MACROECONOMIC INDICATORS AND FINANCIAL SECTOR DEVELOPMENTS IN THE RECENT CRISIS CONTEXT

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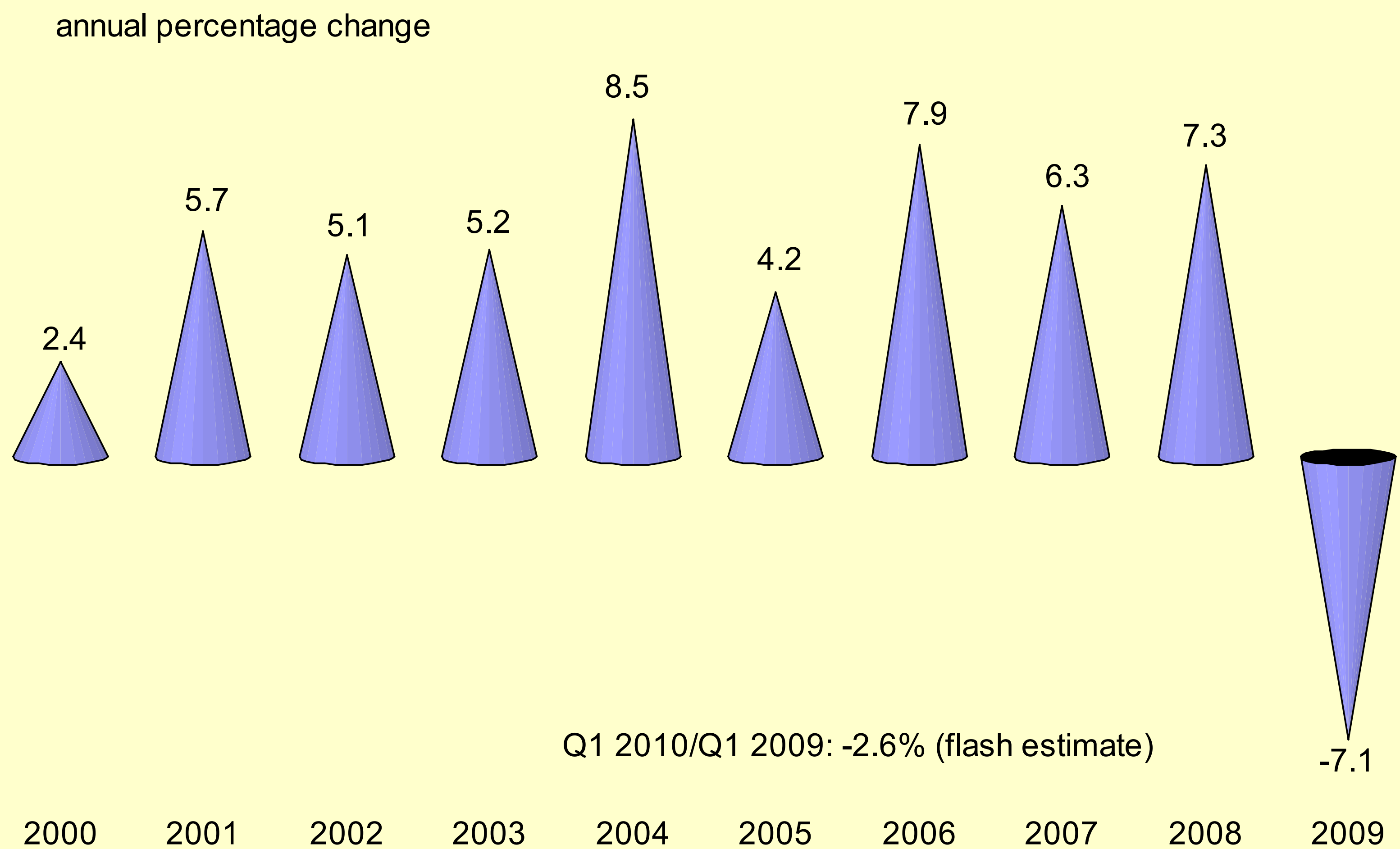
CONTENTS

