
CCIFER Breakfast talk
Romania macroeconomic snapshot
29 October 2020
Bucharest

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Member of the Board

Recent macroeconomic developments

❑ CPI inflation:

✓ Annual rate:

+3.27% (Dec. 2018/~~D~~ec. 2017)

+4.04% (Dec. 2019/~~D~~ec. 2018)

+2.45% (Sep. 2020/~~S~~ep. 2019)

✓ Average annual rate:

+4.6% in 2018

+3.8% in 2019

+3.0% in (October 2019 – September 2020)/(October 2018 – September 2019)

❑ GDP growth:

2018: +4.5%

2019: +4.2%

2020 H1/2019 H1: -4.5% (provisional data)

❑ Current account deficit:

2018: EUR 8,960 mn., up 71.7% yoy; 4.4% of GDP; 83.3% covered by FDI and capital account

2019: EUR 10,480 mn., up 17.0% yoy; 4.7% of GDP; 73.5% covered by FDI and capital account

Jan.-Aug. 2020: EUR 5,789 mn., down 18.5% yoy; 66.3% covered by FDI and capital account

Recent macroeconomic developments (2)

❑ Foreign Direct Investment:

2018: EUR 4,945 mn., up 1.3% yoy

2019: EUR 4,849 mn., down 1.9% yoy

Jan.-Aug. EUR 1,360 mn., down 68.2% yoy

❑ Fiscal balance (ESA2010 Methodology):

2017: -2.6% of GDP

2018: -2.9% of GDP

2019: -4.3% of GDP

❑ International reserves (including gold):

2018: EUR 36.8 bn.; forex reserves EUR 33.1 bn.

2019: EUR 37.5 bn.; forex reserves EUR 32.9 bn.

Sep. 2020: EUR 38.0 bn.; forex reserves EUR 32.6 bn.

(the latter covering 4.6 months of prospective goods-and-services imports)

❑ Financial intermediation:

2017: 27.1% of GDP

2018: 26.4% of GDP

2019: 25.2% of GDP

❑ Real growth of loans to the private sector:

2018/2017: 4.5% (RON: 9.9%; foreign currency: -4.4%)

2019/2018: 2.4% (RON: 5.0%; foreign currency: -2.6%)

Sep. 2020/Sep. 2019: 1.5% (RON: 4.5%; foreign currency: -4.4%)

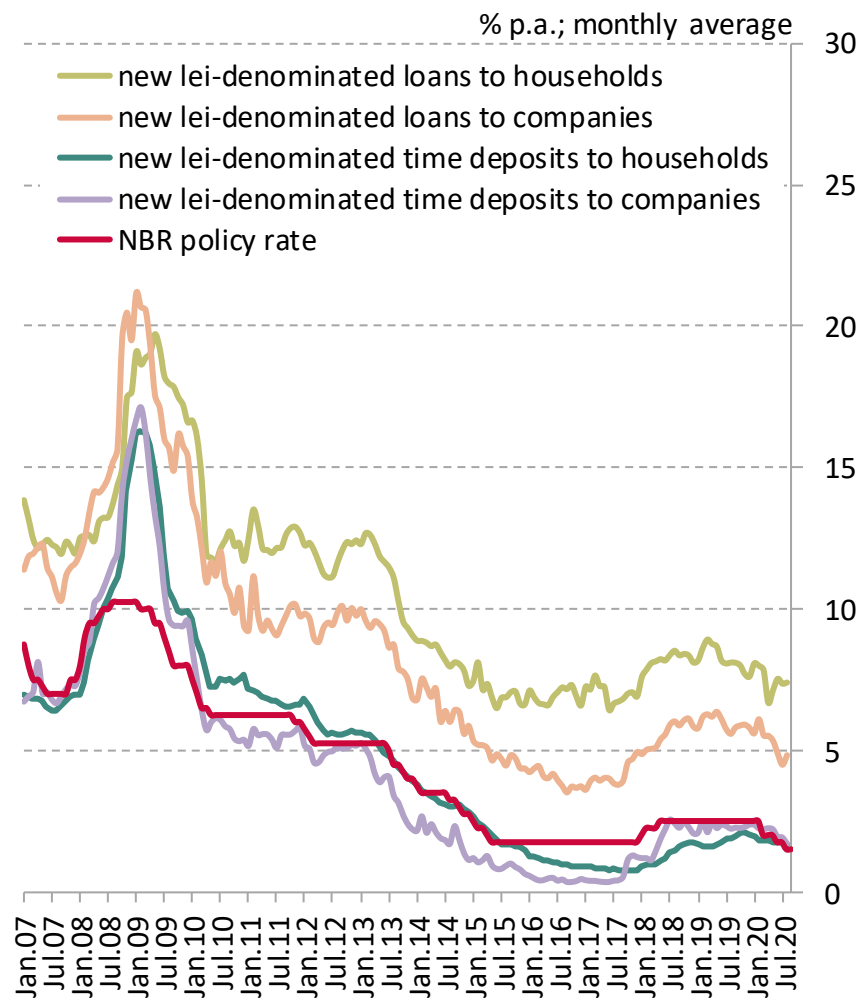
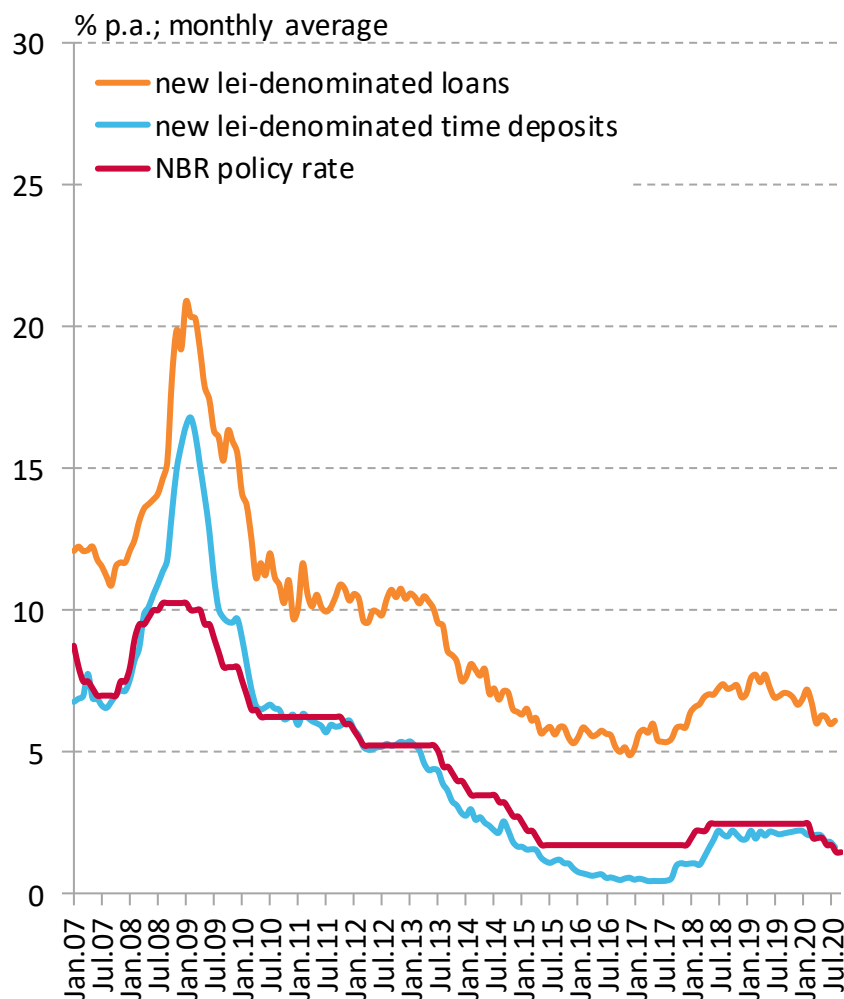
The NBR's main measures since the start of the pandemic (1)

| | March | May | June | August |
|-----------------------|---|--|--|---|
| Monetary policy rates | <ul style="list-style-type: none"> monetary policy rate cut by 0.5 pp, to 2.0 percent the symmetrical corridor defined by interest rates on standing facilities around the key rate was narrowed to ± 0.5 pp. Thus, the deposit facility rate stood at 1.5 percent, while the lending facility rate was lowered to 2.5 percent | <ul style="list-style-type: none"> monetary policy rate cut by 0.25 pp, to 1.75 percent the deposit facility rate was reduced to 1.25 percent and the lending facility rate to 2.25 percent | | <ul style="list-style-type: none"> monetary policy rate cut by 0.25 pp, to 1.5 percent the deposit facility rate was lowered to 1.0 percent and the lending facility rate to 2.0 percent |
| Liquidity provision | <ul style="list-style-type: none"> repo transactions directed towards providing liquidity to credit institutions purchases of leu-denominated government securities on the secondary market | | | |
| Repo lines | | | <ul style="list-style-type: none"> repo line of EUR 4.5 billion between the ECB and NBR to remain in place until end-2020, or as long as necessary (it was extended in August until end-June 2021) | |

The NBR's main measures since the start of the pandemic (2)

