

**10th Anniversary
of the Central Bank of Bosnia and Herzegovina**

**FUTURE CO-OPERATION
OF THE CENTRAL BANKS OF THE REGION**

**Florin Georgescu
First Deputy Governor
National Bank of Romania**

Sarajevo, September 13-14, 2007

NATIONAL BANK OF ROMANIA



CONTENTS

- ↪ **I. The Co-operation between the National Bank of Romania and other Monetary and Supervision Authorities3**
1. Financial Stability Area
 2. Importance of Central Banks' Co-operation
 3. Current Status of Co-operation between Romania and Central Banks from our Region
 4. Main Actions within Supervisory Co-operation
 5. Crisis Management
 6. Romania and the Convergence Program of the World Bank
- ↪ **II. Developments of the Romanian Banking Sector13**
1. Banking Sector – the Main Component of Financial System
 2. Main Features of the Romanian Banking System
 3. Foreign Equity Weight in the Banks Capital in Romania
 4. Financial Intermediation
 5. The Structure of Non-Government Credit in GDP
 6. Analysis Ratios for the Banking System
 7. Inflation Rate and Interest Rate

I. The Co-operation between the National Bank of Romania and other Monetary and Supervision Authorities

1. Financial Stability Area (a)

- Central banks should co-operate in the implementation of international codes, standards and best practices as a condition for financial stability
 - ✓ Basel Core Principles for Effective Banking Supervision
 - ✓ New Capital Accord Basel II improves financial risks assessment and management
 - ✓ International Financial Reporting Standards encourage comparable cross border financial markets analysis

1. Financial Stability Area (b)

- Instruments used for assessing financial stability:
 - ✓ Stress tests
 - ✓ Early warning systems
 - ✓ Contagion risk models

1. Financial Stability Area (c)

- Channels of contagion
 - ✓ direct contagion – financial linkages
 - ✓ indirect contagion – management of regional portfolios
- Financial shocks produced in parents' banking system can propagate to host banking system through ownership linkages
- Shocks generated in a specific country can spread to entire group as most international financial institutions use regional portfolios allocation
- Trade agreements, exchange rate regimes and investors behavior can propagate imbalances across countries

2. Importance of Central Banks' Co-operation

- Regional vs. global arrangements:
 - ✓ BIS has began regional (primarily European) and has evolved into a global instrument of co-operation
 - ✓ However, many economic issues (with regard to financial stability) arise in regional context

- Role of private business sector
 - ✓ Growing interest for the private business sector in central bankers' discussions especially at regionally level organizations (EU, OECD, BIS, IMF and others)
 - ✓ When formulating rules and regulations central banks make use of consultation mechanisms with business representatives

3. Current Status of Co-operation between Romania and Central Banks from our Region

- Romania's membership in BSCEE (Banking Supervision from Central and Eastern Europe)
 - ✓ Group of supervisors from CEE that promotes common understanding of supervisory practices in the region
 - ✓ Co-operation instrument that facilitates exchange of information and experience
 - ✓ Represented in the Basel Committee of banking supervisors

- Romania is also part of multilateral written agreement on banking supervision with Greece, Albania, Bulgaria, Cyprus, Macedonia and Serbia
 - ✓ Aims to promote convergence of practical approaches and exchange of information for an effective regional supervision
 - ✓ Intents to clarify the scope and tasks of home and host supervision
 - ✓ Addresses additional issues like financial stability, crisis management, anti-money laundering and combating the financing of terrorism

4. Main Actions within Supervisory Co-operation (a)

- Effective supervisory planning and activities (exchange of experience, joint inspections) as many large foreign banks hold subsidiaries and branches in our region countries
- Co-operation between home and host supervision with regard to the banking activities of the group
- Convergence of supervisory practices and culture
- Information sharing on cross border activities

4. Supervisory Co-operation (b)

➤ Memoranda of Understanding Signed by the NBR with Foreign Supervisory Authorities

