Romania Macroeconomic Situation

April 2015

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- **GDP expanded by 2.9% yoy in 2014, reaching EUR 150.7 billion.**
- **Industrial output expanded 1.2% yoy in January, slowing down from 3.1% yoy in December.**
- **The consolidated budget deficit posted a 0.33% of GDP surplus over the first two months of the year.**
- **The consumer price index stood at 0.40% yoy in February 2015, inching down from 0.41% in January.**
- **The January foreign trade deficit stood at EUR 176.4 million, with export growth outpacing imports.**
- **The current account posted a EUR 554 million surplus in January 2015, up from EUR 252 million a year ago.**

Executive Summary

The Romanian economy expanded by 2.9% during 2014 reaching RON 669.5 billion (EUR 150.7 billion). On the resources side, the main contributors to growth were industry and information and technology, expanding 3.5% yoy and 11.0% yoy, respectively. On the uses side, final consumption expenditures of households were the main growth driver, expanding 4.9% yoy. Gross fixed capital formation lost 3.6% during the year, but in Q4-2014 broke the declining trend posting a 1.4% yoy increase.

Industrial output expanded 1.2% yoy in January 2015 slowing down from 3.1% yoy in December 2014. Manufacturing expanded 2.5%, while mining and quarrying declined 3.8% yoy and utilities lost 7.3% yoy.

The consolidated budget posted a 0.33% of GDP surplus over the first two months of the year, amounting to RON 2.3 billion (EUR 0.52 billion). The surplus is due to a 10.9% yoy increase in revenues, and a 6.2% yoy decline in expenditures. The Fiscal Council noted that the high growth rate in revenues is due to the temporary effect of the payments in advance of VAT refunds at the end of 2014, amounting to RON 1.5 billion (EUR 0.34 million).

The consumer price index stood at 0.40% yoy in February 2015, inching down from 0.41% yoy in January. The low inflation is due to declining food prices and a moderate increase in non-food and services prices.

The foreign trade deficit for January reached EUR 176.4 million. Exports increased 6.4% yoy, helped by the good performance of transport equipment and vehicles and manufactured products, while imports increase at a lower 4.1% yoy, helped by a decline in fuel and lubricants imports.

The current account balance posted a EUR 552 million surplus in January 2015, improving over the EUR 252 million surplus over year ago.

Main Macroeconomic Indicators	2010	2011	2012	2013	2014
GDP growth, % yoy	-0.8	1.1	0.6	3.4	2.9
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

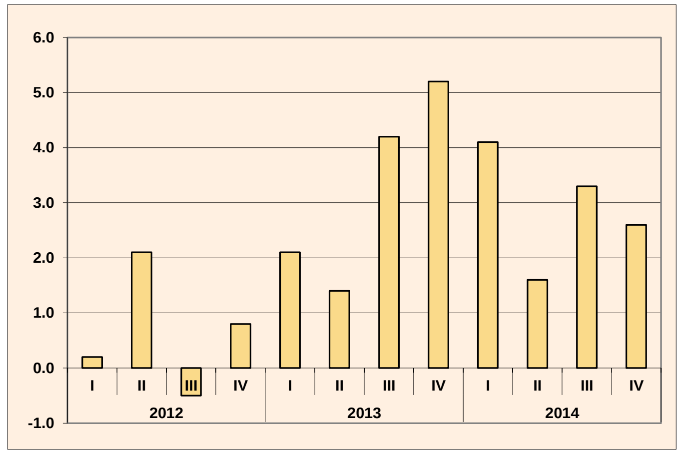
The economy expanded 2.9% in 2014, reaching RON 669.5 billion (EUR 150.7 billion), according to preliminary data released by the INSSE. Q4 2014 GDP increased 2.6% yoy, and 0.5% qoq in seasonally adjusted terms.

During 2014, the largest contributors to the GDP increase, on the resources side, were industry and the information and communication sector. Industry, which accounts for 24.0% of annual GDP, expanded 3.5% yoy during 2014, contributing 0.9% to the total 2.9% GDP increase during the year. The information and communication sector, which accounts for 6.0% of the GDP, expanded 11.0% yoy, contributing 0.6% to the total increase of the economy.

On the uses side, household final consumption expenditure, which accounts for 60.9% of GDP, increased 4.9% yoy, contributing 2.9% to the GDP increase. Gross fixed capital formation declined 3.6% yoy during 2014, having a negative 0.8% contribution to the GDP increase. On the positive side, gross fixed capital formation expanded during Q4 2014 by 1.4% yoy, and had a positive 0.3% contribution to the GDP increase.