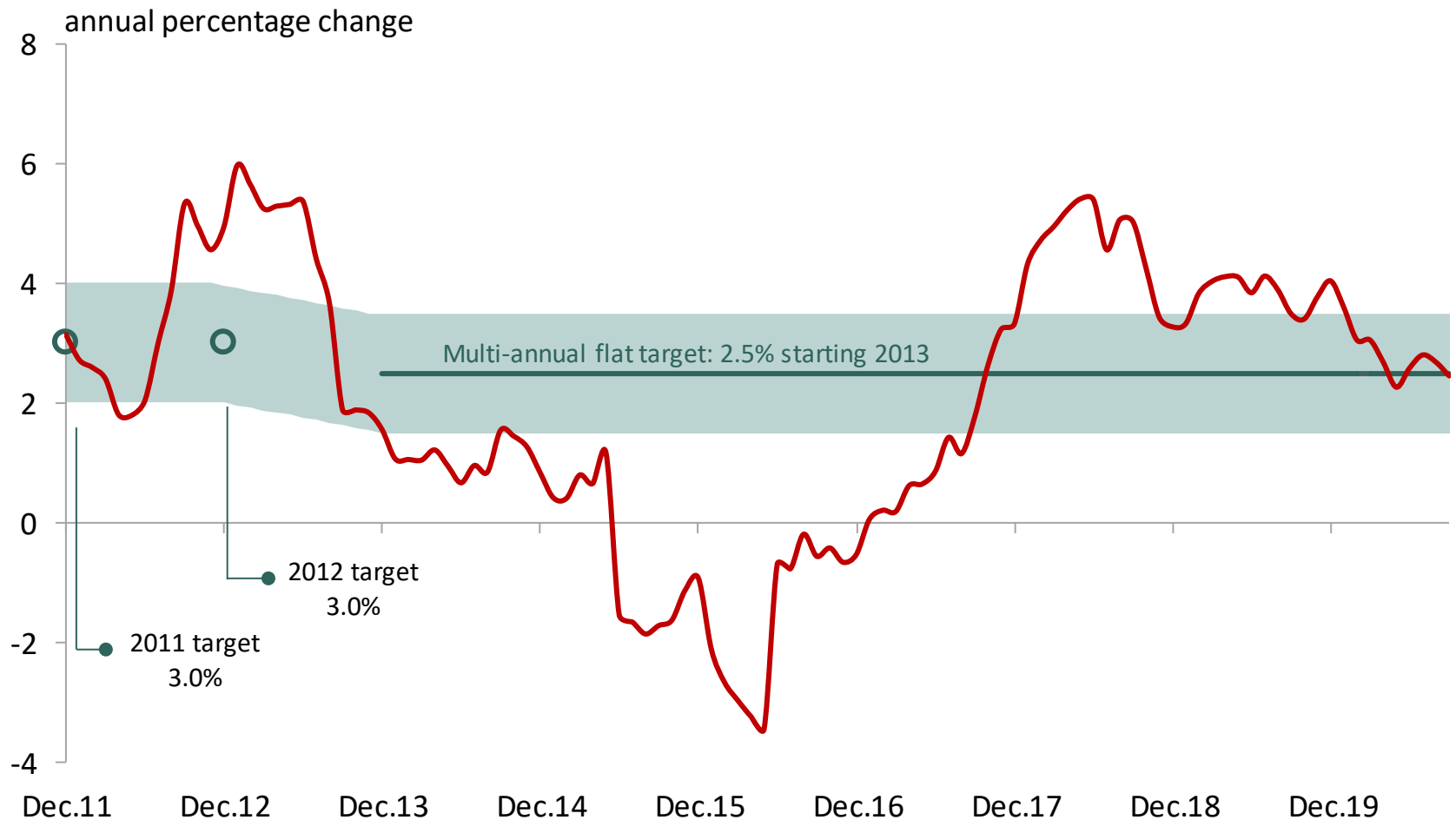
| | March | May | June | August |
|--|---|-----|------|--|
| Bank resolution and supervision, payment systems | <ul style="list-style-type: none"> measures to ensure the smooth functioning of payment and settlement systems increased regulatory flexibility, so that pandemic-related requests to defer loan payments benefit from special treatment allowed credit institutions to use the previously built capital buffers and not to comply with the minimum liquidity ratio (as long as no dividends are paid) postponed the deadline for collecting contributions to the bank resolution fund and delay the reporting deadlines allowed the non-bank financial lenders entered in the Special Register not to temporarily comply with credit exposure limits | | | <ul style="list-style-type: none"> implementation of the NCMO recommendation on restriction of dividend distributions during the COVID-19 pandemic, in line with the ESRB recommendation |
| NBRs own operations | <ul style="list-style-type: none"> <ul style="list-style-type: none"> Significant HR, IT, OPS adjustments/response <ul style="list-style-type: none"> Similar to corporate approach Digitalization initiative Introduced WFH, up to 70% of staff during lockdown, 30-40% on an ongoing basis | | | |

Policy rate and bank interest rates to non-bank clients



Source: National Bank of Romania

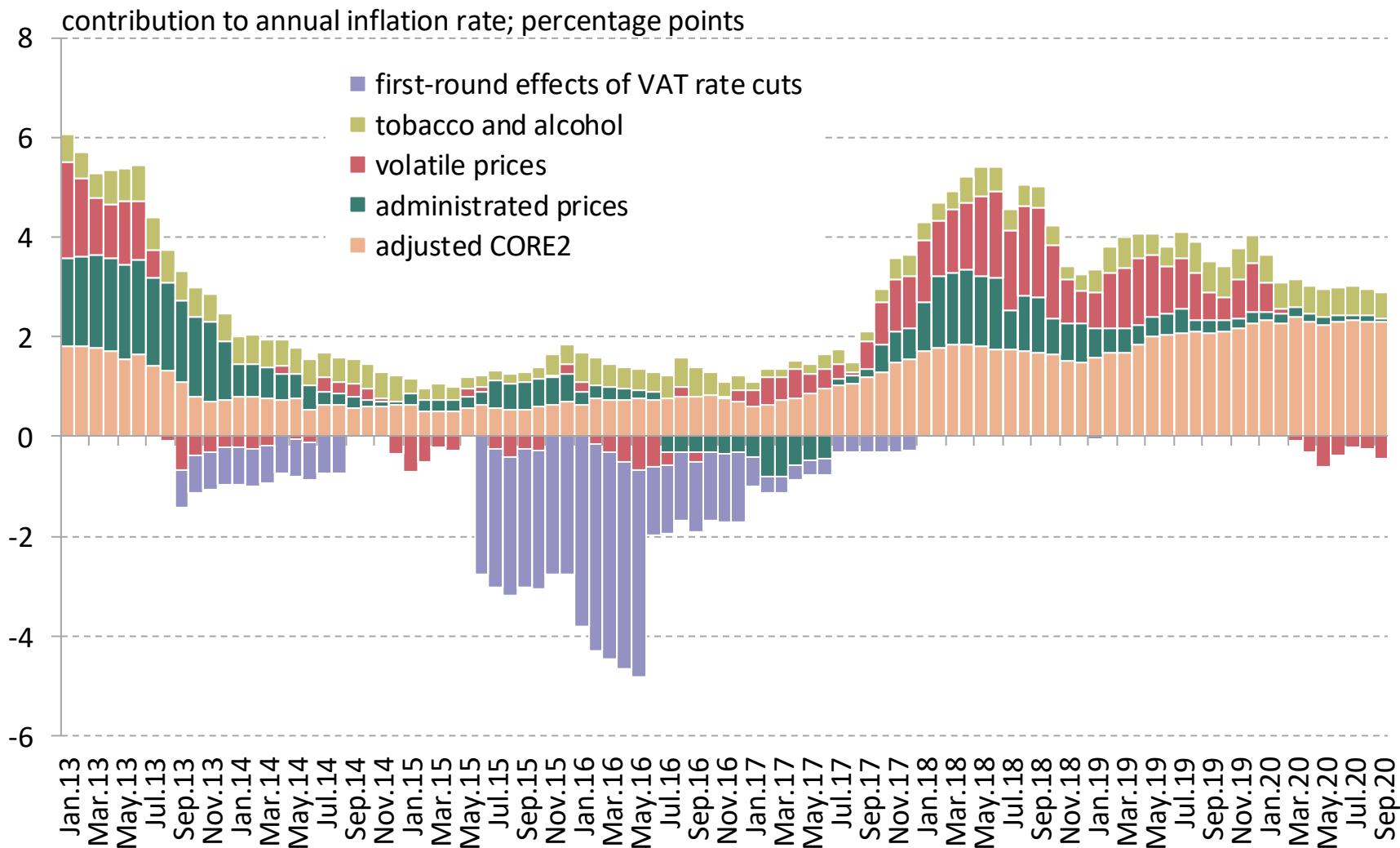
Inflation rate



Note: Variation band of the target is ± 1 percentage point.

Source: National Institute of Statistics, National Bank of Romania

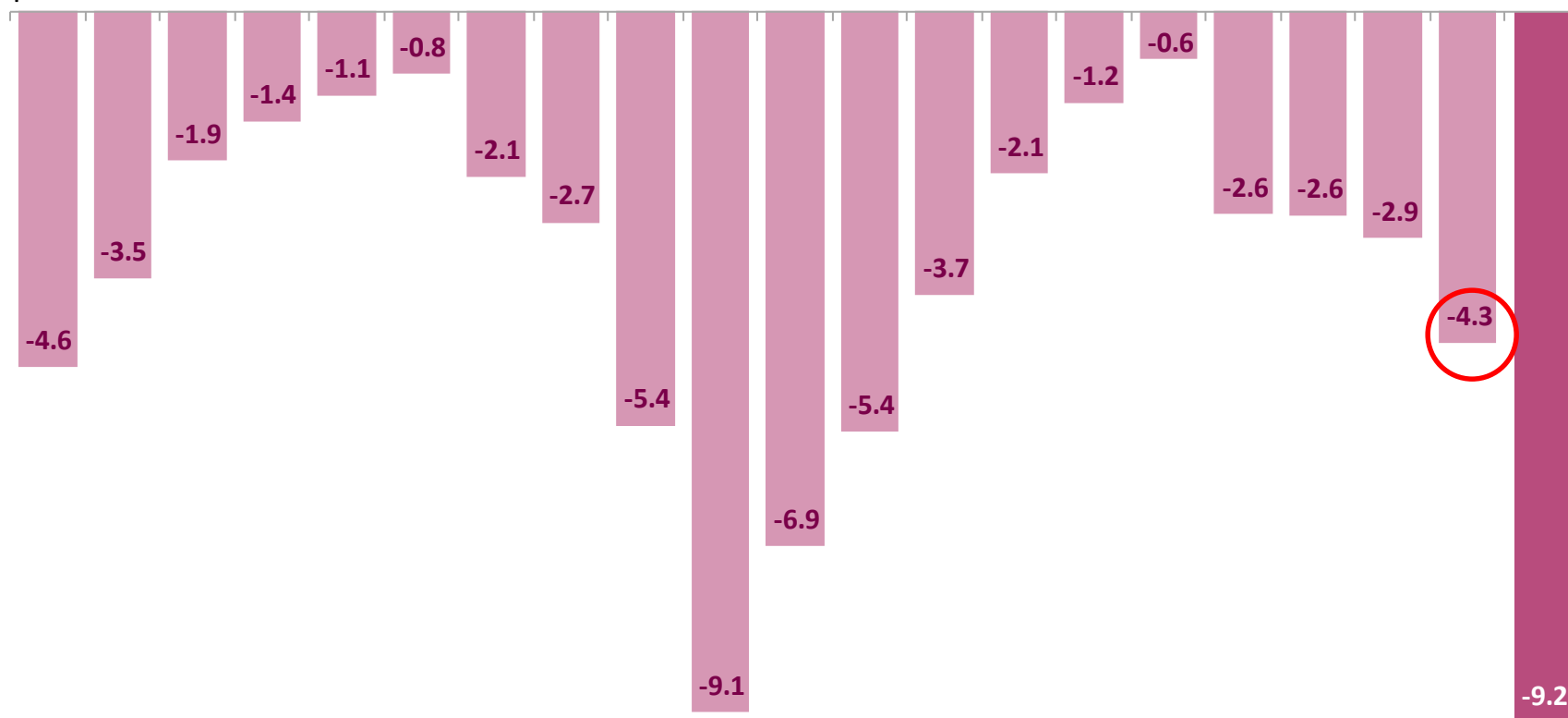
Contributions to annual inflation rate



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

General government balance (according to ESA 2010)

