November 2015 Radu Mihai Balan, Edilberto L. Segura

- **Q3-2015 GDP expanded by 3.6 yoy.**
- **Industrial output increased 3.9% yoy in September.**
- **The consolidated budget posted a 0.87% of GDP surplus over January-September 2015.**
- **Inflation remained negative at -1.6% in October due to the food products VAT cut in June 2015.**
- **The foreign trade deficit stood at EUR 742 million in September, up from EUR 486 million a year ago.**
- **The current account deficit declined to EUR 653 during January-September 2015, down from EUR 1.2 billion a year ago.**
- **A new technocrat government, led by Dacian Ciolos, received the confidence vote in parliament in November.**

Executive Summary

Q3-2015 GDP expanded by 3.6% yoy according to the INSSE, putting the first nine months economic growth at 3.7% yoy.

Industrial output expanded 3.9% yoy in September and 3.0% yoy during the January-September period.

The consolidated budget surplus reached 0.87% of GDP, or RON 6.1 billion (EUR 1.4 billion), during the first nine months of the year, as investments were cut to support increases in wages and social security expenditures.

Inflation remained negative at -1.6% yoy in October 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 742 million in September, up from EUR 486 million a year ago, with imports growth rate above exports.

The current account deficit declined to EUR 653 million for the first nine months of the year, down from 1.2 billion 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

November 2015 Radu Mihai Balan, Edilberto L. Segura

Economic Growth

According to an INSSE flash press release, the economy expanded 3.6% yoy in Q3-2015 and 3.7% yoy during the first nine months of the year. Seasonally adjusted qoq growth was 1.4% during Q3-2015, the largest growth in the EU.

Industrial output expanded 3.9% yoy in September, thus putting the increase over the first nine months of the year at 3.0% yoy.

Manufacturing and utilities increased in September 4.3% yoy and 6.2% yoy, respectively. Mining and quarrying declined 13.2% yoy due to the 41.8% yoy drop in mining support activities during the month. In the manufacturing sector, food production and beverages production increased 11.7% yoy and 6.1% yoy following the cut in the VAT introduced in June. Vehicle production remains strong, increasing 11.9% yoy, while metallurgy declines 9.0% yoy and oil refining and coke decline 5.2% yoy.

Unemployment remained 6.8% in September, unchanged from the previous month.

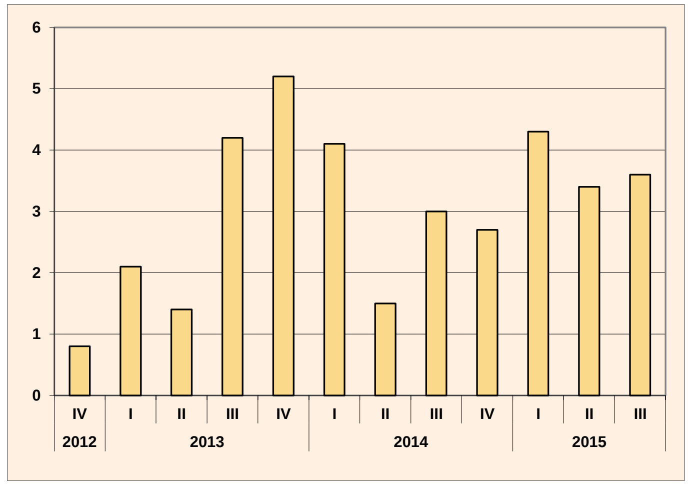
Retail trade increased 12% yoy in September 2015 due to the 27.6% yoy increase in food, beverages and tobacco sales, following the food products VAT cut in June 2015. Sales of non-food products and fuels increased, although at a lower rate of 5.2% yoy and 4.6% yoy, respectively.

Fiscal Policy

The consolidated budget posted a RON 6.1 billion (EUR 1.4 billion) surplus, or 0.87% of GDP, over the first nine months of the year. The budget surplus is due to the government policy of cutting investments, leading to a poor achievement of planned expenditures. During the third quarter, revenues achievements stood at 98.0% of the planned amounts, while expenditures only reached 89.6% of the planned figures. The Q3-2015 budget achieved a 0.76% of GDP surplus compared with the planned figures.

