



Monetary Policy and Financial Stability in Emerging Europe: The Case of Romania

**Cristian Popa
Deputy Governor
National Bank of Romania**

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Conditions & Policy Response through mid-2008

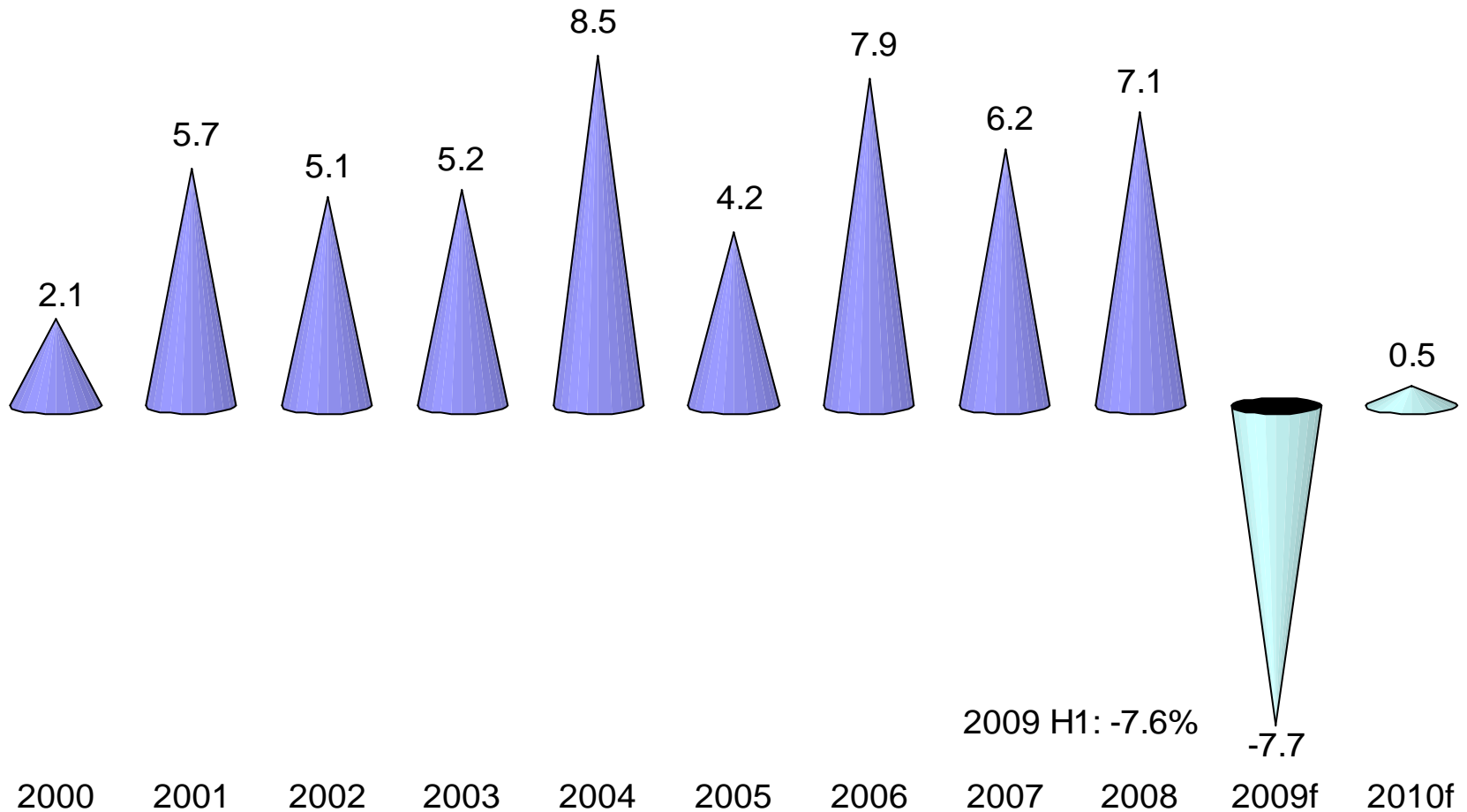
- Romania exhibited high annual growth rates between 2002-2008: catching-up, increased capital inflows due to improved risk perception (EU accession, NATO membership), consumption smoothing, substantial credit flows
- After 2005-6, increasing signs of overheating: widening external deficits, persistent core inflation
- NBR response:
 - implementation of IT focused on ensuring compliance with sustainable progress of disinflation along medium-term path described by announced annual inflation targets, while remaining mindful of not exacerbating existing macroeconomic vulnerabilities or creating financial stability problems whose effects might compromise durability of secured disinflation gains: ‘macroeconomic risk-management perspective’, with primacy of price stability considerations
 - continuous focus on slowing down speed of growth of foreign-exchange credit (for macro as well as financial stability reasons, due to increasing asset-liability mismatches), using all available policy tools (reserve requirements, LTV, loan-to-income limits for households, exposure limits to unhedged borrowers, higher coefficients in stress tests for exposures to non-euro credit)
 - permanent message on need for maintaining consistency of the macroeconomic policy mix (particularly avoiding procyclicality of fiscal and wage policies)

Policy Response since end-2008

- Monetary policy geared towards twin objectives of price stability & financial stability, aim to maintain prudent broad monetary conditions at all times with regard to evolving economic environment
 - policy rate decreased in 2009 from 10.25% to 8% on background of disinflation persistence: inflation reacting with a lag to substantial economic contraction
 - gradual decrease in minimum reserve requirements: from 20% to 15% for domestic currency liabilities, from 40% to 30% for foreign-exchange denominated liabilities (both w. residual maturities of up to two years)
 - liquidity management important policy tool in its own right, on background of NBR move to net creditor position: enhances transmission of policy signals, firm management ensures adequate functioning of financial markets w/o negative spillovers into other areas
- With external deficit adjusting sharply (from 12.3% of GDP in 2008 to under 5% of GDP in 2009), as a result of a substantial and abrupt reduction in capital inflows, main perceived vulnerability of economy leading to exchange rate volatility alleviating from fundamentals perspective
- Despite significant economic contraction (around -8% expected in 2009), lack of degrees of freedom in easing fiscal, wage policies: need for firm consolidation in 2010 – 2011
- Enhanced supervision & permanent dialogue w. banks on regulatory issues; maintaining adequate solvency levels (10% minimum)
- Multilateral financing agreement w. EU, IMF, World Bank, other IFIs (besides reserve buildup,): restoring confidence, functioning as “crisis management program”, enhancing stability of foreign bank exposure to Romania & maintaining capital adequacy

Real GDP

annual percentage change

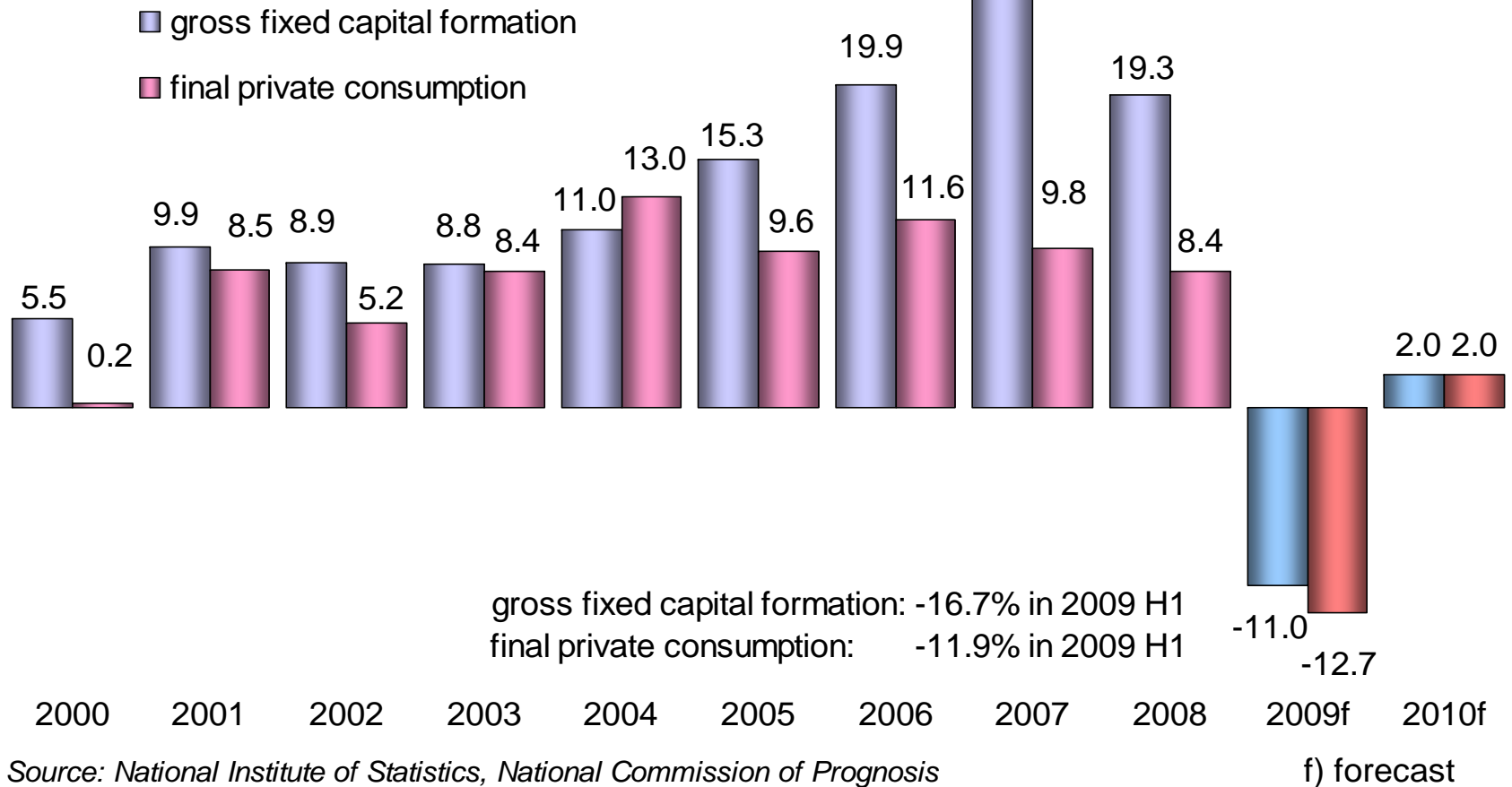


Source: National Institute of Statistics, National Commission of Prognosis

f) forecast

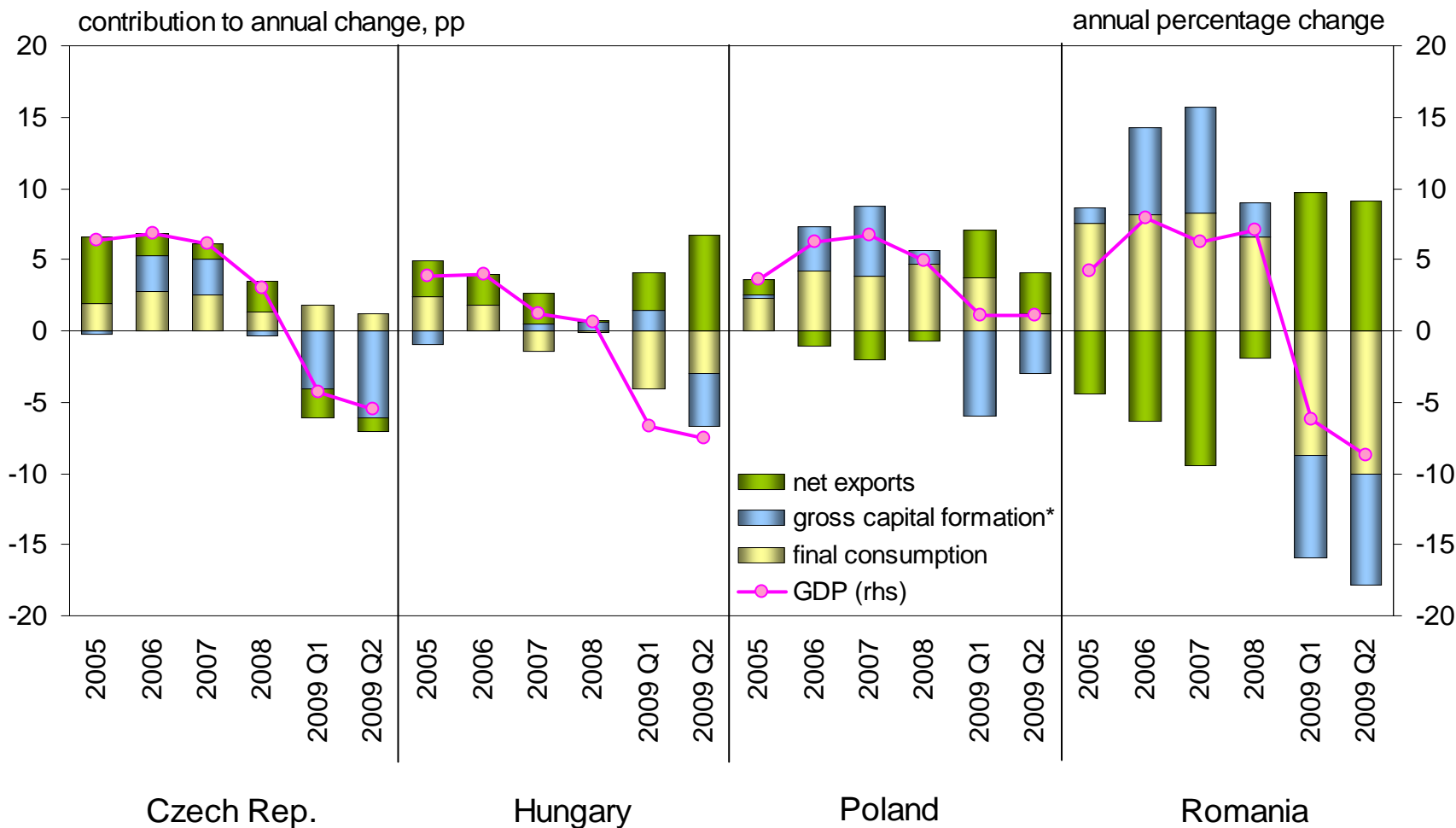
Gross Fixed Capital Formation and Final Private Consumption (GDP component)

