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Weekly Report

Romania

28 January 2013



GDP growth was cut after talks with the IMF; the PM wants to extend by 2M the current agreement

After talks with the IMF, the expected GDP growth for 2013 was cut from 1.8% to 1.6%. The ESA deficit target is 2.4% in 2013, pointing to further consolidation compared to 2012 when the target was 2.8%. The Fiscal Council's opinion on the proposed 2013 budget is favorable. Although expectations for the 2012 cash deficit were optimistic, the target was missed: 2.5% instead of 2.2%. Probably to better negotiate a new deal, the PM wants to extend the current one expiring in March by 2 months, to comply with some of the previous criteria regarding privatizing stakes in state owned enterprises.

Macroeconomics: Private lending softened to 1.3% YoY in December; main support came from the corporate sector, especially RON denominated loans (Page 3-5)

In December, private lending softened its pace further, to 1.3% YoY from previous 2.3% YoY in November. The most affected segment was the households (+0.2% YoY). There were several factors which slowed down lending such as the NBR regulation which decreased the maturity of the personal loans from 25-30 years to maximum 5 years, the restrictions to FX lending. Demand for loans has been weak as well, as consumer confidence did not improve significantly. Unlike household loans, corporate loans managed a small advance (+2.2% YoY). Most preferred corporate loans were the ones with a maturity lower than 1 year which rose by 7.3% YoY.

FX markets: The leu dropped as foreigners' interest in bonds dissipated (Page 6-7)

The leu lost 0.6% in a week to the euro, as foreigners' interest in Romanian bonds dissipated. Also, the fall came after the CB officials commented that the leu was near the fair value and stepped up the repo size. The leu has currently taken advantage of a better perception regarding the euro –zone and lower corresponding risks for Emerging European countries. The 5Y CDS has reached significantly lower levels compared to the previous year. However, in the short run, the easing liquidity conditions on the money market is not supportive for the leu.

Government securities: On the secondary market yields started to climb temporarily (Page 8-9)

After the large fall witnessed in the beginning of January, last week yields on the secondary market rose up to 12 bp in the case of 3Y bonds. However, given that Treasury already ensured a large amount of the entire year funding needs and that NBR signals improving liquidity conditions, this hike in yields may not be maintained. Until now, Treasury has sold 11.4 bn RON in RON denominated debt and 503 mn EUR in 3Y bonds this year. From our calculations, a quarter of the RON financing needs has been already covered until now (redemptions and half of the budget deficit).

MM: CB gives signals of improving liquidity (Page 10-11)

Last week the allocation rate at the weekly repo jumped to 26.4% from the previous 21.4% and it has been rising for the past three weeks. The CB gives signals of improving the liquidity conditions compared the last few months (Nov –Dec) so we expect money market rates to start falling from current levels. However, a new concern has emerged for the CB as the Government decided to raise excises for beer and tobacco, putting additional pressure on Q2 2013 inflation.

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Macroeconomics: Private lending softened to 1.3% YoY in December; main support came from the corporate sector, especially RON denominated loans

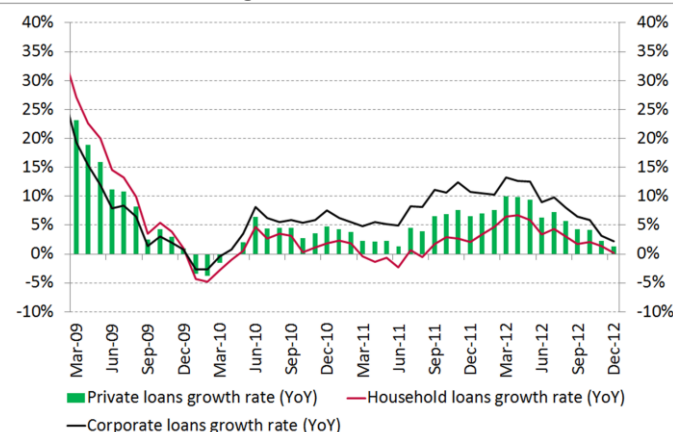
PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
24 Jan	Dec	M3 aggregate (y-o-y, %)	2,7		5,4
24 Jan	Dec	Non -governmental loans (y-o-y, %)	1,3		2,3
24 Jan	Dec	Non -governmental deposits (y-o-y, %)	5,3		7,7
28 Jan	Dec	Licenses for residential buildings (y-o-y, %)	-14,2		-5,2

In December, private lending softened its pace further, to 1.3% YoY from previous 2.3% YoY in November. The most affected segment was the households which recorded an almost flat evolution: +0.2% YoY. Growth rates have an upward bias due to the fact that the leu weakened by 2.5% YoY against the euro and that 67% of household loans are denominated in foreign currency. However, when we transform the figures in the original currency (assuming all FX loans are in euro), the annual contraction stood at -1.2% YoY for FX household loans and -1.9% YoY for RON denominated loans.

