

December 2015

Radu Mihai Balan, Edilberto L. Segura

- Q3-2015 GDP expanded by 3.6 yoy.
- Industrial output remained flat yoy in October 2015.
- The consolidated budget surplus increased to 1.28% of GDP during January-October 2015.
- Inflation remained negative at -1.1% in November 2015, due to the food products VAT cut in June 2015.
- The foreign trade deficit stood at EUR 879 million in October 2015, up from EUR 567 million a year ago.
- The current account deficit increased to EUR 906 million during January-October 2015, up from EUR 490 million a year ago.

Executive Summary

Q3-2015 GDP expanded at 3.6% yoy, based on increased final consumption expenditure of households, putting the first nine months economic growth at 3.7% yoy.

Industrial output remained flat yoy in October, expanding 2.7% yoy during the January-October 2015 period.

The consolidated budget surplus expanded to 1.28 % of GDP, or RON 9.0 billion (EUR 2.0 billion) during the first ten months of the year. Starting 2016, the standard VAT rate will be reduced to 20%, down from the current value of 24%. We expect the change to have a significant impact on the budget deficit, inflation and economic growth.

Inflation remains negative, at -1.1% yoy in November 2015, due to the food products VAT cut to 9%, down from the 24% standard rate back in June 2015. For bread products, the VAT was cut to the 9% rate in 2013.

The foreign trade deficit reached EUR 879 million in October, up from EUR 567 million a year ago, with imports growth continuing to expand faster than exports.

The current account deficit increased to EUR 906 million for the first ten months of 2015, up from EUR 490 million in the previous year.

Main Macroeconomic Indicators	2010	2011	2012	2013	2014
GDP growth, % yoy	-0.8	1.1	0.6	3.4	2.8
GDP per capita, EUR	6,300	6,600	6,700	7,200	7,600
Industrial production, % yoy	5.5	5.6	0.0	7.8	6.1
Retail sales, % yoy	-5.3	-2.5	2.9	0.5	7.0
Budget balance in cash methodology, % GDP	-6.2	-4.2	-2.5	-2.5	-1.9
Government debt, % GDP	29.9	34.2	37.3	38.0	39.6
Inflation, eop	8.0	3.1	5.0	1.6	0.8
Gross international reserves, EUR billion	36.0	37.3	35.4	35.4	35.5
Current account balance, % GDP	-4.6	-4.6	-4.5	-0.8	-0.4
Gross external debt, % GDP	72.9	74.1	74.5	68.0	62.6
Unemployment (ILO methodology), % eop	6.9	7.2	6.8	7.1	6.6
Exchange rate RON/EUR, annual average	4.2	4.2	4.5	4.4	4.4

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Economic Growth

The economy expanded 3.6% yoy during Q3-2015, while for the first nine months of the year the increase was 3.7% yoy.

The economy showed the influence of the cut in the food and drinks VAT quota, having positive effects on both the resource side of GDP, with increases in trade, and on the use side, with increases in the final consumption expenditure of households. The VAT for foods and beverages, other than already reduced bread products, was cut to 9% in June 2015, down from the standard 24%, on the back of an already recovering retail trade during the year. Looking forward, consumption should remain an important growth factor in 2016, as the standard VAT rate for 2016 was cut to 20%, down from 24%.

On the resources side, two sectors contributed 1.9% of the 3.6% yoy Q3-2015 growth. Trade and services expanded 8.9% yoy, contributing 1.3% to economic growth. Information technology and communications increased 11.7% yoy during Q3-2015, contributing 0.6% to total economic growth during the quarter.

On the use side, final consumption expenditures of households increased 6.6% yoy during Q3-2015, contributing 3.8% of the total economic growth during the quarter. Gross fixed capital formation increased 4.2% yoy, contributing another 1.1% to the economic growth of the quarter. Both the change in inventories and net exports had a negative contribution during the quarter, of -1.0% and 0.8% respectively.

