

**December 2012**
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- **Industrial production was back to growth in October with a 3.9% increase.**
- **The consolidated budget deficit expanded insignificantly at the end of October.**
- **Consumer inflation decelerated to 4.56% in November but still exceeded the target.**
- **The FOB-CIF commercial deficit for goods grew by 48.67% yoy in October.**
- **The rate of decrease of the current account deficit decelerated in October.**

### Executive Summary

Industrial production reversed from a 4.0% yoy decrease in September to 3.9% growth in October. As usual, total industrial production followed changes in manufacturing, which is its main component. Retail trade returned to growth in October after a decrease observed a month ago.

As Romania is still following its obligation on austerity measures, which is reflected in the slow growth of general government expenditures compared to that of revenues, the consolidated general budget deficit inched up by just 0.01% of GDP during October. The deficit still remains below the set target for the year.

Consumer inflation continued to decelerate in November but still remained beyond the annual target band. Growth of prices in all sectors exceeded the annual target band. At the same time, despite some deceleration, prices of food goods still grew faster than prices in other sectors.

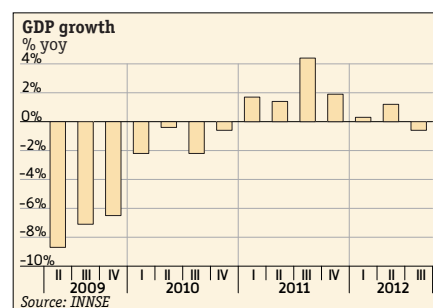
FOB exports of goods were back on an increasing trend with 1.4% yoy growth in October after the decline observed a month ago. However, growth of CIF imports of goods was even faster, at 7.9% yoy. Such dynamics of trade in goods led to a further increase in the commercial deficit of trade in goods, which exceeded EUR 1 bln from the beginning of the year.

	2007	2008	2009	2010	2011	2012
GDP growth, % change yoy	6.2	7.1	-6.6	-1.6	2.5	0.5
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	3.5
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

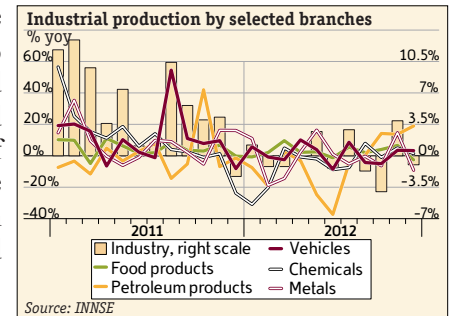
Industrial production continued to grow in October but with a lower rate compared to September. A 7.3% mom increase in manufacturing, accompanied by a 5.4% mom increase in electricity, gas, steam and air conditioning supply, and a 1.5% mom increase in mining and quarrying conditioned the 6.8% total increase in industrial production in October (12.2% mom increase in September). This was enough to reverse the growth dynamics of industrial production in annual terms. In particular, total industrial production growth in October 2012 was equal to 3.9% yoy compared to a 4.0% yoy decrease registered in September 2012. Not all major industrial sectors demonstrated decent annual growth, as mining and quarrying grew by 7.5% yoy, manufacturing grew by 4.3% yoy, while electricity, gas, steam, and air conditioning supply decreased by 1.1% yoy. The data shows that industrial production inched up by just 0.3% over the first ten months of the year. This was mainly because of a decrease in manufacturing (0.6% yoy), the share of which is very high in overall industrial production. At the same time, electricity, gas, steam, and air conditioning supply were 5.9% yoy up over January-October 2012 and mining and quarrying grew by 1.6% yoy during the period.

The situation with industrial groupings improved compared to September. Only the energy sector, which grew at 2.3% yoy in September, recorded a decrease in October 2012 (by 0.2% yoy), while all other industrial groupings grew decently. Consumer durables registered the biggest growth of 20.0% yoy, which is ten times higher compared than that observed in September. All the other groupings also grew but at much lower growth rates, which is still an improvement over their decrease observed last month. In particular, capital goods grew by 4.6% yoy, consumer non-durables by 4.1% yoy, and intermediate goods by 3.5% yoy.



