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Weekly Report

Romania

4 May 2012



Government's fall pushed the RON to the low of the year; PSD's president nominated as PM

The USL coalition has a majority in the Parliament. Next Monday, the new government will ask the Parliament to give the vote of confidence. The new government will try to negotiate with the IMF bold fiscal changes. Even if they only manage small changes this year, the real stake regards next year's budget. Failure to convince the markets that there will be no fiscal slippage will attract a decrease in country's rating and therefore increase in the country's funding cost.

Macroeconomics: In March, loans were up 0.9% MoM; positive mortgage loan flows; increased RON lending; 2011 budget deficit was 5.2% (ESA 95), higher than expected (Pages 3-5)

In March, banking statistics pointed to some positive data. Non-governmental loans advanced by 0.9% MoM compared to the previous -0.1% MoM and non-governmental deposits gained 0.6% MoM versus 0.3% MoM in February. Corporate loans gained a strong 1.7% MoM. Mortgage lending maintained an upward pace (+1.5% MoM) while consumer loans fell by 0.7% MoM. On currencies, we notice that RON lending flows increased for both client segments. The ESA 95 budget deficit stood at 5.2% in 2011, which was more than anticipated by the markets (3.3%) and the European Commission (4.9%). The latter had forecasted 4.9% budget deficit in 2011 and 3.7% in 2012 at its autumn 2011 forecast. The 3% target for this year is very difficult to attain.

FX markets: RON fell to the low of the year after government's fall on Friday (Pages 7-8)

The government's fall on Friday pushed down the RON to the lowest level this year, while peer currencies were appreciating against the euro. On Friday, the non-confidence vote against the PM Mihai Ungureanu passed with 235 votes and only 231 votes were needed. The proposed prime minister is Victor Ponta, the president of PSD. He will try to put to work a governing program that in our opinion, is not in line with the currently assumed deficit target. The RON has good chances to stabilize and strengthen after the political situation clears out and discussions with the IMF are concluded.

Government securities: 5Y bond yields up 6bp; lower volumes on the secondary market in the past 2W (Pages 9-10)

Last week brought small changes in government securities' yields, ranging from -1 bp to 6 bp. The largest modification was seen towards the end of the curve; the 5Y maturity yield climbed 6bp. The Treasury announced the intention to sell 3.8 bn RON in May, a lower amount than the targeted one for April (4.25 mn RON). The Treasury sold 226 mn RON in 15Y bonds at last week's auction. The average accepted yield was 6.58%, 40 bp lower than the previous auction at the end of February and demand was much lower.

MM: increased tensions in the international and domestic environment kept ON rate high last week; the NBR stalled the cut in base rate cycle in May; next decision in June (Page 11)

The fall of rates due to the mandatory reserves' observation period was short-lived. The large hike of the ON rate came the second day after S&P announced that it has cut Spain's rating by two notches to BBB+. We believe that NBR's decision to stall the base rate cut cycle is temporary and that on 27 June we may see the rate at 5%.

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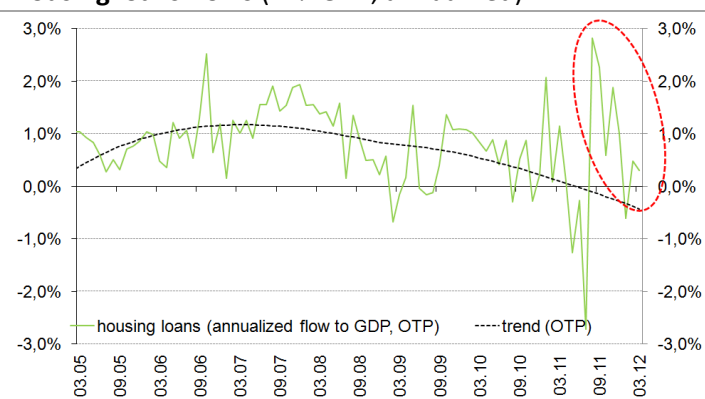
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Macroeconomics: In March, loans were up 0.9% MoM; positive mortgage loan flows; increased RON lending; 2011 budget deficit was 5.2% (ESA 95), higher than expected

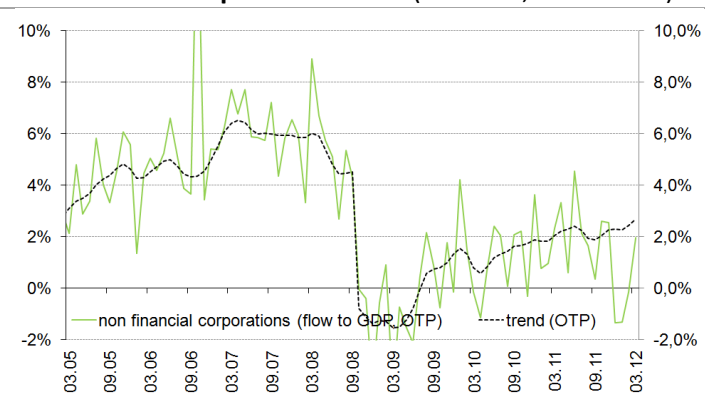
	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
26 Apr	MAR	M3 aggregate (y-o-y, %)	10,1		9,9
26 Apr	MAR	Non-governmental loans (y-o-y, %)	10,0		7,6
26 Apr	MAR	Non-governmental deposits (y-o-y, %)	10,7		9,4
30 Apr	MAR	Licenses for residential buildings (y-o-y, %)	-6,8		-12,4
02 May	MAR	ILO unemployment rate (%)	7,5		7,1
02 May	APR	FX reserves (bn EUR)	34,3		34,6
02 May	MAR	Base rate decision (%)	5,25	5,25	5,25
03 May	MAR	Industrial production price indices (m-o-m, %)	1,00		0,80
04 May	MAR	Turnover in retail trade (y-o-y, %)	1,8		1,3

In March, banking statistics pointed to some positive data. Non-governmental loans advanced by 0.9% MoM compared to the previous -0.1% MoM and non-governmental deposits gained 0.6% MoM versus 0.3% MoM in February.

