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Romania's credit rating raised to investment-grade by Fitch

Romania had its credit rating raised to investment grade by Fitch Ratings for the first time in almost three years after the government sought to cut the budget deficit and the economy exited a two-year recession.

The country's sovereign rating was raised one step to BBB-, the lowest investment grade, with a stable outlook. Moody's Investors Service also gives Romania comparable Baa3, while Standard & Poor's rates the country's debt BB+, its highest speculative grade.

"The upgrade reflects Romania's progress in recovering from the effects of the financial crisis," including a return to economic growth, narrowing the current-account deficit and reducing the budget deficit, said Ed Parker, a director in Fitch's emerging-market sovereign group. "There's been a material easing in Romania's downside risks."

Romania's GDP rose 1.7% in the first quarter from a year earlier, ending a two-year contraction, as demand for exports increased. The country, which has received two international bailouts since 2009, plans to trim its budget deficit to less than 3% of GDP in 2012 from 6.5% in 2010 and may borrow on global markets later this year.

Romanian June inflation rate falls to 7.9%

Romania's inflation rate unexpectedly fell to a four-month low in June as the farm harvest boosted supply and cut food costs.

The rate dropped to 7.9% from a year earlier, the lowest since February, after touching 8.4% in May.

Romanian policy makers left the benchmark interest rate unchanged at 6.25%, the European Union's highest, for a 14th month, as the central bank expects the effects of a value-added tax increase on inflation to fade in the second half of the year.

Food-price growth slowed to 9.8% in June from a year earlier, compared with 11.2% in May, on lower vegetable, milk and fruit prices, the institute said.

Non-food costs were unchanged at 7.7% from the previous month, while price growth for services accelerated to 4.8% from 4.7% in May as the recent loss by the leu currency to the euro boosted telephone and rent costs gauged in the common currency.

Romania's trade deficit widened in May to 1.12 billion EUR from 1 billion EUR a year ago, the statistics institute said in a separate statement.

Second review of the precautionary stand-by agreement between Romania and IMF

A team of experts from the European Commission (EC) and the IMF (IMF) have visited Bucharest from July 20 to August 1, for quarterly evaluation of the economic program to Romania.
Program objectives are to strengthen economic growth while maintaining macroeconomic and financial stability.
The team believes that the program is on the right path and all the performance criteria, set for June 2011, are fulfilled. The Romanian authorities
firmly implemented the program policies. To use the optimum growth potential of Romania is essential to continue implementing policies unabated. Policies are reinforced to strengthen the Romania thus still face financial market volatility.
For 2011, IMF forecast the real GDP growth of around 1,5%. Although the contribution to growth by absorbing EU structural funds remains low, it is anticipated a good harvest and exports are still strong. In 2012, forecast growth of 3,5 to 4% depending on the growing domestic demand
including better absorption of EU structural funds. It is anticipated that inflation will diminish, but will remain above the inflation target for 2011 set by central bank. It is expected to fall to 3,5% in
2012. It is anticipated that the current account deficit will remain at around 4,5% of GDP. Continue fiscal consolidation and improved reliability low Romania financing costs. In 2011, Romania is part of the trajectory to meet the target budget deficit of 4.4% of GDP (in cash terms) and less than 5% of GDP in terms of
commitments (ESA). In the first half, revenues from VAT and excise exceeded projections, but non-tax revenues have been disappointing. On the expenditure side, savings came mainly from capital expenditures below the projected
including absorption of EU funds.
Government remains committed to reduce the budget deficit in 2012 strengthened to below 3% both in cash terms and in terms of commitments (ESA). In coming months, the government will work towards achieving this goal. More good revenue collection, cost optimization, including better targeting social assistance to poor and vulnerable in society, control stringent spending and other measures will be essential to achieve this objective
State enterprises should be reformed to become more efficient, to sat
increase rather than hinder.

