

June 2013
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- **Industrial production grew by 18.9% yoy in April 2013.**
- **The consolidated budget deficit reached EUR 1.71 bln or 1.2% of GDP at the end of April 2013.**
- **Consumer inflation accelerated to 5.32% yoy in May 2013.**
- **The FOB-CIF commercial deficit for goods decreased by 35.45% yoy in April 2013.**
- **The current account balance remained in surplus of EUR 54 mln at the end of April 2013.**

Executive Summary

Industrial production increased in both monthly and year-over-year terms in April, but growth in monthly terms was much lower. The increase was stimulated by good performance of manufacturing and mining and quarrying, while electricity, gas, steam, and air conditioning supply slowed this growth down a bit, especially in year-over-year terms. Total industrial production grew by 1.9% mom and by 18.9% yoy in April. Retail trade registered growth in monthly terms for the first time in the last couple of months. It grew by 2.0% mom, which helped reverse its trend in year-over-year terms (it grew by 2.7% yoy compared to 3.6% yoy drop a month ago).

Romania's general government deficit of January-April 2013 remained within the target levels agreed with international financial institutions, despite its significant growth in April. In particular, the deficit grew to EUR 1.71 bln, which was 1.2% of GDP, from EUR 955 mln observed at the end of March.

Consumer inflation insignificantly accelerated again in May.

It reached 5.32% yoy, which is 0.03% yoy higher than in April. Growth in inflation was stimulated by faster increase in prices of food goods, which accelerated to 6.39% yoy. Growth in prices of non-food goods and services, on the other hand, decelerated.

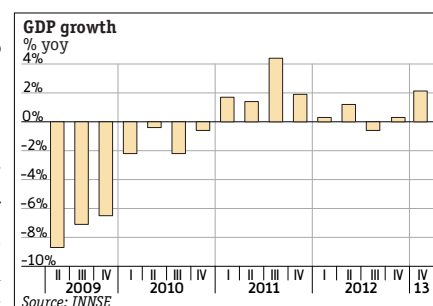
Foreign trade in goods deteriorated further in monthly terms in April. Monthly growth of FOB exports was more than 50% slower compared to March. At the same time, growth of CIF imports decelerated to 2.5% mom, which was still higher than growth of exports. Year-over-year growth of FOB exports of goods was three times higher than that of CIF imports at 15.5%, leading to a significant decrease in the FOB-CIF commercial deficit of foreign trade in goods (35.45% yoy). These positive developments in foreign trade in goods in year-over-year terms, supported by good performance of foreign trade in services and a decline in the income account deficit, improved the current account balance and allowed it to remain positive despite a decrease in surplus of the current transfers account.

	2008	2009	2010	2011	2012	2013
GDP growth, % change yoy	7.1	-6.6	-1.6	2.5	0.2	1.6
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

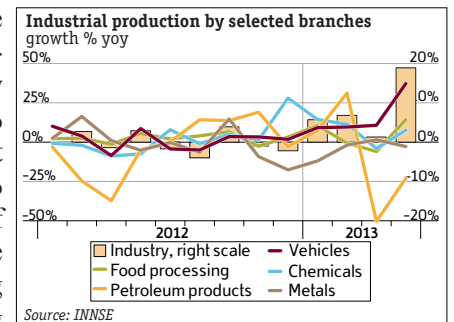
The updated data of the National Institute of Statistics of Romania showed that GDP grew by 2.2% yoy (gross data) and by 0.6% qoq (seasonally adjusted data) in Q1 2013.

