



ALPHA BANK

Romania

Paving the way to EURO adoption

October 2018

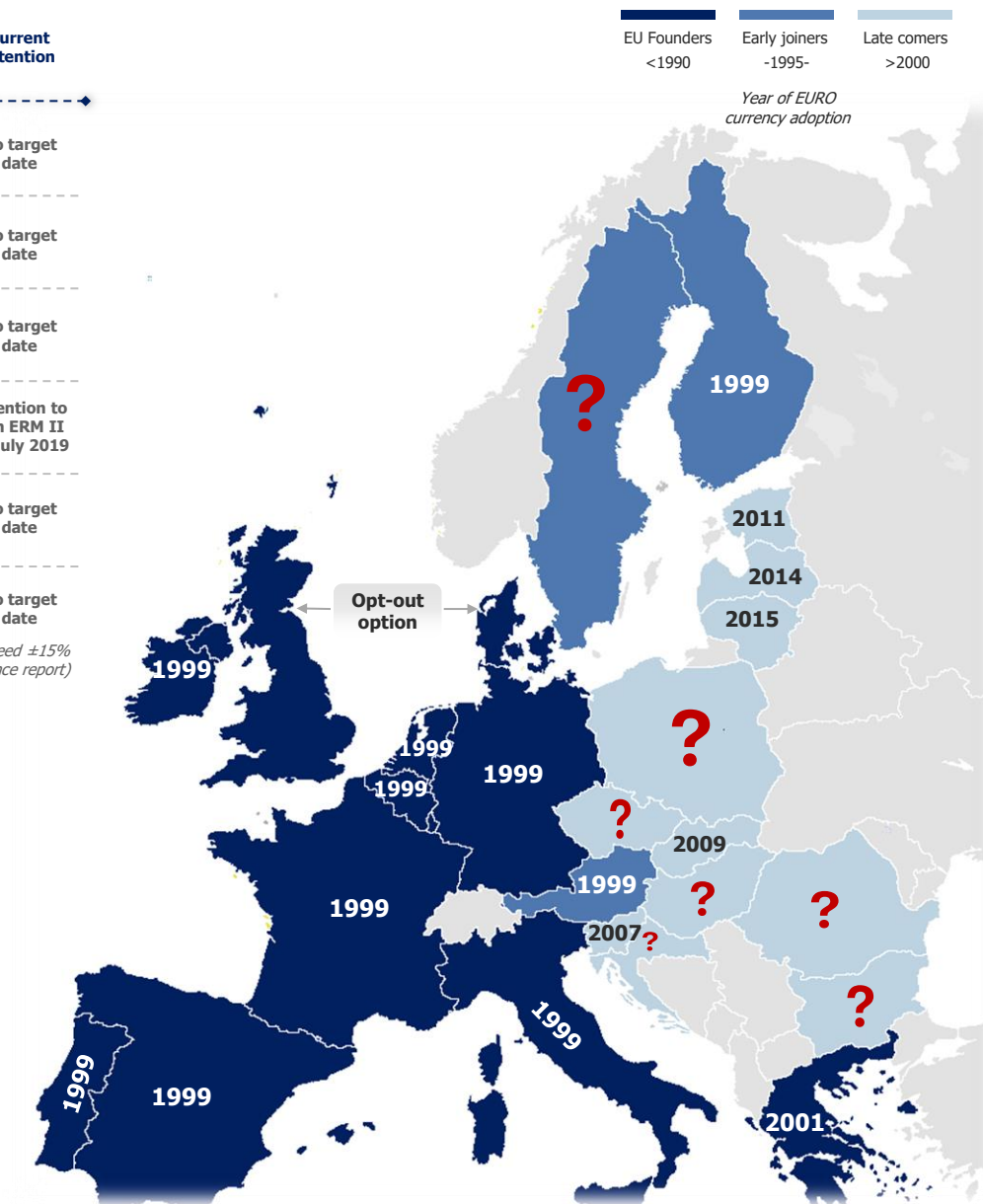
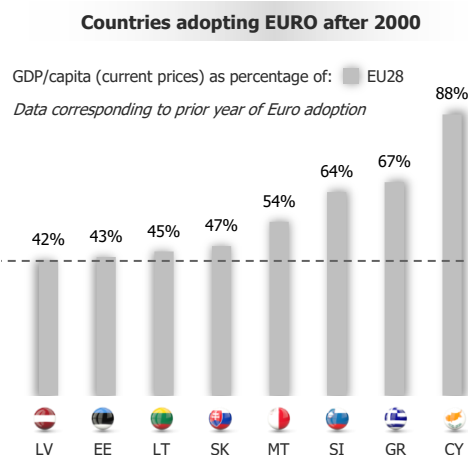
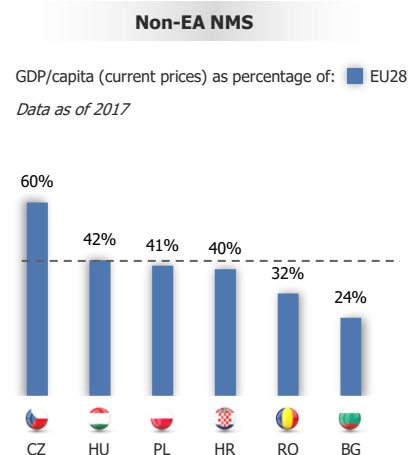
In most non-EA NMS a wait-and-see approach seems to prevail

