

**January 2013**
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- **Industrial production increased just by 1% yoy in November.**
- **The consolidated budget deficit reached 1.77% of GDP at the end of November.**
- **Consumer inflation accelerated to 4.95% in December.**
- **The FOB-CIF commercial deficit for goods declined by 55.83% yoy in November.**
- **The current account deficit dropped 18.9% yoy over January-November.**
- **The National Institute of Statistics of Romania adjusted estimates for 2011 GDP, which may lead to an increase in the budget deficit of 2012.**

### Executive Summary

Industrial production growth decelerated in November to 1.0% yoy compared to 3.9% yoy growth a month ago. The deceleration was caused by the poor performance of manufacturing, which declined by 1.0% yoy during the month. At the same time, retail trade turnover growth accelerated by 1.0% to 3.1% yoy.

Parliamentary elections slightly stimulated growth of consolidated state budget expenditures. This led to faster growth of the budget deficit compared to previous months. The deficit expanded by 0.19% over January-November 2012 compared to 0.1% over January-October.

After a couple of months of deceleration, consumer

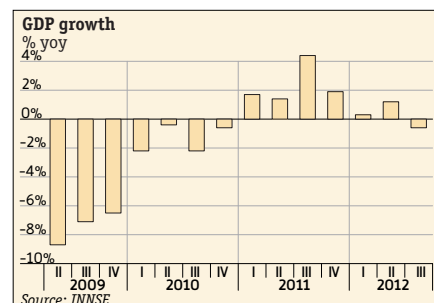
inflation accelerated again in December. Prices of services grew slower than November, while prices of food and non-food goods accelerated beyond the target band values.

In November, Romania's international trade saw deceleration in growth of FOB exports of goods accompanied by a significant decrease in CIF imports compared to previous months. FOB exports of goods lost 0.5% of the year-over-year growth, while 7.9% yoy growth in CIF imports of goods transformed into a 9.5% yoy decline. Such drastic change in import dynamics helped decrease the commercial deficit of trade in goods by more than 55% yoy in November.

	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

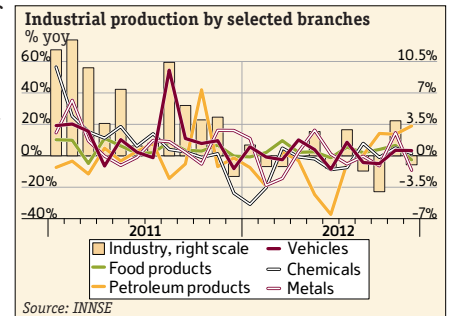
Even though monthly and year-over-year dynamics of industrial production were almost the same, dynamics of its components differed in November. In particular, industrial production declined by 0.8% mom and by 1.0% yoy in November. After a 6.8% mom and 3.9% yoy increase in October, this was a significant setback. Manufacturing, the major component of industrial production, inched down by 0.6% mom, while its decline was almost 1.0% over November 2011 (growth of 7.3% mom and 4.3% yoy was registered in October). At the same time, mining and quarrying, as well as electricity, gas, steam, and air conditioning supply, experienced exactly the opposite developments in monthly and year-over-year terms. In particular, mining and quarrying decreased by 3.6% mom but grew by 3.7% yoy. Electricity, gas, steam, and air conditioning supply, on the other hand, grew by 0.9% mom but dropped 3.6% yoy. From the beginning of the year, industrial production remained almost unchanged as it inched up by a mere 0.1% yoy over eleven months. The major reason was poor performance of manufacturing, which decreased by 0.6% yoy. A 5.0% yoy increase in electricity, gas, steam, and air conditioning supply, accompanied by a 1.8% yoy growth in mining and quarrying over January-November, balanced the decrease in manufacturing.



