Annual Report 2023

Overview

In 2023, the world economic growth decelerated by 0.3 percentage points to 3.2 percent[1], amid political tensions at international level and geoeconomic fragmentation, as well as the tightening of monetary policy to fend off inflationary pressures. In fact, this policy stance of many central banks in advanced and emerging economies contributed to a slowdown in demand and, together with the favourable developments in commodity prices, to a substantial decline in the annual inflation rate at global level, after the pick-up seen in 2022.

Given this challenging international environment, Romania's economy recorded in 2023 a slower pace of increase, which however remained fairly robust at 2.1 percent from a European and regional perspective. Twin deficits were still high, while the annual inflation rate followed a swift downward path.

Unlike previous years, when private consumption was the largest contributor to economic growth, in 2023 it was clearly exceeded by gross fixed capital formation. The latter component took over the role of key driver of economic expansion (with a contribution of 3.6 percentage points) amid the simultaneous implementation of several European mechanisms – the pick-up in repayments for the 2014-2020 financial period (in the final year of the expenditure eligibility period), the start of pre-financing under the 2021-2027 financial framework, and the further collection of funds allocated under the NRRP.

The step-up in capital accumulation was driven by public investment, largely on the back of sizeable EU funds for civil engineering works, while private investment, despite posting positive dynamics, lost momentum from the previous year amid still elevated inflation and tight lending conditions. These two factors also acted towards containing household consumption, whose 3.1 percent rise was underpinned by the fast-paced increase in real wage earnings, a number of government measures for consumer protection, as well as by households' strategies to maintain a relatively stable volume of goods purchases in an inflationary environment (i.e., downtrading[2], a stronger preference for discount stores, keener interest in sales promotions).

Net external demand for goods and services also made a contribution to GDP growth (0.1 percentage points) – a 10-year breakthrough, following a larger decline in the volume of imports of goods compared to that of exports of goods (-2.6 percent and -1.2 percent respectively). In view of the decrease in the deficit on trade in goods by EUR 3 billion – the favourable developments in its volume component being accompanied by improved terms of trade, amid easing pressure from international prices –, the current account deficit narrowed markedly in 2023 to 7 percent of GDP from 9.2 percent of GDP a year earlier. The current account deficit financing via stable, non-debt-creating flows – consisting of net inflows in the form of equity in FDI

1 IMF, *World Economic Outlook*, April 2024.

2 Preserving consumption volumes by shifting to low-end products.

enterprises (reinvestment of earnings included) cumulated with the capital account surplus (comprising mainly non-repayable EU funds for investment projects) – rose to 58.9 percent, up more than 6 percentage points against 2022.

Turning to the fiscal position, Romania is still subject to the excessive deficit procedure opened in 2020 after the country's budget deficit exceeded the 3 percent-of-GDP reference value under the Stability and Growth Pact as of 2019. The year 2023 saw a noticeable deviation from the 4.4 percent of GDP target set in the 2023-2026 Convergence Programme, with the fiscal deficit measured according to the ESA 2010 methodology reaching 6.6 percent of GDP, 0.3 percentage points higher than in 2022. According to the European Commission's assessments, this also reflects, apart from worsening cyclical conditions, a marginal deterioration in the structural component of the budget deficit.

The annual CPI inflation rate fell to 6.61 percent at end-2023, 9.76 percentage points lower than in December 2022. The substantial disinflation in the course of the year was supported by food and energy prices. In the former case, the evolution took place amid the sharp decline in tensions on the agri-food commodity market due to relatively large crops in Romania and elsewhere, as well as to the resumption of exports of Ukrainian farm produce in adequate conditions. A contribution was also made by the entry into force of the mark-up capping scheme for basic food products in August 2023; originally designed for a 3-month period, the initiative was subsequently extended until the end of 2024.

Turning to energy, the movements in electricity and natural gas prices had a sizeable contribution to the fall in the CPI inflation rate, mainly following the broadening of the scope of the electricity bills support scheme as of 1 January 2023. Given also the favourable base effects arising after the 2022 hikes in both segments dropped out of the calculation base, the annual change in prices for the electricity and natural gas subgroup reached -8.1 percent at the end of the year. Additional disinflationary influences, albeit less strong, also came from fuel prices, with oil prices on international markets hovering in 2023 around significantly lower levels than in the previous year. After a temporary increase in the annual inflation rate in January 2024, *inter alia* amid unfavourable base effects and fiscal changes since the beginning of the year, disinflation resumed, with the growth rate of consumer prices running at 5.90 percent in April.