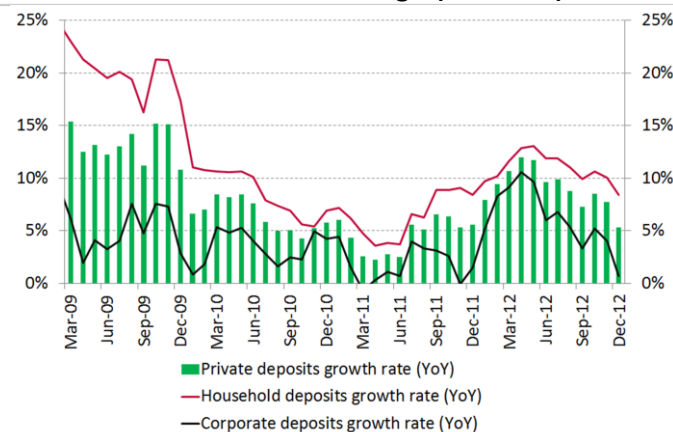
There were several factors which slowed down lending such as the NBR regulation which decreased the maturity of the personal loans from 25-30 years to maximum 5 years, therefore affecting directly personal loans with mortgage. Also, the restrictions to FX lending affected new flows compared to the previous year. Final stock data was influenced also by the fact that banks continued to clean up loan portfolios. Besides these factors, demand for loans has been weak as well as consumer confidence did not improve significantly. So household loan flows were negative overall even if wages rose, interest rates declined and unemployment rate came down:

- net wages posted a moderate growth this year (+4.8% YoY during first 11M), positive in real terms (average inflation rate was 3.2% YoY same period)
- average RON interest rates for new loans for households lost 40bp from Dec 2011 to Nov 2012; during the same interval, euro interest rates lost 137 bp.
- unemployment rate came down from 7.5% in Dec 2011 to 6.7% in November 2012.

In 2013, from the interest rate viewpoint, interest rates for euro loans are likely to remain around the current levels, as expectations for the policy rate in the euro-zone are that the ECB will maintain the base rate at 0.75%, with a downward bias. In what concerns RON denominated loans, banks may enter in a price competition in search for retail clients, especially on the personal loans segment. From income perspective, public employee's wages are scheduled to increase again this year and the hike for December 2012 is applicable starting in January 2013. Mortgage loans are likely to continue to sell better than the rest as residential property prices came down last year (please see chart below) by 6% (average quarterly average in 2011 vs. H1 2012, latest available data) and will likely remain subdued in 2013.

Private loans rose only by 1.3% YoY in 2012; households' lending remained almost flat


Source: NBR, OTP Research

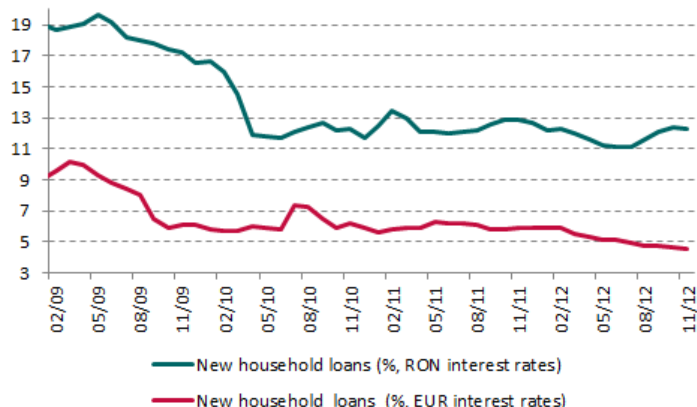
Private deposits rose by 5.3% YoY in 2012 mainly due to the hike in households' savings (8.4% YoY)


Source: NBR, OTP Research

Unlike household loans, corporate loans managed a small advance (+2.2% YoY). In original currency, only FX loan flows were negative while RON denominated loans advanced by 8% YoY. **Most preferred were loans with a maturity lower than 1 year which rose by 7.3% (YoY).** They represent 40% of total corporate loans.

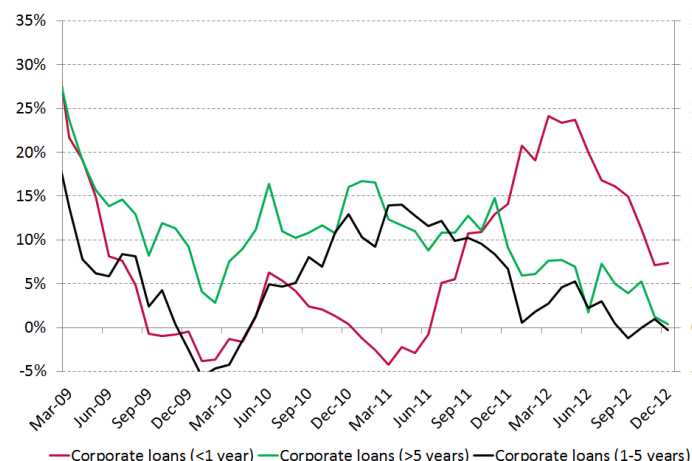
Turning to private deposits, the saving side enjoyed a more rapid rhythm (+5.3% YoY), especially due to households (+8.4% YoY). **For fear of leu's depreciation, FX household deposits accelerated in H2 2012,** reaching 13.9% YoY in December based on original currency (please see chart below). **This year, the announced increase of 4% YoY of pensions supports the increase in household deposits** (the increase in pensions is around 2 bn RON in nominal terms).

