

Financial Markets Economics

Sunshine after rain?

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WHOLESALE BANKING

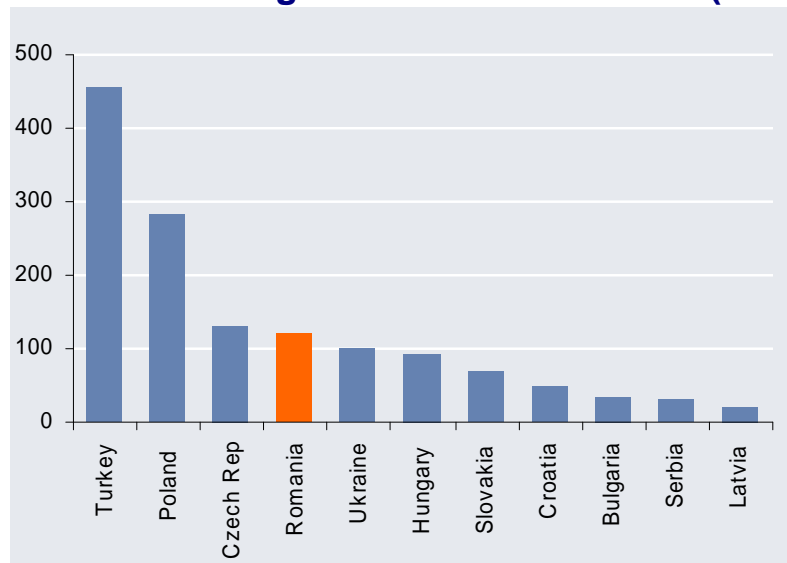
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Romania - overview

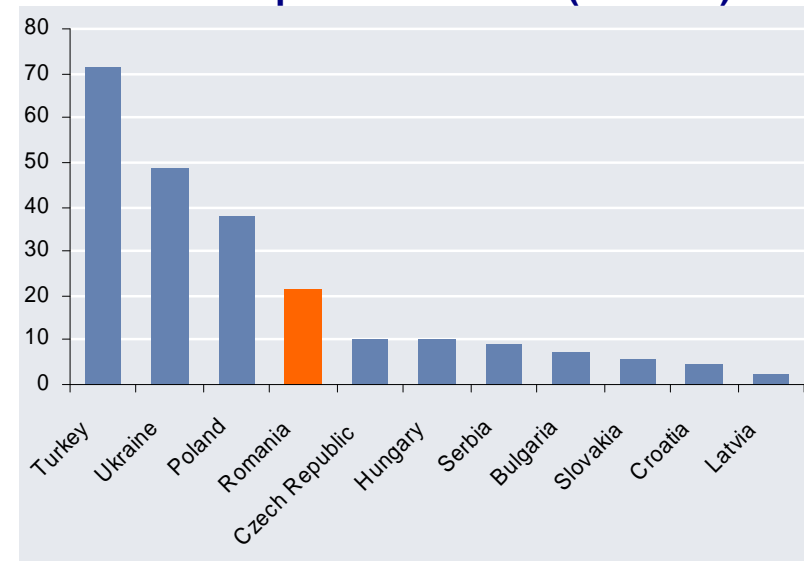
- Second largest market (21.49 million inhabitants) in Central and Eastern Europe, after Poland
- Member of EU since January 2007; ERM2 entry scheduled for 2012, euro adoption for 2015.
- Country rating is sub-investment grade:
 - Moody's has long-term FCY debt rating at Baa3 (stable outlook)
 - S&P changed in October 2008 the rating to BB+ with negative outlook
 - Fitch downgraded Romania in November 2008, negative outlook (rating at BB+)
 - Moody's reaffirmed the Baa3 rating in September 2009

GDP of regional countries in 2008 (€bn)



Source: national sources

Population in 2008 (millions)



