

June 2015

Radu Mihai Balan, Edilberto L. Segura

- Q1-2015 GDP expanded by 4.3% yoy;
- Industrial output expanded 4.4% yoy in March;
- The consolidated budget surplus increased to 0.85% of GDP over January-April 2015;
- The consumer price index for May 2015 reached 1.2% yoy;
- The foreign trade deficit for April 2015 stood at EUR 644 million, the same as a year ago;
- The current account was virtually balanced during January-April 2015, posting a low EUR 27 million deficit during the period.

Executive Summary

Q1-2015 GDP expanded at 4.3% yoy, the largest growth in the EU. On the resources side, the largest growth contributors were wholesale and retail sales, auto repairs, transport and storage services, hotels and restaurants, contributing 1.0% of the 4.3% yoy GDP growth, followed by industry and information and communication services, each contributing 0.9% to the GDP increase. On the uses side, the largest contributor was final household consumption expenditure, accounting for 3.3% of GDP growth.

Industrial output expanded 1.8% yoy in April 2015, while growth over January-April 2015 reached 2.9% yoy.

The consolidated budget posted a 0.85% surplus during January-April or RON 6.0 billion (EUR 1.3 billion), ahead of the cut in food products VAT quota. Starting in June, the VAT for food products was reduced to 9%, down from the standard 24% quota. VAT is the largest contributor to the budget, accounting for 26% of January-April consolidated budget revenues.

The consumer price index increased to 1.2% yoy in May 2015, up from 0.7% in April. The NBR expects inflation to become negative in the second part of the year, due to the food prices VAT cut in June 2015. Food products, excluding alcoholic drinks, account for 36% of the consumption basket.

The foreign trade deficit during April 2015 stood at EUR 644 million, the same as a year ago, as FOB exports increased 5.5% yoy, while CIF imports increase 4.7% yoy.

The current account was virtually balanced, posting a small EUR 27 million deficit during January-April 2015, compared with a EUR 326 million deficit in the same period of last year.

Main Macroeconomic Indicators	2010	2011	2012	2013	2014
GDP growth, % yoy	-0.8	1.1	0.6	3.4	2.8
GDP per capita, EUR	6,300	6,600	6,700	7,200	7,600
Industrial production, % yoy	5.5	5.6	0.0	7.8	6.1
Retail sales, % yoy	-5.3	-2.5	2.9	0.5	7.0
Budget balance in cash methodology, % GDP	-6.2	-4.2	-2.5	-2.5	-1.9
Government debt, % GDP	29.9	34.2	37.3	38.0	39.6
Inflation, eop	8.0	3.1	5.0	1.6	0.8
Gross international reserves, EUR billion	36.0	37.3	35.4	35.4	35.5
Current account balance, % GDP	-4.6	-4.6	-4.5	-0.8	-0.4
Gross external debt, % GDP	72.9	74.1	74.5	68.0	62.6
Unemployment (ILO methodology), % eop	6.9	7.2	6.8	7.1	6.6
Exchange rate RON/EUR, annual average	4.2	4.2	4.5	4.4	4.4

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Economic Growth

The economy expanded 4.3% yoy in Q1-2015 according to the INSSE, the largest growth in the EU. Compared with the previous quarter, the Romanian economy increased 1.6% qoq, also the largest growth in the EU (together with Cyprus).

During Q1-2014, the largest contributor to GDP yoy growth on the resources side was wholesale and retail trade, auto repairs, transport and storage, hotels and restaurants, which contributed 1.0% to the total 4.3% yoy GDP increase. These services accounted for 17.8% of the GDP and increased 5.8% yoy during Q1-2015. Industry, accounting for 21.1% of the Q1-2015 GDP and expanding 4.2% yoy, contributed 0.9% to the GDP increase. The information and communication sector, which accounted for 7.0% of the GDP, expanded 13.2% yoy, resulting in a 0.9% contribution to the GDP increase.

On the uses side, the largest contribution to GDP growth, of 3.3%, was of the final household consumption expenditure. The final household consumption expenditure, which accounts for 66% of GDP, expanded 4.9% yoy during Q1-2015. Gross fixed capital formation had a 1.2% positive contribution to GDP formation. The sector, which accounts for 15.6% of GDP, increased 8.0% yoy. Gross fixed capital formation increased in yoy terms for the second quarter in a row, changing a declining trend started in Q4-2012. Net exports of goods and services had a negative 1.3% contribution to GDP, as exports increased 9.7% yoy during Q1-2015, below the 12.6% yoy expansion in imports.

