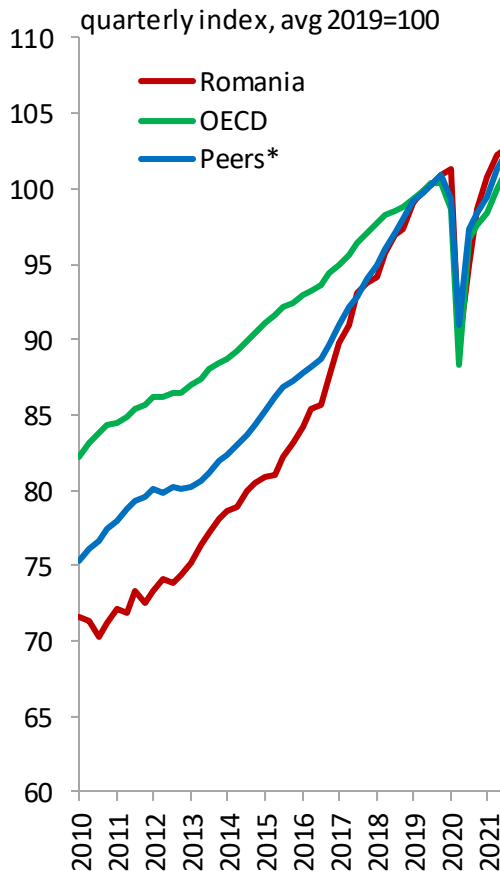

Romania:
Recent Macroeconomic &
Banking System Developments

February 2022

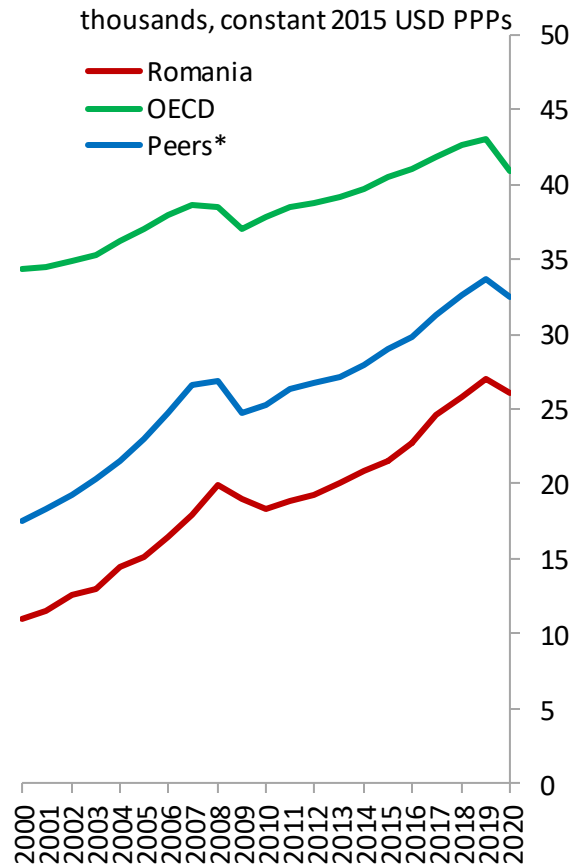
Economic activity

Real GDP



*) Peers is the unweighted average of Czechia, Estonia, Hungary, Latvia, Lithuania, Slovakia, Slovenia, and Poland

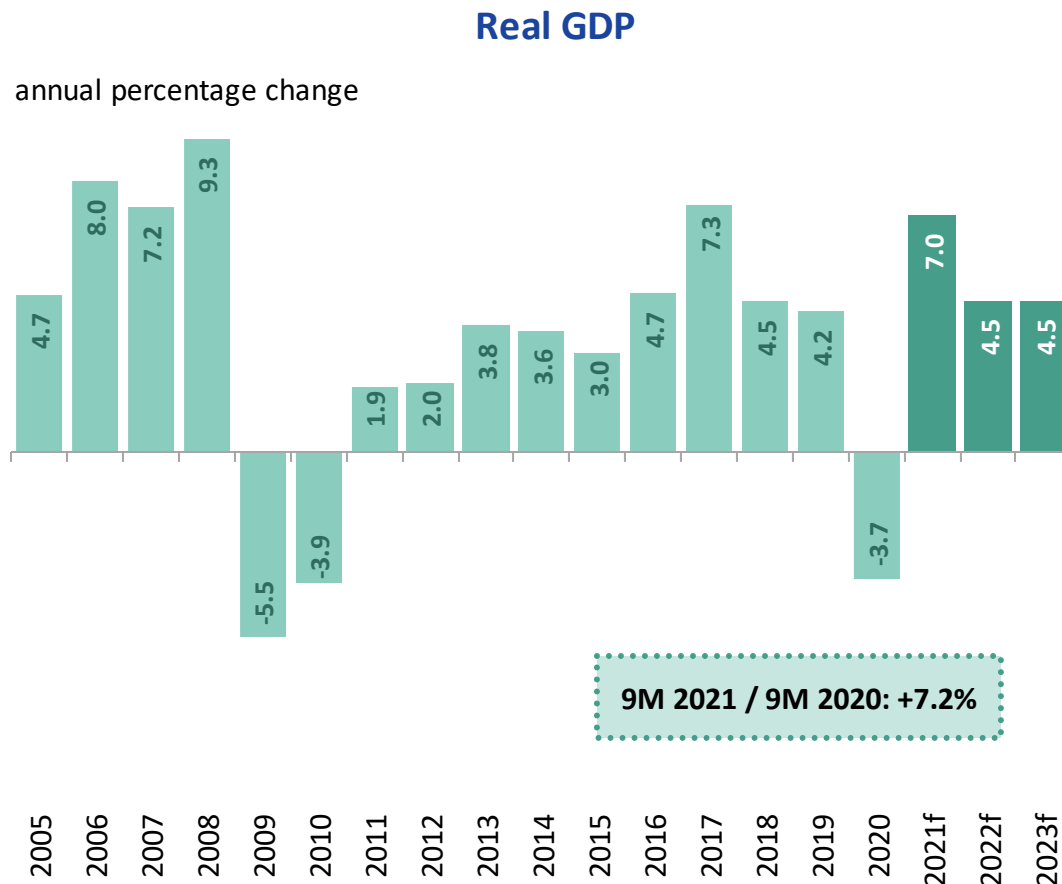
Real GDP per capita



- As stated in the *OECD Economic Surveys – Romania 2022*, Romania experienced a robust economic performance before the pandemic
- As a result, the gap in GDP per capita as compared to the OECD average narrowed from close to 70% to around 35%
- Regional disparities inside the country continue to be a concern, with the richest region (B-IF) sitting at 160% the EU average in terms of GDP/capita, and the poorest one (N-E) at just 44%, one of the highest differences in Europe