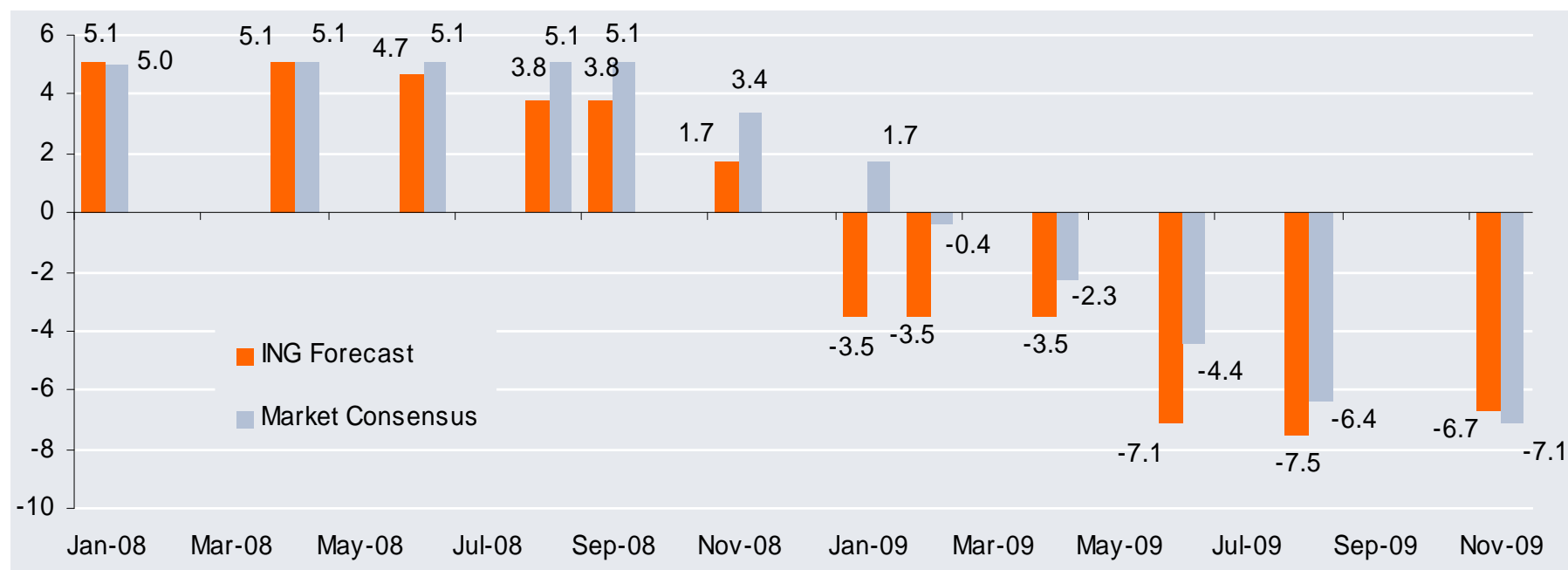
Source: national sources



Expectations about Romanian economy in 2009

The story in Romania was similar to global developments

- We were unable to escape the crisis that started in US as we live in a global economy
- Significant dependence on foreign borrowing accentuated the downturn against a backdrop of weak monetary and fiscal policies (especially the later)