	Initial target	Date of setting the initial target	Maastricht Criteria Convergence**					Current intention
			Price Stability	Exchange rate Stability*	Government balance	Government debt	Long-term interest rates	
RO	2014	2007 Convergence Program	✗	✓	✓	✓	✗	No target date
HU	2008	2003 Pre-accession Economic Program	✗	✓	✓	✗	✓	No target date
CZ	2009 / 2010	2003 Euro Accession Strategy	✗	✓	✓	✓	✓	No target date
BG	2010	2004 Pre-accession Economic Program	✓	✓	✓	✓	✓	Intention to join ERM II by July 2019
PL	2008 / 2009	2004 Pre-accession Economic Program	✓	✓	✓	✓	✗	No target date
HR	✓	✓	✓	✗	✓	No target date

*None of the countries assessed participates in ERM II. However, fluctuations against EURO do not exceed ±15%

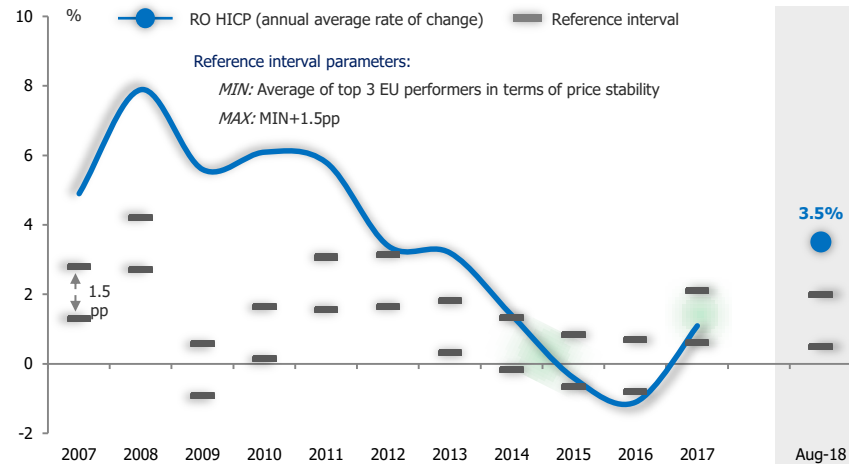
**Based on EC's assessment (2018 Convergence report)

