

Economic Forum

Romania: Recent Macroeconomic

& Banking System Developments

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Achievements of the NBR in 2005-2006

- Adoption of a new monetary policy strategy: direct inflation targeting (August 2005)
- Full liberalisation of capital account and full convertibility of domestic currency (September 2006)
- Redenomination of domestic currency (July 2005)
- Completion of implementation of the Electronic Payment System (October 2005)



Macroeconomic Developments



Recent Macroeconomic Developments (1)

- **CPI inflation:**
 - ✓ Annual rate:
 - 4.87% (Dec. 2006./Dec. 2005)
 - 3.66% (Mar. 2007/Mar. 2006), a record low for the post-1990 period
 - ✓ Average annual rate:
 - 6.56% in 2006
- **GDP growth:** 7.7% in 2006 ,based on increases in final consumption by 11.5% (private consumption grew 12.6%) and in investment by 16.1%; the projection for 2007 is 6.5%
- **Current account deficit:** EUR 10 bn., in 2006 up 44.8% yoy (10.3% of GDP); 90.8% covered by FDI
Jan.-Feb. 2007: EUR 2 bn., up 166% yoy; 42.5% covered by FDI



Recent Macroeconomic Developments (2)

- **Foreign Direct Investment:**
 - ✓ 2006: EUR 9.1 bn., up 72.8% yoy
 - ✓ Jan. - Feb. 2007: EUR 0.9 bn., lowered by 27.7% yoy
- **Fiscal balance:**
 - ✓ 2006: -1.7% of GDP;
 - ✓ 2007 program: -2.8% of GDP;
 - ✓ Jan. - Mar. 2007: -0.12% of projected GDP
- **International reserves at record level (foreign currency and gold):**
 - ✓ 2006: EUR 22.9 bn.; forex reserves EUR 21.3 bn.
 - ✓ May 2, 2007: EUR 22.9 bn.;
forex reserves EUR 21.2 bn. (covering about 4.9 months of prospective goods-and-services imports)



