Time for rate cuts!

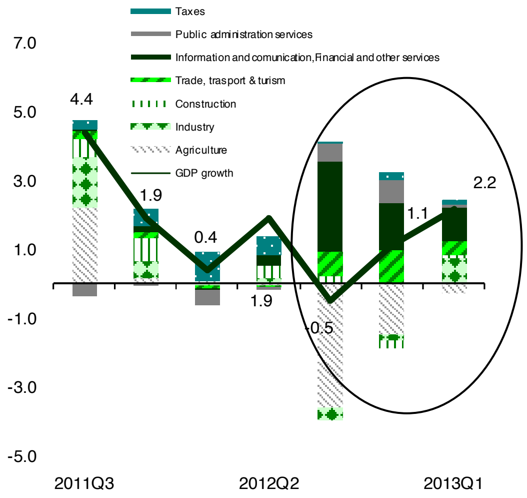
KEY EVENTS

01st of July, 2013: NBR Key rate decision

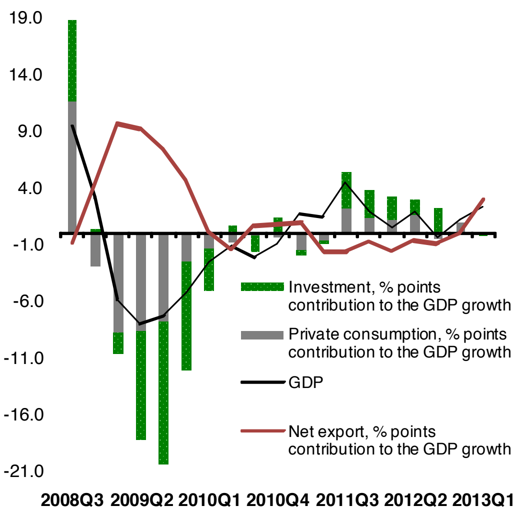
26th of June, 2013: IMF evaluation, end of precautionary SBA

Moody's: Baa3 negative / S&P: BB+ stable / Fitch: BBB- stable

GDP ACCELERATED BY BETTER INDUSTRIAL PRODUCTION



GDP ENTIRELY DRIVEN BY EXTERNAL DEMAND. DROP IN INVESTMENTS



Source: NIS, Garanti Bank Research

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Outlook – Behind the better than expected GDP figures, conditions of sustainable growth are not yet confirmed. Privatization plans are lagging behind, while the widely expected re-launch of infrastructural projects and increase of EU structural funds' absorption rate is not visible yet. Consumption is still weak and beside the public wage hike there is not too much stimulus for improvement in the near future, except the anticipated policy rate cut. Still, on the production side, the recovery of the agricultural production, from the exceptionally low level of last year, sustains our expectations of a full year GDP growth of 1.7% yoy in 2013.

Inflation expectations improved with high probability to reach the NBR target band till the end of the year. This allows NBR to start its cutting cycle as early as July 2013 and the key rate reaching 4.50% at the year-end and 4.00% in 2014. The Ministry of Finance is still benefiting from good demand with yields below the key rate. A budget deficit off the track already in April might cause some problems unless corrective measures are put in place as soon as possible. The focus should stay on the EU funds' absorption that should boost both budget revenues and the much needed investments.

Main Topics:

- GDP – Q1 growth entirely driven by external demand
- Country risk profile – Improved country risk profile but vulnerability remains to global risk assessment
- Inflation– Improved expectations
- Monetary policy – Time for rate cutting!
- Fiscal Policy – Off track but some hope for corrections still exist
- Public financing – External financing soured due to increasing global risk aversion but re-financing risk remains low
- External Accounts and Financing – Historically low trade deficit; strong portfolio investments, FDI lagging behind
- FX outlook – Volatility is back with some space for appreciation in the second part of the year
- Bank flows – Time for cheap RON financing!

Economic Growth

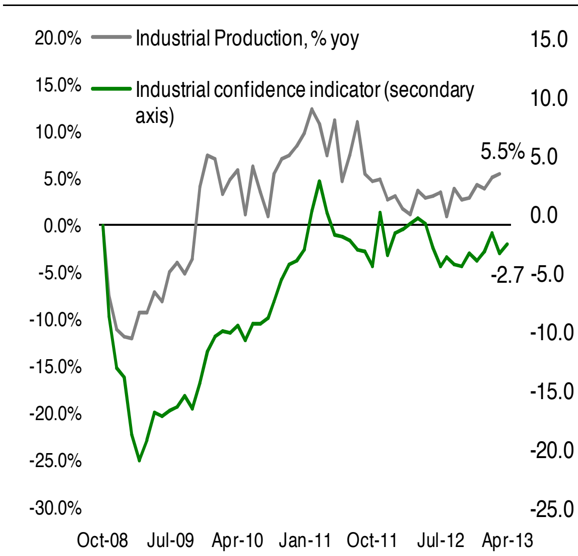
GDP – Q1 growth entirely driven by external demand

Real GDP in Q1 surprised positively with 0.7% qoq expansion that resulted in a 2.2% yoy growth. However, the GDP breakdown reveals some sober picture of domestic demand that was supposed to be the driver of the growth.

On the positive side, the industry and the trade and transportation sectors had a better than expected performance in the first quarter contributing by 0.7 and 0.4 percentage points to the annual GDP growth, while the service sectors kept also the exceptionally high growth rate, seen during the last three quarters (especially sectors like IT, communication and business services) that brought 1 percentage point growth out of the total 2.2% growth. On the other hand, agriculture continued to bring a negative contribution to the GDP (-0.3 pp) while the construction sector remained very weak (0.1 pp contribution).

