Executive Summary

Growth in industrial production accelerated to 1.0% mom in February but remained almost the same in year-over-year terms at 6.8% yoy. Growth in manufacturing was the major driving force of the increase in industrial production in both monthly and year-over-year terms. At the same time, the decline in electricity, gas, steam, and air conditioning supply accelerated in both monthly and year-over-year terms. Retail trade decreased in monthly terms for the first time in months, but maintained its upward trend in year-over-year terms.

After a surplus at the end of January, the consolidated general budget of Romania was executed with a EUR 0.558 bln deficit at the end of February. The deficit reached 0.39% of GDP, which is an improvement over the 0.46% of GDP observed for the same period last year.

Consumer inflation continued to decelerate, but still remained beyond the target band. A 0.4% decrease in consumer inflation took place thanks to a decline in growth of food goods prices and non-food goods prices, while growth of services prices accelerated (though it still remained significantly lower than that of prices of food and non-food goods.)

Performance of the foreign trade in goods slightly deteriorated in February in monthly terms as growth in exports decelerated, while the downward trend in imports was reversed. However, in year-over-year terms, growth of exports significantly exceeded growth of imports. Unfortunately, the balance of foreign trade in goods is still negative at EUR 208.2 mln. However, this commercial deficit of foreign trade in goods is the lowest in the last ten years. The decrease in the commercial deficit of foreign trade in goods, accompanied by a decline in the income account deficit, surplus in services account, and increase in surplus of current transfers ensured a EUR 327 mln surplus of the current account at the end of February.

Economic Growth

Further acceleration of industrial production in monthly terms to 1.0% mom in February (from 0.3% in January) was possible thanks to a 1.8% mom increase in manufacturing that compensated for a 3.5% mom decline in mining and quarrying and a 4.8% mom decline in electricity, gas, steam, and air conditioning supply. Growth in manufacturing accelerated in February compared to January (0.6% mom).

At the same time, the situation with mining and quarrying significantly worsened in monthly terms as the sector grew by only 1.7% mom in January. As for electricity, gas, steam, and air conditioning supply, its decline accelerated by 1% mom in February. In the year-over-year comparison, growth of industrial production remained almost the same in February compared to January at 6.8% yoy (6.6% yoy). However, separate components of industrial production saw significant changes. In particular, mining and quarrying grew by 14.3% yoy in February, which is more...
than double the previous month. Growth of manufacturing also accelerated (from 6.6% yoy to 9.7% yoy). At the same time, the decline in electricity, gas, steam, and air conditioning supply accelerated from 0.3% yoy to 14.4%, on the background of an 11.1% yoy increase in the industry’s prices in February 2013. From the beginning of the year, the increase in industrial production reached 6.4% yoy in two months thanks to a 9.8% yoy increase in mining and quarrying and a 8.2% yoy increase in manufacturing. The increase could be higher, if not for a 6.4% yoy decline in electricity, gas, steam, and air conditioning supply.

Only capital goods registered growth in both monthly and year-over-year terms (5.0% and 13.3% respectively) in February, while the energy sector was the only sector that registered a decline in both monthly and year-over-year terms (6.3% and 11.4%, respectively). At the same time, the only sector with growth in monthly terms was capital goods, while the energy sector was the only sector that declined in year-over-year terms. There seems to be a clear tendency – the smaller the smaller the decline in the sector in February month-over-month terms, the higher the increase in year-over-year terms. This is true for all sectors except consumer non-durables. In particular, intermediate goods declined by 1.0% mom but grew by 11.6% yoy; consumer durables declined by 0.1% mom but increased by 13.0% yoy. The performance of capital goods and the energy sector, discussed above, also corresponded to the mentioned tendency. As for consumer non-durables, they declined by 0.2% mom and grew by 2.1% yoy.