As for the annual core inflation rate (excluding administered prices, volatile prices, and tobacco product and alcoholic beverage prices from the CPI), it recorded a peak of the recent period at 15.1 percent in February 2023, before falling gradually to 8.4 percent in December 2023, under the impact of a substantial slowdown in the growth rate of processed food prices (5.3 percent in December 2023 compared to 22.9 percent in December 2022). Nevertheless, non-food and market services prices followed a mostly upward path, a mild decline starting only in 2023 Q4, so that the end-of-year figures remained in the double-digit territory (11.0 percent and 10.2 percent respectively). As the non-food items included in the core inflation basket are, to a considerable extent, of foreign origin, their prices were affected by import-related costs. Labour costs were yet another factor that put pressure on prices, which was

mainly reflected in the market services group. The slower pace of decline in core inflation owed also to the resilience of consumer demand, which gained momentum towards the end of the year, amid the rise in both households' real income and their interest in consumer credit.

The macroeconomic environment called for the increase in the monetary policy rate by another 0.25 percentage points in January 2023 and its subsequent status-quo, including in the first half of 2024, at 7.00 percent. Accordingly, the NBR raised both the lending and the deposit facility rates to 8.00 percent and 6.00 percent respectively and then kept them at these levels. In addition, the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions were maintained at 8 percent and 5 percent respectively.

A major role in the NBR's approach also played the management of liquidity on the money market, amid the substantial impact exerted by the Treasury's foreign currency operations, associated with the budget execution and the use of European funds, but also in the context of the prevailing favourable sentiment on the international financial market for most of the year and the still high relative attractiveness of investments in domestic currency, with potential implications for the EUR/RON exchange rate. The latter saw somewhat stronger fluctuations in 2023, falling and tending to stay in the first three quarters below the levels prevailing in 2022 H2, before climbing and stabilising thereafter at slightly higher readings, in line with the moderation of the external imbalance. During 2023 overall, the leu depreciated 1.0 percent versus the euro and strengthened 2.0 percent against the US dollar (based on December exchange rate averages).

The annual dynamics of credit to the private sector extended their downtrend into September 2023, reaching a three-year low of 4.5 percent, due to the abrupt slowdown in the growth of the domestic currency component, amid the rise in interest rates and the tightening of credit standards. At such a juncture, the liquidity surplus widened considerably during 2023 and was further mopped up by the central bank via the deposit facility.

Moreover, the NBR continued to extensively use specific tools and means of communicating and detailing the rationale behind the monetary policy decisions. Through them, it highlighted the major drivers behind the decline in inflation in 2023 and in the period ahead, as well as the role of monetary policy conduct and the NBR's determination to act in order to safeguard medium-term price stability. In addition, the central bank repeatedly underlined that a balanced macroeconomic policy mix and the implementation of structural reforms, *inter alia* by using European funds to foster the long-term growth potential, are essential for preserving macroeconomic stability and for enhancing the domestic economy's capacity to withstand adverse developments.

The NBR's overall approach paved the way for a substantial reduction in the inflation rate in 2023 and its subsequent stay on a path compatible with reaching the inflation target over the medium term, *inter alia* via the anchoring of longer-term inflation expectations, in a manner conducive to achieving sustainable economic growth.

Romania's international reserves strengthened in 2023. They amounted to EUR 66 billion at end-2023, up by EUR 13.7 billion over end-2022, largely as a result of the increase in foreign exchange reserves to EUR 59.8 billion. The gold stock comprised 103.6 tonnes, out of which 61.2 tonnes stored with the Bank of England. In terms of value, Romania's gold reserves went up EUR 544 million from end-2022 (to EUR 6.2 billion), as a result of the rise in the gold price on international markets. At the same time, the adequacy of international reserves improved as well, thus enhancing the capacity of the Romanian economy to withstand potential adverse shocks on financial markets and to contain the government's and local companies' financing costs.

The systemic risks to financial stability in Romania that were assessed as severe in 2023 stemmed, the same as in the previous year, from the global uncertainty (on a rise towards year-end, amid the outbreak of the Middle East conflict and the ongoing war in Ukraine) and from the tensions surrounding macroeconomic equilibria, in the context of regional and international geopolitical developments, as well as of uncertainties surrounding fiscal and income policy stances. Other relevant systemic risks, albeit relatively less strong, were those related to the delay in implementing reforms and absorbing EU funds, especially via the National Recovery and Resilience Plan (NRRP), which was high, and the default risk for loans to the private sector, assessed as moderate.

