May 2015

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- **The 2014 GDP increase stood at 2.8% yoy, with GDP reaching EUR 150 billion;**
- **Industrial output expanded 4.4% yoy in March;**
- **The consolidated budget deficit posted a 0.69% of GDP surplus over Q1-2015;**
- **Fiscal code changes discussed in Parliament. Food products VAT will be reduced to 9% starting in June 2015. The standard VAT rate, currently at 24%, should be reduced, if the proposal is approved, to 20% in 2016 and to 18% in 2018;**
- **The consumer price index stood at 0.65% yoy in April 2015, inching down from 0.70% in March;**
- **The March foreign trade deficit stood at EUR 813 million, with exports growth below that of imports;**
- **The current account posted a EUR 285 million surplus during the first two months of 2015, compared to a EUR 201 million deficit in the same period of last year.**

Executive Summary

The 2014 GDP increase was revised to 2.8% by the INSSE, with GDP reaching RON 666.6 billion (EUR 150 billion).

Industrial output expanded 4.4% yoy in March 2015, based on a manufacturing increase of 5.4% yoy. Q1-2015 industrial output expanded 3.3% yoy.

The consolidated budget posted a 0.69% surplus during Q1-2015, due to the combined effect of revenues increasing 12.4% yoy (just 0.3% below plan) and to expenditures inching up just 0.6% (a whole 19.1% below plan).

Fiscal code changes discussed in Parliament. A reduced 9% VAT for a wide range of food products is being introduced starting in June 2015. Meanwhile the standard rate, now at 24%, should be reduced to 20% in 2016 and to 18% in 2018 according to a proposal submitted in Parliament by the Government. The Fiscal Council has a negative opinion on the law, estimating it will increase the budget deficit above the 3.0% threshold set by the Stability and Growth Pact for almost the entire 2016-19 period.

The consumer price index stood at 0.65% yoy in April, down from 0.79% yoy in March. The NBR expects inflation to become negative due to the VAT cut in June 2015, turning slightly positive at the end of 2015.

The foreign trade deficit for March 2015 increased to EUR 813 million, up from EUR 513 million a year ago, as exports increased 7.2% yoy, below the 11.6% yoy increase in imports.

The current account balance posted a EUR 285 million surplus during January-February 2015, compared with a EUR 201 million deficit a year ago.

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

Economic growth was revised by INSSE to 2.8% for 2014, down from 2.9% in the previous press release, while 2014 GDP is now RON 666.6 billion (EUR 150.0 billion). The Q4-2014 GDP increase was also revised to 2.7% yoy, up from 2.6% yoy in the previous press release.

Industrial output accelerated to 4.4% yoy in March 2014, up from 3.2% yoy in February, putting Q1-2015 industrial growth at 3.3% yoy. The increase is based on manufacturing, up 5.4% yoy in March 2015, while mining and quarrying declined 1.3% yoy, and utilities declined 2.8% yoy. Vehicle production growth accelerated to 8.8% yoy, while oil refining expanded 10.3% yoy. Food production increased 7.7% yoy, and we expect the industry to continue on a positive trend for the rest of the year, due to the VAT rate cut in food products starting June 2015.

Unemployment stood at 6.5% during March 2015, slightly up from 6.4% in February 2015. Since June 2013, when it stood at 7.2%, unemployment has been on a declining trend, reaching 7.1% in December 2013 and 6.6% in December 2014.

Retail trade inched down 0.2% yoy in March 2014, due to the combined effects of an 8.0% yoy increase in food, beverages and tobacco and decreases in non-food products and in fuels, of 4.0% yoy and 4.8% yoy, respectively.

