NATIONAL BANK OF ROMANIA

# ANNUAL REPORT 2011

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## *Note*

***Annual Report for 2011*** *was approved by the National Bank of Romania Board on 25 June 2012 and was submitted to Parliament pursuant to Law No. 312/2004 on the Statute of the National Bank of Romania.*

*Some of the data for the period covered are provisional and will be updated as appropriate in the subsequent publications.*



*National Bank of Romania, 25 Lipscani Street, postal code 030031, Bucharest*
*Telephone: 4021/312 43 75; fax: 4021/314 97 52*
*Website: http://www.bnr.ro*

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# R O M A N I A

## – Overview –

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| **Location** | • In the Southeastern part of Central Europe, on either side of the Carpathians, on the lower course of the Danube (1,075 km), with exit to the Black Sea (coast line: 245 km);<br>• Boundaries: 3,150 km;<br>• Neighbouring countries: Bulgaria, Hungary, the Republic of Moldova, Serbia and Ukraine. |
| **Area** | • 238,391 sq. km (ranking 12th in Europe);<br>• Land use: farmland 61.4 percent (of which 39.5 percent arable land), forest 28.3 percent, other 10.3 percent. |
| **Population** | • 21.4 million inhabitants as of 1 July 2011 (ranking 9th in Europe);<br>• Density: 89.9 inhabitants/sq. km;<br>• Urban: 55.1 percent;<br>• Ethnic breakdown: Romanians 89.5 percent, Hungarians 6.6 percent, other 3.9 percent. |
| **Administrative organisation** | • 42 counties, including Bucharest Municipality (enjoying county status); 320 towns (103 municipalities) and 2,861 communes;<br>• Capital city: Bucharest (1.9 million inhabitants). |
| **Government** | • Republic;<br>• Legislative body: Parliament (Senate and Chamber of Deputies);<br>• Executive body: government headed by Prime-Minister (appointed by the President). The President is elected by universal vote for a five-year mandate. |
| **Currency** | • Romanian leu (RON); fractional coin: ban;<br>• Full convertibility;<br>• Exchange rate is set in the interbank forex market on a daily basis; reference currency: euro. |

## ABBREVIATIONS

| | |
|---|---|
| **AVAS** | Authority for State Assets Recovery |
| **BDGF** | Bank Deposit Guarantee Fund |
| **BIS** | Bank for International Settlements |
| **CEBS** | Committee of European Banking Supervisors |
| **CESR** | Committee of European Securities Regulators |
| **CPI** | Consumer Price Index |
| **EBA** | European Banking Authority |
| **EBRD** | European Bank for Reconstruction and Development |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **ECOFIN** | Economic and Financial Affairs Council |
| **EIB** | European Investment Bank |
| **EMU** | Economic and Monetary Union |
| **EAFRD** | European Agricultural Fund for Rural Development |
| **EAGF** | European Agricultural Guarantee Fund |
| **ESA** | European System of Accounts |
| **ESCB** | European System of Central Banks |
| **ESM** | European Stability Mechanism |
| **ESRB** | European Systemic Risk Board |
| **Eurostat** | Statistical Office of the European Union |
| **GDP** | Gross Domestic Product |
| **HICP** | Harmonised Index of Consumer Prices |
| **IBRD** | International Bank for Reconstruction and Development |
| **IFC** | International Finance Corporation |
| **IFI** | international financial institution |
| **IFRS** | International Financial Reporting Standards |
| **ILO** | International Labour Office |
| **IMF** | International Monetary Fund |
| **MIGA** | Multilateral Investment Guarantee Agency |
| **MIP** | Macroeconomic Imbalance Procedure |
| **MoU** | Memorandum of Understanding |
| **MPF** | Ministry of Public Finance |
| **NCFS** | National Committee for Financial Stability |
| **NBFIs** | non-bank financial institutions |
| **NRP** | National Reform Programme |
| **NSC** | National Securities Commission |
| **ON** | overnight |
| **ROBID** | Romanian Interbank Bid Rate |
| **ROBOR** | Romanian Interbank Offered Rate |
| **SMEs** | small- and medium-sized enterprises |
| **VAT** | value added tax |

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# Overview of the main economic and financial developments in 2011

## 1. Macroeconomic developments

In 2011, against the backdrop of a challenging international environment, Romania continued implementing policies aimed at macroeconomic stabilisation. This helped bring inflation back into the target band, cut the public deficit, keep the current account deficit at a moderate level, and pave the way for sustainable growth.

Economic performance was however impacted by the worsening of the external financial and economic environment, in the euro area in particular. Global economic activity was hampered by higher uncertainties and financial market tensions, mainly as a result of the deteriorating business perception regarding public finance sustainability in some euro area countries as well as protracted talks over the public debt ceiling in the United States. Under the circumstances, world GDP growth rate slowed to 3.9 percent, from 5.3 percent in 2010, driven largely by advanced economies. Across the euro area, economic activity started losing steam as early as 2011 Q2 (posting quarterly growth rates of merely 0.1 percent) and fell into negative territory in the final quarter of the year (-0.3 percent against the previous quarter).

This was originally triggered by temporary factors (higher commodity prices and supply-chain distortions following the Japan earthquake) and subsequently by the heightening of the sovereign debt crisis, especially in the countries at the southern rim of the European Union. It led to growing financing difficulties across the European banking system which in turn caused more deleveraging and sparked fears regarding the risk of negative repercussions on credit availability that could also impact Central and East European countries.

At the same time, the sovereign debt crisis required a reshaping of the economic policy coordination framework in the EU Member States whereby sound growth should be promoted and public finance should be put back onto a firm basis. Therefore, EU decision makers adopted an economic governance package containing provisions regarding stronger fiscal discipline rules embedded in the Stability and Growth Pact as well as the implementation of a mechanism on the prevention and correction of excessive macroeconomic imbalances of EU Member States.

**Inflation rate.** At the end of 2011, the annual inflation rate in Romania hit an all-time low of 3.14 percent, coming close to the central point of the inflation target (3 percent ±1 percentage point). Disinflation resumed and consolidated due to the implementation of a prudent macroeconomic policy mix and the gradual fading of the impact of adverse supply-side shocks, stemming mostly from the standard VAT rate hike, which were manifest during the period July 2010 – April 2011. Macroeconomic policy coherence, in the context of the agreements in progress with the EU, the IMF, and other international financial institutions, helped inflation expectations to get anchored and inflation rate to be put onto a trajectory compatible with fulfilling the medium-term inflation targets. From this perspective, monetary policy ensured adequate real broad monetary conditions via prudent calibration of its instruments, conditional upon the inflation outlook and its associated risks.

Although the growth pace of the Romanian economy reverted to positive territory in 2011, the GDP remained below its potential level and the negative output gap further exerted disinflationary pressures. The impact of this determinant on the consumer price growth rate was however less visible in 2011 H1 given the successive adverse shocks on the international commodity markets (such as the oil market and the agri-food market) that cohabited with a growing disparity between domestic demand and supply on certain segments of the farming market; the local imbalance can be attributed to unfavourable weather conditions in 2010, consumers' shifting to inferior goods, an increase in exports of grains to the detriment of sales on the local market (following heftier arbitrage practices), but also to the persistent structural rigidities on the local farming market[1]. In addition, in 2011 H1, the annual inflation rate (7.93 percent at mid-year) still incorporated the first-round effect of the standard VAT rate hike, which however faded out starting July. The downturn in CPI inflation rate in the latter half of 2011 was also driven by abating tensions on international food and energy commodity markets, the bountiful harvest (of fruit and vegetables in particular), as well as the dissipation of unfavourable statistical effects associated with higher prices on these markets in the period from August 2010 to April 2011. By contrast, administered price adjustments, especially the removal of central government subsidies for heating and hot water supply, exerted stronger inflationary pressures over the period.

At the end of 2011, the annual adjusted CORE2 inflation rate was 1.76 percentage points below its December 2010 level (2.37 percent from 4.13 percent). Along with the negative output gap, other determinants of the reduction in core inflation were the fading-out of the first-round effect of the standard VAT rate hike, the bumper crop effects feeding through to processed food prices, as well as the improvement in inflation expectations.

Unlike the previous year, the changes in external prices failed to support adjusted CORE2 disinflation, but their detrimental impact was cushioned by the lower speed of leu depreciation.

The developments in early 2012 confirm the consolidation of disinflation, in line with central bank expectations. Thus, the annual CPI inflation rate fell to 1.8 percent in April and May 2012, amid the maintenance of adequate real broad monetary conditions, the fading-out of the shock triggered by the VAT rate hike and relatively favourable movements in food prices.

**Economic growth.** After posting negative values for two years, real GDP dynamics returned to positive territory, reaching 2.5 percent. This recovery was upheld primarily by the industrial sector, where gross value added rose by 5 percent, against

[1] High fragmentation of arable plots, fewer irrigated areas, the depreciation and obsolescence of the equipment in use, intermediation dysfunctions in the production and sales chain, etc.

the background of larger domestic supply (chiefly capital goods and intermediary goods) and the further increase in the supply for exports, albeit at a slower pace than a year earlier. Agriculture and construction also recorded favourable, yet smaller, contributions to GDP growth, the trend in gross value added dynamics reversing in both cases (11.2 percent, mainly as a result of the bountiful harvest, and 2.7 percent, on the back of non-residential and infrastructure works, respectively). The services sector reported a neutral contribution to growth during the period under review.

On the demand side, gross fixed capital formation had the largest contribution to the real GDP increase (1.5 percentage points, following its 6.3 percent rise versus the previous year), on account of the pick-up in purchases for overhaul purposes and capital repair works (exceeding 10 percent in annual terms). Consumer demand also improved, yet its growth rate stood at merely 0.3 percent, with the favourable impact of increases in self-consumption and goods purchases from the farmers' market amid the bountiful harvest being partly offset by the further decrease in retail purchases of goods and services. Consumer demand was dampened primarily by further declining real disposable income, still high household indebtedness, consumer uncertainties regarding their future financial standing, and banks' wariness about lending. Given the economic slowdown in Romania's main trade partners (in the EU and elsewhere), the contribution of net external demand to real GDP dynamics turned again negative (-0.8 percentage points), amid goods and services exports seeing slightly slower growth than imports thereof (9.9 percent and 10.5 percent, respectively).

**Fiscal position.** The consolidated general government deficit narrowed to 5.2 percent in 2011 from 6.8 percent in 2010. Nonetheless, the end-of-year figure is distorted by the impact of the clarification of the statistical treatment applicable to government liabilities resulting from court decisions in favour of historical wage claims made by public sector employees; this caused some lei 6.4 billion of additional expenditure, equivalent to 1.1 percent of GDP, to be included in the ESA95 budget execution. In the absence of this one-off measure, the ESA95 budget deficit would have been considerably below the target in the Convergence Programme submitted by the authorities in April 2011 (4.9 percent of GDP) and in the Memorandum of Understanding signed with the EU (below 5 percent of GDP), nearing the cash-accounting figure (4.1 percent of GDP). The explanation for the absence of the usual cash-accrual differential lies mainly with the fact that a substantial portion of expenditures undertaken towards end-2011 was aimed at settling the arrears of certain state-owned enterprises and of the public health sector.

Given a broadly unchanged (negative) cyclical component, the 2011 adjustment was almost entirely structurally driven. It chiefly reflected the carry-over effect of the fiscal consolidation measures enacted at mid-2010 and the impact of continuing staff cuts across the public sector.

The debt-to-GDP ratio added roughly 3 percentage points in 2011, mirroring not only the borrowing requirements, but also the build-up of a liquidity buffer by the State Treasury.

International capital markets welcomed the headway in terms of fiscal consolidation. Both the spreads between Romania's securities and Eurobonds and the spreads attached to CDS remained at reasonable levels throughout 2011.

**External accounts.** During 2011, Romania's commercial transactions evolved similarly to the previous year. Both exports and imports of goods stayed, in terms of value, on an upward trend (with export growth outpacing import growth), which caused the openness of the Romanian economy to improve to as much as 71.5 percent of GDP. The annual rate of increase in exports slackened throughout the four quarters of 2011, owing largely to the more sluggish growth across the EU. Given the large import content of exports, this development brought about considerably slower growth of imports of goods, which was also caused by the recovery in domestic supply of intermediate goods and capital goods in particular.

In 2011 as a whole, the current account deficit as a share of GDP remained moderate, similar to the previous year's reading (4.4 percent). In terms of value, it widened by 8.6 percent (to EUR 6 billion), given that the favourable impact of the slight narrowing of (fob-fob) trade deficit was more than offset by the worsening of the other balances, i.e. services, incomes, and current transfers.

Looking at the current account deficit financing, the ongoing decline in foreign direct investment (down 15.1 percent) translated into a further compression of the contribution of this item: about 8 percentage points against 2010 to 32 percent. A comparable positive contribution had portfolio investments, which saw their net flow doubling, largely as a result of the Eurobond issue launched by the Ministry of Public Finance on international markets. External financing from medium- and long-term loans and credits was subdued, whereas short-term net flows had a significantly larger contribution to current account deficit financing (as high as 22 percent), mainly on the back of trade credit repayments by domestic companies.

**Unemployment, productivity, wages.** In 2011, labour market conditions recovered at a slow pace, against the backdrop of rebounding economic growth and the coming into force of the new Labour Code in May. Thus, whole-economy employees reversed the downtrend seen in 2009-2010, but their number grew very moderately in the course of the year. The relative expansion in job openings, the fewer redundancy programmes across the private sector, as well as the increase in long-term unemployment rate[2] (with a significant part of long-term job seekers failing to renew their applications for being registered with the National Employment Agency) contributed to the fall in the registered unemployment rate to 5.1 percent in December 2011 against 6.9 percent in December 2010, along with the ILO unemployment rate remaining above 7 percent[3]. The ILO unemployment rate reflects the persistence of difficulties that some groups (for example, young people lacking work experience, unskilled workers) encounter while looking for a job, in the context of the sluggish economic growth and structural rigidities and dysfunctions of the labour market (the still significant share of people engaged in subsistence farming, the lack of

[2] According to ILO methodology.

[3] 7.4 percent in 2011, 0.1 of a percentage point above the year-earlier figure.

focus of the education system on developing vocational skills, the persistent regional imbalances in labour demand versus supply, etc.).

In the private sector, nominal wages further increased at a pace that allowed their purchasing power to be preserved. Their annual rate of increase picked up in the services and construction sectors, but slowed in industry. Conversely, budgetary-sector nominal wages decreased, on average, versus the previous year, with the persistence of the effects of the fiscal consolidation measures implemented in July 2010[4] on their annual change being only partially offset by the 15 percent raise that came into effect in early 2011; however, their annual dynamics were less negative by approximately 8 percentage points, accounting for most of the step-up in the annual increase economy-wide (to 4.9 percent for both gross average wages and net average wages).

In 2011, the developments in budgetary-sector wages along with the significant contribution of agriculture to GDP dynamics translated into a modest growth rate of unit labour costs economy-wide (1.7 percent versus 7.9 percent in 2010). In all the other sectors however, unit labour costs posted above-average annual growth rates, even though in most cases the picture saw a relative improvement in year-on-year comparison (primarily in construction, trade, real estate, professional, scientific and technical services, cultural and leisure activities). In addition, the annual increase in unit labour costs remained at a level similar to the previous year's, i.e. 5.9 percent; provided these trends are confirmed, there is a risk of inflationary pressures to build up and of the competitiveness of Romania's exports to weaken. Against this backdrop, preserving a favourable inflation outlook and reinforcing the competitiveness of Romania's exports, which are supportive of a lasting economic recovery, call for renewed efforts towards further pursuing an adequate wage-productivity correlation.

**Nominal convergence.** In line with the 2012-2015 Convergence Programme, the commitment to adopting the euro in 2015 was reaffirmed. This is an essential domestic anchor for securing time consistency of the macroeconomic policy mix and structural reforms as well as for promoting the adjustments needed to enhance the resilience and the flexibility of the Romanian economy.

The current assessment of Romania's nominal and real convergence to the euro zone points towards the need to make renewed efforts for reviving the economy in parallel with those for implementing fiscal consolidation measures. Specifically, the end-May levels were still higher than the reference values for most of the convergence criteria, despite the substantial progress.

Good performance was recorded especially in terms of the inflation criterion. The positive spread between the average annual HICP rate and the benchmark contracted by 3.3 percentage points from December 2010 (down to 0.4 percentage points in May 2012), amid sustained disinflation in Romania starting with mid-2011 and a higher reference level as a result of the rising inflationary pressures across the EU stemming from higher energy and non-energy commodity

[4] The 25 percent wage cut, elimination of certain bonuses and employee benefits.

prices at global level. The downward path in the domestic average annual inflation rate is expected to continue, with the NBR forecast showing a stabilisation at approximately 3 percent in 2012 H2 (from 3.5 percent in May).

The disparity of the general consolidated budget deficit as a share in GDP versus the nominal criterion also narrowed, i.e. by 1.6 percentage points from end-2010, to 2.2 percentage points above the 3 percent ceiling. Nevertheless, further overshooting of this level requires speeding up fiscal consolidation, also in the context of Romania's being committed to exiting the excessive deficit procedure by end-2012. As for the debt-to-GDP ratio, the end-2011 level (33.3 percent) remained well below the convergence criterion reference value (60 percent), in spite of the steady upward trend manifest starting 2007. The relatively substantial increase in the debt-to-GDP ratio in 2011, although far below the levels seen in the past two years, reflects a stubbornly high primary deficit, together with a positive stock-flow adjustment, which is largely accounted for by the build-up of a liquidity buffer by the State Treasury.

Over the two-year period (June 2010 – May 2012) defined as the reference period by the nominal convergence criterion, EUR/RON exchange rate changes stood within the standard fluctuation band of ±15 percent. Thus, compared to the May 2010 average – seen as a conventional reference value, in the absence of a central parity –, exchange rate fluctuations ranged from +2.5 percent to -6.5 percent. EUR/RON exchange rate movements in the period under review were largely driven by the shifts in global risk aversion in the context of tensions on international sovereign debt markets. In the period January-April 2011, the Romanian currency appreciated gradually, due to the improved financial market sentiment towards the region, the gradual rebound in domestic economic activity, and the positive interest rate differential versus the euro area. The trend then reversed given the lower investor appetite for risk, the heightening of the sovereign debt crisis, the worsening growth prospects in the European Union and, implicitly, in Romania. In 2011 as a whole, the local currency recorded a marginal 0.7 percent depreciation against the euro.

The long-term interest rate remained above the reference level defined in the Maastricht Treaty but – amid the signals of resuming growth and the improved perception of investment risk in Romania – the spread declined from a high of 3.7 percentage points in 2009 to 1.5 percentage points in December 2011. Subsequently, even though long-term interest rates stayed on a downtrend, the spread expanded to 3.1 percentage points in May 2012 as a result of the substantial curtailment in the reference level.

In October 2011, the European Council approved a package of six draft laws, the so-called "six pack", seen as the most comprehensive reform of economic governance in the European Union and the euro area since the establishment of the European Monetary Union. The key objectives of the six pack were as follows: (i) to enhance the fiscal discipline regulations mentioned in the Stability and Growth Pact and (ii) to reduce macroeconomic imbalances and promote competitiveness via preventive and corrective actions. In order to fulfil the second objective, a new mechanism for detecting and correcting excessive imbalances (Macroeconomic Imbalance Procedure, or MIP) was put in place. Starting 2012, the ECB's analysis of the preparedness of the Member States with a derogation to join the euro area included in the Convergence Report also comprises a comprehensive assessment conducted under the MIP.

In the case of Romania, the scoreboard[5] analysis that constitutes the starting point of the assessment made under the MIP reveals, as of 2010, the overshooting of reference levels for three indicators, namely: current account deficit, net investment position, and unit labour costs. It is noteworthy however that the differentials narrowed steadily during the 2009-2011 period. Compared to the other EU Member States, Romania takes a mid-rank position, as it fulfils seven out of ten criteria. The country trails behind Italy, France and Denmark (eight fulfilled criteria), but is on a par with Germany, Belgium, Austria, the Netherlands and Poland, and fares better than, for example, Spain, Portugal and the United Kingdom.

## 2. Macroeconomic policy correlation

In a challenging global and European environment, still marked by the fall-out from the financial and economic crisis, Romania succeeded in 2011 in making headway in the field of macroeconomic stabilisation by promoting an economic policy mix aimed at putting its economy back onto a sustainable growth path. In this vein, the successful completion, in the spring of 2011, of the borrowing agreement that the Romanian authorities signed with the EU, the IMF and other international financial institutions in April 2009 and the initiation of a new precautionary stand-by arrangement for the period April 2011 – March 2013 played a prominent part.

**Monetary policy.** The pursuit of the overall objective of monetary policy in 2011, namely to resume and consolidate disinflation, was correlated with the need for a further orderly unwinding of macroeconomic imbalances that had built up in the pre-crisis period. The major challenges to monetary policy were the anchoring of inflation expectations, given the persistence of the annual inflation rate above the upper bound of the variation band around the central target, and the consolidation of disinflation, in line with the medium-term objectives. Over the two-year horizon relevant for monetary policy, the annual inflation targets for end-2011 and end-2012 were set at 3.0 percent ±1 percentage point. The targets were previously determined by the National Bank of Romania together with the Government also in consideration of attaining, consistent with the timetable for euro adoption, an inflation rate compatible with the inflation criterion laid down in the Maastricht Treaty.

The two semesters of 2011 showed a distinct response of the central bank. Thus, in the first part of the year under review, the inflation rate remained above the upper bound of the target band, amid the persistent first-round effects of the standard VAT rate hike in July 2010, to which added several shocks on global energy and food commodity markets, the latter being compounded by scant domestic supply.

[5] Comprising 10 indicators relevant to identifying external and internal imbalances.

The rise in inflation under the impact of the aforementioned shocks was looked upon as temporary, prompting the NBR Board to extend the status quo of the monetary policy rate during 2011 H1. The decision was also warranted by the relatively modest pace of economic activity in the first part of the reported year, concurrently with the slow dynamics of lending on account of the subdued demand for loans and banks' unfavourable risk perception associated with various economic sectors or debtor categories.

Changes to the monetary policy toolkit during that period included the minimum reserve requirement ratio on credit institutions' foreign currency-denominated liabilities, which was lowered from 25 percent to 20 percent starting with the 24 April – 23 May 2011 maintenance period. The purpose of this measure was to render banks' use of forex liquidity more flexible and to continue the alignment of the required reserve mechanism to ECB standards in the field. During 2011 H1, the central bank generally acted as a debtor vis-à-vis the banking system (in terms of monetary policy operations), given the net liquidity surplus recorded at the time.

In line with central bank expectations, disinflation gained momentum in 2011 Q3, which was conducive to the 12-month inflation rate returning within the target band starting in September (3.45 percent) and hovering around the central target until end-2011, thus validating the NBR's interest rate policy. Behind these developments stood the fading out of the impact exerted by the VAT rate hike, the steep decline in volatile food prices[6], the effects of the disinflationary pressures of the negative output gap becoming increasingly manifest against this background, as well as the improvement in inflation expectations, underpinned by the further prudent monetary policy stance. Given the brighter inflation outlook and the corresponding adjustment of inflation expectations, the NBR Board decided in November 2011 to resume the rate-cutting cycle by lowering the monetary policy rate by 25 basis points to 6.0 percent. This decision was followed by three similar cuts in the first part of 2012, thus bringing the policy rate down to 5.25 percent.

The central bank returned to its creditor position vis-à-vis the banking system in 2011 H2. The range of eligible assets for open-market operations was expanded so as to include EUR-denominated bonds issued by Romania on international markets and leu-denominated bonds issued by international financial institutions, respectively, both deposited with the Euroclear system.

**Fiscal policy.** While monetary policy acted in a counter-cyclical manner in 2011, thanks to the room for manoeuvre created in the previous years, the magnitude of imbalances that had built up in the pre-crisis period and the need to remove the excessive deficit by the end of 2012 constrained fiscal policy to maintain a pro-cyclical stance. With the negative output gap remaining relatively unchanged, fiscal consolidation was almost entirely structurally-driven in 2011. According to the most recent estimates released by the European Commission, the adjustment effort – net of the temporary impact of additional expenditures coming from court decisions

[6] Following the fading out of the tensions that had previously built up on global food commodity markets and the significant rise in domestic agricultural output.

in favour of historical wage claims made by public sector employees, equivalent to 1.1 percent of GDP – equalled approximately 2.8 percentage points, sending the structural public deficit down to 3.3 percent of GDP in 2011 against 6.1 percent of GDP in 2010.

The ensuing structural adjustment was largely the result of the carry-over effect of the standard VAT rate hike and wage cuts at mid-2010, as well as of the further trimming of public sector payrolls following redundancies and the firm implementation of the principle of replacing one of seven departing workers. Adding to these structural measures were, on the revenue side, higher excise duties on certain products and a larger tax base for health insurance contributions, by levying them on pensions higher than lei 740, and, on the expenditure side, lower subsidies and capital expenditures.

After exceeding, in 2008, the 3 percent deficit-to-GDP ceiling established as the Maastricht Treaty criterion for the fiscal deficit, the excessive deficit procedure against Romania was opened in July 2009. The deadline for correcting the excessive deficit situation was originally set for 2011 and subsequently extended to 2012. Meeting the cash-based 2.2 percent of GDP deficit target (renegotiated from 1.9 percent of GDP with the latest EU/IMF review mission) implies a substantial structural adjustment effort that should ensure the elimination of the excessive deficit with a considerable buffer by the end of 2012.

In March 2012, Romania, together with 24 other EU Member States, signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (also referred to as the Fiscal Compact). Romania's medium-term objective takes into account part of the updated cost of ageing population and therefore envisages a structural deficit of 0.7 percent of GDP, which is below the maximum level of one percent established for the countries recording a low public debt stock. For achieving this objective in the years ahead, Romania should carry on its fiscal consolidation efforts, albeit at a slower pace than in the 2010-2012 period.

Public deficit financing was balanced in 2011 in terms of both currency and tapped markets (i.e. domestic and international markets). Thus, in 2011, two EUR-denominated bond issues with 3- and 4-year maturity respectively totalling some EUR 1.4 billion were launched on the local market and a 5-year EUR-denominated bond issue in amount of approximately EUR 1.5 billion was launched on the external markets. To these added in 2012 Q1 a USD-denominated bond issue with a 10-year maturity (reopened in the same quarter) for an amount of approximately USD 2.25 billion.

**Income policy.** In 2011, the income adjustment measures targeted wage earnings, whereas the provisions concerning the pension point and social security benefits (unemployment benefits, state child benefits, child-raising allowance[7], etc.) remained unchanged. Thus, starting 1 January 2011, the gross minimum wage country-wide was raised to lei 670 from lei 600 (in 2009 and 2010) and public-sector wages increased by 15 percent (in order to partially offset the 25 percent cut implemented as

[7] The duration of which was cut down to one year.

from July 2010), but holiday entitlements and the "13th month" wage were no longer granted. In addition, the end of 2010 saw the entry into force of Framework Law No. 284 regarding the unitary pay system for public-sector employees that provides for phased harmonisation criteria (through annual special laws) for public-sector wages, sets ranking coefficients up to a 1:15 ratio between the lowest and the highest wage, and establishes smaller shares for bonuses and incentives in the total wage, in favour of the basic wage.

**Structural policy.** Together with the continuation of fiscal consolidation and improvement of governance, the implementation of structural reforms – a prerequisite for achieving a sustainable fiscal position in the medium term and fostering growth potential – was a focal point of the financial assistance programme signed by the Romanian authorities with the EU and the IMF (with which precautionary arrangements were concluded in 2011), as well as the World Bank. Under the circumstances, the year 2011 witnessed some headway in this field: the entry into force of the new Labour Code aimed at increasing market flexibility (which also boosted job creation) and the adoption of the Social Security Law meant to rationalise social security and render social protection more effective. At the same time, the new Social Dialogue Code was drawn up and, in early 2012, all social partners agreed on the features of this draft law.

Limited progress saw the strategic economic sectors such as transportation and energy. On the energy market, steps towards price deregulation were taken on the natural gas market alone, namely the price of gas delivered to non-residential consumers was raised by approximately 19 percent to better reflect real costs, but the deregulation calendar was still under discussion. In order to implement the EU's Energy 3 package aimed at energy market liberalisation, the related legislative framework was amended and eventually adopted in 2012 H1. The transportation sector was subject to certain financial measures (higher prices for railway and subway transport) and operational measures (closure of under-used railway routes).

Moreover, arrears to the consolidated general government budget were further reduced, touching less than 0.2 percent of GDP. They were almost entirely removed in the public health sector (at end-2011), whilst for the purpose of preventing the building-up of new arrears the Clawback Tax Law aimed at fending off any excessive rise in consumption of government-subsidised medicines and ensuring additional resources was passed. Against this background, arrears piled up with local authorities, calling for enhanced implementation of the Local Public Finance Law.

A sizeable cut in arrears was also reported for the state-owned enterprises (down to 2.6 percent of GDP against approximately 4 percent of GDP in 2010) following payments made, swaps and conversion of debt to equity. In addition, efforts were made: (i) to draw private investors, which proved successful only in part – in most cases such endeavours stopped at the stage of hiring legal advisors, whereas the only outright sale attempt, i.e. the sale of a 10 percent stake in Petrom, ended up in failure – and (ii) to prepare the legislative framework allowing the selection of private managers for state-owned enterprises (Government Emergency Ordinance No. 109/2011 on corporate governance of public enterprises).

In 2011, several measures were taken to foster EU funds absorption, as follows: (i) strengthening the coordination unit authority for EU structural instruments by replacing its governing body (the Prime Minister, instead of the Ministry of Public Finance); (ii) making steady attempts at project prioritisation and (iii) taking steps to avoid procedural bottlenecks. On the whole, considering the advance payments made by the EU, during the period 2007-2011 some EUR 9,327 billion were drawn from post-accession funds, accounting for 25 percent of the amounts allocated for 2007-2013. Nevertheless, the degree of authorised absorption of structural and cohesion funds, albeit higher than a year earlier, remained weak at 5.5 percent[8] of the amounts earmarked for the period 2007-2013. A much better performance was recorded in terms of the funds intended for the agricultural sector and rural development – the amount of intermediate payments under the EAFRD made up 27.5 percent of total allotments, while the percentage relating to payments under the EAGF stood at about 38 percent. For the period 2012-2013, the improvement in EU funds absorption remains high on the agenda as regards both the increase in potential GDP and the negotiation of EU funds to be allocated in the 2014-2020 fiscal years.

## 3. Financial stability and prudential supervision of credit institutions

Against the background of a worsening of the external financial and economic environment, an ongoing concern of the central bank in 2011 was to monitor external risks and contagion channels to the banking and real sectors in Romania.

In this context, the NBR took a number of actions regarding prudential regulation, banking supervision and adequate risk management, given that, in 2011 too, the banking sector grappled with vulnerabilities in terms of the increase in non-performing loans and of the private sector's high foreign currency indebtedness. These actions, together with credit institutions' own efforts, helped maintain banking system stability, through adequate capitalisation and consolidated levels of solvency, provisioning and liquidity indicators. It is worth noting that such a performance was reported also by foreign-owned credit institutions, the parent undertakings of which are incorporated in countries hit by the sovereign debt crisis.

As regards prudential regulation, the central bank's major lines of action in 2011 were aimed at: (i) preparing Government Ordinance No. 13/2011 concerning changes in the functioning of the Bank Deposit Guarantee Fund, i.e. by allowing the use of the resources it manages in the special administration procedure for credit institutions; (ii) transposing certain provisions of Directive 2010/78/EU concerning the powers of the European Supervisory Authority – the Omnibus Directive, i.e. by the central bank's drafting a legislative proposal for amending and supplementing Government Emergency Ordinance No. 98/2006 on the supplementary supervision of credit institutions, insurance and/or reinsurance companies, investment firms and

[8] Data net of pre-financing amounts. By including these amounts, the degree of absorption ran at 15.08 percent at end-2011, from 8.6 percent at end-2010.

asset management companies in a financial conglomerate; (iii) amending the Basel II regulatory framework for determining the minimum capital requirements – the National Bank of Romania and the National Securities Commission issued jointly six regulations ensuring the completion of transposition of the provisions of Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies; (iv) improving the regulatory framework for liquidity risk (NBR Regulation No. 25/2011); and (v) amending the regulatory framework on the supervision of foreign currency positions (NBR-NSC Regulation No. 14/9/2011).

Moreover, considering the need to improve the composition of household lending by currency, the National Bank of Romania issued Regulation No. 24/2011 aimed at precluding over-indebtedness and assumption of risks that the debtor can not understand or manage. This piece of legislation imposes stricter criteria on granting consumer loans, especially foreign currency-denominated lending (applicants are bound to provide collateral covering at least 133 percent of total financing; loan term shall not exceed five years; supplementary constraints for unhedged borrowers were introduced, etc.) without hampering access to real estate mortgage loans. The Regulation includes the explicit requirement for the creditor to inform and warn its clients about the risks associated with foreign currency-denominated lending.

In 2011, the NBR also prepared the prudential regulatory framework in the context of adopting the International Financial Reporting Standards (IFRS). The pieces of legislation issued for this purpose were largely aimed at: (i) classifying loans and placements and determining and using prudential value adjustments; (ii) credit risk treatment using the standardised approach for credit institutions and investment firms; (iii) reporting large exposures by credit institutions and reporting exposures to persons having special relations with a credit institution; and (iv) governance arrangements for credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities. The changes to the regulatory framework should not lead to significant changes in capitalisation, provisioning and liquidity levels of credit institutions in Romania as the already implemented prudential requirements cover risks in an adequate manner.

Despite the “Vienna Initiative” expiring in the spring of 2011, banking system capitalisation stood at comfortable levels all through the period under review. Capital increases performed solely by bank shareholders helped maintain a high solvency rate: 14.9 percent at end-2011 and 14.6 percent at end-March 2012, well above the 10 percent threshold recommended by the central bank after the fall-out from the international financial crisis became manifest.

It might be asserted that, in the course of 2011, the Romanian banking system as a whole was not very much affected by deleveraging, as the ratio between credit institutions’ assets and equity remained virtually unchanged at 11.1 at end-2011 versus 11.2 at end-2010. As of end-March 2012, this ratio was down to 9.0 as a direct effect of a rise in equity after the switch to the IFRS. The lack of deleveraging at aggregate level is confirmed by the slight real increase in the stock of loans in the private sector (3.3 percent in annual terms at end-2011 and 7.4 percent at end-March 2012). Exposures to the Romanian affiliates were little changed, despite the difficulties that the euro-area parent banks were facing. Worth mentioning is that, the lower external financing notwithstanding, deleveraging was no general feature of Greek-owned banks either, and where it occurred it was solely the result of loan sales. The share of banks with Greek capital in aggregate assets narrowed to 13.3 percent at end-2011 against end-2010 and 13.0 percent at end-March 2012.

The liquidity ratio stayed above the minimum requirement equal to 1, coming in at 1.36 and 1.44 at the end of 2011 and at end-March 2012, respectively. Given the credit institutions' tighter access to external financing, they had to focus more heavily on taking deposits from their local clients. Nevertheless, following the rebound in lending in 2011 H2, the loan-to-deposit ratio for the banking system as a whole exceeded somewhat the year-earlier level (116.7 percent at end-2011 and 119.5 percent at end-March 2012).

Banks' loan portfolios continued to deteriorate, albeit at a slower pace than a year earlier, with non-performing loans reaching 14.3 percent at end-2011 from 11.9 percent at end-2010. This indicator kept rising in early 2012 as well, standing at 15.9 percent at end-March 2012, due mostly to the implementation of new accounting treatments in line with the IFRS[9], but also as a result of the constraints still depressing the clients' financial standing. The stock of provisions established pursuant to banking prudential norms shot up by approximately 30 percent, boosting banks' reserves for covering expected loss. Compared to end-2010, the coverage with provisions of the gross exposure from loans registered under "loss", with debt service overdue for more than 90 days and/or for which legal proceedings were opened, improved to 97.8 percent at the end of 2011 and 99.2 percent at the end of 2012 Q1.

Over the period, credit risk augmented for all types of debtors. The hardest hit were small- and medium-sized enterprises, as their non-performing loan ratio posted the fastest growth and the highest level (20.9 percent at end-March 2012). Credit risk attached to household loans also expanded, albeit at a slower pace (to 9.0 percent at end-March 2012 from 7.9 percent at end-2010), with high indebtedness and the substantial short foreign currency position remaining the major vulnerabilities. The corporate sector's non-performing loan ratio stood at 3.7 percent at end-March 2012, with the most significant risks coming from a relatively low debt servicing capacity and loose payment discipline among business partners.

The challenging domestic and external environment left its hallmark on the financial results, as the Romanian banking system reported an aggregate loss for the second consecutive year. Thus, the negative balance at end-2011 (lei 777.3 million) was larger than that reported at end-2010 (lei 516.4 million), despite the implementation of measures aimed at rescaling the territorial network and adjusting staff numbers;

[9] For example, the recognition of overdue claims previously entered in off-balance-sheet accounts for which future expected cash-flows had been determined.

in 2011, 124 bank units were closed down and payrolls declined by 981 employees. Therefore, the key profitability indicators, i.e. return on assets – ROA and return on equity – ROE, posted negative values: -0.23 percent and -2.56 percent, respectively. These indicators fared better during 2012 Q1, when financial results for the banking sector as a whole reverted to positive territory, driven basically by accounting differences arising from the implementation of the IFRS.

Given that in 2011 the main vulnerability of the Romanian banking sector was attributed to exogenous factors, the central bank's objectives in terms of contingency plans and financial crisis management targeted the strengthening of stabilisation mechanisms available to the NBR. These mechanisms are meant to enhance the prevention of contagion effects and stave off the threats stemming from a worsening of the financial standing of the entities or their related groups that are subject to oversight.

With this end in view, the NBR's intervention toolkit was added two other components, as follows:

(i) the administrative sale of an unhealthy credit institution's assets, with one or several eligible institutions assuming part of its liabilities. The purchase and assumption (P&A) transactions are a solution involving an important private component for the orderly resolution of an unviable systemically important bank, allowing the continuity of banking services to depositors. Hence, the risk of a broad-based withdrawal of bank deposits is avoided; and

(ii) the transfer of assets and liabilities that are critically important for the financial stability of a distressed credit institution to a bridge bank – set up as a temporary entity, having the role to ensure the continued provision of the necessary banking products and services to the customers of the failed bank until such operations can be optimally taken over by another credit institution, usually a private one. This stabilisation instrument is the last resort solution to avoid the disorderly restructuring of intermediation conducted by a systemically important bank in distress, where the P&A transaction is unfeasible at the time. The bridge bank has a dual management structure – the NBR appoints the board members, whereas the BDGF, which is also the sole shareholder of the bridge bank, carries out the tasks of the Supervisory Board.

The extension of the set of resolution instruments applicable to banks in distress and available to the NBR creates the necessary conditions for the implementation of the orderly exit principle of any unviable bank, irrespective of its type and size. Furthermore, the conditions for implementing the principle of using private resources in the resolution of unhealthy banks were tightened due to the Bank Restructuring Fund becoming operational under the BDGF management. The first contributions of credit institutions to this new component of the financial system protection mechanism were recorded at mid-2011.

Contingency planning strengthened not only in what concerns the development of intervention instruments, but also by creating the external communication framework for high risk situations to financial stability. The role of this framework is to improve the capacity of preventing or countering the panic spread among bank creditors.

In the period ahead, the NBR will further attach particular attention to updating internal procedures for intervention instruments, given the EU-wide harmonisation of the resolution standards for banks in distress.

An important role in setting the strategic directions for the systemic risk management in the financial sector has had the National Committee for Financial Stability (NCFS), whose president is the NBR Governor. In 2011, the NBR initiated the inclusion of the BDGF among the NCFS members and started the preparations for a financial crisis simulation exercise, which will test the efficiency of the cooperation between the member authorities of NCFS with regard to crisis management of financial institutions, financial groups or the financial market as a whole. On this occasion, the triggers for activating stabilisation measures will also be tested. The exercise will be carried out with the support of World Bank experts and will be completed by mid-2012.

In line with the new European supervision architecture, the NBR strengthened its cooperation ties with Europe's competent authorities. Early 2011 saw the official launch of the activity carried out by the European Banking Authority (EBA), which took over the microprudential supervisory tasks formerly exerted by the Committee of European Banking Supervisors. The NBR must provide the EBA with all the information needed to fulfil its tasks.

One of the first actions that the EBA took after its establishment was to conduct yet another stress test, with tougher assumptions, encompassing 90 banks in 21 countries. The results show that eight banks reported a Core Tier 1 ratio below the 5 percent threshold. Accordingly, the EBA formulated the first official recommendation to the national supervisory authorities: those banks should take prompt recapitalisation measures.

The NBR has close cooperation ties with the other competent authorities and with the EBA within the colleges of supervisors. Thus, in the course of 2011, the NBR signed multilateral cooperation agreements with two other international banking groups: Bank of Cyprus and Porsche Bank AG. In the previous years, the NBR had signed 17 such agreements.

The NBR is the supervisory authority in the host country for the five subsidiaries/branches of some Greek-owned banking groups (Alpha Bank, ATE Bank, Banca Românească – a member of the National Bank of Greece Group, Bancpost, Piraeus Bank) and for two other entities belonging to banking groups based in Cyprus (Marfin Bank and Bank of Cyprus PCL Nicosia), while it is the supervisory authority in the home country for a banking group holding a branch in Cyprus (Banca Transilvania).

# 4. EU integration and relations with international organisations

In line with the priority actions identified by the European Commission at the start of the European Semester, in 2011 H1 the Romanian authorities prepared the 2011-2013 National Reform Programme and the 2011-2014 Convergence Programme. Based on these documents, the EU Council adopted specific country recommendations.

As part of the National Reform Programme, the NBR undertook to ensure the adequate and stable functioning of the financial sector, in line with the commitments under the financial assistance programme with the EU, the IMF and the World Bank. The central bank agreed to similar actions, mainly referring to prudential regulation, supervision and the adequate management of systemic risks, following Romania's signing the Euro Plus Pact.

## NBR participation in various European bodies

The NBR Governor and the Deputy Governor in charge of European affairs attend the quarterly meetings and the teleconferences of the General Council of the European Central Bank. The major topics covered during 2011 and in early 2012 included: (i) regular macroeconomic analyses both within and outside the euro area; (ii) compliance by ESCB members with the provisions of Article 123 and Article 124 of the Treaty on the Functioning of the European Union; (iii) preparing the position papers ahead of the G20 and IMF reunions; (iv) the functioning of ERM II during 2011; and (v) preparing the ECB 2012 Convergence Report. As regards the decision-making mechanism at operational level, NBR representatives attend the enlarged meetings of the 12+1 ESCB committees, contributing to formulating and implementing the decisions of the General Council and of the Governing Council.

The European Systemic Risk Board (ESRB) became operational on 1 January 2011 and is mainly responsible for the macroprudential oversight of the financial system within the EU in order to contribute to the prevention or mitigation of systemic risks. The NBR is actively involved in the ESRB activity, both at a decision-making level – with the NBR Governor, the First Deputy Governor and the Deputy Governor in charge of coordinating financial stability attending the General Board meetings – and at a technical level, through representatives in the Advisory Technical Committee and in its working groups.

Some of the most important structures of the EU Council where the NBR is represented include biannual participation in the informal ECOFIN Council meetings, which the NBR attends at executive management level, at the invitation of the MPF, when central banking matters are on the agenda, and in the Economic and Financial Committee, whose meetings are attended by an MPF representative and the NBR Deputy Governor in charge of European affairs. The NBR is actively involved in the Financial Services Committee, the European Banking Committee, the European Banking Authority, the Committee on Financial Conglomerates, the Committee for the Prevention of Money Laundering and Terrorist Financing.

As regards inter-institutional partnerships to provide technical assistance to several countries, under ECB coordination, in 2011 the National Bank of Romania was involved in the technical assistance programme for the National Bank of Serbia (NBS) aimed at strengthening its institutional capacities and bolstering NBS efforts towards bringing its operational and regulatory framework in line with ESCB standards. At the same time, the year under review saw the continuation of the technical assistance programme for the Central Bank of Egypt with the aim of modernising banking supervision rules, policies and practices, so as to gradually bring them in line with Basel II principles.

### EU medium-term financial assistance

In order to continue the reforms launched under the financial assistance programme concluded with the EU (2009-2011), in early 2011 the Romanian authorities submitted a request for precautionary funding under the medium-term financial assistance facility of the European Union. As a result, on 12 May 2011 the EU Council adopted a decision providing precautionary financial assistance to Romania worth EUR 1.4 billion for 2011-2013.

The programme agreed with the EU ensures further fiscal consolidation, tax administration reform, enhanced public finance management and control, smoother functioning of the product and labour markets, while also safeguarding external, monetary and financial stability and financial market reform. The overall goals of the programme include: (i) putting an end to the excessive deficit by 2012; (ii) enhancing the growth potential; and (iii) reducing the likelihood of any future re-emergence of excessive structural imbalances in the Romanian economy. The financial assistance is available for activation until March 2013, on Romania’s request, in case of a serious and unforeseen worsening of its economic and/or financial standing generating an acute financing need.

### International financial relations

The Romanian authorities informed the joint mission of the IMF, the European Commission, the ECB and the World Bank in January-February 2011 of their decision to complete the ongoing arrangement ahead of schedule. Therefore, in its meeting of March 2011, the IMF Executive Board gave its nod to the completion of the 2009 agreement, while also approving a 24-month precautionary Stand-By Arrangement for Romania worth around EUR 3.5 billion. The first four reviews of the programme conducted in 2011 and in 2012 Q1 were successfully completed.

The World Bank came up in May 2009 with a programme encompassing three Development Policy Loans totalling EUR 1 billion. The programme pursues long-term structural goals such as public sector and financial sector reform, as well as enhancing social security. The first of these loans, worth EUR 300 million, was disbursed in 2009, while the second and the last one, in the amount of EUR 300 million and EUR 400 million, respectively, were drawn during 2011. In addition, in May 2011 the IBRD and the Ministry of Labour, Family and Social Protection signed a social assistance system modernisation project worth USD 710.4 million.

In 2011, IFC financing in Romania totalled around EUR 113 million via three projects, thus raising the cumulated volume of IFC investment in Romania during 1996-2011 to approximately EUR 1.1 billion.

The cumulated volume of EBRD investment in Romania stood at around EUR 5.6 billion at end-2011. During the period under review, the overall business volume in Romania amounted to EUR 448.8 million, with 30 new projects being signed. At the 2011 Annual Meeting of the EBRD, Romania joined a new Constituency led by Turkey. On that same occasion, the EBRD's Board of Governors approved the expansion of the Bank's activities to the southern and eastern Mediterranean, with Jordan and Tunisia being the first countries in the region to join the club.

Over the period under review, the major rating agencies kept unchanged Romania's ratings and the associated outlook, except for Fitch, which upgraded the rating for long-term debt in foreign currency from BB+ to BBB- and the rating for long-term debt in domestic currency from BBB- to BBB, with a stable outlook in both cases. As a result, Romania rejoined the club of investment-grade countries, as also confirmed by Japan Credit Rating Agency (BBB- for long-term debt in foreign currency and BBB for that in local currency, with a stable outlook) and Moody's (Baa3 with a stable outlook). Standard&Poor's maintained the sovereign rating at BB+, just below investment grade, the latest confirmation dating back to May 2012.

## 5. Financial statements of the NBR as at 31 December 2011

The National Bank of Romania acted towards implementing monetary policy so as to warrant the achievement of its primary objective, namely to ensure and maintain price stability, and the fulfilment of the other tasks mentioned in Law No. 312/2004 on the Statute of the National Bank of Romania, without focusing on business-related objectives, such as profit maximisation. However, the central bank has shown a steady concern for efficiently managing all its resources available so that operating costs stood 10 percent below the budgeted figure in 2011.

For the fifth year in succession, the NBR reported a positive financial result. Profit came in at lei 301.3 million, down 79 percent versus a year earlier. The smaller profit was, to a large extent, attributed to the central bank's net debtor position towards the banking system in the first seven months of the period under review, as well as to the low yields on foreign currency-denominated assets.

The positive financial result can be ascribed to the operating profit from the management of foreign currency-denominated assets and liabilities (lei +1,012.8 million) as well as currency issue and payment settlement (lei +5.9 million), which was diminished by the losses from monetary policy operations (lei -329.6 million), other operations (lei -385.1 million) and the revaluation of foreign currency-denominated assets and liabilities (lei -2.6 million).

Pursuant to Law No. 312/2004 on the Statute of the National Bank of Romania, the 2011 profit was distributed as follows: a share of 80 percent of the central bank's net income[10], i.e. lei 235 million, was transferred to the government budget, lei 39.8 million were earmarked for increasing the statutory reserves, lei 19.9 million for own financing sources, lei 6.6 million for employees' participation in the profit-sharing scheme, and lei 7 thousand for reserves at the NBR Board's disposal.

[10] Net income for 2011 was calculated in compliance with Art. 43 of Law No. 312/2004 on the Statute of the National Bank of Romania by excluding provisions non-relating to credit risk.

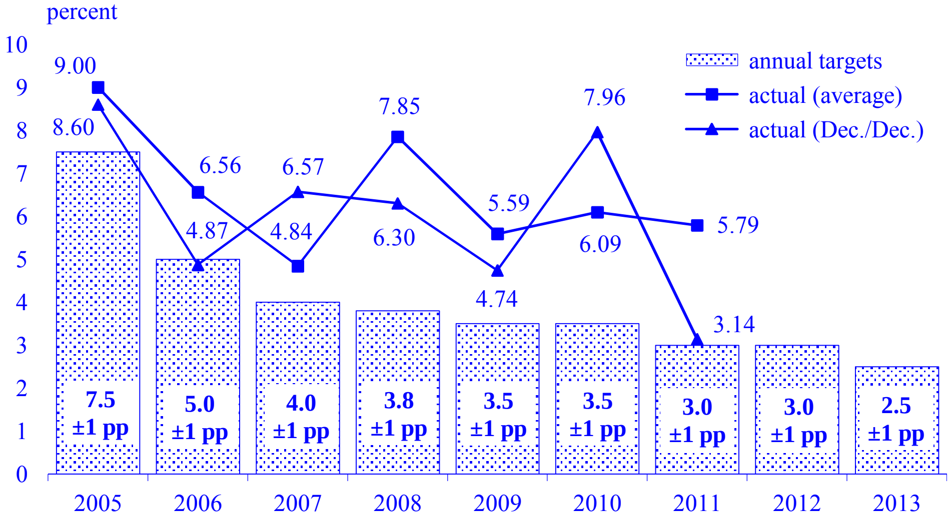
# Chapter 1. Monetary policy of the National Bank of Romania

## Policy objective

The primary objective of the National Bank of Romania, in accordance with its Statute[1], is to ensure and maintain price stability; the main task of the monetary authority is to formulate and implement the monetary policy.

Given the specific conditions of 2011, the overall objective of the central bank was to resume and consolidate disinflation at a pace consistent with attaining the annual inflation targets and subsequently the medium-term inflation target. This was the result of the commitments made by the Romanian authorities in the documents prepared as part of the euro adoption process that started in Romania on 1 January 2007 (the successive issues of the Convergence Programme) as well as in the arrangements signed with the EU, the IMF and other international financial institutions, on the one hand, and the particular features of the macroeconomic and financial framework in which monetary policy was implemented in 2011, on the other hand. Over the two-year horizon relevant for monetary policy, the annual inflation targets set for end-2011 and end-2012 alike stood at 3.0 percent ±1 percentage point. The targets were previously set by the National Bank of Romania together with the Government also in consideration of fulfilling the requirement of attaining, consistent with the timetable for euro adoption, an inflation rate compatible with the inflation criterion laid down in the Maastricht Treaty, as well as with the ECB's quantitative definition of price stability.

**Inflation Rate**




*Source: NIS, NBR*

[1] Law No. 312/2004.

# 1. Policy challenges

During 2011 monetary policy was implemented in an environment underpinned by the favourable impact of ongoing fiscal consolidation and structural reforms in line with the economic programme objectives laid down in the arrangements with the EU, the IMF and the World Bank and of the positive supply-side shock generated by the agricultural output, particularly in the latter half of the year. Against this background, preserving an adequately prudent stance of the monetary policy ensured the fulfilment of the central bank's overarching objective: disinflation resumed and gathered pace in the second part of the year, with the 12-month inflation rate dropping to 3.14 percent[2] in December 2011, in the immediate vicinity of the midpoint of the ±1 percentage point variation band around the 3 percent target. Furthermore, after two years of decline, domestic economic activity picked up 2.5 percent in 2011.

However, the monetary policy conduct and the adjustment of real broad monetary conditions aimed at resuming disinflation during 2011 and safeguarding the subsequent convergence of the annual inflation rate towards the target, so as to contribute to a sustainable economic recovery, were subject to challenges in the period under review.

Specifically, in the first part of the year, monetary policy continued to face the risk of a marked deterioration of inflation expectations and hence the risk of a delay and a slowdown in disinflation, which was anticipated to start in July amid the fading out of the first-round effect of the VAT rate hike[3]. Risks stemmed primarily from the renewed upward trend of the annual inflation rate February through May 2011[4], including the overshooting of the upper limit of the variation band around the central target set for 2011, as well as from bleaker short-term inflation prospects under the impact of additional significant adverse supply-side shocks expected to persist in the immediately following months. These shocks were generated by the faster rise in global food and energy commodity prices amid ongoing market tensions, also as a result of large-scale unfavourable weather conditions and escalating geopolitical tensions in the Middle East and North Africa. Domestically, the inflationary impact of these developments was compounded by the large share of processed and unprocessed food and fuel prices in the CPI basket, by the relatively low elasticity of demand for such goods, as well as by persistent structural dysfunctions on the local agricultural market. Another source of risks to inflation expectations and to the resumption and consolidation of disinflation at the forecasted pace related to potentially larger adjustments of regulated prices, representing – at least in part – conditionalities embedded in the agreement signed with the EU, the IMF and the World Bank. They were part of the objective of reforming SOEs and hence of furthering fiscal consolidation.

However, the risk to inflation expectations and implicitly the risk of second-round effects of adverse supply-side shocks were mitigated by the temporary nature of

[2] From 7.96 percent in December 2010.

[3] The standard VAT rate had been raised by 5 percentage points (to 24 percent) in July 2010.

[4] The 12-month inflation rate peaked at 8.41 percent in May.

the deterioration of current developments and near-term inflation prospects, as reconfirmed by the baseline scenarios of the updated projections during the period under review, which anticipated the resumption and the acceleration of disinflation in 2011 H2 amid the fading out of the first-round effect of the VAT rate hike. The likelihood of these risks materialising was also considerably diminished by the severe contraction of the domestic economy during the previous years and the prospects of a slow recovery, entailing the persistence of a wide aggregate demand deficit and hence of disinflationary pressures throughout the forecast horizon. Furthermore, relentlessly pushing through fiscal consolidation and structural reforms in the reported period – in line with the commitments under the accords with the EU, the IMF and the World Bank – helped alleviate the risk of second-round effects of supply-side shocks becoming manifest, while also contributing to improved investor sentiment regarding the outlook for the Romanian economy and thus to preventing any spike in the risk premium attached to investment on the local market.

Against this background, the NBR Board left the policy rate unchanged in the four monetary policy meetings held February through June 2011. The decisions to extend the status quo were considered to be the most suitable approach in the given context, all the more so that the policy rate level maintained by the NBR during the previous quarters (6.25 percent, significantly above those prevailing in the EU), coupled with expected developments in the RON/EUR exchange rate, seemed to be compatible with the prospects of resuming and consolidating disinflation in 2011 H2, along with the gradual recovery of the economy.

The environment in which monetary policy was implemented subsequently witnessed a somewhat favourable change, given that disinflation – which had resumed in June – gathered pace in the immediately following months (with the annual inflation rate returning inside the variation band around the central target in September) and the inflation outlook improved slightly. Behind these developments stood mainly the gradual fading out of the first-round effects of the standard VAT rate hike, in line with central bank expectations, the steeper downward correction of volatile food prices, as well as the still wide aggregate demand deficit.

Although it was an option for the NBR Board, cutting the monetary policy rate could not be resumed immediately after the direct effect of the VAT rate hike had started to dissipate, as the central bank had to keep the policy rate unchanged July through October 2011, given the ongoing risks to medium-term inflation expectations. These risks stemmed primarily from the entrenchment of the annual inflation rate considerably above the upper bound of the variation band around the central target, as well as from the backward-looking inflation expectations of some economic agents. To this added further high uncertainties surrounding the sovereign debt crisis, whose potential worsening, entailing higher volatility of capital flows towards emerging economies, could have magnified the inflationary effects generated by the leu exchange rate over the short term[5].

[5] As a result of renewed tensions on global financial markets, the exchange rate of the domestic currency saw its downward movement (manifest in the first part of the year) come to a halt and re-entered an upward path.

The central bank resumed the rate cutting cycle around mid-Q4, given the subsequent consolidation of disinflation in line with the NBR's previously-forecasted pace, conducive to the 12-month inflation rate nearing the midpoint of the variation band around the year-end target, as well as the significant improvement in the inflation outlook. The latter occurred amid (i) stronger disinflationary pressures anticipated to be exerted by the negative output gap given the relative slowdown in the forecasted pace of domestic economic recovery[6] and (ii) the highly likely continuation of the downtrend in inflation expectations. Thus, the NBR Board took two consecutive decisions to lower the monetary policy rate in November 2011 and January 2012.

Nevertheless, the NBR had to prudently calibrate the rate-cutting pace, which was confined to 0.25 percentage points owing to the heightening of external risks to the domestic economic outlook and inflation stemming from higher uncertainties surrounding the sovereign debt crisis. The most significant risk to the short-term inflation outlook related to potentially stronger depreciation pressures on the domestic currency due to the diminished global risk appetite and the higher volatility of capital flows to economies in the region. A similar adverse effect could also have been generated by the possible worsening of financial investor sentiment regarding the pace of furthering the fiscal consolidation process ahead of the upcoming election rounds in 2012, despite the positive performance in terms of budget execution during the first ten months of 2011.

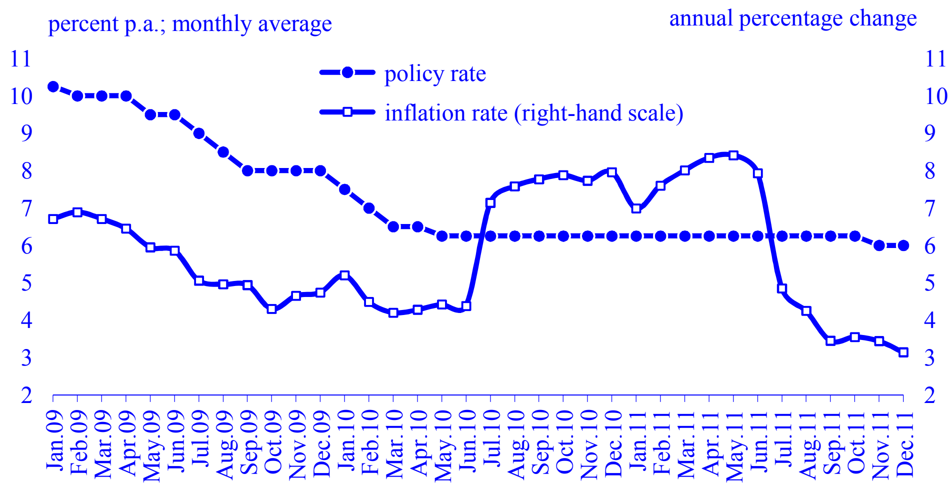
Against this backdrop, as part of its communication activity, the central bank further reiterated the need for a consistent implementation of fiscal consolidation and structural reforms, in line with the commitments set under the arrangements signed by Romania with the international financial institutions, which – together with the monetary policy decisions taken by the NBR Board for the firm anchoring of medium-term inflation expectations and hence for consolidating the convergence of the annual inflation rate towards the medium-term targets – were essential for ensuring a lasting recovery of economic activity.

## 2. Policy implementation

The specific conditions of 2011 called for preserving the prudent stance of monetary policy. Real broad monetary conditions were kept adequate for safeguarding the resumption of disinflation and its consolidation in line with the inflation targets, while also paving the way for a sustainable recovery of the domestic economy. This was achieved by maintaining the status quo of the monetary policy rate during the first three quarters of 2011 and by resuming the prudent rate-cutting cycle towards year-end.

[6] Although annual GDP dynamics stood at 2.7 percent in the first three quarters of 2011 (1.6 percent in 2011 H1), the faster growth rate was largely attributed to the one-off effect of bumper crops.

**Policy Rate and Inflation Rate**




*Source: NIS, NBR*

The policy rate was left unchanged at 6.25 percent February through June 2011. The key driver behind the decisions taken during this period was the need to ensure a solid anchoring of medium-term inflation expectations with a view to preventing the emergence of second-round effects of supply-side shocks manifest in the early months of 2011. The NBR's response was warranted by the relative rise in the magnitude of these shocks, stemming mainly from the faster growth rate of volatile prices[7] as a result of tensions on international commodity markets (primarily food and energy). Under their impact, the 12-month inflation rate re-embarked on an upward trend starting February and reached 8.41 percent in May 2011. At the same time, the coordinates of the medium-term inflation projection were revised accordingly, also on account of the relatively faster dynamics of administered price adjustments foreseen for 2011. In particular, the annual inflation rate trajectory was updated in February and May to levels above the previously-forecasted readings[8]. On the other hand, the baseline scenarios of the two medium-term projections conducted during this period reconfirmed the prospects of resuming disinflation in 2011 H2, once the direct effect of the VAT rate hike had dissipated, after which the forecasted annual inflation rate was seen returning and remaining inside the variation band around the central target throughout 2012. Such a development was underpinned by prospects of a slow economic recovery, entailing a negative output gap and ensuing disinflationary pressures persisting throughout the forecast horizon. Expectations on economic developments were later confirmed by statistical data[9], which revealed that the return of the annual GDP dynamics into positive territory in 2011 Q1 (1.7 percent versus -0.6 percent in 2010 Q4) was followed by a relative standstill in the pace of economic recovery (1.4 percent in 2011 Q2). During this period, the annual dynamics of key domestic demand components, i.e. household

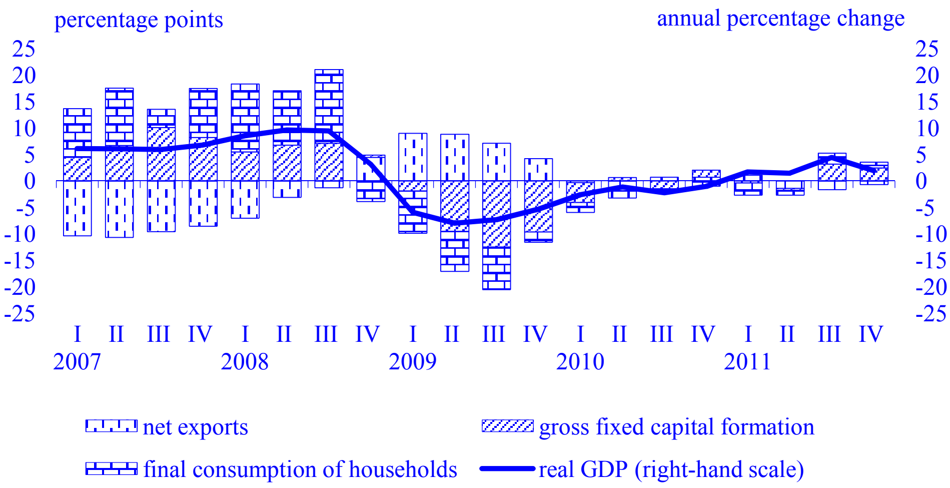
[7] Up 21.56 percent in May versus 15.53 percent in December 2010.

[8] The forecasted values of the end-2011 annual inflation rate were successively revised in February and May to 3.6 percent and 5.1 percent respectively, as compared to 3.4 percent forecasted in the November 2010 Inflation Report.

[9] They refer to the data available at the time the monetary policy decision was taken. The NIS later revised some of these data.

final consumption and gross fixed capital formation, remained in negative territory, as economic growth relied on net exports in 2011 Q1 and then on the upward movement in the change in inventories.

**Contribution of the Main Demand Components to GDP Growth**




*Source: NIS, NBR calculations*

The NBR Board decided to extend the status quo of the monetary policy rate in its meetings of August and September 2011, given – on the one hand – the resumption in disinflation in June (with the annual inflation rate dropping to 4.25 percent in August) and the somewhat brighter inflation outlook[10], especially in the short run. The latter was underpinned by the protracted correction of agri-food prices over the recent months, the downward revision of the expected impact from the shocks related to developments in international prices for food commodities and energy, as well as by the relative increase in the forecasted negative output gap and hence stronger ensuing disinflationary pressures, arising from prospects for a gradual economic recovery. On the other hand, the risk that the supply-side shocks over the previous quarters would produce second-round effects was still relevant, given the multitude and the magnitude of these shocks, as well as the mainly backward-looking nature of inflation expectations of some economic agents. In addition, high uncertainty surrounding the sovereign debt crisis persisted and its possible aggravation, entailing higher volatility of capital flows towards emerging economies, could have fuelled short-term inflationary effects stemming from the leu exchange rate. As a matter of fact, under the impact of renewed global market tensions, the RON/EUR exchange rate had already witnessed a trend reversal and re-embarked on an upward path starting May 2011[11].

[10] The baseline scenario of the August 2011 projection placed the annual CPI inflation rate at 4.6 percent at end-2011, i.e. 0.5 percentage points lower than the previously-projected level. For end-2012, the inflation rate was forecast at 3.5 percent, 0.1 percentage point below the previously projected level.

[11] After strengthening versus the euro by 4.7 percent in nominal terms (7.7 percent in real terms) in the first four months of the year under review, the leu weakened against the single currency by 5.3 percent in nominal terms (5.0 percent in real terms) May through December 2011.

In line with central bank expectations, disinflation gathered momentum in 2011 Q3. The curbing of inflation was even stronger than anticipated, as the annual inflation rate plunged from 7.93 percent at the end of Q2 to 3.45 percent in September, thus returning inside the variation band around the year-end target. This development was largely attributed to the near fading-out of the adverse impact stemming from the VAT rate hike, as well as to the heftier adjustment of volatile food prices, amid the protracted interaction between the positive shock from the 2011 supply of agricultural produce and the persistence of weak aggregate demand.

Against this background, the updated medium-term inflation forecast (November 2011 Inflation Report) was again revised downwards, as the 12-month inflation rate was expected to remain inside the variation band around the 3 percent target almost throughout the projection horizon[12]. From the standpoint of monetary policy conduct, it was quite relevant that – aside from the sizeable adjustment of volatile food prices and the foreseeable acceleration of their annual decline over the months ahead, amid a still favourable base effect – the improvement in the inflation outlook stemmed also from: (i) a relative increase in disinflationary pressures of the negative output gap, given the slower-than-previously-forecasted pace of economic recovery, only temporarily countered by the 2011 bumper crops[13], and especially from (ii) the highly likely steepening of the downward adjustment trend that inflation expectations had embarked upon in the previous months.