New loans interest rates in RON and euro declined in 2012, especially the euro rates



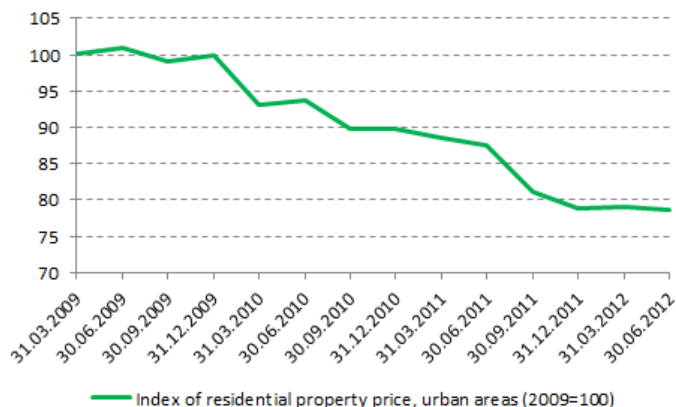
Source: NBR, OTP Research

In December 2012, corporate loans with a maturity below 1Y recorded a 7.3% YoY jump
(annual growth rates)



Source: NBR, OTP Research

Residential property prices in urban areas continued to decline in H1 2012



Source: BIS, OTP Research

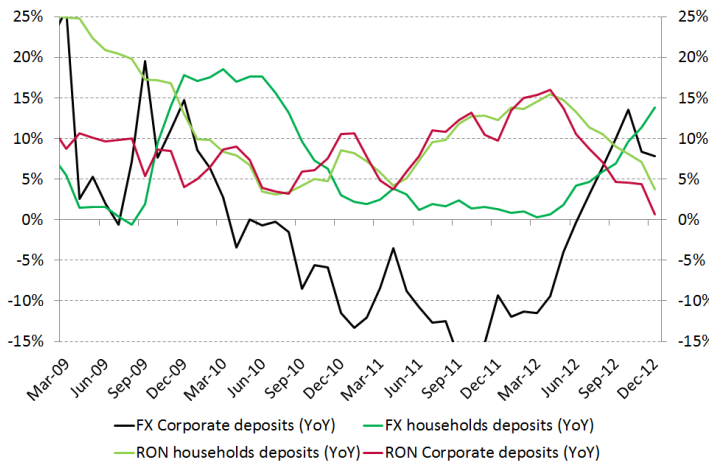
Mortgage loans (~ one third of household loans) offset the decline in consumer loans in 2012
(annual growth rates)



Source: NBR, OTP Research

FX household deposits accelerated in H2 2012 for fear of leu's depreciation

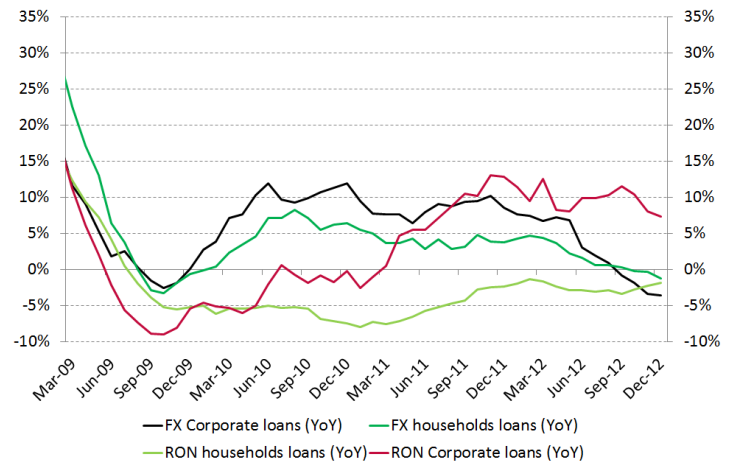
(annual growth rates, original currency stock data)



Source: NBR, OTP Research

Private lending driver in 2012 were corporate loans in RON

(annual growth rates, original currency stock data)



Source: NBR, OTP Research

Medium-term macroeconomic forecast

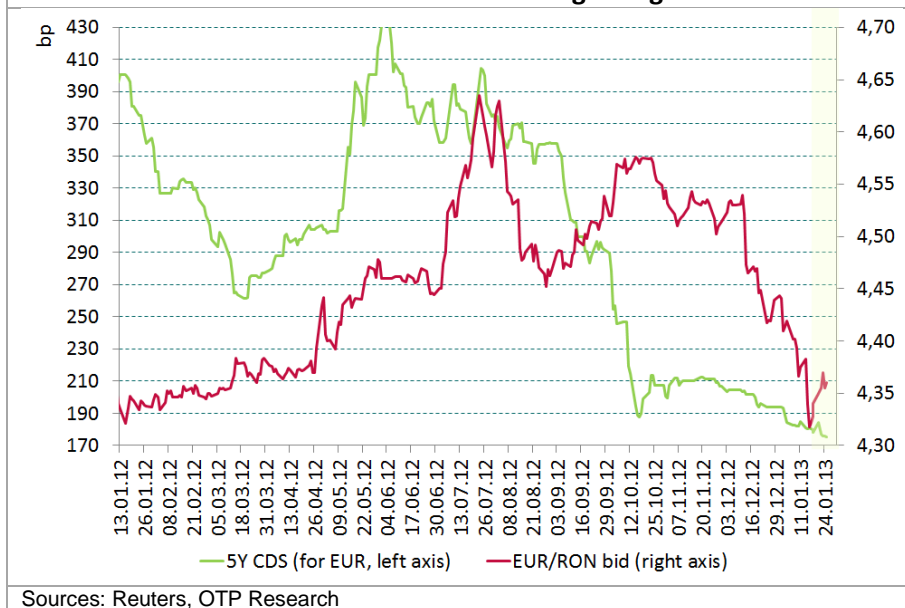
Main macroeconomic indicators	Fact						Forecast	
	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	7,9%	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,0%	1,5%
Households consumption expenditure	12,9%	12,0%	9,0%	-10,4%	-0,2%	1,2%	0,8%	2,0%
Government consumption	-11,5%	2,5%	6,2%	9,5%	-13,7%	-0,3%	-1,4%	1,5%
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-1,8%	7,3%	11,0%	5,2%
Exports	10,4%	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	-0,4%
Imports	22,6%	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,2%	1,6%
Consumer prices (avg.)	6,6%	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,1%
Budget Balance (GDP%, ESA 95)	-2,2%	-2,9%	-5,7%	-9,0%	-6,8%	-5,5%	-3,6%	-3,3%
Public debt (GDP %)	12,4%	12,8%	13,4%	23,6%	30,5%	33,3%	35,0%	36,6%
CA balance (% GDP)	-10,5%	-13,4%	-11,6%	-4,2%	-4,4%	-4,6%	-4,4%	-4,6%
CA balance (bn EUR)	-10,2	-16,8	-16,2	-4,9	-5,5	-6,0	-6,1	-6,6
Unemployment	7,3%	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	6,9%
Nominal wage growth	18,4%	21,8%	26,1%	4,8%	3,1%	4,1%	4,5%	4,4%
Real wage growth	9,0%	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,5%	0,3%
Key interest rate (avg.)	8,6%	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,25%
Key interest rate (e.o.p.)	8,8%	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	5,25%
EUR/RON (avg.)	3,52	3,34	3,68	4,24	4,21	4,24	4,45	4,47
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	4,50	4,43

