

Romania monthly economic review

August 2009

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Economy down 8.8% in Q2 2009, says INS

Romania's GDP went down 8.8% in 2009 so far and 7.6% in H1 of this year, according to data supplied by the National Statistics Institute (INS). Provisional data supplied by the INS show that in Q2 of 2009 Romania's GDP decreased 1.2% against the previous three months. Romania's GDP went down 6.2% in Q1 2009, against the same period of 2008, according to INS data released this June. Authorities have initially counted on a 2% economic growth in 2009, but after negotiations with the International Monetary Fund (IMF), the budget was revised to a 4% economic drop in 2009. After the IMF assessment mission, the Romanian authorities and the IMF experts are considering an even sharper economic drop of 8%-8.5% in 2009, which is the level the budget revision in August started from. According to the Finance Minister, the economic contraction will continue in the last two quarters of this year, but its dynamics will change at the year-end. The provisional figure of the GDP for Q2 and H1 of 2009 will be made public by the INS on 1 September 2009.

2009 GDP is projected at RON 497.3 bn and set to grow to RON 525.1 bn in 2010

Romania's Gross Domestic Product (GDP) has been adjusted to RON 497.3 bn from a previous RON 531.25 bn, as initially approved under the stand-by financial arrangement with the International Monetary Fund (IMF), the Finance Minister reported on Tuesday, 11 August 2009. He added that the GDP is expected to record an 8-8.5% contraction in real terms, and annual inflation should record an average value of 4.3%. The current-account deficit was set at 5.5%. In 2010 Romania's GDP will reach RON 525.1 bn, from RON 497.3 bn in 2009. It will continue to grow to RON 944.4 bn until 2015, according to data presented by the Finance Minister. In this way, the GDP will reach RON 576.7 bn in 2011, RON 655.6 bn in 2012, RON 753.5 bn in 2013 and RON 843.5 bn in 2014, according to estimates presented by the Minister, following the analysis made with the IMF and European Commission experts. In 2008, Romania's GDP was RON 505 bn. The data presented by the Finance Minister is significantly different from the latest prognosis of the National Commission for Prognosis which estimates that the GDP will reach RON 568.5 bn in 2010, RON 612 bn in 2011, RON 664.7 bn in 2012, RON 725.1 bn in 2013, RON 778 bn in 2014 and RON 848.5 bn in 2015. In the

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meantime the economic forecast for this year has worsened, the government expecting a GDP contraction of 8.5% this year, compared with a 4% decline estimated before.

Headline inflation moderates to 5.1% y/y in July, highest in EU 27

The headline consumer price index inflation moderated to 5.1% y/y in July, from 5.9% y/y one month earlier, mostly on high base effects generated by the administered energy prices that were still rising steeply last year. The government, central bank and the International Monetary Fund agreed on a joint year-end inflation projection of 4.3% y/y – within the 3.5% +/-1pps band set under the inflation targeting regime. The CORE2 inflation moderated at a slower pace, to 5.9% y/y in July, from 6.1% y/y one year earlier, as it did not include the high base effects mentioned above. The natural gas price dropped by 5% m/m this July. This contributed significantly to the steep moderation in the average price of non-food goods from 6.7% y/y one month earlier to 4.5% y/y in July. The local currency depreciation that occurred during H2 last year pushed the average prices of services up 9.4% y/y, but as the exchange rate has stabilized since January the depreciation's impact is going to smooth over the coming six months, unless further depreciation occurs. The average prices of food items maintain a moderate 3.7% y/y rise on the back of opposite contributions from the local currency's depreciation and a higher agricultural production yield last year.

Romania reported the highest annual inflation rate in the European Union in July, followed closely by neighbor Hungary, the EU's statistics agency Eurostat said on Friday, 14 August 2009. Eurostat's preliminary estimates indicated Romania's July annual inflation stood at 5%, while Hungary and Poland came in next with annual rates of 4.9% and 4.5%, respectively. In the EU 27 bloc, the annual inflation rate in July was 0.2%, while the monthly inflation was -0.5%. As for the 12 month averages up to July 2009, Romania reported the third highest rate, of 6.6%. Latvia and Lithuania posted the first two highest averages, of 8.8% and 7.8%, respectively.