Source: OECD

Recovery after the first pandemic wave

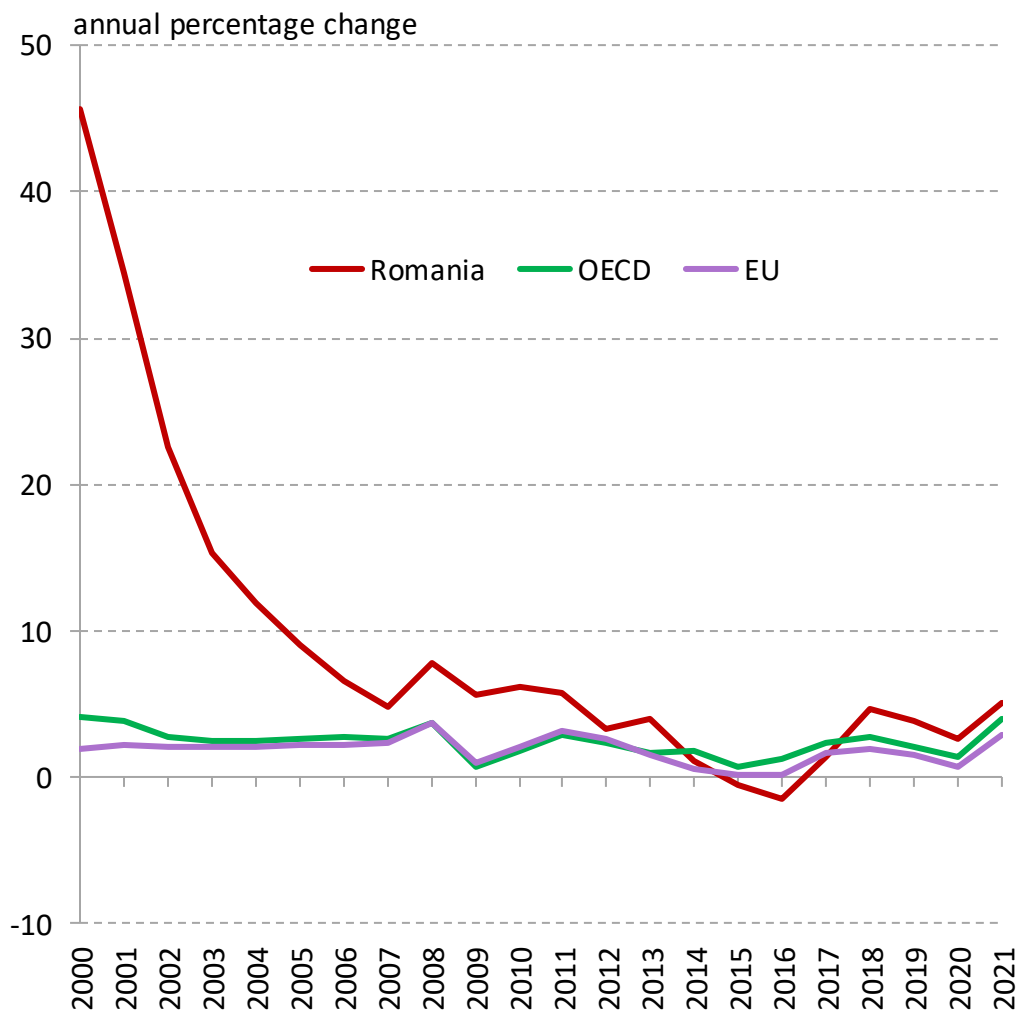


- The pandemic has slowed down the convergence process, but the recovery from the initial hit has been fast
- After declining by 3.7% in 2020, GDP reached its pre-crisis level at the beginning of 2021 and is seen advancing by around 7% in 2021 and around 4% in the next two years

f) EC forecast (Nov. 2021) for 2021;
OECD forecast (Jan. 2022) for 2022 and 2023

Source: NIS, EC, OECD

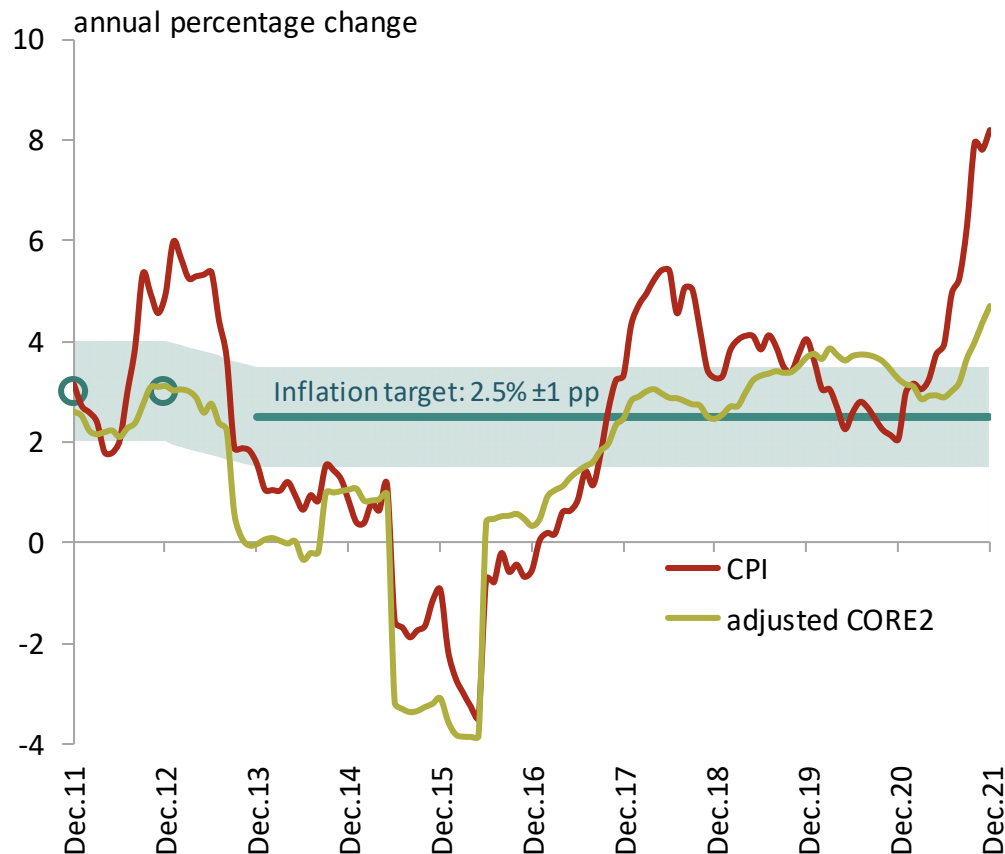
Headline inflation



- Two decades ago, Romanian inflation stood inside the two-digit range
- After the adoption of an inflation targeting regime (2005), and the accession to EU (2007), the NBR, as part of the ESCB, has acted steadily towards bringing inflation down to the levels prevalent among European countries

