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Weekly Report

Romania

1st October 2013



The Central Bank delivered as expected

Macro: Private lending still in the negative territory (-2.6% YoY) (Page 3- 4)

Private lending is down 2.6% YoY in August and it has been in the negative territory for the entire year if we adjust for the exchange rate effect. There are only a few loan types that are still in demand: medium term corporate loans and mortgage loans for the retail segment. Corporations have been postponing investment decisions and this was reflected in demand for loans. While cutting interest rates is helping loan demand, it is likely not enough if we look at the European experience, where despite low interest rates lending is still in the negative territory. Private deposits advanced at 5.1% YoY in August especially due to the corporate segment in RON (+4.5% YoY) while households' savings maintained a rather steady pace (+5.5% YoY). The most general tendencies are the slower pace of time deposits, which gained significantly especially during the crisis. Concomitantly, the ON deposits are rising faster. Also, we observe a switch to RON deposits, as fear of depreciation of the domestic currency diminished at the moment.

FX markets: The IMF approved the 2Y standby agreement (Page 5 - 6)

The IMF approved a 2Y stand by agreement seen as precautionary for Romanian authorities, for an amount of EUR 2bn. This amount comes with additional support of EUR 2 bn from the EU. While the Fund acknowledged once again the fiscal progress and the declining external imbalance, it also underlined that the fiscal reforms should not be reverted. Unfortunately, the 8M cash deficit data already paints a gray picture: the cash budget deficit rose to 1.3% from the previous 1% and the dynamics of revenues and expenditures is not flattering: revenues rose by 4.4% YoY while expenditures increased by 4.8% YoY. All in all, the 12M rolling data shows a budget deficit of 2.5% compared to this year's target of 2.3%. The fiscal progress made by Romania has been under the radar of foreign investors and it contributed to improving investors' sentiment towards Romanian assets. Failure to show persistence in the fiscal reforms could act negatively on investors' perception later on, especially since the attractiveness of local bonds is now limited.

Government securities: The Treasury plans to sell RON 4.7 bn in Oct and between RON 4-4.5 bn in Nov-Dec (Page 7 - 8)

Last week, the Treasury sold the planned amount of 5Y and 10Y bonds, of RON 1.2 bn, but given the evolution on the secondary market, in the case of 10Y bonds the average accepted yield stood at 5.25%, which was 28 bps higher than the one at the similar tender in the beginning of August. The auction saw a good demand and bid to cover ratio stood at 2.25X. The 5Y bonds were sold at an average accepted yield of 4.56%, which was in fact lower by 18 bp than the previous auction at the end of August. Demand, however, was not impressive. Looking ahead, we expect further downward correction in the next coming months considering the prospects of lower money market rates. On Monday, the Central Bank cut the base rate by 25 bps, in line with market expectations. We expect another rate cut by Q1 2014, when inflation is seen to reach its all times low. In October, the Treasury plans to sell RON 4.5 bn.

MM: The Central Bank cut the base rate by 25 bps to 4.25% (Page 9)

The Central Bank cut the base rate by 25 bps, as expected, to its all times low at 4.25%. The main driver was the downtrend of both headline and core inflation which are in line with the Central Bank's expectations of inflation. According to the governor, the reason for which the pace of the cut was only 25 bp is that a downward pressure on deposit interest rates is not intended. Also, the CB appreciates that there is a significant room for banks to cut the interest rates for loans, as the current rates are lagging behind the dynamics of the base rate. The governor suggested that the base rate cut cycle will continue.