Trade deficit down EUR 7 bn in H1

The FOB-CIF trade deficit in H1, 2009 stood at RON 18.35 bn (EUR 4.340 bn), down by RON 22.68 bn (EUR 6.858 bn) compared to H1 one year ago, according to figures by the National Statistics Institute (INS). FOB exports in H1 2009 stood at RON 57.405 bn (EUR 13.562 bn) down by 8% for values in RON terms and 20.3% for values in Euro terms, compared to H1, 2008. According to INS figures, CIF imports were of RON 75.754 bn (EUR 17.903 bn), down by 26.8% for values in RON terms and by 36.6% for values in Euro terms. The value of intra-community exchanges of goods in H1 2009 was of RON 43.734 bn (EUR 10.103 bn) for exports and RON 55.795 bn (EUR 13.192 bn) for imports, accounting for 74.4% of total exports and 73.7% of total imports. The difference between the dynamic calculated based on values in RON terms and the one of values in Euro terms was prompted by the depreciation of national currency over January to June 2009 with values accounting for 13.9% and 17.3% compared to the same months in 2008. According to National Statistics Institute preliminary estimates, the FOB-CIF commercial deficit in June was of RON 2.807 bn (EUR 668.3 mn), down by RON 4.829 bn (EUR 1.423 bn) from June 2008. FOB exports totaled RON 10.654 bn (EUR 2.537 bn) and CIF imports totaled RON 13.462 bn (EUR 3.205 bn). Compared to June 2008, exports went down 5.1% for values in RON terms (17.5% for values in Euro terms) and imports went down by 28.6% for values in RON terms (38% for values in Euro terms). Compared to June 2009, exports of June 2009 grew by 11.5% for values in RON terms (11.2% for values in Euro terms) and imports grew 6.6% for values in RON terms (6.3% for values in Euro terms).

Current account gap narrows 73.3% y/y to EUR 2.375 bn in H1

Romania's current account deficit narrowed by 73.3% y/y to an estimated EUR 2.375 bn in the first half of 2009, thanks to a shrinking trade gap, stated the country's central bank. Romania's trade deficit for the January to June period narrowed by 67.2% y/y, to EUR 2.962 bn on an FOB/FOB basis, the central bank said in a statement. The current account deficit was completely covered by foreign direct investments (FDI), which totaled EUR 2.894 bn over the review period. FDI in Romania reached EUR 5.076 bn in the first six months of 2008, according to the central bank. The International Monetary Fund said it revised its projection for Romania's 2009 current account deficit to 5.5% of the GDP, from 7.5% projected earlier, following its two-week review mission to the country. Romania's current account gap was equivalent to some 12.6% of the GDP last year.

FDI inflows fall 43% in H1

Foreign direct investments (FDI) in Romania fell by 42.99% in the first six months, versus the same period in 2008, remaining 21.9% larger than the current account deficit, according to data published by the National Bank of Romania. After the first two months of the year, FDI had risen by 38.1%, but by the end of the first quarter it posted a 13.9% annual decline. By May investments dropped even more, by 44.4%, but the decline then tempered to 42.02% in the first five months. FDI inflows amounted to EUR 5.076 bn in H1 last year. Equity capital accounted for 40.9% of the investments in H1, the reinvested profit for 9.4% and intra-group loans for the remaining 49.7%. Romania's balance of payments deficit narrowed 73.3% in H1 to EUR 2.375 bn, as the trade gap compressed significantly.