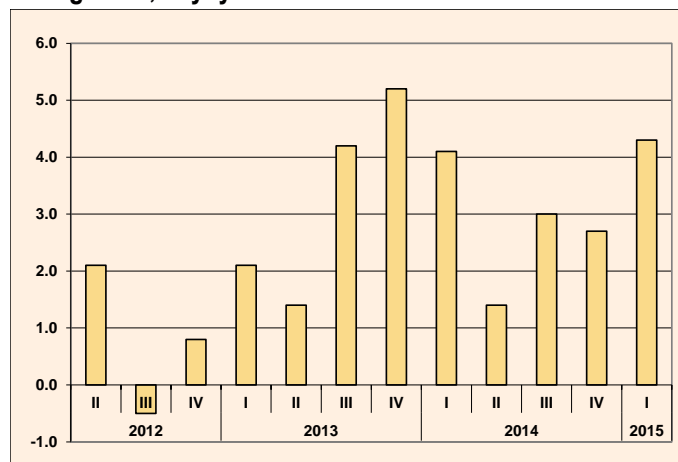
Industrial output slowed down in April to 1.8% yoy, down from 4.4% yoy in March, due to the effect of the free Easter day. January-April 2015 industrial growth stood at 2.9%.

Manufacturing and utilities increased 1.7% and 7.9% yoy respectively during April, while mining and quarrying declined 8.8% yoy. Food production declined 4.7% yoy in April, while oil refining lost 9.2% yoy. Metals production gained 8.4% yoy, while vehicles production expanded 7.4% yoy.

Unemployment rates inched up to 6.9% in April 2015, up from the 6.8% in March (revised).

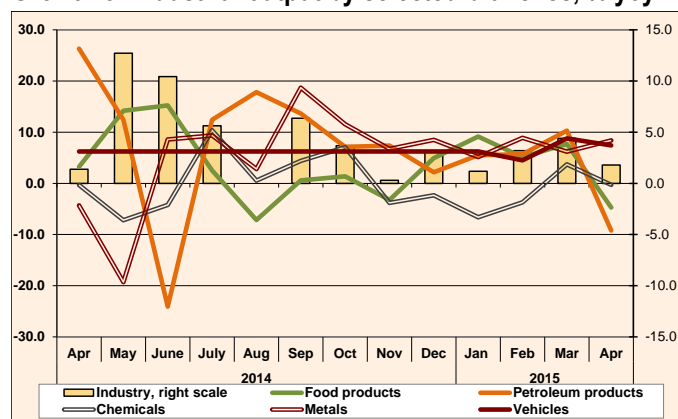
Retail trade increased 7.1% yoy in April 2014, putting the January-April growth at 4.3% yoy. The increase was supported by the sales of food, beverages and tobacco, up 10.8% yoy in April and by fuels, up 14.9% yoy. The sales of non-food products inched up 0.3% during the month.

GDP growth, % yoy



Source: INSSE, The Bleyzer Foundation

Growth of industrial output by selected branches, % yoy



Source: INSSE, The Bleyzer Foundation

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Fiscal Policy

The consolidated budget posted a 0.85% of GDP surplus during January-April 2015, expanding from 0.69% during Q1-2015. The budget surplus for the period stood at RON 6.0 billion (EUR 1.3 billion). The surplus is due to the increase in revenues, up 12.1% yoy and to the low increase in the expenditures of only 0.5% yoy, helped by the 30.6% cut in capital expenditures.

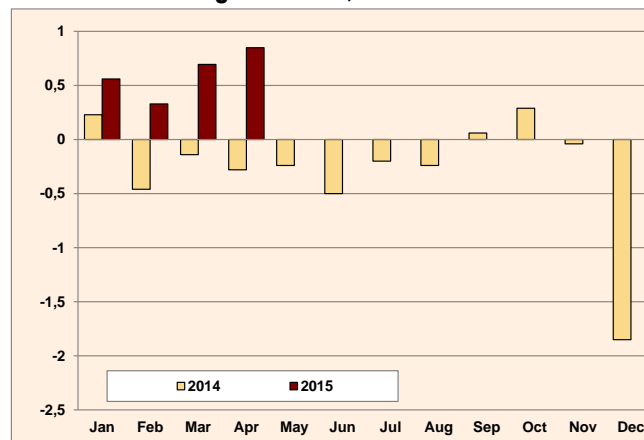
Consolidated budget revenues reached RON 76.0 billion (EUR 8.2 billion), up 12.1% yoy during January-April 2015. The largest four contributors to the consolidated budget revenues, accounting for 70% of the revenues were:

