Reconstruction Capital II Ltd

(“RC2” or the “Fund”)

Quarterly Report

31 December 2012

neweuropecapital

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Statistics

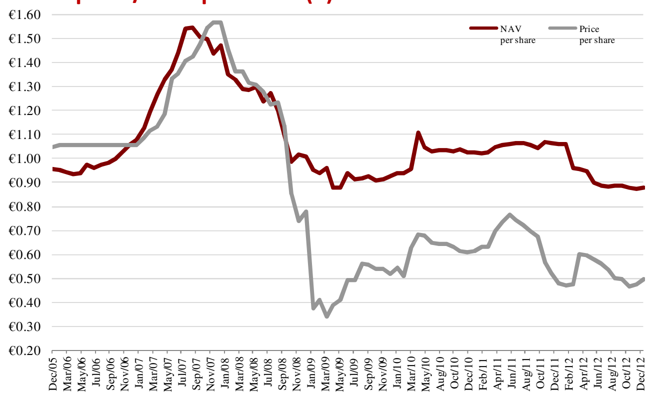
NAV per share (€)	0.8784
Share price (€)	0.4950
Total NAV (€m)	87.8
Mk Cap (€m)	49.5
# of shares (m)	100.0
NAV return since inception	-8.17%
12-month NAV CAGR	-17.17%
NAV annualized Return*	-1.21%
NAV annualized Volatility*	12.95%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	45
# of months down (NAV)	39

*since inception

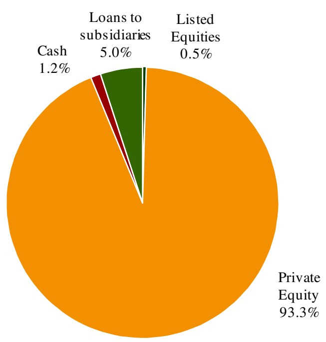
RC2 NAV returns

	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%	-0.81%
Nov	3.03%	0.46%	-1.15%	-0.25%	-0.38%
Dec	-0.60%	1.08%	-0.06%	-0.49%	0.30%
YTD	-31.43%	-8.38%	11.07%	3.32%	-17.17%

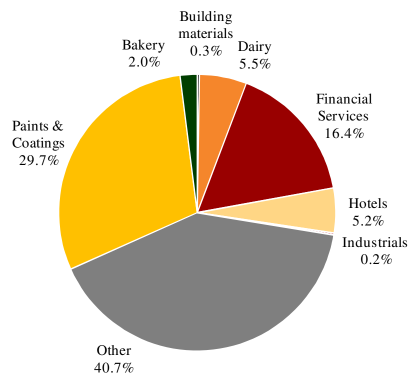
Share price / NAV per share (€)



Portfolio Structure by Asset Class

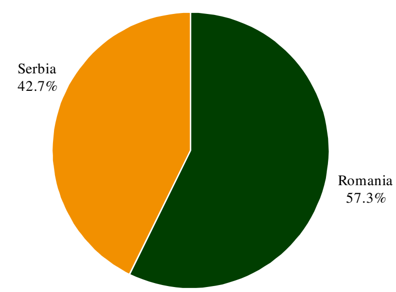


Equity Portfolio Structure by Sector



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

RC2's NAV per share fell by 0.9% over the last quarter of 2012, ending the year at €0.8784.

A shareholder meeting held in December approved extending the life of the Fund for a further two years until December 2014. During this time, the Fund will seek to exit its current investments and will not make any new investments except follow-on investments in existing investee companies.

The Investment Adviser is seeking to sell Top Factoring by means of an organized sales process, whilst Policolor is currently negotiating the sale of approximately two thirds of its 14 hectare site on the periphery of Bucharest, having relocated most of its coatings production to Orgachim, its Bulgarian subsidiary.

In spite of the ongoing difficult market conditions, Policolor, Top Factoring, and Mamaia all reported improved EBITDA, and continued to make significant progress in their restructuring programmes in 2012, whilst the picture at EPH was more mixed. Albalact, a publicly-quoted company, has not yet reported its full year results.