Foreign loans up 15% in H1

Retail and corporate loans, granted by foreign financial institutions on the Romanian market, rose by more than 15% in H1 of this year to reach EUR 41.3 bn, compared to the corresponding period in 2008. This amount includes loans taken out by the National Bank of Romania (NBR) and the government, banking, and non-banking sectors. Short-term loans fell 30% in the first six months of 2009, to EUR 7.3 bn, while long-term loans increased by more than 33%, to EUR 34 bn. "Rating agencies have always criticized us for having a high short-term debt. This downward trend of short-term loans is normal, because the NBR eliminated the cash reserve ratio for foreign currency liabilities with residual maturity exceeding two years," said the Chief Economist of Banca Comerciala Romana. Companies, especially those producing goods with high added value, prefer foreign financing to local loans, and usually in the form of short-term loans. However, due to the economic downturn, they may decide not to renew their credit lines.

Industrial production down 0.3% in June

In June 2009, industrial production in the European Union (EU) fell 0.6% against the previous month, whereas in the Euro area (EA15), the decline was 0.2%, shows data published by the European Union's official statistics office, Eurostat. Available data shows that industrial production advanced in 10 member states, fell in another seven (Romania included) and kept stable in Germany. In Romania, industrial production inched down 0.3% in June 2009, compared to the previous month. Expressed in annual rates, industrial production fell 17% in the EU and 15.6% in the Eurozone. In May 2009 industrial production had dropped 15.9% in the EU and 17% in the Euro zone area. Year on year, industrial production fell in all EU member states for which data is available, except for Ireland (which registered an advance of 2.6%). In Romania, in June 2009, industrial production was 7.8% down y/y, after a drop of 8.3% in May 2009.

Government deficit January to July 2009 reaches 3.3% of GDP

The government deficit from January to July 2009, recorded an estimated value of RON 17.58 bn, or 3.3% of the GDP, according to data released on Thursday, 27 August 2009 by the Ministry of Finance. As of 31 July 2009, the government aggregate receipts were standing at RON 92.2 bn, down by 6.9% from the same interval of the year before. In nominal terms, income tax receipts were up 7.2% from the same period of the year before, while profit tax earnings declined 14.4%. In the case of rates and taxes on goods and services, a rise of 10.8% was recorded in excise duties earnings compared to the same interval of the year before, reaching RON 826.7 mn, but there was also a significant decline of 18.5%, or RON 4.494 bn registered in VAT earnings. Earning from social security contributions were slightly up 0.1% in annual terms. Non-fiscal revenues declined 17.6%. Government aggregate spending in the first seven months of 2009 stood at RON 109.8 bn, up 7.4% from the first seven months of 2008. Staff costs over the same period were up 11.8% in annual terms, but the pace of growth of such costs was slightly down from the previous months. The rise in staff costs compared with the same period of the year before is explained as the consequence of salary raises approved in the second part of 2008. January through July 2009, social security spending increased by RON 6.8 bn, as a result of a rise in the reference pension computation point from October 2008 and the award of a minimum guaranteed social pension from April 2009. Spending on goods and services were down 5.5% in annual terms as a result of the saving measures taken so far. Interest spending surged 50.1%, while investment spending, including capital spending and other investment transfers, was RON 16.9 bn, or 3% of the GDP.

Overdue payments of large bank debtors rise 147% y/y to EUR 1.4 bn

The overdue payments of the large bank debtors (with loans above RON 20,000), legal and natural entities, increased by 147% y/y to RON 5.8 bn, according to the National Bank of Romania's risk surveillance unit. The share of overdue payments in the total of banks' claims (RON 225 bn), reached 2.58% from 1.17% one year earlier and 2.55% one month earlier. The share of large customers with overdue debts increased to 20% from 11.4% one year earlier and 19.8% one month earlier. The share of total bad loans (e.g. not only the overdue payments, but rather including the whole loan) in the banks' portfolio of loans reportedly increased to above 11% from 4.7% one year earlier. Under the last official reporting, the share was 10.5% as of the end of April. The stock of bad loans, defined under standard methodology as doubtful and loss-type loans, must have thus reached RON 22 bn as of the end of June, out of the total RON 198 bn stock of credit. The provisions set aside by banks for these bad debts reached 5.7% of the total stock of debt from 2.9% one year earlier.