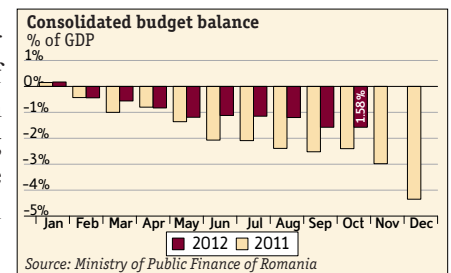
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Retail trade was back on an increasing trend in monthly terms in October after the 4.9% mom decrease observed in September. Retail trade turnover grew by 1.7% mom in October 2012 thanks to a 5.4% mom increase in the sale of non-food products and a 1.9% mom increase in fuel retail for motor vehicles in specialized shops. However, it could be even higher, if not for a 3.5% mom decrease in sale of food, beverages, and tobacco. As compared to October 2011, in October 2012 the retail turnover volume registered an increase of 2.1%, due to increases registered in the sale of non-food products (3.0%), by fuel retail for motor vehicles in specialized shops (2.0%), and by the sale of food, beverages and tobacco (0.9%).



### Fiscal Policy

The consolidated general budget deficit added another 0.01% of GDP during October 2012. As a result, the total amount of the deficit reached EUR 1.58 bln or 1.19% of GDP over January-October 2012. Last year the deficit was equal to EUR 2.92 bln or 2.3% of GDP over the same period of time. The observed progress in decreasing both value and share of GDP of the consolidated general budget deficit proves the authorities of the country are keen to fulfil obligations on strict austerity in general and the budget deficit in particular.



Growth of revenues of the general budget remained unchanged from the end of September and was equal to 7.2% yoy over January-October 2012. Revenues reached EUR 34.97 bln or 26.2% of GDP over the reported period. The two main contributors to the budget revenues, the social security contributions and the VAT, increased 3.1% yoy and 7.2% yoy respectively. The social security contributions reached EUR 9.6 bln over the January-October period, while VAT revenues reached EUR 9.2 bln. Their combined value amounted to 52.5% of the consolidated revenues. Tax revenues made a significant contribution to the growth of total budget revenues with 9.8% yoy. In particular, income tax revenues generated 12.2% yoy growth, while revenues from VAT and excises grew at almost the same rate (7.2% yoy and 7.3% yoy correspondently). Corporate tax revenues grew a bit slower at 6.8% yoy. Non-tax revenues grew even slower at 5.1% yoy over January-October 2012. Local administrations also managed to collect higher revenues in January-October 2012 compared to the same period of the previous year. In particular, non-tax revenues of local administrations preserved their 12.4% yoy growth observed at the end of September. At the same time, revenues from income and property taxes grew by 3.1% yoy in January-October 2012, which is an improvement from 0.3% yoy observed over January-September 2012. Social contributions grew by 3.1% yoy to EUR 9.39 bln over the reported period. As for amounts repaid by the European Union as account payments from public resources, they added EUR 0.18 bln in October, which is a significant improvement over the EUR 0.07 mln increment observed in September. Overall, EU reimbursed EUR 1.27 bln over the first ten months of the year.

General government expenditures still registered much lower growth compared to revenues. In particular, they grew by 2.9% yoy to EUR 36.55 bln or 27.4% of GDP in January-October 2012. Even though expenditures of EU-funded projects still registered the highest growth among general government expenditures, the growth itself continued to decelerate. EU-funded projects' expenditures grew by 30.5% yoy in January-September 2012, while in the month they grew by 27.4% yoy. Expenditures on public debt interest payments followed the pattern similar to expenditures of EU-funded projects. To be more precise, they grew by 23.5% yoy over the first ten months of the year, while their growth was equal to 25.6% yoy over January-September 2012 and to 28.9% over January-August 2012. On the contrary, growth of expenditures on goods and services accelerated and reached 10.3% yoy in January-October compared to 7.3% yoy in January-September. The wage bill expanded by 4.7% yoy in January-October compared to 4.3% yoy in January-September. As for investment expenditures, their growth also accelerated to 3.7% yoy in January-October 2012 compared to 3.0% yoy observed over the first nine months of the year. By the end of October 2012, the investment expenditures reached EUR 5.66 bln or 4.3% of GDP.

