

- **Industrial production grew by 10.8% yoy in March 2014.**
- **The consolidated budget was executed with a deficit of 0.28% of GDP in January-April 2014.**
- **Consumer inflation accelerated to 1.21% yoy in April 2014.**
- **The foreign trade balance was positive at EUR 24 million in March 2014.**
- **The current account deficit dropped 7% yoy in March 2014.**

Executive Summary

In March, growth of industrial output returned to double digits. Manufacturing remained the main driver of growth and was supported by improved performance of mining and quarrying. Total industrial output growth reached 10.8% yoy in March. After good performance in February, the trade and services sector did not perform as well in March. One positive was the continued acceleration of growth of the trade component. At the same time, services provided to households also grew, but at a significantly decelerated rate compared to the previous month.

The actions of the government on budget consolidation were successful in April. Even though the general consolidated state budget deficit doubled in terms of GDP share to 0.28% in one month, this is still significantly lower than 1.19% of GDP observed in January-April 2013. Growth was observed in all major tax and non-tax budget revenues. At the same time, growth of total general government expenditures decelerated compared to that observed at the end of March, despite some acceleration in growth of the wage bill.

Some acceleration in growth of prices of non-food goods led to a small increase in inflation in April. At the same time, the trend of deflation in the food goods sector remained. Overall, total consumer inflation was equal to 1.21% yoy in April. Despite the mentioned increase, this number is still one of the lowest registered in Romania.

Continued measures to stimulate national currency lending finally saw a significant response in April 2014. Total RON-denominated loans grew by 6.1% on the back of solid increases in both household and corporate loans. At the same time, forex-denominated loans continued to decline. There are two good signs about this. The first is deceleration in the rate of decline. The second is decline in the share of forex-denominated loans in the country below 60%.

Romania improved its performance in foreign trade in March despite some decline in growth of exports. This decline was compensated for by an even faster decline in imports. As a result, the balance of foreign trade was positive in March. The total foreign trade dynamics followed that of foreign trade in goods, as exports of goods grew at a slightly decelerated rate compared to the previous month, while deceleration in growth of imports was more significant. As for foreign trade in services, both exports and imports dropped. However, decline in imports was almost 3.5 times larger than that of exports, which led to growth in surplus of trade. Other components of the current account (income and current transfers accounts) posted performance similar to that observed for a couple months in a row. In particular, outflows from the income account were significantly higher than inflows and vice versa for the current transfers account. However, growth in the deficit of the income account was significantly higher than the growth of the surplus of the current transfers account in both absolute and relative terms. Taking into account the low positive balance of foreign trade, the total current account balance was negative but 7% yoy lower in March.

Main Macroeconomic Indicators	2009	2010	2011	2012	2013	2014
GDP growth, % yoy	-6.6	-1.6	2.5	0.2	3.5	2.4
GDP per capita, USD	7,649	7,667	8,863	8,030	8,080	8,100
Industrial production, % yoy	-5.5	5.5	5.6	0.0	7.0	5.0
Retail sales, % yoy	-10.3	-5.3	-2.5	2.9	0.5	2.0
Budget balance in cash methodology, % GDP	-7.3	-6.4	-4.3	-2.5	-2.5	-2.4
Government external debt, % GDP	23.6	30.5	34.7	37.8	38.0	38.5
Inflation, eop	4.7	8.0	3.1	5.0	3.1	3.2
Gross international reserves, EUR billion	30.9	36.0	37.3	36.4	37.0	37.0
Current account balance, % GDP	-4.2	-4.4	-4.5	-4.0	-1.0	-1.5
Gross external debt, % GDP	68.7	74.4	75.2	75.1	75.0	75.0
Unemployment (ILO methodology), % eop	6.9	7.3	7.4	7.2	7.3	7.0
Exchange rate RON/EUR, annual average	4.24	4.21	4.24	4.45	4.5	4.5