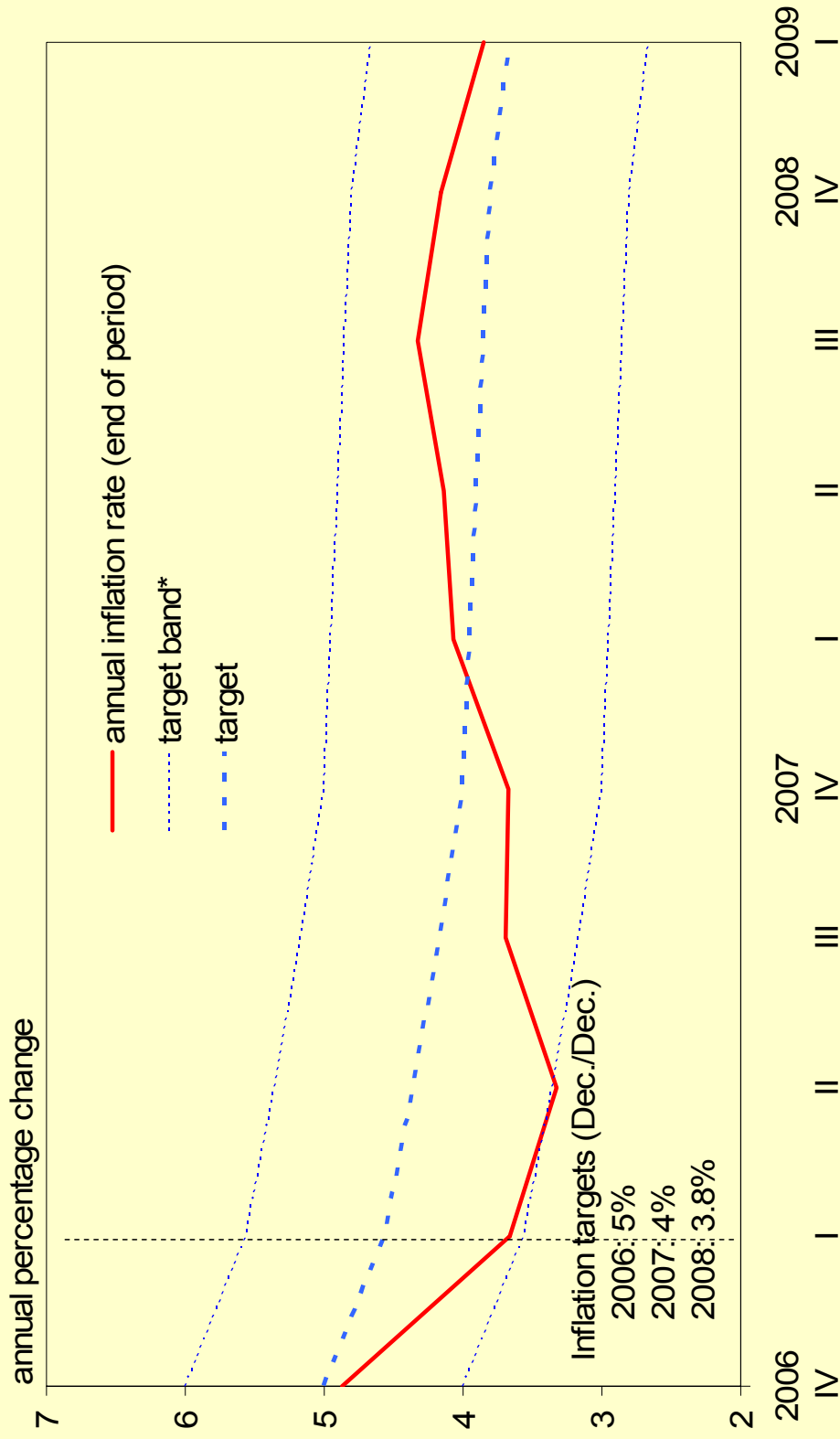
Inflation Rate



Source: National Institute of Statistics, National Bank of Romania



Inflation Forecast

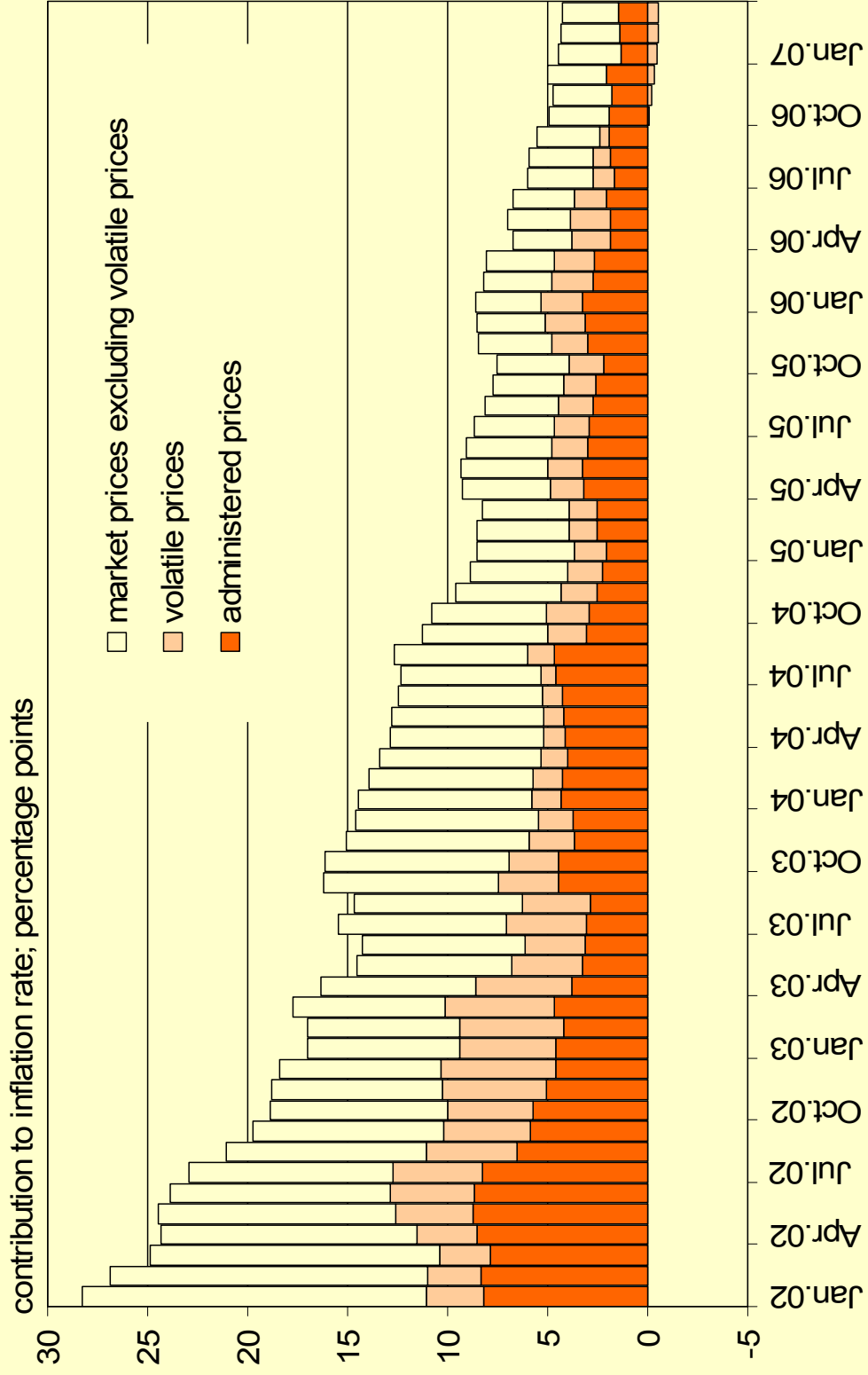


*) ± 1 percentage points around the (dis)inflation path

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



Inflation Rate

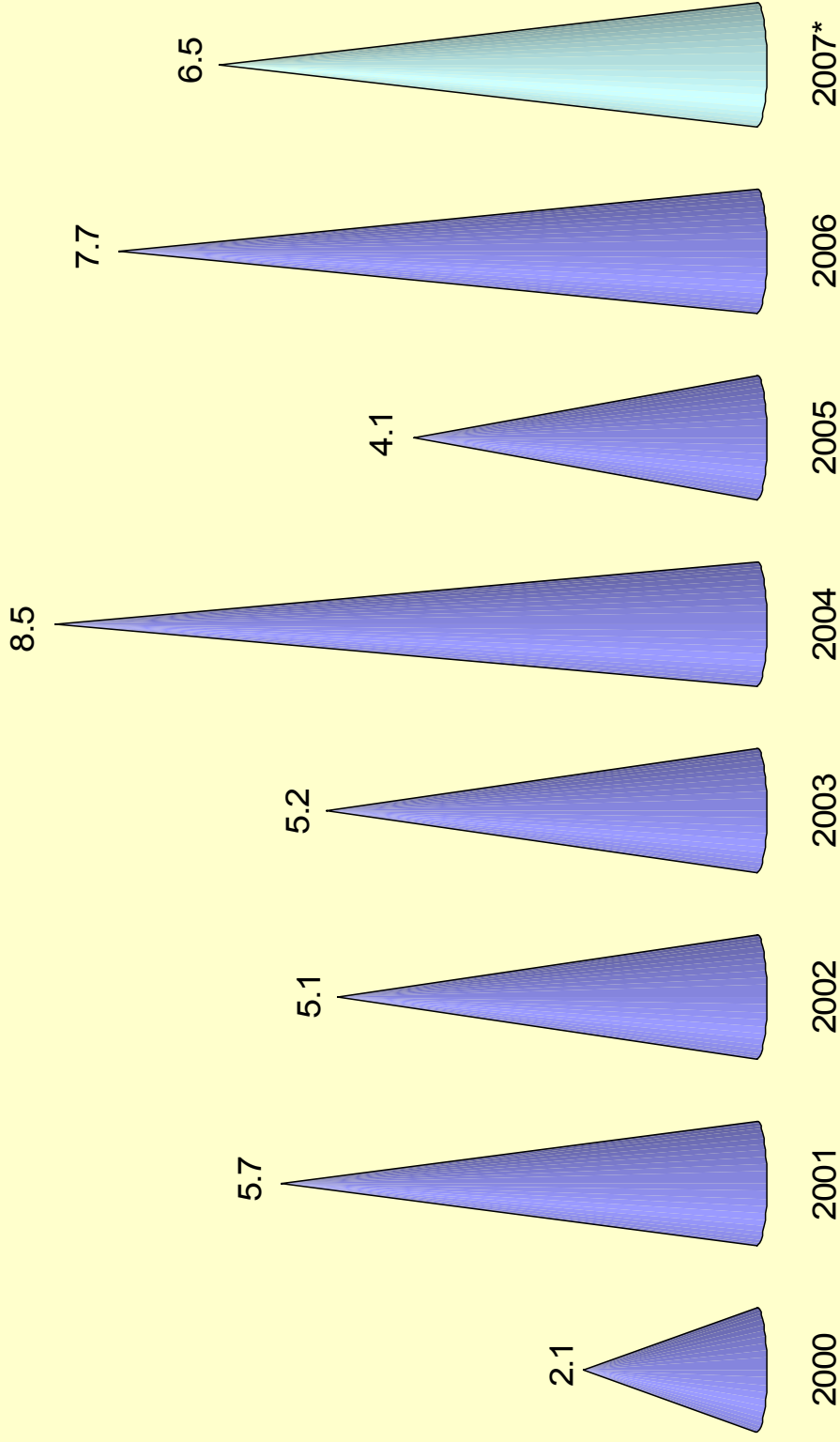


Source: National Institute of Statistics; National Bank of Romania calculations



Real GDP

annual percentage change



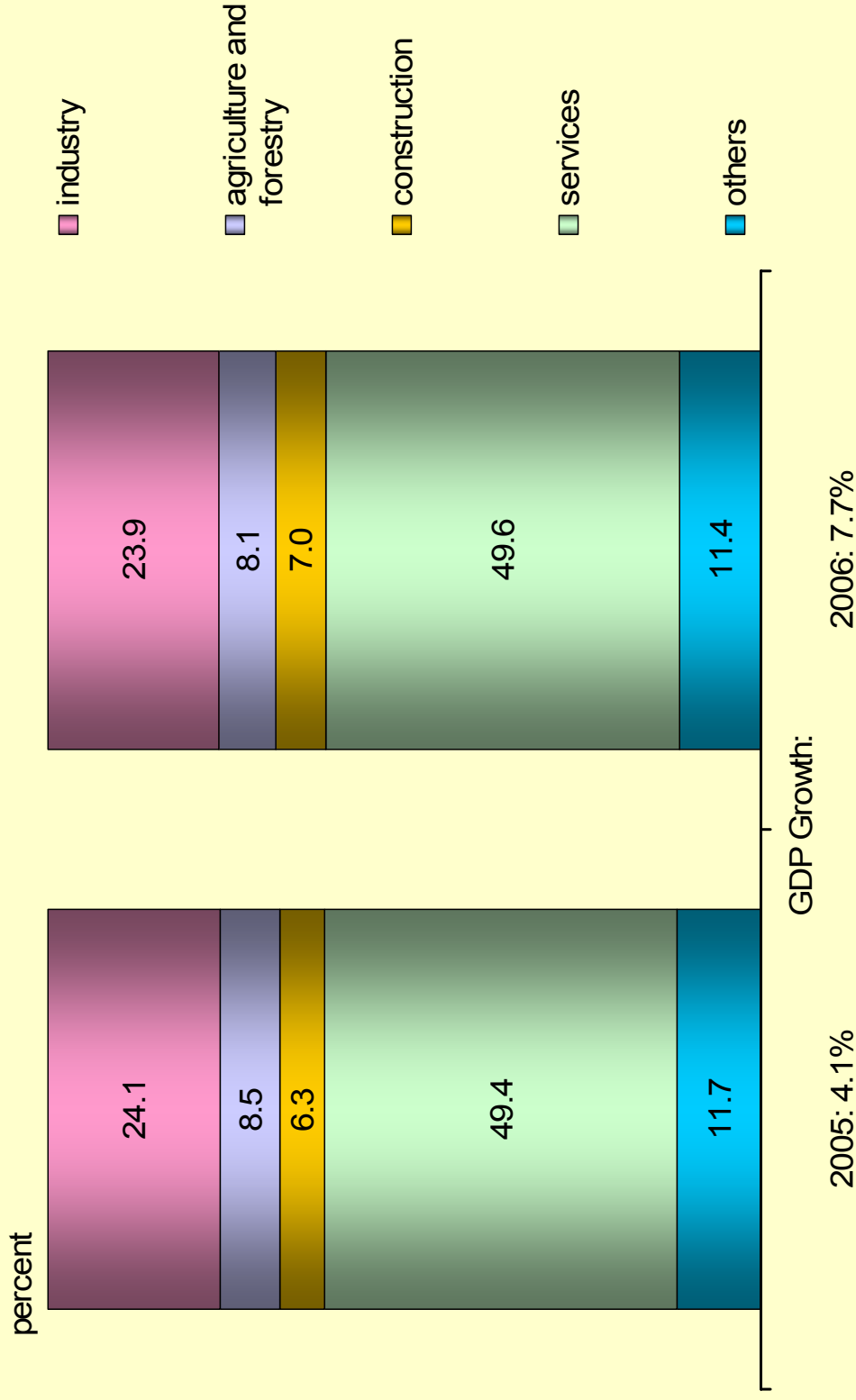
*) forecast

Source: National Institute of Statistics; National Commission of Prognosis