Looking to the loan side in more detail, we notice different evolutions in the two sectors: retail and corporate. **Retail stagnated overall, while corporate loans gained a strong 1.7% MoM.** In the first case, it looks like only mortgage lending maintained an upward pace (+1.5% MoM) while consumer loans fell by 0.7% MoM. Our in-house seasonally adjusted data tells us that housing loan flows have been positive in the past two months and weaker than in Q4 2011. Looking at demand-side factors, we do not see significant improvements: net average wages were not higher in Q1 2012 than in Q4 2011, unemployment was only marginally lower and household demand was weaker and oriented to the acquisition of base type goods. Therefore, we believe the pattern that we see in retail lending was marginally influenced by supply-side effects: banks had to adapt their offers in favour of housing loans. Consumer loans backed by mortgage were hit by regulation and basically prohibited, so the part that was used for buying real estate had to migrate to pure housing loans. Moreover, the First House program is very likely to end this year, which is also an incentive to take a housing loan even if demand side factors are not significantly improved. The remaining amount for 2012 is 500 mn EUR. Also, another supply-side factor was lower loan rates: EUR rates for new loans were 30-40 bp lower in Q1 compared to December 2011.

Housing loans flows (in %GDP, annualized)


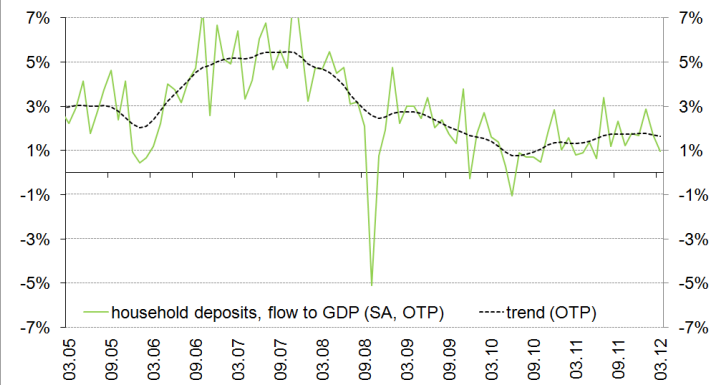
Source: NBR, OTP Research

Non-financial corporations' flow (in %GDP, annualized)


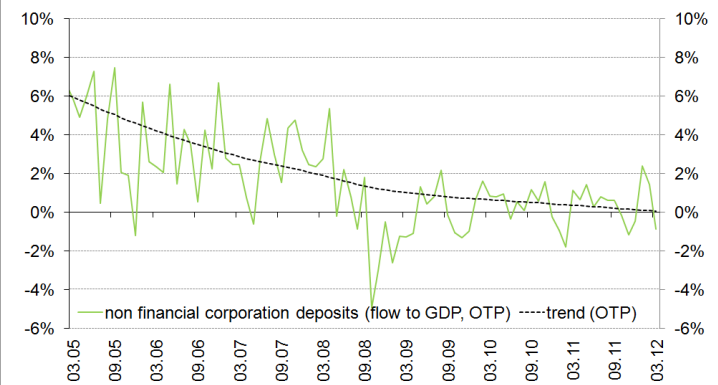
Source: NBR, OTP Research

Compared to the previous months, we notice that in the case of both sectors there are **increased loan flows in the local currency**. Several factors explain this: in the case of retail loans, we could see the effects of new lending regulations, which prohibit FX loans (it does not affect the First House program). Another factor could be the RON's depreciation this year from below the psychological level of 4.3 to 4.38 at the end of March. Also, in the case of retail loans this has been influenced by the lower lending rates in RON (by 30-40 bp from December 2011) which resulted from the 75 base rate cuts this year. RON loan rates for corporations did not decline significantly. In March, the weight of corporate and retail RON-denominated loans was 40% and 33%, respectively.

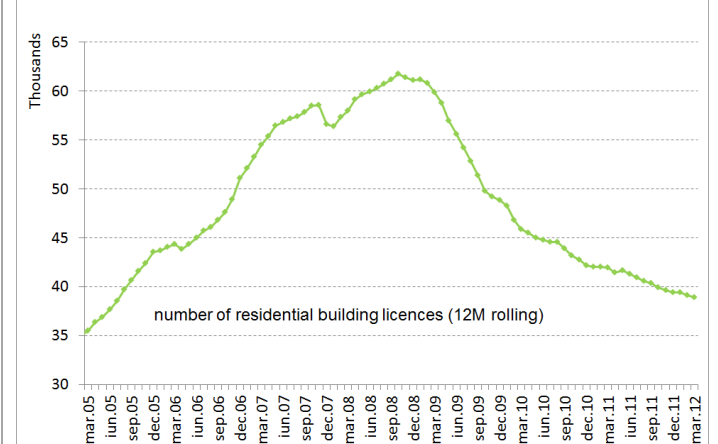
Moving on, the National Institute of Statistics announced that the number of **residential building licences was down by 6.8% YoY in March**. This downtrend started in 2008, and is not over yet. We expect them to pick up with a lag after we see economic activity strengthening, as the residential constructions are pro-cyclical.