annual percentage change



Source: National Institute of Statistics, National Commission of Prognosis

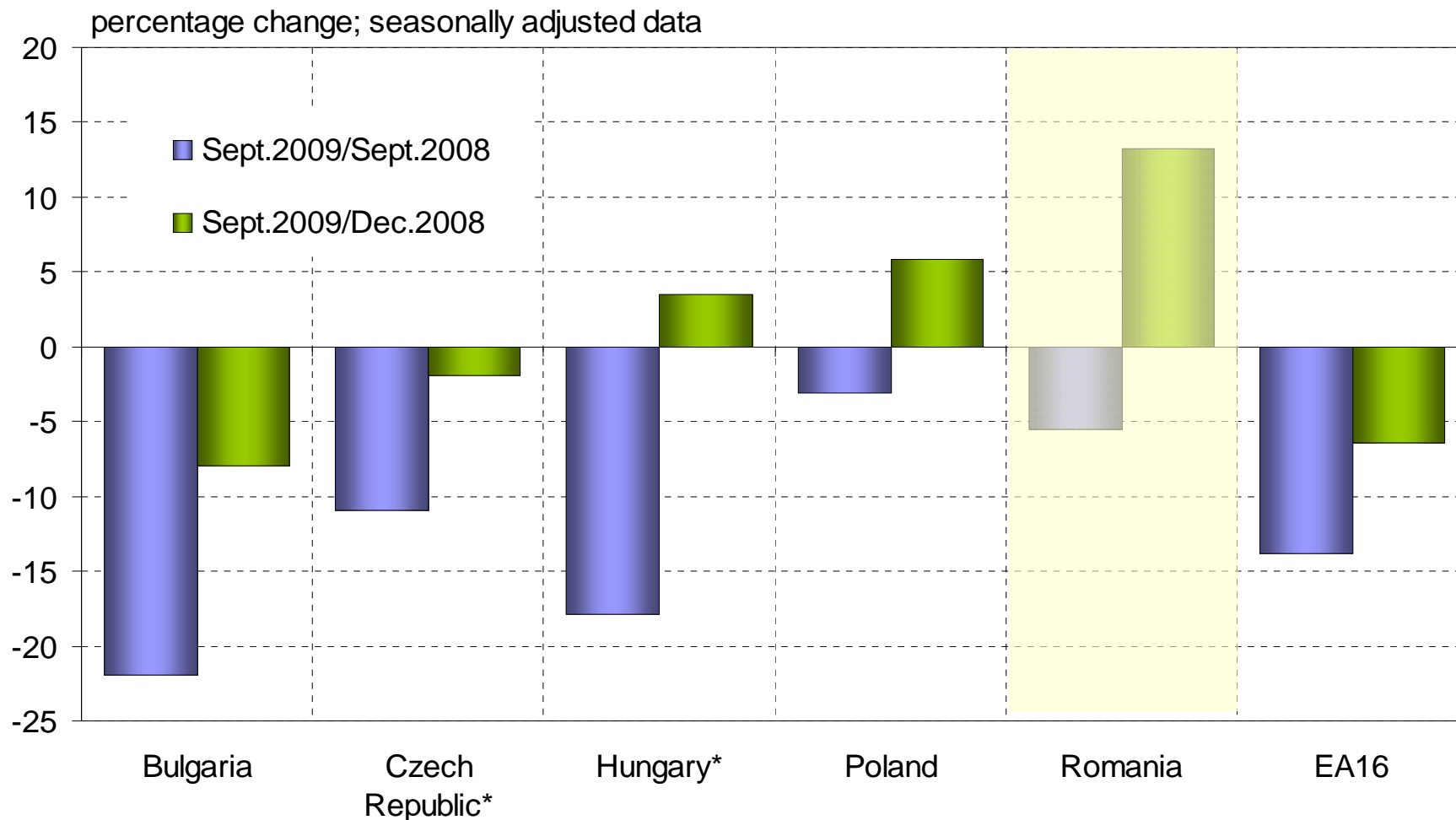
Economic Growth in Peer Countries



Source: Eurostat

* including statistical discrepancy

Manufacturing Output: Volume Index

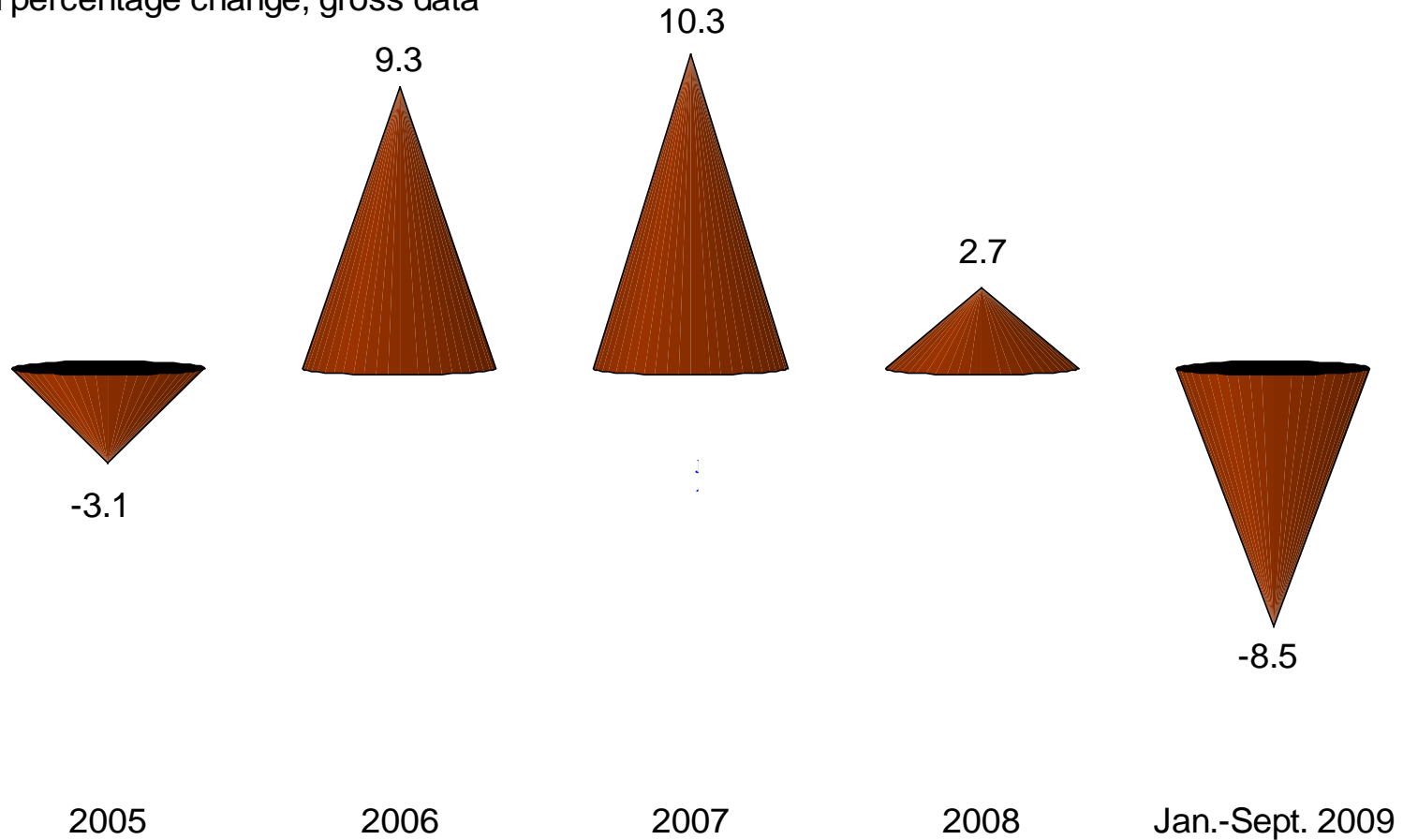


* Aug. 2009/Sept. 2008;
Aug. 2009/Dec. 2008

Source: Eurostat

Industrial Output

annual percentage change, gross data

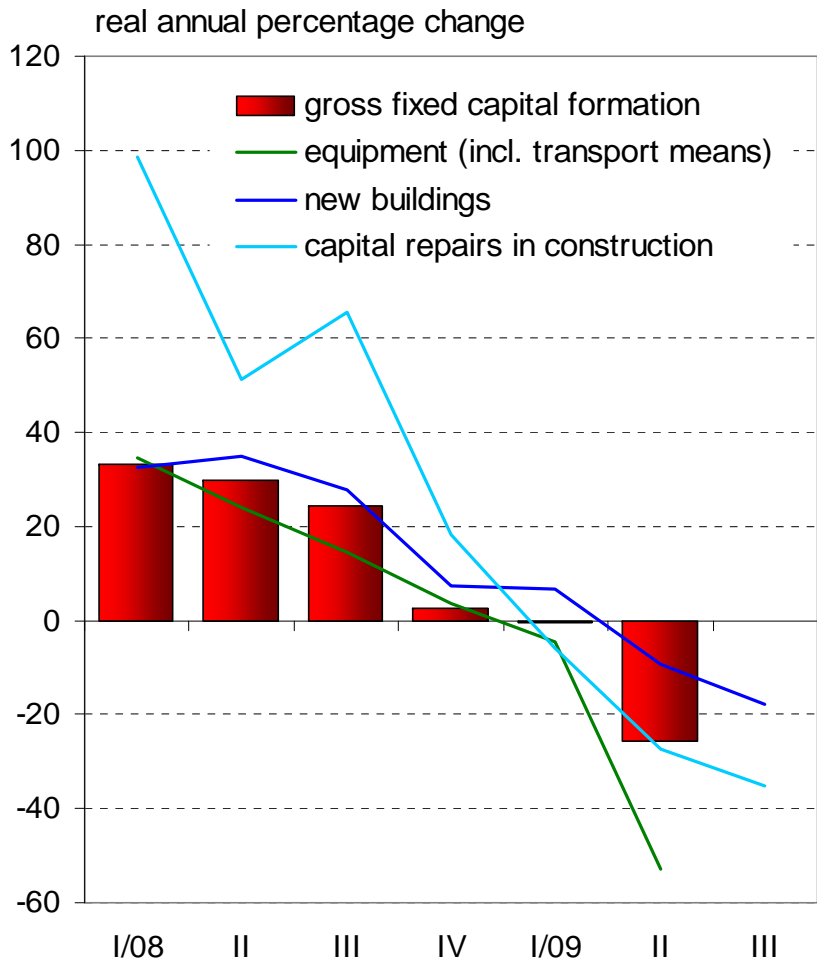


Sept.09/Sept.08: -3.1%; Sept.09/Aug. 09: 1.3% (sa)

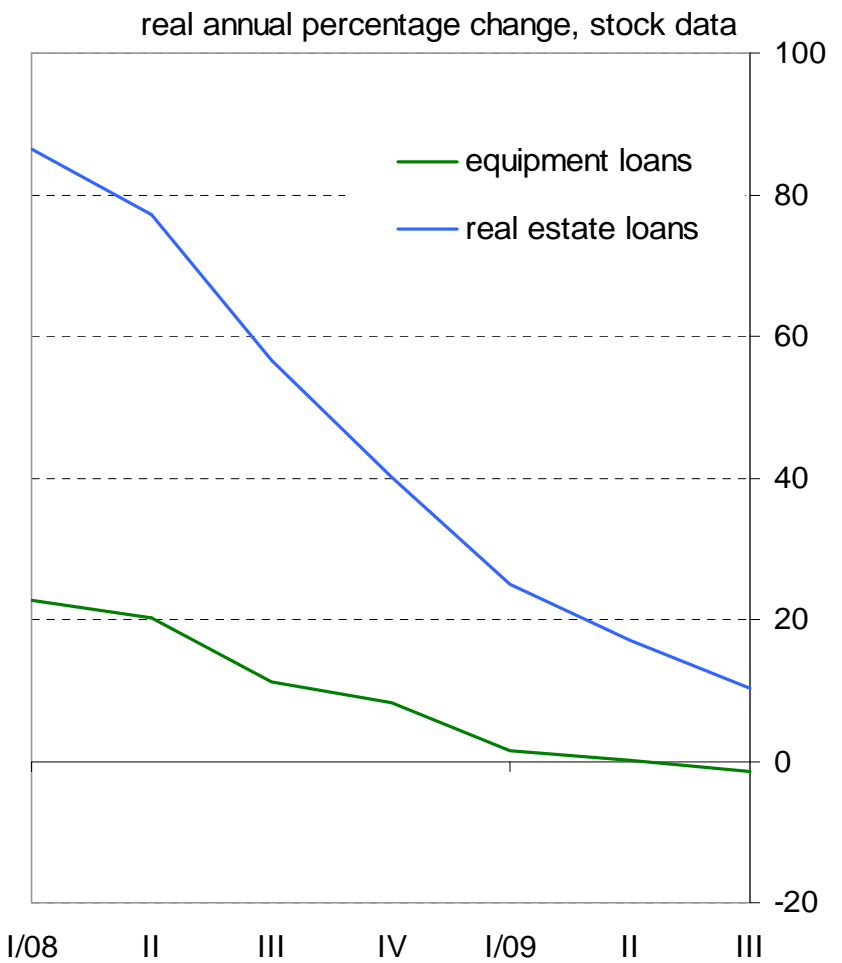
Note: Data recalculated according to NACE Rev.2 and to the change in the base year (2005 instead of 2000) and weighting system.

Source: National Institute of Statistics

Investment Demand and Loans

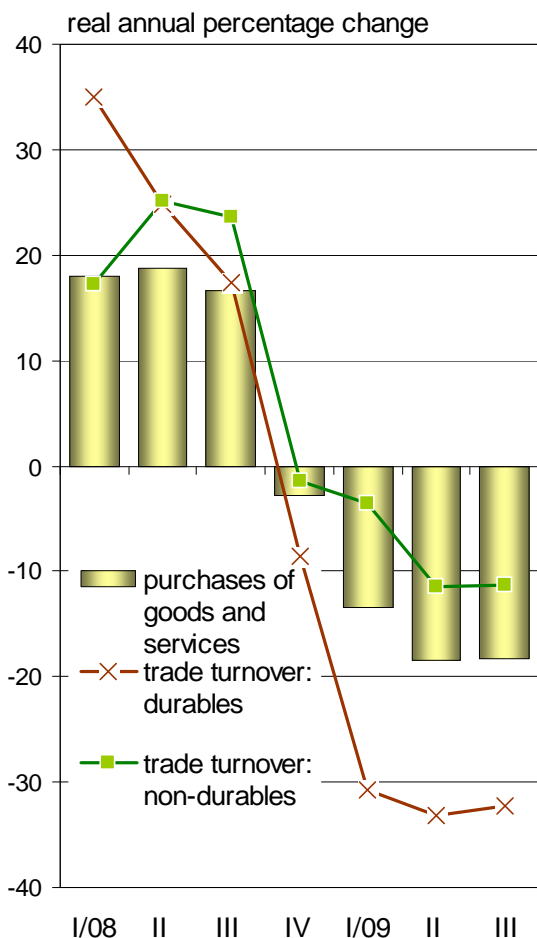


Source: National Institute of Statistics

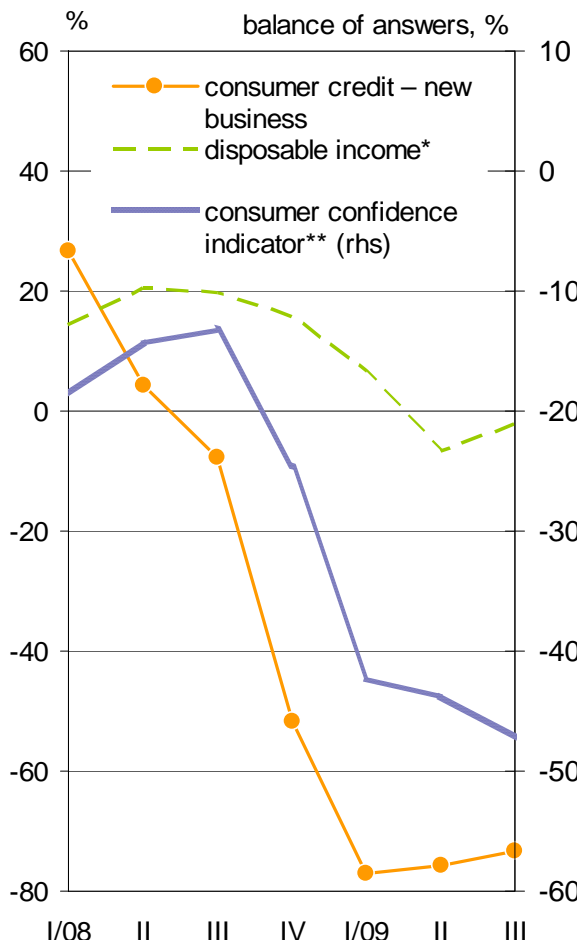


Source: National Bank of Romania

Consumer Demand: Main Categories and Drivers

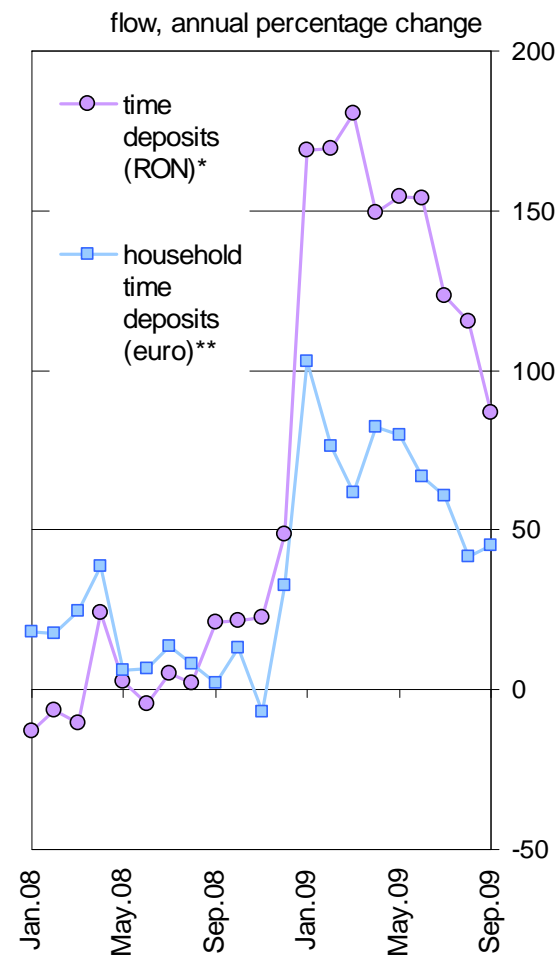


Source: NIS, NBR calculations



* last value: Jul-Aug'09; ** last value: Jul-Oct '09

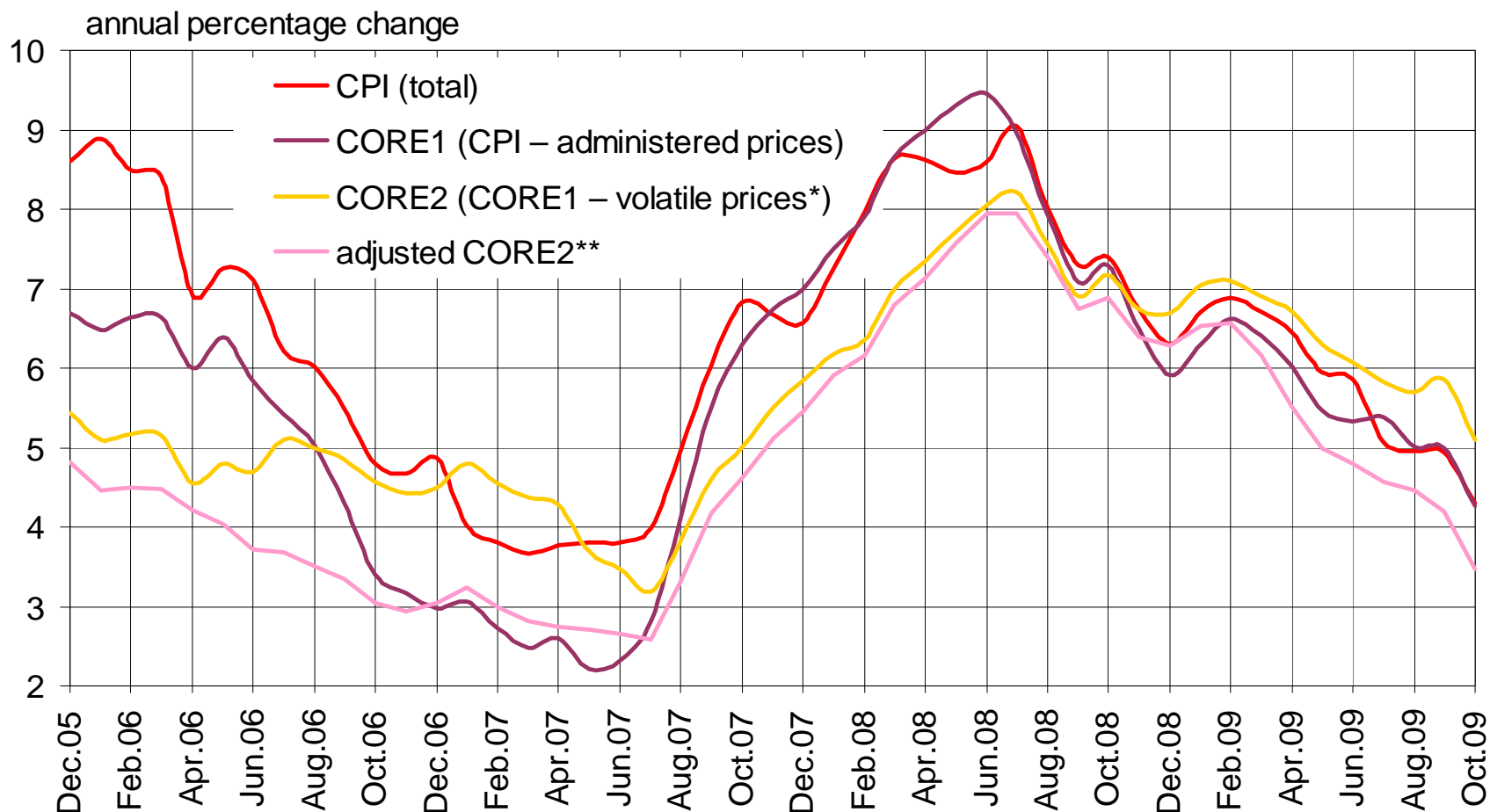
Source: NIS, EC-DG ECFIN, MPF, NBR



* real change (CPI) ** real change (IAPC)

