



## Private lending stagnated in February as well; the CB maintained the base rate unchanged

### Macroeconomics: Private lending stagnates in February as well; residential building licences up by 6.6% YoY (Page 3-5)

Private loans' annual pace stood flat in February as well, at 0.1% YoY, after posting 0.3% YoY in January. While corporate lending is still increasing exclusively due to the loans denominated in RON, retail lending is still in the negative area (-1.4 % YoY). Average RON interest rates for new loans have not dropped significantly since January 2012. They remained at the same level in January 2013 (10.6 %) compared to last year even though ROBOR 3M is lower by some 40 bp. NBR's survey (February) shows that banks expect a falling demand for mortgage loans in Q1 2013 and stagnation of consumer loans. The corporate segment is also expected to see a falling demand. Private deposits annual pace was 3.7% YoY, with the companies' segment in the negative territory. Main support comes from households (+6.5% YoY).

### FX markets: The leu shows low volatility (Page 6)

The leu was marginally up against the euro last week, in line with its peer currencies. Meanwhile, the euro continued to weaken against the dollar, losing 1.3% in a week after the comments made by Eurogroup's head (retracted later on) according to whom in the future, the private sector will be involved in banks' rescue. The CB's Governor qualified the impact on the leu due to latest events in Cyprus as being „limited” and said that any change up to 5% is not significant. Also, he said that Romania's ability to repay the tranches of the IMF loan is strong and that the FX reserves even increased in February, despite the relatively higher monthly payment (~700 mn EUR). Among other inflows types, the CB bought foreign currency as well to boost reserves. Between 30 April and 6 May, Romania has to pay back to the IMF another tranche of the same size as in February. Bearing this in mind as well, we expect the leu to maintain relatively stable in the short term.

### Government securities: The Treasury plans to sell 2.5 bn RON in bonds in April (Page 7)

In April, the Treasury announced a planned amount of 2.5 bn RON in bonds and 200 mn EUR in 3Y euro denominated bonds. In April, redemptions in local currency amount to 2.7 bn RON. Year to date the Treasury has sold 18.4 bn RON whereas redemptions stood at 15 bn RON. We expect to see the downtrend of MM rates continuing, putting more downward pressure on yields.

### MM: Base rate was kept unchanged at 5.25% (Page 8-9)

Liquidity conditions have improved and the liquidity injected at the weekly repo auction has decreased in March to 3.4 bn RON/ week on average, compared to 10 bn RON/ week in February. Meanwhile, average ROBOR 3M dropped by 50 bp to 5.35%. The base rate was kept at 5.25% and required reserve ratio unchanged at 15% for RON liabilities and 20% for FX liabilities. The assessment of the CB is that inflation is decelerating and that it will enter the targeted interval in December 2013. A base rate cut will be operated when inflationary expectations will not pose a risk anymore. We expect it to happen in Q1 2014.

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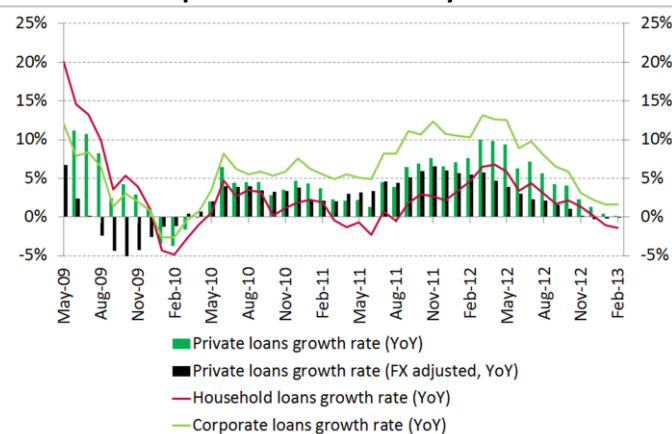
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## Macroeconomics: Private lending stagnates in February as well; residential building licences up by 6.6% YoY

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
26 Mar	Feb	Non -governmental loans (y-o-y, %)	0,1		0,3
26 Mar	Feb	Non -governmental deposits (y-o-y, %)	3,7		4,1
28 Mar	Mar	Base rate decision (%)	5,25	5,25	5,25
28 Mar	Feb	Licenses for residential buildings (y-o-y, %)	6,6		-2,2
01 Apr	Mar	FX reserves (bn EUR)	32,2		32,2
02 Apr	Feb	ILO unemployment (%)			6,6
02 Apr	Feb	Producer Price Index (YoY, %)			5,7
02 Apr	Feb	Retail trade turnover index (y-o-y, %)			2,8
04 Apr	Feb	Net wage growth rate (y-o-y, %)			5,5
05 Apr	Feb	Industrial trade turnover index (y-o-y, %)			5,2
05 Apr	Feb	Index value of new orders in manufacturing (y-o-y, %)			-7,4