Source: OECD, Eurostat

Recent developments in headline and CORE inflation

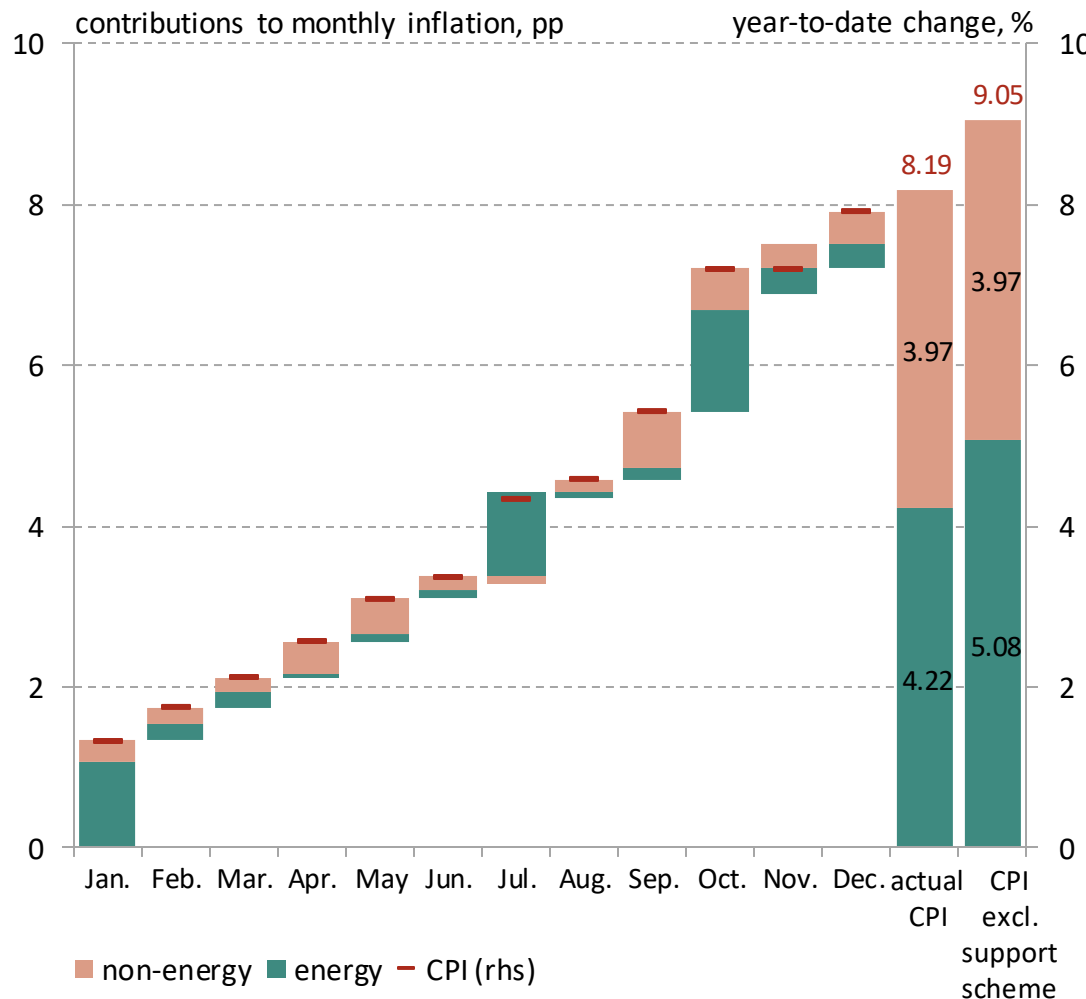


Note: The adjusted CORE2 is the core inflation measure that excludes from the headline CPI administered prices, volatile prices (vegetables, fruit, eggs and fuels), prices of tobacco products and alcoholic beverages, as well as prices of electricity and natural gas (the latter are no longer administered as of January 2021).

- The headline inflation rate remained inside or below the target variation band for much of the seven years leading into 2021
- Recent developments, related to the energy market in particular, gave way to the highest inflation rate in more than a decade at the end of last year (8.2%)
- Core inflation has behaved better, but has also followed an upward trend since July 2021
 - ✓ Supply side shocks were the main driver (increases in commodity prices, particularly energy, and bottlenecks in production and supply chains)
 - ✓ Favourable demand conditions facilitated the transmission into final prices

Source: NIS, NBR

Energy contribution to the annual CPI inflation in 2021



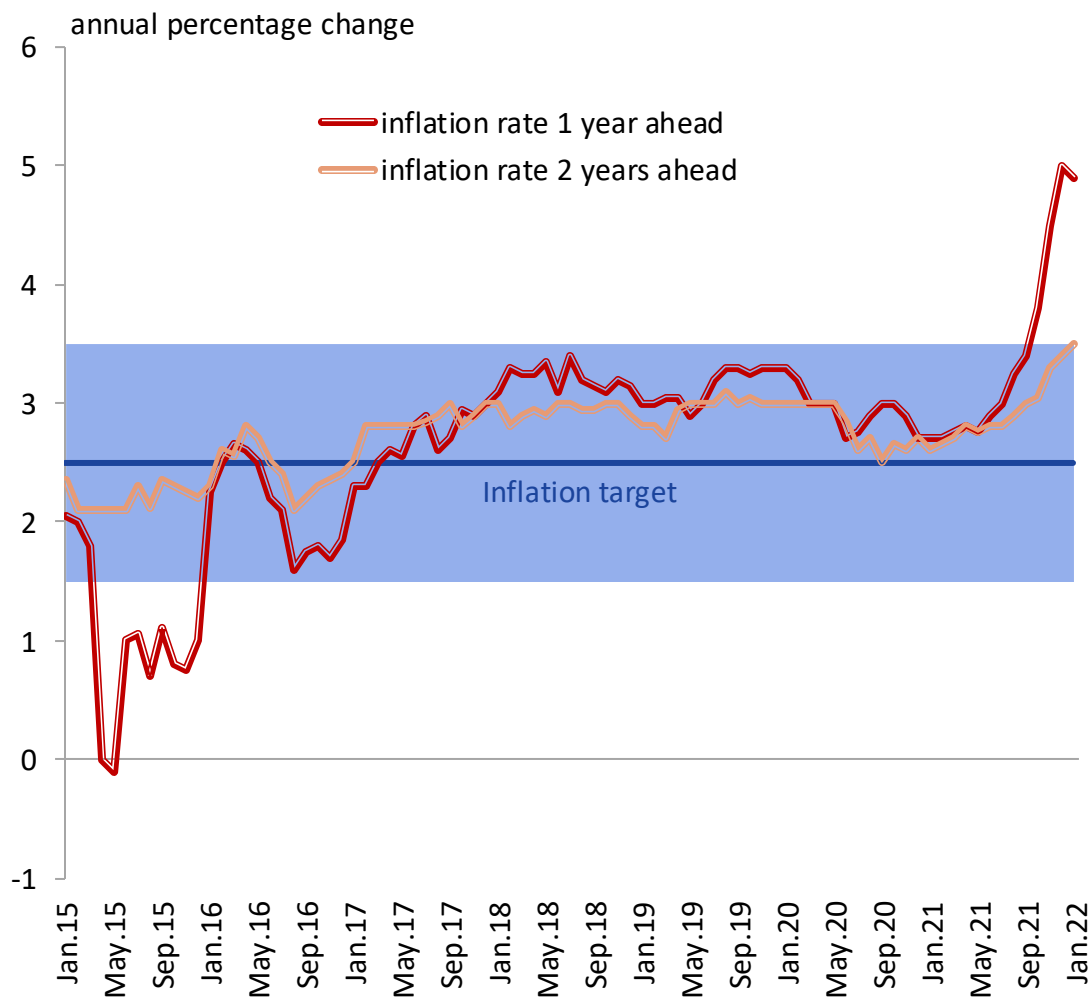
Note: The sum of monthly inflation rates is merely an approximation of the annual rate, which is in fact somewhat higher.