Source: NBR, Eurostat

Headline Inflation and CORE Inflation

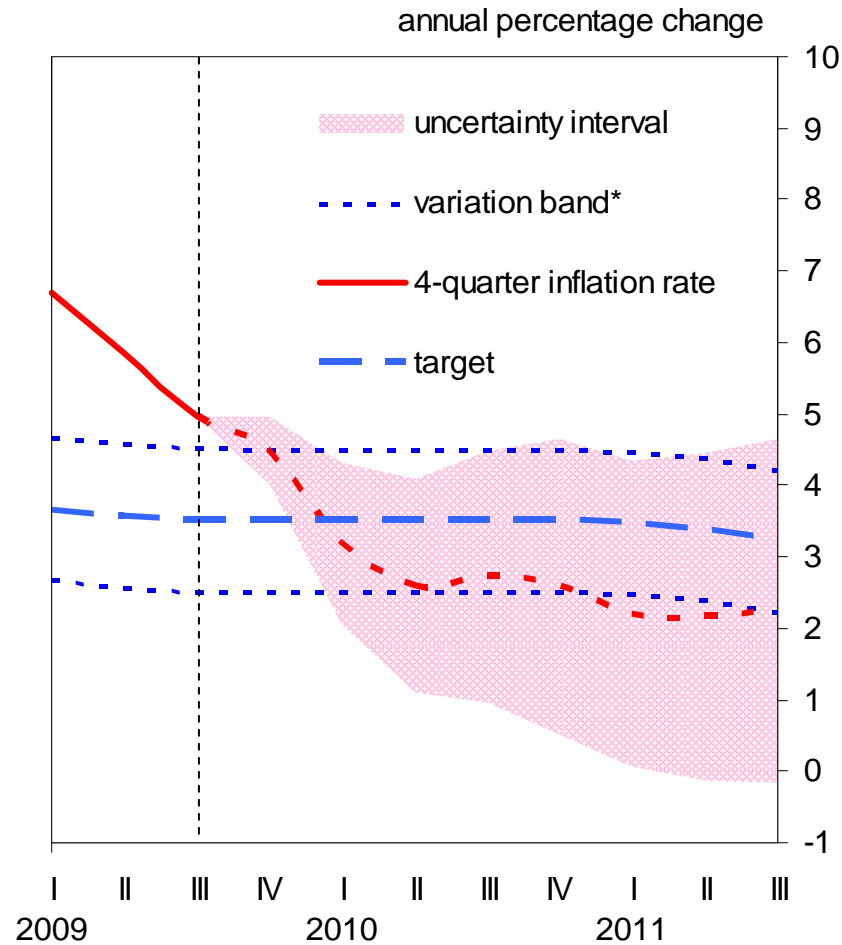
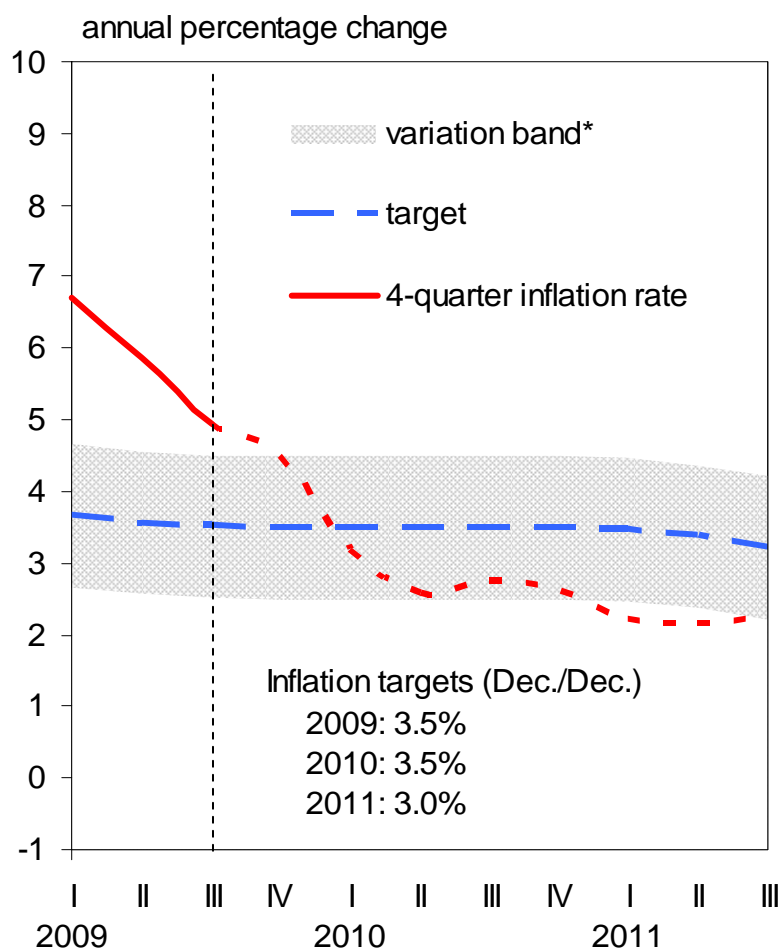


*) products with volatile prices: vegetables, fruit, eggs, fuels

**) excluding tobacco and alcoholic beverages

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

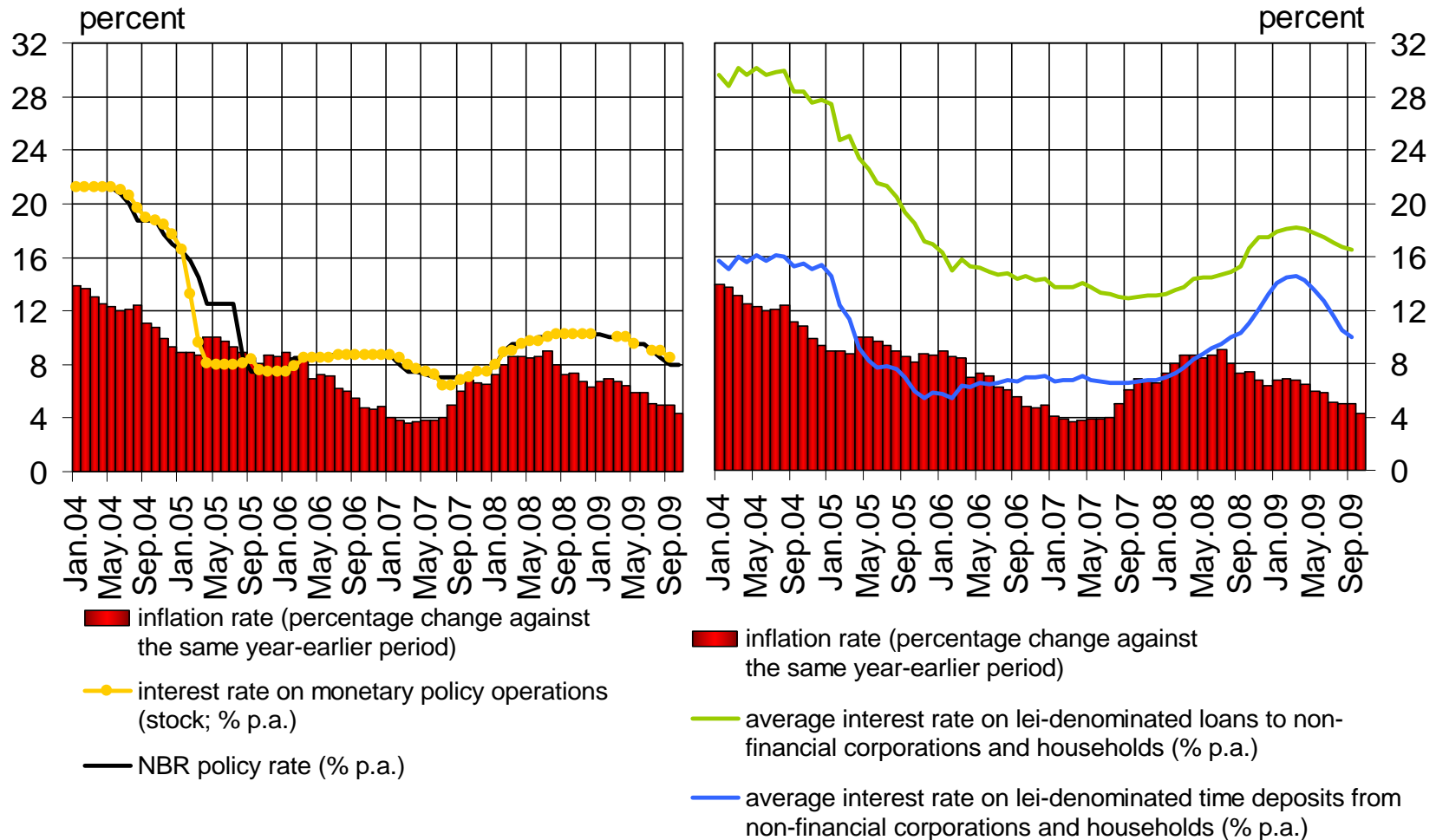
Inflation Forecast



*) ± 1 percentage point around the central target

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

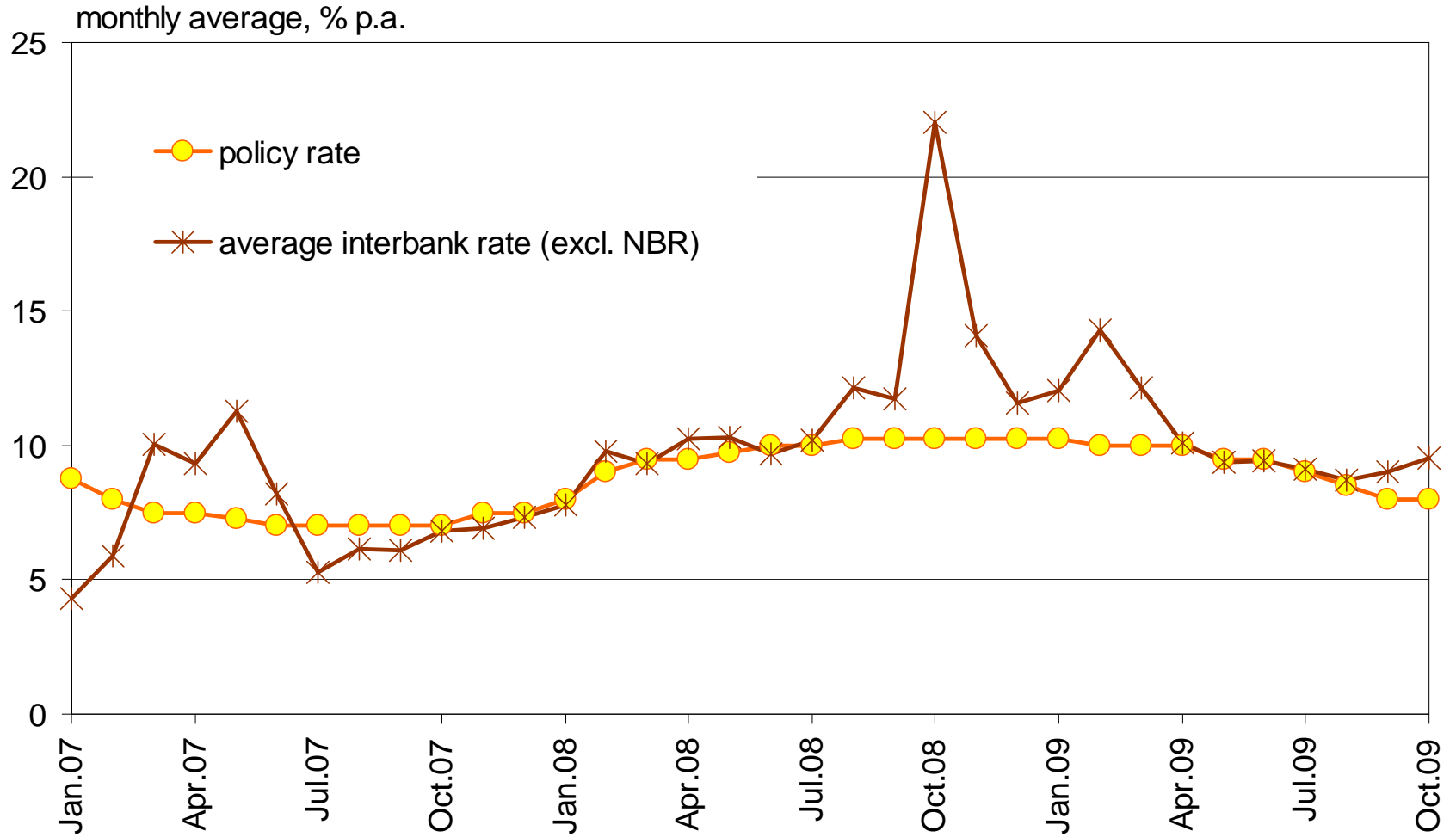
Inflation Rate and Interest Rates



NBR policy rate: 8.0% starting with September 30, 2009

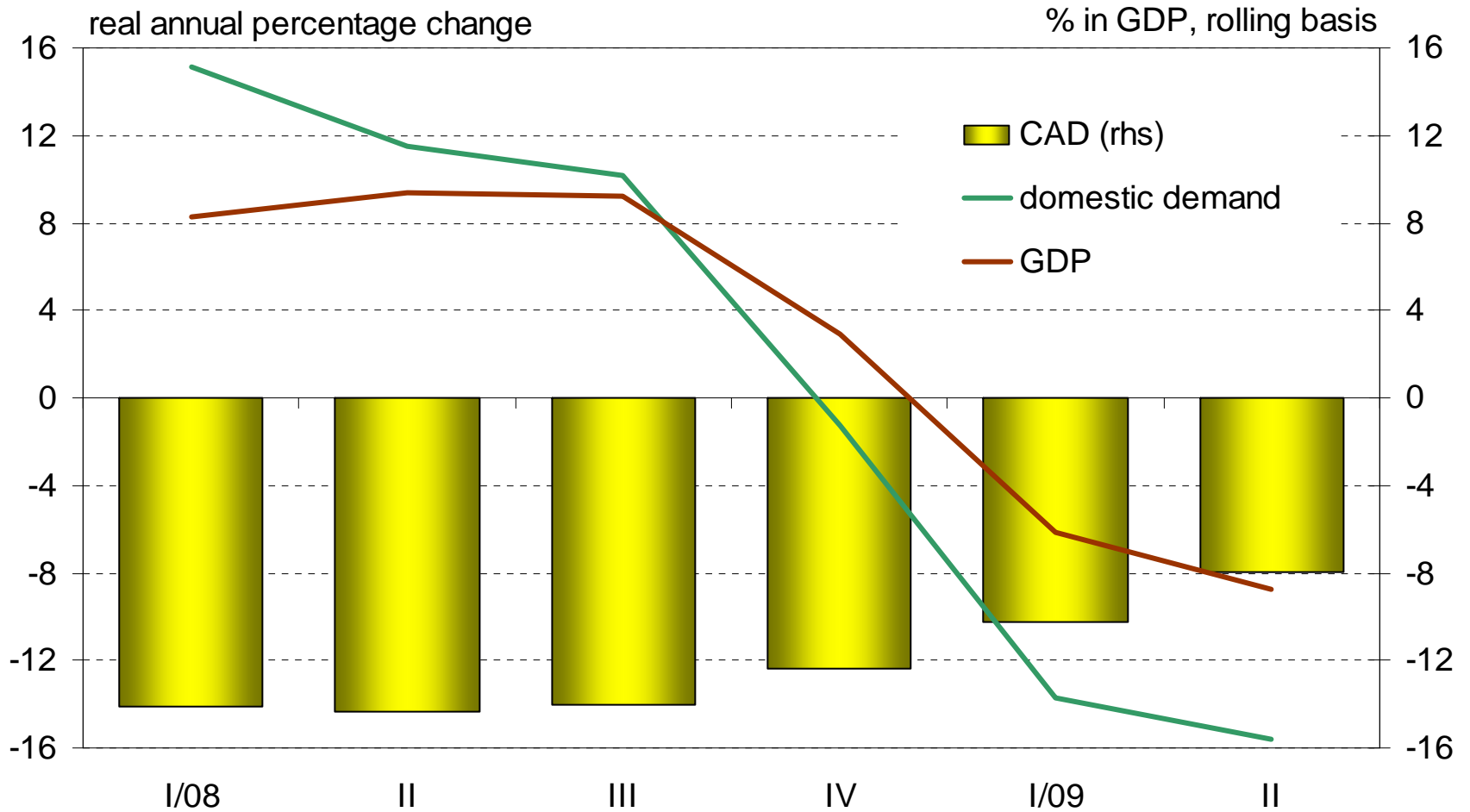
Source: National Bank of Romania, National Institute of Statistics