Source: Eurostat, NBR, OTP Research

FX markets: The leu dropped as foreigners' interest in bonds dissipated

The leu lost 0.6% in a week to the euro, as foreigners' interest in Romanian bonds dissipated. Also, the fall came after the CB officials commented that the leu was near the fair value and stepped up the repo size. The leu has currently taken advantage of a better perception regarding the euro –zone and lower corresponding risks for Emerging European countries. The 5Y CDS has reached significantly lower levels compared to the previous year. However, in the short run, the easing liquidity conditions on the money market is not supportive for the leu.

The leu fell last week ; decreased appetite for bonds from foreigners coincided with comments from CB officials regarding leu's level



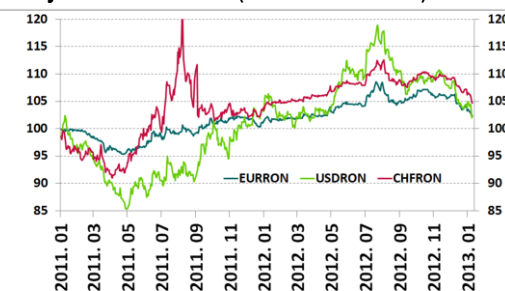
The Government agreed with the IMF representatives on the 2013 budget. After talks with the IMF, the expected GDP growth for 2013, on which the budget was made dropped from 1.8% to 1.6%. The cash deficit will be 2.1% of the GDP and in nominal terms around 13.4 bn RON. The ESA deficit is 2.4% in 2013, pointing to further consolidation compared to 2012 when the target was 2.8%. The budget foresees an nominal GDP of 623 bn RON, average annual inflation of 4.3% and average EUR/RON at 4.5. The Fiscal Council's opinion on the proposed budget is favorable. The Council appreciates that macroeconomic forecast is "realistic", the projected revenues are realistic and well explained. Expenditures are following the agreed fiscal rule according to which the annual growth rate of expenditures is below the annual growth rate of GDP until the net (consolidated) budget balance of the previous year has recorded a surplus (however, the final total expenditures for 2012 came out lower than expectations). Below, you can find the annual evolution of the budget revenues and expenditures since 2007.

Last data: 25.01.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,37	↑	0,63	↓ -1,69
USDRON	3,25	↓	-0,41	↓ -3,60
CHFRON	3,50	↑	0,38	↓ -4,82
RONJPY	3,57	↓	-1,31	↓ -7,99
RONPLN	1,05	↑	0,20	↑ 14,53
100HUFRON	1,47	↓	-0,73	↓ -3,53
RONCZK	0,17	↑	0,83	↓ -3,56
RONRUB	0,11	↑	0,38	↓ -1,94
RONRSD	0,04	↑	0,80	↓ -1,06
RONBGN	2,23	↑	0,66	↓ -1,66

Source: Reuters

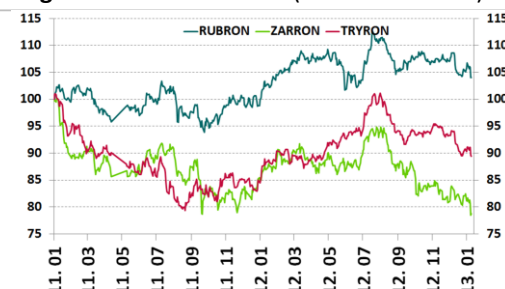
Major RON FX rates (03.01.2011=100)



Regional RON FX rates I. (03.01.2011=100)



Regional RON FX rates II. (03.01.2011=100)



The evolution of revenues and expenses of the consolidated budget (2007 -2013)

