



NATIONAL
BANK OF
ROMANIA

Annual Report 2023

Annual Report 2023

NOTES

The Annual Report for 2023 was examined and approved by the National Bank of Romania Board on 17 June 2024 and was submitted to the Parliament of Romania pursuant to Law No. 312/2004 on the Statute of the National Bank of Romania.

The statistical data used are those available at 3 June 2024. Some of the data for the period covered are provisional and will be updated as appropriate in the subsequent publications of the National Bank of Romania. Totals may not add up and minor differences from the percentage changes in charts and tables may occur, due to rounding.

The source of data used in charts and tables was indicated only when data were provided by other institutions.

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ISSN 1453-3928 (print)
ISSN 1584-0921 (online)

Contents

Overview	8
Chapter 1. Global environment and domestic macroeconomic developments	18
1. Global environment	19
Box 1. Recent use of industrial policy measures – key coordinates	20
2. Domestic macroeconomic developments	29
2.1. Economic activity	29
2.2. Prices and costs	37
Box 2. Relevance of labour costs to inflation	39
2.3. Fiscal developments	44
Box 3. Assessments of the impact of the budget balance on the current account balance	48
Chapter 2. The National Bank of Romania within the European System of Central Banks, EU-level bodies and fora	54
1. NBR participation in European structures	55
1.1. Participation in the ECB General Council meetings	56
1.2. NBR participation in the enlarged meetings of ESCB structures and substructures	56
1.3. NBR participation in the European Systemic Risk Board	56
1.4. NBR participation in the working structures and substructures of the European Banking Authority	56
1.5. NBR participation in structures of the EU Council and of the EC	57
1.6. NBR participation in the process of transposing, implementing and notifying EU legislation	57
1.7. NBR participation in the joint working platform with government authorities on European affairs	58
2. Technical assistance provided and received by the National Bank of Romania	59
2.1. Technical cooperation between the NBR and the National Bank of Moldova (NBM)	59
2.2. NBR participation in other technical cooperation projects	62
2.3. Technical assistance received by the NBR under the European Commission's Technical Support Instrument	62
3. Developments in economic, financial and banking policies at European level	63
3.1. The European Semester	64
3.2. Developments in policy initiatives at the EU level	64

Chapter 3. Monetary policy of the National Bank of Romania	66
1. Policy objective	67
2. Policy decisions	67
Box 4. The monetary policy stances of major central banks and of those in the region in 2023	71
Box 5. Credit to the private sector and liquidity in the economy	81
3. Use of monetary policy instruments	90
4. Policy outlook	94
Chapter 4. Financial stability	98
1. The NBR's role in implementing macroprudential framework	99
Box 6. Macroprudential policy trends at European and national level	102
2. Main assessments on financial stability	104
2.1. Indebtedness of non-financial corporations and households	105
Box 7. Climate change – tendencies and preparedness of financial institutions	107
Box 8. Challenges to financial stability from the commercial real estate market	111
2.2. Banking sector	112
Box 9. The interest rate risk and the implications for the banking sector	114
2.3. Non-bank financial sector	120
2.4. Financial markets	120
3. Instruments supportive of prudential supervision and financial stability	121
3.1. Central Credit Register (CCR)	121
3.2. Payment Incidents Register (PIR)	123
Chapter 5. Licensing and regulation of financial institutions	126
1. Licensing and notification of financial institutions	127
2. Legal framework for institutions within the regulatory scope of the National Bank of Romania	128
2.1. Prudential regulation and bank recovery and resolution regulation	128
2.2. Accounting regulations	130
2.3. Other legal acts applicable to institutions within the scope of the NBR	131
3. Regulatory guidelines in 2024	132
Chapter 6. Prudential supervision of financial institutions	136
1. Supervision of credit institutions	137
1.1. Size and structure of the banking system	137
1.2. Performance of the banking sector	139
1.3. Assessment of banking risks	143
2. Supervision of guarantee schemes	146

3. Supervision of non-bank financial institutions, payment institutions and electronic money institutions	146
3.1. Non-bank financial institutions	147
3.2. Payment institutions	150
3.3. Electronic money institutions	150
4. Overseeing the prevention of money laundering and terrorist financing and applying international sanctions	150
Chapter 7. Bank resolution	156
1. Planning and preparing the resolution	157
1.1. Current activity of resolution planning	157
1.2. Decision-making on the minimum requirement for own funds and eligible liabilities (MREL)	158
2. National and international communication and cooperation	159
3. Bank Resolution Fund	160
4. Regulatory framework for bank resolution	161
Chapter 8. Currency issue	164
1. Developments in currency in circulation outside banks	165
2. NBR's cash payments and collections in its relation with credit institutions/the State Treasury	167
3. Currency processing and withdrawal from circulation of unfit currency	169
4. Numismatic issues	170
5. Detected leu counterfeits	171
Chapter 9. Financial market infrastructures	172
1. ReGIS	173
2. SaFIR	175
3. TARGET-România	176
4. Oversight of financial market infrastructures and payments	179
Chapter 10. Management of international reserves	188
1. Developments in Romania's international reserves in 2023	189
2. Management of international reserves in a highly uncertain economic and financial environment	191
2.1. External economic and financial developments	191
2.2. The manner to achieve strategic goals	192
Chapter 11. Romania's balance of payments and international investment position	196
1. Current account and capital account	197

2. Financial account	199
3. Romania's international investment position	200
Chapter 12. International financial relations	204
1. International Monetary Fund	205
2. World Bank Group	205
3. Bank for International Settlements	206
4. European Bank for Reconstruction and Development	207
5. Organisation for Economic Cooperation and Development	207
6. Participation of the National Bank of Romania in foreign institutions and organisations	209
Chapter 13. The convergence of the Romanian economy and the EU economic governance framework	210
1. The convergence of the Romanian economy	211
Box 10. Evidence on recent developments and prospects for digitalisation in Romania	213
2. Developments in the European Union's economic governance	219
Box 11. Reform of the European economic governance framework	221
Chapter 14. Public communication of the National Bank of Romania	230
1. Public relations	231
Box 12. International efforts to recover the NBR Treasure evacuated to Moscow in 1916-1917	236
2. NBR publications	238
3. Public information activity	239
4. The NBR Archives and Library	240
Chapter 15. Financial education and the NBR Museum	244
1. The NBR Museum	245
2. Financial education	247
3. International activity	250
4. The "NBR Library" collection	251
Chapter 16. Statistics and economic research	254
1. Statistical activity	255
2. Economic research	257
2.1. Macroeconomic modelling	257
2.2. Financial stability	260
2.3. Economic papers and analyses	260
2.4. Guidelines and objectives of the research activity in 2024	261

Chapter 17. Legal activity of the National Bank of Romania	264
Chapter 18. The institutional framework and organisation of the National Bank of Romania	274
1. Decision-making bodies and corporate governance	275
Members of the National Bank of Romania Board	276
2. The relationship of the NBR with the Parliament of Romania and other state institutions	283
3. Organisational developments	287
3.1. Human resources management	287
3.2. Information technology	289
Organisation Chart of the National Bank of Romania as at 31 December 2023	290
Chapter 19. Financial statements of the National Bank of Romania as at 31 December 2023	294
1. Overview	295
2. Recognition of monetary policy operations	296
3. Recognition of foreign currency asset/liability management operations	297
4. Effects of changes in the exchange rates and in the market prices of international reserve assets	298
5. The NBR's budgeted income statement for 2023	299
6. Conclusions	301
Financial statements of the National Bank of Romania as at 31 December 2023 (audited by KPMG)	303
Independent Auditors' Report	305
Balance sheet as at 31 December 2023	308
Income statement for the year ended at 31 December 2023	310
Notes to the financial statements for the year ended at 31 December 2023	311
Abbreviations	346
Tables	347
Charts	348



Overview

In 2023, the world economic growth decelerated by 0.3 percentage points to 3.2 percent¹, amid political tensions at international level and geoeconomic fragmentation, as well as the tightening of monetary policy to fend off inflationary pressures. In fact, this policy stance of many central banks in advanced and emerging economies contributed to a slowdown in demand and, together with the favourable developments in commodity prices, to a substantial decline in the annual inflation rate at global level, after the pick-up seen in 2022.

Given this challenging international environment, Romania's economy recorded in 2023 a slower pace of increase, which however remained fairly robust at 2.1 percent from a European and regional perspective. Twin deficits were still high, while the annual inflation rate followed a swift downward path.

Unlike previous years, when private consumption was the largest contributor to economic growth, in 2023 it was clearly exceeded by gross fixed capital formation. The latter component took over the role of key driver of economic expansion (with a contribution of 3.6 percentage points) amid the simultaneous implementation of several European mechanisms – the pick-up in repayments for the 2014-2020 financial period (in the final year of the expenditure eligibility period), the start of pre-financing under the 2021-2027 financial framework, and the further collection of funds allocated under the NRRP.

The step-up in capital accumulation was driven by public investment, largely on the back of sizeable EU funds for civil engineering works, while private investment, despite posting positive dynamics, lost momentum from the previous year amid still elevated inflation and tight lending conditions. These two factors also acted towards containing household consumption, whose 3.1 percent rise was underpinned by the fast-paced increase in real wage earnings, a number of government measures for consumer protection, as well as by households' strategies to maintain a relatively stable volume of goods purchases in an inflationary environment (i.e., downtrading², a stronger preference for discount stores, keener interest in sales promotions).

Net external demand for goods and services also made a contribution to GDP growth (0.1 percentage points) – a 10-year breakthrough, following a larger decline in the volume of imports of goods compared to that of exports of goods (-2.6 percent and -1.2 percent respectively). In view of the decrease in the deficit on trade in goods by EUR 3 billion – the favourable developments in its volume component being accompanied by improved terms of trade, amid easing pressure from international prices –, the current account deficit narrowed markedly in 2023 to 7 percent of GDP from 9.2 percent of GDP a year earlier. The current account deficit financing via stable, non-debt-creating flows –

¹ IMF, *World Economic Outlook*, April 2024.

² Preserving consumption volumes by shifting to low-end products.

consisting of net inflows in the form of equity in FDI enterprises (reinvestment of earnings included) cumulated with the capital account surplus (comprising mainly non-repayable EU funds for investment projects) – rose to 58.9 percent, up more than 6 percentage points against 2022.

Turning to the fiscal position, Romania is still subject to the excessive deficit procedure opened in 2020 after the country's budget deficit exceeded the 3 percent-of-GDP reference value under the Stability and Growth Pact as of 2019. The year 2023 saw a noticeable deviation from the 4.4 percent of GDP target set in the 2023-2026 Convergence Programme, with the fiscal deficit measured according to the ESA 2010 methodology reaching 6.6 percent of GDP, 0.3 percentage points higher than in 2022. According to the European Commission's assessments, this also reflects, apart from worsening cyclical conditions, a marginal deterioration in the structural component of the budget deficit.

The annual CPI inflation rate fell to 6.61 percent at end-2023, 9.76 percentage points lower than in December 2022. The substantial disinflation in the course of the year was supported by food and energy prices. In the former case, the evolution took place amid the sharp decline in tensions on the agri-food commodity market due to relatively large crops in Romania and elsewhere, as well as to the resumption of exports of Ukrainian farm produce in adequate conditions. A contribution was also made by the entry into force of the mark-up capping scheme for basic food products in August 2023; originally designed for a 3-month period, the initiative was subsequently extended until the end of 2024.

Turning to energy, the movements in electricity and natural gas prices had a sizeable contribution to the fall in the CPI inflation rate, mainly following the broadening of the scope of the electricity bills support scheme as of 1 January 2023. Given also the favourable base effects arising after the 2022 hikes in both segments dropped out of the calculation base, the annual change in prices for the electricity and natural gas subgroup reached -8.1 percent at the end of the year. Additional disinflationary influences, albeit less strong, also came from fuel prices, with oil prices on international markets hovering in 2023 around significantly lower levels than in the previous year. After a temporary increase in the annual inflation rate in January 2024, *inter alia* amid unfavourable base effects and fiscal changes since the beginning of the year, disinflation resumed, with the growth rate of consumer prices running at 5.90 percent in April.

As for the annual core inflation rate (excluding administered prices, volatile prices, and tobacco product and alcoholic beverage prices from the CPI), it recorded a peak of the recent period at 15.1 percent in February 2023, before falling gradually to 8.4 percent in December 2023, under the impact of a substantial slowdown in the growth rate of processed food prices (5.3 percent in December 2023 compared to 22.9 percent in December 2022). Nevertheless, non-food and market services prices followed a mostly upward path, a mild decline starting only in 2023 Q4, so that the end-of-year figures remained in the double-digit territory (11.0 percent and 10.2 percent respectively). As the non-food items included in the core inflation basket are, to a considerable extent, of foreign origin, their prices were affected by import-related costs. Labour costs were yet another factor that put pressure on prices, which was mainly reflected

in the market services group. The slower pace of decline in core inflation owed also to the resilience of consumer demand, which gained momentum towards the end of the year, amid the rise in both households' real income and their interest in consumer credit.

The macroeconomic environment called for the increase in the monetary policy rate by another 0.25 percentage points in January 2023 and its subsequent status-quo, including in the first half of 2024, at 7.00 percent. Accordingly, the NBR raised both the lending and the deposit facility rates to 8.00 percent and 6.00 percent respectively and then kept them at these levels. In addition, the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions were maintained at 8 percent and 5 percent respectively.

A major role in the NBR's approach also played the management of liquidity on the money market, amid the substantial impact exerted by the Treasury's foreign currency operations, associated with the budget execution and the use of European funds, but also in the context of the prevailing favourable sentiment on the international financial market for most of the year and the still high relative attractiveness of investments in domestic currency, with potential implications for the EUR/RON exchange rate. The latter saw somewhat stronger fluctuations in 2023, falling and tending to stay in the first three quarters below the levels prevailing in 2022 H2, before climbing and stabilising thereafter at slightly higher readings, in line with the moderation of the external imbalance. During 2023 overall, the leu depreciated 1.0 percent versus the euro and strengthened 2.0 percent against the US dollar (based on December exchange rate averages).

The annual dynamics of credit to the private sector extended their downtrend into September 2023, reaching a three-year low of 4.5 percent, due to the abrupt slowdown in the growth of the domestic currency component, amid the rise in interest rates and the tightening of credit standards. At such a juncture, the liquidity surplus widened considerably during 2023 and was further mopped up by the central bank via the deposit facility.

Moreover, the NBR continued to extensively use specific tools and means of communicating and detailing the rationale behind the monetary policy decisions. Through them, it highlighted the major drivers behind the decline in inflation in 2023 and in the period ahead, as well as the role of monetary policy conduct and the NBR's determination to act in order to safeguard medium-term price stability. In addition, the central bank repeatedly underlined that a balanced macroeconomic policy mix and the implementation of structural reforms, *inter alia* by using European funds to foster the long-term growth potential, are essential for preserving macroeconomic stability and for enhancing the domestic economy's capacity to withstand adverse developments.

The NBR's overall approach paved the way for a substantial reduction in the inflation rate in 2023 and its subsequent stay on a path compatible with reaching the inflation target over the medium term, *inter alia* via the anchoring of longer-term inflation expectations, in a manner conducive to achieving sustainable economic growth.

Romania's international reserves strengthened in 2023. They amounted to EUR 66 billion at end-2023, up by EUR 13.7 billion over end-2022, largely as a result of the increase in

foreign exchange reserves to EUR 59.8 billion. The gold stock comprised 103.6 tonnes, out of which 61.2 tonnes stored with the Bank of England. In terms of value, Romania's gold reserves went up EUR 544 million from end-2022 (to EUR 6.2 billion), as a result of the rise in the gold price on international markets. At the same time, the adequacy of international reserves improved as well, thus enhancing the capacity of the Romanian economy to withstand potential adverse shocks on financial markets and to contain the government's and local companies' financing costs.

The systemic risks to financial stability in Romania that were assessed as severe in 2023 stemmed, the same as in the previous year, from the global uncertainty (on a rise towards year-end, amid the outbreak of the Middle East conflict and the ongoing war in Ukraine) and from the tensions surrounding macroeconomic equilibria, in the context of regional and international geopolitical developments, as well as of uncertainties surrounding fiscal and income policy stances. Other relevant systemic risks, albeit relatively less strong, were those related to the delay in implementing reforms and absorbing EU funds, especially via the National Recovery and Resilience Plan (NRRP), which was high, and the default risk for loans to the private sector, assessed as moderate.

In a context marked by such risks, worth noting is that the Romanian banking sector remained resilient, as the key prudential indicators fared well and further stood above or similar to those recorded EU-wide. The liquidity coverage ratio (LCR) reached 280.6 percent at end-2023, exceeding the EU average, while the solvency ratio remained adequate, i.e. 23.6 percent in December 2023, around the 75th percentile in the distribution at EU level. The shift in focus to less risky assets also reflected in the overall risk ratio declining further to 28.4 percent in December 2023, hitting a low since the outbreak of the global financial crisis in 2008.

The results of the latest solvency stress test covering the 2023-2025 period show that the banking sector has a good capacity to deal with a challenging macroeconomic environment, due to the sizeable capital reserve at the beginning of the test (December 2022) and to the adequate operational capacity to produce positive financial results in a relatively high interest rate environment. The gradual change in the financing structure and the increase in operational efficiency by cutting expenses (due *inter alia* to digitalisation efforts) are factors that contributed to enhancing the resilience of credit institutions.

Bank asset quality continued to improve throughout 2023 as well. The NPL ratio stayed in the low-risk bucket³ (2.4 percent in December 2023), whereas the NPL coverage by provisions remained relatively high, i.e. 64.6 percent, well above the EU average.

The National Bank of Romania, together with the National Committee for Macroprudential Oversight (NCMO), closely monitors the developments in the domestic and external macroeconomic environment with a view to identifying the best measures to mitigate risks to financial system stability in Romania. In 2023, the NCMO General Board convened in four meetings, during which the participants presented analyses concerning

³ Below 3 percent – low risk; above 8 percent – high risk; 3-8 percent – medium risk, as defined by the European Banking Authority.

the macroprudential policy and the systemic risks to financial stability identified at national level. The NCMO recommended the NBR to maintain the countercyclical capital buffer rate at 1 percent, after the decision adopted in October 2022 to raise the buffer rate starting 23 October 2023, in order to strengthen the resilience of the local banking sector, amid the worsening of global economic growth prospects and the persistence of significant domestic imbalances in Romania's economy.

As regards the O-SII buffer, following the 2023 assessment using the information available as at 31 December 2022, the NCMO identified nine systemically important credit institutions (O-SIIs). Another capital buffer implemented in Romania ever since 2018 is the systemic risk buffer (SyRB), calibrated based on asset quality indicators, namely the NPL ratio and the NPL coverage by provisions. According to the half-yearly assessment submitted to the NCMO in October 2023, during the first half of 2024, no credit institution would apply a SyRB rate of 2 percent, whereas five banks would apply a SyRB rate of 1 percent. The relatively small number of institutions implementing the SyRB buffer shows a significant improvement in the quality of loan portfolios since the introduction of this buffer and is the result of active balance sheet clean-up process and the shift to prudent provisioning policies.

Remaining in the field of macroprudential policy, in June 2023, members of the NCMO General Board designated the Republic of Moldova as a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates. As a result, the NBR monitors the economic and financial developments in this country as long as the Republic of Moldova holds its position of material third country based on the annual identification exercise.

The Government of Romania and the National Bank of Romania maintain an ongoing multifaceted institutional cooperation. This includes the participation of central bank experts in the meetings of the Committee for planning the financial flows of the State Treasury, the NBR's support extended to the Ministry of Finance in the process of bond issuance on the international capital markets, and the endeavours towards Romania's accession to the Organisation for Economic Co-operation and Development (OECD). In 2023, these actions stepped up mainly by launching OECD missions to assess the alignment of national legislation with this organisation's requirements in various areas of activity and by delivering related country presentations. The NBR was involved in the accession negotiations, within the limits of its competences, mainly via:

- (i) coordinating the process of responding to the accession questionnaire received from the OECD Committee on Financial Markets, for which the NBR acts as a focal point at national level (involving dedicated NBR departments and other institutions and organisations in Romania);
- (ii) completing the accession questionnaires on topics related to the protection of consumers of financial services and financial education, including participation in organising the OECD assessment mission on this subject (involving dedicated NBR departments and other institutions and organisations in Romania);
- (iii) completing the Survey of Implementation of Methodological Standards for Direct Investment (statistics), including the organisation of the OECD assessment mission on this subject;

- (iv) organising the OECD experts' mission to assess Romania's alignment with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations; and
- (v) participating in working meetings with OECD experts, as part of the assessment missions related to the 2024 edition of the *Economic Survey* of Romania, and formulating comments on and additions to the issues related to the central bank's competence areas.

The NBR's participation in these endeavours also implied, apart from the contributions in the areas related to its activity, presentations on Romania's alignment with various OECD principles. At the same time, the central bank – committed since 2008, consistent with its legal mandate, to developing its relationship with this organisation – participates as a permanent guest in the works of the National Committee for Romania's Accession to the OECD.

As for the relation with the Parliament of Romania, the ongoing dialogue between the National Bank of Romania and this institution takes many forms, such as:

- (i) formulation of opinions on draft legal acts at the request of parliamentary committees or initiators (the Ministry of Finance, the National Authority for Consumer Protection or other public authorities), or of the Ministry for Liaison with Parliament with a view to finalising the Government's position regarding those draft laws;
- (ii) formulation of opinions, preparation of supporting documents or participation in discussions/meetings of parliamentary committees of the Chamber of Deputies and the Senate on issues such as monetary policy, financial stability, bank resolution, European affairs or payment systems; and
- (iii) preparation of replies to interpellations that Members of Parliament submitted to the central bank.

In keeping with the principles of transparency and institutional accountability, in 2023, the NBR continued to provide high-quality economic information in the form of both statistical data that the institution produces in compliance with the legal framework and research works and papers published. The *Reports* issued by the central bank play a major role in ensuring communication with the public at large and the Parliament. The NBR sends to the presidents of the two chambers of Parliament and to the economic committees not only the *Annual Report* (a statutory duty), but also the *Inflation Report* and the *Financial Stability Report*, other two central bank's key communication tools explaining its actions meant to ensure price stability and financial stability. Many topics relevant to central banking are discussed in public events or interviews by Board members, as well as during scientific seminars and symposiums; at the same time, economic research activities carried out within the NBR focus on such issues.

In 2023, the NBR's online communication activity focused on diversifying the strategy to convey messages to the general public, the central bank's main communication channel remaining the official website, where statistical data were disseminated in real time and other types of information such as press releases, publications, conferences or speeches were promoted. Depending on the needs identified in terms

of the relevance of some topics on the public agenda or in terms of increasing the visibility of certain important categories of information related to the bank's activity, these were brought to the public's attention also via social media networks, the messages being adapted to match the specifics and audiences of said channels. The NBR blog, *OpiniiBNR*, further played an important role in 2023, providing a space where central bank experts address topical issues, some of the articles published there being later shared on social networks as well.

The relation with the National Bank of Moldova (NBM) further held a special place in the NBR's international technical cooperation activities. An important pillar was the provision of technical assistance under the twinning project entitled "Strengthening supervision, corporate governance and risk management in the financial sector", dedicated to the financial sector in the Republic of Moldova and implemented by a consortium of institutions led by the NBR. Between January 2023 and April 2024, several activities took place under this twinning project, including two conferences in Chişinău and 80 technical assistance missions. The project, launched in October 2021, concluded on 17 April 2024. Another pillar of the technical assistance provided to the National Bank of Moldova is the Cooperation Agreement between the NBM and the NBR, signed in Bucharest on 11 June 2021. This aims to develop and expand the cooperation between the two central banks, in order to foster the safety and smooth functioning of the financial and banking systems of the Republic of Moldova and Romania.

At the same time, the NBR provides technical assistance in the area of financial services for the NBM, the National Commission for Financial Markets, and the Government of the Republic of Moldova, with the help of a European Union High-Level Adviser in the Republic of Moldova between December 2023 and December 2024.

As of 2023, the NBR and the NBM have also cooperated in the field of academia, alongside the Bucharest University of Economic Studies (BUES) and the Academy of Economic Studies of Moldova (ASEM), in order to organise, twice a year, the "School of Modern Finance" programme, aimed at undergraduate and master's students at ASEM. The first two editions took place in July and September 2023, with participants sharing the knowledge gained from the programme by giving presentations on financial and banking topics in rural areas in the Republic of Moldova.

With regard to financial education, which is an ongoing concern for the NBR, besides continuing its already well-established programmes and events at the head office and branches, in 2023 the central bank launched four new projects for three target audiences: "Joblandia" and the "Eugeniu Carada" national banking and financial education competition (for high-school students), "Pro Oeconomia" (for the general public) and "Antreprenariat de TOP" (for the business sector). Moreover, the NBR signed the first strategic partnership agreement in this field with Compania Naţională Poştă Română S.A., under which, in May 2023, 59 employees of the company took part in a pilot programme at the NBR's head office. Throughout the year, more than 113,700 pupils and students participated in financial education projects, and more than 6,600 people participated in programmes for adults.

In 2023, one volume that comprised the Romanian translations of *Indian Currency and Finance* (1913), *A Tract on Monetary Reform* (1923), and *A Treatise on Money* (1930) by John Maynard Keynes was added to the "NBR Library" collection. At the same time,

launch events were held for six volumes included in a project initiated in 2020 to mark the celebration of 140 years since the NBR's establishment; these volumes included research papers that had been published in the past three decades by NBR experts: *Stabilitate financiară. Lucrări selectate* and *Financial stability. Selected works*; *Economie. Lucrări selectate* and *Economy. Selected works*; *Rolul băncilor centrale în economiile contemporane: dincolo de stabilitatea prețurilor*; *Evoluția stocului de aur al Băncii Naționale a României (1880-2020)*.

In 2023 and early 2024, steps were taken to increase international awareness about the NBR Treasure that was sent to Moscow during World War I and is yet to be returned. In November 2023, the NBR organised the symposium entitled "The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century", where two volumes in English were launched: *The Romanian National Bank Treasure taken to Moscow and never returned* by Cristian Păunescu and *Romania's Treasure and its destiny. Arguments from the Russian archives* by Ilie Schipor.

On 5 March 2024, at the headquarters of the European Parliament in Brussels, before the NBR's delegation and a large audience, the exhibition *The gold Treasure of the National Bank of Romania sent to Moscow and never returned – A claim older than a century* was opened. Numerous Romanian and foreign MEPs from all political groups took part in the event. The exhibition lasted for three days, during which historical evidence, documents, legal evidence, and commitments between the Russian and Romanian parties regarding the gold reserve sent to Moscow were presented. On the same day, the online edition of the *Politico* newspaper published the article entitled "The gold treasure of the National Bank of Romania that was sent to Moscow" with the subtitle "A claim older than a century – the odyssey of the central bank's 'evacuated' gold that was never returned after the First World War". The article was also included in the printed edition of 7 March 2024 of the same influential publication dedicated to European issues. At the same time, on 6 March 2024, the Université libre de Bruxelles, with the support of the Romanian Cultural Institute, organised the debate *Le trésor de la Banque Nationale de Roumanie envoyé à Moscou – une créance qui date depuis plus d'un siècle*.

Thus, the international public opinion was extensively informed about the valid and enforceable claim held by Romania against the Russian Federation, and the topic was introduced on the agenda of EU institutions. Hence, the Resolution on the return of Romanian national treasure illegally appropriated by Russia was adopted by a large majority of votes in the plenary session of the European Parliament of 14 March 2024, held in Strasbourg.

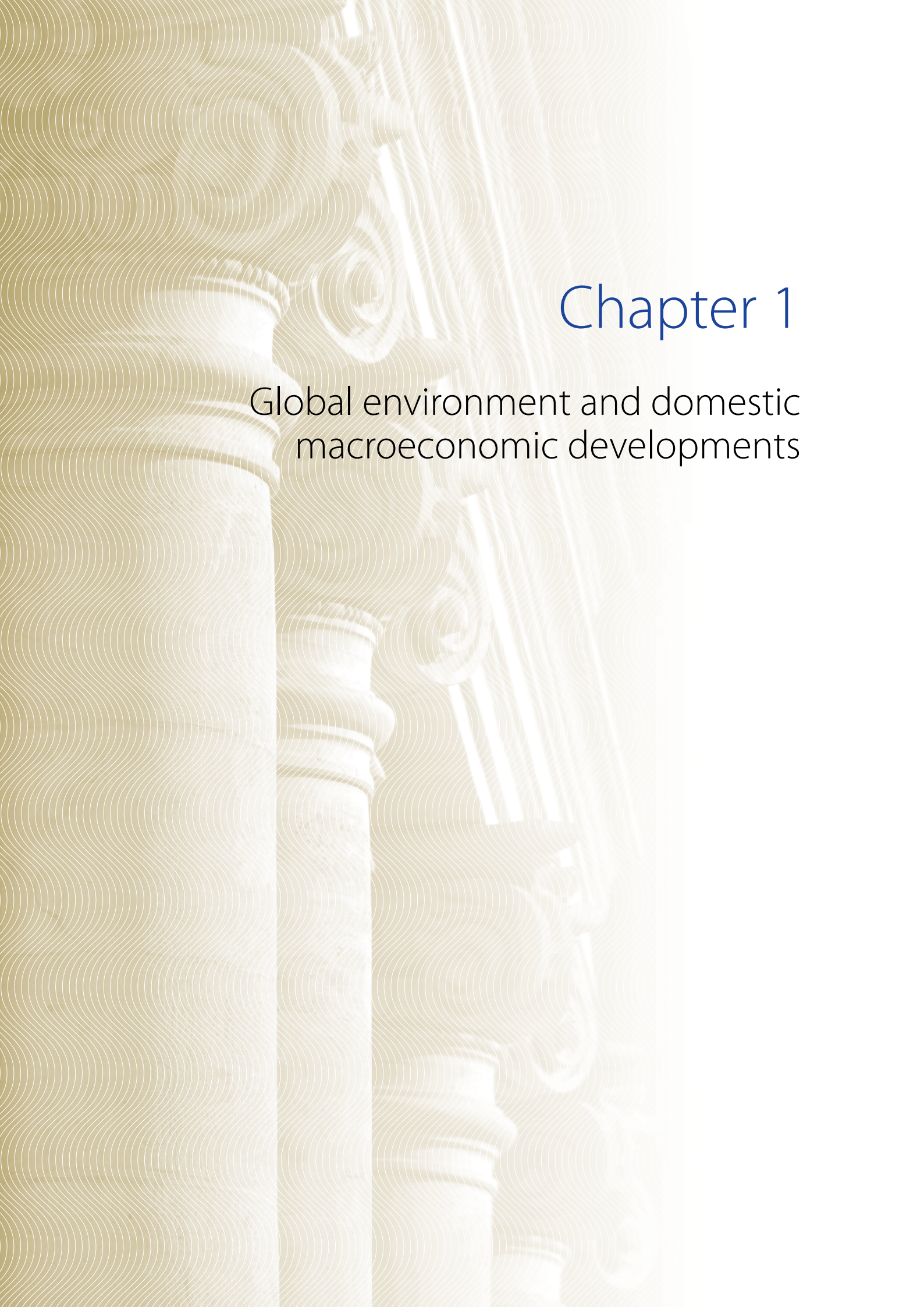
As for the developments in the NBR's organisational structure, worth noting is the reorganisation of the IT services activity in two distinct departments, namely the Digital Platforms and Cybersecurity Department and the Digital Solutions Department. The aim was to come into line with the new trends in European central banks and to fulfil the main development lines included in the NBR's Computerisation Strategy. At the same time, the organisational change has advantages such as:

- (i) clearly-defined responsibilities for the design, development, testing and administration of IT applications, and implementation of the necessary framework for their rendering more efficient via a dedicated management team; and

- (ii) higher speed of response in case of a security incident through the unified coordination of the technological infrastructure area and the cybersecurity area.

The National Bank of Romania's financial position remained sound, its equity recording as at 31 December 2023 a significant positive value of lei 34,028.6 million, up 5 percent over the prior year. This sizeable level of equity reinforces the institution's capacity to fulfil its national legal obligations and the tasks related to its capacity as a member of the European System of Central Banks, while securing its financial independence and instilling credibility in its operations.

Similarly to previous years, in 2023 too, the National Bank of Romania acted to ensure price stability and financial stability and to fulfil all other tasks set forth by law, without resorting to public funds. Furthermore, following its concern for efficiently managing available resources, the NBR posted a positive financial result as at 31 December 2023 – due to the profit from foreign currency asset/liability management operations –, transferring lei 1,942.9 million to the government budget.



Chapter 1

Global environment and domestic macroeconomic developments

1. Global environment

In 2023, global economic growth moderated for the second year in a row, to 3.2 percent (down 0.3 percentage points)⁴, amid tighter financial and monetary conditions, in light of central banks' objective to combat inflationary pressures. At the same time, the effects of political tensions and geo-economic fragmentation continued to be visible at international level, weighing on world trade. The annual inflation rate kept on decelerating, yet remained high, so that the major central banks tightened their monetary policy. Nonetheless, the assessments of these institutions signalled that it was an appropriate time to halt the upward trend in the monetary policy rate during 2023 Q3 (Chart 1.1).

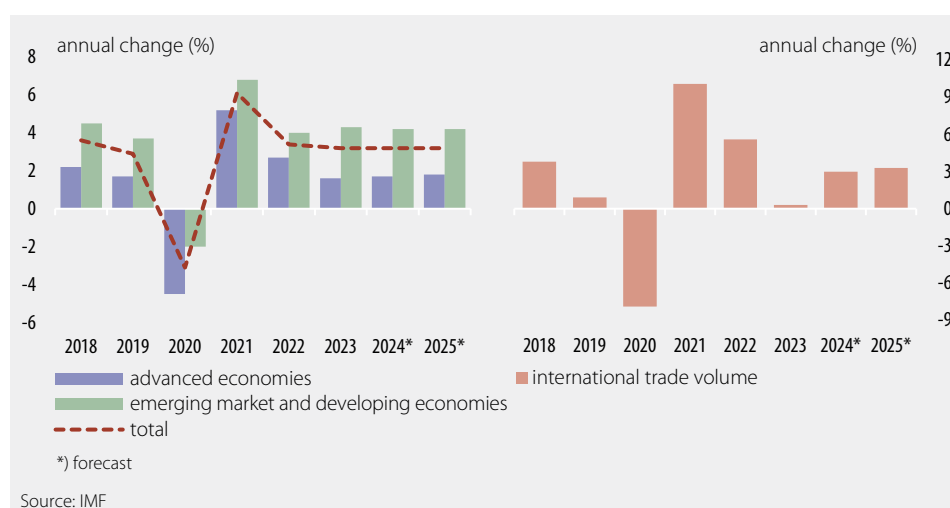


Chart 1.1
Global economic growth

In 2023, the annual pace of increase of advanced economies slowed down by 1 percentage point, to 1.6 percent, with countries showing however mixed developments. US economic growth stepped up by about 0.6 percentage points, to 2.5 percent, on account of developments in the external balance (the rate of change of exports fell less than that of imports, which turned negative) and the rise in public expenditure (including defence spending). Against the background of high costs and interest rates, consumption dynamics decelerated slightly, amid further supportive labour market conditions. Investment shrank, on the back of the residential sector, yet the decline was contained by government measures⁵ geared towards fostering industrial policy (Box 1). By contrast, euro area growth slowed down by 3 percentage points from a year earlier, to 0.4 percent. In this case, private consumption almost came to a standstill

⁴ According to IMF data, *World Economic Outlook*, April 2024.

⁵ The Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA) and the CHIPS and Science Act provided direct funding and fiscal incentives to US manufacturing.

(0.5 percent), investment also decelerated, while trade balance developments only slightly limited the significant slowdown in growth. On the supply side, while industry was affected by the still high costs and the weakening global demand, services fared better. Looking at EU Member States, Germany's economy experienced a notable contraction, being hampered, according to market signals, by a structural shortfall in public investment, compounded by the geostrategic shift underway, the war in Ukraine causing strong ripple effects through the economy; the other prominent core euro area countries (France, Italy, Spain, the Netherlands) posted falling GDP dynamics. Other advanced economies, such as South Korea or the United Kingdom, also decelerated, yet Japan witnessed a rebound owing particularly to the post-pandemic reopening of the economy.

Box 1. Recent use of industrial policy measures – key coordinates

Industrial policy has recently gained in importance, as this approach has counted among the methods used by authorities to address the multitude of negative shocks that have occurred in recent years. This box aims to provide a brief overview of the characteristics of industrial policy, as well as of the specific measures that have been implemented recently at both the international and domestic levels.

Theoretical insights

From a conceptual perspective, industrial policy refers to those government policies that target the transformation of the structure of economic activity in pursuit of some long-term goal (Juhász, Lane and Rodrik, 2023)⁶. The goal is typically to stimulate productivity, economic growth, and development through innovation. However, in recent times, increasing importance has been placed on the diversification and resilience of supply chains, as well as on maintaining technological supremacy. Initially, industrial policy referred solely to the support of industry, but over time, its scope expanded to encompass any other economic sector.

The literature highlights that the rationale for the use of industrial policy can essentially be divided into two categories. The first category involves situations where the free market fails to deliver socially optimal outcomes, as assessed by the authorities, which intervene to create positive externalities. In this regard, a classic example lies in the arguments for supporting some economic sectors in their early stages of development, as they have the potential to become highly productive or generate significant positive spillover effects on other areas of activity (the infant industry argument). In the absence of intervention by national authorities, these sectors remain chronically undersized compared to those in market-leading countries; however, with the necessary support, they can reach the scale required to benefit from economies of scale and become competitive, ultimately benefiting the local economy as a whole. Another example, which is perhaps more relevant in light of recent

⁶ Similarly, Evenett *et al.* (2024) discuss targeted government interventions aimed at supporting specific firms, sectors, or domestic economic activities, identifying them as industrial policy measures – measures that ultimately result in structural reconfigurations.

developments, refers to a specific type of supply chain configuration for a local economic agent that relies heavily on imports to minimise its costs. Specifically, international logistical bottlenecks can lead to supply shortages on the local market, which may have, for certain products, far-reaching implications at the aggregate level.

The second category of industrial policy interventions focuses on providing public goods in a targeted manner – for instance, improving infrastructure in a specific geographical area, driven by the need to support an economic activity conducted there.

Indeed, the key question concerns the extent to which industrial policy works, delivering positive externalities and achieving its objectives, or, on the contrary, becomes a burden on public finances with rather limited beneficial effects. Debates in the literature have yet to reach a point where they clearly favour either the supporters or the opponents, having long been locked in a state of relative stalemate (Irwin, 2023). From a theoretical perspective, models have been developed that support industrial policy (a discussion on this topic can be found in Harrison and Rodríguez-Clare, 2010), but their results are inherently dependent on the underlying assumptions. Operating in a fragile institutional environment will increase the likelihood of favouring entities whose support is not justified under industrial policy, thereby leading to a negative net benefit of the intervention at the aggregate level (IMF, 2024). Information asymmetry, in turn, limits the prospects for successful intervention by the authorities, as governments are not as well informed about the situation in a given sector as firms, which may seek to influence economic policymakers for their own benefit rather than for that of the economy as a whole. At the same time, phenomena aligned with the Lucas critique – whereby economic relations or the behaviour of economic agents following changes introduced by the authorities (under a new economic policy regime) are not necessarily similar to those *ex ante*, meaning that the parameters used in cost-benefit analyses may alter – could lead to counterproductive outcomes if not properly considered.

The literature cites two approaches to evaluating the appropriateness and effectiveness of industrial policy measures (Kemp, 1960, Harrison and Rodríguez-Clare, 2010, and Bown, 2023). The first approach, advanced by J. S. Mill, focuses on the area of activity that was targeted by incentives and considers the outcome of the support policy to be positive if, after its discontinuation, the sector remains competitive. The second approach, later formulated by C. F. Bastable, introduces an additional condition, requiring that the cumulative net benefits of the protection measure outweigh the costs associated with its implementation. Together, the two conditions are known as the Mill-Bastable Test, the intervention being justified only if both are met.

International developments

Market signals indicate a growing appetite for industrial policy at the international level in recent years, driven by motivations such as ensuring the resilience of supply chains for products deemed essential, managing geoeconomic fragmentation, and reducing carbon emissions, among others. However, accurately identifying relevant developments is hindered by the absence of a specific indicator (unlike other

phenomena, for instance globalisation, which can be broadly tracked through the trajectory of the global trade-to-global GDP ratio); much of the literature, in fact, consists of case studies. Fulfilling this aim essentially requires the collection of economic legislative acts from a representative number of jurisdictions and their classification according to criteria consistent with the definition of industrial policy. In this regard, recent studies such as Juhász *et al.* (2023), Juhász, Lane and Rodrik (2023), and Evenett *et al.* (2024) make use of the Global Trade Alert – a comprehensive database of unilateral measures that negatively affect foreign trade interests⁷, adopted by several countries since November 2008 – from which they extract industrial policy measures.

The first two aforementioned studies employ statistical classification techniques, producing a time series of the number of such measures (Chart A). The results indicate that the use of industrial policy remained relatively stable in the years following the 2008 financial crisis, but has intensified since 2018. At the same time,

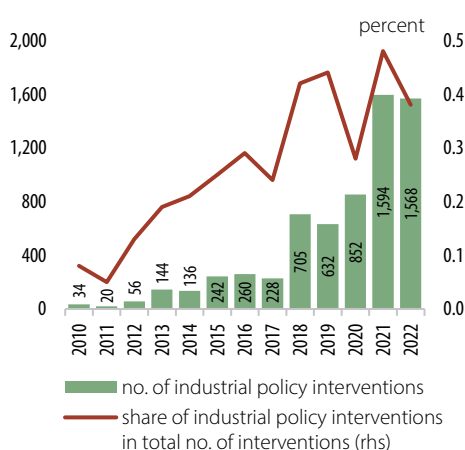
the findings highlight a shift in the intervention profile away from what might be considered a classical approach, namely measures introduced by developing countries (typically changes in import tariffs), targeting sectors where a competitive advantage is sought. Specifically, in recent years, advanced economies have made extensive use of industrial policy, deploying a comprehensive set of tools (state loans, grants, guarantees, financial assistance, etc.), while many of the beneficiary sectors already enjoyed a competitive advantage.

Evenett *et al.* (2024) conduct an exercise focused on the recent period⁸ and arrive at similar conclusions. Specifically, one of the reasons advanced economies⁹ make extensive use of industrial policy is the implementation of provisions aimed at achieving climate change mitigation objectives, a concern that is less prevalent among emerging and developing

economies (Chart B). Moreover, advanced economies have significantly greater resources than emerging and developing economies, with subsidies playing a more prominent role in the mix of instruments used (Chart C). At the same time, incentivising sectors that already hold a competitive advantage reflects a desire to preserve it, possibly fuelled by the actions of lobbying groups. However, beyond these motives, the authors point to retaliatory behaviour, given that measures target sectors in which other countries intervened in the past.

Chart A

Upward trend of industrial policy



Source: Juhász, Lane and Rodrik (2023)

⁷ In relation to international trade, foreign investment or labour force.

⁸ The study concerns industrial policy measures announced/implemented from January 2023 onwards. The vast majority of these measures (approximately 80 percent) result in deviations from free market mechanisms. Nevertheless, measures that promote liberalisation can also support industrial policy (e.g., duty exemptions for certain imported inputs necessary for a specific local sector).

⁹ A group established in accordance with the IMF classification.

Chart B
Industrial policies implemented
during 2023 (stated motives
for implementation)

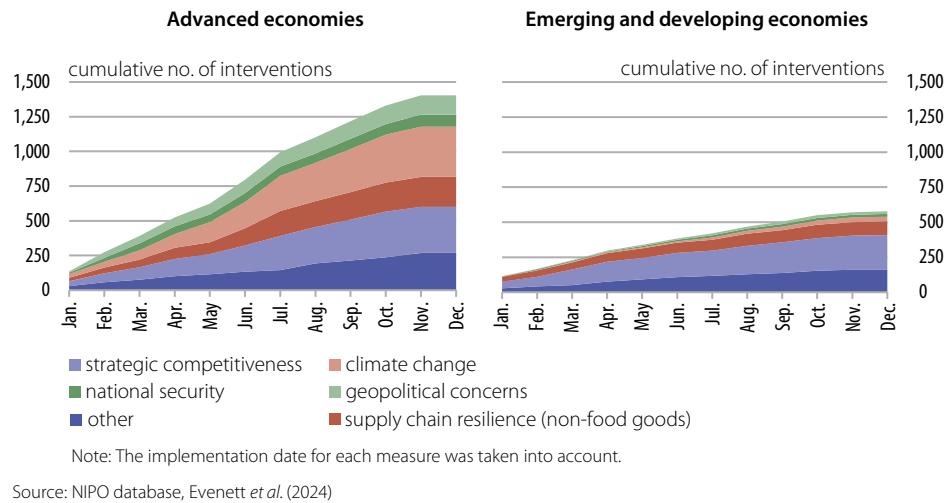
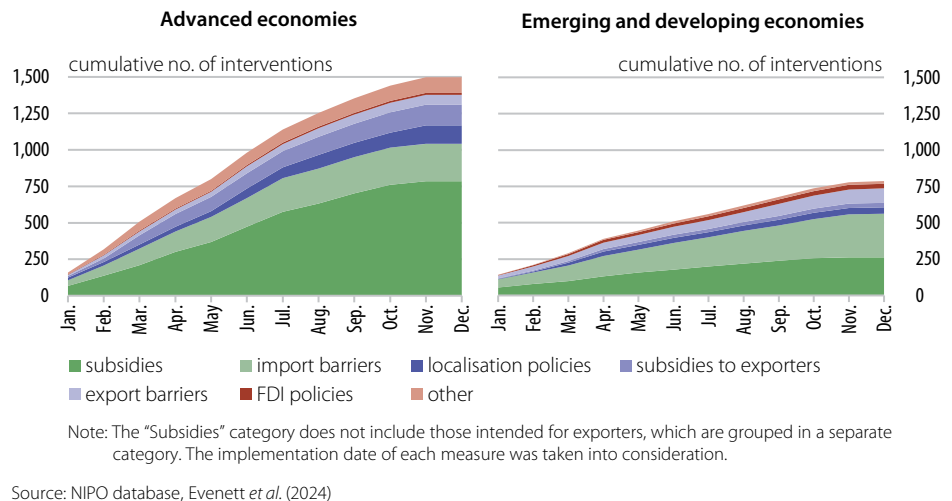


Chart C
Industrial policies implemented
during 2023 (instrument used)



Industrial policy measures in recent years have sparked controversy. Some decisions are less likely to provoke debate: for instance, the objective of reducing carbon emissions and addressing climate change enjoys broad international consensus in terms of commitment, and at operational level, the need for measures such as energy-efficient building insulation or the expansion of the electric vehicle charging network faces little opposition. By contrast, configuring the electric vehicle fleet is a more complex matter, at least for European countries, which are confronted with choices whose consequences are far-reaching. Specifically, opting for cheaper, heavily subsidised imports from China could potentially undermine the European automotive industry.

China's competitiveness in the field of electromobility is rooted in the inclusion of the sector under the umbrella of industrial policy¹⁰, alongside six other strategic emerging industries (SEIs) – energy conservation and environmental protection,

¹⁰ Decision to Accelerate the Fostering and Development of the Strategic Emerging Industries by the State Council (2010), a document considered to mark the inauguration of a comprehensive industrial policy framework (Xiao, Kuan and Zhiguo, 2022).

new generation of information technology, biologicals, high-end equipment manufacturing, new energy, new materials – all of which have benefited from substantial incentives (Xiao, Kuan and Zhiguo, 2022). For example, the subsidies provided to buyers by central and local governments were generous, covering, on average, nearly 26 percent of the production cost of an electric vehicle between 2015 and 2018 (based on a sample of 150 cities; Shanjun *et al.*, 2020). The incentive policy fostered the expansion of production capacities and the improvement of industrial processes. In this regard, Bown (2023) highlights notable results in the production of electric vehicle batteries, although the availability of certain new technologies also played a role; Shanjun *et al.* (2020) observe that the timing of the publication of some Tesla patents broadly coincided with major Chinese manufacturers entering the market.

Alternatively, European countries may opt to support domestic production, a move that, if pursued via customs policy, could strain relations with China (a market of importance for some European firms). In this case, domestic consumers would face higher prices, or the price difference compared to the level prior to the introduction of the protectionist measure could be covered by the government budget, with the notable consequence of increasing the fiscal deficit and public debt.

Domestic developments

In recent years, Romania's stance towards industrial policy has aligned, in certain respects, with EU approaches, as EU's concerns regarding the acceleration of the green transition have been incorporated into the National Recovery and Resilience Plan, with a substantial portion of its allocations directed towards the green economy.

In addition, the national authorities continue to support other economic activities. Specifically, one of the longest-standing practices of this kind has focused on supporting the IT industry. In 2001, in response to low net wage earnings that were driving emigration, the government introduced a personal income tax exemption for programmers, whose scope was later extended, i.e. in 2013, to include several other categories of employees in this sub-sector. Manelici and Pantea (2021) suggest that this policy has been effective in promoting the development of the IT industry, with positive spillovers to industries that rely heavily on IT services as inputs. At present, the ICT industry makes a significant contribution to GDP formation, with the gross value added of "Information and Communication" to GDP climbing from 4.9 percent in 2000 to 7.1 percent in 2023. Moreover, it is a key contributor to the current account balance, accounting for 45 percent of net service exports in 2023. However, the measure introduced to stimulate this sub-sector has remained in place for over two decades, depriving the state budget of a substantial source of revenue long after the benefits of the intervention became evident.

New industrial policy measures, such as the provision of tax breaks (personal income tax exemptions and reductions/exemptions from compulsory social security contributions), were introduced in 2019 in construction and in 2022 in the agri-food industry. Subsequently, both sectors saw an increase in the annual growth rate of the number of employees and output. However, the precarious state of public finances

called for a significant reduction in tax breaks as of end-2023. The authorities' decision suggests that, at least for the time being, this type of industrial policy intervention does not pass the Bastable Test.

Conclusions

Over time, industrial policies have been shaped depending on the economic, technological and social changes, requiring policymakers to continuously adapt to the new parameters of the macroeconomic framework. State intervention in the economy has remained a widely debated topic in the literature, with arguments both for and against it. Supporting strategic and/or emerging industries can generate positive externalities that justify government intervention. However, the financial resources needed to implement industrial policy measures can be substantial and unsustainable in the long run, fuelling budget deficit and public debt increases, which should be avoided, particularly in countries with fragile fiscal positions. In addition, the intensive use of industrial policy has the potential to weaken the international economic environment, leading to a deterioration in the production possibilities frontier and furthering geopolitical tensions, although countries have, to a certain extent, accepted these negative consequences – often justifying their actions as safeguarding national security or simply responding to similar decisions by competitors in an escalating cycle.

In this context, where issues such as resilience and national security have gained increased importance, overshadowing the generally accepted economic logic based almost exclusively on value for money, it has become more challenging to assess competitive positions. Specifically, there are market leaders (seemingly robust firms with favourable positions in terms of indicators such as profitability or unit labour costs) that do not pass the Mill Test – these firms may appear healthy, but are particularly sensitive to any changes in the industrial policy framework. In practice, strengthening a competitive position essentially relies to an increasing extent on how a firm can benefit the most from industrial policy support.

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GDP dynamics in emerging market economies stepped up by 0.2 percentage points, to 4.3 percent, with a contribution from China (+2.2 percentage points, to 5.2 percent), given the lifting of COVID-19 restrictions and the implementation of measures to boost activity. Nevertheless, China’s economy further faces difficulties in the residential

sector, while the labour market and domestic absorption are relatively weak. Russia’s economy has proven more resilient to the imposed sanctions than initially expected, returning to a 3.6 percent growth rate after a moderate decline in 2022. India also recorded faster GDP dynamics, to 7.8 percent, whereas in Brazil and South Africa the indicator slowed down¹¹.

Developments in the global composite PMI (52.4 points in April 2024) indicate a rebound in world economy in the first part of this year stemming from both services and industry (Chart 1.2). The euro area composite PMI of April (51.7 points) hit an 11-month high, being bolstered however by services, while the corresponding reading for industry remained below the 50 point threshold.

In 2023, commodity prices recorded sharp declines, the World Bank commodity price index dropping, on average, by 24.2 percent, on account of the easing of commodity markets. Energy prices posted a somewhat stronger decrease, i.e. by 29.9 percent (Chart 1.3).

Chart 1.2
Outlook for global economic growth

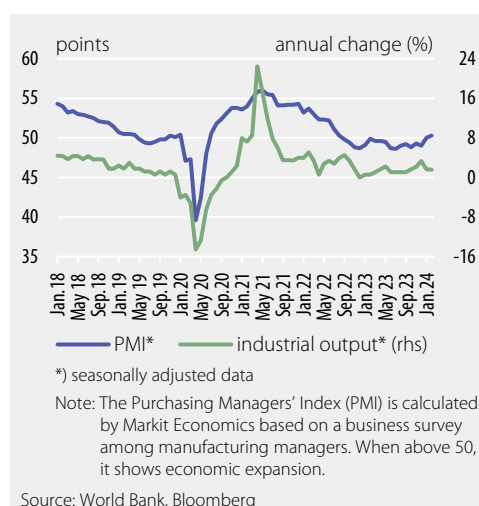
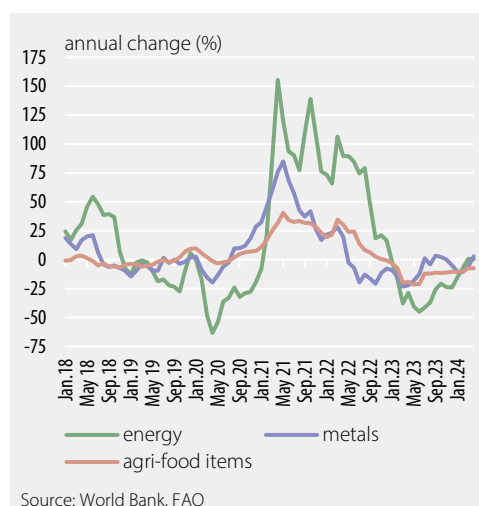


Chart 1.3
International prices of main commodities



¹¹ Brazil's economic growth decreased marginally, yet in South Africa the domestic energy crisis, the swings in commodity prices and the limitations of fiscal policy contributed to the slowdown in the economy close to a standstill. In turn, Argentina has been undergoing a number of reforms, its strict fiscal policy contributing to the recession.

The Brent oil price stood 17.2 percent below the previous year's average; moderate demand prevented larger oil price increases and supply-side factors led to a fluctuating path. In the first months of 2023, oil prices remained stable, rising slightly in April, in conjunction with the OPEC+ announcement of extending voluntary oil output cuts, before declining in May, on the back of the resilient supply from non-OPEC+ producers and Russia's cheap exports. At the beginning of 2023 H2, the Brent oil price increased, exceeding USD 90/barrel in September, again on account of decisions to cut production; in addition, in early Q4 uncertainties intensified, as a result of Middle East tensions. Nonetheless, the US contribution to supporting supply and the limited regional impact of the Middle Eastern conflict led to corrections in prices, which fell below USD 80/barrel towards year-end.

The European natural gas market underwent a major correction of 67.5 percent in 2023, after a year of historically large price hikes. On the supply side, the war in Ukraine has resulted in a reduction in EU gas imports from Russia, with measures being implemented to cut consumption and tap alternative sources. Europe's liquefied natural gas (LNG) import capacity has increased with the addition of several new regasification terminals as of end-2022, and throughout 2023 supply constraints eased. Against the background of moderate demand (favoured by the weak performance of the European industry, milder winter temperatures and the efforts of household consumers to reduce consumption) and the diversification of import sources, natural gas prices returned to levels comparable to those prevailing in 2021 H1.

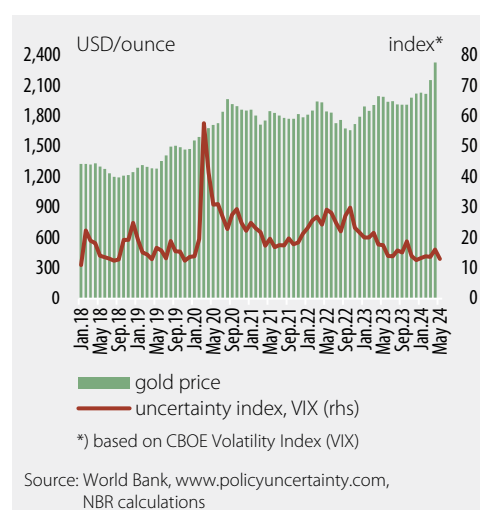


Chart 1.4
Gold price and uncertainty

In 2023, industrial metal prices stood, on average, 9.6 percent below the values recorded in the previous year, amid subdued demand, in correlation with the weakness in industry and construction (also amid China's ailing real estate sector). By contrast, the gold price remained on an upward path throughout 2023, climbing by 7.9 percent versus 2022 (Chart 1.4).

The FAO Food Price Index dropped by 13.8 percent in 2023, under the impact of plentiful global supply, which underpinned the downtrend

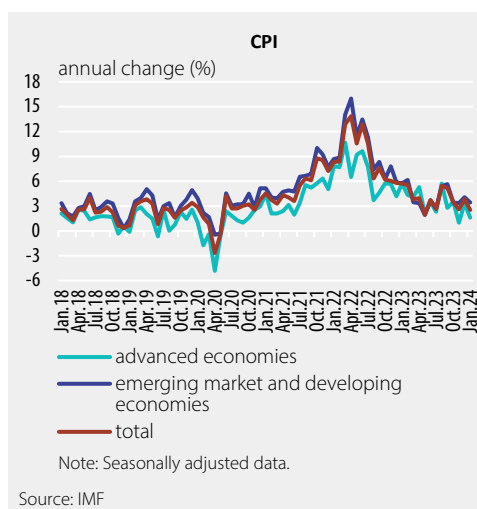
particularly in grain prices, which had episodically hit record highs in the preceding year.

At end-2023, IMF data¹² indicated that global inflation had declined to 3.8 percent, down by 2 percentage points from the end of the previous year. In advanced economies, the rate of change of consumer prices was 3.3 percent in December 2023, whereas in developing economies it came in at 4.1 percent. Nonetheless, despite

¹² Seasonally adjusted annual rate, *World Economic Outlook*, April 2024.

Chart 1.5

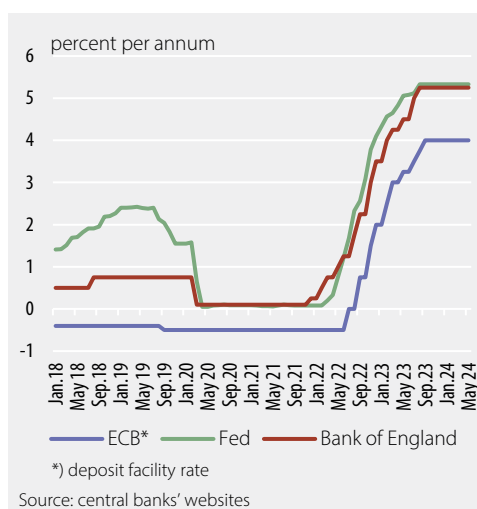
International consumer prices



progress, inflation did generally not reach a level consistent with the mandates of the monetary authorities. The annual growth rate of US consumer prices further followed a downward path during 2023, ranging between 3.1 percent and 3.5 percent in Q4 (and in 2024 Q1). In addition, euro area annual HICP inflation decelerated throughout the year, to 2.9 percent in December 2023 (and further to 2.4 percent in April 2024). Underlying inflation in the euro area (HICP excluding energy and food) also went down, to 3.4 percent in December and 2.7 percent in April 2024 (Chart 1.5).

Chart 1.6

Policy rates



The main central banks paused their policy rate hiking cycle during 2023 Q3, opting for a data driven approach (Chart 1.6). Thus, after four additional increases in 2023, with a step down in the pace of hikes to 25 basis points and the alternating periods of adjustment and keeping of the policy rate unchanged respectively, the US Federal Reserve System decided to maintain the federal funds rate in a target range of 5.25-5.50 percent as of August 2023. The European Central Bank raised the key interest rate on six further occasions, in steps of 50 basis points and 25 basis points respectively. Starting in September 2023, the interest rate on the main refinancing operations stood at 4.5 percent and the interest rates on the marginal lending facility and the deposit facility at 4.75 percent and 4.0 percent respectively. Under the circumstances, the single currency appreciated against the currencies of trading partners and the US dollar (Chart 1.7).

Chart 1.7

Euro exchange rate



2. Domestic macroeconomic developments

2.1. Economic activity

Economic growth

With an advance of 2.1 percent, in 2023 Romania's economy ranked among the most dynamic at the EU level (Chart 1.8). Nevertheless, compared to the previous year, the annual growth rate slowed down, the deceleration being visible in private

consumption, whereas the pace of increase of investment stepped up (solely on account of infrastructure projects) and net external demand made a marginal positive contribution (Chart 1.9).

Household consumption grew by 3.1 percent, bolstered by the swift rise in real wage income and some government measures¹³. A favourable impact on consumption also came from households' strategies to maintain a relatively stable volume of goods purchases in an inflationary economic environment, i.e. downtrading, stronger preference for discount stores, increased interest in sales promotions. These coordinates of consumer behaviour were accommodated by the further expansion of modern retail chains, characterised by stronger bargaining power with suppliers and more efficient distribution.

Even though the annual growth rate of household consumption was positive throughout the year, it slowed down markedly in 2023 Q2-Q3, when the weakening of the impulse stemming from the increase in some

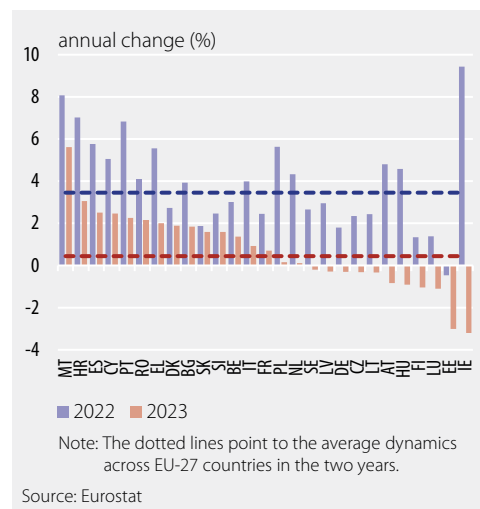


Chart 1.8
Real GDP in EU-27

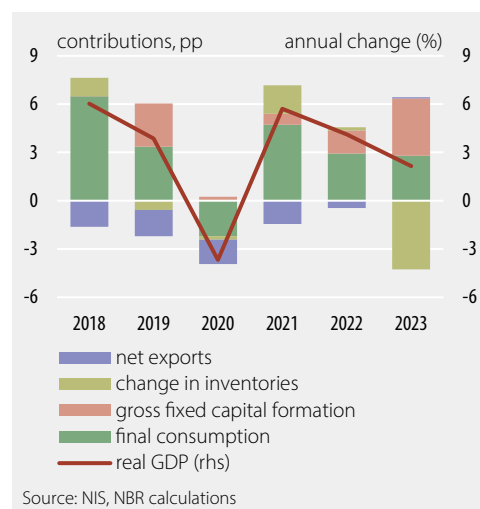


Chart 1.9
Demand

income categories (minimum wage, pension point) at the beginning of 2023 was compounded by the build-up of uncertainty surrounding economic developments and households' financial situation, driven by the still high inflation rate and bank lending rates, as well as by the probability of corrective fiscal measures. Specifically,

¹³ Financial support for the most vulnerable social groups, capping of electricity and natural gas prices for households, as well as of mark-ups on basic food products; capping of the motor fuel excise duty to the minimum level Europe-wide in 2023.

the dynamics of consumer expenditure in real terms dropped from 6.5 percent in 2023 Q1 to an average of only 1.3 percent over the next two quarters, declining especially for purchases of goods and services that are highly sensitive in budget reshaping

periods (household appliances, furniture, cultural and recreation services).

The slacker pace of spending was accompanied by an increase in bank saving, the nominal annual growth of the stock of households' time deposits picking up to 44 percent in 2023 Q2-Q3. Conversely, in the latter part of the year consumer demand gained momentum (to 3 percent in real terms), amid the stronger purchasing power (under the impact of disinflation and the second hike in the minimum gross wage economy-wide) and a certain easing of lending conditions (Chart 1.10).

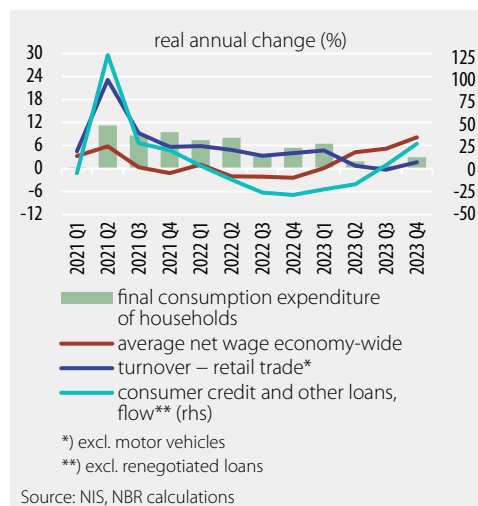


Chart 1.10
Household consumption

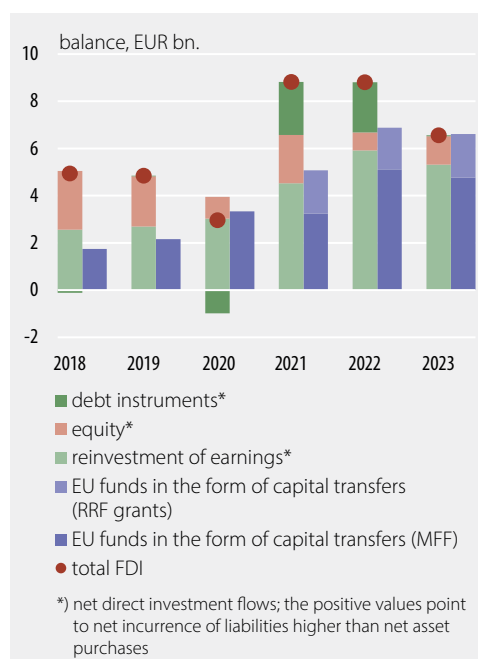


Chart 1.11
Direct investment and absorption of EU investment funds

Gross fixed capital formation posted brisk dynamics throughout the year (14.4 percent, on average), becoming the main driver of economic growth in 2023, with a 3.6 percentage point contribution. In terms of financing, the overlapping of several EU funding instruments made a decisive contribution again, 2023 witnessing a step-up in reimbursements under the Multiannual Financial Framework (MFF) 2014-2020 (the eligibility period of spending under this framework ended in the reported year), the first pre-financings granted under the MFF 2021-2027 and the further disbursements (grants and loans) under the NRRP (however, the latter instrument was only partially turned to

good account because of the delays compared to the timeline for the fulfilment of the milestones and targets agreed with the European Commission). Apart from its direct contribution to increasing the capital stock in the economy, the absorption of these funds based on efficiency and quality criteria has the potential to boost foreign investors' confidence in the domestic business environment. This effect is all the more necessary, given the sluggish foreign investment – the decline in the number of FDI projects announced in 2023 (by 13 percent)¹⁴ led to a decrease in net FDI inflows

¹⁴ Source: EY Europe Attractiveness Survey 2024.

in the form of equity (including reinvestment of earnings) by 2.2 percent compared to the previous year (Chart 1.11).

The pick-up in capital investment owed to public investment, largely on account of substantial EU funds for civil engineering works. The volume of these works rose (by about 32 percent in 2023) in the case of both large-scale projects (in road transport, and maritime, air and rail infrastructure) and works on utility networks (Chart 1.12).

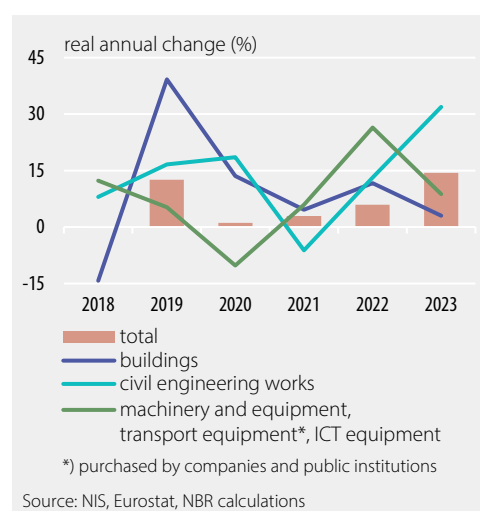


Chart 1.12
Gross fixed capital formation

Private investment also showed positive dynamics, which decelerated however versus the previous year, mainly on the back of the non-financial corporations sector, whose share in total gross fixed capital formation shrank below the pre-pandemic level (by almost 7 percentage points against 2019, to 45 percent). Purchases of equipment, including transport and ICT equipment, added 8.8 percent (a third of the rise in 2022), with more important projects being carried out in areas such as metallurgy, the manufacture of tyres, household

appliances and other electrical equipment, medicines, building materials or defence. Equally significant was also the investment focusing on the objectives of transitioning to a green economy and lowering the energy dependence of the economy. Thus, 2023 marked the step-up in investment in expanding the production capacity of renewable energy – the completion of new, large-scale projects, the first solar-wind hybrid power plant included, and the ongoing projects targeting prosumers (companies, public institutions and households). However, obsolete electricity transmission and distribution networks are a hindrance to harnessing this potential, which can only be overcome by substantial investments in the related infrastructure. Looking at electromobility, investments were aimed at developing the eco-friendly urban transport fleet, preparing the technological lines for increasing the domestic supply of hybrid and electric car models, expanding the electric vehicle charging network.

As regards the construction of buildings, alongside constraining demand-side influences, the market also experienced a certain reluctance of developers to start new projects, owing to cost-related difficulties (still high price levels of material inputs, wage increases), as well as to the delay in resolving some legal and judicial issues that hamper authorisation. These factors particularly affected residential construction (where the supply of new housing shrank by 2.6 percent versus 2022 and the construction area stipulated in building permits saw a steeper contraction, to 22 percent). Conversely, the further high demand for logistic and retail spaces reflected in a renewed increase in the volume of non-residential construction (by almost 5 percent, albeit at a more moderate pace than in the prior year).

Net external demand for goods and services also made a marginal contribution to GDP growth, i.e. 0.1 percentage points. The positive contribution – a first for the past ten years – owed solely to trade in goods, as a result of a larger decline in the volume of imports than in that of exports (-2.6 percent and -1.2 percent, respectively), chiefly under the influence of some supply-side factors (Chart 1.13). Specifically, the 2023 satisfactory crops (especially wheat and rapeseed), largely ascribable to favourable weather conditions, supported the higher surplus of trade in agri-food commodities – a 29 percent hike in exported quantities and a 23 percent drop in imported quantities, the latter due *inter alia* to a base effect¹⁵. At the same time, the energy balance and the trade flows of non-energy goods associated with energy-intensive industries made significant contributions to the correction of the trade deficit. In the former case, the halts in operations in oil refining (partly based on imported crude oil), which occurred during 2023 as a result of extensive overhauls, and the lower domestic consumption of natural gas led to an improvement in the position of net importer of crude oil and natural gas¹⁶. However, this was partially offset by the widening trade deficit in processed petroleum products, the adjustment of local production resulting in lower exports and higher imports to accommodate domestic needs. In the latter case, the large contraction in output (particularly in metallurgy and the manufacture of wood) triggered decreases in net imports of some non-energy inputs (iron ores, non-ferrous metals, raw wood), concurrently with deteriorations (of a smaller magnitude) in the balance of trade in goods manufactured by these two sub-sectors. As for the chemical industry, the noticeably slower decline in production, following the partial and stepwise resumption of activity of the leading supplier of fertilisers to the domestic agriculture¹⁷, brought about a substantial reduction in import dependence on such products, along with a certain drop in net exports of mineral products used in the manufacture of fertilisers.

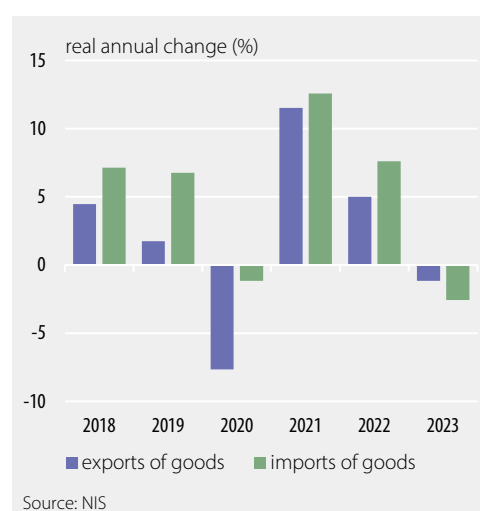


Chart 1.13
External demand (goods)

On the (domestic and external) demand side, the influences occurring during the year contributed rather to the slowdown in economic growth. For instance, the weak external demand was likely an important driver of the lower trade surplus in durables (furniture, household appliances) or of the balance of electrical equipment (one of the segments boasting high integration in global production chains) moving to deficit, while the positive dynamics of domestic absorption translated into increases in the

¹⁵ In 2022, the establishment of the EU-Ukraine Solidarity Lanes led to massive imports of cereals and oleaginous plants at very low prices.

¹⁶ The lower external dependence on natural gas (to 0.4 billion cubic meters from 1.9 billion cubic meters in the previous year) was also due to a slight increase in domestic output, which contributed to the rise in exports.

¹⁷ After a one-and-a-half-year shutdown, Azomureș resumed operations in May 2023 (operating at around 10 percent of capacity and reaching 50 percent of capacity in October).

volume of imports of machinery and equipment, electronic components (in particular solar panels), transport equipment.

External position

The current account deficit declined by 2.2 percentage points versus 2022, to 7 percent of GDP, yet it remains a vulnerability of Romania's economy. The external imbalance in 2023 was entirely ascribable to the government component, which also reflected in a certain deterioration of indebtedness indicators. The increase in international reserves favoured, however, the strengthening of the adequate position in terms of balance of payments risks.

The current account deficit amounted to EUR 22.6 billion, down by approximately 13 percent from 2022 (Chart 1.14). The main contribution came from the balance on trade in goods, whose deficit shrank by EUR 3 billion, to EUR 29 billion, given that the favourable evolution of the volume component was complemented by a slight improvement in the terms of trade (on the back of lower pressures from international prices). The balance on trade in services remained on an upward path (to a surplus of EUR 13.5 billion), further bolstered by net receipts from freight transport, ICT services and other business services. The primary income account and the secondary income account witnessed small changes. Specifically, the former recorded a wider deficit

(to EUR 8.7 billion – particularly due to higher interest payments on government securities issued on the external market), whereas the latter posted a larger surplus (to EUR 1.6 billion), attributable to the swifter pace of EU funds absorption. The narrowing of the current account deficit reflected in a better coverage by stable, non-debt creating capital flows, i.e. net inflows in the form of equity in FDI enterprises¹⁸, to which adds the capital account surplus (consisting primarily in non-repayable EU investment funds). These flows accounted for a higher share of current account deficit financing, i.e. 58.9 percent, up by more than 6 percentage points from that recorded in 2022.

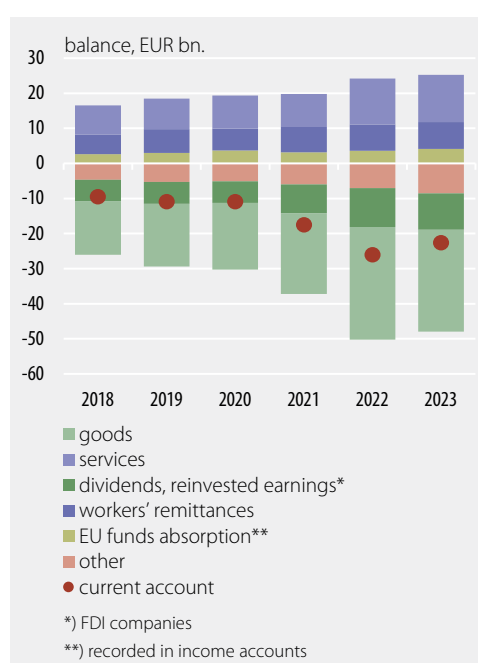


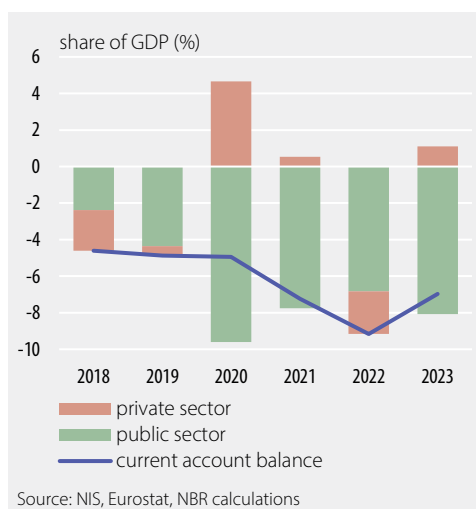
Chart 1.14

Current account and main components

From the perspective of the saving-investment balance, the lower current account deficit owed to the private component returning to surplus (amid the slowdown in domestic absorption, particularly in investment herein), whereas the public component deteriorated to -8.1 percent of GDP (Chart 1.15). The financing of this

¹⁸ Including reinvestment of earnings.

Chart 1.15
Public/private composition of the
saving-investment balance



imbalance was made primarily through government bond issues, which led to a rise in net portfolio investment inflows (to EUR 14.3 billion, exceeding the all-time high recorded in 2020, the year the pandemic broke out).

The increase in public debt thus became the main channel for the higher level of indebtedness of Romania's economy. The 18.2 percent rise in total external debt (to EUR 170.1 billion) was also accompanied by a worsening of some of the indicators typically employed to assess debt repayment capacity, such as the ratio of gross external debt to GDP and the ratio of gross external debt to exports of goods and services (which climbed to 52.4 percent and 133.9 percent respectively). By contrast, external liquidity further stood at a comfortable level, as suggested by the ratio of external debt service to exports of goods and services remaining below one (69.5 percent) and the improved reserve adequacy indicators. The increase in international reserves by EUR 13.7 billion to EUR 66 billion as at 31 December 2023 supported the coverage of 5.2 months of prospective

Chart 1.16
Reserve adequacy indicators*



imports of goods and services and the full coverage of the short-term external debt stock at remaining maturity (the indicator reached 106.3 percent). At the same time, the strengthening of international reserves also reflected in the improved "protection" of the domestic economy from balance of payments risks covered by the ARA EM metric calculated by the IMF, which added more than 11 percentage points, to 113.7 percent¹⁹ (Chart 1.16).

Labour market

In 2023 as a whole, labour market conditions remained relatively tight, with a rise in the number of employees, a low unemployment rate and a swift pace of wage increase. In the latter half of the year, there were some tentative signs of easing, as a result of slower economic growth, but they faded out in 2024 Q1.

¹⁹ ARA EM (Assessing Reserve Adequacy for Emerging Markets) is an annual metric assessing the adequacy of reserve holdings of emerging market economies relative to a large set of risk sources, such as loss of export income, residents' capital flight, rollover of short-term external debt and non-resident equity and MLT debt outflows.

The annual dynamics of the number of employees economy-wide remained positive in 2023, decelerating however to 1.3 percent (from 1.7 percent in 2022), on account of market services (particularly ICT, accommodation and food service activities and transportation) and trade, under the impact of weaker demand. Domestic industrial activity continued to face difficulties, yet the adjustment in labour force was limited, the number of hires rising slightly. The breakdown shows mixed developments. Specifically, some manufacturing sub-sectors that fared better in 2023 posted increases in payrolls, this being the case of the manufacture of electronic products, the automotive industry and the food industry, whereas other sub-sectors witnessed either a modest pace of hiring or job cuts (with larger reductions in the light industry,

the manufacture of furniture and of chemicals), yet the magnitude of layoffs was further limited as compared with the contraction in activity. In construction, the annual change in the number of employees continued to be relatively robust (2.2 percent, stepping up from 1.9 percent in 2022), amid the numerous infrastructure projects underway. In the budgetary sector, the pace of increase of the number of employees decelerated, on the back of developments in public administration (Chart 1.17).

Chart 1.17
Developments in the number of employees economy-wide

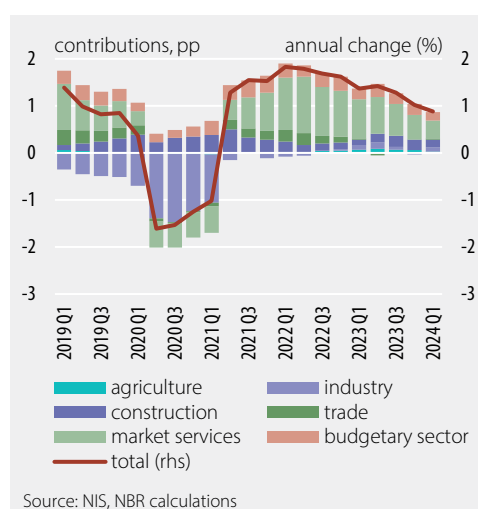
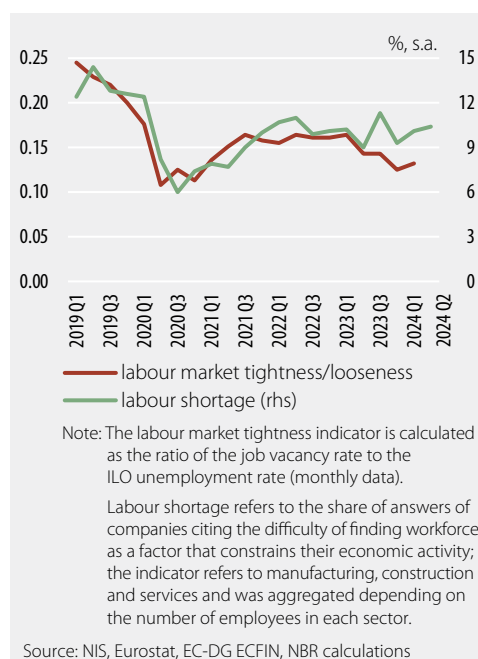


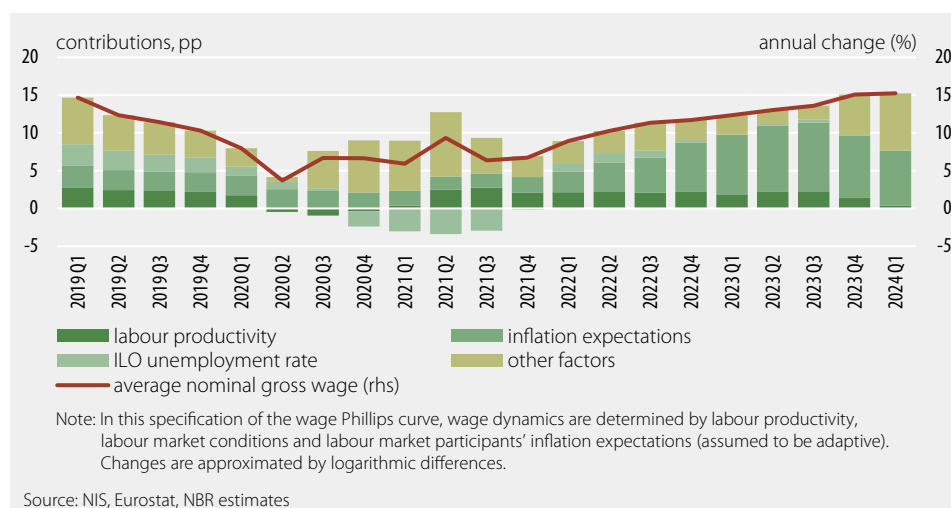
Chart 1.18
Labour market tightness/looseness



(low number of people with higher education, high incidence of early school leaving, deficient education infrastructure, low-skilled teaching staff, particularly in rural areas). Under the circumstances, the limited labour supply leads to further relatively tight labour

market conditions and any loosening will likely be gradual and more easily reversible (Chart 1.18).

In 2023, the annual growth rate of the average gross wage economy-wide accelerated markedly to 14.5 percent (+3.3 percentage points from 2022). Inflation expectations played a significant part in the wage bargaining process given the surge in prices throughout 2022, the relatively tight labour market conditions supporting, overall, the accommodation of wage demands by companies. In addition, the successive hikes in the minimum wage²⁰ also made an upward contribution. Pay rises were awarded in the budgetary sector as well (in education and, to a more moderate extent, in public administration), the annual pace of increase picking up to 16 percent in 2023 H2 (from 4.2 percent in 2022 and 7.5 percent in 2023 H1), Chart 1.19.



The beginning of 2024 was marked by a recovery in economic agents' optimism as compared with the closing three months of 2023, which reflected in a drop in the unemployment rate to 5.3 percent in 2024 Q1, a stabilisation of the job vacancy rate at 0.7 percent and a higher share of companies citing labour shortage as a hindrance to their activity. At the same time, average gross wage dynamics stepped up to 16.7 percent, amid the surge in the annual growth rate of budgetary sector wages to 19.6 percent (following a new round of pay rises in education and healthcare). The annual pace of increase of private sector wages was also further high, i.e. 15.9 percent, decelerating from 16.4 percent in 2023 Q4, but standing above the 2023 average as a whole (15.3 percent).

²⁰ In January, the minimum gross wage grew by nearly 18 percent economy-wide and by approximately 33 percent in construction. In October-November, a new hike in the minimum gross wage was implemented: in the economy from lei 3,000 to lei 3,300 and in construction from lei 4,000 to lei 4,582; in agriculture and the food industry, the said wage was raised from lei 3,000 to lei 3,436.

2.2. Prices and costs

Consumer prices

The annual CPI inflation rate embarked on a downward path during 2023, remaining however above the upper bound of the variation band of the target (Chart 1.20). Price dynamics fell to 6.61 percent in December 2023 (-9.76 percentage points compared to the level recorded 12 months earlier), with the disinflationary trend supported by food and energy prices. In the former case, the evolution took place amid the easing of tensions on the agri-food commodity market due to bountiful crops in Romania

and elsewhere, as well as to the resumption of exports of Ukrainian farm produce in relatively adequate conditions (Chart 1.21). A contribution was also made by the entry into force of the mark-up capping scheme for basic food products in August 2023; originally designed for a 3-month period, the initiative was subsequently extended until the end of 2024, although the pressures from input costs of materials declined significantly.

Chart 1.20
Annual inflation rate

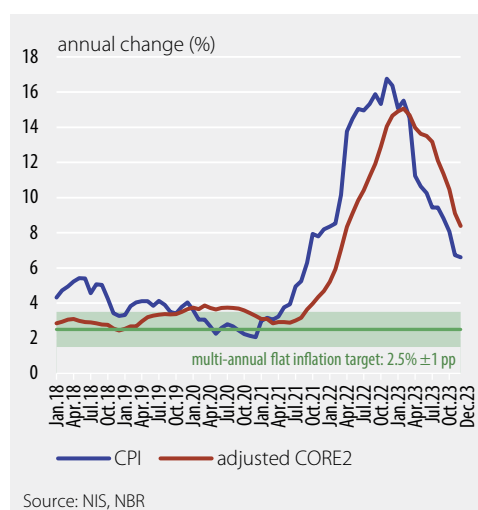
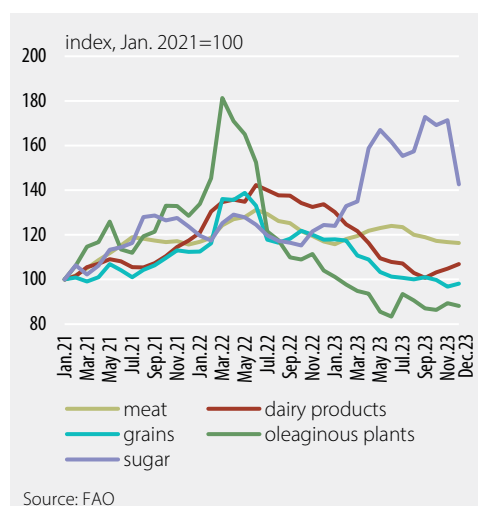


Chart 1.21
Prices of main agri-food commodities

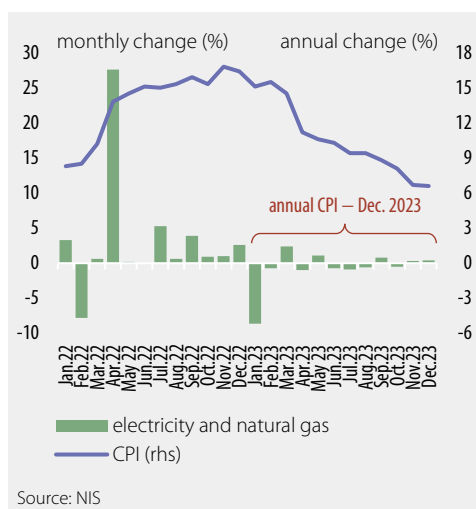


consumption brackets. These developments, overlapping with favourable base effects arising when the 2022 hikes in both segments dropped out of the calculation base, pushed the annual change in prices for the electricity and natural gas subgroup

²¹ According to the provisions of the legislation in force, the final prices paid by household consumers shall remain capped until end-March 2025.

Chart 1.22

Base effects in the electricity and natural gas subgroup

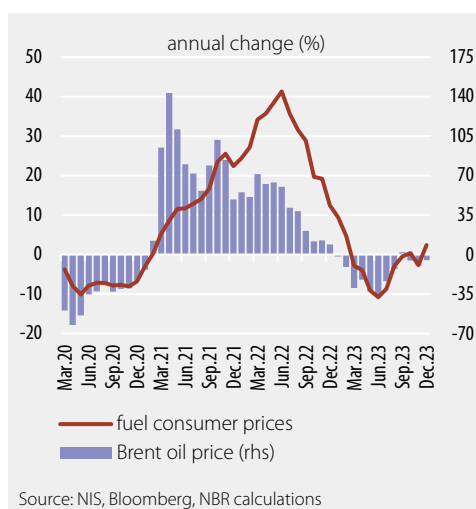


to -8.1 percent at the end of the year (Chart 1.22). In the background, the rebalancing of European energy markets created the conditions for prices to fall below the statutory caps.

Additional disinflationary influences, albeit less strong, also came from fuel prices, with the Brent oil price witnessing a relative stability on international markets in 2023, hovering around significantly lower levels than in the previous year (an average of USD 82.6 per barrel in 2023, compared to USD 99.8 per barrel in 2022). The latter part of the year saw upward movements in the Brent oil price, amid announcements by OPEC+ of extended production cuts and the outbreak of the armed conflict in the Middle East. However, their effect proved short-lived, as rising US output and sluggish global demand exerted opposite influences. On the domestic front, the inflationary impact stemming from the withdrawal of the 0.50 lei per litre motor fuel compensation measure on 1 January 2023 was partly offset by the cut in the excise duty on motor fuels, which took effect on the same

Chart 1.23

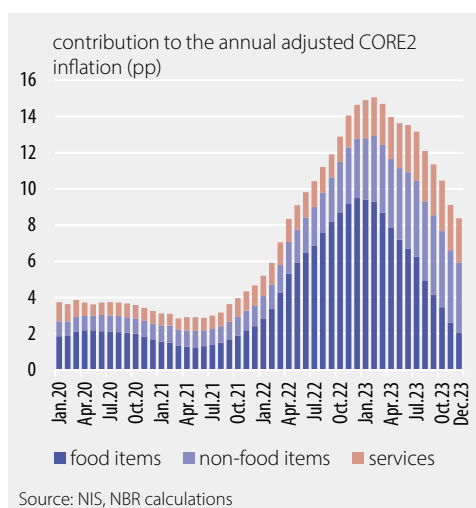
Fuel prices



date. Specifically, the annual dynamics of fuel consumer prices remained in negative territory for most of 2023, returning to positive values as late as December (2.4 percent, 10 percentage points lower than at end-2022) (Chart 1.23).

Chart 1.24

Main components of the adjusted CORE2 inflation



Adjusted CORE2 inflation also witnessed a correction, i.e. after recording a peak of the recent period in February 2023 (15.1 percent), it gradually fell to 8.4 percent in December 2023. Behind the downward trend stood the substantial slowdown in the growth rate of processed food prices to 5.3 percent in December 2023, from 22.9 percent in December 2022. Conversely, the dynamics of non-food and market services prices followed a mostly upward path during 2023, broadly

climbing to levels above 10 percent. A mild decline started only in 2023 Q4, with monthly changes running further significantly above historical averages, so that the end-of-year annual rates remained in the double-digit territory (11.0 percent and 10.2 percent respectively). As the non-food items included in the adjusted CORE2 basket are, to a considerable extent, sourced from external markets, their prices were affected by higher import costs, the unit value indices (UVIs) of imports slowing their dynamics only towards end-2023. Labour costs were yet another factor that put pressure on prices, which was mainly reflected in the market services group (Box 2). The slower pace of decline in adjusted CORE2 inflation owed also to the resilience of consumer demand, which even gained momentum towards the end of the year, amid the rise in households' real income and their interest in consumer credit (Chart 1.24).

Box 2. Relevance of labour costs to inflation

Throughout 2023, swift wage growth was one of the main sources of inflationary pressures. Under the circumstances, this box aims to identify the CPI basket components in Romania whose change in prices is most sensitive to movements in labour costs and to assess the extent to which the latter are accountable for the persistently high headline inflation rate.

In line with Council of Economic Advisers (2023a), the effect of labour costs on consumer prices was assessed based on an autoregressive distributed lag (ARDL) model with the following general (linear) form:

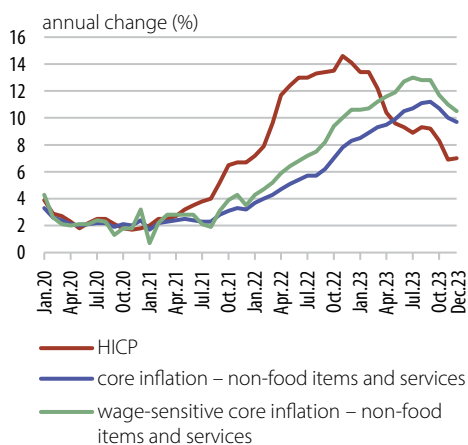
$$p_{it} = f(p_{i,t-1}, p_{i,t-2}, \dots, p_{i,t-k}, we_{j,t}, we_{j,t-1}, we_{j,t-2}, \dots, we_{j,t-l}, prod_{j,t-1}),$$

where p_{it} represents the inflation rate in period t of component i of the CPI basket according to the COICOP-HICP, we_{it} is average wage earnings in period t received in the corresponding NACE sector j^{22} , and $prod_{j,t-1}$ refers to output per employee in sector j (exogenous variable covering the case when wage costs rise strictly as a result of an increase in productivity). The optimal number of lags was selected using the Akaike information criterion.

The long-term coefficients of the relationship between the inflation rate and wage earnings are of interest for this analysis. Wage earnings are considered an element of costs incurred by producers, an estimation that is rather at the lower bound of the influence of wages on price changes being thus derived (income may have a bearing on inflation also via its effect on consumer demand). Econometric models risk sometimes under/overestimating certain effects in the case of lower samples, yet they have the benefit of capturing links between variables starting from historical data and showing the actual relations observed between the relevant variables, with a minimum of hypotheses and auxiliary assumptions.

The assessment was based on the composition of the HICP basket (the COICOP classification) as it allows for a finer decomposition, facilitating correspondence with

²² COICOP-NACE correspondence was employed. Where the production of consumer good i involves several sectors j , an equation was estimated for each sector.



Source: Eurostat, NIS, NBR calculations

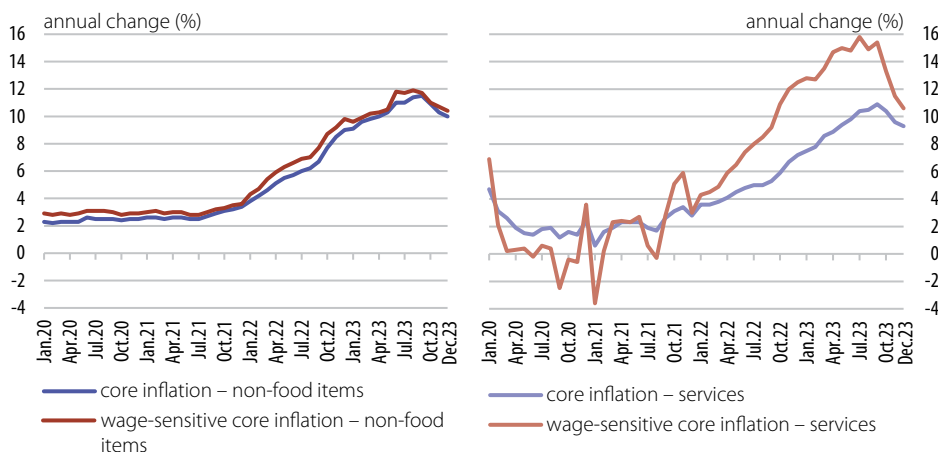
Chart A
Wage-sensitive core inflation

NACE sectors. Time series for the consumer basket items at the most disaggregated level available were chosen for use, as they are compiled at a monthly frequency and are available as of January 2017 in most cases²³. The analysis left out exogenous

components (which are beyond the scope of monetary policy), but also education, healthcare and financial services (whose output levels are harder to quantify²⁴). At the same time, processed food items were also excluded, given that, starting in August 2023, the mark-ups on some of them were capped. Thus, 142 items were assessed. They accounted for around 35 percent of the HICP basket²⁵ in 2023 and may be seen as a proxy for core non-food and services inflation.

The results of the estimation indicate that for 64 of the 142 items a statistically significant pass-through coefficient of changes in labour costs to consumer prices was obtained. The items for which the coefficients surpassed the 25th centile of the distribution were considered wage-sensitive, so that the cases in which the change in wages has a statistically significant but low influence were left out. Thus, 50 wage-sensitive items

accounting in 2023 for approximately 30 percent of the basket corresponding to the core inflation measure previously defined, i.e. core non-food and services inflation, were selected. The pass-through coefficients suggest that, on average, slightly more than 50 percent of the increase in wages feeds through into the inflation rate of these items, which is indicative of the high sensitivity of their prices to changes in wages.



Source: Eurostat, NIS, NBR calculations

Chart B
Wage-sensitive core inflation – decomposition

Wage-sensitive components include both non-food items and services. In the former's case, the most important categories are clothing, but also some household textiles, certain household appliances, particularly small ones, tools and equipment

²³ Source: Eurostat for inflation data, NIS for wages, Eurostat and NIS for data on sectoral output and number of employees. Data series were seasonally adjusted.

²⁴ The input-output table includes these variables, yet only on an annual basis; in addition, data are released late.

²⁵ The selection is comparable to that made based on the national methodology, where the non-food and services segments of the adjusted CORE2 index held about 38 percent of the CPI basket in 2023.

for house and garden, plants and flowers, newspapers, products for pets, musical instruments, toys, jewellery. As far as wage-sensitive services are concerned, the most salient categories are maintenance and repair of personal transport equipment, accommodation, parking fees and renting of motor vehicles and parking spaces, passenger transport by taxi, catering services in canteens, passenger transport by air. Wage-sensitive core inflation further followed an upward trend in 2023, making an increasing contribution to the annual HICP inflation rate, in a context in which the latter began to decline (Chart A). Therefore, this has an important bearing on the headline inflation rate remaining high. Looking at the two segments separately, it can be observed that the gap between wage-sensitive core inflation and total core inflation is larger for market services (Chart B), which is suggestive of wages having a stronger inflationary impact in the latter's case. In fact, non-food prices were subject to a number of other relevant pressures throughout 2023, such as those exerted by some commodity costs or those stemming from imports.

References

Council of Economic Advisers – “Wage sensitivity in non-housing services inflation”, The White House blog post, 2023a

Council of Economic Advisers – “An update on non-housing services inflation: progress in wage-sensitive prices”, The White House blog post, 2023b

Inflation expectations of economic agents in trade, industry, construction and services declined for the most part of 2023. However, 2023 Q4 saw a trend reversal, particularly in the trade sector, prompted by fiscal consolidation measures (increases in indirect taxes on fuels, tobacco products, sugary foods, and recreational activities, along with higher direct taxes), but also, to some extent, by the recovery in demand. Financial analysts' expectations over the one-year horizon lowered significantly, while the two-year ahead indicator stood close to the upper bound of the variation band of the flat target at the end of the year (Chart 1.25).

Chart 1.25

Expectations on price developments

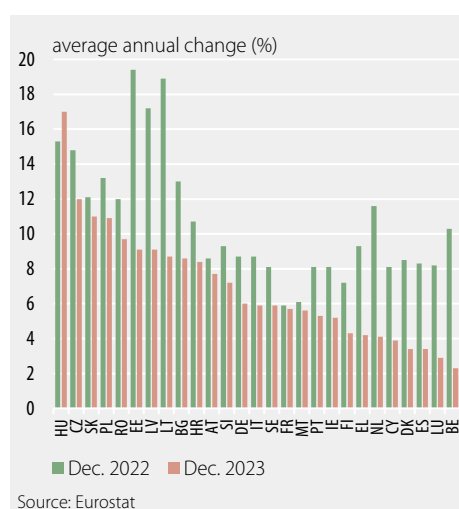
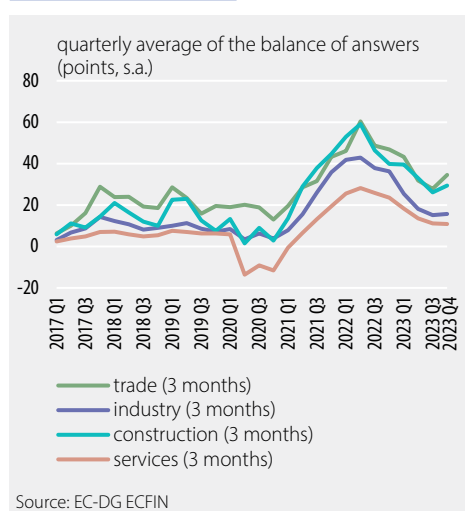


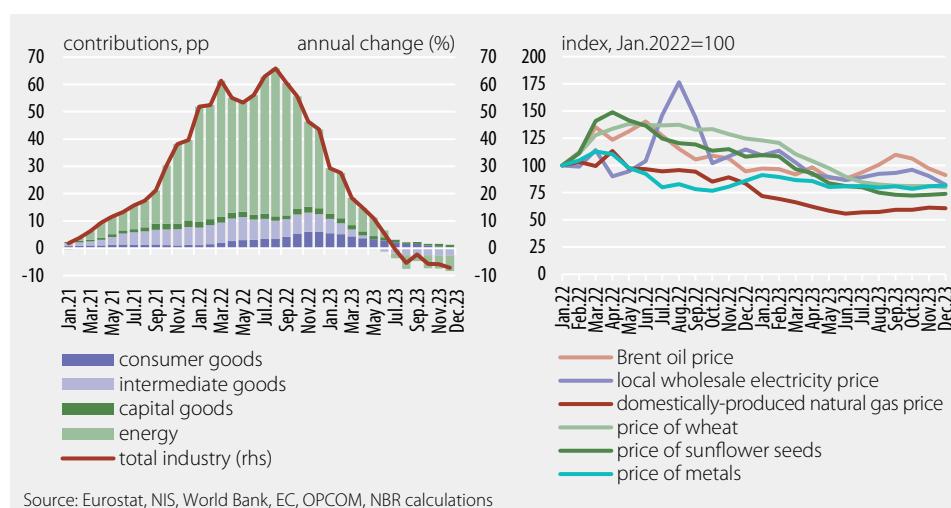
Chart 1.26

Average annual HICP in the EU

Looking at the average annual inflation rate, the gap with the EU widened to 3.3 percentage points in December 2023 (compared to 2.8 percentage points at end-2022), due to the relatively slow pace of disinflation in Romania, in contrast to developments in most European countries. Specifically, in December 2023, Romania ranked fifth among the Member States with high average HICP inflation, up from ninth position a year earlier (Chart 1.26).

Producer prices

In 2023, the annual growth rate of industrial producer prices on the domestic market decelerated sharply, falling into negative territory as of the latter half of the year and reaching a low of the period under review in December 2023 (-7.1 percent, compared to 43.5 percent in December 2022). This was largely attributable to the easing of tensions in the international energy commodity markets, which also affected the prices of other categories of goods, with the relatively benign environment that generally characterised other commodity markets further contributing to this trend (Chart 1.27).



The slower annual growth rate of producer prices at aggregate level owed mainly to developments in energy prices, whose annual rate of change dropped by 102.1 percentage points from December 2022, to -14.7 percent in December 2023. In line with the external trend, spot prices for electricity and natural gas on the domestic wholesale markets returned, as of 2023 Q2, to levels close to those recorded before the onset of the energy crisis in the summer of 2021, with relatively minor subsequent fluctuations. Behind this path stood the decline in consumption (of both firms and households), along with the high natural gas storage levels and the abundant electricity supply (the weather conditions favoured the production of renewable energy, which has recently benefited from significant investments).

At the same time, the Brent oil price posted generally lower readings than in 2022, and its impact on producer prices was compounded by the appreciation of the leu against the US dollar. The crude oil price witnessed relatively stable developments during 2023 H1, and its spike in Q3, associated mainly with supply constraints from OPEC+,

faded away quickly, as some non-OPEC+ countries increased their output, while the conflict in the Middle East exhibited a limited degree of contagion.

The annual growth rates of producer prices for intermediate goods also decelerated (-24.2 percentage points, to -6.7 percent in December 2023), mainly on account of developments in energy-intensive sub-sectors (metallurgy, chemical industry), underpinned by the favourable path of energy commodity and metal prices, as well as by lower transportation costs. The progressive decline in natural gas prices led to a significant drop in chemical fertiliser prices, while the prices for many categories of building materials went down, driven by the lower energy costs and the gradual unwinding of supply chain disruptions. Moreover, the weak activity in manufacturing worldwide reflected in the fall in prices of industrial metals (including mineral products).