Industrial production accelerated further in April to 8.4% yearly growth in the first four months of the year. Most of the sectors show an improving picture, reflected also by the new orders for April, the latest month available. On the one hand, export oriented industrial sectors like the automotive, machinery and equipments, electrical equipment, chemicals pharmaceuticals and wood proved to be the drivers of this growth. On the other hand, the metallurgy and petroleum production industries are still contracting, affected by the global recession and structural weaknesses. Moreover, the production of electronic and optical products is still struggling after the top exporter Nokia left the country in 2011.[1]

GOOD PERFORMANCE OF INDUSTRY



Source: NIS, Eurostat, Garanti Bank Research

DRIVEN BY EXTERNAL DEMAND

	Ind. Prod., yoy %, Jan-Apr 2013	**New orders**, yoy %, Apr 2013	**Export**, yoy% (Jan-Feb)
Manufacturing	**8.4**	**31.2**	**7.1**
Food and beverages	**3.5**		**1.7** **1.7**
Textile	**8.8**	**17.3**	**1.6**
Wood	**12.2**		**14.9**
Coke & petroleum	**-17.8**		**6.9**
Chemicals	**9.8**	**-9.7**	**28.8**
Pharmaceuticals	**13.0**	**18.0**	**11.2**
Rubber& Plastic	**6.5**		**9.7**
Metallurgy	**-3.7**	**-9.1**	**-7.7**
Metal products	**2.4**	**10.7**	**3.7**
Comp electronic & optical products	**1.2**	**1.9**	**-20.3**
Electrical	**21.9**	**14.9**	**8.4**
Machin&equip.	**5.3**	**39.6**	**5.4**
Automotive	**16.1**	**55.7**	**25.9**

Source: NIS, Eurostat, Garanti Bank Research

[1] Export of the industry dropped from EUR 4 bn in 2011 to 2.7 bn in 2012.

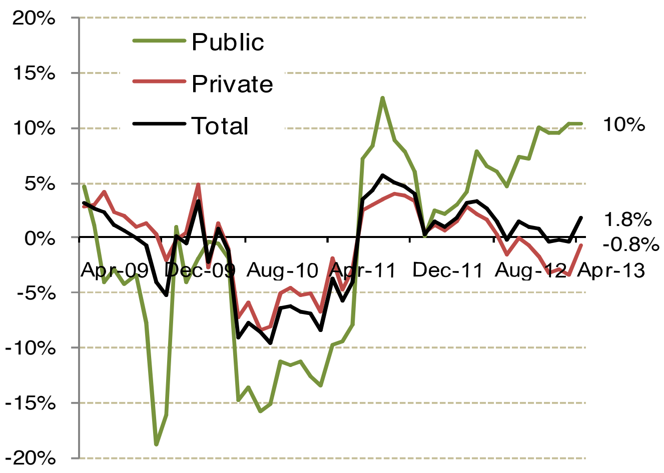
Economic Growth

Looking at the remainder of the year, the positive agricultural contribution to this year's GDP growth has been confirmed by the EC's latest report. The wheat crop production is expected to come slightly above the country's average yield at 2.99 tonnes/ha, which is around 7% higher than last year's figure (2.55 tonnes/ha). For the maize harvest an even stronger growth of 50% yoy is projected. Still, the winter crops face the risk of lower production due to the warmer than usual weather and water deficit during May. Still, our expectation of around 8% yoy growth of overall agricultural output in the last two quarters of the year is realistic under the current EC evaluation. Unfortunately, other sectors of the economy provide less evidence of recovery given the very weak domestic demand.

The question is how sustainable is a growth driven by external demand given the worsening short-term outlook for the European economies (-0.1% real drop projected for 2013 EU GDP[2]). The European business climate figures also brought mixed signals during the last couple of months. Looking at Romania's top three export partners (accounting for 38% of total export), the Germany's Manufacturing Purchasing Managers' (PMI) Index reentered growth territory only in May, while the French and Italian PMI indexes, although improving, continued to stay below 50 (the value that separates contraction from growth).

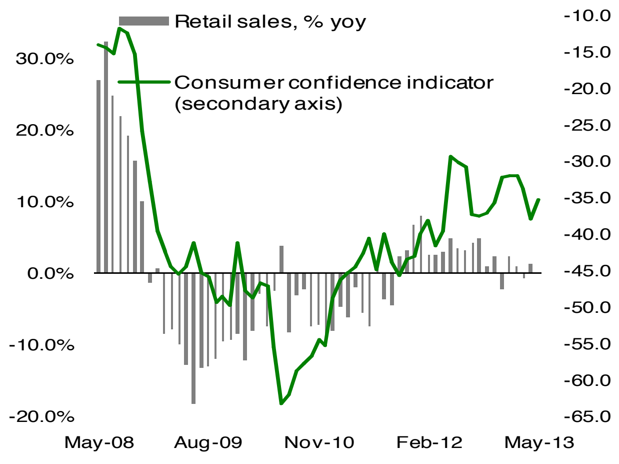
Regarding domestic demand, consumption was depressed by the continuously dropping real private wages since the second half of 2012[3]. Still, consumer morale might receive some boost from cheaper financing in local currency and the possible RON appreciation in the second part of the year, while additional support should come in the third quarter when inflation slows below 5%.

NEGATIVE REAL INCOME OF PRIVATE SECTOR



Source: NIS, Garanti Bank Research

POSTPONE ANY CONSUMPTION RECOVERY IN H1



Source: NIS, Eurostat, Garanti Bank Research

[2] EC Spring 2013 Economic Forecasts.
[3] April 2013 wages lifted by the yearly bonuses paid usually during Easter period. Consequently a negative correction of monthly wage is expected in May.

Economic Growth

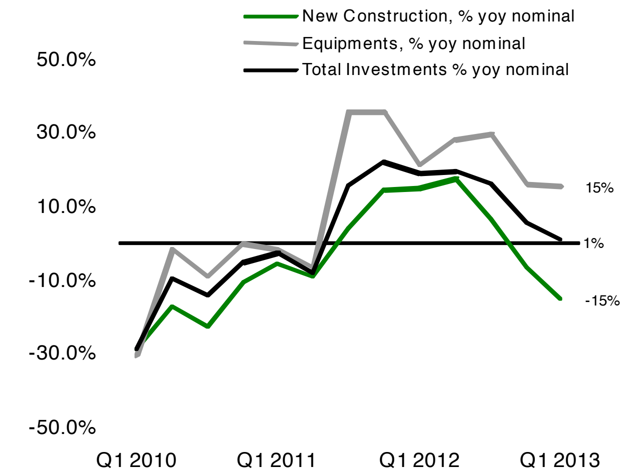
The most worrisome figures however are related to the investments' contraction (-0.7% yoy) in Q1, since they should have been the driver of growth, relying on the much needed structural changes and EU funds.