NATIONAL BANK OF ROMANIA

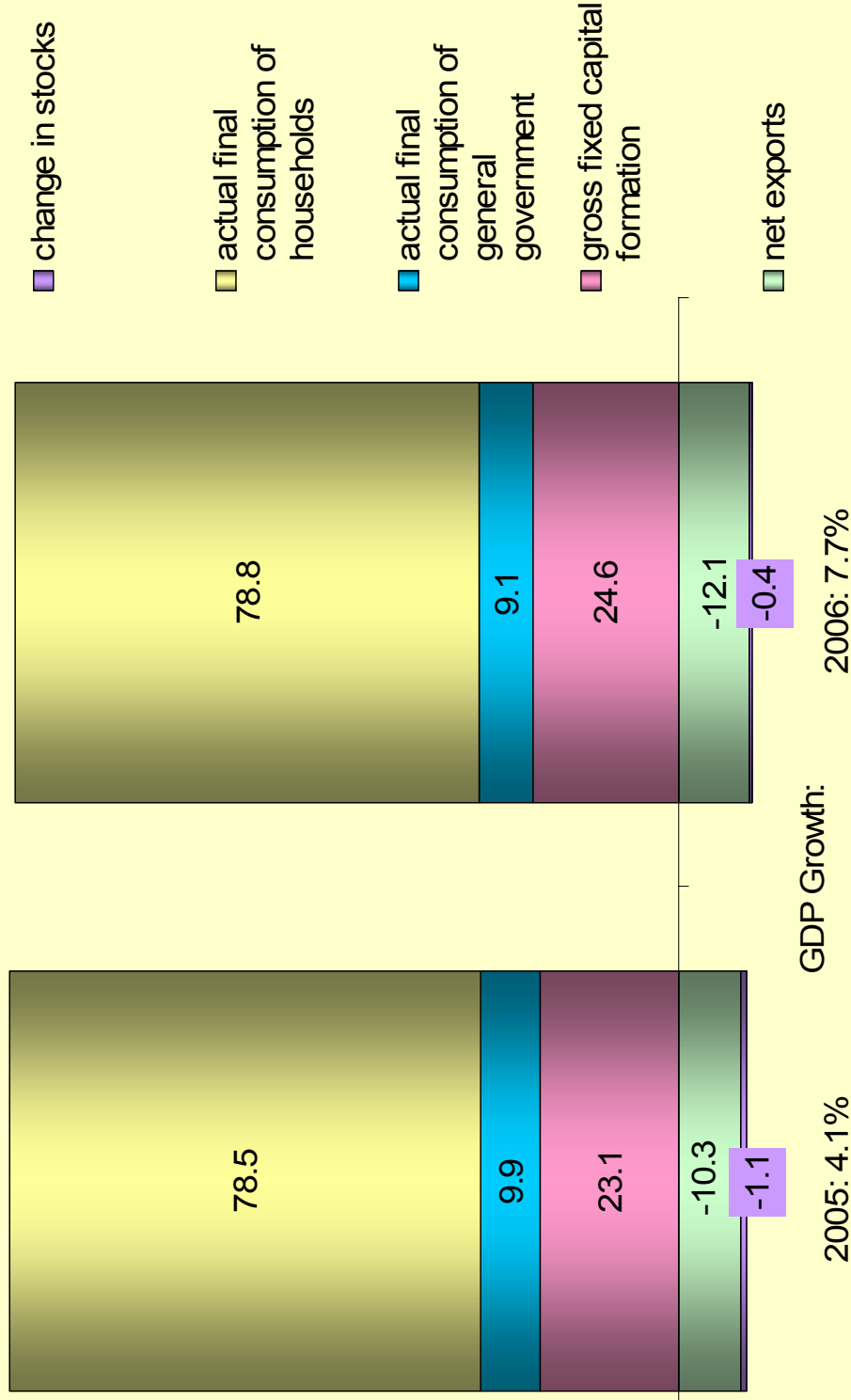
GDP by Source



Source: National Institute of Statistics

GDP by Expenditure

percent

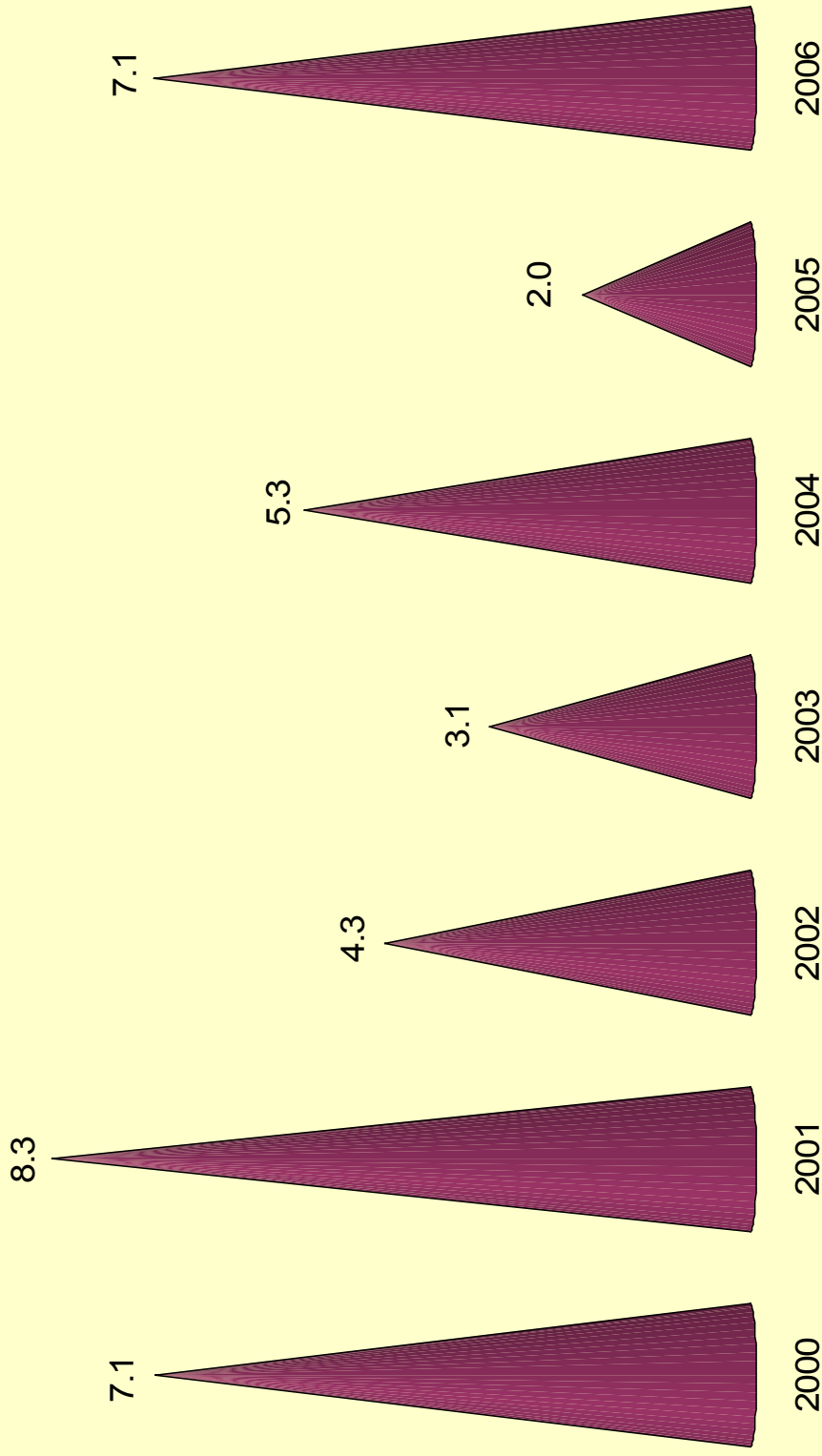


Source: National Institute of Statistics



Industrial Output

annual percentage change



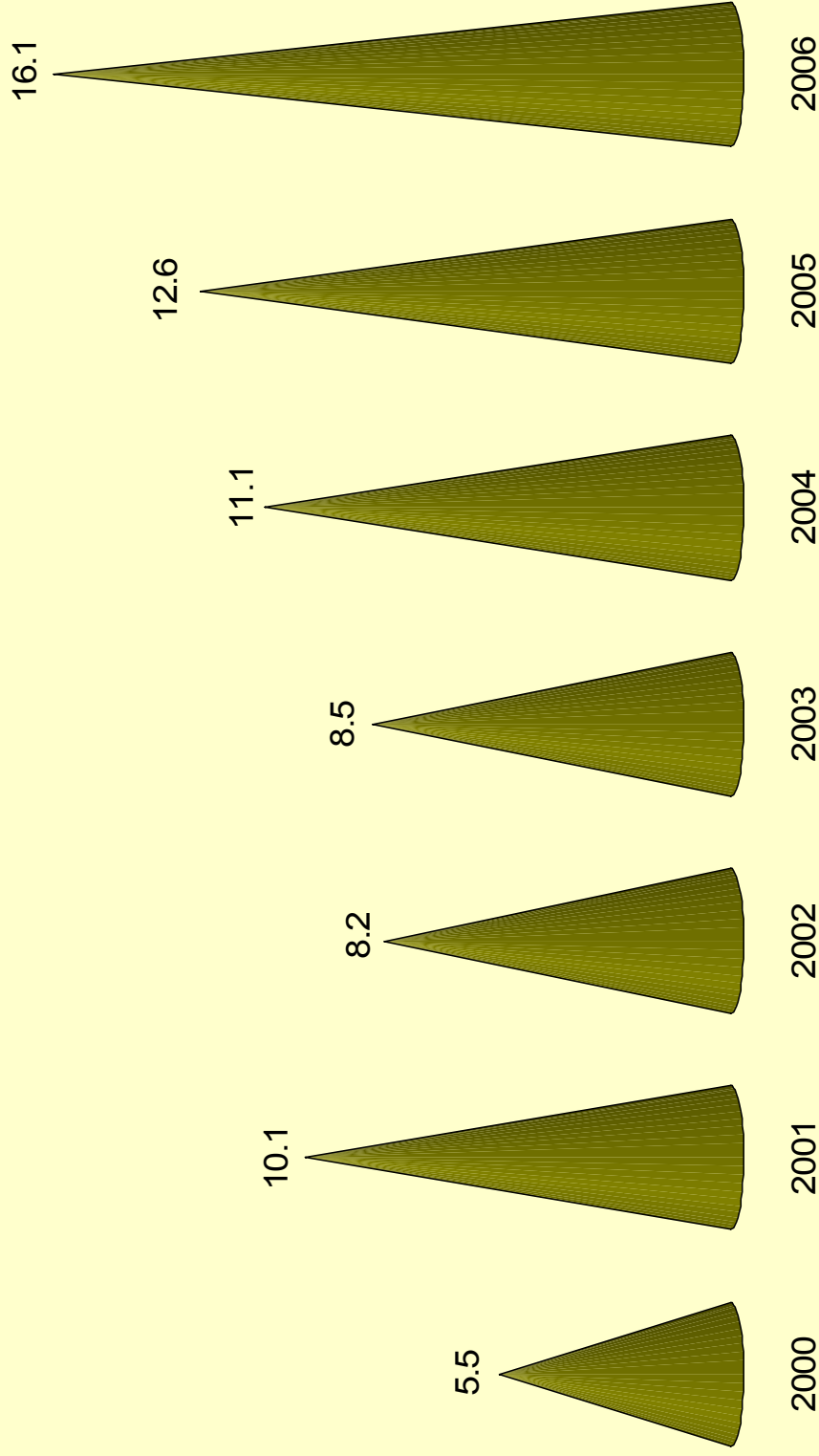
Source: National Institute of Statistics

Jan.-Feb. 2007: 7.4%



Gross Fixed Capital Formation (GDP component)

annual percentage change

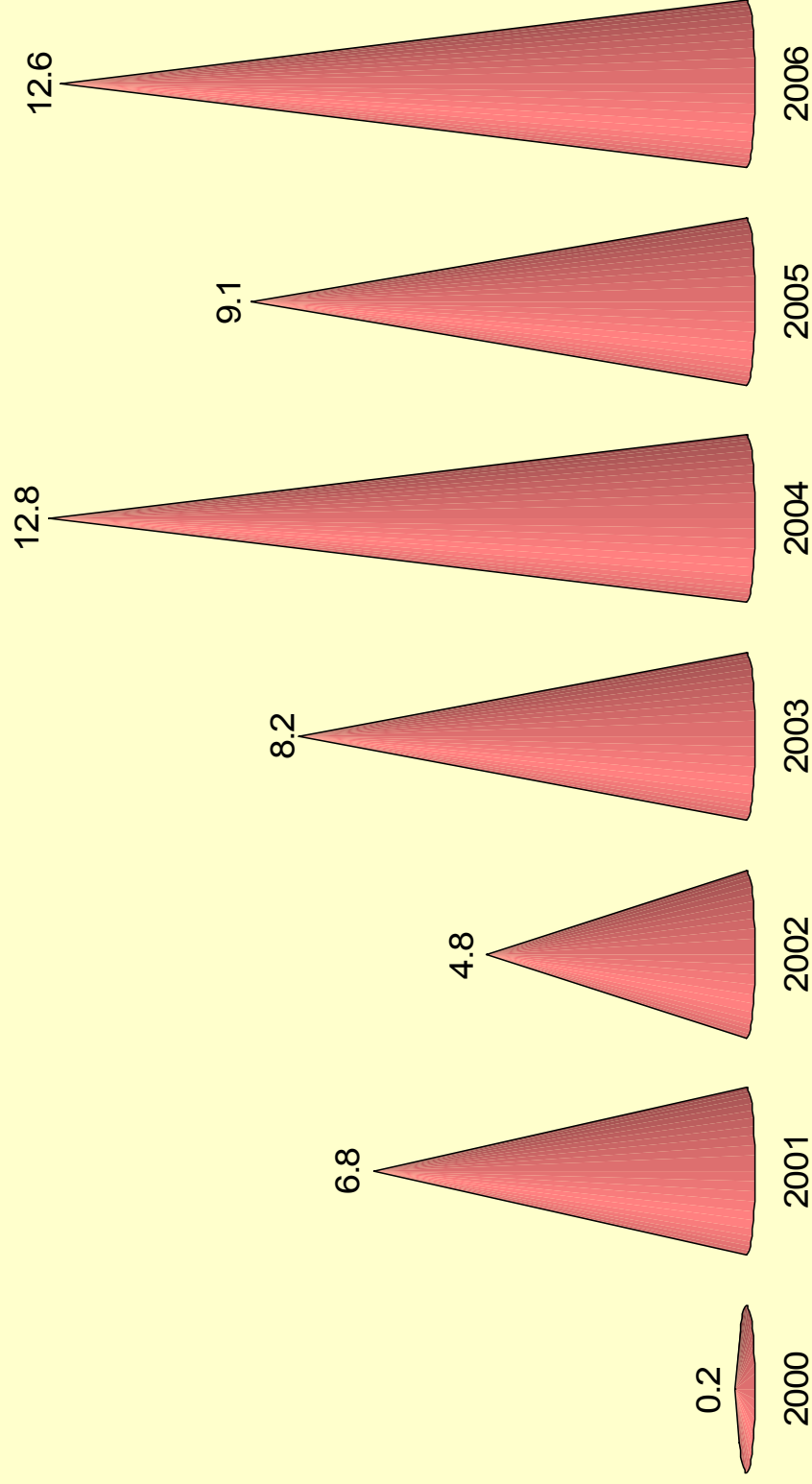


Source: National Institute of Statistics



Household Consumption (GDP component)