The annual growth rate of producer prices for consumer goods also declined throughout 2023, reaching 5.3 percent in December (-16.3 percentage points versus end-2022). The main contribution came from non-durables, dominated by the food industry, where price dynamics slowed down steadily, in correlation with the easing of tensions in the energy market and the favourable developments in the agri-food commodity markets. The latter were visible particularly for cereals and oleaginous plants, amid the large crops domestically and internationally, and the smooth transit of Ukrainian exports through the Black Sea.

Conversely, the annual dynamics of producer prices for capital goods picked up slightly (by 1.9 percentage points), in line with developments in the automotive industry, possibly due to major manufacturers preparing to roll out new models.

Unit labour costs

The annual dynamics of unit labour costs economy-wide surged to almost 15 percent in 2023 (+5.8 percentage points compared to the previous year). Compensation per employee witnessed a strong advance in the period under review, i.e. 18.2 percent (+4.9 percentage points versus 2022) – in addition to the lagged effects on wages exerted by the fast rise in inflation in 2022, a significant upward influence came from

the income policy implemented by the government. The labour productivity growth rate failed to offset these developments, slowing to 3 percent in 2023 (-1 percentage point compared to 2022), with the persistence of the considerable gap between the two indicators continuing to fuel inflationary pressures from labour costs (Chart 1.28).

In industry, the annual change of unit wage costs stepped up to 19.6 percent in 2023 as a whole (+6.6 percentage points against 2022). Pressures on

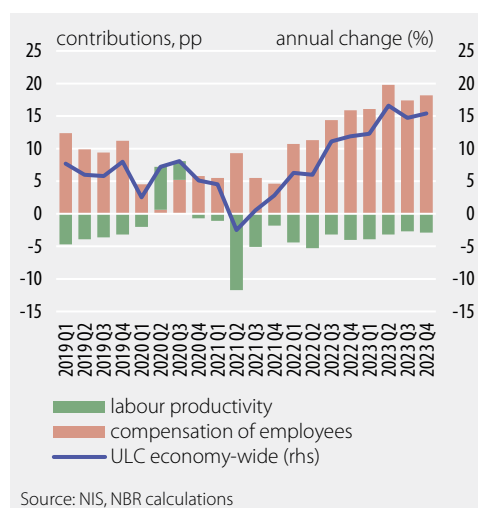


Chart 1.28

Unit labour costs economy-wide

production costs gradually receded over the course of the year as commodity markets eased, yet industrial activity remained sluggish due to the lack of traction of the European economy. As for labour, despite accelerating growth rates of wages, driven *inter alia* by hikes in the minimum gross wage (in January and October-November 2023), layoffs were modest relative to the contraction in output. Fast annual dynamics of unit wage costs (over 20 percent) were seen in several sub-sectors, such as the manufacture of wood, light industry and the manufacture of furniture, the manufacture of other transport equipment, non-metallic mineral products, and fabricated metal products. In the chemical industry, the growth rate slowed down to 8.5 percent compared to 50 percent in 2022, amid some labour force adjustments and a slight recovery in activity. Somewhat less brisk rates of change in unit wage costs (below 15 percent) were recorded in the automotive industry, the manufacture of electronic products, machinery and equipment, and the food and beverage industries (Chart 1.29).

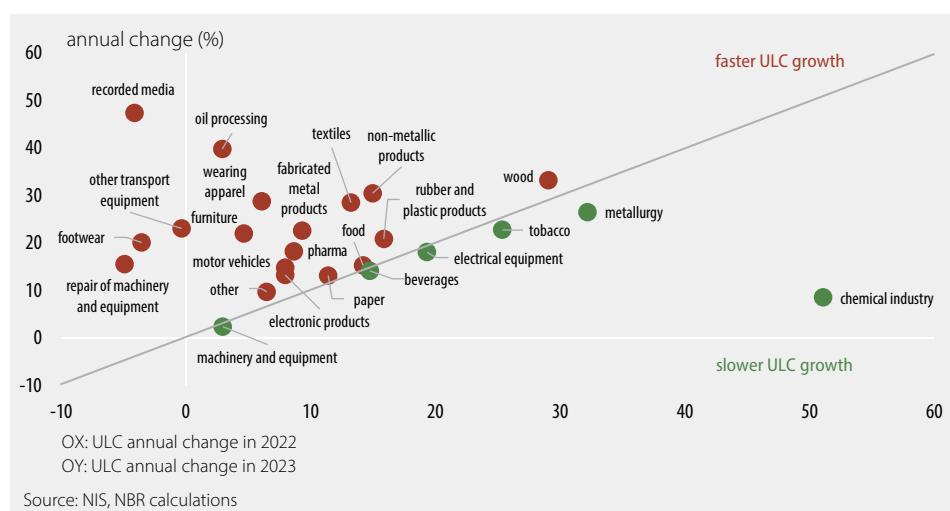


Chart 1.29
Unit wage costs in manufacturing

2.3. Fiscal developments

In 2023, the consolidated general government deficit measured based on ESA 2010 methodology widened to 6.6 percent of GDP (up 0.3 percentage points from 2022), veering off strongly from the 4.4 percent-of-GDP target in the 2023-2026 Convergence Programme set in line with the Council Recommendation of 2 June 2021 with a view to bringing an end to the situation of an excessive government deficit²⁶. The deficit based on the national methodology (cash) narrowed marginally, from 5.8 percent to 5.6 percent of GDP, but in turn markedly exceeded the pre-set target (4.4 percent of GDP as well). The large gap of 1 percentage point between the ESA 2010 and cash-based deficit levels was attributed to two main sources: the inclusion into expenditure under ESA 2010 of payment obligations equivalent to about 0.5 percent of GDP deriving from court sentences (to be paid in instalments over the years ahead), on the one hand, and the reflection in the ESA 2010 execution of a sizeable amount of expenditure incurred in 2023 whose payment was deferred to early 2024, on the other hand.

²⁶ https://economy-finance.ec.europa.eu/document/download/74dfb8cc-eb46-40f4-b773-c251293fd430_en

The fiscal slippage was not unexpected, as serious weaknesses in the initial budget project had been highlighted from the very beginning in the Fiscal Council's Opinion on the State Budget Law for 2023, the Social Security Budget Law for 2023 and the 2023-2025 Fiscal Strategy²⁷. The assessments made by the European Commission show, alongside a worsening of cyclical conditions²⁸, a marginal deterioration of the structural component of the budget deficit that explains the widening of the consolidated deficit in 2023 (Chart 1.30). Considering the substantial increase in interest expenditure as a percentage of GDP (0.5 percentage points), a small adjustment becomes apparent in the structural primary deficit (0.4 percentage points of GDP), far however from the level that a path consistent with the correction of the excessive deficit at end-2024 would have implied. The structural adjustment sources of 2022, i.e. developments in

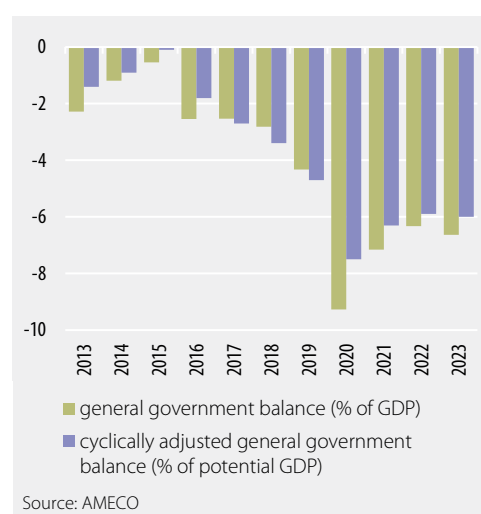


Chart 1.30
Consolidated general
government deficit

the public sector wage bill and intermediate consumption expenditure, both posting at that time lower rates than that of inflation measured by the GDP deflator, no longer acted in this direction in 2023, given that the rises in these expenditure items equalled (in the case of public sector wages) or even outpaced (in the case of intermediate consumption) the still fairly brisk dynamics of nominal GDP (14.6 percent). The stalemate in fiscal consolidation could reflect in the external imbalance as well (for further details, see Box 3).

At end-2023, Romania saw the third highest budget deficit in the European Union (after Italy and Hungary, on 7.4 percent of GDP and 6.7 percent of GDP respectively) and the highest primary budget deficit²⁹ (4.6 percent of GDP), well ahead (0.8 percentage points) of the next two positions, i.e. France and Malta. The size of the deviation from the deficit adjustment path set out in the excessive deficit procedure entailed the formal relinquishment of the objective to bring the budget deficit below the 3 percent of GDP reference value at end-2024, with the 2024-2026 Fiscal Strategy envisaging a revised ESA 2010 deficit target of 4.9 percent of GDP for this year. According to the official medium-term budget projection³⁰, the excessive deficit is expected to be corrected at end-2027. The proposed new deadline, also linked with the updating of the parameters of the excessive deficit adjustment procedure, could be adopted when the European Commission announces the new adjustment path and the latter is formalised in the national medium-term fiscal-structural plan, pursuant to the provisions of the EU's new fiscal governance framework.

²⁷ FC opinion budget 2023 FS 2023-2025.pdf (fiscalcouncil.ro)

²⁸ The European Commission estimates that the aggregate demand deficit grew from 1.3 percent in 2022 to 2 percent in 2023, and hence that the cyclical component of the budget deficit increased from 0.4 percentage points in 2022 to 0.6 percentage points in 2023.

²⁹ The primary deficit does not include interest expenditure.

³⁰ Consistent with the *Report on the macroeconomic situation in 2024 and its projection for 2025-2027*, p. 18 (<https://mfinate.gov.ro/static/10/Mfp/buget2024/proiectbuget2024/Raportbuget2024.pdf> – Romanian only)

The volume of EU funds in transit via the general government budget rose sharply in 2023, to 3.4 percent of GDP versus 2.5 percent of GDP, given that the previous year was the final one when funds under the 2014-2020 multiannual financial framework could be absorbed. However, compared to 2022, general government revenues as a percentage of GDP dropped marginally (0.1 percentage points), while expenditures went up only slightly (0.2 percentage points). Leaving aside EU grants, general government revenues and expenditures as a share of GDP contracted 1 percentage point and 0.7 percentage points respectively, from a year earlier. Developments in revenues and expenditures largely reflect the normalisation of energy prices during 2023, leading to both the fading-out of extraordinary revenues and the decline in subsidies under the electricity and natural gas price capping and compensation scheme in force until end-March 2025.

Tax revenues (including those from social contributions, except for imputed social contributions³¹) expressed as a share of GDP dropped 0.8 percentage points to 25.9 percent in 2023, from 26.7 percent in 2022. The decline in tax revenues was solely ascribable to receipts from taxes on income and wealth (direct taxes), down 0.9 percentage points. Behind the performance of this revenue item stood mainly the dissipation of windfall revenues related to the tax on additional income from the deregulation of prices in the natural gas sector amid the normalisation of such prices EU-wide a year earlier. Other explanatory factors relevant for the developments in direct tax receipts are the significant slowdown in the dynamics of the relevant macroeconomic base for profit tax³² compared to those of nominal GDP, as well as the manner in which revenues from the surcharge on electricity producers are recorded: following the establishment of the contribution to the Energy Transition Fund in September 2022, the related revenues fall under “taxes on production and imports” (indirect taxes), not under “taxes on income and wealth”, as was the case for those related to the surcharge set by Law No. 251/2022, effective until September 2022. By contrast, receipts from social contributions as a percentage of GDP inched up merely 0.1 percentage points, as the dynamics of the wage bill economy-wide³³ surpassed those of nominal GDP. “Taxes on production and imports” as a share of GDP remained unchanged from the prior year, benefiting from the increase in revenues to the Energy Transition Fund (see the above reference to the manner of recording), which offset the fall in VAT receipts as a share of GDP. Finally, non-tax revenues (excluding current and capital transfers from the EU) as a share of GDP saw a 0.3 percentage point contraction, due largely to the decrease in oil royalties amid the normalisation of energy prices.

As for general government expenditures as a share of GDP, their expansion (to 40.2 percent of GDP from 40 percent of GDP) was the result of opposite influences from current expenditures and capital expenditures respectively. The current

³¹ Revenues from social security contributions (ESA 2010 methodology) include “imputed social contributions”, representing the counterpart to unfunded social benefits paid directly by employers, without creating a special fund for this purpose (military pensions are a case in point); the imputed contributions are equal in terms of value to the social security contributions necessary to cover the *de facto* social security contributions, but they are not actual receipts.

³² The gross operating surplus and mixed income component of GDP stood only 11.6 percent higher in 2023, lagging behind the nominal GDP dynamics of 14.6 percent. By contrast, in 2022, this category displayed an increase of 22.2 percent, while that of the nominal GDP was 17.9 percent.

³³ Illustrated by “gross wages and salaries” under the “compensation of employees” component of GDP measured by the income method.

expenditure-to-GDP ratio shed 0.6 percentage points (net of current transfers from the EU in 2022 and 2023, the reduction would be 0.7 percentage points), with notable declines in subsidy expenses (-0.8 percentage points, reflecting the significantly lower transfers related to the energy price capping and compensation scheme amid the gradual normalisation of electricity and natural gas prices over the past year, as well as the expiry of fuel price subsidies at end-2022) and social security spending (-0.5 percentage points). Smaller decreases saw other current transfers (-0.2 percentage points) and social transfers in kind (-0.1 percentage points). Conversely, rises were recorded by interest expenditure (+0.5 percentage points, reflecting increases in funding costs and public debt) and intermediate consumption expenditure (+0.4 percentage points), while staff costs as a percentage of GDP remained unchanged against the prior year. By contrast, the capital expenditure-to-GDP ratio stood 0.8 percentage points higher, due solely to the rise in non-repayable capital transfers from the EU. Looking

at the breakdown, public investment grew by a hefty 0.9 percentage points, whereas capital transfers fell by 0.1 percentage points.

In 2023, the public debt-to-GDP ratio (Chart 1.31) added 1.3 percentage points to 48.8 percent from 47.5 percent in the year before. Behind the rise in the public debt-to-GDP ratio stood the very large primary deficit (4.6 percent of GDP) and the positive stock-flow adjustment, with the increase in public debt stock (by lei 118 billion) exceeding by lei 11.5 billion the ESA 2010 deficit (Chart 1.32). In the opposite direction acted the significant, favourable interest-growth differential, albeit on the wane versus the prior year, on the back of a slower nominal GDP advance and a sizeable rise in the implicit interest rate (calculated as the ratio of interest expenditure to debt stock at the end of the previous year).

In 2023, the share of public debt held by non-residents in total public debt added 1.2 percentage points to 50.85 percent (from 49.62 percent), whereas the share of foreign currency-denominated public debt dropped

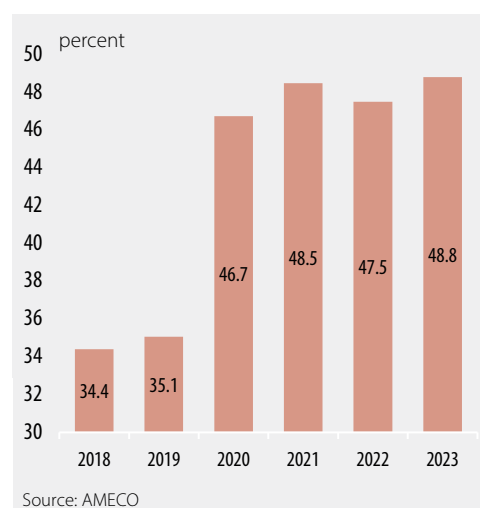


Chart 1.31

Public debt-to-GDP ratio

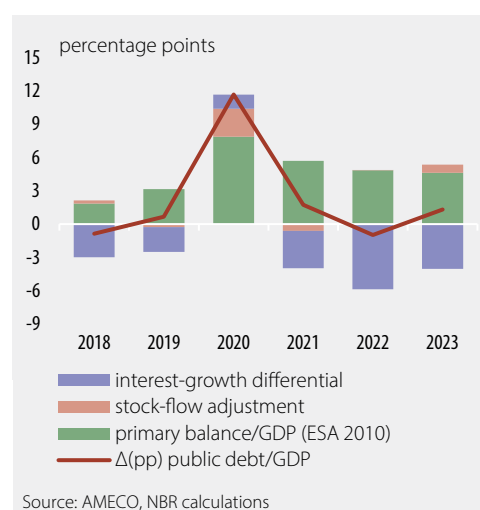


Chart 1.32

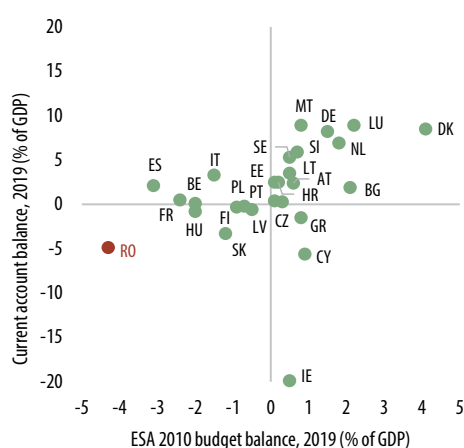
Decomposition of the change in public debt to GDP ratio

markedly by 2 percentage points to 51.8 percent (from 53.8 percent), showing that net financing needs were covered largely by leu-denominated government security issues on the local market amid foreign investors' keener interest. EUR-denominated bonds issued on foreign markets amounted to EUR 6.505 billion and covered a wide range of

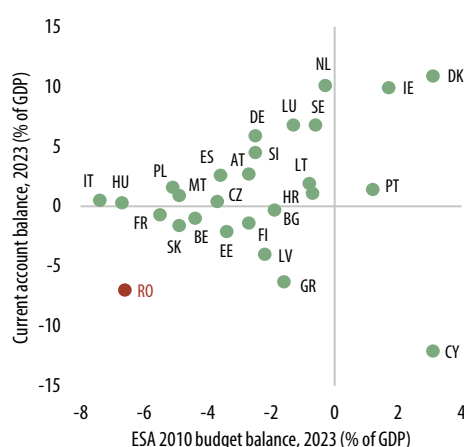
medium- to long-term maturities, i.e. between 3 years (multiple re-openings of an EUR 0.95 billion issue due in September 2026) and 10 years (an EUR 1.75 billion issue due in 2033). Apart from these issues, foreign markets were tapped via issuance of USD-denominated bonds worth USD 4.418 billion (including partial exchanges) with maturities of 5 years (USD 1.568 billion), 10 years (USD 1.6 billion) and 30 years (USD 1.25 billion). Adding to these were the issues denominated in euro on the domestic market in the amount of EUR 1.067 billion, with maturities of between 1 and 3 years, as well as EUR 0.9 billion in drawings on loans under the Recovery and Resilience Facility after the European Commission approved the second payment request. In 2023, the average residual maturity of the public debt stock rose to 7.7 years, against 7.3 years at the end of the previous year.

Chart A

Budget balance and current account balance in EU Member States, 2019



Source: Eurostat, NBR processed data



Source: AMECO forecasts, NBR processed data

Chart B

Budget balance and current account balance in EU Member States, 2023

Box 3. Assessments of the impact of the budget balance on the current account balance

Romania's economy faces a number of large domestic and external disequilibria. Fiscal developments led the European Commission to open the Excessive Deficit Procedure (EDP) in early 2020, calling for a swift start to fiscal consolidation. However, the budget deficit correction was hampered by the simultaneous/successive adverse shocks such as the COVID-19 pandemic or the subsequent mounting of geopolitical tensions. All this also affected the current account deficit, entailing its sizeable widening.

This box aims to highlight in an empirical manner some of the implications that the growth rate of the budget balance has on that of the current account deficit. Specifically, in view of the simultaneous occurrence of the two disequilibria, this study aims to quantify the extent to which a budget deficit widening contributes to the opening of the current account deficit and thus to test the twin deficits hypothesis. A generic analysis focusing on the statistical correlation between the two macroeconomic indicators is pursued rather than a case-by-case approach to assessing how certain fiscal policy decisions impacted the current account deficit.

General considerations on the developments in the budget balance and current account balance

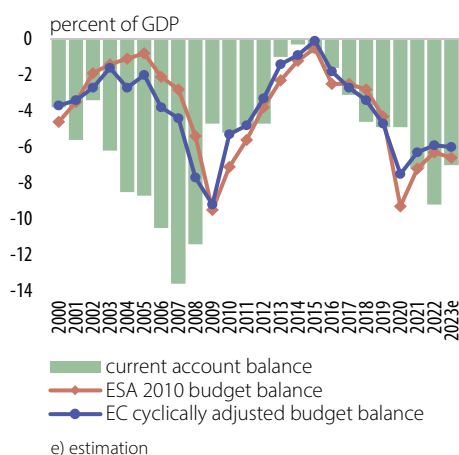
At EU level, Romania is among the countries with the highest current account deficit, alongside a wide negative budget balance. There were large disequilibria even prior to the outbreak of the public health and energy crises (Chart A), which also caused the fiscal positions of other European countries to worsen³⁴ (Chart B).

³⁴

In order to mitigate the adverse impact of these shocks, the authorities introduced large packages of economic support measures (e.g. furloughs, vouchers for socially vulnerable groups, the energy price capping and compensation scheme, etc.).

As far as Romania is concerned, the current account deficit and the budget deficit (especially its cyclically adjusted component³⁵) generally moved in tandem (Chart C).

Throughout the period under review (2000-2023), the two disequilibria were correlated, with the relationship between them being stronger from 2009 to 2020. The unfolding of the EDP from 2009 to 2013, implying budget deficit corrections, added to the fallout of the financial crisis, compounding the current account adjustment.



Source: Eurostat, AMECO, NBR processed data

Chart C

Budget balance and current account balance in Romania

Starting 2016, the progressive deterioration of the fiscal position has also been accompanied by a fast-paced widening of the current account shortfall. This reflected *inter alia* the sizeable fiscal stimulus package implemented by the authorities between 2016 and 2017. Box 5 in the NBR's 2019 *Annual Report* sets forth empirical evidence regarding the impact of fiscal measures on the trade in goods balance, as a driver of the current account deficit opening. The analysis shows that the deficit on trade in goods would have been significantly lower in the absence of fiscal easing measures.

There are, however, episodes when the growth rate of the budget deficit and that of the current account deficit appear to be decoupled. A case in point is the 2021-2022 period, when the fiscal consolidation was accompanied by further aggravation of the external imbalance. Nonetheless, this development is associated with one-off factors independent of the fiscal stance, such as persistent disruptions in global value chains or the energy crisis. The presence of such sporadic episodes does not however invalidate the direct historical relationship between the budget deficit and the current account deficit. Subsequently, in the course of 2023, the adjustment of the external imbalance overlapped with a widening of the budget deficit reflecting also high temporary expenses following court rulings favourable to historical wage claims in the public sector.

Mixed empirical evidence on the relationship between the budget balance and the current account balance

In the literature, the twin deficits phenomenon is analysed starting from a macroeconomic model that captures in a stylised yet realistic manner the interplay between the key macroeconomic variables. The model highlights the mechanisms whereby an increase in budget deficit influences the current account imbalance. For example, a policy to reduce taxation (generally) rises households' disposable income, boosts consumption, including that of imports, and thus causes the current account deficit to widen (in this case, the twin deficits hypothesis would be validated). However, the same fiscal easing policy might equally not change household consumption, given that the currently low taxes, which coexist with a higher budget deficit, create expectations of future tax hikes, fuelling savings in the current period. Therefore, fiscal easing would have no effect on the current account deficit

³⁵ The general government balance adjustment by the influence of cyclical factors seeks to determine the size of the budget balance that would have prevailed should the economy have run at its potential level.

(a phenomenon known in the literature as Ricardian equivalence, which invalidates, in certain conditions, the twin deficits hypothesis).

While there is no clear consensus on the causality between the two indicators, most empirical studies point to an incomplete pass-through of budget balance changes to current account changes, thus validating the twin deficits hypothesis. Abbas *et al.* (2011) assessed, in panel regressions on several non-oil-exporting economies, that an increase (improvement) in the (cyclically adjusted) budget balance by 1 percentage point of GDP leads to an increase (improvement) in the current account balance by 0.3-0.4 percentage points of GDP. Similar values for this sensitivity coefficient were found by Forte and Magazzino (2013) for European countries, the authors reporting a range of 0.3-0.5, but also by Furceri and Zdzienicka (2018), whose panel estimations for a large number of developing economies indicate a value of 0.25, the latter considering only the structural (cyclically adjusted) component of the budget deficit. If the effects stemming from shocks on the discretionary fiscal policy stance, approximated by the impact of fiscal consolidation measures, are quantified, as suggested by Bluedorn and Leigh (2011), or interpreted as forecast errors, as Furceri and Zdzienicka (2018) do, these coefficients reach higher values of between 0.6 and 0.8.

Bussière *et al.* (2004) identify a relatively low short-term effect of a 1 percentage point improvement in the budget balance on the current account balance, assessed at around 0.1 percentage points, and an estimated long-term impact of around 0.2-0.4 percentage points for a sample of 21 OECD countries for the 1960-2003 period. Copaciu and Răcaru (2006) also confirmed these results for a group of OECD countries and Central and Eastern European economies, Romania included. Nickel and Vansteenkiste (2008) show that the relationship between the current account balance and the budget balance turns to be not significant for the countries with a high public debt-to-GDP ratio (above 90 percent), as households become Ricardian, boosting their current savings in anticipation of future tax hikes. However, there are authors who pointed to a bidirectional causality between the two imbalances (Bölükbaş *et al.*, 2018), yet such a conclusion is not the subject of this analysis. The various results in the literature could also be explained by the factors behind the pass-through of fiscal shocks to the current account balance, such as the position of the economy within the business cycle, the exchange rate regime or the level of public debt.

Quantitative assessments

An annual panel data set was used to quantify the impact of the budget balance on the current account balance. The period under review is 2000-2022, ensuring a sufficiently large number of observations. Estimations were based on a sample of nine countries in Central and Southeast Europe: Romania, Czechia, Poland, Hungary, Estonia, Lithuania, Latvia, Slovakia and Slovenia. In line with the assessments made by Abbas *et al.* (2011) and Furceri and Zdzienicka (2018), the effect from the (cyclically adjusted) budget balance was investigated to more accurately reflect the discretionary fiscal stance. The choice of this indicator over the headline measure is indicative of the need to address the issue of endogeneity (as aggregate demand shocks are expected to be correlated with the budget balance).

The estimated equation is:

$$CA_{it} = \beta * \text{Cyclically adjusted budget balance}_{it} + \text{control variables}_{it} + \theta_t + \delta_i + \varepsilon_{it},$$

where:

CA_{it} – current account balance (percent of GDP) of a country i in year t ;

$\text{Cyclically adjusted budget balance}_{it}$ – cyclically adjusted budget balance (percent of GDP) of a country i in year t ; this variable is included, as appropriate, in some specifications also with a lag (e.g., previous year's value, $t - 1$);

$\text{control variables}_{it}$ – depending on the specification, the following variables are used alternatively: (i) real GDP dynamics, (ii) change in unit labour costs (ULC), (iii) degree of openness of the economy (share of imports and exports of goods in GDP), (iv) dynamics of real effective exchange rate (ULC-based REER), and (v) gross fixed capital formation in the private sector (percent of GDP);

θ_t, δ_i – fixed time and country effects; and

ε_{it} – residual term.

Empirical evidence for the countries under review shows, on average, a contemporaneous impact of the improvement in the cyclically adjusted budget balance by 1 percentage point of GDP on the current account balance in the range of 0.2-0.3 percentage points, depending on the chosen specification. The effect reaches around 0.4-0.5 percentage points over the medium term in two years by summing up the coefficients of the cyclically adjusted budget balance in period t and the previous period, $t - 1$ – specifications (4) and (5) in Table A³⁶. The results are statistically significant in all model specifications.

Explanatory variables/Dependent variable: Current account balance	(1)	(2)	(3)	(4)	(5)
Cyclically adjusted budget balance	0.32*** [3.62]	0.34*** [4.78]	0.33*** [4.44]	0.26*** [3.07]	0.23** [2.32]
Cyclically adjusted budget balance ($t - 1$)				0.16* [1.86]	0.26*** [3.55]
Δ real GDP	-0.36*** [-3.35]		-0.10 [-3.12]		
Δ ULC	-0.15*** [-3.35]	-0.10*** [-3.12]			
Degree of openness of the economy		-0.04* [-2.04]	-0.04* [-1.89]	-0.04* [-2.00]	-0.06** [-2.71]
Δ REER			-0.10*** [-2.95]	-0.10*** [-2.95]	-0.12*** [-3.89]

Table A

Results of the estimations for the impact of the budget balance on the current account balance

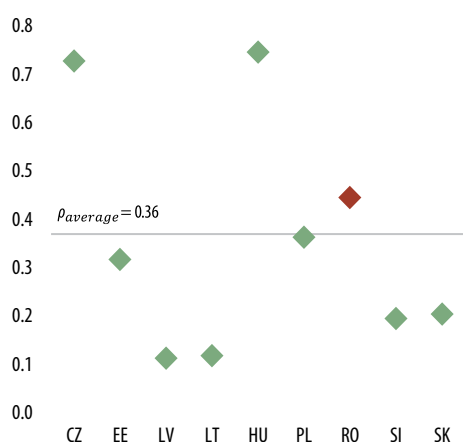
³⁶ For the specification in column 5 of Table A, the 2021-2022 period corresponding to the global inflationary shock, which led to a significant appreciation of the real effective exchange rate, was excluded.

– continued –

Explanatory variables/Dependent variable: Current account balance	(1)	(2)	(3)	(4)	(5)
GFCF – private sector		-0.77*** [-8.71]	-0.74*** [-7.99]	-0.74*** [-7.62]	-0.77*** [-8.48]
R^2	0.73	0.81	0.81	0.81	0.83

*) $p < 0.10$; **) $p < 0.05$; ***) $p < 0.01$ Note: Δ is the annual dynamics of a variable. t statistics are shown in parentheses.

Source: NBR assessments based on AMECO and Eurostat data



Source: AMECO, NBR calculations

Chart D

Correlation coefficients between the cyclically adjusted budget balance and the current account balance from 2000 to 2022

The above-described impact reflects an average value, conditional on the characteristics of the economies under review. The incorporation of fixed country effects is intended to mitigate the country specificities of current account balances. Nevertheless, the question arises whether, in the case of Romania, a different magnitude of current account sensitivity to budget balance changes is justifiable.

Chart D shows the correlation coefficients between the cyclically adjusted budget balance and the current account balance for each country in the analysis. For comparability with previous empirical evidence, the 2000-2022 period was chosen. For Romania, this coefficient is marginally higher than the average of the correlation coefficients of the economies under review (0.45 versus 0.36). Under the circumstances, worth

noting is that the previously assessed effects (0.2-0.3 contemporaneous effect and 0.4-0.5 over two years) may be somewhat stronger for Romania's economy.

To sum up, the estimated models confirm the direct relationship between the two variables. Specifically, an increase in budget deficit is expected to bring about a worsening of the current account deficit. Similarly to the results in the literature, this box also pointed out that the pass-through of medium-term fiscal shocks is below one over a two-year horizon, with nearly half of the opening of the structural budget deficit reflecting in a wider external imbalance.

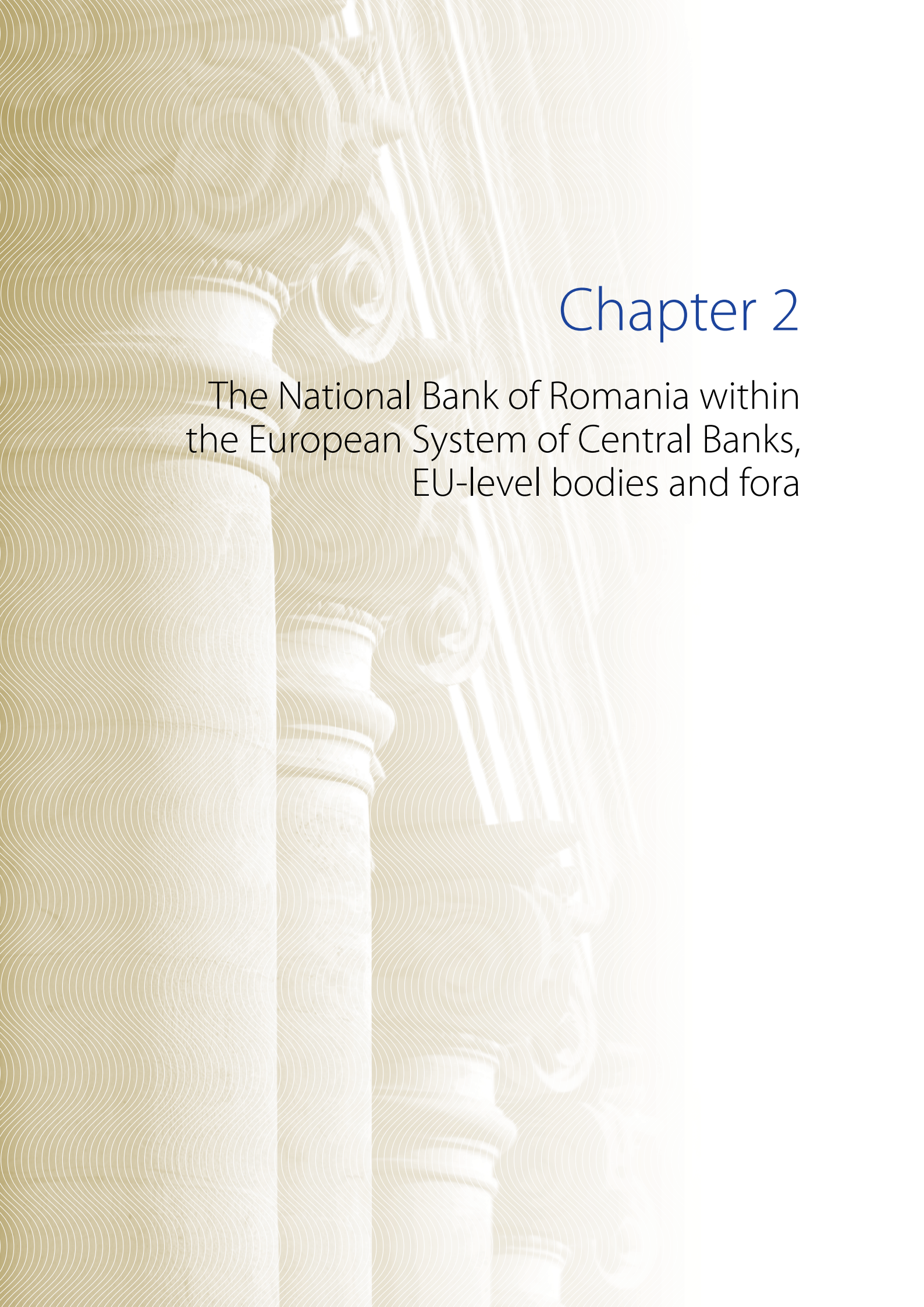
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Chapter 2

The National Bank of Romania within
the European System of Central Banks,
EU-level bodies and fora

Romania's membership to the European Union involves, *inter alia*, the participation of national institutions and authorities, including the National Bank of Romania, in EU-level bodies and fora, in line with the particulars of their activity. Specifically, the National Bank of Romania is a member of the European System of Central Banks (ESCB), alongside the European Central Bank and the national central banks (NCBs) in the other EU Member States. The organisation, objectives and tasks of ESCB are set out in the Treaty on the Functioning of the European Union ("the Treaty") and in the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, annexed to the Treaty.

The primary objective of the ESCB is to maintain price stability, according to Articles 127(1) and 282(2) of the Treaty. Without prejudice to the objective of price stability, the ESCB supports the general economic policies in the Union, with a view to contributing to the achievement of the objectives of the Union.

The framework of the NBR's activity is well defined by the EU legislation, which puts emphasis on the respect of the NCBs' independence, a concept that covers four types of independence, i.e. functional, institutional, personal and financial. The principle of the NCBs' independence is laid down in Article 130 of the Treaty, specifically: "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks".

Pursuant to Article 131 of the Treaty, each Member State shall ensure that its national legislation including the statutes of its national central bank is compatible with the Treaties and the Statute of the ESCB and of the European Central Bank.

1. NBR participation in European structures

The NBR participates, through its representatives, in the meetings and procedures of various working structures and substructures of European bodies, as referred to below. In 2023, there was a noticeable increase in the share of in-person meetings of these working structures and substructures compared to 2022, yet most meetings were still held remotely, with the latter remaining the preferred format.

1.1. Participation in the ECB General Council meetings

The NBR Governor attends the quarterly meetings of the ECB's General Council. This analysis and decision-making body had on the 2023 agenda topics covering: (i) the regular macroeconomic analyses and reviews of key monetary, financial and fiscal developments both within and outside the euro area; (ii) issues related to developments in EU exports in the wake of the pandemic, the outbreak of the war in Ukraine and of the energy crisis, (iii) compliance by the ESCB members with the provisions of Articles 123 and 124 of the Treaty, stipulating the prohibition of monetary financing and privileged access, (iv) the key elements of the ECB's 2022 climate risk stress test of the Eurosystem balance sheet, (v) the implications for financial stability and the overall economy of the lack of insurance against natural catastrophes, and (vi) the impact of climate change and the green transition on the ECB's mandate.

1.2. NBR participation in the enlarged meetings of ESCB structures and substructures

As regards the decision-making mechanism at operational level, the NBR representatives attend the enlarged meetings of the ESCB committees, contributing to the preparation and implementation of the ECB General Council and Governing Council decisions. These structures, along with the relevant ESCB substructures, ensure a framework for assessment and decision-making according to their fields of competence. The NBR Board attaches particular attention to the central bank's participation in the ESCB structures and substructures by closely monitoring any related issues.

1.3. NBR participation in the European Systemic Risk Board

The NBR is represented in the quarterly meetings of the General Board of the European Systemic Risk Board (ESRB) by the NBR Governor, as a member with voting rights, along with a Deputy Governor, as a member without voting rights.

In 2023, the activity of the ESRB further focused on identifying, monitoring and assessing the risks to financial stability, specifically related to: (i) non-bank financial intermediation; (ii) crypto-assets and decentralised finance; (iii) climate risk monitoring; (iv) vulnerabilities of the real estate sector; (v) investment funds; (vi) interest rate increases; (vii) the European Banking Authority 2023 Stress Test. Over the course of last year, the ESRB issued one recommendation regarding the Portuguese notification of its intention to set a sectoral systemic risk buffer rate in accordance with Article 133 of Directive 2013/36/EU.

At a technical level, NBR's experts participated in the meetings of the ESRB working structures, including the Advisory Technical Committee.

1.4. NBR participation in the working structures and substructures of the European Banking Authority

The NBR, as the regulatory and supervisory authority for the banking sector in Romania, is a member of the European Banking Authority (EBA), an independent EU authority whose objective is to ensure effective and consistent prudential regulation

and supervision across the EU banking sector. The NBR takes part in the EBA's decision-making process and working structures, namely the Board of Supervisors, the Resolution Committee, in standing committees and their substructures³⁷, as well as in supervisory and resolution colleges.

1.5. NBR participation in structures of the EU Council and of the EC

The meetings of the working structures and substructures of the EU Council and the EC were held both online and in person, with the latter accounting for a somewhat larger share. NBR representatives at different hierarchical levels participated in such meetings of the working structures and substructures, among which worth mentioning are:

- the meetings of the Economic and Financial Committee, which are attended by an NBR Deputy Governor;
- the meetings of various working structures and substructures³⁸ of the EU Council and the EC, whose agendas are closely connected with the central bank's fields of competence, in which they participated along with representatives from the Ministry of Public Finance and/or other government institutions.

Moreover, in 2023, the NBR assisted the Ministry of Finance in preparing for the participation of the Minister of Finance in the meetings of the Economic and Financial Affairs Council (ECOFIN)³⁹, as well as the Ministry of Foreign Affairs, in preparing for the participation of Romania's representative to the European Council, by providing position papers or background information⁴⁰ to aid in formulating Romania's stance within these European fora.

1.6. NBR participation in the process of transposing, implementing and notifying EU legislation

a) Transposing and implementing EU regulations

EU regulations are binding in their entirety and directly applicable in all Member States and thus do not have to be transposed into national law. The NBR, in its capacity as an institution with regulatory and supervisory tasks, checks the

³⁷ The Standing Committee on Regulation and Policy; the Standing Committee on Accounting, Reporting and Auditing; the Standing Committee on Payment Services; the Standing Committee on Anti-Money Laundering and Countering Terrorist Financing; the Standing Committee on Supervision, Risk and Innovation; the Subgroup on Ongoing Supervision; the Subgroup on Securitisation and Covered Bonds; the Subgroup on Governance and Remuneration; the Subgroup on Liquidity; the Subgroup on Resolution Planning Preparedness; the Subgroup on Resolution Execution; the Task Force on Stress Testing; the Working Group on Valuation; the Task Force on Impact Studies; and the Task Force on IT Risk Supervision.

³⁸ The Financial Services Committee; the Working Party on Financial Services and the Banking Union; the Committee on Monetary, Financial and Balance of Payments Statistics; the Expert Group on Banking, Payments and Insurance; the Expert Group on Money Laundering and Terrorist Financing; the Government Expert Group on Retail Financial Services; the Ad Hoc Working Party on the Strengthening of the Banking Union; the Euro Counterfeiting Experts Group, etc.

³⁹ At the the two meetings of ECOFIN informal, organised by the Member States holding the rotating Presidency of the EU Council in 2023, the NBR was represented by a Deputy Governor and a Director.

⁴⁰ For instance, on topics such as the legislative digital euro package and strengthening the bank crisis management and deposit insurance framework.

EC database (Eur-lex) on a regular basis, to track any newly adopted EU regulations applicable to its scope of activity. The list of these regulations is sent to the Ministry of Foreign Affairs and is posted on the central bank's website, with a view to properly informing the entities under the NBR's regulatory/supervisory scope.

b) Informing the EC about the transposition of EU legislation

In 2023, the NBR, alongside other competent institutions, was involved in transposing the following directives:

- Directive (EU) 2021/2101 of the European Parliament and of the Council of 24 November 2021 amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches;
- Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting;
- Directive (EU) 2022/2556 amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341 as regards digital operational resilience for the financial sector;
- Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU.

Moreover, during the period under review, the NBR submitted to the Ministry of Foreign Affairs – so that the latter may duly notify the Commission – the transposition legislation and the compliance tables related to the provisions of Directives also within the NBR's field of competence.

1.7. NBR participation in the joint working platform with government authorities on European affairs

In line with its statutory tasks related to the *ex ante* advisory role played in the institutional relations with government authorities, the NBR is represented in the meetings of the Coordination Committee of the National System for the Management of European Affairs⁴¹. The Committee is in charge of preparing the decisions and formulating Romania's stance with regard to European affairs.

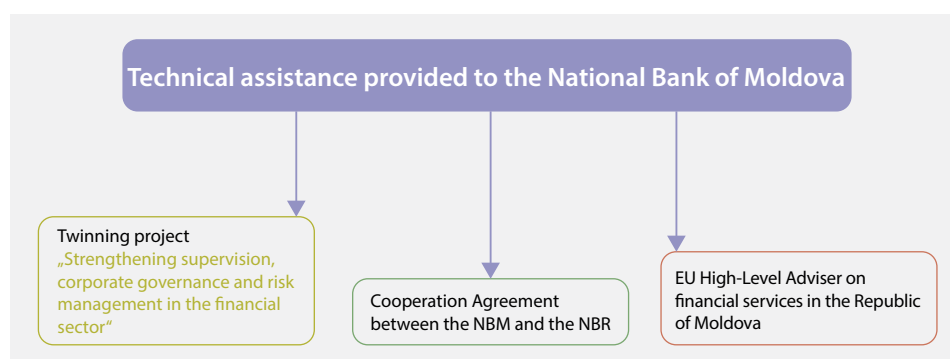
⁴¹ The Committee operates under the leadership of the Secretary of State for European Affairs at the Ministry of Foreign Affairs.

2. Technical assistance provided and received by the National Bank of Romania

Following Romania's accession to the EU and the NBR's integration in the European System of Central Banks, the central bank entered a new stage of international technical cooperation, moving from recipient to provider of technical assistance to central banks in candidate and potential candidate countries, as well as in other EU neighbouring countries. Moreover, considering the constantly changing economic environment in which topics such as the green and digital transitions are highly relevant and call for continuous transformation and updating of the financial sector as well, the NBR benefits from technical expertise under the new EU programme entitled "Technical Support Instrument".

2.1. Technical cooperation between the NBR and the National Bank of Moldova (NBM)

The NBR provides technical assistance through partnerships with other ESCB members, as well as bilaterally, based on requests from the beneficiary central banks. The cooperation with other NCBs in the ESCB, but also with the ECB and the European Commission (EC), focuses on implementing EU-funded technical assistance projects, among which institutional twinning projects⁴² hold a significant part.



The relation with the NBM stands out among NBR's technical cooperation activities and includes notably technical assistance provision under the twinning project entitled "Strengthening supervision, corporate governance and risk management in the financial sector" – MD 20 ENI FI 01 21R2 (MD/36), dedicated to the financial sector in the Republic of Moldova and implemented by a consortium consisting of National Bank of Romania (project leader), De Nederlandsche Bank and Lietuvos bankas (junior partners), with the support of the Financial Supervisory Authority and the National Authority for Consumer Protection in Romania. With a budget of EUR 1,726,355.44 and a 30-month implementation period⁴³, the project started on 18 October 2021.

⁴² Twinning is an instrument for cooperation between public administrations of EU Member States and beneficiary countries (candidate countries and potential candidates to EU membership, as well as countries covered by the European Neighbourhood Policy).

⁴³ <https://www.bnr.ro/page.aspx?prid=24080> (Romanian only)

Its general objective was to support the Republic of Moldova in implementing reforms related to the Association Agreement between the European Union and the Republic of Moldova/the Deep and Comprehensive Free Trade Area (DCFTA) Agreement and the Association Agenda, by providing assistance so as to strengthen supervision, corporate governance and risk management in the Moldovan financial sector.

The beneficiaries of the twinning project were the National Bank of Moldova and the National Commission for Financial Markets in the Republic of Moldova. The areas covered by the project referred to the macroprudential framework, the legal framework for the supervision of the insurance sector and the motor third-party liability insurance sector, the supervision of non-bank credit institutions, the oversight of financial market infrastructure and payment services, and the preparation of the application procedure for SEPA membership as a non-EEA (European Economic Area) member.

The twinning project was conducted from 18 October 2021 to 17 April 2024. It benefited from the expertise of a senior project leader, two junior project leaders, a resident twinning advisor seconded to the Republic of Moldova, 53 short-term experts, and 4 component coordinators. Assistance was provided through 139 working missions with experts from the beneficiary institutions, totalling approximately 1,000 person-days, and 15 study visits to Romania and Lithuania.

In January 2023 – April 2024, several activities took place under the twinning project:

- On 6 December 2023, an in-person conference entitled *Alignment with EU payment security standards in the digital age* was held in Chişinău. The event covered the main developments in the field of payment system security, the best practices for implementing payment security measures in the digital environment, as well as the requirements for payment security and continuity, and the benefits, efforts, and progress achieved so far in the twinning project. At the opening of the conference, the Governor of the BNM, the Director of the NBR's International Relations Department, the Programme Manager from the Delegation of the European Union to the Republic of Moldova, and a State Secretary from the Ministry of Economic Development and Digitalisation of the Republic of Moldova delivered speeches. The conference provided an opportunity to present key topics related to the security of payments, as financial transactions, particularly payment transactions, are a fundamental part of economic relations. The alignment of the Republic of Moldova with EU standards in the area of security of digital payments is an important step in strengthening its position in the European and global financial landscape, contributing to the economic integration of the country and to the creation of a safe, innovative, and sustainable financial environment for all stakeholders.
- The closing conference of the project was held in Chişinău on 19 March 2024. At the opening of the conference, the Governor of the NBM, the President of the National Commission for Financial Markets (NCFM) of the Republic of Moldova, a Deputy Governor of the NBR, a Deputy Chair of the Board of the Bank of Lithuania, the Deputy Head of the Cooperation Section of the EU Delegation to the Republic of Moldova, the junior project leader from the Central Bank of the Kingdom of the Netherlands, and the President of the Romanian Financial Supervisory Authority delivered speeches. The official part

of the event continued with a session of presentations, reviewing the efforts, progress and results achieved under the project, but also their impact on the Moldovan financial sector.

The project's half-yearly work plans, the Communication and Outreach Plans and the Quarterly Progress Reports were drawn up and approved at the meetings of the Project Coordination Committee. Additionally, 80 technical assistance missions were conducted, covering all project components, with a total of 534.5 person-days.

Thirteen study visits by experts from the NBM and the NCFM were organised at the NBR, the Financial Supervisory Authority, and the Bank of Lithuania to exchange experience and share best practices in the areas related to the supervision of non-bank credit institutions, the oversight of financial market infrastructure and payment services, the preparation of the application procedure for SEPA membership, the strengthening of the macroprudential framework, and the supervision and regulation of the insurance sector.

Another pillar of the technical assistance provided to the National Bank of Moldova is the Cooperation Agreement between the NBM and the NBR, signed in Bucharest on 11 June 2021. This aims to develop and expand the cooperation between the two central banks, including via the exchange of information, in order to foster the safety and smooth functioning of the financial and banking systems of the Republic of Moldova and Romania. Under this Agreement, several requests for exchange of information were submitted over the course of 2023 by both the NBM and the NBR, covering the entities registered in the Republic of Moldova that are part of Romanian banking groups, as well as the NBM's tasks regarding the licensing, supervision and regulation of the activity of banks in the Republic of Moldova.

Furthermore, given the constant support provided to the NBM for aligning with EU standards and practices in all areas of activity, two study visits by NBM representatives took place in 2023. Their aim was to acquire more in-depth knowledge of the NBR's experience with the organisational structure of the resolution authority and to adopt the best practices in this area. They focused on how the activities of NBR divisions tasked with document management, physical and electronic archiving of documents and protocol were organised and conducted.

Moreover, from December 2023 to December 2024, the NBR is providing technical assistance to the NBM, the NCFM and the Government of the Republic of Moldova in the area of financial services, via a European Union High Level Adviser to the Republic of Moldova.

Starting in 2023, the NBR and the NBM have also cooperated in the field of academia, alongside the Bucharest University of Economic Studies (BUES) and the Academy of Economic Studies of Moldova (ASEM), with a view to organising the "School of Modern Finance" programme on a biannual basis for ASEM undergraduate and graduate students. The first two editions were organised in July and September 2023, with participants sharing the knowledge gained through the programme via presentations on financial and banking topics delivered in rural localities across the Republic of Moldova.

2.2. NBR participation in other technical cooperation projects

In its capacity as an ESCB member, the NBR takes part in technical cooperation activities, providing technical assistance to central banks in candidate countries and potential candidate countries to EU membership, as well as in other EU neighbouring states or countries in the IMF/WB constituency, which Romania is part of. The Working Group on Central Bank Cooperation, a structure created under the auspices of the International Relations Committee, coordinates technical cooperation within the ESCB.

The second phase of the Regional technical assistance programme for central banks in Western Balkans continued throughout 2023. The NBR participates in this programme with experts in the areas of financial stability, monetary policy and research, information technology⁴⁴, legal affairs, human resources and bank resolution. Furthermore, the NBR takes part in the quarterly programme coordination meetings, having representatives in four such meetings during 2023 (the September 2023 quarterly meeting was hosted by the NBR in Bucharest). In addition, in 2023, the NBR provided technical assistance under the bilateral measure directed toward the supervisory agencies of Bosnia and Herzegovina, through the participation of representatives from the Financial Stability Department as speakers.

Moreover, the NBR collaborates with the Central Bank of the Republic of Turkey under the 2018 Memorandum of Understanding regarding several specific activities aimed at enhancing the exchange of information and the cooperation between the two central banks. Specifically, 2023 saw an exchange of experience in the area of internal audit, which took place in virtual format during a meeting held in November. Moreover, exchanges of experience were conducted by correspondence in the area of valuables protection.

2.3. Technical assistance received by the NBR under the European Commission's Technical Support Instrument

The Technical Support Instrument (TSI) is the EU programme that provides tailor-made technical expertise to EU Member States to design and implement reforms at national level. The main reform areas covered by the TSI include primarily the green and digital transitions, the governance and public administration, the financial sector, and the access to finance. The total budget allocated for the period 2021-2027 is EUR 864 million.

The expertise provided by the European Commission does not require co-financing from Member States, but the success of the support largely depends on the involvement and accountability of Member States' authorities. In many cases, technical support is provided by teams composed of external providers and EC experts (from DG REFORM and/or other EC services), who step in on a case-by-case basis in a tailored manner.

The Commission's calls for projects primarily focus on flagship initiatives at European level that address much-needed reforms in different Member States and align with

⁴⁴ In April 2023, the NBR contributed a speaker from the Financial Market Infrastructures and Payments Oversight Department to the seminar organised by the Bulgarian National Bank on the topic of information technology.

key EU priorities, but also on the collaboration between Member States through multi-country projects that promote mutual learning, exchange of best practices and cooperation between Member States' authorities.

Projects are selected based on criteria that cover such issues as: urgency, breadth and depth of the challenges identified; support needs in respect to the policy areas concerned; analysis of socio-economic indicators as well as the overall institutional and administrative capacity of the requesting Member State; principles of transparency, equal treatment and sound financial management.

In 2023, the NBR participated in two projects under this instrument, namely the "ESG Risk Management Framework for the Financial Sector" in a multi-country format and the "EU Supervisory Digital Finance Academy", both of which are ongoing. Moreover, in 2023, the EC selected two additional projects for the 2024 call in which the NBR is also a participant, namely "Capacity enhancement for CCPs authorisation, supervision, recovery, and resolution" (a joint proposal by the Financial Supervisory Authority and the NBR, in a multi-country format alongside Croatia, Greece, Poland and Portugal), and "Operationalisation of the transfer strategies for banking resolution" (a multi-country project involving Romania and Hungary, with the NBR as the coordinating authority).

These far-reaching projects address important issues for the NBR, given the specificity and novelty of the topics concerned, for instance in the Digital Academy (topics related to cyber security, digital operational resilience, artificial intelligence and machine learning), or their complexity, as seen in the other projects that have, on the one hand, a multi-country format and, on the other hand, an inter-institutional and inter-departmental approach across the structures involved in their implementation.

3. Developments in economic, financial and banking policies at European level

Throughout 2023 and in the first part of 2024, the NBR continued to be actively involved in and contribute to the discussions at the EU level in the broader context of deepening the Economic and Monetary Union and completing the Banking Union and the Capital Markets Union. Moreover, the NBR took part, in accordance with its tasks, in the phases of the 2023 European Semester and 2024 European Semester.

At the EU level, economic and financial activities throughout 2023 focused on the immediate priorities of promoting the four dimensions of competitive sustainability, namely: environmental sustainability, productivity, fairness, and macroeconomic stability. At the same time, an ongoing concern at the EU level over the past year has been to continue ensuring support to Ukraine in the face of Russia's aggression, complemented by actions and measures in response to the conflict between Israel and Hamas in the Gaza Strip, starting in late October 2023.

Particularly important for managing the negative effects generated by the pandemic was the support coordinated at the EU level via the EU Multiannual Financial Framework

for 2021-2027 and the “Next Generation EU” (NGEU). According to the information published by the EC⁴⁵ in February 2024, Romania will receive a total of EUR 13.6 billion in grants and EUR 14.9 billion in loans under the key instrument at the heart of NGEU, i.e. the National Recovery and Resilience Plan (NRRP).

3.1. The European Semester

The 2023 European Semester, an integral part of the EU economic governance concept, started on 22 November 2022, when the European Commission released the Communication on the Annual Sustainable Growth Survey 2023 (ASGS)⁴⁶. In May 2023, in the context of the 2023 European Semester, the EC published the Country Reports, along with the country-specific recommendations (CSRs).

Considering the priority actions put forward by the EC in the ASGS 2023 and the NRRP provisions, the Romanian authorities prepared and submitted to the Commission the 2023 National Reform Programme (NRP) and the Convergence Programme for 2023-2026.

The NBR participated in the preparation of the NRP by providing information on the proposed actions and measures within its scope and contributing to the drafting of progress reports on their implementation. As regards the Convergence Programme, the NBR’s contribution to this programme document of the Romanian Government has traditionally consisted in the section on the monetary and exchange rate policies.

The 2024 European Semester started on 21 November 2023, with the launch of the Commission’s ASGS for 2024. For the current cycle of the European Semester, the EC will publish the Country Reports and the country-specific recommendations in June 2024. Romania is also subject to the annual Macroeconomic Imbalance Procedure⁴⁷ (MIP) and, in the first stage, underwent an in-depth review (IDR), whose findings were published on 25 March 2024. In the context of preparing the IDR under the MIP, EC representatives also held technical meetings with NBR experts.

3.2. Developments in policy initiatives at the EU level

In 2023 and in the first part of 2024, negotiations were concluded between the European co-legislators on a number of legislative proposals, *inter alia*: (i) the Digital Operational Resilience Act (DORA), (ii) the Regulation on Markets in Crypto-Assets (MiCA), (iii) the Instant Payments Regulation, (iv) the Regulation establishing a European green bond standard, (v) the Daisy Chains proposal, a targeted amendment of the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation to introduce specific adjustments aimed at improving the resolvability of credit institutions, (vi) the Basel III package, and (vii) the Anti-Money Laundering and Countering the Financing of Terrorism legislative package.

⁴⁵ https://commission.europa.eu/publications/recovery-and-resilience-facility-country-snapshots_en

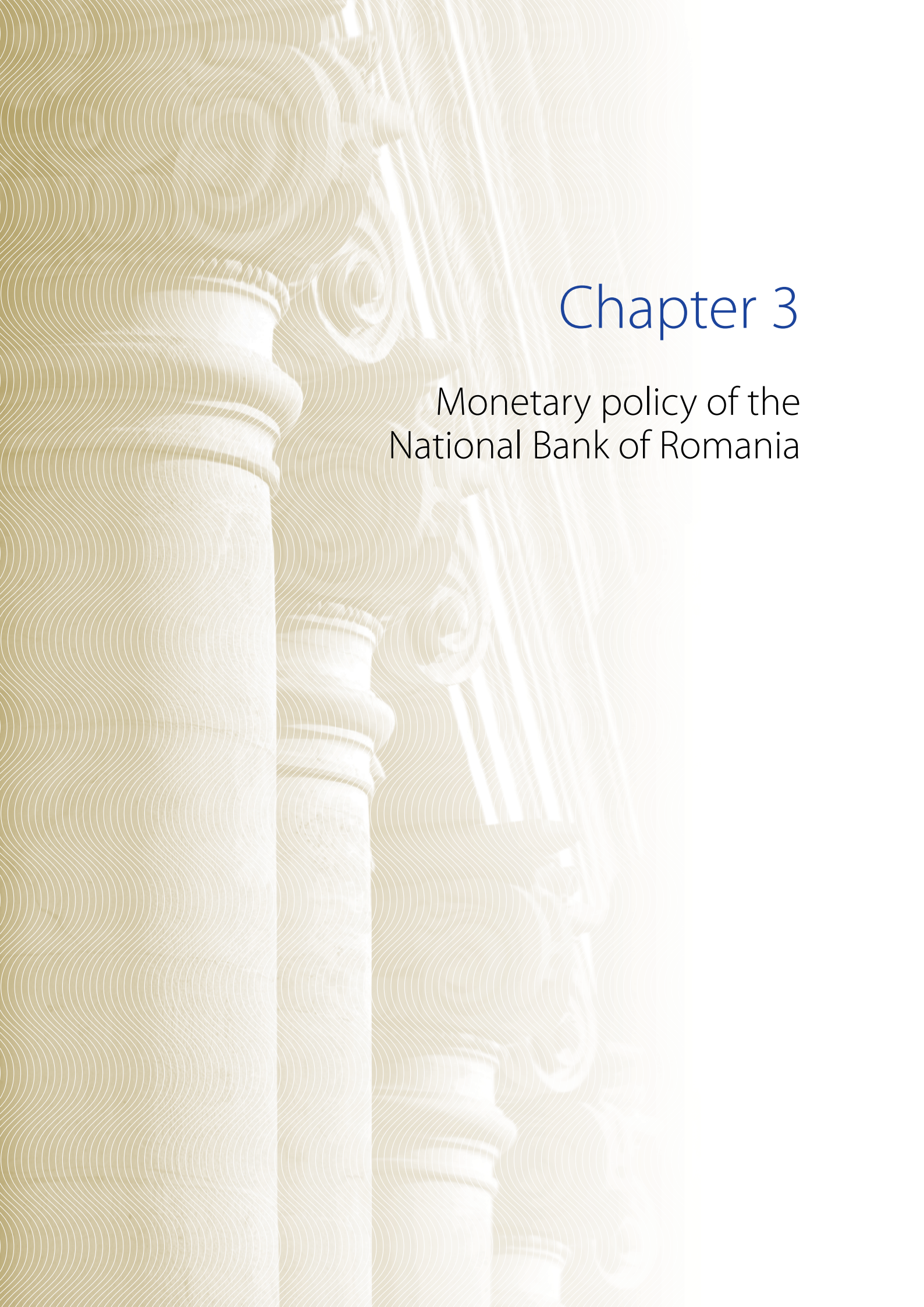
⁴⁶ Puts forth the overall economic and social priorities at the EU level for the coming year.

⁴⁷ The MIP is a procedure aimed at identifying potential risks at an early stage, preventing the emergence of harmful macroeconomic imbalances, and correcting imbalances that have already materialised.

Regarding the new legislative proposals launched by the European Commission in 2023 that fall within the remit of the central bank, worth mentioning are:

- The review of the bank crisis management and deposit insurance (CMDI) framework – the package includes: (i) amending the framework for the recovery and resolution of credit institutions and investment firms; (ii) amending deposit insurance schemes; (iii) establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms;
- The proposal for a Directive on payment services and electronic money services in the Internal Market and the proposal for a Regulation on payment services in the internal market, aimed at ensuring that the financial sector is adapted and continues to adapt to the digital transformation. The proposals seek to improve harmonisation across Member States in the implementation of the *acquis* in this field, increase the competitiveness of open banking services, improve access for payment institutions to payment systems and accounts, and strengthen consumer protection against fraud when using modern payment systems;
- The revision of the Benchmark Regulation, which sets out to simplify the rules for citizens and businesses at the EU level;
- The EMIR/CCP review, aimed at supporting clearing services and creating a safe and resilient clearing system by strengthening the supervisory framework for central counterparties (CCPs);
- The single currency package, which comprises: (i) a legislative proposal on the legal tender of euro cash to safeguard the role of cash, ensure that it is widely accepted as a means of payment and remains easily accessible for citizens and businesses across the euro area, and (ii) a legislative proposal establishing the legal framework for a possible digital euro, as a complement to euro banknotes and coins.

NBR representatives participate at a technical level in the dedicated EU Council working parties, set up to discuss these legislative proposals.



Chapter 3

Monetary policy of the National Bank of Romania

1. Policy objective

In compliance with its Statute⁴⁸, the primary objective of the National Bank of Romania is to ensure and maintain price stability, which is the best contribution monetary policy – i.e. the key task of the monetary authority – can make to lasting economic growth. The NBR designs and implements monetary policy in the context of inflation targeting⁴⁹, characterised by a flat inflation target of 2.5 percent $\pm$ 1 percentage point⁵⁰, compatible with the definition of medium-term price stability for the Romanian economy.

In the specific context of 2023, monetary policy was geared towards bringing, on a lasting basis, the annual inflation rate back in line with the flat target over the medium term, *inter alia* by anchoring inflation expectations in the medium to long run, in a manner conducive to achieving sustainable economic growth. The aim implicitly was to pave the way for curbing the annual inflation rate over the longer term to a level compatible with the ECB's quantitative definition of price stability.

2. Policy decisions

The macroeconomic and financial environment of 2023 remained challenging and marked by mixed developments, given the overall effects that the sizeable global supply-side shocks that had occurred in previous years⁵¹ generated domestically and in Europe/worldwide, as well as amid the economic policies and measures taken by the authorities in response thereto.

The action of supply-side factors representative for the adverse shocks seen worldwide became strongly disinflationary in 2023 – reflecting increasingly widespread base effects, ebbing commodity prices⁵², and the improvement in the functioning of global production/supply chains – and entailed a relatively swift decline in the annual inflation rate, yet from the very high level reached in 2022. This implied its stay considerably above the variation band of the target throughout the year. Additional, albeit more modest disinflationary influences stemmed from energy price capping

⁴⁸ Law No. 312/2004.

⁴⁹ The NBR moved to inflation targeting in August 2005.

⁵⁰ The NBR shifted to a multiannual flat inflation target of 2.5 percent $\pm$ 1 percentage point in December 2013.

⁵¹ In the context of the coronavirus pandemic and Russia's war against Ukraine.

⁵² Agri-food commodity prices in particular.

schemes⁵³ and the measure to cap the mark-ups on basic food products⁵⁴, as well as from the downward adjustment of short-term inflation expectations in the first part of the year, and afterwards from the slower dynamics of import prices.

The cyclical position of the economy further generated, however, sizeable and only gradually abating inflationary pressures. Specifically, after recording values markedly above potential in the previous years⁵⁵, economic growth decelerated significantly in 2023, although remaining relatively solid⁵⁶, especially from a European/regional perspective. This was due to Romania absorbing, during the reported year as well, a large volume of EU funds, but also to the slowdown in budget consolidation⁵⁷, *inter alia* amid the dynamics of social transfers and of wages in the public sector⁵⁸.

The contribution made by private consumption to the economic advance was, however, strongly exceeded by that of gross fixed capital formation, while net exports no longer had a negative contribution in 2023, in line with the decline in trade deficit. The current account deficit also saw a notable downward correction, as a share in GDP as well⁵⁹, but remained well above European standards, while its coverage by foreign direct investment and capital transfers continued to deteriorate slightly.

At the same time, the annual dynamics of unit labour costs economy-wide stepped up considerably and then consolidated at two-digit readings, also in the private sector. To this contributed the elevated labour market tensions – which tended to abate, nevertheless, in the second part of the year –, as well as the increases in the gross minimum wage during 2023⁶⁰, but also labour productivity losses.

Against this background, the annual inflation rate decreased to 6.61 percent in December 2023⁶¹, below the forecasted level, from 16.37 percent at end-2022. This was mainly ascribable to the markedly slower growth rates of processed food prices

⁵³ The schemes to cap and compensate electricity and natural gas prices were introduced in November 2021. In March 2022, the duration of the schemes was prolonged until 31 March 2023, while in September 2022 they saw a further extension until 31 August 2023. In December 2022, it was decided to extend the schemes until 31 March 2025, as well as to broaden eligibility criteria for household consumers as of 1 January 2023.

⁵⁴ The temporary cap was instituted in August 2023, for a 90-day period. The measure was then extended by three months, until 31 January 2024, and its scope was broadened. Afterwards, it was prolonged by another two months, until 31 March 2024, while the list of products was revised and narrowed.

⁵⁵ The economy grew by 5.7 percent in 2021 and 4.1 percent in 2022, after a 3.7 percent decline in 2020.

⁵⁶ Economic activity picked up 2.1 percent during the year overall.

⁵⁷ In 2023, the general government budget execution led to a deficit of lei 89.9 billion (5.7 percent of GDP, according to the national methodology), considerably above the projected deficit (lei 68.3 billion) and also higher than the year-earlier deficit of lei 80.8 billion (yet accounting for 5.8 percent of GDP).

⁵⁸ At the onset of 2023, wages of staff paid from public funds were raised by 10 percent from the December 2022 level, while the period from June to October 2023 saw major pay rises for several categories of public sector employees. Moreover, the value of the pension point was increased by 12.5 percent at the beginning of the year.

⁵⁹ It shed 12.9 percent in 2023 versus the previous year and narrowed to 7 percent of GDP from 9.2 percent of GDP in 2022.

⁶⁰ The guaranteed gross minimum wage economy-wide was raised by 17.6 percent, to lei 3,000, as of 1 January 2023 and by another 10 percent, to lei 3,300, on 1 October 2023. Furthermore, the gross minimum remuneration in the construction sector was increased by 33.3 percent, to lei 4,000, starting 1 January and by 14.6 percent, to lei 4,582, on 1 November, while that in agriculture and the food industry was raised by 15.4 percent, to lei 3,436, as of 1 November.

⁶¹ At the same time, the average annual CPI inflation rate and the average HICP inflation rate (calculated based on the Harmonised Index of Consumer Prices – inflation indicator for EU Member States) went down to 10.4 percent and 9.7 percent respectively in December 2023, from 13.8 percent and 12.0 percent respectively in December 2022.

and energy prices⁶², and to a small extent to developments in the VFE and fuels segments. At the same time, the dynamics of the non-food and market services sub-components of core inflation continued to accelerate during the year overall, although visibly more moderately than in 2022. Under the circumstances, the annual adjusted CORE2 inflation rate witnessed, in its turn, a major and above-expectations decline in 2023, albeit markedly more modest than that of the annual headline inflation rate, falling to 8.4 percent in December 2023 from 14.6 percent at end-2022.

Moreover, according to the medium-term forecasts updated in the first three quarters of the year, the annual inflation rate was to significantly slow its decline as of the beginning of 2024 and to fall to the upper bound of the variation band of the target only after eight quarters. This would be attributable to the relatively swift fading in the future of the disinflationary action of supply-side factors and to the only gradual softening of underlying inflationary pressures, but would also reflect the progressive decrease in short-term inflation expectations and in import price dynamics. Furthermore, in the context of the November quarterly forecast⁶³, the short-term inflation outlook worsened somewhat, amid the fiscal measures envisaged for the closing months of 2023 and for the onset of 2024 with a view to carrying on budget consolidation⁶⁴, including the increase and introduction of indirect taxes and charges⁶⁵. Under their impact, the annual inflation rate was expected to pick-up in January 2024 and then to recede for four quarters on a higher-than-previously-projected path.

During the year under review, the fiscal and income policy stance was a source of heightened uncertainties and risks to inflation developments and prospects. This was due to the characteristics of the budget execution in 2023, as well as to the implications of the raises in public sector wages and of the new law on pensions adopted in Q4, but also to the possible broadening in the future of the package of corrective fiscal and budgetary measures, *inter alia* in light of the commitments made under the excessive deficit procedure and the conditionalities attached to other agreements signed with the EC.

Significant uncertainties and risks to the prospects for economic activity, implicitly to medium-term inflation developments, also stemmed, however, from the war in Ukraine and the Middle East conflict that broke out in the autumn, as well as from the absorption of EU funds, especially those under the Next Generation EU programme, but also from the weaker-than-expected euro area economic growth, amid the high – albeit decreasing – inflation rate and the monetary policy tightening.

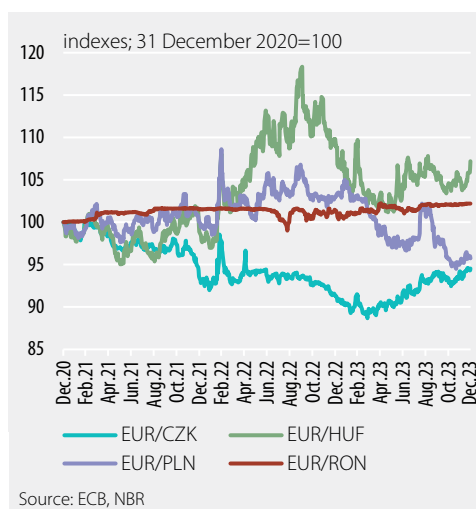
⁶² Electricity and natural gas.

⁶³ November 2023 *Inflation Report*.

⁶⁴ The package of fiscal and budgetary measures was approved in October 2023 and included important measures in terms of direct taxes, such as: restructuring of the tax breaks granted in construction, IT, agriculture and the food industry; instituting a minimum tax on large taxpayers' turnover; changes in the corporate tax regime for microenterprises; introducing an additional tax in the case of credit institutions; an additional tax of 0.5 percent of the oil and gas companies' turnover.

⁶⁵ The measures consisted in: raising the excise duty on fuels; introducing an excise duty on sugary beverages; increasing the VAT rate for sugary foods from 9 percent to 19 percent; raising the VAT rate for fitness centres/sports facilities, recreational and sporting activities from 5 percent to 19 percent; changing the calendar for increasing the excise duty on tobacco products.

Chart 3.1
Exchange rate developments on
emerging markets in the region



At the same time, on the international financial market, global risk appetite remained relatively strong in the first part of the year, except for a brief period of banking sector turbulence in the US and Switzerland. Afterwards, it witnessed frequent shifts in direction, reflecting the major central banks' monetary policy decisions (Box 4) and the repeated revisions of investor expectations on the outlook for the Fed's interest rate, as well as the heightening of geopolitical tensions. Against this backdrop, the EUR/RON exchange rate saw somewhat stronger

fluctuations in 2023, falling and tending to stay in the first three quarters below the levels prevailing in 2022 H2, before climbing but also stabilising thereafter at slightly higher readings, given the still high relative attractiveness of investments in domestic currency and the improvement in the trade balance⁶⁶ (Chart 3.1).

This environment called for and warranted the increase in the monetary policy rate by another 0.25 percentage points in January 2023⁶⁷ and its subsequent status-quo at 7.00 percent over the following 12 months. Accordingly, the NBR raised both the lending and the deposit facility rates to 8.00 percent and 6.00 percent respectively and then kept them at these levels. In addition, the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions were maintained at 8 percent and 5 percent respectively. The NBR's approach was aimed at bringing the annual inflation rate back in line with the 2.5 percent $\pm$ 1 percentage point flat target on a lasting basis, *inter alia* via the anchoring of inflation expectations over the medium term, in a manner conducive to achieving sustainable economic growth.

Furthermore, the monetary authority continued to extensively use specific tools and means of communicating and detailing the rationale behind the monetary policy decisions. Through them, it highlighted the major drivers behind the decline in inflation in 2023 and in the period ahead, as well as the role of monetary policy conduct and the NBR's determination to act in order to safeguard medium-term price stability. In addition, the central bank repeatedly underlined the importance of a balanced macroeconomic policy mix and of the absorption of European funds, primarily those under the Next Generation EU programme, deemed essential for macroeconomic stability, as well as for the domestic economy's long-term growth potential and its capacity to withstand potential adverse developments.

⁶⁶ During 2023 overall, the leu depreciated 1.0 percent versus the euro and strengthened 2.0 percent against the US dollar (based on December exchange rate averages). Over the same period, the Czech koruna posted a relatively similar depreciation in relation to the single currency (0.9 percent), whereas the zloty and the forint appreciated 8.1 percent and 6.8 percent respectively.

⁶⁷ January 2022 through January 2023, the NBR raised the key rate nine consecutive times, by a total of 5.25 percentage points.

Box 4. The monetary policy stances of major central banks and of those in the region in 2023

Prompted by the softening and subsequent fadeout of adverse effects from the previous years' global supply-side shocks⁶⁸, the inflation dynamics declined relatively quickly in developed countries and emerging economies in 2023⁶⁹. However, they remained significantly above many central banks' targets (Chart A), *inter alia* amid the persistence of underlying inflationary pressures, given the resilience of economic activity and the labour market robustness. At such a juncture, major central banks further acted in a quasi-synchronised manner to increase monetary policy tightness, extending the swift policy rate hiking cycle for most of the year. At the same time, central banks in the region kept policy rates for several quarters at the very high levels reached in 2022, most of them launching the downward adjustment of key rates only towards the end of the year (Chart B).

Specifically, the ECB continued to raise key rates relatively quickly during the first three quarters, increasing them six times in a row, by a total of 2.00 percentage points⁷⁰, before leaving them unchanged. In February, besides the rise in key rates by another 0.5 percentage points, the same as in December 2022, the ECB announced its intention to conduct another one of a similar size in March⁷¹. It also reiterated the need to stay the course in raising interest rates at a steady pace until they reach levels that are sufficiently restrictive to ensure a timely return of inflation to the target. The decisions in the first quarter were taken in a context in which the inflation dynamics had decreased at the beginning of the year – under the impact of the decline in energy prices –, but had remained well above the target⁷². Moreover, the March projections saw inflation remaining too high for too long, especially in the case of underlying inflation, anticipated to decelerate however over the forecast horizon. At the same time, heightened uncertainties associated with the inflation outlook, as a result of the banking sector turmoil in the US and Switzerland, highlighted the need for a data-dependent approach to the ECB's policy rate decisions. Hence, the Governing Council announced in March

Chart A

Annual inflation rates in the euro area, US and countries in the region

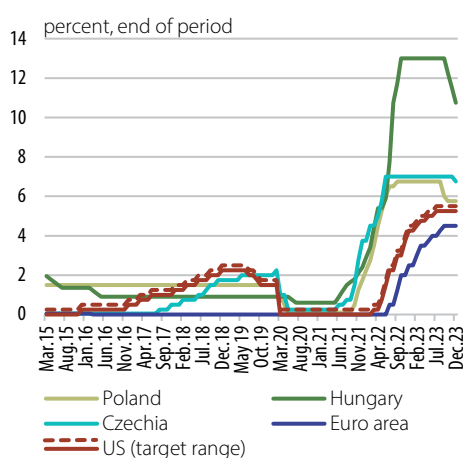
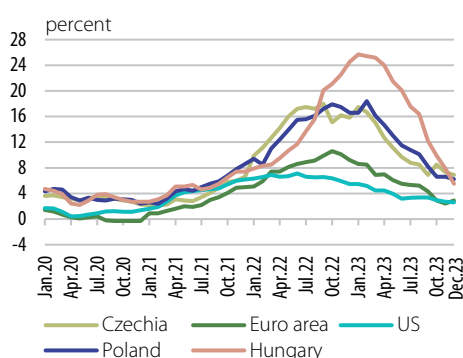


Chart B

Monetary policy rate in the euro area, US and countries in the region

⁶⁸ Consisting mainly in sizeable increases of commodity prices and bottlenecks in global production and supply chains.

⁶⁹ Additional disinflationary influences stemmed from administrative measures implemented with a view to slowing/halting the rise in certain prices.

⁷⁰ The deposit facility rate was thus raised to 4.00 percent, the interest rate on main refinancing operations to 4.50 percent, while the lending facility rate was increased to 4.75 percent. Under the circumstances, the cumulative value of the increases since the launch of the interest rate hiking cycle, in July 2022, was of 4.5 percentage points.

⁷¹ In March, the ECB raised key rates by 0.5 percentage points, in line with the communicated intention.

⁷² The annual inflation rate shrank in January to 8.6 percent, from 9.2 percent in December 2022 and a peak of 10.6 percent in October 2022.

that future decisions would be based on three criteria: the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission.

Moreover, in the closing month of 2023 Q1, the ECB started implementing the decision⁷³ to reduce the portfolio of financial assets purchased under the asset purchase programme, initially via the only partial reinvestment of the principal payments from maturing securities⁷⁴ and then stopping reinvestments as of July 2023.

In May, June and July, the central bank continued to raise interest rates, by a smaller increment of 0.25 percentage points. Behind the decisions stood the sizeable drop in the annual inflation rate previously, down to 6.1 percent in May, as well as the prospects for its further decrease toward the target – mainly amid the tightening of financial conditions, with an impact on aggregate demand –, yet in the context of price pressures anticipated to stay too high for too long. In July, the Governing Council also decided to lower to 0 percent the remuneration rate of minimum reserves, which had previously been remunerated at the ECB's deposit facility rate⁷⁵.

Subsequent data showed a halt in the decrease of the annual inflation rate in August, while the forecasts on its developments in 2023 and 2024 were revised upwards, primarily due to the higher anticipated path of energy prices. In response to this context, the central bank increased key rates by another 0.25 percentage points in September.

Economic activity stagnated, however, over the first half of the year, and its outlook deteriorated in the September forecasting round, amid the increasing impact of the ECB's monetary policy tightening on domestic demand and the weakening international trade environment. Furthermore, underlying inflationary pressures, albeit still high, were expected to ease, while the anticipated path of the underlying inflation dynamics was revised slightly downwards. Against this background, the Governing Council considered that the key ECB interest rates had reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to the target.

Therefore, the ECB left key rates unchanged in October and December 2023, also given that the annual inflation rate fell markedly, to 2.4 percent in November, but was expected to go up temporarily in the short run, amid base effects, before resuming its gradual decrease. At the same time, domestic price pressures were anticipated to remain elevated, primarily owing to strong growth in unit labour costs. In December, the Governing Council also decided to advance the normalisation of the Eurosystem's balance sheet, announcing its intention to reinvest only partially the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP)⁷⁶ during the second half of 2024, before discontinuing reinvestments under the PEPP.

⁷³ Taken in December 2022.

⁷⁴ The volume of financial asset holdings diminished at an average monthly pace of EUR 15 billion March through June 2023.

⁷⁵ According to the central bank, the decision would preserve the effectiveness of monetary policy by maintaining the current degree of control over the monetary policy stance and ensuring the full pass-through of interest rate decisions to money markets. It also improved the efficiency of monetary policy by reducing the overall amount of interest paid on reserves and ensuring an unchanged degree of restrictiveness of monetary conditions.

⁷⁶ The volume of holdings was scheduled to be reduced by EUR 7.5 billion per month on average.

Table A. Macroeconomic developments and monetary policy stance in advanced economies and in the region

	Inflation target/ objective ^b	Annual inflation rate						Monetary policy rate ^b		Annual GDP dynamics				General government balance, % of GDP**				Current account balance, % of GDP			
		2023 (avg.)	2023 (end of period)	Forecast ^b						2022 ^a	2023 ^a	Forecast [*]		2022 ^a	2023 ^a	Forecast [*]		2022 ^a	2023 ^a	Forecast [*]	
				2024 (avg.)	2025 (avg.)	2024 Q4	2025 Q4	2024	2025			2024	2025			2024	2025				
									Dec. 2022	Dec. 2023											
Euro area	2 percent	5.4 ^a	2.9 ^a	2.7	2.1	2.6	2.0	2.50	4.50	3.4	0.4	0.8	1.4	-3.7	-3.6	-3.0	-2.8	-0.6	1.7	2.0	2.1
US	2 percent	3.7 ^d	2.6 ^d	2.4	2.1	-	-	4.25- 4.50	5.25- 5.50	1.9	2.5	2.4	2.1	-4.2	-8.4	-7.5	-7.8	-3.8	-3.0	-3.1	-3.2
Poland	2.5 percent ±1 pp	11.4 ^c	6.2 ^c	4.6	3.7	4.6	3.5	6.75	5.75	5.6	0.2	2.8	3.4	-3.4	-5.1	-5.4	-4.6	-2.6	2.0	1.2	1.0
Hungary	3 percent ±1 pp	17.6 ^c	5.5 ^c	4.0-5.5	2.5-3.5	-	-	13.00	10.75	4.6	-0.9	2.4	3.5	-6.2	-6.7	-5.4	-4.5	-8.3	0.3	0.0	-1.4
Czechia	2 percent ±1 pp	10.8 ^c	6.9 ^c	2.6	2.1	2.8	2.3	7.00	6.75	2.4	-0.3	1.2	2.8	-3.2	-3.7	-2.4	-1.9	-4.5	1.4	1.9	1.4
Romania	2.5 percent ±1 pp	10.5 ^c	6.6 ^c	-	-	4.8	3.3***	6.75	7.00	4.1	2.1	3.3	3.1	-6.3	-6.6	-6.9	-7.0	-8.8	-6.7	-7.0	-6.6

^{*)} forecasted values refer to the European Commission's Spring Economic Forecast (May 2024)

^{**)} according to the ESA 2010 methodology

^{***)} forecasted value corresponding to 2025 Q3

Source: a) Eurostat, b) NCBs, ECB (end-2023 projections), c) national statistics institutes, d) US Bureau of Economic Analysis

In turn, the Federal Reserve extended the key rate hiking cycle into the first three quarters of the year, although by a smaller increment than a year earlier⁷⁷, raising the target range for the federal funds rate by 0.25 percentage points at each of the January, March, May and July meetings⁷⁸, to 5.25-5.50 percent⁷⁹, before keeping it unchanged. At the same time, the FOMC continued to implement the plan for reducing the size of the central bank's balance sheet, with holdings of Treasury securities and mortgage-backed securities being reduced by a monthly volume of USD 60 billion and USD 35 billion respectively⁸⁰.

The decisions on the new key rate increases were taken in a context in which the annual inflation rate, despite the sustained drop in H1 as well driven by developments in energy and food prices, stayed significantly above the central bank's 2 percent objective. This owed mainly to the high dynamics of prices for certain categories of services included in the core index⁸¹. Moreover, the labour market remained very tight, amid the robust pick-up in hirings and with the unemployment rate sticking close to its all-time lows. Against this backdrop, by further raising the key rate with a smaller increment, the FOMC sought to achieve a sufficiently restrictive monetary policy stance for the timely return of inflation to the target.

⁷⁷ The central bank motivated the smaller increment of the key rate hike by the cumulative tightening of monetary policy and the time lag with which monetary policy impacts economic activity and inflation.

⁷⁸ Versus increases of 0.50-0.75 percentage points carried out for most of 2022.

⁷⁹ Under the circumstances, the interest rate increases conducted since the launch of the cycle in March 2022 totalled 5.25 percentage points.

⁸⁰ Thus, compared to end-2022, the total value of the Fed's financial asset holdings dropped by around USD 920 billion in December 2023.

⁸¹ The annual inflation rate calculated based on the personal consumption expenditure index fell to 3.2 percent in June, from 5.4 percent in December 2022, while the dynamics of the core component decreased during the same period to 4.3 percent versus 4.9 percent.

The decisions on the key rate status-quo in September, October and December were warranted by the still high, albeit declining, inflation rate⁸² and by the conditions on the labour market. The latter was still relatively tight, in the absence of a significant step-up in the unemployment rate and given the further high job vacancy rate, amid the solid economic growth, which considerably exceeded expectations, with a major contribution from private consumption.

At the same time, the FOMC members' projections during the year constantly showed that the annual inflation rate would stay slightly above the target in 2025 and go down to 2 percent in 2026, amid the federal funds rate path revised, however, repeatedly and significantly during 2023 – upwards in the March, June and September forecasts, given the above-expectations economic performance, but in the opposite direction in the December projections.

In the region, the Polish central bank further kept the monetary policy rate at 6.75 percent during the first eight months of the year^{83,84}, as the annual inflation rate decreased swiftly in H1, albeit staying at a two-digit level⁸⁵. Moreover, the forecasts updated in March and July showed and reconfirmed the prospects for the annual inflation rate to decline gradually in the following 12 quarters and re-enter the target band (2.5 percent $\pm$ 1 percentage point) no earlier than towards the end of the projection horizon. The decrease would be driven in the short run by supply-side factors, primarily by the downward correction of food and energy commodity prices, and over the longer time horizon by the weaker dynamics of economic activity – implying the stay of the output gap into negative territory⁸⁶ –, as well as by the slower growth of wage costs.

At end-Q3, the central bank launched the key rate lowering cycle, resorting to a larger-than-expected cut of 0.75 percentage points in September and reducing it by another 0.25 percentage points in October, which brought the monetary policy rate to 5.75 percent⁸⁷. The decisions were warranted by the further decrease in the annual inflation rate⁸⁸ and by the outlook for a more sizeable weakening of inflationary pressures from aggregate demand compared to the previous forecast⁸⁹, contributing to the faster return of the annual inflation rate inside the target band.

The central bank brought, however, the cutting cycle to a halt afterwards, keeping the monetary policy rate on hold in November and December, given the magnitude

⁸² The annual inflation rate calculated based on the personal consumption expenditure index dropped to 2.6 percent in December and the core inflation dynamics diminished to 2.9 percent.

⁸³ The central bank halted in October 2022 the fast-paced increase in the key rate seen over the previous 12 months (which had cumulated 6.65 percentage points).

⁸⁴ At the same time, the deposit rate and the Lombard rate were kept at 6.25 percent and 7.25 percent respectively.

⁸⁵ The annual inflation rate dropped to 11.5 percent in June 2023 from the February 2023 peak of 18.4 percent.

⁸⁶ According to the July assessments, excess aggregate demand went down significantly during 2022, and in mid-2023 the output gap turned negative, as the economy witnessed a small contraction in annual terms in H1.

⁸⁷ The deposit rate and the Lombard rate were lowered in similar steps, to 5.25 percent and 6.25 percent respectively.

⁸⁸ To 10.1 percent in August 2023 and in one-digit territory the following month.

⁸⁹ As economic activity saw its contraction in annual terms steepen slightly in 2023 Q2 (-0.6 percent). During the year overall, economic growth decelerated abruptly, to 0.2 percent from 5.6 percent in 2022.

of its reduction in previous months, but also amid heightened uncertainties about the future fiscal policy stance, alongside the policy regulating certain price categories.

In turn, the Czech National Bank extended the monetary policy rate status-quo until almost the end of the year^{90,91}, launching the rate lowering cycle (by 0.25 percentage points) no sooner than December.

The decisions on keeping the policy rate unchanged were taken in a context in which the annual inflation rate dropped relatively quickly, falling to a one-digit level in June⁹² and to 6.9 percent at year-end, but remained considerably above the target band. Moreover, the outlook for its decline close to the 2 percent value in mid-2024, as shown by the successive updates of the medium-term forecast, was marked by significant uncertainties and the balance of associated risks remained tilted to the upside. The prevailing risk was that of a de-anchoring of inflation expectations and the triggering of a wage-price spiral, *inter alia* amid labour market resilience, while other major risks stemmed from the expansionary fiscal policy stance. At such a juncture, in the first part of the year, the central bank pointed out that it stood ready to conduct additional key rate increases in the event of materialisation of risks conducive to a delay in disinflation compared to the forecasted pace. The second half of the year saw decisions to extend the status-quo, notwithstanding the projections that indicated the possibility of key rate cuts.

The year-end launch of the policy rate cutting cycle was primarily warranted by the improvement in the balance of risks to the inflation outlook. Specifically, risks were assessed to be only modestly inflationary, *inter alia* due to the larger-than-expected contraction of the economy in Q3⁹³, but also to the weaker pace of economic activity globally and in Europe.

The Hungarian central bank kept unchanged the parameters of monetary policy instruments in 2023 Q1, while over the following two quarters it launched and pursued a process of relatively swift normalisation of the monetary policy stance. This occurred amid the easing of local financial market tensions, given *inter alia* the improvement of investor risk perception vis-à-vis the Hungarian market. Therefore, in the period from May to September, the central bank lowered on five consecutive occasions, and by a total of 5 percentage points, the rate on overnight quick deposit tenders – the key monetary policy instrument used starting October 2022 –, which was thus reduced to the level of the base rate, kept on hold at 13 percent. At the same time, the central bank narrowed the corridor of interest rates on standing facilities around the base rate in several steps, from +12/-0.5 percentage points⁹⁴ to the standard width of ± 1 percentage point, by lowering markedly the lending facility rate, and in September also by reducing the deposit facility rate.

⁹⁰ The monetary policy rate was raised to 7.0 percent in June 2022, from 0.25 percent in May 2021, and then it was kept on hold.

⁹¹ Moreover, the deposit facility rate and the lending facility rate were left unchanged at 6.0 percent and 8.0 percent respectively.

⁹² To 9.7 percent, from the September 2022 peak of 18 percent.

⁹³ In Q3, economic activity steepened its decline versus the previous quarter, to -0.6 percent, so that the economy contracted 0.3 percent during 2023 overall, after the 2.4 percent advance in 2022.

⁹⁴ The amplitude of the top of the interest rate corridor had been broadened to 12 percentage points in October 2022, amid stronger depreciation pressures on the forint.

At end-September, the adjustment of the characteristics of these tools once completed, the central bank took several measures to strengthen the role of the base rate and to simplify the monetary policy instruments. Specifically, from 1 October 2023, the central bank started to remunerate also balances in excess of required reserves on reserve accounts (excess reserves) at the base rate. Reserve accounts thus became the main monetary policy instrument, both excess reserves and required reserves⁹⁵ being remunerated at the base rate.

During 2023 Q4, the central bank conducted three other consecutive key rate cuts, in somewhat smaller steps, of 0.75 percentage points, lowering in December the base rate to 10.75 percent and the deposit and lending facility rates to 9.75 percent and 11.75 percent respectively. The decisions were taken in a context in which the annual inflation rate had steepened its decline in the second part of the year, reaching 5.5 percent in December, from 20.1 percent in June and a peak of 25.7 percent in January 2023. Moreover, the December forecast indicated the outlook for its further swift reduction in 2024 Q1, albeit more moderate afterwards, amid the fadeout of disinflationary base effects and the recovery of the economy after the 2023 contraction⁹⁶. Under the circumstances, the annual inflation rate was seen returning close to the midpoint of the target, of 3 percent, in 2025.

The adjustment of the monetary policy stance and the actions taken by the NBR underpinned the relatively swift decrease of the inflation dynamics in 2023 and the outlook for the annual inflation rate to stay on a path compatible with achieving the target in the medium term, *inter alia* via anchoring inflation expectations over the longer term, amid still solid economic growth, especially in the region, albeit decelerating significantly versus 2022, mainly due to the marked weakening of external demand.

Taking a closer look, the NBR Board's decisions in the first half of 2023 were taken in a context in which the annual inflation rate had reached a plateau in 2022 Q4, albeit very high, and then embarked on a gradual downward path, anticipated to stay well above the variation band of the target in 2023 and still visibly above it at the end of the eight-quarter horizon of the quarterly forecasts.

Specifically, the annual inflation rate fell to 14.53 percent in March 2023, from 16.37 percent in December 2022, and then dropped to 10.25 percent in June, in line with forecasts, driven mainly by the sizeable decline in the dynamics of electricity and fuel prices, under the impact of base effects, of developments in crude oil prices and of the change made to the electricity and natural gas price capping scheme starting 1 January 2023⁹⁷.

⁹⁵ Starting April 2023, the required reserve ratio was raised from 5 percent to 10 percent, while banks could individually opt for a ratio of up to 15 percent (up to 10 percent previously). Also from April 2023, the central bank was to pay no interest on the 2.5 percent of the reserve base, while continuing to pay the base rate on the 7.5 percent of the reserve base, and optional reserves (exceeding the 10 percent minimum level) were to be remunerated at the overnight quick deposit tender rate instead of the base rate. Starting January 2024, the central bank phased out the optional required reserve ratio, setting a uniform 10 percent reserve ratio.

⁹⁶ In 2023, economic activity declined 0.9 percent, after having stepped up 4.6 percent in 2022.

⁹⁷ In December 2022, the electricity and natural gas price capping and compensation schemes for households were extended again, until 31 March 2025, amid the broadening as from 1 January 2023 of the scope of the categories of eligible customers by applying a ceiling regardless of monthly consumption (Law No. 357/13 December 2022 approving Government Emergency Ordinance No. 119/2022).

The annual adjusted CORE2 inflation rate halted its rise only in 2023 Q1 and decreased moderately over the following months, to 13.5 percent in June from 14.6 percent in December 2022, as the above-expectations deceleration in the growth rate of processed food prices during H1⁹⁸ was cushioned in terms of impact by the new marked increases in the dynamics of prices of non-food items and market services (Chart 3.2). They reflected the persistent influences stemming from the gradual pass-through of higher

costs of materials and wages to consumer prices, as well as from the preservation of profit margins amid the resilience of consumer demand, but also from the rise in the prices of some imported goods.

Moreover, following the extension of energy price capping and compensation schemes and the changes made thereto starting 1 January 2023, the quarterly forecasts updated in this period⁹⁹ showed and then reconfirmed the outlook for the annual inflation rate to decrease more briskly over the short time horizon compared to the

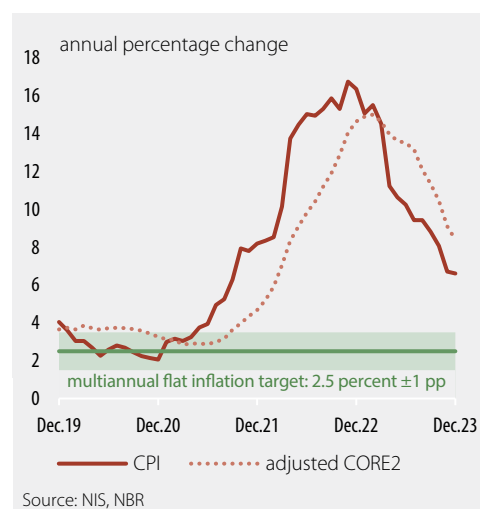


Chart 3.2
Inflation rate

November 2022 forecast, although staying significantly above the variation band of the target. Specifically, according to the NBR's May forecast, the annual inflation rate was expected to drop to a one-digit level as of 2023 Q3 and then to 7.1 percent in December 2023, well below the 11.2 percent level anticipated in November 2022. It would then moderate its decline visibly in the second half of the following year, remaining slightly above the variation band of the target at the end of the projection horizon, i.e. at 3.9 percent.

The decline was foreseen to be further driven by supply-side factors, particularly disinflationary base effects, by downward corrections in some commodity prices¹⁰⁰ and by the improvement in the functioning of global production/supply chains, to which added the influence from the new configuration of energy price capping schemes. The disinflationary impact of supply-side factors was anticipated to rise gradually over the short time horizon and to strongly affect the developments in exogenous CPI components, but to some extent the core inflation path as well, which was also expected to reflect the influences of the gradual decline in short-term inflation expectations and the dynamics of import prices.

Underlying inflationary pressures were, nevertheless, expected to be stronger in 2023 than in the November 2022 forecast and abating more gradually over the following eight quarters, given that economic growth continued to outpace estimates

⁹⁸ Under the influence of disinflationary base effects, falling prices of commodities, primarily agri-food items, as well as the downward adjustment of short-term inflation expectations.

⁹⁹ The medium-term forecasts in the February and May 2023 *Inflation Reports*.

¹⁰⁰ Including agri-food prices amid the easing of wholesale markets.

in 2022 Q4¹⁰¹ and during 2023 H1 overall – amid a sizeable fluctuation of quarterly dynamics¹⁰² –, while the GDP advance was anticipated to decelerate more modestly in the 2023-2024 period, especially due to the swifter pace of absorbing EU funds, including those under the Next Generation EU instrument. The developments rendered it likely for the positive output gap to see a relatively slower contraction and on a markedly higher path compared to previous assessments, implying its closure no earlier than the end of the projection horizon¹⁰³.

At the same time, unit labour cost saw considerably faster growth economy-wide in 2023 H1, while its particularly high double-digit annual dynamics in industry stepped up further, *inter alia* amid the rise in gross minimum wage and the productivity losses. Moreover, the current account deficit posted a major decline in this period and was expected to record a sizeable correction during the year as a whole, although staying well above EU standards as a share of GDP.

The war in Ukraine and the instituted sanctions continued to generate, however, significant uncertainties and risks to the outlook for economic activity, hence to medium-term inflation developments, the same as the absorption of EU funds, especially those under the Next Generation EU programme, amid the attached conditionality.

Heightened uncertainties and risks were, nevertheless, associated with the fiscal and income policy stance, given the data on budget execution in the early months of 2023, as well as the new pay rises in the public sector, but also the excessive deficit procedure and the related commitments, calling for the adoption of substantial fiscal measures in order to continue budget consolidation in line with the established calendar.

Under the circumstances, the NBR Board raised the monetary policy rate by another 0.25 percentage points at the onset of 2023, and then decided to leave it unchanged at 7.00 percent in its February, April, May and July meetings. At the same time, the lending and deposit facility rates were increased to and then kept at 8.00 percent and 6.00 percent respectively, while the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions were left at 8 percent and 5 percent respectively.

The NBR Board decided to extend the status-quo of the policy rate and of the parameters of the key policy instruments during its meetings of August and October 2023, as the updated assessments and data broadly reconfirmed the previous forecasts on developments in inflation and its determinants, while also highlighting an increase in uncertainties and risks to the short-term inflation prospects.

¹⁰¹ Economic growth slowed to 1.0 percent in 2022 Q4, from 1.2 percent in Q3, while in annual terms it gathered momentum to 4.5 percent, from 3.7 percent in Q3.

¹⁰² GDP growth decelerated to 0.1 percent in 2023 Q1, before picking up to 0.9 percent in Q2, which implied a decline in annual GDP dynamics to 2.3 percent in Q1 and to 1.2 percent in 2023 Q2. Behind the decline in Q2 stood household consumption, whereas gross fixed capital formation saw a re-acceleration in its double-digit annual growth, and net exports exerted a larger expansionary impact.

¹⁰³ Against this background, the annual adjusted CORE2 inflation rate was expected to decrease gradually starting in 2023 Q2 and to fall to 9.3 percent in December 2023 and 4.3 percent at the end of the forecast horizon.

Specifically, the 12-month inflation rate slowed its decrease in Q3 in line with forecasts¹⁰⁴, amid the hike in fuel and medicine prices, which partly counterbalanced, in terms of impact, the further sharp decreases in the dynamics of food and energy prices during this period. In contrast, the annual adjusted CORE2 inflation rate saw a faster decline, falling visibly below the forecast to reach 11.3 percent in September, from 13.5 percent in June. This owed mainly to a steeper disinflation in processed food prices, but also to the slower increases in the dynamics of non-food prices and services prices. The developments were attributable to downward adjustments in commodity prices, particularly of agri-food items, and to the measure to temporarily cap the mark-ups on basic food products¹⁰⁵. They also reflected, however, a relatively weaker pass-through of higher corporate costs, especially wage costs – amid the slowdown in consumer demand – into consumer prices, as well as a lower inflationary impact of imports.

At the same time, the August medium-term forecast reconfirmed the prospects for a further fall in the annual inflation rate over the next two years, although at a slower pace, also when compared to the earlier assessments. Specifically, the annual inflation rate was anticipated to shrink to 7.5 percent in December 2023, to 4.4 percent in December 2024 and to 3.8 percent in June 2025 versus the previously-forecasted 7.1 percent and 4.2 percent for end-2023 and end-2024 respectively.

Behind the anticipated decrease in the annual inflation rate would further stand primarily supply-side factors, mainly disinflationary base effects, the improvement of global production and supply chains, alongside the downward corrections of some commodity prices seen in the previous quarters. The base effects would continue to be manifest particularly in the energy and the processed food segments, implicitly in the pace of core inflation, yet with a gradually abating strength, and the influences of lower commodity prices were expected to feed through progressively and incompletely to the growth rate of consumer prices.

Moreover, underlying factors were expected to exert somewhat more moderate inflationary pressures, but easing more gradually than in the previous forecast, in view of the prospects for a relatively slower contraction in excess aggregate demand starting in 2023 H2. This implied that the output gap would remain mildly positive at the end of the projection horizon¹⁰⁶. Furthermore, unit labour cost growth was seen gaining considerable speed during 2023 as a whole, also when compared with earlier forecasts.

At the same time, the future fiscal and income policy stance, as well as the package of fiscal and budgetary measures under discussion for furthering budget consolidation induced major uncertainties and risks to the new inflation forecast.

¹⁰⁴ To 8.83 percent in September from 10.25 percent in June.

¹⁰⁵ Starting August 2023, for a three-month period (pursuant to GEO No. 67/2023 on implementing a temporary measure to fight excessive increases in prices of certain agri-food items).

¹⁰⁶ As economic growth was foreseen to lose more momentum in 2023 than previously anticipated – amid still high inflation and costs, as well as given the monetary policy stance –, but to rebound in 2024, contrary to previous forecasts, under the impact of the slowing fiscal consolidation and the recovering external demand, as well as of the faster absorption of EU funds, *inter alia* under the Next Generation EU instrument.

According to subsequent data and assessments, the annual inflation rate decreased at a faster-than-anticipated pace in 2023 Q4, falling to 6.61 percent in December 2023. This occurred as the dynamics of food prices and energy prices continued to decelerate at a relatively swift tempo, while the faster growth rate of fuel prices during this period on account of a base effect was fully counterbalanced, in terms of impact, by the slowdown in the growth rates of administered prices and tobacco product prices.

In turn, the annual adjusted CORE2 inflation rate saw its downward trend steepen more than anticipated, going down to 8.4 percent in December 2023. This reflected primarily the disinflationary influence from processed food prices, but also the falling price dynamics of non-food and services sub-components over this period, after an almost continuous upward trend for more than two years. The almost across-the-board decreases were attributable to more widespread disinflationary base effects, downward adjustments in agri-food commodity prices and the capping of the mark-ups on basic food products¹⁰⁷, but also to the moderating consumer demand and slower dynamics of import prices. The action of these factors was only to a low extent mitigated by the pass-through into some services prices of higher costs triggered by the hike in the minimum gross wage in 2023 Q4, as well as by the temporary worsening of short-term inflation expectations.

Economic growth continued, however, to outpace estimates in 2023 Q3, albeit decelerating significantly, to 0.9 percent from 1.6 percent in the previous three months, which made it likely for excess aggregate demand to narrow more moderately over this period compared to expectations. In year-on-year comparison, the GDP advance gained marginal momentum, remaining modest from a historical perspective, at 1.1 percent. But this was solely due to the evolution of the change in inventories and of general government consumption, whereas gross fixed capital formation saw a re-acceleration in its annual growth to double-digit readings, household consumption posted a renewed faster pick-up, and net exports continued to exert a larger expansionary impact.