ECB interest rate increase

At 7 July meeting, the Governing Council of the ECB took the decision to increase the main interest rate for refinancing operations of the Eurosystem by 25 basis points to 1.50%, starting from the operation to be settled on 13 July 2011.

Consequently, the interest rate on the marginal lending facility will be increased by 25 basis points to 2.25% and the interest rate on the deposit facility will be increased by 25 basis points to 0.75%, with effect from same day.
The recent increases are about to calm the inflationary pressures within euro zone but in the same time to make more difficult the management of the public debt in PIIGS countries.

Moody's cuts Irish debt rating to junk status

Ratings agency Moody's has cut the Republic of Ireland's debt rating to junk status.
Moody's said its decision was based on the "growing possibility" that Ireland would need a second bail-out before it can return to capital markets. The current European Union and International Monetary Fund support program is due to end in late 2013. It comes at a time when markets fear the debt crisis in the euro zone could spread to Italy and Spain.
Ireland, Greece and Portugal have all been downgraded by ratings agencies several times in recent months. Last week, the European Commission raised the issue of the "appropriateness of behavior" of agencies, and Greek Foreign Minister Stavros Lambrinidis said the agencies had exacerbated an already difficult situation.
In its latest downgrade, Moody's cut Ireland's ratings by one notch to Ba1 from Baa3. And the agency warned that further downgrades were possible if the Irish government failed to meet its deficit reduction targets, or if Greece were to default, thereby causing further market disruption.
Ireland retains investment-grade status with the other main ratings agencies."

Portugal downgrade, by Moody's

Moody's slashed Portugal's credit rating by four notches from Baa1 to Ba2 with a negative outlook after markets closed on Tuesday.
Fears that the euro zone crisis was entering a new stage intensified after Portugal's credit rating was slashed to junk. Traders were alarmed by Moody's warning that Portugal – like Greece – will need a second bailout, as it became the first credit ratings agency to cut the country's debt to junk status. "This will weaken hopes that the recently agreed aid for Portugal will put a line under the nation's woes and could trigger worries that Portugal could follow Greece down the path of possible default," said Jane Foley, senior currency strategist at Rabobank, who also stated that the eurozone sovereign debt crisis was "back in full swing". The yield on the Portuguese 10-year government bond climbed immediately after the Moody's cut.

Second bailout for Greece

In an extraordinary meeting, on 21 July, EU members agreed to approve a second bailout for Greece, together with additional steps to fight against the public debt crisis in the euro zone.They agree to support a new program for Greece and, together with the IMF and the voluntary contribution of the private sector, to fully cover the financing gap. The total official financing will amount to an estimated 109 billion EUR.

This program will be designed, notably through lower interest rates and extended maturities, to decisively improve the debt sustainability and refinancing profile of Greece.

They decided in this respect to lengthen the maturity of future EFSF loans to Greece to the maximum extent possible from the current 7.5 years to a minimum of 15 years and up to 30 years with a grace period of 10 years, interest rates being lowered from 5% to approx. 3.5%. Moreover, they decided to extend the maturities of the existing Greek facility.

The financial sector has indicated its willingness to support Greece on a voluntary basis through a menu of options further strengthening overall sustainability.The net contribution of the private sector is estimated at 37 billion euro.Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Euro zone liquidity operations by Greek banks. EU will provide adequate resources to recapitalize Greek banks if needed.

The lending rates and maturities we agreed upon for Greece will be applied also for Portugal and Ireland. All euro area Member States will adhere strictly to the agreed fiscal targets, improve competitiveness and address macro-economic imbalances.

Public deficits in all countries except those under a program will be brought below 3% by 2013 at the latest.

OTP BANK Romania SA, Treasury & Capital Markets
Contact:
Treasury Sales:
Phone: +40 21 307 58 09 / +40 21 307 58 17
Fax: +40 21 307 57 39
Capital Markets Sales:
Phone: +40 21 307 58 27
Fax:+40 21 307 57 46

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