Executive Summary

The National Institute of Statistics published its preliminary data on Romania’s 2012 GDP. The data shows that annual GDP in 2012 grew by 0.3% yoy, the same as GDP in Q4 of 2012.

Industrial production accelerated its growth in both monthly and year-over-year terms in January. In particular, it grew by 0.3% mom and by 5.7% yoy thanks to growth in manufacturing and in mining and quarrying, which were significant enough to overcome decline in electricity, gas, steam, and air conditioning supply. Retail trade showed similar dynamics as it grew in both monthly and year-over-year terms. However, unlike industrial production, its monthly growth rate was higher than year-over-year growth.

The Romanian government managed to execute the consolidated general budget with a surplus of EUR 228 mln despite a decrease in budget revenues in year-over-year terms. This surplus is very similar to the one obtained last year and is equal to 0.17% of GDP.

Consumer inflation slightly decelerated but remained beyond the target band of 3%±1%. In February, consumer prices in total grew by 5.65% thanks to high growth of prices of food and non-food goods (6.21% and 6.22% respectively). At the same time, inflation in the services sector is more than two times lower.

Growth of exports of goods significantly exceeded growth of imports of goods in January, which had a positive influence on the commercial balance of trade in goods. Exports of goods grew by 6.1% yoy, which is almost five times more than growth of imports. As a result, the commercial deficit of trade in goods in January was 34% yoy lower. Decreases in the commercial deficit of trade in goods and in the income account deficit supported by an increase in the surplus of current transfers resulted in a current account surplus of EUR 465 mln in January compared to a EUR 25 mln deficit a year ago.

Economic Growth

According to the first preliminary data release of the National Institute of Statistics of Romania, GDP for Q4 2012 amounted to EUR 38.6 bln, inching up by 0.1% qoq and by 0.3% yoy. The highest increase in activity volume was registered in the information and communication sector (42.0% yoy). At the same time, the largest decrease of activity volume was registered in agriculture, forestry, and fishing (24.6% yoy). The volume of net taxes on products remained unchanged in year-over-year terms. On the side of GDP uses, domestic demand remained constant in year-over-year terms in Q4 2012. At the same time, total final consumption grew by 1.0% (final consumption expenditures of households increased by 0.9%, while those of the government by 0.6%). Gross fixed capital formation decreased by 4.2% due to a decline in public sector investments. The influence of net exports on GDP was positive, as exports declined slower than imports (-4.2% against -4.3% respectively).
The first estimates show that total 2012 GDP amounted to EUR 131.8 bln, a 0.3% yoy increase. Similar to the results obtained in Q4 2012, the highest increase in activity volume and, thus, gross value added, was generated in the information and communication sector (29.4% yoy), while the largest decline was generated in agriculture, forestry and fishing (21.2% yoy). Among other sectors, there was a 2.1% yoy decline in activity volume in industry. The volume of net taxes on products grew by 3.7% yoy in 2012. Total final consumption increased by 0.9% yoy over the year thanks to a 0.6% yoy increase in final consumption expenditures of households and a 1.9% yoy increase in final consumption expenditures of government. Gross fixed capital formation also increased (4.0% yoy).

Industrial production continued to improve in both monthly and year-over-year terms. It inched up by 0.3% mom in January 2013 after no change a month ago, thanks to a 1.7% mom increase in mining and quarrying and a 0.6% mom increase in manufacturing – enough to overcome a 3.8% mom drop in electricity, gas, steam, and air conditioning supply (in December 2012 the numbers were -0.1%, +0.1%, and +1.7% respectively). At the same time, in year-over-year terms, the increase was more significant in general and through sectors especially taking into account the decrease observed in December 2012. In particular, total industrial production grew by 5.7% yoy (a 2.2% decline in December 2012) on the shoulders of a 6.6% yoy increase in manufacturing (-2.4%) and a 6.0% yoy increase in mining and quarrying (-1.9%). Electricity, gas, steam, and air conditioning supply declined in year-over-year terms just as it did in monthly terms, but the pace of the decline is much slower at 0.3% yoy (a 1.2% yoy in December 2012).

Manufacturing increased was helped by a 9.2% yoy increase in the automobiles and other road transport equipment in January, as the Ford factory in Craiova is increasing production of passenger cars and of gear boxes, with favourable influence on the foreign trade and current account deficit. According to auto the industry press release, the number of produced and assembled passenger cars increased 41.1% yoy in January, leading to an increase in exported passenger cars number of 12.9% yoy.