percent of GDP

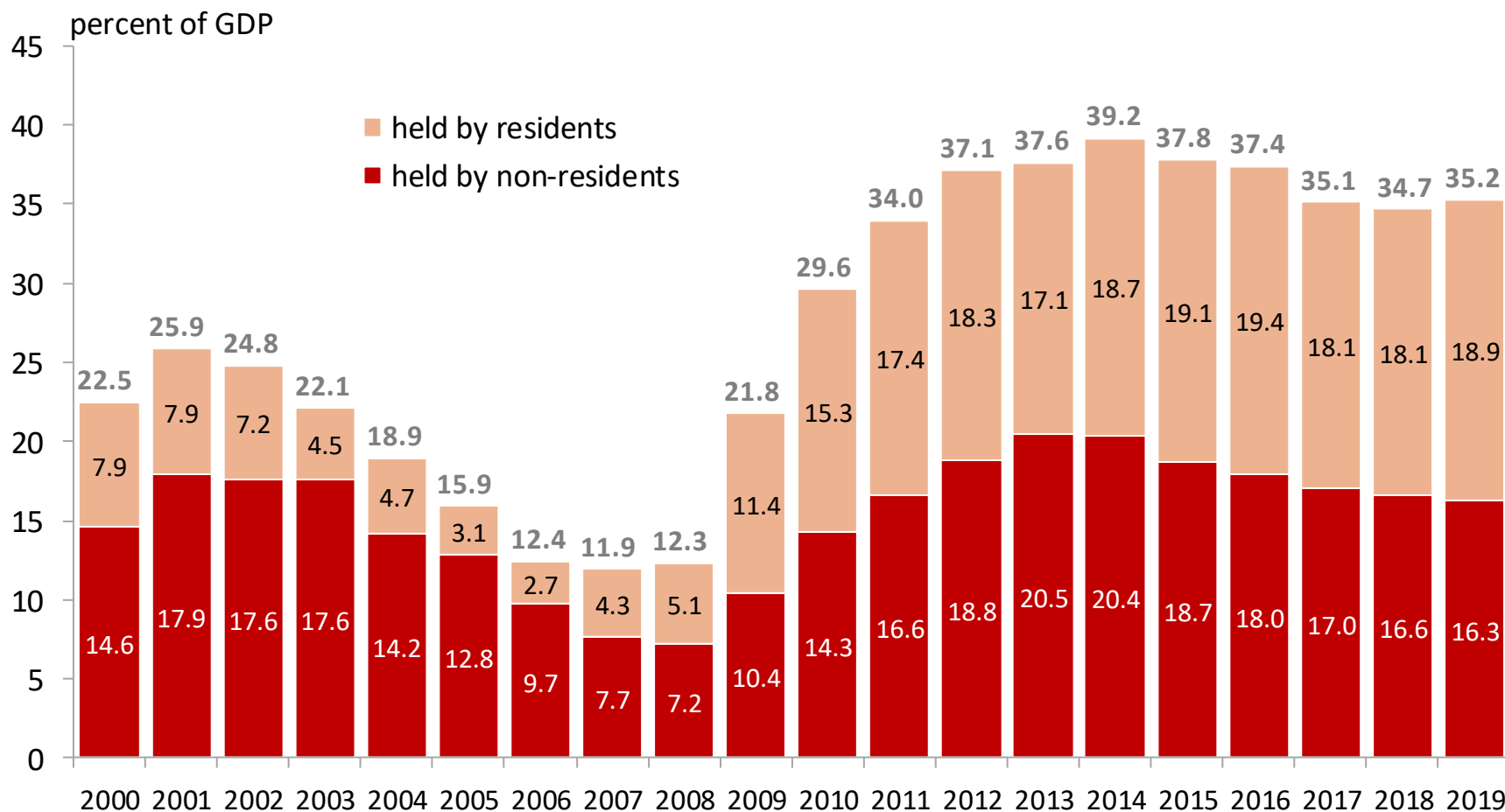


2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020f

f) European Commission – European Economic Forecast, Spring 2020

Source: Ministry of Public Finance, National Institute of Statistics

Public debt (according to ESA 2010)

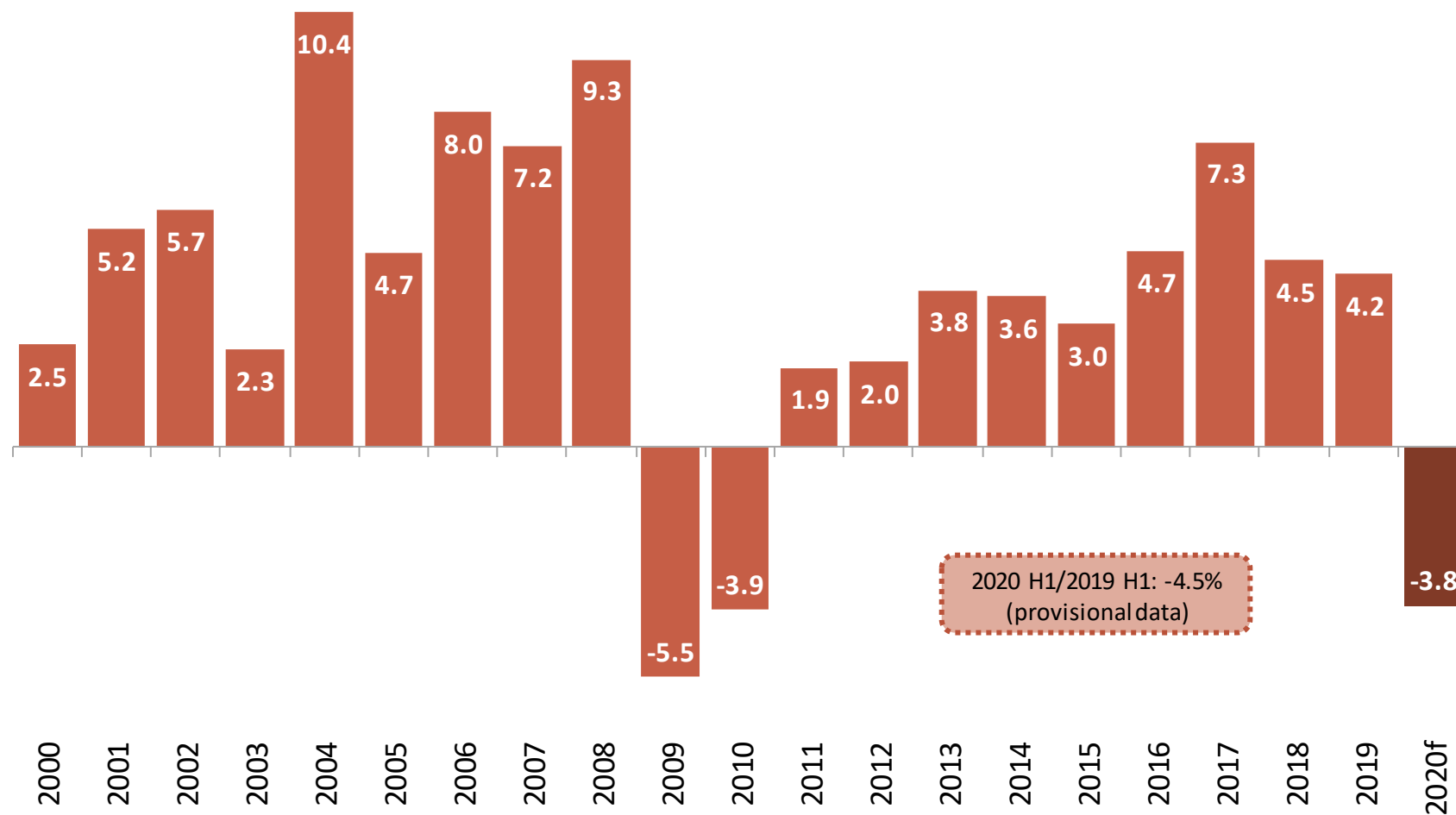


Note: Government securities in MFIs portfolio as a share of GDP in Dec.08=2.0%, Dec.09=6.7%, Dec.10=9.5%, Dec.11=10.8%, Dec.12=11.7%, Dec.13=11.1%, Dec.14=11.3%, Dec.15=11.2%, Dec.16=10.8%, Dec.17=10.4%, Dec.18=10.1% Dec.19=10.1% and Sep.20=11.2%.

