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AmCham Macro and FM Outlook Breakfast talk  
Macro comments  
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Bucharest

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# Recent macroeconomic developments

## ❑ CPI inflation:

### ✓ Annual rate:

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

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

+2.45% (Sep. 2020/~~Sep.~~ 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%)

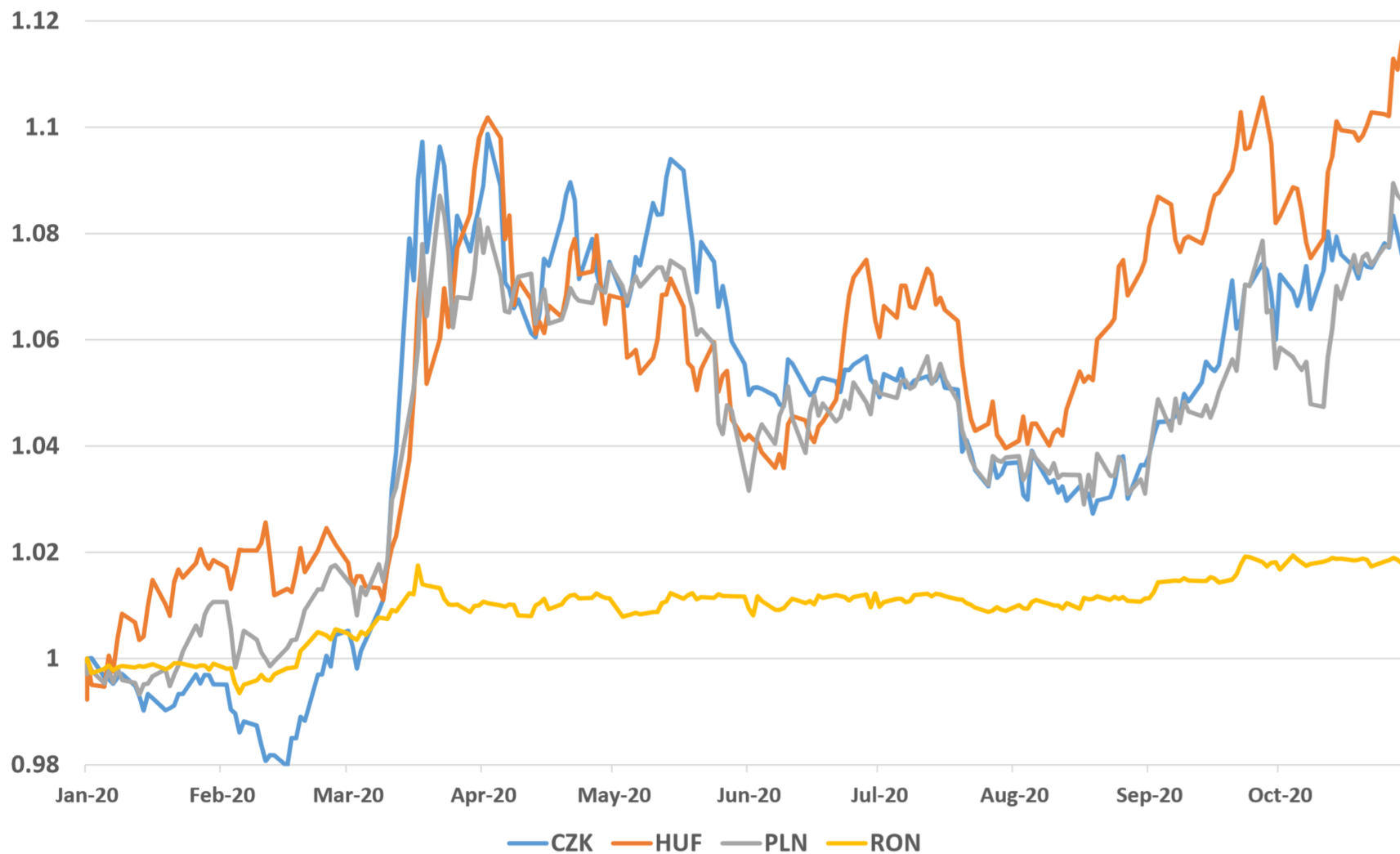
# The NBR's main measures since the start of the pandemic (1)

	March	May	June	August
Monetary policy rates	<ul style="list-style-type: none"> <li>monetary policy <b>rate cut</b> by 0.5 pp, to 2.0 percent</li> <li>the symmetrical corridor defined by interest rates on standing facilities around the key rate was <b>narrowed</b> to <math>\pm 0.5</math> pp. Thus, the deposit facility rate stood at 1.5 percent, while the lending facility rate was lowered to 2.5 percent</li> </ul>	<ul style="list-style-type: none"> <li>monetary policy <b>rate cut</b> by 0.25 pp, to 1.75 percent</li> <li>the deposit facility rate was reduced to 1.25 percent and the lending facility rate to 2.25 percent</li> </ul>		<ul style="list-style-type: none"> <li>monetary policy <b>rate cut</b> by 0.25 pp, to 1.5 percent</li> <li>the deposit facility rate was lowered to 1.0 percent and the lending facility rate to 2.0 percent</li> </ul>
Liquidity provision	<ul style="list-style-type: none"> <li>repo transactions directed towards <b>providing liquidity</b> to credit institutions</li> <li><b>purchases of leu-denominated government securities</b> on the secondary market</li> </ul>			
Repo lines	<ul style="list-style-type: none"> <li><b>repo line of EUR 4.5 billion</b> 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)</li> </ul>			

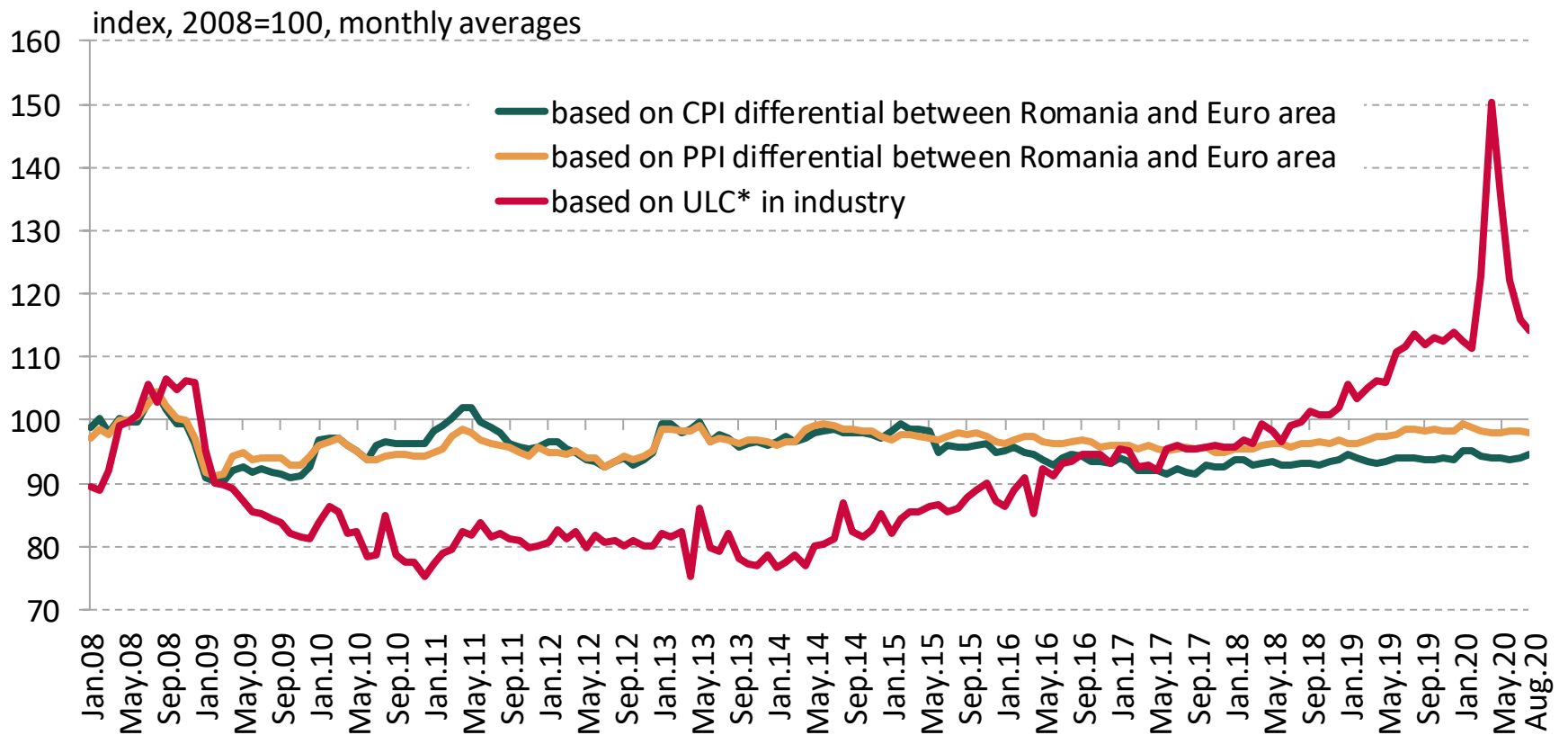
# The NBR's main measures since the start of the pandemic (2)

