



National Bank of Romania

**Romania:**

**Recent Macroeconomic  
& Banking System Developments**

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Governor

Bucharest, 25 June 2013

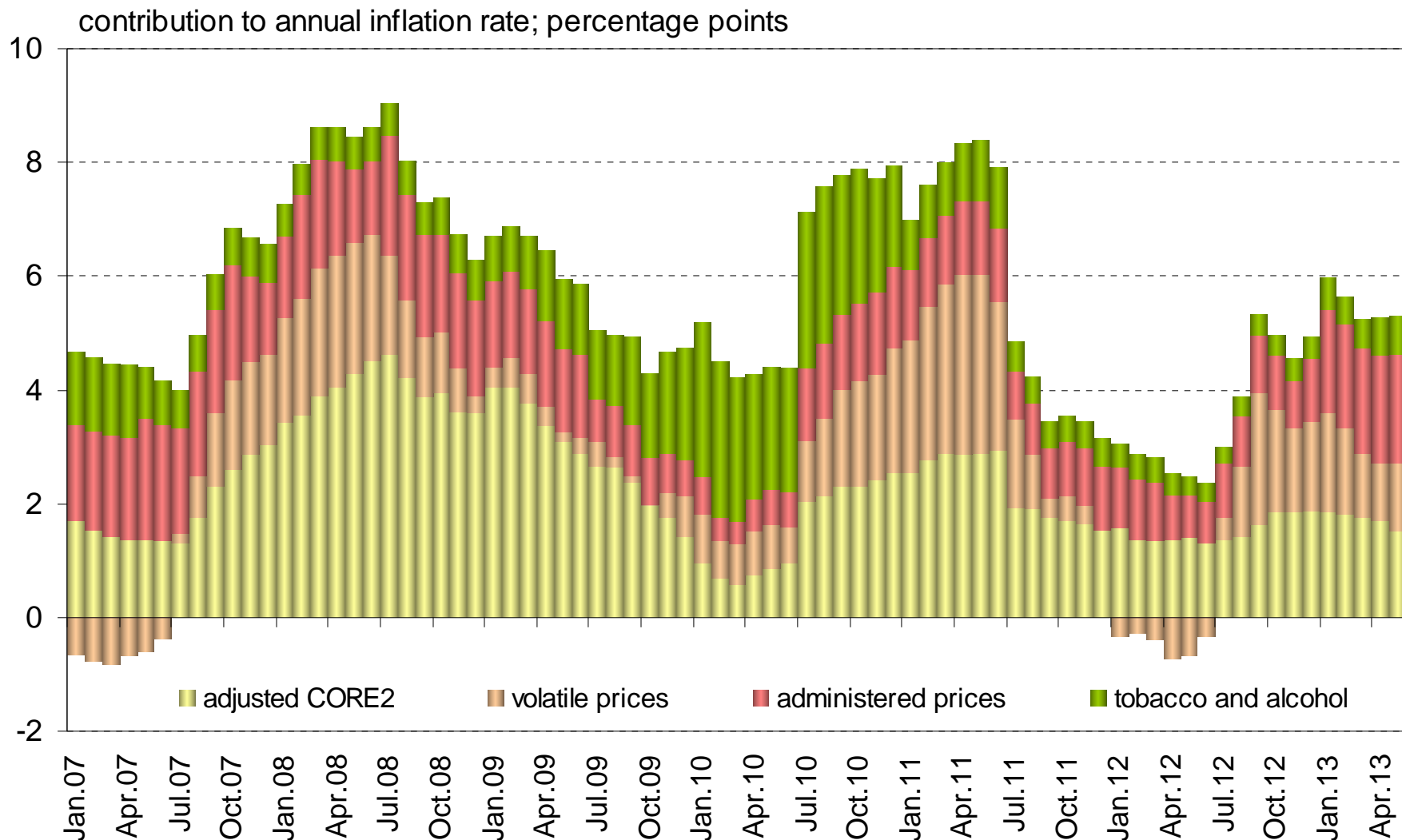
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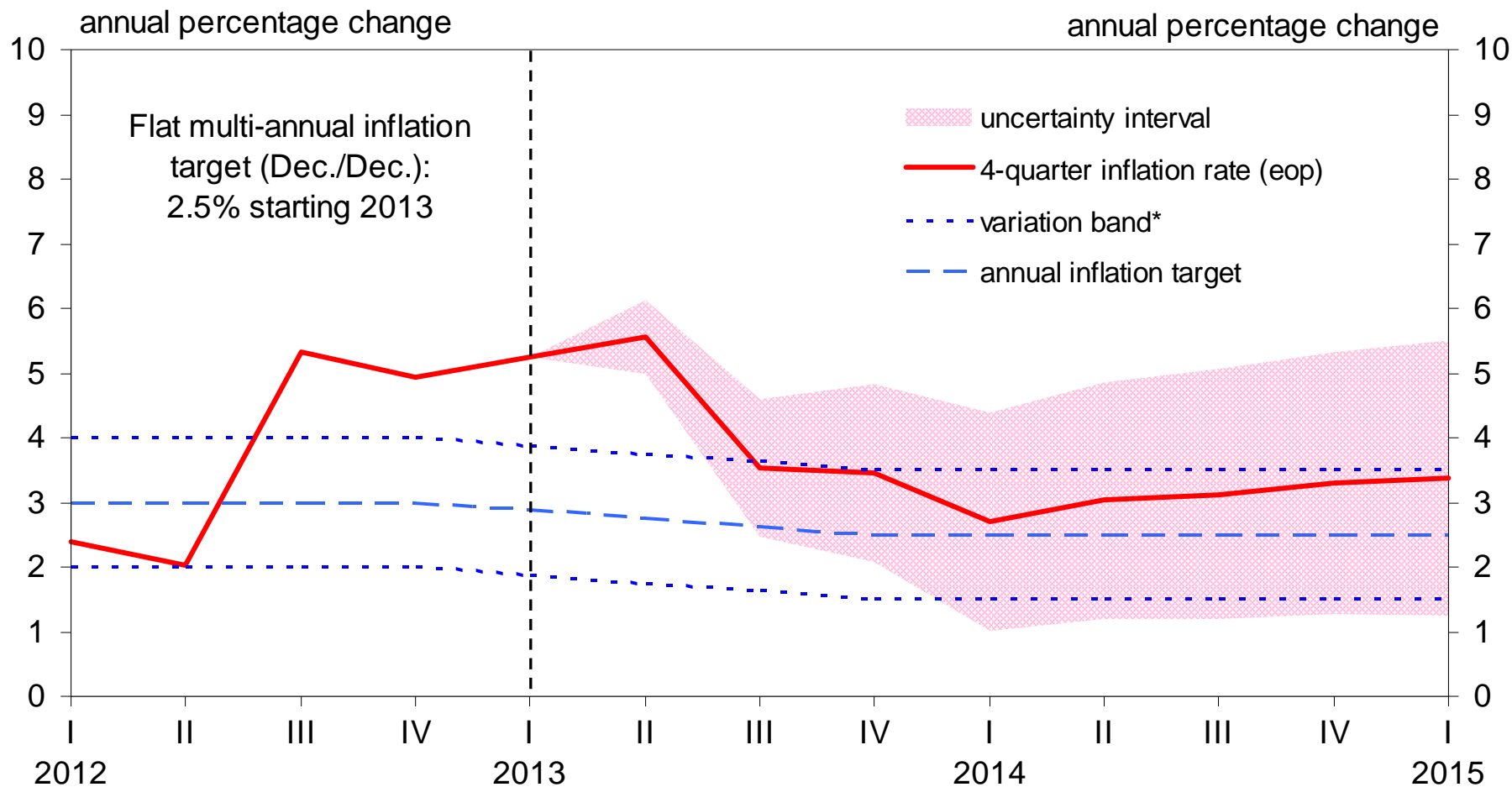
# Macroeconomic Developments

# Inflation followed an uneven downward path, its volatility being largely brought about by the non-core components ...



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

...and is seen reentering the NBR target band in the latter half of 2013



\*)  $\pm 1$  percentage point around the central target

Note: According to the May 2013 Inflation Report. The uncertainty interval was calculated based on the forecast errors of the annual CPI inflation rate in the NBR projections during 2005-2012. The forecast errors are positively correlated to the time horizon to which they refer.

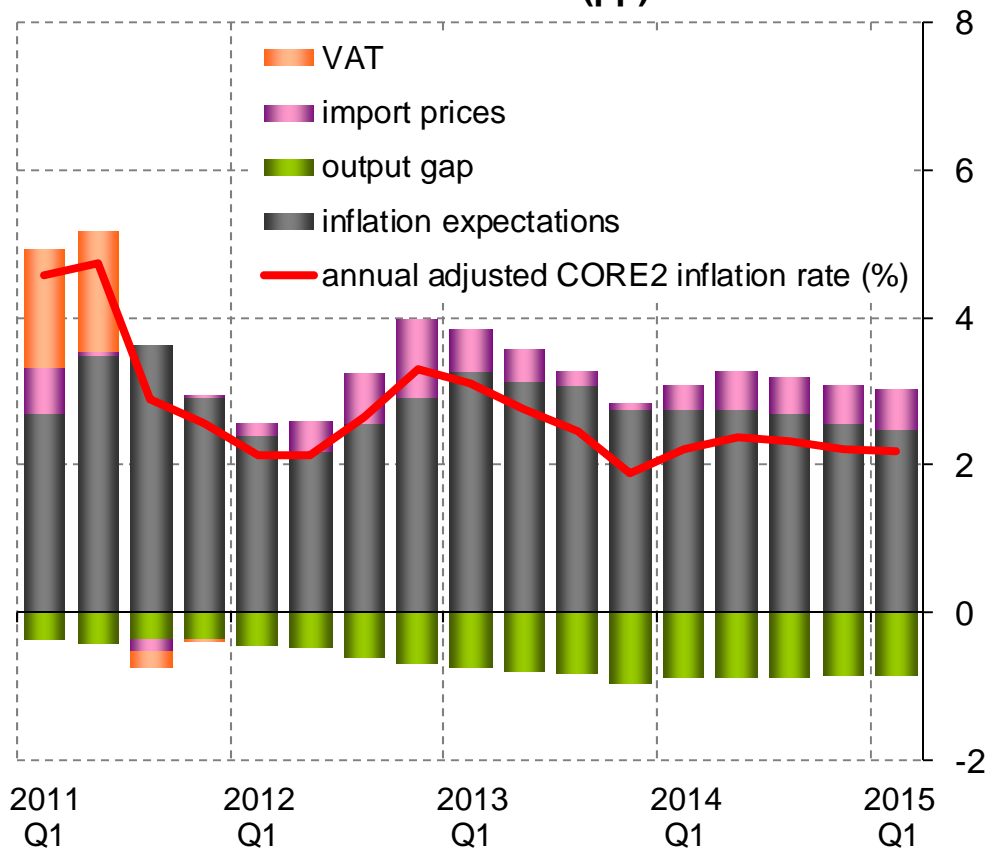
Source: National Institute of Statistics, National Bank of Romania projections and calculations

# Determinants of annual adjusted CORE2 inflation projection

- Inflation expectations\* are seen abating over the projection interval, under the impact of an adequate monetary policy stance and of the anticipated absence of adverse supply-side shocks
- Inflationary pressures from import prices are considered low, due to a favourable shock on the leu effective exchange rate in early 2013 and moderate effects from external price increases
- The negative output gap continues to have a disinflationary impact throughout the forecast interval

\*) backward- and forward-looking

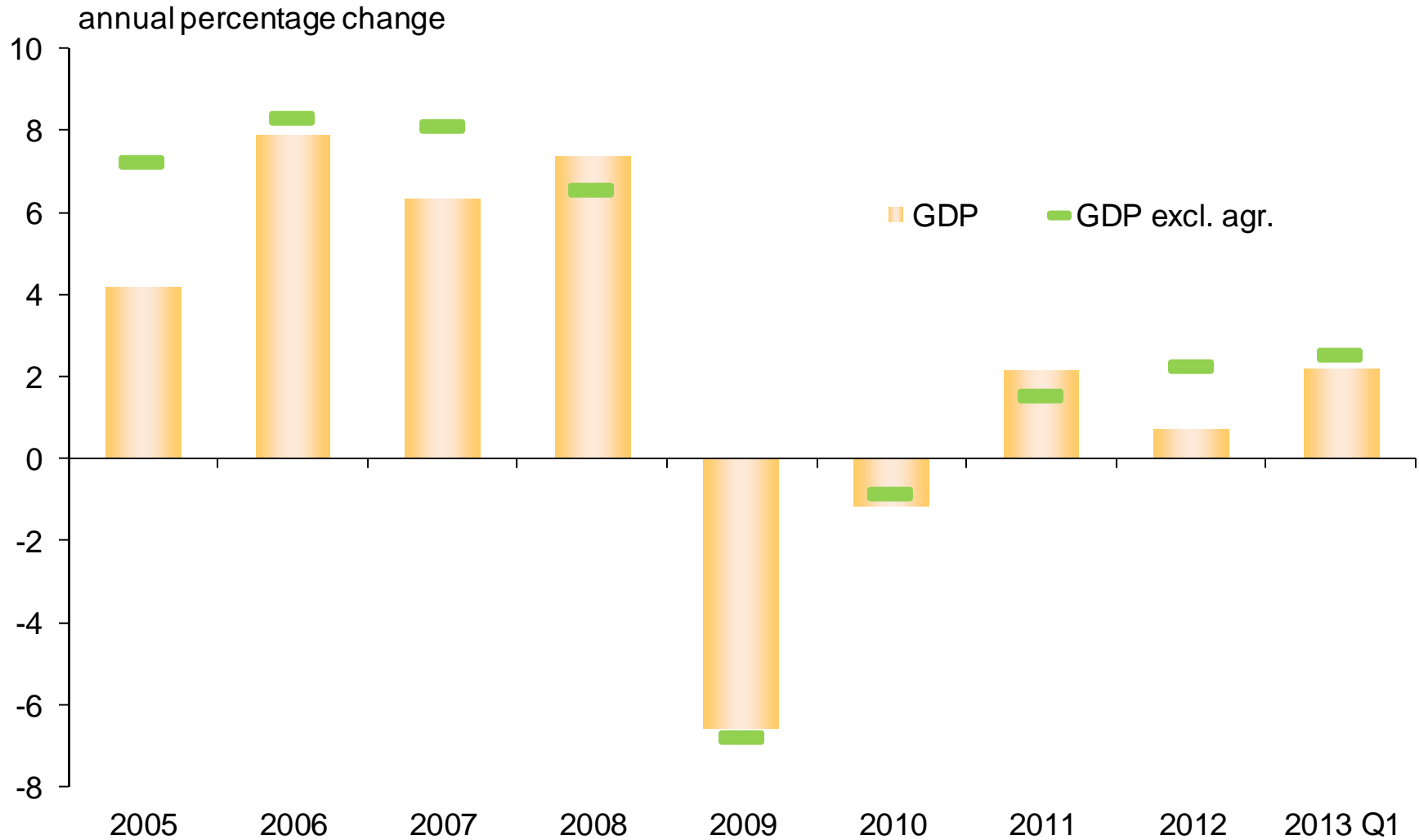
Contributions to annual adjusted CORE2 inflation (pp)



