MACROECONOMIC review

JANUARY/2012

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Romania

Europe, US, Japan, Asia:

Evolution of BNR FX reserves in January

On January 31st 2012, National Bank of Romania's foreign exchange reserves stood at EUR 32,696 million, compared to EUR 33,193 million on December 31st 2011.

During the month, the following flows have taken place:

- EUR 955 million inflows, representing changes in the foreign exchange reserve requirements of the credit institutions, inflows into the European Commission's account, inflows into the Ministry of Public Finances' accounts, income from the management of foreign exchange reserves a.s.o.;
- EUR 1,452 million outflows, representing 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 4,393 million.

The international reserves of Romania (foreign currencies and gold) on January 31st 2012 stood at EUR 37,089 million, compared to EUR 37,251 million on December 31st 2011.
During the month of February 2012, the payments due on public and publicly guaranteed foreign currency denominated debt amount to EUR 180.36 million.

Romania's inflation rate decreased to 3.1 percent, in December 2011

The annual inflation rate dropped to 3.14 percent in December, from the 3.44 level recorded in the previous month, according to INS.

The National Bank of Romania (NBR) projects an annual inflation rate of 3 percent this year which should remain unchanged through to 2013.

The INS data also reveal that the average increase in prices, from January 2011 to December 2011, versus the previous year, is 5.8 percent, based on the price consumption index.

Romania Sells $1.5 Billion in first 10-Year US dollar bond offering

Romania sold $1.5 billion of bonds in its first debt offering denominated in dollars as the government seeks to finance a budget deficit and repay maturing debt.
The 10-year, 6.75 percent notes were priced to yield 6.875 percent, according to data compiled by Bloomberg. Romania issued the bonds under a medium-term note program valued at 7 billion euros ($9.2 billion) that will run until 2013.
Romania is seeking to benefit from falling borrowing costs by selling the dollar bonds now, after postponing the issue in November because of the European debt crisis. The Finance Ministry said on Nov. 11 that it aims to raise between $500 million and $2 billion through the sale to bolster government finances. Yields on existing euro-denominated sovereign notes due in 2018 have fallen 25 basis points to 6.47 percent this year.

"It's positive that the government is finally returning to the market," Raffaella Tenconi, an economist at Bank of America Merrill Lynch in London, said before the terms of the sale were set. "We think the fundamentals continue to improve and the International Monetary Fund and EU program is on track so investors' interest should further strengthen over the course of the year."
The country plans to borrow as much as 2.5 billion euros of bonds on foreign markets in 2012 through two debt issues after it stopped relying on international bailout funds. The sales will help to narrow the budget deficit, which the government wants to shrink to 1.9 percent of gross domestic product this year, from 4.35 percent in 2011.
"The investors' interest was huge, considering this is Romania's first dollar-bond sale and it's a clear signal of confidence in Romania's fiscal measures," Deputy Finance Minister Bogdan Dragoi said. The offering attracted bids of almost $7 billion, he said.
The cost of insuring against a default by Romania has declined this year by about 50 basis points, or 0.5 percentage point, to 399 basis points, 188 less than five-year credit-default swaps for neighboring Hungary.
Romania sold its first bonds under the medium-term note program last June when it raised 1.5 billion euros of five-year bonds in its biggest offering of debt to international investors.
Citigroup Inc. (C), Deutsche Bank AG (DBK) and HSBC Holdings Plc (HSBA) are managers of the latest dollar-bond sale.
Romania is rated at Baa3 by Moody's, and BBB- by Fitch Ratings. Standard & Poor's rates Romania below investment grade at BB+. All three ratings have stable outlooks.

SNB determination to keep the minimum level of EUR/CHF

Mr Jordan, the bank's vice-chairman, insisted in a interview these days, that the central bank's policy operations remained stable and it was committed to defend the ceiling it had set for the franc.
"There should be absolutely no doubt whatsoever about the capability of the SNB to maintain the minimum exchange rate," he said. "We are prepared to buy foreign currency in unlimited quantities if necessary."
The franc, widely seen as a haven for investors from the troubled eurozone, has faced in January, the first real test of the central bank's resolve following the move in September to prevent its currency getting stronger by effectively pegging the franc to the euro.
The Swiss currency has edged closer to the minimum exchange rate set by the SNB of 1.20 EUR/CHF in recent days. Currency traders are now on high alert for a fresh round of intervention after the franc hit its strongest level against the euro in nearly five months, which reached 1.2028.

Analysts said that the departure of Philipp Hildebrand, SNB chairman last month following controversial foreign exchange trades by his wife was one reason the markets had chosen to test the SNB. A permanent successor to Mr Hildebrand, who was viewed by the markets as particularly credible in his determination to limit the franc's advance, has not yet been appointed.
Traders are also still unwinding positions taken in December, when many were expecting the central bank would set a weaker level, or floor, of 1.25 or even 1.30 against the euro, causing the single currency to rise above 1.24.
Demand for options that protect investors against the risk the SNB may not hold the floor has shot up, with the market now pricing in a 30 per cent risk the floor will not hold in the next month.
Analysts say a second round of intervention could be more costly for the Swiss central bank, which is estimated to have spent 7 billion CHF when it first stepped into the markets in September.

S&P downgrades: France and Austria AA+

Standard & Poor's downgraded its sovereign debt rating on France to AA+ from AAA. Spain and Italy saw their ratings cut two notches, while Germany's AAA rating was left unchanged.

Widely-anticipated since the ratings agency put most of the 17 eurozone countries under review in December, France's downgrade puts its rating in line with that of the U.S., which S&P cut in August.

Importantly, S&P said its outlook on France remains negative, which indicates a one-in-three chance that the rating could be cut again in 2012 or 2013. The Austria, the European Financial Stability Facility have been cut too.

Austria was cut to AA+ from AAA; Cyprus to BB+ from BBB; Italy to BBB+ from A; Malta to A- from A; Portugal to BB from BBB-; the Slovak Republic to A from A+; Slovenia to A+ from AA-; and Spain to A from AA-. S&P left the AAA ratings of Germany, Finland, Luxembourg and the Netherlands unchanged.

Unlike its view on most of the region, S&P has a stable outlook on Germany's credit rating. The European Central Bank managed to evade S&P's scorn. The ratings agency said eurozone monetary authorities "have been instrumental in averting a collapse of market confidence," mostly thanks to the ECB launching new loan programs aimed at keeping the European banking system liquid while it grapples with funding pressure brought on by the sovereign debt crisis.

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