



Romanian Banking System

**Context, developments
outlook**

November 2018



Romanian Banking System



Factors with impact on the banking system

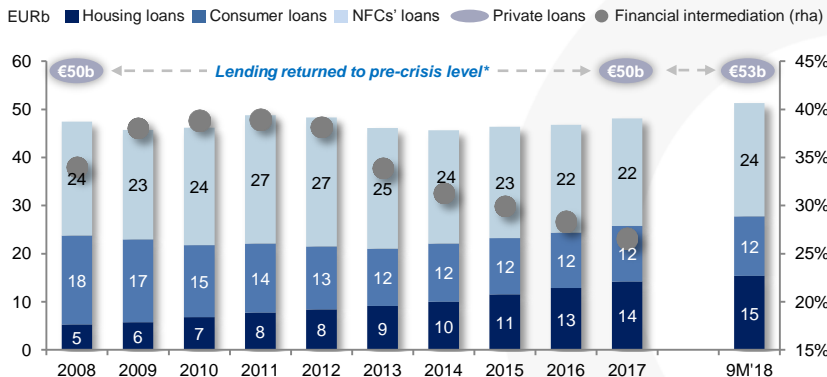


Strategic approach

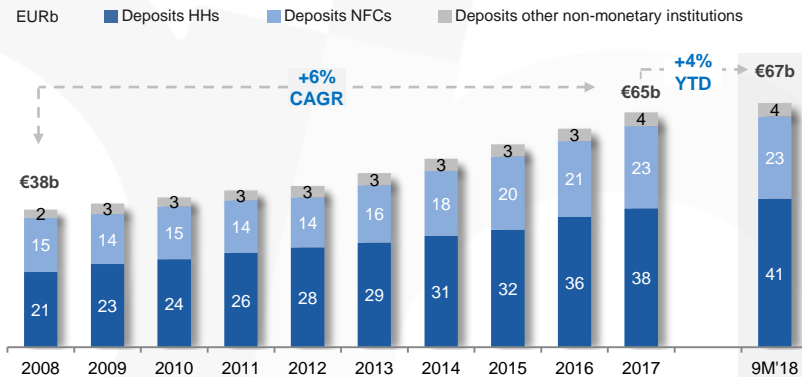
Romanian Banking System - Overview



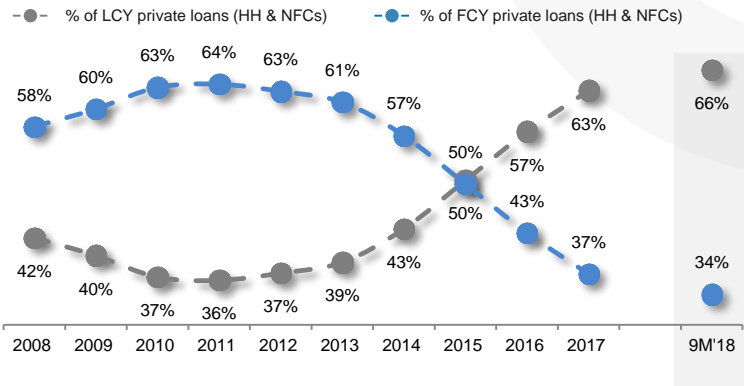
HHs supported lending recovery. Increased preference for mortgages...



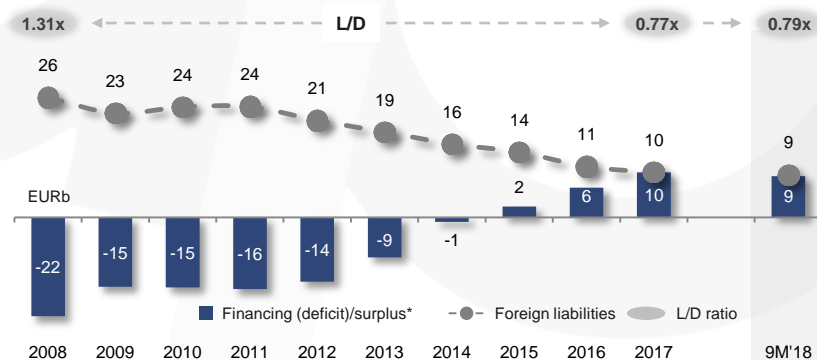
Robust growth of deposits...