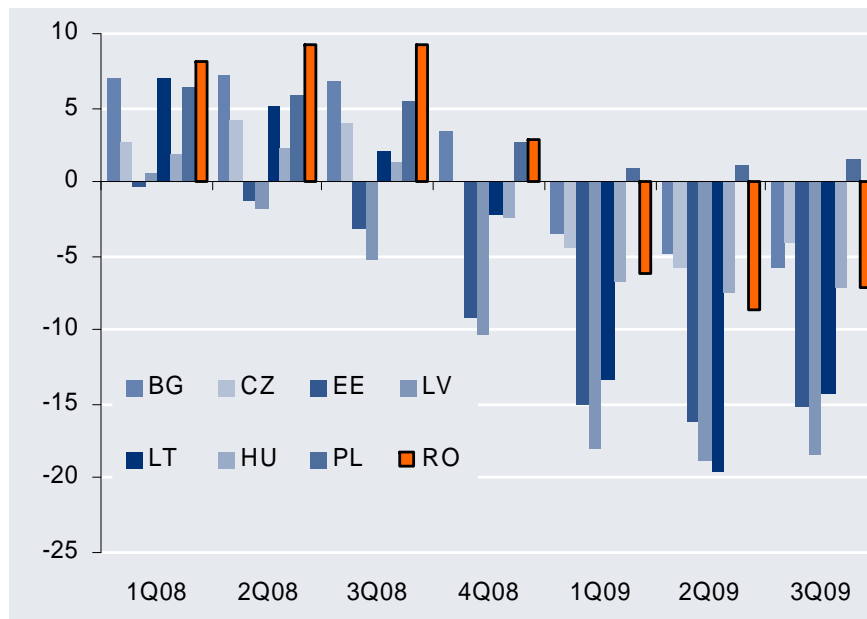


Source: Reuters

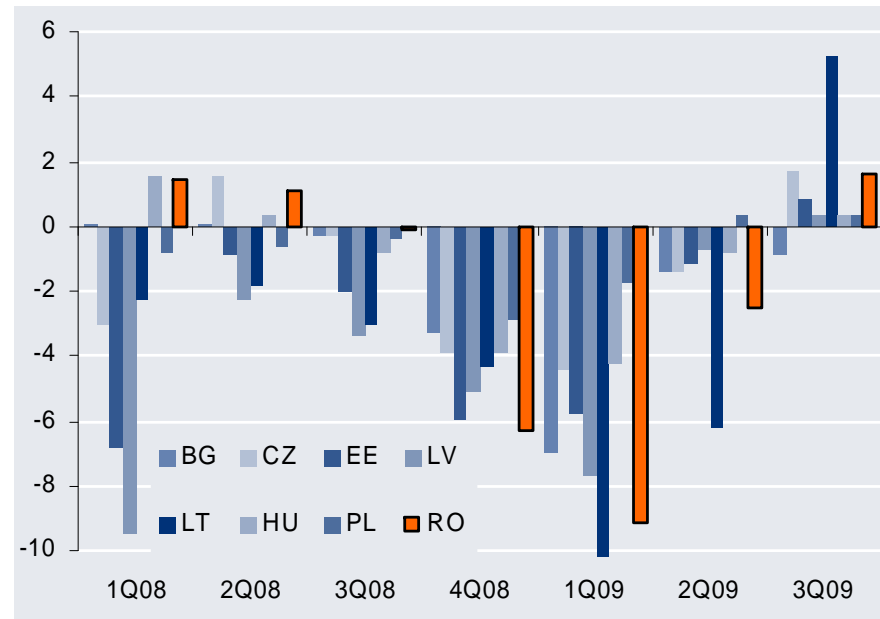
Putting GDP dynamics in a regional context

- Romania 1H09 GDP contraction in annual terms seems average in the CEE region
- However, when looking at changes in annual rates vs the previous quarter, Romania's contraction was one of the sharpest in the region
- This is in spite of Romania's better position than its regional peers in terms of credit to GDP ratio and exports to GDP ratio
- It is heavily related to the "firm" RON protection and high interest rates at end-2008 and early 2009, as well as to very loose fiscal policy

GDP (% YoY)



Change in annual GDP rates (pps)



