



OBJECTIVES AND CHALLENGES FOR THE NATIONAL BANK OF ROMANIA

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NATIONAL BANK OF ROMANIA



Main Macroeconomic Objectives for 2004

- **GDP growth:** 5.5 percent
- **CPI inflation:** 9 percent (December/December)
- **Fiscal deficit:** below 3 percent of GDP
- **Current account deficit:** 5.5 percent of GDP
- **Foreign direct investment:** EUR 1.7 billion
- **International reserves** at an optimal level (maintaining coverage of 3.5 months of prospective imports of goods and services)
- **Moderate & sustainable ROL real appreciation** vs. the implicit EUR/USD basket (indicative range 2-4%)

Disinflation

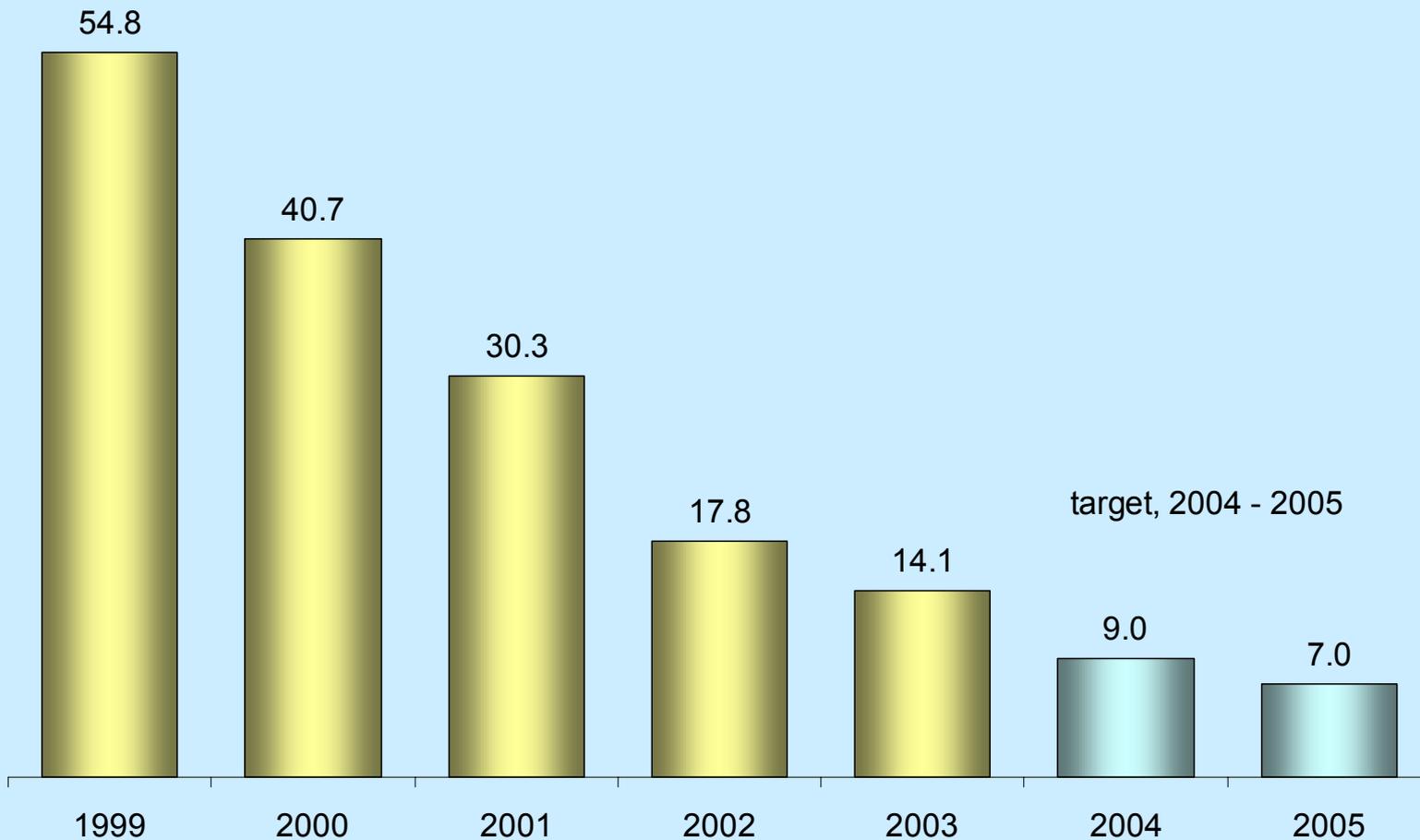
- Supported by a coherent policy mix
- Progressing gradually
 - concomitantly with economic growth and reduction in unemployment
- Achievements
 - are in line with the PEP and consistent with one-digit inflation target for 2004
 - have increased central bank's credibility, alleviating inflationary expectations
- Disinflation path set taking into account:
 - the ongoing structural adjustment process
 - the risk of trend reversals

Disinflation Policy Mix

- Sustainable income policy (“the golden rule”)
- Tight fiscal policy
- Strengthened financial discipline and sped-up structural reforms
- Prudent monetary policy
- Exchange rate used as a guide to disinflation