The EU structural funds are still lagging behind. Based on our estimations, EU structural funds in 2013 should amount to around EUR 2.5 bn (reaching a 37% absorption rate at the year end from the current 29% as of April 2013, based on final payments to beneficiaries) and around EUR 2 bn rural and agriculture development fund (absorption rate to increase from the current 62% as end of May to 80% at the end of December). Out of this expectation only Eur 1.4 bn was paid to beneficiaries in the first four months of the year affected by the still blocked operational programs. Four axes of the regional development operational programme have been unblocked at the end of April 2013, while the Transportation and Competitiveness Programs are waiting for a favorable decision from the European Commission at the end-June.

The result of EU Funds irregularities is reflected by the data on infrastructural works, that was the driver of the growth in the first half of 2012 but contracted during the last two quarters. Romanian net investments grew only by a modest 0.5% yoy to RON 12.35 bn (EUR 2.8 billion) in the first quarter of 2013, decelerating from the 5% yoy growth of last year. Investment in equipments (including transport equipments) stayed relatively high at 15.3% yoy in Q1, more than counterbalancing the drop of investment in new construction (-15.2%). Construction works overall dropped by 5% yoy in Q1 due to the civil engineering constructions' drop of 12% yoy. Moreover, the better performance registered for residential and non-residential buildings were determined by capital repairs.

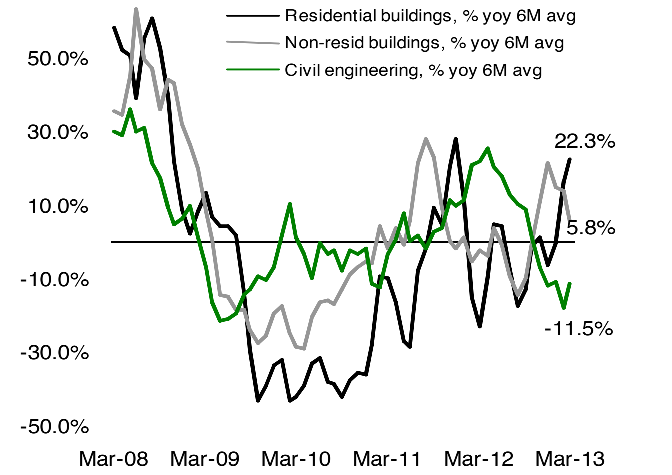
Under such conditions, there is a risk of a slower recovery of investment projects and weaker than previously expected domestic demand. Consequently, despite the positive surprise of the Q1 figures we keep our expectations at 1.7% real growth. Nevertheless, hopes are still related to the re-launch of major infrastructural projects that should become visible in the second half of the year.

INVESTMENTS LOOSENING ITS STREINGHTS OF LAST YEAR, REACCELERATION NEEDED



Source: NIS, Garanti Bank Research

INFRASTRUCTURAL WORKS, STILL LAGGING BEHIND



Source: NIS, Garanti Bank Research

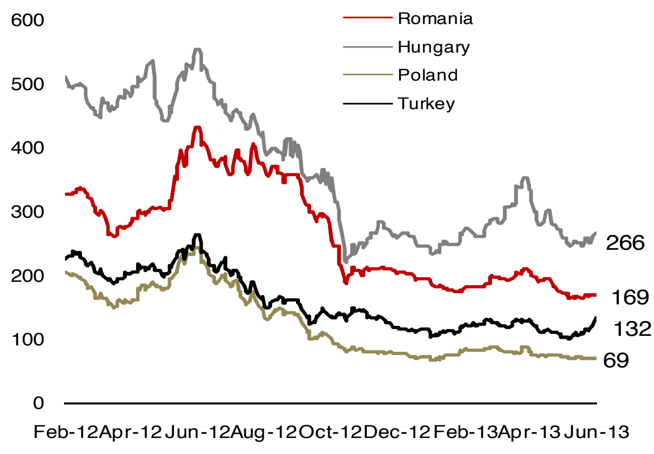
Country risk

Improved country risk profile but vulnerability remains amid changes in global risk assessment

The recent improvements in macroeconomic imbalances (public budget deficit and current account deficit) amid stable political environment and government commitments to structural changes might have been the base for some upgrades in sovereign ratings and/or outlook. Nevertheless, recent assessment by S&P rating agency at the beginning of May[4] did not provide the expected upgrade and they intend to postpone such action till more clear results of structural reform are reflected in the re-launch of the economic growth.

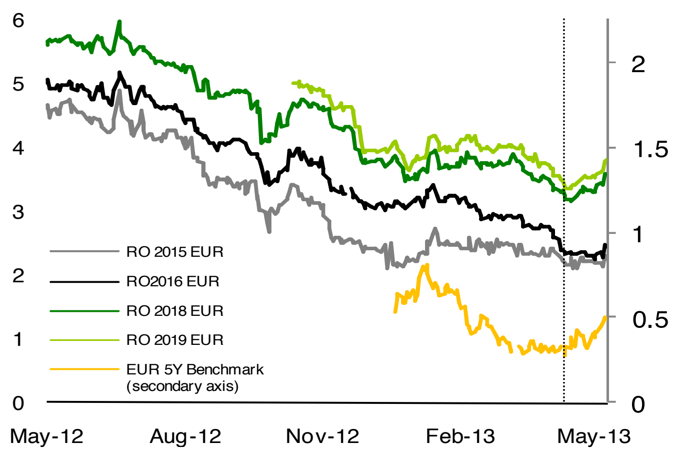
The IMF experts have agreed to prolong Romania's current stand-by arrangement by three months until July to carry out the privatisations' plan. The full completion of the targets will be evaluated on the 26th of June and a possible follow-up agreement will be decided in case of a positive evaluation. While the 15% SPO in Transgas was closed successfully on the 16th of April and several steps for the privatisation procedure of other companies[5] have been taken, there are still at least three state controlled companies for which the privatisation is more difficult due to the huge accumulated debts, like the cargo railway company CFR Marfa, chemical plant Oltchim and postal company Posta Romana. Out of these, the priority for the IMF evaluation in June will be the CFR Marfa for which the debts accumulated to the state have been deleted just at the beginning of June. The privatisation result is scheduled on the 20th of June, just before the IMF assessment. Despite the partially uncompleted IMF targets, a new precautionary stand-by agreement is still possible given the strong commitment of the government to continue with the privatisation. This would strengthen the country's credibility regarding its structural reforms.