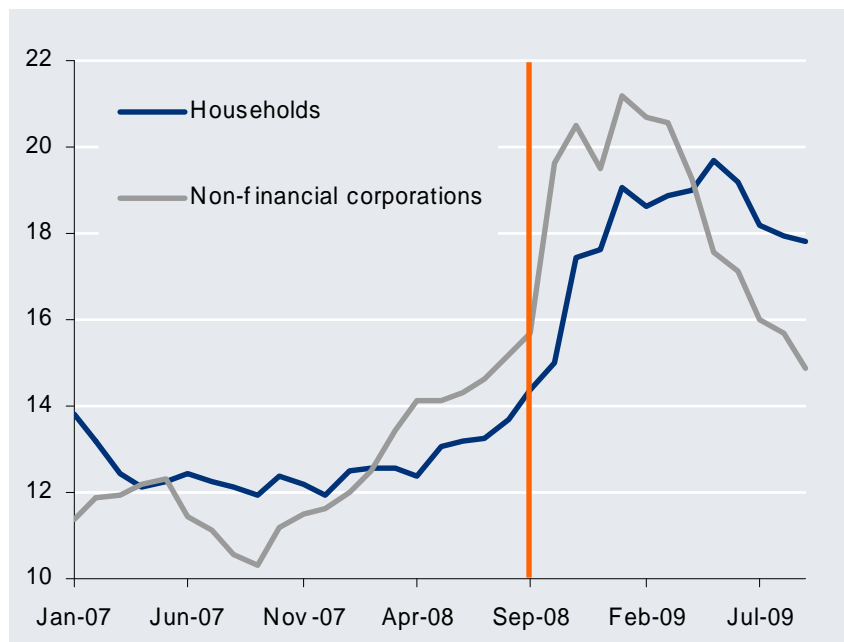
Source: Eurostat



Main factors behind the slump

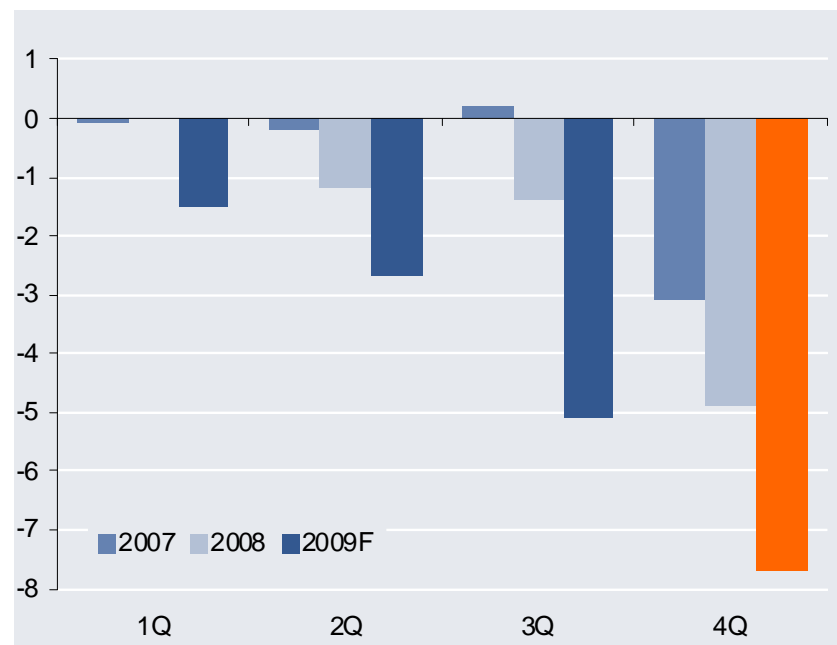
- We believe two factors intensified the slump which was mainly caused by global factors
 - Policymakers' strategy to prevent the RON from falling, which exacerbated capital outflows and currency speculation causing the banking lending to freeze because of higher RON rates
 - The huge fiscal spending during the last two months of 2008 while revenues were falling that led to arrears and crowded out private investment

Average interest on new business RON loans



Source: NBR

Public deficit dynamics (% of GDP, cash)

