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Weekly Report

Romania

4 March 2013



Private lending pace stagnates in January; the CB Governor promises a base rate cut

Macroeconomics: Private loans stagnated (+0.3% YoY); Private deposits up but on a downtrend (+4.1% YoY); ILO unemployment rate declined marginally in January (6.6%) (Page 3-5)

In January, private loans' pace decelerated further to 0.3% YoY from previous 1.3%. Looking at currency and segment structure, RON corporate loans continue to be the main supporter, with an advance of 9.7% YoY. According to NBR's survey, banks expect to see lower loan demand from companies in Q1 2013. In January, retail lending's pace declined further due to higher drop in consumer loans. In Q1 2013, according to NBR's survey, banks expect to see a drop in demand for mortgage loans and stabilization in the case of consumer loans. Private deposits' growth rate dropped further to 4.1% YoY in January (5.3% YoY in December). FX denominated deposits are on an uptrend and enjoy high growth rate (+16% YoY). Deposits in RON declined by 1.9% YoY due to the corporate segment which recorded a 7% YoY decline. In January, the unemployment rate fell to 6.6% and the downtrend is visible.

FX markets: The leu gained marginally last week (Page 6)

The leu strengthened 0.6% last week probably due non residents buying additional Romanian government's debt. This is most likely related to the fact that starting from 1st of March, Romanian government bonds are included in JP Morgan GBI-EM Indexes. Romanian bonds remain attractive and even if we see more debt buying, the effect on the leu will likely be marginal in the short term, especially since the Central Bank already signalled which is the comfortable maximum level for the leu. In January, the general consolidated budget had a surplus of 0.2% but details are not promising: revenues dropped by 1.8% YoY. Capital investment and expenditures on EU co-funded projects were significantly down.

Government securities: The Treasury plans to sell 3 bn RON in March (Page 7)

Compared to the end of January, the yield curve moved down, especially the low end. On average, 6M and 12M Tbills yields dropped around 20 bp compared to January and 12 bp for longer maturities (3Y, 5Y, 10Y bonds). The Treasury announced the auction calendar for March. It plans on selling 3 bn RON, out of which 2 bn in bonds (2Y/4Y/7Y/10Y). Given that there is no pressure on yields (as the Treasury already financed one third of the country's financing needs) and that money market rates will continue to slowly ease, yields at the short end of the curve are likely to further decrease.

MM: CB Governor stated that next base rate move will be a cut, but timing uncertain (Page 8-9)

As the CB stepped up liquidity injection in February compared to January, by 3.7 bn RON per week on average (repo), money market rates declined: the average ROBOR ON stood at 5.02% in February, some 60 bp lower than in January. Average ROBOR 3M stood at 5.85%, which is 11 bp lower than in January. Meanwhile, the base rate is stuck at 5.25% since March 2012 when it was last cut down. In a recent statement, Central Bank Governor stated that the next move for the base rate will be a cut but timing is uncertain and it depends on the evolution of inflation expectations. Even if the base rate cut will happen later on (i.e. in Q1 2014), there is room for increased liquidity injection in the coming months and therefore lower money market rates.

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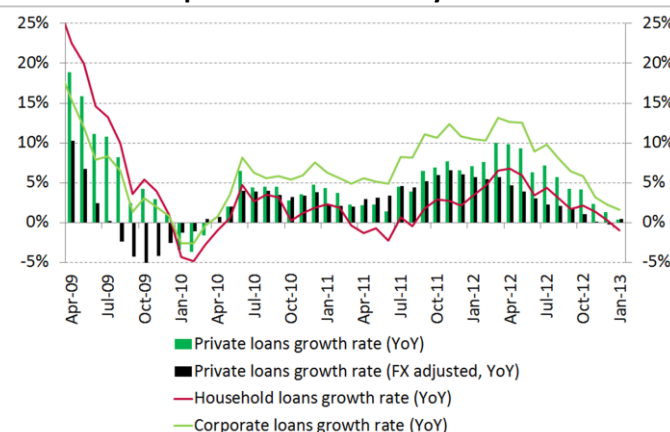
Macroeconomics: Private loans stagnated (+0.3% YoY); Private deposits up but on a downtrend (+4.1% YoY); ILO unemployment rate declined marginally in January (6.6%)

