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Weekly Report Romania

2 April 2014

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No change of monetary policy

Macroeconomics: RON lending keeps the uptrend; residential building permits reconfirm the recent uptake in February as well (+2.7% YoY) (Page 3- 4)

Private lending continued to decline in February (-2% YoY), driven by the lifeless FX corporate loans (-3.7%YoY) whereas the household segment was flat, heavily supported by mortgages (+11.7% YoY). We see no change in trend yet. As companies have not yet resumed the investment process, corporate savings build up at a fast pace (+17.6% YoY). The households deposits accumulate as well, but the pace declined marginally to 6.7%YoY in February from 7.2% YoY in January. The lower deposit rates and an improved taste for investments (especially residential, as long as the First House program is still in place) may temper the pace. Building permits rose by 2.7% YoY in February, reinforcing the recent uptrend.

FX market: The leu enjoys the positive momentum (Page 5 -6)

The leu continued to firm and it tested lower levels up to 4.45 intraday. The fact that the Central Bank stopped the easing cycle for the moment and kept the base rate unchanged at a still significant 3.5% provided a short term boost. Meanwhile, the 3M carry is coming closer to its lowest historical levels, which threatens the continuation of the recent strengthening. So far, we have seen that fundamentals supported the LCY as the CA deficit continued to shrink. We also noticed higher FDI. Money market rates climbed in the past two months compared to November – January levels. We expect the CA deficit to widen this year, as demand improves and this should play down on the leu. Additionally, we do not net out the remaining external risks. In the short term, the technical picture shows that the EUR/RON is close to oversold levels so we could see a bounce higher, but it could first re-test the 4.45 level.

Fixed income markets: The Treasury plans to sell RON 4 bn in April; yields eased (Page 7-8)

Yields dropped 7 to 29 bps last week, especially at the short end of the curve. The Treasury managed to make the planned sales and the 12M T-bills had an exceptional demand, with bid to cover mounting to 4.7. The average accepted yield stood at 2.885 though, compared to 2.03% at the end of February. In the quarters to come, several factors have an opposite influence on bond prices: in H2 inflation will start to rise, hitting an expected 3.5% YoY in December (NBR forecast) whereas it stood at 1.1% YoY in February. External risks coming from asset reallocation as tapering unwinds will likely be priced in mostly by the end of Q3. Most of the electoral heat in Europe and worldwide is focused in H1 2014. The bulk of domestic LCY government debt roll over happens mainly in H1 due to redemptions' schedule. We see the 10Y bond yield at 5.3% in December.

Money markets: No base rate and reserve ratio change (Page 9)

As expected by us and by the market, the Central Bank kept the base rate unchanged at 3.5%.The mandatory reserve ratios were not modified either. The governor reiterated that this is where more easing is possible, especially considering the perspective of convergence to the euro-zone where mandatory reserves ratio lie in the area of 2%. However, at the moment there is still surplus liquidity albeit unevenly distributed. To our understanding, before another reserve ratio cut is made, the pace of lending should step up and absorb the current surplus. The conditions for the reserve ratio cut could be met in H2, considering that the RON lending is on an uptrend and that the CB would also have time to process the effects of last change in January. Additionally, diminished uncertainty related to external risks could aid the decision.

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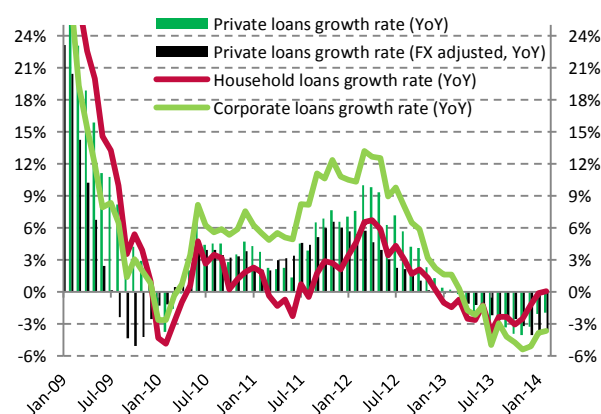
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Macroeconomics: RON lending keeps the uptrend; residential building permits reconfirm the recent uptake in February as well (+2.7% YoY)

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
25 Mar	Feb	Non -governmental loans (y-o-y, %)	-2.0		-2.1
25 Mar	Feb	Non -governmental deposits (y-o-y, %)	10.7		9.9
25 Mar	Feb	M3 aggregate (y-o-y, %)	10.7		9.7
28 Mar	Feb	Bulding permits (y-o-y, %)	2.7		-7.1
28 Mar	March	Base rate decision (%)	3.5	3.5	3.5
01 Apr	March	FX reserves (bn EUR)	31.3		31.7

