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Weekly Report Romania

28 October 2013



2014 budget talks started

Macro: Private lending dropped by -3.3% YoY in September (Page 3-4)

September banking statistics do not point to any shifts in existing trends. Private lending is still in the negative territory (-3.3% YoY) and if we adjust for the exchange rate effect the annual rhythm is not different from the previous month, although nominal data points so. Since the beginning of the year, private lending has been falling (in original currencies): fundamentally, demand was weak, corporations did not restart investments while in the case of retail segment, the consumer loan flows are still negative as interest rates in local currency did not adjust enough to make loans attractive enough and consumption in itself remained feeble. Private saving is speeding up to 5.7% YoY in September, compared to 5.1% YoY in August. The corporate segment is the driver (+7% YoY). ON deposits climb at 11% YoY compared to time deposits (4% YoY).

FX markets: 2014 budget is under the radar (Page 5-6)

Last week, the leu was little changed, with no major drivers signalling a direction. Domestically, 2014 budget talks started and an IMF mission is in Romania (22nd October – 5th November) for the first assessment of the new stand by agreement. The Prime Minister Victor Ponta said that this week's budget revision will be negative, as the revenues were short by RON 3.8 bn compared to expectations. While the chance of missing the cash deficit target this year is already bad news, a scenario was made public by the press that envisages a hike of the flat tax rate from 16% to 22% and a cut of the VAT rate from 24% to 22%. Given the current weak economy and the already poor results on the corporate tax revenues it is hard to see the benefit of an increase in the flat tax rate. Also, the more steadier revenue types such as the VAT are also increasing slower than expected and a cut in VAT rate would likely generate an even bigger hole in the budget. Nevertheless, the minister of finance Daniel Chitoiu ensured that the flat tax rate will not be changed. On an accrual basis, we are optimistic on seeing a lower than 3% figure this year, but the target of 2.4% could be a close call. In June, based on a 4Q rolling data, the ESA budget deficit stood at 2.8% and H1 revenues were weaker by 2% yoy and drastic capital expenditure cut was operated (one third less).

Government securities: Romania taps international markets for EUR 500 mn in Eurobonds (Page 7 - 8)

Romania tapped again the international markets last week, for EUR 500 mn in 7Y eurobonds, reopening the September 2020 issue. The average accepted yield stood at 4.15%, lower than the previously obtained in mid September of 4.769%. Compared to September, the international context was much more favorable and the 5Y CDS declined by more than 20 bps. The September issue came right before the Fed's meeting in which the market was expecting the announcement of tapering, starting as of December 2013. Domestically, the Treasury sold the planned RON 500 mn in 6M T-bills at 2.92%, lower by 132 bps compared to the previous similar issue in Mid July. Prospects on bond prices remain positive but appreciation potential is limited. The next base rate decision will be on 5th of November and given the stronger than expected disinflation confirmed in September, the market expects another 25 bps rate cut.

MM: Good liquidity conditions prevail (Page 9)

Even after the mandatory reserve period ended on 23rd, rates remain low and liquidity is abundant. The daily flow of interbank deposits has improved on average this year, since the Central Bank removed the liquidity cap in March. The CB is trying to align the base rate to the level imposed by the improved inflation outlook, bringing it more in line with current money market rates.

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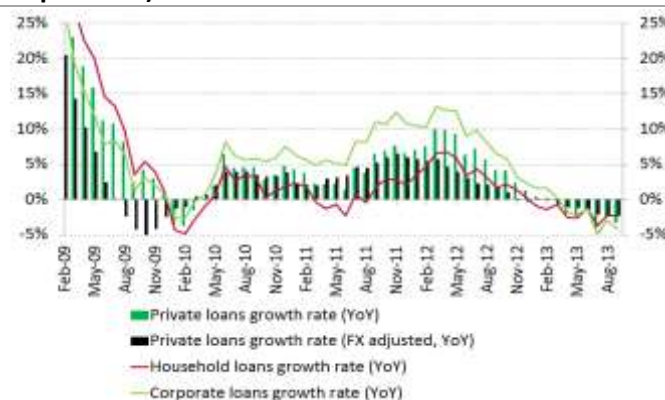
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Macroeconomics: Private lending dropped by -3.3% YoY in September