Household deposits flow (in %GDP, annualized)


Source: NBR, OTP Research

Non-financial corporations' deposits flow (in %GDP, annualized)


Source: NBR, OTP Research

Number of residential building licenses


Source: INS, OTP Research

The budget deficit stood at 5.2% in 2011; the 3% target in 2012 is very difficult to attain

The ESA 95 budget deficit stood at 5.2% in 2011, which was more than anticipated by the markets and the European Commission. The latter had forecasted 4.9% budget deficit for 2011 in its autumn forecast. Our latest estimate was -4.3%. The market was even more optimistic: the latest survey from Consensus Economics in April 2012 anticipated the 2011 deficit as low as 3.3% of GDP.

Looking at the detailed revenues and expenditures structure of the consolidated budget, we notice that the primary deficit shrank from 5.2% in 2010 to 3.6% in 2011. Due to budget deficit restrictions, investment fell from 5.8% in GDP in 2010 to 5.3% in 2011, so from this point of view, the state's contribution to GDP growth decreased and this will likely continue in 2012 as well.

Moving to current revenues, direct taxes on income decreased in 2011. In fact, the downtrend started in 2008: from 6.7% of GDP to 5.8% of GDP in 2011. This shows that the policies targeted at improving revenue collection were less effective but it is also partially explained by the cut in wages of the state employees. This is also supported by the diminished social contributions in GDP: from 10.1% in 2008, down to 8.8% in 2011. The only measure that had a positive impact on the budget's revenues was the hike in the VAT (in July 2010), from 19% to 24%, which pushed up indirect taxes from 11.9% in 2010 to 12.6% in 2011.

Most of the impact of the balance-improving measures taken in 2010 is seen on the expenditure side. Current transfers, which mainly refer to pensions and subsidies, shrank considerably: from 16.6% (2010) to 15% of GDP in 2011. The most contested measure taken in July 2010, the 25% cut in the wages of state employees, brought it from 9.7% of GDP in 2010 to 7.5% in 2011.

The agreement with the IMF does not allow a higher than 3% budget deficit in 2012. There are few reasons to believe that considering a lower GDP growth and under a "no policy change", the 3% deficit target can be achieved. The harsh measures taken in 2010 brought the deficit down by only 1.6 percentage points. Moreover, there are discussions to even increase the wages of state employees. According to local media, Victor Ponta, the proposed prime minister, intends to reduce expenditure with goods and services by half. In our table, it corresponds to intermediate consumption, which stood at 6% in 2011 and historically has been around 6%-6.5%. Not meeting the deficit target could be penalized by the ratings agencies and investors, therefore increasing the cost of funds for the public and private sector. During 2010 and 2011, this was an advantage that brought down the cost of debt.

% GDP	2005	2006	2007	2008	2009	2010	2011
Deficit (-) or surplus (+)	-1,2%	-2,2%	-2,9%	-5,7%	-9,0%	-6,8%	-5,2%
Total government revenue	32,4%	33,3%	35,3%	33,6%	32,1%	33,4%	32,5%
Total government expenditure	33,6%	35,5%	38,2%	39,3%	41,1%	40,2%	37,7%
Primary deficit or surplus	0,1%	-1,4%	-2,2%	-5,0%	-7,5%	-5,2%	-3,6%
Total current revenue	32,1%	33,2%	34,1%	32,8%	31,8%	32,7%	32,0%
<i>Direct taxes (on income, wealth etc)</i>	5,3%	6,0%	6,7%	6,7%	6,5%	6,1%	5,8%
<i>Indirect taxes (on production and on imports)</i>	12,9%	12,8%	12,3%	11,7%	10,7%	11,9%	12,6%
<i>Social contributions</i>	10,3%	10,3%	10,5%	10,1%	10,2%	9,5%	8,8%
<i>Other current revenue</i>	1,9%	2,1%	1,8%	1,5%	1,7%	2,7%	2,2%
<i>Sales</i>	1,7%	2,0%	2,7%	2,8%	2,6%	2,5%	2,6%
Total current expenditure	28,7%	28,9%	30,5%	31,6%	34,8%	33,6%	30,1%
<i>Current transfers</i>	12,4%	12,8%	13,5%	13,7%	15,9%	16,6%	15,0%
<i>Interest payable</i>	1,2%	0,9%	0,7%	0,7%	1,5%	1,6%	1,6%
<i>Compensation of employees</i>	8,7%	9,3%	9,7%	10,5%	10,9%	9,7%	7,5%
<i>Intermediate consumption</i>	6,3%	5,9%	6,6%	6,6%	6,5%	5,8%	6,0%
Gross saving	3,4%	4,3%	3,6%	1,2%	-3,0%	-0,9%	1,8%
Total capital revenue	0,3%	0,1%	1,2%	0,8%	0,3%	0,7%	0,5%
Total capital expenditure	4,9%	6,6%	7,7%	7,7%	6,3%	6,6%	7,6%
<i>Investment & net acquisitions</i>	3,9%	5,1%	6,2%	6,7%	6,0%	5,8%	5,3%
<i>Capital Transfers payable</i>	1,0%	1,5%	1,5%	1,0%	0,3%	0,8%	2,3%