Amid these developments, the NBR Board decided in November 2011 to lower the monetary policy rate by 0.25 percentage points after 17 months of keeping it unchanged at 6.25 percent per annum. The Board took the second consecutive decision to cut the policy rate by 25 basis points (to 5.75 percent) in its meeting of January 2012. The decision was warranted by the consolidation of disinflation during the previous months in line with the central bank’s forecasted pace, conducive to the 12-month inflation rate nearing the midpoint of the ±1 percentage point variation band around the 3 percent target at end-2011 (essential for an efficient anchoring of inflation expectations), as well as by reconfirmed prospects of the continued slowdown in inflation over the immediately forthcoming months. Both developments were underpinned by the steeper decline in volatile food prices in annual terms, the effects of the disinflationary pressures of the wide negative output gap becoming increasingly manifest against this background, as well as by the ongoing improvement in inflation expectations.

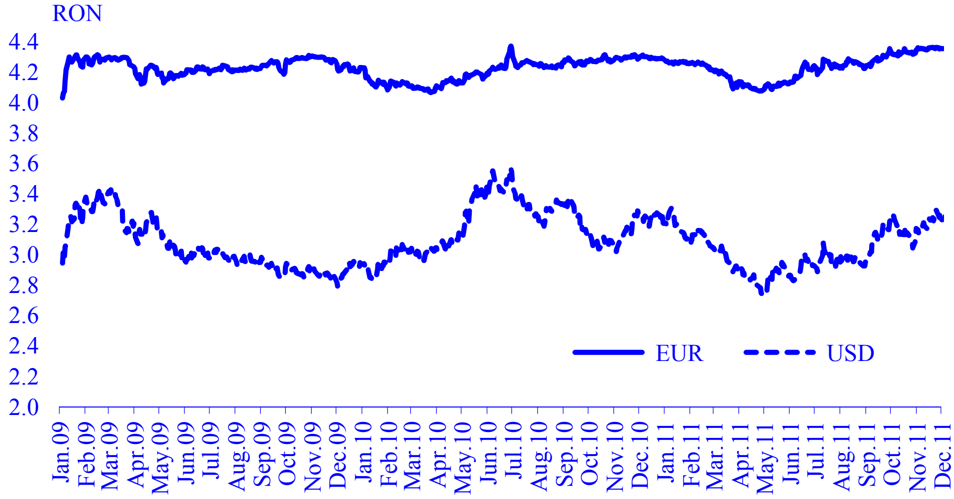
The prudent calibration of the rate-cutting pace was warranted by the balance of risks to the inflation outlook being further tilted to the upside, particularly over the short term, largely on account of the uncertainties surrounding the euro area sovereign debt crisis. The most significant risks stemmed from the potentially adverse effects exerted on the leu exchange rate, and hence on inflation expectations, by the possible further squeeze in global risk appetite and by higher capital flow volatility. These risks became increasingly relevant towards year-end, when tensions resurfaced on

[12] The projected 12-month inflation rate tended to drop during 2012 H1 to levels marginally below the lower limit of the variation band.

[13] The estimated wider negative output gap was also due to the temporary shock from the 2011 supply of agricultural produce being incorporated into the potential GDP projected for 2011 H2.

international financial markets amid a renewed deepening of the crisis. To these added the challenges to the fiscal policy stance and implementation related to the successive election rounds scheduled for the upcoming years.

**Exchange Rates (RON/EUR and RON/USD)**
**daily data**




At the same time, the re-escalating crisis looked set, however, to weaken the global economic growth, primarily the euro area economic activity, thus inducing the risk of a considerably slower recovery of the domestic economy, following the marked rebound witnessed in 2011 Q3 (when annual GDP dynamics stood at 4.4 percent) under the impact of the positive supply-side shock triggered by the agricultural output. The immediate economic outlook was surrounded by heightened uncertainty, although the performance of some high-frequency economic indicators in the early months of 2011 Q4 pointed to a relative resilience of key domestic demand components to the highly likely worsening of external conditions. At the same time, statistical data pointed to the continued acceleration in the annual dynamics of credit to the private sector[14].

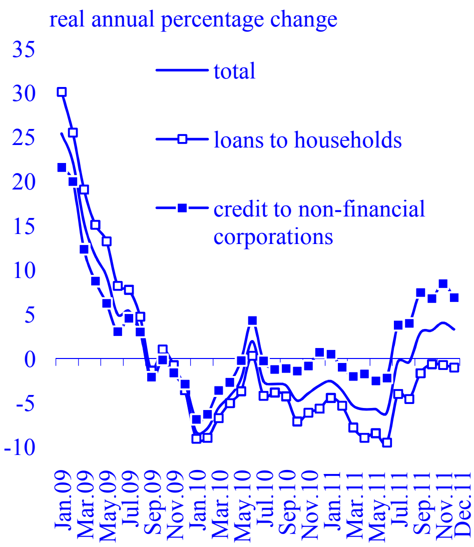
The annual growth rate of credit to the private sector started to recover in 2011 Q3, after having steadily fallen deeper into negative territory in the first half of the year under review (-6.1 percent in June 2011 versus -3.0 percent in December 2010). The upward movement gradually gained momentum, with the annual dynamics of private sector credit peaking at a 28-month high of 4.1 percent in November, before contracting slightly in December 2011, also on account of the statistical effect of the RON/EUR exchange rate. The rebound was spurred mainly by the lei-denominated component, whose pace of increase tended to near that of forex loans. Nonetheless, the ongoing gap between the two components' dynamics and, to a certain extent, the statistical effect of the weaker leu resulted into a relatively wider share of foreign currency loans in total credit to the private sector.

[14] Unless otherwise specified, indicators are expressed in real terms; however, the base effect owing to the VAT rate hike in July 2010 incorporated in the annual inflation rate distorts, to some extent, the indicators reviewed herein.

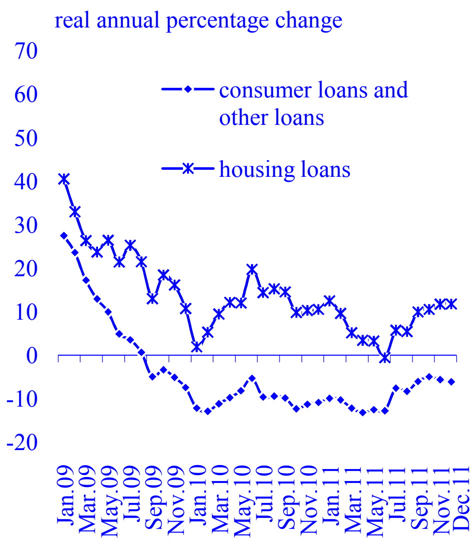
The trend reversal in the dynamics of private sector credit reflected the relative improvement, albeit transitory in nature, in credit demand and supply in the first part of the year, according to the NBR survey on lending to non-financial corporations and households. Demand was fostered by the resumption in economic growth and by the slight improvement in the current and expected financial standing of several categories of bank customers. Credit supply was spurred by the temporary alleviation of constraints related to bank asset quality, by intermittently keener competition among credit institutions and, to a certain extent, by banks' marginally improved risk perception associated with certain debtor categories/sectors of the economy. However, banks maintained a cautious stance, as indicated by the slow-paced and/or uneven adjustment of the high degree of restrictiveness of some lending terms and conditions. The same held true for bank margins on new loans, which displayed downward rigidity particularly for households.

Against this background, the rebound in lending was largely ascribable to corporate loans, whose annual growth rate reached 7.4 percent at end-2011 (from -0.4 percent in December 2010), with both the lei-denominated component and the forex one contributing to this development. Conversely, the annual dynamics of household loans remained in negative territory throughout the year under review, given that loan restructuring continued to prevail in the early months of 2011. Nevertheless, their dynamics posted less negative readings, i.e. -1.0 percent in December 2011 from -5.6 percent in the same year-ago period, mainly as a result of the slightly faster pace of increase of housing loans (11.8 percent at end-2011 versus 10.6 percent in December 2010), especially forex-denominated ones, driven by the successive stages of the "First Home" programme. The annual dynamics of other types of loans to households[15] (consumer credit included) also witnessed a rebound, despite remaining in negative territory (-6.1 percent at end-2011 against -10.8 percent in the same year-earlier period).

**Loans to the Private Sector**



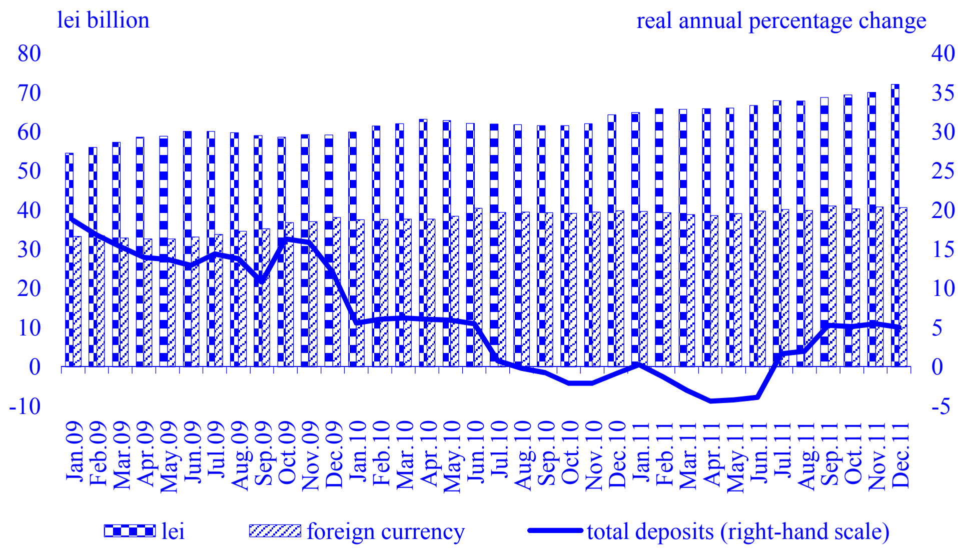

**Loans to Households**




[15] These types of loans were analysed as a single indicator in order to remove the effects of methodological changes (introduced in June 2010 in line with Regulation No. 25/2009 of the ECB concerning the balance sheet of the monetary financial institutions sector).

In turn, the annual dynamics of household deposits with banks followed a generally downward path in the first part of the year under review, coming in at -3.9 percent in June 2011 from -0.9 percent in December 2010. The explanation lies with the annual rate of the net average earnings remaining in negative territory during the reported period, to which added the need to service the sector's previously-accumulated debt. Afterwards, the annual dynamics of household savings with banks re-embarked on an upward path to reach 5.0 percent in December 2011, in line with the faster annual pace of increase of wages (also incorporating the statistical base effect of the budgetary sector pay cuts). Behind this stood time deposits (with maturities of up to and over two years), whose behaviour also reflected the persistence – on certain segments of the household sector – of high uncertainty surrounding their current and prospective financial standing. The annual change of households' overnight deposits also rebounded, but remained in negative territory. Amid these developments, the share of time deposits in total household deposits continued to widen slightly and hit a six-year high of 80.6 percent in the last two months of 2011, compared with 78.8 percent at end-2010, suggesting the still robust money demand for precautionary purposes, i.e. saving/investment. The breakdown of household deposits by currency continued to improve, with the share of the lei-denominated component widening to 63.9 percent from 61.8 percent at end-2010. The propensity for domestic currency deposits was driven by the attractive remuneration of these savings.

**Household Deposits**



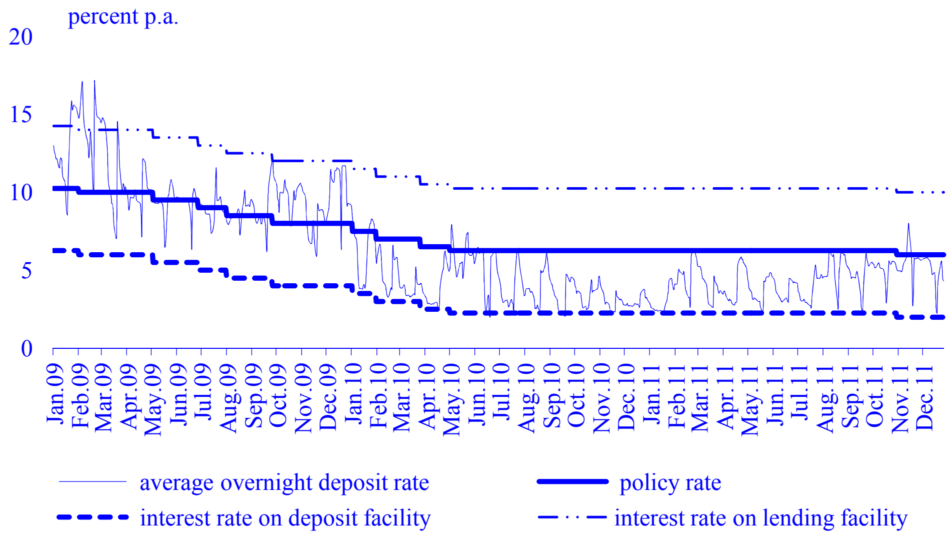

The advance in household deposits (both overnight and time deposits with a maturity of up to two years) put broad money (M3) annual growth back onto an upward trend starting 2011 H2, to stand at 3.4 percent at end-2011 versus -1.0 percent in December 2010. By contrast, the recovery of the annual dynamics of corporate deposits was much slower, remaining in negative territory throughout the year under review. This was mainly due to the relative increase in the volume of companies' external payments (as some of the previously-contracted credit lines were only partially renewed), and, to a certain extent, to the higher volume of government securities held by companies. Against this backdrop, the share of household deposits in M3 widened slightly[16], although the rebound in these savings was concurrent with households' relatively keener appetite for other types of financial instruments (government securities and deposits with a maturity of over two years) as well as for cash. From the perspective of M3 counterparts, the annual expansion of broad money was bolstered by developments in credit to the private sector and long-term financial liabilities, whereas the contraction in the annual dynamics of central government net credit and of net foreign assets exerted an opposite influence.

## 3. Use of monetary policy instruments

During 2011, the central bank continued to flexibly use the components of the monetary policy operational framework with a view to adjusting liquidity management to the challenges manifest throughout the year, as follows: (i) the persistence, especially in the first part of the period under review, of dysfunctions in the monetary policy transmission mechanism, including the implications of enforcing the legislation governing consumer credits passed in 2010[17] and of the ensuing prevalence of loan restructuring operations; (ii) the reversal in banks' net liquidity position, which became negative again in the latter part of 2011; (iii) the still high volatility of global risk appetite amid the protracted sovereign debt crisis in the euro area.

The set of monetary policy instruments used by the NBR according to the operational framework in place continued to prove adequate in terms of implementing monetary policy in the specific conditions of 2011. The central bank however continued to enhance the efficiency of its instruments. Thus, the range of eligible assets for open-market operations and for the lending facility was expanded so as to include EUR-denominated bonds issued by Romania on international markets, deposited in the Euroclear system, and lei-denominated bonds issued by international financial institutions, deposited in the Euroclear system, respectively[18].

**Interbank Money Market Rates**




[16] With the M3 structure thus nearing that seen in the euro area.

[17] Law No. 288 of 28 December 2010 approving Government Emergency Ordinance No. 50/2010 on consumer credit contracts came into force in early 2011.

[18] Effective as of 3 October 2011.

The interest rate policy was instrumental in properly adjusting real broad monetary conditions with a view to attaining the monetary policy goal, to which added the adequate management of liquidity by the central bank, with open-market operations, central bank facilities and the required reserve mechanism further playing a major role in this respect.

The latter tool retained its features in the case of the minimum reserve requirement ratio on credit institutions' lei-denominated liabilities, which was left unchanged at 15 percent throughout the year under review. By contrast, the minimum reserve requirement ratio on credit institutions' foreign currency-denominated liabilities with residual maturities of up to two years was lowered from 25 percent to 20 percent[19] starting with the 24 April – 23 May 2011 maintenance period. The decision was taken during the NBR Board meeting of 31 March 2011 and its goals were to render banks' use of forex liquidity more flexible and to continue the alignment of the required reserve mechanism to ECB standards in the field. At the same time, the monetary authority initiated analyses regarding the adoption of prudential measures aimed at containing the growth in foreign currency loans to unhedged borrowers. These endeavours materialised in the Regulation on loans to households, which was adopted by the NBR Board on 28 October 2011. Its provisions are in line with the generally-accepted principles across the EU on foreign currency lending, as reflected in the ESRB recommendations[20], and require creditors to set stricter criteria on extending consumer loans in foreign currencies. However, when compared to the prevailing conditions at the time, the provisions of the aforementioned Regulation have not hindered access to housing loans in foreign currency with real estate as collateral. In addition, the new Regulation aims to enhance the mechanism of informing and warning customers about the risks associated with foreign currency lending and the consequences of the currency and interest rate risks materialising.

The NBR continued to tailor its liquidity management to the specific liquidity conditions in the banking system and to the specific functioning of the various segments of the domestic financial market. In particular, amid the steeper downward adjustment of overly-high interest rates on non-banks' lei-denominated loans and deposits in the latter part of 2010, the central bank's liquidity management in 2011 Q1 sought to support the re-convergence of interbank rates towards the monetary policy rate, up from the increasingly low readings posted December 2010 through January 2011[21]. Since credit institutions' net liquidity position witnessed frequent, albeit moderate, sign reversals during the period under review, due to the higher volatility of autonomous liquidity factors, the central bank acted either as a debtor or as a creditor vis-à-vis the banking system. However, the NBR's monetary policy operations were aimed at draining excess liquidity over most of 2011 Q1. This was done via the deposit facility and a fixed-rate deposit-taking operation with one-week maturity whereby banks' bids were accepted up to the pre-announced volume. It was only in late February and early March that the central bank provided

[19] The measure also applied to foreign currency-denominated liabilities with residual maturity of over two years to which early repayment, transfer and buyback clauses are attached.

[20] Published on 21 September 2011.

[21] The downward path followed by 1-12M ROBOR rates reflected the adjustment of the risk premium, also on account of the significant reduction in the uncertainties that had surrounded the fiscal consolidation process until end-2010.

liquidity to credit institutions via repo operations with one-week maturity conducted in the form of fixed-rate (i.e. policy rate) auctions with full allotment. Under the impact of relatively tighter liquidity conditions, average interbank money market rates at the shorter end of the maturity spectrum and average 1-3M ROBOR rates stood higher in the latter part of 2011 Q1, coming close to the monetary policy rate. On the other hand, the average rates at the longer end of the maturity range (i.e. 6-12M ROBOR rates) saw their positive spread vis-à-vis the policy rate narrowing.

During 2011 Q2, the central bank pursued the management of liquidity in a context in which credit institutions' net liquidity surplus widened again – mainly on the back of autonomous liquidity injections generated by Treasury operations with foreign currency amounts held in the account opened with the NBR – and interbank money market rates re-embarked on a downward trend. At the same time, however, average lending rates on new business witnessed minor both-way movements, with their behaviour most likely reflecting the impact of ongoing loan restructuring and the possible shifts in banks' preference (also in terms of setting the interest margins) given the new framework regulating consumer credit contracts. Furthermore, in the first part of 2011 Q2, the domestic currency followed a steeper appreciation path versus the euro as a result of larger volatile capital inflows, triggered by the improved sentiment of non-resident financial investors vis-à-vis the Romanian economy. Amid these developments, excess liquidity in the market was drained exclusively via the deposit facility. In order to tackle the short-lived reserve deficits, the central bank provided credit institutions with liquidity via repo operations with 3-5 days' maturity conducted in the form of auctions.

Banks' net liquidity position re-entered negative territory in August 2011. Behind this stood primarily the absorptions related to autonomous factors – the increase in currency outside the central bank and especially the higher balance on the lei-denominated Treasury account, as a result of the seasonal rise in economic agents' payments to the government budget, followed by a very gradual decline in such balance. Another explanation for the trend reversal lies with the higher level of required reserves, stemming from the increase in the reserve base. Against this background, liquidity management had to be tailored in order to respond to credit institutions' liquidity needs, mainly aimed at covering minimum reserves. Thus, the NBR conducted liquidity-providing repo operations with one-week maturity in the form of fixed-rate auctions with full allotment. Given the inherent rise in banks' uncertainty with regard to near-term developments in liquidity conditions, possibly also fuelled by renewed tensions on global financial markets at the time, amid the renewed deepening of the sovereign debt crisis in the euro area, the interbank money market yield curve shifted however to higher readings. The upward correction was more visible in the case of short-term rates, which are known to be more sensitive to liquidity fluctuations.

Subsequently, the higher likelihood of banks' net liquidity deficit persisting or even widening in the near run prompted the NBR to render liquidity-providing operations more predictable by setting a standard frequency. Thus, repo auctions were organised on a weekly basis (each Monday) starting 17 October 2011. This change in the operational framework was meant to diminish the uncertainty surrounding future developments in liquidity conditions so as to limit the fluctuations of money market rates underlying the lending and deposit rates for economic agents and to prevent any significant upward adjustment of interest margins.

Against this background, interbank money market rates, 1-12M ROBOR rates included, re-embarked on a downward trend as a result of the NBR resuming the policy rate-cutting cycle. Their decline, which was only temporarily interrupted in mid-November by a short-lived spike that was entirely offset in the following weeks, steepened markedly towards end-2011, thus paving the way for lower lending and deposit rates for non-bank customers over the period ahead.

## 4. Policy guidelines

The monetary policy pursued by the National Bank of Romania will further be implemented under the inflation targeting framework. It will remain firmly geared towards meeting the inflation targets set by the NBR in consultation with the government and hence towards safeguarding price stability over the medium term, marking the key contribution of monetary policy to sustainable economic growth. Over the longer horizon, the central bank's policy will aim to achieve a lasting curtailment of the annual inflation rate towards levels in line with the ECB's quantitative definition of price stability. A major support in this respect is expected to come from the adoption of a flat multiannual inflation target of 2.5 percent ±1 percentage point starting in 2013. The decision was taken in an NBR Board meeting held at end-2010, along with that of keeping the inflation target at 3.0 percent ±1 percentage point in 2012, the same as in 2011. The shift to a flat target is a beneficial, yet ambitious change to the inflation targeting framework, providing the advantage of anchoring inflation expectations. It marks the end of the initial inflation targeting stage characterised by gradually lower inflation targets[22] set and announced over two-year periods.

A favourable precondition for achieving the central bank's objectives consisted in the fulfilment of the 2011 inflation target, likely to consolidate the anchoring of low inflation expectations, and the ongoing fast-paced disinflation in the early months of 2012, conducive to a decline in the annual inflation rate below the midpoint of the end-2012 target and hence to historical lows[23]. The main drivers were the annual dynamics of volatile prices going deeper into negative territory and the slowdown in adjusted CORE2 inflation. The latter reflected primarily the persistence of a wide negative output gap and the further downward adjustment, albeit at a slightly slower pace, of inflation expectations amid the still cautious monetary policy stance. An additional precondition for meeting the NBR objectives was the consolidation during that period of the prospects that the annual inflation rate remain inside the target band throughout the policy-relevant horizon, given the further improvement in the behaviour of the forecasted annual adjusted CORE2 inflation rate.

[22] The annual inflation targets were progressively lowered from 7.5 percent ±1 percentage point in 2005 to 3.0 percent ±1 percentage point in 2011. The 12-month inflation targets for 2010 and 2012 were kept at the previous years' levels, i.e. 3.5 percent ±1 percentage point and 3 percent ±1 percentage point respectively.

[23] The 12-month inflation rate dropped to 2.4 percent in March 2012.

This improvement was seen as a result of the recent downward adjustment in inflation expectations and especially of the relatively stronger disinflationary pressures anticipated to be exerted by the negative output gap.

In response to these developments, the NBR extended the prudent rate-cutting cycle in February and March 2012, i.e. the monetary policy rate was lowered in two consecutive steps of 0.25 percentage points each to 5.25 percent. The implicit ongoing gradual adjustment of real broad monetary conditions, which the central bank had started towards end-2011, aimed to efficiently anchor inflation expectations over the projection horizon, also in view of the anticipated temporary rise in the annual inflation rate in 2012 Q3 close to the upper bound of the variation band around the central target, on account of an unfavourable base effect.

Furthermore, the NBR Board decided to further tailor the required reserve mechanism to the current and future domestic financial and macroeconomic environment, which had been strongly influenced by external developments. Specifically, the central bank rendered the aforementioned mechanism less restrictive by eliminating the constraint on extending the initial maturity of credit institutions' liabilities[24]. This also marked a further step towards bringing the required reserve mechanism into line with applicable ECB standards. At the same time, the NBR expanded the range of eligible assets accepted for its open market operations, by including the USD-denominated bonds issued by Romania on international markets[25].

However, the NBR Board had to discontinue the policy rate downtrend in May 2012, given the relative heightening – possibly short-lived – of risks to the short-term inflation outlook. This was correlated with changing expectations regarding the economic growth at global level and the impact of the beginning of a deleveraging process by some EU credit institutions on the economies in Central and Eastern Europe, amid developments in the sovereign debt crisis and more strenuous efforts to comply with the new banking regulations. These issues associated with domestic developments could heighten capital flow volatility. Considering that these risks and uncertainties warranted the maintenance of a prudent stance of broad monetary conditions with a view to effectively anchoring inflation expectations and hence ensuring price stability in the medium term, the NBR Board decided to keep the monetary policy rate unchanged at 5.25 percent per annum.

Monetary policy will preserve its prudent stance over the upcoming period, given that the central bank's key concern remains the solid anchoring of inflation expectations in order to consolidate the inflation rate at levels compatible with the flat multiannual target, implicitly with the definition of price stability in the domestic economy, while

[24] Regulation No. 6/2002 on reserve requirements was amended by repealing the provision according to which "when determining the residual maturity of liability items included in the reserve base of required reserves, only the initially-set maturity shall be taken into consideration, leaving out of account any subsequent extensions/renewals". The amendment became effective on 24 February 2012.

[25] Effective 1 March 2012.

associated risks[26] remain significant. As a result, both in the short run and over the longer horizon, the pace and magnitude of potential adjustments in the policy rate and in the parameters of the monetary policy toolkit, in the context of ensuring adequate broad monetary conditions, will be calibrated primarily in line with: (i) the intensity of the disinflationary pressures of the negative output gap, which, although gradually narrowing, is anticipated to remain wide over the period ahead, and with (ii) the behaviour of inflation expectations over the medium term.

The balance of risks to the inflation forecast and the likelihood of their materialisation will further play a major role in the analyses underlying monetary policy decisions. From this perspective, the central bank will closely monitor the developments on external financial markets, the trends displayed by global commodity prices (energy included), the stages of the administered price adjustment calendar for the upcoming years, as well as the wage dynamics across various sectors of the economy and hence the wage-productivity correlation. At the same time, the developments and features of lending to the private sector and of economic agents' saving/investment behaviour will be duly considered when policy decisions are taken.

Moreover, the NBR will continue to make flexible use of the monetary policy tools and tailor their features so as to enhance the monetary policy transmission mechanism and implicitly contribute to a lasting recovery of lending. This is expected to be underpinned also by the additional erosion effects on the growth potential of foreign currency-denominated loans stemming from the gradual narrowing of the interest-rate differential as against foreign markets, as well as from the implementation, in the first part of 2012, of prudential measures aimed at capping the growth in forex loans to unhedged borrowers. However, the rebound in lending will further hinge largely both on the recovery of private sector credit demand, closely linked to the improvement in this sector's confidence and expectations on the outlook for the domestic economy, and on banks being less concerned about the effects of a potentially lasting external financing squeeze, driven by the possible pick-up in deleveraging and capitalisation efforts of euro area credit institutions.

Nevertheless, the viability and efficacy of such a policy configuration remain conditional, over the period ahead, upon the further firm implementation of fiscal consolidation measures and structural reforms, concurrently with stepped-up efforts to raise European funds, in line with the commitments assumed under the arrangements signed with the EU, the IMF and other international financial institutions. These are essential prerequisites for preventing an increase in the sovereign risk premium and implicitly for consolidating low inflation rates and ensuring a sustainable recovery of the Romanian economy.

[26] Major risks stem from the recent deepening of the sovereign debt crisis and its uncertain outlook (impacting exchange rate movements, external financing availability and costs, as well as the pace of domestic economic recovery), from the potentially ongoing geopolitical tensions in several regions of the world (affecting oil prices), as well as from the more frequent and sizeable administered price adjustments expected over the medium term.

# Chapter 2. Financial stability

The National Bank of Romania has a key role in maintaining financial stability, attributable to its capacity as a monetary and supervisory authority (for credit institutions, non-bank financial institutions, payment institutions and payment and settlement systems) and accounted for by the Romanian financial system structure where banks are prevalent (credit institutions hold approximately 84 percent of the financial system's net assets). The statutory tasks of the central bank with regard to financial stability are equivalent to the macro-prudential mandate. The main objective of the NBR's macro-prudential policy is to maintain the stability of the financial system as a whole, the analyses carried out by the specialised departments of the central bank focusing on systemic risk assessment and monitoring. The analyses to identify the risks and vulnerabilities focus on all financial system components (markets, institutions, infrastructure), as well as on the interconnections between them, the interactions of the financial system and the real economy and, last but not least, on the ongoing market developments and the innovation in the financial system.

The central bank acted as a macro-prudential authority in the period prior to Romania's accession to the European Union as well as subsequently, although from a slightly different perspective. During 2004-2006, the NBR successively used different macro-prudential instruments in order to contain the unsustainable lending expansion in Romania, particularly foreign currency lending, avoid the excessive household indebtedness or ensure an appropriate loan-to-value ratio. Despite their short-term strong impact, macro-prudential measures gradually became less effective, particularly in the context of the financial integration of the Romanian system after the EU accession. At present, the measures taken by the NBR are compliant with the prudential regulations adopted within the EU. The increase in the effectiveness of macro-prudential measures adopted at national level implies the further harmonisation of the EU legal framework, thus helping avoid the regulatory arbitrage.

## 1. Main assessments on financial stability

### Macroeconomic environment

The international macroeconomic context remained tense in 2011, representing via the contagion channel one of the main challenges to financial stability in Romania. Risk factors refer to the slower growth rate in the developed economies, Romania's main trade partners, the aggravating euro area sovereign debt crisis and deleveraging. Such risk factors can have spillover effects on Romania's economic growth, the availability and costs of lending to public and private sectors and on the bank asset quality.

Risks to financial stability in the EU increased, particularly in the latter part of 2011, due to the interconnections generated by sovereign debt crisis. As a result, the EU authorities took further actions at end-2011 and in early 2012. In December 2011, a new framework for monitoring and preventing macroeconomic imbalances became effective. It includes two distinct components – fiscal and macroeconomic supervision – and ensures the consolidation of the Stability and Growth Pact. In early 2012, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact) was signed. It sets forth measures for fiscal consolidation and economic policy coordination at EU level. The ECB continued to provide the banks in the system with the necessary liquidity (extending the maturity of refinancing operations to 3 years) at lower costs (the monetary policy rate was cut to 1 percent at end-2011).

The Romanian authorities implemented sustainable measures in order to preserve macroeconomic balance and financial stability. The international markets validated these efforts, the capital flows maintaining their orderly dynamics, whereas the risk perception towards Romania stood at levels similar to those of other countries in the region. In July 2011, Fitch rating agency decided to upgrade Romania's credit rating from BB+ to BBB- corresponding to investment grade. Romania further had access to external financing even when foreign investors showed stronger risk aversion, i.e. in June 2011, Romania launched medium-term bonds in amount of EUR 1.5 billion.

The major external vulnerabilities faced by the Romanian economy were considerably lower than at the onset of the crisis. The current account deficit remained at a moderate and sustainable level in 2011 (4.4 percent of GDP), yet the short-term external debt (STED) continued to pose risks to financial stability. At end-2011, the share of STED in total external debt moved ahead to 23 percent (from 21 percent at end-2010). The risks arising from the higher share of STED are lowered by the following: (i) the external debt of non-financial corporations rose by means of loans from parent undertakings to subordinated units; (ii) STED was to a large extent rolled over (more than 80 percent of STED outstanding as at 31 December 2011 were accounted for by companies whose debt inflows exceeded the outflows) and (iii) the foreign currency reserves managed by the central bank can ensure comfortable coverage of potential non-rollovers of the STED.

The monitoring of global risks and of the contagion channels to the Romanian banking and real sectors is a steady concern of the National Bank of Romania. To this end, the vulnerabilities of banks with foreign capital from countries affected by the sovereign debt crisis are assessed from a prudential perspective. In 2011 and 2012 Q1, these banks fulfilled the regulatory requirements, recording above-average solvency and liquidity ratios and portfolio quality similar to the system average. The capacity of these banks to withstand macroeconomic shocks remained broadly high in terms of capital adequacy, the main challenge being the impact on the liquidity position. From a macro-prudential perspective, maintaining adequate levels of liquidity (facilitated by the large portfolio of eligible assets for the NBR's refinancing operations) and solvency is essential for an appropriate management of risks related to potential external liquidity shocks.

Financial stability in Romania remained robust in 2011 and 2012 Q1, despite some increasing challenges. Risks to the banking sector were countered by credit institutions' own efforts which translated into consolidation of solvency, provisioning and liquidity levels amid the National Bank of Romania's measures addressing prudential regulation, supervision and adequate management of risks faced by the banking system. The capitalisation of credit institutions was comfortable for covering credit risk, the solvency ratio remaining close to 15 percent throughout the period. Compared with end-2010, the coverage with provisions of the gross exposure of loans classified under "loss", in which case debt service was overdue for 90 days and/or legal proceedings were initiated improved, reaching 97.8 percent at end-2011 and 99.2 percent at end-March 2012.

In the period under review, credit risk increased for all categories of debtors. The most affected category was that of small- and medium-sized enterprises, the non-performing loan ratio[1] posting the fastest increase and the highest level (18.8 percent at end-December 2011 and 20.9 percent at end-March 2012). Credit risk rose in the case of households as well, yet at a slower pace (up to 8.2 percent at end-December 2011 and 9.0 percent at end-March 2012). The non-performing loan ratio of the corporate sector stood at 3.7 percent at end-2011 and at end-March 2012.

The adequate management of lending conditions, to ensure their smooth dynamics, is one of the key challenges to financial stability in the period ahead. Compared with end-2010, financial intermediation (calculated as the share of non-government loans to GDP) dropped 1.5 percentage points to 38.6 percent at end-2011, with "households" being the most affected category. Banks eased slightly the lending standards and terms in the first part of 2011, but tightened them in 2011 H2 and in 2012 Q1, against the background of rising funding costs. Demand for loans was modest (increasing in the first part of 2011 and decreasing starting with the final quarter of 2011), on the back of the gradual economic recovery and some international developments entailing considerable risks and uncertainties. However, promotion of lending must be based on sustainable principles focusing on balancing new loans in terms of currency breakdown and avoiding the medium-term crowding-out of loans to the private sector.

The corporate loan breakdown by destination improved in 2011, contributing to the structural change in Romania's economic growth pattern. Domestic and external lending was particularly channelled to tradables companies, lending to this sector increased by 6.8 percent versus 2.1 percent in the case of companies in the non-tradables sector. Large-sized companies were granted financing at a faster pace than the SMEs, yet, the latter accounted for the overwhelming share of domestic and external loans (70 percent at end-2011). The SME financing posted uneven developments, as only a small number of SMEs benefited from larger funds. The breakdown by destination of loans taken by households from banks and non-bank financial institutions in 2011 and 2012 Q1 shows that mortgage-backed loans further prevailed. Against the backdrop of weak demand for loans from the private sector and the pro-cyclical lending standards, banks increased their exposure to the government sector from 22.7 percent of the domestic credit at end-2010 to 24.1 percent at end-2011 and 26.5 percent in April 2012.

[1] Calculated as the share of loans held by debtors with payments overdue for more than 90 days (with debtor contamination) in total loans granted.

Foreign currency loans are a major vulnerability of non-financial corporations and households. Foreign currency lending increased at a faster pace than loans in domestic currency, thus contributing to a wider mismatch between foreign exchange-denominated assets and liabilities. The credit risk associated with foreign currency loans rose more rapidly than in the case of loans in domestic currency, the dynamics of non-performing loans in foreign currency being faster than that of lei-denominated loans, in the case of both companies and households. The NBR closely monitors foreign currency lending developments, adopting additional measures for loans in foreign currency to be granted with the adequate management of risks associated with unhedged debtors. The implemented measures are in line with the European Systemic Risk Board's recommendations on the adoption of national macro-prudential measures for the mitigation of risks arising from foreign currency lending.

The major risks to financial stability generated by companies – low debt-servicing capacity and loose payment discipline between partners – persisted in the period under review, although their intensity decreased. In what concerns non-financial corporations, the volume of non-performing loans rose further, yet at a slower pace (29 percent in 2011 versus 109 percent in 2010; on 31 March 2012, their annual growth rate stood at 44 percent as against 56 percent in the same year-ago period). The resumption of lending and the consolidation of economic growth will contain the liquidity constraints of companies, thus leading to an improved debt service.

The high indebtedness and the significant short foreign exchange position, deemed as the major vulnerabilities of households, saw their negative developments moderating in 2011 and in 2012 Q1. However, they have remained at levels that require, in the short run, a close monitoring and possible additional remedial measures. Over the medium term, efforts are required from both the banking sector and the authorities in order to improve households' financial culture and bring about a shift in the banks' business model, with more focus on corporate lending.

### Developments in the financial system

In 2011 and 2012 Q2, the structure of the Romanian banking system posted no significant changes in terms of the shareholding of credit institutions. After Banca Comercială Română purchased the Anglo-Romanian Bank branch, the number of credit institutions dropped to 41. The market share of banks with majority foreign capital in total bank assets narrowed somewhat to 83 percent at end-2011 and 82.5 percent at the end of 2012 Q1, owing largely to the sales of fixed and non-performing assets. Banks with Austrian capital further held the largest market share in Romania, i.e. about 38 percent of total bank assets. Greek-owned banks, whose market share fell to 13.0 percent at end-March 2012 (13.3 percent at end-2011), saw a repositioning in the banking sector, as a result of the decline in the local deposit base, in the context of some deponents' negative perception induced by the events unfolding in Greece. For the first time ever, the group of Greek-owned banks was surpassed by Romanian- and French-owned banks, with market shares of 17.5 percent and 13.1 percent respectively at end-March 2012.

Financial intermediation measured as the share of banks' net assets in GDP (61 percent as at 31 December 2011) remained considerably below the EU average, declining slightly as compared with the year-earlier level. The concentration degree of the Romanian banking system (reflected by the share of the top five banks in terms of asset volume) increased marginally to 54.2 percent as at 31 March 2012 (54.6 percent at end-2011). A similar development was reported by the loans and deposits of the top five banks in total banking system, which stood at 53.1 percent and 54.5 percent respectively at end-March 2012 as compared with 52.3 percent and 58.0 percent at end-2011.

The aggregate assets of the Romanian banking sector remained on a downward trend (-1.1 percent, gross value in real terms) in the year under review. The main changes in asset breakdown were as follows: (i) the further downtrend in claims on the central bank, albeit less sharper than in 2010; (ii) the deceleration in the growth pace of exposure to the government sector, including as a result of lower yields on government securities; (iii) the resumption of lending starting September, after two consecutive years of decline.

In 2012 Q1, the real annual dynamics of bank assets returned to positive territory (3.9 percent). This was the result of the swifter growth rate of both non-government credit (29.5 percent) and claims on the private sector (7.4 percent). The faster annual negative dynamics of holdings with the central bank (down to -12.1 percent) was primarily due to the change made by the NBR in the minimum reserve requirements mechanism on the harmonisation path with ECB standards in the field. Nevertheless, credit institutions' liquidity reserves with the central bank further hold a significant share in the aggregate balance sheet (11.1 percent of total assets).

Loans to the private sector picked up 3.3 percent in real terms at end-2011, their annual dynamics adding another 4.1 percentage points by the end of 2012 Q1. Short-term loans were the fastest-growing component[2]. The loan breakdown by destination showed that corporate lending came in first, its share in aggregate assets moving ahead to 30.2 percent as at 31 December 2011, 4 percentage points higher than that of loans to households; the same weights remained in place in 2012 Q1. Although domestic currency lending resumed starting with 2011 Q4, foreign currency-denominated loans to the private sector remained prevalent, holding about 64 percent of total loan portfolio at end-March 2012 (63.4 percent at end-2011), due largely to loans extended to companies[3].

In the period under consideration, deleveraging and its impact on real economy raised concerns at EU level. Deleveraging of credit institutions in Romania can materialise via the following channels:

- the decline in external financing as a result of the worsening macroeconomic conditions, with an impact on credit institutions' liquidity;

[2] The short-term loan stock went up 11.4 percent as at 31 December 2011 and 19.4 percent as at 31 March 2012, as compared with the contraction by -7.3 percent at end-2010 and -10.4 percent at end-March 2011 (real annual changes).

[3] Foreign currency loans to companies rose by 6.4 percent as at 31 December 2011 and by 11.4 percent as at 31 March 2012 (real annual changes); these growth rates stood 5 and 3 percentage points respectively higher than those of foreign currency loans to households.

- the tendency of foreign banking groups to lower the exposure of their subsidiaries to the non-government sector, as a strategy to reduce capital requirements at group level (by diminishing the risk-weighted exposure, considering that items such as loans granted to the real sector have a high risk potential);
- the measures aimed at improving the efficiency of the operating activity (for instance, lowering the exposure to certain sectors or categories of debtors, sales of loan portfolios, cutting expenses that are not necessarily related to generating income or even restructuring the territorial network).

In 2011, deleveraging did not have a considerable impact on the Romanian banking system as a whole, the ratio of assets to equity of credit institutions, calculated at aggregate level, posting a marginal change (11.1 as at 31 December 2011 versus 11.2 as at 31 December 2010). On 31 March 2012, the ratio dropped to 9.0 due solely to the rise in equity, in the context of the switch to the IFRS, by: (i) including in the retained earnings the difference between the value of specific provisions calculated according to prudential requirements and that computed in line with IFRS and (ii) making some corrections in the share capital accounts resulted from inflation adjustments and eliminating the previous revaluation differences. Exposures to the Romanian subsidiaries were maintained at a relatively steady level, despite the difficulties faced by euro area banking groups operating in Romania, as reflected by the downgrades in credit ratings and the increase in funding costs.

Despite the decline in the external financing of Greek-owned banks[4], no signs of broad-based deleveraging were reported, and where it occurred, deleveraging was due to loan sales. In the banking system as a whole, the slight real increase in the volume of loans to the private sector is additional evidence of the isolated occurrence of this phenomenon.

In terms of asset financing, the following developments deserve mention: (i) the dynamics of household saving entered positive territory in the latter part of 2011, after the contraction reported in the previous four quarters; (ii) the further uptrend in own funds[5], which covered 17 percent of the financing needs as at 31 March 2012 (16.2 percent at end-2011); (iii) the real decline in foreign liabilities[6]. This category further ranked second among financing sources (with a share of about 26 percent in total liabilities), the largest part of bank asset financing (around 48 percent) being further covered from the domestic deposit base (deposits taken from companies and households). Resident non-bank clients (companies and households) further held a net debtor position towards the Romanian banking system for the fifth year in a row, with loans exceeding significantly deposits. The aggregate balance sheet breakdown continued to pose a challenge, albeit lower, in what concerns asset-liability mismatch in terms of maturity.

[4] The groups of banks are defined based on the country of origin of the capital.

[5] Own funds increased by 12.2 percent at end-2011 and 16.7 percent at end-March 2012, real annual changes.

[6] Foreign liabilities dropped 2.1 percent in real terms at end-2011 and 0.5 percent at end-March 2012, annual changes.

Capitalisation of the Romanian banking sector remained at a comfortable level over the period under review. The solvency ratio stood at 14.9 percent at end-2011 and at 14.6 percent at end-March 2012, these levels being higher than the 10 percent threshold laid down by prudential requirements and recommended by the central bank once the fallout from the global financial crisis emerged. Expenses related to credit risk continued to pose a challenge to maintaining an adequate capitalisation, yet they were offset by the capital increases made solely by shareholders. The current capitalisation level ensures proper conditions for the implementation of the new requirements stipulated by the Basle III regulatory framework in the period ahead. Moreover, the stress tests carried out by the central bank on a regular basis showed the adequate capitalisation of the banking system, despite the lower capacity of generating operating income amid the rise in the share of fixed-income instruments with lower yields.

The loan portfolio in banks' balance sheets continued to deteriorate at a slower pace than in 2010 – the non-performing loan ratio[7] adding 2.4 percentage points in 2011 to 14.3 percent, as compared with 4 percentage points in 2010. The non-performing loan ratio rose further to reach 15.9 percent as at 31 March 2012, due mainly to the new accounting treatments in line with the IFRS (such as the recognition of overdue claims previously recorded in off-balance-sheet accounts for which future expected cash flows were calculated), as well as to the ongoing constraints on the financial standing of clients[8]. The provisions established in accordance with prudential norms were considerably higher in 2011 (up 30 percent), thus contributing to the rise in bank reserves used to cover expected losses. Starting 2012, banks have implemented the IFRS regulations redefining the category of overdue and impaired claims, collateral valuation and its treatment for the purpose of determining loan loss provisions. The differences resulting from the comparison of loan loss provisions and prudential value adjustments are used as prudential filters.

The slight increase in short-term external debt of banks ranked further among the potential vulnerabilities of the banking system to the possible external liquidity shortages. This risk is however mitigated by the prevailing share of medium- and long-term funds supplied by parent banks to their subsidiaries in Romania, on the one hand, and by the comfortable level of the overall liquidity position, on the other. In terms of currency breakdown, the liquidity risk requires a close monitoring of developments, particularly for the EUR-denominated component. Bilateral interbank exposures remained low in relation to own funds and liquid assets of creditor banks.

[7] Non-performing loan ratio is the ratio of loans and interest overdue for more than 90 days and/or in which case legal proceedings were initiated against the debtor and total classified loans and interest (gross exposure).

[8] This is also a seasonal effect due to the additional costs specific to the cold season.

Liquidity risk management improved starting with 2011 H2, on the back of regulatory framework amendments[9].

The profitability of the banking sector returned to negative territory in 2011 H2, mainly under the impact of still high provision losses, as well as of the decline in operating income. At end-December 2011, some large- and medium-sized banks managed to recover part of the previously incurred losses. In 2012 Q1, the financial results of the banking system were positive, due mainly to the accounting treatment differences generated by the IFRS implementation requirements. The deterioration trend of cost/income ratio manifest in 2011 H2 reversed in 2012 Q1 (55.7 percent at end-March 2012 versus 67.8 percent at end-2011).

The activity of NBFIs was affected by the ongoing financial deleveraging, with new loans recovering slightly, yet standing below the value of loans falling due. However, as compared with the previous years, the loan portfolio narrowed at a slower pace. At end-2011, the stock of loans granted by NBFIs totalled lei 23.7 billion, down 7.6 percent compared with 2010. Non-performing loan ratio[10] stood high at about 20 percent, as the portfolio further comprised a large volume of overdue loans. The main challenges for NBFIs in the period ahead are the resumption of lending on a sound basis and the improvement of loan portfolio quality.

In 2011, the life insurance market saw positive developments, amid the economic rebound and the relative financial market stability. By contrast, the general insurance market contracted further given that the swifter economic growth feeds through to this segment with a greater lag than in the case of life insurance market. General insurance companies countered the decline in the value of gross written premiums by improving risk management mechanisms. Hence, the share of gross premiums paid in total gross written premiums narrowed considerably, thus contributing to the financial stability in the insurance sector.

The Romanian capital market was hit by the negative shock generated by the decision of Standard & Poor's rating agency to downgrade the sovereign credit rating on the USA. In line with international market trends, domestic investors responded rapidly to the decision of Standard & Poor's, which caused main stock exchange indices to record substantial adjustments in a short time period. However, in the subsequent period, due to the positive outlook for economic growth, the stock exchange indices stabilised and posted marginal changes until the year-end. The stock exchange capitalisation followed a slight downward trend in 2011 H1, which turned considerably steeper starting with August, along with the decline in traded volumes.

[9] NBR Regulation No. 25/2011 on credit institutions' liquidity repealed, as of 1 January 2012, the NBR Regulation No. 24/2009 on credit institutions' liquidity. The main amendments include: the change in the treatment applicable to loans granted to non-bank clients, the adjustment of fixed-income securities based on the residual maturity, the change in the treatment applicable to credit current accounts of clients with regard to applying a similar treatment to that of demand deposits, as well as the obligation to place the liquidity indicator, calculated for all the operations in lei equivalent, within the limit of 1 on the maturity ranges of up to 1 month, 1 to 3 months, 3 to 6 months and 6 to 12 months.

[10] Defined as the ratio of loans and interest that are more than 90 days overdue and/or for which legal proceedings have been initiated against the operation or the debtor and the total stock of loans and interest in the portfolio.

The value of transactions in lei-denominated government securities on the secondary market fluctuated throughout 2011. Starting August, the value of transactions in government securities followed a steady uptrend, despite the 0.25 percentage point cut in the policy rate in November. In addition, repo transactions rose considerably, hitting a two-year high in December. The same as in 2010, amid the budget deficit financing pressures, investors shifted focus particularly to Treasury certificates, so that their share in total government securities on the primary market stood at 73 percent.

The economic rebound had a favourable impact on private pension funds. After the marginal increase in incomes from contributions and the slight decline in the number of participants in the system recorded in 2010, both monthly gross contributions and the number of participants for whom contributions were paid saw considerable rises in 2011. Private pension funds continued to show an increased investment risk aversion, with investments in government securities accounting for more than 65 percent of total portfolio at end-2011. In year-on-year comparison, the share of bank deposits moved ahead and the exposure in relative terms to shares decreased, indicating the lower risk appetite of private pension funds.

## 2. Instruments supportive of prudential supervision and financial stability

### Central Credit Register (CCR)

At present, the reporting institutions to the Central Credit Register are credit institutions, non-bank financial institutions registered with the Special Register opened at the National Bank of Romania, electronic money institutions and payments institutions with significant lending activity. At end-2011, the database included 92 reporting institutions, of which 40 credit institutions and 52 non-bank financial institutions as compared with 41 credit institutions and 53 non-bank financial institutions at end-2010.

Although non-bank financial institutions outnumber credit institutions, they hold relatively low shares of all the main indicators used in the Central Credit Register (end-2011 data): number of borrowers – 9.4 percent; number of loans and commitments – 11.4 percent; total amounts due – 6.6 percent; overdue amounts – 8.4 percent. Compared to end-2010, these shares went down slightly.

Year 2011 saw the increase in the number of CCR database queries, amid the moderate resumption of lending. During the year under review, the reporting institutions sent 2.6 million queries (versus 2.5 million queries in 2010), of which 62 percent with the consent of potential borrowers. The queries concerned data on global risk, loans and overdue amounts of borrowers. The share of new borrowers for which authorised queries were sent in total new borrowers saw a renewed fall, yet of small magnitude, to 53.7 percent as at 31 December 2011.

At end-2011, given that the reporting threshold was left unchanged at lei 20,000, the CCR database comprised only 15.7 percent of the number of borrowers and

19.4 percent of the loans granted and commitments assumed by the reporting institutions (both shares were slightly higher from a year earlier), this outcome indicating the significant position further held by (small-value) consumer loans. In terms of value however, the CCR included approximately 90.2 percent of the value of loans granted and commitments assumed by reporting institutions (on a rise versus the prior year). The coverage by type of reporting institution was 90.9 percent for credit institutions and 83 percent for non-bank financial institutions registered with the Special Register. These shares are relatively close to those recorded in 2010.

With regard to credit institutions, the number of borrowers registered in the CCR database rose 70 times since the CCR started functioning, while the number of loans and amounts due increased 57 times and over 47 times respectively. Compared with 2010, overdue amounts grew significantly (by 32.2 percent) in 2011, at a pace considerably faster than the amounts due (8.5 percent), which caused the share of overdue amounts in total amounts due to move up to 7.7 percent. Increases were also reported by the numbers of overdue loans and borrowers with overdue amounts (3.3 percent and 3.2 percent respectively).

### Table 1. Main Indicators Used by the CCR – Credit Institutions

| | 31 December 2010 | 31 December 2011 | Percentage change Dec. 2011/ Dec. 2010 |
|---|---|---|---|
| Number of debtors (thou.) | 957 | 963 | 0.6 |
| – individuals | 862 | 867 | 0.6 |
| – legal entities | 95 | 96 | 1.1 |
| Number of debtors with overdue loans (thou.) | 218 | 225 | 3.2 |
| Number of loans and commitments (thou.) | 1,483 | 1,492 | 0.6 |
| Number of overdue loans (thou.) | 301 | 311 | 3.3 |
| Total amount due (lei mill.) | 237,513 | 257,763 | 8.5 |
| – individuals | 82,850 | 86,441 | 4.3 |
| – legal entities | 154,663 | 171,322 | 10.8 |
| Overdue amount (lei mill.) | 15,070 | 19,918 | 32.2 |
| Share of overdue amount in total amount due (%) | 6.3 | 7.7 | - |
| Share of overdue amount incurred by individuals in total amount due (%) | 3.6 | 5.0 | - |
| Share of overdue amount incurred by legal entities in total amount due (%) | 7.8 | 9.1 | - |

Note: Due to the rounding of figures in the first two columns, there are some mismatches with the given percentage changes.

The number of borrowers-individuals increased very modestly (by 0.6 percent), while the value of loans to individuals picked up 4.3 percent, at a pace slower than that of loans to legal entities (10.8 percent).

The same as in the previous year, individuals accounted for 90 percent of total borrowers in the CCR database as at 31 December 2011. Moreover, the share of loans to individuals in total amounts due narrowed by 1.4 percentage points as compared with December 2010 (to 33.5 percent). At end-2011, out of total loans to individuals, reported to CCR, 62.6 percent were denominated in euro, 21.5 percent in lei, 15.5 percent in Swiss francs and 0.4 percent in US dollars, this breakdown being similar to that recorded at end-2010.

In year-on-year comparison, non-bank financial institutions registered with the Special Register reported considerable declines in the case of the following indicators: the number of borrowers in the CCR database (-14.3 percent) and the loans granted to these borrowers (-15.5 percent), the number of borrowers with overdue loans (-18.8 percent), the number of overdue loans (-20.3 percent), the amounts due (-7.6 percent). However, the overdue amount was significantly higher (by 11.8 percent), which caused its share in total amounts due to move up.

**Table 2. Main Indicators Used by the CCR – Non-bank Financial Institutions**

| | 31 December 2010 | 31 December 2011 | Percentage change Dec. 2011/ Dec. 2010 |
|---|---|---|---|
| Number of debtors (thou.) | 112 | 96 | -14.3 |
| – individuals | 37 | 33 | -10.8 |
| – legal entities | 75 | 63 | -16.0 |
| Number of debtors with overdue loans (thou.) | 32 | 26 | -18.8 |
| Number of loans and commitments (thou.) | 226 | 191 | -15.5 |
| Number of overdue loans (thou.) | 69 | 55 | -20.3 |
| Total amount due (lei mill.) | 19,696 | 18,198 | -7.6 |
| – individuals | 1,803 | 1,671 | -7.3 |
| – legal entities | 17,894 | 16,527 | -7.6 |
| Overdue amount (lei mill.) | 1,632 | 1,824 | 11.8 |
| Share of overdue amount in total amount due (%) | 8.3 | 10.0 | - |
| Share of overdue amount incurred by individuals in total amount due (%) | 4.2 | 5.2 | - |
| Share of overdue amount incurred by legal entities in total amount due (%) | 8.7 | 10.5 | - |

Note: Due to the rounding of figures in the first two columns, there are some mismatches with the given percentage changes.

Mention should be made that, in the case non-bank financial institutions listed in the Special Register, the structure of borrowers is different from that corresponding to credit institutions, as legal entities hold the largest share (65.6 percent at end-2011).

As at 31 December 2011, the CCR database comprised 222,849 borrower groups reported by reporting institutions, up 5.1 percent from end-2010. In 2011, reporting institutions reported to the CCR database card frauds committed by 181 borrowers (compared to 208 in 2010), the value of the fraud totalling about lei 226 thousand (compared to roughly lei 153 thousand in 2010).

Pursuant to Government Ordinance No. 27/2002 on the petition approach procedures approved by Law No. 233/2002 and Law No. 677/2001 on the protection of persons concerning the processing of personal data and the free circulation of such data, in 2011, the dedicated department provided responses to 857 petitioners (743 individuals and 114 legal entities) who had requested information on the entries in the CCR database in their name, compared to 1,113 petitioners (880 individuals and 233 legal entities) in 2010.

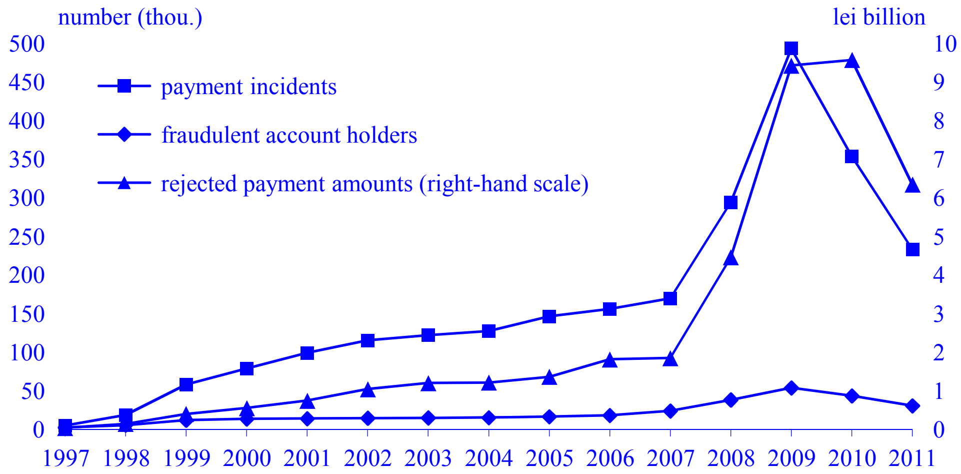
In 2011, the application software was completed and tested in compliance with the provisions of the new Regulation[11] on the organisation and functioning of the Central Credit Register operated by the National Bank of Romania and the necessary preparations were made for its implementation.

In addition, based on the Memorandum of Understanding regarding the exchange of information among the national credit registers with a view to transmitting this information to the reporting institutions, the module dedicated to Romania's participation in the cross-border exchange of information with Austria, Belgium, the Czech Republic, France, Germany, Italy, Portugal and Spain started to be tested.

## Payment Incidents Register (PIR)

According to PIR database, 2011 saw significant decreases in the main indicators used in monitoring this activity, i.e.: the number of payment incidents, the number of account holders that generated payment incidents and the rejected payment amounts. These developments occurred against the background of further unfavourable economic conditions, which led to a selection of economic agents and to making them accountable for using payment instruments correctly.

**Developments in the Number of Payment Incidents, the Number of Fraudulent Account Holders and the Rejected Payment Amounts during 1997-2011**




Compared to end-2010, the number of fraudulent account holders decreased significantly (by 29.4 percent) to 30,721 as at 31 December 2011. In addition, the number of payment incidents fell by 34.1 percent to 233,468 and the rejected payment amounts stood at lei 6,345 million (-33.7 percent). The smaller number of payment incidents was attributable to the decline in both the number of fraudulent account

[11] NBR Regulation No. 2/2012.

holders and the average number of payment incidents perpetrated by one account holder. Moreover, the number of account holders suspended from cheque-writing privileges dropped by 40 percent (from 5,782 in 2010 to 3,454 in 2011). The number of fraudulent account holders, natural entities, also witnessed a sharp decline, i.e. such individuals, who committed mainly promissory note-related payment incidents, totalled 1,604 in 2011, compared to 2,365 in 2010.

In 2011, 13 banks accounted for 87.7 percent of the total number of payment incidents and 82.4 percent of the total rejected amounts; the most frequent reason for payment refusal was still the complete or partial lack of funds (62.8 percent of total payment refusal reasons).

Over the reported period, credit institutions sent 3.99 million queries (down 1 percent from the prior year) to the PIR database, in their own name or in their customers' name. The queries were meant to request information about the account holders in order to check whether they had committed any payment incidents.

In compliance with the provisions of NBR Regulation No. 1/2001 on the organisation and functioning of the PIR operated by the National Bank of Romania, as subsequently amended and supplemented, the central bank answers the queries from public authorities regarding the recording of account holders into the PIR database. Thus, in 2011, the central bank answered 1,584 queries from public authorities, compared to 2,604 in 2010.

Pursuant to the provisions of Government Ordinance No. 27/2002 on the petition approach procedures, approved by Law No. 233/2002 and of Law No. 677/2001 on the protection of persons concerning the processing of personal data and the free circulation of such data, in 2011, the dedicated department in the central bank dealt with 157 petitioners (54 individuals and 103 legal entities) which requested information about the data reported to the PIR in their name, compared to 186 petitioners (61 individuals and 125 legal entities) in 2010.

In 2011, the regulation on the organisation and operation of the Payments Incidents Register was amended and the supporting application software was updated.

## 3. Contingency planning and financial crisis management

In 2011, the NBR's objectives in the field of contingency planning and financial crisis management, assumed via the National Reform Programme, the Euro Plus Pact and following the review missions carried out by international financial institutions focused on strengthening the stabilisation mechanisms available to the central bank. The role of such mechanisms is to facilitate the prevention of contagion effects and to provide solutions to the threats arising from the worsening situation of the supervised institutions or groups they are part of, given that, in 2011, the major vulnerability of the Romanian banking sector was generated by exogenous factors.

The main instruments of the resolution framework for banks in distress developed in this context were: (i) the administrative sale of an unhealthy credit institution's assets, with one or several eligible institutions assuming part of its liabilities and (ii) the transfer of assets and liabilities that are critically important for the financial stability of a distressed credit institution to a bridge bank.

The purchase and assumption (P&A) transactions are a solution involving an important private component for the orderly resolution of an unviable systemically important bank, allowing the continuity of banking services to depositors. The base mechanism is as follows: a healthy credit institution (or group of credit institutions) purchases assets and assumes liabilities from a distressed bank, particularly the deposits of non-bank clients. The purpose of P&A transactions is to maximise the volume of transferred liabilities of the unviable bank and to minimise the resort to the Bank Restructuring Fund's resources. Hence, the risk of a broad-based withdrawal of bank deposits is avoided. On the other hand, the purchasing bank acquires the best quality assets of the bank undergoing orderly winding-up proceedings, consistently with the ceiling imposed by the value of the assumed liabilities. Purchasing bank assets may lead to the rise in the market share of the buyer or to its expansion on a new business segment.

The "bridge bank" instrument implies the assisted transfer of the critical components of financial intermediation function, performed by a credit institution whose challenging situation poses a major risk to financial stability to a new credit institution established to this end. The bridge bank is set up as a temporary entity, having the role to ensure the further supply of banking products and services necessary for the customers of the failed bank until such operations can be optimally taken over by another credit institution, usually a private one. The bridge bank operates on a conservative basis and has a dual management structure. The National Bank of Romania appoints the board members from a panel of experts with high reputation and experience in banking, whereas the Bank Deposit Guarantee Fund (BDGF), which is also the sole shareholder of the bridge bank, carries out the tasks of the Supervisory Board. This stabilisation instrument is the last resort solution to avoid the disorderly restructuring of intermediation conducted by a systemically important bank in distress, where the P&A transaction is unfeasible at the time.

These instruments included in the set of resolution mechanisms applicable to credit institutions the activity of which is likely to affect the smooth functioning of the financial system were accompanied by the additional prerogatives granted to the BDGF concerning its capacity as a shareholder in a credit institution subject to a stabilisation measure. In this context, the NBR revised its own mechanism to identify systemically important banks in order to comply with the requirements of the public interest test on financial stability.

The extension of the set of resolution instruments applicable to banks in distress and available to the NBR creates the necessary conditions for the implementation of the orderly exit principle of any unviable bank, irrespective of its type and size. Furthermore, the conditions for implementing the principle of using private resources in the resolution of unhealthy banks were tightened due to the Bank Restructuring Fund becoming operational under the BDGF management. In June 2011, the first cash inflows in amount of lei 50.2 million, representing the contribution of credit institutions to this new component of the financial system protection mechanism, were recorded. Public resources can be used only as a loan extended by the Ministry of Public Finance to BDGF, the loan terms and conditions being set forth through government decisions.

Contingency planning strengthened not only in what concerns the development of intervention instruments, but also by creating the external communication framework for high risk situations to financial stability. The role of this framework is to improve the capacity of preventing or countering the panic spread among bank creditors. Under the circumstances, a set of draft press releases was created, focusing on the three types of stabilisation measures stipulated by Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented. Moreover, the descriptive material on the mechanisms and instruments concerning the consolidation of the set of measures available to the NBR to manage the potential systemic risks was uploaded on the central bank's website, under *"Stabilitate financiară – modificări legislative recente"*.

The central bank will further update internal procedures for intervention instruments, given the EU-wide harmonisation of the resolution standards for banks in distress. In addition, the NBR will assess the necessity to supplement the actual set of resolution instruments for fighting the threats arising from the worsening situation of supervised banks or groups they are part of, in line with the provisions of the future directive on the EU framework for bank recovery and resolution, at the moment of its adoption.

An important role in setting the strategic directions for the systemic risk management in the financial sector has had the National Committee for Financial Stability, whose president is the NBR Governor. In 2011, the NBR continued to organise the meetings of this body and initiated the inclusion of the BDGF among the NCFS members. Moreover, the central bank started the preparations for a financial crisis simulation exercise, which will test the efficiency of the cooperation between the member authorities of NCFS with regard to crisis management of financial institutions, financial groups or the financial market as a whole. On this occasion, the stabilisation measure triggers for activating will also be tested. The exercise will be carried out with the support of World Bank experts and will be completed by mid-2012.

The NCFS meetings promoted the exchange of opinions on the potential impact of the global financial and economic crisis on financial institutions, markets and infrastructure, as well as on Romania's real economy. In this context, the NCFS members analysed the developments of the Romanian financial sector, which remained stable despite the challenges posed by the euro area sovereign debt crisis and the mixed signals regarding worldwide economic recovery. Furthermore, several issues related to the improvement of inter-institutional cooperation were addressed in order to tighten the supervision of financial groups in Romania.

In addition, the NCFS meetings were the main discussion platform regarding the recent developments in the field of financial crisis prevention and management at EU level. In this context, the discussions focused on the technical details of a possible harmonised European framework for crisis prevention and for the recovery and resolution of banks and certain investment companies in distress. Subject to analysis were also the organisation and functioning of the actual financial and economic crisis management mechanisms in the euro area, as well as the details related to the establishment of the permanent financial stability mechanism expected to become operational in the latter half of 2012.

# Chapter 3. Licensing and regulation of financial institutions

## 1. Licensing and notification of financial institutions

### 1.1. Licensing of credit institutions

The NBR prerogatives with regard to the licensing of credit institutions are established by Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as amended and supplemented by Law No. 227/2007, as further amended and supplemented. In 2011, the NBR issued no licence for any credit institution.