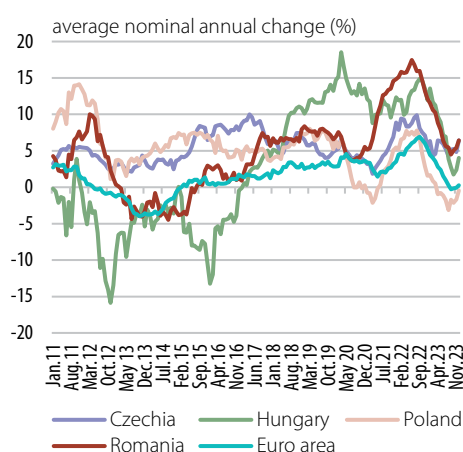
Looking at the labour market, tensions were still high in the second part of the year, but tended to subside slightly, especially in Q4, as the number of employees economy-wide slowed and then stopped its increase, while the ILO unemployment rate stayed relatively steady. Moreover, employment intentions over the near-term horizon weakened sharply, while the labour shortage reported by companies dropped significantly in the closing three months of the year, largely correcting the previous period's increase. The double-digit annual dynamics of the average gross nominal wage earnings posted a renewed acceleration in Q4, mainly under the impact of the hike in the gross minimum wage, while the growth rate of unit labour costs in industry saw a relatively steep rise in November, after six months of mild decline, *inter alia* as a result of increased labour productivity losses.

At the same time, the annual pace of increase of credit to the private sector halted in October its downward path from the previous five quarters, stepping up gradually during Q4, to 6.4 percent in December. This occurred as the new sizeable losses of

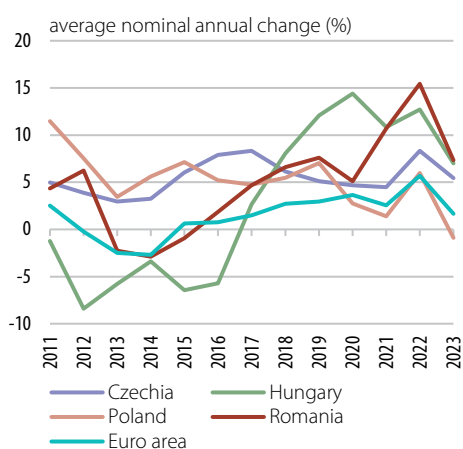
¹⁰⁷ Amid the extension until 31 January 2024 of the temporary cap of the mark-ups on basic food products and the broadening of its scope.

momentum recorded in this period by the foreign currency component were more than offset by the re-acceleration of leu-denominated credit growth (Box 5).

Chart A
Credit to the private sector
(monthly)



Source: NCBs



Source: NCBs

Chart B
Credit to the private sector
(annual)

Box 5. Credit to the private sector and liquidity in the economy¹⁰⁸

In 2023, the dynamics and composition of private sector credit and of liquidity in the economy – relevant from the perspective of monetary policy design and transmission, as well as of convergence with monetary developments in the euro area and in the region – witnessed multiple and significant shifts in direction, reflecting *inter alia* the NBR's monetary policy decisions and measures. Specifically:

1. The annual growth rate of credit to the private sector continued to go down gradually during the first three quarters of the year¹⁰⁹, before picking up slightly, relatively in line with developments in the region and in the euro area (Chart A).

Against this background, after two years of sustained increase, the average dynamics of private sector credit shrank considerably in 2023, to 7.3 percent from 15.4 percent in 2022, remaining however high from the perspective of pre-pandemic developments and, at the same time, exceeding those in the region, especially in Poland (Chart B)¹¹⁰.

The drop in the pace of increase of private sector credit was correlated with the significant slowdown of economic growth and with the still high, albeit declining, inflation dynamics. Moreover, credit demand and supply reflected the effects generated by: (i) the relatively high lending rates on new business; (ii) the additional tightening, albeit significantly more moderate than the year-earlier one, of banks' credit standards on loans to households and non-financial corporations; (iii) the increased restrictiveness of the NBR's macroprudential measures¹¹¹; (iv) the mild deceleration of price growth on the residential real estate market¹¹².

¹⁰⁸ For a clearer picture, changes in dynamics were analysed, as a rule, in the form of indicators calculated as an average of annual growth rates expressed in nominal terms.

¹⁰⁹ The annual dynamics of credit to the private sector had embarked on a gradually downward trend in mid-2022.

¹¹⁰ In real terms, the annual dynamics of private sector credit fell however into negative territory, for the first time in eight years, to -2.9 percent. The value is comparable to the euro area one, but higher than that in Czechia, and particularly than the markedly negative dynamics in Hungary and Poland.

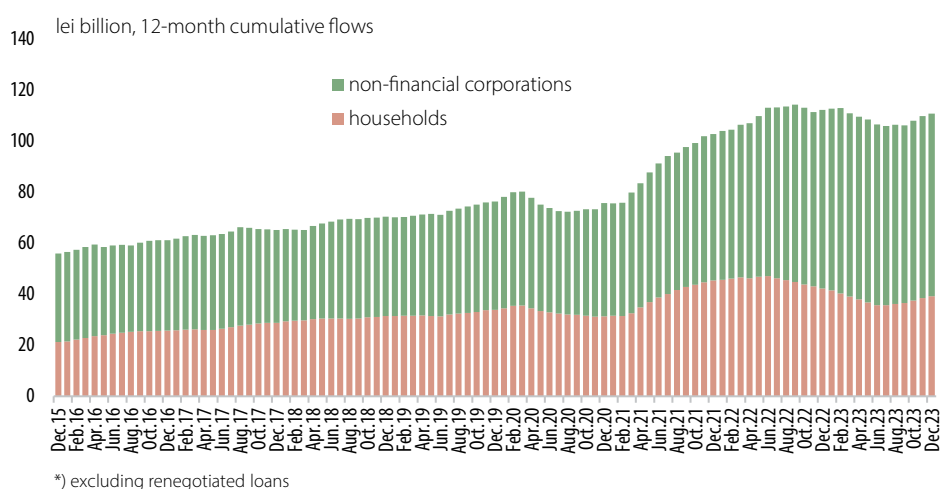
¹¹¹ In October 2022, the NCMO issued a recommendation on raising the countercyclical capital buffer rate to 1.0 percent from 0.5 percent, starting October 2023, the measure being implemented through NBR Order No. 7 of December 2022. Previously, in October 2022, the countercyclical buffer rate had been raised to 0.5 percent from 0.0 percent via NBR Order No. 6/2021.

¹¹² The average annual dynamics of residential property prices decelerated to 3.3 percent in 2023 versus 7.2 percent a year earlier.

Stimulative influences, conducive to a slight revival of lending towards year-end (Chart C), stemmed, by contrast, from: (i) the return and step-up to significant positive values of the net real wage dynamics; (ii) the gradual recovery of consumer confidence, *inter alia* amid the improved perception on the current and future financial standing; (iii) the extension of the “IMM Invest” government support programme and the raising of the applicable guarantee ceiling¹¹³; (iv) the further consolidation of bank asset quality¹¹⁴ and the ongoing decline in the loan-to-deposit ratio across the banking system (to 67.6 percent); (v) the step-up in purchases of lodgings during the months preceding the coming into force of the increased VAT rate on some categories of dwellings (January 2024).

Chart C

New loans* to households and non-financial corporations



Given the very swift pick-up in economic activity in nominal terms, and only slightly decelerating versus the previous year, the share of private sector credit in GDP narrowed significantly in 2023 as well, to 24.1 percent against 26.0 percent in 2022, yet more modestly this time also when compared to the declines posted in the euro area and countries in the region, from considerably higher levels however.

2. The share of the leu-denominated component in total credit to the private sector continued to narrow in the first months of the year, but then re-embarked on an upward path, climbing in December 2023 to 68.4 percent, only marginally below the year-earlier reading.

The evolution reflected primarily the turning point in the rate of change of the foreign currency component, which – after eight quarters of sustained rise¹¹⁵ – re-entered

¹¹³ Introduced in the context of the pandemic crisis, the “IMM Invest” government support programme stipulates that the state guarantees up to 90 percent of the amount of some leu-denominated loans to SMEs and micro-enterprises and subsidises the interest for an eight-month period and other financing costs (management and risk fees) over the entire period of the loan. The ceiling on guarantees approved for 2023 was raised at the beginning of the year to lei 20.25 billion (from lei 17.75 billion in the previous year), while that of state aids to lei 2.9 billion (from lei 1.9 billion). The ceilings were raised again in November, to lei 24.3 billion and lei 3.45 billion respectively. The “New Home” programme was also extended in 2023, yet the volume of loans granted under this programme dropped significantly versus the previous year.

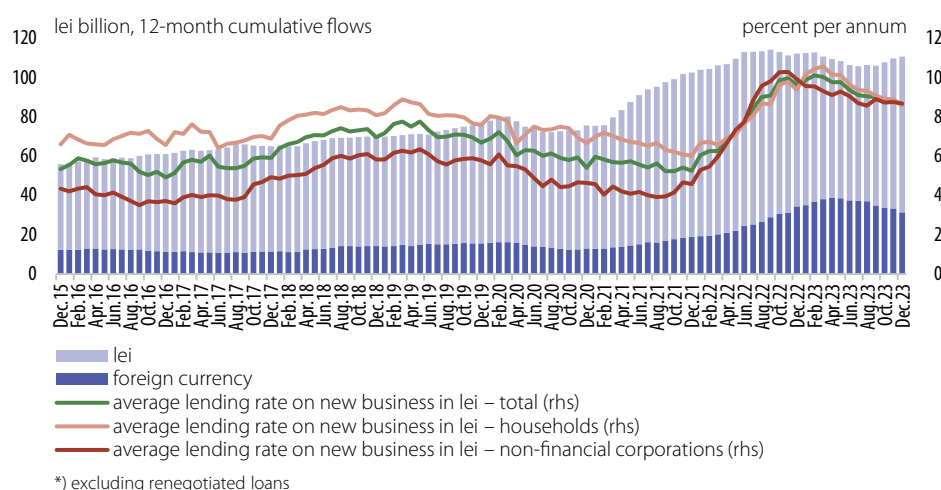
¹¹⁴ The NPL ratio, calculated according to the EBA definition, declined to 2.37 percent in December 2023 from 2.65 percent at the end of 2022.

¹¹⁵ The growth rate of foreign currency credit (expressed in euro) climbed in March 2023 to a 14-year high of 30.2 percent.

a steeply downward course in mid-H1, reaching 7.3 percent in December 2023, under the influence of the abrupt decline in the dynamics of loans to non-financial corporations, *inter alia* amid the narrowing of the interest rate differential. At the same time, the dynamics of leu-denominated credit shrank further in the first half of the year under review, dropping and sticking for several months to an only marginally positive value, before stepping up visibly as of October, with the contribution of both main customer categories.

Under the circumstances, the share of the leu-denominated component in the stock of loans to non-financial corporations halted its decline in mid-year, before recording mild increases and reaching 54.3 percent in December 2023 – only slightly below the end-2022 reading of 55.1 percent. Moreover, in the case of households, the relative weight of domestic currency credit accelerated its increase, hitting a new historical high of 87.7 percent (85.6 percent in December 2022).

Chart D
New loans* to the private sector
and the average lending rate on
new business in lei



In terms of flow as well, the leu-denominated component narrowed its majority share during the first months of the year (to 64.3 percent in May¹¹⁶, from 69.2 percent in December 2022), but widened it significantly afterwards (to 71.6 percent), as its dynamics returned and then climbed very far into positive territory, whereas the rate of change of foreign currency credit dropped abruptly and then stuck to markedly negative values (Chart D).

3. The share of household loans in total credit slowed its downtrend seen since mid-2020, but reached a 16½-year low in December 2023¹¹⁷, dropping even further below the relatively constant levels in Poland, Czechia and the euro area.

Behind the slower decrease of this share stood the more sizeable decline in the average dynamics of loans to non-financial corporations (to 12.4 percent from 22.5 percent in 2022) compared with that seen during the year overall by the growth rate of household credit (to 1.2 percent against 7.7 percent in the previous year).

¹¹⁶ Assessment based on 12-month cumulated flows, adjusted by the volume of renegotiated loans.

¹¹⁷ It shrank to 44.9 percent in December 2023 versus 47.2 percent at end-2022.

Chart E
Demand for loans

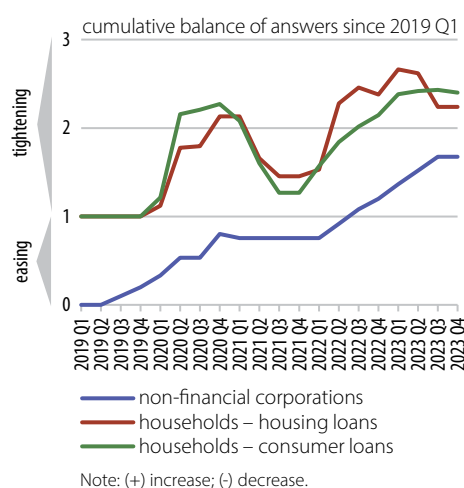
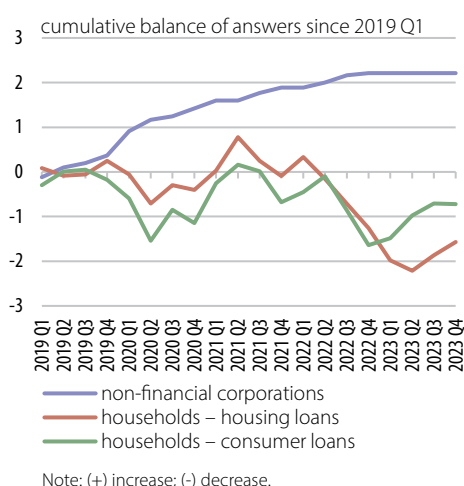


Chart F
Credit standards

The quasi-halving of the change in credit to non-financial corporations owed entirely to the domestic currency component, whose average dynamics dropped abruptly (to 0.9 percent¹¹⁸ from 21.3 percent in 2022), even amid the re-acceleration of the growth in this component during Q4 (on the back of short-term financing) and the markedly higher contribution of the “IMM Invest” programme in the reported year overall. By contrast, the dynamics of foreign currency credit (expressed in euro) climbed further in terms of annual average (to 30.4 percent versus 24.7 percent in 2022), as the rise in their particularly high level extended into Q1, to a post-March 2008 peak of 45.6 percent in March, from where it fell however swiftly afterwards (coming in at 11.6 percent in December).

Looking at the main sectors, behind the weakening of the pace of lending stood the sudden brake on growth in new loans in industry and the slower dynamics of new loans in the services sector, alongside the contraction in volume witnessed in agriculture. The impact thus exerted was only slightly counterbalanced by the marked rise in the dynamics of the credit flow in construction, associated with the step-up in activity in this sector. The breakdown by destination of new loans remained, however, broadly the same as in the prior years, with industry and services further accounting for around 80 percent of their volume.

Looking at the maturity breakdown of the stock of credit to non-financial corporations, the sizeable deceleration of its growth was driven by short-term loans, whose annual dynamics plummeted to 11.6 percent (from the previous year's particularly high level of 38.6 percent), reflecting developments in firms' working capital financing needs. The loss of momentum of medium- and long-term loans was considerably more modest, given *inter alia* the further brisker pace of increase of investment, especially in the second part of the year.

Developments were broadly correlated with the findings of the successive issues of the NBR's *Bank Lending Survey*, which showed that non-financial corporations' demand for loans held steady during the year under review (Chart E), as credit standards tightened continuously until Q3 and then remained

practically unchanged (Chart F). Credit terms and conditions also tended to tighten in the first three quarters of 2023, primarily amid the increase in the premium demanded on riskier loans, as well as in collateral requirements and the maximum loan amount. A similar influence came, at the onset of the year, from the adjustment of the average lending rate spread vis-à-vis interbank money market rates, which then acted in the opposite direction over the following two quarters.

¹¹⁸ Its annual dynamics fell and stayed into negative territory March through September 2023.

As for households, survey results indicated new declines in the demand for housing loans in H1, followed by a mild increase in the second part of the year, but also a relative recovery of the demand for consumer credit during the first three quarters. Credit standards continued, however, to tighten at the beginning of the year for consumer loans, before remaining practically unchanged, yet eased somewhat in Q3 in the case of housing loans. Credit terms changed in 2023 mainly on account of the spread between the average lending rate and the IRCC, under whose influence they constantly increased their restrictiveness for consumer loans, but eased in Q3 for housing loans, after having tightened during H1.

4. The share of housing loans in total credit to households narrowed for the first time, to 60.8 percent in December 2023 from 61.9 percent in December 2022, amid a broad-based decrease regionally¹¹⁹.

The turning point occurred in a context in which the average rate of change of housing loans continued to decline relatively more briskly, steepening its drop against the previous year – to 0.6 percent¹²⁰ from 10.1 percent in 2022 –, under the impact of higher interest rates and tighter lending standards, more strongly manifest across this category of loans¹²¹.

The loss of momentum was prompted by the domestic currency component, whose average annual dynamics fell to 2.6 percent, from 16.0 percent in the previous year, *inter alia* due to the smaller contribution of the “New Home” programme, and despite a mild rebound of this component towards year-end¹²². Given the considerable rise in the volume of effective new loans over the last months¹²³ and the further strong pick-up in renegotiation operations during the year overall, the total flow of loans for house purchase reached a new historical high in 2023.

The year-on-year contraction in the stock of foreign currency housing loans softened slightly during the period overall, yet amid its significant renewed steepening in H2, so that the leu-denominated component saw its share in total housing loans widen at end-2023 as well, to 85.7 percent from 83.8 percent 12 months earlier.

The annual pace of increase of consumer credit and other loans contracted much more modestly in 2023, averaging out at 2.2 percent versus 4.0 percent, given *inter alia* the more obvious reacceleration of its growth in H2, on the back of the rebound in the dynamics of the domestic currency component. By contrast, foreign currency credit broadly stuck to its double-digit negative annual dynamics.

Looking at other countries in the region and at the euro area, the share of housing loans in total credit to households in Romania remained close to that in Poland and visibly above that in Hungary, but widened its considerable negative spread versus the levels in Czechia and the euro area.

¹¹⁹ It remained flat in the euro area.

¹²⁰ It entered negative territory in mid-year and stayed there afterwards, but recovered slightly in the closing quarter.

¹²¹ Given also their specific features, i.e. high value and extended duration.

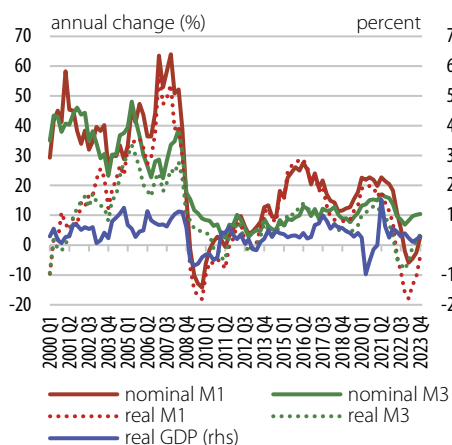
¹²² After a decline in its annual dynamics to a barely positive value in Q3.

¹²³ Their annual rate of change returned into positive territory in mid-Q3, after 13 months of negative readings.

As for liquidity in the economy, the most important developments consisted in:

1. The slower decrease in the degree of monetisation of the economy than a year earlier (to 41.5 percent from 43.0 percent in 2022), but also when compared to the euro area and the countries in the region (except for Czechia), characterised however by much higher levels of the M3-to-GDP ratio.

Chart G
Broad money and GDP

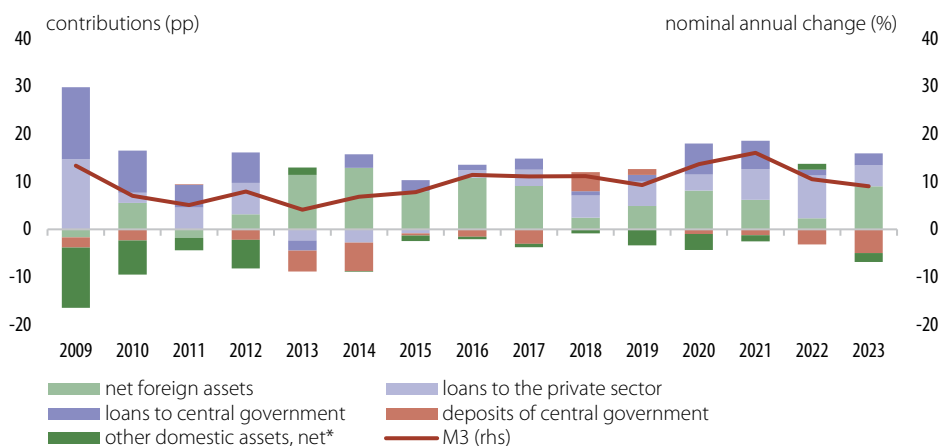


Source: NIS, NBR

The average dynamics of broad money (M3) continued to shrink in 2023, albeit at a considerably slower pace than in the previous year, reaching 9.0 percent from 10.5 percent in 2022 (Chart G). This reflected the significant decrease of private sector credit dynamics and the further rise in non-bank clients' holdings of alternative financial instruments (government securities in particular), but also the slowdown of the budget consolidation process and the absorption of a larger volume of EU funds during the reported year as well, alongside the improvement in the trade balance.

From the perspective of M3 counterparts (Chart H), net foreign assets of the banking system became again in 2023 the main driver of monetary expansion, with their growth stepping up markedly¹²⁴, whereas the contribution of credit to the private sector shrank considerably versus the previous year. At the same time, net credit to central government reported a stronger contractionary impact, given the markedly sharper advance in this sector's deposits compared with that of monetary financial institutions' investments in government securities. Long-term financial liabilities¹²⁵ also made a larger negative contribution.

Chart H
M3 and its counterparts



*) long-term financial liabilities, capital accounts, other assets and other liabilities

¹²⁴ Also against the backdrop of the increase in the volume of Eurobond issues by the MF in 2023 (to approximately EUR 9.0 billion from EUR 7.6 billion in 2022).

¹²⁵ Capital accounts included.

2. The sizeable drop, for the second consecutive year, in the majority share held by narrow money (M1) in M3 to a six-year low of 61.4 percent from 66.0 percent in 2022 (Chart I).

The decline was of a relatively similar magnitude to that recorded in the countries under comparison¹²⁶, with the indicator thus preserving its considerable negative spread versus the region, but much more modest vis-à-vis the euro area.

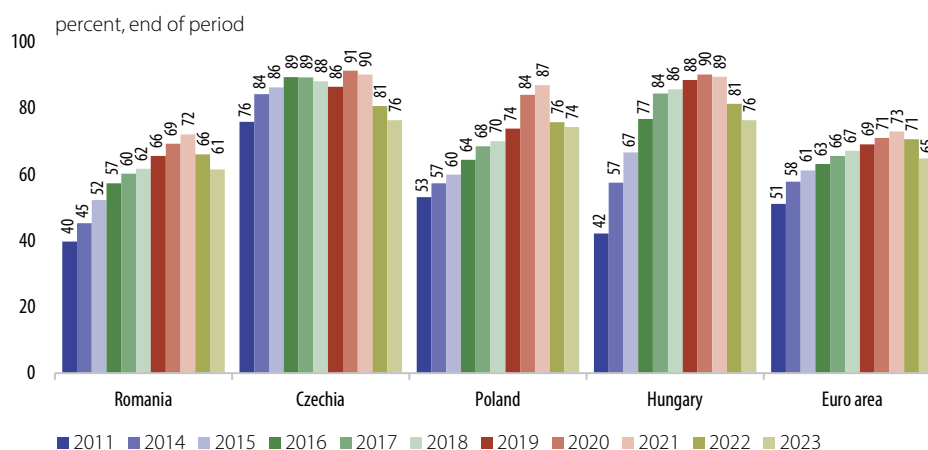


Chart I
Share of M1 in M3,
international comparison

The further lower weight in M3 of the most liquid component was the outcome of the sharper divergence, in the first months of the year, between the decreasing dynamics of M1 and the particularly high and rising rate of change of time deposits with a maturity of up to two years. This reflected the step-up in portfolio shifts from ON deposits in domestic and foreign currency to time deposits¹²⁷, primarily in lei, amid the high interest rates and the developments in the EUR/RON exchange rate. The dynamics of both major M3 components witnessed, however, a trend reversal in Q2, which became somewhat more visible towards year-end, also amid the revival of consumer demand, brought about by the rise in household income and the significant drop in the annual inflation rate.

The M1 rate of change remained, nevertheless, in negative territory for most of the year under review, its average posting a new sizeable decline in 2023 and dropping to a negative value for the first time in 13 years (-3.5 percent from 10.3 percent in 2022), due to the steeper decrease in the dynamics of ON deposits¹²⁸ (to -6.9 percent against 11.6 percent in 2022). This was counterbalanced only to a small extent in terms of impact by the mildly faster advance of currency in circulation during the year overall (to 7.1 percent), after the year-earlier sharp drop (to an average of 6.6 percent).

¹²⁶ Except for Poland, where the decrease was more modest.

¹²⁷ The process had started in 2022 Q2.

¹²⁸ Following the marked contraction in the case of the foreign currency component.

Conversely, the very high annual rate of increase of time deposits with a maturity of up to two years followed a steeper upward path in terms of average value, climbing to 39.0 percent¹²⁹ (from 11.8 percent in 2022), primarily on account of developments in household deposits, although re-embarking on a markedly downward course in mid-year.

Against this background, the share of ON deposits in M3 saw its relatively pronounced decrease extend into the first part of the year, and then fluctuated slightly, narrowing to 44.9 percent in December 2023 from 49.2 percent at end-2022. At the same time, the relative weight of currency in circulation increased in the first part of the year and shrank afterwards, to stand in December only marginally below the December 2022 reading (16.5 percent versus 16.8 percent).

3. The further relatively steady share, for the second consecutive year, of household deposits in total non-banking sector deposits at end-2023, i.e. 59.0 percent.

This occurred in a context in which the annual dynamics of total household deposits reverted and stuck to a gradually upward path, while the rate of change of similar deposits from non-financial corporations also went up during the year, yet amid sizeable fluctuations.

In terms of annual average, the growth rate of total household deposits regained considerable traction (to 10.4 percent, after the marked decline to 6.3 percent in 2022), solely on the back of the domestic currency component. This was in correlation with the return and increase to significant positive values of net real wage dynamics and with the decrease in the annual change of the stock of government securities held by this institutional sector, as well as with the high level of interest rates and the moderation of consumer demand during the year overall.

By contrast, the annual dynamics of non-financial corporations' total deposits witnessed a decline on average, to 9.6 percent from 15.4 percent in 2022, given *inter alia* the slacker rise in loans to this sector and the advance in wage costs in the reported year as well.

In turn, developments on the domestic financial market reflected since end-Q3 the influences from the repeated revisions of investor expectations on the prospects for the Fed's interest rate, which affected global risk appetite as well. Also against this background, the EUR/RON exchange rate climbed relatively abruptly in the first part of September, similarly to the exchange rates of currencies in the region, but then tended to stabilise at the new readings, amid the still high relative attractiveness of investments in domestic currency. Risks to the behaviour of the EUR/RON exchange rate stemmed, however, from the still considerable size of the external disequilibrium, the heightened uncertainties associated with fiscal consolidation, as well as from geopolitical tensions.

¹²⁹ In May 2023, the annual dynamics of time deposits with a maturity of up to two years advanced to a post-October 2009 high of 47.7 percent.

Moreover, the November forecast showed a worsening of the short-term inflation outlook, given the fiscal and budgetary measures envisaged to be implemented in the closing months of 2023 and at the beginning of the following year in order to carry on the budget consolidation. Specifically, in the context of the new forecast, the annual inflation rate was expected to pick up in January 2024 – under the impact of the increase and introduction of some indirect taxes and charges –, before decreasing gradually, to 4.8 percent in December 2024 from the previously-projected 4.4 percent. Then, at the end of the forecast horizon, i.e. in September 2025, it was seen declining to 3.3 percent, in the upper half of the variation band of the target.

The overall action of supply-side factors was to turn strongly disinflationary again after the January 2024 inflationary shock, mainly driven by base effects and downward corrections of some commodity prices. The balance of associated risks remained, nevertheless, tilted to the upside, given the effects potentially generated by the changes in direct taxes and by the removal of some tax breaks, as well as the possible additional tax increases called for in the future by the budget consolidation process.

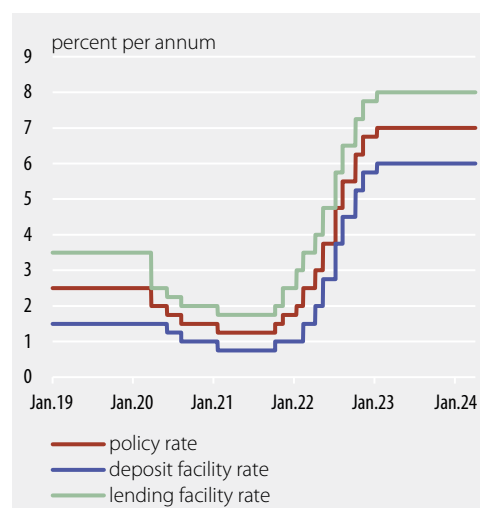
Underlying inflationary pressures were expected to be only somewhat stronger in 2023 H2 than in the previous forecast, softening visibly faster afterwards, before fading away entirely towards the end of the projection horizon. This would occur as economic growth was expected to lose significantly more momentum in 2023 than previously anticipated, before rebounding only slightly in 2024, yet more steeply in 2025, given the budget consolidation, but also the stronger absorption and use of EU funds under the Next Generation EU instrument. The evolution implied a sizeable contraction of excess aggregate demand in 2023 H2 and the entering of the output gap into negative territory towards end-2024 – some quarters earlier than previously anticipated. Furthermore, the dynamics of unit labour costs were seen halting their upward path at end-2023 and then embarking on a downward course, somewhat higher, however, than in the prior projection.

Notable uncertainties and risks further stemmed also from the future fiscal and income policy stance, given the actions taken in the closing months of the year aimed at containing budget expenditures in 2023 and the possible broadening over the next

years of the package of corrective fiscal and budgetary measures – *inter alia* in light of the commitments made under the excessive deficit procedure and the conditionalities attached to other agreements signed with the EC –, but also the potential implications of the new legislation on pensions and wages in the public sector.

Sources of significant uncertainties and risks to the prospects for economic activity, implicitly to the medium-term inflation developments, remained also the war in Ukraine and the Middle East

Chart 3.3
NBR rates



conflict that had broken out in October, as well as the absorption of EU funds, especially those under the Next Generation EU programme. To these added the uncertainties and risks stemming from the below-expectations performance of European economies.

Under these circumstances, the NBR Board decided to keep the monetary policy rate at 7.00 percent in its November 2023 and January 2024 meetings as well (Chart 3.3). Furthermore, it decided to leave unchanged the lending facility rate at 8.00 percent and the deposit facility rate at 6.00 percent. In addition, the NBR Board decided to keep the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions (8 percent and 5 percent respectively).

3. Use of monetary policy instruments

In the context of tailoring monetary conditions so as to bring the annual inflation rate back in line with the 2.5 percent ± 1 percentage point flat target on a lasting basis, the NBR continued in 2023 to flexibly use the components of the monetary policy operational framework, adapting them to the environment in which monetary policy was implemented, characterised primarily by:

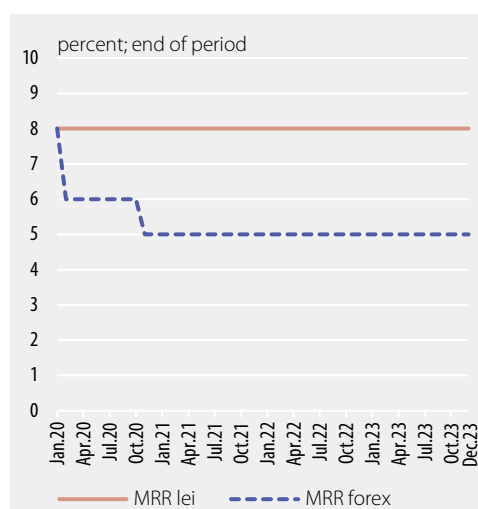
- (i) the particularly sizeable widening, to unprecedented values, of the liquidity surplus in the banking system, under the impact of operations in the Treasury's foreign currency account, associated with the budget deficit financing and the use of European funds;
- (ii) the still high relative attractiveness of investments in domestic currency and the prevalence of the positive sentiment on the international financial market in the first part of the year, but also a subsequent increase in fluctuations of the global risk appetite, amid repeated revisions of investor expectations on the outlook for the Fed's interest rate;
- (iii) the further relatively steep downtrend of the annual dynamics of leu-denominated credit during the first quarters of the year;
- (iv) the faster rise in the international reserve and the improvement of reserve adequacy indicators, amid the larger volume of Eurobond issues by the MF on external markets¹³⁰ and the further very high inflows of EU funds.

Under the circumstances, the NBR complemented the January policy rate increase and its subsequent status-quo by a similar rise in interest rates on standing facilities and leaving them unchanged afterwards. In addition, the central bank kept the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions at 8 percent and 5 percent respectively. This was in correlation with the size and prospects of the structural liquidity surplus in the banking system, as well as with the evolution of foreign currency credit in the early

¹³⁰ During 2023, the MF issued EUR- and USD-denominated bonds on external markets totalling approximately EUR 9.0 billion versus EUR 7.6 billion in 2022.

months of the year¹³¹, but also with the objective of harmonising the minimum reserve requirements mechanism with the ECB's relevant standards. The NBR has taken consistent steps over the past 15 years towards achieving this objective, which were conditional however on domestic macroeconomic and financial developments (Chart 3.4).

Chart 3.4
MRR ratios



A major role also played the management of liquidity on the money market, amid the substantial impact exerted by the Treasury's foreign currency operations associated with the budget execution and the use of European funds, but also in the context of the prevailing positive sentiment on the international financial market for most of the year and the still high relative attractiveness of investments in domestic currency, with potential implications for the leu's exchange rate developments. At the same time, the annual dynamics of credit to the

private sector extended their downtrend into September 2023, reaching a three-year low of 4.5 percent, due to the abrupt slowdown in the growth of the domestic currency component, amid the rise in interest rates and the tightening of credit standards. At such a juncture, the liquidity surplus that had re-emerged on the money market in the closing quarter of 2022 widened considerably during 2023 and was further mopped up by the central bank via the deposit facility¹³².

Against this background, ON rates on the interbank money market tended to stay in the vicinity of the lower bound of the interest rate corridor, falling however somewhat frequently in Q4 to levels significantly below the deposit facility rate.

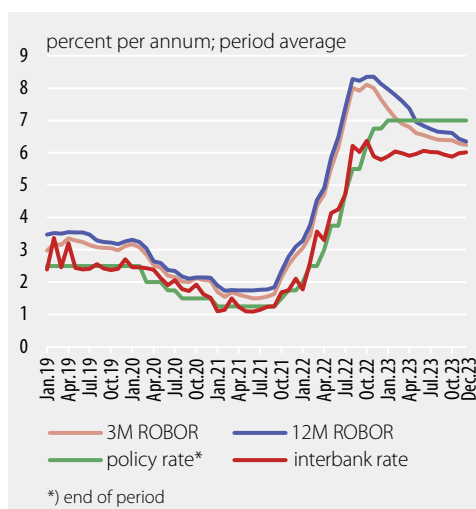
In turn, 3M-12M ROBOR rates extended into the first part of the year under review the downward path they had embarked on in 2022 Q4, although it moderated when the indicators dropped into the lower half of the interest rate corridor¹³³. Moreover, following the August monetary policy decision, the rates stayed almost steady, except for the middle segment of Q4, when they posted new mild declines, *inter alia* amid developments in ON rates. Thus, the monthly averages of these rates shrank during the year overall by values ranging between 1.41 percentage points and 1.78 percentage points compared to the substantially higher levels recorded at end-2022. In December 2023, they reached 6.25 percent for the 3M ROBOR, 6.30 percent for the 6M rate, and 6.35 percent for the 12M rate (Chart 3.5).

¹³¹ The annual growth rate of foreign currency loans stuck to a markedly upward trend until March 2023, on account of credit to non-financial corporations, but then embarked on a steep downward course, falling to a one-digit level in the closing two months of the year (7.3 percent in December, from 30.2 percent in the last month of 2023 Q1, based on values expressed in EUR).

¹³² The average daily stock of these deposits increased from lei 10.9 billion in December 2022 to lei 40.5 billion in 2023 Q4.

¹³³ In mid-Q1 for the 3M ROBOR and in mid-Q2 for the 6M and 12M rates.

Chart 3.5
Policy rate and ROBOR rates



The benchmark index for loans to consumers (IRCC) accelerated, however, its advance in 2023 Q1, to 5.71 percent (up 1.65 percentage points versus 2022 Q4), and continued to climb April through June, to 5.98 percent¹³⁴. It then remained almost constant, at 5.94 percent in Q3 and 5.96 percent in the closing three months of 2023.

Medium- and long-term reference rates on the secondary market for government securities¹³⁵ further decreased relatively steeply in the first part of the year, reflecting

the considerable improvement of investor sentiment towards financial markets in the region, but also given the higher relative attractiveness of leu-denominated government securities, *inter alia* amid the sustained drop in the current and anticipated inflation rate. The downward path was only temporarily brought to a halt by the significant influences from the shifts in direction witnessed during this period by the long-term government bond yields in advanced economies, amid the successive revisions of investor expectations on the Fed's and the ECB's prospective monetary policy conduct¹³⁶.

In the second half of the year, yields in developed economies saw, however, a steady rise for almost four months¹³⁷, but then declined markedly, reflecting the considerable revision of investor expectations on the timing of the Fed's decision to start the interest rate cutting cycle¹³⁸. Against this backdrop, medium- and long-term reference rates on the secondary market resumed and steepened their upward path until October, before embarking on a relatively abrupt downward course, interrupted only temporarily by the new law on pensions adopted domestically during this period, with possible implications for the pace of budget consolidation.

Consequently, the December 2023 averages of reference rates over the 3-, 5- and 10-year maturities shed 1.08 percentage points, 1.25 percentage points and 1.52 percentage points respectively from the readings in the same year-earlier period, to 6.30 percent, 6.40 percent and 6.46 percent respectively. Somewhat more

¹³⁴ The highest IRCC reading since its introduction.

¹³⁵ Bid-ask averages.

¹³⁶ The most relevant episode occurred in February 2023, when the downward course of local market rates came to a halt and was partly reversed, in correlation with the increases of government security yields in developed economies, amid the upward revision of investor expectations on the size of the rate hike by the Fed in the near run. In March, these increases were, nevertheless, corrected abruptly, given the banking system turmoil in the US and Switzerland.

¹³⁷ Entailed by investor expectations on the Fed keeping policy rates higher for longer, given the better-than-anticipated performance of the US economy.

¹³⁸ Amid the larger-than-expected decline in the inflation rate and the slower pace of economic growth, but also in light of the Fed's signals in the context of the December 2023 monetary policy decision. Thus, 10-year government bond yields in the US fully corrected in November-December the rise accumulated during the previous four months.

modest declines were recorded in the case of 6-month and 12-month maturities (-0.91 percentage points, to 5.97 percent, and -1.00 percentage point, to 5.98 percent respectively).

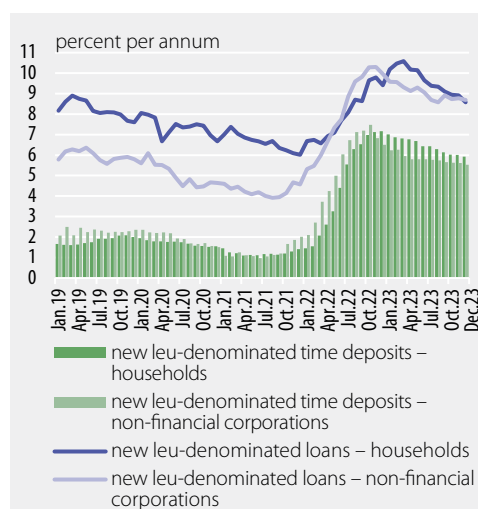


Chart 3.6
Bank rates

Alongside the prevailing influences from relevant interbank money market rates and the IRCC, developments in bank rates also reflected the effects exerted by changes in the credit flow composition, but also by keener competition among credit institutions in certain market segments, primarily that of housing loans. In this context, lending rates on new business to non-bank customers posted relatively modest declines in 2023 and of a considerably smaller size than the year-earlier increases.

Specifically, the average interest rate on new loans to non-financial corporations, which is more closely correlated with developments in ROBOR rates, followed a gradually downward path in the first eight months of the year and then stayed relatively steady, coming in at 8.69 percent in December, 1.24 percentage points below the end-2022 level (Chart 3.6). This reflected the developments in the average interest rate on both high-value loans (above EUR 1 million equivalent), which went down 1.26 percentage points during the year overall, to 8.43 percent in December, and low-value loans (below EUR 1 million equivalent), which shed 1.17 percentage points, to 8.93 percent.

The average lending rate on new business to households extended its increase into March 2023, peaking at an almost 10-year high, and then diminished gradually, to 8.58 percent in December (down 0.82 percentage points versus December 2022). Looking at the main categories of loans, the major influence came from new consumer credit, whose average interest rate remained in Q1 near the approximately 10-year high reached in December 2022 and then followed a downward course, falling in the last month of the year 1.02 percentage points below the end-2022 level, to 11.76 percent. The average interest rate on new housing loans went up further until Q2, in correlation with IRCC developments, before embarking on a downward path, which steepened in Q3, *inter alia* amid the stronger competition among banks in this market segment, but moderated visibly afterwards. Compared to end-2022, the indicator thus dwindled only slightly, by 0.23 percentage points, to 6.82 percent in December 2023.

The average remuneration of new time deposits from households decreased gradually throughout the reported year, after the 12-year peak recorded in December 2022, to stand at 5.89 percent at end-2023 (down 1.26 percentage points against the year-earlier value). The average interest rate on new time deposits from non-financial corporations saw a relatively slower decline, shedding 0.98 percentage points versus December 2022, to 5.52 percent at end-2023.

Against this background, the spread between the average interest rate on new loans and that on new time deposits widened during the period overall compared to the historical low reached in the second part of 2022. In sectoral terms, this indicator grew more sizeably in the case of non-financial corporations, but more moderately for households, where it stayed low from a historical perspective.

4. Policy outlook

The NBR will further act consistently towards ensuring and preserving price stability over the medium term, in line with the flat inflation target of 2.5 percent ± 1 percentage point, thus marking the best contribution that monetary policy can make to sustainable economic growth; moreover, over the medium to long horizon, the monetary authority will aim to bring down and consolidate the annual inflation rate at a level compatible with the ECB's quantitative definition of price stability.

With a view to ensuring an adequate monetary policy stance from this perspective, the NBR Board decided to keep the key interest rate unchanged at 7 percent in its meetings held during 2024 H1¹³⁹. Accordingly, the lending facility rate and the deposit facility rate were left unchanged at 8.00 percent and 6.00 percent respectively, while the minimum reserve requirement ratios on leu- and foreign currency-denominated liabilities of credit institutions were kept at 8 percent and 5 percent respectively.

The decisions were taken in a context in which the annual inflation rate halted, in January 2024, its sharp fall seen over the previous four quarters¹⁴⁰, moving further away from the upper bound of the variation band of the target, while the new data and assessments reconfirmed the prospects for its decline to resume and continue at a much slower pace than in 2023, amid heightened uncertainties and risks to disinflation.

Specifically, the annual inflation rate climbed to 7.41 percent in January 2024¹⁴¹, in line with expectations, before decreasing in smaller steps over the next two months, down to 6.61 percent in March, a level similar to that at the end of last year¹⁴². At the same time, the adjusted CORE2 inflation slowed its deceleration during this period compared to the previous two quarters, its annual rate falling to 7.1 percent in March from 8.4 percent in December 2023. This owed to the moderation in disinflation

¹³⁹ The meetings took place in January, February, April and May.

¹⁴⁰ The annual inflation rate embarked on a steadily downward path in December 2022, dipping from 16.67 percent in November 2022 to 6.61 percent in December 2023.

¹⁴¹ Under the impact of the rise and introduction of indirect taxes and fees, as well as amid the base effect associated with the movements in the electricity price.

¹⁴² The return to the December 2023 level owed to the relatively equal opposite effects generated in 2024 Q1, on the one hand, by the increases in the dynamics of electricity, fuel and tobacco product prices – amid a base effect, the hikes in excise duties and higher crude oil prices – and, on the other hand, by the deceleration in core inflation and the decline in the dynamics of VFE prices.

particularly for food prices, but also for the prices of non-food items and services¹⁴³, the annual dynamics of which were still very high.

Economic activity contracted by 0.5 percent in 2023 Q4¹⁴⁴, but was expected to pick up significantly in the first part of this year, which made it likely for excess aggregate demand to widen slightly and return in mid-2024 near the previously-forecasted levels, after having narrowed somewhat more sharply in the closing three months of last year.

Moreover, the labour market easing trend observed in 2023 H2 halted or even temporarily reversed earlier this year, especially given that the ILO unemployment rate dropped markedly in March, after several quarters of relative stagnation at an average level of 5.6 percent, and hiring intentions over the near-term horizon increased in April for the third successive month. In addition, the double-digit annual dynamics of the average gross nominal wage continued to rise in January-February 2024, while the growth rate of unit labour costs in industry fell only slightly compared to the previous quarter average, remaining very high.

At the same time, the annual dynamics of leu-denominated loans picked up at end-Q1 2024 versus December 2023, on the back of loans to households, whose growth continued to gather momentum in this period, *inter alia* with new consumer credit hitting an all-time high in March. The share of the leu-denominated component in credit to the private sector increased to 68.9 percent in March 2024, from 68.4 percent in December 2023, also as a result of developments in foreign currency-denominated loans (expressed in euro), whose dynamics stuck to the fast-paced downward trend in the first three months of the year.

Against this background, the medium-term forecasts updated in 2024 H1¹⁴⁵ reconfirmed the prospects for the annual inflation rate to decline over the next two years at a much slower pace than in 2023, but also slower than projected in November 2023, given that its anticipated path was revised slightly upwards over the longer term in February and over the short term in May.

Specifically, according to the May projections, the annual inflation rate was expected to go down to 4.9 percent in December 2024, versus the previously anticipated 4.7 percent, and fall only marginally inside the variation band of the target at the end of the projection horizon, i.e. 3.4 percent in March 2026, in line with previous forecasts¹⁴⁶.

¹⁴³ The deceleration stemmed, in this period too, from disinflationary base effects, corrections in agri-food commodity prices and the measure to cap the mark-ups on basic food products, but also from the slower dynamics of import prices. A moderate opposite influence had the direct and indirect effects of the fiscal measures implemented at the beginning of 2024 and the higher short-term inflation expectations, as well as the new increases in wage costs recorded towards the end of the previous year, which were passed through, at least in part, into the prices of some services and goods, *inter alia* amid the rebound in private consumption.

¹⁴⁴ Conversely, the annual GDP growth picked up to 3.0 percent in 2023 Q4, from 1.9 percent in the previous quarter, with the contribution of all domestic demand components, especially that of gross fixed capital formation, but also with a significant contribution from household consumption.

¹⁴⁵ The medium-term projections published in the February and May 2024 *Inflation Reports*.

¹⁴⁶ The February 2024 projection envisaged the annual inflation rate to decline to 3.5 percent in December 2025.

The decline would be further driven primarily by supply-side factors. However, their disinflationary action would weaken progressively, and more markedly over the short term than anticipated earlier, amid the softening influences expected from base effects and from downward corrections of agri-food commodity prices¹⁴⁷, but also given the relatively higher dynamics anticipated in the fuels and tobacco products segments over the following quarters. Moreover, the evolution of crude oil and other commodity prices remained a source of inflationary risks, at least in the short run, especially in view of the geopolitical tensions.

In turn, underlying inflationary pressures were seen persisting and easing only slightly over the projection horizon, given that the economy was expected to gradually accelerate its growth in 2024 and 2025, and somewhat more noticeably than previously foreseen. This would occur amid the moderation of inflation and the gradual recovery of external demand, but especially considering the fiscal policy stance and the use of EU funds under the Next Generation EU programme. The prospects implied that the positive output gap would narrow very slowly, particularly during 2025, and remain significant at the end of the forecast horizon¹⁴⁸.

At the same time, household consumption was expected to become again this year and to remain in 2025 the main driver of GDP growth, while the current account deficit was anticipated to slow down strongly its downward correction as a share of GDP and stay well above European standards in 2024-2025. In addition, unit labour cost growth was envisaged to moderate only mildly in the current year, remaining visibly faster than previously anticipated.

Furthermore, heightened uncertainties and risks were associated with the fiscal and income policy stance, stemming in 2024 from the outcome of the budget execution in the first months of the year, the public sector wage dynamics and the full impact of the new pension law. Beyond this horizon, heightened risks were however linked to the fiscal and budgetary measures that might be implemented in the future to carry out the fiscal correction and to put the budget deficit onto a sustainable downward path, compatible with the requirements of the excessive deficit procedure and with the conditionalities attached to other agreements signed with the EC.

Uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, also continued to arise nevertheless from the war in Ukraine and the Middle East conflict, as well as from the economic performance in Europe and the absorption of EU funds, especially those under the Next Generation EU programme.

Looking ahead, monetary policy will continue to aim to bring back and keep the annual inflation rate in line with the flat target, *inter alia* by anchoring inflation expectations over the medium term, while minimising costs in terms of economic growth.

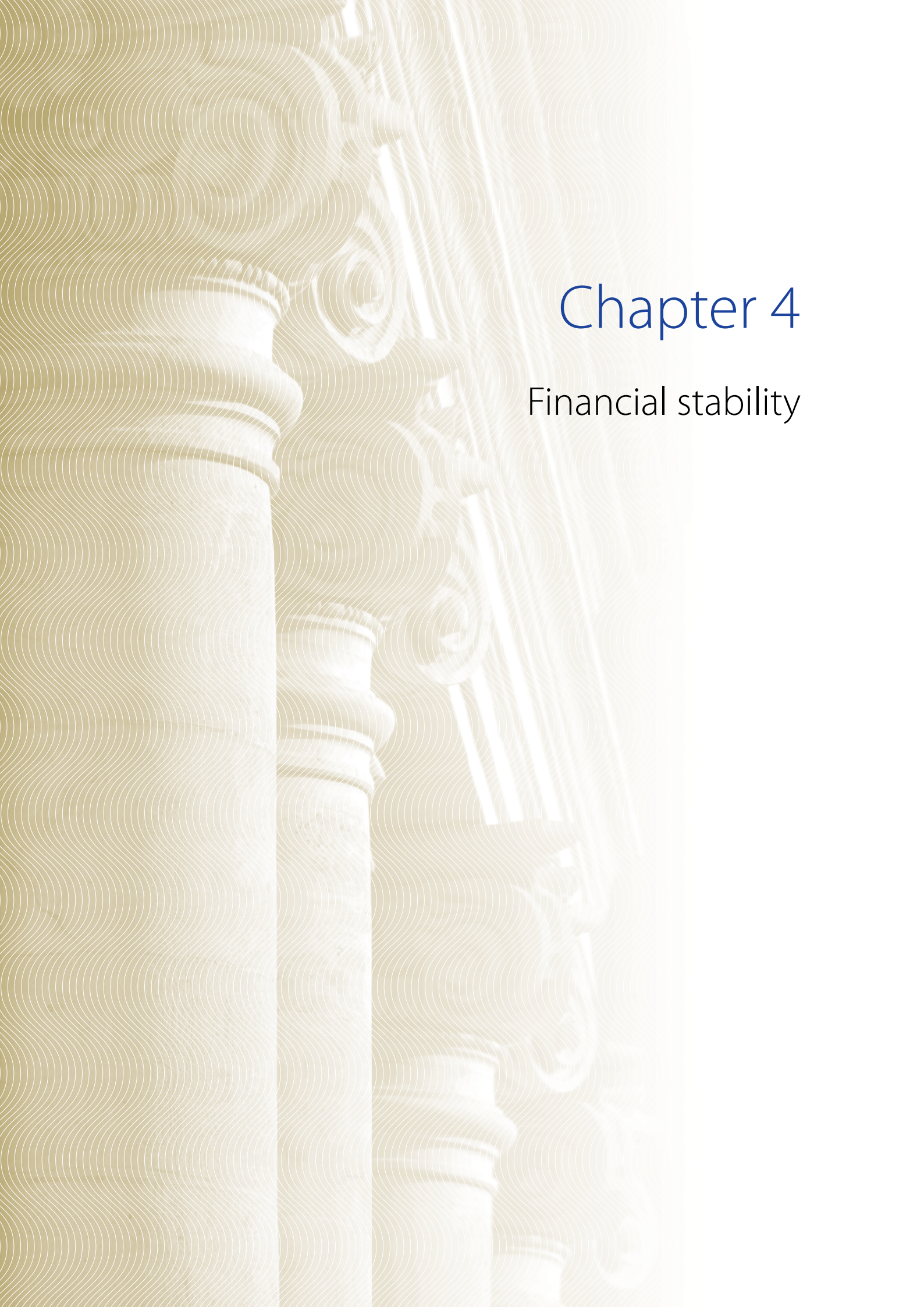
¹⁴⁷ Anticipated to be further reflected mainly at the level of core inflation subcomponents and in the administered prices segment.

¹⁴⁸ Against this background, but also under the influence of supply-side factors and the capping of mark-ups on staples, as well as due to the decrease in short-term inflation expectations and import price dynamics, the annual adjusted CORE2 inflation rate was anticipated to decline further somewhat faster than headline inflation dynamics, albeit on a slightly higher-than-previously-envisaged path, down to 5.3 percent in December 2024 and 3.5 percent at the end of the projection horizon.

The calibration of monetary policy parameters, the NBR's policy rate included, while ensuring adequate real monetary conditions, will be correlated mainly with the intensity of underlying inflationary pressures, with the pace of further decline of the annual inflation rate and with its level, as well as with the behaviour of medium-term inflation expectations.

The uncertainties and risks associated with the inflation outlook, having among the sources also the geopolitical conflicts and economic developments in Europe, will continue to play a major role in substantiating the monetary policy decisions. Moreover, the characteristics of the monetary policy transmission mechanism, especially of lending to the private sector and of the saving behaviour, will continue to be significant landmarks. Also relevant will remain the major central banks' monetary policy decisions and the stance of central banks in the region.

Particularly important in terms of monetary policy design will further be the fiscal and income policy stance – with implications *inter alia* for the sovereign risk premium and financing costs –, as well as the absorption of EU funds, especially those under the Next Generation EU programme, presumed to speed up and expand structural reforms. Ensuring a balanced macroeconomic policy mix, together with enhancing the potential and strengthening the resilience of the Romanian economy, is pivotal to safeguarding medium-term price stability, as a prerequisite for sustainable economic growth.



Chapter 4

Financial stability

1. The NBR's role in implementing macroprudential framework

In Romania, the National Committee for Macroprudential Oversight (NCMO) was established pursuant to Law No. 12/2017 on the macroprudential oversight of the national financial system¹⁴⁹ as an interinstitutional cooperation structure without legal personality, comprising representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government (via the Ministry of Finance). Each institution has three members with voting rights, as well as a member without voting rights from the Bank Deposit Guarantee Fund. The NCMO's fundamental objective is safeguarding financial stability, also by strengthening the resilience of the financial system and by containing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial system to economic growth. In order to support the NCMO's activity, the NBR makes assessments and analyses of the financial system components under its remit and ensures the NCMO Secretariat.

In 2023, many member states of the European Economic Area (EEA) adopted a prudent macroprudential policy stance, primarily by keeping in place the measures taken in the previous years (2021-2022). The instruments adopted following the COVID-19 pandemic focused on increasing the banking sector's resilience, after macroprudential requirements were either lowered or temporarily suspended in most EEA countries during the health crisis. The tightening cycle was supported by two factors: (i) the further increase in lending, fuelled by the efforts of governments and central banks/competent authorities to introduce compensatory measures in response to the health crisis and (ii) the robust profitability of the European banking sector. Moreover, this approach was also supported by the European Central Bank (ECB)¹⁵⁰, which highlighted the importance of preserving capital buffers, so that they can be used should the financial soundness indicators of banks deteriorate. At the same time, the ECB encourages the increases in buffer rates in countries facing high risks and vulnerabilities, as long as the potential measures are not procyclical.

In 2023, the NCMO General Board convened in four meetings, all held with the physical presence of members at the NBR's headquarters¹⁵¹. During the meetings, Board members were presented with papers concerning the macroprudential policy and the identification of systemic risks to financial stability in Romania, for purposes of analysis, decision or information. After every meeting, the NCMO published on its

¹⁴⁹ Published in *Monitorul Oficial al României*, Part I, No. 192 of 17 March 2017.

¹⁵⁰ "Implications for macroprudential policy as the financial cycle turns", "What informs the decision to release capital buffers", *ECB Macroprudential Bulletin*, July 2023.

¹⁵¹ For further details on the NCMO meetings, see the NCMO's 2023 *Annual Report* and the press releases published on the NCMO website.

website a press release to inform the general public about the discussed topics and the adopted decisions. Moreover, in 2023, the NCMO issued five recommendations and six decisions on the macroprudential policy measures addressed to the NCMO member authorities. The NCMO-recommended measures are in line with those implemented by the macroprudential authorities in EEA countries, the primary objective being that of increasing banking sector resilience to different kinds of shocks. The macroprudential policy decisions of EEA countries focused, *inter alia*, on the recalibration of the countercyclical capital buffer (CCyB) rate, as well as on the usability of the systemic risk buffer (SyRB), the latter being the most flexible buffer in terms of implementation (Box 6).

The NCMO recommended the NBR to maintain the CCyB rate at 1 percent¹⁵², due to (i) the persistence of cyclical risks, *inter alia* amid the geopolitical uncertainty in Ukraine and the Middle East, (ii) the further positive trend of profitability, liquidity and solvency ratios of the banking sector, which support the build-up of capital reserves, (iii) the European trend of implementing measures to enhance banking sector resilience, *inter alia* by applying a positive neutral CCyB rate in a standard risk environment and (iv) the persistent issue of twin deficits, weighing on the domestic macroeconomic context. The CCyB rate was raised for the first time pursuant to NCMO Recommendation No. R/7/2021, whereby the NBR was recommended to increase the CCyB rate to 0.5 percent as of 17 October 2022. Subsequently, the CCyB rate was recalibrated to 1 percent as of 23 October 2023, according to NCMO Recommendation No. R/4/2022¹⁵³. The decision to increase the CCyB rate is in line with the ESRB approach illustrated in its 2022 warning¹⁵⁴, namely that of proactively building capital buffers to mitigate potential shocks that could occur in the period ahead and allow the banking sector to subsequently support economic recovery.

As for the O-SII buffer, following the 2023 assessment using the information available as at 31 December 2022, the NCMO identified nine systemically important credit institutions (O-SIIs)¹⁵⁵, while the buffer calibration methodology based on the bucketing approach (adopted in 2021¹⁵⁶) resulted in the enforcement, in 2024, of O-SII buffer requirements, as follows: (i) 2 percent for Banca Transilvania S.A. (consolidated level), (ii) 1.5 percent for UniCredit Bank S.A. (consolidated level), Banca Comercială Română S.A. (consolidated level), BRD – Groupe Société Générale S.A. (consolidated level), (iii) 1 percent for Raiffeisen Bank S.A. (consolidated level), CEC Bank S.A. (individual level) and (iv) 0.5 percent for OTP Bank România S.A. (consolidated level), Alpha Bank România S.A. (individual level), and Exim Banca Românească S.A. (individual level). For 2024, the capital buffer for other systemically important institutions was set in accordance with NCMO Recommendation No. R/4/2023¹⁵⁷.

¹⁵² NCMO Recommendations No. R/1/2023, No. R/2/2023, No. R/3/2023, No. R/5/2023, No. R/1/ 2024 can be found on the NCMO website.

¹⁵³ Implemented by the central bank via NBR Order No. 7/2022 amending NBR Order No. 12/2015 on the capital conservation buffer and the countercyclical capital buffer.

¹⁵⁴ Warning of the European Systemic Risk Board on vulnerabilities in the Union financial system (ESRB/2022/7)

¹⁵⁵ Other Systemically Important Institutions (O-SIIs)

¹⁵⁶ Methodology for identifying systemic credit institutions and calibrating the O-SII buffer

¹⁵⁷ The NBR implemented the NCMO recommendation by issuing Order No. 9/2023 on the buffer for credit institutions authorised in Romania and identified as other systemically important institutions (O-SIIs), published in *Monitorul Oficial al României*, Part I, No. 1177/27 December 2023.

Another capital buffer is the systemic risk buffer (SyRB) that has been applied in Romania ever since 2018¹⁵⁸. SyRB is calibrated based on asset quality indicators, i.e. the NPL ratio and the NPL coverage by provisions. Depending on the average recorded by above-mentioned indicators for a period of 12 months prior to application, the SyRB rate is set at 0 percent, 1 percent or 2 percent respectively. The decision for each of these buffer rates is done by taking into account the established reference thresholds (5 percent for the NPL ratio and 55 percent for the NPL coverage ratio). According to the half-yearly analysis presented to the NCMO in October 2023, in 2024 H1, no credit institution will apply a SyRB rate of 2 percent, while five banks will apply a SyRB rate of 1 percent. The relatively small number of institutions applying the SyRB buffer is indicative of a significant improvement in the quality of the customer loan portfolio since the introduction of this buffer and is the result of active balance sheet clean-up and the shift to prudent provisioning policies. Specifically, the number of banks applying a SyRB rate of 0 percent grew from two in 2018 H2 (the year of implementation of this macroprudential instrument) to 16 in 2024 H1.

The fourth capital buffer established by banks in Romania is the capital conservation buffer (CCoB), at a rate of 2.5 percent¹⁵⁹, evenly implemented across the EU as early as 2019 based on the CRD IV regulatory framework.

The NCMO also took other macroprudential decisions in 2023, including those of not applying through voluntary reciprocity the macroprudential measures adopted by Norway, Sweden and Belgium, as the Romanian banking sector's exposures to those countries are well below the materiality threshold set by authorities to implement those measures and are not likely to generate systemic risks to the domestic banking sector. In addition, the annual assessment to identify material third countries for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates also took place in 2023. Specifically, the members of the NCMO General Board unanimously decided to designate the Republic of Moldova as a material third country for the banking sector in Romania in terms of recognising and setting countercyclical buffer rates. The NBR will monitor the economic and financial developments in the Republic of Moldova for as long as the latter remains a material third country, based on the annual identification exercise.

In addition, at the NCMO meeting of June 2023, a decision was issued on developing the cooperation framework laid down in Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework (EU-SCICF) for relevant authorities. With a view to implementing the provisions of Recommendation ESRB/2021/17, the NCMO decided to set up a standing inter-institutional working group within the Technical Committee on systemic risk, which will facilitate the development of the cooperation framework among relevant institutions at national and European levels. The working group comprises representatives of the authorities with responsibilities in the field, namely the National Bank of Romania, acting as the main point of contact under Recommendation B of Recommendation ESRB/2021/17,

¹⁵⁸ NCMO Recommendation No. 9 of 18 December 2017 on the systemic risk buffer in Romania.

¹⁵⁹ At national level, the capital conservation buffer has been implemented starting with 1 January 2016, in increments of 0.625 percent per annum in 2016-2019, as follows: (i) 0.625 percent as of 1 January 2016; (ii) 1.25 percent as of 1 January 2017; (iii) 1.875 percent as of 1 January 2018; (iv) 2.5 percent as of 1 January 2019.

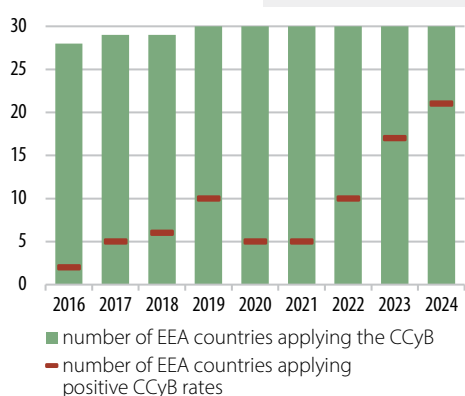
the Financial Supervisory Authority, the Government of Romania and the Cyber Security National Directorate, which is subordinated to the Government.

The National Bank of Romania informed the NCMO General Board, in its meeting of 14 December 2023, on the outcome of assessment of macroprudential instruments since their implementation in the national legislation until the end of 2023, as part of the macroprudential policy decision-making process in Romania. The general conclusions of the analysis indicated that capital buffers helped improve the prudential indicators of credit institutions and increase the banking sector resilience, in line with European approaches.

In order to strengthen financial system resilience and capacity to support the real economy, amid the geopolitical turmoil, it is mandatory to ensure the adequate build-up of capital reserves by credit institutions during upturns. In this context, the NBR will continue to closely monitor the evolution of financial institutions under its supervisory remit and use the instruments in its portfolio in order to prevent the situations that could jeopardize financial stability.

Box 6. Macroprudential policy trends at European and national level

The main macroprudential instrument used at European level was the countercyclical capital buffer (CCyB), designed to be built up during the expansionary phase and released during the contractionary phase of the financial cycle.



Note: The number of EEA countries having positive CCyB rates was determined based on the buffer rates effective at the end of every year.

Source: ESRB

Chart A
Number of EEA countries applying the CCyB

According to the CRD IV legislative and regulatory framework, Member States had the obligation to implement the CCyB in the national legislation starting with 1 January 2016. Some of them opted for the early introduction of this buffer, while most of them activated the buffer in the course of 2016. After a cautious start, only two Member States had applied positive CCyB rates by end-2016. Subsequently, the build-up of countercyclical buffers strengthened slightly by the end of 2019, when 10 countries had applied CCyB rates higher than 0 percent, whereas three other countries had decided to implement positive CCyB rates for the following year.

However, the outbreak of the COVID-19 pandemic put an end to the tendency to raise the applicable CCyB rates and to the growing number of countries applying positive buffer rates.

Due to the uncertainty about economic activity dynamics, with prospects of notable declines at the onset of the pandemic, the Member States that had activated this instrument decided to reduce the applicable buffer rates in their jurisdictions in part or in full (Chart A).

However, given the economic recovery signals in the post-pandemic period, concurrently with the step-up in lending, many countries became concerned with strengthening banking sector resilience, particularly by building up reserves that can be used during periods of distress or should an exogenous shock occur, and

decided to raise again the CCyB rate. Thus, most European countries took measures to increase the CCyB rate, some of them being already implemented by end-2023, while others are set for implementation during the 2024-2025 period. Moreover, an increasingly used approach at European level is that of applying a positive neutral CCyB rate, in order to build up macroprudential space for national authorities early in the financial cycle in the event of potential risks materialising.

On the domestic front, the decisions on the CCyB calibration were in line with those adopted in Europe, the buffer rate being raised to 0.5 percent, from 0 percent, for the first time since its implementation into national law as at 17 October 2022, and subsequently recalibrated to 1 percent, starting 23 October 2023.

As regards the O-SII buffer, in 2023, 182 systemically important institutions were identified in the EEA countries, as compared to 2022, when 181 entities were classified as O-SIIs. Moreover, in 2023, seven global systemically important banks were identified in Europe, one less than in the year before. The identified G-SIIs were based in France (4), Germany (1), the Netherlands (1) and Spain (1), while the institution that left the G-SII group in the latest identification exercise was based in Italy.

Looking at the calibration methods used by Member States to identify systemically important institutions, it can be noticed that the bucketing approach is the most widely used practice. The method consists of defining a number of buckets of varying width and, based on the score of credit institutions, they are classified in the predefined intervals, being assigned different O-SII buffer values. At European level, according to EBA report analysing these statistics¹⁶⁰, 22 countries used this O-SII buffer calibration method. For 18 of these countries, the bucketing approach is the only method used to calibrate the buffer rate.

In Romania, the O-SII buffer is calibrated based on the bucketing approach used in Europe. Specifically, the NCMO and the NBR approved the use of this approach as of 1 January 2022, in order to implement at national level the provisions of the CRD V regulatory framework for the O-SII buffer. The range of banks' scores is divided into six buckets of 500 basis points each, which are assigned O-SII buffer values in ascending order based on systemic importance, in equal increments of 0.5 percentage points (from 0.5 percent to 3 percent).

As for the systemic risk buffer (SyRB), at end-2023, more than half of EEA countries had applied or announced the implementation of a SyRB rate above 0 percent. After the entry into force of the amendments made by the CRD V regulatory framework, several countries decided to implement a sectoral systemic risk buffer (sSyRB). Through this new approach, macroprudential authorities can address multiple risks occurring simultaneously across several layers of the financial system. At end-2023, eight countries had implemented or were about to implement a sectoral systemic risk buffer, the most frequent reason for using this approach being related to real estate market vulnerabilities.

¹⁶⁰ EBA proposes appropriate methodology to calibrate O-SII buffer rates.

The experience acquired to date by European countries shows their keen interest in using the SyRB, given the high degree of flexibility in its implementation and calibration. The SyRB implementation is very heterogeneous across Member States in terms of both buffer rate and the risks considered when taking decisions on buffer calibration, due to the specifics of every national financial system.

In Romania, the SyRB is applied in compliance with NCMO Recommendation No. 9/2017 aiming to: (i) ensure adequate management of credit risk from a macroprudential perspective and (ii) safeguard financial stability, amid the tensions surrounding domestic macroeconomic equilibria and the potentially lingering regional and global uncertainties.

2. Main assessments on financial stability

The main risks to financial stability in Romania identified in the previous *Report* persisted, but the risk generated by the heightened global uncertainty (assessed as severe) amplified. The resilience of the international financial system was tested at the beginning of 2023 by the failure of some significant US banks (SVB, Signature Bank and First Republic Bank) and by the takeover of Credit Suisse, a global systemically important institution. These events were compounded by less favourable macroeconomic developments as compared with the years before, the restrictive financial conditions specific to the downward phase of the financial cycle and the heightening geopolitical tensions amid the outbreak of the Middle East conflict and the ongoing war in Ukraine. The risk of tensions surrounding domestic macroeconomic equilibria was further assessed as severe, given the regional and international geopolitical developments, as well as the uncertainty regarding fiscal and income policy stance. The two other lower systemic risks remained unchanged too. The risk associated with the delay in implementing reforms and in absorbing EU funds, especially via the National Recovery and Resilience Plan (NRRP), was assessed as high, with a stable outlook, while the default risk for loans to the private sector remained moderate, albeit on the rise.

The same as in the previous *Reports*, it is worth noting that these risks may amplify the structural vulnerabilities of Romania's economy, particularly (i) the loose payment discipline in the economy and low capitalisation of a large part of non-financial corporations sector, (ii) the low financial intermediation, (iii) demographic developments and structure and (iv) climate change issues.

In this context, the Romanian banking sector remained resilient, as the key financial and prudential indicators posted favourable developments, their levels staying higher than or similar to those recorded by other European countries (for further details, see Section 2.2).

2.1. Indebtedness of non-financial corporations and households

Developments in indebtedness show that Romania's economy is in the downward phase of the cycle (Chart 4.1), as is the case globally and in the euro area. Total debt¹⁶¹ of non-financial corporations and households remained on an uptrend, but its rate of increase lost significant momentum in 2023 (to 4 percent, as compared to 9 percent in 2022 and 12 percent in 2021). Specifically, at end-2023, total debt amounted to lei 705.6 billion, whereas the debt-to-GDP ratio dropped by 2.7 percentage points to 45.5 percent.

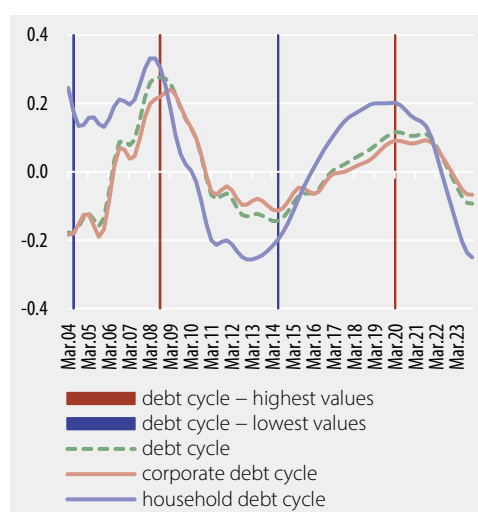


Chart 4.1
Debt cycle¹⁶²

The rise in indebtedness over the past year was largely due to domestic financial institutions, being supported by the ongoing government efforts to support bank lending, on the one hand, and the higher importance of NBFIs, on the other.

Unlike domestic lending, loans from non-residents remained relatively unchanged, but when looking at their breakdown, they witnessed a significant change in dynamics. Specifically, external loans from financial institutions rose moderately by 3 percent, after

decreasing repeatedly in the previous years (-8 percent in 2022, -6 percent in 2021 and -1 percent in 2020). These developments were accompanied by a mild contraction in loans from non-resident enterprises in the form of FDI (-1 percent).

The reversal of the spread of interest rates on external versus domestic EUR-denominated loans explains these developments only to a small extent, as the non-financial corporations sector accounts for less than 10 percent of the advance in external loans. Another explanation lies with households' increased access to digital lending products provided by European financial institutions lacking physical presence in Romania.

At sectoral level, companies finance themselves from both non-residents and resident financial institutions, the post-pandemic evolution highlighting the higher importance of domestic bank loans than that of FDI loans. Thus, loans from credit institutions in Romania accounted for 42 percent of non-financial corporations' debt (up by 1.7 percentage points from end-2022 and by 5.7 percentage points versus December 2019). The share of FDI loans declined, making up 43 percent of total (from approximately 45 percent in December 2022 and December 2019).

¹⁶¹ Total debt comprises bank loans, NBFi loans, external debt from financial institutions and foreign direct investment (FDI) loans.

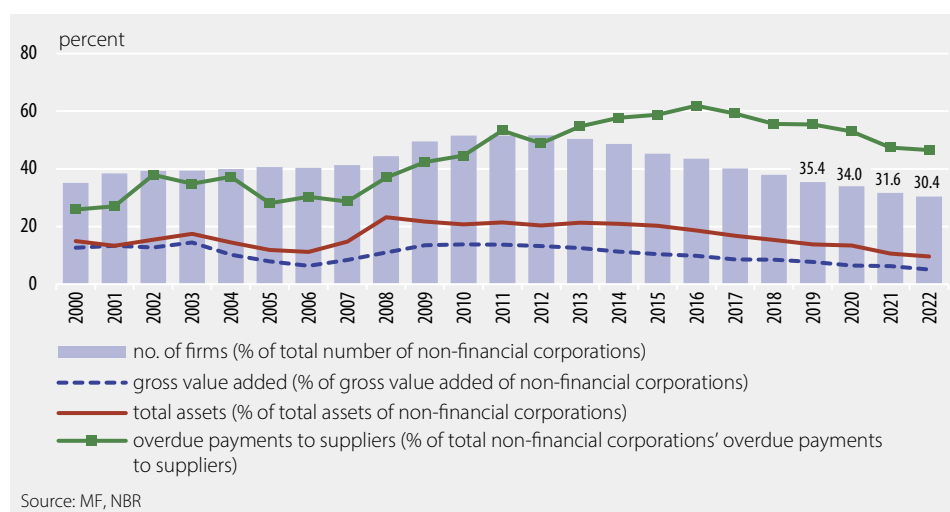
¹⁶² The cycle is calculated using the Christiano-Fitzgerald filter, assuming the length of the cycle is 14 years. The Bry-Boschan method was used to identify the minimum and maximum values over a four-quarter period.

In contrast to the corporate sector, households take loans mainly from domestic credit institutions (88 percent). However, starting with 2023 H2, household loans from non-resident financial institutions stepped up. In general, they are low-value loans, currently holding a relatively small share in total debt, i.e. 1.3 percent. Nevertheless, there are several factors indicating possible build-ups of risks that call for close monitoring. First, the swift increase in the importance of external loans and the relatively large number of persons that took such loans, in a short period of time, point to households' substantial demand for this kind of financing. Second, the easy access to lending products and the less strict regulatory framework can lead to the over-indebtedness of vulnerable (low-income) borrowers.

The less favourable economic developments in 2023 as against 2022 also reflected in the financial standing of companies. Specifically, in 2023 H1, the most important firms¹⁶³ reported contractions in net profit (-12.6 percent) and return on equity (down by approximately 3 percentage points as compared to 2022 H1). However, the solvency and liquidity ratios of these firms saw marginal changes. Thus, the debt-to-equity ratio remained at 1.4, while the current ratio decreased slightly to 120 percent.

Low capitalisation and loose payment discipline are further among the major structural vulnerabilities of the corporate sector. Companies with equity below the regulatory threshold¹⁶⁴ make up a large part of total firms (30.4 percent in 2022, Chart 4.2). Their share continued to narrow over the past years, but at a considerably slower pace in 2022 (-1.2 percentage points as against -2.1 percentage points in 2019-2021). Furthermore, the balance sheet consolidation seen in recent years came to a halt in 2022. In view of the less favourable economic developments and restrictive financial conditions, the negative evolution is very likely to have continued in 2023 too. Firms' equity decreased by 4 percent in real terms in 2022, after posting a real growth rate of 6 percent in the previous years (2019-2021 average). In 2023 H1, the equity of most important companies in the economy increased slightly (up 1.2 percent in real terms).

Chart 4.2
Undercapitalised non-financial corporations



¹⁶³ The firms that in the 2022 financial year reported a turnover higher than EUR 1 million and submitted their half-yearly financial statements to the Ministry of Finance.

¹⁶⁴ Law No. 31/1990 on commercial companies, as subsequently amended.

The large share of companies with capital shortfalls weakens the sector's resilience and limits its development. On the one hand, these companies have less resources to withstand potential financial difficulties and lower access to loans, especially during periods with tighter lending standards. On the other hand, these firms have lower resilience to shocks and, thus, pass through and even amplify these shocks to their trading partners. Companies with significant capitalisation shortfalls are accountable for approximately 60 percent of total overdue payments to non-banks and 47 percent of arrears to suppliers (according to available data for 2022). Maintaining loose payment discipline delays the restructuring or the market exit of such companies. These firms make a low contribution within the sector, generating 5 percent of gross value added and turnover and 4.7 percent of exports. Moreover, they hold a small share in banks' loan portfolios (7.7 percent), but generate approximately 30 percent of the volume of non-performing loans. Further efforts to improve the capitalisation, governance and payment discipline of non-financial corporations can help mitigate financial stability risks arising from this sector.

Box 7. Climate change – tendencies and preparedness of financial institutions

Banks' exposures to climate risk remain high, while loans to firms in climate policy relevant sectors (CPRS) amount to lei 101.8 billion, accounting for 53 percent of corporate loan portfolios (December 2023).

These sectors are also relevant in terms of banks' profitability. Specifically, according to the *Climate Change Survey*¹⁶⁵, banks' income from interest and commissions generated by CPRS financing ranged between 41 percent and 60 percent of total income. The analysis shows that most credit institutions have implemented policies aiming to mitigate climate risks at portfolio level. However, it is difficult to calculate Scope 1, 2 and 3 carbon emissions¹⁶⁶, especially Scope 3 emissions. Almost half of surveyed banks calculated Scope 1 and 2 emissions, but only a small part of them computed the Scope 3 emissions generated by their counterparties. Banks stated that the most widely used technologies to estimate Scope 3 emissions are PCAF (Partnership for Carbon Accounting Financials) and GHG Protocol (Greenhouse Gas Protocol). The efforts of financial institutions to estimate emissions and assess exposure to the transition risk are hindered by the lack of dedicated reports from firms.

According to the new non-financial reporting requirements for sustainability [Directive (EU) 2022/2464 as regards corporate sustainability reporting (Corporate Sustainability Reporting Directive – CSRD)], companies shall disclose information, such as the impact of their activity on environmental, social and governance (ESG) factors, how ESG factors affect their development, financial position and performance,

¹⁶⁵ The survey is available at <https://www.bnr.ro/DocumentInformation.aspx?idDocument=44541&directLink=1> (Romanian only).

¹⁶⁶ Scope 1 emissions stem from the consumption of fuels used by a combustion plant to produce electricity, technological steam, heat, energy. Scope 2 emissions are indirect emissions from the generation of purchased energy from a utility provider, namely all GHG emissions released in the atmosphere from the consumption of purchased electricity, steam, heat and cooling. Scope 3 GHG emissions are the result of activities from assets not owned or controlled by the reporting organisation and are linked to the company's operations. Scope 3 emissions include all sources not within the limits of Scope 1 and 2.

as well as risks and opportunities in the value chains. The first categories of companies shall implement the new rules starting with the 2024 financial year (large companies in the EU, listed on the stock exchange, with more than 500 employees shall start collecting data in January 2024 and report in 2025). ESG expectations and regulatory requirements are challenging for some entities, particularly for small-sized enterprises¹⁶⁷ that can have limited knowledge, human or financial resources.

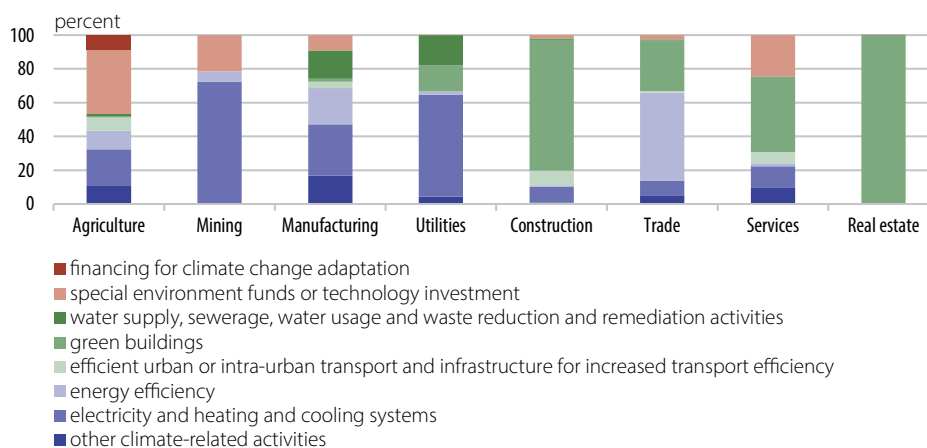


Chart A
Purpose of green loans by
economic sector, December 2023

Source: MF, NBR, NBR calculations

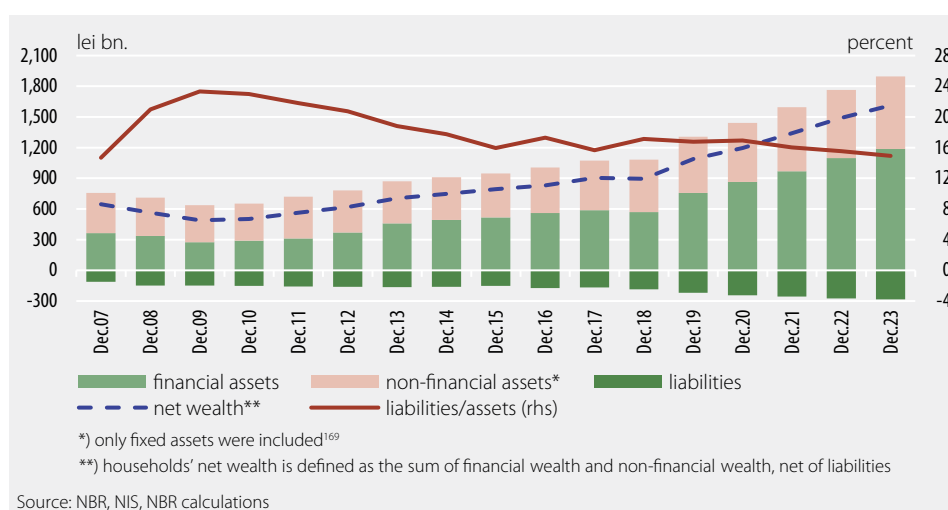
As of June 2022 the NBR has started the process of collecting, in its Central Credit Register, information on the degree of EU Taxonomy alignment of loans granted, as well as on their green purpose. According to data as at December 2023, out of total green loans, the degree of EU Taxonomy alignment is easier to be established for loans granted for renewable energy projects, green buildings, efficient transport and infrastructure for increased transport efficiency. Green loans amount to approximately lei 4.3 billion (in terms of volume, December 2023) and are directed particularly towards green buildings, electricity, heating and cooling systems, and energy efficiency (Chart A).

Households continued to improve their balance sheets at aggregate level (Chart 4.3), with assets increasing by 1 percent in real terms and liabilities decreasing by 6 percent (real annual growth rates). However, the consolidation of households' financial standing was accompanied by divergent developments at individual level. Restrictive financial conditions and the persistent inflation over the past two years have compounded net wealth inequality. Specifically, the degree of inequality, measured as the ratio of net wealth of the richest 10 percent households to total net wealth, was 57.7 percent in 2022¹⁶⁸, on a slight increase from 57.4 percent on average, in the 2016-2020 period. This is higher than the figure reported by euro area countries (56 percent, 2022-2023 average) and the latest data point to the widening of this gap by 1.8 percentage points in 2022 as compared to 1 percentage point in 2021.

¹⁶⁷ Listed SMEs shall disclose the information required by the CSRD starting with the 2026 reporting year, with reports due in 2027.

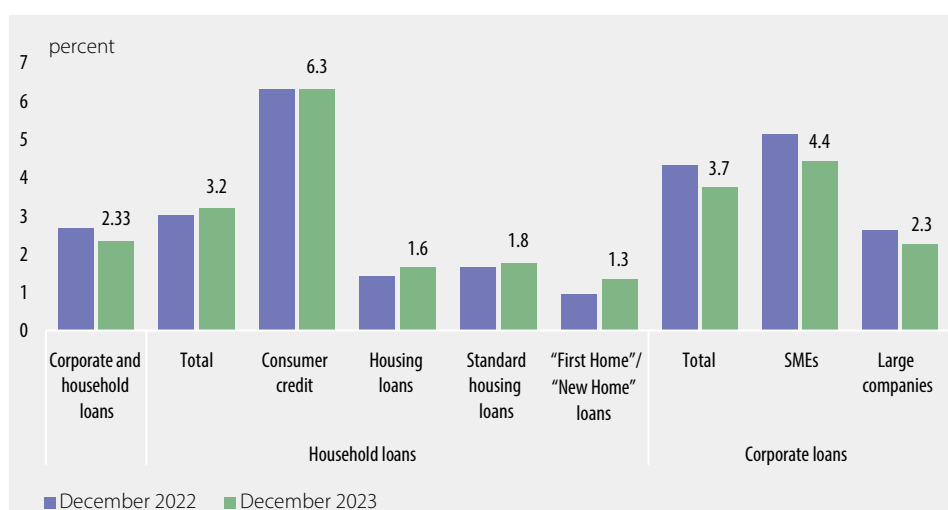
¹⁶⁸ Data for Romania are extracted from World Inequality Database, while data for the euro area are taken from the ECB Data Portal.

Chart 4.3
Households' net wealth



Households continued to save at a sustained pace in 2023. Financial assets rose by 1 percent in 2023 (real annual change), their share in total assets climbing to 63 percent (+1 percentage point versus 2022). This evolution was supported by private pension funds and the issues of government securities under the “Tezaur” and “Fidelis” programmes. Deposits increased further, albeit at a slower pace than other financial assets (4.7 percent in real terms in 2023). The breakdown shows the considerable decline in the share of demand deposits in favour of time deposits (-8 percentage points to 48 percent in December 2023). This indicates the normalisation of the saving behaviour, after demand deposits recorded the highest share in the past years in the first part of 2022, amid the energy crisis and the war in Ukraine.

Chart 4.4
NPL ratio



¹⁶⁹ Fixed assets are produced non-financial assets used repeatedly or continuously in production processes for more than one year. Fixed assets consist of dwellings, other buildings and structures, machinery and equipment, weapons systems, cultivated biological resources, and intellectual property products. Since 2020, the NIS has published non-financial assets, according to the national accounts methodology, prepared in line with ESA 2010. The annual values were linearly interpolated to obtain quarterly data, whereas for 2022 and 2023, the values were extrapolated, considering an annual growth rate of 6 percent (i.e. the average growth rate for 2003-2021), i.e. a quarterly rate of increase of 1.5 percent.

The quality of the portfolio of loans to the real sector (non-financial corporations and households) continued to improve, but some structural developments hint at a deterioration in the payment capacity of some debtors, owing *inter alia* to restrictive financial conditions specific to the downward phase of the debt cycle. Specifically, the NPL ratio went down to 2.33 percent at end-2023 (-0.32 percentage points as against December 2022, Chart 4.4). As regards the corporate loan portfolio, the NPL ratio dropped to a historical low (3.8 percent in December 2023) since the introduction of the new definition of non-performing loans by the European Banking Authority. In the households sector, the NPL ratio slightly exceeded the 3 percent threshold. The breakdown shows the deterioration in the quality of credit with state guarantees granted to non-financial corporations and that to services firms, but their levels remain manageable (2.5 percent and 4.8 percent respectively).

Restrictive financial conditions affect highly indebted firms and households to a greater extent, because of higher payment obligations related to contracted loans and lower access to cost-effective debt refinancing solutions. Credit institutions' estimates show that credit risk decreased marginally for most companies in the portfolio and increased for the riskiest ones. Specifically, the probability of default at end-2023, according to IFRS 9, declined by 0.4 percentage points for low-risk debtors (debt-to-equity ratio below 2), but rose by 0.3 percentage points for high-risk debtors (debt-to-equity ratio above 2). Banks also reported a higher probability of default for housing loans in their household loan portfolios. Thus, the average probability of default for standard housing loans was 0.3 percentage points higher in the period from December 2022 to December 2023.

The activity in the real estate market slowed down in 2023, on both residential and commercial segments, due to less favourable macroeconomic and financial conditions, and the recurrent changes in the fiscal framework for house purchases¹⁷⁰. Residential property prices grew at a significantly slower pace in the first three quarters of 2023. Their annual rate of increase was 4.8 percent at the end of 2023 Q3, which is approximately one third lower than in the same year-ago period. Losses of momentum were reported by prices of both new houses and existing dwellings, but new house prices maintained a faster tempo. Real estate transactions dropped by 9.3 percent, according to the National Agency for Cadastre and Land Registration (ANCP), whereas the volume of commercial real estate investment contracted by 60 percent in 2023 as compared to the year before.

Real estate market developments have major implications for banking activity, due to credit institutions' large exposures to this sector. Approximately two thirds of household loans and half of corporate loans are secured by real estate collateral or are granted to the construction and real estate sectors. Furthermore, exposures to the commercial real estate market can generate a number of significant vulnerabilities (Box 8).

¹⁷⁰ As of 1 January 2022, the maximum amount for the purchase of an eligible dwelling, with a 5 percent VAT rate, was raised from lei 450,000 to lei 700,000. As of 1 January 2023, the maximum amount was lowered to lei 600,000. As of 1 January 2024, the minimum VAT rate on house purchases increased to 9 percent, and the maximum amount was kept unchanged at lei 600,000.

Box 8. Challenges to financial stability from the commercial real estate market

The dynamics of commercial real estate (CRE) markets have raised increasing concerns at European and global level. At the EU level, according to the latest assessments made by the European Central Bank, the CRE market has continued its downturn, in a context of tighter financial conditions and macroeconomic uncertainty, which resulted in lower demand, particularly for office buildings and retail spaces. Commercial real estate market activity in Romania slowed down in the first part of 2023, in line with regional developments. The analysis is based on the ESRB methodology for the assessment of vulnerabilities in the commercial real estate market, across four different

risk stretches: collateral stretch, income and activity stretch, financing stretch and spillover stretch.

The collateral stretch assesses developments in prices in CRE sub-sectors and segments. In comparison with CRE markets in Western Europe, those in Central and Eastern Europe (CEE) experienced a smaller price correction over the past year. At national level, the analysis of end-2023 data highlights that a mixture of weakening supply and further steady demand, along with inflation and cost stabilisation at high levels, resulted in an increase in rents in the last year. Specifically, in 2023 prime rents rose for office and industrial spaces, as well as for retail spaces (Chart A).

The income and activity stretch assesses investment in the CRE market and the income generated by CRE properties. In 2023, the volume of CRE investment across CEE countries recorded a 10-year low, shrinking by 52 percent year on year, in line with European and global developments. Investment activity in the commercial real estate market in Romania also posted a significant decline, the volume of investment falling by approximately 60 percent in annual terms in 2023. Nevertheless, the volume of construction works for non-residential buildings rose marginally in the year under review, despite the higher construction costs (Chart B).

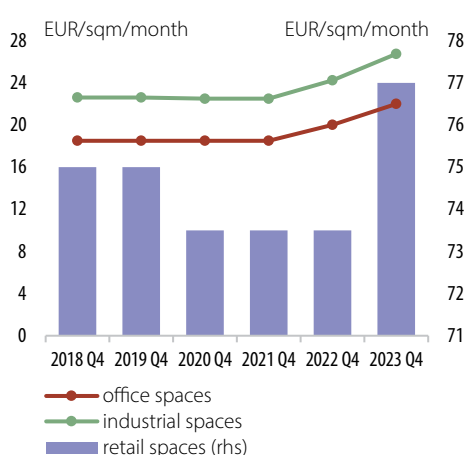
The financing stretch assesses the main vulnerabilities related to CRE exposures held by financial institutions. The exposure of the banking sector to the commercial real estate sector is elevated, accounting for about 50 percent of total loans to

non-financial corporations at end-2023. The quality of the CRE loan portfolio is lower than that of the aggregate portfolio of loans to non-financial corporations, even though it has improved, amid the lower NPL ratio for both loans granted to companies in the construction and real estate sectors and loans secured by real estate.

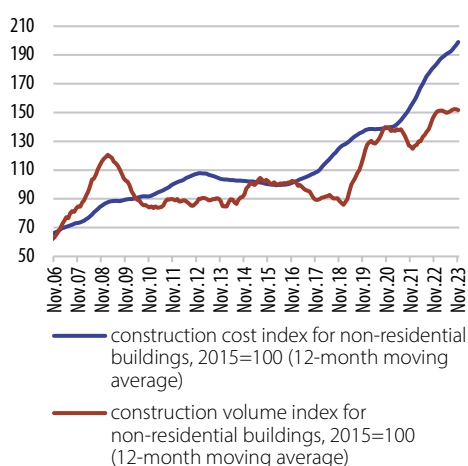
The breakdown by type of interest rate shows that floating rate loans make up the largest share of the CRE loan portfolio (93 percent). Funding costs for construction and real estate companies rose substantially, amid the higher interest rates, in line with developments across the entire non-financial corporations sector.

Chart A

Prime rents in Romania



Source: iO Partners



Source: NIS, NBR calculations

Chart B

Costs and the construction activity in the commercial real estate market in Romania

The spillover stretch assesses the risks stemming from interconnectedness between economic and financial sectors in relation to CRE domestically and globally. The analysis reveals a series of vulnerabilities. On the one hand, the funds invested in the CRE market in 2023 came primarily from the United Kingdom (47 percent), domestic investors contributing only 27 percent. On the other hand, firms operating in the commercial real estate market are largely funded by non-residents and hold around half of the medium- and long-term external private debt (including in the form of foreign direct investment) of the non-financial corporations sector as a whole. Moreover, these funds are rather highly concentrated depending on the country of origin, four countries (the Netherlands, Austria, Cyprus and Germany) accounting for 70 percent of total.

As regards the household credit, standard housing loans hold an increasingly larger share, due *inter alia* to the reduction in the guarantee ceiling for loans granted under the “First Home”/“New Home” government programme (from approximately lei 2.5 billion in 2017 to lei 1 billion in 2024). The quality of housing loan portfolio is further low, albeit on a slight increase from the year before, the NPL ratio reaching 1.3 percent for “First Home”/“New Home” loans and 1.8 percent for standard housing loans in December 2023. The characteristics of debtors are also indicative of low risk. Specifically, the median level of indebtedness at loan origination for debtors with standard housing loans in 2023 stood at 35 percent, which is well below the figures recorded before the latest change in the level of indebtedness in 2019 (44 percent in 2018).

2.2. Banking sector

In 2023, the Romanian banking sector experienced good times, despite the challenges associated with the geopolitical context and certain disruptive events (such as the bank turmoil in the United States and Switzerland). Banks consolidated their balance sheet position, the aggregate assets seeing an annual growth of 11.7 percent (to lei 852.4 billion, December 2023). The resilience of local banks is ensured by: (i) gradual increase in operational efficiency, (ii) financing strategy based primarily on retail deposits, (iii) domestic lending (share of foreign assets in total balance sheet assets of merely 9 percent, December 2023) and (iv) reduced reliance on funds from parent banks. The traditional business model of Romania’s banking sector and the low degree of financial complexity and sophistication (with poor financing from capital markets, scant use of financial derivatives, etc.) contribute to mitigating the contagion risk as compared to other European banking sectors. However, the step-up in digitalisation efforts and the pace of technological progress, as well as the need to change the business model to ensure the gradual transition to a green economy could amplify certain risks that have only marginally affected banks so far (operational risks – particularly the cyber risk, the transition risk, the liquidity risk associated with faster cash withdrawals in the new digital environment).

Although the banks’ balance sheet structure shows some favourable characteristics in terms of liquidity and solvency, the asset-liability maturity mismatch remains high (Chart A, Box 9). While these mismatches are inherent to the banking activity, they represent a structural vulnerability that can manifest when liabilities (currently having

short maturities) are no longer renewed should unexpected shocks occur. In December 2023, 72 percent of liabilities and 62 percent of assets had maturities of up to one year and more than one year respectively.

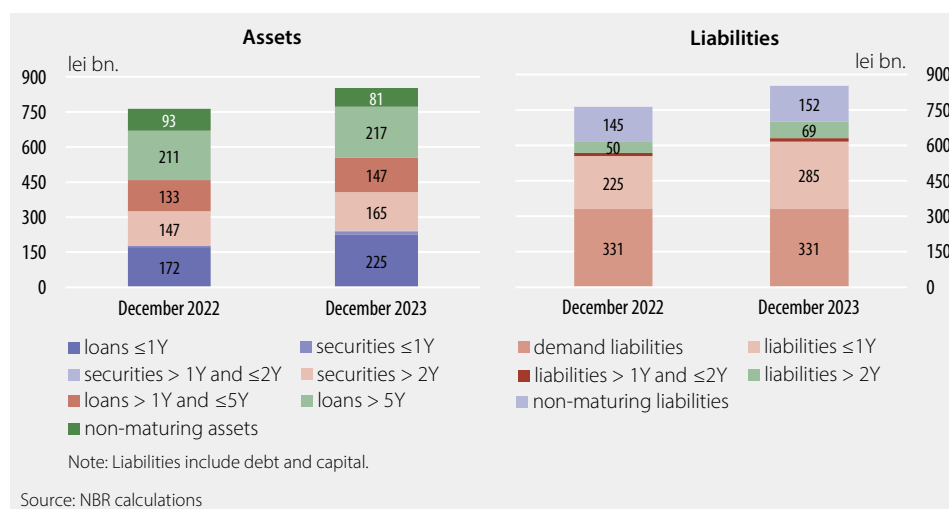


Chart 4.5
Breakdown by maturity of bank
assets and liabilities

Private sector deposits rose substantially in 2023 (+11.6 percent), amounting to lei 573 billion at end-December. This was mainly due to leu-denominated deposits that saw a significant growth of 18.5 percent, totalling lei 400.5 billion in December 2023. This positive evolution was visible for both households and non-financial corporations. By contrast, depositors showed lower preference for foreign currency-denominated deposits. Specifically, the share of leu-denominated deposits in total private sector deposits followed an uptrend, reaching approximately 70 percent in December 2023 (from 66 percent in December 2022). Over the past year, high interest rates continued to foster longer-maturity saving, but overnight deposits further prevailed (about 52 percent, December 2023).

In 2023, the volume of new leu-denominated loans expanded by 16.7 percent, as compared to the same year-ago period. The increase was supported by loans to households (+20.7 percent, the growth including, however, a significant component of refinanced loans) and non-financial corporations (+11.4 percent). The volume of new EUR-denominated loans saw an annual contraction of 8.7 percent in 2023, on the back of loans to non-financial corporations (down 9.1 percent).

Given the growing exposures to the central bank and general government, the volume of liquid assets remained high. Banks' claims on the government (i.e. government securities and loans) reveal one of the strongest interconnections between the government and banks (with a 22.6 percent share in total assets, December 2023) as compared with other European countries. Approximately 80 percent of these claims consist of central government securities (18 percent of total assets in December 2023), mainly denominated in lei and with maturities of over two years.

In order for the composition of liabilities to be aligned with the specific requirements of the bank resolution framework (MREL), in 2023, credit institutions made recourse to

issues of eligible bonds to institutional customers or parent banks¹⁷¹. Thus, the foreign funding of the banking sector increased in 2023, but remained low (7.4 percent of total liabilities, December 2023), as banks have so far preferred to use capital instruments to meet the MREL target, rather than issue eligible debt instruments, amid the recently high profitability environment that allows partial profit retention.

Box 9. The interest rate risk and the implications for the banking sector

Given the nature of its activity, the banking sector in Romania is exposed to a series of financial risks. The unexpected losses associated with credit risk, operational risk and market risk are covered by setting up regulatory capital requirements under Pillar 1. At present, credit risk generates 85 percent of total Pillar 1 capital requirements, while the operational risk and the market risk account for 14 percent and 1 percent respectively of these requirements. A major financial risk, which is currently not treated uniformly among banks, is the interest rate risk. It is part of the category of risks for which additional capital requirements are determined under Pillar 2 (except for the trading book). Unexpected changes in interest rates can adjust the fair value of financial assets and liabilities, affecting net interest income and the economic value of equity. The prudential framework stipulates: (i) setting capital requirements for the interest rate risk related to positions in the trading book (a component of market risk) and (ii) monitoring and setting potential Pillar 2 capital requirements for the interest rate risk associated with the banking book (IRRBB, consisting of items other than those held explicitly for trading).

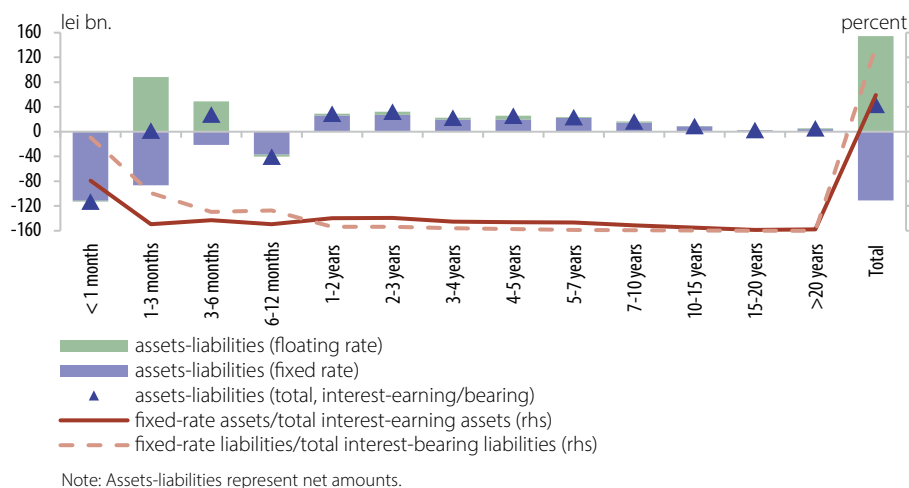


Chart A

Interest-earning assets and interest-bearing liabilities by residual maturity and type of interest (December 2023)

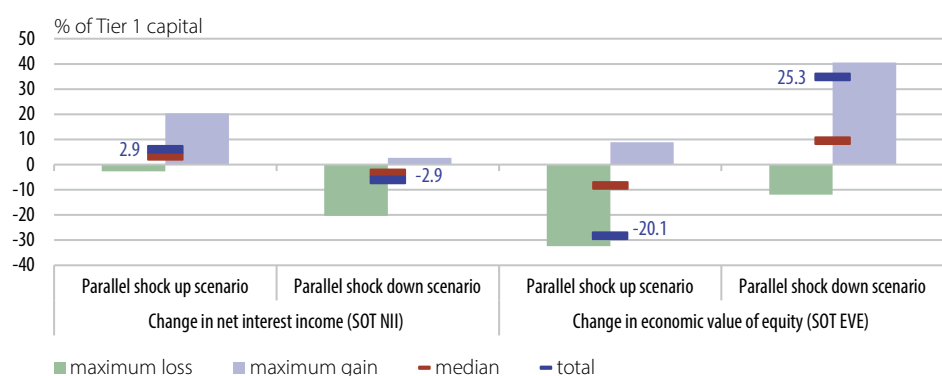
The breakdown of interest-earning assets and interest-bearing liabilities in Romania shows the prevalence of fixed-rate items across various maturity ranges. In December 2023, fixed-rate assets accounted for 55 percent of total interest-earning assets, while fixed-rate liabilities and demand deposits held 75 percent of total interest-bearing liabilities. The large contribution of fixed-income assets is mainly

¹⁷¹ Subsidiaries with Single Point of Entry (SPE) resolution strategy can use bond issues or take bilateral loans from parent banks in order to meet the MREL target. Thus, meeting the MREL target with the help of capital instruments can be less attractive than in the case of subsidiaries having Multiple Point of Entry (MPE) resolution strategies.

due to exposures to central government and the financial sector. Looking at the non-financial corporations' sector, the prevailing share of exposures consists in floating-rate loans, whereas about one third of household loans have fixed interest rates. Worth noting is the prevalence of financing via fixed-rate liabilities, irrespective of counterparty.

Following the pandemic, there was an increased shift towards fixed-rate assets, amid the larger holdings of government securities and a major share of exposures to the financial sector (including exposures to the central bank). The wide share of demand deposits mitigates the duration mismatch, as these sources of finance are less sensitive to interest rate changes. Most fixed-rate assets and liabilities have residual maturities of up to three months, so that their characteristics resemble somewhat those of floating-rate assets and liabilities (Chart A). The duration mismatch of assets (average of 1.5 years, December 2023) and liabilities (average of 0.4 years) is a natural aspect of the traditional business model for banking activity in Romania, implying in theory a higher exposure to the interest rate risk in the event of an increase in interest rates. The actual behaviour of demand deposits and their large share in liabilities contribute, however, to a reduction or even a changed sign of the duration mismatch, exposing credit institutions to losses in the event of declining interest rates. The average duration of assets and liabilities can be balanced via medium- or long-term fixed-rate deposits, securities issued or hedge derivatives, but local banks make low use of such instruments. However, the recent bond issues aimed at covering the MREL have a positive role in mitigating the duration mismatch.