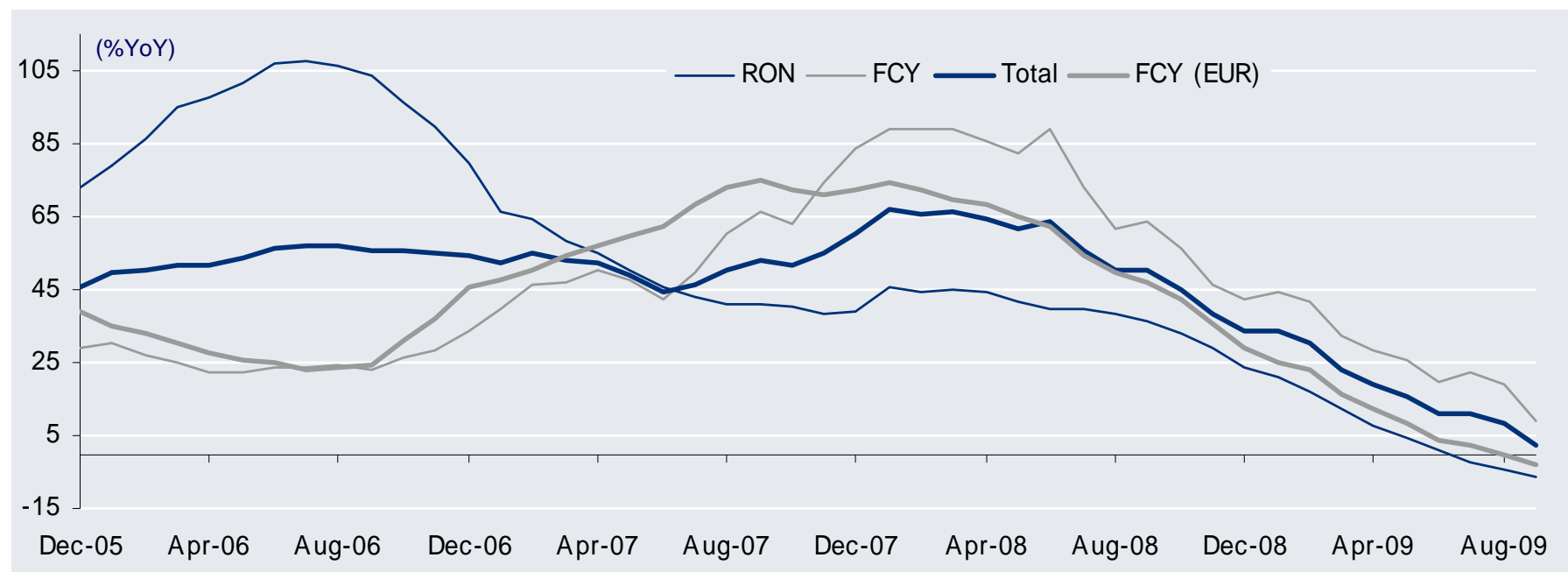


Source: MinFin, ING estimates



Lending activity is contracting sharply

- The sharp increase in market rates translated into higher lending rates
- This exacerbated capital outflows and currency speculation and caused the banking lending to freeze
- Lending activity suffers due to both supply and demand reasons (negative YoY growth rates)
- The outlook for demand recovery is poor given that we might only see a very slow recovery in lending towards end-2009 and/or early 2010



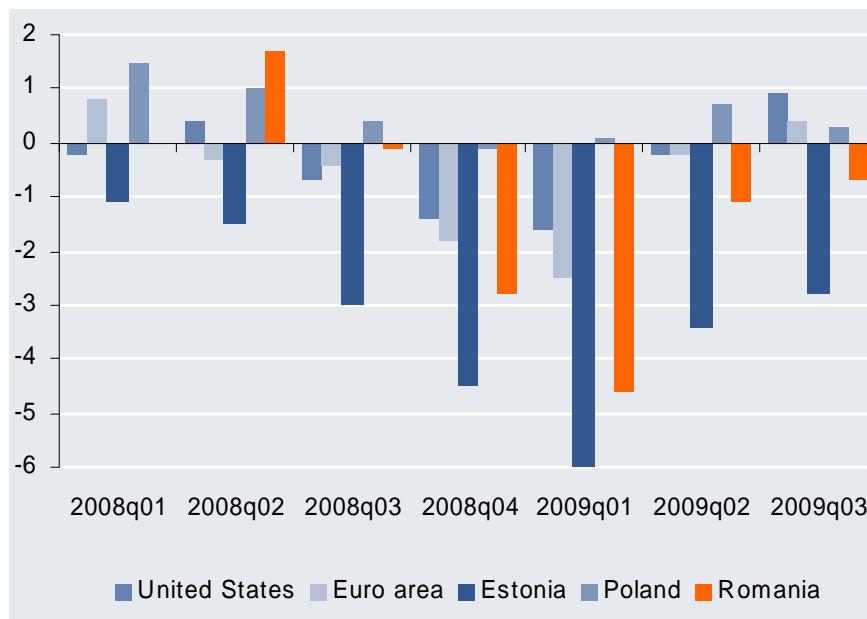
Source: NBR



Light at the end of the tunnel?