**Note:** The annual adjusted CORE2 inflation is calculated as a quarterly average, in line with its econometrically-modelled determinants.

Source: NBR calculations

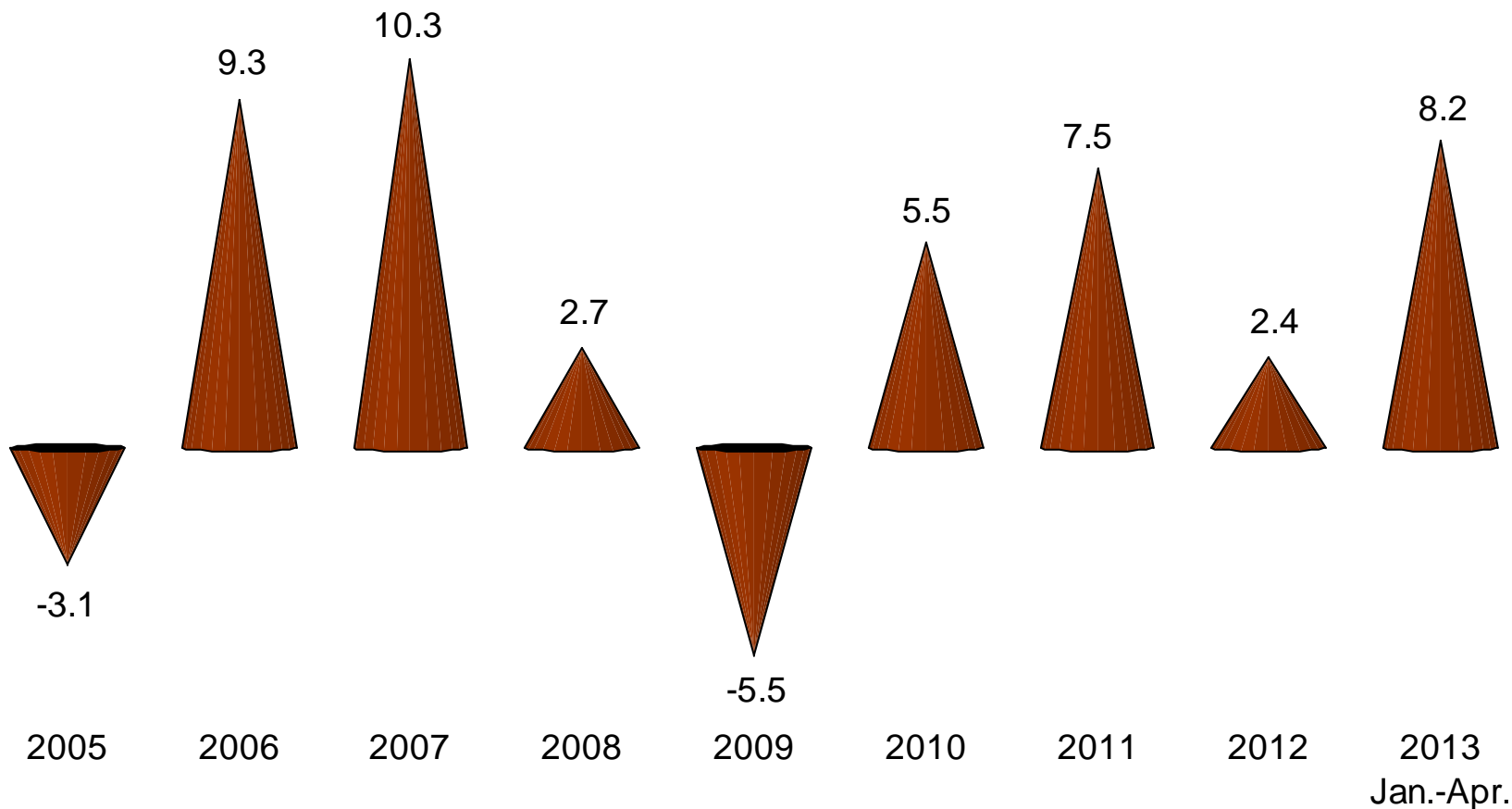
# Economic growth resumed in 2011 and is seen accelerating in 2013 ...



Source: NIS, NBR calculations

... largely as a result of strengthening industrial activity, ...