Most of the main industrial groupings recorded growth in January 2013. Consumer durables registered the highest growth at 15.2% yoy, which is a significant improvement over the 7.4% yoy decline a month ago. Capital goods increased by 8.6% yoy despite a 2.5% mom decrease. This increase is also an improvement compared to the 1.5% yoy increase in December 2012. A 5.5% yoy increase in consumer non-durables is an improvement over the 2.9% decline a month ago. Intermediate goods also recorded a significant improvement in January. In particular, this grouping grew by 3.7% yoy, while last month it declined by 4.3% yoy. The energy sector is the only grouping that declined in both monthly and year-over-year terms and demonstrated worse performance than a month ago. The year-over-year decline in energy was insignificant as it inched down by just 0.2% yoy. But this is still a setback after 2.0% yoy growth in December 2012.

Retail trade turnover grew in both monthly and year-over-year terms. However, in monthly terms it grew faster at 4.3% compared to 2.8%. Such relatively high monthly growth was ensured by 6.9% mom growth in non-food products, accompanied by slightly lower monthly growth of sales of food, beverages, and tobacco at 5.1% mom and even lower growth of retail sales of motor vehicle fuel in specialized shops at 2.3% mom. On the other hand, year-over-year growth of retail trade turnover was slower because its components generally recorded worse performance compared to monthly growth. In particular, non-food goods retail trade volume grew by just 1.4% yoy, motor vehicle fuel in specialized shops even decreased by 1.3% yoy. The only component that registered good performance was retail of food, beverages and tobacco at 7.3% yoy.

**Fiscal Policy**

The consolidated general budget was executed with a EUR 237 mln surplus in January 2013, similar to the surplus obtained last year. As a share of GDP, the surplus was equal to 0.17%.

Consolidated budget revenues reached EUR 3.65 bln in January, which is 1.8% yoy lower. As a share of GDP, revenues were equal to 2.6%, 0.2 pp lower than in January.
2012. In particular, tax revenues fell by 6.1% yoy. The reason is delay of profit tax payment until March 25th, 2013. At the same time, personal income tax and salary tax revenues still grew by 16.0% yoy, while revenues from excise payments grew even faster at 27.7% yoy. Social contributions also grew but much slower at 8.7% yoy. Value added tax inflows decreased by 9.5% yoy due to the combined effects of a 2.1% yoy increase and a larger, 46.8% expansion of the VAT reimbursements. As for non-tax revenues, they grew by 27.2% yoy. Those of the state budget-financed institutions grew by 21.6% yoy, while those of the self-financed institutions increased by 17.7% yoy. Non-tax revenues of the local budgets declined by 0.4% yoy. The European Union repaid EUR 50 mln of public resource payments in January 2013, which is a 38.8% yoy decrease.

In contrast to consolidated general budget revenues, consolidated general budget expenditures decreased by 2.2% yoy to EUR 3.41 bln in January. As a share of GDP, the expenditures were equal to 2.4%, which is 0.2 pp lower than in January last year. Expenditures on public debt interest payments and on subsidies grew by 40.2% yoy and 43.1% yoy, respectively. The next largest increase of 16.4% yoy was observed in the wage bill and was caused by a restoration of wages that were cut with the introduction of austerity measures because of the crisis. The wages increase 8.0% mom in June 2012 and another 7.4% mom in December 2012. Spending on goods and services registered a 13% yoy increase in January 2013. Investment expenditures reached EUR 228 mln or 0.17% of GDP.

**Monetary Policy**

Consumer inflation inched down a bit in February 2013 but still remained beyond the target band of 3%±1%. Total consumer inflation was equal to 5.65% compared to 5.97% in January. This decline became possible thanks to a decrease in inflation of food prices from 7.19% observed in January to 6.21%. At the same time, prices on other categories of goods grew at a slightly higher pace than in January. In particular, prices of non-food goods grew by 6.22% in February compared to 6.19% in January, while prices of services added 3.2% in February compared to 3.1% in January.

The annual adjusted CORE2 inflation rate inched down to 3.1% in February compared to 3.3% observed in the previous three months.

By the end of February 2013, broad money (M3) had reached EUR 50.06 bln. This is a 0.1% mom increase. At the same time, the year-over-year comparison shows that growth of broad money continued to decelerate as it grew by a mere 0.8% yoy compared to 1.2% yoy observed in January.

