
Romania: Recent Macroeconomic & Banking System Developments

March 2023 – Wood & Co Romania Investor Day

Recent macroeconomic developments

□ CPI inflation:

✓ Annual rate:

+8.19% (Dec. 2021/~~Dec. 2020~~)

+16.37% (Dec. 2022/~~Dec. 2021~~)

+15.07% (Jan. 2023/~~Jan. 2022~~)

✓ Average annual rate:

+5.1% in 2021

+13.8% in 2022

+14.3% in (February 2022 – January 2023)/(February 2021 – January 2022)

□ GDP growth:

2020: -3.7%

2021: +5.8%

2022: +4.8% (flash estimate)

□ Current account deficit:

2020: EUR 10,902 mn., down 0.03% yoy; 4.9% of GDP; 65.5% covered by FDI and capital account?

2021: EUR 17,473 mn., up 60.3% yoy; 7.2% of GDP; 80.5% covered by FDI and capital account?

2022: EUR 26,571 mn., up 52.1% yoy; 62.5% covered by FDI and capital account

Recent macroeconomic developments (2)

❑ Foreign Direct Investment:

2020: EUR 2,958.3 mn., down 39% yoy

2021: EUR 8,820.9 mn., up 198.2% yoy

2022: EUR 9,618.9 mn., up 9% yoy

❑ Fiscal balance (ESA2010 Methodology):

2020: -9.2% of GDP

2021: -7.1% of GDP

2022: -5.9% of GDP (EDP notification, October 2022)

❑ International reserves (including gold):

2021: EUR 45.8 bn.; forex reserves EUR 40.5 bn.

2022: EUR 52.3 bn.; forex reserves EUR 46.6 bn.

Jan. 2023: EUR 56.1 bn.; forex reserves EUR 50.2 bn.

(the former covering 4.2 months of prospective goods-and-services imports)

❑ Financial intermediation:

2019: 25.2% of GDP

2020: 26.5% of GDP

2021: 27.3% of GDP

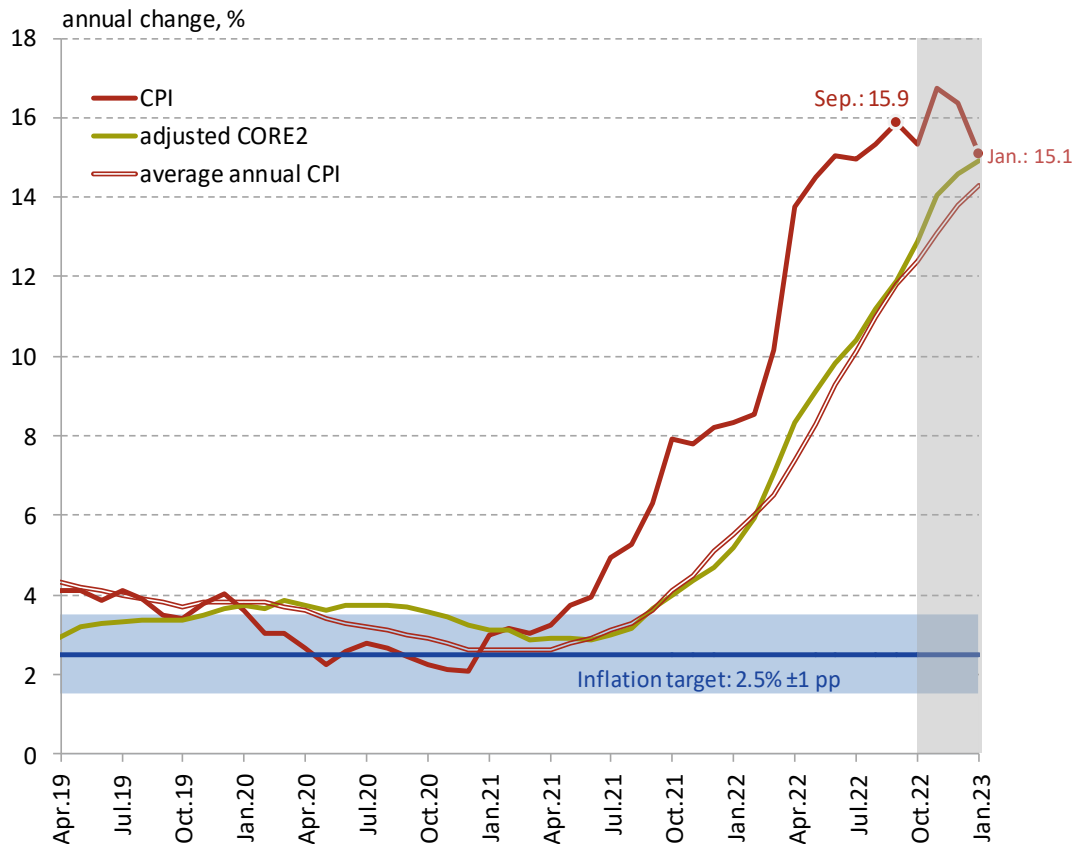
❑ Real growth of loans to the private sector:

2020/2019: 3.4% (RON: 6.3%; foreign currency: -2.6%)

2021/2020: 6.1% (RON: 10.6%; foreign currency: -4.0%)

2022/2021: -3.6% (RON: -8.4%; foreign currency: 8.9%)

The annual CPI inflation rate reached a plateau in 2022 Q4, going down to 15.1 percent in January 2023

