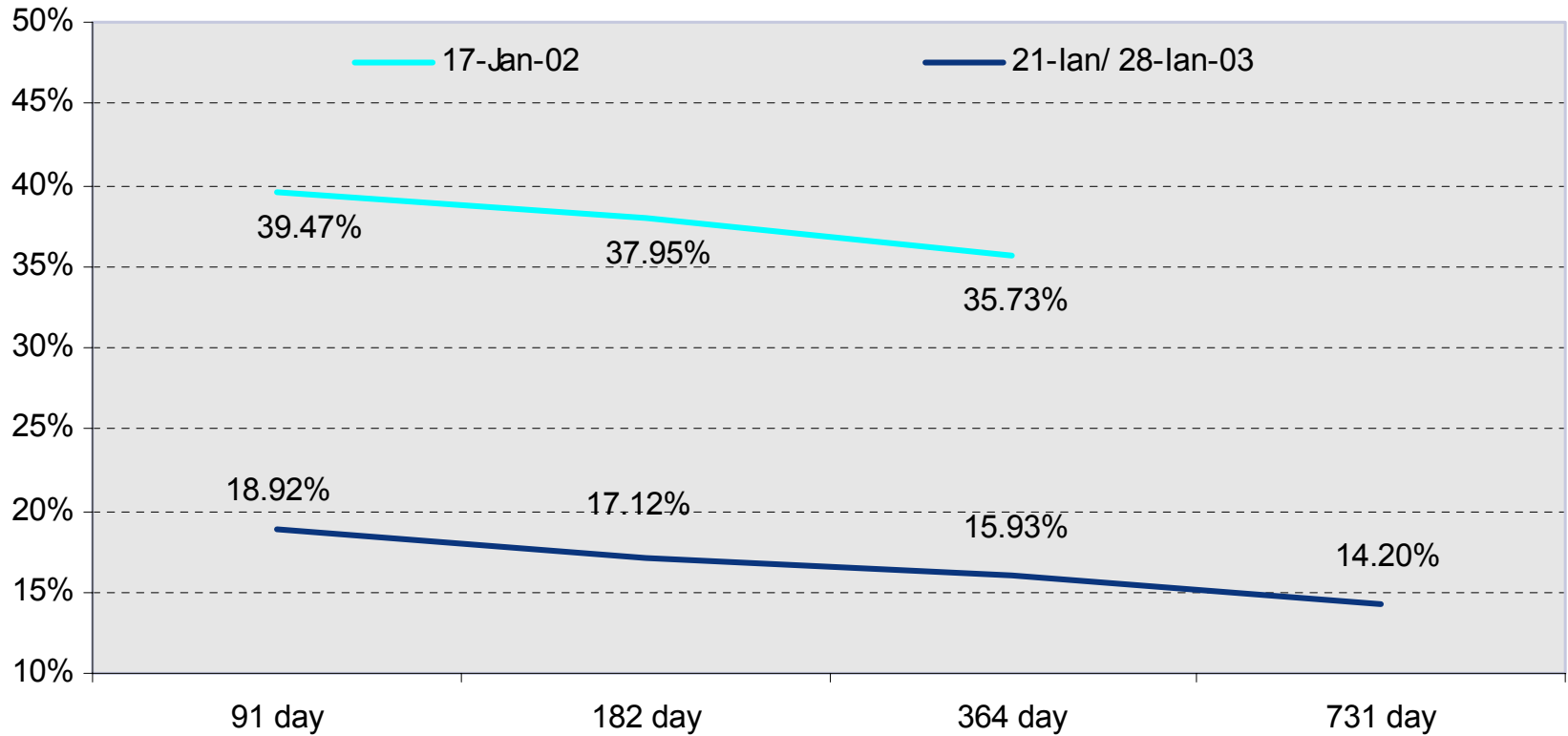


ROMANIAN BOND MARKET – DEVELOPMENT AND TENDENCIES

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Auctioned GS Yield Curve



Domestic Government Debt



**Raiffeisen
BANK**

ROL discounted Tbills	1,160.47	38.38%
90 days	128.87	4.26%
182 days	197.60	6.54%
364 days	834.00	27.59%
USD Tbills	381.57	12.62%
364 days	293.95	9.72%
547 days	87.62	2.90%
Tbills for individuals	1,126.37	37.26%
90 days	514.48	17.02%
182 days	611.89	20.24%
Tbonds	142.57	4.72%
Special Law	212.37	7.02%
ROL	145.46	4.81%
USD	66.91	2.21%
TOTAL (EUR mio)	3,023.34	100.00%

All amounts in EUR mio, as of Dec 31, 2002

Issuance Policy of Ministry of Finance



Government Securities (GS) can be sold on the primary market by NBR through the auction method or through the public subscription method

- **the auction method:**

- the primary market intermediaries send buying offers on their own account and on their clients' account until 12 o'clock of the auction day;
- GS sold through the auction method:
 - ROL denominated discounted treasury bills (with 91, 182, 364 days maturities) – which are allocated to winning bids according to the multiple price method
 - ROL denominated treasury bonds (2 years maturity) – which are allocated to winning bids according to the single price method

- **the public subscription method:**

- the primary market intermediaries send buying offers on their own account and on their clients' account until the entire issue is subscribed or until 12 o'clock of the last day of the subscription period;
- GS sold through the public subscription method:
 - hard-currency denominated treasury bills (1 year maturity)
 - hard-currency denominated treasury bonds (over 1 year maturity)
 - treasury bills for individuals (90, 180 days maturity) – which are sold directly to the local residents through the network of treasury units

Secondary Trading of Government Securities



- Secondary market trading is conducted according to NBR's Regulations regarding Treasury securities operations
- Secondary market may be either the NBR supervised market (primary and secondary dealer market) or the Bucharest Stock Exchange
- Each issue of GS is traded on the secondary market specified by the MoF in the issuance prospect
 - NBR supervised market:
 - transactions with all types of GS are allowed
 - Bucharest Stock Exchange:
 - transactions with GS having 1 year or over 1 year maturities
- The secondary market dealers have to display info-quotations for at least four issues, of which the latest two issues.

Tendencies in developing a corporate debt market



- The Romanian Company law limits the maximum value of outstanding corporate bond issue to 75% of paid-up share capital of the issuer;
- The current market is incipient and very small : less than EUR 2 mio;
- The only allowed issues are ROL denominated. As exceptions, for FCY issues, corporations are subject of the NBR's approval and must justify the hard currency needs (e.g. external payments), according with the FX regime.

Most preferred currencies by the Romanian borrowers



The main part of Romanian corporations ask for hard currencies loans instead of ROL because of the lower cost

Example – USD assumptions :

- current 12M ROL interest rate for corporate loans : 22 %
- current 12 M USD interest rate for corporate loans : 5-6 %
- Estimated depreciation of ROL against USD for 2003: 9 %
- Cost of USD loan in terms of ROL : $(1+6\%)(1+9\%) - 1 = 15.54$ %, much lower than 22 %

Example – EUR assumptions :

- current 12M ROL interest rate for corporate loans : 22 %
- current 12 M EUR interest rate for corporate loans : 6-7 %
- Estimated depreciation of ROL against EUR for 2003:14 %
- Cost of EUR loan in terms of ROL : $(1+7\%)(1+12\%) - 1 = 19.84$ %, lower than 22 %