The private sector received 0.3% mom less in loans from credit institutions in February, which is an improvement over January’s 1.1% decrease. The total amount of loans in February was equal to EUR 50.79 bln at the end of the month. Both RON-denominated loans and foreign currency-denominated loans (if expressed in RON) inched down by 0.3% mom in February. Furthermore, a year-over-year comparison shows that growth had already decelerated almost to zero. The total volume of loans granted to the private sector inched up by just 0.1% yoy at the end of February 2013 compared to 0.3% growth the previous month. This small increase took place on the shoulders of a 5.0% increase in RON-denominated loans and a 2.6% decrease in foreign currency-denominated loans expressed in RON (2.9% decrease if expressed in EUR). Same as last month, growth of RON-denominated loans accelerated, as did the decline in foreign currency-denominated loans. The former grew by 5.0% yoy (last month grew by 4.8% yoy), while the later decreased by 2.6% yoy (2.2% yoy).

**International Trade and Capital**

FOB exports of goods amounted to EUR 3.7 bln and CIF imports amounted to EUR 4.0 bln in January 2013, according to preliminary data of the National Institute of Statistics of Romania. In year-over-year terms, exports of goods grew by 6.1%, while imports increased by 1.3%. Both exports and imports of goods reversed their trends, as both declined in December 2012 in year-over-year terms (by 4.9% and 7.9%, respectively). In monthly terms, the picture is different as
exports of goods grew by 15.4% mom, while imports inched down by 0.7% mom in January. The FOB-CIF commercial deficit of trade in goods was equal to EUR 300.8 mln, which is more than one third less compared to January 2012 (EUR 141.4 mln).

The share of the EU Member States in Romania’s total foreign trade remained above 70%. Moreover, it increased in both exports and imports. In particular, the share of Member States in Romania’s exports added almost 0.5% and was equal to 71.0% or EUR 2.627 bln in January. At the same time, the share of Member States in Romania’s imports grew by almost 1% to 74.7% or EUR 2.989 bln.

Transport equipment and vehicles was the group of goods with the highest share in both Romania’s exports and imports (41.7% and 35.4%, respectively), which was followed by other manufactured goods (34.3% of exports and 29.5% of imports, respectively).

Romania finished the month with a EUR 465 mln current account surplus, which saw a significant improvement over January 2012 with its deficit of EUR 25 mln. The surplus was generated thanks to a surplus in services (EUR 125 mln compared to the EUR 105 mln deficit in January 2012) accompanied by a decrease in the trade balance deficit (by EUR 163 mln), a decrease in the income account deficit (by EUR 31 mln), and by an increase in the surplus of current transfers by EUR 66 mln.

Foreign direct investments were equal to EUR 103 mln. In year-over-year terms, FDI grew by almost 6 times, equal to EUR 18 mln in January 2012.

Romania’s medium- and long-term external debt added EUR 1.355 bln in January and reached EUR 80.097 bln. This is a 1.7% increase compared to the debt as of the end of 2012. The share of medium- and long-term external debt in total external debt grew to 80.2% or by 0.8%. At the same time, short-term external debt was equal to EUR 19.728 bln at the end of January, which is a 3.6% mom decrease. The share of short-term external debt in total external debt declined to 19.8%.

Foreign exchange reserves of the National Bank of Romania continued to grow in February. At the end of February, they stood at EUR 32.169 bln, which is 2.26% higher than at the end of January (when reserves increased by 0.8%). Foreign exchange reserve inflows amounted to EUR 2.158 bln and mainly represented changes in the foreign exchange reserve requirements of credit institutions and inflows into the account of the Ministry of Public Finance of Romania, which include EUR 1.11 bln equivalent received from USD-pegged bonds placed on the foreign market. At the same time, reserve outflows amounted to EUR 1.448 bln and represented mostly changes in the foreign exchange reserve requirements of credit institutions and payments of interest and principal on foreign currency public debt, which included EUR 691 mln equivalent paid to the IMF in repayment of the fourth principal installment of the loan and interest. The gold stock remained unchanged in terms of weight but slightly decreased in terms of value (by 1.75% to EUR 4.046 bln) due to changes in the price of gold on international markets. As a result, Romania’s total international reserves stood at EUR 36.215 bln at the end of February, 1.79% higher than a month ago.