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
23 Oct	Sep	Non -governmental loans (y-o-y, %)	-3,3		-2,6
23 Oct	Sep	Non -governmental deposits (y-o-y, %)	5,7		5,1
23 Oct	Sep	M3 aggregate (y-o-y, %)	4,8		4,3
28 Oct	Sep	Bulding permits (y-o-y, %)	6,4		-4,0
31 Oct	Sep	ILO unemployment (seasonally adjusted, %)			7,5

September banking statistics do not point to any shifts in existing trends. Private lending is still in the negative territory (-3.3% YoY) and if we adjust for the exchange rate effect the annual rhythm (~ -2% YoY) is not different from the previous month, although nominal data points so. Since the beginning of the year, private lending has been falling (in original currencies): fundamentally, demand was weak, corporations did not restart investments while in the case of retail segment, the consumer loan flows are still negative as interest rates in local currency did not adjust enough so far to make loans attractive enough and consumption in itself remained feeble. Considering the structure on currencies, lending in FX is shrinking with the corporate segment leading the way (-7% YoY, based on original currency stock). Corporate loans in local currency grow at around 2% YoY. After maturity, medium term (1Y-5Y) corporate loans are rising at around 8% YoY and the short term ones are melting away (-15% YoY). In the case of retail segment almost the reverse is true: mortgage loans are up and running (+8% YoY) while the consumer segment is adjusting significantly (-8% YoY).

Private lending continues to drop (-3.3% YoY in September)


Source: NBR, OTP Research
 Note: based on stock data in original currency; FX loans are expressed in euro equivalent

The FX corporate loans are shrinking the fastest


Source: NBR, OTP Research
 Note: based on stock data in original currency; FX loans are expressed in euro equivalent

Short term corporate loans hardly hit; growth found in the medium term

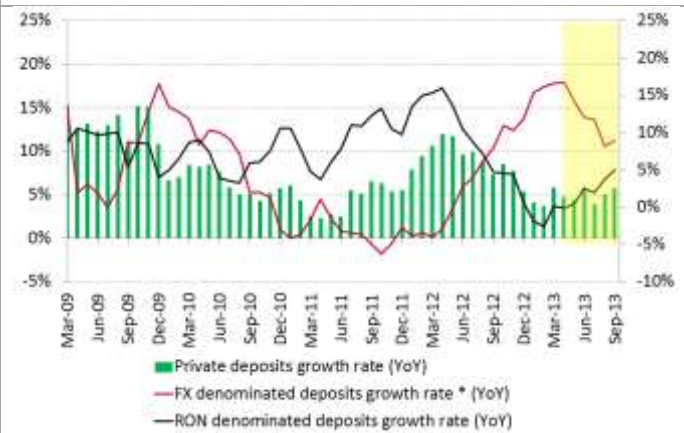

Source: NBR, OTP Research

Mortgage loans remain the supporters of retail lending


Source: NBR, OTP Research

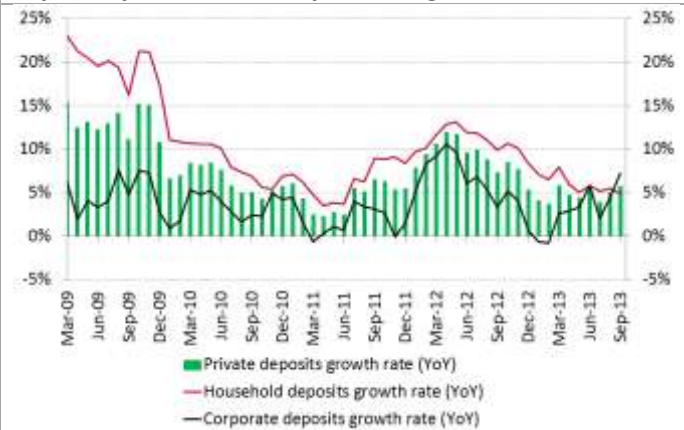
Private saving is speeding up to 5.7% YoY in September, compared to 5.1% YoY in August. The corporate segment is the driver (+7% YoY). **ON deposits climb at 11% YoY** compared to **time deposits (4% YoY)** and the ascension of ON deposits started in 2013. When the crisis hit Romania the hardest, in 2009, ON deposits collapsed by one third and households' preference turned to longer term savings.

