EXTERNAL FINANCIAL LOANS - A CHANCE FOR ROMANIA

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Abstract
In order to gradually align to the European Central Bank standards and provide a sustainable lending to the Romanian economy, aiming at the sectors with a development potential on a longer term, the Board of Directors of the national bank decided to reduce to zero the rate of minimum mandatory reserves for liabilities in foreign currency with residual maturity of more than two years, compared to 40 percent in present, starting with the application May 24-June 23 2009.
At the same time, the Board of Directors of the national bank decided to maintain the current rate of minimum mandatory reserve for liabilities in lei and for the other currency liabilities of credit institutions. The Board of Directors of NBR believes that the implementation of the balanced mix of macroeconomic policies agreed in the arrangement of external financing from the international financial organisms, will allow a gradual and prudent adjustment of monetary policy in conformity with the resumption of disinflation and strengthening of financial stability. NBR will closely monitor the developments of domestic and global economic environment so that, through the adequacy of the tools from NBR, to reach the objectives of achieving and maintaining price stability over the medium term and financial stability.

Romania would have been borrowed at much higher costs than the interest of IMF, on the domestic and foreign market[358], too, in order to cover its financing needs, if the agreement with the IMF and the EC had not been concluded, said on March 26 BNR governor, Mugur Isarescu.
According to this, if Romania had borrowed 12 billion euros in the present, it would have made it at much higher costs on international markets and, furthermore, it would have had a limited access to these markets, despite the interest which have decreased, said Isarescu. The Governor said that all private funding from last year, about 20 billion euros, was made at costs of 4, 5 or 6% per year.
On the domestic market, the NBR is obliged, according to the law, to increase the interest paid to minimum mandatory reserves of banks, with 2.9% for the euro, in the present, in case the interest rates in market are growing. From the external arrangement of 19.95 billion euros, the amounts drawn this year should rise to 11.8 billion, those from 2010 to 7.1 billion euros, and in 2011, the remaining of 1.05 billion euros. The agreement with the IMF includes, for 2010, an estimate of economic growth between 0 and 1%, if, taking into account inputs from the package of external financing, the Romanian economy could remain in a positive territory this year.
The economy can remain in positive territory this year, with the support of external funding. The Governor said that the data contained in the agreement with the IMF are "conservative." Regarding the budget deficit forecast for this year, 4.6% of GDP, Isarescu said that it represents a projection that is "much more pressed, taking into account the estimation of contraction of the economy" than the projections in previous years.
Structurally, 4.6% of GDP, to a contraction of the economy of 4%, represents a projection more closely than a budget deficit estimated at 2% of GDP, for an economic growth of 2%.
We still do not change the level of minimum reserves, but only their composition concerning the foreign currency. The National Bank of Romania (NBR) will not perform yet any change in the level of minimum mandatory reserves for liabilities in foreign currency of banks, but it may change their composition, said BNR governor, Mugur Isarescu. The rate will not be changed,