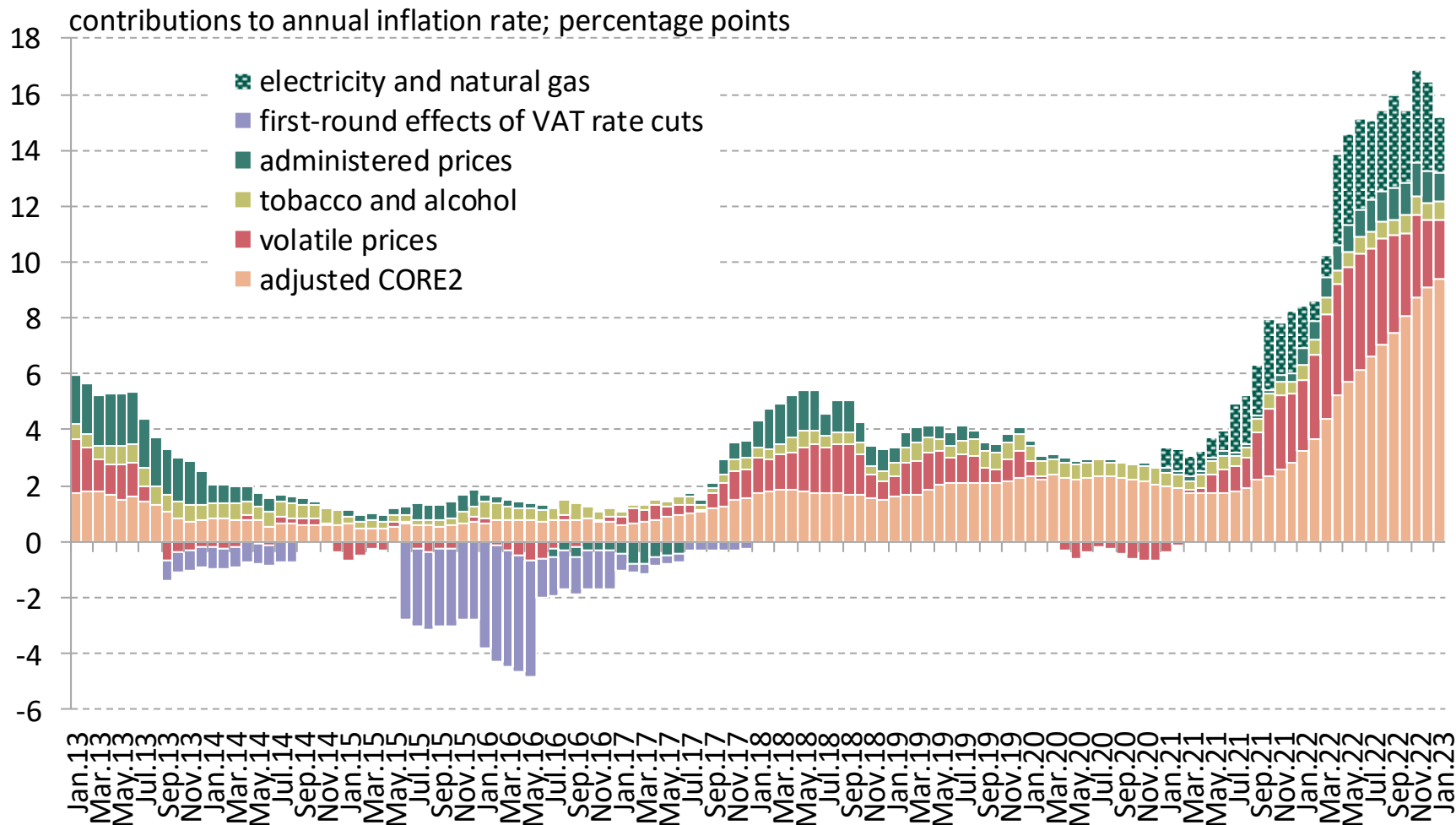


Inflation determinants in Oct. 2022 – Jan. 2023

- ↑ Built-up pressure on production costs (raw materials and materials, utilities, transport, labour)
- ↑ Still favourable demand conditions
- ↓ Abating of tensions in international energy markets
- ↓ Government measures to protect consumers:
 - electricity and natural gas price capping scheme
 - compensation by lei 0.50 of the price of motor fuel/litre
 - cap on the firewood price
- ↓ Easing of economic agents' inflation expectations
- ↓ Favourable base effects

Source: NIS, NBR

Contributions to annual inflation rate

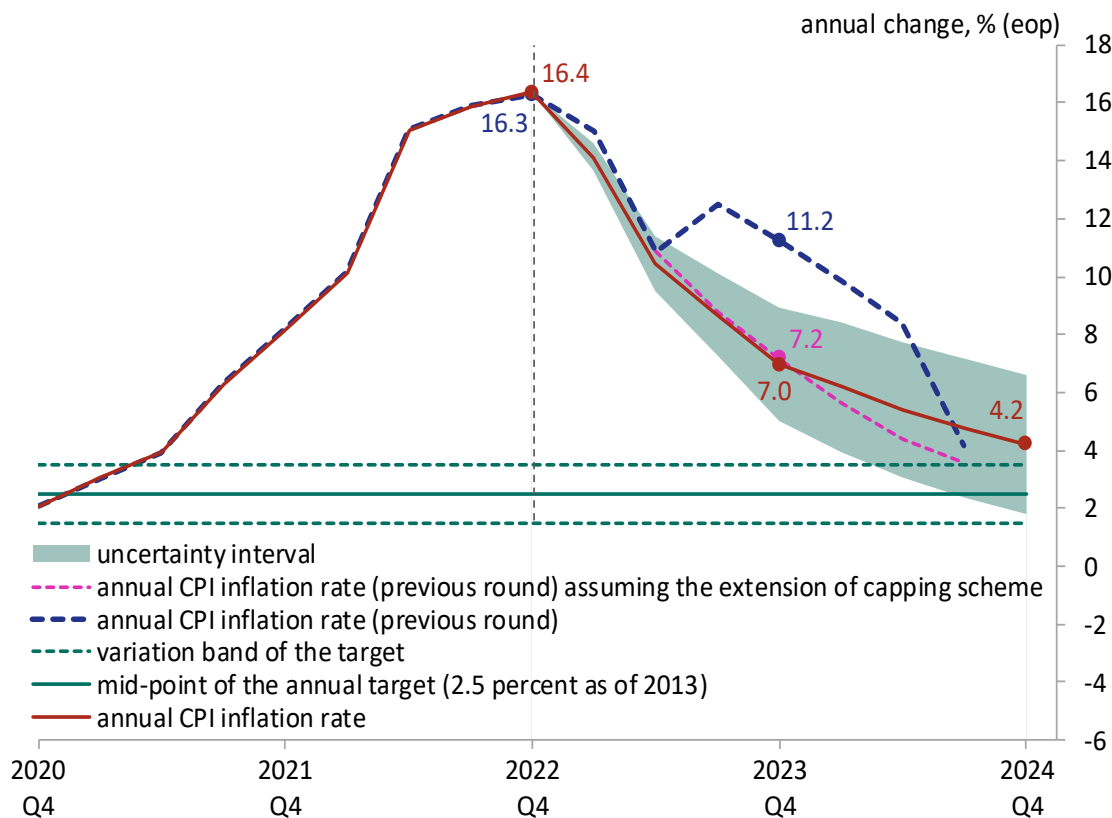


Note: Starting with January 2021, prices of natural gas and electricity are no longer administered.

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

The projected annual CPI inflation rate: significantly revised downwards until 2024 Q3 (August), as the analysis now incorporates the parameters of the new electricity and natural gas price capping scheme

- ❑ The annual CPI inflation rate is projected to follow a steadily downward path, but to remain above the variation band of the target
- ❑ For the current year, the new CPI inflation projection is similar to the alternative one (based on the new capping scheme) presented at the press conference in November 2022



Note: The uncertainty interval is calculated based on the forecast errors of the annual CPI inflation rate in the NBR projections from 2005 to 2022.

