

All eyes on the Central Bank on 1st July

Macroeconomics: Private lending is down 2.4% YoY in May (Page 3-5)

Private lending dynamics was in the negative territory for the 3rd consecutive month in May (-2.4% YoY). Corporate lending, which has been supportive in the post crisis years, entered the negative territory in April and May. RON corporate loans are still growing at a significant pace: +7.6% YoY in May. On types of maturity, medium term corporate loans are the only ones which constantly moved up this year. However looking ahead, the picture looks more optimistic: a batch of good macro data such as sustained good industrial and retail sales results, a good year in agriculture, improvement of economic sentiment indicator, NBR cutting the base rate and lower returns for savings may convince businesses to scale up their activity and tap more loans in H2. This depends on banks' offer as well, as this has been unfriendly in Q2.

FX markets: The leu gained 2% to the euro this week, but look ahead to the expected base rate cut on 1st of July (Page 6-7)

The leu strengthened roughly 2% on a weekly basis against the euro, in a sudden move uncorrelated with peers. However, on 1st of July the Central Bank will hold a monetary policy meeting and the market broadly expects a base rate cut. This would then be the beginning of a base rate cut cycle to go through until 2014 at least. Therefore we expect the leu to lose ground in the short term. On the other hand, the perspective of a new agreement with the IMF is supportive for the leu in the medium term. The press release following the 7th and 8th review of the stand by agreement sounded rather favorable and signing a new agreement looks very likely now.

Government securities: Bond prices started to move up after last week's fallout (Page 8)

For the moment, the market cooled down after the negative reaction to Fed's announcement that it will start tapering its bond purchases and after the news of credit crunch in China spooked the markets. Bond yields are now ranging between 5.2% - 5.6% and we expect bond prices to continue to rise to further correct last week's fallout. We also consider the effect of Central Bank starting its base rate cut cycle as of July, with a first cut of 25 bp. Also, the feedback from the IMF comes right in time and gives investors a boost of confidence. The latest events have pushed the Treasury towards rejecting all bids at the last 2 auctions. Under these circumstances the Treasury sold only two thirds of the planned amount for this month. Next month, 3.8 bn RON come to maturity. The peak of redemptions will be in Q4.

MM: The Central Bank is expected to start the base rate cut cycle in July (Page 9)

On the 1st of July, the Central Bank will hold a monetary policy board meeting. We favour the view that the CB will cut the base rate by 25 bp as the inflation rate is on the path sketched by the CB and one of the upwards risks to inflation has just cleared: IMF feedback is positive in general. In our view, this was seen as an upward risk to inflation by the CB in its last inflation report in May.

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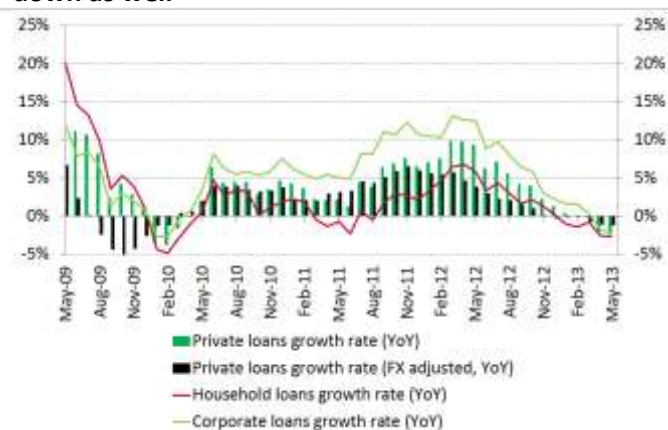
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Macroeconomics: Private lending is down 2.4% YoY in May