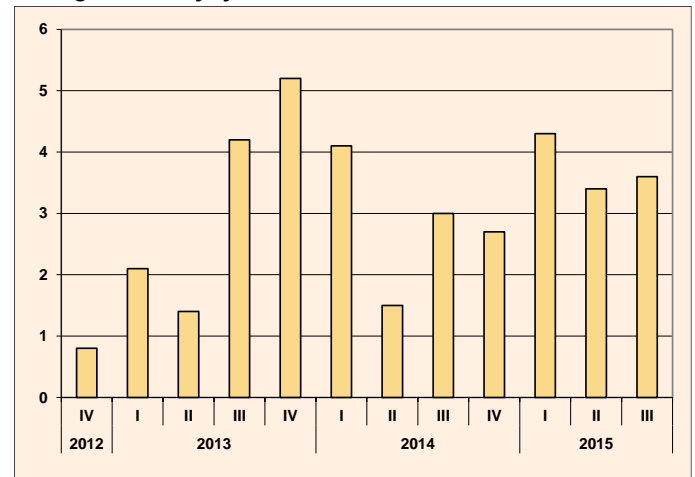
Industrial output remained flat in October compared with the previous year, as mining and quarrying continues to decline, losing 22.7% yoy, while manufacturing increased by a moderate 0.6% yoy and utilities expanded 3.3% yoy. For the first ten months of 2015, industrial production expanded 2.7% yoy.

During October, the food industry expanded 5.6% yoy, benefitting from the positive effects of the food and drinks VAT cut, while vehicles production expanded 12.0% yoy. On the negative side, oil refining and coke production dropped 18.8% yoy, the chemical industry lost 26.6% yoy and metallurgy declined 6.8% yoy.

Unemployment stood at 6.8% in October, moving down 0.1% from the review September unemployment rate.

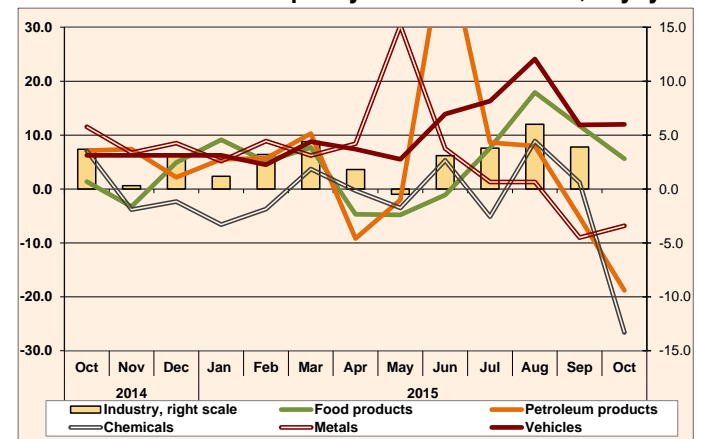
Retail trade increased 11.1% yoy in October due to the 23.8% yoy jump in the food, beverages and tobacco sales in the aftermath of the VAT rate cut in June 2015. Nonfood sales and fuel sales also increased by 3.3% and 8.6% yoy, respectively.

GDP growth, % yoy



Source: INSSE, The Bleyzer Foundation

Growth of industrial output by selected branches, % yoy



Source: INSSE, The Bleyzer Foundation

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Fiscal Policy

The consolidated budget surplus widened to RON 9.0 billion (EUR 2.0 billion) or 1.28% of GDP over the first ten months of 2015, up from 0.87% of GDP during the first nine months.

Consolidated budget revenues during January-October 2015 reached RON 191.6 billion (EUR 43.2 billion) increasing 7.9% yoy. The VAT tax remains the largest contributor to revenues, with RON 47.9 billion (EUR 10.8 billion) over the first ten months of the year, or 25% of consolidated budget revenues. VAT revenues increased 11.8% yoy during the first ten months of the year, in spite of the cut in the food and beverages rate in June 2015. The VAT rate for food and beverages, other than bread products, was reduced to 9%, down from the standard 24%. Starting January 2016, the VAT tax will be changed again. The standard rate will be reduced to 20%, down from 24%, affecting the largest budget revenue contributor.

Consolidated budget expenditures stood at RON 182.6 billion (EUR 41.1 billion), increasing 4.0% yoy. Social security expenditures, the largest expenditure item, reached RON 62.6 billion (EUR 14.1 billion), increasing 6.5% yoy. Personnel expenditures of RON 42 billion (EUR 9.5 billion) increased 5.4% yoy over the first ten months of the year. Capital expenditures of RON 9.2 billion (EUR 2.1 billion) declined by 13.9% yoy during the period.