Chart B
Changes in net interest income and the economic value of equity under scenarios of shocks by 350 basis points and 200 basis points for interest rates in lei and euro respectively, as a share of Tier 1 capital



Note: SOT NII estimated for the reference date of December 2023, with a one-year flow forecast; SOT EVE estimated for the reference date of December 2023 for credit institutions, Romanian legal entities – balance sheet exposures, without quantifying hedging operations.

Source: NBR, Refinitiv

Compared to the interest rate risk in the trading book, the interest rate risk for non-trading book activities (IRRBB) is higher in the case of the domestic sector, given the business model, which does not focus on the trading activity. The findings of the IRRBB assessment tests conducted among credit institutions, Romanian legal entities, point to a stronger effect of potential interest rate changes on interest rate-sensitive assets and liabilities (and hence on the economic value of equity, SOT EVE) compared with the effects induced by changes in net interest income (SOT NII, Chart B). Under a very severe scenario consisting in upward parallel shocks by 350 basis points and 200 basis points for the exposures denominated in lei and

euro¹⁷² respectively on the yield curve, Tier 1 capital would diminish by 20.1 percent if banks did not resort to hedging techniques. Most credit institutions would report losses in case of an unexpected interest rate increase, due to maturity mismatches, especially amid the substantial amount of government securities in banks' portfolios. At individual level, the impact is heterogeneous, varying between -32.4 percent and +8.9 percent of Tier 1 capital. The same severe scenario in terms of economic value would have favourable effects on net interest income (+2.9 percent of Tier 1 capital), given the larger share of items that are revalued over the short term (considering a low sensitivity of expenses related to demand deposits, Chart B).

A scenario assuming an instantaneous parallel downward shift of the yield curve would have a theoretically positive impact on the economic value of equity (+25.3 percent of Tier 1 capital, SOT EVE), but would entail a significant reduction in net interest income (-2.9 percent of Tier 1 capital across the banking sector, SOT NII, Chart B). The impact associated with net interest income varies individually between -20.3 percent and +2.7 percent. A significant number of banks would exceed EBA's signalling threshold of -5 percent for SOT NII.

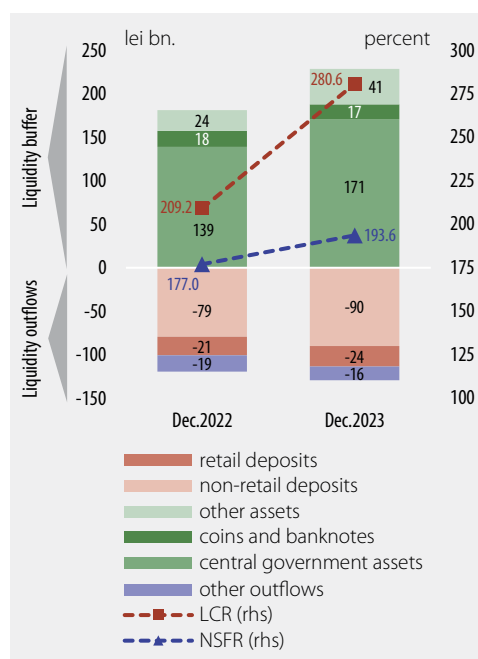


Chart 4.6
Developments in liquidity indicators (LCR and NSFR) and main LCR components

In the course of 2023, the Romanian banking sector further showed a good capacity to manage possible liquidity shocks, despite the uncertain macroeconomic environment and the persistence of geopolitical tensions in the region. Depositors remained confident, which prevented funding risks from materialising in the context of the bank turmoil in the United States and Switzerland.

Domestic banks' liquidity position witnessed a temporary worsening in 2022, but this trend reversed in 2023. Specifically, banks placed excess liquidity with the central bank via the deposit facility, the volume of average daily transactions reaching a peak¹⁷³ of

lei 45.6 billion in December 2023. No significant liquidity shortfalls were recorded during 2023, banks requesting small amounts in isolated cases via the lending facility or repo transactions conducted by the central bank.

Liquidity indicators posted favourable developments throughout 2023: LCR (aggregate component) ran at 280.6 percent in December 2023 (Chart 4.6), as compared to 209.2 percent at end-2022, while NSFR increased by 16.6 percentage points versus the

¹⁷² Shocks for interest rates in lei and in euro are described in EBA Guidelines and have been determined based on a specific methodology. Besides, such shocks have been experienced during the recent pandemic crisis.

¹⁷³ Historical high in the 2007-2023 period.

same year-ago period (due to the growth of stable funding sources), to 193.6 percent in December 2023. Both indicators stood comfortably above the European averages (LCR: 167.1 percent, NSFR: 126.8 percent, December 2023).

The positive performance of LCR owes to the rise in the liquidity buffer and to the reduction in net liquidity outflows (over a 30-day stress period). The liquidity buffer increased by lei 47.8 billion (+26.3 percent), largely on the back of central government assets (lei +32.2 billion). As for the estimated liquidity outflows (lei 129.2 billion, December 2023), outflows from non-retail deposits were 13.5 percent higher (approximately lei 90 billion in December 2023 versus lei 79.3 billion in the same year-ago period). Liquidity outflows could be largely offset by liquidity inflows, the estimated total amount of net liquidity outflows decreasing from lei 86.8 billion (December 2022) to lei 81.7 billion (December 2023).

The results of the latest liquidity stress test conducted in 2023 generally confirm banks' adequate capacity to manage potential liquidity shocks. However, certain short-term liquidity issues were identified for a low number of small banks, but they can be solved via the operations with the central bank (repo or lending facility).

The current liquidity position of credit institutions is favourable, but the disruptive events of 2023 highlighted an important change in the characteristics of a bank crisis. Current global trends in the intensive digitalisation of banking services and the large-scale dissemination of information via social networks may speed up the

materialisation and propagation of massive withdrawals of funding sources (social media bank run¹⁷⁴). In addition, cyber risk could also trigger a liquidity crisis, when customer confidence is affected by potential impacts on banks' essential functions and processes.

The solvency ratio was further adequate in 2023 (23.6 percent, December 2023), standing around the 75th centile, specific to the distribution of European values (Chart 4.7). Looking at the total SREP capital requirement ratio (TSCR) of 12.1 percent and the overall capital

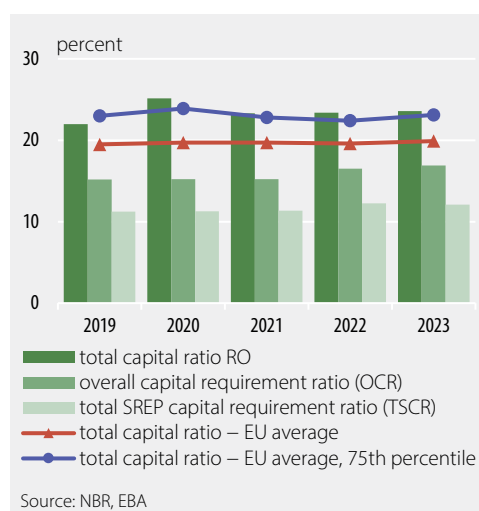


Chart 4.7
Developments in solvency and capital requirements

requirement ratio (OCR) of 16.9 percent, banks in Romania have a significant capital reserve, which provides a good capacity to absorb potential unexpected losses in the event of macroeconomic shocks.

The gradual decline in the overall risk ratio¹⁷⁵ (28.4 percent in December 2023 versus 50.7 percent at end-2008) reflected the shift in focus to less risky assets, which helped

¹⁷⁴ According to Cookson, A., Fox, C., Gil-Bazo, J., Imbet, J. F., Schiller, C. – “Social media as a bank run catalyst”, Université Paris-Dauphine Research Paper No. 4422754, 2023, the collapse of Silicon Valley Bank (SVB) is the first “social media bank run”.

¹⁷⁵ Defined as the ratio of credit risk-weighted assets to total credit risk-relevant exposures.

improve solvency. This change is due to the considerably higher share of exposures to the central government, retail lending and the increase in corporate financing through government guarantee schemes.

The current effects of CRR “quick-fix” (series of temporary measures taken by the regulatory authorities at the onset of the COVID-19 pandemic, which helped consolidate bank prudential indicators) on solvency are small and concern particularly the IFRS 9 transitional arrangements and the treatment of sovereign exposures denominated in foreign currency. In the medium run, transposing the Basel III regulatory framework at EU level, which is expected to lead to an increase in capital requirements, will also have a potential negative impact on solvency.

The latest solvency stress test of credit institutions, covering the 2023-2025 period, shows the adequate resilience of the banking sector to an adverse macroeconomic environment. This is underpinned by the considerable capital reserve at the beginning of the exercise (December 2022) and the good operating capacity, especially of large banks, to generate positive financial results in a relatively high interest rate environment.

The gradual change in the financing structure and the increase in operational efficiency by cutting costs (including by making digital transformation efforts) are factors that helped enhance the resilience of credit institutions.

Asset quality continued to improve in 2023 as well. The NPL ratio (2.4 percent, December 2023) remained in the low-risk bucket¹⁷⁶, the differential versus the EU average narrowing to 0.5 percentage points¹⁷⁷ (Chart 4.8). The stock of non-performing loans increased by 3.1 percent versus December 2022, but the favourable dynamics of the stock of loans and advances (+15.4 percent as against the same reference date) entailed positive developments in the NPL ratio. Despite

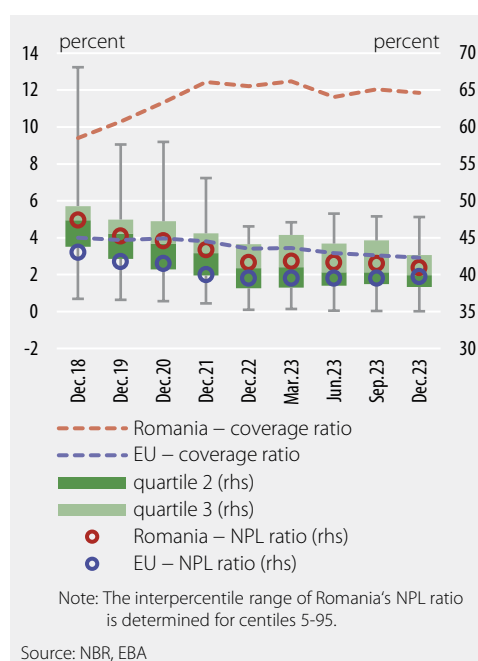


Chart 4.8

Asset quality indicators: distributions and comparisons between Romania and EU

the relatively high interest rates, the variability of the NPL ratio in the local banking sector was lower in the recent period, amid the rise in lending and the improved performance of some debtors, including in the case of some small banks.

Non-performing loan coverage by provisions remained relatively high (64.6 percent, December 2023), above the EU average of 42.3 percent¹⁷⁷. The value of this indicator is consistent with a prudent policy concerning debt recovery expectations.

¹⁷⁶ Below 3 percent: low risk; above 8 percent: high risk, between 3 percent and 8 percent: medium risk, according to EBA definition.

¹⁷⁷ EBA, 2023 Q4.

Although asset quality indicators fared well, the uncertainties generated by the current macroeconomic and geopolitical context highlight the need to keep making efforts to maintain a low NPL ratio, *inter alia* with the help of a legal framework that can facilitate non-performing loan sales. To this end, the amendment of current legal provisions¹⁷⁸ that limit balance sheet clean-up by selling non-performing loans could have a positive impact on the banking sector.

At end-2023, the Romanian banking sector recorded a profit of lei 13.5 billion, up 34.3 percent from the year before, due to the higher operating profit, resulting from the increase in net interest income, and the low net expected credit losses (Chart 4.9).

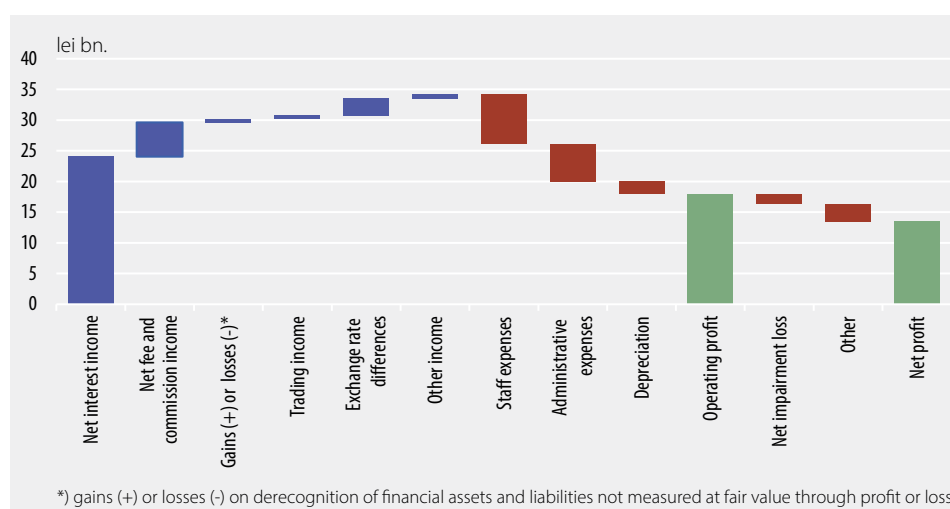


Chart 4.9
Profit breakdown of the
Romanian banking sector as at
December 2023

Out of 32 credit institutions (including branches of banks, foreign legal entities), 25 banks (with a cumulative market share of 99.4 percent) posted positive net results totalling lei 13.6 billion, while seven small banks recorded cumulative losses in amount of lei 0.12 billion.

The key profitability indicators improved as compared with 2022. Return on assets (ROA) and return on equity (ROE) added 0.3 percentage points and 4 percentage points to 1.8 percent and 20.1 percent respectively. Both profitability indicators posted values above the 75th centile at European level (ROA – 15.2 percent, ROE – 1.3 percent, December 2023).

Operational efficiency as measured by the cost-to-income ratio (47.6 percent) continued on the improving trend that started in the pandemic period, amid the intensive digitalisation of banking products and services, falling within the EBA-defined low-risk bucket (below 50 percent) as of April 2023. At European level, the weighted average of the cost-to-income ratio was 56 percent (December 2023).

Net interest income is the main component of operating income (70 percent), ahead of net fees and commissions income (16 percent), while net exchange rate differences came in third (8 percent). The shares of these components remained relatively

¹⁷⁸ Assuming the partial deductibility of 30 percent of the sold loan amount as of 1 January 2018.

unchanged from a year ago, except for net fees and commissions income, whose share narrowed by approximately 2 percentage points. Interest income increased by 48 percent, due to the growth of interest-bearing assets (up by approximately 16 percentage points compared to 2022) and the high interest rate, as the average interest rate on leu-denominated loans (stock) was 9.3 percent in 2023 against 7.8 percent in 2022. Moreover, interest expenses doubled in 2023, amid the increase in interest rate on deposits.

In 2023, operating expenses were approximately 10 percent higher, due largely to the rise in staff costs (13 percent). They are the largest component of operating expenses (50 percent), followed by other administrative expenses (37 percent) and depreciation expenses (13 percent).

2.3. Non-bank financial sector

Non-bank financial institutions have an increasing role in lending to non-financial corporations and households, as NBFI loans continued to grow at a sustained pace over the past two years (+14 percent and +15 percent in 2023 and 2022 respectively), after the modest developments during the COVID-19 pandemic (+2 percent and +8 percent in 2020 and 2021 respectively). At end-2023, total NBFI loans accounted for 12 percent of domestic financial institutions' credit (up 0.8 percentage points versus December 2022).

The NBFI loans are mainly directed towards non-financial corporations (70 percent of NBFI credit flow in 2023) and most of them are denominated in foreign currency (84 percent of new NBFI credit to non-financial corporations). The faster growth of NBFI foreign currency loans to non-financial corporations than that of bank loans (22 percent versus 11.5 percent, in 2023) can be also ascribed, to a certain extent, to the narrowing gap between credit terms and conditions of the two categories of financial institutions, particularly with regard to interest rates and maturity of loans.

However, the swift new lending developments were accompanied by a slower rise in the volume of non-performing loans, especially those in foreign currency (6 percent). Specifically, the NPL ratio (calculated as a ratio of the sum of loans more than 90 days past due to total loans) decreased slightly by 0.14 percentage points to 2.44 percent in December 2023. The downtrend was relatively more pronounced for foreign currency-denominated loans (-0.33 percentage points), in which case the NPL ratio went down to 2.17 percent. Nevertheless, the risk associated with the NBFI loan portfolio remained higher than that for the banking sector. Thus, the NPL ratio for the banking sector's portfolio (based on the same above-mentioned definition, for comparability purposes) ran at 1.5 percent at end-2023 and at 0.9 percent for foreign currency loans.

2.4. Financial markets

Financial markets in Romania posted favourable developments throughout 2023, similarly to international trends, despite short-lived episodes of higher volatility manifest, *inter alia*, as a result of the bank turmoil in the United States and

Switzerland, which led to a temporary rise in investors' risk aversion in international financial markets, with implications at regional level as well.

Given that disinflation in Romania evolved relatively in line with the central bank's forecasts, the NBR increased the monetary policy rate by 25 basis points in its January meeting and subsequently kept it unchanged at 7 percent for the remainder of 2023. Hence, very short-term rates fluctuated around the lower bound of the interest rate corridor throughout the year, due to the liquidity surplus in the money market mopped up by the NBR via the deposit facility. In this context, the main interbank money market rates declined, particularly in 2023 H1, quasi-stabilising thereafter at the end of the year, i.e. at around 6.25 percent per annum for 3M ROBOR and 6.35 percent per annum for 12M ROBOR (December 2023).

On the secondary government securities market, long-term yields remained overall on the generally downward trend that had started at end-2022 (despite the temporary increases recorded in February and in July-September), due *inter alia* to the relative attractiveness of domestic currency investments and against the backdrop of a favourable investor sentiment in the region. Another determinant was the evolution of government bond yields in advanced economies, which fluctuated considerably throughout the year, amid the successive revisions of investor expectations about the future paths of monetary policy rates of major central banks. Also relevant was the decision taken by Fitch in September 2023 to maintain Romania's sovereign rating ("BBB-") and reconfirm its stable outlook.

The foreign exchange market did not experience major fluctuations during 2023, the local currency remaining one of the most stable in the region. As compared to end-2022, the domestic currency weakened marginally against the euro and somewhat more strongly against the US dollar.

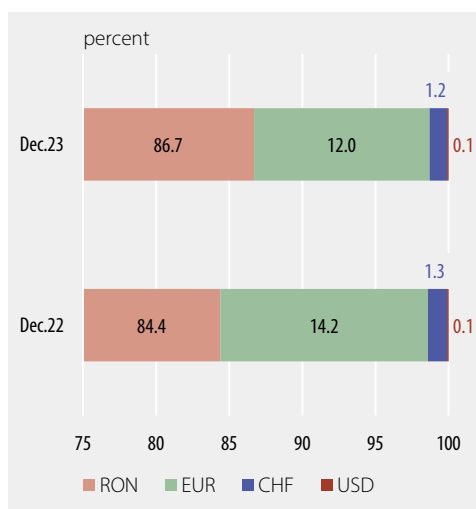
In 2023, the capital market in Romania posted favourable developments, similarly to regional trends. The benchmark index (BET) rose markedly, ending the year 31.8 percent higher than a year earlier. Regional stock markets performed favourably as well, posting increases between 17.7 percent and 38.4 percent, despite the temporary price corrections in March, as a result of the bank turmoil in the United States and Switzerland.

3. Instruments supportive of prudential supervision and financial stability

3.1. Central Credit Register (CCR)

The indicators relevant for assessing the lending activity of credit institutions and non-bank financial institutions enlisted in the Special Register, which report credit risk information to the CCR, posted positive dynamics in 2023. Specifically, the number of borrowers, the number of loans and commitments, and the amounts due rose by 5.3 percent, 5.4 percent and 7.9 percent respectively, in year-on-year comparison.

Chart 4.10
Breakdown by currency of bank
credit to households



Looking at the indicators taken into account, the activity of credit institutions held a significant share in total lending activity, the amounts of information reported by the NBFIs in the total information reported to the CCR being relatively small, i.e. 11.7 percent of total borrowers, 11.9 percent of the number of loans and commitments, 8.3 percent of total amounts due and 6.9 percent of total overdue amounts.

The main indicators calculated and monitored by the CCR based on the information reported by credit institutions and NBFIs are presented in Tables 4.1-4.3 and in Chart 4.10 respectively.

Table 4.1
Main indicators used by the CCR –
credit institutions

	31 December 2022	31 December 2023	percentage change Dec. 2023/Dec. 2022
Number of credit institutions	32	32	0.0
Number of borrowers (thou.), of which:	1,630	1,713	5.1
Individuals	1,510	1,585	5.0
Legal entities	120	128	6.7
Share of borrowers (individuals) in total borrowers	93	93	-0.1
Number of borrowers with overdue loans (thou.)	197	206	4.6
Number of loans and commitments (thou.)	2,961	3,104	4.8
Number of overdue loans (thou.)	279	297	6.5
Total amounts due (lei mill.), of which:	489,906	525,247	7.2
Individuals	164,733	168,148	2.1
Legal entities	325,173	357,100	9.8
Share of amounts due by individuals in total amounts due	34	32	-4.8
Overdue amounts (lei mill.)	15,479	16,146	4.3

Source: CCR

Table 4.2
Main indicators used
by the CCR – non-bank
financial institutions and
payment institutions

	31 December 2022	31 December 2023	percentage change Dec. 2023/Dec. 2022
Number of non-bank financial institutions enlisted in the Special Register	73	79	8.2
Number of borrowers (thou.), of which:	200	218	9.0
Individuals	97	101	4.1
Legal entities	103	117	13.6
Share of borrowers (individuals) in total borrowers	49	46	-4.5
Number of borrowers with overdue loans (thou.)	23	26	13.0
Number of loans and commitments (thou.)	382	418	9.4

– continued –

	31 December 2022	31 December 2023	percentage change Dec. 2023/Dec. 2022
Number of overdue loans (thou.)	40	47	17.5
Total amounts due (lei mill.), of which:	41,058	47,427	15.5
Individuals	4,623	4,970	7.5
Legal entities	36,435	42,457	16.5
Share of amounts due by individuals in total amounts due	11.3	10.5	-7.1
Overdue amounts (lei mill.)	1,069	1,190	11.3

Source: CCR

	31 December 2022	31 December 2023	percentage change Dec. 2023/Dec. 2022
Number of groups of clients*	1,244,036	1,317,070	5.9
Number of borrowers who committed card frauds	117	98	-16.2
Total value of the fraud (lei thou.)	316	531	68.0
Total number of queries (mill.)	2	2	10.0
Share of queries made by reporting institutions for potential borrowers	52	52	-0.2
Number of petitioners who requested information on the data reported about themselves to the CCR	411	524	27.5

*) when setting the scope of the group, the reporting institutions take into consideration the following: a) the criteria laid down in the legislation in force to include individuals/legal entities in a group of connected clients (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; b) the reporting institution should have exposures to at least one entity in the group

Table 4.3
Other information
on the CCR activity

3.2. Payment Incidents Register (PIR)¹⁷⁹

For 2023, the analysis of the information in the PIR database shows increases in the numbers of payment incidents and account holders who generated payment incidents, as well as in rejected amounts. The dynamics of the main indicators calculated and monitored by the PIR based on the information reported by credit institutions are presented in Table 4.4 and Chart 4.11.

	2022	2023	annual change (%) 2023/2022
Number of account holders reported with payment incidents	8,165	9,630	17.9
Number of payment incidents	28,441	33,761	18.7
Average number of payment incidents perpetrated by one account holder	3.5	3.5	0.0
Number of account holders with suspended cheque-writing privileges	175	190	8.6
Number of individuals who caused payment incidents	57	57	0.0
Rejected amount (lei mill.)	1,579,423	2,134,688	35.2
Average rejected amount (lei thou.)	56	63	12.5
Number of queries in the PIR database (mill.)	10,775,563	13,716,471	27.3
Number of petitioners who requested information on the data reported about themselves to the PIR	45	33	-26.7

Table 4.4
Main indicators used by the PIR

¹⁷⁹ The Payment Incidents Register (PIR) conducts its activity in compliance with NBR Regulation No. 7/2023 on the organisation and functioning of the Payment Incidents Register operated by the National Bank of Romania, which became effective as of 11 December 2023, repealing NBR Regulation No. 1/2012, and manages the information specific to payment incidents related to cheques, bills of exchange and promissory notes. Credit institutions and the Romanian branches of foreign credit institutions are the reporting institutions to the PIR.

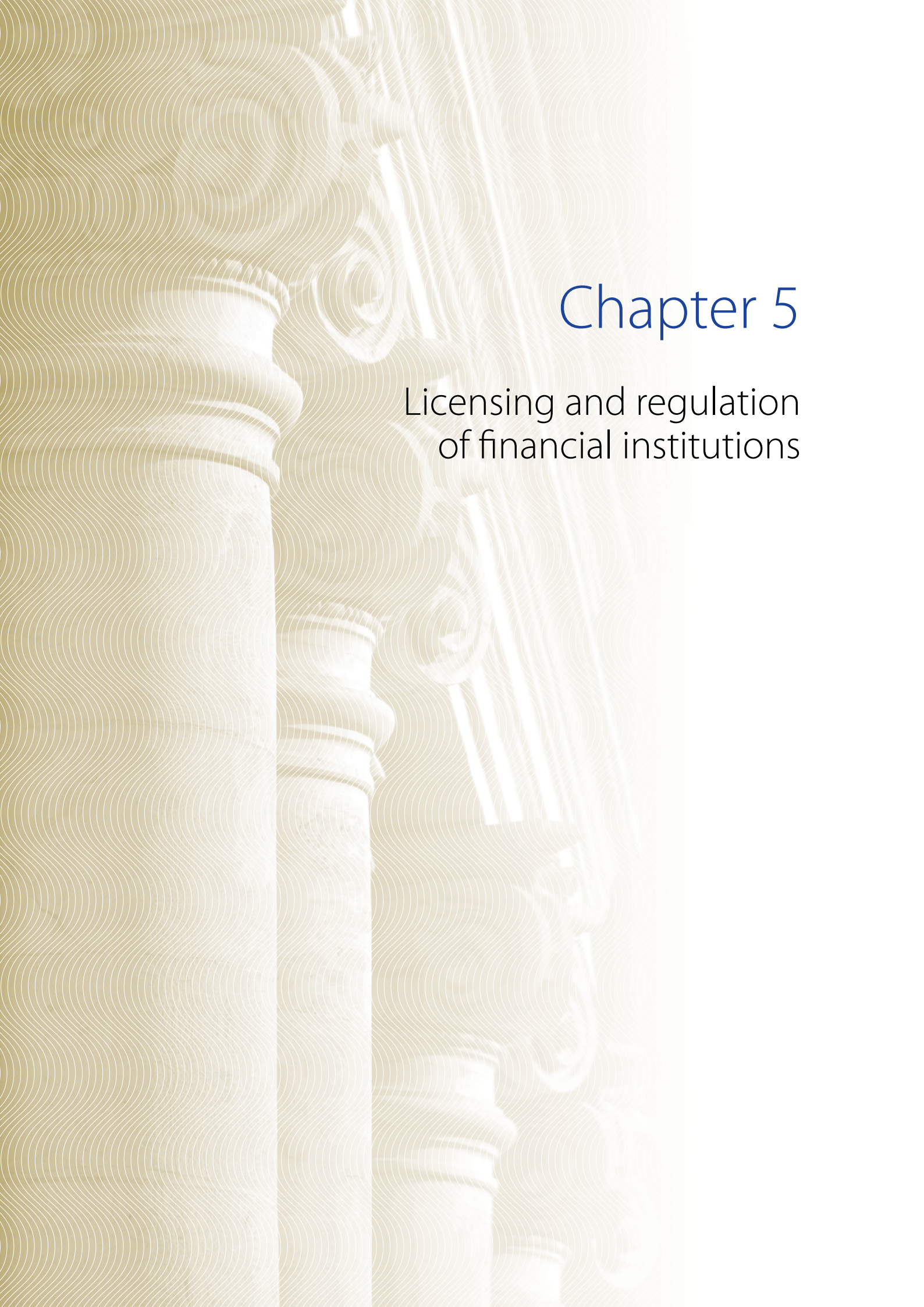
Chart 4.11
Main indicators of
payment incidents



The distribution of payment incidents reported to the PIR reveals that 14 credit institutions (53.8 percent of reporting institutions) reported 98.7 percent of the total number of payment incidents, accounting for 97.2 percent of the total rejected amounts.

The most frequent reason for refusal was the complete or partial lack of funds (60.8 percent of total reasons for rejection in 2023 versus 62.4 percent in 2022).



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Chapter 5

Licensing and regulation of financial institutions

1. Licensing and notification of financial institutions

Authorisation of credit institutions

The National Bank of Romania's prerogative powers in relation to the authorisation of credit institutions are set out in Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as amended and supplemented by Law No. 227/2007, as subsequently amended and supplemented. In 2023, the NBR granted no authorisation to any credit institution.

During 2023, Banca Românească S.A. was erased from the Credit Institutions Register, as a result of the merger by absorption with Banca de Export-Import a României EXIMBANK S.A. (the absorbing entity).

Authorisation of payment institutions

By virtue of its powers in the area of regulation, authorisation and prudential supervision of payment institutions under Law No. 209/2019 on payment services and amending some legal acts, and under NBR Regulation No. 4/2019 on payment institutions and account information service providers, as subsequently amended and supplemented, in 2023, the National Bank of Romania authorised and entered the payment institution CREDEX IFN S.A. in the Register of payment institutions and account information service providers – Section 1 – Payment institutions.

Moreover, in 2023, one application for authorisation as a payment institution was submitted to the NBR, being subsequently withdrawn during the year, given the latter's request to remedy the deficiencies identified regarding the documentation it had received.

At the same time, during 2023, consultations were held prior to the submission of authorisation documents with five entities that expressed their intention to become payment institutions, one of which submitted an application for authorisation during the same year.

Authorisation of electronic money institutions

The NBR's prerogatives in the area of authorisation of electronic money institutions are set out in Law No. 210/2019 on the issue of electronic money and NBR Regulation No. 5/2019 on electronic money institutions. In 2023, the NBR granted no authorisation to any electronic money institution.

In addition, two applications for authorisation as an electronic money institution were submitted to the NBR in 2023, one of which was rejected during the same year, while the other was still under examination at end-2023.

Moreover, in 2023, consultations were held prior to the submission of authorisation documents with two entities that expressed their intention to become electronic money institutions, one of which submitted an application for authorisation during the same year.

Notification of non-bank financial institutions

In 2023, the notification and registration of the newly-established non-bank financial institutions carried on. In compliance with Law No. 93/2009 on non-bank financial institutions, as subsequently amended and supplemented, the notification and registration procedure was carried out to enter 19 NBFIs in the General Register, 22 such institutions in the Special Register and 118 entities in the Entry Register.

At the same time, 12 NBFIs were erased from the General Register, 19 NBFIs from the Special Register and 25 NBFIs from the Entry Register. Moreover, during 2023, five applications for registration with the General Register were rejected, two of which having been submitted in 2022 and three in 2023.

2. Legal framework for institutions within the regulatory scope of the National Bank of Romania

2.1. Prudential regulation and bank recovery and resolution regulation

The following steps forward have been taken since 2023 with regard to prudential regulation and bank recovery and resolution regulation:

- To implement NCMO Recommendation No. R/4/2023 on the capital buffer for other systemically important institutions in Romania, the NBR issued Order No. 9/2023 on the buffer for credit institutions authorised in Romania and identified as other systemically important institutions (O-SIIs).
- To transpose into national law Article 45d paragraph 4 and Article 45h paragraph 2 of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council, as amended by Article 2 points 1 and 3 of Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of

instruments eligible for meeting the minimum requirement for own funds and eligible liabilities, Law No. 6/2024 amending and supplementing Law No. 312/2015 on the recovery and resolution of credit institutions and investment firms, as well as on amending and supplementing some legal acts in the financial field was published on 8 January 2024.

- The NBR's involvement in transposing some EU directives in areas within the central bank's remit, by preparing textual proposals and submitting them to government institutions whose role is to initiate laws, as follows:
 - (i) The National Bank of Romania prepared and submitted to the Ministry of Finance, in order to carry out the legislative process, the draft law on amending and supplementing some legal acts in the financial field, which transposes into primary legislation the provisions of Directive (EU) 2022/2556 amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341 as regards digital operational resilience for the financial sector, as well as the provisions of the Corrigendum to Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;
 - (ii) The National Bank of Romania prepared and submitted to the Ministry of Finance, in order to carry out the legislative process, the draft law on amending and supplementing Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, which transposes into primary legislation the provisions of Directive 2013/36/EU as amended by Article 146 of Regulation (EU) 2023/1114 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937;
 - (iii) The National Bank of Romania prepared and submitted to the Ministry of Finance, in order to carry out the legislative process, the draft law on amending and supplementing Law No. 312/2015 on the recovery and resolution of credit institutions and investment firms, as well as on amending and supplementing some legal acts in the financial field, which transposes into primary legislation the provisions of Directive (EU) 2024/1174 of the European Parliament and of the Council amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities (Daisy Chains Directive).
- Furthering the process to prepare the general framework applicable to development banks:
 - (i) in 2023, the NBR continued to provide technical support to the Ministry of Finance to complete the general framework applicable to development banks, in terms of the applicable prudential requirements, making observations and proposals on the following legal acts:
 - GEO No. 44/2023¹⁸⁰ supplementing Law No. 207/2022 regulating some measures on the general framework applicable to the establishment and functioning of

¹⁸⁰ Government Emergency Ordinance No. 44/2023 setting forth certain measures needed to optimise the implementation of infrastructure projects financed from non-repayable external funds, as well as amending and supplementing some legal acts, published in *Monitorul Oficial al României*, Part I, No. 467 of 26 May 2023.

development banks in Romania, clarifying how development banks apply corporate governance requirements;

- Government Decision No. 432/2023 amending and supplementing Government Decision No. 1204/2022 on the establishment, organisation and functioning of Banca de Investiții și Dezvoltare S.A. (BID).

According to the provisions of Government Decision No. 432/2023, BID shall begin to operate administratively as of the date of registration with the Trade Register and shall carry out the specific activities of a development bank, from the entry into effect of the European directive exempting BID from the application of the CRD;

- (ii) as the Draft law approving Government Ordinance No. 17/2023 amending and supplementing Law No. 207/2022 regulating some measures on the general framework applicable to the establishment and functioning of development banks in Romania is under parliamentary debate in the standing committees of the Chamber of Deputies, in 2023, the NBR put forward to the Parliament of Romania a series of amendment proposals, primarily aimed at correlating the legislation applicable to development banks with other legal acts applicable to universal credit institutions;
- (iii) the NBR has taken steps to prepare the secondary prudential regulatory framework applicable to national development banks based on the prudential framework applicable to universal credit institutions.

Specifically, in 2023, the NBR issued Regulation No. 4/2023 on prudential requirements for development banks, published in *Monitorul Oficial al României*, Part I, No. 434 of 18 May 2023. The regulation sets forth a series of requirements on assessing the suitability of members of the management body and key function holders of a development bank, similar to the requirements applicable to universal credit institutions, with some particularities, depending on the specifics of those banks.

2.2. Accounting regulations

In 2023, the NBR issued Order No. 6/2023 and Order No. 7/2023 amending and supplementing some legal acts issued by the National Bank of Romania, published in *Monitorul Oficial al României*, Part I, No. 396 of 9 May 2023 and No. 783 of 31 August 2023 respectively, with a view to updating:

- The accounting regulatory framework applicable to institutions within the central bank's regulatory scope (NBR Order No. 27/2010 and NBR Order No. 6/2015) and
- The yearly and half-yearly reporting requirements designed to meet the information needs of the Ministry of Finance (NBR Order No. 2/2020 and NBR Order No. 10/2012), in order to ensure a uniform reporting system economy-wide. Moreover, the update of the half-yearly reporting prepared by non-bank financial institutions aimed at NBFIs' implementing the IFRS as a basis of accounting as of 1 January 2023.

2.3. Other legal acts applicable to institutions within the scope of the NBR

- In 2023, the secondary legislation governing the activity of non-bank financial institutions was amended by the publication of NBR Regulation No. 3 of 12 May 2023 amending and supplementing NBR Regulation No. 20/2009 on non-bank financial institutions, prepared with a view to:
 - (i) clarifying certain aspects related to the assessment of shareholders upon the registration of a non-bank financial institution with the General Register and the Special Register;
 - (ii) strengthening the regulatory framework for credit risk (by introducing a solvency ratio of 8 percent applicable to non-bank financial institutions enlisted in the Special Register and by increasing the capital requirements for non-bank financial institutions that issue guarantees) and for concentration risk, imposing a minimum liquidity requirement and tightening the supervisory regime applicable to non-bank financial institutions that issue guarantees/make guarantee commitments.
- To ensure the uniform implementation of the interpretations provided by the European Banking Authority in the field of payment services, particularly with respect to the clarification of certain payment services, the NBR issued Regulation No. 2/2024 amending and supplementing NBR Regulation No. 4/2019 on payment institutions and account information service providers, as subsequently amended and supplemented, published in *Monitorul Oficial al României*, Part I, No. 326/9 April 2024. This clarifies the fact that entering into possession of users' funds is an essential criterion for falling within the scope of payment services and the entities that carry out such activities should take the necessary steps to obtain authorisation as a payment institution.

In order to update the regulatory framework governing the foreign exchange regime, the NBR issued Regulation No. 6/2023 amending and supplementing NBR Regulation No. 4/2005 on the foreign exchange regime, published in *Monitorul Oficial al României*, Part I, No. 724/7 August 2023.

- To ensure convergence of prudential supervision tools and practices used nationwide with the best European practices, the national regulatory framework continued to incorporate the guidelines released by the European Banking Authority (EBA) in the area of prudential banking and bank recovery and resolution. To this end, instructions were issued to inform credit institutions that the specifications and details laid down in these guidelines have to be taken into account when applying the regulatory framework. Furthermore, for those provisions in the guidelines including compliance requirements for competent authorities, the National Bank of Romania, in its capacity as competent authority/resolution authority, disclosed its decision to apply these provisions via releases published on its official website, thereby informing about considering the provisions of the said guidelines during its activities in its capacity as competent authority.

Since 2023, the National Bank of Romania has analysed and incorporated in its regulatory framework the following guidelines:

- EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU – EBA/GL/2022/06 of

30 June 2022 incorporated in NBR Order No. 4/2023 on the reporting exercises by credit institutions on remuneration of staff members and the gender pay gap, published in *Monitorul Oficial al României*, Part I, No. 387/5 May 2023;

- EBA Guidelines on the data collection exercises regarding high earners under Directive 2013/36/EU and under Directive (EU) 2019/2034 – EBA/GL/2022/08 of 30 June 2022 incorporated in NBR Order No. 5/2023 on the reporting exercise regarding high earners in credit institutions, published in *Monitorul Oficial al României*, Part I, No. 391/8 May 2023;
- EBA Guidelines for institutions and resolution authorities to complement the resolvability assessment for transfer strategies (Transferability Guidelines) – EBA/GL/2022/11 of 27 September 2022 incorporated in the Instructions of 7 July 2023 to complement the resolvability assessment for transfer strategies;
- EBA Guidelines amending Guidelines EBA/GL/2022/01 on improving resolvability for institutions and resolution authorities under articles 15 and 16 of Directive 2014/59/EU (Resolvability Guidelines) to introduce a new section on resolvability testing – EBA/GL/2023/05 of 13 June 2023 incorporated in the Instructions of 22 December 2023 supplementing the Instructions of 4 October 2022 on improving resolvability regarding resolvability testing;
- EBA Guidelines to resolution authorities on the publication of the writedown and conversion and bail-in exchange mechanic – EBA/GL/2023/01 incorporated in the press release posted on the NBR's website informing the public that the Guidelines are taken into account in the NBR's activity as supervisory and resolution authority;
- EBA Revised Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2016/04 ('Revised Guidelines on DGS stress tests') – EBA/GL/2021/10 incorporated in the Instructions of 23 August 2023 on compliance with the Revised Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU.
- The National Bank of Romania, through its representatives in the EU institutions and bodies, has played an active part, by formulating positions, in the preparation of EU strategies in the central bank's fields of competence.

3. Regulatory guidelines in 2024

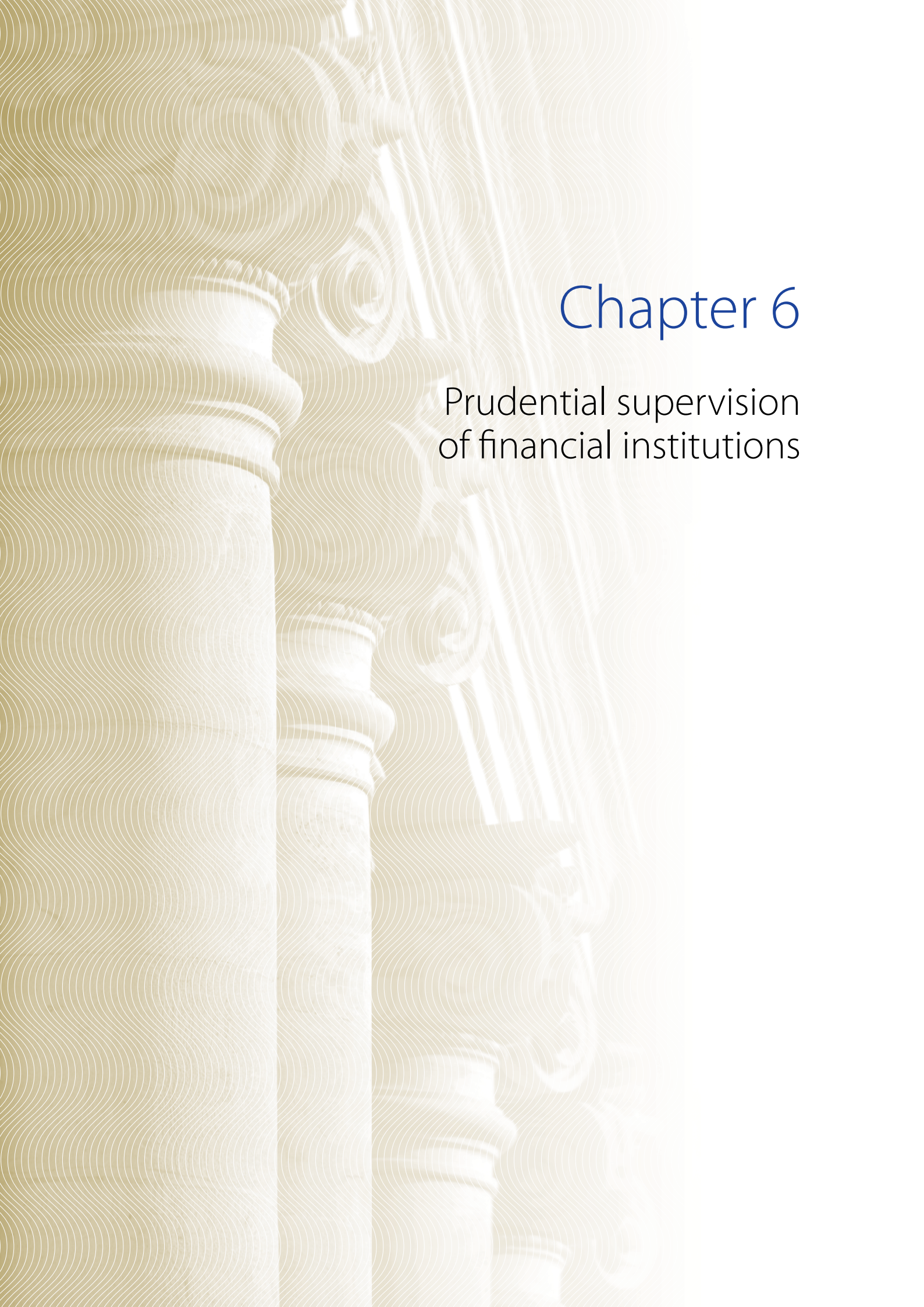
- To start the transposition into the banking legislation of the European directive amending the CRD VI Directive;
- To transpose into national law the provisions of Directive (EU) 2024/1174 of the European Parliament and of the Council amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities (Daisy Chains Directive);
- To amend and supplement the regulatory framework applicable to credit institutions in areas such as authorisation, merger of savings and loan banks, internal governance, gender diversity, assessment of the suitability of members of the management body and key function holders, outsourcing;

- In order to improve the current regulatory framework for payment services as regards the outsourcing of operational functions by aligning the national requirements with the provisions of EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02), to accommodate a number of issues in the process of authorisation and to incorporate the EBA recommendations made under *EBA/REP/2023/01 Report on the peer review on authorisation under PSD2*, the central bank aims to adjust the secondary regulatory framework for payment institutions;
- To complete the review of the regulatory framework applicable to payment institutions, which has already been under the public consultation procedure, in order to cover the credit risk arising from payment services-related loans granted by these entities;
- The central bank aims to adjust the secondary regulatory framework for electronic money institutions in order to: (i) enhance the transparency of implementing the principle of proportionality in order to facilitate the market access of these entities, (ii) cover the credit risk arising from payment services-related loans granted by these entities and (iii) incorporate the EBA recommendations made under *EBA/REP/2023/01 Report on the peer review on authorisation under PSD2*, given that they also apply to electronic money institutions;
- In 2023, Regulation (EU) 2023/1114 on markets in crypto-assets and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 was published, regulating markets in crypto-assets and setting specific rules for issuers of crypto-assets and entities that provide services related to crypto-assets. The regulation can be applied directly, but it requires the adoption of a national legal act enabling its implementation. Thus, the NBR will provide technical support to the legislator to complete the draft legal act with a view to ensuring the enforcement of EU Regulation on markets in crypto-assets (Markets in crypto-assets regulation – MiCAR) in the central bank's fields of competence;
- As regards the regulatory framework on digital operational resilience in the financial sector, the NBR will engage by (i) providing further technical support to the legislator to complete the draft legal act (primary legislation) ensuring the transposition of Directive DORA and (ii) amending the secondary regulatory framework issued by the NBR, which includes requirements for information and telecommunication technology;
- To provide further technical support to the legislator to complete the draft legal act ensuring the transposition of provisions of Directive 2013/36/EU, as amended via Article 146 of Regulation (EU) 2023/1114 on markets in crypto-assets and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937;
- To provide technical support to the legislator to prepare the draft legal acts (primary legislation) with a view to ensuring the transposition of the new AML Directive and implementation of the AML Regulation, as well as to adjust the related secondary regulations, according to the central bank's fields of competence;
- To further ensure the participation in the negotiation of the European legislative framework for payment services (proposal for a directive on payment services and electronic money services in the internal market and proposal for a regulation on

market services in the internal market), a context in which the NBR aims, *inter alia*, to clarify certain aspects that were subject to different interpretations at European level in the enforcement of the current regulatory framework in the field, identified in its authorisation and supervision activities;

- To further ensure the participation in the negotiation of the legislative package for the review of the bank crisis management and deposit insurance framework (CMDI);
- To formulate proposals concerning the review of the legal and regulatory framework for non-bank financial institutions with a view to applying the “same activity, same risk, same regulation” principle, namely to set common rules for activities with same risk profile, to prevent regulatory arbitrage and to increase the resilience of these institutions to risks, in order to ensure and safeguard the financial stability of this sector;
- To adequately adjust the regulatory framework for lending (NBR Regulation No. 17/2012 on certain lending conditions) in line with the current context market by the fast-paced digitalisation of financial activities, which helped create and promote new kinds of financing products and services, as well as raise the interest in the cross-border conduct of activities;
- To continue preparing the secondary prudential regulatory framework applicable to development banks based on the prudential framework applicable to universal credit institutions (CRD/CRR/other EU regulations/technical standards/EBA guidelines, national regulations – NBR Regulation No. 5/2013 on prudential requirements for credit institutions, as subsequently amended and supplemented);
- To provide technical support to the Bank Deposit Guarantee Fund amid the efforts made to correlate the national legal framework for financial collateral (GEO No. 9/2004 on certain financial collateral arrangements transposing Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements) with the special legislation applicable to the BDGF.
- In the field of the accounting and financial reporting framework, the objectives are as follows:
 - to update the accounting regulations applicable to the entities within the NBR’s regulatory scope (NBR Order No. 27/2010 and NBR Order No. 6/2015), in order to implement the amendments made to the accounting regulatory framework in the EU (CSRD – Directive (EU) 2022/2464 as regards corporate sustainability reporting and Commission Delegated Directive (EU) 2023/2775 amending Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups) and at national level, to include the changes in the IFRS provisions adopted EU-wide, as well as the proposals that may arise from the actual implementation of the IFRS;
 - to prepare the annual accounting reporting framework applicable to non-bank financial institutions so as to meet the information requirements of the Ministry of Finance, from the perspective of IFRS implementation as a basis of accounting starting 1 January 2023;

- to update reporting regulations so as to meet the information requirements of the Ministry of Finance, for the entities within the NBR's regulatory scope, in order to ensure a uniform reporting system economy-wide;
- to regulate credit institutions' obligation to report to the NBR the information on sold non-performing loans, in the context of transposing Directive (EU) 2021/2167 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU;
- to update the FINREP reporting framework at solo level, with a view to including the amendments that the EBA can make to the consolidated FINREP reporting framework, the regular reporting framework for branches in Romania of credit institutions having their head offices in other Member States and that for the drafting of regular financial statements at solo level, consistent with IFRS, applicable to non-bank financial institutions, following the update of the applicable accounting regulations and the proposals following the actual implementation of the reporting requirements.
- To update the regulation governing the foreign exchange regime in line with the developments in the relevant EU and national regulatory framework and with the objectives of the National Bank of Romania;
- To participate in the working groups of the EU Council, the European Commission and the European Banking Authority when the said groups address issues related to regulation and licensing and disseminate opinions;
- To further comply with the European Banking Authority's guidelines in the field of anti-money laundering and countering the financing of terrorism and in order to ensure convergence of prudential supervision tools and practices used nationwide with the best European practices in fields such as the authorisation of credit institutions, internal governance, outsourcing, gender diversity and assessment of the suitability of members of the management body and key function holders in the case of credit institutions, the recovery and resolution framework.

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Chapter 6

Prudential supervision of financial institutions

1. Supervision of credit institutions

As at 31 December 2023¹⁸¹, 24 credit institutions, Romanian legal persons, whose aggregate net assets totalled lei 710,206.5 million, fell under the National Bank of Romania's scope of prudential supervision. By type of capital, these included 4 credit institutions with majority domestic private capital, 2 credit institutions with fully or majority state-owned capital, and 18 credit institutions with majority foreign capital. As far as branches of foreign credit institutions are concerned, as at 31 December 2023, 8 branches of credit institutions having their head offices in other EU Member States, with total assets amounting to lei 93,133.9 million, conducted banking activity on the territory of Romania.

In addition, 322 credit institutions intend to provide banking services directly on the territory of Romania, according to the notifications received by the National Bank of Romania from competent supervisory authorities in other EU Member States by 24 May 2024.

1.1. Size and structure of the banking system

At 31 December 2023, net assets in the balance sheet of the Romanian banking sector totalled lei 803,340.4 million, up 14.6 percent year on year.

The number of credit institutions conducting banking activity in Romania remained unchanged throughout 2023 (Table 6.1).

Table 6.1
Credit institutions by ownership

	number of credit institutions, end of period	
	2022	2023
Credit institutions, Romanian legal entities, of which:	24	24
Fully or majority state-owned capital	2	2
Majority private capital, of which:	22	22
– majority domestic capital	4	4
– majority foreign capital	18	18
Branches of foreign credit institutions	8	8
Total credit institutions	32	32

The market share in terms of net assets owned by credit institutions with majority state-owned capital widened from 12.1 percent at 31 December 2022 to 13.7 percent at 31 December 2023 (Table 6.2). Credit institutions with majority domestic private capital also posted a slight increase, their share in total net assets growing from

¹⁸¹ According to financial information reported on an individual basis pursuant to the provisions of NBR Order No. 9/2017 approving the Methodological Norms on the FINREP reporting framework at solo level, in compliance with the International Financial Reporting Standards, applicable to credit institutions for prudential purposes.

19.8 percent to 20.7 percent during the same year. Looking at credit institutions with majority foreign capital (including branches of foreign credit institutions), their share in the domestic banking sector narrowed from 68.1 percent to 65.6 percent, amid a more modest rise in their assets, i.e. 10.4 percent versus 23.6 percent for credit institutions with majority domestic capital.

Table 6.2
Market share of credit institutions

	end of period			
	Net assets			
	2022		2023	
	lei mill.	%	lei mill.	%
Credit institutions with domestic capital, of which:	223,576.6	31.9	276,277.7	34.4
– with majority state-owned capital	84,846.5	12.1	110,074.1	13.7
– with majority private capital	138,730.1	19.8	166,203.6	20.7
Credit institutions with majority foreign capital	391,733.9	55.9	433,928.8	54.0
I. Credit institutions, Romanian legal entities	615,310.5	87.8	710,206.5	88.4
II. Branches of foreign credit institutions	85,698.3	12.2	93,133.9	11.6
Total credit institutions with majority private capital, including branches of foreign credit institutions	616,162.3	87.9	693,266.3	86.3
Total credit institutions with majority foreign capital, including branches of foreign credit institutions	477,432.2	68.1	527,062.7	65.6
Total credit institutions (I+II)	701,008.8	100.0	803,340.4	100.0

The changes in credit institutions also reflected in their market share in terms of capital (Table 6.3). Thus, the share of credit institutions with domestic capital in aggregate capital of the banking sector expanded from 39.4 percent at 31 December 2022 to 41.6 percent at 31 December 2023, while the share of credit institutions with majority foreign capital (including branches of foreign credit institutions) dropped from 60.6 percent at 31 December 2022 to 58.4 percent at 31 December 2023.

Table 6.3
Credit institutions as a share in aggregate capital

	end of period			
	Share/endowment capital			
	2022		2023	
	lei mill.	%	lei mill.	%
Credit institutions with domestic capital, of which:	11,886.9	39.4	12,787.5	41.6
– with majority state-owned capital	4,204.2	13.9	4,014.8	13.1
– with majority private capital	7,682.7	25.5	8,772.7	28.5
Credit institutions with majority foreign capital	17,632.1	58.5	17,330.4	56.4
I. Credit institutions, Romanian legal entities	29,519.0	97.9	30,117.9	97.9
II. Branches of foreign credit institutions	648.2	2.1	630.8	2.1
Total credit institutions with majority private capital, including branches of foreign credit institutions	25,963.0	86.1	26,733.9	86.9
Total credit institutions with majority foreign capital, including branches of foreign credit institutions	18,280.3	60.6	17,961.2	58.4
Total credit institutions (I+II)	30,167.2	100.0	30,748.7	100.0

The territorial network of credit institutions shrank in 2023, amid the changes across the banking sector driven by the digitalisation trends in their activity and the completion of some mergers and acquisitions between such institutions. In May 2023, Banca de Export-Import a României EximBank S.A. (EXIMBANK S.A.) was rebranded as Exim Banca Românească S.A. and also changed its logo.

1.2. Performance of the banking sector

The Romanian banking sector remained resilient in 2023, a year marked by the worsening of macroeconomic equilibria, *inter alia* as a result of regional and international geopolitical developments and the implications of the energy crisis. Despite these challenges, the fulfilment of prudential requirements and the preservation of adequate levels of indicators contributed to the proper functioning of the banking system.

Profitability strengthened and the financial result was better than the year before, with 78 percent of credit institutions reporting positive financial results at end-2023. Solvency indicators stood above regulatory requirements and asset quality continued to improve in the course of 2023, as a result of the non-performing loan ratio falling to 2.4 percent in December 2023 from 2.7 percent in December 2022 as well as of a high NPL coverage by provisions.

Monitoring of own fund requirements. Capital adequacy

Throughout 2023, the solvency indicators of credit institutions – total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio – remained in line with the required thresholds (Table 6.4).

Indicators	percent, end of period	
	2022	2023
Capital adequacy		
Total capital ratio (solvency ratio)	23.4	23.6
Tier 1 capital ratio	20.5	20.7
Common Equity Tier 1 capital ratio	20.0	20.2
Leverage ratio	8.5	8.1
Asset quality		
Loans and advances to non-bank customers (gross)/Total assets (gross)	55.6	52.4
Loans and advances to bank customers (gross)/Total assets (gross)	16.6	19.9
Impaired assets of non-bank customers (net)/Total loans to non-bank customers (net)	0.9	0.9
Impaired assets of non-bank customers (net)/Total assets (net)	0.5	0.5
Impaired assets of non-bank customers (net)/Total liabilities	0.6	0.5
Non-performing loan ratio (EBA definition) ¹	2.7	2.4
Profitability		
ROA (Net income, annualised/Total assets, average)	1.5	1.8
ROE (Net income, annualised/Total equity, average)	16.4	20.1
Liquidity		
Immediate liquidity	44.9	49.6
(1) Following the implementation of the new IFRS 9 standard on 1 January 2018 and pursuant to the provisions of NBR Order No. 9/2017, the "non-performing loan ratio (EBA definition)" is calculated as a ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.		

Table 6.4
Key indicators
of the banking system

At end-2023, across the banking system total capital ratio increased slightly, from 23.4 percent in December 2022 to 23.6 percent in December 2023 (Table 6.4). Given these developments, the rise in total own funds exceeded that of risk exposure.

While total own funds climbed by 9.8 percent, the risk exposure rose by 8.9 percent. In terms of volume, total own funds of credit institutions amounted to lei 69,684.5 million as at 31 December 2023, whereas the total risk exposure equalled lei 295,326.0 million on the same date.

The breakdown shows that total own funds consist mainly of high-quality capital components, namely Tier 1 capital and Common Equity Tier 1 capital (87.6 percent and 85.6 percent, respectively).

The significant shares of these components in total own funds ensure a good resilience of the Romanian banking sector in the short and medium term at least.

Specifically, as at 31 December 2023, Tier 1 capital and Common Equity Tier 1 capital amounted to lei 61,023.1 million and lei 59,672.3 million respectively, i.e. 9.9 percent and 10.2 percent above the same year-earlier readings.

At end-2023, the leverage ratio of credit institutions in Romania was 8.1 percent (according to a transitional definition) and 8.0 percent (according to a fully phased-in definition), i.e. well above the 3 percent minimum requirement.

Monitoring of asset quality

The key indicators measuring asset quality across the banking system – the non-performing loan ratio and the restructured loans ratio – followed a downward trend throughout 2023 (falling to 2.4 percent and 1.6 percent, respectively in December 2023), whereas the NPL coverage by provisions stayed at significantly higher levels than the EU average (64.6 percent versus 42.3 percent in December 2023).

Therefore, despite the unfavourable macroeconomic context, the non-performing loan ratio fell from 2.7 percent (December 2022) to 2.4 percent (December 2023), placing the Romanian banking sector within the low-risk bucket according to the EBA-defined prudential ranges. Behind the lower NPL ratio (as an average for the banking system) stood largely the 15.4 percent increase in exposures from loans and advances (from lei 448,977.7 million in December 2022 to lei 518,259.2 million in December 2023).

The NPL coverage ratio remained at an adequate level throughout the year, ensuring a good buffer to cover potential losses. With its 64.6 percent value as at 31 December 2023, the NPL coverage ratio stood comfortably above the EU average, and thus Romania ranked second (after Croatia) among the 30 countries reporting to the EBA.

The restructured loans ratio also improved in the period under review, reflecting, to some extent, the support provided to debtors, and reached 1.6 percent as at 31 December 2023, down from 2 percent at end-2022.

The share of loans and advances classified in Stage 2 of impairment under IFRS 9 in total loans continued to improve, reaching 13.7 percent in December 2023, down from 14.9 percent in December 2022. The adjustments for this category of loans totalled lei 5.4 billion in December 2023, a level relatively close to that recorded the

year before. This indicator's performance is seen as a signal in terms of expectations of deteriorating asset quality, its decrease being a positive indication in estimating future developments in the NPL ratio.

Monitoring of liquidity requirements

In the course of 2023, the Romanian banking sector maintained an adequate liquidity, despite the volatile macroeconomic environment and the challenges associated with the regional geopolitical context, and also despite the international bank turmoil that occurred in 2023 Q1.

Romania's banking sector ranks favourably vis-à-vis those of other European countries in terms of liquid assets in its portfolio, further showing a good capacity to manage possible liquidity shocks in a volatile macroeconomic environment.

Liquidity of the banking sector, determined based on the liquidity coverage ratio (LCR), remained well above the regulatory requirement for the value of this indicator at aggregate level, i.e. 280.6 percent as at 31 December 2023 versus the minimum requirement of 100 percent, pointing to a sizeable stock of high-quality liquid assets in a 30-day stress scenario; it stood significantly above the level of the EU banking system, which came in at 167.1 percent on the same date.

In December 2023, the net stable funding ratio (NSFR) ran at 193.6 percent, further exceeding the 126.8 percent European average and indicating a good capacity of banks in Romania to manage possible vulnerabilities in terms of stable funding. The European regulatory requirement for the net stable funding ratio (NSFR) is of at least 100 percent.

Funds raised from the local market remain the main financing source of the Romanian banking sector, given the increase in household deposits, which ensure a proper stability of the banking sector in terms of funding sources.

Therefore, deposits taken from non-bank customers expanded by 13.6 percent compared to end-2022 (from lei 559,916.2 million in December 2022 to lei 636,285.1 million in December 2023), while funds raised from parent banks decreased by approximately 10.4 percent in the course of 2023, reaching lei 20,582.7 million.

Profitability¹⁸²

Throughout 2023, the profitability of the Romanian banking sector further posted positive developments, with a significant profit of lei 13,527.6 million recorded at the end of the year.

Out of the 32 credit institutions on the Romanian market, 25 posted positive financial results. Their profit amounted to lei 13,646.5 million, while loss-making banks incurred a loss of lei 118.9 million.

¹⁸² This section covers credit institutions, Romanian legal entities, and branches of foreign credit institutions.

System-wide financial performance improved against the previous year by 34.3 percent (lei +3,456.2 million), mainly due to the higher operating profit (lei +4,338.8 million), but this rise was diminished by the lei 1,124.8 million increase in corporate income tax expenses.

	Net assets		Own funds*	
	lei mill.	%	lei mill.	%
1. Credit institutions with majority domestic capital, of which:	276,277.7	34.39	22,195.4	31.85
1.1. State-owned credit institutions, of which:	110,074.1	13.70	7,801.9	11.20
1. CEC Bank	83,625.7	10.41	6,175.3	8.86
2. Exim Banca Românească	26,448.4	3.29	1,626.6	2.34
1.2. Credit institutions with majority private capital, of which:	166,203.6	20.69	14,393.5	20.65
1. Banca Transilvania	161,857.2	20.15	13,623.7	19.55
2. Salt Bank (Idea)	1,771.9	0.22	356.9	0.51
3. Banca Centrală Cooperatistă Creditcoop	1,709.6	0.21	364.2	0.52
4. Techventures Bank	864.9	0.11	48.7	0.07
2. Credit institutions with majority foreign capital, of which:	433,928.8	54.02	47,489.1	68.15
1. Banca Comercială Română	108,008.1	13.44	11,935.1	17.13
2. BRD – Groupe Société Générale	81,381.3	10.13	8,102.9	11.63
3. Raiffeisen Bank	70,157.7	8.73	7,121.2	10.22
4. UniCredit Bank	67,712.1	8.43	7,957.3	11.42
5. Alpha Bank	23,571.2	2.93	2,436.0	3.49
6. OTP Bank	19,763.2	2.46	2,416.8	3.47
7. Garanti Bank	15,245.4	1.90	1,782.6	2.56
8. Libra Internet Bank	11,188.5	1.39	1,377.7	1.98
9. Vista Bank	9,490.4	1.18	703.1	1.01
10. First Bank	8,365.7	1.04	816.6	1.17
11. Banca Comercială Intesa Sanpaolo	7,425.8	0.92	994.5	1.43
12. Patria Bank	4,033.4	0.50	458.1	0.66
13. Credit Europe Bank	3,386.5	0.42	890.1	1.28
14. ProCredit Bank	2,760.3	0.34	233.5	0.33
15. BCR Banca pentru Locuințe	628.8	0.08	53.7	0.08
16. Banca Română de Credite și Investiții	364.3	0.05	51.9	0.07
17. Porsche Bank	358.2	0.04	120.6	0.17
18. Aedificium Banca pentru Locuințe	87.9	0.01	37.4	0.05
I. Total credit institutions, Romanian legal entities (1+2)	710,206.5	88.41	69,684.5	100.00
II. Branches of foreign credit institutions, of which:	93,133.9	11.59	...	...
1. ING Bank N.V., Amsterdam	71,704.9	8.93	...	...
2. Citibank Europe plc, Dublin	14,188.1	1.77	...	...
3. BNP Paribas S.A. Paris	2,566.6	0.32	...	...
4. TBI Bank EAD Sofia	2,348.5	0.29	...	...
5. BNP Paribas Personal Finance S.A. Paris	1,074.0	0.13	...	...
6. Banque Banorient France S.A. Paris	826.1	0.10	...	...
7. Alior Bank S.A. Warsaw	279.3	0.03	...	...
8. Bank of China (CEE) Ltd	146.4	0.02	...	...
Total credit institutions (I+II)	803,340.4	100.00	...	...

*) branches of foreign credit institutions do not report own funds

Table 6.5
Net assets and own funds
as at 31 December 2023

In 2023, operating profit went up by 32.0 percent against the year before, on the back of a sharper increase in operating income (up 20.7 percent or lei +5,867.9 million, mainly on account of the rise in net interest income by lei 4,030.8 million) as compared to the growth of operating expenses (up 10.3 percent or lei +1,529.1 million).

The breakdown of operating income shows the ongoing prevalence of net interest income, which reached a 70.3 percent share at end-2023, posting a slight decrease from 70.6 percent a year earlier. Net fee and commission income further accounted for a significant share of operating income, i.e. 16.3 percent, falling from 18.5 percent the previous year.

Return on assets (ROA) reached 1.8 percent at end-2023, up 0.3 percentage points versus 2022, given the 34.3 percent rise in net profit, along with the increase, on average, in total assets (up 12.2 percent, from lei 670,381.6 million to lei 752,174 million).

Return on equity (ROE) also posted a higher level compared to the previous year, i.e. up 3.7 percentage points, reaching 20.1 percent at end-2023. As for its determinants, the growth of ROE was ascribable to the rise in net profit, together with the increase in total equity by 9.4 percent on average, the latter totalling approximately lei 67,187.5 million at end-2023.

1.3. Assessment of banking risks

In the exercise of the tasks conferred on it by the regulatory framework on credit institution supervision, the National Bank of Romania, by pursuing supervisory activities and the supervisory review and evaluation process (SREP), continuously assesses risks and viability of credit institutions and takes, where required, the necessary measures to prevent and contain banking risks.

Following the SREP conducted in 2023, the assigned scores were as follows: 29 percent of the 24 credit institutions were assigned an overall score of 2 (medium-low risk), 54 percent an overall score of 3 (medium-high risk), 17 percent an overall score of 4 (high risk), and none received an overall score of 5 (Chart 6.1). In addition, the average and median of total SREP capital requirements (TSCR) across the banking system were of 12.8 percent and 12.5 percent.

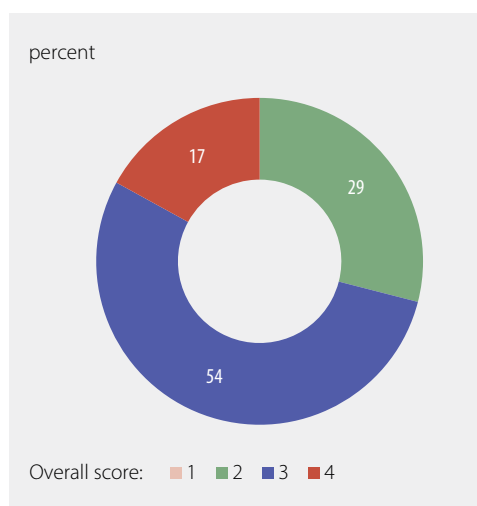
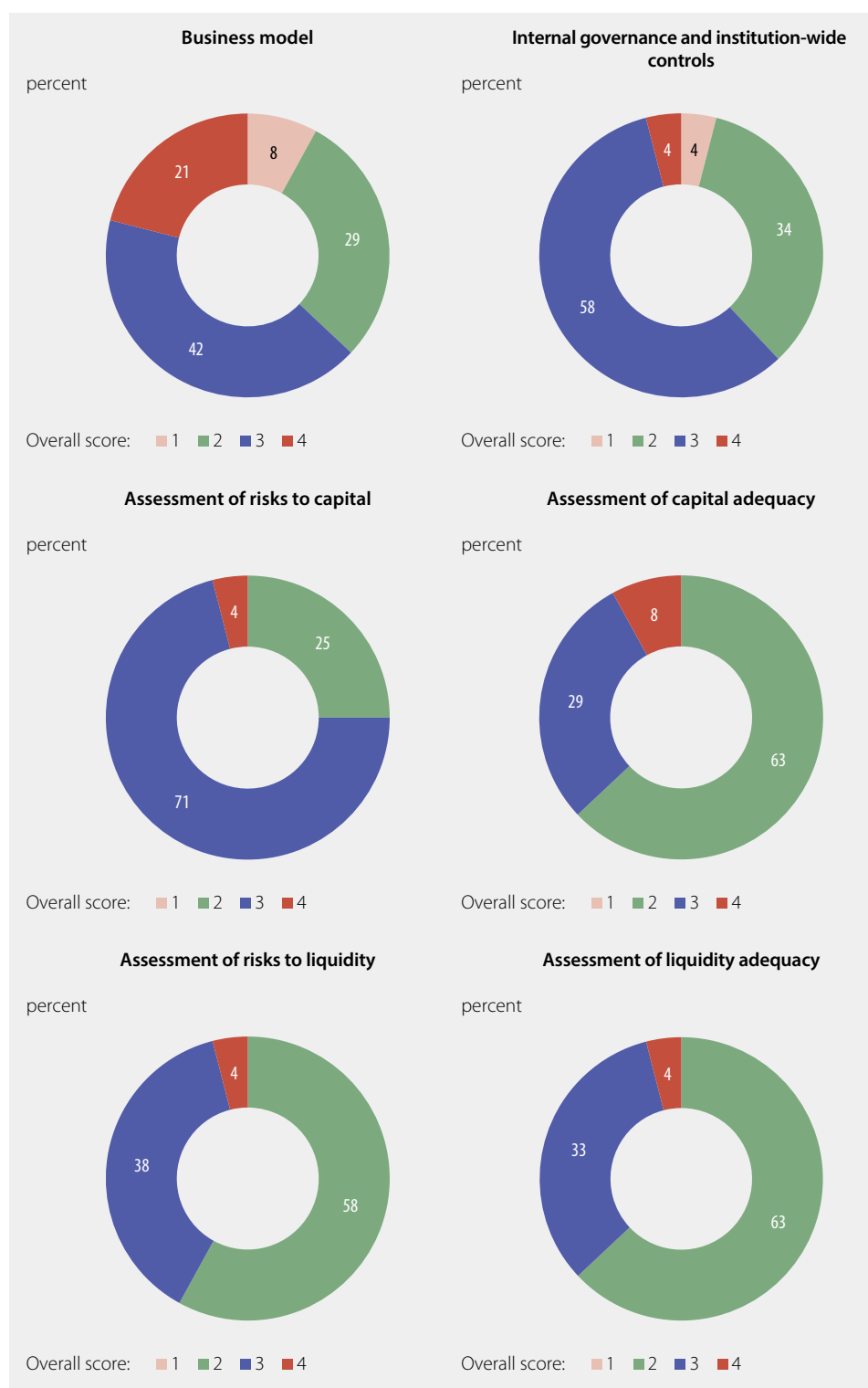


Chart 6.1

Distribution of credit institutions by overall SREP score

The distribution of credit institutions by including SREP elements in risk categories shows that a score of 2 was assigned in most cases to capital adequacy, liquidity adequacy and risks to liquidity (63 percent and 58 percent, respectively, of the assessed institutions). A score of 3 was mostly applied to the assessment of risks to capital, internal governance and business model (71 percent, 58 percent and 42 percent, respectively, of the assessed institutions), Chart 6.2.

**Chart 6.2**

SREP elements by score assigned

In line with the supervisory examination programme for credit institutions for 2023, throughout the year 22 on-site inspections were conducted, of which 18 at the offices of credit institutions, Romanian legal persons, three at credit cooperatives in the CREDITCOOP network and one at a branch in Romania of a credit institution having its head office in another EU Member State.

The key objectives of supervisory activities for 2023, set out in accordance with those defined by the European Banking Authority in the Supervisory Examination Programme, referred to: macroeconomic and geopolitical risks; operational and financial resilience; transition risks; business model; money laundering (ML)/terrorist financing (TF) risks in SREP and internal governance and institution-wide controls.

The preparation of the supervisory examination programme for 2023 took into account both the priorities identified by the European Banking Authority in the 2023 European Supervisory Examination Programme (ESEP) for Prudential Supervisors and the findings of the supervisory review and evaluation processes (SREP) conducted in previous years.

The continuous assessment of risks included: (i) the assessment of the credit institution's business model and strategy; (ii) the assessment of internal governance arrangements and institution-wide controls; (iii) the assessment of individual risks to capital; (iv) the assessment of capital adequacy; (v) the assessment of individual risks to liquidity and funding; (vi) the assessment of liquidity adequacy, as well as the overall SREP assessment.

With a view to improving the management framework, the implemented strategies, processes and mechanisms and to ensuring an adequate organisation of the activity of credit institutions, based on the reports prepared following supervisory activities, the NBR imposed supervisory measures (Table 6.6) and sanctions, i.e. written warnings (Table 6.7).

Table 6.6
Supervisory measures imposed pursuant to GEO No. 99/2006 on credit institutions, as subsequently amended and supplemented

No.	Measure	No. of cases
1	Strengthening the provisions on governance and internal capital management	21
2	Maintaining own funds at a level higher than the minimum capital requirements	17
3	Imposing specific liquidity requirements	12
Total		50

Table 6.7
Sanctions imposed pursuant to GEO No. 99/2006 in 2023

Type of sanction	No. of cases	Banks	Board members	Executives	Managers
Written warning	2	2	-	-	-
Fine	-	-	-	-	-
Total	2	2	-	-	-

Information about the sanctions imposed on credit institutions in accordance with Article 229(1) of Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented, which were not challenged under Article 275 or those for which objections were definitively rejected, as well as information regarding the type and nature of the breach and the identity of the sanctioned natural or legal person is available on the NBR's website, under the *Supervision* section, published in accordance with the legal transparency requirements related to the supervisory authority provided in Article 234(4) of Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented.

In 2023, in the prior approval process conducted by the National Bank of Romania, pursuant to the legal framework in force (Article 108 of Government Emergency Ordinance No. 99/2006), 71 requests for prior approval were processed related to credit institutions' board members, executives and key function holders, including individuals who were assigned new responsibilities (Table 6.8).

Table 6.8
Number of persons in the category of those referred to in Article 108 of GEO No. 99/2006, subject to the NBR's approval in 2023

	TOTAL, of which:	Approved by the NBR	Rejected for non- compliance with the conditions stipulated by the special law*	Rejected following the NBR's assessment made pursuant to Article 109 of GEO No. 99/2006	Request for approval withdrawn by the credit institution
Executives	30	28	-	1	1
Board members	9	6	-	-	3
Key function holders	32	28	-	-	4
Total	71	62	-	1	8
*) Government Emergency Ordinance No. 75/1999 on financial audit, recast					

2. Supervision of guarantee schemes

For the purpose of deposit guaranteeing, the Bank Deposit Guarantee Fund operates in Romania as the statutory deposit guarantee scheme, set up in accordance with Government Ordinance No. 39/1996 on the establishment and operation of the Bank Deposit Guarantee Fund, recast, as subsequently amended and supplemented.

At present, the activity carried out by the Fund is regulated by Law No. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund, as subsequently amended and supplemented.

At end-2023, credit institutions' deposits covered by the Bank Deposit Guarantee Fund amounted to lei 303,726.4 million, up by 12.4 percent versus the end of the previous year, the upward trend seen over the last five years thus persisting.

3. Supervision of non-bank financial institutions, payment institutions and electronic money institutions

Pursuant to its mandate under the provisions of Law No. 93/2009 on non-bank financial institutions, as subsequently amended and supplemented, the National Bank of Romania conducts the prudential supervision of non-bank financial institutions listed in the Special Register, both based on the information provided via the reports submitted and by performing on-site inspections at their head offices and territorial units. Moreover, the NBR ensures the oversight of non-bank financial institutions entered in the General Register, mainly based on the information provided by these entities via the reports submitted.

Furthermore, according to the provisions of Law No. 209/2019 on payment services and amending certain legal acts, and of Law No. 210/2019 on the issue of electronic money, the National Bank of Romania conducts the prudential supervision of authorised payment institutions, Romanian legal persons, including of the payment activity carried out through their branches and agents, as well as the prudential supervision of authorised electronic money institutions, including of the electronic money issue and payment services provision carried out through their branches and agents.

In the course of 2023, the NBFi sector showed a tendency to stabilise (in terms of both number and key aggregate financial indicators), just as in 2022. Moreover, payment institutions and electronic money institutions remained on the stabilising trend seen in the previous years.

3.1. Non-bank financial institutions

The number of NBFIs in the General Register increased from 177 at end-2022 to 184 at end-2023.

By type of lending activity, according to sections in the General Register, 168 institutions (91.3 percent) were recorded under "Multiple lending activities", a slightly lower share than that reported at end-2022 (93.2 percent).

Activity	Special Register (1)		General Register* (2)		General Register (1+2)	
	No.	%	No.	%	No.	%
Multiple lending activities	76	93.83	92	89.32	168	91.30
Financial leases	1	1.23	8	7.77	9	4.89
Issuing guarantees and assuming commitments, including credit guarantee	2	2.47	0	0	2	1.09
Consumer loans	1	1.23	1	0.97	2	1.09
Factoring	0	0	2	1.94	2	1.09
Financing of commercial transactions	1	1.23	0	0	1	0.54
Micro loans	0	0	0	0	0	0
Housing and/or mortgage loans	0	0	0	0	0	0
Discounting	0	0	0	0	0	0
Total	81	100	103	100	184	100

*) excluding NBFIs entered in the Special Register

Table 6.9
Breakdown of NBFIs by activity
as at 31 December 2023

Starting 1 January 2023, NBFIs have implemented the IFRS as a basis of accounting and for preparing individual financial statements, the applicable accounting rules being consistent with these standards (NBR Order No. 27/2010). Therefore, the developments in prudential and business indicators as compared with end-2022 also reflect the differences in accounting treatment stemming from IFRS implementation requirements.

Thus, the share capital of NBFIs increased by 21.2 percent against end-2022, amounting to lei 4,299.9 million at 31 December 2023 and their aggregate assets (net) totalled lei 57,603.6 million, up by 14.5 percent versus end-2022.

Loans and advances (net carrying amount) equalled lei 54,253.3 million, of which claims from financial leases accounted for lei 23,901.8 million and claims from customer operations made up lei 24,016.5 million.

Impaired assets of non-bank customers (net) held 2.9 percent of the total loan portfolio of non-bank customers (net) and 2.4 percent of asset value (net).

In 2023, the return on assets (ROA) and the return on equity (ROE) reported by non-bank financial institutions followed an upward trend as compared with 2022.

The aggregate profit of the NBFIs listed in the Special Register equalled lei 1,441.6 million, while the NBFIs entered only in the General Register recorded a profit of lei 70 million, the total profit of the non-bank financial sector amounting to lei 1,511.6 million.

Indicator	lei mill.**		
	Special Register	General Register***	General Register
Share/endowment capital	3,801.2	498.8	4,299.9
Total assets (net)	55,866.5	1,737.1	57,603.6
Loans and advances (net carrying amount), of which:	52,860.4	1,392.9	54,253.3
– claims from customer operations	23,171.2	845.2	24,016.5
– claims from operations with credit institutions	5,882.5	267.4	6,149.9
– claims from financial leases	23,651.8	250.1	23,901.8
Impaired assets of non-bank customers (net)/Total loans to non-bank customers (net), %	2.7	11.5	2.9
Impaired assets of non-bank customers (net)/Total assets (net), %	2.3	7.3	2.4
Impaired assets of non-bank customers (net)/Total liabilities (%)	2.7	11.6	2.9
Retained earnings/Loss carried forward	2,877.9	3.3	2,881.2
Profit for the year 2023	1,441.6	70.0	1,511.6
ROA (Net income/Total assets; %)	2.58	4.03	2.62
ROE (Net income/Total equity; %)	16.52	10.67	16.11
Number of contracts	1,545,702	145,234	1,690,936
Number of customers, of which:	1,292,313	128,024	1,420,337
– individuals	1,101,025	121,114	1,222,139
– legal entities	191,288	6,910	198,198

*) including data reported by NBFIs that are also payment institutions

**) excluding "ROA", "ROE", "Number of contracts", "Number of customers", "Impaired assets of non-bank customers (net)/Total loans to non-bank customers (net)", "Impaired assets of non-bank customers (net)/Total assets (net)" and "Impaired assets of non-bank customers (net)/Total liabilities"

***) excluding NBFIs entered in the Special Register

Table 6.10
Key indicators of the NBF sector
as at 31 December 2023*

Table 6.11 sets out the breakdown of the share/endowment capital by country of origin for the NBFIs entered in the Special Register as at end-2023.

Country of origin	Share/Endowment capital		percent
	in total capital	in total foreign capital	
Romania	61.50		
Germany	12.80	33.25	
United Kingdom	4.73	12.28	
Italy	3.90	10.14	
Cyprus	3.67	9.54	
Austria	3.22	8.37	
Sweden	2.59	6.73	
France	2.03	5.27	
Netherlands	2.01	5.23	
Luxembourg	0.94	2.44	
Poland	0.46	1.19	
other	2.14	5.55	

Table 6.11
Share/endowment capital by
country of origin
as at 31 December 2023

The share of domestic capital declined markedly compared with end-2022, from 72.0 percent to 61.5 percent.

As for the other countries holding stakes in the share/endowment capital of the NBFIs listed in the Special Register, at end-2023, Germany came in first (33.25 percent of total foreign capital), ahead of the United Kingdom (12.28 percent), Italy (10.14 percent), Cyprus (9.54 percent) and Austria (8.37 percent). These five countries jointly accounted for 73.58 percent of foreign capital.

Thus, the breakdown of the share/endowment capital by country of origin highlights the notable influence of the European financial industry on the Romanian NBFIs sector, as well as a possible sensitivity of this sector to the economic developments in the other European countries.

Prudential supervision and oversight of NBFIs

Prudential supervision and oversight of NBFIs consisted in monitoring the drafting and submission of regular reports and the changes in the institutions' standing, as well as in on-site inspections at the offices of non-bank financial institutions and off-site inspections from the head office of the National Bank of Romania by the dedicated NBR staff via e-mail and secure data transfer applications. These actions resulted in supervisory examination reports and sanctions enforced or measures imposed, as appropriate, in accordance with the legal provisions in force.

On-site inspections focused on checking the operating activity of 14 NBFIs.

Based on the supervisory examination reports, 7 institutions were imposed measures and sanctions on by the NBR, while 7 inspection reports are to be analysed or used for further action.

In addition, following the off-site monitoring/supervision of the drafting and submission of regular reports, the changes in the institutions' standing, as well as of compliance with the prudential requirements set by regulations, 16 supervisory examination reports were prepared. Based on the findings in these reports, the NBR imposed fines or sanctions in the form of a written warning and remedial measures to correct deficiencies in 6 cases, 5 institutions were sanctioned with the suspension of their lending activity, while 3 institutions were subject to a sanction of erasure from the registers of non-bank financial institutions kept by the National Bank of Romania and to a ban on lending.

3.2. Payment institutions

At end-2023, 11 payment institutions and 17 agents through which they performed payment services in Romania and abroad were listed in the Payment Institutions Register. Moreover, 5 of the authorised payment institutions are also non-bank financial institutions, being listed in the General Register. In the course of 2023, the prudential supervision of payment institutions was conducted based on the analysis of the reports and of the changes in the institutions' standing, submitted by payment institutions in compliance with the applicable legal provisions, as well as through an on-site inspection checking the operating activity of a payment institution.

During 2023, 5 requests for prior approval were processed related to board members and executives responsible for payment services provision within payment institutions and agents through which these entities perform payment services in Romania and abroad.

3.3. Electronic money institutions

At end-2023, the Register of Electronic Money Institutions included two such institutions, one of which is also a non-bank financial institution.

In the course of the year under review, the prudential supervision of electronic money institutions was conducted based on the analysis of the reports submitted and of the changes in the institutions' standing, in compliance with the applicable legal provisions, as well as through an on-site inspection checking the operating activity of an electronic money institution.

During 2023, 2 requests for prior approval were processed related to board members and executives responsible for the issue of electronic money.

4. Overseeing the prevention of money laundering and terrorist financing and applying international sanctions

The National Bank of Romania oversees the implementation of the legal framework governing the prevention of money laundering and terrorist financing and the application of international sanctions across: (i) credit institutions, Romanian legal

entities, including their branches abroad, their agents, distributors and majority-owned subsidiaries abroad, as well as their activity carried out directly on the territory of another EU Member State and the branches of credit institutions, foreign legal entities, carrying out their activity on the territory of Romania; (ii) payment institutions, Romanian legal entities, including their activity conducted directly in another EU Member State, and the branches of payment institutions located in other EU Member States, as well as their agents and distributors; (iii) electronic money institutions, Romanian legal entities, including their activity conducted directly in another EU Member State, and the branches of electronic money institutions located in other EU Member States, as well as their agents and distributors; (iv) non-bank financial institutions listed in the Special Register and non-bank financial institutions registered with the General Register, which are also licensed to operate as payment institutions or electronic money institutions.

In 2023, the National Bank of Romania continued to strengthen its operational capacity to oversee credit institutions and financial institutions that fall under its supervisory remit, in terms of the risks they are exposed to, and to update the methodologies and tools used in its oversight activity. In order to achieve the objectives, account was taken, *inter alia*, of the results of the national assessment of money laundering and terrorist financing risks, namely the Strategic Risk Mitigation Action Plan designed to mitigate the risks identified when carrying out the national assessment of money laundering and terrorist financing risks, adopted by the Interinstitutional Council on 23 February 2023, as well as of the results of the evaluation by the Council of Europe's Moneyval Committee (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism), according to the Evaluation Report of the Fifth Mutual Evaluation Round of Moneyval, adopted at the Plenary Meeting of May 2023 and published on the FATF website on 24 July 2023, i.e. the Action Plan to mitigate the risks identified.

Thus, the year 2023 continued to be marked especially by: (i) the concern for enhancing interinstitutional, national and international cooperation capacities; in this respect special mention deserves the National Bank of Romania's participation in 14 meetings of AML/CFT colleges set up by the competent authorities in the European Union, and (ii) the concentration of institutional efforts towards strategic developments in the field.

Against this background, in August 2023, the National Bank of Romania adopted the Strategy for the supervision of credit institutions, non-bank financial institutions, payment institutions and electronic money institutions, depending on the exposure to the money laundering and terrorist financing risks, for the period 2024-2028, the main objective being to ensure the effectiveness of the risk-based supervision, namely to support the proportionality between supervisory actions and the deficiencies identified/ reported, thus helping increase confidence in the financial system.

In 2023, in compliance with the programme and themes of assessment and verification of the entities supervised by the central bank, as approved by the Supervisory Committee of the National Bank of Romania, 39 supervisory actions were conducted of which 29 on-site inspections and 10 off-site monitoring actions. Of these, 31 were

carried out at credit institutions and Romanian branches of foreign credit institutions and 8 at non-bank financial institutions, payment institutions, electronic money institutions and Romanian branches of foreign institutions.

Out of the total number of actions conducted in 2023, 9 included thematic reviews aimed at supervising how entities implement the international sanctions for freezing funds.

Having identified risk situations non-compliant with the regulatory framework governing the prevention of money laundering and terrorist financing, as well as with the existing framework for the implementation of international sanctions, the supervised entities made plans to remedy the deficiencies and to improve the management framework, policies, procedures and controls meant to effectively mitigate and manage the risks of money laundering and terrorist financing. At the same time, in order to adequately manage the risks, recommendations on the adoption of concrete measures were also sent to the supervised system, while in some cases additional measures were called for to achieve the proposed goal. Thus, following the checks carried out, the NBR imposed 22 orders to remedy the deficiencies.

Furthermore, 17 administrative sanctions were found and applied to supervised institutions, of which 7 warnings and 9 fines totalling lei 500,000. A non-bank financial institution was erased from the registers owing to non-compliance with the prudential legal requirements. In addition, in accordance with the provisions of Art. 26 para. (2) of Law No. 129/2019, 29 notifications were submitted in 2023 to the National Office for Prevention and Control of Money Laundering.

In overseeing how entities apply international sanctions, the National Bank of Romania continued to consider:

- (a) setting specific objectives, under the annual inspection programme carried out by the authorised body, in relation to the dynamics and financial system implications of the war in Ukraine, covering activities such as: (i) carrying out assessments of the risks posed by money laundering and terrorist financing and by not applying international sanctions when initiating and developing the business relationship, as well as during the processing of transactions; (ii) the assessment of the risks arising from the internal governance and internal control system, at the level of the activities carried out, with a view to applying international sanctions;
- (b) correspondence with entities subject to supervision by the central bank on successive regulations on international sanctions imposed by the European Union and the UN Security Council, the dissemination of reports by UN Security Council Sanctions Committees, as well as issues relative to the access of refugees to basic payment accounts and of other persons subject to international protection;
- (c) providing information, on an ongoing basis, on the Commission Consolidated FAQs on the implementation of Council Regulation No 833/2014 and Council Regulation No 269/2014;
- (d) participation of central bank representatives in the meetings of the Interinstitutional Council to ensure the general cooperation framework for the enforcement of

international sanctions (CIISI) in Romania, established in accordance with Government Emergency Ordinance No. 202/2008 on the enforcement of international sanctions, as subsequently amended and supplemented;

- (e) participation of central bank representatives in the meetings of the European Commission's Group of Experts on sanctions and extraterritoriality;
- (f) the participation of NBR representatives in the meetings of the Inter-ministerial Committee "International sanctions", established pursuant to Prime Minister's Decision No. 269/2022, where the central bank is a permanent guest;
- (g) preparing impact studies, at the request of the European Commission, in light of the new regulations on the sanctions imposed against the Russian Federation and the Republic of Belarus, including as regards support for the reconstruction of Ukraine;
- (h) cooperating, within the limits of the applicable legal framework, with the competent authority empowered to freeze funds, in order to meet the EU Member States' obligations to notify the competent institutions of the European Commission, *inter alia*, by collecting from credit institutions information on their frozen funds; and
- (i) the publication on the National Bank of Romania's website, in the *Supervision* section, *Implementation of international sanctions* sub-section, of legal acts setting forth international sanctions that fall within the central bank's tasks, of lists of consolidated international sanctions of competent international organisations, as well as of relevant guidelines and notes.

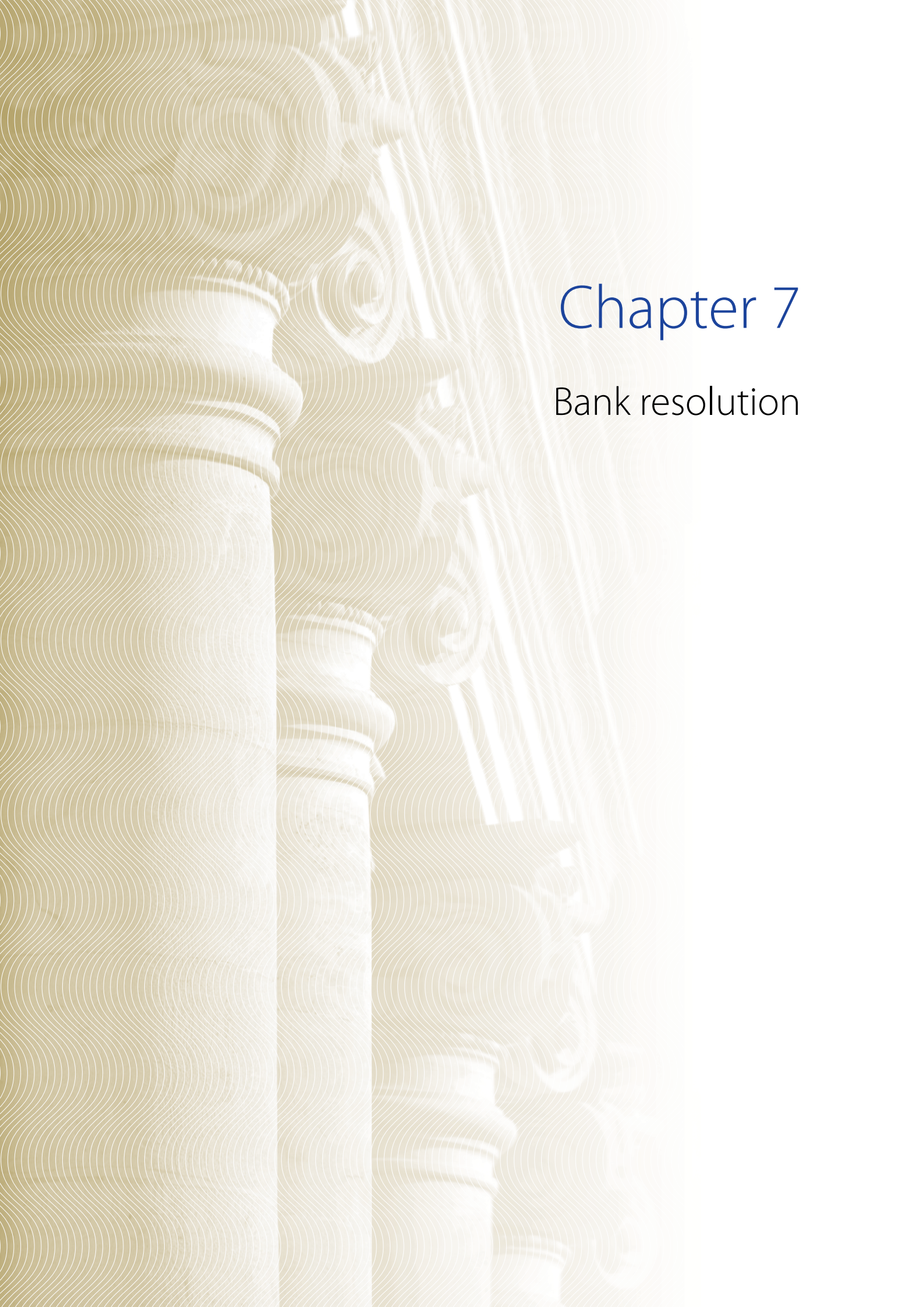
In the current context, in terms of international security, the significant increase in the complexity of regulations on international sanctions, the frequency of their adoption and the impact on the national banking and financial system called for a quick response capacity to potential situations in which it could be used illegally for circumventing international sanctions. The proximity to a warzone, which has caused an ongoing tightening of sanctions on relations with the Russian Federation and the Republic of Belarus, is a challenge for the supervised entities and the national competent authorities alike, but also for the European Union, which has made consistent efforts to ensure functional mechanisms and lend support to the Member States.

At international level, the National Bank of Romania participated on an ongoing basis, in its capacity as member with voting rights, in the meetings of the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC), set up within the European Banking Authority, thus contributing to the exchange of relevant information on current and emerging risks arising from the supervisory activity and to the harmonisation of the relevant practices across the EU, as well as to the approval of draft opinions, guidelines, regulatory and implementing technical standards, recommendations, and other publications, as appropriate, compiled in cooperation with the AMLSC and adopted by the European Banking Authority.

The National Bank of Romania continued to participate, in its capacity as member, in the meetings of the European Commission's Expert Group on Money Laundering and Terrorist Financing. Furthermore, the central bank contributed relevant opinions to the meetings of the Working Group established within the Council of the European

Union, on the legislative proposals to strengthen the EU's anti-money laundering and countering the financing of terrorism rules, adopted or currently under discussion, namely: (i) Regulation (EU) 2023/1113 of the European Parliament and of the Council of 31 May 2023 on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849 (recast), (ii) proposal for a regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations (EU) No 1093/2010, (EU) 1094/2010 and (EU) 1095/2010, (iii) proposal for a regulation on preventing and combating money laundering and terrorist financing, and (iv) proposal for a directive on the mechanisms to be put in place by Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Directives (EU) 2015/849 and (EU) 2019/1937, and repealing Directive (EU) 2015/849.



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Chapter 7

Bank resolution

1. Planning and preparing the resolution

1.1. Current activity of resolution planning

Resolution planning was, in 2023 as well, the NBR's main activity in its capacity as resolution authority (NBR/RA), given that credit institutions in Romania continued to carry out operations smoothly.

The resolution plans for local credit institutions were reviewed according to the usual calendar. At the same time, the NBR/RA further contributed, in line with the legal provisions, to the activities of resolution colleges, in order to adopt the joint decisions on group resolution plans, in the case of significant subsidiaries and branches of cross-border banking groups in Romania.

Following the update of resolution plans, the resolution strategies set in the previous planning cycle were maintained. Specifically, large local banks or the subsidiaries of cross-border groups with MPE resolution strategies continued to use the bail-in tool, whereas the subsidiaries of cross-border groups with SPE resolution strategies preferred to write down or convert relevant capital instruments and eligible debt instruments. Conversely, some local credit institutions chose to sell the business or use the bridge bank tool. Moreover, after the completion of mergers by absorption of the two entities that were subject to previous bank acquisitions, the number of credit institutions, Romanian legal entities, to be liquidated under normal insolvency proceedings equalled that of banks with a resolution strategy, but as a share in total assets, the former account for less than 5 percent.

One significant development during 2023 was the shift in planning from formulating the resolution strategy to operationalisation, testing the resolution mechanisms and completing the configuration of the data set necessary to carry out the valuation before resolution, in order to ensure the conditions for the swift implementation of possible resolution measures. Specifically, the main line of action in this stage sought to assess whether the documents prepared by credit institutions were in line with EBA Guidelines on improving resolvability¹⁸³ and monitoring banks' efforts to further improve resolvability, in order to comply with EBA Guidelines by 1 January 2024. To this end, the NBR monitored and analysed the progress of credit institutions in implementing these measures: (i) operational continuity, (ii) access to financial market infrastructures, (iii) funding and liquidity in resolution, (iv) management information system, (v) bail-in, (vi) business reorganisation and (vii) communication.

¹⁸³ EBA Guidelines on improving resolvability for institutions and resolution authorities ([https://www.eba.europa.eu/sites/default/files/document_library/Publications/Guidelines/2022/EBA-GL-2022-01%20Guidelines%20on%20resolvability/1025905/Final%20Report%20on%20Guidelines%20on%20improving%20resolvability%20for%20institutions%20and%20resolution%20authorities%20\(2\).pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Guidelines/2022/EBA-GL-2022-01%20Guidelines%20on%20resolvability/1025905/Final%20Report%20on%20Guidelines%20on%20improving%20resolvability%20for%20institutions%20and%20resolution%20authorities%20(2).pdf))

In addition, the development of the domestic operational framework continued, as working procedures were formalised or updated, as appropriate; the procedures included the monitoring of compliance with the minimum requirement for own funds and eligible liabilities, the suspension of payment or delivery obligations of a credit institution prior to resolution (moratorium tool), and the prior permission to reduce eligible liabilities instruments (permission regime). Moreover, the set of handbooks detailing the valuation methodologies and the specific requirements for banks' information systems, as well as the instruments to facilitate provisional valuation in the event of resolution, was finalised under the technical support project funded by the European Union under the Technical Support Instrument (TSI), which took place between May 2022 and September 2023.

Stepping up the preparations to solve a potential failing bank situation also implied carrying out the dry-run exercise of the authorisation of a bridge bank, with the participation of the NBR's relevant organisational structures, as well as the Bank Deposit Guarantee Fund, according to the operational procedure for the implementation of the bridge institution resolution tool. The actual testing was preceded by sizeable and complex preparatory interactions and implied the participation of a credit institution that provided standard information and templates.

1.2. Decision-making on the minimum requirement for own funds and eligible liabilities (MREL)

Given the nearing deadline for applying the minimum requirement for own funds and eligible liabilities (1 January 2024), the NBR/RA took further action to ensure that credit institutions have adequate internal resources for potential resolution financing. Building up and maintaining an adequate loss-absorbing and recapitalisation capacity by credit institutions were in 2023 as well a major concern of the NBR/RA; this is, in fact, an essential element of resolvability, likely to increase the credibility of resolution strategies.

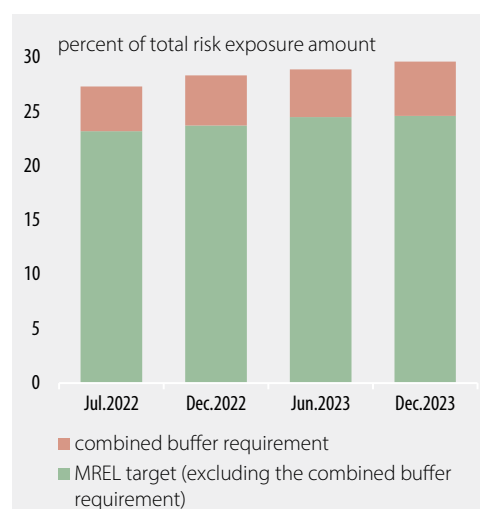


Chart 7.1
Final MREL target

The NBR/RA issued new administrative orders to implement the MREL for both local credit institutions and those that are part of cross-border groups. For resolvable institutions, where the MREL also includes the recapitalisation amount, the weighted average MREL final target (as at 31 December 2023) was 24.63 percent of total risk exposure amount (without the combined buffer requirement, Chart 7.1).

At the same time, the MREL capacity was subject to further monitoring. The shortfall of eligible resources, estimated

against the final MREL target (including the combined buffer requirement), was covered entirely (Chart 7.2), due mainly to the rise in the stock of eligible debt instruments

(+85 percent or lei 16 billion¹⁸⁴) in 2023. MREL eligible resources were raised primarily via issues of senior non-preferred bonds by credit institutions that are resolution entities and of SNP bonds from parent banks by non-resolution entities (subsidiaries

of cross-border banking groups with Single Point of Entry resolution strategies).

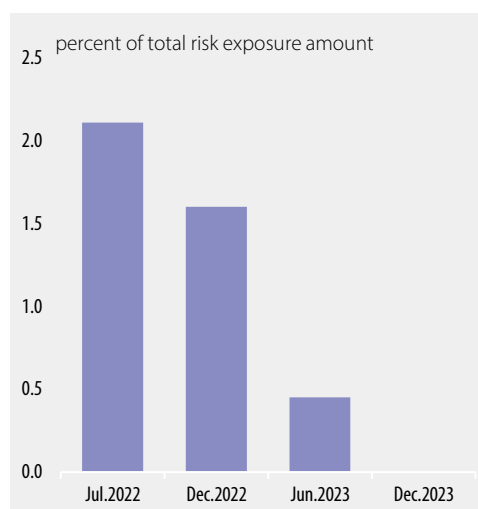


Chart 7.2
Estimated shortfall against the final MREL target including the combined buffer requirement

Local credit institutions and subsidiaries of cross-border banking groups having Multiple Point of Entry (MPE) resolution strategies further raised eligible MREL resources particularly on the foreign capital markets, both from international financial institutions and institutional investors, such as asset managers, investment funds, other local and foreign credit institutions, pension funds, insurance companies and other companies.

2. National and international communication and cooperation

In 2023, the NBR/RA continued to cooperate with other European institutions on bank resolution topics, actively participating in the meetings of the EBA's Resolution Committee (ResCo) and the working sub-groups of this committee, as well as formulating technical opinions on the various topics within the scope of bank resolution, such as: (i) EBA's regulatory documents (regulatory technical standards, implementing technical standards, guidelines, etc.); (ii) convergence in resolution practices, including the preparation and carrying-out of EBA's second exercise on resolution monitoring; (iii) establishing a testing and assurance framework for resolvability (resolvability testing); (iv) lessons learned from the banking stress episodes in March 2023¹⁸⁵ and topics for in-depth analysis; (v) operationalisation of Single Point of Entry resolution strategies.

Also worth noting in terms of international cooperation was the participation in the EBA's European Resolution Examination Programme (EREP); specifically, the NBR/RA was involved in the first EREP and, additionally, in preparing the second one. The initial assessment focused on the following three key topics: (i) addressing MREL shortfalls, (ii) management information systems for valuation (i.e. development of information systems able to provide the necessary data for valuation in the event of resolution), and (iii) liquidity needs in resolution (i.e. relevant liquidity management measures). The priorities for the second EREP were a natural continuation of those set out in the first programme, whose fulfilment extends over several years. This was illustrated by expanding the scope of the operationalisation of resolution tools from

¹⁸⁴ Of which lei 7.4 billion in 2023 Q4.

¹⁸⁵ In the US and Switzerland.

solely the bail-in tool (in effect for 2023) to include the transfer tools, thus reflecting the importance of adequately preparing alternative resolution strategies. As for liquidity in resolution, the new EREP edition promotes a stronger focus on the resolution authorities' assessment of how banks run scenarios on massive deposit withdrawals, based on the recent experience with bank failures. The details of key topics were updated to also show the end of the transition period of the resolution framework, as the final MREL target and the guidelines on improving resolvability and transferability respectively reached their deadlines.

The NBR in its capacity as competent authority and resolution authority signed a Memorandum of Understanding with the European Central Bank and the Single Resolution Board regarding cooperation and exchange of information to achieve its tasks with regard to bank recovery and resolution. Another Memorandum of Understanding was signed between the NBR/RA and the Magyar Nemzeti Bank, at their initiative.

