The Economist Conference

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Romania: Nominal Convergence Indicators (1)

	General Government Deficit [1)] (percent of GDP)				General Government Debt [1)] (percent of GDP)			
	2000	**2001**	**2002**	**2003e**	**2000**	**2001**	**2002**	**2003e**
Maastricht Criteria	below 3 percent				below 60 percent			
Romania	**-4.6**	**-3.3**	**-2.2**	**-2.5**	**23.9**	**23.1**	**22.7**	**23.7**

1) According to ESA95 methodology

Source: MoPF, NIS, NBR

General Government Finance Statistics*

percent of GDP

	General Government Deficit (–)				General Government Debt			
	2000	2001	2002	2003**	2000	2001	2002	2003**
Bulgaria	-0.5	0.2	-0.7	0.0	73.6	66.2	53.2	50.8
Czech Rep.	-4.0	-5.8	-7.1	-8.0	16.6	23.3	27.1	30.7
Hungary	-3.0	-4.2	-9.2	-5.4	55.5	53.4	56.3	57.9
Poland	-2.5	-3.1	-3.9	-4.3	37.2	37.2	41.6	45.1
Romania	**-4.6**	**-3.3**	**-2.2**	**-2.5**	**23.9**	**23.1**	**22.7**	**23.7**
Slovakia	-13.5	-7.2	-7.2	-5.1	46.9	48.8	44.3	45.1
Slovenia	-3.1	-1.3	-2.3	-2.2	27.6	27.5	28.3	27.4
Eurozone	0.2	-1.6	-2.2	-2.8	69.6	69.2	69.0	70.4

*) according to ESA95 methodology

**) estimates according to European Commission, Economic Forecasts, Autumn 2003, except estimates for Romania

Source: European Commission - Regular Reports 2003; ECB - Statistics Pocket Book, February 2004
for Romania: Ministry of Public Finance, National Institute of Statistics.

Romania: Nominal Convergence Indicators (2)

	Inflation rate (average)				Long-term Interest Rates (percent per annum)				Exchange Rate (vs. euro) (annual percentage change)			
	2000	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**
Maastricht Criteria	<1.5 pp above the best performing three EU members				<2 pp above the best performing three EU members				+ / -15 percent			
Romania	**45.7**	**34.5**	**22.5**	**15.3**	**x**	**x**	**x**	**x**	**-18.3**	**-23.3**	**-16.7**	**-16.8**

x = data not released

Source: NBR

Real Convergence

	GDP per capita (2002)		GDP per capita (2003)	
	PPS*	% of EU-15 average	EUR**	% of EU-15 average
Bulgaria	5,900	24.6	2,240	9.1
Czech Rep.	14,400	60.0	7,168	29.2
Hungary	13,600	56.7	7,278	29.7
Poland	9,500	39.6	4,688	19.1
Romania	**5,900**	**24.6**	**2,168**	**8.8**
Slovakia	11,400	47.5	5,397	22.0
Slovenia	17,700	73.8	12,347	50.3

*) Purchasing Power Standards

**) based on average annual exchange rate

Source: European Commission - Country Reports 2003; EBRD - Transition Report 2003
Websites of national statistics institutions.

Will EU Convergence Cause Currency Appreciation ?

- Romania has to catch up in terms of both nominal and real convergence
- With a GDP growth differential between Romania and the EU of 3 pp per annum, the time to catch up in GDP/capita could be halved provided the real appreciation is 3% per annum
- Real appreciation of the ROL is also supportive of nominal convergence since the exchange rate is used as a guide to disinflation
- The Balassa-Samuelson effect was found to be higher in Romania than in other transition countries

