

**September 2012**
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- **Industrial production was up 2.9% yoy in July.**
- **The consolidated budget deficit was equal to 1.15% of GDP at the end of July.**
- **Consumer inflation reached 3.88% yoy in August.**
- **The FOB-CIF commercial deficit for goods expanded by 18.7% yoy in July.**
- **The current account deficit decreased by 35.4% yoy in July.**

### Executive Summary

Industrial production is back on an increasing trend with 2.9% yoy in July growth thanks to recovery of positive manufacturing growth accompanied by solid growth in the mining and quarrying sector and in electricity, gas, steam, and air conditioning supply. Retail turnover grew by 4.6% yoy, which is significantly higher than in June.

Consolidated budget revenues registered significantly higher growth than expenditures in relative terms (8.0% yoy against 3.4% yoy) over the January-July period. The consolidated budget deficit stood at 1.15% of GDP for the January-July period, inching up from 1.12% of GDP during the first six months of the year.

The data on consumer prices shows that consumer inflation surpassed the official inflation target of 3.0% yoy and

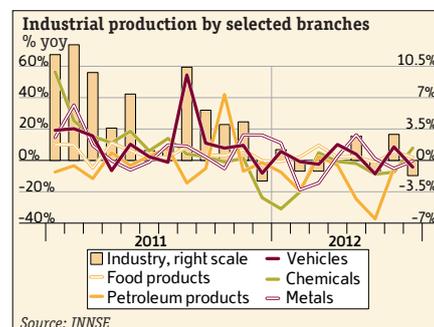
reached 3.88% yoy. However, it is still within the target band of 3.00%±1%. All the segments of goods recorded growth in prices over 3% yoy, with the highest growth of 4.94% yoy registered for services.

Exports declined 0.7% yoy in July in EUR terms, following a similar decline in June, of 0.9% yoy. Performance of international trade in goods of Romania was bad for the second month in a row. Moreover, the trade results in July were much worse than in June. As a result, the commercial deficit of trade in goods grew by 10.2% yoy in July after a 2.7% increase a month ago. Thus, the FOB-CIF trade deficit over the first seven months of 2012 increased 0.8% yoy.

	2007	2008	2009	2010	2011	2012 <sup>f</sup>
GDP growth, % change yoy	6.2	7.1	-6.6	-1.6	2.5	1.5
GDP per capita, \$	7 917	9 497	7 649	7 667	8 863	8 721
Industrial production, % change yoy	5.4	0.9	-5.5	5.5	5.6	5.6
Retail sales, % change yoy	17.8	13.0	-10.3	-5.3	-2.5	2.0
Budget balance, % of GDP	-2.3	-4.9	-7.3	-6.4	-4.1	-4.2
Government external debt, % of GDP	7.8	7.6	16.4	22.3	23.8	24.5
Inflation, end of period	4.84	7.85	4.70	8.0	3.3	3.3
Gross international reserves, EUR billion	27.2	28.3	30.9	36	37.3	36.5
Current account balance, % GDP	-13.9	-12.3	-4.1	-4.4	-4.2	-4.2
Gross external debt, % GDP	47.0	51.8	69.1	75.8	71.9	71.0
Unemployment (ILO), end of period	6.4	5.8	6.9	7.3	7.4	7.2
Exchange rate, RON/EUR, annual average	3.34	3.68	4.24	4.21	4.24	4.5

### Economic Growth

After the 5.7% mom decrease in June, industrial production grew by 2.1% mom in July. As a result, it is back on an increasing trend in annual terms with a 2.9% yoy increase after a 1.4% yoy decrease in June. The electricity, gas, steam, and air conditioning supply sector together with the mining and quarrying sector and manufacturing were the drivers of this growth with 10.8%, 6.6%, and 1.8% yoy increases.



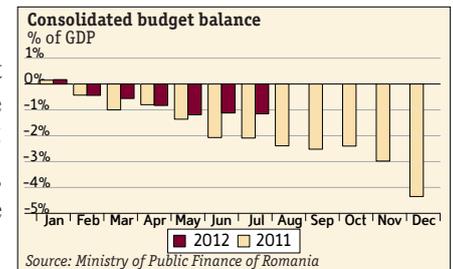
Data on industrial groupings shows that monthly and annual trends coincide for not all categories of goods. In particular, capital goods, energy, and consumer non-durables grew in both monthly and annual terms, while consumer durables grew in annual terms despite a monthly decrease in July and intermediate goods, on the contrary, dropped in annual terms despite a monthly increase. Capital goods and consumer durables demonstrated the fastest growth - 6.2% and 6.1% yoy. At the same time, energy was not far behind with 5.7% yoy growth.