Monetary Policy

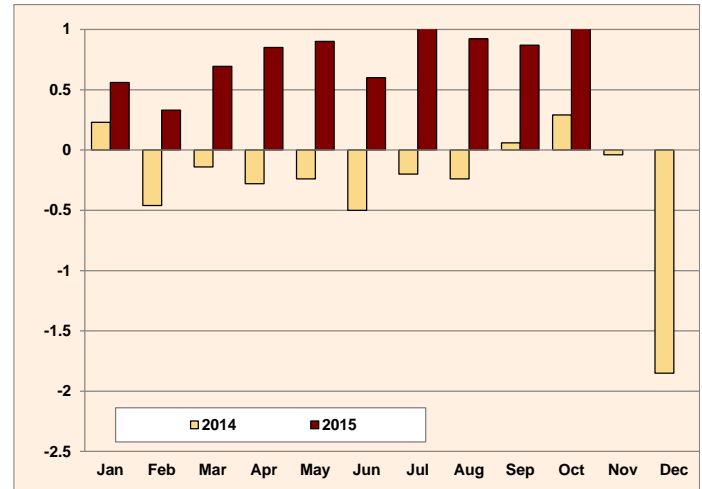
In November, the consumer price index (CPI) continued to be negative at 1.1% yoy, due to the food price decline of 6.2% yoy, resulting from the food and beverages VAT rate cut. Non-food and service prices increased 1.5% yoy and 2.3% yoy, respectively, during the month.

Non-government loans inched up 0.3% yoy in October 2015, reaching RON 214.4 billion (EUR 48.4 billion), as the divergent trend between domestic and foreign currency loans remains. Domestic currency loans increased 16.7% yoy, while foreign currency loans declined 12.3% yoy.

Non-government deposits increased 7.3% yoy, to RON 233.7 billion (EUR 52.7 billion), with both domestic currency and foreign currency deposits increasing at similar rates, of 7.1% yoy and 7.4% yoy, respectively.

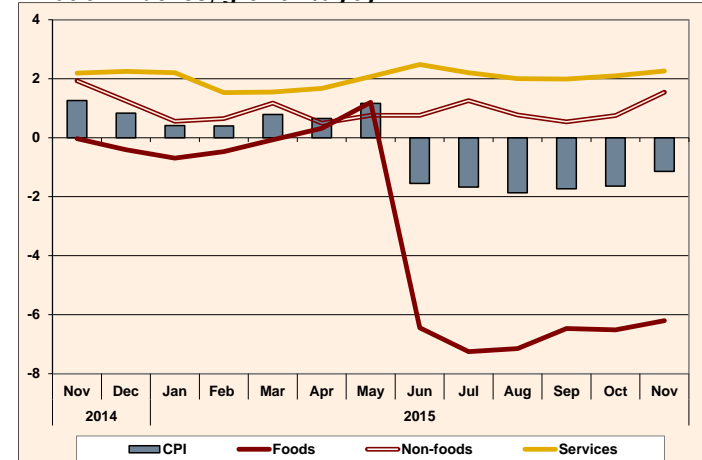
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Consolidated budget balance, % of GDP



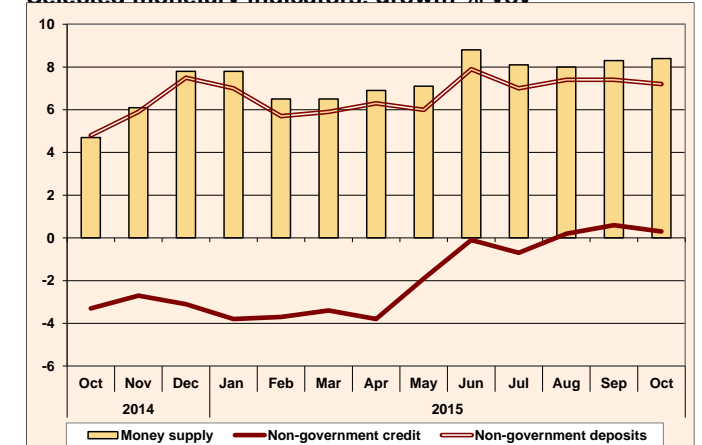
Source: Ministry of Public Finance of Romania

Inflation indexes, growth % yoy



Source: INSSE, The Bleyzer Foundation

Selected monetary indicators, growth % yoy



Source: NBR

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Broad money expanded 8.4% yoy in October, with net foreign assets expanding 19.1% yoy, while net domestic assets increased at a lower 1.6% yoy.

