

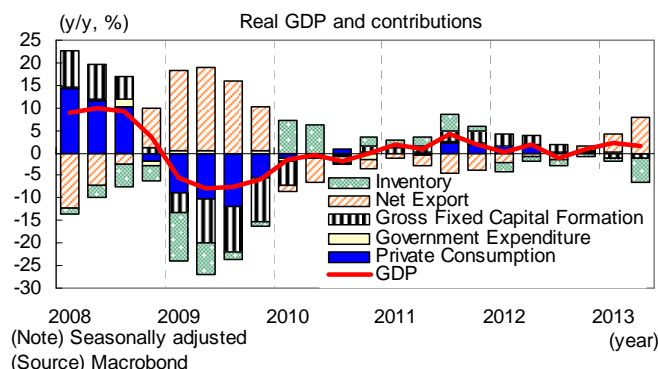
Main Economic & Financial Indicators: Romania

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Overview

The Romanian economy remains lacklustre. Growth in real GDP in Q2 slowed to 1.4% y/y from 2.3% y/y in Q1. Looking at the breakdown of this figure from the expenditure side, net exports were the sole contributor to overall growth. While imports continued to decline amid weak domestic demand, exports grew by 11.6% y/y on the back of recovery in Germany, its biggest trade partner. Meanwhile, a decrease in inventories dragged overall growth as the country's economic growth slowed. Gross fixed capital formation also made a negative contribution reflecting tight credit conditions.

Looking ahead, recovery in external demand is likely to be gradual as the eurozone economy is expected to remain weak despite the fact that there are some signs of economic recovery in the area. In terms of domestic demand, there remain risk factors. While the prospect of weaker inflation is good news, the recent lei depreciation pushed up household's FX loan burden. Corporate activity also remains under pressure given the continuous fiscal austerity as well as tight credit conditions. In light of these circumstances, the Romanian economy is unlikely to see a strong recovery for sometime yet.



Output

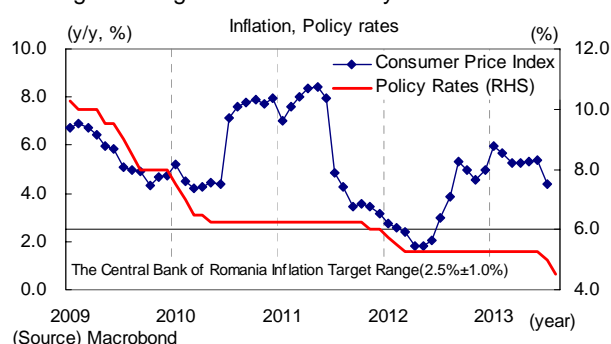
Industrial production in July grew by 6.3% y/y, slowing down from the 8.0% y/y growth seen in June. The manufacturing sector grew by 7.7% y/y reflecting the strong growth in the motor vehicles sector. Meanwhile, although the reading for the manufacturing sector's confidence indicator in August edged up to -3.2 from -4.0 in July, it has been struggling to improve. A look at the breakdown of the August figure indicates that outlook for both output and new orders improved reflecting the recovery in export orders on the back of the recovery in output in Germany. The contraction in the construction sector eased in June to -3.9% from -9.9% in May. The construction sector's confidence indicator improved to -28.1 in August from the bottom of -33.0 recorded in March, but remained at a very low level.

Consumption

Retail sales continued to contract for three months in a row in July, but the pace of decline slowed to 0.2% y/y from the contraction of 2.5% y/y in June. Although a prospect of weaker inflation is good news for consumers, household budgets are likely to remain under pressure. The unemployment rate in July remained at a high level at 7.5% while bank lending to household has been contracting since the beginning of this year on a year-on-year basis. Lei depreciation reflecting the country's economic slowdown and rising expectations of the US Federal Reserve scaling back its QE programme increased household's burden of FX loans. Nearly 70% of household lending in Romania is foreign currency denominated. In addition to the aforementioned factors, the government's austerity measures are also expected to be a drag on household budget, ensuring that private consumption is likely to remain sluggish for sometime yet.