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Economic Growth

Growth of industrial output returned to double digits (10.8% yoy) as improved performance in mining supported that of manufacturing. Manufacturing remained the major driver of industrial output growth with a 12.5% yoy increase. This growth was attributed largely to the base effect in the hydrocarbon-processing sub-sector (overhaul was carried out on the major facilities in the same period of last year) leading to a 246% yoy increase in output. Faster growth was also observed in the transport means sub-sector and related industries, the same as in manufacturing of other non-metallic mineral products, chemicals, and metallurgy. Growth of mining and quarrying accelerated by almost four times to 4.3% yoy thanks to “other mining and quarrying” and “mining support service activities”. In contrast to the two other sectors, the energy sector declined in March. The decline was equal to 4.1% yoy. All the industrial groupings registered growth in March with the largest increase observed for capital goods (18.2% yoy) and the smallest for energy (1.6% yoy).

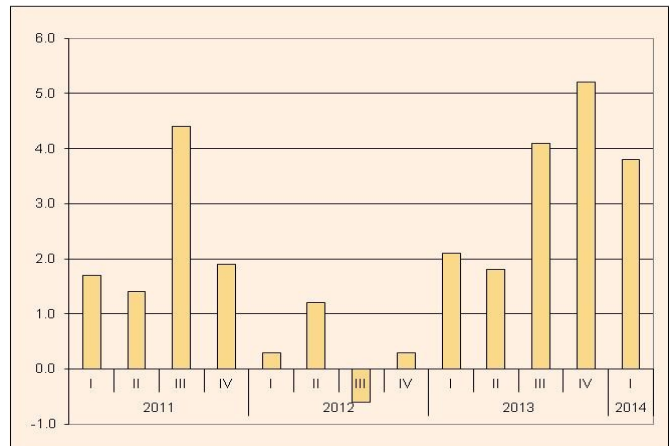
After good performance in February, the trade and services sector posted mixed performance in March. On the one hand, trade continued to gain momentum; however, growth of services to households significantly decelerated. Trade in general grew by 11% yoy, which is the highest growth rate in the post-crisis period. Retail sales grew by 13.6% yoy thanks to an increase in all of its subcomponents. However, the highest growth was observed in sales of fuels (17.4% yoy) ahead of a hike in the fuel excise duty introduced on April 1st. Growth of sales of non-food products was not far behind that of fuels (16.0% yoy). Automotive sales recovered from the decline observed in February and grew by 2.0% yoy on the back of sales of motor vehicles. At the same time, all other components of the sub-sector posted declines in March. Growth of market services to the population decelerated from 10.1% yoy in February to 1.7% yoy in March. The reason is a 4.2% yoy decline in gambling and other recreational activities, which overcame growth in all the other components of the sub-sector, including a 11.2% yoy increase in activities of travel agencies and tour operators.

Fiscal Policy

Further actions to control expenditures resulted in a decline of the general consolidated state budget deficit over the first four months of the year. The budget was executed with a deficit of RON 1.88 billion (EUR 419.6 million) or 0.28%. In terms of share of GDP, the deficit is 4 times lower compared to the same period last year. Moreover, the positive primary balance was equal to 0.36% of GDP at the end of April, compared to the negative primary balance of 0.49% of GDP a year ago. The obtained general consolidated budget deficit was significantly lower than the upper limit agreed upon the international financial institutions.

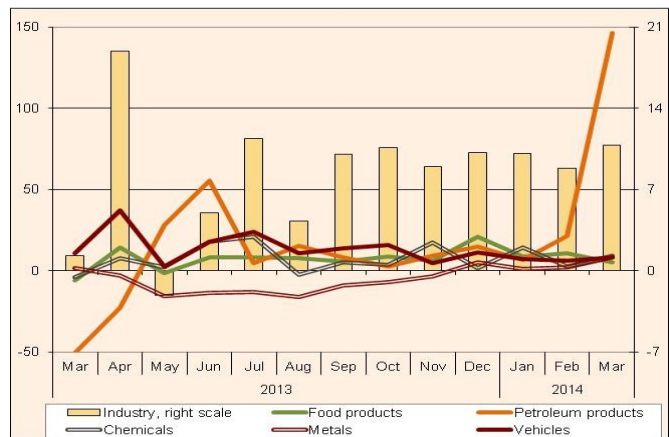
Growth of general consolidated budget revenues slightly accelerated in April. Over the first four months of the year, the revenues amounted to RON 67.85 billion (EUR 15.14 billion), which is a 4.4% yoy increase. In terms of share of GDP, the revenues totaled 10.2%. Growth over the same period last year was observed for all the major tax and non-tax revenues at both the central and local levels. In particular, the central government collected RON 1.013 billion (EUR 226.1 million) more in excise revenues, RON 647.8 million (EUR 144.6 million) more of corporate profit and personal income tax revenues, RON 428.6 million (EUR