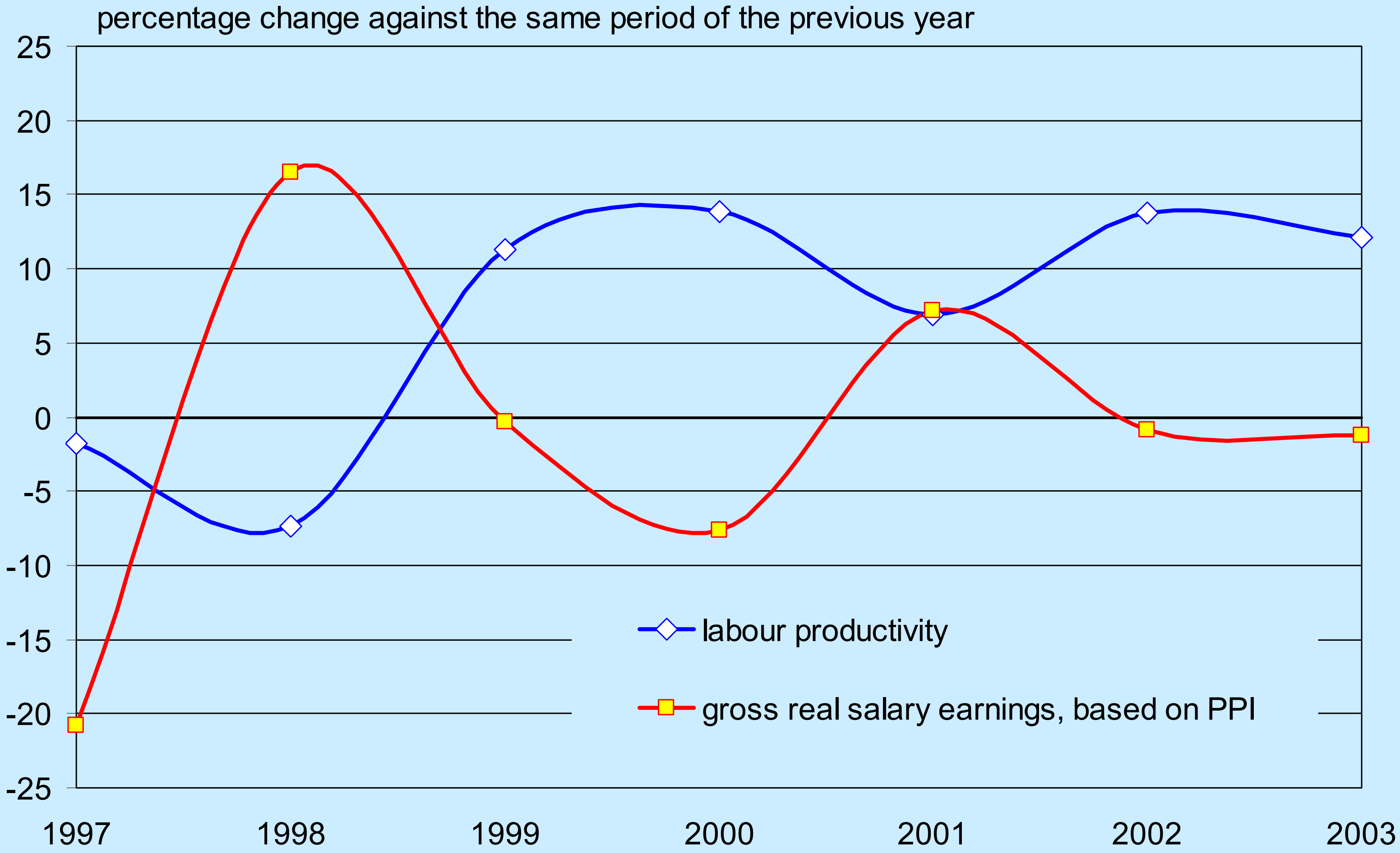
The Golden Rule

- The NBR practises a managed float – no commitment to a specific path or band of nominal depreciation, but seeking real appreciation

- Golden rule: Productivity growth must be at least equal to the sum of real appreciation and real wage growth