Unlike March, monthly growth in industrial production in April was stimulated by manufacturing and by mining and quarrying, while electricity, gas, steam, and air conditioning supply declined. In particular, mining and quarrying grew by 10.6% mom (dropped by 3.4% mom in March) and manufacturing increased by 9.6% mom (by a mere 0.1% mom in March). This allowed total industrial production to grow by 1.9% mom (by 0.3% mom in March) despite a 0.8% mom decline in electricity, gas, steam, and air conditioning supply (5.7% mom increase a month ago). These trends prevailed also in year-over-year terms, as total industrial production grew



June 2013

thanks to increases in manufacturing and in mining and quarrying, which overcame a decline in electricity, gas, steam, and air conditioning supply. However, the year-over-year growth/decline was larger. In particular, total industrial production grew by 18.9% yoy (1.3% yoy in March), manufacturing increased by 21.9% yoy (2.0% yoy), and mining and quarrying by 12.3% yoy (declined by 1.9% yoy in March). At the same time, electricity, gas, steam, and air conditioning supply dropped by 3.2% yoy (3.0% yoy a month ago). Regardless of some ups and downs in the dynamics of industrial production, it grew by a significant 8.2% yoy from the beginning of the year. Manufacturing grew a bit faster at 9.9% yoy during the period, while mining and quarrying a bit slower at 7.3% yoy. Electricity, gas, steam, and air conditioning supply, on the other hand, declined at 4.8% yoy.

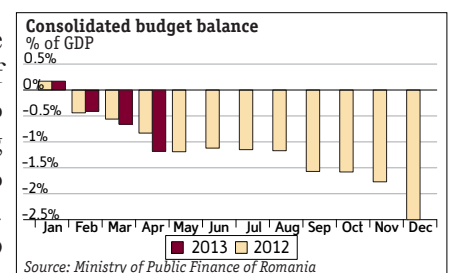


The energy sector continued to improve in April, registering a 1.2% mom increase (in March the increase was 0.9% mom), which helped to decelerate the year-over-year decline to 4.8% compared to 8.2% decrease in the previous month. As for other industrial groupings, the capital goods sector was back on an upward monthly trend with 10.4% growth (4.0% mom decline in March) leading to acceleration of year-over-year growth to 27.8%, compared to a 4.4% increase observed a month ago. Unlike in the previous month, consumer non-durables grew in both monthly and year-over-year terms in April (by 3.1% mom and 16.4% yoy, respectively, compared to a decline of 0.7% mom and 3.3% yoy, respectively). Intermediate goods continued to grow at significant rates. The sector's monthly growth was almost the same as last month at 2.7% (2.9% mom), but year-over-year growth at 20.3% was much higher even than that observed in February (11.6%) not to mention March (5.0%). Consumer durables managed to maintain a high growth rate in year-over-year terms at 25.1%, despite a 1.4% monthly decline (in March, the sector grew at 6.5% yoy and 7.4% mom). As for four months' dynamics, the energy sector was the only one to decline. It dropped by 5.7% yoy in January-April 2013. Among the other sectors, the highest growth was registered in consumer durables at 14.6% yoy, while the lowest in consumer non-durables at 5.5% yoy.

Retail trade grew in monthly terms in April, for the first time in a few months. In total, retail trade grew by 2.0% mom thanks to a 5.1% mom growth in sales of non-food goods and a 2.9% mom increase in retail of motor vehicle fuel in specialized shops. The total retail trade monthly growth could be higher, if not for a 0.3% mom decrease in sales of food, beverages, and tobacco. All the sectors of retail trade showed improvement compared to March, as total retail trade inched down by 0.6% mom, while sales of non-food goods grew by 1.9% mom, retail of motor vehicle fuel inched up by just 0.5% mom, and sales of food, beverages, and tobacco decreased by 1.1% mom. Year-over-year retail trade dynamics reversed its trend again from a 3.6% yoy decline in March to a 2.7% yoy increase in April. This happened despite the fact that only one sector experienced significant growth, while two others registered declines. A 8.5% yoy increase in sales of non-food goods was enough not only to compensate for a 2.5% yoy drop in retail of motor vehicle fuel in specialized shops and a 0.3% yoy decline in sales of food, beverages, and tobacco, but also to generate the mentioned retail trade increase in yoy terms. Non-food goods demonstrated the most significant positive developments with a 3.0% yoy decline in March. Retail of motor vehicle fuel in specialized shops managed to decelerate its decline from 10.8% yoy to the mentioned 2.5% yoy. Sales of food, beverages and tobacco performed worse in April compared to March in yoy terms, as its 0.8% yoy increase turned into a 0.3% yoy decrease. Over the first four months of the year, total retail trade volume inched up by 0.6% yoy, as a 2.6% yoy growth in sales of non-food goods and a 1.1% yoy increase in sales of food, beverages, and tobacco overwhelmed a 3.5% yoy decrease in retail of motor vehicle retail in specialized shops.