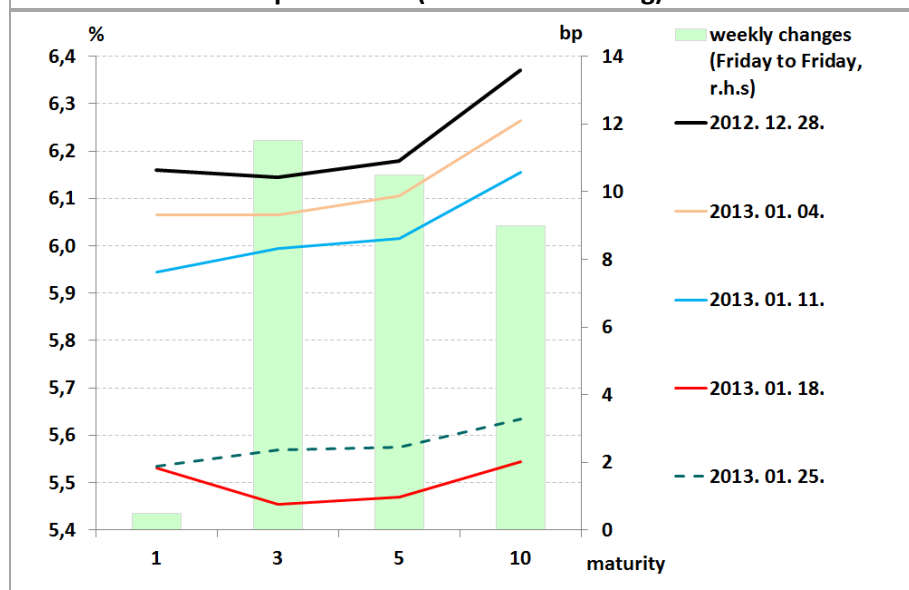
	2007	2008	2009	2010	2011	2012	2013
<i>Annual growth rates</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>budget</i>
Total revenue	19%	30%	-5%	8%	8%	6%	8%
Current income	19%	29%	-5%	5%	10%	6%	7%
Fiscal income	20%	23%	-6%	5%	12%	9%	8%
Income tax	38%	26%	-4%	-9%	4%	9%	11%
Corporate income tax	33%	24%	-9%	-15%	2%	5%	8%
Personal income tax	47%	28%	1%	-3%	6%	10%	11%
Other tax on income, profit and capital	-1%	24%	-19%	-38%	-16%	35%	52%
Property tax	16%	14%	0%	13%	5%	2%	10%
Taxes on goods and services	17%	22%	-8%	14%	17%	9%	6%
Value added tax	13%	31%	-16%	14%	22%	5%	5%
Excise duties	18%	9%	15%	12%	10%	6%	10%
Other	110%	-18%	15%	26%	-7%	111%	6%
Taxes on international commerce	-67%	12%	-32%	-12%	17%	5%	5%
Other fiscal taxes	87%	136%	-11%	3%	-7%	-1%	6%
Social security contributions	18%	25%	-1%	-5%	11%	2%	5%
Non fiscal revenue	12%	104%	-10%	32%	-8%	1%	6%
Capital revenues	-11%	1%	-40%	25%	12%	-15%	5%
Donations	51%	-2%	5%	37%	-81%	-42%	42%
EU preaccession funds	n.a.	n.a.	19%	157%	13%	31%	41%
Total expenditures	21%	38%	2%	5%	2%	1%	7%
Current expenditures	22%	36%	4%	6%	0%	4%	8%
Compensation of public employees	22%	69%	8%	-8%	-10%	6%	13%
Operating expenditures	14%	29%	-13%	3%	7%	8%	8%
Interest paid	10%	42%	56%	20%	22%	21%	6%
Subsidies	-7%	14%	-8%	-7%	-5%	-4%	-15%
Total transfers	32%	28%	4%	16%	1%	0%	9%
Transfers between units of public administration	70%	-63%	-84%	-5%	-33%	335%	20%
Other transfers	35%	25%	-22%	27%	-15%	-15%	12%
Projects financed by foreign non reimbursable funds	n.a.	n.a.	n.a.	205%	49%	23%	31%
Social transfers in cash	24%	40%	19%	7%	-1%	-1%	4%
Other	77%	183%	-57%	15%	6%	-5%	-6%
Expenses for programs with reimbursable funds	n.a.	n.a.	n.a.	-14%	17%	-23%	-51%
Capital expenses	13%	61%	0%	-16%	19%	-16%	-8%

Source: The Finance Ministry, OTP Research calculations

Government securities: On the secondary market yields started to climb temporarily

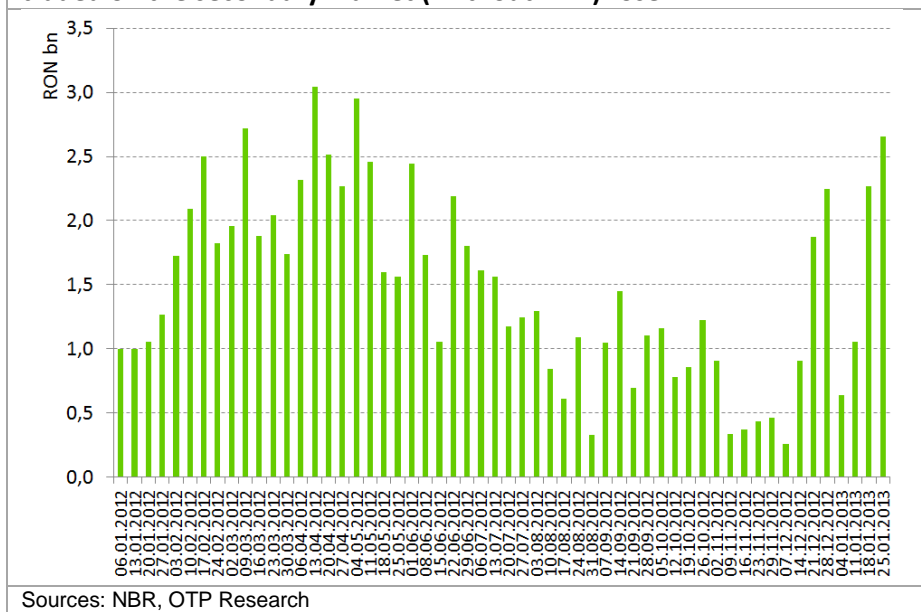
After the large fall witnessed in the beginning of January, last week yields on the secondary market rose up to 12 bp in the case of 3Y bonds. Only the 6M maturity declined on a weekly basis. However, given that Treasury already ensured a large amount of the entire year funding needs and that NBR signals improving liquidity conditions, this hike in yields may not be maintained.