IMPROVED COUNTRY RISK, 5Y EUR CDS



Source: Reuters, Garanti Bank Research

EXTERNAL FINANCING DEPENDS ON GLOBAL RISK ASSESMENT, YIELDS FOR EUROBONDS



Source: Reuters, Garanti Bank Research

[4] On the 9th of May the S&P confirmed the rating of Romania at BB+, with a stable outlook (noninvestment grade). Fitch and Moody's rate Romania at the lowest level of investment grade.

[5] 51% stake privatisation in power distribution company Electrica scheduled for October 2013, 10% IPO at nuke power plant operator Nuclearelectrica to take place in July 2013, 15% IPO of the largest electricity producer and coal mining complex in the country CE Oltenia in the fall (Oct-Nov).

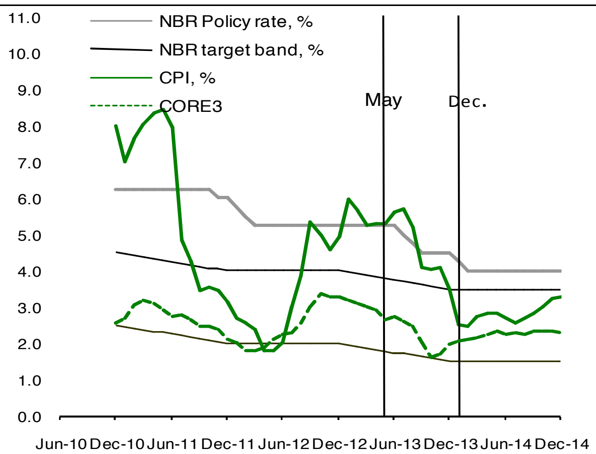
Inflation

Improved expectations

The May headline inflation came slightly above our expectation at 0.2% mom hike, that resulted in 5.3% yearly growth but still in line with our end-year forecast of 3.5%. The negative surprise came from the fruits and vegetable price jump (5.7% and 7.2% mom, respectively). The inflation adjusted by administrative prices, volatile prices and tobacco and alcohol products (CORE 3), which is more relevant for monetary policy decisions, decelerated further to 2.7% yoy from 3.5% yoy at the end-2012. There is a widespread improvement in price expectations given the positive surprises of the last couple of months and food price drop on the back of good harvest projected this year. More importantly, expectations show entering the NBR's target band already this year that support the planned NBR rate cuts.

For the upcoming period further price pressure is expected to come from energy prices. The electrical energy price liberalization[6] agreed with the IMF will start this year with 10% in July and reaching 100% liberalized prices at the end of 2017. In January it has been already implemented a 10% hike of electric energy prices (6% coming from regulated prices and 4% from green energy support). The gas prices have been announced to increase by 10% in two steps in July and October. Overall energy prices in 2013 expected to rise by 14% yoy. Additionally, green energy subvention is expected to result in additional 4% electricity price hike in July. However, the government has just announced based on a new ordinance that the issuance of tradable green certificates to green power generators will be delayed and the licensing of new production capacities will be restricted. Nonetheless, the wind power association already challenged the amendments, saying they need to be endorsed by the European Commission. For the moment we kept in our calculation the price hike resulted from green energy subvention.

IMPROVED INFLATION EXPECTATIONS



Source: NIS, NBR, Garanti Bank Research

ENERGY PRICE LIBERALISATION ADDING TO FOOD PRICE SHOCK; ANNUAL INFLATION

	Jun-13	Sep-13	Dec-13
Energy prices	15.0%	17.4%	13.6%
Fuel prices	0.4%	-1.3%	3.0%
Fruits, Vegetable, Eggs prices	22.6%	7.5%	3.6%
Core2 adjusted	2.8%	2.0%	2.0%
CPI	**5.6%**	**4.1%**	**3.5%**

Source: NIS, Garanti Bank Research

6 Based on the Quarterly Report on European Electricity markets, households in Romania currently pay around 10.5 cents/kWh, 3 times lower than the most expensive EU member. When correcting household consumer prices of electricity for purchasing power parity (PPS) the picture changes: Romania pays 21 cents/kWh, two times more than the cheapest and two times lower than the most expansive price paid by an EU member state.

Monetary Policy

Monetary policy - Time for rate cutting!

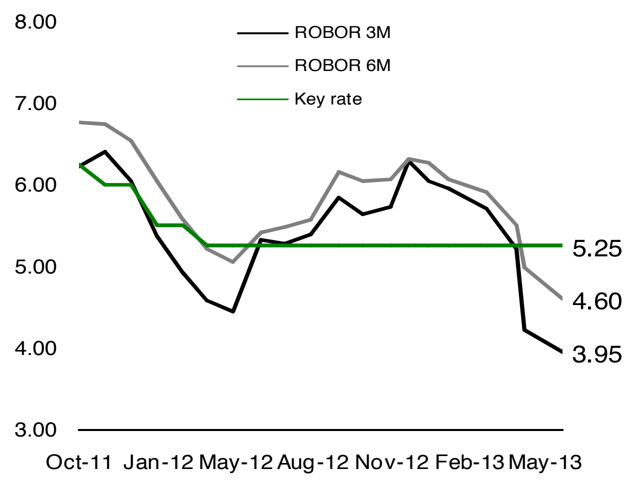
NBR refrained from cutting rates from 5.25% in its last meeting due to still high inflation but reiterated their intention to start the key rate cutting cycle already this year and to implement it in several steps... Separately, they decided to narrow the symmetrical corridor around the monetary policy rate for the interest rates on the NBR standing facilities to +/- 3 percentage points from +/- 4 percentage points. Therefore, the interest rate on the NBR's lending facility (Lombard) will be lowered to an annual 8.25% from 9.25%, while its deposit facility rate will stand at 2.25% per annum versus 1.25% previously.