Source: INS, OTP Research

Medium-term macroeconomic forecast

Main macroeconomic indicators	Fact						Forecast	
	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	7,9%	6,3%	7,3%	-6,6%	-1,6%	2,5%	1,4%	2,8%
Final consumption of households	12,9%	12,0%	9,0%	-10,4%	-0,4%	1,4%	2,3%	2,9%
Households consumption expenditure	12,7%	11,9%	9,0%	-10,1%	-0,4%	1,3%		
Government consumption	-11,5%	2,5%	6,2%	9,5%	-10,0%	-3,4%	-0,7%	1,7%
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-2,1%	6,3%	5,2%	6,2%
Exports	10,4%	7,8%	8,3%	-6,4%	14,0%	9,9%	3,3%	8,4%
Imports	22,6%	27,3%	7,9%	-20,5%	11,9%	10,5%	4,2%	8,8%
Consumer prices (avg.)	6,6%	4,8%	7,8%	5,6%	6,1%	5,8%	3,5%	3,0%
Budget Balance (GDP%, ESA 95)	-2,2%	-2,9%	-5,7%	-9,0%	-6,8%	-5,2%	-3,6%	-3,3%
Public debt (GDP %)	12,4%	12,8%	13,4%	23,6%	31,0%	33,3%	35,3%	36,7%
CA balance (% GDP)	-10,5%	-13,4%	-11,6%	-4,2%	-4,4%	-4,2%	-4,4%	-4,6%
CA balance (bn EUR)	-10,2	-16,8	-16,2	-4,9	-5,5	-5,7	-6,2	-6,9
Unemployment	7,3%	6,4%	5,8%	6,9%	7,3%	7,4%	6,8%	6,6%
Nominal wage growth	18,4%	21,8%	26,1%	4,8%	3,1%	6,5%	4,5%	4,4%
Real wage growth	9,0%	14,7%	16,5%	-1,5%	-3,7%	0,5%	0,3%	1,4%
Key interest rate (avg.)	8,6%	7,5%	9,7%	9,1%	6,5%	6,2%	5,1%	4,6%
Key interest rate (e.o.p.)	8,8%	7,5%	10,3%	8,0%	6,3%	6,0%	5,0%	4,5%
EUR/RON (avg.)	3,52	3,34	3,68	4,24	4,21	4,24	4,34	4,27
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	4,30	4,25

Source: Eurostat, OTP Research

Note:* OTP Research forecast

FX markets: RON fell to the low of the year after government's fall on Friday

The government's fall last Friday pushed down the RON to the lowest level this year, while peer currencies were appreciating against the euro. The non-confidence vote against the PM Mihai Ungureanu passed with 235 votes and only 231 votes were needed. Next Monday the government will ask backing from the Parliament and there are good chances for support.

The proposed prime minister is Victor Ponta, the president of PSD. If he wins the confidence vote, he will try to put to work a **governing program, which in our opinion, is not in line with the current assumed deficit target.** Among the proposed measures, there are few with immediate impact on the budget deficit:

- The increase of wages of state employees back to their initial level; pensions' increase
- Increase of minimum wages (the program proposes further analysis on the agreement regarding the evolution of gross minimum wage between 2012-2016)

Previously, the local press presented other intended measures as well, which are not shown in the final document but which we believe will try to be implemented to some extent next year and negotiated with the IMF, because they are among the core elements of the promised changes that the coalition USL will bring:

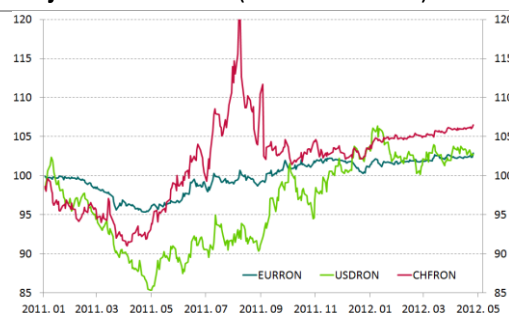
- Reduction of the social contribution of the employer
- Reduced VAT for agricultural products

According to our calculations, a 16% increase in the average wages starting in June would require approximately 3 bn RON (0.5% of the GDP). A 5% decrease of employers' social contributions would deplete the budget revenues by another 6 bn RON in a year (1% of the budget deficit) while the increase in the number of employees would be much slower and therefore we would not see the corresponding decrease in social contributions this year at least. The projected revenues to the state budget are based on a GDP growth of 1.7%, which is subject to downside risks. The targeted cash deficit for this year stands at 1.9%, much lower compared to previous year's 4.4%. The effect of hiking minimum wages will probably be an increase in unemployment in the short term on one hand and on the other hand it is not sure that we would see increasing revenues to the state budget, coming from the additional social contributions.

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,39	↑	0,48	↑ 1,14
USDRON	3,31	↑	0,06	↓ -0,60
CHFRON	3,65	↑	0,38	↑ 2,51
RONJPY	4,12	↑	1,64	↓ -5,60
RONPLN	1,05	↑	0,91	↑ 1,41
100HUFRON	1,53	↑	4,01	↑ 11,37
RONCZK	0,18	↑	0,80	↑ 4,51
RONRUB	0,11	↑	0,54	↑ 9,06
RONRSD	0,04	↓	0,00	↑ 0,00
RONBGN	2,24	↑	0,33	↑ 1,49

Source: Reuters

Major RON FX rates (03.01.2011=100)



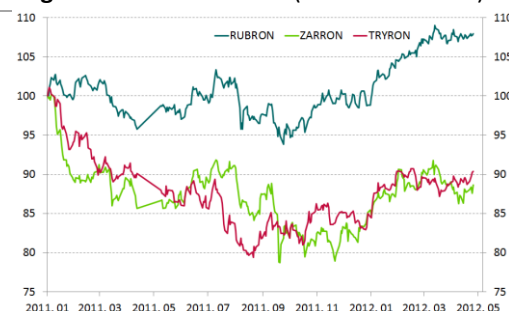
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