- VAT tax revenue for the period stood at RON 19.7 billion (EUR 4.4 billion), increasing 20% yoy. Starting June, the food products VAT was reduced to 9% down from the standard 24% quota, which will result in lower revenues collected from the VAT in the second part of the year;
- Social security revenues stood at RON 18.5 billion (EUR 4.2 billion), declining 0.3% yoy due to the 5% cut in the employers contribution and to the 0.5% increase in the contribution to the privately managed pension system;
- Income and salary tax increased 14.2% yoy to RON 8.5 billion (EUR 1.9 billion);
- Profit tax increased 9.8% yoy to RON 6.2 billion (EUR 1.4 billion).

Consolidated budget expenditures reached RON 70.1 billion (EUR 15.8 billion), inching up 0.5% yoy, as personnel and social security expenditure increases were balanced by lower interest payments and capital expenditures:

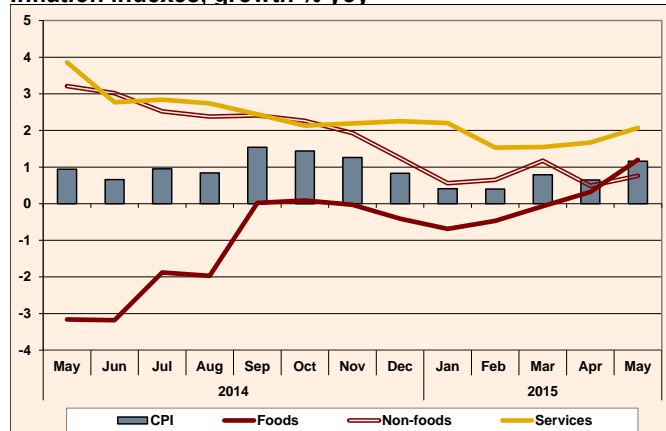
- Social security expenditures increased 5.4% yoy to RON 24.8 billion (EUR 5.6 billion);
- Personnel expenditures increased 7.3% yoy to RON 17.0 billion (EUR 3.8 billion);
- Interest payments declined 17.7% to RON 3.5 billion (EUR 0.8 billion)
- Capital expenditures declined 30.6% yoy, to RON 2.1 billion (EUR 0.5 billion).

Consolidated budget balance, % of GDP



Source: Ministry of Public Finance of Romania

Inflation indexes, growth % yoy



Source: INSSE, The Bleyzer Foundation

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Monetary Policy

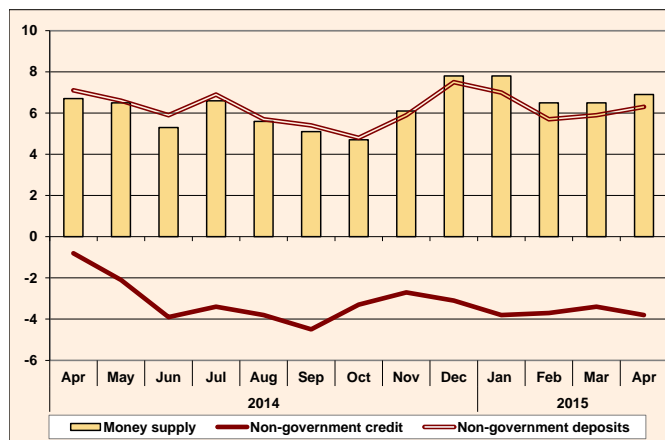
Consumer price index increased to 1.2% yoy in May 2015, up from 0.7% in April. Service prices increase stood at 2.1% yoy, driving inflation up, while food prices gained 1.2% yoy and non-food prices 0.8% yoy.

Non-government loans decreased 3.8% yoy in April 2015, reaching RON 210.1 billion (EUR 47.5 billion) due to the combined effects of RON-denominated loans increase and forex-denominated loans decline. The RON denominated loans increased 7.7% yoy due to the 17.5% growth in household loans, while corporate loans inched up 1.0%. Forex-denominated loans moved down 11.6% yoy, as both household loans and corporate loans declined 9.3% yoy and 14.0% yoy respectively.

