

May 2013

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- GDP grew by 2.1% yoy in Q1 2013.
- Industrial production increased by 1.3% yoy in March 2013.
- The consolidated budget deficit reached 0.67% of GDP at the end of March 2013.
- Consumer inflation accelerated insignificantly to 5.29% yoy in April 2013.
- The FOB-CIF commercial deficit for goods grew by 2.7 times in March 2013 compared to February 2013.
- The current account surplus decreased to EUR 69 mln at the end of March 2013.

### Executive Summary

Preliminary estimates showed a 2.1% yoy increase in GDP in Q1 2013.

Industrial production decelerated in both monthly and year-over-year terms. However, in monthly terms deceleration was more significant. Total industrial production grew by 0.3% mom in March compared to 1.0% mom in February. At the same time, it grew by 1.3% yoy compared to 6.8% yoy a month ago. In monthly terms, electricity, gas, steam, and air conditioning supply was the major driver of growth, as manufacturing remained almost flat, while mining and quarrying declined. In year-over-year terms, manufacturing remained the major driver of growth, while two other sectors experienced a decline. Decrease in retail trade decelerated in monthly terms to 0.6% mom, but this was not enough to preserve growth in year-over-year terms.

The general government deficit of Romania continued to increase and reached 0.67% of GDP by the end of Q1 2013, or EUR 0.955 bln which is still within the target level agreed with the international institutions of EUR 1.026 bln.

Consumer inflation returned to February levels, inching

up by 0.04% yoy in April. The major reason for this was acceleration in growth of prices of food goods, as inflation in non-food goods and services sectors did not change significantly.

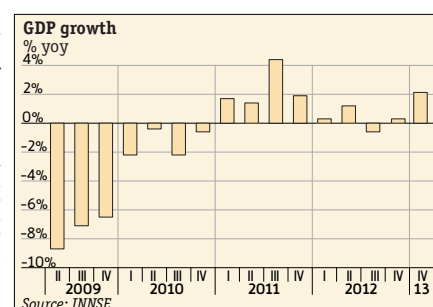
Performance of the foreign trade in goods continued to deteriorate in March. In particular, monthly growth of FOB exports of goods further decelerated to 3.4% mom, which led to a reversal in exports' performance dynamics in year-over-year terms from 10.0% yoy growth in February to a 1.4% yoy decline in March. At the same time, growth of imports accelerated in both monthly and year-over-year terms. Naturally, the monthly deficit of foreign trade in goods was much higher in March compared to February. On the positive side, the deficit was still more than 23% lower in year-over-year terms. The year-over-year decrease in the deficit of foreign trade in goods, accompanied by a decrease in the income account deficit and surplus of foreign trade in services, helped preserving the current account surplus at EUR 69 mln, even though this surplus is significantly lower than a month ago.

	2008	2009	2010	2011	2012	2013
GDP growth, % change yoy	7.1	-6.6	-1.6	2.5	0.2	1.5
GDP per capita, \$	9 497	7 649	7 667	8 863	8 030	8 080
Industrial production, % change yoy	0.9	-5.5	5.5	5.6	0.0	7.0
Retail sales, % change yoy	13.0	-10.3	-5.3	-2.5	2.9	3.5
Budget balance, % of GDP	-4.9	-7.3	-6.4	-4.1	-2.5	-2.2
Government external debt, % of GDP	7.6	16.4	22.3	23.8	24.5	24.0
Inflation, end of period	7.85	4.70	8.0	3.3	3.3	3.2
Gross international reserves, EUR billion	28.3	30.9	36	37.3	36.4	37.0
Current account balance, % GDP	-12.3	-4.1	-4.4	-4.2	-3.8	-3.6
Gross external debt, % GDP	51.8	69.1	75.8	71.9	71.0	70.0
Unemployment (ILO), end of period	5.8	6.9	7.3	7.4	7.2	7.0
Exchange rate, RON/EUR, annual average	3.68	4.24	4.21	4.24	4.45	4.5

### Economic Growth

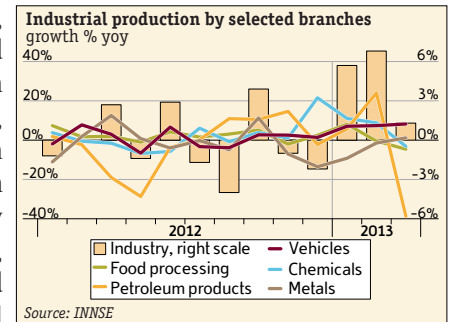
Estimates of the National Institute of Statistics of Romania show that GDP grew by 0.5% qoq in real terms in Q1 2013. In annual terms, GDP growth was even higher at 2.1%.