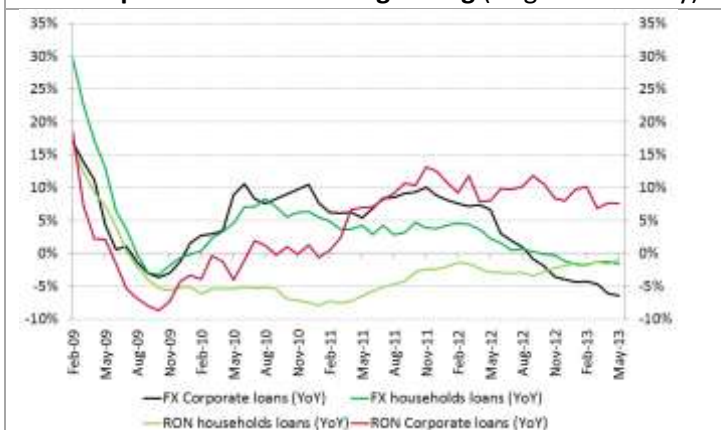
	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
25 Jun	May	Non-governmental loans (y-o-y, %)	-2,4		-2,1
25 Jun	May	Non-governmental deposits (y-o-y, %)	4,4		4,8
25 Jun	May	M3 aggregate (y-o-y, %)	2,5		3,3
28 Jun	May	Licenses for residential buildings (y-o-y, %)	-22,1		16,2
01 Jul	May	ILO unemployment (seasonally adjusted, %)			6,7
01 Jul	July	Base rate decision (%)		5,0	5,25
02 Jul	May	Retail trade turnover index (y-o-y, %)			2,7
02 Jul	May	Producer Price Index (y-o-y, %)			3,0
05 Jul	May	Net wage growth rate (y-o-y, %)			7,0
05 Jul	May	Industrial trade turnover index (y-o-y, %)			12,7
05 Jul	May	Index value of new orders in manufacturing (y-o-y, %)			31,2

Private lending dynamics was in the negative territory for the 3rd consecutive month in May (-2.4% YoY). If we adjust for the FX effect, the annual pace was in fact negative since December 2012. Corporate lending, which has been supportive in the post crisis years, entered the negative territory as well in April and May.

It looks like the FX component has been shrinking on an annual basis both in the case of retail and corporate loans: however, RON corporate loans are still growing at a significant pace: +7.6% YoY in May. On types of maturity, medium term corporate loans are the only ones which constantly rose this year. Working capital loans evolution was very poor in April (-6% YoY) and May (-8% YoY) but companies may have had an improved cash flow due to much stronger sales: we saw industrial sales growing more than 7% YoY on average during the first 4M. What is different compared to last year is definitely the subdued pace of investment loans (> 5 years).

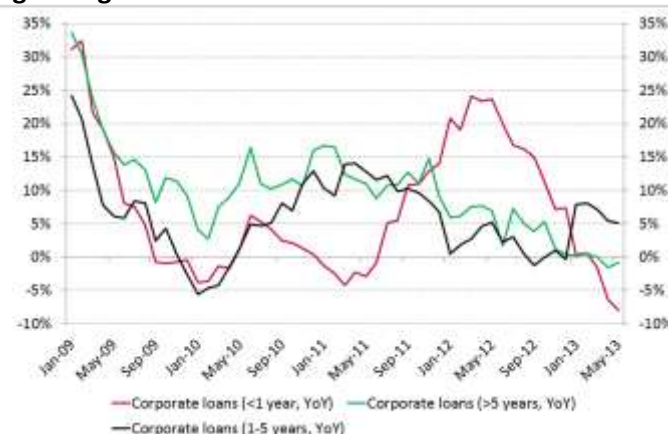
Private loans fell 2.4% YoY as corporate loans were down as well


Source: NBR, OTP Research

RON corporate loans are still growing (original currency)


Source: NBR, OTP Research

Note: we assume all FX loans are denominated in euro

Medium term corporate loans are the only ones still growing


Source: NBR, OTP Research

However **looking ahead, the picture looks more optimistic**: a batch of good macro data such as sustained good industrial and retail sales results, a good year in agriculture, improvement of economic sentiment indicator, NBR cutting the base rate and lower returns for savings may