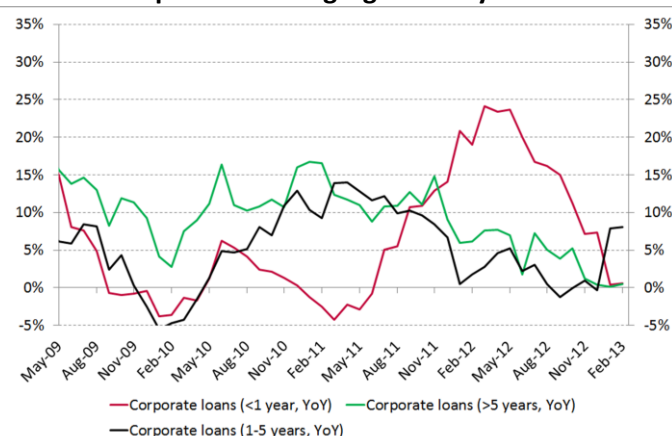
**Private loans' annual pace stood flat in February as well, at 0.1% YoY, after posting 0.3% YoY in January.** While corporate lending is still increasing exclusively due to the loans denominated in local currency, retail lending is still in the negative area (-1.4 % YoY). **Retail loans** annual growth rate **entered the negative territory this year and we are currently witnessing an unfavourable base effect**, due to the fact that last year NBR rules restricted FX loans and consumer loans but in Q1 2012 these rules were not yet fully applied by banks. Therefore, the consumer segment is still hurting and deteriorating (-7% YoY). Mortgage loans are up by 10.4% YoY and the RON component witnesses a significant hike (+25% YoY).

### Private loans 'pace is flat in February as well



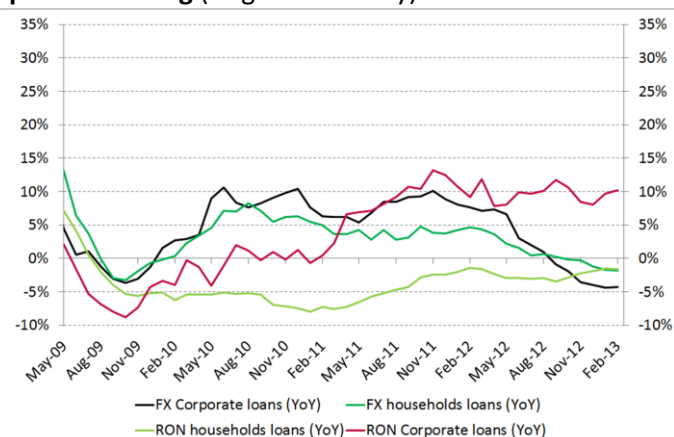
Source: NBR, OTP Research

### Medium term corporate loans are picking up; short term loans' pace is slowing significantly



Source: NBR, OTP Research

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



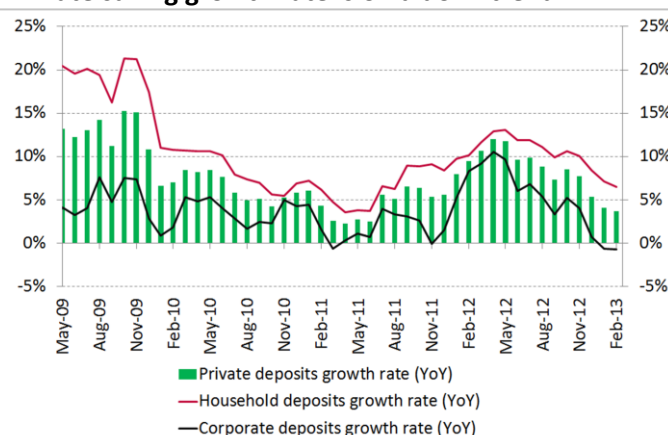
Note: we assume all FX loans are denominated in EUR

RON interest rates for new loans have not dropped significantly on average since January 2012. On average they remained at the same level in January 2013 (10.6 %) compared to last year even though ROBOR 3M is lower by some 40 bp. Meanwhile, for euro denominated new loans the average interest rate fell by 1% to 4.7% in the same period but FX lending is still declining. NBR's survey (February) shows that banks expect a falling demand for mortgage loans in Q1 2013 and stagnating demand for consumer loans. The corporate segment is also expected to see a falling demand.

