# MACROECONOMIC review

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## Romania



## Europe, US, Japan, Asia:

## Romania's budget posts deficit of 1.2% of GDP in Jan-May

Romania's budget deficit in January-May was 1.2% of the gross domestic product, compared to 0.8% in January-April, according to Finance Minister Gheorghe Ialomitianu.

In nominal figures, the deficit is 6.7 billion RON (1.61 billion EUR).

The deficit had dropped to 4.4 billion RON at the end of April, or 0.8% of the GDP, from 1% of the GDP in the first quarter, thanks to a surplus of more than 800 million RON in April, owing to reduced capital and personnel expenses, and lower subsidies.

## Romania's ratings

In June, both S&P and Moody’s have confirmed Romania’s credit rating and outlook stable.

Standard & Poor’s confirmed Romanian sovereign credit ratings at 'BB+/B' for foreign currency and at 'BBB-/A-3' for local currency, saying it expects economic recovery to remain sluggish, despite substantial growth potential and moderate public debt.

Always this month, Moody’s Central Europe director Petr Vins said the agency has no plans to revise Romania’s credit rating in the next twelve months.

## *Romania 1Q trade gap narrows to 1.4 billion EUR*

Romania's trade deficit narrowed to 1.4 billion EUR in the first quarter, from 2 billion EUR in the year-earlier period, the country's statistics institute INS said.
Exports rose 39.4% on the year to 11 billion EUR in January to March, while imports were up 25% to 12.4 billion EUR.
Vehicles made up for the bulk of exports and imports, amounting to 42.9% of overall exports and 34.2% of the imports in the first quarter, the data showed.
Exports are calculated exclusive of costs, insurance and freight fees, but imports are calculated including such costs.
In March alone, Romania's trade deficit was of 806 million EUR, narrower from 929 million EUR in the year-earlier month. Exports were at 4.1 billion EUR in March, up 35% on the year, while imports were up 23.7% to 4.9 billion EUR.

## *Romania Central Bank keeps a close eye on Greek subsidiaries*

The Romanian central bank is keeping a close eye on Greek subsidiaries and has already taken preventive measures against potential fiscal slippages, first deputy governor Florin Georgescu said.
The Greek subsidiaries are financially solid and well capitalized. Their solvency ratio stands at 15.7%, one percentage point above the local banking system's average, Georgescu added."The good solvency ratio makes the banks eligible for potential support from the central bank," he said.
However, the central bank will not intervene unless the mother banks are no longer capable of supporting their subsidiaries, Georgescu said, mentioning the scenario has not presented yet.
He said the central bank has drafted a response action plan in case of possible spillover from Greece, which includes a series of measures "to be applied in adequate dosages" for each subsidiary.

## *Moody's: Greek banks could sell Romanian business if crisis worsens*

coming period, but a sovereign crisis at home could prompt a sale of international businesses, Moody's Investors Service said.

ATEbank, one of the six Greek banks with activities on the local market, has already announced plans to sell its majority stake in ATEbank Romania.

However, the Hellenic lenders are liquid and well capitalized and there were no immediate reports of financial difficulties at their Romanian subsidiaries, said Nondas Nicolaides, senior analyst at Moody's.

Additionally, Romanian central bank is expected to support the Greek subsidiaries if need arises, Nicolaides said.

Moody's has downgraded in June, to junk eight Greek banks, after cutting its sovereign rating on Greece by three notches to 'Caa1', with negative outlook. The ratings agency warned there is a 50%-50% chance Greece will default.

Atsi Sheth, senior analyst at Moody's, said a possible default should not hit Romania directly, but a strong decline in EU's economic growth following the situation in Greece would have a negative impact on Romania's economy.

## *Greece set to get aid payment as banks, lawmakers f all in line*

Euro-area finance ministers are set to approve the next aid payment due Greece and outline a second rescue after banks lined up behind debt-rollover plans and Greek lawmakers approved a budget-cutting package on a second ballot.

The endorsements by Greece's creditors and parliament met European Union conditions for preventing a default. Finance

chiefs descend on Brussels in two days before a scheduled session on July 11-12, where they aim to close this chapter of the debt crisis that has raged for more than a year.