...and LCY-denominated loans



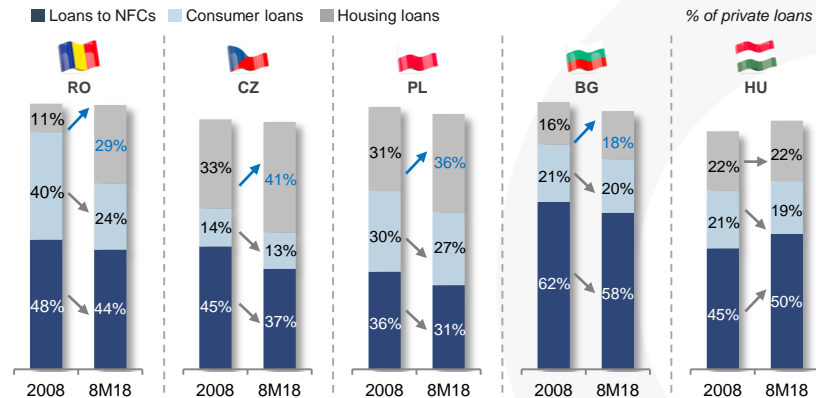
...shifted funding towards internal resources



Lending evolution in Romania vs. regional peers

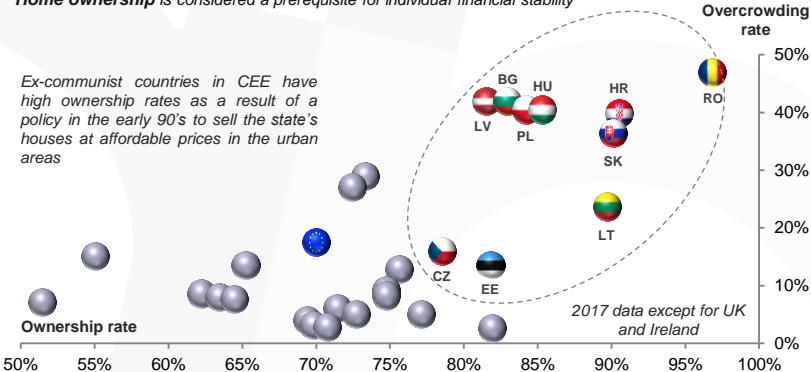


RO lending evolved in line with regional peers

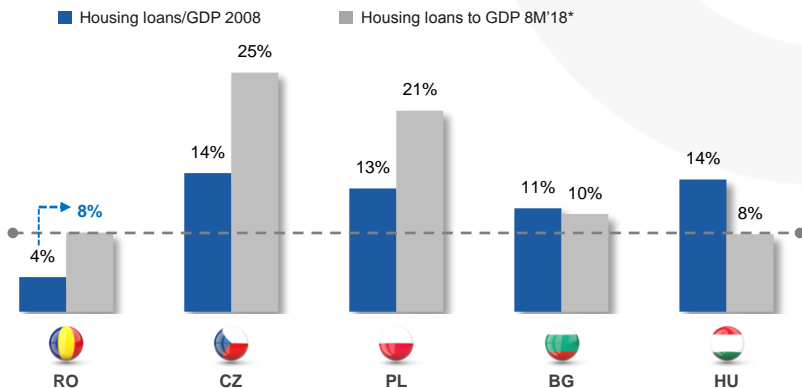


...but current living conditions...

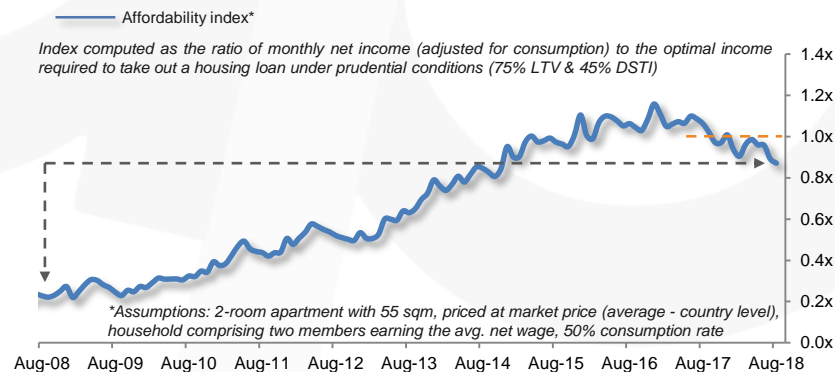
Home ownership is considered a prerequisite for individual financial stability



Despite solid progress, housing market depth remains low...



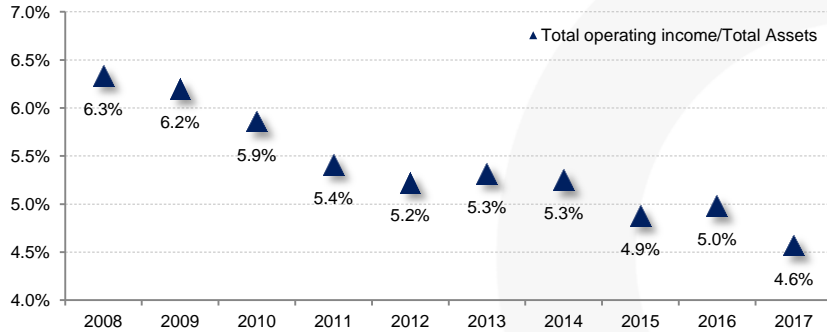
...and improved affordability create the premises for further development



