Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2012

neweuropecapital

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Statistics

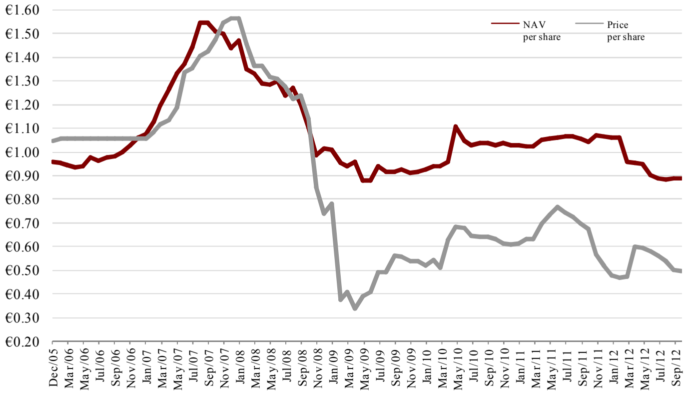
NAV per share (€)	0.8863
Share price (€)	0.4975
Total NAV (€ m)	88.6
Mk Cap (€ m)	49.8
# of shares (m)	100.0
NAV return since inception	-7.34%
12-month NAV CAGR	-14.86%
NAV annualized Return*	-1.12%
NAV annualized Volatility*	13.19%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	44
# of months down (NAV)	37

** since inception*

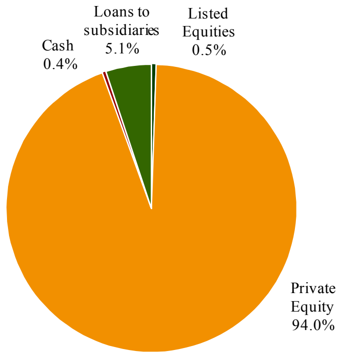
RC2 NAV returns

	2008	2009	2010	2011	2012
Jan	-8.27%	-5.65%	1.36%	-0.54%	0.11%
Feb	-1.48%	-1.51%	0.03%	0.24%	-9.68%
Mar	-3.03%	2.39%	2.07%	2.48%	-0.51%
Apr	-0.26%	-8.40%	15.60%	0.70%	-0.65%
May	0.93%	-0.26%	-5.42%	0.55%	-4.98%
Jun	-4.75%	3.08%	-1.57%	0.25%	-1.48%
Jul	2.85%	1.08%	0.53%	0.13%	-0.73%
Aug	-5.55%	0.23%	0.07%	-1.10%	0.61%
Sep	-8.34%	1.20%	-0.62%	-1.25%	0.01%
Oct	-10.52%	-1.79%	0.96%	2.63%	
Nov	3.03%	0.46%	-1.15%	-0.25%	
Dec	-0.60%	1.08%	-0.06%	-0.49%	
YTD	-31.43%	-8.38%	11.07%	3.32%	-16.43%

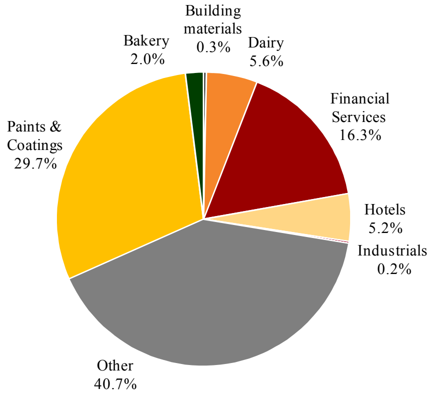
Share price / NAV per share (€)



Portfolio Structure by Asset Class

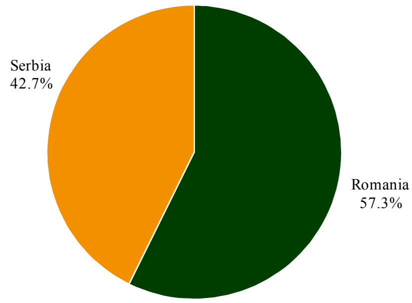


Equity Portfolio Structure by Sector



Note: EPH investment included under Other

Portfolio Structure by Geography



Note: EPH investment included under Serbia

Message from the Investment Manager and Advisers

Dear Shareholders

Over the third quarter of 2012, RC2's NAV per share was basically unchanged.