Source: NIS, NBR calculations and estimates

- Inflationary shocks on the energy components of the consumption basket hit repeatedly throughout 2021
- These were partly offset by a government support scheme, in effect from November 2021 through March 2022
- Nevertheless, the energy component still accounted for more than half of the overall annual inflation rate by the end of 2021

Inflation expectations

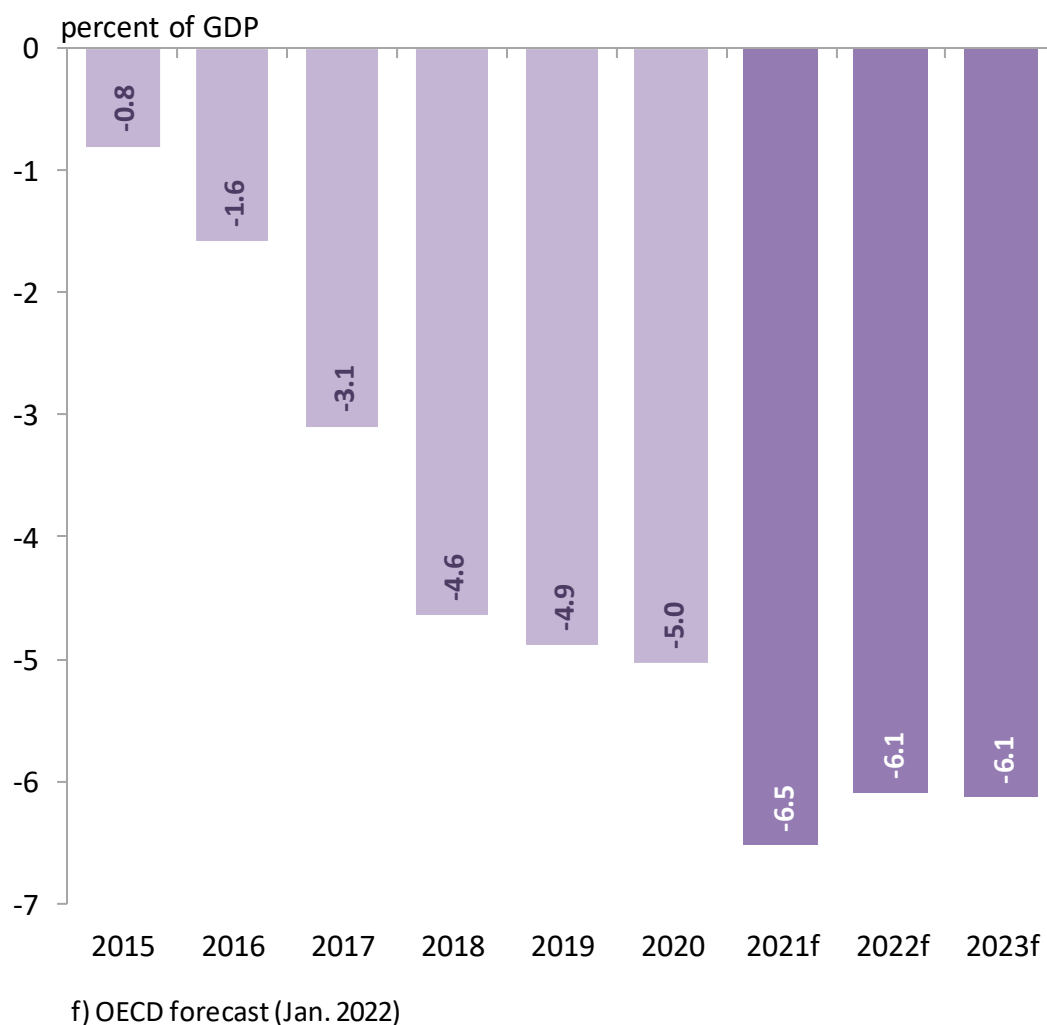
Financial analysts



- Inflation expectations on the 1-year horizon have risen sharply, reflecting current developments
- The positioning of the 2-year ahead expectations close to the target variation band suggests that the anchoring mechanism is still well in place

Source: NBR's survey among financial analysts

Current account deficit



- From levels below 5% of GDP over 2015-2019, the current account deficit worsened during the pandemic
- The accommodative fiscal stance, mostly related to the health crisis, had the largest contribution to the widening current account deficit
- Also, current account deficit increased in 2021 as exports were hampered by persistent disruptions in the supply chains and by the rise in prices for energy and other commodities
- More than 40% of trade deficit widening came from the unfavorable developments in terms of trade