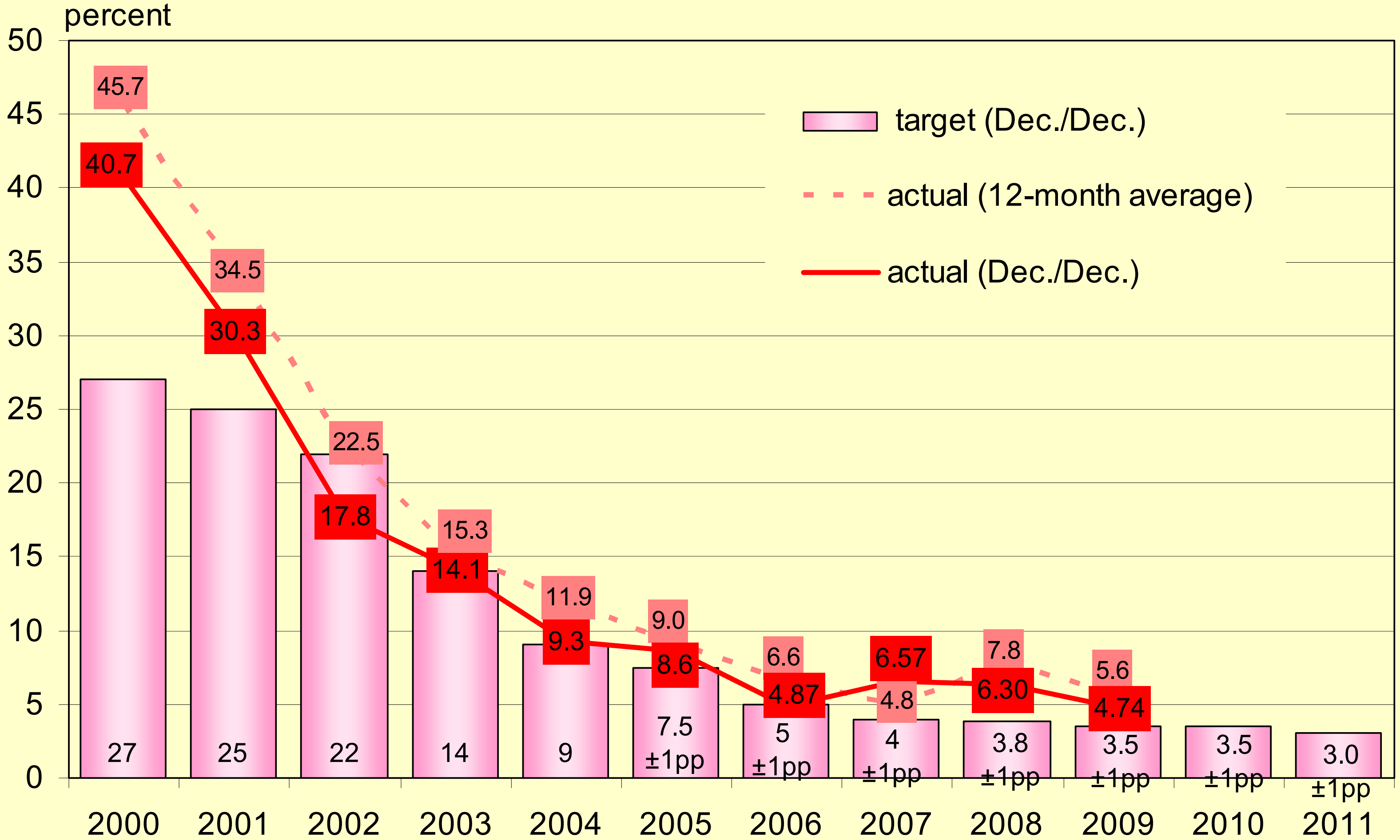
I. Macroeconomic Indicators

Real GDP



Source: National Institute of Statistics

Inflation Rate

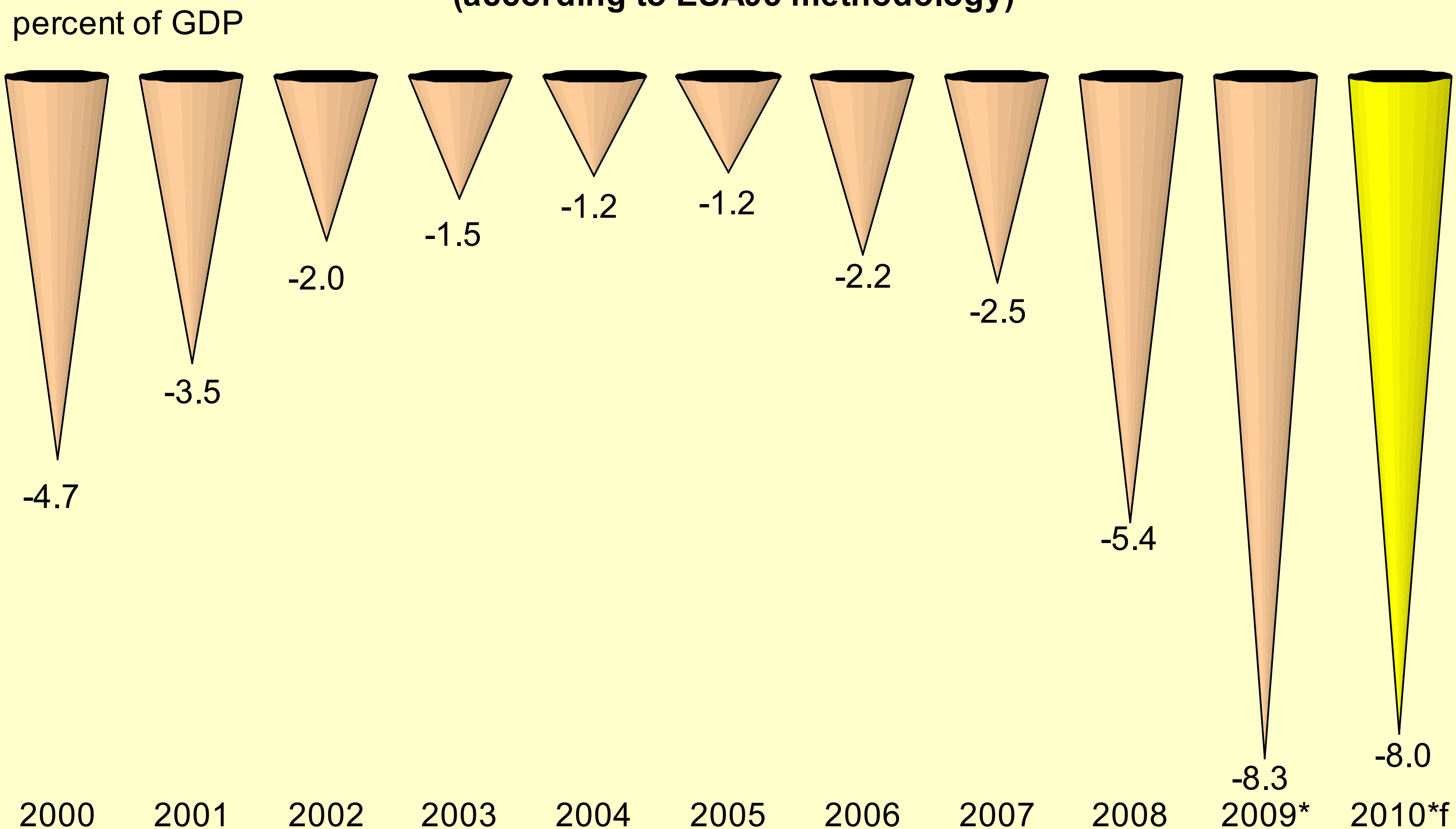


(May 2009-Apr. 2010)/(May 2008-Apr. 2009): 4.9%

Apr. 2010 (yoy): 4.28%

Source: National Institute of Statistics, National Bank of Romania

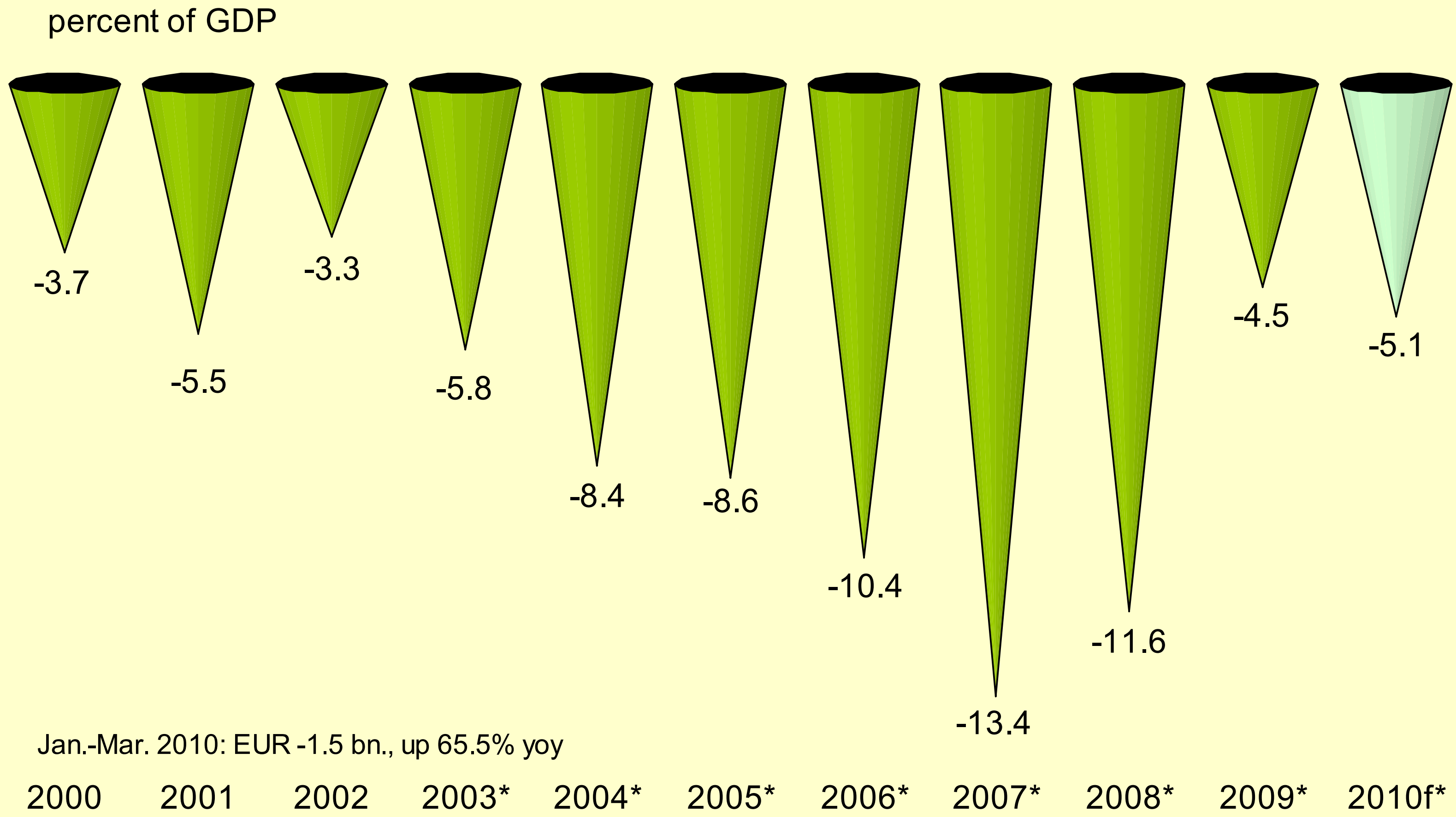
General Government Balance
(according to ESA95 methodology)



