

# Romania: Perspectives on Economy and Banking System



**Guillermo Tolosa**

Financial Sector Internal Control Conference

May 29<sup>th</sup>, 2014

# Romania: Perspectives on Economy and Banking System



**Guillermo Tolosa**

Financial Sector Internal Control Conference

May 29<sup>th</sup>, 2014

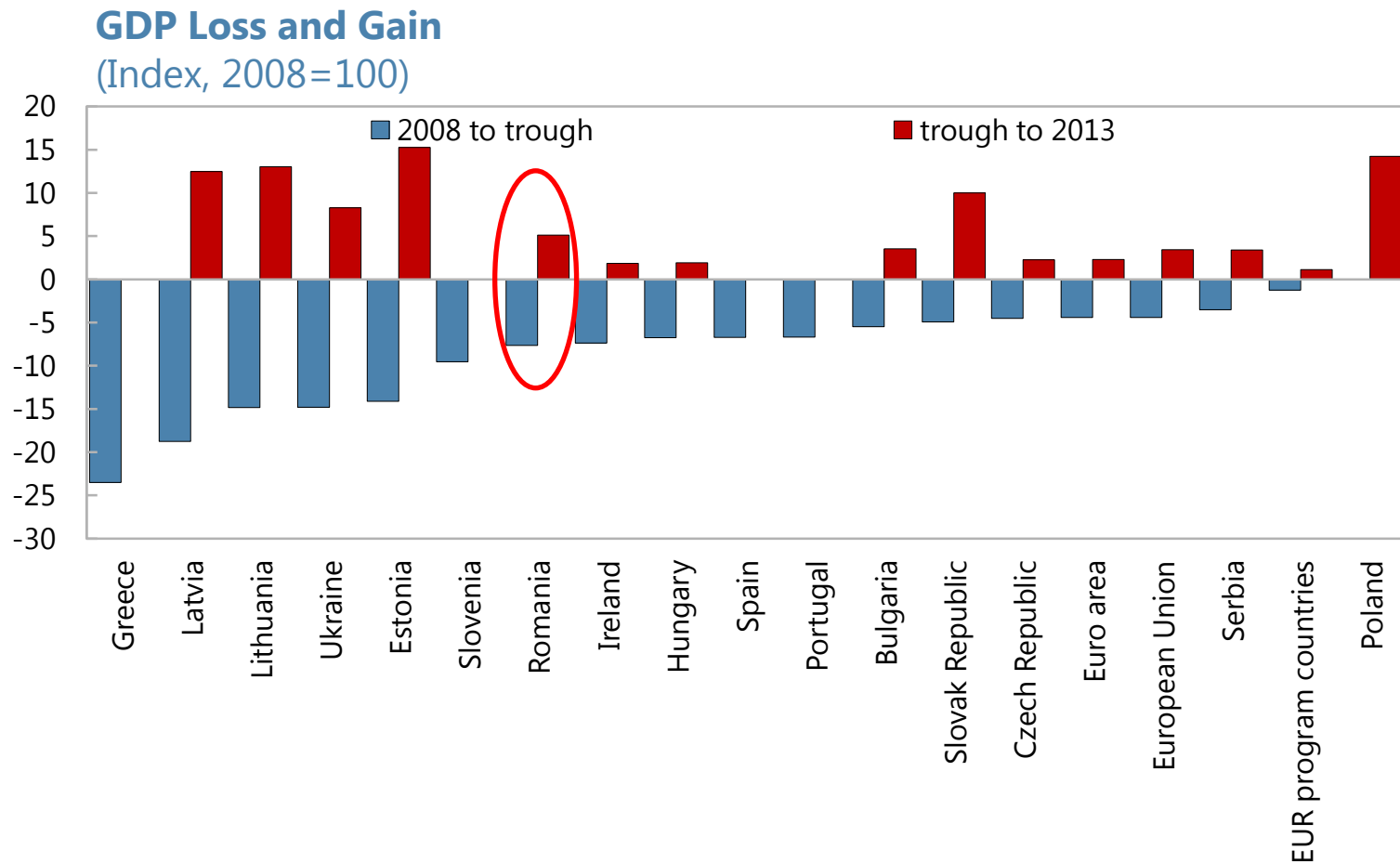


1. Economic growth
2. Banking system

# Economic growth



Romania will reach its pre-crisis GDP level this year, but its recovery has been slower than in other countries hard-hit by the crisis.

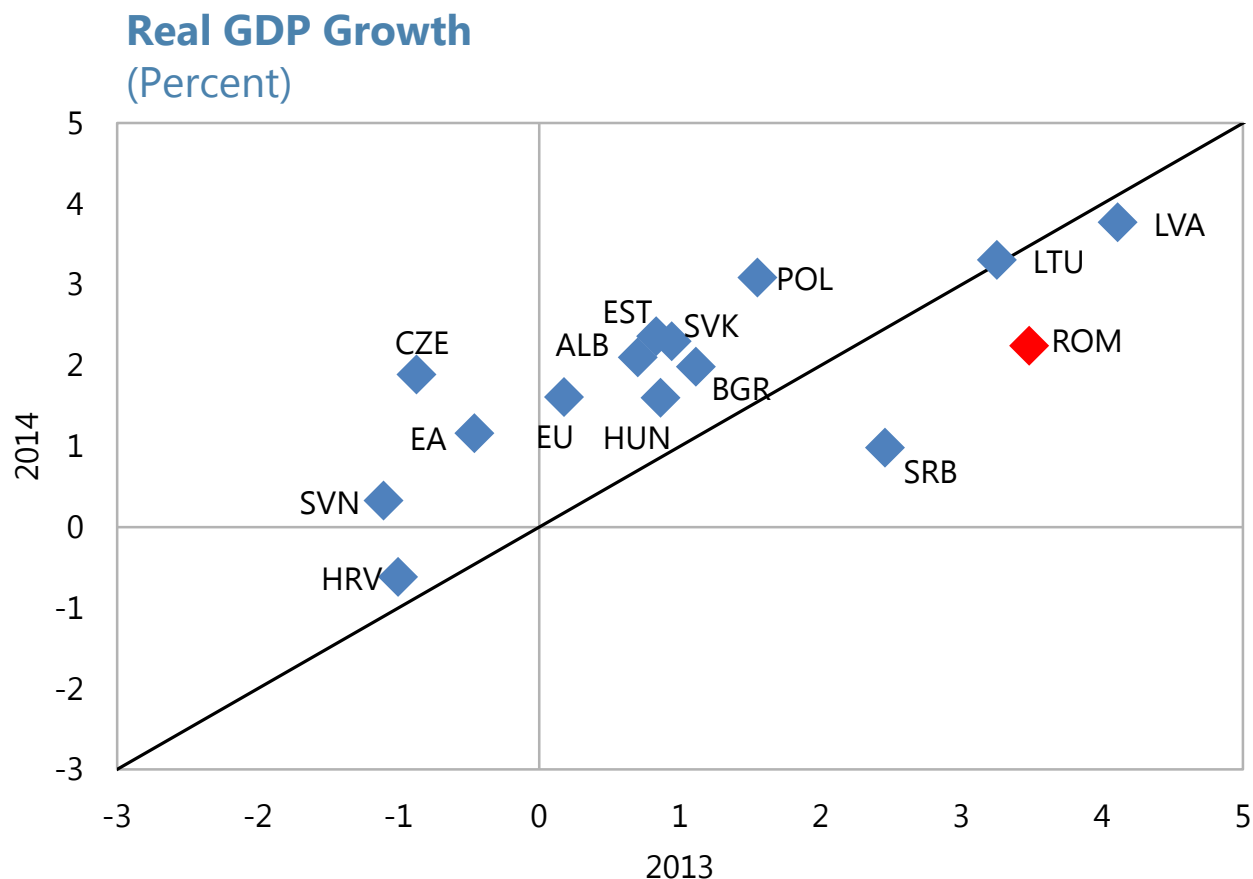


Source: IMF staff calculations.

# Economic growth



In 2013 it outperformed others in the region, but structural reforms and acceleration of EU funds are needed to keep the momentum.

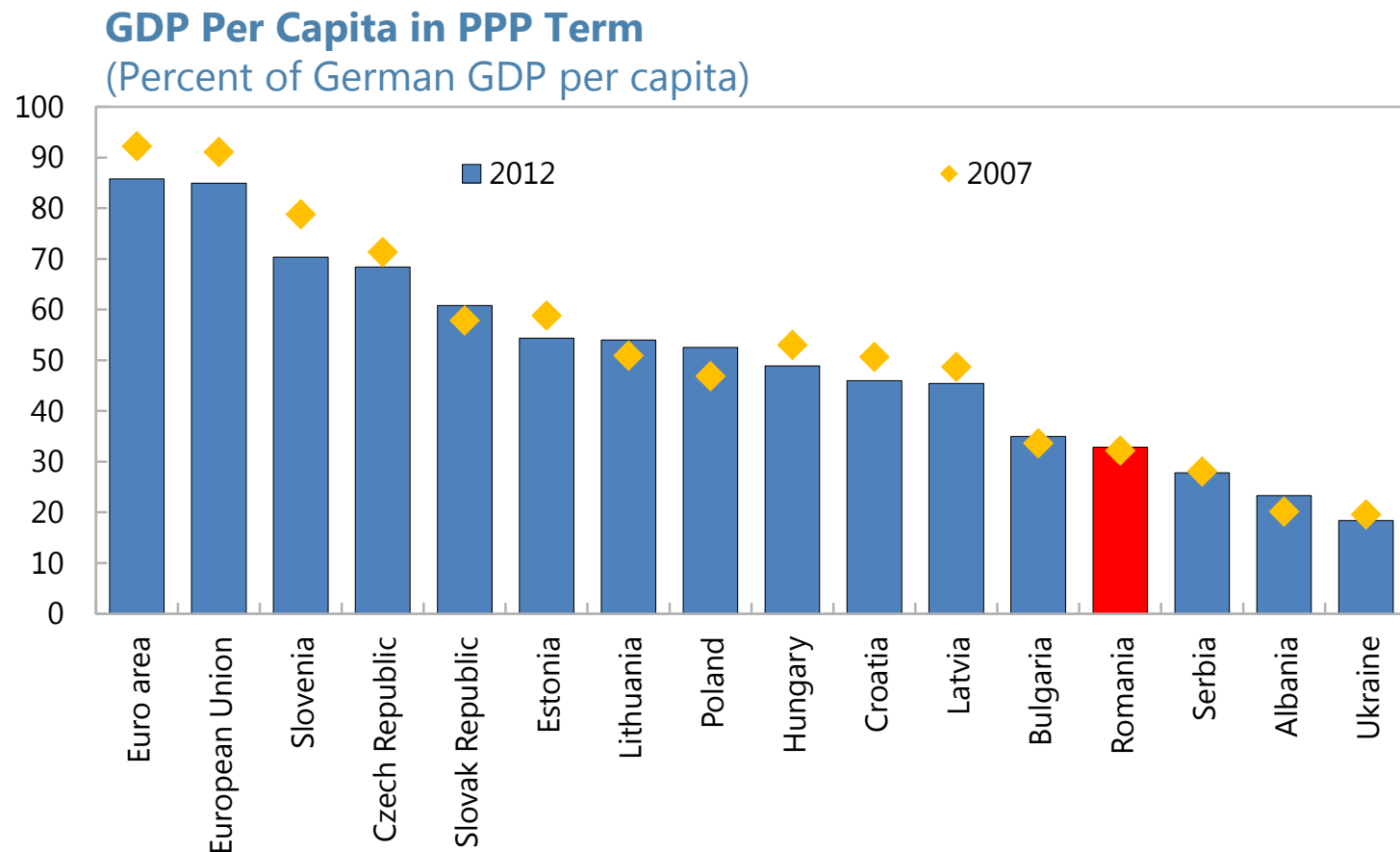


Source: IMF staff estimates.

# Economic growth



Economic convergence will require putting GDP growth back on a consistently higher path.



Sources: World Development Indicator, World Bank; and IMF staff calculations.

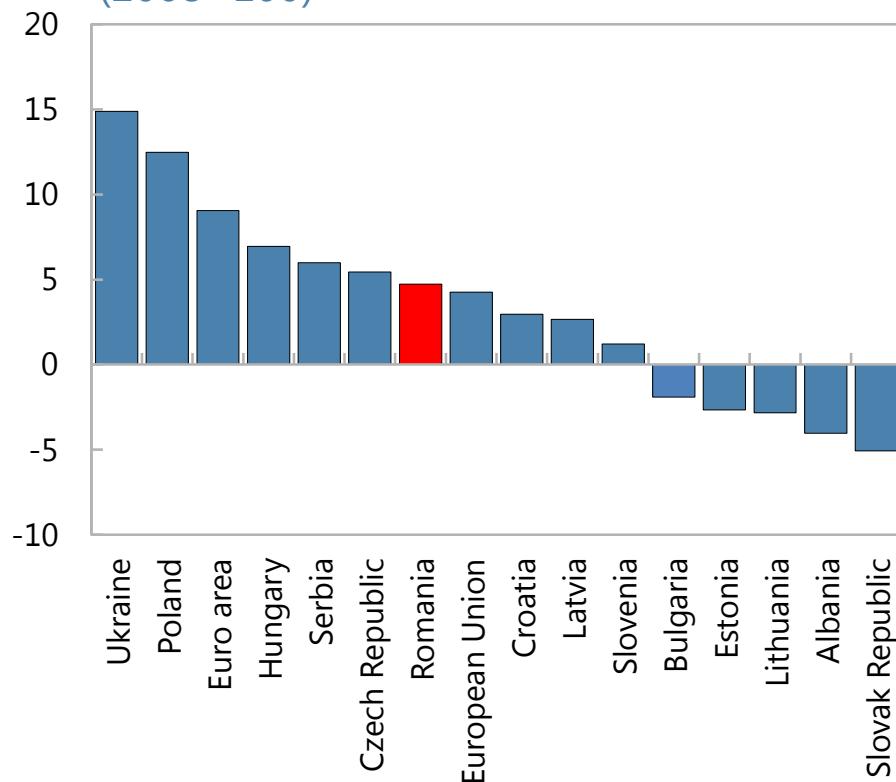
# Economic growth



Romania's economy is price competitive.