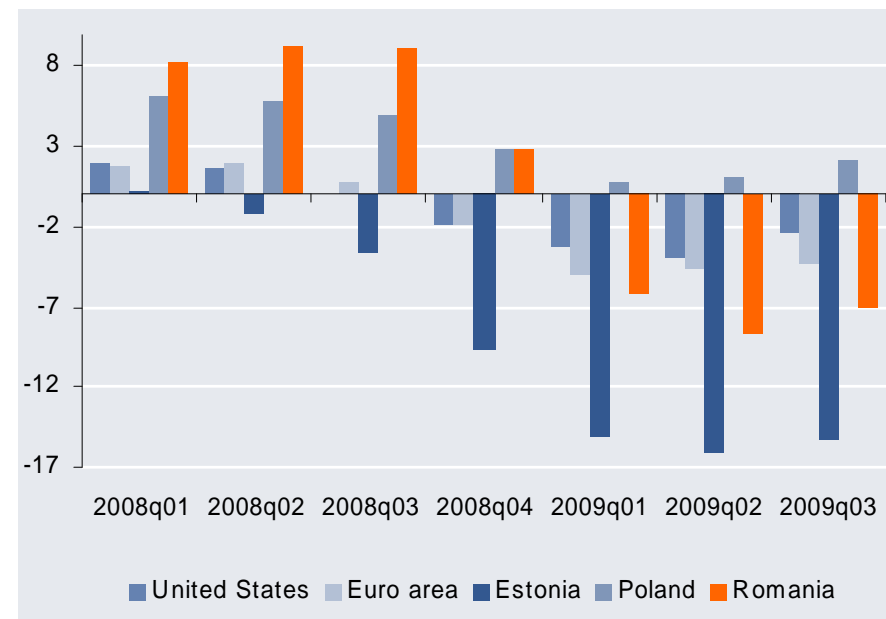
- Romania was impacted with a delay (about a quarter)
- But this is also good for the recovery story... We should benefit (again with a lag of one-two quarters)

GDP (%qoq, seasonally adjusted)



Source: Eurostat

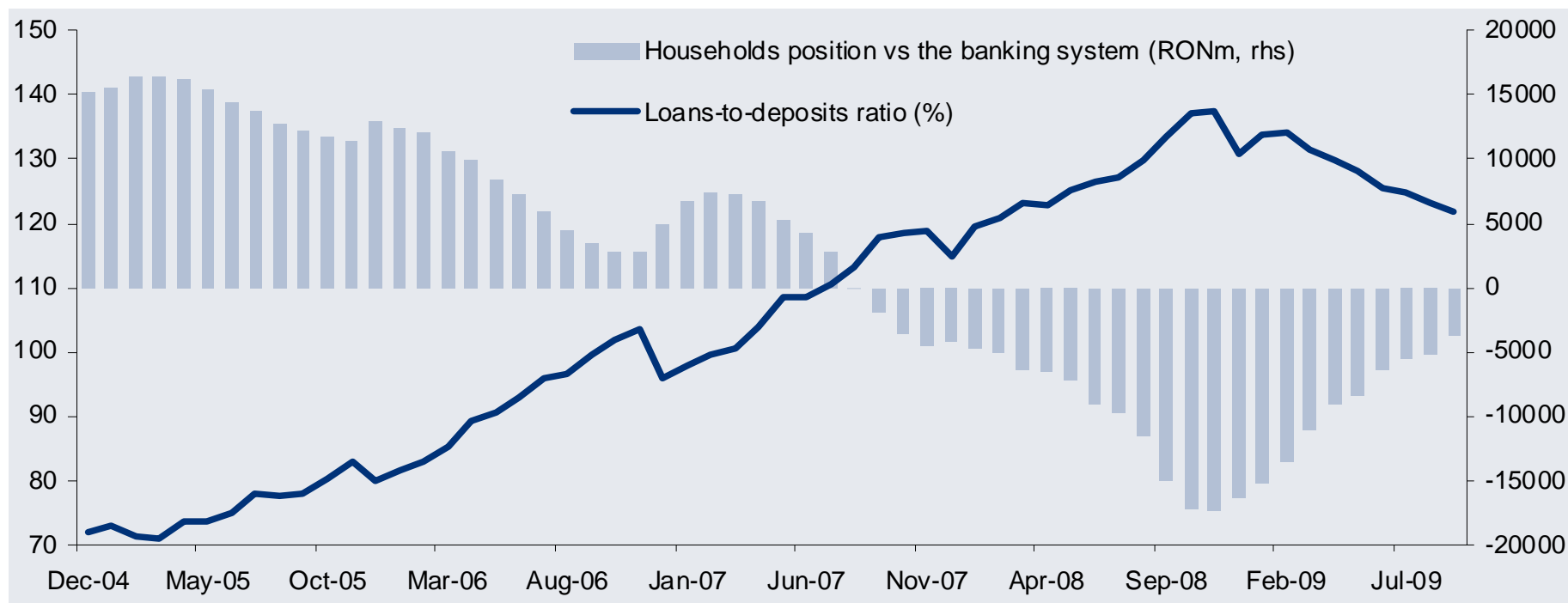
GDP (%YoY)