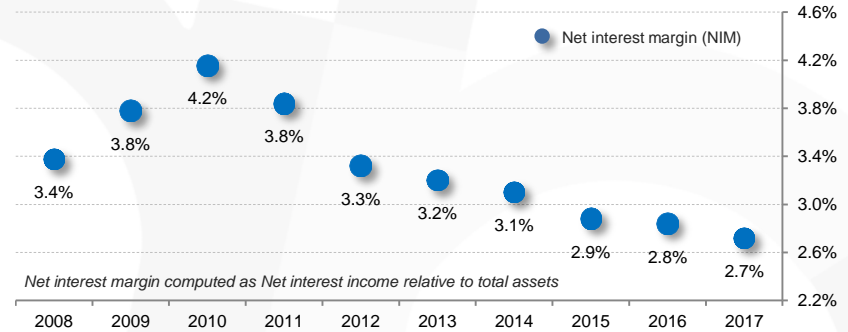
RO banking system from a P&L perspective: Revenues



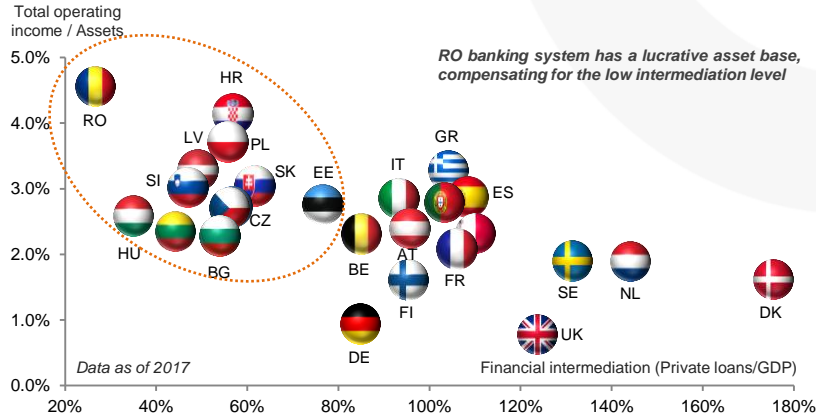
RO banking system enjoys a lucrative asset base...



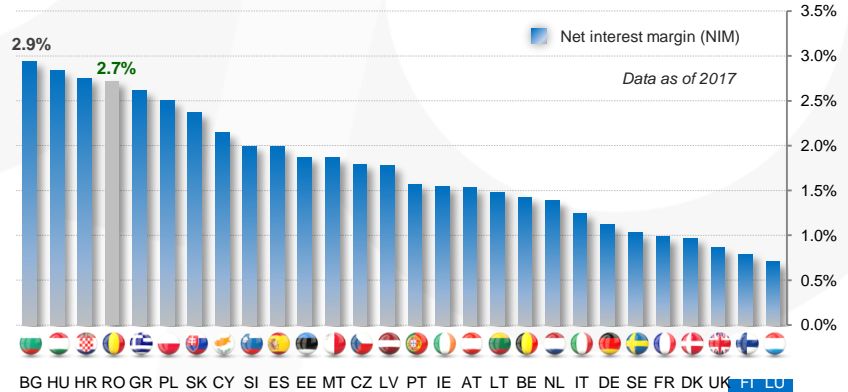
With a 2.7% NIM...



...generating the highest operating income among EU peers



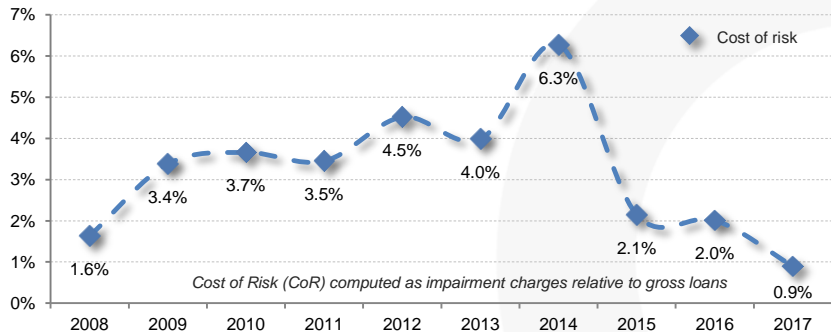
...RO banking system ranks 4th among EU players