- Since 2000, the golden rule has been observed every year

Real Salary Earnings and Labour Productivity in Industry

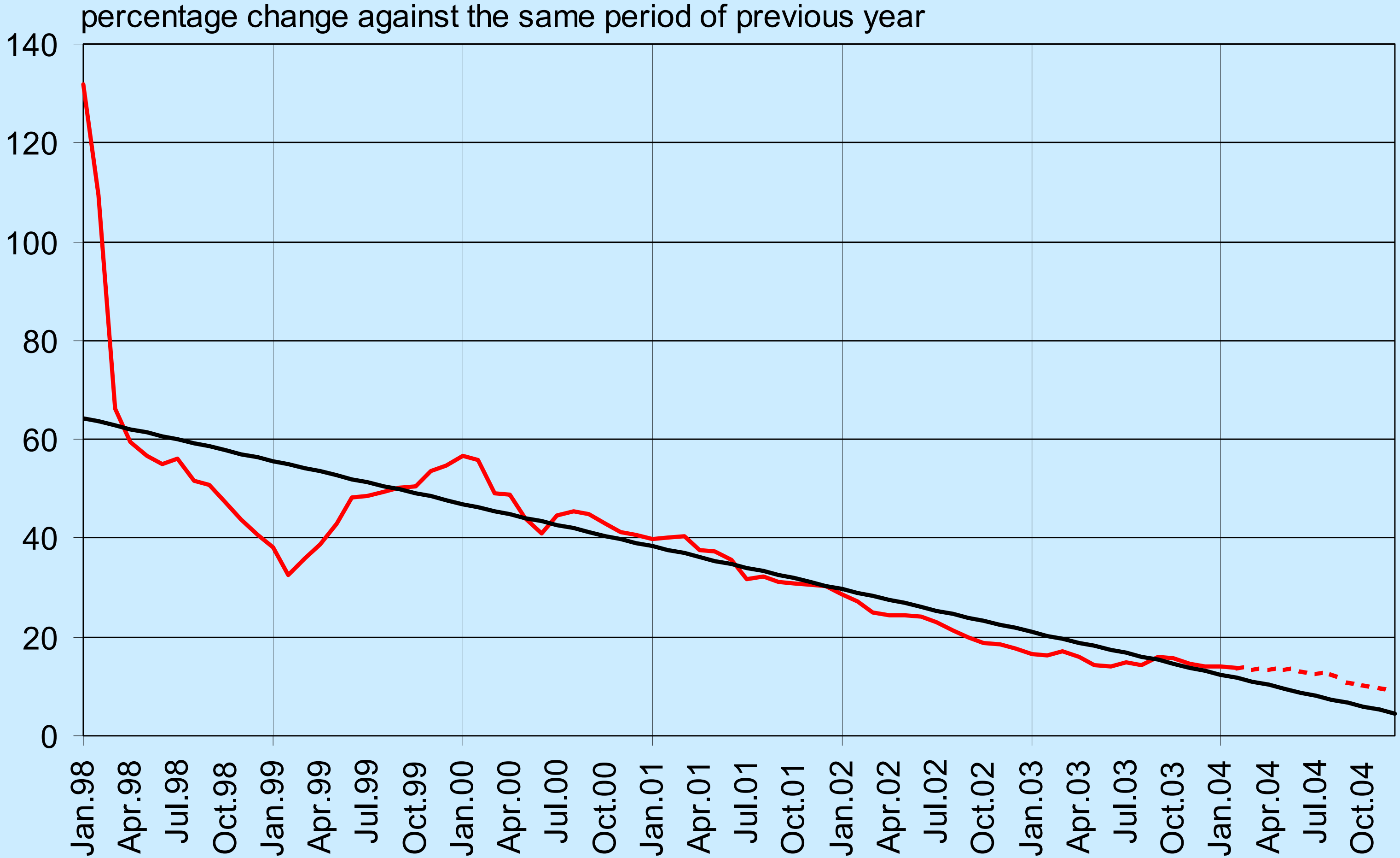


Source: National Institute of Statistics, NBR calculations

Gradual Disinflation

- Since 2000, gradual disinflation has stayed within the programmed figures, with inflation rate dropping by around ¼ against the previous year's level
- The gradual approach is preferred as:
  - prices, tariffs and wages have to undergo significant adjustment in order to converge to European levels
  - sharp reduction in inflation could hurt many viable companies, along with non-viable ones
  - external disequilibrium is a significant cause for concern

Inflation Rate (CPI)



Source: National Institute of Statistics, NBR's projection

projection for Mar. - Dec. 2004

Inflation under Control

- The 2004 inflation target of 9% (Dec/Dec) can be achieved, provided the envisaged mix of fiscal, income, monetary and structural policies is applied
- Within this policy mix, the exchange rate is used not only to steer disinflation, but also to avoid balance-of-payments problems
- The introduction of a direct inflation targeting regime is envisaged for 2005
- Romania's PEP assumes an inflation rate of 7% in 2005, but the NBR might set more ambitious objectives, provided that this year's target is met

Changes in Banking Legislation

- Two major amendments were made to the banking legislation in 1991 and in 1998
- To bring banking legislation in line with the *acquis communautaire,* the third review is envisaged for 2004

