

October 2012
Edilberto L. Segura, Valentyn Povroznyuk, Radu Mihai Balan

- **Industrial production decreased by 1.7% yoy in August.**
- **The consolidated budget deficit expanded to 1.17% of GDP over January-August 2012.**
- **Consumer inflation accelerated to 5.33% yoy in September 2012.**
- **The FOB-CIF commercial deficit for goods grew by 14.2% yoy in August 2012.**
- **The current account deficit expanded by 29.17% in January-August 2012 compared to the deficit in January-July 2012.**

Executive Summary

After a 2.9% yoy increase in July, industrial production was back on a decreasing trend with a 1.7% decline. The major reason was a significant monthly drop in manufacturing, which transferred into a 2.5% annual decrease. Growth of retail trade in August was slightly higher than a month ago (4.9% yoy compared to 4.6% yoy).

The consolidated general budget deficit once again inched up and reached 1.17% of GDP in January-August 2012, despite the fact that growth in revenues significantly exceeded that of expenditures. However, this was still an improvement compared to the deficit of January-August 2011.

Food prices grew faster than prices of both non-foods

and services. Moreover, because of their high share in the consumer basket (exceeding 30%), they accelerated the growth of total consumer prices in the economy. As a result, consumer inflation reached 5.33% in September, which was beyond the annual target band of 3%±1%.

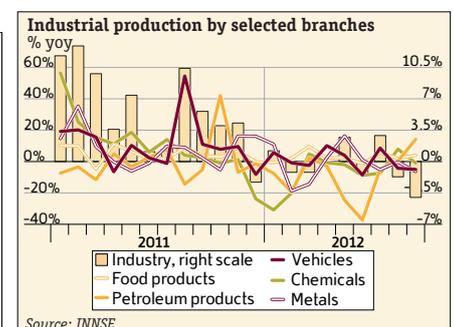
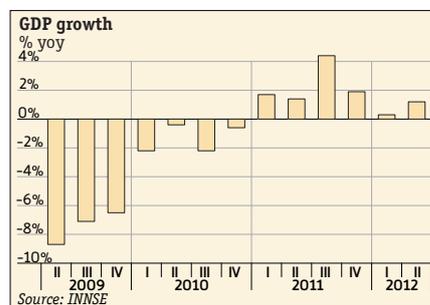
After two months of decline, FOB exports advanced in August by 7.4% yoy, while CIF imports grew by 10.2% yoy for the second month in a row. Despite some improvements in dynamics of exports, the general trend of increase in commercial deficit of international trade in goods preserved. The deficit grew by 14.2% yoy in August 2012, which contributed to a 3.97% yoy increase in international trade in goods over the first eight months of the year.

	2007	2008	2009	2010	2011	2012 ^f
GDP growth, % change yoy	6.2	7.1	-6.6	-1.6	2.5	1.0
GDP per capita, \$	7 917	9 497	7 649	7 667	8 863	8 029
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	3.6
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

The monthly increasing trend of industrial production did not last long. After a 2.1% mom increase in July, industrial production dropped by 11.0% mom in August. The reason is mainly a 13.0% mom fall in manufacturing. Such a significant drop in monthly terms unavoidably affected the annual trend of industrial production development in Romania. As a result, the monthly annual growth of industrial production became negative at 1.7%. A 2.9% yoy increase in mining and quarrying accompanied by a 1.4% yoy advance in electricity, gas, steam, and air conditioning supply were not enough to overcome a 2.5% yoy decline in manufacturing. Over the January-August 2012 period, industrial production increased 0.3%.

The largest annual decrease among industrial groupings was recorded for capital goods at 3.9% yoy, while intermediate goods decreased by 2.8% yoy. The other main groups either remained unchanged (e.g. energy) or slightly increased (e.g. consumer non-durables with 0.7% yoy growth and consumer durables with 2.9% yoy increase).

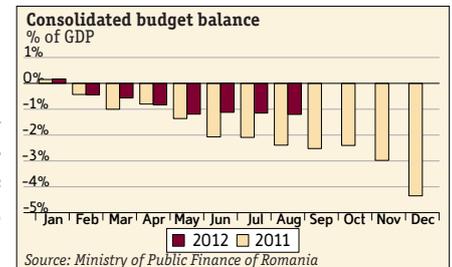


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August retail trade growth was almost at the same level as a month ago. It reached 4.7% mom growth thanks to 7.6% mom expansion of trade in food, beverages and tobacco, and growth in retail of fuel for motor vehicles in specialized shops at 6.8% mom. Sale of non-food products grew slower in August at 1.2% mom. In annual terms, all the major groups of goods also saw growth. In particular, overall retail trade grew by 4.9% yoy thanks to a 8.6% yoy increase in sales of food, beverages and tobacco, a 6.9% yoy increase in retail for fuel for motor vehicles in specialized shops, and a 0.8% yoy increase in sale of non-food products.