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
28 Feb	Jan	Licenses for residential buildings (y-o-y, %)	-2,2		-14,2
01 Mar	Jan	ILO unemployment (%)	6,6		6,7
01 Mar	Feb	FX reserves (bn EUR)	32,2		31,5
04 Mar	Jan	Producer Price Index (YoY, %)	5,7		4,9
05 Mar	Jan	Retail trade turnover index (y-o-y, %)			-4,4
07 Mar	Jan	Net wage growth rate (y-o-y, %)			5,8

In January, private loans 'pace decelerated further to 0.3% YoY from previous 1.3%. Looking at currency and segment structure, RON corporate loans continue to be the main supporter, with an advance of 9.7% YoY. The only difference in corporate loans evolution is that up to now, best performers were short term loans (maturity < 1 year) while in January the short and long (> 5 Y) maturities posted a flat evolution while medium term loans were up by 7.9% YoY. If this trend maintains, we could be looking at a pickup in investment, based on increased business confidence and expectations related to economic activity. According to NBR's survey, banks expect to see lower loan demand from companies in Q1 2013.

In January, retail lending's pace declined further due to higher drop in consumer loans. **In Q1 2013, according to NBR's survey, banks expect to see a drop in demand for mortgage loans and stabilization in the case of consumer loans.** The current evolution of mortgage loans is probably determined by households' still high risk aversion. Banks perceived a drop in home prices in Q4 2012 and expect further decline in Q1 2013. They declared that in Q4 2012 loan to value was 78% for new loans, lower than for the entire portfolio (82%) and indebtedness in the case of granting new mortgages was 46%, lower than for the entire portfolio (50%). These values are in line with tightening credit standards in the past year.

Private loans 'pace is flat in January



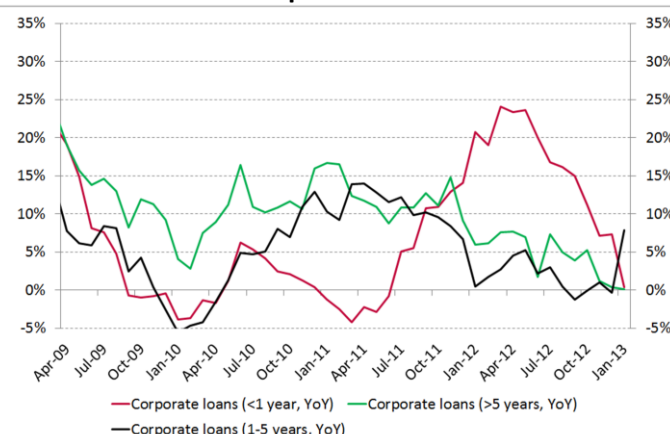
Source: NBR, OTP Research

Consumer loans 'pace deteriorates further



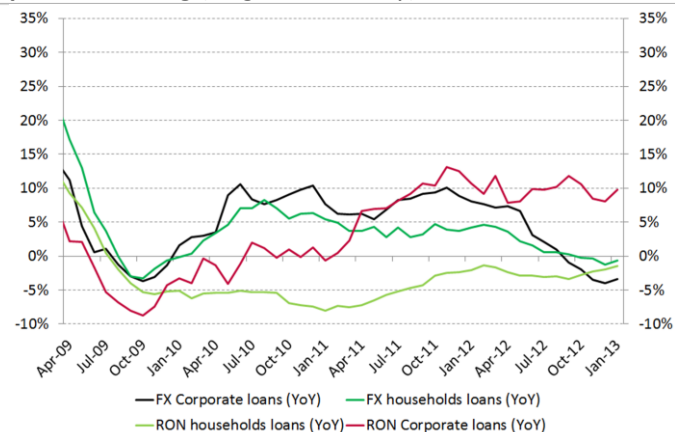
Source: NBR, OTP Research

Medium term corporate loans advance; until now, short term loans were preferred



Source: NBR, OTP Research

RON corporate loans continue to be the major driver of private lending (original currency)