In spite of the ongoing difficult market conditions, Policolor, Albalact, Top Factoring and Mamaia continued to report higher year-to-date recurring EBITDA than the same period last year, whilst EPH's divisional results were more mixed.

EPH's Copper Processing business continued to be affected by the recession in Italy, which remains one of its main export markets. Novkabel, EPH's cable production business, experienced weak demand in Serbia, but managed to achieve break-even EBITDA over the period due to a good level of higher-margin sales to Russia. EPH's Milling division continued to perform above budget, generating healthy cashflow. Klas, EPH's bakery business, performed poorly mainly due to government imposed controls on the price of standard bread at a time of rising wheat prices due to the weak 2012 harvest. Also, Klas has not yet been able to relocate to its new main production facility on the outskirts of Belgrade, which is expected to take place by the end of November and should generate substantial savings in 2013.

In spite of the loss of resins sales due to a fire at its resins plant earlier this year, the Policolor Group's nine-month EBITDA was ahead of the result achieved last year. Meanwhile, the Group has continued to advance in its discussions for the sale of its excess real estate in Bucharest.

Top Factoring has continued to grow strongly over the first nine months of 2012, with its sales almost doubling compared to the same period last year. However, over the summer months a weakness in recoveries on proprietary telecoms portfolios suggests that the climate for receivable collections has toughened in that segment of the market, with customers prioritizing repayments to banks in a depressed economic environment.

Although Albalact's sales over the first nine months were flat in local currency terms, and slightly down in euros due to the depreciation of the local currency, the company achieved an impressive 57% year-on-year growth in its recurring EBITDA as a result of a better gross margin and improved cost controls.

During the first nine months of 2012, the Mamaia Hotel's EBITDA was slightly up on the previous year, whilst the occupancy rate increased from 26% to 30%, and the average room tariff increased from €39 to €43.

At the end of the quarter, the Fund had cash and cash equivalent balances of approximately €0.5m, compared to €1.6m at the end of December. The Fund's borrowings (excluding borrowings of investee companies) amounted to €3.6m as at 30 September.

Yours truly,

New Europe Capital

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company which operates along the following main business lines: Copper Processing, Cable Production, Bakeries, Milling and Real Estate. RC2 acquired a 21.3% shareholding in 2008. In April 2010, RC2 increased its shareholding to 42% in exchange for waiving certain claims against EPH's other shareholders for zero consideration. At the same time, Darby, the private equity arm of Franklin Templeton Investments, exchanged a mezzanine loan for 24.7% of EPH's equity. Over 2011, RC2 increased its shareholding from 42.0% to 59.0%, pursuant to an asset swap agreed with EPH's founding shareholders, whereby the founding shareholders of the business were due to exit the business completely by early 2012 in exchange for non-core assets. In February 2012, RC2 completed the final phase of the asset swap, increasing its shareholding in EPH from 59.0% to 63.0%. In March 2010, RC2 acquired a direct 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m.

Copper Processing (EPM)

(EUR m)	2010A*	2011A*	2012B	9M11**	9M12**	9M12B
Income Statement						
Net Sales	232.2	219.4	215.6	179.8	142.0	170.3
EBITDA	6.3	4.8	10.1	4.6	4.0	7.6
EBITDA margin	*2.7%*	*2.2%*	*4.7%*	*2.5%*	*2.9%*	*4.5%*
Profit after Tax	(1.9)	(4.9)	3.4	(0.1)	(2.9)	2.2
Net margin	*-0.8%*	*-2.2%*	*1.6%*	*0.0%*	*-2.0%*	*1.3%*

*Note: *audited; **unaudited management accounts*

Economic difficulties in the EU, and in particular the Italian construction industry, caused EPH's copper division's nine-month sales to come in 16.6% below budget. However, a part of the fall in sales on western markets was compensated by higher sales in the former Yugoslavia. The decline in profitability in the third quarter of 2012 was due to lower sales on the Russian market, which are typically characterized by high margins.

Management plans to further develop sales in Eastern European and the CIS markets, in particular the Ukraine and Kazakhstan, and to develop new customers on the German and French markets, whilst it is continuing to take actions to increase the profitability of operations, including by increasing the percentage of copper scrap processed in the plant, which reached an average of 27% in the third quarter, compared to 14% in 2011. A new management information system is also planned to become operational in the fourth quarter, which should give the management a further tool to increase profitability.