Further catching-up needed for real convergence achievement

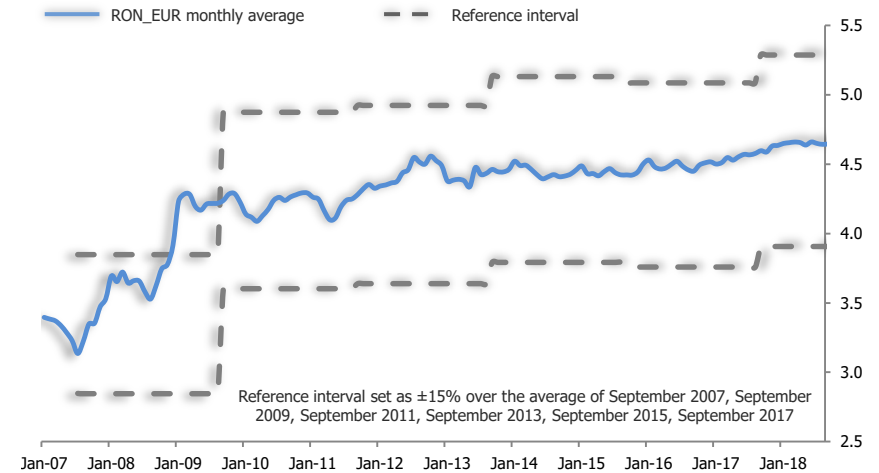


RO: Temporary compliance with nominal convergence criteria

Price Stability: Achieved compliance during 3 out 11 years

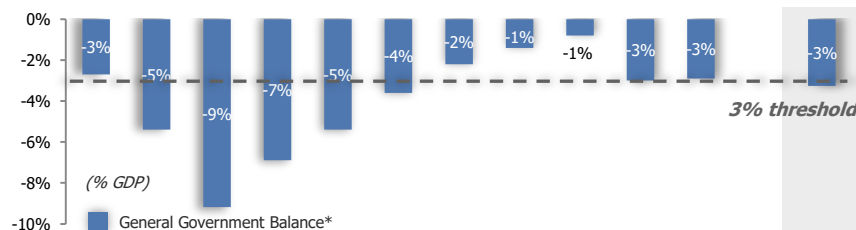


Exchange rate stability: full compliance

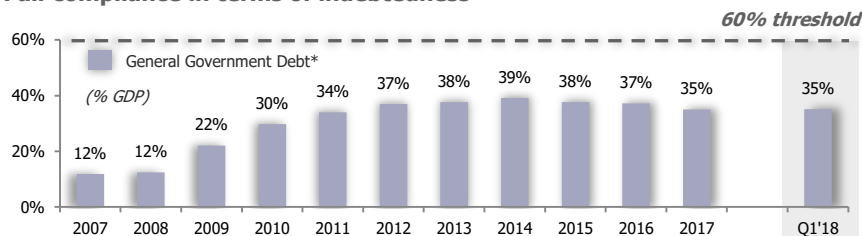


Sustainability of government financial position

General government balance: Achieved compliance during 5 out 11 years

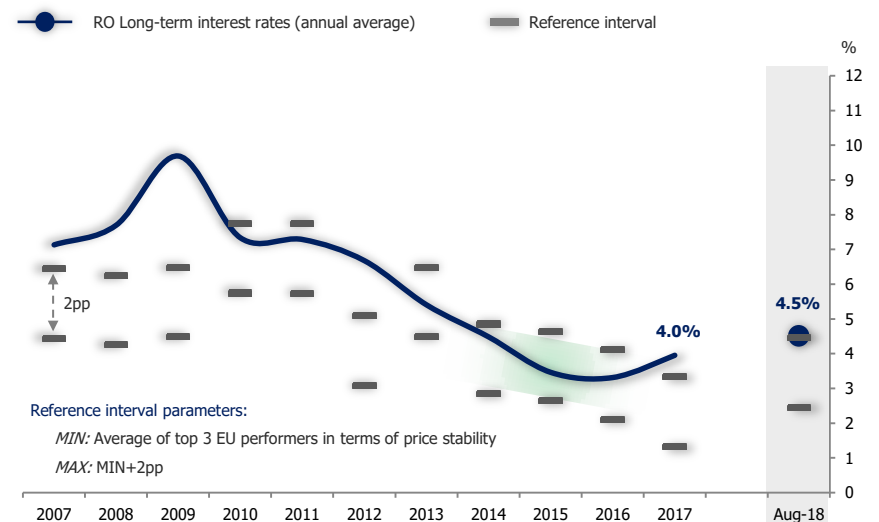


Full compliance in terms of indebtedness



Convergence in long-term interest rates

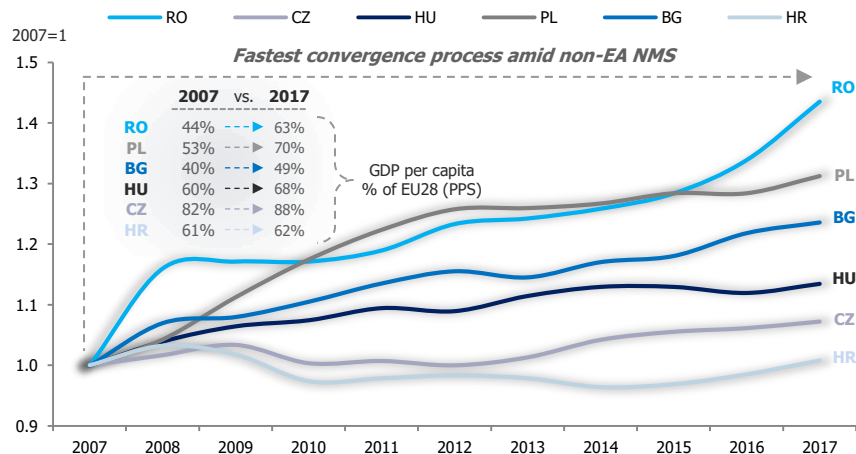
Achieved compliance during 3 out 11 years



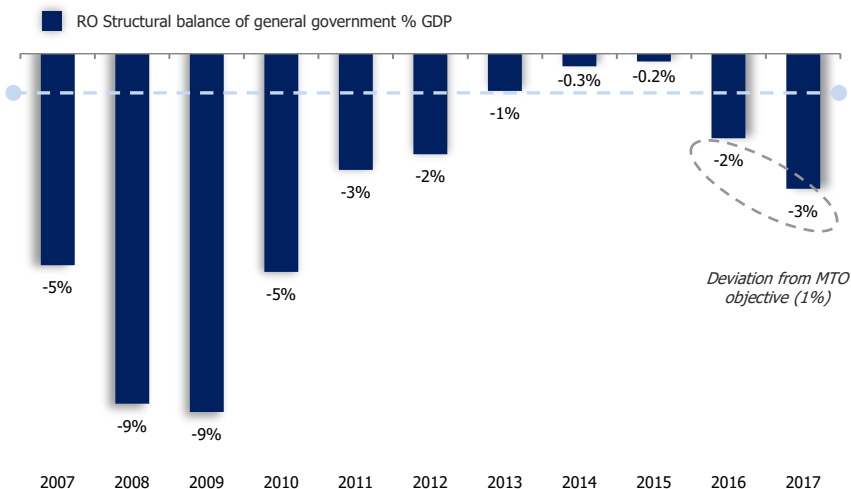
Real convergence: Fast catching-up generates risks of imbalances

Persistent convergence process, still room for catching-up

GDP per capita % of EU28 (based on million PPS)

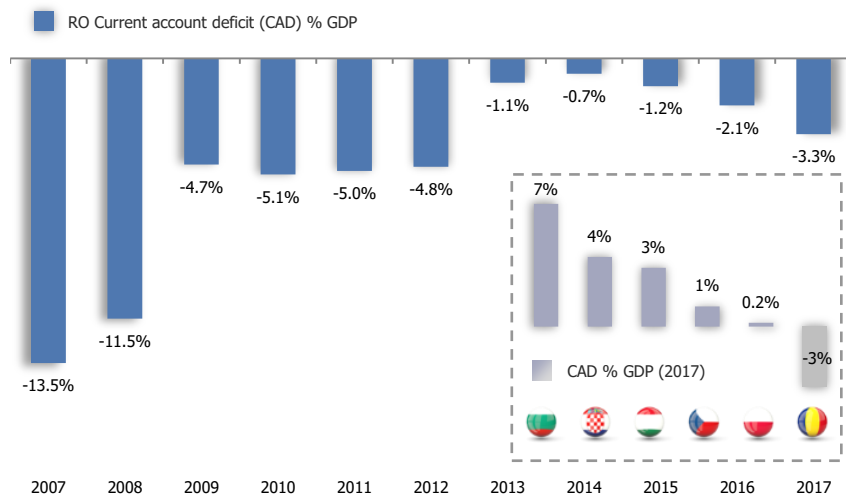


...while structural budget deficit widens...