**Change in Real Effective Exchange Rate  
Between 2008-13**

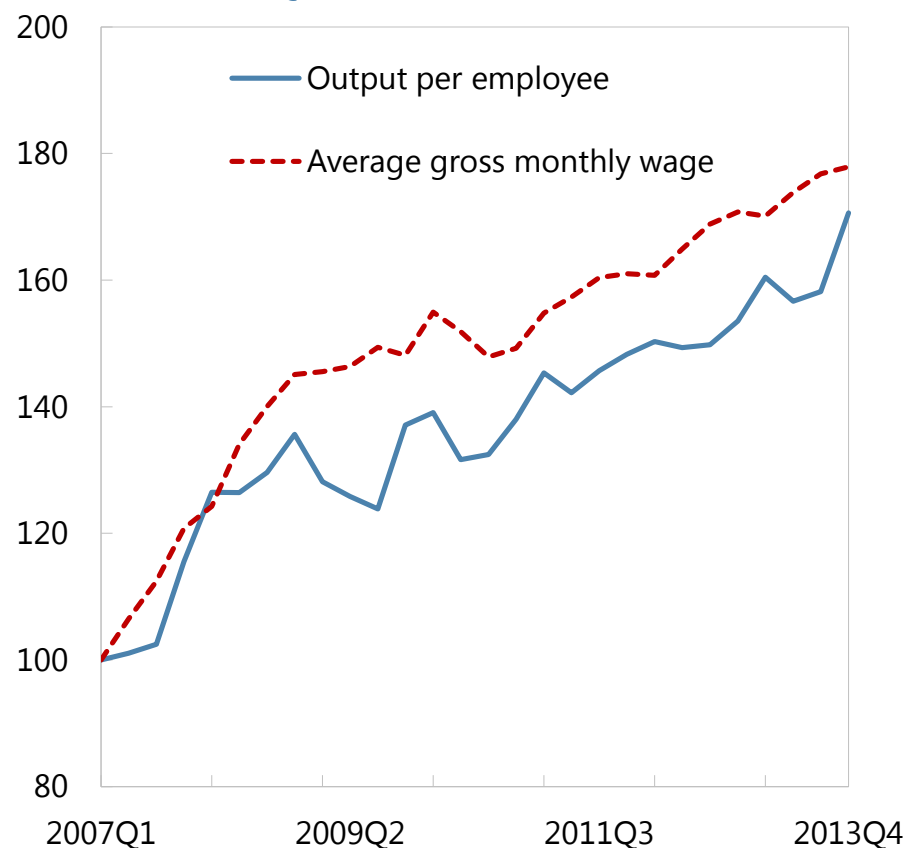
(2008=100)



Sources: IMF, Information Notice System; and IMF staff calculations.

**Romania: Productivity**

(SA, 2007Q1 = 100)



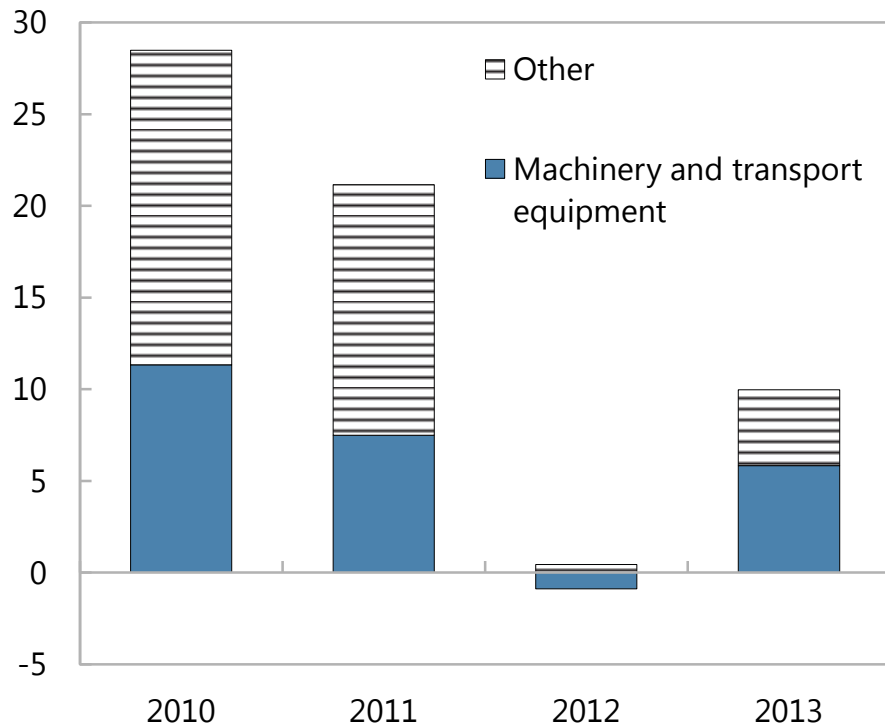
Source: Haver Analytics.

# Economic growth



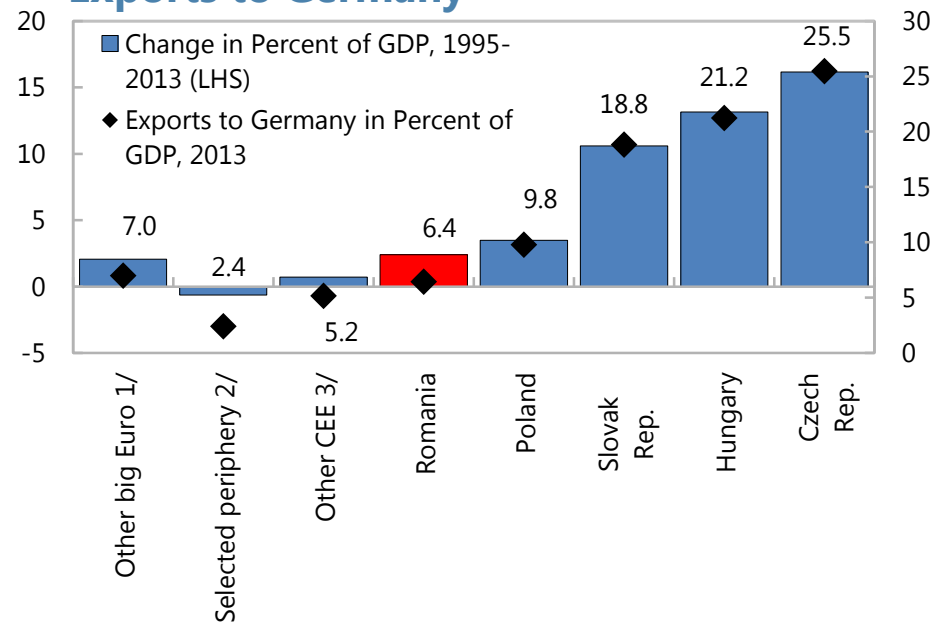
A closer integration into the EU's supply chain can be a driver of growth as evidenced by the swift expansion of car and machinery exports in 2013.

**Contributions to Export Growth**  
(Percent)



Sources: Haver Analytics; and IMF staff calculations.

**Exports to Germany**



Sources: Direction of trade statistics and WEO.

1/ Other Big Euro includes Austria, Belgium, France, Italy, and the Netherlands.

2/ Selected European Countries includes Greece, Ireland, Portugal, and Spain.

3/ Other CEE Includes BiH, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Romania, Slovenia, and Ukraine.

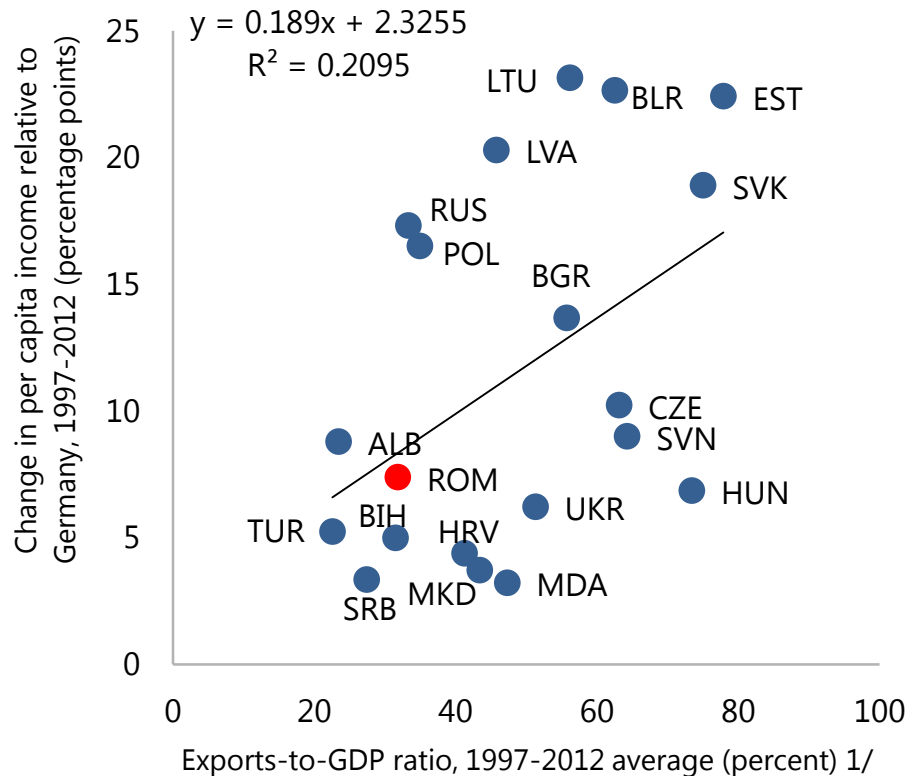


# Economic growth



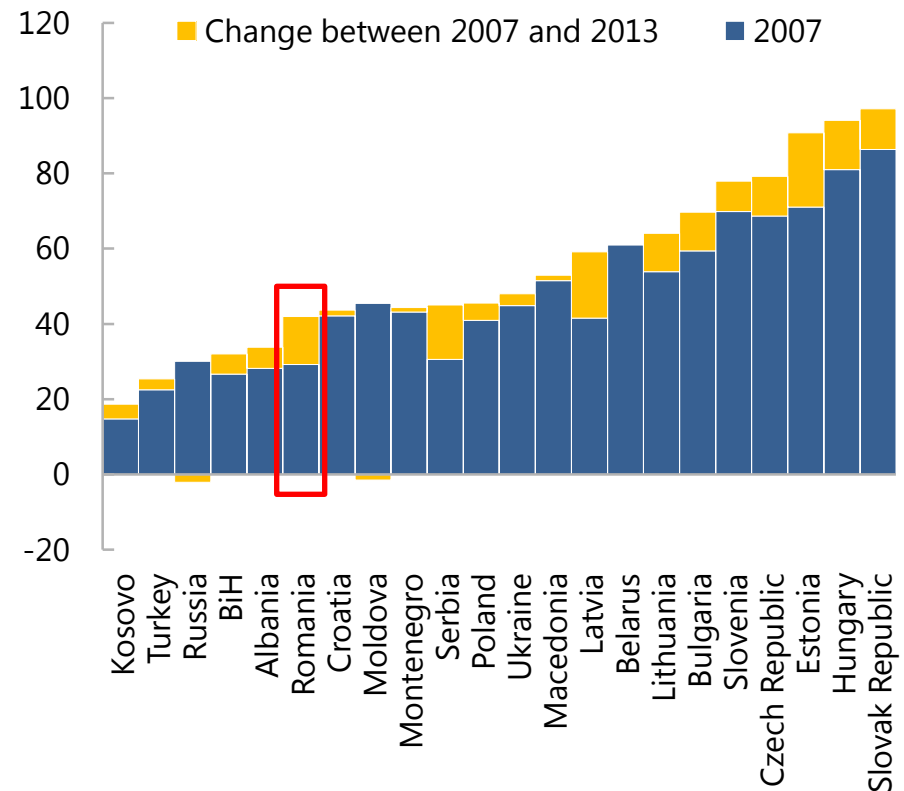
In general, openness has fostered economic growth and convergence.

## Openness Fosters Growth



Source: IMF, World Economic Outlook database.  
1/ For Montenegro, data of exports-to-GDP ratio starts in 2003.

