Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 December 2013

neweuropecapital

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Statistics

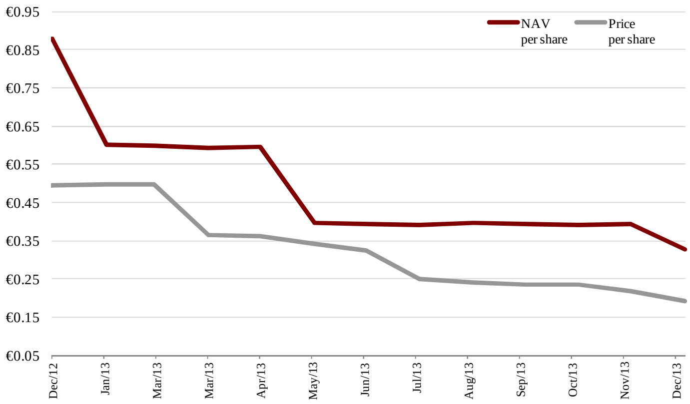
NAV per share (€)	0.3282
Share price (€)	0.1925
Total NAV (€m)	32.8
Mk Cap (€m)	19.3
# of shares (m)	100.0
NAV return since inception	-65.69%
12-month NAV CAGR	-62.64%
NAV annualized Return*	-12.52%
NAV annualized Volatility*	20.97%
Best month (NAV)	15.60%
Worst month (NAV)	-33.53%
# of months up (NAV)	48
# of months down (NAV)	48

**since inception*

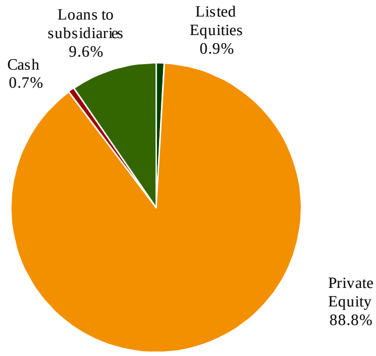
RC2 NAV returns

	2009	2010	2011	2012	2013
Jan	-5.65%	1.36%	-0.54%	0.11%	-31.58%
Feb	-1.51%	0.03%	0.24%	-9.68%	-0.50%
Mar	2.39%	2.07%	2.48%	-0.51%	-0.64%
Apr	-8.40%	15.60%	0.70%	-0.65%	0.29%
May	-0.26%	-5.42%	0.55%	-4.98%	-33.53%
Jun	3.08%	-1.57%	0.25%	-1.48%	-0.83%
Jul	1.08%	0.53%	0.13%	-0.73%	-0.28%
Aug	0.23%	0.07%	-1.10%	0.61%	1.28%
Sep	1.20%	-0.62%	-1.25%	0.01%	-0.71%
Oct	-1.79%	0.96%	2.63%	-0.81%	-0.71%
Nov	0.46%	-1.15%	-0.25%	-0.38%	0.43%
Dec	1.08%	-0.06%	-0.49%	0.30%	-16.45%
YTD	-8.38%	11.07%	3.32%	-17.17%	-62.64%

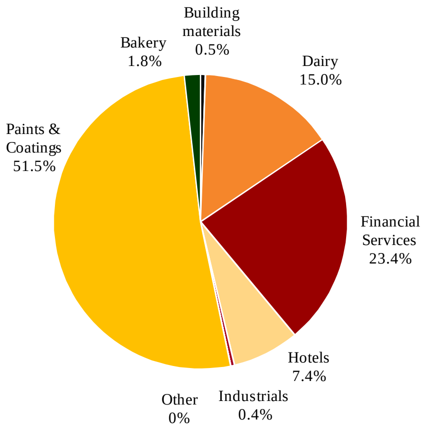
Share price / NAV per share (€)