annual percentage change, gross data

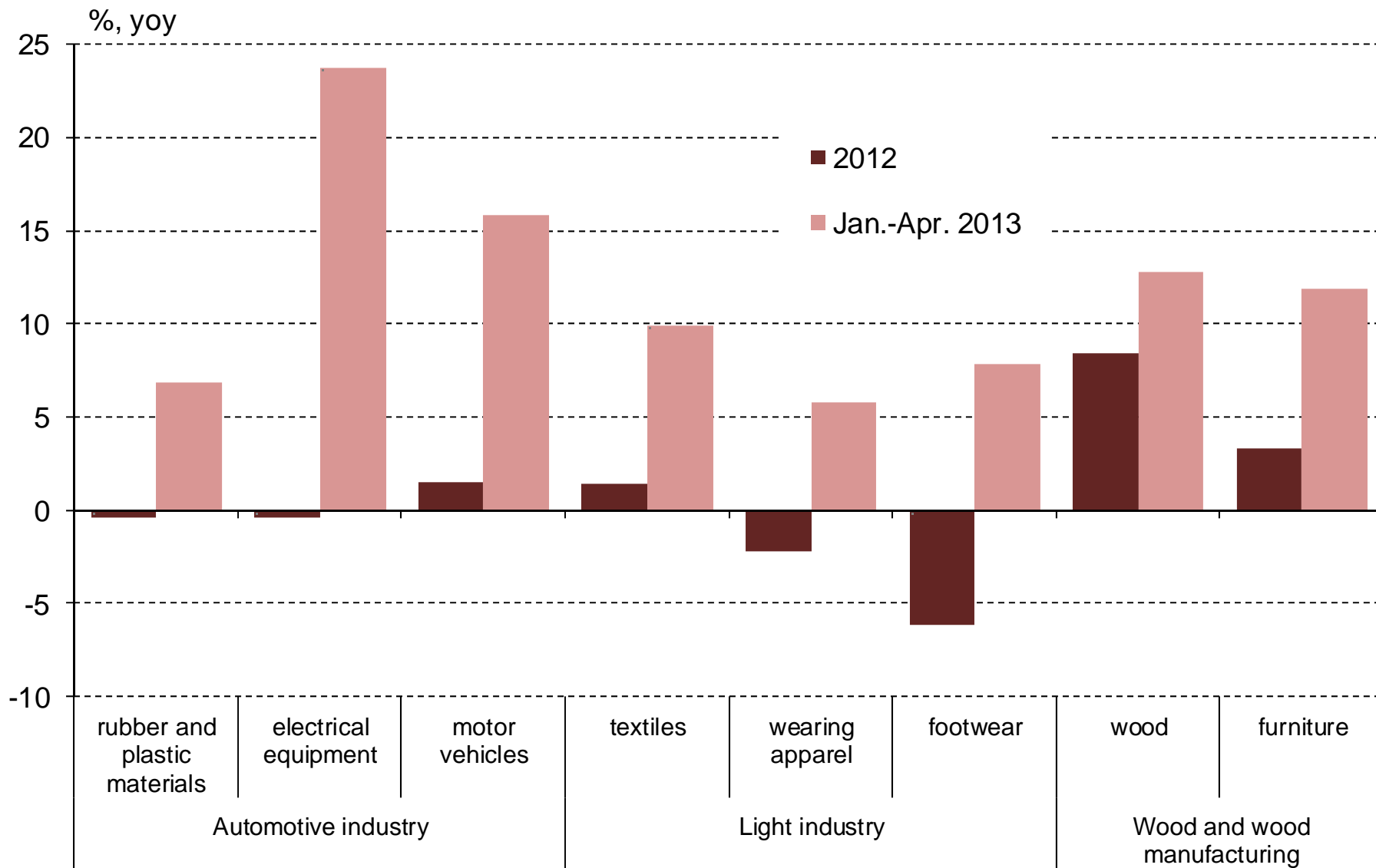


Apr.13/Apr.12: 18.9%; Apr.13/Mar.13: 4.0%

Source: National Institute of Statistics

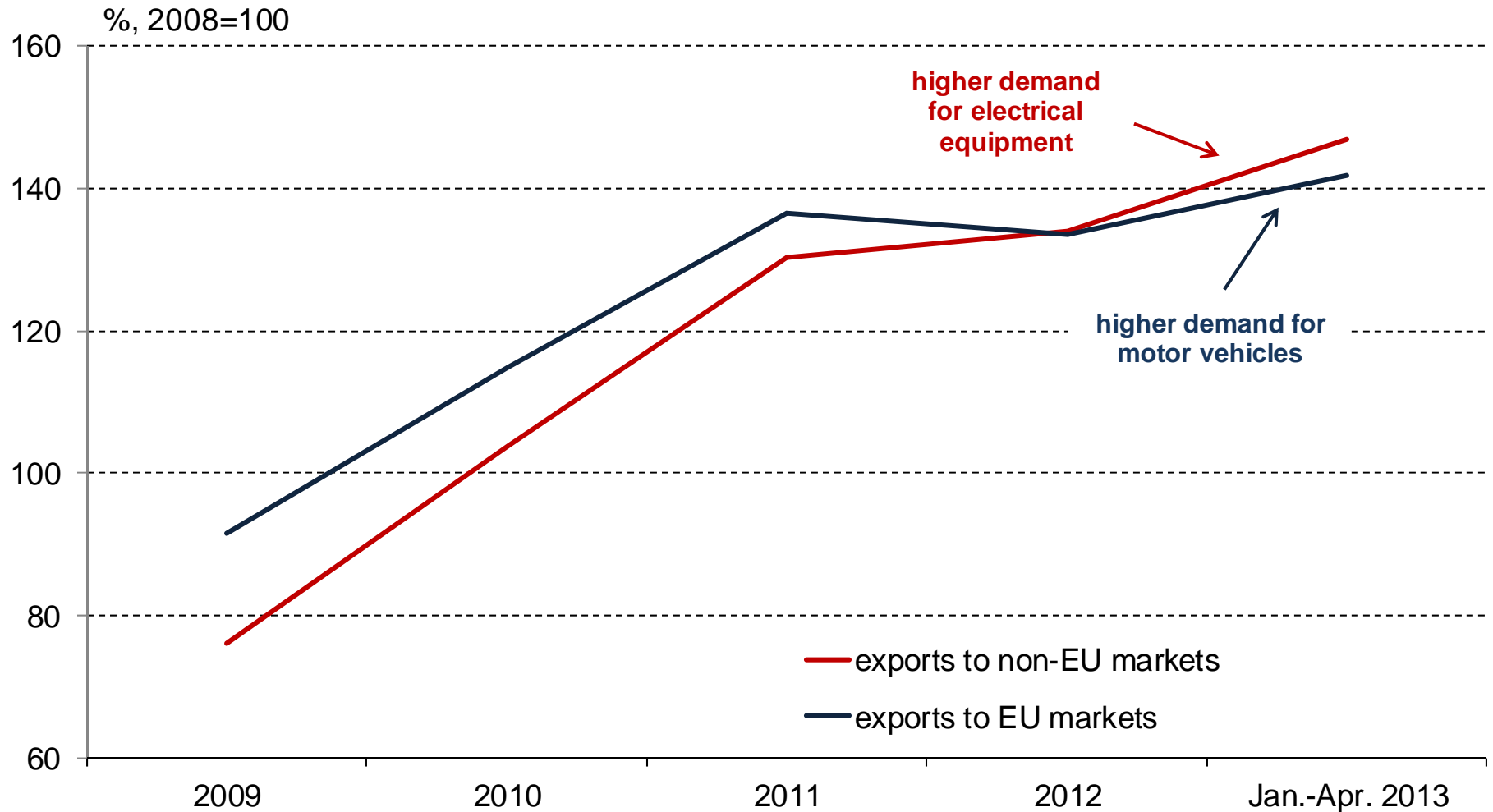


## ... especially in the export-oriented sectors...



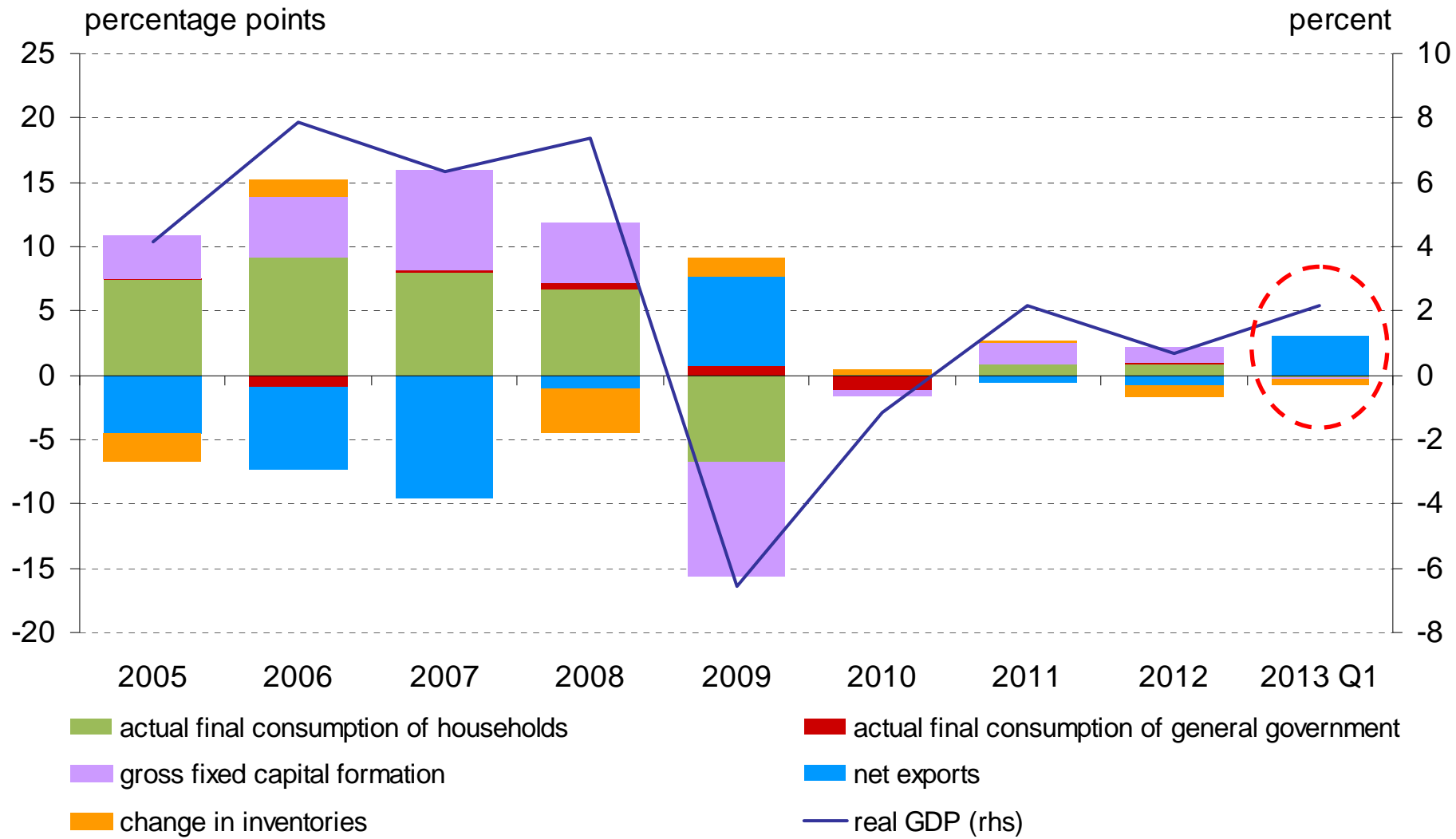
Source: National Institute of Statistics

... on account of rapidly increasing external demand from both EU and non-EU markets (particularly for the automotive sector)



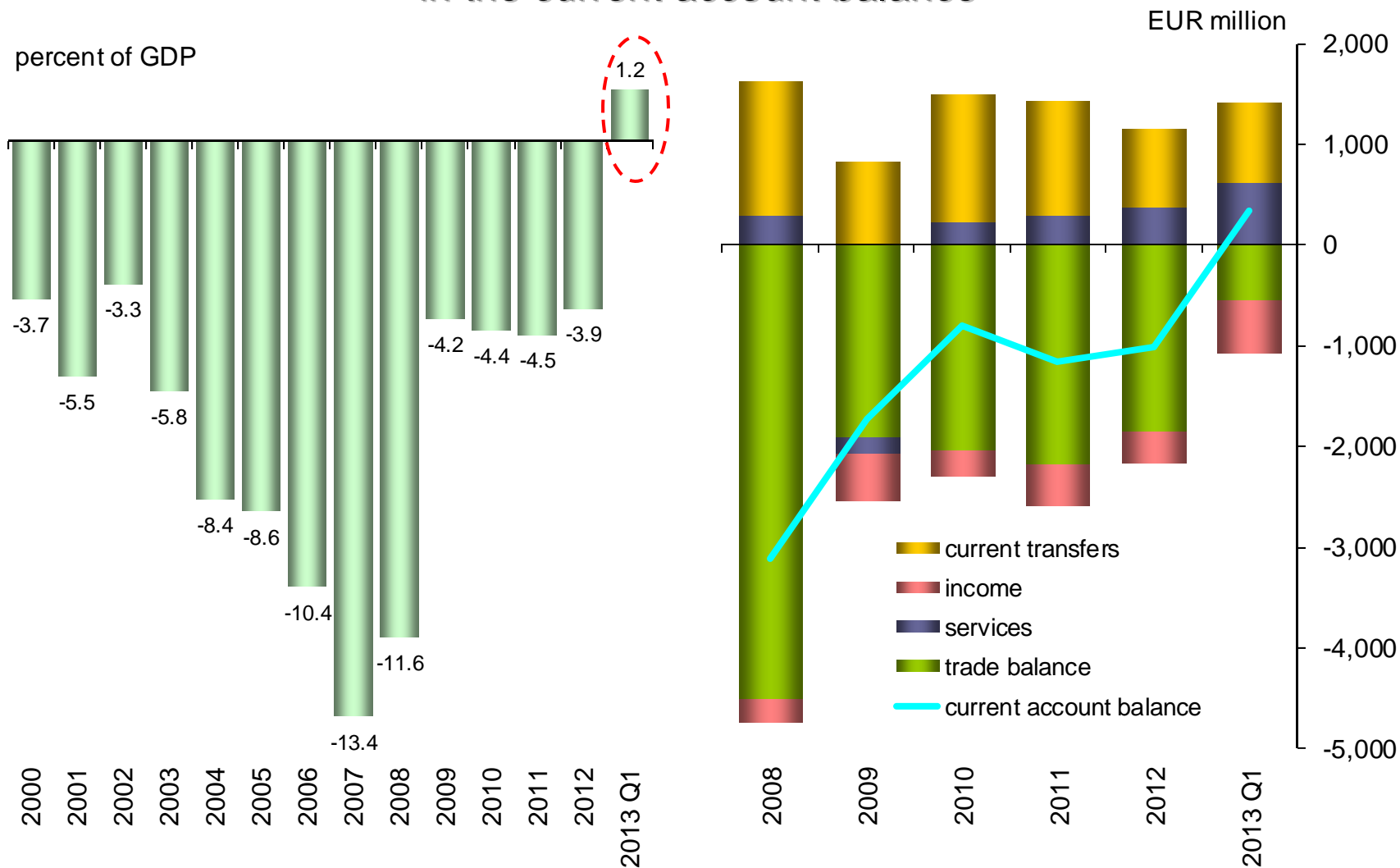
Source: Eurostat, National Institute of Statistics

# The recent spur in economic growth is therefore entirely attributable to net exports, ...



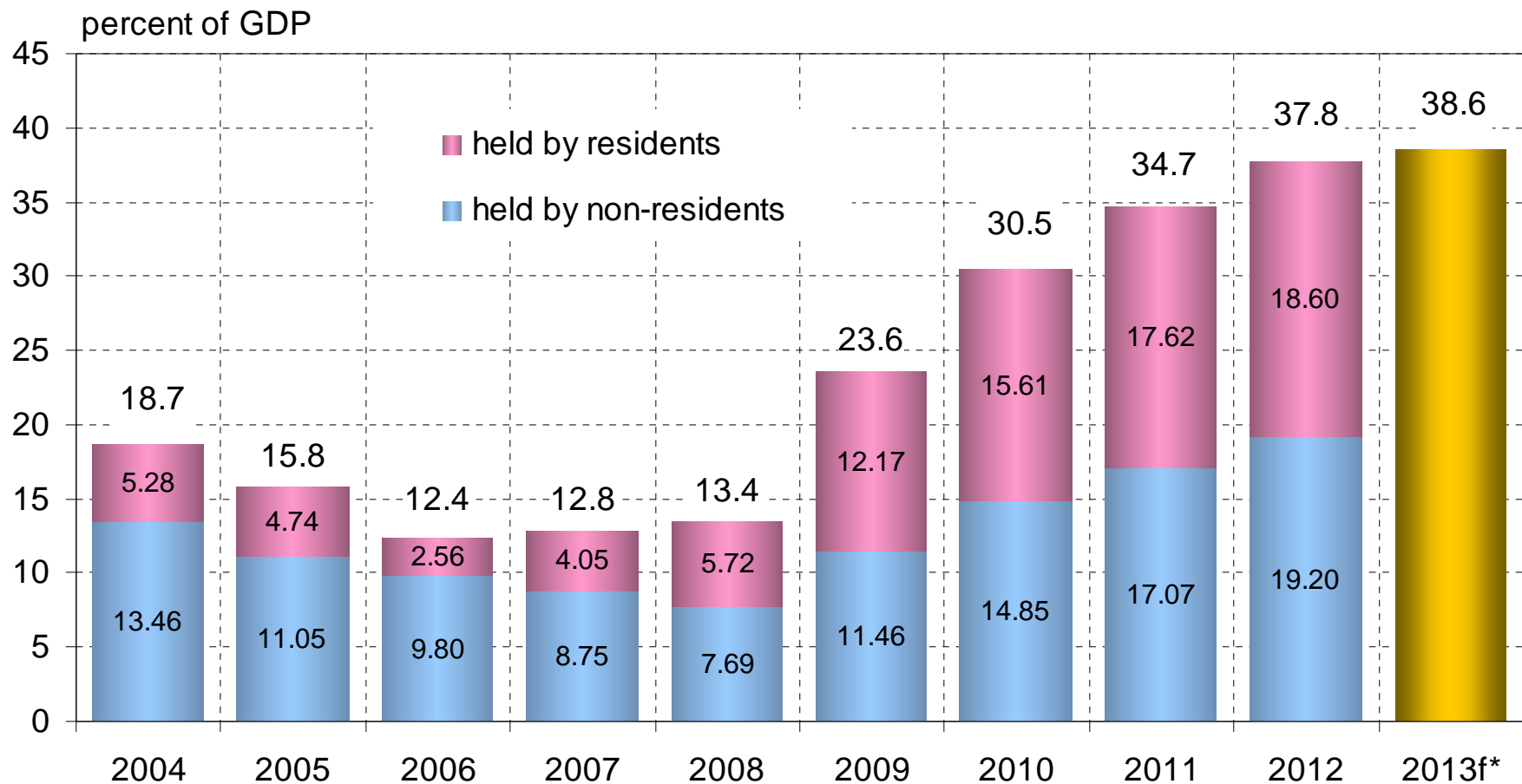
Source: National Institute of Statistics, National Bank of Romania calculations

... the favourable dynamics of which contributed to a significant improvement in the current account balance