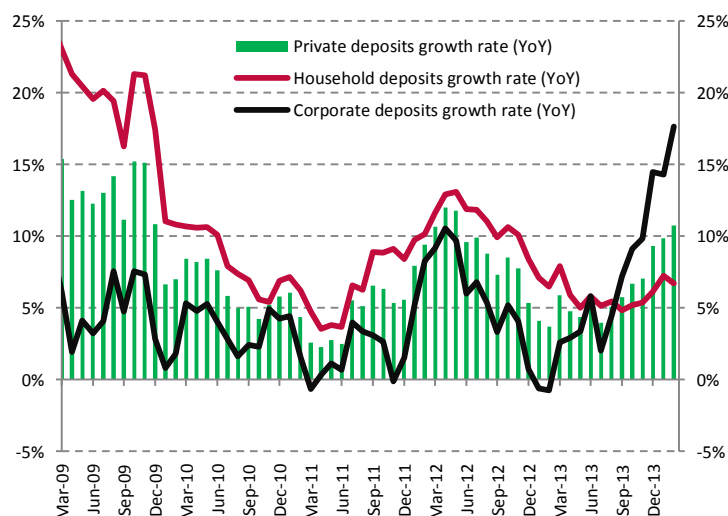
Private lending continued to decline in February (-2% YoY), driven by the lifeless FX corporate loans (-3.7%YoY) whereas the household segment was flat, heavily supported by mortgages (+11.7% YoY). We see no change in trend yet. However, the latest survey made by NBR raised expectations with respect to the offer level where banks expressed optimism regarding consumer loans. As companies have not yet resumed the investment process, corporate savings build up at a fast pace (+17.6% YoY). The households deposits accumulate as well, but the pace declined marginally to 6.7%YoY in February from 7.2% YoY in January. The lower deposit rates and an improved taste for investments (especially residential, as long as the First House program is still in place) may temper the pace.

Household loans dynamics is almost flat on an annual basis and corporate lending still falling



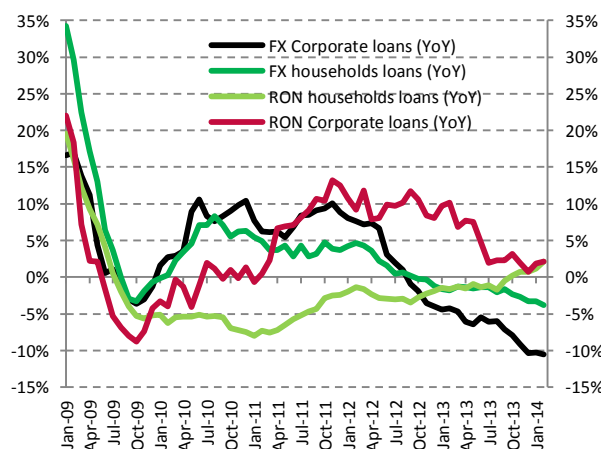
Source: NBR

Private savings are advancing at fast pace (+10.7% YoY), especially due to the corporate segment (+17.6% YoY)



Source: NBR

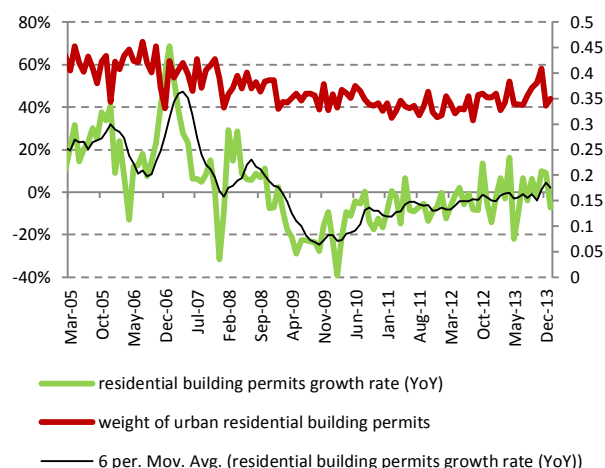
RON lending continues in the positive territory (+2.1% YoY)



Source: NBR

Building permits rose by 2.7% YoY in February, reinforcing the recent uptrend. The 6M moving average has been positive in the past 4M. Additionally, we see that the urban component is improving, whereas in the past two years it has been consistently lagging behind the rural developments.

Residential building permit climbed 2.7% YoY in February, confirming the recent uptrend