In particular, Policolor, in spite of the loss of resins sales due to a fire at its resins plant in early 2012, reported EBITDA 66% higher than the previous year, whilst Top Factoring had a very strong year, with its gross revenues increasing by 58%.

EPH managed to sell a non-core plot of land for € 4.0m at the end of the year.

At the end of the quarter, the Fund had cash and cash equivalent balances of approximately €1.5m, compared to €0.5m at the end of the previous quarter. The Fund's borrowings (excluding borrowings of investee companies) amounted to €4.5m as at 31 December.

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)	2010	2011	2012	2013B
Income Statement				
Net Sales	**232.2**	**219.4**	**181.4**	**200.3**
EBITDA	**6.3**	**4.8**	**5.4**	**8.5**
EBITDA margin	*2.7%*	*2.2%*	*3.0%*	*4.2%*
Profit after Tax	**(1.9)**	**(4.9)**	**(2.9)**	**2.4**
Net margin	*-0.8%*	*-2.2%*	*-1.6%*	*1.2%*

Note: unaudited management accounts

Mainly due to a sharp fall in sales to the construction industry in Italy, EPM's volumes sold in 2012 came in 22% below budget. However, due to selective price increases and a better product mix, as well as a number of restructuring measures, the copper division's EBITDA margin increased from 2.2% in 2011 to 3.0% in 2012, resulting in improved EBITDA of €5.4m.

For 2013, management's target is to increase volumes by 15% to 28,900 tons, mainly by developing sales in Eastern Europe and CIS markets, as well as by acquiring new customers on the German and French markets. Management is budgeting the 2013 EBITDA to increase to €8.5m, or 4.2% of sales, mainly as a result of the full impact of last year's price increases, a better product mix and the increased use of scrap.

The debt rescheduling process, which aims to convert approximately €58m of short term bank debt into a combination of short and long term maturities, has been approved by the credit committees of all of EPH's 14 banks included in the process, with final documentation having been signed with 11 of them.

Cable Production

(EUR '000)	2010A*	2011A*	2012**	2013B
Income Statement				
Net Sales	**23,693**	**36,779**	**34,703**	**36,890**
EBITDA	**(2,372)**	**(387)**	**206**	**287**
EBITDA margin	*-10.0%*	*-1.1%*	*0.6%*	*0.8%*
Profit after Tax	**(174)**	**(387)**	**(5,666)**	**(1,019)**
Net margin	*-0.7%*	*-1.1%*	*-16.3%*	*-2.8%*

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

During 2012, Novkabel experienced difficulties on the domestic market, with sales falling by €2.1m year-on-year, mainly due to reduced public tenders caused by the parliamentary and presidential elections held in May, and the subsequent delay in the formation of a new government. However, an improved sales mix in Russia, with increased sales of high-margin rubber cables, and a number of operational improvements, resulted in the EBITDA improving from €-0.4m in 2011 to €0.2m in 2012. The profit after tax includes €3.5m of losses on inter-company loans from EPH, which therefore get eliminated on consolidation.

For 2013, management is targeting a 6.3% increase in sales to €36.9m, with higher sales of rubber cables on the Russian market. Management plans to invest €2.5m in 2013 to re-condition equipment and relocate all production to three halls. The relocation of production is also designed to free up 22 ha of land on the outskirts of Novi Sad, Serbia's second largest city.

Milling

(EUR '000)	2010A*	2011A*	2012**	2013B
Income Statement				
Net Sales	**15,066**	**13,687**	**12,491**	**12,680**
EBITDA	**2,412**	**2,873**	**2,329**	**1,252**
EBITDA margin	*16.0%*	*21.0%*	*18.6%*	*9.9%*
Profit after Tax	**(735)**	**1,782**	**1,807**	**980**
Net margin	*-4.9%*	*13.0%*	*14.5%*	*7.7%*

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

Although Zitomlin, EPH's flour mill, was not able to equal the exceptional EBITDA it achieved in 2011, it continued to perform above budget, achieving EBITDA of €2.3m in 2012, on the back of increasing wheat and flour prices. For 2013, management is expecting a fall in profitability, mainly due to a higher average cost of inventories and the expected increase in competition.