No.	Supervisory Authorities	Date
1	National Bank of Moldova	07/27/2001
2	Banking Regulation and Supervision Agency in Turkey	02/19/2002
3	Central Bank of Cyprus	04/10/2002
4	Central Bank of Italy	12/12/2002
5	Bank of Greece	01/24/2003
6	The Federal Supervision Authority for Finance Services of Germany	03/04/2003
7	The Central Bank of Netherland	07/01/2004
8	The Banking Commission of France	09/02/2005
9	Hungarian Financial Supervisory Authority	11/21/2005
10	The Austrian Financial Market Authority and The Federal Ministry of Finance in Austria	03/07/2006

5. Crisis Management

- As a new member of EU, Romania adopted the European philosophy for crisis management:
 - a. Co-operation between the banking supervisors and central banks
 - b. Co-operation between payment systems overseers and banking supervisors
 - c. Co-operation between the banking supervisors, central banks and finance ministries

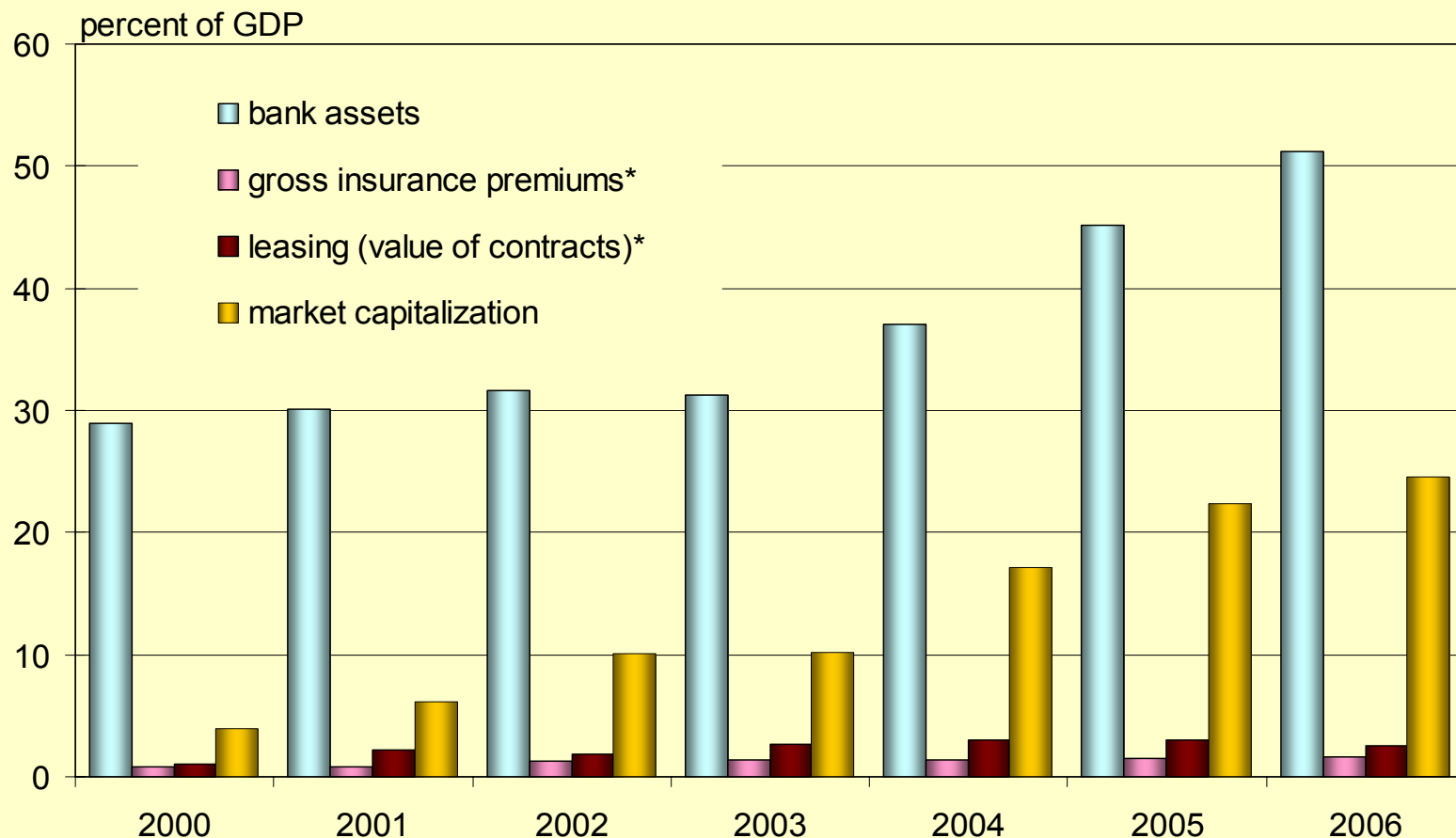
- The experience of each country should be extended to the regional level