Source: NBR, OECD

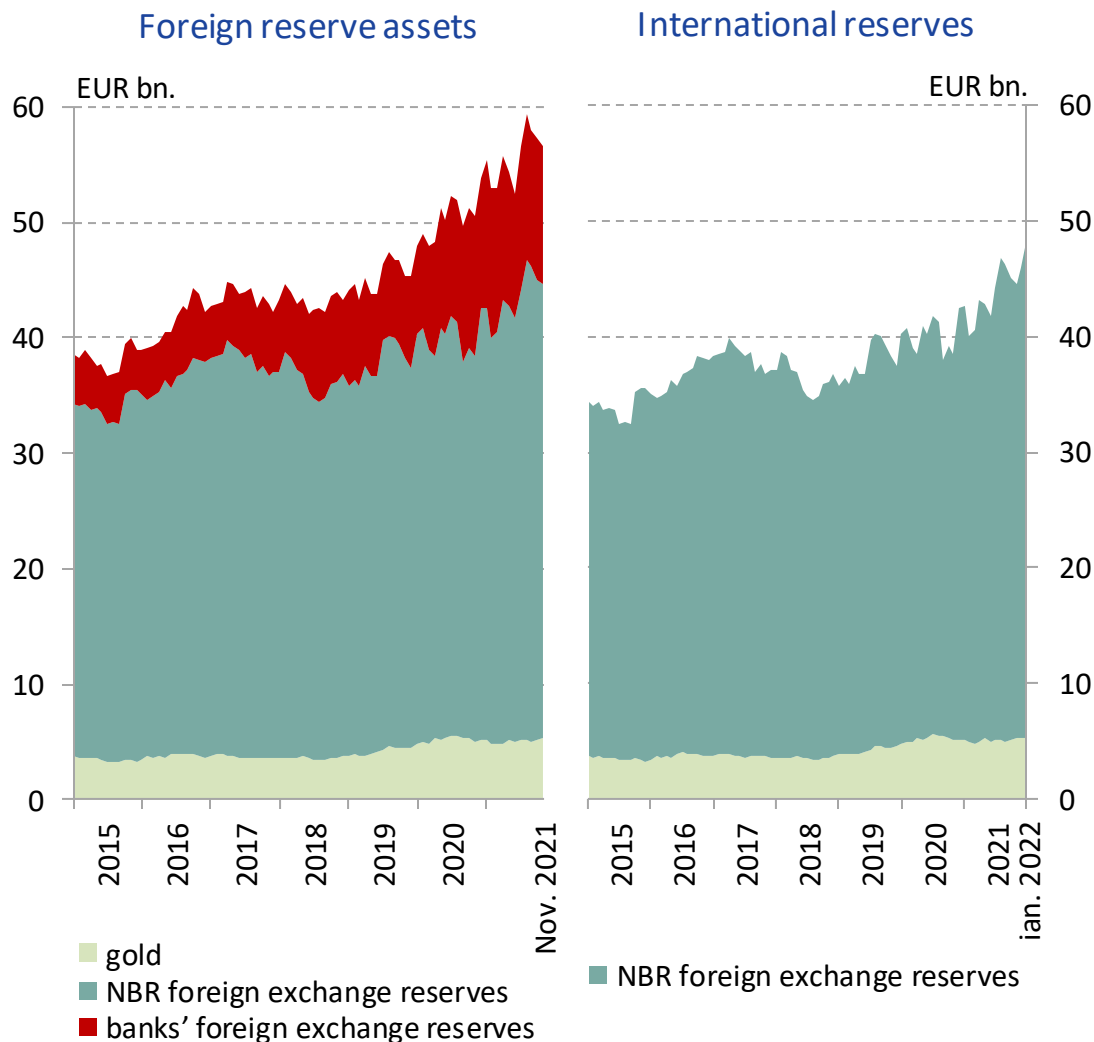
Nominal exchange rate (daily data)



- Since implementing the inflation targeting (2005) and joining the ESCB (2007), the NBR operated in a managed float regime
- The managed float regime allows for a mitigation of excess exchange rate volatility, which would increase the overall uncertainty in the current circumstances and hinder our inflation tackling efforts

Source: NBR

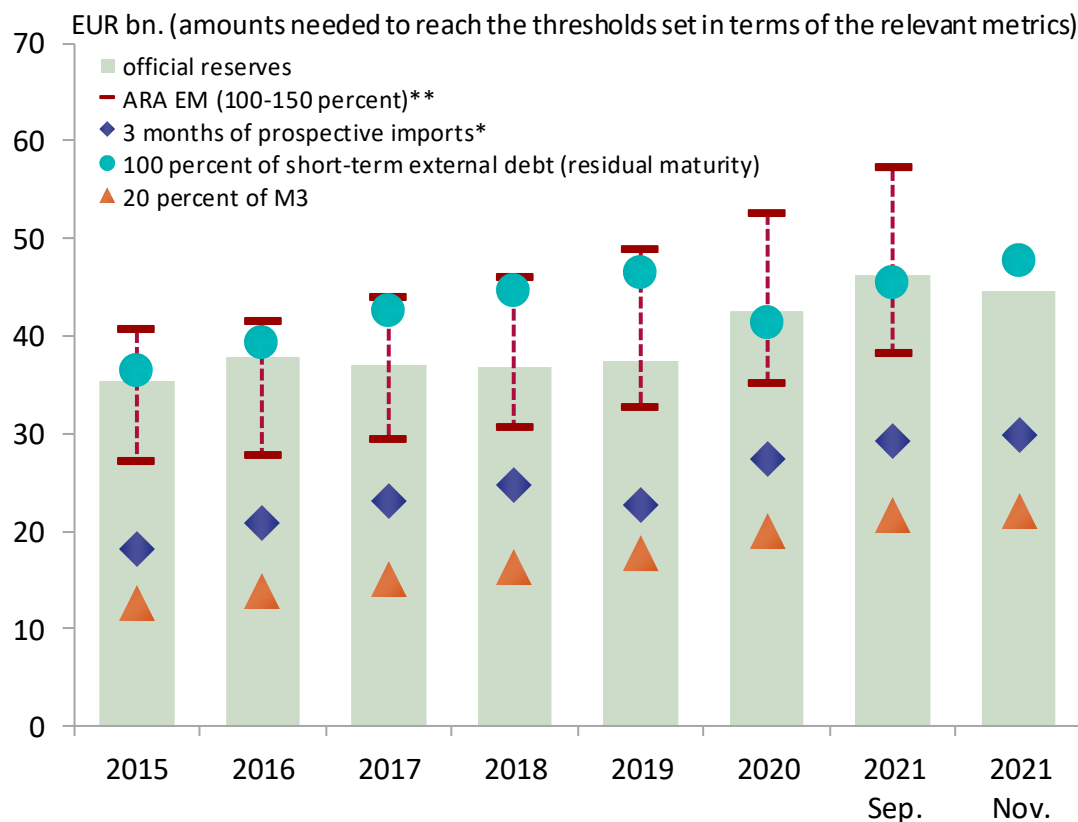
Foreign reserve assets



- Official reserves remained on a robust path, reaching EUR 48.5 billion at end-January 2022 ...

Source: NBR

Official reserves adequacy



*) calculated based on 12M prospective imports of goods and services

**) This indicator is calculated based on the IMF's measure developed for emerging market economies (ARA EM). A broader-based metric is considered in order to capture risk sources such as external liabilities, external demand contraction and capital flight.