### 1.2. Licensing of payment institutions

By virtue of the competences held in the field of regulation, licensing and prudential supervision of payment institutions under Government Emergency Ordinance No. 113/2009 on payment services (as approved and amended by Law No. 197/2010), as further amended and supplemented, and in accordance with NBR Regulation No. 21/2009, in 2011, the National Bank of Romania licensed six payment institutions and decided to list eight of such payment institutions' agents in the Payment Institutions Register.

### 1.3. Licensing of electronic money institutions

Further to the entry into force of Law No. 127/2011 on the issue of electronic money and of NBR Regulation No. 8/2011 concerning electronic money issuing institutions, during 2011, the central bank took over competences in the field of regulation, licensing and prudential supervision of electronic money institutions. Under the new legal framework, in late 2011, an electronic money institution filed a licensing request that has not been solved as yet.

### 1.4. Notification of non-bank financial institutions

In 2011, the notification and registration of the newly established non-bank financial institutions (NBFIs) carried on. Under Law No. 93/2009 on non-bank financial institutions, the notification and registration procedure was carried out for entering 4 NBFIs in the General Register, other 2 such institutions in the Special Register and 310 entities in the Entry Register.

In addition, 11 NBFIs were erased from the General Register, 3 NBFIs from the Special Register and 67 NBFIs from the Entry Register.

## 2. Legal and regulatory framework for credit institutions

Significant steps were taken in 2011 with respect to prudential regulation, with the newly adopted pieces of legislation focusing on the following objectives:

a) to amend and supplement the legislative framework governing the special administration procedure for credit institutions, so as to allow for a fast and efficient intervention in the case of failing banks (Government Ordinance No. 13/2011 setting the penalty and remunerative legal interest for monetary obligations, as well as some financial and fiscal measures in the banking sector). More specifically, with regard to the possible use of the resources managed by the Bank Deposit Guarantee Fund so as to facilitate implementation of the restructuring measures adopted under the special administration procedure, the amendments provide the establishment of certain requirements to be observed upon implementation of such measures, whenever transfers of deposits are involved (including disposals of assets with assumption of liabilities); the provision of such requirements ensures higher legal accuracy and certainty with regard to the performance of such operations, as well as increased transparency in selecting the credit institutions interested in the acquisition of assets and liabilities of the credit institution under special administration. In addition, the adoption of the said normative act also ensured the transposition of the provisions on cooperation and information exchanges between the national supervisory authorities and the European Banking Authority, as well as on the latter's involvement in mediation proceedings under Directive 2010/78/EU amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) – the Omnibus Directive;

b) to enact in national law certain provisions of Directive 2010/78/EU amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) – the Omnibus Directive, by the central bank's drafting a legislative proposal for amending and supplementing Government Emergency Ordinance No. 98/2006 on the supplementary supervision of credit institutions, insurance and/or reinsurance companies, investment firms and asset management companies in a financial conglomerate, submitted to the Ministry of Public Finance for promoting it as authority vested with the power of legislative initiative;

c) to amend the legislative framework by including a set of stabilisation measures available for the NBR to take action in case a credit institution in distress poses a threat to financial stability (Government Ordinance No. 1/2012 amending and supplementing certain pieces of legislation in the field of credit institutions), namely:

- the full or partial transfer of assets and liabilities of a credit institution to one or more eligible institutions;
- the involvement of the Bank Deposit Guarantee Fund, acting as delegated administrator or, as the case may be, as shareholder of the credit institution in distress, if prior instruction has been given to suspend the exercise of voting rights of the shareholders in control over the respective credit institution; or
- the transfer of a credit institution's assets and liabilities to a bridge bank established to this end;

d) to amend the Basel II regulatory framework for determining the minimum capital requirements, namely six regulations jointly issued by the National Bank of Romania and the National Securities Commission, for the purposes of completing transposition of Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (NBR-NSC Regulation No. 13/8/2011 amending and supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms, NBR-NSC Regulation No. 19/12/2011 amending and supplementing NBR-NSC Regulation No. 13/18/2006 concerning the determination of minimum capital requirements for credit institutions and investment firms, NBR-NSC Regulation No. 20/11/2011 amending and supplementing NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms, NBR-NSC Regulation No. 21/13/2011 amending and supplementing NBR-NSC Regulation No. 18/16/2010 concerning the treatment of credit risk related to securitised exposures and securitisation positions, NBR-NSC Regulation No. 22/14/2011 amending and supplementing NBR-NSC Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms, NBR-NSC Regulation No. 23/15/2011 amending and supplementing NBR-NSC Regulation No. 25/30/2006 regarding the disclosure requirements for credit institutions and investment firms);

e) to improve the regulatory framework for liquidity risk and related reporting, also taking into account the adjustments necessary further to the adoption of the International Financial Reporting Standards (IFRS) as accounting basis at individual level, by issuing NBR Regulation No. 25/2011 on the liquidity of credit institutions (repealing NBR Regulation No. 24/2009) and NBR Order No. 22/2011 on reporting the situations relating to the liquidity indicator and the high liquidity risk;

f) to improve and supplement the framework corresponding to the operational risk transfer techniques by transposing the relevant recommendations included in the guidelines issued by the Committee of European Banking Supervisors (CEBS) – "Guidelines on operational risk mitigation techniques" with regard to the recognition of operational risk transfer techniques under the advanced measurement approach for determining the minimum capital requirements (NBR Regulation No. 6/2011 amending and supplementing NBR Regulation No. 25/2009 on the use of the advanced measurement approach and the approval of its use by credit institutions for assessing operational risk);

g) to prepare the prudential regulatory framework, against the backdrop of IFRS adoption:

1. NBR Regulation No. 11/2011 on the classifiation of loans and placements, as well as on the determination and use of prudential value adjustments;

2. NBR Order No. 14/2011 on reporting the statements relating to the application of NBR Regulation No. 11/2011 on the classification of loans and placements, as well as on the determination and use of prudential value adjustments;

3. NBR Order No. 25/2011 on reporting the statements relating to the application of NBR Regulation No. 11/2011 on the classification of loans and placements, as well as on the determination and use of prudential value adjustments, for 1 January – 31 December 2012;

4. NBR Order No. 26/2011 regarding certain provisions for applying prudential requirements further to legislative changes related to the implementation of the International Financial Reporting Standards at individual level, effective as of 1 January 2012 (regulates the manner for applying the prudential requirements during the first year after IFRS adoption);

5. NBR-NSC Regulation No. 20/11/2011 amending and supplementing NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms;

6. NBR Order No. 15/2011 amending NBR Order No. 23/2010 on the reporting of large exposures by credit institutions and NBR Order No. 6/2011 on reporting exposures to persons having special relations with a credit institution;

7. NBR Regulation No. 29/2011 amending and supplementing NBR Regulation No. 18/2009 on governance arrangements of credit institutions, the internal capital adequacy assessment process and the conditions for outsourcing their activities and repealing NBR Order No. 25/2010 on the reporting of exposures to debtors outside the credit institutions sector governed by Article 112 (5) of NBR Regulation No. 18/2009 (the amendment is aimed at the procedure for determining the value of the exposure taken into account when calculating the prudential indicator for establishing the potential change in the economic value of a credit institution further to a change in the interest rates, operated in order to avoid the distortion generated by the shift to IFRS of the indicator mentioned in the case of credit institutions using the standardised approach when calculating the minimum capital requirements);

8. NBR-NSC Regulation No. 28/17/2011 supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms;

h) to amend the regulatory framework with regard to the supervision of the foreign currency positions (NBR-NSC Regulation No. 14/9/2011 supplementing NBR-NSC

Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms, NBR Order No. 16/2011 on reporting the foreign currency and gold positions, NBR Norms No. 1/2011 repealing NBR Norms No. 4/2001 on the supervision of banks' foreign currency positions);

i) to improve/draft certain prudential provisions applicable to credit institutions relating to: (i) temporary holdings of shares during a financial assistance or restructuring operation of an undertaking outside the financial sector (NBR Regulation No. 26/2011); (ii) bringing the limit for exposures to the persons having special relations with a credit institution in line with the new alternative limit provided by the recent amendments to Directive 2006/48/EC in the context of large exposure supervision (NBR Regulation No. 10/2011 amending and supplementing NBR Regulation No. 18/2009 on governance arrangements of credit institutions, the internal capital adequacy assessment process and the conditions for outsourcing their activities);

j) to amend the framework on the reporting of minimum capital requirements for credit institutions in view of bringing it in line with the changes to the COREP framework by the Committee of European Banking Supervisors (NBR Order No. 13/2011).

After Romania's becoming an EU Member State, the NBR, via its representatives in the EU structures, has played an active part, by formulating positions, in both the preparation of EU prudential regulation strategies and the drafting of new directives/ regulations/technical norms.

## 3. Regulation of the conditions for granting and repaying household loans

In view of the need to balance the currency breakdown of loans to households, the National Bank of Romania issued Regulation No. 24/2011 on loans to households, which integrates EU-wide generally accepted principles encouraging responsible lending and is aimed at avoiding over-indebtedness and the assumption of risks that debtors cannot understand or offset by the instruments available to them. In this respect, NBR Regulation No. 24/2011 provides tighter criteria to be applied by creditors when granting consumer loans, especially foreign currency-denominated loans (downward adjustment of maximum allowed indebtedness; mandatory provision of real and/or personal collateral of minimum 133 percent of the loan amount; setting loan terms at maximum 5 years; an additional quantitative restriction for foreign currency consumer loans to unhedged borrowers, in the case of creditors not operating under NBR-validated internal norms, i.e. setting the maximum indebtedness ratio at 10 percent for this type of financing), without substantial consequences upon the access to real estate mortgage loans. The Regulation explicitly provides the lender's obligation to inform and warn customers on the risks related to foreign exchange borrowing and the consequences of the materialisation of the currency and interest rate risks.

The objective of this regulation on containing household indebtedness is circumscribed to the need for financial stability and justifies the extended scope of this piece of legislation so as to include the branches of credit institutions from other Member States, thus ensuring a broader footing for the entities subject to the requirements under this regulation.

## 4. Regulation of the regime of the bank deposit guarantees and the Bank Restructuring Fund managed by the Bank Deposit Guarantee Fund

Government Ordinance No. 13/2011 establishing the penalty and remunerative legal interests for monetary obligations and regulating some financial and fiscal measures in the banking sector amended Government Ordinance No. 39/1996 (rev. 2) on the setting-up and operation of the Bank Deposit Guarantee Fund, as further amended and supplemented; the amendments were mainly aimed at enabling the use of the resources managed by the Bank Deposit Guarantee Fund so as to foster implementation of the restructuring measures authorised by the NBR under the special administration procedure for credit institutions, for the cases when the costs incurred by the BDGF in performing restructuring-related operations do not exceed the actual value of the compensations that would become payable should no such measures be implemented, i.e. in the event of deposits becoming unavailable.

Later on, Government Ordinance No. 1/2012 amending and supplementing certain pieces of legislation on credit institutions allowed the additional use, for the purpose of financing the stabilisation measures adopted by the National Bank of Romania, of the resources in the Special Fund for Compensations, further renamed, under the related amendments, as the Bank Restructuring Fund. Consequently, the provisions on the use of this fund’s resources were tailored in such a manner as to answer the new requirements in respect of the stabilisation measures regulated by the National Bank of Romania. The same ordinance permitted the use of part of the guarantee scheme resources for the purpose of financing the stabilisation measures.

Provisions were also included in respect of the BDGF activities corresponding to the positions held in implementing the stabilisation measures, namely: delegated administrator, shareholder of a credit institution subject to a stabilisation measure, as instructed by the National Bank of Romania, or sole shareholder of bridge banks, also exercising, in this latter case, the powers of the Supervisory Board.

## 5. Regulation of the activity performed by payment institutions

Upon implementation of Government Emergency Ordinance No. 113/2009 on payment services (transposing Directive 2007/64/EC), a possible legislative incompatibility was pointed out in respect of the entities providing payment services funded from a credit line made available to the payer by the payment institution, in the context of loans being regulated by Law No. 93/2009 on non-bank financial institutions, as further amended and supplemented.

Government Emergency Ordinance No. 42/2011 amending and supplementing Government Emergency Ordinance No. 113/2009 on payment services and

Law No. 93/2009 on non-bank financial institutions was issued for the purpose of clarifying the application of the two pieces of legislation in the case of payment institutions granting loans related to payment services; the ordinance unambiguously establishes that lending in respect of payment operations is not governed by Law No. 93/2009, provided that this activity continues to be subject to the prudential requirements under Directive 2007/64/EC.

Against this backdrop, amendment of NBR Regulation No. 21/2009 regarding payment institutions was also necessary, so as to regulate the criteria for determining the materiality level of lending (in essence, the regulation took over the quantitative criteria used for entering non-bank financial institutions in the General Register, as well as those for upgrading the regime of entities, in line with their importance, from central bank-monitored to central bank-supervised) and to establish the calculation method and the reporting requirements. Additional amendments were applied, as called for by the implementation of the regulation under the authorisation procedure or in order to ensure accuracy of this piece of legislation.

## 6. Regulation of the activity performed by electronic money institutions

For the purpose of applying Law No. 127/2011 on the issue of electronic money, NBR Regulation No. 8/2011 concerning electronic money issuing institutions transposed the provisions of Directive 2009/110/EC relating to the requirements and documents to be submitted to the National Bank of Romania by the electronic money institution with a view to being granted authorisation to operate, the method of calculation and structure of own funds required for performing electronic money activities, the measures for safeguarding the funds that have been received in exchange for electronic money issued; the Regulation also provides technical details enabling the National Bank of Romania to properly carry on its authorisation and prudential supervision activities with regard to these financial institutions (such as the procedure for notifying any change in the status of electronic money institutions, reporting requirements).

Moreover, taking into account that, under the provisions of the above Directive, electronic money institutions cease to be credit institutions, as they are regulated under a separate regulatory framework, it has been deemed necessary that the new status of such entities be mirrored by adapting the secondary legislation issued by the NBR on: limiting credit risk associated with loans to households, classifying loans and placements, as well as the setting-up, regularisation and use of specific provisions for credit risk, preventing and combating money laundering and the supervision of the manner of enforcing international sanctions applied for blocking funds; it has also been deemed necessary to repeal certain provisions specific to electronic money institutions under those pieces of legislation that exclusively referred to credit institutions.

# 7. Legal and accounting regulatory framework for institutions subject to regulation by the National Bank of Romania[1]

One of the main objectives of the National Bank of Romania in the field of accounting regulation is the adoption of an accounting system applicable to the institutions regulated and supervised by the National Bank of Romania, designed to satisfy the information requirements of the various users of financial statements, in line with the requirements of the European directives and of the International Financial Reporting Standards (IFRS).

In the 2011 financial year, the accounting regulations in compliance with the European directives, as applicable to credit institutions, non-bank financial institutions and the Bank Deposit Guarantee Fund, were approved by NBR Order No. 13/2008, as further amended and supplemented. They stipulate that the compilation of annual financial statements at individual level must comply with the EU directives, and that of consolidated financial statements must comply with the IFRS.

Starting 1 January 2012, credit institutions apply the IFRS as an accounting basis for compiling financial statements at individual level as well, with the applicable accounting regulations being IFRS compliant (NBR Order No. 27/2010).

Given that the NBR's powers in the area of issuing accounting norms and regulations increased so as to also cover payment and electronic money institutions performing lending activities related to payment services and whose business is limited to the supply of payment services, respectively the issue of electronic money and the supply of payment services and taking into account that, as of 1 January 2012, credit institutions shifted to the application of the IFRS and thus are no longer governed by regulations compliant with the EU directives, a new piece of legislation was issued (NBR Order No. 27/2011) to apply to the other entities under the NBR's accounting regulatory scope, excluding credit institutions.

The changes under NBR Order No. 27/2011 called for the relevant update of the provisions of NBR Order No. 18/2007 relating to the NBFIs' reporting on a regular basis, so that NBR Order No. 28/2011 was issued.

In addition, with a view to ensuring compliance, within the national economy, with the reporting requirements provided by the Ministry of Public Finance, the regulation on the half-yearly accounting reporting system for the entities under the NBR's accounting regulatory scope was updated by the issue of NBR Order No. 7/2011 amending and supplementing NBR Order No. 8/2008.

In view of applying the strategy for IFRS implementation by credit institutions, adopted during 2010, the National Bank of Romania continued to update the accounting regulatory framework, with a number of measures/actions being in place for a smoother transition towards the new standards:

[1] Credit institutions, non-bank financial institutions, payment institutions and electronic money institutions granting loans related to payment services and whose business is limited to the supply of payment services, respectively the issue of electronic money and the supply of payment services, as well as the Bank Deposit Guarantee Fund.

(i) at end-March 2011, the comparative accounting monographs (IFRS/European directives) were submitted to the Ministry of Public Finance, as prepared by the working groups established under the authority of the Accounting Committee attached to the Romanian Banking Association, including representatives of the National Bank of Romania, so as to ensure the most favourable conditions for the fiscal authority to carry out a comprehensive analysis of the fiscal consequences deriving from IFRS implementation and thus enable decision-making in respect of a possible change in the relevant fiscal legislation;

(ii) NBR Order No. 29/2011 amending and supplementing NBR Order No. 27/2010 was issued, given the necessity, established following the discussions with international bodies' representatives and further to the request from the Ministry of Public Finance, to enter new accounts in the Chart of Accounts with a view to securing the record keeping needed for establishing fiscal obligations;

(iii) the National Bank of Romania, in joint collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW) organised in June 2011 a conference on "IFRS: international experience and implementation by the Romanian banking sector in 2012" with a view to raising awareness on the impact exerted by the switch to the IFRS in the banking system; the conference occasioned a presentation of the main challenges identified in respect of the implementation of the new regulations;

(iv) in July 2011, the indicative list of the accounts provided in the Chart of Accounts, as included in the IFRS-compliant accounting regulations, was updated; the above list is taken into account when calculating the minimum reserve base and the balances of demand deposits.

Given the full and exclusive IFRS adoption by credit institutions, as of 1 January 2012, the National Bank of Romania took steps to update the prudential reporting framework, as follows:

(i) NBR Order No. 3/2011 was issued to establish the FINREP reporting framework at individual level for prudential purposes; the system provides the form categories and the filling-in instructions applicable to credit institutions and Romanian branches of third-country credit institutions, with a view, on the one hand, to ensure adaptation at individual level of the new, consolidated level FINREP reporting framework and, on the other hand, to update the positions in the reporting forms, as per the new Chart of Accounts provided by the IFRS-compliant accounting regulations;

(ii) NBR Order No. 2/2011 was issued to approve the methodological norms on the regular reports containing financial and accounting statistical information applicable to Romanian branches of credit institutions from other Member States;

(iii) NBR Order No. 12/2011 was issued to amend and supplement NBR Orders Nos. 1, 2 and 3 of 2011, with a view to abandoning the imposition of a particular method for financial asset recognition in respect of the compilation of the consolidated/individual IFRS-compliant financial statements, as required from credit institutions for prudential supervision purposes and, respectively, of the regular reports containing financial and accounting statistical information applicable to Romanian branches of credit institutions from other Member States; the order is also aimed at ensuring consistency between the indicators included in the FINREP and COREP statements and in the financial statements to be disclosed.

## 8. Key objectives for 2012

### I. Objectives in the field of prudential regulation

- to amend the legislative framework so as to introduce provisions ensuring transposition of the new Capital Requirements Directive (CRD IV);
- to revise the entire prudential regulatory framework covered by the Regulation related to the CRD IV package (CRR), so as to ensure the necessary conditions for implementing the said Regulation, which is directly applicable at EU level;
- to amend the prudential regulatory framework with a view to ensuring transposition of the relevant provisions under the Capital Requirements Directive (CRD IV);
- to ensure the necessary groundwork for applying the new reporting requirements drafted at EU level following completion of the prudential regulatory framework related to the CRD IV package;
- to take over in the form of instructions the CEBS Guidelines relating to: large exposures, hybrid capital instruments, liquidity, remuneration policies and practices, the management of operational risk in market-related activities, internal governance, concentration risk under the supervisory review process, stress testing, securitisations;
- to participate in the drafting of proposals on the strategies for regulating the area of covered bond issue and on the secondary regulatory framework related to the primary legislation on the issue of covered bonds;
- to amend/draft regulations in the following areas:
  - reporting on suspect operations and fraud incidents;
  - types of collateral acceptable for savings and loan banks in the housing sector;
  - revision of the regulatory framework (reporting included) on prudential filters and foreign currency positions in the context of the new European prudential regulatory framework (CRD IV);
- to revise the current regulatory framework from the point of view of compliance with the European Systemic Risk Board's recommendations on lending in foreign currencies and on US dollar denominated funding of credit institutions;
- to formulate positions on the CRD IV package and to participate in the meetings held by the EU bodies with a view to supporting these positions;
- to formulate positions on the European Commission's proposals on the future bank resolution framework;

– to formulate positions on the proposals for amendment of the Directive on financial conglomerates and to participate in the meetings held by the EU bodies with a view to supporting these proposals.

## II. Objectives in the fields of financial activities and non-bank financial institutions

– to get involved in the debates on the European regulatory framework for bank restructuring, from the point of view of ensuring a smooth integration of the relevant national regulatory framework – the regime of the Bank Restructuring Fund managed by the Bank Deposit Guarantee Fund;

– to define and assert Romania's position in the revision process with respect to the Directive on deposit-guarantee schemes and to transpose it into national law;

– to adjust the prudential requirements on exposures and the credit restructuring regime, as required for the non-bank financial institutions enrolled in the Special Register to better fit into the peculiarities of the business carried on by this type of creditors and into the economic and financial background;

– to participate in formulating Romania's positions within the negotiations for the European Commission's draft Directive on credit agreements relating to residential property;

– to take part in designing the regulatory framework aimed at ensuring implementation of the European Systemic Risk Board's recommendations with regard to capping foreign currency lending to borrowers exposed to currency risk;

– to outline and sustain the NBR position with respect to the amendment of Law No. 32/2006 on mortgage bonds – initiated by credit institutions in the context of the "Vienna Initiative";

– to develop the NBR position vis-a-vis the regulation at EU level of retail banking products.

## III. Objectives in the field of accounting and foreign currency regulation

– to update the IFRS-compliant accounting regulations (NBR Order No. 27/2010), so as to include the changes in the IFRS provisions, as well as the proposals generated by the actual application of the IFRS, as received from credit institutions and audit companies;

– to update the accounting regulations (NBR Order No. 27/2011) depending on the stage in their harmonisation with EU directives;

– to issue a piece of legislation providing a template for annual reporting by credit institutions so as to cater for the information requirements of the Ministry of Public Finance, in the context of the credit institutions' switch to the IFRS as an accounting basis and to enable compilation of financial statements at individual level, starting with the 2012 financial year, taking into account that no such template is provided by the IFRS for annual financial statements to be disclosed;

- to update the piece of legislation on the half-yearly accounting reporting system for the entities subject to accounting regulation by the National Bank of Romania (NBR Order No. 8/2008), so as to ensure a unitary reporting system economy-wide and to rule out credit institutions from the scope of this piece of legislation;
- to issue a piece of legislation on the half-yearly accounting reporting system for credit institutions, so as to cover the information requirements of the Ministry of Public Finance, on the one hand, and taking into account that, starting with the 2012 financial year, credit institutions are no longer subject to accounting regulations subject to the EU directives, on the other hand;
- to update the pieces of legislation currently in force relating to the FINREP reporting framework at both individual and consolidated levels (NBR Orders Nos. 1 and 3 of 2011), so as to create the most favourable conditions for the unitary application of this reporting framework by credit institutions in 2012, by including additional specifications relating to the presentation of the FINREP financial statements (further to the relevant requests from credit institutions and audit companies, as well as to the replies formulated so far by the FINREP Network[2] members in respect of the questions on the implementation of the FINREP reporting framework (prepared by the European Banking Authority);
- to update the regular reporting framework for branches in Romania of credit institutions from other Member States containing financial and accounting statistical information (NBR Order No. 2/2011), so as to include provisions for a unitary approach at the level of such branches and for obtaining data comparable with the relevant information reported by credit institutions, as well as in order to cover any additional information requirements of the specialised NBR departments;
- to analyse the need to issue a new piece of legislation on the financial reporting system for prudential supervision purposes at consolidated level and at individual level, further to the revision of the FINREP[3] reporting framework, which will make the object of a directly applicable EU regulation;
- to repeal NBR Norms No. 4/2005 on performing exchange transactions, as amended and supplemented, further to the entry into force of Law No. 238/2011 approving Government Emergency Ordinance No. 53/2008 amending and supplementing Law No. 656/2002 laying down measures to prevent and fight money laundering, as well as to prevent and combat the financing of terrorist

[2] Technical working group established within the EBA on the FINREP reporting framework.

[3] The consultation paper issued by the EBA on 20 December 2011 provides that the new FINREP reporting framework must be implemented in national law beginning with the second half of 2012 and shall be applicable as from 31 March 2013 (i.e. the first reporting date). The consultation paper provides the compulsory application of the FINREP reporting framework at consolidated level, with the final decision relating to the compulsory application of this framework at individual level, as well, following to be taken by the EBA during 2012.

acts, which provides that the licensing and/or registration of the entities performing foreign exchange transactions on the Romanian territory, other than those under the supervision of the National Bank of Romania, must be carried out by the Ministry of Public Finance, through the Foreign Exchange Activity Licensing Board;

– to update the regulations on the currency regime in line with the developments in the relevant national and European regulatory framework and with the objectives pursued by the National Bank of Romania.

# Chapter 4. Prudential supervision of financial institutions

## 1. Structure of the banking system

The structure of Romanian banking system posted no significant changes in 2011. The year under review witnessed BCR taking over the activity of the Anglo-Romanian Bank and the transfer of the shares held by the state in Banca de Export-Import a României – Eximbank from under the management of AVAS to that of the Ministry of Public Finance, in compliance with the provisions of Government Emergency Ordinance No. 83/2011. Changes took place in the shareholding of Volksbank România S.A. whose majority shareholder is VBI Beteiligungs GmbH and that of Marfin Bank România whose new majority shareholder became Marfin Popular Bank Public Co Ltd. Cyprus after merging with Marfin Egnatia Bank of Greece. The names of certain credit institutions were also changed, as in the case of the Bucharest branch of Caja de Ahorros y Pensiones de Barcelona (La Caixa), which became Caixa Bank and Libra Bank turned into Libra Internet Bank.

Therefore, compared with 2010, the number of foreign bank branches dropped by one, to eight entities at end-2011, whereas the number of Romanian banks remained unchanged, i.e. 33 entities[1].

### Table 1. Credit Institutions by Ownership

*number of banks, end of period*

| | **2010** | **2011** |
|---|---|---|
| Banks, Romanian legal entities, *of which:* | 32 | 32 |
| Fully or majority state-owned capital | 2 | 2 |
| Majority private capital, *of which:* | 30 | 30 |
| – with majority domestic capital | 4 | 4 |
| – with majority foreign capital | 26 | 26 |
| Foreign bank branches | 9 | 8 |
| **Total banks and foreign bank branches** | **41** | **40** |
| **CREDITCOOP** | **1** | **1** |
| **Total credit institutions** | **42** | **41** |

In terms of share capital, the composition of Romanian banking system at end-2011 was as follows: two banks with fully or majority state-owned capital (CEC Bank and Eximbank), four banks with domestic majority private capital (Banca Transilvania, Banca Comercială CARPATICA, Libra Internet Bank and Banca Comercială Feroviara), 26 banks with majority foreign capital, eight foreign bank branches and one licensed cooperative organisation (Central Cooperatist Bank CREDITCOOP).

[1] Including Central Cooperatist Bank CREDITCOOP.

### Table 2. Market Share of Credit Institutions

*end of period*

| | Net assets | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | lei mill. | % | lei mill. | % |
| Banks with domestic capital, *of which:* | 50,377.2 | 14.7 | 59,294.2 | 16.8 |
| – with majority state-owned capital | 25,207.4 | 7.4 | 28,990.1 | 8.2 |
| – with majority private capital | 25,169.8 | 7.3 | 30,304.1 | 8.6 |
| Banks with majority foreign capital | 267,075.7 | 78.1 | 265,381.6 | 75.0 |
| I. Total commercial banks | 317,452.9 | 92.8 | 324,675.8 | 91.8 |
| II. Foreign bank branches | 23,697.1 | 7.0 | 28,381.2 | 8.0 |
| Banks with majority private capital including foreign bank branches | 315,942.6 | 92.4 | 324,066.9 | 91.6 |
| Banks with majority foreign capital including foreign bank branches | 290,772.8 | 85.1 | 293,762.8 | 83.0 |
| **Total banks and foreign bank branches (I+II)** | **341,150.0** | **99.8** | **353,057.0** | **99.8** |
| **CREDITCOOP** | **796.3** | **0.2** | **853.9** | **0.2** |
| **Total credit institutions** | **341,946.3** | **100.0** | **353,910.9** | **100.0** |

At end-2011, the share of assets held by banks with fully or majority private capital in total assets of the Romanian banking system amounted to 91.8 percent, while banks with fully or majority state-owned capital held only 8.2 percent. The share of assets held by banks with fully or majority foreign capital, including foreign bank branches, equalled 83 percent of total assets of the Romanian banking system.

### Table 3. Credit Institution as a Share in Aggregate Capital

*end of period*

| | Share/Endowment capital | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | lei mill. | % | lei mill. | % |
| Banks with domestic capital, *of which:* | 3,794.8 | 22.4 | 4,166.2 | 22.8 |
| – with majority state-owned capital | 1,795.6 | 10.6 | 1,848.4 | 10.1 |
| – with majority private capital | 1,999.2 | 11.8 | 2,317.8 | 12.7 |
| Banks with majority foreign capital | 12,632.9 | 74.6 | 13,701.4 | 74.9 |
| I. Total commercial banks | 16,427.7 | 97.0 | 17,867.6 | 97.7 |
| II. Foreign bank branches | 393.7 | 2.3 | 295.7 | 1.6 |
| Banks with majority private capital including foreign bank branches | 15,025.8 | 88.7 | 16,314.9 | 89.2 |
| Banks with majority foreign capital including foreign bank branches | 13,026.6 | 76.9 | 13,997.1 | 76.5 |
| **Total banks and foreign bank branches (I+II)** | **16,821.4** | **99.3** | **18,163.3** | **99.3** |
| **CREDITCOOP** | **122.7** | **0.7** | **126.0** | **0.7** |
| **Total credit institutions** | **16,944.1** | **100.0** | **18,289.3** | **100.0** |

At end-2011, the top five banks[2] held the following shares: 54.6 percent of aggregate assets, 52.3 percent of loans, 58.0 percent of deposits, 52.8 percent of equity capital and 59.7 percent of government securities.

In terms of bank capitalisation, share/endowment capital of the Romanian banks was larger from a year earlier, in both nominal and real terms, by 7.9 percent and 4.7 percent respectively, due mainly to shareholders' capital increases in cash contributions and net profit distribution for the previous year.

As regards the country of origin of the capital invested in domestic banks and foreign bank branches operating in Romania at end-2011, the top three countries were further Greece (22.9 percent in aggregate capital), Austria (20.8 percent) and well behind the Netherlands (11.5 percent).

**Table 4. Foreign Participations in the Share Capital of Credit Institutions in Romania as at 31 December 2011**

| | lei mill. | % |
|---|---|---|
| Greece | 4,192.5 | 22.9 |
| Austria | 3,795.8 | 20.8 |
| The Netherlands | 2,102.3 | 11.5 |
| Italy | 899.5 | 4.9 |
| Hungary | 661.2 | 3.6 |
| Cyprus | 653.9 | 3.6 |
| France | 578.5 | 3.2 |
| EBRD | 361.7 | 2.0 |
| Other | 350.6 | 1.7 |
| Portugal | 267.1 | 1.5 |
| Israel | 247.8 | 1.4 |
| Germany | 191.9 | 1.1 |
| USA | 152.2 | 0.8 |
| Aggregate foreign capital of the banking system | 14,455.0 | 79.0 |
| **Total capital of credit institutions** | **18,289.4** | **100.0** |

Following Romania's joining the EU and the liberalisation of the services market, 349 foreign institutions have notified their intention to perform direct banking services on the territory of Romania, of which 230 banks, three non-bank financial institutions (NBFIs),16 electronic money institutions and 100 payment institutions.

## 2. Performance and outlook

In 2011, credit institutions conducted their activity in an environment fraught with austerity measures and uncertainty – associated with the lingering effects of the world financial and economic crisis –, trying to reduce to the minimum the possible contagion effects and to adjust to the financial market requirements, as well as to the new regulatory framework intended mainly to consolidating the capital base and liquidity.

[2] In terms of assets size.

In this context, the performance of the Romanian banking system witnessed a slowdown in banking business, which led to a mere 3.5 percent nominal increase in the aggregate assets (net) of the banking system, to lei 353,910.9 million at end-December 2011 from lei 341,946.3 million a year earlier. When expressed in EUR, aggregate assets (net) rose even less (by 2.7 percent) to EUR 81,929.5 million from EUR 79,804.5 million.

Financial intermediation calculated as a share of bank assets to GDP moved down slightly, to 61.0 percent in 2011 from 65.4 percent in 2010, still well below the level recorded by other EU Member States.

## Capital adequacy

In 2011 too, certain European bank groups facing severe financial disequilibria also caused by the sovereign debt crisis needed state support, which had an impact on the financial environment. It is worth noting that, in the case of Romania, no public funds were resorted to with a view to supporting credit institutions, the required funds being provided by shareholders where necessary.

In its capacity as supervisory authority, the NBR maintained the measures aimed at securing a capital adequacy ratio in line with the risk profile of each credit institution. The measures covered both the imposition of a solvency ratio of at least 10 percent of certain credit institutions' own funds and the monthly reporting of the solvency ratio.

The banks' prudent stance relative to assuming risks led to a comfortable solvency ratio at end-2011, i.e. 14.9 percent at aggregate level. Moreover, banks' efforts translated into the rise in share capital in both nominal terms (7.9 percent at end-2011) and real terms (4.7 percent).

According to banks' reports on minimum capital requirements, at end-2011, 83.8 percent of capital requirements were assigned to credit risk, 14.3 percent to operational risk and 1.9 percent to market risk.

The leverage ratio, determined as a ratio of Tier 1 capital to the average asset value, showed a constant level of 8.1 percent at both end-2010 and end-2011, with Tier 1 capital going up 2.1 percent and average assets rising at a similar pace (2.6 percent).

In the context of tougher capital requirements, following the implementation of Basel III Accord, credit institutions shall adequately adjust the volume and structure of the balance sheet.

## Asset quality

In a difficult domestic and external economic environment, in 2011, the banking community faced constant challenges. While previously credit institutions were concerned primarily with the quantitative goals, such as gaining market share, subsequently their business model focused on strategies aimed at promoting customer loyalty programmes and maintaining solid long-term relations with the existing customers.

According to the monetary survey, loans to the private sector went up by a nominal 6.6 percent (from lei 209,293.6 million at end-2010 to lei 223,037.1 million a year later); this rise was attributed mainly to the loans to non-financial corporations (up 10.3 percent), whereas loans to households rose by only 2.1 percent. In terms of loan currency, foreign currency-denominated loans posted the largest growth (7.2 percent), their share in total loans to the private sector expanding to 63.4 percent, while lei-denominated loans moved up 5.6 percent. As for the retail segment, consumer loans held the largest share (68 percent), ahead of housing loans (32 percent).

### Table 5. Key Indicators of the Banking System

*percent*

| Indicators | 2010 | 2011 |
|---|---|---|
| **Capital adequacy** | | |
| Solvency ratio | 15.02 | 14.87 |
| Leverage ratio (Tier 1 capital / Total assets, average) | 8.11 | 8.07 |
| **Assets quality** | | |
| Loans to customers (gross) / Total assets (gross) | 58.64 | 59.24 |
| Interbank loans and placements (gross) / Total assets (gross) | 19.58 | 16.90 |
| Doubtful and overdue loans to customers / Total loan portfolio relative to customers (net) | 2.28 | 2.33 |
| Doubtful and overdue loans to customers / Total loan portfolio relative to customers (gross) | 7.08 | 8.82 |
| Doubtful and past-due claims / Total assets (net) | 1.47 | 1.50 |
| Doubtful and past-due claims (net) / Total equity | 1.62 | 1.64 |
| Doubtful and past-due claims (net) / Total debt | 16.59 | 17.13 |
| Gross exposure from loans and related interest under “doubtful” and “loss” / Total classified loans and related interest including off-balance-sheet items[1] | 18.36 | 20.43 |
| NPL ratio[1,2] | 11.85 | 14.33 |
| **Profitability** | | |
| ROA (Net income / Total assets, average) | -0.16 | -0.23 |
| ROE (Net income / Total equity, average) | -1.73 | -2.56 |
| **Liquidity** | | |
| Immediate liquidity | 37.82 | 37.17 |
| Liquidity ratio (effective liquidity / required liquidity) | 1.35 | 1.36 |
| Loans to customers (gross) / Deposits taken from customers | 113.46 | 116.65 |

[1] Indicator based on loan classification reporting (in compliance with Regulation No. 3/2009, as subsequently amended and supplemented). Exposures from loans are classified by banks based on debt service, debtor’s financial performance and the downgrading by contamination principle.

[2] Gross exposure from non-bank loans and related interest classified under “secondary losses”, where the debt service > 90 days and/or where legal proceedings were instituted against the transaction or the debtor / Total classified loans and interests associated with non-bank customers, excluding off-balance-sheet items.

Due to the volatility of the domestic currency and the financial strains faced by companies and households, the main indicators quantifying credit risk[3] worsened. Thus, the share of the unadjusted exposure associated with loans and related interest under "doubtful" and "loss" in total loans and related interest widened to 20.4 percent at end-2011, from 18.4 percent a year earlier. In this context, credit institutions had to set up a larger volume of provisions (lei 30,741.4 million at end-2011 compared with lei 23,632.9 million a year earlier), which had a direct impact on the financial performance, namely on profitability.

According to balance sheet data of credit institutions, the share of doubtful and past-due claims in total loans (net) remained unchanged at 2.3 percent in 2010 and 2011, while the share of doubtful and past-due claims in total loans (gross) expanded from 7.1 percent to 8.8 percent. The key indicator illustrating the non-performing loan ratio, i.e. the share of loans and related interest under "loss 2"[4] in total classified loans and related interest, moved up in 2011, from 11.9 percent to 14.3 percent. Nevertheless, mention should be made that the coverage with provisions of non-performing loans was slightly higher than that reported in the prior year (97.8 percent at end-December 2011).

## Liquidity

Bank liquidity refers to the management of assets and liabilities with different degrees of liquidity and represents banks' ability to honour their financial obligations. Liquidity illustrates the assets' capacity to be turned into liquid currency (cash or current account) without delay and at minimal expenses.

A proper liquidity management requires, apart from observing liquidity requirements, keeping a liquidity buffer correlated with the risk tolerance established by the credit institution. The liquidity buffer represents the available liquidity which covers the additional liquidity requirements that may appear over a short-time horizon during a crisis and it consists mainly of cash and highly liquid assets.

Banks diversified their traditional services, providing investment and insurance services along with taking deposits and granting loans.

At the end of the period under review, the liquidity ratio equalled 1.36 – higher than the minimum requirement (1) – and the indicator illustrating immediate liquidity stood at 37.2 percent.

Credit institutions' more difficult access to foreign financing prompted them to turn to attracting savings from customers. At end-2011, the ratio of loans to deposits was 116.7 percent.

[3] Based on loan classification reporting.

[4] Loans and interest overdue for more than 90 days and/or for which legal proceedings were opened.

## Table 6. Net Assets and Own Funds as at 31 December 2011

| | Net assets | | Own funds* | |
|---|---|---|---|---|
| | lei mill. | % | lei mill. | % |
| 1 | 2 | 3 | 4 | 5 |
| **1. Banks with majority domestic capital, *of which:*** | **59,294.2** | **16.8** | **4,940.0** | **15.2** |
| **1.1. State-owned banks, *of which:*** | **28,990.1** | **8.2** | **2,664.2** | **8.2** |
| 1. CEC Bank | 24,815.6 | 7.0 | 1,757.8 | 5.4 |
| 2. Banca de Export-Import a României - Eximbank | 4,174.5 | 1.2 | 906.4 | 2.8 |
| **1.2. Banks with majority private capital, *of which:*** | **30,304.1** | **8.6** | **2,275.8** | **7.0** |
| 1. Banca Transilvania | 25,745.2 | 7.3 | 1,939.4 | 6.0 |
| 2. Banca Comercială CARPATICA | 3,787.1 | 1.1 | 197.6 | 0.6 |
| 3. Libra Internet Bank | 595.4 | 0.2 | 101.3 | 0.3 |
| 4. Banca Comercială Feroviara | 176.4 | 0.0 | 37.5 | 0.1 |
| **2. Banks with majority foreign capital, *of which:*** | **265,381.6** | **75.0** | **25,969.0** | **80.1** |
| 1. Banca Comercială Română | 71,054.8 | 20.1 | 5,867.6 | 18.1 |
| 2. BRD Groupe Société Générale | 48,027.7 | 13.6 | 5,064.6 | 15.6 |
| 3. Raiffeisen Bank România | 23,690.3 | 6.7 | 2,155.8 | 6.6 |
| 4. UniCredit Ţiriac | 22,346.5 | 6.4 | 2,127.3 | 6.6 |
| 5. Volksbank Romania | 17,728.1 | 5.0 | 1,410.1 | 4.3 |
| 6. Alpha Bank Romania | 16,544.1 | 4.7 | 1,858.1 | 5.7 |
| 7. Bancpost | 12,274.1 | 3.5 | 1,322.7 | 4.1 |
| 8. Piraeus Bank Romania | 8,166.6 | 2.3 | 1,134.9 | 3.5 |
| 9. Banca Românească Grupul National Bank of Greece | 7,418.2 | 2.1 | 914.5 | 2.8 |
| 10. Garanti Bank | 6,189.5 | 1.7 | 472.9 | 1.5 |
| 11. RBS Bank Romania | 5,793.3 | 1.6 | 875.0 | 2.7 |
| 12. Credit Europe Bank Romania | 4,751.6 | 1.3 | 454.9 | 1.4 |
| 13. Intesa SanPaolo Romania | 3,964.7 | 1.1 | 578.2 | 1.8 |
| 14. OTP Bank Romania | 3,745.9 | 1.1 | 395.6 | 1.2 |
| 15. Marfin Bank | 2,635.0 | 0.7 | 195.3 | 0.6 |
| 16. Millennium Bank | 2,087.8 | 0.6 | 187.8 | 0.6 |
| 17. ATE Bank | 1,599.4 | 0.5 | 59.5 | 0.2 |
| 18. Bank Leumi | 1,128.1 | 0.3 | 192.8 | 0.6 |
| 19. ProCredit Bank | 1,126.6 | 0.3 | 138.1 | 0.4 |
| 20. MKB ROMEXTERRA | 1,122.7 | 0.3 | 105.5 | 0.3 |
| 21. Emporiki Bank Romania | 1,104.8 | 0.3 | 157.3 | 0.5 |
| 22. BCR Banca pentru Locuinţe | 950.6 | 0.3 | 63.4 | 0.2 |
| 23. Banca C.R. Firenze România | 706.8 | 0.2 | 95.4 | 0.3 |
| 24. Romanian International Bank | 515.9 | 0.1 | 27.6 | 0.1 |
| 25. Porsche Bank Romania | 384.8 | 0.1 | 51.9 | 0.2 |
| 26. Raiffeisen Banca pentru Locuinţe | 323.7 | 0.1 | 62.2 | 0.2 |
| **I. Total commercial banks** | **324,675.8** | **91.8** | **30,909.0** | **95.3** |
| **II. Foreign bank branches, *of which:*** | **28,381.2** | **8.0** | **1,268.0** | **3.9** |
| 1. ING Bank N.V. | 14,509.9 | 4.1 | 467.6 | 1.5 |
| 2. CITI BANK EUROPE | 5,752.4 | 1.6 | 606.4 | 1.9 |
| 3. Banca Italo-Romena S.p.A. | 4,220.1 | 1.2 | 37.3 | 0.1 |
| 4. Bank of Cyprus | 2,297.5 | 0.6 | -23.2 | -0.1 |
| 5. BLOM BANK France | 626.8 | 0.2 | 158.5 | 0.5 |
| 6. Caixa Bank | 564.5 | 0.2 | 2.1 | 0.0 |
| 7. Fortis Bank | 406.2 | 0.1 | 15.7 | 0.0 |
| 8. FINICREDITO | 3.8 | 0.0 | 3.6 | 0.0 |
| **Total banks and foreign bank branches (I+II)** | **353,057.0** | **99.8** | **32,177.0** | **99.2** |
| **CREDITCOOP** | **853.9** | **0.2** | **236.2** | **0.8** |
| **Total credit institutions** | **353,910.9** | **100.0** | **32,413.2** | **100.0** |

* endowment capital (for foreign bank branches)

### Profitability

The challenging domestic and external environment also influenced the financial results, the Romanian banking system reporting an aggregate loss for the second consecutive year. Accordingly, the negative balance at end-2011 (lei 777.3 million) was larger than that recorded at end-2010 (lei 516.4 million), despite the implementation of measures aimed at resizing the territorial network and adjusting staff; in 2011, 124 bank units were closed down and payrolls declined by 981 employees.

Following the rather modest level of lending throughout the year, the operating result declined significantly at end-2011. Therefore, the main profitability indicators (return on assets – ROA and return on equity – ROE) posted negative values (-0.23 percent and -2.56 percent respectively).

The slight increase in operating expenses and the sharp fall in operating incomes pushed the cost-to-income ratio up to 67.8 percent in 2011 from 64.9 percent in 2010.

## 3. Measures to improve prudential supervision of credit institutions

Even though the development of the European banking market was severely impacted by the sovereign debt crisis, the Romanian banking system maintained its flexibility and capacity to deal with the main challenges during 2011. In order to meet the commitments assumed under the national reform programmes and multilateral financial arrangements, the Romanian authorities further strengthened the mechanisms aimed at maintaining financial stability. The parameters of a new precautionary financial arrangement with the EU and the IMF were established, the effects of which are expected to consolidate investor confidence in the Romanian economy and help the GDP resume a sustainable path. Moreover, given the beneficial role of the European Banking Coordination “Vienna” Initiative, the idea of a new initiative (Vienna 2.0) took shape, based on a number of principles intended to secure the normal operation of the banking systems in Central and South Eastern Europe by way of strengthening cooperation between the supervisory authorities in the countries of origin and the host countries of cross-border bank groups. The decision to launch this initiative was prompted by the need to prevent the possible negative effects of the sovereign debt crisis and the disorderly deleveraging in the European emerging economies and, implicitly, in Romania, following the European bank groups’ rethinking their own strategies, especially by reducing the size of their balance sheets.

The NBR’s prudential policy stance further focused on the proactive capital requirements, the vigilant supervision of credit institutions and the improvement of the regulatory framework. In response to the trends witnessed by the Romanian banking market, the NBR increased the number of actions aimed at reducing contagion risk in the context of the global crisis, at achieving a more balanced loan currency structure and at improving the instruments necessary for a quick intervention in case of credit institutions facing difficulties. The daily monitoring of liquidity was a priority in identifying and preventing bottlenecks, given the smaller number of opportunities to attract resources. In addition, in order to prevent the deterioration of the capital adequacy ratio, the supervisory authority took measures to preserve a comfortable solvency level capable to counteract the build-up of non-performing loans in the asset portfolio, as well as the effects of the global financial and economic crisis. To this end, a number of credit institutions supplemented own funds by raising share capital in cash, retaining the prior year's profit. Furthermore, in order to prevent the non-observance of minimum capital requirements, certain banks were further required to report the solvency ratio on a monthly basis, in addition to the quarterly regulated reporting. With a view to reducing to the minimum the negative contagion effects, the NBR has monitored on a continuing basis the prudential situation of banks, Romanian legal entities with foreign capital from the countries affected by the sovereign debt crisis. In this context, maintaining adequate levels of solvency and liquidity (the latter being facilitated by the large portfolios of assets eligible for the NBR's refinancing operations compared with the state of affairs at end-2008) is a prerequisite for the proper management of risks generated by the possible external liquidity shocks.

In 2011, prudential supervision was based on the technical conditionalities assumed under the EU/IMF precautionary financial assistance programme, which focused on strengthening the NBR's prerogatives in crisis management and the implementation of mechanisms for the fast and effective intervention in the case of troubled banks.

Moreover, according to the National Reform Programme for 2011-2013, one of the actions taken in 2011 focused on the adequate implementation of the International Financial Reporting Standards by the banking sector starting with 2012. This entailed further pursuing the steps aimed at ensuring a smooth transition from the Romanian Accounting Standards (RAS) to the IFRS through the consolidation of actual capital adequacy and liquidity ratios reported prior to the change to the reference accounting system.

In the conduct of prudential supervision, the frequency and the details of examinations and assessments are based on the principle of proportionality, account being taken of the size, systemic importance, nature, extent and complexity of the activities carried out by each credit institution.

A number of 55 off-site inspections were performed at 20 banks and six foreign bank branches, out of which five were comprehensive thematic inspections and 50 were narrowly-targeted thematic inspections.

In 2011, 39 on-site inspections were performed at 28 banks and one foreign bank branch, out of which 28 were comprehensive thematic inspections and 11 were narrowly-targeted thematic inspections. Moreover, 17 comprehensive thematic inspections were conducted at the Central Cooperatist Bank CREDITCOOP.

At the same time, 25 joint on-site and off-site examinations were performed mainly during comprehensive thematic inspections conducted in compliance with the annual activity plan approved by the NBR Board.

The supervisory actions taken during 2011 focused on checking the internal capital adequacy assessment process (ICAAP) and on assessing the risk profile.

The comprehensive thematic inspections conducted during on-site and off-site examinations examined:

- the risk profile (lines of business and overall risk profile; financial standing; overall strategy and risk appetite; corporate governance, including internal governance; assessment of significant risks – credit risk, securitisation risk, market risk, operational risk, liquidity risk, concentration risk, interest rate risk on the non-trading portfolio, other risks);
- the internal capital adequacy assessment process;
- the reports submitted to the NBR;
- outsourced activities.

The objectives of the narrowly-targeted thematic inspections conducted during 2011 referred mainly to minimum capital requirements, liquidity risk and liquidity ratio, the changes to the financial standing of credit institutions, the prudential supervision reports submitted to the NBR and the performance of prudential indicators, the classification of loans and placements, as well as the setting-up, adjustment and use of specific provisions for credit risk, large exposures, outsourcing of loans, the checking of the internal capital adequacy assessment process, large exposures to persons having special relations with a credit institution, complaints and petitions, the implementation of the remedial measures imposed by the NBR.

The banking supervision reports illustrated mainly the aspects related to the management of credit institutions' activities, the internal capital adequacy assessment process, the changes to the financial standing of credit institutions, prudential indicators (solvency, own funds, liquidity, large exposures, exposures to persons having special relations with a credit institution), assessment of significant risks, outsourced activities, the reports submitted to the NBR.

The breach of legal provisions required sanctions consisting of fine and written warnings for six credit institutions. The sanctions addressed chiefly aspects regarding the solvency ratio and the capital shortfall of the credit institutions, the credit risk capital requirement, lending activity, loan portfolio classification, the setting-up, adjustment and use of provisions, revaluation of collateral, large exposures exceeding the legal limit, reports on liquidity, management of credit risk and operational risk.

As regards the territorial network of the Central Cooperatist Bank CREDITCOOP, nine credit cooperatives received written warnings (16 Board members and ten managers) for issues relative mainly to lending, loan portfolio classification, the setting-up, adjustment and use of provisions, risk management, internal control system, internal audit, operational risk and reputational risk, the internal capital adequacy assessment process.

## 4. International cooperation in the field of prudential supervision

The NBR attaches particular importance to the partnership with the EU institutions in the field of prudential supervision. In fact, according to the new architecture for the European banking supervision, the NBR, in its capacity as national supervisory authority, must maintain close ties with the European supervisory authorities in order to secure the financial soundness of individual financial institutions and to provide protection for financial services consumers. Thus, following the reform of the European supervision system, the European Banking Authority was officially established at the onset of 2011. This body, which represents the micro-prudential level of banking supervision, took over the tasks and responsibilities of the former CEBS. In compliance with Regulation No. 1093/2010 of the European Parliament and of the Council, the NBR must provide the EBA with all the information necessary for the pursuit of its tasks.

One of the main actions undertaken in 2011 by the EBA in cooperation with the national supervisory authorities, the European Systemic Risk Board and the ECB was the conduct of a new stress test exercise involving 90 banks in 21 countries, the results of which were released on 15 July 2011. The stress test exercise was intended to assess the soundness of the respective banks in the event of an unfavourable, yet plausible scenario. To that effect, the results of the exercise conducted at EU level illustrated that, based on data available at end-2010, 20 banks would have reported, over the two-year time horizon of the exercise, a Core Tier 1 Ratio (CT1R) below the 5 percent threshold. Following the capitalisation measures implemented by end-April 2011, the number of such banks dropped from 20 to eight. Based on these results, the EBA formulated the first official recommendation to the national supervisory authorities, asking them to require the respective banks to adopt prompt measures aimed at restoring an adequate level of capitalisation.

Accordingly, on 8 December 2011, the EBA released a series of recommendations as part of a larger package of measures intended to restore financial stability and confidence in the European banking system. The recommendations stipulated that the national supervisory authorities should require the banks subject to the stress test exercise to strengthen their capital base by setting a temporary capital buffer against sovereign risk and to attain a CT1R of 9 percent by June 2012. In order to achieve this goal, banks must resort to private sources of financing, thereby consolidating their capital position, including profit earned. The national authorities' task consists in requiring banks to submit detailed plans on the measures they have identified for the purpose of meeting capital requirements and the endorsement of these plans. The national authorities taking part in the colleges of supervisors' meetings debating the capitalisation plans shall ensure that the exposures of the various bank groups in all the Member States will remain unchanged and there will be no significant constraints on bank lending to the EU real economy.

In 2011, apart from participating in the meetings of the supervisory colleges, the NBR, in its capacity as supervisory authority, also had representatives in certain EBA groups and sub-groups such as: Standing Committee on Oversight and Practices, Joint Committee on Financial Conglomerates (JCFC), Task Force on the Impact of the New Capital Framework (TFICF), Subgroup on Operational

Risk (SGOR), Sub-committee on Accounting, Reports and Auditing (SCARA), Standing Committee on Regulation and Policy and Board of Supervisors. Moreover, the NBR had representatives in the Early Intervention Working Group (EIWG), set up within the European Commission and in charge of formulating a draft Directive regarding the measures to be adopted by the Member States in case of financial and economic crises similar to that during 2008-2010.

## Cooperation with the foreign supervisory authorities

The full mobility of capital requires increased cooperation and coordination between the regulatory and supervisory authorities in both host countries and countries of origin. The NBR maintains close ties with the other competent authorities and the EBA, particularly at the level of the supervisory colleges that represent an instrument destined to facilitate the conduct of current supervision and emergency supervision. The supervisory colleges shall secure the framework for: (i) the exchange of information between the competent supervisors involved, as well as with the EBA; (ii) the agreement on the voluntary distribution of tasks and the voluntary delegation of responsibilities, where necessary; (iii) the formulation of supervision programmes based on the group risk assessment while the competent authorities check the framework for the management of strategies, processes and mechanisms implemented by credit institutions, and assess the risks that credit institutions are or may be facing; (iv) the increased efficacy of supervision by eliminating the unnecessary overlapping of supervision requirements; (v) the even implementation of EU prudential supervision requirements for all the entities included in a bank group, without impinging on the national options and on the options of the supervisory authorities, stipulated in the EU legislation.

In 2011, the supervisory colleges consolidated their role in coordinating the activity and the decision-making process, as well as in the exchange of information between the relevant authorities. So far, the NBR signed multilateral cooperation agreements with 19 international bank groups, namely EFG Eurobank (for the supervision of Bancpost), Piraeus Bank (Piraeus Bank Romania), Bayerische Landesbank (MKB ROMEXTERRA), Crédit Agricole (Emporiki Bank), Unicredit SPA (UniCredit Țiriac), Intesa SanPaolo (Intesa Sanpaolo Romania), Erste Bank (Banca Comercială Română), Raiffeisen Zentralbank (Raiffeisen Bank), Volksbank (Volksbank România), Société Générale (BRD-Groupe Société Générale), ING (ING Bank), Banco Comercial Portugues (Millenium Bank), OTP (OTP Bank), Alpha Bank AE (Alpha Bank), Royal Bank of Scotland (RBS Bank Romania), National Bank of Greece (Banca Românească – a member of the National Bank of Greece Group), Marfin Popular Bank (Marfin Bank), Bank of Cyprus (Bank of Cyprus), Porsche Bank AG (Porsche Bank Romania).

The participation in and the cooperation with the supervisory colleges focused on the analysis and assessment of risks at individual level, the more so as the decisions on the capital of the groups and their entities will be jointly taken by the supervisors. Aspects regarding the financial standing of the group and its subsidiaries, the group's risk profile, its plans and strategies, the main findings of the supervisory process, and the coordination of supervision plans were discussed during the meetings of the supervisory colleges in 2011. The joint assessment of capital adequacy in the case of cross-border bank groups was based on their financial standing and risk profile, as well as on the minimum capital requirements for each entity of the group.

### Cooperation with the supervisors signatories to the regional memorandum between the countries in South-Eastern Europe

The NBR is the supervisory authority in the host country for five subsidiaries/branches of bank groups with Greek capital (Alpha Bank, ATE Bank, Banca Românească – a member of the National Bank of Greece Group, Bancpost, Piraeus Bank) and for two other banks belonging to certain bank groups in Cyprus (Marfin Bank and Bank of Cyprus Public Company Limited Nicosia), while it is the supervisory authority in the country of origin for a single bank group holding a branch in Cyprus (Banca Transilvania).

The exchange of information was made in compliance with the decisions adopted at the reunion of the supervisors in South-Eastern Europe organised by the Bank of Cyprus on 25 February 2011. On that occasion, a series of statistical data or data on prudential supervision to be exchanged between the supervisory authorities in the region was established. Subsidiaries/branches relevant for the local banking systems or for the bank groups were identified and subsequently information on a quarterly basis started to be submitted at subsidiary/branch level by the supervisors in the host country and at bank group by supervisors in the country of origin. General information refers to the market share relative to the volume of deposits and loans, the staff numbers, the findings of prudential supervision actions, etc., while other information concerns the nature of corporate governance and structure, capital adequacy and the exposures of the respective credit institutions.

## 5. Non-bank financial institutions

Similar to the prior years, 2011 further witnessed the restructuring of NBFIs, a process generated by the need to adjust to the performance of domestic economy and to comply with the applicable legal and regulatory requirements in this field.

Accordingly, at end-2011, a number of 203 NBFIs were listed in the General Register, seven NBFIs less from the previous year, as a result of the registration of four new companies and the erasure of 11 institutions. Seven institutions were erased upon request, three were erased as a sanction for breaching the applicable legal provisions, and one institution was erased following the merger through absorption of two NBFIs. By type of activity, the 11 erasures were reported as follows: eight under section “Multiple lending activities” and three under “Financial leases”.

As compared with 2010, the number of NBFIs entered in the Special Register diminished by one unit, to 53, as a result of the erasure of three institutions (out of which two were erased on grounds of failing to meet the registration criteria and one institution was erased following a merger) and the registration of two institutions as a result of complying with the said requirements.

The number of NBFIs entered solely in the General Register dropped by 3.8 percent, from 156 in 2010 to 150 in 2011.

**Table 7. Breakdown of NBFIs by Activity as at 31 December 2011**

| Activity | Special Register | | General Register* | | General Register | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Multiple lending activities | 39 | 73.6 | 95 | 63.3 | 134 | 66.0 |
| Financial leases | 12 | 22.6 | 40 | 26.7 | 52 | 25.6 |
| Issuing of guarantees and assuming commitments, including credit guarantee | 1 | 1.9 | 5 | 3.3 | 6 | 3.0 |
| Consumer loans | 1 | 1.9 | 4 | 2.7 | 5 | 2.4 |
| Micro-crediting | 0 | 0.0 | 4 | 2.6 | 4 | 2.0 |
| Financing of commercial transactions | 0 | 0.0 | 1 | 0.7 | 1 | 0.5 |
| Factoring | 0 | 0.0 | 1 | 0.7 | 1 | 0.5 |
| Mortgage and/or real-estate loans | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Discount | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Forfeiting | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Other financing means in the form of loans | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **Total** | **53** | **100.0** | **150** | **100.0** | **203** | **100.0** |

* excluding NBFIs in the Special Register

As compared with 2010, the financial indicators of the NBFI sector posted divergent developments. At end-2011, total assets went down by 11.8 percent from the previous year, standing at lei 27,221.2 million. On the other hand, share capital rose by 5.3 percent to lei 3,667.7 million. The increase is attributable to the capital increases made in 2011 by certain NBFIs entered in the Special Register, with a view to meeting the central bank's requirements on exposures and own funds, on the one hand, and to the capital increase in amount of lei 250,000,000 made by the National Guarantee Fund for loan guarantees for small- and medium-sized enterprises, stipulated by Government Emergency Ordinance No. 96/2011, on the other hand.

The aggregate level of loans and commitments equalled lei 32,222.2 million, down 11.9 percent from the previous year, i.e. lei 4.3 billion. "Other loans" rose by a mere 2.7 percent, i.e. lei 190.7 million, and "Financial leases" fell markedly by 22.8 percent, to lei 13,908.3 million in 2011 from lei 18,008.0 million in 2010. One can notice a shift in interest as regards the assets of the NBFI sector from "Financial leases" to "Other loans", amid the current economic environment.

The indicators relative to the loan portfolio quality witnessed divergent trends. In 2011, provisions for doubtful and past-due claims rose by 120.2 percent, to lei 2,731.6 million and non-performing loans and commitments fell by 3.9 percent from the previous year, totalling lei 6,227.5 million.

The aggregate loss of this sector contracted by lei 123.2 million, i.e. 7.2 percent, to lei 1,603.4 million. It is noteworthy that the NBFIs entered solely in the General Register reported a profit for 2011, albeit a rather modest one, i.e. lei 23.9 million.

The number of customers plummeted by one third, to 1,261,880 at end-2011 from 1,894,308 a year earlier.

**Table 8. Main Indicators of the NBFI Sector as at 31 December 2011**

*lei mill.**

| Indicator | Special Register | General Register** | General Register |
|---|---|---|---|
| Share capital | 3,138.1 | 529.6 | 3,667.7 |
| Total assets | 25,216.9 | 2,005.3 | 27,221.2 |
| Total loans and commitments, *of which:* | 30,723.0 | 1,499.3 | 32,222.3 |
| – financial leases | 13,462.0 | 446.3 | 13,908.3 |
| – other loans | 6,445.3 | 750.2 | 7,195.5 |
| – commitments | 10,815.7 | 302.7 | 11,118.4 |
| Doubtful and past-due claims (net), *of which:* | 1,033.0 | 86.9 | 1,119.9 |
| – doubtful and overdue loans | 477.5 | 54.2 | 531.7 |
| Provisions for doubtful and past-due claims, *of which:* | 2,522.6 | 191.0 | 2,731.6 |
| – provisions for doubtful and overdue loans | 2,483.6 | 181.3 | 2,664.9 |
| Non-performing loans and commitments*** | 5,904.1 | 323.4 | 6,227.5 |
| Profit/loss, *of which:* | -1,419.1 | -184.3 | -1,603.4 |
| – retained earnings | -1,242.4 | -208.2 | -1,450.6 |
| – loss for the year 2011 | -176.7 | 23.9 | -152.8 |
| Number of contracts | 1,264,713 | 163,737 | 1,428,660 |
| Number of customers, *of which:* | 1,100,837 | 161,043 | 1,261,880 |
| – individuals | 974,166 | 150,825 | 1,124,991 |
| – legal entities | 126,671 | 10,218 | 136,889 |

*) excluding "Number of contracts" and "Number of customers"

**) excluding NBFIs in the Special Register

***) loans overdue for more than 30 days

Table 9 shows the distribution of the NBFIs' share capital by country of origin for the 53 companies listed in the Special Register at end-2011.

**Table 9. Shares of Foreign Capital by Country of Origin as at 31 December 2011**

*percent*

| Country of origin | Share capital | |
|---|---|---|
| | in total capital | in total foreign capital |
| Romania | 48.6 | - |
| The Netherlands | 12.6 | 24.4 |
| Italy | 8.9 | 17.3 |
| Belgium | 7.3 | 14.3 |
| France | 5.7 | 11.1 |
| Austria | 4.5 | 8.8 |
| Sweden | 2.8 | 5.4 |
| Hungary | 2.4 | 4.7 |
| Greece | 2.3 | 4.5 |
| Germany | 1.9 | 3.7 |
| Cyprus | 1.2 | 2.3 |
| USA | 1.2 | 2.3 |
| Poland | 0.6 | 1.1 |

The main change from the end of the prior year was the 6 percentage point rise in the weight of domestic capital; accordingly, domestic capital of the NBFI sector accounted for almost half of total share capital, i.e. 48.6 percent.

The value of foreign share capital remained virtually unchanged from end-2010, standing at lei 1,613.5 million, i.e. EUR 371.5 million at end-2011, down EUR 6.5 million from end-2010.

## Prudential supervision and monitoring of NBFIs

Similar to the previous years, in 2011, the prudential supervision of the NBFIs consisted in the monitoring of their reporting on a regular basis and the preparation of off-site inspection reports, on the one hand, and on-site inspection reports following inspections at the head offices of the NBFIs, on the other hand.

After checking compliance with the provisions on the NBFIs' reporting on a regular basis and with the other regulations in the field issued by the central bank, 11 off-site inspection reports were compiled, based on which sanctions were imposed in nine cases (eight fines and one suspension from performing lending activities) and in one case remedial measures had to be taken to correct deficiencies. Three out of the 11 inspection reports were compiled for NBFIs enrolled with the Special Register.

Compared with 2010, the number of sanctions decreased by 47.6 percent, which illustrates the enhanced compliance of the NBFI sector with the reporting requirements issued by the NBR.

On-site inspections were conducted according to the annual inspection schedule approved by the NBR Board and they focused on the observance of applicable legal provisions regarding the operating activity by 51 NBFIs, out of which 39 listed in the Special Register and 12 solely in the General Register. The sanctions imposed by the NBR comprised: 12 written warnings, one fine and seven erasures from the General Register (out of which four were made in 2012), and a remedial measures plan was recommended for 21 NBFIs.

Compared with 2010, the number of sanctions imposed by the central bank on NBFIs posted a sharp decline, i.e. by 65.8 percent, from 85 to 29.

In addition, following the notifications sent to the NBFIs in 2011, the following changes were operated in the registers kept by the National Bank of Romania:

- the registration of certain NBFIs with the Special Register (2 cases), following the fulfilment of specific registration requirements and the erasure of several NBFIs from the Special Register (3 cases);
- the erasure of several NBFIs from the General Register (11 cases);
- the registration of several NBFIs with the General Register (4 cases);
- the shift of several NBFIs from one section of the General Register to another, as a result of the change in their scope of activity.