Bakeries

(EUR '000)	2010A*	2011A*	2012**	2013B
Income Statement				
Net Sales	**22,111**	**20,260**	**16,845**	**16,823**
EBITDA	**(139)**	**(438)**	**(1,522)**	**(73)**
EBITDA margin	*-0.6%*	*-2.2%*	*-9.0%*	*-0.4%*
Profit after Tax	**(2,734)**	**(1,286)**	**(7,656)**	**(2,416)**
Net margin	*-12.4%*	*-6.3%*	*-45.4%*	*-14.4%*

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

During 2012, EPH's bakery division experienced significant difficulties due to government controls capping bread prices, and high wheat and flour prices after the weak summer harvest. This resulted in EBITDA reaching a negative €1.5m. For 2013, management plans to return the company to breakeven by relocating production to a new state-of-the-art plant located on the outskirts of Belgrade, which is expected to generate annual cost savings of €1.2m, and free-up substantial real estate in the city centre. Klas completed the sale of Automobilsko, an unused real estate asset, in December, for €4m, which generated an accounting loss of €3.8m due to the high historic cost of this site.

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. In the last quarter Policolor completed the squeeze-out and de-listed Orgachim shares from the Bulgarian Stock Exchange.

Group Financial results

(EUR '000)	2010A*	2011A*	2012 **	2013 B
Income statement (according to IFRS)				
Total operating revenues	**68,858**	**74,030**	**62,503**	**67,255**
Total Operating Expenses	(69,071)	(74,618)	(62,049)	(64,884)
Operating profit	**(213)**	**(588)**	**454**	**2,371**
Operating margin	*-0.3%*	*-0.8%*	*0.7%*	*3.5%*
Depreciation	3,209	2,923	3,412	3,480
EBITDA	**2,996**	**2,335**	**3,866**	**5,851**
EBITDA margin	*4.4%*	*3.2%*	*6.2%*	*8.7%*
Financial Profit/(Loss)	(740)	(1,185)	(997)	(1,313)
Profit before tax	**(953)**	**(1,774)**	**(543)**	**1,058**
Income tax	(441)	(10)	(142)	(245)
Profit after tax	**(1,394)**	**(1,783)**	**(685)**	**812**
Minority interest	(26)	133	123	-
Profit for the year	**(1,420)**	**(1,650)**	**(561)**	**812**
*exchange rate (RON/EUR)****	*4.210*	*4.238*	*4.450*	*4.500*

** IFRS Audited; ** IFRS Unaudited*

**** Average exchange rate*

The 2012 sales were mainly affected by the shutdown of the resins plant due to a fire in January 2012, which resulted in the loss of €7.8m of resins sales. The rest of the fall in sales comes from architectural paints and auto refinish and industrial paints, whilst sales of phthallic anhydride were slightly higher than the previous year. In spite of the loss of sales, the new management team managed to double the EBITDA margin from 3.2% to 6.2% by increasing prices, lowering raw material costs by optimizing the formulations of paints, and by a better control of fixed costs. A better working capital management also resulted in interest costs falling by €200,000.

The 2013 budget targets a 8% growth in consolidated sales from €62.5m to €67.3m. Part of this comes from a doubling of resins sales, due to Orgachim's plan to re-start its resins plant in June following a reconstruction process, with the remainder being generated by growth in the sales of coatings.

Paints and Coatings

Sales of paints and coatings fell by 16% in 2012, whilst the operating profit increased threefold, mainly due to price increases at the architectural paints division, improved formulations to reduce raw material costs, and a better control of costs. The 2013 budget targets a 10% increase in sales and a 64% increase in EBITDA at this division, due to lower raw material costs and higher sales volumes.

Chemicals (Resins and Anhydrides)

The fire at the resins plant in January 2012 resulted in management having to arrange the production of resins for its own needs and for its critical clients at two third party resins facilities. However, the lower sales, plus the increased costs of operating the two third party plants, resulted in negative EBITDA. Orgachim has now started the reconstruction of its resins plant, where it is hoping to restart production in June, and has submitted a claim to its insurers for the damage to equipment and buildings, lost stocks, and loss of business. Once resins production re-starts at Orgachim, management believes it will be able to-regain the bulk of the clients it has lost.