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

Real GDP

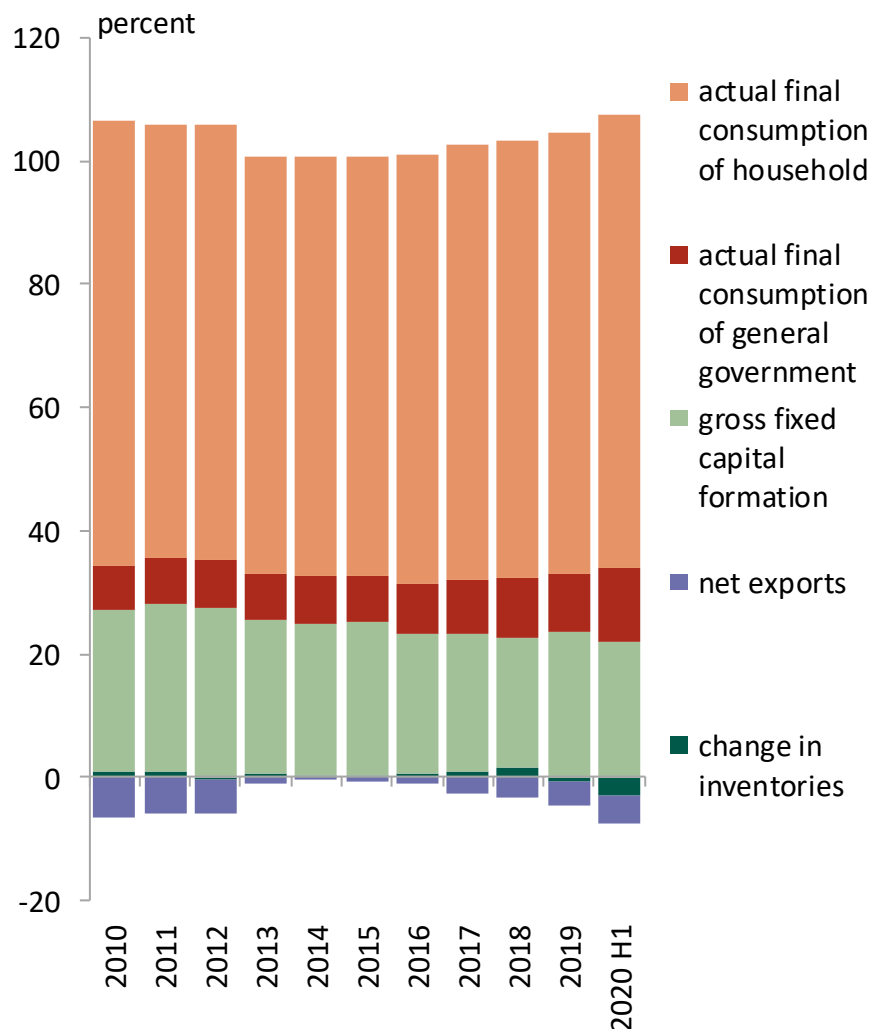
annual percentage change; gross data



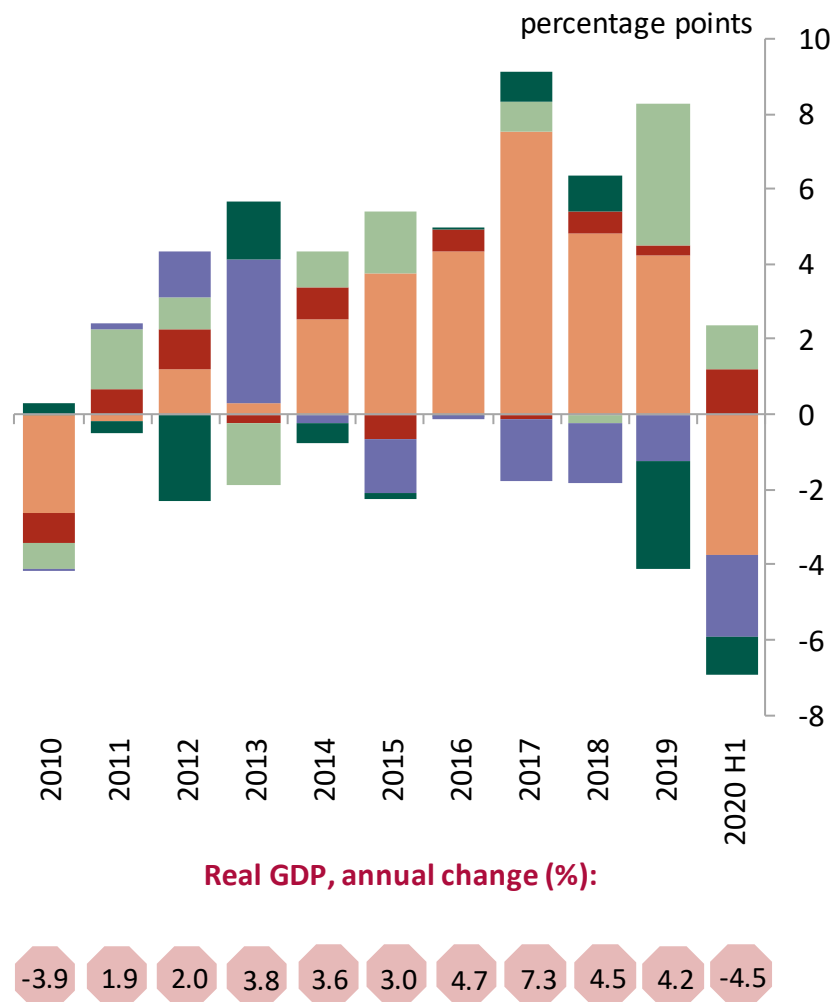
f) forecast

Source: National Institute of Statistics, National Commission for Strategy and Prognosis

GDP structure by expenditure

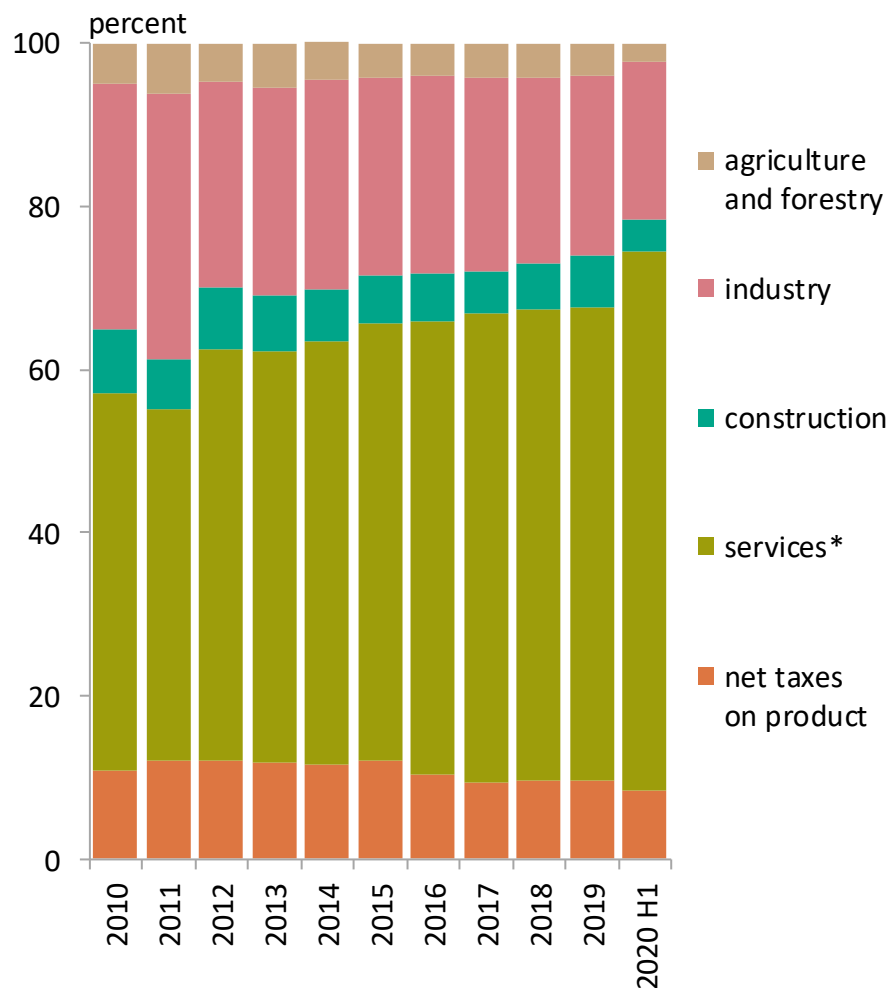


Contribution of demand components to GDP annual growth



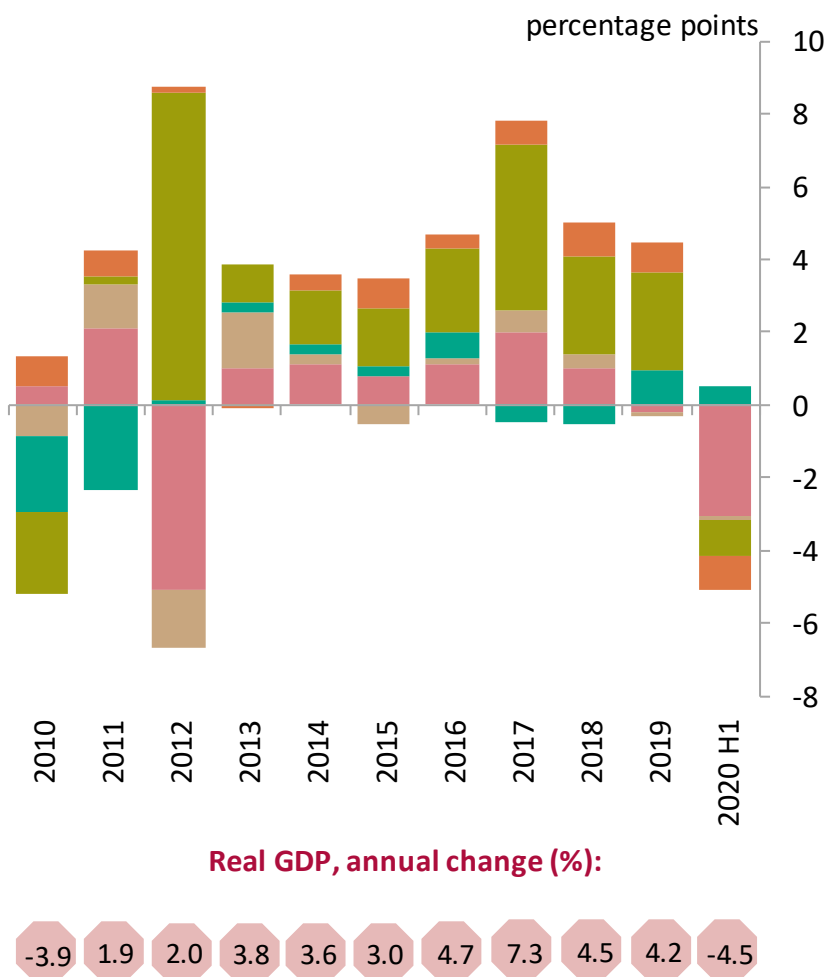
Source: National Institute of Statistics, National Bank of Romania

GDP structure by source



*) calculations based on NIS data

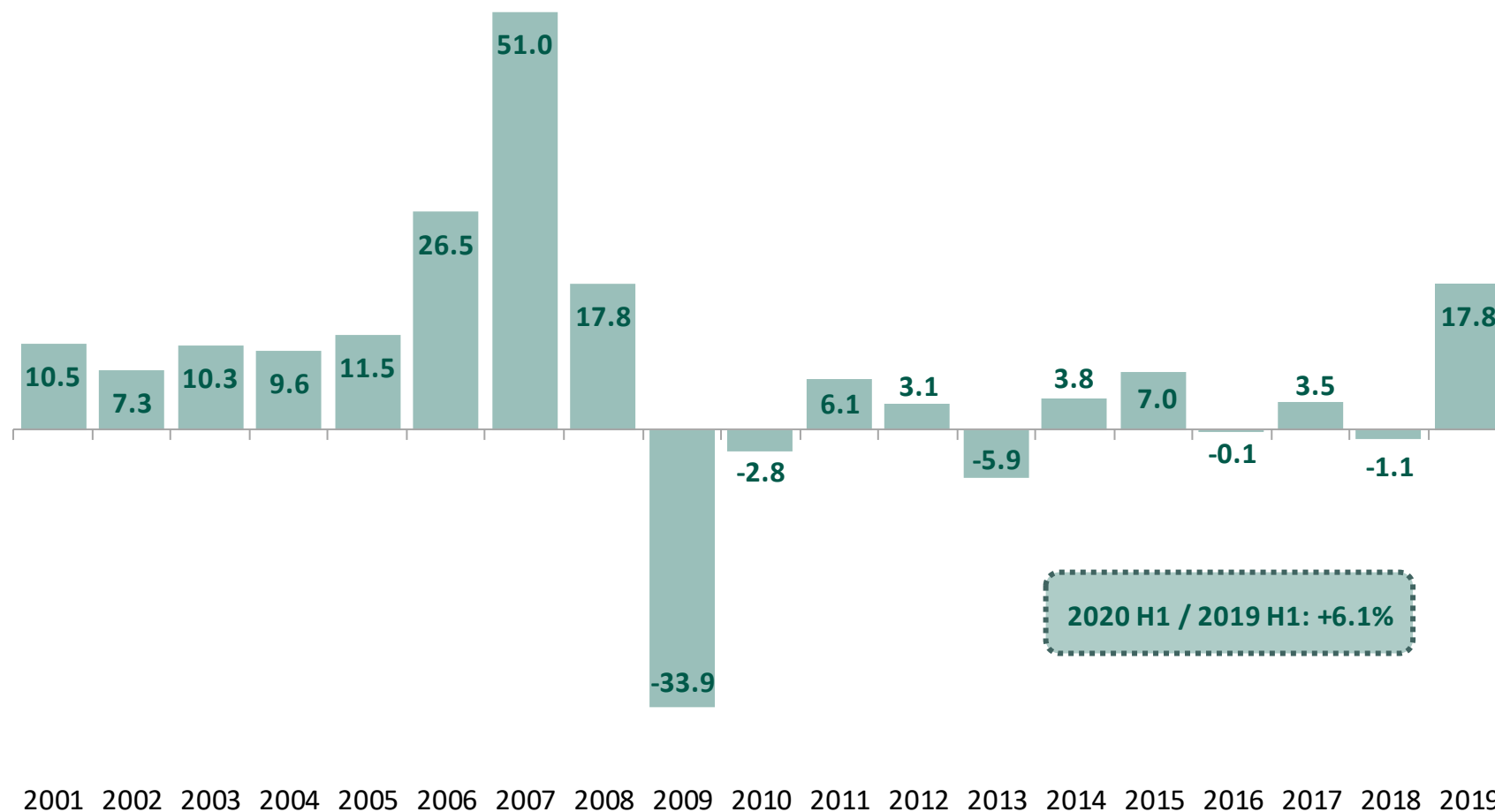
Contribution of supply components to GDP annual growth