## Exports of Goods and Services (Percent of GDP)



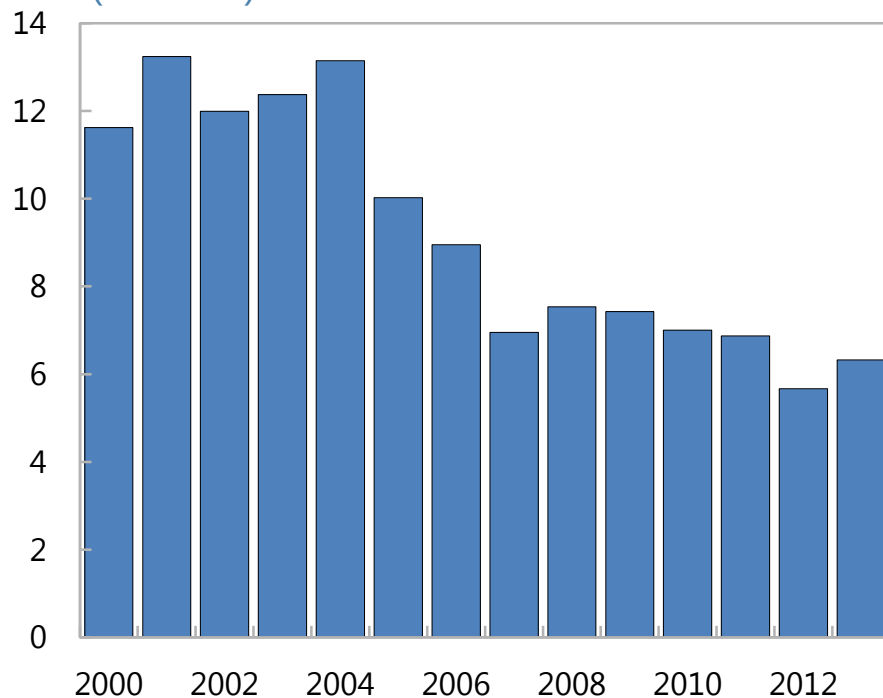
Source: IMF, World Economic Outlook database.

# Economic growth



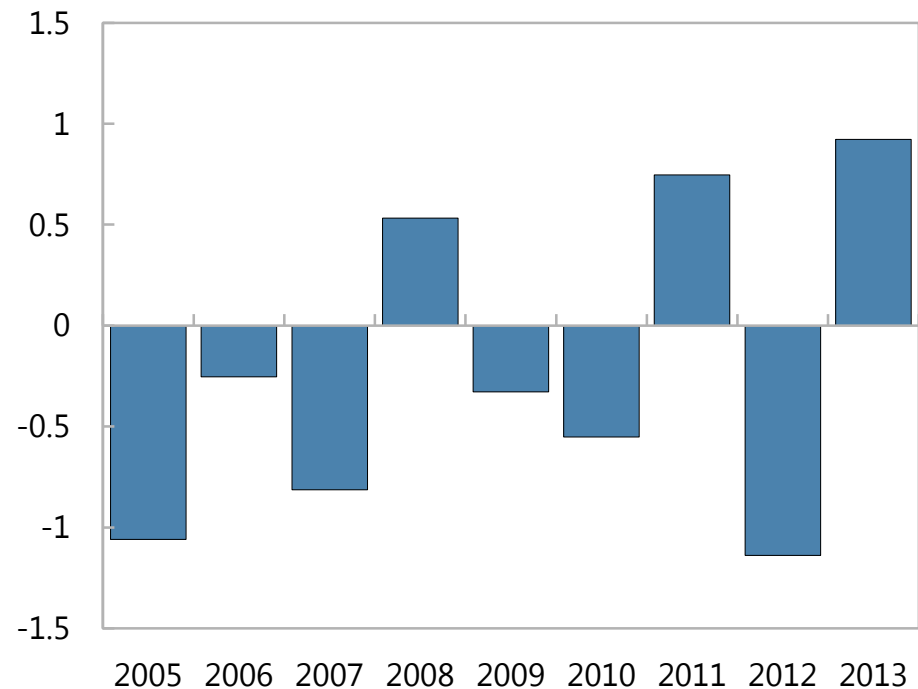
Agriculture remains an important growth contributor but also makes the economy vulnerable to shocks.

**Share of Agriculture in Romanian Economy**  
(Percent)



Sources: Haver Analytics; and IMF staff calculations.

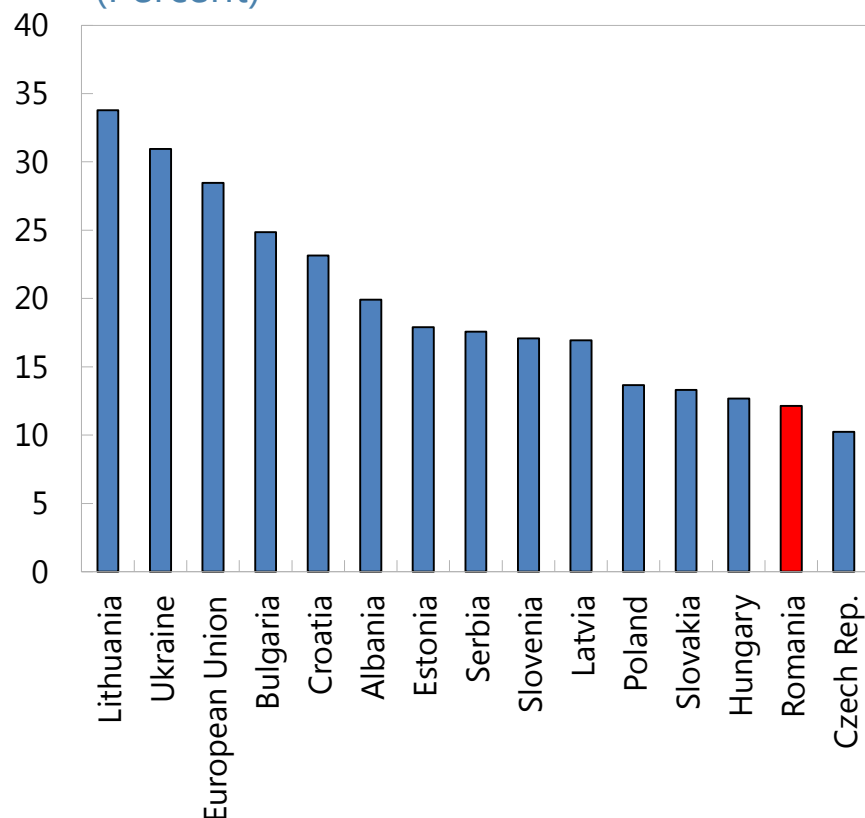
**Contribution of Agriculture to Romanian Real GDP Growth**  
(Percent)



Sources: Haver Analytics; and IMF staff calculations.

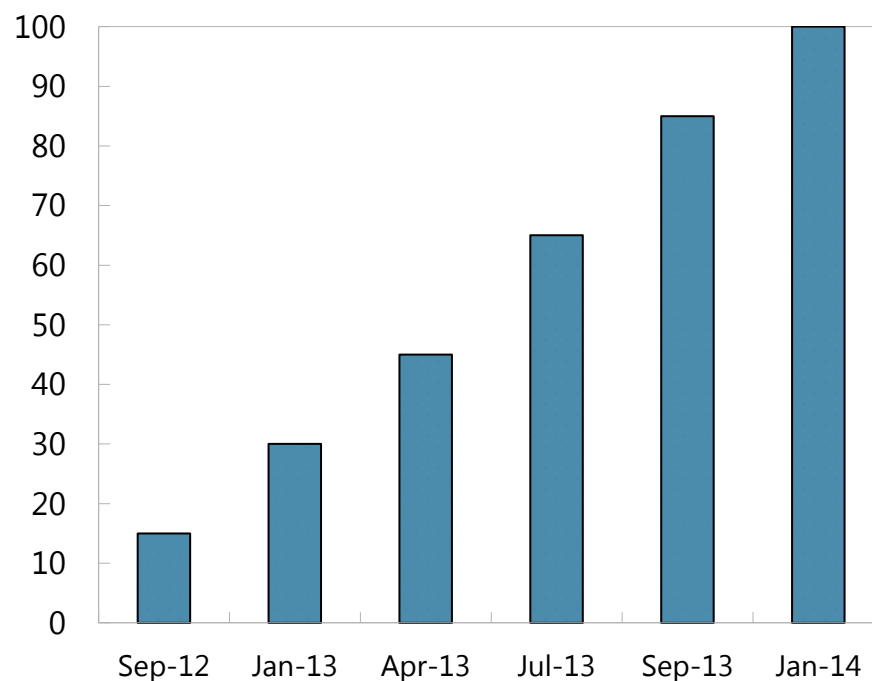
The abundance of energy is a growth opportunity.

**Share of Energy in Imports, 2012**  
(Percent)



Source: UN Comtrade database.

**Electricity Market Deregulation**  
(Share of electricity for non-residential consumers sourced from competitive market)



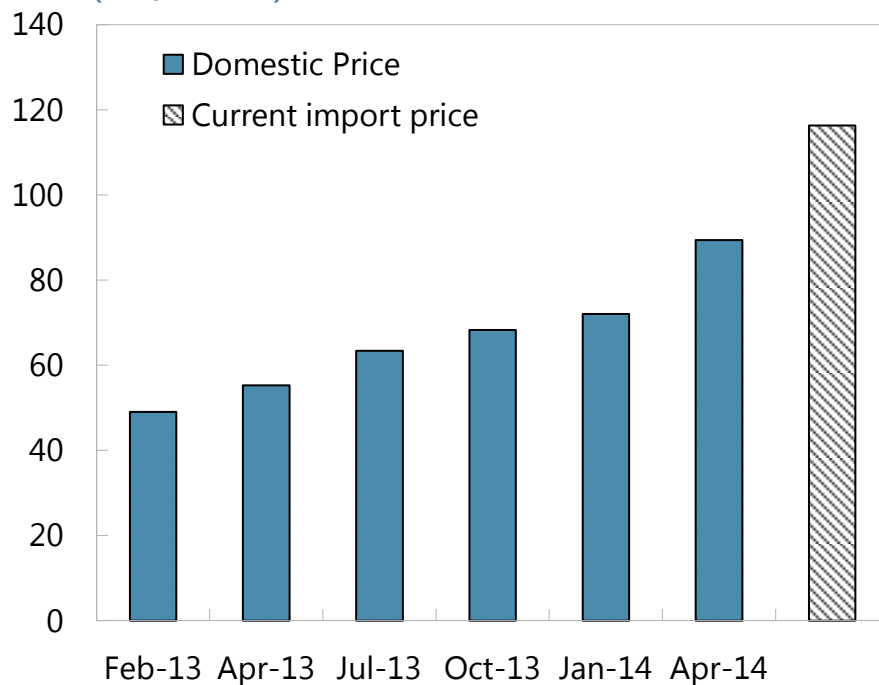
Source: ANRE.

# Economic growth



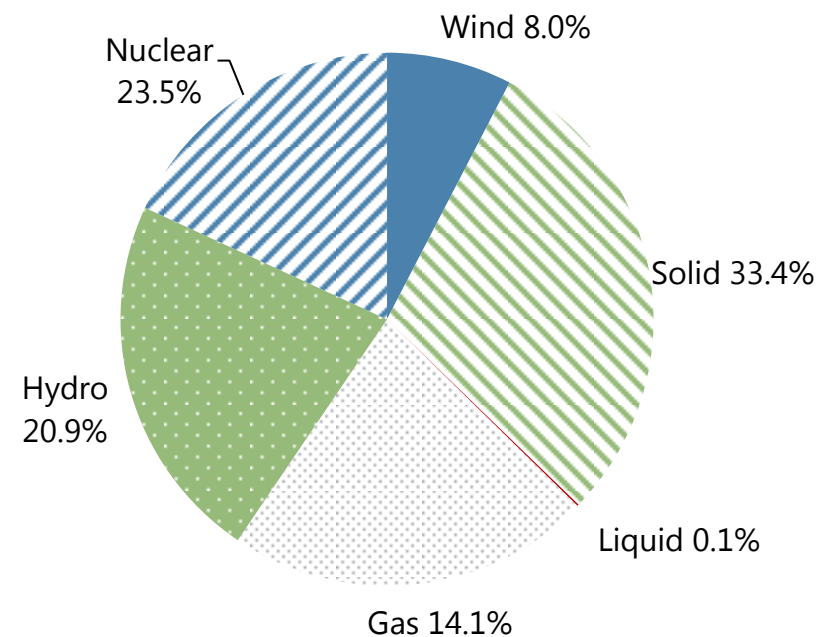
Energy price deregulation is a major step forward to create incentives for investment and employment.

**Gas Price Deregulation for Non-residential Consumers**  
(Lei/MWh)



Source: ANRE.