annual percentage change



Source: National Institute of Statistics

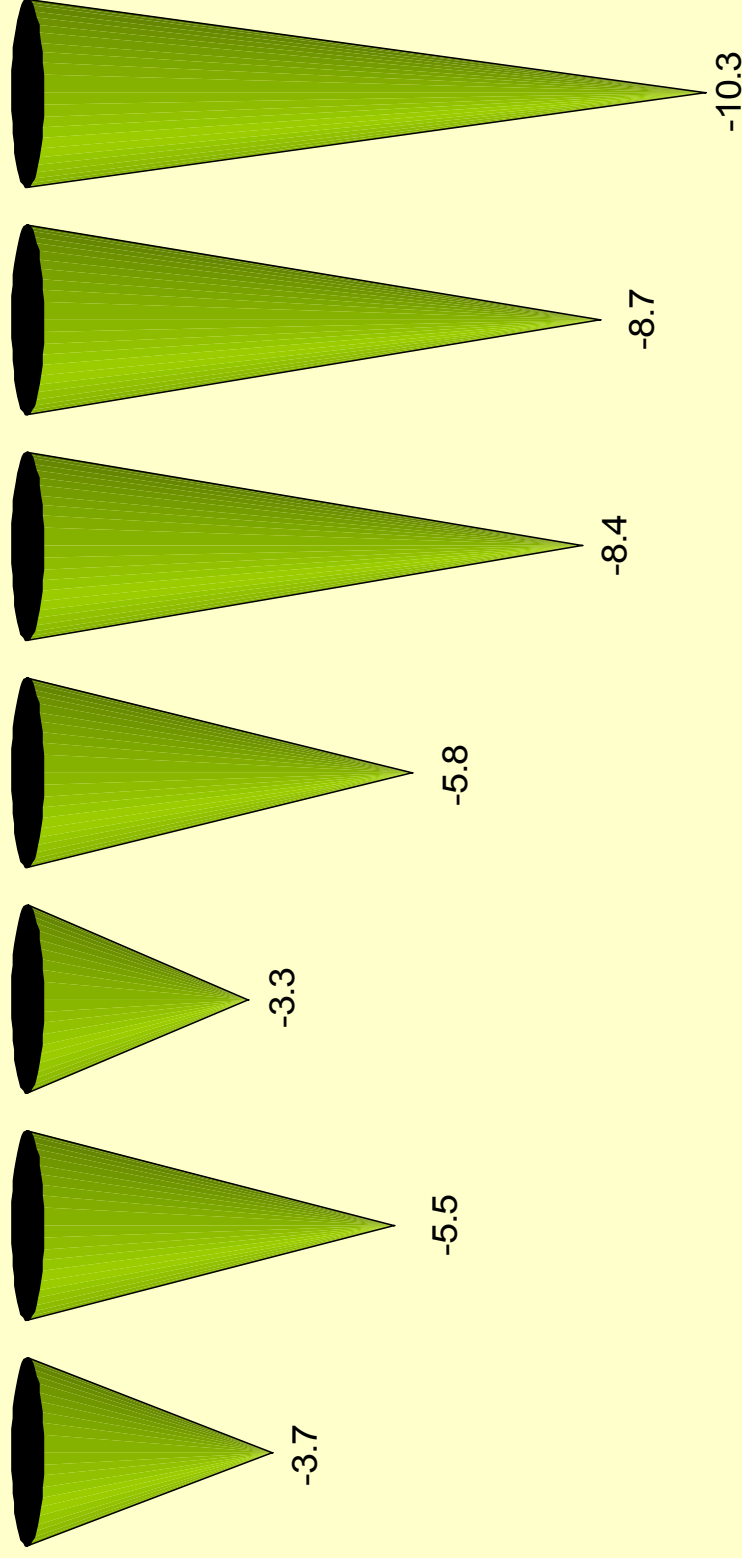


External Sector



Current Account Balance/GDP

percent



2000

2001

2002

2003*

2004*

2005*

2006*

*) including reinvested profit

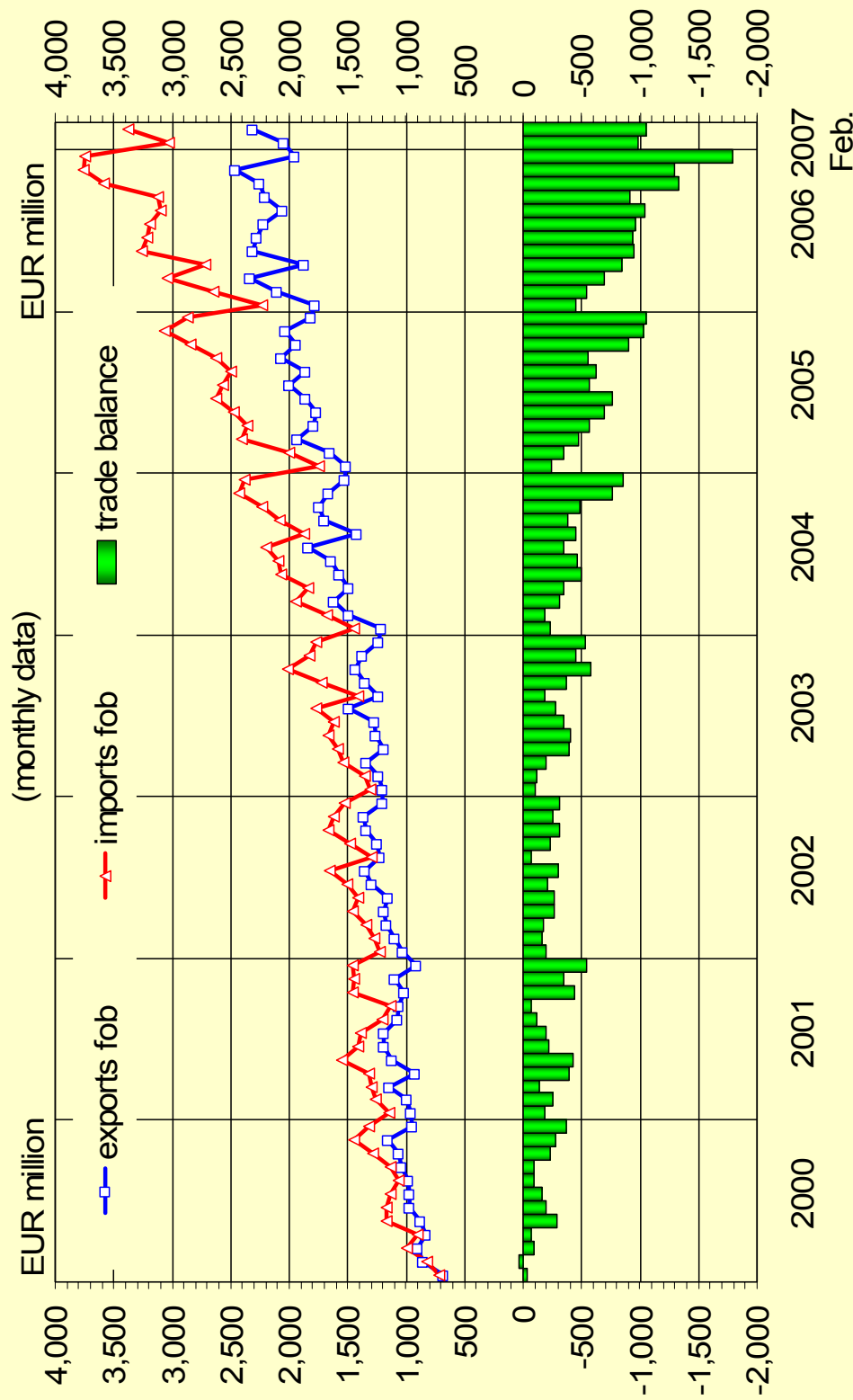
2006: provisional data

Source: National Institute of Statistics; National Bank of Romania



NATIONAL BANK OF ROMANIA

Trade Balance

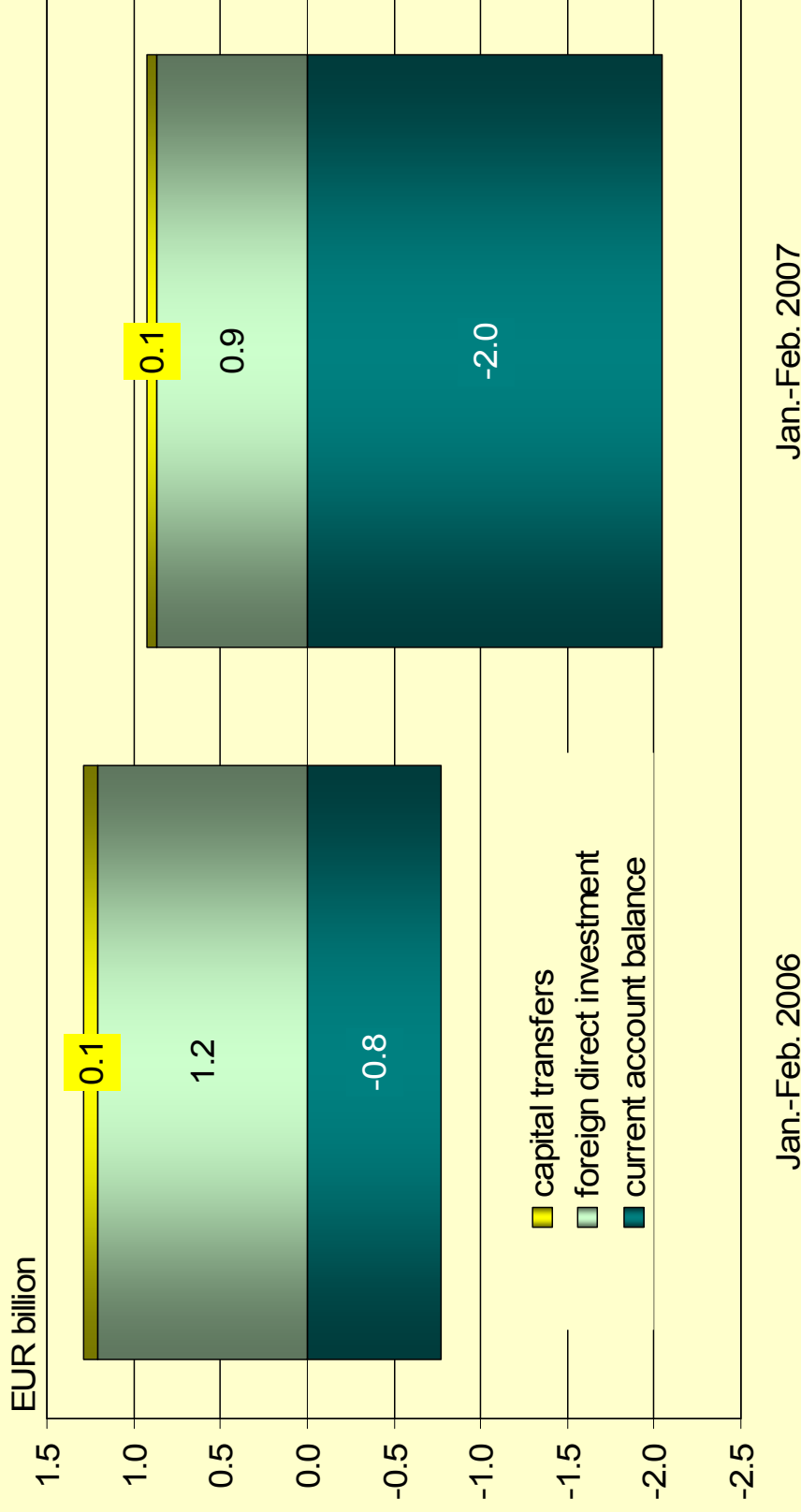


In February 2007, yoy growth of exports and imports in RON was 5.9% and 23.7% respectively.

