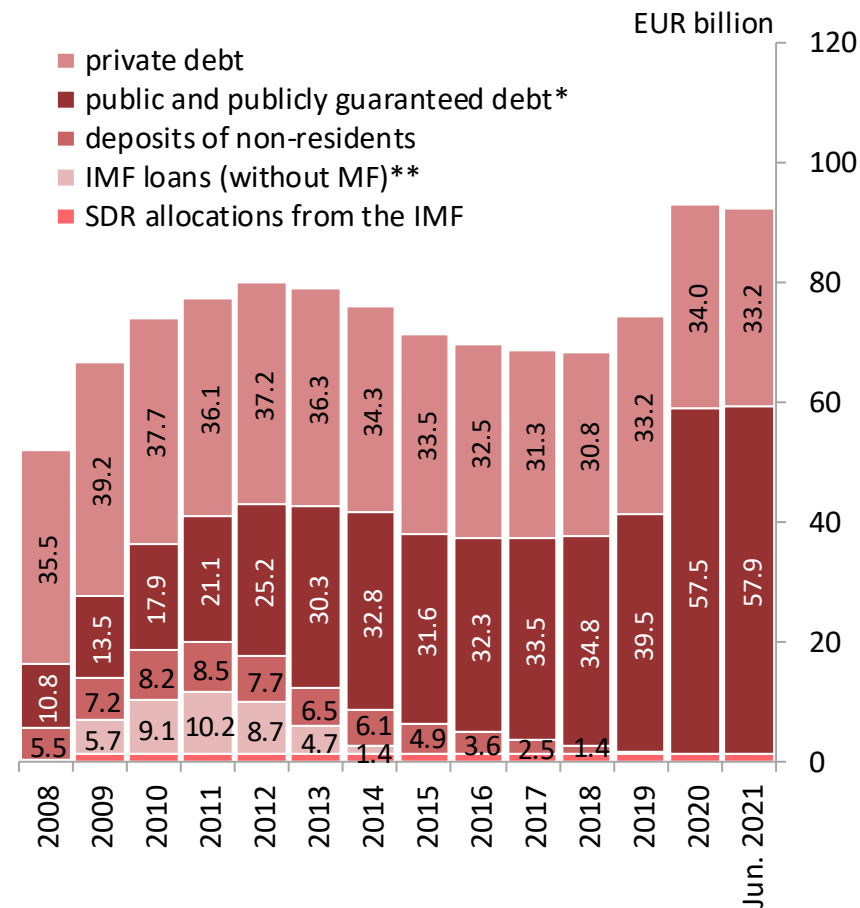


Source: National Bank of Romania

Total external debt



Long-term external debt

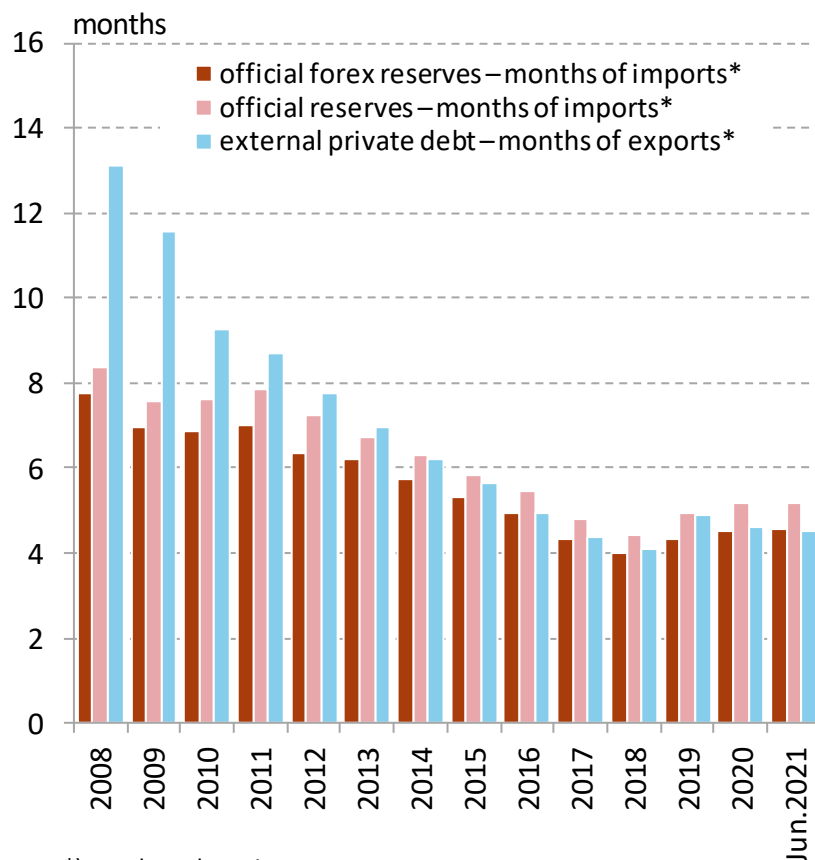


*) external loans taken directly/guaranteed by the MF and local general government in compliance with the legislation on public debt, including Government Emergency Ordinance No. 99/2009 ratifying the Stand-By Arrangement between Romania and the IMF

**) IMF borrowings under the Stand-By Arrangement concluded with the IMF, excluding the amount received by the MF from the IMF according to Government Emergency Ordinance No. 99/2009

Source: National Bank of Romania

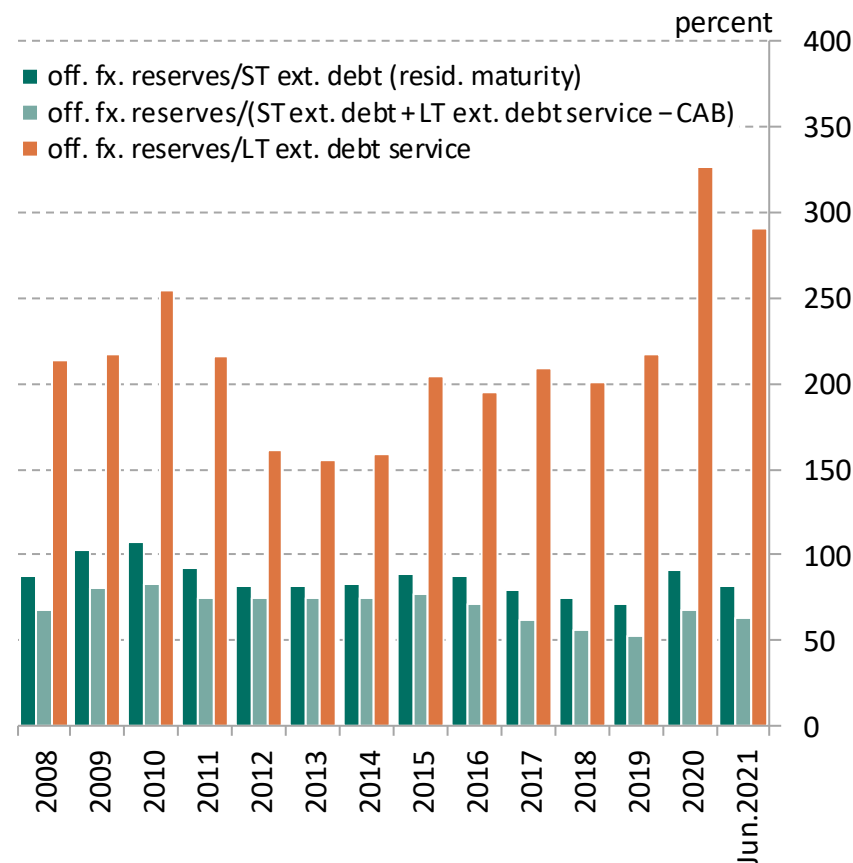
Reserves and external debt indicators



*) goods and services

Note 1: Exports and imports are calculated based on actual data/estimates for the 12 months after the indicated moment (year-end/month of current year).

Note 3: BoP data for 2010 and 2011, as well as those for 2016 and 2017 include the effect of the change made by the NIS on the CIF/FOB conversion factor (starting with 2012 and 2018, respectively).



Note 2: CAB and LT external debt service are calculated based on actual data/estimates for the 12 months after the indicated moment (year-end/month of current year).