### Payment institutions

At end-2011, seven payment institutions (out of which six had been licensed in 2011) and ten agents through which they performed payment services on the territory of Romania, as well as abroad (eight of them had been enrolled with the Register of the NBR in 2011) were entered in the Payment Institutions Register.

Four of the licensed payment institutions also have the capacity to perform activities specific to non-bank financial institutions.

In 2011, the prudential supervision of payment institutions was conducted based on the analysis of the reports submitted, in compliance with NBR Regulation No. 21/2009 on payment institutions, as subsequently amended and supplemented.

## 6. The prevention and combating of money laundering and of the financing of terrorism

In 2011, the NBR's concerns in the field of prevention and combating of money laundering and of the financing of terrorism focused on checking credit institutions' compliance with the applicable legislation in the field by way of conducting both on-site inspections and off-site supervisory activities.

Accordingly, 36 on-site inspections, four off-site supervisory actions and three narrowly-targeted thematic inspections were carried out; the deficiencies found led to the drafting of four minutes of findings and sanctioning of breaches, three orders imposing remedial measures, 11 letters of recommendation for improving the risk management framework and three briefings concerning suspicious transactions submitted to the National Office for Prevention of Money Laundering. The sanctions were enforced mainly for non-compliance with the regulations on prevention and combating of money laundering and of the financing of terrorism, as well as the regulations regarding the enforcement of international sanctions.

Moreover, the National Bank of Romania ensured the necessary documentation and the participation in the 37th Plenary Meeting of the Moneyval Committee with a view to discussing the second Progress Report in the field of money laundering and combating the financing of terrorism submitted by Romania. The Romanian experts presented the legislative amendments, the concrete results reported during 2009-2011 in terms of the recommendations included in the first progress report and provided answers to the questions raised during the meeting which helped achieving the main goal, i.e. the adoption of the report.

Furthermore, the NBR representatives in the Interinstitutional Council[5] ensured the documentation and expertise in the financial and banking area, which are necessary

[5] The Interinstitutional Council was established in compliance with Art. 13 of Government Emergency Ordinance No. 202/2008, approved by Law No. 217/2009, as subsequently amended and supplemented. Moreover, for the purpose of adequately implementing the EU legislation on internationally established sanctions in the financial and banking area, its enforcement was monitored on a permanent basis and the respective issues were included in the objectives of the thematic supervisory actions.

for drafting the mandates and position documents of Romania, submitted to the international bodies with responsibilities in the field of internationally established sanctions, particularly during the meetings of "RELEX /Sanction formation" Group of the EU Council, as well as for drafting the Report to be submitted to the Supreme Council for National Defence regarding the measures taken by Romania in view of enforcing the internationally established sanctioning regimes pertaining to the financial and banking area.

Another permanent activity specific to the NBR's dedicated division was to inform with celerity the credit institutions about: (i) the enforcement, amendment or supplementation of the sanctions to be applied in the financial and banking field and (ii) the risk of money laundering/financing of terrorism vis-à-vis the vulnerabilities identified by the International Financial Action Group in order to facilitate the enforcement of adequate measures.

With a view to facilitating the access to the normative acts based on which the internationally established sanctions specific to the NBR's scope of activity were imposed, the website of this institution was reconfigured by adding the sub-section "International Sanctions" to the section "Supervision".

# Chapter 5. Currency issue

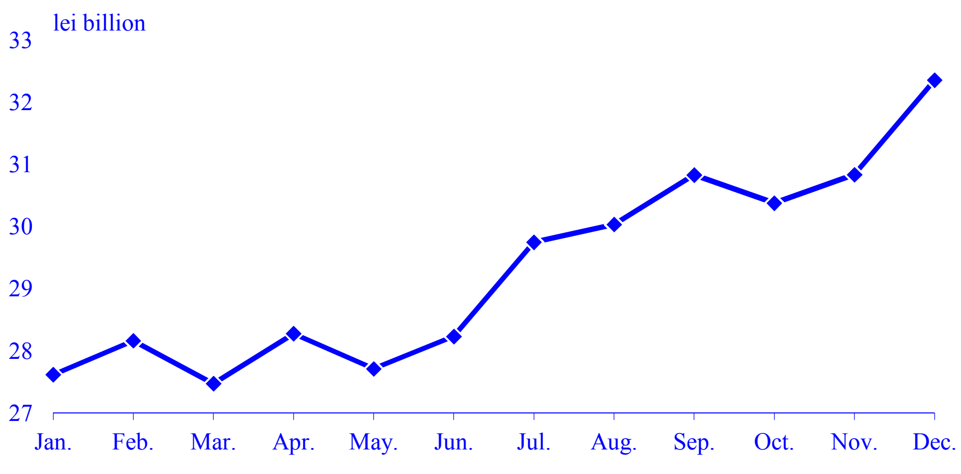
In 2011, the National Bank of Romania supplied the amount of currency necessary to ensure smooth money circulation in terms of both number – by putting into circulation the required amounts of notes and coins – and denomination composition, thereby meeting the needs of all cash users: credit institutions, the State Treasury, economic agents and households.

## 1. Developments in currency outside banks

In 2011, the annual growth rate of currency outside banks remained on the upward path it had embarked on in 2010, nearing the dynamics posted prior to the outbreak of the financial and economic crisis. At end-2011, currency outside banks stood at lei 32,357 million[1], up 15 percent year on year.

2011 witnessed uneven developments. Thus, the first half-year showed moderate monthly fluctuations, whereas the second saw a clearly upward trend, with stronger monthly rises in July and December (around 5 percent), given the impact exerted by the seasonal factors specific to the summer season and the winter holidays: the awarding of bonuses, increased activity in services, construction and agriculture and mounting foreign exchange operations on the back of the inflows from the Romanians working abroad and spending their holidays at home.

**Monthly Developments in Currency outside Banks in 2011**




In terms of value, in 2011 H1, monthly currency peaks stood at around lei 29,000 million, ranging between lei 28,928 million in January (down 4 percent from the December 2010 high) and lei 29,887 million on 21 April, ahead of Easter. Starting with July – except for November –, the monthly readings posted by currency outside banks were constantly rising annual peaks, all above the December 2010 high. The 2011 record peak, i.e. lei 33,869 million, was reached on 23 December and was 12 percent higher than the December 2010 peak.

[1] Lei 30,609 million, excluding the cash in automatic teller machines and automatic exchange teller machines.

**Table 1. The Dynamics of Currency outside Banks during 2003-2011**

*end of period*

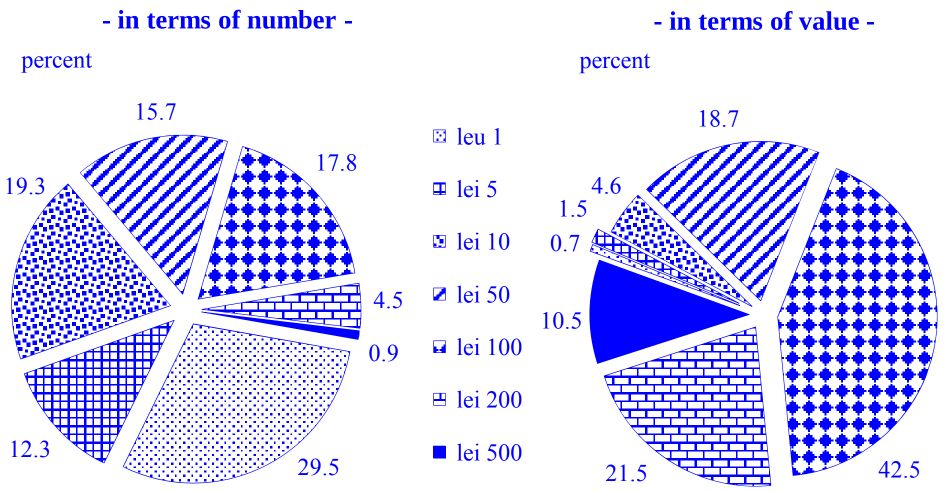
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Currency outside banks (lei mill.) | 5,765 | 7,629 | 11,564 | 14,670 | 23,058 | 26,960 | 25,617 | 28,253 | 32,357 |
| Annual change (%) | | 32 | 52 | 27 | 57 | 17 | -5 | 10 | 15 |
| Change vs 2008 (%) | | | | | | | -5 | 5 | 20 |

At end-2011, both the number and value of banknotes in circulation outside banks went up by 15 percent year on year. The lei 10 denomination reported the most important pick-up in terms of number, i.e. 37.8 percent, with a 3.2 percentage point higher share in the total number of banknotes in circulation. Behind this movement stood credit institutions' preference for this denomination in loading the automatic teller machines (ATM), as it is the highest face value banknote that the National Bank of Romania allows to be withdrawn from cash machines free of charge.

In year-on-year comparison, lei 5, lei 50, lei 100 and lei 200 denominations also witnessed increases in terms of number, i.e. by 8.9 percent, 16.7 percent, 16.1 percent and 15.8 percent, respectively, their share in the total number of banknotes in circulation remaining, however, relatively unchanged. The leu 1 denomination saw a rise in the total number of banknotes in circulation (by 5.5 percent) as well. Nevertheless, its share narrowed to 29.5 percent from 32.2 percent. The lei 500 banknote was the only denomination that posted a decrease in the number of banknotes in circulation outside banks (by 2.3 percent). This development also caused its share in the total value of banknotes in circulation to narrow to 10.5 percent from 12.3 percent. In the absence of a significant hike in household incomes and given that high-value real estate transactions remained at a low level, the lei 500 denomination is of no interest to users yet, as it is unsuitable for current medium- and low-value payments. The leu 1 banknote held the highest share in the total number of banknotes in circulation at end-2011 (29.5 percent), followed by the lei 10 banknote, which accounted for 19.3 percent.

The highest value notes used for the loading of automatic teller machines, namely lei 100 and lei 200 banknotes, took the largest shares in the total value of banknotes in circulation outside banks, i.e. 42.5 percent and 21.5 percent, respectively.

**Denomination Composition for Banknotes in Circulation**



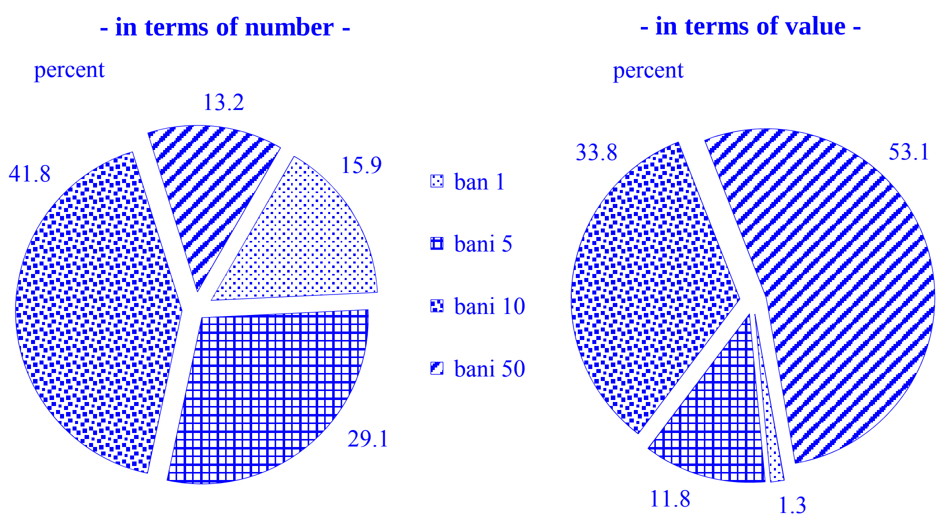
At end-2011, the number of coins in circulation outside banks added 17 percent year on year. In terms of value, coins in circulation gained 13 percent in the period under review.

The demand for metal coins stood high in 2011 as well, as a result of certain chains of discount stores expanding further and the widespread use of automatic low-value food vending machines and self-service payment machines. Moreover, the accurate return of change to customers became a common practice in retail trade, which implied stores holding sufficient petty cash of all denominations.

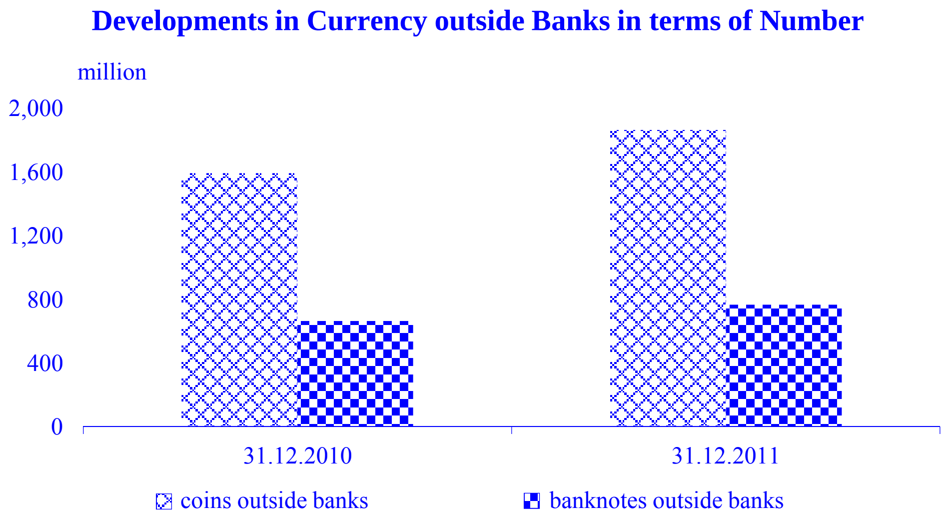
The ban 1 coin witnessed the most significant rise in terms of number, i.e. 26 percent, followed by bani 5 and bani 10 coins (up 16 percent each), and the bani 50 coin (up 10 percent). At end-2011, the bani 10 coin accounted for 41.8 percent of the total number of coins outstanding with households and companies, followed by the bani 5 coin, with a share of 29.1 percent. The ban 1 coin held 15.9 percent of the total number of coins in circulation, while the bani 50 coin took 13.2 percent.

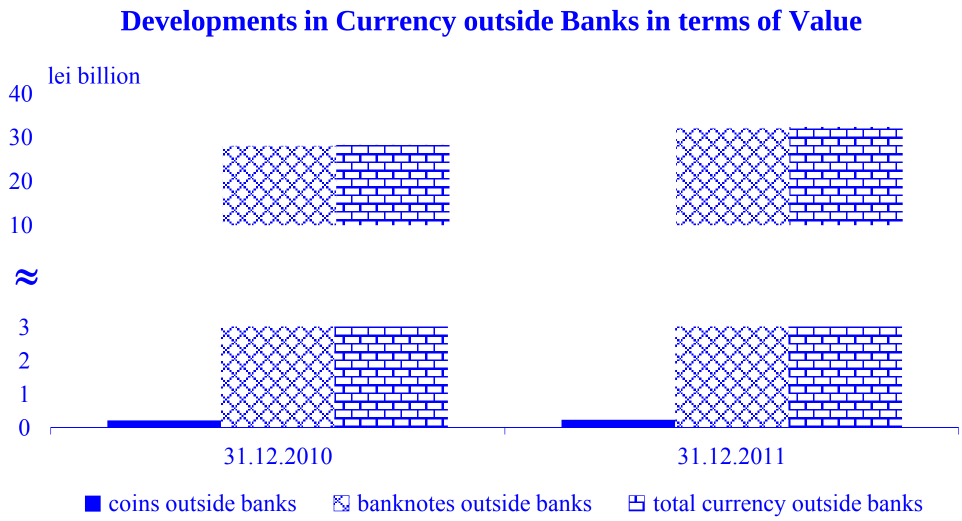
Behind the 4 percentage point slower rise of coins in terms of value than that in terms of number stood mainly the 1.2 percentage point advance in the share of ban 1 coins, along with the 0.7 percentage point drop in the share of bani 50 coins. Bani 50 coins accounted for more than half of the value of coins in circulation, i.e. 53.1 percent, whereas bani 10 coins, bani 5 coins and ban 1 coins made up 33.8 percent, 11.8 percent and 1.3 percent, respectively, of the total value.

**Denomination Composition for Coins in Circulation**




At end-2011, the number of notes and coins in circulation per capita amounted to 38 and 87, respectively, i.e. 5 notes and 11 coins more than at end-2010. The average value of a banknote in circulation was lei 41.1, close to the level recorded at the end of the previous year.




## 2. NBR's cash payments and collections in its relation with credit institutions/the State Treasury

During 2011, the payments to credit institutions/the State Treasury amounted to 1,154 million banknotes and 330 million coins, up 12.1 percent and 5.5 percent, respectively, against the previous year. The value of banknotes and coins used for payments stood at lei 30,616 million, down 2.9 percent from 2010. Taken together, the notes generally used for loading the automatic teller machines, namely lei 10, lei 50 and lei 100 banknotes, held 55 percent of the total number of banknotes paid and 81.2 percent of their value, whereas lei 200 and lei 500 banknotes took only 1.8 percent of the total number of banknotes put into circulation and 13.9 percent of their value.

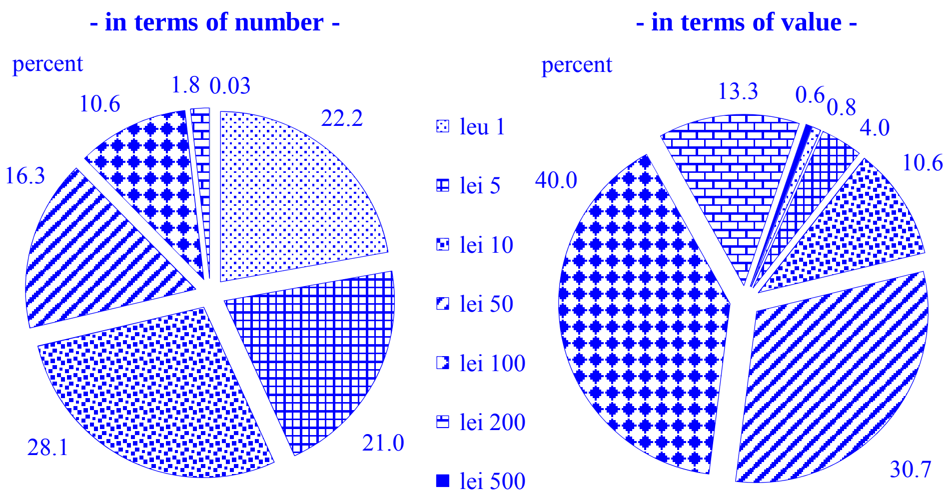
206 million coins with face value of bani 5 and bani 10 accounted for approximately 62 percent of the total number of coins put into circulation in 2011, i.e. 4 percentage points lower than in 2010. In year-on-year comparison, the number of ban 1 coins put into circulation went up by 22 percent, that of bani 5 coins dropped by 5 percent, while that of bani 10 coins and that of bani 50 coins added 1 percent and 16 percent,

respectively. The ban 1 coin was further widely used by retail agents to return change to their customers.

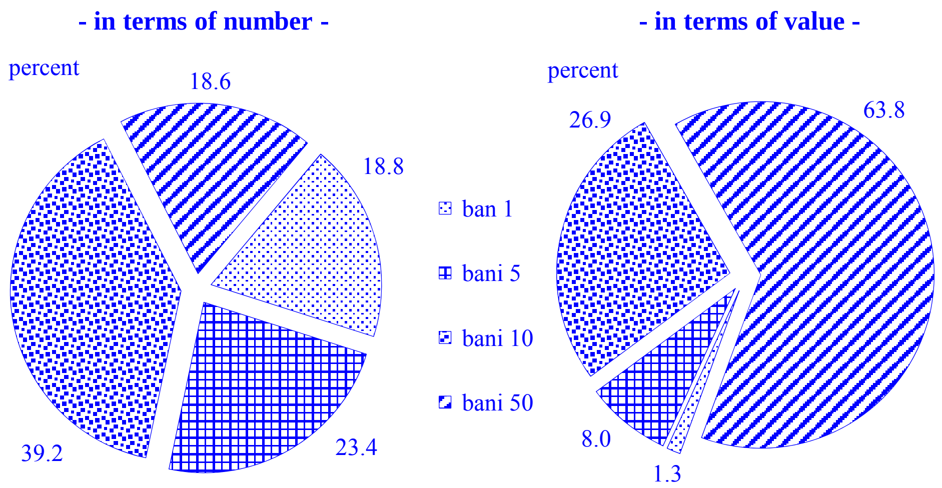
Payments in coins witnessed slight changes in terms of their denomination composition. The shares of ban 1 and bani 50 coins in the total number of coins used for payments increased by 2.6 percentage points and 1.7 percentage points, respectively, whereas the shares of bani 5 and bani 10 coins fell by 2.6 percentage points and 1.8 percentage points, respectively. The bani 10 coin held the largest share in the total number of coins used for payments (39.2 percent), while the bani 50 coin took the highest share in terms of value (63.8 percent).

Compared to the previous year, 2011 saw changes in the denomination composition of the notes used for payments. Thus, in terms of number, the share of leu 1 banknotes narrowed by 3.5 percentage points, whereas that of the lei 10 denomination moved up by 8.4 percentage points. The share of lei 50 and lei 100 banknotes also dropped (by approximately 2 percentage points). The share of lei 200 banknotes and that of lei 500 banknotes lost 1 percentage point and 0.1 percentage points, respectively. The lei 5 banknote was the only denomination whose share held steady.

**Denomination Composition for Payments in Banknotes**




**Denomination Composition for Payments in Coins**

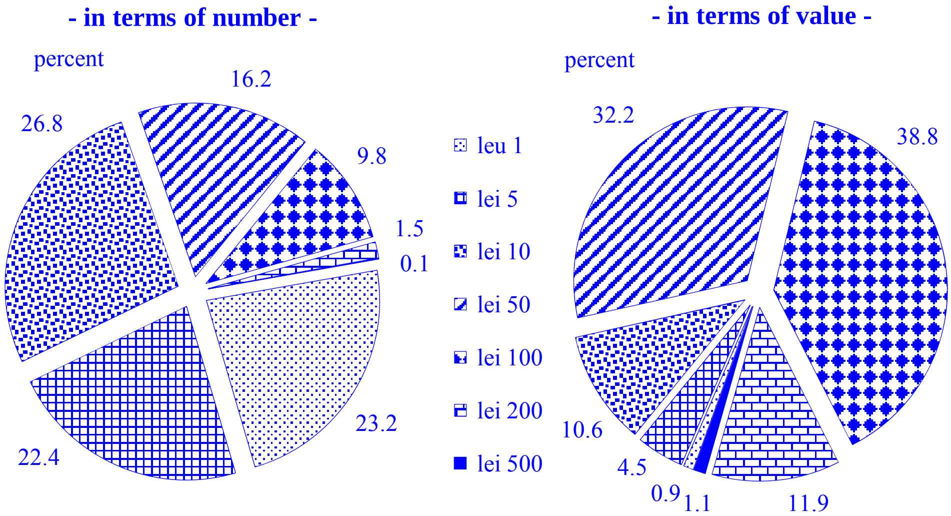


NBR's collections from the deposits of credit institutions/the State Treasury returned 1,043 million banknotes to the central bank, 6 percent more than in 2010, but 10 percent less than those put into circulation during 2011, with the rest remaining in circulation.

Some 61 million coins returned to the central bank, up 24 percent versus the preceding year, accounting however only for 18 percent of the number of coins paid.

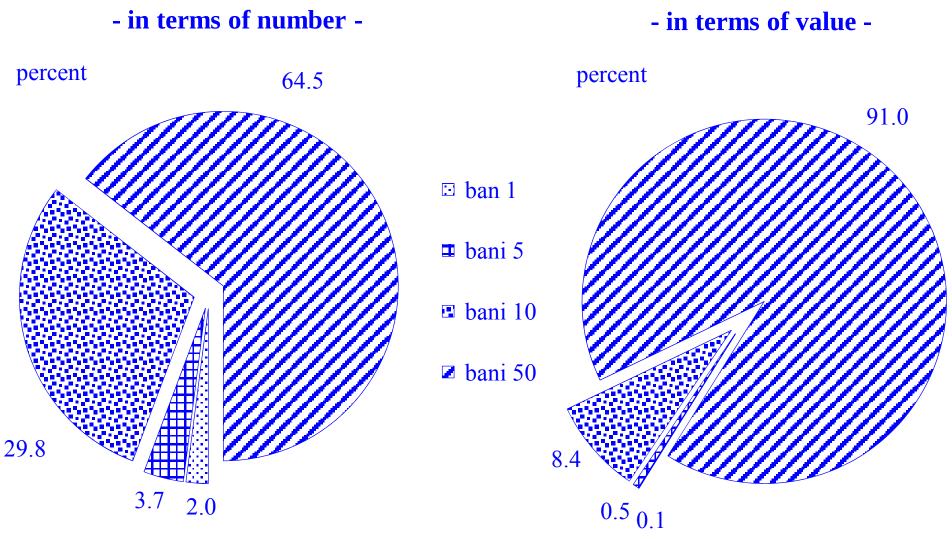
The banknotes and coins collected by the NBR totalled lei 26,325 million, 9 percent lower than in 2010. Lei 10, lei 50 and lei 100 banknotes took 52.8 percent of the total number of banknotes collected by the NBR from credit institutions/the State Treasury, i.e. 2.4 percentage points higher than in 2010, accounting for 81.6 percent of their value, up 3.7 percentage points from the previous year. Taken together, low-value denominations – leu 1 and lei 5 banknotes – held 45.6 percent of the total number of banknotes collected and only 5.4 percent of their value. In year-on-year comparison, their share narrowed by 1.7 percentage points in terms of number, increasing by 0.9 percentage points in terms of value.

**Denomination Composition for Collections in Banknotes**




As for coins, the bani 50 denomination further held the most significant share in the total number of coins collected, i.e. 64 percent, accounting for 91 percent of their value. A 2-time larger amount of bani 5 and bani 10 coins than in 2010 was collected via deposits of credit institutions. The rate of return of coins to the NBR remained rather modest, of merely 18 percent, despite the fact that the share of bani 10 coins in the total number of coins returning to the central bank moved up 11.2 percentage points versus 2010 and that of bani 5 coins increased by 1.8 percentage points. Although coins further stood outside the banking system to a large extent, 2011 witnessed a positive signal on coin circulation, as their rate of return was 3 percentage points higher than in the previous year.

**Denomination Composition for Collections in Coins**




## 3. Currency processing

During 2011, the National Bank of Romania carried out broader fitness sorting actions for leu 1 and lei 5 banknotes, which had started in 2010, and ended the replacement of the lei 10 banknote issued in 2005 and produced in raised print by the same face value banknote issued in 2008 and produced in flat print by the NBR Printing Works.

In 2011, 1,076 million banknotes (up 18.5 percent versus the previous year) were processed via the high- and medium-speed automated machines located in the four processing centres of the NBR. In year-on-year comparison, the number of lei 10 banknotes that were processed went up by 80 percent, that of lei 5 banknotes increased by 14 percent, while that of lei 500 banknotes posted a 3-time decline. The lei 200 banknote also witnessed a decrease, i.e. by 25 percent. As far as the other denominations are concerned, the amounts of banknotes processed in 2011 stood very close to the 2010 readings.

The unfit degree varied across denominations, being inversely proportional to the face value of banknotes (except for the lei 10 denomination) and ranging between 6 percent (for lei 50, lei 100, lei 200 and lei 500 banknotes) and 25 percent (for the leu 1 banknote).

In 2011, 251.5 million banknotes, i.e. 97 percent of the total number of banknotes unfit for circulation, were destroyed on-line by using the automated banknote processing machines and off-line by using the banknote shredding machines located in the processing centre of the NBR's Bucharest Branch. Leu 1, lei 5 and lei 10 banknotes held 95 percent of the aforementioned quantity.

Over the year under review, 56.3 million coins, up 35 percent from 2010, were processed via the automated coin processing and packing machines at the NBR's local branches. Taken together, bani 10 and bani 50 coins accounted for 94 percent of the total number of processed coins.

In 2011, 558.4 thousand coins in the old currency issue were destroyed, following their return to the NBR as a result of their being exchanged by households. 90 percent of the costs entailed by this operation were covered by the incomes received from selling the metal thus obtained.

## 4. Numismatic issues

Upholding the tradition resumed in 1995, the National Bank of Romania launched numismatic issues destined to coin collectors in 2011 as well. In order to fulfil the mission it undertook – to promote the assets of Romanian spirituality both nationally and internationally and to mark highly important events for the Romanian people –, the central bank dedicated the numismatic issues of 2011 to cultural and historical figures, as well as to certain institutions with a major role in the country's economic, social, scientific and cultural life.

Moreover, the NBR carried on the series dedicated to the history of gold and the monuments of medieval Christian art.

In 2011, the National Bank of Romania launched 17 numismatic issues, including 19 coins, out of which 6 were of gold and 13 of silver. The mintage was different based on the metal the coins were made of, the issues totalling 2,750 gold coins and 7,000 silver coins.

The central bank also launched 1,000 mint sets dedicated to the Romanian Athenaeum, a prominent cultural edifice of Romania's capital city listed among UNESCO's World Heritage sites.

Table 2 contains the names of the 2011 numismatic issues, including information on the metal the coins were made of and their face value.

**Table 2. Numismatic Issues in 2011**

| Numismatic issue | Metal and face value |
|---|---|
| The 90th anniversary of the establishment of "General Aviator Doctor Victor Anastasiu" National Institute for Aeronautics and Space Medicine | silver coin with face value of lei 10 |
| History of Gold – The buckle discovered at Curtea de Argeş | gold coin with face value of lei 10 |
| Monuments of medieval Christian art – Strei Church, Humor Monastery and Hurezi Monastery | set of three silver coins with face value of lei 10 |
| 140 years since the establishment of the State Mint | silver coin with face value of lei 10 |
| The 130th anniversary of the proclamation of the Kingdom of Romania | gold coin with face value of lei 100 |
| International Year of Chemistry | silver coin with face value of lei 10 |
| The 150th anniversary of the United Principalities of Moldavia and Wallachia coat of arms | silver coin with face value of lei 10 |
| 140 years since the birth of Nicolae Iorga | gold coin with face value of lei 100 |
| The 125th birth anniversary of Nicolae Tonitza | silver coin with face value of lei 10 |
| The 625th anniversary of Mircea cel Bătrân (Mircea the Elder)'s ascension to the throne of Wallachia | gold coin with face value of lei 200 |
| 450 years since the Gospel was printed in Romanian | silver coin with face value of lei 10 |
| The 130th anniversary of George Bacovia's birth | silver coin with face value of lei 10 |
| The 125th anniversary since the start of the construction works on the current building of the Romanian Athenaeum | mint set including a silver medal, the Romanian coins in circulation: ban 1, bani 5, bani 10, bani 50, and bani 50 commemorative coins (featuring aviator Aurel Vlaicu and ruler Mircea the Elder) |
| The 375th anniversary of Nicolae Milescu's birth | silver coin with face value of lei 10 |
| The 150th anniversary of the creation of Astra Society in Sibiu | silver coin with face value of lei 10 |
| 150 years since the establishment of the early military institutions in modern-day Romania | silver coin with face value of lei 10 |
| The 190th anniversary of the revolution of 1821 led by Tudor Vladimirescu | gold coin with face value of lei 100 |
| History of Gold – The Cross from Garvăn Dinogetia | gold coin with face value of lei 10 |

## 5. Detected leu and euro counterfeits

### Lei

In 2011, counterfeit Romanian banknotes checked by the NBR totalled 5,707. Although this number of counterfeits was 121.7 percent higher than in 2010, it is not a cause for concern, as only 3.95 counterfeits were found in 1 million banknotes in circulation. Most of the counterfeits detected were rudimentary, being made of paper and featuring sometimes a rough fake transparent window.

**Table 3. Monthly Distribution of Counterfeits**

| 2011 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. |
| 76 | 110 | 124 | 129 | 282 | 272 | 450 | 372 | 438 | 350 | 375 | 2,729 |

**Table 4. Denomination Composition of Counterfeits**

| Denomination | Number of counterfeits |
|---|---|
| leu 1 | 1 |
| lei 5 | 9 |
| lei 10 | 1,913 |
| lei 50 | 168 |
| lei 100 | 3,111 |
| lei 200 | 483 |
| lei 500 | 22 |

Out of the total number of counterfeit banknotes, 2,446 were seized by the police during specific actions, before being put into circulation, so that only 3,261 counterfeits were found in circulation, up 70 percent from 2010. Out of the latter, merely 33 counterfeit banknotes (5 banknotes with face value of lei 10, 1 banknote with face value of lei 50, 26 banknotes with face value of lei 100 and 1 banknote with face value of lei 200) were found at the NBR, following the processing of the currency deposited by credit institutions, down 23 percent from the previous year.

The lei 100 denomination recorded the highest number of counterfeits, i.e. 3,111 banknotes, of which 509 were seized by the police, only 151 being made of plastic trying to imitate the polymer. The lei 10 banknote came in second, totalling 1,913 counterfeits (of which 1,871, which were made of plastic, were taken by the police), followed by the lei 200 banknote, with 483 counterfeits (of which 22 were found by the police). Forgers' interest shifted from high-value banknotes, which are relatively hard to counterfeit due to their incorporating more sophisticated security features, to lower value banknotes, to which households pay less attention.

The plastic on which all the lei 10 banknotes seized by the police were printed was close to the authentic one and the counterfeits could have misled unwary users.

## Euro

In 2011, the number of counterfeit euro banknotes detected on Romania's territory and checked by the NBR stood at 3,744, up 15.5 percent from 2010.

# Chapter 6. Payment and settlement systems

According to its statute, the National Bank of Romania promotes the smooth functioning of payment systems with a view to ensuring financial stability and maintaining public confidence in the national currency. In order to achieve this objective, aside from regulation, licensing and oversight of the payment systems, the National Bank of Romania provides facilities for ensuring the efficient operation of payment and settlement systems.

To this end, the National Bank of Romania operates a real-time gross settlement payment system for large-value and urgent payments in lei (ReGIS) and a central depository and securities settlement system for government securities and certificates of deposits issued by the National Bank of Romania (SaFIR). The National Bank of Romania manages both systems, whereas the technical operation services were outsourced to TRANSFOND S.A. (as technical provider)[1]. Furthermore, starting with 4 July 2011, the National Bank of Romania manages, on the Eurosystem's behalf, the national component of the real-time gross settlement payment system for large-value and urgent payments in euro, called TARGET2-România.

## 1. ReGIS

### General aspects

ReGIS ensures the real-time gross settlement of large-value and urgent payments in lei made by credit institutions, on its own behalf and account or on the customers' account, as well as the settlement of net positions arising from ancillary systems.

In 2011, ReGIS further contributed to the smooth operation of money market and forex market, playing a major role in the successful implementation of the National Bank of Romania's monetary policy, in view of the fact that monetary policy operations performed by the central bank are processed solely through this system.

ReGIS continued to run smoothly in 2011 as well, the volume of large-value and urgent payments settled through it posting an increase. The system contributed to the achievement of the National Bank of Romania's objective, i.e. promoting the settlement in the central bank money, as the sole means of payment.

### Participation in the system

The number of participants in ReGIS was relatively similar to that in the previous year. At end-2011, the participants included 40 credit institutions, the National Bank of Romania, the State Treasury and 6 ancillary systems (SENT, SaFIR, RoClear, DSClear, VISA Europe and MasterCard International).

[1] TRANSFOND S.A. is a joint-stock company, having as shareholders the National Bank of Romania (33.33 percent) and 23 credit institutions (66.67 percent).

## Pricing policy

In view of the National Bank of Romania's objective to provide means of making payments efficient for the economy[2] and to adjust fees to the level of similar fees applied in the other EU Member States, the National Bank of Romania continued in 2011 as well to pursue the same policy aimed at reducing fees related to ReGIS. Thus, on 3 January 2011, the National Bank of Romania cut down the fee per transaction by 4 percent (from lei 6.52 to lei 6.26).

## Payments in ReGIS

In 2011 payments processed via ReGIS posted a year-on-year increase, in terms of both the total volume (by 12.76 percent) and the average daily volume (by 13.64 percent). As for their value, payments in ReGIS picked up by 7.37 percent from 2010, whereas the average daily value went down by 4.78 percent.

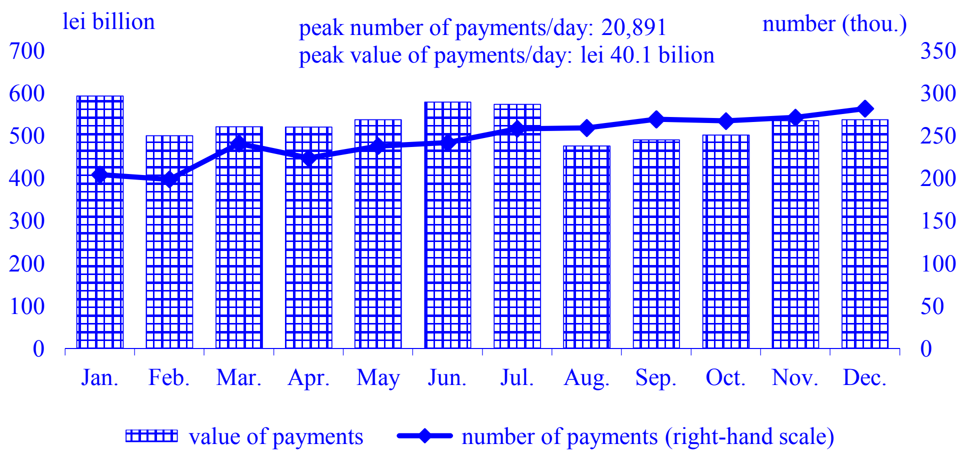
Table 1 shows a general picture of the payments traffic in ReGIS in 2011 and 2010.

### Table 1. Payments Traffic in ReGIS

| | Volume (no. of transactions; thou.) | | Value (lei bill.) | | Average value per transaction (lei mill.) |
|---|---|---|---|---|---|
| | Total | Daily average | Total | Daily average | |
| 2010 | 2,618 | 10.19 | 5,928 | 23.07 | 2.26 |
| 2011 | 2,952 | 11.58 | 6,365 | 24.96 | 2.16 |
| Change (%) | +12.76 | +13.64 | +7.37 | +8.21 | -4.78 |

Note: Due to the rounding of the data in the first two rows, there are some mismatches with the shown percentage changes.

### Developments in Large-value and/or Urgent Payments in 2011




[2] This objective subscribes to the fundamental principles set forth by the G-10 Committee on Payment and Settlement Systems, which were also adopted by the Governing Council of the European Central Bank as minimum standards for supervision by the Eurosystem of large-value payment systems operating in euro (implicitly of national real-time gross settlement systems).

The volume of payments settled throughout 2011 by ReGIS was nearly 2.9 million transactions; in January, the daily average stood at 9,720 transactions, whereas in December it came in at 14,083 transactions. The peak of the daily volume of payments settled through ReGIS was reached in October 2011 (20,891 transactions/day).

**Developments in Large-value and/or Urgent Payments in 2011 versus 2010**

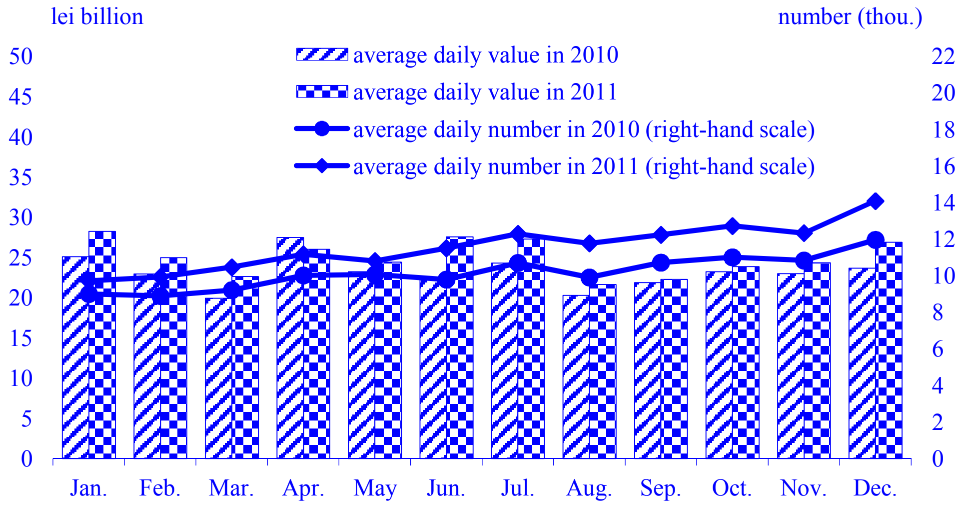



Table 2 shows the structure of payments through ReGIS in 2011 by type of message, which indicates that payment transactions carried out by participants on their own behalf, but on the customers' account (SWIFT MT103 messages) prevailed (88.39 percent of the total volume of transactions in the system); however, their total value was relatively low, accounting for only 14.26 percent of the total value of transactions in the system. The volume of payment transactions carried out by participants on their own behalf and account (SWIFT MT202 messages) was relatively low (9.49 percent of the total volume of transactions in the system); nevertheless, their value was significant (69.06 percent of the total value of transactions in the system).

**Table 2. Structure of Payments in ReGIS in 2011**

*percent*

| Payments | MT103 | MT202 | Direct transfer |
|---|---|---|---|
| Total volume | 88.39 | 9.49 | 2.12 |
| Total value | 14.26 | 69.06 | 16.68 |

The volume of payment transactions involving direct debiting/crediting of participants' settlement accounts stood at a low level, owing to the low frequency of these operations, i.e. the collection of fees by the National Bank of Romania, operations in relation with the central bank, operations carried out by the National Bank of Romania on participants' behalf, in contingency situations, when they are not able to connect to the system and perform the operations themselves, etc.

Market concentration was further comparable to that in the previous year in terms of both the volume and the value of payments made through ReGIS, the top five credit institutions accounting for about 57.90 percent and 64.66 percent of the market.

Ensuring a very high availability of ReGIS represents another major objective of the National Bank of Romania, considering the importance of ReGIS to the banking and financial system, as well as to the national economy. In 2011, the average availability of ReGIS, namely the extent to which the participants could use the system without encountering difficulties during the operations, was 99.99 percent, falling within the range of tolerances accepted by the National Bank of Romania according to the service level agreement.

Throughout 2011, the National Bank of Romania, in its capacity as system administrator, continued to monitor on a permanent basis the settlement and the activity of participants in ReGIS. The participants' behaviour was adequate, in accordance with the system rules and procedures. No gridlock situations occurred due to the lack of funds in one or more participants' settlement account/s. In 2011, the participants succeeded in managing their liquidities in an adequate and efficient manner; the number of payment instructions in the queue was relatively small (0.29 percent of the volume of settled transactions) and the waiting time in the queue was short.

## 2. SaFIR

### General aspects

Securities depositories and securities settlement systems are key components of financial markets' infrastructure. According to the central bank, the importance of SaFIR (the central depository and securities settlement system) lies with the system's interaction with payment systems, as well as with the role played by these financial instruments within the monetary policy operations.

### Participants in SaFIR

At end-2011, among the participants in SaFIR were 36 financial institutions, out of which 12 primary intermediaries, 12 secondary intermediaries and 12 non-intermediaries.

### Face value of outstanding issues

In 2011, the overall face value of issues of lei-denominated government securities deposited with SaFIR increased versus end-2010, following the turnaround in the primary market for government securities, the placement of new benchmark issues, and also the reopening of the books on outstanding benchmark issues.

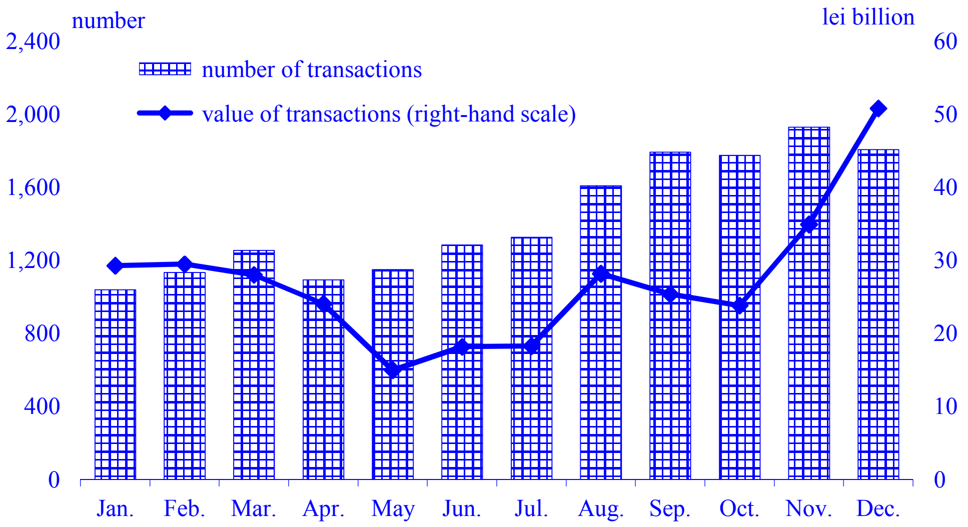
The overall face value of outstanding issues of lei-denominated government securities at end-2011 came in at 68,523.50 million, up approximately 33 percent versus end-2010, while the overall nominal value of euro-denominated government securities amounted to EUR 3,962.15 million, up about 3.35 percent versus end-2010.

## SaFIR operations

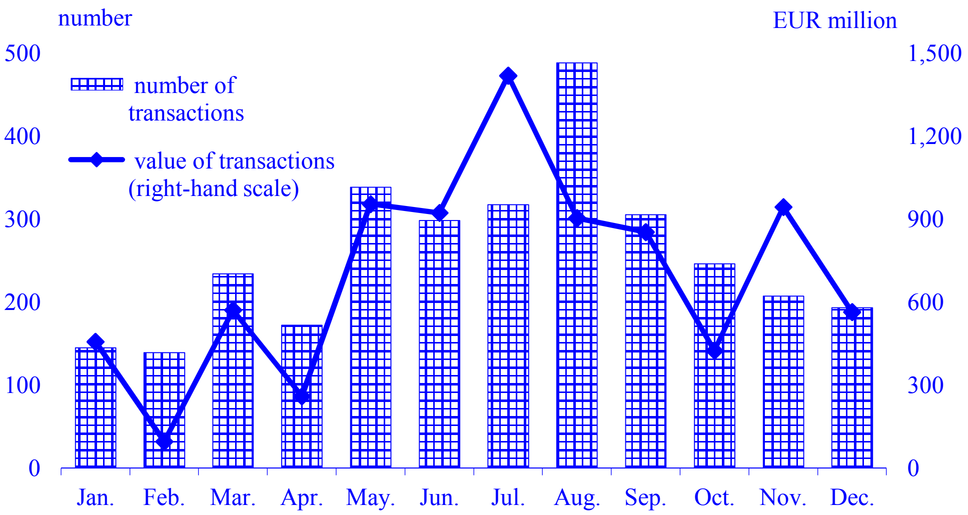
SaFIR settles operations performed by participants in relation to the issuer (settlement of the primary market's results, interest and/or coupon payments, partial/optional/total redemption) and operations carried out by participants on the secondary market (sale/purchase transactions, financial collateral arrangements, repo transactions, portfolio transfers).

The charts below show the number and value of sale/purchase transactions, including reverse transactions.

**Operations in Lei-denominated Government Securities Settled through SaFIR in 2011**

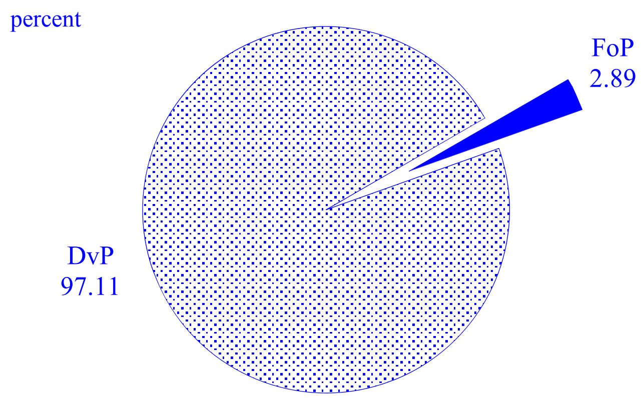



**Operations in EUR-denominated Government Securities Settled through SaFIR in 2011**



Out of the total number of transfers made in 2011, 97.11 percent were delivery-versus-payment (DvP) transfers, including trades between credit institutions and their own customers, and 2.89 percent were free-of-payment (FoP) transfers, representing portfolio transfer transactions.

**Structure of Transfers in 2011**

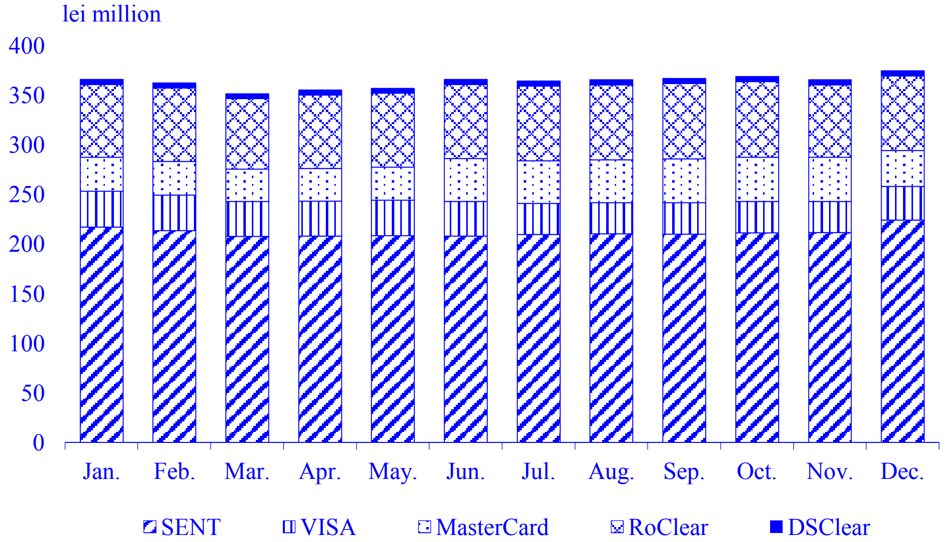



As concerns the transfers of government securities to the Central Depository S.A. through the direct connection between SaFIR and RoClear, 175 FoP transfers were made between the two systems in 2011.

### Real-time interaction with small- and large-value payment systems

SaFIR ensures the management of the collateral set up with a view to guaranteeing the settlement of net positions of participants in ancillary systems. The chart below shows the level of the collateral set up in 2011.

**Value of Collateral Related to Ancillary Systems**



### Facilities for liquidity management

In order to ensure the smooth settlement in ReGIS, the central bank grants intraday credit facilities to the participants in ReGIS. Credit institutions participating in SaFIR can obtain the intraday credit facility via repo intraday agreements based on eligible assets.

In 2011, the participants resorted to the intraday credit facility, carrying out 208 operations in amount of RON 24,879.96 million.

### Availability of the system

In 2011, the availability of SaFIR was 99.99 percent, falling within the range of tolerances accepted by the National Bank of Romania according to the service level agreement.

### System upgrading in 2011

In order to ensure the technical conditions for the euro-denominated bonds (eurobonds) issued by the Ministry of Public Finance on the external markets and the bonds issued in lei by the international financial institutions – both deposited with Euroclear – to be accepted as eligible assets for the operations performed with the central bank, the National Bank of Romania implemented a direct connection between SaFIR and Euroclear, the international central securities depository, which started operating on 3 October 2011.

Through this connection, the eligible securities held by credit institutions that participate in SaFIR and have accounts opened only with Clearstream, the international central securities depository, can also be transferred to SaFIR (via FoP operations).

Furthermore, by means of the existing bridge connection between Euroclear and Clearstream, the government securities sub-deposited with Euroclear and Clearstream can be transferred between the two systems similarly to all the assets deposited with the respective systems. Such transfers are settled on a gross basis (instruction by instruction) by means of the bridge connection; subsequently, the positions of custodian banks in Romania are updated on a net basis. Thus, the participants in SaFIR can make FoP transfers between the customers' accounts in SaFIR of custodian banks for Euroclear and Clearstream.

### Ongoing projects

a) Eligibility of bonds issued by international financial institutions

During 2011, the National Bank of Romania carried on with the project on the implementation of the procedures and infrastructure necessary for using the lei-denominated bonds issued by international financial institutions in the operations with the central bank[3].

[3] Open market operations, the standing lending facility (Lombard credit), intraday credit operations (intraday credit) and collateralisation operations for the settlement of clearing systems' net positions.

The National Bank of Romania and the capital market institutions in Romania (the National Securities Commission, the Central Depository S.A., the Bucharest Stock Exchange) agreed on creating a direct connection between SaFIR and RoClear (a system managed by the Central Depository S.A.) by opening a securities account with RoClear for the central bank.

It is estimated that this connection becomes operational in 2012.

b) Interconnection with international central depositories

As part of the measures aimed at improving public debt management and enhancing foreign investors' interest in the Romanian market for government securities, the National Bank of Romania, in its capacity as administrator of SaFIR, brought forward for discussion a number of topics with Clearstream, the international central depository, with a view to developing a direct connection between the two systems, by opening an account with SaFIR for Clearstream. This connection is set to be launched in 2012.

The connection is designed to facilitate the access to the secondary market for government securities of potential non-resident institutional investors who can acquire and hold government securities based on their current contractual relationships with Clearstream, without necessarily establishing a contractual relationship with a local custodian.

## 3. TARGET2 system

In 2011, the National Bank of Romania successfully completed the project aimed at implementing the national component of the TARGET2 system (called TARGET2-România), which became operational on 4 July 2011.

TARGET2 is a payment system in euro operated by the Eurosystem for the structure of the settlement of central bank-specific operations, large-value inter-bank transfers, as well as other payments in euro. The system provides the real-time processing of payment instructions, with settlement in the accounts opened with the central bank and immediate finality.

From a legal standpoint, the structure of TARGET2 includes several national payment systems (called TARGET2 national components) operating based on harmonised rules; central banks are in charge of their management, as well as of the relationships with the national banking communities.

Three central banks, members of the Eurosystem (Banca d'Italia, Banque de France and Deutsche Bundesbank), provide and operate the technical infrastructure and the single shared platform of TARGET2 on behalf of the Eurosystem.

Given that the Eurosystem's monetary policy operations are settled through this system, connecting to TARGET2 is compulsory only in the euro adoption context. The central banks of the Member States outside the euro area may also choose to participate in TARGET2 before adopting the euro for a smoother settlement of euro-denominated transactions in these countries.

In 2010, the National Bank of Romania decided to connect to TARGET2 before the euro adoption, thus becoming the 24th central bank which connected to this system out of the 28 central banks that are part of the European System of Central Banks (including the European Central Bank).

This decision was mainly substantiated by the interest shown by the national banking community and the operators of small-value payment systems and securities settlement systems in implementing an efficient inter-bank processing infrastructure of euro funds transfers at national level.

In the context of implementing TARGET2-România, the National Bank of Romania set up the national group of TARGET2-România users (called TARGET2-RONUG), with a view to providing the users with the possibility to analyse and discuss aspects concerning this system.

## Participation in the system

The participation in TARGET2-România is governed by the system rules set forth by National Bank of Romania's Order No. 4/2011 on the operation of TARGET2-România, as subsequently amended and supplemented.

At end-2011, TARGET2-România reported 23 direct participants, i.e. the National Bank of Romania and 22 credit institutions.

## Pricing policy in TARGET2-România

The TARGET2-România system has in place a unique pricing scheme set by the Eurosystem for TARGET2. This scheme applies similarly to all the participants in the system, with no additional fees charged by central banks at national level.

Thus, a bank participating in the TARGET2-România system pays a maximum fee of EUR 0.8 per transaction, irrespective of whether the payment is national or cross-border, based on the selected pricing option and on the volume of the respective bank's transactions.

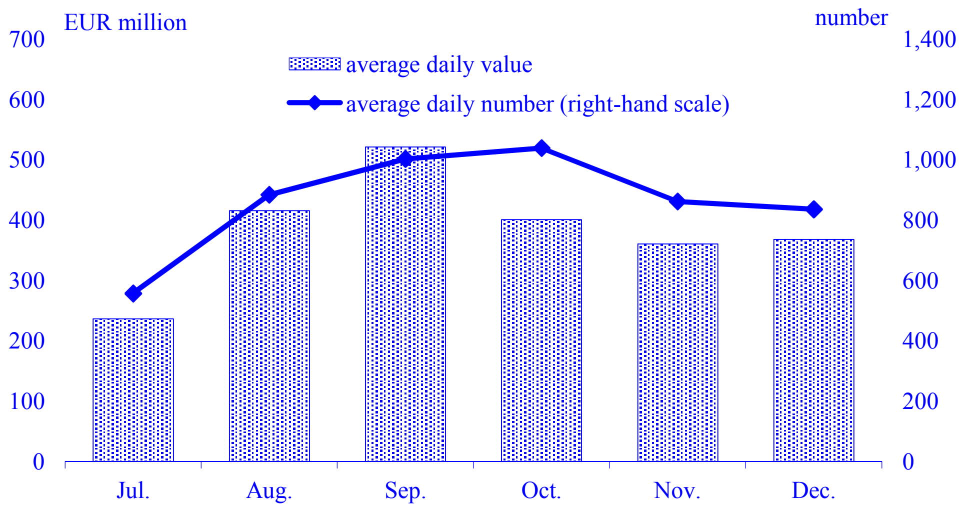
## TARGET2-România operations

In 2011, 112,348 transactions were settled through TARGET2-România, their average daily volume increasing from 557 transactions in July to 835 transactions in December.

The total value of the transactions settled through this component was EUR 49,961.81 million, the average daily value going up from EUR 236 million in July to EUR 368 million in December.

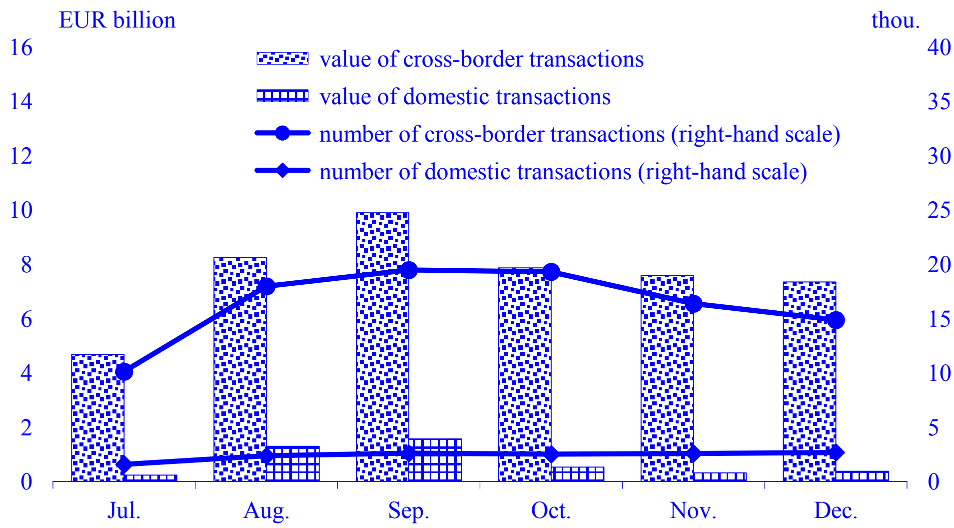
The peak volume of payments settled daily through TARGET2-România was reached in November 2011 (1,248 transactions/day), whereas the peak value was reported in July (EUR 1,263 million/day).

**Developments in Payments through TARGET2 in 2011**




The following chart shows the structure of payments through TARGET2-România in 2011 (broken down into national/cross-border), with cross-border payments holding 87 percent of the total volume of transactions processed through TARGET2-România.

**Developments in Domestic/Cross-border Payments through TARGET2 in 2011**




Throughout 2011, the National Bank of Romania monitored on a permanent basis the settlement and activity of participants in TARGET2-România. The participants' behaviour was adequate, in accordance with the system rules and procedures. No gridlock situations occurred due to the lack of funds in one or more participants' settlement account/s. In 2011, participants succeeded in managing their liquidities in an adequate and efficient manner, the number of payment instructions in the queue being relatively small.

The participants in TARGET2-România initiated most of their payments in the first half of the day. The participants in Romania frequently resorted to the liquidity management facilities provided by the system, including the "warehoused payments" facility, the Romanian community being one of the first five communities among those connected to this system in this respect.

Furthermore, the system was used for both large-value and small-value payments, with payments made through TARGET2-România ranging between EUR 1 million and several million euros.

## 4. International cooperation

### 4.1. Cooperation within the European System of Central Banks

After Romania joined the European Union in 2007, the National Bank of Romania has participated with a member status in the activities carried out by the structures of the European System of Central Banks, performing tasks in the field of payments and financial market infrastructures, namely within the Payment and Settlement Systems Committee, including all its sub-structures: Payment Systems Policy Working Group, Payment Systems Oversight Working Group, Securities Working Group and Working Group on TARGET2.

### 4.2. Cooperation with the European Commission

As part of the initiative aimed at elaborating a European regulatory and supervisory framework of the financial market infrastructures, the National Bank of Romania participated in the reunions on the infrastructures involved in the post-trading activities held by the European Commission's working groups.

## 5. Regulation, licensing and oversight of payment systems

### 5.1. Licensing of payment and securities settlement systems

According to the best international practices in the field, the National Bank of Romania required all administrators of payment and securities settlement systems that any alteration in the system rules should be sanctioned by the central bank before being implemented. Thus, in 2011, amendments were approved to the rules governing SaFIR.

### 5.2. Measures adopted by the central bank to contain the risks associated with the functioning of payment and settlement systems and to boost the efficiency of these systems

The payment and securities settlement systems are systemically important components of the financial system's architecture.

These systems have not faced any particular problem since their implementation, thanks to the observance of the internationally relevant standards that ensure their highly efficient and safe functioning, as well as to the measures taken by the central bank.

The safe and efficient functioning of the payment and securities settlement systems together with the optimal functioning of financial markets and institutions represent a fundamental prerequisite for maintaining financial stability in a modern economy. From this standpoint, one of the National Bank of Romania's statutory tasks aims at ensuring and monitoring the smooth functioning of payment and securities settlement systems in order to identify and assess the risks associated with these systems, and implementing measures that would reduce such risks, based on the most relevant international standards and recommendations[4].

Over 2011, in pursuing the system oversight policy, the central bank adopted a first set of measures for reducing the risks associated with the functioning of payment and securities settlement systems focusing on adequately adjusting the legal framework to the international financial environment. To this end, the concerned national legal provisions were updated by taking into account the new international regulations and tendencies.

Thus, pursuant to the provisions of Chapter 2 of Government Ordinance No. 13/2011 on the legal remuneration and penalty interest rate on pecuniary obligations, as well as on the regulation of some financial and fiscal measures in the banking field, the National Bank of Romania amended and supplemented Law No. 253/2004 on settlement finality in payment and securities settlement systems and Government Ordinance No. 9/2004 on certain financial collateral arrangements, as approved and amended by Law No. 222/2004, thus ensuring the transposition into the national legislation of EU directives[5] related to this field. The main amendments are aimed at both limiting the potential occurrence of the systemic risk, given that a pronounced inter-connection trend was manifest worldwide between different types of systems, and rendering easier the use of credit claims as eligible collateral in lending operations, including the operations unfolded by the central banks, thus providing easier access of credit institutions to liquidity. Other significant amendments refer to the central bank's tasks in conveying the relevant information and cooperating with recently established European authorities such as the European Systemic Risk Board, set up through EU Regulation No. 1092/2010, and the European Supervisory Authority (the European Securities and Markets Authority – ESMA), established through EU Regulation No. 1095/2010.

The assessment of financial market infrastructures is part of the monitoring activity carried out by the central bank with a view to ensuring financial stability. In order

[4] Core Principles for Systemically Important Payment Systems (BIS, 2001); Business Continuity Oversight Expectations for Systemically Important Payment Systems (ECB, 2006); Recommendations for Securities Settlement Systems and Recommendations for Central Counterparties in the European Union (ESCB-CESR, 2009).

[5] Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements relative to inter-connected systems and credit claims; Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC on the competences of the European Supervisory Authority (the European Banking Authority), the European Supervisory Authority (the European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (the European Securities and Markets Authority).

to ensure the observance of the general oversight principles[6] – the adoption of the relevant international standards, as well as the consistent application of standards for both the systems owned by the central bank and the systems owned by private entities –, the National Bank of Romania decided to make an assessment of DSClear, RoClear and SaFIR systems from the standpoint of ESCB-CESR Recommendations for the securities settlement systems (2009).

The ESCB-CESR recommendations are a markedly improved version of the standards applicable to the infrastructures carrying out post-trading activities, which were established following the previous cooperation between the Committee on Payment and Settlement Systems (CPSS), within the Bank for International Settlements, and the Technical Committee within the International Organisation of Securities Commissions (IOSCO), namely the Recommendations for the securities settlement systems (2001) and the Methodology for assessing securities settlement systems (2002).

The recommendations are currently viewed as the best practices across Europe as concerns the operation of settlement systems. Hence, the consistency of their operation rules and architecture with the mentioned recommendations should be a requisite for the operators of settlement systems. These recommendations are aimed at setting uniform requirements for the settlement systems, by the convergence of national oversight/supervision policies promoted by the competent national authorities with a view to boosting the efficiency and safe functioning of financial infrastructures. The result should be an improved protection of investors, a strengthened public confidence in capital markets and the maintenance of financial stability. In line with common practice at European level, the ESCB-CESR recommendations set forth the minimum requirements that must be met by the settlement systems, while the competent national authorities can impose stricter requirements, based on the circumstances at national level.

## 5.3. Assessment of the risks associated with certain payment instruments

The National Bank of Romania assessed the safety and efficiency of payment instruments such as cheques, cards and remote access payment instruments, by appraising and monitoring the risks associated with their issuance and putting into circulation, in order to ensure their safe and efficient use.

Thus, in 2011, the National Bank of Romania authorised the issuance and putting into circulation of:

- 2 types of remote access electronic payment instruments (Internet banking);
- 37 types of cards: 24 types of debit cards and 13 types of credit cards;
- 13 issues of cheques encompassing 2,347,500 cheque leaves.

[6] The general oversight principles are laid down in “Central bank oversight of payment and settlement systems”, compiled in 2005 by the Committee on Payment and Settlement Systems (CPSS), within the Bank for International Settlements (BIS).

In 2011, the card market in Romania witnessed the following trends:

- the significant increase in the number of cards designed to private banking clients, both natural and legal entities; 16 new products in this category were issued, most of them credit cards;
- the emergence on the market of contactless cards;
- the emergence on the market of display cards.

The increasing number of chip technology cards, contactless cards and display cards led to the improved safety of the payment transactions carried out via these means in a rapid and easy manner.

### 5.4. Collection of statistical data on payments, payment systems, payments through correspondent banking arrangements and securities settlement systems

With a view to ensuring the information necessary for its own needs and fulfilling its task, i.e. to support the European Central Bank in collecting statistical data and information, in 2011, the National Bank of Romania continued to collect primary statistical data on payments, payment systems, payments through correspondent banking arrangements and securities settlement systems mainly through its IT reporting system (SIRBNR).