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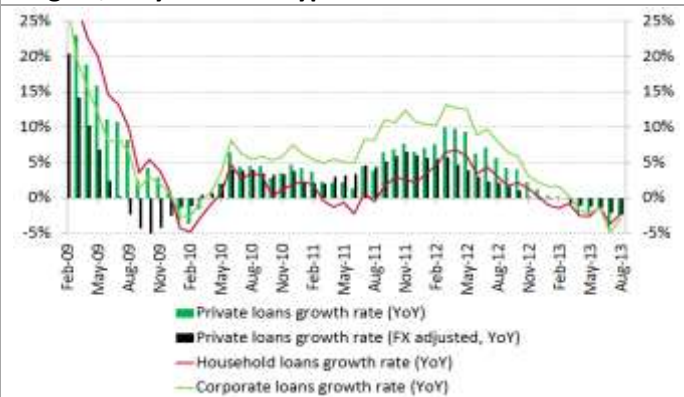
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Macroeconomics: Private lending still in the negative territory (-2.6% YoY)

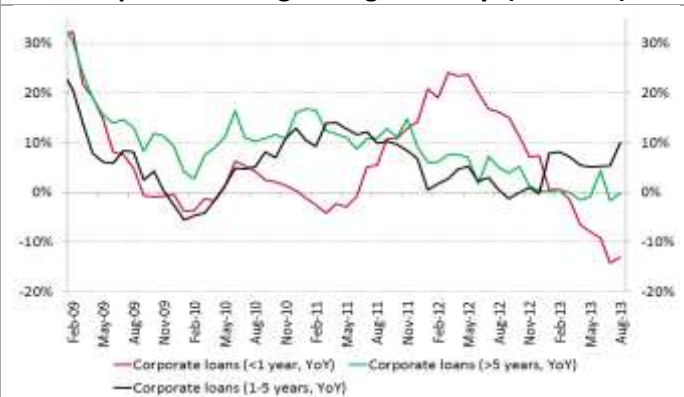
	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
24 Sep	August	Non-governmental loans (y-o-y, %)	-2,6		-4,4
24 Sep	August	Non-governmental deposits (y-o-y, %)	5,1		2,9
24 Sep	August	M3 aggregate (y-o-y, %)	4,3		2,0
30 Sep	Sep	Base rate decision (%)	4,3	4,3	4,5
30 Sep	Aug	Bulding permits (y-o-y, %)	-4,0		6,7
01 Oct	Aug	ILO unemployment (seasonally adjusted, %)	7,5		7,5
02 Oct	Aug	Retail trade turnover index (y-o-y, %)			1,0
02 Oct	Aug	Producer Price Index (y-o-y, %)			1,6

Private lending is down 2.6% YoY in August and it has been in the negative territory for the entire year if we adjust for the exchange rate effect. There are **only a few loan types that are still in demand: medium term corporate loans and mortgage loans for the retail segment.**

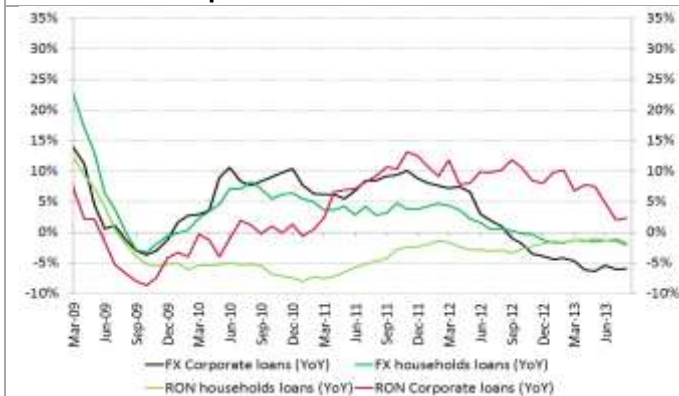
Corporations have been postponing investment decisions and this was reflected in demand for loans. **While cutting interest rates is definitely helping loan demand, it is likely not enough if we look at the European experience,** where despite low interest rates lending is still in the negative territory. Business confidence should improve significantly before we could see a healthy rise in corporate loans. Of retail loans, only mortgage loans registered an advance of 10.6% YoY in August and they rose at 9% YoY on average this year. Mortgages make up close to 40% of retail loans and their share is rising as consumer loans continue to post net outflows.