Source: NIS, NBR calculations and projections

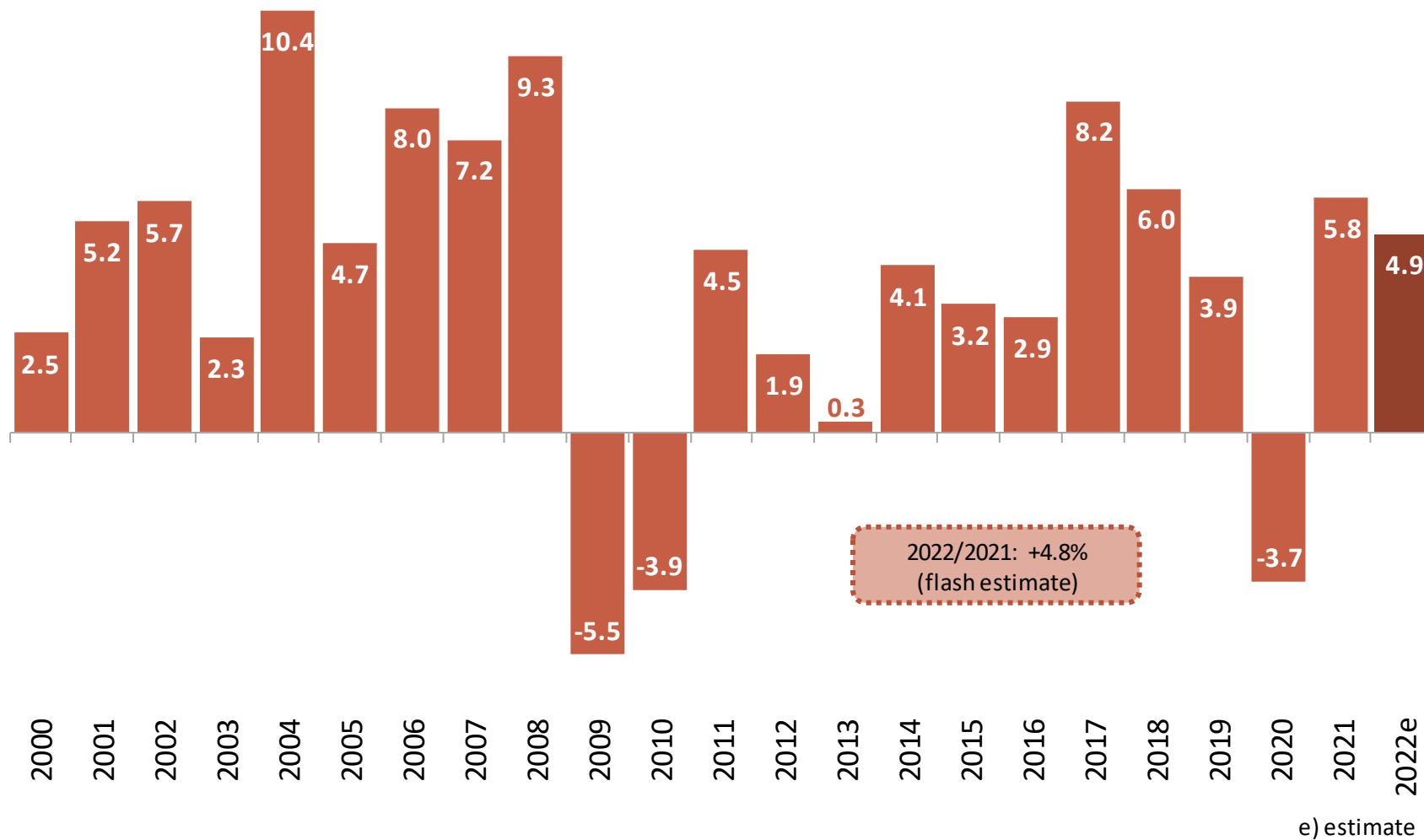
Decisions of the NBR Board*

- ❑ To keep the monetary policy rate at 7.00 percent per annum
- ❑ To leave unchanged the lending (Lombard) facility rate at 8.00 percent per annum and the deposit facility rate at 6.00 percent per annum
- ❑ To keep the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions

*) meeting of 9 February 2023

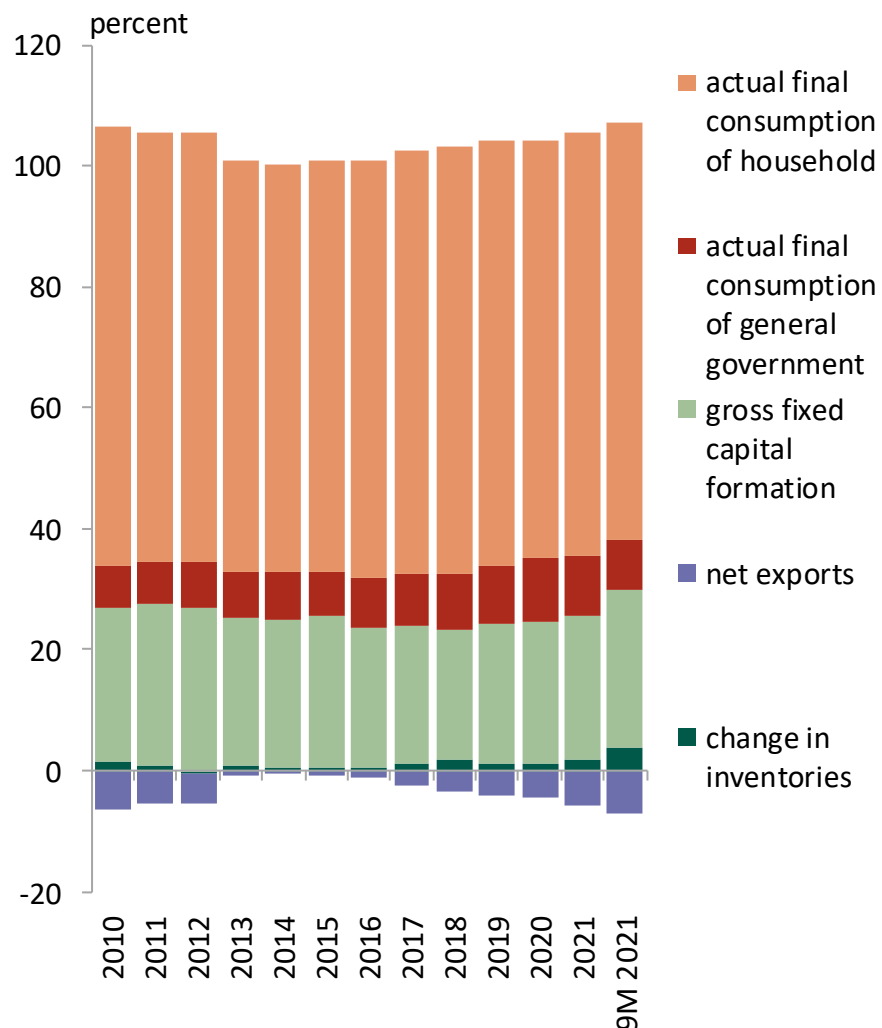
Real GDP

annual percentage change; gross data

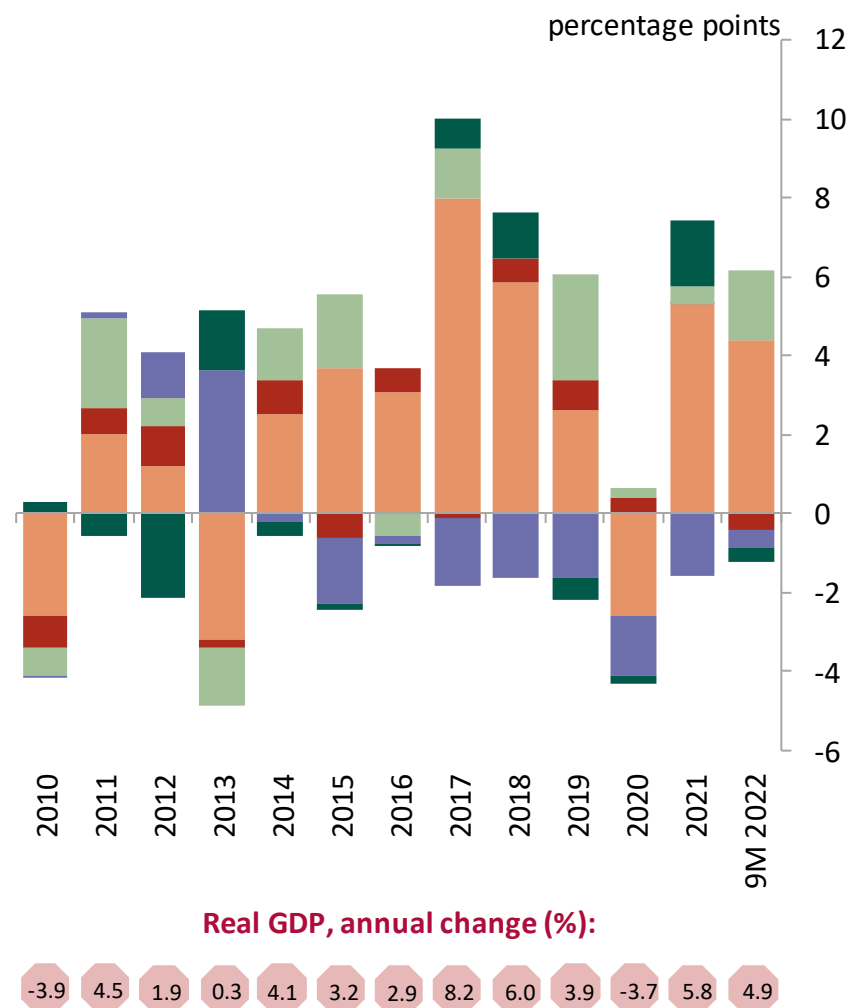


Source: National Institute of Statistics, Eurostat, National Commission for Strategy and Prognosis