*) ECB - Convergence Report, May 2010 f) forecast

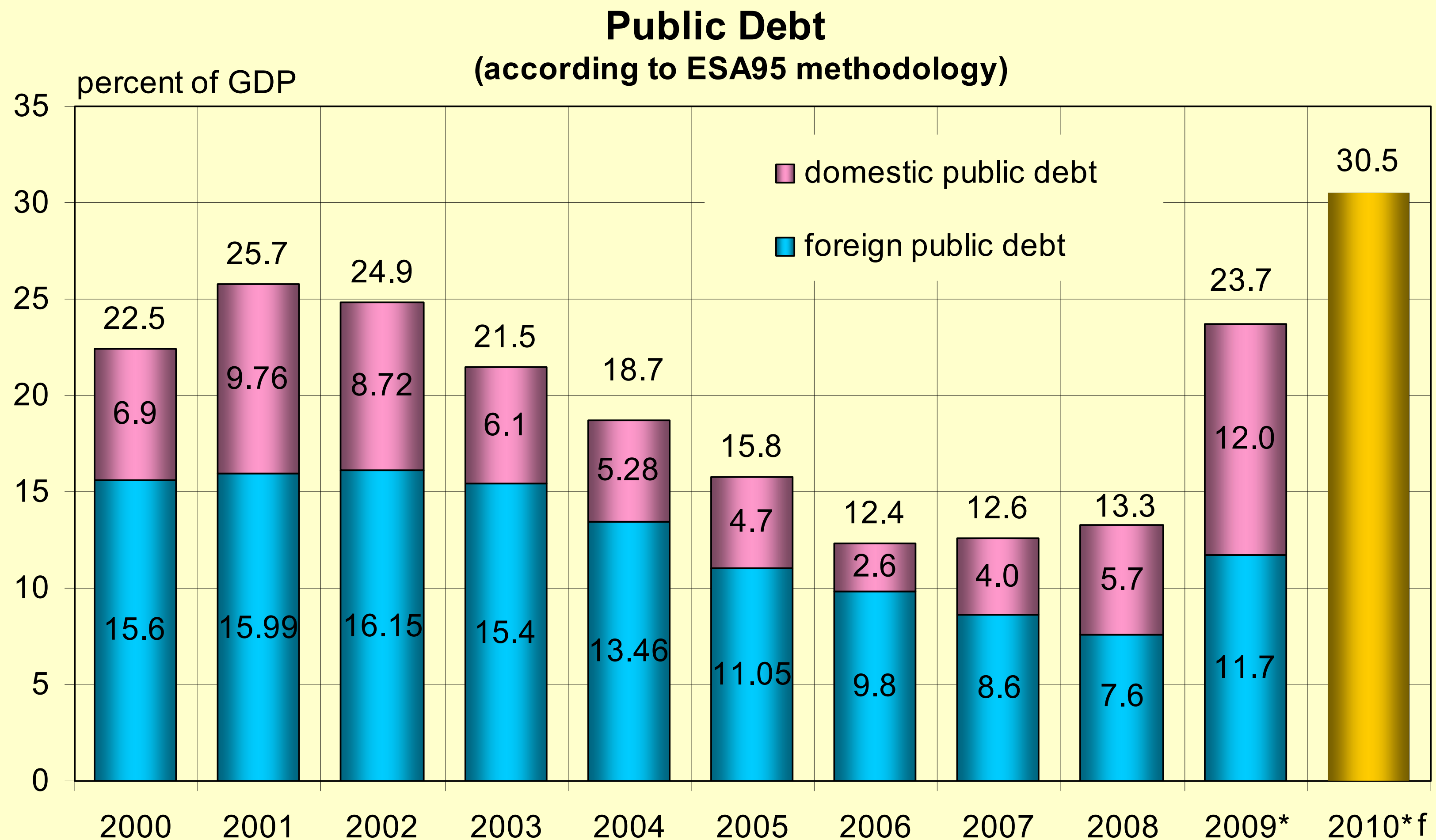
Source: Ministry of Public Finance, National Institute of Statistics

Current Account Balance



*) including reinvested earnings f) NCP forecast

Source: National Bank of Romania, National Institute of Statistics, National Commission of Prognosis

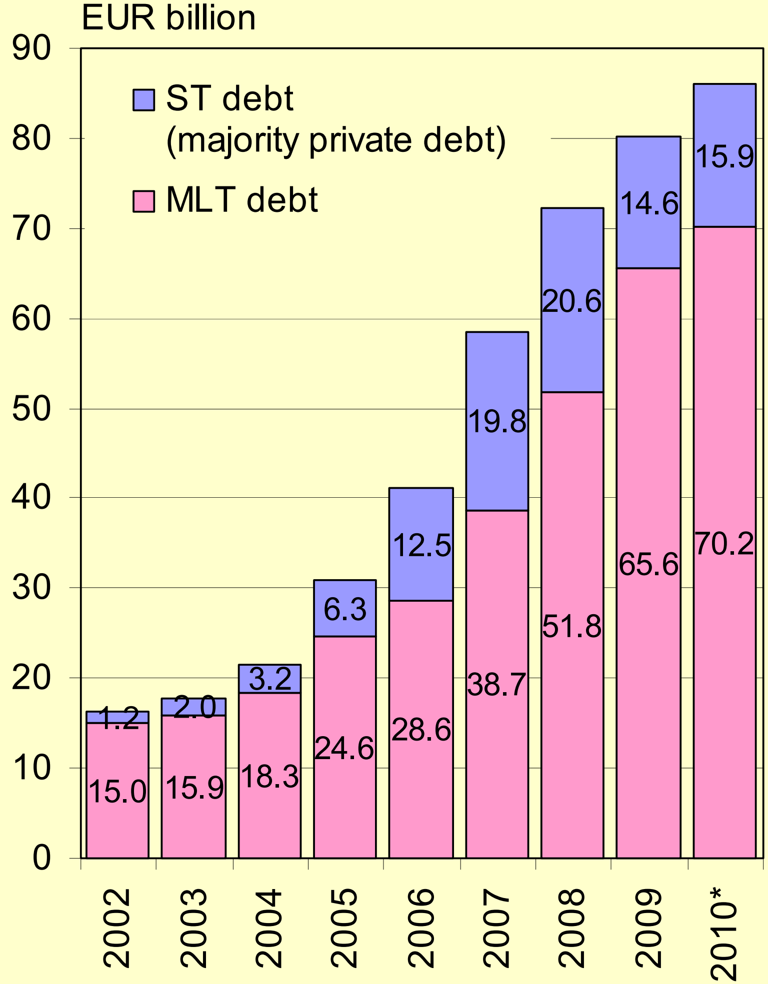


Note: Government securities in MFIs portfolio as a share of GDP in Dec.07=1.4%, Dec.08=2.1%, Dec.09=7.2% and Mar.10=7.5%

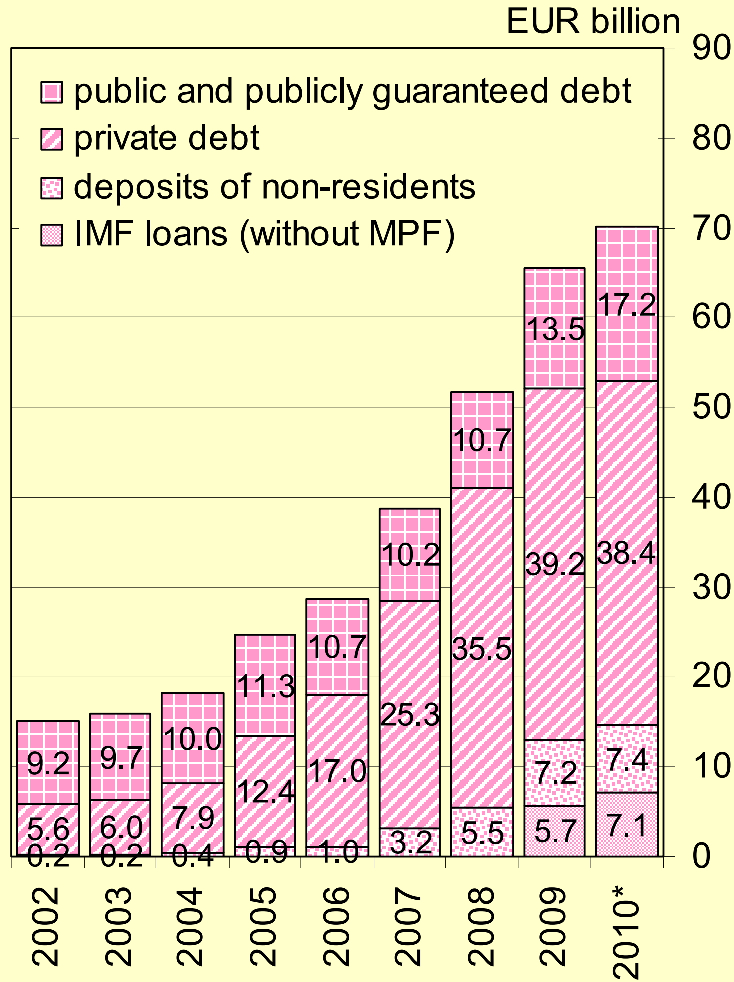
*) ECB - Convergence Report, May 2010 f) forecast

Source: National Bank of Romania, National Institute of Statistics, European Commission