Fiscal Policy

Even though Romania's consolidated general budget deficit remained within the limits agreed with the international financial institutions over the first four months of the year, it significantly increased in April. It almost doubled to EUR 1.71 bln or 1.2% of GDP compared to EUR 0.955 bln or 0.67% at the end of March 2013. According to the Ministry of Public Finance, the deficit around 0.2% of the mentioned 1.2% of GDP was attributed to seasonality and the advance payment of wages in April. This effect is supposed to be compensated for in May. However, even adjustment to



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June 2013

this seasonality leaves us with a consolidated general budget deficit of 1% of GDP in January-April 2013, which is still significantly higher than 0.85% of GDP over the same period of 2012.

Consolidated budget revenues amounted to EUR 14.83 bln or 10.4% of GDP over the reporting period. This is a 4.3% yoy increase in nominal terms. Profit tax and social security contributions grew by 11.0% yoy and 5.9% yoy, respectively, after the influence of the latest increases in wages, which took place in February. Revenues from excise taxes expanded by 13% yoy thanks to administrative reforms aimed at improvement of excise tax collection, accompanied by higher excise duty on diesel and exchange rate developments influencing calculation of the excise contributions. Revenues from VAT contributions increased by 6% yoy over the reporting period. At the same time, income tax receipts declined by 3.5% yoy. Revenues from income and property taxes also grew at the local government level, increasing by 9.0% yoy. Payments from the European Union slightly recovered, recording a 10.6% decline over Jan-Apr yoy, while for the first quarter the decline was 33.8%. in terms of GDP percentage, EU payments amount to a mere 0.3% of GDP.

Consolidated general budget expenditures were equal to EUR 16.54 bln or 11.6% of GDP over the reporting period, which is a 7.6% yoy increase. The highest increase was registered in the wage bill at 28.2% yoy because of the increase in wages in February and advance payment of wages for April for some public sector employees. Expenditure on goods and services grew by 8.1% because of acceleration in payment of arrears by the local and national offices of the National Health Fund. As for interest payments on government loans and subsidies, they grew by 9.9% yoy and 13.2% yoy, respectively. Capital expenditures are up 7.6% over the period to EUR 1.22 bln or 0.9% of GDP.

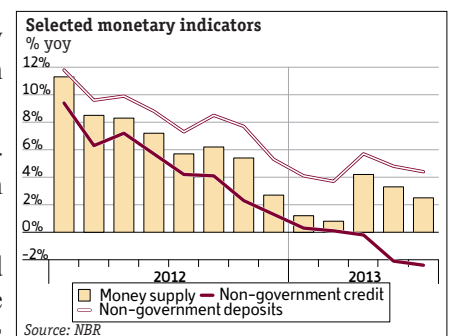
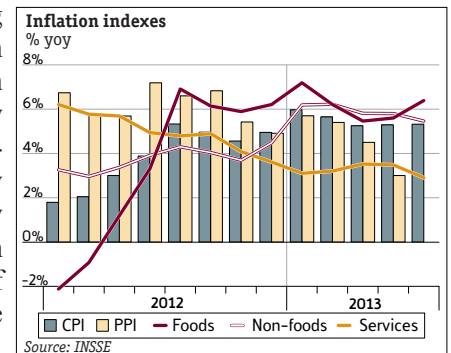
Monetary Policy

Consumer inflation accelerated slightly for the second month in a row, reaching 5.32% yoy in May. This is 0.03 pp higher than a month ago. The major reason for this, just like last month, was acceleration of food price growth, although in May acceleration was more significant. Prices of food goods grew by 6.39% yoy compared to 5.60% yoy in April. At the same time, growth of prices of both non-food goods and services decelerated. In particular, prices of non-food goods grew by 5.46% yoy in May compared to 5.80% in April. As for prices of services, they grew by 2.90% yoy in May, which is 0.58% yoy lower than a month ago. From the beginning of the year, consumer inflation has reached 2.06% mostly because of 2.45% inflation in non-food goods and 2.26% inflation in food goods. At the same time, prices of services inched up by 0.71% from the beginning of the year.