Based on hawkish statements of the NBR governor, we expect a total 0.75 percentage points rate cut in 2013 and additional 0.5 percentage points at the beginning of 2014. This mean 3 cuts out of the four monetary policy meetings to be hold till the year end. Possible strong depreciation pressures on RON, just as seen at the beginning of June might determine the NBR to hold temporary the yields in an attempt to defend the currency. Still, the huge output gap in Romania and still contracting lending activity call for cheaper financing. Given the improved inflation expectations, NBR is able to give a helping hand for the struggling domestic demand through a softer monetary stance.

The Central Bank eliminated the cap on the regular weekly repo at the beginning of March, which resulted in improvement in liquidity conditions with rates on money market and state securities yield even below the key rate.

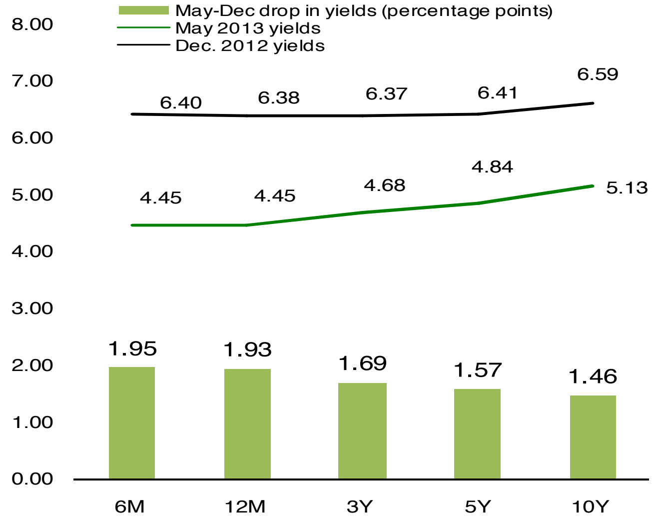
Cuts in the rates of reserve requirements remain a possibility, but rather shifted towards the end of the year/next year. If there is good liquidity on money market there is no reason to cut the minimum reserve requirement for local currency; moreover they will probably use the REPO instrument for any need of further liquidity.

LOOSE CONTROL OVER LIQUIDITY PUSHED MONEY MARKET RATES BELLOW THE KEY RATE



Source: NBR, Garanti Bank Research

MF REFINANCING AT STILL LOW COSTS; YIELD CURVE'S DOWNWARD SHIFTED IN MAY



Source: NBR, Garanti Bank Research

Fiscal Policy

Off track in April but some hope for corrections still exist

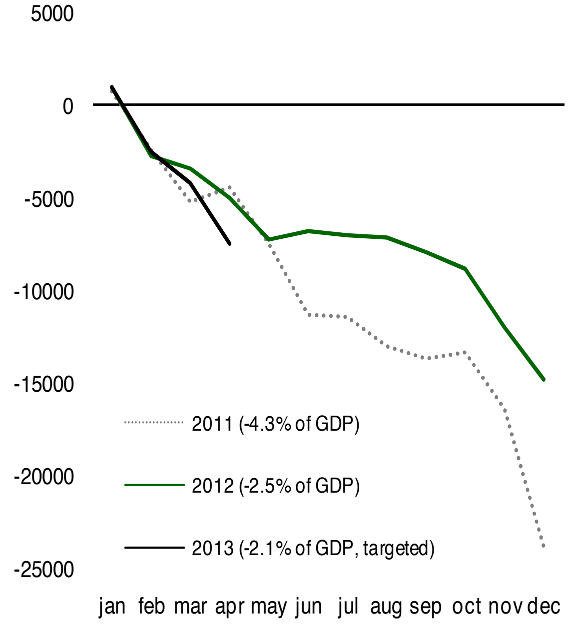
Romania managed to leave the excessive deficit procedure (EDP) in May 2013 since it ended the year 2012 with a budget deficit of 2.5% of GDP in cash terms or 2.8% in accrual terms. We consider this move important since it justifies that major fiscal imbalances accumulated through years have been corrected and this opens up room for softening monetary policy.

Nevertheless, just following the good news, the April budget deficit figures surprised on the negative side at RON 7.5 bn deficit, almost doubling from the end-March figures and 49% deeper than the deficit for the same period of last year. More alarming is that it reached already 1.2% of GDP (0.85% as of April 2012), threatening the Ministry of Finance's deficit target for 2013 (2.1% of GDP) and even our forecast of 2.5%.

Revenues rose by 4.3% yoy, helped by the strong performance of income (11% yoy) mainly due to public wage hike and good collection of VAT (6% yoy) and excise duties (13% yoy). On the negative side, the profit tax contracted by 3.5% yoy while EU transfers were 10.6% less compared to last year. The effect of the new tax code enforced as of February to bring additional revenue is not visible while companies are still suffering from the recession.

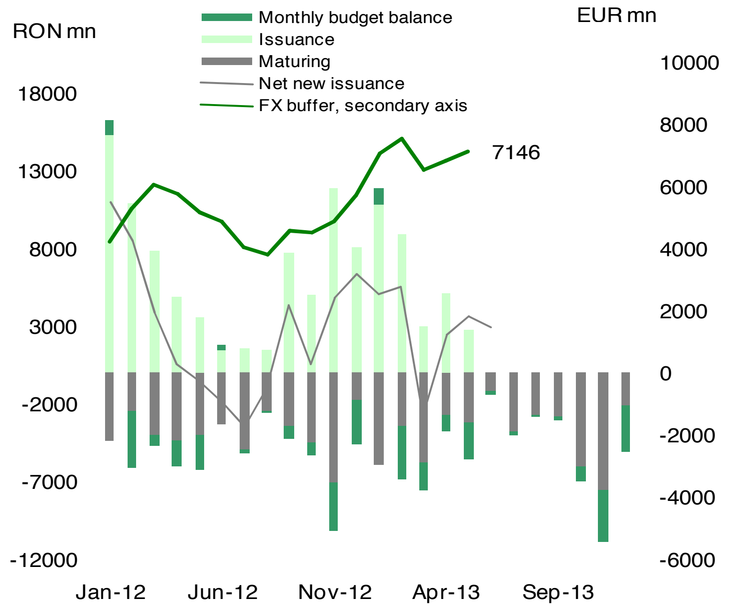
The decline in the profit tax revenues in Q1 was also caused by the Q4 profit tax payment postponement from January to March 2013, but at the end of April it should have been corrected. The drop rather shows that due to prolonged recession companies are not generating profits.