RON saving is speeding up, but the rhythm is still lower than in the case of FX



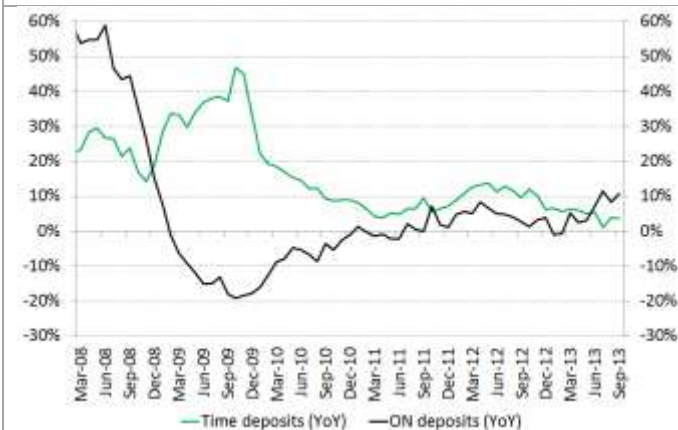
Source: NBR, OTP Research

Private savings grow at faster pace (5.7% YoY in Sep), especially due to the corporate segment



Source: NBR, OTP Research

ON deposits grow faster than time deposits



Source: NBR, 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%	2,0%	2,3%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,0%	3,0%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	1,1%	1,6%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	1,0%	7,5%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	6,4%	3,7%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	1,4%	4,9%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,3%	2,9%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,9%	-2,9%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,4%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-1,1%	-1,9%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-1,6	-2,9
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	7,3%	7,1%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	5,0%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	2,0%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,83%	4,00%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,25%	4,00%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,41	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: 2014 budget is under the radar

Last week, the leu was little changed, with no major drivers signalling a direction. The international markets got more clues about the start of the tapering process, as the US non farm payrolls figure came much lower than expected so the market now looks for March 2014, the earliest when the Fed could get into action.

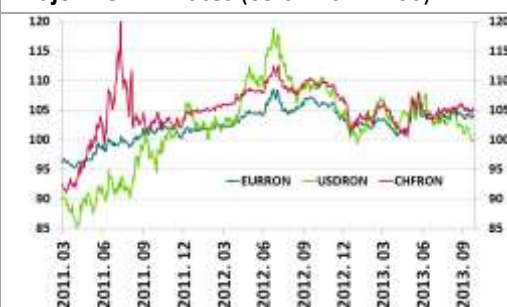
Domestically, 2014 budget talks started and an IMF mission is in Romania (22nd October – 5th November) for the first assessment of the new stand by agreement. The Prime Minister Victor Ponta said that **this week's budget revision will be negative**, as the revenues were short by RON 3.8 bn compared to expectations. In the first budget revision, the annual rhythm for revenues was +8.4% YoY while as of September, current data points to dynamic that is roughly half (4.4% YoY).

