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- Industrial production grew by 10.6% yoy in October 2013.
- The consolidated budget deficit reached 1.56% of GDP at the end of November 2013.
- Consumer inflation decelerated to 1.83% yoy in November 2013.
- The foreign trade deficit reached EUR 611 million in January–October 2013.
- The current account deficit expanded to EUR 955 million at the end of October 2013.

Executive Summary

Growth of industrial production accelerated to 10.6% yoy in October, as high growth in manufacturing was supported by double-digit growth in the energy sector. Mining and quarrying continued to decline during the month but at an accelerated rate. Trade and services grew at the same rate as a month ago despite a 5.0% yoy drop in services to the population.

A balanced fiscal policy allowed the government to keep the consolidated general budget deficit within the target levels in January–November 2013. Deceleration in growth of budget revenues was compensated for by deceleration in growth of expenditures. The government managed to preserve growth of the major tax and non-tax revenues, but a growing wage bill and payment of the budget institutions’ arrears put some pressure on the government in order to meet the budget deficit target.

Consumer inflation continued to decelerate on the back of decreasing food prices. Total consumer inflation totaled 1.83% yoy in November, despite some acceleration in non-food goods prices and prices of services.

The National Bank of Romania lowered the policy rate, which transferred rather slowly into a decline in commercial rates on national currency loans in November. Therefore, progress in stimulation of national currency lending is rather moderate. The volume of RON-denominated loans increased for the second month in a row, but the level of growth decelerated to 1.4% yoy. The volume of forex-denominated loans continued to decline at rates much higher than the rate of growth of volume of national currency loans. Therefore, total non-government loans declined in November.

High demand for Romanian goods supported the upward trend of Romanian exports in October. At the same time, the slow growth of imports helped keep the trade deficit at its lowest level over the last couple of years. In particular, in January–October 2013, the total foreign trade deficit remained around one tenth of the amount registered over the same period in 2012. Good performance in foreign trade helped restrain the current account deficit, which is actually being fed by a growing deficit of the income account. The income account deficit grew by a quarter in one month. As a result, the current account deficit also expanded significantly. However, it still remained at a level much lower than that of the same period last year.

Economic Growth

Growth of industrial production remained at double digits level for the second month in a row in October. The total increase in the sector accelerated to 10.6% yoy from 10.0% yoy observed a month ago. The acceleration was mainly attributed to faster growth in the energy sector, which overwhelmed the accelerated decline in mining and quarrying. In particular, growth of electricity, gas, steam, and air conditioning supply was equal to 11.1% yoy, which is 9.1% higher than a month ago. At the same time, mining and quarrying dropped 2.5% yoy in October, which is 1.4% more than in September. The reasons for such an increase in the energy sector are larger produc-
tion of electricity by wind power stations and early supply of heating caused by unusually cold weather during the month. As for manufacturing, its growth remained almost unchanged at 11.2% yoy in October. This high growth was supported by robust year-over-year growth rates of such sectors as food industry, transport means, and electrical equipment. Thanks to strong monthly performance of industrial production in October, the total growth of industrial production accelerated to 7.4% yoy in January-October, compared to 7.0% yoy in January-September. Manufacturing was still the sector making the largest contribution to this growth with its 8.8% yoy increase over the period. Growth of mining and quarrying decelerated to .6% yoy, while the energy sector improved its performance, declining by 2.5% yoy compared to a 3.9% decline observed over January-September.

In October 2013, the trade and services sector maintained its growth at around 2% yoy, which a level first observed a month ago. This growth was generated by trade alone. Durables grew by 2% yoy on the back of an increase in sales of food. Non-durables, in turn, grew by around 4% yoy thanks to information technology and communication sector performance, which offset the deceleration registered in sales of furniture, appliances and motor vehicles. In particular, retail trade grew by 2.2% yoy on the back of a 3.5% increase in sales of non-food products, a 2.4% increase in sales of food, beverages, and tobacco. Retail sales of motor vehicle fuel in specialized shops remained almost flat. Dynamics of market services to households once again returned to negative territory. The total volume of services provided to the population declined by 5.0% yoy in October after a 1.5% yoy increase a month ago. Decelerated growth in the hotels and restaurants sector (1.5% yoy) supported by high growth in textile and fur products cleaning services (9.0% yoy) could not compensate for declines in other subsectors.