GDP structure by expenditure



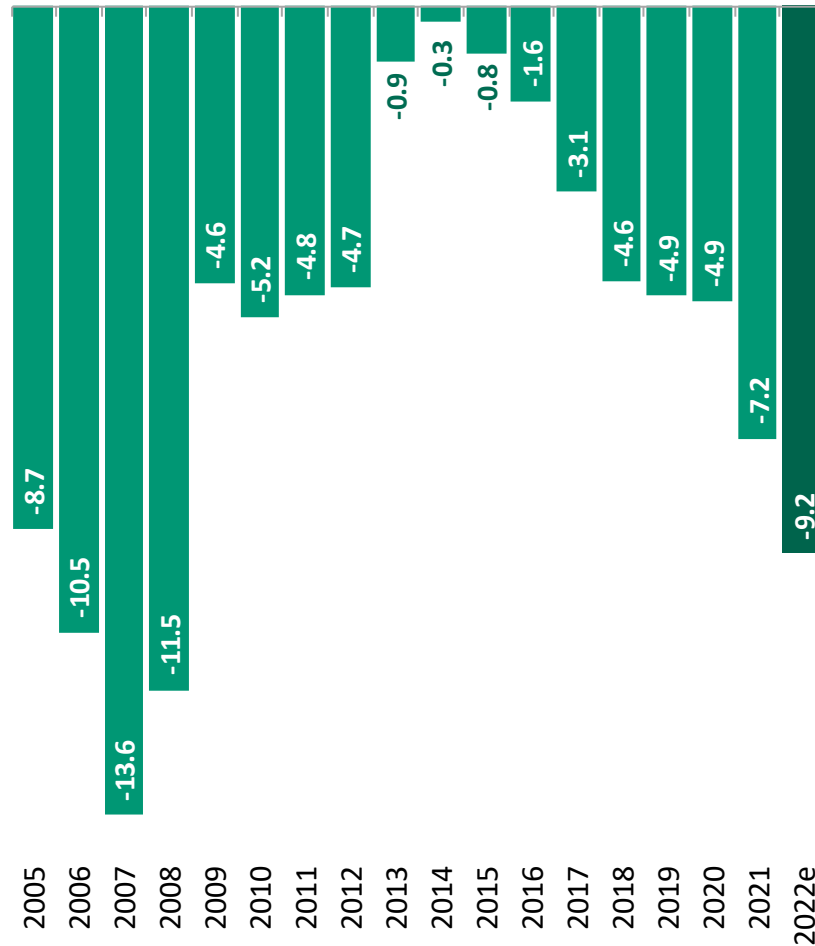
Contribution of demand components to GDP annual growth



Source: National Institute of Statistics, National Bank of Romania

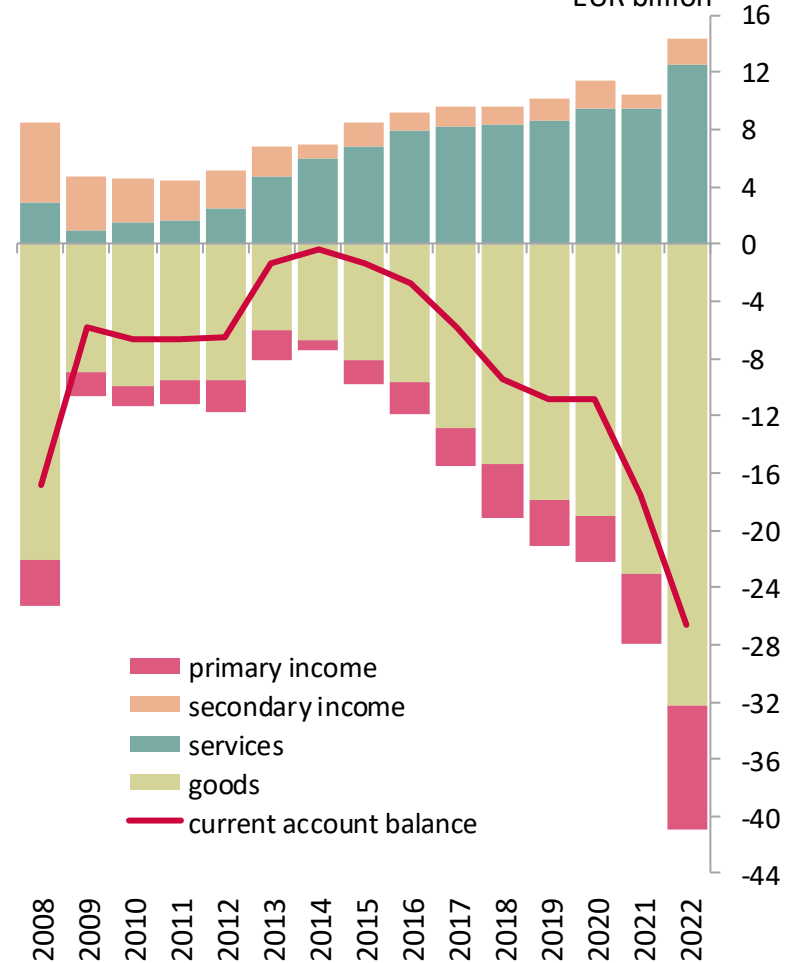
Current account balance

percent of GDP



e) estimate

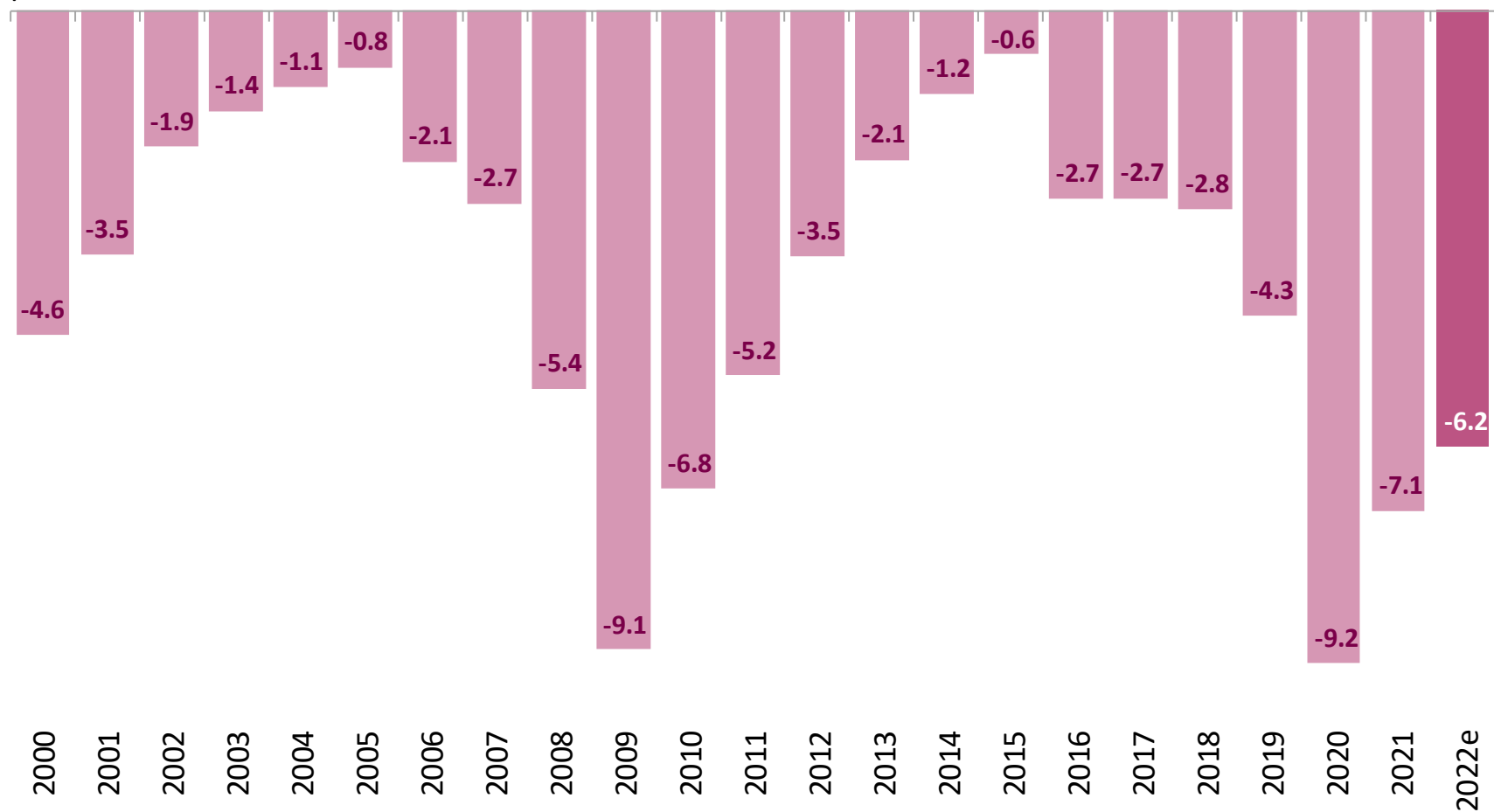
EUR billion



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

General government balance (according to ESA 2010)