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

Variatie curs de schimb ianuarie - octombrie 2020



## Real exchange rate of the RON against the EUR



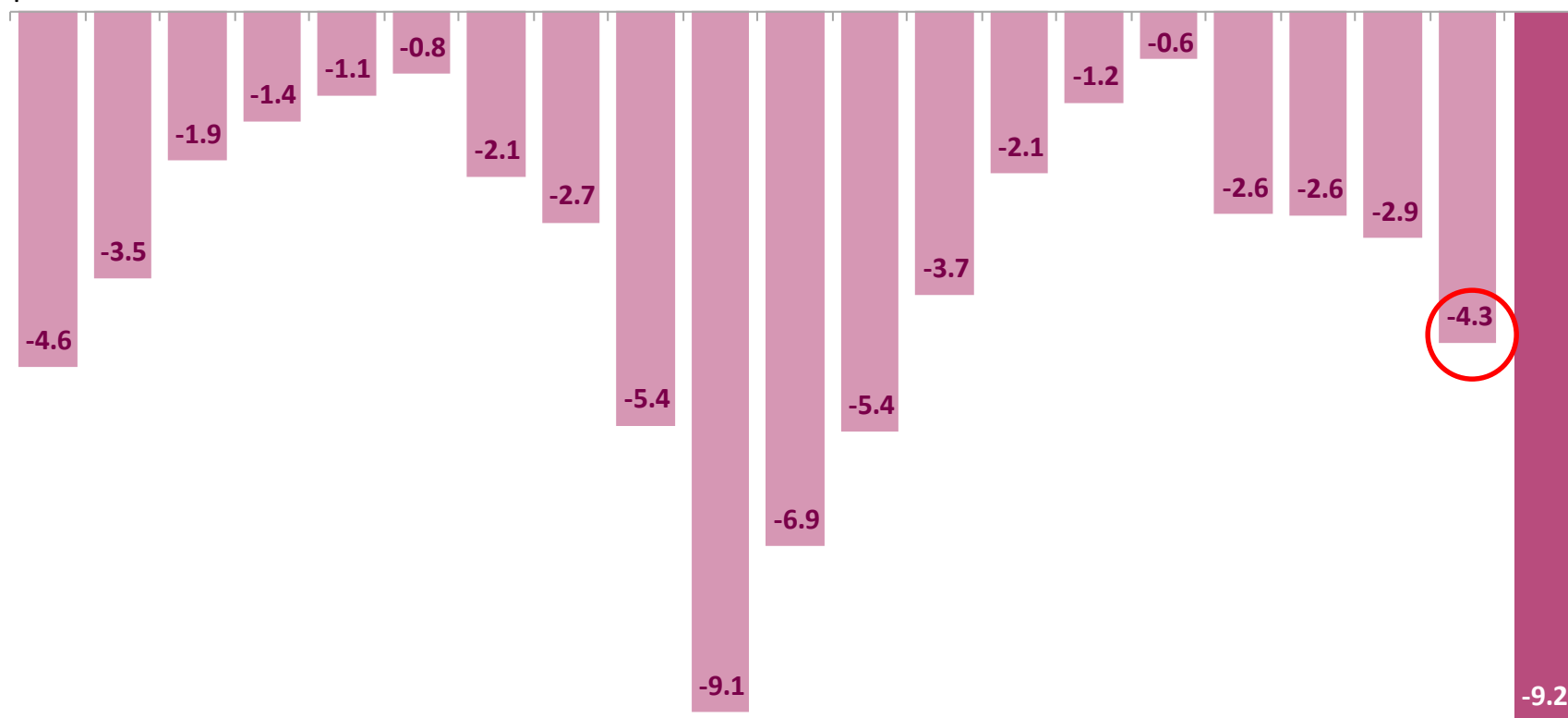
\*) seasonally adjusted series

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

## General government balance (according to ESA 2010)

percent of GDP



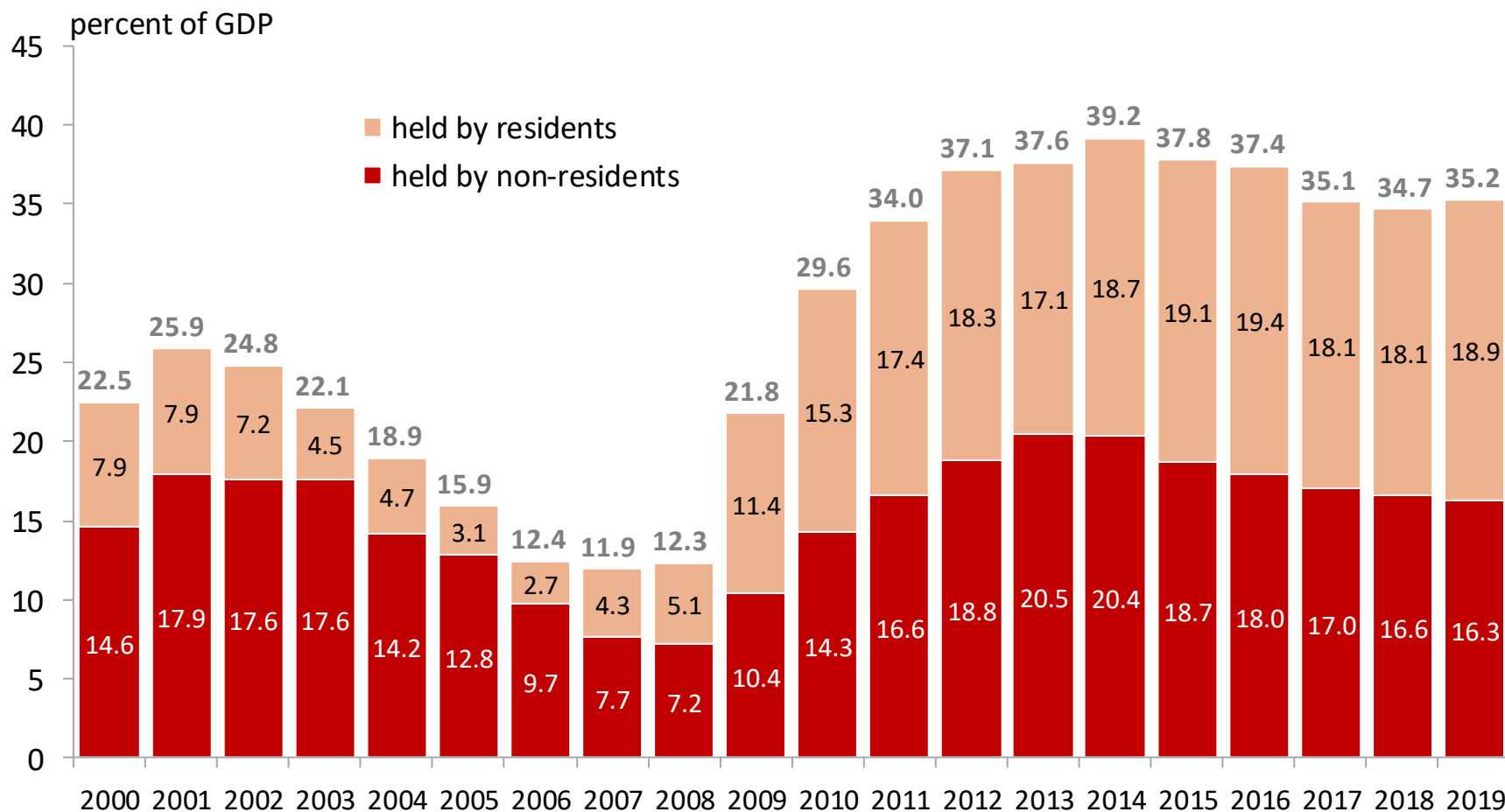
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020f