Total External Debt



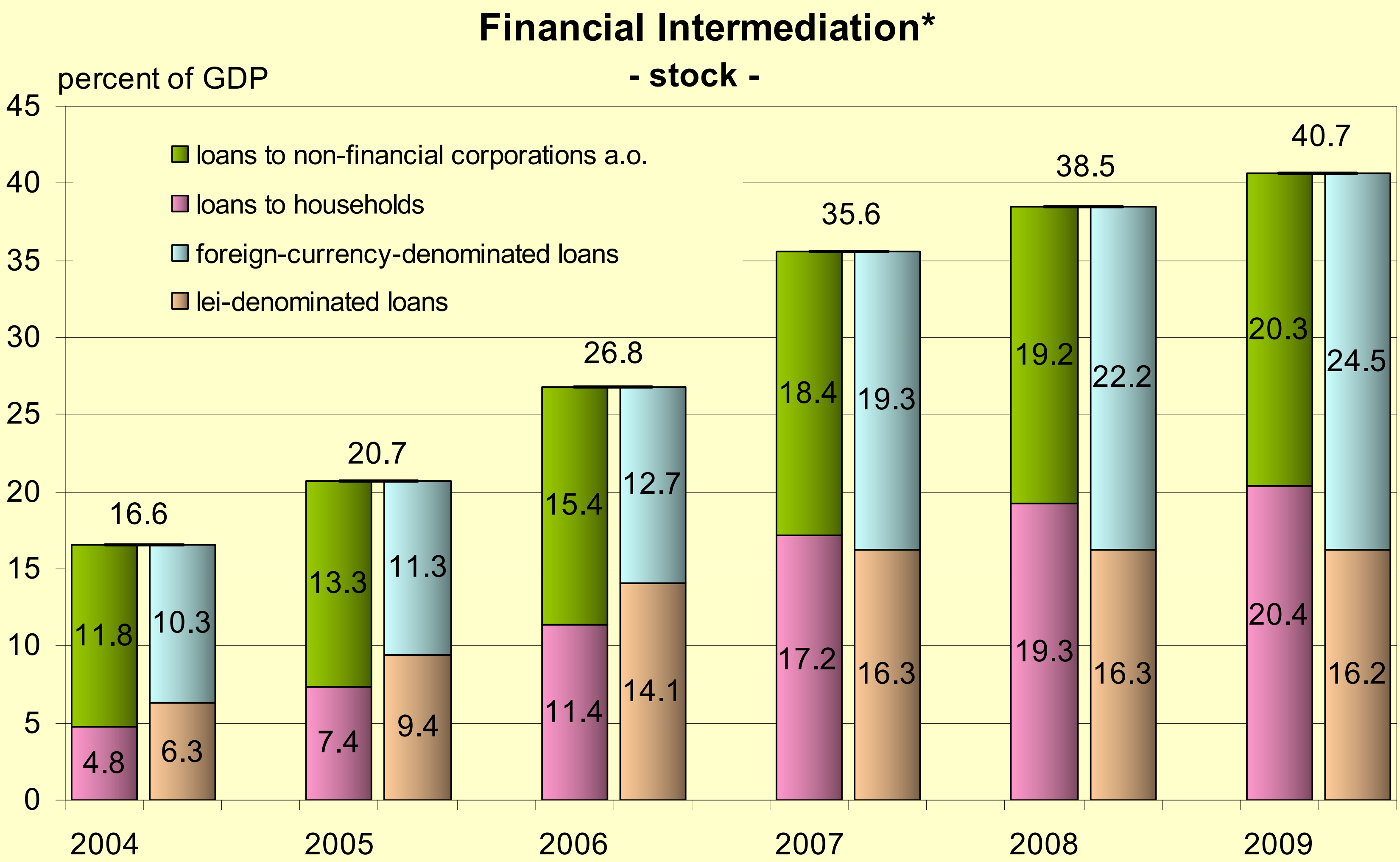
MLT External Debt



Source: National Bank of Romania

*) March

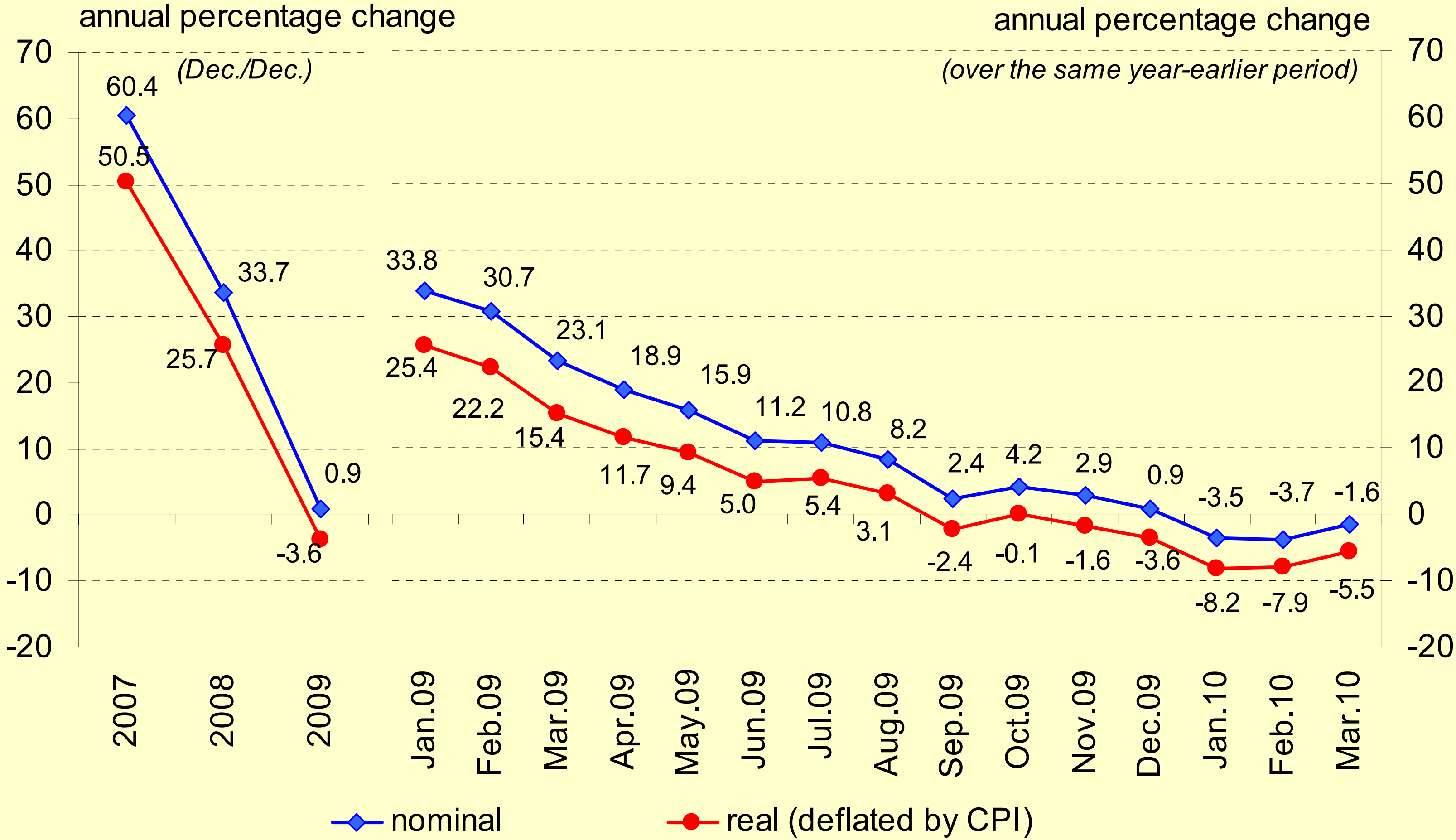
II. Financial Sector Developments



*) loans to the private sector/GDP