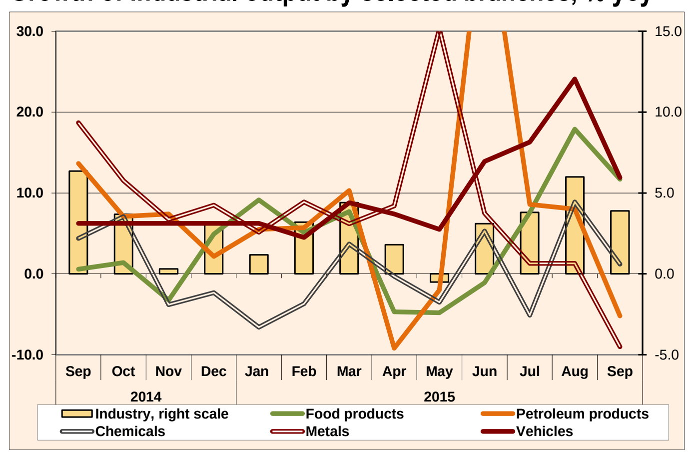
Consolidated budget revenues during January-September 2015 stood at RON 169.1 billion (EUR 38.1 billion), increasing 8.8% yoy. The largest contributors to the budget during the first nine months of the year were the VAT tax with revenues of RON 42.7 billion (EUR 9.6 billion) and social security contributions with RON 42.1 billion (EUR 9.5 billion). For the January-September period, VAT still remains the largest revenue source, representing 25.3% of the budget revenues, while social security contributions amounted to 24.9% of the budget

GDP growth, % yoy



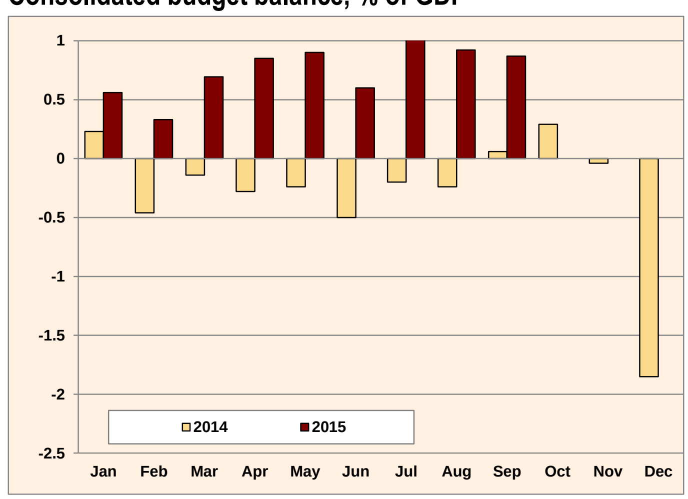
Source: INSSE, The Bleyzer Foundation

Growth of industrial output by selected branches, % yoy



Source: INSSE, The Bleyzer Foundation

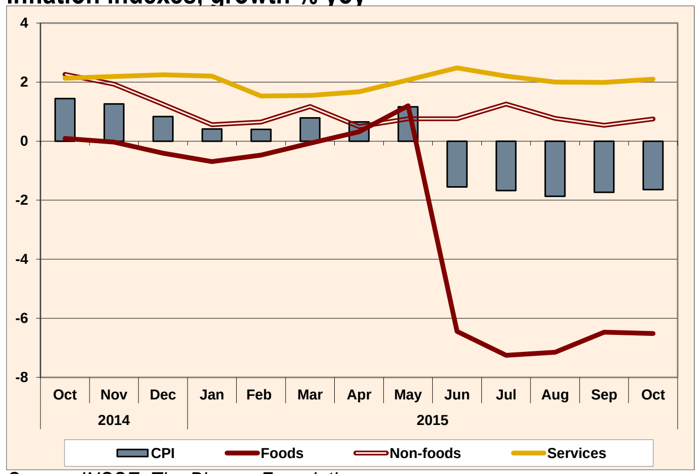
Consolidated budget balance, % of GDP



Source: Ministry of Public Finance of Romania revenues. During Q3-2015, following the food VAT reduction in June 2015, the VAT accounted for only 23.2% of budget revenues, while social security contributions became the largest revenue source, with 24.7% of budget revenues.