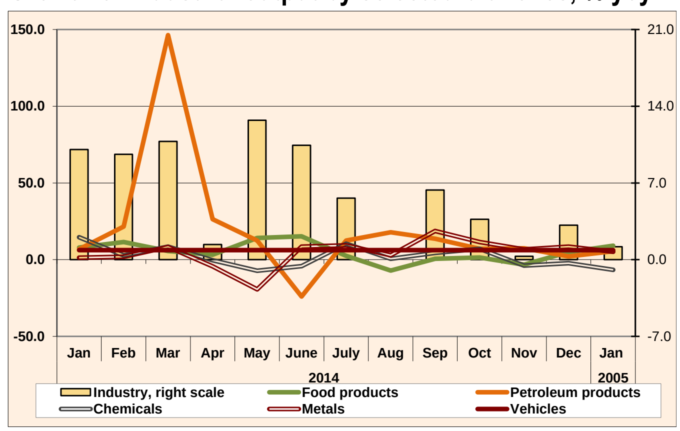
Industrial output decelerated to 1.2% yoy growth in January 2015, down from 3.1% yoy in December 2014. The increase is based on manufacturing growth of 2.5% yoy, while mining and quarrying lost 3.8% and utilities declined 7.3% yoy. Vehicles production increased 8.0% yoy, while metallurgy increased 5.2% yoy and oil refining 5.5% yoy. The chemical industry posted a 6.6% yoy decline following the last two months' trend. The largest manufacturing increases were in computers and optical equipment manufacturing and in the tobacco industry, which expanded 68.4% yoy and 41.3% yoy respectively.

GDP growth, % yoy



Source: INSSE, The Bleyzer Foundation

Growth of industrial output by selected branches, % yoy



Source: INSSE, The Bleyzer Foundation

Retail trade increased 3.3% yoy during February 2015 slowing down from 6.3% yoy growth in January 2015. Food, beverages and tobacco increased 7.0% yoy maintaining the 2014 growing trend. Fuel retail increased 10.8% yoy during February, while non-food retail declined 3.2% yoy.

During January 2015, total automotive sales and services increased 4.6% yoy, mainly based on automotive sales gaining 10.8% yoy and auto repairs expanding 7.0% yoy. Market services to households declined 2.5% yoy in January, as all services to households declined, with the exception of hairdressing and beauty services, which gained 5.4% yoy.

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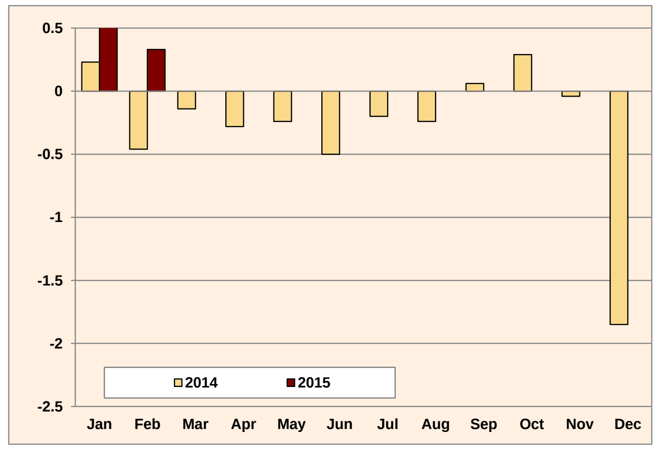
Fiscal Policy

The 2015 consolidated budget execution posted a surplus of 0.33% of GDP or RON 2.3 billion (EUR 0.52 billion) over the first two months. The budget surplus is due to a 10.9% yoy increase in revenues, while expenditures declined 6.2% yoy.

Consolidated budget revenues reached RON 33.8 billion (EUR 7.6 billion) over the first two months of the year, after a 10.9% yoy increase. VAT – which is the largest budget revenue source, amounting to RON 10.0 billion (EUR 2.2 billion) for the first two months of the year – increased 19.5% yoy. According to the Fiscal Council, this high growth rate is mainly due to the temporary effect of the payments in advance of VAT refunds at the end of 2014, amounting to RON 1.5 billion (EUR 336 million). Social security taxes brought RON 8.8 billion (EUR 2.0 billion), declining 4.5% yoy due to a 5% cut in the employer contribution. Income and salary taxes increased 11.4% yoy, while excises advanced 14.1% yoy. These four taxes, accounting for 80% of budget revenues or RON 26.9 billion (EUR 6.0 billion), increased 8.6% yoy during the first two months of the year.