While the chance of missing the cash deficit target this year is already bad news, a scenario was made public by the press that envisages a hike of the flat tax rate from 16% to 22% and a cut of the VAT rate from 24% to 22%. The news was followed by a mild depreciation of the leu against the euro. Given the current weak economy and the already poor results on the corporate tax revenues (~ minus 1.3% yoy during the first 9M), it is hard to see the benefit of an increase in the flat tax rate. Also, the more steadier revenue types such as the VAT are also increasing slower than expected and a cut in VAT rate would likely generate an even bigger hole in the budget. Nevertheless, the minister of finance Daniel Chitoiu ensured that the flat tax rate will not be changed. Meanwhile, preliminary data showed that the budget deficit for September remained unchanged at 1.3% YoY, due to cautious investments. However on an accrual basis, we are optimistic on seeing a lower than 3% figure this year, but the target of 2.4% could be a close call. In June, based on a 4Q rolling data, the ESA budget deficit stood at 2.8% and H1 revenues were weaker by 2% yoy and drastic expenditure cut was applied to investments (one third less). Ultimately what the data shows is a slowly growing economy (if we rule out the impact of agriculture which generates less tax revenue) and budget revenues that are harder to come.

Last data: 24.10.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↑	0,07	↑ 0,12
USDRON	3,22	↓	-0,92	↓ -4,27
CHFRON	3,61	↑	0,20	↓ -1,80
RONJPY	3,31	↓	-0,27	↓ -14,60
RONPLN	1,06	↓	-0,37	↓ -2,21
100HUFRON	1,52	↑	0,70	↓ -0,30
RONCZK	0,17	↓	-0,17	↓ -2,32
RONRUB	0,10	↓	-0,41	↓ -7,73
RONRSD	0,04	↓	-0,17	↓ -1,41
RONBGN	2,27	↓	-0,03	↑ 0,13

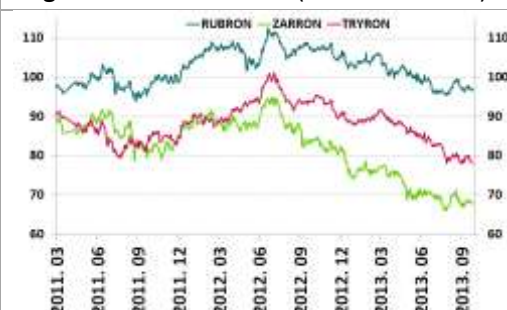
Source: Reuters

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

An overall uneventful week for the leu, but early moderate reactions to potential fiscal changes were seen


Sources: Reuters, OTP Research

The cash budget deficit evolution
The cumulated cash budget deficit was 1.3% in September, unchanged from August