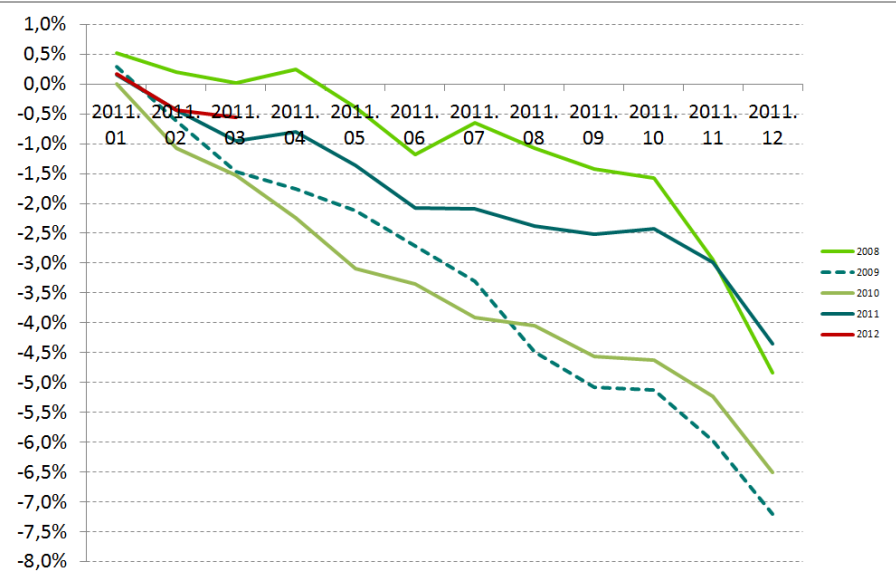
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

Budget Deficit (cash basis)

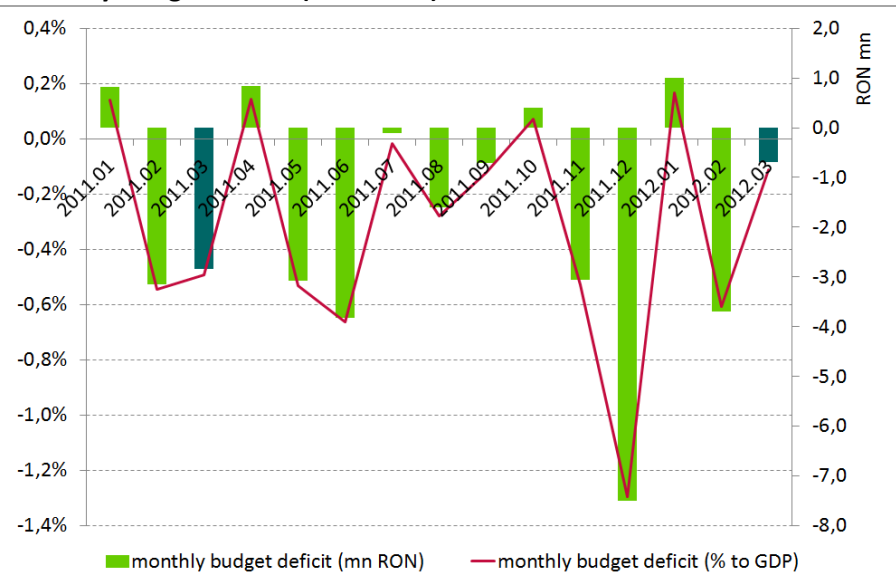


Sources: Ministry of Finance, OTP Research

Below, we show the monthly evolution of the budget deficit between March 2011 and March 2012. The cumulated cash budget deficit stood at 0.56% in March 2012, almost half of last year's figure (1%). It looks like total revenues were 9.9% YoY higher in Q1 2012 while expenditure advanced only by 4.9% in Q1 2012. The most significant increases came from income tax (+35.2% YoY). What surprised us the most is the jump in corporate income tax by 61.2% YoY. The monthly average corporate income tax is 18% higher than last year's monthly average, so we believe we will see some correction in the months to follow for this item.

Romania's representative to the Fund said that a renegotiation of the 3% budget deficit (accrual basis) is out of discussion. However, the market does not believe in this target, and the current change on the political scene makes investors doubt even more the assumed targets.

Monthly Budget Deficit (cash basis)

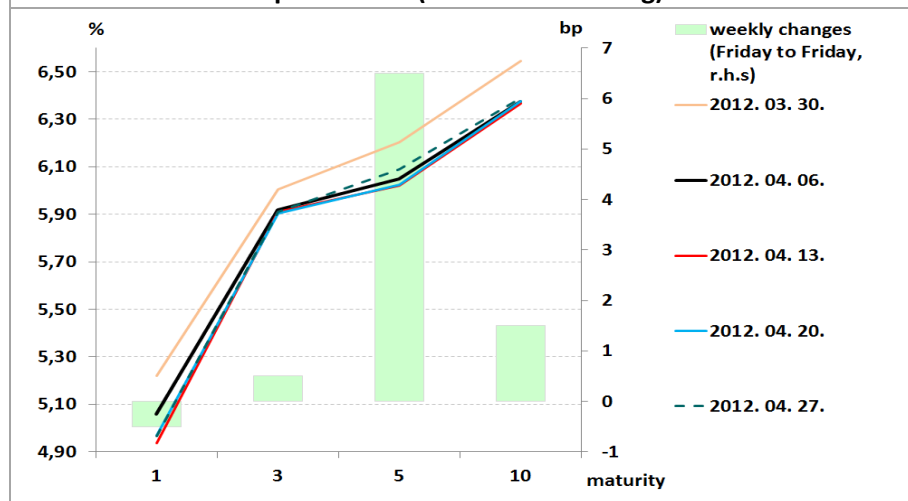


Sources: Ministry of Finance, OTP Research

Government securities: 5Y bond yields up 6bp; lower volumes on the secondary market in the past 2W