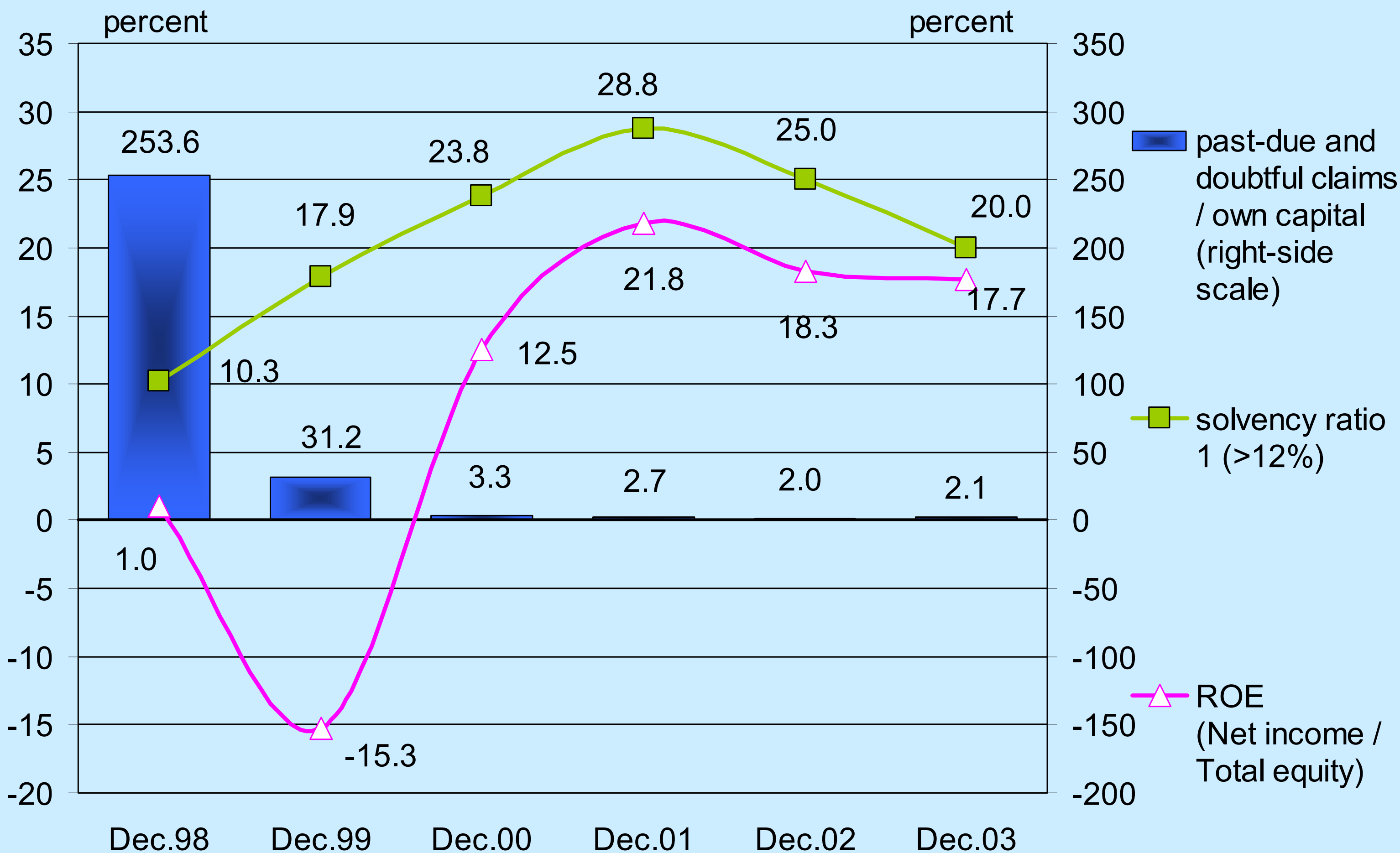
Changes in Banking Legislation: Full Compliance with EU Standards

- 2004 NBR Act
  - price stability is stated as the overriding objective
  - direct financing of public institutions by the central bank is completely prohibited
  - privileged access of public institutions to the resources of financial institutions is prohibited
- 2004 Banking Law
  - institutes the principle of authorisation of credit institutions by the competent authority in the Home Member State
  - institutes the NBR competences in the field of supervision on a consolidated basis
  - removes barriers to the right of establishment and the freedom to provide banking services
- Legislation governing insolvency of credit institutions, settlement finality in payment and securities settlement systems will also be improved