GDP growth, % yoy



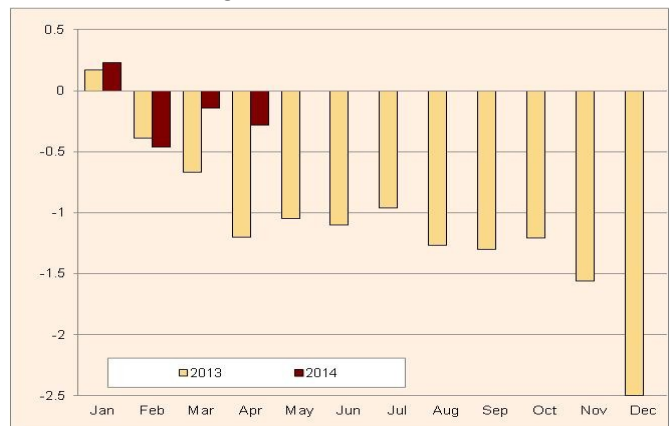
Source: INSSE, The Bleyzer Foundation

Industrial production by selected branches



Source: INSSE, The Bleyzer Foundation

Consolidated budget balance, % of GDP



Source: Ministry of Public Finance of Romania

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95.7 million) more in VAT revenues, and RON 582.4 million (EUR 130 million) more of social security contributions. At the local level, receipts of property taxes grew by 5.6% yoy, receipts of use tax on goods increased by 4.1% yoy, and receipts of non-tax revenues grew by 4.5% yoy.

Thanks to adjustments made by the government, general government expenditures accelerated their decline in April. Total general consolidated budget expenditures reached RON 69.73 billion (EUR 15.6 billion), is a 3.8% yoy decline. As a share of GDP, total government expenditures are equal to 10.5%, which is 1% lower than in January-April 2013. Growth of the wage bill accelerated to 4.4% yoy at the end of April because of wage prepayments for the month made to some categories of public sector employees due to Easter (otherwise those wages would be paid in May). The legally mandated payment of arrears to providers of medications increased spending on goods and services by the National Health Insurance Fund. This, in turn, led to some acceleration of growth in total spending on goods and services to 7.3% yoy, which is still significantly below the 15.6% observed in February. Lower benchmark yields at sovereign bond auctions still help decrease the interest payment expenditures. However, this decrease significantly decelerated by the end of April (3.1% yoy compared to 20.4% yoy at the end of March). Investment expenditures, including capital expenditures and related development programs financed from both internal and external sources, almost doubled to RON 5.9 billion (EUR 1.3 billion) reaching 0.9% of GDP.

Monetary Policy

Consumer inflation accelerated a small amount in April due to slightly faster growth in prices of non-food goods. Deflation in the food goods sector remained almost the same as in March at 2.29% yoy, which limits consumer inflation in general thanks to the high share of foods in the consumer basket. Prices of non-food goods grew by 3.04% yoy in April, which is 0.51% higher compared to growth in March. In the services sector, price growth inched down by 0.18% to 3.91% yoy. As a result of the mentioned developments, total consumer inflation accelerated from 1.04% yoy in March to 1.21% yoy in April.