Source: NBR, OTP Research

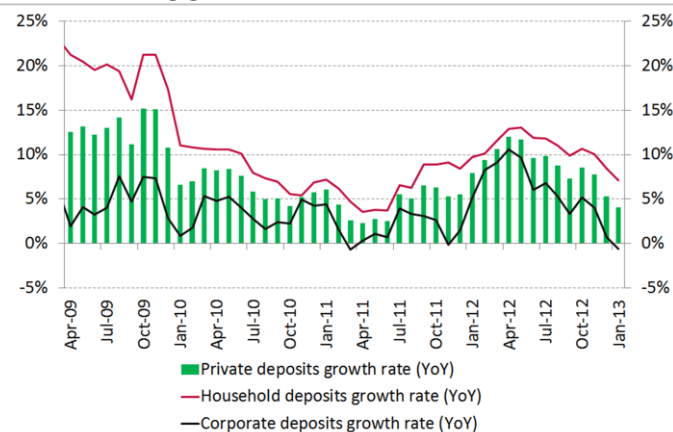
Note: we assume all FX loans are denominated in EUR

Private deposits' growth rate declined further to 4.1% YoY in January from 5.3% YoY in December. Foreign currency denominated deposits are on an uptrend and enjoy high growth rate (+16% YoY): retail deposits rose by 17% YoY and corporate deposits by 15%. Deposits in RON declined by 1.9% YoY due to the corporate segment which recorded a 7% YoY decline.

In January, the unemployment rate fell to 6.6% (seasonally adjusted) from 6.7% in December. The average unemployment rate was 7% last year and the downtrend is clear. Also, the number of the unemployed shows a downward pattern as well. In Europe and in the euro-zone the unemployment rose marginally in January, to 10.8% and 11.9% respectively.

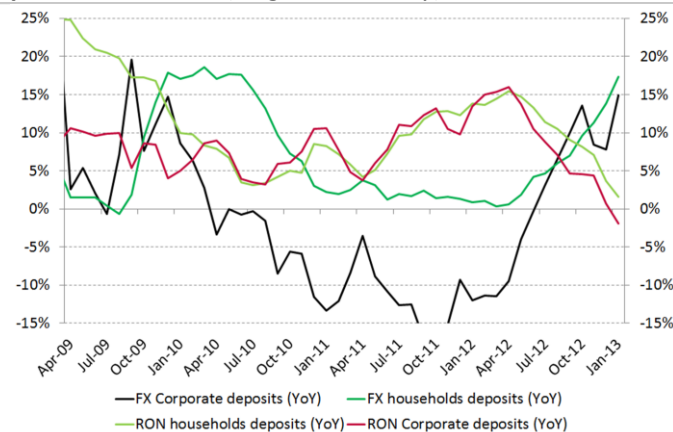
In January, the residential permits fell further by 2.2% YoY but less abruptly than in the previous month: -14.2% YoY. This is a leading indicator and it suggests the housing market has yet to recover.