On the domestic front, worth noting in this respect is the completion of the Framework agreement on cooperation and exchange of information to implement some measures set by the National Bank of Romania, in its capacity as resolution authority; this was concluded between the NBR/RA, the Financial Supervisory Authority, and the relevant capital market institutions (the Central Depository and the Bucharest Stock Exchange) in order to define an adequate flow for executing bail-in, amid the extended action at European level¹⁸⁶. In this context, the description of the resolution authority's approach to the operationalisation of the write-down and conversion and bail-in exchange mechanic was published on the NBR's website. The information in that section constitutes benchmarks in the operationalisation of bail-in, and the approach shall be adjusted, where appropriate, depending on the context at the time of application of the write-down and conversion and bail-in exchange mechanic.

In the context of Romania's accession to the Organisation for Economic Co-operation and Development (OECD), the NBR/RA contributed to completing the sections on bank resolution in the questionnaire of the OECD Committee on Financial Markets.

3. Bank Resolution Fund

The build-up of the Bank Resolution Fund's resources progressed in the period under review, standing in close proximity to the target level¹⁸⁷, with coverage reaching 99.2 percent at end-2023.

The amount totalled lei 3.01 billion, up lei 0.47 billion against end-2022. The contributions of all credit institutions set for 2023 were paid in full.

¹⁸⁶ EBA Guidelines to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic (EBA/GL/2023/01 – https://www.eba.europa.eu/sites/default/files/document_library/Publications/Guidelines/2023/1051851/Final%20Report%20on%20Guidelines%20on%20the%20publication%20of%20the%20write-down%20and%20conversion%20and%20bail-in%20exchange%20mechanic.pdf)

¹⁸⁷ According to the applicable regulations, the bank resolution fund's resources shall be at least 1 percent of the amount of covered deposits of all credit institutions authorised in Romania by end-2024 at the latest.

The same as in the previous years, the estimated, non-binding level of the BRF contributions for the next year was also communicated to credit institutions to help them prepare their annual balance sheets.

4. Regulatory framework for bank resolution

In 2023, the milestone of the bank resolution framework was the publication of the European Commission's proposal to review the bank crisis management and deposit insurance (CMDI) framework. The package to reform the CMDI framework focuses on improvements in the following three EU legislative acts: (i) Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), as regards early intervention measures, conditions for resolution and financing of resolution action; (ii) Directive 2014/49/EU on deposit guarantee schemes (DGSD), as regards the scope of deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency; (iii) Regulation (EU) No 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (SRMR), as regards early intervention measures, conditions for resolution and financing of resolution action.

The proposal to amend the EU primary legislation in the field of bank resolution aims to organise the orderly market exit for a failing bank of any size, while also having the following objectives: (i) preserve financial stability, better protect depositors, minimise the reliance on government budget funds (objectives similar to those envisaged when the current BRRD version was drafted); (ii) promote the wider use of the resolution framework and, implicitly, limit the discretion that allowed the non-harmonised implementation of the national insolvency framework to the resolution of a bank (and therefore the easier resort to government budget funds); (iii) ensure the real possibility of using industry-funded safety nets for the resolution of failing banks. The main components of the CMDI legislative package refer to: (i) a revised public interest test for bank resolution, and (ii) the use of the resources of deposit guarantee schemes (DGS) to finance some resolution measures, facilitated by a possible revision of the position in the hierarchy of insolvent creditors of covered deposits/DGS subrogated to the preferred claims of covered depositors (removal of the DGS super-preference). Setting an explicit legal basis to prepare the resolution of banks smaller than those that can be currently included among resolvable banks is considered necessary to manage those specific situations in which the resolution authority will assess that a contagion risk or a financial stability risk exists or could become manifest in cases where such a bank would be resolved under normal insolvency proceedings. In this context, using DGS funds in resolution procedures facilitates the effective management of failing banks, by covering the potential shortage of internal resources (capital and bail-inable debt) until reaching the 8 percent threshold of total liabilities and own funds (TLOF) laid down in BRRD to access the Bank Resolution Fund's resources for resolvable banks using a transfer tool. The DGS contribution to the resolution of failing banks would be justified on principle by the common final objectives of DGS

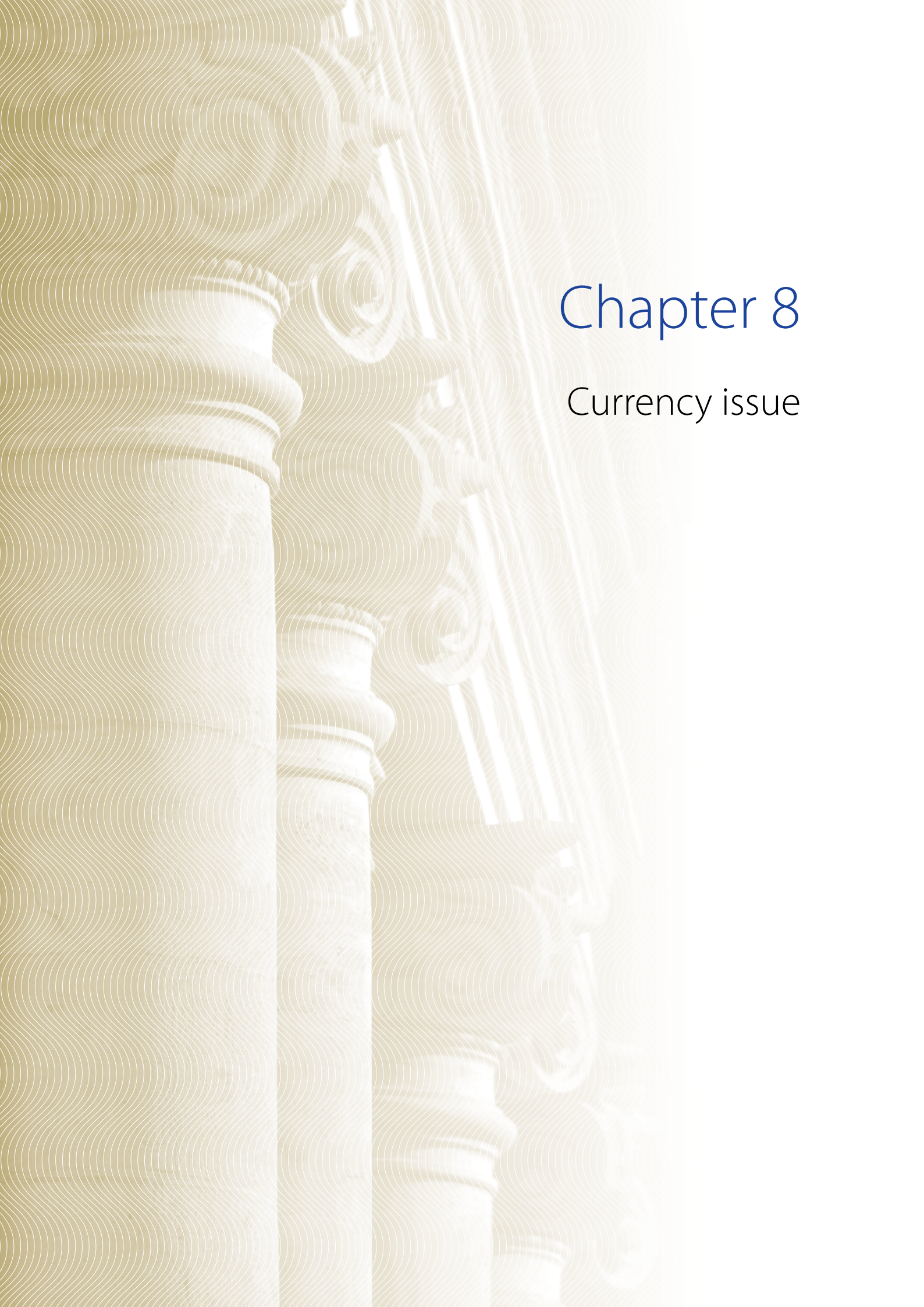
and resolution, namely shielding depositors and ensuring financial stability. Moreover, protecting public funds, as a key objective of resolution, remains a priority, while using the funds collected from the banking industry (the deposit guarantee scheme and resolution fund) is preferable to funding from taxpayers' contributions to the government budget.

As for Level 2 regulations, Commission Delegated Regulation (EU) 2023/827 laying down regulatory technical standards amending Delegated Regulation (EU) No 241/2014 as regards the prior permission to reduce own funds and the requirements related to eligible liabilities instruments (the permission regime) was adopted. The prior permission regime is applied when an institution has expressed its intention to reduce any eligible debt instruments, such as senior unsecured debt instruments, debt instruments with embedded derivatives, liabilities to existing shareholders, subordinated debt or instruments eligible to meet the new iMREL requirement. These instruments can be redeemed only after the prior permission was granted by the resolution authority. The prior permission could also be a general prior permission, in which case the redemption should be made for a predetermined amount and a limited period. The prior permission regime applies to all credit institutions, including subsidiaries that are part of cross-border groups. The specific requirements were included in the procedural framework of the resolution authority (specific operational procedure).

Another piece of Level 2 legislation that entered into force in 2023 was Commission Delegated Regulation (EU) 2023/662 amending Delegated Regulation (EU) 2015/63 as regards the methodology for the calculation of liabilities arising from derivatives, in the context of determining the contributions to be paid by institutions to the resolution fund. These provisions were implemented when setting the amount of contributions to the Bank Resolution Fund for 2023.

Furthermore, Level 3 regulations were extended by Guidelines EBA/GL/2023/05 amending Guidelines EBA/GL/2022/01 on improving resolvability for institutions and resolution authorities, which set forth the following recommendations: (i) a self-assessment by resolution entities of their resolvability, the results of which should be submitted to the resolution authority at least every two years; (ii) a multiannual testing programme developed by resolution authorities; (iii) a master playbook, i.e. an integrated operational manual, for the most complex institutions (G-SII resolution groups or Top Tier banks), setting out how the operational arrangements of the credit institution would effectively support the execution of the resolution strategy. The Guidelines entered into force on 1 January 2024.





Chapter 8

Currency issue

In 2023, the NBR supplied the necessary currency in terms of quantity, value and denomination composition to ensure smooth money circulation, and took appropriate measures to raise the quality of Romanian banknotes and coins in circulation.

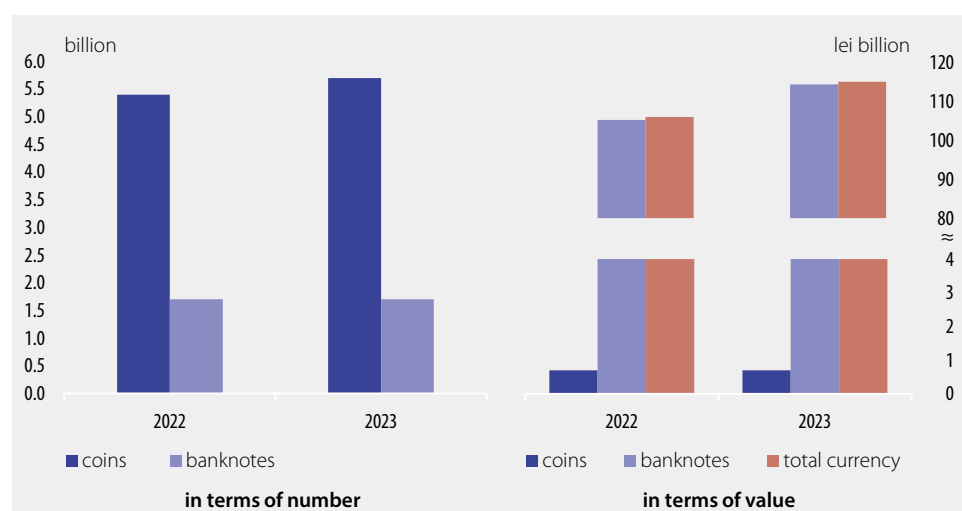
1. Developments in currency in circulation outside banks

In 2023, the value of currency outside banks expanded by 8,7 percent (up to lei 115,076.2¹⁸⁸ million), the pace of increase being 3.9 percentage points faster than that recorded in 2022.

In 2023, the currency in circulation outside banks preserved some of its seasonal patterns. Specifically, annual seasonal factors played a significant part in this indicator's developments, high monthly growth rates being recorded in: (i) April (2.5 percent), under the impact of Easter, (ii) December (1.3 percent), due to the increased demand for currency specific to the winter holidays and (iii) July (1.0 percent), as a result of paid holidays. Over the remaining months, the value of currency outside banks reported more modest increases (by 0.7 percent in August and September, 0.6 percent in June, 0.5 percent in January and March, 0.2 percent in February and October and 0.1 percent in November), or even remained relatively unchanged (May).

Currency outside banks reached a record high of lei 117,317.4 million for the year under review (+8.7 percent versus the 2022 peak) on 22 December 2023, due to the increased demand for currency specific to the winter holidays.

Chart 8.1
Composition of currency outside
banks in 2022 and 2023



¹⁸⁸ Lei 111,536.2 million, excluding the cash in automated teller machines and automated exchange teller machines.

At end-2023, the number of banknotes outside banks was 1,712.9 million, up 3.5 percent year on year, and the number of coins amounted to 5,651.6 million, up 3.8 percent from end-2022. At the end of the year under review, the value of banknotes outside banks recorded an 8.7 percent increase year on year, whereas the value of coins stood 5.3 percent higher than at end-2022 (Chart 8.1).

Banknotes outside banks reported rises in terms of number across most denominations: lei 5 (+0.1 percent), lei 10 (+6.7 percent), lei 50 (+2.4 percent), lei 100 (+5.9 percent), lei 200 (+13.4 percent) and lei 500 (+9.6 percent). The lei 1 note posted a drop (-5.1 percent).

As for the lei 20 denomination, which was put into circulation on 1 December 2021, the number of banknotes outside banks at end-2023 was 89.1 percent higher versus the end of the prior year.

The lei 100 banknote was the most frequently used, its share in the total number of banknotes outside banks standing at 26.9 percent, followed by the lei 1 banknote (24.3 percent) and the lei 50 banknote (13.6 percent). The lei 500 banknote held the lowest share of the total number of banknotes outside banks, i.e.

0.9 percent. Given the date when the new note with face value of lei 20 was put into circulation, its share in the total number of banknotes outside banks came in at 0.8 percent at end-2023.

The banknotes most frequently used for loading ATMs, namely the lei 100, lei 200 and lei 50 denominations, continued to take the highest shares of the total value of banknotes outside banks, i.e. 40.4 percent, 39.4 percent and 10.2 percent, respectively (Chart 8.2).

Chart 8.2
Denomination composition of
banknotes in circulation in 2023

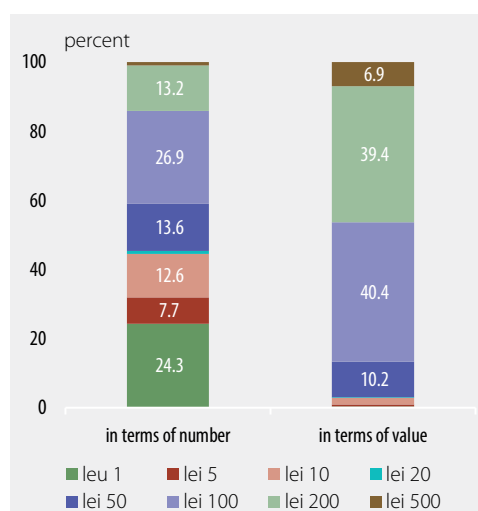
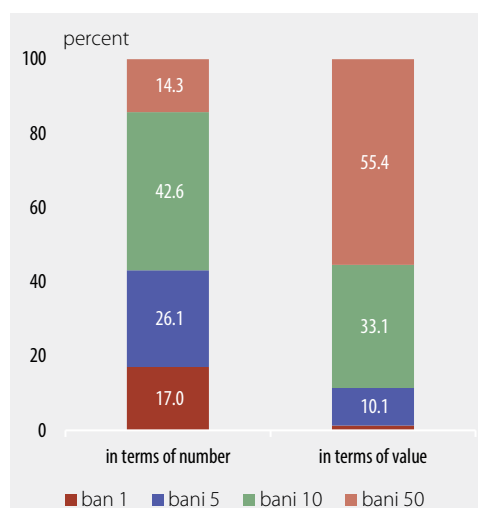


Chart 8.3
Denomination composition of
coins in circulation in 2023



The number of all coin denominations increased by comparison to 2022, percentages varying between 1.5 percent (for the bani 1 coin) and 6.6 percent (for the bani 50 coin). The bani 10 and the bani 5 coins accounted for the largest shares of the total number of coins outside banks in 2023 as well, i.e. 42.6 percent and 26.1 percent, respectively.

In terms of value, the bani 50 and the bani 10 denominations covered 88.5 percent of the total value of coins

outside banks, the largest share being held by the bani 50 coin (55.4 percent; Chart 8.3).

At end-2023, the number of notes and coins outside banks per capita amounted to 90 and 297, respectively, i.e. 3 notes and 11 coins more than at end-2022.

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

Payments

In 2023, the total value of currency used for NBR's payments to credit institutions/the State Treasury stood at lei 23,079.5 million, up 7.2 percent compared to 2022.

The number of banknotes put into circulation via payments was 352.8 million, up 6.5 percent year on year, and their value climbed by 7.2 percent to lei 23,042.0 million.

Banknotes put into circulation via payments reported increases in terms of number across most denominations: lei 5 (+24.4 percent), lei 10 (+13.7 percent), lei 20 (+23.5 percent), lei 50 (+34.6 percent), lei 100 (+0.1 percent), lei 200 (+5.2 percent) and lei 500 (+38.4 percent), except for the leu 1 banknote, down 16.2 percent.

Such developments led to declining shares of the leu 1, lei 100 and lei 200 banknotes put into circulation by the central bank via payments by up to 4.2 percentage points against the previous year, whereas the shares of lei 5, lei 10, lei 50 and lei 500 notes increased by up to 3.8 percentage points versus 2022. In terms of number, the new

banknote with face value of lei 20 held a 2.0 percent share in the total number of notes put into circulation via payments.

In terms of value, the lei 5, lei 10, lei 50 and lei 500 notes consolidated their shares in the total value of banknotes put into circulation via payments (up 0.1 percentage points for the lei 5 banknote, 0.2 percentage points for the lei 10 note, 2.9 percentage points for the lei 50 banknote and 0.7 percentage points for the lei 500 note). The shares of leu 1, lei 100 and lei 200 notes in the payments made by the central bank

receded by up to 3.1 percentage points. In terms of value, the new banknote with face value of lei 20 held a 0.6 percent share in the total value of notes put into circulation via payments (Chart 8.4).

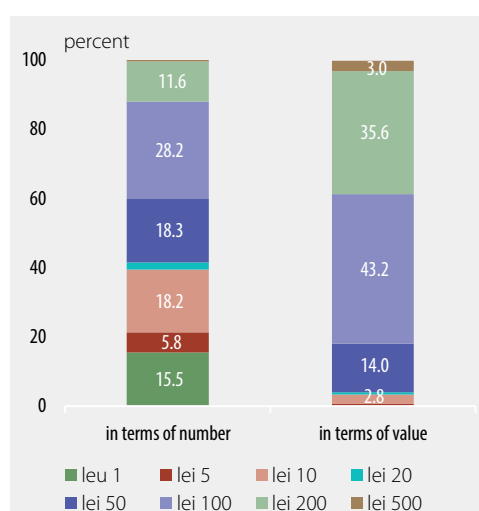
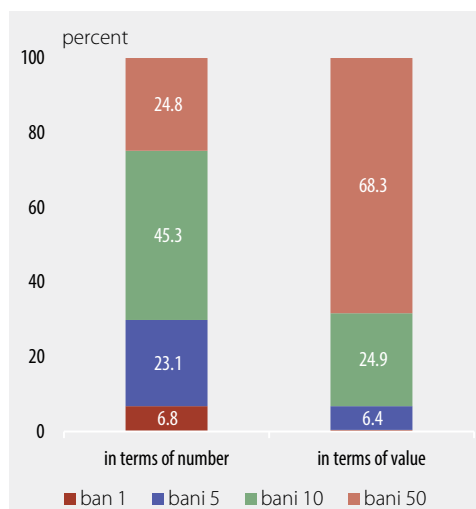


Chart 8.4
Denomination composition of
banknotes used for payments
in 2023

Chart 8.5
Denomination composition of
coins used for payments in 2023



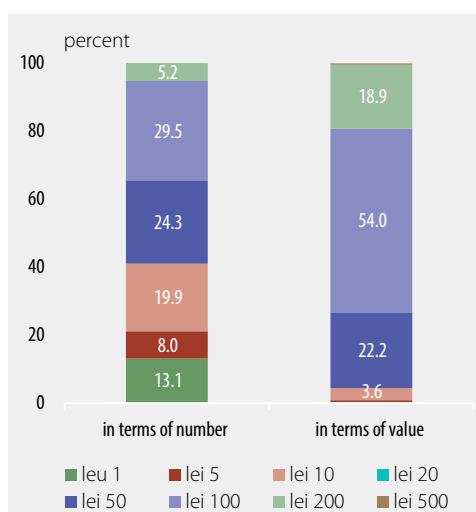
In 2023, 206.0 million coins were withdrawn by credit institutions/the State Treasury from the central bank, down 21.8 percent from the year before. The number of coins withdrawn from the central bank declined for all denominations: ban 1 (-7.9 percent), bani 5 (-13.4 percent), bani 10 (-28.2 percent) and bani 50 (-19.2 percent). The bani 10 coin further held the highest share in the total number of coins used for payments, namely 45.3 percent, ahead of the bani 50 coin (with a 24.8 percent share).

In terms of value, the composition of denominations used for payments to credit institutions/the State Treasury changed compared to 2022, more visibly in the case of the bani 10 coin, with a 2.4 percentage point decrease (down to 24.9 percent; Chart 8.5).

Collections

In 2023, the NBR's cash collections amounted to lei 14,100.9 million, down 14.2 percent against 2022. The deposits of credit institutions/the State Treasury returned to the NBR 257.8 million banknotes, i.e. 2.8 percent less than the previous year. The notes collected reported rises in terms of number versus 2022 for the leu 1 (+17.9 percent) and lei 10 (+34.6 percent) denominations. Conversely, the NBR collected a smaller number of banknotes year on year for the following denominations: lei 5 (-5.5 percent), lei 50 (-9.8 percent), lei 100 (-15.9 percent), lei 200 (-19.1 percent) and lei 500 (-52.6 percent).

Chart 8.6
Denomination composition of
banknotes collected in 2023

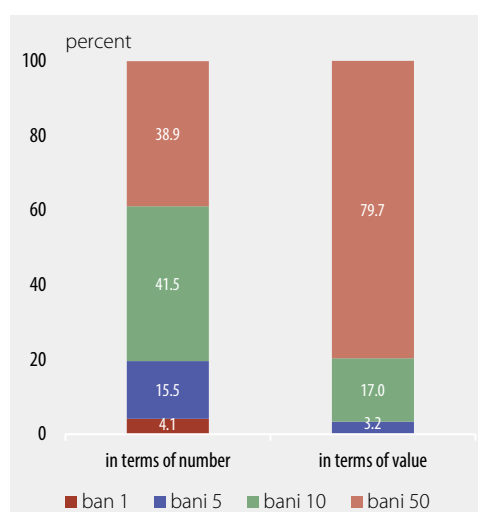


As for the new note with face value of lei 20, the deposits of credit institutions/the State Treasury with the central bank in 2023 amounted to 12,991 banknotes of this denomination, which were considered unfit for currency circulation (worn out and deteriorated).

The largest share in the total number of notes collected from credit institutions/the State Treasury was held by the lei 100 denomination (29.5 percent), ahead of the lei 50 note (24.3 percent).

As regards the share taken in the total value of banknotes collected, the lei 100 denomination accounted for 54.0 percent, followed by the lei 50 note with 22.2 percent (Chart 8.6).

Chart 8.7
Denomination composition of
coins collected in 2023



In 2023, 0.7 million coins were returned to the central bank, down 44.0 percent from the year before. The following denominations reported declines: bani 1 (-82.4 percent), bani 10 (-50.2 percent), and bani 50 (-34.6 percent). By contrast, the bani 5 coin posted a 21.3 percent increase in terms of quantity. The bani 10 coin took the highest share of the total number of coins collected (41.5 percent), the bani 50 coin ranking second (38.9 percent).

In 2023, the value of coins deposited by credit institutions/the State Treasury with the NBR's regional branches amounted to lei 0.2 million (down 37.3 percent from 2022), the bani 10 and bani 50 coins jointly accounting for 96.7 percent (Chart 8.7).

3. Currency processing and withdrawal from circulation of unfit currency

Throughout 2023, 381.5 million banknotes were processed in the processing centres of the National Bank of Romania (i.e. 20.1 million banknotes less than the previous year), out of which 95.9 million were sorted as unfit for currency circulation. This corresponded to an average unfit banknote rate of approximately 25.0 percent, i.e. 2 percentage points lower than that recorded in 2022.

Table 8.1
Changes in the unfit banknote
rate by comparison to 2022

Denomination	Unfit banknote rate
lei 5	-8
lei 10	-8
lei 50	-9
lei 100	-2
lei 200	-4
lei 500	-4
lei 20	+2
leu 1	+15

„-“ – decrease; „+“ – increase

Moreover, some 1.6 million coins were processed in 2023 (3.5 million coins less than the year before), with 255 thousand coins being sorted as unfit for currency circulation.

4. Numismatic issues

In 2023, the National Bank of Romania launched 21 numismatic issues, including 23 coins, out of which 6 were of gold and 17 of silver. The maximum mintage differed depending on the metal the coins were made of, namely 6,000 gold coins and 85,000 silver coins.

The central bank also put into circulation, for numismatic purposes, a mint set with a maximum mintage of 5,000 coins to mark 175 years since the adoption of the Tricolour.

Table 8.2 sets out the data regarding the 2023 numismatic issues.

Numismatic issue	Metal and face value
150 years since the birth of Iuliu Maniu	a gold coin with face value of lei 500
100 years since the adoption of the Constitution of Greater Romania	a gold coin with face value of lei 500 a silver coin with face value of lei 10
Timișoara 2023 – European Capital of Culture	a silver coin with face value of lei 10
90 years since the birth of Nichita Stănescu	a silver coin with face value of lei 10
Jacques M. Elias the initiator of the "Menachem H. Elias Family Foundation"	a silver coin with face value of lei 10
175 years since the Romanian Revolution of 1848	a gold coin with face value of lei 100 a silver coin with face value of lei 10
100 years since the establishment of the General Association of Sports Hunters and Fishermen in Romania	a silver coin with face value of lei 10
100 years since the birth of Liviu Ciulei	a silver coin with face value of lei 10
100 years since the birth of Queen Anne	a silver coin with face value of lei 10
150 years since the birth of Gheorghe Țițeica	a silver coin with face value of lei 10
100 years since the birth of Ion Voicu	a silver coin with face value of lei 10
150 years since the birth of Petre Antonescu	a silver coin with face value of lei 10
70 years since the establishment of the Court of International Commercial Arbitration	a silver coin with face value of lei 10
20 years since the adoption of the Convention for the Safeguarding of the Intangible Cultural Heritage	a silver coin with face value of lei 10
100 years since the birth of Ion Popescu-Gopo	a silver coin with face value of lei 10
150 years since the birth of Dimitrie Paciurea	a gold coin with face value of lei 100
100 years since the birth of Monica Lovinescu	a silver coin with face value of lei 10
200 years since the birth of Lascăr Catargiu	a gold coin with face value of lei 100
100 years since the establishment of the "King Ferdinand I" National Military Museum	a silver coin with face value of lei 10
History of Gold – The princely diadem from Bunești-Averești	a gold coin with face value of lei 100
150 years since the birth of Vladimir Ghika	a silver coin with face value of lei 10
175 years since the adoption of the Tricolour	The mint set comprises the Romanian coins in circulation of ban 1, bani 5, bani 10 and bani 50, as well as a proof-like silver medal.

Table 8.2
The 2023 numismatic issues

5. Detected leu counterfeits

In 2023, counterfeit Romanian banknotes checked by the National Bank of Romania totalled 5,864, up 31.39 percent from the previous year. The monthly distribution of counterfeits was as follows:

Table 8.3
Monthly distribution
of counterfeits

2023											
Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
391	450	491	908	612	673	208	487	112	809	543	180

The number of counterfeits by denomination was as follows:

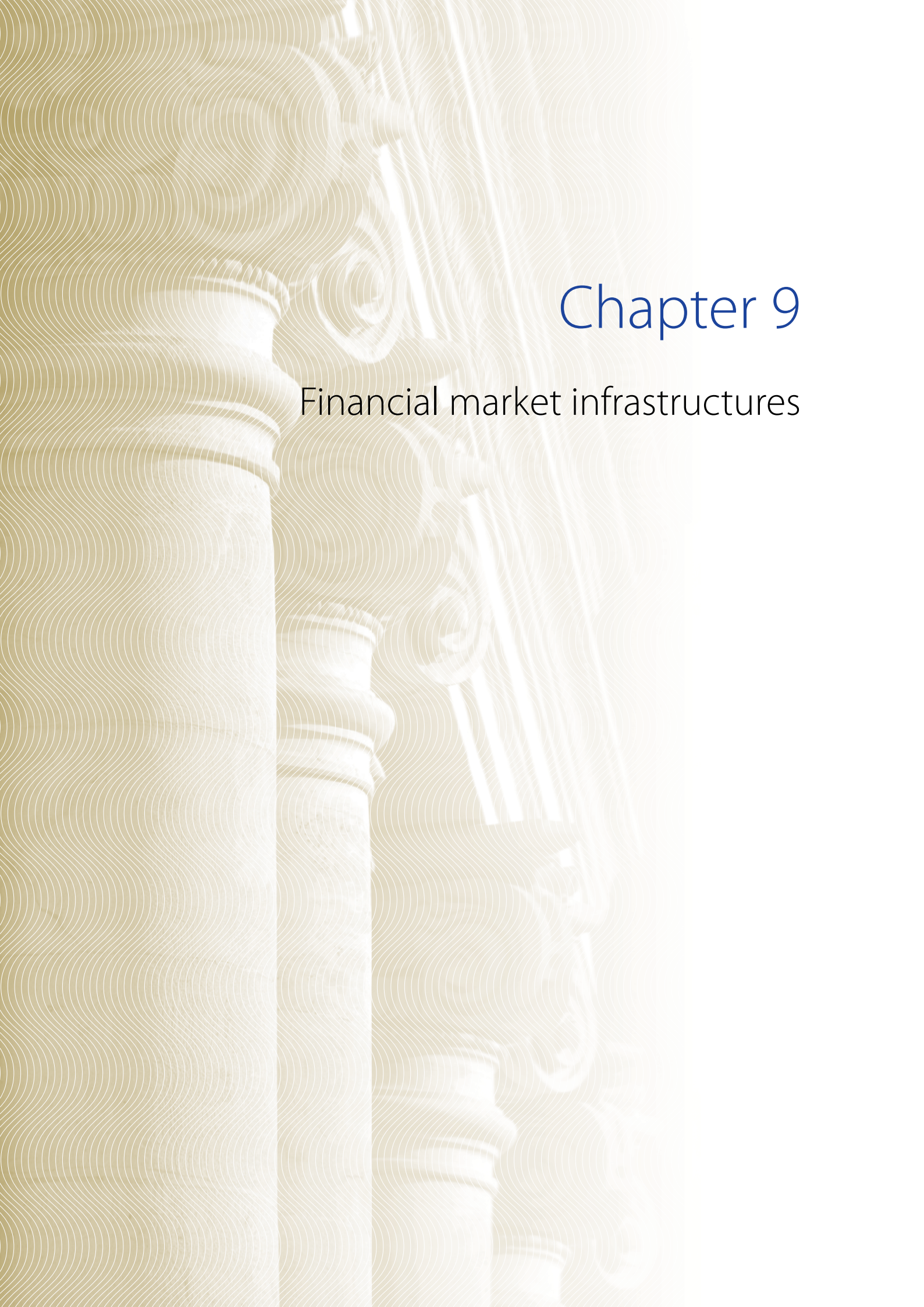
Table 8.4
Counterfeits by denomination

Denomination	Number of counterfeits
leu 1	0
lei 5	0
lei 10	3
lei 20	0
lei 50	77
lei 100	5,750
lei 200	32
lei 500	2

Out of the total number of counterfeit banknotes, 800 were seized during specific police operations before entering circulation, whereas 5,064 were found in circulation.

The lei 100 denomination recorded the highest number of detected counterfeits, i.e. 5,750 banknotes (out of which 793 seized by the police), ahead of the lei 50 banknote (77 counterfeits) and the lei 200 banknote (32 counterfeits).

Some 3.07 counterfeits were found per 1 million authentic banknotes in circulation versus 2.46 counterfeits in 2022.



Chapter 9

Financial market infrastructures

According to its statutory tasks, 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. The main tool whereby this objective is achieved, beside the regulation, authorisation and oversight of the payment systems, consists in the facilities that the National Bank of Romania provides for ensuring efficient and robust payment and settlement systems.

To this end, the National Bank of Romania operates a series of financial market infrastructures, namely ReGIS, SaFIR and TARGET-România, through which it provides funds and/or securities settlement services at national level.

1. ReGIS

General aspects

ReGIS is the national real time gross settlement system¹⁸⁹ (RTGS) for payments in lei owned and operated by the National Bank of Romania, which settles central bank's monetary policy operations, interbank operations, payments on customers' account, (regardless of their value), as well as payments related to other financial market infrastructures at national level.

ReGIS is pivotal to the national financial market, due to its essential role in the central bank's monetary policy operations, as well as due to its interactions with all the other financial market infrastructures countrywide. For this reason, by Order of the NBR Governor¹⁹⁰, the system falls under the scope of Law No. 253/2004 on settlement finality in payment and securities settlement systems, as subsequently amended (transposing into national law Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, as subsequently amended).

In 2023, ReGIS further contributed to the smooth operation of money market and forex market, as well as to the successful implementation of the National Bank of Romania's monetary policy, considering that central bank's monetary policy operations are processed solely through this system.

¹⁸⁹ The system provides the real-time processing and settlement of transactions, on an individual basis, with the settlement being made in central bank money, with immediate finality.

¹⁹⁰ Order No. 65 of 7 March 2024 of the NBR Governor is currently applicable.

Participation in the system

At end-2023, the system counted 40 participants (32 credit institutions, the National Bank of Romania, the State Treasury and 6 ancillary systems – SENT, SENT-PI, SaFIR, RoClear, VISA Europe and MasterCard Europe).

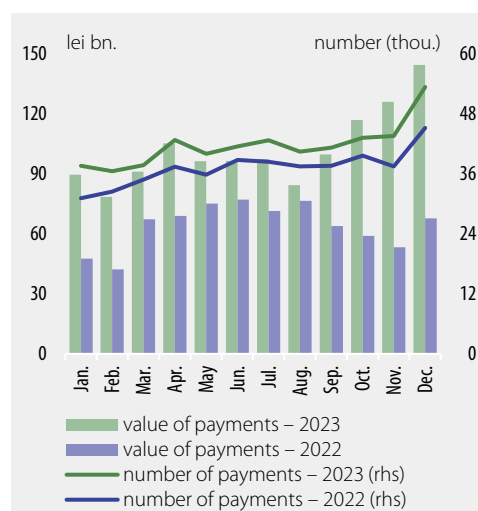
Payments in ReGIS

The volume and value of payments settled in ReGIS went up by 10.04 percent and 55.61 percent respectively in 2023 against the previous year, while the average value per transaction increased by approximately 41.4 percent (Table 9.1).

Table 9.1
Payments traffic in ReGIS

	Volume (no. of transactions; thou.)		Value (lei bn.)		Average value per transaction (lei mill.)
	Total	Daily average	Total	Daily average	
2022	9,367	37.20	16,198	64.28	1.73
2023	10,307	41.50	25,206	102.00	2.45
Change (%)	10.04	11.56	55.61	58.68	41.42

Chart 9.1
Payments in ReGIS, irrespective of their value, in 2023 compared to 2022 (daily average)



The maximum volume of payments daily settled through ReGIS was recorded in December 2023 (70,488 transactions/day), while the maximum value of payments daily settled in this system was also posted in the final month of 2023 (lei 181 billion/day).

The composition of payments processed in ReGIS in 2023 (Table 9.2) shows that payments made by participants on customers' account (SWIFT MT103 messages) prevailed (92.90 percent of the volume of payments settled), their total value remaining, however, relatively

low (only 13.44 percent of the value of payments settled). By contrast, the volume of payments made by participants on their own behalf and account (SWIFT MT202 messages) was relatively subdued (6.31 percent of the number of payments settled), but their value was higher (25.11 percent of the value of payments settled via the system).

Table 9.2
Composition of payments in ReGIS in 2023

Payments	percent		
	MT103	MT202	Direct transfer
Total volume	92.90	6.31	0.79
Total value	13.44	25.11	61.44

At the same time, payment transactions involving direct debit/credit of participants' settlement accounts (direct transfer) posted a low volume (0.79 percent of the volume of payments settled via the system), while reporting a significantly elevated value (61.44 percent).

Market concentration remained comparable to that in the previous year in terms of both the volume and value of payments settled through ReGIS (the top five credit institutions accounting for 61.56 percent and 59.49 percent, respectively, of the market).

In 2023, the average availability of ReGIS, i.e. the extent to which participants could use the system without any incidents during the operating days, was 100 percent.

During 2023, the participants pursued an adequate and efficient liquidity management, with the value of the repo intraday liquidity provided by the National Bank of Romania accounting for 0.69 percent of the total value of transactions settled in the system.

2. SaFIR

General aspects

SaFIR is a securities depository and settlement system (Securities Settlement System – SSS) owned and operated by the National Bank of Romania, in its capacity as central securities depository (CSD). The system is a depository for government securities issued on the interbank market, the certificates of deposit issued by the National Bank of Romania and other fixed-income financial instruments set forth by the NBR executives.

SaFIR is pivotal to the national financial market, due to its interactions with all the other payment and settlement systems, as well as due to its essential role in the central bank's monetary policy operations and lending facilities aimed at ensuring smooth settlement in ReGIS. For this reason, by Order of the NBR Governor¹⁹¹, the system falls under the scope of Law No. 253/2004 on settlement finality in payment and securities settlement systems, as subsequently amended (transposing into national law Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, as subsequently amended).

Participation in the system

At end-2023, SaFIR counted 34 participants, out of which: 29 credit institutions, the National Bank of Romania, the Ministry of Finance and 3 securities depository and settlement systems – the Central Depository, Clearstream Banking and Euroclear Bank.

Face value of government security issues deposited with SaFIR

At end-2023, the overall face value of outstanding issues of leu-denominated government securities came in at lei 312.96 billion, up 23.35 percent versus end-2022, while the overall face value of the issues of euro-denominated government securities amounted to EUR 2.86 billion, down 34.45 percent versus end-2022.

¹⁹¹ Order No. 65 of 7 March 2024 of the NBR Governor is currently applicable.

Transactions in SaFIR

SaFIR processes transactions 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 transactions carried out by participants on the secondary market (sale/purchase transactions, financial collateral arrangements, repo transactions, portfolio transfers).

Chart 9.2
Volume and value of transactions in government securities settled in SaFIR in 2023 (delivery-versus-payment), the value of intraday repo transactions

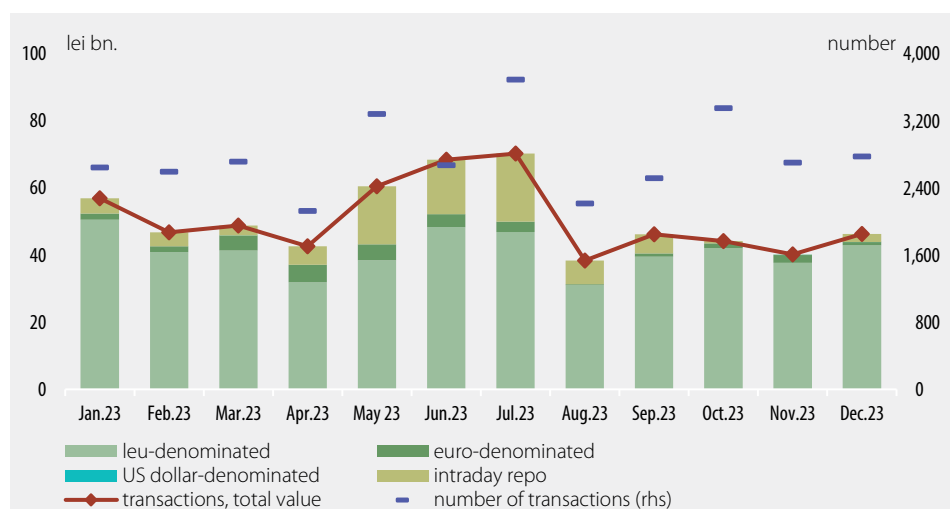


Chart 9.2 shows the volume and value of sale/purchase transactions (including reverse transactions), while Table 9.3 provides a comparative picture of them in 2023 versus 2022.

Table 9.3
Transactions in government securities settled in SaFIR

	Volume (no. of transactions)		Value of transactions (EUR mill.)	
	Total	Daily average	Total	Daily average
2022	33,643	134	292	1.2
2023	33,598	135	123	0.5

During 2023, the National Bank of Romania maintained an adequate and efficient liquidity management across participants, ensuring on a permanent basis the liquidity they needed to settle payments and securities transactions through intraday repo transactions. In 2023, the total value of the intraday repo liquidity provided by the National Bank of Romania accounted for 14 percent of the total value of transactions settled in the system. Based on participants' daily individual needs to ensure liquidity flows and on the liquidity deficit in the banking system, the value and volume of intraday repo transactions fluctuated, with the highest levels being reported in May-July 2023.

3. TARGET-România

General aspects

On 20 March 2023, the T2-T2S consolidation project was successfully finalised. Its goal was for TARGET services provided on TARGET2, TARGET2-Securities and TIPS to migrate

to a single, enhanced platform that should meet all the requirements and observe the best practices applicable to financial market infrastructures, offer the possibility to optimise the liquidity of TARGET users and ensure cyber resilience for all these services.

TARGET services are settlement services in euro provided by the Eurosystem (the European Central Bank and the central banks of EU Member States that adopted the euro) in order to allow the free movement of money, securities and collateral inside Europe. TARGET services include T2 (RTGS services), T2S (securities settlement services) and TIPS (TARGET Instant Payment Settlement services).

TARGET is legally structured as a multiplicity of payment systems composed of all TARGET component systems. In its capacity as central bank connected to TARGET, the National Bank of Romania operates TARGET-România, i.e. the national component, and thus provides TARGET services on the territory of Romania.

Considering the importance of TARGET at European level, its national components are governed by national laws transposing Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, as subsequently amended. Thus, by Order of the NBR Governor¹⁹², TARGET-România also falls within the scope of Law No. 253/2004 on settlement finality in payment and securities settlement systems, as subsequently amended.

Participation in the system

The participation in TARGET-România is governed by the system rules set forth by National Bank of Romania Order No. 3/2022 on TARGET-România system rules, as subsequently amended and supplemented, which transposes into domestic law the relevant provisions of Guideline (EU) 2022/912 of the European Central Bank of 24 February 2022 on a new-generation Trans-European Automated Real-time Gross Settlement Express Transfer system (TARGET) and repealing Guideline 2013/47/EU (ECB/2012/27) (ECB/2022/8), as subsequently amended and supplemented.

At end-2023, the number of participants in TARGET-România amounted to 21 (namely 18 credit institutions, the ancillary system SENT, run by TRANSFOND, the Central Depository and the National Bank of Romania) that used TARGET services in their capacity as:

- Dedicated Cash Accounts (DCA) holders for T2-RTGS securities (19);
- DCA holders for T2S services (10);
- DCA holders for TIPS services (1).

Transactions in TARGET-România

The volume of payments settled via the real-time gross settlement service (until 19 March 2023 in TARGET2 and subsequently in T2) increased by 12.7 percent in 2023 versus 2022, while the value of settled payments decreased slightly by 0.5 percent (Table 9.4).

¹⁹² Order No. 65 of 7 March 2024 of the NBR Governor is currently applicable.

Table 9.4
Traffic of payments settled via the
real-time gross settlement service

	Volume (no. of transactions)		Value of transactions (EUR mill.)	
	Total	Daily average	Total	Daily average
2022	142,127	551	176,347	684
2023	160,231	623	175,449	683
Change (%)	12.7	13.2	-0.5	-0.1

The monthly volume of payments settled in 2023 fluctuated, the monthly average coming in at 13,353 payments. In 2023, the volume of settled payments reached a high of 14,867 in May and posted a low of 10,989 in January (Chart 9.3).

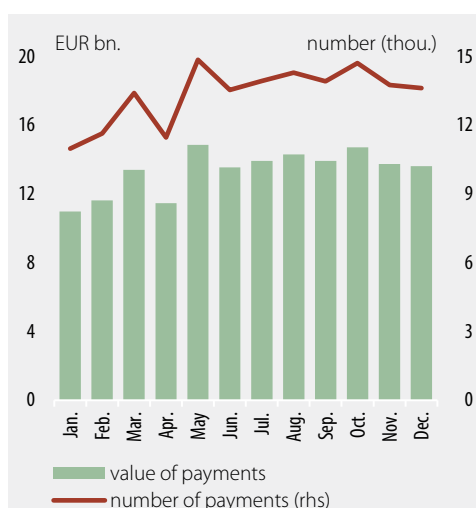
Moreover, the monthly value of settled payments fluctuated in the course of 2023, recording a EUR 10,782.25 million low in January and a EUR 24,675.58 million high in December (Chart 9.3).

The composition by category of payments settled through the real-time gross settlement service in 2023 shows the prevalence of cross-border payments over national payments

(accounting for 74.92 percent of the total volume of payments settled through this system and for 83.45 percent of their value). Yet this behaviour is normal, considering that this system settles euro-denominated payments only, with most domestic payments being denominated in lei.

In 2023, participants pursued an adequate and efficient liquidity management and no gridlock situations occurred due to the lack of funds in the participants' settlement accounts.

Chart 9.3
Payments settled via the
real-time gross settlement service



Eurosystem's initiatives impacting TARGET-România

In September 2023, the ECB's Governing Council decided to extend the obligation to connect to ECONS II to all participants in the ancillary systems and RTGS DCA holders starting with 21 March 2025. From a legal point of view, this obligation was implemented country-wide by NBR Order No. 8/2023 amending and supplementing NBR Order No. 3/2022 on TARGET-România system rules.

The project, which impacts all the participants in TARGET-România, is managed at national level by the National Bank of Romania.

4. Oversight of financial market infrastructures and payments

Authorisation of payment systems and securities settlement systems

The National Bank of Romania performs its legal tasks concerning the regulation, authorisation, supervision and oversight of the payment systems and securities settlement systems in Romania, as well as of their operators, with a view to promoting the safe and efficient functioning of the systems and preventing the systemic risk from materialising.

In 2023, the operating rules governing ReGIS, run and operated by the NBR, were amended and supplemented. These changes envisaged the launch of the new version of the ReGIS system application, as well as the change in the pricing scheme for the system services with a view to restructuring and updating fees so as to comply with the applicable monitoring principles and rules, observe the European good practices in the field and diminish the financial risk borne by the NBR in its capacity as system administrator (the new pricing scheme can be found in Annex No. 10 to the ReGIS system rules published on the NBR's website).

The NBR, in its capacity as relevant licensing and supervisory authority, endorsed a series of amendments to the system rules governing the securities settlement system RoClear operated by the Central Depository. These changes envisaged mainly the operationalisation of the Guarantee Fund designed to cover the transactions by means of the Central Depository's net securities settlement system, in the event of the counterparty risk materialising, as well as the implementation of several recommendations formulated by the NBR during the comprehensive assessment in 2023 of RoClear against its compliance with the requirements of NBR Regulation No. 3/2018.

The amendments implemented by the Central Depository in the course of 2023 provide a better legal certainty for the RoClear participants and were put in place in order to achieve a better management of specific risks faced by the Central Depository, as well as to enhance the operational and cyber resilience of the activity carried out by the Central Depository.

Measures adopted by the central bank for containing the risks to the functioning of payment and settlement systems and for boosting their efficiency

During 2023, payment and settlement systems continued to run normally and safely. Operational incidents were minor.

According to its statutory tasks, the NBR monitored on a continuous basis the functioning of payment systems and securities settlement systems. This central bank-specific activity envisages meeting the following objectives: safeguarding financial stability, providing an adequate channel for monetary policy transmission, ensuring the systems' efficiency and effectiveness, system operators complying with the legal framework, as well as maintaining public confidence in payment systems, payment instruments and the domestic currency.

Comprehensive assessments of securities settlement systems SaFIR and RoClear were completed against their compliance with the requirements of NBR Regulation No. 3/2018. The results of the assessments showed that the two systems largely met the requirements of NBR Regulation No. 3/2018, with a number of measures being currently implemented with a view to improving the operational and cyber resilience of these systems.

In 2023, the Central Depository saw an annual review and assessment of its compliance with the requirements of Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories (CSDR). The assessment was conducted by licensing authorities, namely the Financial Supervisory Authority, in its capacity as competent authority, and the NBR and the ECB, in their capacity as relevant authorities, in line with the requirements of CSDR. The conclusions of the assessment indicated that there were no major risks to the smooth functioning of the securities settlement system RoClear and its participants.

As part of the steps to license the national central counterparty CCP.RO Bucharest S.A., during 2023 a College was established for licensing CCP.RO Bucharest S.A., following the licensing application submitted by the company to the attention of the Financial Supervisory Authority, in its capacity as competent authority, in line with the provisions of Art. 17 para. (1) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (hereinafter referred to as EMIR).

The NBR is part of the College licensing CCP.RO Bucharest S.A. pursuant to Art. 18 para. (2) letters (c)/(ca), (g) and (h) of EMIR. In addition, the European Securities and Markets Authority (ESMA) is also a member of the College, participating in its activities in accordance with the provisions of Art. 18 para. (2), letter (a) of EMIR.

The activity of the College licensing CCP.RO Bucharest S.A. resulted in two meetings between the authorities involved during 2023 (October and December). Alongside supporting the licensing process, the NBR was also involved in technical discussions with the representatives of CCP.RO Bucharest S.A. with a view to designating the system to be operated under Law No. 253/2004 on settlement finality in payment and securities settlement systems.

During 2023, the participants in FMIs recorded only one operational incident that disrupted, for a relatively short time during a business day, the normal processing and settlement of payment transactions. At that time, the causes of the incident were investigated and payment services were resumed on the same day. Subsequently, a team of NBR experts conducted several on-site checks, following which remedial measures were taken with implementation deadlines included in order to prevent similar events from occurring in the future.

In accordance with NBR Regulation No. 6/2022 on the framework for conducting TIBER-RO cyber resilience tests, the NBR monitors the TIBER-RO tests throughout their execution. In line with this regulation, the administrators of financial market infrastructures under the central bank's oversight, as well as the credit institutions designated as critical participants in these infrastructures are bound to run, on a regular basis, external cyber resilience tests (red-team tests), which are cyber-attack simulations by

advanced and persistent entities, including organised crime groups or state actors. These tests are based on the information obtained by a team specialised in the analysis of cyber threats and vulnerabilities specific to the tested entity. In 2023, four financial entities initiated TIBER-RO tests. The NBR also participates, as an observer, in the running of a TIBER-EU test under the coordination of EU national central banks.

The oversight of financial market infrastructures and payments was conducted without incidents. The communication with system administrators was carried out through electronic means, except for the on-site participation in working meetings for assessing and controlling FMIs.

The protection of national critical infrastructures in the banking and financial sector within the scope of the NBR

The NBR, in its capacity as public authority responsible for the protection of national critical infrastructures (NCIs), through its representatives, members of the National Centre for Coordination of Critical Infrastructure Protection, carried out the annual process for identifying the NCIs in its area of responsibility.

In 2023 as a whole, the NBR representatives participated in six meetings of the Interinstitutional Working Group for the protection of national critical infrastructures (*Grupul de lucru pentru protecția infrastructurilor critice* – GLIPIC). The group prepared and finalised the draft Law on the resilience of critical entities, amending and supplementing certain legal acts, the purpose of which was to transpose into national law the provisions of Directive (EU) 2022/2557 on the resilience of critical entities and repealing Council Directive 2008/114/EC, which will apply across the Member States of the European Union as of 18 October 2024.

In the course of 2023, the NBR, in its capacity as public authority responsible, verified compliance of owners/operators/managers of NCIs with their obligations under Government Emergency Ordinance No. 98/2010 on the identification, designation and protection of critical infrastructures, and endorsed two operational security plans submitted by the designated NCIs in its area of responsibility, in accordance with the provisions of Art. 7 letters e) and f) of the above-mentioned legislative act.

In parallel, actions were further taken to inform the owners of national critical infrastructures and, where appropriate, meetings were organised with the aim to clarify the legal aspects relative to the obligations of the entities concerned, including the preparation of operational security plans.

The NBR also informed GLIPIC about its annual activities designed to protect NCIs.

Supervision of the conduct of credit institutions in Romania concerning investment activities and services and reporting of transactions in financial instruments of money and foreign exchange markets

On-site and off-site oversight and control actions were carried out in 2023 covering the investment activities and services performed by certain credit institutions in money market and foreign exchange market instruments.

The on-site inspection activity was conducted at the premises of seven credit institutions (Romanian legal entities and branches of credit institutions having their head offices in other EU Member States). The inspections aimed to examine the conduct of these banks on the money and foreign exchange markets, in line with the applicable legal requirements, as well as to check the actual provision of investment services and activities in money and foreign exchange market-specific financial instruments by the relevant institutions authorised in this respect. The inspections found some deficient compliance with internal procedures and transaction reporting. The NBR's recommendations aimed at harmonising the internal regulations in force governing the credit institutions under review with the services and investment activities actually performed. No major problems were identified, and the weaknesses were and will be remedied in an efficient manner by the respective credit institutions, based on the recommendations and remedial plans formulated by the NBR, with implementation deadlines included.

Off-site control actions were also carried out to ensure compliance by all credit institutions with the applicable legal requirements related to their conduct in the money and foreign exchange markets, aiming at investor protection and the smooth functioning of the markets.

Daily transaction reports submitted by credit institutions in accordance with the legal obligations were analysed in order to assess and identify possible discrepancies in the reporting of financial instruments. The discrepancies identified were analysed and discussed during the on-site inspections and remedial measures were formulated where appropriate.

The NBR, in its capacity as competent authority in the field of investment services and activities in money and foreign exchange market-specific financial instruments by credit institutions issued and published in *Monitorul Oficial al României* Order No. 354/ 2023 on the conduct of credit institutions providing investment services and activities on the money and foreign exchange markets, in accordance with Art. 2 para. (2) and (3) of Law No. 126/2018 on markets in financial instruments. This Order transposes nine Guidelines released by ESMA (annexed thereto) and applies to credit institutions, Romanian legal entities and branches in Romania of credit institutions having their head offices in other EU Member States, when providing the investment services and activities referred to in Art. 2 para. (2) of Law No 126/2018 on markets in financial instruments, as subsequently amended and supplemented, by using the instruments referred to in Art. 2 para. (3) of the mentioned Law. In its supervisory practice, the National Bank of Romania envisages to ensure compliance by credit institutions with NBR Order No. 354/2023, including the annexes thereto (the nine guidelines developed by ESMA in connection to this legislative act).

The NBR was involved in endorsing the draft Law amending Law No. 126/2018 on markets in financial instruments, amending Art. 15 para. (2) of Government Emergency Order No. 32/2012 on undertakings for collective investment in transferable securities and investment management companies, as well as amending and supplementing Law No. 297/2004 on the capital market, as well as amending and supplementing Law No. 74/2015 on alternative investment fund managers.

Participation in the regulatory process at EU level

The NBR was involved, in 2023, in the negotiation of legislative proposals at EU level concerning the amendment of Directive No. 98/26/EC on settlement finality in payment and securities settlement systems, Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR), Regulation (EU) No 1011/2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and the revision of European regulations on crypto-assets, instant payments in euro, operational resilience of financial entities, payment services and the digital euro.

The programme organised and supported by the European Commission in order to provide assistance to the National Bank of Moldova (NBM) for regulating the oversight of financial market infrastructures and payment services was carried on in 2023, pending completion in 2024. It envisaged measures for the harmonisation of the legal and regulatory framework in the Republic of Moldova with the *acquis communautaire*, the adoption of best practices and standards for overseeing financial market infrastructures and payment services, the training of the NBM staff and the creation of an internal framework of working procedures with a view to monitoring financial market infrastructures and payment services in the Republic of Moldova. The programme also aimed at providing technical assistance to the NBM on joining the Single Euro Payments Area by drafting the file required by the European Payments Council.

Security, oversight and innovation in the field of payments

The National Bank of Romania has been updating on a continuous basis the payment regulations in order to ensure the safety and efficiency of payment systems, including payment instruments, and to maintain public confidence in the financial system.

Thus, during 2023, the NBR issued Regulation No. 1/2023 amending NBR Regulation No. 2/2020 on the security measures for operational and security risks and the reporting requirements for payment services in order to amend the provisions on reporting specific statistical data on payment operations and fraudulent payment transactions.

Pursuant to Article 219 of Law No. 209/2019 on payment services and amending some legal acts, in 2023, 12 payment services providers reported to the NBR 35 major operational and security incidents affecting the payment services provided, the number of these incidents increasing by approximately 25 percent compared to the previous year. All these incidents were reported by the NBR to the European Central Bank and the European Banking Authority, in line with the legal provisions.

The major incidents affected mainly: (1) services necessary for the functioning of a payment account, (2) payment services that allow for credit transfers to be performed by means of internet or mobile banking applications, (3) card payment acceptance services (e.g. the impossibility of using cards at POS/ATM), (4) card payment initiation services, (5) direct debit payment services, money remittances, cash deposits to a payment account and cash withdrawals from a payment account and (6) specific open banking services – the provision of account information and payment initiation services.

These incidents were caused by both internal issues across PSPs and external issues facing TSPs, namely two DDoS (Distributed Denial-of-Service) attacks. Thus, among the driving factors were: human errors, technical issues facing TSPs and power outages, technical issues facing the IT components used in the process of payment services provision by PSPs (equipment and application failure).

The number of payment services users affected by a single major incident ranged between 24 and 383,200, while the number of payment transactions affected by a major incident ranged between 26 and 470,250.

Although the number of major incidents reported for 2023 overall increased compared to the previous year, they were managed in line with the legal requirements, given that PSPs are further able to adequately manage the operational and security risks related to the payment services they provide. Based on the continuous monitoring, by on-site and off-site inspections, of the security measures applied by payment services providers (PSPs) with a view to managing operational and security risks, the central bank analysed the security measures applied by some service providers, taking into account, *inter alia*, the developments, threats, vulnerabilities and risks related to the resources involved in the provision of these services.

The National Bank of Romania monitors on an ongoing basis the innovative solutions in the field of payment services and payment instruments by means of the FinTech Innovation Hub contact point, as well as based on the information presented in conferences/events attended also by the central bank's representatives.

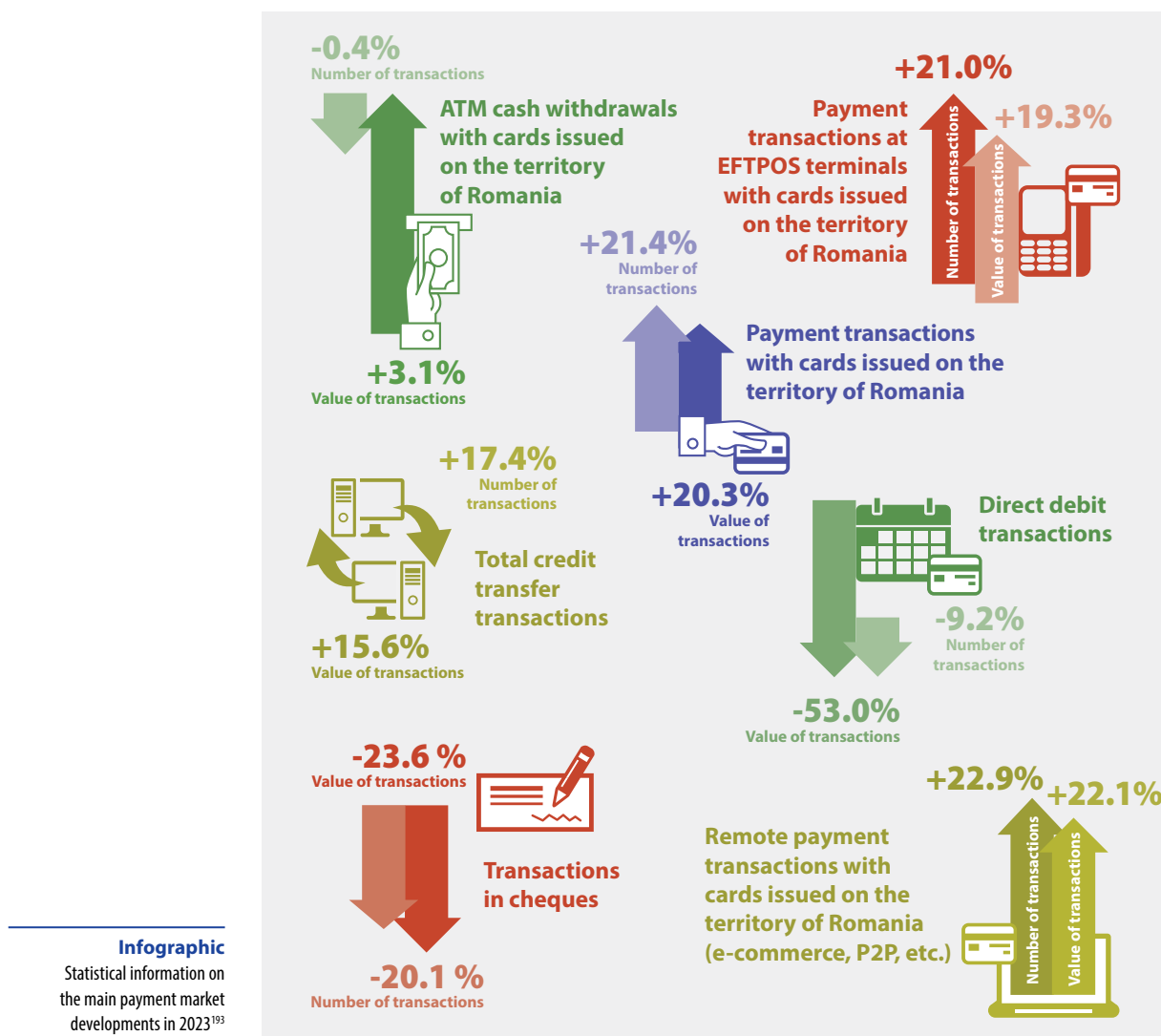
Seven new applications were sent through FinTech Innovation Hub, with the number of applications submitted so far via this platform amounting to 66. The entities that submitted applications through FinTech Innovation Hub can be mainly categorised as follows: (1) entities that intend to get authorised as: (a) payment institution; (b) electronic money institution; (c) non-bank financial institution; (2) entities that provide or intend to provide technical services to payment services providers (PSPs). At the same time, in 2023 as a whole, one payment institution was authorised to provide services in Romania.

Developments in the payments market

During 2023, as compared to 2022, the NBR received by approximately 23 percent more complaints denouncing and/or questioning certain aspects related to the payment services used. Thus, among them:

- (a) 57 percent referred to fraud scenarios based on forms of manipulation of the payer and phishing cases;
- (b) 18 percent consisted of requests for the settlement and processing of payment transactions (double payment transactions, inadequate settlement time for payment transactions in foreign currency, charge-back transactions, unprocessed payment transactions due to failure to provide supporting documents);
- (c) 5 percent referred to problems with cash withdrawal and deposit at ATM/MFM (Multi-Function Machine);
- (d) 4 percent were related to open banking services issues;

- (e) 4 percent were about payment transactions contested by payment services users (POS error, friendly/family fraud);
- (f) 12 percent referred to other aspects (information requests including on the application of the strong customer authentication procedure, reporting of malfunctioning/non-functioning of remote electronic payment channels based on internet/mobile banking services, other information requests).



The analysis of the complaints received revealed that the most frequent fraud patterns are:

- (a) Social engineering through which fraudsters aim to obtain personalised security credentials of payment instruments (access codes, card data, authentication codes) and use them to initiate fraudulent payment transactions;
- (b) Investment fraud (crypto-assets) through which fraudsters claiming to act on their own behalf or to work for famous companies in the field contact various persons to propose them to make investments and succeed in prompting them to provide

¹⁹³ The fluctuations refer to the annual rates of increase/decrease recorded in 2023 compared to the data reported in 2022.

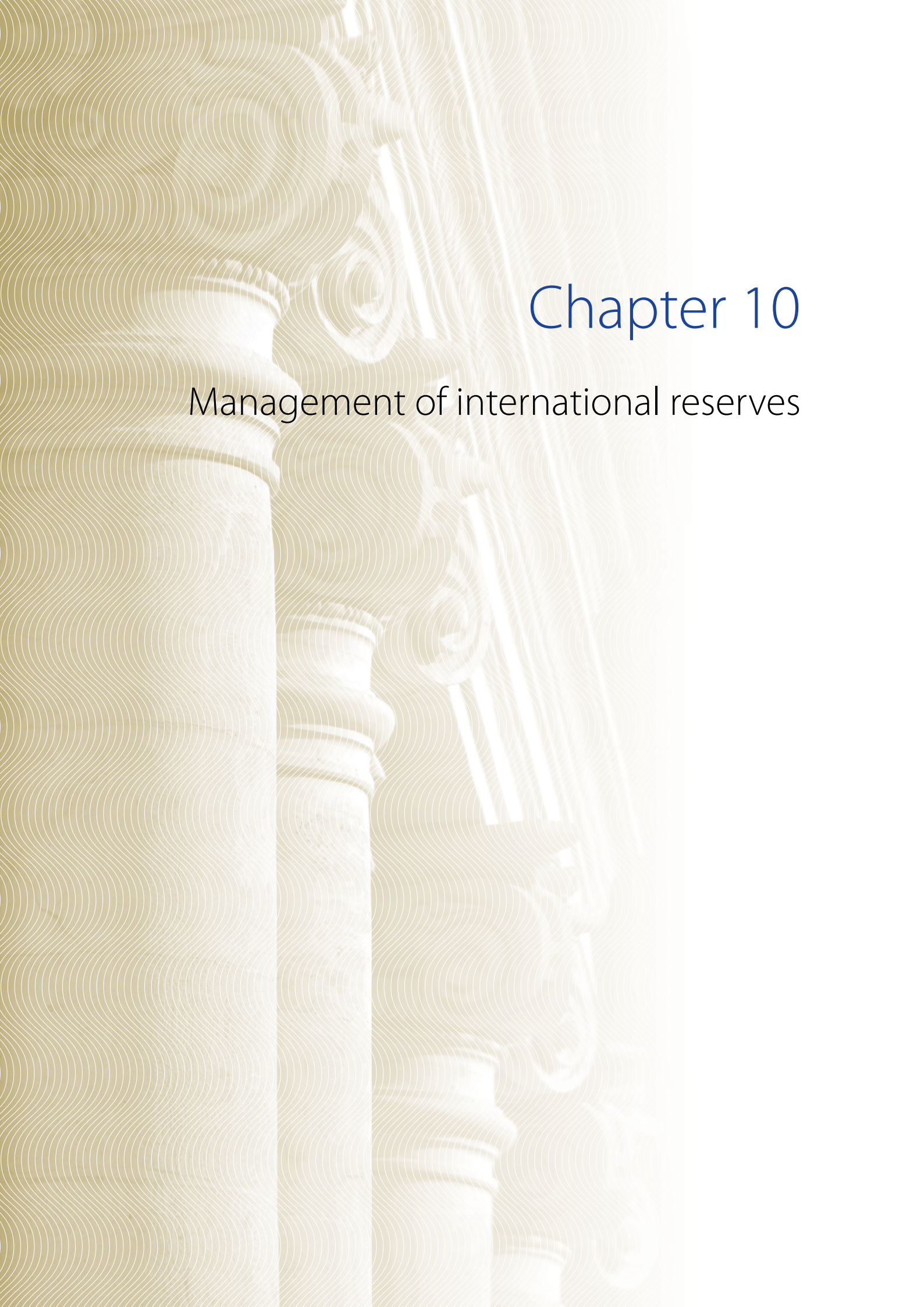
sensitive payment data (card data, passwords for payment applications, OTP codes received via SMS, etc.) or in installing on their phones applications that enable remote access to their devices under the false pretences of their receiving large gains from small investments or withdrawing the trading profits from various crypto-asset platforms. Also, in some cases, they manipulated the contacted persons into taking a credit line with the ultimate goal of transferring the funds thus obtained to their own accounts or to the accounts of the persons they controlled;

- (c) For further information on the most common fraud patterns see the NBR's webpage at www.bnr.ro/page.aspx?prid=22558 and www.bnr.ro/Fraude-21235.aspx.

Fraud patterns are constantly evolving, with fraudsters being on a constant lookout for new forms of existing fraud methods or for new fraud methods, some based on technology. Deep-fake is one of the new fraud methods used worldwide and refers to any image, audio and/or video recording created by AI technology, so as to misrepresent someone as doing or saying something that was not actually done or said, without their consent, with the ultimate goal to obtain financial gains.

The NBR monitors on a continuous basis the evolution of frauds and fraud patterns and issues recommendations and provides guidance to payment services providers on additional security measures that can be implemented to identify and avoid fraud. Among the NBR recommendations to payment services providers in 2023 are: (1) the improvement of transaction monitoring systems used by payment services providers so as to enable the identification and blocking of fraudulent payment transactions in real time, (2) the implementation by PSPs of the Beneficiary Name Display Service (SANB) provided by TRANSFOND and (3) the increase in the use of payment applications, as well as the rise in the linking of cards to various payment apps.





Chapter 10

Management of international reserves

Romania's international reserves play a key role in reducing the effects of foreign exchange market volatility, helping to ensure the conditions for the central bank to achieve, through its specific policies, the objectives of price stability and financial stability. International reserves consist of liquid assets that can be traded on international markets; thus, their adequate volume increases investor confidence in the authorities' capacity to manage crises and, given the quality of economic policies, contributes to improving the costs of the country's external loans.

Emerging economies, like Romania, usually make recourse to foreign currency reserves – part of international reserves – for precautionary purposes, in order to tackle the risks stemming from a possible deterioration of the current account deficit. In countries with a managed float exchange rate regime, a factor playing a major role in setting the optimal level of foreign currency reserves is the volatility of the domestic currency, especially in times of financial market turmoil.

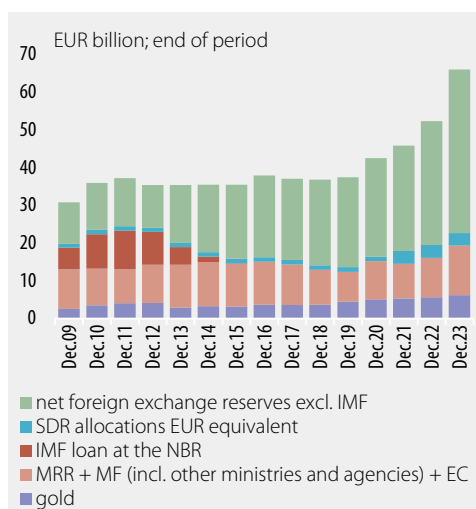
As part of its international reserve management activity, the NBR seeks to ensure an adequate level of reserves, so that several objectives are cumulatively fulfilled. Liquidity and safety come first, ahead of profit-making, and the NBR has a low risk propensity when carrying out reserve management activities. Thus, the value of international reserves is maximised while complying with prudent risk limits, so that they are always available when needed.

The latest global trends envisage an active part played by central banks in promoting sustainable investment. As regards the management of international reserves, this role can be played by adding investment sustainability as an objective, next to the other three classic ones mentioned above. This approach is all the more appropriate, as not taking into account the considerations about sustainability would mean disregarding a factor that enhances the long-term value of investment.

1. Developments in Romania's international reserves in 2023

At end-2023, Romania's international reserves amounted to EUR 65,983 million (Chart 10.1) – of which foreign currency reserves made up 90.6 percent and monetary gold accounted for 9.4 percent –, up EUR 13,678 million versus end-2022. The gold stock remained unchanged at 103.6 tonnes, out of which 61.2 tonnes stored with the Bank of England. In terms of value, Romania's gold reserves went up EUR 544 million from end-2022 (to EUR 6,123 million), as a result of the rise in the gold price on international markets.

Chart 10.1
Romania's international reserves



Throughout 2023, despite market expectations and high interest rates, gold witnessed a significant price rise against the background of historical highs, exceeding other asset classes (commodities, bonds and shares). Therefore, the gold price per ounce denominated in US dollars gained more than 14 percent in 2023, reaching new record highs by the end of the year. In the period under review, the positive performance of gold was driven by a combination of factors such as central bank purchases, heightened geopolitical risks and increased interest

in portfolio diversification and capital protection from institutional and retail investors.

Central banks, traditionally seen as conservative investors, have shown a growing appetite for gold as a strategic asset, seeking to diversify their reserves and protect themselves against economic uncertainty. According to data published by the World Gold Council, net purchases of gold during 2023 amounted to 1,037 tonnes, slightly below the record purchases one year earlier, with demand from the central banks in emerging economies being the significant determinant in the overall developments in the gold price.

Global tensions have remained high or escalated in various regions, fuelling investor fears and driving them towards safe assets such as gold. Mounting geopolitical risks, including trade disputes corroborated with the problems emerged by end-2023 related to shipping security and trade in the Red Sea, as well as the outbreak of an armed conflict in the Gaza Strip, have all amplified the demand for gold.

The performance of gold in 2023 proved its resilience as a safe haven asset in a context dominated by economic and geopolitical uncertainties. While challenges and uncertainties persist, gold continues to play an important role in investors' portfolios as an asset with a protective component against systemic risks, providing stable intrinsic value and resilience against economic fluctuations and inflation.

In the period under review, foreign currency reserves expanded by EUR 13,134 million, coming in at EUR 59,770 million at 31 December 2023. The key factors that led to a change in reserves were the following: the return on the Ministry of Finance's bond issues on domestic and external markets, the amounts collected under the National Recovery and Resilience Plan (NRRP), inflows into the European Commission's account, repayments related to foreign loans and guarantees, interest payments and capital repayments on the foreign currency-denominated public debt, changes in credit institutions' required reserves.

2. Management of international reserves in a highly uncertain economic and financial environment

2.1. External economic and financial developments

In 2023, the international financial climate was unpredictable for the management of financial assets, being mainly marked by the broad-based and frequent revisions of expectations regarding the distribution of monetary policy rates of the major central banks and, implicitly, of the magnitude of the monetary policy tightening cycle.

As monetary policy rates have gradually moved closer to the nominal equilibrium rate, the pace of monetary policy tightening slowed down and the focus of central banks and market participants alike shifted towards extending the duration of the high interest rate cycle and the expected reversal of the monetary policy stance.

The balance of risks to inflation remained precarious in most advanced economies, given the persistence of supply-side shocks and also, as of 2023, the gradual migration from supply-side factors to demand-side factors as drivers of the gold price. Furthermore, there was an ongoing risk of de-anchoring inflation expectations as the positive output gap gradually opened and labour market conditions tightened.

Although the economic recovery further displayed asymmetric growth rates given the different positions of economies in the business cycles and the specificities of economic structures, the common challenge for both monetary policymakers and market participants was the prospect of a delayed return of the inflation rate within the central banks' tolerance range.

Futures contracts based on monetary policy rates and government bonds have revised, sometimes drastically, the expectations on benchmark rate developments. Moreover, fixed-income instruments markets had to face additional challenges caused by the normalisation of major central banks' balance sheets and the increase in government bond issuance, amid the continuation or even acceleration of the expansionary fiscal policies implemented ever since the pandemic.

The Federal Reserve System continued the interest rate hiking cycle and implemented four additional increases in 2023, but the increment was smaller, i.e. 25 basis points, along with successive changes in the adjustment and maintenance periods of the policy rate. Finally, the federal funds rate stood at 5.5 percent at the end of the year.

The European Central Bank made other six increases in the reference rate, the pace of which slowed to 50 basis points and 25 basis points respectively, to bring the rate on the deposit facility – the key monetary policy instrument – to 4 percent at end-2023. Similar developments in terms of both profile and dynamics were also reported by the Bank of England and other central banks in advanced economies.

Fixed-income instruments markets reacted accordingly. The yields on the securities eligible for the NBR's international reserve management further rose during 2023.

Although yields increased at global level, their curve and the size of their changes varied on a case-by-case basis, mainly depending on the position of each economy in the business cycle, and on the speed and pace of the normalisation of monetary policy stances of the central banks in those economies.

While expectations on policy rate hikes referred mainly to the short-term segment and then faded away towards the medium- and long-term horizon, the faster (passive) reduction in the balance sheet by partially reinvesting the maturing bonds in the central bank's portfolio automatically contributed to the increase in long-term yields, which are highly sensitive to duration risk.

In this context, US Treasury security yields rose sharply and inversely proportional to their maturity, by 80 to 150 basis points, while the term structure remained reversed during the period under review. Slightly higher developments in terms of magnitude, i.e. between 50 and 250 basis points, were recorded by government securities markets in Germany and France. In the UK, over the same time frame, the term structure shifted upwards on a parallel trajectory by 150 basis points. By contrast, yields on government securities issued by Japan recorded marginal increases, as they were largely decoupled from international developments due to the further accommodative monetary policy stance, as 10-year yields were capped at 0.50 percent.

The upward trend in yields on securities eligible for international reserve management reversed markedly in December 2023, against the backdrop of an earlier start to the policy rate easing cycle perceived by market participants, which was subsequently corrected in January 2024.

On international foreign exchange markets, the US dollar saw episodes of appreciation against most reserve currencies, but each time it softened subsequently and stabilised within the same fluctuation range. Overall, apart from some transitory episodes of risk aversion, the developments on international foreign exchange markets were driven by the divergence in economic cycles and, implicitly, the expected monetary policy rate differential. By contrast, the Japanese yen steadily underperformed versus all other reserve currencies, amid a notable divergence of the monetary policy cycle compared to the other central banks in advanced economies.

Looking ahead, geopolitical conflicts could persist in a scenario that includes factors such as rising income inequality and the protection of national interests. In the event of an ongoing deterioration in the international geopolitical context, the currency composition of international reserves might undergo further changes and the demand for physical gold could witness a stronger upward trend worldwide. In this scenario, some central banks may have doubts about alternative reserve currencies and could decide to reallocate the foreign currency composition of their international reserves to the detriment of the US dollar.

2.2. The manner to achieve strategic goals

In 2023, the focus was placed on key strategic parameters for international reserve management set by the NBR Board at end-2021 for 2022-2023. They were further

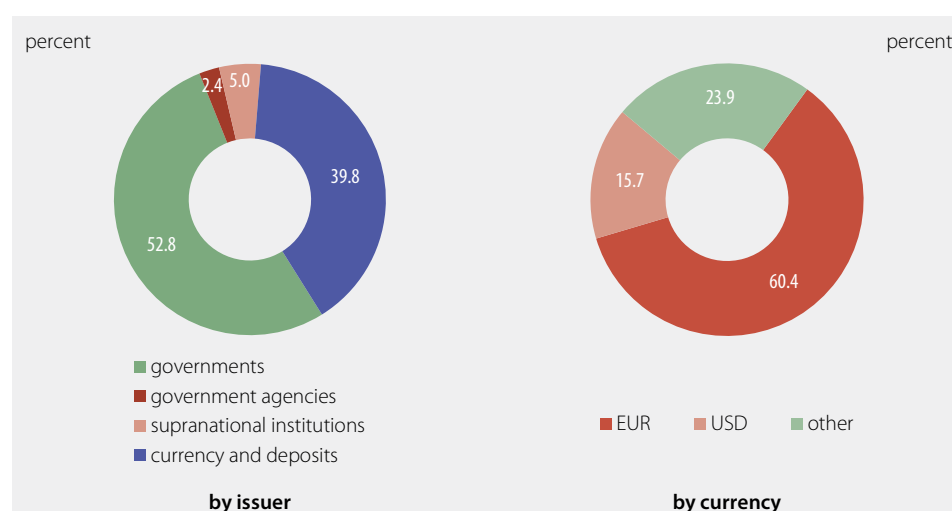
aimed to ensure a framework based on the diversification of the NBR's balance sheet risks and on investment safety and liquidity, which would allow for the highest possible investment performance throughout the strategy implementation period via a prudent and effective reserve management.

The key strategic parameters monitored by the NBR while managing international reserves throughout 2023 were:

- the composition of the foreign currency reserve: euro – 40 to 75 percent of total; US dollar – 10 to 35 percent of total; other currencies – at most 35 percent of total;
- an average duration of up to 1 year and 7 months for the foreign currency reserve as a whole;
- an investment tranche aimed at improving the returns on international reserve management;
- 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) the Government of Japan; (vi) the Government of China; (vii) other governments rated at least A-; (viii) supranational institutions; (ix) private entities, issuers of covered bonds;
- the maximum exposure to private entities that are issuers of covered bonds: 10 percent of international reserves;
- the maximum exposure to private entities other than issuers of covered bonds: 10 percent of international reserves.

Throughout 2023, the NBR continued to invest in sustainable bonds issued by the already approved issuers, which have the same credit risk as the conventional bonds issued by them.

Chart 10.2
Composition of Romania's foreign
exchange reserves at end-2023



The Foreign Reserve Management Committee and the NBR Board deemed it appropriate to leave unchanged the benchmark portfolios defined for the prior year. Foreign currency reserves were further managed in a dynamic and flexible manner, with a focus on identifying and capitalising on new opportunities in the global financial markets, yet without prejudice to the NBR's investment safety and liquidity objectives. In order to earn additional income, the NBR made adjustments to the currency

composition of reserves, as well as portfolio shifts by class of fixed-income issuers. Moreover, the NBR continued to favour a relatively dynamic management of portfolio duration and yield curve exposures. Additional risks were taken in a cautious and effective manner, in accordance with the objectives and risk parameters defined by the multiannual strategy for international reserve management, as well as by other relevant provisions and considerations.

Similarly to the currency composition of the NBR's foreign liabilities, of Romania's public and publicly guaranteed debt service and of the country's international trade, the euro further held the largest share of foreign exchange reserves (60.4 percent) at end-2023 as well, ahead of the US dollar (15.7 percent, Chart 10.2).

The higher returns on investments made as part of the international reserve management in 2023 compared to 2022, as well as the positive effect of capital increase following the strong decline of yields on fixed-income securities mainly in the last two months of the year, boosted investment income

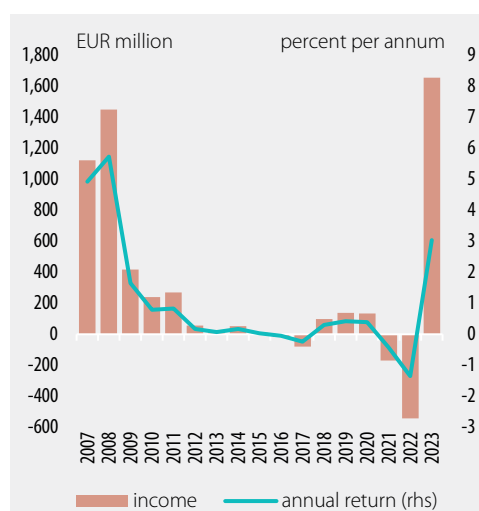


Chart 10.3
Returns on portfolio management

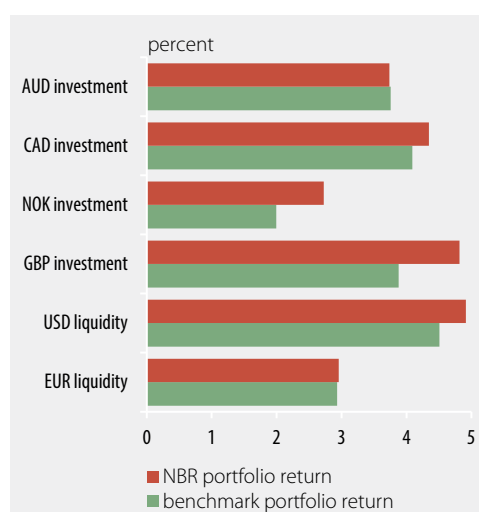
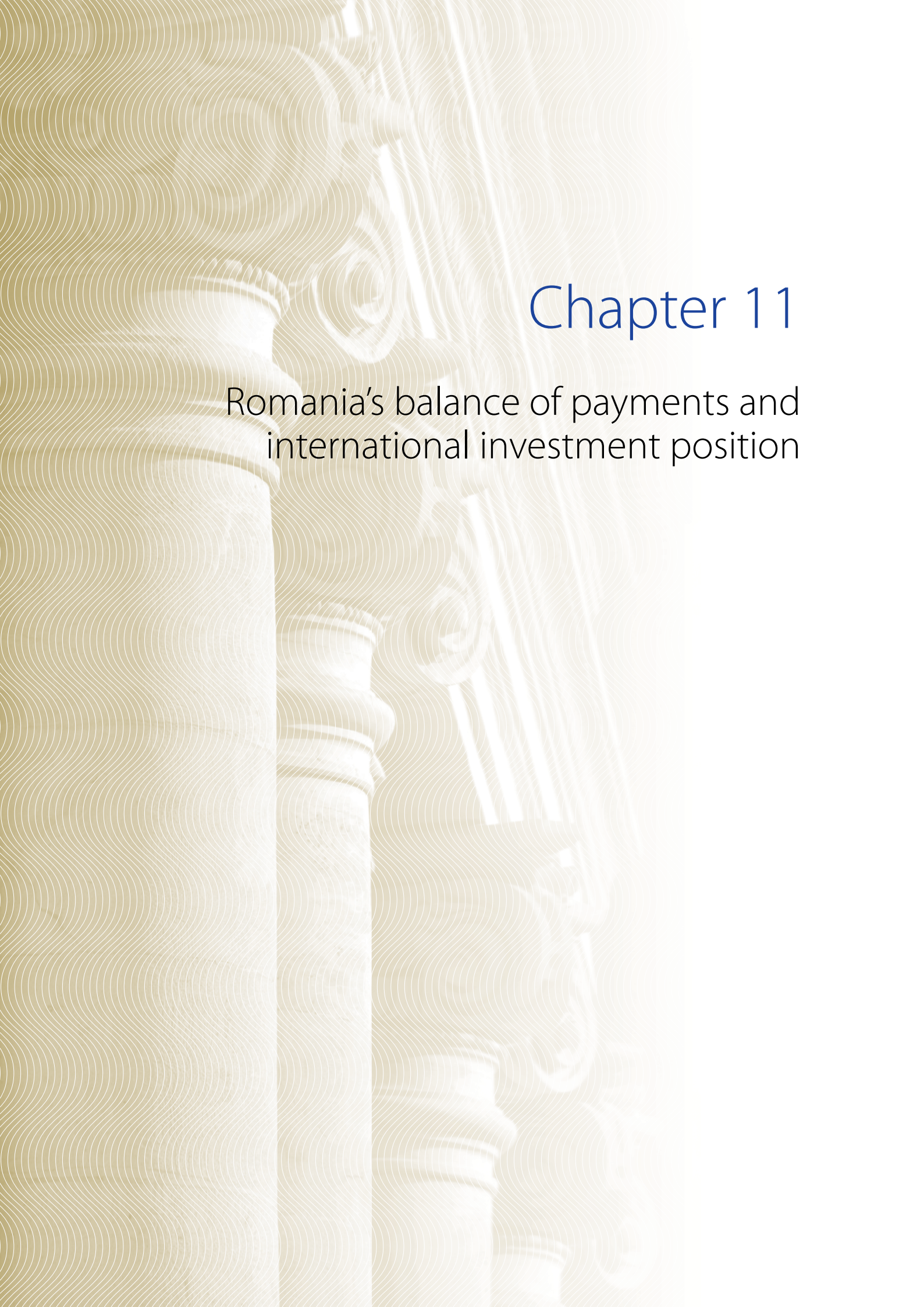


Chart 10.4
Comparative returns –
NBR vs benchmark portfolio

and the annual returns on portfolio management from -1.35 percent in 2022 to 3.04 percent in 2023 (Chart 10.3). At the same time, income from portfolio management climbed from EUR -541 million (euro equivalent) to EUR 1,655 million (euro equivalent).

The annual returns on the NBR's EUR- and USD-denominated liquidity portfolios stood at 2.96 percent and 4.91 percent, respectively. Investment portfolios – denominated in pound sterling, Norwegian krone, Canadian and Australian dollars – posted annual returns of 4.81 percent, 2.73 percent, 4.34 percent and 3.74 percent, respectively (Chart 10.4), whereas the JPY-, CNY- and NZD-denominated holdings recorded average returns of -0.14 percent, 1.78 percent and 5.08 percent, respectively.





Chapter 11

Romania's balance of payments and
international investment position

1. Current account and capital account

Current account

In 2023, the balance-of-payments current account deficit stood at EUR 22,637 million, accounting for 7.0 percent of GDP, compared to 9.2 percent of GDP a year earlier (Table 11.1).

	EUR million	
	2022	2023
Goods, net	-32,047	-29,009
Exports (FOB)	86,017	86,559
Imports (FOB)	118,064	115,568
Services, net	13,073	13,495
Primary income, net	-8,513	-8,715
Secondary income, net	1,447	1,592
Current account balance	-26,040	-22,637

Table 11.1
Current account

Developments in the current account deficit were ascribed to a lower shortfall on trade in goods and larger surpluses of the balances on trade in services and on secondary income, whereas the primary income deficit widened.

The deficit on trade in goods narrowed by 9.5 percent against the previous year to EUR 29,009 million, accounting for 8.9 percent of GDP, from 11.3 percent of GDP. Exports inched up 0.6 percent (losing considerable momentum over 2022, when they rose by 22.5 percent), as the EU economy and Romania's major partners in trade in goods, i.e. Germany, Italy and France, reported below-1-percent growth rates. Given the high import content of exports, imports saw, in turn, a decrease in absolute terms (-2.1 percent, after going up 26.5 percent in 2022). More than half of the trade in goods deficit (52.5 percent) owed to two groups of goods, i.e. chemical and plastic products (EUR -10,387 million) and mineral products (EUR -4,843 million), and 80.7 percent of the shortfall stemmed from intra-EU trade (EUR -23,424 million).

The coverage of imports by exports climbed to 74.9 percent versus 72.9 percent a year earlier, while the openness of the Romanian economy¹⁹⁴ shed 9.5 percentage points to 62.3 percent.

Exports of goods added up to EUR 86,559 million, edging up 0.6 percent or EUR 542 million from the previous year, but their share of GDP contracted to 26.7 percent from 30.3 percent in the year before. Compared to 2022, the breakdown of exports

¹⁹⁴ Openness of the economy was calculated as follows: (exports of goods + imports of goods)/GDP*100.

by group of goods shows larger shares of five merchandise groups in total exports (the largest, i.e. 3.5 percentage points, up to 45.1 percent, was recorded by machinery, apparatus, equipment and transport means), whereas lower shares reported three merchandise groups (the most significant decline for mineral products and base metals).

Imports of goods totalled EUR 115,568 million, down 2.1 percent, or EUR 2,496 million, versus 2022. The share of imports of goods in GDP narrowed by 5.9 percentage points to 35.6 percent. The more sluggish economic growth and lower energy prices were reflected not only in a lower value of imports, but also in composition changes, showing a smaller share in total imports of mineral products (down 3.9 percentage points to 8.6 percent), chemical products and base metals.

The services balance exhibited a surplus of EUR 13,495 million, up by 3.2 percent due to higher receipts from telecommunications, computer and information services, road freight transport, goods processing services, technical, trade-related and other business services. The share of services surplus in GDP narrowed by 0.4 percentage points to 4.2 percent.

The deficit on the primary income balance deepened somewhat, reaching EUR 8,715 million, compared to EUR 8,513 million in 2022, mainly due to the higher volume of interest payments related to the securities issued by the general government. The primary income deficit-to-GDP ratio was down to 2.7 percent from 3.0 percent in the preceding year.

The secondary income surplus equalled EUR 1,592 million, up 10.0 percent from a year earlier, amid the increase in inflows of EU funds in the form of current transfers (European Social Fund – ESF). The share of secondary income surplus in GDP stayed flat at 0.5 percent.

Current account deficit financing was covered up to 58.9 percent from autonomous sources, i.e. direct investment (equity and reinvestment of earnings), capital transfers and other net inflows to the capital account, with issues of government securities and other debt instruments topping up the rest.

Capital account

In 2023, the positive capital account balance stood at EUR 6,807 million, down 2.9 percent compared to the year-earlier reading, on the back of inflows of EU funds in the form of capital transfers, particularly from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). The capital account surplus contracted against 2022 as a share of GDP (to 2.1 percent from 2.5 percent), but had a greater contribution to the current account deficit financing (30.1 percent from 26.9 percent).

2. Financial account

In 2023, the negative financial account balance amounted to EUR 11,943 million, reflecting net financial inflows for the seventh successive year, yet down by 22.4 percent from the preceding year (Table 11.2). Behind this trend stood the doubling of reserve assets, along with the decline in net inflows from direct investment and other investment. At the same time, portfolio investment nearly trebled year on year to reach EUR 14,268 million.

	EUR million	
	2022	2023
Financial account	-15,391	-11,943
Net acquisition of assets	9,322	15,805
Net incurrence of liabilities	24,713	27,748
Direct investment	-8,807	-6,557
Net acquisition of assets	2,090	1,240
Net incurrence of liabilities	10,897	7,797
Portfolio investment	-4,942	-14,268
Net acquisition of assets	1,470	1,541
Net incurrence of liabilities	6,412	15,809
Financial derivatives	353	188
Net acquisition of assets	353	188
Other investment	-8,569	-4,576
Net acquisition of assets	-1,165	-434
Net incurrence of liabilities	7,404	4,142
Reserve assets	6,574	13,270
Net acquisition of assets	6,574	13,270

Table 11.2
Financial account

Direct investment reported net inflows in amount of EUR 6,557 million, 25.5 percent lower than in the previous year. Investment by non-residents in Romania ran at EUR 6,594 million, with equity¹⁹⁵ amounting to EUR 6,557 million, the remainder being the net value of debt instruments¹⁹⁶ (EUR 37 million). In 2023, almost half of the net inflows of direct investment by non-residents in Romania came from the Netherlands¹⁹⁷, which together with Switzerland and Belgium accounted for approximately 85 percent of total.

In 2023, portfolio investment recorded net inflows of EUR 14,268 million, hinting at a roughly threefold increase over the figure seen in 2022 (EUR 4,942 million), largely as a result of a higher volume of government securities issues.

Other investment registered net inflows of EUR 4,576 million, compared to EUR 8,569 million in 2022. This owes chiefly to the downswing in foreign borrowings taken by the general government and non-residents' deposits in Romania.

¹⁹⁵ Including the estimated net reinvestment of earnings.

¹⁹⁶ Includes loans in any form between the non-resident investor and the resident company, as well as other debt instruments.

¹⁹⁷ In terms of the share in net inflows of direct investment by non-residents in Romania in 2023 (preliminary data).

3. Romania's international investment position

The international investment position saw its net debit balance worsen to EUR 128.5 billion at end-2023 compared to EUR 115.6 billion at end-2022.

Composition of foreign assets and liabilities

At end-2023, foreign assets stood at EUR 126 billion, up 17.1 percent over end-2022. The composition of foreign assets by main component of the investment position was similar to that of the prior year. Specifically, reserve assets further prevailed (52.4 percent, or EUR 66 billion), ahead of other investment (down to 24.4 percent, or EUR 30.7 billion), direct investment (14.7 percent, or EUR 18.5 billion) and portfolio investment (8.5 percent, or EUR 10.6 billion).

At end-2023, foreign liabilities ran at EUR 254.5 billion, up 14.1 percent from the end of the preceding year. The composition of foreign liabilities recorded, in the course of 2023 as well, a prevalent share of direct investment (50.2 percent of total, i.e. EUR 127.7 billion). In year-on-year comparison, portfolio investment grew markedly at end-2023 to EUR 68.9 billion (27.1 percent of total), while other investment amounted to EUR 57.8 billion (22.7 percent of total foreign liabilities).

Gross external debt

At 31 December 2023, gross external debt came in at EUR 170.1 billion, up 18.2 percent against a year earlier.

Long-term external debt grew from end-2022 by 23.4 percent, standing at EUR 121.8 billion, on account of net transactions (EUR +18 billion) and changes in debt security prices (EUR +5.6 billion), while exchange rate changes and other changes were equivalent to EUR -0.5 billion.

Long-term external debt service amounted to EUR 21.3 billion, shedding 3.3 percent over a year before. Principal repayments totalled EUR 17.3 billion (versus EUR 19.4 billion in 2022) and payments of interest and commissions came in at EUR 4 billion (against EUR 2.6 billion in 2022).

Long-term external debt by institutional sector shows that, at end-2023, the general government sector continued to hold the largest share of 62.5 percent (EUR 76 billion), up from a year earlier, ahead of the non-bank sector on 27.8 percent (EUR 33.8 billion). The breakdown of general government debt by instrument points to a net increase of EUR 13.4 billion under portfolio instruments in the form of government securities and a net contribution of EUR 1 billion under external borrowings. Compared to 2022, deposit-taking corporations except the central bank (7 percent of long-term external debt) further recorded an uptrend in long-term external debt, owing to the doubling of portfolio investment, whereas the monetary authority (2.7 percent of long-term external debt) reported a similar balance on SDR allocations by the IMF (equivalent to EUR 3.3 billion) versus the preceding year.

The analysis of long-term external debt by creditor shows a 4.5 percent rise in the share of international institutions (EUR 20.5 billion at end-2023 from EUR 19.7 billion at end-2022), due mostly to net transactions related to external debt performed by multilateral creditors such as the European Union and the European Investment Bank (EUR 1.2 billion). The share of private financing sources was significant in 2023 as well, with the access to international private capital markets being underpinned in January and September via government securities issues adding up to EUR 3.75 billion and USD 4.42 billion. In 2023, coupons posted different percentages depending on the date of issue, ranging from 6.625 percent to 7.625 percent in January and between 5.5 percent and 6.375 percent in September. Government securities launched on international capital markets during 2023 had sustainable maturities of 5 years, 10 years and 30 years.

Looking at the composition by original maturity at the end of 2023, external debt with a maturity of over five years continued to hold a majority share in long-term external debt (89.2 percent), up slightly from the previous year (87.8 percent), exerting further a favourable impact on average maturity in the indebtedness strategy. External public debt falling due in more than five years accounts for 64.8 percent of total debt (EUR 78.9 billion) and private debt for 24.3 percent (EUR 29.6 billion).

The breakdown of long-term external debt by currency at the end of the period under review reveals that the euro was in the lead on 67.9 percent, down 3.4 percentage points versus 31 December 2022. It was followed by the leu (18.1 percent, up 3.7 percentage points), the US dollar (10.2 percent, up 0.9 percentage points over 2022), the SDR (2.7 percent), the Swiss franc (0.7 percent) and other currencies (0.4 percent).

At end-2023, long-term external debt held 37.5 percent of GDP, down approximately 3 percentage points from the end of the prior year. Long-term external debt service ratio¹⁹⁸ fell by 1.2 percentage points to 16.7 percent at end-2023 from 17.9 percent at end-2022 (Table 11.3).

Table 11.3
Key external indebtedness
indicators

	percent	
	2022	2023
Gross external debt/GDP	50.6	52.4
Net external debt/GDP	17.6	18.2
Long-term gross external debt/GDP	34.7	37.5
Long-term gross external debt/exports of goods and services	80.2	95.9
Long-term gross external debt service ratio	17.9	16.7

Short-term external debt ran at EUR 48.3 billion at end-2023, with its balance standing 6.8 percent higher against the previous year on the back of net capital inflows, changes in debt security prices and other changes amounting to EUR 3.3 billion. Exchange rate changes were equivalent to EUR -195 million. Short-term external debt service amounted to EUR 67 billion, with the corresponding debt service ratio reaching 52.7 percent at end-2023, 9.3 percentage points higher than at end-2022. The increase occurred amid outflows of debt instruments with a maturity of up to 1 year in relation to direct investors,

¹⁹⁸ Long-term external debt service ratio is calculated as a ratio of long-term external debt service to exports of goods and services.

whose value went up to EUR 31.4 billion at the end of 2023 from EUR 20.2 billion in the year before. Non-residents' deposits also recorded an upward trend in outflows, rising to EUR 11 billion at end-2023 from EUR 9.8 billion a year earlier. Repayments of short-term trade credits expanded from EUR 12.3 billion in 2022 to EUR 14 billion in 2023.

Net external debt

At end-2023, net external debt moved ahead to EUR 58.7 billion versus EUR 50 billion in 2022, owing mainly to the rise in the net external debt of the general government sector and other sectors (Table 11.4).

	2022			2023		
	Gross external debt	External assets in the form of debt instruments	Net external debt	Gross external debt	External assets in the form of debt instruments	Net external debt
	(1)	(2)	(3) =(1)-(2)	(1)	(2)	(3) =(1)-(2)
General government	57,845	6,266	51,579	76,915	6,503	70,413
Central bank	3,404	47,403	-43,999	3,307	60,326	-57,019
Deposit-taking corporations except the central bank	10,973	11,838	-865	12,817	15,368	-2,551
Other sectors	27,898	15,440	12,458	31,037	14,509	16,528
Debt instruments under direct investment	43,766	12,969	30,798	46,007	14,669	31,338
Total	143,886	93,916	49,971	170,083	111,374	58,709

Table 11.4
Romania's external debt

At end-2023, the general government sector reported a higher external debtor position, with net external debt standing at EUR 70.4 billion, compared to EUR 51.6 billion in 2022, amid new government securities issues in amount of EUR 7.85 billion.

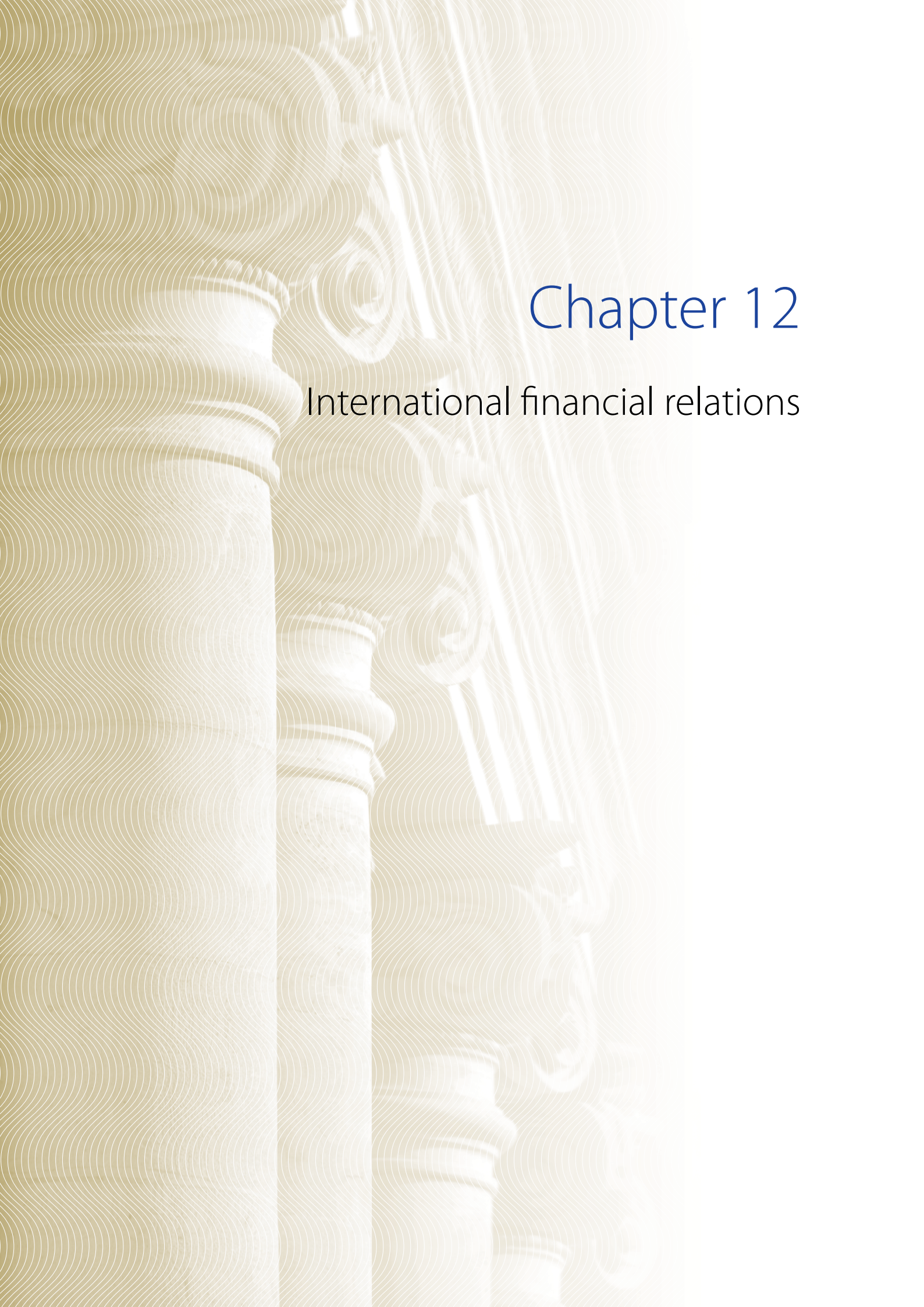
The net external position of deposit-taking corporations except the central bank was also net creditor, advancing to EUR -2.6 billion, from EUR -0.9 billion, on the back of a larger volume of foreign liabilities. Non-residents' long-term deposits remained at a level comparable to that recorded in the previous year, i.e. EUR 8.6 billion. Investments in foreign assets rose by EUR 3.5 billion from a year earlier.