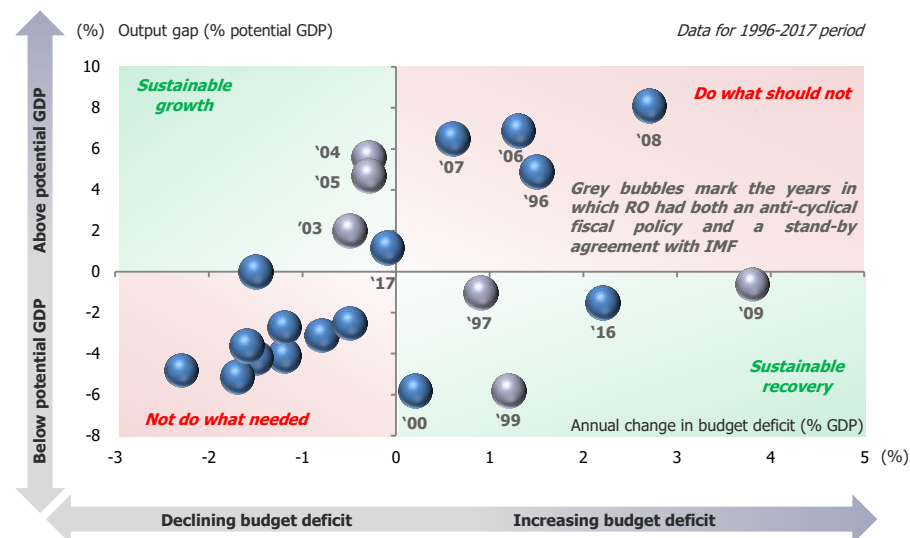


Tensions accumulate as current account remains in negative territory...

Demand-driven GDP growth led to an erosion of current account balance



...given a pro-cyclical fiscal stance



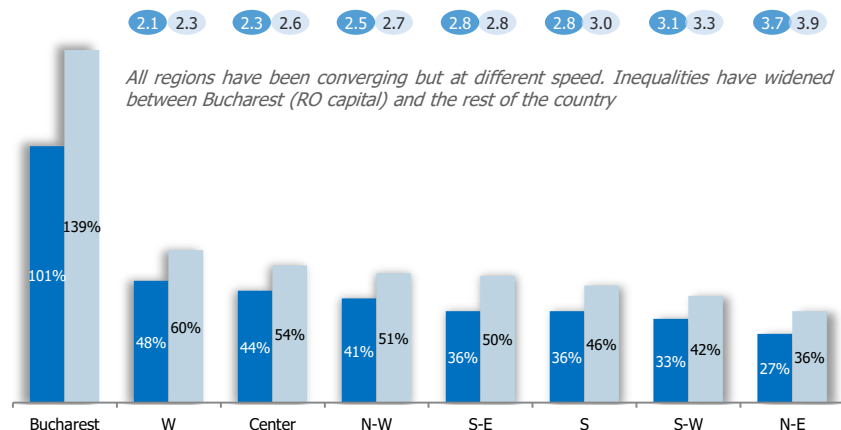
Growth should be ensured at a sustainable pace

Year	GDP Y/Y	Current account balance	Net international investment position	Real effective exchange rate	Export market share	Nominal unit labor cost index	House price index	Private sector credit flow consolidated	Private sector debt consolidated	General government gross debt consolidated	Financial sector liabilities non-consolidated	Activity rate	Long term unemployment rate	Long term unemployment rate	# indicators outside MIP thresholds
		% GDP 3-year average	% GDP	3-year % change	5-year % change	3-year % change	1-year change	% GDP	% GDP	% GDP	1-year change	3-year change (pp)	3-year change (pp)	3-year change (pp)	
		-4% / +6%	-35%	±11%	-6%	+12%	6%	14%	133%	60%	16.5%	-0.2pp	0.5pp	2pp	
2007	6.9%	-10.8%	-45.7%	8.3%	84.2%	30.9%	N/A	19.8%	56.3%	11.9%	35.3%	0.0pp	-1.6pp	1.7pp	5
2008	8.3%	-11.8%	-51.2%	-5.4%	91.9%	32.9%	N/A	12.7%	63.9%	12.4%	14.0%	0.6pp	-1.6pp	0.8pp	3
2009	-5.9%	-9.9%	-60.1%	-7.2%	69.4%	28.7%	-26.5%	-1.6%	69.8%	22.1%	16.0%	-0.5pp	-1.9pp	-0.2pp	4
2010	-2.8%	-7.1%	-63.9%	1.5%	53.4%	38.3%	-12.7%	0.9%	74.5%	29.7%	5.0%	1.9pp	-0.8pp	2.8pp	4
2011	2.0%	-4.9%	-65.8%	2.9%	50.1%	4.2%	-16.0%	2.8%	73.3%	34.0%	4.6%	1.2pp	0.5pp	6.3pp	3
2012	1.2%	-4.9%	-67.4%	-6.1%	12.4%	5.6%	-9.2%	0.3%	71.9%	36.9%	4.4%	1.7pp	0.8pp	2.6pp	4
2013	3.5%	-3.6%	-62.8%	4.0%	13.8%	-4.9%	-2.7%	-1.4%	66.8%	37.5%	0.8%	0.0pp	0.8pp	1.6pp	2
2014	3.4%	-2.2%	-57.3%	1.4%	20.2%	6.2%	-3.1%	-2.4%	62.1%	39.1%	1.3%	1.6pp	-0.1pp	0.1pp	1
2015	3.9%	-1.0%	-54.65	-2.5%	20.5%	0.1%	1.8%	0.2%	59.1%	37.7%	4.1%	1.3pp	0.0pp	-0.9pp	1
2016	4.8%	-1.3%	-49.6%	-1.3%	23.3%	7.1%	5.0%	0.6%	55.4%	37.4%	6.9%	0.7pp	-0.2pp	-3.1pp	1
2017	6.9%	-2.2%	-46.6%	-1.8%	37.3%	12.2%	4.0%	1.7%	50.8%	35.0%	8.1%	1.6pp	-0.8pp	-5.7pp	2

Prior to euro adoption, RO should focus on reducing inequalities...