Source: National Institute of Statistics

## Public debt remains well below the Maastricht criterion and is seen stabilising under 39% of GDP, ...



f) forecast

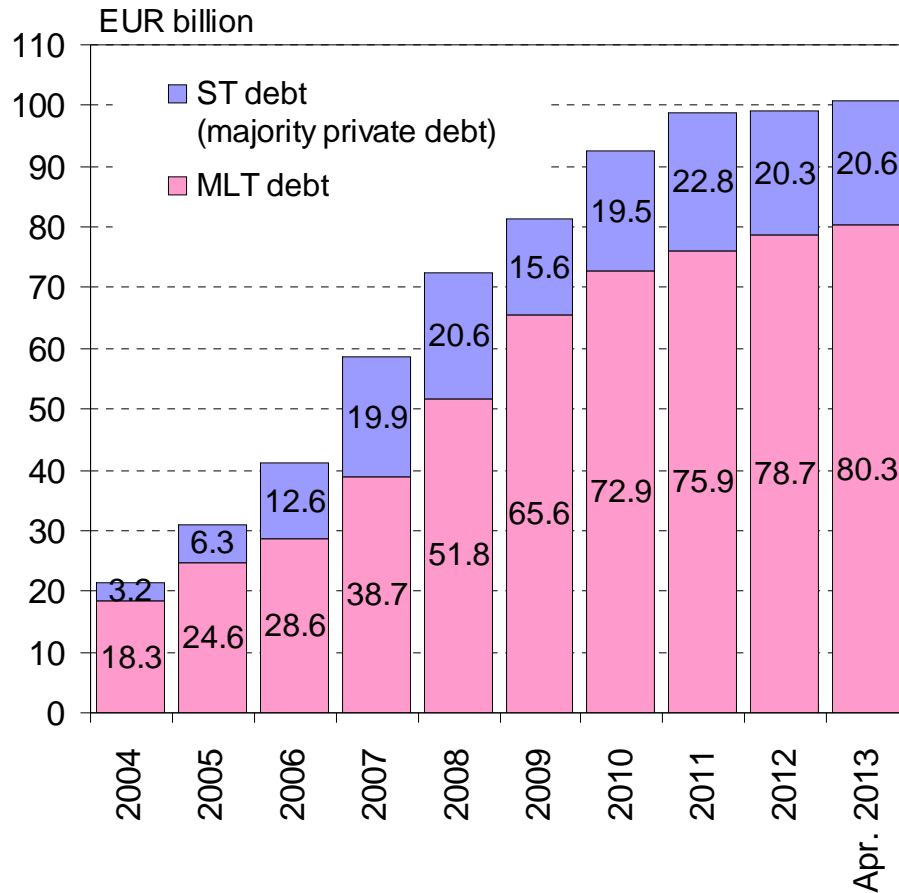
Note: Government securities in MFIs portfolio as a share of GDP in Dec.07=1.4%, Dec.08=2.1%, Dec.09=7.1%, Dec.10=9.6%, Dec.11=10.8%, Dec.12=11.7% and Apr.13=10.8%

\*) 2013-2016 Convergence Programme

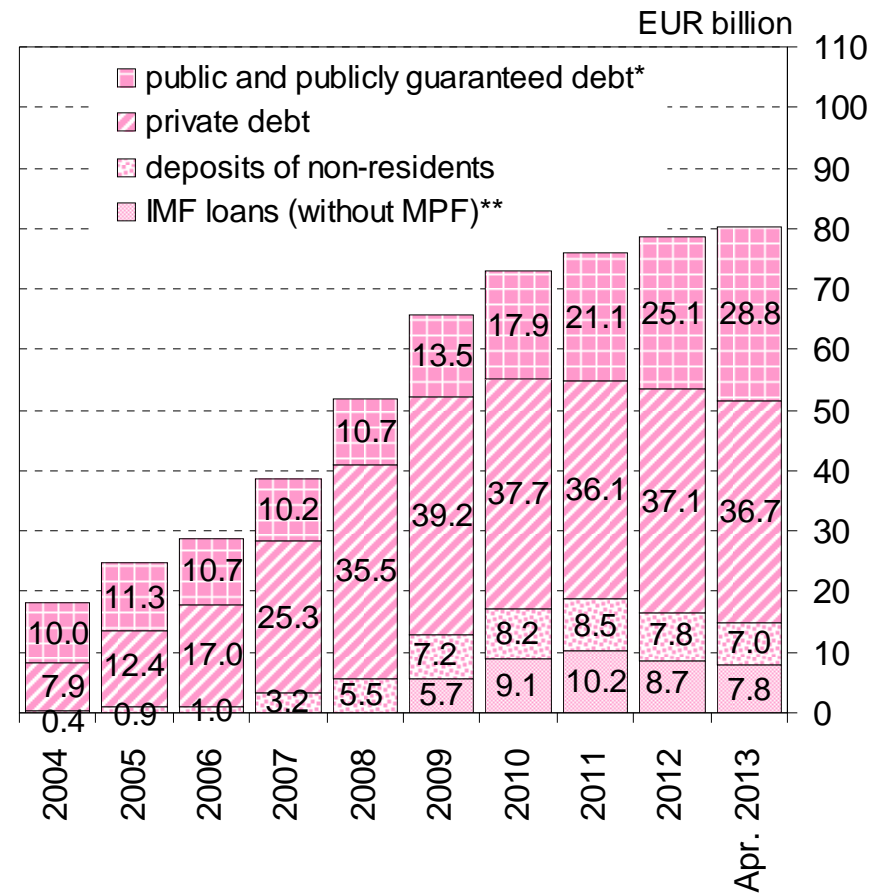
Source: Ministry of Public Finance, National Bank of Romania, National Institute of Statistics

... but has been the sole contributor to the MLT external debt growth

## Total External Debt



## MLT External Debt

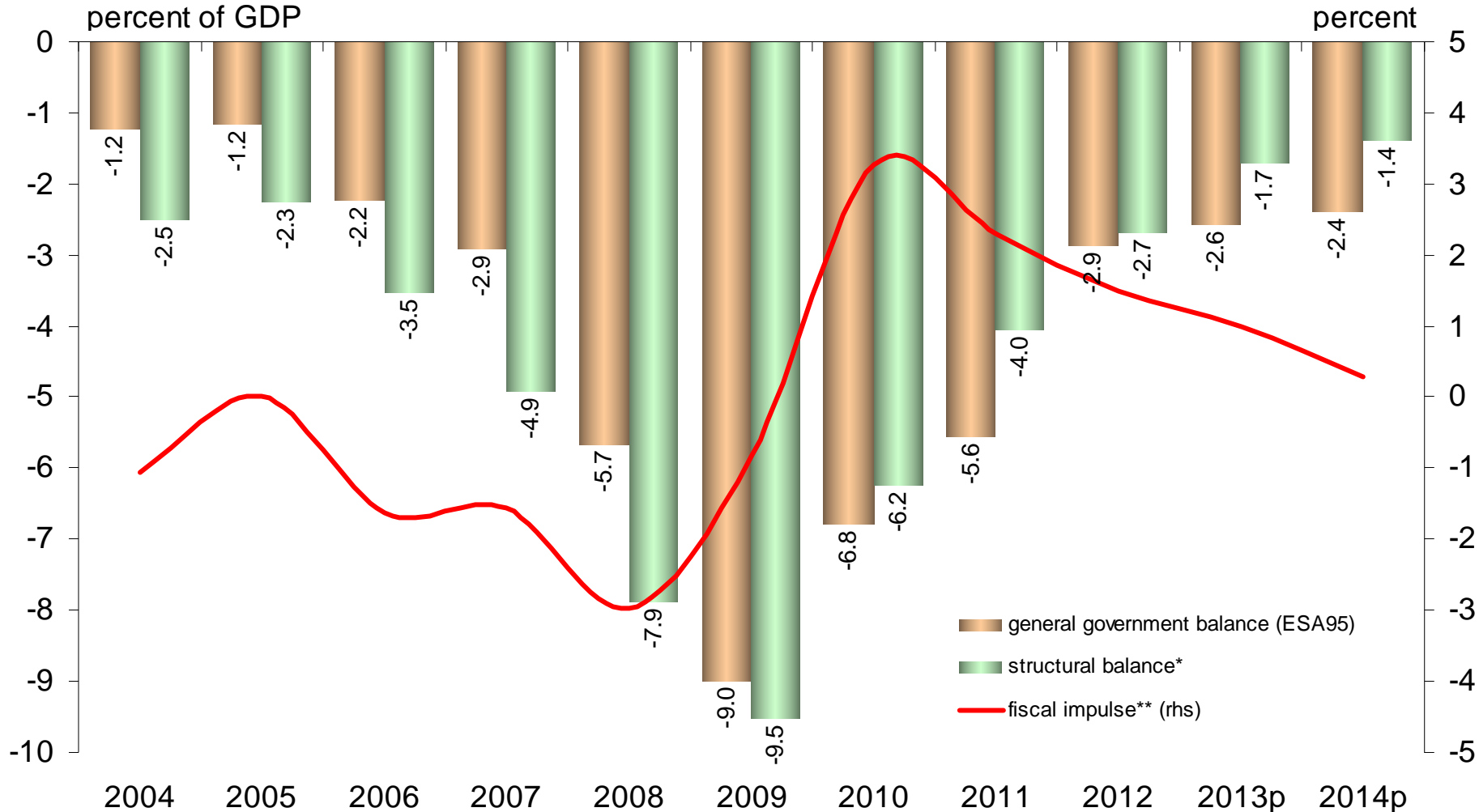


\*) external loans taken directly/guaranteed by the MPF and local general government in compliance with the legislation on public debt, including Government Emergency Ordinance No. 99/2009 ratifying the Stand-By Arrangement between Romania and the IMF

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

Source: National Bank of Romania

After peaking at 9% of GDP in 2009, the public deficit was successfully brought down to below 3% in 2012 ...



\* defined as cyclically-adjusted balance net of one-off and temporary measures

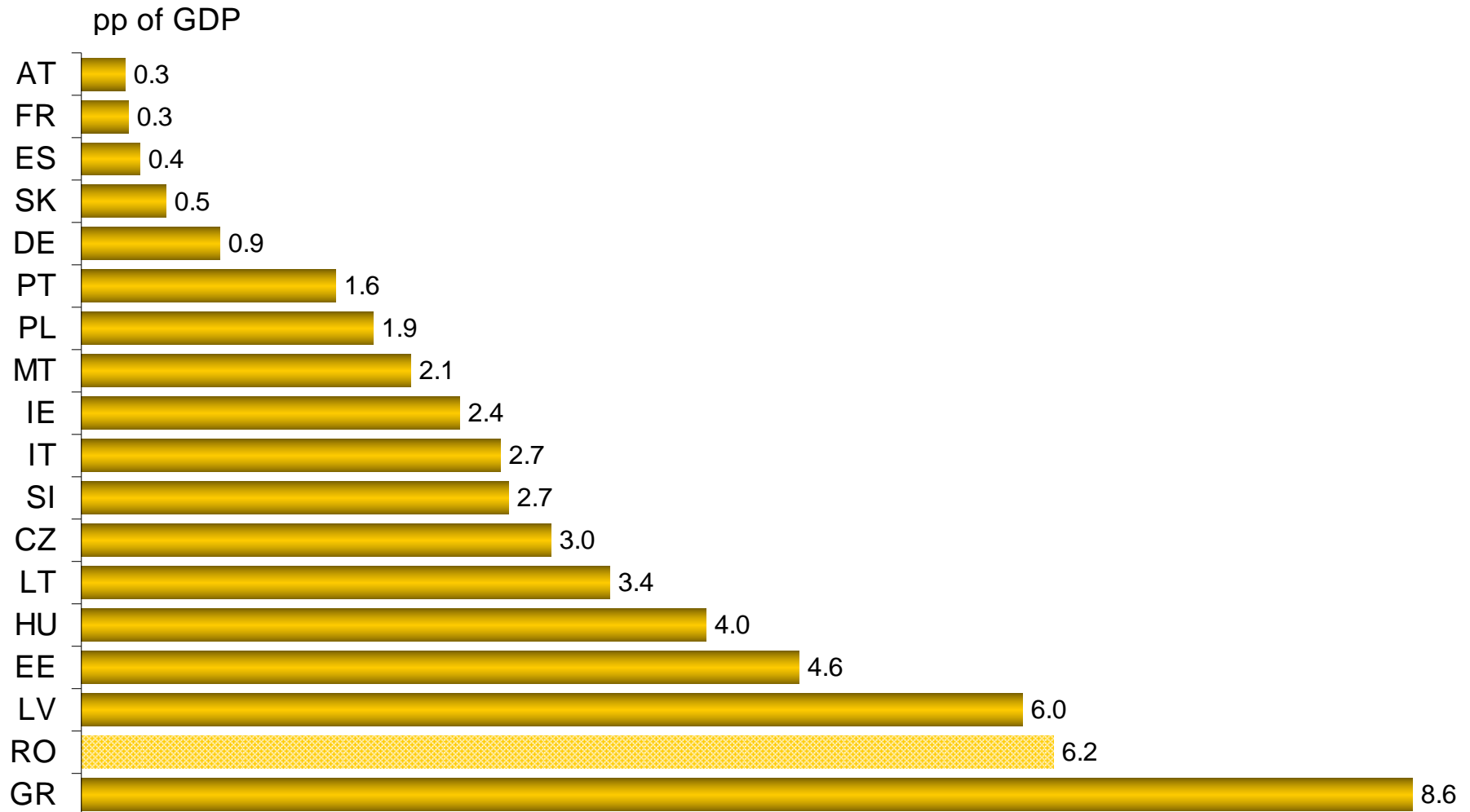
\*\* defined as the change in the structural primary budget balance (+ is fiscal consolidation)

p) projection

Source: AMECO, Ministry of Public Finance

...as a result of the second largest fiscal consolidation effort in the EU ...