Romanian Banking System: Outlook

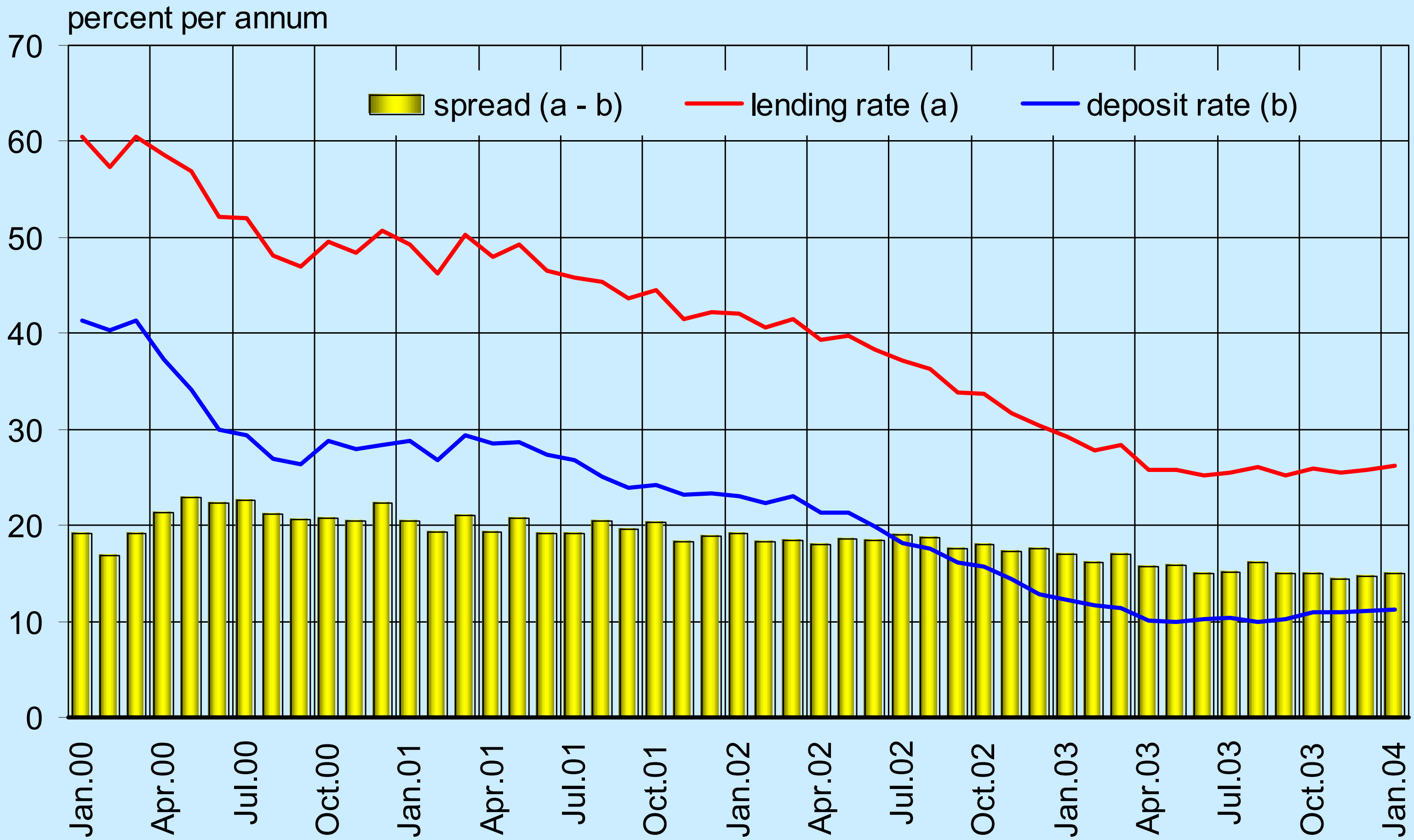
- After the banking sector clean-up in 1998-2001, the soundness of the banking system has improved markedly
  - Due to tightened supervision, prudential indicators reached internationally accepted benchmarks
  - 74% of banks' capital is now in private hands and will climb over 90% after the privatisation of BCR is completed
  - The share of foreign capital exceeds 66%
- There is still room for improvement in terms of competition and the range of banking products