After a brief improvement in the dynamics of the main industrial groupings in October, the situation worsened again in

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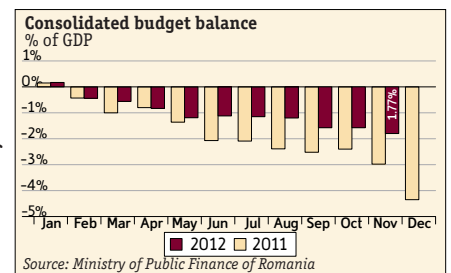
November. In particular, only consumer durables registered significant growth of 7.0% yoy during the period, which is almost three times lower than growth in October. At the same time, capital goods inched up by 0.9% yoy, or five times lower than growth during the previous month. All the other groupings declined in November – intermediate goods by 2.8% yoy, energy by 2.0% yoy and consumer non-durables by 1.9% yoy. Overall, over eleven months of the year, positive dynamics were observed for consumer durables (4.6% yoy), capital goods (2.7% yoy) and energy (2.4% yoy). Consumer non-durables inched down by 0.3% yoy, while intermediate goods dropped 3.7% yoy.



A 2.0% mom increase in retail trade, achieved thanks to 3.5% mom growth in fuel retail for motor vehicles in specialized shops, 2.0% mom growth in sales of food, beverages, and tobacco, and 1.9% mom growth in sales of non-foods, helped preserve the positive year-over-year dynamics of the indicator. In particular, total retail trade grew by 3.1% yoy in November. All of its components also demonstrated positive dynamics. Sales of food, beverages, and tobacco had the highest growth of 4.6% yoy. At the same time, sales of non-food products grew by 2.7% yoy. The lowest growth was registered for fuel retail for motor vehicles in specialized shops at 1.8% yoy. From the beginning of the year, retail trade added 3.7% yoy.

### Fiscal Policy

Growth of the consolidated general budget deficit accelerated in November. The deficit grew by 0.19% of GDP (just 0.01% of GDP over January-October) and reached 1.77% of GDP or EUR 2.39 bln over January-November. This situation was expected because of parliamentary elections, which are usually accompanied by increases in social expenditures. At the same time, despite the mentioned growth of the consolidated general budget deficit, the deficit itself remained much lower than observed last year. In particular, the consolidated general budget deficit observed over January-November 2011 was equal to EUR 3.6 bln or 2.8% of GDP. From this point of view, the reported value of 1.77% of GDP is definitely an improvement.



Consolidated general budget revenues reached EUR 38.76 bln or 28.8% of GDP in January-November 2012. This was a 7.6% yoy increase in nominal terms and a 0.6% increase as a share of GDP. All major taxes experienced decent growth, leading to growth of total tax revenues by 10.9% yoy over January-November. In particular, income tax revenues grew by 11.6% yoy, VAT revenues by 7.6% yoy, revenues from excises by 7.3% yoy, and revenues from corporate tax by 5.8% yoy. At the same time, non-tax revenues increased by 6.35% yoy, which is more than one percentage point higher than growth observed over January-October. As for local administrations, their non-tax revenues grew at a much higher pace than their revenues from income and property taxes (11.8% yoy and 3.1% yoy, respectively). These numbers are comparable with those registered a month ago. Social contributions grew by 3.1% yoy, which is the same as observed at the end of October. As a result, they amounted to EUR 10.41 bln at the end of November. Suspension of operational programs and further adjustment of the related expenses led to a decrease in the amount of funds repaid by the European Union on public resource payment to EUR 1.21 bln over January-November 2012 (from EUR 1.27 bln registered at the end of October). However, EUR 1.21 bln is still 9.5% yoy higher than the number observed over the same period last year.

Growth of general government expenditures was exactly two times lower than that of revenues at 3.8% yoy in January-November. They reached EUR 41.14 bln, which is 30.6% of GDP. Expenditures of EU-funded projects and expenditures on public debt interest payments grew faster than the other major expenditures groups of the consolidated general budget (25.3% yoy and 22% yoy, respectively). At the same time, growth of both groups of expenditures decelerated in January-November compared to growth observed over the first ten months of the year (27.4% yoy and 23.5% yoy, respectively). Growth of expenditures on goods and services was equal to 10.8% yoy over the first eleven months of the year, which is 0.5% more than observed a month ago. Growth of the wage bill was 1% yoy higher over January-November than that observed at the end of October and reached 5.7% yoy. A similar trend was observed for investment expenditures, as their

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growth accelerated from 3.7% yoy over January-October to 5.5% yoy. Over the first eleven months of the year, they amounted to EUR 6.67 bln, which is 5.0% of GDP.