Europe's latest attempt to prevent Greece's fiscal frailty from infecting the entire region -- and the world -- caps a turnaround from just three months ago when the country's then-Finance Minister George Papaconstantinou predicted a return to markets this year. Since then, Greek yields surged and credit-insurance prices indicated an increasing likelihood of default after the government in Athens reported missing deficit targets.

Greece is Europe's most-indebted country with debt at about 150 percent of output. Standard & Poor's rates it below every other country in the world.

Finance ministers are also likely to discuss progress the region's banks and insurers are making toward an agreement on how much Greek debt to roll over in response to politicians' pressure.

German banks have agreed to roll over the Greek bonds they're holding that mature through 2014, which amount to about 2 billion euros, Finance Minister Wolfgang Schaeuble said on June 30th in Berlin. The country's so-called bad banks will provide 1.2 billion euros as well, he said. Deutsche Bank AG Chief Executive Officer Josef Ackermann, at a conference in Berlin with Chancellor Angela Merkel, predicted that financial companies would contribute to help avert a "meltdown." German and French lenders are the biggest foreign holders of Greek debt and their participation would help the EU meet a goal of getting banks to roll over at least 30 billion euros of bonds.

Under a French proposal, bondholders would agree to roll over 70 percent of their maturing debt into new 30-year Greek

bonds with the principal on the new debt guaranteed through Greece investing in zero-coupon bonds of similar maturity. Under a second option, investors would roll over 90 percent of their debt into new five-year bonds with no guarantee.

Greek Prime Minister George Papandreou won the final vote by 155 to 136 to enact a 78 billion-euro package of tax increases and asset sales. Those steps were endorsed in a vote on June 30th that was marred by street violence as police fired tear gas on crowds in Athens. Parliament has become the focus of repeated riots that underscore the challenge faced by Papandreou in executing his plan in a recession-hit economy while appeasing the EU partners funding its debts. Some economists doubt the country's ability to meet the terms of its economic reform plan.

## Fed June meeting

Fed Chairman Ben Bernanke left the door open to a fresh shot of monetary stimulus should the economic rebound he's predicting fail to materialize.

The Fed would be "prepared to take additional action, obviously, if conditions warranted," including the purchase of more Treasury securities, Bernanke said after U.S. central bankers meeting on June, the 22nd in Washington. The economy will probably overcome constraints from elevated energy prices and Japan-related disruptions to manufacturing, he said. Still, declining home prices, high unemployment and weaknesses in the financial system may restrain the recovery in the longer term, he said.

Policy makers in a statement acknowledged the slowdown even as they agreed to complete $600 billion in bond- buying as scheduled this month in the second round of so-called quantitative easing. While the outlook for employment and inflation is better than before the latest bond purchases, Bernanke said he's not sure how long the economic headwinds will persist.

One of the downside risks is a debt default by Greece, which could "roil financial markets globally," including bonds and stocks, and potentially have a "quite significant" impact in the U.S., Bernanke told reporters at his second post-meeting press conference.

The U.S. economy grew at an annual rate of 1.8% in 2011 Q1, down from 3.1% in 2010 Q4, and recent data have shown manufacturing and consumer and business sentiment weakening. Referring to "frustratingly" slow job growth and weakness in the financial and housing industries, Bernanke said "some of these headwinds may be stronger and more persistent than we thought."

Bernanke said that to further stimulate the economy the Fed could buy more bonds or cut the interest rate it pays banks on excess reserves held at the central bank. It could also pledge to hold interest rates at record lows for a longer period of time, he said.

The Fed, in a unanimous decision, left the benchmark interest rate in a range of 0% - 0.25%, where it's been since December 2008.

While Bernanke and his Fed colleagues are predicting growth will pick up in the second half of this year, the slowdown in the first six months forced them to mark down their projection for all of 2011. They forecast that the rate of expansion won't exceed 2.9% this year, down from April's top-end forecast of 3.3%. Inflation excluding food and energy prices will range from 1.5% to 1.8% this year, the Federal Open Market Committee said. That's higher than the 1.3% to 1.6% increase forecast in April. Policy makers also raised their forecast for unemployment, predicting it will average 8.6% to 8.9% in the fourth quarter of this year.

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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