**Electricity Generation Structure by Primary Sources**  
(December 2013; delivered by generators with dispatchable units)



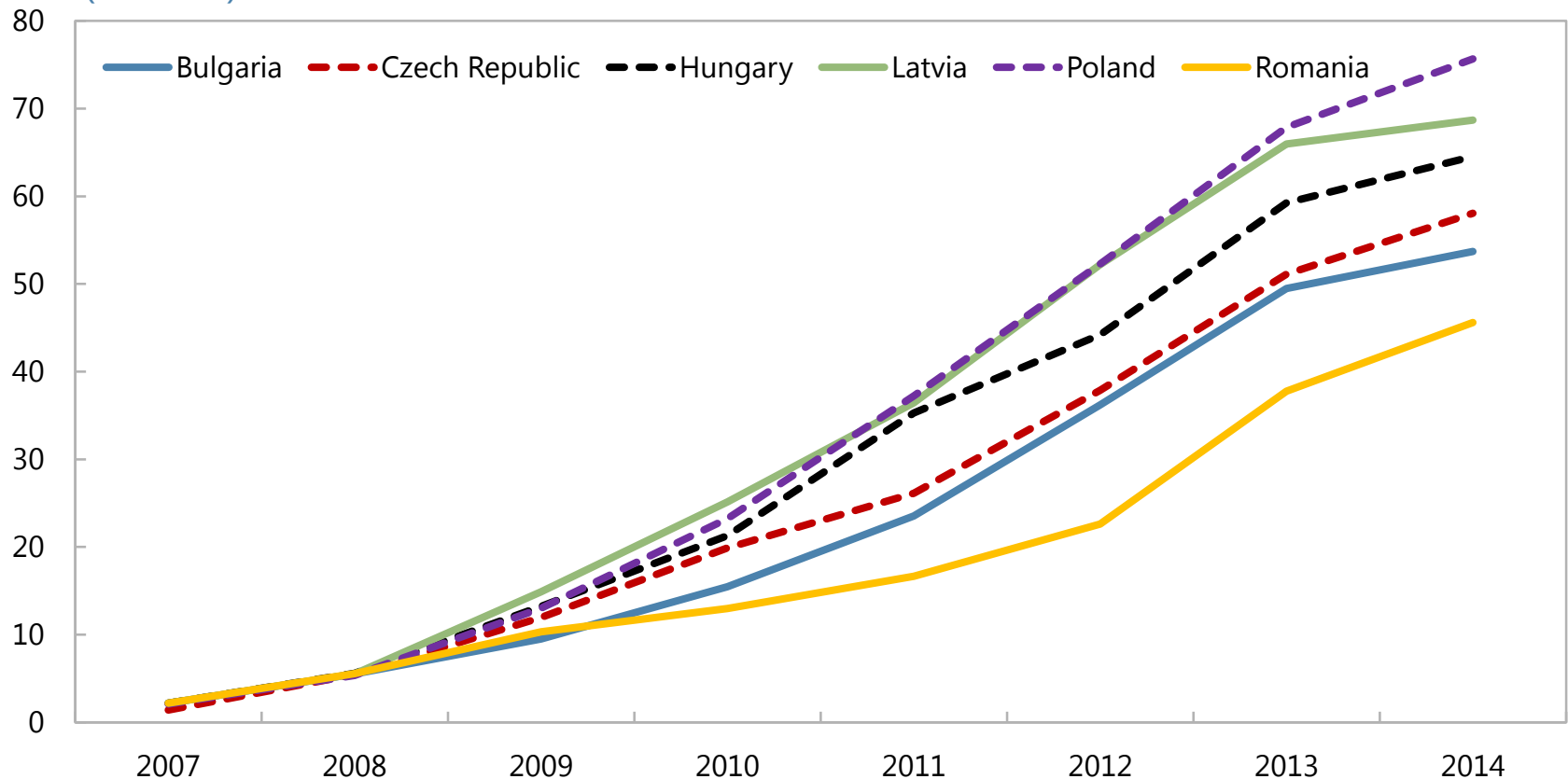
Source: ANRE.

# Economic growth



EU fund absorption has only recently picked up.

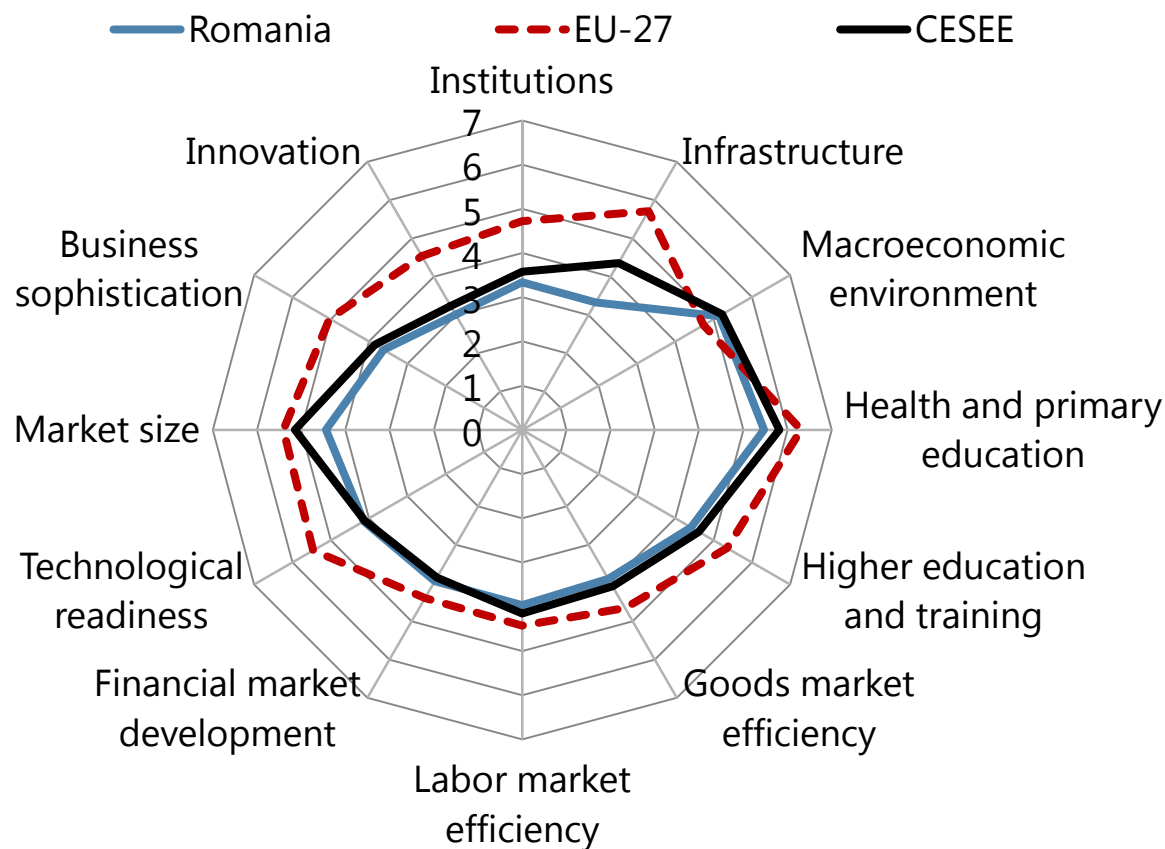
**Absorption Rate of EU Structural Funds**  
(Percent)



Source: European Commission.

To realize these growth opportunities, several obstacles need to be removed.

## EU-27. Global Competitiveness Index, 2013-14

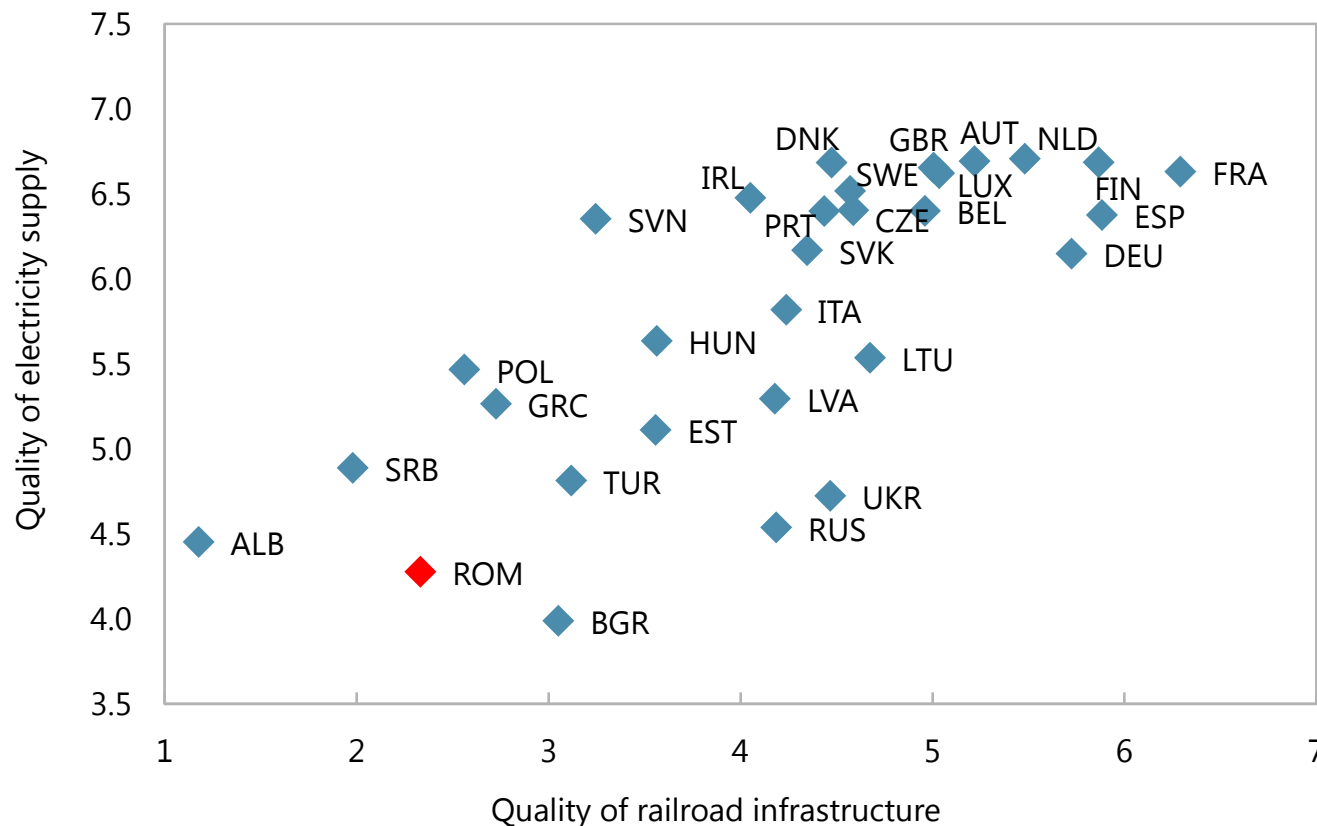


# Economic growth



In particular, the infrastructure in the transport and energy sectors lags behind those in peer countries.

## Quality of Rail and Electricity

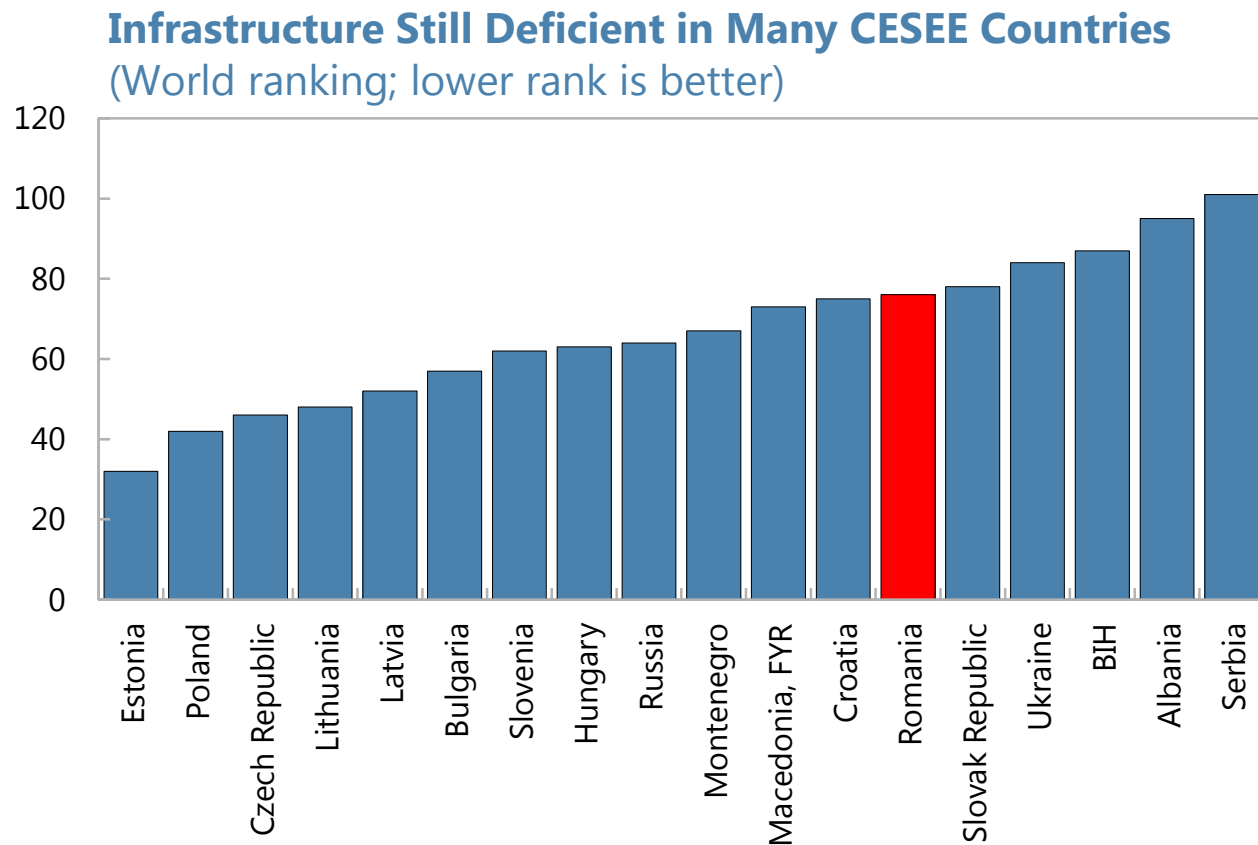


Source: World Economic Forum, 2013-14.