After receiving approval from a majority of EPH's bankers, management expects the debt restructuring programme, which aims to convert approximately €60m of debt into a combination of short term and long term maturities, to be finalized in the fourth quarter.

Cable Production

(EUR '000)	2010A*	2011A*	2012B	9M11**	9M12**	9M12B
Income Statement						
Net Sales	23,693	36,779	41,030	28,462	27,901	25,367
EBITDA	(2,372)	(387)	493	(371)	51	128
EBITDA margin	*-10.0%*	*-1.1%*	*1.2%*	*-1.3%*	*0.2%*	*0.5%*
Profit after Tax	(174)	(387)	(1,097)	(2,481)	(4,124)	(549)
Net margin	*-0.7%*	*-1.1%*	*-2.7%*	*-8.7%*	*-14.8%*	*-2.2%*

*Note: *audited; **unaudited management accounts*

Due to the absence of public tenders from Serbian state-owned companies, Novkabel, EPH's cable producer, continued to underperform on the domestic market during the third quarter. However, the favourable product mix and increased sales of rubber and mid-voltage cables on the Russian market resulted in improved profitability, with EBITDA reaching €250,000 over the third quarter. This helped Novkabel reach breakeven over the first nine months of 2012, compared to negative EBITDA of €0.4m generated over the same period the year before.

Management plans to invest around €0.3m by the end of the year in order to put into operation a new oil rubber cables facility, while €2.9m of remaining investments, required to fulfil EPH's investment obligations towards the Serbian Privatization Agency, are planned for 2013. These should enable the relocation of production from the current six to three plants, thereby freeing up 22ha of surplus real estate in the industrial part of Novi Sad, Serbia's second largest city.

Milling

(EUR '000)	2010A*	2011A*	2012B	9M11**	9M12**	9M12B
Income Statement						
Net Sales	15,066	13,687	13,169	11,416	9,003	8,710
EBITDA	2,412	2,873	1,769	2,741	1,517	1,231
EBITDA margin	*16.0%*	*21.0%*	*13.4%*	*24.0%*	*16.9%*	*14.1%*
Profit after Tax	(735)	1,782	757	963	785	988
Net margin	*-4.9%*	*13.0%*	*5.7%*	*8.4%*	*8.7%*	*11.3%*

*Note: *audited; **unaudited management accounts*

Zitomlin, EPH's flour mill, continued to perform above budget on the back of increasing wheat and flour prices. The gross margin for the first nine months of 2012 amounted to 29%, compared to a budgeted 25%, while EBITDA reached €1.5m, 23% above budget. The average cost of inventories remains below the current market price, which should, coupled with a gradual increase in wheat prices until next year's harvest, generate a surplus profit, once sold.

Bakeries

(EUR '000)	2010A*	2011A*	2012B	9M11**	9M12**	9M12B
Income Statement						
Net Sales	22,111	20,260	19,471	17,538	12,508	11,664
EBITDA	(139)	(438)	882	(534)	(954)	(1,020)
EBITDA margin	*-0.6%*	*-2.2%*	*4.5%*	*-1.0%*	*-6.9%*	*-3.3%*
Profit after Tax	(2,734)	(1,286)	(1,804)	(2,066)	(2,511)	(2,139)
Net margin	*-12.4%*	*-6.3%*	*-9.3%*	*-11.8%*	*-20.1%*	*-18.3%*

*Note: *audited; **unaudited management accounts*

Klas, EPH's bakery division, made losses in the first nine months due to government controls on the price of standard bread loaves, coupled with rising wheat and flour prices since the last harvest. At the end of September, the Government allowed bakeries to make a price increase to reflect the higher cost of raw materials, which should go some way towards returning Klas to profitability. Management also plans to start operating the company's new plant at the end of November, which is expected to generate annual cost savings of €1.2m.

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), the largest producer of coatings (architectural, automotive and industrial) in Romania and Bulgaria, and a producer of thermo-insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 82% owned Bulgarian subsidiary.