Source: *National Institute of Statistics*



Current Account Deficit Financing via FDI

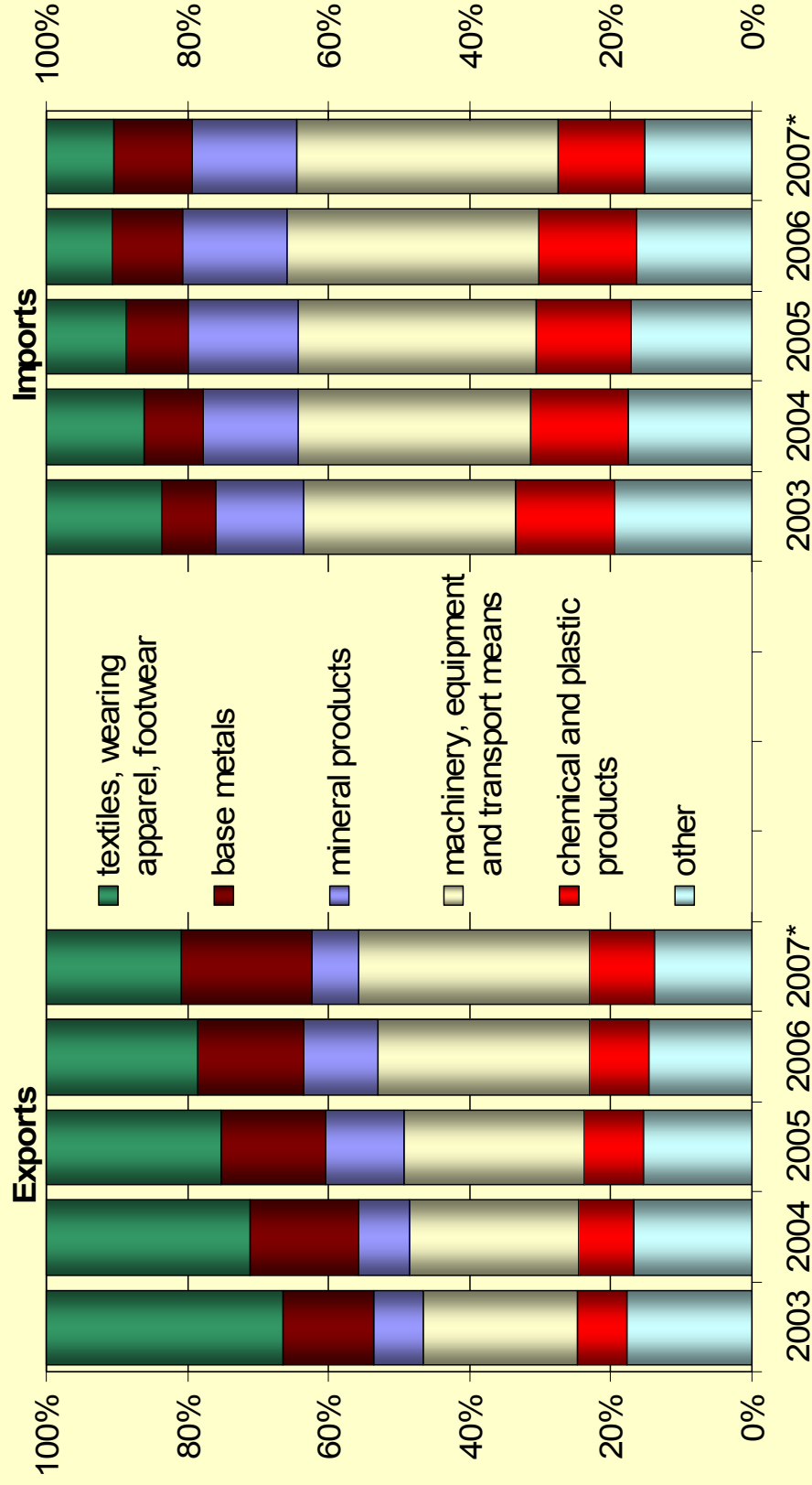


Current account financing via FDI (including capital transfers) amounted to 45.1% in Jan.-Feb. 2007 vs 167% yoy. In Jan.-Feb. 2007, net FDI lowered by 27.7% yoy.

Source: National Bank of Romania, National Institute of Statistics



Foreign Trade by Group of Commodities



In January 2007, yoy growth rate of exports of machinery, equipment and transport means was 36.4%; share of imports thereof in total imports remained broadly unchanged at 37.1%.

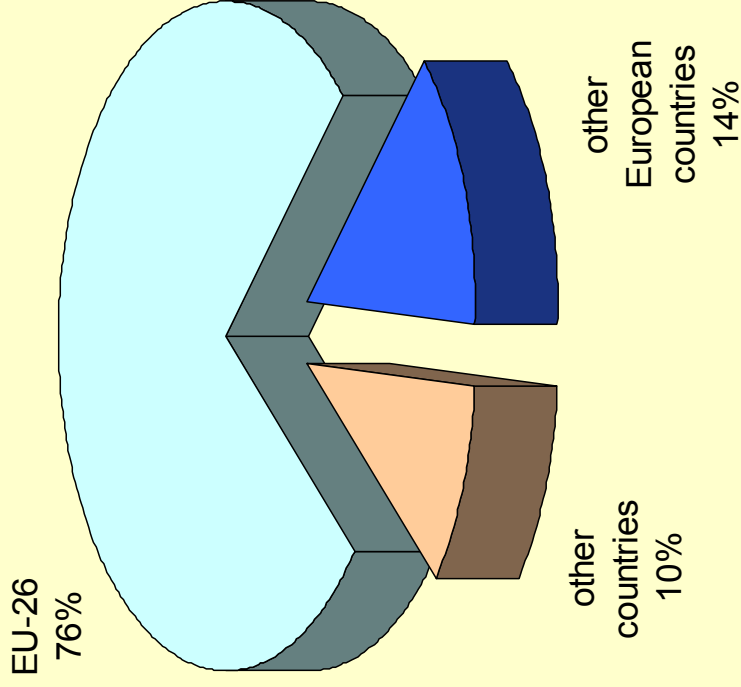
Source: National Institute of Statistics