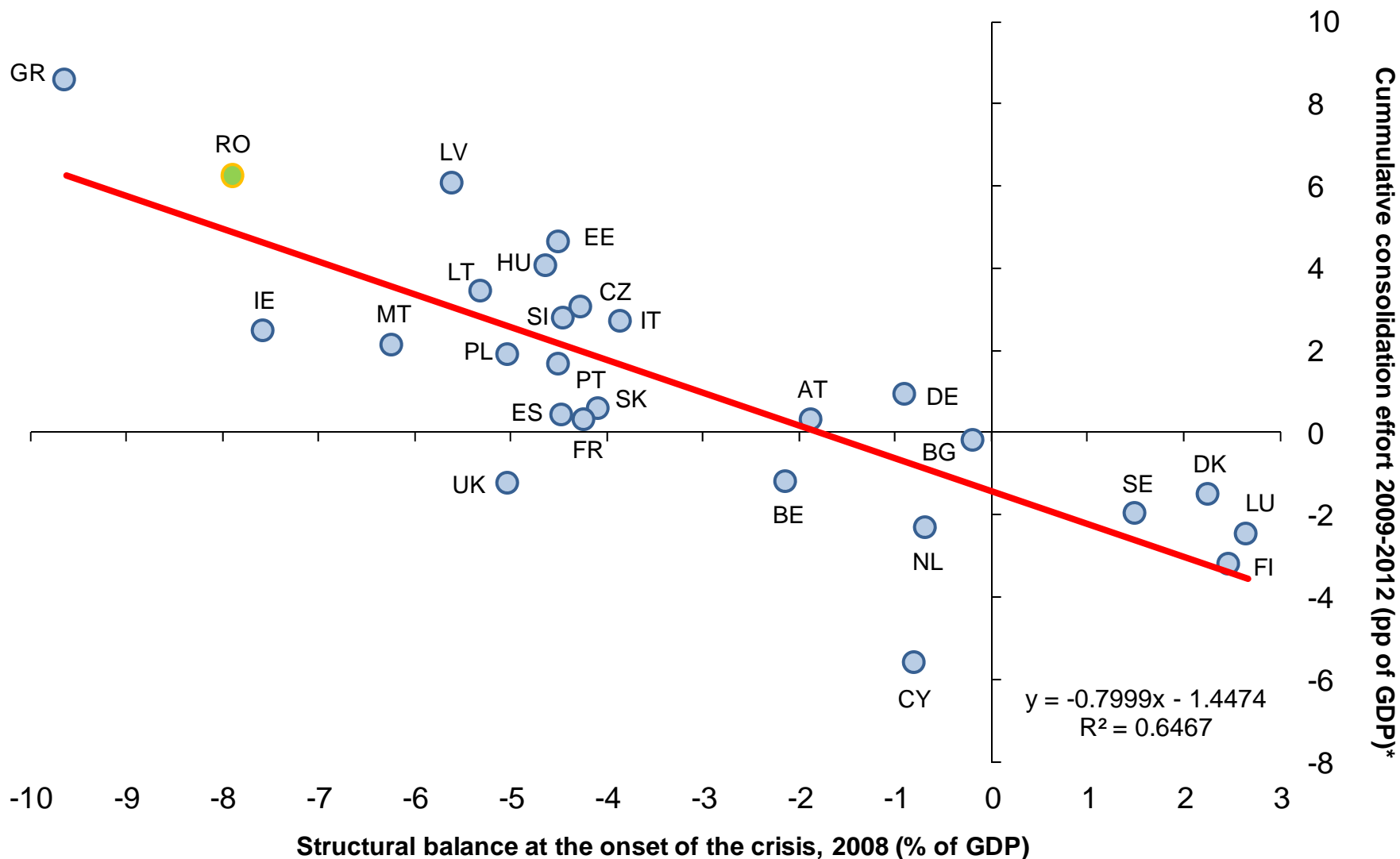
### Cumulative change in the structural primary budget balance, 2009-2012



Source: AMECO, NBR calculations



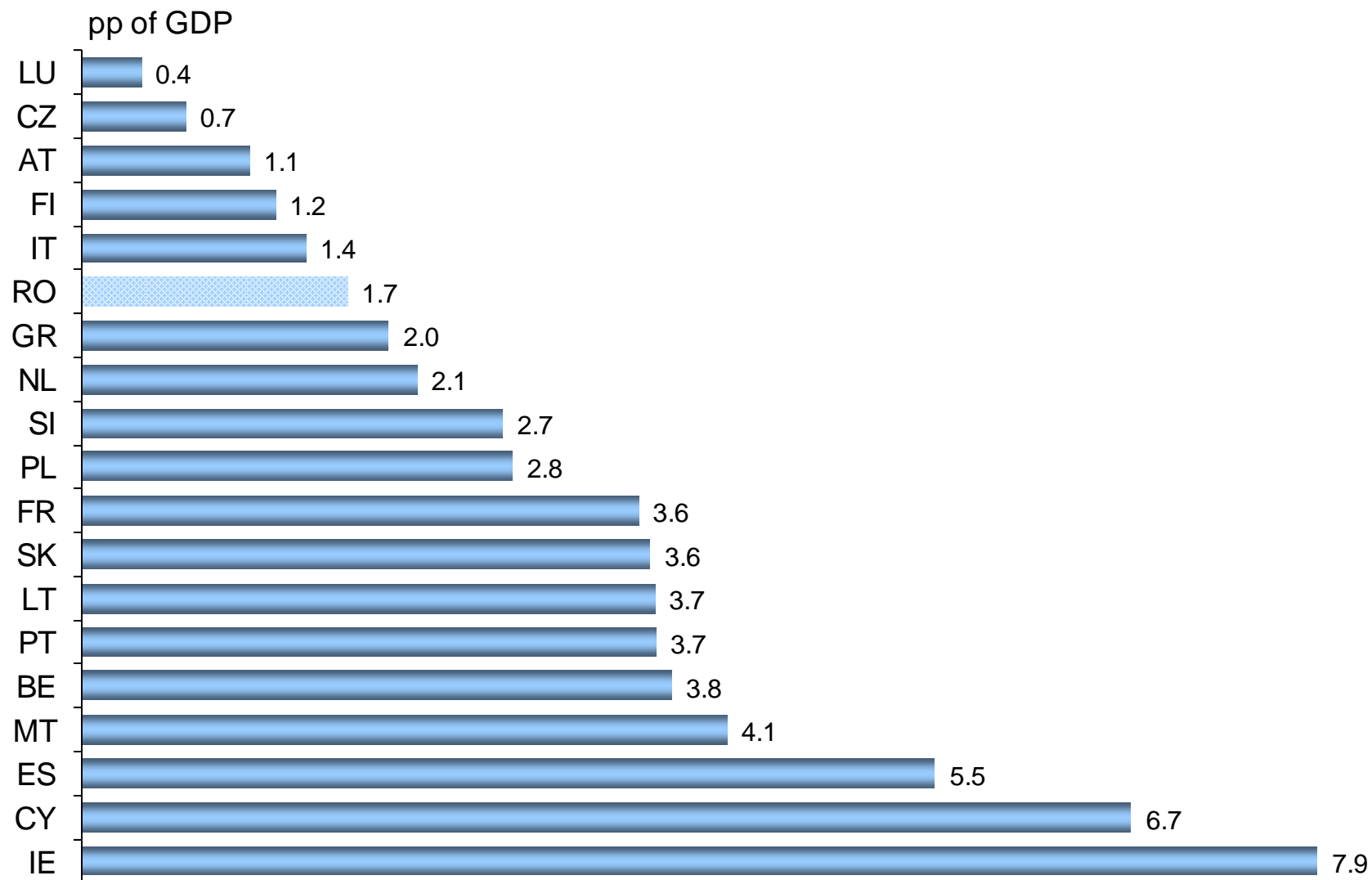
... which reflects the size of the fiscal gap at the crisis' onset



\* defined as the change in the primary structural budget balance in 2012 against 2008

Source: AMECO, NBR calculations

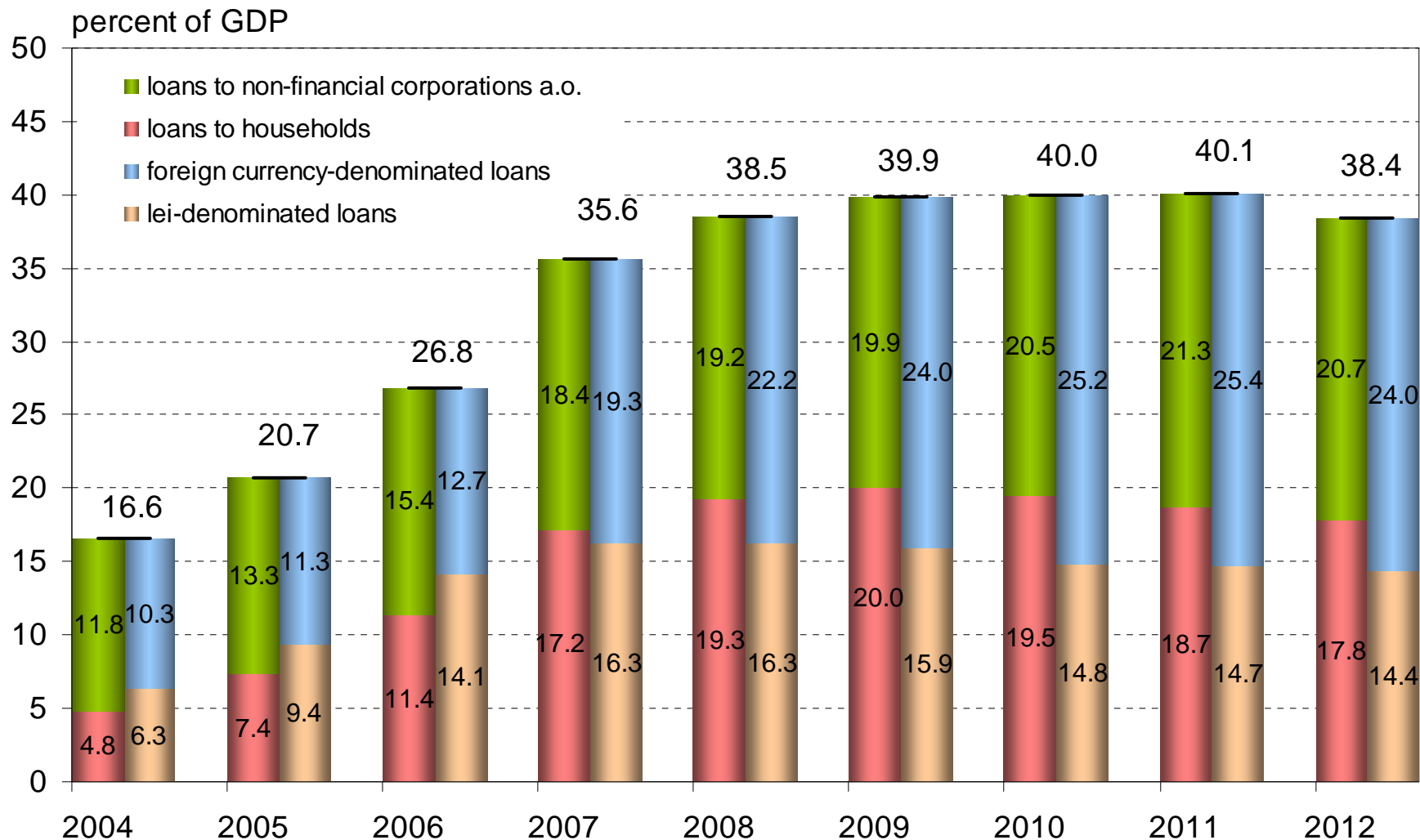
# A comparatively small fiscal consolidation effort is left in order to reach the medium-term structural fiscal balance objective



Source: AMECO, NBR calculations

# Banking System Developments

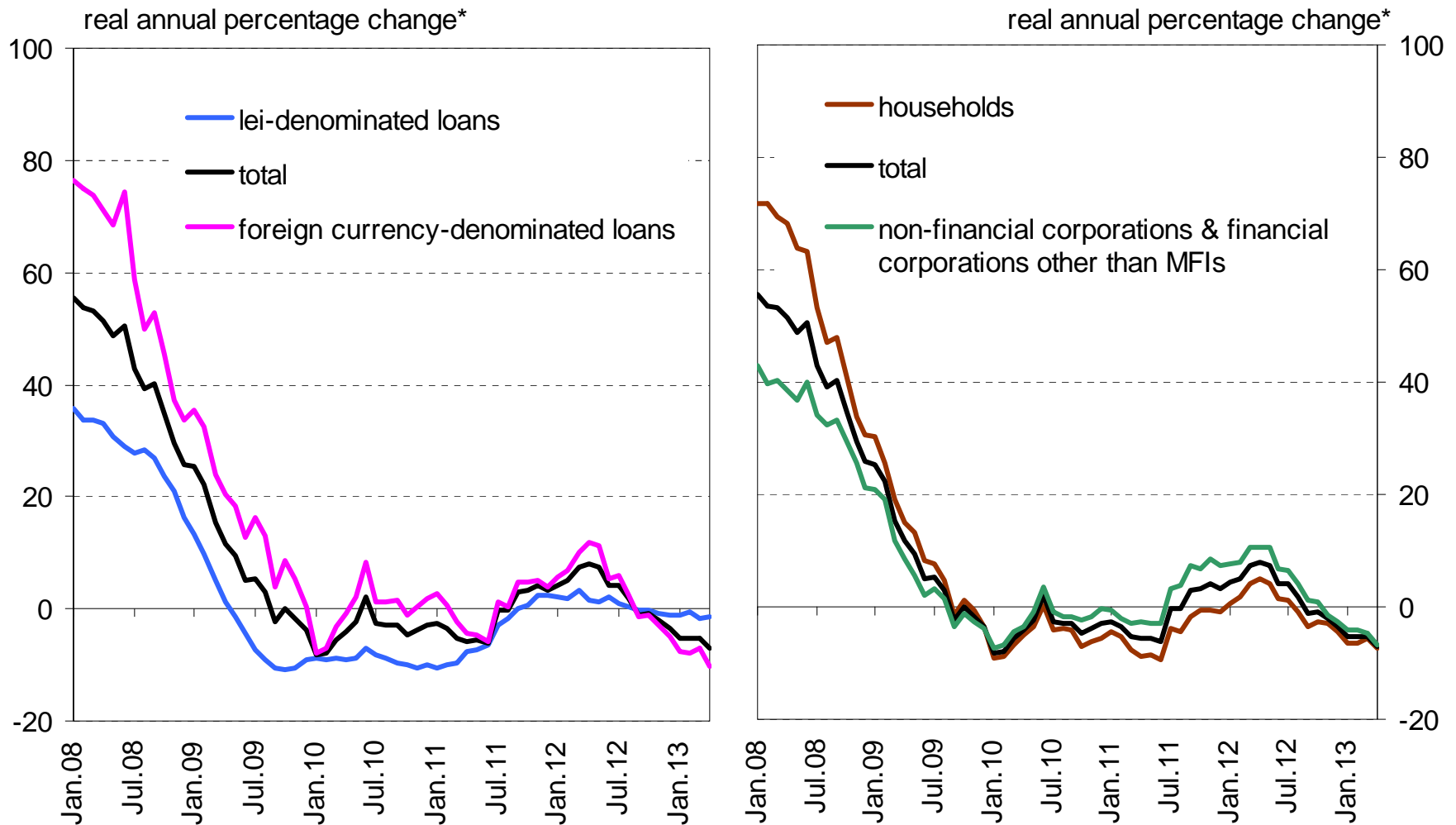
# Deleveraging brought financial intermediation to its 2008 level ...