Portfolio Structure by Asset Class

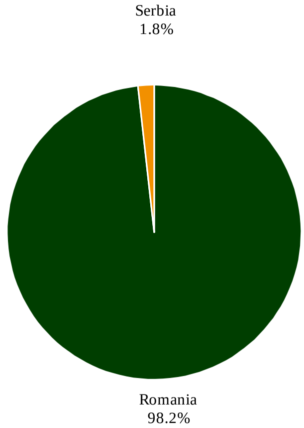


Equity Portfolio Structure by Sector



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 suffered a severe fall over the quarter pursuant to new independent valuations of Fund's unlisted private equity holdings. In particular, as previously announced, the investment in East Point Holdings Ltd was written down to zero, and the Fund's direct 11% equity interest Klas was reduced from €1.3m to € 0.7m. On the other hand, the Romanian unlisted private equity holdings (Policolor, Top Factoring Group, and Mamaia Resort Hotels) saw their overall valuations increase by approximately €1m, reflecting their improved performance and prospects. Furthermore, the investment in Albalact, which is the only quoted private equity holding of the Fund, was also up in euros over the quarter, by 3.7%. Due to the above changes, the December 2013 NAV per share was €0.3282, compared to €0.3939 at the end of September.

Over 2013, Albalact and Top Factoring had an extremely good performance, with Top Factoring's EBITDA growing by 50% to €2.6m. Albalact, which is a quoted company, has not yet reported its full year results, but it achieved a 25% increase in sales over the first nine months in spite of a stagnant dairy products market, and a 14% increase in its EBITDA. Policolor's results were more mixed, given weakness in its chemicals division, which saw an €0.9m fall in its EBITDA due to adverse market conditions. Nevertheless, the core coatings division saw a 12% increase in EBITDA in spite of a 6% fall in sales. Mamaia Resort Hotels achieved a modest 6% increase in revenues, but its EBITDA level was virtually unchanged. The real problem with the portfolio was experienced in Serbia where all operating divisions of East Point Holdings performed well below budget, primarily due to trade finance being reduced at the core Copper Processing division but also due to poor sales of cables and bakery products.

The Manager is continuing to pursue a number of exits, both from the Fund's investee companies as well as from certain assets held by them. However, whilst discussions are ongoing with a number of potential buyers, there are no breakthroughs to report.

At the end of the quarter, the Fund had cash and cash equivalents of approximately €0.3m, compared to €0.4m at the end of the previous quarter. At the end of the quarter, the Fund's borrowings (excluding borrowings of investee companies) amounted to €4.3m, whilst overdue liabilities amounted to €4.8m. The Fund is expecting to receive €1.5m in dividends from Top Factoring Group over the half of 2014, as well as €0.6m from Mamaia Resort Hotels, pursuant to a loan made by RC2 which is now being refinanced by a bank. The Fund needs to repay a shareholder loan amounting to €3.7m in April 2014, and is making arrangements to take on a short term loan to do so, to give it enough time to come to shareholders with proposals for a fundraising exercise.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 91% owned Bulgarian subsidiary Orgachim AD form the largest producer of coatings in Romania and Bulgaria, Orgachim Resins is the leading supplier of resins in SE Europe, and Ruse Chemicals is a producer and trader of anhydrides. All the companies of the Group are unlisted.

Group Financial results and 2014 Budget

(EUR '000)	2011*	2012 *	2013**	2014 B
Income statement (according to IFRS)				
Total operating revenues	74,030	58,663	56,077	73,560
Total operating expenses	(74,618)	(58,246)	(56,306)	(71,372)
Operating profit	(588)	417	(229)	2,188
Operating margin	-0.8%	0.7%	-0.4%	3.0%
Depreciation	(2,923)	(3,228)	(3,339)	(3,704)
EBITDA	2,335	3,645	3,110	5,891
EBITDA margin	3.2%	6.2%	5.5%	8.0%
Financial Profit/(Loss)	(1,185)	(1,126)	(786)	(788)
Other extraordinary items				
Profit before tax	(1,774)	(709)	(1,015)	1,400
Income tax	(10)	(219)	(211)	
Profit after tax	(1,783)	(928)	(1,226)	
Minority interest	133	260	110	
Profit for the year	(1,650)	(668)	(1,115)	
*avg exchange rate (RON/EUR)****	4.238	4.450	4.450	4.420

** Audited ** unaudited*

In 2013, the Group's total operating revenues were 4% lower than the previous year, and, despite an improvement in the profitability of the coatings division, the Group's overall EBITDA fell by 15.3% due to much lower profitability at the chemicals (anhydrides) division, whose performance is highly volatile depending on market conditions.