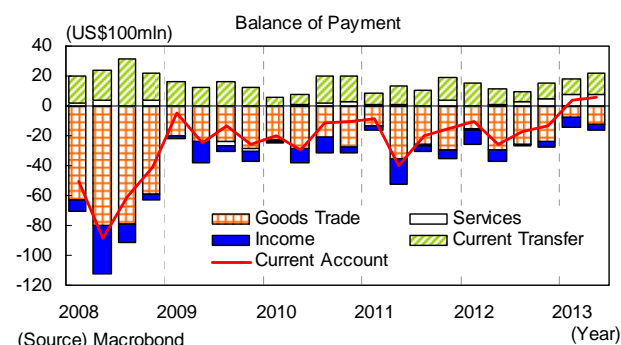
Consumption

Consumer price index in July rose by 4.4% y/y, slowing down from 5.4% y/y in June reflecting lower food price inflation due to base effects. Food prices jumped a year ago as summer drought hit the harvest. The Central Bank of Romania said in its inflation report published in August that inflation is expected to ease further and come down to within the central bank's inflation target band of 1.5-3.5% as early as September or October on the back of lower food price inflation as good harvest is expected this year. The risk to this outlook, the central bank noted, is that of a rise in import prices if the lei is to depreciate further. With the prospect of weaker inflation, sluggish domestic demand and a decrease in bank lending, the central bank decided to cut its policy rate by 0.5% to 4.5% in its August meeting following a 0.25% cut in July.



Balance of Payment

The current account in Q2 remained in surplus by US\$550mln after turning to a positive territory in Q1 for the first time since 2001. The merchandise trade deficit decreased to US\$1.2bn from US\$3.0bn a year earlier reflecting a jump in exports by 7.2% y/y on the back of recovery in external demand including from Germany (it consists of around 20% of Romanian exports). Imports continued to decline by 4.2% y/y as domestic demand remained sluggish. Meanwhile, the surplus in the services balance increased to US\$740mln from US\$70mln a year earlier.



IMF Loan

At the end of July, the IMF announced that it has reached a staff level agreement with the Romanian government on a 24 month precautionary standby agreement amounting to €4bn. An official approval of this agreement by the IMF Management and the Executive Board is expected to be given this autumn. The conditions that have been attached to this new arrangement include health care reform and privatisation of state-owned transport and energy companies. On September 9th, the government started the initial public offering of the state-owned nuclear power producer Nuclearelectrica.