For prudential reasons, ARA EM metric is calculated based on the average of coefficients used in the case of a floating and fixed exchange rate regime. Thus, ARA EM metric = 30% of ST debt (residual maturity) + 17.5% of Other liabilities + 7.5% of Exports of goods and services + 7.5% of Broad money.

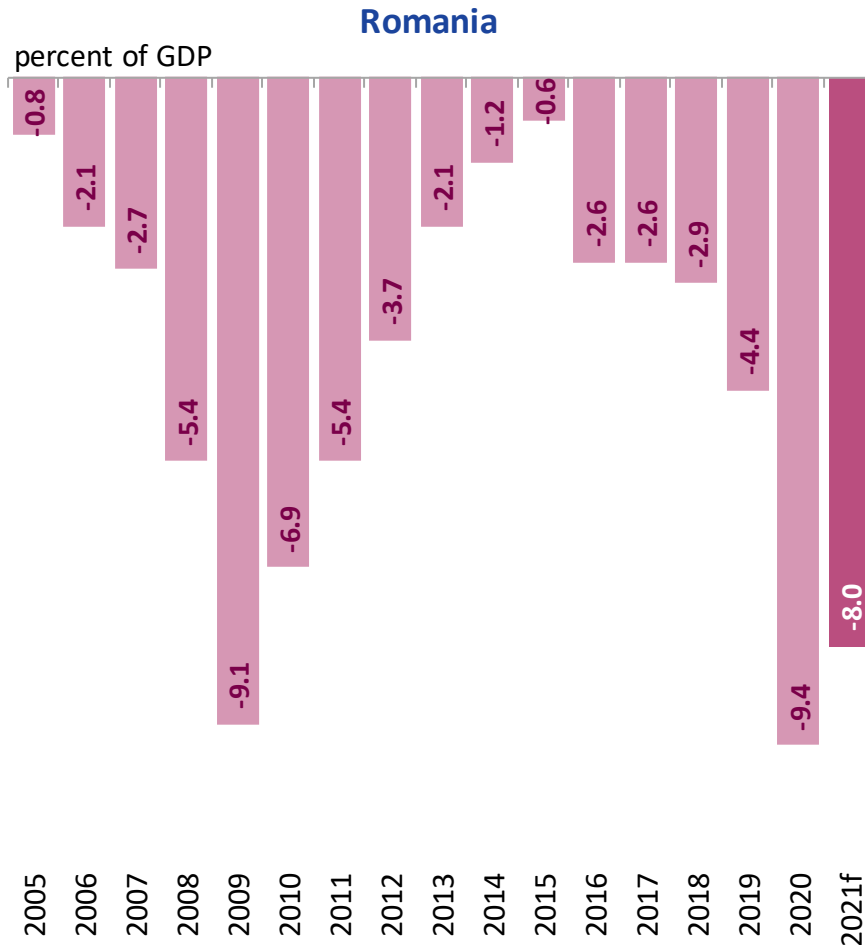
... thus cushioning the risk of exposure to external shocks. Their adequate level is mirrored by most relevant measures

The latest data show that international reserves cover 4.5 months of prospective imports of goods and services (at end-November 2021) and ensure a full coverage of the risk sources as captured by the IMF's ARA Metric (at end-September 2021)

Source: IMF, NBR

General government balance

(according to ESA 2010)



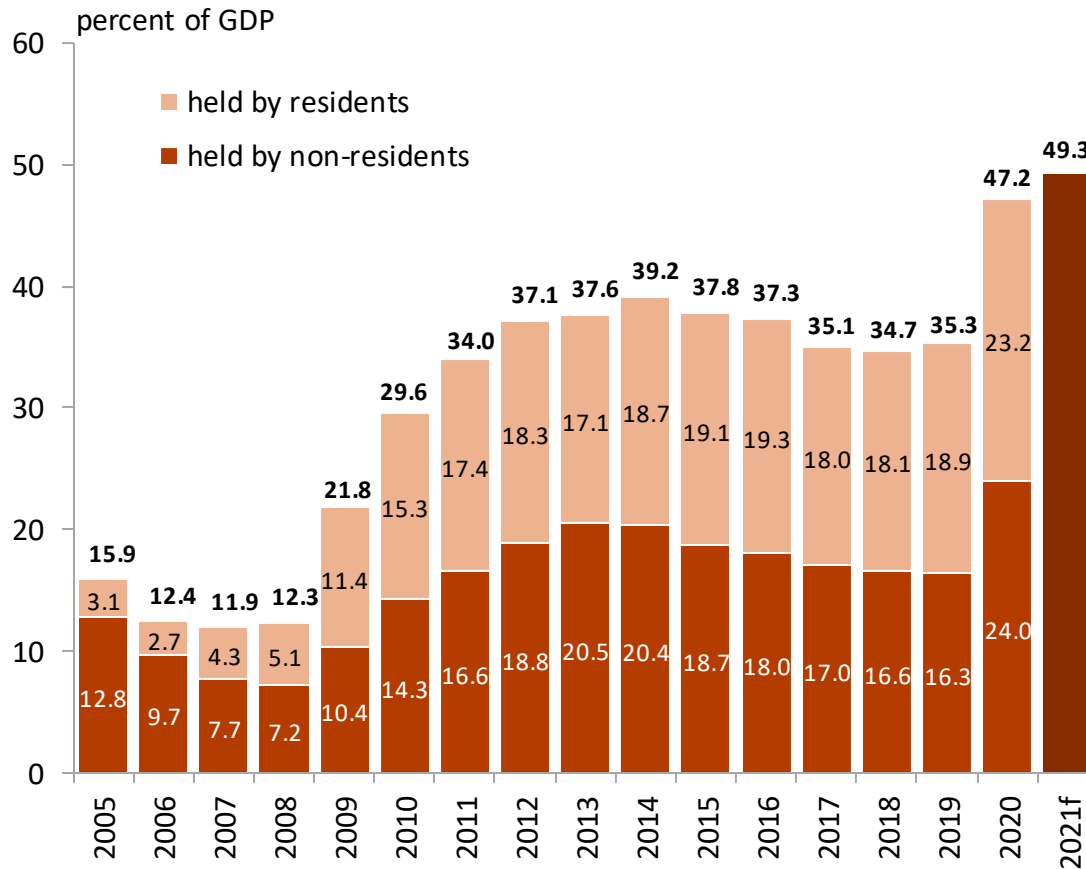
f) forecast, European Commission (Ameco)

- ❑ The pandemic led to a surge in the fiscal deficit and the current levels are high, but Romania is not an outlier when compared to other EU Member States
- ❑ Fiscal consolidation efforts are under way and the path should be maintained
- ❑ Cash deficit figures for 2020 and 2021 stood at 9.7% and 6.7% respectively; authorities target a level of 5.8% for 2022

Source: Eurostat

Public debt

(according to ESA 2010)



f) European Commission – European Economic Forecast, Autumn 2021

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%, Dec.20=12.3% and Dec.21=12.1%.