Source: NIS

Main macroeconomic indicators	Fact							Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (EUR mn)	124729	139765	118196	124328	131327	131747	142973	148085	157310
Real GDP	6.3%	7.3%	-6.6%	-1.1%	2.3%	0.6%	3.5%	2.3%	3.0%
Households consumption expenditure	12.0%	9.0%	-10.4%	-0.2%	1.6%	1.1%	1.4%	2.1%	2.1%
Government consumption	2.5%	6.2%	9.5%	-13.7%	-3.0%	0.7%	-4.1%	-2.3%	10.0%
Gross fixed capital formation	30.3%	15.6%	-28.1%	-1.8%	7.7%	3.8%	-5.7%	3.4%	6.9%
Exports	7.8%	8.3%	-6.4%	13.2%	11.6%	-1.5%	12.8%	6.6%	4.3%
Imports	27.3%	7.9%	-20.5%	11.1%	10.5%	-0.2%	2.3%	7.1%	4.8%
Consumer prices (avg.)	4.8%	7.8%	5.6%	6.1%	5.8%	3.3%	4.0%	2.5%	3.0%
Budget Balance (GDP%, ESA 95) *	-2.9%	-5.7%	-9.0%	-6.8%	-5.6%	-3.0%	-2.9%	-2.8%	-2.5%
Public debt (GDP %) *	12.8%	13.4%	23.6%	30.5%	34.7%	37.9%	38.5%	39.1%	39.5%
CA balance (% GDP)	-13.4%	-11.6%	-4.2%	-4.4%	-4.5%	-4.4%	-1.1%	-2.0%	-2.0%
CA balance (bn EUR)	-16.8	-16.2	-4.9	-5.5	-5.9	-5.8	-1.5	-3.0	-3.1
Unemployment	6.4%	5.8%	6.9%	7.3%	7.4%	7.0%	7.3%	7.0%	6.8%
Nominal wage growth	21.8%	26.1%	4.8%	3.1%	4.1%	4.6%	5.0%	4.3%	5.0%
Real wage growth	14.7%	16.5%	-1.5%	-3.7%	-1.9%	1.2%	1.0%	1.7%	1.9%
Key interest rate (avg.)	7.5%	9.7%	9.1%	6.5%	6.2%	5.3%	4.8%	3.5%	3.5%
Key interest rate (e.o.p.)	7.5%	10.3%	8.0%	6.3%	6.0%	5.3%	4.0%	3.5%	3.5%
EUR/RON (avg.)	3.34	3.68	4.24	4.21	4.24	4.46	4.41	4.48	4.45
EUR/RON (e.o.p.)	3.61	3.99	4.23	4.28	4.32	4.43	4.46	4.44	4.45

	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014 F	3Q 2014 F	4Q 2014 F	1Q 2015 F
EUR/RON (end of period)	4.39	4.48	4.46	4.46	4.46	4.48	4.46	4.44	4.43
Central Bank Rate (%)	5.25	5.25	4.50	4.00	3.5	3.5	3.5	3.5	3.5
3-Month Robor (%)	5.35	4.45	3.65	2.58	2.97	3.33	3.3	3.21	3.31
Ten-Year Bond (% mid yield, NBR fixing)	5.64	5.45	5.16	5.28	5.27	5.47	5.43	5.33	5.44

Source: Eurostat, NIS, NBR, OTP Research

Note: * 2013 budget balance and public debt to GDP data are forecasts

FX markets: The leu enjoys the positive momentum

The leu continued to firm and it tested lower levels up to 4.45 intraday. The fact that the Central Bank stopped the easing cycle for the moment and kept the base rate unchanged at a still significant 3.5% provided a short term boost. Political risks also took a step back aiding the risk on sentiment. Ukraine received financial support last Thursday, with the IMF jumping to aid the troubled country with a standby loan of USD 14 - 18 bn. Meanwhile, the 3M carry is coming closer to its lowest historical levels, which threatens the continuation of the recent strenghtening of the leu. So far, we have seen that fundamentals were supportive as the CA deficit continued to shrink. We also noticed higher FDI. Money market rates climbed in the past two months compared to November – January levels. We expect the CA deficit to widen this year, as demand improves and this should play down on the leu. Additionally, we would do not net out the remaining external risks. In the short term, the technical picture shows that the EUR/RON is close to oversold levels so we could see a bounce higher, but it could first re-test the 4.45 level.

The leu continued to firm; the 3M carry approaches the lowest historical levels



Source: Reuters

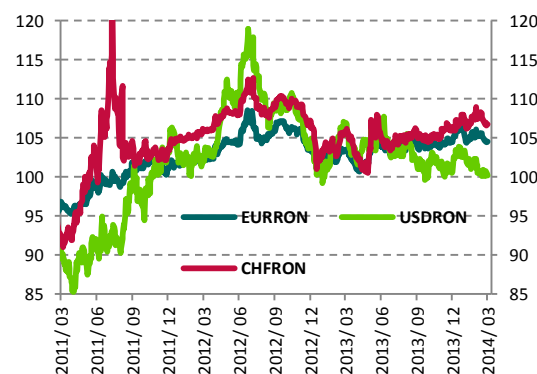
Further fiscal consolidation could be at risk, although we are looking at just two months of data so far. The cash budget deficit is at 0.5% during the first 2M of the year whereas the annual cash budget deficit figure is 2.2% for 2014 and the monthly deficit tends to widen especially during the last few months of the year. Also, special care needs to be exercised given that we are in a year with presidential elections. The dynamics of revenues are not encouraging: total revenues slowed down to +4.1% YoY compared to +10.2%YoY in January and the assumed growth for 2014 is 8%. Current income slowed down to 3.4% YoY during the first 2M from +5% YoY in January. On the expenditure side, we notice investments are still declining, albeit less than in January. This year's budget assumes flat capital expenses and higher expenditure with EU related funds, by 24% YoY. So far, the budget shows a drop of 10% YoY on capital expenses and by 23% YoY with expenditures on projects financed with EU non reimbursable funds. On the occasion of the first and second review of the standby agreement, the IMF commented that capital spending and improved collection are priorities this year but the figures do not support this view so far.