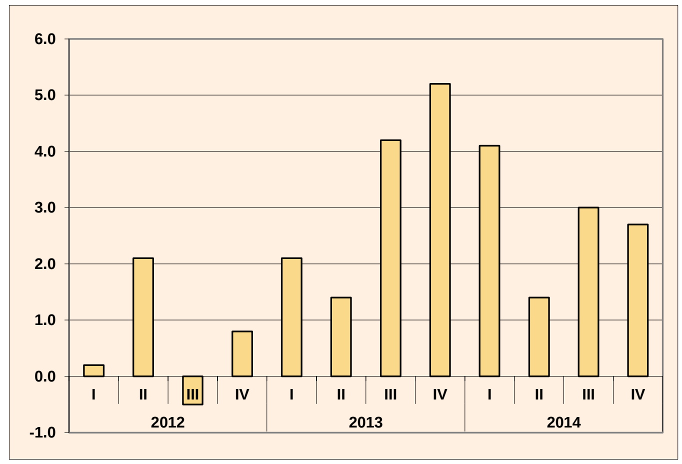
Fiscal Policy

The Q1-2015 consolidated budget posted a 0.69% of GDP surplus, expanding from 0.33% of GDP during January-February 2015. The GDP surplus for the quarter was RON 4.9 billion (EUR 1.1 billion).

The surplus is due to increasing revenues, in line with plan and much lower than planned expenditures, as investments were cut to achieve good budget execution. Revenues increased 12.6%, and were collected only 0.3% below plan. Expenditures increased only 0.6% yoy during Q1-2015, but were 19.1% below plan. Expenditures were RON 11.8 billion (EUR 2.7 billion) below plan, or the equivalent of 1.7% of the 2015 expected GDP.

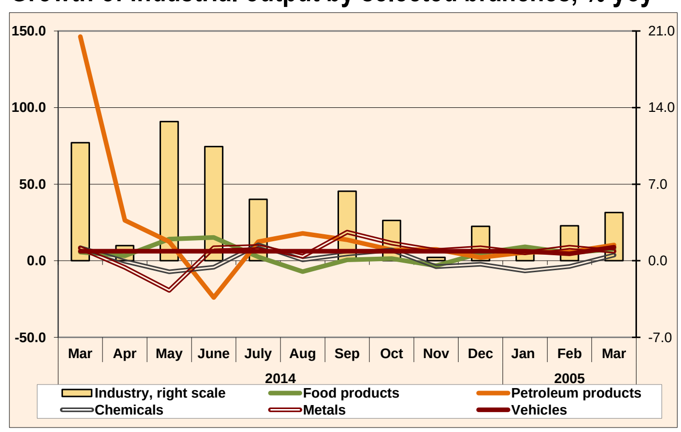
Consolidated budget revenues reached RON 55.0 billion (EUR 12.3 billion) over Q1-2015. The 12.6% increase in revenues is due to expansion in all major tax items. VAT, which is the largest revenue contributor, increased 20.8% yoy to reach RON 14.6 billion (EUR 5.0 billion), while excises gained 11.4% yoy, moving up to RON 5.8 billion

GDP growth, % yoy



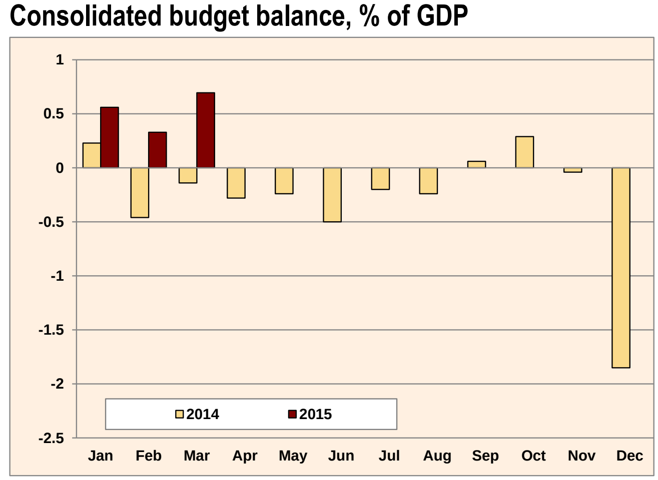
Source: INSSE, The Bleyzer Foundation

Growth of industrial output by selected branches, % yoy



Source: INSSE, The Bleyzer Foundation

Consolidated budget balance, % of GDP



Source: Ministry of Public Finance of Romania

(EUR 1.3 billion) during Q1-2015. Social security contributions reached RON 13.9 billion (EUR 3.1 billion) inching up 0.5% yoy during the first quarter of the year, while income and salary taxes reached RON 6.5 billion (EUR 1.4 billion), expanding 14.6% yoy.