Employment and wages

Unemployment rate rises to 6.3% in July

Romania's unemployment rate rose to 6.3% in July from 6.0% a month earlier, the government's national employment agency, the ANOFM, stated on its website. In July, the northeastern county of Vaslui and the southwestern county of Mehedinti registered the highest unemployment rate in Romania, 11.2%. Ilfov county, in southern Romania, had the lowest rate, of 1.7%. The average unemployment rate in Romania fell to a 17-year low of 4.0% last year, from 4.3% in 2007. In 1991, the average unemployment rate was 1.8%. Romania's workforce is estimated at 9.3 million out of a population of 21.5 million.

Number of unemployed might reach 600,000 in Romania at year-end

Romania will have almost 600,000 unemployed people by the end of the year, according to the estimates of the National Employment Agency (ANOFM), which received from the companies no less than 15,000 notifications related to layoffs. According to the Agency, the number of those who could be left without a job by the year-end might even reach 800,000, which matches the estimates of the International Monetary Fund (IMF). Recently, the Finance Minister stated that Romania would not reach an unemployment rate to be made of two digits, also mentioning that the unemployment budget will get RON 864 mn in supplementary funds on the occasion of the budget rectification in August, to play the role of a 'safety net.' The official also added that the unemployment rate might increase because of the restructuring in the public sector, but the private sector is expected to show a more positive trend, on the background of the recovery of the economy, with a slight increase by 0-0.5%. The Finance Minister reiterated that Romania is currently ranking 5th in the EU 27, with one of the lowest unemployment rates in such times of crisis, and 3rd, after the Netherlands and Germany, in terms of unemployment rate dynamics, even with the figure having doubled compared with the same interval in 2008.

Romania is spending 9% of GDP on wages

Romania is currently spending approximately 9% of its GDP on wages in the public sector, that is by 3% more when compared with other countries, stated the Transport Minister. "Romania is currently spending 9% of its GDP on wages paid in the public sector, that is by 3% more than other states. That means we are spending on wages as much as EUR 5 bn, while EUR 2 bn from this amount would have been just what I needed this year to go on with building motorways," said the Minister. He also stated that while the Government cannot directly influence the private environment, it needs instead to take harsh measures in the public sector, in order to rebalance the manner in which expenditures are made, beginning with wages and including acquisitions. "The private environment brought back almost no reactions to our indirect measures so it was high time we do something directly in the public sector, especially after the failure of our measures taken back in February, with some of the public institutions to blame for such a failure, since they didn't make the cuts in wages and personnel as they were supposed to, therefore we need to act now in a more direct manner," the Transport Minister explained.

Other developments

Cabinet to promote seven-point growth stimulus package

The government selected 7 of the 32 points of a growth stimulus package, drafted by the ruling coalition earlier this month and will promote them in Parliament. The government promised earlier that it would promote the seven-point scheme under quick procedures in Parliament as part of a broader legislative package. But the key measures are visibly insufficiently elaborated. Furthermore, the seven-point scheme still includes measures that are already enforced and measures that are still in their very early stage of discussions among the ruling partners. The seven points are: full deductibility for re-invested profit as of 1 October 2009; state aid for Small and Medium Enterprises (SMEs) with a view of supporting them in paying bank loans; increasing incentives for investors, among others by lowering the floor for eligible projects' size; extending subsidies for farmers that replace their tractors from January 2010; selling minority stakes that are still in state's portfolio; extending state subsidies for legal persons that replace old cars from 1 September 2009; and capitalization of the guarantee fund for rural credit.