Annual adjusted CORE2 inflation continued to decline in May. It inched down by 0.34% compared to in March and by 0.59% from the beginning of the year to reach 2.66%.

Broad money (M3) inched up by 0.1% mom to EUR 51.62 bln in May. In year-over-year terms, the increase was more significant at 2.5%, which is 0.8% lower than observed a month ago.

The total volume of non-government loans granted by credit institutions increased in monthly terms for the first time in months at the end of May. The growth rate was equal to 0.8% mom, while the total volume of loans to the private sector was equal to EUR 50.61 bln. RON-denominated loans grew by 0.3% mom, while foreign currency-denominated loans grew by 1.0% mom if expressed in RON, but fell by the same 0.3% mom if expressed in EUR. Naturally, such an insignificant monthly increase was not enough to reverse the year-over-year development trend of the total volume of non-government loans. Moreover, the decrease in the volume of loans accelerated to 2.4% yoy from 2.1% yoy observed at the end of April. The decrease in RON-denominated loans was almost the same in relative terms as that observed last month (3.9% yoy compared to 3.8% yoy). At the same time, the decrease in foreign currency-denominated loans accelerated from 5.4% yoy to 5.9% yoy, if expressed in RON, and accelerated from 3.8% yoy to 4.1% yoy, if expressed in EUR.



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International Trade and Capital

Foreign trade in goods continued to deteriorate in monthly terms in April. In particular, FOB exports grew by 2.0% mom to EUR 4.086 bln (3.4% mom in March). CIF imports also grew, although faster, at 2.5% mom to EUR 4.685 bln. However, this was still significantly lower than 12.1% mom growth a month ago. On the other hand, year-over-year performance of foreign trade in goods was much better. In particular, FOB exports grew by 15.5% yoy in April 2013 (declined by 1.4% yoy in March), while CIF imports increased much slower at 5.0% yoy (same as a month ago). Thanks to these developments, the FOB-CIF commercial deficit of foreign trade in goods was 35.45% yoy lower at EUR 599.4 mln in April 2013. As for the January-April 2013 period, FOB exports of goods grew by 7.2% yoy to EUR 15.666 bln, while CIF imports inched up by 0.5% yoy to EUR 17.337 bln. The FOB-CIF commercial deficit of trade in goods decreased by 36.75% yoy to EUR 1.671 bln.

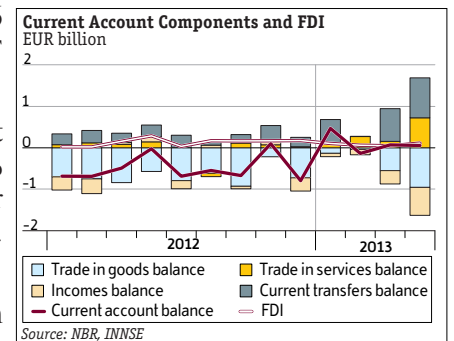
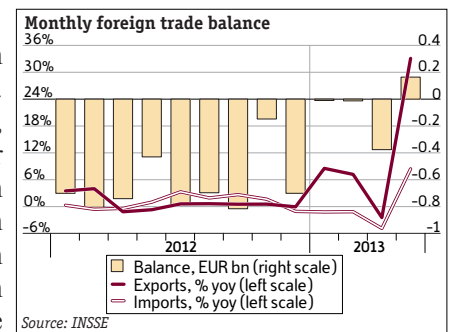
The share of EU Member States in exports of goods from Romania remained almost unchanged. It was equal to 70.7% over January–April 2013 compared to 70.8% in January–March 2013. At the same time, the share of imports from EU Member States to Romania grew more and reached 77.0% compared to 76.2% a month ago. This was the second significant growth of the share in a row.