Despite a threefold increase in marketing spend in 2013 and a fall in sales mostly due to an intensifying recession in the construction industry, the coatings division has seen higher profitability (EBITDA grew by 12% in 2013) mainly due to the effects of a new management team which focused on improvements in formulations, and optimizing working capital and manufacturing costs.

The Group's 2014 budget provides for a 31% year-on-year increase in turnover, mainly as a result of the resins plant restarting production in the first quarter, and the coatings division targeting 18% growth in sales. The coatings division is also targeting a 21% increase in EBITDA, to be generated by a more pro-active route-to-market approach, strong trade marketing programmes, a stronger focus on sales in key accounts, and improved relationships with regional distributors.

Operations

Over the course of 2013, eight new senior and middle managers were recruited into the Group in order to strengthen the management team, including new Heads of Architectural Paints in Romania and Bulgaria, a new Head of Automotive and Industrial Coatings, and a new Head of Chemicals (Resins and Anhydrides).

In 2013, €0.4m was recovered from Orgachim's insurers in relation to damage to property and equipment from the fire that destroyed the resins plant in January 2012. Management expects to receive further amounts for damage to property and equipment, and for business interruption, in 2014.

The demerger of Orgachim into separate coatings, resins and anhydride companies was finalized in September 2013. Now owned by a separate company, Orgachim's Resins division had established itself as the leading supplier of resins in SE Europe, supplying alkyd resins to paints producers across SE Europe; and unsaturated polyester resins (UPR) further afield in Europe and the Middle East. The division started to experience strong growth in 2007, and sales of resins to third parties doubled in 2011. However, a fire in January 2012 shut down Orgachim's resins production, forcing it to produce resins at two rented facilities in order to keep its core clients, and for Orgachim's paints division's internal use. The resins facility has now been rebuilt and upgraded at a total cost of €3.8m, and is due to re-start production in March. Most of Orgachim's clients which had started to use alternative suppliers have expressed interest in returning to Orgachim, and the target is to recover Orgachim's position as the main regional supplier.

Orgachim's Anhydrides plant, now owned by a separate company resulting from the Orgachim demerger, has an annual production capacity of 22,000 tonnes of Phthalic Anhydride (PA) and 1,000 tonnes of Maleic Anhydride (MA). The plant occupies a wholly-owned 11 ha site in Ruse, which is completely separate from the coatings and resins sites of Orgachim. Approximately 10% of the anhydrides production is used internally by the Group for the manufacture of resins; the rest being sold to external customers, mainly in Turkey. The EBITDA of the business is volatile, depending on the spread between orthoxylene (the main raw material) and PA prices on international markets. Management is actively pursuing exit discussions for this division, now that it is owned by a separate company.

Policolor owns 14ha of land located on the eastern periphery of Bucharest, which it is also trying to sell. The sale is dependent on Policolor relocating its automotive and industrial coatings production, its administrative offices and its Romanian decorative paints warehouse, and the management is in advanced negotiations to buy a property to which it intends to relocate its entire Romanian operations.

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)	2011*	2012*	2013**	2014B
Combined Group Income Statement				
Total Gross Operating Revenues	**5,549**	**8,787**	**9,766**	**12,615**
Debt portfolios (collections)	4,571	7,531	8,697	11,590
Agency contracts	978	1,256	1,069	1,026
Amortization and fair value adjustments of debt portfolios	(1,274)	(3,441)	(3,272)	(5,870)
Total Net Operating Revenues	**4,275**	**5,346**	**6,494**	**6,745**
Total Operating Expenses	**(2,940)**	**(3,689)**	**(3,982)**	**(4,564)**
Operating Profit	**1,335**	**1,658**	**2,512**	**2,181**
EBITDA	**1,398**	**1,745**	**2,622**	**2,323**
EBITDA margin	*32.7%*	*32.6%*	*40.4%*	*34.4%*
Financial Profit/(Loss)	(150)	(234)	(72)	(322)
Profit before Tax	**1,185**	**1,423**	**2,441**	**1,859**
Income Tax	(111)	(161)	(305)	(232)
Profit after Tax	**1,074**	**1,262**	**2,136**	**1,627**
Net margin	*25.1%*	*23.6%*	*32.9%*	*24.1%*
Avg exchange rate (RON/EUR)	*4.238*	*4.456*	*4.419*	*4.420*