High and increasing inter-regional inequalities...

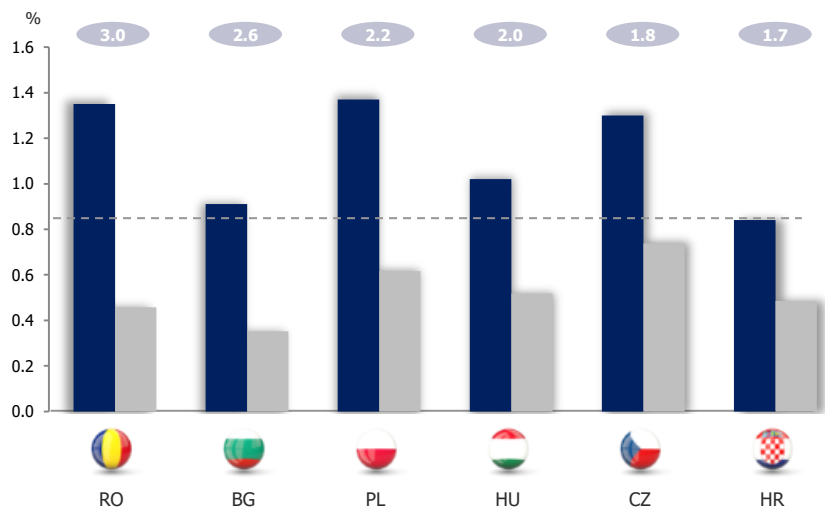
GDP/capita % of EU28 (based on PPS): 2007 2016 Inequality ratio (Bucharest vs. region): 2007 2016



...placing RO 1st among non-EA NMS...

GDP per capita % of EU28 (based on PPS): Capital Rest of the country (average) (Data as of 2016)

Regional inequality ratio (ratio between GDP/capita of capital and rest of the country)

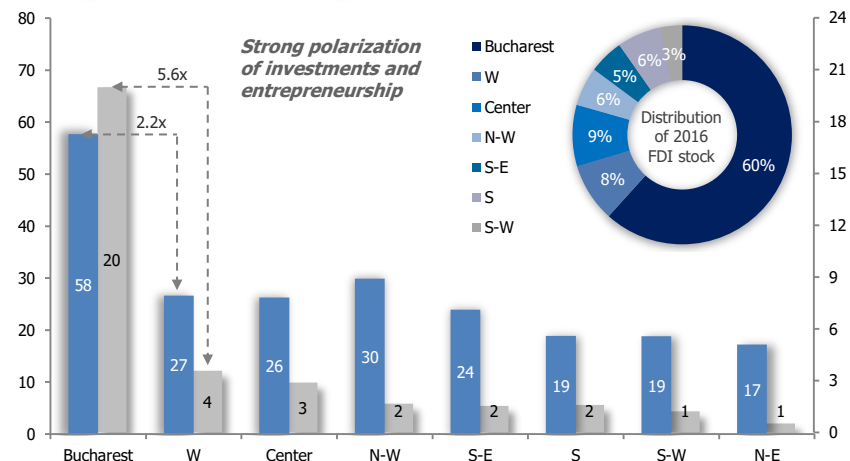


Source: Eurostat, RO Central bank, RO National Institute of Statistics

Non-EA NMS – Non euro-area new member states

...due to an uneven distribution of investments...

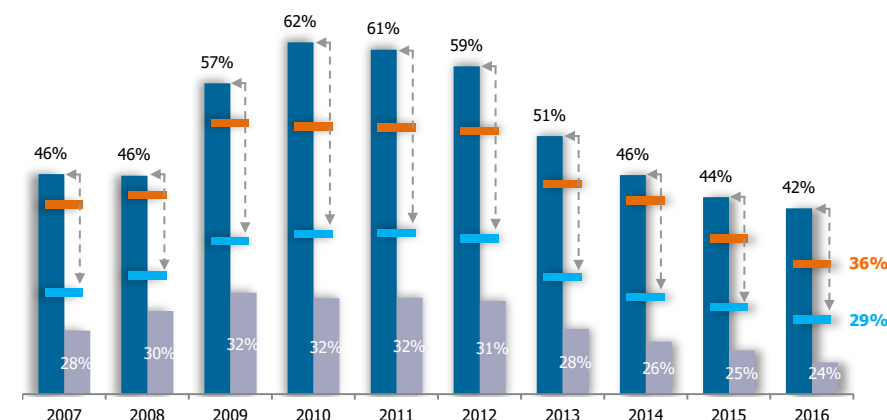
enterprises / ths inhabitants FDI stock / ths inhabitants (rha) (Data as of 2016) EURm



...and financial intermediation

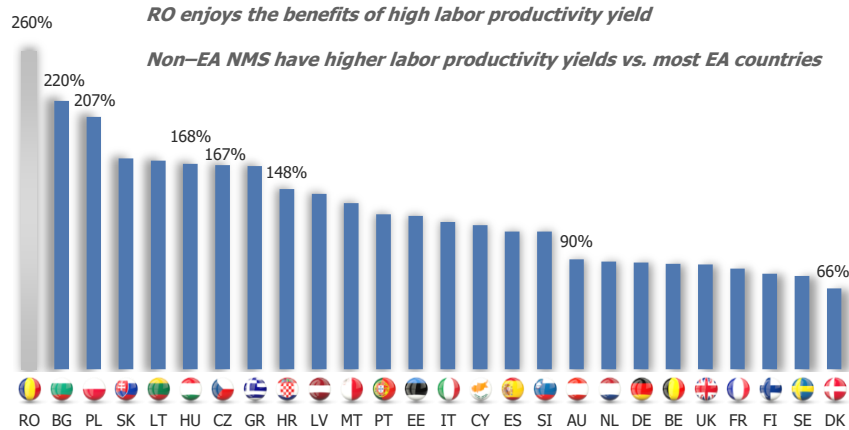
Financial intermediation: Bucharest (RO Capital) Rest of the country Cumulated, country-level