Widening Spread between Interbank Rates and Policy Rate



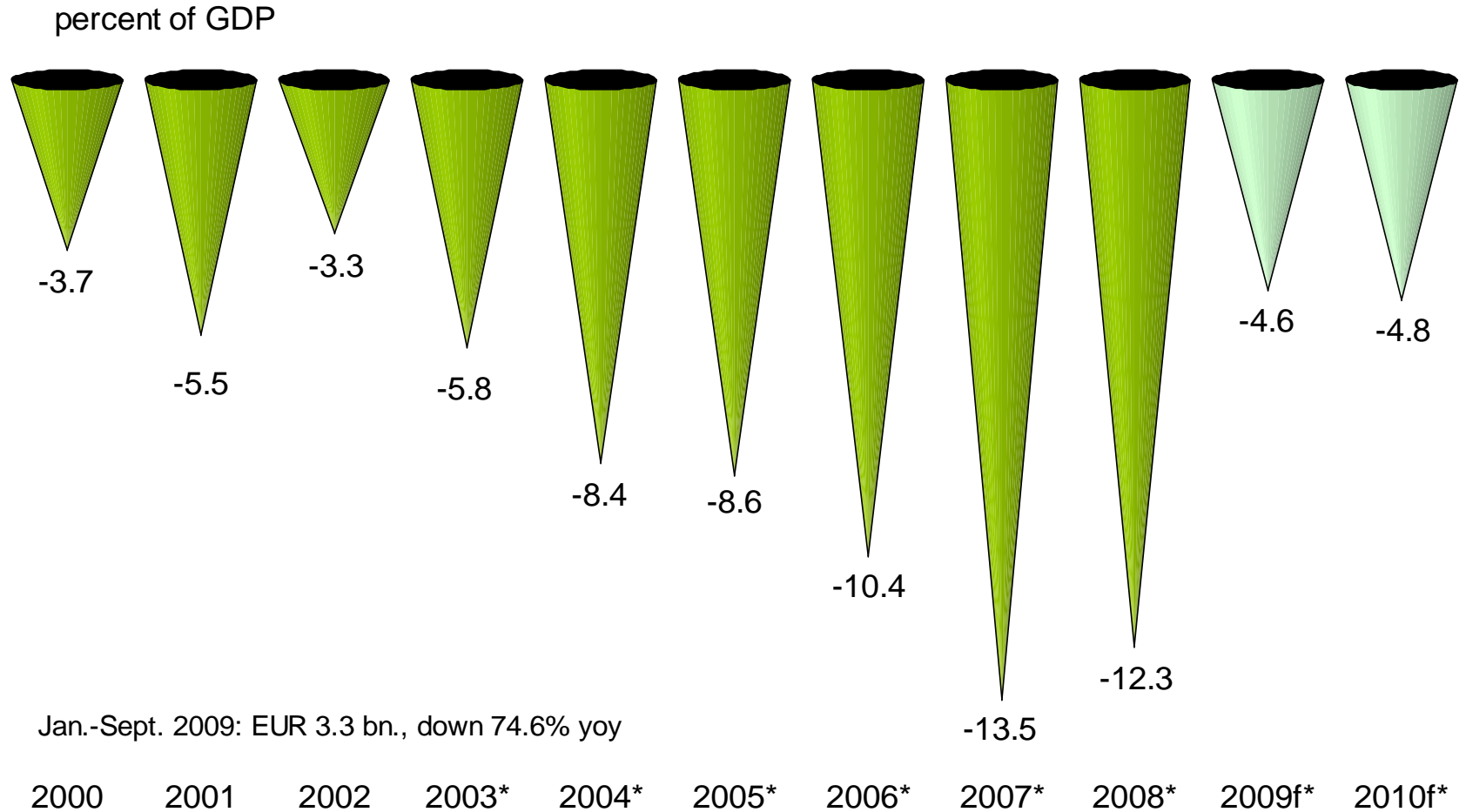
Source: National Bank of Romania

Domestic Demand and Current Account Deficit



Source: National Institut of Statistics, National Bank of Romania

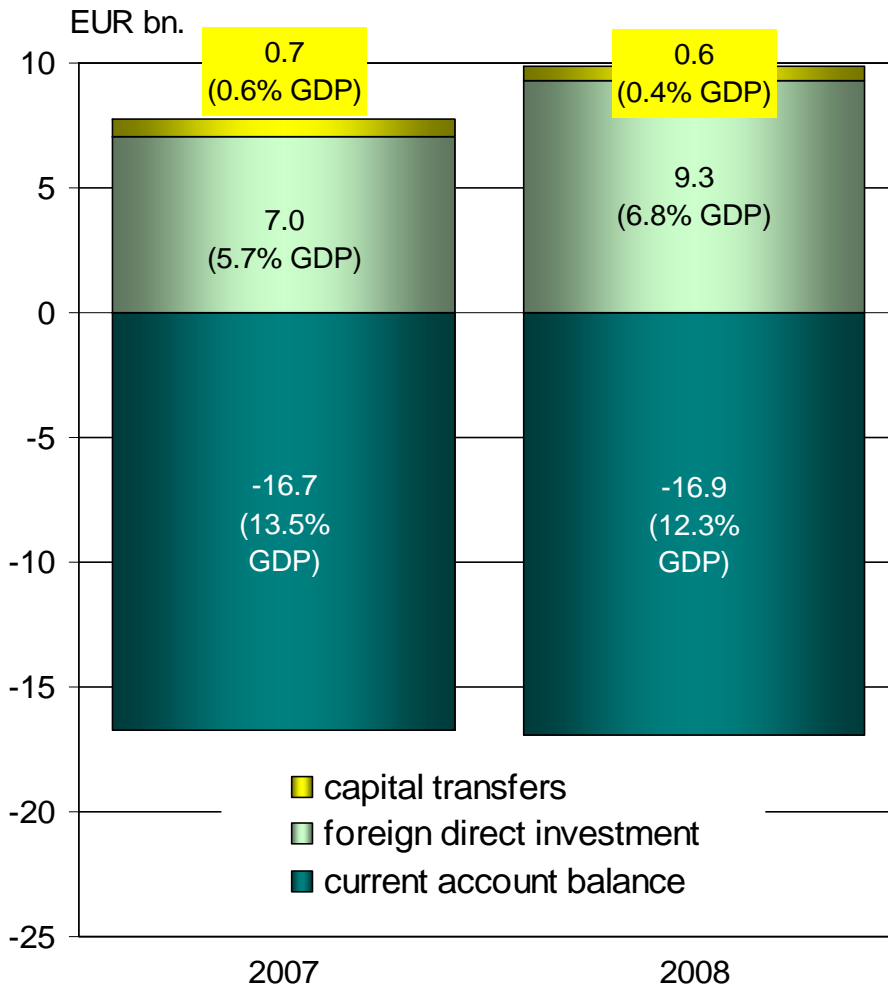
Current Account Balance



*) including reinvested earnings f) forecast

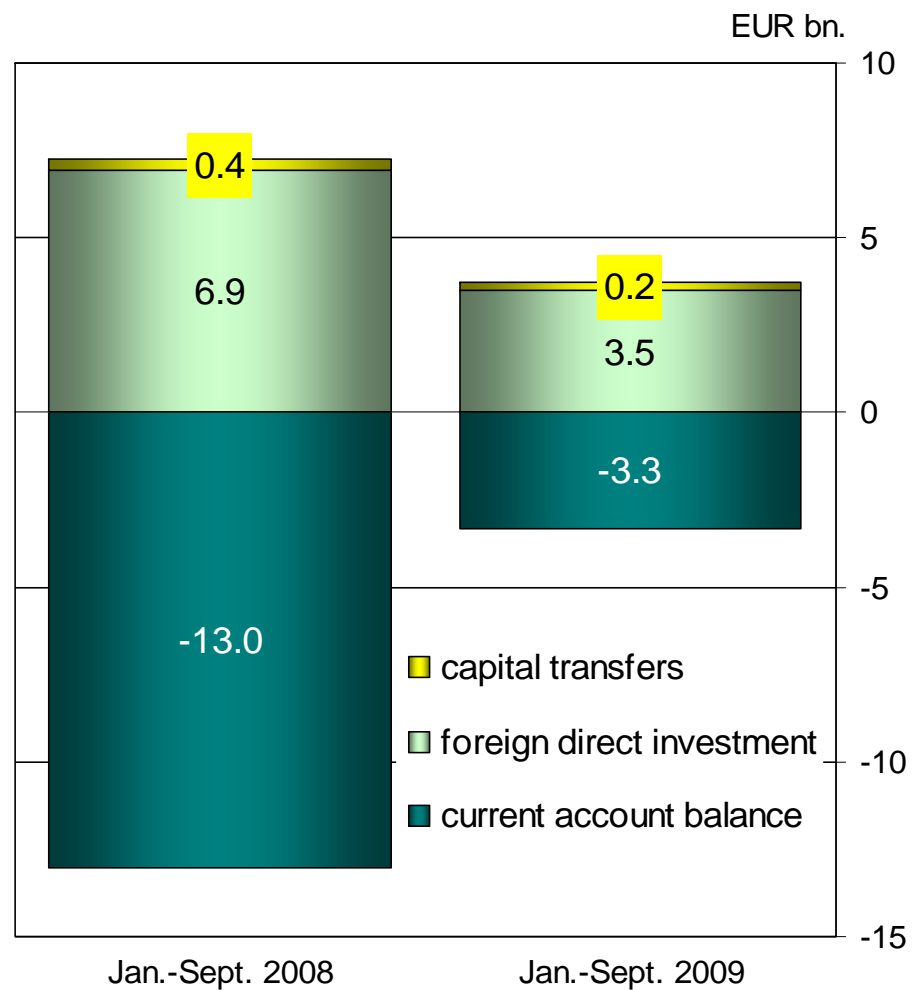
Source: National Bank of Romania, National Institute of Statistics, National Commission of Prognosis

Current Account Deficit Financing via FDI



Current account financing via FDI (including capital transfers) amounted to 58.4% in 2008 vs 46.5% in 2007. In 2008, net FDI increased 31.6% yoy.

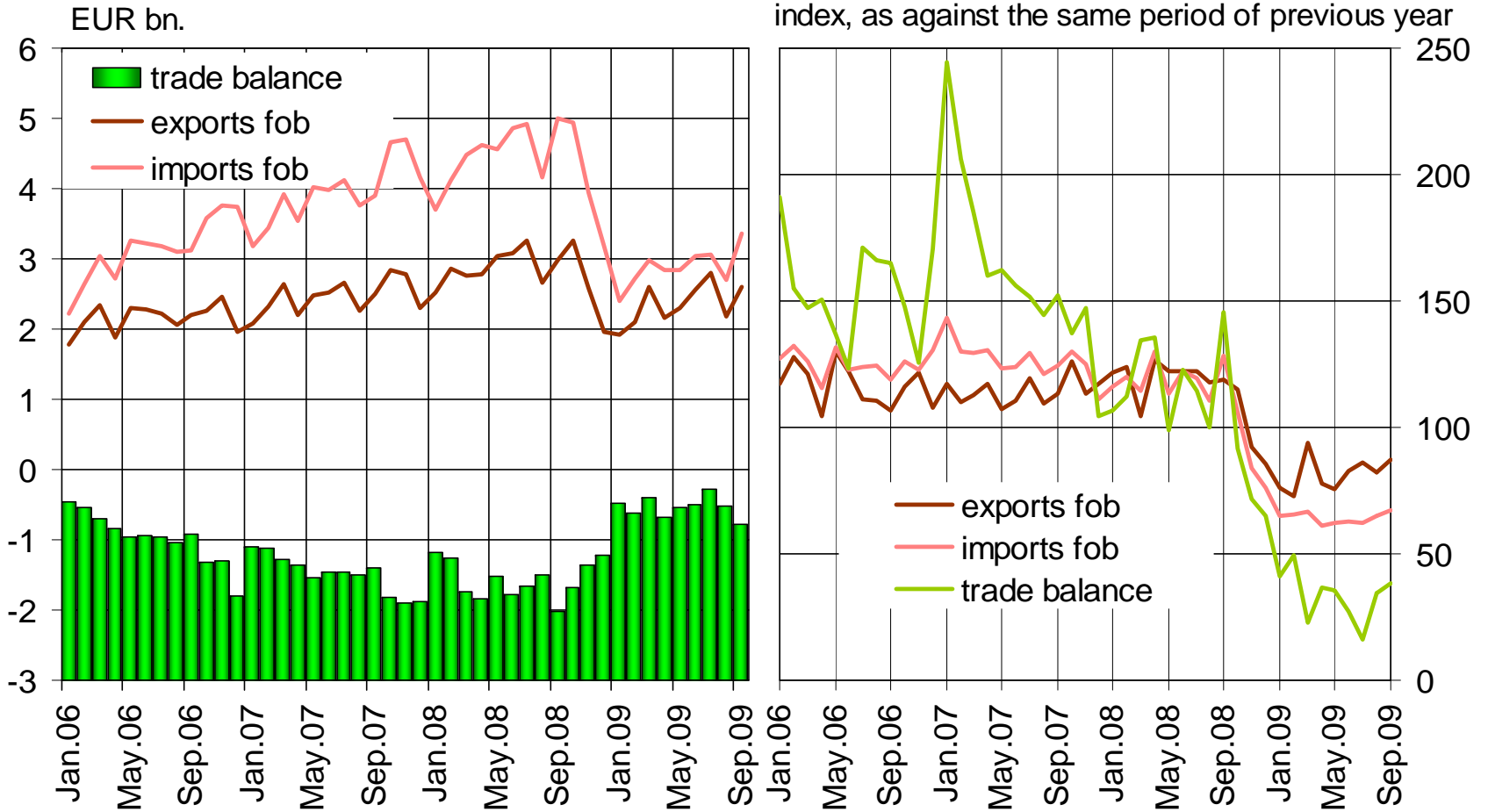
Source: National Bank of Romania, National Institute of Statistics



Current account financing via FDI (including capital transfers) amounted to 112.6% in Jan.-Sept. 2009 vs 55.7% in Jan.-Sept. 2008. In Jan.-Sept. 2009, net FDI decreased 49.4% yoy.

Trade Balance

(monthly data)

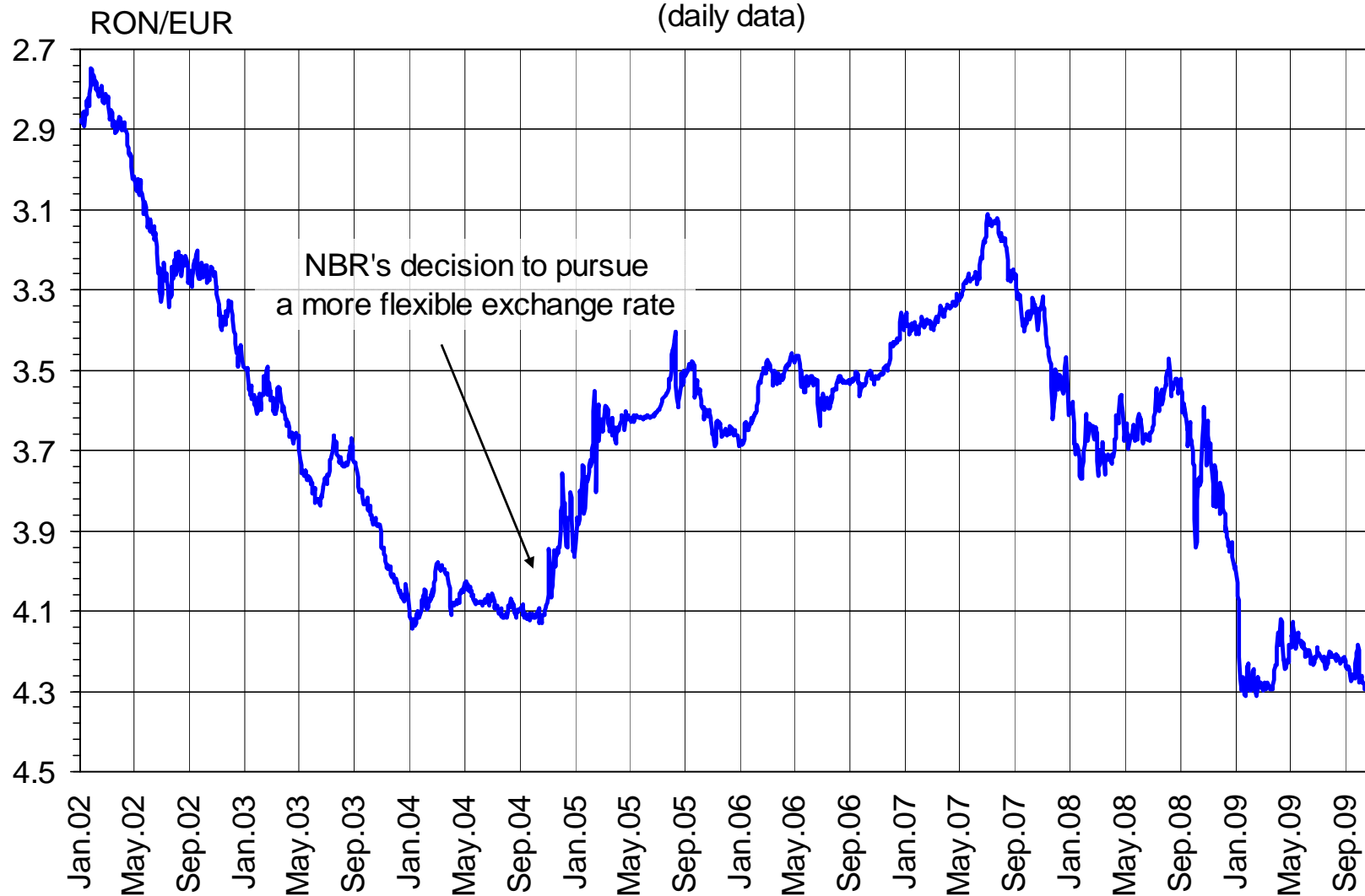


In Jan.-Sept. 2009, yoy decrease of exports and imports was 18.3% and 36.0% respectively.