Retail trade turnover grew by 1.8% yoy in February despite a 2.0% decrease compared to January. Sales of motor fuel in specialized shops remained unchanged in year-over-year terms, even though they experienced the largest decrease within the retail trade sector (4.7% mom) in monthly terms. A similar situation was observed in sales of food, beverages, and tobacco, as they inched up by a mere 0.2% yoy, despite the fact that they declined by 1.5% mom. The non-food product sector declined by 3.8% mom in February, but still managed to register a 4.1% yoy increase.

**Fiscal Policy**

Data from the Ministry of Public Finance shows that the consolidated general budget of Romania was executed with a EUR 0.56 bln deficit by the end of February, which is 0.39% of GDP. This is a bit lower than EUR 0.62 bln and 0.46% of GDP in the same period of the previous year.

Consolidated general budget revenues amounted to EUR 6.7 bln or 4.7% of GDP (0.1% higher compared to revenues in the same period of the previous year). In particular, income tax revenues grew by 11.9% yoy in February, profit tax revenues declined by EUR 0.27 bln because of the officially approved delay in payment of profit tax by March 25. Excise revenues grew by 18.9% yoy and social contributions increased by 2.4% yoy, compared to 27.7% yoy and 8.7% yoy in January. The value added tax revenues in the total increased by 2.6% yoy, since their inflow grew by 5% yoy, while value added tax repayments grew by 12% yoy. Non-tax revenues grew by 12.1% yoy. In particular, those of the state budget-financed institutions grew by 30.3% yoy and those of self-financed institutions increased by 2.0% yoy. Non-tax revenues of the local budgets dropped 4.7% yoy.

Consolidated budget expenditures dropped 0.7% yoy to EUR 7.24 bln which is 5.1% of GDP. The wage bill grew by 16.6% yoy thanks to return of wages June 2010 levels. As for expenditures on goods and services, they increased by 8.4% yoy thanks to increased payments of arrears by local authorities and the National Health Fund. Investment expenditures reached 0.47 of GDP or EUR 0.62 bln.

**Monetary Policy**

Consumer inflation continued to decelerate in March 2013 but remained beyond the target band of 3%±1%. CPI lost 0.4% from the previous month and amounted to 5.25%. This happened because of a significant decrease in the growth of food goods prices from 6.21% observed in February to 5.46%. Prices of non-food goods grew by 5.81% in March, which is
an improvement over 6.22% a month ago. Services was the only sector registering an acceleration in inflation, as prices grew by 3.52% in March compared to 3.2% in February.

The annual adjusted CORE2 inflation rate further remained on a downward trend in March. It declined to 3.0% from 3.3% observed over three previous months.

Broad money (M3) amounted to EUR 51.03 bln as of the end of March. This is a 2.7% mom increase. As for the year-over-year comparison, the indicator rose 4.2%, which is significantly higher than the 0.8% yoy growth observed in February.

Loans to the private sector continued to increase in March as the total volume of loans granted to the private sector by credit institutions inched up by 0.5% mom, which is the first monthly increase in 2013. The total amount of funds granted in loans to the private sector reached EUR 50.71 bln. RON-denominated loans inched down by 0.3% in March, which is the same as a month ago. However, this decline was overcome by a 1.0% increase (0.3% decline a month ago) in foreign currency-denominated loans expressed in RON (decreased by EUR 9.7 mln, if expressed in EUR). In year-over-year terms, non-government loans decreased by 0.2% in March. The reason is the 2.3% decline in foreign currency-denominated loans expressed in RON (3.1% decline when expressed in EUR), which overcame the 3.4% increase in RON-denominated loans.