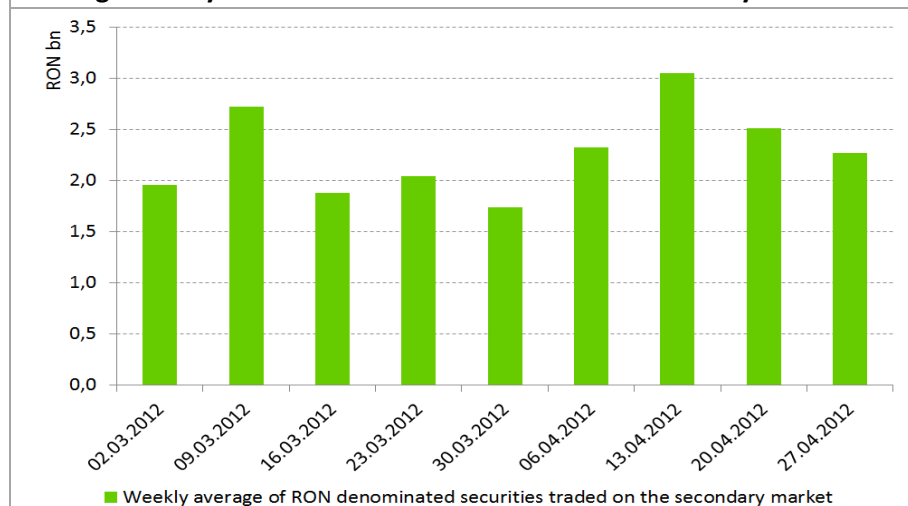
Last week brought small changes in the yields of government securities, ranging from -1 bp to 6 bp. The largest modification was seen towards the end of the curve; the 5Y maturity yield climbed 6 bp. Meanwhile, the 5Y CDS (for euro contracts) was up by 3 bp. While at the beginning of the month we were seeing increased volumes traded on the secondary market (and recorded by SAFIR), they started to decline towards the end of the month while risk perception towards Romania deteriorated, as a consequence of main international events related to European governments' debt. Last week however, the fall of the government changed the focus to the local political scene and risks derived from internal events. The term premium for the 3-5Y horizon was up last week, in line with the deteriorated growth prospect for the medium term. Also, the spreads to German bunds widened. Until we see a clear ruling program from the government, approved by the IMF, we may continue to see lower traded volumes and therefore lower changes in yields. The current moment requires higher bond yields, therefore lower prices, which would translate into a loss for bond traders given that until recently bond prices were increasing and **the perspective for May was tilted to a further increase in bonds prices, in line with a further base rate cut. This is not the case anymore.**

Yield curve over the past weeks (Central Bank fixing)



Sources: NBR, OTP Research

Average weekly amount of RON securities on the secondary market

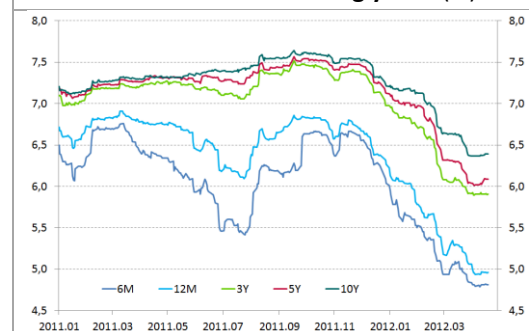


Sources: NBR, OTP Research

RON GOVERNMENT SECURITIES				
	Value		Weekly chg. (bp)	YTD chg. (bp)
6M	4,81	↑	0	↓ -144
12M	4,97	↓	-1	↓ -142
3Y	5,91	↑	1	↓ -123
5Y	6,09	↑	6	↓ -116
10Y	6,39	↑	2	↓ -94
EUR GOVERNMENT SECURITIES				
	Value		Weekly chg. (bp)	YTD chg. (bp)
6MRO0912DBE034	2,95	↓	-2	↓ -116
2YRO1013DBE014	4,22	↑	1	↓ -111
SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	566	↑	1	↓ -121
GERROM 5Y	542	↑	7	↓ -108
GERROM 10Y	468	↑	2	↓ -83
3Y -5Y	18	↑	6	↑ 7
5Y -10Y	30	↓	-5	↑ 22
3Y-10Y	48	↑	1	↑ 29
FLY 3-5-10	12	↓	-11	↑ 15
CDS MID SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	264	↑	5	↓ -108
5Y EURO	300	↑	3	↓ -102

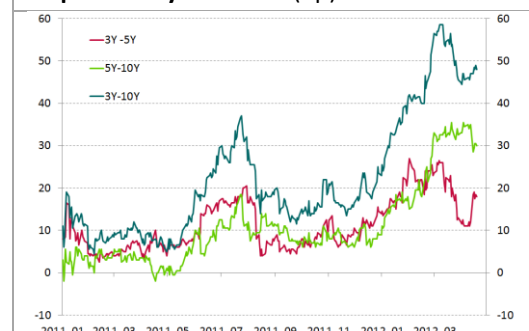
Source: Reuters

Central bank benchmark fixing yields (%)



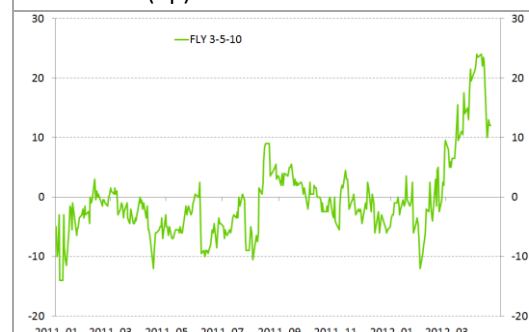
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)