The institutions which are bound to report to the National Bank of Romania include credit institutions, non-bank financial institutions, payment system administrators and securities settlement system administrators, the Romanian Post Office Company and the State Treasury.

## 6. Ongoing projects

### 6.1. NBR's participation in EU projects in the field of payments and payment instruments

Following the request the European Central Bank addressed to the central banks in the European Union to participate in the pan-European project for analysing the social cost of payment services provided by payment services providers for retail payments, the National Bank of Romania took the invitation and got directly involved in the collection of data and information supporting the analysis.

The project, launched Europe-wide with a view to improving the general sentiment on the efficiency of payment instruments in terms of related costs, carried on in 2011 as well.

The year 2009 is the reference year for analysis. Retail payments are envisaged (up to the limit of EUR 50,000 in lei equivalent only).

The payment services covered by the analysis are those frequently resorted to in retail transactions. The data collected by the National Bank of Romania for statistical purposes point out that only cash, credit transfers, debit cards and credit cards are relevant for the payment of retail goods and services at national level. The relevance threshold for including retail payment instruments in the analysis is of 5 percent of the total volume of such payments.

The collection of the data required for this project came to an end at national level and materialised in an estimate of the costs related to the payment instruments/means resorted to with a view to making low-value payments. This estimate includes:

1. an estimate of the costs incurred by payment and inter-bank infrastructure services providers;

2. an estimate of the costs incurred by the companies providing retail goods and services, of the number and value of payment transactions performed on the territory of Romania at the points of sale (by cash, cards) and remotely (via credit transfer);

3. an estimate of the value and total number of cash payment transactions on the territory of Romania. This estimate envisaged not only the quantification of the payments carried out for the benefit of retail goods and services providers, but also of other cash payments such as those within the markets and person-to-person payments which cannot be quantitatively assessed by other estimation methods;

4. an estimate of the costs related to the activities carried out by the National Bank of Romania in order to fulfil its legal tasks concerning the issuance of banknotes and coins as legal tender on the territory of Romania.

Subsequently, an analysis will be made at the level of the National Bank of Romania regarding the relative differences between the participants in the national survey in terms of the costs related to the resources used for the payment services provision and the potential causes that might generate these differences (such as logistic efficiency, electronic processing of payment instruments, economy of scale).

## 6.2. Systematisation and harmonisation of the pieces of legislation issued by the National Bank of Romania

The systematisation and harmonisation of the rules and regulations issued by the National Bank of Romania in the field of payments was partly completed. The regulations on the collection of statistical data concerning payments were analysed and updated by end-2011.

The project will further unfold in 2012 as well, when the National Bank of Romania's objectives are aimed at analysing, harmonising and updating the other rules and regulations issued by the central bank in the payment field.

## 6.3. Supporting the initiative of the banking community in Romania on the process of payment self-regulation

In 2011, the banking community in Romania launched a project for developing, implementing and regulating direct debiting and credit transfer payment schemes in lei, which aims at adjusting the European model concerning the functioning and regulation of such schemes to the national market.

The functioning of the two national payment schemes will be monitored on a continuous basis by the central bank, in compliance with its relevant prerogatives.

# Chapter 7. Management of international reserves

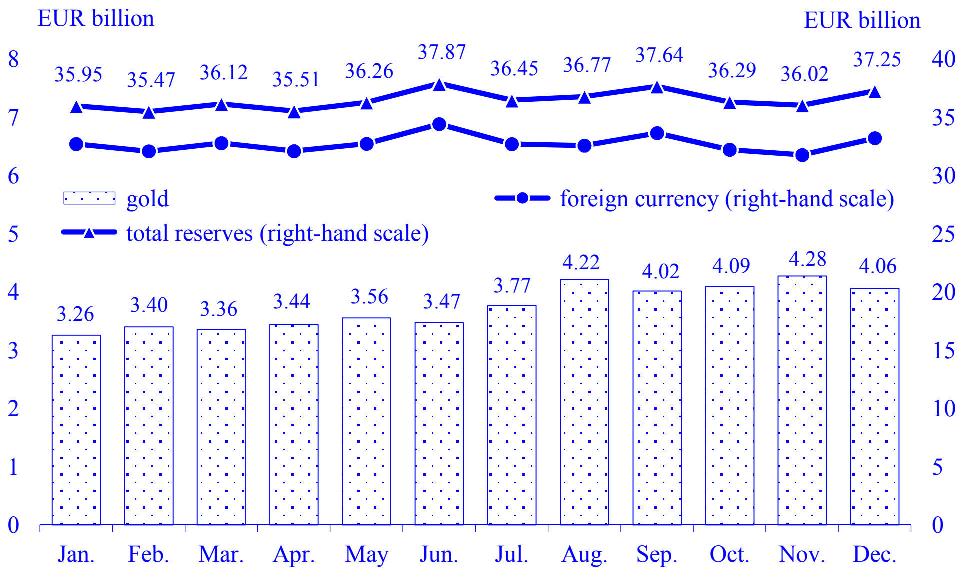
## 1. Developments in international official reserves in 2011

At end-2011, Romania's international reserves amounted to EUR 37,252 million, of which foreign currency reserves made up 89.1 percent, while gold accounted for 10.9 percent. In year-on-year comparison, international reserves increased overall by EUR 1,301 million.

Foreign currency reserves went up EUR 761 million to reach EUR 33,193 million at year-end 2011.

The gold stock remained unchanged at 103.7 tonnes. Nevertheless, in terms of value, it rose by EUR 541 million, up to EUR 4,059 million as at 31 December 2011, due to the increase in the price of gold on international markets. Gold was traded at USD 1,574.5 per ounce on the London Metal Exchange at end-2011, rising 11.6 percent against end-2010.

**International Reserves in 2011**




## 2. Strategic goals

### 2.1. Goals for the 2011-2015 period

The analysis made by the NBR Board with a view to establishing the strategic directions of the management of international reserves was underlined by the need for a prudent management of risks arising from the relation between the foreign assets and liabilities of the central bank, considering the characteristics of the Stand-By Agreement signed by Romania and the International Monetary Fund in 2009 and the high uncertainties surrounding the economic and financial developments worldwide. Under the new circumstances, the NBR Board decided to extend the investment horizon from 1 to 5 years. The key strategic objectives established for the 2011-2015 period were the following:

- a currency composition in which the euro accounts for 55 to 85 percent of foreign currency reserves, the US dollar for 10 to 35 percent and other currencies for at most 15 percent of foreign currency reserves;
- the establishment of an average duration of up to six months for the entire foreign currency reserves, as well as for each foreign currency and the mandating of the Foreign Reserve Management Committee (FRMC) to carry out an analysis in order to select the benchmark indices relevant for the EUR- and USD-denominated portfolios;
- the addition to the portfolio of the fixed-income securities issued by the government of Japan and the keeping in place of the other categories of eligible issuers: (i) the US government; (ii) government agencies or agencies sponsored by the US government; (iii) the governments of EU Member States; (iv) government agencies or agencies sponsored by the governments of EU Member States; (v) other AAA-rated governments; (vi) supranational institutions; (vii) private entities, issuers of covered bonds;
- a maximum exposure of 10 percent of international reserves to private entities that are issuers of covered bonds; and
- a maximum exposure of 10 percent of international reserves to private entities other than issuers of covered bonds – exposure to private entities will be assumed only following the approval by the NBR Board.

In order to comply with the parameters set forth by the multiannual strategy, the FRMC approved the proposal to change the benchmark portfolios in the case of those denominated in EUR and USD. Hence, the indices of Bank of America Merrill Lynch consisting of coupon-bearing bonds issued by the US and the euro area countries that had maximum credit ratings, with maturities of up to one year, were the new benchmark portfolios starting with March 2011.

## 2.2. Developments in the external economic environment

The escalating euro area sovereign debt crisis, the persistently poor labour market conditions, the further tight lending standards in the United States of America and Europe, the fiscal consolidation measures adopted by the authorities in the developed countries and the geopolitical tensions in Northern Africa and the Middle East were the factors behind the slowdown in aggregate demand worldwide. In 2011, world economy saw a 3.9 percent growth pace in real terms, decelerating from 5.3 percent in 2010[1]. In the period under review, advanced economies posted a 1.6 percent increase compared to a 3.2 percent rise in 2010, whereas emerging and developing countries witnessed an economic growth pace of 6.2 percent versus 7.5 percent in 2010. In 2011, foreign currency reserves expanded worldwide by USD 939 billion,

[1] Source: IMF – World Economic Outlook Update, April 2012. Data for advanced, emerging and developing countries come from the same source.

standing at USD 10,197 billion[2]. China was further in the lead of international reserve holders, accounting for approximately 31.2 percent of the total value of world reserves at end-2011, up by 0.4 percentage points compared with the end of the previous year.

The aggravation of the euro area sovereign debt crisis and the heated political debates in the US with regard to the fiscal consolidation plan and the increase in the public debt ceiling had a major contribution to the worsening economic and financial developments in 2011. Following in the footsteps of Greece and Ireland, Portugal had to submit a request for external financial assistance, given the unsustainable borrowing costs of the Portuguese government on the international financial markets. Over the course of the year, European leaders and the IMF approved multilateral financing arrangements in amount of EUR 78 billion and EUR 130 million[3], respectively, in order to support Portugal and Greece.

Despite the promulgation by the US President of the Budget Control Act that stipulated the increase in the statutory debt limit and the ambitious plan to cut the fiscal deficit in the following 10 years, in early August, Standard & Poor's revised downwards, for the very first time, the credit ratings for the USA long-term debt from AAA to AA+ and maintained the outlook for their downgrading.

In the context of worsening global economic outlook, the central banks of developed countries maintained the loose stance of monetary policy, whereas the public authorities envisaged the adoption of balanced austerity measures which should not hinder the economic rebound.

In 2011 H2, the European Central Bank resumed the Securities Markets Programme and launched a new covered bond purchase programme in amount of EUR 40 billion. In order to alleviate money market pressures and support bank lending, the ECB decided, in December 2011, to conduct two longer-term refinancing operations with full allotment and a maturity of 36 months and to increase collateral availability for the operations carried out by the Eurosystem. On the other hand, the European public authorities adopted austerity measures aimed at adjusting large fiscal deficits and restoring investor confidence in the debt repayment capacity of governments.

In March 2011, the leaders of euro area countries decided to increase the financial capacity of the European Financial Stability Facility from EUR 250 billion to EUR 440 billion. In October, the European leaders approved, *inter alia*, the rise in the Core Tier 1 ratio to 9 percent[4]. In the meeting of December 2011, the EU Heads of State or Government adopted new measures that were particularly aimed at promoting the fiscal discipline of EU Member States and fostering the integration of economic policies in the common fields of interest. In addition, a principal agreement was signed, dealing with the supply of additional resources of up to EUR 200 billion to the IMF.

[2] Source: IMF – COFER (Currency Composition of Official Foreign Exchange Reserves) database.

[3] It was the second financing package for Greece, after the first one received in 2010.

[4] The deadline established for observing the new requirement is 30 June 2012.

In order to support the economic rebound of the USA, in September 2011, the Federal Reserve System launched a maturity extension programme that would extend the average maturity of the securities in the Federal Reserve's portfolio. Under this programme, the Federal Reserve sells Treasury securities with residual maturities shorter than 3 years in amount of USD 400 billion and uses the proceeds to buy Treasury securities with residual maturities ranging from 6 to 30 years. In 2011, Bank of England and Bank of Japan increased the size of asset purchase programmes to GBP 275 billion and JPY 55,000 billion, respectively.

In 2011, the escalating sovereign debt crisis and the worsening global economic outlook pushed the demand for low-risk assets higher. As a result, gold, prices of fixed-income securities issued by economically sound countries and credit risk premia for the government bonds issued by euro area peripheral countries[5] followed an upward course, whereas the US dollar strengthened against the single European currency. In November and December, the higher risk aversion of market participants made them willing to accept negative yields on investment in Treasury bonds issued by Germany, the Netherlands and France. On the other hand, most stock exchange indices that are representative worldwide saw negative developments.

## 3. The manner to achieve strategic goals

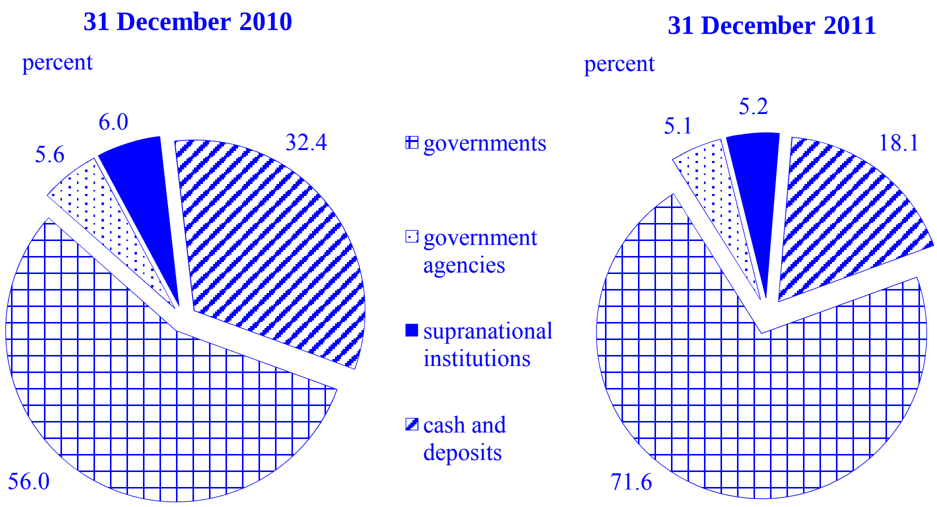
In discharging its duties, the Foreign Reserve Management Committee examined on a regular basis the global economic developments and the trends on the international financial markets, particularly their actual and potential impact on the prospects of achieving the goals set by the NBR Board under the approved strategy – the evolution and prospects of interest rates and exchange rates, geopolitical conditions, etc. Furthermore, the FRMC has steadily monitored the actual and potential impact that the monetary policy decisions and the Ministry of Public Finance's decisions – concerning public debt refinancing – had on the international reserve size and currency composition, as well as Romania's economic developments, amid the ongoing multilateral financial arrangement.

Given the weak global economic and financial environment and the high volatility of foreign capital flows with an impact on the international reserve size and currency composition, importance was further attached to investment security and liquidity, ahead of obtaining income from international reserve management. Considering the risk of higher medium-term interest rates (lower bond prices) – in the context of exacerbating budget deficit crisis with a direct impact on government refinancing costs or the mounting inflationary pressures as a result of the unprecedented level of monetary stimuli provided by major central banks –, as well as the maturity breakdown of foreign liabilities in the NBR's balance sheet and their variable interest rates, the NBR Board deemed it appropriate to establish an average duration of up to 6 months for the entire foreign currency reserve as well as for each currency. The investment policy focusing on containing the exposure to privately-owned banks was maintained. In view of the FRMC concerns to diversify the exposure

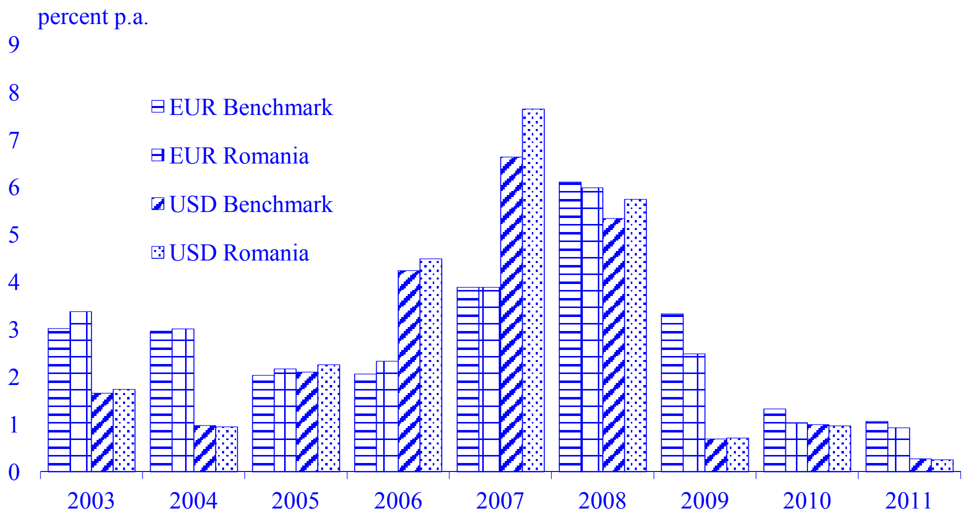
[5] Greece, Portugal, Ireland, Italy and Spain.

to issuers and improve portfolio liquidity, investments in government debt instruments were increased, their higher yields representing another benefit of such a decision.

**Romania's Foreign Exchange Reserve Structure**

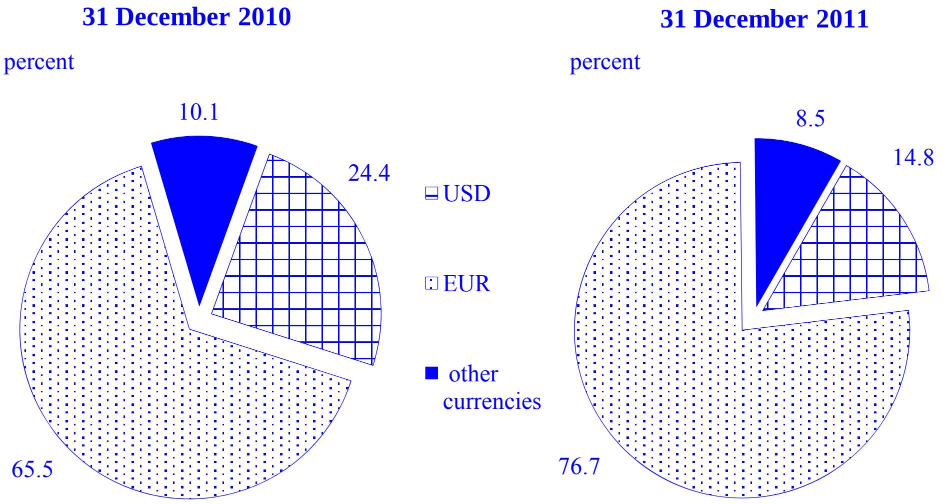



**Yield against Bank of America Merrill Lynch Indices**



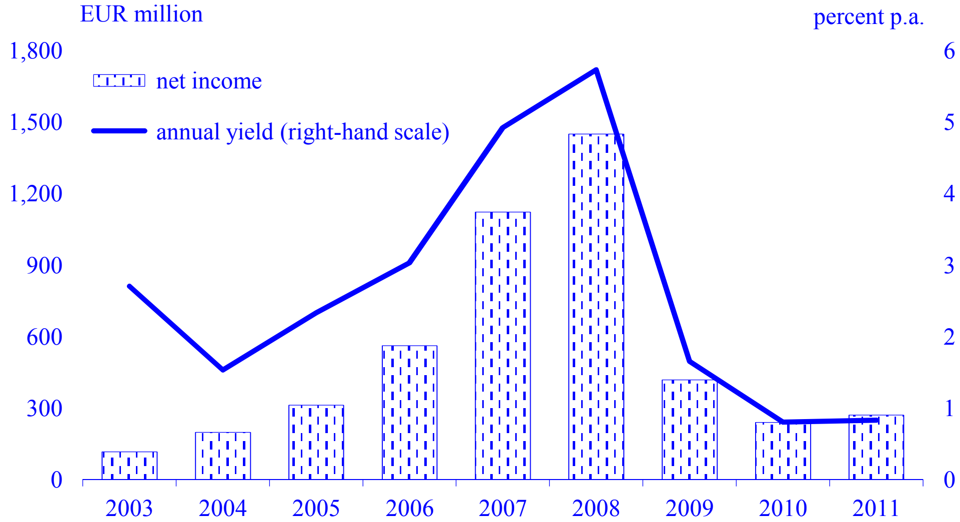

The above-mentioned decisions led to a total yield of international reserves of 0.93 percent for the euro and 0.26 percent for the US dollar. By comparison, in 2011, the total yield on government bonds with maturities of up to 1 year included in the Bank of America Merrill Lynch indices came in at 1.06 percent for the euro and 0.28 percent for the US dollar.

## Romania's Foreign Exchange Reserve Composition




Following the aforementioned developments, the total return stood at EUR 271 million, up against EUR 240 million in the previous year.

## International Reserve Management



# Chapter 8. Balance of payments and international investment position

## 1. Current account

In 2011, the balance-of-payments current account deficit stood at EUR 5,995 million, accounting for 4.4 percent of GDP, a level similar to that recorded in the previous year. Compared with 2010, the current account deficit was 8.6 percent higher.

**Table 1. Current Account**

*EUR million*

| | 2010 | 2011 |
|---|---|---|
| a) Trade balance (goods) | -7,600 | -7,522 |
| - exports (FOB) | 37,368 | 45,041 |
| - imports (FOB) | 44,968 | 52,563 |
| b) Services, net | 404 | 375 |
| c) Incomes, net | -1,914 | -2,369 |
| d) Current transfers, net | 3,592 | 3,521 |
| **Current account balance** | **-5,518** | **-5,995** |

Trade deficit further held the largest share in the current account deficit. It declined by 1 percent from 2010, to EUR 7,522 million[1], this development also leading to the slight narrowing of its share in GDP (by 0.6 percentage points, to 5.5 percent). Exports and imports[2] continued to stick to the upward path they had resumed the previous year, both segments witnessing slowdowns in their growth rates. The trade balance breakdown by production stage highlights deficits under intermediate goods (EUR 5,686 million)[3], commodities (EUR 2,452 million) and capital goods (EUR 253 million) and surplus under consumer goods (EUR 869 million). In terms of geographical spread, intra-EU trade accounted for the largest share of trade deficit, i.e. 85.7 percent.

The coverage of imports through exports moved up 2.6 percentage points to 85.7 percent and the openness of the Romanian economy[4] rose by 5.2 percentage points to 71.5 percent.

[1] More than 60 percent of the trade deficit had built up in Q2 and Q4.

[2] Source: National Institute of Statistics – International trade in goods. Imports (fob) are calculated by the NBR based on the cif/fob conversion factor determined by the NIS. Starting with January 2012, the cif/fob conversion factor of 1.0430 has replaced the cif/fob conversion factor of 1.0834. For the purpose of the comparability of data on imports (fob), the monthly series for 2011 and 2010 have been recalculated based on the cif/fob conversion factor of 1.0430.

[3] Including “goods not specified elsewhere”.

[4] (Exports of goods + imports of goods) / GDP*100.

Exports of goods came in at EUR 45,041 million, up 20.5 percent compared with 2010[5], due to the further sustained external demand in the first half of the year. In terms of value, the advance in exports versus 2010 amounted to EUR 7,673 million, 62.9 percent of which stemmed from the higher volume (electrical machinery and equipment; boilers, turbines, engines, mechanical apparatus and devices; wood and wood products; motorcars; tractors; rubber products; cast iron, iron, steel; pharmaceuticals), while the remaining 37.1 percent were due to an upsurge in external prices (petroleum products; motorcars; tractors; cast iron, iron, steel; grains; electrical machinery and equipment; wearing apparel and accessories).

In year-on-year comparison, export breakdown by production stage is indicative of a rise in the share of intermediate goods[6] (by 1.6 percentage points to 51.3 percent) and commodities (by 0.1 percentage points to 8.5 percent), along with a decline in the share of capital goods (by 1.6 percentage points to 19.3 percent), while the share of consumer goods remained relatively unchanged (20.9 percent). Exports of manufactured goods amounted to EUR 41,159 million (holding 91.4 percent of total exports), up 20.6 percent compared with 2010, due to developments in most industrial sectors, except for "other transport means" (-3.2 percent). Above-average increases were recorded by exports of foodstuffs (39.6 percent), chemicals and chemical products (34.5 percent), rubber products and plastics (31.6 percent), metallurgy products (28.8 percent), machinery and equipment (28.2 percent), petroleum products (28 percent), pharmaceuticals (24.5 percent), metal products (24.5 percent), beverages (22.8 percent), furniture (22.3 percent).

Imports of goods stood at EUR 52,563 million[7], up 16.9 percent versus 2010. In terms of value, the advance in imports amounted to EUR 7,595 million, of which 53.5 percent resulted from the rise in external prices (crude oil; petroleum products; plastics and plastic products; pharmaceuticals; cast iron, iron, steel and products thereof; mineral fuels; rubber products; electrical machinery and equipment; aluminum and aluminum products; natural gas; footwear; wearing apparel; grains) and the remaining 46.5 percent were due to the increase in volume (boilers, turbines, engines, mechanical apparatus; motorcars; tractors; electrical machinery and equipment; cast iron, iron, steel and products thereof; natural gas; rubber products; organic chemicals; optical and photographic instruments and apparatus).

Import breakdown by production stage is indicative of a rise in the share of intermediate goods (by 0.8 percentage points to 54.8 percent) and commodities (by 0.8 percentage points to 11.9 percent), along with a decline in the share of consumer goods (by 1.3 percentage points to 16.3 percent) and capital goods (by 0.4 percentage points to 17 percent).

[5] The share of exports of goods in GDP picked up 2.9 percentage points from 2010, to 33 percent.

[6] Including "goods not specified elsewhere".

[7] The share of imports of goods in GDP rose by 2.3 percentage points from 2010, to 38.5 percent.

In 2011, the net terms of trade index[8] ran at 101.6 percent, against the backdrop of faster growth of export prices compared to import prices (7.9 percent against 6.2 percent). The gross terms of trade index[8] stood at 101.5 percent, as the physical volume of exports rose faster than that of imports (11.7 percent and 10.1 percent, respectively).

The deficit under incomes stood at EUR 2,369 million, up 23.8 percent from 2010, following the higher interest payments on external loans.

Services posted a surplus of EUR 375 million, down 7.2 percent compared with 2010, on the back of lower receipts from and larger payments for private tourism, as well as larger payments for "other services". These developments were only partly offset by the larger receipts (net) from transport services and the narrower deficit under business travel.

Current transfers showed a surplus of EUR 3,521 million, down 2 percent from 2010, due to the reduction in net remittances by Romanians working abroad and in net inflows of other private transfers.

## 2. Financial and capital account

In 2011, the positive balance of the financial and capital account stood at EUR 5,240 million, down 8.5 percent versus the previous year. The decline came from the contraction in foreign direct investment, the lower inflows of long-term loans and credits, and the larger volume of residents' deposits abroad.

Net direct investment[9] ran at EUR 1,899 million, down 15.1 percent year on year. Investment by non-residents in Romania totalled EUR 1,920 million, of which 84.3 percent were equity stakes[10] and the remaining consisted of intra-group loans[11]. The bulk of investments were made by the following ten countries[12]: the Netherlands (24.3 percent), France (14.7 percent), Germany (13.2 percent), the United Kingdom (13.1 percent), Austria (12.7 percent), Italy (5.7 percent), Luxembourg (4.2 percent), the United States (3 percent), Spain (2.8 percent) and Belgium (2.4 percent).

In 2011, portfolio investments recorded net inflows of EUR 1,839 million, 2.1 times higher than in 2010; the rise stemmed mainly from the Eurobond issue launched by the Ministry of Public Finance on the external markets in amount of EUR 1.2 billion, the difference resulting from dealings in government securities on the secondary market made by the banking sector.

Net external financing from medium- and long-term loans and credits amounted to EUR 14 million (with drawings almost equalling repayments – around

8 Source: National Institute of Statistics.

9 Net value of non-residents' investment in Romania and net value of residents' investment abroad.

10 Net loss estimate included.

11 Loans between the foreign investor and the resident company.

12 Calculated as a share in the net inflows of non-residents' direct investment in Romania in 2011.

EUR 9 billion), compared with EUR 3,685 million in 2010[13]. In 2011, net inflows from short-term loans and credits equalled EUR 1,313 million, compared with EUR 247 million a year before, the increase coming from repayments of commercial loans.

In 2011, some 32 percent of the current account deficit (EUR 5,995 million) were covered from direct investment of non-residents in Romania.

**Table 2. Current Account Deficit Financing**

*EUR million*

| | 2010 | 2011 |
|---|---|---|
| **Deficit financing** | **5,518** | **5,995** |
| **Capital transfers, net** | **230** | **234** |
| **Direct investment, net** | **2,236** | **1,899** |
| *of which:* | | |
| – direct investment by non-residents in Romania | 2,220 | 1,920 |
| • equity (including reinvested earnings) | 1,824 | 1,618 |
| • intra-group loans | 396 | 302 |
| **Portfolio investment, net** | **875** | **1,839** |
| **Other capital investment:** | **5,665** | **2,920** |
| – borrowings (MLT), net | 3,685 | 14 |
| • inflows | 12,764 | 8,993 |
| • repayments | 9,079 | 8,979 |
| – loans (MLT), net | 328 | 730 |
| – loans (ST), net | 247 | 1,313 |
| – other* | 1,405 | 863 |
| **NBR's reserves assets ("-" increase)** | **-3,488** | **-897** |

*) includes the following items, net: non-produced/non-financial assets, derivatives, cash and deposits, other assets, other liabilities, errors and omissions.

## 3. Romania's international investment position

At end-2011, Romania's international reserves ran at EUR 37,252 million, up EUR 1,301 million from end-2010. The increase was due to net transactions, in total amount of EUR 897.2 million, as well as to exchange rate changes (EUR 40.4 million) and prices (EUR 363.5 million) of both securities in the NBR's portfolio and monetary gold. Goods and services import cover[14] was 7.5 months, against 8.4 months a year earlier.

[13] On account of loans granted by the IMF, the EU and the IBRD to Romania in 2010.

[14] Import cover is calculated as a ratio of international reserve (foreign currency + gold) at end of period to average monthly imports of goods and services in the period under review.

Medium- and long-term external debt[15] increased by 3.7 percent from end-2010, to EUR 75.6 billion, as a result of EUR 2 billion worth of net inflows from external loans and the exchange rate changes (EUR 0.9 billion). Out of total drawings in amount of EUR 14.5 billion performed in 2011, EUR 4.4 billion came from loans granted by the IMF, the EU, the World Bank and the EBRD to Romania under the external financing arrangement.

In 2011, medium- and long-term debt service came in at EUR 14.8 billion, of which EUR 12.6 billion in principal repayments and EUR 2.2 billion in payments of interests and commissions.

The composition by institutional sector points to the non-banking sector holding the largest share (37.5 percent) in medium- and long-term external debt, ahead of general government (26.9 percent), the banking sector (22.1 percent), and the monetary authority (13.5 percent).

The composition of medium- and long-term external debt by creditor is indicative of the multilateral financial institutions' share widening to 37.5 percent at end-2011 from 32.9 percent a year earlier, owing to the loans granted by the IMF and the EU, along with the lowering share of private financing sources, to 62.2 percent at end-2011 from 66.8 percent at end-2010.

At end-2011, the composition by maturity is illustrative of long-term external debt holding the largest share (72.8 percent) of total medium- and long-term external debt, given the 3.4 percentage point rise in the share of long-term public debt.

The composition of medium- and long-term external debt by currency at end-2011 shows that the euro was in the lead (64.9 percent, up 0.6 percentage points against end-2010), ahead of the SDR (16.6 percent, up 1 percentage point), the leu (9.3 percent, down 0.9 percentage points) and other currencies (9.2 percent, down 0.7 percentage points). As for the composition of medium- and long-term external debt service by currency, the euro took the largest share (71.5 percent), ahead of the leu (12.5 percent), the US dollar (10.1 percent) and other currencies (5.5 percent).

Medium- and long-term external debt accounted for 55.4 percent of GDP at end-2011, down 3.4 percentage points from end-2010, and 144.3 percent of exports of goods and services, down 21.5 percentage points. Medium- and long-term external debt service ratio diminished from 33.4 percent at end-2010 to 28.3 percent at end-2011.

[15] From external loans and credits, bonds, a.s.o.

**Table 3. Key External Indebtedness Indicators**

| | | *percent* |
|---|---|---|
| | **2010** | **2011** |
| Official reserves / imports of goods and services (months of imports) | 8.4 | 7.5 |
| Medium- and long-term external debt / GDP | 58.7 | 55.4 |
| Medium- and long-term external debt / exports of goods and services | 165.7 | 144.3 |
| Medium- and long-term external debt service ratio | 33.4 | 28.3 |

At end-2011, short-term external debt stood at EUR 22.8 billion. Its balance posted a 16.8 percent increase versus the previous year, on account of net short-term capital inflows (EUR 3.1 billion). Short-term external debt service amounted to EUR 25.1 billion, with the debt service ratio reaching 47.9 percent at end-2011, 18.2 percentage points lower than at end-2010.

# Chapter 9. International activity

## 1. Romania as an EU Member State

### 1.1. European issues – EU economic policy issues

a) Stability and Growth Pact / Excessive Deficit Procedure (EDP)

The ECOFIN Council has passed decisions on the existence of an excessive government deficit in 23 Member States, Romania included, along with correction recommendations. As far as Romania is concerned, the deadline for correcting the excessive deficit was set for 2012.

Romania continued to cut the budget deficit in 2011 as well, thus managing to reach its general government budget deficit target of 4.4 percent of GDP (in cash terms), as agreed with the EU and the IMF under the precautionary financial assistance programme. However, the indicative deficit target of 5 percent of GDP in accrual (ESA) terms, laid down in the Memorandum of Understanding with the EU, was overshot by 0.2 percent of GDP, since clarifying the statistical treatment of the government's wage payment obligations to certain categories of public sector employees – as a result of court rulings – implied additional expenditures worth 1.1 percent of GDP in 2011. The 2012 budget has been prepared with the objective of a cash deficit of 2.2 percent of GDP or below 3 percent of GDP in ESA terms.

b) The 2011-2013 National Reform Programme

The EC marked the start of the European Semester, which is an integral part of the new concept of economic governance, by releasing the "2011 Annual Growth Survey" (AGS) Communication on 12 January 2011.

Considering the priority actions identified by the EC in the AGS, the Romanian authorities prepared the 2011-2013 National Reform Programme (NRP) and the 2011-2014 Convergence Programme. Based on these documents, the EU Council adopted specific country recommendations[1] on 12 July 2011, during the closing stage of the first European Semester.

As part of the NRP, the NBR undertook to ensure the adequate and stable functioning of the financial sector, in line with the commitments under the financial assistance programme with the EU, the IMF and the World Bank.

[1] The recommendation for Romania referred to the implementation of the measures laid down in the MoUs signed with the EU in 2009 and 2011 respectively, as subsequently supplemented.

The second European Semester started on 23 November 2011, when the EC launched the 2012 AGS[2].

c) The Euro Plus Pact

With a view to ensuring Member States' increased competitiveness over the long term and enhanced fiscal policy coordination, while also attaining economic convergence both within the euro area and throughout the EU, 23 Member States[3] signed the Euro Plus Pact (hereinafter referred to as "the Pact") during the European Council meeting of 24-25 March 2011. The EC performed a regular scrutiny of the progress achieved by Member States in fulfilling the common goals.

The NBR's actions under the Pact were similar in nature to those included in the Action Plan for implementing the 2011-2013 NRP[4] and mainly referred to prudential regulation, supervision and the adequate management of systemic risks. These actions led to higher solvency, provisioning and liquidity ratios, despite the challenging economic conditions both domestically and abroad.

For 2012, the NBR envisages a new action[5] under the Pact, namely conducting – with World Bank support – a financial crisis simulation exercise in order to test the cooperation mechanisms among the member authorities of the National Committee for Financial Stability in terms of managing such complex situations at the level of individual financial institutions, financial groups or the financial market overall.

d) Measures aimed at strengthening EU-wide economic governance

- The "Six-Pack"

In the context of the financial and economic crisis and the financial market turmoil, in September 2010 the European Commission presented a package of six proposed measures meant to ensure the degree of coordination required for avoiding the build-up of excessive imbalances and for safeguarding the sustainability of public finances.

Following formal approval during the ECOFIN Council meeting of 8 November 2011, the "Six-Pack" became effective on 13 December 2011. This change represents the most comprehensive reinforcement of economic governance in the EU and the euro area since the launch of the Economic Monetary Union over 20 years ago.

[2] According to EC guidelines, Member States that have a financial assistance programme in place need not submit a new reform and convergence/stability programme, since the regular reports under the assistance arrangement are deemed sufficient to meet EC requirements. In exchange, these countries are bound to report to the EC during April 2012 on the actual stage of the previously-taken measures under the NRP as well as on any new commitments for 2012.

[3] The 17 eurozone countries plus six non-euro area Member States, i.e. Bulgaria, Denmark, Latvia, Lithuania, Poland, and Romania.

[4] The Action Plan is the underlying document for NRP monitoring at national level and is updated yearly: (i) at the start of the European Semester, after the AGS release by the EC and (ii) at the end of the European Semester, once the EU Council has approved the country-specific recommendations.

[5] The intended deadline for completing this action is 2012 Q2.

The high degree of indebtedness recorded by many Member States even before the outbreak of the crisis has proved the EDP inefficient in cutting public debt.

The economic governance reform has introduced in the Stability and Growth Pact several provisions regarding the public debt criterion. In particular, a Member State will be put in excessive deficit procedure (even if its deficit is below 3 percent) if the gap between its debt level and the 60 percent reference is not reduced, on average, by 5 percent annually. The Member States already in excessive deficit procedure prior to the adoption and enforcement of the "Six-Pack" are granted a three-year period following the correction of the excessive deficit for meeting this debt rule. EU Member States otside the euro area do not face sanctions in the form of a financial deposit or a fine under the "Six-Pack". But for beneficiaries of the Cohesion Fund, failure to comply with the recommendations under the EDP may lead to the suspension of Cohesion Fund commitments. The legislative package brings a concrete and decisive step towards ensuring fiscal discipline, helping to stabilise the EU economy and averting a new crisis in the EU.

➢ The "Two-Pack"

On 23 November 2011 the Commission unveiled a new package on economic governance in the euro area, consisting of:

- proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area;
- proposal for a Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area;
- the Green Paper on the feasibility of introducing stability bonds.

➢ Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

Initially referred to as the "new fiscal pact", "fiscal compact" or "budget stability pact", the Treaty on Stability, Coordination and Governance (TSCG) in the EMU was signed on 2 March 2012, in the margins of the European Council meeting, by 25 Member States, except for the UK and the Czech Republic. The Treaty is envisaged to become effective as of 1 January 2013, once at least 12 euro area countries have ratified it. The objective of the Treaty is to strengthen fiscal discipline and introduce stricter surveillance of euro area member states.

At the time of ratifying the Treaty, Romania needs to specify whether it intends to apply in whole or in part the provisions under Titles III and IV[6]. Furthermore, as of

[6] According to the Treaty provisions, Member States that have not adopted the single currency may be legally bound only under Titles III and IV.

the date the Treaty comes into force, Romania will enjoy the provisions of Title V, meaning that it will be entitled to attend the Euro Summit meetings.

e) The European Stability Mechanism

The meetings of euro area Heads of State or Government held on 21 July 2011 and 9 December 2011 respectively resulted in several decisions on enhancing the effectiveness of the European Stability Mechanism (ESM)[7]. Against this background, on 2 February 2012 euro area member states signed a new Treaty establishing a European Stability Mechanism. Its purpose is to provide financial assistance to its members (euro area countries), experiencing or being threatened by severe financing problems, if indispensable for safeguarding financial stability in the euro area as a whole. The Treaty will be ratified by the 17 euro area member states, will come into force and become operational as soon as possible – in July 2012, i.e. one year ahead of schedule.

From a functional point of view, the ESM will assume the tasks currently fulfilled by the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) and will operate alongside the EFSF for 12 months. A synergy is expected with the fiscal compact, in the sense that, from March 2013, any granting of financial assistance under the ESM will be conditional on ratification of the TSCG; and from one year after the entry into force of the TSCG, also on the implementation of a balanced budget rule.

Member States of the European Union whose currency is not the euro may participate on an ad hoc basis alongside the ESM in a stability support operation for euro area Member States.

## 1.2. NBR's participation in the meetings and procedures of various European bodies

### 1.2.1. Participation in ECB General Council meetings

The NBR Governor and the Deputy Governor in charge of European affairs attend the quarterly meetings and the teleconferences of the General Council, the ECB's analysis and decision-making body comprising the governors of NCBs that are ESCB members along with the members of the ECB's Executive Board. The major topics covered during 2011 and in early 2012 included: (i) regular macroeconomic analyses, key monetary, financial and fiscal developments both within and outside the euro area; (ii) compliance by ESCB members with the provisions of Article 123 and Article 124 of the Treaty on the Functioning of the European Union; (iii) preparing the position papers ahead of the G20 and IMF reunions; (iv) the functioning of ERM II during 2011; (v) preparing the ECB 2012 Convergence Report.

[7] The Heads of State or Government meeting at the European Council on 24 March 2011 adopted the final decision on a permanent mechanism for euro area countries and on amending Article 136 of the Treaty on the Functioning of the European Union accordingly. Thus, the ESM Treaty was signed on 11 July 2011.

### 1.2.2. NBR's participation in the ECB's written consultation procedure

Pursuant to the Treaty on the Functioning of the European Union, the Protocol on the Statute of the ESCB and of the ECB and in line with Council Decision 98/415/EC of 29 June 1998 on the consultation of the ECB by national authorities regarding draft legislative provisions, the written consultation procedure is mandatory in relation to any proposed legislation which is within the ECB's field of competence and is to be binding and generally applicable in the Member States. This concerns particularly: (i) monetary issues; (ii) means of payment; (iii) national central banks; (iv) the collection, compilation and dissemination of monetary, financial, banking, payment systems and balance of payments statistics; (v) payment and settlement systems; (vi) rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In addition, the ECB shall be consulted on any draft law regarding monetary policy instruments.

The NBR's participation in the written consultation procedure implies, on the one hand, the obligation to consult the ECB on any draft national legislation falling within its fields of competence and, on the other hand, the possibility to comment on the latter's draft opinions regarding the new European legislative proposals concerning issues related to the ESCB/ECB. During the period under review, the NBR consulted the ECB on the following draft legislation:

- Regulation on statistical data and information reporting to the NBR and the Regulation on interbank money and government securities markets managed by the NBR, and the foreign exchange and minimum reserves regime (CON/2011/73);
- Regulation on lending to natural persons (CON/2011/74);
- Government Emergency Ordinance amending and supplementing Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy and Government Ordinance No. 39/1996 on the setting-up and operation of the deposit guarantee fund in the banking system (CON/2011/86);
- Government Emergency Ordinance on accepting the increase of Romania's IMF quota (CON/2011/102);
- Regulation amending NBR Regulation No. 6/2002 on the minimum reserves regime (CON/2012/7).

### 1.2.3. NBR's participation in the enlarged meetings of ESCB structures and substructures

As regards the decision-making mechanism at operational level, NBR representatives attend the enlarged meetings of the 12+1 ESCB committees, contributing to formulating and implementing the decisions of the General Council and of the Governing Council.

Along with the relevant ESCB substructures, these structures ensure a framework for assessment and decision-making as per their fields of competence, namely: monetary policy, open market operations, international relations, financial stability, payments, currency issue, communication, statistics, internal audit, IT, accounting, legal matters and human resources. Both the NBR Board and its executive management attach particular attention to NBR's participation in ESCB structures and substructures by closely monitoring any related issues.

### 1.2.4. NBR's participation in ESRB meetings

The European Systemic Risk Board became operational on 1 January 2011 following the adoption of Regulation (EU) No. 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macroprudential oversight of the financial system and establishing a European Systemic Risk Board. The ESRB is responsible for the macroprudential oversight of the financial system within the Union in order to contribute to the prevention or mitigation of systemic risks to financial stability in the Union.

The General Board, the decision-making body of the ESRB, convened in four quarterly meetings and two teleconferences during 2011, in order to review and assess systemic risks and financial system vulnerabilities across the EU. In particular, the ESRB's activity in 2011 focused on:

- completing the institutional structure, by adopting several decisions required for the proper functioning of the ESRB, namely the Rules of Procedure, the Code of Conduct, the rules on public access to ESRB documents, and the procedure governing the exchange of information with the European Supervisory Authorities;
- examining the risks that, at both individual and collective levels, could jeopardise financial system stability, stemming from activities such as: foreign currency lending, the "retailisation" of complex financial products, EU banks' reliance on US dollar-denominated funding or from a low interest rate environment;
- developing macroprudential policies and instruments across the EU;
- reviewing the macroprudential aspects of forthcoming EU legislation in the banking field (CRD/CRR) and in the field of financial market infrastructure (EMIR), as well as submitting ESRB opinions to the EU's legislative bodies with regard to the macroprudential implications of the aforementioned pieces of legislation.

Following the analyses of financial stability risks for Member States individually and the EU as a whole, the ESRB issued – according to its mandate – the following recommendations:

- Recommendation on lending in foreign currencies;
- Recommendation on US dollar-denominated funding of EU credit institutions;
- Recommendation on the macroprudential mandate of national authorities.

The NBR is actively involved in the ESRB activity, both at a decision-making level – with the NBR Governor, the First Deputy Governor and the Deputy Governor in charge of coordinating financial stability attending the General Board meetings – and at a technical level, through representatives in the Advisory Technical Committee (directors) and in the working groups of the ATC (experts).

### 1.2.5. NBR's participation in the meetings of the EU Council and of the EC

Some of the most important structures and substructures of the EU Council and of the EC where the NBR is represented at various hierarchical levels include:

- biannual participation in the informal ECOFIN Council meetings, which the NBR attends at executive management level, at the invitation of the MPF, when central banking matters are on the agenda, and in the EFC, whose meetings are attended by the NBR Deputy Governor in charge of European affairs;
- participation in the working groups of both the EU Council and the EC (the Financial Services Committee, the European Banking Committee, the Committee on Financial Conglomerates, the Committee for the Prevention of Money Laundering and Terrorist Financing, the Payments Committee, etc.) along with representatives of the Ministry of Public Finance and/or other state institutions. The agenda of these working groups is closely related to the central bank's fields of competence: (i) financial services; (ii) banking sector regulation; (iii) banking sector supervision; (iv) monetary, financial and balance of payments statistics; (v) capital requirements; (vi) financial conglomerates; (vii) prevention of money laundering and combating terrorist financing; (viii) mortgage credit; (ix) banknote counterfeiting; (x) communication; (xi) payment systems, etc.

The most important draft legislation prepared or discussed during these meetings included:

- proposal for a Council Directive on a common system of financial transaction tax;
- revision of the Financial Conglomerate Directive;
- revision of the Capital Requirements Directive (CRD IV);
- proposal for a Regulation on prudential requirements for credit institutions and investment firms (CRR);

- proposal for a Regulation on markets in financial instruments and amending Regulation (EMIR) on OTC derivatives, central counterparties and trade repositories;
- revision of the Deposit Guarantee Schemes Directive;
- proposal for a Directive on credit agreements relating to residential property.

### 1.2.6. NBR's participation in the joint working platform along with government authorities on European affairs

In line with its statutory tasks on the *ex ante* advisory role played in the institutional relations with government authorities, the NBR is represented in the meetings of the European Affairs Coordination Committee, which is in charge, at a national level, of the decision preparation process and of formulating Romania's stance with regard to European affairs. Based on the received requests and within the limits of its lawful tasks, the NBR submitted its contributions or competent opinions in respect to the following topics on the agenda of European Affairs Coordination Committee meetings:

- draft EU directives or regulations;
- preparing the participation folder of the Romanian delegation at European Council reunions.

In addition, the NBR has been actively involved in the meetings of the inter-ministerial working groups preparing the Pact and the NRP, with debates focusing on the progress reports concerning the implementing of actions laid down in the two documents, as well as on proposals for further action to be undertaken by Romania during 2012.

### 1.2.7. NBR's participation in the process of transposing, implementing and notifying EU legislation

a) transposing and implementing EU regulations

Pursuant to Art. 288 of the Treaty on the Functioning of the European Union, EU institutions adopt several types of legal acts, namely regulations, directives, decisions, recommendations, and opinions. In particular, EU regulations shall be binding in their entirety and directly applicable in all Member States and thus do not have to be transposed into national law. However, Member States shall make sure that such regulations are actually applied in their national law. To this end, the NBR – in its capacity as a national institution with regulatory and supervisory tasks – checks the EC database (Eurlex) on a regular basis so as to track any newly-adopted EU regulations applicable to its scope of business. The list of EU regulations that the competent departments within the NBR undertake to comply with is communicated to the Ministry of European Affairs, with the approval of the executive management, and is posted on the central bank's website, with a view to informing the entities under NBR's regulatory/supervisory scope on EU legislative provisions directly applicable to them. Furthermore, the NBR Board is informed on a biannual basis about EU regulations applicable to the central bank and/or to the entities under NBR's regulatory/supervisory scope.

b) informing the EC about the transposition of EU legislation, representing the NBR's institutional accountability under the National Programme for Transposing and Notifying EU Directives

During the period under review, the NBR forwarded to the European Commission, via the Ministry of European Affairs, the compliance tables related to the transposition and notification of directives in its field of competence. Mention should be made of: (i) Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC; (ii) Directive 2009/44/EC of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims; (iii) Directive 2010/76/EU of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies; (iv) Directive 2010/78/EU of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the following European Supervisory Authorities: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority[8].

The transposition process is currently underway for Directive 2011/89/EU of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate.

### 1.2.8. Technical cooperation under ECB coordination

Following Romania's accession to the EU and the NBR's integration into the European System of Central Banks, the central bank joined the ECB and other NCBs members of the ESCB in several inter-institutional partnerships to provide technical assistance to candidate countries, potentially candidate countries, and to other countries neighbouring the EU.

During 2011, the NBR was involved in the following technical assistance projects:

– the technical assistance programme for the National Bank of Serbia (NBS) aimed at strengthening its institutional capacities and bolstering NBS

[8] According to its area of expertise, the NBR notified the Ministry of European Affairs on the transposition of Art. 1, Art. 9 and Art. 10 of the Directive; as regards the transposition of Art. 2, the notification shall be submitted on the publishing date of the transposing law in *Monitorul Oficial al României*.

efforts towards bringing its operational and regulatory framework in line with ESCB standards. The programme covers a two-year period starting 1 February 2011 and marks a continuation of the technical assistance project carried out during 2008-2009. Technical assistance is supplied by 21 ESCB members, while financing is ensured via the Instrument for Pre-Accession Assistance. The NBR provides technical expertise for two of the programme components, namely “EU accession support” and “Economic analysis and research”;

- the technical assistance programme for the Central Bank of Egypt. This project was launched on 1 January 2009 and spans a three-year period, under ECB coordination, with the aim of supporting the beneficiary in modernising its banking supervision rules, policies and practices, so as to gradually bring them in line with the Basel II principles. In October 2011, the ECB Governing Council decided to extend the programme by three months until 31 March 2012. During 2011 and 1 January 2012 through 15 March 2012, the NBR provided technical assistance in the following areas: on-site evaluation of compliance with Basel II requirements, preparing a strategy for the on-site department of the Central Bank of Egypt and international relations management in the context of Basel II.

## 1.3. EU medium-term financial assistance

In order to continue the reforms launched under the financial assistance programme concluded with the EU (2009-2011), in early 2011 the Romanian authorities submitted a request for precautionary funding under the medium-term financial assistance facility of the European Union. On 12 May 2011 the EU Council adopted Decision No. 288 providing precautionary financial assistance for Romania worth EUR 1.4 billion for 2011-2013. The assistance is provided in conjunction with IMF support through a Stand-By Arrangement in the amount of EUR 3.5 billion.

The programme agreed with the EU ensures further fiscal consolidation, tax administration reform, enhanced public finance management and control, smoother functioning of the product and labour markets, while also safeguarding external, monetary and financial stability and financial market reform. The overall goals of the programme include: (i) putting an end to the excessive deficit by 2012; (ii) enhancing the growth potential; and (iii) reducing the likelihood of any future re-emergence of excessive structural imbalances in the Romanian economy.

The Memorandum of Understanding signed by Romania and the European Union on 29 June 2011 provides for several conditionalities in the field of financial sector regulation and supervision, such as:

- the NBR adopting the necessary prudential rules to ensure that the application of the provisions on debt-for-equity swaps of Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy will not lead to a worsening of the financial positions of credit institutions;

– the NBR developing proposals for prudential filters aimed at preserving prudent provisions for impaired loans, solvency and reserves in order to enable the introduction of IFRS as of 2012;

– the government's commitment to refrain from adopting legislative initiatives that would undermine credit discipline.

Several joint missions of the IMF, the EC and the World Bank visited Bucharest in 2011 and early 2012 for regular progress reviews on achieving the objectives of the aforementioned programme. Following completion of the November 2011 review conducted by the European Commission, the first supplemental MoU updating the specific economic policy criteria contained in the original memorandum of understanding was signed in Bucharest on 14 December 2011 and in Brussels on 27 December 2011.

The financial assistance is available for activation until 31 March 2013. It is exclusively up to Romania to request the disbursement of any instalment in case of a serious and unforeseen worsening of its economic and/or financial standing as a result of factors beyond government control generating an acute financing need.

## 2. International financial relations

### 2.1. International Monetary Fund

Romania has been a member of the International Monetary Fund since 1972. At present, Romania's subscription quota (subscribed and paid-up capital) in the IMF share capital is SDR 1,030.20 million, of which SDR 243.80 million in gold and foreign currencies and SDR 786.40 million in lei. Romania accepted, via Government Emergency Ordinance No. 123 of 27 December 2011, the increase in its subscription quota as laid down in the IMF Board of Governors Resolution No. 66-2 of 15 December 2010. Thus, Romania's quota will stand at SDR 1,811.4 million once the terms and conditions set forth in paragraph 5 of the aforementioned resolution have been fulfilled.

The first quarter of 2011 saw the continuation of the Stand-By Arrangement (SBA) approved by the IMF's Executive Board on 4 May 2009. Hence, the joint mission of the IMF, the European Commission, the World Bank and the European Central Bank visited Bucharest during 25 January – 8 February 2011 for the regular review of the programme. It was on that occasion that the Romanian authorities informed the mission of their intention to treat the eighth disbursement as precautionary, meaning that they did not plan to draw on it, and also to complete the ongoing SBA ahead of schedule. In its meeting of 25 March 2011, the Executive Board gave its nod to the completion of the 2009 agreement[9], while also approving a 24-month precautionary Stand-By Arrangement for Romania. This new arrangement, in an amount equivalent to SDR 3,090.6 million (about EUR 3.5 billion, 300 percent of Romania's quota), came into effect on 31 March 2011. Consequently, joint missions of the IMF, the EC, the World Bank and the ECB visited Bucharest for regular reviews of the programme during: 27 April – 9 May (first review); 20 July – 1 August (second review); 25 October – 7 November (third review).

Net interest paid to the IMF during 2011 totalled SDR 297.73 million, while repayments on the principal related to the 2009 loan are scheduled to start in August 2012.

## 2.2. World Bank Group

Along with the International Bank for Reconstruction and Development and the International Development Association (IDA), which together make up the World Bank, the World Bank Group also includes the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). Romania is a member of all these institutions, except for the IDA.

### a) International Bank for Reconstruction and Development

Aside from its priority goal, namely reducing poverty in low- and middle-income and creditworthy poorer countries, the IBRD promotes sustainable economic growth in its member countries through loans, guarantees, risk management products, and analytical and advisory services.

Romania joined the IBRD in 1972, an institution in which it currently holds 4,011 shares (0.24 percent of the bank's capital) and a voting power accounting for 0.25 percent of total. The year under review saw ongoing negotiations with a view to reforming the World Bank Group in the sense of enhancing participation of transition and developing countries as well as their role in the decision-making process. These endeavours finally materialised on 16 March 2011 in the adoption of Resolution No. 612, "2010 Selective Increase in Authorized Capital Stock to Enhance Voice and Participation of Developing and Transition Countries", which provides for an increase in the IBRD capital by 230,374 shares, 1,407 of which have been assigned to Romania. On that same date, with a view to enhancing the IBRD's financial capacity, the Board of Governors adopted Resolution No. 613, "2010 General Capital Increase", which stipulates the issuance of 484,102 shares,

[9] Thus, out of the total amount made available under the Stand-By Arrangement approved in 2009, i.e. SDR 11.43 billion, Romania had drawn SDR 10.57 billion (around EUR 11.9 billion calculated on the drawdown dates), of which SDR 8.62 billion by the NBR (representing half of the second and third disbursements) and SDR 1.95 billion by the MPF (half of the fourth disbursement) aimed at funding the budget deficit. The IMF staff reports, the Letters of Intent and the Technical Memoranda of Understanding are available both in Romanian, at www.fmi.ro and www.bnr.ro, and in English, at www.imf.org.

with Romania taking up 1,448 of them. During 2011 there were no initiatives on the Romanian side in the sense of subscribing these shares.

Since the recommencement of its activity in Romania in 1991, the IBRD has provided a total of USD 8.22 billion in loans to our country. In May 2011, the IBRD and the Ministry of Labour, Family and Social Protection signed a social assistance system modernisation project worth USD 710.4 million. In addition, as part of the multilateral financial assistance package meant to support Romania in weathering the economic crisis, the World Bank came up in May 2009 with a programme encompassing three Development Policy Loans (DPLs) totalling EUR 1 billion. The programme pursues long-term structural goals such as public sector reform, enhancing social security and financial sector reform. Disbursements were made as follows: the first of these loans, worth EUR 300 million, was disbursed in October 2009, the second one (EUR 300 million) in June 2011, and the last one (EUR 400 million) in December 2011.

## b) Financial institutions affiliated to the World Bank

### International Finance Corporation

Established in 1955, the IFC is an international financial organisation which aims to promote economic growth in its member countries via investments and advisory services to the private sector. Romania joined the IFC in 1990 and currently holds 2,661 shares worth USD 2.661 million and a 0.12 percent voting power within the organisation.

In 2011, IFC financing in Romania totalled around EUR 113 million via three projects, thus raising the cumulated volume of IFC investments in Romania during 1996-2011 to approximately EUR 1.1 billion.

### Multilateral Investment Guarantee Agency

The organisation was established in 1988 in order to contribute to World Bank objectives by providing guarantees against the political risks facing the private sector. Romania has been a member of MIGA since 1992 and currently holds 978 shares representing SDR 9.78 million and a voting power of 0.56 percent.

Starting 1997, the MIGA portfolio in Romania consisted of 13 guarantees totalling a cumulated exposure of USD 437.79 million for supporting certain investment projects. Most of these guarantees were provided to Austrian investors in the banking sector and were generally aimed at covering the risks of expropriation and repatriation restrictions. Only two of these projects are currently in progress, amounting to USD 85.95 million.

## 2.3. European Bank for Reconstruction and Development

Romania is a founding member of this institution, which was established in 1991 in a bid to speed up the transition towards a market-oriented economy and to promote private and entrepreneurial initiative in CEE countries. Over the years, the EBRD's start-up capital of ECU 10 billion was increased on several occasions, the latest dating back to 26 May 2010, when the increase was achieved through a EUR 1 billion transfer from reserves to paid-in capital (with 485 shares earmarked for Romania) plus an increase in callable capital, with Romania subscribing all the 4,322 shares assigned to it in April 2011. Hence, Romania currently holds 14,407 shares worth EUR 144.07 million, accounting for 0.49 percent of total capital.

At the 2011 Annual Meeting held in Astana (Kazakhstan), when the new EBRD Directors were elected, Romania joined a new Constituency led by Turkey and including Azerbaijan and the Kyrgyz Republic. On that same occasion, the EBRD's Board of Governors approved the expansion of the Bank's activities to the southern and eastern Mediterranean region. As a result, Tunisia and Jordan joined the club on 29 December 2011, meaning that the EBRD now counts 65 members (EU and EIB included).

Over a 21-year period, the EBRD and Romania have signed 311 projects, 74 percent of them in the private sector. The cumulated investment volume stood at around EUR 5.6 billion at end-2011. In 2011 the overall business volume in Romania amounted to EUR 448.8 million, with 30 new projects being signed.

## 2.4. Black Sea Trade and Development Bank (BSTDB)

With a start-up capital of SDR 1 billion (USD 1.5 billion), the BSTDB was established in 1994 by the 11 member countries of the Organization of Black Sea Economic Cooperation (OBSEC)[10], Romania included, in order to safeguard peace, stability and prosperity in the Black Sea region. Following the 2008 capital increase, the institution's authorised capital tripled to around USD 4.5 billion. Romania currently holds 14 percent of the OBSEC capital, which confer a voting power accounting for 14 percent of total.

Seven of the 17 projects launched in Romania since the start of the BSTDB activity were still in progress as of end-2011, with no new projects started in 2011. According to the latest Country Strategy for Romania approved by the Board of Directors in April 2011, the intended volume of operations of the BSTDB during 2011-2014 amounts to EUR 166.5 million.

[10] The OBSEC founding members are: Albania, Bulgaria, Greece, Romania, Turkey, Moldova, the Russian Federation, Ukraine, Armenia, Azerbaijan, and Georgia.

## 2.5. Bank for International Settlements (BIS)

The BIS was established in 1930 with the aim of fostering cooperation among central banks. The NBR has been a BIS member ever since the latter's creation. The central banks of Columbia, Luxemburg, Peru and the United Arab Emirates joined the club in the latter half of 2011, thus bringing the total number of BIS members to 60 (ECB included).

In 2011, the NBR received EUR 2.79 million in dividends for the 2010-2011 financial year in relation to the 8,564 shares held in the BIS capital. According to the decision passed by the General Meeting of member central banks, the value of a dividend was set at SDR 295, based on the actual results at the closure of the financial year, i.e. on 31 March 2011.

# Chapter 10. The convergence of the Romanian economy and the new EU economic governance framework

## 1. Romania's progress towards convergence

Romania's integration with the European Union involves the fulfilment of the criteria stipulated by the Maastricht Treaty and the adoption of the European single currency. Joining the euro area implies the transfer of the responsibility for drafting and conducting monetary policy to the European Central Bank, which takes a "one-size-fits-all" approach for the euro area as a whole, without focusing on the specific features of national economies, whose homogeneity is supposedly high. In this context, in the pre-euro area, it is of the essence that the domestic economy should make the required adjustments for joining the euro area.

The nominal convergence criteria stipulated by the Maastricht Treaty refer to price stability, the sustainability of public finances and indebtedness, the exchange rate stability and the level of long-term interest rates. The assessment of the convergence process implies also the analysis of some structural alignment indicators, with a view to determining the economy's capacity to efficiently operate in the event of shocks materialising, without resorting to a nationally independent monetary policy.

Table 1 shows where Romania stands in relation to the nominal convergence criteria[1]:

**Table 1. Maastricht Criteria (Nominal Convergence Indicators)**

| | Maastricht Criteria | Romania | |
|---|---|---|---|
| | | 2011 | May 2012 |
| **Inflation rate (HICP[1])** (percent, annual average[2]) | <1.5 pp above the average of the three best-performing EU Member States | 5.8 (criterion: 3.1) | 3.5 (criterion: 3.1) |
| **General government deficit** (percent of GDP[3]) | below 3 percent | 5.2 | … |
| **Government debt** (percent of GDP[3]) | below 60 percent | 33.3 | … |
| **Exchange rate vs euro** (2-year maximum percentage change) | +/- 15 percent | +3.9/-3.3[4] | +2.5/-6.5[5] |
| **Long-term interest rates** (percent per annum, annual average[6]) | <2 pp above the average of the three best-performing EU Member States in terms of price stability | 7.3 (criterion: 5.8) | 7.1 (criterion: 4.0) |

[1] HICP – harmonised index of consumer prices.

[2] The reference level was calculated by considering Sweden, Ireland and Greece.

[3] ESA95 methodology.

[4] Maximum percentage changes in the exchange rate versus the euro during 1 January 2010 – 31 December 2011. Calculations are based on daily data series, by reference to the average value for December 2009.

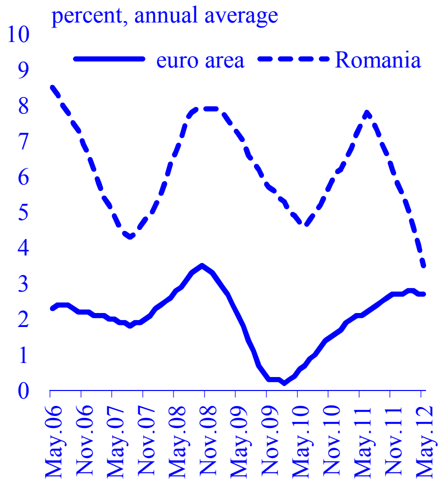
[5] Maximum percentage changes in the exchange rate versus the euro during 1 June 2010 – 31 May 2012. Calculations are based on daily data series, by reference to the average value for May 2010.

[6] The reference level was calculated by considering Sweden.

*Source: Eurostat, MPF, NBR calculations*

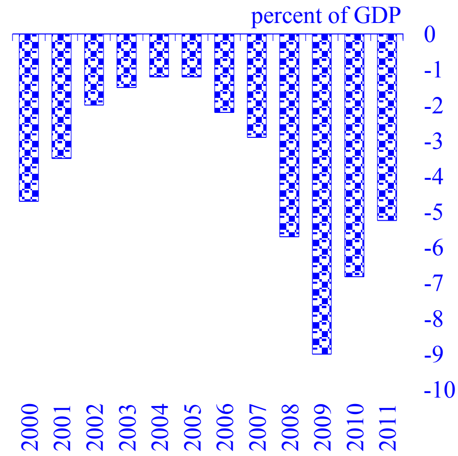
[1] For further details, see Box 1 in Chapter 8 of NBR Annual Report 2006.

**Inflation Rate (HICP)**



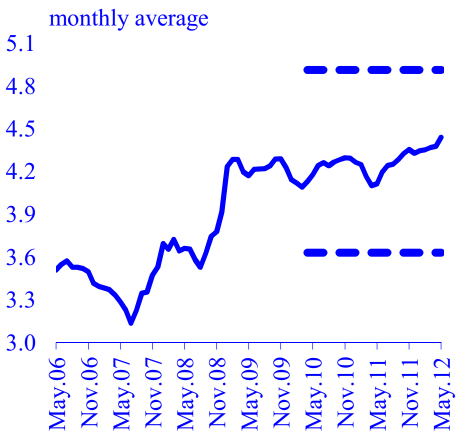

*Source: Eurostat*

**General Government Deficit - ESA95 methodology -**




*Source: Eurostat, NBR calculations*

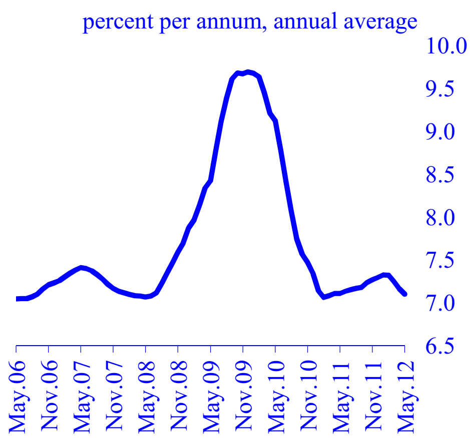
**RON/EUR Exchange Rate**




Note: The dotted lines stand for the limits of the ±15 percent band versus the average for May 2010.