Source: Eurostat

Loans-to-deposit ratio and households net position

- The net debtor position of the households is correcting, which is good from a financial stability point of view
- Interest rates for both deposits and lending are likely to stay elevated, but may undergo some softening into 2010
- Loans-to-deposit ratio should improve – less risks
- Lending to remain depressed, unless foreign banks give money to local banks



Source: NBR



Norway and Romania

	Real GDP			Consumer Prices			Current account (% of GDP)			Fiscal balance (% of GDP)			GDP per capita (PPP, USD)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Major advanced economies	0.3	-3.6	1.3	3.2	-0.1	1.1	-1.5	-1.1	-0.8	-4.6	-10.1	-9.0	29192	28575	29384
Norway	2.1	-1.9	1.3	3.8	2.3	1.8	19.5	13.9	15.6	18.8	7.1	11.8	53738	53269	54445
Emerging Europe (ex Turkey)	4.1	-4.3	0.5	6.5	3.8	2.5	-8.9	-3.2	-3.5				16286	15821	16203
Romania	7.1	-8.5	0.5	7.8	5.5	3.6	-12.4	-5.5	-5.6	-4.9	-7.3	-5.9	12600	11755	12036

Source: IMF World Economic Outlook

- Norway is a resource rich country – 6th largest oil exporter in the world (oil revenue=20% of GDP and mostly goes straight into a pension fund)
- When others spent, Norway saved: high social responsibility aiming protection of future generations
- Mixed economy with free market and large state ownership in specific sectors
- Home prices tripled since 2000
- Banks account for 2% of the economy
- One of the highest productivity levels
- Oil revenue is very low in Romania; natural resources are mainly consumed internally
- Instead of saving during boom years, spending on wages almost doubled - fiscal policy went massively off-track; therefore, the pressure on future generations to pay debt is growing
- Developing country – a lot of room to catch-up and growth potential remains substantial
- Home prices likely grew by a larger magnitude
- ... similar for Romania
- Very low level of productivity

Are there any lessons from norwegian experience?

- **Considered to be the world's most well-functioning and stable country (Failed States Index for 2009)**
- **No single paradigm exists so it is hard to come with lessons; plus, there are very big differences, yet:**
 - 1. Main lesson: Committed, capable governments - early 1900, it was one of the poorest countries in Europe, but full-fledged democracy and oil discoveries based on economic as well as ethical principles changed the situation. Natural resources can be a blessing.**
 - 2. The benefits of good financial behavior (especially the value of fiscal prudence: it faced budget deficit only in 1992 and 1993)**
 - 3. Maintaining high rates of savings and investment**
 - 4. Integration into the world economy is very important as well**

Romania: long-term view

Our long-term view on the Romanian economy remains bullish

- foreign direct investments to resume late 2010 and in 2011
- we expect GDP to grow by 0.9% in 2011, by 4.6% in 2012 and by 6% in 2013.