For the first quarter of 2015, planned revenues were 99.7% achieved. Planned VAT was achieved by 114.2%, planned social security contributions revenues were achieved by 104.6%, planned income and salary tax revenues were achieved by 106.2%, while planned excise revenues were achieved at a lower 97.8%.

Q1-2015 consolidated budget expenditures stood at RON 50.1 billion (EUR 11.2 billion), up 0.6% yoy. Social security expenditures increased 5.2% yoy to RON 18.6 billion (EUR 4.2 billion), while personnel expenditures increased 8.7% yoy to RON 12.8 billion (EUR 2.9 billion).

Compared with the planned values, budget expenditures for Q1-2015 were 19.1% below, or RON 11.8 billion (EUR 2.7 billion) or the equivalent of 1.7% of the expected 2015 GDP. Social security and personnel expenditures were in line with the planned value, with the realized values 0.5% and 1.3% respectively below the planned values. Capital expenditures were 70% below the planned values or RON 2.0 billion (EUR 0.5 billion) below the plan. Projects with non-refundable external financing also had a poor execution with expenditures 65% below the plan, or RON 2.2 billion (EUR 0.5 billion) below the planned values.

In April 2015, changes to the Fiscal Code were submitted by the government to the Parliament. The first change, already approved, is the introduction of a reduced Value Added Tax (VAT) of 9%, starting June 1st 2015 for a wide range of food products. The reduced VAT rate, which was already applied for bread products, will be extended to meat products, fish, vegetables and fruits, milk and dairy products, and eggs. The standard VAT rate, now at 24%, should be cut to 20% in 2016, and to 18% in 2018 according to Fiscal Code changes currently discussed. The cut in the VAT rate should provide a boost for domestic consumption, which has become the main growth driver of GDP, and this should have a positive impact on local producers.

The Fiscal Council has a negative opinion regarding the changes to the Fiscal Code and expects them to generate a large increase in the budget deficit. The Fiscal Council argued that due to the tax changes, the budget deficit will increase to 3.1% in 2016, 2.7% in 2017, 3.5% in 2018 and 3.7% in 2019, above the 3.0% threshold stated by the Stability and Growth Pact for almost the entire 2016-19 period. The main differences between the government and Fiscal Council projections are the positive, second round effects of the tax cuts, expected by the government to be much higher. The Fiscal Council is an independent authority supporting the Government and the Parliament in designing and implementing fiscal policy. Its opinion regarding fiscal legislation is consultative, thus a law can be approved even when it has a negative opinion from the Fiscal Council.

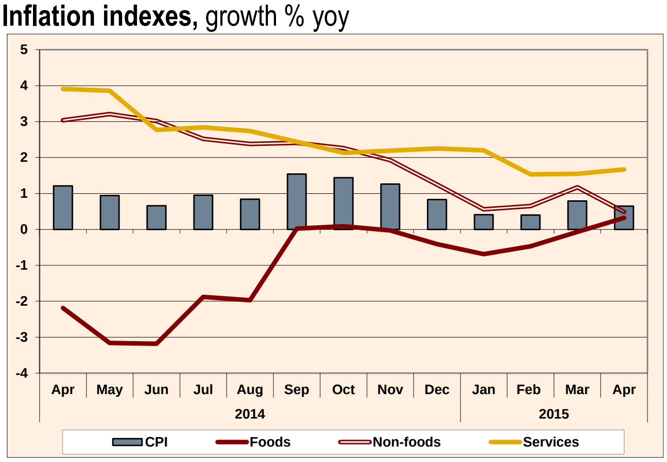
Monetary Policy

The Consumer price index stood at 0.65% yoy in April 2015, close to the 0.79% yoy in March. Food prices increased 0.32% yoy, non-food prices gained 0.49% yoy and sevices gained 1.67% yoy.