Private lending remains subdued (-2.6% YoY) in August; only few loan types still sell


Source: NBR, OTP Research

Although the overall market is in decline, medium term corporate loans grow significantly (10% YoY)


Source: NBR, OTP Research

By currency type, only corporate loans in RON are growing, but at a slower pace


Source: NBR, OTP Research

In the retail segment, only mortgages (~40% of retail loans) are still increasing


Source: NBR, OTP Research

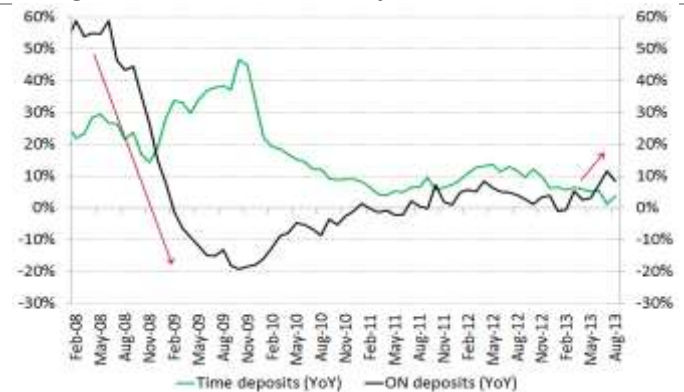
Private deposits advanced at 5.1% YoY in August especially due to the corporate segment in RON (+4.5% YoY) while households' savings maintained a rather steady pace (+5.5% YoY). The most general tendencies that we notice are the slower pace of time deposits, which gained significantly especially during the crisis. Concomitantly, the ON deposits are rising faster. Deposit interest rates are not as attractive as in the past, which diminishes the appetite for savings and stimulate the appetite for consumption and possibly investments. Another tendency is to switch to RON deposits, as fear of depreciation of the domestic currency diminished at the moment.

The pace of RON savings is increasing while the opposite is true for FX deposits



Source: NBR, OTP Research
Note: * in euro equivalent

Term deposits which grew steadily during the crisis are losing steam, while the ON deposits rise faster



Source: NBR, OTP Research

Medium-term macroeconomic forecast

Main macroeconomic indicators	2007		2008		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: The IMF approved the 2Y standby agreement

After Fed's decision to postpone tapering attention remained on the US and the probability of the government shutdown which ultimately happened, for the first time in 17 years. These events had no immediate impact on the leu and its peers as all of them remained flat last week. The domestic stage had some mixed incoming data. **The IMF approved a 2Y stand by agreement seen as precautionary by Romanian authorities**, for an amount of EUR 2bn. This amount comes with additional support of EUR 2 bn from the EU. While the Fund acknowledged once again the fiscal progress and the declining external imbalance, it also underlined that the fiscal reforms should not be reverted and also, that this agreement makes way to Romania's exit from Fund's assistance.

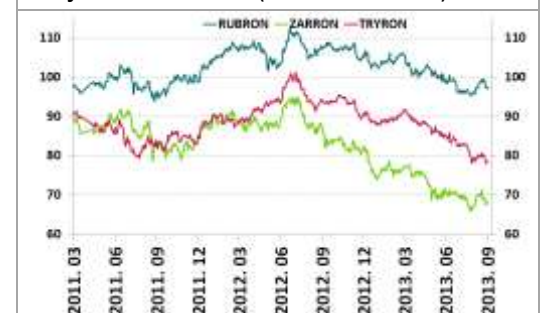
Going back to the Fund's observation that Romania should keep on track its fiscal reforms, the **8M cash deficit data painted a gray picture: the cash budget deficit rose to 1.3% from the previous 1%** and the dynamics of revenues and expenditures is not flattering: revenues rose by 4.4% YoY while expenditures increased by 4.8% YoY. **Current revenues are up by 5% YoY while current expenditures rose by 6.1% YoY.** The pace of the value added and excise revenue is slowing down. EU funds absorption did not improve and on a 12M rolling basis the data shows a significant underealization compared to the revised budget. On the expenditures'side, compensation of public employees is higher by 15% YoY but the pace is declining. Capital expenses are 9.7% YoY below last year's figures, with a negative effect on GDP growth. **All in all, the 12M rolling data shows a budget deficit of 2.5% compared to this year's target of 2.3%.** The fiscal progress made by Romania has been under the radar of foreign investors and it contributed to improving investors'sentiment towards Romanian assets. Failure to show persistence in the fiscal reforms could act negatively on investors'perception later on, especially since the attractiveness of local bonds is now limited.