Inflation Rate

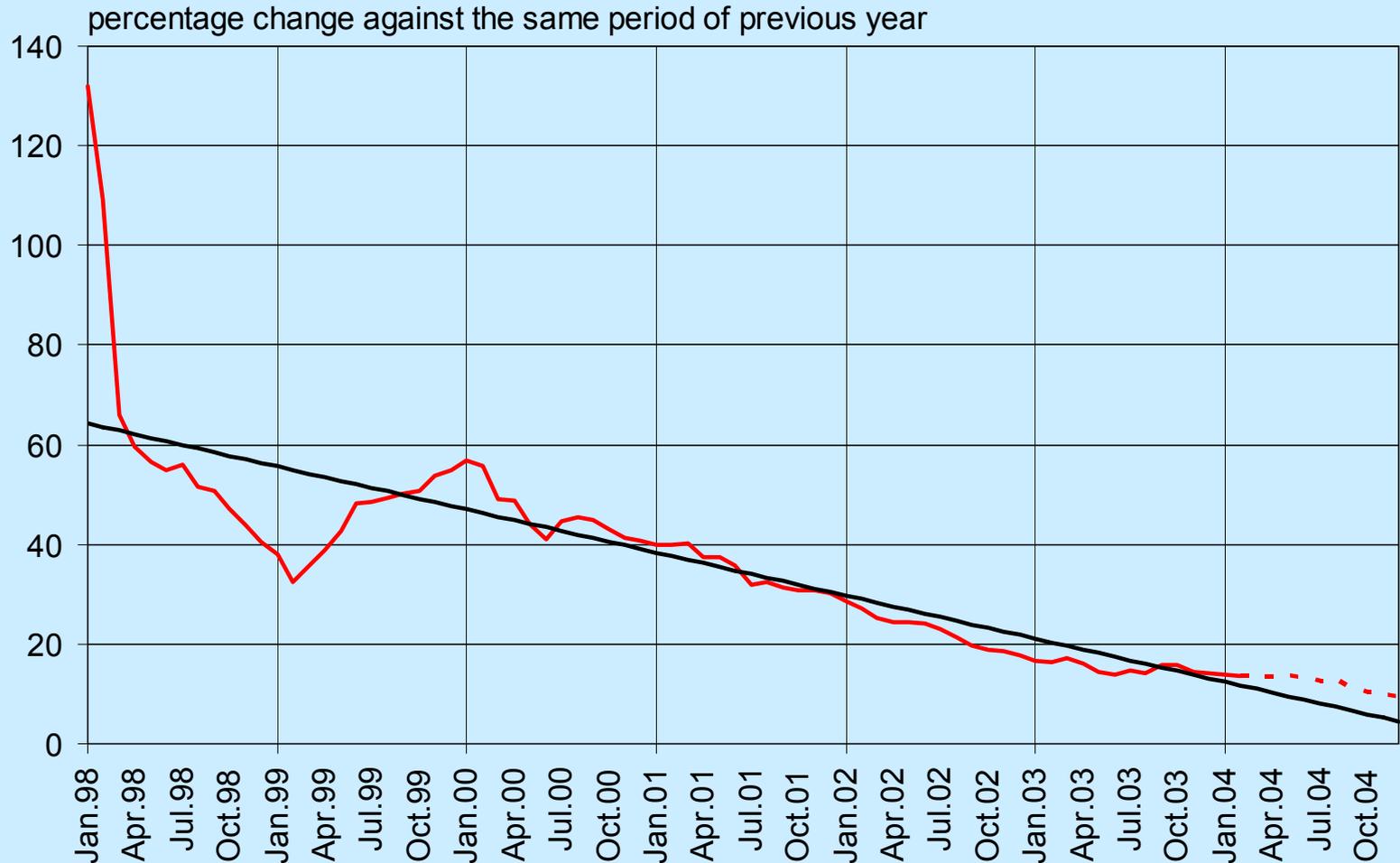
CPI; Dec./Dec.



Source: National Institute of Statistics, National Commission for Forecasting



Inflation Rate (CPI)



Source: National Institute of Statistics, NBR's projection

projection for Feb. - Dec. 2004

Challenges to Disinflation

- Potential pressures from wage increases
- Possible delays in structural reforms
- Risk of widening current account deficit
- Maintaining foreign exchange reserves at a safety level given the expected import growth
- Risk of excessive domestic credit expansion