Private saving growth rate is on a downtrend



Source: NBR, OTP Research

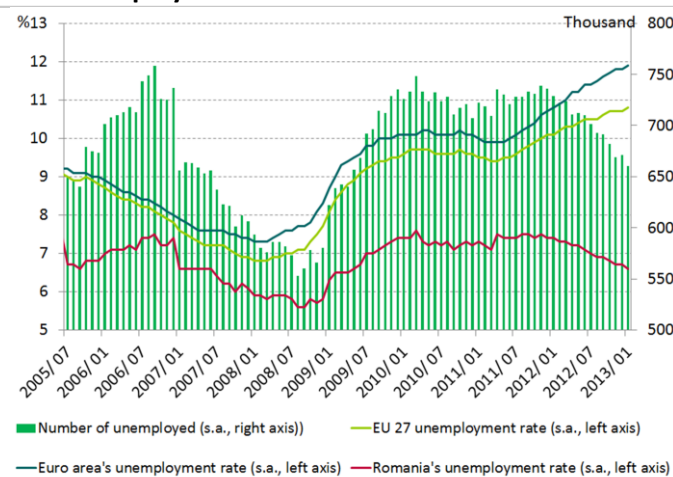
FX saving growth rate shows uptrend; RON saving posts downtrend (original currency)



Source: NBR, OTP Research

Note: we assume all FX deposits are denominated in EUR

The unemployment rate shows a clear downtrend



Source: Eurostat, 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 gained marginally last week

The leu strengthened 0.6% last week probably due non residents buying additional Romanian government's debt. This is most likely related to the fact that starting from 1st of March, Romanian government bonds are included in JP Morgan GBI-EM Indexes. As of January, non residents were holding 15.8 bn RON in RON denominated government securities. This compares to 4.2 bn RON holding at the end of November. The rush for debt happened during December and January mostly, during which 3Y-5Y yields dropped around 70-80 bp on the secondary market. Further drop in yields was witnessed in February as well. **However Romanian bonds remain attractive and even if we see more debt buying, the effect on the leu will likely be marginal in the short term, especially since the Central Bank already signalled which is the comfortable maximum level for the leu.**

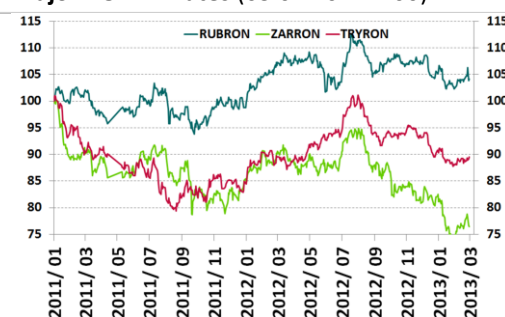
The cash budget balance for January was a surplus of +0.2% of the GDP as it usually happens this month. However, **the details do not look promising**: revenues dropped by 1.8 % YoY especially due to the corporate income tax decline (-82% YoY), VAT revenues (-9.5% YoY) and EU payments (-39% YoY). On the other hand, **expenditures were down by 2.2% YoY but the adjustment came to a great extent from expenditures related to EU co-funded projects and lower capital spending**. Personnel expenses were up by 16.4% YoY and expenses with goods and services rose by 13% YoY.

Last data: 28.02.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,35	↓	-0,60	↓ -1,99
USDRON	3,34	↑	0,41	↓ -0,93
CHFRON	3,56	↓	-0,16	↓ -3,19
RONJPY	3,60	↑	0,87	↓ -7,21
RONPLN	1,05	↓	-0,20	↑ 14,76
100HUFRON	1,47	↓	-1,19	↓ -3,30
RONCZK	0,17	↓	-1,34	↓ -4,13
RONRUB	0,11	↓	-0,22	↓ -1,29
RONRSD	0,04	↓	-0,59	↓ -1,22
RONBGN	2,23	↓	-0,67	↓ -2,02