Romanian central bank cuts monetary policy rate to 8.5%

Romania's central bank, (NBR), said that it decided to cut its key interest rate to 8.5% from 9.0%, in line with most analysts' expectations. Most analysts expected the NBR to cut the key interest rate by 50 basis points to 8.5%, according to a poll by the Association of Financial and Banking Analysts (AAFBR), conducted amongst its members. The central bank has said in a statement that it also decided to cut the minimum reserve requirements ratio on foreign currency-denominated liabilities, with residual maturities of up to two years, to 30% from 35%, starting with the 24 August – 23 September 2009 maintenance period. The NBR said it will actively use open-market operations in order to ensure an adequate management of liquidity in the banking system and will reduce, to one week from one month, the maturity of its main monetary policy instrument, the repo operations via auctions. Romania's annual consumer price inflation decelerated to 5.86% in June, from 5.95% in May. Since the beginning of the year the NBR has cut the rate three times, to 10% from 10.25% in February, to 9.5% in May, and to 9.0% in June.

International Monetary Fund urges government to cut public spending by 1-2% of GDP

The International Monetary Fund (IMF) expert team, in Bucharest for the first quarterly review under the stand-by agreement with Romania, has refused to comment on the revised macroeconomic projection, but stressed that the government has to cut the public spending by 1-2% of the GDP (EUR 2-3 bn). Prior to the mission's visit, the Fund' representatives announced a major revision of the macroeconomic scenario for the country, prompted by a steeper-than-expected GDP drop (6.2% y/y) in Q1. Separately, finance minister Gheorghe Pogea admitted that the GDP might drop by 8% this year, a scenario reportedly considered by the IMF for the revised macroeconomic projections to be drafted upon its mission's visit in Bucharest.

Key macroeconomic indicators

Years	Months	Employed people (% y/y change, end of period) ¹⁺²	Monthly net average wage (RON, end of period) ²	Registered unemployment rate (% of labor force) ²	Consumer Price Index (% y/y, end of period) ¹	Central + Local Budgets (% of GDP, end of period)	Exports (EUR million, fob) ¹	Imports (EUR million, cif) ¹	Trade balance (EUR million, fob- cif) ¹	Monthly FDI, net (EUR million) ²
2005	12 months	2.30	848	5.90	8.60	-0.52	22255	32568	-10313	5237
2006	12 months	1.60	1099	5.20	4.87	-2.40	25850	40746	-14896	8723
2007	12 months	3.10	1266	4.00	6.57	-3.09	29549	51322	-21773	7047
2008	12 months	0.50	1489	4.40	6.30	-3.70	33613	56134	-22521	9272
2008 out of which:										
	April	2.20	1282	3.90	8.62	-0.20	2723	4827	-2104	3873
	May	2.00	1248	3.80	8.46	-0.80	2971	4754	-1783	4429
	June	1.80	1273	3.80	8.61	-1.40	3034	5047	-2013	5226
	July	1.80	1308	3.80	9.04	-1.00	3190	5077	-1887	6082
	August	1.70	1277	3.87	8.02	-1.40	2619	4330	-1711	6833
	September	1.90	1296	3.90	7.30	-1.70	2915	5253	-2338	7388
	October	1.80	1327	4.00	7.39	-1.80	3219	5229	-2010	8140
	November	1.20	1361	4.10	6.74	-3.00	2536	4215	-1679	8668
	December	0.50	1489	4.40	6.30	-3.70	1923	3374	-1451	9272
2009 out of which:										
	January	-0.60	1355	4.9	6.71	0.3	1920	2572	-652	1199
	February	-1.70	1358	5.3	6.89	-0.9	2092	2903	-811	1602
	March	-3.1	1402	5.6	6.71	-0.9	2583	3194	-611	1939
	April	-4.1	1408	5.7	6.45	-0.3	2148	3015	-867	2215
	May	-5	1356	5.8	5.95	-	2282	3014	-732	2608
	June	-5.6	1379	6.0	5.86	-	2537	3205	-668	2891
	July	-	-	6.3	-	-	-	-	-	-

Sources: ¹ INSSE ² National Bank of Romania (Monthly Bulletins) ³ cumulated from the beginning of the year

* Estimated amounts.