Potential country-level financial intermediation, should external financial debt of RO non-financial corporations be replaced by internal lending

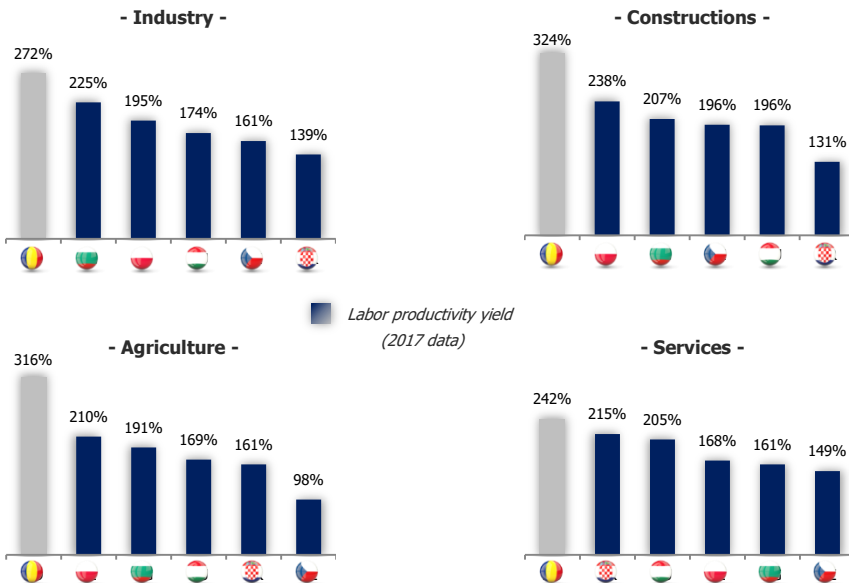


Focus on maintaining an elevated labor productivity yield...

Labor productivity yield computed as nominal labor productivity (based on gross value added) relative to annual compensation per employee.

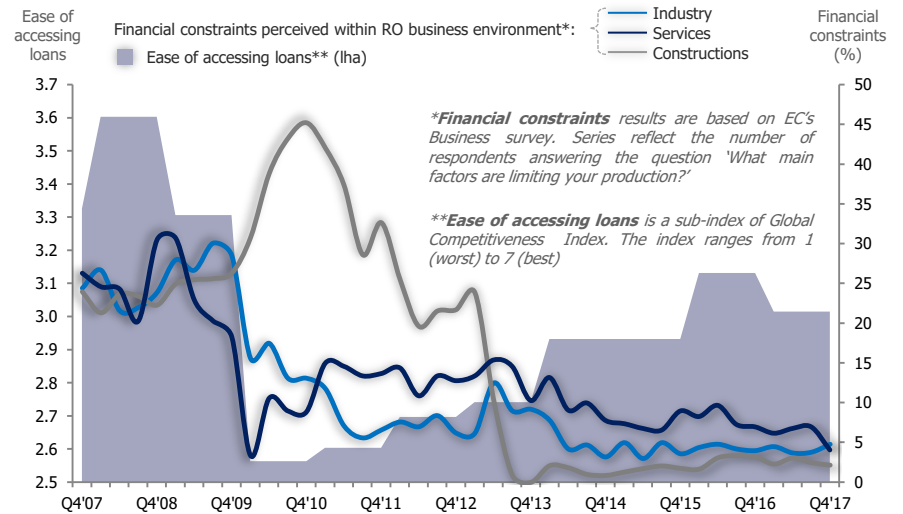


...across all sectors



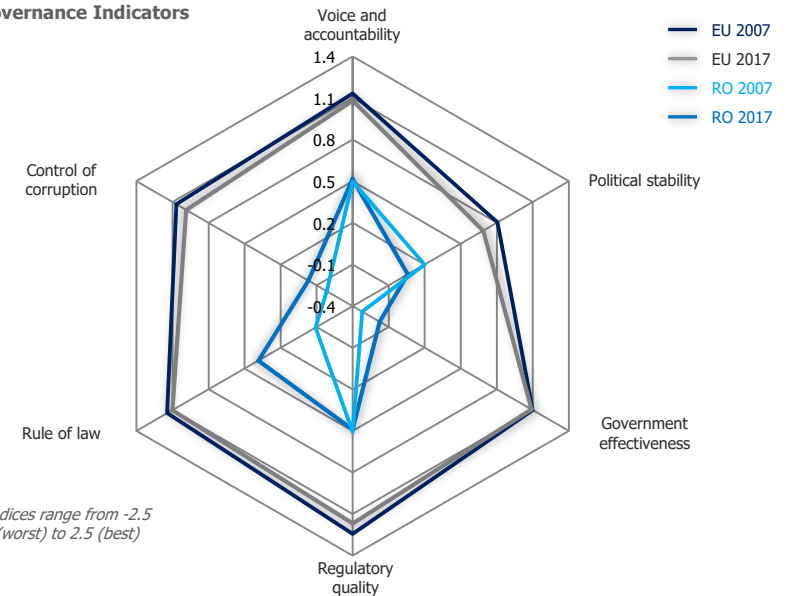
Source: Eurostat, European Commission, World Bank, World Economic Forum Non-EA NMS – Non euro-area new member states

Focus on promoting access to capital...