percent of GDP

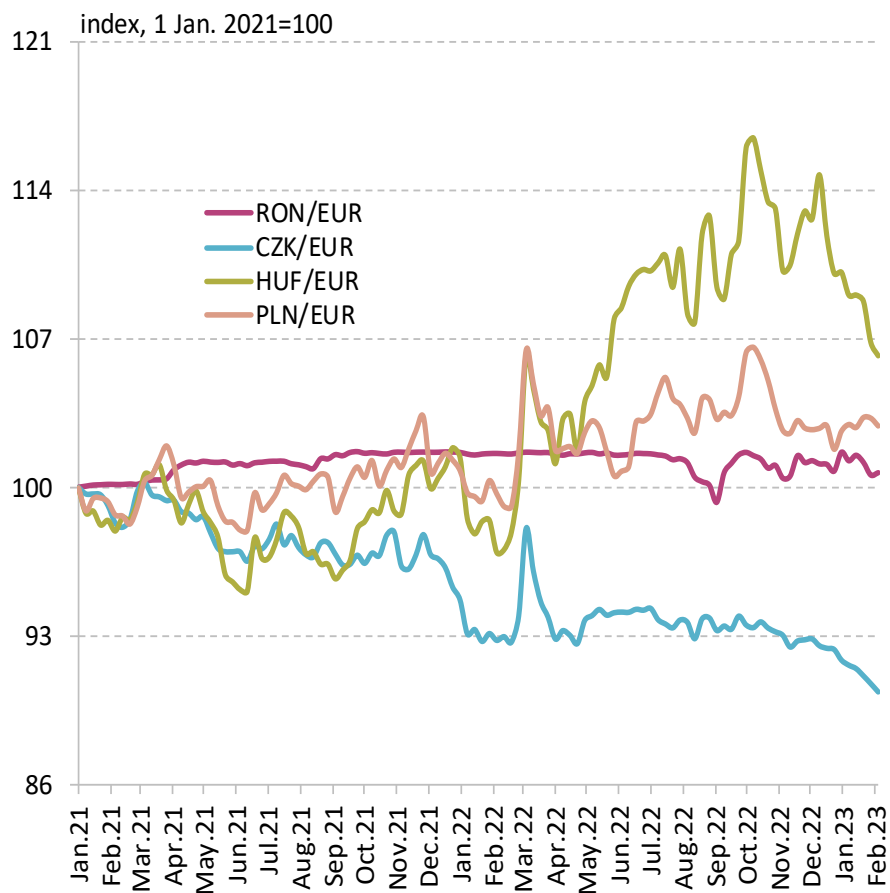


e) estimate; EDP notification, October 2022

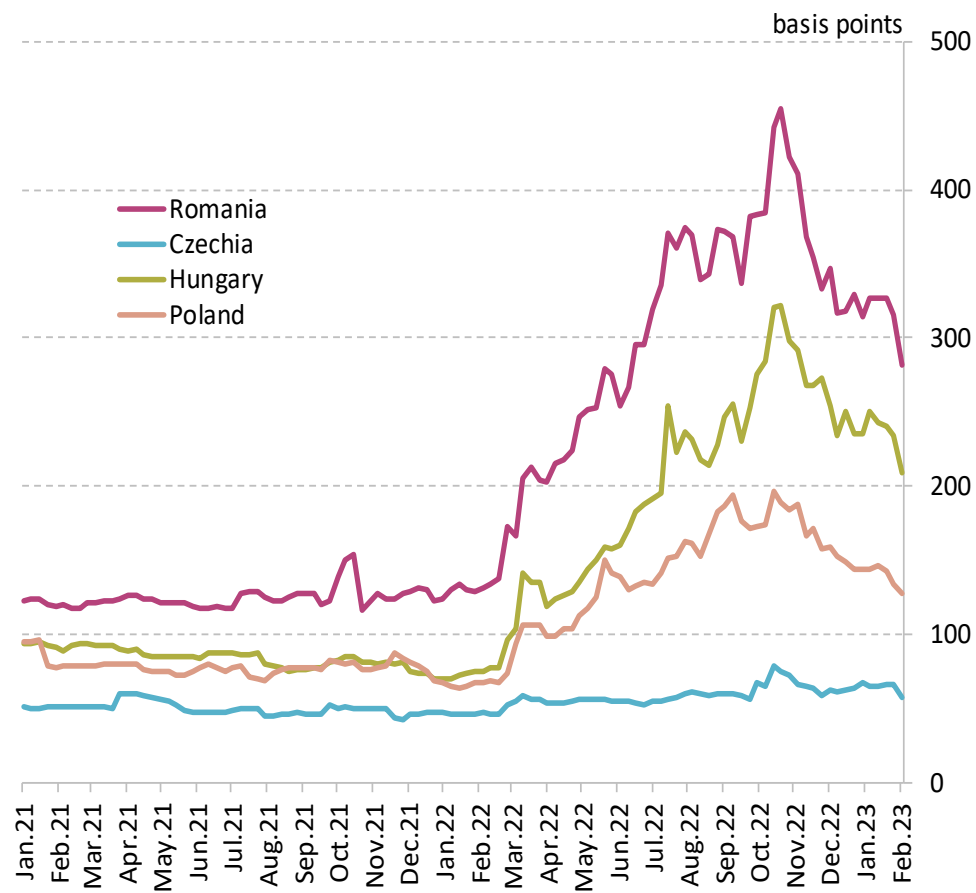
Source: Eurostat, Ministry of Finance, National Institute of Statistics

Exchange rates of the leu and of currencies in the region (Czech koruna, forint, zloty) versus the euro