Orgachim's anhydrides business had a good year, with the EBITDA growing from slightly negative to more than €1m, on practically unchanged sales. This was mainly due to better market conditions, and management expects 2013 to be tougher, and is targeting a lower EBITDA of €0.6m.

Real Estate

Policolor owns 14ha of land located on the eastern periphery of Bucharest. The plot 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 currently negotiating its sale.

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 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)	2010*	2011*	2012**	2013B
Combined Group Income Statement				
Total Gross Operating Revenues	**2,694**	**5,549**	**8,738**	**10,107**
Debt portfolios (collections)	1,665	4,571	7,657	9,138
Agency contracts	1,029	978	1,082	969
Amortization of debt portfolios	(454)	(1,274)	(3,423)	(4,357)
Total Net Operating Revenues	**2,241**	**4,275**	**5,315**	**5,751**
Total Operating Expenses	**(1,824)**	**(2,940)**	**(3,357)**	**(3,393)**
Operating Profit	**416**	**1,335**	**1,958**	**2,357**
EBITDA	**461**	**1,398**	**2,072**	**2,463**
EBITDA margin	*20.6%*	*32.7%*	*39.0%*	*42.8%*
Financial Profit/(Loss)	8	(150)	**(197)**	**(192)**
Profit before Tax	**424**	**1,185**	**1,761**	**2,165**
Income Tax	(55)	(111)	(191)	(217)
Profit after Tax	**370**	**1,074**	**1,569**	**1,949**
Net margin	*16.5%*	*25.1%*	*29.5%*	*33.9%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.456*	*4.400*

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

The Group continued to grow strongly in 2012, with gross revenues increasing from €5.5m to €8.7m (+ 57.5%), and EBITDA up 48% from €1.4m to €2.1m, driven by the expansion of the debt purchase line. Proprietary portfolios generated 80% of total net operating revenues in 2012, of which banking portfolios generated 54%. This represents an important change from the previous year, when proprietary telecoms portfolios were the main contributors, generating 67% of net operating revenues. Agency contracts generated the remaining 20% of sales.

Operations

Currently, Top Factoring employs 230 people, of which 133 are collectors. The field (door-to-door) collection network comprises

13 agents. The field collection department, which only works on the Group's proprietary debt packages, generated collections of €0.4m, or 5% of all collected amounts in 2012. The Group plans to further grow its field collection network, and also toput more focus on the legal collection stage, in order to widen and improve its collection instruments.

At the end of 2012, the Group owned 25 debt packages (eleven telecoms and fourteen banking), made up of 744,000 cases with a total face value of €190m.

Prospects

The Group's budget includes investing €3.8m in new portfolios in 2013, and targets gross revenues of €10.1m, representing a 16% year-on-year increase. The budget for the agency business line assumes virtually flat revenues of €1.0m. The EBITDA margin is targeted to increase from 39% in 2012 to 42.87%, resulting in EBITDA of €2.5m (+19%), due to an increased focus on banking portfolios which tend to have longer collection periods and a higher operating margin.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy company 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 falling by 2% over the quarter, RC2's shareholding in Albalact had a market value of €5.0m as at 31 December, compared to €5.1m 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 has not yet released its full 2012 results. An analysis of its nine month results was included in the September quarterly report.

Operations

In September 2012, Albalact launched a new range of yogurts with toppings under a new brand name, "Fruzu", thereby entering a new market category. The Company has also expanded its fresh cheese portfolio, becoming the second largest Romanian market player in this category.