Fiscal Policy

According to data presented by the Ministry of Finance of Romania, the consolidated general budget deficit amounted to EUR 1.57 bln in January-August 2012, which is 1.17% of GDP. This shows significant progress in fiscal planning compared to the previous year, with EUR 3.05 bln and a consolidated general budget deficit of 2.24% of GDP for the same time period.



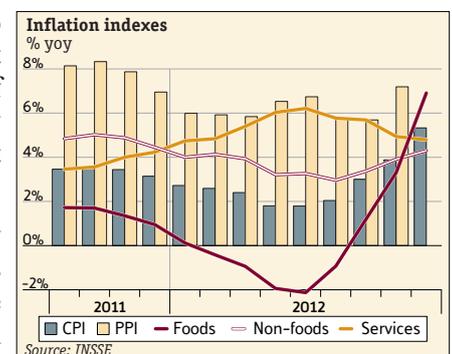
Consolidated budget revenues reached EUR 27.81 bln or 20.7% of GDP. They grew by 8.0% yoy for the second month in a row. Growth of tax revenues accelerated from 9.5% yoy observed last month to 10.4%, but still did not reach June's growth level. Revenues from income tax once again recorded the highest growth among the major tax categories with 13.5% yoy. Excise revenues grew by 9.5% yoy, while revenues from value added tax and corporate tax grew with almost identical rates – 6.4% and 6.5% yoy, respectively. Additionally, revenues from other taxes on goods and services recorded decent growth. Local administrations managed to generate growth in revenues from income and property taxes of 4.4% yoy, which is quite the same as last year (4.3% yoy), and in non-tax revenues of 12.2% yoy, which is lower than 13.4% yoy last month. Social insurance contributions grew this month with much lower growth than last month of 3.1% yoy (compared to 5.3% yoy in January-July). As a result, they reached EUR 7.57 bln or 3.1% of GDP. Finally, transfers from the EU grew by 43.3% yoy in January-August.

At the same time, consolidated budget expenditures amounted to EUR 29.4 bln or 21.9% of GDP in January-August. This marked a 2.7% growth in expenditures in annual terms, which is slightly lower than the 3.4% yoy growth registered in July. The major vehicle of increase in expenditures was growth in expenditures of EU-funded projects, which reached 36.2% yoy compared to 44.2% yoy observed in January-July. Growth of expenditures on public debt interest payments accelerated and reached 28.9% yoy. Expenditures on goods and services registered a 6.6% yoy increase, which is lower than the 7.6% yoy and 7.1% yoy observed in January-July and January-June. An increase in staff salaries introduced in June continues to fuel growth of the consolidated budget wage bill. As of the end of August, the wage bill grew by 3.5% yoy compared to 2.1% yoy observed in January-July and 1.3% yoy observed in January-June. Investment expenditures reached 3.3% of GDP after 7.2% yoy growth to EUR 4.4 bln in January-August.

Monetary Policy

Consumer inflation continued to accelerate in September 2012, registering 5.33% yoy that month. What needs to be stressed is the fact that prices of foods grew at higher rates compared to those for non-foods and services. In particular, prices of foods grew by 6.91% yoy in September, while prices of non-foods and services grew by 4.3% yoy and 4.79% yoy, respectively. This is a direct result of the bad harvest and caused by an increase in food prices on both domestic and world markets.

Data from the National Bank of Romania shows that broad money (M3) grew by 0.3% mom in September, after it decreased for two months in a row. However, this was not enough to accelerate annual growth, which had been decreasing for three months. It was equal to 5.3% yoy in September compared to 7.2% yoy in August and 8.5% yoy in July.



Amount of non-government loans granted by credit institutions continued to grow at decent rates. However, the growth decelerated a bit at the end of September compared to that observed at the end of August. In particular, in monthly terms credit to the private sector grew by 1.3% mom in September 2012, while in August the growth was 1.6% mom.

Headquarters

123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 6213111 Fax: +1 (713) 6214666
Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge.

Bucharest Office, Romania

12Bis, Dr. Draghiescu St., Sect. 5,
Bucharest, 050579
Tel: +40 (21) 4101000 Fax: +40 (21) 4102222
Email: bucharest.office@sigmableyzer.com

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The difference in annual growth rates is even more obvious in the amount of non-government loans, which grew by 5.7% yoy in eight months of 2012 and by just 4.2% yoy in nine months of the year. Growth in the total amount of non-government loans was caused by a 5.0% yoy increase in the amount of RON-denominated loans and a 3.8% yoy increase in foreign currency-denominated loans expressed in RON (if expressed in EUR, their amount actually decreased by 0.4% yoy).