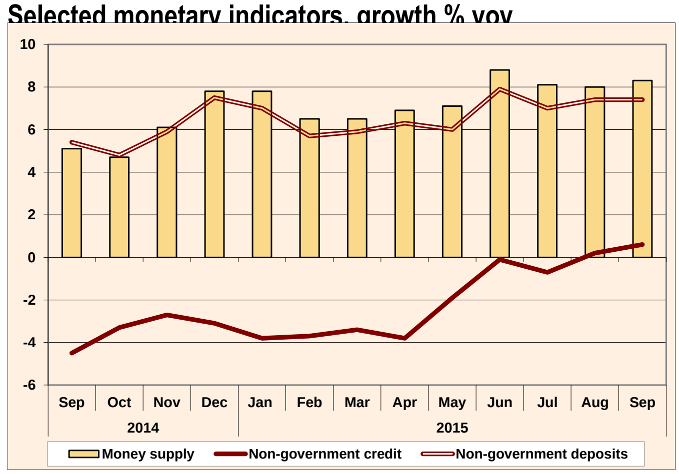
Consolidated budget expenditures over January-September 2015 stood at RON 162.9 billion (EUR 36.7 billion), up 5.1% yoy. Personnel expenditures increased 6.0% yoy to RON 37.9 billion (EUR 8.5 billion), while social security expenditures increased 6.4% yoy to RON 56.3 billion (EUR 12.7 billion). Interest costs declined 8.1% yoy to RON 8.0 billion (EUR 1.8 billion) due to payment seasonality and to yield decline. Capital expenditures also declined 6.0% yoy to RON 7.6 billion (EUR 1.7 billion) as the government continued its policy of reducing investments to finance increases in personnel and social security expenditures.

Inflation indexes, growth % yoy



Source: INSSE. The Bleyzer Foundation

Selected monetary indicators, growth % yoy



Source: NBR

Monetary Policy

The consumer price index (CPI) remained negative in October at 1.6% yoy, due to the effect of food price decline of 6.5% yoy. The food price decline is due to the food products VAT, other than bread, cut in June 2015. Non-food prices increased 0.8% yoy, while services prices increased 2.1% yoy.

Non-government loans inched up 0.6% yoy in September 2015, reaching RON 214.3 billion (EUR 48.5 billion) due to the combined effect of the 16.8% increase in RON denominated loans, and an 11.8% decline in forex-denominated loans.

Non-government deposits increased 7.4% yoy in September, as both RON denominated and forex-denominated deposits increased, at 8.2% yoy and 5.9% yoy, respectively.

Broad money expanded 8.3% yoy in September, with net foreign assets increasing 12.2% yoy and net domestic assets expanding 6.1% yoy.

The Board of the National Bank of Romania decided to maintain the monetary policy rate unchanged at 1.75% per year at its November meeting.

International Trade and Capital

The September 2015 foreign trade deficit stood at EUR 742 million, expanding from a EUR 486 million deficit a year ago. For the January-September period, the foreign trade deficit expanded 28% yoy to EUR 5.5 billion. The imports growth rate remains above exports growth, for both September and the first nine months of 2015. September imports increased 4.9% yoy, while exports only gained 0.2% yoy.

November 2015 Radu Mihai Balan, Edilberto L. Segura

During September 2015, vehicles and transport equipment, accounting for 46% of total exports during the month, maintained a high growth rate, expanding 7.8% yoy. Manufactured products, accounting for 31% of exports, inched up 0.1% yoy. Imports of vehicles and transport equipment, accounting for 38% of total imports during the month, increased 14.8% yoy, while food and live animals, accounting for 7% of imports, increased 18.3% yoy.

