MACROECONOMIC review

MAY/2011

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Romania

Europe, US, Japan, Asia:

BNR board meeting of May 3, 2011

In its meeting of May 3, 2011, the Board of the National Bank of Romania decided the following:

- to keep unchanged the monetary policy rate at 6.25 percent per annum;
- to ensure adequate management of liquidity in the banking system;
- to maintain the existing levels of minimum reserve requirement ratios on both leu-denominated and foreign currency-denominated liabilities of credit institutions.

Romanian inflation hits record high

In April 2011, Romania registered an unwanted highest inflation rate in the previous nine months. This is the EU's highest inflation rate, as reported by Eurostat, the Statistical Office of the European Commission. According to Eurostat estimates, Romania has seen the most accelerated price escalation at EU level, which translated as an annual inflation rate of 8.4%, twice higher than the EU average. These figures are bordering the official percentage released by the Institute of Statistics in Bucharest, which announced an annual inflation rate of 8.34% y-o-y in April.

According to the same estimates, the lowest annual rates were registered in Ireland (1.5%), the Czech Republic (1.6%) and Sweden (1.8%), while the annual inflation rate for the Euro area stands at 2.8%. Nevertheless, Romania ranks better as regards exports. Romanian exports registered a 42% growth rate, the 6th highest rise at EU level, after outbound trade rose from 4.9 billion EUR in the first two months of 2010 to 6.9 billion EUR.

Bulgaria reported the highest rise in exports, followed by Lithuania, Malta, Estonia and Latvia, while UK exports soared by 26%, Germany's exports rose by 21% and French exports equally reported a 15% rise. Romanian economic experts however remain reluctant, saying that a significant increase in exports would not solve the contingencies of Romanian economy, especially given that foreign investment is still on the wane. According to recent official figures, Romania received an injection of some 380 billion EUR in the first quarter of 2011, tantamount to four times less than the same period of last year.

Judging by Romania's trade deficit in the first two months of 2011, the country ranks 10th at EU level, with 600 million EUR, as compared to the same period of 2010, when Romania reported a trade deficit of 1.1 billion EUR.

Romania is out of recession, after two years of economic crisis: GDP grows +0.6% in Q1

Romania's economy is out of recession after two years of economic crisis, the Gross Domestic Product having increased two consecutive quarters, according to official data released by the National Statistics Institute (INS).

INS released the first estimates of the GDP in the first quarter of 2011, which was 0.6% higher than in the fourth quarter of 2010.

This is the second quarter with economic growth, after the last quarter of 2010 reported a 0.1% growth compared to the previous period. Technically, recession is over when economic growth is reported two quarters in a row.

Romania's economy went into recession two years ago after reporting a consecutive drop in GDP in the first quarter of 2009 and the last quarter of 2008. In 2010, Romania's economy dropped by 1.3%. For 2011, the country expects a 1.5% economic growth, while for 2012, 3.5-4%.

Moody's keeping negative outlook for UK banks

Credit rating agency Moody's is maintaining its negative outlook for the British banking sector due to economic and regulatory uncertainties, Moody's analyst and senior credit officer Elisabeth Rudman told Reuters.

"In many ways, the banks are in better shape than they were before the credit crisis, but it's still a very difficult environment," Rudman.

"There has been some stabilization in bad loan charges, but it may be that we will see the pace of that reduction slow down," she said.

China behind massive foreign buying in Japanese bonds

China is stepping up buying in Japanese government bonds, particularly notes with less than one year to maturity, market players say, in what looks like a fresh drive to diversify its ballooning foreign reserves after U.S. government bill yields fell.

Foreign investors have flocked to Japanese government bonds in the past five weeks, finance ministry data shows and market sources say China was among the main buyers, although a large part of buying was made through banks in London.

This means the ministry's breakdown of investors by country, which will be available next month, is likely to understate China's purchases.

There is a strong sense of deja-vu as China, which had more than $3 trillion in foreign reserves at the end of March, dabbled in the short-term yen market early last year.

Market players say, however, that like last time, China may not stay long in the market. If China was seeking to increase its yen weighting in its foreign reserves on a permanent basis, that could boost the yen but short-term trades are unlikely to have much effect.

Foreigners bought a net 4.696 trillion JPY ($57.7 billion) of Japanese bonds in the five weeks to May 20, a record amount of purchases for any five consecutive weeks since data began to be compiled in its current form in 2005.

One source said China appears to be buying the four to five-year sector after having sold a large amount of short-term bills earlier in the month.

Markets fret about euro 'slow-motion car crash'

Reports that Greece has not met any of the fiscal targets set by the International Monetary Fund (IMF) and the European Union (EU) as part of its 110 billion EUR ($157 billion) bailout knocked down the euro, as other countries in the euro zone are threatened with being dragged into the Greek morass.
The IMF could withhold its portion of June's 12 billion euros payment unless Athens can prove it can meet all its financing requirements for the next 12 months.
"It's high noon again in Europe and the gun is to Greece's head," Jan Randolph, Director of Sovereign Risk, IHS Global Insight, told CNBC.com. "The single biggest issue is: Are they going to get the funding?"
A report in the Financial Times suggested that revised plans for Greece's bailout could include incentivizing private bondholders to extend repayment schedules, which could take some of the pressure off Greece.
But this was unlikely to calm market jitters and whether Greece defaulted or not still rests on the shoulders of Greece's creditors, according to Randolph.

"It's not up to the ratings agencies to decide if they're defaulted, but their creditors. It's Greece's choice to join Europe properly once and for all, and any foot-dragging or missing of targets is going to create huge anxiety in their creditor governments, including Berlin," he said.
"In terms of the classic risk-on, risk-off, we know what the risky and safe haven assets are," Randolph said.
There are fears that the euro will sink further against the dollar, the prognosis for the single currency still looks challenging.
"Europe's debt crisis remains a slow-motion car crash. If sovereign wealth funds did not remain so determined to diversify out of dollars, the euro would surely be much lower," Simon Smith, chief economist at FXPro, wrote in a research note.
"Moreover, it is evident that the contagion from Greece's precarious financial predicament is spreading more widely through Europe," Smith added.
"The major rating agencies have recently been downgrading those European banks with significant Greek bond exposure, which will of course increase their cost of funding," he pointed out.
However, the market is not paying enough attention to the "hugely positive" growth in Germany.

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