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*	2012A***	2013B
Income Statement				
Sales Revenues	**1,591**	**1,664**	**1,744**	**2,021**
Other operating revenues	232	7	81	26
Total Operating Revenues	**1,823**	**1,671**	**1,825**	**2,047**
Total Operating Expenses	(2,111)	(1,563)	(1,598)	(1,662)
Operating Profit	**(288)**	**108**	**227**	**385**
Operating margin	*neg.*	*6.5%*	*12.4%*	*18.8%*
EBITDA	**(61)**	**437**	**457**	**601**
EBITDA margin	*neg.*	*26.2%*	*25.0%*	*29.4%*
Financial Profit/(Loss)	(135)	(153)	(172)	(120)
Profit before Tax	**(423)**	**(45)**	**55**	**265**
Income Tax	(5)	0	0	0
Profit after Tax	**(428)**	**(45)**	**55**	**265**
Net margin	*neg.*	*neg.*	*3.0%*	*12.9%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.456*	*4.400*

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

Accommodation revenues increased by 10% in 2012 and accounted for 53% of revenues, while the food & beverage department generated revenues of €750,000 (down 2%), or 43% of total sales. Overall, the Hotel generated revenues of €1.8m, up 9.2% year-on-year, while the operating margin improved from 6.5% to 12.4%. The 2.5% depreciation of the leu against the euro in 2012 generated a net foreign exchange loss of €53,000 due to the revaluation of the Hotel's euro-denominated loans, which, together with the interest expense, resulted in a net financial loss of €172,000. The 2012 net profit came in at €55,000, compared to a loss of €45,000 over the previous year.

Operations

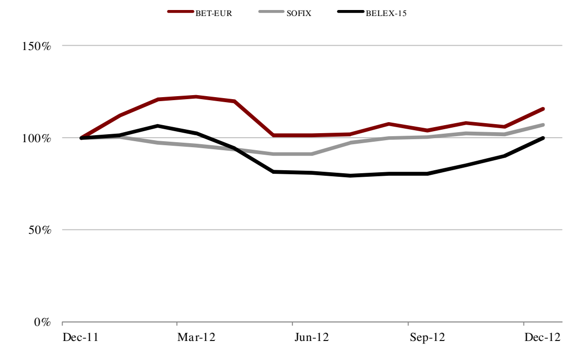
The average annual occupancy rate of 23.4% was slightly better than the previous year's 22%. The average net tariff also increased from €37.5 to €39 (+4% year-on-year), due to a better sales mix, with a higher number of walk-in clients over the summer months.

Prospects

The 2013 budget assumes an occupancy rate of 25% (an improvement on 2012's 23.4%), and an overall 12% year-on-year increase in revenues. Management is focussing on improving the performance of the food and beverage department after a fall in revenues at this department in 2012. Consequently, its revenues are budgeted to increase by 18% year-on-year. Overall, the 2013 budget targets EBITDA of €0.6m, a 32% year-on-year improvement.

Capital Market Developments

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



Commentary

During the fourth quarter, stock markets in the region experienced a strong rebound, with the BET-EUR gaining 11.4%, the SOFIX 6.6%, and the BELEX-15 24.2 %, all in euro terms. Over the past year, the BET-EUR index gained 15.6%, the SOFIX 7.2%, while the BELEX-15 remained flat, all in euro-terms.

By comparison, over the same period, the MSCI Emerging Market Eastern Europe index was up 11.2%, the MSCI Emerging Market index 13.1%, the FTSE100 index 8.9% and the S&P index 11.4%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	0.2%	FY12	1.0%	FY12	-1.7%	FY12
Inflation (y-o-y)	5.0%	FY12	4.2%	FY12	12.2%	FY12
Ind. prod. growth (y-o-y)	-0.6%	Dec-12	4.1%	Dec-12	-2.7%	FY12
Trade balance (EUR bn)	-9.6	FY12	-3.6	FY12	-5.9	FY12
y-o-y	*-1.1%*		*66.7%*		*2.4%*	
FDI (EUR bn)	1.6	FY12	1.4	FY12	0.1	11M12
y-o-y change	*-11.1%*		*-19.9%*		*-90.7%*	
Total external debt/GDP	70.1%	Dec-12	95.9%	Nov-12	87.8%	Dec-12
Reserves to short-term debt	152.5%	Dec-12	142.7%	Nov-12	2127.7%	Dec-12
Loans-to-deposits	114.5%	Dec-12	93.0%	Dec-12	126.3%	Nov-12
Public sector debt-to-GDP	37.2%	Nov-12	19.1%	Nov-12	59.3%	Nov-12

Commentary

Romania

Romania's GDP grew by 0.2% in 2012, down from 2.5% the previous year. The 2012 GDP number was negatively affected by the poor harvest in the summer. An IMF mission visited Romania at the end of January for a regular review of the economy. The IMF is forecasting 1.6% GDP growth in 2013. Although industrial production was flat in December compared to the previous month, overall industrial production grew by 0.3% in 2012.