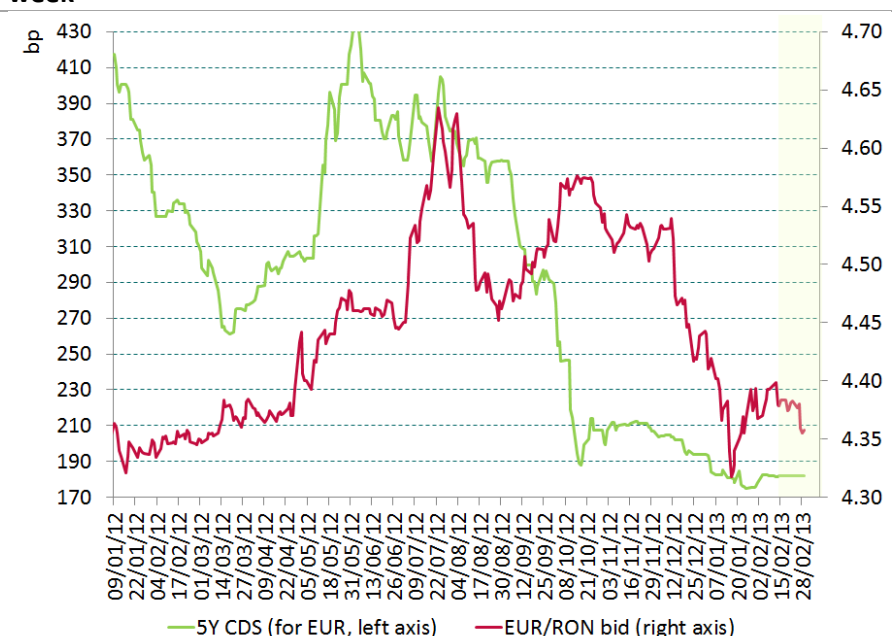
Source: Reuters

Major RON FX rates (03.01.2011=100)



Sources: Reuters, OTP Research

More interest for Romanian bonds pushed the leu slightly higher last week



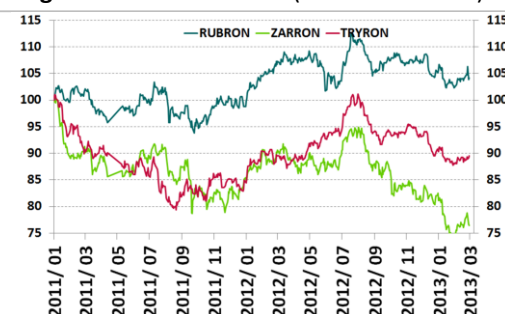
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



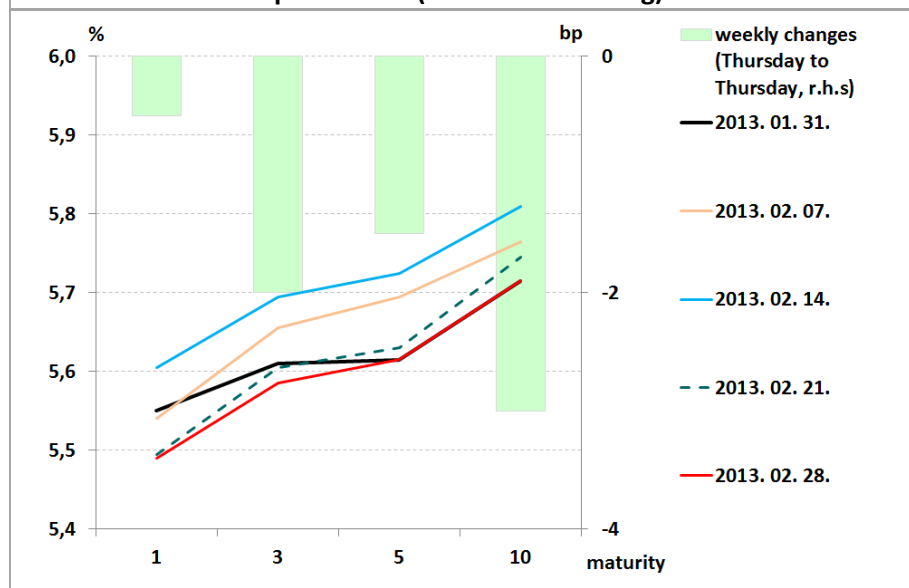
Sources: Reuters, OTP Research

Government securities: The Treasury plans to sell 3 bn RON in March

Government securities yields have declined on a weekly basis up to 3bp (in the case of 10Y bonds). Compared to the end of January, the yield curve moved down, especially the low end (please see the graph below). **On average, 6M and 12M Tbills yields dropped around 20 bp compared to January and 12 bp for longer maturities (3Y, 5Y, 10Y bonds).**