Consolidated budget balance, % of GDP



Source: Ministry of Public Finance of Romania

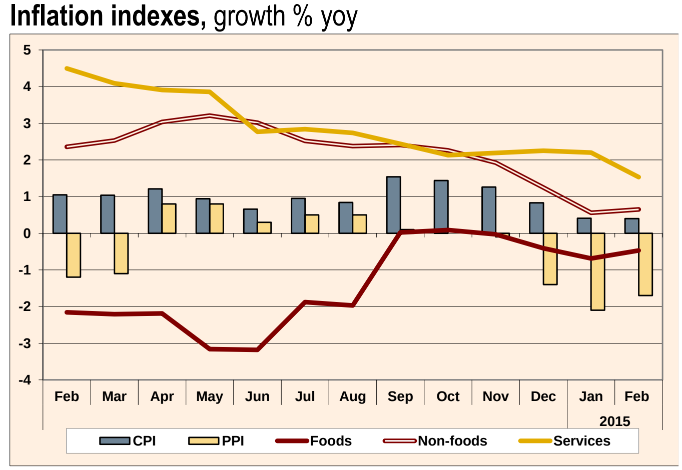
Consolidated budget expenses stood at RON 31.5 billion (EUR 7.1 billion) for the first two months of the year, down 6.1% yoy. Social security expenses, the largest item in the consolidated budget, reached RON 12.3 billion (EUR 2.8 billion) during January-February 2015, up 4.9% yoy. Personnel expenses declined 0.9% yoy, while goods and services acquisition lost 10.6% yoy. The decline in goods and services expenditures is largely due to the base effect, as arrears to drug suppliers were paid in January 2014. These three items, accounting for 79% of the consolidated budget expenses and amounting to RON 24.9 billion (EUR 5.6 billion), declined 0.3% yoy during the first two months of 2015.

Monetary Policy

The consumer price index stood at 0.40% yoy in February, inching down from 0.41% yoy in the previous month. Food prices declined 0.47% yoy. With the exception of two months, food prices are on a declining trend in year-on-year terms since September 2013. Non-food prices gained 0.65% yoy, while services prices increased 1.53% yoy during February.

The Board of the National Bank of Romania (NBR) again reduced the monetary policy rate to 2.00% at its meeting during March, down from 2.25% previously. The symmetrical corridor of interest rates on the NBR's standing facilities around the policy rate was narrowed to ±1.75% down from ±2.00% previously. The cut of the monetary policy rate was motivated by the annual inflation rate remaining below the lower bound of the variation band of the flat target.

Inflation indexes, growth % yoy



Source: INSSE, The Bleyzer Foundation

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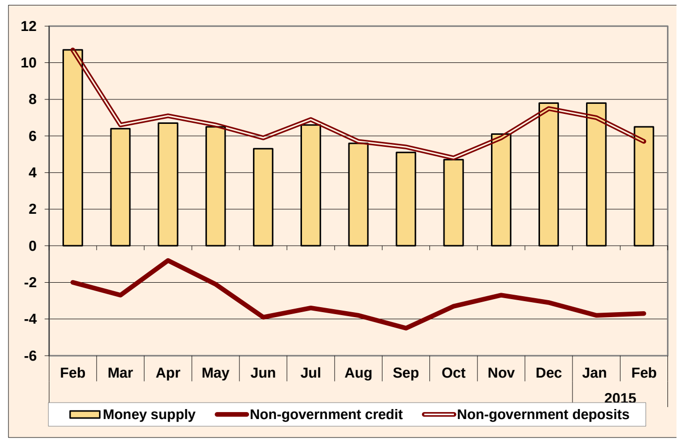
Non-government loans declined 3.7% yoy in February 2015, due to the combined and diverging effects of an increase in RON-denominated loan and a decrease in foreign currency loans. The RON-denominated loans increased 7.1% yoy, mainly due to households, which increased their debt 16.5% yoy, while corporate loans increased only marginally with a 0.8% yoy rate. Foreign currency denominated loans declined 10.8% yoy, as both household and corporate loans declined at a fast pace of 9.6% yoy and 12.1% yoy, respectively

Broad money continued to increase, advancing 6.5% yoy in February, down from 7.8% yoy in the previous month. The increase in broad money is mainly due to the increase in net foreign assets, up 22.1% yoy, while net domestic assets expanded at a lower 1.1% yoy.