Last data: 27.09.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,46	↓	-0,06	↑ 0,34
USDRON	3,30	↑	0,18	↓ -1,92
CHFRON	3,64	↑	0,64	↓ -0,89
RONJPY	3,36	↑	1,25	↓ -13,39
RONPLN	1,06	↑	0,24	↓ -2,92
100HUFRON	1,49	↓	-0,07	↓ -2,19
RONCZK	0,17	↑	0,46	↓ -1,98
RONRUB	0,10	↓	-1,24	↓ -7,28
RONRSD	0,04	↓	-0,06	↓ -1,52
RONBGN	2,28	↑	0,17	↑ 0,50

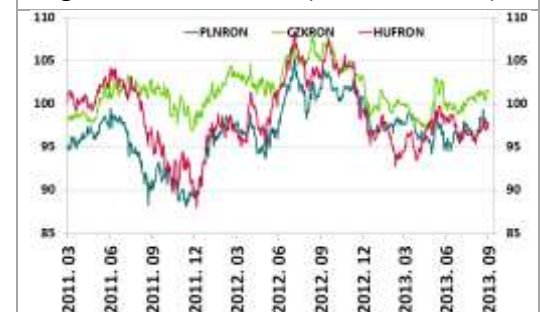
Source: Reuters

Major RON FX rates (03.01.2011=100)



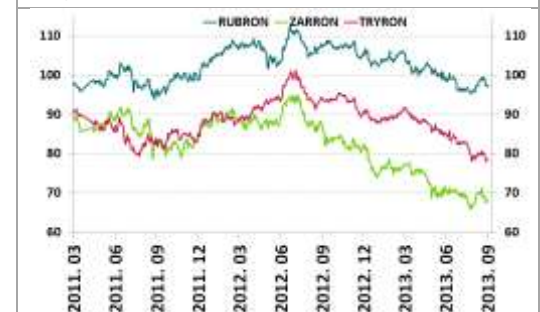
Sources: Reuters, OTP Research

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 leu reacted favorably to the approval of the standby agreement by the IMF



Sources: Reuters, OTP Research

**The 8M cash budget deficit rose to 1.3% from 1% the previous month
The 12M rolling deficit is at 2.5%, higher than the targeted 2.3%**