Other sectors registered a net debtor position of EUR 16.5 billion, up from EUR 12.5 billion in 2022, due largely to a higher balance of trade credits and foreign borrowings in amount of EUR 3.1 billion.

Behind the significant expansion in the central bank's net creditor position to EUR 57 billion versus EUR 44 billion in 2022 stood the EUR 8.1 billion advance in the investment portfolio via purchases of securities issued by non-residents.

Debt instruments under direct investment displayed a rising net debtor position of EUR 31.3 billion at end-2023, from EUR 30.8 billion in 2022, as a result of the surge in debt instruments in the form of intercompany loans and trade credits.





Chapter 12

International financial relations

According to its Statute, the NBR may participate, under the mandate assigned by Parliament, in international financial, banking, and monetary or payment organisations/institutions and may become a member thereof.

Hence, the NBR has, over time, paid special attention to international financial relations in its capacity as a member institution or as a representative of Romania, and also as a depositary of the Romanian state's holdings in international financial institutions. The benefits of collaborating with these organisations include accessing financial resources, receiving technical assistance and exchanging experience on central banks' best practices, as well as actively participating in debates concerning the global financial and monetary system, via representatives in the management of these fora, and in the various meetings organised by them.

Moreover, the NBR has strengthened cooperative relations with central banks in other countries, including non-members of the European System of Central Banks, both bilaterally and multilaterally, through working meetings between the NBR representatives and their counterparts, or participations in regional meetings.

1. International Monetary Fund

Romania has been a member of the International Monetary Fund (IMF) since 1972, its quota subscription (subscribed and paid-up capital) currently amounting to SDR 1,811.4 million, i.e. 0.38 percent of the IMF's share capital. In 2023, Romania received SDR 0.602 million from the IMF as net interest.

An IMF team visited Bucharest from 25 September to 4 October 2023 for discussions and consultations with the Romanian authorities as part of the regular surveillance process generically referred to as "Article IV Consultations". At the end of the mission, the IMF team issued a statement¹⁹⁹ presenting the findings of the consultations with the Romanian authorities.

2. World Bank Group

Romania is a member of all institutions that are part of the World Bank Group, namely the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) – which together make up the World Bank, the International Finance Corporation (IFC), the Multilateral Investment

¹⁹⁹ <https://www.imf.org/en/News/Articles/2023/10/04/cs100423-romania-staff-concluding-statement-of-the-2023-article-iv-mission>

Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID).

International Bank for Reconstruction and Development

Romania became a member of the International Bank for Reconstruction and Development (IBRD) in 1972 and currently holds 8,317 of its shares (representing 0.31 percent of the bank's capital) with a voting power amounting to 0.32 percent of the total.

The Country Partnership Framework with Romania (CPF) for the period 2018-2023 targeted three priority lines of action: (i) investing in people and equal opportunities; (ii) supporting a dynamic development of the private sector; (iii) improving the capacity to respond to natural disasters and climate change. With a view to supporting the development of the new Country Partnership Framework with Romania for the period 2023-2028, the IBRD released the *Systematic Country Diagnostic* and the *Romania Country Private Sector Diagnostic* in 2023. These documents were prepared following consultations with Romanian authorities, including the National Bank of Romania.

International Development Association

Romania joined the International Development Association (IDA) on 12 April 2014, its current voting power accounting for 0.31 percent of total.

Financial institutions affiliated to the World Bank

Romania joined the International Finance Corporation (IFC) in 1990 and it currently holds a 0.22 percent voting power within the organisation. The activity of this organisation is complementary to that of the IBRD and IDA, focusing exclusively on the private sector. Romania has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992 and it currently holds a voting power of 0.55 percent.

3. Bank for International Settlements

The NBR has been a member of the Bank for International Settlements (BIS) ever since the latter's establishment in 1930 and holds 8,564 shares in the BIS total capital, on which it receives dividends. In 2023, for the financial year ended 31 March 2023, the NBR received dividends amounting to USD 3.261 million (equivalent to SDR 2.440 million).

Financial Stability Board's Regional Consultative Group for Europe

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. The Bank for International Settlements (BIS) ensures the funding of the FSB by voluntary contributions from

Members and hosts its Secretariat. In 2011, for the purpose of expanding the scope of FSB activity beyond the G20 countries and reflecting the global nature of the financial system, six Regional Consultative Groups (RCGs) were set up within the FSB. Romania, through representatives of the NBR and the Ministry of Finance, has been a member of FSB RCG Europe since 25 June 2018.

4. European Bank for Reconstruction and Development

Romania is a founding member of the European Bank for Reconstruction and Development (EBRD) and it currently holds 14,407 shares worth EUR 144.07 million, a contribution that accounts for 0.484 percent of the bank's total subscribed capital.

The EBRD invests in the countries of operations based on a country strategy. Romania Country Strategy 2020-2025 pursues three strategic priorities, namely to: (i) promote investment in sustainable infrastructure and regional development, (ii) support productivity through corporate expansion, innovation and skills upgrade, and (iii) expand financial intermediation and capital markets. The EBRD has begun consultations with Romanian authorities to formulate a new Country Diagnostic aimed at reassessing strategic priorities for the 2025-2030 period.

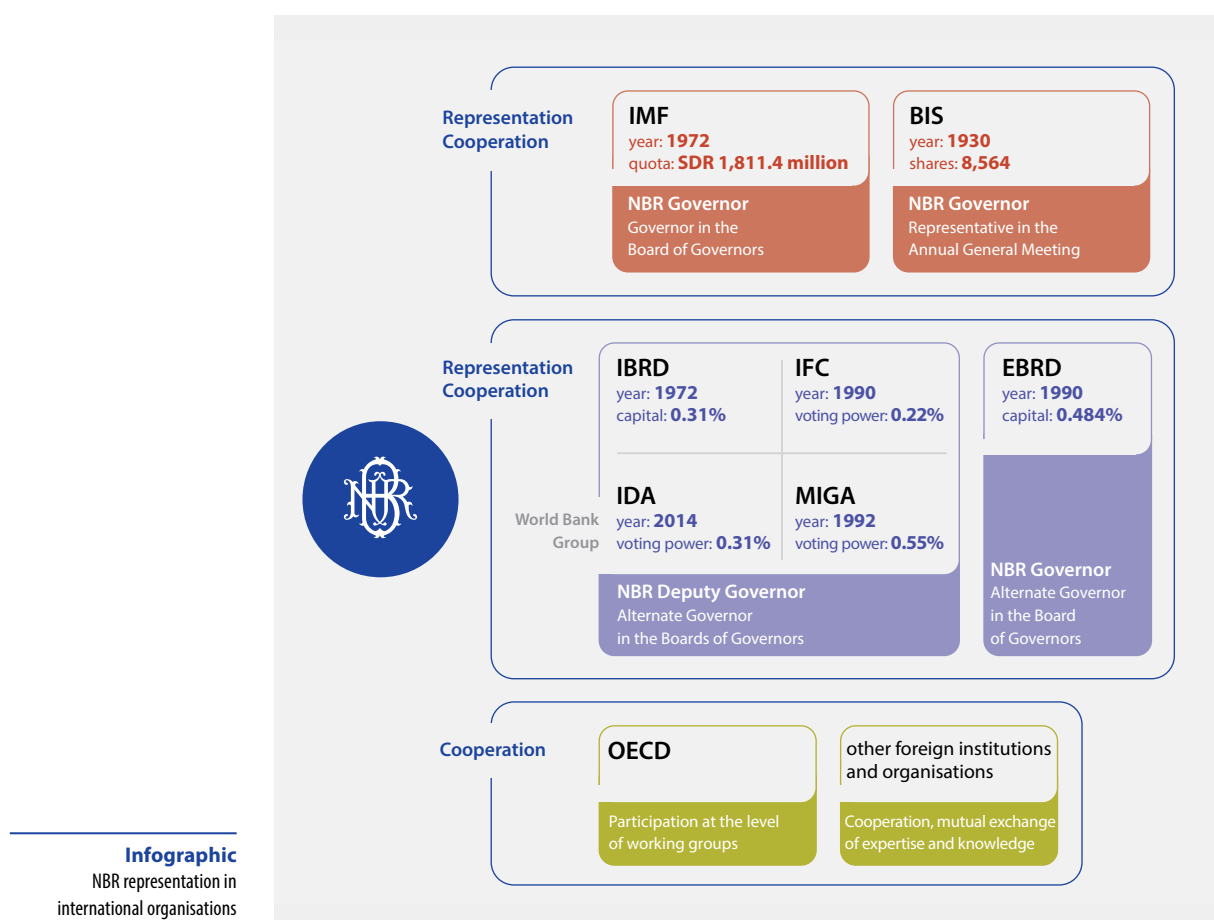
By 31 January 2024, the EBRD provided Romania with financial assistance totalling roughly EUR 10.936 billion by way of 524 projects, 81 percent of which were channelled to the private sector.

5. Organisation for Economic Cooperation and Development

In 2023, Romania stepped up its efforts to join the Organisation for Economic Cooperation and Development (OECD), mainly by launching OECD missions to assess the alignment of national legislation with this organisation's requirements in various areas of activity and by delivering related country presentations. The NBR was involved in the accession process, within the limits of its competences, mainly via: (i) coordinating the process of responding to the accession questionnaire received from the OECD Committee on Financial Markets, for which the NBR acts as a focal point at national level (involving dedicated NBR departments and other institutions and organisations in Romania), (ii) completing the accession questionnaires on topics related to the protection of consumers of financial services and financial education, including participation in organising the OECD assessment mission on this subject (involving dedicated NBR departments and other institutions and organisations in Romania), (iii) completing the Survey of Implementation of Methodological Standards for Direct Investment (statistics), including the organisation of the OECD assessment mission on this subject, (iv) organising the OECD experts' mission to assess Romania's alignment with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations, and (v) participating in working meetings with OECD experts, as part of the assessment missions related to the 2024 edition of the *Economic Survey of*

Romania, and formulating comments on and additions to the issues related to the central bank's competence areas. The *Economic Survey* is a comprehensive analysis of Romania's economic developments, featuring chapters that address key economic challenges and provide public policy recommendations to tackle them.

It should be noted that the NBR's participation in these endeavours not only included contributions in areas related to the central bank's activity, but also involved delivering presentations on Romania's alignment with various OECD principles. In this regard, two presentations were delivered: the first, the Assessment Report on Romania's alignment with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations, presented at the meeting of the OECD Investment Committee on 10 November 2023; and the second, concerning Romania's alignment with the aforementioned recommendation on statistical methodologies, delivered at the meeting of the Working Group on International Investment Statistics on 5 October 2023. Furthermore, efforts were made to contribute to the activities of the OECD working structures relevant to the NBR (the Committee on Financial Markets and one of its sub-groups, the four working groups within the Committee on Statistics and Statistical Policy, as well as other specific events) by participating in their meetings.



Moreover, it should be mentioned that the NBR has been a member of the OECD International Network on Financial Education since 2018 and has participated in the meetings of some of its working structures. At the same time, the NBR participates as

a permanent guest in the works of the National Committee for Romania's OECD Accession led by the Prime Minister of Romania, who coordinates the overall policy of the accession process.

6. Participation of the National Bank of Romania in foreign institutions and organisations

The National Bank of Romania aims to promote international cooperation with entities that carry out activities generally in the field of economic and financial research and specifically in the banking field, in order to ensure a mutual exchange of expertise and knowledge.

In 2023, the National Bank of Romania continued its collaboration with various foreign bodies, international think tanks in the field of economic research, and relevant international institutions in the field of scientific research, and helped disseminate domestically the findings of global scientific studies, along with the knowledge gained from international events and meetings on economic and financial-monetary issues. Through the cooperation with these entities, central bank representatives participated in these events, liaising an exchange of expert insights.

In 2023, the National Bank of Romania²⁰⁰ further contributed to the activity of the working groups within the Network for Greening the Financial System²⁰¹ (NGFS), in its capacity as a full member of this international organisation, and the NGFS disseminated research results in the area of greening the international financial system.

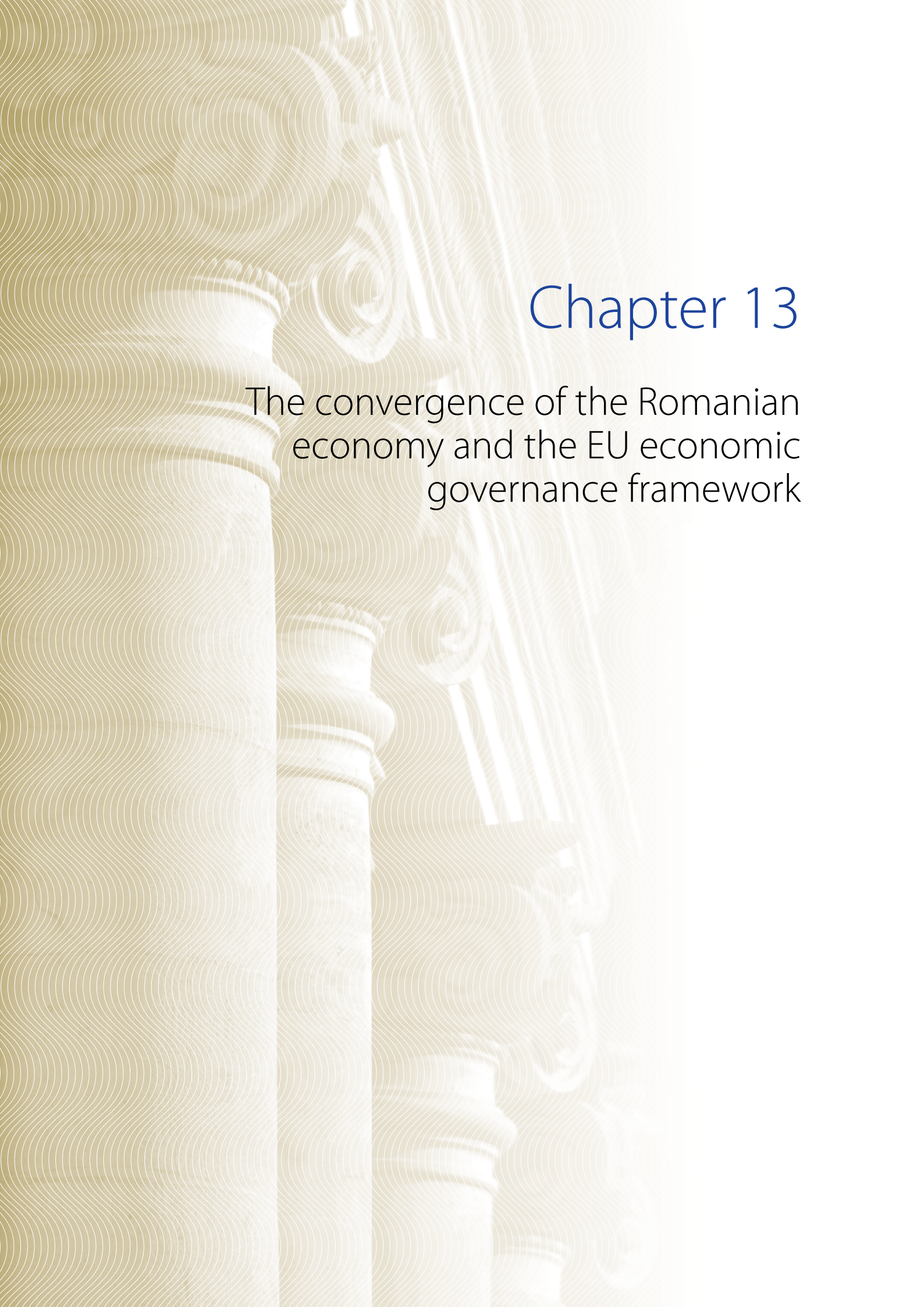
As of 2023, the National Bank of Romania, in partnership with Babeş-Bolyai University (UBB) in Cluj-Napoca and the ERMAS Association, has organised the Annual Scientific Conference of Romanian Academic Economists from Abroad (ERMAS). The 9th edition of the annual ERMAS conference was held in Bucharest between 26 and 28 July 2023²⁰², with the Bucharest University of Economic Studies as a local partner. In this context, related events were organised to boost the international promotion of Romania's economic and financial research. The conference featured four plenary sessions, a roundtable and nine sets of parallel sessions, which facilitated thematic presentations and discussions across 26 panels on economic scientific research topics²⁰³.

²⁰⁰ The National Bank of Romania became an institutional member of the NGFS on 16 September 2020 (<https://www.bnro.ro/Network-for-Greening-the-Financial-System--21813.aspx>)

²⁰¹ The NGFS is an international body of central banks and financial system supervisory authorities willing, on a voluntary basis, to exchange experiences, share best practices, and contribute to the development of environmental and climate risk management in the financial sector during the transition to a sustainable economy. The NGFS working groups can be found on the organisation's website (<https://www.ngfs.net/en/about-us/governance/general-information>)

²⁰² The opening speech of the annual ERMAS Conference was delivered by the NBR Governor (<https://www.bnro.ro/Opening-speech-at-the-Annual-Scientific-Conference-of-Romanian-Academic-Economists-from-Abroad---ERMAS-2023-26533.aspx>)

²⁰³ Details on the 2023 edition of the ERMAS Conference can be found on the NBR website (<https://www.bnro.ro/Conferin%C8%9ba-%C8%98tiin%C8%9Bifica-Anuala-a-Economi%C8%99tilor-Romani-din-Mediul-Academic-din-Strainatate---2023-26552.aspx> – Romanian only)



Chapter 13

The convergence of the Romanian economy and the EU economic governance framework

1. The convergence of the Romanian economy

The analysis of Romania's progress towards convergence shows the increase starting with 2020 in the volatility of the monitored indicators, following the multiple shocks associated with the pandemic crisis and geopolitical tensions.

Table 13.1 shows the progress made in meeting the convergence criteria stipulated in the Maastricht Treaty (based on which nominal convergence progress is assessed) in 2023 as a whole.

	Maastricht criteria	Romania 2023
Inflation rate (HICP) (percent, annual average)	≤1.5 pp above the average of the three best-performing EU Member States ¹	9.7 (4.4: reference value)
General government deficit* (percent of GDP)	below 3 percent	6.6
Government debt* (percent of GDP)	below 60 percent	48.8
Exchange rate vs the euro (2-year maximum percentage change)	±15 percent	+2.7/-0.6 ²
Long-term interest rates (percent p.a., annual average)	≤2 pp above the average of the three best-performing EU Member States ¹ in terms of price stability	6.7 (4.9: reference value)
*) ESA 2010 1) The reference value for end-2023 was calculated by taking into account Belgium, Luxembourg and Denmark. 2) Maximum percentage changes in the exchange rate versus the euro during January 2022 – December 2023. Calculations are based on daily data series, by reference to the average for December 2021. Source: Eurostat, NBR calculations		

Table 13.1
Maastricht criteria (nominal
convergence indicators)

After having complying with all the criteria stipulated in the Maastricht Treaty in July 2015 – November 2017 (without participating, however, in the ERM II), Romania saw inflation rates, long-term interest rates and the general government deficit-to-GDP ratio overshooting the reference values over the last years.

2023 was characterised by an easing of global inflationary pressures (including in Romania), following the significant price increases in the previous year (on account of a multitude of mainly supply-side inflationary shocks that affected energy prices, food prices, but also some non-energy commodity prices). The main drivers of the drop in the inflation rate were, on the one hand, the strengthening of central banks' monetary policies and, on the other hand, the easing of global supply chain bottlenecks and energy price dynamics, which also led to a number of favourable base effects in 2023 compared to 2022. Thus, in Romania, the average annual inflation rate, calculated based on the Harmonised Index of Consumer Prices (HICP), decelerated to 9.7 percent

in December 2023 (from 12 percent in December 2022), still above the reference value of the Maastricht criterion, i.e. 4.4 percent, despite the offsetting impact of government support schemes for households²⁰⁴.

Chart 13.1
Inflation rate (HICP)

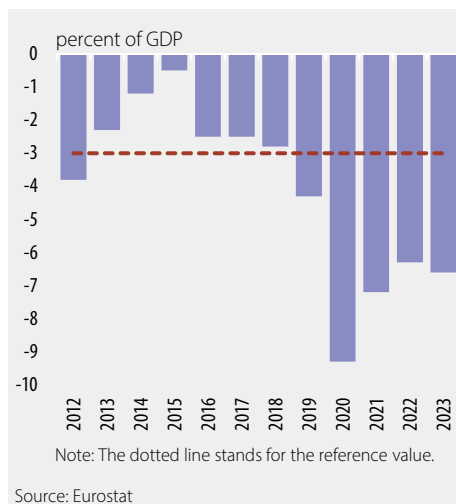
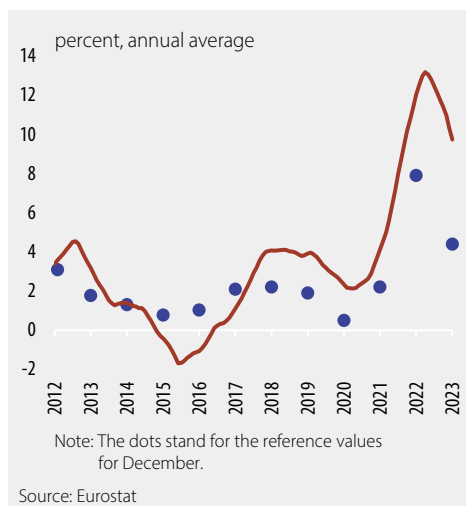


Chart 13.2
General government deficit
(ESA 2010 methodology)

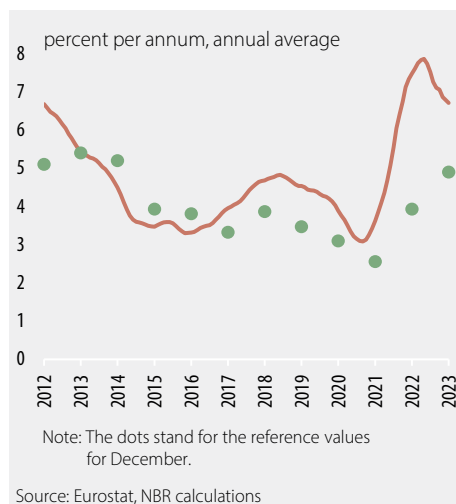
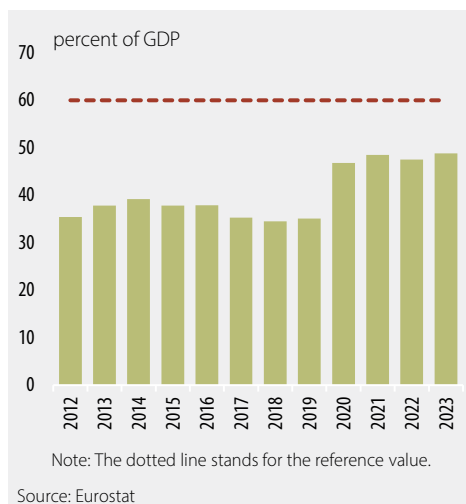


Chart 13.4
Long-term interest rates

Chart 13.3
Public debt (ESA 2010
methodology)

In the pandemic context, the general government deficit-to-GDP ratio widened significantly in 2020 (Chart 13.2). In contrast to the reductions seen in 2021-2022, in line with the excessive deficit adjustment path in the EU Council recommendation of June 2021²⁰⁵, the year 2023 brought not only a significant deviation from the target committed to (4.4 percent of GDP), but also a widening of the fiscal imbalance, with the 6.6 percent deficit standing markedly above the Maastricht criterion. To this contributed the further high government spending (including the rises in wage costs

²⁰⁴ The schemes were especially designed to cap and compensate electricity and natural gas price hikes. In terms of the end-of-period annual inflation rate (December T/December T-1), calculated based on the national consumer price index (CPI), the contribution of electricity and natural gas prices stood at -0.7 percentage points at the end of 2023, compared to 3.2 percentage points at the end of 2022. In addition, as of August a measure was put in place to cap the mark-ups on basic food products (originally set for a period of three months, then extended by a similar period), contributing to a steeper downward trend in core inflation.

²⁰⁵ Source: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0530

and social security spending, one-off expenses deriving from court sentences, but also a significantly larger investment volume) and the dynamics of tax revenues lagging behind those of nominal GDP. Among the measures designed to reduce the budget deficit were revenue-boosting measures, such as the energy surcharge, the restructuring of some tax breaks or the increase in the tax rate on dividends and the VAT rate applicable to certain categories of goods and services respectively. The public debt-to-GDP ratio (Chart 13.3) stood at 48.8 percent in 2023 (up by more than 1 percentage point from the previous year). Although the indicator remained below the reference value, starting with 2020 it reached notably higher readings than in the pre-pandemic period.

The long-term interest rate continued to exceed the reference value in 2023 too, amid the build-up of macroeconomic imbalances, amplified *inter alia* in the context of adverse geopolitical shocks. However, it is worth mentioning the narrowing of the gap during 2023 (Chart 13.4) reflecting, on the one hand, the downward revision of inflation expectations in Romania and, on the other hand, the increase in the reference value for this criterion, following the normalisation of monetary policy across the euro area. In addition, Romania's medium-term outlook remained stable according to the rating agencies. However, this is further conditional on the capacity to capitalise on European funds (in particular those under the National Recovery and Resilience Plan, the NRRP), which could contribute to an increase in productivity, including through the implementation of automation and digitalisation programmes (Box 10), as well as on a sustained fiscal consolidation process.

Box 10. Evidence on recent developments and prospects for digitalisation in Romania

The digitalisation of an operational process means to optimise that process by transforming analogue/manual information into digital data that can be subsequently used in a much more effective manner with the help of electronic devices. At firm level, digitalisation can improve staff efficiency, ensuring flexibility in carrying out tasks and easier access to information. From a macroeconomic perspective, digital transformation is aimed at creating the technological infrastructure for transition to a digital economy and society, by developing digital services for all economic agents. The benefits of digitalisation and automation²⁰⁶ consist in cutting costs, reducing processing times and improving the security of information transfer.

At EU level, Romania has a relatively low level of digitalisation, witnessing a modest catching-up process over the past ten years. The Digital Economy and Society Index (DESI) – Chart A, released by the European Commission, measures the progress of European countries in terms of: (i) human capital – access to internet, (ii) connectivity, (iii) integration of digital technology and (iv) digital public services. In both 2021 and 2022, Romania came in last, with a DESI score significantly below the EU average,

²⁰⁶ Digitalisation and automation are often used together, thus being easily mistaken for one another. However, digitalisation is not entirely similar to automation, due to the human interaction that continues to play a decisive part. Automation means the execution of human repetitive tasks using robots/equipment.

i.e. 30.6 versus 52.3 in 2022. After the outbreak of the COVID-19 pandemic, considerable additional resources were used to accelerate the digital transformation and all European countries made certain progress, but Romania's headway in this regard was modest. Specifically, as compared to 2015, Romania's DESI index rose by merely 3.7 points in 2022, which is markedly below the average growth of EU countries (+13.4 points). The relative performance of Romania is satisfactory only on connectivity.

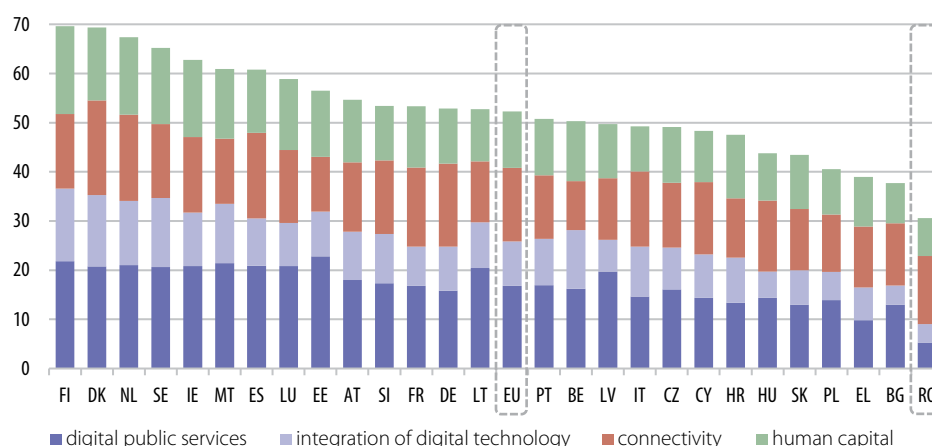


Chart A
Digital Economy and
Society Index (DESI) in 2022

Source: DESI 2022, European Commission

Starting 2023, in line with the Digital Decade policy programme 2030, DESI has been included in the report on the State of the Digital Decade and presented for the purpose of monitoring the progress of each EU Member State. The results for Romania further show the fast progress in connectivity, while large gaps are recorded on infrastructure (in terms of 5G coverage) and online services (bureaucratic barriers in the interactions between public and private bodies)²⁰⁷.

In order to accelerate digitalisation at national level, multiple actions are taken into consideration, of which the most relevant are: (i) raise grants particularly under the NRRP, with a view to developing advanced digital technologies for SMEs (artificial intelligence, blockchain, data cloud, internet of things, cybersecurity); (ii) implement the 2021-2027 government's strategy for businesses' digitalisation, creating skills training opportunities for staff and addressing cyber threats.

A decisive role play investments under Component 7 (Digital transformation), the 2nd pillar of the NRRP, with a budget of approximately EUR 1.8 billion (the equivalent of 6.4 percent of total disbursements in amount of about EUR 28.5 billion). Approximately 70 percent of these funds are earmarked for developing the government cloud architecture, e-health and telemedicine, digitalisation of the judiciary, as well as the electronic ID card and digital signature. Thus, the NRRP funds contributing to the digital transformation pillar under the Recovery and Resilience Facility (RRF) made a cumulative primary contribution of about EUR 5.8 billion, the equivalent of 20.2 percent of total initially envisaged funds –

²⁰⁷ Regarding 5G coverage, despite the progress seen over the past years, Romania still lags considerably behind the EU average, i.e. approximately 27 percent in 2022 as against 80 percent.

Chart B. In the updated version of the plan (including the REPowerEU chapter), the allocation to digital transition grew to 21.8 percent, albeit reflecting favourable denominator effects (downward reassessment of total NRRP amounts) and not an increase in allocations for digital objectives. However, the prospects for meeting the digital transformation objectives are conditional on fulfilling strict milestones and targets in the implementation of NRRP projects.

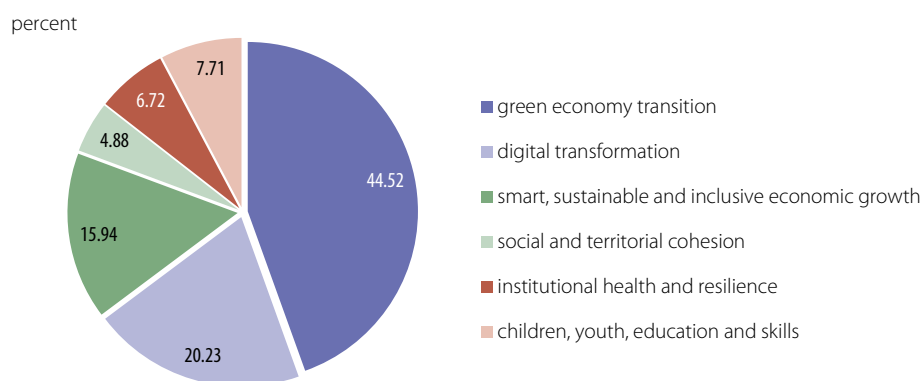


Chart B
Primary contributions of NRRP
funds to the RRF* policy pillars

*) the values correspond to the NRRP version available under the Recovery and Resilience Scoreboard section on the European Commission's website (ec.europa.eu) in May 2024

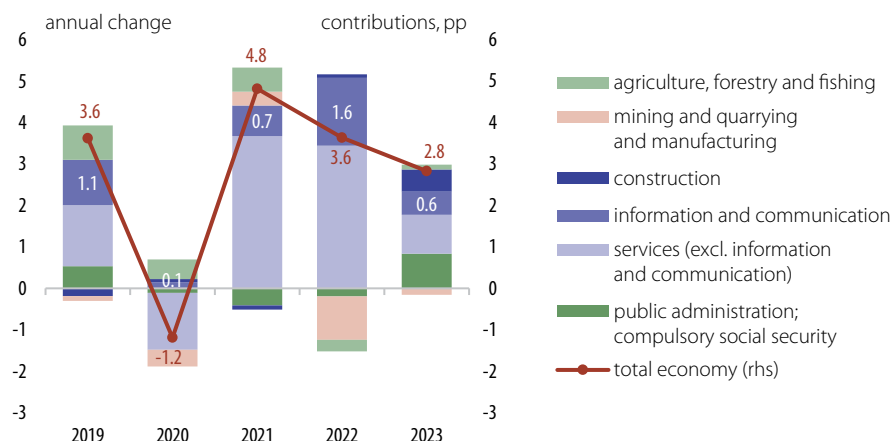
Source: European Commission

Digitalisation is hindered by many barriers, especially in what concerns the SMEs. Deficiencies in reaching the digital transformation potential have been identified on both demand and supply sides. Firms are facing problems related to digital transformation awareness and ways of developing their activity once new technologies are implemented. Nevertheless, most managers plan to continue their business expansion strategies, such as the organic growth and digitalisation – EIB (2023), Deloitte (2023). According to MKOR's Business Sentiment Study, Digitalisation of SMEs in Romania – 2023, although the SMEs have the lowest level of digitalisation in the EU, they showed the keenest interest in software applications. Demand-side aspects can, however, be influenced by the lack of SMEs' financial and technical capabilities to implement digitalisation solutions, which can be correlated, *inter alia*, with the financial health and productivity of companies in Romania – NBR (2023). As for supply, despite the considerable increase in recent years, there is an ongoing gap in the development of products and services to facilitate SME digitalisation. In this regard, worth mentioning is the high importance of start-ups for technology development – Ernst&Young (2022).

In quantitative terms, according to the "Digital Challengers Romania" study, the digital economy (IT, communications, media, auxiliary services, purchases of digital equipment – computers, smartphones, IT infrastructure, software, including cloud-based) is assessed to have a large growth potential to approximately EUR 30 billion (2025 turnover), which is double as compared to 2021 – McKinsey& Company (2022). As a share of GDP, the digital economy would thus grow from 6 percent in 2021 to 8 percent in 2025²⁰⁸. The prospects are based, *inter alia*, on the remarkable reallocation of resources, supported by decarbonisation efforts.

²⁰⁸ As a share in nominal GDP in 2025, European Commission's Spring 2024 Economic Forecast.

Chart C
Sectoral contributions to
the growth of productivity
(GVA/employee) in the economy



Source: Eurostat, NBR calculations

The prospects for the growing importance of “information and communication”²⁰⁹ are conditional on the continuation of the upward trend, albeit on the wane over the past years, in productivity in the economy (Chart C). In fact, this sector is the only one making positive contributions to productivity dynamics in the economy as a whole starting with 2010. Due to the multiple shocks over the past years, the sector showed resilience and adaptability, contributing to additional rises in productivity²¹⁰. Specifically, in 2021–2023, the sector made successive contributions to productivity growth in the economy, which were larger than the long-term average (by approximately 0.4 percentage points in 2000–2019). Although the information and communication sector is important, due to its contribution to productivity dynamics, an essential part plays the IT subcomponent, in particular, which is an element supporting the digitalisation of all economic sectors. To this end, given the economic recovery in 2021, it is worth noting the contribution of retail and wholesale trade and accommodation and food services, some activities (e.g., online trade) benefiting from digitalisation and automation. Moreover, in 2023, “public administration; compulsory social security” made a large contribution, especially due to the reduction in the number of employees.

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European Commission – *Digital Economy and Society Index*, 2022

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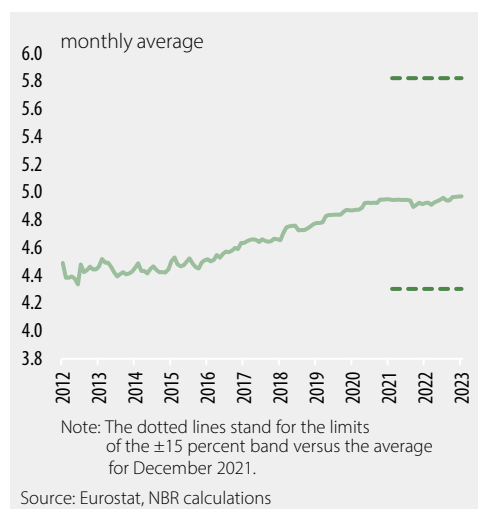
McKinsey&Company – “Digital challengers on the next frontier: perspective on Romania”, 2022

National Bank of Romania – *Financial Stability Report*, December 2023

²⁰⁹ Sector corresponding to J58-J63 NACE codes. It includes publishing activities, motion picture, video and television programme production, programming and broadcasting activities, telecommunications, computer programming, consultancy and related activities and information service activities.

²¹⁰ Due to higher GVA dynamics than those of the number of employees in 2020–2022 and the GVA growth overlapping the reduction of labour during 2023.

Chart 13.5
EUR/RON exchange rate



Over the last ten years, the exchange rate of the leu against the euro recorded a relatively steady evolution (Chart 13.5). The fluctuations were much lower in terms of magnitude as compared to the ± 15 percent standard band, even in the context of the recent adverse shocks and the subsequent macroeconomic imbalances, reflected also in the evolution of synthetic indicators such as the sovereign risk premium.

The sustainable compliance with the nominal convergence criteria depends on a high structural alignment, mainly

assessable by monitoring GDP per capita, the sectoral structure of the economy, its openness and its share of trade with the EU in total foreign trade in goods and services.

The upward trajectory of GDP per capita (temporarily halted in 2020 amid the pandemic crisis) carried on into 2023 as well (Chart 13.6). Thus, the gap between the two economies continued to narrow, with Romania's GDP per capita amounting to around 75 percent of the euro area average in 2023 (up by about 3 percentage points from 2022).

Over the last decade, the sectoral structure of the economy tended to converge to that in the euro area as highlighted in particular by the almost continuous advance in the share of services in GDP (Chart 13.7) and by their increased relevance in foreign trade. Thus, in 2023, the share of this sector in GDP stood at 48 percent, close to the previous year's reading and, at the same time, similar to that of the euro area (49 percent). Conversely, the share of construction went up (to reach 8 percent, thus exceeding the 5 percent share reported by the euro area), supported by a notable growth rate of civil engineering works (mainly infrastructure works).

In the context of the recovery in trade, alongside the fading-out of the adverse pandemic effects, the openness of the economy had jumped to a historical high of 93 percent in 2022 (Chart 13.8). During 2023, the indicator returned to values close to those previously observed, reflecting a modest increase in exports, overlapping with a quasi-standstill in imports of goods and services, on account of a weak external demand and the base effects associated with trade in agri-food commodities²¹¹. By contrast, in terms of trade integration with the European Union, the share of trade with Member States is assessed to be further high (standing at 73 percent, i.e. 1 percentage point higher than in 2022).

Given the complexity of the real convergence process, the analysis framework can be extended by monitoring several dimensions such as the sustainability of the external position or the development of the banking and financial system and its integration

²¹¹ During 2022, Romania's total imports of agri-food commodities from Ukraine expanded by around 30 percent.

with the European one. The analysis is complemented by the Macroeconomic imbalance procedure scoreboard (shown in the following section) aiming to monitor some indicators against a set of criteria.

After the increase seen in 2022, the current account deficit-to-GDP ratio posted a partial correction to 7 percent in 2023 (Chart 13.9). Thus, the average for the last three years stood 3.8 percentage points above the 4 percent-of-GDP indicative threshold set by the European Commission as a multiannual scoreboard indicator for EU Member States²¹². Following the narrowing of the current account deficit in 2023, its coverage by non-debt-creating flows rose by approximately 7 percentage points to 59 percent.

Chart 13.6
GDP per capita in Romania

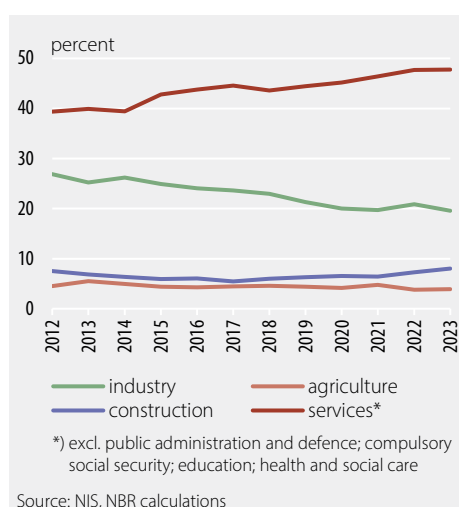
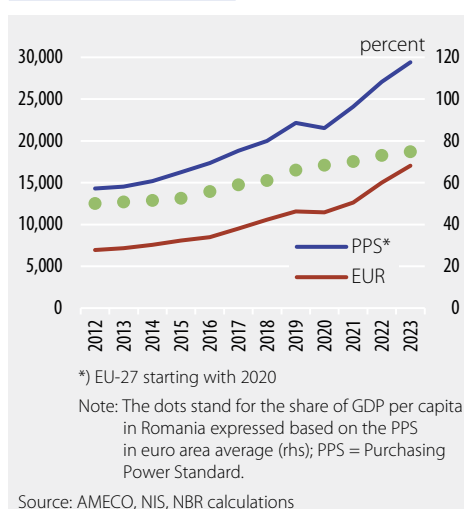


Chart 13.7
Share of economic sectors in GDP

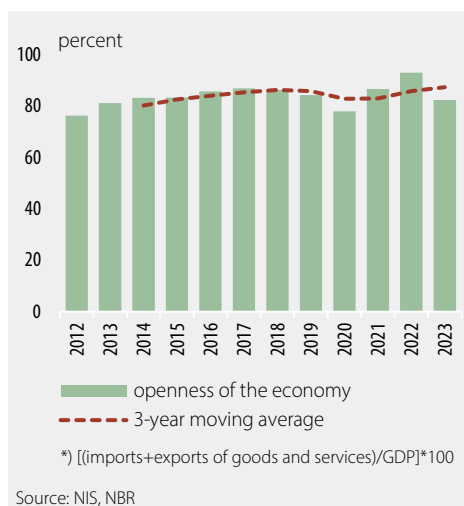


Chart 13.8
Openness of the economy*

The integration of the banking and financial sector in Romania with that in the euro area is high, as shown by the prevalence of the capital originating in euro area countries in the shareholding structure of credit institutions operating in Romania. However, compared to the euro area, over the past 10 years, indirect financial intermediation

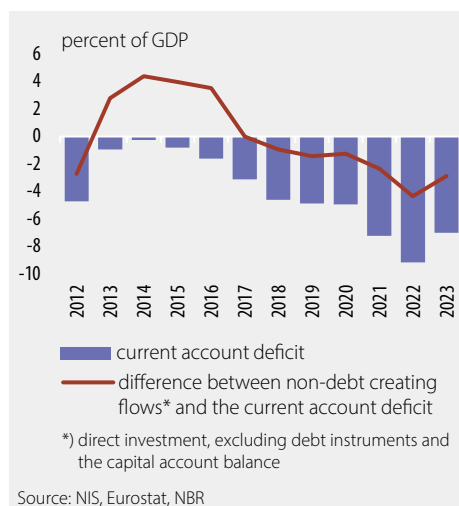


Chart 13.9
Current account deficit and financing through stable flows

²¹² For further details, see the European Commission's website, the section on the "Macroeconomic Imbalance Procedure Scoreboard".

(the share of private sector credit in GDP, excluding NBFIs) remained significantly lower (in 2023 it came in at 23 percent in Romania, while amounting to 82 percent in the euro area). Direct financial intermediation (calculated as stock market capitalisation-to-GDP ratio) stood well below that in the euro area throughout the EU post-accession period.

2. Developments in the European Union's economic governance

The European Commission continued to monitor macroeconomic developments of EU Member States with a view to detecting and correcting potential imbalances. *The Alert Mechanism Report* (AMR) published in November 2023 is based on the data used for the 2022 scoreboard indicators, while also incorporating references to actual developments in 2023, as well as to the European Commission's forecasts, so that the analysis can allow for an early detection of potential vulnerabilities.

Risks to the external balance and competitive position continued to be relatively high and/or on the rise (the only indicator having gradually improved over the recent years refers to the net international investment position). The terms of trade-induced shock in 2022, once with the surge in the energy prices, did not entail initially a visible change in the number of economies with an imbalanced current account position; as a matter of fact, for Germany this translated into a drop in the current account (expressed as a 3-year average) to the upper threshold in the scoreboard, following the large surpluses systematically reported in the previous years. However, the subsequent easing of tensions in international commodity markets could not prevent the indicator from deteriorating. Therefore, according to the latest data, in 2023 the indicator was beyond the relevant thresholds in 11 Member States (in 2019-2022, it was beyond the thresholds in eight/nine economies). The export market share also had an unfavourable evolution, in a context marked by high costs, especially for energy, with a negative effect on production. Thus, while back in 2017-2019 almost all economies complied with this criterion threshold, later on the situation gradually deteriorated and, in 2022, 6 Member States – including large economies such as Germany or France – recorded a fall in their export market share by more than 6 percent over the last five years; moreover, the trend is expected to carry on, even though 2023 saw lower pressures from commodity prices.

The economic environment dominated by the significant increase in costs and prices also affected the real effective exchange rate, contributing at the same time to unit labour cost (ULC) remaining on a strongly upward path in most EU Member States. The tight labour market conditions made it difficult to adjust the labour factor by the shocks that hit the EU economy in recent years and the pick-up in inflation fuelled wage demands. In 2023, according to the latest data, only about a third of Member States complied with the ULC thresholds in the scoreboard, namely countries in southern Europe such as Greece, Italy or Spain, where labour supply allowed firms to better accommodate the turmoil they experienced. Despite the subdued activity, the unemployment rate was further low in the EU overall, while other labour market

indicators in the scoreboard, such as long-term unemployment, youth unemployment or the activity rate, were also at comfortable levels. However, the way they are expressed in the scoreboard (3-year change/3-year average) favours the 2023 specific assessment, given that the base year is 2020 when in many EU countries the activity rate declined and the unemployment rate posted broad-based increases, including among the youth, in the context of the first pandemic wave.

The stricter financial conditions in recent years, amid the central banks' strong response to high inflation rates, supported compliance of credit flows to the private sector and of financial sector liabilities with the indicative thresholds in the scoreboard. The real estate sector painted a similar picture. Thus, while the pandemic context triggered a faster hike in real estate prices at European level, which led in 2021 to non-compliance with this criterion by more than half of the Member States, the advance in inflation and the tightening of financial conditions significantly changed the situation, although in many countries the real estate market remains overvalued.

At EU level, private sector debt and public sector debt continued to follow the downward trend that started in 2021, after the first pandemic waves, but the associated vulnerabilities remain significant: the latest data indicate that 10 countries exceeded the indicative threshold in the scoreboard for the first indicator in 2022, while 13 countries exceeded the indicative threshold in the scoreboard for the second indicator in 2023.

According to the AMR, in-depth reviews are needed for 12 EU countries: Cyprus, France, Germany, Greece, Italy, Hungary, the Netherlands, Portugal, Romania, Slovakia, Spain and Sweden.

For Romania, the data available upon the release of the AMR indicated values above the indicative thresholds in the scoreboard for the net international investment position (however, in time, the indicator gradually moved towards the set threshold) and for the current account balance (in this case the prospects for the indicator complying with the thresholds are more distant). In addition, recent data have highlighted Romania's non-compliance with the ULC criterion, following relatively tight labour market conditions over the last years, high inflation fuelling wage demands, administrative measures (repeated hikes in the minimum wage and public sector wages) and the effects of higher costs affecting productivity.

The EU economic governance framework was subject to fiscal review, with new rules being adopted at the end of April 2024, with a view to ensuring the gradual reduction of public debt and deficits, without, however, affecting investments in areas such as green energy, digitalisation or national defence. Thus, each Member State will prepare a medium-term fiscal structural plan, spanning four or five years, incorporate an expenditure path to be followed and provide explanations on the manner of implementing the reforms and investments identified as necessary in the context of the European Semester (Box 11).

Box 11. Reform of the European economic governance framework

In February 2020, the European Commission formally started work on reforming the European economic governance framework by publishing a report on the performance of its application (European Commission, 2020). Although the European Commission's report showed the successful correction of imbalances, as well as the improved convergence and coordination of European economies, the same as the previous assessment of the European Fiscal Board (2019), it identified three main problems in the European governance framework: (i) the failure of European fiscal rules to prevent frequent episodes of pro-cyclical fiscal policy conduct in the Member States; (ii) excessive complexity, a legacy of successive reforms ("sedimentation") (Pench, 2018) which over the years have added new features without eliminating those that have become redundant, which led to the overlapping of non-fully harmonised objectives and to the use of several operational indicators (some of which represented by unobservable variables and, implicitly, affected by frequent revisions); (iii) the insufficient differentiation between Member States that have markedly different fiscal positions, sustainability risks or other vulnerabilities.

After three years of consultations and debates, in April 2023, the European Commission made public a legislative proposal on the reform of the European fiscal governance framework. The Economic and Financial Affairs Council of the European Union (ECOFIN) agreed to a compromise version of the reform in December 2023 and in February 2024 the EU Council, the European Commission and the European Parliament signed a political agreement on the final version of the legislative package. Subsequently, it was voted by the European Parliament, its components being published in the *Official Journal of the European Union* on 30 April 2024.

The approved legislative package on the reform of the European economic governance framework includes two regulations and one directive: (i) Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 on the preventive arm of the Stability and Growth Pact – containing the main innovations; (ii) Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on the corrective arm of the Stability and Growth Pact – the amendments refer to the debt-based excessive deficit procedure, the standard one remaining virtually unchanged; (iii) Council Directive (EU) 2024/1265 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

The reform envisages mainly the preparation and commitment by the Member States to "the national medium-term fiscal-structural plans" bringing together the fiscal policy, structural reforms and investments of each Member State; the country-specific fiscal trajectories in these plans are to be determined based on a public debt sustainability analysis and operationalised exclusively through multiannual nationally financed net primary expenditure ceilings. The net expenditure indicator thus becomes the only operational indicator for budgetary surveillance, in line with the recommendations of the European Fiscal Board – EFB (2019) and

Benalal *et al.* (2022)²¹³. Net expenditure is defined as government expenditure net of interest expenditure, discretionary revenue measures, expenditure on Union programmes fully matched by Union funds, national expenditure on co-financing of programmes funded by the Union²¹⁴, cyclical elements of unemployment benefit expenditure. One-off and other temporary measures identified in accordance with the guiding principles used by the European Commission are also to be excluded from net expenditure.

The new governance framework sets out a process, which would, in principle, be repeated every four years, whereby:

- (i) For each Member State having a public debt above the 60 percent of GDP reference value or a government deficit above the 3 percent of GDP reference value²¹⁵, the Commission shall put forward, in a report to the Economic and Financial Committee, a reference trajectory for net expenditure covering a minimum adjustment period of 4 years (2025-2028) and its possible extension by a maximum of 3 years (2025-2031). However, each of the reform and investment commitments²¹⁶ underpinning an extension of the adjustment period shall be sufficiently detailed, front-loaded, time-bound, verifiable and in line with the commitments included in the Recovery and Resilience Plan;
- (ii) After a “technical dialogue” with the European Commission, all EU countries shall submit a “national medium-term fiscal-structural plan” that includes the reference trajectory (or the technical information provided by the Commission) and, where the plan includes a higher net expenditure trajectory than in the reference trajectory set by the European Commission, Member States shall provide sound and verifiable economic arguments explaining the difference;
- (iii) The European Commission shall assess the national medium-term fiscal-structural plan and make a recommendation to the Council, which may, on this basis, endorse or request a revised plan.

The reference trajectory for the net expenditure shall comply simultaneously with four criteria. Thus, public debt ratio shall be put or remain on a plausibly downward path by the end of the adjustment period (spanning four to seven years) or stay at prudent levels, even in adverse scenarios. The plausibility of the downward path or of further prudent levels is to be assessed in accordance with the methodology

²¹³ Benalal *et al.* (2022) and EFB (2019) recommend using the net expenditure indicator as a fiscal performance indicator instead of the structural balance, on account of their predictability and increased countercyclicality, given the inherent robustness to unexpected changes in budget revenues that cannot be explained by discretionary measures or changes in cyclical conditions. For a critical assessment of the indicator (complexity, opacity, difficulty of real-time monitoring), see Marinheiro (2021) and Wyplosz (2023).

²¹⁴ No national accounts data are currently available on the national co-financing of EU-funded programmes. In compliance with the approved legislation, Eurostat is bound to establish a framework for Member States to report the necessary statistical data.

²¹⁵ Countries, where initially public debt and government deficit are below the reference value, will receive “technical information” upon request as guidance when drawing up their national medium-term fiscal-structural plans.

²¹⁶ Reforms and investments need to be growth enhancing, support fiscal sustainability, address the common priorities of the Union (green and digital transition, social and economic resilience, energy sovereignty, defence capacity building), address relevant country-specific recommendations made to the Member State concerned, ensure the overall level of nationally financed public investment.

used by the European Commission in the 2023 *Debt Sustainability Monitor*, being determined based on deterministic risk scenarios (the public debt ratio should continue to decline over a 10-year period under the worst-case deterministic risk scenario of the three built by the European Commission materialising) and on stochastic risk scenarios (the public debt ratio continues to drop for five years beyond the adjustment period with a sufficiently high probability; the threshold used in the European Commission's standard methodology is of 70 percent). Moreover, the reference trajectory should ensure that the general government deficit falls below the 3 percent-of-GDP reference value over the adjustment period and remains below it over the medium term, taking into account any additional costs that Member States may incur after the adjustment period. The annual fiscal adjustment effort implied by the reference trajectory is linear as a rule and at least proportional to the total effort over the entire adjustment period. In addition, the minimum annual structural adjustment requirement of 0.5 percentage points²¹⁷ stipulated by the corrective arm over the period where the budget deficit exceeds the 3 percent-of-GDP reference value, should be met.

The above described criteria are complemented by two safeguards, i.e.:

- (i) The public debt sustainability safeguard, which stipulates that the reference trajectory shall ensure that the projected general government debt-to-GDP ratio decreases by a minimum annual average amount of 1 percentage point of GDP as long as the general government debt-to-GDP ratio exceeds 90 percent and by 0.5 percentage points of GDP as long as the general government debt-to-GDP ratio remains between 60 percent and 90 percent; however, in the case of countries undergoing an excessive deficit procedure for exceeding the 3 percent reference value, the additional restriction provided by this safeguard becomes operational only the year after that in which the excessive deficit is corrected;
- (ii) The deficit resilience safeguard which stipulates that the reference trajectory shall ensure that fiscal adjustment continues until the Member State reaches a deficit level that provides a common resilience margin in structural terms of 1.5 percent of GDP relative to the 3 percent of GDP deficit Treaty reference value. The improvement in the structural primary balance should be 0.4 percent of GDP when the adjustment period lasts for four years and 0.25 percent of GDP when the adjustment period lasts longer.

A control account will keep track of the annual and cumulative upward and downward deviations of the net expenditure observed from the net expenditure path as set by the Council²¹⁸. The control account plays an important part in the initiation of excessive deficit procedures against countries whose public debt exceeds 60 percent of GDP, the European Commission preparing a report in line with Article 126(3) of Treaty on the Functioning of the EU (TFEU) (representing the first

²¹⁷ A transitional regime is established for the period 2025-2027, during which the minimum annual structural adjustment requirement for the deficit procedure refers to the primary budget balance.

²¹⁸ The control account records a debit when the observed net expenditure is above the reference trajectory and a credit when the observed net expenditure is below the set path.

procedural step) when the ratio of the government debt to GDP exceeds the reference value, the budgetary position is not close to balance or in surplus and the deviations recorded in the control account of the Member State either exceed 0.3 percentage points of GDP annually, or 0.6 percentage points of GDP cumulatively. The European Commission's initial legislative proposal envisaged that, in the event of deviations from the reference trajectory, the opening of the debt-based excessive deficit procedure should be the default option for countries facing high public debt sustainability risk, in an attempt to operationalise a mechanism which, although introduced as early as 2011, proved to be *de facto* non-functional (Pench, 2023). The approved version of the reform implies less automaticity in initiating the debt-based excessive deficit procedure: public debt challenges (from a sustainability risk perspective) are deemed as aggravating factors, and the list of EDP decision-relevant factors was extended²¹⁹.

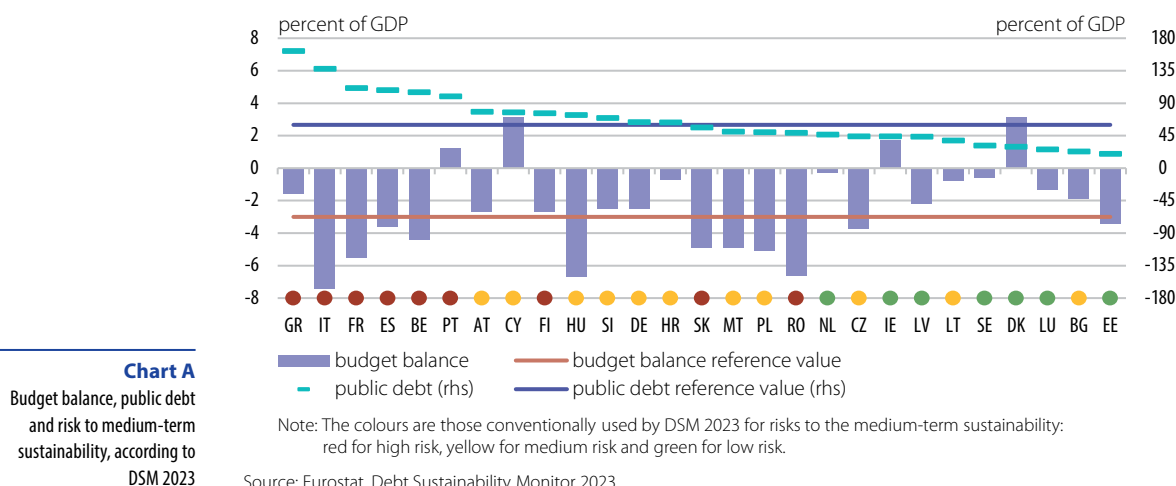
The general escape clause activation was clarified in order to avoid seeing a repeat of the pandemic situation when this was resorted to without knowing when and how its deactivation would take place. Therefore, in the event of a severe economic recession in the euro area or the European Union as a whole, the general escape clause is resorted to for a period of at most one year, having the possibility to renew it (subject to the opinion of the European Fiscal Board) several times, but for an additional period of up to one year. The national escape clause can be activated under similar circumstances, except for the initial granting period which is determined at the discretion of the Council. Member States' control accounts shall not record debits during the period when the escape clauses are activated.

The approved reform of the European governance framework leaves virtually unchanged the role of national independent fiscal institutions in relation to the pre-existing situation, despite the fact that the initial legislative proposal of the European Commission envisaged their substantially increased role in the European fiscal framework. Thus, while the initial proposal provided for the obligation of these entities (national fiscal institutions) to assess compliance with the net expenditure path assumed by the Member State and the factors underlying possible deviations, respectively, in the enacted version such an assessment can only take place at the request of Member State governments and is of a non-binding nature. Instead, the approved legislative package gives a more prominent advisory role to a "permanent and more independent" European Fiscal Board with improved access to information. The Statute of the European Fiscal Board is governed by a dedicated article of Regulation (EU) 2024/1263, stipulating that it "shall enjoy full independence in the discharge of its functions, performing its duties impartially and solely in the interest of the Union as a whole".

According to the timetable set forth by the legislative package, the European Commission shall provide preliminary guidance in the form of a reference trajectory to the Member States concerned by 21 June 2024 at the latest, and the latter shall submit their medium-term fiscal-structural plans by 20 September. At end-2023, the budget deficit exceeded the 3 percent-of-GDP reference value in 11 countries,

²¹⁹ Including, for example, the increase in national defence investment, by taking into account the moment when expenditure on military equipment is reported.

while public debt was above the 60 percent reference value in 13 countries, with 19 countries exceeding at least one of the two indicative thresholds²²⁰, which qualifies them to receive reference trajectories from the European Commission. These include all countries whose medium-term fiscal sustainability risk was assessed as high in the *Debt Sustainability Monitor 2023* (including Romania), as well as all countries with medium fiscal sustainability risk, except for Bulgaria and Lithuania (Chart A).



The new rules appear to be more realistic and coherent, which renders them more likely to be more functional than the previous ones. Conversely, however, the fiscal consolidation requirements under the new framework appear less stringent than the previous ones – the new public debt sustainability safeguard is less strict than the repealed adjustment rule setting forth an adjustment by 1/20th of the deviation from the reference value of public debt and the new deficit resilience safeguard is less strict than the previous medium-term structural deficit targets. The political signalling of the new economic governance framework is straightforward: “fiscal consolidation should be structural and not pro-cyclical, that it should run alongside public investment and not come at the expense of it, that it should support common European policies, and that it should not come at the expense of national security” (Jones, 2024).

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²²⁰ In five Member States (Belgium, Spain, France, Italy, Hungary), both reference values were exceeded at the end of 2023.

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Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, OJ L, 2024/1265, 30.4.2024

In addition to securing macroeconomic stability, the European governance framework also aims to ensure a robust banking sector. To this end, European leaders meeting at the European Summit on 24 March 2023 called for continued efforts to complete the Banking Union. Among the practical aspects of this endeavour were the preparation of a proposal by the European Commission that was published in April 2023 on the adjustment of the existing EU bank crisis management and deposit insurance (CMDI) framework. The proposal aims to handle problems facing smaller and mid-sized banks under the bank resolution framework in place (it is worth mentioning some previous cases of recourse to

alternative solutions excessively based on taxpayers' resources), the harmonisation of resolution practices across the EU and better protection for depositors²²¹.

Another area where progress was made in 2023 refers to the transposition of the Basel III regulations into European law, with provisional versions being drafted of the corresponding amendments. Among the topics discussed were: limiting the variability of capital levels of credit institutions computed by using internal models or the suitability assessment of candidates for key function holders within financial institutions.

Throughout 2023, steps continued to be taken to transpose into law the proposal amending the minimum requirements for own funds and eligible liabilities, also known as Daisy Chains. This proposal is aimed to improve the proportionality of those requirements, as they may prove too burdensome for financial institutions with a specific architecture. In March 2024, the European Council adopted the so-called Daisy Chains Directive, which gives the resolution authority the power of setting internal MREL on a consolidated basis subject to certain conditions; it also introduces a specific MREL treatment for 'liquidation entities'.

²²¹ Biraschi, P., De Bosio, R., Langella, M., Mainieri, B., Mata Garcia, N., Orszaghova, L. – "The Commission proposal to reform the EU Bank Crisis Management Framework: A selected Analysis", *SRB Working Paper Series*, No. 3, December 2023.

Table 13.2. Macroeconomic imbalance procedure scoreboard

		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 sector credit flow
		% of GDP, 3-year average	% of GDP	3-year change, %	5-year change, %	3-year change, %	annual change, %	% of GDP
		-4%/+6% of GDP	-35% of GDP	±5% (EA) ±11% (non-EA)	-6%	+9% (EA) +12% (non-EA)	6%	+14% of GDP
Austria	2022	1.6	17.6	0.0	-5.3	10.7	3.9	5.0
	2023	1.3	16.6	1.7	-0.9	13.2	-9.9	...
Belgium	2022	0.6	57.7	1.5	-2.5	10.1	-3.9	5.8
	2023	-0.2	65.4	0.3	-3.3	13.3	-2.8	2.2
Bulgaria	2022	-1.0	-12.9	5.6	14.8	23.6	-2.1	5.9
	2023	-1.1	-7.6	8.6	16.1	27.4	2.7	...
Croatia	2022	-0.9	-25.4	-0.8	11.4	11.0	3.2	5.6
	2023	-0.2	-21.8	4.2	18.9	...	3.7	3.9
Cyprus	2022	-8.0	-96.2	-3.1	20.0	-1.2	-3.6	-3.9
	2023	-8.7	-96.6	0.4	22.5	1.5	-0.2	...
Czechia	2022	-1.9	-18.7	13.3	-7.4	14.8	1.6	4.5
	2023	-2.4	-13.2	24.1	0.7	15.8	-10.0	...
Denmark	2022	10.2	58.2	-1.4	11.7	7.2	-7.4	13.1
	2023	11.1	58.8	-0.7	12.6	5.4	-6.5	4.3
Estonia	2022	-2.6	-20.2	8.1	16.4	19.0	4.5	9.2
	2023	-2.6	-21.6	15.5	14.4	32.8	-3.0	...
Finland	2022	-0.5	-2.2	-3.2	-2.6	9.3	-4.7	2.3
	2023	-1.2	5.2	-1.6	-5.5	13.8	-9.5	...
France	2022	-1.1	-23.8	-3.6	-11.2	11.1	1.5	8.9
	2023	-0.8	-29.4	-1.8	-6.4	11.3	-6.3	1.8
Germany	2022	6.0	69.5	-0.6	-12.1	7.2	-1.3	6.7
	2023	5.8	70.4	1.8	-8.8	10.5	-13.9	...
Greece	2022	-7.9	-143.5	-2.3	12.0	3.5	5.2	1.1
	2023	-7.8	-140.5	-1.3	5.8	1.1	8.4	2.0
Hungary	2022	-4.5	-52.1	-8.9	-5.1	24.0	5.2	9.2
	2023	-4.1	-46.6	10.3	4.5	34.0	-7.7	...
Ireland	2022	6.0	-116.8	-4.6	31.3	-10.6	5.0	2.0
	2023	11.5	-105.9	-1.3	26.1	5.7	-3.3	...
Italy	2022	1.6	4.7	-2.3	-8.7	4.8	-3.6	2.9
	2023	0.4	7.4	0.9	-1.4	5.0	-3.7	...
Latvia	2022	-1.9	-26.8	4.8	14.6	17.2	0.4	3.0
	2023	-4.2	-24.6	11.1	7.7	25.4	-3.9	...
Lithuania	2022	1.0	-7.0	9.0	28.0	27.7	0.4	6.8
	2023	-0.8	1.3	13.1	23.2	36.5	1.1	...
Luxembourg	2022	8.0	47.0	-0.3	-1.4	13.2	4.0	-19.5
	2023	7.4	33.8	-1.5	4.2	20.8	-12.2	...
Malta	2022	0.4	83.3	-3.1	2.7	6.0	1.2	6.4
	2023	1.0	71.6	-0.5	19.5	-1.2	-0.4	...
Poland	2022	-0.4	-33.4	-0.5	15.9	15.7	-1.9	3.0
	2023	-0.7	-31.5	9.3	23.2	22.0	-1.9	0.9
Portugal	2022	-1.0	-83.6	-3.1	-2.5	10.7	4.8	3.5
	2023	-0.2	-72.5	-1.3	5.2	8.9	3.0	0.9
Romania	2022	-7.1	-40.7	2.5	6.1	16.9	-6.4	3.3
	2023	-7.8	-39.6	6.7	10.7	26.7	-5.9	2.0
Slovakia	2022	-3.6	-61.0	3.6	-7.1	12.7	1.3	8.4
	2023	-4.3	-54.2	7.4	-1.9	16.5	-9.2	2.3
Slovenia	2022	3.2	-1.5	-1.4	2.3	14.3	4.3	5.2
	2023	2.3	3.7	1.0	2.0	18.8	-0.2	...
Spain	2022	0.7	-60.0	-0.5	-8.3	10.8	0.8	0.3
	2023	1.3	-52.8	-0.8	0.5	7.7	-0.2	-2.2
Sweden	2022	6.1	31.0	-1.6	-3.2	7.5	-3.0	10.3
	2023	6.4	33.2	-7.3	3.8	10.2	-10.9	...
The Netherlands	2022	8.8	75.2	3.1	-0.6	9.8	6.0	6.9
	2023	10.5	71.8	2.7	0.1	9.4	-10.0	...

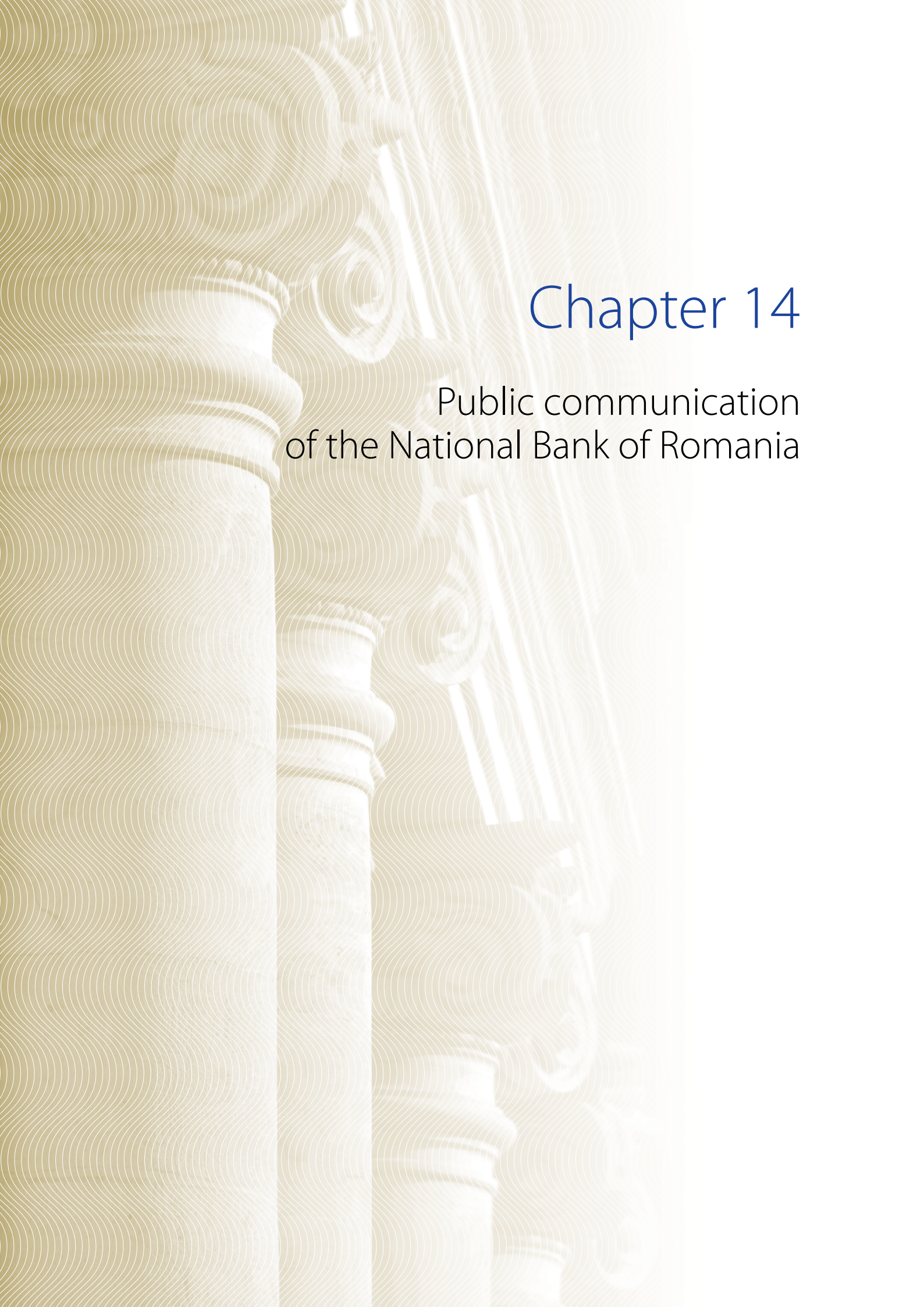
■ the indicators do not fall within the indicative thresholds

"..." not available

Source: Eurostat, NBR

13. The convergence of the Romanian economy and the EU economic governance framework

Private sector debt	General government sector debt	Unemployment rate	Financial sector liabilities	Activity rate – % of population aged 15-64	Long-term unemployment rate – % of active population aged 15-74	Youth unemployment rate – % of active population aged 15-24		
% of GDP	% of GDP	3-year average, %	annual change, %	pp, 3-year change	pp, 3-year change	pp, 3-year change		
133% of GDP	60% of GDP	10%	16.5%	-0.2 pp	0.5 pp	2 pp		
121.9	78.4	5.7	-3.0	0.5	-0.2	0.4	2022	Austria
...	77.8	5.4	...	1.8	-0.6	-1.3	2023	
161.4	104.3	5.9	-2.6	1.4	0.2	1.9	2022	Belgium
156.5	105.2	5.8	0.7	2.1	0.1	0.2	2023	
74.6	22.6	5.2	12.0	0.6	-0.7	-1.5	2022	Bulgaria
...	23.1	4.6	...	1.8	-0.4	-5.3	2023	
77.8	67.8	7.4	9.6	3.4	0.0	1.4	2022	Croatia
73.3	63.0	6.9	17.4	3.0	-0.1	-2.1	2023	
213.4	85.6	7.3	-2.3	2.2	0.2	2.0	2022	Cyprus
...	77.3	6.8	...	3.2	-0.2	-1.3	2023	
76.0	44.2	2.5	3.2	0.5	0.0	1.2	2022	Czechia
...	44.0	2.5	...	0.7	0.2	0.3	2023	
188.0	29.8	5.1	-1.6	1.3	-0.3	0.5	2022	Denmark
196.6	29.3	4.9	0.6	1.8	-0.4	-0.1	2023	
94.3	18.5	6.2	1.6	2.0	0.4	7.0	2022	Estonia
...	19.6	6.1	...	2.0	0.1	-1.0	2023	
144.7	73.5	7.4	1.7	2.5	0.0	-3.5	2022	Finland
...	75.8	7.2	...	2.6	0.1	-4.8	2023	
163.7	111.9	7.7	-1.4	1.0	-0.3	-3.4	2022	France
155.4	110.6	7.5	3.6	1.9	-0.1	-4.3	2023	
118.4	66.1	3.5	1.5	1.4	-0.2	-0.2	2022	Germany
...	63.6	3.3	...	2.4	-0.1	-2.1	2023	
101.1	172.7	14.9	-0.3	0.9	-3.6	-6.1	2022	Greece
96.4	161.9	12.8	-0.9	4.2	-4.3	-11.3	2023	
78.8	74.1	3.9	8.6	2.5	0.1	-0.6	2022	Hungary
...	73.5	3.9	...	2.9	0.3	0.3	2023	
147.1	44.4	5.5	-4.0	3.6	-0.3	-2.4	2022	Ireland
...	43.7	5.0	...	6.7	-0.3	-5.1	2023	
105.5	140.5	9.0	-5.7	-0.2	-1.3	-5.5	2022	Italy
...	137.3	8.4	...	3.2	-0.9	-7.1	2023	
52.5	41.8	7.5	4.1	-0.5	-0.7	2.6	2022	Latvia
...	43.6	7.0	...	-1.4	-0.6	-2.6	2023	
51.4	38.1	7.2	1.0	0.6	0.4	0.0	2022	Lithuania
...	38.3	6.7	...	0.3	-0.2	-5.8	2023	
325.5	24.7	5.6	-4.9	1.5	0.0	0.6	2022	Luxembourg
...	25.7	5.0	...	1.9	0.0	-4.4	2023	
121.8	51.6	4.1	5.9	4.5	0.2	-1.1	2022	Malta
...	50.4	3.5	...	4.7	-0.6	-2.4	2023	
63.4	49.2	3.2	3.0	3.5	0.2	1.1	2022	Poland
57.0	49.6	3.0	11.0	4.3	0.2	0.6	2023	
141.8	112.4	6.6	-4.0	1.3	0.0	0.8	2022	Portugal
130.3	99.1	6.5	-1.9	3.8	0.2	-2.2	2023	
43.7	47.5	5.8	8.2	3.5	0.2	1.8	2022	Romania
40.4	48.8	5.6	16.7	2.7	0.4	0.2	2023	
93.6	57.7	6.5	-9.3	1.4	0.2	2.8	2022	Slovakia
85.5	56.0	6.2	3.0	2.0	0.1	-0.6	2023	
66.0	72.5	4.6	-1.4	1.6	-0.3	2.0	2022	Slovenia
...	69.2	4.2	...	1.4	-0.5	-4.4	2023	
123.4	111.6	14.5	-4.6	0.2	-0.2	-2.8	2022	Spain
111.6	107.7	13.4	0.4	2.3	-0.7	-9.6	2023	
207.5	33.2	8.3	3.0	0.8	0.4	2.3	2022	Sweden
...	31.2	8.0	...	1.9	-0.2	-1.4	2023	
210.1	50.1	4.2	-3.7	1.3	-0.2	-0.9	2022	The Netherlands
...	46.5	3.8	...	2.1	-0.2	-2.4	2023	



Chapter 14

Public communication
of the National Bank of Romania

1. Public relations

In 2023, the National Bank of Romania's communication and public relations activity was aimed at correctly, promptly and adequately informing the general public, experts, public institutions and the media of the decisions and policies adopted by the central bank in pursuit of its tasks, in compliance with Law No. 312/2004 on the Statute of the National Bank of Romania.

The internal context in which the NBR carried out its activity, as reflected by the public messages of central bank officials throughout 2023, was defined by the inflation rate falling from 16.4 percent in December 2022 to 6.6 percent in December 2023, amid the slower growth rate of processed food prices and the faster annual decline in energy prices. The NBR representatives informed the general public about the inflation outlook and offered explanations about uncertainties stemming from the temporary cap on the mark-ups on basic food products, from the envisaged fiscal measures in order to boost public revenues, from the variables of economic activity, etc.

The communication and public relations activity was underpinned by several strategies. Specifically, the focus was on ensuring a very high level of accessibility to information on monetary policy decisions, the measures intended to safeguard financial stability, and the central bank's role and functions in a complex domestic and external environment marked by heightened uncertainty and the constant need to keep the public informed. In addition, NBR officials and experts offered substantiated explanations (via press statements and numerous articles on the OpiniiBNR.ro blog or in the media) to improve the public's knowledge about the main topics: economic developments, monetary policy, lending, the banking system and exchange rate movements, the legislative framework within which the NBR operates and its available mechanisms and action triggers.

In keeping with its mandate and with the principles of transparency and institutional accountability, the NBR publishes information resulting from statistical data and reports that the central bank produces in compliance with the legal framework in force. These data are supplemented by in-house analyses and assessments based on solid research work resulting from the thorough knowledge of area-specific issues in order to correctly inform the general public.

The NBR ensured ongoing communication with the public and the media also by publishing 96 press releases on monetary policy decisions, macroprudential oversight, and developments in statistical indicators relevant to the banking sector and the economy in general, numismatic issues, events on financial education, etc. Moreover, the NBR warned the general public about spoofing attacks (fraudulent use of phone numbers) that used the institution's name.

Table 14.1
Direct institutional
communication of the National
Bank of Romania

Date	Event
19 January	Press conference launching the <i>Financial Stability Report</i>
15 February 12 May 9 August 10 November	Press conferences launching the <i>Inflation Report</i>
16 March	NBR-EIB conference and presentation of the <i>EIB Group Investment Survey 2022: Country overview – Romania</i>
29 March	Anniversary event celebrating 100 years since the adoption of the Constitution of Greater Romania
4-5 May	<i>The annual “Cristian Popișteanu” Banking History and Civilisation Symposium, 31st edition: Architectural heritage of the National Bank of Romania</i>
28 June	Event presenting the paper “Evoluția stocului de aur al Băncii Naționale a României (1880-2020)” [The gold stock of the National Bank of Romania (1880-2020)]
21 September	Temporary exhibition: <i>The Two Sides of the Coin: Means of Exchange – Masterpieces of Art</i>
29 September	Presentation of <i>Foreign Direct Investment in Romania in 2022</i>
20 November	Symposium entitled <i>The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century</i>
7 December	Exhibition and launch of a numismatic coin: <i>The “King Ferdinand I” National Military Museum – 100 years of military history</i>

The NBR's official communication was supplemented by the *OpiniiBNR.ro* blog, where 67 articles authored by central bank representatives were published throughout the year. These provided information on monetary policy decisions and their impact on inflation, budget deficit, digital currencies, the legal status of the NBR's patrimony, etc. The opinion articles generated 968 appearances in print and online.

Furthermore, the NBR provided answers for 77 requests for information and clarification received from journalists, down from 111 in the previous year.

In terms of media exposure, central bank representatives benefited in 2023 from 1,277 TV appearances (interviews, statements, videos from press conferences, etc.), constantly providing the public with information and explanations on developments in inflation, interest rates and exchange rates, as well as on the budget deficit and lending. The statements and comments of the NBR's spokesperson were included in 123 TV broadcasts.

In 2023, the NBR's coverage in the relevant central and local media (print, radio-TV and online media) consisted of 9,830 published and broadcast articles that mentioned the central bank: 97.1 percent used a balanced tone, while only 2.5 percent had a negative tone with respect to the central bank. In 2023 as well, most articles referring to the NBR were broadcast on TV via 4,256 TV airings (news, programmes, talk shows), accounting for 43 percent of total media appearances.

Monetary policy remained the most hotly debated media topic in 2023, with 3,469 articles, of which almost 98.9 percent had a balanced tone. The assessed news items and articles reflected primarily the monetary policy decisions, expectations, comments and criticisms, in the context of inflation developments and outlook. Data on the evolution of the economy generated 1,812 articles, of which over 99.1 percent had a balanced tone. Most news referred to developments in economic indicators and

taxation-related topics and the impact of fiscal measures, followed by discussions and comments on wages and pensions. Information on the banking system generated 1,158 articles, of which over 97.6 percent used a balanced tone, with a focus on financial stability, limiting cash payments, the banking sector's balance sheet and overtaxation of bank profits, bank fines and inspections, the taking over by the NBR of tasks regarding consumer protection.

In 2023, the NBR's online communication activity focused on diversifying the strategy to convey messages to the general public, which led to a significant increase in audience and visibility on Instagram, as well as to a stronger presence on LinkedIn or X (formerly Twitter).

The central bank's main communication channel remained the official website, where statistical data (exchange rates, interest rates, financial market indicators) were disseminated in real time and other types of information such as press releases, publications, conferences or speeches were promoted. Depending on the needs identified in terms of the relevance of some topics on the public agenda or on the focus on increasing the visibility of the main types of information related to the bank's activity (such as monetary policy, financial stability, currency issue, payment systems, banking supervision, etc.), these were brought to the public's attention also via social networks, with messages adapted to the specifics of each platform and its audience.



Infographic
Institutional transparency –
topics of interest

Therefore, in 2023, the NBR's presence on online social media platforms gained further ground, promoting several types of subjects meant to facilitate the understanding of certain economic concepts, to enhance institutional transparency and to strengthen confidence in the central bank's decisions. In addition, there was a focus on the ongoing development of the NBR's communication tools and channels, aiming not only to correctly and promptly inform the general public about the central bank's decisions, activities and initiatives, but also to receive constant feedback. Specifically, the topics and messages were adjusted to accommodate the specifics of each communication channel and with the users' interest, which was assessed based on likes, interaction or shares.



Instagram recorded the most significant increase (+280 percent – approximately 20,500 new followers), exceeding 28,000 followers at end-2023. Looking at the Instagram posts, extremely impactful were the topics derived from the central bank's currency issue function: ways to exchange banknotes through the bank's branches, the stages of cash processing, and cash production at the NBR Printing Works and the State Mint. Moreover, several quizzes were posted in the Stories section that included questions related to the central bank's activity, aiming to foster interaction with users, as well as to enhance their level of financial education.

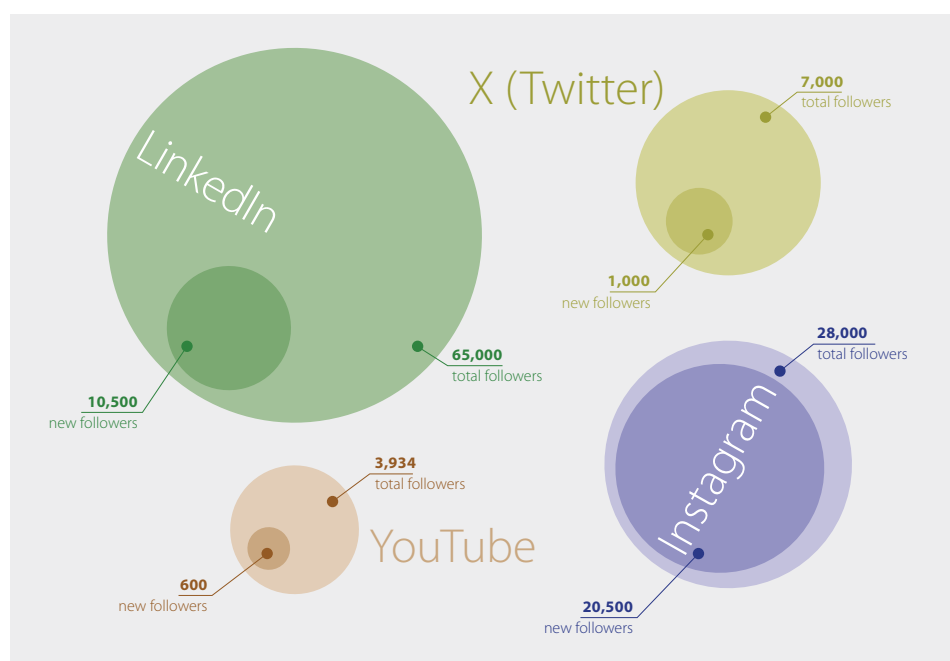
As for LinkedIn, the number of followers increased by approximately 10,500, the account totalling over 65,000 followers at end-2023 (16 percent higher than at end-2022). The promoted topics fell under the following categories: economics (overviews of technical materials such as regular *Reports* and publications, accompanied by explanatory visual elements such as infographics or banners), research (presentation of scientific papers written by economic and financial experts), and human resources (recruitment announcements as well as statements made by NBR experts on developing employees' skills to increase performance in the public sector). Worth noting is that information regarding human resources held the largest share on LinkedIn, accounting for 27 percent of total topics posted on this social media platform. In addition, events organised by the NBR were announced, which garnered the most attention, highlighting the video

summaries of press conferences held by the NBR Governor on the occasion of launching the *Inflation Report*, as well as other articles dedicated to NBR officials participating in international conferences or various events under the NBR's financial education projects. Looking at the figures, in 2023, 179 new articles were published, recording 1,145,534 possible impressions, 586,893 unique views, 18,719 likes, over 1,100 shares and 39,155 clicks per post (accessing the links promoted in the articles).

With regard to X (formerly Twitter), one notable achievement of the account was receiving in May 2023 the grey checkmark (verified government organisation), after multiple requests during the year, thus becoming the NBR's first social media account to obtain the Verified label. As for the NBR's activity on X, this focuses on promptly informing the public about the decisions, activities and initiatives of the central bank, the content being adapted to be easily picked up by news agencies. Among the topics promoted on these networks, the most frequent were posts related to the economy (45 percent), followed by events (19 percent) and history (13 percent). Some 526 new tweets were posted, generating 119,028 unique visits, up 30 percent on 2022. Increased interaction also attracted approximately 1,000 new followers (+15.5 percent versus the previous period), thus topping 7,000 followers. Since the NBR's X account is followed particularly by foreign journalists and experts, as well as government institutions, diplomats or professionals in the economic and financial areas, its content is mainly bilingual or even exclusively in English.

In addition, the NBR uploads to its YouTube channel the videos of press briefings/conferences, seminars and symposiums organised at the bank's head office. On YouTube, the NBR recorded more than 600 new subscribers (3,934 subscribers in total), yet the time spent by users watching the videos posted by the central bank decreased by 16 percent in terms of hours and by 37 percent in terms of views.

Infographic
NBR's social media presence



Also in 2023, an updated version of the “Leul Românesc” mobile application was launched, providing information on the notes and coins issued by the NBR in recent years and offering responses to the most frequent requests received from the public with regard to checking banknotes’ authenticity. This update led to a significant increase in the number of downloads: 1,900 unique users in the App Store (up 21 percent) and 1,110 new downloads in Google Play.

Last but not least, in 2023, the NBR continued the work on the project to develop a new version of the official website. This took into account current trends and best practices in the field, such as implementing mobile first graphical interfaces and applying the UX (user experience) principles of brevity, clarity and user orientation. In parallel, the current version of the website was also improved with regard to the structure and provision of information to enhance user experience. To this end, the Career page included additional information to better highlight the benefits and facilities offered. At the same time, to address public needs, changes were made to the online reservation system for the NBR’s numismatic issues; thus, the steps that consist in the press release being published and the reservation form being opened would be treated separately. This entails announcing the reservation form in advance in the initial press release and opening it after a certain time, which would allow all those interested to be informed. Moreover, attention was paid to financial education by integrating and promoting on the website an educational game continuing the series entitled “Educație financiară cu Ana și Radu” (Financial education with Ana and Radu). The application is aimed at pupils and works as an adventure game in which the characters go through various concrete situations sprinkled with day-to-day financial problems.

Overall, among the most relevant events promoted online in 2023 were the conferences dedicated to the *Inflation Report*, accompanied by video summaries, as well as many of the events organised at the central bank’s head office. Among these, the best interactions were generated by the symposium entitled *The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century*, which inaugurated a new stage in the NBR’s efforts to recover the treasure from Moscow (Box 12). Additionally, among the events noted online were also the 100th anniversary since the adoption of the Constitution of Greater Romania, as well as the exhibitions entitled *The “King Ferdinand I” National Military Museum – 100 years of military history* and *The Two Sides of the Coin: Means of Exchange – Masterpieces of Art*.

Box 12. International efforts to recover the NBR Treasure evacuated to Moscow in 1916-1917

Starting in 1991, the National Bank of Romania has consistently implemented a strategy to draw and maintain the public’s attention to the issue of the NBR Treasure sent to Moscow during World War I and yet unrecovered. In 2023 and in the first part of 2024, several steps were taken to increase international awareness about this topic. Particular focus was placed on informing European public opinion and EU decision-makers regarding the 91.5 tonnes of fine gold confiscated by the

Bolshevik regime more than a century ago and the fact that Romania holds a valid and enforceable claim on the Russian Federation, as the *de facto* heir of the USSR.

Specifically, in November 2023, the NBR organised the symposium entitled *The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century*, during which two books written in English were launched: *The Romanian National Bank Treasure Taken to Moscow and Never Returned*, published by Cristian Păunescu, and *Romania's Treasure and its Destiny. Arguments from the Russian Archives*, authored by Ilie Schipor. These two books were distributed to the 705 MEPs, as well as to the 27 European Commissioners.

On 5 March 2024, at the European Parliament headquarters in Brussels, before the NBR's delegation and a large audience, the exhibition entitled "The gold Treasure of the National Bank of Romania sent to Moscow and never returned – A claim older than a century" was opened. Numerous MEPs, both Romanian and foreign, from all political groups, attended the event. The exhibition includes historical evidence, documents, legal evidence, and agreements signed by the Russian and Romanian parties with regard to the gold reserve sent to Moscow.

On the same day, the online edition of the *Politico* newspaper published the article entitled "The gold treasure of the National Bank of Romania that was sent to Moscow", with the subtitle "A claim older than a century – the odyssey of the central bank's 'evacuated' gold that was never returned after the First World War". This was also included in the print edition of 7 March 2024 of the same publication on European affairs.

Moreover, on 6 March 2024, the discussion on *Le trésor de la Banque Nationale de Roumanie envoyé à Moscou – une créance qui date depuis plus d'un siècle* took place at the Université libre de Bruxelles with support from the Romanian Cultural Institute.

This series of efforts contributed to the Resolution on the return of Romanian national treasure illegally appropriated by Russia being adopted by a large majority of votes in the plenary meeting of the European Parliament of 14 March 2024 in Strasbourg. The document was supported by all Romanian MEPs, who were joined by other 11 MEPs signing the draft resolution. In the address during the debate, Elisa Ferreira, the European Commissioner for Cohesion and Reforms, reiterated that the EU was ready to endorse the efforts of the Romanian authorities, when the international context allowed it, if the Romanian party called for such aid.

The main message of the resolution is that the European Parliament requests the Russian Federation to fully return to Romania the treasure that was transported to Moscow in 1916-1914 and was not returned either in 1935, or in 1956. According to the final points of the resolution, the European Parliament:

- calls on the Commission and the European External Action Service to include the return of the Romanian national treasure on the diplomatic bilateral agenda governing EU-Russia relations once the regional context permits the resumption of political dialogue between the parties;

- calls on the Commission to create concrete synergies with the Romanian State, the National Bank of Romania and other relevant institutions in order to mobilise coordinated efforts and to pursue all diplomatic means of mediating, promoting communication – where appropriate – with Russian counterparts and seeking solutions to ensure that the missing national treasure is returned to where it belongs without delay;
- calls on the Commission to explore the possibility of acting as a partner to the Romanian representatives involved in the Romanian-Russian Joint Commission mandated to discuss the return of the Romanian national treasure;
- instructs its President to forward this resolution to the Council, the Commission, the European External Action Service, the governments and parliaments of the Member States, the Council of Europe and its Parliamentary Assembly, the Organization for Security and Co-operation in Europe, and the state institutions of the Russian Federation.

Thus, more than a century since the decision of the Genoa Conference in 1922, which requested the return of the Romanian treasure, the international public opinion was informed extensively on the valid and enforceable claim held by Romania on the Russian Federation, and the matter was introduced on the agenda of the EU institutions.

In 2023, the *Inflation Reports* were presented for the first time in HTML format, marking a significant change from the existing PDF format. This new format allows the content to be viewed optimally both on widescreen monitors (desktops) and narrow screen devices such as mobile phones or tablets. This initiative helped enhance the accessibility of the general public to the NBR's publications for better information. Further, the NBR aims to expand the number of publications presented in HTML format during 2024, including on the list yearly publications such as the *Annual Report* and the *Balance of Payments and International Investment Position*. The NBR is also working on developing a mobile application entitled "BNR Direct". This application aims to satisfy the needs of users interested in financial information and to offer easy and fast access to various relevant services and data in the financial and banking field.

2. NBR publications

The NBR continues to provide a wide range of information to financial and banking experts and the general public via its portfolio of publications available in several formats, i.e. print, pdf and HTML. Starting with the February 2023 *Inflation Report*, the new HTML format of NBR publications was launched and will be implemented gradually. This new format aims to enhance accessibility to the information in the NBR's reports, as well as to increase flexibility and the number of options available to readers.

The NBR's portfolio of publications includes a series of reports issued at different time intervals: (i) the *Annual Report*, providing a detailed presentation of the domestic

macroeconomic developments and the international context, as well as of the activities carried out by the central bank in the period under review; (ii) the *Inflation Report*, quarterly detailing the analysis framework and, implicitly, the rationales behind the monetary policy decisions; (iii) annual publications focusing on the external sector, namely Romania's *Balance of Payments and International Investment Position* and *Foreign Direct Investment in Romania*; (iv) *Financial Accounts*, detailing the financial developments in the institutional sectors of the economy; (v) the *Financial Stability Report*, reflecting the domestic challenges to financial stability, as well as the developments at EU level in prudential regulations; (vi) the *Monthly Bulletin*, containing a synthetic analysis of the main economic and monetary policy developments in the reviewed period and a detailed statistical section.

Moreover, in 2023, two editions of the *Systemic Risk Survey* were published, quarterly summarising the opinions of top 11 banks in Romania (by asset value) on systemic risks, possible consequences on the financial system and banks' capacity to manage them if they materialise. In addition, the NBR continued to conduct the surveys dedicated to the relationships between the real sector and the banking sector – *Survey on the Access to Finance of the Non-financial Corporations in Romania* and the *Bank Lending Survey*.

The third edition of the *Climate risk dashboard for the banking sector in Romania* was published in 2023. It aims to capture the main developments in the field of climate change and green finance based on indicators classified in five categories, as follows: (i) real economy, (ii) physical risk, (iii) transition risk, (iv) green finance, and (v) government policies.

During 2023 and the first part of 2024, three papers were published in the *Caiete de studii/Occasional Paper Series*.

Over the same period, launch events were held for six volumes included in the "NBR Library" collection – the 140th anniversary series: *Stabilitate financiară. Lucrări selectate* and *Financial stability. Selected works; Economie. Lucrări selectate* and *Economy. Selected works; Rolul băncilor centrale în economiile contemporane: dincolo de stabilitatea prețurilor; Evoluția stocului de aur al Băncii Naționale a României (1880-2020)*. To these added the volume by John Maynard Keynes comprising the Romanian translations of *Indian Currency and Finance* (1913), *A Tract on Monetary Reform* (1923), and *A Treatise on Money* (1930).

3. Public information activity

External communication focusing on direct public information is centred on adequately managing the provision of public interest information upon request and the settlement of petitions to the NBR, and is carried out by observing the limitations established by the related primary legislation, i.e. Law No. 544/2001 on free access to public interest information and Government Ordinance No. 27/2002 on the regulation of petition settlement activity, as approved, and amended and supplemented by Law No. 233/2002.

From this perspective, in order to fulfil the priority objective of the communication and public relations activity, which consists in informing the general public in an accurate and prompt manner, the available tools and resources were used to:

- (i) handle the written petitions and requests to access public interest information (1,896 petitions and requests for public interest information, 91 of which were based on the provisions of Law No. 544/2001),
- (ii) handle telephone calls (930 requests) and
- (iii) provide information demanded verbally at the Information-Documentation Point (456 requests).

In terms of quantity, the total number of written requests went up slightly compared to the previous year, bearing in mind that the number of requests formulated under Law No. 544/2001 rose by 50 percent. Also witnessing a significant increase was the number of visitors to the Information-Documentation Point, which doubled, thus confirming the trend that emerged following the lifting of SARS-CoV-2 pandemic restrictions. In correlation, the number of telephone calls went down by approximately a fifth.

The implementation within the institution of the transparency principles established by the legal framework is assessed via the *Report on the access to public interest information and the handling of petitions*. The *Report* is drawn up on a yearly basis by taking into account the provisions of the applicable legal framework and is published on the NBR website, in the dedicated section (<http://www.bnr.ro/Informare-publica-7672.aspx>). It contains a detailed analysis of the direct public information activity carried out by the central bank, *inter alia* in terms of the category of applicants, the way of submitting petitions and the volume of works, the way in which the requests for public interest information were treated and handled, as well as the most relevant topics taken into account by petitioners and applicants for public interest information.

4. The NBR Archives and Library

Beside its activities aimed at taking over and archiving documents created by and received by the institution's structures, the NBR Archives continued, in 2023 as well, to preserve, process and turn to account the central bank's historical archives.

The reading parlour of the NBR Archives was open to the public throughout the year, except in August and December. Eight researchers registered for consulting the historical archives and were provided expert assistance in order to prepare research papers on: (i) the regime of precious metals and precious stones in Romania and the role of the issuing bank in the control over the circulation of precious metals and gems, (ii) the history of some cultural goods made of precious metals and gems in the heritage of the National History Museum of Romania, (iii) Swiss banks, Nazi Germany and the Bank for International Settlements; Mircea Vulcănescu's activity in the Antonescu cabinet, (iv) the construction of the Take Ionescu monument in Bucharest (1922-1931), (v) the establishment of the NBR's Galați branch and its activity under its first director, and (vi) the financial system of state socialism and the funding of the construction of dwellings during the socialist regime. The researchers consulted,

in physical and electronic format, 118 archival units and were issued copies of documents from 59 archival units.

The turning to account of the documents in the NBR Archives consisted in: (i) organising the 31st edition of the “Cristian Popișteanu” Banking History and Civilisation Symposium, with the topic “Architectural heritage of the National Bank of Romania”, as well as the Symposium entitled “The Treasure of the National Bank of Romania evacuated to Moscow – A claim older than a century”; (ii) participating in the drafting and preparing for publication of the volume entitled *Evoluția stocului de aur al Băncii Naționale a României (1880-2020)* [The gold stock of the National Bank of Romania (1880-2020)], included in the “NBR Library” collection – the “140th anniversary” series; (iii) preparing documentation on topics such as bank architecture in Bucharest, the works of architect Petre Antonescu, the history of the NBR Treasure evacuated to Moscow, etc.; (iv) preparing, presenting and publishing in specialised magazines several articles dedicated to NBR branches and agencies (Tighina, Buzău); (v) solving petitions regarding the release of information/archive documents related to petitioners’ rights; (vi) preparing the brochures for the numismatic issues of the National Bank of Romania; and (vii) further collecting data for creating the database of statistical and historical data by capitalising on the NBR’s balance sheets in the 1880-1947 period under the “South Eastern European Monetary History Network (SEEMHN)”.

In 2023, the endowment and organisation of the NBR Archives’ storage rooms, alongside the developments in this line of activity and the provided services, were the subject of the presentations delivered by the specialised staff of the central bank during the visits organised for archival students from specialised educational institutions.

The activity of the NBR Library was focused on informing and providing documents for the institution’s experts, as well as the outside public. Some 27 external users requested access to the reading parlour of the NBR Library for documentation in order to prepare papers on: (i) public policies on direct investment, (ii) the effects of monetary and fiscal policies on the domestic and European banking system, (iii) ways to implement financial education programmes, examples of best international practices and behavioural trends in the financial education process, (iv) foreign reserves risk management, and (v) the history of Chrissoveloni Bank, etc.

The NBR Library’s book stock was enriched with 401 titles of Romanian and foreign academic literature on economic, financial and banking matters. At the end of 2023, the library’s collection totalled 23,309 bibliographic units.

Managing the collections has implied, aside from taking stock of the new entries, making references in the online catalogue, thus cataloguing and indexing 6,679 new resources, so that 53,794 bibliographic units were recorded at end-2023.

Due to the ongoing updating of the online catalogue, external users enjoyed easy access to the library’s resources, which translated into 4,875 queries.

In order to inform the public, a leaflet with the NBR Library’s new entries was drafted and uploaded to the central bank’s website on a monthly basis.