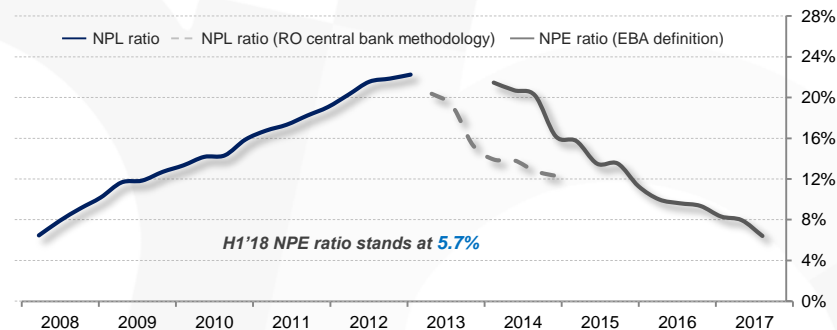
RO banking system from a P&L perspective: Costs



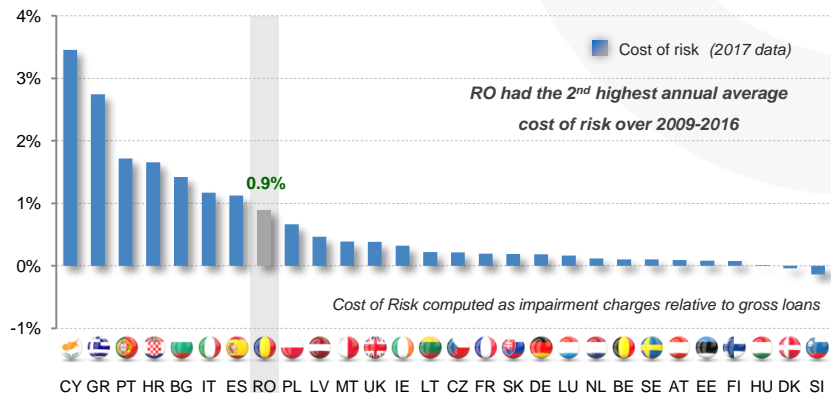
Cost of Risk declined following substantial clean-up efforts...



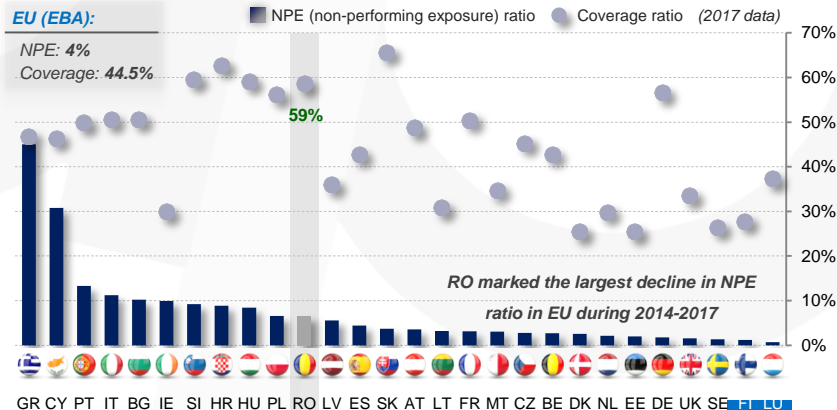
NPE ratio down to 5.7% from 22% in 2014



...placing RO 8th among EU peers



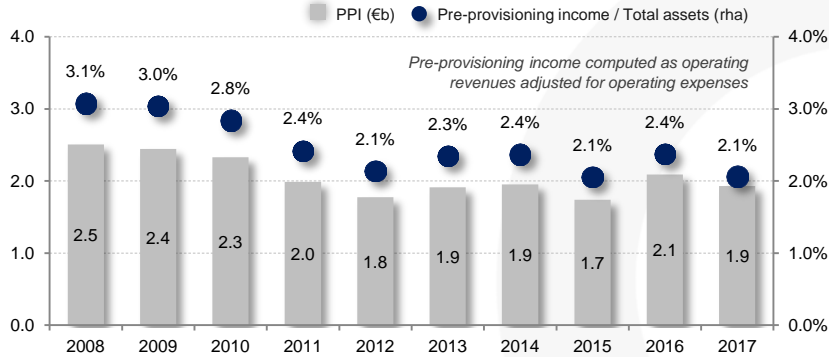
5th highest coverage ratio



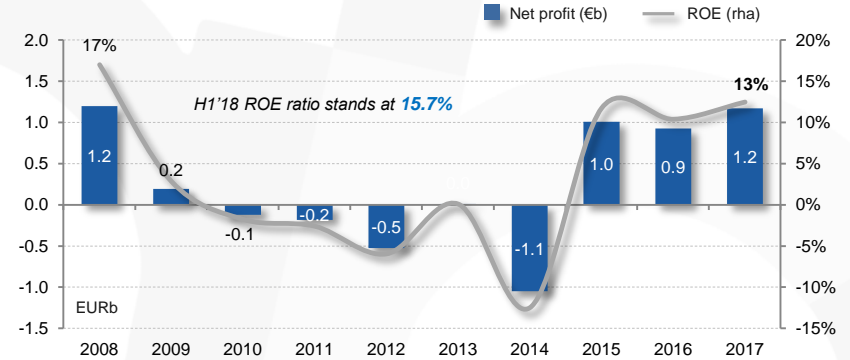
RO banking system from a P&L perspective: Profitability