\*) loans to the private sector/GDP

Source: National Institute of Statistics, National Bank of Romania

## ... with the stock of loans to both households and companies posting negative real annual growth rates

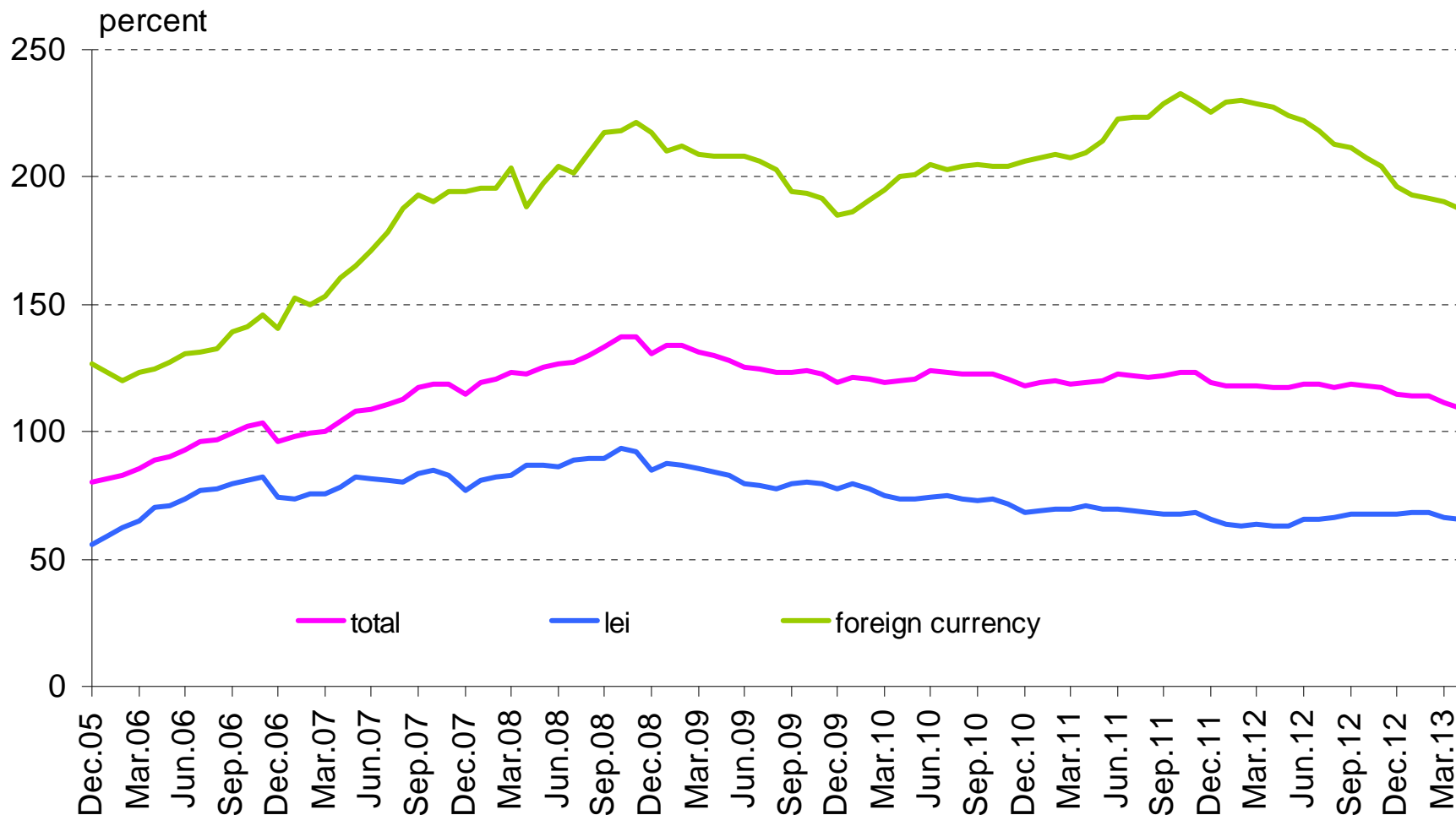


Source: National Institute of Statistics, National Bank of Romania

\*) based on CPI

The main focus of deleveraging seems to have been FX lending, which has been the driver of the decline observed in the LTD ratio, ...

### Loan-to-Deposit Ratio\*



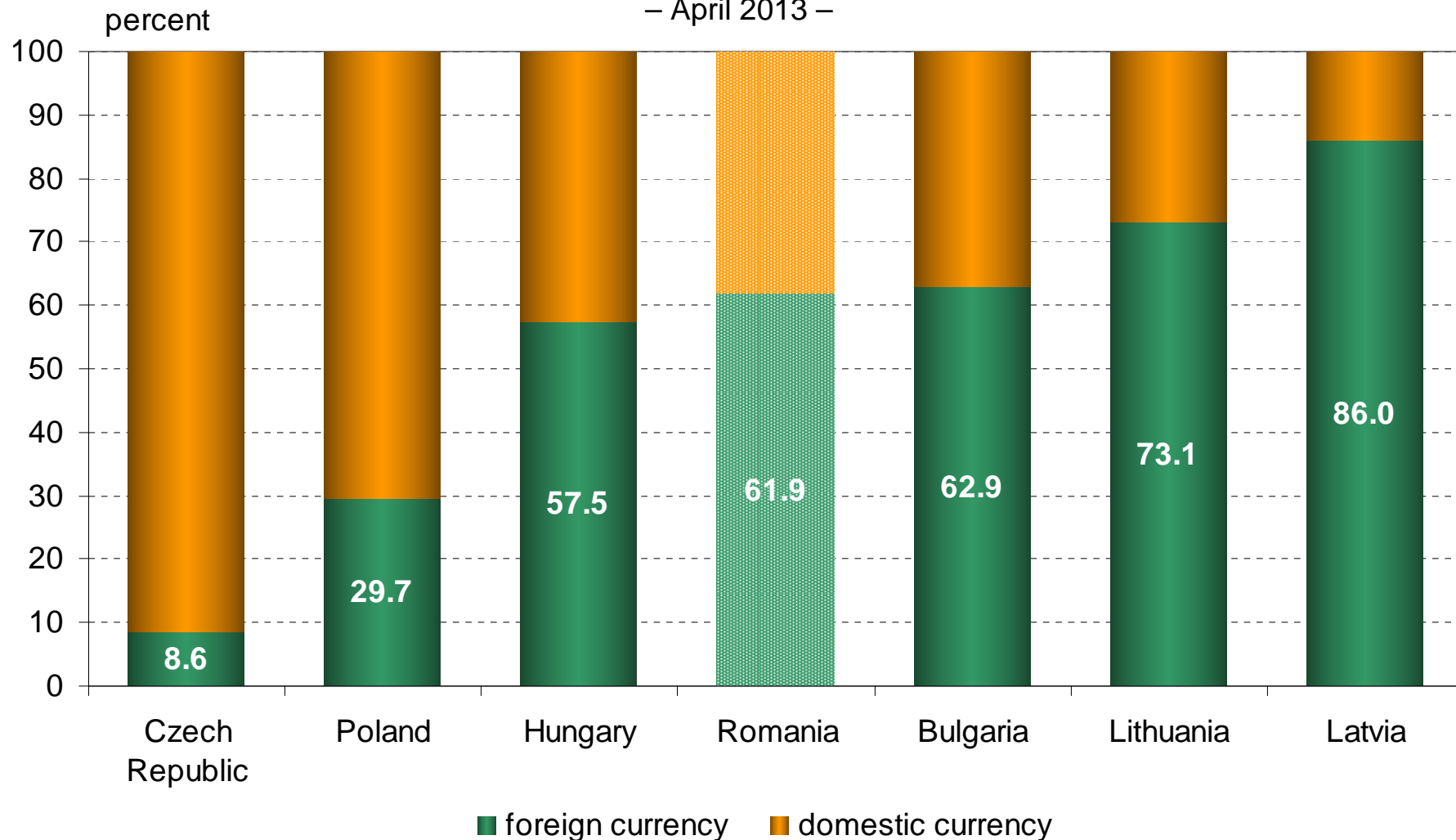
\* based on monetary survey data

Source: National Bank of Romania

... a welcome development given that Romania has the highest share of FX lending among CEECs with a floating exchange-rate regime

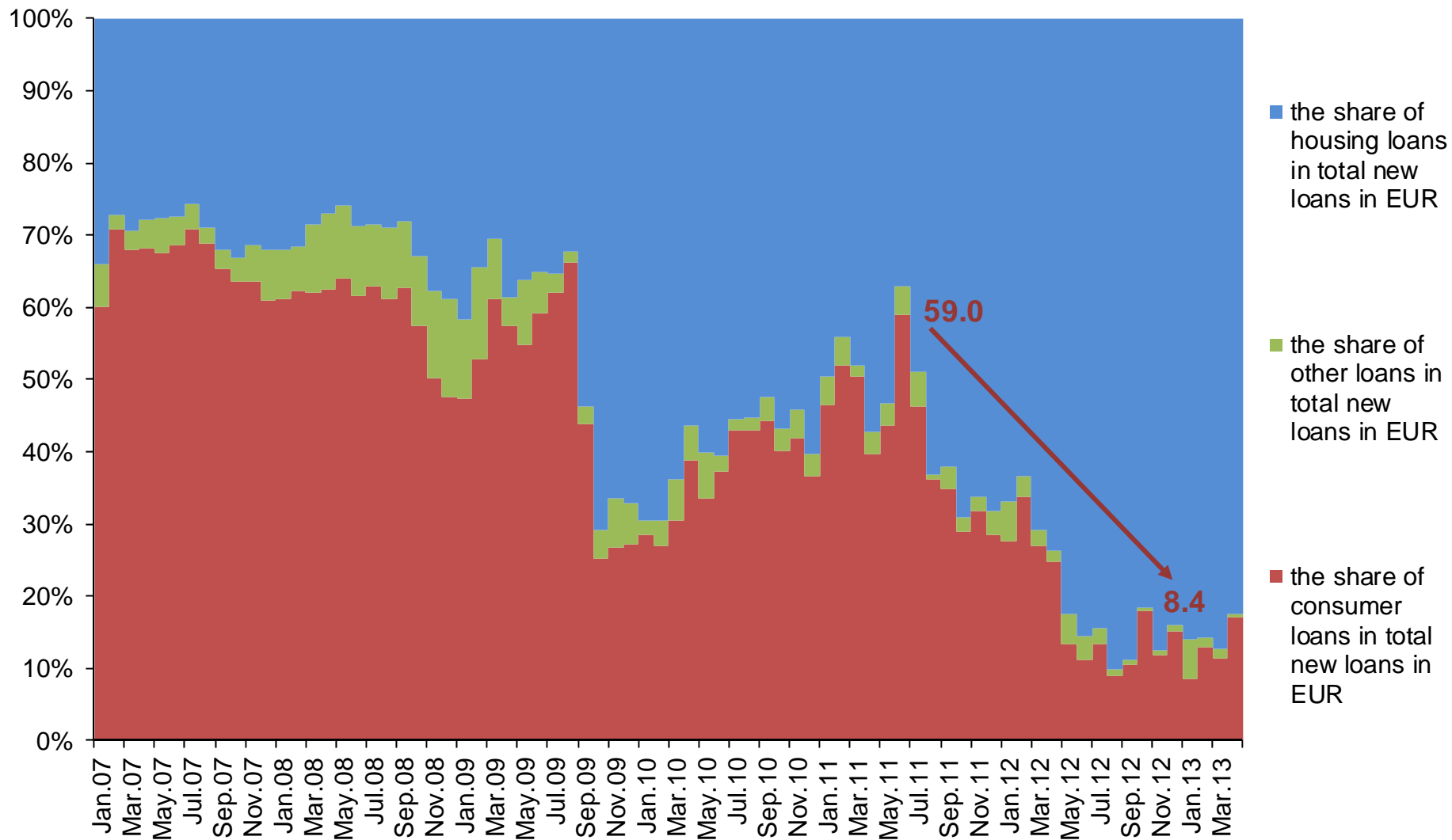
The share of the foreign currency component in loans to the private sector