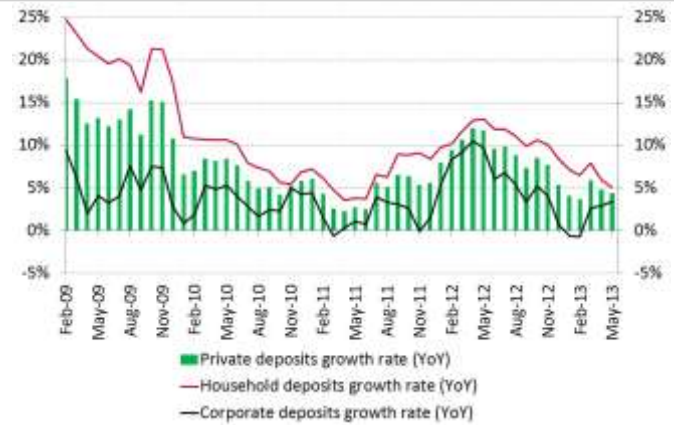
convince businesses to scale up their activity again and tap more loans in H2. This depends on banks' offer as well as this has been unfriendly in Q2.

Of the retail loans, **mortgage loans are still keeping a healthy rise: +8.2% YoY** but consumer loans are amortizing fast and net flows are negative, as the FX component & personal mortgage loans have been hit by NBR regulation.

FX deposits have risen sharply this year (+12% YoY in May) on one hand as households feared leu's depreciation and on the other hand as companies' exports rose steadily. Deposits in leu are rather flat (+0.6% YoY). This year, it appears that households switched from RON denominated savings to FX savings and the overall growth trend is downward. However, companies increased their savings and deposits in leu are seeing a comeback.

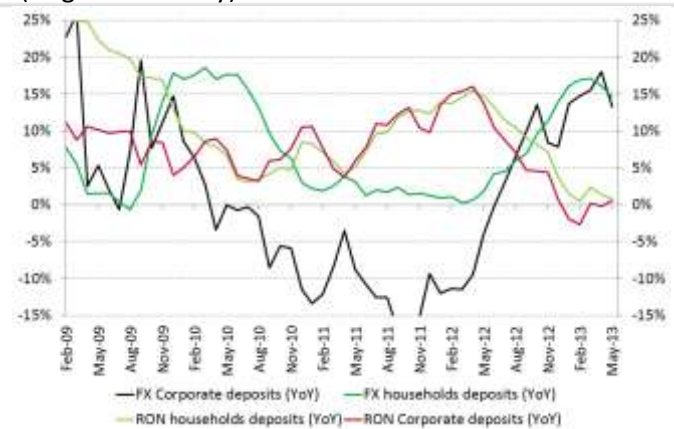
Residential building permits were down 22% YoY in May but they are on a general recovery path especially compared to the lows in 2010. Already this year we saw two encouraging months (February and April) when they went up by 7% YoY and 16% YoY, respectively.

Corporate deposits are picking up



Source: NBR, OTP Research

While FX loans dive, FX saving thrives (original currency)



Source: NBR, OTP Research

Note: we assume all FX deposits are denominated in euro

Building permits dropped by 22% YoY but had two good months this year (February and April)



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%	0,7%	1,5%	2,6%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,6%	2,5%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	2,2%	1,5%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	0,9%	6,6%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	-0,4%	3,2%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	-0,3%	3,2%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,9%	3,2%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,8%	-2,5%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,7%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-3,5%	-4,0%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-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%	0,1%	2,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,13%	4,50%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,75%	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

FX markets: The leu gained 2% to the euro this week, but look ahead to the expected base rate cut on 1st of July

After taking a hit just like the rest of European emerging market currencies, the leu jumped back and recovered the loss, in a move uncorrelated to its peers. The leu strengthened roughly 2% on a weekly basis against the euro, in a sudden move uncorrelated with peers. However, on 1st of July the Central Bank will hold a monetary policy meeting and the market broadly expects a base rate cut. This would then be the beginning of a base rate cut cycle to go through until 2014 at least. Therefore we expect the leu to lose ground in the short term.