Challenges to Disinflation

- Risk of widening current account deficit

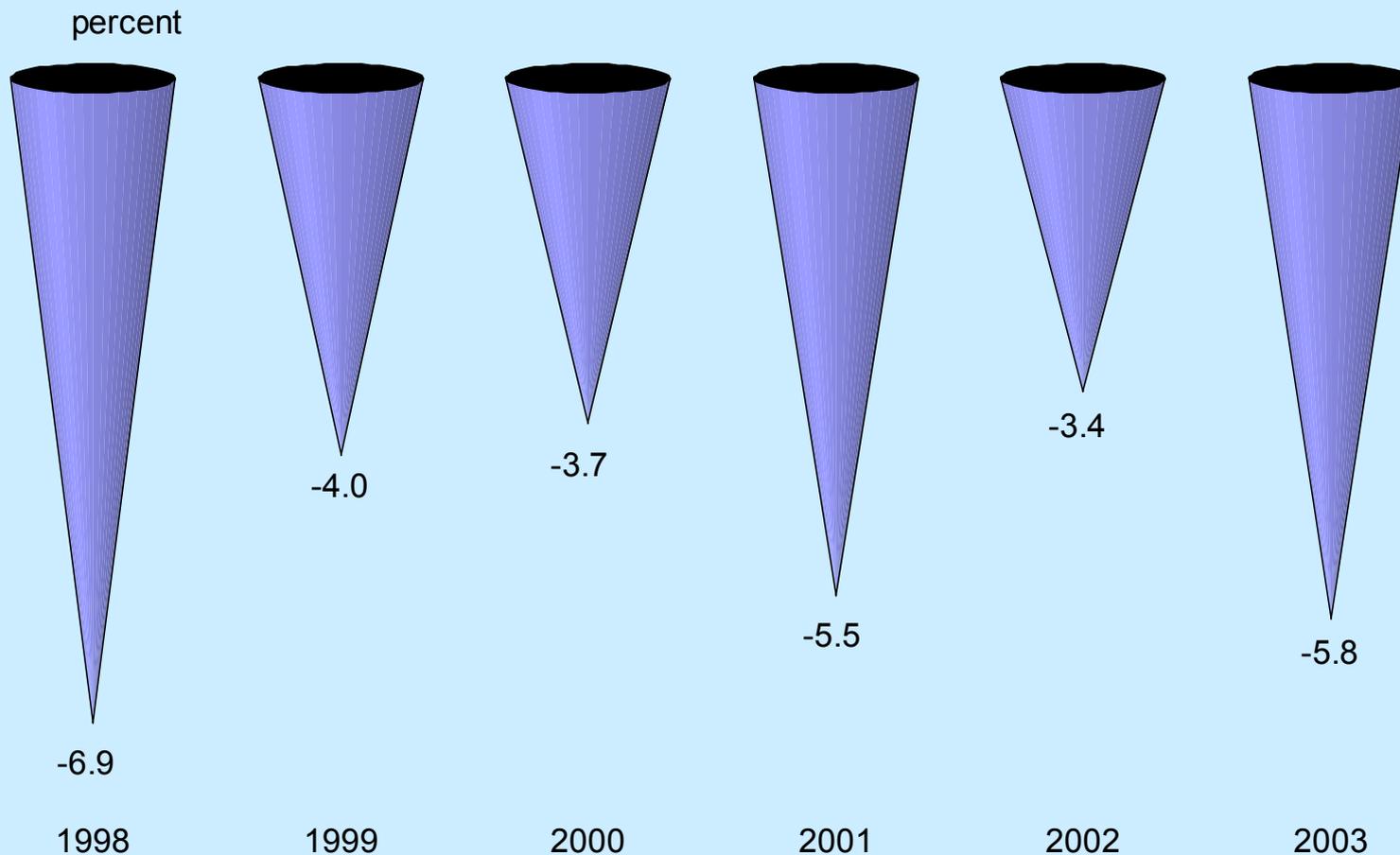
External Balance: Current State

- Significant current account deficit in 2003 due to:
 - weak external demand
 - poor agricultural output
 - high household demand amid rising incomes and readily available consumer loans
 - strong investment growth

BUT no financing difficulties

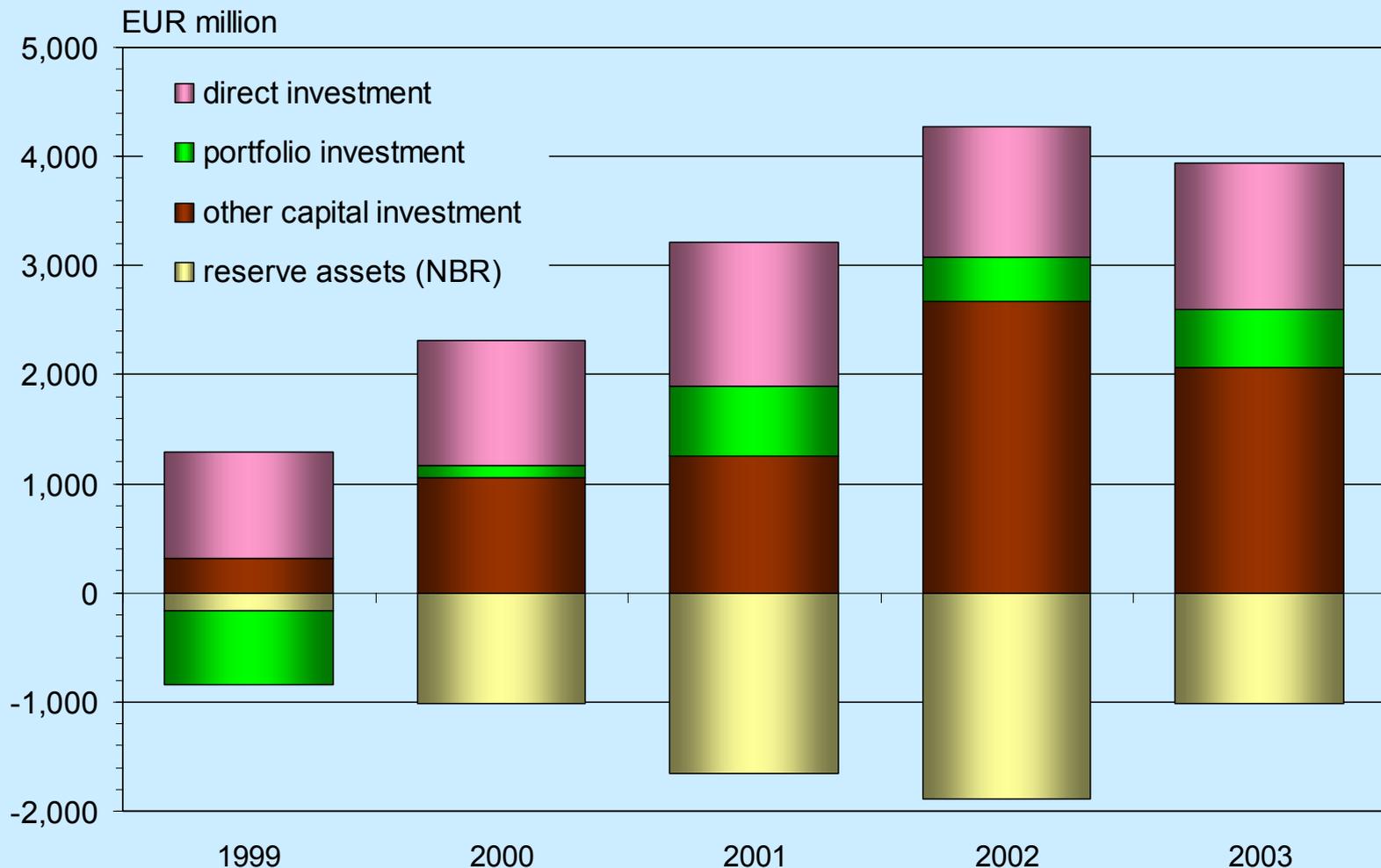
- High coverage of current account deficit through direct and portfolio investments, and other MLT external borrowings
- Comfortable level of official reserves coverage in months of imports
- The NBR has consolidated net purchases on the domestic foreign exchange market