Non-government deposits increased 6.3% yoy in April 2015, reaching RON 228.5 billion (EUR 51.7 billion) as both RON-denominated and forex-denominated deposits increased. The RON-denominated deposits expanded 7.9% yoy, with household deposits increasing 7.4% yoy and corporate deposits expanding 8.7% yoy. Forex-denominated deposits gained 3.2% yoy, with household deposits expansion of 5.9% yoy offsetting the corporate deposits decline of 2.0%.

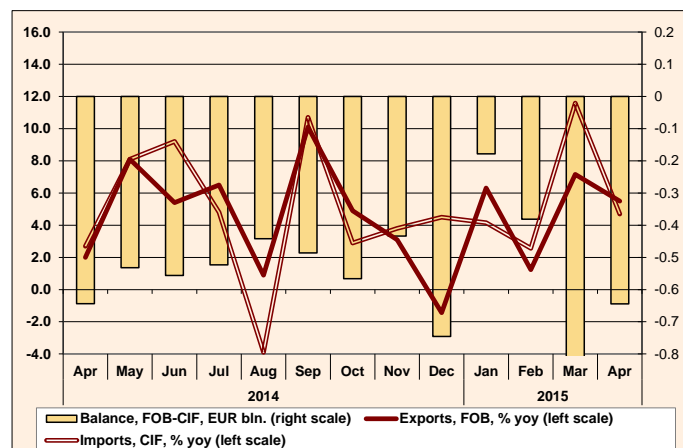
Broad money increased 6.9% yoy in April 2015, after the 6.5% yoy increase in the previous two months. The increase is due to net foreign assets expanding 15.1% yoy, while net domestic assets increased at a lower 2.5% yoy.

Selected monetary indicators, growth % yoy



Source: NBR

Monthly foreign trade balance



Source: INSSE

International Trade and Capital

The foreign trade deficit for April 2015 was EUR 644 million, same as a year ago. FOB Exports increased 5.5% yoy, while CIF Imports increased at a lower rate, 4.7% yoy.

For January-April 2015, the exports increased 5.0% yoy while the imports expanded 5.9% yoy. The foreign trade deficit for the period reached EUR 2.0 billion, expanding EUR 255 million. The largest group in both exports and imports are transport equipment and vehicles, accounting for 44.2% of the exports and 36.7% of the imports. During January-April 2015, the transport equipment and vehicles exports expanded 7.0% yoy during, while imports increased at a higher 10.0% yoy, both of them accelerating from full year 2014, when exports increase 6.6% yoy, while imports increase 6.7% yoy.

Headquarters
 123 N. Post Oak Ln., Suite 410
 Houston, TX 77024 USA
 Tel: +1 (713) 621-3111
 Fax: +1 (713) 621-4666
 Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge.

Bucharest Office, Romania
 313-321, Barbu Vacarescu Ave, Corp A, Et 1
 Bucharest, Sector 2, 020276
 Tel: +40 (21) 4101000
 Fax: +40(21)4102222
 Email: Bucharest.office@sigmableyzer.com

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The current account was virtually balanced during January-April 2015, posting a small EUR 27 million deficit, compared with a EUR 326 million deficit in the same period of last year. The goods deficit increased to EUR 1.8 billion, up from EUR 1.6 billion in the same period of last year. The services surplus stood at EUR 1.9 billion, same as last year. Primary income posted a EUR 1.0 billion deficit, unchanged from last year, while secondary income posted a EUR 0.9 billion surplus up, from 0.4 billion in the same period of last year.

Net direct investments during January-April 2015 stood at EUR 1.1 billion, up from EUR 0.7 billion during the same period of last year. Equity and investment fund shares/units amounted to EUR 0.2 billion, down from EUR 0.7 billion during the same period of last year, while debt instruments reached EUR 0.9 billion during the first four months of 2015, versus virtually null in the same period of last year.

Romania's total external debt at the end of April 2015 stood at EUR 92.3 billion, of which public and publicly guaranteed debt accounted for EUR 30.8 billion.

International reserves at the end of May 2015 stood at EUR 33.8 billion, slightly up from the EUR 33.7 billion at the end of previous month. Foreign exchange reserves stood at EUR 30.2 billion. Gold stock remained unchanged at 103.7 tons, valued at EUR 3.6 billion.

Current account components and FDI, EUR billion