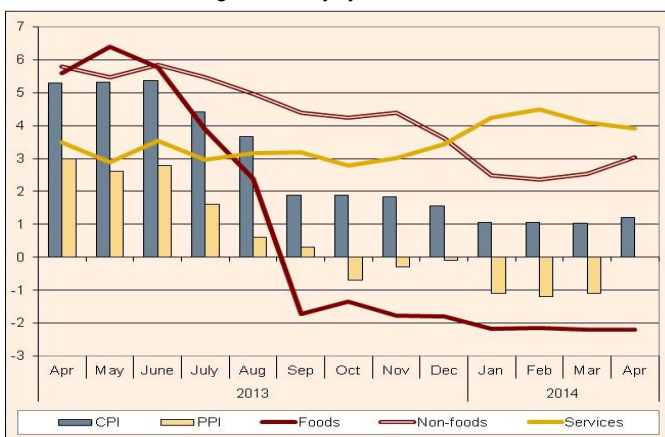
The National Bank of Romania decided to keep the major monetary indicators (policy rate and minimum reserve requirement ratios) unchanged thanks to positive information on inflation and non-government loans. New data of the Bank proved previous inflation forecasts, while the national currency non-government loans continued to expand at an accelerated rate. In particular, total RON-denominated non-government loans grew by 6.1% yoy (4.7% yoy in March) thanks to almost equal relative increases in both household and corporate loans. At the same time, forex-denominated non-government loans still declined in April but at a decelerated rate compared to March (5.0% yoy against 7.2% yoy). Since forex-denominated loans are were still almost 1.5 times higher than RON-denominated non-government loans, the effect on total loans to the private sector was negative (0.8% yoy decline). The National Bank of Romania indicated that the share of forex-denominated loans fell below 60%. This is good for the country, as a decline in the share of these loans helps consolidate the monetary policy transmission mechanism.

Growth of broad money (M3) remained unchanged in March compared to that in February, despite some decline of the indicator in monthly terms. In particular, broad money decreased by 1.3% mom in March due to declines in both net foreign assets and net domestic assets. At the same time, in year-over-year terms, net foreign assets grew by 55.9%. This growth overcame the 7.1% yoy decline in net domestic assets. As a result, total broad money growth was equal to 6.4% yoy in March.

International Trade and Capital

In March, Romania improved its foreign trade activities compared to February. Growth of total exports decelerated to 7.97% yoy but growth of imports decelerated even more to 4.46% yoy, which is just one third of that in the previous month at 13.46% yoy. As a result, the foreign trade balance was positive at EUR 24 million compared to a deficit of EUR 140 million a year ago. Both trade in

Inflation indexes, growth % yoy



Source: INSSE, The Bleyzer Foundation

total RON-denominated non-government loans grew by 6.1% yoy (4.7% yoy in March) thanks to almost equal relative increases in both household and corporate loans. At the same time, forex-

Selected monetary indicators, growth % yoy



Source: NBR

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goods and trade in services posted some improvements. Exports of goods grew at a rate almost the same as a month ago (11.81% yoy), while imports of goods grew at a decelerated rate (9.96% yoy compared to 14.1% yoy). Major drivers of the increase in exports were machinery and transport equipment, and mineral fuels, lubricants and related materials. Sales of agricultural foodstuffs and livestock, in contrast, stalled after eight months of double-digit year-over-year growth. The reason is a halt in vegetal commodity exports. Overall, the foreign trade in goods deficit narrowed by 9.45% yoy in FOB-FOB terms to EUR 345 million. As for foreign trade in services, exports of services decreased by 10.12% yoy in March. However, a drop in imports was much more significant at 35.14% yoy. Therefore, the surplus of foreign trade in services grew by 53.11% yoy to EUR 369 million.