The current account balance remained positive at the end of April, as it did a month ago. At the same time, the surplus continued to decrease and reached EUR 54 mln compared to EUR 69 mln a month ago. This is still a huge improvement over the same period of the previous year, when the current account was in deficit of EUR 1.534 bln. The main reason was the significant decrease in foreign trade in goods deficit by EUR 975 mln to EUR 956 mln and the positive balance of trade in services of EUR 721 mln compared to the EUR 130 mln deficit last year. The income account deficit decreased by EUR 200 mln to EUR 674 mln which also contributed to improvement of the current account balance in January–April 2013 compared to a year ago. Unfortunately, the current transfers account did not support the general upward trend as its balance declined, though still remaining positive, to EUR 963 mln compared to EUR 1.401 bln a year ago.

Foreign direct investments to Romania amounted to EUR 111 mln in April 2013. This is the highest amount invested in the country in one month from the beginning of the year (previously the maximum monthly FDI was in January at EUR 103 mln) and the first increase in the FDI inflow from the beginning of the year. Overall, from the beginning of the year, non-residents invested EUR 322 mln. This is 34.82% lower than the amount on the same date last year.

Romania's total external debt remained almost unchanged in April as decline in the medium- and long-term external debt compensated for increase in the short-term external debt. In particular, the total external debt amounted to EUR 100.927 bln as the end of April compared to EUR 101.087 bln a month ago. Medium- and long-term external debt inched down by 0.55% mom or EUR 447 mln to EUR 80.337 bln, while short-term external debt grew by 1.41% mom or EUR 287 mln to EUR 20.59 bln. The share of the medium- and long-term external debt in the total external debt of Romania inched down from 79.9% observed at the end of March to 79.6%. Correspondingly, the share of short-term external debt grew from 20.1% to 20.4%.

The foreign exchange reserves of Romania grew by 0.86% in May to reach EUR 32.691 bln. Both foreign exchange reserve inflows and outflows almost doubled compared to the numbers of the previous month. In particular, foreign exchange reserve inflows amounted to EUR 1.617 bln (EUR 924 mln in April) and represented mainly changes in the foreign exchange reserve requirements of credit institutions, inflows into the European Commission's account, and inflows into the account of the Ministry of Public Finance of Romania. As for the foreign exchange reserve outflows, they reached EUR 1.337 bln (EUR 721 mln in April) and represented mainly changes in the foreign exchange reserve requirements of credit institutions and payments of interest and principal on foreign currency public debt. In particular, the National Bank of Romania and the Ministry of Public Finance of Romania paid the sixth and seventh principal instalment and interest on the IMF loan. The share of payments of the former was EUR 846 mln, while the share of the latter was EUR 172 mln.



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The gold stock has still remained unchanged in terms of weight at 103.7 t. At the same time, the international price of gold continued to decline in May, which devaluated the gold stock of Romania by 3.56% mom to EUR 3.621 bln. Overall, the total international reserves of Romania inched up by 0.4% to EUR 36.312 bln as of May 31st 2013.

Other Developments Affecting the Investment Climate

In June Romania completed the second Stand By Agreement with the IMF, following the last two reviews of the country's performance. The agreement, approved in 2011 was treated by the Romanian authorities as precautionary, as they not intended to draw the EUR 3.6 bn available. In completing the reviews, the IMF Board approved three waivers for the nonobservance of the performance criteria on net foreign assets by BNR, general government balance and central government arrears.

During June the privatization commission announced that Grup Feroviar Roman (GFR) has won the privatization for the CFR Marfa, the national freight railway company. GFR offered EUR 202 mn for 51% of CFR Marfa, to be paid in full and pledged investments of RON 900 mn (EUR 202 mn). The deal still needs the Competition Council approval. Initially, there were three bidders in the CFR Marfa privatization: GFR (declared winner), Transferoviar Grup & Donau Finanz GmbH & CoKG and the US company Omnitrix, but the last two withdrew from the process accusing an incorrect privatization process.

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