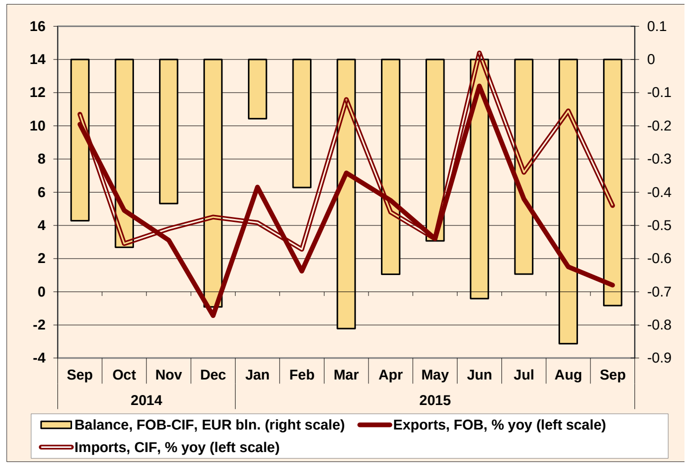
The current account posted a EUR 653 million deficit during the first nine months of the year, down from EUR 1.2 billion during the same period of last year. The FOB-FOB goods deficit stood at EUR 5.1 billion, up from EUR 4.1 billion during the same period of last year. The services surplus increased to EUR 4.8 billion during the first nine months of 2015, up from 4.3 billion last year. The primary income deficit stood at 2.3 billion, while secondary income surplus reached 2.0 billion.

Net direct investments during January-September 2015 stood at EUR 2.4 billion, up from EUR 2.2 billion in the same period of last year.

Romania's total external debt at the end of September 2015 stood at EUR 89.3 billion, down from 94.7 billion at the end of 2014. Public and publicly guaranteed foreign debt at the end of September stood at EUR 29.9 billion, down from EUR 32.8 billion at the end of 2014.

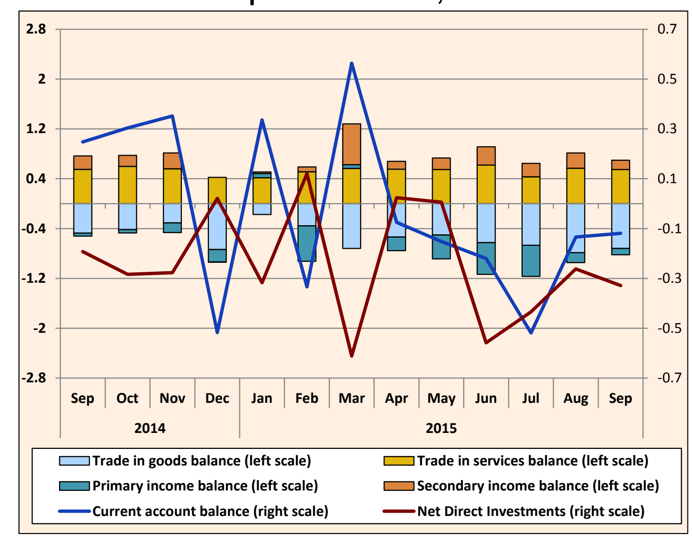
International reserves at the end of October 2015 stood at EUR 35.2 billion, out of which foreign exchange reserves were EUR 31.6 billion, while the gold stock amounted to EUR 3.5 billion.

Monthly foreign trade balance



Source: INSSE

Current account components and FDI, EUR billion



Source: NBR

Other developments

During November 2015, a new technocrat government, led by Prime Minister Dacian Ciolos, received the confidence vote in parliament. The new Prime Minister, Mr Cioclos, is an ex-EU Commissioner, and several other ministers have work experience with international institutions or in the private sector. The government has a limited time to manage the country, as parliamentary elections are scheduled for end of 2016. The previous government, led by Victor Ponta, resigned due to mass protests following the deadly fire in the "Colectiv" nightclub, which resulted in 60 deaths.