The 2012 trade deficit improved slightly, falling by 1.1% compared to the previous year (from €9.7bn to €9.6bn). The improvement in the trade balance resulted in a 15% year-on-year fall in the 2012 current account deficit from €5.9bn to €5bn. FDI flows amounted to only €1.6bn, down 11% year-on-year, and covered 32% of the current account deficit. The Romanian Leu lost 3% against the euro in 2012, but gained 1.7% in December, mainly due to the decisive result of the parliamentary elections on 9th December when Romania's centre-left Social Liberal Union coalition won a comfortable majority of over 60%, and President Basescu appointed Prime Minister Victor Ponta to form a new government, ending months of political instability due to infighting between the President and the Prime Minister.

Higher energy and food prices resulted in Romania's annual CPI increasing from 3.1% at the end of December 2011, to 4.95% at the end of December 2012. The 2012 CPI growth is outside the 3% target set by the National Bank of Romania ("NBR"). The NBR has set the 2013 target inflation rate at 2.5%, with a variation band of ±1%.

The 2012 budget deficit came in at €3.3bn, down 38% year-on-year in RON-terms and equivalent to 2.5% of GDP. For 2013, the Romanian Government has set a target budget deficit of 2.1% of GDP. Romania's total external debt was €99.2bn at the end of 2012, flat year-on-year. In 2013, Romania has to make payments of €5.1bn to the IMF, with a further €4.7bn due in 2014, in order to fully repay the €12.4bn drawn from the loan granted by the IMF in March 2009. Romania successfully placed USD 1.5bn of 10-year US Dollar denominated bonds at a yield of 4.5% in February, which, together with NBR's foreign reserves, will be used to repay the IMF loan. The public sector debt was €48.3bn at the end of November, up 12.6% year-to-date and equal to 37% of GDP. The NBR's foreign reserves (excluding gold) amounted to €31.2bn at the end of 2012, allowing it to comfortably cover the country's short-term external debt (€20.5bn).

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €51bn at the end of 2012, up 1.3% year-on-year in RON terms. Positively, the stock of deposits was €44.5bn at the end of December, up 5.3% year-on-year in RON terms. Household deposits increased by 8% year-on-year and accounted for 62% of total deposits. The Romanian banking system's total loans-to-deposits ratio was 115% at the end of 2012. Overdue loans accounted for 13% of the total loan stock at the end of 2012 (compared to 9.5% at the end of 2011).

Bulgaria

Bulgaria's fourth quarter 2012 GDP grew by 0.5% year-on-year and by 0.1% quarter-on-quarter, with the Bulgarian economy growing by 1% over 2012, in line with the IMF's projections. The IMF's annual GDP growth forecast for 2013 stands at 1.5% on the grounds of improved external conditions which could lead to a positive evolution of Bulgaria's exports. There are positive signs from the industrial sector, with Bulgaria's year-on-year industrial production up 4.1% in December, following a 2.0% year-on-year fall in November.

Bulgaria's CPI rate was 4.2% in 2012, higher than the 2% recorded at the end of 2011. The increase was mainly triggered by rising fuel prices (up 10% year-on-year), which in turn generated further increases in food prices (+5.4% year-on-year). With exports increasing by only 2.6% year-on-year, and imports growing by 8.8%, the trade deficit increased from €2.1bn in 2011 to €3.6bn in

2012. The increase in the trade deficit resulted in Bulgaria recording a current account deficit of €0.3bn, or 0.7% of GDP, in 2012, compared to a surplus of 0.3% in 2011. FDI inflows were €1.4bn over the period, down from €1.7bn over 2011.