Source: National Institute of Statistics, National Bank of Romania

Gross fixed capital formation (GDP component)

annual percentage change; gross data

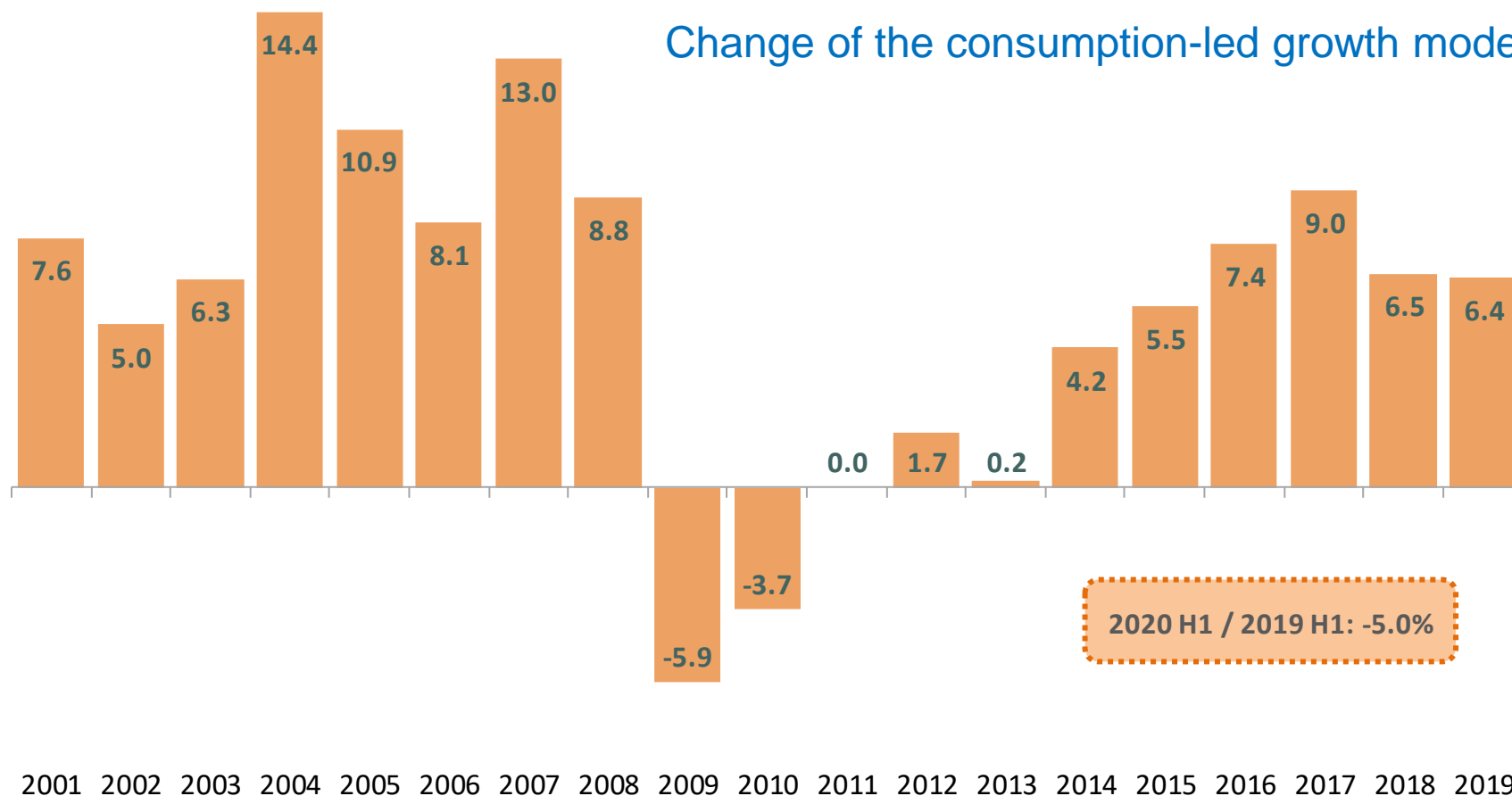


Source: National Institute of Statistics

Final private consumption (GDP component)

annual percentage change; gross data

Change of the consumption-led growth model?



Source: National Institute of Statistics

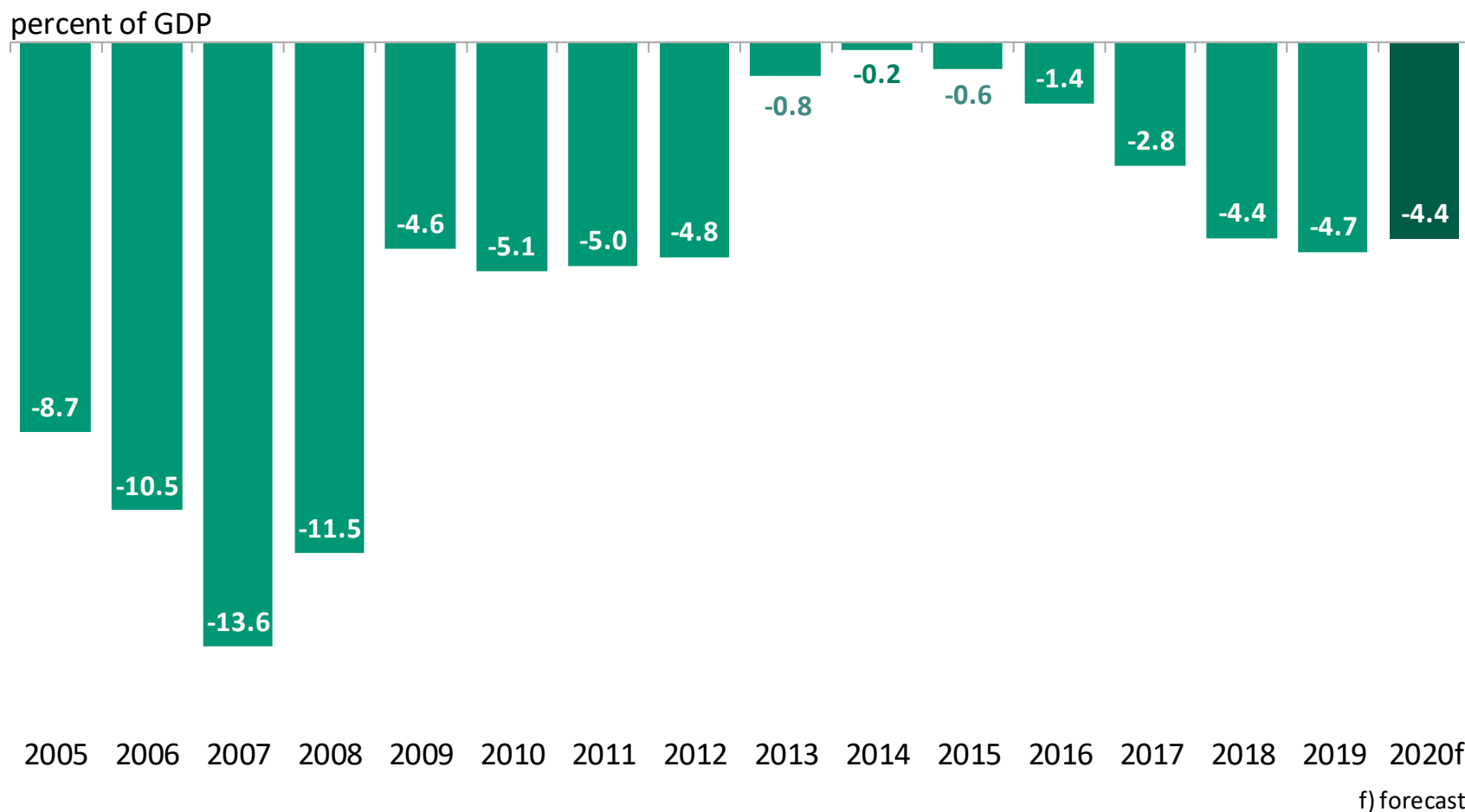
Government consumption (GDP component)

annual percentage change; gross data



Source: National Institute of Statistics

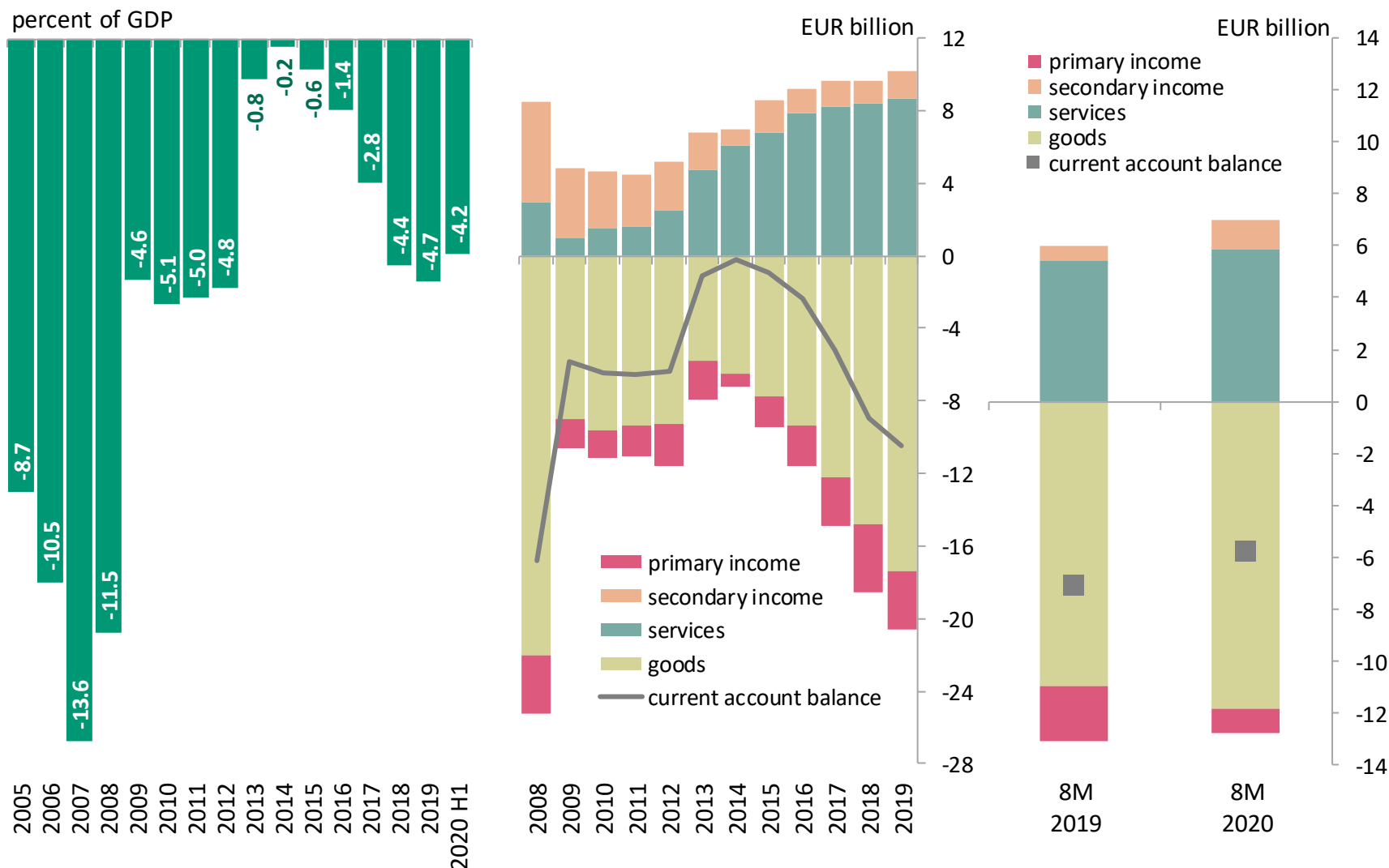
Current account balance



Note: The current account posted a deficit of EUR 5,789 mn. in Jan.-Aug. 2020 against a deficit of EUR 7,099 mn. in Jan.-Aug. 2019.