– April 2013 –



Source: central bank websites

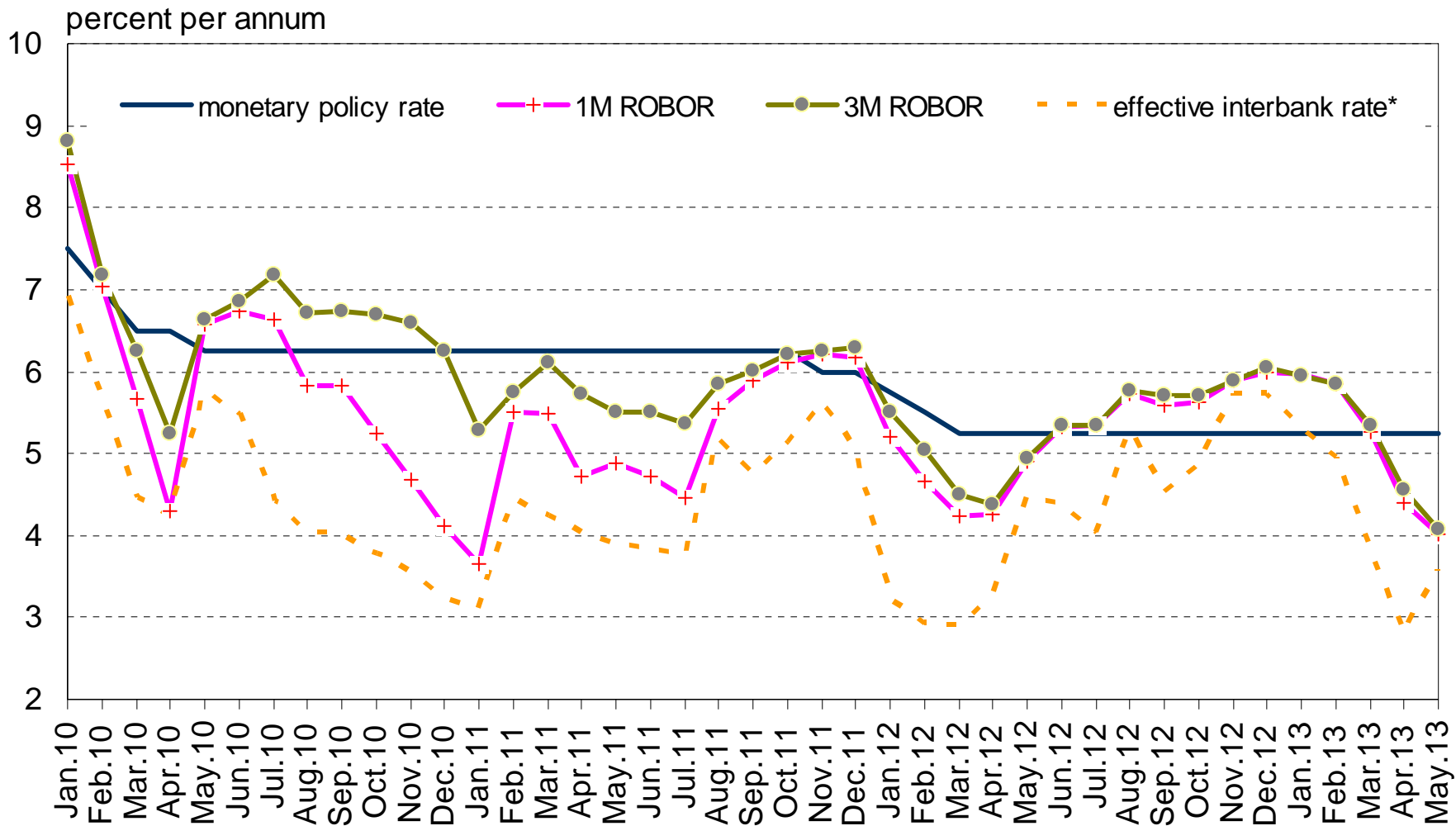
# Significant drop in FX consumer lending



Source: financial institutions' reports



# Interbank money-market interest rates declined significantly, ...

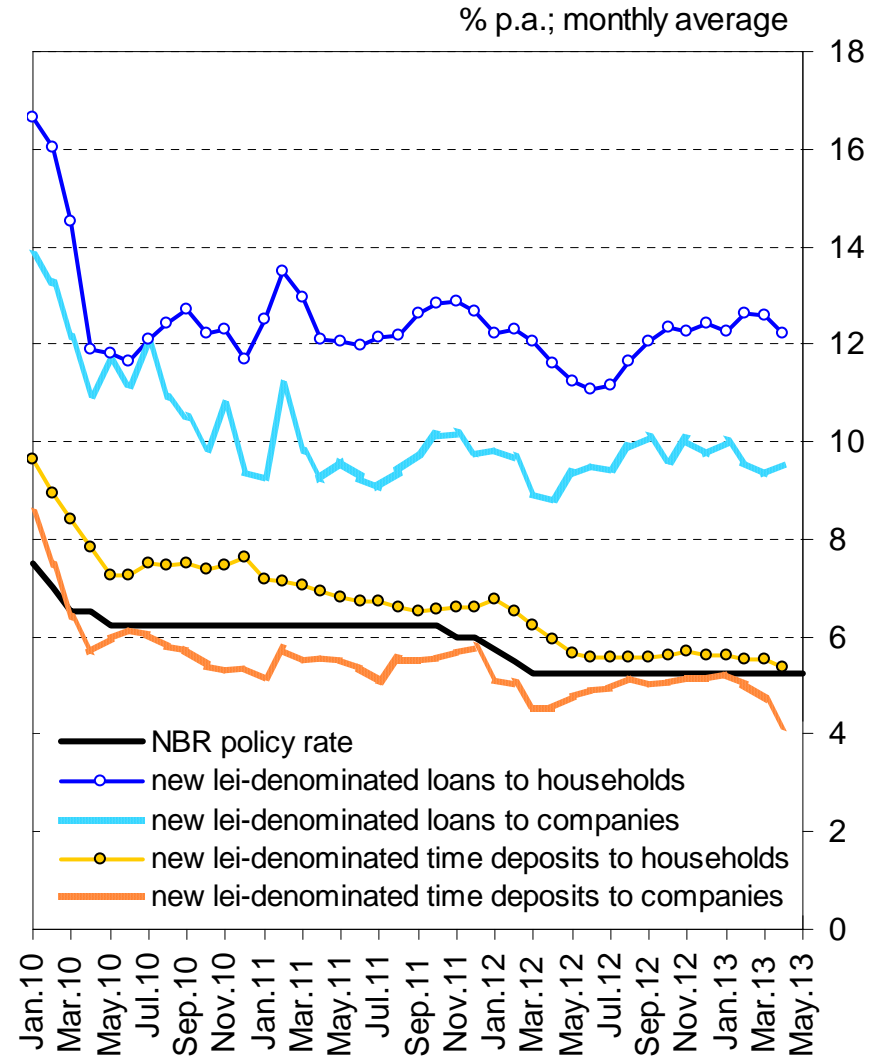
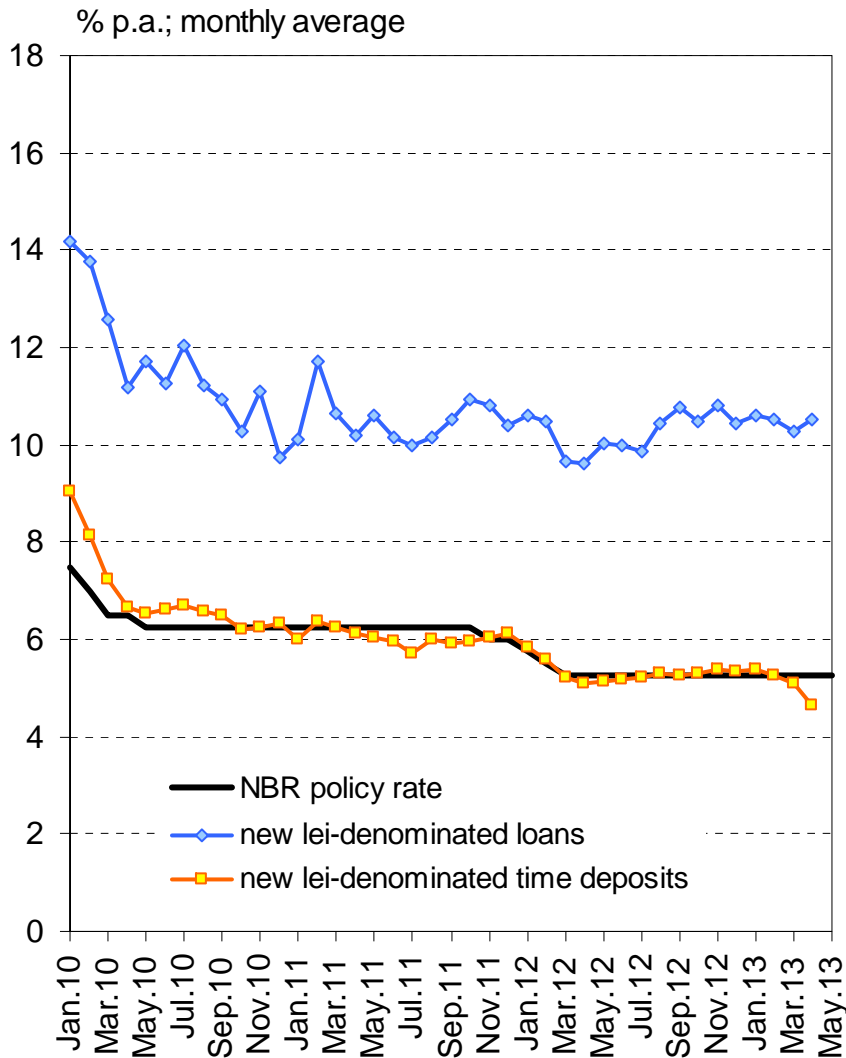


\* Weighted average for all transactions, irrespective of maturity, with overnight transactions holding the largest share.

Source: National Bank of Romania

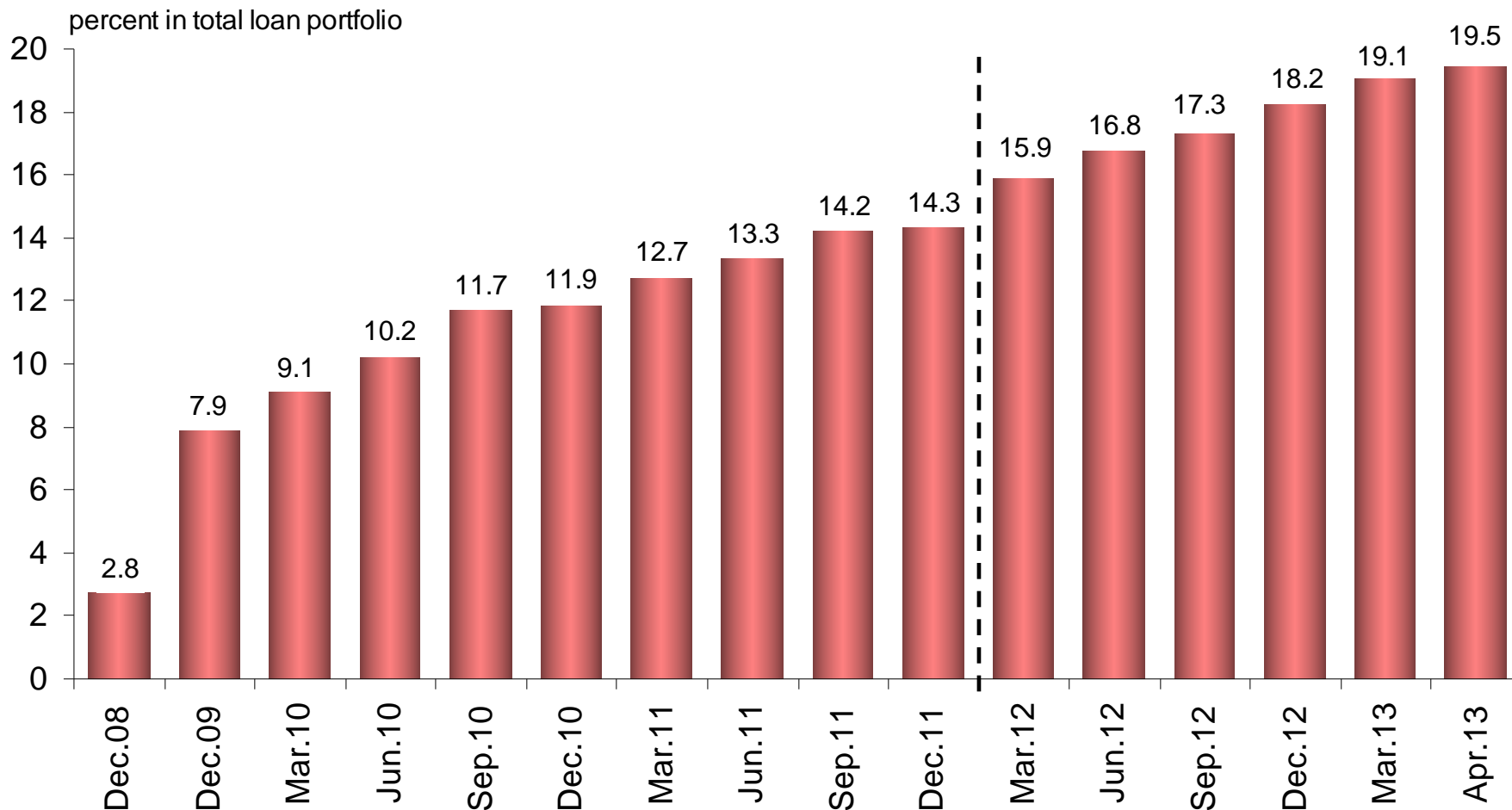


... this decline being passed through slowly into lending rates  
and more visibly into deposit rates