*) January

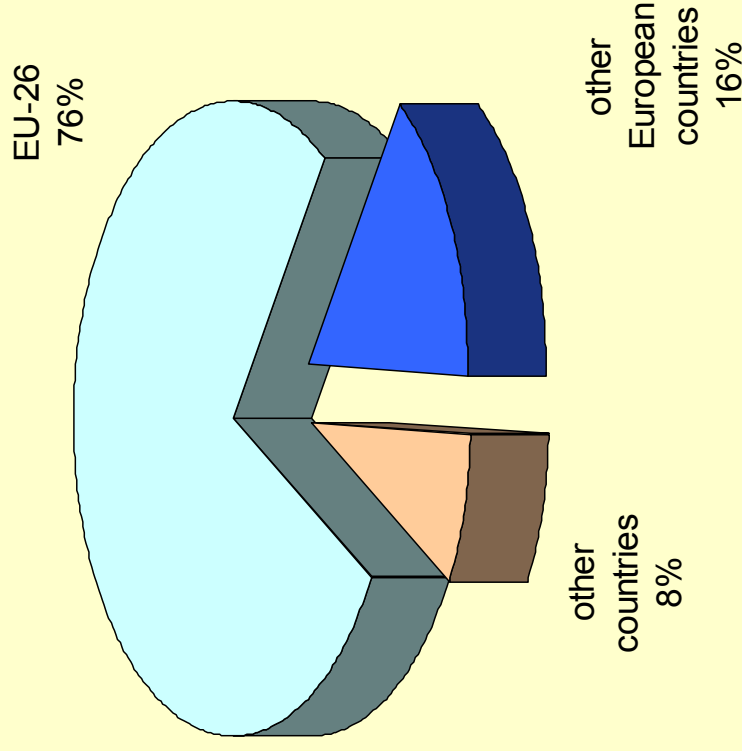


Foreign Trade by Group of Countries*

Exports



Imports

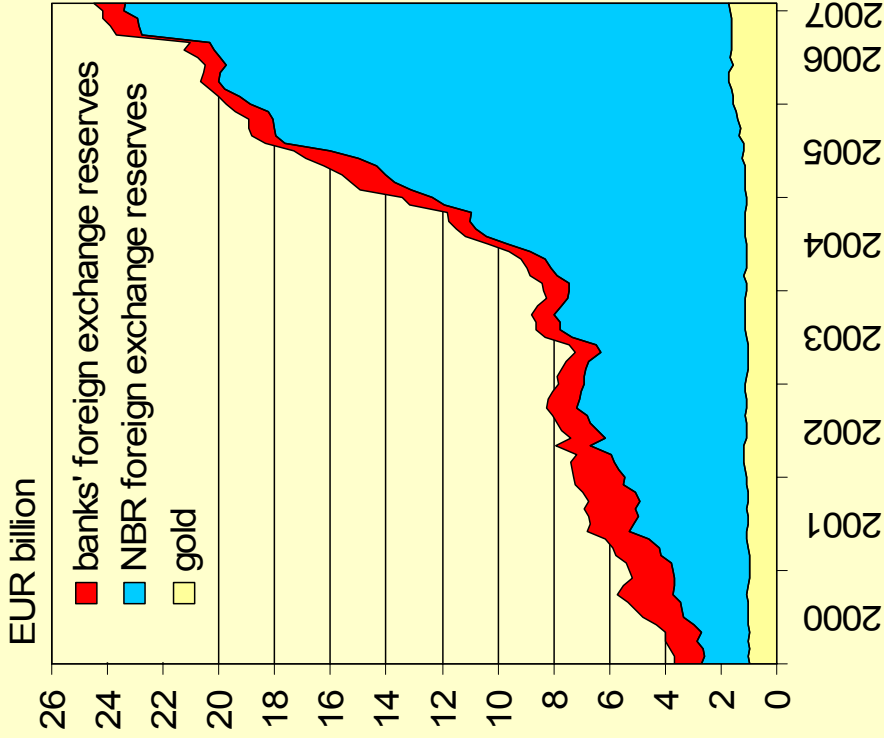


Source: National Institute of Statistics

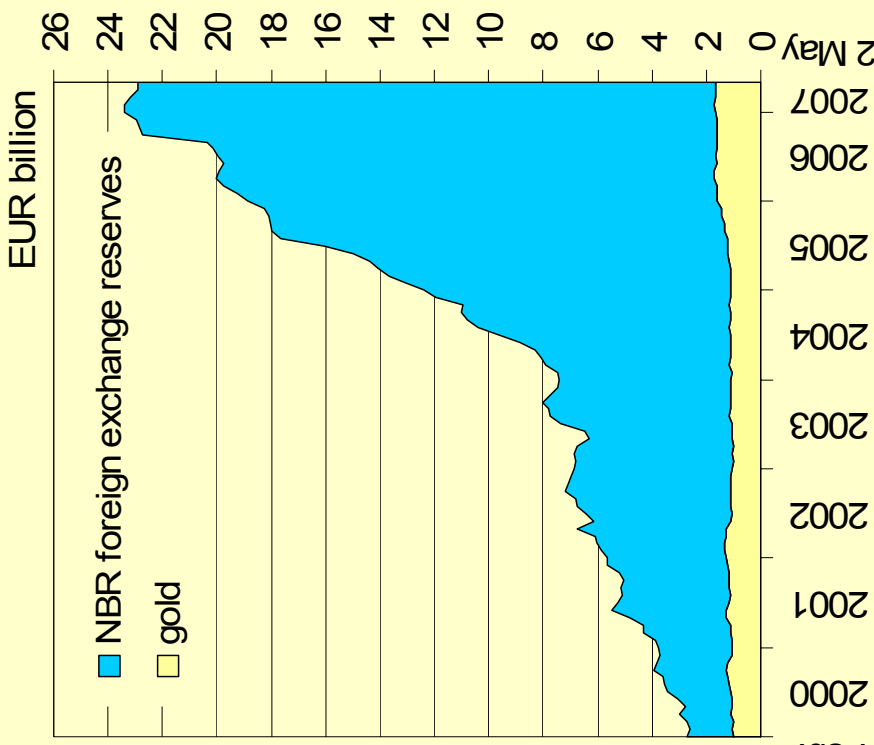
*) January 2007



Gross International Reserves



Gross Official Reserves

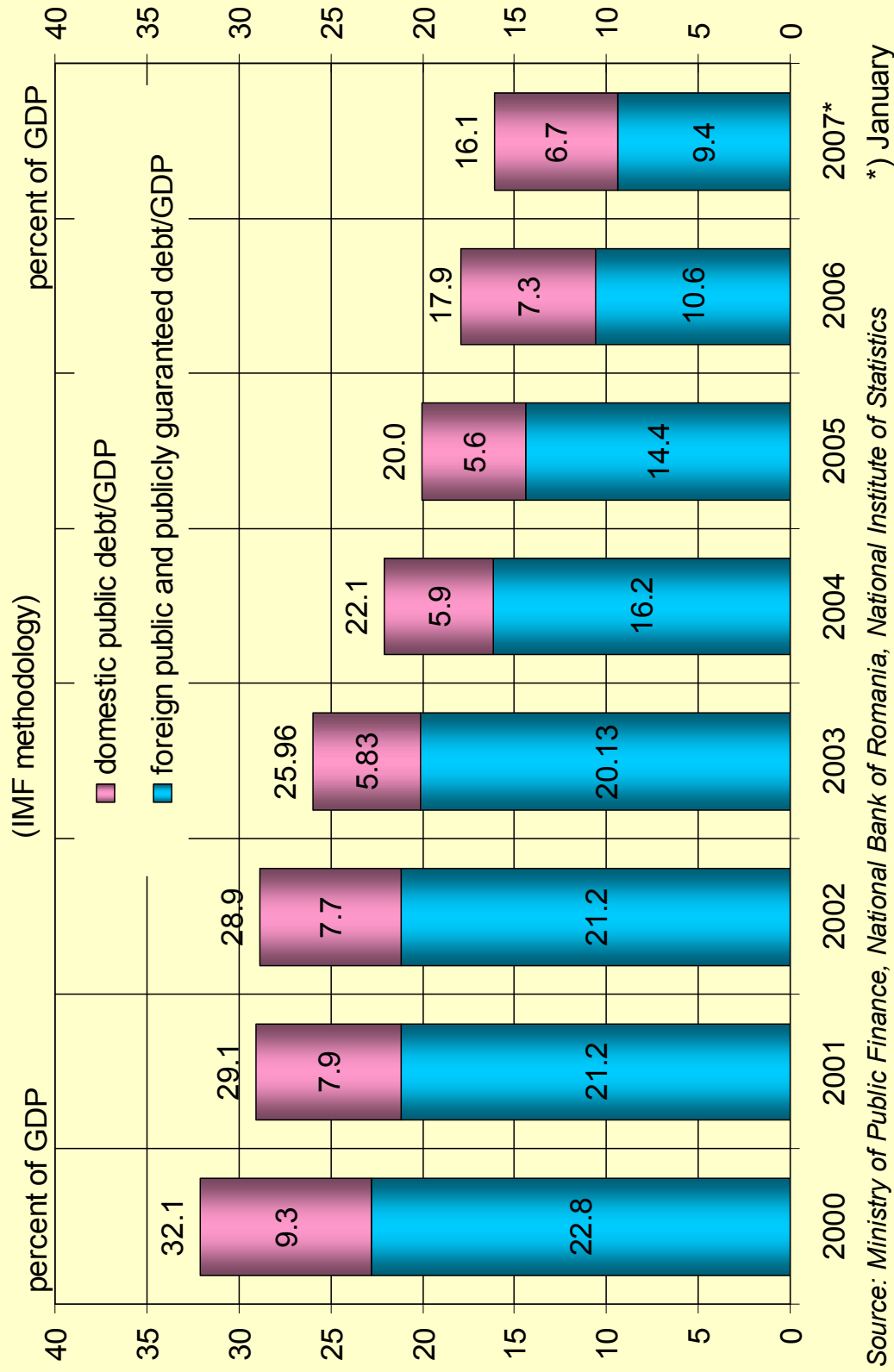


2 May 2007: NBR forex reserves equalled EUR 21.2 bn. and gross official reserves EUR 22.9 bn.

Source: National Bank of Romania



Public Debt Stock



Exchange Rate Regime

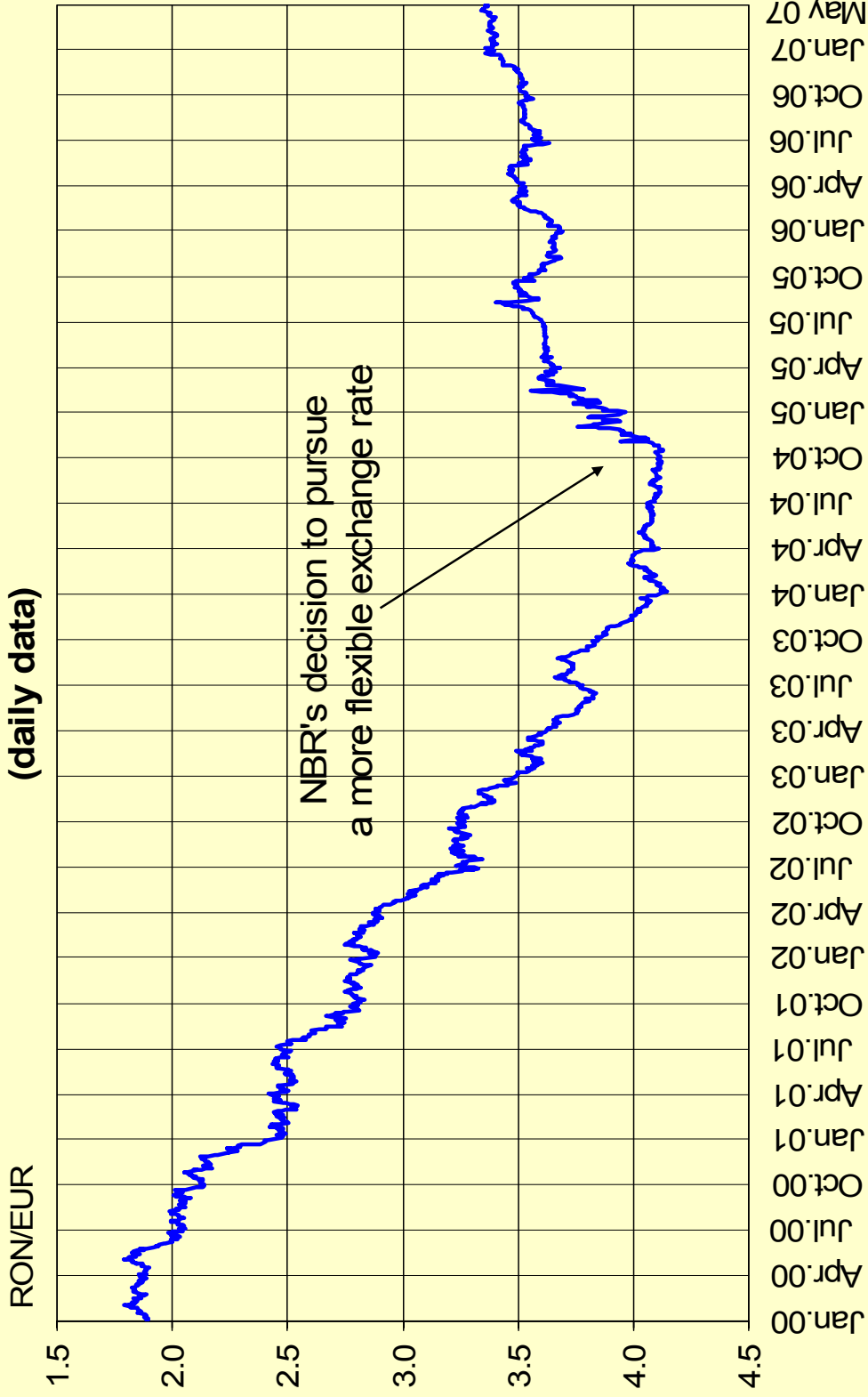


Liberalization of International Flows

- **1998:** Current account operations (Art. VIII of IMF Articles of Agreement)
- **1999:** Medium- and long-term capital inflows
- **2001-2002:** Capital flows with low impact on the balance of payments
- **2003-2004:** Capital flows with significant impact on the real sector
- **2005-2006:** Capital flows with significant impact on the balance of payments
- **September 2006:** Full convertibility of the national currency



Nominal Exchange Rate (daily data)



Source: National Bank of Romania

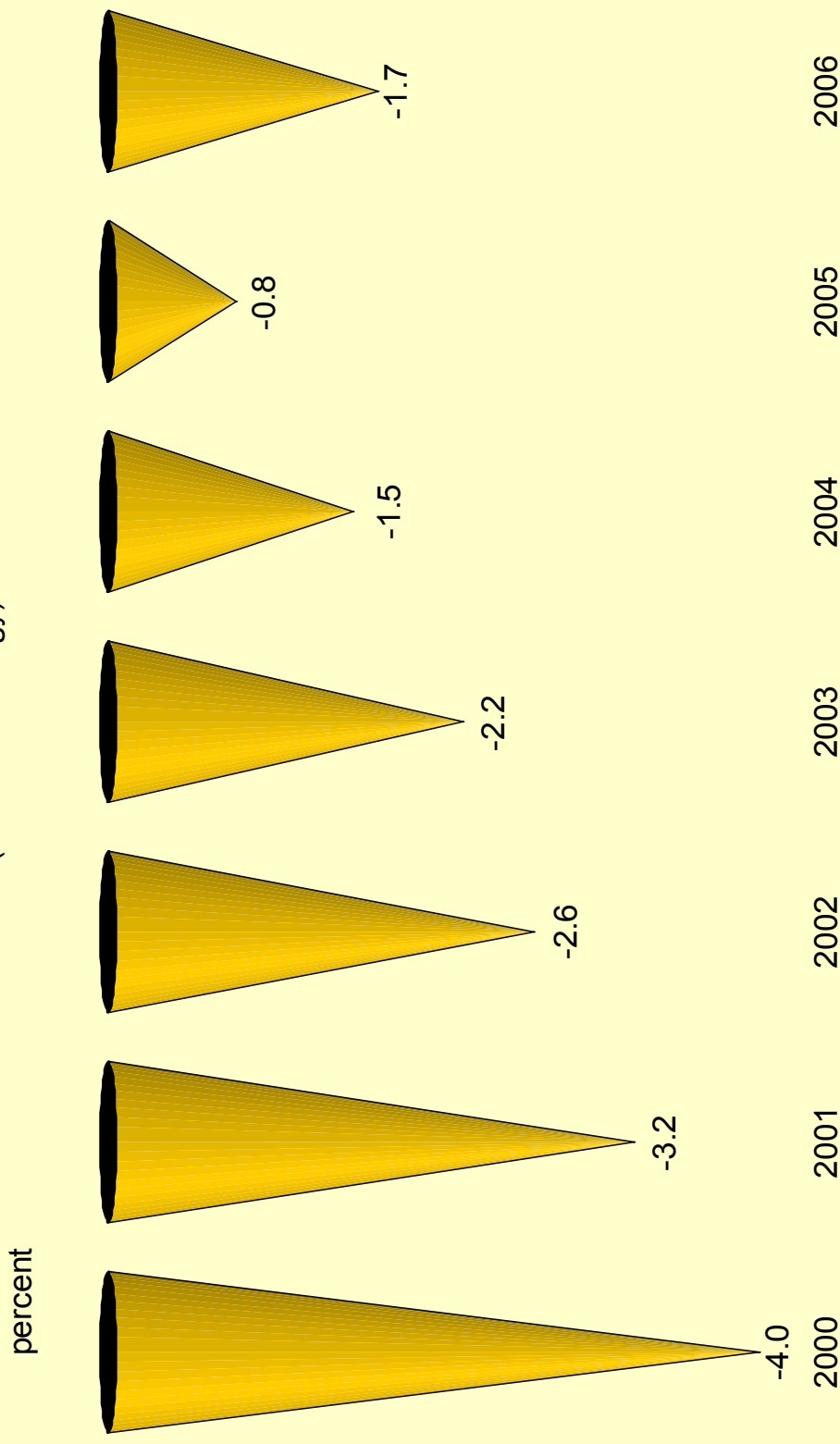


Fiscal Position



General Government Deficit /GDP

(IMF methodology)



Source: Ministry of Public Finance, National Institute of Statistics

Jan.-Mar. 2007: -0.12% of projected GDP



Banking System



Banking Sector - the Main Component of Financial System



*) estimate for 2006

Source: Bucharest Stock Exchange, Rasdaq, Insurance Supervisory Commission, Bank Leasing Association, NBR, NIS