**Fiscal Policy**

The consolidated general budget deficit expanded in November but remained within the limits agreed with international organizations. The total deficit increased by almost 30% in one month and reached RON 9.8 billion (EUR 2.2 billion) in January-November 2013. This is 1.56% of GDP or 0.35% higher than a month ago. At the same time, the budget primary balance declined to 0.1% of GDP.

Even though the government managed to preserve dynamics of almost all tax and non-tax revenues at levels observed one month ago, growth of the total consolidated general budget revenues slightly decelerated to 4.1% yoy in January-November 2014. Total revenues reached RON 182.6 billion (EUR 41.084 billion) or 29.2% of GDP. Growth of revenues decelerated only for corporate profit tax and the VAT among all the tax revenues at the state level. In particular, growth of corporate profit tax revenues decelerated to 1.2% yoy in January-November (1.5% yoy in January-October), while growth of VAT revenues decelerated to 4.0% yoy (4.2% yoy). In contrast, in January-November, personal income tax revenues and excise tax revenues grew at the same or higher rate than observed in October at 7.9% yoy and 3.4% yoy, respectively. Revenues from dividends, use tax on goods, and selling emissions certificates were much larger compared to those for the same period of the previous year. Together they generated an additional RON 1.227 billion (EUR 276 million) of budget revenues compared to January-November 2012. At the local level, growth of revenues continued to decelerate in November. In particular, growth in property tax revenues remained the same as in January-October at 6.2% yoy, while growth of non-tax revenues decelerated from 4.6% yoy to 4.2% yoy.

Government managed to restrict growth of its expenditures over eleven months of 2013. The total general government expenditures grew by 3.3% yoy, which is almost 1% lower than growth of revenues. At the same time, the total amount of expenditures reached RON 192.4 billion (EUR 43.289 billion) or 30.8% of GDP in January-November. The largest increase among the expenditures was observed in the wage bill at 13.6% yoy due to mentioned earlier increases in wages in line with the policy to return them to the pre-crisis level. Spending on goods and services expanded by 11.3% yoy mainly due to legislative measures aimed at ensuring payment of arrears of budget organizations at state and local levels. Total investment expenditures, which include capital expenditure and the related development programs financed from internal and external sources, grew by almost 12% in one month and reached RON 25.3 billion from

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**Consolidated budget balance**

- **2012**: -2.5% of GDP
- **2013**: -2.2% of GDP

**Source**: Ministry of Public Finance of Romania
the beginning of the year (4.05% of GDP).

Monetary Policy
Consumer inflation further decelerated in November 2013, driven by continuous deflation in the food goods sector. In particular, prices of food goods declined by 1.77% yoy over the reporting month. This was enough to compensate for some acceleration of prices in non-food goods and services sectors. Moreover, the mentioned deflation led also to deceleration of total consumer inflation to 1.83% yoy from 1.88% yoy observed in October. It is expected that consumer inflation will remain low because of favorable dynamics of food goods prices, but annual inflation in 2013 will exceed the target level of 3%.

Stimulation of national currency lending brought some positive results, which, although these results were still far from expectations. Growth of RON-denominated loans remained positive for the second month in a row in November. However, it inched down by 0.5% yoy during the month and reached 1.4% yoy. This deceleration was caused by slower growth of corporate sector loans. Anyway, the total volume of RON-denominated loans was still 1.5 times lower than that of forex-denominated loans in November. The latter, however, continued to decline during the month at a rate almost the same as a month ago. Total forex-denominated loans decreased by 7.3% yoy in November. The driving force of the decrease was a decline in corporate loans (-10.4% yoy) but forex household loans also decreased (by 4.0% yoy). Overall, the total volume of non-government loans decreased by 4.1% yoy in November.

Broad money (M3) continued to grow in year-over-year terms in November despite being almost flat in monthly terms. In particular, broad money inched up by 0.5% mom over the reporting month. At the same time, the year-over-year growth accelerated to 6.4% from 6.1% observed in October. However, changes in the structure of broad money are even more interesting. Net foreign assets declined by 10.2% mom in November, which led to a significant decrease in year-over-year growth of net foreign assets (from 124.8% yoy in October to 78.4% yoy in November). At the same time, net domestic assets grew by 5.2% mom in November compared with a 3.2% mom decline a month ago. As a result, the year-over-year decline of the indicator decelerated from 13.8% yoy to 7.5% yoy. The share of net domestic assets within broad money increased to 72.8%.