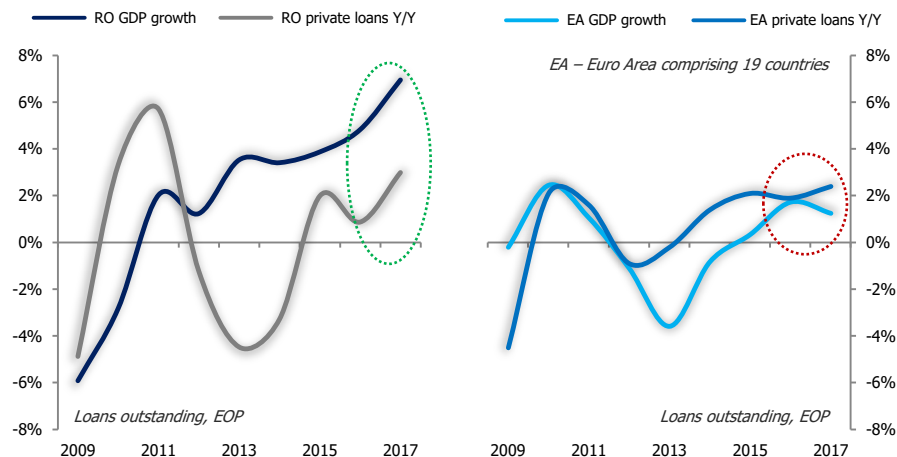
...and continue reducing the institutional gap

World Governance Indicators



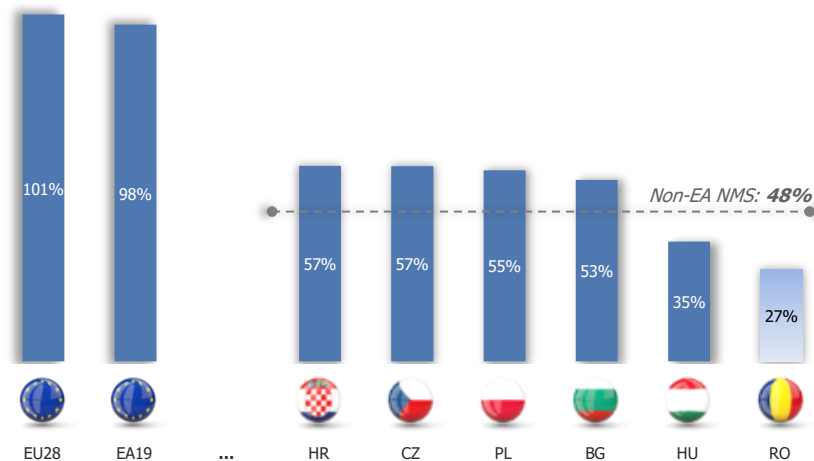
...further developing local banking system...

RO aligned its financial and economic cycles...



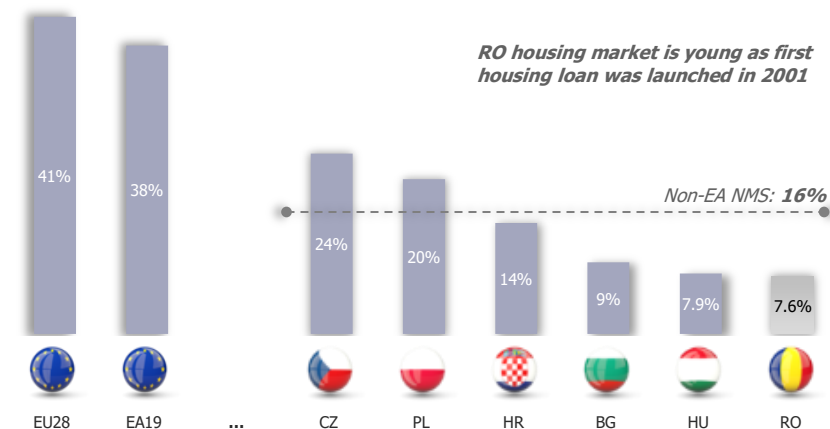
...but (financial) intermediation remains low...

Financial intermediation (outstanding loans to Non-MFIs excluding government relative to GDP) (2017 data)



...amid still young housing market...

Housing market depth (outstanding housing loans relative to GDP) (2017 data)

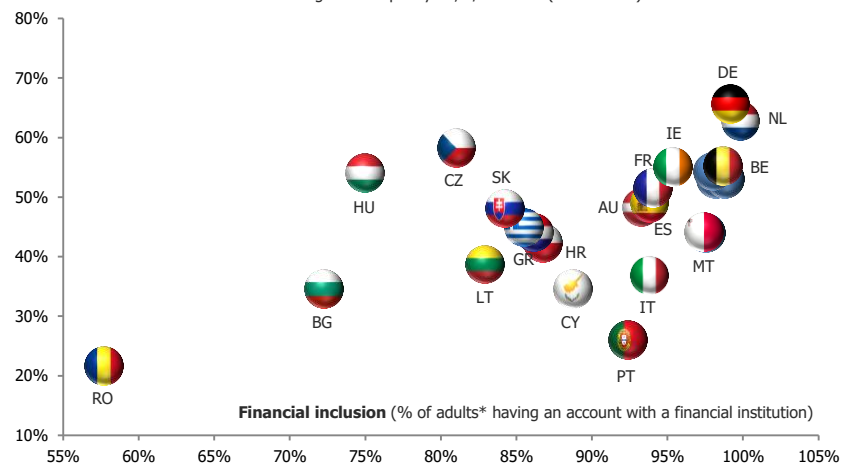


...and reduced penetration of financial services

Financial literacy**

79% of adults* paid utility bills in the past year, o/w 11% (vs. 80% EU) by using a financial account

42% of adults* received wages in the past year, o/w 65% (vs. 91% EU) into a financial account