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

General government balance (according to ESA 2010)

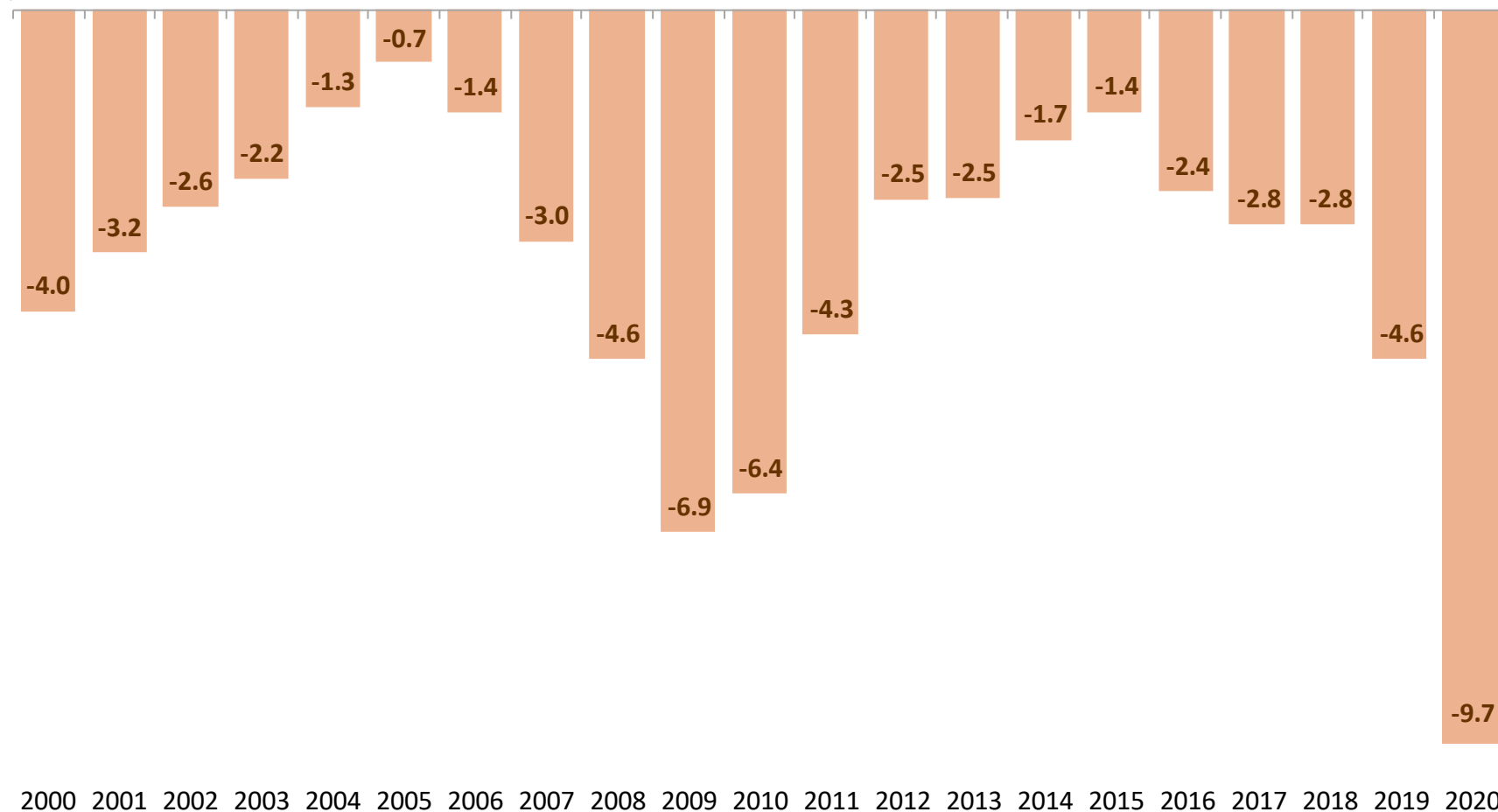
percent of GDP



Source: Eurostat, Ministry of Finance, National Institute of Statistics

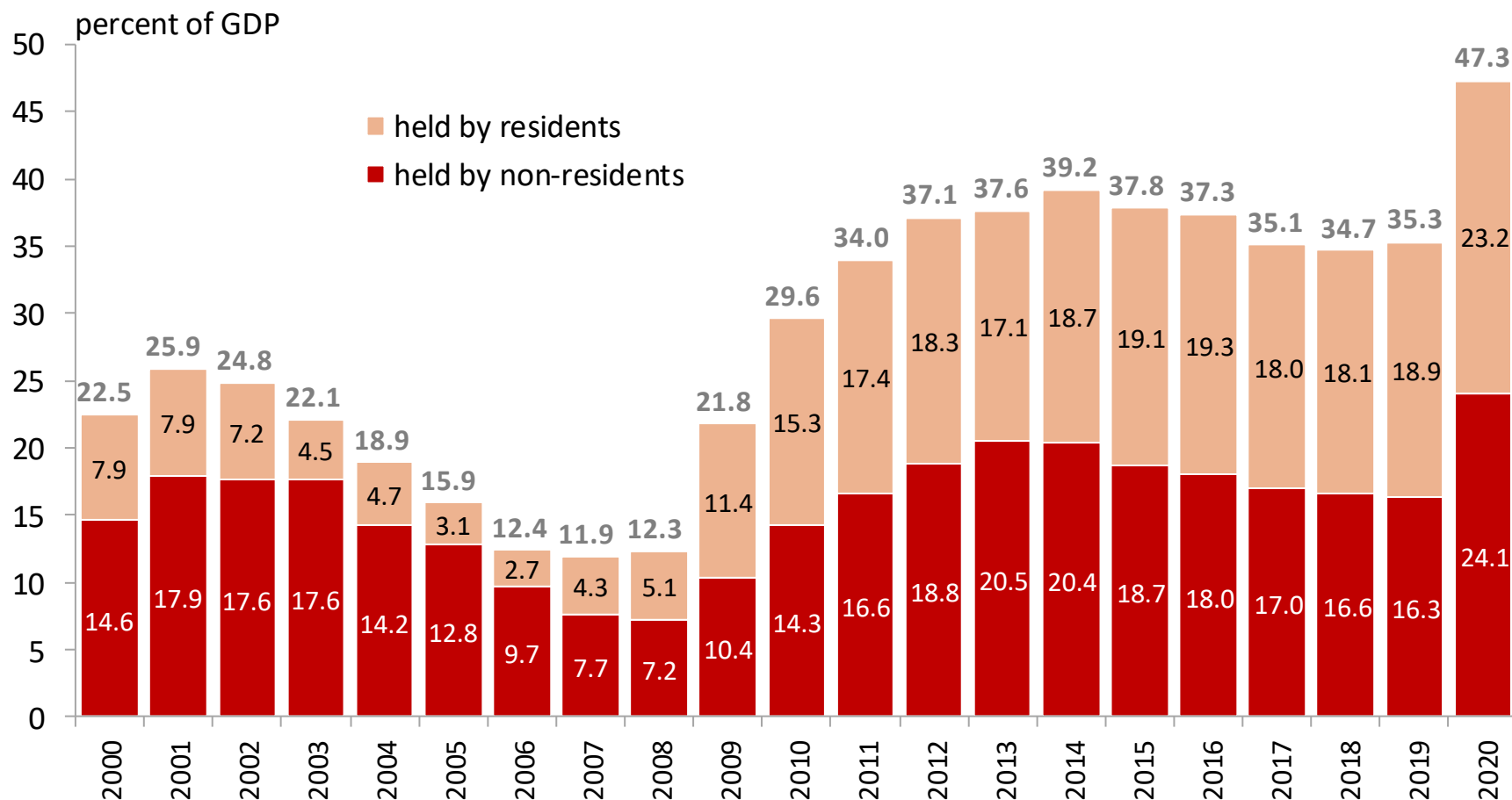
General government balance (national methodology)

percent of GDP



Source: Ministry of Finance, National Institute of Statistics

Public debt (according to ESA 2010)