*Source: NBR calculations*

**Long-term Interest Rates**




*Source: ECB, NBR calculations*

During 2006-2008, the average annual inflation rate (HICP) in Romania was markedly higher than that in the euro area, with the spread between the two reporting significant changes. In 2009, against the background of the negative output gap associated with the economic recession, inflation moderated in most European countries, including Romania. In 2010, the departure between the average annual inflation in Romania and the reference level stood at 3.7 percentage points under the impact of both external factors (such as the hike in international commodity prices) and some national economy-specific factors (the most significant influence came from the 5 percentage point pick-up in the standard VAT tax starting with 1 July 2010). In 2011 and during the first five months of 2012, in Romania, inflation developments led to the considerable decline in this departure to 2.7 percentage points in December 2011 and to 0.4 percentage points in May 2012, thanks to the favourable influence coming from the fading-out of the first-round effect of the hike in the standard VAT rate, the deflation reported by unprocessed food items amid a bumper domestic agricultural output, as well as to some statistical base effects. Simultaneously, the reference level went up from 2.4 percent in 2010 to 3.1 percent in both December 2011 and May 2012.

Starting with 2008, the share of Romania's general government deficit in GDP exceeded the limit stipulated by the Maastricht Treaty. The recommendations formulated within the excessive deficit procedure for Romania[2] (initiated in 2009) and the commitments undertaken under the external financing agreements concluded by Romania with the international financial institutions were transposed into fiscal consolidation measures which led to the decrease in the share of the general government deficit to 5.2 percent of GDP by end-2011. This development contributes to the emergence of premises for closing the excessive deficit procedure in 2012, in line with the provisions of the 2011-2014 Convergence Programme. The second indicator of public finance sustainability, the government debt-to-GDP ratio, posted an unfavourable evolution in 2011; however, it continued to post a level by far lower than the limit set forth by the nominal criterion.

Since mid-2007 until early 2009, the leu depreciated markedly versus the euro against the background of the deterioration of foreign investors' perception on the risks associated with Central and Eastern European economies. Subsequently, the conclusion of the agreements with the international financial institutions, the enforcement of a set of fiscal consolidation measures and the alleviation of financial tensions in the region supported a relatively stable evolution of the leu exchange rate versus the euro, its fluctuations falling within the ±15 percent standard band compared to the reference level.

The long-term interest rate continued to exceed the reference level. Amid the signals pointing to the easing of the economic recession concurrently with the improvement in the risk perception on investment in Romania, the spread shrank from a 3.7 percentage point peak seen in 2009 to 1.5 percentage points in December 2011. Subsequently, although the long-term interest rates were further on a downward trend, the spread widened to 3.1 percentage points in May 2012, as a result of the drop in the reference level.

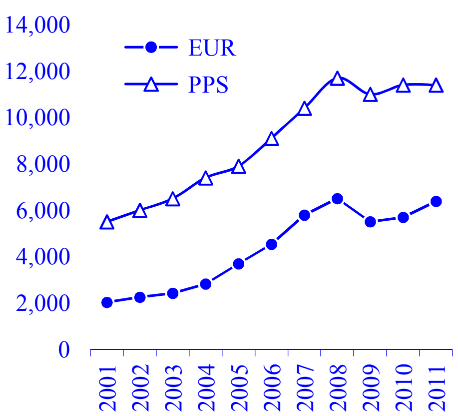
The sustainable fulfilment of the nominal convergence criteria is conditional upon the achievement of a high structural alignment. The GDP per capita, the structure of the economy by sector, the economy openness and the share of trade with the EU in total foreign trade are the most significant real convergence indicators.

Consistent with the catching-up process, the ratio of GDP per capita (calculated based on the purchasing power standard) in Romania to that in the euro area doubled over the past 10 years (from approximately 20 percent in 2001 to roughly 40 percent in 2011). At the same time, the structure of the economic sectors became similar to that in the euro area (particularly owing to the decrease in the share of agriculture), which may contribute to the mitigation of the effects of potential asymmetrical shocks.

[2] For details on the stages of the procedure visit: http://ec.europa.eu/economy_finance/sgp/deficit/countries/romania_en.htm.

In the context of the rebound of Romania's trade in 2010 and 2011, the economy's openness (calculated as the sum of imports and exports of goods and services as a share of GDP) reverted to readings higher than 75 percent. Trade integration with the European Union is assessed to be high, given that the share of trade with EU Member States came in at over 70 percent in total trade over the past 3 years.

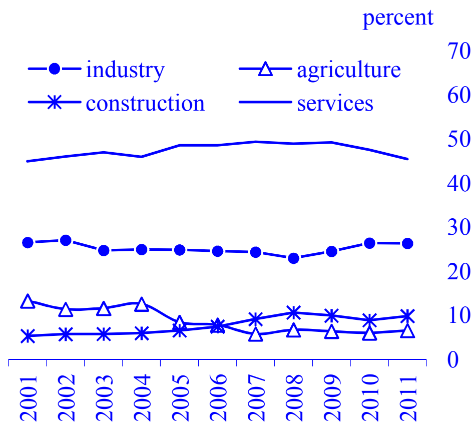
**GDP per Capita**




PPS = Purchasing Power Standard

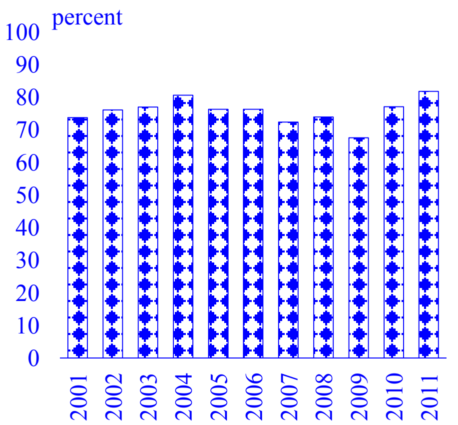
*Source: Eurostat, NIS, NBR*

**Share of Economic Sectors in GDP**




*Source: NIS*

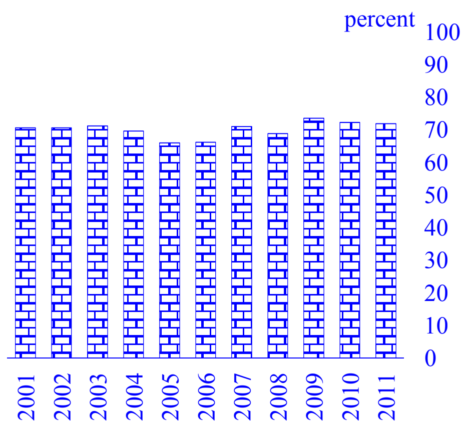
**Economy Openness***




* (imports+exports of goods and services)/GDP

*Source: NIS*

**Share of Trade with the EU* in Total Foreign Trade**




* EU26

*Source: NIS*

The structural alignment analysis can be extended by including other indicators associated with the dynamics and financing of the current account deficit and the evolution of the financial and banking system. After the outbreak of the global financial crisis, the current account deficit narrowed considerably, in parallel with the massive fall in capital inflows. Concurrently, starting 2009 until 2011, the deficit coverage from foreign direct investment shrank from about 70 percent to readings slightly above 30 percent. The financial and banking sector reports a high integration with that of the euro area, as shown by the prevalence of the capital originating in the euro area countries in the shareholding structure of commercial banks; nevertheless, financial intermediation continues to be undersized[3].

The current assessment of the progress in Romania's nominal and real convergence towards the euro area points to the necessity to carry on with the efforts to revive the economy along with the efforts to attain fiscal consolidation. These efforts are concurrent with those undertaken by a large number of countries inside and outside the European Union.

## 2. Euro adoption co-ordinating bodies

From an administrative standpoint, similarly to the other new EU Member States, the Romanian authorities set up bodies for co-ordinating the adoption of the single currency.

Thus, in February 2010, a Committee for preparing the changeover to the euro was established within the NBR, providing a formalised framework for debating the issues relative to the nominal and real convergence and supporting the central bank's decisions ahead of joining the Economic Monetary Union. Starting with October 2010, the representatives of the Ministry of Public Finance have enjoyed a permanent observer status within this Committee. During 2011, the Committee for preparing the changeover to the euro held six meetings. In 2012 H1 three more meetings took place. The issues under discussion were: Romania's progress in adopting the euro (analyses concerning the equilibrium exchange rate, indicators on Romania's structural alignment to the euro area), other countries' experience with preparing the changeover to the euro, new measures, mechanisms and concepts adopted across the European Union (notes on the European Semester, the scoreboard for monitoring macroeconomic imbalances, recent approaches to public finance issues, the start of operations of the European Systemic Risk Board, the Euro Plus Pact), the NBR's contributions to the Government of Romania' programming documents (the Convergence programme, the National Reform Programme).

In May 2011, an Interministerial Committee was established with a view to co-ordinating the process of the euro adoption country-wide. On 31 October 2011, the central bank hosted the first reunion of this committee. The mentioned committee is run by the prime-minister and encompasses representatives of the NBR, the MPF and other institutions.

In anticipation of the creation of this committee, the NBR took over the initiative to outline a series of essential documents that must be adopted within the National Euro Changeover Plan. Thus, the NBR made a set of propositions to be considered while preparing the draft law on the measures that must be implemented ahead of the euro adoption, which incorporated also the notes of the Ministry of Justice in charge of co-ordinating the legislative activities within the Interministerial Committee for the euro changeover. Furthermore, a draft was compiled concerning the communication strategy on the euro adoption, which is to be submitted for analysis and approval to this

[3] In 2011, financial intermediation, calculated as a ratio of loans to the private sector to GDP, stood at 37.8 percent in Romania compared with 118.4 percent in the euro area.

committee. In this context, another issue under debate concerned the enhancement of public awareness on financial and economic matters, which is essential for adequately understanding the stages and implications of the euro adoption.

By so acting, the National Bank of Romania assumed the role of catalyst of the debate, at both institutional and public level, regarding the co-ordinates of the euro adoption process, with the conviction that these call for a well-substantiated assessment, unaffected by any doctrine or the electoral cycle.

According to the provisions of the 2012-2015 Convergence Programme, the commitment was maintained to adopt the euro in 2015. This commitment is an important anchor for ensuring time consistency of the macroeconomic policy mix and of structural reforms, as well as for promoting the adjustments necessary to increase the Romanian economy's resilience and flexibility. From this standpoint, it is worth mentioning that, in 2011, Romania joined the Euro Plus Pact which defines as main fields of action: the consolidation of public finances, the provision of financial market stability and the enhancement of external competitiveness through policies aiming at labour and product markets. In addition, in 2012, Romania signed the Treaty on stability, co-ordination and governance in the Economic and Monetary Union which implies the adoption of a set of rules in order to promote budgetary discipline by means of a budgetary pact and the consolidation of economic policy co-ordination with a view to attaining the objectives regarding a durable economic growth, employment, competitiveness and social cohesion.

## 3. Developments in the economic governance field in the European Union

The current context of the financial and economic crisis, as well as the sovereign debt crisis called for a rethinking of the framework for co-ordinating the economic policies of EU Member States. Thus, in December 2011, the EU Council and the European Parliament adopted the new legislation on the economic governance (five regulations and a directive) including provisions relative to the tightening of the fiscal discipline rules stipulated by the Stability and Growth Pact, as well as to the creation of mechanisms designed to prevent and correct major macroeconomic imbalances.

Although the reference criteria regarding fiscal indicators stipulated by the Stability and Growth Pact remain unchanged, the importance of meeting such objectives has significantly increased. Thus, the growth rate of public spending became subject to limitation and financial sanctions were imposed where a member state fails to comply with its obligations; moreover, the excessive deficit procedure can also be initiated where the government debt criterion is not observed (even if the budget deficit is lower than 3 percent of GDP). Through the Fiscal Compact, the Treaty on stability, co-ordination and governance in the Economic and Monetary Union aims also at ensuring the strengthening of the fiscal supervision set forth by the Stability and Growth Pact.

The macroeconomic imbalance procedure laid down in the new legislation envisages as a first step the establishment of a scoreboard including 10 indicators allowing the early identification of both short-term imbalances and longer-term, structural imbalances. Based on this scoreboard, the European Commission compiles a report on the alert mechanism and makes recommendations for additional analyses, where necessary. The macroeconomic imbalance procedure can be initiated based on these analyses alone[4].

The process aimed at selecting the indicators included in the scoreboard was based on four principles: (i) the relevance of the indicators in measuring macroeconomic imbalances and competitiveness losses; to this end, indicators monitoring external equilibria, competitiveness and domestic equilibria were considered; (ii) their capacity to signal exactly and at an early stage potential disequilibria and competitiveness losses: stock and flow indicators were selected for which alert thresholds were thus set to avoid "false alarms" or the late detection of an issue; (iii) the communication role of the indicators, for which reason the number of the selected indicators was limited, while the methods for processing data were simple and transparent; (iv) the indicators' statistical quality (Eurostat is the source usually resorted to).

At this stage, the scoreboard comprises the following indicators:

(i) the current account balance, the selection of this indicator building on the fact that the existence of an imbalance in this respect frequently hints at other disequilibria across the economy. For instance, in some countries, the considerable current account deficit reported in the years prior to the crisis illustrates, to a great extent, the excessive credit expansion. Moreover, a large and persistent current account surplus can indicate dysfunctions across the domestic market or the economic policies containing domestic demand and investment opportunities;

(ii) the net international investment position, standing for the counterparty of the current account balance in terms of stock; the two indicators enable the stock-flow analysis of the external position. A pronounced negative investment position pinpoints a high indebtedness of the economy, which is frequently associated with an increased vulnerability towards financial markets' sentiment and contributes to the persistence of wide current account deficits through the high debt service costs;

(iii) the real effective exchange rate calculated based on HICP, deemed relevant for the persistent changes in a country's price competitiveness versus the main trade partners. This indicator is associated with different reference values for euro and non-euro area countries (more relaxed in the latter case) to reflect the differences between the two groups of countries in terms of the nominal and real convergence process;

(iv) the nominal unit labour cost supplements the information on the competitiveness evolution, providing a direct connection between costs and productivity. In order to accommodate the catching-up of the prices of production factors in the euro area with those in the non-euro area, the reference values are also differentiated;

[4] Both the excessive deficit and macroeconomic imbalance procedures are based on the Council's analysis and recommendation system for the concerned Member States, deadlines on the enforcement of the adequate recommendations and sanctions in the event of failure to comply with the obligations.

(v) the market share held by a country's exports of goods and services in world's exports, as an indicator used to measure the impact of slow and persistent competitiveness losses;

(vi) the house price index, in order to signal potential pressures built up on the real-estate market, given that they played an essential part in the recent global financial crisis, being a major source of macroeconomic imbalances;

(vii) the private sector debt, with overly high levels of this indicator implying significant risks to economic growth and financial stability. Although the economic literature does not provide clear evidence on the optimum level of debt across an economy, high levels enhance the private sector's vulnerability to changes in the business cycle, to higher inflation or higher interest rates;

(viii) the credit flow to the private sector is an indicator complementary to the private debt stock, the large fluctuations in lending being frequently associated with the real-estate bubbles, the potential vulnerabilities of the banking system, as well as with external imbalances;

(ix) government debt is analysed together with private debt stock in order to obtain an overall view on indebtedness and, implicitly, on the vulnerability of an economy. The inclusion of this indicator in the scoreboard is not aimed at monitoring the risks associated with an unsustainable position of public finances, as the Stability and Growth Pact covers this objective;

(x) the unemployment rate, as the high and persistent levels of this indicator signal a potential misallocation of resources and the economy's low capacity to adjust.

The European Commission's first annual report on the alert mechanism was released in February 2012; it identified 12 Member States whose macroeconomic situation calls for in-depth analyses (Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Hungary, Italy, Slovenia, Spain, Sweden and the United Kingdom). Greece, Ireland, Portugal and Romania have not been assessed in this first report, as they benefit by financial assistance programmes from the EU and the IMF and are already subject to a consolidated economic supervision.

The report points out the fact that the significant economic decline seen after the outbreak of the crisis led to a pronounced adjustment in external imbalances; however, several Member States continue to report readings above the indicative levels in the scoreboard, which are accompanied as a rule by a high level of net external liabilities, reflecting the persistent current account deficits (albeit declining) and the sluggish economic activity.

## Table 2. Scoreboard for Supervising Macroeconomic Disequilibria

| | | Current account balance | Net international investment position | HICP-based real effective exchange rate | Market share of exports of goods and services | Nominal unit labour cost | House price index | Private debt | Credit flow to the private sector | Government debt | Unemployment rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | % of GDP, 3-year average | % of GDP | 3-year percentage change | 5-year percentage change | 3-year percentage change | annual percentage change | % of GDP | % of GDP | % of GDP | 3-year average |
| | | -4%/+6% of GDP | -35% of GDP | ±5% (EA) ±11% (non-EA) | -6% | +9% (EA) +12% (non-EA) | +6% | 160% of GDP | +15% of GDP | 60% of GDP | 10% |
| Belgium | 2010 | -0.6 | 77.8 | 1.3 | **-14.5** | 8.4 | 0.4 | **232.7** | 13.1 | **95.9** | 7.7 |
| | 2011 | -0.3 | 62.5 | | | 6.4 | | **241.9** | **17.7** | **98.2** | 7.8 |
| Bulgaria | 2010 | **-11.0** | **-94.7** | 10.4 | 15.8 | **33.9** | -11.1 | **169.2** | -0.2 | 16.3 | 7.5 |
| | 2011 | -3.0 | **-85.3** | | | **20.3** | | | | 16.3 | 9.3 |
| Czech Republic | 2010 | -2.8 | **-48.5** | **12.7** | 10.2 | 5.1 | -2.6 | 77.2 | 1.7 | 38.1 | 6.1 |
| | 2011 | -3.0 | **-49.7** | | | 1.8 | | | | 41.2 | 6.9 |
| Denmark | 2010 | 3.9 | 10.1 | 0.9 | **-15.3** | 11.0 | 0.6 | **244.2** | 5.8 | 42.9 | 5.6 |
| | 2011 | 5.1 | 24.4 | | | 4.9 | | | | 46.5 | 7.0 |
| Germany | 2010 | **6.1** | 38.4 | -2.9 | **-7.2** | 6.6 | -1.0 | 128.2 | 3.1 | **83.0** | 7.5 |
| | 2011 | 5.9 | 36.3 | | | 5.7 | | | | **81.2** | 6.9 |
| Estonia | 2010 | -0.8 | **-72.8** | **5.9** | -0.9 | **9.3** | -2.1 | **176.7** | **18.1** | 6.7 | **12.0** |
| | 2011 | 3.5 | **-57.8** | | | -3.5 | | | | 6.0 | **14.3** |
| Ireland | 2010 | -2.7 | **-90.9** | -5.0 | **-12.8** | -2.3 | -10.5 | **341.3** | -4.5 | **92.5** | **10.6** |
| | 2011 | -0.8 | **-101.9** | | | -11.8f | | | | **108.2** | **13.3** |
| Greece | 2010 | **-12.1** | **-92.5** | 3.9 | **-20.0** | **12.8** | -6.8 | 125.2 | 0.7 | **145.0** | 9.9 |
| | 2011 | **-10.4** | **-79.2** | | | 2.3 | | 125.0 | -5.5 | **165.3** | |
| Spain | 2010 | **-6.3** | **-89.4** | 0.6 | **-10.6** | 3.3 | -4.3 | **227.3** | 1.4 | **61.2** | **16.5** |
| | 2011 | **-4.3** | **-92.1** | | | -3.3 | | | | **68.5** | **19.9** |
| France | 2010 | -1.7 | -8.0 | -1.4 | **-19.4** | 7.2 | 3.9 | 159.8 | 2.4 | **82.5** | 9.0 |
| | 2011 | -1.8 | -10.9 | | | 5.7f | | | | **86.0** | 9.7 |
| Italy | 2010 | -2.8 | -24.0 | -1.0 | **-19.1** | 8.1 | -1.5 | 126.4 | 3.6 | **118.6** | 7.6 |
| | 2011 | -2.9 | -21.8 | | | 4.5 | | | | **120.1** | 8.2 |
| Cyprus | 2010 | **-12.1** | **-43.4** | 0.8 | **-19.4** | 7.2 | -6.6 | **289.2** | **30.5** | **61.5** | 5.1 |
| | 2011 | **-10.3** | **-80.7** | | | 7.5 | | | | **71.6** | 6.4 |
| Latvia | 2010 | -0.5 | **-80.2** | 8.5 | 14.0 | 0.4 | -3.9 | 140.9 | -8.8 | 44.7 | **14.3** |
| | 2011 | 3.5 | **-72.5** | | | -15.1 | | | | 42.6 | **17.1** |
| Lithuania | 2010 | -2.3 | **-55.9** | 9.1 | 13.9 | 0.8 | -8.7 | 80.8 | -5.3 | 38.0 | **12.5** |
| | 2011 | 1.5 | **-52.2** | | | -8.8 | | | | 38.5 | **15.7** |
| Luxembourg | 2010 | **6.4** | 103.9 | 1.9 | 3.2 | **17.3** | 3.0 | **253.9** | -41.8 | 19.1 | 4.9 |
| | 2011 | **7.1** | 103.1 | | | **14.0** | | | | 18.2 | 4.8 |
| Hungary | 2010 | -2.1 | **-112.7** | -0.5 | 1.4 | 3.9 | -6.7 | 155.1 | -18.7 | **81.4** | 9.7 |
| | 2011 | 0.8 | **-105.2** | | | 3.9 | | | | **80.6** | **10.7** |
| Malta | 2010 | **-6.6** | 6.9 | -0.6 | 14.9 | 8.8 | -1.6 | **212.0** | 6.9 | **69.4** | 6.6 |
| | 2011 | **-5.9** | | | | 6.2 | | | | **72.0** | 6.8 |
| The Netherlands | 2010 | 5.1 | 29.4 | -1.0 | **-8.1** | 7.4 | -2.9 | **223.4** | -0.7 | **62.9** | 3.8 |
| | 2011 | **6.8** | 37.3 | | | 4.9 | | | | **65.2** | 4.2 |
| Austria | 2010 | 3.5 | -10.9 | -1.3 | **-14.8** | 8.9 | -1.5 | **165.7** | 6.4 | **71.9** | 4.3 |
| | 2011 | 2.6 | -5.6 | | | 6.3 | | | | **72.2** | 4.4 |
| Poland | 2010 | **-5.0** | **-64.0** | -0.5 | 20.1 | **12.4** | -6.1 | 74.2 | 3.8 | 54.8 | 8.3 |
| | 2011 | **-4.3** | **-63.6** | | | 6.3f | | | | 56.3 | 9.2 |
| Portugal | 2010 | **-11.2** | **-106.1** | -2.4 | **-8.6** | 5.1 | 0.1 | **250.2** | 4.5 | **93.3** | **10.4** |
| | 2011 | **-9.1** | **-102.6** | | | 0.8 | | **249.1** | -3.3 | **107.8** | **11.8** |
| **Romania** | 2010 | **-6.7** | **-63.8** | -10.4 | 21.3 | **36.5** | -14.5 | 77.7 | 1.7 | 30.5 | 6.6 |
| | 2011 | **-4.3** | **-61.6** | | | **12.9** | | | | 33.3 | 7.1 |
| Slovenia | 2010 | -3.0 | **-35.7** | 2.3 | -5.9 | **15.7** | 0.7 | 128.8 | 1.8 | 38.8 | 5.9 |
| | 2011 | -1.1 | **-38.6** | | | **9.5** | | 130.6 | 2.0 | 47.6 | 7.1 |
| Slovakia | 2010 | **-4.1** | **-66.3** | **12.1** | 32.6 | **10.2** | -4.9 | 69.0 | 3.3 | 41.1 | **12.0** |
| | 2011 | -2.0 | **-64.5** | | | 4.9 | | | | 43.3 | **13.3** |
| Finland | 2010 | 1.9 | 10.6 | 0.3 | **-20.1** | **14.5** | **6.6** | **177.7** | 6.8 | 48.4 | 7.7 |
| | 2011 | 0.8 | 14.0 | | | 8.3 | | | | 48.6 | 8.1 |
| Sweden | 2010 | **7.6** | -8.5 | -2.5 | **-11.3** | 5.6 | **6.3** | **235.0** | 2.5 | 39.4 | 7.6 |
| | 2011 | **7.0** | -6.8 | | | 1.5 | | **232.8** | 6.3 | 38.4 | 8.1 |
| The United Kingdom | 2010 | -2.1 | -23.8 | **-19.7** | **-23.1** | 11.3 | 3.0 | **209.4** | 2.6 | **79.6** | 7.0 |
| | 2011 | -2.2 | -13.4 | | | 9.2 | | **207.1** | 4.1 | **85.7** | |

f) forecast

*Source: ECB, EC*

The erosion of price competitiveness, illustrated by wage growth rates overtaking productivity gains, and the appreciation trend followed by real effective exchange rates were among the factors accounting for the widening of external imbalances in the pre-crisis period. Although the global financial and economic crisis put an end to this trend, leading to an adjustment process, in most Member States, the correction was not complete, as new realignments of relative prices are still necessary and competitiveness needs to be further improved. In spite of these corrections, most euro area countries posted declines in their export market shares in excess of the threshold set in the scoreboard. Apart from the deterioration in price competitiveness, the evolution indicates slow progress in non-price competitiveness, a low capacity to capitalise on new opportunities, the shift in resources to the non-tradables sector during the economic boom.

Relative to domestic imbalances, the report emphasises that, in many European countries, the protracted credit expansion in the years prior to the financial and economic crisis affected the economic agents that had built up considerable debts by the outbreak of the crisis. Furthermore, the fast credit dynamics led to unprecedented hikes in real-estate prices, the peaks being reported in 2008. The financial and economic crisis triggered adjustments in these cases too: on the one hand, it put a damper on the lending activity and deleveraging became visible, while, on the other hand, real-estate prices saw significant corrections, with the most pronounced ones taking place in the countries having recorded the fastest and largest increases in the pre-crisis period. In 2010, Finland and Sweden were the only countries reporting real annual changes in house prices above the reference value.

The adjustments in external and internal imbalances were accompanied by the pick-up in unemployment rate, with the labour force reallocation among sectors taking place very slowly in most Member States.

In the case of Romania, the analysis of the scoreboard reveals vulnerabilities only in terms of external imbalances, both the current account deficit and the net investment position exceeding the set ceilings. Thus, although the current account deficit saw a significant adjustment during the financial crisis (following the increase in exports and the decline in domestic demand), its level continues to exceed the set threshold owing among other factors to the high import content of exports. The net investment position-to-GDP ratio stood above the reference level, pointing to the persistent current account deficit and to the massive capital inflows in the period prior to the financial crisis.

In terms of competitiveness, both the real effective exchange rate and the unit labour cost posted developments that underpinned the adjustment of the current account deficit in 2008-2011. However, the latter indicator continues to be above the set threshold, hinting at the persistence of structural rigidities on the labour market, with an impact on the wage adjustment speed.

# Chapter 11. External communication of the National Bank of Romania

In 2011, the National Bank of Romania's external communication activity was aimed at ensuring the general public's better understanding of its monetary policy decisions and the measures addressing the maintenance of financial system stability, given the slow recovery of the Romanian economy, the adverse effects of the sovereign debt crisis in Europe and the persistent uncertainties surrounding the developments in world economy.

The NBR acted towards the significant increase in the frequency and intensity of the messages conveyed, as well as towards their tailoring to the different target public groups (the banking community, financial analysts, journalists, the business environment, the academia, the general public), with a view to warranting correct and timely provision of information on its decisions and actions and to preventing potential distortions. Thus, the central bank, via its representatives, provided explanations regarding the monetary policy decisions, the economic developments and the level of fulfilment of the commitments agreed under the external financing arrangements signed with the European Union, the International Monetary Fund and other international financial institutions.

The National Bank of Romania supplied relevant information on the developments in and prospects for the key macroeconomic indicators and domestic financial market indicators by means of quarterly press conferences, the Inflation Report and the Financial Stability Report, interviews granted by the central bank's senior executives and experts, presentations, speeches, and participation in the debates occasioned by various events.

The increased written media coverage is thus to be noted, with over 16,000, further unbiased or positive, articles published in the domestic and international press, up 60 percent from the preceding year. Furthermore, the NBR's image as reflected by the online media and the monitoring of the main social networks pointed to the unbiased tone of most articles and comments.

With a view to achieving higher transparency and effectiveness of its measures, the central bank extended its range of communication tools and channels, aiming at ensuring a relatively balanced distribution of messages/information, as well as their adequate dissemination, including by its territorial network's more active involvement. Thus, direct communication translated into more than 35 events, i.e. seminars, conferences and symposiums, and the NBR website and publications remain significant landmarks in spreading the institution's messages and information. At the same time, the informal meetings with various target public groups (financial analysts, commercial bank treasurers, members of the Romanian Banking Association and representatives of the academia and the business community) provided new opportunities for dialogue and useful exchanges of opinions.

As regards communication with other institutions, the NBR further strengthened its traditional cooperation with Romanian and European institutions by organising joint events. The communication activities relative to the progress in achieving convergence with the European Union included conferences and exhibitions, where the public interventions of central bank's officials ensured the conveyance of helpful information to experts and the general public on the benefits and challenges posed by the adoption of the European single currency. In this context, mention should be made of the Euro Exhibition, a large-scale event organised by the NBR together with the European Central Bank at the former's Bucharest Branch in March-May 2011, which attracted over 6,500 visitors, almost half of them being pupils and students. The National Bank of Romania took this opportunity to present the major milestones in the history of the domestic currency, i.e. the leu, and to provide relevant information on the central bank's role and the developments in the Romanian monetary system.

Conferences with international participation such as: "Economic Governance in the EU" – organised by the National Bank of Romania together with the European Commission and the Ministry of Public Finance –, "Target-2 România Launching", where TARGET2-România is the first settlement system for EUR-denominated payments in Romania, and "IFRS: International Experience and Implementation by the Romanian Banking Sector in 2012" tackled important issues concerning the activity specific to the central bank, as well as the agenda of the European Union. These events brought together participants from the NBR, the EC, the ECB, the ESCB, and the financial and banking system.

Furthermore, the NBR strengthened its cooperation with the institutions in charge of supervising other segments of the Romanian financial market, being actively involved in the joint effort to ensure consistent messages delivered by the National Committee for Financial Stability.

In 2011, the banking, academic and business communities were important target public groups, as the National Bank of Romania took part in/hosted conferences such as "Challenges to EU Economic Growth. Reforms for the Future of Europe" and "Business Behaviour in Times of Crisis", as well as the 37th annual conference of the European International Business Academy (EIBA), which brought together more than 350 representatives of the academia at European and global levels.

The string of events traditionally organised by the central bank included: The Monetary Policy Colloquia, The Legal Colloquia of the NBR, the 19th edition of the "Cristian Popişteanu" Symposium on Banking History and Civilisation, and the 6th edition of the Regional Seminar on Financial Stability Issues, in cooperation with the IMF.

Thematic events like "History of the Romanian banknote – 130 years since the first banknote issued by the NBR was printed in Bucharest", organised in collaboration with the NBR Printing Works, and "Financial Stories in the Old City Centre of Bucharest", in cooperation with the *Istorie şi civilizaţie* magazine, focused attention on the history of the National Bank of Romania and the domestic currency. Moreover, an NBR specially designed project that was launched in 2010 to mark the institution's 130th anniversary provided representatives of the academic and research community, businesspeople, students and pupils with the opportunity of touring the central bank's headquarters. In 2011, more than 200 people visited the Centre for Processing, the Library, the Museum, the Council Chamber and the Gallery of Governors, being offered brochures, leaflets and other information materials on the NBR's history and activity.

## NBR publications

Publications were further one of the central bank's key communication tools in 2011 as well, providing a wide range of information both to the financial and banking area experts and the general public. Most NBR publications are available both in hard copy and electronic format in Romanian and in most cases also in English.

In the year under review, the publication *"Investițiile străine directe în România"* ("Foreign Direct Investment in Romania") was released in bilingual format, i.e. Romanian and English, new segments of the general public gaining thus access to the information provided therein. Furthermore, 2011 witnessed the publication of the third volume in the series *"Bancnotele României"* (Romania's Banknotes), titled *"Emisiunile de bancnote româneşti în perioada 1929-1947"* (Romanian Banknote Issues during 1929-1947).

As concerns the steps taken by the NBR towards promoting dialogue with the financial and banking community on various topics, the *Caietele juridice ale Băncii Naționale a României* (Legal Papers of the National Bank of Romania) magazine was launched in 2011. It presents opinions expressed both by central bank experts and lawyers and professionals in the academia and the financial system (commercial banks, auditing companies) relative to banking legislation.

The National Bank of Romania ensured, in 2011 as well, the translation into Romanian of the following European Central Bank publications: the Annual Report and the Monthly Bulletin (the summary of the March, June, September and December issues), which are available on the publications page of the ECB website. At the same time, the NBR further published the editorials of the ECB Monthly Bulletin in Romanian on its website.

Given the increasingly extensive use of online communication means, which allow for the prompt dissemination of the information required and lower publishing costs, the National Bank of Romania decided to stop printing its Monthly Bulletin starting with the January 2012 issue. Consequently, the publication is available only in electronic format on the NBR website. This measure was in line with the trend seen across the ESCB national central banks, whose publication policy underwent a change in focus, shifting from the printed form to the electronic one.

## New communication tools

In 2011, the NBR website development translated into a wider scope of the information disseminated and the functional facilities/services rendered to users, as well as a larger number of layouts, along with the system's improved technical performance, thus contributing to the public's fast access to information.

NBR website access statistics show a steady uptrend in users' interest in the information released, especially the statistical data available on a real-time basis (the leu exchange rate, interbank rates, dealings in government securities, open market operations), as well as in the draft legislation pieces subject to public consultation. The number of visited pages increased by over 40 percent against the previous year (under similar methodological conditions[1]).

With a view to widening the range of target groups and rendering information dissemination and receipt of constant feedback on its actions more efficient, in the latter half of 2011, the National Bank of Romania introduced new online communication tools by opening its own accounts on Twitter (http://twitter.com/bnr_ro) and YouTube (http://youtube.com/bnrro).

## Public information activity

In 2011, the National Bank of Romania continued to meet a significant number of information requests submitted based on Law No. 544/2001 on free access to public interest information, as subsequently amended and supplemented, and on Government Ordinance No. 27/2002 on regulating the petition settlement activity, as amended and supplemented by Law No. 233/2002. Thus, throughout the year, around 11,500 queries/petitions, i.e. 44 requests per business day on average, were referred to the NBR to be solved.

Public interest requests/petitions concerned primarily the following subjects:

- developments in the exchange rate of the domestic currency versus different currencies for various periods of time, including requests on explaining the movements in the leu exchange rate against 'exotic' currencies amid the challenging external environment and the rise in overdue loans;
- various interest rates applied or calculated by the central bank, including interpretations of the regulations on the legal interest rate;
- regulations issued by the NBR and interpretations of the legislation it deals with;
- explanations on establishing the various categories of entities subject to NBR regulations – pawnshops, mutual benefit funds, foreign exchange offices, etc.;
- manners of inquiring/erasing the information in the databases of the Central Credit Register and the Payment Incidents Bureau; clarifying the regime governing the information in these databases;
- clarifications regarding the statistical reports submitted to the central bank;
- notifications related to the activity of institutions subject to regulation, authorisation and prudential supervision by the central bank (credit institutions, non-bank financial institutions, payment institutions);

[1] By excluding XML files, with the reshaping of the caching policy at mid-2011 impacting on the number of hits.

- various statistical data published by the NBR; and
- requests for the exchange of worn-out/defaced banknotes or of banknotes which are no longer legal tender.

In 2011, some 22,500 copies of NBR publications were sent to the beneficiaries in the mailing list.

With a view to facilitating the access of people interested in referring various requests to the central bank, the public information section on the NBR website was supplemented by the pieces of legislation applicable in the field, the standard contact templates specified by the legal framework, as well as details on the possibilities of submitting requests to the NBR. The endeavour proved successful, as in 2011 the number of requests based precisely on the provisions of Law No. 544/2001 that were sent via e-mail after filling in the form requiring access to public interest information increased to 696 from 24 on average in the previous years.

The adequately managed settlement of the petitions/public interest information requests recorded in 2011 by responsibly handling queries and providing answers within the deadlines set by the legal framework was attested to by the lack, throughout the year, of any administrative complaints or court actions related to breaking the right to public interest information access or related to the answers provided.

## Educational projects

An integral part of the NBR's external communication activity, the educational projects are aimed at supporting the public's financial education with a view to ensuring a better understanding and a correct assessment of the economic and financial information.

Thus, in 2011 the central bank launched the *"Să vorbim despre bani şi bănci"* (Let's Talk About Money and Banks) pilot programme, dedicated mainly to high-school students, adding to the already famous "NBR – Open Doors for Economics Students" project.

The third edition of the above-mentioned project was conducted in partnership with ten universities and directly involved over 350 students and 250 professors and Ph.D. students of partner universities. The conferences held by the NBR Board members were attended by more than 3,000 participants and covered extremely topical issues on macroeconomic developments, financial stability, monetary policy and financial sector regulation.

The NBR branches and agencies opened their doors to students, pupils and teachers by hosting events and debates that were part of educational projects and related cultural activities, thus reasserting the central bank's commitment to transparency through its external communication activity.

In 2011, developing the project dedicated to students also implied organising the "NBR Summer School" debate forum designed to strengthen the cooperation with the academia. Due both to its concept focusing on boosting scientific research and joint educational activities and its content, the forum provided the participating teachers from partner universities across the country with the opportunity to discuss current economic, financial and institutional issues that were relevant both domestically and externally with NBR Board members and NBR advisers and managers. Along with the topics related to the NBR's role and functions – management of international reserves, open market operations, monetary policy conduct, banking supervision and financial stability –, the forum covered themes such as convergence in the new European context, economic governance and the part played by central banks under the new global circumstances. The undertaking's favourable reception in the academic community testified to its success and led to the National Bank of Romania designing and launching "Academica BNR", a new separate project, in 2012.

Together with the Euro Exhibition, the new "Let's Talk About Money and Banks" project attested to the NBR expanding its educational projects for teenagers. The project, which aimed at ensuring 10th to 12th grade students acquire a basic economic vocabulary and understand notions such as inflation, financial markets and central bank, materialised in a pilot programme that included high schools in Bacău, Brăila, Bucharest and Târgu Mureş. Over 500 pupils attended the conferences held by NBR Board members and lecturers, whereas more than 110 Economics teachers discussed with the central bank's officials at the institution's branches and agencies.

## The Cultural Days of the National Bank of Romania

Restating its support for Romanian and European cultural assets, the National Bank of Romania carried on its social responsibility project inspired by "The Cultural Days of the European Central Bank – Romania 2009". Most activities were an integral part of well-known scientific or educational events. More than 1,500 representatives of the financial and banking, academic and cultural communities took part in the 17 artistic events featuring young talents, as well as local and international cultural figures. While in 2010 such events were held only in Bucharest, the 2011 edition added a touch of novelty in that they were also organised in other major Romanian cities such as Cluj-Napoca, Constanța, Iaşi and Timişoara.

# Chapter 12. Economic research

Economic research activity within the National Bank of Romania focuses on applicative issues that play a major part in the substantiation of the decision-making process. In 2011, the priorities on the agenda encompassed macroeconomic modelling, monetary analysis, financial stability, and real economy. In terms of the organisational structure, the departments conducting economic research activities were as follows: the Macroeconomic Modelling and Forecasting Department, the Economics Department, the Monetary Policy Department and the Financial Stability Department.

## 1. Macroeconomic modelling

Macroeconomic modelling activity within the NBR primarily provides support to monetary policy decisions. Given the specific transmission lags of the monetary policy measures to the economy, macroeconomic forecasts play a crucial role in the inflation targeting strategy that has been pursued by the NBR since August 2005. Therefore, in 2011, scientific activity was also largely aimed at improving the quarterly model for analysis and medium-term forecasting of inflation (MAMTF). This was achieved by specifying additional blocks of variables while also re-specifying, re-calibrating and/or re-estimating those already in place.

To this end, the key priority was to further recalibrate the main dynamics equations of the model, which is seen as an ongoing process strictly dependent on developments in the economic environment subject to modelling (both the domestic economy and the economies of the major trade and financial partners). Key activities carried out in 2011 included: improving labour market block modelling, re-specifying and re-calibrating on a regular basis the deflator equations for aggregate demand components, as well as the equations relating to the real dynamics of these components, taking the first steps towards integrating satellite-models into the main MAMTF block. Testing the adequacy of the new specifications required the use of in-sample forecasts (covering the historical periods for which data are available), sequential or simultaneous simulations of specific shocks and evaluating the theoretical plausibility of the outcomes, as well as the degree of compatibility between the simulated and empirical evidence.

In close connection with the aforementioned activities, the future stages will focus on the full integration of blocks within satellite models in the central forecasting model. A case in point is the labour market block, for which various solutions to its endogenous integration into the central model were tested in the course of 2011.

At present, the MAMTF only partially quantifies the real-sector-induced inflationary pressures through the real output gap. This component captures solely the additional inflation-related impact of an increase in production volume. It implies the initiation of decreasing yields of production factors, leading to a rise in production costs and thereby in prices. An additional measure of the real-sector-induced inflationary pressures is wage dynamics in the private sector. During 2011 several measures that could approximate the developments in such costs were tested by using specific econometric methods, the most appropriate of which was ultimately considered to be the “deviation of real wage in the private sector from its trend level”. The analysis is to be continued and completed in 2012 by stabilising the specification and identifying optimal ways to filter and calculate trend levels of the real wage in the private sector. Finally, the complete measure of real marginal costs borne by the producers will be calculated as a weighted average of the real output gap and the private sector real wage gap and, subsequently, the outcome will be entered as a determinant in the aggregate supply equation.

Another research avenue explored in 2011 was to develop the methodological framework for short-term projections for some variables included in the satellite-models. The most significant progress was made in designing forecasting methods for the deflators of aggregate demand components over one- to two-quarter time horizons. Such methods are all the more so useful as the MAMTF and/or other satellite-models currently in use are best performing over time horizons longer than two or three quarters, which calls for developing alternative forecasting methods for shorter time intervals.

At the same time, the analytical contents of the real GDP dynamics forecast was steadily enriched by designing it based on projections of individual components of aggregate demand. Insofar as the robustness of the outcome is validated, this approach is supposed to replace the one currently in use (based on the aggregated projection of GDP derived from the central model) and aims to minimise the residual derived from putting together individual projections of aggregate demand components (yielded by the satellite-model). Once the new method has been implemented, attempts will be made at expanding the explanatory set of determinants of individual components of aggregate demand by streamlining their interaction with the other blocks of the satellite-model. For instance, the private sector aggregate consumption component could be linked to a measure of wage pressures modelled within the labour market block.

In order to assess the accuracy of NBR staff projections, new analytical tools were completed in 2011. One tool that deserves special mention is related to assessing forecasting errors and their origins. This methodology was employed for assessing forecasting errors in the successive quarterly rounds that included the December 2011 horizon in the annual CPI inflation projection. Given the time horizon for which the NBR publishes projections in its Inflation Report, i.e. eight quarters, the said methodology has implied the assessment of the forecasting errors in all the rounds included in the February 2010 – November 2011 time frame. The assessment is useful for identifying in an analytical manner the main determinants of the discrepancy between projected and actual rates of the annual inflation. To identify the origins of such forecasting errors provides a useful insight for subsequent macroeconomic model recalibration exercises.

In 2011, the analysis of the determinants of the real exchange rate using the behavioural equilibrium exchange rate (BEER) method was continued. The analysis took an econometric approach to the estimation of real exchange rate specifications in terms of the determinants suggested in the professional literature. Moreover, during the reference period, potential GDP determinants were investigated via a production function methodology which is similar to that used by the European Commission. For this purpose, capital and labour production factors were reassessed and a new state-space model to estimate equilibrium levels of total factor productivity was implemented. Both studies seek to achieve an analytical framework for scenarios on future developments in equilibrium levels over the medium term and to provide alternative assessments to those arising from the MAMTF.

Early 2011 saw the completion of the implementation of a Dynamic Factor Model (DFM) employed for near-run GDP projections and the building of fan-chart-type confidence interval for these projections. The econometric approach to this model allows the simultaneous use of information taken from a broad range of economic indicators with various frequencies and highlights the forward-looking nature of some indicators relevant for GDP dynamics.

In 2011, the NBR further participated with its own forecasts in the half-yearly coordination exercises for monetary policy within the European Union. The ECB's Working Group on Forecasting, which is in charge of coordinating the exercises, made a renewed request to the NBR (the first request being in 2010) to conduct MAMTF-based simulations with a view to constructing a set of stress testing elasticities. Following this request, the exercise was resumed and the figures relative to the response of macroeconomic variables to shocks generated by fluctuations in economic activity at both local and global levels were updated. The cooperation is envisaged to continue over the years ahead, at various time intervals. A summary of the conclusions included in the analysis was presented to the general public on 14 June 2011, at the 4th Monetary Policy Colloquium hosted by the NBR.

## 2. Economic papers and analyses

In order to upgrade the inflation rate forecasting models, a research assessing the impact of an increase in global food prices on inflation in Romania was conducted. The analysis was based both on econometric estimation and simulations drawing on the NBR's macroeconomic model. It also examined the global food price passthrough to domestic headline inflation and core inflation, considering the underlying production chain. A summary of the major conclusions was included in the box in the May 2011 Inflation Report.

In 2011, special attention was devoted to quantifying inflation expectations in Romania. This research work took into account data stemming from qualitative surveys conducted under the coordination of the European Commission's Directorate General for Economic and Financial Affairs. It consisted in a probabilistic approach and allowed the testing of the assumptions on the formation of consumer expectations, i.e. the extent to which they are adaptive or rational, and the investigation of the manner in which a shock in expectations feeds through to the inflation rate. The conclusions of the analysis were presented to the general public on 14 June 2011, at the 4th Monetary Policy Colloquium hosted by the NBR.

In the context of the scientific research on the conditions surrounding the speculative attack on the leu in the autumn of 2008, the paper entitled "Liquidity, the October 2008 Speculative Attack and Central Bank Reputation" was prepared. It shows the causes that led to an increase in the average interbank money market rate well above the monetary policy rate during the period from 17 October to 5 November 2008. At the same time, it underscores that the high interest rate volatility was the result of a speculative attack on the leu, which altered liquidity flows among credit institutions, thus entailing higher interest rates, and that the central bank tailored its liquidity management so as to create adequate conditions for the interest rate to be brought down to normal levels. The paper is available on the NBR website.

## 3. Financial stability

In 2011, the key research topics approached in the field of financial stability were as follows:

a) Improvement of the stress testing methodology applied to the liquidity of credit institutions. In the period 17-20 October 2011, an IMF mission was in Bucharest to improve the current stress testing framework for credit institutions' liquidity. On this occasion, the methodology employed by the NBR in liquidity stress tests was assessed, the methodology to appraise liquidity based on contractual cash-flows was presented, and the amendments embedded in the new regulation on credit institutions' liquidity were examined. Different scenarios using the IMF's stress testing tool were analysed. The tests envisaged an assessment of the impact of severe scenarios implying the withdrawal of a significant percentage of corporate and household deposits, the failure to roll over part of the collateralised short-term financing, blocked access to interbank financing, and the flight of a large amount of short-term external financing. The assumptions under consideration were corroborated with a conservative outlook on liquid assets, while downsizing was out of the question. The outcome pointed to adequate liquidity in the banking system as a whole amid an increase in the share of holdings of government securities eligible for the collateralisation of financing operations carried out by the central bank and the status quo in mainly long-term external financing provided by parent undertakings.

b) Assessment of risk in ReGIS large-value payment system in terms of financial stability. The paper sought to assess the level of liquidity, credit and concentration risks across the ReGIS payment system. It took into consideration both quantitative variables to identify the degree of risk in ReGIS payment system and behaviour-related issues regarding participants in the system or the various manners in which contagion is manifest. The analysis methodology also implied to construct a scenario whereby the liquidity risk of credit institutions is quantified. The ReGIS payment system operated in stable conditions even at times of global financial market turmoil and the participants did not face substantial liquidity shortages.

c) Qualitative and quantitative analyses to warrant some changes to the regulatory framework governing the liquidity of credit institutions. The major progress the Romanian banking system made over the past few years and the convergence of the Romanian banking system towards the European banking system, coupled with the developments in the global financial system, called for adjusting the regulatory framework for liquidity risk in the banking sector. To this end, NBR Regulation No. 25/2011 on the liquidity of credit institutions and NBR Order No. 22/2011 on reporting the liquidity indicator and the high liquidity risk were issued. These analyses focused on: (i) substantiating methodological changes to and the principles underlying the assessment of liquidity risk in the banking sector; (ii) recalibrating some coefficients applicable to the items included in the calculation of the liquidity indicator with a view to enhancing its capacity to signal any potential liquidity risk build-ups in liquidity risk of credit institutions, and (iii) appraising the impact of the new regulatory framework on the liquidity of credit institutions. The analyses envisaged the methodological framework set out in Basel III liquidity standards and the international practice regarding liquidity risk supervision.

d) Estimation of the yield curve on the secondary market for government securities. The pattern of yields on leu-denominated government securities by residual maturity contains information about break-even inflation rates, real interest rates and potential systemic risk. Current methodology consists of gearing government bond yields towards various residual maturity classes, while the ensuing yield curve draws on the entire set of figures resulting from third-degree polynomial functions. In order to extract the information from the yield curve, the analysis considered the following theories: (i) expectations theory, i.e. the yield curve is shaped by investor expectations on interest rate developments, which are in line with inflation rates; (ii) liquidity preference theory, i.e. investors prefer liquid and low-risk investments, the reason for charging a premium when buying long-term bonds, and (iii) preferred habitat theory, i.e. depending upon their willingness to take on risks, investors choose to invest in either short-term or long-term instruments and the price of debt instruments is the result of demand for and supply of a certain instrument in any market segment (habitat).

e) Analysis of non-financial corporations engaged in foreign trade. The analysis provides an overview of foreign trade developments in recent years at both macroeconomic and microeconomic levels from the standpoint of non-financial corporations engaged in such activities. The major conclusions pointed to the following: (i) the performance of Romania's exports was above the average of EU emerging economies' exports during 2009-2010, (ii) keeping up the pace of export growth in the medium and long term also implies new outlets, (iii) at corporate level, Romania's exports are concentrated in a relatively small number of companies, (iv) net exporting companies are highly reliant on imports, (v) high-tech products were the fastest-growing export component, accounting for approximately 11 percent of total exports in Q1-Q3 2010, though concentrated only in a few companies, (vi) net exporting companies play a relatively minor part in Romania's economy and banking sector, such that the ensuing beneficial effects have a proportionate impact on economic recovery or lending revival, and (vii) exporting companies service their bank debts well and usually post above-average financial results economy-wide.

f) Analysis of the role small- and medium-sized enterprises (SMEs) play in Romania's economy and financial system. This paper looked at the importance of the SME sector for Romania's economy and banking sector. The key conclusions were as follows: (i) SMEs account for 54 percent of the value added of non-financial companies and 65 percent of the staff of non-financial companies (June 2010), (ii) SMEs hold 75 percent of total corporate loans extended by resident banks (December 2010), but merely 13 percent of the SMEs in operation were granted loans, (iii) borrowing requirements rose slightly, for short maturities only, with treasury loans making up 40 percent of total domestic bank financing targeting SMEs (December 2010), (iv) banks were wary of loosening lending standards to SMEs against the backdrop of their negative perception towards credit risk in this field, (v) the growth rate of non-performing loans to SMEs picked up sharply, (vi) microenterprises were the hardest hit, one likely reason for this being the business partners' pressure for them to agree on a longer claim retrieval period (up more than 50 percent in the December 2008 – June 2010 period), and (vii) export-oriented SMEs appear to be in a better position when it comes to weathering the crisis, as their return on equity stayed in positive territory, compared to the negative figures reported by the SMEs sector as a whole.

g) The stress test model for the banking sector and the real sector as a result of a short-term external financing shock. The study deals with the following possible effects arising from various scenarios on liquidity shocks: (i) the liquidity shortage in the banking sector (as a whole and in euro) that could not be covered via liquidity-providing operations by the NBR against eligible collateral, while resorting to the current mechanisms, (ii) the implications on bank solvency through the feedback channel from non-financial companies and households and through the lending rate channel, (iii) the liquidity shortage in the non-financial companies sector and (iv) the impact on lending. Moreover, the study aimed to identify the most heavily exposed credit institutions to liquidity shocks.

## 4. Scientific events organised by the NBR

In the first half of June 2011, the NBR hosted the 4th Monetary Policy Colloquium centred on the components of the monetary policy analysis and forecast framework (*"Elemente ale cadrului de analiză şi prognoză al politicii monetare"*). The presentations and debates in the two sessions of this scientific event[1] covered a number of areas relevant to monetary policy such as conceptual and empirical issues regarding money and monetary analysis, the interest rate transmission mechanism, the assessment of exogenous shocks in the NBR's macroeconomic forecasting and analysis model, consumer inflation expectations, real GDP dynamics estimation and projection by using dynamic common factor models. The event was attended by NBR experts, representatives of the academia, the banking community and the media.

On 10 June 2011, the National Bank of Romania, together with the Ministry of Public Finance and the European Commission, organised the conference *"Guvernanţa economică în Uniunea Europeană"* (Economic Governance in the

[1] On 7 and 14 June 2011 respectively.

European Union). The conference examined the recent developments in economic governance reform at the European and global level, as well as the challenges facing this process. Attending this event were representatives of the organising institutions, of the banking sector and of the academic circles from Romania and abroad.

During 13-14 October 2011, the NBR, along with the IMF, hosted the annual regional seminar on financial stability issues. The seminar titled *"Politicile macroprudențiale ale băncilor centrale"* ("Macroprudential Policies of Central Banks") sought to provide the participants with information on the latest trends and developments in financial stability and macroprudential policies and to allow exchanges of expertise in this field. The seminar was attended by central bank representatives from Austria, Bulgaria, Macedonia, Hungary, the Republic of Moldova, Poland, Russia, Ukraine and Turkey. Also participating were, apart from the IMF experts, special guests from the ECB and the Banking Regulation and Supervision Agency in Turkey. Romania was represented at this event by staff members of the NBR, the Ministry of Public Finance, the Bank Deposit Guarantee Fund, the Insurance Supervisory Commission, the Private Pension System Supervisory Commission and the National Securities Commission.

On 5 December 2011, the NBR organised the conference titled *"Inflația – un fenomen, mai mulți indicatori"* (Inflation: A Phenomenon, Several Indicators). The event was attended by bankers, National Institute of Statistics officials and journalists, and focused on the economic approach to the statistical indicators relevant for inflation performance, defining and using core inflation, the money-inflation relationship, the current stage and prospects of bringing the CPI calculation methodology more into line with European standards.

## 5. Guidelines and objectives of the research activity in 2012

In the course of 2012, research work will be further directed towards conducting studies and analyses meant to support the NBR's decision-making process by providing a wide range of relevant information.

Some research projects initiated in 2011 are to be finalised in 2012, as follows: the NBR's model will be added a more comprehensive measure of inflationary pressures associated with real marginal costs incurred by firms (in association with wage growth); the endogeneity of satellite-models and running macroeconomic projections in full by including as many relevant markets of the national economy as possible into the MAMTF. In the same vein, efforts to integrate into a single block two basic activities involved in quarterly forecast rounds will be continued, namely determining the position of the economy in the economic cycle (by establishing, via filtration, the trends and gaps of macroeconomic variables) and making macroeconomic projections, respectively. Thus, the endogeneity of the two activities will be strenghtened in an attempt at capturing all the modelled interactions between macroeconomic variables. Moreover, in 2012, the possibilities of extending the projection range from eight quarters to 12-16 quarters will be investigated, mainly to ensure a methodological harmonisation with the international institutions such as the ECB, the EC, the IMF, etc.

The approach to quantifying inflation expectations in Romania based on evidence from qualitative surveys, which had started in 2011, will be enhanced by examining the reliance of inflation expectations on core inflation and the potential asymmetries in their adjustment.

Another research topic to be addressed in 2012 is the comparative analysis of current account adjustment in Romania and in other countries in Central and Eastern Europe after the outbreak of the global financial crisis. The analysis will be based on identifying key determinants of the current account balance by using the econometric methodology that consists in estimating regression models on panel data. Based on estimations, empirical distributions for the elasticities of the determinants will be generated with a view to highlighting the contribution of each such determinant to the current account adjustment.

# Chapter 13. Other activities of the National Bank of Romania

## 1. Improvement of the NBR institutional framework

The general reorganisation plan for the National Bank of Romania started in September 2010 and has been finalised and implemented starting 21 March 2011, once Regulation No. 3/2011 on the organisation and operation of the NBR took effect. The plan envisaged a restructuring of both head office and branches, following the introduction of new objectives and tasks for the bank's units.

The reorganisation of the NBR head office was aimed at streamlining some activities and improving risk management by transferring some activities among the bank's units. With this end in view, new units were established, as follows: Monetary Policy Department and Macroeconomic Modelling and Forecasting Department (after the Monetary Policy and Macroeconomic Modelling Department was split), Assets and Investments Department and Technical and Maintenance Department (after the Logistics Department was dismantled), Governor's Control Office within the National Bank of Romania Chancellery, Organisation and Planning Division within the Human Resources Department, European and International Law Division within the Legal Department, TARGET2 Division within the Payments Department, Direct Procurement Division within the Procurement Department, Multimedia Support Division within the IT Department, as well as the Library Division, the Archives Division and the Museum Division (after the Archives and Museum Division was split) within the Secretariat Department.

The reorganisation of the National Bank of Romania's branches was meant to redefine their role within the policy of rendering their activities more efficient and enhancing their performance, along with catching up with the trends seen in other ESCB members that have in recent years embarked upon territorial network overhaul. In line with these developments, the NBR branch reorganisation envisaged to establish some units with multi-faceted tasks: regional branches in charge of carrying out and coordinating specific central banking activities on large areas and dedicated units, i.e. agencies, in charge of staying in touch with the companies doing business in their covered areas (industrial enterprises, service providers, export-oriented companies), ensuring basic processing of the collected information and sending the processed data to the departments in the NBR head office involved in real sector analysis.

At the same time, the NBR branch reorganisation and the related change in its profile targeted: (i) to disseminate monetary policy measures across the country and to enhance communication with academia and business circles; (ii) to participate in statistical surveys and inquiries via data collection in compliance with the methodology specific to direct statistical research and queries about additional information on key economic developments; (iii) to collect data from companies and households, as well as payments-related data, to be used in consolidating macroprudential analyses regarding the connections between the real economy and the financial system; and (iv) to change the tasks of territorial units after new units were created in the bank's head office.

Redefining the functions of NBR branches was also called for by the implementation of Basel II supervision principles embedded in EU directives. Accordingly, the specific objectives regarding the assessment of risks credit institutions' units are exposed to and the risk profile of every credit institution are established solely via on-site inspections at their head offices, which caused the prudential supervision activities performed by NBR branches to be reconsidered. The reorganisation process implied a redistribution of tasks among the existing staff, with personnel numbers being left unchanged.

As from 21 March 2011, the NBR's network includes four regional branches (Bucharest, Cluj-Napoca, Timişoara and Iaşi) performing also cashier desk-related and cash processing activities as well as 16 agencies (in the counties of Arad, Argeş, Bacău, Bihor, Braşov, Brăila, Buzău, Constanța, Dolj, Galați, Gorj, Maramureş, Mureş, Prahova, Sibiu and Suceava).

## 2. Human resources management

In the course of 2011, new human resources policies were articulated so as to ensure a proper framework for staff recruitment, assessment, motivation and development. At the same time, harmonisation of human resources practices in the National Bank of Romania with those in place across the ESCB, which is aimed at increasing efficiency, led to the revision of the existing by-laws or to the adoption of new regulations, as follows:

- By-law No. 14/2011 replaced the staff assessment procedure by introducing a state-of-the-art performance management system based on best practices in the field that is aimed at establishing objectives for each staff member and monitoring their fulfilment, as well as measuring professional performance based on assessment criteria. One of the main goals of the new system is to measure professional performance in an objective manner, by using a unitary approach for all staff members, in order to pave the way for creating a direct link between performance and remuneration;
- Regulation No. 4/2011 on hirings within the National Bank of Romania envisaged to improve staff recruitment methods so as to ensure that the job applicant is highly compatible with the vacancy;
- Regulation No. 13/2011 on professional training of the NBR staff put in place a framework fit to secure that staff members strive towards professional development in a competition-driven environment and to allow adjustment to the current financial and economic environment; it warrants better monitoring of bank structures' training budgets and paves the way for using the resources allocated for this activity more efficiently.

## Recruitment and selection

In 2011, recruitment and selection activities sought to ensure that the applicant's skills and job requirements are as compatible as possible and that applicants meet the requirements specific to the NBR activities.

2011 saw moderate staff fluctuations as compared to the past few years, amid the changes in central bank's organisation structure. The National Bank of Romania hired 102 people (92 at the NBR head office and 10 at the NBR territorial units) and 45 persons were no longer on the bank's payrolls (26 at the NBR head office and 19 at the NBR territorial units).

## Staff professional training in 2011

Staff development areas included: (i) training in the bank's specific areas such as monetary policy, banking supervision, open market operations, cashier's desk, etc.); (ii) development of personal skills (communication, team work, participation in international presentations, etc.); and (iii) participation in management and leadership programmes for executives.

In 2011, about 56 percent of all staff members took part in training programmes, as follows:

- in-house courses on specific subjects (monetary policy, statistics), institutional culture development (history and values of the central bank, performance management, internal communication), as well as on topics particularly relevant for the current period (stronger decision-making capacity in times of crisis and risk). This form of training has become increasingly relevant over the past few years. It features in-house lecturers, namely NBR experts, and/or external lecturers and it was the main form of training in terms of the number of participants (40 percent of all staff members);
- training courses and seminars on professional topics specific to central banking organised by the ECB, the national central banks and/or their professional training institutes, as well as international financial and banking institutions (the International Monetary Fund, the World Bank, the Bank for International Settlements, the US Federal Reserve Bank), in which 15 percent of all staff members participated;
- courses organised by the Romanian Banking Institute (the main local provider of training courses to NBR staff) and other institutions dealing with financial and banking topics, English and IT courses for various levels, in which 24 percent of all staff members participated.

## 3. Statistical activity

The year 2011 saw the continuation and development, in line with the ECB and Eurostat requirements, of the following lines of activity: external sector statistics (balance of payments statistics, survey on foreign direct investment), monetary and financial statistics (statistics on the monetary balance sheet of monetary financial institutions, statistics on the credit institutions' interest rates applicable to households and non-financial corporations, statistics on the assets and liabilities of non-bank financial institutions), statistics on national accounts (annual financial accounts of institutional sectors and quarterly financial accounts of the general government).

The National Bank of Romania issued Regulation No. 31/2011 on statistical data and information reporting to the NBR that gathers together all the regulations previously issued by the Romanian central bank in this field. The chief aim of this move was to facilitate the knowledge and implementation of the legal framework governing statistical reports sent to the National Bank of Romania. The Regulation has three parts, as follows: (i) reporting requirements concerning statistical data and information on financial and monetary statistics, the balance of payments and Romania's medium- and long-term private external debt; (ii) reporting requirements concerning data on interbank monetary and foreign-exchange transactions and dealings in financial derivatives; (iii) reporting requirements concerning statistical data and information for payments monitoring.

The Regulation targets those entities that are subject to central bank reporting requirements: credit institutions, money market funds, investment funds, non-bank financial institutions, exchange houses, resident natural and legal persons that performed operations relating to medium- and long-term private external debt, residents performing balance of payments operations, payment institutions, institutions issuing electronic payment instruments, payment system administrators, securities settlement systems administrators, etc.

## 4. Information technology

In 2011, a number of projects intended for streamlining the exchange of information between the NBR and international and national entities carried on. The following deserve mention: (i) the design of RAPDIR, an IT portal for collecting statistical and prudential reports, via the Internet, from a wide range of reporting entities (credit institutions, non-bank financial institutions, economic agents, natural entities, etc.); (ii) the design of an IT system meant to ensure the NBR's participation, starting 2012, in the cross-border exchange of information about loans and debtors following the signing of a Memorandum of Understanding on the Exchange of Information among National Central Credit Registers in April 2010; and (iii) the redesign of the IT systems for Payment Incidents Register and currency management with a view to automating flows by using barcodes.

Moreover, the collection and processing of data from credit institutions via the SIRBNR system were further improved, with a new report being integrated in line with NBR Regulation No. 4/2010 amending NBR Regulation No. 24/2009 on credit institutions' liquidity. Five other reports were thoroughly changed following the harmonisation of national legislation with EU regulations in force.

Furthermore, fine-tuning operations aimed at enhancing the monitoring of the system's transmissions and overall performance were conducted following the increase in the volume of managed data and the number of users.

At present, the SIRBNR system includes 37 reports issued at various time intervals (from a daily basis to an annual basis). It is accessed by over 450 users from credit institutions and about 225 users within the NBR.

The year 2011 also witnessed further work on: (i) the maintenance of IT applications used in the NBR departments following the requests to change and enrich the functionalities of IT systems in line with specific needs: the bank's website, the application on Romania's balance of payments, regular reports to the ECB, the IMF and Eurostat; (ii) the organisation and unfolding of crisis simulation exercises that included resumption of critical activities using the IT and communication infrastructure on the back-up site (connection to trading service and financial data providers Reuters and Bloomberg, the Electronic Payments System, SWIFT, the Internet and e-mail services); and (iii) the implementation of advanced management and monitoring systems for IT infrastructure, as well as systems for automated distribution of software applications for increasing the efficiency of the activity of the staff providing IT services.

Also in 2011, work started at the new data centre at the NBR's back-up site, which is endowed with electricity supply, air conditioning and security systems that are technologically advanced and fit the institution's needs.

Efforts to consolidate computing power and storage space in the data centre were further undertaken. These attempts envisage a more efficient use of the available computing power, cutting down on electricity and air conditioning consumption, as well as rationalising the existing physical space in the data centres.

As in the past, several projects were carried out in cooperation with the ECB. They were aimed at streamlining some IT infrastructure components and implementing efficient mechanisms and procedures to ensure data security and to manage the risks associated with the jointly used information systems.

## 5. Internal audit

In 2011, 26 internal audit engagements were performed, most of them being assurance engagements with the aim of assessing the adequacy and efficacy of the internal control and risk management system of the core and support processes of the bank. Two consultancy engagements requested by the auditees were also performed after establishing well-defined objectives by common agreement.

All completed engagements ended with audit reports containing the auditors' findings and recommendations, which were submitted to the management of the audited organisational structures, as well as to the bank's executives and the Audit Committee.

Along with the above-mentioned engagements, internal audit has also an advisory function. This involves the participation in interdepartmental project teams or working groups to discuss relevant draft regulations or provide consultancy services regarding internal control and risk management.

Similarly to the previous years, a number of activities specific to the ESCB were also performed, at the request of the Internal Auditors Committee. These activities included carrying out audit engagements under the ESCB coordination that had the object, scope and specific objectives established by this body, as well as providing support and contributing to the preparation and processing of the working methodology applicable to these types of engagements.