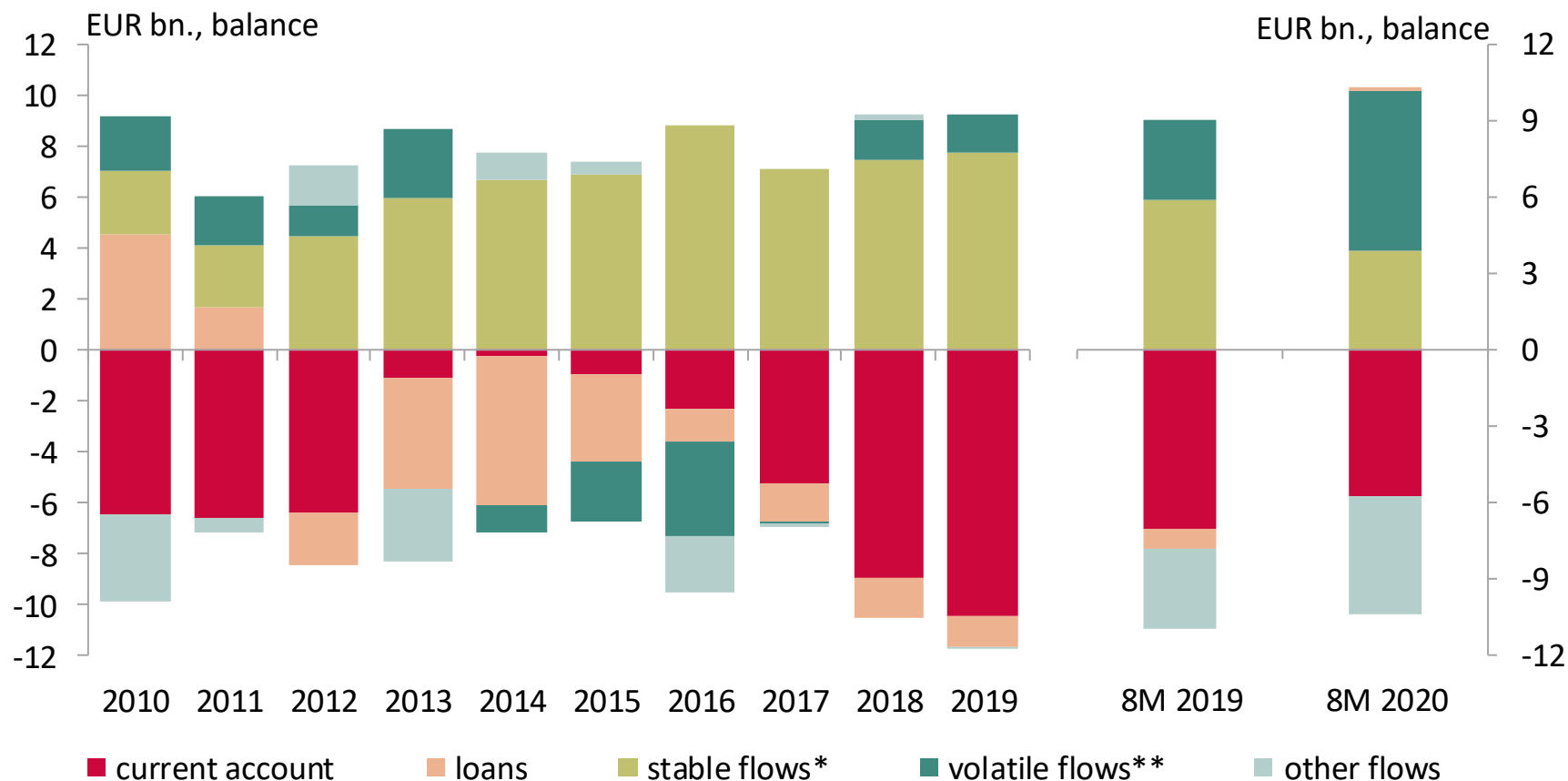
Source: National Institute of Statistics, National Bank of Romania, National Commission for Strategy and Prognosis

Current account balance



Source: National Institute of Statistics, National Bank of Romania

Current account deficit financing



*) direct investment and capital account

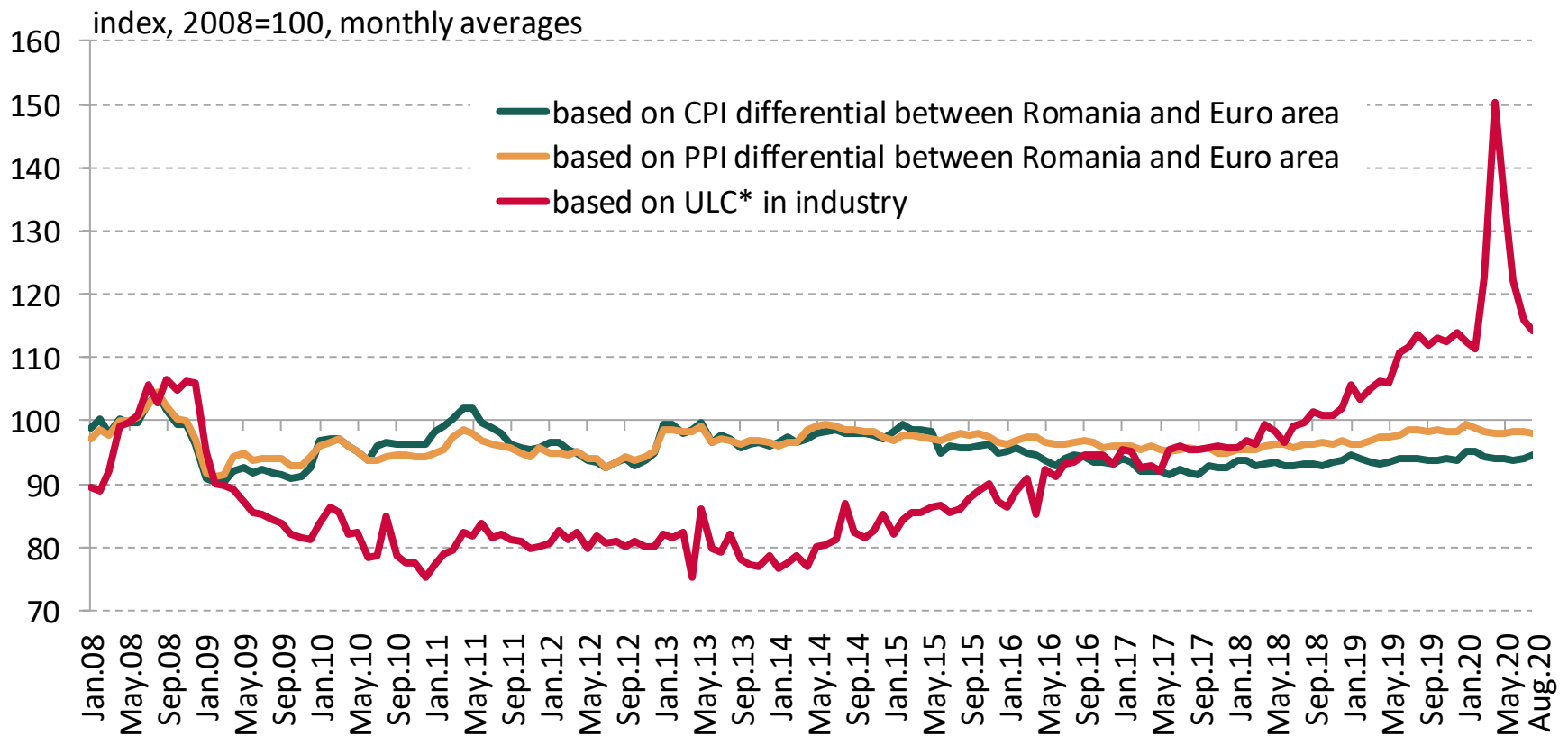
**) portfolio investment and deposits

“+” inflows; “-” outflows

Note: External sector statistics for the period 2013-2018 were subjected to a benchmark revision.