Date: 28.03.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4.47	↓	-0.42	↑ 0.50
USDRON	3.25	↓	-0.11	↓ -3.48
CHFRON	3.67	↓	-0.28	↓ -0.18
RONJPY	3.18	↑	0.26	↓ -17.91
RONPLN	1.07	↑	0.72	↓ -1.24
100HUFRON	1.44	↑	0.10	↓ -5.71
RONCZK	0.16	↑	0.06	↓ -7.80
RONRUB	0.09	↑	2.23	↓ -17.08
RONRSD	0.04	↑	0.17	↓ -2.04
RONBGN	2.29	↓	-0.21	↑ 0.68

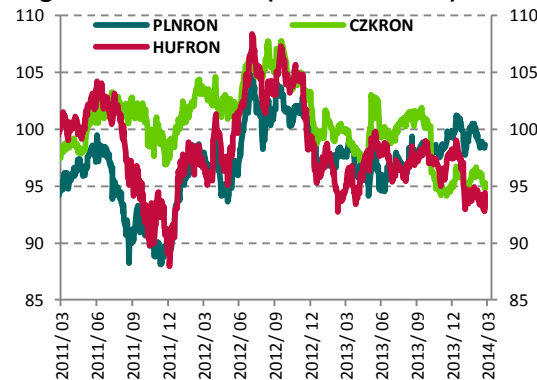
Source: Reuters

Major RON FX rates (03.01.2011=100)



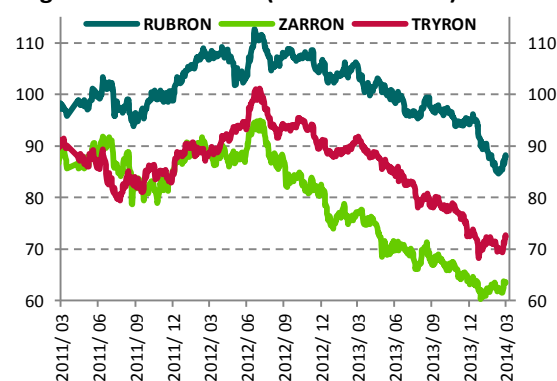
Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Sources: Reuters

The cash budget deficit stood at 0.5% during the first 2M whereas this year's target is 2.2%