# Economic growth



Romania ranks as one of the lowest countries in the region in infrastructure indices.



Source: World Economic Forum, 2013-14.

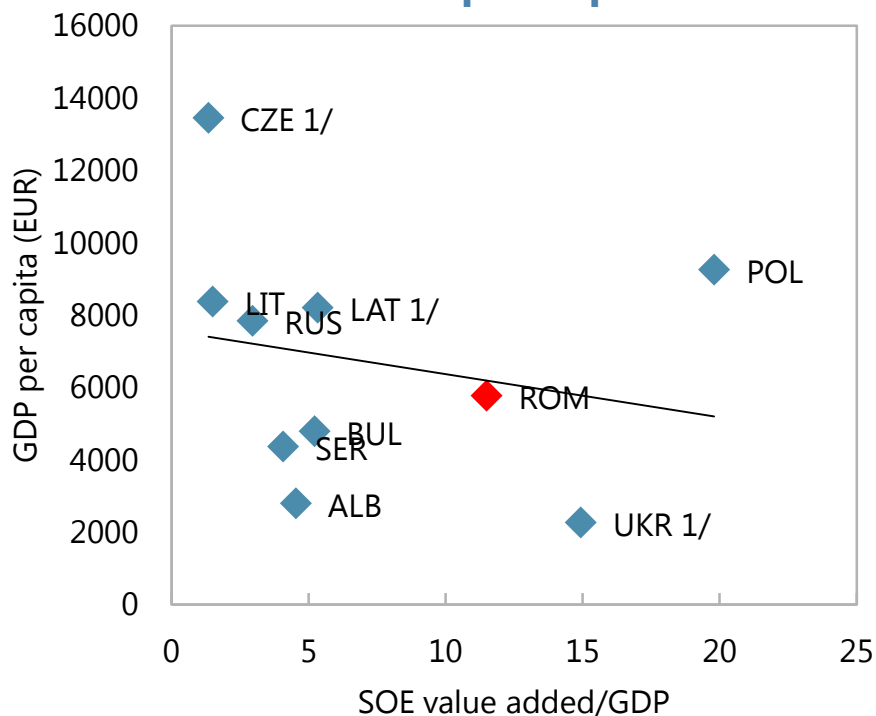


# Economic growth



Both sectors are dominated by state-owned enterprises.

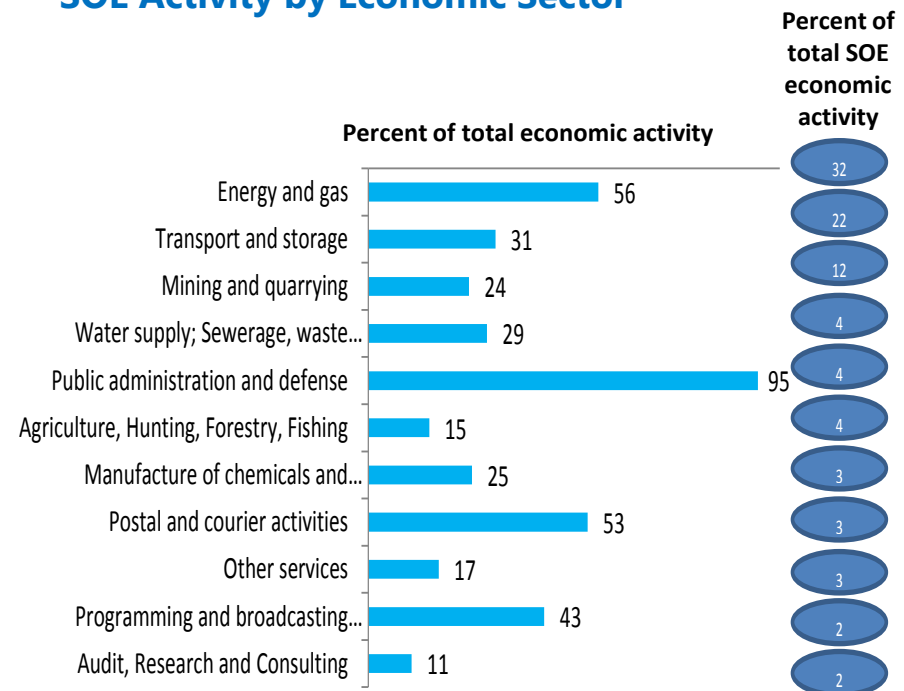
## SOE Presence and per Capita GDP



1/ For CZE, LAT, and UKR, SOE employees as a percent of the labor force used as a proxy for SOEs contribution to economic output.

Sources: Country authorities; IMF staff calculations.

## SOE Activity by Economic Sector



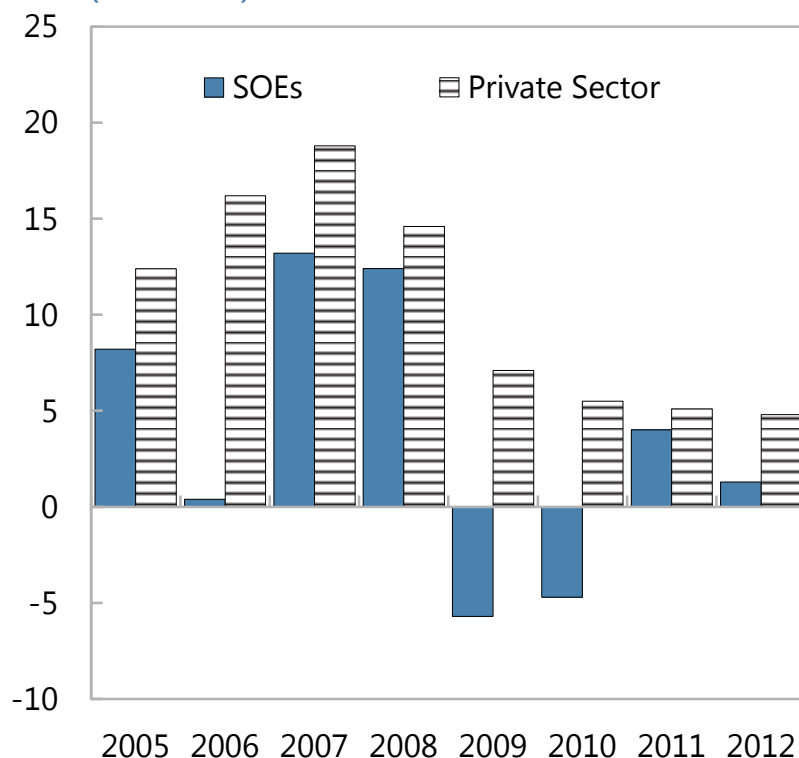
Source: Ministry of Finance, Trade Registry.

# Economic growth



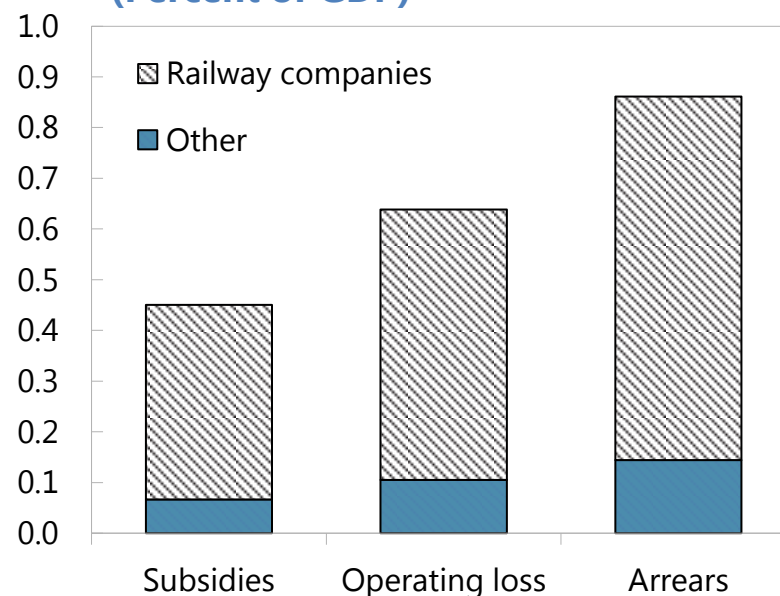
They create opportunity costs due to weak operating performance, underinvestment, arrears, and subsidies.

**Investment/Total Assets**  
(Percent)



Source: Annual Report 2012, Romania Fiscal Council.

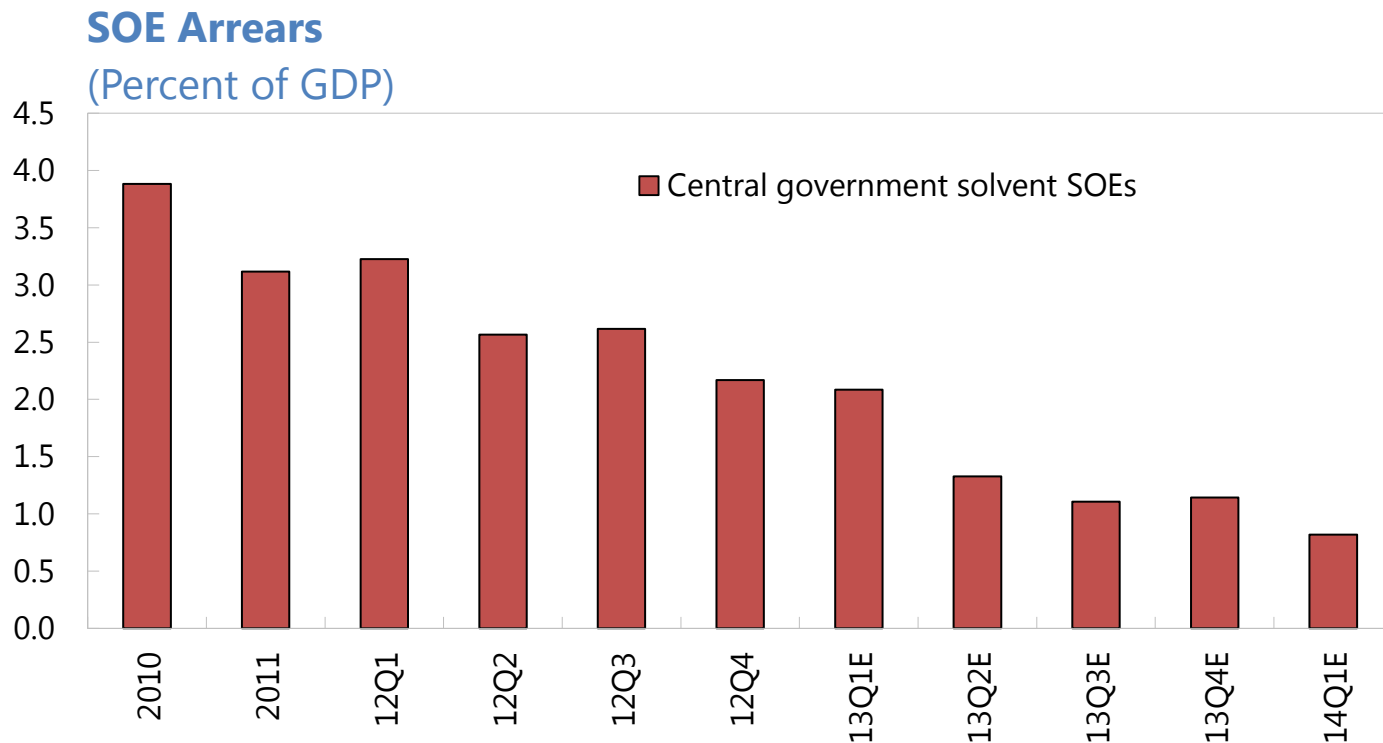
**The 5 SOEs with the Largest Subsidies, Operating Losses, and Arrears for 2012 1/**  
(Percent of GDP)



Sources: Romanian authorities; and IMF staff estimates.

1/ Excludes companies under insolvency procedures or in liquidation.