International Trade and Capital

International trade in goods deteriorated in February compared to January as growth of exports decelerated from 15.4% mom to 4.6% mom, while imports of goods reversed the trend from the 0.7% mom decrease to a 2.0% mom increase. FOB exports of goods amounted to EUR 3.873 bln in February and CIF imports of goods were equal to EUR 4.082 bln. In year-over-year terms, FOB exports grew by 10.0% in February compared to 6.1% observed in January and CIF imports grew by 1.3%, which is the same level as in January. From the beginning of the year, FOB exports of goods reached EUR 7.575 bln an 8.1% yoy increase. CIF imports of goods amounted to EUR 8.083 bln during the period, increasing by 1.3% yoy. The commercial deficit of foreign trade in goods amounted to EUR 208.2 mln which is the lowest monthly value over the last ten years. Compared to the same period last year, the commercial deficit of foreign trade in goods declined by 59.1% yoy in February. From the beginning of the year, the commercial deficit of trade in goods reached EUR 508.4 mln a 47.6% yoy decrease.

The share of EU Member States in Romania’s total foreign trade in goods was still above 70% in January-February 2013. In particular, the EU received 70.7% of goods exported from Romania (71.0% in January), while the share of imports from the EU in total imports amounted to 75.5% (74.7%).

The current account balance was still in surplus at the end of February. The surplus was equal to EUR 327 mln compared to EUR 465 mln at the end of January. This is still an improvement from a year-over-year perspective, as the current account balance was in deficit of EUR 657 mln at the end of February 2012. The surplus was generated by the almost balanced goods and services account (trade deficit of EUR 175 mn, services surplus of EUR 152 mn), incomes deficit of EUR 210 mn and current transfers surplus of EUR 560 mn. The largest change versus year ago was in the goods and services account deficit reaching EUR 23 mn over January-February 2013, versus an EUR 756 mn deficit in 2012.

FDI to Romania amounted to EUR 60 mln in February, compared to EUR 103 mln a month ago. Overall, the amount of
FDI during the first two months of the year is 15.1% yoy lower.

As of the end of February 2013, Romania’s medium- and long-term external debt was equal to EUR 80.754 bln or 80.5% of total external debt. This is a 0.8% mom increase and a 2.6% increase from the end of 2012. Short-term external debt continued to decline in February and reached EUR 19.623 bln or 19.5% of the total external debt of the country. This is a 0.5% mom decline and a 3.1% decline from the end of 2012.

According to data from the National Bank of Romania, foreign exchange reserves were equal to EUR 32.208 bln on March 31, 2013. Over the month they inched up by 0.12%. Both foreign exchange reserve inflows and outflows were below EUR 1 bln. In particular, inflows amounted to EUR 864 and mainly represented changes in the foreign exchange reserve requirements of credit institutions, inflows into the account of the Ministry of Public Finance of Romania, and inflows into the European Commission’s account. As for foreign exchange reserve outflows, they amounted to EUR 825 mln and mainly represented changes in the foreign exchange reserve requirements of credit institutions and payments of interest and principal on foreign currency public debt, including around EUR 249 mln equivalent of the fifth principal instalment and interest on the IMF loan. The gold stock remained unchanged in terms of weight at 103.7 tonnes but increased in terms of value by 3.3% to EUR 4.178 bln. Therefore, the total international reserves of Romania reached EUR 36.386 bln as of March 31st, 2013, which is a 0.5% mom increase.

Other developments affecting the investment climate

During April a Secondary Public Offer (SPO) took place for 15% of Transgaz, the national natural gas utility. The offer was successful, with oversubscription of 2.6x in the tranche for the financial investors and 3.5x in the tranche for the small investors. The offer price was set at RON 179 (EUR 40.9) per share, at which price the seller, Romanian Government, raised RON 315 mn (EUR 72 mn). The implied market capitalization at the offer price of RON 179 was RON 2.1 bn (EUR 481 mn).

The Transgaz SPO offer is part of the privatization program agreed with IMF, with more companies to follow. Also part of the program agreed with the IMF is the privatization of the freight railway transport company, CFR Marfa, for which the privatization announcement was already published. The government offers for sale 51% of the company’s shares, with the bidding starting at RON 797 mn (EUR 182 mn) for the stake offered. The privatization will take place through offers from investors to the Ministry of Transport and according to the published schedule will be closed in June 2013.