Source: National Bank of Romania

Real exchange rate of the RON against the EUR

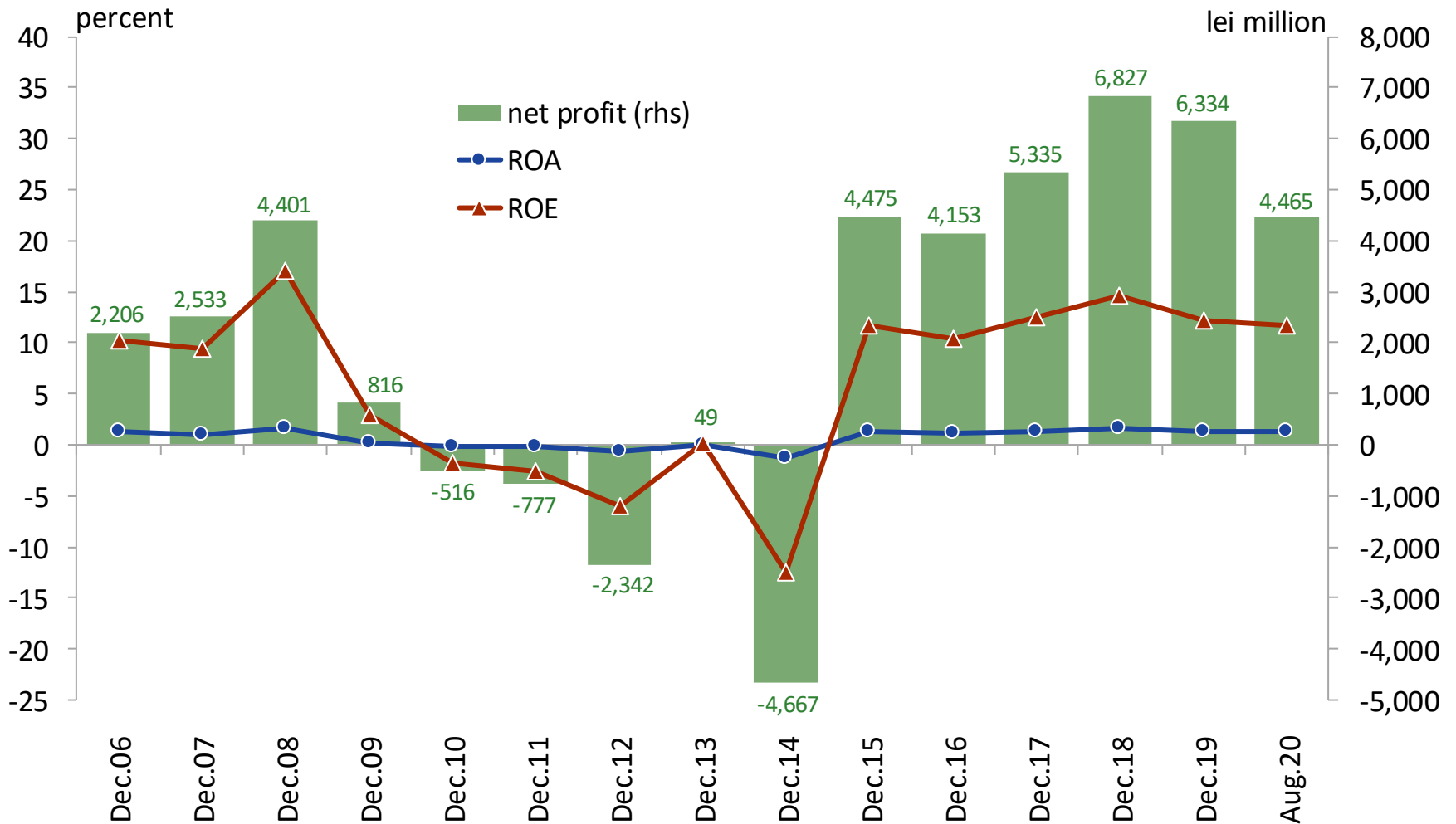


*) seasonally adjusted series

Note: Starting January 2018 (until December 2018), the annual dynamics of the gross wage are adjusted for the effect of changing the way social security contributions are levied and their overall level (from 16.5 percent and 22.75 percent for employees and employers respectively to 35 percent and 2.75 percent), as well as of the decline in income tax from 16 percent to 10 percent, so that the resulting values should reflect developments in unit labour costs.

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

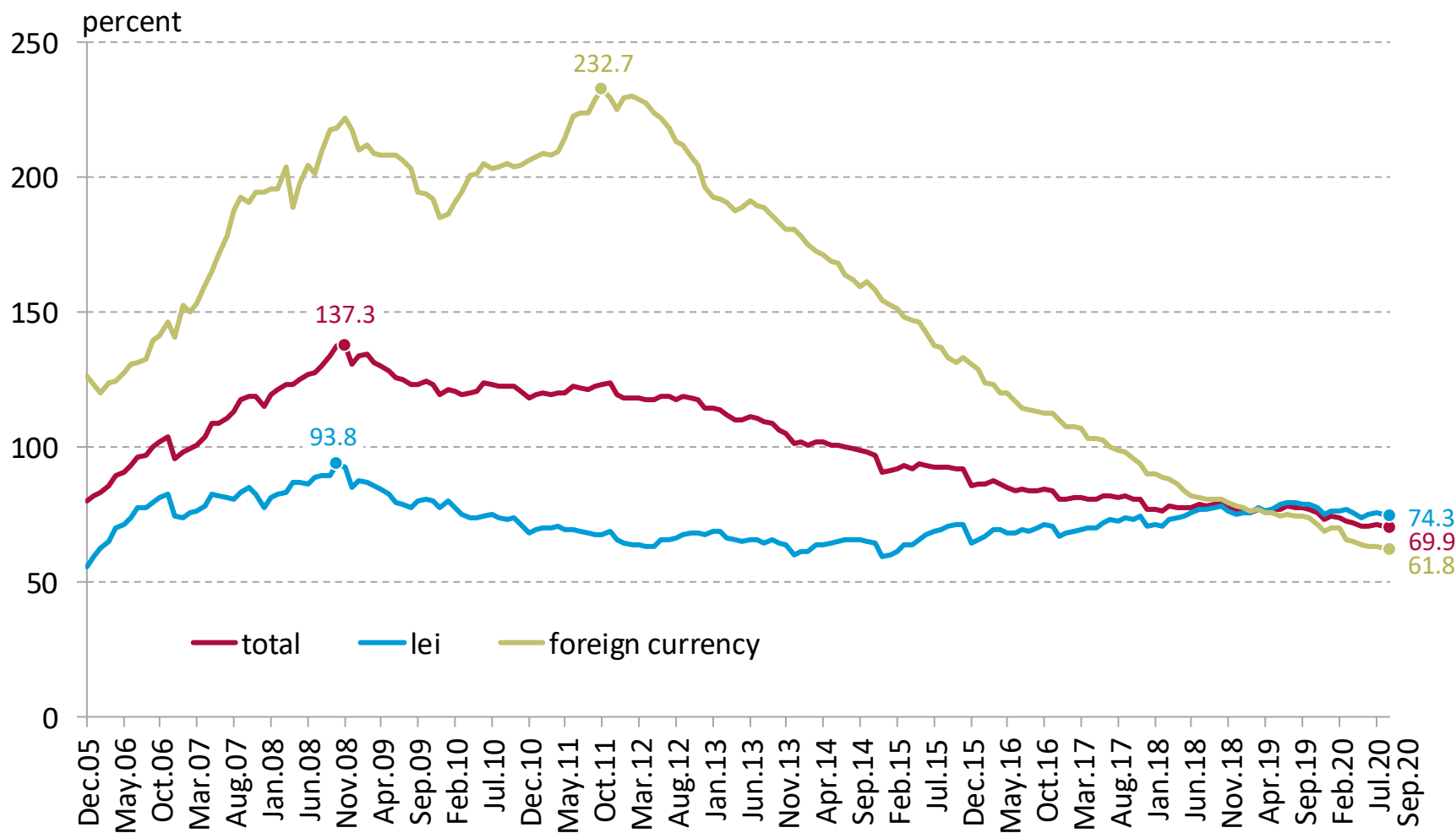
Banking system profitability



Note: Starting January 2012, indicators are calculated based on IFRS-compliant reports.

Source: National Bank of Romania

Loan-to-deposit ratio*

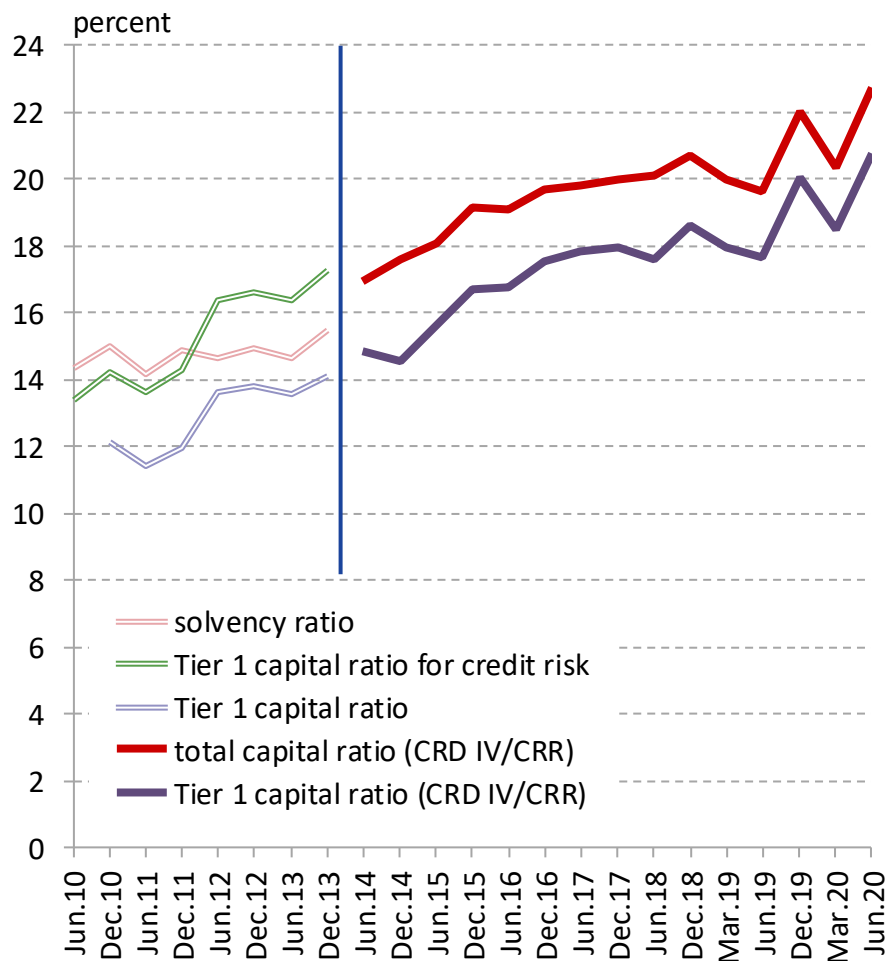


*) based on data in the monetary balance sheet

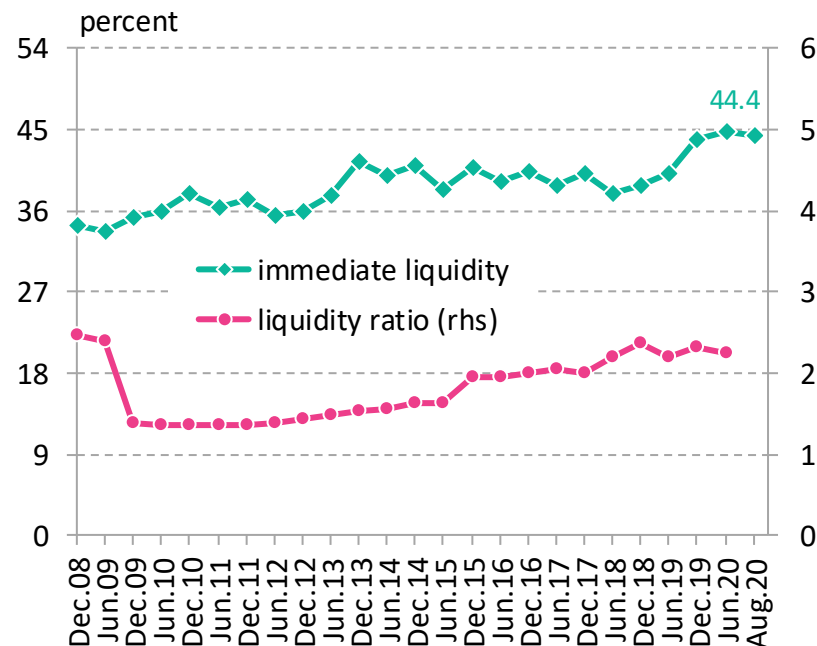
Source: National Bank of Romania

Analysis ratios for the banking system

Capital adequacy indicators



Liquidity indicators



Immediate liquidity = (cash, demand deposits and time deposits with banks + unpledged government securities + unencumbered bonds) / Total liabilities (prudent level > 30%)

Liquidity ratio = effective liquidity / required liquidity (regulated threshold = 1)

Note: For the period from 1 May 2020 to 30 September 2020, the liquidity ratio was reported exclusively for the 30 June 2020 and 30 September 2020 reference dates, pursuant to the provisions of Art. 5 of NBR Regulation No. 6/2020.