6. Romania and the Convergence Program of the World Bank

- In the spring of 2006, NBR, Romanian Banking Association and Ministry of Public Finance started a Special Projects Initiative (SPI) as part of the Convergence Program on Financial Sector Modernization in South-East European countries (SEE) launched by the World Bank in July 2005
- SPI-Romania is seen as a pilot-program for the SEE region
- There are ongoing discussions for launching a similar project in all the countries of our region

II. Developments of the Romanian Banking Sector

1. Banking Sector - the Main Component of Financial System



*) estimate for 2006

Source: Bucharest Stock Exchange, Rasdaq, Insurance Supervisory Commission, Bank Leasing Association, NBR, NIS

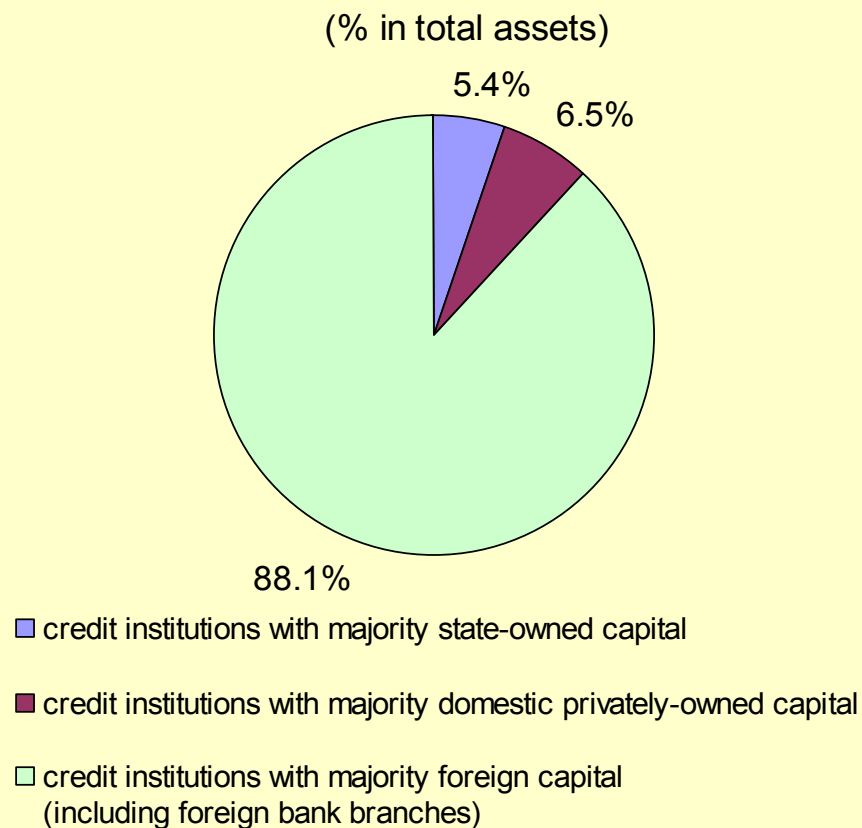
2. Main Features of the Romanian Banking System^{*)}

Features

- 37 banks (of which 7 foreign bank branches)
- Total bank assets: EUR 60.6 billion
- 59.1% of bank assets held by top-five banks
- Solvency ratio: 15.0%
- Foreign entities account for the largest part of shareholding