Group Financial results

(EUR '000)	2010A*	2011A**	2012B	9M11 A**	9M12 A**
Income statement (according to IFRS)					
Total operating revenues	**67,654**	**72,628**	**71,110**	**59,663**	**50,976**
Total Operating Expenses	(67,864)	(73,205)	(67,333)	(57,360)	(48,185)
Operating profit	**(210)**	**(577)**	**3,777**	**2,303**	**2,791**
Operating margin	*-0.3%*	*-0.8%*	*5.3%*	*3.9%*	*5.5%*
Depreciation	3,153	2,868	2,778	2,489	2,584
EBITDA	**2,943**	**2,335**	**6,733**	**4,792**	**5,374**
EBITDA margin	*4.4%*	*3.2%*	*9.5%*	*8.0%*	*10.5%*
Financial Profit/(Loss)	(727)	(1,163)	(785)	(881)	(1,027)
Other extraordinary items	-		-		
Profit before tax	**(936)**	**(1,740)**	**2,992**	**1,422**	**1,764**
Income tax	(433)	(9)	(388)	-	(143)
Profit after tax	**(1,370)**	**(1,749)**	**2,604**	**1,422**	**1,621**
Minority interest	(27)	130	45	(70)	-
Profit for the year	**(1,397)**	**(1,619)**	**2,649**	**1,352**	**1,621**
*exchange rate (RON/EUR) ***	*4.285*	*4.238*	*4.300*	*4.190*	*4.450*

*Note: * IFRS audited figures in RON. The translation in EUR is done using the exchange rate as of 31 December of the respective year (presented above)*
*** exchange rate: end of the year for 2010 and 2011 and average for 9M2011 and 9M2012*

The Group's nine months consolidated sales fell 15% from €59.7m to €51.0m. However, the bulk of this relates to the resins business, whose sales were disrupted by a fire in January. The rest is accounted for by a weakening construction market (nationwide sales of architectural coatings in Romania are estimated to have fallen by 15% year-on-year), and a 5.4% fall in the average exchange rate of the leu against the euro between the two periods. The management team has managed to substantially improve the operating margin from 3.9% to 5.5% mainly due to increased prices, lower raw material costs, and a tighter control on overheads. As a result, in spite of the lower sales, year-to-date EBITDA increased 12% from €4.8m to €5.4m.

Paints and Coatings

Over the first nine months, the paints and coatings division's sales fell slightly, mainly due to the depreciation of the Romanian currency mentioned above, more stringent credit policies and lower sales of specialized products for the construction industry. However, the division managed to increase its operating profit by 24% due to price increases of its finished products, lower raw material costs and a better control on operating costs.

Chemicals (Resins and Anhydrides)

The Resins department was shut down by a fire at the beginning of the year. The Group's management has implemented a contingency plan to avoid any disruption to its production of paints (which uses resins produced in-house) and to continue sales of resins to key clients. However, sales of resins to third parties over the first nine months of the year were a third of the previous year sales, and generated no EBITDA, compared to EBITDA of €1.1m over the same period last year. Policolor is currently re-building its resins plant, and is in discussions with its insurers to recover the reconstruction costs as well as the loss of profit for the year. Meanwhile, sales of Anhydrides, which are produced at a separate plant, increased by 19%, and the nine-month EBITDA increased by a factor of five, largely compensating for the loss of the resins EBITDA.

Real Estate

Policolor owns 14ha of land located on the eastern periphery of Bucharest. The plot of land is located next to a shopping centre and is well connected to the city's public transportation network. Policolor has applied to re-zone the land from industrial to commercial use, and is making progress on the sale of the land.

Top Factoring

Background

Top Factoring ("Top Factoring") is a Romanian receivables collection company in which RC2 owns a 93% shareholding. The remaining 7% is owned by the Company's CEO. The debt purchase part of the business is being undertaken by an SPV also 93%-owned by RC2 (Glasro Holdings Ltd) which sub-contracts the debt collection process to Top Factoring. Top Factoring and Glasro Holdings Ltd are together referred to as the "Group".