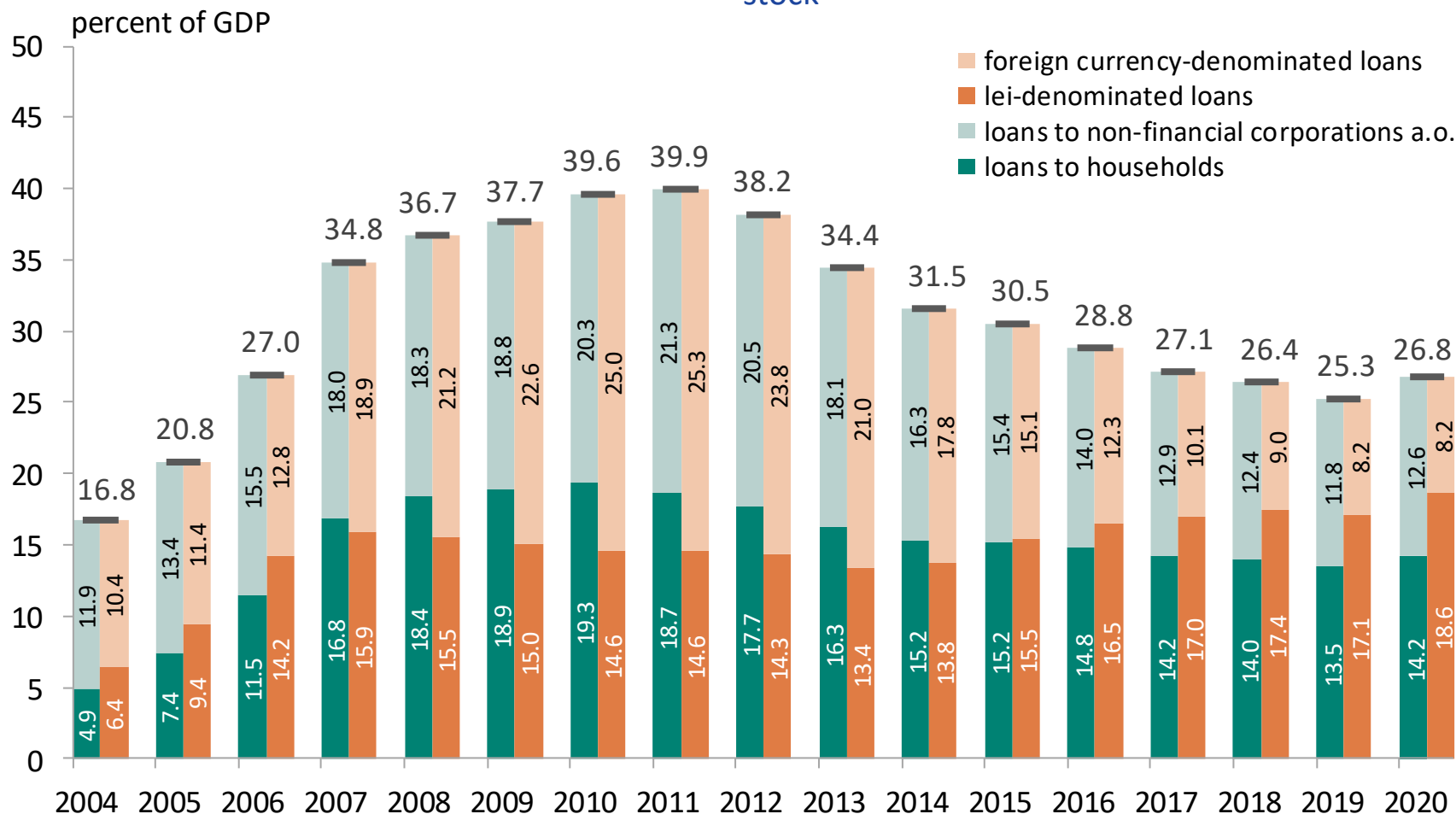


Note: Government securities in MFIs portfolio as a share of GDP in Dec.08=2.0%, Dec.09=6.7%, Dec.10=9.5%, Dec.11=10.8%, Dec.12=11.7%, Dec.13=11.1%, Dec.14=11.3%, Dec.15=11.2%, Dec.16=10.8%, Dec.17=10.4%, Dec.18=10.1%, Dec.19=10.1%, Dec.20=12.3% and Jun.21=12.0%.

Source: Ministry of Finance, National Bank of Romania, National Institute of Statistics