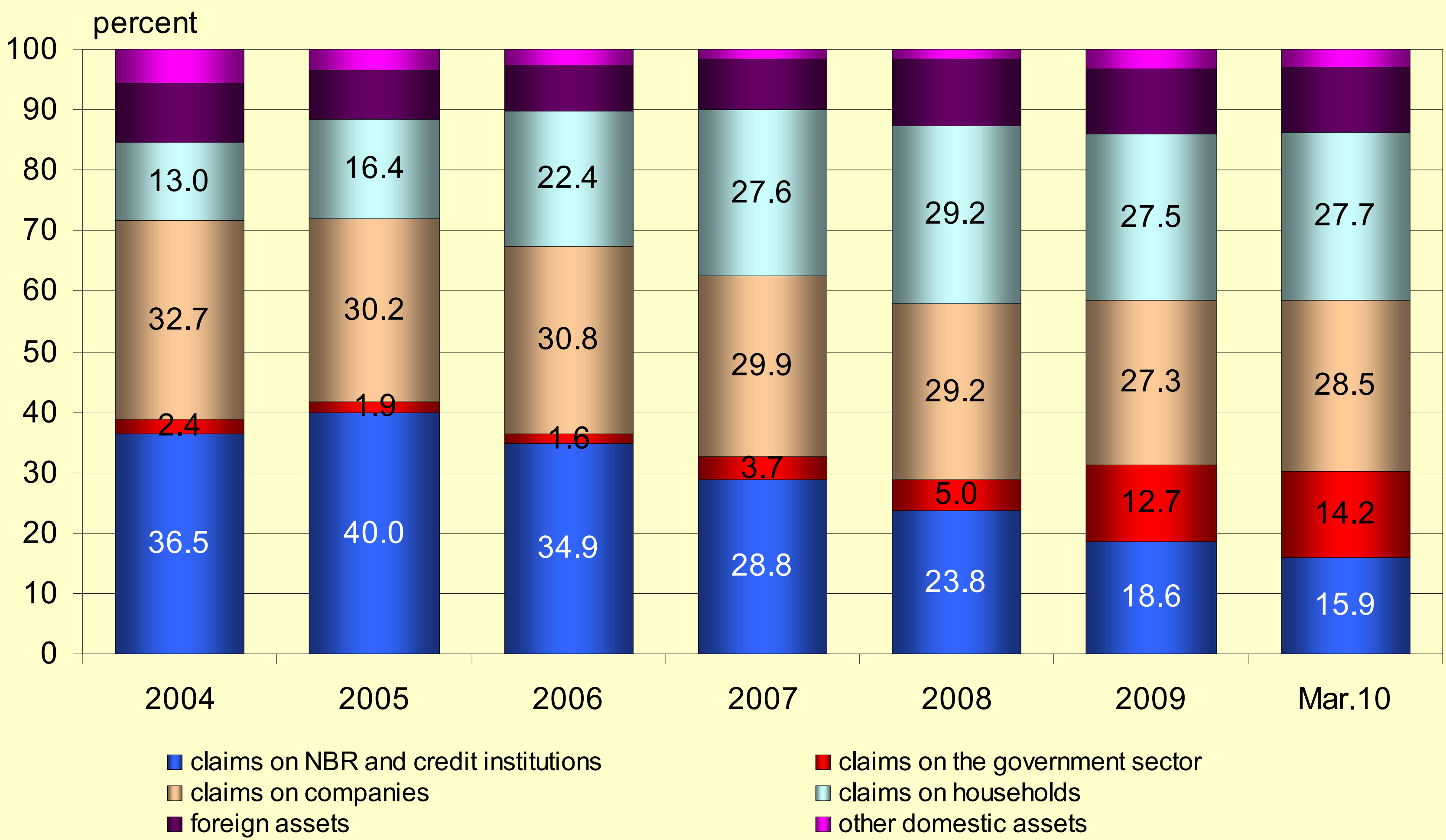
Source: National Bank of Romania, National Institute of Statistics

Credit to the Private Sector



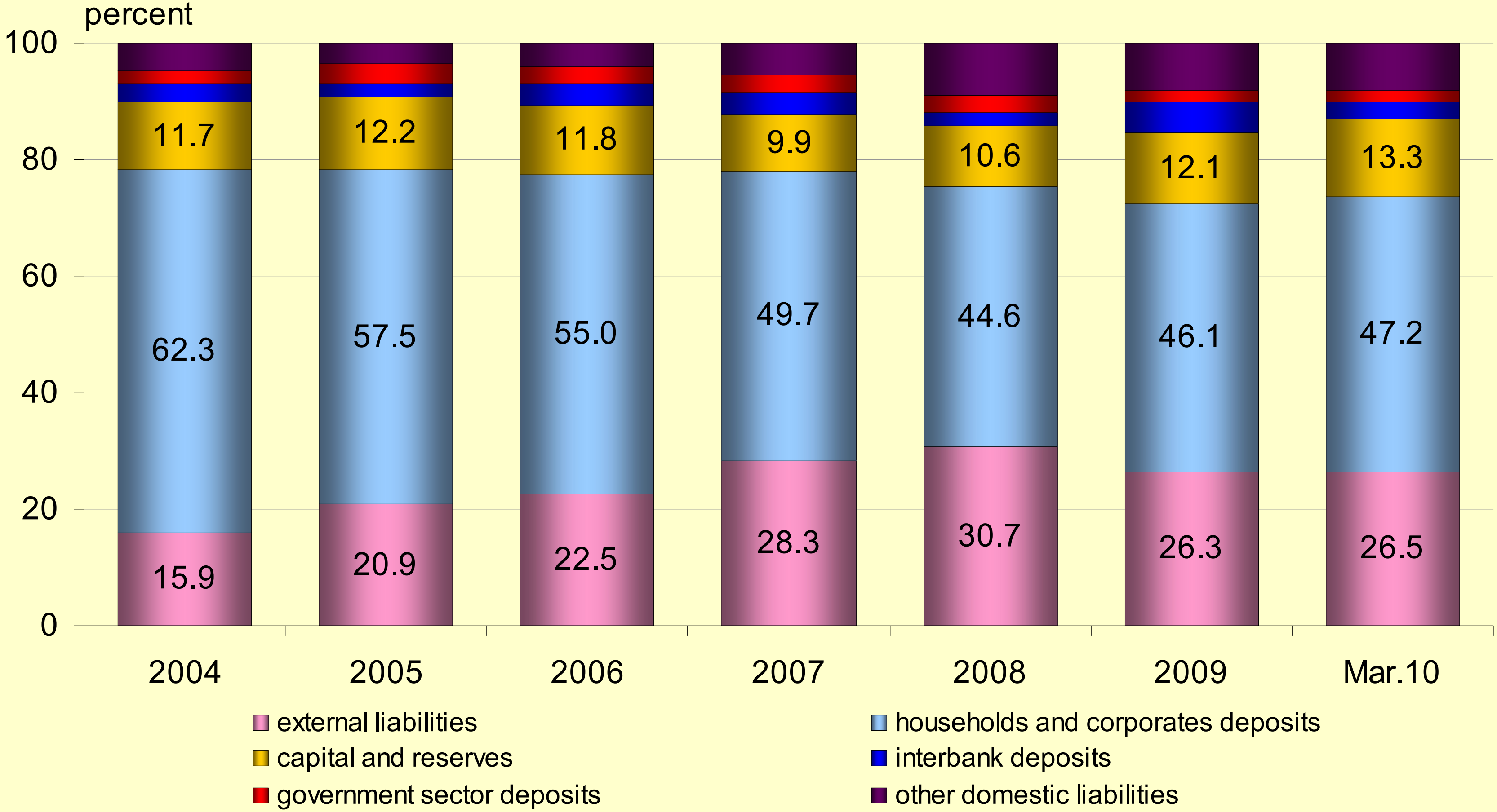
Source: National Bank of Romania, National Institute of Statistics