Source: National Bank of Romania

Maybe a once in a lifetime opportunity (1).....

What's on the table?

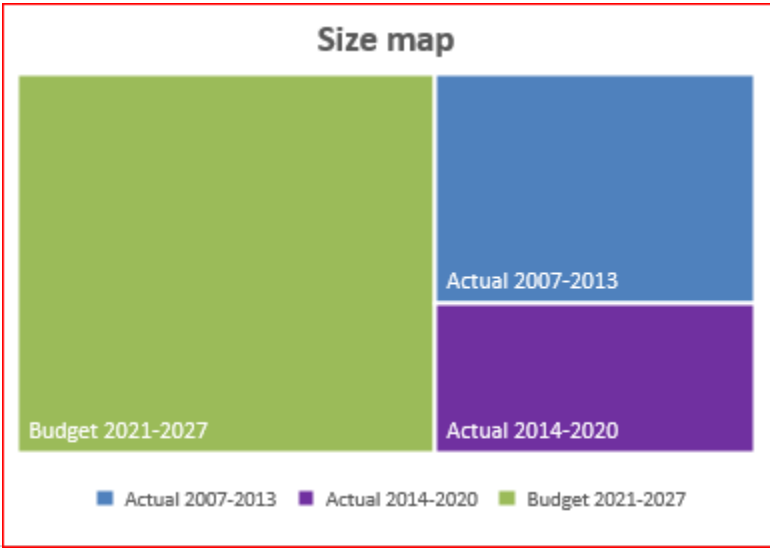
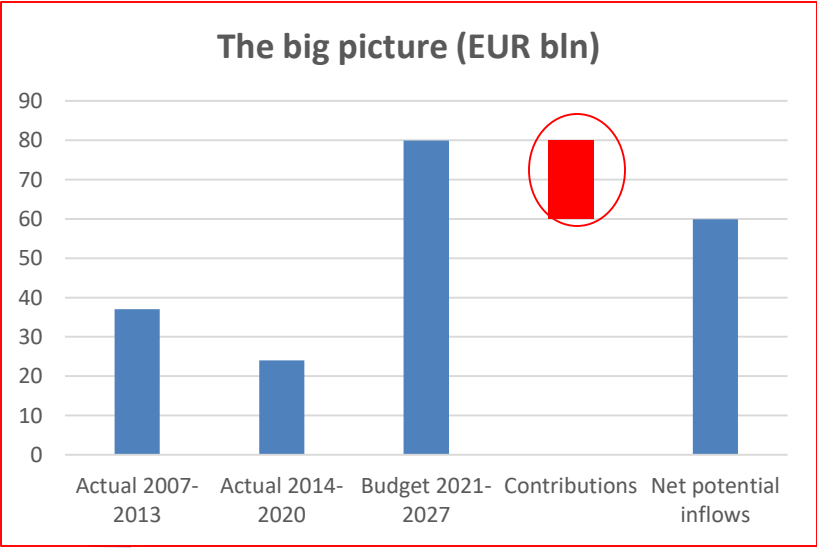
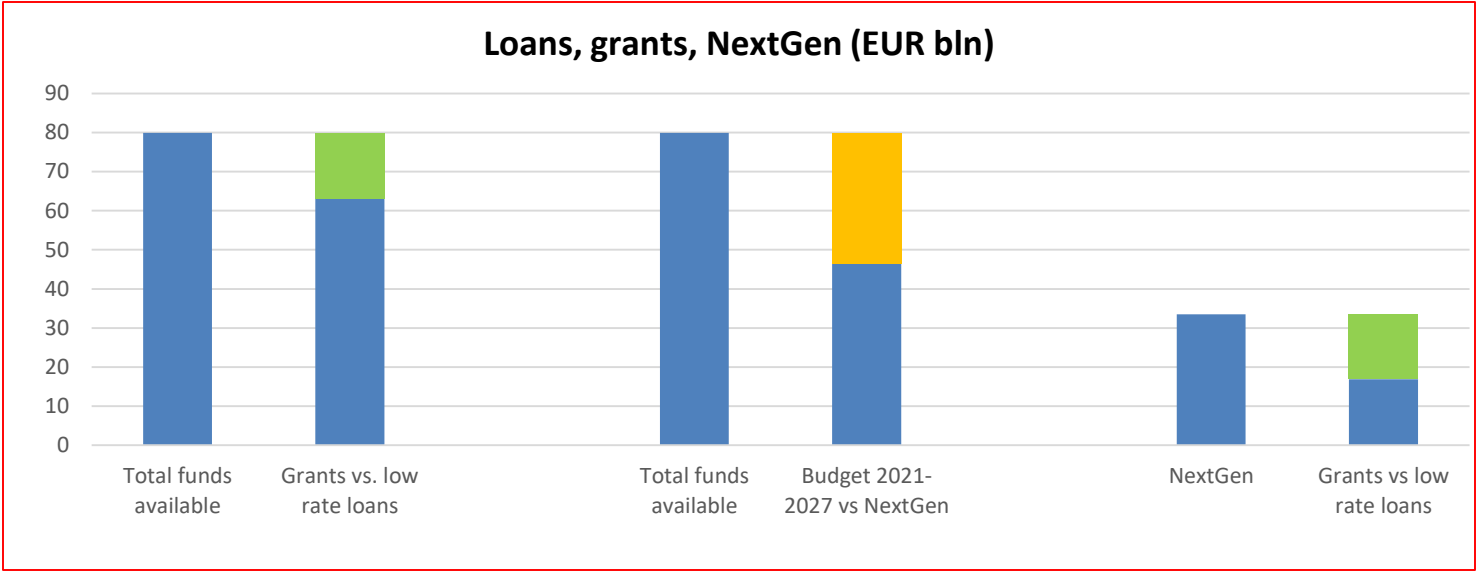
- 79.9 bln EUR
- Major pillar for the recovery phase
- NextGen is 8% of GDP
- Tilted towards grants...
- But loans are helpful also
- **Frontloaded**, prefinancings, more flexible
- Infrastructure/Energy/Green/Digital/**R&D**



Need to act, fast and smart!

- National recovery and resilience plan for must be produced asap
- Execution will be the key
- Public sector reform is needed
- Public entities need to **coordinate**, work together
- Modest track record (2007-2013; 2014-2020)
- New, results-driven, mindset needed

Maybe a once in a lifetime opportunity (2).....



ROBOR changes

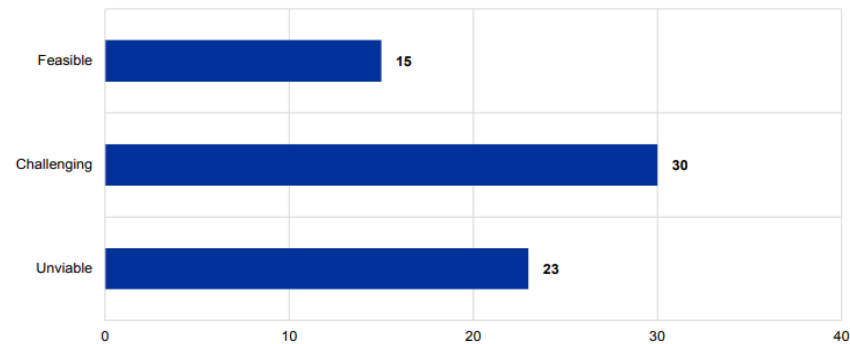
| | Old | New |
|------------------------|--|---|
| Quote max amount (ron) | 5 / 3 / 2 mio | 20 / 10 / 5 mio |
| Quote max spread | <ul style="list-style-type: none"> • 50bps (on, tn, 1w, 1m & 3m) • 75bps (6M, 9M, 12M) | <ul style="list-style-type: none"> • 30bps (on, tn, 1w, 1m) • 35bps (3m) • 40bps (6m, 12m) |
| Contribution interval | 15 mins before 11:00 | 30 mins before 11:00 |
| Publication | max 5 min | max 5 min |
| Participants | 10 | 10 |
| Fixing maturities | (on, tn, 1w, 1m, 3m, 6m, 9m, 12m) | (on, tn, 1w, 1m, 3m, 6m, 9m , 12m) |
| Quote driven | YES | YES |

Term structure challenges

Assessment of overall feasibility of the OIS transactions-based methodology

February 2019

(number of responses)



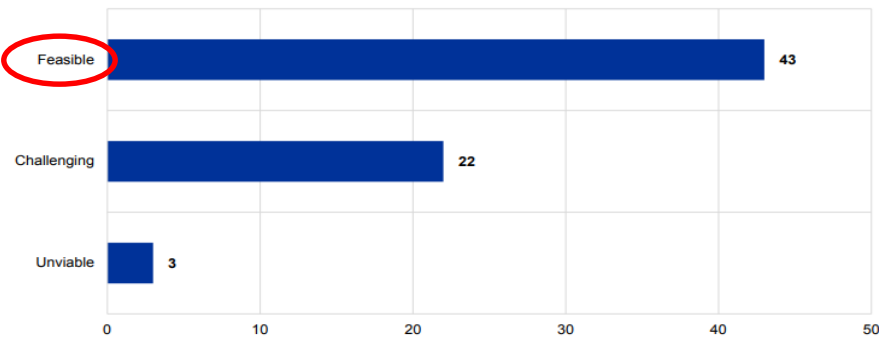
Source: ECB secretariat to the working group on euro risk-free rates.

Notes: The sum of the number of responses does not equal the total number of responses received as some respondents did not reply to this question.

Assessment of overall feasibility of the OIS quotes-based methodology

February 2019

(number of responses)



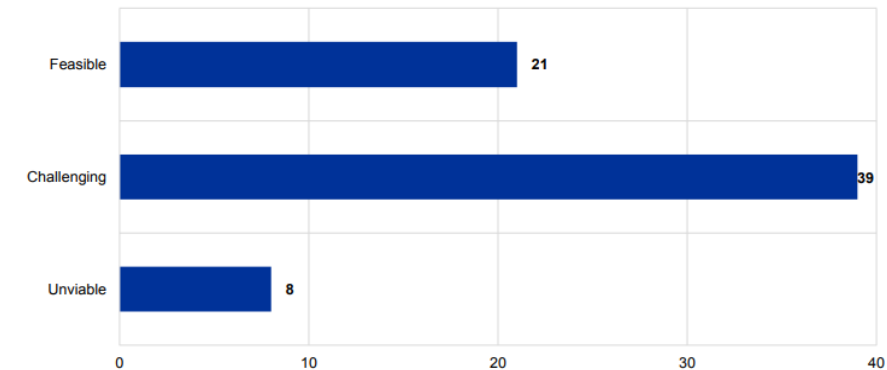
Source: ECB secretariat to the working group on euro risk-free rates.

Notes: The sum of the number of responses does not equal the total number of responses received as some respondents did not reply to this question.

Assessment of overall feasibility of the futures-based methodology

February 2019

(number of responses)



Source: ECB secretariat to the working group on euro risk-free rates.

Notes: The sum of the number of responses does not equal the total number of responses received as some respondents did not reply to this question.



Thank you!