Financial intermediation*

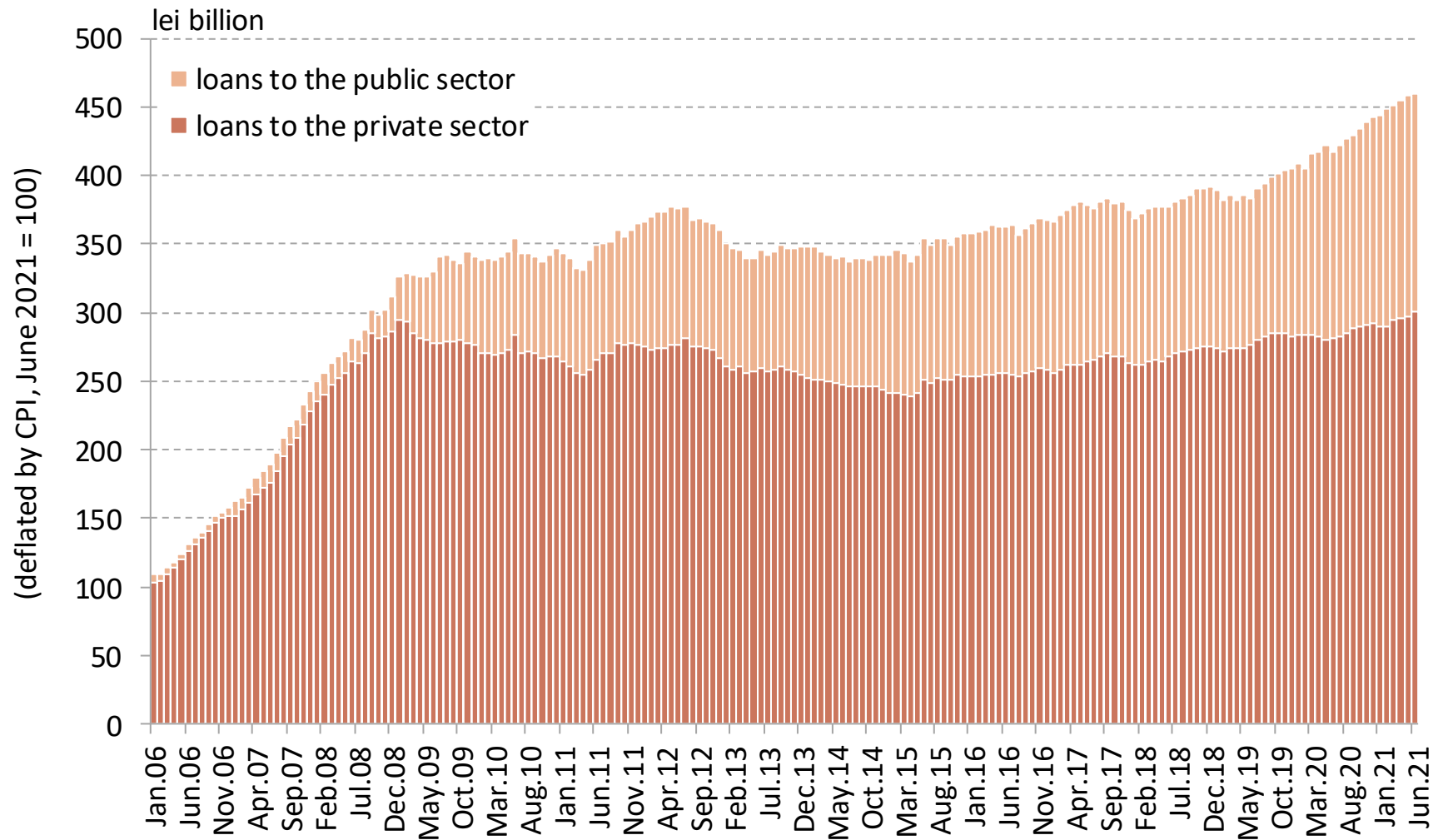
– stock –



*) loans to the private sector / GDP

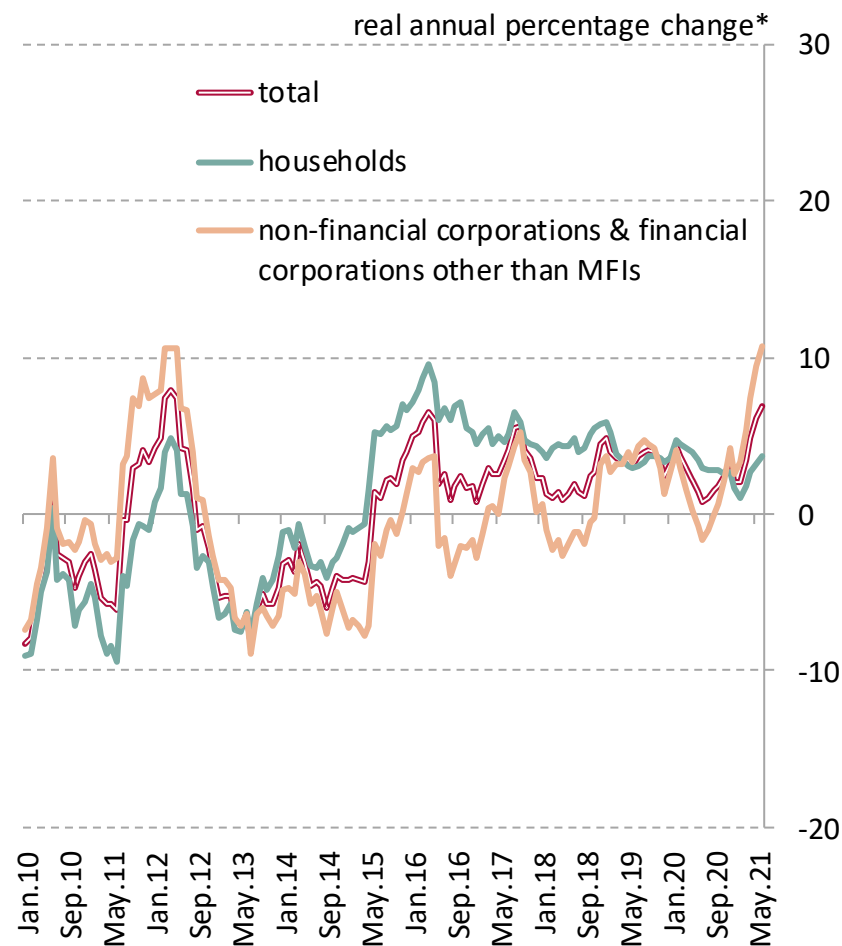
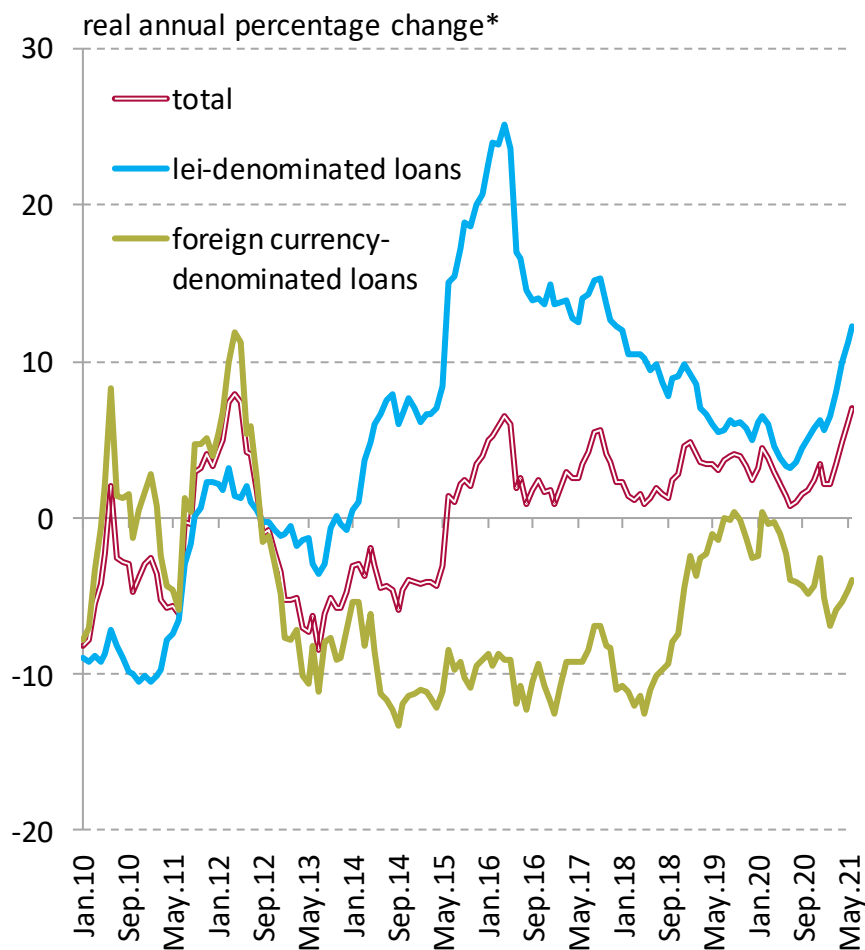
Source: National Institute of Statistics, National Bank of Romania, National Commission for Strategy and Prognosis

Domestic credit (in real terms)