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Last week , the daily average of RON denominated government securities traded on the secondary market (without NBR) rose



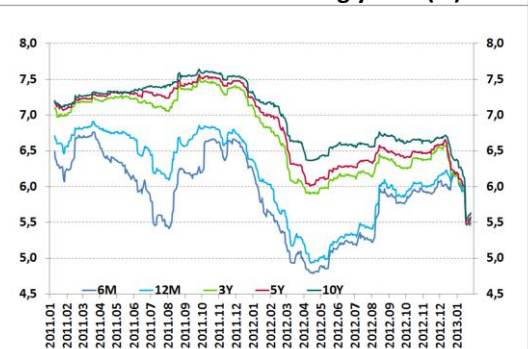
Sources: NBR, OTP Research

Last data: 25.01.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,50	↓ -3	↓ -69	
12M	5,54	↑ 1	↓ -63	
3Y	5,57	↑ 12	↓ -60	
5Y	5,58	↑ 11	↓ -63	
10Y	5,64	↑ 9	↓ -75	
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	531	↑ 12	↓ -77	
GERROM 5Y	495	↑ 11	↓ -85	
GERROM 10Y	407	↑ 9	↓ -87	
3Y -5Y	0	↓ -1	↓ -3	
5Y -10Y	6	↓ -2	↓ -12	
3Y-10Y	6	↓ -3	↓ -15	
FLY 3-5-10	5	↓ -1	↓ -9	
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	117	↓ -3	↓ -19	
5Y EURO	176	↓ -2	↓ -18	

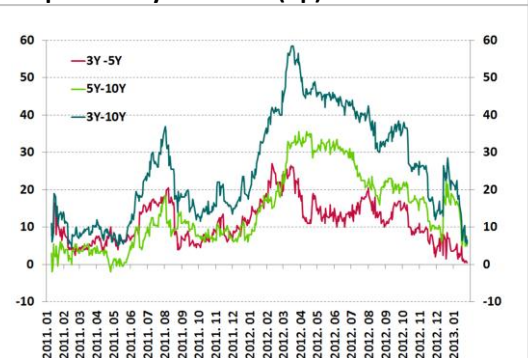
Source: Reuters

Central bank benchmark fixing yields (%)



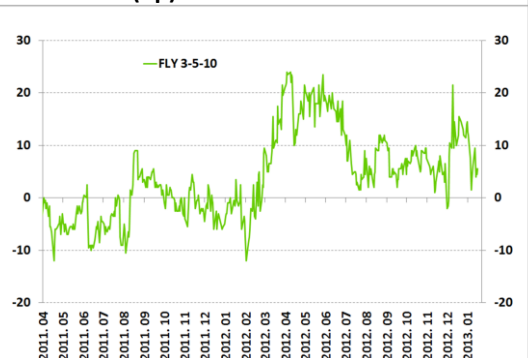
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

Auctions

There were three auctions last week: two auctions to sell RON denominated debt in the form of 6M T-bills and 10Y bonds and one for euro denominated 3Y bonds. Total sold RON amount was 1.4 bn RON. **The average accepted yields continued to decline between 38-104 bp for the RON denominated debt and 62 bp for the euro denominated debt.** In the case of the 6M T-bills, the average accepted yield stood at 5.53% compared to 5.91% obtained at the last similar tender in October 2012. In the case of 10Y bonds, the average accepted yield stood at 5.71% compared to 6.75% obtained in March 2012. The 3Y euro denominated bonds had an average accepted yield of 3.14% compared to 3.76% in October 2012.

Until now, Treasury has sold 11.4 bn RON in RON denominated debt and 503 mn EUR in 3Y bonds this year. From our calculations, a quarter of the RON financing needs has been already covered until now (the total redemptions and half of the budget deficit which is to be financed by RON denominated debt, according to the Fiscal strategy 2013-2015).