Current Account Balance as Percentage of GDP



Source: National Institute of Statistics, National Bank of Romania

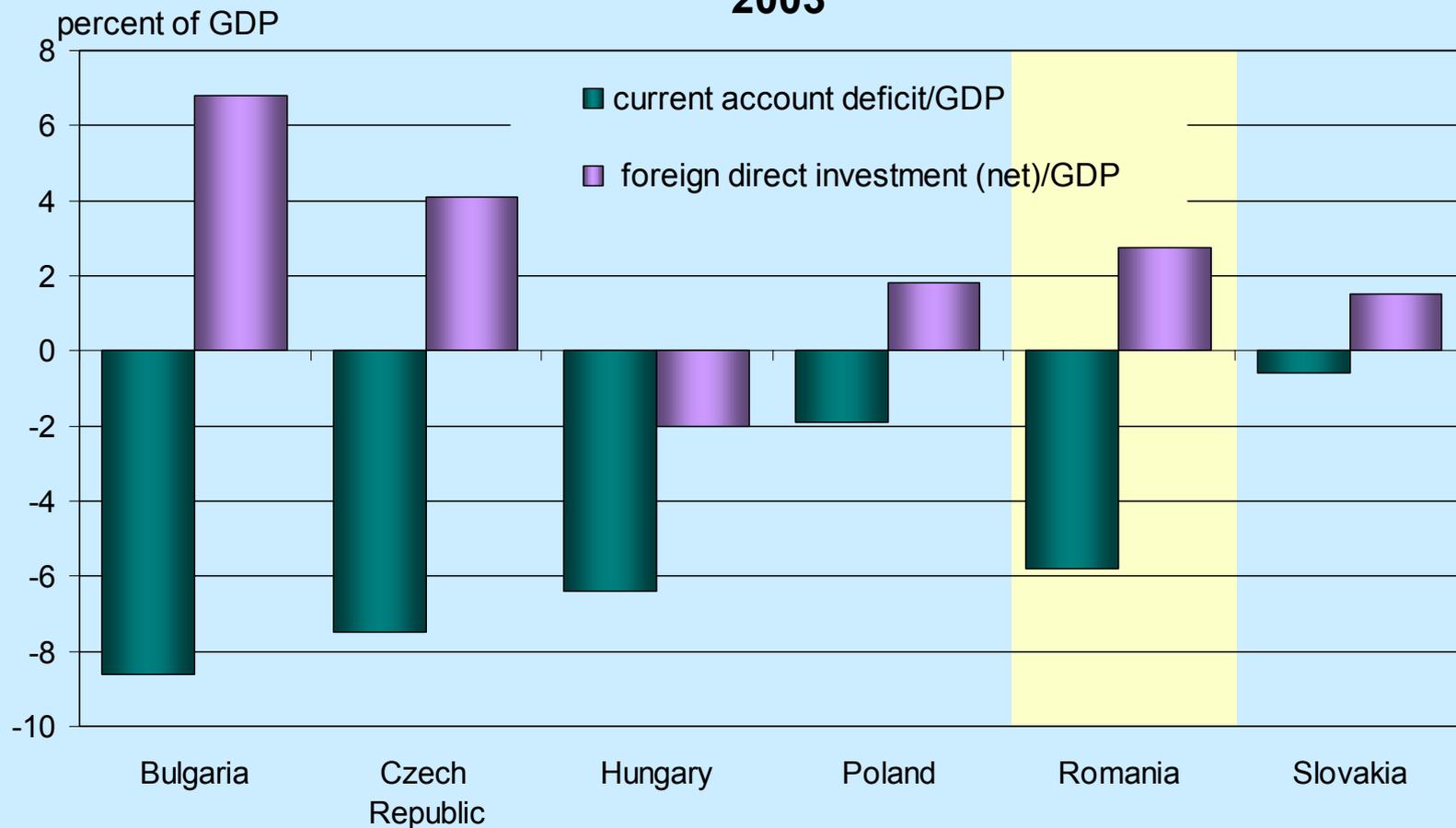
Current Account Financing



Source: National Bank of Romania



Current Account and Foreign Direct Investment 2003



Note: GDP forecast, except for Romania

Source: Websites of central banks, EBRD - Transition Report 2003

External Balance: Outlook

Sustainable deficit supported by:

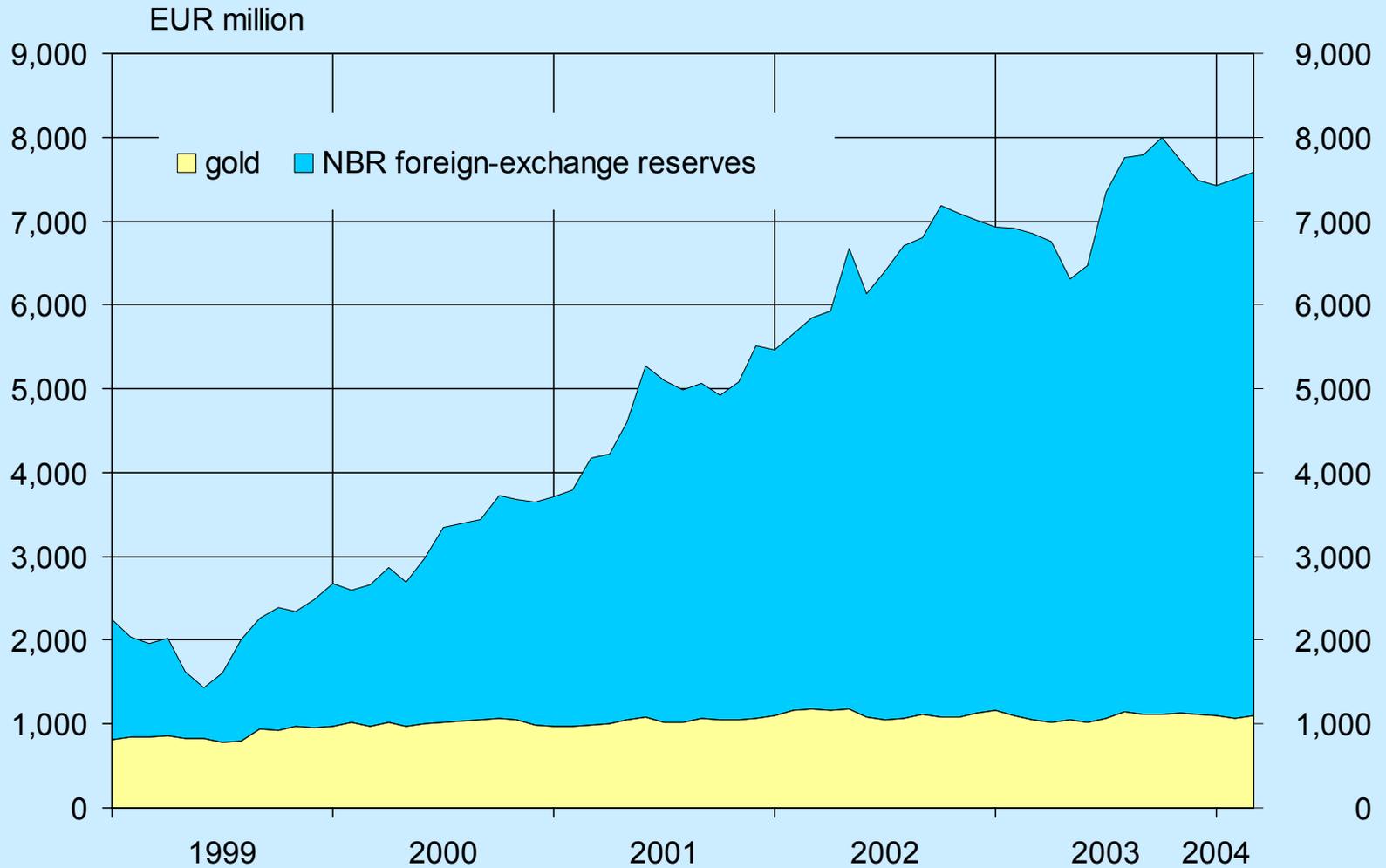
- fiscal adjustment
- increased reliance on structural reforms
- better conditions in agriculture

Possible additional backing provided by the flexible exchange rate mechanism

Challenges to Disinflation

- Risk of widening current account deficit
- Maintaining foreign exchange reserves at a safety level given the expected import growth