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As for retail turnover volume, the same development trends were observed for it in both annual and monthly terms in July. In particular, monthly and annual growth rates of retail turnover volume were almost identical (4.5% mom and 4.6% yoy respectively), same as the main drivers of growth such as fuel retail for motor vehicles in specialized shops (8.7% mom and 7.5% yoy growth), sale of non-food products (4.0% mom and 4.4% yoy), and sale of food, beverages and tobacco (1.7% mom and 2.6% yoy).

### Fiscal Policy

As the Ministry of Finance of Romania reported, the consolidated general budget deficit of the country reached 1.15% of GDP for the January-July period. Over the first seven months of 2012, the budget deficit stood at RON 6.97 bln (EUR 1.5 bln), declining from RON 11.36 bln (EUR 2.7 bln) during 2011. At the same time, the deficit was much lower as a share of GDP compared to the same period of the previous year: 1.96% of GDP for January-July 2011.



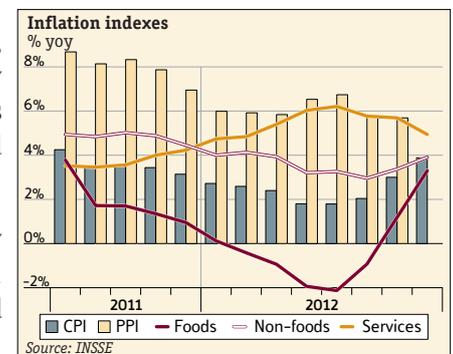
Revenues of the consolidated general budget amounted to RON 110.4 bln (EUR 24.3 bln), which is 8.0% yoy growth and 18.2% of GDP. The growth rate slightly decelerated from 8.9% yoy observed over January-June. The tax revenues increased 9.5% yoy, which is 2% lower than in June. Growth in tax revenues was observed in all major tax categories. In particular, the highest growth was observed for income tax of 16.0% yoy. Growth rates of other major tax categories were much lower and quite similar. The value added tax revenues grew by 6.3% yoy, while excise revenues grew by 5.2% yoy and corporate tax revenues by 5.4%. Revenues from other taxes on goods and services also increased. Growth of budget revenues was also observed at the local administration level as non-tax revenues grew by 13.4% yoy and revenues from income and property taxes increased by 4.3% yoy. Social insurance contributions thanks to 5.3% yoy growth (5.4% yoy in June) reached RON 29.9 bln (EUR 6.6 bln). Transfers from the EU grew by 42.4% yoy in July compared to 31.6% in June.

As for general government expenditures, their share in GDP decreased by 0.3 pp to 19.3% for January-July 2012, compared with the same period of 2011. Expenditures reached RON 117.3 bln (EUR 25.8 bln), which is a 3.4% yoy increase. This decrease took place thanks to a 44.2% yoy increase in expenditures of EU-funded projects and a 26.5% yoy increase in expenditures on public debt interest payments. Growth of expenditures of EU-funded projects was almost equal to that observed in June, while growth of expenditures on public debt interest payments decelerated by almost 10%. Expenditures on goods and services grew by 7.6%, which is 0.5% more than in June. The consolidated budget wage bill was up 2.1% in July, which is 0.8% more than observed in June because of 8% growth of staff salaries introduced in July. Investment expenditures grew nominally by 8.1% yoy, which is almost twice more than in June, and reached RON 17.4 bln (EUR 3.8 bln) or 2.9% of GDP.

### Monetary Policy

August inflation stood at 3.88% yoy with prices of services expanding 4.94% yoy, faster than price increases of foods and non-foods of 3.3% yoy, and 3.91% yoy respectively. The statistical base effect will have some negative influence on prices mainly due to bad harvest causing an increase in prices on both domestic and world food markets.

Annual adjusted CORE2 inflation accelerated to 2.6% from 2.3% observed in July because of unfavourable domestic currency developments and inflation expectations. However, its growth could be higher, if persistence of a negative output gap would not mitigate domestic currency weakness.



Broad money (M3) decreased for the second month in a row in monthly terms in August. The drop is not very significant as it decreased by 0.5% mom to RON 220.3 bln (EUR 48.4 bln), but this led to further deceleration of M3 annual growth to 7.2% from 8.5% observed in July.

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As of the end of August 2012, the non-government sector obtained RON 227.9 bln (EUR 50.1 bln) in loans from credit institutions, which is a 1.6% mom increase. In annual terms the growth rate is higher – 5.7%. Such annual growth was ensured by a 4.3% yoy increase in RON-denominated loans and a 6.5% yoy increase in foreign currency-denominated loans expressed in RON (0.8% yoy increase, if expressed in EUR).

### International Trade and Capital

The National Institute of Statistics of Romania in its preliminary estimates showed that FOB exports of goods decreased by 0.7% yoy in July 2012 and amounted to EUR 3.8 bln, while CIF imports grew by 1.0% yoy and amounted to EUR 4.5 bln. As a result, the July FOB-CIF commercial deficit of trade in goods expanded by 10.2% yoy, reaching EUR 755.4 mn. This is a continuation of a deficit increasing trend, which started in June 2012 with a 2.7% yoy increase in the commercial deficit, but the increase itself is much larger. Moreover, this large increase in July led to a 0.8% growth of commercial deficit of trade in goods over January-July 2012.