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maybe only the composition. We start with the currency, because the liquidities in lei have improved considerably through repo operations that BNR had done, in order to put up the financing of budget deficit surplus. Previously, the governor said it would be wise for the National Bank of Romania to remove in calculating the liabilities for the minimum mandatory reserves, those on the long term.
In this way, we also help financing on the long-term, which will support creditation, and we will reduce discomfort of banks for having short-term liabilities.
Also, through such a change of the base for calculating the minimum mandatory reserves, their level would reduce. Bank liabilities include sources incurred by them in deposits from customers or other types of financing that can be used to grant credits - which come in the bank assets.
Currently, the minimum mandatory reserve levied by the national bank of Romania to commercial banks is of 18% from liabilities in lei and 40% of those in the currency, the highest level in the EU and one of the highest in the world. The minimum mandatory reserves to liabilities in foreign currency of banks are included in the international reserves of Romania, managed by the national bank.
Thus on March 26, in Vienna, representatives of the IMF and of the NBR, met with the nine major international banking groups who promised to increase the capital of subsidiaries in Romania, where necessary, and to support the stress test that will make NBR to verify the stability of the banking system. Thus, the understanding of the IMF and the NBR is to conduct some stress tests based on a methodology established by the IMF to estimate the potential losses that could affect banks in Romania according to several scenarios during the IMF / EU.
We support this exercise and we agree to support our subsidiaries in order to confirm that the proper position in financial terms will be maintained during the period of market turmoil and the macroeconomic slowing, to demonstrate our long-term engagement for the economic development of Romania and to cooperate in the effort of the international community in order to put up a well coordinated response when dealing with the crisis, this was shown in the announcement of IMF, which also presented the conclusions of the meeting in Vienna. The nine banks whose representatives met on March 26 in Vienna with officials from the International Monetary Fund (IMF) and the National Bank of Romania (BNR) are Erste Bank, Raiffeisen International, EFG Eurobank, National Bank of Greece, Unicredit, Societe Generale, Alpha Bank, Volksbank and Piraeus Bank.
Under these conditions, the nine major banks made a promise that, if necessary, to supplement the capital of banks in Romania. ,, An additional need of capital can not be excluded and will be offered, if necessary”, was also specified in the official announcement. Also, in the context of "substantial" investments, which they made in Romania, the nine groups support business in the country and admit that “we are aware that it's in our interest and Romania’s, too, as we engage in a coordinated manner to maintain exposures”.
The meeting of the nine groups happened due to the money received by Romania from the IMF, which will supply an increase in the international reserves of the NBR, and this might allow a reduction in minimum mandatory reserves for liabilities in foreign currency levied to banks, from the current level of 40%, the highest in the EU.
NBR Governor, Mugur Isarescu, revealed on March 26 that talks with holding banks took place mainly in the form of an agreement, so that NBR could not compel holding banks in any way, to withdraw the money from Romania obtained from the decrease of minimum mandatory reserves and use it to financing.
,, It is a voluntary agreement. We can not do something compulsory, because we would intervene in the free movement of capital. We play with holding banks and their subsidiaries in Romania with the same rules of the game, based on incentives, not on restrictions, "said Isarescu. He gave signs of a possible reduction of RMO in the next period, but the reduction will be made, “very gradually”.

Concerning the rate, we will not change it, yet, but the composition is possible to be modified. We start with the currency, because the liquidities in lei improved considerably through repo operations that BNR had done, mainly for putting up the financing of budget deficit surplus

Also, if necessary, the NBR will expressly require to banks in Romania to increase its capital.

Romania received on March 25 an aid of 20 billion from four international lending institutions in the context of current global financial crisis, being the fifth country in Central and Eastern Europe which resorted to the IMF, after Hungary, Lithuania, Serbia and Ukraine. This year, Romania will receive the loan contracted for two years of about 11.8 billion euros, of which 8.5 billion will come from the IMF. Romania's agreement with the IMF could be followed by similar packages for Lithuania and Turkey, analysts estimated, at a time in which Eastern Europe is coping with a crisis that has already led to the entrance of the euro area, of the U.S. and Japan, in recession.

Romania could meet the requirements of inflation and budget deficit in the Maastricht Treaty in 2011, as a consequence of the agreement with the International Monetary Fund (IMF), said recently, chief economist of the Romanian Commercial Bank (BCR), Lucian Anghel .

Under the agreement with IMF, Romania will faster get closer to the requirements of the Maastricht Treaty in terms of inflation and budget deficit in 2011. To reach this, Romania must observe, firstly, the conditions assumed with the Fund, and, secondly, to focus on some plans on a very long term, to the detriment of some on a very short-term, even if this is an election year.

I think it will be essential that this collaboration between the Ministry of Finance and central bank to continue, and the central bank can maintain its independence, which is something very important. Chief economist of BCR considers that “the amount (of 19.95 billion euros, no) is sufficient to cover the needs of 2009-2010”, but it is likely to draw less than the amount allocated.

"Without this agreement, on the long term we would have been much worse. This safety net puts us at the shelter for the next two years, even if the financial crisis will worsen”.