Analysis Ratios for the Banking System



Source: National Bank of Romania

Banks' Interest Rates
to Non-government, Non-bank Clients

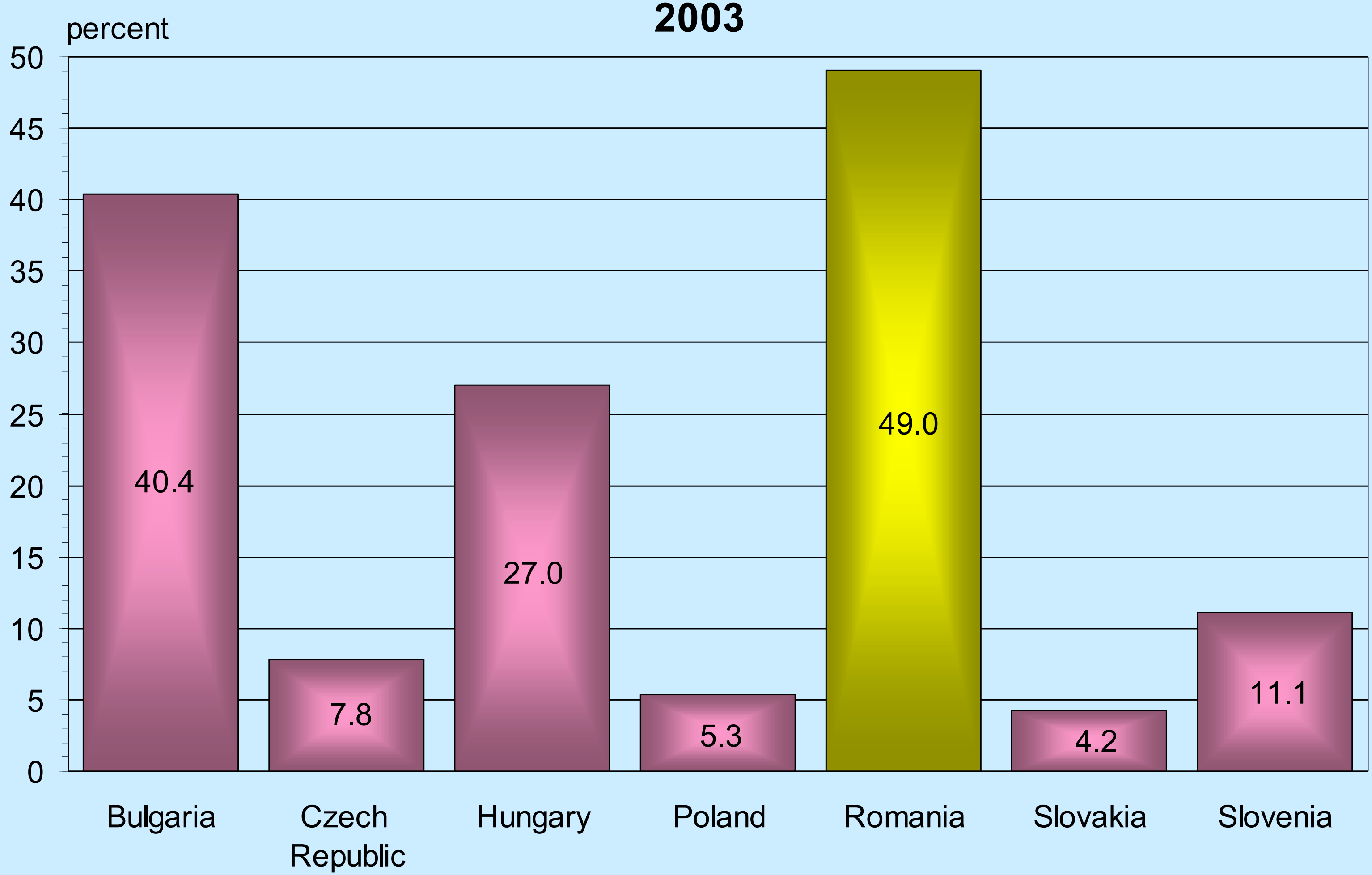


Source: National Bank of Romania

Is Credit Growth a Problem ?