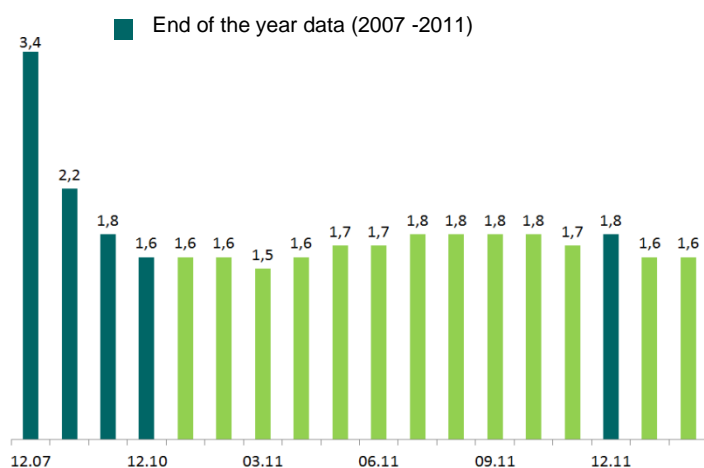


Sources: NBR, OTP Research

Auction results

The Treasury announced the intention to sell 3.8 bn RON in May, a lower amount than the targeted one for April (4.25 mn RON). We see again that the weight of bonds is increasing to 80.3%. The announced bonds' maturities are 2Y, 4Y, 5Y and 7Y. The preferred maturity is the 4-5Y. The longest maturity is 7Y, whereas the previous month we saw a 15Y issue. Therefore, the Treasury preferred a slightly smaller maturity but raised the targeted amount: 500 mn RON in 7Y bonds whereas on April the 15Y maturity had a targeted amount of 200 mn and the sold amount was only slightly higher. Given the recent turmoil on the political scene in Romania, corroborated with turbulences on the European financial markets, longer term issues are likely to become more expensive for the Treasury. Therefore, we believe that the strategy is to continue to prolong the maturity of the portfolio while not accepting a much larger yield.

Last week, there was only one bond auction. The Finance Ministry planned to sell 200 mn RON in 15Y securities and managed to sell a bit more, 226 mn RON. Demand was 2.45 times higher, but much lower compared to the previous similar auction at the end of February when total bids amounted to 1.2 bn RON. In terms of yields, the average accepted yield was 6.58%, which is 40 bp lower than the one in February and it reflects more than the 25 bp cut in base rate policy that happened since then (starting on 30 March).

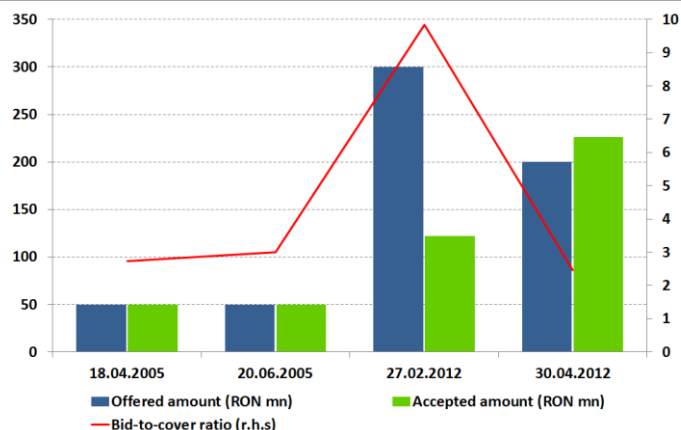
Remaining maturity of government securities


Source: Ministry of Finance, OTP Research

Increased weight of bonds targeted for sale

	Jan-12	Feb-12	Mar-12	Apr-12	May-12
Planned targeted amount (RON bn)	4,5	5,0	5,0	4,3	3,8
% of bonds	33%	44%	54%	76%	80%

Source: Ministry of Finance, OTP Research

15Y auctions data


Sources: NBR, OTP Research

12M interest rates

Sources: NBR, Ministry of Finance, OTP Research

Summary of last week's auctions

RO1227DBN011	
Offered amount (RON mn)	200
total bids (RON mn)	555
accepted amount (RON mn)	226
average accepted yield (%)	6,58
coupon	5,80

Source: Ministry of Finance, OTP Research

T-bill auctions in May

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0B5	07.05.2012	09.05.2012	08.05.2013	12	750.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in May

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1216DBN030	10.05.2012	14.05.2012	27.01.2016	4	5,75	1.000.000.000
RO1214DBN027	14.05.2012	16.05.2012	23.04.2014	2	5,95	900.000.000
RO1217DBN046	17.05.2012	21.05.2012	26.07.2017	5	5,9	650.000.000
RO1220DBN057	24.05.2012	28.05.2012	27.01.2020	7	5,85	500.000.000

Source: Ministry of Finance, OTP Research

T-Bills in RON, monthly maturity schedule (mn RON)

Q1 2012		Q2 2012		Q3 2012		Q4 2012	
Jan-12	4.341	Apr-12	4.391	Jul-12	3.716	Oct-12	4.475
Feb-12	2.459	May-12	4.030	Aug-12	1.902	Nov-12	2.676
Mar-12	4.012	Jun-12	3.275	Sep-12	3.053	Dec-12	1.713