Gross Official Reserves



Source: National Bank of Romania

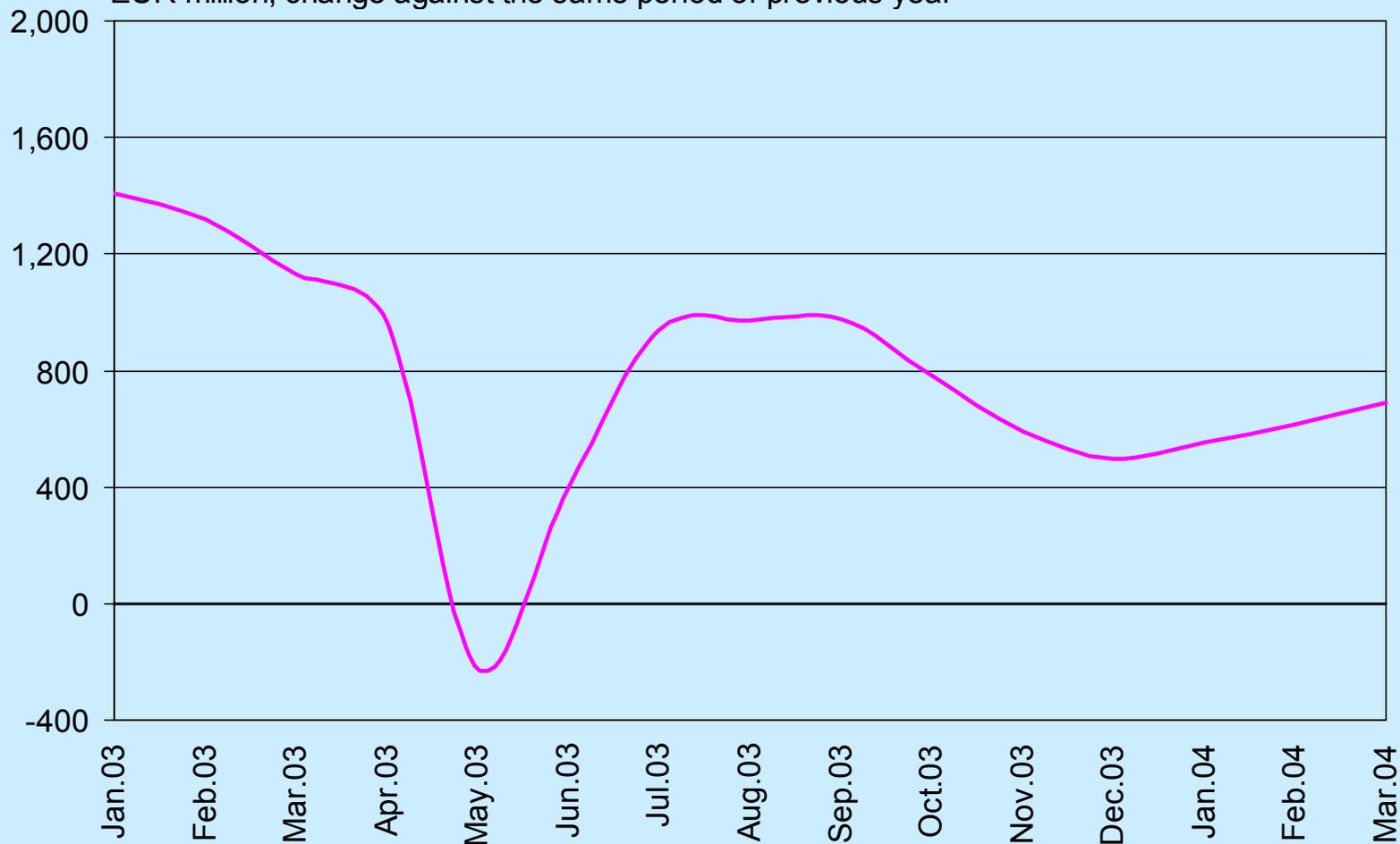
(15 Mar.)

NATIONAL BANK OF ROMANIA



Change in NBR Foreign-Exchange Reserves

EUR million; change against the same period of previous year



Source: National Bank of Romania



Official Forex Reserves in Months of Imports of Goods and Services

	months					
	1998	1999	2000	2001	2002	2003
Bulgaria	5.4	5.3	4.9	4.6	5.7	6.5
Czech Rep.	4.4	4.5	4.2	4.1	6.0	5.5
Hungary	3.7	4	3.7	3.3	2.8	2.7
Poland	6.8	6.9	6.8	6.6	7.1	6.7
Romania	1.2	1.7	2.1	2.9	3.5	3.4 (4.0*)
Slovakia	2.2	3.1	3.3	3.0	5.6	5.4**
Slovenia	3.8	3.3	3.4	4.5	6.7	5.9

*) including gold

**) 11 months

Source: International Financial Statistics; Websites of national statistics institutions and central banks;

National Bank of Romania.

Challenges to Disinflation

- Risk of widening current account deficit
- Maintaining foreign exchange reserves at a safety level given the expected import growth
- Risk of excessive domestic credit expansion