Structural and Cohesion EU funds (€20bn for the period 2007-2013) and other €9bn for agriculture offer some good prospects.

We believe the “CEE convergence story” still holds

Financial penetration likely to continue, but at a moderate pace

Conditions for a sustainable convergence process:

- To deal with the growing macroeconomic imbalances with an appropriate mix of monetary, fiscal and income policies (IMF/EU agreement should make things better in future years for Romania as an investment opportunity).
- To implement structural reforms especially in the labour market and for business environment
- To develop the infrastructure in general, transport infrastructure in special

EU and Euro entry dates

Key EU and earliest possible euro adoption dates

	Entry applications	Negotiations begun	EU entry	ERM membership	Euro adoption	Currency	Regime	Central parity rate
EU MEMBERS (since 1960) and those that have completed negotiations								
Ireland	1961/67/72		1973	Mar-79	1999	Euro	N/A	
Denmark	1961/67/71		1973	Mar-79	2011-12+	Kroner	ERM peg to euro with 2.25% bands	7.46
UK	1961/67/71		1973	(10/90-9/92)	Unlikely	Pound	Free-float	
Greece	1975	1976	1981	Mar-98	2001	Euro	N/A	
Spain	1977	1979	1986	Jun-89	1999	Euro	N/A	
Portugal	1977	1978	1986	Apr-92	1999	Euro	N/A	
Austria	1989	1993	1995	Jan-95	1999	Euro	N/A	
Finland	1992	1993	1995	Oct-96	1999	Euro	N/A	
Sweden	1991	1993	1995	2009+	2012+	Krona	Free-float	
Slovenia	1996	1998	2004	Jun-04	2007	Euro	Entered at 239.6	
Cyprus	1990	1998	2004	Apr-05	2008	Euro	Entered at 0.585	
Malta	1990/98	2000	2004	Apr-05	2008	Euro	Entered at 0.429	
Slovakia	1995	2000	2004	Nov-05	2009	Euro	Entered at 30.126	
Lithuania	1995	2000	2004	Jun-04	2013+	Litas	ERM currency board to euro	3.45
Estonia	1995	1998	2004	Jun-04	2013+	Kroon	ERM currency board to euro	15.65
Latvia	1995	2000	2004	Apr-05	2013+	Lat	ERM peg to euro 1% bands	0.703
Czech Republic	1996	1998	2004	2010/11+	2014+	Koruna	Free-float	
Poland	1994	1998	2004	2009+	2012+	Zloty	Free-float	
Hungary	1994	1998	2004	2010+	2013+	Forint	Free-float	
Bulgaria	1995	2000	2007	2010+	2013+	Lev	Currency board to euro	1.96
Romania	1995	2000	2007	2012+	2015+	Leu	Managed float vs euro	
IN NEGOTIATIONS								
Croatia	2003	2005	2011+	2011+	2014+	Kuna	Managed float vs euro	
Turkey	1987	2005	No (2015+)	No (2015+)	No (2018+)	Lira	Free-float	
NOT IN NEGOTIATIONS								
Albania	2009+	2012+	2017+	2017+	2020+	Lek	Managed float vs euro	
Macedonia	2004	2010+	2015+	2015+	2018+	Denar	Tightly managed float vs euro	
Bosnia	2009+	2012+	2017+	2017+	2020+	Marka	Currency board to euro	1.96
Serbia	2009+	2010+	2015+	2015+	2018+	Dinar	Dirty free-float with euro reference	
Montenegro	2008	2010+	2015+	2015+	2018+	Euro	Deutschemark (now euro) adopted as only legal tender in Nov-00	
Ukraine	2012+	2015+	2020+	2020+	2025+	Hryvnia	Managed float vs US\$	

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