On the other hand, **the perspective of a new agreement with the IMF is supportive for the leu in the medium term. The press release following the 7th and 8th review sounded rather favorable:** the Fund has allowed a waiver on the three criteria that were missed (net foreign assets, budget deficit and arrears) based on expectations of improvement. Also, it evaluates the monetary policy as being “broadly appropriate”. The less bright remarks concerned the weak growth perspectives and its further downside risks. It is seen as crucial for the structural reforms to continue so that GDP grows to its potential. Lastly, the reforms of the state owned companies need to be continued (the transport and energy sector). Unrelated to the reviews, Christine Lagarde will visit Romania in mid July, official IMF sources have announced.

Along with the news regarding the completion of the last reviews by the IMF, came the improved cash budget deficit figures for May. **The budget deficit shrank from 1.2% in April to 1.1% in May.** Current income is higher by 5% YoY whereas current expenditures have a slighter lower pace: +4.4 % YoY. Absorption of EU funds is still weaker than last year, however the dynamics look much improved compared to previous months. Corporate income tax continues to be lower than last year (-5.3% YoY) and VAT increase remained at 6% YoY, same as in April. As it looks now, the planned cash budget deficit of 2.2% has chances to be missed this year as well.

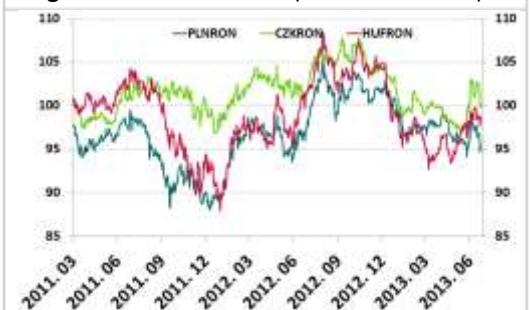
Last data: 27.06.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↓	-1,81	↑ 0,23
USDRON	3,42	↓	-0,21	↑ 1,49
CHFRON	3,62	↓	-2,10	↓ -1,68
RONJPY	3,47	↓	-1,35	↓ -10,46
RONPLN	1,03	↓	-0,99	↓ -5,22
100HUFRON	1,50	↓	-0,27	↓ -1,20
RONCZK	0,17	↓	-2,74	↓ -3,50
RONRUB	0,10	↑	0,46	↓ -5,50
RONRSD	0,04	↓	-1,14	↓ -1,40
RONBGN	2,27	↓	-1,90	↓ 0,00