Exchange rates

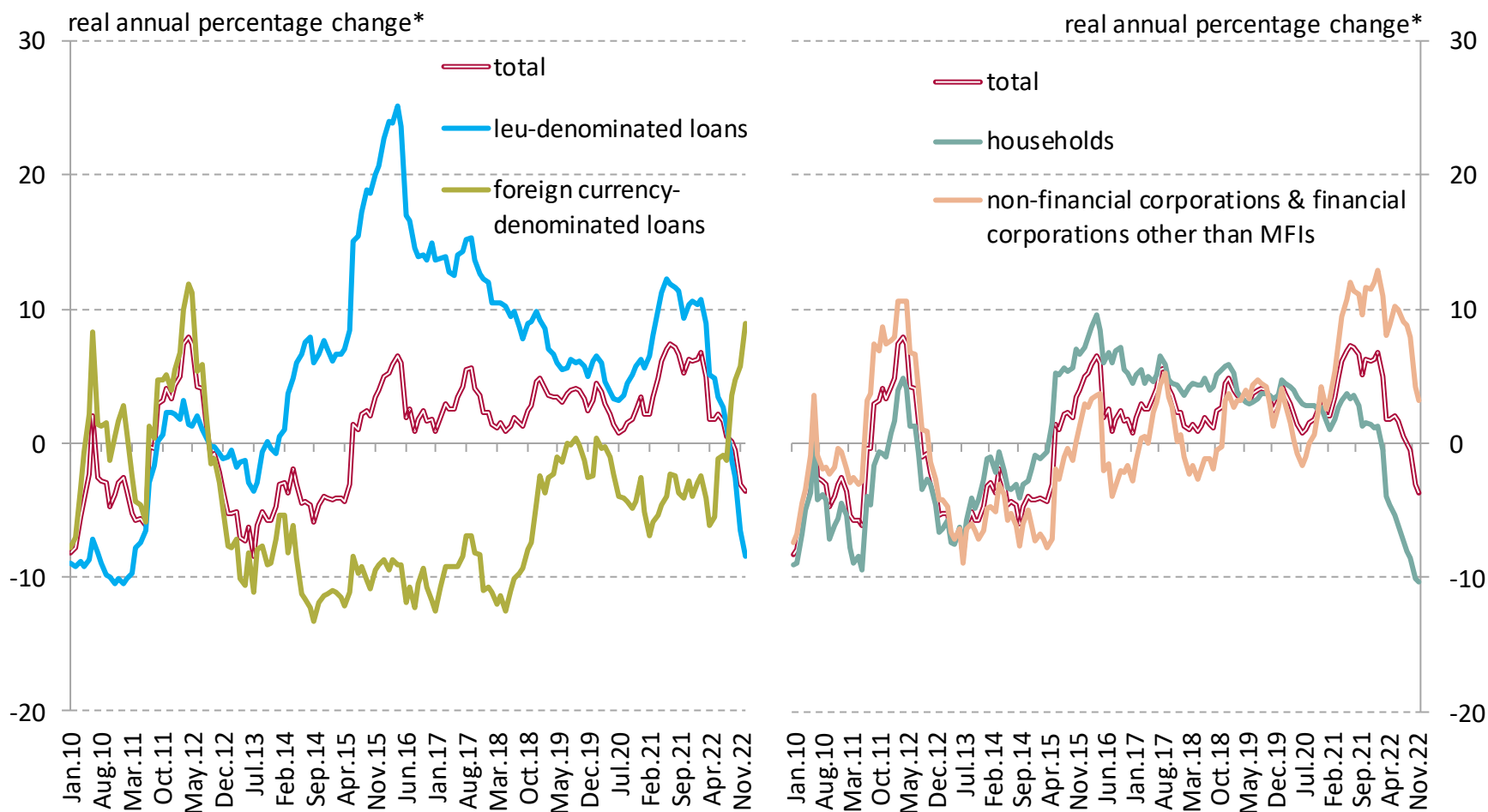


Risk premia



Source: ECB, Bloomberg

Loans to the private sector – stock –

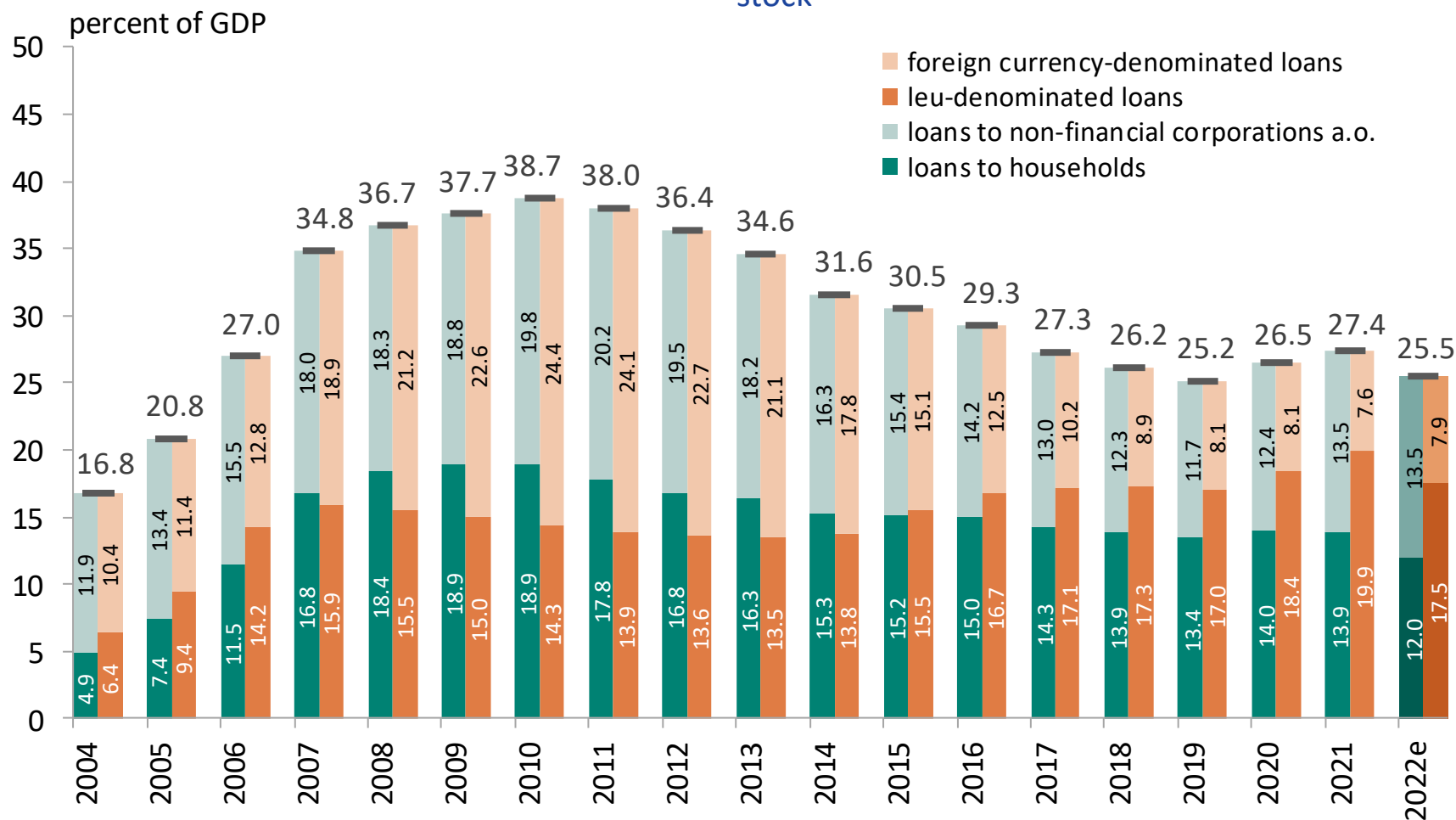


*) based on CPI

Source: National Institute of Statistics, National Bank of Romania

Financial intermediation*

– stock –



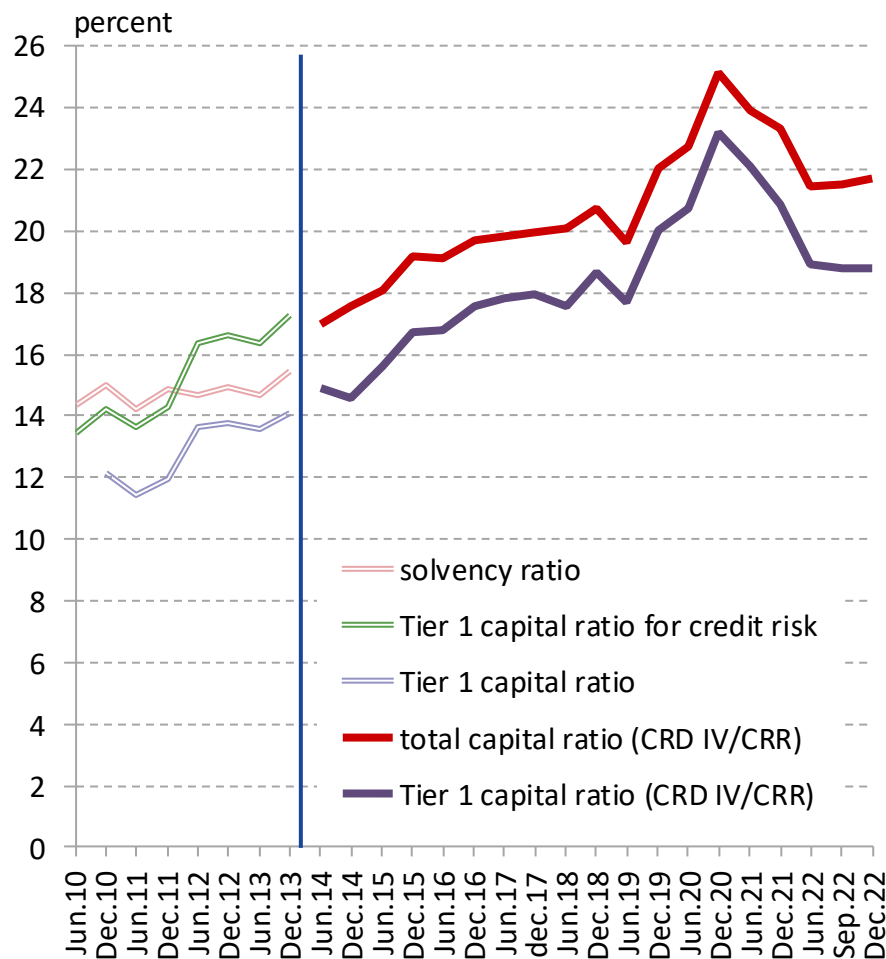
*) loans to the private sector / GDP

e) estimate

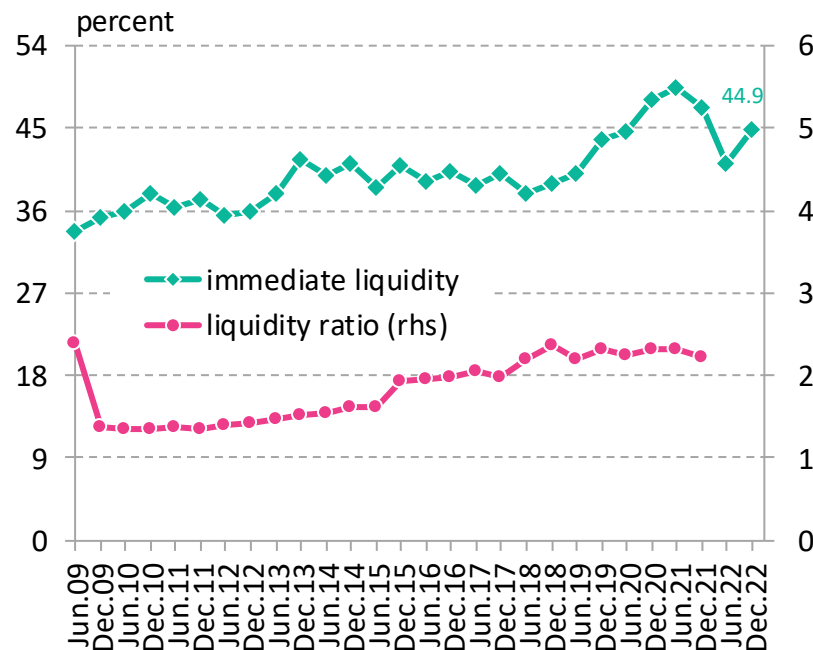
Source: National Institute of Statistics, National Bank of Romania, National Commission for Strategy and Prognosis