Private deposits annual pace was 3.7% YoY, with the companies' segment in the negative territory. Main support comes from households (+6.5% YoY).

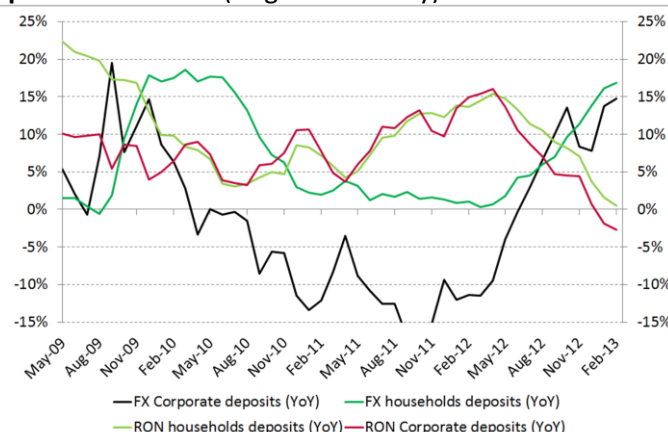
In February, the residential business licences climbed by 6.6% YoY. However, since 2008, this annual growth rate stood mostly in the negative territory, in line with the procyclicality of this economic sector. Looking at the graph below, we see improvement but the process is slow and the 6M moving average annual growth rate is still negative.

### Private saving growth rate is on a downtrend



Source: NBR, OTP Research

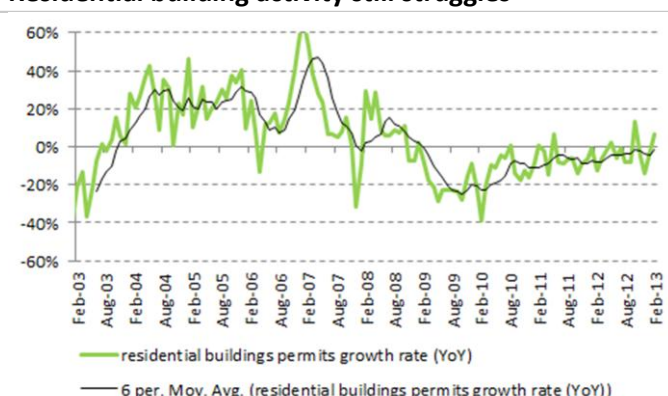
### FX saving growth rate shows uptrend; RON saving posts downtrend (original currency)



Source: NBR, OTP Research

Note: we assume all FX deposits are denominated in EUR

### Residential building activity still struggles



Source: NIS, OTP Research

## Medium-term macroeconomic forecast

Main macroeconomic indicators	Fact						Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,3%	1,5%	2,6%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	0,6%	1,6%	2,5%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,8%	2,2%	1,5%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,0%	0,9%	6,6%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,2%	-0,4%	3,2%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-1,3%	-0,3%	3,2%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,3%	3,2%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,5%	-3%*	-3,0%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	33,4%	34,7%*	35,8%	36,3%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-3,8%	-3,5%	-4,0%
CA balance (bn EUR)	-16,7	-16,2	-4,9	-5,5	-5,9	-5,0	-4,9	-6,1
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	6,9%	6,5%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	6,2%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	2,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,25%	4,63%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	5,25%	4,50%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,44	4,38
EUR/RON (e.o.p.)	3,61	3,99	4,23	4,28	4,32	4,43	4,41	4,34

Source: Eurostat, NBR, OTP Research

Note: \* forecast



## FX markets: The leu shows low volatility

The leu was marginally up against the euro last week, in line with its peer currencies: the Czech Crown gained +0.2% and the Hungarian forint won 0.8% to the euro on a weekly basis. Meanwhile, the euro continued to weaken against the dollar, losing 1.3% in a week. This was a reaction to comments made by Eurogroup's head (retracted later on) according to whom this type of solution will be the pattern for future banking crisis and therefore the private sector will be involved in banks' rescue. These remarks received their share of criticism, but the idea in itself seems not to be new and it is backed by the fact that higher returns should be accompanied by higher risks. Cyprus banking system's assets are 8 times higher than the GDP. By comparison, in Romania banking assets are roughly 60% of the GDP.