^{*)} June 2007

Shareholding Structure of Credit Institutions in Romania



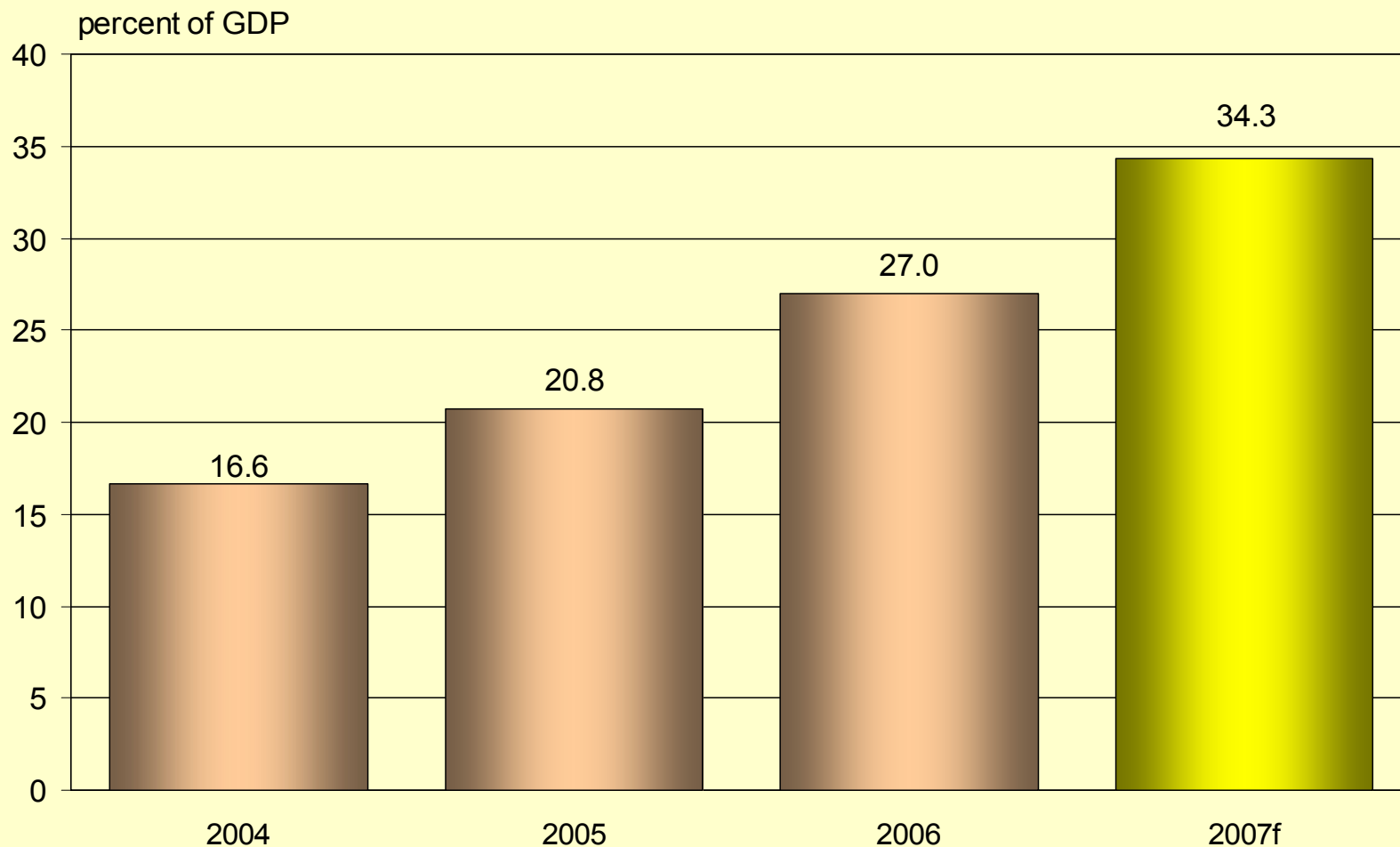
3. Foreign Equity Weight in the Banks Capital in Romania

June 2007

	Foreign equity	
	Percent of total foreign capital	Percent of total capital
Austria	33.4	24.7
Greece	25.6	18.9
Netherlands	9.8	7.2
Hungary	6.5	4.8
Italy	6.0	4.4
France	5.7	4.2
Cyprus	2.3	1.7
Germany	1.8	1.3
Other EU countries	2.0	1.6
Total EU	93.1	68.8
USA	2.1	1.6
Other countries	2.7	2.0
EBRD	2.1	1.6
Total	100.0	74.0