	<i>Aug-13 (cumulated)</i>	<i>12M rolling</i>	<i>Mar-13</i>	<i>Jun-13</i>	<i>Aug-13</i>
	<i>RON mn</i>	<i>RON mn</i>	<i>YoY</i>	<i>YoY</i>	<i>YoY</i>
Total revenue	131.158	198.615	3,0%	4,9%	4,4%
Current income	126.557	190.008	4,8%	5,3%	5,0%
<u>Fiscal income</u>	<u>78.901</u>	<u>118.615</u>	<u>6,0%</u>	<u>6,8%</u>	<u>6,1%</u>
Income tax	23.844	34.036	3,0%	4,2%	5,5%
Corporate income tax	7.965	10.792	-10,2%	-5,5%	-0,8%
Personal income tax	15.041	22.099	11,5%	9,3%	8,2%
Other tax on income, profit and capital	838	1.145	-4,8%	9,5%	26,1%
Property tax	3.018	4.324	4,8%	9,5%	9,6%
Taxes on goods and services	51.344	79.257	7,7%	8,0%	6,5%
Value added tax	32.955	51.693	9,5%	2,3%	3,7%
Excise duties	13.858	20.464	9,3%	4,2%	1,5%
Other	4.531	7.099	-14,4%	87,5%	62,8%
Taxes on international commerce	424	614	2,8%	-5,2%	-18,1%
Other fiscal taxes	271	385	16,0%	12,6%	7,3%
<u>Social security contributions</u>	<u>35.719</u>	<u>53.208</u>	<u>3,6%</u>	<u>4,3%</u>	<u>4,5%</u>
<u>Non fiscal revenue</u>	<u>11.937</u>	<u>18.184</u>	<u>0,5%</u>	<u>-0,8%</u>	<u>-1,2%</u>
Capital revenues	367	641	-4,2%	-2,2%	-3,2%
Donations	87	306	-78,3%	-45,6%	-61,1%
EU preaccession funds	4.548	7.800	-33,8%	-1,1%	-3,8%
Other	-402	-140	92,2%	74,1%	53,3%
Total expenditures	139.082	214.244	4,4%	4,4%	4,8%
Current expenditures	129.830	196.776	5,4%	5,5%	6,1%
Compensation of public employees	30.864	44.861	19,9%	18,1%	15,2%
Operating expenditures	23.108	36.701	11,3%	6,9%	10,8%
Interest paid	8.243	11.136	14,0%	0,7%	5,4%
Subsidies	3.832	6.213	13,9%	9,3%	2,4%
Total transfers	63.229	96.723	-2,9%	0,9%	1,8%
Expenses for programs with reimbursable funds	554	1.142	-38,3%	-36,9%	-46,0%
Capital expenses	9.774	18.257	-7,5%	-9,2%	-9,7%
Payments made in earlier years and recovered in the current year	-522	-788	-16,6%	-8,2%	33,6%
Excedent (+)/Deficit (-)	-7924	-15629	23,6%	-2,4%	11,4%

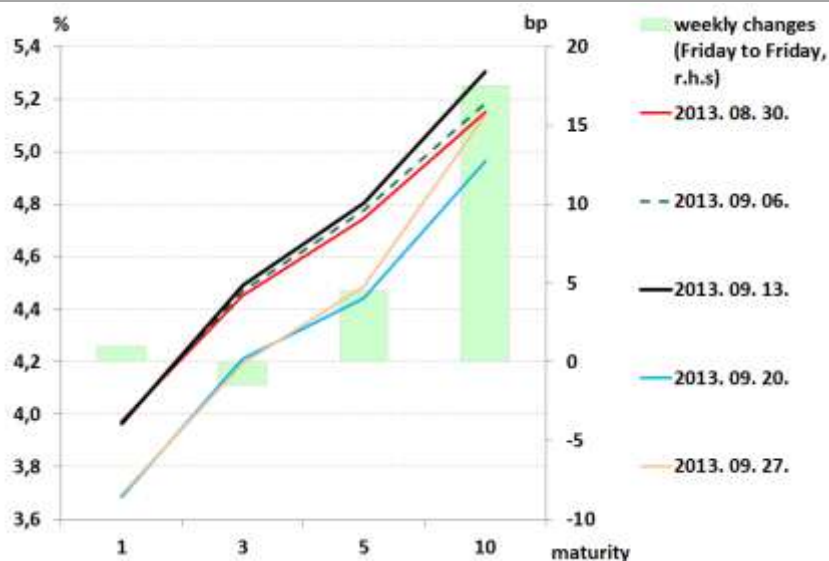
Sources: The Ministry of Finance, OTP Research

Government securities: The Treasury plans to sell RON 4.7 bn in Oct and between RON 4-4.5 bn in Nov-Dec

The long end of the curve moved up last week and 5Y-10Y bond yields gained 4-18 bp. The Treasury sold the planned amount of 5Y and 10Y bonds, of RON 1.2 bn, but given the evolution on the secondary market, in the case of 10Y bonds the average accepted yield stood at 5.25%, which was 28 bps higher than the one at the similar tender in the beginning of August. The auction saw a good demand and bid to cover ratio stood at 2.25X. The 5Y bonds were sold at an average accepted yield of 4.56%, which was in fact lower by 18 bp than the previous auction at the end of August. Demand, however, was not impressive, with a bid to cover of only 1.4X. **Looking ahead, we expect further downward yields correction in the next coming months considering the prospects of lower money market rates.** On Monday, the Central Bank cut the base rate by 25 bps, in line with market expectations, so no surprises are to be priced in. **We expect another rate cut by Q1 2014, when inflation is seen to reach its all times low.**

