MACROECONOMIC review

DECEMBER/2011

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Romania

Europe, US, Japan, Asia:

Evolution of BNR FX reserves in December

On December 31st 2011, National Bank of Romania's foreign exchange reserves stood at EUR 33,193 million, compared to EUR 31,744 million on November 30th 2011.

During the month, the following flows have taken place:

- EUR 1,994 million inflows, representing inflows into the European Commission's account, inflows into the Ministry of Public Finances' accounts (including the third tranche within the agreement with the World Bank, in amount of EUR 400 million), changes in the foreign exchange reserve requirements of the credit institutions, income from the management of foreign exchange reserves a.s.o.;

The appreciation of the U.S. dollar, Japanese yen and pound sterling against the euro on the global foreign exchange market was another factor that provided support to the increase in the value of the international reserves.

- EUR 545 million outflows, representing interest and principal payments on foreign currency public debt, changes in the foreign exchange reserve requirements of the credit institutions a.s.o.

The gold stock has held steady at 103.7 tonnes. However, following the change in the international price of gold, its value amounted to EUR 4,058 million.
The international reserves of Romania (foreign currencies and gold) on December 31st 2011 stood at EUR 37,251 million, compared to EUR 36,020 million on November 30th 2011.
During the month of January 2012, the payments due on public and publicly guaranteed foreign currency denominated debt amount to EUR 142 million.

Boc: Romania 2011 growth was almost 2%, within the target budget deficit

Romania last year growth of almost 2% and was within the target budget deficit of up to 4.4% of GDP this year one of the objectives is to attract about 7 billion euros of European funds, representing a rate of absorption 20%, said Premier Boc.

The latest assessment of the agreement with the IMF, the Romanian authorities and international financial institutions have maintained economic growth forecast of 1.5% this year, but reduced the estimate for next year, about 2%.

For last year, deficit target was set at maximum 4.4% of GDP. At the end of November, the general government recorded a deficit of 16.3 billion RON, representing 2.98% of GDP, 0.5 percentage points more than in October.

Given that the budget deficit target for last year of 4.4% of GDP in the cash, this means that the state had in the last month of this year a surplus spending space, compared with revenues collected in amount of 1.4% of GDP, the equivalent of over 7.7 billion lei.

BCR has increased its capital by 468 million RON to strengthen solvency

BCR, the largest bank by market ended 2011 with a share capital increased by 467.79 million lei (about 109 million EUR) after issue of 4.677.990.558 shares with nominal value of 0.1 lei each.

The subscription period in which shareholders have exercised their right of preference and new titles was paid November 14 to December 19.

Following this operation, BCR came to have a capital of 1.55 billion lei (361 million EUR).

Erste Group, majority shareholder of BCR, last fall announced its intention to increase the share capital of the bank with about 100 million euros.

Of minority shareholders, SIF Oltenia announced that the new shares subscribed for 37.15 million lei (8.6 million EUR).

The capital increase was decided in the context of the BCR entered Q3 loss and solvency after the Romanian accounting standards fell to 10.7%, the minimum level recommended by the central bank is 10%.

The recent acquisition of equity transactions other SIFs, Erste has come to hold 88% stake in BCR.

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Standard & Poor's puts ratings on eurozone sovereigns on CreditWatch with negative implications

Standard & Poor's Ratings Services placed its long-term sovereign ratings on 15 members of the European Economic and Monetary Union (EMU or eurozone) on CreditWatch with negative implications. We have also maintained the CreditWatch negative status of the long-term rating on Cyprus and placed its short-term ratings on CreditWatch with negative implications. The ratings on Greece have not been placed on CreditWatch. Today's CreditWatch placements are prompted by the belief that systemic stresses in the eurozone have risen in recent weeks to the extent that they now put downward pressure on the credit standing of the eurozone as a whole.

We believe that these systemic stresses stem from five interrelated factors:
(1) Tightening credit conditions across the eurozone;
(2) Markedly higher risk premiums on a growing number of eurozone sovereigns, including some that are currently rated 'AAA';
(3) Continuing disagreements among European policy makers on how to tackle the immediate market confidence crisis and, longer term, how to ensure greater economic, financial, and fiscal convergence among eurozone members;
(4) High levels of government and household indebtedness across a large area of the eurozone; and
(5) The rising risk of economic recession in the eurozone as a whole in 2012.

European summit of December the 8-9th

A majority of European leaders agreed early Friday, December the 9th on a new deal to try to resolve the continent's debt crisis, but some countries including Britain refused to back a broader treaty change.

The 17 members of the eurozone, which share the embattled single currency, reached a deal for a new intergovernmental treaty to deepen the integration of national budgets.

Six other EU nations supported the deal. "We're doing everything we can to save the euro," President Nicolas Sarkozy of France said at a news conference in Brussels following a marathon summit meeting of EU leaders.

German Chancellor Angela Merkel called it a 'new beginning,' saying "We have achieved a breakthrough to a stability union. A fiscal union, or stability union as I call it, will be developed further, step by step in the years to come."

But the new plan, which leaders are aiming to have ready by March, did not get the backing of Britain.

"We would rather have reformed the treaty with 27 members," Sarkozy said. But Prime Minister David Cameron of Britain demanded an "unacceptable" opt out clause related to the financial services sector, Sarkozy said.

"I said before coming to Brussels that if I couldn't get adequate safeguards for Britain in a new European treaty, then I wouldn't agree to it," said Cameron. The British waiver would have "undermined a lot of what we've done to regulate the financial sector," Sarkozy said.

Instead, the eurozone countries, along with "anyone who wants to join us," are pushing ahead with the new treaty, he said.

"What is on offer isn't in Britain's interests, so I didn't agree to it," Cameron said.

The new deal may raise concerns of the EU turning into a two-tier system, with some countries pursuing deeper integration than others. But leaders had to act.

The national debts of euro members, including Ireland and Greece, have pushed the common currency to the brink of collapse, forcing international lenders to swoop in with bailouts.

The budget cuts they have demanded have led to mass protests that brought down governments in both countries -- and they are not the only ones with worrying levels of debt.

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