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

The Group's 2013 net revenue growth was driven by expansion of the debt purchase line and improved profitability as a result of a greater focus on banking portfolios. In 2013, the debt purchase line accounted for 84% of net operating revenues, of which banking portfolios generated 69%. The agency business generated revenues of €1m, virtually unchanged over the year.

The Group invested €5m in debt portfolio acquisitions in 2013, which were financed by a combination of bank loans and equity.

In 2013, the Group distributed €1.5m of its retained earnings as dividends, of which €1.4m was paid to RC2.

2013 EBITDA (which is calculated after deducting the amortization of portfolios) was up 50% on the previous year and amounted to €2.6m, whilst operating cashflow reached €4m.

Operations

In November, the Group acquired a telecom portfolio of 53,000 cases with a total face value of €9m. Thus, the Group now owns 41 debt packages (thirteen telecoms and twenty eight banking) made up of 870,000 cases with a total face value of €248m.

Gross collections from proprietary portfolios increased from €7.5m in 2012 to €8.7m in 2013.

The Group improved the performance of its field and legal divisions, with these departments generating 8% and 13% of overall collections, respectively, compared to 5% and 2%, respectively, in 2012. The balance of 79% was collected by the call centre.

Prospects

The 2014 budget is based on the Group investing €8m in new portfolios in 2014, and targets gross revenues of €12.6m, a 29% year-on-year increase. The budget for the agency business line assumes virtually flat revenues of €1.0m. The company's profitability is expected to be affected by a forecast increase in portfolio prices, partially compensated by improved operating efficiency. The Group continues to focus on banking portfolios which generate collections over a longer period of time and generate higher direct margins.

The Group plans to distribute €1.65m of its 2013 retained earnings as dividends in early 2014 in order to support the Fund's working capital needs.

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 43%, with the remaining 31.6% representing the free float. With Albalact's market capitalization increasing by 3.7% over the quarter, the value of RC2's shareholding was up from €5.6m as at 30 September to €5.8m as at 31 December.

Financial results

(EUR '000)	2011A*	2012*	2013B	9M12**	9M13**
Standalone Income Statement					
Sales Revenues	**79,814**	**77,164**	**87,374**	**55,717**	**69,852**
Other operating revenues	2,267	192	(594)	509	185
Total Operating Revenues	**82,081**	**77,356**	**86,780**	**56,227**	**70,037**
Total Operating Expenses	(79,842)	(74,946)	(83,411)	(54,749)	(68,188)
Operating Profit	**2,238**	**2,410**	3,369	**1,477**	**1,849**
Operating margin	*2.7%*	*3.1%*	*3.9%*	*2.6%*	*2.6%*
Recurring EBITDA	**3,598**	**5,655**	**6,065**	**3,566**	**4,087**
EBITDA from non-recurring sale of non-core assets	1,412	(429)	-	-	-
Total EBITDA	**5,009**	**5,225**	**6,065**	**3,566**	**4,087**
EBITDA margin	*6.1%*	*6.8%*	*7.0%*	*6.3%*	*5.8%*
Financial Profit/(Loss)	(632)	(450)	384	(735)	(374)
Profit before Tax	**1,607**	**1,960**	**3,753**	**743**	**1,474**
Income Tax	(246)	(317)	(600)	(129)	(243)
Profit after Tax	**1,361**	**1,643**	**3,152**	**614**	**1,232**
Net margin	*1.7%*	*2.1%*	*3.6%*	*1.1%*	*1.8%*
Avg exchange rate (RON/EUR)	*4.238*	*4.456*	*4.400*	*4.433*	*4.408*

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

Albalact has not yet released its full 2013 results. An analysis of its nine month results was included in the September quarterly report.