Source: National Institute of Statistics

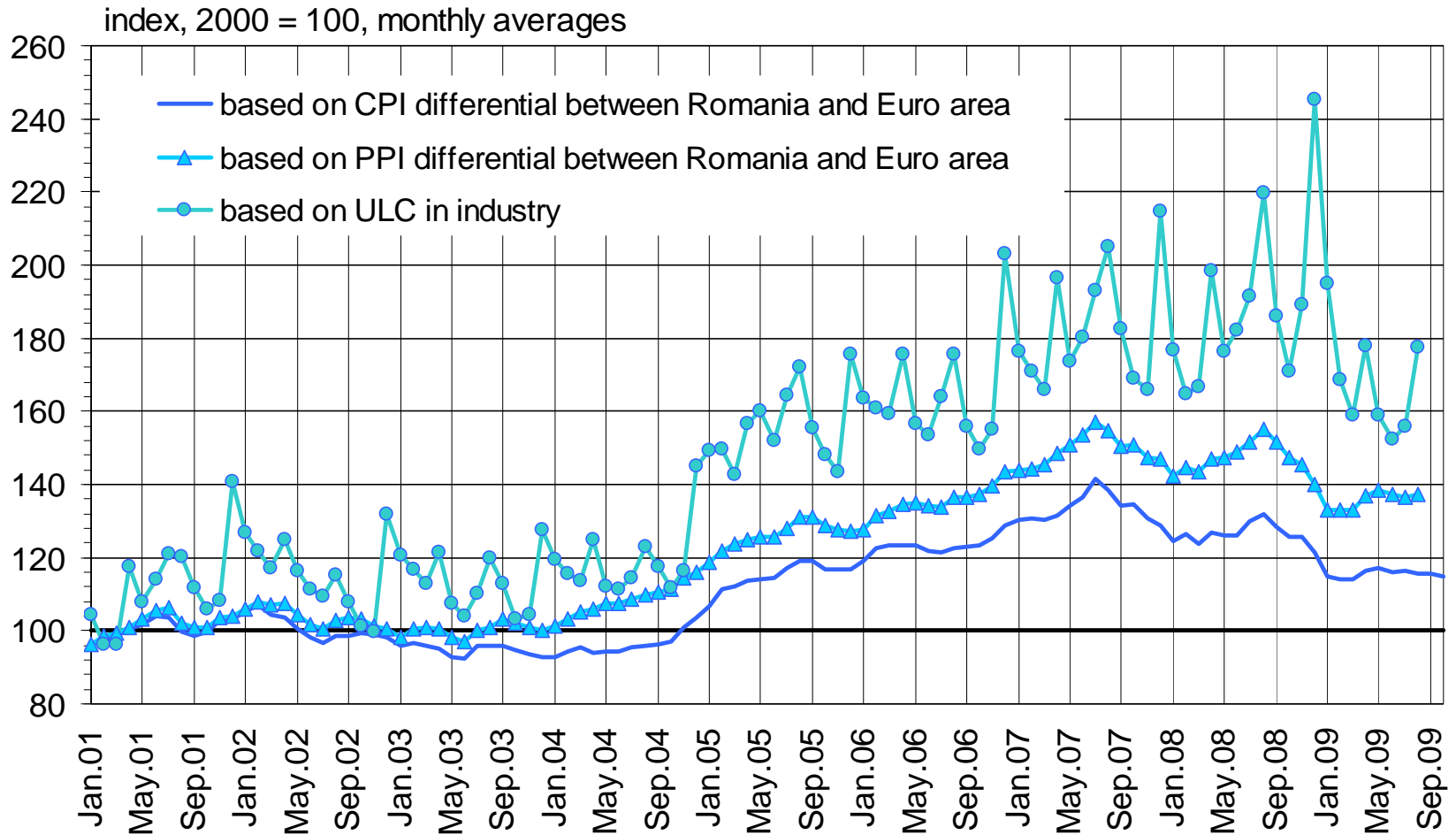
Nominal Exchange Rate

(daily data)



Source: National Bank of Romania

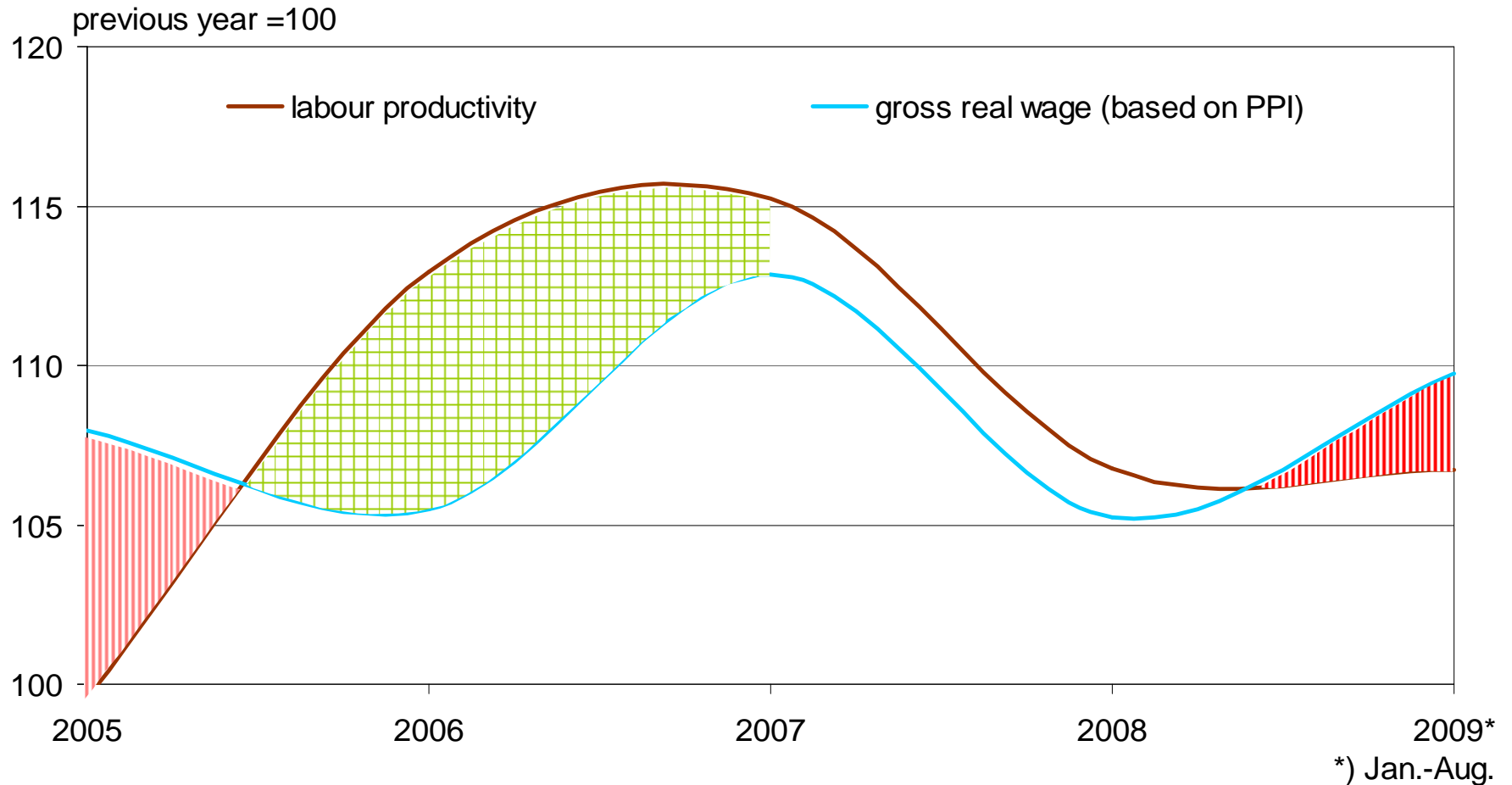
Real Exchange Rate of the RON against the EUR



Note: For PPI and ULC, data recalculated according to NACE Rev.2 and to the change in the base year (2005 instead of 2000) and weighting system.

Source: National Bank of Romania calculations, National Institute of Statistics, IMF - International Financial Statistics

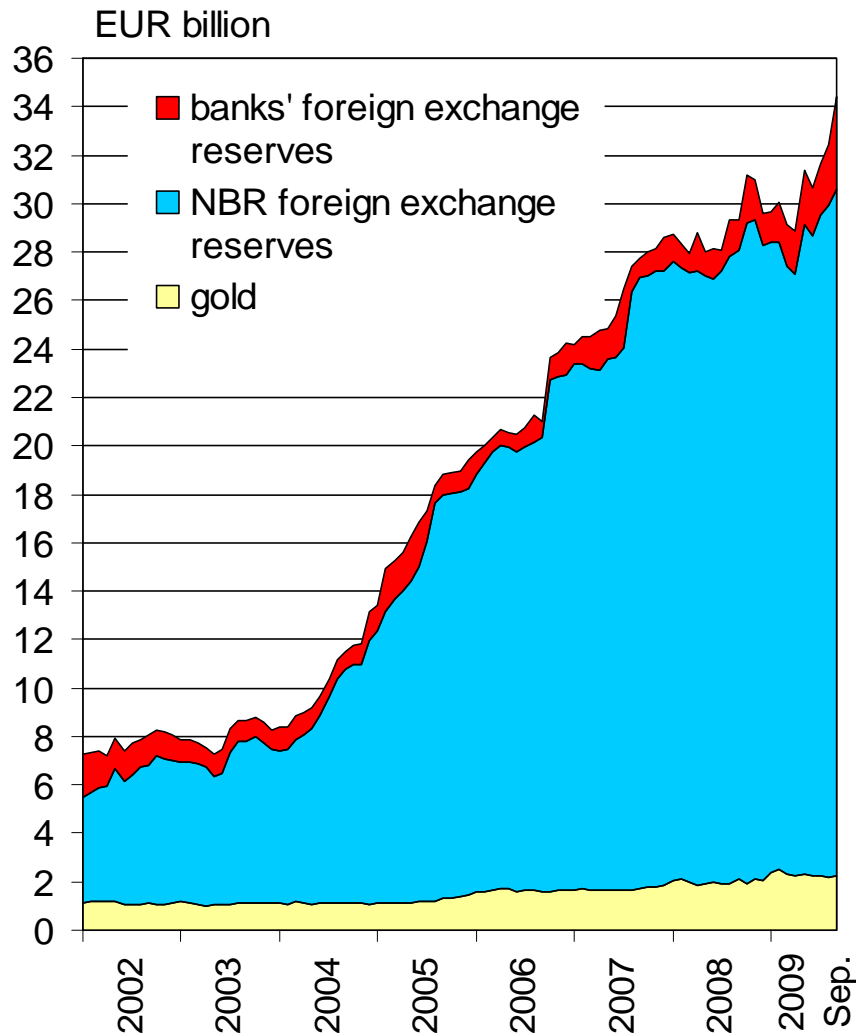
Real Wage and Labour Productivity in Industry



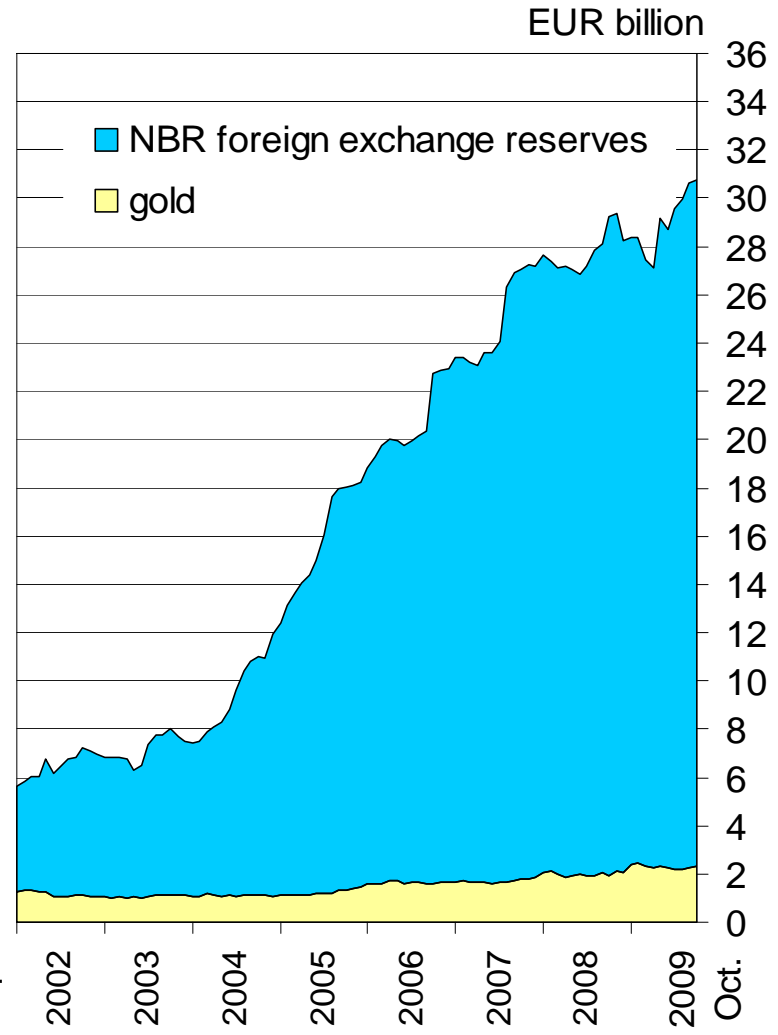
Note: Data recalculated according to NACE Rev.2 and to the change in the base year (2005 instead of 2000) and weighting system.