Bulgaria's 2012 budget deficit was 0.45% of GDP, a 76% year-on-year improvement and well below the target of 1.5% approved by Parliament. While budgetary revenues increased by 8.2% (from €13bn to €14bn), expenditures increased by only 3.2% (from €13.8bn to €14.2bn). The 2013 budget was approved by Parliament in December and provides for a budget deficit of 1.3% of GDP. The budget is based on forecast economic growth of 1.9% in 2013. Achieving the 2013 budget target will be put to the test by the run-up to the parliamentary elections scheduled for mid-2013. Bulgaria's public sector debt was 19% of GDP at the end of November, up from 16.7% at the end of 2011 due to Bulgaria's successful placing of €950m worth of 5-year eurobonds at a yield of 4.436% in July. However, the government redeemed bonds worth of €900m in January, which should lower the public sector debt to approximately 17% of GDP. The country's reserves-to short-term debt ratio was a solid 142.7% at the end of November.

The Bulgarian banking system's total loans-to-deposits ratio was 93% at the end of 2012, down from 98.6% at the end of 2011. Whilst loans to non-financial institutions increased by 2% year-on-year from €26.6bn to €27.2bn, triggered by a 4.8% year-on-year increase in corporate loans, the deposit base remains solid, having increased by 8% over the period. Overdue loans accounted for 22.4% of total loans at the end of 2012, up from 21.9% at the end of 2011.

Serbia

Serbia's GDP fell by 1.7% in 2012, mainly as a result of the continued slowdown in economic activities in Europe, coupled with the shutdown of US Steel's plant and lower agricultural production due to the weak harvest in the region. Industrial production fell by 2.7%. In 2013, GDP growth is expected to reach 1%, benefiting from the serial production of cars at the new FIAT plant in Kragujevac and increased output at the oil refinery in Pancevo.

The budget deficit soared by 42.0% in 2012, reaching 5.7% of GDP, mainly as a result of pre-election campaign spending in the first half of 2012, interest payments on higher dinar-denominated debt, and the costs of government subsidy programmes launched to support the staggered economy. The new fiscal strategy for 2013 envisages shrinking the budget deficit to 3.5% of GDP mainly by reducing expenditures, but also by increasing taxes, including the recent increase in the VAT rate, increased excises on tobacco, alcohol and oil products, and higher personal income and corporate profit tax rates.

The annual CPI rate came in at 12.2% in December, exceeding the National Bank of Serbia's targeted range for 2012 of 4.0% ± 1.5%. This was mainly a result of the dinar's depreciation in the second and third quarters of 2012, food price increases following the weak summer harvest, as well as tax increases introduced by the new government in late 2012r to try to rein in the public deficit. Further inflationary pressures are expected in the first half of 2013 due to another increase in the excise on tobacco products and alcoholic drinks as well as gas and electricity price increases. In early January, the National Bank of Serbia increased the key policy rate by 25 bps to 11.5%, mainly due to inflation exceeding the targeted range.

During the last four months of 2012, the government successfully placed two US dollar-denominated eurobond issues, raising USD 1bn in late September and USD 750m in November, with yields of 6.625% and 5.45% respectively.

FDI amounted to a mere €140m over the first eleven months of 2012, mainly as a result of the €380m outflow created by Telekom Srbija (the state-owned telecommunication company) buying back its own shares from the Greek OTE. The FDI balance is expected to improve in 2013 mainly due to announced agricultural investments from the United Arab Emirates, planned investments in NIS (the oil and gas company owned by Gazprom Neft), as well as IKEA's and Lidl's possible entries on the Serbian market. Exports increased by 4.7% year-on-year in 2012, while imports grew by 3.8%. This generated a trade deficit of €5.9bn, a 2.4% increase on the previous year.

During 2012, the Serbian dinar lost 8.7% against the euro, having sharply depreciated during the first half of the year. However, it recovered in the second half, supported by a more restrictive monetary policy (with increased dinar mandatory reserves for banks) and strong investor interest in Serbian local currency t-bills in the fourth quarter.

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