Industrial production inched up by 0.3% mom in March thanks to a 5.7% mom increase in electricity, gas, steam, and air conditioning supply. Manufacturing remained almost flat with a 0.1% mom increase, while mining and quarrying declined by 3.4% mom. Compared to February, this was a deceleration from 1% mom growth caused by deceleration in manufacturing from 1.8% mom growth,



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slightly compensated for by a significant improvement in electricity, gas, steam, and air conditioning supply from a 4.8% decline. Mining and quarrying registered almost the same dynamics, as it declined by 3.5% mom in February. Deceleration in industrial production growth was even larger in year-over-year terms. In total, industrial production grew by just 1.3% yoy in March compared to 6.8% yoy a month ago. This deceleration was caused by deceleration of manufacturing growth from 9.7% yoy in February to 2.0% yoy, a decline in mining and quarrying by 1.9% yoy after a 14.3% yoy increase in the previous month, and a 3.0% yoy drop in electricity, gas, steam, and air conditioning supply (which is actually an improvement compared to a 14.4% yoy decline in February). The numbers for Q1 2013 show that industrial production grew by 4.7% yoy thanks to a 6.1% yoy increase in manufacturing and a 5.6% yoy increase in mining and quarrying, which were slightly hindered by a 5.4% yoy decline in electricity, gas, steam, and air conditioning supply.

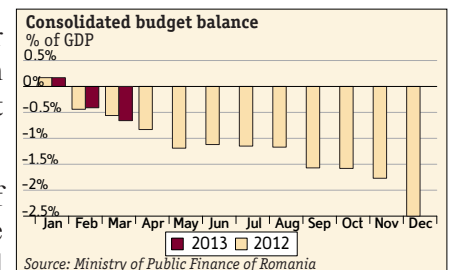


The energy sector continued its decline in year-over-year terms (8.2% yoy decrease compared to 11.4% decrease in February) despite 0.9% mom growth (6.3% mom decline in February). Similarly, capital goods also reversed their monthly trend but maintained their year-over-year trend, with a 4.0% mom decline (compared to 5.0% mom increase in February) and 4.4% yoy increase (still below the 13.3% yoy increase observed a month ago). Consumer non-durables was the only sector that registered declines in both monthly and year-over-year terms (0.7% mom and 3.3% yoy). The monthly decline accelerated compared to February by 0.5% yoy, while year-over-year dynamics reversed their trend from a 2.1% yoy increase observed a month ago. At the same time, consumer durables and intermediate goods improved their monthly performance with 7.4% mom and 2.9% mom increases, respectively (compared to 0.1% mom and 1.0% mom declines a month ago), but could not support high yoy growth rates observed in February with 6.5% yoy and 5.0% yoy increases, respectively (13.0% yoy and 11.6% yoy increases a month ago). As for Q1 2013 data, all the sectors except for energy grew at decent rates. In particular, consumer durables increased by 11.1% yoy, capital goods by 8.5% yoy, intermediate goods by 7.2% yoy, and consumer non-durables by 1.8% yoy. The energy sector dropped 6.1% yoy.

Monthly decline of retail trade decelerated in March to 0.6% mom, compared to 2.0% mom a month ago. The decrease was caused by a 1.1% mom decline in sales of food, beverages, and tobacco, which overwhelmed a 1.9% mom increase in sales of non-food products and a 0.5% mom increase in fuel retail for motor vehicles in specialized shops. At the same time, the year-over-year dynamics of retail trade reversed from a 1.8% yoy increase in February to a 3.6% yoy decrease in March. The largest drop among the retail trade sectors was registered in fuel retail for motor vehicles in specialized shops at 10.8% yoy, while sales of non-food products decreased by 3.0% yoy. Only sales of food, beverages, and tobacco registered a 0.8% yoy growth. In Q1 2013, retail trade growth remained almost flat at 0.1% yoy. Sector growth was registered in sales of food, beverages, and tobacco at 2.0% yoy and of non-food products at 0.8% yoy. Fuel retail for motor vehicles in specialized shops was the only sector that registered a decrease in Q1 2013 at 4.0% yoy.

### Fiscal Policy

Ministry of Public Finance data shows that the general government deficit for Q1 2013 is within the target level agreed upon with international institutions. In particular, it was equal to EUR 0.955 bln which is 0.67% of GDP. The agreed target for Q1 was established at EUR 1.026 bln.