Source: National Institute of Statistics, National Bank of Romania

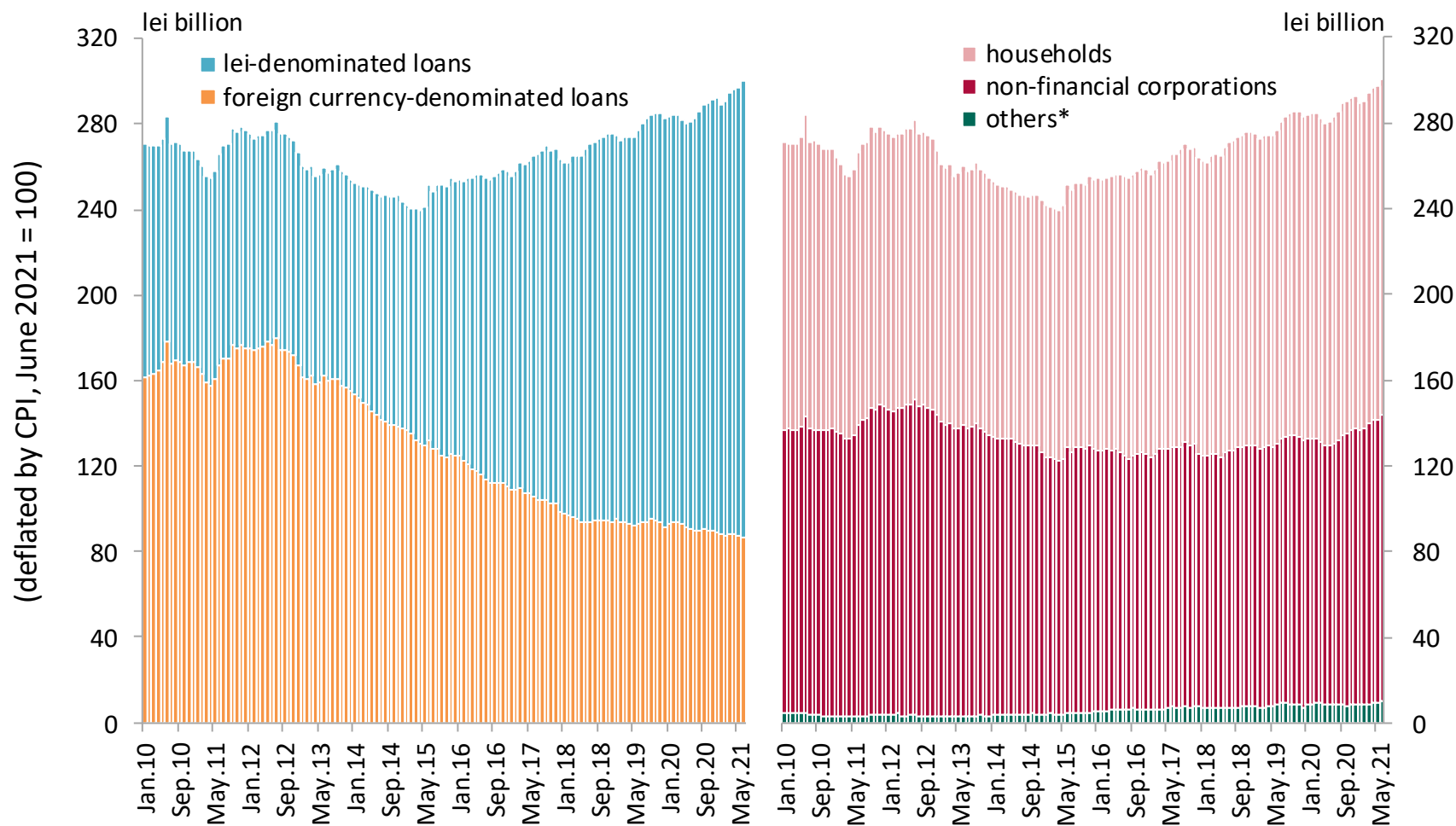
Loans to the private sector – stock –



*) based on CPI

Source: National Institute of Statistics, National Bank of Romania

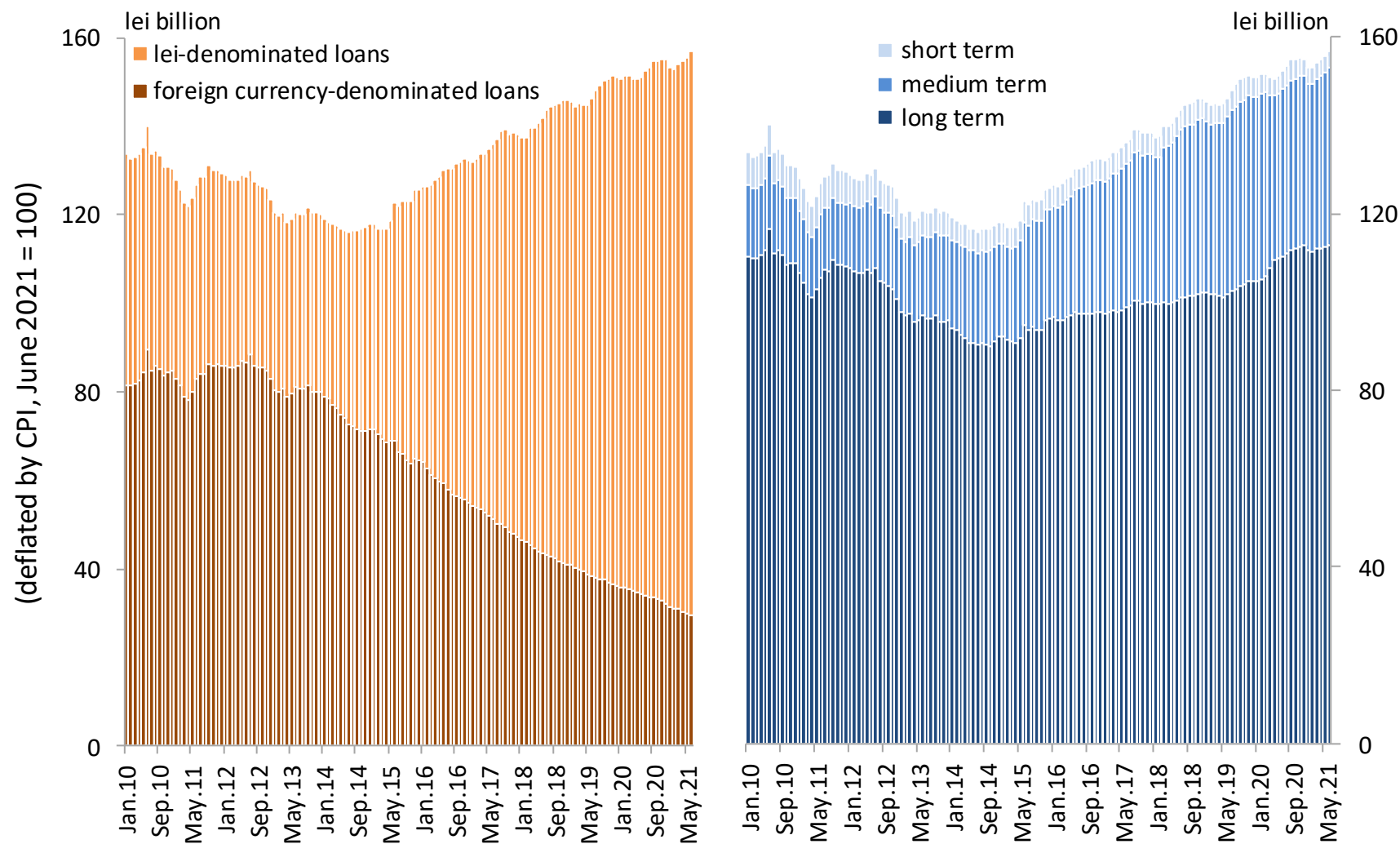
Loans to the private sector (in real terms)



*) insurance corporations, other financial intermediaries and financial auxiliaries

Source: National Institute of Statistics, National Bank of Romania

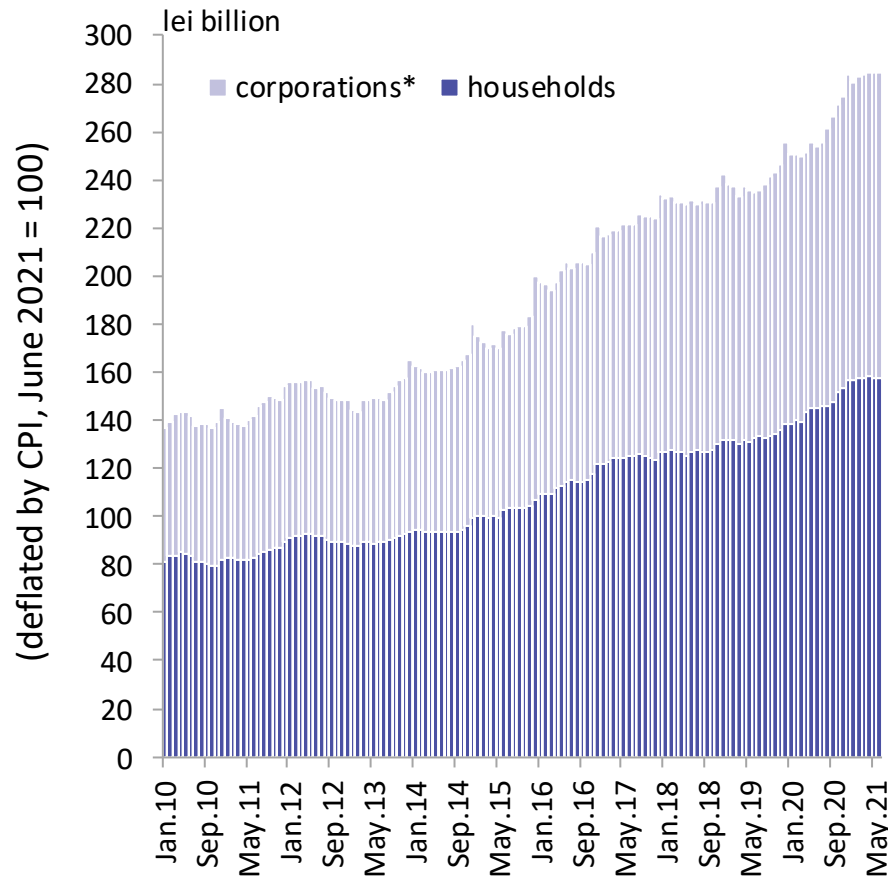
Loans to households (in real terms)



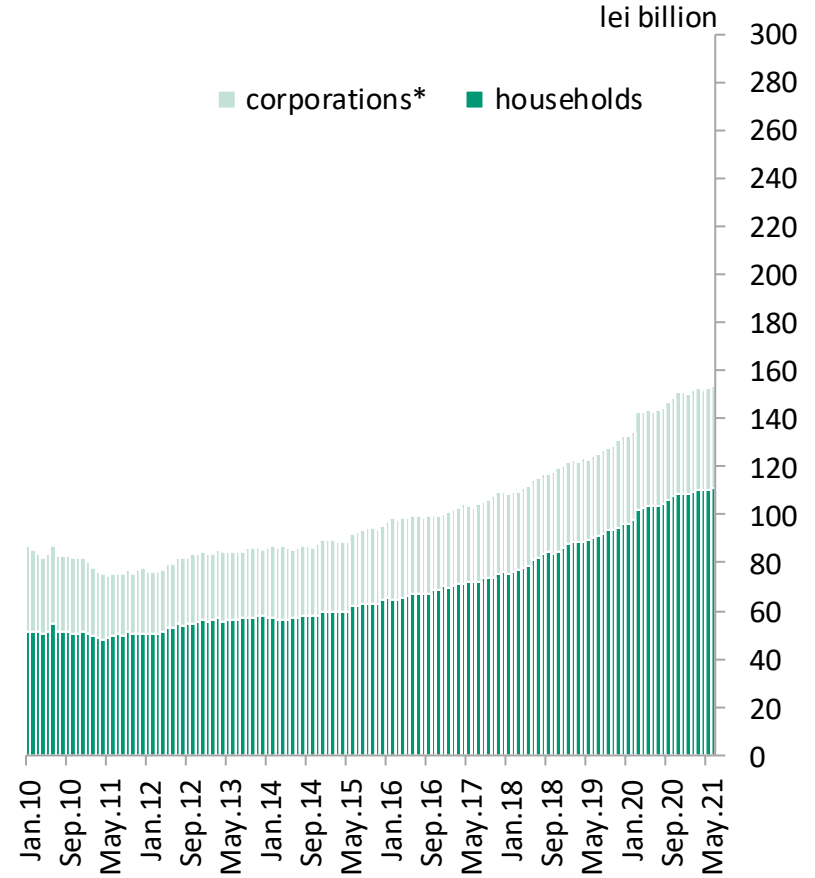
Source: National Institute of Statistics, National Bank of Romania