- Until 2002, banks focused on corporate credit
- Since 2003, retail and mortgage credit have grown exponentially
- Non-government credit increased by almost 50% in real terms in 2003 alone
- Two issues are worrisome:
  - deterioration of the current account
  - increased potential of reimbursement difficulties

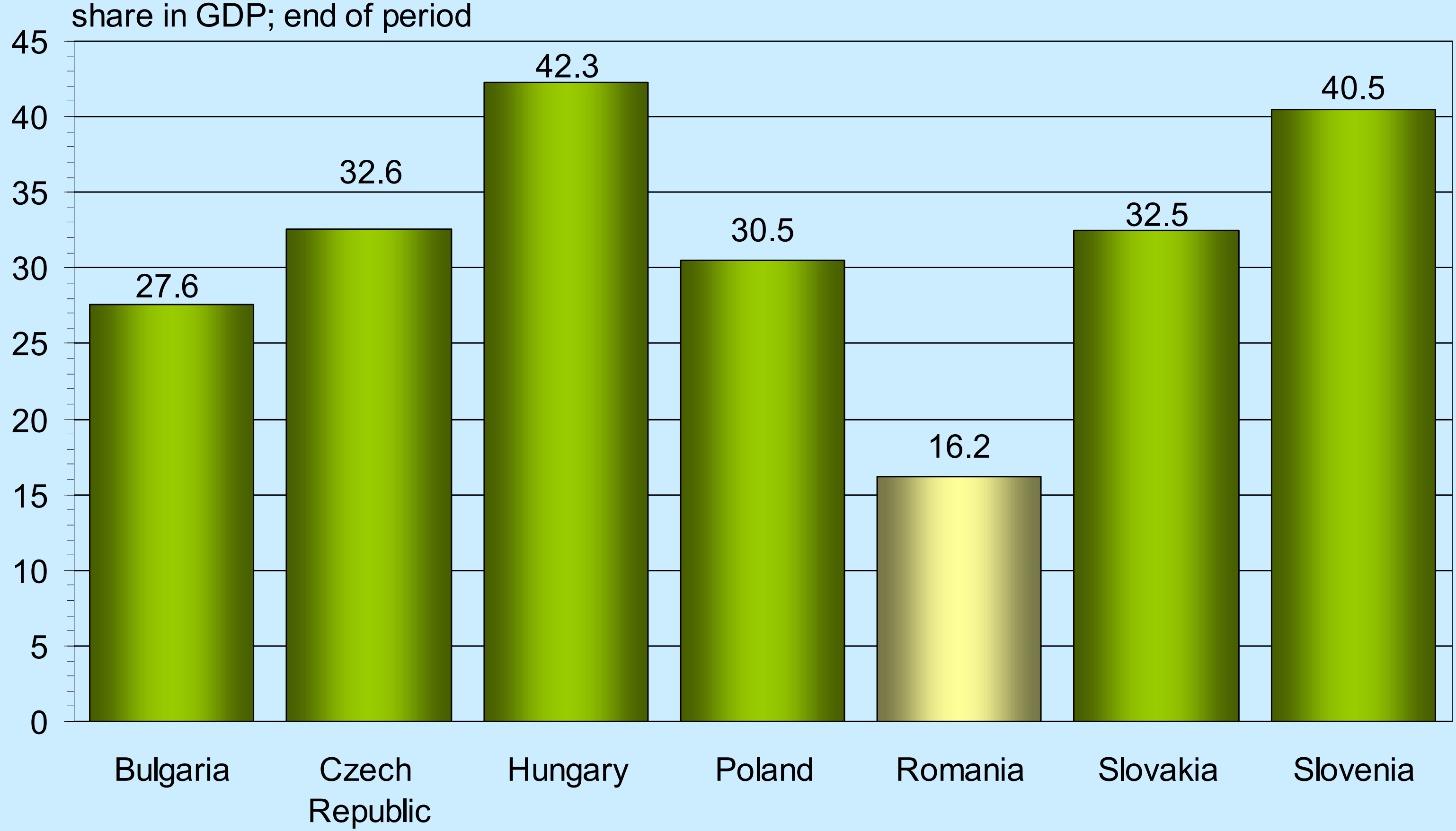
Real* Growth of Non-Government Credit
2003



Source: central banks and national statistics offices

*) based on CPI

Financial Intermediation* in East and Central Europe 2003



Note: GDP forecast, except Romania, Czech Republic and Slovakia

Source: Websites of central banks, EBRD - Transition Report 2003 *) non-government credit/GDP

Slowdown in Household Credit Growth

- The NBR adopted measures aimed at moderating credit growth
  - a 3-step increase of the leading interest rate since last August
  - a more restrictive regulation concerning consumer and mortgage credits
  - moral suasion applied to banks in order to set up a Credit Bureau

- The NBR continues to favour robust credit growth in the range of 20-30% per annum in real terms