	Sep-13 (cumulated)	12M rolling	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
	RON mn	RON mn	YoY	YoY	YoY	YoY	YoY
Total revenue	147.293	199.320	3,0%	4,9%	5,2%	4,4%	4,4%
Current income	142.020	190.484	4,8%	5,3%	5,9%	5,0%	4,8%
Fiscal income	88.657	119.223	6,0%	6,8%	7,7%	6,1%	6,2%
Income tax	25.830	34.070	3,0%	4,2%	6,7%	5,5%	5,2%
Corporate income tax	8.043	10.751	-10,2%	-5,5%	2,1%	-0,8%	-1,3%
Personal income tax	16.884	22.189	11,5%	9,3%	8,7%	8,2%	7,9%
Other tax on income, profit and capital	903	1.130	-4,8%	9,5%	25,3%	26,1%	21,3%
Property tax	3.699	4.387	4,8%	9,5%	10,0%	9,6%	9,7%
Taxes on goods and services	58.356	79.769	7,7%	8,0%	8,4%	6,5%	6,7%
Value added tax	37.687	51.997	9,5%	2,3%	4,9%	3,7%	4,1%
Excise duties	15.846	20.694	9,3%	4,2%	2,4%	1,5%	2,8%
Other	4.824	7.078	-14,4%	87,5%	80,5%	62,8%	55,8%
Taxes on international commerce	479	614	2,8%	-5,2%	-15,9%	-18,1%	-16,3%
Other fiscal taxes	292	383	16,0%	12,6%	10,6%	7,3%	5,8%
Social security contributions	40.093	53.454	3,6%	4,3%	4,4%	4,5%	4,7%
Non fiscal revenue	13.270	17.807	0,5%	-0,8%	-0,9%	-1,2%	-3,8%
Capital revenues	506	608	-4,2%	-2,2%	-4,1%	-3,2%	-8,2%
Donations	124	338	-78,3%	-45,6%	-57,6%	-61,1%	-45,8%
EU preaccession funds	5.033	8.019	-33,8%	-1,1%	-0,6%	-3,8%	0,8%
Other	-390	-129	92,2%	74,1%	2398,7%	53,3%	49,2%
Total expenditures	155.437	215.108	4,4%	4,4%	4,1%	4,8%	4,8%
Current expenditures	145.389	197.906	5,4%	5,5%	5,4%	6,1%	6,3%
Compensation of public employees	34.454	45.222	19,9%	18,1%	16,4%	15,2%	14,7%
Operating expenditures	26.705	37.318	11,3%	6,9%	7,4%	10,8%	12,1%
Interest paid	8.597	11.183	14,0%	0,7%	6,5%	5,4%	5,8%
Subsidies	4.097	6.136	13,9%	9,3%	3,1%	2,4%	0,3%
Total transfers	70.922	96.963	-2,9%	0,9%	0,8%	1,8%	2,0%
Transfers between units of public administration	637	1.398	84,0%	3,0%	7,9%	25,0%	6,7%
Other transfers	8.718	11.862	15,2%	15,3%	10,5%	12,9%	11,1%
Projects financed by foreign non reimbursable funds	8.570	12.459	-45,3%	-18,3%	-14,4%	-11,5%	-8,1%
Social benefits	50.880	67.989	1,0%	1,5%	1,6%	1,8%	1,9%
Other	2.117	3.255	11,3%	16,4%	15,0%	17,5%	15,7%
Expenses for programs with reimbursable funds	615	1.085	-38,3%	-36,9%	-45,9%	-46,0%	-46,3%
Capital expenses	10.600	18.002	-7,5%	-9,2%	-10,4%	-9,7%	-10,9%
Payments made in earlier years and recovered in the current year	-552	-800	-16,6%	-8,2%	3,9%	33,6%	34,8%
Excedent (+)/Deficit (-)	-8143	-15789	23,6%	-2,4%	-13,7%	11,4%	13,6%

Source: The Ministry of Finance, OTP Research

Government securities: Romania taps international markets for EUR 500 mn in Eurobonds

Romania tapped again the international markets last week, for EUR 500 mn in 7Y eurobonds, reopening the September 2020 issue. The average accepted yield stood at 4.15%, lower than the previously obtained in mid September of 4.769%. However, it sold less than planned which was EUR 1.5 bn. Compared to September, the international context was much more favorable and the 5Y CDS declined by more than 20 bps. The September issue came right before the Fed's meeting in which the market was expecting the announcement of tapering, starting as of December 2013 and the Ministry of Finance hurried to catch the assumed relatively improved liquidity conditions.

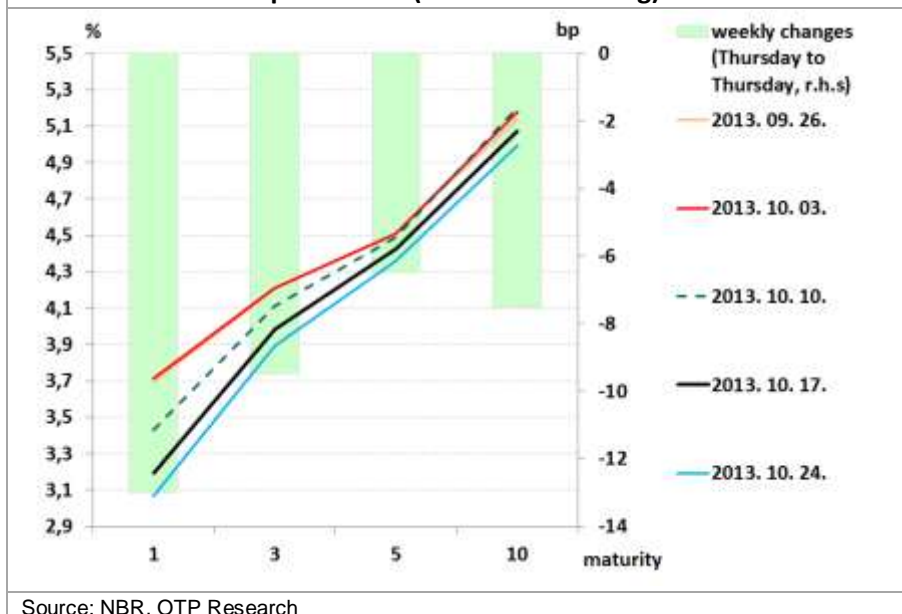
Domestically, the Treasury sold the planned RON 500 mn in 6M T-bills at 2.92%, lower by 132 bps compared to the previous similar issue in Mid July. Since July, the Central Bank cut the base rate by 75 bp to the current 4.25%. Prospects on bond prices remain positive but appreciation potential is limited. The next base rate decision will be on 5th of November and given the stronger than expected disinflation confirmed in September, the market expects another 25 bps rate cut.