Private sector deposits (in real terms)

Lei-denominated deposits



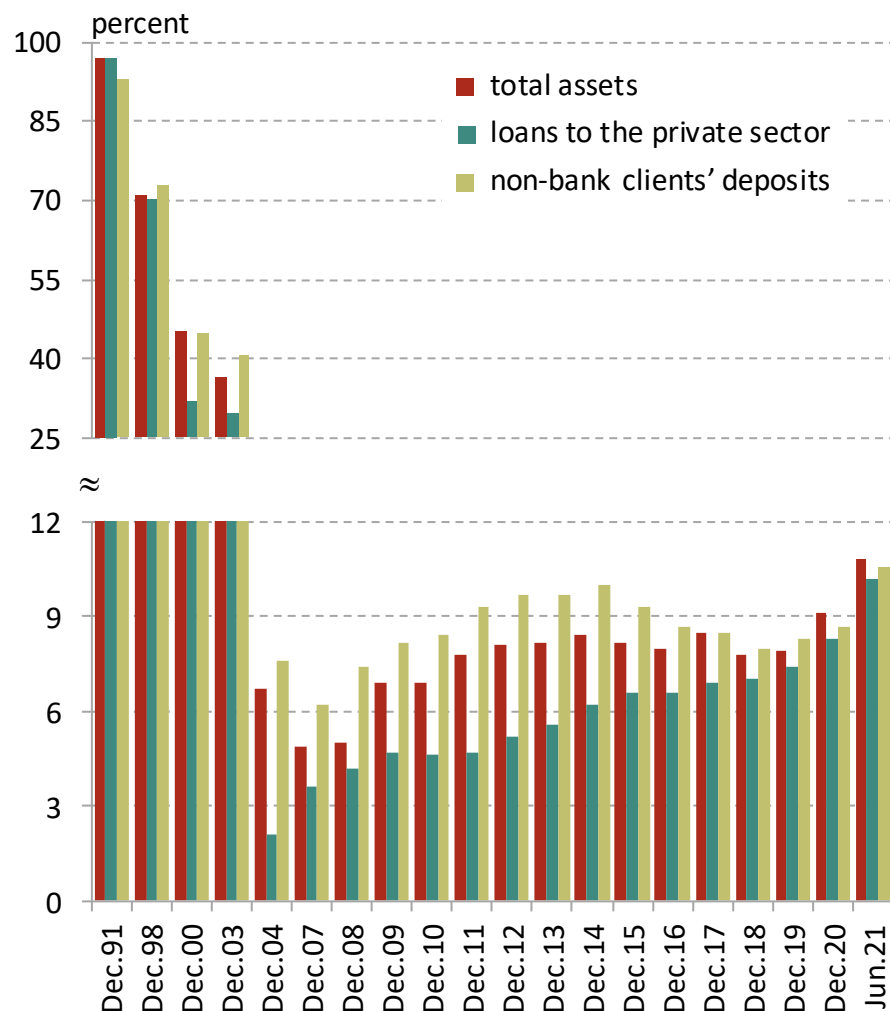
Foreign currency-denominated deposits



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

Source: National Institute of Statistics, National Bank of Romania

Share of majority state-owned banks in total banks

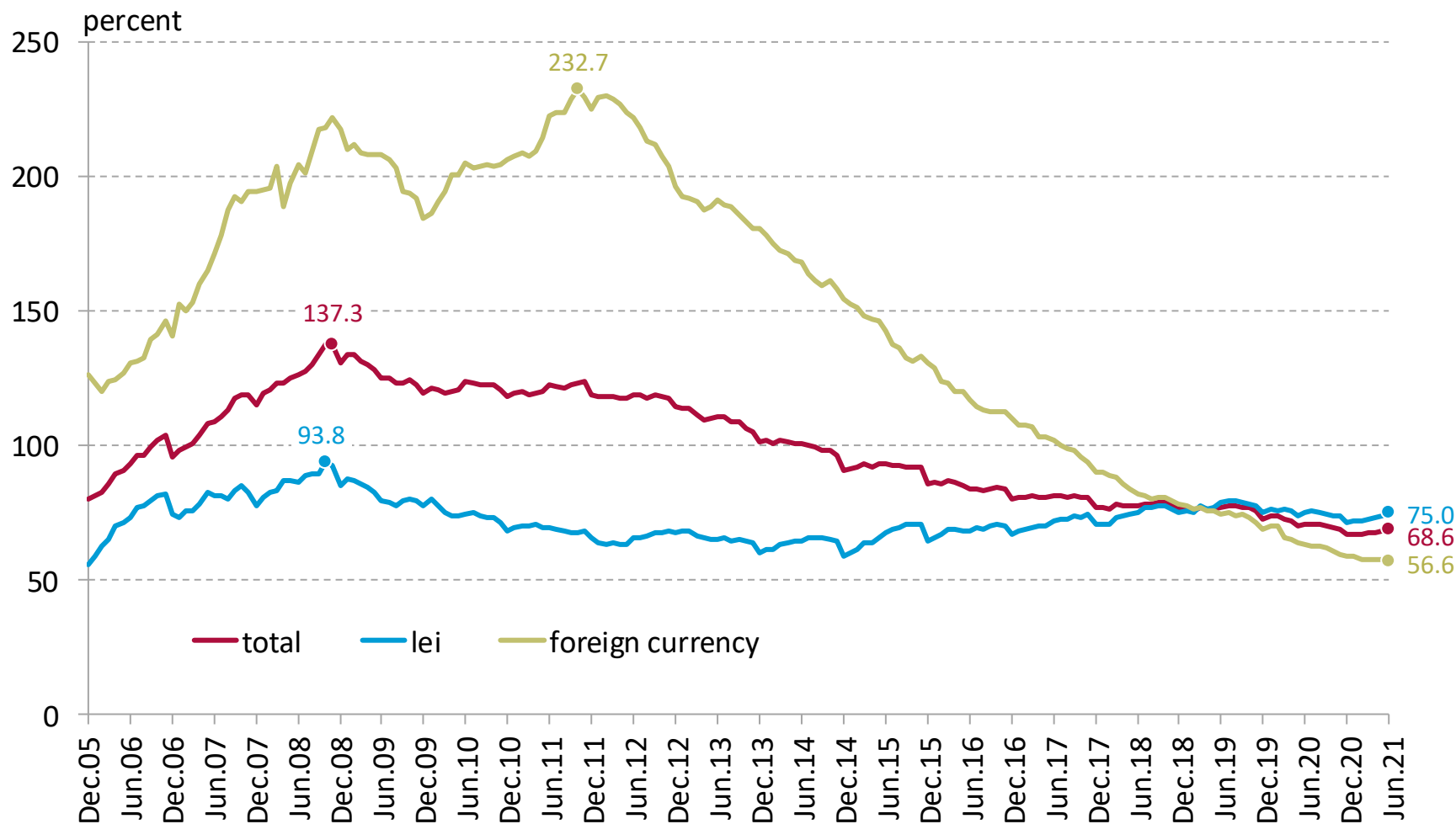


share in total banks (%); June 2021

	Total assets	Loans to the private sector	Non-bank clients' deposits
Banks with majority foreign capital	70.6	74.1	68.2
Banks with majority domestic private capital	18.6	15.7	21.2
Banks with majority state-owned capital	10.8	10.2	10.6