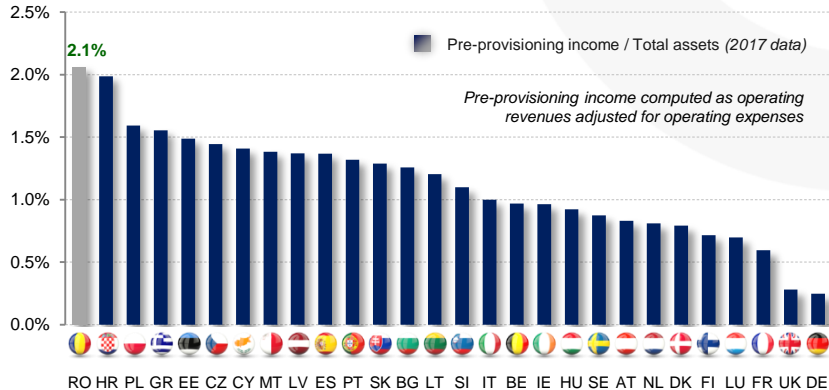
With a 2.1% PPI/assets...



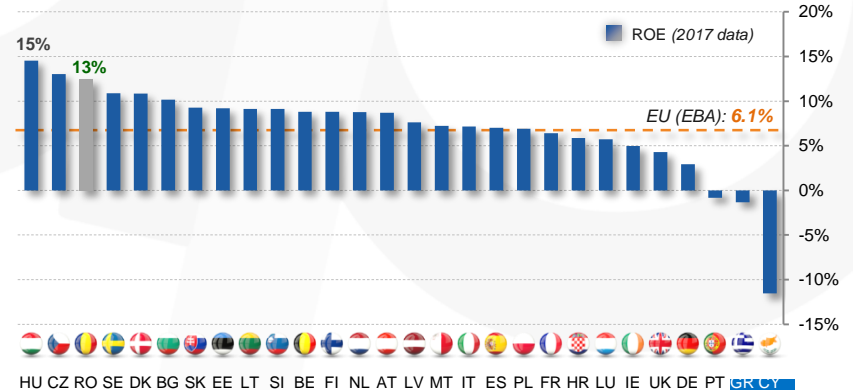
Net profit returned to pre-crisis level



...RO ranks 1st among EU peers



RO banking system generates the 3rd highest ROE in EU

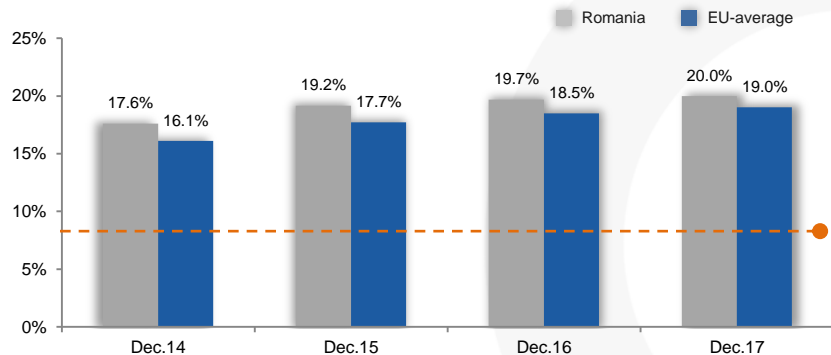


RO banking system: Robust capital adequacy levels

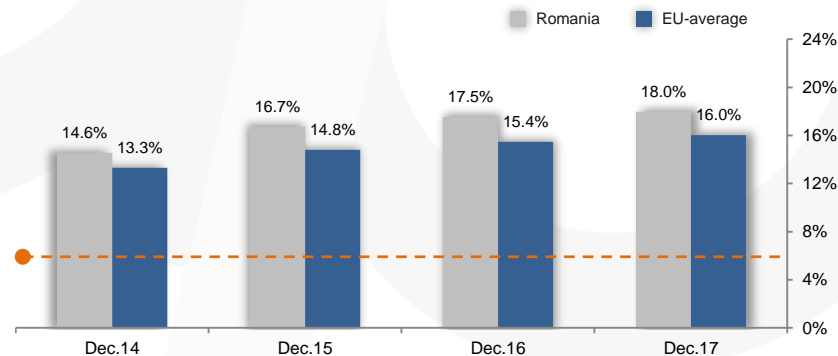


Comfortable levels of capital adequacy ratios...

Total capital ratio:



Tier 1 capital ratio:





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).