## 6. Legal activity

In 2011, the formulation of opinions was further a key element of legal activity. Opinions were issued for: 76 draft pieces of legislation initiated by the central bank (55 external pieces of legislation and 21 internal pieces of legislation), 27 draft pieces of legislation governing financial and banking matters which were initiated and submitted for review to the NBR by other institutions, as well as four drafts of international agreements signed by the NBR.

**Pieces of Legislation in Respect of which the NBR Formulated Opinions and Proposals in 2011**

| Piece of legislation | Subject matter | Date of publication in *Monitorul Oficial al României* |
|---|---|---|
| Law No. 53 (recast1)/2003 | Labour Code | *Monitorul Oficial al României* No. 345/2011, Part I |
| Law No. 62/2011 | social dialogue | *Monitorul Oficial al României* No. 322/2011, Part I |
| Law No. 127/2011 | electronic currency issue | *Monitorul Oficial al României* No. 437/2011, Part I |
| Government Ordinance No. 13/2011 – Chapter III | amending and supplementing Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy | *Monitorul Oficial al României* No. 607/2011, Part I |

| | | |
|---|---|---|
| Government Ordinance No. 13/2011 – Chapter I | penalty and reference rate for financial obligations and the regulation of some tax and financial measures in the banking system | *Monitorul Oficial al României* No. 607/2011, Part I |
| Government Emergency Ordinance No. 42/2011 | amending and supplementing Government Emergency Ordinance No. 113/2009 on payment services and Law No. 93/2009 on non-bank financial institutions | *Monitorul Oficial al României* No. 303/2011, Part I |
| Government Emergency Ordinance No. 37/2011 | amending and supplementing Law No. 82/1991 – The Accountability Act and the related pieces of legislation | *Monitorul Oficial al României* No. 285/2011, Part I |
| Government Ordinance No. 1/2012 | amending and supplementing some pieces of legislation regarding credit institutions | *Monitorul Oficial al României* No. 41/2012, Part I |
| Law amending and supplementing Government Emergency Ordinance No. 98/2006 on the supplementary supervision of credit institutions, insurance and/or reinsurance undertakings, investment firms, and asset management companies in a financial conglomerate | | draft – endorsed by the Banks, Finance, Budget Commission of the Senate on 21 March 2012; to be put on the Senate's agenda |
| Law on requiring, setting up and managing collateral related to measures taken by the Agency for Payments and Intervention in Agriculture within the Common Agricultural Policy | | draft |
| Law on the enforcement of the Civil Procedure Code, the preparation of the regulatory framework for the enforcement of the provisions of Art. 117 regarding the formal conditions needed for the validity of bequests concerning the amounts of money, valuables or securities deposited by the clients of credit institutions in Government Emergency Ordinance No. 99/2006 | | draft – admitted, as amended, by the Legal Commission of the Senate on 5 April 2012 |
| Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy (recast) | | draft |
| Law amending and supplementing Government Emergency Ordinance No. 111/2003 on the use of privatisation proceeds and the realisation of non-performing bank assets | | the draft was rejected irrevocably by the Banks, Finance, Budget Commission of the Chamber of Deputies on 14 September 2011 |

| | | |
|---|---|---|
| Law on exoneration from payment of bank loan installments for the persons hit by the 2010 floods | | the draft was rejected irrevocably by the Chamber of Deputies on 5 April 2011 |
| Law on fighting extreme poverty and avoiding a social catastrophe | | the draft was rejected by the Senate and was put on the Chamber of Deputies' agenda on 20 March 2012 |
| Law on solidarity tax applicable to financial and credit institutions | | the draft was rejected irrevocably by the Banks, Finance, Budget Commission of the Chamber of Deputies on 14 September 2011 |
| Law on appointing managers and experts in the Boards of Directors of régies autonomes, national companies or corporations, public institutions or commercial companies, including banks or other credit institutions, insurance and financial companies | | the draft was passed by the Senate and was put on the Chamber of Deputies' agenda on 5 March 2012 |
| Law on measures to recover the lower incomes following the enforcement of Law No. 118/2010 regarding certain measures for the restoration of budgetary balance | | the draft was rejected by the Senate and was put on the Chamber of Deputies' agenda on 13 February 2012 |
| Law on supplementing Art. 58 in Government Emergency Ordinance No. 50/2010 on consumer loan agreements | | the draft was rejected by the Senate and was put on the Chamber of Deputies' agenda on 5 March 2012 |

In addition, at the request of the specialised NBR departments, the Legal Department endorsed 303 draft orders on the sanctioning of and imposition of measures on certain credit institutions and non-bank financial institutions, 20 Governor's notes, decisions and orders on the erasure of some non-bank financial institutions from the General Register and/or the Special Register, a note on the rejection of a manager, and 18 notes and decisions on various issues related to payment institutions and the Register of Payment Institutions respectively. Moreover, 426 draft responses submitted particularly to the Ministry of Administration and Interior and the Public Ministry, 13 notes on various central banking issues, and 112 legal opinions on specific issues were formulated.

At the request of credit institutions, five legal opinions on the implementation or legal interpretation of the regulations issued by the NBR were issued and draft responses were prepared for nine petitions and ten memos submitted to the central bank by different legal entities or public institutions. Furthermore, eight notes on various issues as well as overviews of pieces of legislation impacting central banking were formulated.

Legal advisors represented the National Bank of Romania before courts of law in 258 cases and prepared 151 statements of defence and objections to appraisal reports, 24 restitution approvals, and seven internal activity reports.

As for disputed claims and contract assistance, the Legal Department endorsed 295 contracts and 59 addenda to contracts, as well as 49 notes issued by the specialised departments in the NBR's head office, 518 Governor's orders issued to observe the preliminary legal proceedings necessary for the conclusion of contracts by the NBR, 48 backing notes, 103 opinions, 6 regulations, 65 notifications to establish seizures, two protocols, one circular, one procedure, and 336 notifications containing replies to third parties, legal and natural persons, especially to bailiffs offices, credit institutions, law firms, NBR regional branches and agencies, as well as prosecutor's offices attached to courts of law.

In terms of the borrowing arrangements that Romania signed with international financial institutions, legal assistance was granted during the talks with the IMF, World Bank and EC officials, particularly on issues regarding amendments to laws governing credit institutions. Furthermore, opinions were formulated with respect to the EU's bills on issues in the NBR's scope of activity. The Legal Department also cooperated with experts at the ECB's Directorate General Legal Services and its peers in EU Member States.

In addition, representatives of the NBR's Legal Department participated in the meetings of the ECB's Legal Committee and examined the relevant documents sent by the ECB via written procedure. Specialised assistance was granted in regard to the legal issues associated with the euro adoption, including the participation in the meetings of the Committee for preparing the changeover to the euro within the NBR.

In what regards the relations with the Ministry of European Affairs, legal advisors participated in the meetings of the Working Group on EU Disputes (GLCUE) and formulated opinions in cases involving the NBR's powers or in reply to queries (the informal pre-infringement procedure introduced by the EC in the EU-Pilot system).

The Legal Department was also heavily involved in the legal coordination within the implementation of the domestic component of TARGET2 payment system and in ensuring specialised assistance for payment systems functioning.

With a view to strengthening the dialogue with the financial and banking community, four symposiums under the aegis of *"Colocviile juridice ale Băncii Naționale a României"* (The National Bank of Romania's Colloquia on Legal Matters) were hosted on the NBR premises. The topics under debate were as follows: (i) temporary holdings of shares by a credit institution as a form of economic agent restructuring (February 2011), (ii) credit restructuring versus debtors' activity restructuring (June 2011), and (iii) implication of the new Civil Code on the financial and banking system (September and December 2011).

## 7. NBR Archives, Museum and Library

In 2011, the actions aimed at turning to account the NBR archives were backed by measures to reorganise access to the reading parlour of the NBR Archives and, similarly to the previous years, preparation of scientific works, organisation of events and exhibitions dedicated to the economic as well as financial and banking history:

– organisation of the 19th edition of the "Cristian Popişteanu" Symposium on Banking History and Civilisation titled *"Banca Naţională a României în timpul Primului Război Mondial"* (The National Bank of Romania during World War One) and of the Symposium titled *"Istorii financiar-bancare din centrul vechi al Bucureştiului"* (Financial Stories in the Old City Centre of Bucharest);

– participation in the organisation of the annual meeting of the "South-Eastern European Monetary History Network" focusing on "Monetary Policies and Banking Institutions in South-Eastern Europe between National Objectives and European Patterns – a Historical and Comparative Perspective", where the paper titled "Introduction of Gold Standard in Romania – between National Objectives and European Patterns" was presented;

– representation of the Romanian central bank at congresses, conferences, symposiums, seminars and scientific communication sessions organised by local and international universities and research centres (European Association of Banking and Financial History, Town History Commission in Romania, Brăila Museum, the Society of Historic Sciences in Romania, Oradea University, the Romanian Association of Banking History in Oradea, the National Institute for Studies on Totalitarian Issues);

– preparation of research papers submitted to scientific events, some of them being published in *Revista Română de Istorie Financiar-Bancară*, *Historia Urbana*, *Magazin Istoric*, *Arhivele Totalitarismului*. Special mention deserve: *"Palatul Lipscani în timpul Primului Război Mondial"* (Lipscani Palace during World War I), *"Banca Naţională a României şi costurile realizării României Mari*" (The National Bank of Romania and the Costs attached to Achieving Greater Romania), *"Despre scontul Băncii Naţionale a României: reguli, prestigiu şi supraveghere în anii 1915-1916"* (About the Discount of the National Bank of Romania: Rules, Repute and Oversight in the period 1915-16), *"O bancă pentru colectivizarea agriculturii – Banca Agricolă"* (A Bank for Collectivisation of Agriculture – Banca Agricolă), *"Deschiderea «hotelului» sau «palatului de monetă» de la Bucureşti (1870)"* (Opening of the State Mint in Bucharest – 1870), *"Comerţ, bani şi reclame în Bucureştiul ocupat (1916-1918)"* (Trade, Money and Advertisements in Occupied Bucharest – 1916-1918), *"Aurel Vijoli"*, *"Preliminariile apariţiei bancnotelor în România"* (Preliminaries of Banknotes in Romania)", *"Bancherul"* (The Banker), the latter being part of *"Enciclopedia regimului comunist – Represiunea"* (The Encyclopaedia of the Communist Regime: Repression), Vol. I;

- organisation of a meeting of the Academic Committee of the European Association for Banking and Financial History (EABH) to establish the topics and the programme of the EABH Conference and the seminar on archives-related issues that is usually organised at the same time with the conference. The event is part of the preparations ahead of the EABH Conference to be hosted by the NBR in June 2012;
- adoption of further measures with a view to organising a Museum of the Treasury in the cave at the Tismana Monastery, the location where the NBR Treasury was hidden during World War II;
- reorganisation of the reading parlour of the NBR Archives for readers to examine, in electronic format, a large number of documents stored in central bank's archives. The list of documents in the NBR Archives that are subject to research, together with the online access application, is presented on the NBR's website;
- participation in the in-house seminar titled *"BNR – istorie, valori, perspective"* (The NBR: History, Values, Outlook) with the presentation *"Istoria BNR – date, fapte, personalități"* (The NBR History: Figures, Facts, Personalities);
- participation in the activity conducted by the Commission for the Analysis of the Annual Numismatic Programme, as well as by the Commission for the Preparation of Booklets on Numismatic Issues. In this regard, the booklets for the following numismatic issues were prepared: "450 years since the Gospel in Romanian was printed", "The 130th anniversary of George Bacovia's birth", "The 625th anniversary of Mircea cel Bătrân (Mircea the Elder)'s ascension to the throne of Wallachia (1386)", and "The 375th anniversary of Nicolae Milescu's Spătarul birth".

At the same time, the archives were further subject to preservation and processing activities, which consisted in:

- continuation of the programme for electronic and analogical filing of the documents in the historical archives of the NBR by scanning and microfilming all the documents in the following archives: "Staff: The Head Office" and "Organisation, Labour, Wages (1967-1969)". At present, more than 1,500,000 document pages are hosted in the historical archives of the NBR in both electronic and analogical format;
- ongoing thematic classification and inventorying of the archive records that were poorly recognised or managed;
- special assistance on issues related to archives granted to NBR departments in the head office; the taking over and archiving of the documents created and received by these entities in previous years; selection of the documents whose conservation period had run out;
- business trips to the NBR branches in Brăila and Galați with a view to processing the documents taken over from TRANSFOND S.A. and assessing the state local archives and the archives' storage capacity were in;

- ongoing research in public photo collections and libraries in order to expand the historical photography collection of the NBR;
- preparation of documentary papers (such as the one titled: *"Relațiile economice româno-germane 1935-1947"* – Romanian-German Economic Relations in 1935-1947) at the request of the NBR management or departments; and
- specialised advisory input to Romanian and foreign researchers who requested access to the NBR Archives' reading parlour in order to draw up papers, as follows: *"Datoria externă a României în epoca comunistă"* (Romania's External Debt in the Communist Era), *"Istoria construcției Palatului nou al BNR"* (An Account on How the New NBR Palace Was Built), *"Între ideologie și pragmatism – Relații româno-americane (1964-1975)"* (Between Ideology and Pragmatism: Romanian-American Relations, 1964-1975), *"Relațiile româno-germane (1916-1939)"* (Romanian-German Relations, 1916-1939), *"Lucrări executate la sediul Sucursalei BNR Dolj"* (Construction Works at the NBR Branch in Dolj County), *"Politică şi mărci poştale în regimul comunist din România (1945-1989)"* (Politics and Postage Stamps in The Communist Regime in Romania, 1945-1989).

Special attention was attached to augmenting the number of exhibits in the NBR Museum. To this end, museum experts assessed the valuables in the bank's treasure vaults, from where 280 gold and silver coins dating back to ancient times were transferred, and made attempts at recovering 7,824 artefacts belonging to the NBR that had been in the custody of Romania's National History Museum since 1971.

Scientific research activity targeted both the assets of the NBR Museum and those of other local and foreign museums, archives and libraries. As a result, articles on currency circulation on the territory of Romania in the Roman Age and the gold coin issues during the reign of Carol II were published in the *Studii şi cercetări de numismatică* magazine. Moreover, presentations were submitted to symposiums and international scientific communication sessions.

All through the period under review, the NBR Museum hosted 168 visits and events which more than often brought in a large number of visitors (temporary exhibitions, conferences, presentations of recently-published books, shows).

The NBR Museum staff cooperated with the State Mint and the NBR Printing Works to put up the temporary exhibitions occasioned by the 140th anniversary since the establishment of the State Mint and the 130th anniversary since the printing of the first NBR banknote. Staff members were also involved in the central bank's educational and training projects *"BNR – Zilele porților deschise pentru studenții economişti"* (The NBR – Open Days for Economics Students), *"Zilele culturale ale BNR"* (The NBR Cultural Days), *"Să vorbim despre bani şi bănci"* (Let's Talk about Money and Banks), as well as editing promotional materials.

In 2011 too, the NBR Library activity remained focused on increasing efficiency of staff information and documentation process. With this end in view, in the course of the reported year, the book stock was enriched via purchases and donations by papers in the Romanian and foreign (especially English) dedicated literature on economic, financial and banking matters. At the same time, librarians started in 2011 to reevaluate the books eligible for being classified.

The NBR Library continued entering books and periodicals into its online catalogue, which includes 5,607 titles of publications issued since 2000. The catalogue observes the bibliographic description criteria such as author, title, printing house, place and date of publication, classification, etc.

After the online catalogue was uploaded to the Intranet, all NBR staff members gained a much easier access to the library's entries, as reflected by the larger number of borrowed books. An increase could also be detected in the number of readers from outside the central bank (students, teachers and professors, researchers, etc.). The bulk of new readers was recorded during the visits occasioned by the event *"Zilele porților deschise pentru studenții economiști"* (The Open Days for Economics Students) and in-house seminars when librarians delivered presentations concerning developments relative to the NBR Library from a historical perspective.

Moreover, the introduction of e-accounts for every reader opened the door to a more efficient management of library book borrowings.

The year 2011 saw the completion of a broad-based scientific documentation activity in Bucharest's most prominent libraries and archives in order to draft a number of papers on the NBR's past and Romania's monetary history. Hence, in the run-up to the end of 2011, the third volume titled *"Emisiunile de bancnote românești în perioada 1929-1947"* (Romanian Banknote Issues in 1929-1947) was published in the series *"Bancnotele României*" (Romania's Banknotes). Also worth mentioning is the completion of *"Palatul Vechi al Băncii Naționale a României"* (The Old Palace of the National Bank of Romania), the first in the series titled *"Palatele Băncii Naționale a României"* (The Palaces of the National Bank of Romania).

The NBR Library staff members also prepared and published other scientific papers: *"Activitatea Imprimeriei Băncii Naționale a României în perioada 1880-1966"* (Activity of the National Bank of Romania Printing Works in the period 1880-1966), *"Pictorul Nicolae Grigorescu și grafica bancnotelor românești"* (Painter Nicolae Grigorescu and the Design of Romanian Banknotes), *"Biletele tip «război» tipărite de Serviciul Fabricarea Biletelor din BNR"* ('War' Notes Printed by the Note Printing Division of the NBR), *"Nouvelles témoignages sur les canabae de la XI$^{e}$ légion Claudia à Durostorum"*. They continued to participate in the activity carried out by the Commission for the Preparation of Booklets on Numismatic Issues, which materialised in the texts accompanying the following numismatic issues: "The 150th Anniversary of the Creation of Astra Society in Sibiu", "The 130th Anniversary of the Proclamation of the Kingdom of Romania", "The 190th Anniversary of the Revolution of 1821 led by Tudor Vladimirescu", and "The Coat of Arms of the United Principalities of Moldavia and Wallachia – The 150th Anniversary".

# Chapter 14. Financial statements of the National Bank of Romania as at 31 December 2011

## 1. Overview

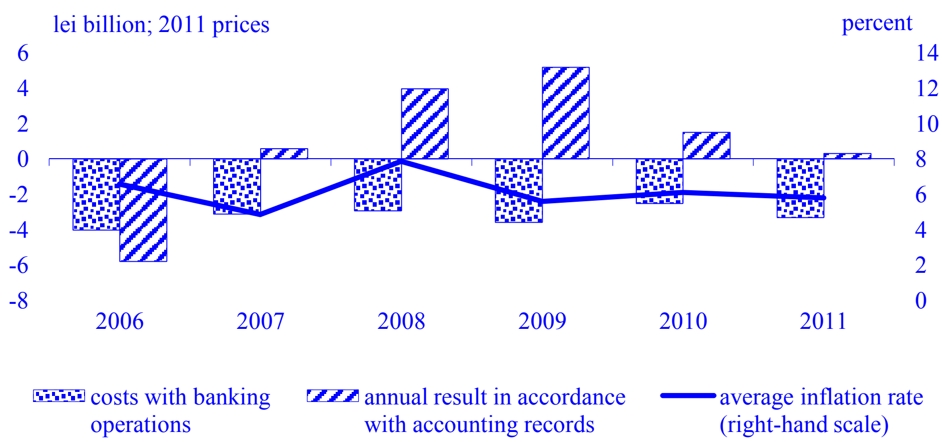
According to Law No. 312/2004 on the Statute of the National Bank of Romania, the primary objective of the central bank is to ensure and maintain price stability.

The National Bank of Romania's actions are aimed at implementing a monetary policy ensuring the achievement of its primary objective and the other tasks set forth by Law No. 312/2004, without focusing on business-related objectives, such as maximisation of return. Nonetheless, in its activity, the NBR has shown a steady concern for the efficient management of the resources at its disposal, including by capping its operating costs.

Pursuant to Law No. 312/2004, starting with the 2005 financial year, the National Bank of Romania has been applying the International Accounting Standards used by the national central banks, which are acknowledged by the European Central Bank and for which it issued its own norms based on EU regulations (Guideline ECB/2002/10[1]; Guideline ECB/2006/16[2]; Guideline ECB/2008/21[3]; Guideline ECB/2009/28[4]; Guideline ECB/2010/20[5]).

The National Bank of Romania achieved its primary objective by curbing the annual inflation rate in 2006-2011 (from 4.9 percent in 2006 to 3.1 percent in 2011) amid the efficient management of the public resources at its disposal.

**Developments in NBR's Costs with Banking Operations**
**– inflation-adjusted data –**




[1] Official Journal L 58, 03.03.2003, p. 1.
[2] Official Journal L 348, 11.12.2006, p. 1.
[3] Official Journal L 36, 05.02.2009, p. 1.
[4] Official Journal L 348, 29.12.2009, p. 75.
[5] Official Journal L 35, 09.02.2011, p. 1.

The NBR's financial results as at 31 December 2011 showed a profit in amount of lei 301,348 thousand, 79 percent lower than the 2010 profit of lei 1,415,035 thousand, mainly on the back of:

- the 2011 operating profit equalling lei 303,929 thousand, down 79 percent from the 2010 figure of lei 1,424,338 thousand, as a result of the increase in costs (up lei 973,114 thousand) and the decline in operating income (down lei 147,210 thousand);
- unrealised losses on the revaluation of foreign currency assets and liabilities totalling lei 2,581 thousand as at 31 December 2011, 72 percent below the 31 December 2010 reading (lei 9,303 thousand).

The profit obtained by the central bank in 2011 was generated mainly by the management of foreign currency assets and liabilities, on the back of their efficient management, which yielded positive returns.

In 2011, operating costs stood 10 percent below the level specified in the approved budget.

According to the law, an amount of lei 235,022 thousand[6] of the profit corresponding to the 2011 financial year and representing a share of 80 percent of the NBR's net revenues was transferred to the state budget. The profit remaining at the central bank's disposal (lei 66,326 thousand) was distributed as follows:

- at 31 December 2011: 60 percent for increasing the statutory reserves (lei 39,795 thousand);
- at 1 January 2012: 30 percent for own financing sources (lei 19,898 thousand);
- at 1 January 2012: 9.99 percent for employee participation in the profit-sharing scheme (lei 6,626 thousand);
- at 1 January 2012: 0.01 percent for the reserves at the NBR Board's disposal (lei 7 thousand).

## 2. Recognition of monetary policy operations

In January-July 2011, the central bank had a net debtor position vis-à-vis the banking system, as the excess liquidity was mopped up almost exclusively via the deposit facility. Starting with August 2011, the National Bank of Romania returned to a creditor position vis-à-vis the banking system, providing liquidity via repo operations. Under the circumstances, the losses incurred from monetary policy operations came in at lei 329,620 thousand in 2011.

The balance sheet as at 31 December 2011 (Table 1) highlights the following:

- foreign assets accounted for 95 percent of total assets;
- loans to credit institutions made up 4 percent of total assets (repos);

[6] In 2011, net revenues were calculated in compliance with Art. 43 of Law No. 312/2004 on the Statute of the National Bank of Romania, excluding the provisions that do not cover the credit risk.

- deposits the NBR took from credit institutions as minimum required reserves held 31 percent of total liabilities;
- 28 percent of total liabilities represented the tranches disbursed to the central bank in 2009, 2010 and 2011 from the loan granted by the International Monetary Fund, pursuant to Government Emergency Ordinance No. 99/2009 on the ratification of the Stand-By Arrangement between Romania and the International Monetary Fund, agreed upon by way of the Letter of Intent submitted by the Romanian authorities, signed in Bucharest on 24 April 2009, and by the Decision of the IMF Board of 4 May 2009, as well as the additional Letter of Intent signed by the Romanian authorities on 8 September 2009 and approved by the Decision of the IMF Board of 21 September 2009, and Government Emergency Ordinance No. 10/2010 on the ratification of the Letter of Intent signed by the Romanian authorities in Bucharest on 5 February 2010 and approved by the Decision of the IMF Board of 19 February 2010;
- currency in circulation accounted for 20 percent of total liabilities;
- deposits of the State Treasury with the NBR made up 8 percent of total liabilities.

**Table 1. Balance Sheet of the National Bank of Romania as at 31 December 2011**

| ASSETS | Average annual return - % - | LIABILITIES | Average annual interest rate - % - |
|---|---|---|---|
| Foreign assets 95% | 1.85 | Minimum required reserves of credit institutions 31% (16% in lei and 15% in foreign currency) | lei: 1.49<br>foreign currency: 0.77 |
| | | Currency in circulation 20% | - |
| | | Foreign liabilities 30% (of which the IMF loan 28%) | 2.61 |
| Loans to credit institutions 4% | 6.09 | Deposits of the State Treasury 8% (0.5% in lei and 7.2% in foreign currency) | lei: 2.85<br>foreign currency: 0.76 |
| Other assets 1% | - | Capital, reserves a.s.o. 11% | - |

As shown in Table 1, an average annual return of 1.85 percent resulted from foreign asset management. In the case of most liabilities (sources of foreign assets), average annual interest rates (payable by the NBR) were lower than the annual return on assets (receivable by the NBR), which entailed operating profit in 2011.

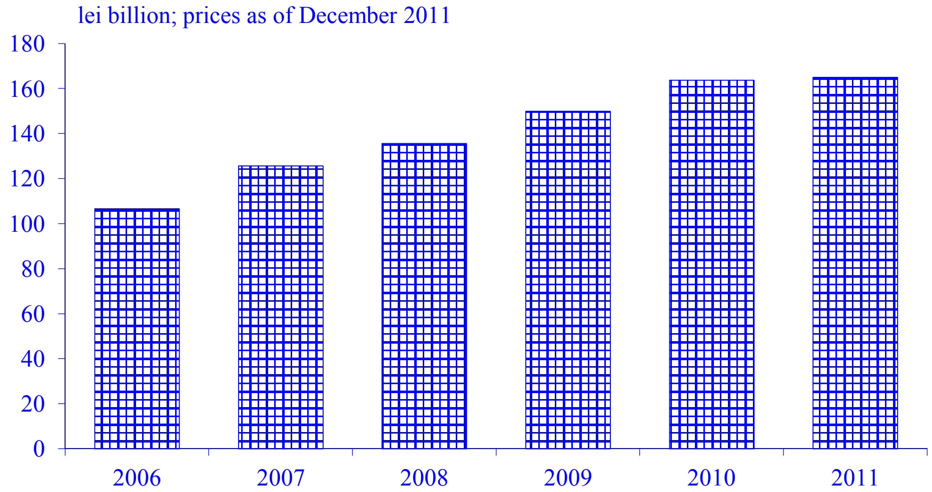
Consequently, the operating profit recorded by the NBR was directly and significantly influenced by the favourable difference between the net incomes from the management of foreign currency assets and liabilities and the net costs related to the use of monetary policy instruments on the domestic market; in 2011, net income from the management of foreign currency assets and liabilities totalled lei 1,012,760 thousand, while net interest costs associated with monetary policy operations stood at lei 329,620 thousand. Interest costs associated with sterilisation operations represent also the costs related to the achievement of the primary objective of the central bank established by law, namely to ensure and maintain price stability.

## 3. Recognition of management operations of foreign currency assets and liabilities

In 2011, the value in lei of foreign assets picked up 4 percent (lei 6,279 million) from 2010, due to the depreciation of the domestic currency versus the euro and the US dollar.

The management of foreign currency assets and liabilities included the disbursements made to the central bank in 2009, 2010 and 2011 from the loan granted by the IMF under the Stand-By Arrangement concluded by Romania and the IMF in 2009 (the first tranche in amount of SDR 4.37 billion – May 2009, part of the second tranche[7] worth SDR 859 million – September 2009, part of the third and fourth tranches[7] totalling SDR 1.09 billion – February 2010, the fifth tranche equalling SDR 768 million – June 2010, the sixth tranche in amount of SDR 769 million – September 2010 and the seventh tranche worth SDR 769 million – January 2011).

**Developments in NBR's Foreign Assets**
**– inflation-adjusted year-end data –**




In 2011, the management of foreign currency assets and liabilities materialised in incomes equalling lei 3,803,090 thousand and expenses totalling lei 2,790,330 thousand, which entailed a profit amounting to lei 1,012,760 thousand (Table 2), down 54 percent from the previous year (lei 2,198,602 thousand).

The management of foreign currency assets and liabilities also took into account the exposure to the SDR currency risk related to holding net liabilities in SDR (due to

[7] The second tranche of the IMF loan totalling SDR 1.72 billion was equally divided between the National Bank of Romania and the Ministry of Public Finance in September 2009, in compliance with Government Emergency Ordinance No. 99/2009. The same procedure was followed for the third and fourth tranches (in total amount of SDR 2.18 billion) in February 2010, in compliance with Government Emergency Ordinance No. 10/2010.

the loan granted by the IMF); therefore, the risk was covered via opposite exposures (net assets) in the currencies included in the SDR basket, through economic hedging (mutual offsetting of the related revaluation differences).

**Table 2. Result of Transactions Performed in 2011**

*lei thousand*

| | Incomes | Expenses | Profit/Loss |
|---|---|---|---|
| Foreign currency-denominated securities | 2,283,415 | 1,215,762 | 1,067,653 |
| Other foreign currency holdings and operations | 1,519,675 | 1,574,263 | -54,588 |
| Gold | - | 305 | -305 |
| **Total** | **3,803,090** | **2,790,330** | **1,012,760** |

## 4. Effects of developments in the exchange rate of the domestic currency

In 2011, the domestic currency depreciated by 0.8 percent in nominal terms versus the euro (from RON/EUR 4.2848 on 1 January 2011 to RON/EUR 4.3197 on 31 December 2011), by 4.0 percent in nominal terms versus the US dollar (from RON/USD 3.2045 on 1 January 2011 to RON/USD 3.3393 on 31 December 2011) and by 3.3 percent in nominal terms versus the SDR (from RON/SDR 4.9554 on 1 January 2011 to RON/SDR 5.1256 on 31 December 2011).

At the end of the financial year, the effects of the leu exchange rate movements are measured based on the difference between the revaluation rate[8] and the average cost of the currency positions held by the central bank. Thus, the domestic currency's depreciation versus the average cost of foreign currency positions representing net foreign currency assets entailed significant unrealised gains from the revaluation rate valid as at 31 December 2011 (lei 15,765,902 thousand). Moreover, the depreciation of the leu versus the average cost of the SDR short position triggered revaluation losses, which were fully offset by the revaluation gains related to long positions in the currencies included in the SDR basket via the economic hedging carried out at 31 December 2011. As a result, at end-2011, revaluation losses on the mark-to-market of foreign currency securities (lei 2,581 thousand – Table 3) were recorded. These expenses caused only a marginal decline in the central bank's profit.

**Table 3. Revaluation Differences as at 31 December 2011**

*lei thousand*

| | Unrealised gains (recognised in the special revaluation account under liabilities) | Unrealised losses (recognised in the profit and loss account) |
|---|---|---|
| Foreign currency-denominated securities | 289,117 | 2,581 |
| Other foreign currency holdings | 2,036,340 | - |
| Gold | 13,440,445 | - |
| **Total** | **15,765,902** | **2,581** |

[8] The revaluation rate is the rate determined by the National Bank of Romania on the last business day of the month. It is used to revaluate foreign currency positions, either long or short.

Given the implementation of the International Accounting Standards specific to central banks, acknowledged by the European Central Bank, 2011 was the seventh year when unrealised losses on the revaluation of foreign currency assets and liabilities at the end of the financial year were recognised as expenses, without being subject to clearing with unrealised revaluation gains, as they had been prior to end-2004. The hedging covering the SDR currency risk, for which the above clearing was carried out, in compliance with the norms in place, was an exception.

## 5. Conclusions

**5.1. The financial position of the National Bank of Romania** as at 31 December 2011 improved on the back of the increase in Tier 1 capital amounting to lei 18,360,114 thousand (Table 4), up 6 percent in year-on-year comparison (lei 17,305,683 thousand), under the favourable impact of the following factors:

- significant unrealised gains on the revaluation of monetary gold holdings at 31 December 2011 (recorded under "Special revaluation account"), due to the higher gold price on international markets than at end-2010;
- significant unrealised gains on the revaluation of net assets in EUR, USD, GBP, JPY, partially offset by unrealised losses on the revaluation of net liabilities in SDR via economic hedging;
- unrealised gains on the mark-to-market of the foreign currency security portfolio.

### Table 4. Equity

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Capital | 30,000 | 30,000 |
| Reserves | 2,537,682 | 2,375,095 |
| Special revaluation account | 15,765,902 | 14,759,076 |
| Profit for the year | 301,348 | 1,415,035 |
| Profit distribution for the year | -274,818 | -1,273,523 |
| **Total** | **18,360,114** | **17,305,683** |

**5.2. The 2011 financial result in terms of the activities performed by the National Bank of Romania** is presented below:

### Table 5. The 2011 Financial Result

*lei thousand*

| Activity | Incomes | Expenses | Profit/Loss |
|---|---|---|---|
| Monetary policy | 86,680 | 416,300 | -329,620 |
| Management of international reserves | 3,803,090 | 2,790,330 | 1,012,760 |
| Currency issue and payment settlement | 103,659 | 97,731 | 5,928 |
| Other operations | 11,894 | 397,033 | -385,139 |
| **Subtotal - operational activity** | **4,005,323** | **3,701,394** | **303,929** |
| Revaluation of assets and liabilities as at 31 December 2011 | - | 2,581 | -2,581 |
| **Total** | **4,005,323** | **3,703,975** | **301,348** |

In 2011, the decline in profit in year-on-year comparison was accompanied by a series of structural changes:

– operating profit in amount of lei 303,929 thousand, down 79 percent from the previous year's figure of lei 1,424,338 thousand;

– 72 percent decrease in unrealised losses on the mark-to-market of foreign currency securities in the NBR's portfolio at 31 December 2011 (in amount of lei 2,581 thousand). Even though they arose from movements on the foreign exchange market rather than from the current operational activity of the central bank, unrealised losses on the revaluation of foreign currency assets and liabilities are recognised in the profit and loss acount (the same as the operating results) for reasons attributable to economic prudence (in compliance with the provisions of Guideline ECB/2006/16, as subsequently amended and supplemented), except for those associated with the hedging covering the SDR currency risk.

**5.3. The operating financial result** reflects the outcome of the activity performed by the National Bank of Romania. Thus, in 2011 the NBR recorded an operating profit amounting to lei 303,929 thousand, on the back of developments recorded under the main categories of activities, as follows:

### Table 6. Profit/Loss for the 2010 and 2011 Financial Years

| Activity | Profit/Loss (lei thousand) | | Annual change (%) |
|---|---|---|---|
| | 2010 | 2011 | |
| Monetary policy | -469,956 | -329,620 | -30 |
| Management of international reserves | 2,198,602 | 1,012,760 | -54 |
| Currency issue and payment settlement | 30,217 | 5,928 | -80 |
| Other operations | -334,525 | -385,139 | 15 |
| **Total profit/loss** | **1,424,338** | **303,929** | **-79** |

Table 6 highlights the decline in operating profit in 2011 in year-on-year comparison, owing mainly to the lower profit from the management of foreign currency assets and liabilities.

**5.4. The largest part of the profit for the 2011 financial year**, i.e. lei 235,022 thousand, representing a share of 80 percent of the bank's net revenues, was transferred to the state budget. The remaining profit (lei 66,326 thousand) was distributed as follows: 60 percent for increasing the statutory reserves (lei 39,795 thousand); 30 percent for own financing sources (lei 19,898 thousand); 9.99 percent for employee participation in the profit-sharing scheme (lei 6,626 thousand); 0.01 percent for the reserves at the NBR Board's disposal (lei 7 thousand).

To sum up, in 2011, acting for the public good in order to curb inflation and consolidate the foreign exchange position of the government, the National Bank of Romania ended the considered year with an operating profit, as net interest costs associated with monetary policy operations were fully offset by the profit derived from the management of foreign currency assets and liabilities.

# Financial Statements of the National Bank of Romania as at 31 December 2011

**(audited by KPMG)**

KPMG Audit SRL
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti nr. 69-71
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania

Tel: +40 (21) 201 22 22
+40 (372) 377 800
Fax: +40 (21) 201 22 11
+40 (372) 377 700
www.kpmg.ro

# Independent Auditor's Report (free translation[1])

To the Board of Directors of National Bank of Romania

## Report on the Financial Statements

1 We have audited the accompanying financial statements of National Bank of Romania ("the Bank"), which comprise the balance sheet as at 31 December 2011, the income statement for the year then ended and a summary of significant accounting policies and other explanatory notes set out on pages 1 to 38, presenting the following:

| | |
|---|---|
| • Total assets: | 174,928,617 thousand lei |
| • Net assets / Total equity: | 18,360,114 thousand lei |
| • Net profit for the year: | 301,348 thousand lei |

*Management's Responsibility for the Financial Statements*

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norms for organizing and conducting the accounting of the National Bank of Romania no. 1/2007, with subsequent amendments, and as described in the accounting policies presented in the notes to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditor's report is provided as a free translation from Romanian which is the official and binding version. This translation only refers to the Independent Auditor's Report and not to the Financial Statements; we only audited the Romanian official and binding version of the Financial Statements

KPMG

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

6 In our opinion, the financial statements as at and for the year ended 31 December 2011 have been prepared, in all material respects, in accordance with the Norms for organizing and conducting the accounting of the National Bank of Romania no. 1/2007, with subsequent amendments, and with the accounting policies presented in the notes to the financial statements.

**Other Matters**

7 This report is made solely to the Board of Directors of National Bank of Romania as a body. Our audit work has been undertaken so that we might state to the Bank's Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank's Board of Directors as a body, for our audit work, for the report on the financial statements or for the opinion we have formed.

8 The accompanying financial statements are not intended to present the financial position, results of operations and a complete set of notes to the financial statements of the Bank in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Romania. Accordingly, the accompanying financial statements are not designed for those who are not informed about Romanian legal and statutory requirements including the Norms for organizing and conducting the accounting of the National Bank of Romania no. 1/2007, with subsequent amendments, and about the accounting policies presented in the notes to the financial statements.

**For and on behalf of KPMG Audit SRL:**

| Refer to the original signed Romanian version | Refer to the original signed Romanian version |
|---|---|

**Toader Serban-Cristian**
**Senior Partner**

registered with the Chamber of Financial Auditors of Romania under no 1502/2003

**KPMG AUDIT SRL**

registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 24 May 2012

2

5

## BALANCE SHEET AS AT 31 DECEMBER 2011

*lei thousand*

| | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Cash and other cash equivalents** | | **23,625** | **27,224** |
| **Precious metals and stones,** | | **228,513** | **205,950** |
| *of which:* | | | |
| Non-monetary gold | | 179,446 | 155,442 |
| Other precious metals and stones | | 49,067 | 50,508 |
| **Foreign assets,** | | **165,015,250** | **158,736,211** |
| *of which:* | | | |
| Current account in SDR with the IMF | **4** | 1,970,146 | 3,403,682 |
| Monetary gold | **5** | 17,502,536 | 15,050,893 |
| Demand deposits placed | **6** | 8,025,806 | 8,881,464 |
| Term deposits placed | **7** | 15,204,761 | 31,208,789 |
| Foreign currency placements | **8** | 1,454,813 | 705,705 |
| Foreign currency securities | **9** | 114,522,314 | 92,784,908 |
| Loans in foreign currency | **10** | 806,441 | 1,437,218 |
| Quotas in international financial institutions, | **11** | 5,415,179 | 5,263,552 |
| *of which the IMF* | | *5,281,533* | *5,133,265* |
| Other foreign assets TARGET2 | | 113,254 | - |
| **Loans to domestic credit institutions,** | **12** | **6,710,960** | **3,269,783** |
| *of which:* | | | |
| Loans to domestic credit institutions | | 6,722,760 | 3,281,583 |
| Loans in litigation | | 13,209 | 13,209 |
| Credit risk provisions – principal | | (25,009) | (25,009) |
| **Other assets** | | **1,541,542** | **1,546,476** |
| Loans to employees | | 130 | 182 |
| Tangible and intangible fixed assets | **13** | 1,503,267 | 1,516,847 |
| Inventories | | 3,599 | 3,582 |
| Participating interests | **14** | 2,319 | 2,318 |
| Settlement account with the state budget | | 116 | 126 |
| Accruals and prepaid expenses | | 30,424 | 22,074 |
| Other assets | | 56,497 | 61,774 |
| Provisions for other assets | **15** | (54,810) | (60,427) |
| **Accrued interest receivable** | | **1,408,727** | **558,345** |
| Accrued interest receivable | **16** | 1,414,795 | 564,413 |
| Credit risk provisions – interest | **17** | (6,068) | (6,068) |
| **TOTAL ASSETS** | | **174,928,617** | **164,343,989** |

*Notes from page 199 to 230 are an integral part of these financial statements.*

# BALANCE SHEET AS AT 31 DECEMBER 2011

*lei thousand*

| | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Currency in circulation** | **18** | **34,249,563** | **29,964,076** |
| **Foreign liabilities,** | | **54,795,719** | **49,302,822** |
| *of which:* | | | |
| Due to international financial institutions, | | 49,512,038 | 44,296,524 |
| *of which: due to the IMF* | **19** | *49,486,582* | *44,265,588* |
| Demand deposits taken | | 228,674 | 91,122 |
| Borrowings from banks and other financial institutions | **20** | 6,392 | 8,291 |
| Counterpart of special drawing rights allocated by the IMF | **21** | 5,048,615 | 4,906,885 |
| **Due to domestic credit institutions,** | | **53,704,074** | **54,596,138** |
| *of which:* | | | |
| Current accounts of domestic banks | | 27,339,419 | 25,166,446 |
| Amounts withheld at court disposition | | 163,084 | 3,498 |
| Term deposits | | - | 300,000 |
| Foreign currency minimum reserves | | 26,086,165 | 29,122,593 |
| Accounts of bankrupt credit institutions | | 2,152 | 3,601 |
| Other liabilities TARGET2 | | 113,254 | - |
| **Current account of the State Treasury** | **22** | **13,564,299** | **12,795,311** |
| **Other liabilities** | | **46,795** | **183,003** |
| Borrowings and other similar liabilities | | - | 30 |
| Sundry creditors | | 13,747 | 10,560 |
| Salaries and other personnel-related liabilities | | 1,856 | 1,419 |
| Settlement account with the state budget | **23** | 16,161 | 158,269 |
| Accruals and income collected in advance | | 13,220 | 5,429 |
| Off-balance-sheet instruments revaluation differences | **24** | - | 5,485 |
| Other liabilities | | 1,811 | 1,811 |
| **Accrued interest payable** | **25** | **208,053** | **196,956** |
| **Capital and reserves,** | | **18,360,114** | **17,305,683** |
| *of which:* | | | |
| Capital | | 30,000 | 30,000 |
| Reserves | **27** | 2,537,682 | 2,375,095 |
| Special revaluation account | **28** | 15,765,902 | 14,759,076 |
| Profit for the year | | 301,348 | 1,415,035 |
| Profit distribution for the year | | (274,818) | (1,273,523) |
| **TOTAL LIABILITIES AND CAPITAL AND RESERVES** | | **174,928,617** | **164,343,989** |

The financial statements were approved by the Board of Directors on 24 May 2012 and were signed on its behalf by:

Governor

Mr. Mugur Isărescu

## PROFIT AND LOSS ACCOUNT
## AS AT 31 DECEMBER 2011

*lei thousand*

| | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Interest income | 29 | 2,385,874 | 1,404,801 |
| Interest expense | 30 | (3,017,131) | (2,166,892) |
| **Net interest expense** | | **(631,257)** | **(762,091)** |
| Fees and commissions income | 31 | 94,632 | 136,706 |
| Fees and commissions expense | 32 | (74,655) | (125,502) |
| **Net income from fees and commissions** | | **19,977** | **11,204** |
| Net realised gains from foreign currency operations | 33 | 1,256,168 | 2,047,401 |
| Net realised gains from securities operations | 34 | 105,084 | 511,204 |
| Net realised losses from precious metals operations | 35 | (319) | (320) |
| Unrealised losses from revaluation differences | 36 | (2,581) | (9,303) |
| **Net result of financial operations** | | **1,358,352** | **2,548,982** |
| Currency issue expenses | 37 | (71,487) | (45,865) |
| Provision income/(expense) | | 5,616 | (4,238) |
| Bad debt write-off expenses | | - | (108) |
| Other expenses from specific operations | | (9,483) | (4,587) |
| Other income from specific operations | | 12,566 | 6,152 |
| **Net result of specific operations** | | **(62,788)** | **(48,646)** |
| Other income | | 11,884 | 15,844 |
| Staff costs | | (220,702) | (202,889) |
| Administrative expenses | | (38,581) | (43,928) |
| Depreciation of tangible and intangible fixed assets | | (47,459) | (34,875) |
| Other operating expenses | | (88,078) | (68,566) |
| **Net profit for the year** | | **301,348** | **1,415,035** |

The financial statements were approved by the Board of Directors on 24 May 2012 and were signed on its behalf by:

Governor

Mr. Mugur Isărescu

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2011

## 1. General information

The National Bank of Romania (the "Bank" or "NBR") was set up in 1880 as the central bank of Romania. The current registered headquarters are located at 25 Lipscani Street, Bucharest, Romania. The Bank is managed by a Board of Directors consisting of: Mugur Isărescu – President, Florin Georgescu – Vice President, Bogdan Olteanu – member, Cristian Popa – member, Marin Dinu – member, Nicolae Dănilă – member, Virgil Stoenescu – member, Agnes Nagy – member and Napoleon Pop – member. The executive management of the Bank comprises the Governor – Mugur Isărescu, the First Deputy Governor – Florin Georgescu and two Deputy Governors – Bogdan Olteanu and Cristian Popa. The Parliament appoints the Directors for a period of five years. The Bank is fully owned by the Romanian state. The actual number of employees as at 31 December 2011 is 1,861 (31 December 2010: 1,798 employees).

In 2011, the Bank's operations were governed by the Law on the Statute of the National Bank of Romania (Law No. 312/2004), effective since 31 July 2004, except for a number of provisions related to statutory financial reporting that became effective commencing on 1 January 2005. The purpose of Law No. 312/2004 is to ensure compliance of the NBR's statute with EU legislation and, particularly, with the provisions on central bank independence in the European Community Treaty.

In accordance with the legislation in place, the primary objective of the Bank is to ensure and maintain price stability. Furthermore, the Bank has the exclusive right to issue banknotes and coins and the responsibility to regulate and supervise the Romanian banking system.

## 2. Significant accounting policies

### a) Statement of compliance

The financial statements of the NBR are prepared in accordance with the accounting principles and regulations established by the international accounting standards applicable to central banks, recognised by the European Central Bank, and include the following: the balance sheet, the profit and loss account and the explanatory notes.

The financial statements for the year ended 31 December 2011 were prepared in accordance with the Norms on organising and conducting the accounting of the National Bank of Romania, as subsequently amended and supplemented (Nos. 1/2007, 1/2008, 3/2008, 1/2010, 2/2010 and 4/2011). These norms were introduced to update Norms No. 2/2005 on organising and conducting the accounting of the National Bank of Romania – developed based on Guideline 2003/131/EC of the European Central Bank of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10[9]) – with the provisions of

[9] Official Journal L 58, 03.03.2003, p. 1.

Guideline 2006/887/EC of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16[10]), with the provisions of Guideline 2009/100/EC of the European Central Bank of 11 December 2008 amending Guideline ECB/2006/16 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2008/21[11]), with the Guideline of the European Central Bank of 14 December 2009 amending Guideline ECB/2006/16 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2009/28[12]) and with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20[13]).

Thus, Norms No. 1/2007, as subsequently amended and supplemented, lay down the basic accounting principles and rules, the structure and the content of the annual financial statements, so as to ensure compliance with the international accounting standards applicable to central banks and recognised by the European Central Bank.

The accounting policies have been consistently applied by the Bank for the years ended 31 December 2011 and 31 December 2010.

**b) Basis of preparation**

The financial statements are prepared on a going concern basis and are presented in Romanian lei (RON), rounded to the nearest thousand.

Income and expenses are recognised in the accounting period in which they are earned or incurred and not in the period in which they are received or paid (the accruals principle).

**c) The transfer of the Bank's net revenues to the state**

The Bank is exempt from paying income tax, but, in accordance with Law No. 312/2004, it distributes a share of 80% of the net revenues to the state budget on a monthly basis – after deducting the expenses related to the financial year (except for provision expenses other than the credit risk ones) and the loss related to previous financial years that remained uncovered from other available sources.

In 2011, starting with September, the Bank paid the corresponding share of 80% of its net revenues to the state budget on a monthly basis. The adjustments related to the 2011 financial year will be performed by the deadline for submission of the annual balance sheet, according to the law, based on a rectifying special statement (in 2010, the share of 80% of the Bank's net revenues was paid to the state budget on a monthly basis).

[10] Official Journal L 348, 11.12.2006, p. 1.
[11] Official Journal L 36, 05.02.2009, p. 1.
[12] Official Journal L 348, 29.12.2009, p. 75.
[13] Official Journal L 35, 09.02.2011, p. 1.

**d) Significant accounting principles**

*Substance over form:* transactions are accounted for and presented in accordance with their substance and economic reality and not merely with their legal form.

*Prudence:* the valuation of assets and liabilities, as well as income/expense recognition are carried out prudently. However, prudence does not allow for a deliberate understatement of assets and income or overstatement of liabilities and expenses.

*Post-balance-sheet events:* the values of assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the Board of Directors, if such events affect the condition of assets and liabilities at the balance sheet date. No adjustment is made, but disclosure is required, for those events occurring after the balance sheet date that do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users to make proper evaluations and to take economic decisions.

*Materiality:* deviations from the accounting rules, including those affecting the profit and loss account, are allowed only if they can reasonably be judged to be immaterial for the overall context and for the presentation of the Bank's financial statements.

*The accruals principle:* income and expenses are recognised in the accounting period in which they are earned or incurred and not in the period in which they are received or paid.

**e) Estimates**

In preparing the financial statements in accordance with the provisions of Norms No. 1/2007, as subsequently amended and supplemented, the management is required to make estimates and assumptions that affect the reported amounts for assets, liabilities, revenues and expenses for the reporting period. Actual results could differ from these estimates. The estimates are periodically revised and, if necessary, adjustments are recorded in the profit and loss account of the period when they occur. Although these individual estimates carry a degree of uncertainty, the cumulative effect on the financial statements is deemed immaterial.

**f) Recognition of assets and liabilities**

Financial assets/liabilities and those of other nature are recognised in the balance sheet only when:

- it is probable that future economic benefits associated with the asset/liability will flow in or out of the Bank;
- all the risks and rewards associated with the asset/liability have been effectively transferred to the Bank; and
- the value of the asset/liability can be reliably measured.

Financial assets and liabilities are initially recognised at acquisition value, as presented hereinafter.

**g) Foreign currency position**

The foreign currency position represents the net balance in a given currency, determined as the difference between total receivables (balance sheet assets and off-balance-sheet accounts similar to assets) and total payables (balance sheet liabilities and off-balance-sheet accounts similar to liabilities) denominated in the respective currency, with some exceptions. Monetary gold is considered as a foreign currency, forming the gold position.

Starting 31 December 2010, the Bank has been applying Norms No. 2/2010 amending and supplementing NBR Norms No. 1/2007 on organising and conducting the accounting of the National Bank of Romania, as subsequently amended and supplemented, effective starting with the annual financial statements for the year 2010, which includes the following provisions:

- the SDR is considered as a distinct currency; transactions that involve a change in the SDR net position are SDR-denominated transactions or transactions that follow the structure of the SDR basket;
- for the scope of SDR economic hedging, the Bank may designate the net holdings denominated in the currencies of the SDR basket and measured at the average cost prior to the year-end revaluation;
- as at year-end, the SDR net currency position includes both the SDR currency position and the net individual holdings denominated in the currencies of the SDR basket. The aforementioned holdings shall be treated as a single net currency position;
- as at year-end, the Bank may perform the economic hedging operation in relation to the SDR net position, which implies recording the SDR position revaluation result after cumulating it with the revaluation result of the designated individual holdings denominated in the currencies of the SDR basket, according to the SDR basket structure.

The items not included in the foreign currency position are: Cash in foreign currency, Foreign currency in transit, Sundry suppliers, Sundry debtors, Settlement accounts and Prepayments.

**h) Average cost method**

The average cost method is applied to the following:

- the foreign currency position, including SDR;
- the monetary gold position; and
- the foreign currency security portfolio – for each ISIN/CUSIP (security series).

The average cost of the foreign currency holding is determined on a daily basis as an indirect quotation (lei/1 FCY). As for the long foreign currency position, net currency purchases made during the day, considered at the average cost of the purchases made during the day, are added to the previous day's closing balance in order to determine the new average cost of the position. In case of net sales, the average cost of the foreign currency position remains unchanged. The same principles apply to gold holdings.

The average purchase cost of foreign currency securities is determined for each ISIN/CUSIP (security series) by dividing the overall transaction value by the corresponding nominal value of the holding. For each security series, all purchases made during the day are added at cost to the previous day's holding to produce a new weighted average cost.

The net average cost of foreign currency securities is determined for each security series by dividing the holding at average cost – adjusted by the cumulated premium or discount amortisation – by the corresponding nominal value of the holding. Premiums or discounts arising on purchases of securities are amortised over the remaining life of the securities using the straight-line method. However, the internal rate of return method is used for the discount securities with a remaining maturity of more than one year at the time of acquisition.

The gains or losses arising from transactions in foreign currency, gold/silver in standard form and foreign currency securities are determined based on the average cost of the respective holding (Note 2i and Note 2j).

At the end of the financial year, in accordance with the revaluation procedure (Note 2p), the average cost of the foreign currency holding and the net average cost of foreign currency securities equal the revaluation rate and the market price of securities, respectively, provided that unrealised losses in the respective foreign currency position or holding of ISIN/CUSIP have been recorded as expenses as at 31 December.

**i) Foreign currency transactions**

Foreign currency transactions are converted into lei based on the official exchange rate valid on the trade date. The monetary assets and liabilities denominated in foreign currency at the balance sheet date are converted into lei based on the exchange rate ruling at that date.

Foreign currency/lei swaps, forward and spot purchases and sales are recognised in off-balance-sheet accounts from the trade date to the settlement date based on the spot rate of the transactions, being recognised in balance-sheet accounts on the settlement date. The difference between spot and forward rates is treated as interest payable or receivable. The foreign currency position is changed as a result of accruals denominated in foreign currency.

In accordance with the average cost method for long foreign currency holdings, any sale of foreign currency (outflow from the foreign currency position) generates a realised gain/loss determined as follows:

– if daily acquisitions exceed daily sales, the gain/loss from daily sales is computed as the total sales multiplied by the difference between the average price of daily sales and the average cost of daily acquisitions;

- if daily sales exceed daily acquisitions, the gain/loss from daily sales is computed as the sum of the following:
  - the gain/loss arising from the sales covered by the daily acquisitions: computed as total daily acquisitions multiplied by the difference between the average price of daily sales and the average cost of daily acquisitions;
  - the gain/loss arising from the sales covered by the previous day's foreign currency holding: computed as net daily sales multiplied by the difference between the average price of daily sales and the average cost of the respective foreign currency position on the preceding day.

In case of a short position for a foreign currency or gold, the reverse treatment to the above-mentioned approach shall apply. Thus, the average cost of the liability position shall be affected by net outflows, while net inflows shall reduce the position at the existing average cost and shall generate realised gains or losses.

**j) Foreign currency securities**

Premiums/discounts on the acquisition of securities are amortised over the remaining life of the securities using the straight-line method, the amortisation being booked daily based on the accruals principles. The amortisation of the discount/premium is disclosed as part of the interest income/expense. Receivables from securities are calculated and recorded on a daily basis, based on the accruals principle, being expressed in lei at the Bank's exchange rate of the day.

The internal rate of return method is used for the discount securities with a remaining maturity of more than one year at the time of acquisition. Short-term securities – traded on markets where there are less than three market makers – are accounted for at cost. No mark-to-market has been performed for held-to-maturity securities, which are valued at amortised cost subject to impairment.

The gain/loss arising on sale of securities is determined as the nominal value of the securities sold multiplied by the difference between the selling price and the average cost of the respective security. The components of the aforementioned gain/loss are the following:

- the market price effect representing the nominal value of the securities sold multiplied by the difference between the selling price and the net average cost of the respective security – booked in the profit or loss account at the settlement date;
- the interest rate effect representing the nominal value of the securities sold multiplied by the difference between the net average cost and the average cost of the respective security – booked in the profit or loss account through the procedure of daily amortisation of the related premiums/discounts on foreign currency securities.

The gain/loss from mark-to-market is determined as the difference between the market price and the net average cost.

**k) Loans to credit institutions and other entities**

Loans are recorded and presented in the balance sheet at the amount of the outstanding principal, adjusted with the provision for loan impairment in order to reflect the estimated recoverable amount. Likewise, this balance sheet item includes the loans granted to credit institutions based on securities transfers accompanied by a repurchase agreement.

**l) Participating interests**

In accordance with Norms No. 1/2007, as subsequently amended and supplemented, participating interests, including those reflecting the Bank's significant influence, are booked at cost; thus, these financial statements are not consolidated.

**m) Tangible and intangible fixed assets**

Tangible and intangible fixed assets are stated at cost or revalued cost, less the accumulated depreciation or amortisation.

Capital expenditure on property and equipment in the course of construction is capitalised and depreciated once the assets enter into use.

The expenditure incurred to replace a component of an item of tangible fixed assets, including the modernisation expenditure, is capitalised. All other expenditure (repairs, maintenance, etc.) is charged to the profit and loss account as incurred, representing operating expense.

The depreciation is calculated on a straight-line basis over the estimated useful life of property and equipment. The depreciation is accounted for as a write-down of the value of property and equipment items. Land is not depreciated. The legal useful life is as follows:

| | |
|---|---|
| Buildings | 20-60 years |
| Equipment | 5-20 years |
| Motor vehicles | 5 years |
| Computer equipment | 3 years |

**n) Adjustments for the impairment of assets**

As part of its monetary and exchange rate policies, the Bank is entitled to grant loans to credit institutions. The Bank books credit risk provisions in accordance with its own norms, drawn up under the approval of the Board of Directors and the advisory approval of the Ministry of Public Finance.

Adjustments for loans impairment losses are charged to the profit and loss account as specific expenses and offset against the carrying value of the loans and interest receivable.

Loans are written off and charged to the profit and loss account as they become unrecoverable and all the legal procedures have been carried out for their recovery.

Adjustments for the impairment of assets set up by the Bank, other than credit risk provisions, are covered from the profit remaining after transferring the share of 80% of the Bank's net revenues to the state budget. Financial assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the asset recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

The provisions related to impairment losses in tangible and intangible fixed assets are fully/partially reversed if there has been a change in the estimates previously used to determine the recoverable amount of the respective assets. An impairment loss provision is fully/partially reversed only to the extent that the asset carrying amount does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised in previous years.

**o) Currency in circulation**

The Bank prepares the programme for banknote and coin issuance, ensures the printing, distribution and management of the currency reserve, in order to meet the cash requirements in accordance with the real needs of currency in circulation.

The coins/banknotes in circulation are booked at the nominal value of the banknotes and coins produced by/received from the NBR Printing Works, the State Mint and other external suppliers, less the value of the banknotes and coins destroyed and other similar items (the banknotes and coins withdrawn from circulation and not exchanged by the announced deadline), the value of the banknotes and coins included in collections, the value of the numismatic products sold, the value of the banknotes and coins from the reserve fund kept in the Central Vault and at the branches of the Bank, as well as the value of banknotes and coins in course of expedition at the balance sheet date.

**p) Revaluation**

The revaluation of long and short currency holdings is performed on a monthly basis and accounted for in the special revaluation account as the difference between the revaluation exchange rate (the official exchange rate available on the last business day of the month) and the average cost of the foreign currency position. The assets (quotas in the IMF) and liabilities (IMF allocations and deposit) denominated in SDR are also revalued based on the exchange rates communicated by the International Monetary Fund on 30 April and 31 December.

The mark-to-market is performed on a monthly basis both for the holdings of gold/silver in standard form and for the foreign currency securities, with the exceptions listed below; the revaluation differences are recorded in the adjustment accounts. The revaluation of gold is performed based on the price in lei per defined unit of weight of gold, derived from the RON/USD revaluation exchange rate and the fixing quotation on the London Bullion Market. The revaluation of foreign currency securities is performed by comparing the mid-market price at the end of the last business day of the month with the net average cost of security holding.

Offsetting unrealised losses in securities, currencies or gold against unrealised gains in other securities, currencies or gold is not allowed.

At the end of the financial year, the unrealised losses on the revaluation of assets and liabilities are charged to the profit and loss account without the possibility of subsequent cancellation against new unrealised gains accounted for in future financial years. Subsequently, the average cost of the foreign currency position and the net average cost of foreign currency securities – which generated the aforementioned unrealised losses – are written down to the revaluation exchange rate and the revaluation price, respectively. End-of-year unrealised gains are accounted for in the special revaluation account.

At the end of the year, the SDR revaluation differences are offset against revaluation differences for the foreign currency holdings designated for hedging against the SDR currency risk (Note 2g), while the resulting net unrealised losses are accounted for as expenses.

**q) Pension obligations and employee benefits**

In the normal course of business, the Bank makes payments to the Romanian state funds for its Romanian employees for pension, healthcare and unemployment benefit. During 2011, as well as during the prior years, all Bank employees were included in the state pension system. Starting with 2007, according to the legal framework, all the eligible employees of the Bank have also been included in the private pension system (either mandatory or voluntary).

In compliance with the collective labour agreement currently in force, the Bank pays, on the retirement of its employees, a benefit calculated based on the salary as at the date of retirement. The collective labour agreement is subject to annual approval by the Board of Directors. The Bank recognises the retirement benefits on the date they are due to the employees of the Bank.

**r) Income and expense recognition**

The income and expenses are recognised in accordance with the accruals principle. The losses/gains arising from sales of foreign currency, gold or securities are accounted for in the profit and loss account. They are determined as the difference between the sale price and the average cost of the respective asset.

The unrealised gains are not recognised as income, but transferred directly to the special revaluation account.

At the end of the year, unrealised losses are charged to the profit and loss account if they exceed the revaluation gains previously recorded in the corresponding revaluation account. There is no netting of unrealised losses in security, currency or gold holdings against unrealised gains in other securities, currencies or gold, except for SDR hedging (Note 2g and Note 2p).

The commissions under the Stand-By Arrangement signed in 2009 between Romania and the International Monetary Fund are charged to the profit and loss account at the time of payment/receipt, except for the annual commitment fee, which is refunded by the IMF on each tranche date within the corresponding year and is recorded as an income/expense on a deferred basis with each drawdown during the respective year.

**s) Capital and statutory reserves**

The *capital* is fully owned by the Romanian state and it is not divided into shares. As at 31 December 2011 and 31 December 2010, the Bank's share capital amounted to lei 30,000 thousand.

The *statutory* reserves have been set up on 1 January 2005 in accordance with Law No. 312/2004, incorporating the remaining balance of the reserve fund. Subsequently, they were used entirely to cover the loss carried forward. On 31 December 2011, the statutory reserves increased by distributing 60% of the profit remaining after paying the share of 80% of the Bank's net revenues to the state budget.

During 2010, the statutory reserves increased starting July, in accordance with the provisions of Government Emergency Ordinance No. 78/2010 amending and supplementing Law No. 118/2010 regarding the measures required for restoring the budget balance. On 31 December 2010, the statutory reserves increased by distributing 50% of the profit remaining after paying the share of 80% of the Bank's net revenues to the state budget.

**t) Profit distribution**

The remaining profit for both 2011 and 2010 financial years has been distributed in accordance with the provisions of Law No. 312/2004 on the Statute of the National Bank of Romania (Note 40).

## 3. Risk management policies

The main risks associated with the activities of the Bank are financial and operational risks arising from the Bank's responsibility to ensure and maintain price stability in Romania. The main types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

**a) Credit risk**

The Bank is exposed to credit risk through its trading, lending and investment activities.

The credit risk associated with trading and investment activities is managed through the Bank's market risk management process. The risk is mitigated by selecting counterparties with the highest credit ratings, by monitoring their activities and ratings, as well as by using exposure limits.

The Bank's primary exposure to credit risk arises as a result of granting short-term loans, denominated in lei, to domestic credit institutions. The credit exposure is represented by the carrying amounts of the loans, as accounted for in the balance sheet. Short-term loans in lei granted to banks are normally secured by Treasury securities issued by the Romanian Government or by term deposits. However, under special circumstances, the Bank may grant unsecured loans to credit institutions in order to prevent systemic crises.

The maximum credit risk exposure, representing the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed to meet the contractual agreements and if the fair value of the collateral were nil, is of lei 6,711,090 thousand (31 December 2010: lei 3,269,965 thousand). Mention should be made that, as of the approval date of these financial statements, the loans granted to credit institutions outstanding as at 31 December 2011, amounting to lei 6,710,960 thousand, had been fully repaid by the counterparties (31 December 2010: lei 3,269,783 thousand).

**b) Liquidity risk**

The Bank is the lender of last resort to credit institutions in Romania. The main objective of its day-to-day operations is to ensure adequate liquidity on the domestic market.

The Bank also manages the international foreign currency reserves, through planning and diversification, in order to ensure that foreign exchange obligations are timely met.

**c) Interest rate risk**

The Bank incurs interest rate risk mainly in the form of exposure to adverse changes in the market interest rates to the extent that the market value of assets/liabilities is affected by interest rate fluctuations, as interest-earning assets and interest-bearing liabilities become due or to the extent that the interest rate changes at different times or with different variation percentages.

For financial assets and liabilities denominated in lei, the Bank endeavours to match the current interest rates on the market. Obtaining a positive margin is not always possible given that the levels of these assets and liabilities are dictated by the objectives of the monetary policy.

However, the Bank constantly monitors the costs of implementing this policy against the estimated benefits.

In order to mitigate the interest rate risk, the Bank adjusts the average maturity of assets in accordance with its safety and profitability objectives. For the financial liabilities denominated in foreign currency, the Bank uses a mix of fixed and variable interest rate instruments in order to limit the interest rate risk exposure.

**d) Currency risk**

The Bank is exposed to currency risk through its foreign currency transactions.

The main net assets held by the Bank are denominated in EUR and USD. Similarly, the main net liabilities held by the Bank are denominated in SDR. Owing to the volatility of the exchange rate and of the financial markets, there is a consequent risk of loss/gain in the lei value of the monetary assets/liabilities denominated in foreign currency. Open foreign exchange positions represent a source of currency risk.

Within the framework of its objectives for managing international reserves, in order to avoid losses arising from adverse movements in exchange rates, the Bank is currently pursuing a policy of diversifying its portfolio, so as to ensure a balanced foreign currency distribution. On 31 December 2011 and 31 December 2010, the Bank also performed the hedging operation for protection against the SDR currency risk (Note 2g).

The assets and liabilities denominated in EUR, USD and other foreign currencies at the balance sheet date are presented in Note 38.

The revaluation exchange rates of the main foreign currencies at the end of the year were:

| **Currency** | **31 December 2011** | **31 December 2010** | **% appreciation (depreciation)** |
|---|---|---|---|
| Euro (EUR) | 1: RON 4.3197 | 1: RON 4.2848 | 0.8 |
| US dollar (USD) | 1: RON 3.3393 | 1: RON 3.2045 | 4.2 |
| Special Drawing Rights (SDR) | 1: RON 5.1256 | 1: RON 4.9554 | 3.4 |

## 4. Current account in SDR with the IMF

Each IMF Member State has an SDR current account with the International Monetary Fund (IMF) for conducting loan agreements and other related operations between Member States and the IMF. This account bears the same interest rate as the IMF SDR allocations.

