

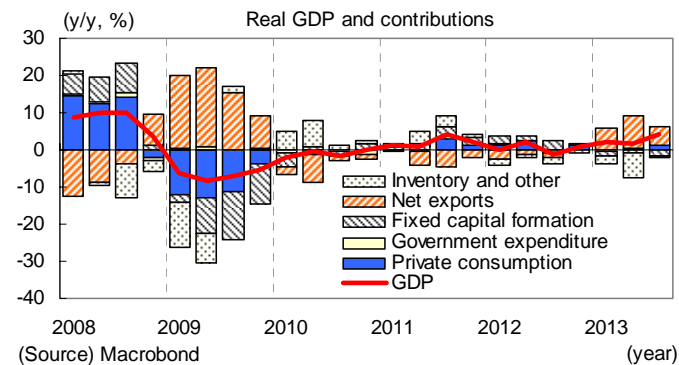
Main Economic & Financial Indicators: Romania

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Overview **Consumption**

The Romanian economy is on a recovery path. Growth in real GDP in Q3 accelerated to 4.1% y/y from 1.5% y/y in Q2. Looking at the breakdown of this figure from the demand side, external demand continued to contribute positively to overall growth. In terms of domestic demand, growth in private consumption remained weak; up 1.0% y/y. Exports expanded significantly by 19.1% y/y, mainly supported by demand from European countries such as Germany and the UK while imports remained weak, increasing only by 4.4% y/y due to sluggish domestic demand. Turning to the production side, agriculture led overall growth while industry also made a positive contribution, reflecting a recovery in the manufacturing sector supported by an increase in exports.

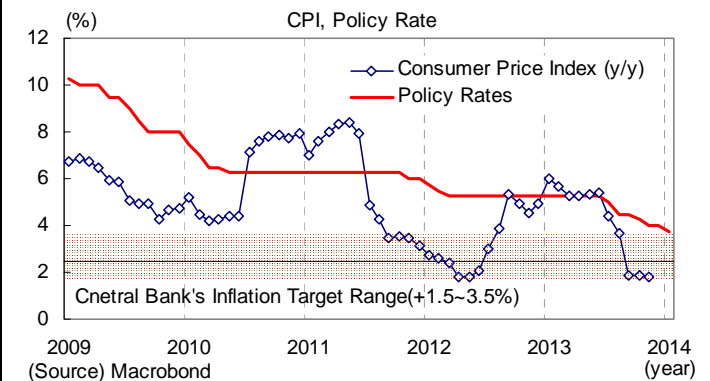
Looking ahead, economic recovery in Romania is likely to continue to depend on the prospects for external demand. There are some reasons for optimism, such as the central bank's rate cuts and weaker inflation. That said, bank lending to household sector continue to decline while household's FX loan burden due to the recent lei depreciation is also a concern. Furthermore, the unemployment rate remains at high level. Considering these risk factors, recovery of private consumption is likely to take a while. Looking at corporate activity, recovery in overseas demand is likely to provide some support for export-oriented companies. However, the latest bank lending survey suggests that credit conditions for companies will continue to be tightened. As such, financing difficulties and sluggish capital investment in the corporate sector are likely to continue for the time being.



Retail sales in November remained flat from a year earlier. Although inflation fell in recent months, the unemployment rate remained at a high level, keeping households under pressure. Looking at the latest business confidence indicators, employment expectation in the manufacturing, construction and service sectors continued to be negative, indicating that the labour market's sluggishness is set to continue. The readings for consumer confidence also remain at a low level. Thus, private consumption is likely to remain weak for the time being.