Source: National Bank of Romania

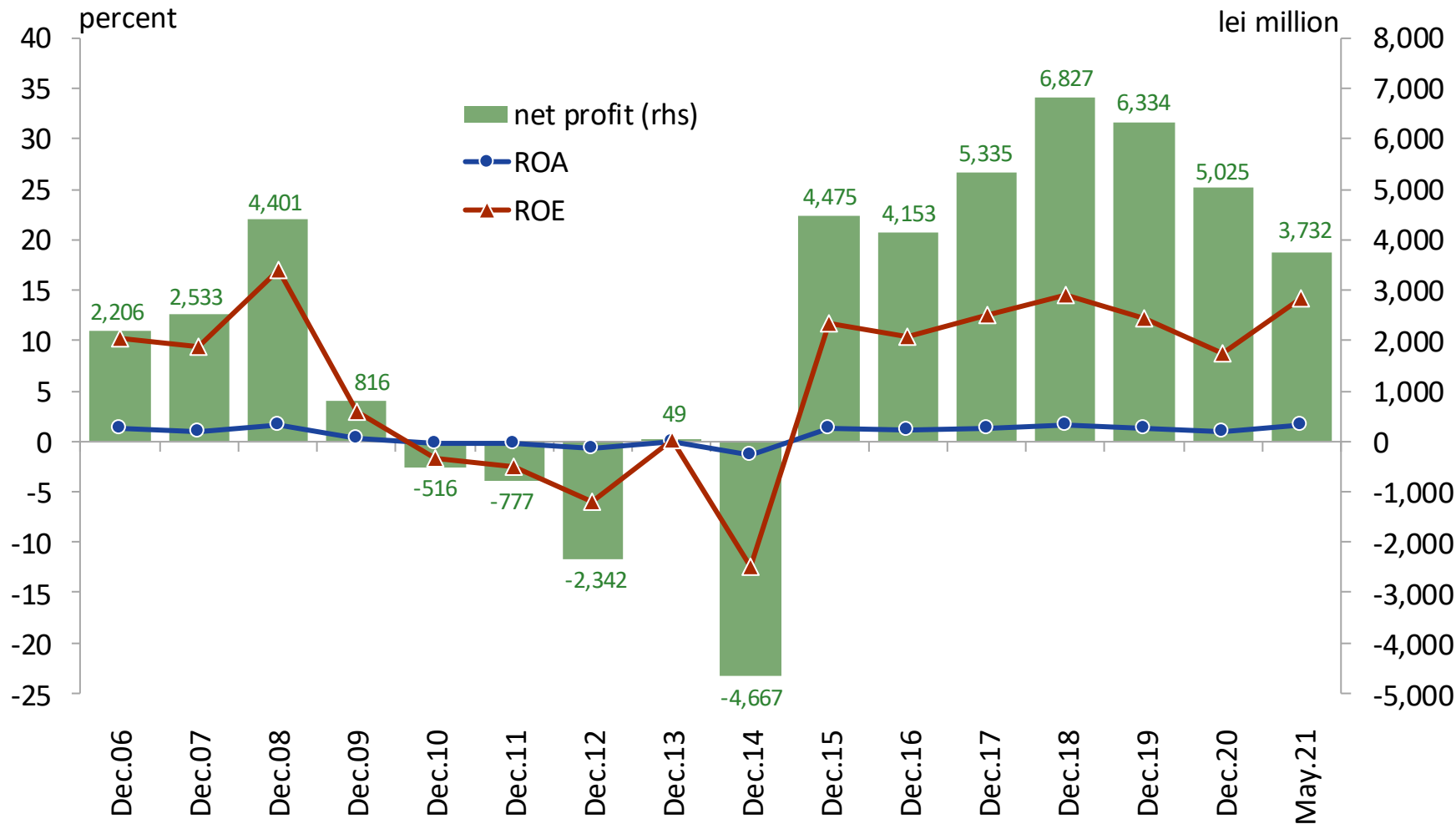
Loan-to-deposit ratio*



*) based on monetary balance sheet data

Source: National Bank of Romania

Banking system profitability

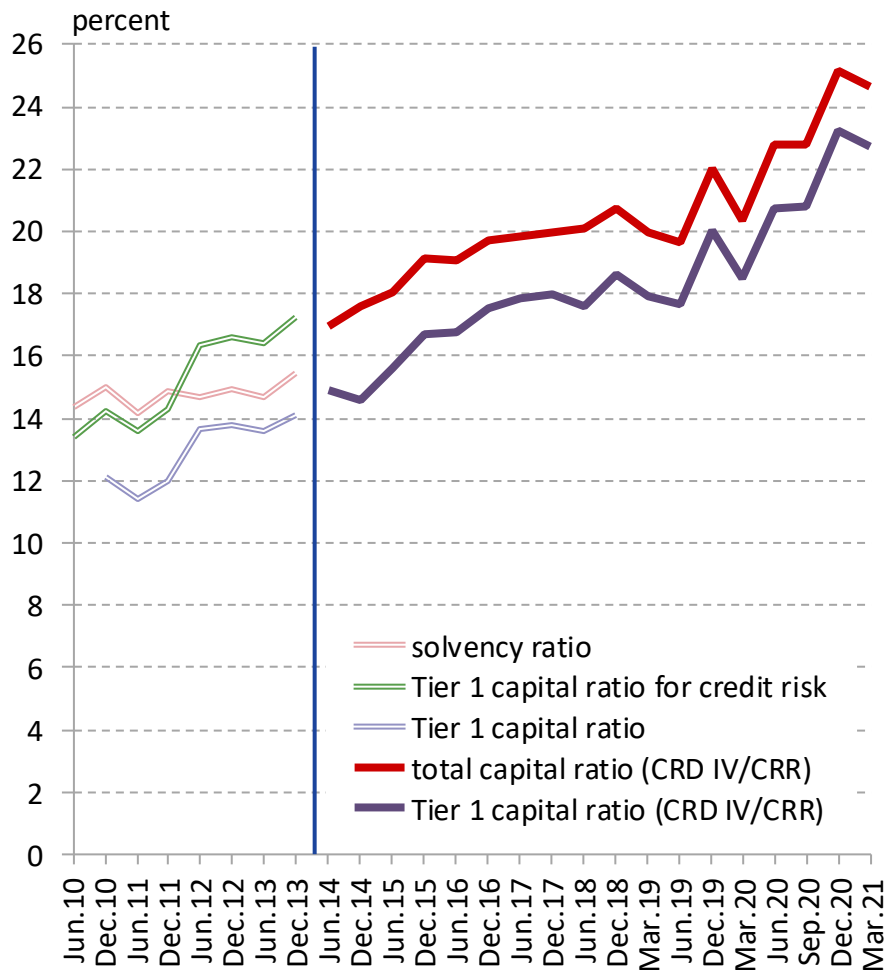


Note: Starting January 2012, indicators are calculated based on IFRS-compliant reports.

