



MACROECONOMIC
review



OCTOBER/2011



 **otpbank**
Avem încredere

Romania

p.2

Romanian September inflation slows to lowest since communism

p.3

BNR has decreased reference rate by 0.25%, to 6.00%

Europe, US, Japan, Asia:

p.4

**Agreement in Brussels:
Europe slashes Greek debt by 50%**

p.6

SNB Q3 2011 Financial statements

p.7

SNB FX reserves drop in October

**Romanian
September
inflation slows
to lowest since
communism**

Romania's inflation rate fell more than expected in September to the lowest level since the country abandoned communism 21 years ago as a bumper harvest and weak domestic demand lowered food prices. The annual rate fell to 3.45%, within the central bank's target, from 4.25% in August, the National Statistics Institute in Bucharest said. The decline exceeded the median forecast of 11 economists surveyed by Bloomberg of 4%. Prices fell 0.2% on the month. Central banks in Eastern Europe including Romania have kept rates on hold in the past months on expectations inflation will slow and the economy will weaken because of slower growth in Western Europe, the main importer of goods from the region.

"The near-term inflation outlook continues to improve, thanks to good crop yields domestically and softer commodity prices," Citigroup Inc. economists Ilker Domac and Gultekin Isiklar wrote in a note to clients before the inflation announcement. "Looking ahead, administrative price adjustments and the risks ahead of the 2012 elections, however, continue to overshadow the outlook."

The rate will "very likely" fall this year within the central bank's target of 3%, plus or minus 1%, for 2011 and 2012 on lower food costs and as the effects of a government tax increase dissipate, Deputy Governor Cristian Popa said on Sept. 29.

Food-price growth slowed to 1.7% in September from a year earlier compared with 3.8% in August, on plunging potato, vegetable and fruit prices, according to the institute.

Non-food costs dropped to 4.8% in last month from 4.9% in August, while services prices were unchanged at 3.5% the previous month, the institute said.

***BNR has decreased
reference rate
by 0.25%, to 6.00%
(press release
of November 2nd)***

At its meeting on November 2, 2011, the Board of National Bank of Romania decided the following:

- Monetary policy interest rate at 6.00% level at 6.25% per year as of November 3, 2011
- Adequate management of liquidity in the banking system
- Maintain current levels of minimum reserve requirement ratios in domestic and foreign credit institutions.

The inflation rate fell to 3.45% in September from 4.25% the previous month, coming back after more than one year within the range of variation around the target.

Reducing the annual inflation rate was mainly due to the decrease recorded between June and September of volatile price level of food and exhausted much of the first round effect of the VAT increase. For the coming months is expected to strengthen the disinflation process, along with declining inflation expectations adjust, by maintaining prudent conduct of monetary policy.

The favorable evolution of industrial production and exports continued, despite recent negative signals from the external environment. However, aggregate demand deficit persists, and the revival of credit to the private sector remains modest, including as a result of pro-cyclical attitude of commercial banks, reflecting the uncertainties and risks related to developments in the euro area sovereign debt crisis and mixed signals on economic recovery the world.

Recorded significant improvement in inflation prospects in the short term, in line with expectations the central bank in the economy end of the cycle of manifestation of the effects of supply shocks related to the VAT increase, and the favorable impact of domestic agricultural production. However, medium-term balance of risks continues to be asymmetric, which is associated with the external environment developments, investors' risk aversion and volatility of capital flows and fiscal policy conduct and adjustments in administered prices.

Given all these perspectives, the BNR Board decided to lower the monetary policy rate at 6.00% per annum from 6.25%. Following this decision, as of November 3, 2011, the interest rate on deposit facility is lowered to 2.00% from 2.25% and the interest rate lending facility (Lombard) will be of 10.00% per year to 10.25%.

The BNR Board also decided to continue appropriate management of liquidity in the banking system and maintaining current levels of minimum reserve requirement ratios in domestic and foreign credit institutions.

Gradual adjustment of real monetary conditions is expected broadly to reflect the interest rates charged on loans by commercial banks. At the same time, the BNR reiterates the importance of stimulating domestic saving process, including adequate remuneration of bank deposits to ensure the sustainability of external deficit and the gradual reduction in relative terms.

Agreement in Brussels: Europe slashes Greek debt by 50%

Meeting late into the night, on October 26th, euro-zone leaders agreed to reduce Greece's vast debt burden by half. In addition, the euro backstop fund will be boosted to over a trillion euro. Europe hoped the measures will finally put an end to the spread of the debt crisis.

It was later than they planned. But finally, just before 4 a.m. in Brussels, the 17 heads of state and government in the euro zone announced that they had reached an agreement on the way forward in the ongoing debt crisis. Greek debt, French President Nicolas Sarkozy announced, was to be slashed by 50%.

"The world was watching us today and we showed that we reached the correct conclusions," said German Chancellor Angela Merkel after the summit had finally ended. She said she was "very pleased" with the result.

In addition to the significant debt haircut for Athens, euro-zone leaders also agreed to require European banks to increase their core capital ratios to 9%, a measure aimed at preventing the sovereign debt crisis from becoming a second banking and financial crisis.