Last week's auction results (RON denominated)

	RO1314CTN0E7
Offered amount (mn RON)	500
Total bids (mn RON)	1158
accepted amount (mn RON)	500
Average accepted yield (%)	2,92
Coupon (%)	-

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)

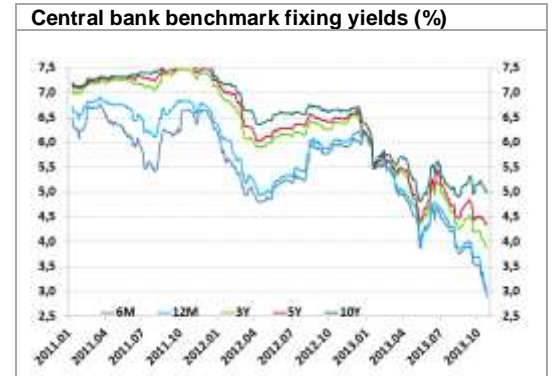


Source: NBR, OTP Research

Last data: 24.10.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2,90	↓ -22	↓ -328	
12M	3,07	↓ -13	↓ -310	
3Y	3,89	↓ -10	↓ -228	
5Y	4,36	↓ -7	↓ -184	
10Y	5,00	↓ -8	↓ -139	
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	353	↓ -10	↓ -255	
GERROM 5Y	345	↓ -7	↓ -235	
GERROM 10Y	307	↓ -8	↓ -188	
3Y-5Y	47	↑ 3	↑ 44	
5Y-10Y	64	↓ -1	↑ 46	
3Y-10Y	111	↑ 2	↑ 89	
FLY 3-5-10	17	↓ -4	↑ 2	
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	108	↓ -4	↓ -28	
5Y EURO	162	↓ -4	↓ -32	

Source: Reuters



Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

T - bills auctions in October (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0D9	07.10.2013	09.10.2013	08.10.2014	12	700.000.000
RO1314CTN0E7	21.10.2013	23.10.2013	30.04.2014	6	500.000.000

Sources: Ministry of Finance, OTP Research

Bond auctions in October (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon %	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1217DBN046	03.10.2013	-	07.10.2013	26.07.2017	5	5,9	500.000.000	-
RO1323DBN018	03.10.2013	-	07.10.2013	28.04.2023	10	5,85	500.000.000	-
RO1316DBN053	10.10.2013	-	14.10.2013	29.08.2016	3	4,75	1.000.000.000	-
RO1015DBN010	17.10.2013	-	21.10.2013	30.04.2015	5	6	1.000.000.000	-
RO1318DBN034	28.10.2013	29.10.2013	30.10.2013	28.11.2018	5	5,6	500.000.000	50.000.000