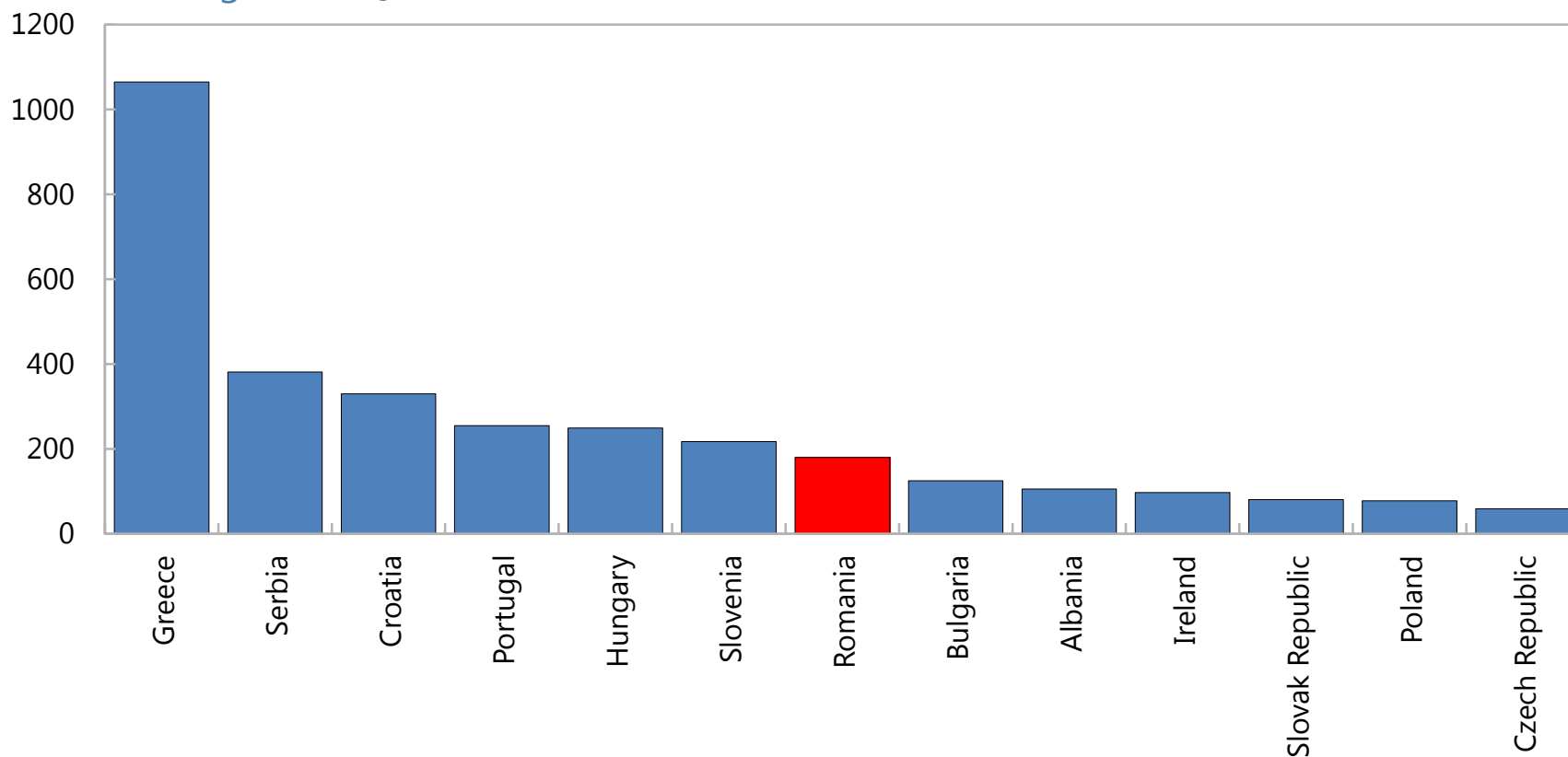
SOE arrears continue to be a challenge. They indicate slow progress in SOEs operational performance and soft budget constraints without explicit provisioning in the general government budget.



Sources: Romanian authorities; and IMF staff estimates.

CDS spreads are now lower than for Hungary, Portugal, and Croatia.

**5-Year CDS Spread**  
(Average 2014Q1)



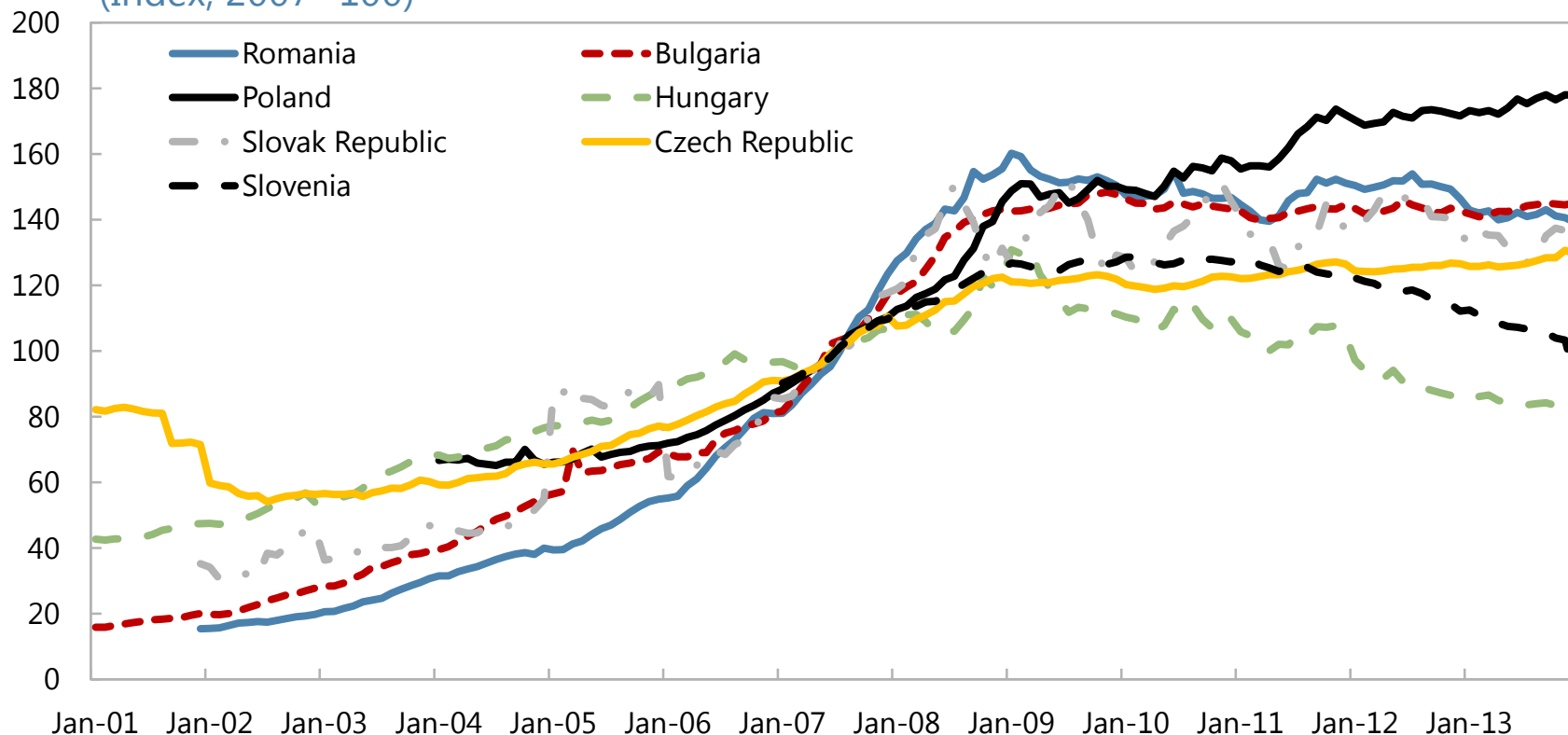
Source: Bloomberg.

# The financial sector



The banking sector weathered the economic crisis well, but credit growth has turned negative over the past year.

**Real Private Sector Credit**  
(Index, 2007=100)

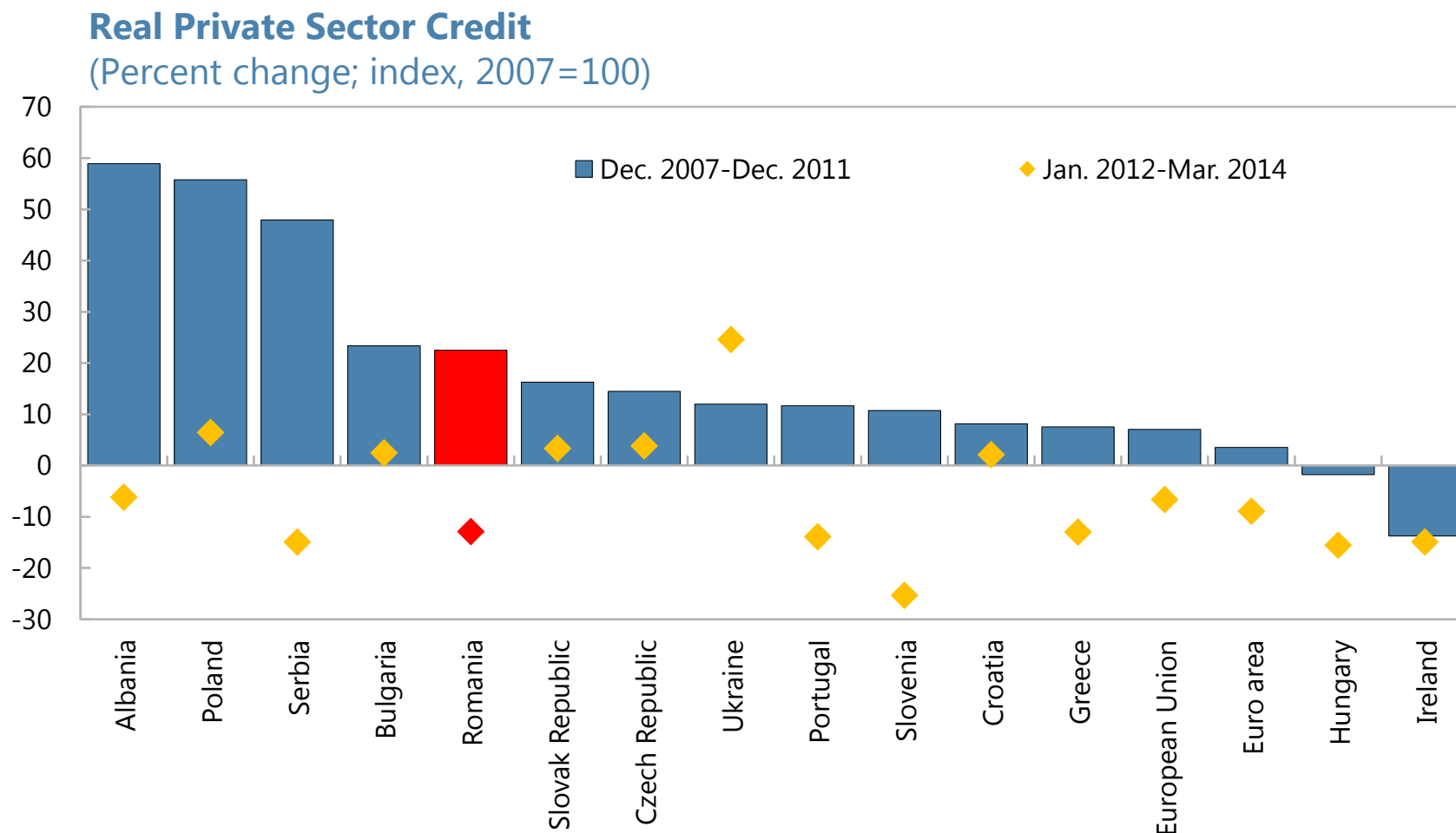


Sources: International Financial Statistics; and IMF staff calculations.

# The financial sector



However, deleveraging has been less steep than in regional peers.



Sources: International Financial Statistics; World Economic Outlook; and IMF staff calculations.

# The financial sector



Supply and demand factors seem at play.

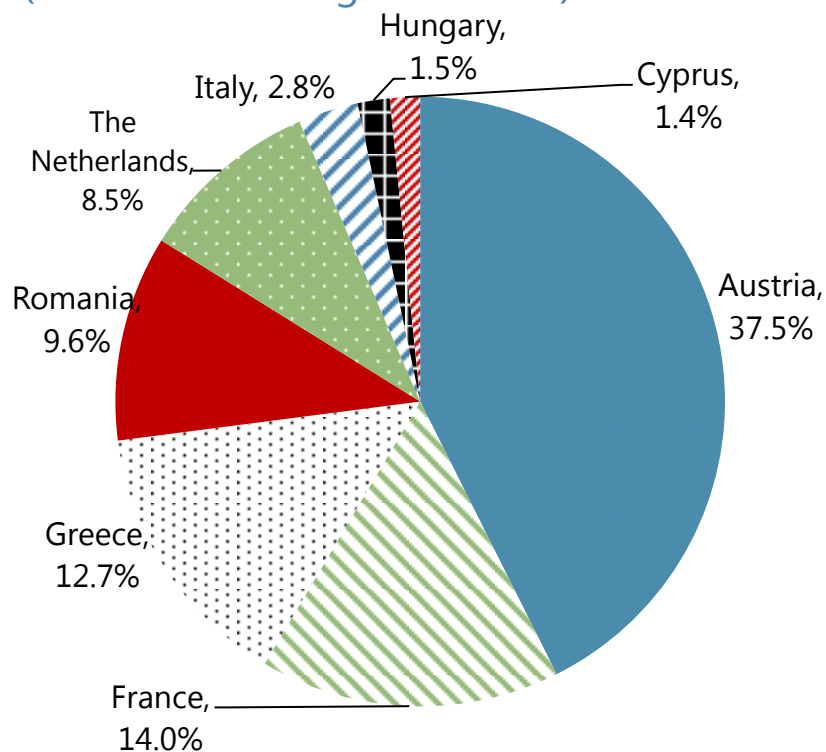
| Supply factors                   | Demand factors  |
|----------------------------------|---|
| Parent fund withdrawal           | Weak household and corporate balance sheets, in particular SMEs |
| Tighter lending standards        | Weak growth prospects   |
| Tighter supervisory requirements |   |
| High NPLs                        |   |