Goverment Loans Increased Faster than Private Credit



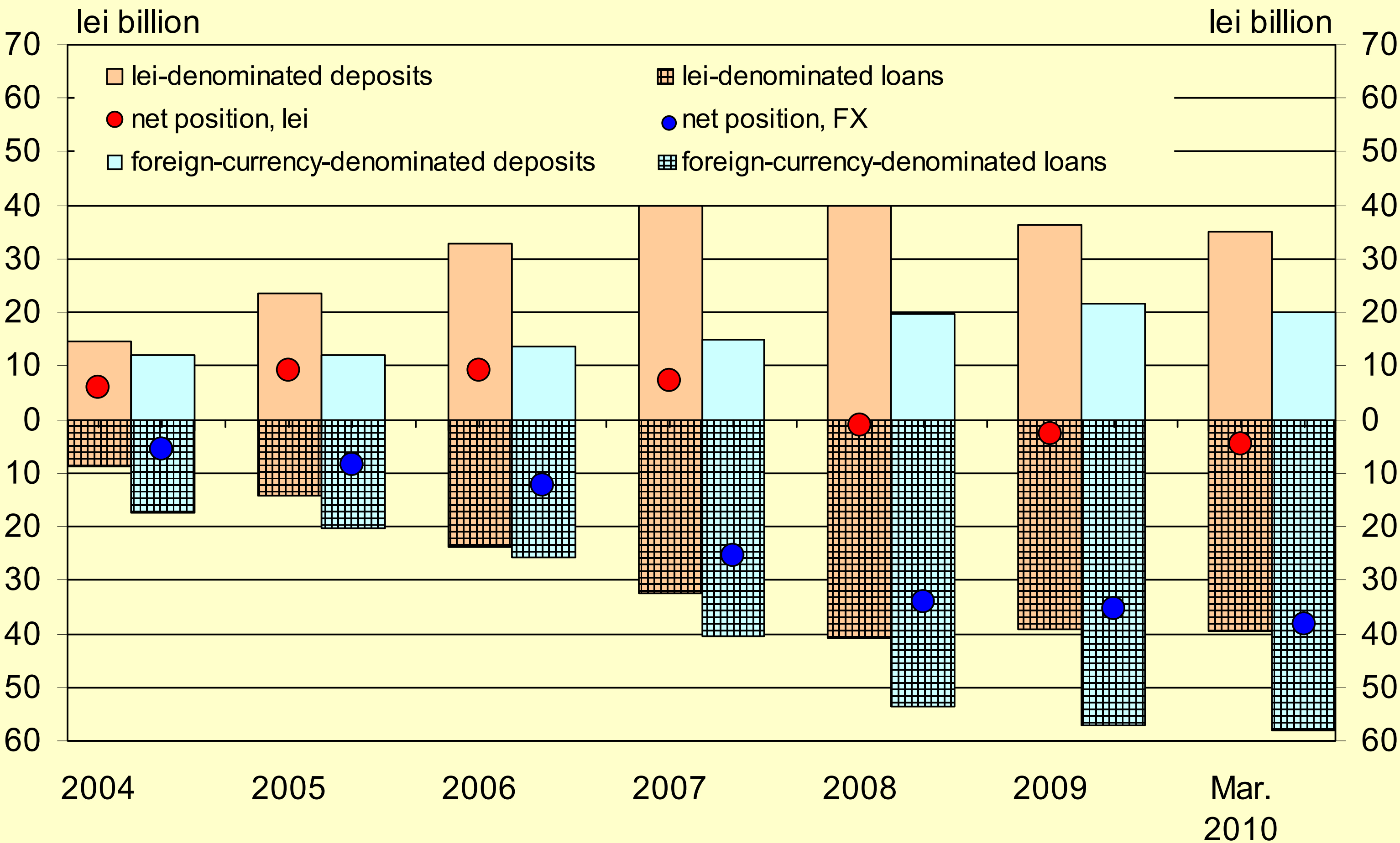
Source: National Bank of Romania

Banks Shifted Focus Towards Domestic Resources as External Financing has Reduced and Increased Capital, as well



Source: National Bank of Romania

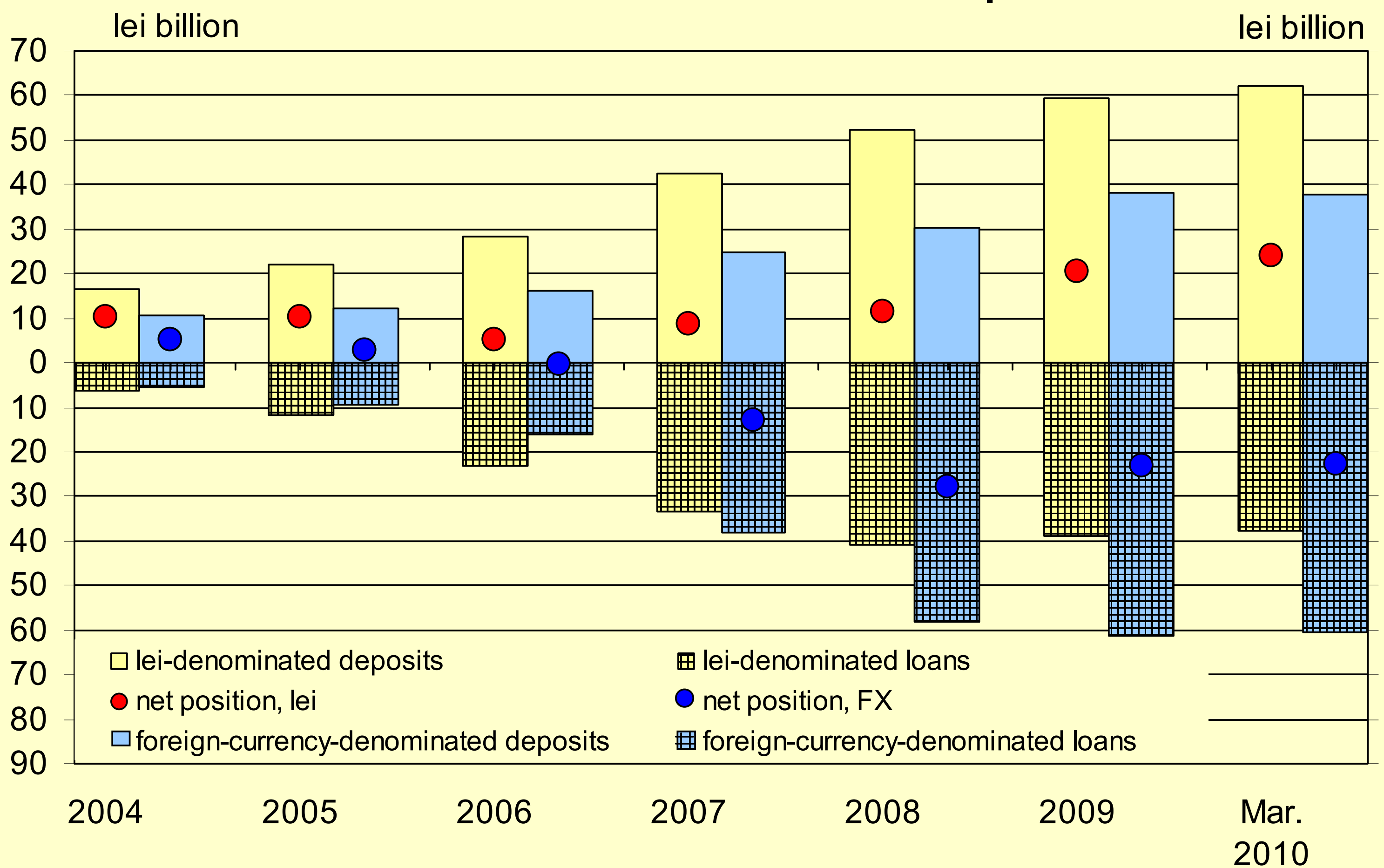
Non-financial Corporations' Loans and Deposits



Note: Starting January 2007, monetary indicators are calculated based on NBR Norms No. 13/2006; data series for December 2006 are restated in order to ensure comparability.