Operations

As part of the buy-back programme approved by the shareholders in September 2013, Albalact initiated a tender offer in February 2014, targeting 3% of the Company's share capital at a price per share of RON0.1590, corresponding market capitalization of €23.1m. The tender offer closed in early March, with Albalact having bought back 2.85% of its share capital.

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)	2011A*	2012A**	2013A***	2014B
Income Statement				
Sales Revenues	**1,664**	**1,775**	**1,876**	**2,216**
Other operating revenues	7	42	40	17
Total Operating Revenues	**1,671**	**1,817**	**1,916**	**2,234**
Total Operating Expenses	(1,563)	(1,606)	(1,705)	(2,033)
Operating Profit	**108**	**210**	**211**	**201**
Operating margin	*6.5%*	*11.6%*	*11.0%*	*9.0%*
EBITDA	**437**	**455**	**416**	**474**
EBITDA margin	*26.2%*	*25.0%*	*21.7%*	*21.2%*
Financial Profit/(Loss)	(153)	(182)	(108)	(132)
Profit before Tax	**(45)**	**28**	**103**	**68**
Income Tax	-	-	(5)	-
Profit after Tax	**(45)**	**28**	**98**	**68**
Net margin	*neg.*	*1.5%*	*5.1%*	*3.0%*
Avg exchange rate (RON/EUR)	*4.238*	*4.456*	*4.419*	*4.420*

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

2013 revenues of €1.9m were up 5.5% year-on-year, whilst EBITDA was lower at €416,000 (-8.5%) mainly due to higher salary costs, while the bottom line improved from a net profit of €28,000 in 2012 to a net profit of €98,000 in 2013, mainly due to a more stable foreign exchange rate.

Accommodation revenues increased by 2% compared to the previous year and accounted for 52% of revenues, while Food & Beverage revenues were 13% higher, and now represent 44% of total revenues.

At the end of 2013, the Hotel's total debt amounted to €1.7m, of which €0.6m is bank debt owed to Raiffeisen Bank, €0.6m is shareholder loans from RC2, €0.3m is owed to TUI Germany and the balance of €0.2m is owed to Peacock, the Hotel's management company.

Operations

The average annual occupancy rate of 24% was slightly above the previous year's 23%.

In 2013, the Company made investments of €70,000 to redecorate 100 of the Hotel's 290 rooms, repair the pool, and acquire beach furniture after being awarded a 10-year concession to operate the beach in front of the Hotel.

The Company has reached an agreement with its bankers to refinance all of its debts (including the shareholder loan from RC2) and to provide an additional loan for financing €0.7m of investments to be made over 2014. Consequently, RC2 was refunded its €0.5m loan and €0.1m of accrued interest in mid-March 2014.

Prospects

The 2014 budget assumes an occupancy rate of 28% (an improvement on 2013's 24%), and an overall 17% year-on-year increase in revenues. The increase in revenues is to be helped by a €0.7m investment programme in 2014, of which 85% is to be financed by bank loans.

The investments are aimed at: modernizing the Hotel's restaurant, its reception area, and the 190 rooms that were not refurbished in 2013; expanding the pool area and building a beach bar; and building a SPA in the pool area to be connected to the Hotel by means of a suspended bridge. Building a SPA facility should help the Hotel earn revenues during the low season.

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. During 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 in exchange for non-core assets. RC2 then 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)	2011A	2012	2013	2014B
Income Statement				
Net Sales	219.4	181.7	137.0	169.2
EBITDA	4.8	5.8	1.9	7.1
EBITDA margin	2.2%	3.2%	1.4%	4.2%
Profit after Tax	(4.9)	(1.0)	(3.0)	1.1
Net margin	-2.2%	-0.5%	-2.2%	0.6%

Note: unaudited management accounts

During the fourth quarter of 2013, EPH's copper processing division continued to experience difficulties caused by insufficient trade finance lines. Overall, EPH's copper division experienced a 24.5% year-on-year fall in sales, which resulted in EBITDA falling to €1.9m, compared to €5.4m generated in 2012. EPH's management is attempting to access new trade finance facilities, from both financial and governmental institutions. For 2014, management is budgeting sales of €169.2m and EBITDA of €7.1m, which assumes that adequate working capital financing can be secured.