ANCHORS

Romania's joining OECD
Romania's joining Euro-area



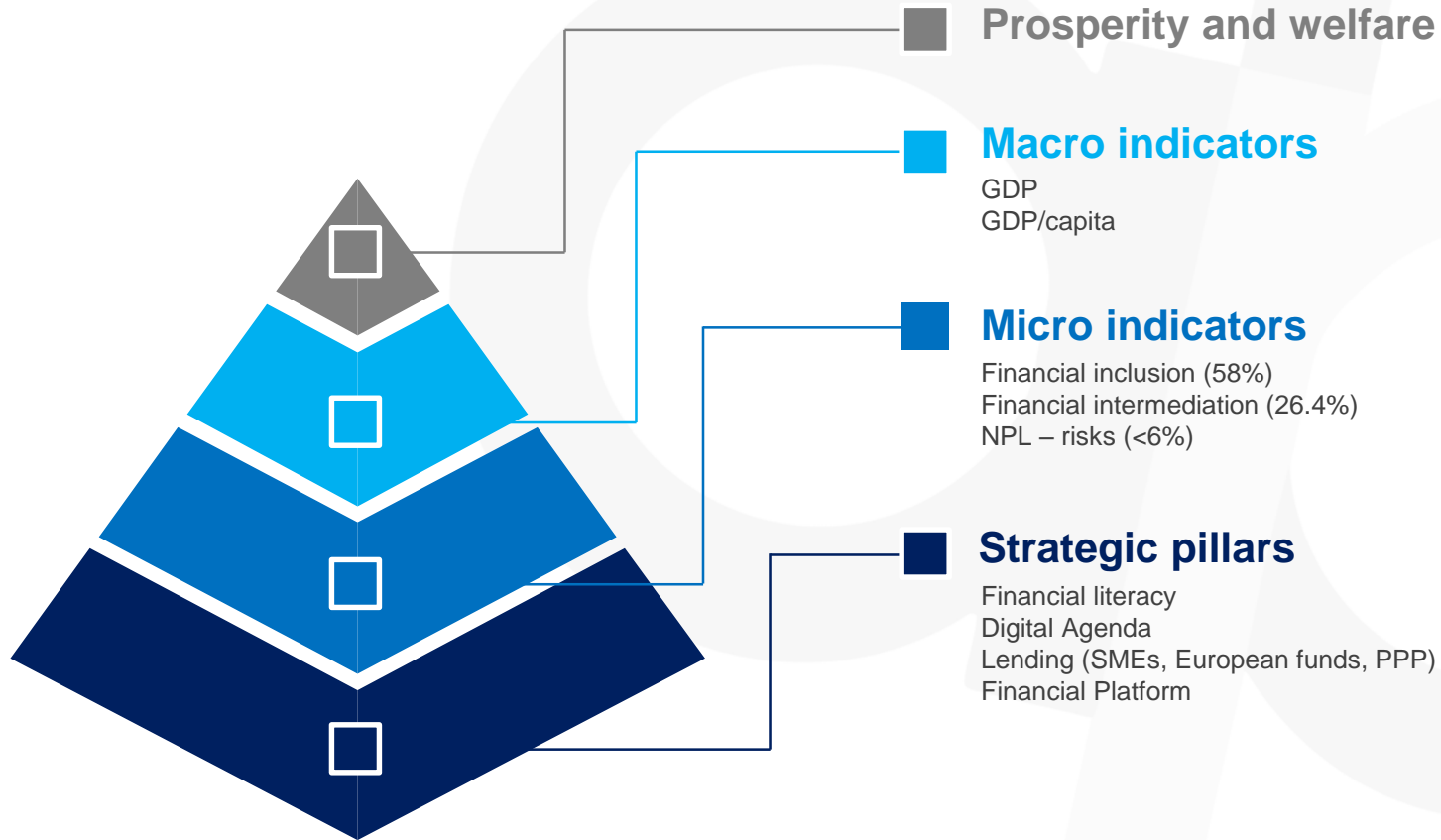
Romanian Banking Sector



Factors with impact on the banking system



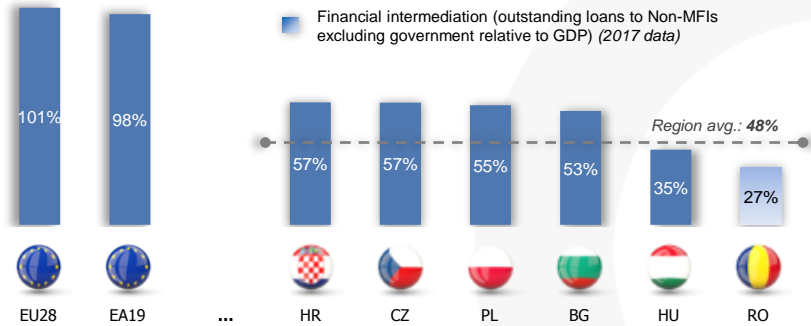
Strategic approach



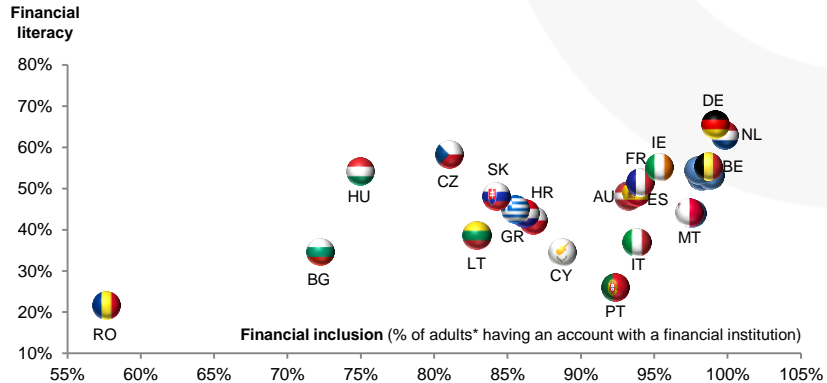
RAB action: Promote and improve financial literacy



RO financial intermediation remains low...