DEFICIT OFF THE TRACK



Source: MF, Garanti Bank Research

CONFORTABLE FX BUFFER OF MF TO FINANCE DEFICIT



Source: MF, Garanti Bank Research

The new tax code aiming at new sources of profit tax might also help in the second part of the year. Income tax on agriculture cannot be visible yet since it is paid to the State Budget two times per year (25 October and 15 December). Nevertheless, the profit tax of micro-firms calculated mandatory on turnover instead of profit was designed to bring additional revenue for the budget. Whether it is a good measure we will see at the next quarterly payments.

The structure of spending is also disappointing. The budget spending increased as of April by 7.6% yoy. Personnel spending accelerated further at 28.2% yoy, above the public wage hike of around 16%. The capital expenditures accelerated during April, but unfortunately not those with EU financing. The spending for EU financed project is 30% lower than last year. This is a bad sign; although during the first months there were some technical blockages like the new budget law, which was approved only in early March, while the EU funds were blocked due to investigations. An acceleration of EU funds' absorption will be crucial for the next month's budget execution but also for economic growth.

Overall, the major concerns are related to the profitability of Romanian companies, the capacity of the new tax code to collect the planned additional amount (around RON 3 bn or 0.5% of GDP) and the administrative capacity of the state to accelerate the EU funds' absorption.

Public Financing

External financing soured due to increasing global risk aversion but re-financing risk remains low

During last two quarters, the Ministry of Finance (MF) increased successfully its foreign currency buffer by selling EUR 2.25 bn (Sept-Oct 2012) and USD 1.5 bn (Feb 2012). The MF also announced that the external financing this year would be achieved under the EMTN Programme, which will be increased and extended up to 2015, by issuing an indicative volume of EUR 2.5 bn, out of which 1-1.5 bn expected to be issued in June 2013.

External financing costs for Romania decreased by around 200 bps during the last year amid improved country risk profile and increasing global liquidity. Nevertheless, most of the developing countries have been negatively affected since May 2013 by the increased expectations of market participants regarding the exit of the USA Federal Reserve's quantitative easing program.

On the positive side, thanks to good issuance at the beginning of the year, the FX buffer stays at the end of May 2013 at a more than comfortable level of EUR 7.1 bn that covers one third of total public debt service and decreases significantly the pressures on the refinancing of the IMF loan this year. Still, the macro stability of the country should be enforced to keep the country's attractiveness for the next bond issues.

IMF reimbursement calendar (EUR mn):

Q1 2013	Q2 2013	Q3 2013	Q4 2013
991	1302	1293	1508

External Accounts and Financing

Historically low trade deficit; strong portfolio investments, FDI lagging behind

Current Account

During the first four months of 2013, the current Account remained on surplus of EUR 0.05 bn, significantly improving compared to the EUR 1.5 bn deficit recorded in the first four months of the last year. Its major component, the goods' trade deficit (FOB-FOB) narrowed by 51% to EUR 956 mn, with export growth (7.2% yoy) outperforming the imports' growth (0.5% yoy). Even more impressive is the growth of exports outside of EU by 9.7% yoy in the first four months of 2013. Diversifying its export destinations outside EU (intra-EU represents 71% of total exports) definitely would be the proper strategy to follow for Romania amid stagnating Europe.

Export figures are above expectations; however we doubt their sustainability at this current performance. The drop in imports shows some reorientation of consumption towards domestic versus imported products but it shows also the weak consumption and investments. The CA adjustment has been also helped by the improved income balance (23% yoy) and a service balance turning positive (721 mn in Q1 2013 versus -130mn in Q1 2012). On the negative side, the net current transfers that stabilized during the last two years at around EUR 3.4 bn net, deteriorated by 31% yoy in the first four months of 2013. An improvement is expected on this component since the entire drop is due to lower EU money transfers due to the temporary blockage of EU funds.

We expect some slowdown in the export growth for the rest of the year given the still contracting EU economies (the major export partner) while some acceleration in imports should come as growth and consumption reenter positive growth. We expect the CA deficit to slightly adjust to 31% in 2013 amid export growth slightly outperforming the import growth (4.7% yoy and 2.8% yoy, respectively).

External Debt

Romania's total medium- and long-term external debt increased moderately in the first four months by 2.1% yoy to EUR 80.3 bn. Out of this, EUR 7.8 bn was the Central Bank's debt to the IMF, which decreased by 9.7% yoy (by EUR 0.8 bn). The private sector's external debt stayed relatively stable at EUR 36.7 bn (EUR 400 mn less than one year ago). External public medium- and long-term debt had the strongest growth by 16% yoy to EUR 27.4 bn at the end of April 2013. The EUR 3.8 bn rise in public indebtedness during this period was prompted by Eurobond issues in amount of EUR 2.25 bn in second half of 2012 and USD 1.5 bn in February this year. The short-term debt stabilized at EUR 20.6 bn, close to the value of last year. Romania's total external debt thus edged up slightly by 2% yoy at the end of April2013 to EUR 101 bn (70.4% of GDP).

FX reserves

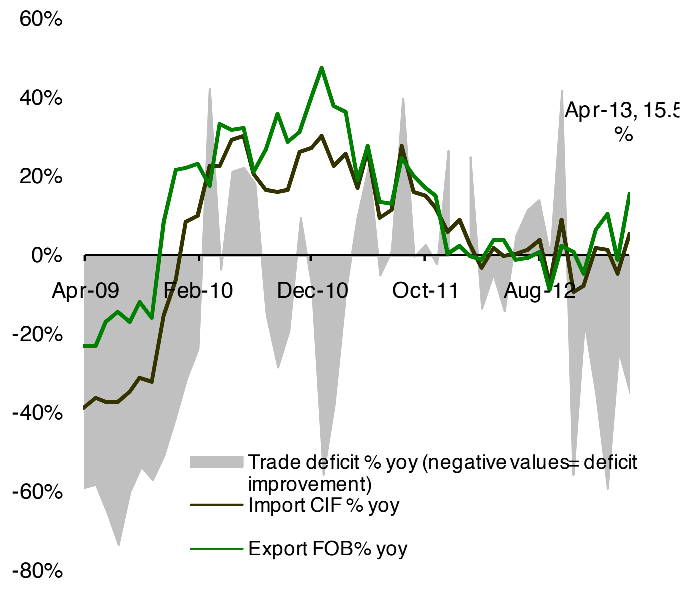
The Romanian foreign exchange reserves rose slightly to EUR 32.69 bn in May, from EUR 31.21 bn at the end of 2012. Inflows also include the Euro equivalent amount of approximately EUR 1.1 bn resulted from the issuance of bonds denominated in USD in February by the MF on the foreign market, while outflows also include the amount of approximately EUR 0.7 bn, representing the payment of the fourth principal installment and interest on the IMF loan. FX reserves stay at a comfortable level by covering 7 months of imports.