Source: National Bank of Romania

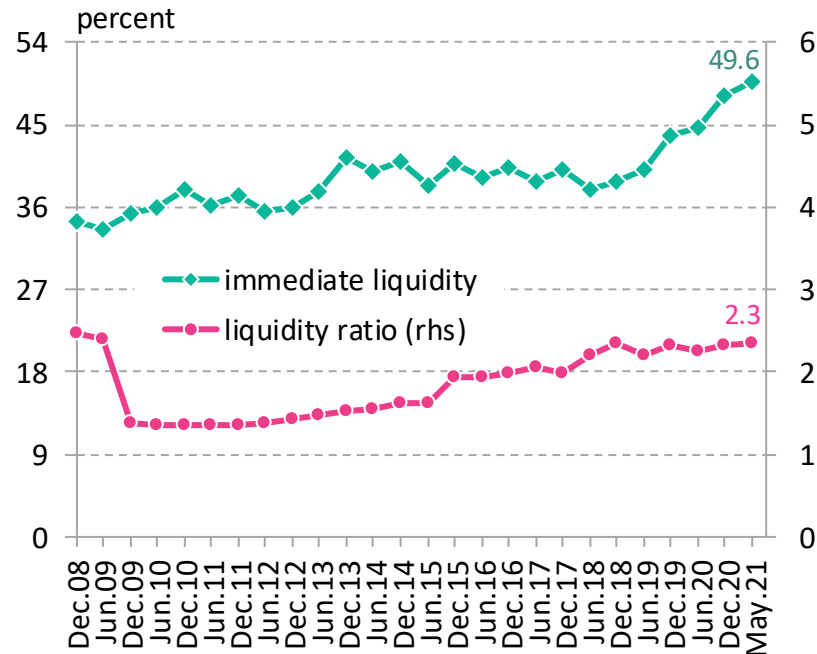
Analysis ratios for the banking system

Capital adequacy indicators



Source: National Bank of Romania

Liquidity indicators

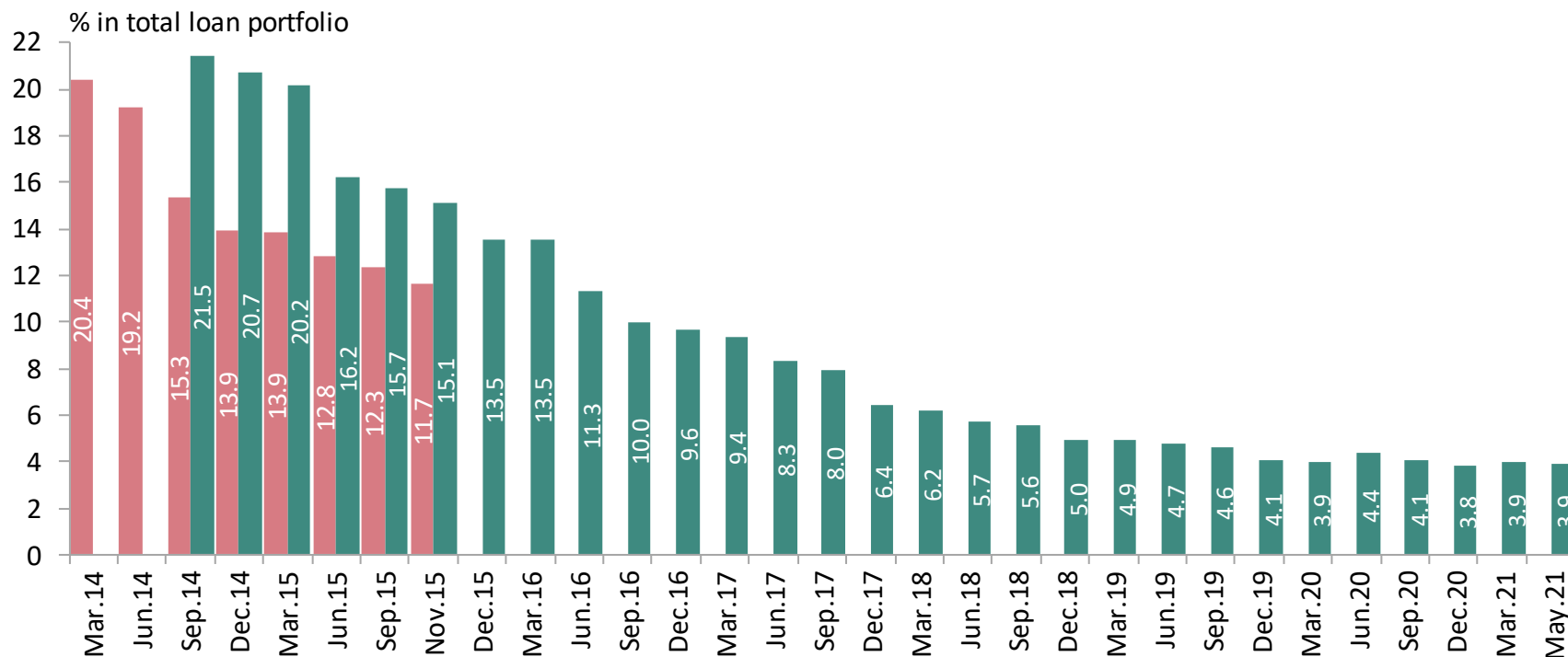


Immediate liquidity = (cash, demand deposits and time deposits with banks + unpledged government securities + unencumbered bonds) / Total liabilities (prudent level > 30%)

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

Note: For the period from 1 May 2020 to 30 September 2020, the liquidity ratio was reported exclusively for the 30 June 2020 and 30 September 2020 reference dates, pursuant to the provisions of Article 5 of NBR Regulation No. 6/2020.

Developments in non-performing loans



This indicator is 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 (loans and related interest overdue by more than 90 days and/or for which legal proceedings were initiated).

EBA-defined indicator, determined as the ratio between **a) the total non-performing exposure represented by loans and advances** (where non-performing exposure is defined as any exposure satisfying any of the following criteria: (i) material exposure more than 90 days past due; (ii) the debtor is assessed as unlikely to pay his/her 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 exposure 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 -0.6% (average of the three best performing Member States*)	2.5 (July 2021)	No
Long-term interest rates (percent per annum, annual average)	≤ 2 pp above 0.5% (average of the three best performing Member States in terms of price stability*)	3.1 (July 2021)	No
Exchange rate (vs. euro)** (percentage change)	± 15 percent	+0.2/-4.1	Yes
General government deficit*** (percent of GDP)	≤ 3 percent	9.2	No
Government debt*** (percent of GDP)	≤ 60 percent	47.3	Yes

*) Cyprus, Greece, Portugal.

**) Maximum percentage deviations of the bilateral exchange rate against the euro from its July 2019 average level in August 2019 to July 2021 based on daily data at business frequency. An upward/downward deviation implies that the currency was stronger/weaker than the average exchange rate in July 2019.

***) 2020, provisional data; ESA 2010 methodology.

Source: Eurostat

Macroeconomic imbalance procedure scoreboard*

		Current account balance	Net international investment position	Real effective exchange rate (based on HICP)	Share of world exports of goods and services	Nominal unit labour cost index	House price index	Private sector debt	Private sector credit flow	Public sector debt	Unemployment rate	Financial sector liabilities (non-consolidated)	Activity rate – % of total population aged 15-64	Long-term unemployment rate – % of active population aged 15-74	Youth unemployment – % of active population aged 15-24
		% of GDP 3 year average	% of GDP	3 years % change	5 years % change	3 years % change	1 year % change	% of GDP	% of GDP	% of GDP	% 3 years average	1 year % change	3 years change in pp	3 years change in pp	3 years change in pp
		-4%/+6%	-35%	±5% (EA) ±11% (non-EA)	-6%	+9% (EA) +12% (non-EA)	6%	133%	14%	60%	10%	16.5%	-0.2 p.p.	0.5 p.p.	2 p.p.
Bulgaria	2018	2.4	-37.1	4.2	13.1	18.3	4.5	95.2	3.9	22.3	6.3	6.8	2.2	-2.6	-8.9
	2019	2.0	-32.0	4.6	15.3	19.5	3.9	91.8	5.6	20.2	5.2	5.8	4.5	-2.1	-8.3
	2020	0.7	-28.5	7.1	15.9	18.7	4.1	25.0	4.8	...	0.9	-1.1	1.3
Croatia	2018	2.4	-57.7	4.2	22.4	0.0	4.6	93.4	2.3	74.3	10.9	4.5	-0.6	-6.8	-18.6
	2019	2.7	-47.9	1.5	22.3	4.7	8.1	91.1	1.7	72.8	8.8	6.8	0.9	-4.2	-14.7
	2020	1.5	-48.8	0.5	0.2	15.7	7.4	88.7	7.5	...	0.7	-2.5	-6.3
Czechia	2018	1.3	-24.4	11.0	11.1	13.1	5.9	83.0	6.8	32.1	3.0	3.4	2.6	-1.7	-5.9
	2019	0.8	-19.9	8.7	5.0	14.6	6.2	78.6	1.4	30.3	2.4	4.6	1.7	-1.1	-4.9
	2020	1.5	-12.5	5.6	10.4	19.2	5.5	81.9	2.4	38.1	2.3	3.4	0.5	-0.4	0.1
Hungary	2018	2.3	-51.4	2.0	8.4	12.3	10.7	68.7	4.2	69.1	4.3	-9.2	3.3	-1.7	-7.1
	2019	0.6	-50.1	0.4	5.8	11.3	12.0	67.0	3.8	65.5	3.8	36.4	2.5	-1.3	-1.5
	2020	0.0	-48.8	-4.9	8.0	14.9	1.6	76.0	7.1	80.4	3.8	50.8	1.6	-0.6	2.1
Poland	2018	-0.8	-55.9	0.1	26.4	8.0	4.8	76.8	3.7	48.8	5.0	3.3	2.0	-2.0	-9.1
	2019	-0.4	-49.3	2.8	24.8	8.1	6.1	73.8	3.3	45.6	4.0	4.2	1.8	-1.5	-7.8
	2020	0.9	-44.2	1.1	36.2	14.6	7.0	76.0	1.6	57.5	3.5	11.6	1.4	-0.9	-4.0
Romania	2018	-3.1	-43.7	-0.7	23.5	29.3	1.7	47.5	1.9	34.7	5.0	3.3	1.7	-1.2	-5.5
	2019	-4.2	-43.3	0.2	17.6	26.0	-1.6	46.8	2.0	35.3	4.3	10.4	3.0	-1.3	-3.8
	2020	-4.9	-46.9	3.4	20.9	26.1	2.3	48.2	0.9	47.3	4.4	12.4	1.9	-0.5	-1.0

*) last update: 17 August 2021

the indicators do not fall within the indicative thresholds

Source: Eurostat, NIS, NBR