Last week's auction results (RON denominated)

	RO1313CTN039	RO1323DBN018
Offered amount (RON mn)	300	600
total bids (RON mn)	1460	1300
accepted amount (RON mn)	300	1107
average accepted yield (%)	5,53	5,71
coupon	-	5,85

Source: NBR, OTP Research

Last week's auction results (EUR denominated)

	RO1316DBE011
Offered amount (EUR mn)	150
total bids (EUR mn)	808
accepted amount (EUR mn)	503
average accepted yield (%)	3,14
coupon	3,25

Source: NBR, OTP Research

T-Bills auction in January (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN011	07.01.2013	09.01.2013	08.01.2014	12	500.000.000
RO1314CTN029	14.01.2013	16.01.2013	15.01.2014	12	500.000.000
RO1313CTN039	21.01.2013	23.01.2013	24.07.2013	6	300.000.000

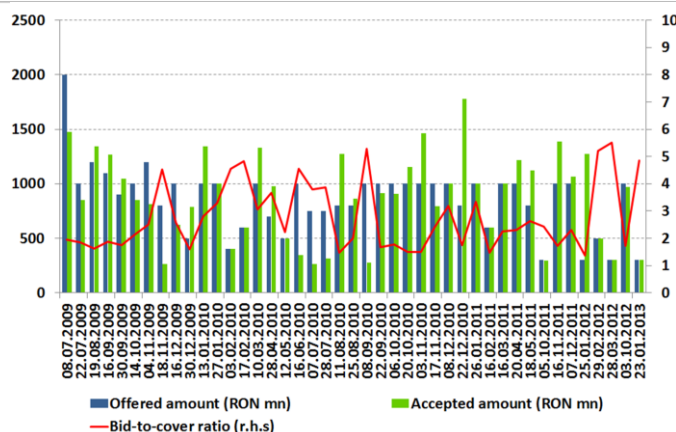
Source: Ministry of Finance, OTP Research

Bonds auctions in January (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN068	07.01.2013	09.01.2013	28.07.2014	2	5,85	800.000.000
RO1216DBN030	10.01.2013	14.01.2013	27.01.2016	4	5,75	600.000.000
RO1215DBN073	14.01.2013	16.01.2013	26.10.2015	3	5,80	800.000.000
RO1217DBN046	17.01.2013	21.01.2013	26.07.2017	5	5,90	500.000.000
RO1323DBN018	24.01.2013	28.01.2013	26.04.2023	10	5,85	600.000.000

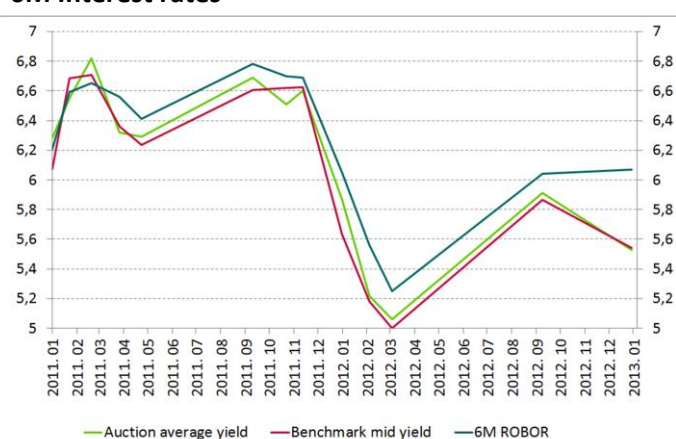
Sources: Ministry of Finance, OTP Research