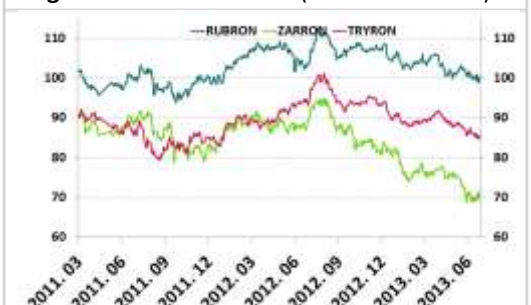
Source: Reuters

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

The cash budget deficit shrank in May to 1.1% from 1.2% in April

	<i>May-13 (cumulated)</i>	<i>Jan-13</i>	<i>Feb-13</i>	<i>Mar-13</i>	<i>Apr-13</i>	<i>May-13</i>
	<i>RON mn</i>	<i>YoY</i>	<i>YoY</i>	<i>YoY</i>	<i>YoY</i>	<i>YoY</i>
Total revenue	81.077	-1,8%	0,1%	3,0%	4,3%	4,6%
Current income	78.569	0,8%	1,0%	4,8%	5,0%	5,0%
<i>Fiscal income</i>	<u>48.580</u>	<u>-6,1%</u>	<u>-1,2%</u>	<u>6,0%</u>	<u>6,2%</u>	<u>4,8%</u>
Income tax	15.276	-17,7%	-15,3%	3,0%	5,1%	3,8%
Corporate income tax	5.345	-82,0%	-77,2%	-10,2%	-3,5%	-5,3%
Personal income tax	9.505	16,0%	11,9%	11,5%	11,0%	9,7%
Other tax on income, profit and capital	426	9,6%	2,3%	-4,8%	16,1%	4,3%
Property tax	2.597	-0,1%	7,5%	4,8%	9,0%	9,0%
Taxes on goods and services	30.261	-0,8%	5,1%	7,7%	6,6%	5,0%
Value added tax	20.290	-9,5%	2,6%	9,5%	6,0%	6,0%
Excise duties	8.286	27,7%	18,9%	9,3%	13,0%	6,3%
Other	1.684	-25,8%	-21,2%	-14,4%	-13,8%	-11,3%
Taxes on international commerce	255	20,4%	-11,6%	2,8%	0,1%	-3,5%
Other fiscal taxes	191	-18,5%	0,6%	16,0%	15,7%	18,2%
Social security contributions	22.277	8,7%	2,4%	3,6%	5,9%	3,6%
<i>Non fiscal revenue</i>	<u>7.713</u>	<u>27,2%</u>	<u>12,1%</u>	<u>0,5%</u>	<u>-5,9%</u>	<u>10,3%</u>
Capital revenues	257	36,7%	10,4%	-4,2%	1,4%	-2,8%
Donations	38	108,7%	-70,0%	-78,3%	-76,3%	-44,7%
EU preaccession funds	2.504	-39,4%	-8,9%	-33,8%	-10,6%	-4,0%
Other	-291	-376,0%	703,6%	92,2%	57,1%	16,3%
Total expenditures	87.637	-2,2%	-0,7%	4,4%	7,6%	3,4%
Current expenditures	81.715	0,9%	2,4%	5,4%	7,6%	4,4%
Compensation of public employees	19.285	16,4%	16,6%	19,9%	28,2%	19,5%
Operating expenditures	13.949	13,0%	8,4%	11,3%	8,1%	6,1%
Interest paid	4.852	40,2%	40,8%	14,0%	9,9%	-0,2%
Subsidies	3.043	43,1%	-38,5%	13,9%	13,2%	5,4%
Total transfers	40.247	-11,7%	-5,3%	-2,9%	-0,8%	-0,8%
Transfers between units of public administration	897	-90,3%	55,3%	84,0%	81,5%	125,2%
Other transfers	5.561	9,7%	0,5%	15,2%	8,6%	2,1%
Projects financed by foreign non reimbursable funds	4.165	-54,0%	-44,7%	-45,3%	-30,1%	-25,4%
Social benefits	28.365	-3,3%	0,1%	1,0%	1,5%	1,1%
Other	1.260	24,8%	12,2%	11,3%	31,0%	16,4%
Expenses for programs with reimbursable funds	339	-47,0%	52,2%	-38,3%	-36,7%	-51,5%
Capital expenses	6.193	-39,9%	-41,2%	-7,5%	7,6%	-8,5%
Payments made in earlier years and recovered in the current year	-271	-30,3%	-24,5%	-16,6%	-8,6%	-5,4%
Excedent (+)/Deficit (-)	- 6.560	3,4%	-9,5%	23,6%	49,2%	-9,3%

Sources: The Finance Ministry, OTP Research

Government securities: Bond prices started to move up after last week's fallout

For the moment, the market cooled down after the negative reaction to Fed's announcement that it will start tapering its bond purchases and after the news of credit crunch in China spooked the markets. Bond yields are now ranging between 5.2% -5.6% and we expect bond prices to continue to rise to further correct last week's fallout. We also consider the effect of Central Bank starting its base rate cut cycle as of July, with a first cut of 25 bp. Also, the feed back from the IMF comes right in time and gives investors a boost of confidence.