Group Financial Results

(EUR '000)	2010A**	2011A*	2012B	9M11**	9M12**
Combined Group Income Statement					
Total Gross Operating Revenues	**2,724**	**5,571**	**9,727**	**3,470**	**6,454**
Debt portfolios (collections)	1,695	4,593	8,821	2,766	5,657
Agency contracts	1,029	978	906	704	797
B2C	936	978	906	-	797
B2B	93	-	-	-	-
Amortization of debt portfolios	(484)	(1,460)	(3,525)	(1,029)	(1,575)
Total Net Operating Revenues	**2,241**	**4,111**	**6,203**	**2,441**	**4,879**
Total Operating Expenses	**(1,906)**	**(2,910)**	**(3,347)**	**(1,872)**	**(2,434)**
Operating Profit	**334**	**1,201**	**2,856**	**569**	**2,445**
EBITDA	**380**	**1,263**	**2,938**	**611**	**2,469**
EBITDA margin	*16.9%*	*30.7%*	*47.4%*	*25.0%*	*50.6%*
Financial Profit/(Loss)	14	(150)	(225)	(42)	(132)
Profit before Tax	**348**	**1,051**	**2,631**	**527**	**2,313**
Income Tax	(55)	(111)	(263)	(53)	(143)
Profit after Tax	**293**	**940**	**2,368**	**474**	**2,171**
Net margin	*13.1%*	*22.9%*	*38.2%*	*19.4%*	*44.5%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.420*	*4.206*	*4.433*

Note: IFRS(audited, combined accounts), IFRS**(unaudited, combined accounts)*

The Group's nine month gross operating revenues increased almost twofold from €3.5m to €6.5m year-on-year. The debt purchase line accounted for 88% of gross operating revenues, with the balance of 12% being generated by agency contracts. Collections from proprietary telecoms portfolios accounted for 62% of the Group's total proprietary collections between January and September, less than in the first six months of the year, when the contribution of telecom portfolios to total gross collections stood at 69%. This is explained by the Group increasingly focusing on banking portfolios, but also by the underperformance of collections on telecom packages.

Based on the effective interest rate method used by the Group to account for the amortisation of its debt portfolios, the January-

September 2012 EBITDA stood at €2.5m, a significant increase from €0.6m during the same period of last year. However, as some of the portfolios have performed below budget in the third quarter, the management expects to impair them in case the underperformance trend continues, which would negatively impact the year end EBITDA.

Operations

At the end of September, the Group owned 23 debt packages (eleven telecoms and twelve banking), made up of 740,000 cases with a total face value of €190m.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy producer quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 owns a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 45%, with the remaining 29.6% representing the free float. With Albalact's market capitalization increasing by 8.2% over the quarter, RC2's shareholding in Albalact had a market value of €5.1m as at 30 September, compared to €4.7m at the end of the previous quarter.

Financial results

(EUR '000)	2010A*	2011A*	2012B	9M11**	9M12**
Standalone Income Statement					
Sales Revenues	**62,058**	**79,814**	**87,298**	**58,537**	**55,717**
Other operating revenues	733	2,267		7,618	509
Total Operating Revenues	**62,790**	**82,081**	**87,298**	**66,155**	**56,227**
Total Operating Expenses	(61,731)	(79,842)		(64,556)	(54,749)
Operating Profit	**1,060**	**2,238**		**1,599**	**1,477**
Operating margin	*1.7%*	*2.7%*		*2.4%*	*2.6%*
Recurring EBITDA				2,271	3,566
EBITDA from non-recurring sale of non-core assets				1,412	
EBITDA	**4,257**	**5,009**	**6,371**	**3,683**	**3,566**
EBITDA margin	*6.8%*	*6.1%*	*7.3%*	*5.6%*	*6.3%*
Financial Profit/(Loss)	(780)	(632)		(618)	(735)
Profit before Tax	**280**	**1,607**	**2,333**	**981**	**743**
Income Tax	(142)	(246)	(373)	(145)	(129)
Profit after Tax	**138**	**1,361**	**1,960**	**836**	**614**
Net margin	*0.2%*	*1.7%*	*2.2%*	*1.3%*	*1.1%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.389*	*4.206*	*4.433*

*Note: * RAS (audited), ** RAS (unaudited)*

Albalact's nine month leu-denominated sales were flat over the same period last year. However, the 5.4% year-on-year depreciation of the average exchange rate resulted in a fall in the Company's euro-denominated sales from €58.5m to €55.7m. The January to September 2011 EBITDA includes the positive impact of the sale of two non-core assets which generated a total profit of €1.4m. Excluding the effect of these two asset sales, the Company achieved an impressive 57% year-on-year growth in its recurring EBITDA, with the nine-month recurring EBITDA coming in at €3.6m, compared to €2.3m over the same period of 2011. The improvement in the EBITDA margin is the result of a better sales mix and improved cost controls. The unrealized foreign exchange loss generated by the revaluation of the Company's euro-denominated loans amounted to €0.5m, resulting in the net profit coming in at €0.6m, down from the €0.8m achieved over the same period last year.