The effect on the RON/EUR exchange rate of the actions of the National Bank of Romania to stimulate domestic currency lending and exports through lowering of the policy rate once again overwhelmed the effect from strong economic performance of the country. As a result, the trend of gradual RON depreciation continued in December. The exchange rate depreciated by almost 1% to 4.4847 RON per EUR by the end of the month. This is actually the lowest month end exchange rate in 2013.

International Trade and Capital
Foreign trade of Romania continued to improve in October. Major improvements were observed in trade with goods, as growth of exports of goods significantly exceeds that of imports (12.0% yoy vs 0.7% yoy, respectively). As a result, the balance of foreign trade in goods in FOB-FOB terms was more than two times lower in October 2013, compared with the same period of the previous year. More than three fourths of the export dynamics was once again accounted for by machinery and transport equipment, supported by food products and live animals. All the major commodity groups, except for chemical products, registered positive growth rates. As for imports of goods, the major contribution to their growth was made by a commodity category of mineral fuels, lubricants, and related materials. Foreign trade in services posted significant increases in both exports and imports in October. However, growth of imports exceeded that of exports (64.5% yoy compared to 41.7% yoy). The balance of foreign trade in services remained positive though, and was 55% yoy higher in the reporting month. Overall, the balance of foreign trade of Romania was 61.3% yoy lower at EUR 255 million in October. Such good performance in both foreign trade sectors continued the improvement of the foreign trade balance from the beginning of the year. In January-October 2013, the total foreign trade balance remained around one tenth of that registered over the same period last year. The deficit of foreign trade in goods reached EUR 2.911 billion, which is less than half of last year’s deficit for the same period of time. At the same time, the January-October 2013 surplus of foreign trade in services was almost three times larger than last year at EUR 2.3 billion.
Just as in September, the foreign trade deficit was not the major factor of the current account deficit increase, as it was compensated for by the increase in the current transfers surplus. Moreover, the current transfers surplus increase was almost two times higher than the deficit of foreign trade at EUR 564 million. However, the income account deficit expanded by EUR 669 million (24.6%) in one month, which led to a EUR 360 million (60.5%) monthly increase in the current account deficit. On the positive side is the fact that the current account deficit as of October 31st, 2013 was 82.09% lower than on the same date of 2012.

Inflows of foreign direct investment (FDI) in October were almost two times higher than the average inflows over the first nine months of the year. They were equal to EUR 319 million. This helped slightly improve the overall dynamics of FDI in 2013. Its total amount at EUR 1.816 billion over the first ten months of the year was 8.2% lower, while it was 9.9% lower a month ago. The share of intragroup loans dropped 6.4% and reached 26.5%. The share of equity stakes consolidated with the estimated net loss, in turn, expanded to 73.5%.

The total external debt of Romania stayed almost unchanged in October compared to September. The insignificant increases were observed in both medium- and long-term exchange debt and short-term external debt. In particular, medium- and long-term external debt inched up by 0.54% due to an increase in direct public debt, while the increase in short-term external debt was even lower. Total medium- and long-term external debt reached EUR 79.571 billion, which is 80.39% of the total external debt of the country. The short-term external debt totaled EUR 19.415 billion at the end of October, which is 19.61% of the total external debt of Romania.

After two months of increase, Romanian foreign exchange reserves dropped 6.2% mom in November 2013. The major reason for this was significant interest and principal payments on foreign currency public debt. Romania repaid interest and principal instalment on the IMF loan. The share of the National Bank of Romania was equal to EUR 814 million, while the share of the Ministry of Public Finance amounted to EUR 165 million. Additionally, the country repaid the euro denominated bond issued by the Ministry of Public Finance. The total payment, including interest, amounted to EUR 1.379 billion. Taking into account changes in the foreign exchange reserve requirements of the credit institutions, the total foreign exchange reserve outflows reached EUR 3.005 billion in November. At the same time, the foreign exchange reserve inflows amounted just to EUR 857 million over the month and represented, mainly, changes in the foreign exchange reserve requirements of the credit institutions, inflows to the European Commission’s account, and inflows to the accounts of the Ministry of Public Finance. The gold stock still remained unchanged in terms of weight but its value declined by 6.2% because of the detrimental effect of the international prices of gold and reached EUR 3.052 billion. As a result, the total international reserves of Romania decreased by 6.2% in one month and were equal to EUR 35.466 billion as of November 30th, 2013.

Other Developments Affecting the Investment Climate