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December 2012

### Monetary Policy

Consumer inflation decelerated for the second month in a row in November 2012. Total inflation was equal to 4.56% yoy compared to 4.96% yoy in October and 5.33% yoy in September. Moreover, deceleration was observed in all sectors. In particular, prices of food grew by 5.89% yoy in November, while in October the growth rate was 6.24% yoy. Both non-food goods prices and services prices generated similar dynamics, as the former grew by 3.69% yoy in November compared to 4.04% yoy in October, and the latter grew by 4.08% yoy in November compared to 4.89% yoy in October.

Broad money (M3) increased in monthly terms in November. It inched up by 0.5% mom to EUR 48.79 bln. However, such dynamics led to another deceleration in M3 annual growth to 5.4% in January-November from 6.2% observed in January-October.

As of the end of November 2012, the non-government sector obtained EUR 50.6 bln in loans from credit institutions, which is a 0.5% mom decline. In annual terms the growth rate was still positive at 2.3%. Such annual growth was ensured by a 3.8% yoy increase in RON-denominated loans and a 1.5% yoy increase in foreign currency-denominated loans expressed in RON (2.0% yoy decrease, if expressed in EUR).

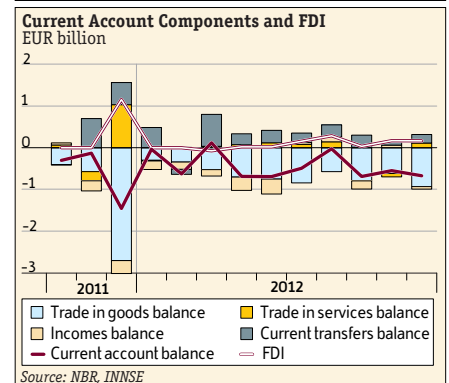
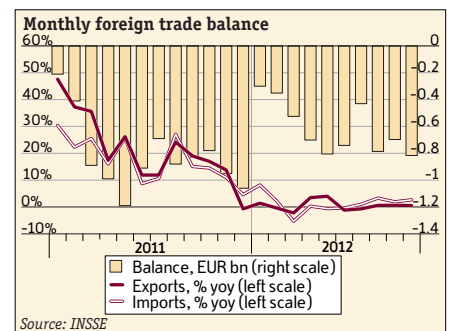
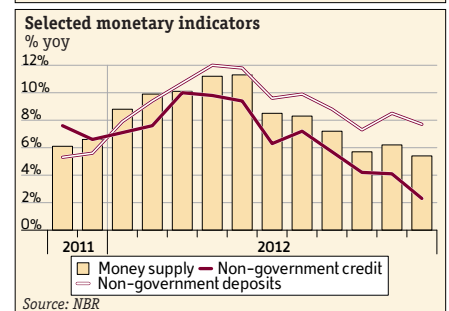
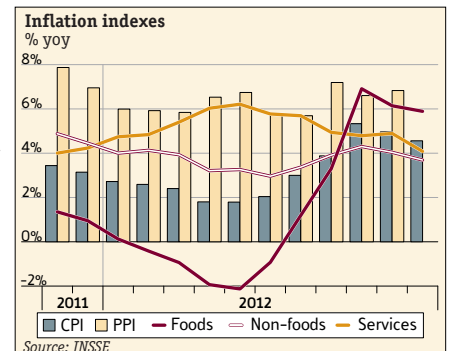
### International Trade and Capital