Source: MF, NBR, NIS

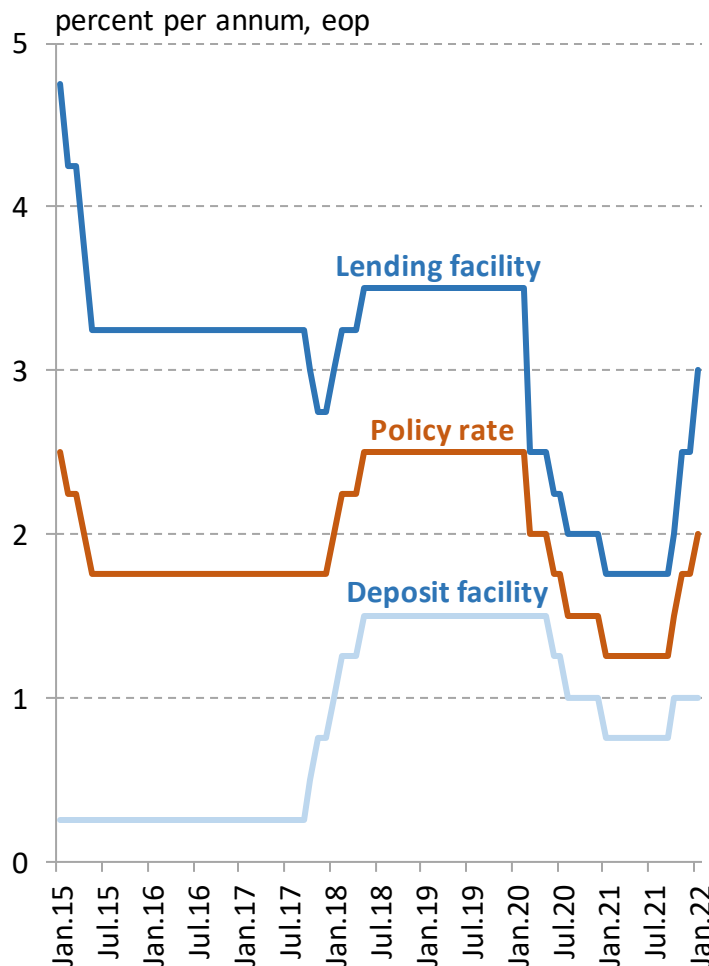
- Public debt jumped during the pandemic-induced turmoil, as policy took decisive action in order to mitigate the negative economic effects of the spread of the virus
- Overall levels are still moderate, but the fiscal consolidation effort is vital in terms of managing the debt burden

Recovery was strong, but vulnerabilities still linger

- ❑ Increase in inflation on the back of the energy crisis
 - ❑ Growing current account deficit
 - ❑ High fiscal deficit, in need of rapid consolidation
 - ❑ Growing public debt, but still below 60% of GDP
- ➔ During the pandemic, monetary policy rightly supported the economy, but amid recent inflationary pressures, the National Bank of Romania embarked on a path of policy normalization, in order to keep inflation from becoming entrenched

Monetary policy

NBR interest rates



Source: NBR

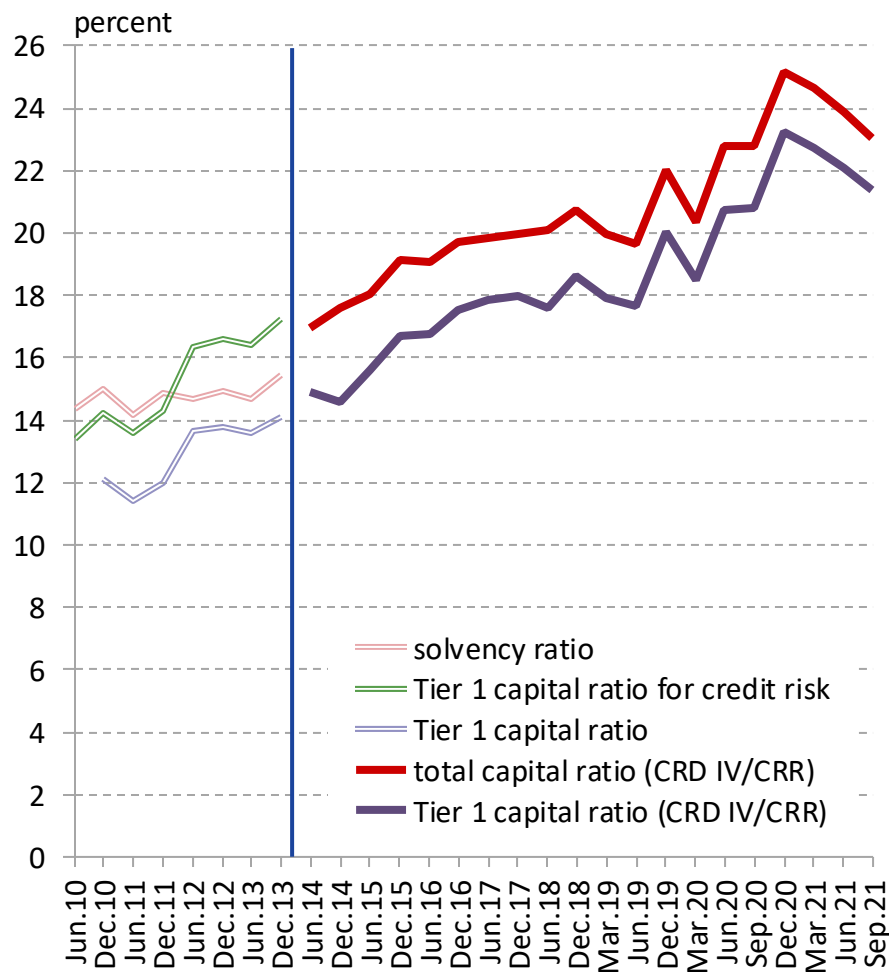
- When the pandemic broke out, the NBR initiated a program containing measures aimed at supporting the economy:
 - ✓ It lowered the policy rate, but stopped at 1.25%
 - ✓ Kept liquidity in the system at moderate levels
 - ✓ Acquired a moderate volume of government bonds on the secondary market
- Once inflation re-emerged, the NBR started a normalization process (spring 2021):
 - ✓ Stopped the purchase of government bonds
 - ✓ Tightened liquidity control
 - ✓ Since autumn – increased policy rate and narrowed the interest rate corridor