# The financial sector



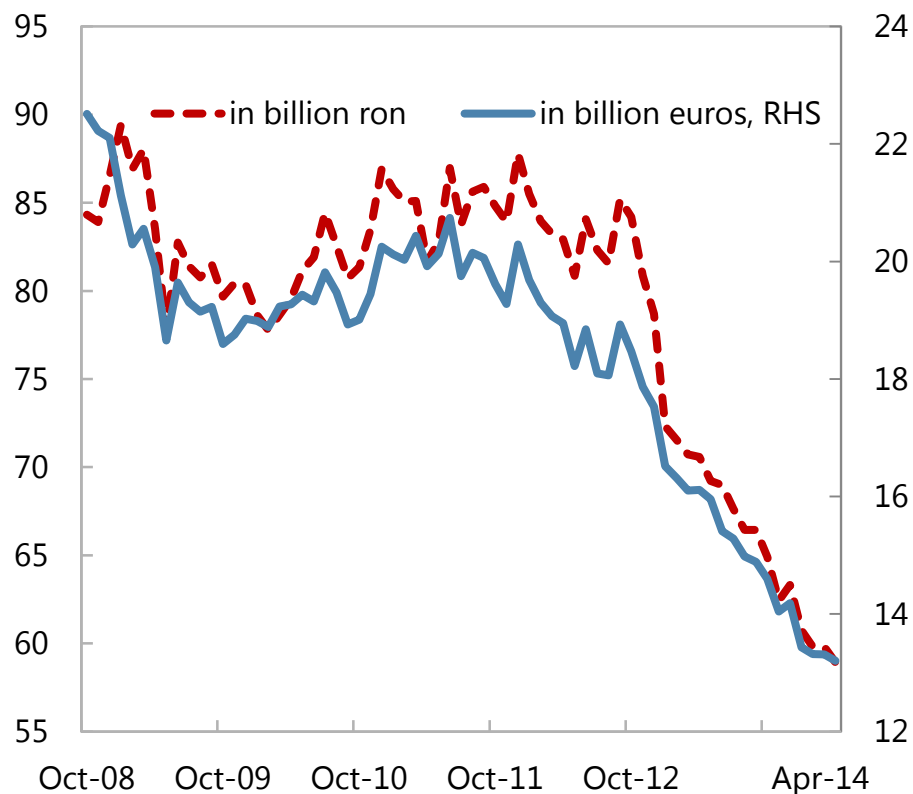
Foreign-owned banks continue to withdraw parent funding, recently at an accelerated pace.

**Bank Ownership Structure**  
(Percent of total gross assets)



Sources: National Bank of Romania

**Parent Funding**



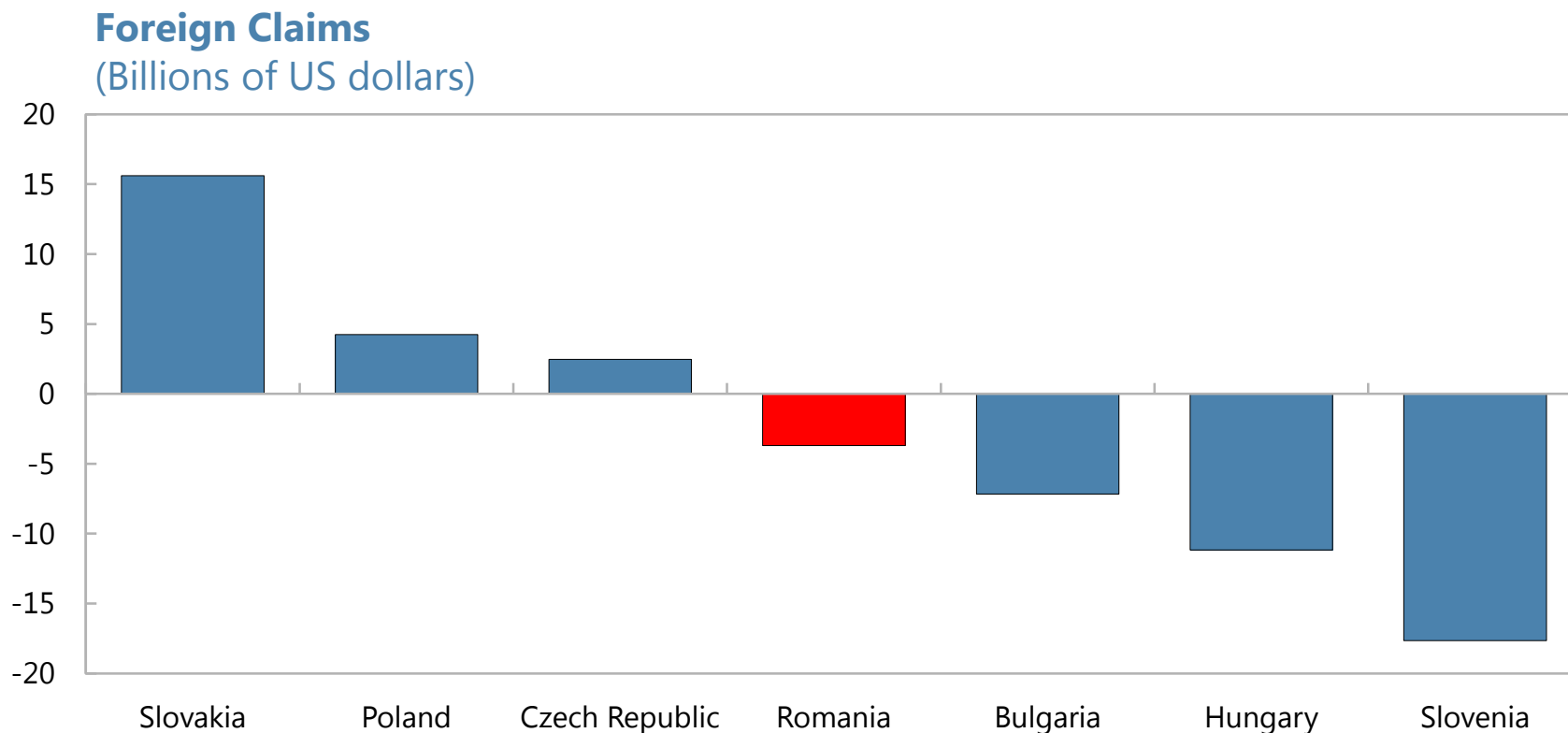
Sources: Haver; and National Bank of Romania.



# The financial sector



Nevertheless, parent fund deleveraging has been more moderate than in other countries in the region.



Sources: BIS, Locational and Consolidated Banking Statistics; and IMF staff calculations.

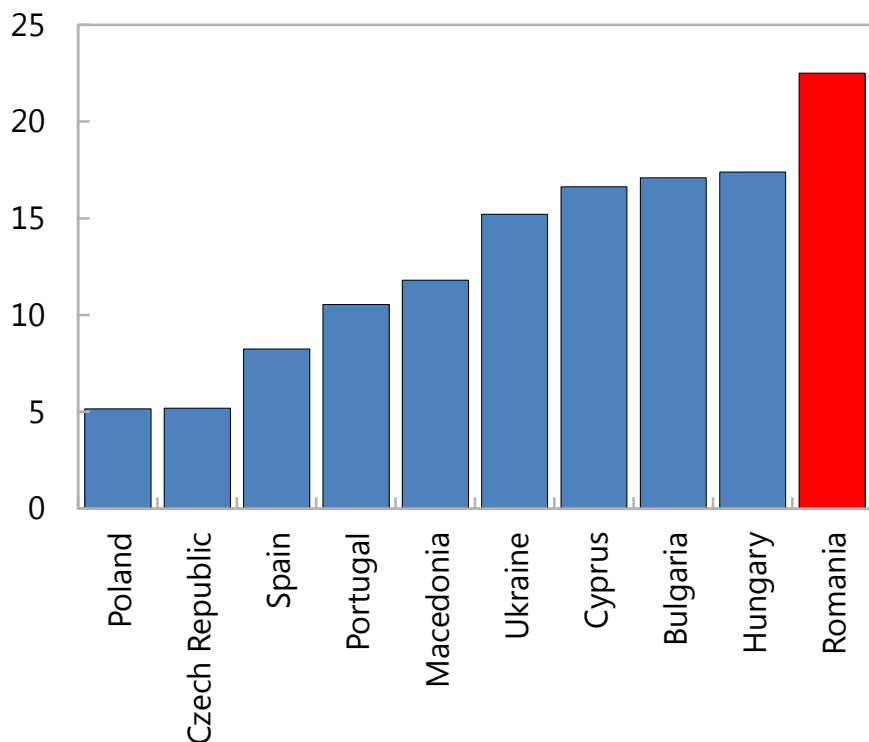
# The financial sector



The level of non-performing loans has weighed on balance sheets.

## Non-performing Loans to Total Gross Loans

(Percent; 2013Q2)

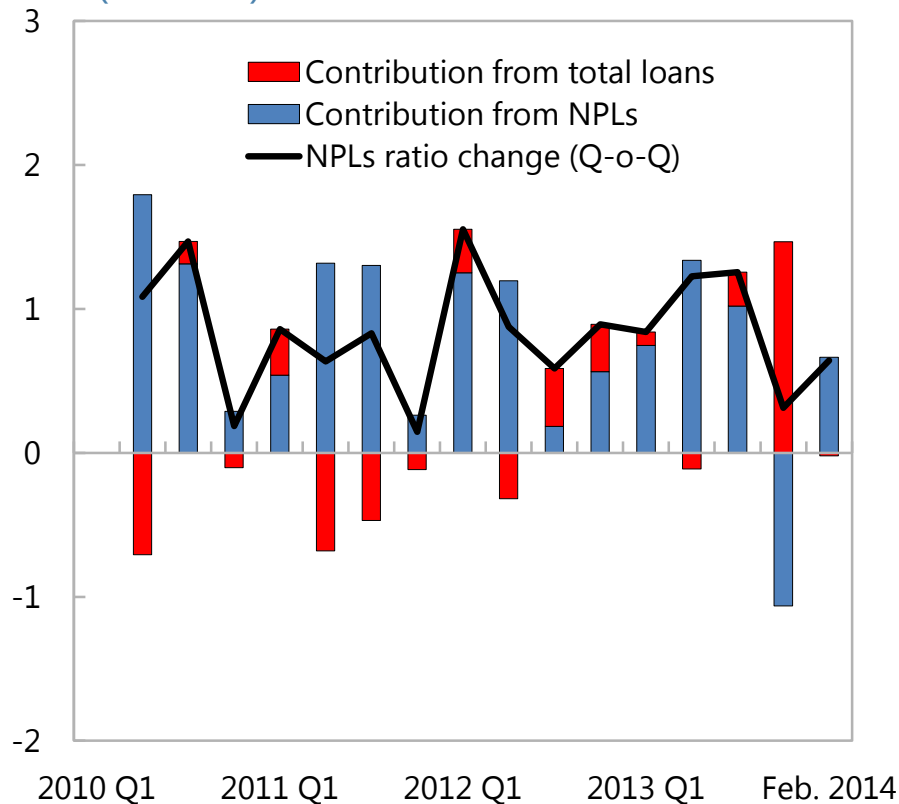


Source: Financial Soundness Indicators.

Note: The latest available data is used for Romania.

## Romania: Contributions to Changes in the Banking System NPL Ratio

(Percent)



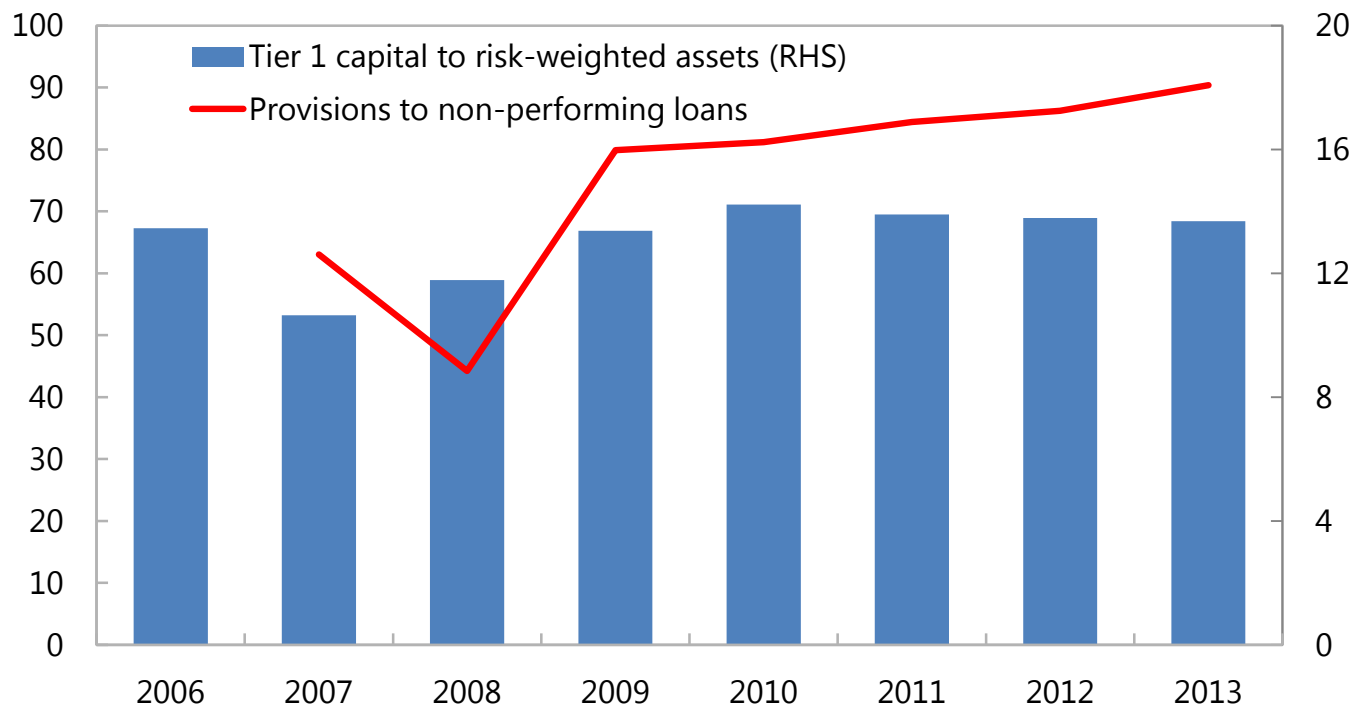
Sources: Financial Soundness Indicators; and IMF staff

# The financial sector



However, provisioning and capital increase have broadly kept track with the deterioration in the asset portfolio.