...partially justified by reduced penetration of financial services

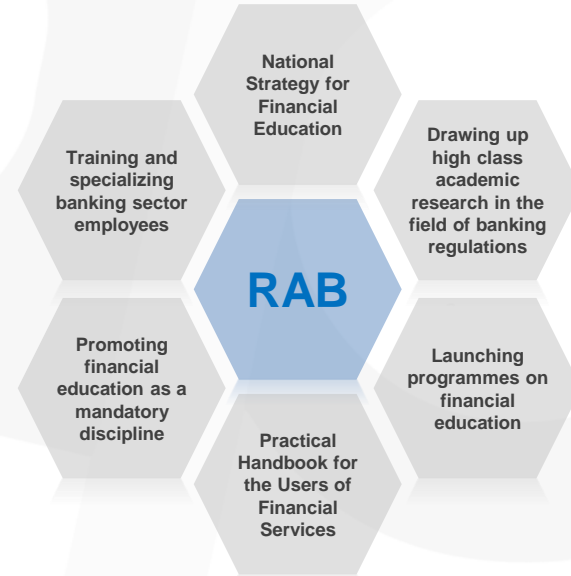


Statistics call for action:

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

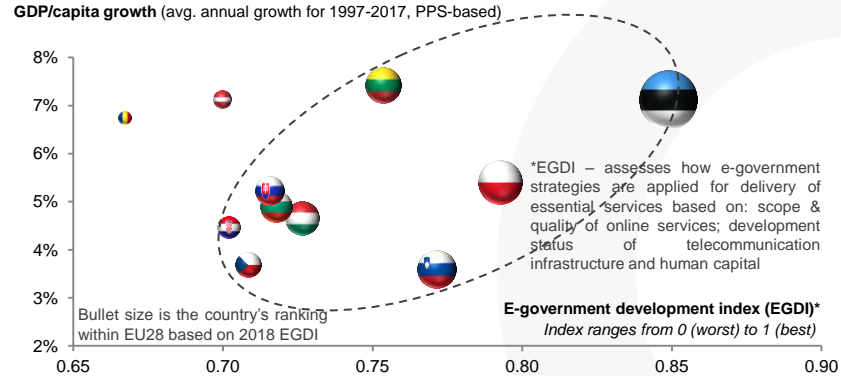
79% of adults paid utility bills in the past year, o/w 11% (vs. 80% EU) by using a financial account



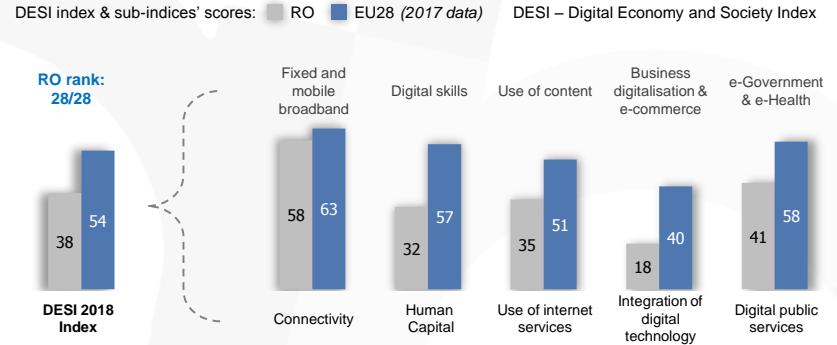
RAB action: Support 'Digital Agenda' implementation