Source: National Bank of Romania

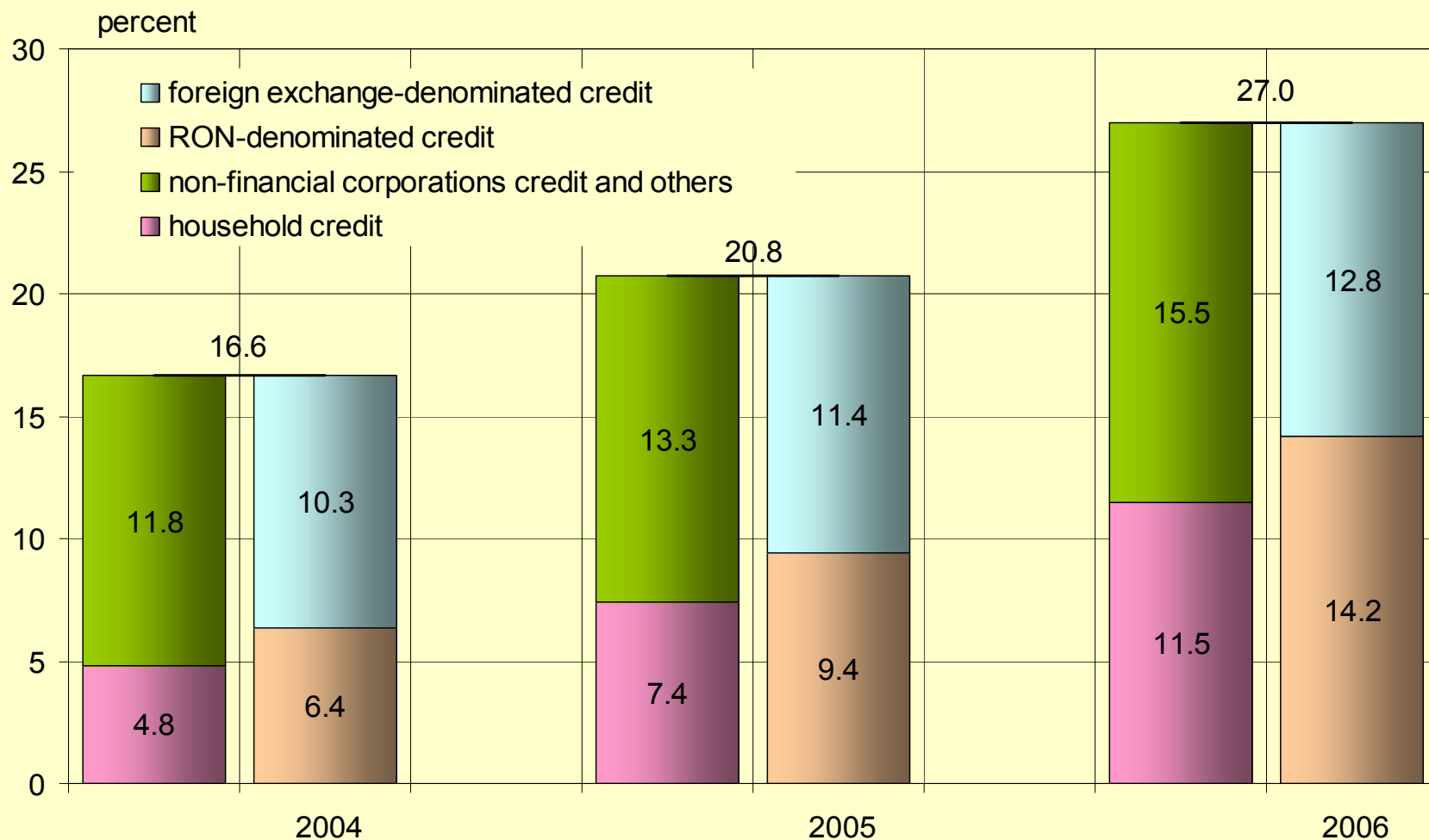
4. Financial Intermediation*



Source: NIS; NBR

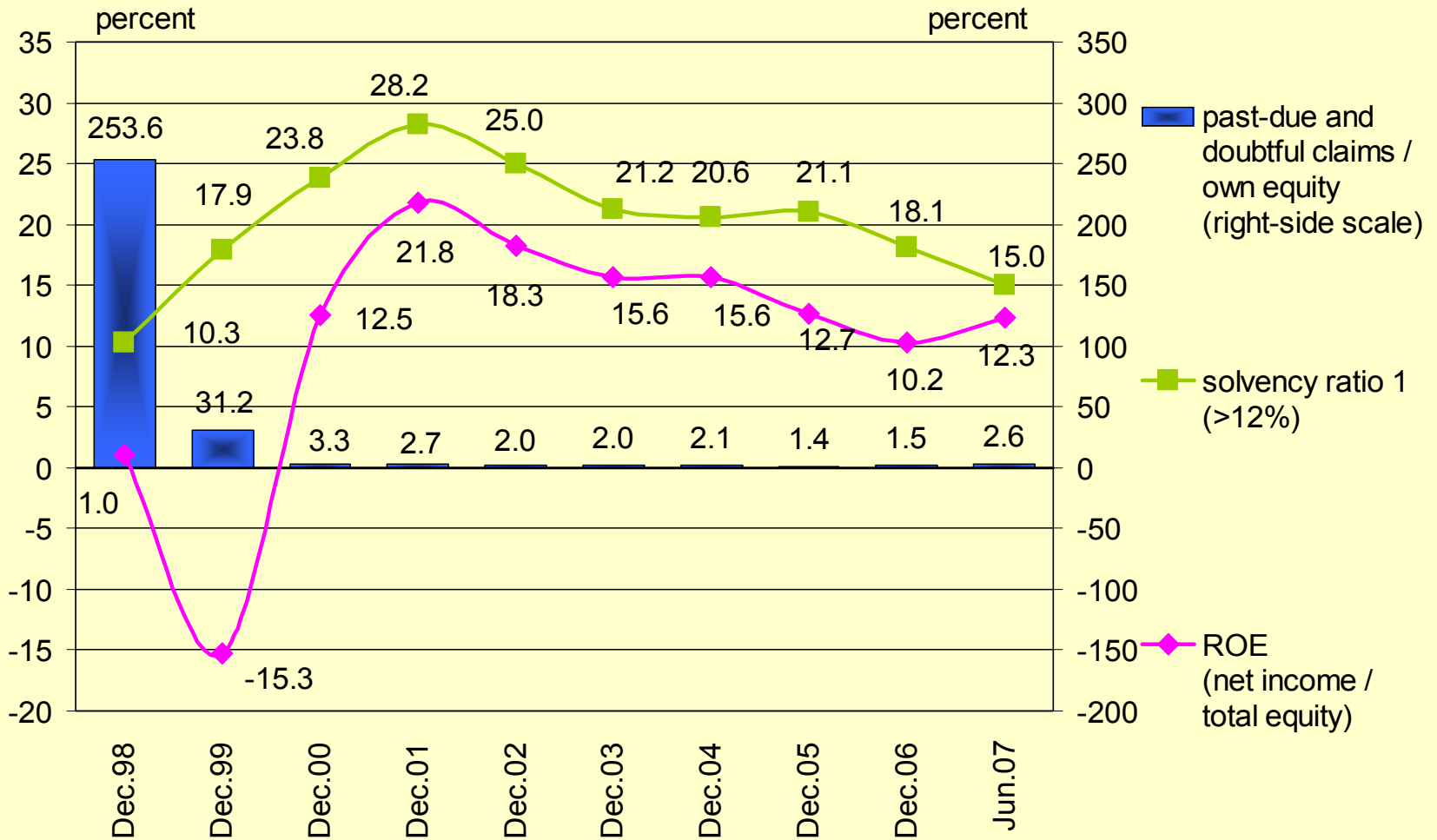
*) non-government credit/GDP