f) European Commission – European Economic Forecast, Spring 2020

Source: Ministry of Public Finance, National Institute of Statistics



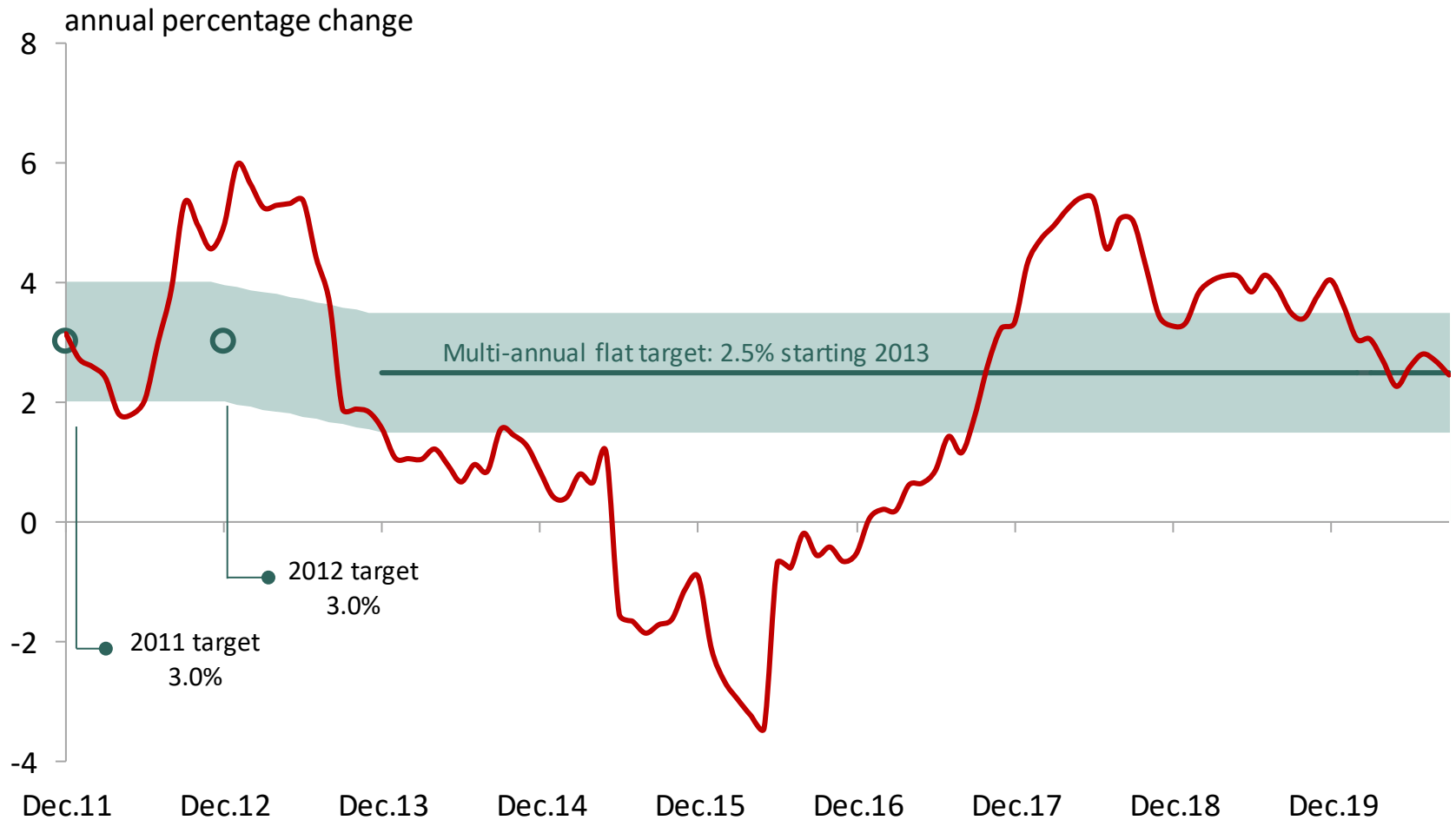
## Public debt (according to ESA 2010)



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

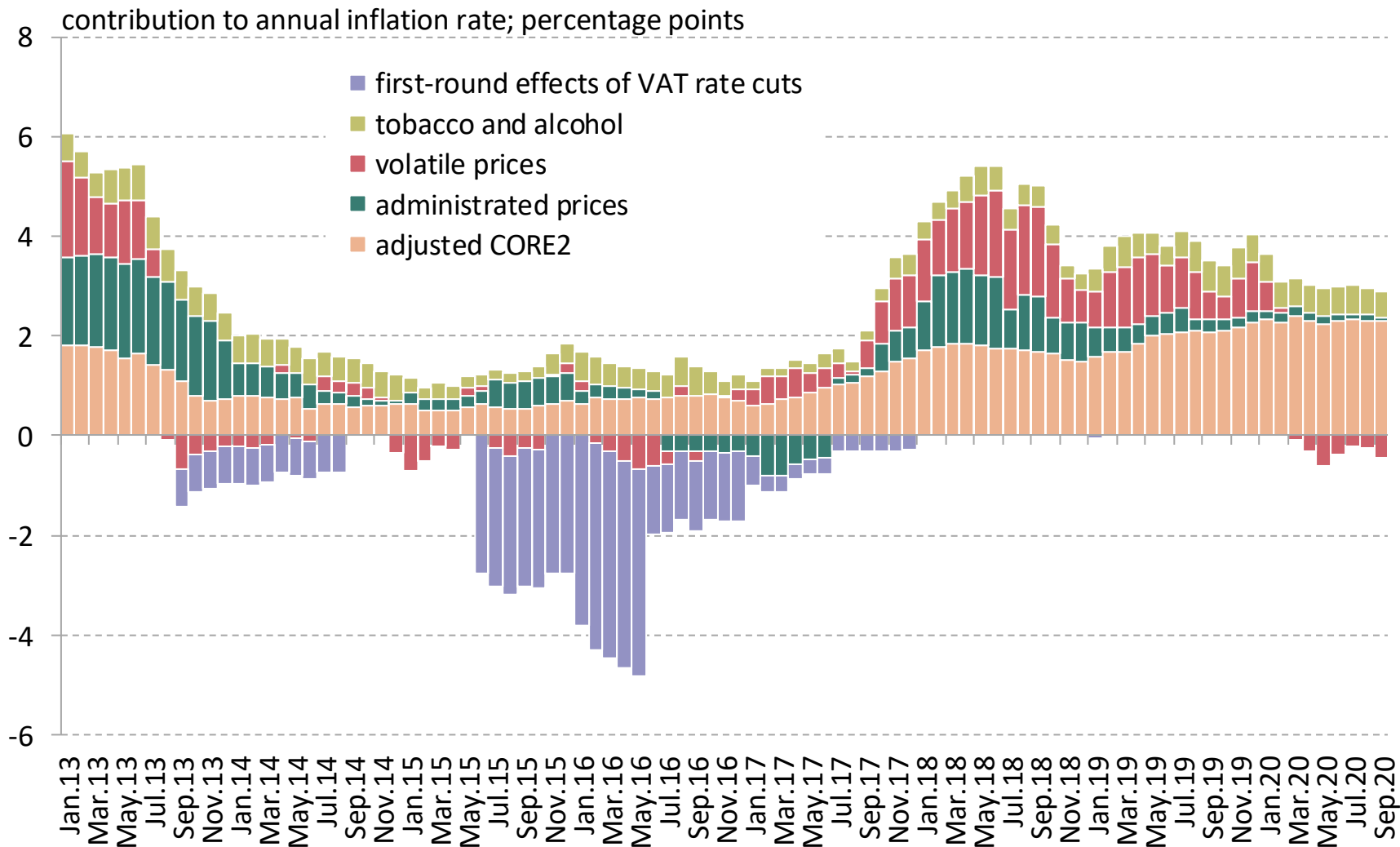
## Inflation rate



Note: Variation band of the target is  $\pm 1$  percentage point.