In October, the Treasury plans to sell RON 4.7 bn in debt, out of which RON 3.5 bn in bonds. Also, the Treasury seeks to raise EUR 150 mn in 3Y bonds. According to Reuters, the Treasury's chief declared that **in November and December the targeted sales are between RON 4-4.5 bn.**

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1318DBN034	RO1323DBN018
Offered amount (RON mn)	700	500
total bids (RON mn)	982	1127
accepted amount (RON mn)	700	500
average accepted yield (%)	4,56	5,25
coupon	5,60	5,85

Source: NBR, OTP Research

Last data: 27.09.2013

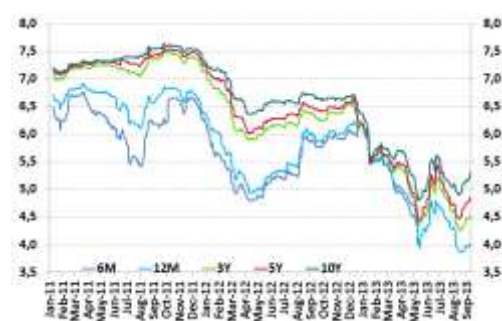
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3,53	↓ -3	↓ -265
12M	3,70	↑ 1	↓ -247
3Y	4,20	↓ -1	↓ -197
5Y	4,49	↑ 4	↓ -172
10Y	5,14	↑ 18	↓ -124

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	382	↓ -1	↓ -226
GERROM 5Y	355	↑ 5	↓ -225
GERROM 10Y	319	↑ 18	↓ -175
3Y -5Y	29	↑ 6	↑ 25
5Y -10Y	66	↑ 13	↑ 48
3Y-10Y	95	↑ 19	↑ 73
FLY 3-5-10	37	↑ 7	↑ 22

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	119	↑ 1	↓ -17
5Y EURO	173	↑ 1	↓ -21

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

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

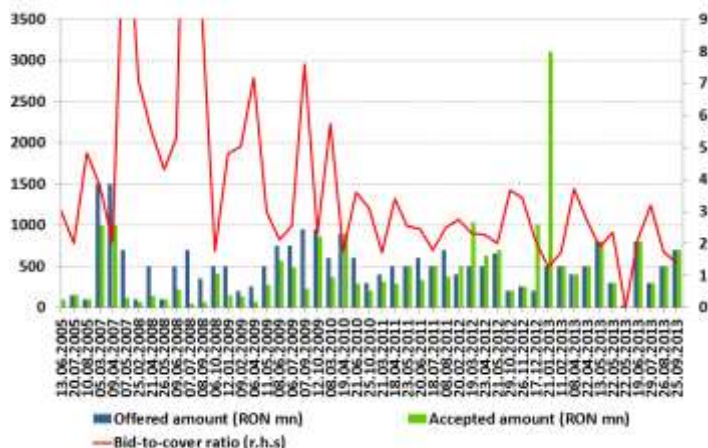
Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

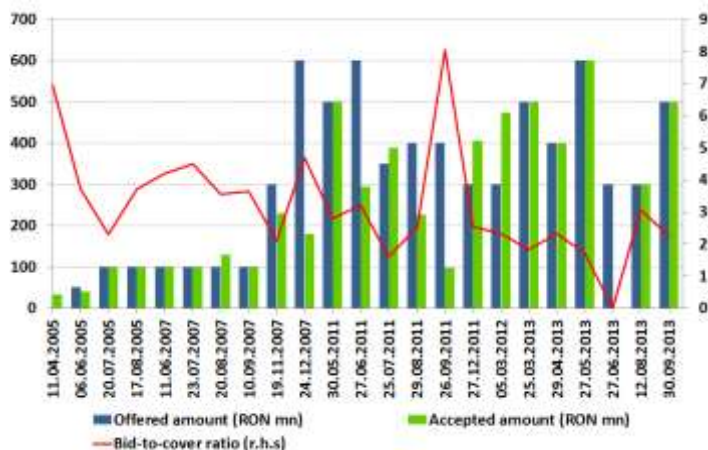
Bond auctions in October (in euro)