Real* Growth of Non-Government Credit

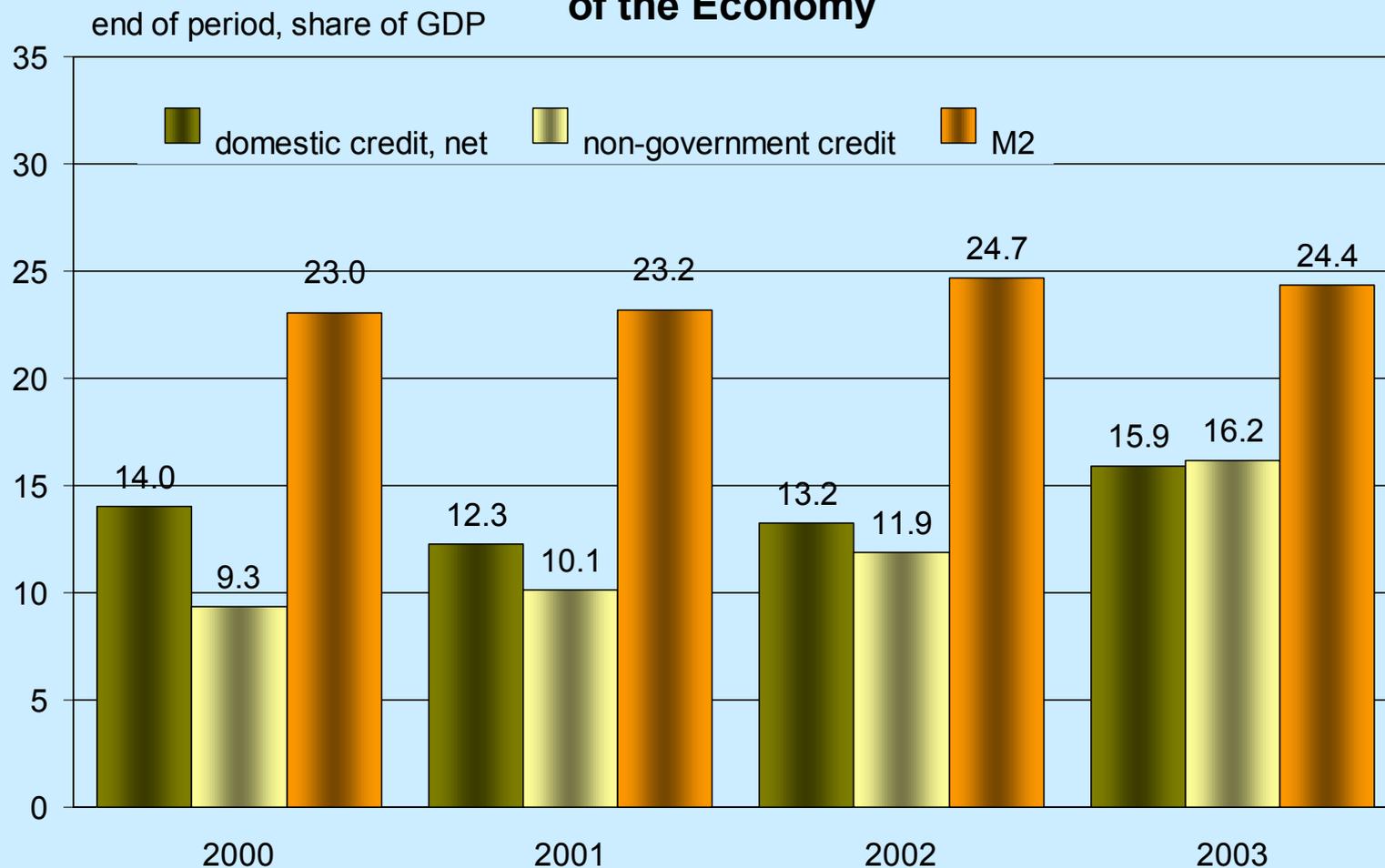
percent

	Bulgaria	Czech Rep.	Hungary	Poland	Romania	Slovakia	Slovenia
2000	5.1	-7.4	22.4	7.9	-7.6	-7.9	8.9
2001	26.1	-22.7	10.6	3.7	21.0	-22.5	11.0
2002	38.7	-7.5	16.3	3.3	28.9	-1.8	2.5
2003	40.4	7.8	27.0	5.3	49.0	4.2	11.1

* based on CPI

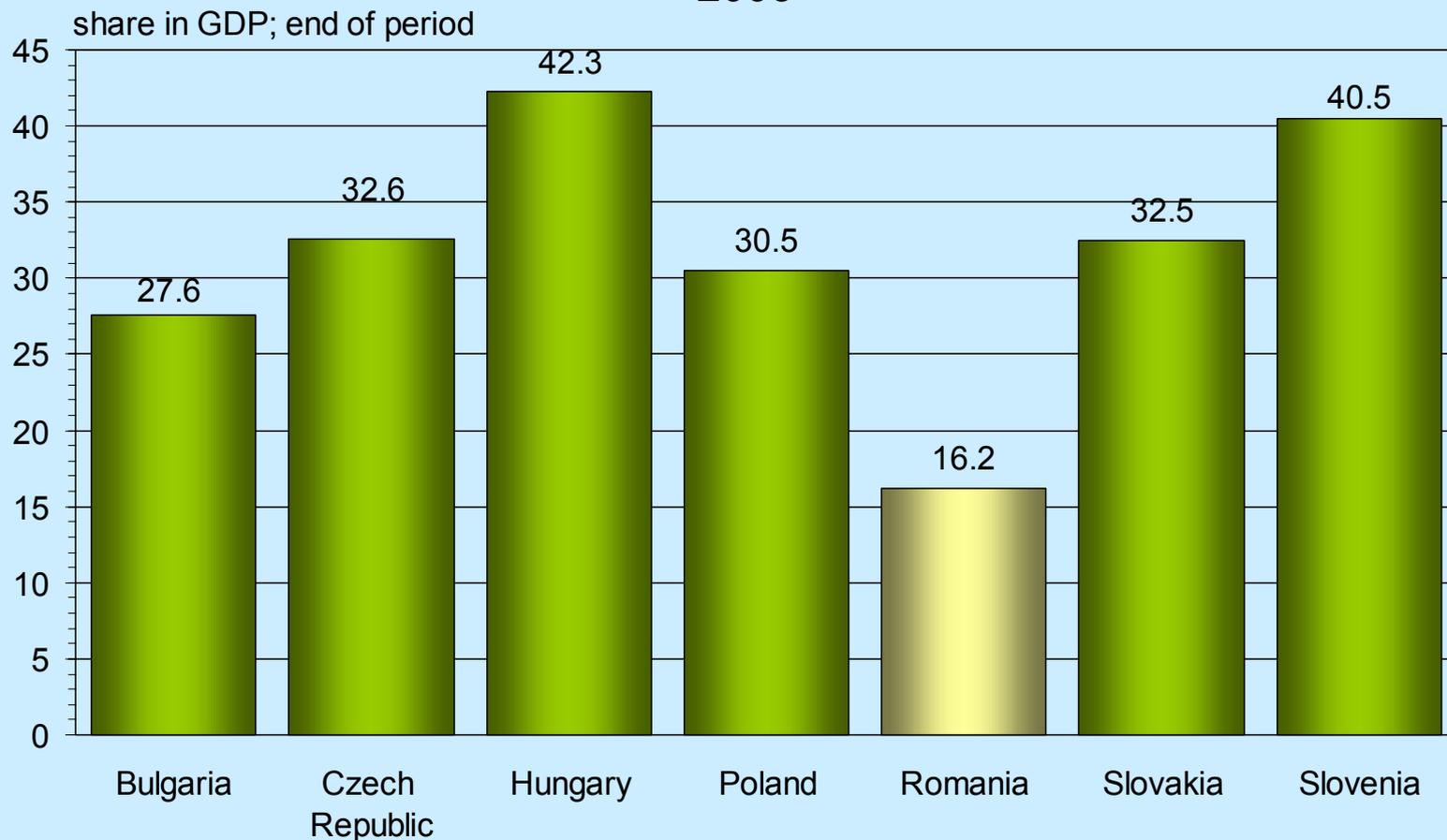
Source: websites of national statistics and central banks