FDI and other financing sources

The lack of new investment projects amid fragile domestic demand and postponed EU financed projects are threatening our expectations of 2.5 bn EUR for 2013. The FDI in the first four months of the year inched down at EUR 322 mn compared to the 2012 four months figure of 494 mn. Nevertheless, there was a record high inflow of portfolio investment during the first couple of months of the year. After the outflow of around EUR 1.9 bn during the political instability in the summer of 2012, during November 2012-February 2013 period it was an inflow of EUR 5.55 bn, being one of the major financing sources of the country besides current transfers. A positive event enforcing this trend at the end-2012 and beginning of 2013 was the announcement of inclusion of Romanian bonds in Barclays EM Local Currency Government Index and JP Morgan's GBI-EM Indices, respectively. Despite the worsening financing conditions of emerging markets the Romanian governmental debt market can still offer an interesting opportunity for foreign investors with relatively higher yield amid improved macro environment. Moreover, the major part of the proposed privatization will imply IPO or SPO deals that should bring fresh capital on stock exchange.

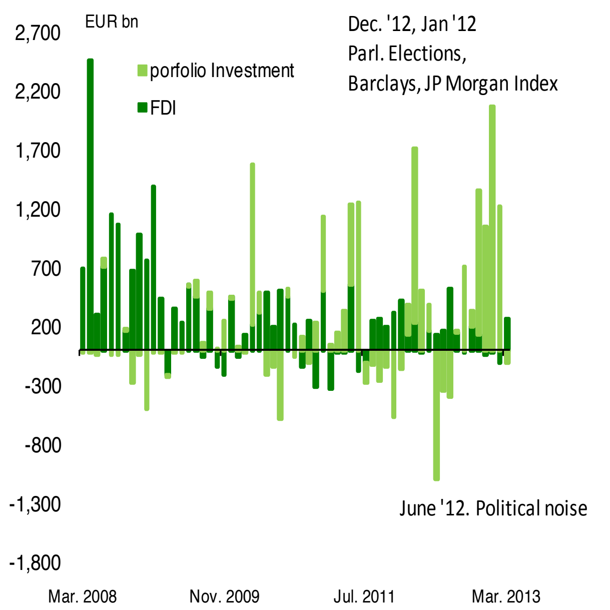
Portfolio investments and current transfers (including both transfers of Romanians working abroad and EU funds) play an important role in the upcoming period to mitigate the financing pressure deriving from IMF reimbursement and banking system cutting gradually its external financing.

CURRENT ACCOUNT IMPROVING ON THE BACK OF STRONG EXPORT



Source: Eurostat, Garanti Bank Research

PORTFOLIO INVESTMENT BOOSTED BY IMPROVED COUNTRY RISK



Source: NBR, Garanti Bank Research

FX Outlook

Volatility is back with some space for appreciation in the second part of the year

The Romanian currency was significantly affected by the global risk reassessment and move of liquidity towards lower-risk areas as market adjustment to the prospect of nearer-term interest rate increase for developed countries. Still, we keep our expectation of RON to appreciate by around 2% during 2013 driven by the improved country risk and the new investment alternatives.. Currency evolution will strongly depend on Romania's ability to attract new foreign capital for its state securities and for privatisation of state owned enterprises.

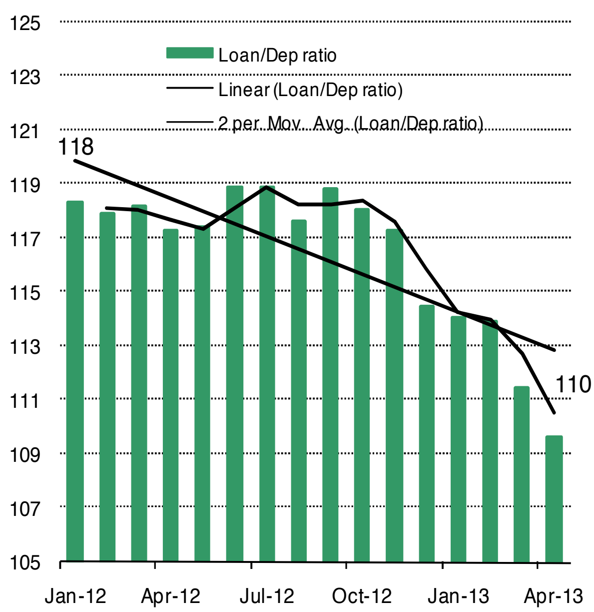
We expect the EUR/RON to stabilize at around 4.35 by the year-end and 4.25 for 2014, under the assumption that the political environment stays calm. Still, some risk remains on the Romania's capacity to attract long-term foreign investors in the near future given that the re-launch of its sustainable growth is still not visible while the promising structural reforms are lagging behind and this way making the country more vulnerable on global/regional movements. Moreover, the increased reliance on short-term financing makes the currency more sensitive to global/regional movements.

Bank flows

Time for cheap RON financing!

The loans to deposits' ratio of the Romanian banking system further adjusted at 110%. The lower lending to the private sector is now entirely financed by the domestic savings.