Cable Production

(EUR '000)	2011A*	2012A*	2013**	2014B
Income Statement				
Net Sales	36,779	32,385	25,843	35,721
EBITDA	(387)	(162)	(2,136)	(761)
EBITDA margin	-1.1%	-0.5%	-8.3%	-2.1%
Profit after Tax	(387)	(1,466)	(5,801)	(2,242)
Net margin	-1.1%	-4.5%	-22.4%	-6.3%

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

Despite a significant pick-up in sales in the third and fourth quarters of 2013, Novkabel, EPH's cable producer, was not able to cover the fall in sales experienced over the first half of the year, which was the result of reduced purchases from Russian oil and gas companies. Consequently, EBITDA came in a negative €2.1m, compared to positive €0.2m generated in 2012. 2014 started much better for the division, due to strong orders from Russia. Management is therefore budgeting a 38.2% year-on-year increase in sales in 2014, on the back of increased orders from Russia.

Milling

(EUR '000)	2011A*	2012A*	2013**	2014B
Income Statement				
Net Sales	13,687	12,437	10,670	10,105
EBITDA	2,873	2,275	1,193	1,107
EBITDA margin	21.0%	18.3%	11.2%	11.0%
Profit after Tax	1,782	1,696	842	932
Net margin	13.0%	13.6%	7.9%	9.2%

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

In 2013, Zitomlin, EPH's flour mill, suffered from a strong harvest which resulted in lower wheat prices in the second half of the year, devaluing its stocks, and resulting in a €1m fall in its EBITDA level compared to the previous year. However, Zitomlin managed to perform in line with its budget, mainly as a result of tight cost controls. Management is conservatively budgeting similar results in 2014, although much will depend on the summer 2014 harvest.

Bakeries

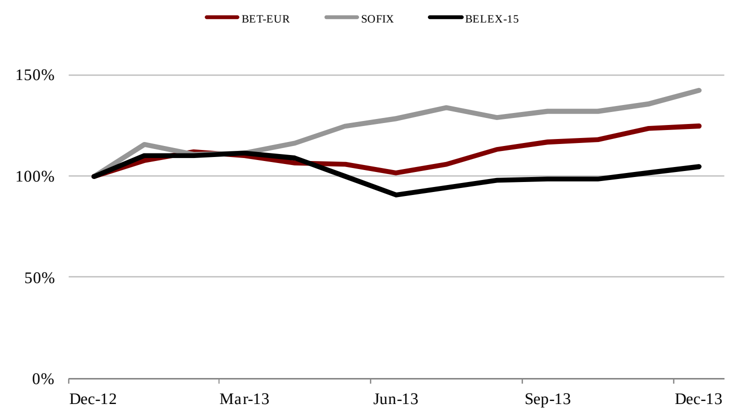
(EUR '000)	2011A*	2012A*	2013**	2014B
Income Statement				
Net Sales	20,260	16,826	14,593	13,811
EBITDA	(438)	(1,308)	(2,078)	(534)
EBITDA margin	-2.2%	-7.8%	-14.2%	-3.9%
Profit after Tax	(1,286)	(6,852)	(4,812)	(2,475)
Net margin	-6.3%	-40.7%	-33.0%	-17.9%

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

Klas - EPH's bakery division - was able to relocate to its new plant only at the end of 2013, resulting in high operating costs over the year. This, coupled with a 13.9% year-on-year fall in sales, resulted in EBITDA falling from negative €1.5m in 2012 to negative €2.1m in 2013. Management plans to increase profitability by focusing on more profitable special bread sales, introducing new private label products, improving distribution, and through stricter cost controls. Management is also focussing its efforts on selling non-core assets, and plans to use the proceeds to fund an extensive redundancy programme in order to take advantage of its new more efficient production facility. As a result, management is budgeting €13.8m of sales in 2014, and negative EBITDA of €0.5m.