	2014 budget	Feb-14 (cumulated)	12M rolling	Mar-13	Jun-13	Sep-13	Dec-13	Jan-14	Feb-14
	RON mn	RON mn	RON mn	YoY	YoY	YoY	YoY	YoY	YoY
Total revenue	215,958	30,498	201,257	3.0%	4.9%	4.4%	3.6%	10.2%	4.1%
Current income	200,481	29,746	191,635	4.8%	5.3%	4.8%	3.6%	5.0%	3.4%
Fiscal income	125,312	18,162	120,043	6.0%	6.8%	6.2%	4.4%	10.3%	5.4%
Income tax	36,725	4,511	34,935	3.0%	4.2%	5.2%	6.5%	-6.8%	0.2%
Corporate income tax	12,710	495	11,055	-10.2%	-5.5%	-1.3%	0.7%	27.0%	35.4%
Personal income tax	24,001	3,717	22,502	11.5%	9.3%	7.9%	8.5%	-13.0%	-5.9%
Other tax on income, profit and capital	14	299	1,378	-4.8%	9.5%	21.3%	30.2%	47.7%	60.4%
Property tax	5,041	733	4,498	4.8%	9.5%	9.7%	8.4%	8.9%	14.8%
Taxes on goods and services	82,513	12,730	79,591	7.7%	8.0%	6.7%	3.5%	17.3%	6.9%
Value added tax	53,772	8,390	52,124	9.5%	2.3%	4.1%	2.6%	17.8%	3.7%
Excise duties	24,102	3,450	21,277	9.3%	4.2%	2.8%	4.2%	12.7%	5.2%
Other	4,639	890	6,190	-14.4%	87.5%	55.8%	9.2%	63.3%	64.3%
Taxes on international commerce	623	106	636	2.8%	-5.2%	-16.3%	-12.3%	-0.3%	17.7%
Other fiscal taxes	411	81	383	16.0%	12.6%	5.8%	5.0%	-3.2%	-2.3%
Social security contributions	57,779	9,222	54,802	3.6%	4.3%	4.7%	5.3%	1.2%	4.8%
Non fiscal revenue	17,390	2,362	16,791	0.5%	-0.8%	-3.8%	-6.4%	-13.5%	-13.5%
Capital revenues	621	43	639	-4.2%	-2.2%	-8.2%	-0.5%	-40.6%	-19.2%
Donations	15	78	269	-78.3%	-45.6%	-45.8%	-54.7%	1084.4%	782.0%
EU preaccession funds	14,842	516	8,741	-33.8%	-1.1%	0.8%	11.7%	204.2%	-24.8%
Other	0	115	-28	92.2%	74.1%	49.2%	n.a	n.a	n.a
Total expenditures	230,448	33,559	215,618	4.4%	4.4%	4.8%	3.8%	7.8%	5.8%
Current expenditures	212,653	32,472	198,702	5.4%	5.5%	6.3%	5.1%	11.1%	6.7%
Compensation of public employees	47,786	7,747	45,641	19.9%	18.1%	14.7%	13.5%	1.9%	3.9%
Operating expenditures	39,362	5,447	37,645	11.3%	6.9%	12.1%	12.0%	34.9%	15.6%
Interest paid	11,224	1,511	10,855	14.0%	0.7%	5.8%	0.4%	-14.4%	-7.8%
Subsidies	5,742	1,043	6,102	13.9%	9.3%	0.3%	-15.9%	161.5%	52.1%
Total transfers	107,262	16,674	97,527	-2.9%	0.9%	2.0%	1.8%	7.0%	7.1%
Transfers between units of public administration	549	325	1,239	84.0%	3.0%	6.7%	-25.4%	427.8%	69.3%
Other transfers	11,817	3,272	11,622	15.2%	15.3%	11.1%	-2.6%	47.9%	27.6%
Projects financed by foreign non reimbursable funds	20,251	959	13,158	-45.3%	-18.3%	-8.1%	5.9%	-41.0%	-22.9%
Social benefits	71,513	11,733	68,377	1.0%	1.5%	1.9%	2.0%	6.5%	4.6%
Other	3,133	385	3,131	11.3%	16.4%	15.7%	8.5%	-12.6%	9.2%
Expenses for programs with reimbursable funds	1,080	50	932	-38.3%	-36.9%	-46.3%	-46.2%	-98.2%	-85.9%
Capital expenses	17,796	1,274	17,750	-7.5%	-9.2%	-10.9%	-7.5%	-56.9%	-10.1%
Payments made in earlier years and recovered in the current year	-14,490	-187	-833	-16.6%	-8.2%	34.8%	52.4%	5.8%	71.5%
Excedent (+)/Deficit (-)	-14,490	-3,061	-14,361	23.6%	-2.4%	13.6%	6.4%	44.1%	25.4%

Source: The Ministry of Finance

Daily EUR/RON Chart



Source: Reuters

Major trend: consolidation	
Minor trend: decline	
R1: 4.4750	S1: 4.45
R2: 4.49	S2: 4.44
RSI: getting closer to oversold level	
MACD: downside momentum	

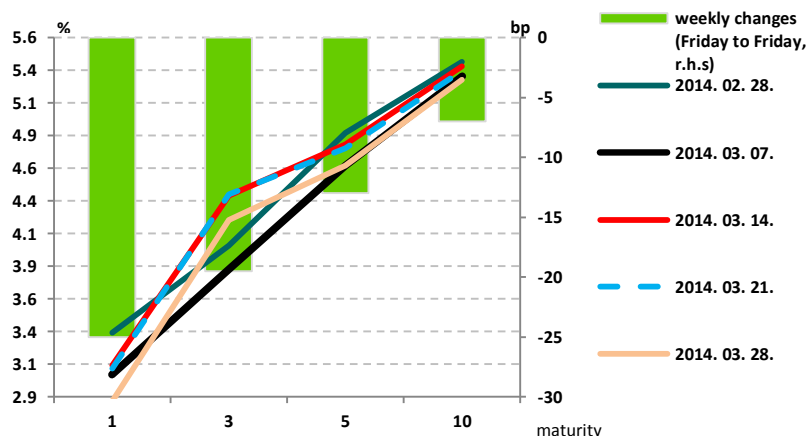
Government securities: The Treasury plans to sell RON 4 bn in April; yields eased

Yields dropped 7 to 29 bps last week, especially at the short end of the curve. The risk perception towards Romanian assets improved marginally as we can see from the lower CDS. The base rate remained unchanged which marks the end of the base rate cut cycle, re-emphasizing again the limited potential for bond prices. **Several factors have an opposite influence on bond prices, in the quarters to come:**

- In H2 inflation will start to rise, hitting an expected 3.5% YoY in December (NBR forecast) whereas it stood at 1.1% YoY in February
- External risks coming from asset reallocation as tapering unwinds will likely mostly priced in by Q3
- Most of the electoral heat in Europe and worldwide is focused in H1 2014; However, presidential elections in Romania are to be held in November;
- The bulk of domestic LCY government debt roll over happens mainly in H1 (please see graph below), due to redemptions' schedule.