The CB's Governor qualified the impact on the leu following the events in Cyprus as being „limited” and said that any change up to 5% is not significant. Also, he said that Romania's ability to repay the tranches of the IMF loan is strong and that the FX reserves even increased in February, despite the relatively higher monthly payment (~700 mn EUR). Among other inflows types, the CB bought foreign currency as well to boost reserves. Between 30 April and 6 May, Romania has to pay back to the IMF another tranche of the same size as in February. Bearing this in mind as well, we expect the leu to maintain relatively stable in the short term.

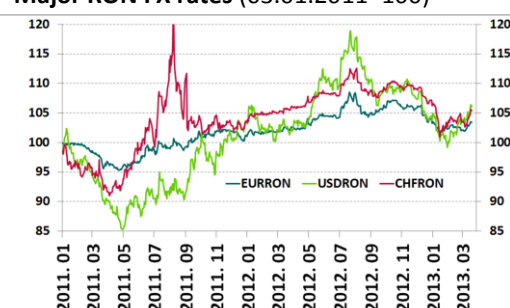
On another note, the cash budget deficit stood at 0.4% in February after a recorded surplus of 0.2% in January. On the revenues side, the main impact came from the abrupt fall in corporate income tax: -77% YoY and overall revenues evolutions was almost flat: +0.1%YoY. Meanwhile, expenditures were smaller by 0.7% YoY and main driver were lower investments. Expenditures with EU co-financed projects were reduced by 45% YoY (or 1 bn RON) and capital expenditure was lowered by 41% YoY (or 1 bn RON). It looks like the list of savings does not end here and there are more to come: the local media quoted the Minister of Finance saying that in Mid April, the personnel and goods & services expenditures will be reduced by 15%, a measure which will involve a cut in the staff of the public administration.

Last data: 29.03.2013

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURRON	4,41	↓ -0,23	↓ -0,63
USDRON	3,44	↑ 1,11	↑ 2,29
CHFRON	3,63	↑ 0,16	↓ -1,36
RONJPY	3,65	↑ 1,41	↓ -5,81
RONPLN	1,05	↓ -0,43	↑ 15,38
100HUFRON	1,45	↑ 0,61	↓ -4,88
RONCZK	0,17	↑ 0,06	↓ -3,17
RONRUB	0,11	↑ 0,37	↑ 0,57
RONRSD	0,04	↓ -0,39	↓ -0,04
RONBGN	2,26	↓ -0,23	↓ -0,63

Source: Reuters

Major RON FX rates (03.01.2011=100)



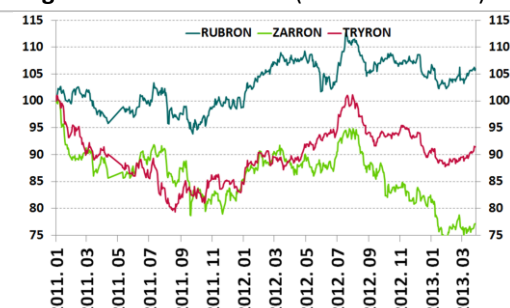
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



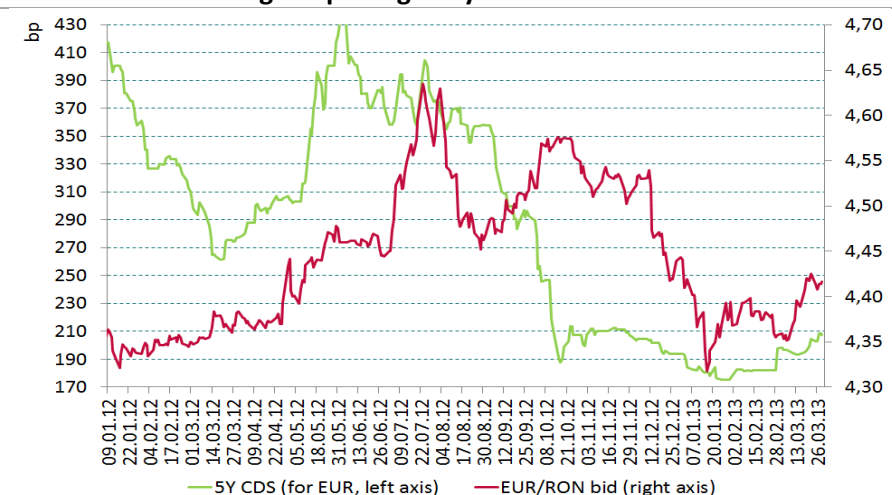
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