The Treasury announced the auction calendar for March. It plans on selling 3 bn RON, out of which 2 bn RON in bonds (2Y/4Y/7Y/10Y). March redemptions stand at 5.8 bn RON. This year, the Treasury sold 15.4 bn RON and so far redemption stood at 9.2 bn RON. Also, the Treasury sold 1.5 bn USD in eurobonds and 502 mn EUR in domestic bonds as well. Reuters quoted the Chief of Treasury declaring that during the first two months, the Treasury financed 32% of the 70 bn RON in country's financing needs for 2013. Also, the Treasury Chief said that it is possible we will see further interest in Romanian bonds after Romania is actually included in the benchmark indexes of JP Morgan and Barclays this March. Furthermore, it looks that foreigners' start appreciating longer debt issues, more precisely medium and long term issues. Foreigners' interest in RON debt caught life again last week, just before 1st March, a date when Romania is officially included in JP Morgan's emerging market bond index. **Given that there is no pressure on yields (as the Treasury already financed a large share of debt) and that money market rates will continue to slowly ease, yields at the short end of the curve are likely to further decrease.**

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

T-Bills auction in March (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN060	11.03.2013	13.03.2013	12.03.2014	12	500.000.000
RO1314CTN078	18.03.2013	20.03.2013	19.03.2014	12	500.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in March (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1216DBN030	07.03.2013	11.03.2013	27.01.2016	4	5,75	500.000.000
RO1214DBN068	14.03.2013	18.03.2013	28.07.2014	2	5,85	500.000.000
RO1320DBN022	18.03.2013	20.03.2013	29.04.2020	7	5,75	500.000.000
RO1323DBN018	21.03.2013	25.03.2013	26.04.2023	10	5,85	500.000.000

Sources: Ministry of Finance, OTP Research

Last data: 28.02.2013

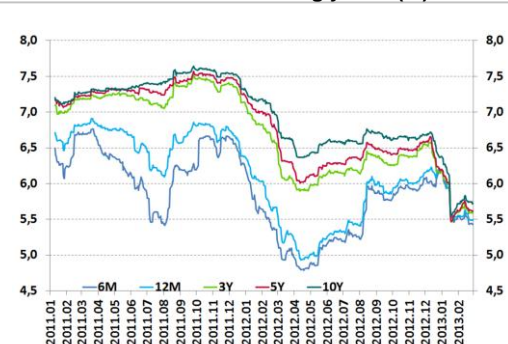
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,43	↔ 0	↓ -75	
12M	5,49	↓ 0	↓ -68	
3Y	5,59	↓ -2	↓ -58	
5Y	5,62	↓ -1	↓ -59	
10Y	5,72	↓ -3	↓ -67	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	535	↓ -2	↓ -73	
GERROM 5Y	502	↓ -2	↓ -78	
GERROM 10Y	413	↓ -3	↓ -81	
3Y -5Y	3	↑ 1	↓ 0	
5Y -10Y	10	↓ -2	↓ -8	
3Y-10Y	13	↓ -1	↓ -9	
FLY 3-5-10	7	↓ -2	↓ -8	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	142	↑ 16	↑ 7	
5Y EURO	199	↑ 15	↑ 5	

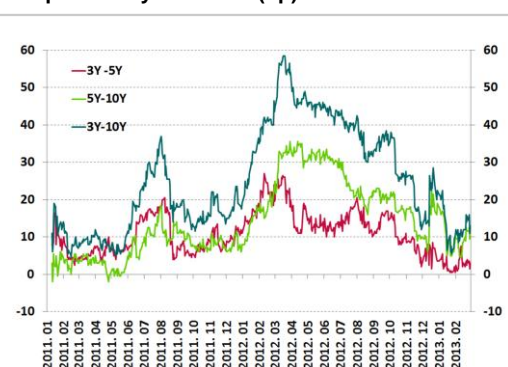
Source: Reuters

Central bank benchmark fixing yields (%)