In a context marked by such risks, worth noting is that the Romanian banking sector remained resilient, as the key prudential indicators fared well and further stood above or similar to those recorded EU-wide. The liquidity coverage ratio (LCR) reached 280.6 percent at end-2023, exceeding the EU average, while the solvency ratio remained adequate, i.e. 23.6 percent in December 2023, around the 75th percentile in the distribution at EU level. The shift in focus to less risky assets also reflected in the overall risk ratio declining further to 28.4 percent in December 2023, hitting a low since the outbreak of the global financial crisis in 2008.

The results of the latest solvency stress test covering the 2023-2025 period show that the banking sector has a good capacity to deal with a challenging macroeconomic environment, due to the sizeable capital reserve at the beginning of the test (December 2022) and to the adequate operational capacity to produce positive financial results in a relatively high interest rate environment. The gradual change in the financing structure and the increase in operational efficiency by cutting expenses (due *inter alia* to digitalisation efforts) are factors that contributed to enhancing the resilience of credit institutions.

Bank asset quality continued to improve throughout 2023 as well. The NPL ratio stayed in the low-risk bucket[3] (2.4 percent in December 2023), whereas the NPL coverage by provisions remained relatively high, i.e. 64.6 percent, well above the EU average.

[3] Below 3 percent – low risk; above 8 percent – high risk; 3-8 percent – medium risk, as defined by the European Banking Authority.

The National Bank of Romania, together with the National Committee for Macroprudential Oversight (NCMO), closely monitors the developments in the domestic and external macroeconomic environment with a view to identifying the best measures to mitigate risks to financial system stability in Romania. In 2023, the NCMO General Board convened in four meetings, during which the participants presented analyses concerning the macroprudential policy and the systemic risks to financial stability identified at national level. The NCMO recommended the NBR to maintain the countercyclical capital buffer rate at 1 percent, after the decision adopted in October 2022 to raise the buffer rate starting 23 October 2023, in order to strengthen the resilience of the local banking sector, amid the worsening of global economic growth prospects and the persistence of significant domestic imbalances in Romania's economy.

As regards the O-SII buffer, following the 2023 assessment using the information available as at 31 December 2022, the NCMO identified nine systemically important credit institutions (O-SIIs). Another capital buffer implemented in Romania ever since 2018 is the systemic risk buffer (SyRB), calibrated based on asset quality indicators, namely the NPL ratio and the NPL coverage by provisions. According to the half-yearly assessment submitted to the NCMO in October 2023, during the first half of 2024, no credit institution would apply a SyRB rate of 2 percent, whereas five banks would apply a SyRB rate of 1 percent. The relatively small number of institutions implementing the SyRB buffer shows a significant improvement in the quality of loan portfolios since the introduction of this buffer and is the result of active balance sheet clean-up process and the shift to prudent provisioning policies.

Remaining in the field of macroprudential policy, in June 2023, members of the NCMO General Board designated the Republic of Moldova as a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates. As a result, the NBR monitors the economic and financial developments in this country as long as the Republic of Moldova holds its position of material third country based on the annual identification exercise.

The Government of Romania and the National Bank of Romania maintain an ongoing multifaceted institutional cooperation. This includes the participation of central bank experts in the meetings of the Committee for planning the financial flows of the State Treasury, the NBR's support extended to the Ministry of Finance in the process of bond issuance on the international capital markets, and the endeavours towards Romania's accession to the Organisation for Economic Co-operation and Development (OECD). In 2023, these actions stepped up mainly by launching OECD missions to assess the alignment of national legislation with this organisation's requirements in various areas of activity and by delivering related country presentations. The NBR was involved in the accession negotiations, within the limits of its competences, mainly via:

a) coordinating the process of responding to the accession questionnaire received from the OECD Committee on Financial Markets, for which the NBR acts as a focal point at national level (involving dedicated NBR departments and other institutions and organisations in Romania);

b) completing the accession questionnaires on topics related to the protection of consumers of financial services and financial education, including participation in organising the OECD assessment mission on this subject (involving dedicated NBR departments and other institutions and organisations in Romania);

c) completing the Survey of Implementation of Methodological Standards for Direct Investment (statistics), including the organisation of the OECD assessment mission on this subject;

d) organising the OECD experts' mission to assess Romania's alignment with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations; and

e) participating in working meetings with OECD experts, as part of the assessment missions related to the 2024 edition of the *Economic Survey* of Romania, and formulating comments on and additions to the issues related to the central bank's competence areas.