Last week the leu edged up marginally



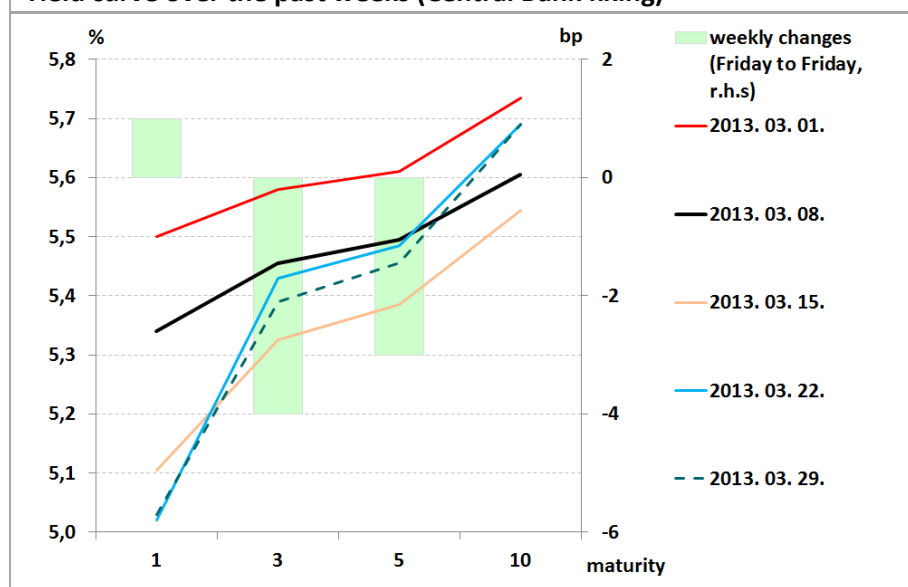
Sources: Reuters, OTP Research

## Government securities: The Treasury plans to sell 2.5 bn RON in bonds in April

The long end yields declined and the short end remained almost unchanged last week. Even though we saw a hike during the week, by the end of the week yields retreated as money market rates eased compared to last Monday's level. **We expect to see this downtrend of MM rates continuing, putting more downward pressure on yields.**

In April, the Treasury announced a planned amount of 2.5 bn RON in bonds and 200 mn EUR in 3Y euro denominated bonds. In April, redemptions in local currency amount to 2.7 bn RON. Year to date the Treasury has sold 18.4 bn RON whereas redemptions stood at 15 bn RON.

**Yield curve over the past weeks (Central Bank fixing)**



Source: NBR, OTP Research

### Bond auctions in April (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1318DBN034	04.04.2013	08.04.2013	28.11.2018	5	5,60	400.000.000
RO1214DBN027	08.04.2013	10.04.2013	23.04.2014	2	5,95	600.000.000
RO1320DBN022	15.04.2013	17.04.2013	29.04.2020	7	5,75	300.000.000
RO1318DBN034	18.04.2013	22.04.2013	28.11.2018	5	5,60	500.000.000
RO1216DBN030	22.04.2013	24.04.2013	27.01.2016	4	5,75	300.000.000
RO1323DBN018	25.04.2013	29.04.2013	26.04.2023	10	5,85	400.000.000

Source: Ministry of Finance, OTP Research

### Bond auctions in April (in EUR)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (EUR)
RO1316DBE011	11.04.2013	15.04.2013	26.02.2016	3	3,25	200.000.000

Sources: Ministry of Finance, OTP Research

Last data: 29.03.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,94	0	-124
12M	5,03	1	-114
3Y	5,39	-4	-77
5Y	5,46	-3	-75
10Y	5,69	0	-69

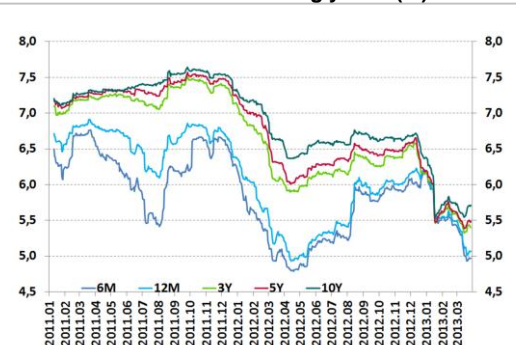
SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	532	-4	-77
GERROM 5Y	509	-3	-72
GERROM 10Y	431	0	-63
3Y -5Y	6	1	3
5Y -10Y	23	3	5
3Y-10Y	30	4	8
FLY 3-5-10	17	2	3