Operations

Fresh products (milk, sour cream and yoghurts) were the largest contributor to Albalact's nine month sales (68%), followed by butter (16%) and cheese (9%).

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at Mamaia, Romania's premium seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results

(EUR '000)	2010A*	2011A**	2012B	9M11***	9M12***
Income Statement					
Sales Revenues	**1,591**	**1,664**	**2,079**	**1,629**	**1,670**
Other operating revenues	232	9		9	11
Total Operating Revenues	**1,823**	**1,673**	**2,079**	**1,638**	**1,680**
Total Operating Expenses	(2,111)	(1,565)	(1,790)	(1,379)	(1,383)
Operating Profit	**(288)**	**108**	**289**	**259**	**297**
Operating margin	*neg.*	*6.5%*	*13.9%*	*15.8%*	*17.7%*
EBITDA	**(61)**	**455**	**554**	**450**	**478**
EBITDA margin	*neg.*	*27.2%*	*26.7%*	*27.5%*	*28.4%*
Financial Profit/(Loss)	(135)	(153)	(116)	(142)	(171)
Profit before Tax	**(423)**	**(45)**	**174**	**117**	**125**
Income Tax	(5)	-	(28)	-	-
Profit after Tax	**(428)**	**(45)**	**146**	**117**	**125**
Net margin	*neg.*	*neg.*	*7.0%*	*7.1%*	*7.5%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.308*	*4.206*	*4.433*

*Note: * IFRS (audited), ** RAS (audited), *** RAS (unaudited)*

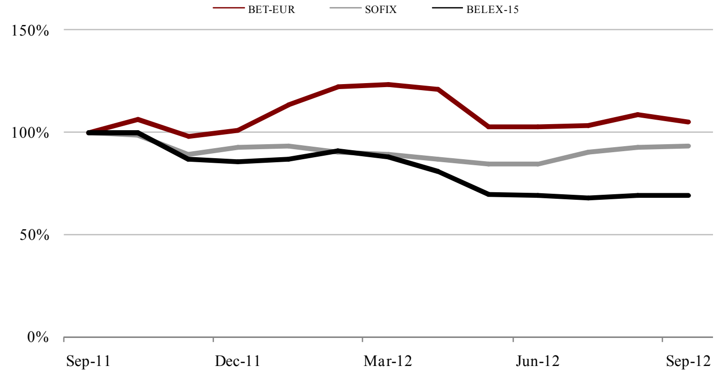
During the first nine months, accommodation revenues increased by 3% year-on-year and accounted for 55% of revenues, while the Food & Beverage department generated revenues of €0.7m (up 2% year-on-year), or 45% of total sales. Overall, the Hotel generated revenues of €1.7m, up 2.6% year-on-year. The nine-month EBITDA stood at €0.5m, up 6% year-on-year. Both operating and EBITDA margins improved in the first nine months of 2012, compared to the same period in 2011. The 4.9% year-to-date depreciation of the leu against the euro generated a net foreign exchange loss of €74,000 on the revaluation of euro-denominated loans, which, together with the interest expense, resulted in a total financial expense of €170,000. Consequently, the net profit of €125,000 was virtually flat year-on-year.

Operations

The occupancy rate was 30% over the first nine months, up from 26% recorded over the same period last year. The Company also managed to increase the average net tariff over the summer months from €39 to €43 due to a better sales mix, with a higher number of walk-in clients.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1 year performance



Commentary

Over the third quarter, the Romanian BET and Bulgarian SOFIX indices gained 2.3% and 10.6%, respectively, whilst the Serbian BELEX-15 index fell 0.4%, all in euro terms.

Over the past year, the BET-EUR index increased by 4.8%, while the SOFIX and BELEX-15 indices fell by 6.7% and 31.0%, respectively, all in euro-terms.