From my point of view, this agreement will teach us how to consume less. Probably, the number of unemployed will increase and I think that will influence our behavior regarding investment and consumption. On March 25, the IMF announced officially that it reached an agreement with Romania for a grant of 12.95 billion euros, part of a package of about 20 billion euros, to which also contributes the European Commission, EBRD and World Bank.

The National Bank announced the elimination of mandatory currency reserves for liabilities with residual maturity of more than two years.

The Board of Directors decided the application period for this condition to be May 24-June 23 2009. The Board of Directors decided to maintain the interest rate of monetary policy at 10.00 percent per year. The Council reviewed and also approved, the letter of intent submitted to the International Monetary Fund on obtaining an external financing arrangement with the international financial institutions and the European Union. The current rate of minimum mandatory reserves for other liabilities in lei and foreign currency was maintained at 40 per cent in currency and 18 percent in lei. The Board of Directors of the NBR will closely monitor the evolutions of domestic and global economic environment, so that through the adequacy of tools of NBR, to reach the objectives of achieving and maintaining price stability over the medium term and financial stability.

According to an official announcement of the NBR, the analysis of the latest statistical data shows an increase in the annual rate of inflation and slowness in the economic growth as a result of reduced exports and external financing due to a deepening of the global economic and financial crisis. The annual inflation rate rose at 6.89 percent in February 2009, compared to 6.3 percent in December 2008, because of the increase in some administered prices and fuel charges, as well as because of the services prices, due to the national currency depreciation, as a result of an emphasis of aversion towards the risk of investors confronted by economies of Central and

Eastern Europe. The annual rate of inflation of basis Core2 adjusted - calculated by removing the impact of administered and volatile prices (vegetables, fruits, eggs and fuels) and vice tax - was 6.6 percent in February 2009 compared to 6 , 3 per cent in December 2008. At a monetary level, it is noticed a relative stagnation of intermediation in the conditions of significant slowing in the expansion of credit granted to the private sector. The factors mentioned above emphasize the need to maintain a prudent attitude of the monetary policy in the context of the need to continue adjusting the external deficit to sustainable levels over the medium term, and to avoid excessive volatility of exchange rate of domestic currency.

Based on available data, and in order to continue the process of approaching the level of interbanking interest rates from the monetary policy interest rate, the Board of Directors of the national bank decided to maintain the rate of monetary policy at 10.00 per cent per year and continued the use of active operations on the market for proper management of liquidity in the banking system.

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According to the announced timetable, the next meeting of the CA of NBR dedicated to monetary policy will take place on 6 May 2009, when it will be reviewed the new quarterly report on inflation. Governor of National Bank of Romania, Mugur Isarescu, presented on April 1 to the Romania's Parliament leading, the position of the Romanian central bank on macro-economic situation and the agreement with IMF and EC, the governor assuring that Romania will be able to continue economic growth. "I said that this arrangement is not only necessary for the current period, but it's also a good one. I expressed my conviction as part of the negotiating team, that the Agreement provisions are those that Romania needed, that these public funding sources will compensate for lower generosity of private capital from Romania and that, based on our resources but also on these sources borrowed, we'll continue the economic growth and will ensure macrostability of the country, showed Isarescu. He stressed that, now, it is essential to rebuild trust and called for cooperation of all political and economic factors. "I assure once again the Romanian parliament that we are ready, with arms, to come and present whenever it is necessary, the macroeconomic situation of the country; and as regards the National Bank, to do our duty stipulated in our law and laws in the EU, according to which we are functioning" said Isarescu. In turn, the president of the House of Deputy Roberta Anastase, qualified the meeting with the governor as an "an interesting, as well as a useful one."If you want, it is included in a normal program that the political class in general should have in this period, a program that focuses on solidarity and communication, too (...) The opinion that emerged from this meeting is that such a financing arrangement is necessary. In these conditions, so as the costs were discussed, some are beneficial. Finally, the Senate president, Mircea Geoana, said the National Bank has a very important role, being the "guardian angel" of macroecostability of the country, including, in terms of price stability. It was also underlined the desire to restart lending so not to reproduce the conditions that led to the crisis that we cross today. It is important to restart the economy lending, but with greater vigilance in terms of credit quality and their effects on economic and social life of our country.

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