Consolidated general budget revenues amounted to EUR 10.727 bln or 7.5% of GDP, a 3.0% yoy increase. Due to increases in wages in line with growth of the minimum wage from February 1<sup>st</sup>, profit tax revenues grew by 11.5% yoy and social contributions grew by 3.6% yoy. VAT receipts increased by 9.5% yoy, which shows that the VAT payment collection met the established budget target. An increase in excise duty for diesel and improvement of collection procedures thanks to administrative reform helped increase total excise tax revenues by 9.3% yoy. Income tax revenues were down by 4.8% yoy due to changes payment settlement terms from the previous year and the introduction of new prudential provisioning for banks in accordance with international accounting standards. At the local level, revenues from income and property taxes grew by 4.7% yoy. Non-tax revenues inched up by 0.5% yoy, which is the result of a 12.7% yoy increase in revenues

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of state budget-financed institutions and a 0.4% yoy increase in revenues of local budget-financed institutions, together compensating for the 1.5% yoy decline in revenues of self-financed institutions.

Consolidated general government expenditures reached EUR 11.682 billion or 8.2% of GDP in Q1 2013. This is a 4.4% yoy increase. The wage bill grew by 19.9% yoy thanks to an increase in wages in the public sector. Expenditures on goods and services were up by 11.3% yoy thanks to increased payments of arrears by local authorities and the National Health Fund. There were also almost identical increases in interest payments and in subsidies (14.0% yoy and 13.9% yoy, respectively). Finally, investment expenditures, including capital investments and related development programs financed from both domestic and external sources, reached EUR 1.368 billion, which was equal to 0.96% of GDP.

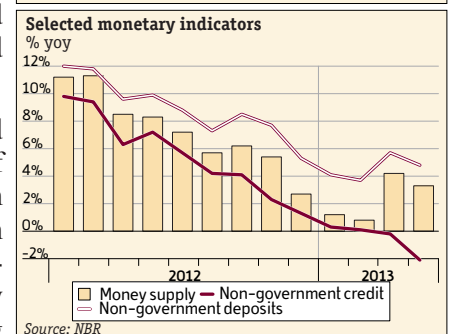
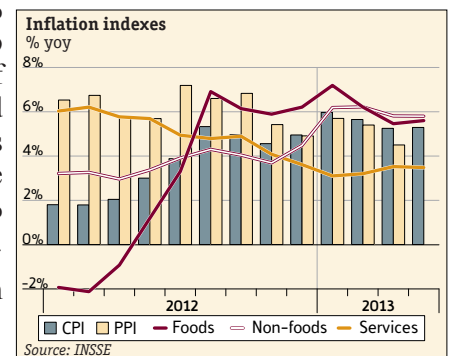
### Monetary Policy

Consumer inflation accelerated insignificantly to 5.29% yoy in April after a 0.4% yoy decrease in March to 5.25% yoy. Growth of food goods' prices accelerated to 5.60% yoy compared to 5.46% yoy a month ago. Changes in growth of prices of non-food goods and services were insignificant. In particular, prices of non-food goods grew by 5.80% yoy in April compared to 5.81% yoy in March, while prices of services increased by 3.48% yoy compared to 3.52% yoy a month ago. From the beginning of the year, consumer inflation reached 1.83% mainly because of 2.57% inflation in the sectors of non-food and food goods (2.57% and 1.48%, respectively).

Annual adjusted inflation CORE2 inflation rate remained unchanged at 3.0% in March.

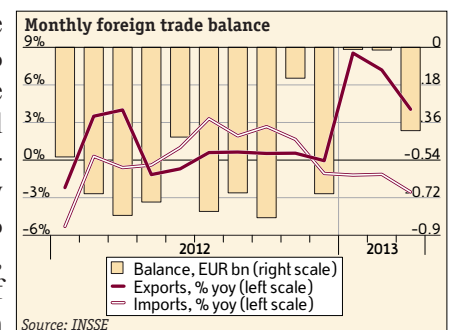
At the end of April 2013, broad money (M3) inched up by 0.2% mom and reached EUR 52.212 bln. The year-over-year increase was more significant and amounted to 3.3%, although this was a bit lower than the one observed in March (4.2% yoy).

The total volume of loans granted to the private sector by credit institutions continued to decline in April. It went down by 1.8% mom to EUR 50.881 from the end of March due to a 0.5% mom decrease in RON-denominated loans and a 2.5% mom decrease in foreign currency-denominated loans expressed in RON, or a 0.4% mom decrease in foreign currency-denominated loans expressed in EUR. As for the year-over-year comparison, the total volume of loans to the private sector decreased by 2.1%. This was the result of the 3.8% increase in RON-denominated loans being overwhelmed by a 5.4% yoy decrease in foreign currency-denominated loans expressed in RON (or a 3.8% decrease in foreign currency-denominated loans expressed in EUR).