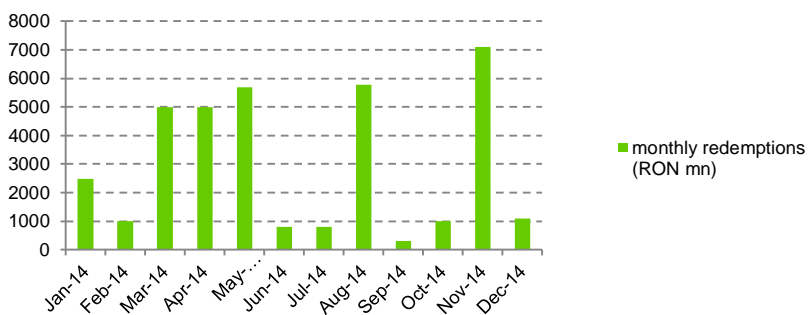
In March, the Treasury sold RON 2.7 bn, whereas redemptions stood at RON 5 bn. For April, **the planned sales mount to RON 4 bn, lower than the RON 5.7 bn in redemptions. At the last auction last week, demand was strong for the 12M T-bills and bid to cover hit 4.7.** The average accepted yield stood at 2.88%, whereas it was 2.03% in the end of February. The auction for bonds with residual maturity of 7Y went on satisfactorily and the average accepted yield came out at 5.29%, also higher by 30 bps than at the previous similar tender in mid-January.

Yield curve over the past weeks (Central Bank fixing)



Sources: NBR

The bulk of redemptions are in H1



Sources: Reuters

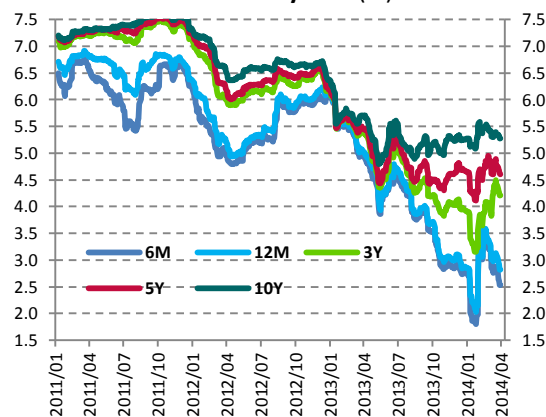
Date: 28.03.2014

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2.54	↓ -29	↓ -22	
12M	2.82	↓ -25	↓ -4	
3Y	4.21	↓ -20	↑ 30	
5Y	4.62	↓ -13	↓ -3	
10Y	5.28	↓ -7	↑ 1	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	392	↓ -20	↑ 37	
GERROM 5Y	392	↓ -13	↑ 20	
GERROM 10Y	364	↓ -7	↑ 31	
3Y-5Y	41	↑ 6	↓ -33	
5Y-10Y	66	↑ 6	↑ 4	
3Y-10Y	107	↑ 13	↓ -29	
FLY 3-5-10	24	↓ 0	↑ 36	

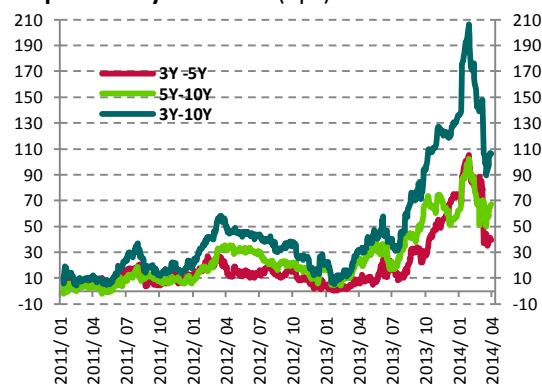
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	100	↓ -3	↓ -17	
5Y EURO	154	↓ -3	↓ -16	

Government benchmark yields (%)



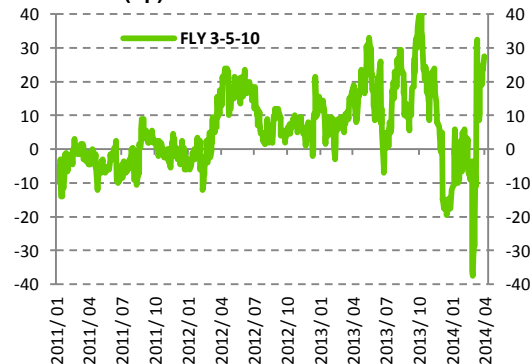
Source: NBR

Slope of the yield curve (bps)



Source: NBR

FLY 3-5-10 (bp)



Source: NBR

Auctions

T-bills auctions in March (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1415CTN057	4/3/2014	4/7/2014	3/30/2015	12	1.000.000.000
RO1414CTN068	4/24/2014	4/28/2014	11/5/2014	6	800.000.000