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

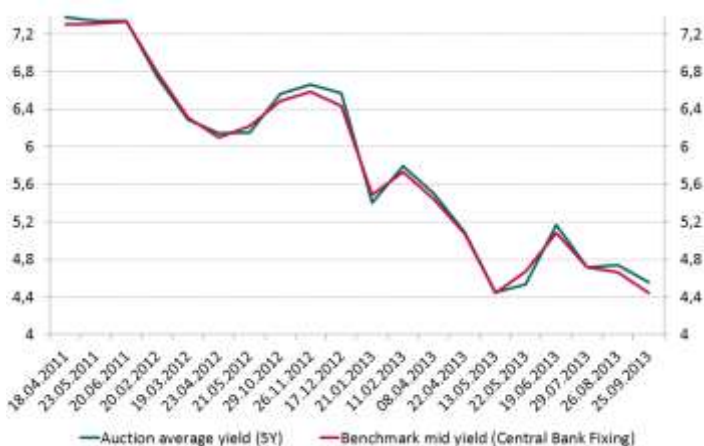
Sources: Ministry of Finance, OTP Research

5Y Auctions data


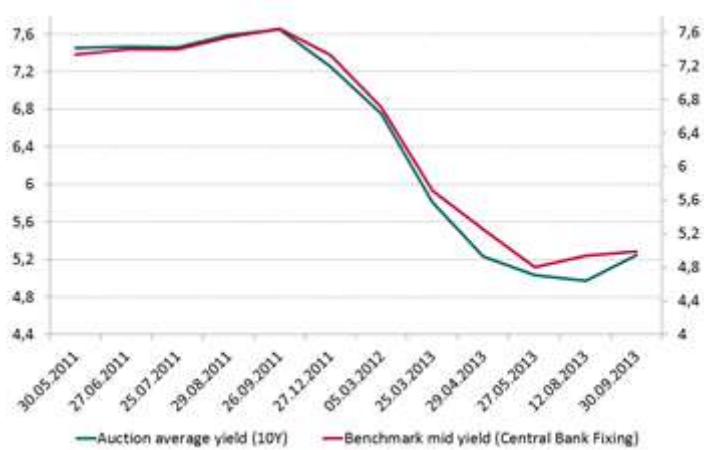
Sources: NBR, OTP Research

10Y Auctions data


Sources: NBR, OTP Research

5Y Interest rates (RON)


Sources: NBR, OTP Research

10Y Interest rate (RON)


Sources: NBR, OTP Research

MM: The Central Bank cut the base rate by 25 bps to 4.25%

The Central Bank cut the base rate by 25 bps, as expected, to its all times low at 4.25%. The driver was the downtrend of both headline and core inflation which are in line with the Central Bank's expectations of inflation. The NBR sees the continuation of disinflation in the first part of 2014, due to the good agricultural year, the reduction of VAT for bread and other bakery products but there are also factors standing in the way: the deleveraging of the banking system as banks repay loans to their parents and the volatility of investor risk appetite which translates into a weaker leu weighing on the inflation rate. According to the governor, the reason for which the pace of the cut was only 25 bp is fear of a downward pressure on deposit interest rates. Also, the CB appreciates that there is a significant room for banks to cut the interest rates for loans, as the current rates are lagging behind the dynamics of the base rate. **The governor suggested that the base rate cycle will continue.**

Meanwhile, after nearly 2 months when the CB did not inject liquidity at the weekly repo auction, one bank asked for RON 303 mn on Monday. Interest rates started to rise after the period of reserves ended. We recall that in September net issuance of the Treasury was positive. **In October, 6 bn RON in government debt come to maturity in the second part of the month (19th October) and there is negative net issuance of government debt.**