The NBR's participation in these endeavours also implied, apart from the contributions in the areas related to its activity, presentations on Romania's alignment with various OECD principles. At the same time, the central bank – committed since 2008, consistent with its legal mandate, to developing its relationship with this organisation – participates as a permanent guest in the works of the National Committee for Romania's Accession to the OECD.

As for the relation with the Parliament of Romania, the ongoing dialogue between the National Bank of Romania and this institution takes many forms, such as:

(i) formulation of opinions on draft legal acts at the request of parliamentary committees or initiators (the Ministry of Finance, the National Authority for Consumer Protection or other public authorities), or of the Ministry for Liaison with Parliament with a view to finalising the Government's position regarding those draft laws;

(ii) formulation of opinions, preparation of supporting documents or participation in discussions/meetings of parliamentary committees of the Chamber of Deputies and the Senate on issues such as monetary policy, financial stability, bank resolution, European affairs or payment systems; and

(iii) preparation of replies to interpellations that Members of Parliament submitted to the central bank.

In keeping with the principles of transparency and institutional accountability, in 2023, the NBR continued to provide high-quality economic information in the form of both statistical data that the institution produces in compliance with the legal framework and research works and papers published. The *Reports* issued by the central bank play a major role in ensuring communication with the public at large and the Parliament. The NBR sends to the presidents of the two chambers of Parliament and to the economic committees not only the *Annual Report* (a statutory duty), but also the *Inflation Report* and the *Financial Stability Report*, other two central bank's key communication tools explaining its actions meant to ensure price stability and financial stability. Many topics relevant to central banking are discussed in public events or interviews by Board members, as well as during scientific seminars and

symposiums; at the same time, economic research activities carried out within the NBR focus on such issues.

In 2023, the NBR's online communication activity focused on diversifying the strategy to convey messages to the general public, the central bank's main communication channel remaining the official website, where statistical data were disseminated in real time and other types of information such as press releases, publications, conferences or speeches were promoted. Depending on the needs identified in terms of the relevance of some topics on the public agenda or in terms of increasing the visibility of certain important categories of information related to the bank's activity, these were brought to the public's attention also via social media networks, the messages being adapted to match the specifics and audiences of said channels. The NBR blog, OpiniiBNR, further played an important role in 2023, providing a space where central bank experts address topical issues, some of the articles published there being later shared on social networks as well.

The relation with the National Bank of Moldova (NBM) further held a special place in the NBR's international technical cooperation activities. An important pillar was the provision of technical assistance under the twinning project entitled "Strengthening supervision, corporate governance and risk management in the financial sector", dedicated to the financial sector in the Republic of Moldova and implemented by a consortium of institutions led by the NBR. Between January 2023 and April 2024, several activities took place under this twinning project, including two conferences in Chișinău and 80 technical assistance missions. The project, launched in October 2021, concluded on 17 April 2024. Another pillar of the technical assistance provided to the National Bank of Moldova is the Cooperation Agreement between the NBM and the NBR, signed in Bucharest on 11 June 2021. This aims to develop and expand the cooperation between the two central banks, in order to foster the safety and smooth functioning of the financial and banking systems of the Republic of Moldova and Romania.

At the same time, the NBR provides technical assistance in the area of financial services for the NBM, the National Commission for Financial Markets, and the Government of the Republic of Moldova, with the help of a European Union High-Level Adviser in the Republic of Moldova between December 2023 and December 2024.

As of 2023, the NBR and the NBM have also cooperated in the field of academia, alongside the Bucharest University of Economic Studies (BUES) and the Academy of Economic Studies of Moldova (ASEM), in order to organise, twice a year, the "School of Modern Finance" programme, aimed at undergraduate and master's students at ASEM. The first two editions took place in July and September 2023, with participants sharing the knowledge gained from the programme by giving presentations on financial and banking topics in rural areas in the Republic of Moldova.