By comparison, over the same period, the MSCI Emerging Market Eastern Europe index was up 17.9%, the MSCI Emerging Market index up 19.0%, the FTSE100 index 20.7% and the S&P index 33.0%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	0.7%	6M12	1.0%	6M12	-0.8%	6M12
Inflation (y-o-y)	5.3%	9M12	4.9%	9M12	10.3%	9M12
Ind. prod. growth (y-o-y)	-1.1%	Aug-12	2.0%	Aug-12	-0.9%	Aug-12
Trade balance (EUR bn)	-6.3	8M12	-2.6	8M12	-3.6	8M12
y-o-y	*4.0%*		*154.2%*		*11.1%*	
FDI (EUR bn)	0.9	8M12	0.9	8M12	-0.1	8M12
y-o-y change	*55.0%*		*69.0%*		*n/a*	
Total external debt/GDP	69.2%	Aug-12	92.2%	Aug-12	82.6%	Aug-12
Reserves to short-term debt	149.0%	Aug-12	158.5%	Jul-12	2777.8%	May-12
Loans-to-deposits	118.8%	Sep-12	94.9%	Sep-12	133.3%	Apr-12
Public sector debt-to-GDP	37.8%	Aug-12	18.9%	Jul-12	53.8%	Sep-12

Commentary

Romania

Romania's second quarter GDP grew by 1.1% year-on-year, and by 0.5% quarter-on-quarter, a positive evolution compared to the 0.1% quarter-on-quarter fall recorded over the first quarter of 2012. Overall, Romania's GDP grew by 0.7% year-on-year over the first half of 2012. The IMF forecasts 0.9% annual GDP growth in 2012, which it expects to accelerate to 2.5% in 2013. Although industrial production fell by 1.1% year-on-year in August, cumulative industrial production between January and August increased by 0.8% year-on-year.

Between January and August, the trade deficit increased by 4% compared to the same period last year (from €6.1bn to €6.3bn). Although the trade balance worsened slightly over the period, a 23% year-on-year increase in current transfers (from €2bn to €2.5bn) resulted in a current account deficit of €3bn, or 2.3% of GDP, 23% lower than the deficit recorded over the same period last year. FDI flows amounted to €0.9bn, up 55% year-on-year, and covered 30% of the current account deficit. The Romanian Leu has lost 4.9% against the euro since the beginning of the year, due to worries about the internal political turmoil and the uncertainties surrounding the eurozone area. Higher energy and food prices resulted in Romania's annual CPI increasing from 3.1% at the end of December 2011, to 5.3% at the end of September.

Over the first nine months, the budget deficit came in at 1.2% of GDP, within the 2.2% annual budget deficit threshold agreed with the IMF, and better than the 2.4% deficit recorded in the same period of 2011. Romania's total external debt was €98bn at the end of August, down 0.7% year-on-year. The public sector debt was €51.8bn at the end of August, up 6% year-to-date and equal to 38% of GDP. This compares positively to the euro area's average public debt of 90% of GDP. The National Bank of Romania's foreign reserves (excluding gold) amounted to €31bn at the end of August, allowing it to comfortably cover the country's short-term external debt (€20.7bn). The current level of foreign reserves provides a buffer in case of a worsening international economic climate.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €50.9bn at the end of September, up 4.2% year-on-year in RON terms. The deposits stock amounted to €42.8bn at the end of September, up 7.3% year-on-year in RON terms. While the total loans stock increased by 2.5% year-to-date, corporate loans increased by 5.5% and accounted for 53% of the total loan stock at the end of September. Household deposits increased by 7% year-to-date and accounted for 62% of total deposits. The Romanian banking system's total loans-to-deposits ratio was 119% at the end of September. Overdue loans accounted for 12% of the total loan stock at the end of September (compared to 9.5% at the end of 2011).

Romania's Constitutional Court invalidated the 29 July referendum on impeaching the President, enabling President Basescu to return to office in late August. The next presidential elections are due to take place in 2014, while the next parliamentary elections are due to be held in early December 2012. The 2013 budget is due to be submitted to parliament for approval after the December elections.

Bulgaria

Bulgaria's second quarter 2012 GDP increased by 0.5% year-on-year and by 0.3% quarter-on-quarter, a positive evolution compared to the flat growth of the first quarter. Private consumption had the largest contribution towards economic growth (73.3%) in the second quarter. An improved EU funds absorption rate (from approximately 20% at the end of 2011 to 25%) is one of the main triggers of improved domestic demand. The IMF's projection for overall 2012 growth stands at 1%. Bulgaria's year-on-year industrial production was up 2% in August, following a 0.5% year-on-year fall in July.