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	151	3	15
5Y EURO	208	3	14

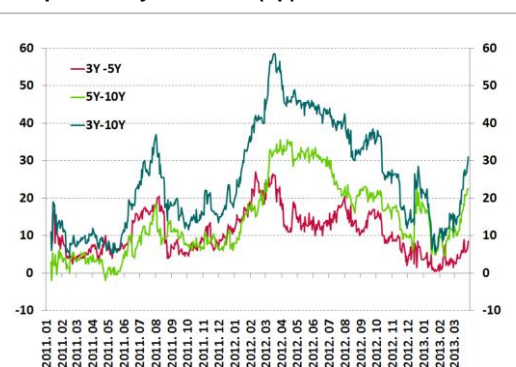
Source: Reuters

### Central bank benchmark fixing yields (%)



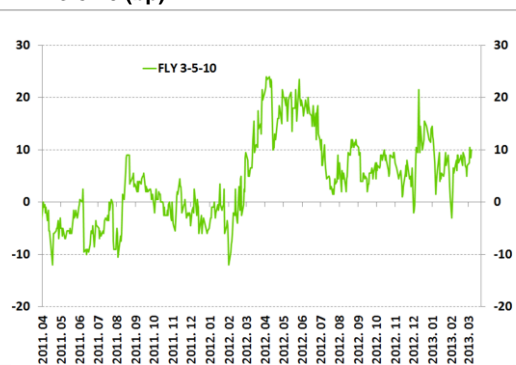
Sources: NBR, OTP Research

### Slope of the yield curve (bp)



Sources: NBR, OTP Research

### FLY 3-5-10 (bp)



Sources: NBR, OTP Research

## MM: Base rate was kept unchanged at 5.25%

Liquidity conditions have improved and the liquidity injected at the weekly repo auction has decreased in March to 3.4 bn RON/ week on average, compared to 10 bn RON/ week in February. Consequently, average ROBOR ON stood at 3.9% in March falling from 5% in February. Meanwhile, average ROBOR 3M dropped by 50 bp to 5.35% and this adjustment is transmitted to lending rates. **RON lending is doing well, advancing at 5% YoY (February)** while FX lending is in the negative territory.

At the last Board meeting on monetary policy issues, **the base rate was kept at 5.25% and required reserve ratio unchanged at 15% for RON liabilities and 20% for FX liabilities.** The assessment of the Central Bank is that inflation is decelerating and that it will enter the targeted interval in December 2013, when annual inflation is estimated at 3.5%. The Governor noticed that now, ROBOR 3M is at the level seen last year in May, before the cumulated effects of internal and external factors kicked in (the crisis in Greece and political instability in Romania). Last time the NBR operated a base rate cut was on 30<sup>th</sup> March 2012. Now, headline inflation is decelerating and core inflation is on a downtrend as well but a new base rate cut will be operated when inflationary expectations will not pose a risk anymore. We expect a base rate cut in Q1 2014.

Last data: 29.03.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5.25	0	0
ROBOR ON	5.07	270	-131
ROBOR 3M	5.20	-8	-83
ROBOR 6M	5.49	-5	-79
ROBOR 9M	5.51	-3	-77
ROBOR 1Y	5.51	-3	-80