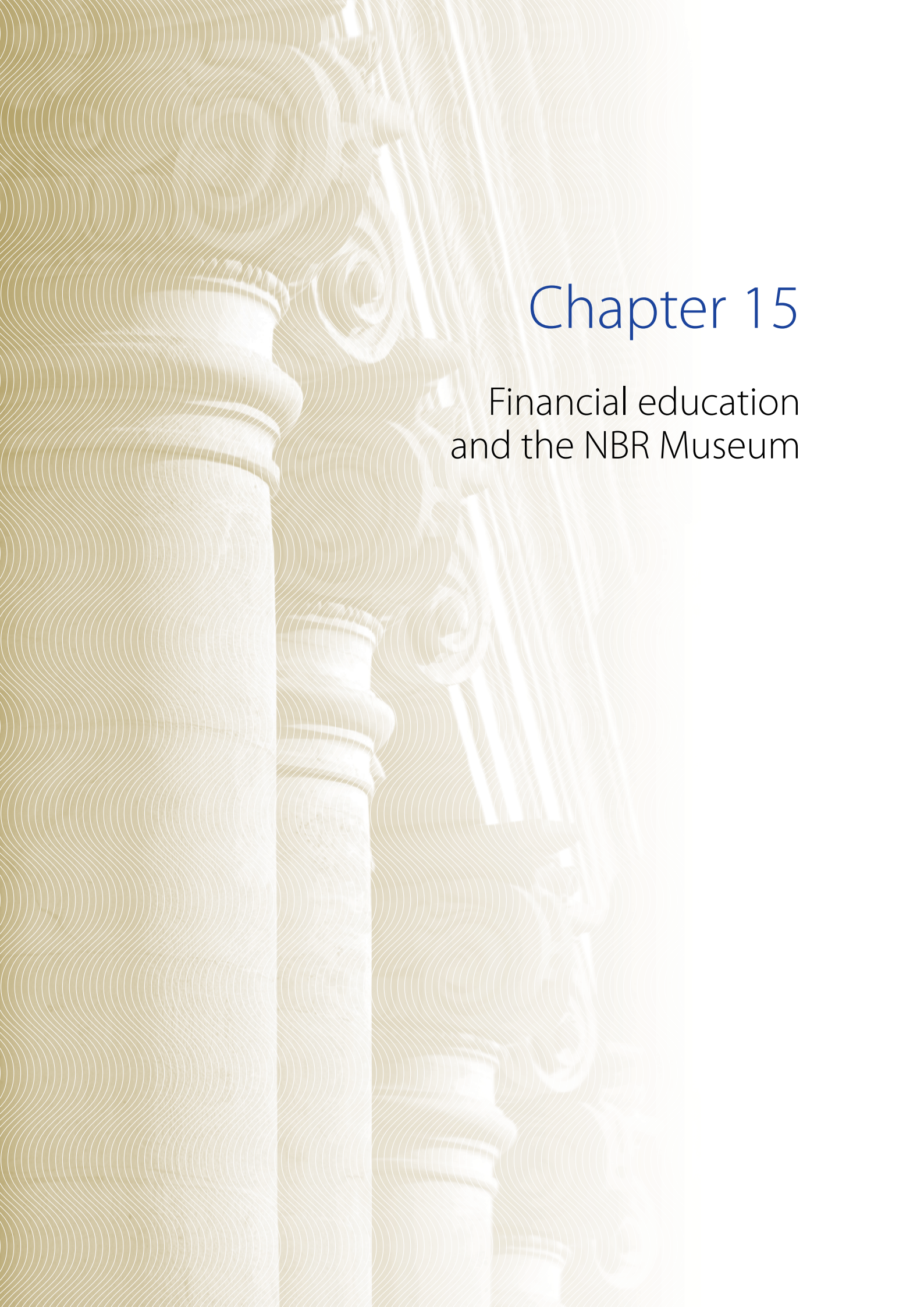
Date	Event
19 January	Press conference presenting the <i>Financial Stability Report</i>
25 January	Discussion on the papers "Stabilitate financiară. Lucrări selectate" and "Financial stability. Selected works" – 140th anniversary series
15 February 12 May 9 August 10 November	Press conferences presenting the <i>Inflation Report</i>
2 February 23 February 30 March 28 April 25 May 14 July 11 August 9 November 23 November	<i>Bucharest Economic Analysis and Research Seminar</i>
23 February	Discussion on the paper "Blind spots in the spotlight – National Bank of Romania's answers to the financial crisis aftershocks from the perspective of central bankers, the public and the media"
2 March	Discussion on the papers "Economie – lucrări selectate" and "Economy – selected works" – 140th anniversary series
22 March – Argeş 24-28 April – Brăila 15-19 May – Cluj 12-16 June – Bacău 26 September – Timiş 12 October – Buzău 23-27 October – Gorj 13-17 November – Suceava	Seminar within the project "BNR – EconomicHub" at the NBR's branches and agencies
25 March 22 April 11-12 May	"Eugeniu Carada" national banking and financial education competition
31 March	Legal Colloquia of the NBR: <i>Changes in the bank-customer relationship. Evolutions, mutations, predictions</i> , held at the NBR's Timiş Regional Branch
6 April	Debate: <i>Bitcoin versus central bank digital currency: the most important economic decision nations have ever faced</i>
25 April	Annual NBR-BUES conference, second edition: <i>Navigating through Overlapping Crises</i>
3 May	International conference: <i>Romania in the OECD: towards the Club of International Economic Good Practices</i>
4-5 May	The annual "Cristian Popișteanu" Banking History and Civilisation Symposium, 31st edition – <i>Architectural heritage of the National Bank of Romania</i>
15 May	Conference: <i>The Bank Resolution Framework. Current issues and prospects</i> , fourth edition
16-17 May – Bihor 18-20 October – Mureş 6-8 November and 21-23 November – Timiş	Education and public communication project "NBR – Pro Oeconomia" at the NBR's branches and agencies
24 May	The CEE Annual Payments Forum – second edition
30 May	CFA Conference: <i>Sustainable Investment in Romania</i>
8 June	International conference of the Association of Financial and Banking Analysts in Romania (AAFBR) – 15th edition
15 June	Conference: <i>Romanian economic model in the EU and beyond. Romania – 2040 horizon</i>
19-23 June 27-30 June 3-7 July 28 August – 1 September	Financial education urban camp

Table 14.2

Events focusing on monetary, banking and financial issues, organised by the National Bank of Romania in 2023

– continued –

Date	Event
28 June	Discussion on the paper “Evoluția stocului de aur al Băncii Naționale a României (1880-2020)” [The gold stock of the National Bank of Romania (1880-2020)] – 140th anniversary series
5 July	Financial education project under the <i>Let's Talk about Money and Banks</i> programme
25-30 July	Annual Scientific Conference of Romanian Academic Economists from Abroad – ERMAS 2023
29-31 August	Visit to Romania of a delegation of the Organisation for Economic Co-operation and Development (OECD) to assess Romania's alignment to OECD Codes of liberalisation of capital movements
14 September	Conference: <i>The role of central banks in contemporary economies beyond price stability</i> and book presentation: <i>Regimul juridic al BNR de la înființare</i> (The NBR's legal regime since establishment), published by Universul Juridic
20-23 September	Annual Seminar on Financial Stability – 14th edition, <i>Tackling new challenges on financial stability</i>
11 October	Conference presenting the project aimed at improving the financial education of Romanian entrepreneurs
23 October	Discussion on the paper “The role of central banks in contemporary economies: beyond price stability” – 140th anniversary series, author: Mugur Isărescu
23 October	<i>Econosofia</i> under the “BNR StudentHub” project
26 October	“Strategica” International Conference – under the aegis of “ACADEMICA BNR” – 11th edition
30 October	Conference: <i>A critical perspective on the role of education in financial inclusion and resilience in Romania</i>
1 November	Conference presenting the project aimed at improving the financial education of Romanian entrepreneurs – Antreprenariat de TOP
20 November	Conference: <i>The Treasure of the National Bank of Romania evacuated to Moscow – a 107-year old claim</i>



Chapter 15

Financial education
and the NBR Museum

1. The NBR Museum

In 2023, the NBR Museum received a record number of visitors, no fewer than 17,389 people taking part in 867 guided tours, in Romanian and English, which were organised throughout the whole period. The significant increase in the number of visitors was due to the five temporary exhibitions displayed during the year, which turned to account the NBR's cultural heritage, together with particularly important cultural assets in the heritage of partner cultural institutions.

Specifically, in March-April 2023, in partnership with the Constitutional Court of Romania and the National Archives of Romania, the NBR organised the exhibition entitled "100 years since the adoption of the Constitution of Greater Romania", which was an opportunity to present to the public Romania's constitutional past from *Regulamentul Organic* adopted in 1831 to the current *Constitution* of Romania. Copies of the *Constitutions* of 1866, 1923 and 1936 were showcased alongside the preceding documents of a constitutional nature: *Regulamentul Organic*, the *Paris Convention* (1858) and the *Statute expanding the Paris Convention* of 1864.

In July-September 2023, the NBR Museum invited its visitors to take an imaginary journey into the centre of the capital city by organising the exhibition *Architecture and banking and financial life in Bucharest at the end of the 19th century and in the first half of the 20th century*. Thus, the exhibition panels, scale models, maps and various exhibits (shares, cheques, safety boxes, etc.) allowed visitors to become acquainted not only with different aspects of banking life in Bucharest in the said period, but also with the manner in which the construction of the bank buildings influenced the life of the city in terms of urban planning and architecture. The exhibition was organised in partnership with the Museum of Bucharest and CEC Bank S.A.

The third exhibition, namely *The Two Sides of the Coin: Means of Exchange – Masterpieces of Art*, was a first in the history of the NBR Museum, as it was staged in collaboration with a foreign partner. No fewer than 100 of the oldest and most valuable coins in human history from the Alpha Bank Numismatic Collection were shown to visitors, who could thus enter the fascinating world of Ancient Greece. The exhibition also had an educational component, as children could interact with replicas of some primitive money; at the same time, a themed booklet was made available. There was also a small section dedicated to the visually-impaired for which special moulds of some of the coins exhibited were made, accompanied by descriptions transcribed in the Braille alphabet.

In parallel with the above-mentioned exhibition, guests could also visit the section entitled "Money in the Greek cities of Histria, Tomis and Callatis. Images and archaeological context". Envisaged as part of the exhibition co-hosted with the Alpha

Bank Numismatic Collection, this temporary exhibition added to the solely numismatic discourse various artefacts (ceramic vessels, figurines, inscriptions, jewellery, etc.) to provide insight into life in the Greek cities on the Black Sea coast. The artefacts on display were part of the collections of the National History and Archaeology Museum of Constanța and the “Vasile Pârvan” Institute of Archaeology.

Opened on the occasion of putting into circulation, for numismatic purposes, the commemorative coin dedicated to this prestigious, one-of-a-kind museum in the national cultural landscape, the exhibition *The “King Ferdinand I” National Military Museum – 100 years of military history* (December 2023 – May 2024) was designed as a journey into the great moments of Romanians’ history between 1821 and 1847, as well as an homage to some of the historical figures that took part in creating them. Specifically, the public viewed various exhibits related to the Revolutions of 1821 and 1848, the War of Independence and World War I, the Great Union, Romania’s royal family, Alexandru Ioan Cuza, etc.

To carry on the efforts aimed at enhancing the transparency of the NBR’s activity and opening up the institution to the general public, in order to increase the level of understanding of the central bank’s functions and tasks, the third edition of the Open Doors Days was organised in April. Thus, the central bank welcomed 1,620 guests in two days. At the same time, to enhance visibility at territorial level and to turn to account the NBR’s cultural heritage, throughout 2023, the temporary travelling exhibits *European Union: Identity and Common Values* (April-December 2023) and *Zoomoney – World Fauna on Notes and Coins* were hosted at the Timiș and Constanța regional branches respectively (October 2022 – September 2023) and at the Buzău agency (October 2023 – April 2024). Moreover, in the context of the organisation of the City Days, the micro-exhibition *Beginnings of the Romanian Currency* was on display at the Cluj regional branch in May 2023.

Concurrently with the exhibition activity, further efforts were made to expand and process collections, which encompassed 47,702 cultural items. Specifically, 2,424 cultural items (coins, postcards, technical heritage, etc.) were entered into the NBR museum’s patrimony during 2023. In order to create the photographic archive that includes objects under the NBR Museum’s management, 5,000 pieces were photographed, for which approximately 15,000 photographs were taken.

Furthermore, worksheets were further drawn up, recording all the relevant information about every artefact in the collection (inventory number, name, weight, description, photographs, etc.), while implementing new facilities in the record-keeping software and reorganising the storage of the pieces under management.

2. Financial education

In 2023, the National Bank of Romania's Financial Education Strategy (2022-2024) was further pursued, as adopted by the NBR Board in 2022, both at the head office and countrywide, and was implemented via programmes and projects, as well as specific events organised by the central bank.

The programme *Let's Talk about Money and Banks* continued in its already established format and using the same coordinates. Its content was mainly focused on organising debates and presentations for pupils from schools and high schools in urban and rural areas on relevant economic and financial issues, which were held by lecturers from the head office and from NBR branches and agencies. The project benefited from the collaboration with the school inspectorates, and throughout the year, the central bank concluded new partnerships with non-tertiary and tertiary educational institutions or extended those already in place.

The project *Financial Education Week* took place between 3 and 6 April 2023 under the programme *Let's Talk about Money and Banks*, where a series of educational activities were conducted with the participation of pupils and teachers in pre university education. The initiative took place in the context of celebrating Financial Education Day on 11 April, which occasioned financial education lessons taught by NBR lecturers to pupils in over 200 schools.

Moreover, as of 6 April 2023, the National Bank of Romania is present on the online platform *Joblandia* (<https://www.joblandia.ro>). This aims to facilitate high schoolers' access to information or documentation visits to companies entered in the programme, to offer teenagers a practical perspective on organisations and existing and future jobs, thus supporting them in choosing a career in the most informed way possible.

The first edition of the "Eugeniu Carada" national banking and financial education competition took place between 9 March and 12 May 2023, and was intended for eleventh grade pupils and organised in partnership with the Bank Deposit Guarantee Fund (BDGF) and with the support of the Ministry of Education. Starting with the 2022-2023 school year, the competition was included by the said Ministry in the List of national competitions by school and sport subjects and educational projects in which Romanian pupils take part, in the section "National competitions without funding". The aim of this project is to improve the understanding of economic notions and phenomena (e.g., money market, forex market, European Union – economic integration mechanisms), to prepare high school students to become consumers of financial and banking products and services, as well as to enhance awareness of their rights and obligations in order to manage their own finances responsibly.

Under the aegis of the *NBR – StudentHub* programme, in 2023, NBR lecturers delivered presentations (both in person and online) for economics and non-economics students in several universities in Bucharest and across the country. The interactions in the form of seminars and debates focused on providing clear and accurate information on the functions and role of the National Bank of Romania or on economic concepts that

have an impact on daily life (e.g., monetary policy, inflation, exchange rate, banking products and services, and so on).

The project aimed at journalism students continued in 2023 at the Babeş-Bolyai University in Cluj-Napoca and was extended to the University of Piteşti.

The *Bucharest Summer University* organised by the Bucharest University of Economic Studies took place on 22 August 2023 at the NBR's head office. The event was attended by 70 participants (students and teaching staff) from the Faculty of Finance and Banking with the Bucharest University of Economic Studies and from other economic faculties from abroad, and NBR lecturers debated the topic "Corporate Sustainability Reporting: Challenges & Opportunities".

The *Academica BNR* programme took place in October 2023, when the 11th edition of the *Strategica* international conference was organised in partnership with the National University of Political Studies and Public Administration, entitled "Managing Business Transformations during Uncertain Times". The event gathered almost 100 guests, representatives of academia from the country and abroad, of the financial and banking community, of higher education, NBR Board members, as well as central bank experts.

In 2023, under the *NBR – EconomicHub* programme, approximately 250 representatives of local business communities took part in events organised at the NBR's branches and agencies in Piteşti, Brăila, Cluj-Napoca, Bacău, Timişoara and Târgu Jiu. The topics discussed generally referred to issues related to the Romanian economy's structural imbalances and the solutions to correct them, inflation, recent developments in non-cash payment instruments, open-banking and payment technology advances, and means of financing SMEs.

The professional training programme intended for teachers in pre-university education, *Economic and financial education for teachers*, organised by the National Bank of Romania together with the Romanian Banking Association and the Ministry of Education, with the help of the Romanian Banking Institute, prepared groups of specialised trainers (teaching staff) throughout 2023 as well. The aim of this programme is to disseminate the information received in educational institutions, during the lessons of Economic and Financial Education, a subject that has been part of the school curriculum for eighth graders since the 2020-2021 school year.

Antreprenariat de TOP is the NBR's most recent project, which intends to increase firms' financial literacy by developing financial knowledge, improving companies' financial behaviour and financial inclusion, encouraging a broader use of financial products and services, and improving the digitalisation of financial and business activities. This initiative was launched following NCMO Recommendation No. R/3/2022 on the sustainable increase in financial intermediation and aims to support the NBR's efforts to help achieve Romania's strategic objective of joining the OECD, which implies strengthening entrepreneurs' financial education.

The NBR coordinates this programme at national level, in partnership with the Romanian Banking Association, the Financial Services Association – ALB Romania,

the Bucharest University of Economic Studies, the “Babeş-Bolyai” University in Cluj-Napoca, the West University of Timișoara, the “Alexandru Ioan Cuza” University in Iași, the “Lucian Blaga” University in Sibiu, the National University of Political Studies and Public Administration, the Romanian Fintech Association, the Bucharest Stock Exchange and the Romanian Banking Institute. In 2023, two events were organised to launch and present the main aspects of the project; the first took place at the NBR’s head office on 11 October, whereas the second was hosted by “Alexandru Ioan Cuza” University in Iași on 1 November.

Pro Oeconomia is another project launched by the NBR in May 2023, whose target audiences are representatives of local authorities, academia, the student community, teaching staff, the local business environment, as well as the general public interested in developing skills and knowledge about the financial and banking sector. Its general objective is to enhance the understanding of some fundamental economic notions and phenomena, including the issues relating to the central bank’s role and functions, and the implications of its decisions on the domestic economy, as well as to conveying messages relevant for the NBR to the general public or target groups. Three events were held in Oradea, Târgu Mureș, and Timișoara in 2023, where presentations were held by NBR Board members and representatives of the management of certain specialised departments of the NBR, with the logistical support of the representatives of the NBR’s territorial units.

Financial education urban camp

The NBR, together with the Financial Supervisory Authority, the Ministry of Finance and the RBA, organised in June-August 2023 the fifth edition of the *Financial education urban camp* targeting sixth- and seventh-grade pupils. The 2023 programme comprised 16 sessions, each spanning one week, attended by pupils in Bucharest, Pitești, Constanța, Târgu Jiu, Buzău, Baia Mare, Oradea, Cluj-Napoca, Brașov, Timișoara, Craiova, Suceava, Iași and Târgu Mureș. At these events, experts from the NBR, FSA, MF, RBA, and BDGF presented and explained financial notions and concepts. Each group of pupils received useful information to develop sound habits about money management and to be able to take correct and informed decisions to improve their financial situation.

Between 28 August and 1 September, for the second year in a row, a session for disadvantaged children was organised. This took place at the NBR’s Professional Training and Social Activity Centre in Sinaia, where financial knowledge and information were assimilated optimally in a pleasant atmosphere.

The partnership concluded between the National Bank of Romania and Compania Națională Poșta Română S.A.

In January 2023, the National Bank of Romania and Compania Națională Poșta Română S.A. signed a partnership agreement aimed at developing financial education projects targeting the company’s employees over a one-year period. Under the agreement, in May 2023, the NBR’s head office hosted a financial education pilot-programme attended by 59 staff members of Compania Națională Poșta Română S.A.

The partnership concluded between the National Bank of Romania and the Romanian Order of Architects

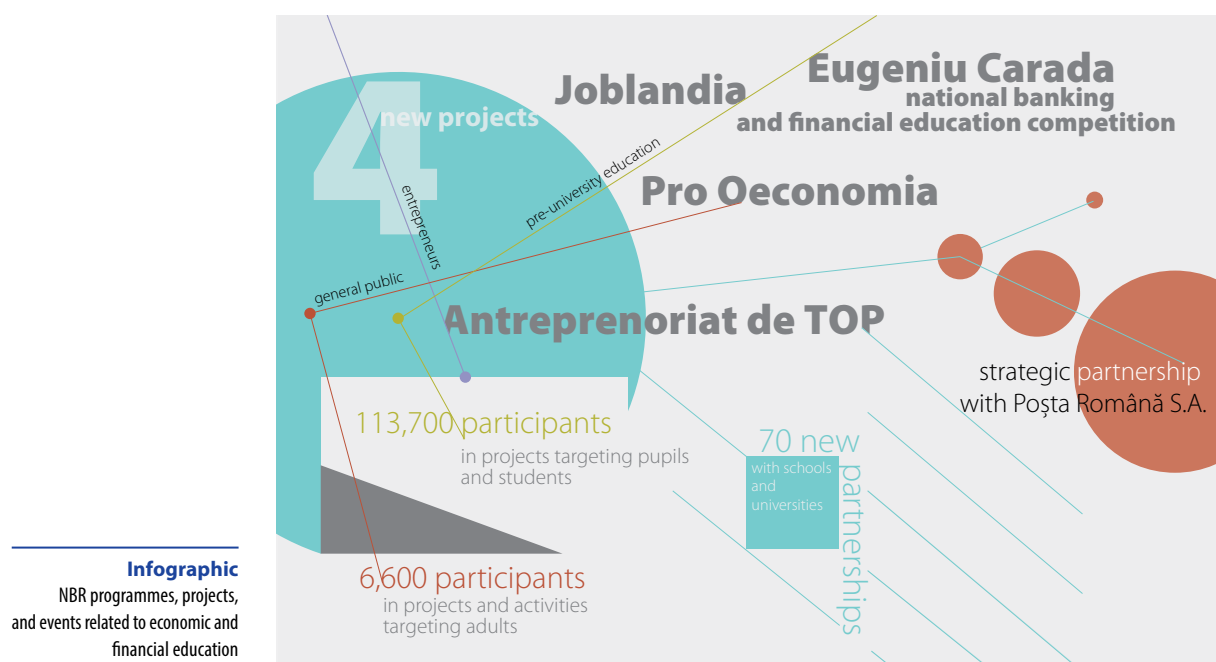
Following the interest shown by the Romanian Order of Architects (OAR) to develop a collaboration relationship with the central bank under a multiannual project, a partnership agreement between the NBR and OAR was signed in 2022. Based on this agreement, during 2023, several exploratory discussions were held in order to find ways to achieve their common objectives as regards the exchange of information and knowledge. Thus, on 13 December 2023, the conference entitled *From the Quality of Lending to the Quality of Dwelling* was organised, bringing together architects, relevant entrepreneurs, representatives of the financial and banking sector, and NBR experts. The conference was very well received, creating the need to continue and enhance dialogue on this topic.

3. International activity

The Financial Education and Museum Department, with the support of specialised departments, participated in international activities that answered the need to adapt educational processes to the global trends of increasing interdependencies between institutions, systems, financial instruments. Specifically, attending meetings, conferences and other international events allowed NBR representatives to gain a better understanding of international developments with an impact on the financial behaviours of various target groups in Romania. This led to a better calibration of educational activities to respond to the recipients' concrete needs.

The main international developments focused on cooperation with the OECD via:

- Cooperation with INFE (International Network for Financial Education) – OECD continued on the already established coordinates, as NBR representatives participated in annual meetings and some debates within the network. Amid stepped-up efforts for Romania to join the OECD, both cooperation within the INFE and participation in working groups gained new implications, reflected in the financial education concerns.
- Department representatives took part in the *Working Party on Consumer Protection and Information (Consumer Credits)* at the OECD's headquarters in Paris, on which occasion, aside from discussing relevant issues, contacts were made for the OECD's assessment missions to take place in Bucharest in 2024.
- In December 2023, OECD representatives carried out an assessment mission in Bucharest on the topic of financial services consumer protection. The first day of the meeting was hosted by the NBR and was dedicated to financial education, namely the stage of mapping out the National Financial Education Strategy and financial education projects implemented in Romania. Following the Bucharest visit, an assessment report on Romania's alignment to OECD principles on financial education was prepared, which OECD members discussed in March 2024.



4. The “NBR Library” collection

The “Monetary, Economic and Financial Library” collection, viewed as the precursor of the current collection, was initiated by Governor Mitiță Constantinescu, who was at the helm of Romania’s central bank between 1935 and 1940.

In 2013, a new series of the collection was launched, in a modern graphic format, by republishing the extensive monograph entitled *Istoricul Băncii Naționale a României (1880-1924)* [The History of the National Bank of Romania (1880-1924)] by Victor Slăvescu. This series also included landmark works of distinguished Romanian economists (Virgil N. Madgearu, Ștefan I. Dumitrescu) and Romanian translations of seminal works authored by renowned foreign economists (Ludwig von Mises, János Kornai).

The year 2020, when the National Bank of Romania celebrated 140 years since its establishment, provided the opportunity for releasing an anniversary series of this collection dedicated to the event. In these anniversary volumes, some of the best research papers published over the last three decades by representatives of the NBR were selected and re-edited. Specifically, by spring 2024, ten volumes (six in Romanian and four in English) were printed. The first two volumes, entitled *Băncile centrale și calibrarea politicii monetare* and *Central Banks and Monetary Policy Calibration*, contain works authored by Mugur Isărescu, the NBR Governor, while the other six publications include a selection of articles published by other central bank authors, grouped by three main themes: monetary policy, financial stability, and economics. To these added the volume entitled *Evoluția stocului de aur al Băncii Naționale a României (1880-2020)* [The Gold Stock of the National Bank of Romania (1880-2020)], penned by authors from the central bank under the coordination of the NBR Governor, and the final volume of the anniversary series,

entitled *Rolul băncilor centrale în economiile contemporane: dincolo de stabilitatea prețurilor*, prepared by Mugur Isărescu, the NBR Governor.

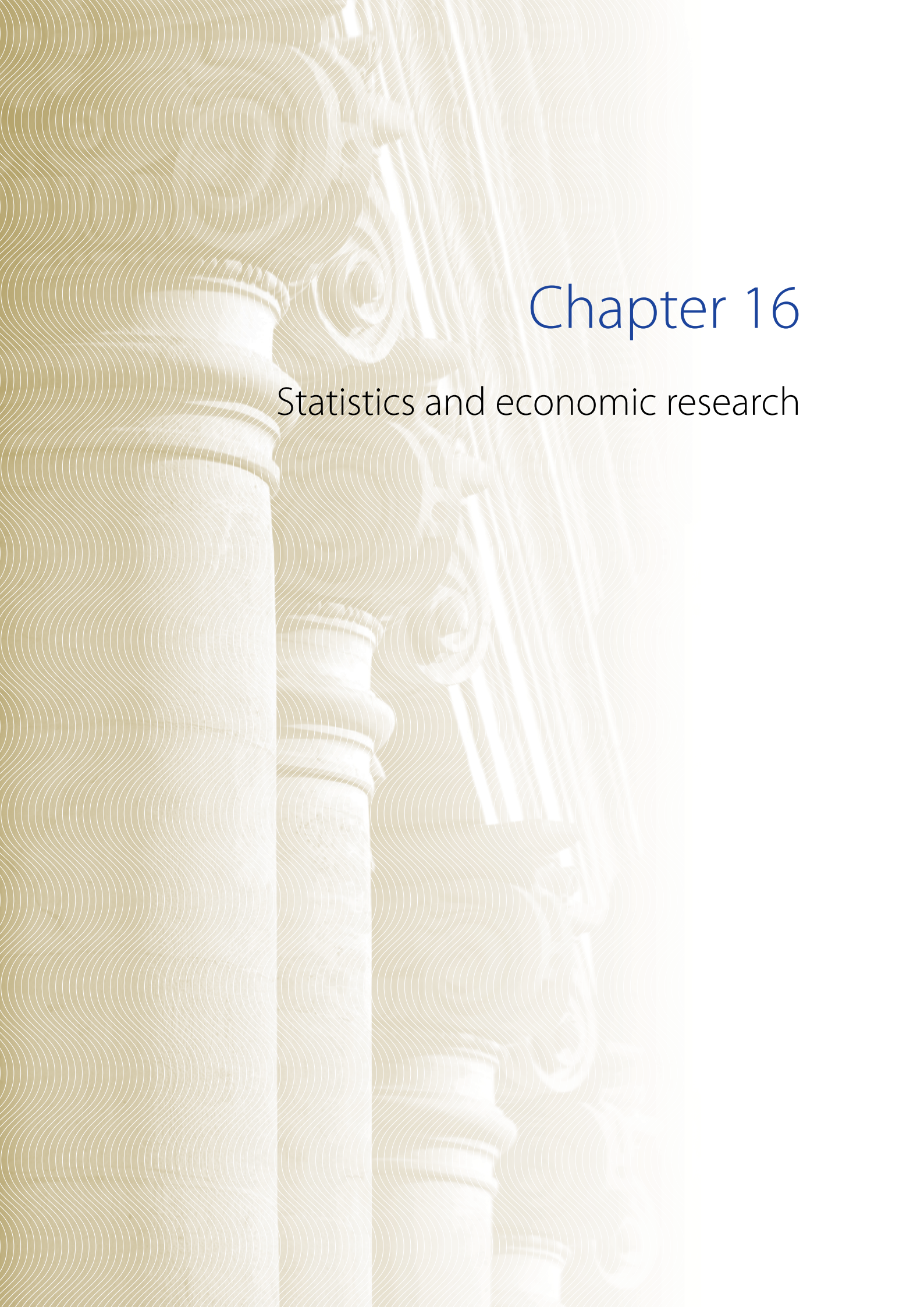
Launch events were held for all the books published in the 2022-2024 period, allowing for public debates in which representatives of the banking sector and academia took part. A selection of these events is available on the NBR's YouTube channel which, besides the volumes themselves, is a welcome educational resource for students, analysts or the public at large.

To these added, in the "NBR Library" collection, the volume by John Maynard Keynes comprising the Romanian translations of *Indian Currency and Finance* (1913), *A Tract on Monetary Reform* (1923) and *A Treatise on Money* (1930).

Table 15.1
Volumes published in
the new series of
the "NBR Library" collection –
140th anniversary series

No.	Title
1	<i>Stabilitate financiară. Lucrări selectate</i>
2	<i>Financial stability. Selected works</i>
3	<i>Economie. Lucrări selectate</i>
4	<i>Economy. Selected works</i>
5	<i>Rolul băncilor centrale în economiile contemporane: dincolo de stabilitatea prețurilor</i> , Mugur Isărescu
6	<i>Evoluția stocului de aur al Băncii Naționale a României (1880-2020) – 140th anniversary series</i>





Chapter 16

Statistics and economic research

1. Statistical activity

The key statistical activities of the NBR include the collection, production and dissemination of a broad range of statistical data, such as national financial accounts, monetary and financial statistics, external sector statistics, securities statistics and credit and payment risk statistics, necessary as inputs substantiating the macroeconomic policy decisions and supportive of the central bank's analysis and research work.

As for the national financial accounts statistics, the activities carried out in the course of 2023 concerned: (i) sending on a regular basis additional data series in line with the ECB's medium-term strategy in the field of quarterly financial accounts, (ii) starting the project to extend and update the Data Warehouse – Business Intelligence IT app in order to adapt in a unitary environment the new reporting requirements of the ECB, Eurostat and the OECD, combined with the update of the related methodological frameworks²²², and (iii) participating in the OECD's fact-finding mission of June 2023 in the statistics area and starting preparations needed to implement the recommendations made by its representatives.

As part of the OECD accession process, Romania's alignment with two statistical recommendations is assessed, namely: Recommendation of the Council on Good Statistical Practice (OECD/LEGAL/0417) and Recommendation of the Council on the OECD Benchmark Definition of Foreign Direct Investment (OECD/LEGAL/0363).

With regard to the former Recommendation, the NBR, together with the NIS, participated in the OECD mission that took place on 6-8 June 2023 at the NIS head office. At the closing session, the NIS-NBR Joint Action Plan recommended by OECD officials was presented. These actions are needed to strengthen the statistics quality management system and extend it to the entire national statistical system, as well as to identify new statistical data sources. Their implementation deadlines are set for the period 2023-2024.

As part of the assessment of Romania's alignment with the Recommendation of the Council on the OECD Benchmark Definition of Foreign Direct Investment, the NBR received the visit of OECD officials on 9 June 2023, with the aim of analysing the methodologies used in the NBR's compilation of foreign direct investment statistics. Moreover, on 5 October 2023, NBR representatives held at the OECD headquarters the country presentation at the meeting of the Working Group on International

²²² E.g., the updated ESA 2010 – Transmission programme of data (Annex B of the European system of national and regional accounts in the European Union as provided for in Regulation (EU) 2023/734 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) No 549/2013 on the European system of national and regional accounts in the European Union and repealing 11 legal acts in the field of national accounts).

Investment Statistics (WGIIIS). Following these procedural steps, the NBR received the WGIIIS opinion, which commended how Romania had aligned with the provisions of Recommendation [OECD/LEGAL/0363].

During 2023, NBR representatives participated in the consultations initiated by the International Monetary Fund, the United Nations and the OECD. They were part of the process that started in 2021 to update the international statistical standards in force (*System of National Accounts*, 2008; *Balance of Payments and International Investment Position Manual*, 6th edition; and the *OECD Benchmark Definition of Foreign Direct Investment*, 4th edition).

In the field of government finance statistics, NBR experts, together with those of the National Institute of Statistics and the Ministry of Finance, took part in the Eurostat's EDP standard dialogue visit during 11-13 July 2023, as well as in the performance of the ensuing tasks. The NBR also hosted the training course entitled "Government Finance Statistics and EDP" organised by Eurostat and run in two modules during 2023. The event brought together participants from national central banks and statistics boards in the European Union and other European countries.

In the field of external sector statistics, work focused on four main areas: (i) the harmonised update of the methodological framework for external sector statistics and national accounts by taking part in consultations initiated by the international institutions coordinating this process (IMF, ECB and Eurostat), (ii) the preparation of activities specific to this statistical field in view of Romania's accession to the OECD, through collaboration with OECD experts in the assessment of statistics production, as well as via participation, with observer status, in the meetings of the Working Party on Trade in Goods and Services Statistics (WPTGS), (iii) the analysis of the existing data series in light of the scheduled benchmark revision in the EU Member States for 2024, and (iv) the preparation of data series on international trade in services, broken down by the units corresponding to the types of enterprises and the manner in which data are provided, with a view to publishing the statistical results in 2024, pursuant to Regulation (EU) 2019/2152²²³.

Furthermore, in 2023, the central bank ensured smooth functioning of the following IT systems:

- SIRBNR, the IT system for reporting to the National Bank of Romania, whereby credit institutions submit 36 statistical, financial and prudential reports;
- RAPDIR, the direct reporting system, whereby entities from all institutional sectors submit 16 statistical and prudential reports;
- the Data Warehouse – Business Intelligence (DW-BI) system, the NBR's sole data repository that integrates aggregated data and information from internal and external sources, thus providing the NBR users with an adequate analytical and reporting tool;

²²³ Regulation (EU) 2019/2152 of the European Parliament and of the Council of 27 November 2019 on European business statistics, repealing 10 legal acts in the field of business statistics.

- Central Credit Register (CCR), whereby information on credit risk and card frauds is managed; and
- Payment Incidents Register (PIR), whereby information on payment incidents related to cheques, bills of exchange, promissory notes is managed.

The activities of the CCR and PIR are set out in Chapter 4, Section 3 – Instruments supportive of prudential supervision and financial stability.

In 2023, the same as in prior years, the NBR conducted four direct surveys among resident companies; the samples, representative for the local economy, included in each case more than 6,000 entities, mostly non-financial corporations. Three of the surveys, with quarterly frequency, were aimed at obtaining information necessary to compile Romania's balance of payments and international investment position, whereas the fourth, with half-yearly frequency, gathered information necessary for financial stability purposes.

The four direct surveys conducted by the NBR are as follows:

- survey on foreign direct investment;
- survey on international trade in services;
- survey on financial information in relation to non-residents other than that on foreign direct investment; and
- survey on the access to finance of non-financial corporations in Romania.

2. Economic research

Economic research activity within the National Bank of Romania focused, in 2023 as well, similarly to previous years, on applied topics, its main purpose being to substantiate the decision-making process.

2.1. Macroeconomic modelling

The international macroeconomic context continued to be surrounded by elevated uncertainty, with geopolitical tensions being compounded during 2023 by those in the Middle East. The analysis of data on international trade in goods and services reveals direct effects of low magnitude arising from a possible worsening of trade relations with countries in this geographical area. In 2022, Romania's openness to the Middle East was lower than 6 percent of total imports and exports. Conversely, indirect effects are assessed to be potentially more far-reaching for both Romania and a broader group of countries worldwide. Hence, the escalation of tensions could significantly disrupt the functioning of energy markets, leading to renewed price spikes, while exerting contractionary pressures on economic activity. These effects have been illustrated in scenarios of alternative developments in key macroeconomic variables. At the same time, given the multiple recent shocks that hit these markets, the econometric toolkit

used to look at the impact of energy price shocks on the domestic macroeconomic framework was added a small-sized structural model, in which the role of energy in using durable goods, as well as in enhancing capital across the manufacturing sector was highlighted.

The persistent adverse developments associated with the Russo-Ukrainian war were still equally relevant throughout the past year. With a view to cutting the EU Member States' dependence on energy imports from Russia, the European authorities decided to introduce a new chapter, REPowerEU, in the National Recovery and Resilience Plans pertaining to Next Generation EU (NGEU) programme. In the case of Romania, the updated version of this Plan was approved in December 2023. In this context, the NGEU's impact assessment framework was tailored so as to capture the new design of the Plan. Moreover, several updates were made to the technical working assumptions, in line with the status – already at the mid-point of the programming period – of the NGEU implementation, which proved to be rather slower-than-expected in most recipient countries across Europe.

In view of this broad spectrum of adverse shocks, a particular interest in formulating forecasts is attributed to the persistent issues on the quality and volatility of official statistics, national accounts data in particular. Specifically, another line of research sought to increase the accuracy of projections by highlighting the implications of data revisions in near-term forecasting for economic activity. The RA-DFM (Release Augmented – Dynamic Factor Model) was adapted and applied to Romania's economy in order to systematically account for the information related to the successive NIS data releases. The model generally provides higher predictive capability for gross fixed capital formation, exports and imports, both compared to a first-order univariate vector autoregressive (VAR) model and a standard DFM model. In the case of GDP and consumption, preliminary results were mixed, making it more difficult to identify the implications of using data revisions to enhance the predictive performance of the RA-DFM. Nevertheless, similarly to most econometric techniques, increased intricacy and weaker accuracy were observed in predicting how economic activity would fare in the aftermath of the pandemic crisis outbreak, also amid heightening statistical volatility. In this environment, the advantage of the RA-DFM lies with the interpretation of the results by monitoring the contribution of new inputs (particularly revisions of historical series) to the forecasts, making the latter more useful in the NBR's analyses.

At the same time, during the recent crises, the occurrence of exceptionally strong shocks caused multiple problems related to the accuracy and stability of relationships between the variables estimated via standard linear models. In this context, in making short-term forecasts for the variables shaping economic activity, a key role is assigned to the magnitude of uncertainty intervals associated with the estimates in order to interpret the results in a transparent and flexible manner. Thus, in the course of 2023, experts explored the possibility of expanding the econometric toolkit for short-term forecasting with models capturing significant shifts in terms of data volatility observed during episodes of crisis. Specifically, in focus were Bayesian vector autoregressive (BVAR) models, whose specifications admit errors with volatility that may see persistent and/or transitory changes (the latter typically of a higher magnitude). Preliminary results of accuracy exercises revealed that this class of models outperformed the standard BVAR ones, especially during periods of multiple overlapping shocks.

The analysis of the effects of climate change is an increasingly topical issue within central banks, amid growing evidence on how global warming can affect price stability, hamper monetary policy transmission and fuel uncertainty about macroeconomic projections. Thus, the reported period further saw a more in-depth exploration of the class of Integrated Assessment Models (IAMs) used for analysing the economic effects of climate change. In this vein, a regional IAM model was employed to develop several scenarios for the long-term developments in key macroeconomic variables, *inter alia* a GDP indicator “net of” climate damages and abatement costs. The approach highlighted that the results were influenced decisively by the type of Shared Socioeconomic Pathway (SSP) used, which reflects the overall effort for the transition to an economy with the least amount of emissions (green economy). Given the build-up of evidence on the need to urgently boost the effort to mitigate climate effects in order to avoid potentially disastrous consequences on society in general and on economic activity in particular, the second approach consisted in the analysis, via model simulations, of the macroeconomic effects stemming from the implementation, by competent authorities, of various fiscal policy configurations aimed at combating emissions. Based on a specialised and customised toolkit, the approach substantiated several plausible scenarios on climate policy developments in Romania over the next 10 years, with a view to projecting their impact on the paths of selected macroeconomic variables such as economic growth or energy inflation.

Over the past year, the slow-paced fiscal consolidation is worth noting as well. Maintaining an elevated budget deficit is assessed to have implications also for the external imbalance. In this vein, a series of empirical evidence based on a regional analysis using panel econometric methods suggests that, over a two-year horizon, about half of the increase in the structural budget deficit (after removing from the headline budget deficit the impact from the cyclical position of the economy) is reflected in the wider current account deficit. For further details, see Box 3.

The fiscal policy conduct weighs heavily on developments in the private sector. Under simulated alternative scenarios, the effects of a presumed (illustrative) set of fiscal measures were quantified both via the transmission mechanisms specific to the Model for Analysis and Medium-Term Forecasting and by using an alternative system of fiscal multipliers, considering their variance across the main expenditure and revenue items. Another line of research sought to quantify the demonstration effects of public sector wage hikes on those in the private sector. In-house assessments confirmed a significant direct relationship between the two (a transmission coefficient over one year of public sector wage increases in the dynamics of private sector wages slightly above 40 percent). Empirical models also illustrated a mild increase in this phenomenon of late, marked by successive public sector pay rises.

Another research work envisaged a new perspective on the transmission mechanisms of exchange rate changes into the price changes of imported goods by using detailed microeconomic data at company and transaction level. Empirical evidence points to high sectoral heterogeneities, with the retail sector assessed as having associated a higher magnitude of exchange rate pass-through than other sectors. At aggregate level, for non-financial corporations, the transmission coefficient over one year is estimated to near 0.7, in line with the results of other econometric methods (models based on macroeconomic variables).

2.2. Financial stability

In 2023, the main research papers in the field of financial stability were as follows:

- (a) In the context of initiating the project to improve the financial education of entrepreneurs – “Antreprenoriat de TOP” (TOP Entrepreneurship) – an analysis was made about the standard profile and characteristics of successful companies in Romania (*Imaginea standard și tiparul companiilor de succes din România*), aimed to support firms by highlighting a series of good practices that were effective in the domestic economy. The paper puts forward a methodology to identify successful companies, based on a number of criteria for the sound functioning of firms, *inter alia* by underlining the importance of financial education and the proper training of the executive management to firm success. The non-financial corporations identified in line with this methodology have distinct features, such as the larger share of equity and of bank/NBFI loans in liabilities and owners' equity, as well as financial soundness indicators that are maintained at high levels and within the recommended limits. Moreover, the level of financial education of firms' managers appears to be a key factor for the path to success of non-financial corporations, these firms recording higher scores in what concerns the financial education components of the enterprise. The econometric analysis using logistic regression identified the main characteristics of successful companies, irrespective of the business sector, namely the educational background of firms' executive management, the level of financial education (financial literacy and digitalisation), as well as the level of capitalisation and the financing pattern of firms. In addition, other qualitative factors, such as the firms' capacity to survive over a long period and adapt to inherent changes over the economic and financial cycles, are very important for success.
- (b) The analysis of central bank digital currencies (CBDC) was made in the Special feature of the June 2023 *Financial Stability Report*, which listed the research in the field and the rationale, risks and benefits of issuing a central bank digital currency.

Also in focus was determining the maximum potential CBDC uptake by individuals in Romania, as compared to other countries in the region, as well as the potential impact of the withdrawal of some household deposits on the banking sector, after the implementation of a retail CBDC. The analysis takes into account various channels for the adjustment of banks' balance sheets, deposit withdrawals being covered by: (i) using currency and excess reserves with the central bank, (ii) reducing lending to the real sector, (iii) resorting to wholesale funding and (iv) selling government securities and listed shares. Furthermore, these scenarios and adjustment channels were used to determine the caps on CBDC holdings in Romania that could negatively impact the local banking sector.

2.3. Economic papers and analyses

The relatively synchronous shocks that hit the agri-food and energy commodity markets in 2022 led to broad-based hikes in processed food prices. Hence, motivated by the need to quantify the contribution of these shocks to monthly price changes, but also by the shaping of certain prospects for the decoupling of prices for the two

categories of directly affected goods, the topic was addressed in the Box entitled “Processed food inflation: an analysis of recent developments” published in the February 2023 *Inflation Report*. The inflationary episode of 2022 appears to be explained to a similar and consistent extent by the two shocks, so that an easing of commodity markets should entail a robust disinflationary pace.

The after-effects of the commodity market turmoil were also examined in terms of price rigidity and the manner in which firms respond to various shocks. Using a web scraping database (prices of the main food categories in the consumer basket, which were collected on a daily basis), the Box entitled “Flexibility of food prices amid the supply shocks in 2022” published in the May 2023 *Inflation Report* analysed changes in price behaviour with the focus on three groups of products, i.e. edible oils, milk and dairy products, meat and meat products (accounting for a significant share in the CPI food basket). The results show that the reaction of the retail food sector to an upward shock on costs is relatively fast and consists of more frequent price hikes, without noticeable changes in their magnitude. At the same time, the enhanced flexibility of prices amid the 2022 turmoil was short-lived and the influence of nominal shocks on real variables did not change from this standpoint.

The role of imported inflation was the central feature of the Box entitled “Imported inflation – How important is it?” published in the August 2023 *Inflation Report*. The channels of interest for this analysis in terms of CPI dynamics are as follows: the domestic channel, the foreign channel and the substitution channel (between the two categories of goods). Imported goods showed a favourable price differential in the period under review (2018-2021) for the food and light industries, while for other groups of goods domestic prices were generally lower. At the same time, the propensity for imports shows an upward trend, albeit relatively less sloped, so that (domestic and external) direct influences prevail in terms of inflation rate and the substitution channel plays a less significant role. Furthermore, a counterfactual exercise showed that the change in consumption behaviour in an extreme manner, i.e. by completely removing either domestic or imported goods, would send inflation higher than in the current situation, where consumption is diversified.

2.4. Guidelines and objectives of the research activity in 2024

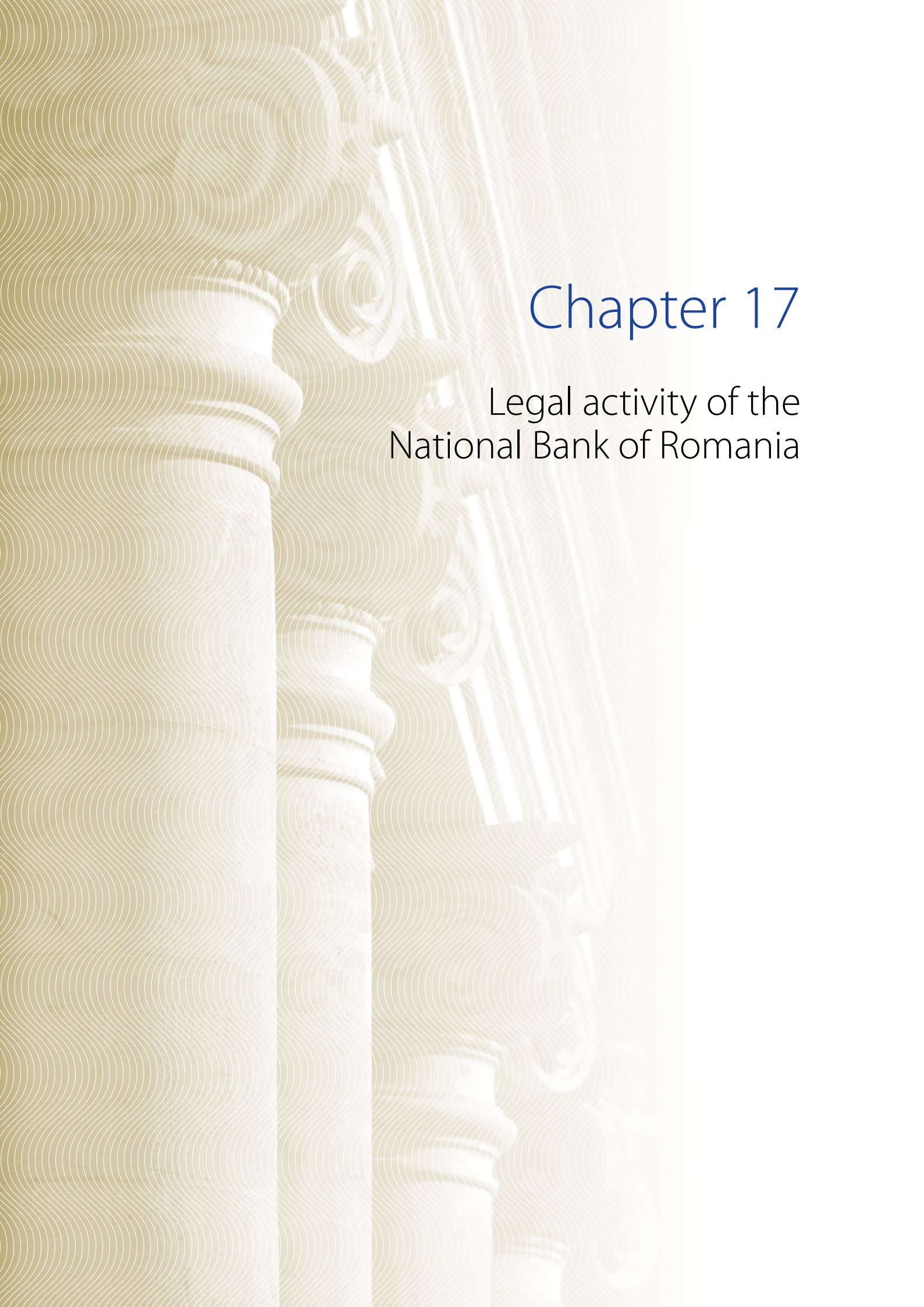
During 2024, the research projects envisage: (i) to enlarge the scope of the studies on the pass-through of exchange rate changes²²⁴ and oil price changes to the variance in different price indices, (ii) to quantify the persistent impact of labour market developments on the adjusted CORE2 inflation dynamics, (iii) to increase familiarity with various semi-parametric or non-parametric econometric methods, some of which have been introduced relatively recently in the literature and whose use is favoured by the increase in computational capacity, in order to investigate the possibility of using them to make short-term forecasts and assess macroeconomic uncertainty,

²²⁴ The aim is to check the robustness of evidence based on microeconomic variables by expanding the data sample, on the one hand, and to consider the assessment of the exchange rate pass-through coefficient conditional on the nature of macroeconomic shocks, on the other hand.

(iv) to refine the methodology for estimating the total factor productivity gap and thus the decomposition of the output gap based on the specification of the production function using a synthetic indicator of production capacity in the economy, and
(v) to devise a heat map highlighting the volatility of a wide range of high-frequency indicators correlated with the economic developments.

Against the background of the recent upward path of wages, a phenomenon that will be explored during 2024 concerns the sensitivity of inflation to wage growth. To this end, an econometric approach will be implemented by using disaggregated estimates. At the same time, labour market conditions, income developments and the inflationary trend will be explored by employing a multi-sectoral general equilibrium model.





Chapter 17

Legal activity of the
National Bank of Romania

The main objective of the NBR's legal function is to ensure that the provisions of primary and secondary legislation are correctly interpreted and applied at institutional level, with regard to the exercise of all the powers conferred upon the central bank by law, and that the technical approaches and solutions employed are legally substantiated and pose minimal legal risks.

In the course of 2023, as well as in January-February 2024, the Legal Department responded to the requests made by the NBR Board, the executive management and the other NBR organisational structures, while abiding by the high standards of quality and timeliness, by:

- approving or preparing opinions on draft legal acts regarding financial and banking matters, initiated by ministries and other authorities, or under debate in the Parliament of Romania, as well as on draft legal acts related to the secondary legislation;
- providing legal assistance, in all the NBR's areas of activity, either on request or on its own initiative in case of identification of legal risks;
- representing the NBR's interests in relation to judicial bodies, insolvency practitioners, court enforcement officers and notaries public.

During the period under review, the Legal Department examined, with a view to approving or formulating opinions:

- draft legal acts submitted for review to the NBR, which were adopted and published in *Monitorul Oficial al României*, Part I, specifically:
 - Government Ordinance No. 17/2023 amending and supplementing Law No. 207/2022 regulating some measures on the general framework applicable to the establishment and functioning of development banks in Romania (*Monitorul Oficial al României*, Part I, No. 85/31 January 2023);
 - Government Emergency Ordinance No. 7/2024 approving the "Farmer's credit" State aid scheme, in the context of the crisis caused by the Russia's aggression against Ukraine, and amending Article 12(1) of Law No. 218/2005 on stimulating the absorption of funds allocated to Romania for agriculture, rural development, fisheries and maritime affairs, managed by the Ministry of Agriculture and Rural Development, through financial instruments such as guarantees and loans, and to support national agricultural policy objectives (*Monitorul Oficial al României*, Part I, No. 118/9 February 2024);
 - Government Emergency Ordinance No. 15/2024 on credit servicers and credit purchasers, as well as amending and supplementing some legal acts on credit agreements for consumers (*Monitorul Oficial al României*, Part I, No. 188/7 March 2024);

- Law No. 65/2023 implementing Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), some provisions of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, as well as amending and supplementing some legal acts in the field of private pensions (*Monitorul Oficial al României*, Part I, No. 255/28 March 2024);
- Law No. 187/2023 amending and supplementing Government Emergency Ordinance No. 109/2011 on the corporate governance of public enterprises (*Monitorul Oficial al României*, Part I, No. 594/29 June 2023);
- Law No. 189/2023 approving Government Emergency Ordinance No. 30/2022 regulating some fiscal and budgetary measures (*Monitorul Oficial al României*, Part I, No. 596/29 June 2023);
- Law No. 222/2023 amending and supplementing Law No. 31/1990 on commercial companies and Law No. 265/2022 on the Trade Register, and amending and supplementing other legal acts affecting registration in the Trade Register, transposing Directive (EU) 2019/2121 of the European Parliament and of the Council of 27 November 2019 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions (*Monitorul Oficial al României*, Part I, No. 667/20 July 2023);
- Law No. 295/2023 approving Government Emergency Ordinance No. 18/2023 on the framework for deploying the financial and technical support granted by the banking and financial system in the process of authorising and implementing funds for the beneficiaries of programmes managed by the Ministry of Investment and European Projects (*Monitorul Oficial al României*, Part I, No. 973/26 October 2023);
- Law No. 296/2023 on some fiscal and budgetary measures to ensure Romania's long-term financial sustainability (*Monitorul Oficial al României*, Part I, No. 977/27 October 2023);
- Law No. 357/2023 approving Government Emergency Ordinance No. 79/2022 supplementing Government Emergency Ordinance No. 202/2008 on the enforcement of international sanctions (*Monitorul Oficial al României*, Part I, No. 1083/29 November 2023);
- Law No. 406/2023 amending and supplementing some legal acts to increase financial inclusion (*Monitorul Oficial al României*, Part I, No. 1144/19 December 2023);
- Law No. 6/2024 amending and supplementing Law No. 312/2015 on the recovery and resolution of credit institutions and investment firms, as well as on amending and supplementing some legal acts in the financial field (*Monitorul Oficial al României*, Part I, No. 12/8 January 2024);
- Law No. 145/2024 amending and supplementing Law No. 158/2020 amending, supplementing, and repealing some legal acts, as well as setting forth certain measures for implementing Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and

Regulations (EC) No 1060/2009 and (EU) No 648/2012 (*Monitorul Oficial al României*, Part I, No. 473/22 May 2024);

- Government Decision No. 432/2023 amending and supplementing Government Decision No. 1204/2022 on the establishment, organisation and functioning of the Banca de Investiții și Dezvoltare S.A. (*Monitorul Oficial al României*, Part I, No. 414/15 May 2023);
- Government Decision No. 924/2023 on the selection procedure, the remuneration of the executive president, executive vice-presidents and non-executive directors of the Board of Directors of Exim Banca Românească S.A. (*Monitorul Oficial al României*, Part I, No. 900/5 October 2023);
- draft laws and legislative proposals at different stages of the legislative procedure in the Parliament of Romania, namely:
 - Draft Law approving Government Ordinance No. 17/2023 amending and supplementing Law No. 207/2022 regulating some measures on the general framework applicable to the establishment and functioning of development banks in Romania (Chamber of Deputies PI-x No. 212/2023);
 - Draft Law on representative actions for the protection of the collective interests of consumers (Chamber of Deputies PI-x No. 269/2023);
 - Draft Law approving Government Emergency Ordinance No. 34/2023 on some fiscal and budgetary measures, postponing some deadlines, and amending and supplementing some legal acts (Chamber of Deputies PI-x No. 415/2023);
 - Draft Law laying down measures for the implementation of the “First Restored Monument” Programme (Chamber of Deputies PI-x No. 731/2023);
 - Legislative proposal establishing Banca pentru Dezvoltarea Agriculturii din România – Banca Agricolă S.A. (Chamber of Deputies PI-x No. 170/2023);
 - Legislative proposal on the implementation of the national programme regarding the support granted to individuals for increasing the energy efficiency of dwellings and producing green energy for self-consumption and the national grid (Chamber of Deputies PI-x No. 227/2023);
 - Legislative proposal amending and supplementing Law No. 361/2022 on the protection of whistleblowers in the public interest (Chamber of Deputies PI-x No. 297/2023);
 - Draft Law amending and supplementing Law No. 77/2016 on the discharge of debt obligations assumed through credit agreements (Chamber of Deputies PI-x No. 341/2023);
 - Legislative proposal supplementing Law No. 193/2000 on unfair terms in contracts concluded between sellers or suppliers and consumers (Chamber of Deputies PI-x No. 446/2023);
 - Legislative proposal amending and supplementing Government Emergency Ordinance No. 109/2011 on the corporate governance of public enterprises (Chamber of Deputies PI-x No. 467/2023);

- Legislative proposal amending Law No. 287/2009 on the Civil Code, recast, as subsequently amended and supplemented, and amending Law No. 134/2010 on the Civil Procedure Code, recast, as subsequently amended and supplemented (Chamber of Deputies PI-x No. 505/2023);
- Legislative proposal amending and supplementing Law No. 334/2006 on the financing of the activity of political parties and electoral campaigns (Chamber of Deputies PI-x No. 516/2023);
- Legislative proposal on capping public sector pay at the salary level of the President of Romania (Chamber of Deputies PI-x No. 536/2023);
- Legislative proposal amending Article 95 of Government Emergency Ordinance No. 50/2010 on credit agreements for consumers and Article 135(2) of Government Emergency Ordinance No. 52/2016 on credit agreements for consumers relating to immovable property, and amending Government Emergency Ordinance No. 50/2010 on credit agreements for consumers (Chamber of Deputies PI-x No. 723/2023);
- Legislative proposal on the implementation of the “Alexandru Pesamosca” Programme (Chamber of Deputies PI-x No. 792/2023);
- Legislative proposal on the implementation of the “Ion Ionescu de la Brad” Programme (Chamber of Deputies PI-x No. 793/2023);
- Legislative proposal amending and supplementing Article 15 of Government Emergency Ordinance No. 93/2012 on the establishment, organisation and operation of the Financial Supervisory Authority and amending Article 53 of Law No. 312/2004 on the Statute of the National Bank of Romania (adopted by the Romanian Senate L686/2023, registered at the Chamber of Deputies PI-x No. 21/2024);
- Legislative proposal amending Law No. 70/2015 on strengthening financial discipline relative to cash collections and payments and on amending and supplementing Government Emergency Ordinance No. 193/2002 on introducing modern payment systems (adopted by the Romanian Senate L735/2023, registered at the Chamber of Deputies PI-x No. 41/2024);
- Legislative proposal on ensuring the right to cash payment on the territory of Romania by repealing Law No. 70/2015 (adopted by the Romanian Senate L733/2023, registered at the Chamber of Deputies PI-x No. 53/2024);
- Legislative proposal amending and supplementing Law No. 514/2003 on the organisation and practice of the legal adviser profession (Romanian Senate B715/2023, withdrawn by the initiator);
- other draft legal acts sent to the NBR for consultation:
 - Draft Law accepting the amendment of the Articles of Agreement of the International Bank for Reconstruction and Development proposed by Resolution No. 696 of 10 July 2023, approved by the Board of Governors of the International Bank for Reconstruction and Development;
 - Draft Law on official statistics in Romania, as well as on amending and supplementing some legal acts;

- Draft Law on the resilience of critical entities, as well as amending and supplementing some legal acts;
- Draft Law amending Law No. 126/2018 on markets in financial instruments, amending Article 15(2) of Government Emergency Ordinance No. 32/2012 on the undertakings for collective investment in transferable securities and investment management companies, and amending and supplementing Law No. 297/2004 on the capital market, and amending and supplementing Law No. 74/2015 on alternative investment fund managers;
- Draft Order amending and supplementing the rules for implementing the “StudentInvest” and “FamilyStart” government credit programmes, as well as the model guarantee agreement approved by Order No. 2534/20809/2022 of the Minister of Finance and the Minister of Family, Youth and Equal Opportunities, as subsequently amended and supplemented;
- Draft Government Decision approving the procedure for the authorisation or registration of providers of exchange services between virtual currencies and fiat currencies and/or digital wallets, as well as the procedure for granting and withdrawing technical advice;
 - secondary regulations and draft legal acts related to the secondary legislation issued by the NBR or sent for consultation by other institutions:
- Regulation No. 1/2023 amending NBR Regulation No. 2/2020 on the security measures for operational and security risks and the reporting requirements for payment services (*Monitorul Oficial al României*, Part I, No. 166/27 February 2023);
- Regulation No. 2/2023 on the classification of loans and the setting-up, adjustment and use of specific credit risk provisions, applicable to payment institutions and electronic money institutions, other than non-bank financial institutions (*Monitorul Oficial al României*, Part I, No. 190/7 March 2023);
- Regulation No. 1/2023 amending Regulation No. 2/2016 of the Bank Deposit Guarantee Fund on the setting and payment of contributions to the Bank Deposit Guarantee Fund depending on the risk level (*Monitorul Oficial al României*, Part I, No. 480/31 May 2023);
- Regulation No. 5/5/2023 amending and supplementing Regulation No. 14/7/2018 issued by the Financial Supervisory Authority and the National Bank of Romania on the provision of investment services and activities on behalf of financial investment companies and credit institutions (*Monitorul Oficial al României*, Part I, No. 469/29 May 2023);
- Regulation No. 1/2024 amending and supplementing NBR Regulation No. 3/2018 on the oversight of financial market infrastructures and payment instruments (*Monitorul Oficial al României*, Part I, No. 134/16 February 2024);
- Order No. 1/2023 supplementing NBR Order No. 27/2010 approving the Accounting Rules consistent with the International Financial Reporting Standards and supplementing NBR Order No. 6/2015 approving the Accounting Rules consistent with EU directives (*Monitorul Oficial al României*, Part I, No. 167/27 February 2023);

- Order No. 2/2023 repealing Order No. 2/2022 on reporting of information regarding the exposures covered by legislative moratoria, in compliance with Government Emergency Ordinance No. 90/2022 setting forth relief measures for certain categories of debtors as concerns the loans granted by credit institutions and non-bank financial institutions (*Monitorul Oficial al României*, Part I, No. 335/21 April 2023);
- Order No. 3/2023 on reporting the classification of credit exposures and the specific credit risk provisioning requirements on such exposures, applicable to payment institutions and electronic money institutions, other than non-bank financial institutions (*Monitorul Oficial al României*, Part I, No. 352/26 April 2023);
- Order No. 8/2023 amending and supplementing NBR Order No. 3/2022 on the system rules of TARGET – România (*Monitorul Oficial al României*, Part I, No. 1039/ 16 November 2023);
- Order No. 1/2024 amending and supplementing NBR Order No. 27/2010 approving the Accounting Rules consistent with the International Financial Reporting Standards, and amending and supplementing NBR Order No. 6/2015 approving the Accounting Rules consistent with EU directives (*Monitorul Oficial al României*, Part I, No. 499/ 30 May 2024);
- Norm No. 1/2024 on the uniform method of filling in the mentions in payment orders to the Ministry of Finance – State Treasury in electronic messages used in payment systems (*Monitorul Oficial al României*, Part I, No. 141/20 February 2024);
- Draft Regulation amending and supplementing Regulation No. 3/2018 on the selection of credit institutions to be mandated by the Bank Deposit Guarantee Fund to make compensation payments to covered depositors;
- Draft Regulation amending and supplementing Regulation No. 12/2005 on the secondary market for government securities operated by the National Bank of Romania;
- Draft Regulation amending and supplementing the NBR Regulation No. 4/2023 on prudential requirements for development banks;
- Draft Regulation amending and supplementing Regulation No. 5/2013 on prudential requirements for credit institutions, as subsequently amended and supplemented;
- Draft NBR Order approving the Methodological Norms on the reporting by credit institutions of information related to non-performing loans sold in accordance with Government Emergency Ordinance No. 15/2024 on credit servicers and credit purchasers, and amending some legal acts;
- Draft NBR Order approving the Methodological Norms on preparing the annual accounting reports designed to meet the information requirements of the Ministry of Finance, applicable to non-bank financial institutions.

During the period under review, the Legal Department received numerous requests for legal opinions/legal assistance relative to the central bank's fields of competence, issuing, *inter alia*, 198 opinions on internal regulations, 114 opinions on draft and legislative proposals of the Parliament and/or the Government of Romania, 122 opinions on NBR regulations related to the secondary legislation, 389 opinions on various requests submitted by individuals/legal entities, 592 opinions on public procurement

contracts, 20 opinions on requests related to personal data managed by the central bank, 375 papers for the steering committees, 504 notices of garnishments, as well as 3,208 opinions on the central bank's current activity.

The opinions concerned:

- the drafting and concluding of contracts with NBR's international and national counterparties;
- public supply, public service and public works contracts and addenda thereto, concluded both under Romanian public procurement legislation and as a result of EPCO framework agreements;
- the activity of the NBR in its capacity as a prudential supervisory authority, the competent authority in authorising financial institutions, other than credit institutions or in its capacity as a resolution authority;
- various requests from individuals/legal entities, public institutions, namely the Ministry of Internal Affairs and the Public Ministry, requests related to the personal data managed by the central bank, with an aim also to provide clarifications on the interpretation and application of the provisions of secondary legislation and regulations within the NBR's scope;
- the application of legislation governing employment relations, public procurement, public and private property, companies, copyright and related rights, taxation, inventory management, as well as other relevant areas for the smooth running of the NBR's current activities;
- the completion of legal procedures concerning foreclosure, examining and responding to the documentation related to foreclosure requests through garnishment of bank accounts of credit institutions/wages of NBR employees by court enforcement officers in accordance with the relevant legal regulations.

As part of the NBR's activity in the legal field within the European System of Central Banks, the NBR's legal experts participated, *inter alia*, in the meetings of the Legal Committee, cooperated with the representatives of the ECB's Directorate General Legal Services and its peers in the national central banks of EU Member States, and examined the relevant documents sent by the ECB via written procedure. Furthermore, opinions were prepared with respect to the legislative issues in the questionnaires submitted to the NBR by international institutions and positions were expressed on the enactment in the national law of the regulatory documents drawn up by European authorities (the European Banking Authority, the European Systemic Risk Board).

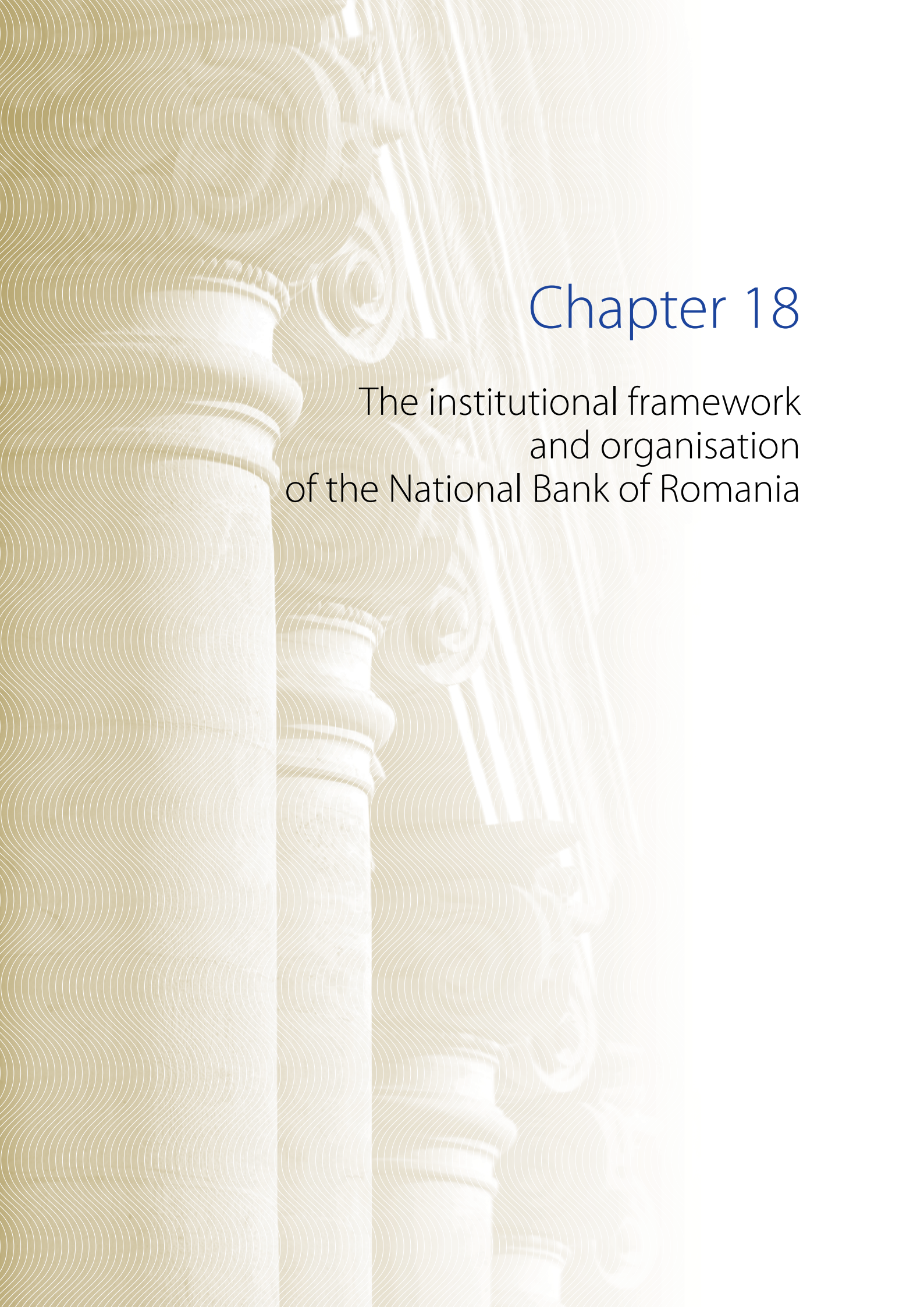
In addition, comments and proposals were formulated with regard to the draft legislation under debate at EU level that falls within the NBR's scope, in particular that concerning the draft regulations on: the establishment of the digital euro, crypto-asset markets and digital operational resilience, anti-money laundering and countering the financing of terrorism, the European deposit insurance framework, crisis management in the banking sector and the revision of the European framework for credit institutions (Basel III package).

During the period under review, the Legal Department handled 165 cases pending before competent courts across the country. With a view to settling these disputes in a favourable manner, it prepared 150 papers to substantiate the BNR's procedural position, in order to defend and enforce the central bank's rights.

Furthermore, the Legal Department formulated 102 replies to requests from courts, from other institutions with administrative and judicial functions, and from the prosecution authorities in cases in which the NBR was not a party to the proceedings.

Another component of NBR's legal activity is also the settlement of appeals lodged against acts issued by the NBR for the imposition of sanctions and the grant of measures.



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Chapter 18

The institutional framework
and organisation
of the National Bank of Romania

The National Bank of Romania is the central bank of Romania and an independent public institution. Its activity is governed by Law No. 312/2004 on the Statute of the National Bank of Romania (hereinafter referred to as the “NBR Statute”).

The primary objective of the National Bank of Romania is to ensure and maintain price stability. The main tasks of the National Bank of Romania are:

- to design and implement the monetary policy and the exchange rate policy;
- to conduct the authorisation, regulation and prudential supervision of credit institutions, and to promote and oversee the smooth functioning of the payment systems with a view to ensuring financial stability;
- to issue banknotes and coins as legal tender to be used on the territory of Romania;
- to set the exchange rate regime and to oversee its observance;
- to manage the international reserves of Romania.

1. Decision-making bodies and corporate governance

The National Bank of Romania is run by the Board of Directors, which is made up of nine members appointed by Parliament – based on a proposal of the standing committees of the two Chambers –, with the nomination of the executive management of the NBR. The Board members are appointed for a five-year mandate that may subsequently be renewed. According to the law, members of the Board may not be members of Parliament or of a political party, and they may not be Court officials or public servants. The National Bank of Romania Board is made up by:

- (i) a Chairman who is also the Governor of the National Bank of Romania;
- (ii) a Vice Chairman who is also the First Deputy Governor;
- (iii) seven members, two of them deputy governors and the other five not on the payroll of the NBR.

The National Bank of Romania Board is the decision-making body of the institution in accordance to the law and with respect to: (i) setting the monetary and exchange rate policies and supervising their accomplishment; (ii) the authorisation, regulation and prudential supervision or, as applicable, oversight of credit institutions, payment institutions and non-bank financial institutions, as well as oversight of the payment systems and securities settlement systems in Romania, their operators included; (iii) the bank's internal organisation. Moreover, the Board establishes the main courses of action concerning the operational management and assigns the tasks to the NBR staff.



Mugur Constantin Isărescu
Governor,
Chairman of the Board

Members of the National Bank of Romania Board

appointed by the Parliament of Romania via Decision No. 19 of 3 July 2019



Florin Georgescu
First Deputy Governor,
Vice Chairman of the Board



Leonardo Badea
Deputy Governor,
Member of the Board



Eugen Nicolăescu
Deputy Governor,
Member of the Board



Csaba Bálint
Member of the Board



Gheorghe Gherghina
Member of the Board



Cristian Popa
Member of the Board



Dan Radu Rușanu
Member of the Board



Virgiliu Stoenescu
Member of the Board

On behalf of the Board, the Governor shall submit to Parliament the *Annual Report* of the National Bank of Romania by 30 June of the following year. The document presents the NBR activities, the annual financial statements and the audit report, discussed without being put to the vote, during the joint session of the two Chambers of Parliament.

In order to ensure the effectiveness of the decision-making process, the following three operational bodies are responsible for the performance of the main tasks of a central bank: the Monetary Policy Committee, the Supervisory Committee, and the Foreign Reserve Management Committee. These committees have their own rules of procedure, which define in detail their composition and specific tasks and responsibilities.

The Monetary Policy Committee (MPC) is a standing advisory and decision-making body. It is made up of 13 members and is chaired by the NBR Governor. The committee's tasks focus on the central bank's primary objective and relate mainly to the specifics of the monetary policy strategy and operational framework, monetary policy formulation and implementation, as well as the associated economic research. In particular, the MPC discusses and defines the content, structure and configuration of monetary policy analysis reports/papers, of the macroeconomic projections over various time horizons, as well as of proposals on the monetary policy stance, which are subsequently submitted to the NBR Board for review and approval. Moreover, the MPC supports the monetary policy decision-making process by discussing, approving and making available to the NBR Board, on a regular basis, certain analyses/research papers prepared by the specialised departments on research areas/topics relevant to monetary policy conduct. At the same time, the MPC members discuss, analyse and propose to the NBR Board, whenever needed, revisions to certain features of the monetary policy strategy and of its tool kit, with a view to calibrating them in order to achieve the central bank's primary objective and bringing them into line with the ECB's standards in the field. According to the annual calendar of quarterly forecasting rounds approved by the NBR Board, the year 2023 saw 16 MPC meetings, with eight other meetings being held January through May 2024.

The Supervisory Committee is a standing advisory and decision-making body composed of nine members and chaired by the NBR Governor.

Its tasks mainly relate to the assessment of the functioning of entities supervised or monitored by the NBR, based on studies, information notes, reports and analyses drawn up and regularly submitted by the specialised departments, with regard to the following: developments in financial performance, asset quality, management of operating risks and their inclusion in the required levels of prudential indicators; developments in terms of financial stability, identifying, monitoring and assessing systemic risks and those related to systemically-important credit institutions; the need to amend the provisions of the regulations applicable to entities supervised or monitored by the NBR, according to the specific legislation and the relevant international practice; evolution of individual and sectoral exposure to the risks of money laundering and terrorist financing, including compliance with international sanctions regimes.

In 2023, the Supervisory Committee passed decisions in 23 meetings, while nine other meetings were held January through May 2024, the analysed materials relating primarily to: (i) the notification of the intention to acquire a qualifying holding in the share capital of a credit institution; (ii) applications submitted by credit institutions, Romanian legal entities, pursuant to prudential regulations, for approval of changes in their standing as concerns the Board members and/or executives, expansion of their scope of business, the financial auditor, operations on preferential terms set forth in the employee incentive and benefit plans, exemption from the assignment of risk weights to subsidiaries, mergers, etc.; (iii) requests from credit institutions regarding the use of internal models/advanced measurement approaches for the calculation of risk-related capital requirements; (iv) proposals to ascertain the legal termination of the validity of some credit institutions' authorisations, following the completion of merger by absorption processes, as well as proposals to erase certain non-bank financial institutions and, implicitly, to impose a ban on lending; (v) the prudential supervision programme also in the field of preventing and combating money laundering and terrorist financing, as well as the enforcement of international sanctions for credit institutions, non-bank financial institutions, payment institutions and electronic money institutions, and the assessment by sector of the money laundering and terrorist financing risks; (vi) draft regulatory acts to be issued by the central bank or other authorities concerning the activity of credit institutions, non-bank financial institutions, payment institutions and electronic money institutions; (vii) the implementation of the EBA Guidelines in the national legal framework and/or in supervisory practices, from the perspective of the central bank's powers; (viii) legislative proposals for transposing EU regulations in the field of credit institutions; (ix) proposals for positions, to European bodies, in the negotiations regarding draft laws at EU level in the fields of competence of the respective department; (x) proposals for applications for authorisation as a payment institution and electronic money institution; (xi) the monitoring of developments in terms of financial stability, identification of systemically-important credit institutions, monitoring and assessment of systemic risks, analyses regarding the recalibration of macroprudential instruments – capital buffers, the reciprocity of macroprudential policy measures and specific analyses such as monitoring the lending terms and conditions, regular stress tests of the banking sector's solvency and liquidity or the assessment of trends and of the preparedness related to climate change among financial institutions; (xii) disclosures regarding the activity of the Central Credit Register and of the Payment Incidents Register; (xiii) other matters in connection to the functioning of banks, payment institutions and electronic money institutions.

The Foreign Reserve Management Committee (FRMC) is a standing body whose tasks consist in achieving, via tactical decisions, the strategic objectives set by the NBR Board in the area of foreign reserve management. The Committee is made up of 11 members and is headed by the NBR Governor. In line with the tasks defined by the NBR Board, it constantly analyses global developments in economic and financial environment and formulates proposals for the reserve management strategy, examines compliance of portfolios with strategic and tactical guidelines and assesses their monthly performance, makes recommendations on implementing new financial instruments and draws up the list comprising eligible entities for transactions, securities issuers and assets eligible for investment. The FRMC convenes and takes

decisions whenever required by financial market developments, when summoned by the chairman or the vice chairman, acting as a substitute for the former.

Given the still high uncertainty surrounding the forecasted developments in global inflation and the outlook for its convergence towards the central banks' comfort zone, but also in the context of the tensions that governed the international geopolitical climate, the NBR further pursued a prudent management of international reserves with a focus on the investment safety and liquidity objectives.

The Committee for Preparing the Changeover to the Euro set up at the NBR is an advisory body analysing the preparatory activity ahead of euro adoption. It is a formal discussion forum providing support to central bank decisions on the path to joining the Economic and Monetary Union.

The Payments Committee, established in 2022, is an advisory body that supports the NBR Board in achieving its tasks with regard to promoting and monitoring the smooth functioning of payment systems and instruments in Romania, as well as of those related to the authorisation and supervision of payment services and instruments. The objectives of this committee include: to identify the necessary measures to consolidate the retail payments market and develop an integrated payments market, to propose measures to support the development of the payments market, including to enhance the security of payments and preserve users' confidence in payment instruments and services, or to identify the barriers limiting the increase in financial inclusion from the perspective of payment services, the instruments used and the related costs. Depending on the topics discussed, representatives of payment service providers in Romania, including of FinTech companies and the business environment, of central government authorities, as well as of other entities with relevant payment duties may be invited to the committee's meetings.

The Financial Market Infrastructure Management Committee (FMIMC) set up in 2017 is a standing advisory body for the NBR Board that plays a part in the decision-making process, within the limits imposed by the Board. The FMIMC is in charge of the general management of financial market infrastructures operated by the central bank (generically referred to as IPF-BNR). The FMIMC is made up of five members and is chaired by a senior executive member, acting as a collective governing body (college). It is tasked with submitting proposals to the NBR Board regarding strategically important issues related to the IPF-BNR development and functioning. Moreover, it carries out the tasks set by the Board, *inter alia* those concerning the development and implementation of new infrastructures, and also the operation of the IPF-BNR information security management system.

The Risk Committee is a standing advisory body subordinated to the NBR Board, with the aim of supporting the latter in overseeing the risk management process within the central bank.

The Committee has 12 members, with the NBR Governor acting as chairman and the First Deputy Governor as vice chairman.

The main tasks of the Risk Committee comprise: (i) analysing and approving the regulation framework for the risk management process within the NBR and monitoring its compliance with and enforcement within the institution; (ii) analysing and approving the on-topic materials addressed to the Board; (iii) overseeing the updated, overall risk landscape and endorsing the risk exposure limits and the suggested plans for their treatment; (iv) formulating recommendations with a view to improving the performance of the NBR's organisational structures with regard to the management of risks associated with their activities.

In a complex and changing context, in the course of 2023 the Risk Committee analysed and endorsed, according to its specific tasks, the documents resulting from the risk management process, thus ensuring the creation of a solid basis for decision-making, for prioritising activities and for identifying the most appropriate responses to the risks faced by the central bank.

The Audit Committee is an independent body consisting of the five non-executive Board members, with a five-year mandate that began in the autumn of 2019. The Committee's composition did not change in the year under review.

According to the internal regulation in force, this Committee convenes at least once every three months and whenever necessary, and the Internal Audit Department ensures its Secretariat.

Throughout 2023, the Audit Committee convened in five meetings and five consultations took place, during which documents related to its competence according to the internal regulations in force were analysed, approved or endorsed, as appropriate.

External control layers

The NBR Statute provides for two external control layers, namely: (i) the external auditor, which is appointed to audit the annual financial statements of the NBR (including the confirmation of the gold stock by attending the annual inventory), and (ii) the Court of Accounts, which conducts the subsequent audit of commercial operations carried out by the central bank, which are reflected in the income and expenditure budget and in the annual financial statements.

Internal control layers

The National Bank of Romania takes a functional approach to internal control, based on the model of the three lines of defence. Specifically, as first line of defence, it is incumbent on each organisational structure to deal with (identify, assess, manage and monitor) the risks associated with its own activities and operations, and to implement the ensuing internal control measures, in accordance with the standard methodology established within the central bank.

The second line of defence is ensured by several functions such as: monitoring of operational and IT&C risks; protection of personal data; monitoring of foreign reserve risk management; compliance; business continuity; preventive financial control

(verifying the legality of the operations carried out, the management, management and use of the bank's assets, etc.) and internal control. Specifically, these advisory/ decision-making committees within the bank also play a major role: the Risk Committee, the Financial Market Infrastructure Management Committee, the Foreign Reserve Management Committee, the Monetary Policy Committee and the Supervisory Committee.

The third line of defence ensured by the NBR's Internal Audit Department assesses the overall controls in place in terms of efficacy. The purpose of this function is to provide independent and objective assurance and advisory services concerning the design and efficacy of the internal control system, with the aim of helping improve its activity and of adding value. In this respect, internal audit supports the bank in meeting its objectives by systematically and methodically assessing the processes of risk management, control and governance.

In 2023, 27 audit engagements were completed, and these audit reports included recommendations for improving and strengthening internal control, risk management and governance.

Moreover, the assistance provided to the external audit team charged with auditing the NBR's financial statements continued by expediting the exchange of information and documents with the departments involved in this process.

In the period under review, the ongoing professional development was a constant feature with the purpose of obtaining and preserving the national and international certifications in the field.

The Internal Audit Department applies the standards set forth in the International Professional Practices Framework, issued by the Institute of Internal Auditors (IIA), and the working methodology provided in the NBR's Internal Auditing Handbook and the ESCB's Internal Auditors Committee (IAC) Manual, the best practices in the field, including those related to IT&C audit, cybersecurity and cyber resilience.

The compliance function

In the course of 2023, the Compliance Division further promoted and developed an organisational culture based on specific principles, by initiating and carrying out several institutional communication projects, with a view to enhancing the related regulatory framework. Specifically, the main activities were:

The comprehensive revision of the Code of Ethics for NBR Employees No. 1/04.06.2014 (amended as at 26.11.2015) in the light of legislative updates, of the alignment with the ECB's Ethics Framework and of the best practices on compliance in the field of ethics and integrity.

Implementation of the legal framework on whistleblowers in the public interest by creating and managing internal and external channels for receiving reports, and developing working procedures for managing reports and conducting follow-up activities to resolve them.

The management of the process that involves analysing and subsequently issuing compliance opinions with regard to potential conflicts of interest in recruitment, promotion and internal mobility processes, or potential fraud and non-compliance.

Moreover, the implementation of the operational risk management policy continued, focusing on the completion of the compliance risks portfolio, correlated with the processes/activities carried out; risk assessment and the determination of the optimal response were further pursued as well.

The Compliance Division maintained, via bilateral contacts or attendances of events organised by the ECB, the cooperation with the Governance and Compliance Office, which fulfils the compliance function within the ECB.

Throughout 2023, the Compliance Division's activity was carried out in accordance with the independence principle of the compliance function, and no interference, pressure or other forms of impairment of the Compliance Department's activity or employees were reported. The 2023 Annual Compliance Report, summarising the activities carried out and the relevant issues, has been reviewed and approved by the NBR Board and presented for information to the Internal Audit Department and the Audit Committee.

[The governance of the *regies autonome* subordinated to the National Bank of Romania](#)

The National Bank of Romania is empowered to represent the interests of the State in the boards of directors of the two *regies autonome*, the State Mint and the NBR Printing Works, which operate based on economic management and financial autonomy in subordination to the central bank, in accordance with the provisions of Government Decision No. 231/1991 on the establishment of the *regies autonome* the State Mint and the NBR Printing Works.

These are public enterprises that carry out activities of national interest and contribute to the NBR's task of issuing banknotes and coins as legal tender on the territory of Romania, in order to meet the cash requirements in accordance with the real needs for currency in circulation.

In 2023, following the expiry of the mandates of the provisional administrators appointed to the boards of directors of the two *regies autonome* pursuant to the provisions of Government Emergency Ordinance No. 109/2011 on the corporate governance of public enterprises, amended and supplemented by Law No. 111/2016, the executives of the two *regies autonome* the State Mint and the NBR Printing Works were appointed, on four-year mandates by law.

2. The relationship of the NBR with the Parliament of Romania and other state institutions

As regards institutional communication, the National Bank of Romania maintains an ongoing dialogue with the Parliament of Romania. The cooperation consists mainly of:

- (i) formulating opinions on draft legal acts at the direct request of parliamentary committees, or indirectly, at the request of some initiators, i.e. the Ministry of Finance, the National Authority for Consumer Protection or other public authorities, the Presidential Administration or the Ministry for Liaison with Parliament with a view to finalising the Romanian Government's position on those draft laws. Pursuant to Article 3 of Law No. 312/2004 on the NBR Statute, central public authorities ask for the central bank's opinion on any draft legal act concerning the fields related to the NBR's tasks;
- (ii) formulating opinions, preparing supporting documents or participating in the discussions/meetings of the standing committees of the two Chambers of Parliament on topics such as monetary policy, financial stability, bank resolution, European affairs, payment systems;
- (iii) preparing and submitting supporting documents during the parliamentary procedure to exert control in relation to the compliance of EU legislative proposals with the principles of subsidiarity and proportionality;
- (iv) delivering opinions and participating in the meetings of the standing committees of the two Chambers of Parliament during the parliamentary procedure to review the draft documents prepared by EU institutions;
- (v) submitting to the presidents of the two Chambers of Parliament and to the economic committees not only the *Annual Report* (a statutory duty), but also the *Inflation Report* and the *Financial Stability Report* – two of the central bank's key communication tools explaining its actions meant to ensure price stability and financial stability;
- (vi) drawing up materials for the preparation of events organised by Parliament or in which its representatives take part;
- (vii) preparing replies to specific interpellations that Members of Parliament submitted to the central bank.

Throughout 2023, the NBR was actively involved in providing information, formulating substantiated opinions concerning a series of legislative initiatives and participated, together with other public authorities such as the Ministry of Finance, the General Directorate for Fiscal Legislation and Border and Accountancy Regulations, and the Ministry of Investments and European Projects, the National Agency for Public Procurement, the National Agency for Fiscal Administration – the General Directorate for Tax Anti-Fraud, the Ministry of Agriculture and Rural Development, the Ministry of Family, Youth and Equal Opportunities, the Ministry of Economy, Entrepreneurship and Tourism, in preparing draft laws on: (i) draft legal acts that the NBR intended to submit for government approval in 2023; (ii) amending Article 83(4) and Article 86(3) of Law No. 207/2015 on the Tax Procedure Code; (iii) identifying asset categories for which the NBFIs set up allowances/provisions, according to NBR Regulation No. 5/2012; (iv) amending and supplementing Law No. 227/2015 on the Tax Code, with the

purpose of transposing Directive (EU) 2020/284 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers; (v) providing information about the situation of the non-banking financial institution EDEN Finance IFN SA, as well as certain provisions in the regulatory framework; (vi) supplementing/amending the draft GEO amending Government Emergency Ordinance No. 19/2022 on certain measures regarding the performance guarantees established for public procurement contracts and sectoral contracts; (vii) opinion on the issues raised by ECEX Group AG regarding the possibility of conducting foreign exchange operations via automatic currency exchange machines; (viii) approving the supplementation of Law No. 207/2022 on regulating some measures on the general framework applicable to the establishment and functioning of development banks in Romania which is to be included in the Draft Government Emergency Ordinance that establishes certain measures necessary to optimise the implementation of infrastructure projects financed from non-repayable external funds, as well as amending and supplementing certain legal acts; (ix) endorsement of the draft Government Decision on amending and supplementing Government Decision No. 1204/2022 on the establishment, organisation and functioning of the Banca de Investiții și Dezvoltare S.A. (Investment and Development Bank); (x) putting into operation the Banca de Investiții și Dezvoltare; (xi) draft Law on some fiscal and budgetary measures to ensure Romania's long-term financial sustainability; (xii) draft Law for accepting the amendment to the Statute of the International Bank for Reconstruction and Development (IBRD) that was set forth via Resolution No. 696 of 10 July 2023 and approved by the IBRD Board of Governors; (xiii) draft Law for taking on board the amendments to the Establishment Agreement of the European Bank for Reconstruction and Development (EBRD), signed in Paris on 29 May 1990, adopted via Resolutions No. 259 and No. 260 of 18 May 2023 of the EBRD Board of Governors; (xiv) draft Government Decision regarding the selection process and remuneration of the executive president, executive vice-president, executive and non-executive members of the Board of Directors of Exim Banca Românească S.A.; (xv) draft Government Emergency Ordinance amending and supplementing some legal acts, as well as establishing some measures for preventing and combating the aggressive advertising and communication techniques used by the entities not listed in the Financial Supervisory Authority's Register; (xvi) draft Law amending Law No. 126/2018 on markets in financial instruments, amending Article 15(2) of Government Emergency Ordinance No. 32/2012 on the undertakings for collective investment in transferable securities and investment management companies, and amending and supplementing Law No. 297/2004 on the capital market, also amending and supplementing Law No. 74/2015 on alternative investment fund managers; (xvii) the regime of branches in Romania of institutions from other Member States and third countries; (xviii) draft Government Emergency Ordinance establishing some temporary support measures for the agricultural producers that were affected by the 2023 soil drought, as published on the Ministry of Agriculture and Rural Development website on 10 January 2024; (xix) draft Government Emergency Ordinance on some measures for implementing public health infrastructure projects financed from non-repayable external funds under the Health Programme and loans from International Financial Institutions; (xx) draft Government Emergency Ordinance on the framework for deploying the financial and technical support granted by the banking and financial system in the process of authorising and channelling of funds towards the recipients of programmes managed by the Ministry of Investment and European Projects;

(xxi) the potential increase in flexibility for the provisions of Regulation No. 12/2012 on granting loans via energy-efficient financial instruments proposed by the EIB to individuals for green investments in housing, i.e. rehabilitation, renovation, consolidation; (xxii) clarifying the implementation of StudentInvest and FamilyStart lending programmes relative to the provisions of Regulation No. 17/2012 on the maturity of consumer loans; (xxiii) legislative proposal on credit servicers and credit purchasers, also amending some legal acts on credit contracts for consumers.

In addition, the NBR representatives took part in the meetings of the parliamentary committees in the Chamber of Deputies or the Senate of Romania in order to express the central bank's opinions on a number of legislative proposals.

Specifically, in the Chamber of Deputies, the NBR was represented at meetings of the Committee for Defence, Public Order and National Security, the Committee for Legal Matters, Discipline and Immunities, the Committee for Budget, Finance and Banking, and the Committee for Industries and Services, or for expressing opinions on legislative proposals with regard to: (i) the proposed amendment of Law No. 535/2004 on preventing and combating terrorism; (ii) amending and supplementing some legal acts for improving financial inclusion; (iii) the draft Law amending Art. 95 of Government Emergency Ordinance No. 50 of 9 June 2010 on credit contracts for consumers and Art. 135 para. (2) of Government Emergency Ordinance No. 52 of 14 September 2016 on credit contracts for consumers relating to immovable property, also amending and supplementing Government Emergency Ordinance No. 50/2010 on credit contracts for consumers; (iv) draft Law approving Government Ordinance No. 17/2023 amending and supplementing Law No. 207/2022 on development banks in Romania; (v) draft Law amending and supplementing Law No. 158/2020 amending, supplementing, and repealing some legal acts, as well as setting forth certain measures for implementing Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012.

Among the Senate's committees whose meetings were attended by the NBR representatives, the Committee on European Affairs held a meeting during which they discussed the draft Law amending and supplementing Law No. 158/2020 amending, supplementing and repealing some legal acts, as well as setting forth certain measures for implementing Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012. In addition to participating in meetings, a series of opinions were formulated at the request of the Secretariat-General of the Government on topics such as: (i) the legislative proposal law amending Art. 95 of Government Emergency Ordinance No. 50 of 9 June 2010 on credit contracts for consumers and Article 135 para. (2) of Government Emergency Ordinance No. 52 of 14 September 2016 on credit contracts for consumers relating to immovable property, also amending and supplementing Government Emergency Ordinance No. 50/2010

on credit contracts for consumers (b323/22.05.2023); (ii) the implementation of “Alexandru Pesamosca” and “Ion Ionescu de la Brad” programmes (b586/13.10.2023 and b587/13.10.2023 respectively); (iii) Law No. 334/2006 on the financing of political parties’ activities and election campaigns and supplementing Law No. 193/2000 on unfair terms in consumer contracts (b228/12.04.2023 and b230/12.04.2023 respectively).

Throughout 2023, answers were given to four questions from MPs and senators on topics such as: the amount of Romanian workers’ remittances; Russia’s direct investment in Romania and Russian portfolio investments via Austrian companies; US Treasury bonds held by Romania; Romania’s gold reserve kept in London; the limitation of cash payments and its impact on citizens; the limitation of cash payments and their elimination, respectively; and Romania’s contribution to the payment of Ukraine’s debts.

Furthermore, the Secretariat-General of the Government requested opinions on a number of legislative proposals in various stages of parliamentary procedures and which fall within the NBR’s scope, such as: (i) the draft Government Decision regarding The Agency for Monitoring and Evaluation of the Performance of Public Enterprises (AMEPPE); (ii) the draft Law amending and supplementing Government Emergency Ordinance No. 109/2011 on the corporate governance of public enterprises and the draft Government Decision on the Norms for the enforcement of the Law amending Government Emergency Ordinance No. 109/2011; (iii) the the draft Law establishing some measures for implementing the *Primul Monument Restaurat* programme (Pl-x 731/20.11.2023). Additionally, there were the following attendance requests: to the Working Group organised at the request of the Ministry of European Investments and Projects on the topic of bottlenecks in EU funds absorption stemming from the difficulties in interpreting the legislation regarding guarantee instruments, and to the meeting held in order to discuss the legislative proposal amending and supplementing some legal acts with a view to increasing financial inclusion. At the meetings of the International Sanctions Committee, the draft Law amending Emergency Ordinance No. 202/2008 on the enforcement of international sanctions was discussed.

At the request of the Ukrainian Embassy in Romania, the opportunity to legally establish access for displaced Ukrainian citizens to social and banking services was analysed.

The Financial Supervisory Authority submitted letters to the NBR formulating observations on: (i) the draft Norm amending and supplementing FSA Norm No. 11/2014 on the deposits and custody of assets of private pension funds and (ii) the draft Norm amending and supplementing FSA Norm No. 10/2014 on the deposits and custody of assets of voluntary pension funds.

In the January 2024 meeting of the Economic and Social Council (ESC), the NBR representatives participated in the discussions concerning the draft Law amending and supplementing Law No. 158/2020 amending, supplementing and repealing some legal acts, as well as setting forth certain measures for implementing Regulation (EU) 2017/402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012.

At the request of the National Authority for Consumer Protection, an opinion was formulated on the draft legislation concerning credit servicers and credit purchasers, also amending some legal acts on credit contracts for consumers.

The Legal Department represented the NBR in the EU Litigation Working Group where, under the coordination of the Government Agent for the Court of Justice of the European Union, issues related to litigation and pre-litigation procedures pertaining to financial and banking legislation were discussed.

3. Organisational developments

3.1. Human resources management

Developments in the NBR's organisation chart

In 2023, the reorganisation of the IT activity in two distinct departments aimed to align with the new trends of central banks in Europe and to fulfil the main development directions included in the NBR's IT Strategy. At the same time, this organisational change has the following advantages: (i) it clearly establishes the responsibilities for designing, developing, testing and managing IT applications and provides the necessary framework for increasing their efficiency, with support from a committed management team, and (ii) it ensures a higher reaction speed in the event of a security incident through the unitary coordination of the technological infrastructure with cybersecurity.

In this regard, the NBR Board approved the reorganisation of the IT Department by separating its activities into two distinct organisational structures:

- The Digital platforms and cybersecurity department, which took over the tasks related to the management of operating systems and data storage, voice and data networks, cybersecurity activities, and financial market infrastructure management, user support and asset management;
- The Digital solutions department, with tasks related to database management, the analysis, development and testing of apps, app maintenance and server management and maintenance.

The personnel chart related to the IT activity of these two departments has been resized accordingly.

Update of specific internal regulations

In the course of 2023, the National Bank of Romania started the update of the processes related to recruitment, promotion and labour organisation.

The main changes to specific internal regulations referred to:

- adapting the recruitment processes to the ESCB's best practices and making them more flexible;
- making the internal framework on teleworking more flexible;
- clarifying certain aspects related to the professional assessment of employees.

Statistical data on the NBR staff

The year 2023 saw a staff turnover rate of 3.43 percent, the National Bank of Romania reporting 2,095 employees as at end-December 2023, compared to 2,073 employees at end-2022.

From 1 January to 31 December 2023, the NBR organised 147 external recruitment processes for 200 vacancies, with 98 successful candidates out of the total of 1,446 who applied.

Chart 18.1
Vacancies in the NBR's head office
as at 31 December 2023

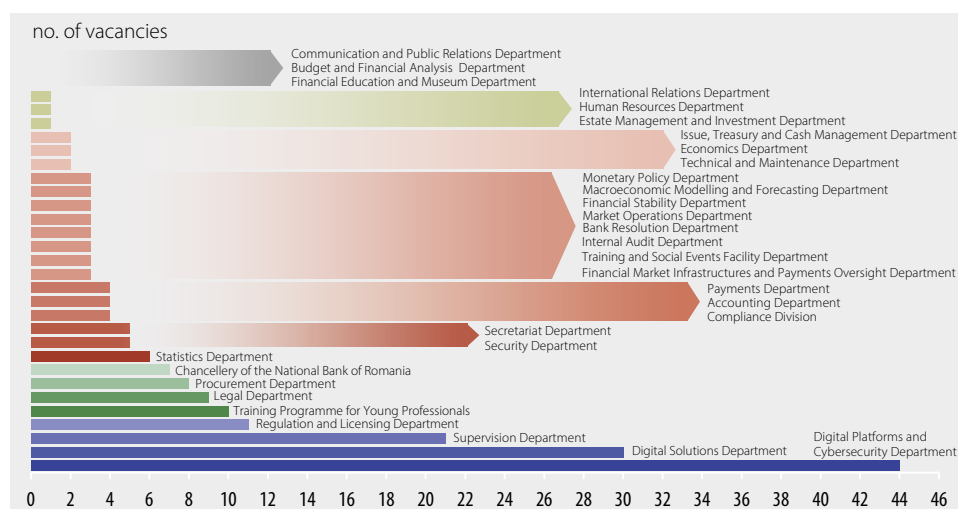
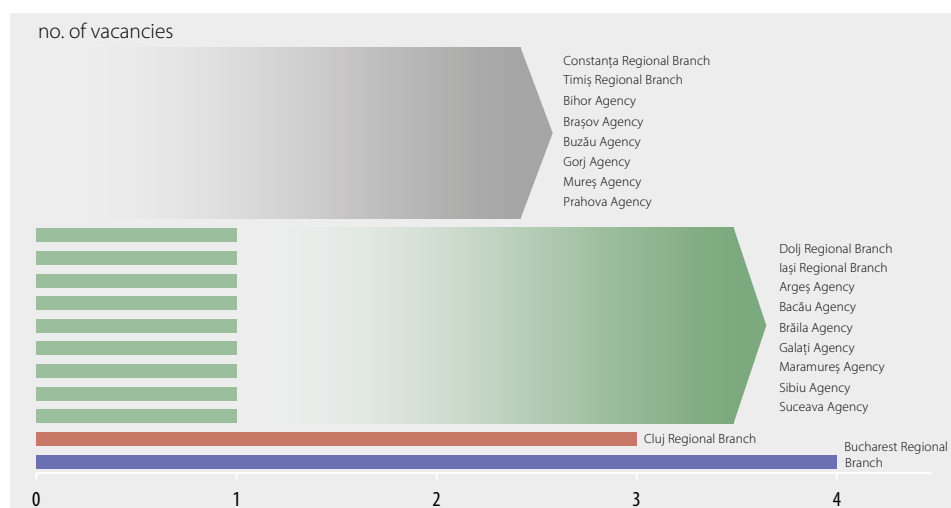


Chart 18.2
Vacancies in the NBR's territorial
units as at 31 December 2023



In the same period, the National Bank of Romania organised 63 internal recruitment processes to fill 67 vacancies, for which 90 candidates applied and 61 were successful.

Moreover, 59 employees were promoted to higher non-managerial positions and another 14 advanced to managerial ranks.

Professional training of the NBR staff

Throughout 2023, 917 members of the NBR staff cumulated a total of 1,336 attendances at professional training programmes, held by external (Romanian and foreign) lecturers. Of these, 47 percent were attendances at training courses with a view to developing technical skills, and were focused on topics such as finance and banking, supervision, digital finance, IT, data, risk management. The National Bank of Romania further cooperated with the European Central Bank and organised three international seminars, two of them online and the third one in classroom. It should be mentioned that since 2009 the National Bank of Romania has hosted a total of 49 courses organised in cooperation with the European Central Bank.

Out of the total training courses attendances by NBR employees, 25 percent were for courses aimed at developing managerial skills and soft skills. Specifically, programmes such as Situational Leadership, Leadership and Managerial Success, Effective Feedback Skills, Conflict Management, Effective Delegation, First Time Manager, Emotional Resilience, Time Management, Stress Management, Interpersonal Collaboration and Assertive Communication, and Growth Mindset cumulated a total of 329 participants.

Moreover, 841 NBR staff members participated in training courses held by in-house lecturers on various topics, such as: methodological and practical issues regarding the direct statistical research via RAPDIR, planning and conducting public procurement, implementation of operational risk management, updates on accounting, fiscal legislation and the impact on IT apps, business continuity plan, emergency situations and occupational safety and health, etc.

3.2. Information technology

In 2023, several IT projects were run with a view to implementing the requirements made by domestic and international bodies, digitalising certain institutional activities and optimising performance in operating IT systems, as follows:

- completion of a comprehensive project meant to upgrade the ReGIS payment system in order to comply with the principles of information security and cyber resilience applicable to financial market infrastructures, as well as to adapt to changes in SWIFT standards;
- initiation of a project aimed at implementing a new management system for documents and other types of content in electronic format, which will incorporate up-to-date technologies and replace the solutions currently in use;
- expansion of the protection for the NBR's IT apps against security threats in response to the cyberattacks triggered by today's geopolitical context.

Organisation Chart of the National Bank of Romania as at 31 December 2023

BOARD OF

Governor



Note:

Colour patterns show the departments' coordination.

*) The Internal Audit Department reports functionally to the Audit Committee and administratively to the Governor of the National Bank of Romania.

DIRECTORS

Mugur Isărescu

Deputy Governor **Leonardo Badea****MACROECONOMIC MODELLING AND FORECASTING DEPARTMENT**

- Macroeconomic Forecasting Models Division
- Macroeconomic Assessment Models Division

PAYMENTS DEPARTMENT

- ReGIS Division
- Financial Instruments Depository and Settlement Division
- Financial Messages Processing Division
- TARGET2 Division
- Business Continuity Division

INTERNATIONAL RELATIONS DEPARTMENT

- European Banking System Division
- International Financial System Division
- International Financial Conditions Analysis Division

SECRETARIAT DEPARTMENT

- Documents Registration, Dispatching and Check-in Desk Division
- Archives, Library and Publications Dissemination Division
- Events Organisation and Protocol Division
 - Business Travel Office

TECHNICAL AND MAINTENANCE DEPARTMENT

- Buildings Maintenance Division
- Equipment and Installations Maintenance Division
- Administrative Maintenance and Utilities Division

LEGAL DEPARTMENT

- Banking and Financial Law Division
 - Prudential Legislation and Corporate Law Office
- Banking and Financial Law & International Legal Cooperation Division
 - Prudential Legislation & Banking and Financial Activities Office
- Litigation and Legal Assistance Division
 - Legal Advice and Assistance Office

TRAINING AND SOCIAL EVENTS FACILITY DEPARTMENT

- Training Support Division
- Social Events Division
- Auxiliary Activities Division
- Cafeteria Division
- Training and Social Events Units

SECURITY DEPARTMENT

- Crisis Management & Business Continuity Division
- Internal Protection Division
- Special Transport Division
- Security Systems Division
 - Emergency Intervention Office
- Transport and Maintenance Division
- Territorial Network Coordination Division

COMPLIANCE DIVISION**REGIONAL BRANCHES AND AGENCIES**

The Audit Committee

INTERNAL AUDIT DEPARTMENT*

- General Audit Division 1
- General Audit Division 2

CHANCELLERY

- The Euro Office
- Financial Economy – Real Economy Office
- Role, Developments and Prospects of Central Banks Office
- Cryptocurrency and Digital Currency Office
- Sustainability and Green Economy Office
- The Executives' Offices and Document Management
- Governor's Control Office
- Board Secretariat Division
- Information Management and Protection Division
- Administration of Special Computer Systems and Personal Data Protection Division

MONETARY POLICY DEPARTMENT

- Monetary Policy Analysis and Strategy Division
- Liquidity Management Division

MARKET OPERATIONS DEPARTMENT

- Monetary Policy Operations Division
- State Treasury Operations Division
- Foreign Reserves Management Division
- Back Office Division
- Foreign Reserves Risk Management Division

ECONOMICS DEPARTMENT

- Economic Analysis and Short-Term Forecasting Division
- Publications Division
- Translation and Editing Division

COMMUNICATION AND PUBLIC RELATIONS DEPARTMENT

- Media Relations Division
- Intranet and Internal Communication Division
- Online Communication Division
- Multimedia Support Division
- Public Relations and Documentation Division

HUMAN RESOURCES DEPARTMENT

- Organisation and Planning Division
 - Payroll Office
- Human Resources Management Division
- Training and Career Development Division

DIGITAL PLATFORMS AND CYBERSECURITY DEPARTMENT

- Strategy and Architecture for IT Infrastructure and Security Division
- Operating Systems and Data Storage Division
- Data Networking Division
- IT Security Operations Division
- IT Security Testing Division
- Financial Market Infrastructure Management Division
- User Support Division
- Asset Management and Support Division

BUDGET AND FINANCIAL ANALYSIS DEPARTMENT

- Budget and Financial Analysis Division
- Preventive Financial Control Division
- Risk Monitoring Division

Moreover, the hardware infrastructure of the NBR's data centres was further modernised and adapted to the hybrid working format (on-site and teleworking), with a focus on increasing mobility and using online collaboration tools.