The latest events have pushed the Treasury towards rejecting all bids at the last 2 auctions. This week, it held an auction to sell 300 mn RON In 10Y bonds. Under these circumstances the Treasury sold only two thirds of the planned amount for this month. Next month, 3.8 bn RON come to maturity. The peak of redemptions will be in Q4, when 10 bn RON come to maturity.

Last data: 27.06.2013

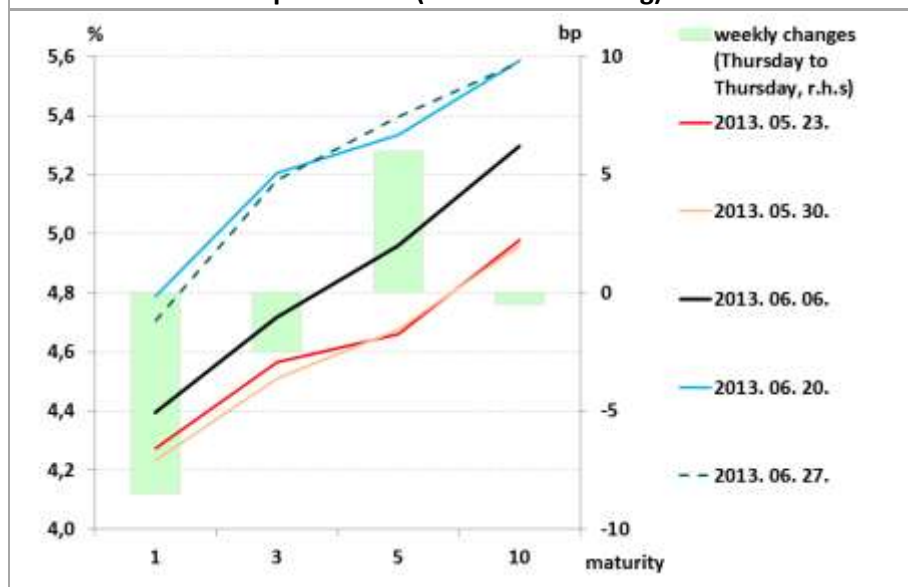
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	4,59	↓ -9	↓ -160	
12M	4,71	↓ -9	↓ -146	
3Y	5,18	↓ -3	↓ -99	
5Y	5,40	↑ 6	↓ -81	
10Y	5,58	↓ 0	↓ -80	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	481	↓ -3	↓ -127	
GERROM 5Y	464	↑ 6	↓ -116	
GERROM 10Y	392	↓ -1	↓ -102	
3Y -5Y	22	↑ 9	↑ 18	
5Y -10Y	19	↓ -6	↑ 1	
3Y-10Y	40	↑ 2	↑ 19	
FLY 3-5-10	-3	↓ -15	↓ -17	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	140	↓ -5	↑ 5	
5Y EURO	195	↓ -4	↑ 1	

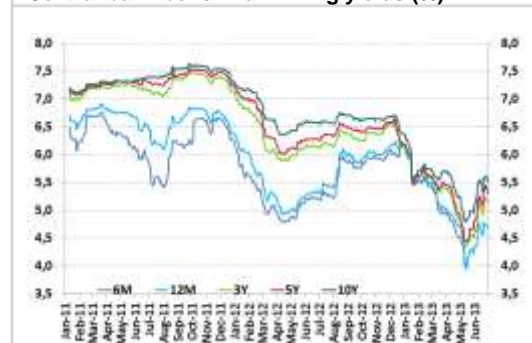
Source: Reuters

Yield curve over the past weeks (Central Bank fixing)