Source: National Bank of Romania

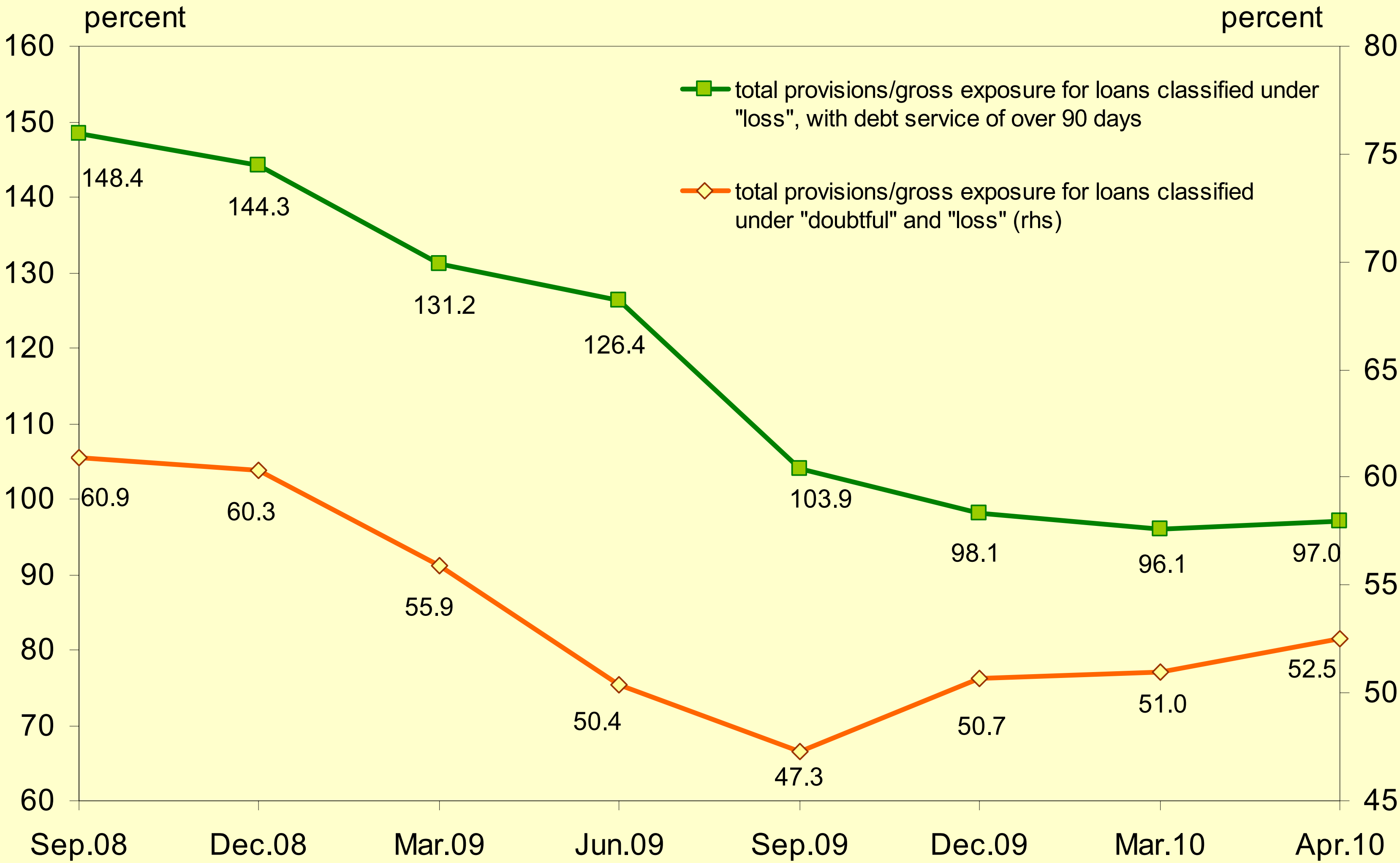
Households' Loans and Deposits



Note: Starting January 2007, monetary indicators are calculated based on NBR Norms No. 13/2006; data series for December 2006 are restated in order to ensure comparability.