Key features of the banking system

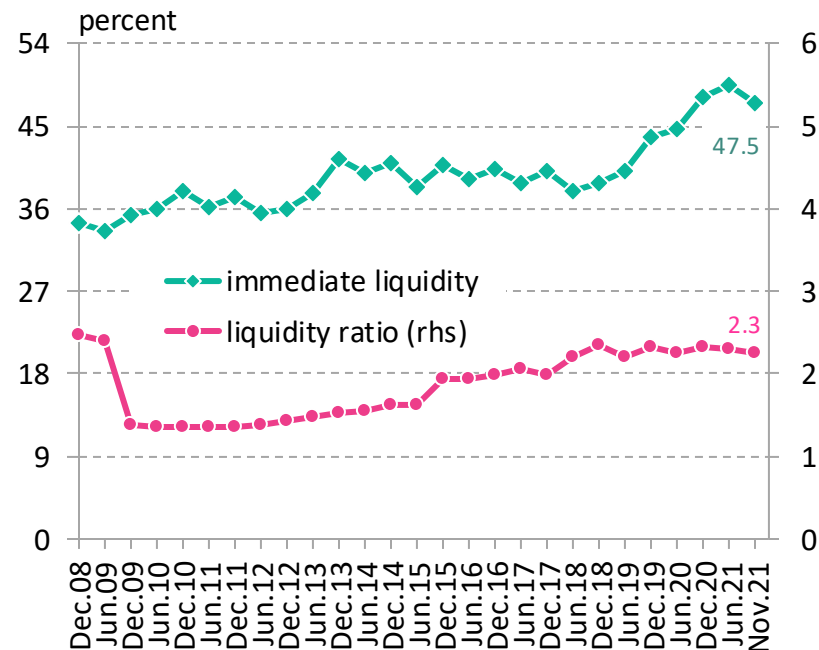
- ❑ The financial crisis in 2008 was followed by a process of banking system consolidation, resulting in a stronger position of the Romanian banking sector after 2014; the position remained solid during the pandemic-induced turmoil and subsequent recovery
- ❑ Capital adequacy and liquidity indicators are significantly above regulatory thresholds
- ❑ 2021 was the seventh straight year of profit making for Romanian banks, with the return-on-equity above 13% in the first 11 months of 2021
- ❑ The height of the pandemic-induced turmoil hardly left a mark as far as non-performing loans are concerned. The corresponding indicator ticked up to 4.4% in June 2020, from 4.1% at end-2019, and subsequently declined to 3.8% at end-2020 and 3.5% in November 2021

Analysis ratios for the banking system

Capital adequacy indicators



Liquidity indicators



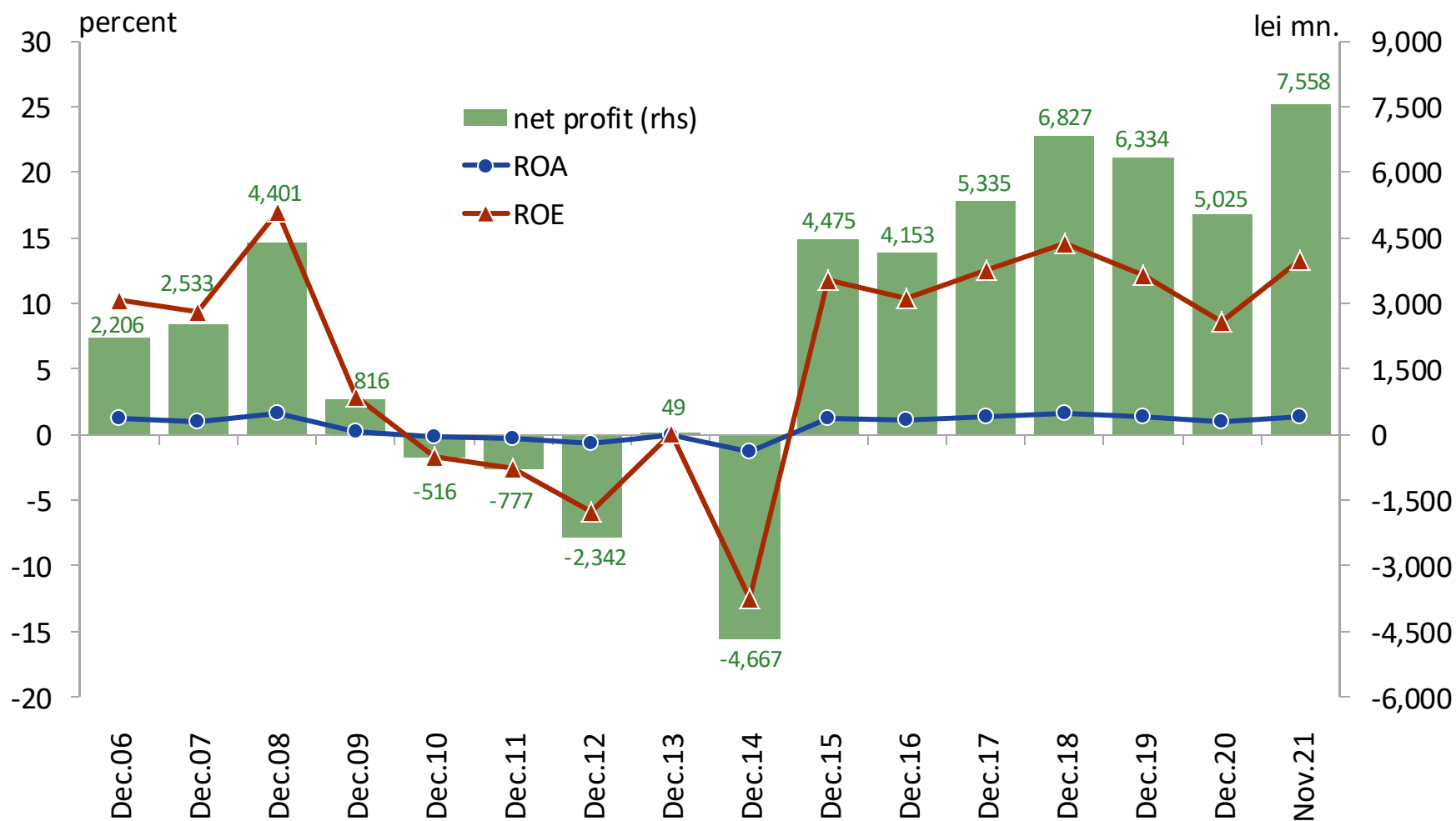
Immediate liquidity = (cash, demand deposits and time deposits with banks + unpledged government securities + unencumbered bonds) / Total liabilities (prudent level > 30%)

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.

Source: NBR

Banking system profitability



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

Source: NBR

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: NBR