Sources: Ministry of Finance, OTP Research

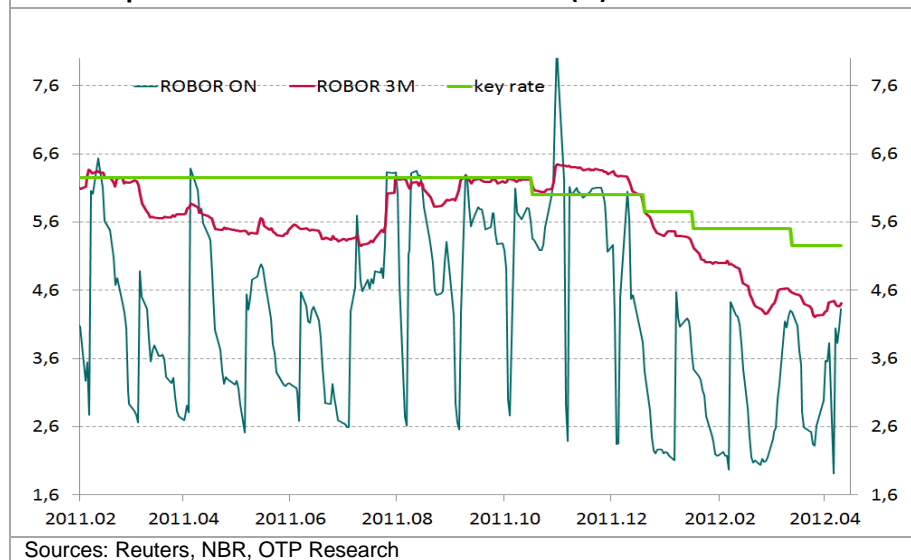
MM: increased tensions in the international and domestic environment kept ON rate high last week; NBR stalled the cut in base rate cycle in May; next decision in June

The fall of ON rates due to the mandatory reserves' observation period was short-lived. We saw a significant decline on Monday, which was the last day of the reserves period and ROBOR ON was down at 1.91%. However, by the end of the week it jumped to 4.33%, 50 bp higher than the previous week. The large hike came the second day after S&P announced that it had cut Spain's rating by two notches to BBB+. Weekly repo amount stood at the similar level with the previous week, 6.3 bn RON and concomitantly we noticed that outstanding interbank deposits fell by 1.3 bn RON. Consequently, the increase in interbanking rates at the beginning of this week was expected.

The next monetary policy decision is expected on 27 June and it will benefit from a clear picture on the political scene and also from a renewed talk with the IMF. We believe the current stalling in the cut cycle is temporary because inflation expectations are anchored, demand is still weak and the outcome of the negotiations with the IMF should not put pressure on inflation this year. Even if a decision to increase wages is taken, it will not be a threat to inflation unless future fiscal measures are not transmitted with great care so as to prevent the RON from depreciating considerably and therefore fuel inflation through imported prices.

Markets already priced in such a measure up to a certain extent, so there should not be a real danger this year. Fitch ratings already announced that there were risks of a drop in the country's rating, should we see material deviation from assumed fiscal targets either before or after the November elections. **For the moment though, authorities are determined to continue the talks with the IMF and stick to the targets.** Finally, the NBR affirms that its view is balanced and although it has to follow an inflation target, it will also take into consideration economic growth. While external funds are scarce and expensive, RON lending started to catch a grip more visibly in March and it is desirable to strenghten this trend.

Most important MM instruments from 2011 (%)



MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↓ -75
ROBOR ON	4,33	↑ 50	↓ -20
ROBOR 3M	4,41	↓ -1	↓ -164
ROBOR 6M	5,04	↓ -2	↓ -149
ROBOR 9M	5,13	↓ -4	↓ -148
ROBOR 1Y	5,22	↓ -2	↓ -144

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	6.327,8	-83,3	-383,2

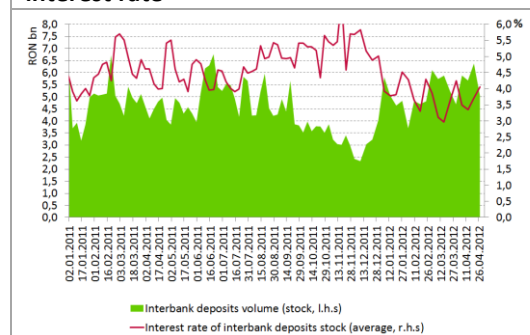
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	5.045,2	-1333,4	1.017,7

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	28	↑ 5	↑ 3
USDRON 1M	98	↑ 31	↓ -51
USDRON 3M	219	↑ 26	↓ -28
EURRON 1W	10	↓ -27	↓ -31
EURRON 1M	43	↓ -110	↓ -102
EURRON 3M	322	↓ -99	↓ -189

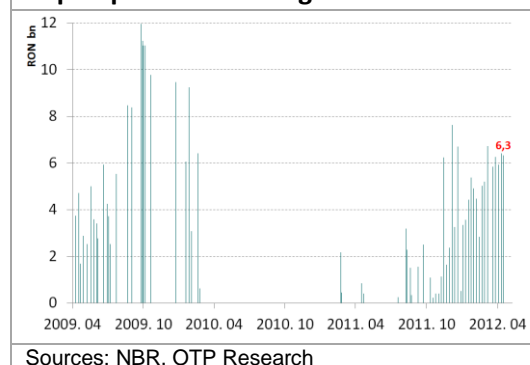
MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-155	↔ 0	↓ -25
EURRON 3Y	-155	↔ 0	↔ 0
EURRON 5Y	-145	↔ 0	↓ -25

Source: Reuters

Interbank deposits (stock) and average interest rate



Repo operations during 2009 -2012



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