Selected monetary indicators, growth % yoy

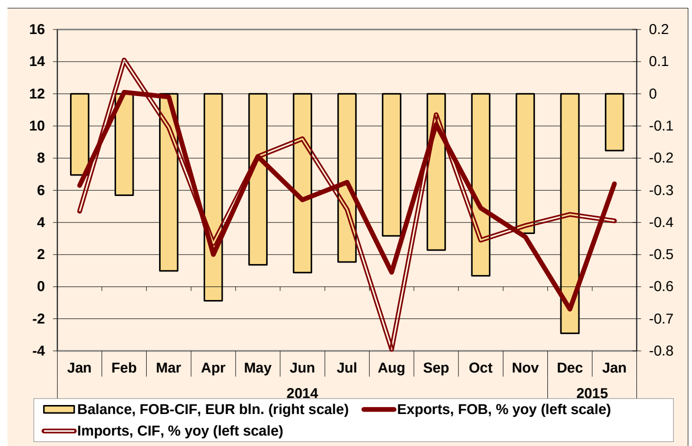


Source: NBR

International Trade and Capital

The foreign trade deficit for January was EUR 176.4 million, declining form the 2014 peak of EUR 744.9 million recorded in December. FOB exports increased 6.4% yoy, reaching EUR 4.2 billion, as exports towards EU countries gained 7.7% yoy, while non-EU exports increased at a lower 2.7% yoy. Export performance was supported by the largest two product groups, transport equipment and vehicles and manufactured products, accounting for 62% of exports. Transport equipment and vehicles, accounting for 44.2% of exports, gained 15.1% yoy, while manufactured products accounting for 34% of exports moved up 7.7% yoy. CIF imports increased 4.1% yoy, reaching EUR 4.4 billion due to the combined effects of EU imports expanding 7.5% yoy and non-EU imports declining 5.9% yoy. The decline in non-EU imports is mainly due to the drop in fuel and lubricants imports, down 50.9% yoy, due to lower fuel prices on international markets and lower natural gas volumes imported.

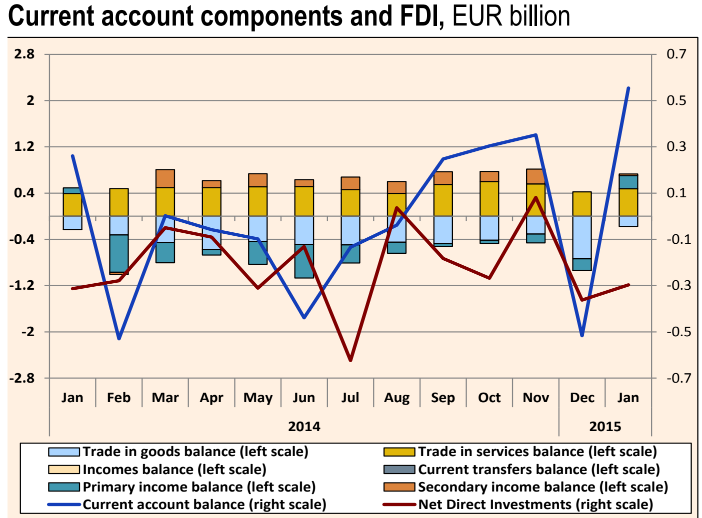
Monthly foreign trade balance



Source: INSSE

The current account balance posted a EUR 554 million surplus in January 2015, an improvement over the January 2014 surplus of EUR 252 million. Goods and services recorded a EUR 297 million surplus as the services surplus of EUR 475 million more than compensated for the EUR 178 million deficit. The largest two services items were transport, with a EUR 234 million surplus and manufacturing services on physical inputs owned by others with a balance of EUR 196 million. Primary income posted a surplus of EUR 227 million during January 2015,

Current account components and FDI, EUR billion



Source: NBR

while secondary income posted a lower EUR 30 million.

Net direct investments during January 2015 reached EUR 297 million, below the EUR 314 million recorded a year ago. Equity and investment fund shares/units investments amounted to EUR 183 million, while debt instruments amounted to EUR 115 million.

Romania's total external debt at end-the end of January stood at EUR 93.6 billion, declining from EUR 94.3 billion at the end December 2014. Of this, public and publicly guaranteed external debt amounted to EUR 31.9 billion, while debt of the monetary authority stood at EUR 2.5 billion. General government debt at the end of January 2015, both external and internal, stood at RON 259.6 billion (EUR 58.4 billion), accounting for 38.8% of GDP, down from 39.6% at the end of December 2014.

International reserves at the end of March 2015 stood at EUR 34.3 billion. Of these, foreign exchange reserves amounted to EUR 30.6 billion, slightly improving from EUR 30.5 billion at the end of February 2015. EUR 1,718 million inflows during the month represented changes in the foreign reserve requirements of credit institutions, inflows into the European Commission account and into the Ministry of Public Finances account representing European funds. EUR 1,601 outflows represented changes in the foreign exchange reserves requirement of credit institutions, interest and principal payments of foreign currency debt. Gold stock remained unchanged at 103.7 tons, its value amounting to EUR 3.7 billion.

Other developments affecting the investment climate

During March, the IMF Executive Board concluded the 2015 Article IV consultation with Romania. The executive board welcomed the economic recovery and commended Romanian authorities for the reduction of imbalances, significant fiscal consolidation and prudent monetary and financial sector policies. Growth is forecasted to remain robust and inflation low, but several issues need to be addressed by the government. Income convergence with the EU has been slow, youth unemployment remains elevated, and weak infrastructure has become a bottleneck for faster growth. The main downside risks are increased volatility in the external environment and failure to implement infrastructure upgrades.