Last data: 27.09.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,50	↔ 0	↓ -75
ROBOR ON	3,26	↑ 170	↓ -312
ROBOR 3M	3,28	↓ -25	↓ -275
ROBOR 6M	3,78	↓ -18	↓ -250
ROBOR 9M	3,86	↓ -13	↓ -242
ROBOR 1Y	3,88	↓ -14	↓ -243

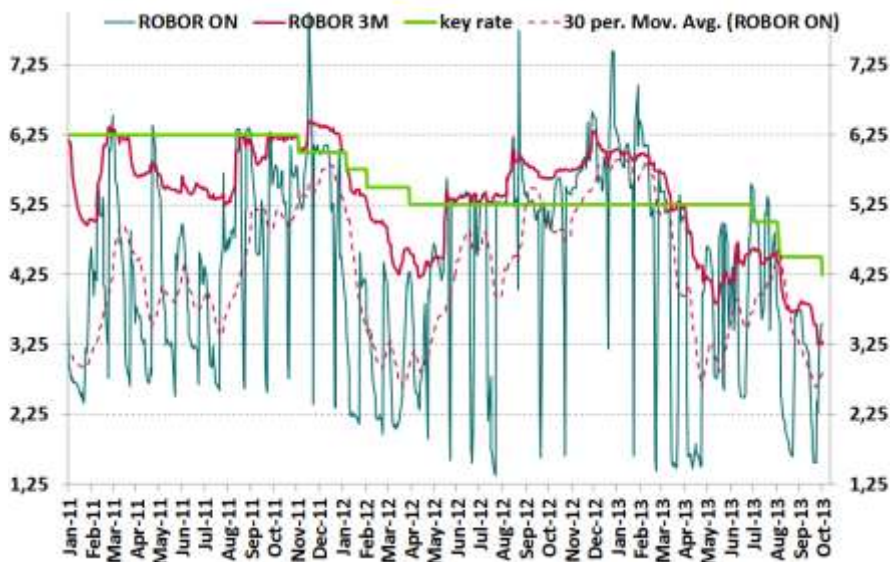
REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	0,0	- 3.995,3

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.233,3	708,6	1331,9

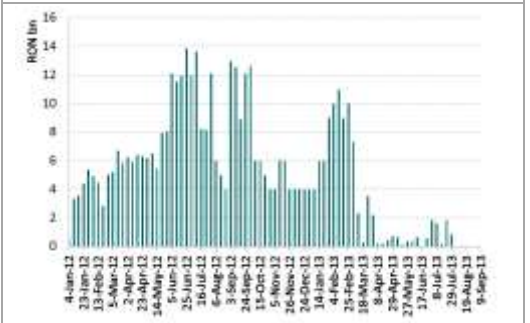
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	20	↑ 4	↓ -5
USDRON 1M	73	↑ 6	↓ -77
USDRON 3M	213	↓ -5	↓ -34
EURRON 1W	25	↑ 0	↓ -16
EURRON 1M	121	↓ -1	↓ -24
EURRON 3M	305	↓ -28	↓ -206

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

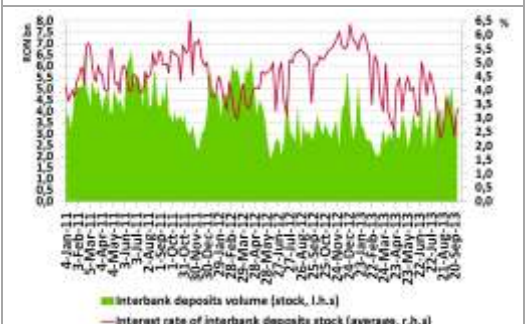
Source: Reuters

Most important MM instruments' evolution


Sources: NBR, OTP Research

Repo operations since 2012


Sources: NBR, OTP Research

Interbank deposits stock and average interest rate


Sources: NBR, OTP Research

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