Source: National Bank of Romania

## The peak in the NPL\* ratio is yet to be reached

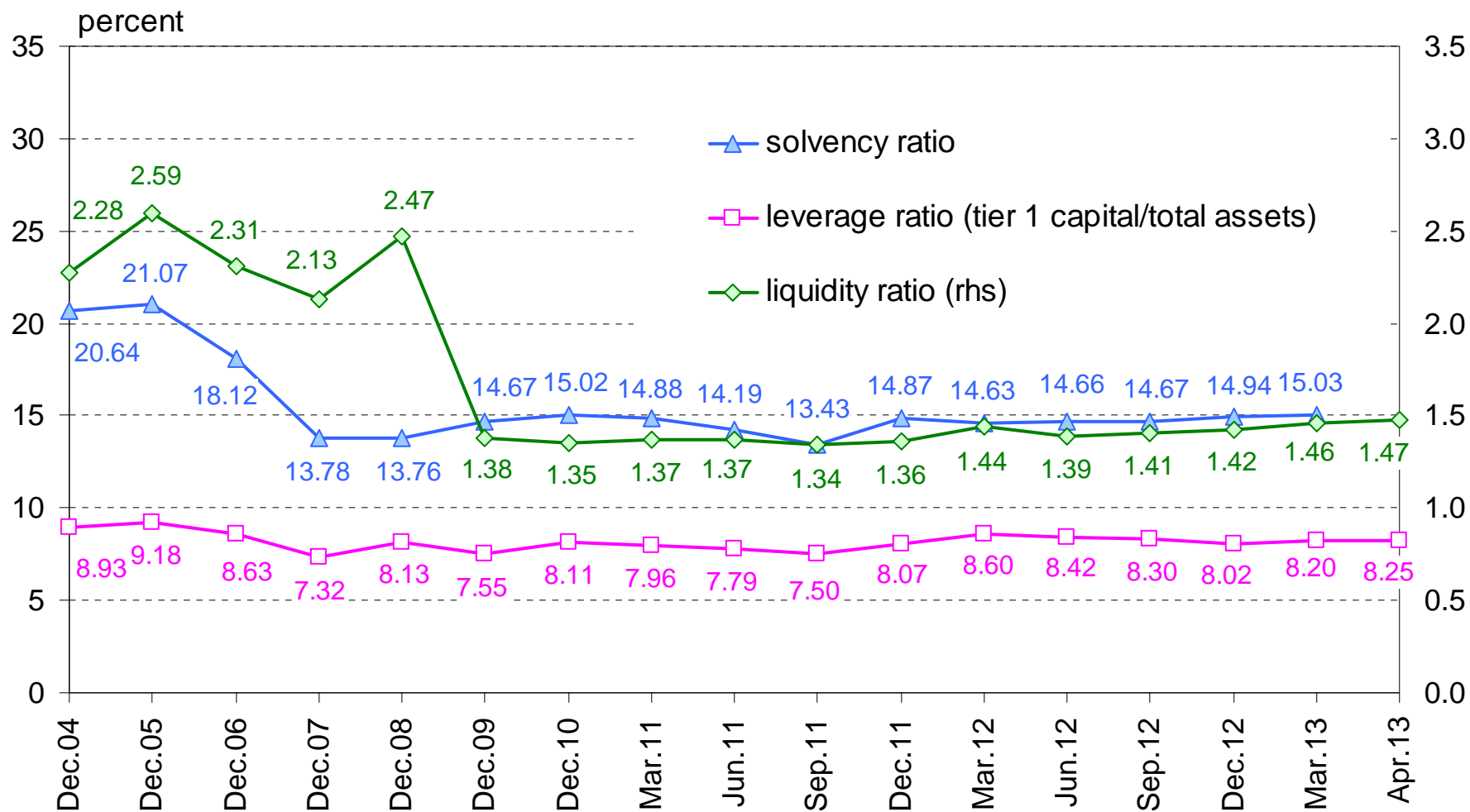


\*) The NPLs represent gross exposure of loans and related interest overdue for more than 90 days and/or for which legal proceedings were initiated. The definition is in line with the IMF's recommendations and allows international comparisons.

**Note:** Starting January 1, 2012, Romanian credit institutions apply the IFRS for accounting purposes.

Source: National Bank of Romania

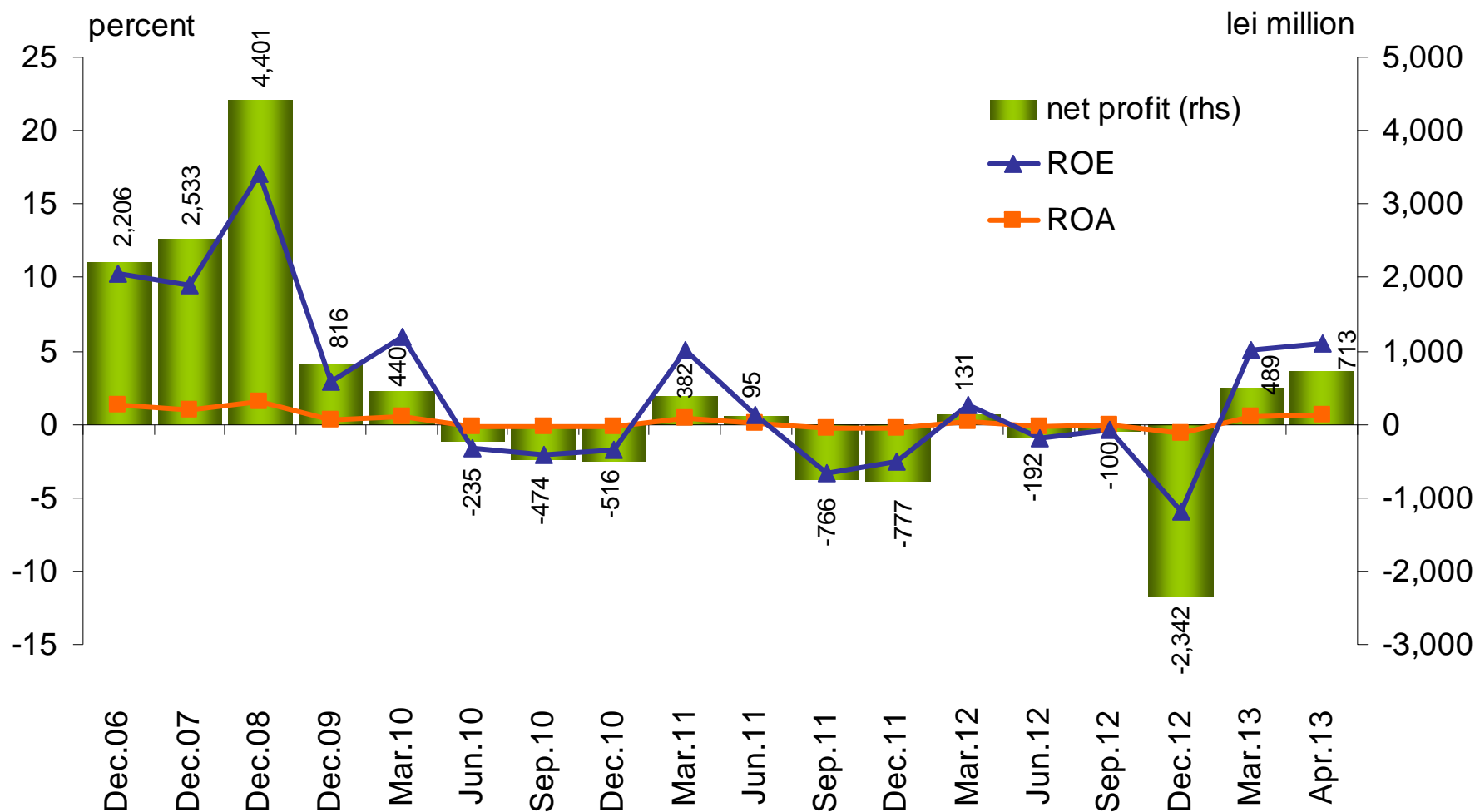
# The banking system remains liquid and well-capitalised ...



Note: Starting January 1, 2012, Romanian credit institutions apply the IFRS for accounting purposes.

Source: National Bank of Romania

... and its profitability improved significantly during the last months



Note: Starting January 1, 2012, Romanian credit institutions apply the IFRS for accounting purposes.

Source: National Bank of Romania

# **Financing Arrangement with the EU, IMF and other IFIs**

# Multilateral financing arrangement with the EU, IMF and other IFIs

## A) Public debt

	Approved amount	Drawn amount		Undrawn tranche
		NBR	MPF	
<b>IMF</b>				
- SDR billions	11.4	10.5	8.6	0.9
- EUR billions*	12.9	11.9	9.8	1.0

\* at the exchange rate on the arrangement approval date by the IMF Board (SDR 1 = EUR 1.1283)

	Approved amount	Drawn amount
<b>EU (EUR billions)</b>	5.0	5.0

	Approved amount	Drawn amount
<b>World Bank (IBRD)</b> EUR billions	1.0	1.0

## B) Private debt

	Approved amount	Investment made**
<b>EBRD, EIB, IFC (EUR billions)</b>	1.0	1.3

\*\* Source: EBRD – Annual Report 2012



On this particular segment of the arrangement, financing was provided directly to private companies. The authorities have not been involved and do not conduct any type of monitoring (contractual conditions, repayment schedule, etc.).

## C) Total amounts approved/drawn under the arrangement (EUR bn.)

	Approved amount	Drawn amount
<b>NBR</b>	10.5	9.5
<b>MPF</b>	8.4	8.4
<b>Public sector – total</b>	<b>18.9</b>	<b>17.9</b>
<b>Private sector</b>	1.0	1.3
<b>TOTAL</b>	<b>19.9</b>	<b>19.2</b>

Source: National Bank of Romania, Ministry of Public Finance

# Repayments under the financing arrangement with the EU, IMF and other IFIs

## A) REPAYMENTS MADE\* (2009 - June 2013)

### I. PRINCIPAL REPAYMENTS

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR	TOTAL MPF
IMF	3.63	3.10	0.53
EU			
WB (IBRD)			
<b>TOTAL</b>	<b>3.63</b>	<b>3.10</b>	<b>0.53</b>

### II. INTEREST AND COMMISSION PAYMENTS

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR	TOTAL MPF
IMF	1.14	0.92	0.22
EU	0.44		0.44
WB (IBRD)	0.04		0.04
<b>TOTAL</b>	<b>1.62</b>	<b>0.92</b>	<b>0.70</b>

### III. TOTAL

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR	TOTAL MPF
IMF	4.77	4.02	0.75
EU	0.44		0.44
WB (IBRD)	0.04		0.04
<b>TOTAL</b>	<b>5.25</b>	<b>4.02</b>	<b>1.23</b>

\* repayments to the IMF have been converted into EUR at the exchange rate on the repayment date

## B) FUTURE REPAYMENTS\*\*

### I. PRINCIPAL REPAYMENTS

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR <sup>1</sup>	TOTAL MPF <sup>2</sup>
IMF	8.62	6.90	1.72
EU	5.00		5.00
WB (IBRD)	1.00		1.00
<b>TOTAL</b>	<b>14.62</b>	<b>6.90</b>	<b>7.72</b>

### II. INTEREST AND COMMISSION PAYMENTS

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR <sup>1</sup>	TOTAL MPF <sup>2</sup>
IMF	0.27	0.23	0.04
EU	0.65		0.65
WB (IBRD)	0.20		0.20
<b>TOTAL</b>	<b>1.12</b>	<b>0.23</b>	<b>0.89</b>

### III. TOTAL

EUR billions	PUBLIC SECTOR		
	TOTAL	TOTAL NBR <sup>1</sup>	TOTAL MPF <sup>2</sup>
IMF	8.90	7.14	1.76
EU	5.65		5.65
WB (IBRD)	1.20		1.20
<b>TOTAL</b>	<b>15.75</b>	<b>7.14</b>	<b>8.61</b>

\*\* the amounts due to the IMF were converted into EUR at the exchange rate on 31 May 2013 (SDR 1 = EUR 1.1542)

1) NBR: Jul. 2013 - Dec. 2016; 2) MPF: Jul. 2013 - Dec. 2023

Notes: final repayment to the IMF - February 2016

final repayment to the EC - April 2019

final repayment to the WB - December 2023

Source: National Bank of Romania, Ministry of Public Finance