Romanian Banking System
Context, developments outlook
November 2018
Romanian Banking System

Factors with impact on the banking system

Strategic approach
Romanian Banking System - Overview

HHs supported lending recovery. Increased preference for mortgages...

Robust growth of deposits...

...and LCY-denominated loans

...shifted funding towards internal resources

Source NBR  *In EURO terms; *Financing (deficit) / surplus defined as: Private deposits (adjusted for MRR) – Private loans
Despite solid progress, housing market depth remains low...

...but current living conditions...

Home ownership is considered a prerequisite for individual financial stability

Ex-communist countries in CEE have high ownership rates as a result of a policy in the early 90's to sell the state's houses at affordable prices in the urban areas

...and improved affordability create the premises for further development

Affordability index*

Index computed as the ratio of monthly net income (adjusted for consumption) to the optimal income required to take out a housing loan under prudential conditions (75% LTV & 45% DSTI)

*Assumptions: 2-room apartment with 55 sqm, priced at market price (average - country level), household comprising two members earning the avg. net wage, 50% consumption rate

Source: NBR, ECB Data warehouse, Eurostat, National Institute of Statistics, Imobiliare.ro

*August 2018 private loans relative to 2017 GDP in current prices
RO banking system from a P&L perspective: Revenues

RO banking system enjoys a lucrative asset base…

With a 2.7% NIM…

…generating the highest operating income among EU peers

...RO banking system ranks 4th among EU players

Source ECB Consolidated banking data (Statistical Data Warehouse), NBR, EBA Q4’17 Risk dashboard

Note: ECB consolidates data across borders and sectors
RO banking system from a P&L perspective: Costs

Cost of Risk declined following substantial clean-up efforts...

- Cost of Risk computed as impairment charges relative to gross loans

...placing RO 8th among EU peers

- RO had the 2nd highest annual average cost of risk over 2009-2016

NPE ratio down to 5.7% from 22% in 2014

- NPE ratio (EBA definition)
- NPE ratio (RO central bank methodology)
- NPL ratio

5th highest coverage ratio

- EU (EBA):
  - NPE: 4%
  - Coverage: 44.5%
  - H1’18 NPE ratio stands at 5.7%

RO marked the largest decline in NPE ratio in EU during 2014-2017

Source ECB Consolidated banking data (Statistical Data Warehouse), NBR, EBA Q4’17 Risk dashboard

Note: ECB consolidates data across borders and sectors
RO banking system from a P&L perspective: Profitability

With a 2.1% PPI/assets...

Net profit returned to pre-crisis level

...RO ranks 1st among EU peers

RO banking system generates the 3rd highest ROE in EU

Pre-provisioning income computed as operating revenues adjusted for operating expenses

Pre-provisioning income / Total assets (rha)

Pre-provisioning income / Total assets (2017 data)

Source: ECB Consolidated banking data (Statistical Data Warehouse), NBR, EBA Q4’17 Risk dashboard

Note: ECB consolidates data across borders and sectors
RO banking system: Robust capital adequacy levels

Comfortable levels of capital adequacy ratios...

**Total capital ratio:**

Source NBR (Financial Stability Report June 2018)
Romanian Banking System

Factors with impact on the banking system

Strategic approach
Exogenous factors impacting RO banking system

- European economies catch up at an accelerated pace; in Q2 2018 growth in EU28 stood at 2.2% compared to Q2 2017
- The efficiency of reforms affected by the absence of economic convergence and gaps generated by national barriers
- Rise of protectionism risk and populist approaches, triggering political tensions and economic risks
- Global political and security risks went up post crisis and affect economies and financial sectors due to uncertainty and lack of predictability
- Corporate debt in EU rose by 12% in 2017 and market conditions point to a further increase
- Brexit impact remains uncertain on long term
- Restoring the trust of policy setters and of investors regarding the viability of the EU project and strengthening solidarity and cooperation mechanisms.
Endogenous factors impacting RO banking system

- The level of unpredictability of fiscal policies with impact on the business environment and on the overall investment climate has continued to build up.
- The risk of populist political approaches – discursive, public policies – persists for the banking sector.
- Normative challenges, such as the legal initiatives, the IFRS9 implementation, the transposition of PSD2, the enforcement of Regulation 679/2016 - GDPR and the transposition of Directive 4 AML.
- Expected maintenance of ROBOR on an upward trend.
- Certain opportunity areas, with obvious growth potential:
  - Financial inclusion (merely 58% in Romania compared to over 90% at European level, minimum progress).
  - The Digital Agenda (Romania – ranks last in Europe based on DESI, but ranks second as regards high speed connectivity).
  - Financial literacy (Romania – ranks last in EU28 – and, by progressing, we could benefit from the sustainable growth of financial intermediation).
Romanian Banking Sector

Factors with impact on the banking system

Strategic approach
RAB - Strategic approach

Prosperity and welfare

Macro indicators
GDP
GDP/capita

Micro indicators
Financial inclusion (58%)
Financial intermediation (26.4%)
NPL – risks (<6%)

Strategic pillars
Financial literacy
Digital Agenda
Lending (SMEs, European funds, PPP)
Financial Platform
RAB action: Promote and improve financial literacy

RO financial intermediation remains low…

Financial intermediation (outstanding loans to Non-MFIs excluding government relative to GDP) (2017 data)

Statistics call for action:

- 42% non-banked population vs. 9% EU average
- 42% of adults received wages in the past year, o/w 65% (vs. 91% EU) into a financial account
- 79% of adults paid utility bills in the past year, o/w 11% (vs. 80% EU) by using a financial account

…partially justified by reduced penetration of financial services

Financial literacy

RAB

National Strategy for Financial Education

Drawing up high class academic research in the field of banking regulations

Training and specializing banking sector employees

Promoting financial education as a mandatory discipline

Launching programmes on financial education

Practical Handbook for the Users of Financial Services

Note: 2017 data for financial inclusion and 2014 for financial literacy. *Adults defined as persons of age: ≥15

RAB action: Support ‘Digital Agenda’ implementation

Positive correlation between digital governance & wealth

Gaps can be reduced by implementing RO 2020 Digital Agenda

Evolution of GDP (current market prices, €b) and its structure

SMEs represent **99.7%** of total companies but bring **52.8%** of the added value in the economy compared to the EU average of **56.8%**

At national level, 2 of 3 employees work in an SME

Access to funding is identified as the least pressing problem for SMEs during April 2017 – March 2018
RAB action: Lending – European Funds

Why banks?

- **Experience acquired**: project management expertise
- **Providing liquidity**: financing the implementation of selected projects
- **Advising potential beneficiaries** – existing opportunities.
- **Experts**: Commission for European Funds of the RAB.

How do we increase the level of **absorption**?

- **Systematic strategic planning** – thus the needed legal predictability is generated, for the Romanian state and for investors alike.
- **Collaboration** based on the experience and expertise accumulated to date in the banking sector and by Management authorities > solutions to support beneficiaries for a smoother project implementation > enhancing absorption.

9 implementation programmes

**over €43 billion** - Multiannual Financial Framework 2014-2020 Romania

*(of which about €31 billion for European Structural and Investment Funds)*
THANK YOU!