The National Institute of Statistics of Romania reported a “semi-definitive” estimate of GDP for 2011. After adjustments, total GDP was decreased by EUR 5.2 bln from the initially reported number of EUR 143.203 bln. This in turn will lead to a recalculation of GDP for 2012 and will increase the consolidated general budget deficit as a share of GDP.

Even though parliamentary elections held in November strengthened positions of the Prime Minister and his Cabinet, the consolidated general budget for 2013 has not been adopted yet. The official reason is that the government was appointed at the end of December and has not had enough time to do this. However, a likely actual reason could be fear that political opponents might use the weaknesses of the draft budget during the election campaign. For example, the new budget will hardly be able to finance the promises of the USL in the field of social assistance. The draft budget was submitted to the parliament on January 23<sup>rd</sup>.

### Monetary Policy

The National Bank of Romania stated that it will continue to stick to prudent monetary policy, which is essential for achieving medium-term objectives of price stability and financial stability. Meeting these objectives is a necessary condition for lasting reduction in the interest rate on RON-denominated loans, for fostering national currency savings, and for securing sustainability of the external sector.

After two months of deceleration, consumer inflation accelerated again and reached 4.95% in December, which is almost the same as in October (4.96%). In particular, prices on foodstuffs grew by 6.21% yoy in December after 5.89% yoy growth in November. Growth of non-food goods prices added 0.79% yoy to 3.69% yoy growth observed in November and reached 4.48% yoy. Prices of service, on the contrary, decelerated a bit. They grew by 3.61% yoy in December, while in November the increase was 4.08% yoy. Annual inflation exceeded the target level of 3% but remained within the target band of 3%±1%. Even though prices of food goods accelerated in the second half of the year, overall their growth stayed below 2.0%. At the same time, prices of non-food goods grew by 3.77% in 2012. However, the highest annual growth was registered in the prices of services, which reached 5.07%.

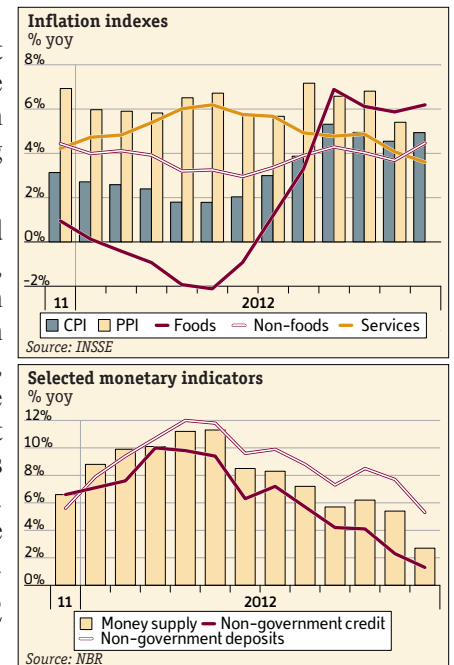
According to data of the National Bank of Romania, the annual adjusted CORE inflation rate was equal to 3.3% in November 2012.

At the end of December, broad money (M3) reached EUR 49.06 bln, which is a 0.6% mom increase. Such sluggish dynamics in monthly terms led to further deceleration of growth in year-over-year comparison. In particular, broad money grew by 2.7% yoy over the entire year 2012, while the growth was 5.4% yoy over January-November and 6.2% yoy over January-October.

The volume of non-government loans granted by credit institutions continued to decrease, finishing 2012 at EUR 49.91 bln, which is 1.4% lower than it was at the end of November. At the same time, a year-over-year comparison shows that non-government loans maintained positive dynamics thanks to RON-denominated loans. Their 3.8% yoy increase overcame a 0.2% decline in foreign currency-denominated loans expressed in RON (2.6% decline, if expressed in EUR) and allowed the total volume of non-government loans to grow by 1.3% yoy.