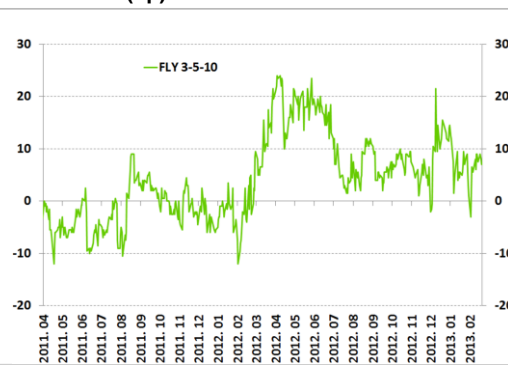
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

MM: CB Governor stated that next base rate move will be a cut, but timing uncertain

The Central Bank raised the repo ceiling again last week from 9 bn RON to 10 bn RON. The allocation rate stood at 33.5%, lower than previous week at 38.8%. **As the Central Bank stepped up liquidity injection in February compared to January, by 3.7 bn RON per week on average at the weekly repo auctions, money market rates declined:** the average ROBOR ON stood at 5.02% in February, some 60 bp lower than in January.

Average ROBOR 3M stood at 5.85%, which is 11 bp lower than in January. Meanwhile, the base rate is stuck at 5.25% since March 2012 when it was last cut down. After that, several factors combined prevented the CB to move further with another cut: political instability (May 2012) weakened the leu and deteriorated inflation expectations. To this, poor agricultural results were added which pushed inflation up in H2 2012. Q4 2012 annual inflation rate stood at 4.8% YoY. Inflation is expected to remain elevated to 5-6% YoY in H1 2013 and drop in H2 2013 (NBR forecast for December is 3.5% YoY). **In a recent statement, Central Bank Governor stated that the next move for the base rate will be a cut but timing is uncertain and it depends on the evolution of inflation expectations. Even if the base rate cut will happen later on (i.e. in Q1 2014), there is room for increased liquidity injection in the coming months and therefore lower money market rates.**

Last data: 28.02.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	5,45	↓ 405	↓ -93
ROBOR 3M	5,71	↓ -2	↓ -32
ROBOR 6M	5,91	↓ -4	↓ -37
ROBOR 9M	5,91	↓ -5	↓ -37
ROBOR 1Y	5,91	↓ -6	↓ -40

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	9.994,1	1005,2	5.998,8

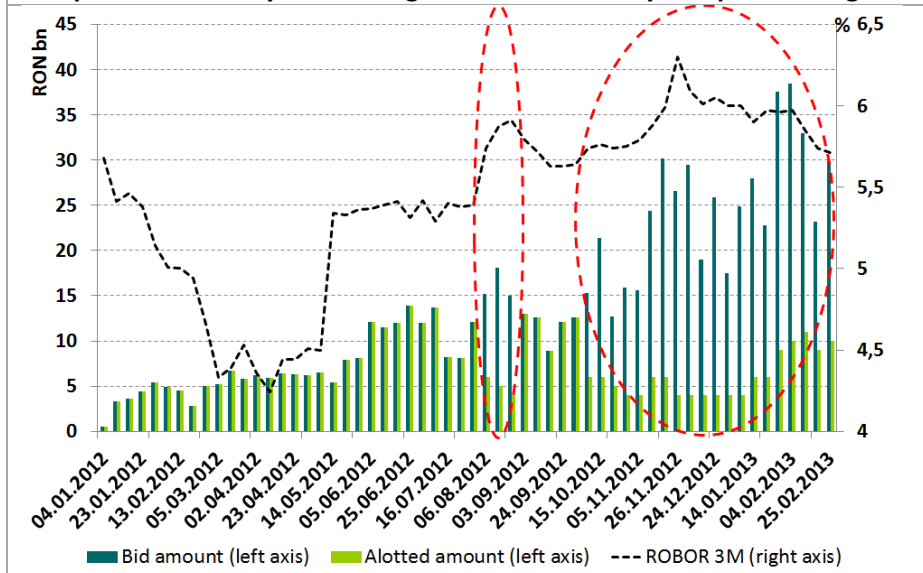
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	1.785,8	-36,6	-1115,6