Taking into consideration the stronger IT and cyber risks associated in particular with the expansion of remote access to IT system resources via Internet connections, the monitoring of security alerts collected by all firewalls within the NBR's IT system was enhanced.

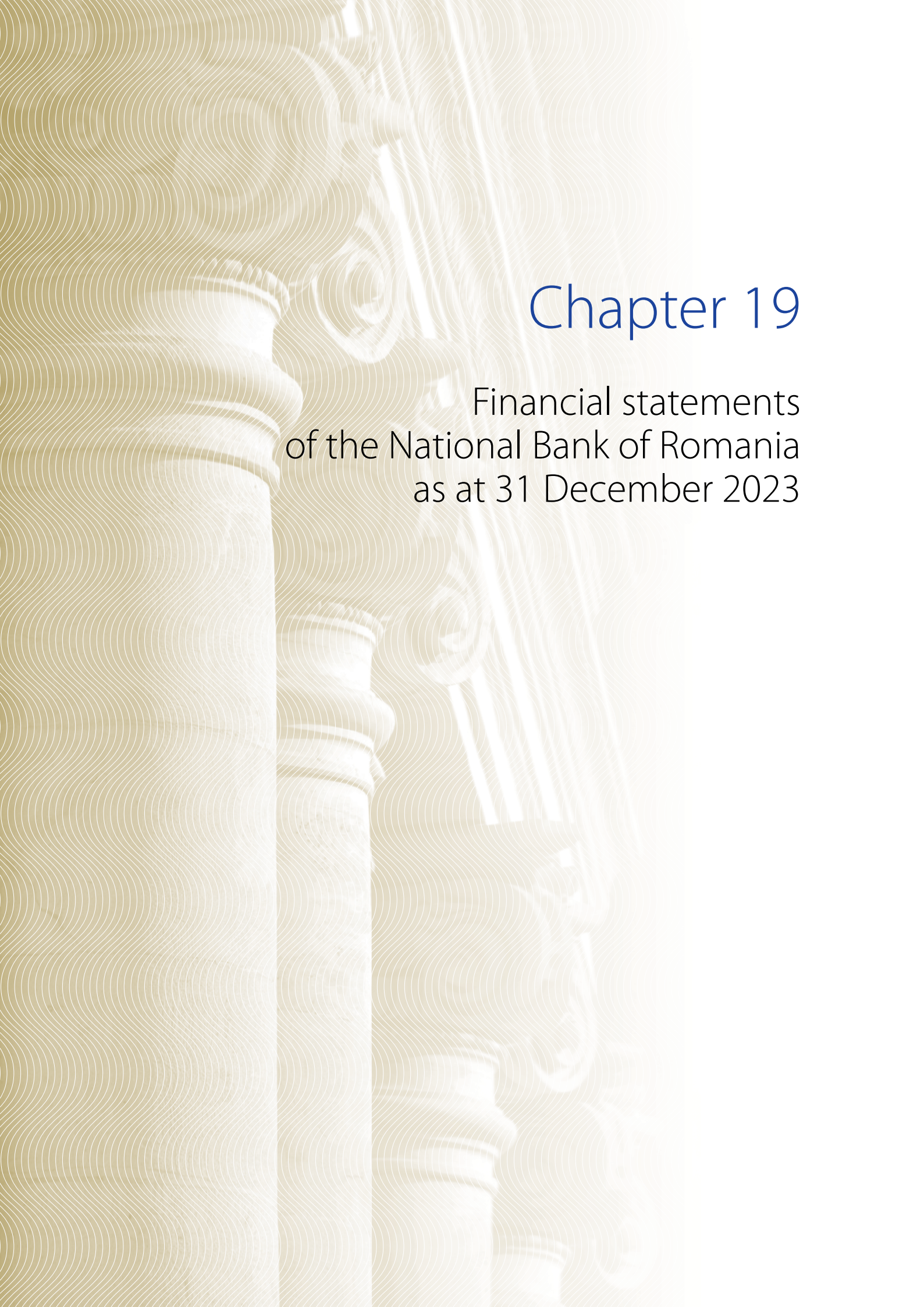
At the same time, the following additional protection measures were taken:

- a software for an automated response to cyber threats; more specifically, XSOAR (Extended Security Orchestration Automation and Response), which is used in conjunction with the complementary SIEM (Security Information Event Management) in order to automatically handle the events impacting the IT system security based on predefined scenarios;
- a software for managing network equipment logs, allowing their storage in an encrypted format that facilitates digital forensic analyses;
- new cybersecurity controls via sandboxing (real-time analysis via detonation of potentially malware-infected files in a controlled and isolated environment) and simulation tools for the latest types of cyberattacks by using real-world tactics.

Steps have also been taken with regard to the improvement of the governance framework for cyber and IT security, as follows:

- ensuring an adequate framework for conducting security assessments according to the Threat Intelligence-based Ethical Red Teaming (TIBER-EU) methodology adopted at European level and TIBER-RO at national level;
- providing an efficient framework for IT security risk management by conducting risk analyses for all initiated projects, as well as for major changes to the NBR's IT infrastructure;
- coming into line with the best IT security standards;
- ensuring a high level of IT security risk awareness.





Chapter 19

Financial statements
of the National Bank of Romania
as at 31 December 2023

1. Overview

Pursuant to Law No. 312/2004 on the Statute of the National Bank of Romania, starting with the financial year 2005, the NBR 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 rules based on EU regulations²²⁵.

By the actions taken, the National Bank of Romania implements the appropriate monetary policy so as to achieve its primary objective and fulfils the other tasks mentioned in the law, without focusing on business-related objectives such as profit maximisation. Nonetheless, in its activity, the NBR has shown a steady concern for the efficient use of the available resources, also by capping its administrative and staff costs. Thus, in the year under review, the administrative and staff costs stood about 15 percent lower than the budgeted figure, their share in total income dropping to 6 percent in 2023 from 8 percent in 2022 and that in total operating expenses falling to 11 percent in 2023 from 24 percent in 2022. In addition, in 2023, the *operating result* of the National Bank of Romania (net of unrealised losses arising from the mark-to-market of foreign currency-denominated securities and of unrealised losses arising from the revaluation of some net foreign currency assets) was substantial, i.e. operating profit worth lei 4,848,421 thousand.

The financial result at 31 December 2023 was significantly better than in the previous year, namely a profit amounting to lei 2,428,653 thousand, up 124 percent (lei 1,346,568 thousand) from that recorded in 2022 (lei 1,082,085 thousand), primarily as a result of:

- operating profit worth lei 4,848,421 thousand, down 3 percent or lei 155,714 thousand from the previous year's figure (lei 5,004,135 thousand);
- unrealised losses arising from the revaluation of foreign currency-denominated securities in the amount of lei 260,464 thousand, 13 times or lei 3,072,943 thousand lower than similar losses reported at 31 December 2022 (lei 3,333,407 thousand);
- unrealised losses arising from the revaluation of net foreign currency assets amounting to lei 2,159,304 thousand, 4 times or lei 1,570,661 thousand higher than similar losses reported at 31 December 2022 (lei 588,643 thousand).

²²⁵ Guideline ECB/2016/34, as subsequently amended and supplemented.

2. Recognition of monetary policy operations

Over the course of 2023, the excess liquidity that had returned to the money market towards the end of the previous year widened markedly and was further mopped up by the central bank via the deposit facility. This led to significant interest expenses, in 2023 monetary policy operations resulting in a net loss of lei 1,833,062 thousand. Conversely, coupon income was received on leu-denominated government securities purchased by the NBR – mostly in 2020 – with a view to consolidating structural liquidity in the banking system in order to contribute to the smooth financing of the real economy and the public sector. However, the said income was lower than the interest expenses associated with monetary policy operations (for leu-denominated required reserves and the deposit facility), which represent the cost of pursuing the primary objective of the central bank set by law, i.e. to ensure and maintain price stability.

The summary balance sheet as at 31 December 2023 (Table 19.1) shows the following:

- foreign assets accounted for 97.6 percent of total assets;
- monetary policy assets (chiefly securities held for monetary policy purposes) made up 1.1 percent of total assets;
- currency in circulation accounted for 35.2 percent of total liabilities;
- deposits the NBR took from credit institutions as minimum required reserves (in lei, euro and US dollars) held 20 percent of total liabilities;
- holdings in the deposit facility used by credit institutions took 10.7 percent of total liabilities;
- deposits of the State Treasury with the NBR (in lei and foreign currency) made up 15.5 percent of total liabilities;
- foreign liabilities represented 7.9 percent of total liabilities.

ASSETS	Average annual return – % –	LIABILITIES	Average annual interest rate – % –
Foreign assets 97.6%	3.9	Currency in circulation 35.2%	-
Monetary policy assets 1.1%	4.7	Minimum required reserves 20% (16.4% in lei and 3.6% in foreign currency: 3.59% in euro and 0.01% in US dollars)	lei: 0.74 EUR: 0.07 USD: 0.27
Other assets 1.3%	-	Deposits of credit institutions/ deposit facility 10.7%	6.00
		Deposits of the State Treasury 15.5% (0.4% in lei and 15.12% in foreign currency: 13.02% in euro, 2.09% in US dollars and 0.01% in other foreign currency)	lei: 0.73 EUR: 3.38 USD: 5.00
		Foreign liabilities 7.9%	2.3
		Capital, reserves a.s.o. 9.7%	-
		Other liabilities 1%	-

Table 19.1
NBR balance sheet structure
as at 31 December 2023

The NBR recorded a positive operating result while pursuing the primary objective of the central bank set by law, i.e. to ensure and maintain price stability, and the above-mentioned balance sheet structure resulted as at 31 December 2023.

In 2023, asset management resulted in an annual return of 3.9 percent for foreign assets and of 4.7 percent for monetary policy assets. Looking at liabilities (sources of assets), the corresponding average annual interest rates (paid by the NBR) were – mostly – lower than the annual return on assets. Thus, the NBR made an *operating profit*.

Consequently, the positive financial result reported by the National Bank of Romania was mainly determined by the net income from the management of foreign currency assets and liabilities; in 2023, the net income from the management of foreign currency assets and liabilities totalled lei 7,363,545 thousand, up 41 percent or lei 2,128,884 thousand from that recorded in 2022, which amounted to lei 5,234,661 thousand.

3. Recognition of foreign currency asset/liability management operations

At end-2023, foreign assets expressed in lei increased significantly by lei 67,901,965 thousand or 25 percent in nominal terms and by lei 49,823,474 thousand or 17 percent in real terms from 31 December 2022.

An adequate level of international reserves is one of the most important factors supporting a country's external creditworthiness; as far as the National Bank of Romania is concerned, foreign assets accounted for around 97.6 percent of total balance sheet assets as at 31 December 2023.

According to the external auditor's report, the financial statements give a true and fair view of the bank's financial position as at 31 December 2023, as well as of its financial performance for the said financial year.

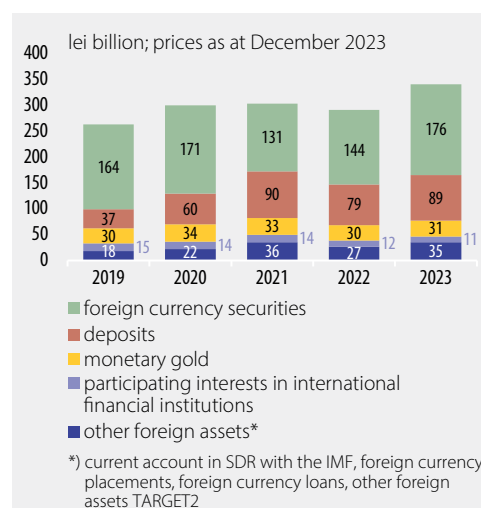


Chart 19.1
Foreign assets of the NBR
at year-end

In 2023, the management of foreign currency assets and liabilities generated income equalling lei 10,491,333 thousand and expenses totalling lei 3,127,788 thousand, which entailed net income amounting to lei 7,363,545 thousand (Table 19.2), up 41 percent or lei 2,128,884 thousand from that recorded in 2022, which was tantamount to lei 5,234,661 thousand. The positive result owed to the high-quality management of foreign assets (accounting for the largest share of the central bank's total assets).

Table 19.2
Result of transactions
conducted in 2023

	lei thousand		
	Income	Expenses	Profit/Loss
Foreign currency securities	5,978,657	72,598	5,906,059
Other foreign currency holdings and operations	4,512,676	3,054,754	1,457,922
Gold	0	436	-436
Total	10,491,333	3,127,788	7,363,545

4. Effects of changes in the exchange rates and in the market prices of international reserve assets

Given the objective need to preserve relatively high foreign exchange reserves and a diversified currency composition of reserves with a view to securing external creditworthiness, the exchange rate movements in international markets generate differences arising from the revaluation of foreign currency positions.

At the end of the financial year, the effects of changes in the exchange rate of the leu versus the euro and of the currencies making up the NBR's foreign currency reserves versus the euro are measured based on the difference between the revaluation rate²²⁶ and the average cost of the foreign currency positions held by the central bank.

Moreover, the effects of the changes in the market prices of international reserve assets are measured based on the difference between the market price of assets (gold and foreign currency-denominated securities) and their average cost or net average cost.

As at 31 December 2023, positive developments as compared with 31 December 2022 were observed as follows:

- significant unrealised gains totalling lei 29,703,311 thousand – up 4 percent from those recorded as at 31 December 2022 – arising from the revaluation of gold holdings and of some foreign currency holdings were recorded in the special revaluation account (Table 19.3), consolidating the NBR's equity;
- unrealised losses amounting to lei 2,419,768 thousand – down 38 percent from those recorded as at 31 December 2022 – arising from the mark-to-market of foreign currency-denominated securities and the revaluation of some foreign currency holdings were recorded in the profit and loss account as expenses.

Table 19.3
Revaluation differences
as at 31 December 2023

	lei thousand	
	Unrealised gains (recognised in the special revaluation account under liabilities)	Unrealised losses (recognised in the profit and loss account)
Foreign currency securities	341,022	260,464
Other foreign currency holdings	2,400,332	2,159,304
Gold and other precious metals	26,961,957	-
Total	29,703,311	2,419,768

²²⁶ The revaluation rate is the exchange rate calculated and published by the National Bank of Romania on the last business day of the month. It is used for the revaluation of foreign currency positions.

5. The NBR's budgeted income statement for 2023

The budgeted income statement defines the annual financial framework that ensures the adequate funding sources for the central bank's activity in order to fulfil its primary objective and legal tasks, in accordance with the provisions of Law No. 312/2004 on the Statute of the National Bank of Romania and in compliance with the principle of financial independence applicable to central banks that are ESCB members.

The National Bank of Romania is fully funded from own income generated as a result of the operations specific to central banks. Ensuring budget balance and capping the bank's administrative and staff costs are among its steady concerns for the good financial management of resources.

Drawing up the 2023 budgeted income statement took into account a prudent approach in sizing income and expenses. They were planned so as to ensure that the budget balance was maintained, even amid elevated uncertainty surrounding the dynamics of macroeconomic variables underlying the budget plan, the global economic and financial environment and the adverse investment climate for fixed-income instruments, which persisted also in 2023, as well as the increase in the average costs of euro currency holdings.

A significant factor that acted towards curbing the planned level of the estimated financial result was the probable materialisation, at the end of the year, of some changes in exogenous components. This would have an impact on recognising in the corresponding expenditure accounts the unrealised losses arising from the revaluation of fixed-income securities and foreign currency positions.

The financial result at 31 December 2023 was a profit totalling lei 2,428,653 thousand, lei 2,336,430 thousand higher than the budgeted figure of lei 92,223 thousand, on the back of prudent budget planning and with the positive contribution of total income, which posted a larger increase than the projected level, whereas total expenses reported a lower execution rate (Table 19.4).

The total income earned in 2023 amounted to lei 10,860,205 thousand, which shows a budget execution rate of 112.6 percent compared to the planned level for the period under review. This favourable development was underpinned by the similar dynamics of most income categories, except for other income from specific operations, which was slightly lower than estimated. Interest income and income from foreign currency operations made a greater contribution to the budget execution on the income side, on account of developments in the policy rates of the central banks relevant to international reserve management, as well as of exchange differences arising from the outflows from long foreign currency positions, which followed higher paths than expected.

In 2023, total expenses amounted to lei 8,431,552 thousand, accounting for 88.2 percent of the budgetary provisions, mainly on the back of lower-than-expected unrealised losses arising from the revaluation of foreign currency assets and liabilities as at 31 December 2023, which amounted to lei 2,419,768 thousand, making up 68.2 percent of the budgetary provisions.

Indicators	2023		Execution rate
	Budgeted	Actual	
	lei thousand	lei thousand	%
	(1)	(2)	(3)=(2)/(1)
Total income,	9,649,049	10,860,205	112.6
<i>of which:</i>			
Interest income	8,388,168	9,018,187	107.5
Fees and commissions income	211,894	226,083	106.7
Income from foreign currency operations	864,486	1,402,613	162.2
Income from securities operations	153,783	179,888	117.0
Income from operations with precious metals	-	-	-
Income from provisions	-	2,991	-
Other income from specific operations	8,151	7,333	90.0
Income from fixed assets revaluation	-	-	-
Other income	22,568	23,110	102.4
Total expenses,	(9,556,826)	(8,431,552)	88.2
<i>of which:</i>			
Interest expenses	(4,918,743)	(5,071,661)	103.1
Fees and commissions expenses	(9,078)	(11,184)	123.2
Expenses from foreign currency operations	(16,402)	(13,458)	82.1
Expenses from securities operations	(11,509)	(7,020)	61.0
Expenses from operations with precious metals	(948)	(436)	46.0
Expenses (unrealised losses) from revaluation differences	(3,550,000)	(2,419,768)	68.2
Currency issue expenses	(235,319)	(221,373)	94.1
Expenses from provisions	-	-	-
Losses arising from unrecoverable receivables not covered by provisions	-	-	-
Other expenses from specific operations	(15,519)	(5,576)	35.9
Staff costs	(517,060)	(496,024)	95.9
Administrative expenses	(150,987)	(76,861)	50.9
Depreciation of fixed assets	(44,007)	(49,312)	112.1
Expenses from fixed assets revaluation	-	-	-
Other operating expenses	(87,253)	(58,879)	67.5
Profit for the year	92,223	2,428,653	2,633.4

Table 19.4
Budgeted income statement
for 2023

By reference to the budget plan, certain expenditure categories posted higher levels than those planned, interest expenses exerting a stronger impact. Their change was mainly ascribable to the increase in the interest rate on EUR-denominated deposits in the State Treasury's current account, as well as to the higher-than-projected average actual amount of such deposits, to which added the hike in interest expenses on the IMF's SDR allocations and the opposite effect of the lower-than-planned level of interest expenses on deposits taken from credit institutions.

Administrative expenses, other operating expenses and staff costs were lower than planned, which reflects the steady concern for the good financial management of own resources.

For details on the contents of income and expenses categories for 2023, see the notes to the income statement in the financial statements section.

6. Conclusions

The financial position of the National Bank of Romania was further solid, its equity (Table 19.5) being markedly positive at 31 December 2023 (lei 34,028,592 thousand), up 5 percent or lei 1,640,807 thousand from 31 December 2022 (lei 32,387,785 thousand). This includes the following items:

- *statutory capital*, fully provided by the state, amounting to lei 30,000 thousand;
- *own reserves created by the bank's activity*, totalling lei 4,100,988 thousand (up 9 percent from 31 December 2022), reflecting an efficient management of the resources available to the bank; these include: reserves built up by yearly distributions, over time, of the bank's profit (under statutory reserves and own sources for investment financing), reserves from the revaluation of the bank's fixed assets, and other reserves;
- *special revaluation account*, recording a substantial amount of lei 29,703,311 thousand (up 4 percent from 31 December 2022), consisting mainly of the significant unrealised gains arising from the revaluation of gold holdings and of some foreign currency holdings;
- *profit for the year*, totalling lei 2,428,653 thousand;
- *profit distribution at 31 December* for the annual distributions set by law (paying to the state budget an amount of lei 1,942,922 thousand representing the share of 80 percent of the bank's net income and increasing the NBR's statutory reserves by an amount of lei 291,438 thousand).

Table 19.5
Equity

	31 December 2023 (lei thousand)	31 December 2022 (lei thousand)	Percentage change (%)
Capital	30,000	30,000	-
Reserves	4,100,988	3,745,384	9
Special revaluation account	29,703,311	28,525,917	4
Profit for the year	2,428,653	1,082,085	124
Profit distribution	-2,234,360	-995,601	124
Total	34,028,592	32,387,785	5

In addition, the **operating financial result** for 2023 (net of unrealised losses arising from the mark-to-market of foreign currency-denominated securities and of unrealised losses arising from the revaluation of some foreign currency holdings) was substantial, consisting in a profit of lei 4,848,421 thousand, only 3 percent lower from that posted in 2022 (Table 19.6). Under the circumstances, mention should be made of the loss arising from monetary policy operations (which represents the cost of pursuing the primary objective of the central bank set by law, i.e. to ensure and maintain price stability), as well as of the increase in profit from foreign currency asset/liability management operations as compared to 2022. After the recording of unrealised losses arising from the mark-to-market of foreign currency-denominated securities and of unrealised losses arising from the revaluation of some foreign currency holdings as at 31 December 2023, the final financial result at end-2023 was a profit amounting to lei 2,428,653 thousand, 124 percent or lei 1,346,568 thousand higher than that in the prior year (lei 1,082,085 thousand).

Table 19.6
Operating result

Activity	Operating result (lei thousand)		Annual change
	2023	2022	%
Monetary policy	-1,833,062	374,416	-
Management of foreign currency assets and liabilities	7,363,545	5,234,661	41
Currency issue and payment settlement	-27,087	-36,662	-26
Other operations	-654,975	-568,280	15
Total operating result	4,848,421	5,004,135	-3

Profit distribution for the financial year 2023. Pursuant to Law No. 312/2004 on the Statute of the National Bank of Romania, the largest part of the profit, i.e. lei 1,942,922 thousand, representing a share of 80 percent of the bank's net income, was transferred to the state budget. In addition, an amount of lei 291,438 thousand was allocated to increase the statutory reserves (accounting for 60 percent of the profit that remained after deducting the share of 80 percent of the bank's net income owed to the state). The remaining profit, amounting to lei 194,293 thousand, is to be distributed in 2024 in line with the legal provisions.

Financial statements
of the National Bank of Romania
as at 31 December 2023

(audited by KPMG)

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official and binding version



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Independent Auditors' Report

(free translation¹)

To the Board of Directors of the National Bank of Romania

25 Lipscani street, district 3, Bucharest

Unique Registration Code: 361684

Opinion

1. We have audited the financial statements of the National Bank of Romania ("the Bank"), which comprise the balance sheet as at 31 December 2023, the income statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2023 are identified as follows:

• Capital and reserves:	Lei thousands 34,028,592
• Profit for the year:	Lei thousands 2,428,653
3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance for the year then ended in accordance with the Norm for organizing and conducting the accounting of the National Bank of Romania no. 1/2007 ("Norm no. 1/2007") with subsequent amendments.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with *International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA

¹ TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

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Code") together with the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

5. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Norm 1/2007 with subsequent amendments 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.
6. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
7. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit 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.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists,

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we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
10. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For and on behalf of KPMG Audit S.R.L.:

Refer to the original signed Romanian version

FURTUNA CEZAR-GABRIEL

registered in the electronic public register of financial auditors and audit firms under no AF1526

KPMG Audit SRL

registered in the electronic public register of financial auditors and audit firms under no FA9

Bucharest, 20 May 2024

BALANCE SHEET AS AT 31 DECEMBER 2023

		lei thousand	
	Note	31 December 2023	31 December 2022
Cash and other cash equivalents		42,539	42,419
Precious metals and stones,		359,187	332,536
<i>out of which:</i>			
Non-monetary gold		299,171	271,468
Other precious metals and stones		60,016	61,068
Foreign assets,		341,404,097	273,502,132
<i>out of which:</i>			
Current account in SDR with the IMF	4	16,546,760	16,940,548
Monetary gold	5	30,885,609	28,025,688
Demand deposits placed	6	49,101,810	70,042,502
Term deposits placed	7	39,470,165	3,903,183
Placements in foreign currencies	8	2,748,413	2,710,628
Securities in foreign currencies	9	175,586,264	134,996,697
Loans in foreign currencies	10	13,173,144	1,790,346
Participating interests in international financial institutions,	11	11,128,276	11,298,856
<i>out of which:</i> quota at the IMF		10,964,228	11,132,553
Other foreign assets TARGET	23	2,763,656	3,793,684
Securities held for monetary policy purposes,		3,968,441	3,978,653
<i>out of which:</i>			
Securities in RON	12	3,968,441	3,978,653
Securities in foreign currencies		-	-
Loans to domestic credit institutions,	13	-	-
<i>out of which:</i>			
Loans under litigation		21,787	22,587
Provisions for credit risk – principal		-21,787	-22,587
Other assets,		2,817,025	3,688,237
<i>out of which:</i>			
Tangible and intangible fixed assets	14	1,315,080	1,277,530
Inventories		5,130	5,070
Participating interests	15	2,713	2,711
Settlement account with the State Budget	16	1,395,470	2,305,752
Accruals and prepaid expenses		66,153	67,300
Revaluation differences for off-balance sheet items		2,589	-
Other assets,		102,613	104,789
<i>out of which:</i>			
Goods of numismatic, philatelic, historical, cultural, artistic importance		29,477	29,257
Provisions for doubtful assets	17	(72,723)	(74,915)
Accrued interest receivable		1,201,054	597,972
Accrued interest receivable	18	1,207,122	604,040
Provisions for credit risk – interest	19	(6,068)	(6,068)
Total assets		349,792,343	282,141,949

Notes from page 311 to 344 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2023

		lei thousand	
	Note	31 December 2023	31 December 2022
Currency in circulation	20	123,294,176	114,316,898
Foreign liabilities,		27,462,809	27,861,267
<i>out of which:</i>			
To international financial institutions	21	10,971,784	11,133,271
Demand deposits taken		21,603	5,731
Counterpart of special drawing rights allocated by the IMF	22	16,469,422	16,722,265
Due to domestic credit institutions and other financial institutions,	23	110,348,941	68,220,934
<i>out of which:</i>			
Current accounts of the domestic credit institutions (including minimum reserves in RON)		57,442,039	45,681,980
Amounts withheld under special arrangements		2,752	2,775
Deposits of the domestic credit institutions		37,540,640	5,951,500
Deposits of the financial institutions		11	-
Foreign currency minimum reserves		12,598,900	12,790,135
Accounts of bankrupt credit institutions		943	860
Other liabilities TARGET		2,763,656	3,793,684
Current account of the State Treasury	24	54,383,209	39,171,702
Other liabilities		87,783	78,916
Sundry creditors		68,584	57,857
Salaries and other personnel related liabilities		78	78
Settlement account with the State Budget	16	15,412	13,387
Accruals and income collected in advance		1,166	396
Revaluation differences for off-balance sheet items		-	2,955
Other liabilities		2,543	4,243
Accrued interest payables	25	186,833	104,447
Capital and reserves,		34,028,592	32,387,785
<i>out of which:</i>			
Capital		30,000	30,000
Reserves	27	4,100,988	3,745,384
Special revaluation account	28	29,703,311	28,525,917
Profit for the year		2,428,653	1,082,085
Profit distribution for the year	40	(2,234,360)	(995,601)
Total liabilities and equity		349,792,343	282,141,949

The financial statements were approved by the Board of Directors on 16 May 2024 and were signed on its behalf by:

Governor
Mr. Mugur Isărescu

Notes from page 311 to 344 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED AT 31 DECEMBER 2023

		lei thousand	
	Note	31 December 2023	31 December 2022
Interest income	29	9,018,187	1,792,443
Interest expense	30	(5,071,661)	(864,915)
Net result from interest		3,946,526	927,528
Fees and commissions income	31	226,083	177,048
Fees and commissions expense	32	(11,184)	(14,392)
Net result from fees and commissions		214,899	162,656
Net realized gains arising from foreign currencies operations	33	1,389,155	4,678,876
Net realized gains arising from securities operations	34	172,868	(9,177)
Realized losses arising from precious metals operations	35	(436)	(365)
Unrealized losses from revaluation differences	36	(2,419,768)	(3,922,050)
Net result of financial operations		(858,181)	747,284
Currency issue expenses	37	(221,373)	(189,674)
Expenses from provisions		2,991	(3,426)
Other expenses from specific operations		(5,576)	(6,716)
Other income from specific operations		7,333	9,286
Net result of specific operations		(216,625)	(190,530)
Other income		23,110	30,090
Staff costs		(496,024)	(420,760)
Administrative expenses		(76,861)	(69,189)
Depreciation of tangible and intangible fixed assets		(49,312)	(50,786)
Other operating expenses		(58,879)	(54,208)
Net profit for the year		2,428,653	1,082,085
Quota for the state budget		1,942,922	865,875

The financial statements were approved by the Board of Directors on 16 May 2024 and were signed on its behalf by:

Governor
Mr. Mugur Isărescu

Notes from page 311 to 344 are an integral part of these financial statements.

Notes to the financial statements for the year ended at 31 December 2023

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 in 25 Lipscani Street, Bucharest, Romania. In accordance with the legislation, the Bank is managed by nine members of the Board of Directors. The executive management of the Bank is exercised by the Governor (Mr. Mugur Isărescu), the First Deputy Governor (Mr. Florin Georgescu) and two Deputy Governors (Mr. Eugen Nicolaescu and Mr. Leonardo Badea). The other 5 members of the Board of Directors are: Mr. Cristian Popa, Mr. Gheorghe Gherghina, Mr. Csaba Bálint, Mr. Dan Radu Ruşanu and Mr. Virgiliu Stoenescu. The Parliament appoints the members of the Board of 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 2023 is of 2,095 (31 December 2022: 2,073 employees).

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 the Law no. 312/2004 is to ensure the compliance of the NBR statute with the European Union legislation and, particularly, with the provisions of the European Community Treaty regarding the independence of the Central Bank.

In accordance with the legislation in force, 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 methods and accounting policies

a) Statement of compliance

The financial statements of the NBR are prepared in accordance with the Norm for organizing and conducting the accounting of the National Bank of Romania no. 1/2007, as subsequently amended and supplemented (no. 1/2008, no. 3/2008, no. 1/2010, no. 2/2010, no. 4/2011, no. 1/2014, no. 1/2017, no. 1/2019 and no. 2/2021) and include the balance sheet, the income statement and the explanatory notes. The NBR Norm no. 1/2007 as subsequently amended and supplemented lays down the basic accounting principles and rules, the structure and the content of the annual financial statements having as a general purpose the compliance with the provisions of the accounting standards applicable to central banks and recognized by the European

Central Bank (i.e.: Guideline ECB/34/2016), except for the formats which are mandatory only in case of reporting data to the ECB for Eurosystem financial reporting purposes.

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. They are prepared under the historical cost convention, except for the gold and foreign currency securities booked at market value, respectively buildings and land at fair value. Income and expenses are recognized in the accounting period in which they are earned or incurred, according to the accruals principle.

c) The transfer of the Bank's net revenues to the State Budget

The Bank is exempt from paying income tax, but in accordance with the Law no. 312/2004, it distributes a share of 80 percent of the net revenues to the State Budget on a monthly basis after deducting the expenses related to the financial year, except for other than credit risk provision expenses and the loss related to previous financial years that remained uncovered from other sources.

The final adjustments related to the financial statements are performed until the deadline for submitting the annual financial statements, according to the law, based on a special rectifying statement.

d) 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 the revenues and expenses recognition, are carried out prudently. However, prudence does not allow for a deliberate understatement of assets and income or overstatement of liabilities and expenses.

Going concern principle: The NBR as the central bank of Romania will function for the foreseeable future.

Comparability: the criteria for evaluation of the balance sheet items and for results recognition must be consistently applied in order to ensure the comparability of data in the financial statements.

Events subsequent to the balance sheet date: 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 these events affect the condition of assets or liabilities existing 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 of the financial statements to make proper evaluations and decisions.

Materiality: deviations from the accounting rules, including those affecting the income statement, 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 recognized in the accounting period in which they are earned or incurred and not in the period in which they are collected or paid.

Faithful representation: to be credible, the information must accurately present the transactions and other events that it aims to present.

Neutrality: the information contained in the financial statements must be neutral, i.e. free from influence and without the aim of achieving a predetermined result or objective.

Financial year cut-off: all revenues and expenses of the corresponding financial exercise will be booked, without considering the date of the amounts' receipt or payment.

Intangibility of the opening balance sheet: the opening balance sheet of a financial year must correspond to the closing balance sheet of the previous year, except for the corrections imposed by the legislation in force.

Principle of non-compensation: the values of the assets cannot be compensated with the values of the liabilities, nor the income with the expenses, except for the compensations allowed by the legislation in force.

Deviations from accounting principles: deviations from these general principles will be allowed only in exceptional cases. The explanatory notes will present the deviations, their reasons and an evaluation of the effect of the deviations on the Bank's debts, the financial position and the financial result.

e) Estimates

In preparing the financial statements in accordance with the provisions of the Norm 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 income statement of the period when they occur. Although these individual estimates carry a degree of uncertainty, their cumulative effect on the financial statements is deemed immaterial.

f) Recognition of assets and liabilities

Financial and other assets/liabilities are recognized 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's patrimony;

- all the risks and benefits associated with the asset/liability have been effectively transferred to/from the Bank; and
- assets and liabilities values can be reliably measured.

Financial assets and liabilities are initially recognized at acquisition value, as presented hereinafter.

g) Foreign currency position

The currency position represents the net balance in a certain 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, representing the gold position. The SDR currency is considered as a distinct currency; transactions that affect the SDR net position are either denominated in SDR or transactions that follow the structure of the SDR basket.

Items that are not included in the foreign currency position are: cash in foreign currencies, foreign currencies in transit, sundry creditors, sundry debtors, settlement accounts and prepayments.

h) Average cost method

The average cost method applies to the following:

- the foreign currency position, including SDR;
- the monetary gold position;
- the foreign currency securities portfolio – for each ISIN/CUSIP (security series);
- the securities held for monetary policy purposes.

The long/short foreign currency position represents the net balance in a certain 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 – when total receivables are above/ below total payables.

The average cost of the foreign currency holdings is calculated daily as an indirect foreign exchange quotation (RON/one foreign currency unit). For the long foreign currency position, net purchases of currencies 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 the gold holdings. In case of a short position, the reverse treatment to the above-mentioned approach is applied. Thus, the average cost of the liability position is affected by net outflows, while net inflows reduce the position at the existing average cost and generate realized gains or losses.

The average cost of the foreign currency securities holdings is determined for each ISIN/CUSIP (security series) by dividing the transaction value of the entire holding to the nominal value of the holding. For each security series, all purchases made during the day are added to the previous day's holding to determine a new weighted average cost.

The net average cost of the foreign currency securities is determined for each security series by dividing the holding at average cost – adjusted with the cumulated premium or discount amortization – to the corresponding nominal value of the holding. Premiums or discounts resulting from the securities purchase are amortized over the remaining life of the securities using the internal rate of return method.

The gains or losses resulting from transactions in foreign currencies or monetary gold and from transactions with foreign currencies securities are determined based on the average cost of the respective holding (Note 2i and Note 2j).

In accordance with the revaluation procedure (Note 2p), at the end of the financial year, the revaluation rate and the revaluation price of the securities become the new average cost of the foreign currency holding and the new net average cost of the foreign currency securities, provided that unrealized losses for the respective foreign currency position or holding of ISIN/CUSIP have been recorded as expenses as at 31 December.

i) Foreign currency transactions

The operations denominated in foreign currencies are converted into RON at the official exchange rate valid on the trade date. The monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted into RON at the exchange rate valid at that date.

The deposits denominated in foreign currency (sight and term) – in accounts held with international institutions, central banks, foreign banks, etc. – are booked at their nominal value. Interest receivable is recorded according to the accruals principle.

Forward and spot foreign currencies purchases and sales performed as part of foreign currency/RON swaps are recognized in off-balance-sheet accounts from the trade date until the settlement date at the spot rate of the transactions and recognized in balance-sheet accounts on settlement date. The difference between spot and forward rates is treated as payable or receivable interest. The foreign currency position is affected by the accrued interest payables or receivables denominated in foreign currency.

In accordance with the average cost method for long foreign currency position, any sale of foreign currency (outflow from the foreign currency position) generates realized gain/loss calculated as follows:

- if the daily acquisitions exceed the daily sales, then the gain/loss arising from the daily sales is computed as the total sales multiplied by the difference between the average price of the daily sales and the average cost of the daily acquisitions;

- if the daily sales exceed the daily acquisitions, then the gain/loss arising from the daily sales is computed as the sum of the following:
 - the gain/loss arising from the sales covered by the daily acquisitions, computed as the total daily acquisitions multiplied by the difference between the average price of the daily sales and the average cost of the daily acquisitions;
 - the gain/loss arising from the sales covered by the previous day's foreign currency holdings, computed as the daily net sales multiplied by the difference between the average price of the daily sales and the average cost of the respective foreign currency position on the preceding day.

j) Foreign currency securities

Premiums/discounts arising from the securities acquisitions are amortized over the remaining life of the securities using the internal rate of return method.

The amortization of the discount/premium is booked daily based on the accruals principle and is disclosed as part of the interest income/expense. The accrued interest receivables for securities in foreign currencies are calculated and recorded on a daily basis, based on the accruals principle, being converted into RON at the Bank's exchange rate of the day.

The gain/loss arising on sale of securities is determined as the nominal value of the securities sold multiplied with the difference between the sale 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 with the difference between the sale price and the net average cost of the respective security – booked in the profit and loss account on the settlement date – the line "Net realized gains/losses arising from securities operations";
- the interest rate effect, representing the nominal value of the securities sold multiplied with the difference between the net average cost and the average cost of the respective security – booked in the profit and loss account through the daily amortization of the related premiums/discounts on foreign currency securities – the line "Interest expense/income".

The gain/loss from the mark-to-market revaluation is determined as the difference between the market price and the net average cost.

The Bank performs securities lending under a program conducted by an European bank. The Bank records the income from commissions and books in the off-balance sheet accounts the securities lent and the securities received as collateral. The transactions are recorded on the balance sheet, at least at the end of the reporting period, if the collateral is provided in the form of cash, placed on an NBR's account, and if this cash is still not invested.

k) Securities held for monetary policy purposes

Securities held for monetary policy purposes in local and foreign currency are booked using the average cost method (see Note 2h). As at the end of month, these can be booked at market value based on the monetary policy considerations. Securities booked at cost are subject to an impairment test as at the end of the year. All premiums and discounts are amortized. The receivables related to securities (coupons) are calculated and booked daily according to the accruals principle.

l) Loans to domestic credit institutions and other entities

Loans are disclosed in the balance sheet at the value of the outstanding principal, adjusted with the provision for credit risk, in order to reflect the recoverable amount. Likewise, this balance sheet item includes the loans granted to credit institutions based on securities transfers accompanied by a repurchase arrangement.

m) Participating interests

In accordance with the Norm no. 1/2007 as subsequently amended and supplemented, the participating interests, including those reflecting a significant influence, are booked at acquisition cost.

n) Tangible and intangible fixed assets

The tangible and intangible fixed assets are presented in the financial statements at cost or fair value, less any accumulated amortization.

At least once in 3 years, the fixed assets in the categories *Constructions* and *Land* are revaluated. The resulting favorable differences are booked as *Reserves* if no previous decrease was recognized as an expense; favorable differences are booked as income to compensate the previous expense representing a decrease of the asset value. The resulting unfavorable differences are compensated with the previous favorable revaluation differences for each asset; the remaining unfavorable differences are booked as expenses. For the financial years when NBR does not revalue the constructions and land, NBR may carry out impairment tests.

All maintenance and current repair operations (which do not upgrade the initial characteristics of fixed assets), the periodical and occasional revisions, the service operations are recognized in the income statement, irrespective of their value; their value is not included in the value of the fixed assets. Other repair costs are booked in the income statement if their individual value is less than the threshold laid down in the NBR's Norm no. 1/2014; if the individual value of these operations is equal to or higher than the aforementioned threshold and the operations improve the technical parameters of the fixed assets, or if the operations are mandatory for securing a normal functioning of the assets, the costs increase the value of the fixed assets.

Any expense related to the replacement at various times of components/parts are booked in the income statement if their individual value is less than the threshold laid down in the NBR's Norm no. 1/2014; if their individual value is higher than the aforementioned threshold, the costs increase the value of the fixed assets.

Expenses related to construction of property are capitalized and amortized once the assets are put in use.

The amortization is calculated on a straight-line basis over the estimated useful life of each class of tangible assets. The amortization is accounted for as a write – down of the value of the assets. Land is not depreciated. The legal useful life for each category is as follows:

Buildings	20-60 years
Equipment	5-20 years
Motor vehicles	5 years
Computer equipment (hardware and software)	3-5 years

o) Currency in circulation

The Bank elaborates the program for banknotes and coins issuance, it provides the related printing, distribution and administration services for the currency reserve, in order to meet the cash requirements in accordance with the real needs for currency in circulation.

The currency in circulation is booked at the nominal value of the banknotes and coins which are actually put into circulation.

The costs of printing and minting banknotes and coins are booked as expenses on the accounting period when they occur, not when they are paid.

p) Revaluation

The revaluation of currency positions is performed on a monthly basis and booked in the special revaluation account, as the difference between the revaluation exchange rate (the official rate calculated and published on the last working day of the month) and the average cost of the foreign currency position. The assets (participation with the IMF) and liabilities (allocations and deposit from the IMF) denominated in SDR are also revalued on 30 April and 31 December, based on the exchange rates communicated by the International Monetary Fund.

The mark-to-market is performed on a monthly basis both for the holdings of monetary gold and for the foreign currency securities, with the exceptions listed below; the revaluation differences are recorded in balance-sheet adjustments accounts. The revaluation of gold is performed based on the price in RON per defined weight unit of gold, derived from the RON/USD exchange rate and the fixing quotation on the London Bullion Market. The revaluation of securities is performed by comparing

the market price at the end of the month with the net average cost of the respective security holding. Short-term securities commercial paper types are booked at cost plus accumulated discount (these instruments are not traded on a secondary market). The securities held for monetary policy purposes are booked at cost or market value based on the monetary policy considerations.

Offsetting unrealized losses for securities, currencies or gold against unrealized gains in other securities, currencies or gold is not allowed.

At the end of the financial year, the unrealized losses resulting from the revaluation of assets and liabilities are charged to the income statement without the possibility of subsequent cancellation against new unrealized gains obtained in future financial periods. Subsequently, the average cost of the foreign currency position, i.e. the net average cost of the foreign currency securities, for which revaluation differences were recognized as expenses, becomes equal with the revaluation rate, i.e. the market price of the securities. At the end of the financial year, the unrealized gains resulting from the revaluation of foreign currency assets and liabilities are booked in the special revaluation account.

q) Pension obligations and employee benefits

The Bank makes payments to the Romanian State funds for its Romanian employees for pension, healthcare and unemployment benefits. During 2023, as well as during the previous years, all the employees of the Bank were included in the State pension system. Also, starting with the year 2007, according to the legal framework, all eligible employees of the Bank have been included in the private pension system.

In compliance with the collective labor agreement currently in force, on the retirement of its employees, the Bank pays benefits based on the salary as at the date of retirement and on the number of years of working with NBR. The collective labor agreement is subject to the annual approval of the Board of Directors. The Bank recognizes the retirement benefits on the date when the employee's individual employment contract expires.

r) Income and expense recognition

Income and expenses are recognized in accordance with the accruals principle. The losses or gains arising from the sale of foreign currencies, gold or securities holdings are accounted for in the income statement. These realized gains/losses are determined as the difference between the sale price and the average cost of the respective asset.

The unrealized revaluation gains are not recognized as income, but they are booked in the special revaluation account.

There is no netting of unrealized losses for securities, currencies or gold against unrealized gains in other securities, currencies or gold. At the end of the year, the unrealized losses for other assets are charged to the income statement if they exceed the revaluation gains previously recorded in the corresponding revaluation account.

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 2023 and 31 December 2022 the Bank's capital amounted to RON 30,000 thousand.

The statutory reserves have been set up on 1 January 2005 in accordance with the Law no. 312/2004, incorporating the remaining balance of the reserve fund.

As at both 31 December 2023 and 2022, the statutory reserves were increased by distributing 60 percent of the annual profit that remained after paying to the State its share of 80 percent of the Bank's net revenues.

t) Profit distribution

The 2023 remaining profit (after distribution to the State Budget of its share of 80% of the Bank's net revenues) is distributed in accordance with the Law no. 312/2004 regarding the Statute of the National Bank of Romania (see Note 40).

3. Risk management policies

The main risks associated with the activities of the Bank are financial and operational risks, arising from the responsibility of the Bank to ensure and maintain price stability. The main types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

a) Credit risk

The Bank is exposed to credit risk as a result of its trading, lending and investment activities.

The credit risk associated with trading and investing activities is managed through the Bank's managing international reserves procedures. The risk is mitigated by selecting counterparties with the highest credit ratings, by monitoring their activities and ratings, as well as by using the exposure limits method.

The eligible issuers approved by the Board of Directors as part of the foreign reserves administration strategy for 2022-2023 are: (i) the USA government; (ii) governmental agencies or agencies sponsored by the USA government; (iii) governments of the European Union member states; (iv) governmental agencies or agencies sponsored by the European Union member states governments; (v) the Japanese government; (vi) Chinese government; (vii) other governments that benefit from the minimum rating; A-; (viii) supranational institutions; (ix) private entities issuing assets-collateralized bonds. As at 31 December 2023, the international reserves portfolio has an AA minimum rating (S&P), different from the A minimum rating (S&P) as at 31 December 2022.

The structure of the foreign assets and related interest accruals by geographical areas of the counterparties is presented in the following table:

	lei thousand	
	31 December 2023	31 December 2022
Euro zone	194,205,698	144,179,414
USA	68,703,305	61,556,298
Others	79,615,742	68,262,966
Total	342,524,745	273,998,678

As part of its monetary and exchange rate policies, the Bank is entitled to grant loans to domestic credit institutions. The Bank's credit risk arising from granting short-term loans in RON to domestic credit institutions, including the lending facility, is managed based on specific instruments. The amount of credit exposure in this regard is represented by the carrying amounts of the loans on the balance sheet. Short-term loans in RON, repo operations, lending facility and other credits extended to banks are normally secured with eligible assets (by example: treasury securities issued by the Romanian Government). However, the Bank may, in special circumstances, grant unsecured loans to banks and other credit institutions in order to prevent systemic crises. The Bank also monitors the depreciation indicators for securities held for monetary policy purposes in RON in order to manage the related credit risk. As at 31 December 2023 and 31 December 2022, no depreciation was determined for RON securities held for monetary policy purposes.

The Bank books credit risk provisions for the impairment of such loans, in accordance with its own accounting norms, drawn up under the approval of the Board of Directors and the advisory approval of the Ministry of Public Finance. Adjustments for the impairment of loans are charged to the income statement as specific expenses and are offset against the carrying value of the loans and accrued interest receivables. Loans are written off and charged to the income statement as they become unrecoverable and all the legal procedures have been carried out for their recovery.

The financial assets are reviewed to determine whether there is any indication of impairment. If any such indication occurs, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

The adjustments for the impairment of the 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. A provision for impairment is fully/partially reversed only to the extent that the asset's carrying amount does not exceed the net carrying amount that would have been determined if no impairment provision had been recognized in previous years.

b) Liquidity risk

The Bank is the last resort lender to credit institutions in Romania. The main objective of its daily operations is to ensure adequate liquidity on the domestic market.

The Bank also manages the foreign currency reserves, through planning and diversification, in order to ensure that foreign exchange obligations are timely met.

The breakdown of the Bank's liabilities (RON thousand) by maturities as at 31 December 2023 is the following:

	Maturity				lei thousand
	Up to 1 month, inclusively	Over 1 month to 3 months inclusively	Over 3 months	No maturity	Total
Currency in circulation	-	-	-	123,294,176	123,294,176
Due to international financial institutions	-	-	-	10,971,784	10,971,784
Demand deposits taken	21,603	-	-	-	21,603
Counterpart of special drawing rights allocated by the IMF	-	-	-	16,469,422	16,469,422
Current accounts of the domestic credit institutions (including RON minimum reserves)	57,442,039	-	-	-	57,442,039
Amounts withheld under special arrangements	2,752	-	-	-	2,752
Deposits of the domestic credit institutions	37,540,640	-	-	-	37,540,640
Deposits of financial institutions	11	-	-	-	11
Foreign currency minimum reserves	12,598,900	-	-	-	12,598,900
Accounts of bankrupt credit institutions	943	-	-	-	943
Other liabilities of credit institutions – TARGET	2,763,656	-	-	-	2,763,656
Current account of the State Treasury	54,383,209	-	-	-	54,383,209
Other liabilities and interest payables	274,616	-	-	-	274,616
Total*	165,028,369	-	-	150,735,382	315,763,751
*) it does not include the Bank's capital, funds and reserves					

As at 31 December 2022:

	Maturity				lei thousand
	Up to 1 month, inclusively	Over 1 month to 3 months inclusively	Over 3 months	No maturity	Total
Currency in circulation	-	-	-	114,316,898	114,316,898
Due to international financial institutions	-	-	-	11,133,271	11,133,271
Demand deposits taken	5,731	-	-	-	5,731
Counterpart of special drawing rights allocated by the IMF	-	-	-	16,722,265	16,722,265
Current accounts of the domestic credit institutions	45,681,980	-	-	-	45,681,980
Amounts withheld under special arrangements	2,775	-	-	-	2,775

– continued –

	Maturity				Total
	Up to 1 month, inclusively	Over 1 month to 3 months inclusively	Over 3 months	No maturity	
Deposits of the domestic credit institutions	5,951,500	-	-	-	5,951,500
Foreign currency minimum reserves	12,790,135	-	-	-	12,790,135
Accounts of bankrupt credit institutions	860	-	-	-	860
Other liabilities of credit institutions – TARGET	3,793,684	-	-	-	3,793,684
Current account of the State Treasury	39,171,702	-	-	-	39,171,702
Other liabilities and interest payables	183,363	-	-	-	183,363
Total*	107,581,730	-	-	142,172,434	249,754,164

*) it does not include the Bank's capital, funds and reserves

c) Market risk – generated by changes in the value of assets and liabilities held, as presented below:

(i) Interest rate risk

The Bank faces interest rate risk, mainly due to exposure to unfavorable market interest rate fluctuations, which affects the market value of interest-bearing assets/liabilities. Thus, as at 31 December 2023, NBR recorded expenses with unfavorable differences from market value revaluation of foreign currency securities in amount of RON 260,464 thousand (31 December 2022: RON 3,333,407 thousand).

As part of Romania's international reserve management, the interest rate risk is managed both by establishing the average target durations of the portfolios and the deviation limits from them, as well as by diversifying the exposures by maturities and issuers.

For identifying the optimum strategic risk parameters, the following items are taken into consideration: the role of the international reserves, the NBR's objectives and risk tolerance, the NBR's assets and liabilities profile, interest rate perspectives and other relevant considerations. As part of the strategy of Romania's international reserves, approved by the Board of Directors of the Bank for 2022-2023, an average duration up to one year and seven months (1.6 years) was established for the entire foreign currency reserve. The Board approved two additional duration limits as follows: aggregated for MMKT (Money Market) and liquidity tranches – one year and five months (1.4 years); investment tranche – two years and six months (2.5 years).

For the financial assets and liabilities denominated in RON, the Bank follows the current interest rates available in 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.

(ii) Currency risk

The Bank is exposed to currency risk through its foreign currency transactions and its holdings of foreign currency assets and liabilities. As at 31 December 2023 and 31 December 2022, the main net assets held by the Bank were denominated in EUR and USD. Due to the volatility of the exchange rate on the financial markets, there is a consequent risk of decrease/ increase in the RON value of the monetary assets/liabilities denominated in foreign currencies. Open foreign exchange positions represent a source of currency risk.

In order to reduce the potential losses that may be generated by unfavorable exchange rate fluctuations, but within the limits of its international reserves management objectives, the Bank is currently implementing a portfolio diversification policy, with the aim of achieving a balanced distribution across currencies. Assets and liabilities denominated in EUR, USD and other currencies as at the balance sheet date are presented in Note 38.

The revaluation exchange rates of the main foreign currencies and monetary gold as at the end of the year were:

Currency	31 December 2023	31 December 2022	% variation
Euro: RON/1 EUR	4.9746	4.9474	+0.55
US Dollar: RON/1 USD	4.4958	4.6346	-2.99
Gold: RON/1 gram	298.2747	270.6553	+10.20

(iii) Price risk

The Bank is exposed to this risk due to fluctuations in market price for assets held as a result of variations in interest rates, exchange rates and other factors. Monetary gold and foreign exchange denominated securities are booked at market value (Notes 5 and 9). The market values of the securities held for monetary policy purposes are disclosed in Note 12.

d) Operational risk and other risks

The war in Ukraine and associated sanctions in 2022 and 2023 and the 2023 Middle East conflict generated uncertainty and induced risks to the perspective of the economic activity, negatively influencing the global risk appetite. However, the Bank did not register a direct impact on the results of its operations or on the continuity of its activity.

According to its statute (Law no. 312/2004 on the Statute of the National Bank of Romania), the Bank's primary objective is to ensure and maintain price stability. Also, the National Bank of Romania supports the general economic policy of the Government without prejudice to its primary objective.

In January 2023, the Bank carried out an increase in the monetary policy interest rate with 0.25 additional percentage points, then maintained it constant all over the year

2023, up to the level of 7.00 percent. The interest rates related to the credit facility, respectively the deposit facility, were increased accordingly to 8.00 percent and 6.00 percent, respectively and then maintained constant. At the same time, the NBR kept unchanged the current rates of the mandatory minimum reserves for credit institutions' liabilities in lei and foreign currency (8.00 percent, 5.00 percent respectively). The measures aimed at sustainably bringing the annual inflation rate back in line with the stationary target of 2.5 percent $\pm$ 1 percentage point, including anchoring medium-term inflationary expectations, in a manner that would contribute to the achievement of a sustainable economic growth.

Given the market dysfunctions due to the COVID-19 pandemic and in order to prevent a possible need of euro liquidity, in 2020, ECB and NBR agreed over an arrangement to provide euro liquidity under a repo line. It was initially agreed that the repo line would remain in force until 31 December 2020, then the financial arrangement was extended first until the end of June 2021, then until March 2022 and thereafter until 15 January 2024. Under a repo line, the ECB can provide euro liquidity to a foreign central bank in exchange for adequate collateral; under this repo line, NBR could borrow up to EUR 4.5 billion from the ECB. The NBR did not actually draw any amount from this loan and did not extend the repo line beyond 15th of January 2024.

4. Current account in SDR with the IMF

Each IMF member state has an SDR current account with the International Monetary Fund (IMF) used for loan agreements and other related operations between member states and the IMF. This account bears the same interest rate as the IMF SDR allocations.

As at 31 December 2023, the SDR current account of the Bank held with IMF amounted to SDR 2,738,079 thousand representing the equivalent of RON 16,546,760 thousand (31 December 2022: SDR 2,737,512 thousand representing the equivalent of RON 16,940,548 thousand).

5. Monetary gold

	lei thousand	
	31 December 2023	31 December 2022
Gold bullions in standard form	8,323,673	7,552,924
Coins	4,294,088	3,896,467
Deposits abroad	18,267,848	16,576,297
Total	30,885,609	28,025,688

As at 31 December 2023, the Bank has gold at international standards in custody abroad amounting to RON 18,267,848 thousand (31 December 2022: RON 16,576,297 thousand). As at 31 December 2023, the gold revaluation price was of 298.2747 RON per gram for the Bank's total gold holdings – in total weight of 103,547.53 kg (31 December 2022: the revaluation price was of 270.6553 RON

per gram for the Bank's gold holdings in total weight of 103,547.53 kg). Gold in custody abroad is not pledged and there are no restrictions on its repatriation.

6. Demand deposits placed

	lei thousand	
	31 December 2023	31 December 2022
Demand deposits placed:		
– with international financial institutions	2,618,638	7,175,984
– with central banks	46,482,961	62,866,482
– with foreign banks	211	36
Total	49,101,810	70,042,502

On 31 December 2023, the position “demand deposits with international institutions” includes the amount available at BIS of RON 2,618,638 thousand (31 December 2022: RON 7,175,984 thousand) which represents the equivalent of AUD 15,084 thousand (31 December 2022: AUD 815,304 thousand), CAD 358,474 thousand (31 December 2022: CAD 684,925 thousand), NOK 2,634,793 thousand (31 December 2022: NOK 3,829,911 thousand); GBP 18,470 thousand (31 December 2022: GBP 24,538 thousand), USD 14,025 thousand (31 December 2022: USD 10,149 thousand), NZD 6,278 thousand (31 December 2022: NZD 93,990 thousand), EUR 0.35 thousand (31 December 2022: EUR 0.34 thousand), CNY 5,599 thousand (31 December 2022: CNY 1,062 thousand) and CHF 2 thousand (31 December 2022: CHF 2 thousand).

The position “demand deposits placed with central banks” includes, mainly, three demand deposits set up with institutions outside the Europe in the amount of RON 14,353,450 thousand representing JPY 452,290,855 thousand (31 December 2022: RON 11,697,923 thousand representing JPY 332,771,675 thousand), in the amount of RON 2,696 thousand representing USD 600 thousand (31 December 2022: RON 2,463 thousand representing USD 531 thousand) and respectively in the amount of RON 281 thousand representing AUD 92 thousand (31 December 2022: RON 287 thousand, representing AUD 91 thousand); it also includes two sight deposits established with European central banks in the amount of RON 30,099,022 thousand representing EUR 6,050,541 thousand (31 December 2022: RON 50,771,454 thousand representing EUR 10,262,250 thousand) and, respectively, RON 1,050,053 thousand representing EUR 211,083 thousand (31 December 2022: RON 915 thousand representing EUR 185 thousand), and respectively in the amount of RON 970,771 thousand representing CHF 180,891 thousand (31 December 2022: RON 386,814 thousand representing CHF 76,918 thousand), the balance of the Bank as a direct participant in TARGET in the amount of RON 5,055 thousand representing EUR 1,016 thousand (31 December 2022: RON 5,487 thousand representing EUR 1,109 thousand), as well as other deposits. On July 4, 2011, the Bank implemented in Romania the TARGET system (the trans-European fund transfer system with real-time gross settlement). This system represents a channel for the interbank processing of payments in euros, both those made in the banks' own names and on behalf of their customers.

As at 31 December 2023, the item "Demand deposits with foreign banks" contains the foreign currency demand deposit held with an institution from the European Union in amount of RON 211 thousand (31 December 2022: RON 36 thousand).

The breakdown by currency of the demand deposits is presented in Note 38.

7. Term deposits placed

	lei thousand	
	31 December 2023	31 December 2022
Term deposits		
– with international institutions	7,050,200	1,795,591
– with central banks	32,419,965	2,107,592
Total	39,470,165	3,903,183

As at 31 December 2023, this item includes the term deposits held with international institutions amounting to RON 7,050,200 thousand, out of which: RON 2,148,848 thousand (representing CNY 3,399,000 thousand), RON 2,214,000 thousand (representing NOK 5,000,000 thousand), RON 1,788,192 thousand (representing NZD 630,000 thousand), RON 899,160 thousand (representing USD 200,000 thousand), respectively term deposits held with central banks in amount of RON 32,419,965 thousand, out of which: RON 1,009,404 thousand (representing AUD 330,000 thousand), RON 220,434 thousand (representing CAD 65,000 thousand), RON 25,345,587 thousand (representing EUR 5,095,000 thousand), RON 5,844,540 thousand (representing USD 1,300,000 thousand). All deposits have a maturity of less than one year.

As at 31 December 2022, this item includes the deposit held with an international institution amounting to RON 1,795,591 thousand (representing CNY 2,686,000 thousand) and the deposit held with a central bank in amount of RON 2,107,592 thousand representing EUR 426,000 thousand. All deposits have a maturity of less than one year.

8. Placements in foreign currencies

	lei thousand	
	31 December 2023	31 December 2022
Placements at World Bank, out of which:		
– deposits	85,083	31,396
– securities	2,663,330	2,679,232
Total	2,748,413	2,710,628

According to the technical assistance and assets administration contract, signed in 2017, the World Bank continued to grant NBR technical assistance and manage in 2023 the asset investment portfolio denominated in USD – allocated by NBR through the program Reserves Advisory and Management Program (RAMP).

As at 31 December 2023, the placements administrated by the World Bank are as follows:

- placements amounting to RON 85,083 thousand – the equivalent of USD 18,925 thousand (31 December 2022: RON 31,396 thousand – the equivalent of USD 6,774 thousand);
- securities amounting to RON 2,663,330 thousand, the equivalent of USD 592,403 thousand (31 December 2022: RON 2,679,232 thousand, the equivalent of USD 578,093 thousand).

These are managed in compliance with the policies for the international reserve management as described in Note 3.

9. Securities in foreign currencies

	lei thousand	
	31 December 2023	31 December 2022
<i>Discount treasury bills, out of which:</i>		
– European Treasuries	66,591,918	30,501,963
– Non-European Treasuries	3,467,728	4,500,842
– Foreign banks and international institutions	743,907	1,914,660
– International financial institutions (EIB, IBRD, NIB, EBRD, BIS)	4,344,717	8,426,939
<i>Coupon treasury bills, out of which:</i>		
– European Treasuries	53,047,630	46,150,607
– Non-European Treasuries	31,855,750	35,127,067
– Foreign banks and international institutions	5,595,170	2,621,262
– International financial institutions (EIB, IBRD, NIB, EBRD, BIS)	9,939,444	5,753,357
Total	175,586,264	134,996,697

As at 31 December 2023, the Bank's portfolio includes securities in foreign currency in the total amount of RON 175,586,264 thousand (31 December 2022: RON 134,996,697 thousand), of which securities lent under the "GC Access" program carried out by a European bank in the total amount of RON 20,849,922 thousand consisting of RON 1,521,651 thousand (AUD 497,467 thousand), RON 112,151 thousand (CAD 33,070 thousand), RON 18,988,204 thousand (EUR 3,817,031 thousand), RON 225,759 thousand (GBP 39,451 thousand) and RON 2,156 thousand (NOK 4,870 thousand). On 31 December 2022, the securities lent under the "GC Access" program carried out by a European bank were in the total amount of RON 19,559,785 thousand consisting of RON 2,684,170 thousand (AUD 852,361 thousand), RON 536,202 thousand (CAD 156,638 thousand), RON 15,649,074 thousand (EUR 3,163,091 thousand), RON 635,469 thousand (GBP 113,724 thousand) and RON 54,870 thousand (NOK 116,546 thousand). Coupon bonds issued by European Treasuries, non-European Treasuries, foreign banks and other financial institutions have a fixed or variable interest rate.

As at 31 December 2023, both categories of securities also include commercial bills, representing zero-coupon securities and short-term discount securities (maturity less than one year) in the amount of RON 96,038,704 thousand – the equivalent of EUR 18,138,082 thousand, NOK 3,821,726 thousand, CAD 1,022,537 thousand and

GBP 113,414 thousand (31 December 2022: RON 68,942,664 thousand – the equivalent of EUR 12,838,343 thousand, USD 199,673 thousand and JPY 128,035,790 thousand).

10. Loans in foreign currencies

As at 31 December 2023, the Bank has overnight placements at Federal Reserve System amounting to RON 13,173,144 thousand – the equivalent of USD 2,930,100 thousand (31 December 2022: RON 1,790,346 thousand – the equivalent of USD 386,300 thousand). The interest is booked as income for the Bank.

11. Participating interests in international financial institutions

	lei thousand	
	31 December 2023	31 December 2022
Romania's quota at the IMF	10,964,228	11,132,553
Participating interest in the Bank for International Settlements	106,922	109,489
Participating interest in the European Central Bank	57,126	56,814
Total	11,128,276	11,298,856

The Bank has registered in this category the share of participation in international financial institutions. In accordance with Law no. 97/1997 and Law no. 312/2004, the Bank exercises all the rights and obligations arising from Romania's membership at the IMF.

As at 31 December 2023, the total Romania's participation quota in the IMF amounts to SDR 1,811 million, the same level as at 31 December 2022 (SDR 1,811 million). The Bank acts as a depository for the deposits of the IMF related to the participation quota.

12. RON securities held for monetary policy purposes

Starting from 2020, the NBR adopted measures to mitigate the impact of the situation generated by the coronavirus epidemic on the Romanian population and companies, in order to ensure macroeconomic stability and the proper functioning of the banking system, financial markets for the benefit of the Romanian population and companies. One of the measures was the purchase by the NBR of government securities in RON on the secondary market in order to strengthen the structural liquidity of the banking system in order to contribute to the financing of the real economy and the public sector.

On 31 December 2023, the Bank registered securities in this category in the amount of RON 3,968,441 thousand (31 December 2022: RON 3,978,653 thousand); these are booked at cost. On 31 December 2023 and 31 December 2022, no impairments were determined on these securities. We note that, on 31 December 2023, the market value of the RON securities held for monetary policy purposes is RON 3,926,072 thousand (31 December 2022: RON 3,732,184 thousand).

13. Loans to domestic credit institutions

	lei thousand	
	31 December 2023	31 December 2022
Loans under litigation	21,787	22,587
Provisions for credit risk – principal	(21,787)	(22,587)
Total	-	-

The credits under litigation outstanding as of 31 December 2023 consist of the remaining credit in the amount of RON 8,578 thousand granted to Credit Bank S.A., according to the Emergency Ordinance no. 26/2000 regarding the authorization of the National Bank of Romania to grant a loan to cover the population's requests for withdrawal of deposits with the Bank "Renașterea Creditului Românesc" – Credit Bank S.A. (31 December 2022: RON 9,378 thousand) and the remaining loan in the amount of RON 13,209 thousand (31 December 2022: RON 13,209 thousand) granted to Credit Bank S.A. before the bank's bankruptcy, both of the loans being granted until the year 2000.

The specific provisions for credit risk as at 31 December 2023 include the provision registered by the Bank for the remaining credit in the amount of RON 8,578 thousand granted to Credit Bank S.A. and the one for the remaining credit granted to the same bank in the amount of RON 13,209 thousand (as of 31 December 2022 – the position includes the provision booked by the Bank for the remaining credit in the amount of RON 9,378 thousand granted to Credit Bank S.A. and that for the remaining credit granted to the same bank in the amount of RON 13,209 thousand).

14. Tangible and intangible fixed assets

	lei thousand				
	Land and buildings	Equipment	Work in progress	Intangible assets	Total
<i>Cost or revalued amount</i>					
As at 31 December 2022	1,163,662	258,663	42,345	186,378	1,651,048
Additions	32,405	28,468	43,693	17,545	122,111
Disposals	(7)	(13,440)	(35,164)	(5,556)	(54,167)
As at 31 December 2023	1,196,060	273,691	50,874	198,367	1,718,992
<i>Accumulated depreciation</i>					
As at 31 December 2022	17,781	193,357	-	162,380	373,518
Depreciation for the year	13,255	18,280	-	17,777	49,312
Disposals	(4)	(13,358)	-	(5,556)	(18,918)
As at 31 December 2023	31,032	198,279	-	174,601	403,912
Net book value:					
As at 31 December 2022	1,145,881	65,306	42,345	23,998	1,277,530
As at 31 December 2023	1,165,028	75,412	50,874	23,766	1,315,080

On 31 December 2023 and 2022, the "equipment" category does not contain fixed assets purchased through financial leasing contracts. Likewise, on the aforementioned dates, no impairment adjustments were required.

15. Participating interests

The participating interests are accounted for at cost, in accordance with the provisions of the Norm no. 1/2007, as subsequently amended and supplemented; thus, these financial statements are not consolidated.

The participating interests in the amount of RON 2,713 thousand (31 December, 2022: RON 2,711 thousand) include the shares held by the Bank in TRANSFOND S.A. (33% participation in the capital representing RON 2,240 thousand on 31 December 2023 and 31 December 2022) – a joint-stock company that provides settlement services for some interbank operations for banks in Romania, respectively 21 shares in SWIFT – of which 8 shares purchased through the reallocations from 2006 (and unchanged from the reallocation from 2008) and 13 shares acquired through the reallocations from 2021, in total amount of EUR 95 thousand, respectively RON 473 thousand (31 December 2022: EUR 95 thousand, respectively RON 471 thousand). No impairment adjustments were required.

A summary of the financial information of TRANSFOND S.A. is disclosed in the following table:

	lei thousand	
	31 December 2023	31 December 2022
Equity	95,024	82,727
Total assets	108,646	94,914
Net profit for the year	58,268	45,971

16. Settlement account with the state budget

The balance as at 31 December 2023 comprises mainly the receivables from the state budget (RON 1,390,513 thousand) based on the previous payments of the Bank performed in order to comply with the legal obligation regarding the State's share of 80 percent of the net revenues of the Bank (the receivables from the state budget as at 31 December 2022: RON 2,302,210 thousand).

17. Provisions for doubtful assets

	lei thousand	
	31 December 2023	31 December 2022
Provisions for:		
Guarantees paid by the NBR, as a guarantor for Credit Bank S.A. (a)	70,981	72,787
Other provisions related to assets (b)	1,742	2,128
Total	72,723	74,915

- a) As at 31 December 2023, the RON equivalent of the guarantees paid by the Bank, as guarantor for Credit Bank S.A., amounted to RON 70,981 thousand (31 December 2022:

RON 72,787 thousand). These foreign currency guarantees were revaluated as at 31 December 2023 and 31 December 2022.

- b) This item includes the provisions against sundry debtors in litigation.

The provisions from a) and b) represent adjustment figures for the balance sheet items included in "Other assets".

18. Accrued interest receivable

	lei thousand	
	31 December 2023	31 December 2022
Accrued interest receivable from:		
Foreign currency securities	725,574	357,719
Foreign currency deposits and placements	395,074	138,827
Securities in RON held for monetary policy purposes	80,406	101,422
Loans granted to domestic credit institutions	6,068	6,068
Other assets	-	4
Total	1,207,122	604,040

19. Provisions for credit risk – interest

As at 31 December 2023 and 31 December 2022, the provision for credit risk – interest, amounting to RON 6,068 thousand, was maintained for the interest receivable for the loan granted to Credit Bank S.A., in accordance with the Emergency Ordinance no. 26/2000 regarding the authorization of the National Bank of Romania to grant a loan to cover the population's requests for the withdrawal of deposits with the Bank "Renașterea Creditului Românesc" – Credit Bank S.A.

20. Currency in circulation

	lei thousand	
	31 December 2023	31 December 2022
Banknotes	122,514,374	113,574,189
Coins	779,802	742,709
Total	123,294,176	114,316,898

21. Due to international financial institutions

	lei thousand	
	31 December 2023	31 December 2022
IMF deposits	10,964,249	11,132,553
Other	7,535	718
Total	10,971,784	11,133,271

As at 31 December 2023, the IMF deposits amounted to RON 10,964,249 thousand – the equivalent of SDR 1,811,404 thousand (31 December 2022: RON 11,132,553 thousand – SDR 1,811,404 thousand). The Bank acts as a depository for the deposits of the IMF related to the Romania's participation quota.

22. Counterpart of special drawing rights allocated by the IMF

This item includes SDR allocations bearing the same interest rate as the SDR current account with the IMF. As at 31 December 2023, the SDR allocations from the IMF amounted to RON 16,469,422 thousand – the equivalent of SDR 2,720,913 thousand (31 December 2022: RON 16,722,265 thousand – the equivalent of SDR 2,720,913 thousand) with an annual interest rate of 4.103 percent as at end of 2023 and respectively 2.916 percent as at end of 2022.

23. Other foreign assets TARGET/due to domestic credit institutions and other financial institutions

On 4 July 2011, the Bank implemented in Romania the system TARGET (the trans-European real-time gross settlement system). This system represents a channel for processing the euro interbank payments performed by the banks on their own behalf or on behalf of their customers. As at 31 December 2023, the Bank has in its balance sheet, both as assets and as liabilities, the balance of the TARGET current accounts of credit institutions amounting to RON 2,763,656 thousand, representing EUR 555,553 thousand (31 December 2022: RON 3,793,684 thousand representing EUR 766,803 thousand).

As at 31 December 2023, the current accounts of credit institutions and other financial institutions held at the NBR amounted to RON 110,348,941 thousand (31 December 2022: RON 68,220,934 thousand). The main components are presented below.

As at 31 December 2023, the Bank has in its records RON current accounts of credit institutions (including RON minimum reserves) amounting to RON 57,442,039 thousand (31 December 2022: RON 45,681,980 thousand) – accounts used for the irrevocable and unconditional final settlement of funds' transfers. The Bank establishes the regime of the RON minimum reserves that credit institutions should maintain in these accounts.

As at 31 December 2023, the foreign currency minimum reserves of credit institutions amounted to RON 12,598,900 thousand representing EUR 2,522,841 thousand and USD 10,849 thousand (31 December 2022: RON 12,790,135 thousand representing EUR 2,577,247 thousand and USD 8,515 thousand). The bank establishes the minimum reserves regime in foreign currency that credit institutions should maintain in these accounts.

As at 31 December 2023, the Bank has in its records RON deposits of credit institutions amounting to RON 37,540,640 thousand (31 December 2022: RON 5,951,500 thousand). Towards the end of 2023, the liquidity excess on the monetary market has significantly increased and it was absorbed through the deposit facilities by the central bank.

24. Current account of the State Treasury

	lei thousand	
	31 December 2023	31 December 2022
Current account of the State Treasury:		
– in RON	1,511,338	196,429
– in foreign currencies	52,871,871	38,975,273
Total	54,383,209	39,171,702

In 2023 and 2022, the RON current account of the State Treasury has borne the same interest rates as the RON minimum required reserves of the credit institutions. The EUR current accounts of the State Treasury have borne the Euro Short-Term Rate – €STR during 2023; in 2022, the EUR aforementioned accounts have borne the daily EONIA¹ interest rate until the 2nd of January 2022 included and, after that, the short-term interest rate in euro was applied (Euro Short-Term Rate – €STR); the USD current account of the State Treasury has borne an interest rate equal with the FED funds rate².

25. Accrued interest payable

	lei thousand	
	31 December 2023	31 December 2022
Accrued interest payable for:		
Deposits taken, SDR allocations and other items	168,273	98,602
Current accounts of credit institutions	18,441	5,708
Current account of the State Treasury	119	137
Total	186,833	104,447

26. Transactions with related parties

The Romanian Government, through the State Treasury, maintains current accounts with the Bank, the operations being subject to commission fees starting 31 December 2005. Furthermore, the Bank acts as a registry agent on behalf of the State Treasury for the government bonds and treasury certificates, manages the foreign currency reserves and facilitates the payments and receipts for Romania's foreign public debt.

Through the members appointed to the Boards of Directors, the Bank exercises significant influence over two other State institutions: the NBR Printing Works (its Board consisting of 5 members of which 4 appointed by NBR) and the State Mint (its Board consisting of 4 members appointed by NBR).

In 2023, the total purchases of banknotes, coins and other specific purchases from the aforementioned two entities amounted to RON 229,275 thousand (2022: RON 196,397 thousand). Total sales to the State Mint during 2023 were in amount

¹ EONIA is Euro OverNight Index Average (a volume-weighted rate of ECB)

² The Federal Funds OverNight Average rate (a volume-weighted average of FED)

of RON 18 thousand (2022: RON 0 thousand). As at 31 December 2023, the Bank had receivables with the NBR Printing Works amounting to RON 40,192 thousand and with the State Mint amounting to RON 3,691 thousand, as well as a debt with the State Mint amounting to RON 4,032 thousand, which were subsequently settled according to the contracts. All transactions with these two entities were carried out under normal commercial terms and conditions.

The Bank has a significant influence over TRANSFOND S.A., an entity in charge with the settlement activities of some domestic interbank operations, created in 2000. Until 19th March 2018, TRANSFOND S.A. administrated REGIS³ and SaFIR⁴ systems – taken over by the Bank from this date. Currently, TRANSFOND S.A. continues to administrate the SENT⁵ system.

27. Reserves

	lei thousand	
	31 December 2023	31 December 2022
Statutory reserves	1,440,214	1,148,776
Other reserves	1,425,227	1,357,635
Revaluation gains – fixed assets and other assets	1,235,547	1,238,973
Total	4,100,988	3,745,384

As at both 31 December 2023 and 31 December 2022, the statutory reserves were increased by 60 percent distribution of the remaining profit, after paying the quota to the State.

The item *Other reserves* (non-distributable) comprise the following:

- a) As at 31 December 2023 and 31 December 2022 – reserves set up from the fund designated for:
 - (i) tangible assets (RON 14,451 thousand);
 - (ii) the sources financing the Bank's investments (RON 57,629 thousand);
 - (iii) IMF participations (RON 318,532 thousand);
 - (iv) BIS participations (RON 44,550 thousand);
- b) Reserves set up according to the law, representing the Bank's own financing sources for investments – amounting to RON 825,810 thousand as at 31 December 2023 (31 December 2022: RON 760,947 thousand);
- c) Other reserves amounting to RON 164,255 thousand as at 31 December 2023 (31 December 2022: RON 161,526 thousand).

The revaluation gains represent the difference between the fair value and the net book value of tangible fixed assets, except for those booked in the profit and loss account.

³ REGIS is the gross real-time settlement system

⁴ SaFIR is the module for treasury bills and certificates of deposit issued by the National Bank of Romania

⁵ SENT is the system for low value payments

28. Special revaluation account

	lei thousand	
	31 December 2023	31 December 2022
Unrealized gains from revaluation of gold holdings, precious metals and stones	26,961,957	24,075,385
Unrealized gains from revaluation of assets and liabilities denominated in foreign currency	2,400,332	4,448,958
Securities denominated in foreign currency (market value revaluation)	341,022	1,574
Total	29,703,311	28,525,917

As at 31 December 2023 and 31 December 2022, the amounts recorded in the special revaluation account represent favorable revaluation differences.

During 2023 and 2022, the Bank recorded long positions for all currencies in portfolio as well as for gold (total claims exceeding total debts in a given currency).

29. Interest income

	lei thousand	
	2023	2022
Foreign currency operations		
Interest and similar income from:		
Foreign currency securities	5,733,191	437,792
Foreign currency placements,	2,405,954	492,411
out of which:		
negative interest for the Treasury current account	12	126,855
Current account in SDR	638,435	208,525
Total interest income from foreign currency operations	8,777,580	1,138,728
RON operations		
Interest and similar income from:		
Securities in RON held for monetary policy purposes	208,411	174,894
Loans to domestic credit institutions	38	409,423
Other income	32,158	69,398
Total interest income from RON operations	240,607	653,715
Total interest income (foreign currency and RON)	9,018,187	1,792,443

In 2023, the interest income from foreign currency operations comprises, mainly, the net income from foreign currency securities in amount of RON 5,733,191 thousand (representing the sum of coupon income in amount of RON 1,529,140 thousand and discount amortization income in amount of RON 4,269,629 thousand minus premium amortization expenses in amount of RON 65,578 thousand), the interest on foreign currency placements in amount of RON 2,405,954 thousand and the interest for the SDR current account in amount of RON 638,435 thousand. In 2022, the interest income from foreign currency operations comprises, mainly, the net income from foreign currency securities in amount of RON 437,792 thousand (representing the sum of coupon

income in amount of RON 814,315 thousand and discount amortization income in amount of RON 351,690 thousand minus premium amortization expenses in amount of RON 728,213 thousand), the interest on foreign currency placements in amount of RON 492,411 thousand and the interest for the SDR current account in amount of RON 208,525 thousand.

In 2023, the interest income from transactions denominated in RON comprises mainly the net income resulting from RON securities held for monetary policy purposes in amount of RON 208,411 thousand (2022: RON 174,894 thousand) – representing the sum of coupon income in amount of RON 196,576 thousand (2022: RON 192,095 thousand) and discount amortization income in amount of RON 29,671 thousand (2022: RON 7,229 thousand) minus premium amortization expenses in amount of RON 17,836 thousand (2022: RON 24,430 thousand), the income from repo/loans operations with credit institutions in amount of RON 38 thousand (2022: RON 409,423 thousand), as well as other income in amount of RON 32,158 thousand (2022: RON 69,398 thousand).

30. Interest expense

	lei thousand	
	2023	2022
Foreign currency operations		
Interest and similar expenses from:		
Foreign currency securities, minimum reserves, deposits taken and other interest	20,054	154,936
Operations with International Monetary Fund	634,496	207,265
Current account of the State Treasury	2,375,568	260,337
Total interest expense from foreign currency operations	3,030,118	622,538
RON operations		
Interest and similar expenses from:		
Deposits of credit institutions	1,774,728	119,402
Minimum reserves of credit institutions	239,780	110,112
Current account of the State Treasury	27,035	12,863
Total interest expense from RON operations	2,041,543	242,377
Total interest expense (foreign currency and RON)	5,071,661	864,915

In 2023, the interest expense from foreign currency operations comprises mainly the interest paid on current account of the State Treasury and on foreign currency minimum reserves in amount of RON 2,383,190 thousand, the interest expense for the IMF SDR allocations in amount of RON 634,496 thousand, the negative interest applied to deposits placed amounting to RON 11,987 thousand and other interest expenses in amount of RON 445 thousand.

In 2022, the interest expense from foreign currency operations comprises mainly the negative interest applied to deposits placed amounting to RON 138,327 thousand, the interest paid on current account of the State Treasury and on foreign currency minimum reserves in amount of RON 276,946 thousand and the interest expense for the IMF SDR allocations in amount of RON 207,265 thousand.

31. Fees and commissions income

	lei thousand	
	2023	2022
Fees and commissions income:		
– in RON	192,535	150,441
– in foreign currencies	33,548	26,607
Total fees and commissions income	226,083	177,048

Fees and commissions income in RON in amount of RON 192,535 thousand (2022: RON 150,441 thousand) comprises the commission income from the settlement of operations of credit institutions and of the State Treasury.

The income from fees and commissions in foreign currencies amounting to RON 33,548 thousand (2022: RON 26,607 thousand) arises from the EUR operations performed through TARGET (the trans-European real-time gross settlement system) and from foreign currency securities lending (through an agent).

32. Fees and commissions expense

	lei thousand	
	2023	2022
Fees and commissions expenses:		
– in RON	6	-
– in foreign currencies	11,178	14,392
Total fees and commissions expense	11,184	14,392

The expenses with fees and commissions denominated in foreign currencies, in amount of RON 11,184 thousand (2022: RON 14,392 thousand), arise mainly from the fees paid for the EUR operations performed through TARGET, the commissions paid for foreign currency securities lending (through an agent) and from the IMF operations.

33. Net realized gains arising from foreign currencies operations

	lei thousand	
	2023	2022
Income from foreign currency operations		
Income from exchange rate differences	1,387,774	4,719,505
Dividends on BIS owned shares	14,839	15,147
Total income from foreign currency operations	1,402,613	4,734,652
Expenses from foreign currency operations		
Expenses from exchange rate differences	(10,938)	(53,201)
Other expenses from foreign currency operations	(2,520)	(2,575)
Total expenses from foreign currency operations	(13,458)	(55,776)
Net realized gains from foreign currency operations	1,389,155	4,678,876

The income and expenses from exchange rate differences for 2023 and 2022 financial years were generated by the outflows from foreign currencies long positions and were calculated using the average cost method (see Note 2i).

34. Realized losses/gains arising from securities operations

	lei thousand	
	2023	2022
Income from securities operations	179,888	23,069
Expenses from securities operations	(7,020)	(32,246)
Realized losses/gains arising from securities operations	172,868	(9,177)

The income/expenses represent the market price effect resulting from the sales of securities denominated in foreign currencies, based on the average cost method (see Note 2j).

35. Realized losses arising from precious metals operations

	lei thousand	
	2023	2022
Expenses from operations with precious metals	436	365
Realized losses arising from precious metals operations	436	365

Expenses from operations with precious metals represent the fees paid for depositing the gold with a foreign depository.

36. Unrealized losses from revaluation differences

	lei thousand	
	2023	2022
Expenses with unfavorable revaluation differences		
Market value revaluation of foreign currency securities	260,464	3,333,407
Exchange rate revaluation of foreign currency holdings	2,159,304	588,643
Unrealized losses from revaluation differences	2,419,768	3,922,050

Unrealized losses represent the unfavorable differences between the market value of foreign currency securities as at 31 December and their net average cost, as well as the unfavorable differences from foreign currency holdings revaluation using the revaluation exchange rate (Note 2p).

37. Currency issue expenses

Currency issue expenses include the expenses arising on printing banknotes and minting coins. As at 31 December 2023, these amounted to RON 221,373 thousand (2022: RON 189,674 thousand).

38. Foreign currency risk

The breakdown of the Bank's assets (RON thousand) by currencies as at 31 December 2023 is the following:

	lei thousand						
	RON	EUR	USD	SDR	Gold	Other	Total
Cash and other cash equivalents	42,361	84	94	-	-	-	42,539
Non-monetary gold	-	-	-	-	299,171	-	299,171
Other precious metals and stones	60,016	-	-	-	-	-	60,016
Current account in SDR with the IMF	-	-	-	16,546,760	-	-	16,546,760
Monetary gold	-	-	-	-	30,885,609	-	30,885,609
Demand deposits placed	-	31,154,148	65,758	-	-	17,881,904	49,101,810
Term deposits placed	-	25,345,587	6,743,700	-	-	7,380,878	39,470,165
Placements in foreign currencies	-	-	2,748,413	-	-	-	2,748,413
Securities in foreign currencies	-	122,782,158	23,827,842	-	-	28,976,264	175,586,264
Loans in foreign currencies	-	-	13,173,144	-	-	-	13,173,144
Participating interests in international financial institutions	-	57,127	-	11,071,149	-	-	11,128,276
Other foreign assets TARGET	-	2,763,656	-	-	-	-	2,763,656
RON securities held for monetary policy purposes	3,968,441	-	-	-	-	-	3,968,441
Loans under litigation	21,787	-	-	-	-	-	21,787
Provisions for credit risk – principal	(21,787)	-	-	-	-	-	(21,787)
Tangible and intangible fixed assets	1,315,080	-	-	-	-	-	1,315,080
Inventories	5,130	-	-	-	-	-	5,130
Participating interests	2,240	473	-	-	-	-	2,713
Settlement account with the State Budget	1,395,470	-	-	-	-	-	1,395,470
Accruals and prepaid expenses	66,153	-	-	-	-	-	66,153
Revaluation differences for off-BS sheet accounts	2,589	-	-	-	-	-	2,589
Other assets,	102,613	-	-	-	-	-	102,613
of which:							
Goods of numismatic, philatelic, historical, cultural and artistic importance	29,477	-	-	-	-	-	29,477
Provisions for doubtful assets	(72,723)	-	-	-	-	-	(72,723)
Accrued interest receivables	86,475	469,179	264,875	114,966	-	271,627	1,207,122
Provisions for credit risk – interest	(6,068)	-	-	-	-	-	(6,068)
Total assets	6,967,777	182,572,412	46,823,826	27,732,875	31,184,780	54,510,673	349,792,343

38. Foreign currency risk (continued)

The breakdown of the Bank's liabilities and equity (RON thousand) by currency as at 31 December 2023 is the following:

	lei thousand						
	RON	EUR	USD	SDR	Gold	Other	Total
Currency in circulation	123,294,176	-	-	-	-	-	123,294,176
Due to international financial institutions	6,860	-	675	10,964,249	-	-	10,971,784
Demand deposits taken	-	21,603	-	-	-	-	21,603
Counterpart of special drawing rights allocated by the IMF	-	-	-	16,469,422	-	-	16,469,422
Current accounts of the domestic credit institutions	57,442,039	-	-	-	-	-	57,442,039
Amounts withheld under special arrangements	2,752	-	-	-	-	-	2,752
Deposits of the domestic credit institutions	37,540,640	-	-	-	-	-	37,540,640
Deposits of the financial institutions	11	-	-	-	-	-	11
Foreign currency minimum reserves	-	12,550,127	48,773	-	-	-	12,598,900
Accounts of bankrupt credit institutions	943	-	-	-	-	-	943
Other liabilities of credit institutions TARGET	-	2,763,656	-	-	-	-	2,763,656
Current account of the State Treasury	1,511,338	45,535,903	7,296,898	-	-	39,070	54,383,209
Sundry creditors	68,584	-	-	-	-	-	68,584
Salaries and other employees related liabilities	78	-	-	-	-	-	78
Settlement account with the State Budget	15,412	-	-	-	-	-	15,412
Accruals and income collected in advance	1,166	-	-	-	-	-	1,166
Other liabilities	2,543	-	-	-	-	-	2,543
Accrued interest payables	18,312	45,068	9,065	114,245	-	143	186,833
Total liabilities, excluding capital and reserves	219,904,854	60,916,357	7,355,411	27,547,916	-	39,213	315,763,751
Net assets/(net liabilities)*	(212,937,077)	121,656,055	39,468,415	184,959	31,184,780	54,471,460	34,028,592
*) represent the Bank's capital and reserves							

38. Foreign currency risk (continued)

The breakdown of the Bank's assets (RON thousand) by currencies as at 31 December 2022 is the following:

	lei thousand						
	RON	EUR	USD	SDR	Gold	Other	Total
Cash and other cash equivalents	42,145	174	100	-	-	-	42,419
Non-monetary gold	-	-	-	-	271,468	-	271,468
Other precious metals and stones	61,068	-	-	-	-	-	61,068
Current account in SDR with the IMF	-	-	-	16,940,548	-	-	16,940,548
Monetary gold	-	-	-	-	28,025,688	-	28,025,688
Demand deposits placed	-	50,777,869	49,505	-	-	19,215,128	70,042,502
Term deposits placed	-	2,107,592	-	-	-	1,795,591	3,903,183
Placements in foreign currencies	-	-	2,710,628	-	-	-	2,710,628
Securities in foreign currencies	-	82,542,869	29,772,282	-	-	22,681,546	134,996,697
Loans in foreign currencies	-	-	1,790,346	-	-	-	1,790,346
Participating interests in international financial institutions	-	56,813	-	11,242,043	-	-	11,298,856
Other foreign assets TARGET	-	3,793,684	-	-	-	-	3,793,684
RON securities held for monetary policy purposes	3,978,653	-	-	-	-	-	3,978,653
Loans under litigation	22,587	-	-	-	-	-	22,587
Provisions for credit risk – principal	(22,587)	-	-	-	-	-	(22,587)
Tangible and intangible fixed assets	1,277,530	-	-	-	-	-	1,277,530
Inventories	5,070	-	-	-	-	-	5,070
Participating interests	2,240	471	-	-	-	-	2,711
Settlement account with the State Budget	2,305,752	-	-	-	-	-	2,305,752
Accruals and prepaid expenses	67,300	-	-	-	-	-	67,300
Other assets,	104,789	-	-	-	-	-	104,789
of which:							
Goods of numismatic, philatelic, historical, cultural and artistic importance	29,257	-	-	-	-	-	29,257
Provisions for doubtful assets	(74,915)	-	-	-	-	-	(74,915)
Accrued interest receivables	108,521	167,391	80,227	77,767	-	170,134	604,040
Provisions for credit risk – interest	(6,068)	-	-	-	-	-	(6,068)
Total assets	7,872,085	139,446,863	34,403,088	28,260,358	28,297,156	43,862,399	282,141,949

38. Foreign currency risk (continued)

The breakdown of the Bank's liabilities and equity (RON thousand) by currency as at 31 December 2022 is the following:

	lei thousand						
	RON	EUR	USD	SDR	Gold	Other	Total
Currency in circulation	114,316,898	-	-	-	-	-	114,316,898
Due to international financial institutions	-	-	696	11,132,575	-	-	11,133,271
Demand deposits taken	-	5,731	-	-	-	-	5,731
Counterpart of special drawing rights allocated by the IMF	-	-	-	16,722,265	-	-	16,722,265
Current accounts of the domestic credit institutions	45,681,980	-	-	-	-	-	45,681,980
Amounts withheld under special arrangements	2,775	-	-	-	-	-	2,775
Deposits of the domestic credit institutions	5,951,500	-	-	-	-	-	5,951,500
Foreign currency minimum reserves	-	12,750,672	39,463	-	-	-	12,790,135
Accounts of bankrupt credit institutions	860	-	-	-	-	-	860
Other liabilities of credit institutions TARGET	-	3,793,684	-	-	-	-	3,793,684
Current account of the State Treasury	196,429	36,864,129	2,069,293	-	-	41,851	39,171,702
Sundry creditors	57,857	-	-	-	-	-	57,857
Salaries and other employees related liabilities	78	-	-	-	-	-	78
Settlement account with the State Budget	13,387	-	-	-	-	-	13,387
Accruals and income collected in advance	396	-	-	-	-	-	396
Revaluation differences for off-BS accounts	2,955	-	-	-	-	-	2,955
Other liabilities	4,243	-	-	-	-	-	4,243
Accrued interest payables	5,602	18,786	2,728	77,296	-	35	104,447
Total liabilities, excluding capital and reserves	166,234,960	53,433,002	2,112,180	27,932,136	-	41,886	249,754,164
Net assets/(net liabilities)*	(158,362,875)	86,013,861	32,290,908	328,222	28,297,156	43,820,513	32,387,785
*) represent the Bank's capital and reserves							

39. Commitments

As at 31 December 2023 the Bank has in custody the following promissory notes:

- a promissory note issued by the Ministry of Public Finances in favor of the Multilateral Investment Guarantee Agency amounting to USD 601 thousand – the equivalent of RON 2,700 thousand (31 December 2022: USD 601 thousand – the equivalent of RON 2,785 thousand);
- three promissory notes issued by the Ministry of Public Finances in favor of the International Development Association (IDA) amounting to RON 16,174 thousand (31 December 2022: RON 16,174 thousand).

40. Profit distribution

In 2023, the Bank recorded a profit amounting to RON 2,428,653 thousand. According to the law, the 80 percent share of the Bank's net revenue amounting to RON 1,942,922 thousand was settled with the state budget. Of the remaining profit (RON 485,731 thousand), 60 percent (RON 291,438 thousand) was allocated for increasing the statutory reserves. The remaining amount of RON 194,293 thousand will be distributed in 2024, according to the law, in the following order for:

- a) the Bank's financing sources for its own investments;
- b) the employees profit-sharing scheme;
- c) the reserves at the Board's disposal.

In 2022, the Bank recorded a profit amounting to RON 1,082,085 thousand. According to the law, the 80 percent share of the Bank's net revenue amounting to RON 865,875 thousand was settled with the state budget. Of the remaining profit (RON 216,210 thousand), 60 percent (RON 129,726 thousand) was allocated for increasing the statutory reserves. The remaining amount of RON 86,484 thousand was distributed in 2023 according to the law.

Governor
Mr. Mugur Isărescu



Abbreviations

BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
CCR	Central Credit Register
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
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
ESA	European System of Accounts
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FAO	Food and Agriculture Organisation of the United Nations
FSA	Financial Supervisory Authority
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
IRCC	benchmark index for loans to consumers
MF	Ministry of Finance
MRR	Minimum reserve requirements
NBFI	non-bank financial institution
NCMO	National Committee for Macroprudential Oversight
NIS	National Institute of Statistics
NPL	non-performing loans
OECD	Organisation for Economic Co-operation and Development
OPCOM	Romanian gas and electricity market operator
PIR	Payment Incidents Register
ROBOR	Romanian Interbank Offered Rate
SDR	Special Drawing Rights
SME	small- and medium-sized enterprise
TiVA	Trade in Value Added
ULC	unit labour costs
WB	World Bank

Tables

Box 3

Table A	Results of the estimations for the impact of the budget balance on the current account balance	51

Box 4

Table A	Macroeconomic developments and monetary policy stance in advanced economies and in the region	73
Table 4.1	Main indicators used by the CCR – credit institutions	122
Table 4.2	Main indicators used by the CCR – non-bank financial institutions and payment institutions	122
Table 4.3	Other information on the CCR activity	123
Table 4.4	Main indicators used by the PIR	123
Table 6.1	Credit institutions by ownership	137
Table 6.2	Market share of credit institutions	138
Table 6.3	Credit institutions as a share in aggregate capital	138
Table 6.4	Key indicators of the banking system	139
Table 6.5	Net assets and own funds as at 31 December 2023	142
Table 6.6	Supervisory measures imposed pursuant to GEO No. 99/2006 on credit institutions, as subsequently amended and supplemented	145
Table 6.7	Sanctions imposed pursuant to GEO No. 99/2006 in 2023	145
Table 6.8	Number of persons in the category of those referred to in Article 108 of GEO No. 99/2006, subject to the NBR's approval in 2023	146
Table 6.9	Breakdown of NBFIs by activity as at 31 December 2023	147
Table 6.10	Key indicators of the NBFIs sector as at 31 December 2023	148
Table 6.11	Share/endowment capital by country of origin as at 31 December 2023	149
Table 8.1	Changes in the unfit banknote rate by comparison to 2022	169
Table 8.2	The 2023 numismatic issues	170
Table 8.3	Monthly distribution of counterfeits	171
Table 8.4	Counterfeits by denomination	171
Table 9.1	Payments traffic in ReGIS	174
Table 9.2	Composition of payments in ReGIS in 2023	174
Table 9.3	Transactions in government securities settled in SaFIR	176
Table 9.4	Traffic of payments settled via the real-time gross settlement service	178

Table 11.1	Current account	197
Table 11.2	Financial account	199
Table 11.3	Key external indebtedness indicators	201
Table 11.4	Romania's external debt	202
Table 13.1	Maastricht criteria (nominal convergence indicators)	211
Table 13.2	Macroeconomic imbalance procedure scoreboard	228
Table 14.1	Direct institutional communication of the National Bank of Romania	232
Table 14.2	Events focusing on monetary, banking and financial issues, organised by the National Bank of Romania in 2023	242
Table 15.1	Volumes published in the new series of the "NBR Library" collection – 140th anniversary series	252
Table 19.1	NBR balance sheet structure as at 31 December 2023	296
Table 19.2	Result of transactions conducted in 2023	298
Table 19.3	Revaluation differences as at 31 December 2023	298
Table 19.4	Budgeted income statement for 2023	300
Table 19.5	Equity	301
Table 19.6	Operating result	302

Charts

Chart 1.1	Global economic growth	19
Box 1		
Chart A	Upward trend of industrial policy	22
Chart B	Industrial policies implemented during 2023 (stated motives for implementation)	23
Chart C	Industrial policies implemented during 2023 (instrument used)	23
Chart 1.2	Outlook for global economic growth	26
Chart 1.3	International prices of main commodities	26
Chart 1.4	Gold price and uncertainty	27
Chart 1.5	International consumer prices	28
Chart 1.6	Policy rates	28
Chart 1.7	Euro exchange rate	28
Chart 1.8	Real GDP in EU-27	29
Chart 1.9	Demand	29
Chart 1.10	Household consumption	30

Chart 1.11	Direct investment and absorption of EU investment funds	30
Chart 1.12	Gross fixed capital formation	31
Chart 1.13	External demand (goods)	32
Chart 1.14	Current account and main components	33
Chart 1.15	Public/private composition of the saving-investment balance	34
Chart 1.16	Reserve adequacy indicators	34
Chart 1.17	Developments in the number of employees economy-wide	35
Chart 1.18	Labour market tightness/looseness	35
Chart 1.19	Determinants of the dynamics of average gross wage economy-wide	36
Chart 1.20	Annual inflation rate	37
Chart 1.21	Prices of main agri-food commodities	37
Chart 1.22	Base effects in the electricity and natural gas subgroup	38
Chart 1.23	Fuel prices	38
Chart 1.24	Main components of the adjusted CORE2 inflation	38
Box 2		
Chart A	Wage-sensitive core inflation	40
Chart B	Wage-sensitive core inflation – decomposition	40
Chart 1.25	Expectations on price developments	41
Chart 1.26	Average annual HICP in the EU	41
Chart 1.27	Industrial producer prices on the domestic market and their determinants	42
Chart 1.28	Unit labour costs economy-wide	43
Chart 1.29	Unit wage costs in manufacturing	44
Chart 1.30	Consolidated general government deficit	45
Chart 1.31	Public debt-to-GDP ratio	47
Chart 1.32	Decomposition of the change in public debt to-GDP ratio	47
Box 3		
Chart A	Budget balance and current account balance in EU Member States, 2019	48
Chart B	Budget balance and current account balance in EU Member States, 2023	48
Chart C	Budget balance and current account balance in Romania	49
Chart D	Correlation coefficients between the cyclically adjusted budget balance and the current account balance from 2000 to 2022	52
Chart 3.1	Exchange rate developments on emerging markets in the region	70

Box 4

Chart A	Annual inflation rates in the euro area, US and countries in the region	71
Chart B	Monetary policy rate in the euro area, US and countries in the region	71
Chart 3.2	Inflation rate	77

Box 5

Chart A	Credit to the private sector (monthly)	81
Chart B	Credit to the private sector (annual)	81
Chart C	New loans to households and non-financial corporations	82
Chart D	New loans to the private sector and the average lending rate on new business in lei	83
Chart E	Demand for loans	84
Chart F	Credit standards	84
Chart G	Broad money and GDP	86
Chart H	M3 and its counterparts	86
Chart I	Share of M1 in M3, international comparison	87
Chart 3.3	NBR rates	89
Chart 3.4	MRR ratios	91
Chart 3.5	Policy rate and ROBOR rates	92
Chart 3.6	Bank rates	93

Box 6

Chart A	Number of EEA countries applying the CCyB	102
Chart 4.1	Debt cycle	105
Chart 4.2	Undercapitalised non-financial corporations	106

Box 7

Chart A	Purpose of green loans by economic sector, December 2023	108
Chart 4.3	Households' net wealth	109
Chart 4.4	NPL ratio	109

Box 8

Chart A	Prime rents in Romania	111
Chart B	Costs and the construction activity in the commercial real estate market in Romania	111
Chart 4.5	Breakdown by maturity of bank assets and liabilities	113

Box 9

Chart A	Interest-earning assets and interest-bearing liabilities by residual maturity and type of interest (December 2023)	114

Chart B	Changes in net interest income and the economic value of equity under scenarios of shocks by 350 basis points and 200 basis points for interest rates in lei and euro respectively, as a share of Tier 1 capital	115
Chart 4.6	Developments in liquidity indicators (LCR and NSFR) and main LCR components	116
Chart 4.7	Developments in solvency and capital requirements	117
Chart 4.8	Asset quality indicators: distributions and comparisons between Romania and EU	118
Chart 4.9	Profit breakdown of the Romanian banking sector as at December 2023	119
Chart 4.10	Breakdown by currency of bank credit to households	122
Chart 4.11	Main indicators of payment incidents	124
Chart 6.1	Distribution of credit institutions by overall SREP score	143
Chart 6.2	SREP elements by score assigned	144
Chart 7.1	Final MREL target	158
Chart 7.2	Estimated shortfall against the final MREL target including the combined buffer requirement	159
Chart 8.1	Composition of currency outside banks in 2022 and 2023	165
Chart 8.2	Denomination composition of banknotes in circulation in 2023	166
Chart 8.3	Denomination composition of coins in circulation in 2023	166
Chart 8.4	Denomination composition of banknotes used for payments in 2023	167
Chart 8.5	Denomination composition of coins used for payments in 2023	168
Chart 8.6	Denomination composition of banknotes collected in 2023	168
Chart 8.7	Denomination composition of coins collected in 2023	169
Chart 9.1	Payments in ReGIS, irrespective of their value, in 2023 compared to 2022 (daily average)	174
Chart 9.2	Volume and value of transactions in government securities settled in SaFIR in 2023 (delivery-versus-payment), the value of intraday repo transactions	176
Chart 9.3	Payments settled via the real-time gross settlement service	178
Infographic	Statistical information on the main payment market developments in 2023	185
Chart 10.1	Romania's international reserves	190
Chart 10.2	Composition of Romania's foreign exchange reserves at end-2023	193
Chart 10.3	Returns on portfolio management	194
Chart 10.4	Comparative returns – NBR vs benchmark portfolio	194
Infographic	NBR representation in international organisations	208
Chart 13.1	Inflation rate (HICP)	212

Chart 13.2	General government deficit (ESA 2010 methodology)	212
Chart 13.3	Public debt (ESA 2010 methodology)	212
Chart 13.4	Long-term interest rates	212
Box 10		
Chart A	Digital Economy and Society Index (DESI) in 2022	214
Chart B	Primary contributions of NRRP funds to the RRF policy pillars	215
Chart C	Sectoral contributions to the growth of productivity (GVA/employee) in the economy	216
Chart 13.5	EUR/RON exchange rate	217
Chart 13.6	GDP per capita in Romania	218
Chart 13.7	Share of economic sectors in GDP	218
Chart 13.8	Openness of the economy	218
Chart 13.9	Current account deficit and financing through stable flows	218
Box 11		
Chart A	Budget balance, public debt and risk to medium-term sustainability, according to DSM 2023	225
Infographic	Institutional transparency – topics of interest	233
Infographic	NBR activity on Instagram in figures	234
Infographic	NBR's social media presence	235
Infographic	NBR programmes, projects, and events related to economic and financial education	251
Chart 18.1	Vacancies in the NBR's head office as at 31 December 2023	288
Chart 18.2	Vacancies in the NBR's territorial units as at 31 December 2023	288
Chart 19.1	Foreign assets of the NBR at year-end	297