Main Features of the Romanian Banking System^{*}

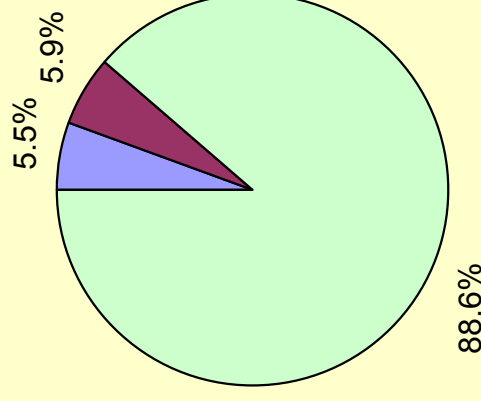
Features

- 38 banks (of which 7 foreign bank branches)
- Total bank assets: EUR 50.9 billion
- 60.3% of bank assets held by top-five banks
- Solvency ratio: 17.3%
- Foreign entities account for the largest part of shareholding

^{*}) December 2006

Shareholding Structure of Credit Institutions in Romania

(% in total assets)



- credit institutions with majority state-owned capital
- credit institutions with majority domestic privately-owned capital
- credit institutions with majority foreign capital (including foreign bank branches)



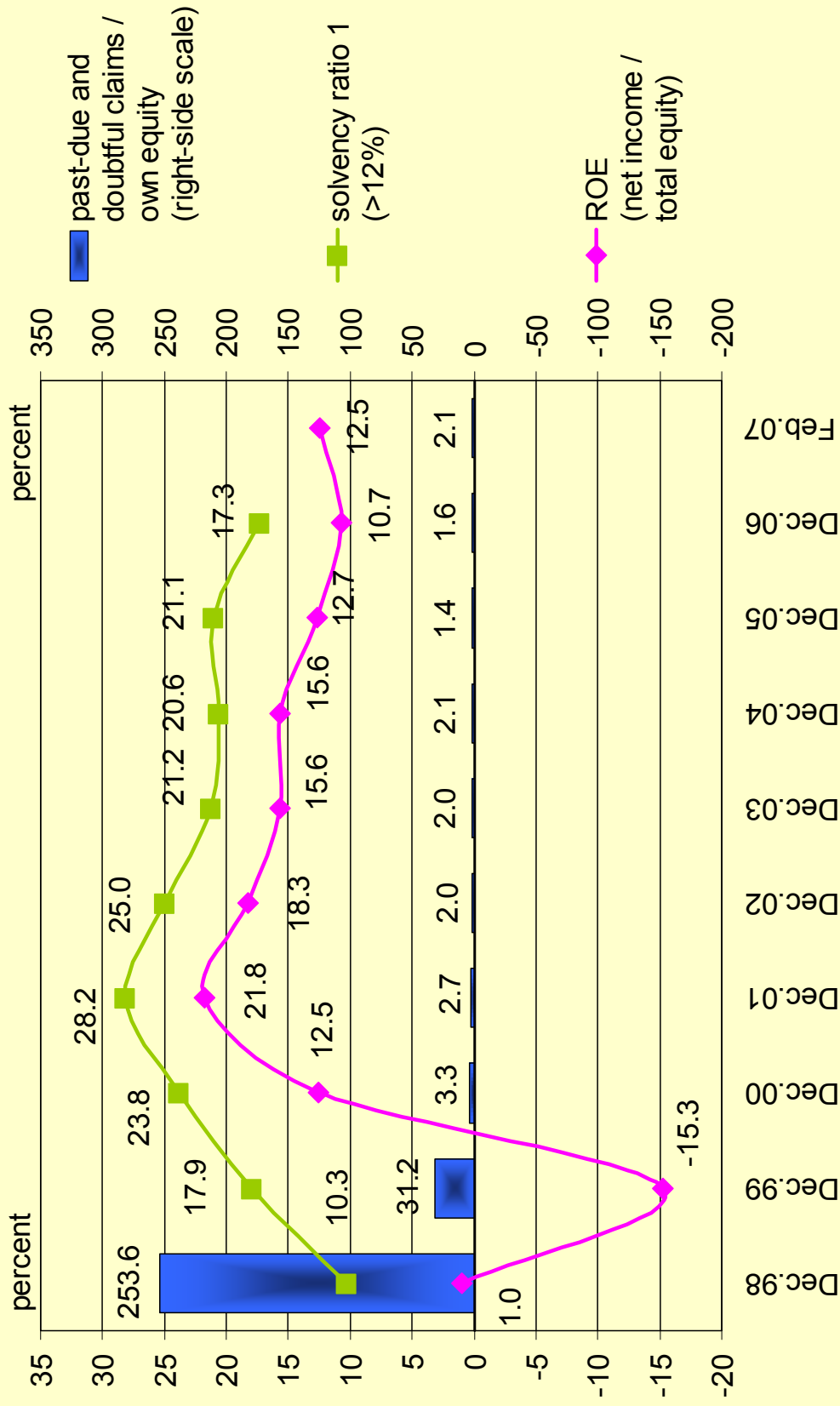
Foreign Equity Weight in the Capital of Banks in Romania

December 2006

	Foreign Equity	
	Percent of total foreign capital	Percent of total capital
Austria	32.7	23.9
Greece	22.5	16.4
Netherlands	10.1	7.4
Italy	9.2	6.7
Hungary	6.4	4.7
France	6.0	4.4
Cyprus	2.2	1.6
Germany	1.8	1.3
Other EU countries	2.0	1.5
Total EU	92.9	67.9
USA	2.1	1.6
Other countries	2.8	2.0
EBRD	2.1	1.5
IFC	0.1	0.1
Total	100.0	73.1