International Trade and Capital

FOB exports amounted to EUR 3.5 bln in August 2012, which is a 0.6% yoy increase. At the same time, CIF imports reached EUR 4.5 bln, which is a 3.3% yoy increase. As a result, the commercial deficit of trade in goods amounted to EUR 1 bln in August, which is a 14.0% yoy increase. The troubling thing is that exports in August decreased in monthly terms by 7.7%, while imports decreased by just 0.6% yoy. This means that under even conditions, the commercial deficit of international trade in goods will continue expanding. For the first eight months of 2012 this deficit already exceeded EUR 6.3 bln and registered a 3.97% yoy increase compared to just 0.8% yoy observed in January-July.

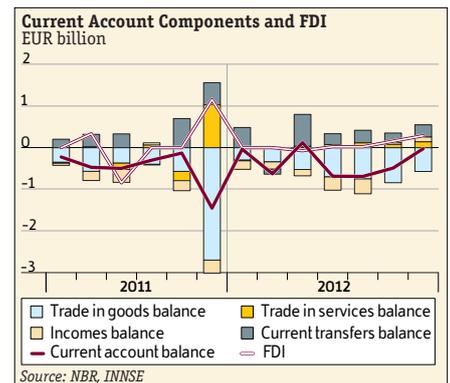
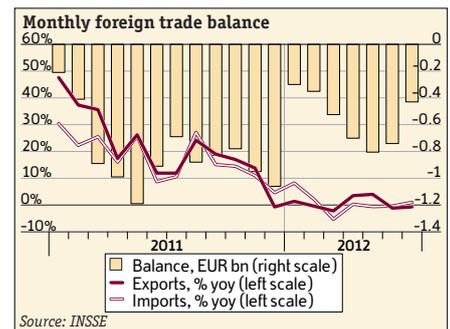
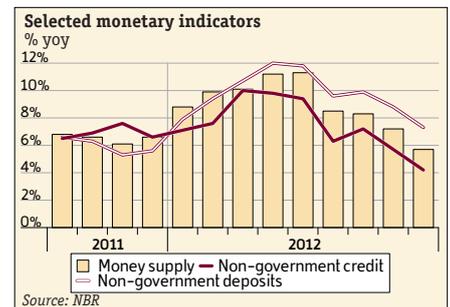
The share of trade with the EU Member States did not change significantly in August. The share of exports of goods to the EU Member States decreased to 70.3% of total exports from 70.9% as of the end of July. The situation with imports is very similar, as the share of imports from EU Member States declined to 73.2% as of the end of August from 73.7% observed in January-July.

The current account deficit expanded to EUR 3.1 bln in January-August from EUR 2.4 bln observed in the first seven months of the year. However, in annual terms the eight months current account deficit of 2012 was still 23.0% lower. This result became possible thanks to growth in current transfers surplus by EUR 462 mln, increase in services surplus by EUR 418 mln and a decrease in the income deficit by EUR 274.

Foreign direct investments into Romania expanded by 55% yoy in January-August 2012 after a 5.8% yoy decrease in January-July. However, this growth was obtained not thanks to high FDI inflow in August, which amounted just to EUR 34 mln, but because of the statistical base effect as FDI shrank from EUR 963 mln in January-July 2011 to EUR 607 mln in one month last year. Because of the minimal FDI inflow and significant growth of the current account deficit, the level of coverage of the current account deficit with FDI decreased from 37.2% observed over January-July 2012 to 30.1% in January-August 2012.

Despite the fact that medium- and long-term external debt decreased from EUR 78.2 bln at the end of July to EUR 77.22 bln at the end of August, it still added 1.7% from the beginning of the year. The share of medium- and long-term external debt in total external debt decreased to 78.8%. Short-term external debt, in contrast, grew in both size (to EUR 20.77 bln) and in share of total external debt (to 21.2%).

According to the National Bank of Romania, foreign exchange reserves amounted to EUR 32.43 bln as of September 30th, 2012, compared to EUR 30.95 bln as of August 31st, 2012, meaning they grew by 4.8% in one month. The country received EUR 2.89 bln of inflows from changes in the foreign exchange reserve requirements, issuance of bonds by the Ministry of Public Finance on the foreign markets (EUR 812.18 mln) and other inflows to the Ministry's accounts, income from management of the foreign exchange reserves, etc. As for outflows, they amounted to EUR 1.42 bln and represented interest and principal payments on foreign currency public debt, changes in the foreign exchange reserve requirements of credit institutions, payments from the accounts of EC, etc. Gold stock remained steady in weight at 103.7 tonnes but grew in value to EUR 4.58 bln thanks to the international price of gold. Overall, the total international reserves of Romania grew by 4.7% during September to EUR 37.01 bln.



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