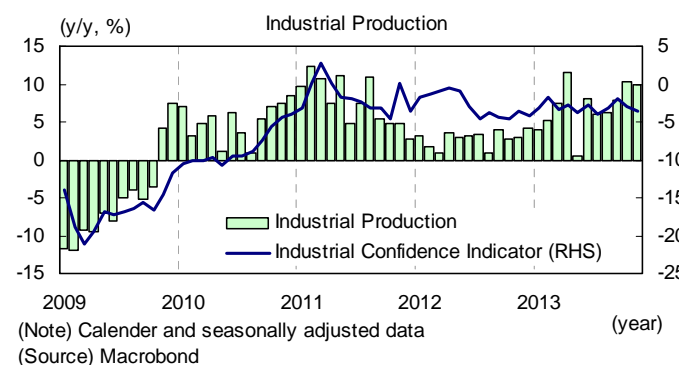
Prices

The consumer price index in December rose by 1.6% y/y, down from 1.8% y/y in November, remaining within the target range of the central bank (1.5-3.5%) for the fourth consecutive months. This was mainly owing to a fall in food prices which has remained below the previous year's level for four months in a row thanks to the dropping out of unfavourable base effects that were caused by poor summer harvest in 2012 as well as being helped by a VAT rate cut on bread imposed in September 2013. Considering this backdrop of weaker inflation, sluggish domestic demand and a decline in bank lending, the central bank decided to cut its policy rate by 0.25% to 3.75% on January 8. This represents the fifth rate cut since July 2013, taking total cuts to 1.5%. The central bank also lowered the deposit reserve ratio for banks in order to promote bank lending.

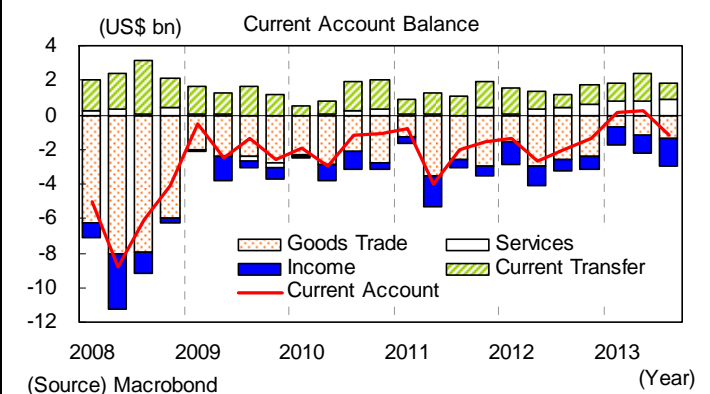


Output **Balance of Payment**

Industrial production (calendar and seasonally adjusted) in November grew by 9.0% y/y, slightly down from 9.9% y/y in October but recording steady growth. Looking at the breakdown by sector, the manufacturing sector grew by 10.1% y/y, which was led by main items such as motor vehicles and machinery. Demand from Germany, Romania's major export destination, supported growth. Looking ahead, however, the rapid growth since the latter half of 2013 is likely to slow down. The reading for the manufacturing sector's confidence deteriorated for the last two months in a row, recording -3.6 in November. The breakdown of the November figure reveals that new orders from overseas fell for three consecutive months. The outlook for output is also on a downward trend.



The current account in the first half of 2013 remained in surplus for the first time since 2001, supported by a decrease in the trade deficit on the back of a recovery in export due to an increased overseas demand. The current account balance in Q3, however, reverted back to a deficit of US\$1.14bn. Nevertheless, the cumulative current account deficit in Q1-Q3 was US\$820mln, significantly lower compared to the deficit of US\$6.13bn a year earlier. Looking at the breakdown of this figure, exports jumped by 11.8% y/y, while imports grew only by 2.6% y/y due to sluggish domestic demand, halving the trade deficit to US\$3.28bn from US\$7.07bn a year earlier. Meanwhile, the surplus in the services balance increased to US\$2.53bn from US\$800mln a year earlier.



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1. Annual and quarterly data