Main Economic & Financial Indicators: Romania

1. Annual and quarterly data

		2010	2011	2012	12/Q2	12/Q3	12/Q4	13/Q1	13/Q2
GDP (at current prices)	(US\$ bn)	164.6	182.6	169.3	39.9	45.5	49.3	36.4	43.3
Real GDP growth	(%, y/y)	-1.0	2.2	0.5	1.9	-1.1	0.8	2.3	1.4
(Private consumption)	(%, y/y)	-0.1	1.2	1.0	1.9	0.2	0.4	0.2	-0.1
(Gross fixed capital formation)	(%, y/y)	-4.7	6.9	5.5	6.8	5.6	-0.2	-4.1	-4.1
Industrial production (excl.construction)*	(%, y/y)	5.1	7.6	2.8	3.2	2.7	3.3	5.5	6.7
Retail sales (calender adjusted)	(%, y/y)	-7.3	-1.2	4.4	5.3	6.2	0.3	0.6	-1.7
Consumer price index	(%, y/y)	6.1	5.8	3.3	1.9	4.1	4.8	5.6	5.3
Unemployment rate (seasonally adjusted)	(%)	7.3	7.4	7.0	7.2	6.9	6.7	7.1	7.4
Net average monthly earnings growth	(%, y/y)	1.8	4.9	4.9	4.7	5.4	6.0	5.3	5.2
Bank credits to the private sector	(%, y/y)	4.7	6.6	1.3	6.3	4.2	1.3	-0.2	-1.3
Trade balance*	(US\$ mn)	-12,512	-13,450	-12,358	-3,700	-3,239	-3,146	-1,417	-1,934
Exports	(US\$ mn)	49,508	62,949	57,819	14,476	13,896	14,969	15,299	15,816
Export growth	(%, y/y)	22.4	27.1	-8.1	-9.1	-14.4	-4.1	5.5	9.3
Imports	(US\$ mn)	62,019	76,399	70,177	18,176	17,136	18,115	16,716	17,751
Import growth	(%, y/y)	14.5	23.2	-8.1	-10.4	-12.6	-6.3	-0.2	-2.3
Current account	(US\$ mn)	-7,271	-8,256	-6,617	-2,547	-1,690	-1,321	362	549
Capital and financial account balance	(US\$ mn)	2,965	6,397	7,244	4,545	1,995	2,124	-1,057	-1,150
Foreign direct investment	(US\$ mn)	2,939	2,523	2,242	599	814	349	252	620
Foreign reserves	(US\$ mn)	43,361	42,939	41,162	41,473	41,964	41,162	41,274	42,180
External debt	(US\$ mn)	124,072	128,162	130,462	126,562	128,491	130,462	129,549	128,491
Stock price index		5,232	5,179	4,857	4,881	4,757	4,856	5,586	5,406
Policy rate (two-weeks deposit taking rate)		6.25	6.00	5.25	5.25	5.25	5.25	5.25	5.25
Short-term interest rates (interbank 3m)	(average)	6.76	5.83	5.35	4.88	5.61	5.88	5.73	4.36
Leu/USD		3.18	3.05	3.47	3.45	3.62	3.49	3.32	3.37
Leu/Euro		4.21	4.24	4.46	4.43	4.53	4.53	4.39	4.40
Leu/GBP		4.91	4.89	5.50	5.46	5.72	5.60	5.16	5.17

2. Monthly data

		13/01	2	3	4	5	6	7	8
Industrial production (excl.construction)*	(%, y/y)	3.9	5.1	7.5	11.5	0.5	8.0	6.3	-
Retail sales (calender adjusted)	(%, y/y)	3.1	0.7	-2.0	1.7	-4.2	-2.5	-0.2	-
Consumer price index	(%, y/y)	6.0	5.7	5.3	5.3	5.3	5.4	4.4	-
Unemployment rate (seasonally adjusted)	(%)	7.0	7.1	7.2	7.4	7.3	7.5	7.5	-
Net average monthly earnings growth	(%, y/y)	5.5	5.5	4.8	7.0	5.3	3.5	5.1	-
Bank credits to the private sector	(%, y/y)	0.3	0.1	-0.2	-2.1	-2.4	-1.3	-4.4	-
Trade balance*	(US\$ mn)	-394	-279	-736	-797	-646	-491	-	-
Exports	(US\$ mn)	4,948	5,166	5,182	5,340	5,232	5,250	-	-
Export growth	(%, y/y)	10.3	10.9	-3.4	14.8	2.2	11.6	-	-
Imports	(US\$ mn)	5,342	5,445	5,918	6,137	5,878	5,741	-	-
Import growth	(%, y/y)	5.2	2.1	-6.8	4.6	-8.6	-2.4	-	-
Stock price index		5,523	5,554	5,685	5,458	5,399	5,359	5,365	5,796
Policy rate (two-weeks deposit taking rate)		5.25	5.25	5.25	5.25	5.25	5.25	5.00	4.50
Short-term interest rates (interbank 3m)	(average)	5.97	5.85	5.35	4.57	4.09	4.45	4.52	3.91
Leu/USD		3.29	3.28	3.39	3.36	3.34	3.40	3.38	3.33
Leu/Euro		4.39	4.38	4.39	4.38	4.34	4.48	4.42	4.44
Leu/GBP		5.26	5.08	5.11	5.15	5.11	5.26	5.13	5.16

*Note: Industrial production: Calender and seasonally adjusted. Trade balance: Custom based
Source: Romania National Bank, Eurostat, IMF etc.

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