Source: National Institute of Statistics, National Bank of Romania

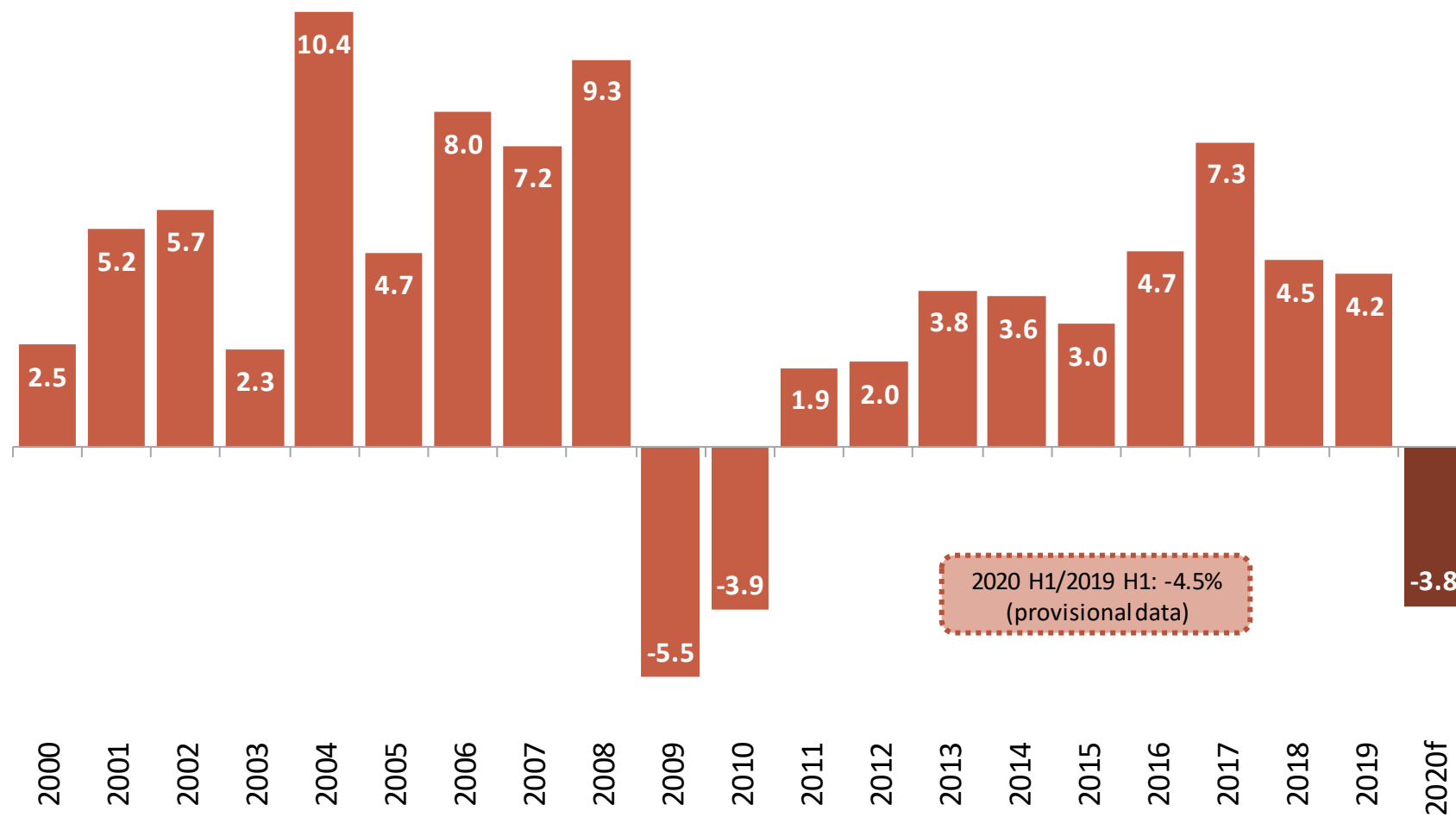
## Contributions to annual inflation rate