As the preliminary estimates show, FOB exports recovered their growth in October after the decline observed in September. The same can be said about CIF imports. In particular, FOB exports grew by 1.4% yoy in October compared to the 9.0% yoy decrease a month before. At the same time, the increase in CIF imports is even higher as it reached 7.9% yoy compared to the 8.0% yoy decrease in September. Overall, FOB exports amounted to EUR 4.195 bln and CIF imports amounted to EUR 5.306 bln. Obviously, imports grew much faster than exports, which unavoidably led to a significant increase in commercial deficit of trade in goods. The deficit was EUR 0.301 bln higher in October compared to September and reached EUR 1.111 bln. In relative terms the commercial deficit of trade in goods grew by 48.67% yoy in October. From the beginning of the year, the commercial deficit of trade in goods reached EUR 8.265 bln, which is a 7.63% yoy increase.

The share of exports of goods from Romania to EU Member States inched up to reach 70.6% of the total Romanian exports in ten months of the year (it was equal to 70.4% at the end of September). The increment of the share of imports from the EU Member States to Romania was almost identical. In particular, this share was equal to 73.7% at the end of October compared to 73.4% at the end of September.

The current account deficit continued to decrease in annual terms in October. However, the rate of decrease significantly decelerated compared to that observed at the end of September. In particular, in January-October the current account deficit decreased by 11.4% yoy to EUR 4.34 bln, while in January-September the decrease was 23.2% yoy. Same as in previous months, the decrease was driven by a decline in the income account deficit (by EUR 469 mln) and an increase in surpluses of both current transfers and services (by EUR 429 mln and EUR 230 mln correspondently).

Foreign direct investments continued to grow in October. They added EUR 0.164 bln or 14.79% during the month and reached EUR 1.273 bln over the first ten months of the year. In annual terms, FDI grew by 20.44%, which is much lower



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than 28.8% yoy observed at the end of September. Accumulated FDI were enough to cover 29.3% of the current account deficit in January-October 2012.

Medium- and long-term external debt expanded a bit in October and stood at EUR 77.57 bln at the end of the month compared to EUR 77.51 observed at the end of September. At the same time, short-term external debt remained almost stable in October. It amounted to EUR 21.57 at the end of October, adding just EUR 0.002 bln during the month. Because the changes in both medium- and long-term external debt and short-term external debt were insignificant, their shares in the total external debt of Romania stayed unchanged at 78.2% and 21.8% respectively. As for the dynamics of external debt components in 2012, medium- and long-term external debt expanded by 2.2% in ten months, while short-term external debt decreased by 5.4%.

The foreign exchange reserves of Romania lost 1.9% in November and stood at EUR 31.167 bln as of November 29<sup>th</sup>. EUR 3.297 bln of inflows to the reserves represented mainly inflows to the account of the Ministry of Public Finance of Romania, changes in the foreign exchange reserve requirements of credit institutions, inflows into the account of the European Commission, and income from management of foreign exchange reserves. As for outflows, they were equal to EUR 3.9 bln and represented mainly changes in the foreign exchange reserve requirements of the credit institutions and payments of interest and principal on foreign currency public debt. The value of gold stock grew by EUR 20 mln to EUR 4.427 bln in November thanks to positive changes in the international price of gold, even though its weight remained unchanged at 103.7 tonnes. Overall, the international reserves of Romania stood at EUR 35.594 bln at the end of November, which was a 1.61% increase compared to the amount observed on October 31<sup>st</sup>, 2012.

### Other developments affecting investment climate

On December 9<sup>th</sup> Romania held parliamentary elections, resulting in a sweeping victory for the leftist Social Liberal Union (USL) alliance gaining 67% of the seats in the Parliament. The Right Romania Alliance (ARD) gained 14% of the seats, followed by People's Party with 12% and Hungarian Democratic Union of Romania with 5%.

The USL alliance is led by Mr Victor Ponta (Social Democratic Party leader) and by Mr Crin Antonescu (National Liberal Party leader). The USL alliance already governed Romania since May 2012, with Mr Ponta as Prime Minister. Following the elections, Mr Ponta remains Prime Minister, now supported by a larger Parliamentary majority, while Mr Antonescu, the other leader of the USL is the appointed presidency candidate for the 2014 elections.

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