		2011	2012	2013	12/Q4	13/Q1	13/Q2	13/Q3	13/Q4
GDP (at current prices)	(US\$ bn)	182.6	169.3	-	49.3	36.4	43.6	52.3	-
Real GDP growth	(%, y/y)	2.3	0.4	-	0.9	2.2	1.5	4.1	-
(Private consumption)	(%, y/y)	1.5	1.3	-	1.3	-0.3	0.3	1.0	-
(Gross fixed capital formation)	(%, y/y)	7.3	-0.6	-	-0.6	-5.4	-2.9	-4.0	-
Industrial production (excl.construction)*	(%, y/y)	7.6	2.8	-	3.3	5.5	6.7	6.7	-
Retail sales (calender adjusted)	(%, y/y)	-1.3	3.5	-	1.3	1.8	0.8	0.8	-
Consumer price index	(%, y/y)	5.8	3.3	4.0	4.8	5.6	5.3	3.3	1.8
Unemployment rate (seasonally adjusted)	(%)	7.4	7.0	-	6.7	7.1	7.4	7.3	-
Net average monthly earnings growth	(%, y/y)	4.9	4.9	-	6.0	5.3	5.2	4.8	-
Bank credits to the private sector	(%, y/y)	6.6	1.3	-	1.3	-0.2	-1.3	-3.3	-
Trade balance*	(US\$ mn)	-13,452	-12,332	-	-3,122	-1,421	-1,901	-2,161	-
Exports	(US\$ mn)	62,959	57,876	-	14,959	15,283	15,842	16,903	-
Export growth	(%, y/y)	27.3	-8.1	-	-4.2	5.3	9.2	21.4	-
Imports	(US\$ mn)	76,411	70,209	-	18,081	16,704	17,743	19,064	-
Import growth	(%, y/y)	23.1	-8.1	-	-6.6	-0.4	-2.6	11.2	-
Current account	(US\$ mn)	-8,237	-7,506	-	-1,353	99	218	-1,135	-
Capital and financial account balance	(US\$ mn)	6,397	8,301	-	2,735	-642	-7	-1,760	-
Foreign direct investment	(US\$ mn)	2,523	2,748	-	618	547	1,107	20	-
Foreign reserves	(US\$ mn)	42,939	41,162	-	41,162	41,274	42,180	44,651	-
External debt	(US\$ mn)	128,162	131,401	-	131,401	129,270	129,262	133,355	-
Stock price index		5,179	4,857	5,713	4,856	5,586	5,406	5,667	6,183
Policy rate (two-weeks deposit taking rate)		6.00	5.25	4.00	5.25	5.25	5.25	4.50	4.00
Short-term interest rates (interbank 3m)	(average)	5.83	5.35	4.22	5.88	5.73	4.36	4.04	2.80
Leu/USD		3.05	3.47	3.33	3.49	3.32	3.37	3.35	3.27
Leu/Euro		4.24	4.46	4.42	4.53	4.39	4.40	4.44	4.45
Leu/GBP		4.89	5.50	5.20	5.60	5.16	5.17	5.20	5.29

2. Monthly data

		13/05	6	7	8	9	10	11	12
Industrial production (excl.construction)*	(%, y/y)	0.5	8.0	5.9	6.2	7.9	9.9	9.0	-
Retail sales (calender adjusted)	(%, y/y)	-0.7	0.2	1.1	1.5	0.0	2.4	0.0	-
Consumer price index	(%, y/y)	5.3	5.4	4.4	3.7	1.9	1.9	1.8	1.6
Unemployment rate (seasonally adjusted)	(%)	7.3	7.5	7.3	7.3	7.3	7.3	7.3	-
Net average monthly earnings growth	(%, y/y)	5.3	3.5	5.1	4.6	4.6	4.1	-	-
Bank credits to the private sector	(%, y/y)	-2.4	-1.3	-4.4	-2.6	-3.3	-3.9	-4.1	-
Trade balance*	(US\$ mn)	-634	-484	-749	-857	-555	-878	-525	-
Exports	(US\$ mn)	5,220	5,304	5,861	5,098	5,946	6,414	6,102	-
Export growth	(%, y/y)	1.5	12.7	25.7	17.3	20.5	17.8	13.2	-
Imports	(US\$ mn)	5,855	5,787	6,611	5,955	6,500	7,292	6,627	-
Import growth	(%, y/y)	-9.4	-1.6	18.5	6.4	8.3	5.9	12.0	-
Stock price index		5,399	5,359	5,365	5,796	5,863	5,998	6,192	6,366
Policy rate (two-weeks deposit taking rate)		5.25	5.25	5.00	4.50	4.50	4.25	4.00	4.00
Short-term interest rates (interbank 3m)	(average)	4.09	4.45	4.52	3.91	3.65	3.11	2.69	2.57
Leu/USD		3.34	3.40	3.38	3.33	3.34	3.26	3.30	3.26
Leu/Euro		4.34	4.48	4.42	4.44	4.46	4.44	4.45	4.46
Leu/GBP		5.11	5.26	5.13	5.16	5.30	5.24	5.31	5.33

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

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