### International Trade and Capital

Preliminary data for November 2012 provided by the National Institute of Statistics of Romania shows that FOB exports of goods grew in year-over-year terms for the second month in a row, while CIF imports of goods, on the contrary, significantly declined. FOB exports increased by 0.9% yoy, which is 0.5% yoy lower than growth observed in October. CIF imports decreased by 9.5% yoy after a 7.9% yoy increase a month ago. As a result, FOB exports amounted to EUR 4.2



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bln and CIF imports reached EUR 4.61 bln. The November FOB-CIF commercial deficit of trade in goods amounted to EUR 409.0 mln or 55.83% lower than a year ago. From the beginning of the year, FOB exports of goods amounted to EUR 41.906 bln (a 0.2% yoy decrease), while CIF imports of goods amounted to EUR 50.58 bln (approximately the same as last year). The FOB-CIF commercial deficit of trade in goods inched up by 0.8% yoy and reached EUR 8.674 bln over eleven months of the year.

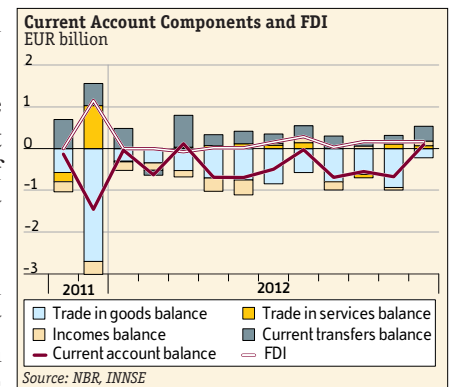
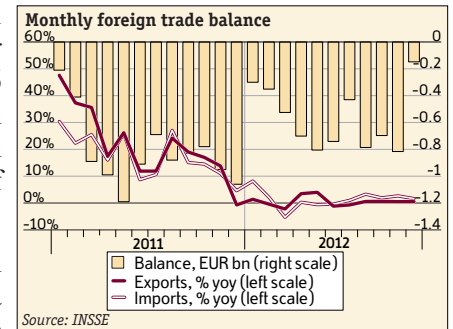
There were almost no changes in shares of Romania's foreign trade in goods with the EU in Romania's total exports and imports. The share of exports from Romania to the EU remained the same at 70.6% of total exports or EUR 29.543 bln, while the share of imports from the EU to Romania inched up by 0.1% to 73.8% of total imports.

The EUR 707 mln decrease in the income account deficit, accompanied by the EUR 263 mln increase in the services account surplus and the EUR 86 mln current transfers surplus, altogether overcame the increase in the commercial deficit of foreign trade in goods. As a result, the current account deficit declined by 18.9% yoy over January-November 2012 and amounted to EUR 4.245 bln.

Foreign direct investments added EUR 167 mln in November 2012. Their total amount equalled EUR 1.44 bln over January-November, which is a 3.75% yoy increase. This is more than five times slower than the January-October period with its 20.44% yoy growth. Because of decrease in the current account deficit even this much smaller growth in FDI led to increase in the rate of coverage of the current account deficit with the FDI by 4.6% to 33.9%.

EUR 0.6 bln of November net borrowings extended the medium- and long-term external debt of Romania to EUR 78.17 bln, which is a 3.0% increase over eleven months of 2012. On the other hand, short-term external debt declined by 5.7% from the beginning of 2012 to EUR 21.506 bln. Because of recent developments, the share of medium- and long-term external debt grew insignificantly to 78.4%, while the share of short-term external debt declined to 21.6%.

After a 1.9% decrease during November 2012, the foreign exchange reserves of the National Bank of Romania remained almost unchanged in December. They added just EUR 39 mln or 0.125% and as of November 29<sup>th</sup> amounted to EUR 31.206 bln. Inflows of foreign exchange reserves represented changes in the foreign exchange reserve requirements of credit institutions, inflows into the account of the Ministry of Public Finance of Romania, inflows into the account of the European Commission, and income from management of foreign exchange reserves. In total they amounted to EUR 2.132 bln. At the same time, outflows from the foreign exchange reserves were equal to EUR 2.093 bln and represented mainly changes in the foreign exchange reserve requirements of credit institutions and payments of interest and principal on foreign currency public debt. Because of changes in prices of gold in the international markets, the total value of Romanian gold stock decreased by EUR 220 mln to EUR 4.207 bln despite the absence of changes in the gold stock itself (it was still equal to 103.7 tonnes). Overall, as of December 31<sup>st</sup>, 2012 total international reserves of Romania amounted to EUR 35.413 bln, which is a 0.5% decrease over January-November.



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