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

## Real GDP

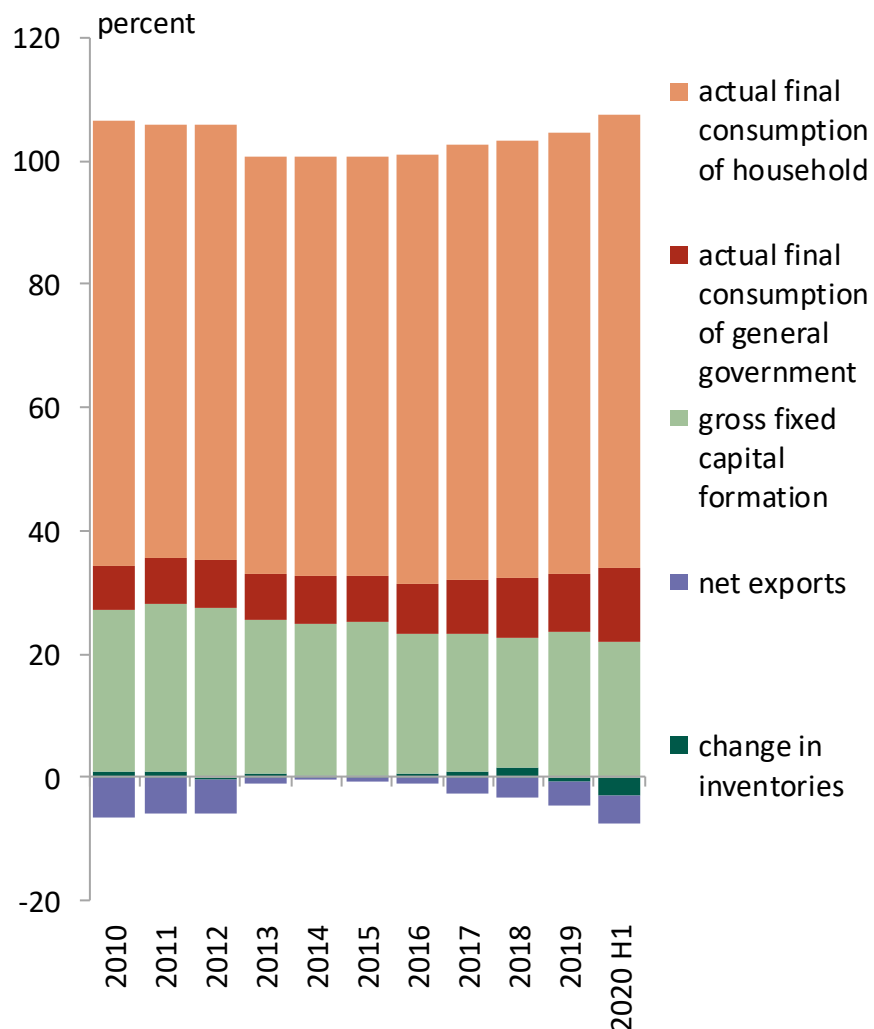
annual percentage change; gross data



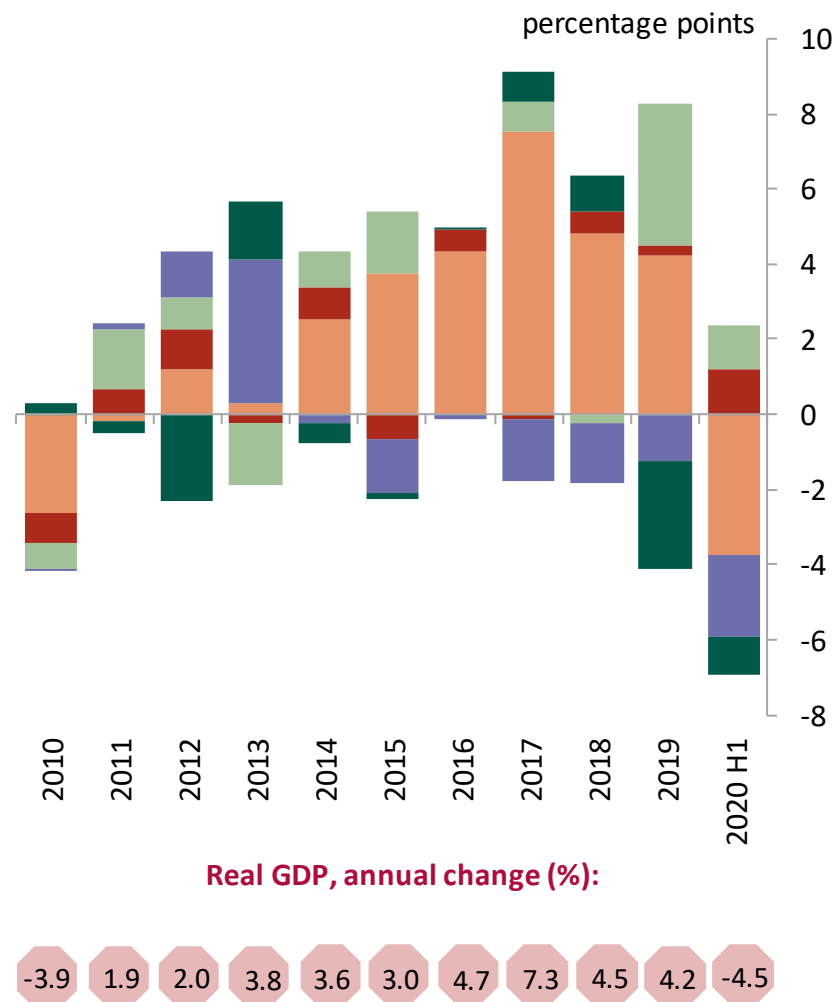
f) forecast

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

## GDP structure by expenditure

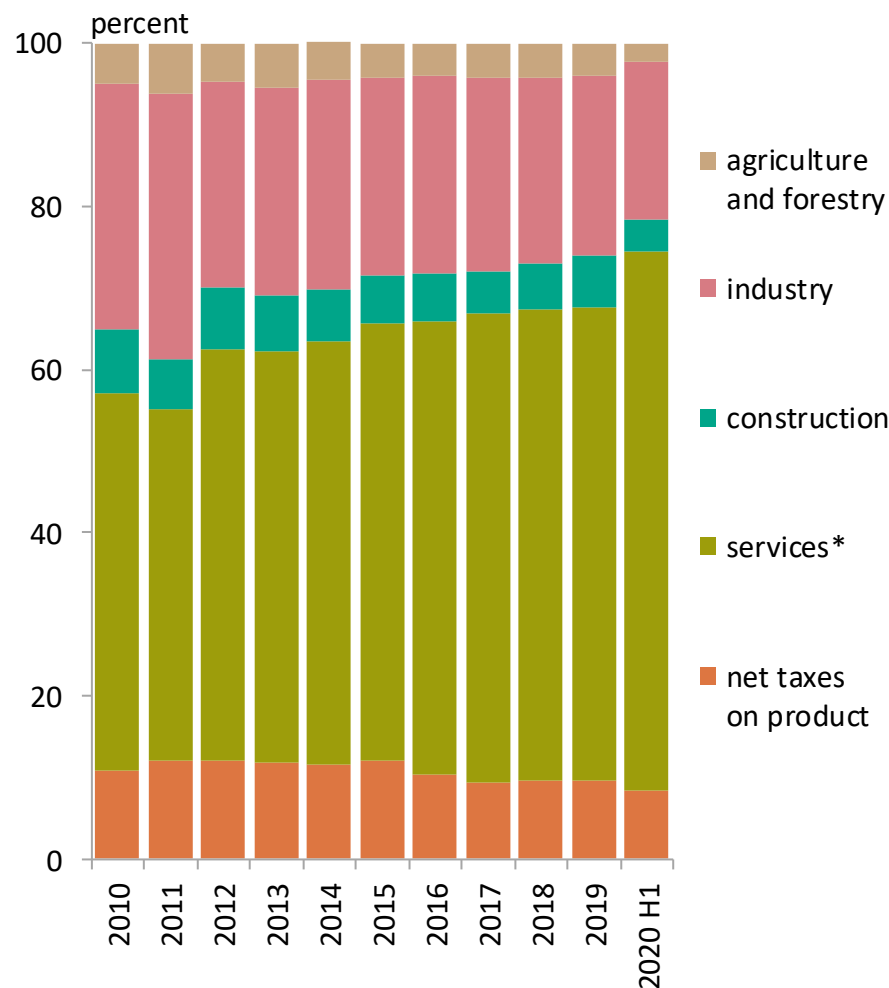


## Contribution of demand components to GDP annual growth

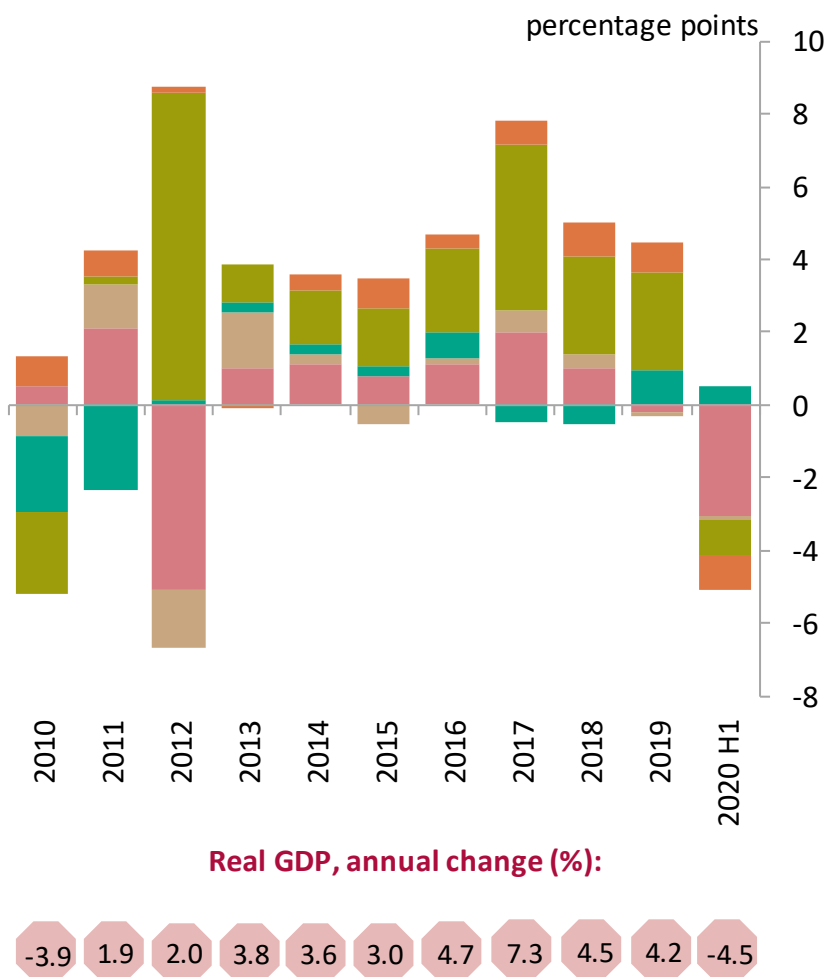


Source: National Institute of Statistics, National Bank of Romania

## GDP structure by source

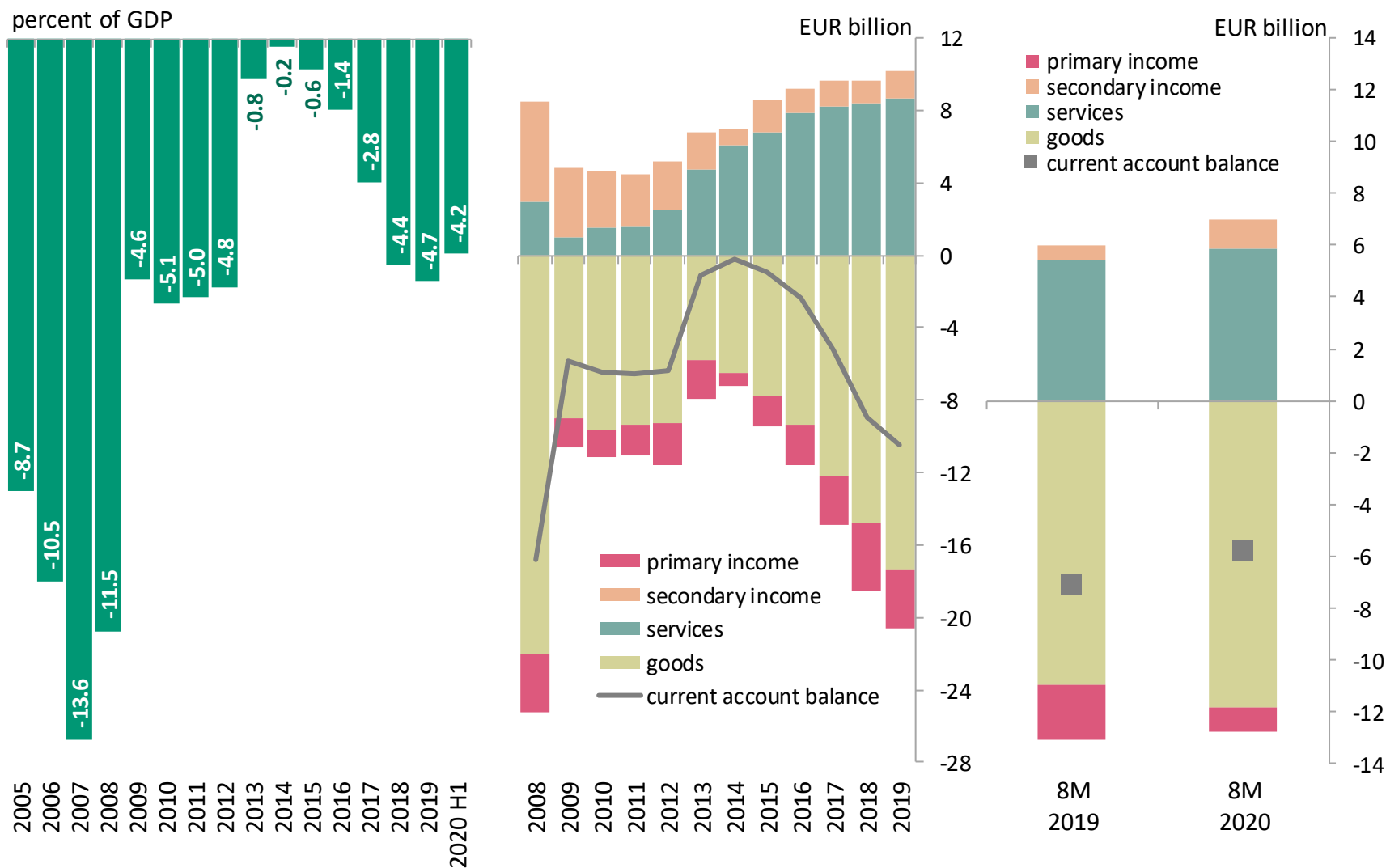


## Contribution of supply components to GDP annual growth



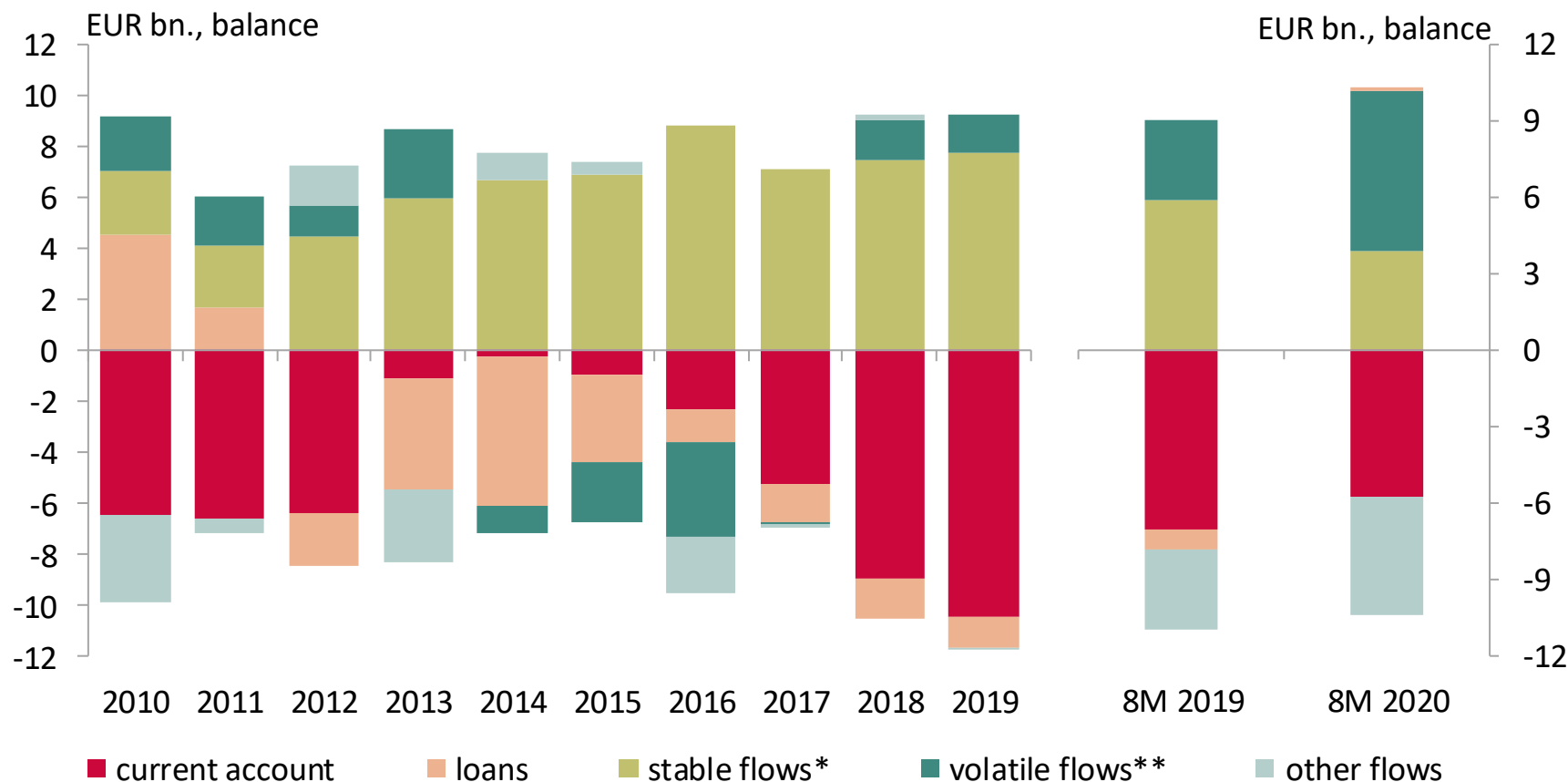
Source: National Institute of Statistics, National Bank of Romania

## 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

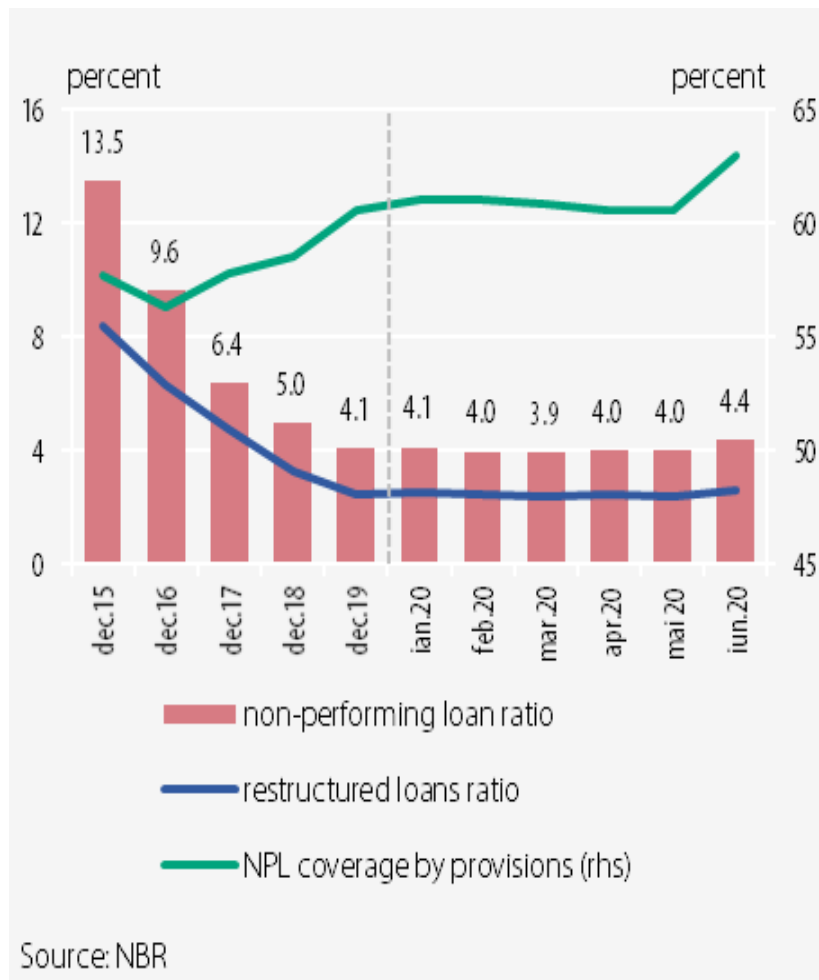
“+” inflows; “-” outflows

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