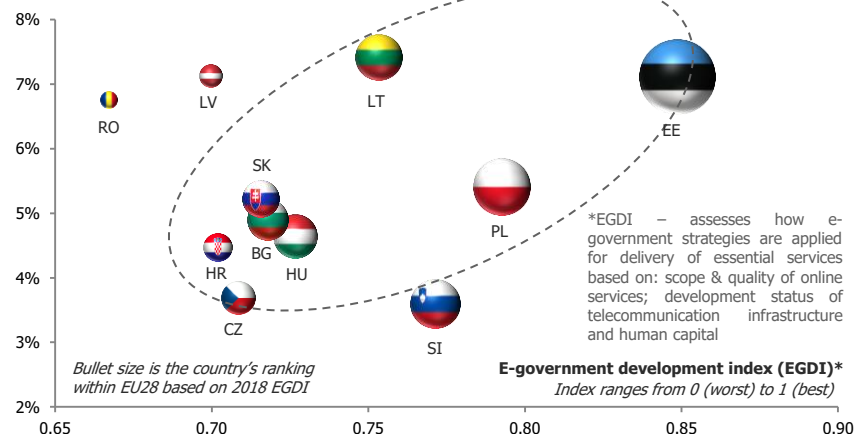
Note: Data as of 2017 for financial inclusion and 2014 for financial literacy *Adults defined as persons of age: +15

**Percentage of population that answered correctly at least 3 out of 4 questions regarding risk diversification, inflation, interest, interest compounding. Survey covered over 150k respondents around 140 countries

...and improving digitalisation across sectors

Practice shows a positive correlation between digital governance & wealth

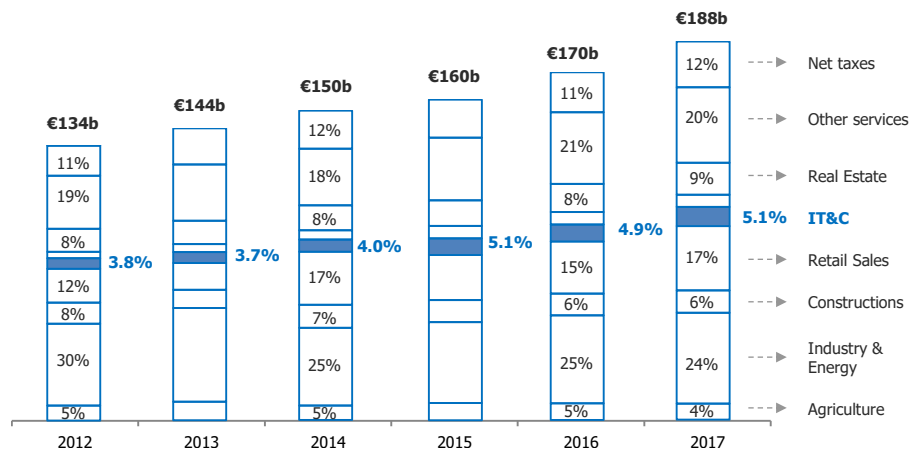
GDP/capita growth (avg. annual growth for 1997-2017, PPS-based)



RO has been expanding its IT&C sector...

Evolution of GDP (current market prices, €b) and its structure

Contribution of IT&C to GDP formation advanced from 3.8% to 5.1%



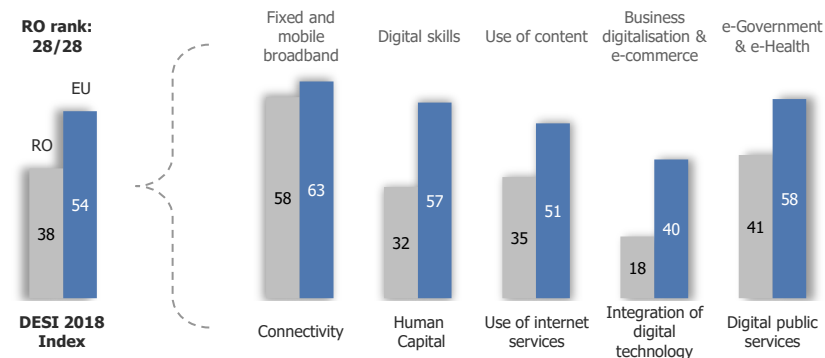
...yet, there is still significant catching-up to do

DESI index & sub-indices' scores: RO EU28 (2017 data)

DESI – Digital Economy and Society Index

RO ranks 2nd (in EU) in terms of households connected to ultrafast internet technologies

RO internet users focus most on social networks (82% vs. 65% in EU)



Gaps can be reduced by implementing RO 2020 Digital Agenda

2020 objectives were set in 2014 within National Strategy on Digital Agenda for Romania

	Target 2020	Current RO	Current EU
Fixed broadband coverage (% households)	100%	88%	97%
Subscriptions to fast broadband (% households)	80%	53%	33%
Subscriptions to ultrafast broadband (% households)	45%	44%	15%
Use of internet for online shopping (% internet users)	30%	23%	68%
SMEs selling online (% SMEs)	20%	8%	17%
Regular users of internet (% individuals)	60%	61%	81%
Individuals that never used internet	30%	27%	13%
eGovernment Users (interaction with public authorities % individuals)	35%	9%	49%
eGovernment Users submitting online forms (% individuals)	20%	4%	30%

By implementing the fields of actions defined in 2020 Digital Agenda (Broadband & infrastructure; eCommerce & ITC innovation; eGovernance, Cyber Security, Cloud, Big Data & Social media; eEducation and eInclusion), **RO GDP could grow as much as 13%, the number of jobs could advance 11% and costs could be reduced by 12%** (Gov' estimates)

THANK YOU!