MACROECONOMIC review

FEBRUARY/2012

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Romania

Europe, US, Japan, Asia:

Evolution of BNR FX reserves in February

On February 29th 2012, National Bank of Romania's foreign exchange reserves stood at EUR 33,387 million, compared to EUR 32,696 million on January 31st 2012.

During the month, the following flows have taken place:

- EUR 1,436 million inflows, representing inflows into the Ministry of Public Finances' accounts (including the euro equivalent amount of EUR 1,123 million resulted from the issuance of bonds denominated in USD by the Ministry of Public Finances on the foreign market), the changes in the foreign exchange reserve requirements of the credit institutions, income from the management of foreign exchange reserves a.s.o.;
- EUR 745 million outflows, representing outflows from the European Commission's account, changes in the foreign exchange reserve requirements of the credit institutions, interest and principal payments on foreign currency public debt, 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 4,435 million.

The international reserves of Romania (foreign currencies and gold) on February 29th 2012 stood at EUR 37,822 million, compared to EUR 37,089 million on January 31st 2012.

During the month of March 2012, the payments due on public and publicly guaranteed foreign currency denominated debt amount to EUR 139.5 million.

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Romania's inflation rate decreased to 2.7 percent, in January 2012

Romania's annual inflation slowed to 2.72 percent on an annual basis in January, slower than the 3 percent growth representing the economists' expectations.

Prices of food products rose 0.12 percent annually, while non-food prices moved up 4 percent. There was a 4.74 percent annual growth in costs in the service sector during the month.

On a monthly basis, consumer prices moved up 0.36 percent in January, while economists expected prices to rose 0.6 percent month-on-month. In the twelve months ended January, consumer prices rose on average 5.4 percent from the corresponding period a year earlier.

Romania's GDP (gross series) increased by 2.5% in 2011

Romania's GDP (gross series) increased by 2.5% in 2011 compared with 2010, according to preliminary estimates by the National Institute of Statistics. Gross domestic product (GDP) of Romania in the last quarter of 2011 decreased by 0.2% in real terms from the previous quarter (seasonally adjusted).

Compared to corresponding quarter of 2010, GDP growth was 1.9% in gross series and 2.1% in seasonally adjusted series.

In the third quarter of 2011, Romania's GDP advanced by 4.4% over the same period of 2010 and compared to the previous quarter has increased by 1.8%.

IMF forecasts a growth of 2.5% in 2011 and an advance of 1.5-2% this year for the Romanian economy.
Provisional version of the GDP for the last quarter of 2011 will be published by the INS on March 6.

Eurozone reaches deal on second Greece bailout

Eurozone finance ministers approved on 20th February the rescue package deal worth €130bn after 14 hours of negotiations in Brussels, but Greece's communist party vows to fight the plan.

The deal, which should avert the risk of a Greek default next month, was hammered out in Brussels.
Under the agreement, Greece's private creditors have agreed to take deeper losses on their Greek debts, helping to cover a new funding gap that threatened to derail the rescue package.

But the package is dependent on Greece implementing further austerity measures, whose unpopularity is underlined by the painful negotiations between Papademos's coalition government in the days leading up to the crisis and the regular protests on the streets of Athens

Banks gorge on 530 bln euros of ECB funds (slightly more than expected, at second LTRO)

Banks grabbed 530 billion euros at the European Central Bank's second offering of cheap three-year funds, fuelling expectations that credit will flow to businesses and borrowing costs will ease for governments hit by the euro zone crisis.

In the space of two months, the ECB has now injected over a trillion euros of money into the financial system, banishing the threat of a credit crunch. The bank hopes these moves will be its last major crisis-fighting act.
A total of 800 banks borrowed money, with demand exceeding the 500 billion euros seen in a Reuters poll and the 489 billion allotted in the first such operation in December. The uptake was the largest ever at an ECB liquidity operation.

The ECB unveiled the funding operations, known as LTROs, late last year to counter frozen interbank lending and dampen tensions on euro zone bond markets that threatened to tear the bloc apart.

Positive investor reaction to the second round suggested the ploy should continue to buoy markets although central bank sources have told the ECB is not inclined to offer a third dose.
"You can't argue with 529 billion," said Peter Chatwell at Credit Agricole CIB. "It's undoubtedly positive for risk assets and also will help to support core markets as initially banks need somewhere to store the resultant excess liquidity."

Breaking down the headline number, the ECB's move pumped over 300 billion euros of additional cash into the banking system. The additional 230 billion went towards rolling over central bank loans banks had taken previously.

Much will now depend on what banks do with the cash. They used a big chunk of the 489 billion euros they borrowed first time around to cover maturing debt (€307 billion) and have been parking close to half a trillion euros at the ECB in overnight deposits.
ECB President Mario Draghi, whose native Italy was at the epicentre of the crisis when the bank announced the measure late last year, said after the first of the operations that "a major, major credit crunch" had been averted.

Draghi has urged banks to lend out funds from Wednesday's LTRO to households and businesses, helping strengthen economic growth. ECB officials hope banks will also buy higher-yielding bonds more aggressively, especially from Italy.

The fact that 800 banks used the latest LTRO - compared with 492 in December - suggests that a greater number of smaller banks gained access to funding, helped by the ECB's decision to expand the range of eligible collateral.

Italy faces a debt issuance hump in the next few months and will take any help it can get. It needs to sell around 45 billion euros of its bonds a month in both March and April versus 19 billion in February. Nonetheless, sources have told Reuters the central bank wants the second LTRO to be the last, as it is worried banks are becoming too reliant on ECB funds and wants to throw the onus back on euro zone governments to tackle the debt crisis.
Banks have already taken more funds from the ECB than ever before and risk becoming dependent. Some policymakers say the LTROs are merely masking problems in crisis-hit euro zone countries on the bloc's periphery.

"The idea that the long term repo operations have eased the supply of finance to small businesses in the euro area is a myth," Bank of England Governor Mervyn King told a parliamentary committee in London. "What it has done is to provide a source of funding to banks particularly in the southern member countries of the euro area which were experiencing a bank run, enabling them to fund the withdrawal of funds," he said.

Bundesbank chief Jens Weidmann has expressed concern that "too generous" supply of liquidity could lead to inflation risks but another ECB policymaker, Athanasios Orphanides of Cyprus, played down the prospect of the three-year money fuelling price pressures.
What is undeniable is that Draghi's gambit has sucked much of the heat out of the euro zone crisis and given governments time to work out sustainable budget and growth policies for affected countries on the periphery of the bloc.

Ratings agency Standard & Poor's said the ECB funding measures had reduced the risk of liquidity driven bank failure and averted a severe credit crunch in the euro zone.
Rather than a simple flat rate, the 3-year funds were offered at an interest rate averaging the interest rate in the ECB's main one-week refi operations over the next three years. That rate is currently at a record low of 1.0 percent.

Banks have the option of paying back all or parts of the loans at any time after one year.
Financial markets are watching to see how effectively governments use the time the ECB has given them to deliver growth and sustainable budgets. "Without growth, the LTROs are a bridge to nowhere," said Andrew Bosomworth, senior portfolio manager at PIMCO.

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