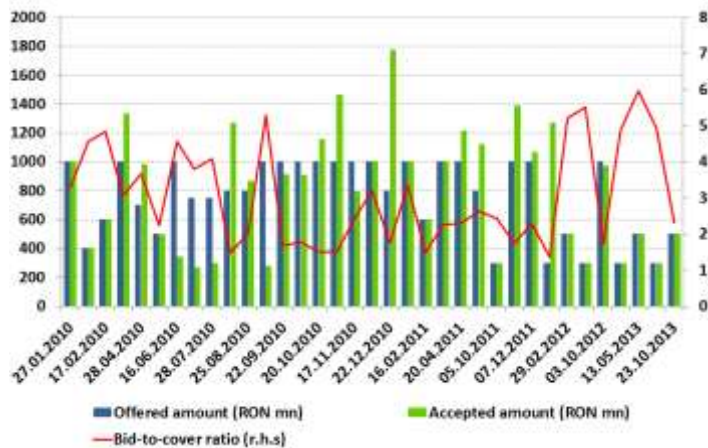
Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

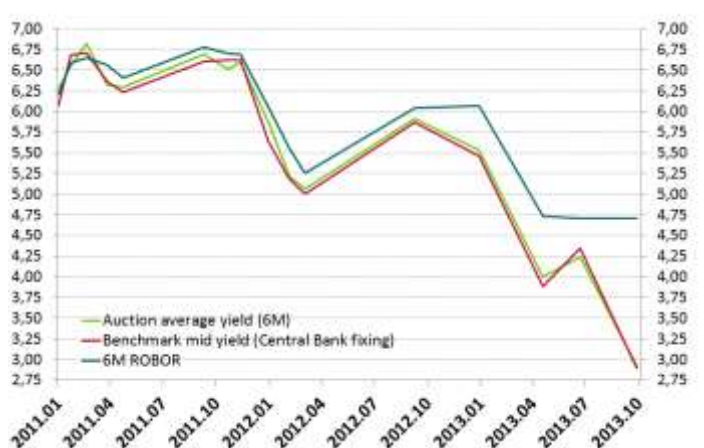
Bond auctions in October (in euro)

ISIN	Auction date	Settlement date	Maturity	Years	Cupon (%)	Indicative target amount (euro)
RO1316DBE011	10.10.2013	14.10.2013	26.02.2016	3	3,25	150.000.000

Sources: Ministry of Finance, OTP Research

6M Auctions data


Sources: NBR, OTP Research

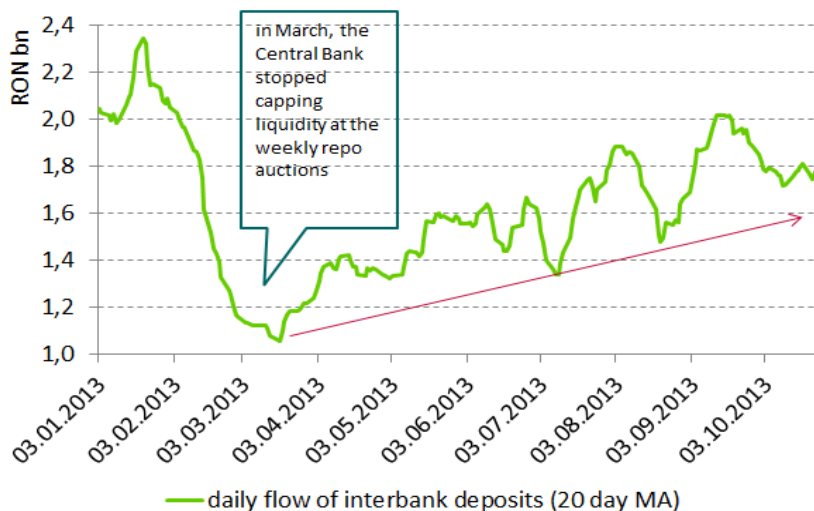
6M Interest rates (RON)