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	33	↓ 0	↑ 8
USDRON 1M	145	↑ 0	↓ -4
USDRON 3M	371	↓ -22	↑ 125
EURRON 1W	44	↑ 19	↑ 4
EURRON 1M	161	↓ -31	↑ 16
EURRON 3M	578	↑ 13	↑ 68

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-90	↔ 0	↑ 65
EURRON 3Y	-75	↔ 0	↑ 80
EURRON 5Y	-75	↔ 0	↑ 75

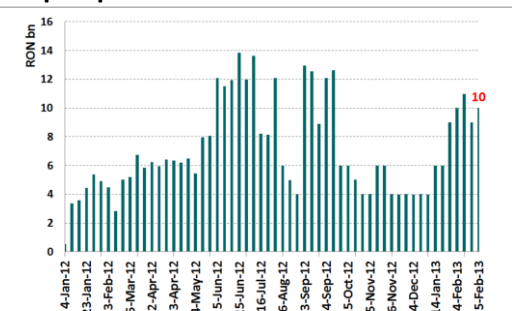
Source: Reuters

Repo ceiling was higher by 3.7 bn RON on average per week in February compared to January and average ROBOR 3M fell by 11 bp on average



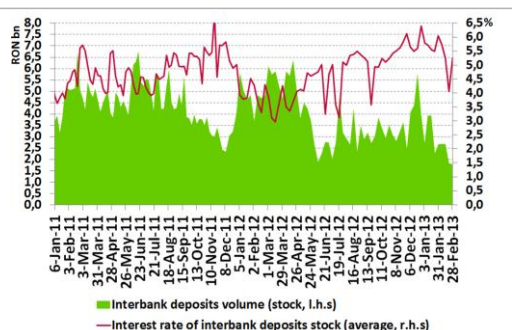
Sources: NBR, OTP Research

Repo operations since 2012



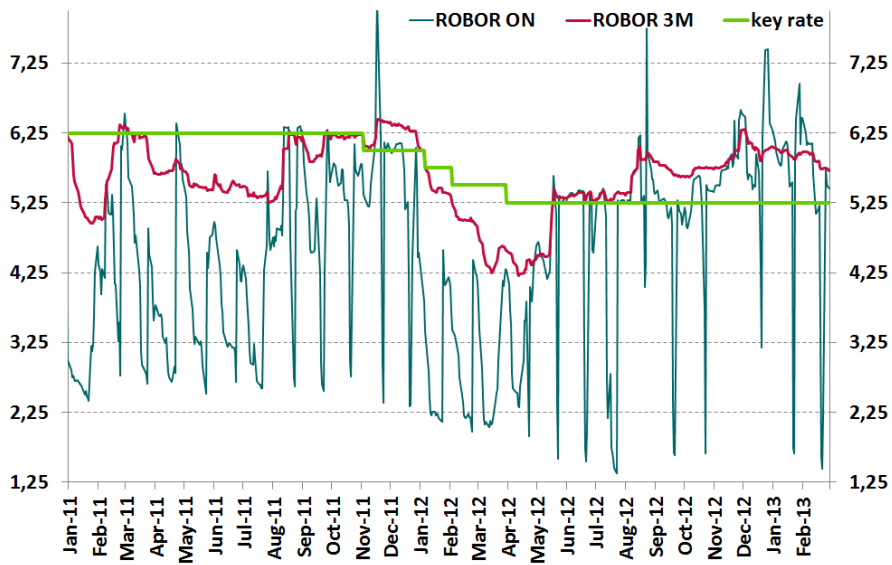
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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