5. The Structure of Non-Government Credit in GDP



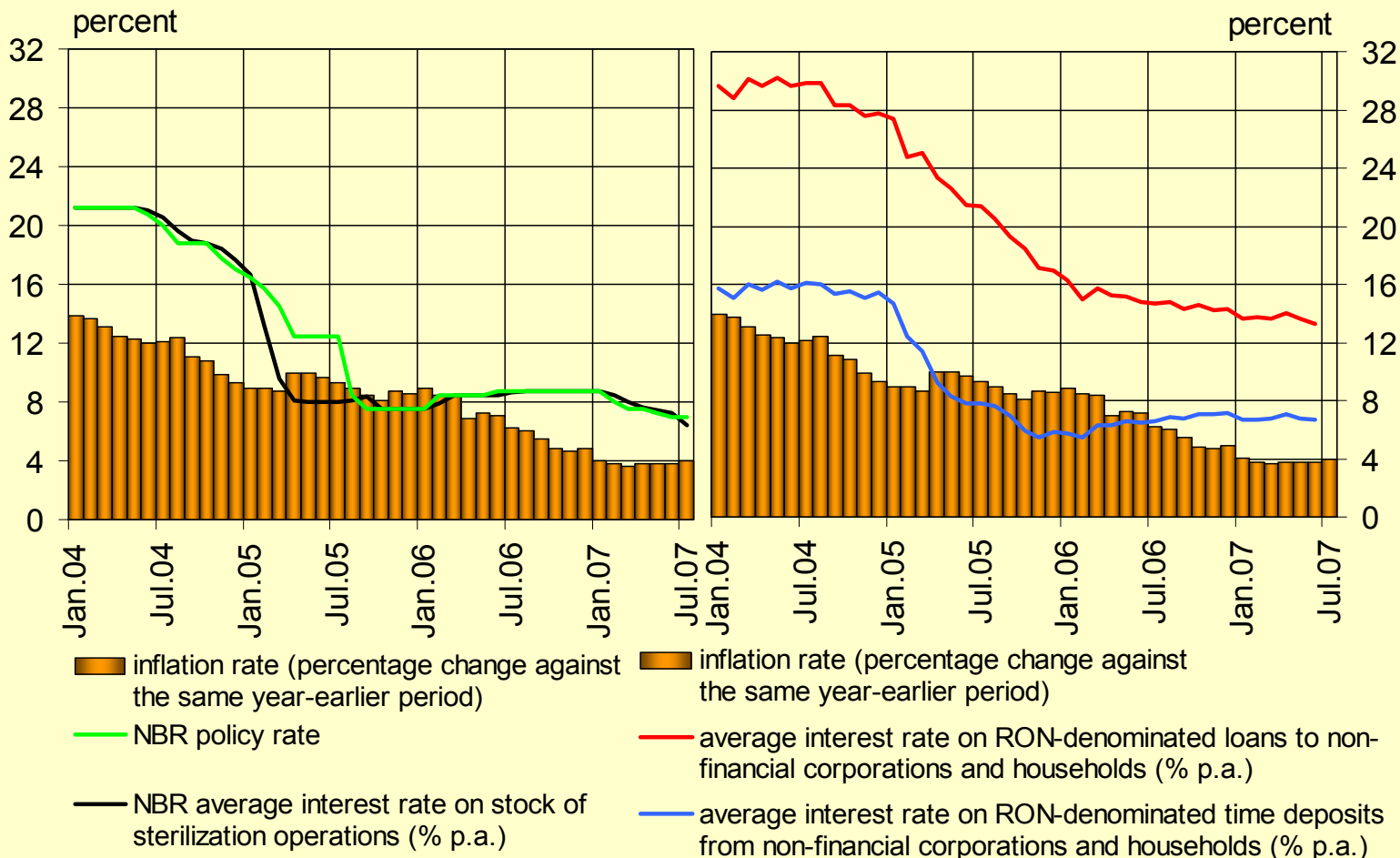
Source: National Institute of Statistics, National Bank of Romania

6. Analysis Ratios for the Banking System



Source: National Bank of Romania

7. Inflation Rate and Interest Rates



NBR policy rate: 7% starting with June 26, 2007

Source: National Bank of Romania, National Institute of Statistics