Bulgaria's annual CPI rate was 4.9% in September, up from the 2% recorded at the end of 2011. The increase was mainly triggered by rising electricity and natural gas prices (up 13% as of July 1st), which in turn generated further increases in food prices (+6.5% year-on-year). With exports increasing by only 2.3% year-on-year, and imports growing by 13%, the trade deficit increased from €1bn from January to August 2011, to €2.6bn over the same period this year. The increase in the trade deficit was compensated by positive net current transfers of €1.4m (+16% year-on-year), resulting in Bulgaria achieving a current account surplus of €34mn, or 0.1% of GDP, over January-August, compared to a surplus of 0.3% over 2011. FDI inflows were €0.9bn over the period, up from €0.5bn over the same period in 2011, a sign of improved investor sentiment.

The Bulgarian government has continued its conservative fiscal approach, achieving a budget surplus of 0.3% of GDP over the first nine months, an improvement over the 1% budget deficit recorded during the same period last year. The 2012 budget's target was a deficit of 1.3%. The 2013 budget approved by the Bulgarian government and submitted to the parliament for approval provides for a budget deficit of 1.3% of GDP. The budget is based on forecast economic growth of 1.9% in 2013. Bulgaria's public sector debt was 18.9% of GDP at the end of July, up from 16.3% at the end of the previous month due to Bulgaria's successful placing of €950m worth of 5-year eurobonds at a yield of 4.436% in July. The country's reserves to short-term debt ratio was a solid 158% at the end of July. The Bulgarian banking system's total loans-to-deposits ratio was 95% at the end of September, down from 98.6% at the end of 2011. Whilst loans to non-financial institutions have increased by 2.4% year-to-date from €26.6bn to €27.3bn, the deposit base is solid and increased by 6% over the period. The loan stock at the end of September was up 3.3% year-on-year, triggered by a 6.1% year-on-year increase in corporate loans, whilst consumer loans fell by 3.3% over the same period. Overdue loans accounted for 23.6% of total loans at the end of September, up from 21.9% at the end of 2011.

Serbia

Serbia's GDP fell by 0.8% year-on-year in the second quarter, after a 2.5% fall in the first quarter, mainly as a result of the continued slowdown in economic activities in Europe, coupled with bad weather conditions in February and the shutdown of US Steel's local production operations. (In August, the Serbian National Bureau of Statistics performed a considerable downwards correction in the first quarter's GDP growth data, from an initial fall of 1.3% to minus 2.5%, due to data correction related to agricultural production.) Industrial production fell by 0.9% year-on-year over the first three quarters of 2012, mainly as a result of the recession in the EU – Serbia's main export market. GDP growth should benefit from the start of serial production at FIAT's new Serbian plant, with around 30,000 cars planned for 2012, and around 150,000 for 2013.

Serbia's CPI came in at 10.3% year-on-year in September, higher than the National Bank of Serbia's target range of 4.2% ± 1.5%. This was mainly a result of the summer drought and the dinar weakening. Inflationary pressures are expected to remain strong due to increases in regulated prices, and tax increases due to take place in October, including: an increased VAT rate from 18% to 20%; an increase in the excise on tobacco, alcohol and oil derivatives; an increase in the personal income tax rate from 10% to 15%; and an increase in the corporate profit tax rate from 10% to 15%.

Negative FDI of €60m for the period between January and August was also the result of Telekom Srbija (the state-owned telecommunication company) buying back its own shares, previously held by the Greek OTE. Between January and August, exports increased by 1.1% year-on-year, while imports grew by 5.6%, resulting in the trade deficit widening to €3.6bn in August, an 11.1% year-on-year increase. In late August, the dinar part of the mandatory reserve requirement for banks was increased, which resulted in the dinar strengthening against the euro by 3.0% in September.

The new fiscal strategy for 2013 envisages shrinking the budget deficit from 6.8% of GDP in 2012 to 3.5% in 2013. The aim is to achieve this by a reduction in expenditures (which is expected to cut the deficit by 1.3%) and the higher taxes outlined above, which are expected to cut the budget deficit by an additional 2.0%.

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