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	3 531,2	3283,8	- 464,1

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2 312,1	-2775,6	-589,3

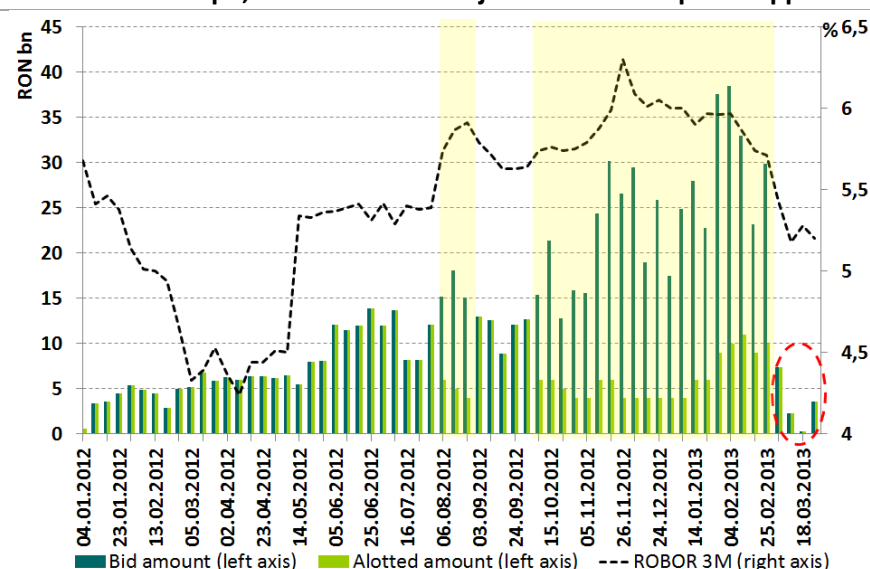
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USD RON 1W	32	-11	7
USD RON 1M	135	-6	-14
USD RON 3M	380	-10	133
EUR RON 1W	30	24	-11
EUR RON 1M	177	29	32
EUR RON 3M	536	16	25

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

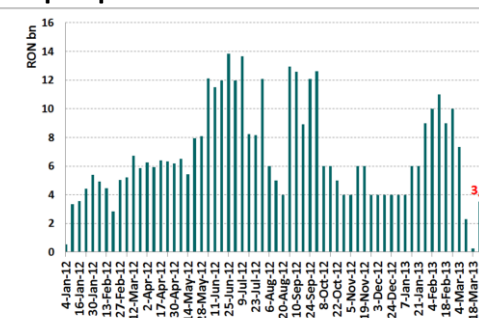
Source: Reuters

### At last week's repo, 3.5 bn RON was injected and no cap was applied



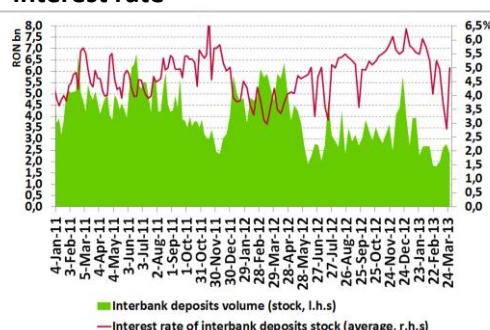
Sources: NBR, OTP Research

### Repo operations since 2012



Sources: NBR, OTP Research

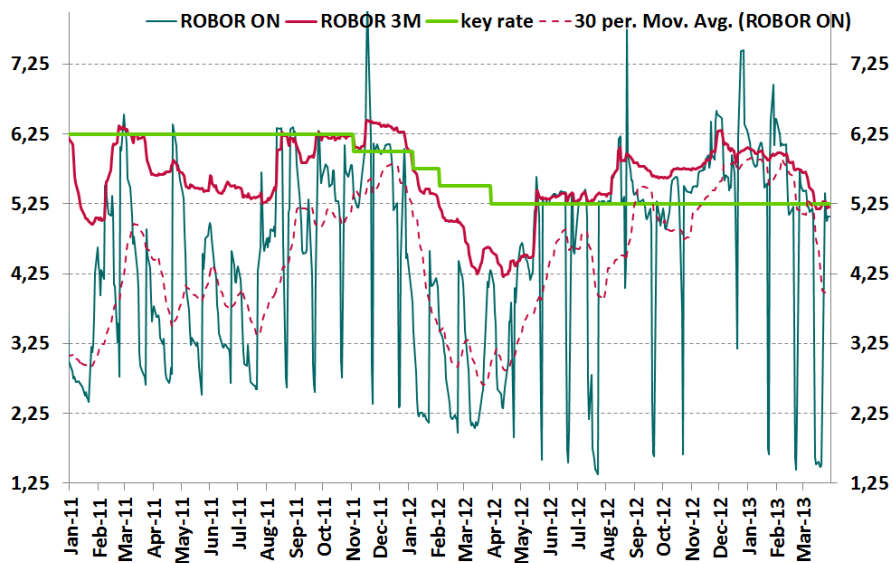
### Interbank deposits stock and average interest rate



Sources: NBR, OTP Research



### Most important MM instruments' evolution



Sources: NBR, OTP Research

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