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

Gross International Reserves

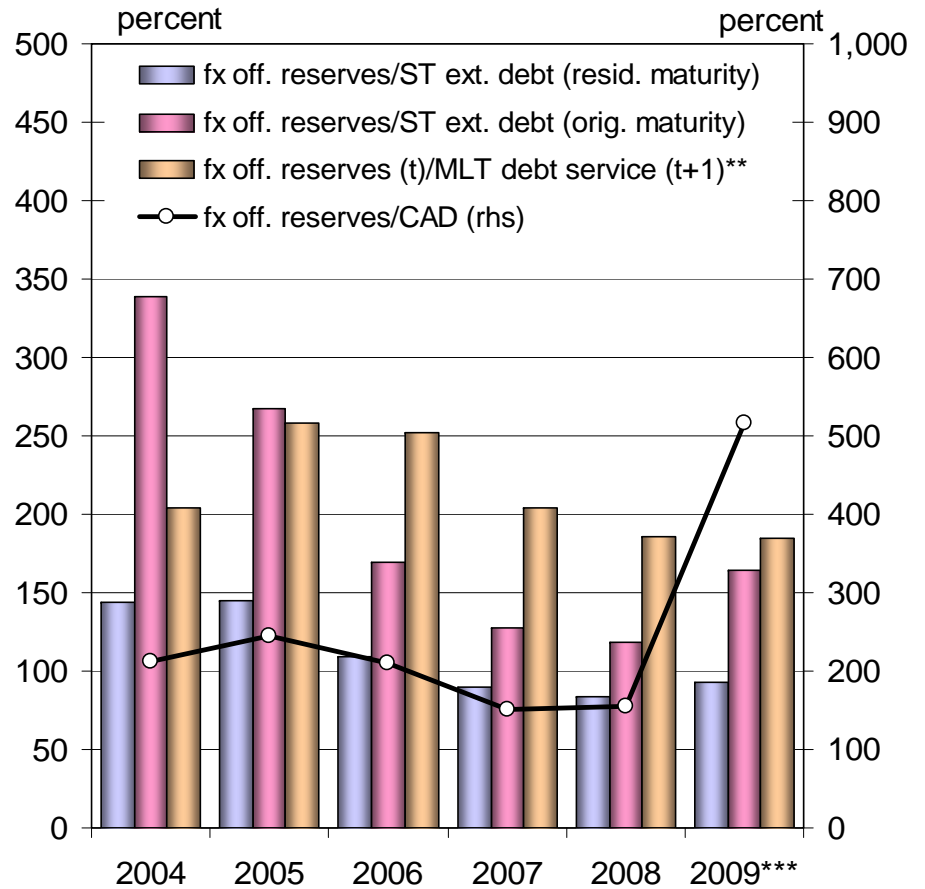
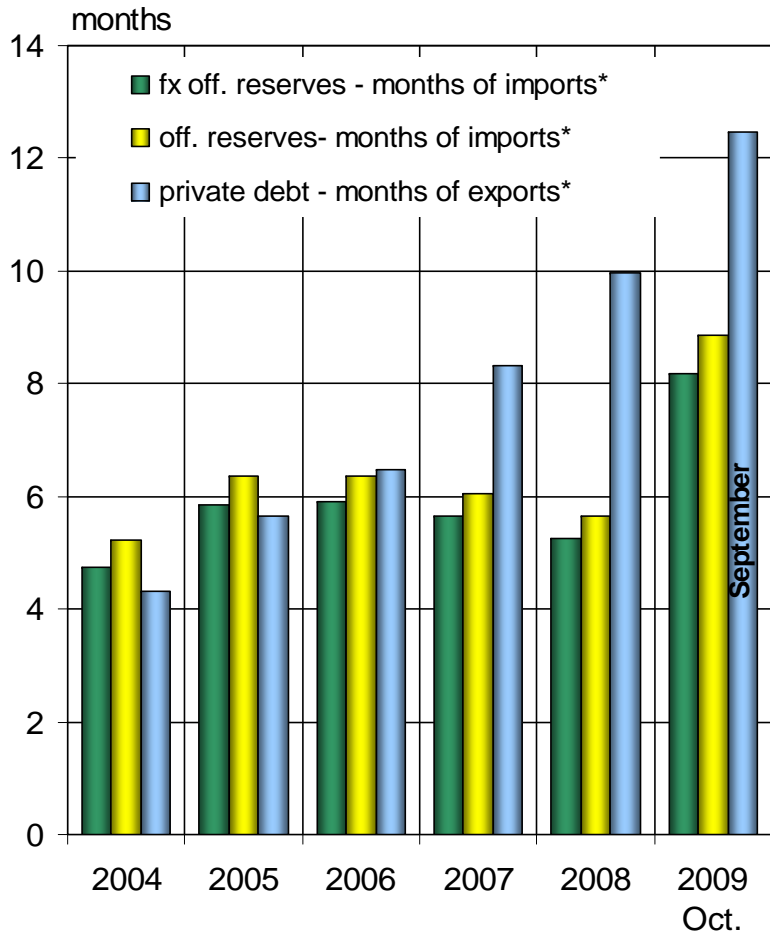


Gross Official Reserves



Source: National Bank of Romania

Reserves and Debt Indicators



Note: for 2009, calculations based on prospective imports

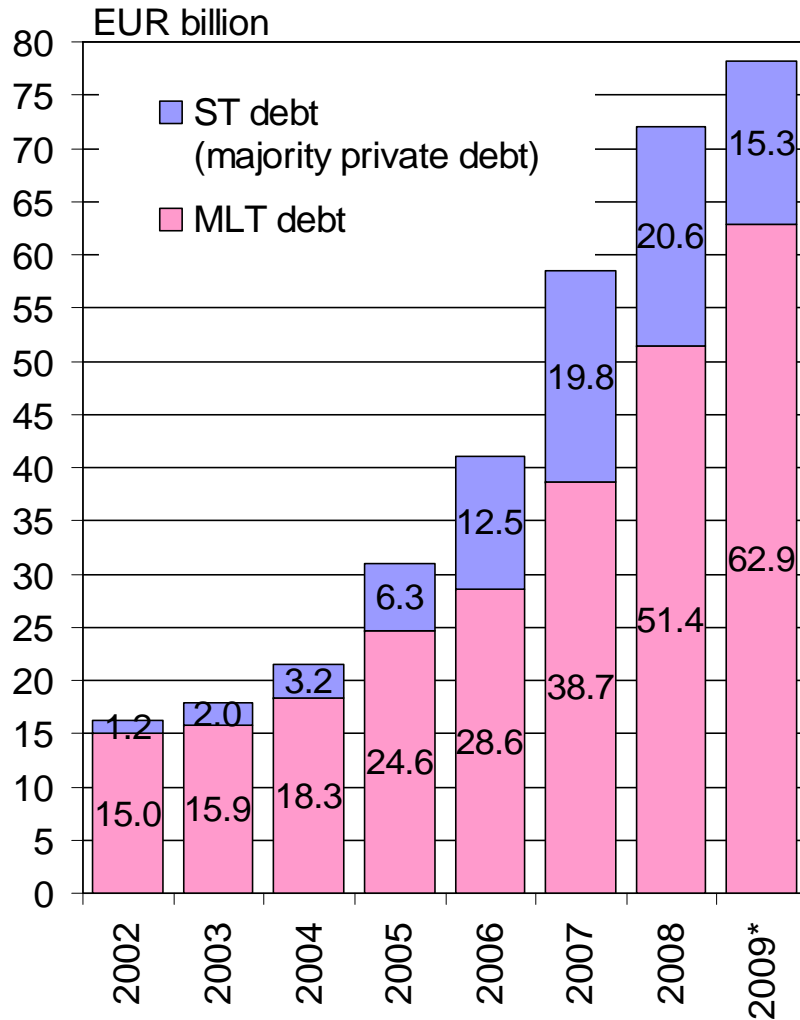
* goods and services

** For 2008, calculations based on estimated debt service for 2009

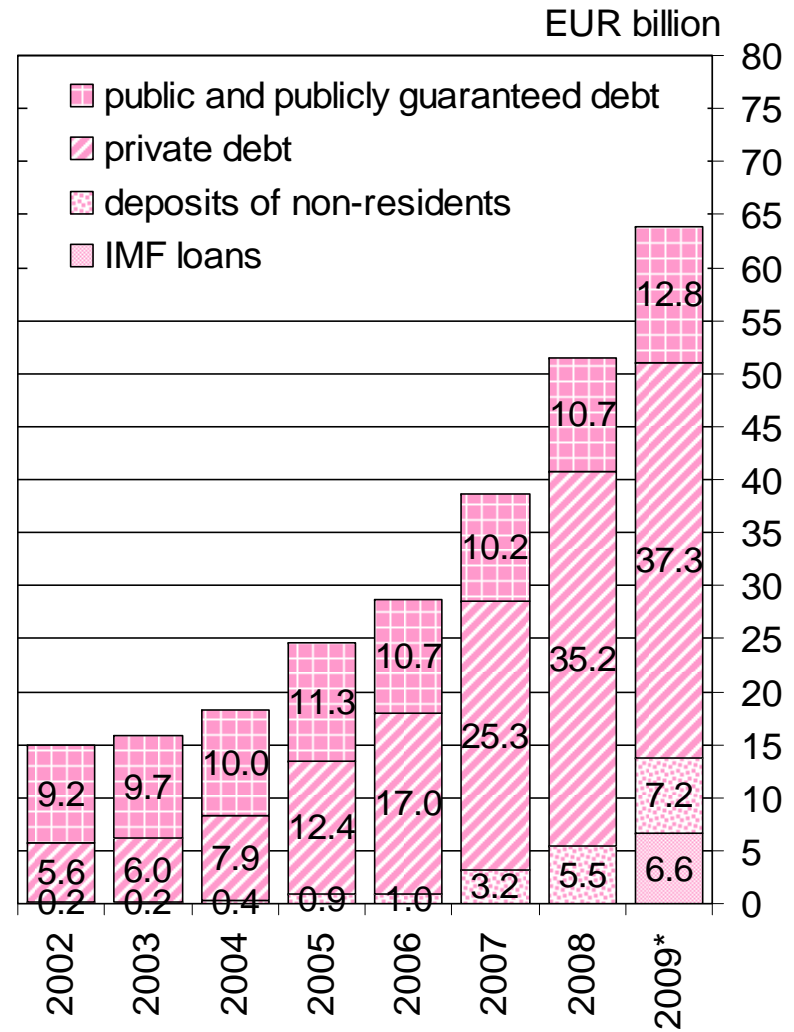
*** August for reserves and ST external debt stock; 2009 estimate for CAD; Sep.09 - Aug.10 estimate for MLT debt service

Source: National Bank of Romania; National Institute of Statistics; National Commission of Prognosis

Total External Debt



MLT External Debt

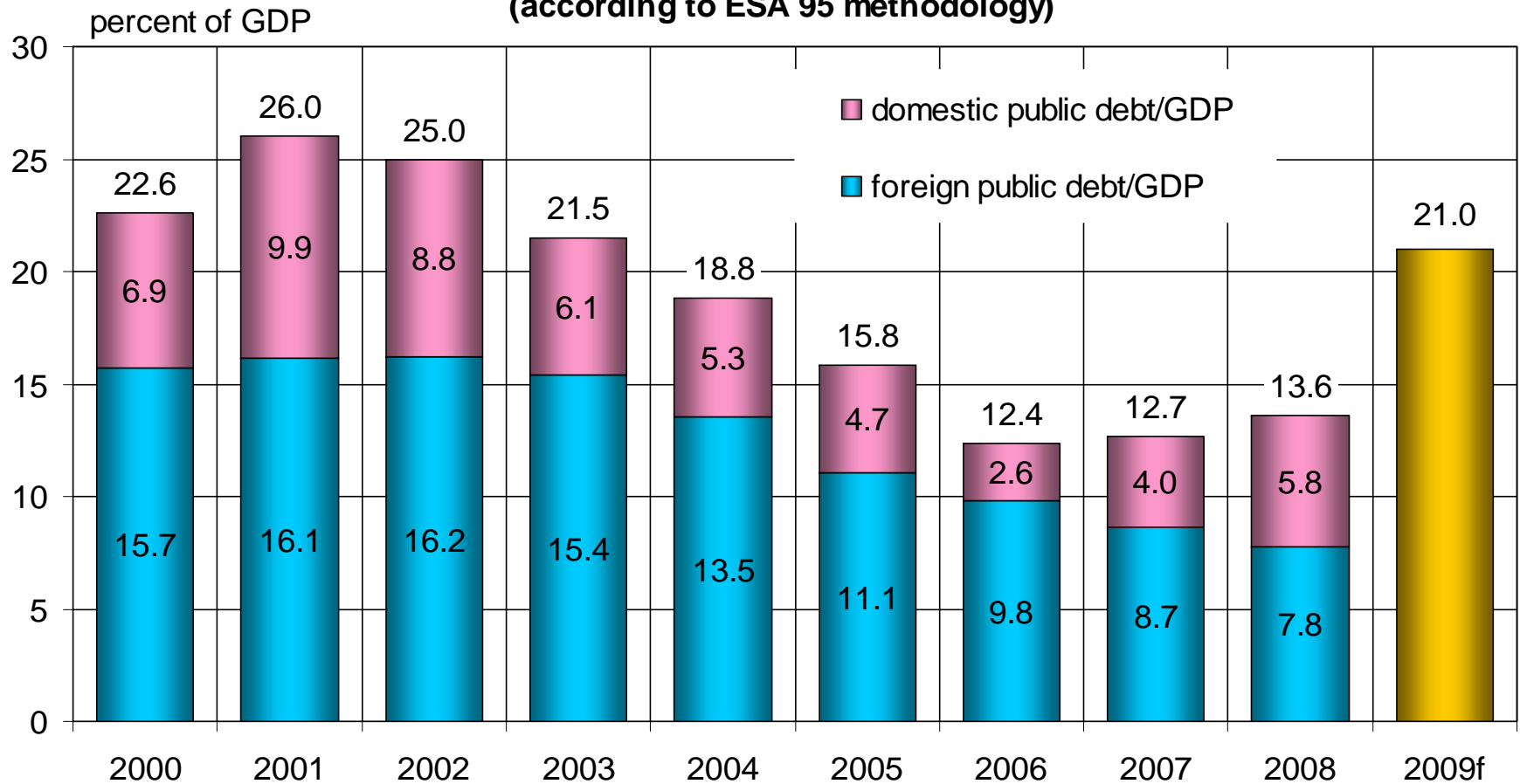


Source: National Bank of Romania

*) September

Public Debt

(according to ESA 95 methodology)



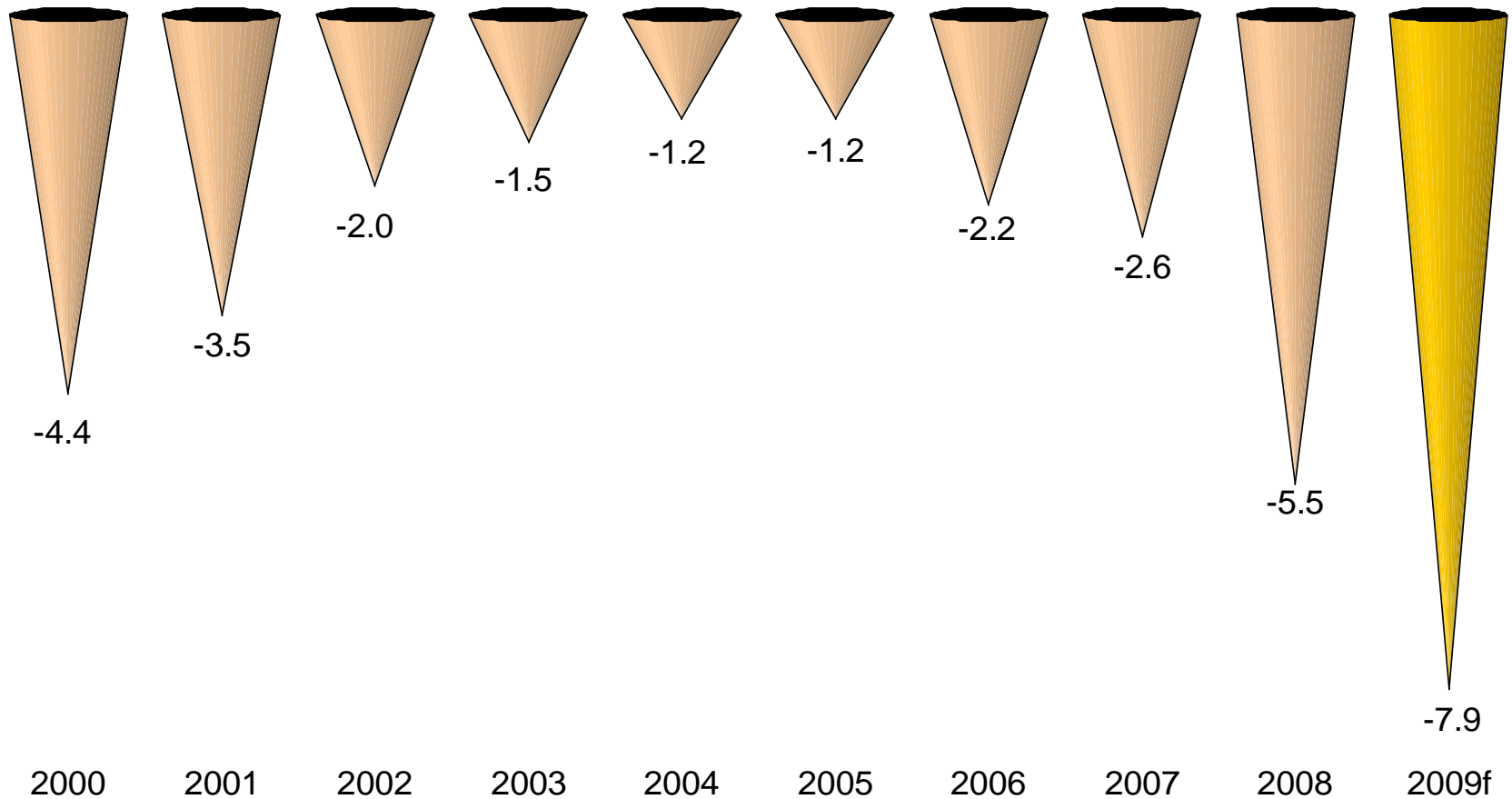
Note: Government securities in MFIs portfolio as share of GDP in Dec.07=1.7%, Dec.08=2.2% and Aug.09=7%

f) EDP Notification, October 2009

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

General Government Deficit (according to ESA 95 methodology)