DELEVERAGING CONTINUES



Source: NBR, Garanti Bank Research

BANKING VOLUMES AS OF APRIL 2013 CALL FOR RATE CUT

	Private Domestic Loans		Private Domestic Deposits	
	EUR bn	% yoy	EUR bn	% yoy
Total Non-Gov. Domestic	50.9	-1.1	46.4	5.4
RON	19.4	3.0	29.6	-0.2
FX	31.5	-3.4	16.8	16.7
Total Household	23.6	-1.4	28.9	6.6
RON	7.8	-1.6	17.8	1.4
FX	15.8	-1.3	11.1	16.0
Consumer	15.0	-7.1		
RON	7.3	-3.1		
FX	7.6	-10.6		
Housing loans	8.6	10.1		
RON	0.5	29.8		
FX	8.1	9.2		
Non-fin. Companies	26.7	-0.8	14.2	1.5
RON	11.2	7.9	9.4	-3.9
FX	15.5	-6.1	4.7	14.1
General government	2.2	9.8	7.3	-11.0
Non-residents	9.9	34.1	29.0	-16.7

Source: NBR, Garanti Bank Research

Bank flows

Moreover, the external lines of financing are in a continuous drop (-16.7 yoy as of April 2013). On the annual basis the total non-governmental loans contracted by 1.1%.

On the positive side, the housing loans further increased by 0.8% mom, reaching 10.1% annual growth. Total non-governmental deposits performed still well during April 2013 with some reacceleration of FX deposits. The trend of keeping deposits in hard currency and protecting against any depreciation resulted in a 16.7% yearly growth as of April, mainly driven by the accumulation of households' savings. The deposits of companies showed also some signs of recovery in 2013. Following the drop of 3.4% of last year, given the hard economic conditions and drop of their activity and liquidity, we can see a 1.5% yoy growth as of April 2013.

Demand for loans remained very weak overall in Q1 2013 and it dropped even further for consumer loans. Credit standards significantly tightened for companies and housing loans. The credit terms tightened for companies due to more restrictive contractual clauses and rising collateral demand. Further tightening is expected during the second quarter[7].

During the last couple of years, the RON financing became more attractive for certain types of loans compared to the previous year. For example, the local currency denominated housing loans promoted through lower RON interest rates (just 3.2 percentage points above the FX interest rate as of April 2013), is still the most dynamic component with 29.8% yoy growth as of April 2013[8]. On the contrary, consumer loans are still blocked by the relatively expensive local currency financing (RON interest rates above the FX interest rates by around 9 percentage points on average as of April 2013) and by restrictions stipulated by the NBR regulation[9] on FX denominated household loans. Companies also reoriented towards loans denominated in domestic currency (just 4.5 percentage points above the FX interest rates as of April 2013), which resulted in 7.9% annual growth versus the 6.1% contraction of FX denominated loans, as of April 2013. More restriction on FX lending has been enforced as of March 2013, addressing this time companies, whose revenue is not in hard currency[10]. For some clients, the RON lending might become the only alternative, so the RON interest rates are receiving more weight in financing decision.

Under these circumstances, the softening monetary policy already announced might play an important role in stimulating both consumption and investments through the re-launch of lending activity.

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[7] Based on the Bank Lending Survey, May 2013. Credit standards refers to internal credit regulations or criteria that guide the credit policy of the banks while Credit terms refers to loan covenants set up by lenders and borrowers in the credit agreement, such as: interest rate, collateral, maturity etc.

[8] The growth rate is higher also due to lower base.

[9] NBR Regulation no. 24/2011 enforced as of February 2012.

[10] NBR Regulation no. 17/2012 enforced as of March 2013.

Main macroeconomic data and forecasts

	2010	2011	2012	2013F	2014F
Economy					
Nominal GDP, (EUR bn)	124.1	131.4	131.8	143.7	156.2
GDP per Capita (EUR)	5,773	6,899	6,939	7,563	8,261
Real GDP, (% yoy)	-1.6	2.2	0.7	1.7	2.9
Agriculture, % yoy	-5.5	12.4	-21.6	6.6	3.0
Industry (except construction), % yoy	4.0	0.1	-1.0	1.5	2.9
Construction, % yoy	-4.5	-6.4	-0.3	0.7	3.9
Wholesale and retail trade; tourism and transport, % yoy	-2.4	-2.1	1.5	1.1	2.8
Other services, % yoy	-3.1	8.8	9.1	3.1	3.2
Public administration, % yoy	-6.3	0.6	2.4	0.2	1.0
Population, (mn)	21.5	19.0	19.0	19.0	18.9
Avg net monthly wages (EUR, nominal)	334	348	347	378	406
Avg net monthly wages (% yoy, RON)	1.8	4.9	4.8	5.8	6.0
Unemployment rate, ILO, avg	7.3	7.4	7.0	7.3	7.0
External Accounts					
Current Account (EUR bn)	-5.5	-5.9	-5.2	-4.5	-5.2
Current Account (% of GDP)	-4.4	-4.5	-3.9	-3.1	-3.4
Export (EUR bn)	37.4	45.3	45.1	47.2	50.5
Import (EUR bn)	45.0	52.7	52.4	53.9	57.9
Export (% yoy)	28.5	21.2	-0.5	4.7	7.0
Import (% yoy)	25.1	17.2	-0.5	2.8	7.5
Trade balance FOB-FOB (EUR bn)	-7.6	-7.4	-7.4	-6.7	-7.5
Trade balance FOB-FOB (% of GDP)	-6.1	-5.6	-5.6	-4.7	-4.8
Net FDI (EUR bn)	2.2	1.8	1.6	1.8	3.4
Internat. reserves incl. Gold (EUR bn)	35.2	36.8	35.4	30.9	27.4
Gross Foreign Debt (% ogf GDP)	74.5	75.1	75.2	70.3	65.9
Fiscal Accounts					
Budget Balance (% of GDP)	-6.4	-4.3	-2.5	-2.5	-2.2
Public Governmental Debt (% of GDP)	34.9	37.8	38.6	38.5	38.3
Inflation/Monetary/FX					
Inflation (CPI) yoy, eop	8.0	3.1	5.0	3.5	3.2
Inflation (CPI) yoy, yearly average	6.1	5.9	3.3	4.9	2.8
Central bank reference rate, eop	6.25	6.00	5.25	4.50	4.00
Central bank inflation target	3.50	3.00	3.00	2.50	2.50
1M Robor, eop	4.05	5.72	6.04	4.09	3.90
1M Robor, avg	5.90	5.27	5.22	5.07	4.00
EUR/RON, eop	4.28	4.32	4.43	4.35	4.25
EUR/RON, avg	4.21	4.24	4.46	4.33	4.27

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