Capital Market Developments

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



Commentary

Over the fourth quarter, the Romanian BET, the Bulgarian SOFIX and the Serbian BELEX-15 indices gained 6.9%, 7.8% and 6.0%, respectively, all in euro terms.

Over the past year, the BET-EUR index has gained 24.9%, the SOFIX 42.3%, and the BELEX-15 4.4%, all in euro-terms. By comparison, over the last year, the MSCI Emerging Market Eastern Europe index lost 7.0%, the MSCI Emerging Market index lost 9.1%, while the FTSE100 index was up 11.7% and the S&P index was up 24.0%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	3.5%	FY13	0.9%	FY13	2.6%	FY13
Inflation (y-o-y)	1.6%	Dec-13	-1.6%	Dec-13	2.2%	Dec-13
Ind. prod. growth (y-o-y)	7.9%	Dec-13	-1.0%	Dec-13	5.5%	Dec-13
Trade balance (EUR bn)	-5.7	FY13	-2.3	FY13	-4.5	FY13
y-o-y	*-40.8%*		*-32.5%*		*-25.3%*	
FDI (EUR bn)	2.7	FY13	1.2	FY13	0.6	Nov-13
y-o-y change	*26.8%*		*-17.0%*		*166.4%*	
Total external debt/GDP	68.1%	FY13	92.1%	Nov-13	78.2%	FY13
Reserves to short-term debt	169.8%	FY13	155.8%	FY13	3592.2%	Nov-13
Loans-to-deposits	101.3%	Dec-13	94.7%	Dec-13	122.3%	Dec-13
Public sector debt-to-GDP	38.6%	Dec-13	18.0%	Dec-13	60.8%	Dec-13

Commentary

Romania

Romania's GDP grew by 5.1% year-on-year in the fourth quarter of 2013, and by 1.5% compared to the previous quarter. Overall, Romania's GDP grew by 3.5% year-on-year in 2013 while the euro area's GDP fell by 0.5%. The biggest contributors to Romania's 2013 GDP growth were industry and agricultural output, which grew by 2.3% and by 1.1% year-on-year, respectively. An IMF mission visited Romania at the end of January for a regular review of the economy. The IMF is forecasting 2.2% GDP growth in 2014.

The 2013 trade deficit has improved considerably, having fallen by 40.8% compared to the previous year (from €9.6bn to €5.7bn) due to exports growing by 10% year-on-year, whilst imports grew by only 1.0%. The increase in exports was sustained by a positive evolution in industrial production which increased by 7.1% over 2013. The improvement in the trade balance, together with a €2.6bn positive balance of services (compared to €1.1bn the year before), resulted in a current account deficit of €1.5bn, compared to a deficit of €5.8bn in 2012. FDI flows amounted to €2.7bn, up 26.8% year-on-year.

The Romanian leu depreciated by 0.5% against the euro over the quarter, and by 1.3% over 2013.

Romania's CPI fell from 5% at the end of 2012 to 1.6% at the end of 2013, mainly as a result of a 1.8% fall in food prices, especially bakery products as the VAT rate for these products was reduced from 24% to 9% in September. The 2013 CPI growth is inside the 2.5% target set by the National Bank of Romania ("NBR"). The NBR has set the 2014 target inflation rate again at 2.5%, with a variation band of ±1%.

In 2013, the budget deficit came in at €3.6bn, up 6.8% year-on-year and equivalent to 2.5% of GDP, thus meeting the Government's target budget deficit agreed with the IMF. For 2014, the Government plans to reduce the budget deficit to 2.2% of GDP.