The Board of the National Bank of Romania (NBR) again reduced the monetary policy interest rate to 1.75% at its meeting in May, down from 2.0% previously. The symmetrical corridor of interest rates on the NBR's standing facilities around the policy rate was narrowed to ±1.5%, down from ±1.75% previously. The BNR also decided to cut the minimum reserve requirements on RON denominated liabilities to 8%, down from 10% previously.

In May, tThe NBR issued its regular report on

Inflation indexes, growth % yoy



Source: INSSE, The Bleyzer Foundation

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inflation, with new inflation projections taking into account the VAT cuts due to the changes in the Fiscal Code. The NBR projects inflation will be negative at the end of Q2-2015 and Q3-2015, at -0.9% yoy and -0.4% yoy, respectively, turning positive to 0.2% yoy at the end of 2015 and increasing to 1.9% yoy at the end of 2016 after the effects of the VAT cut dissipate. The BNR is maintaining an inflation target of 2.5% yoy, with a ±1.0% band around the target.

Non-government loans declined 3.4% yoy in March 2015, reaching RON 210.5 billion (EUR 47.7 billion) as RON denominated loans increased while forex-denominated loans continue to decline. RON-denominated loans increased 7.5% yoy, mainly on account of 17.4% yoy increased household financing, while corporate loans increased at a much lower 0.8% yoy. The forex-denominated loans declined 10.8% yoy, as household and corporate loans moved down 9.3% yoy and 12.4% yoy, respectively.

Non-government deposits increased 5.9% yoy in March, to reach RON 226.7 billion (EUR 51.4 billion) as both RON and forex denominated loans increased. The RON-denominated deposits increased 6.9% yoy during the period, while forex denominated ones expanded 4.0% yoy.

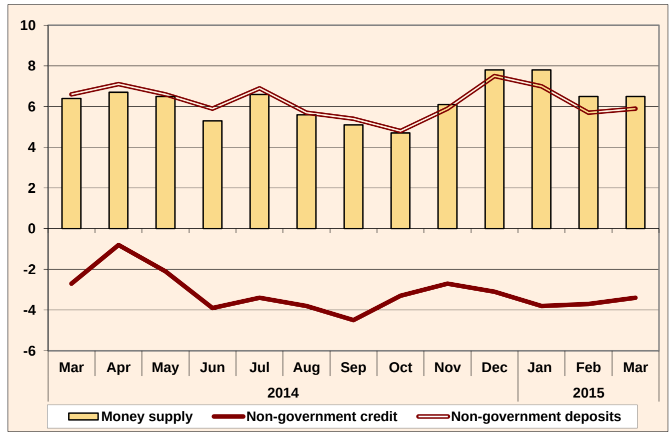
Broad money increased 6.5% yoy in March 2015, at the same rate as in February. The increase is due to a 28.1% yoy expansion in net foreign assets, while net domestic assets decreased 3.4% yoy.

International Trade and Capital

The foreign trade deficit for March 2015 was EUR 813 million, up from EUR 551 million a year ago. The exports increased 7.2% yoy in March, below the 11.6% yoy increase in imports.