With regard to financial education, which is an ongoing concern for the NBR, besides continuing its already well-established programmes and events at the head office and branches, in 2023 the central bank launched four new projects for three target audiences: "Joblandia" and the "Eugeniu Carada" national banking and financial

education competition (for high-school students), "Pro Oeconomia" (for the general public) and "Antreprenoriat de TOP" (for the business sector). Moreover, the NBR signed the first strategic partnership agreement in this field with Compania Națională Poșta Română S.A., under which, in May 2023, 59 employees of the company took part in a pilot programme at the NBR's head office. Throughout the year, more than 113,700 pupils and students participated in financial education projects, and more than 6,600 people participated in programmes for adults.

In 2023, one volume that comprised the Romanian translations of *Indian Currency and Finance* (1913), *A Tract on Monetary Reform* (1923), and *A Treatise on Money* (1930) by John Maynard Keynes was added to the "NBR Library" collection. At the same time, launch events were held for six volumes included in a project initiated in 2020 to mark the celebration of 140 years since the NBR's establishment; these volumes included research papers that had been published in the past three decades by NBR experts: *Stabilitate financiară. Lucrări selectate* and *Financial stability. Selected works*; *Economie. Lucrări selectate* and *Economy. Selected works*; *Rolul băncilor centrale în economiile contemporane: dincolo de stabilitatea prețurilor*; *Evoluția stocului de aur al Băncii Naționale a României (1880-2020)*.

In 2023 and early 2024, steps were taken to increase international awareness about the NBR Treasure that was sent to Moscow during World War I and is yet to be returned. In November 2023, the NBR organised the symposium entitled "The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century", where two volumes in English were launched: *The Romanian National Bank Treasure taken to Moscow and never returned* by Cristian Păunescu and *Romania's Treasure and its destiny. Arguments from the Russian archives* by Ilie Schipor.

On 5 March 2024, at the headquarters of the European Parliament in Brussels, before the NBR's delegation and a large audience, the exhibition *The gold Treasure of the National Bank of Romania sent to Moscow and never returned – A claim older than a century* was opened. Numerous Romanian and foreign MEPs from all political groups took part in the event. The exhibition lasted for three days, during which historical evidence, documents, legal evidence, and commitments between the Russian and Romanian parties regarding the gold reserve sent to Moscow were presented. On the same day, the online edition of the *Politico* newspaper published the article entitled "The gold treasure of the National Bank of Romania that was sent to Moscow" with the subtitle "A claim older than a century – the odyssey of the central bank's 'evacuated' gold that was never returned after the First World War". The article was also included in the printed edition of 7 March 2024 of the same influential publication dedicated to European issues. At the same time, on 6 March 2024, the Université libre de Bruxelles, with the support of the Romanian Cultural Institute, organised the debate *Le trésor de la Banque Nationale de Roumanie envoyé à Moscou – une créance qui date depuis plus d'un siècle*.

Thus, the international public opinion was extensively informed about the valid and enforceable claim held by Romania against the Russian Federation, and the topic was introduced on the agenda of EU institutions. Hence, the Resolution on the return of Romanian national treasure illegally appropriated by Russia was adopted by a large

majority of votes in the plenary session of the European Parliament of 14 March 2024, held in Strasbourg.

As for the developments in the NBR's organisational structure, worth noting is the reorganisation of the IT services activity in two distinct departments, namely the Digital Platforms and Cybersecurity Department and the Digital Solutions Department. The aim was to come into line with the new trends in European central banks and to fulfil the main development lines included in the NBR's Computerisation Strategy. At the same time, the organisational change has advantages such as:

(i) clearly-defined responsibilities for the design, development, testing and administration of IT applications, and implementation of the necessary framework for their rendering more efficient via a dedicated management team; and

(ii) higher speed of response in case of a security incident through the unified coordination of the technological infrastructure area and the cybersecurity area.

The National Bank of Romania's financial position remained sound, its equity recording as at 31 December 2023 a significant positive value of lei 34,028.6 million, up 5 percent over the prior year. This sizeable level of equity reinforces the institution's capacity to fulfil its national legal obligations and the tasks related to its capacity as a member of the European System of Central Banks, while securing its financial independence and instilling credibility in its operations.

Similarly to previous years, in 2023 too, the National Bank of Romania acted to ensure price stability and financial stability and to fulfil all other tasks set forth by law, without resorting to public funds. Furthermore, following its concern for efficiently managing available resources, the NBR posted a positive financial result as at 31 December 2023 – due to the profit from foreign currency asset/liability management operations –, transferring lei 1,942.9 million to the government budget.