The euro-zone member states also agreed to boost the impact of the euro backstop fund, the EFSF, to around 1 trillion EUR. While not providing specifics, it will likely be a combination of two options which had been widely discussed in the run-up to the meeting. The first is a first-loss insurance model, where the first 20 percent of any investments in euro-zone sovereign bonds would be guaranteed by the EFSF. The second envisions the EFSF backing an investment fund to attract outside money from pension funds and national investment pots, such as the China Investment Corporation. The final details are to be worked out at a euro-zone meeting in November.

In addition to the 30 billion EUR in bond guarantees, the euro zone has also agreed to make 100 billion EUR in new loans available to Greece. The resulting 130 billion EUR package replaces the never-finalized 109 billion EUR package European leaders agreed to in July. It had become apparent in recent weeks that the July agreement was insufficient and that Greece was in need of significantly more funding.

"The debt is absolutely sustainable now," Greek Prime Minister Papandreou told a press conference on Thursday morning. "If we manage to implement reforms fast, it (a return to markets) will not be 10 years. It will be much faster."

Many had criticized the plan to leverage the EFSF but a consensus had developed that there was little choice. The fund is tasked with providing bailouts to euro-zone member states in need (it already has provided some 150 billion EUR to Portugal and Ireland), helping European banks should the need arise and buying up bonds of heavily indebted euro-zone countries to keep down their borrowing costs. But with Italy and Spain looking wobbly in recent weeks, it became apparent that the fund's 440 billion EUR lending capacity would not be enough.

The new capital requirements for European banks are an effort to prevent the Greek debt haircut from doing too much harm to the banking sector. Many leading European banks, particularly in France, are heavily invested in Greek bonds. The agreement will require the banks to raise a total of 106 billion EUR by a June 30, 2012 deadline -- much less than some had estimated was necessary. If they are unable to reach the target themselves, their home countries are to help out. Only should that prove insufficient will the EFSF jump in to help. In early November, the markets have been newly shocked by the Papandreou decision to call for a referendum in order to ask Greek people approval for new bailout, consent if Greece is to maintain its euro zone or EU membership.

Additionally, a new confidence vote in Greek Parliament is to take place, with an unsure majority for the Prime Minister.

On November, the 4th, the events were still under development;

The confidence vote scheduled for Friday late afternoon and the Greek referendum no longer sure, after intense discussion between Greek and European officials talks before G20 meeting in Cannes, France.

SNB Q3 2011 **Financial statements**

After, a huge loss (largest ever) of 21 billion CHF in 2010, for cumulated Q3 2011, SNB have posted a 5.8 billion CHF profit. The main driver of the profit is the revaluation of the gold reserves: + 5.0 billion CHF.

In the first semester, their loss from revaluating the FX reserves continued to weigh on their PnL (-9.9 billion CHF).

In Q3 2011 alone, after the historical decision – to cap EUR/CHF to 1.20 - they have realized a quarterly profit of

16.6 billion CHF (out of which 10.2 billion CHF are from FCY reserves revaluations). A collateral effect of the historical September 6th SNB decision is the improvement of SNB's PnL itself.

It's well known that SNB stopped interventions into the market in May 2010. According to their balance sheet dynamic, their 2010 net interventions could be estimated to app. 110 billion CHF. The Q3 major increase in reserves comes from August, when SNB, prior to setting the minimum level, has decided to inject CHF liquidity on money market. The stock of FCY investments, revaluated in CHF, increased in September by 24.3 billion CHF, but mainly due to the Sept depreciation of CHF both against EUR (4%) and USD (11%). Official figures do not reveal an intervention / significant interventions in FX markets, in order to sustain the 1.20 minimum level.

***SNB FX reserves
drop in October***

The Swiss National Bank's foreign exchange reserves dropped in October, the second month of its cap on the Swiss franc.

The SNB's forex holdings fell to 243 billion CHF in October from a revised 282 billion CHF in September, data prepared by the SNB for the International Monetary Fund showed.

OTP BANK Romania SA, Treasury & Capital Markets

Contact:

Treasury Sales:

Phone: +40 21 307 58 09 / +40 21 307 58 17

Fax: +40 21 307 57 39

Capital Markets Sales:

Phone: +40 21 307 58 27

Fax: +40 21 307 57 46

Most data is collected between 01 - 31.10.2011

Information sources: National Bank of Romania, National Statistics Institute, Bloomberg Professional Services, Ziarul Financiar, Mediafax, Money.ro., ContiCap.

DISCLAIMER

- This report contains mostly news and information for individual purposes only and should not be interpreted as a suggestion, an invitation or an offer to enter into any transaction.
- This report is not intended to influence in any way or to be considered a substitute to research and advice centered on the specific investment objectives and constraints of the recipient (including tax concerns) therefore investors should obtain individual financial advice.
- The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted.
- OTP Bank Romania SA may have issued reports that are different or inconsistent with the information expressed within this report and is under no obligation to update or keep current the information contained herein.
- This document is intended only for the direct and sole use of the selected customers of OTP Bank Romania SA. Any form of reproduction or redistribution to any other person than the intended recipients, including publication in whole or in part for any purpose, must not be made without the express agreement of OTP Bank Romania SA.
- Please note that the Internet is not a secure environment and OTP Bank Romania SA does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the willful or accidental interception, corruption or virus infection.