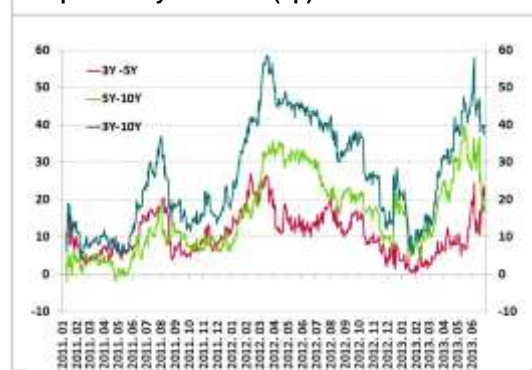
Source: NBR, OTP Research

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

Bond auctions in June (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1015DBN010	03.06.2013	04.06.2013	05.06.2013	30.04.2015	5	500.000.000	50.000.000
RO1318DBN053	06.06.2013	-	10.06.2013	29.08.2016	3	700.000.000	-
RO1116DBN024	10.06.2013	11.06.2013	12.06.2013	30.04.2016	5	300.000.000	30.000.000
RO1318DBN034	17.06.2013	-	19.06.2013	28.11.2018	5	800.000.000	-
RO1320DBN022	20.06.2013	-	25.06.2013	29.04.2020	7	300.000.000	-
RO1323DBN018	25.06.2013	-	27.06.2013	28.04.2023	10	300.000.000	-

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

This week's auction results (RON denominated)

RO1323DBN018	
Offered amount (RON mn)	300
total bids (RON mn)	360
accepted amount (RON mn)	0
average accepted yield (%)	n.a
coupon	5,85

Source: NBR, OTP Research

MM: The Central Bank is expected to start the base rate cut cycle in July

This week, 3 banks went to the repo and asked for 577 mn RON. Liquidity injected at the weekly repo operations was around 0.4 bn RON/week in June, only slightly higher than in May but we were expecting relatively tighter conditions mainly due to the lower public spending due to budget deficit considerations. Looking ahead, July's budget deficit will not be as much under scrutiny as June's, when the current agreement with the IMF ends and redemption of public debt is much higher than in June. The public debt issuance calendar has not been announced yet but as the yield environment is not optimal currently, chances of a positive net issuance are lower. Therefore, we do not expect a worsening of liquidity conditions in July, in absence of a deteriorated risk perception in the region.

On the 1st of July, the Central Bank will hold a monetary policy board meeting. **We favour the view that the CB will cut the base rate by 25 bp as the inflation rate is on the path sketched by the CB and one of the upwards risks to inflation has just cleared:** the IMF ended the last two reviews of the current stand by agreement and the remarks are positive in general, which means there are fairly good chances for Romania to sign another agreement. In our view, this was seen as an upward risk to inflation by the CB in its last inflation report in May.

Last data: 27.06.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	0
ROBOR ON	4,84	230	-154
ROBOR 3M	4,57	5	-146
ROBOR 6M	4,82	5	-146
ROBOR 9M	4,82	2	-146
ROBOR 1Y	4,82	-1	-149

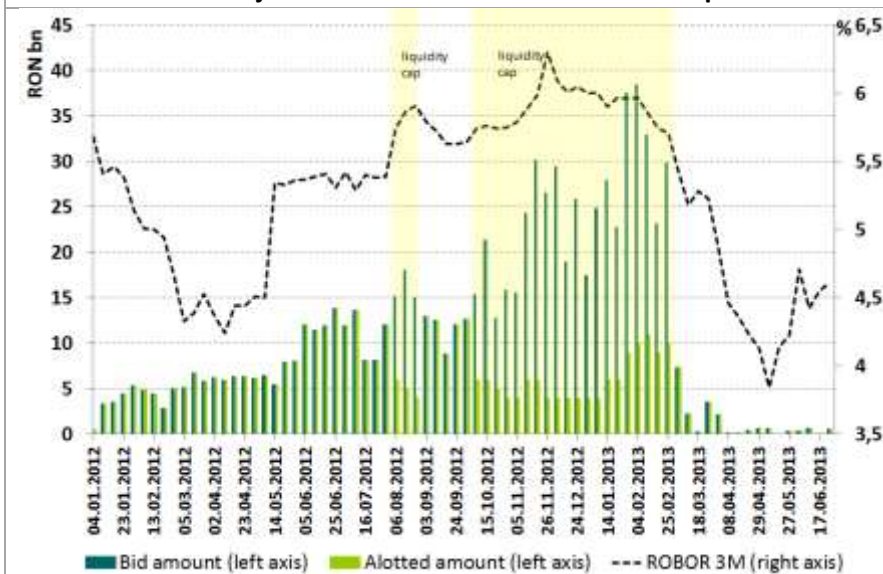
REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	577,3	577,3	- 3.418,0