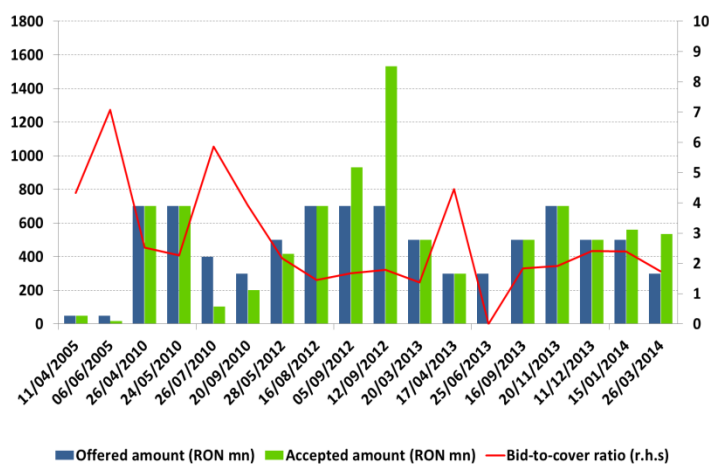
Source: The Ministry of Finance

Bonds auctions in March (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Residual Maturity	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO0717DBN038	03/04/14	04/04/14	07/04/14	11/06/17	10.0	3.2	500.000.000	75.000.000
RO1323DBN018	07/04/14	08/04/14	09/04/14	26/04/23	10.0	9.1	200.000.000	30.000.000
RO1316DBN053	10/04/14	11/04/14	14/04/14	29/08/16	3.0	2.4	500.000.000	75.000.000
RO1419DBN014	14/04/14	15/04/14	16/04/14	24/06/19	5.0	5.2	500.000.000	75.000.000
RO1121DBN032	24/04/14	25/04/14	28/04/14	11/06/21	10.0	7.1	500.000.000	75.000.000