6M Auctions data



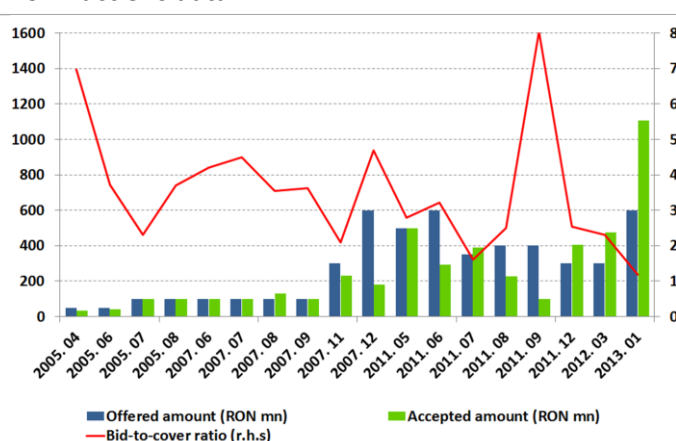
Sources: NBR, OTP Research

6M Interest rates



Sources: NBR, OTP Research

10Y Auctions data



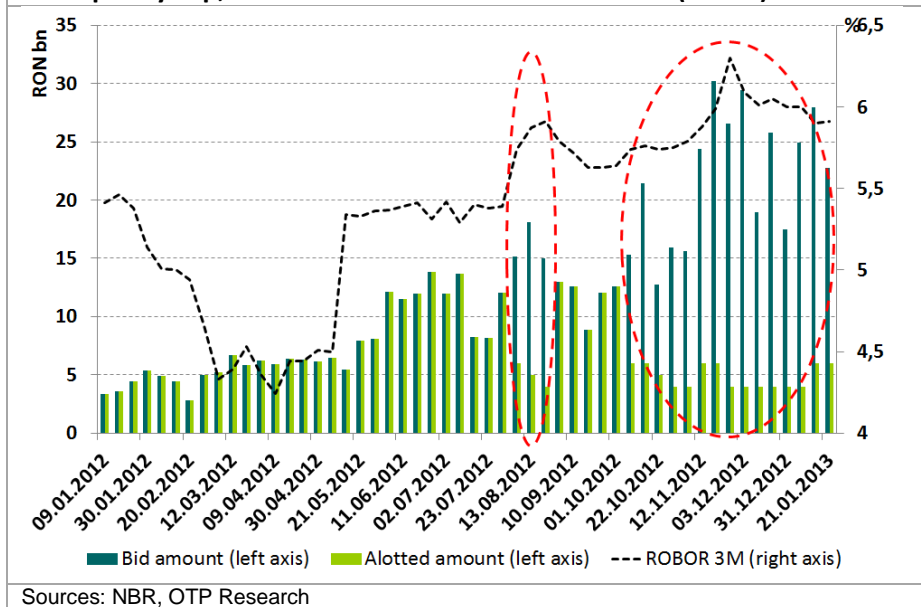
Sources: NBR, OTP Research

MM: CB gives signals of improving liquidity

Last week, the Central Bank kept the repo size at 6 bn RON, maintaining the liquidity cap. The allocation rate rose to 26.4% from the previous 21.4% and it has been rising for the past three weeks. The maintenance period for required reserves has ended last week, so MM rates have jumped back at higher levels: on Friday, ROBOR ON stood at 6.45%. Nevertheless, the CB gives signals of improving the liquidity conditions compared the last few months (November- December), so we expect money market rates to start falling from current levels.

However, a new concern has emerged for the CB as the Government decided to raise excises for beer and tobacco, putting additional pressure on Q2 2013 inflation: tobacco excises are hiked three months earlier than planned, from 1st April. Also, the Government decided to hike the beer excise (standard rate) by 10% (from 0.748 EUR per hl/degree Plato to 0.8228 euro/hl/grad Plato). This is an additional reason for the CB to keep the base rate unchanged at the next base rate decision on 5th February. The CB seems to prefer managing liquidity conditions through the use of repo operations rather than cutting the base rate.

Last week the Central Bank kept the repo size at 6 bn RON, maintaining the liquidity cap; the allocation rate continued to rise (26.4%)



Last data: 25.01.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	0
ROBOR ON	6,45	97	7
ROBOR 3M	5,91	-3	-12
ROBOR 6M	6,06	-2	-22
ROBOR 9M	6,06	-3	-22
ROBOR 1Y	6,06	-3	-25

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	5.996,6	-2,1	2.001,3

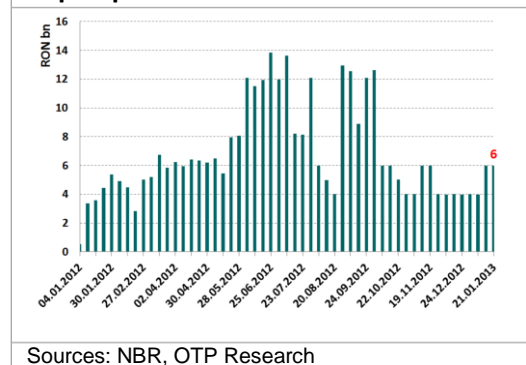
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.383,5	-1836,8	482,1

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	28	-5	4
USDRON 1M	145	2	-4
USDRON 3M	396	5	150
EURRON 1W	47	0	6
EURRON 1M	210	5	65
EURRON 3M	586	-35	76

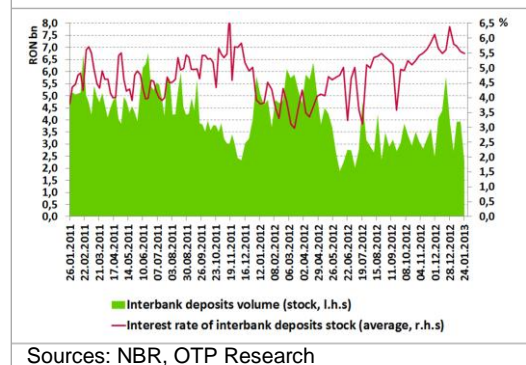
MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-75	0	80
EURRON 3Y	-75	0	80
EURRON 5Y	-75	0	75

Source: Reuters

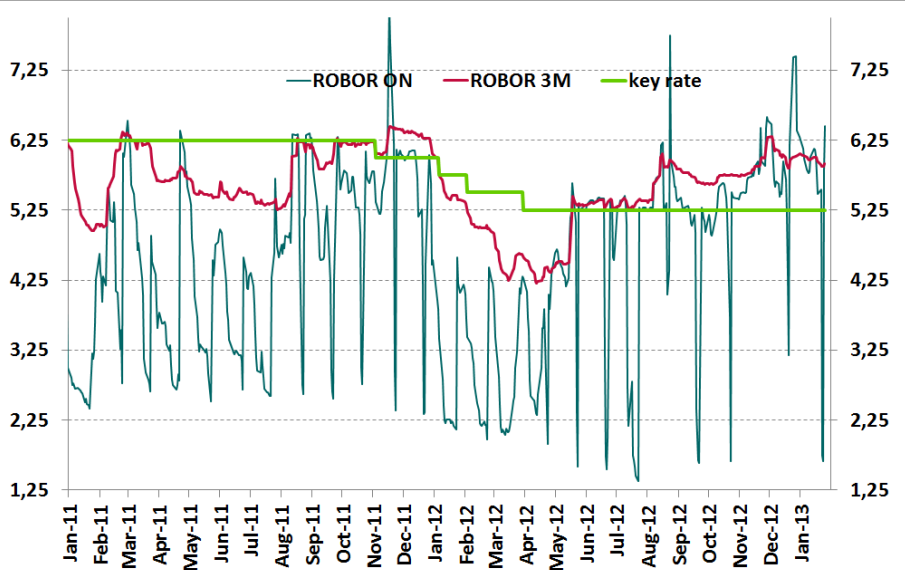
Repo operations since 2012



Interbank deposits stock and average interest rate



Most important MM instruments' evolution since 2012 (%)



Sources: NBR, OTP Research

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