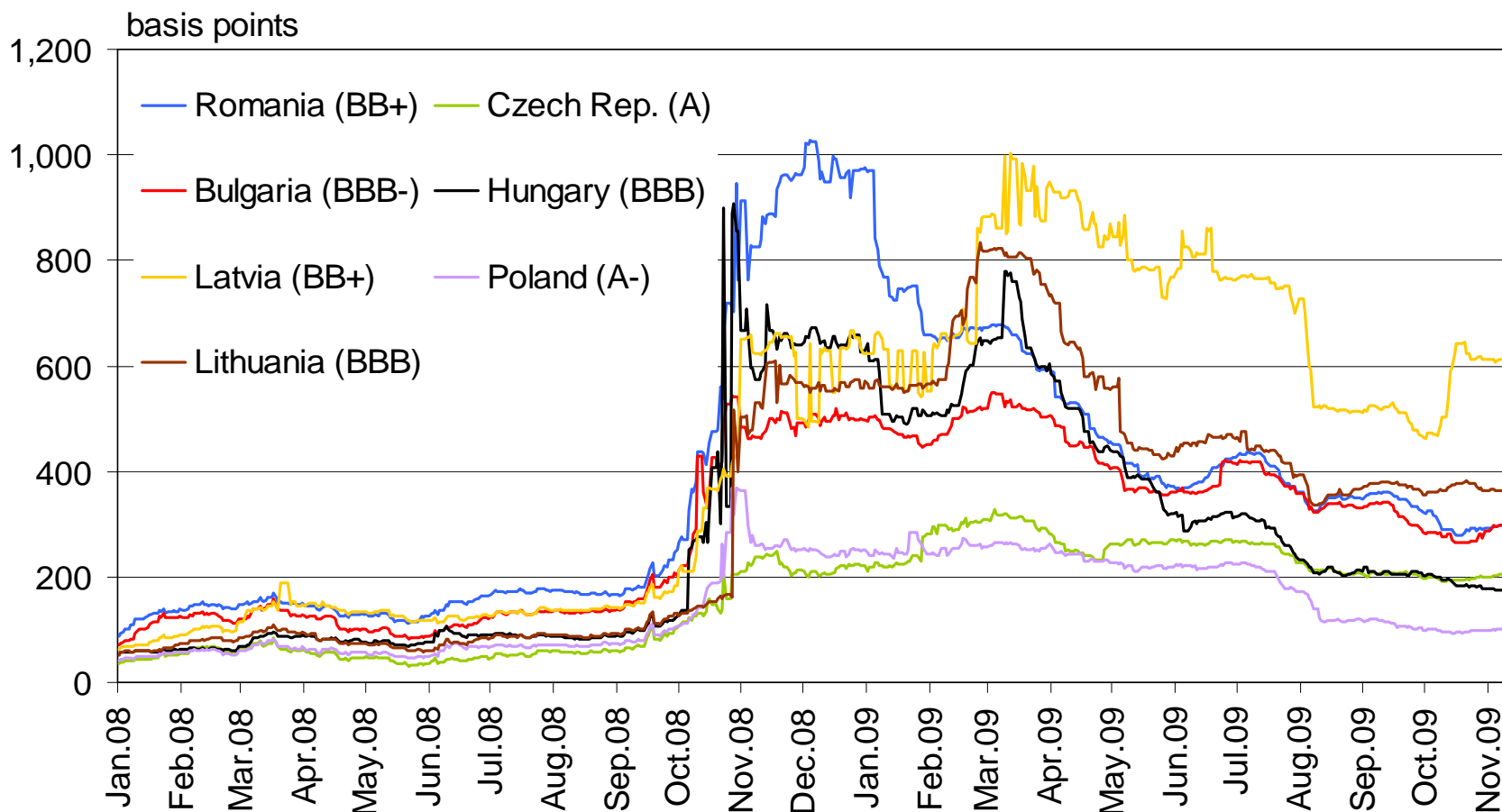
percent of GDP



f) EDP Notification, October 2009

Source: Ministry of Public Finance, National Institute of Statistics, National Commission of Prognosis

Eurobond Spreads

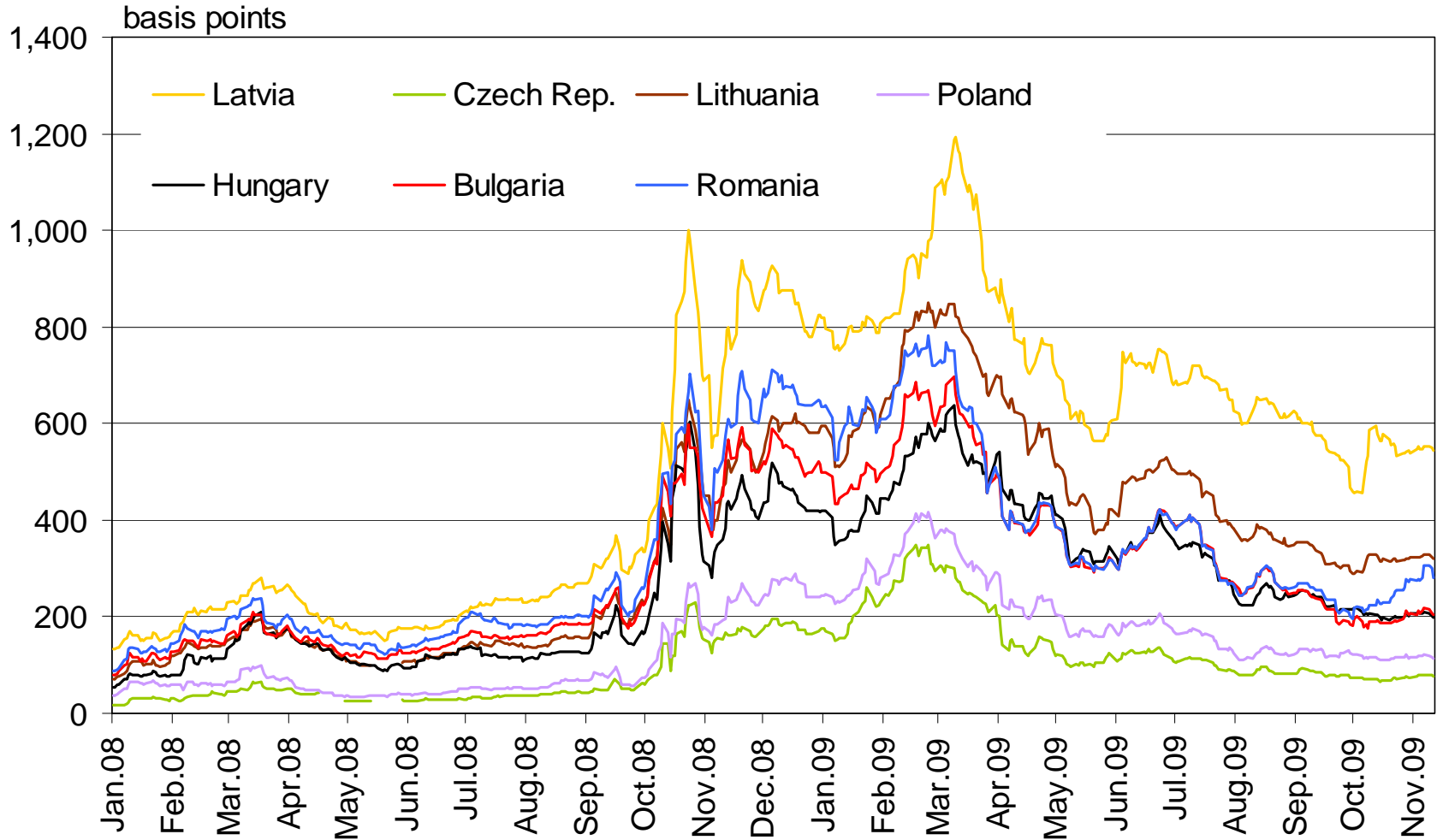


Note: The spread is calculated as against the yields on German Bunds maturing in 2012
 Bond maturity: 2011 for Hungary; 2012 for Poland, Romania and Lithuania; 2013 for Bulgaria;
 2014 for Czech Republic and Latvia

Source: Bloomberg

() Composite rating (Moody's, S&P, Fitch)

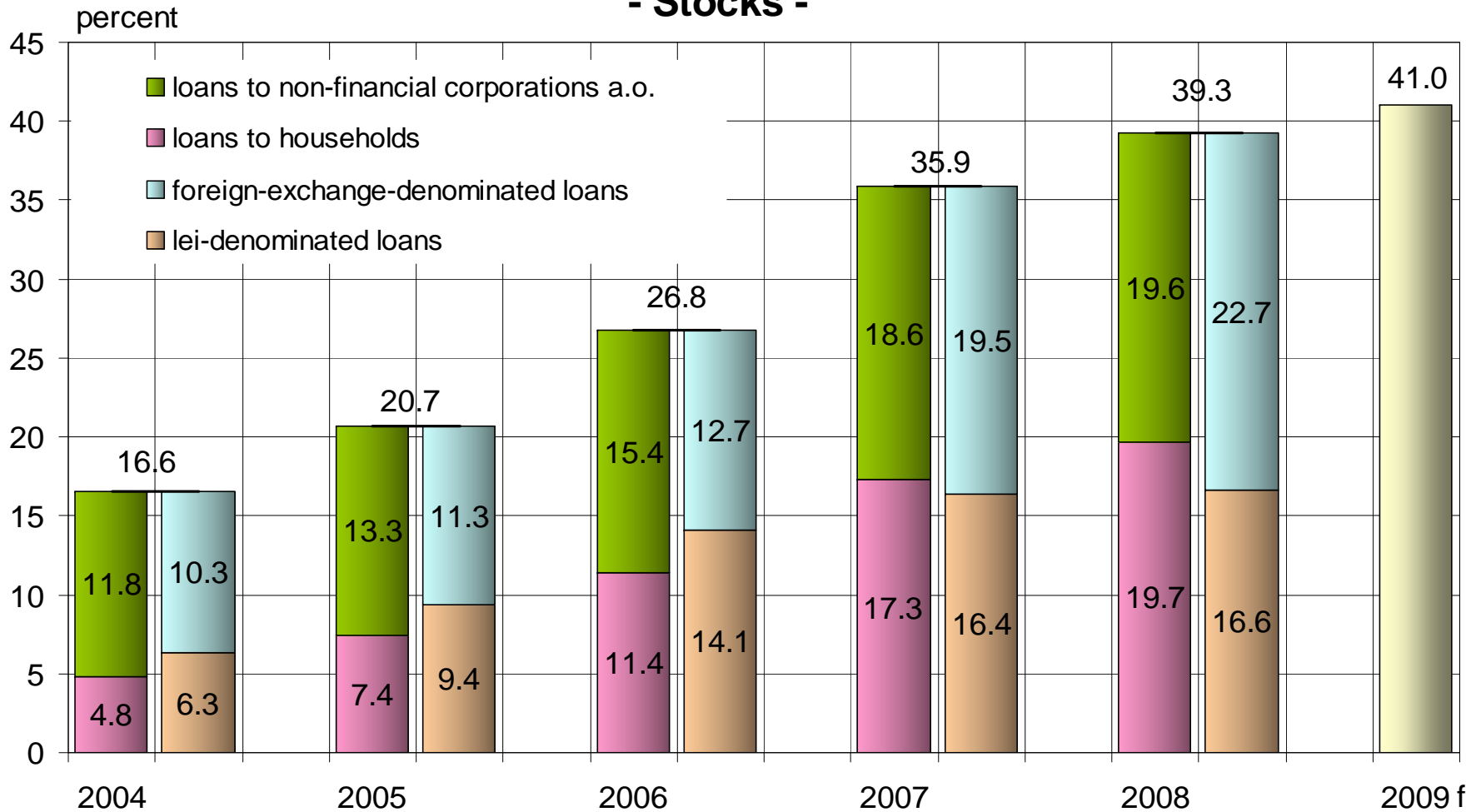
Spreads of Five-year CDS for Emerging Economies in Central and Eastern Europe



Source: Bloomberg

Financial Intermediation*

- Stocks -



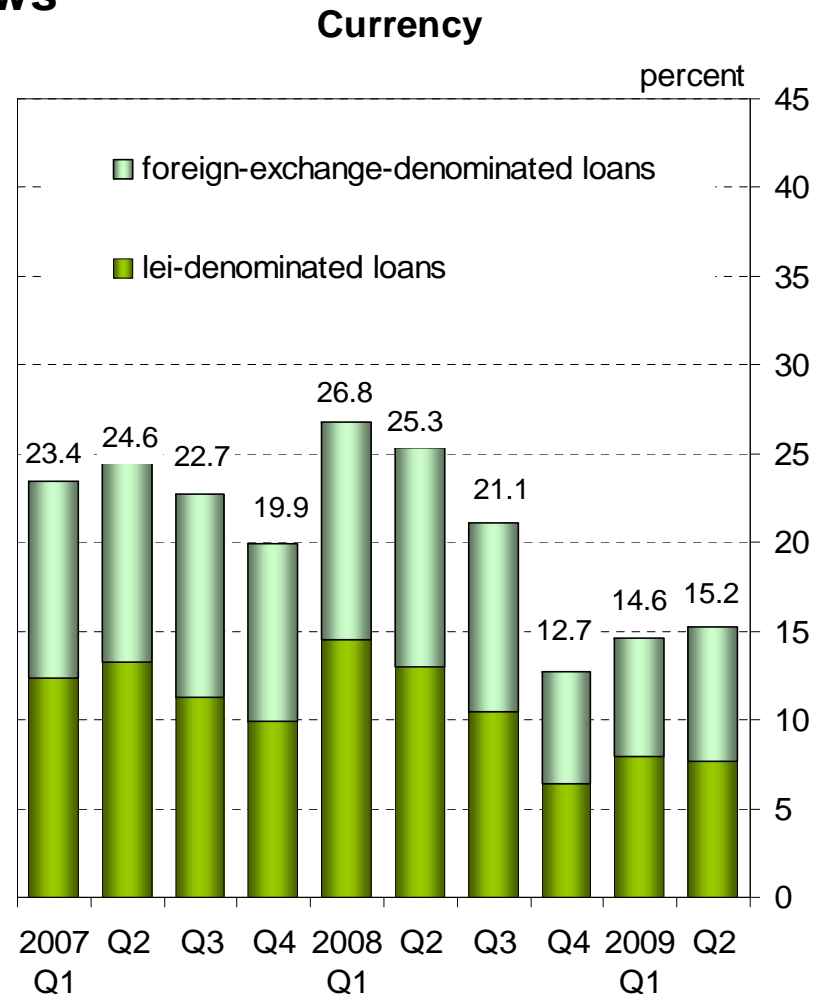
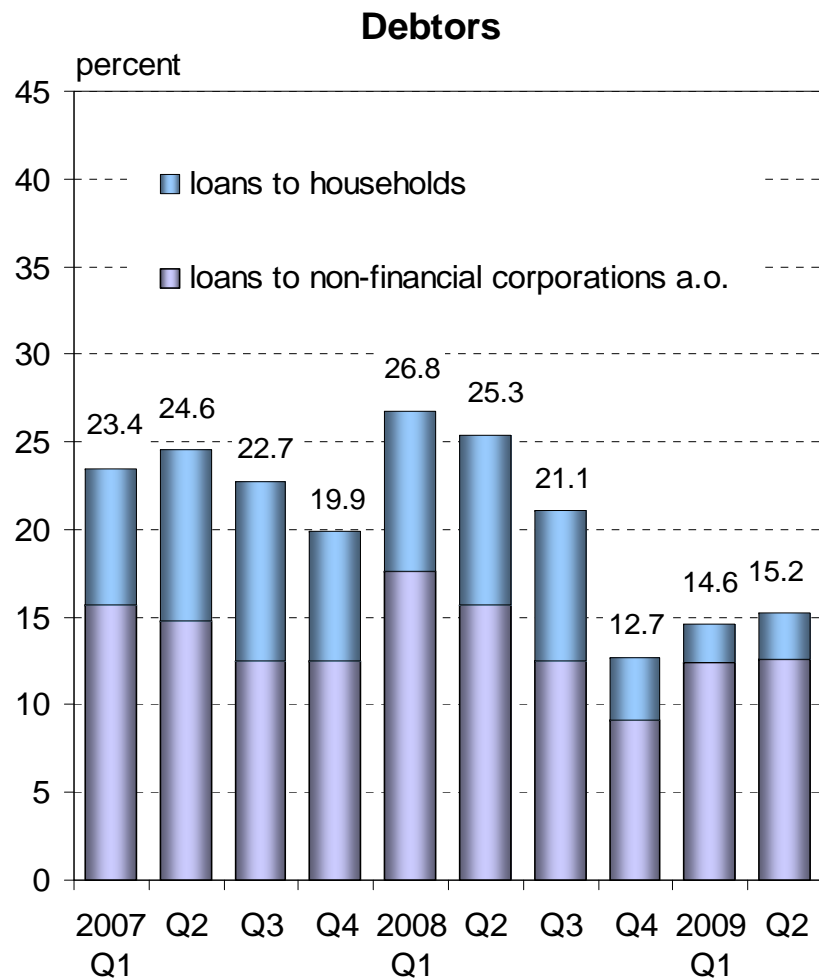
*) loans to the private sector / GDP

f) forecast

Source: National Bank of Romania, National Institute of Statistics, National Commission of Prognosis