Financial Intermediation and Remonetisation of the Economy



Source: National Institute of Statistics, National Bank of Romania

Financial Intermediation* in East and Central Europe 2003

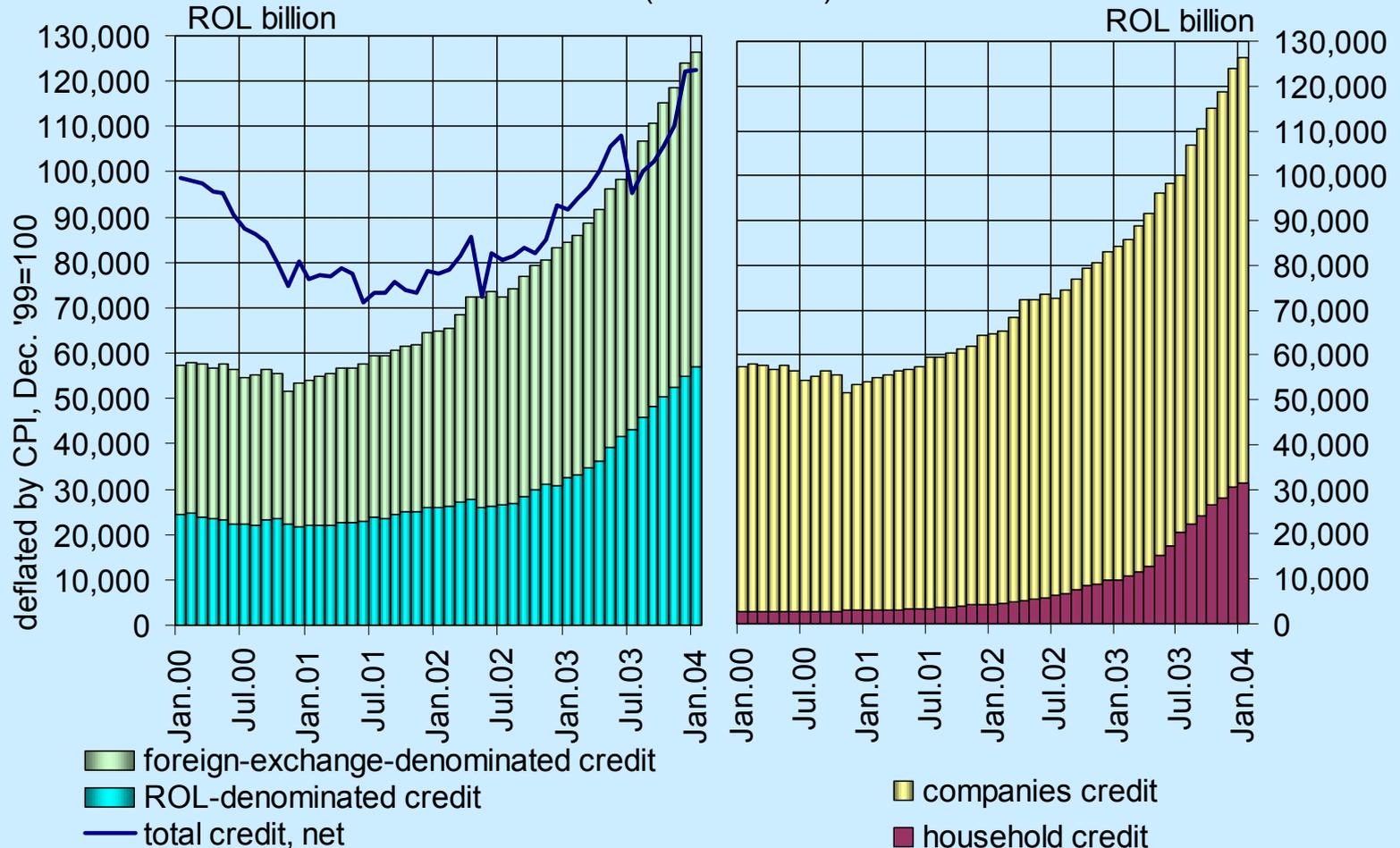


Note: GDP forecast, except Romania, Czech Republic and Slovakia

Source: Websites of central banks, EBRD - Transition Report 2003 *) non-government credit/GDP

Total Credit and Non-Government Credit

(in real terms)



Source: National Bank of Romania



Containing Non-government Credit Growth

- Pre-emptive increase in NBR interest rates (3 steps, starting August 2003)
- “Moral suasion”
- New regulations aimed at limiting banks’ risks related to consumer and mortgage loans

Monetary Policy Coordinates in 2004

- Prudent stance maintained
 - gradual interest rates decline once the disinflation trend has been confirmed
- New monetary strategy envisaged: inflation targeting starting in 2005
 - improvement in transparency and efficacy of interest rate policy
- Gradual remonetisation of the economy through balanced credit expansion
- Policy of sustainable (2-4%) appreciation of the ROL against the implicit EUR-USD basket
- Postponed liberalisation of opening ROL deposits by non-residents

Support from Governamental Policies

The Government should:

- keep wage increases behind the rise in productivity
- reduce further the fiscal deficit and identify actions for curbing quasi-fiscal deficits
- speed up privatisation in order to:
 - limit the scope for quasi-fiscal deficits
 - finance the external deficit
- front-load structural adjustment