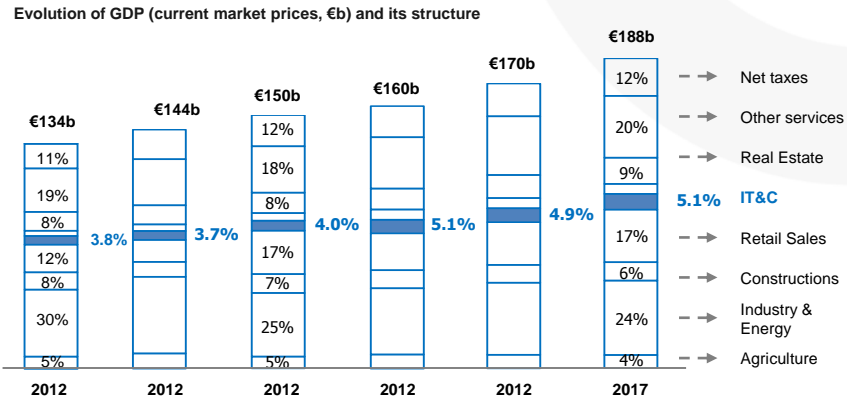
Positive correlation between digital governance & wealth



...yet, there is still significant catching-up to do



RO has been expanding its IT&C sector...



Gaps can be reduced by implementing RO 2020 Digital Agenda

2020 objectives set by RO Digital Agenda	Target 2020	Current RO	Current EU
Fixed broadband coverage (% households)	100%	88%	97%
Subscriptions to fast broadband (% households)	80%	53%	33%
Subscriptions to ultrafast broadband (% households)	45%	44%	15%
Use of internet for online shopping (% internet users)	30%	23%	68%
SMEs selling online (% SMEs)	20%	8%	17%
Regular users of internet (% individuals)	60%	61%	81%
Individuals that never used internet	30%	27%	13%
eGovernment Users (interaction with authorities % individuals)	35%	9%	49%
eGovernment Users submitting online forms (% individuals)	20%	4%	30%

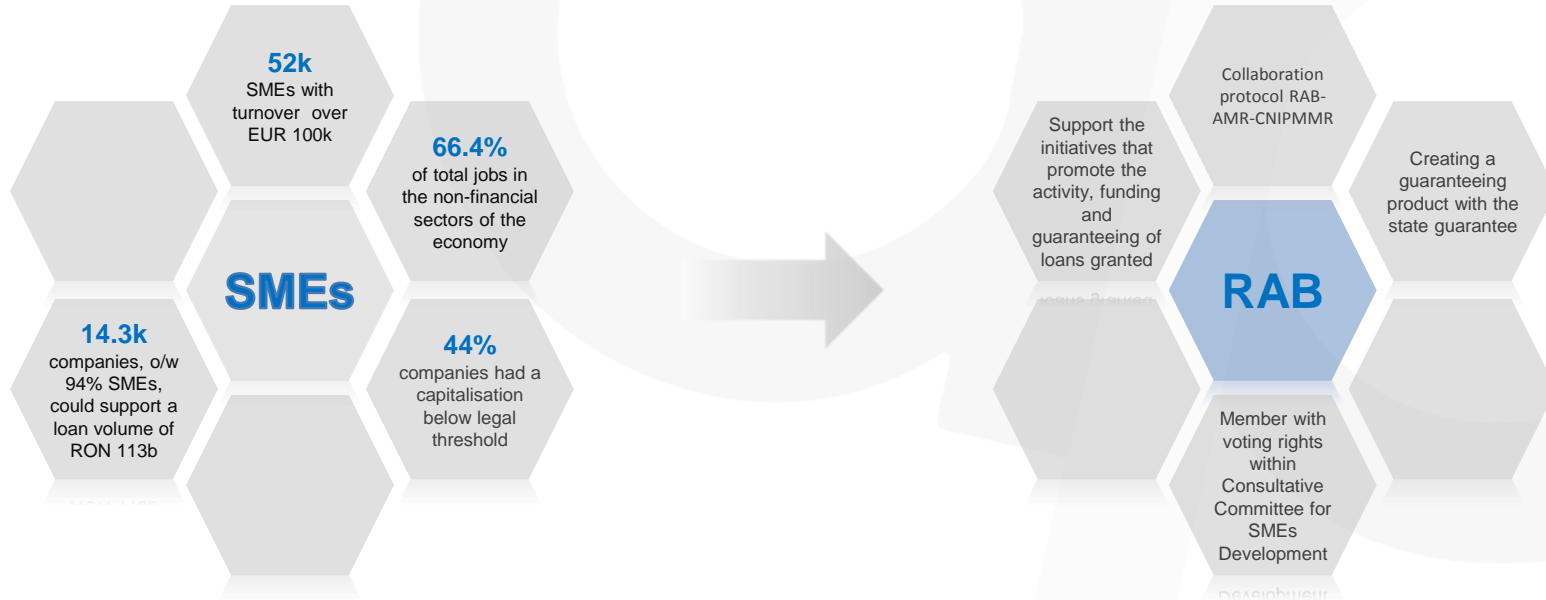
RAB action: lending to SMEs



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



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!