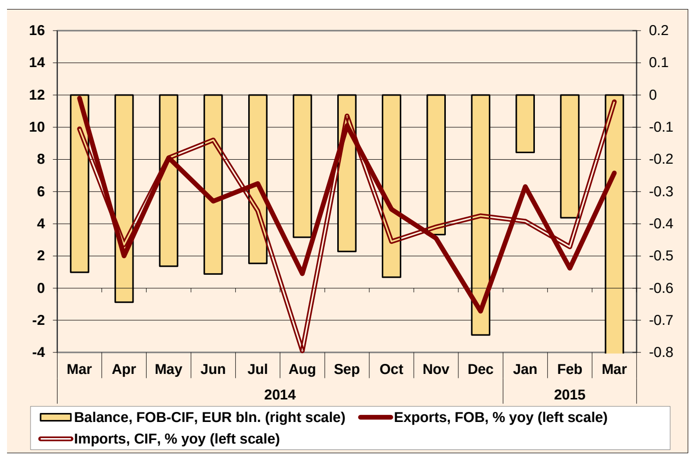
The Q1-2015 foreign trade deficit stood at EUR 1.4 billion, increasing from EUR 1.1 billion in the same period of the previous year. The exports growth rate of 4.9% yoy stayed below the imports growth rated of 6.3% yoy, causing the trade deficit to increase. Foreign trade is driven by intra-EU trade, with both exports and imports expanding, at 9.5% yoy and 8.5% yoy, respectively. The extra-EU exports declined 6.6%, while the imports inched down 0.2% yoy. The largest trade group in both exports and imports remained transport equipment and vehicles,

Selected monetary indicators, growth % yoy



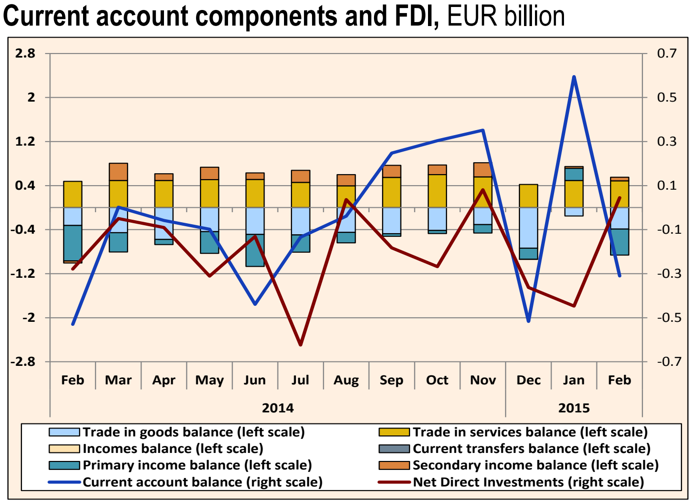
Source: NBR

Monthly foreign trade balance



Source: INSSE

Current account components and FDI, EUR billion



Source: NBR

accounting for 44% of exports and 37% of imports. Exports of transport equipment and vehicles increased 8.8% yoy, while imports increased 10.4% yoy. Fuel and lubricants declined in both exports and imports, by 23% yoy and 31% yoy, respectively. Fuel and lubricants account for 5% of exports and 6% of imports.

The current account balance posted a EUR 285 million surplus during January-February 2015, compared with a EUR 201 million deficit in 2014. Goods trade posted a EUR 542 million deficit, services posted a EUR 981 million surplus.

Net direct investment during the first two months of 2015 stood at EUR 402 million, down from 593 million a year ago. For the January-February 2015 period, equity and investment funds share/units amounted to EUR 362 million, while debt instruments amounted to 40 million.

Romania's total external debt at the end of February 2015 stood at EUR 93.6 billion, out of which public and publicly guaranteed debt amounted to EUR 31.9 billion.

International reserves at the end of April 2015 stood at EUR 33.7 billion. Of these, foreign exchange reserves amounted to EUR 30.1 billion, slightly down from EUR 30.6 billion at the end of March 2015. EUR 536 million inflows during the month represented changes in foreign exchange reserve requirements, inflows into the European Commission account and into the Ministry of Public Finances account representing European funds. EUR 1,041 million outflows represented changes to the foreign exchange reserve requirements and payments on foreign currency debt. The gold stock remained unchanged at 103.7 tons, with a value of EUR 3.6 billion.