International Trade and Capital

The October 2015, the foreign trade deficit increased to EUR 879.1 million, up from EUR 567.4 million a year ago. For the first ten months of the year, the FOB-CIF trade deficit increased to EUR 6.4 billion, up 32% yoy. The trend of increasing trade deficits is underlined by imports growth of 6.7% yoy in October, above the 1.2% yoy in exports.

The current account posted a EUR 906 million deficit during the first ten months of 2015, up from EUR 490 million during the same period of the previous year. The FOB-FOB trade deficit stood at EUR 5.8 billion, almost balanced by the services surplus of EUR 5.6 billion during the period. The primary income deficit increased to EUR 3.1 billion during January-October 2015, up from EUR 2.3 billion during the previous year, while the secondary income surplus increased to EUR 2.3 billion during January-October 2015, up from 1.4 billion during the previous year.

Net direct investments during January-October 2015 stood at EUR 2.6 billion, up from EUR 2.5 billion in the same period of last year.

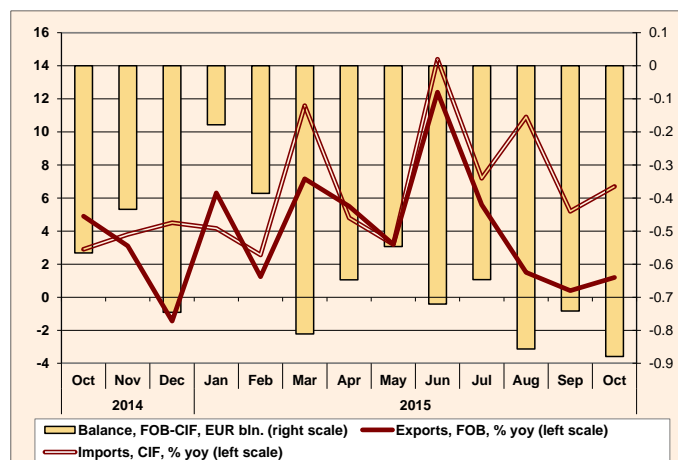
Romania's total external debt at the end of October 2015 stood at EUR 90.5 billion, down from EUR 94.7 billion at the end of 2014. Public and publicly guaranteed debt also declined to EUR 31.8 billion at the end of October 2015, down from EUR 32.8 billion at the end of 2014.

International reserves at the end of November 2015 stood at EUR 35.5 billion, out of which EUR 32.1 billion were foreign exchange reserves and EUR 3.4 billion was the value of the gold reserves.

Other developments

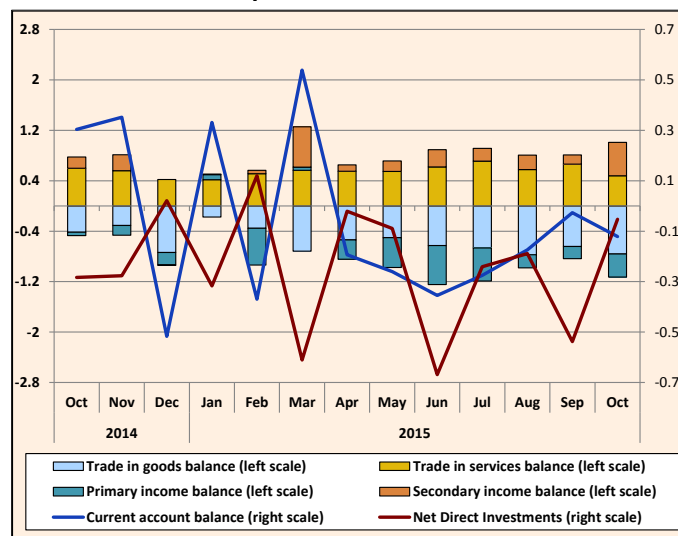
In December, Moody's rating agency changed the outlook on Romania's rating to positive, up from stable, and affirmed the rating. Moody's rates Romanian government bonds investment grade, at Baa3. The main drivers for the positive outlook were progress in correcting macroeconomic imbalances on the back of a favorable growth outlook, and considerable fiscal consolidation leading to debt level stabilization.

Monthly foreign trade balance



Source: INSSE

Current account components and FDI, EUR billion



Source: NBR

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