**Provisions to Nonperforming Loans and Capital to Risk-Weighted Assets**  
(Percent)



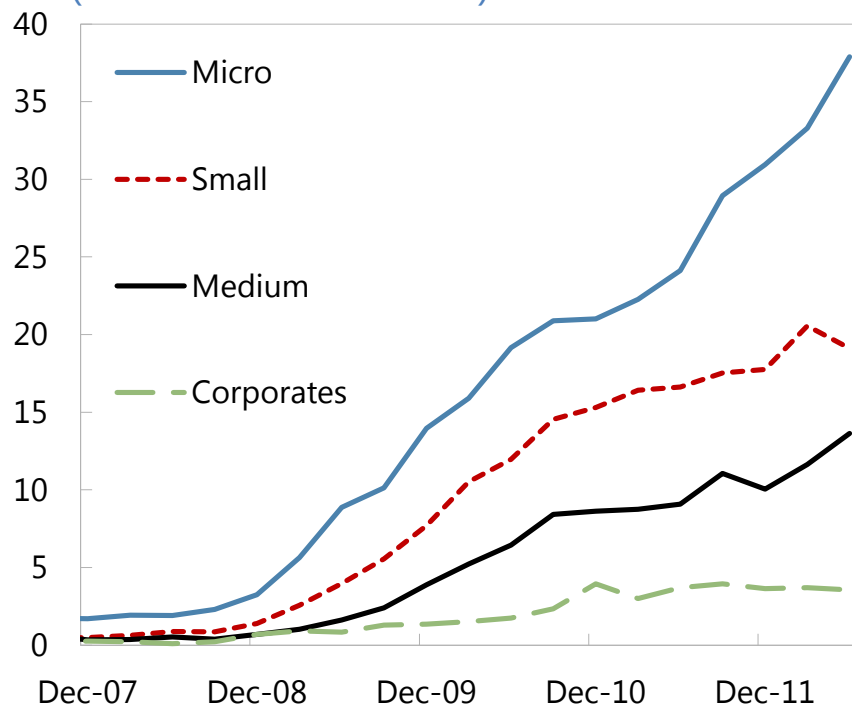
Sources: Financial Soundness Indicators; National Bank of Romania; IMF staff calculations.

# The financial sector



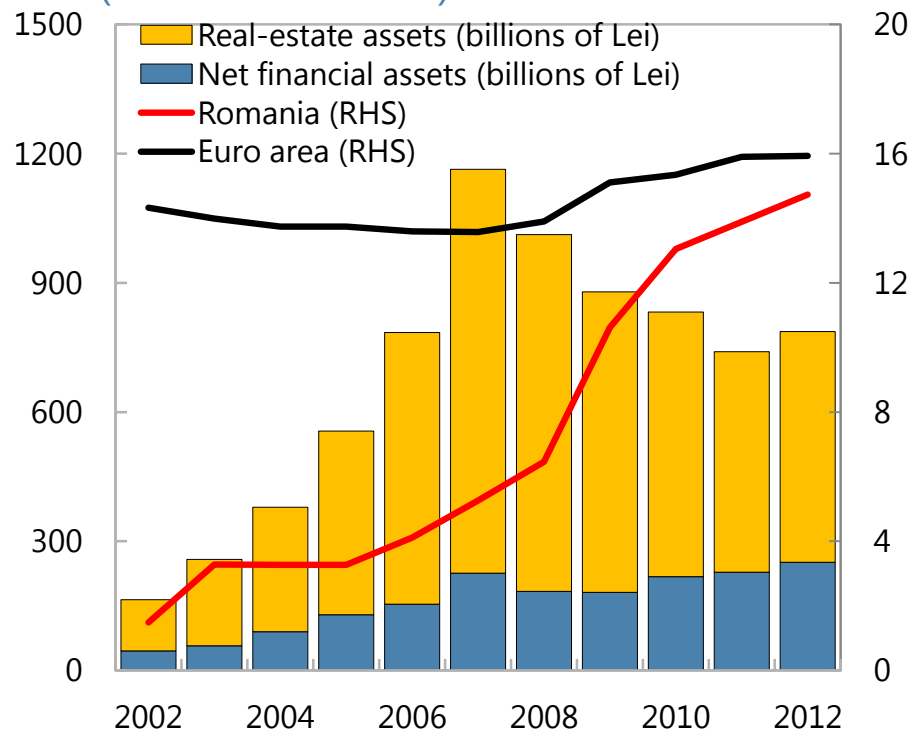
Credit demand remains weak, in part because of high indebtedness. SMEs have difficulties servicing their debt and household liabilities in percent of net wealth more than doubled since 2007.

**NPLs by Company Size**  
(Percent of total loans)



Source: National Bank of Romania.

**Household Liabilities**  
(Percent of wealth)

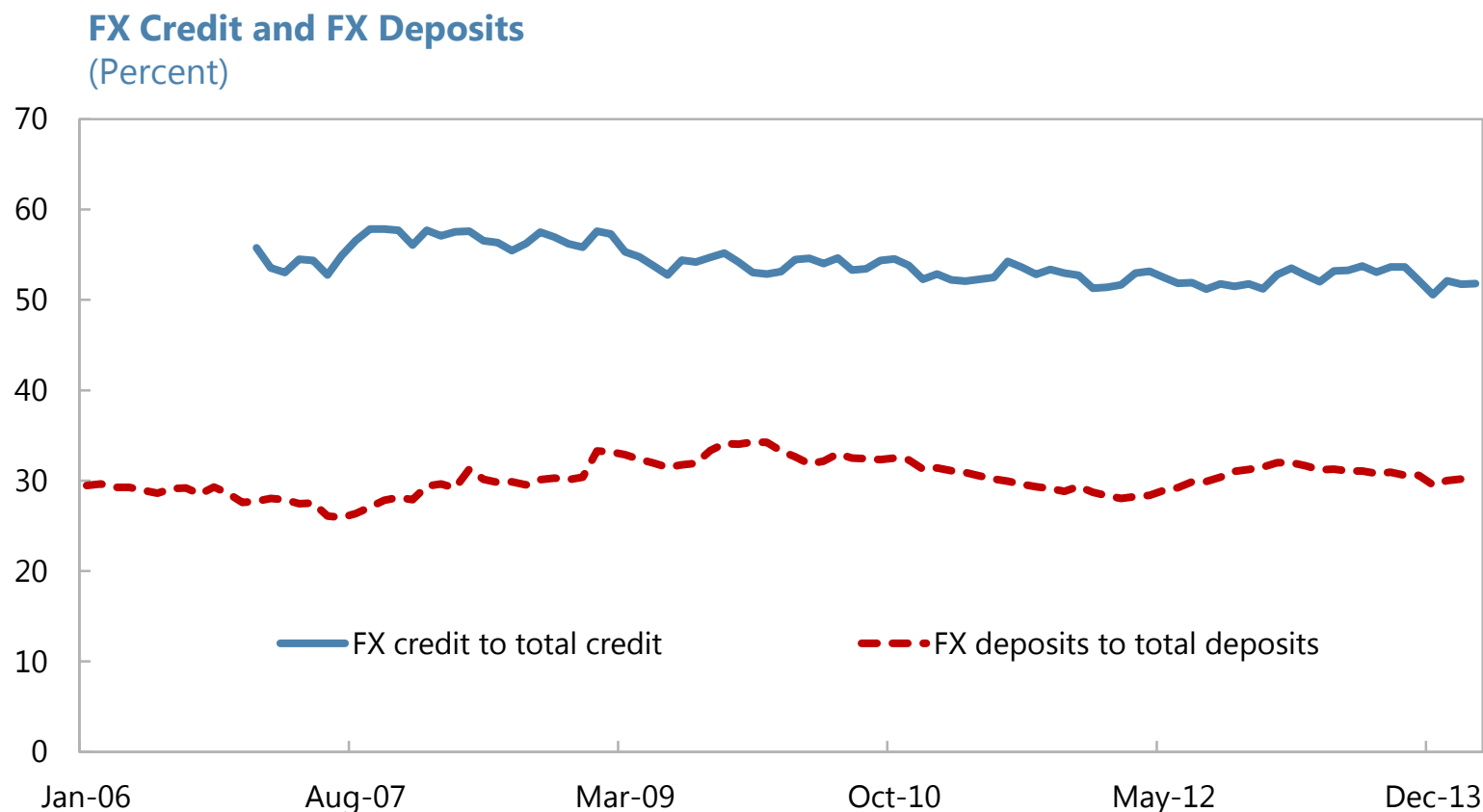


Source: National Bank of Romania.

# The financial sector



Moreover, the high share of FX-denominated loans continues to be a risk factor.



Sources: National Bank of Romania; and IMF staff calculations.



Thank you.

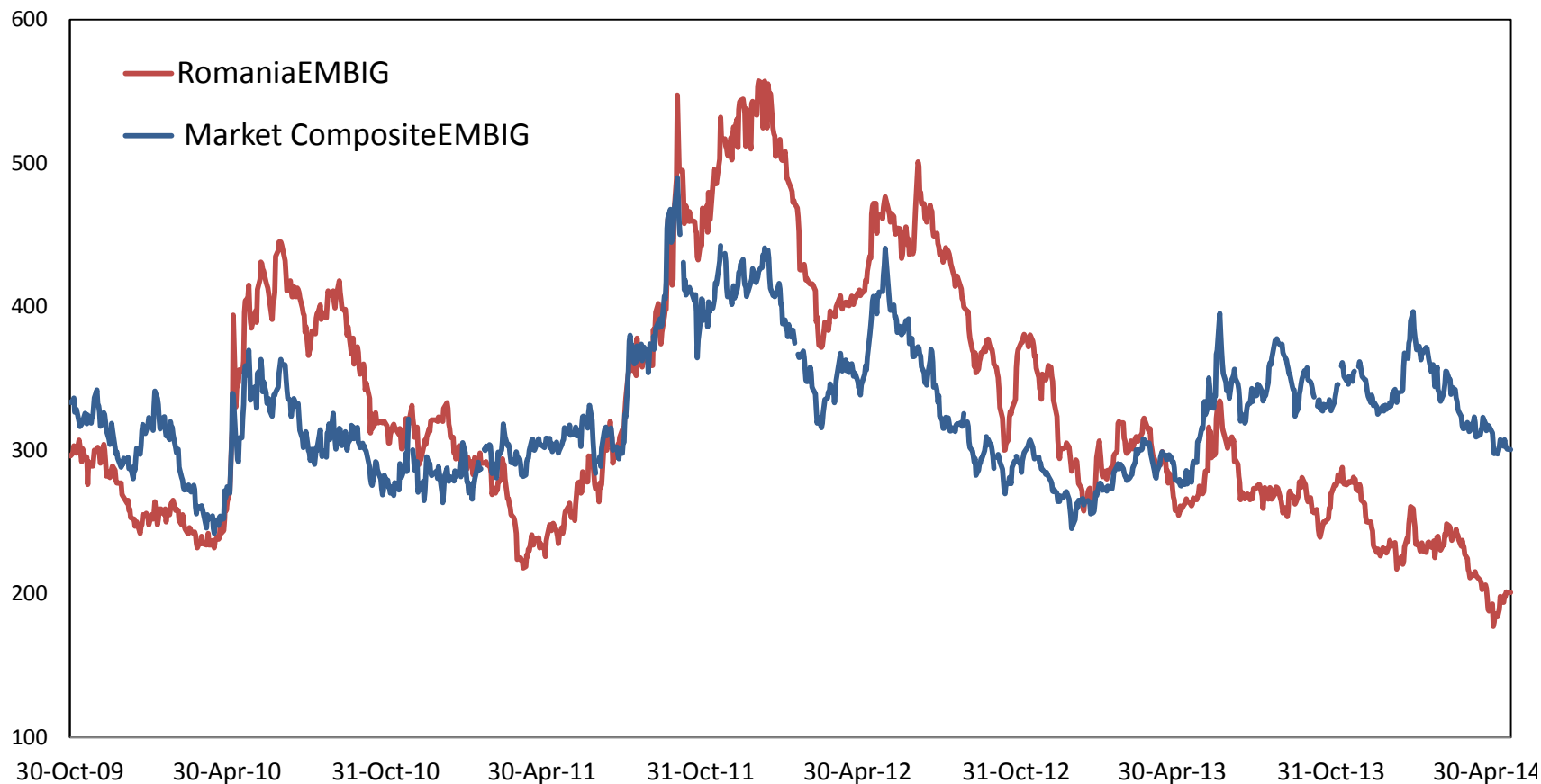


Additional slides

# Investor Confidence



## EMBIG Developments



Source: Bloomberg.