Sources: NBR, OTP Research

MM: Good liquidity conditions prevail

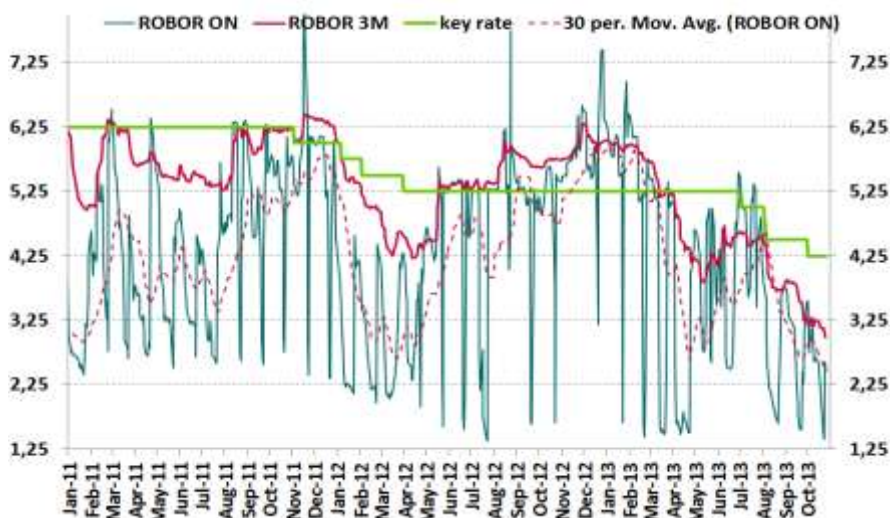
Even after the mandatory reserve period ended on 23rd, rates remain low and liquidity is abundant. The daily flow of interbank deposits has improved on average this year, since the Central Bank removed the liquidity cap in March and the CB is trying to align the base rate to the level imposed by the improved inflation outlook, bringing it more in line with money market rates. Winter months have generally a greater budget deficit compared to the rest of the year. This is supportive for relaxed money market conditions. Unlike the previous two years when during the 4th quarter we saw either deteriorated external conditions (in 2011 due to the debt crisis) or deteriorated domestic environment (in 2012 when there were elections, pressure on the exchange rate and liquidity cap), we enjoy an improved setup, and the CDS, an indicator of risk aversion is at the lowest post crisis levels. The next base rate decision is on 5th November and the market looks for another 25 bps rate cut.

The daily flow of interbank deposits has improved this year



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 24.10.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,25	↔ 0	↓ -100
ROBOR ON	2,60	↑ 26	↓ -378
ROBOR 3M	3,03	↓ -14	↓ -300
ROBOR 6M	3,55	↓ -9	↓ -273
ROBOR 9M	3,62	↓ -7	↓ -266
ROBOR 1Y	3,66	↓ -6	↓ -265

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	-	3.995,3

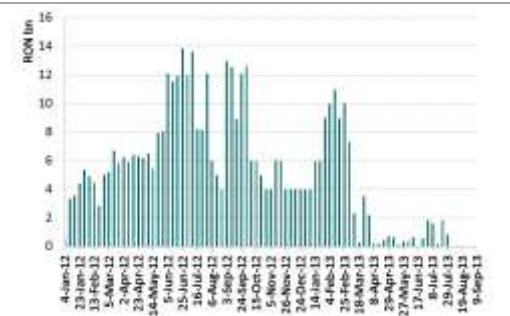
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.198,0	135,8	1296,6

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	15	↑ 0	↓ -10
USDRON 1M	67	↑ 24	↓ -82
USDRON 3M	206	↑ 61	↓ -40
EURRON 1W	22	↑ 1	↓ -19
EURRON 1M	97	↓ -2	↓ -48
EURRON 3M	298	↓ -11	↓ -212

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

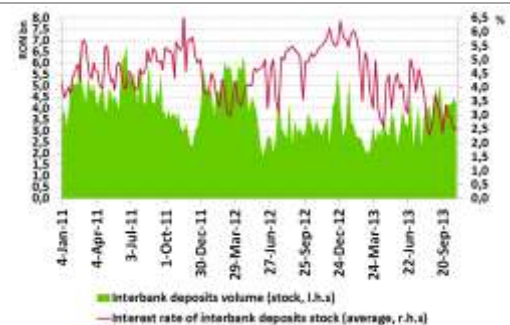
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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