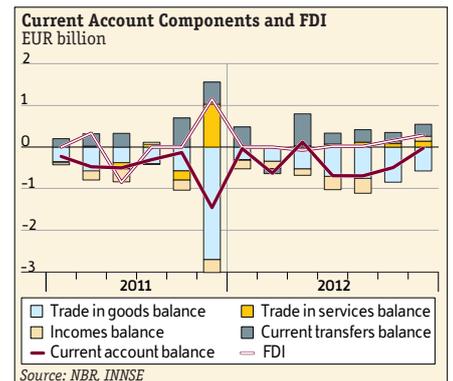
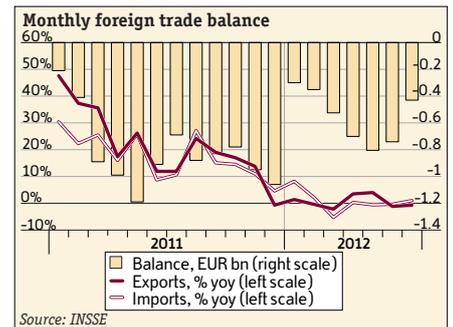
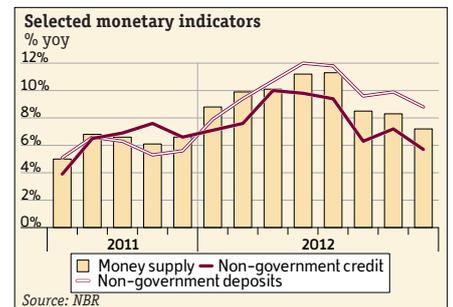
The EU Member States continue to be the major trade partners of Romania. According to the preliminary results for the first seven months of the year, the share of the country's exports to these countries is equal to 70.9% and the share of imports from them to the country is equal to 73.7%. In monetary terms, these shares are EUR 18.5 bln and EUR 23.1 bln, respectively. As for the groups of goods with the highest shares in the country's trade, they remained the same: transport equipment and vehicles (40.5% of exports and 33.1% of imports) and other manufactured goods (34.8% of exports and 30.0% of imports).

Positive developments of the income account, trade in services and current transfers led to a significant decrease in the current account deficit as of the end of July 2012. In particular, the income account deficit declined by EUR 743 mln compared with the the previous year, the services surplus expanded by EUR 314 mln, while current transfers surplus expanded EUR 310 mln surplus. As a result, the current account deficit amounted to EUR 2.4 bln, which is 35.4% yoy lower.

The situation with foreign direct investments to Romania significantly improved in July. In particular, the country received EUR 286 mln to EUR 907 mln during the month, which is almost half of the total FDI into the country in H1 2012. As a result, FDI into Romania decreased by 5.8% yoy by the end of July compared to the 28.9% yoy decrease as of the end of June and 45% yoy decrease as of the end of May. The indicator of the current account coverage with the FDI also improved from 25.8% as of the end of June to 37.2% as of the end of July.

As in the previous month, medium- and long-term external debt continued to grow in July, while short-term external debt decreased. As of the end of July, medium- and long-term external debt was 3.4% higher than at the end of 2011 and amounted to EUR 78.2 bln or 79.6% of the total external debt of the country. Short-term external debt decreased to EUR 20.1 bln in the first seven months of the year or by 12.2%. The rate of decrease was almost two times higher compared to that as of the end of June 2012. Naturally, the share of short-term external debt also decreased and was equal to 20.4% as of the end of July (21.5% as of the end of June).

National Bank of Romania data showed that foreign exchange reserves of the country decreased by 3.7% during August 2012. As of August 31, they stood at EUR 30.954 bln compared to EUR 32.141 bln as of the end of July. The National Bank of Romania has received the equivalent of EUR 1.142 bln during the month thanks to changes in the foreign exchange



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reserve requirements of credit institutions, inflows to the account of the European Commission, and so on. At the same time, it has spent EUR 2.329 bln during the month mainly as interest and principal payments on foreign currency public debt and changes in the foreign exchange reserve requirements of the credit institutions. Interest and principal payments on foreign currency public debt included the EUR equivalent 728.62 mln as payment of interest and the first principal instalment on the Stand-by Arrangement with the IMF. The gold stock remained unchanged in August at 103.7 tonnes. There were no significant changes in the international prices of gold, and the value of Romania's gold stock remained almost stable at around EUR 4.4 bln. Overall, the total international reserves of Romania decreased to EUR 35.352 bln by August 31st, 2012 from EUR 36.554 bln observed on July 31<sup>st</sup>, 2012.

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