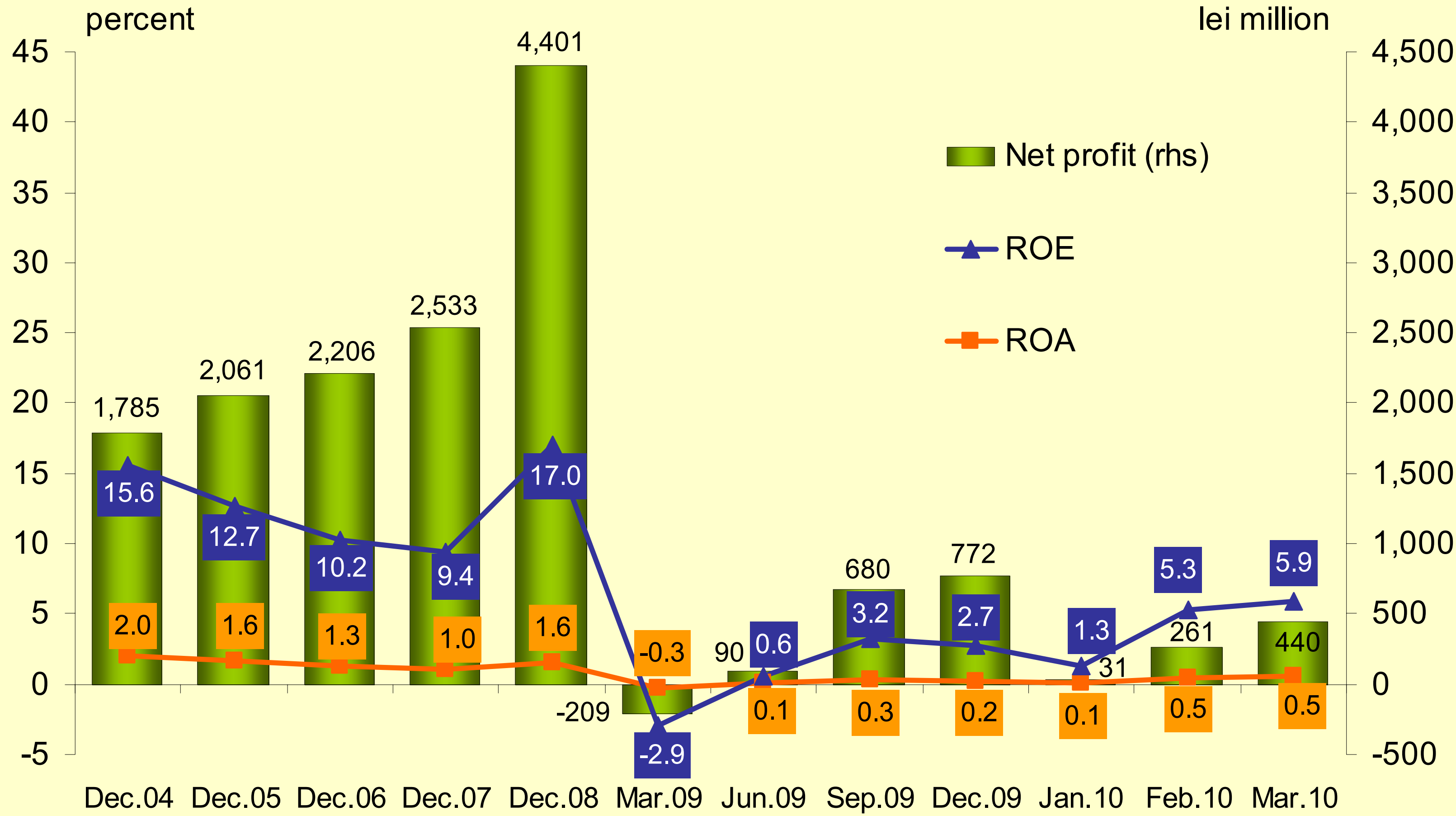
Source: National Bank of Romania

Bad Loans Coverage Ratio



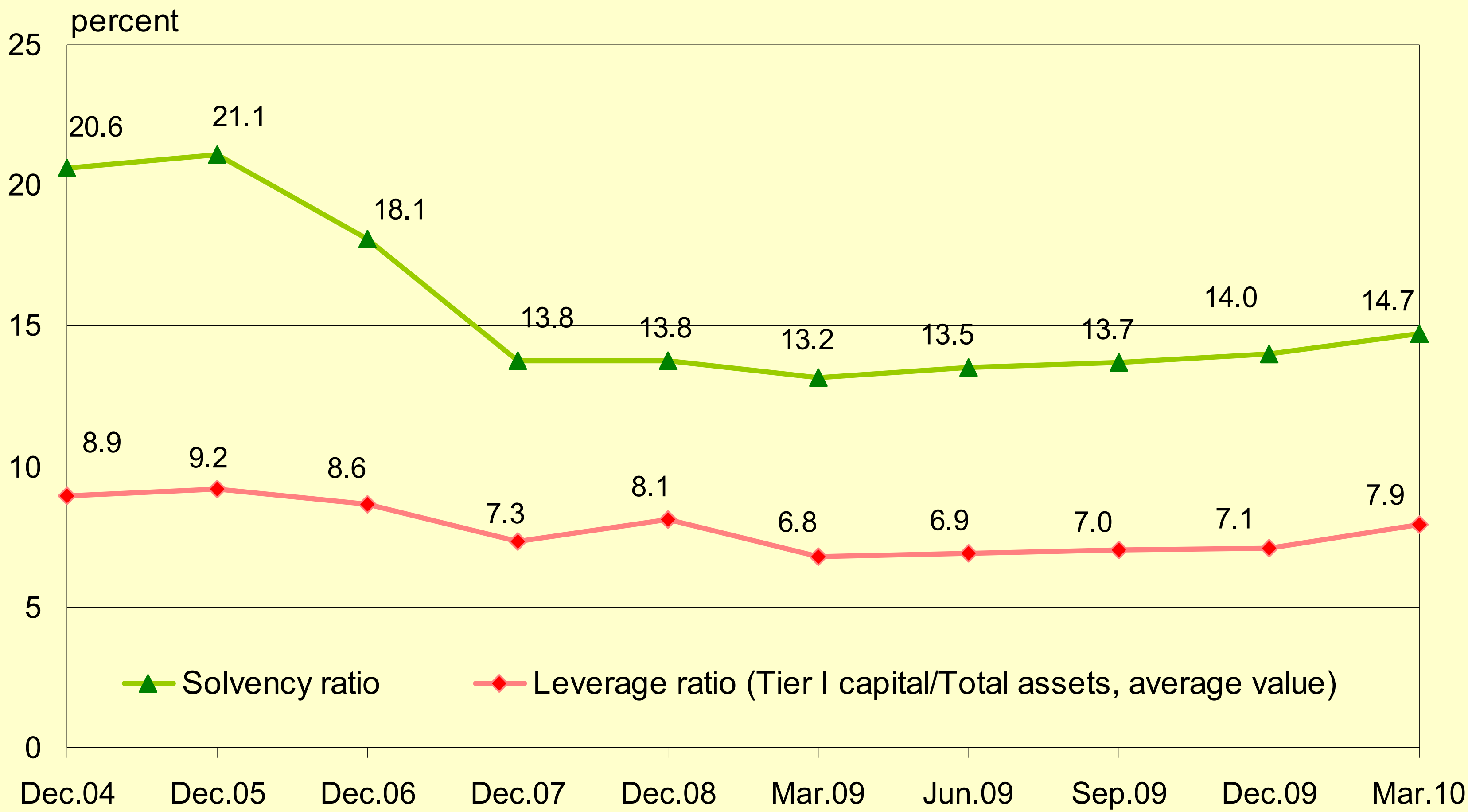
Source: National Bank of Romania

Banking System Profitability



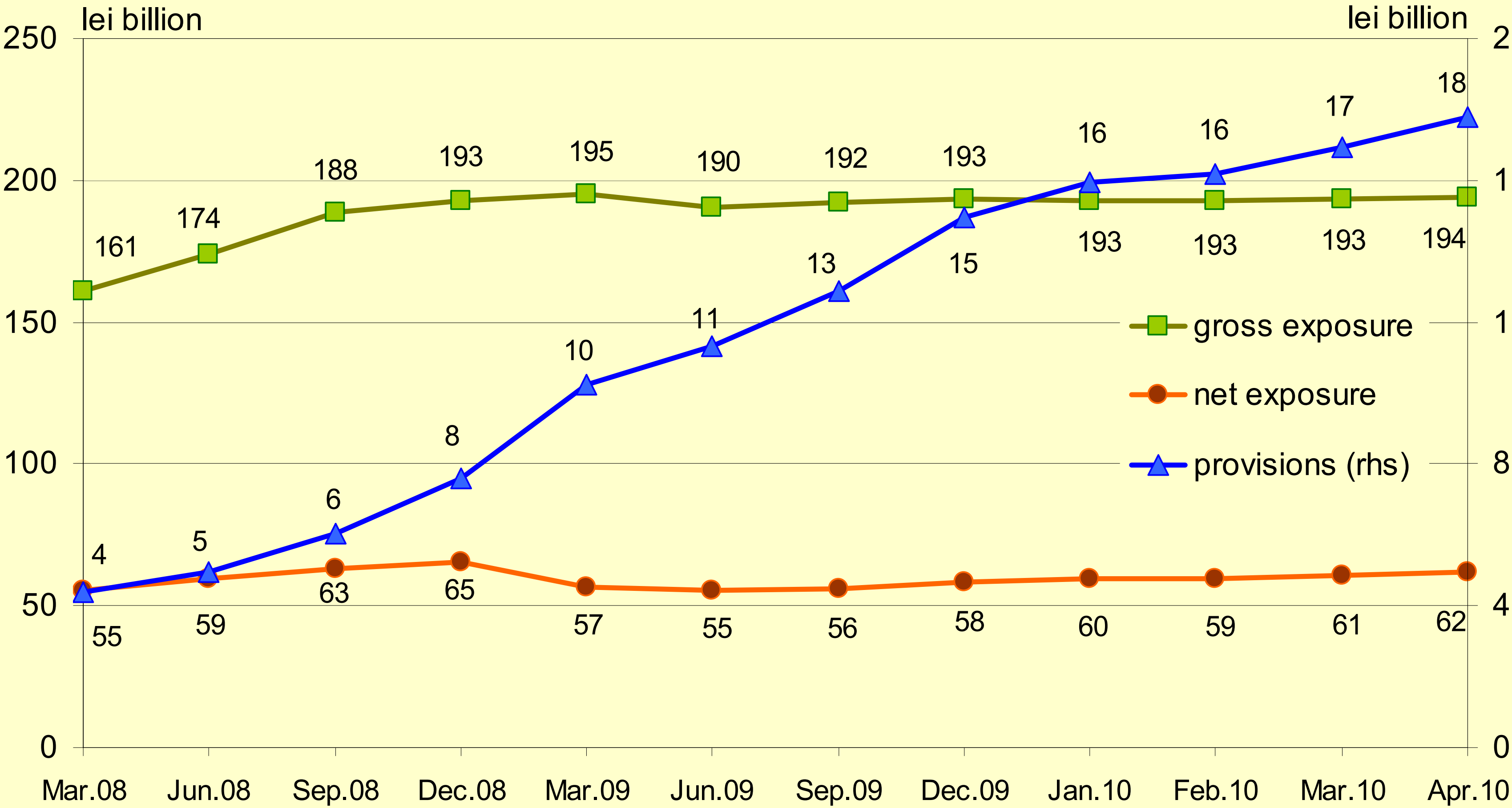
Source: National Bank of Romania

Solvency and Leverage Ratios



Source: National Bank of Romania

Gross and Net Exposure (Loans and Interests of Non-bank Clients) and Related Provisions, March 2008 - April 2010



Source: National Bank of Romania

III. International Financial Institutions Support

IFIs support

- Romania received the support of the EU, IMF, WB and EBRD through an SBA for a period of 24 months (May 2009 - May 2011) in an amount equivalent to **EUR 19.95 billion**. This amount includes **EUR 12.95 billion** from IMF, **EUR 5 billion** balance of payments financing facility from EU and other multilateral commitments of **EUR 2 billion** from World Bank and EBRD

- **Private sector sharply adjusted in 2009 and 2010**

- **Public sector is being under substantial adjustments**

IFIs conditionality

- **Strengthen fiscal policy**: i) gradual reduction of the fiscal deficit from **7.3%** (2009), **6.8%** (2010), **4.4%** (2011) to **2.9%** (2012)
- **Enhance monetary and financial sector policy**: i) bring inflation within the NBR's target range and keep it there; ii) improve safety net; iii) continue to improve the banking supervisory and regulatory framework; iv) ensure sufficient resources to cover any potential shortfalls revealed by the stress tests, **maintain adequate bank capitalization (above 10% over the program) and liquidity**
- Secure adequate external financing through improved confidence.
  Under **Vienna Initiative** the parent institutions of the **9** largest foreign-owned banks in Romania **(about 70% market share)** jointly committed **to maintain their overall exposure** (as of March 31, 2009) **to Romania, objective which has been observed**

  In the banking system the IFIs programme has been successful

  A valuable support that preserve financial stability and confidence in the market was represented by the commitment of the nine parent banks

IV. NBR Actions and Measures in Dealing with the Crisis

Monetary policy

percent

Interest rates on monetary policy		Minimum reserves requirements	
NBR Board decisions	Policy rate	Lei	Foreign currency
31 July 2008	10.25	20.00	40.00
30 October 2008	10.25	18.00	40.00
04 February 2009	10.00	18.00	40.00
06 May 2009	9.50	18.00	40.00
30 June 2009	9.00	15.00	35.00
04 August 2009	8.50	15.00	30.00
29 September 2009	8.00	15.00	30.00
16 November 2009	8.00	15.00	25.00
05 January 2010	7.50	15.00	25.00
03 February 2010	7.00	15.00	25.00
29 March 2010	6.50	15.00	25.00
06 May 2010	6.25	15.00	25.00

Note: 0% minimum reserve ratio on lei liabilities with residual maturity **longer than two years** effective from 24 August 2002
0% minimum reserve ratio on FX liabilities with residual maturity **longer than two years** effective from 24 May 2009

Regulatory measures

- **Changes in own funds structure** (April 2009), banks have been allowed to include in own funds the following items:
  - Interim profits obtained during the year until the end of the current financial year
  - Profits at the end of the financial year until the approval of the balance sheet (January-May of the following year)
- **Adjustment in the provisioning regime** (starting April 2009), banks have been allowed to deduct 25% (instead of 0%) of the collateral from the gross value of the loans with debt service of over 90 days and/or judicial proceedings initiated
- **Changes in the regime of restructured loans**, new approach allowing banks to rank these loans in a better loan classification category and, implicitly, to reduce provisioning level
- **Increase in adjustment coefficients for fixed income securities,** from 90% to 95% in case of maturities less than one year and from 70% to 90% in case of maturities over one year
- **Applying a 40% adjustment coefficient on demand deposits**, instead of 100%
- Credit institutions are no longer required to adjust the debtors' indebtedness ratio by considering stress tests at portfolio level in case of loans secured by State guarantees and mortgages

Conclusions

- The public authorities' obligation not to apply pro-cyclical policies over the phases of the economic cycle
- Need for structural reforms, especially in the public sector, in order to:
  - Stimulate domestic capital and attract foreign investors
  - Use the available European funds
  - Assure the necessary conditions for a sustainable economic growth

Thank you!