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%)

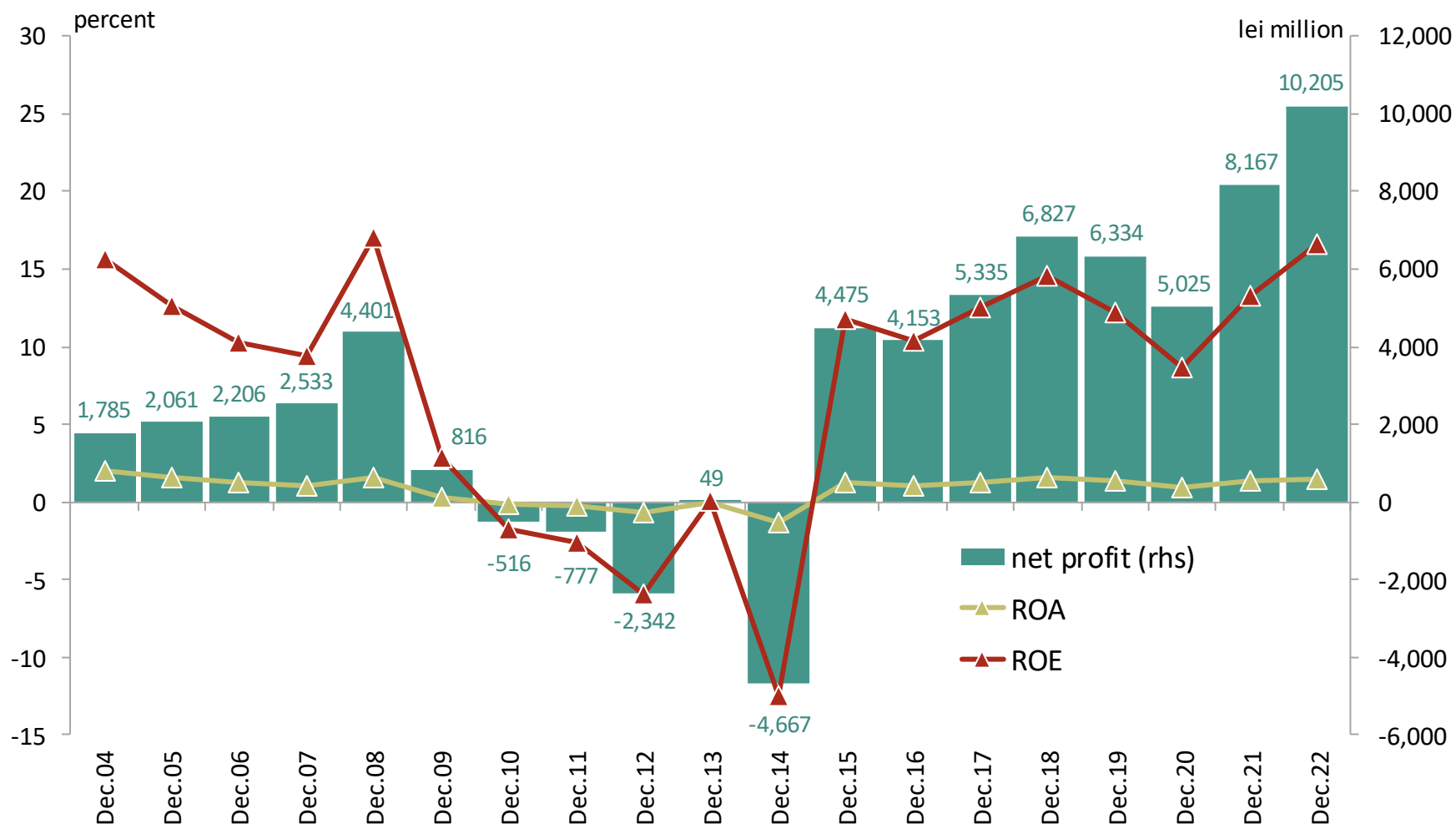
Liquidity ratio = effective liquidity / required liquidity (regulatory threshold = 1)

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.

Liquidity ratio is no longer calculated starting with March 2022, according to Articles II and III of Regulation No. 5/2022 amending and supplementing NBR Regulation No. 5/2013 on prudential requirements for credit institutions and repealing some legal acts.