Analysis Ratios for the Banking System

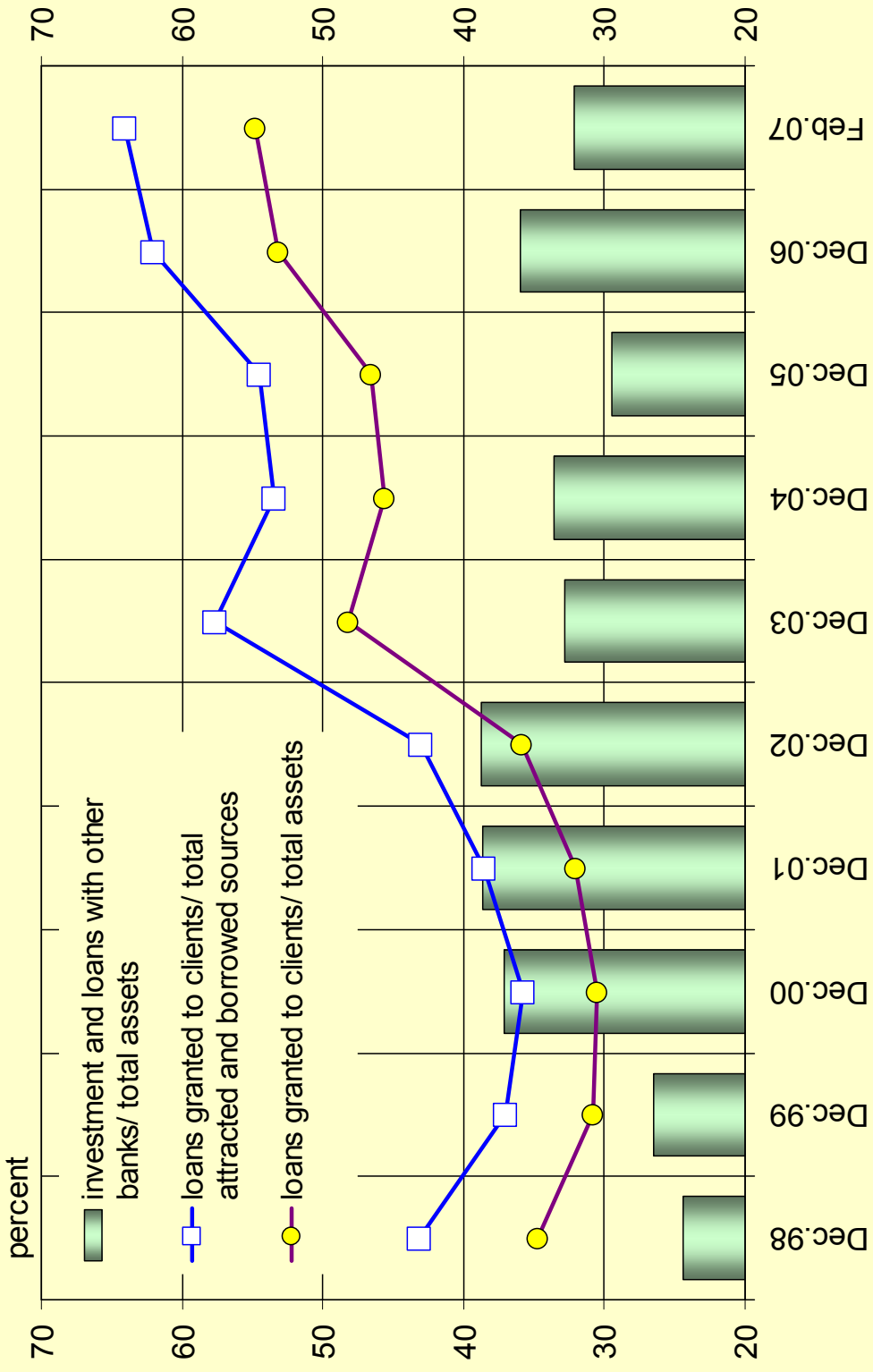


Source: National Bank of Romania



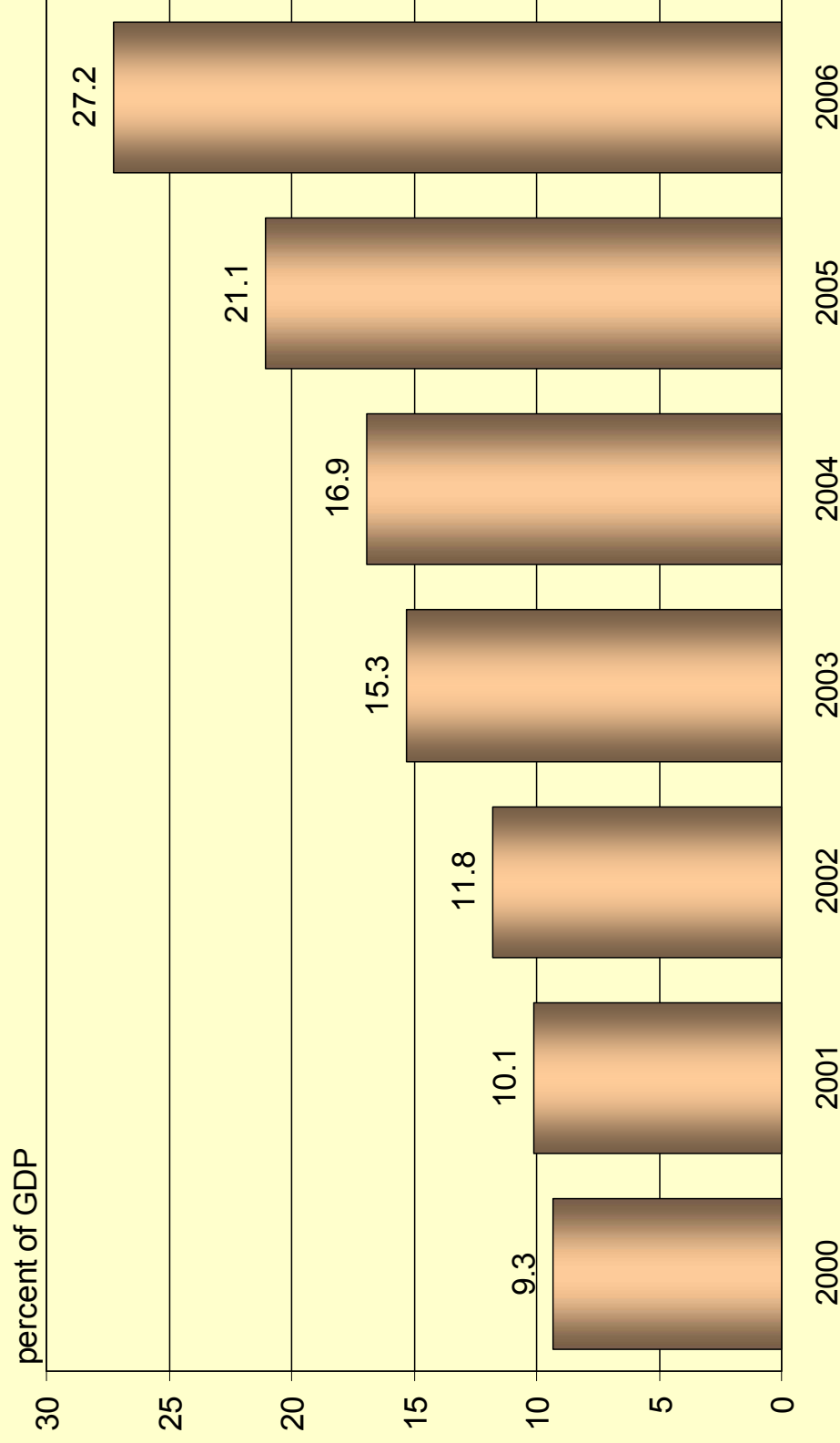


Banking Indicators



Source: National Bank of Romania

Financial Intermediation*

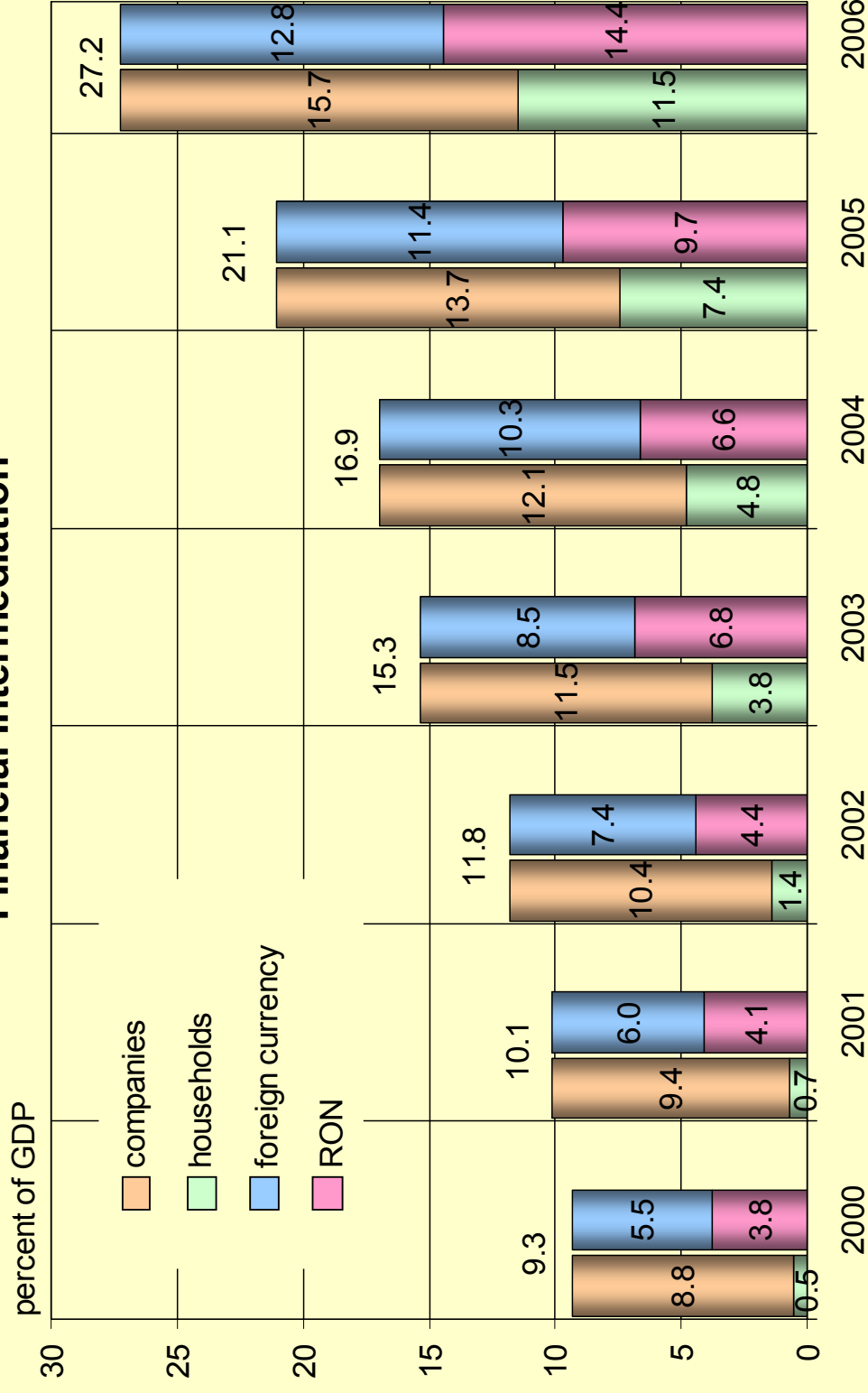


Source: National Institute of Statistics; National Bank of Romania

*) non-government credit/GDP



Financial Intermediation*

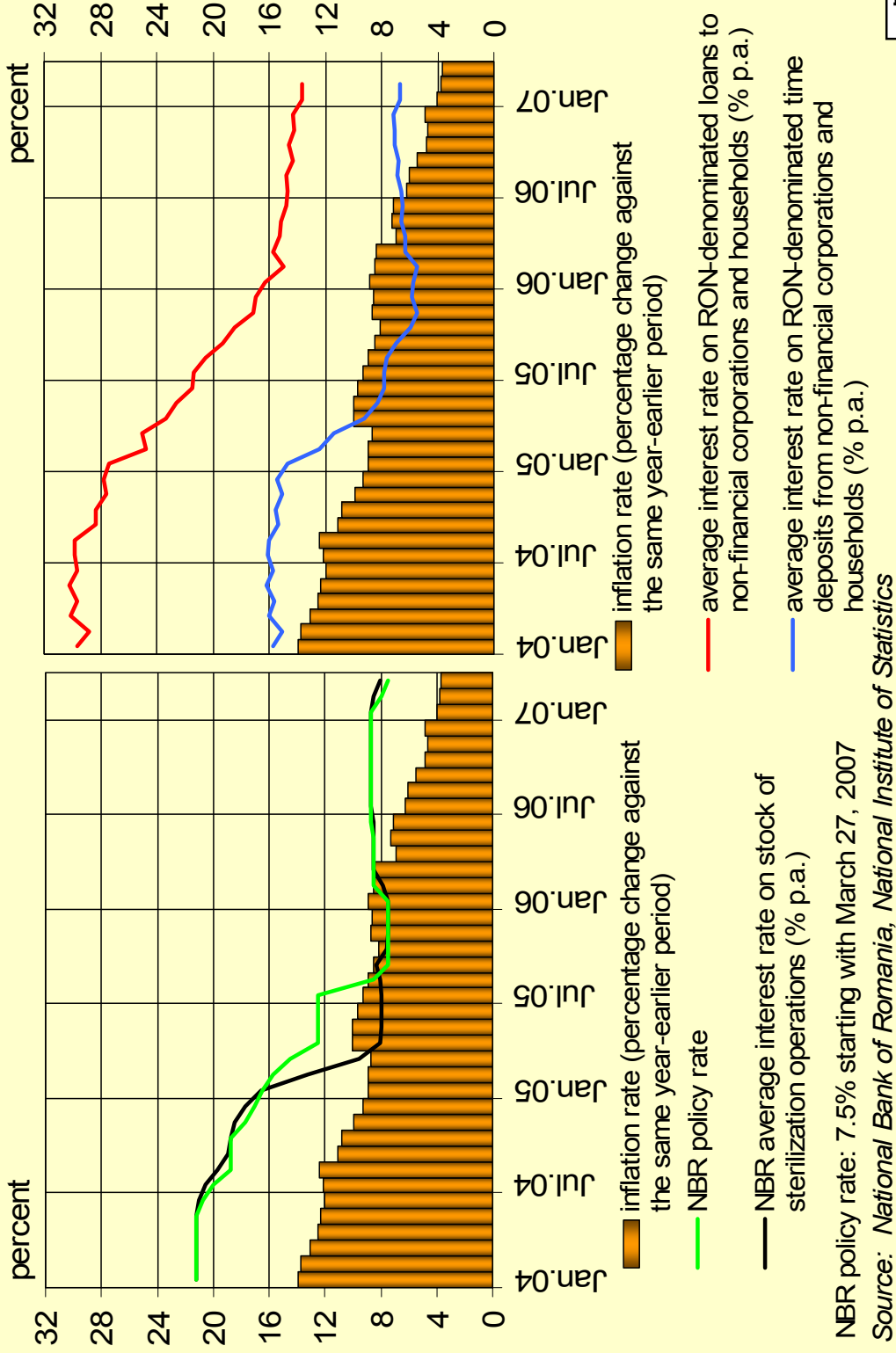


Source: National Bank of Romania, National Institute of Statistics

*) non-government credit/GDP



Inflation Rate and Interest Rates



NBR policy rate: 7.5% starting with March 27, 2007

Source: National Bank of Romania, National Institute of Statistics



Short- and Medium-Term Objectives in Prudential Regulation (1)

- **Promoting measures to expand financial intermediation based on a banking system which is**
 - ✓ modern and sound
 - ✓ adequately regulated from a prudential perspective
 - ✓ efficiently supervised
- leading to the avoidance of sectoral disequilibria
and contributing to lasting macro-stability

Short- and Medium-Term Objectives in Prudential Regulation (2)

- **Monitoring financial stability**
 - ✓ **Concept:** a stable financial system should be capable of ensuring efficient resource allocation, absorbing potential shocks and preventing them from having a detrimental effect on real economy
 - ✓ **Ensuring financial system stability** has become an **essential prerogative of the central bank**, supportive of its primary objective, i.e. **to ensure price stability**



Short- and Medium-Term Objectives in Prudential Regulation (3)

- **Enhancing the quality of supervision**
 - ✓ Greater involvement of credit institutions' executives in **risk management**
 - ✓ NBR regulations will be better tailored to the **specific risk profile of each credit institution**
 - ✓ **Shift to consolidated supervision** requires assessment of a credit institution's financial standing based on prudential indicators calculated at a consolidated level
- ✓ **Implementing the primary and secondary legislation approved in 2006 with a view to apply Basel II Accord starting 2008**



Euro Adoption



Euro Adoption (1)

1. For 2007-2012

- Consolidation of low inflation (sustainable disinflation)
- Establishment of domestic market for long-term capital and interest rate convergence
- Relative stability of the RON exchange rate (amid full convertibility) around the long-term equilibrium level (sustainable exchange rate)



Euro Adoption (2)

2. ERM2 entry is planned for 2012 in order to:

- Provide a time period necessary for:
 - ✓ Sustainable fulfillment of nominal convergence criteria
 - ✓ Achievement of a satisfactory level of real convergence

3. Euro zone entry 2014