## 5. Monetary gold

*lei thousand*

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Gold bullions in standard form | 4,716,503 | 4,055,846 |
| Coins | 2,434,021 | 2,093,079 |
| Deposits abroad | 10,352,012 | 8,901,968 |
| **Total** | **17,502,536** | **15,050,893** |

As at 31 December 2011, the Bank had foreign gold deposits amounting to lei 10,352,012 thousand (31 December 2010: lei 8,901,968 thousand). As at 31 December 2011, the gold revaluation price was lei/g 169.026 and the Bank's total gold holdings amounted to 103,549.3 kg (as at 31 December 2010, the revaluation price stood at lei/g 145.350 and the Bank's gold holdings amounted to 103,549.3 kg).

## 6. Demand deposits placed

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Demand deposits with international financial institutions | 867,636 | 8,757,746 |
| Demand deposits with central banks | 7,150,472 | 115,739 |
| Demand deposits with foreign banks | 7,698 | 7,979 |
| **Total** | **8,025,806** | **8,881,464** |

On 4 July 2011, the Bank implemented the TARGET2-România (Trans-European Automated Real-time Gross settlement Express Transfer) system. TARGET2 represents a secure and fast channel for processing interbank payments in euro both for the banks and their clients.

As at 31 December 2011, the item "demand deposits with central banks" mainly comprises the Bank's balance as a direct participant in TARGET2, amounting to lei 5,027,426 thousand, representing EUR 1,163,837 thousand (31 December 2010: nil balance), the demand deposit held with a central bank in the European Union amounting to lei 2,041,002 thousand, representing EUR 472,487 thousand (31 December 2010: EUR 23,491 thousand), and other deposits.

As at 31 December 2011, the Bank's current account held with the BIS amounts to lei 867,636 thousand (31 December 2010: lei 8,757,746 thousand), representing the lei equivalent of EUR 200,847 thousand (31 December 2010: EUR 2,043,902 thousand), USD 6 thousand (31 December 2010: USD 6 thousand) and CHF 5 thousand (31 December 2010: CHF 5 thousand).

The currency breakdown of the other demand deposits placed is presented in Note 38.

## 7. Term deposits placed

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Term deposits with central banks | 8,622,121 | 8,535,322 |
| Term deposits with international financial institutions | 6,582,640 | 22,673,467 |
| **Total** | **15,204,761** | **31,208,789** |

As at 31 December 2011, the term deposits held with central banks include a deposit held with a central bank in the European Union amounting to lei 8,622,121 thousand, representing EUR 1,996,000 thousand (31 December 2010: lei 8,535,322 thousand – the equivalent of EUR 1,992,000 thousand), and the term deposits held with international institutions include a deposit held with a non-European Union financial institution in amount of lei 6,582,640 thousand representing EUR 1,500,000 thousand and GBP 20,000 thousand (31 December 2010: lei 22,673,467 thousand, the equivalent of EUR 3,630,600 thousand, USD 365,000 thousand and JPY 150,950,000 thousand).

## 8. Foreign currency placements

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Placements with the World Bank, | | |
| *of which:* | | |
| – demand deposits with the FED | 956 | 944 |
| – securities | 1,453,857 | 704,761 |
| **Total** | **1,454,813** | **705,705** |

In 2002, the Bank and the IBRD concluded an investment management agreement providing for the IBRD's role as an investment adviser and agent for the Bank's foreign assets, subject to a limit of 20% of the international reserves of the Bank. As at 31 December 2011, the deposits managed by the IBRD amounted to lei 956 thousand – the equivalent of USD 286 thousand (31 December 2010: lei 944 thousand – the equivalent of USD 295 thousand).

As at 31 December 2011, the Bank's placements in securities managed by the World Bank, in accordance with the investment management agreement, amounted to lei 1,453,857 thousand – the equivalent of USD 435,378 thousand (31 December 2010: lei 704,761 thousand – the equivalent of USD 219,929 thousand). The accounting policy for these investments was similar to that for foreign currency placements, namely accounting for the foreign currency inflows and outflows.

## 9. Foreign currency securities

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Discount treasury bills – US Treasury | - | 9,196,305 |
| Discount treasury bills – European Treasuries | 16,718,706 | 36,177,954 |
| Discount treasury bills – credit institutions and banks | 9,667,916 | 7,751,419 |
| Discount treasury bills – international financial institutions (BIS) | - | 8,362,897 |
| Discount treasury bills – Japan Treasury | 4,799,215 | - |
| Coupon treasury bills – US Treasury | 10,366,288 | 7,881,289 |
| Coupon treasury bills – European Treasuries | 66,355,705 | 23,415,044 |
| Coupon treasury bills – credit institutions and banks | 674,369 | - |
| Coupon treasury bills – international financial institutions – BIS (MTI) | 5,940,115 | - |
| **Total** | **114,522,314** | **92,784,908** |

As at 31 December 2011, the foreign currency security portfolio included short-term securities amounting to lei 114,522,314 thousand (31 December 2010: lei 92,784,908 thousand).

The coupon treasury bills issued by European Treasuries, credit institutions, banks and the BIS bear fixed interest rates. Interest rates range between 0.50% and 5.38% per annum for EUR bills (2010: between 0.50% and 6.50% per annum) and between 0.88% and 4.25% per annum for USD securities (2010: between 0.50% and 1.75% per annum); no coupon treasury bills in GBP were held as at 31 December 2011 and 31 December 2010. On 31 December 2011, the Bank has both GBP and JPY discount treasury bills.

As at 31 December 2011 and 31 December 2010, the Bank had no securities classified as held-to-maturity.

## 10. Loans in foreign currency

As at 31 December 2011, the Bank's placements managed by the FED amounted to lei 806,441 thousand – the equivalent of USD 241,500 thousand (31 December 2010: lei 1,437,218 thousand – the equivalent of USD 448,500 thousand).

## 11. Quotas in international financial institutions

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Romania's quota in the IMF | 5,281,533 | 5,133,265 |
| Participating interest in the BIS | 90,687 | 87,676 |
| Participating interest in the ECB | 42,959 | 42,611 |
| **Total** | **5,415,179** | **5,263,552** |

This item comprises the national funds representing the participating quota in other international financial institutions.

In accordance with Law No. 97/1997, the Bank exercises all the rights and obligations deriving from Romania's membership in the IMF. In 2010, as an exception, when tranches III and IV of the IMF loan were equally divided between the Bank and the Ministry of Public Finance, the corresponding rights and obligations were assumed by each institution for its part of the loan, in accordance with the provisions of Law No. 72/16.04.2010 approving Government Emergency Ordinance No. 10/2010 on the ratification of the Letter of Intent signed by the Romanian authorities in Bucharest on 5 February 2010 and approved by the IMF Board Decision of 19 February 2010 and amending Government Emergency Ordinance No. 99/22.09.2009 on the ratification of the Stand-By Arrangement between Romania and the International Monetary Fund, agreed upon by way of the Letter of Intent submitted by the Romanian authorities, signed in Bucharest on 24 April 2009, and by the IMF Board Decision of 4 May 2009, as well as the additional Letter of Intent signed by the Romanian authorities on 8 September 2009 and approved by the IMF Board Decision of 21 September 2009.

At 31 December 2011 and 31 December 2010, Romania's total participation quota in the IMF amounted to SDR 1,030 million. The Bank acts as a depository for the IMF deposits related to the participation.

## 12. Loans to domestic credit institutions

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Loans to domestic credit institutions | 6,722,760 | 3,281,583 |
| Loans in litigation | 13,209 | 13,209 |
| Credit risk provisions – principal | (25,009) | (25,009) |
| **Total** | **6,710,960** | **3,269,783** |

As at 31 December 2011, the loans granted to domestic credit institutions included the loans amounting to lei 6,710,960 thousand granted by the Bank on the basis of securities transfers accompanied by repurchase agreements (31 December 2010: lei 3,269,783 thousand) and the loan in amount of lei 11,800 thousand granted to Credit Bank S.A, a bankrupt credit institution, according to Government Emergency Ordinance No. 26/2000 on authorising the National Bank of Romania to grant a loan to cover public demand for the withdrawal of deposits with "Renaşterea Creditului Românesc" Bank – Credit Bank S.A. (31 December 2010: lei 11,800 thousand).

As at 31 December 2011 and 31 December 2010, loans in litigation included the loan granted by the Bank to Credit Bank S.A. prior to its being declared bankrupt.

As at 31 December 2011 and 31 December 2010, the credit risk provision included the provision booked by the Bank for the loan in amount of lei 11,800 thousand granted to Credit Bank S.A. and the loan in amount of lei 13,209 thousand granted to the same bank.

## 13. Tangible and intangible fixed assets

*lei thousand*

| | Land and buildings | Equipment | Work in progress | Intangible assets | Total |
|---|---|---|---|---|---|
| *Cost or revalued amount* | | | | | |
| As at 31 December 2010 | 1,423,381 | 91,253 | 36,269 | 21,731 | 1,572,634 |
| Additions | 19,569 | 6,347 | 8,307 | 7,120 | 41,343 |
| Disposals | - | (684) | (7,449) | - | (8,133) |
| **As at 31 December 2011** | **1,442,950** | **96,916** | **37,127** | **28,851** | **1,605,844** |
| *Accumulated depreciation* | | | | | |
| As at 31 December 2010 | 136 | 39,002 | - | 16,649 | 55,787 |
| Depreciation during the year | 31,187 | 12,181 | - | 4,092 | 47,460 |
| Disposals | - | (670) | - | - | (670) |
| **As at 31 December 2011** | **31,323** | **50,513** | **-** | **20,741** | **102,577** |
| **Net book value:** | | | | | |
| **As at 31 December 2011** | **1,411,627** | **46,403** | **37,127** | **8,110** | **1,503,267** |
| **As at 31 December 2010** | **1,423,245** | **52,251** | **36,269** | **5,082** | **1,516,847** |

At 31 December 2011, the item "equipment" included fixed assets acquired through financial lease contracts in progress in gross amount of lei 6,251 thousand and accumulated depreciation of lei 3,119 thousand (31 December 2010: gross value of contracts – lei 11,797 thousand and accumulated depreciation – lei 2,214 thousand). During 2011, no other financial lease contract was signed by the Bank (in 2010 a single financial lease contract amounting to lei 6,900 thousand for banknote processing equipment was signed).

At 31 December 2010, the land and buildings were revalued by an appraiser accredited by the National Association of Romanian Valuers (ANEVAR), in accordance with the recommendations of the International Valuation Standards (IVA 3 – "Valuation of public sector assets for financial reporting"). The market value estimate was determined by appraiser-selected methods, as applicable (market comparison approach, income capitalisation approach, net replacement cost method). As at 31 December 2010, the accumulated depreciation was removed from the gross carrying amount and the net carrying value was set at the revaluation value. Unrealised gains are booked in the balance sheet under "Reserves"; unrealised losses are also booked under "Reserves", as they are fully offset by unrealised gains from the previous revaluation – for each revalued asset. Furthermore, the appraiser revised the useful life of the buildings. In addition, as at 31 December 2010, the other fixed tangible assets of the Bank (machinery and specific equipment, motor vehicles, furniture, office equipment, computers and peripheral equipment and other fixed assets) were revalued by an ANEVAR-accredited appraiser pursuant to the recommendations of the International Valuation Standards (IVA 3 – "Valuation of public sector assets for financial reporting").

## 14. Participating interests

Participating interests are accounted for at cost, in accordance with the provisions of Norms No. 1/2007, as subsequently amended and supplemented; thus, these financial statements are not consolidated.

As at 31 December 2011, participating interests, amounting to lei 2,319 thousand (31 December 2010: lei 2,318 thousand), included shares held by the Bank in TRANSFOND S.A. (31 December 2011 and 31 December 2010: lei 2,240 thousand) – a joint stock company providing settlement services for the local banks' interbank operations (the Bank's holding represents 33% of the TRANSFOND S.A. share capital) – and 8 shares held by the Bank in the share capital of SWIFT, as a result of the reallocation performed on 20 February 2006. The number of shares in the capital of SWIFT was not altered by the reallocation performed in 2008; the SWIFT shares have a carrying value of EUR 18 thousand – lei 79 thousand (31 December 2010: EUR 18 thousand – lei 78 thousand).

The audited financial statements of TRANSFOND S.A. are summarised in the following table:

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Equity | 139,251 | 141,846 |
| Total assets | 143,421 | 148,090 |
| Net profit for the year | 7,826 | 11,629 |

## 15. Provisions for other assets

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Provisions for: | | |
| Guarantees paid by the NBR for Credit Bank S.A. (a) | 52,722 | 50,593 |
| Other assets (b) | 2,088 | 9,834 |
| **Total** | **54,810** | **60,427** |

a) As at 31 December 2011, the lei equivalent of the collateral paid by the Bank as guarantor for Credit Bank S.A. amounted to lei 52,722 thousand (31 December 2010: lei 50,593 thousand). The foreign currency collateral was revalued as at 31 December 2011 and 31 December 2010.

b) This item includes mainly the provisions against other sundry debtors in litigation.

The provisions under a) and b) represent adjustment figures of the balance sheet item “Other assets”.

## 16. Accrued interest receivable

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| ***Accrued interest receivable from:*** | | |
| Foreign currency securities | 1,398,643 | 544,353 |
| Foreign currency deposits and placements | 4,733 | 6,896 |
| Loans granted to banks | 10,542 | 12,039 |
| Other assets | 877 | 1,125 |
| **Total** | **1,414,795** | **564,413** |

## 17. Credit risk provisions – interest

As at 31 December 2011 and 31 December 2010, the credit risk provision amounting to lei 6,068 thousand is still in place in relation to the interest receivables for the loan granted to Credit Bank S.A., in accordance with Government Emergency Ordinance No. 26/2000 on authorising the National Bank of Romania to grant a loan to cover public demand for the withdrawal of deposits with “Renaşterea Creditului Românesc” Bank – Credit Bank S.A.

## 18. Currency in circulation

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Banknotes | 33,961,460 | 29,702,625 |
| Coins | 288,103 | 261,451 |
| **Total** | **34,249,563** | **29,964,076** |

## 19. Due to the IMF

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| IMF deposits/loans | 49,486,582 | 44,265,588 |
| **Total** | **49,486,582** | **44,265,588** |

As at 31 December 2011, the balance of the IMF account amounts to SDR 9,652,704,150, out of which the amount of SDR 769,000,000 represents tranche VII, drawn in 2011 in accordance with the Stand-By Arrangement signed in 2009 between Romania and the International Monetary Fund (31 December 2010: SDR 8,883,705,036 including the tranches drawn by the Bank until 31 December 2010 pursuant to the above-mentioned Arrangement).

In 2010, tranches III and IV of the IMF loan were equally divided between the Bank and the Ministry of Public Finance. The corresponding rights and obligations were assumed by each institution for its part of the loan, in accordance with the provisions of Law No. 72/16.04.2010 approving Government Emergency Ordinance No. 10/2010 on the ratification of the Letter of Intent signed by the Romanian authorities in Bucharest on 5 February 2010 and approved by the IMF Board Decision of 19 February 2010 and amending Government Emergency Ordinance No. 99/22.09.2009 on the ratification of the Stand-By Arrangement between Romania and the International Monetary Fund, agreed upon by way of the Letter of Intent submitted by the Romanian authorities, signed in Bucharest on 24 April 2009, and by the IMF Board Decision of 4 May 2009, as well as the additional Letter of Intent signed by the Romanian authorities on 8 September 2009 and approved by the IMF Board Decision of 21 September 2009.

## 20. Borrowings from banks and other financial institutions

As at 31 December 2011, the Bank had borrowings amounting to lei 6,392 thousand, the equivalent of EUR 1,480 thousand (31 December 2010: lei 8,291 thousand, the equivalent of EUR 1,935 thousand), representing financial lease contracts for the acquisition of banknote processing systems/machines.

## 21. Counterpart of special drawing rights allocated by the IMF

This item includes a non-refundable loan bearing the same interest rate as the SDR current account with the IMF. As at 31 December 2011 and 31 December 2010, the SDR allocations from the IMF amounted to SDR 984,767,719 and had an interest rate of 0.11% per annum in 2011 and 0.30% per annum in 2010, respectively.

## 22. Current account of the State Treasury

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Current account of the State Treasury in lei | 891,628 | 77,320 |
| Current account of the State Treasury in foreign currency | 12,672,671 | 12,717,991 |
| **Total** | **13,564,299** | **12,795,311** |

The current accounts of the State Treasury in lei bear an interest rate similar to that set by the Bank for the deposit facility, whereas the current accounts of the State Treasury in foreign currency bear variable interest rates depending on market fluctuations.

## 23. Settlement account with the state budget

As at 31 December 2011 and 31 December 2010, the balance included mainly the state share of 80% of the Bank's net revenues for December 2011 and December 2010, in accordance with the legal requirements on the distribution of the Bank's net revenues (Note 2c).

## 24. Off-balance-sheet instruments revaluation differences

As at 31 December 2011, there were no spot transactions of the Bank accounted for in off-balance-sheet accounts.

As at 31 December 2010, foreign currency transactions were booked in off-balance-sheet accounts consisting of spot transactions settled in 3 working days from the trade date (liabilities in amount of EUR 335,000 thousand and assets in amount of EUR 249,157 thousand).

These operations are revalued at the end of each month and the revaluation result is booked in the balance sheet.

As at 31 December 2010, the revaluation result was lei 5,485 thousand – receivables.

## 25. Accrued interest payable

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| ***Accrued interest payable for:*** | | |
| Foreign borrowings | 197,252 | 184,420 |
| Minimum required reserves of credit institutions | 10,377 | 12,066 |
| Deposits of credit institutions | - | 19 |
| Current account of the State Treasury | 424 | 451 |
| **Total** | **208,053** | **196,956** |

## 26. Transactions with related parties

As of 31 December 2005, the Romanian Government, through the State Treasury, has maintained current accounts with the Bank, whose operations are subject to commission fees. Furthermore, the Bank acts as a registry agent on behalf of the State Treasury with regard to government bonds and treasury certificates, manages the international reserves and ensures timely servicing of Romania’s foreign public debt.

The Bank also has influence, through its Board members, over two other state institutions: the NBR Printing Works and the State Mint.

In 2011, the total purchases of banknotes and coins from the aforementioned two entities amounted to lei 141,164 thousand (31 December 2010: lei 61,590 thousand). As at 31 December 2011 and 31 December 2010, the Bank had no receivables from or payables to the NBR Printing Works and the State Mint. All the transactions with these two entities were carried out under normal commercial terms and conditions.

The Bank has significant influence over TRANSFOND S.A., an entity established in 2000 in order to outsource the Bank’s settlement activities of domestic interbank operations. On 8 April 2005, the real-time gross settlement system (ReGIS) went live, followed by the SENT module (for retail payments – fully managed by TRANSFOND S.A.) and the SaFIR module (for treasury bills and deposit certificates issued by the Bank – managed by the Bank).

For the agent services provided, TRANSFOND S.A. is entitled to 95% of the settlement commissions received by the Bank from domestic banks and other varying percentages according to the contracts regulating the other modules of the Electronic Payment System. The total commissions paid to TRANSFOND S.A. by the Bank in 2011 amounted to lei 18,591 thousand (31 December 2010: lei 16,143 thousand). As at 31 December 2011 and 31 December 2010, the Bank had no receivables from or payables to TRANSFOND S.A.

## 27. Reserves

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Statutory reserves | 418,690 | 378,894 |
| Other reserves | 795,583 | 672,792 |
| Revaluation gains – tangible fixed assets | 1,323,409 | 1,323,409 |
| **Total** | **2,537,682** | **2,375,095** |

Statutory reserves are the result of the 60% distribution from the remaining profit for the year 2011 (50% for 2010 and 60% for 2009) and of the increase in statutory reserves starting July 2010 according to Government Emergency Ordinance No. 78/2010 amending and supplementing Law No. 118/2010 regarding the measures required for restoring the budget balance.

Other reserves represent:

- reserves set up from the previous tangible assets fund (31 December 2011 and 31 December 2010: lei 14,450 thousand);
- reserves set up from the previous fund for the Bank's investment financing sources (31 December 2011 and 31 December 2010: lei 57,629 thousand);
- reserves set up from the previous IMF participating interest fund (31 December 2011 and 31 December 2010: lei 318,532 thousand);
- reserves set up from the previous BIS participating interest fund (31 December 2011 and 31 December 2010: lei 44,550 thousand);
- reserves set up, according to the law, for the Bank's own financing sources amounting to lei 189,755 thousand as at 31 December 2011 (31 December 2010: lei 104,847 thousand); and
- other reserves amounting to lei 170,667 thousand as at 31 December 2011 (31 December 2010: lei 132,784 thousand).

Revaluation gains represent the difference between the fair value and the net book value of tangible assets (Note 13).

## 28. Special revaluation account

*lei thousand*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Unrealised gains from the revaluation of holdings of gold, precious metals and stones | 13,440,445 | 10,965,080 |
| Unrealised gains from the revaluation of foreign currency assets and liabilities | 2,036,340 | 3,373,067 |
| Foreign currency securities (mark-to-market) | 289,117 | 420,929 |
| **Total** | **15,765,902** | **14,759,076** |

As at 31 December 2011 and 31 December 2010, the amounts recorded in the special revaluation account represented unrealised gains.

During the 2011 and 2010 financial years, the Bank held long currency positions for all the currencies in the portfolio, as well as for gold (total claims exceeding total debts in a given currency). As an exception, the SDR position remained short throughout 2011 and 2010.

The economic hedging operation performed on 31 December 2011 and 31 December 2010 enabled the recording in the special revaluation account of the result of the SDR net holding revaluation following its compensation with the result of the revaluation for the other holdings included in the net SDR holding – designated in accordance with the structure of the SDR currency basket (Note 2p).

## 29. Interest income

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| **Foreign currency/gold operations** | | |
| Interest and similar income from: | | |
| Foreign currency securities | 2,096,010 | 1,239,799 |
| Foreign currency placements/borrowings | 192,833 | 104,909 |
| Amounts in SDR | 10,341 | 11,081 |
| **Total interest income from foreign currency and gold operations** | **2,299,184** | **1,355,789** |
| **Lei operations** | | |
| Loans to credit institutions | 86,456 | 48,977 |
| Other income | 234 | 35 |
| **Total interest income from lei operations** | **86,690** | **49,012** |
| **Total interest income** | **2,385,874** | **1,404,801** |

In 2011, interest income from foreign currency operations consisted mainly of lei 1,785,019 thousand representing the accumulated security coupons (31 December 2010: lei 1,045,553 thousand) and lei 310,991 thousand, representing the deferred discount resulting from security purchases (31 December 2010: lei 194,246 thousand).

Interest income from lei operations comprises mainly the interest in amount of lei 86,456 thousand (31 December 2010: lei 48,977 thousand) on the loans granted to credit institutions (including securities transfers accompanied by repurchase agreements).

## 30. Interest expense

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| **Foreign currency operations** | | |
| Interest and similar expenses from: | | |
| Foreign currency securities, minimum reserves and deposits taken | 1,440,044 | 809,205 |
| Loans/deposits from the International Monetary Fund | 1,181,796 | 843,253 |
| **Total interest expense from foreign currency operations** | **2,621,840** | **1,652,458** |
| **Lei operations** | | |
| Interest and similar expenses from: | | |
| Term deposits of credit institutions | 26,257 | 51,474 |
| Minimum reserves of credit institutions | 310,837 | 375,458 |
| Current account of the State Treasury | 58,197 | 87,485 |
| Other expenses | - | 17 |
| **Total interest expense from lei operations** | **395,291** | **514,434** |
| **Total interest expense** | **3,017,131** | **2,166,892** |

In 2011, interest expense from foreign currency operations consisted mainly of the interest paid on foreign currency minimum reserves and on demand deposits taken, i.e. lei 306,604 thousand (31 December 2010: lei 464,830 thousand), the amortisation of the net premium arising from foreign security purchases, i.e. lei 1,133,440 thousand (31 December 2010: lei 344,375 thousand), and the interest expense from the loan granted by the IMF, namely lei 1,181,796 thousand (31 December 2010: lei 843,253 thousand).

## 31. Fees and commissions income

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| Fees and commissions income in lei | 83,264 | 94,911 |
| Fees and commissions income in foreign currency | 11,368 | 41,795 |
| **Total fees and commissions income** | **94,632** | **136,706** |

Fees and commissions income in lei includes the commission income from the settlement of operations in relation to domestic credit institutions and the State Treasury in amount of lei 83,264 thousand (31 December 2010: lei 94,911 thousand).

Fees and commissions income in foreign currency derives mainly from operations with the IMF, representing the annual commitment fee (Note 2r) reimbursed by the IMF in amount of lei 11,368 thousand (31 December 2010: lei 41,795 thousand).

## 32. Fees and commissions expense

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| Fees and commissions expenses in lei | 16,747 | 16,143 |
| Fees and commissions expenses in foreign currency | 57,908 | 109,359 |
| **Total fees and commissions expense** | **74,655** | **125,502** |

Fees and commissions expenses in lei amounting to lei 16,747 thousand (31 December 2010: lei 16,143 thousand) represent the commissions for the services received by the Bank, including the services provided by TRANSFOND S.A, which receives for its services a 95% share of the commissions collected by the Bank for the settlement of operations of domestic credit institutions (Note 26).

Fees and commissions expenses in foreign currency in amount of lei 57,908 thousand (31 December 2010: lei 109,359 thousand) derive mainly from the operations with the IMF, representing the annual commitment fee (which is reimbursed by the IMF at each drawdown date), the service commission (0.5% of the tranches disbursed) and the first year commitment fee under the precautionary Stand-By Arrangement signed in 2011.

## 33. Net realised gains from foreign currency operations

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| **Income from foreign currency operations** | | |
| Income from exchange rate differences | 1,292,950 | 2,029,839 |
| Dividends on shares in the BIS | 12,182 | 29,645 |
| **Total income from foreign currency operations** | **1,305,132** | **2,059,484** |
| **Expenses from foreign currency operations** | | |
| Expenses from exchange rate differences | (26,183) | (5,709) |
| Other expenses from foreign currency operations | (22,781) | (6,374) |
| **Total expenses from foreign currency operations** | **(48,964)** | **(12,083)** |
| **Net realised gains from foreign currency operations** | **1,256,168** | **2,047,401** |

Income and expenses from exchange rate differences in 2011 and 2010 were mainly generated by the outflows from long foreign currency positions and were calculated using the average cost method (Note 2i).

## 34. Net realised gains from securities operations

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| **Income from securities operations** | | |
| Gains from securities operations | 187,405 | 511,533 |
| **Total income from securities operations** | **187,405** | **511,533** |
| **Expenses from securities operations** | **(82,321)** | **(329)** |
| **Net realised gains from securities operations** | **105,084** | **511,204** |

Income/expenses represent the market price effect resulting from the sales of foreign currency securities and are calculated using the average cost method (Note 2j).

## 35. Net realised losses from precious metals operations

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| Income from precious metals operations | - | - |
| Expenses from precious metals operations | (319) | (320) |
| **Net realised losses from precious metals operations** | **(319)** | **(320)** |

Expenses from precious metals operations represent the deposit fees paid for the gold kept with the foreign depository.

## 36. Unrealised losses from revaluation differences

*lei thousand*

| | 2011 | 2010 |
|---|---|---|
| **Expenses from unfavourable revaluation differences** | | |
| Mark-to-market of foreign currency securities | 2,581 | 9,303 |
| **Unrealised losses from revaluation differences** | **(2,581)** | **(9,303)** |

Unrealised losses represent the unfavourable differences between the market value of foreign currency securities as at 31 December and their net average cost (Note 2j).

## 37. Currency issue expenses

Currency issue expenses include the expenses arising from printing banknotes and minting coins.

## 38. Foreign currency risk

The breakdown of the Bank's assets (lei thousand) by currency as at 31 December 2011 is the following:

*lei thousand*

| | LEI | EUR | USD | SDR | Gold | Other | Total |
|---|---|---|---|---|---|---|---|
| Cash and other cash equivalents | 23,400 | 134 | 91 | | | | **23,625** |
| Non-monetary gold | | | | | 179,446 | | **179,446** |
| Other precious metals and stones | | | | | | 49,067 | **49,067** |
| Current account in SDR with the IMF | | | | 1,970,146 | | | **1,970,146** |
| Monetary gold | | | | | 17,502,536 | | **17,502,536** |
| Demand deposits placed | | 7,941,923 | 5,108 | | | 78,775 | **8,025,806** |
| Term deposits placed | | 15,101,671 | | | | 103,090 | **15,204,761** |
| Foreign currency placements | | | 1,454,813 | | | | **1,454,813** |
| Foreign currency securities | | 85,591,498 | 18,877,431 | | | 10,053,385 | **114,522,314** |
| Loans in foreign currency | | | 806,441 | | | | **806,441** |
| Quotas in international financial institutions | | 42,959 | | 5,281,533 | | 90,687 | **5,415,179** |
| Other foreign assets TARGET2 | | 113,254 | | | | | **113,254** |
| Loans to domestic credit institutions | 6,722,760 | | | | | | **6,722,760** |
| Loans in litigation | 13,209 | | | | | | **13,209** |
| Credit risk provisions – principal | (25,009) | | | | | | **(25,009)** |
| Loans to employees | 130 | | | | | | **130** |
| Tangible and intangible fixed assets | 1,503,267 | | | | | | **1,503,267** |
| Inventories | 3,599 | | | | | | **3,599** |
| Participating interests | 2,319 | | | | | | **2,319** |
| Settlement account with the state budget | 116 | | | | | | **116** |
| Accruals and prepaid expenses | 30,424 | | | | | | **30,424** |
| Other assets | 56,497 | | | | | | **56,497** |
| Provisions for other assets | (2,088) | | (52,722) | | | | **(54,810)** |
| Accrued interest receivable | 11,419 | 1,366,541 | 36,223 | 610 | | 2 | **1,414,795** |
| Credit risk provisions – interest | (6,068) | | | | | | **(6,068)** |
| **Total assets** | **8,333,975** | **110,157,980** | **21,127,385** | **7,252,289** | **17,681,982** | **10,375,006** | **174,928,617** |

The breakdown of the Bank's liabilities and capital (lei thousand) by currency as at 31 December 2011 is the following:

*lei thousand*

| | LEI | EUR | USD | SDR | Gold | Other | Total |
|---|---|---|---|---|---|---|---|
| Currency in circulation | 34,249,563 | | | | | | **34,249,563** |
| Due to international financial institutions | 24,955 | | 501 | 49,486,582 | | | **49,512,038** |
| Demand deposits taken | | 228,674 | | | | | **228,674** |
| Borrowings from banks and other financial institutions | | 6,392 | | | | | **6,392** |
| Counterpart of special drawing rights allocated by the IMF | | | | 5,048,615 | | | **5,048,615** |
| Current accounts of domestic banks | 27,339,419 | | | | | | **27,339,419** |
| Amounts withheld at court disposition | 163,084 | | | | | | **163,084** |
| Foreign currency minimum reserves | | 25,874,256 | 211,909 | | | | **26,086,165** |
| Accounts of bankrupt credit institutions | 2,152 | | | | | | **2,152** |
| Other liabilities TARGET2 | | 113,254 | | | | | **113,254** |
| Current account of the State Treasury | 891,628 | 12,539,951 | 131,555 | | | 1,165 | **13,564,299** |
| Sundry creditors | 13,747 | | | | | | **13,747** |
| Salaries and other personal-related liabilities | 1,856 | | | | | | **1,856** |
| Settlement account with the state budget | 16,161 | | | | | | **16,161** |
| Accruals and income collected in advance | 13,220 | | | | | | **13,220** |
| Other liabilities | 1,811 | | | | | | **1,811** |
| Accrued interest payable | 7,485 | 7,154 | 16 | 193,398 | | | **208,053** |
| **Total liabilities** | **62,725,081** | **38,769,681** | **343,981** | **54,728,595** | **-** | **1,165** | **156,568,503** |
| **Net assets / (net liabilities)*)** | **(54,391,106)** | **71,388,299** | **20,783,404** | **(47,476,306)** | **17,681,982** | **10,373,841** | **18,360,114** |

**) represent the Bank's equity and reserves*

The breakdown of the Bank's assets (lei thousand) by currency as at 31 December 2010 is the following:

*lei thousand*

| | LEI | EUR | USD | SDR | Gold | Other | Total |
|---|---|---|---|---|---|---|---|
| Cash and other cash equivalents | 27,078 | 75 | 71 | | | | **27,224** |
| Non-monetary gold | | | | | 155,442 | | **155,442** |
| Other precious metals and stones | | | | | | 50,508 | **50,508** |
| Current account in SDR with the IMF | | | | 3,403,682 | | | **3,403,682** |
| Monetary gold | | | | | 15,050,893 | | **15,050,893** |
| Demand deposits placed | | 8,867,099 | 2,737 | | | 11,628 | **8,881,464** |
| Term deposits placed | | 24,091,717 | 1,169,642 | | | 5,947,430 | **31,208,789** |
| Foreign currency placements | | | 705,705 | | | | **705,705** |
| Foreign currency securities | | 57,551,514 | 30,526,608 | | | 4,706,786 | **92,784,908** |
| Loans in foreign currency | | | 1,437,218 | | | | **1,437,218** |
| Quotas in international financial institutions | | 42,612 | | 5,133,265 | | 87,675 | **5,263,552** |
| Loans to domestic credit institutions | 3,281,583 | | | | | | **3,281,583** |
| Loans in litigation | 13,209 | | | | | | **13,209** |
| Credit risk provisions – principal | (25,009) | | | | | | **(25,009)** |
| Loans to employees | 182 | | | | | | **182** |
| Tangible and intangible fixed assets | 1,516,847 | | | | | | **1,516,847** |
| Inventories | 3,582 | | | | | | **3,582** |
| Participating interests | 2,240 | 78 | | | | | **2,318** |
| Settlement account with the state budget | 126 | | | | | | **126** |
| Accruals and prepaid expenses | 22,074 | | | | | | **22,074** |
| Other assets | 61,774 | | | | | | **61,774** |
| Provisions for other assets | (9,834) | | (50,593) | | | | **(60,427)** |
| Accrued interest receivable | 13,164 | 523,371 | 25,750 | 2,085 | | 43 | **564,413** |
| Credit risk provisions – interest | (6,068) | | | | | | **(6,068)** |
| **Total assets** | **4,900,948** | **91,076,466** | **33,817,138** | **8,539,032** | **15,206,335** | **10,804,070** | **164,343,989** |

The breakdown of the Bank's liabilities and capital (lei thousand) by currency as at 31 December 2010 is the following:

*lei thousand*

| | LEI | EUR | USD | SDR | Gold | Other | Total |
|---|---|---|---|---|---|---|---|
| Currency in circulation | 29,964,076 | | | | | | **29,964,076** |
| Due to international financial institutions | 30,455 | | 481 | 44,265,588 | | | **44,296,524** |
| Demand deposits taken | | 91,122 | | | | | **91,122** |
| Borrowings from banks and other financial institutions | | 8,291 | | | | | **8,291** |
| Counterpart of special drawing rights allocated by the IMF | | | | 4,906,885 | | | **4,906,885** |
| Current accounts of domestic banks | 25,166,446 | | | | | | **25,166,446** |
| Amounts withheld at court disposition | 3,498 | | | | | | **3,498** |
| Term deposits of credit institutions | 300,000 | | | | | | **300,000** |
| Foreign currency minimum reserves | | 28,886,572 | 236,021 | | | | **29,122,593** |
| Accounts of bankrupt credit institutions | 3,601 | | | | | | **3,601** |
| Current account of the State Treasury | 77,320 | 12,544,510 | 173,481 | | | | **12,795,311** |
| Borrowings and other similar liabilities | 30 | | | | | | **30** |
| Sundry creditors | 10,560 | | | | | | **10,560** |
| Salaries and other personal-related liabilities | 1,419 | | | | | | **1,419** |
| Settlement account with the state budget | 158,269 | | | | | | **158,269** |
| Accruals and income collected in advance | 5,429 | | | | | | **5,429** |
| Off-balance-sheet instruments revaluation differences | | 5,485 | | | | | **5,485** |
| Other liabilities | 1,811 | | | | | | **1,811** |
| Accrued interest payable | 6,989 | 8,475 | 45 | 181,447 | | | **196,956** |
| **Total liabilities** | **55,729,903** | **41,544,455** | **410,028** | **49,353,920** | **-** | **-** | **147,038,306** |
| **Net assets / (net liabilities)*)** | **(50,828,955)** | **49,532,011** | **33,407,110** | **(40,814,888)** | **15,206,335** | **10,804,070** | **17,305,683** |

**) represent the Bank's equity and reserves*

## 39. Commitments and contingencies

As at 31 December 2011, the Bank had in custody the following:

- promissory notes issued by the Ministry of Public Finance in favour of the International Monetary Fund, amounting to SDR 1,946,500,000 (representing promissory notes issued in 2010 amounting to SDR 704,500,000 – the equivalent of the share of tranche III and SDR 383,000,000 – the equivalent of the share of tranche IV drawn by the Ministry of Public Finance under the provisions of Government Emergency Ordinance No. 10/2010, and a promissory note issued in 2009 amounting to SDR 859,000,000 – the equivalent of the share of tranche II drawn by the Ministry of Public Finance under the provisions of Government Emergency Ordinance No. 99/2009). These promissory notes are deposited with the Bank on the tranche drawing date and certify the related payment obligations;

- a promissory note issued by the Ministry of Public Finance in favour of the Multilateral Investment Guarantee Agency, amounting to USD 600,510 (31 December 2010: USD 600,510);

- a promissory note issued by the Ministry of Public Finance in favour of the Black Sea Trade and Development Bank for the 20% share of Romania's participation in the increased capital amounting to SDR 25,375,000 (31 December 2010: there was no such promissory note).

## 40. Profit distribution

According to the law, out of the total profit of the 2011 financial year (lei 301,348 thousand), an amount of lei 235,022 thousand (representing 80% of the Bank's net revenues) was transferred to the state budget. The remaining profit (lei 66,326 thousand) was distributed as follows:

a) as at 31 December 2011: 60% for increasing the statutory reserves (lei 39,795 thousand);

b) as at 1 January 2012: 30% for the Bank's own financing sources (lei 19,898 thousand);

c) as at 1 January 2012: 9.99% for the employee profit-sharing scheme (lei 6,626 thousand);

d) as at 1 January 2012: 0.01% for the reserves at the Board's disposal (lei 7 thousand).

According to the law, out of the total profit of the 2010 financial year (lei 1,415,035 thousand), an amount of lei 1,132,010 thousand (representing 80% of the Bank's net revenues) was transferred to the state budget. The remaining profit (lei 283,025 thousand) was distributed as follows:

a) as at 31 December 2010: 50% for increasing the statutory reserves (lei 141,512 thousand);

b) as at 1 January 2011: 30% for the Bank's own financing sources (lei 84,908 thousand);

c) as at 1 January 2011: 9.99% for the employee profit-sharing scheme (lei 28,274 thousand);

d) as at 1 January 2011: 10.01% for the reserves at the Board's disposal (lei 28,331 thousand).

### 41. Post-balance-sheet events

According to Norms No. 4/2011 amending and supplementing NBR Norms No. 1/2007 on organising and conducting the accounting of the National Bank of Romania, Article 1, as of 1 January 2012 the Bank applies the internal rate of return (IRR) method for amortising the premium/discount for securities portfolios.

# *Annexes*

## ORGANISATION CHART OF THE

**Audit Committee**

### BOARD OF

- Mugur Isărescu – chairman
- Florin Georgescu – vice-chairman
- Bogdan Olteanu – member
- Cristian Popa – member

### GOVERNOR

**Monetary Policy Committee**

**Supervisory Committee**

### DEPUTY GOVERNOR
### Cristian Popa

**MONETARY POLICY DEPARTMENT**
- Monetary Policy Analysis and Strategy Division
- Liquidity Management Division

**MACROECONOMIC MODELLING AND FORECASTING DEPARTMENT**
- Macroeconomic Forecasting Models Division
- Macroeconomic Assessment Models Division

**FINANCIAL STABILITY DEPARTMENT**
- Financial Institutions Division
- Financial Markets and Infrastructure Division
- Macroprudential Risk Division
- Banking Risk Division
- Payment and Settlement Systems Oversight Division

**ECONOMICS DEPARTMENT**
- Economic Analysis Division
- Publications Division
- Translations, Editing and Documentation Division

**INTERNATIONAL RELATIONS DEPARTMENT**
- European Union Division
- External Relations Division

### FIRST DEPUTY GOVERNOR
### Florin Georgescu

**REGULATION AND LICENSING DEPARTMENT**
- Financial Activities and Non-bank Financial Institutions Regulation Division
- Foreign Exchange and Accounting Regulation Division
- Licensing Division
- Prudential Banking Regulation Division 1
- Prudential Banking Regulation Division 2

**SUPERVISION DEPARTMENT**
- Inspection Division I
- Inspection Division II
- Inspection Division III
- Non-bank Financial Institutions and Payment Institutions Inspection Division
- Banking System Assessment, Methodology and Supervision Procedures Division
- Monitoring of International Sanctions Enforcement, Prevention of Money Laundering and Terrorist Financing Division

**ISSUE, TREASURY AND CASH MANAGEMENT DEPARTMENT**
- Issue Division
- Cash Management Division
- Central Vault Division
- Cash Processing Coordination Division

**PAYMENTS DEPARTMENT**
- ReGIS Management Division
- Financial Instruments Depository and Settlement Division
- Financial Messages Processing Division
- TARGET2 Division

**ACCOUNTING DEPARTMENT**
- Operational Accounting Division
- Internal Administration Accounting-Financial Issues Division
- Internal Administration Accounting-Fixed Assets Division
- Internal Accounting Rules and Preventive Financial Control Division

**FINANCIAL CRISES MANAGEMENT UNIT**

**ASSETS AND INVESTMENTS DEPARTMENT**
- Investment Division
- Movable Assets Division
- Immovable Assets Division

***Note: Colour patterns show the departments' co-ordination***

**Training Programme for Young Professionals**

## NATIONAL BANK OF ROMANIA as at 31 December 2011

### D I R E C T O R S

Marin Dinu – member
Nicolae Dănilă – member
Virgiliu-Jorj Stoenescu – member
Agnes Nagy – member
Napoleon Pop – member

**Mugur Isărescu**

**Foreign Reserve Management Committee**

**DEPUTY GOVERNOR**
**Bogdan Olteanu**

**STATISTICS DEPARTMENT**
- Monetary and Financial Statistics Division
- Balance of Payments Division
- Direct Statistical Reporting Division
- Statistical Data Processing Division
- SIRBNR Data Management Division

**IT DEPARTMENT**
- IT Systems Division
- Network Administration Division
- IT Support Division
- Multimedia Support Division

**LEGAL DEPARTMENT**
- Legal Documentation and Advisory Opinion Division
- Contract Assistance and Disputed Claims Division
- European and International Law Division

**TECHNICAL AND MAINTENANCE DEPARTMENT**
- Construction and Electrical Equipment Division
- Equipment Maintenance Division
- Administration Division

**PROCUREMENT DEPARTMENT**
- Procedure Organisation Division
- Methodology and Contracting Division
- Planning and Monitoring Division
- Direct Procurement Division

**REGIONAL BRANCHES AND AGENCIES**

**CHANCELLERY**
- The Executives' Offices
- Chief Economist and Advisers' Group
- Governor's Control Office
- Board Secretariat Division
- Classified Information Division
- Protocol Division

**MARKET OPERATIONS DEPARTMENT**
- Monetary Policy Operations Division
- State Treasury Operations Division
- Foreign Reserve Management Division
- Back Office Division

**COMMUNICATION DEPARTMENT**
- Website and Electronic Publications Division
- Media Relations Division
- Institutional Image Analysis and Public Relations Projects Development Division
- Financial Education Division

**SECRETARIAT**
- Documents Registration Division
- Archives Division
- Library Division
- Museum Division
- Public Information Division
- Events Organisation Division
- Transport Division
- Cafeteria Division

**HUMAN RESOURCES DEPARTMENT**
- Organising and Planning Division
- Human Resources Management Div.
- Training and Career Development Division

**INTERNAL AUDIT DEPARTMENT**
- General Audit Division
- Analysis and Synthesis Division
- IT Audit Division

**SECURITY DEPARTMENT**
- Crisis Management & Business Continuity Division
- Internal Protection Division
- Special Transport Division
- Security Systems Division
- Emergencies Medical Services Division

**TRAINING AND SOCIAL EVENTS FACILITY DEPARTMENT**
- Training Support Division
- Social Events Division
- Maintenance Division
- Auxilliary Activities Division
- Training and Social Events Units

# National Bank of Romania publications as at 31 December 2011

1. Annual Report
2. Annual Report on Romania's Balance of Payments and International Investment Position
3. Financial Stability Report
4. Inflation Report
5. Monthly Bulletin
6. Business Survey
7. Financial Accounts
8. Working Papers
9. Occasional Papers
10. "Cristian Popişteanu" Banking History and Civilisation Symposium
11. *Restitutio*
12. "Romania's Banknotes" series
13. Regional Seminar on Financial Stability
14. Foreign Direct Investment in Romania
15. Legal papers

# Main papers submitted to Parliament by the National Bank of Romania in 2011

1. Annual Report for 2010
2. Financial Stability Report for 2011
3. Romania's Balance of Payments and International Investment Position – Annual Report for 2010
4. Inflation Reports
5. Monthly Bulletins
6. Financial Accounts 2006-2010

# Main rules and regulations issued by the NBR in 2011

3 January 2011 **Circular No. 1** regarding the reference rate of the NBR for January 2011 (*Monitorul Oficial al României* No. 3/3 January 2011).

10 January 2011 **Circular No. 2** regarding the interest paid on minimum reserve requirements starting with the 24 December 2010 – 23 January 2011 maintenance period (*Monitorul Oficial al României* No. 38/17 January 2011).

**Circular No. 3** regarding the penalty rates on foreign currency-denominated reserve deficits starting with the 24 January – 23 February 2011 maintenance period (*Monitorul Oficial al României* No. 38/17 January 2011).

**Circular No. 4** on putting into circulation, for numismatic purposes, a silver coin dedicated to 90 years since the establishment of "General Aviator Doctor Victor Anastasiu" National Institute for Aeronautics and Space Medicine (*Monitorul Oficial al României* No. 68/26 January 2011).

1 February 2011 **Circular No. 5** regarding the reference rate of the NBR for February 2011 (*Monitorul Oficial al României* No. 84/1 February 2011).

7 February 2011 **Circular No. 6** on putting into circulation, for numismatic purposes, a gold coin – in the "History of Gold" series – dedicated to the buckle discovered at Curtea de Argeş (*Monitorul Oficial al României* No. 124/18 February 2011).

8 February 2011 **Circular No. 7** regarding the interest paid on minimum reserve requirements starting with the 24 January – 23 February 2011 maintenance period (*Monitorul Oficial al României* No. 124/18 February 2011).

10 February 2011 **Order No. 1** approving the methodological norms regarding the drawing-up of credit institutions' consolidated financial statements for prudential supervision purposes in line with the International Financial Reporting Standards (*Monitorul Oficial al României* No. 153/2 March 2011).

16 February 2011 **Circular No. 8** on putting into circulation, for numismatic purposes, a set of three silver coins dedicated to the following monuments of medieval Christian art: Strei Church, Humor Monastery and Hurezi Monastery (*Monitorul Oficial al României* No. 161/7 March 2011).

| | |
|---|---|
| 1 March 2011 | **Circular No. 9** regarding the reference rate of the National Bank of Romania for March 2011 (*Monitorul Oficial al României* No. 149/ 1 March 2011). |
| 10 March 2011 | **Circular No. 10** on putting into circulation, for numismatic purposes, a silver coin dedicated to 140 years since the establishment of the State Mint (*Monitorul Oficial al României* No. 215/29 March 2011). |
| 15 March 2011 | **Circular No. 11** regarding the interest paid on minimum reserve requirements starting with the 24 February – 23 March 2011 maintenance period (*Monitorul Oficial al României* No. 201/23 March 2011). |
| 1 April 2011 | **Circular No. 12** regarding the reference rate of the National Bank of Romania for April 2011 (*Monitorul Oficial al României* No. 230/1 April 2011). |
| 4 April 2011 | **Circular No. 13** on changing the minimum reserve requirement ratio on foreign currency-denominated money holdings (*Monitorul Oficial al României* No. 250/8 April 2011). |
| 19 April 2011 | **Circular No. 14** regarding the remuneration of leu- and USD-denominated minimum required reserves starting with the 24 March – 23 April 2011 maintenance period (*Monitorul Oficial al României* No. 282/21 April 2011). |
| | **Regulation No. 1** amending Regulation No. 6/2002 on the minimum reserve requirements regime issued by the National Bank of Romania (*Monitorul Oficial al României* No. 283/21 April 2011). |
| 2 May 2011 | **Circular No. 15** regarding the reference rate of the National Bank of Romania for May 2011 (*Monitorul Oficial al României* No. 300/ 2 May 2011). |
| 5 May 2011 | **Regulation No. 2** amending Regulation No. 3/2007 on containing credit risk associated with loans to households (*Monitorul Oficial al României* No. 316/9 May 2011). |
| | **Regulation No. 3** amending and supplementing Regulation No. 3/2009 on the classification of loans and placements, as well as on the setting-up, adjustment and use of specific credit risk provisions (*Monitorul Oficial al României* No. 316/9 May 2011). |
| | **Regulation No. 4** amending and supplementing Regulation No. 21/ 2009 on payment institutions (*Monitorul Oficial al României* No. 316/ 9 May 2011). |
| | **Circular No. 16** on putting into circulation, for numismatic purposes, a gold coin dedicated to 130 years since the proclamation of the Kingdom of Romania (*Monitorul Oficial al României* No. 342/17 May 2011). |

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|---|---|
| 13 May 2011 | **Circular No. 17** regarding the remuneration of leu- and USD-denominated minimum required reserves starting with the 24 April – 23 May 2011 maintenance period (*Monitorul Oficial al României* No. 349/19 May 2011). |
| 26 May 2011 | **Regulation No. 5** concerning the status of payment institutions as entities reporting to the Central Credit Register (*Monitorul Oficial al României* No. 400/8 June 2011). |
| 1 June 2011 | **Circular No. 18** regarding the reference rate of the National Bank of Romania for June 2011 (*Monitorul Oficial al României* No. 383/1 June 2011). |
| 3 June 2011 | **Circular No. 19** on putting into circulation, for numismatic purposes, a silver coin dedicated to "The International Year of Chemistry" (*Monitorul Oficial al României* No. 407/9 June 2011). |
| | **Order No. 2** approving the methodological norms on the regular reports containing financial and accounting statistical information applicable to Romanian branches of credit institutions from other Member States (*Monitorul Oficial al României* No. 418/15 June 2011). |
| | **Order No. 3** approving the methodological norms on the FINREP reporting framework at individual level, in line with the International Financial Reporting Standards applicable to credit institutions for prudential purposes (*Monitorul Oficial al României* No. 418/15 June 2011). |
| 10 June 2011 | **Regulation No. 6** amending and supplementing NBR Regulation No. 25/2009 on the use of the advanced measurement approach and the approval of the credit institutions using this approach for operational risk (*Monitorul Oficial al României* No. 438/22 June 2011). |
| 14 June 2011 | **Circular No. 20** regarding the interest paid on minimum reserve requirements starting with the 24 May – 23 June 2011 maintenance period (*Monitorul Oficial al României* No. 436/22 June 2011). |
| 15 June 2011 | **Order No. 4** on the operational framework for TARGET2 – România payment system (*Monitorul Oficial al României* No. 443/24 June 2011). |
| | **Order No. 637** issued by the NBR Governor designating the systems covered by Law No. 253/2004 on settlement finality in payment systems and securities settlement systems (*Monitorul Oficial al României* No. 443/24 June 2011). |

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|---|---|
| 20 June 2011 | **Circular No. 21** on putting into circulation, for numismatic purposes, a silver coin celebrating the 150th anniversary of the Coat of Arms of the United Principalities of Moldavia and Wallachia (*Monitorul Oficial al României* No. 472/5 July 2011). |
| 1 July 2011 | **Circular No. 22** regarding the reference rate of the National Bank of Romania for July 2011 (*Monitorul Oficial al României* No. 464/ 1 July 2011). |
| 6 July 2011 | **Regulation No. 7** amending, supplementing and repealing some pieces of legislation (*Monitorul Oficial al României* No. 510/19 July 2011). |
| | **Regulation No. 8** concerning electronic money issuing institutions (*Monitorul Oficial al României* No. 508/18 July 2011). |
| 8 July 2011 | **Circular No. 23** regarding the remuneration of leu- and USD-denominated minimum required reserves starting with the 24 June – 23 July 2011 maintenance period (*Monitorul Oficial al României* No. 503/14 July 2011). |
| 18 July 2011 | **Circular No. 24** on putting into circulation, for numismatic purposes, a gold coin dedicated to the 140th birth anniversary of Nicolae Iorga (*Monitorul Oficial al României* No. 527/26 July 2011). |
| 21 July 2011 | **Regulation No. 9** regarding the capacity of entities reporting to the Central Credit Register of electronic money issuing institutions (*Monitorul Oficial al României* No. 549/3 August 2011). |
| 22 July 2011 | **Regulation No. 10** amending and supplementing NBR Regulation No. 18/2009 on governance arrangements of credit institutions, the internal capital adequacy assessment process and the conditions for outsourcing their activities (*Monitorul Oficial al României* No. 549/ 3 August 2011). |
| | **Order No. 6** on reporting exposures to persons having a special relation with the credit institution (*Monitorul Oficial al României* No. 551/3 August 2011). |
| 1 August 2011 | **Circular No. 25** regarding the reference rate of the National Bank of Romania for August 2011 (*Monitorul Oficial al României* No. 544/ 1 August 2011). |
| 5 August 2011 | **Circular No. 26** regarding the interest paid on minimum reserve requirements starting with the 24 July – 23 August 2011 maintenance period (*Monitorul Oficial al României* No. 577/16 August 2011). |

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|---|---|
| 5 August 2011 | **Order No. 7** amending and supplementing NBR Order No. 8/2008 on approving the half-yearly accounting reporting system of credit institutions, non-bank financial institutions and the Bank Deposit Guarantee Fund (*Monitorul Oficial al României* No. 585/18 August 2011). |
| 19 August 2011 | **Circular No. 27** on putting into circulation, for numismatic purposes, a silver coin dedicated to the 125th birth anniversary of Nicolae Tonitza (*Monitorul Oficial al României* No. 622/1 September 2011). |
| 1 September 2011 | **Circular No. 28** regarding the reference rate of the National Bank of Romania for September 2011 (*Monitorul Oficial al României* No. 622/1 September 2011). |
| 6 September 2011 | **Regulation No. 11** on classifying loans and placements and on determining and using prudential value adjustments (*Monitorul Oficial al României* No. 684/27 September 2011). |
| | **Regulation No. 12** amending and supplementing NBR-NSC Regulation No.14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |
| | **Regulation No. 13** amending and supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |
| | **Regulation No. 14** supplementing NBR-NSC Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |
| | **Norms No. 1** repealing NBR Norms No. 4/2001 on the supervision of banks' foreign currency positions (*Monitorul Oficial al României* No. 677/23 September 2011). |
| | **Order No. 8** approving NBR-NSC Regulation No. 12/7/2011 amending and supplementing NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |
| | **Order No. 9** approving NBR-NSC Regulation No. 13/8/2011 amending and supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |

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|---|---|
| 6 September 2011 | **Order No. 10** approving NBR-NSC Regulation No. 14/9/2011 supplementing NBR-NSC Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms (*Monitorul Oficial al României* No. 685/27 September 2011). |
| 9 September 2011 | **Circular No. 29** on putting into circulation and launching, for numismatic purposes, coins dedicated to the 625th anniversary of Mircea cel Bătrân's ascension to the throne (*Monitorul Oficial al României* No. 676/22 September 2011). |
| 14 September 2011 | **Circular No. 30** regarding the interest paid on minimum reserve requirements starting with the 24 August – 23 September 2011 maintenance period (*Monitorul Oficial al României* No. 676/22 September 2011). |
| 21 September 2011 | **Circular No. 31** on putting into circulation, for numismatic purposes, a silver coin marking 450 years since the Gospel in Romanian was printed (*Monitorul Oficial al României* No. 708/7 October 2011). |
| 30 September 2011 | **Circular No. 32** regarding the reference rate of the National Bank of Romania (*Monitorul Oficial al României* No. 695/30 September 2011). |
| | **Order No. 11** approving NBR-NSC Regulation No. 15/10/2011 on the placements laid down under Article 831 of Law No. 287/2009 on the Civil Code (*Monitorul Oficial al României* No. 694/30 September 2011). |
| | **Regulation No. 15** on the placements laid down under Article 831 of Law No. 287/2009 on the Civil Code (*Monitorul Oficial al României* No. 694/30 September 2011). |
| 5 October 2011 | **Circular No. 33** on putting into circulation, for numismatic purposes, a silver coin dedicated to the 130th anniversary of George Bacovia's birth (*Monitorul Oficial al României* No. 733/19 October 2011). |
| 14 October 2011 | **Circular No. 34** on the launch, for numismatic purposes, of a mint set with the year of issue 2011 (*Monitorul Oficial al României* No.742/21 October 2011). |
| | **Regulation No. 16** on the settlement risk management procedure and the facilities granted by the National Bank of Romania in order to ensure the smooth settlement in ReGIS (*Monitorul Oficial al României* No. 779/3 November 2011). |
| | **Regulation No. 17** on ensuring the authenticity of euro banknotes and coins (*Monitorul Oficial al României* No. 801/11 November 2011). |

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| 17 October 2011 | **Circular No. 35** regarding the interest paid on minimum reserve requirements starting with the 24 September – 23 October 2011 maintenance period (*Monitorul Oficial al României* No. 734/ 19 October 2011). |
| | **Order No. 12** amending and supplementing NBR Order No. 1/2011 approving the methodological norms regarding the drawing-up of credit institutions' consolidated financial statements for prudential supervision purposes, in line with the International Financial Reporting Standards, NBR Order No. 3/2011 approving the methodological norms on the FINREP reporting framework at individual level, in line with the International Financial Reporting Standards applicable to credit institutions for prudential purposes, and NBR Order No. 2/2011 approving the methodological norms on the regular reports containing financial and accounting statistical information applicable to Romanian branches of credit institutions from other Member States (*Monitorul Oficial al României* No. 766/31 October 2011). |
| | **Order No. 13** on reporting minimum capital requirements for credit institutions (*Monitorul Oficial al României* No. 786/4 November 2011). |
| | **Order No. 14** on reporting the statements relating to the application of NBR Regulation No. 11/2011 on classifying loans and placements and on determining and using prudential value adjustments (*Monitorul Oficial al României* No. 765/31 October 2011). |
| | **Order No. 15** amending NBR Order No. 23/2010 on reporting large exposures by credit institutions and NBR Order No. 6/2011 on reporting exposures to persons having a special relation with the credit institution (*Monitorul Oficial al României* No. 766/31 October 2011). |
| | **Order No. 16** on reporting the foreign currency and gold positions (*Monitorul Oficial al României* No. 768/1 November 2011). |
| | **Regulation No. 19** amending and supplementing NBR-NSC Regulation No. 13/18/2006 concerning the determination of minimum capital requirements for credit institutions and investment firms (*Monitorul Oficial al României* No. 792/8 November 2011). |
| | **Regulation No. 20** amending and supplementing NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms (*Monitorul Oficial al României* No. 800/11 November 2011). |
| | **Regulation No. 21** amending and supplementing NBR-NSC Regulation No. 18/16/2010 concerning the treatment of credit risk related to securitised exposures and securitisation positions (*Monitorul Oficial al României* No. 797/10 November 2011). |

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| 17 October 2011 | **Regulation No. 22** amending and supplementing NBR-NSC Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms (*Monitorul Oficial al României* No. 800/11 November 2011). |
| | **Regulation No. 23** amending and supplementing Regulation No. 25/30/2006 regarding the disclosure requirements for credit institutions and investment firms (*Monitorul Oficial al României* No. 827/22 November 2011). |
| | **Order No. 17** approving NBR-NSC Regulation No. 19/12/2011 amending and supplementing NBR-NSC Regulation No. 13/18/2006 concerning the determination of minimum capital requirements for credit institutions and investment firms (*Monitorul Oficial al României* No. 792/8 November 2011). |
| | **Order No. 18** approving NBR-NSC Regulation No. 20/11/2011 amending and supplementing NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms (*Monitorul Oficial al României* No. 800/11 November 2011). |
| | **Order No. 19** approving NBR-NSC Regulation No. 21/13/2011 amending and supplementing NBR-NSC Regulation No. 18/16/2010 concerning the treatment of credit risk related to securitised exposures and securitisation positions (*Monitorul Oficial al României* No. 797/10 November 2011). |
| | **Order No. 20** approving NBR-NSC Regulation No. 22/14/2011 amending and supplementing NBR-NSC Regulation No. 22/27/2006 regarding the capital adequacy of credit institutions and investment firms (*Monitorul Oficial al României* No. 800/11 November 2011). |
| | **Order No. 21** approving NBR-NSC Regulation No. 23/15/2011 amending and supplementing NBR-NSC Regulation No. 25/30/2006 regarding the disclosure requirements for credit institutions and investment firms (*Monitorul Oficial al României* No. 827/22 November 2011). |
| 27 October 2011 | **Circular No. 36** on putting into circulation, for numismatic purposes, a silver coin dedicated to the 375th anniversary of Nicolae Milescu's birth (*Monitorul Oficial al României* No. 789/7 November 2011). |
| 28 October 2011 | **Regulation No. 24** on loans to households (*Monitorul Oficial al României* No. 767/31 October 2011). |
| 2 November 2011 | **Circular No. 37** regarding the reference rate of the National Bank of Romania (*Monitorul Oficial al României* No. 780/3 November 2011). |

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| 7 November 2011 | **Circular No. 38** regarding the interest paid on minimum reserve requirements starting with the 24 October – 23 November 2011 maintenance period (*Monitorul Oficial al României* No. 811/16 November 2011). |
| | **Circular No. 39** regarding the penalty rate on leu-denominated reserve deficits starting with the 24 November – 23 December 2011 maintenance period (*Monitorul Oficial al României* No. 811/16 November 2011). |
| 8 November 2011 | **Circular No. 40** on putting into circulation, for numismatic purposes, a silver coin dedicated to the 150th anniversary of the creation of ASTRA Society in Sibiu (*Monitorul Oficial al României* No. 829/23 November 2011). |
| | **Order No. 22** approving the reports on the liquidity indicator and the high liquidity risk (*Monitorul Oficial al României* No. 820/21 November 2011). |
| | **Regulation No. 25** on the liquidity of credit institutions (*Monitorul Oficial al României* No. 820/21 November 2011). |
| 15 November 2011 | **Order No. 23** amending and supplementing NBR Order No. 4/2011 on the operational framework for TARGET2 – România payment system (*Monitorul Oficial al României* No. 822/21 November 2011). |
| 18 November 2011 | **Regulation No. 26** on the temporary holdings of shares during a financial assistance or restructuring operation of an undertaking outside the financial sector (*Monitorul Oficial al României* No. 855/5 December 2011). |
| 21 November 2011 | **Circular No. 41** on putting into circulation, for numismatic purposes, a silver coin commemorating 150 years since the establishment of the early military institutions in modern-day Romania (*Monitorul Oficial al României* No. 868/8 December 2011). |
| 24 November 2011 | **Regulation No. 27** amending Article 18 of NBR Regulation No. 24/2011 on loans to households (*Monitorul Oficial al României* No. 842/28 November 2011). |
| 6 December 2011 | **Circular No. 42** on putting into circulation, for numismatic purposes, a gold coin dedicated to the 190th anniversary of the Revolution of 1821 led by Tudor Vladimirescu (*Monitorul Oficial al României* No. 912/22 December 2011). |
| 7 December 2011 | **Circular No. 43** on declaring 3 January 2012 as a non-banking day (*Monitorul Oficial al României* No. 877/12 December 2011). |

9 December 2011 **Order No. 24** approving NBR-NSC Regulation No. 28/17/2011 on supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms (*Monitorul Oficial al României* No. 909/21 December 2011).

**Order No. 25** on reporting the statements relating to the application of NBR Regulation No. 11/2011 on classifying loans and placements and on determining and using prudential value adjustments for 1 January – 31 December 2012 (*Monitorul Oficial al României* No. 903/20 December 2011).

**Order No. 26** regarding certain provisions for applying prudential requirements further to legislative changes related to the implementation of the International Financial Reporting Standards at individual level, effective 1 January 2012 (*Monitorul Oficial al României* No. 903/20 December 2011).

**Regulation No. 28** supplementing NBR-NSC Regulation No. 18/23/2006 regarding own funds of credit institutions and investment firms (*Monitorul Oficial al României* No. 909/21 December 2011).

**Regulation No. 29** amending and supplementing NBR Regulation No. 18/2009 on governance arrangements of credit institutions, the internal capital adequacy assessment process and the conditions for outsourcing their activities and repealing NBR Order No. 25/2010 on the reporting of exposures to debtors outside the credit institutions sector governed by Article 112(5) of NBR Regulation No. 18/2009 on governance arrangements of credit institutions, the internal capital adequacy assessment process and the conditions for outsourcing their activities (*Monitorul Oficial al României* No. 908/21 December 2011).

16 December 2011 **Circular No. 44** regarding the remuneration of leu- and EUR-denominated minimum required reserves starting with the 24 November – 23 December 2011 maintenance period (*Monitorul Oficial al României* No. 915/22 December 2011).

19 December 2011 **Circular No. 45** on putting into circulation, for numismatic purposes, a gold coin dedicated to "The History of Gold – The Cross from Garvăn-Dinogetia" (*Monitorul Oficial al României* No. 7/4 January 2012).

20 December 2011 **Regulation No. 30** supplementing NBR Regulation No. 11/2011 on classifying loans and placements and on determining and using prudential value adjustments (*Monitorul Oficial al României* No. 920/23 December 2011).

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| 27 December 2011 | **Order No. 27** approving the Accounting Regulations in line with EU directives (*Monitorul Oficial al României* No. 930/ 28 December 2011). |
| | **Order No. 28** approving the changes in the regular reporting templates and in the methodological norms on their compilation and use, applicable to non-bank financial institutions, approved by NBR Order No. 18/2007 (*Monitorul Oficial al României* No. 931/29 December 2011). |
| 28 December 2011 | **Order No. 29** amending and supplementing NBR Order No. 27/2010 approving the Accounting Regulations, in line with the International Financial Reporting Standards applicable to credit institutions (*Monitorul Oficial al României* No. 933/29 December 2011). |
| 29 December 2011 | **Regulation No. 31** on reporting statistical data and information to the NBR (*Monitorul Oficial al României* No. 67/27 January 2012). |

NATIONAL BANK OF ROMANIA