Source: National Bank of Romania



# Credit risk and asset quality indicators



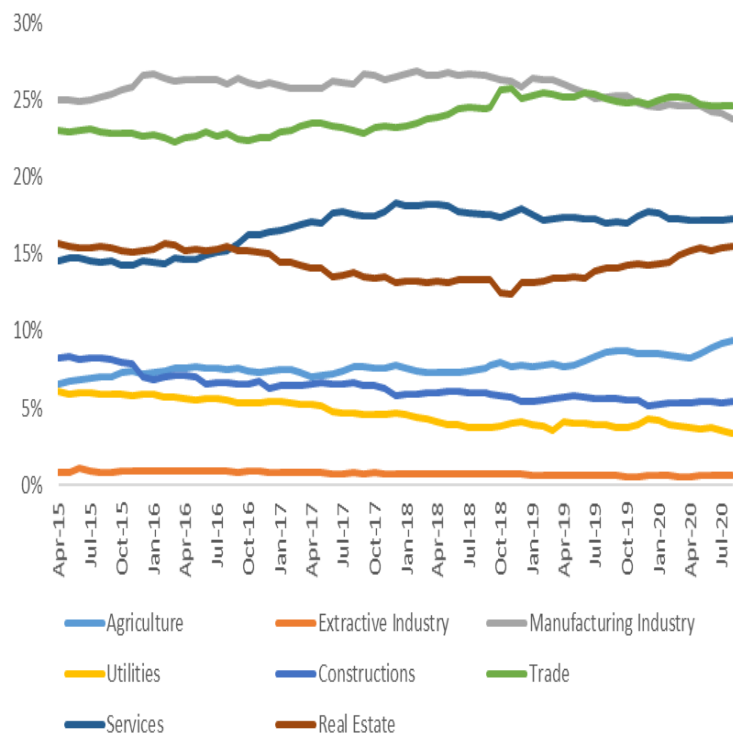
- Prior to the outbreak of the COVID-19 pandemic in the beginning of 2020, the relevant asset quality indicators have recorded positive developments: the non-performing loan ratio fell to 3.9 percent at end-March 2020, further placing the banking sector in Romania in the EBA-defined medium risk bucket
- Over the past years, the efforts to reduce the NPL ratio were significant, coming from a level of approx. 22 percent in 2014
- The challenges brought forward by the new economic context reflected in a slight increase of the NPL ratio and the restructuring rate, balanced by a rise in the NPL coverage by provisions
- When looking at banks' corporate portfolio, the adjustments in NPLs were even more noteworthy: from ~30 percent in 2015 down to 7.5 percent in June 2020