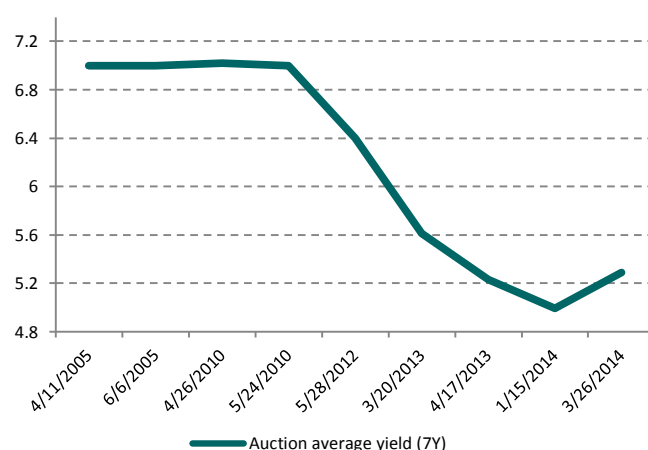
Source: The Ministry of Finance

7Y Auctions



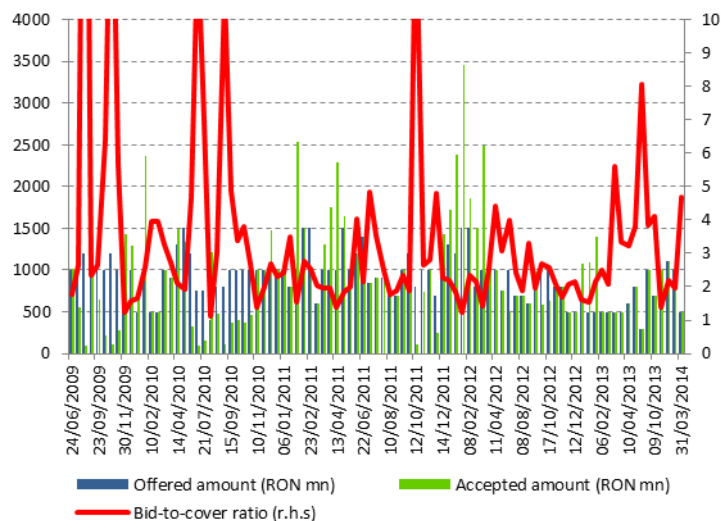
Source: NBR

7Y Interest rate



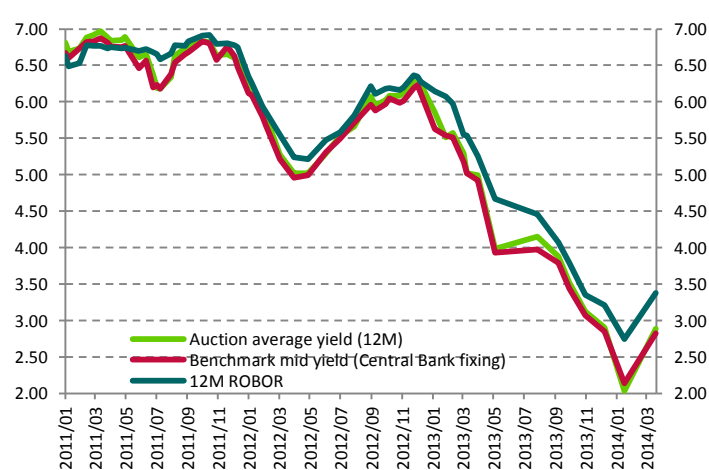
Source: NBR

12M Auctions



Source: NBR

12M Interest rates



Source: NBR

Last week's auctions

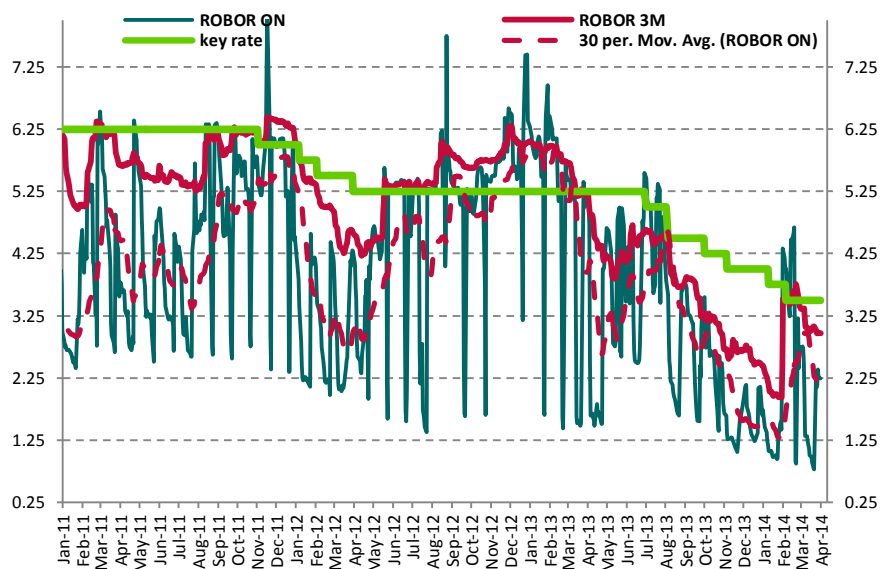
	RO1121DBN032	RO1415CTN040
Offered amount (mn RON)	300	500
Total bids (mn RON)	930	2352
Accepted amount (mn RON)	535	500
Average accepted yield (%)	5.29	2.88
Coupon	5.95	-

Source: NBR

MM: No base rate and reserve ratio change

As expected by us and by the market, the Central Bank kept the base rate unchanged at 3.5%. The mandatory reserve ratio for RON and FX liabilities was not modified either. The governor reiterated that this is where more easing is possible, especially considering the perspective of convergence to the euro-zone where mandatory reserves ratio lie in the area of 2%. However, at the moment there is still surplus liquidity albeit unevenly distributed. To our understanding, before other reserve ratio cut is made, the pace of lending should step up and absorb the current surplus. **The conditions for the reserve ratio cut could be met in H2, considering that the RON lending is on an uptrend and that the CB would also have time to process the effects of last change in January.** Additionally, diminished uncertainty related to external risks could aid the decision.

The most important MM instruments



Sources: NBR

Date: 28.03.2014

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	3.50	↔ 0	↓ -50
ROBOR ON	2.26	↑ 148	↑ 52
ROBOR 3M	2.98	↓ -9	↑ 54
ROBOR 6M	3.34	↓ -13	↑ 35
ROBOR 9M	3.38	↓ -10	↑ 28
ROBOR 1Y	3.38	↓ -10	↑ 23

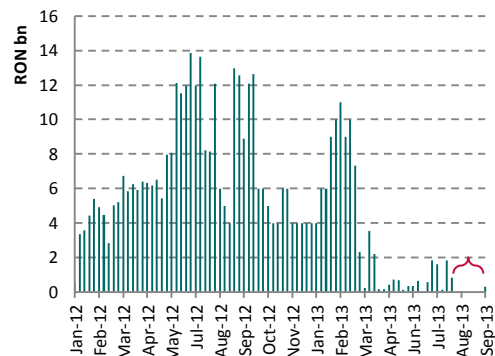
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4,523.2	1325.5	-116.0

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	13	↑ 7	↑ 5
USDRON 1M	57	↑ 8	↑ 25
USDRON 3M	173	↓ -8	↑ 57
EURRON 1W	17	↓ -2	↑ 6
EURRON 1M	68	↑ 1	↑ 24
EURRON 3M	228	↓ -30	↑ 27

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-80	↔ 0	↑ 30
EURRON 3Y	-70	↔ 0	↑ 40
EURRON 5Y	-70	↔ 0	↑ 40

Sources: Reuters

Repo operations since 2012



Sources: NBR

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