Source: National Bank of Romania

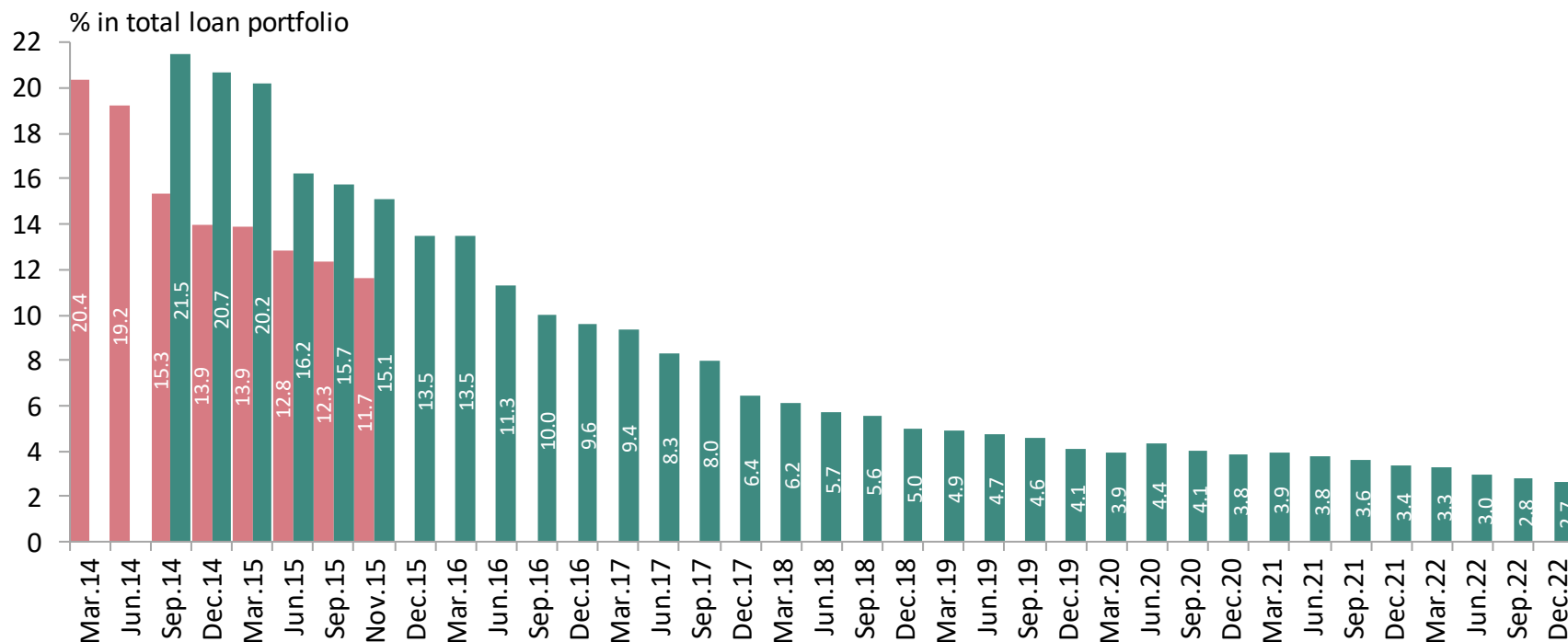
Banking system profitability



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

Source: National Bank of Romania

Developments in non-performing loans



This indicator is calculated based on prudential reports submitted by all banks (both banks that determine the minimum capital requirement for credit risk based on the standardised approach and banks using internal models-based approach) for loans meeting the non-performance criteria (loans and related interest overdue by more than 90 days and/or for which legal proceedings were initiated).

EBA-defined indicator, determined as the ratio between **a) the total non-performing exposure represented by loans and advances**

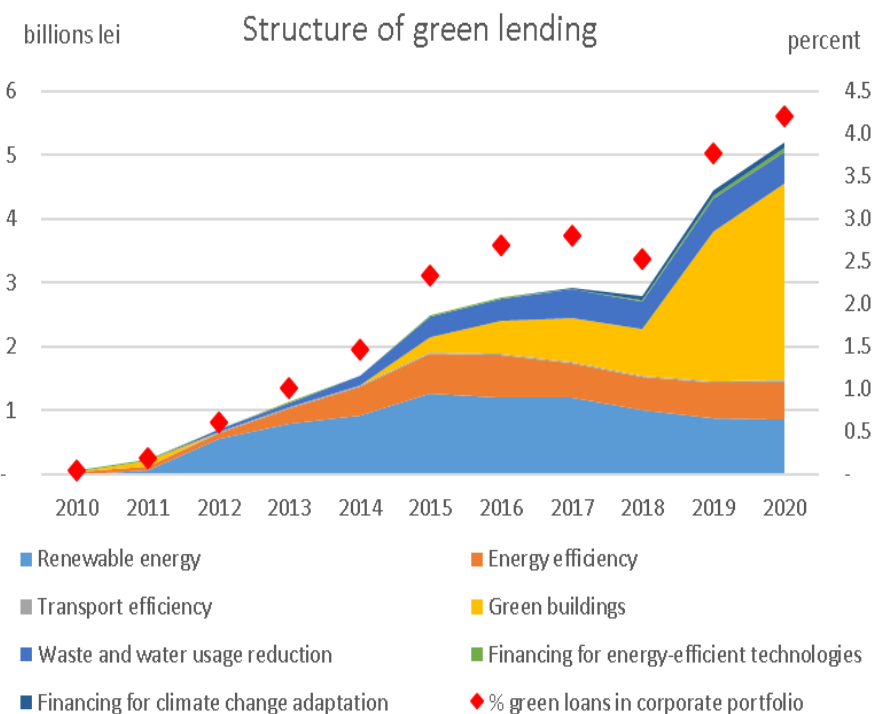
(where non-performing exposure is defined as any exposure satisfying any of the following criteria: (i) material exposure more than 90 days past due; (ii) the debtor is assessed as unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due) and **b) total exposure represented by loans and advances**.

In June 2015, the methodological notes on the FINREP framework at solo level were amended so as to include cash balances with the central bank and other demand deposits with credit institutions in the non-performing exposure report form.

Source: National Bank of Romania

The role played by the banking sector in supporting the green transition is still limited, but expected to increase substantially

Historical evolution of green loans to non-financial companies granted by banks

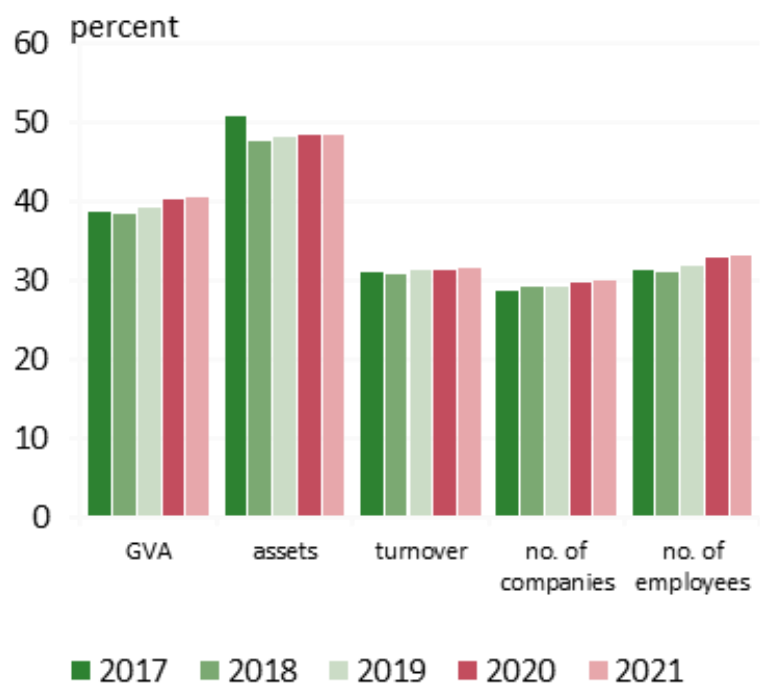


- The structure of green lending varied significantly during the past decade.
- At the beginning of the observation interval, we observe a high interest in energy efficiency projects (85% of all green lending in 2010), which, was soon overtaken by investments in renewable energy.

Source: NBR, authors' calculations

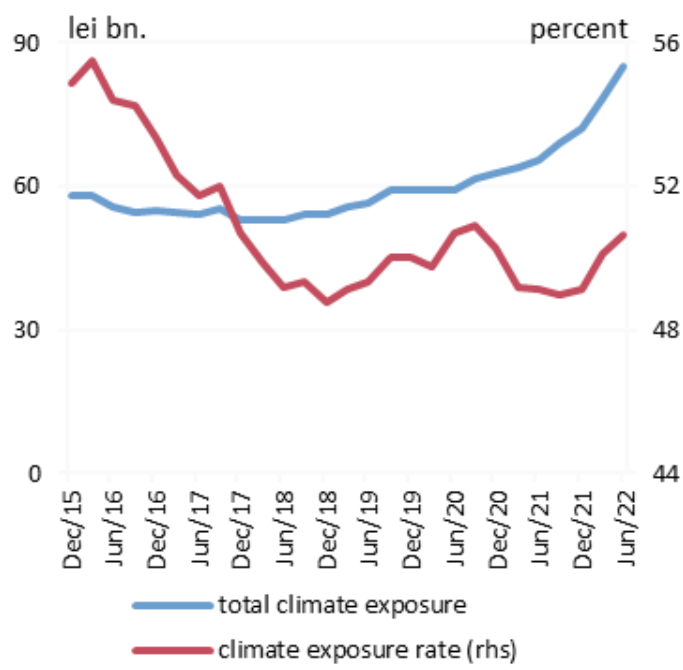
Brown firms in Romania are very important for the NFC and banking sectors. The green transition has to be orderly so that it does not generate shocks to the economy and banking sector

Economic relevance indicators of brown companies



Source: Ministry of Finance, NBR calculations
 Note: Brown companies are those within the climate relevant policy sectors.

Bank exposure to brown companies



Source: NBR