Financial Intermediation*

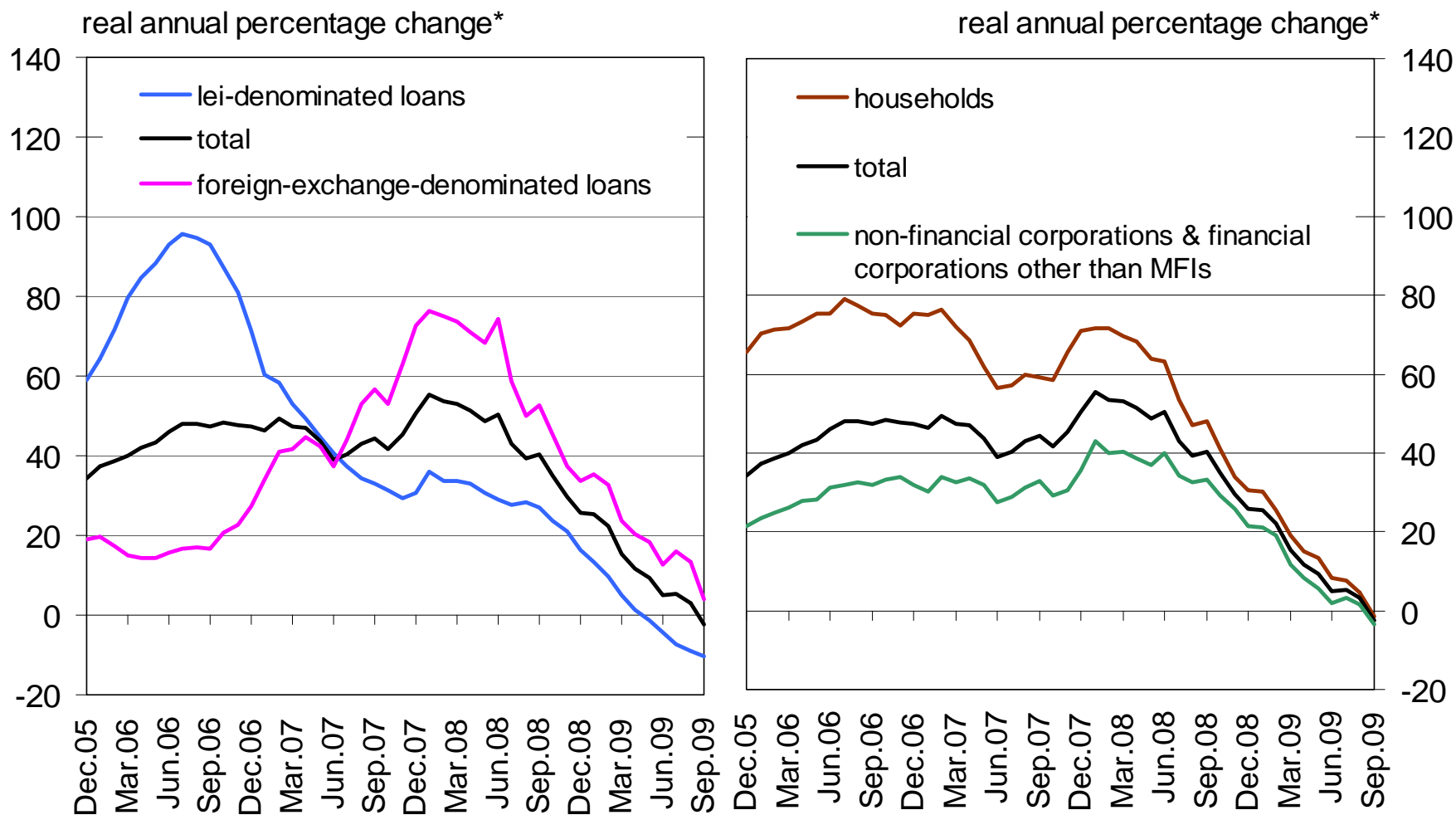
- Flows -



Source: National Institute of Statistics, National Bank of Romania

*) percent in quarterly GDP

Loans to the Private Sector



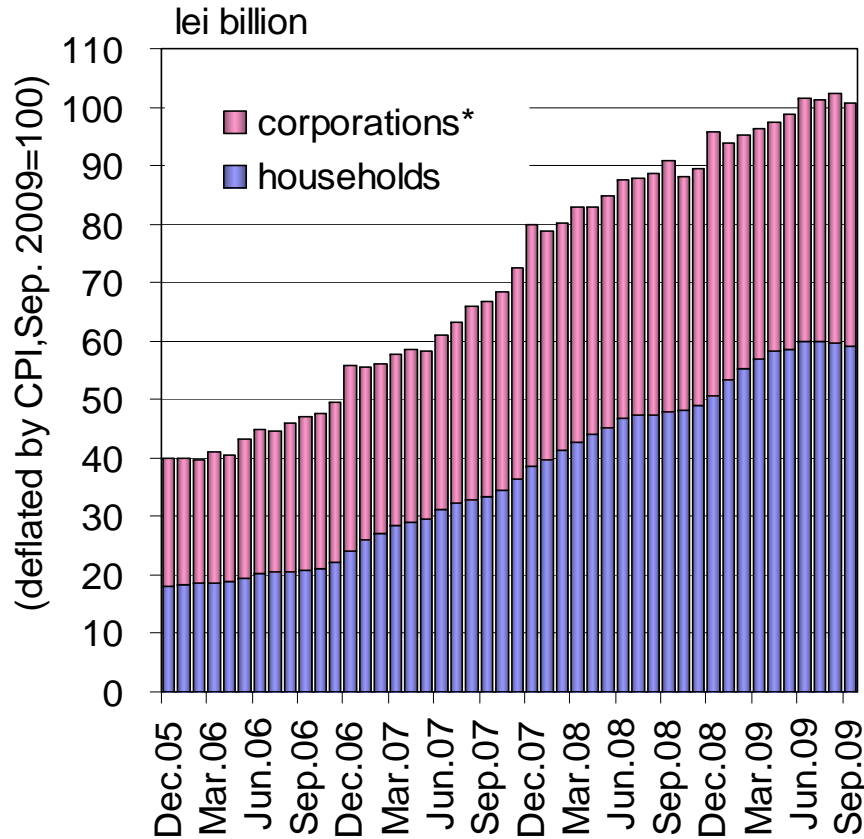
Source: National Bank of Romania, National Institute of Statistics

*) based on CPI

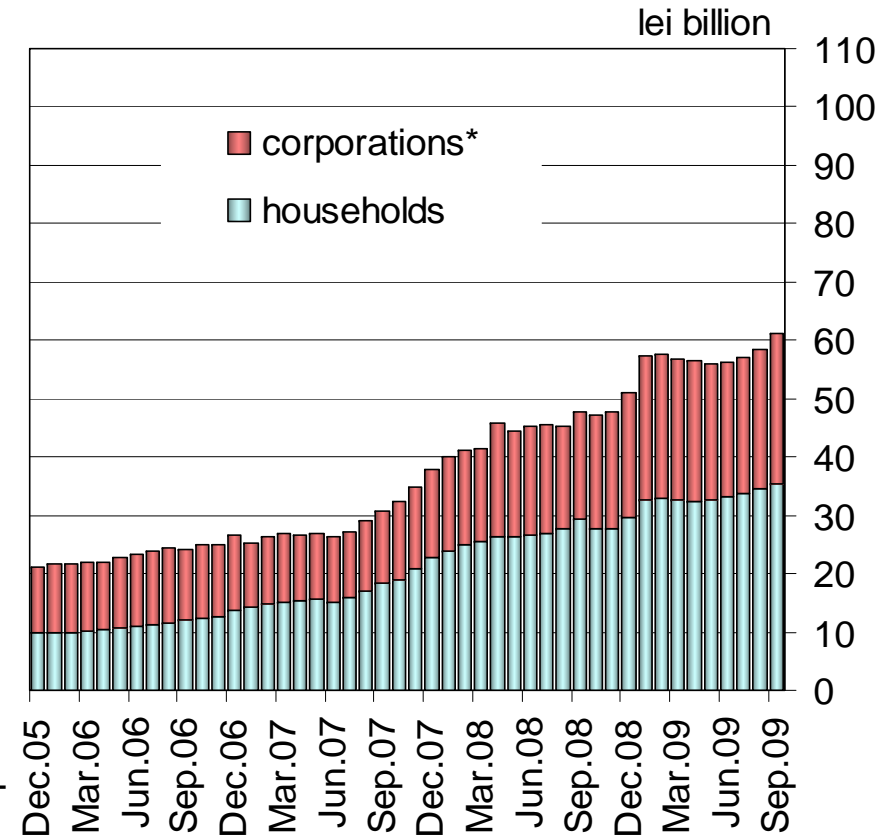
Private Sector Deposits

(in real terms)

lei-denominated deposits



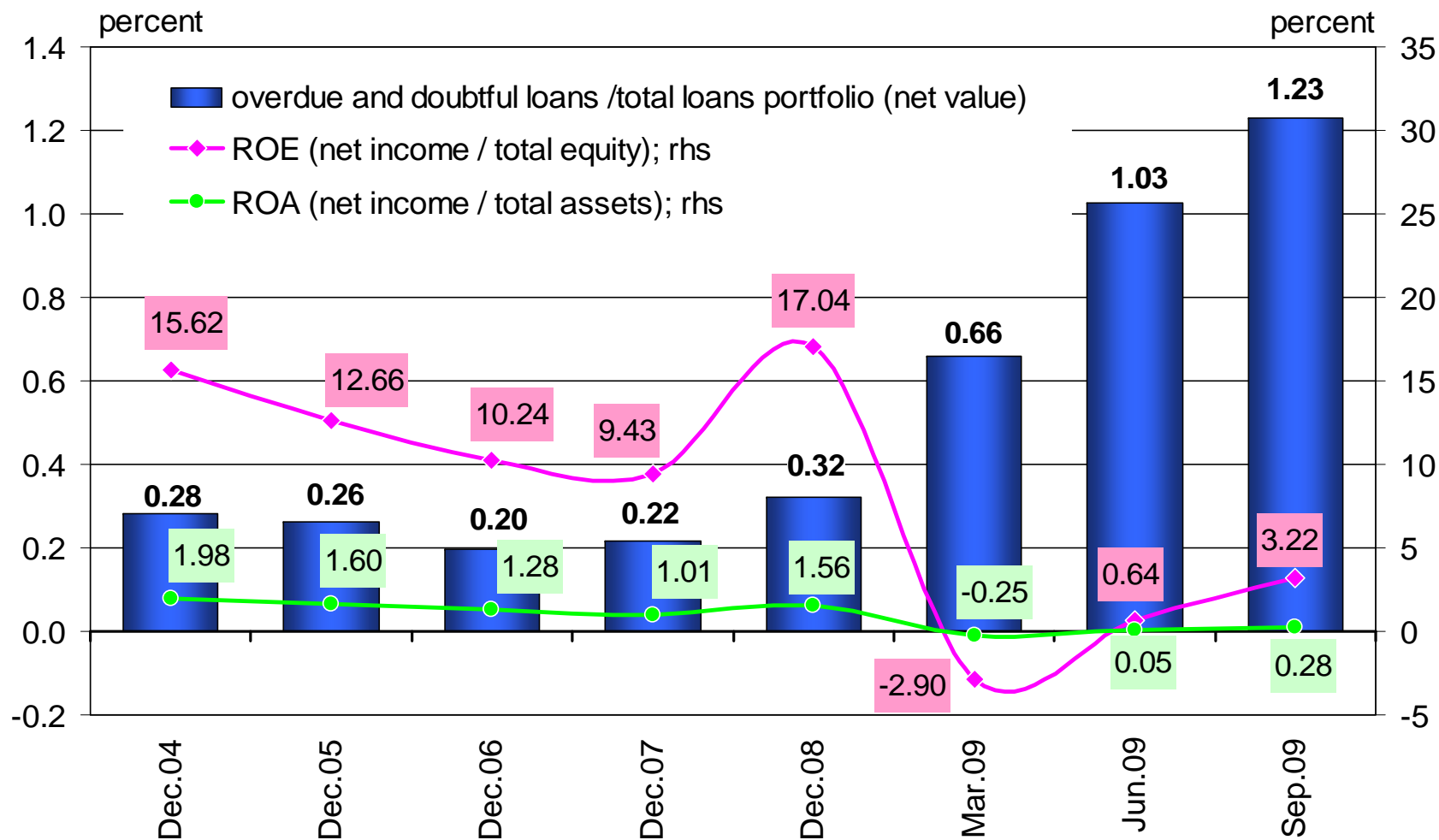
foreign-exchange-denominated deposits



*) non-financial corporations and financial corporations other than MFIs

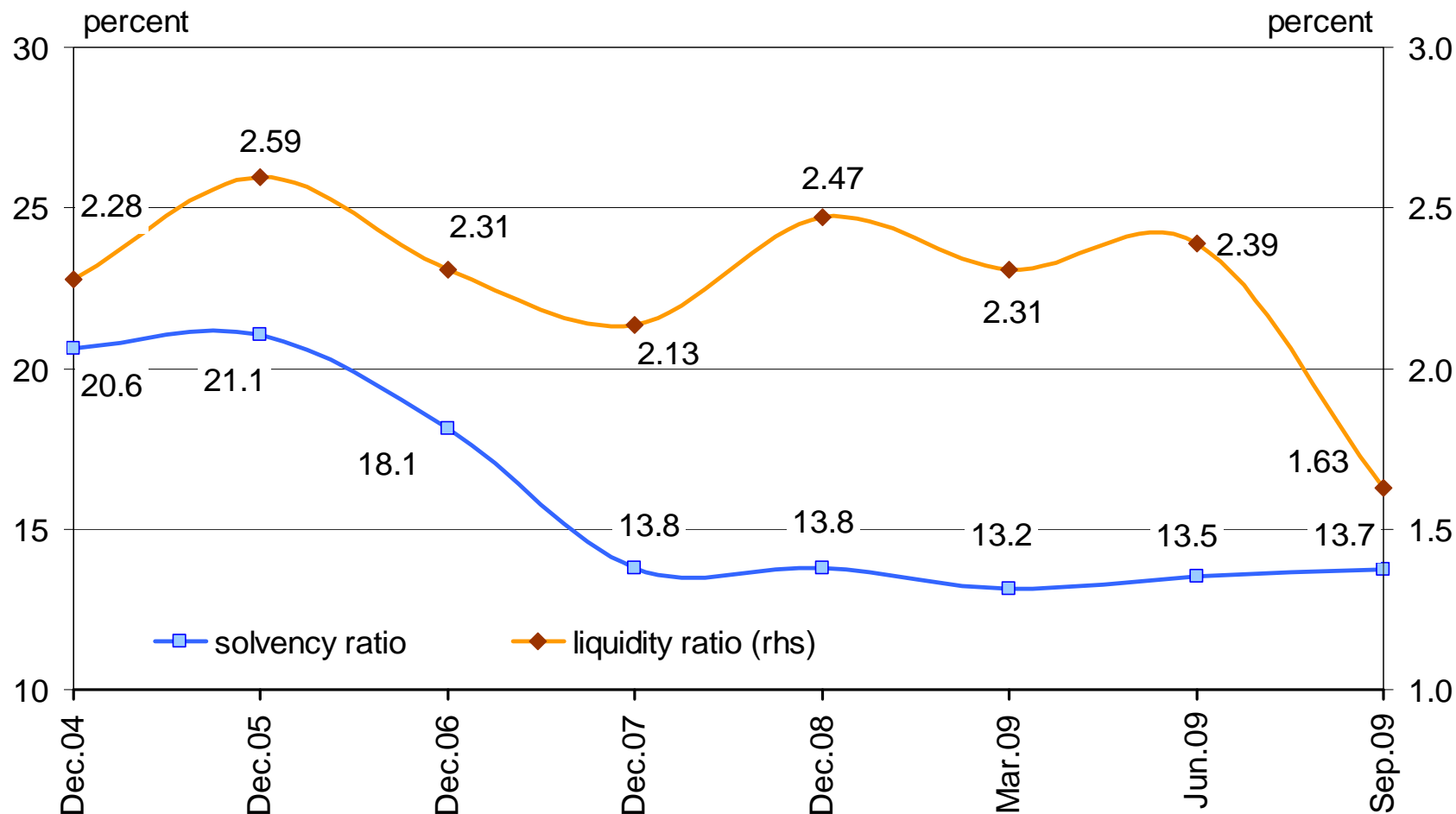
Source: National Bank of Romania, National Institute of Statistics

Analysis Ratios for the Banking System (1)



Source: National Bank of Romania

Analysis Ratios for the Banking System (2)



At present, no credit institution has a solvency ratio below the 10 percent threshold.

Source: National Bank of Romania

BANKING INDICATORS (Banks, Foreign Bank Branches and CREDITCOOP)

		percent							
Indicators		Dec.07	Mar.08	Jun.08	Sep.08	Dec.08	Mar.09	Jun.09	Sep.09
Capital adequacy									
1	Solvency ratio (>8%)	13.78	12.99	12.78	11.85	13.76	13.16	13.51	13.73
2	Leverage ratio (Tier 1 capital /Total assets, average)	7.32	7.20	7.30	7.10	8.13	6.81	6.92	7.04
Asset quality									
3	Loans (gross value) / Total assets (gross value) (1)	59.09	62.06	63.47	65.04	62.50	60.00	59.11	60.34
4	Interbank placements and loans (gross value) / Total assets (gross value) (1)	29.98	27.54	26.09	24.79	26.01	24.98	23.91	21.91
5	Past-due and doubtful loans / Total loan portfolio (net value) (1)	0.22	0.22	0.30	0.24	0.32	0.67	1.03	1.27
6	Past-due and doubtful loans/Total loan portfolio (gross value)	0.77	0.83	0.95	1.07	1.37	2.16	2.68	3.13
7	Past-due and doubtful claims / Total assets (net value) (1)	0.17	0.19	0.25	0.22	0.29	0.52	0.75	0.92
8	Provisioning for risk-weighted exposure of banks to non-bank loans and interbank placements and related interest classified under "substandard", "doubtful" and "loss" (2)	85.4	90.5	91.0	89.7	86.2	88.5	89.6	87.7
Profitability									
9	ROA (Net profit /Total assets, average)	1.01	1.51	1.44	1.77	1.56	-0.25	0.05	0.28
10	ROE (Net profit / Own capital, average)	9.43	16.45	15.82	19.41	17.04	-2.90	0.64	3.22
Liquidity									
11	Cash ratio	38.70	34.98	33.23	31.74	34.43	33.05	33.62	34.08
12	Liquidity ratio (effective liquidity / required liquidity)	2.13	2.29	2.30	2.45	2.47	2.31	2.39	1.63
13	Loans to clients / Deposits from clients	108.7	116.1	119.6	124.7	122.0	124.7	119.2	117.6

Note:

(1) Indicators calculated based on accounting prudential reports.

(2) Indicators calculated based on loan classification reports (pursuant to Regulation 5/2002, as subsequently amended and supplemented). Loan exposures are classified by credit institutions in line with debt servicing, the debtor's financial standing and

x = it is not the case

Source: National Bank of Romania