# Credit risk outlook

- Going forward, we expect the default risk to rise, similar to anticipated dynamics throughout Europe. However, future developments remain highly dependent on the economic recovery and the evolution of the pandemic
- A particular point of interest in this case is represented by how debtors who used the public and private moratoria will rebound: the outstanding amounts for these debtors reach **41.8 bln. lei (14.7 percent of total)**
- Under the circumstances, it is paramount that banks start as soon as possible an analysis of debtors' readiness to service debt once the effects of the moratoria end
- The gradual buildup of **consistent capital reserves** over the past years confers the Romanian banking sector a good capacity to absorb potential losses

# Credit exposures at sectoral level

Structure and dynamics of banks exposures at sectoral level, as a share in total corporate portfolio



- Another positive aspect for the Romanian banking sector in the current crisis is the fact that it does not have significant exposures to activity sectors that have been gravely impacted by the pandemic, namely **HoReCa, tourism or air transportation**
- Banks are mainly exposed on sectors such as **manufacturing industry** and **trade** (around 25 percent for each)

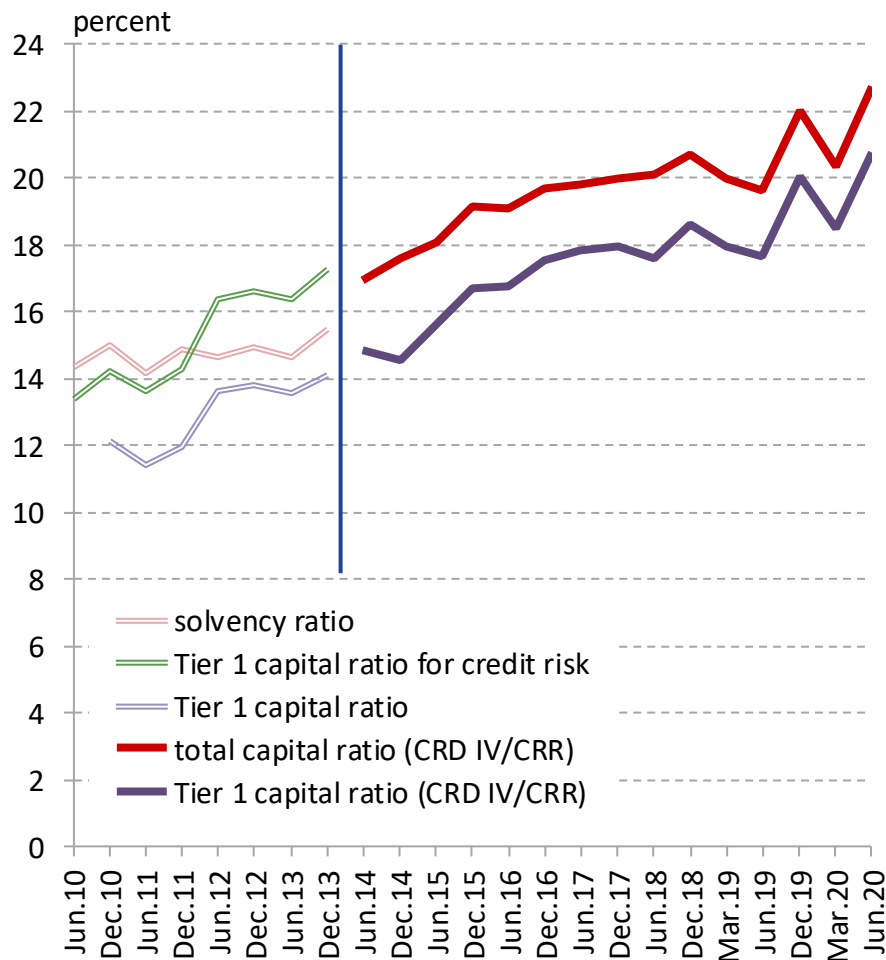
Source: MPF, NBR, NBR calculations

# Credit quality at sectoral level

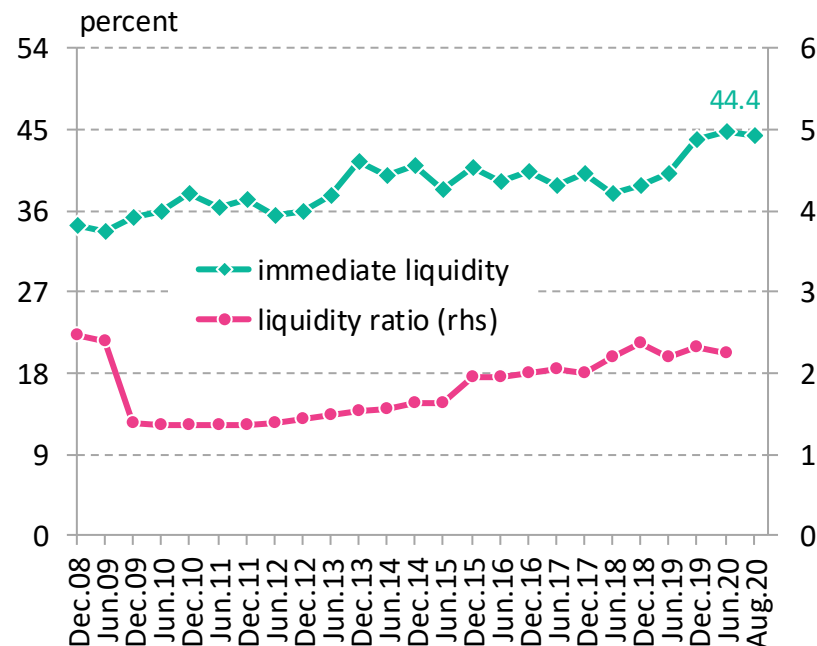
- In terms of credit quality, the riskiest sectors are **extractive industry** (a non-performing loan ratio of 24 percent as of August 2020, down from an all-time high of 58 percent in March 2017) and **construction** (17 percent non-performing loan rate in August 2020, down from an all-time high of 48 percent in May 2015).
- Among sectors with highest credit quality there are **real estate** (NPL ratio of 3,4 percent), **agriculture** (NPL ratio of 5 percent), **trade and services** (NPL ratio of 5,2 and 5,5 respectively).
- The forecast of the probability of default for the period June 2020 - June 2021 from a sectoral perspective indicates that the highest values are recorded in the case of **construction** and **agriculture**, while at the opposite end is the **manufacturing industry**.