### International Trade and Capital

Preliminary estimates show that foreign trade performance continued to deteriorate in March 2013. In particular, growth of FOB exports further decelerated from 4.6% mom observed in February to 3.4% mom, while growth of CIF imports, on the contrary, accelerated from 2.0% mom to 12.1% mom. Total FOB exports were equal to EUR 4.005 bln and total CIF imports to EUR 4.573 bln. However, in year-over-year terms, deterioration was more significant. FOB exports decreased by 1.4% yoy compared to a 10.0% yoy increase in February, while CIF imports grew by 5.0% yoy compared to a 1.3% yoy increase a month ago. Data for the first quarter proves, however, that despite some deterioration over the last two months, performance of foreign trade was better compared than for the corresponding period last year. In particular, from the beginning of the year and by the end of Q1 2013, FOB exports reached EUR 11.579 bln, which is a 5.6% yoy increase. At the same time, CIF imports decreased by 1.1% yoy during the period. As for the commercial balance of foreign trade, it was definitely higher in March compared to February. The FOB-CIF commercial deficit of foreign trade in goods was equal to EUR 567.6 mln, which was 2.7 times higher than a month ago. But at the same time,





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this deficit was EUR 182.4 mln, or 23.12% yoy lower, in year-over-year terms. The FOB-CIF commercial deficit of trade in goods for the first quarter of 2013 was also lower in year-over-year terms. It was equal to EUR 1.073 billion, which is a 37.6% yoy decline.

The share of EU Member States in total foreign trade of goods for Romania did not change dramatically over January-March 2013. In particular, the share of goods exported to the EU remained almost unchanged at 70.8% (70.7% over January-February). At the same time, the share of imported goods from the EU to Romania increased to 76.2% from 75.5% observed in January-February.

Even though the current account balance remained positive as of the end of March, its value continued to decrease. In particular, the current account surplus was equal to EUR 69 mln, compared to EUR 327 mln a month ago. However, this was still an improvement compared to the current account balance for the same date last year, as the current account balance was in deficit of EUR 796 mln as of the end of March 2012. Such progress was achieved thanks to the decrease in deficit of foreign trade in goods by EUR 640 mln to EUR 399 mln, which was supported by a decrease in the income account deficit by EUR 347 mln to EUR 321 mln and a EUR 153 mln surplus in foreign trade in services compared to a EUR 79 mln deficit last year.

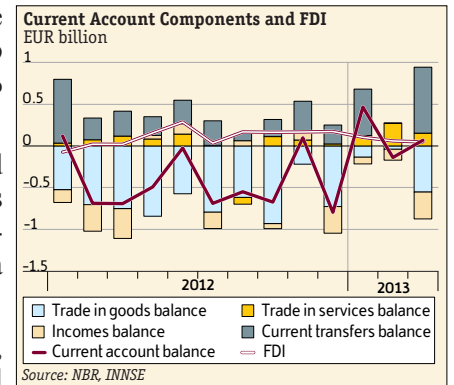
Inflows of FDI continued to decline as non-residents invested just EUR 48 mln in March 2013 compared to EUR 60 mln in February and EUR 103 mln in January. The total amount of FDI for Q1 2013 was 41.39% lower than the amount for the corresponding period last year.

Romania's total external debt inched up by 0.7% in March, mostly because of an increase in short-term external debt. In particular, medium- and long-term external debt stayed almost unchanged at EUR 80.784 bln, which is a 0.03% mom increase. The share of medium- and long-term external debt within total external debt declined from 80.5% observed in February to 79.9%. Short-term external debt grew by 3.47% to EUR 20.303 bln, which was the first increase in the last couple of months. Correspondingly, the share of the short-term external debt increased from 19.5% of total external debt to 20.1%.

Romania's foreign exchange reserves inched up by 0.63% mom in April and amounted to EUR 32.411 bln as of April 30<sup>th</sup>. Foreign exchange reserve inflows were equal to EUR 924 mln 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. At the same time, foreign exchange reserve outflows amounted to EUR 721 mln and represented mainly changes in the foreign exchange reserve requirements of credit institutions and payments of interest and principal on foreign currency public debt. The gold stock remained unchanged in terms of weight for one more month at 103.7 tonnes in April. However, it decreased by 10.12% in terms of value to EUR 3.755 bln. As a result, the total international reserves of Romania inched down by 0.6% mom to EUR 36.166 bln in April.

### Other Developments Affecting the Investment Climate

During May the government continued with the privatization process of CFR Marfa (rail freight transport). Three offers were received, from Omnitrax (USA), Grup Feroviar Roman (GFR, Romania) and the Transferoviar Grup (Romania) - Donau Finanz GmbH & Co KG Austria association. All the offers were rejected as they were considered incomplete by the privatization commission. The privatization process was restarted, with bids allowed from companies with a EUR 20 mn turnover, down from EUR 100 mn in the initial privatization attempt. The privatization price was maintained at RON 798 mn (EUR 180 mn), the government intending to sell 51% of the company. In the second privatization attempt, the same three companies submitted offers, and all were accepted to the second stage of the privatization process, the negotiation.



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