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.132,6	1383,6	1231,2

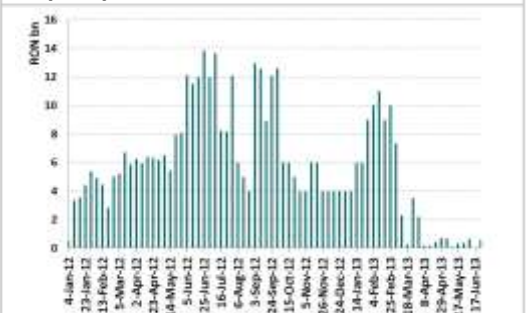
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	29	1	4
USDRON 1M	121	7	-28
USDRON 3M	351	-12	105
EURRON 1W	37	21	-3
EURRON 1M	155	22	10
EURRON 3M	453	5	-58

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-80	0	75
EURRON 3Y	-70	0	85
EURRON 5Y	-70	0	80

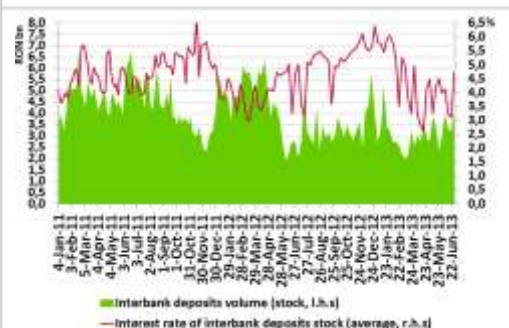
Source: Reuters

The Central Bank injected 577 mn RON at this week's repo


Sources: NBR, OTP Research

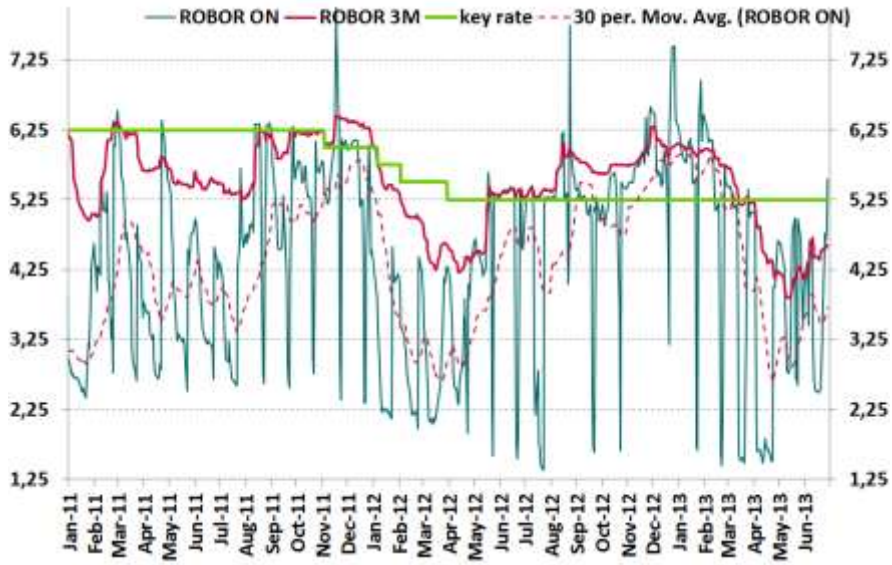
Repo operations since 2012


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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