# Analysis ratios for the banking system

## Capital adequacy indicators



## Liquidity indicators



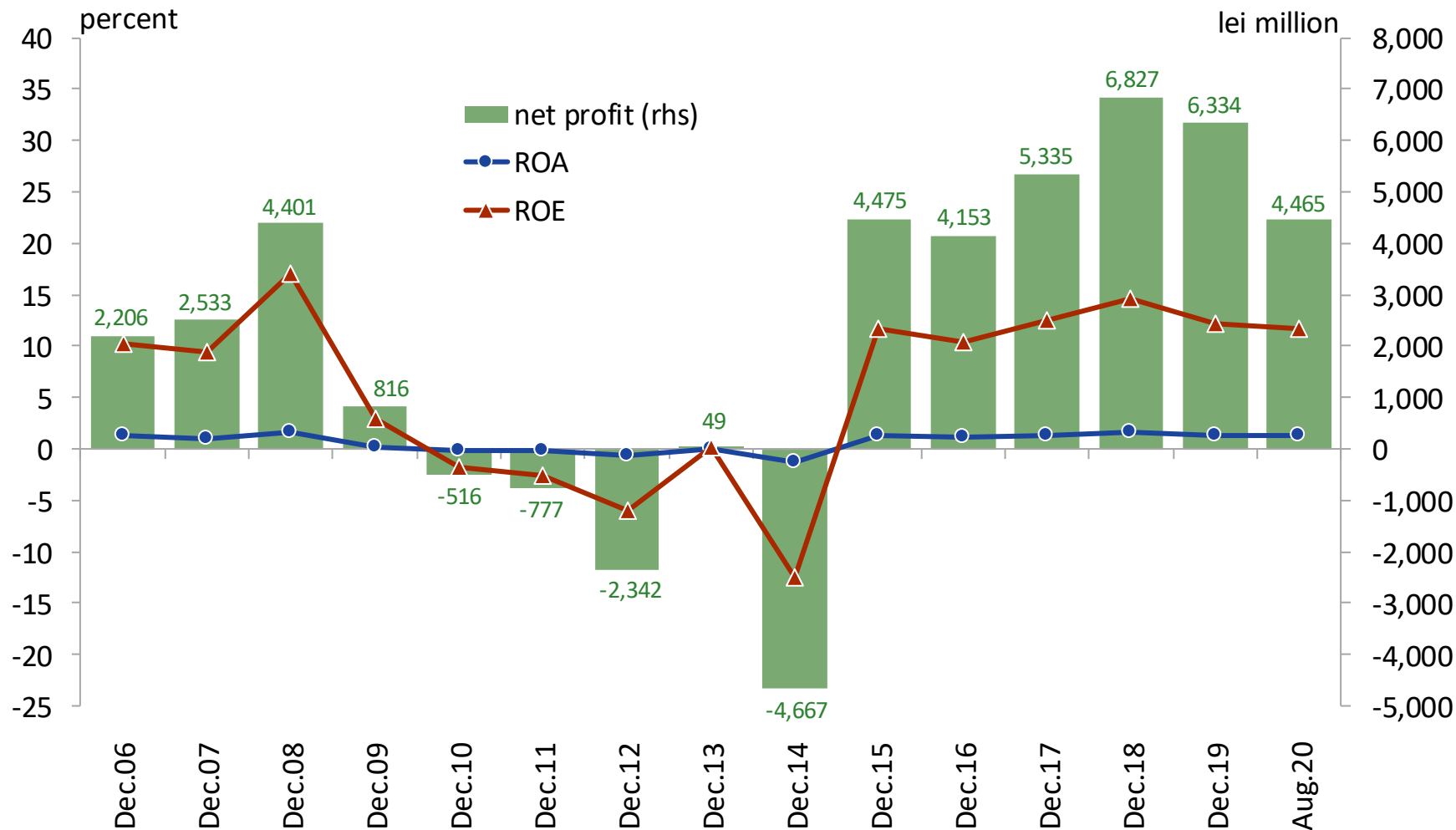
**Immediate liquidity** = (cash, demand deposits and time deposits with banks + unpledged government securities + unencumbered bonds) / Total liabilities (prudent level > 30%)

**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

## Banking system profitability



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

Source: National Bank of Romania

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

What's on the table?

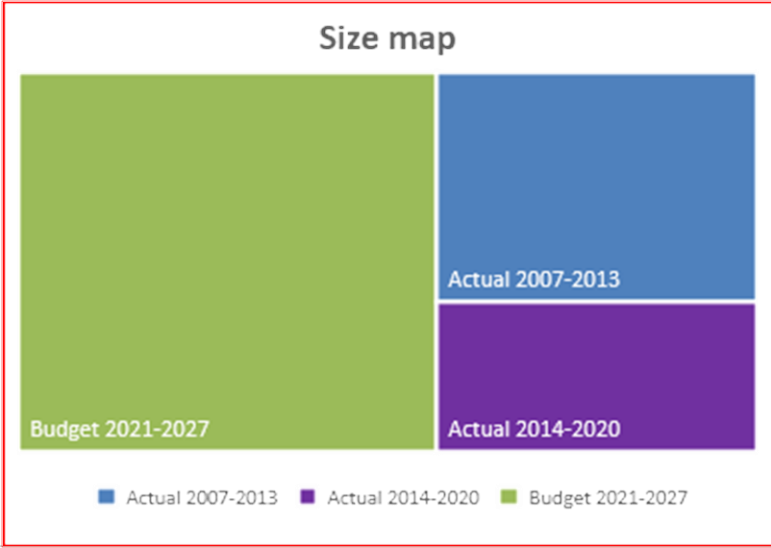
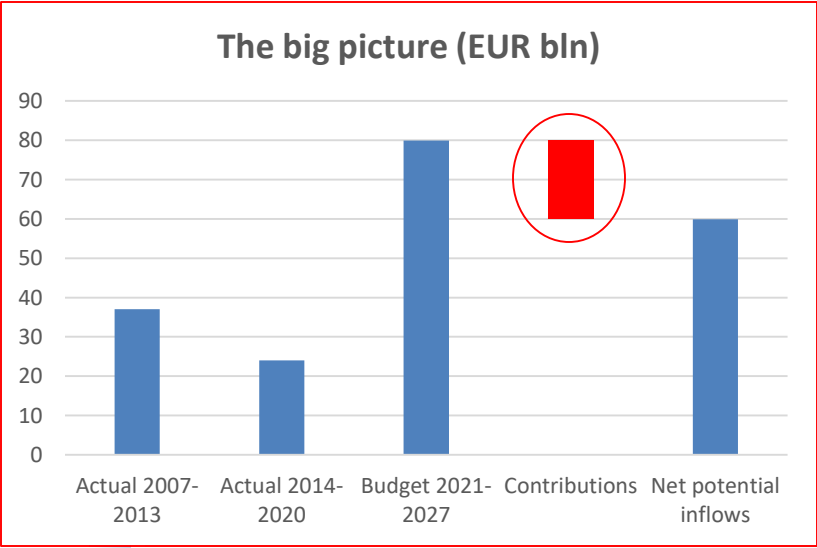
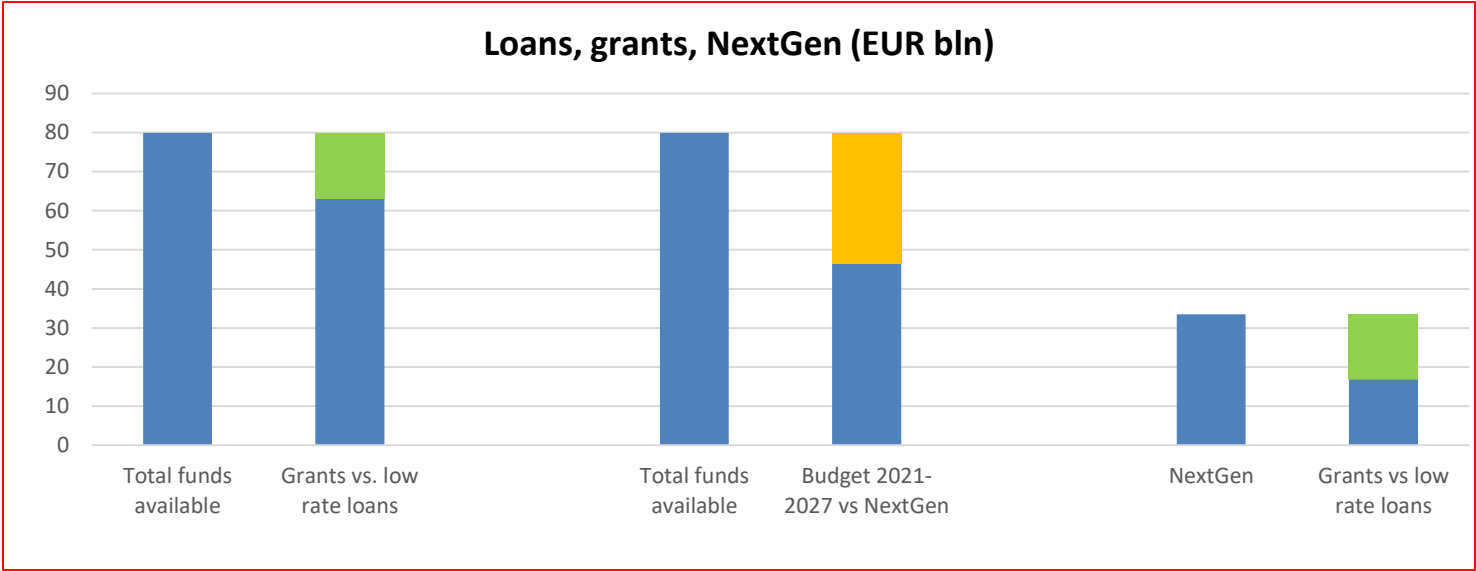
- 79.9 bln EUR
- Major pillar for the recovery phase
- NextGen is 8% of GDP
- Tilted towards grants...
- But loans are helpful also
- **Frontloaded**, prefinancings, more flexible
- Infrastructure/Energy/Green/Digital/**R&D**



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).....







Thank you!