Romania's total external debt was €96.4bn at the end of 2013 down 3.2% year-on-year and equivalent to 68% of GDP. The fall was mainly the result of Romania repaying €5.0bn of a €12.4bn loan it was granted by the IMF in March 2009. Romania has to repay €6.8bn over 2014-2016, of which €4.7bn has to be repaid in 2014. Public sector debt stood at 38.6% of GDP at the end of 2013, down from 41% at the end of 2012. The NBR's foreign reserves (excluding gold) amounted to €32.5m at the end of 2013, up from €31.2bn at the end of 2012.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.7bn at the end of December 2013, continuing its downward trend since the beginning of the year (-3.3% year-to-date in RON terms). Both corporate loans and household lending have fallen since the beginning of the year, by 1.1% and 5.4%, respectively. By contrast, the deposit base grew by 9.3% year-on-year in RON terms, and amounted to €48.1bn at the end of December.

Household deposits have increased by 6.5% year-on-year and accounted for 60% of the total deposit base at the end of 2013. The NPL ratio was 21.9% at the end of 2013, up from 18.2% at the end of 2012.

Bulgaria

Bulgaria's fourth quarter 2013 GDP increased by 0.3% quarter-on-quarter and by 1.2% year-on-year, with the Bulgarian economy growing by 0.9% over 2013. The IMF predicts Bulgaria's 2014 GPP will grow by 1.6% on the ground of domestic demand gradually improving, with exports and FDI benefiting from the macroeconomic improvements in Europe.

Bulgaria's 2013 current account balance was a positive €0.8bn, or 2% of GDP, compared to a deficit of 1.3% in 2012. The improved current account balance was the result of a shrinking trade deficit compared to last year (from €3.5bn to €2.3bn), as exports grew by 6.9% whilst imports increased by only 1.3%.

Bulgaria recorded a 1.6% fall in prices in December 2013, the lowest CPI value in the last 14 years and the fifth consecutive month of negative inflation.

Bulgaria's 2013 budget deficit was 1.8% of GDP, within the 2% target which the Bulgarian Government approved in August, but up from a deficit of 0.45% of GDP in 2012. While revenues increased by 5.5%, expenses grew by 9.2%, with the increase being mainly triggered by higher wages and social and healthcare benefits which rose by 8.7% year-on-year. The government is targeting a deficit of 1.8% of GDP in 2014, and expects 2014 economic growth of 1.8%. Bulgaria's public sector debt was 18% at the end 2013, down from 18.9% at the end of 2012 and one of the lowest in the EU.

Whilst loans to non-financial institutions were virtually unchanged at €27.5bn at the end of 2013 compared to the end of 2012, the deposit base remains solid, having increased by 8.7% from €28.1 to €29bn, triggered by a 9.3% year-on-year increase in household deposits. Overdue loans accounted for 22.7% of total loans at the end of 2013, up from 22.4% at the end of 2012.

Serbia

According to the preliminary estimates from the Serbian Statistical Office, Serbia's GDP grew by 2.6% during 2013, mainly as a result of strong export growth driven by the start of serial car production at the new FIAT factory, and a good agricultural season. Industrial production grew by 5.5% year-on-year, mainly as a result of the FIAT effect and an increase in refined petroleum products.

The budget deficit shrank from 6.4% of GDP in 2012 to 4.9% in 2013. The Ministry of Finance expects a new set of consolidation measures, which include an increase in the lower VAT rate from 8% to 10%, cuts in subsidies to state-owned enterprises, and a freeze of public sector wages and pensions, to increase tax receipts by 15% in 2014, while public expenditures are expected to grow by 13%, due to higher interest payments. As a result, the Ministry of Finance expects the budget deficit to shrink further to 4.7% of GDP in 2014.

The CPI reached a record low of 2.2% in 2013, mainly as a result of a restrictive monetary policy, a fall in the prices of agricultural products, and low aggregate demand. The NBS has cut its key interest rate to 9.5% as a result of falling inflation. The National Bank of Serbia (NBS) expects the CPI to reach 5.0% in 2014, mainly due to an increase in the lower VAT rate from 8% to 10%.

In 2013, Serbia recorded a trade deficit of €4.5bn, 25.3% lower than the previous year, mainly as a result of the strong growth in exports (+25.8% year-on-year), while imports grew by only 5.1% year-on-year.

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