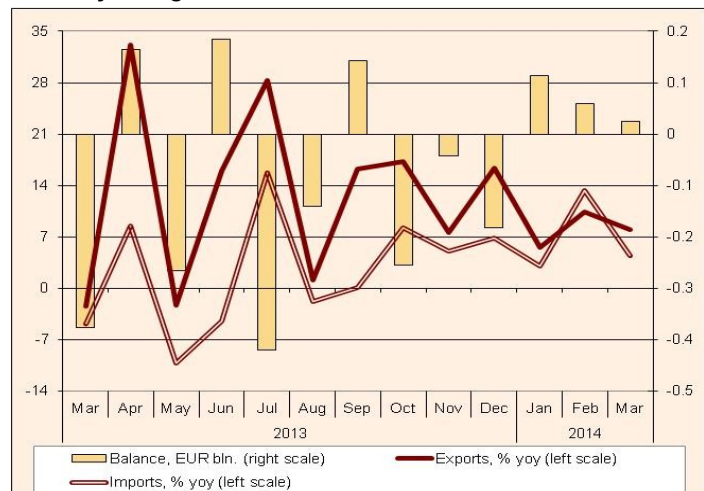
Same as for the last couple of months, the dynamics of the current account balance depends mostly on the dynamics of the foreign trade balance, as the trend in income and current transfers accounts remain unchanged. In particular, inflows to the income account once again were significantly lower than outflows (by 4 times), because of which the deficit of the account grew more than two fold in year-over-year terms in March. In contrast, inflows to the current transfers account were two times higher than outflows. As a result, the current transfers surplus also increased by almost two times over the surplus observed in March 2013. Nevertheless, surpluses of both foreign trade and current transfers were not enough to compensate for the deficit of the income accounts and the current account was in deficit in March. On a positive note is the 7.0% decline in the current account deficit compared to the previous year.

Foreign direct investments posted good performance again in March. Total net inflow of FDI to the Romania amounted to EUR 288 million. As a result, the total net inflow of FDI reached EUR 570 million from the beginning of the year. This is a 30.1% yoy increase. The share of equity stakes (including reinvested earnings) was equal to 90.18% of total net FDI. At the same time, intragroup loans turned positive, equal to EUR 56 million or 9.82% of total net FDI.

In March, Romania's external debt continued to decrease, but this time thanks to positive changes solely in medium- and long-term external debt. In particular, the medium- and long-term external debt declined by 1.6% mom to EUR 76.555 billion. Declines were observed in all the medium- and long-term external debt components, except for medium- and long-term deposits of non-residents, which remained almost unchanged. The largest decline was registered in direct public debt (2.8% mom). Unlike the medium- and long-term external debt, short-term external debt slightly increased in March. It grew by 2.3% mom to EUR 17.93 billion. As a result, total external debt decreased by 0.9% mom to EUR 93.238 billion. From the beginning of the year, the decline reached 2.9%. As for the structure of the external debt, the share of the medium- and long-term external debt declined to 80.76% compared to 81.37% observed at the end of February.

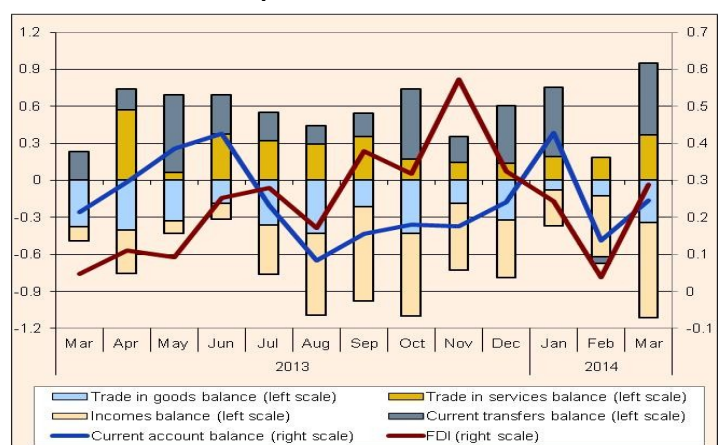
The foreign exchange reserves of Romania grew by 3.7% mom in April 2014. The major reason is issuance of Eurobonds by the Ministry of Public Finance, which increased the inflows of reserves by EUR 1.25 billion to the total of EUR 2.51 billion. As usual, the inflows mainly represented changes in the foreign exchange reserve requirements of the credit institutions, inflows into accounts of the European Commission and of the Ministry of Public Finances of Romania. As for international reserve outflows, they amounted to EUR 1.346 billion, representing mainly changes of the foreign exchange reserve requirements rate of the credit institutions, interest and principal payments on foreign currency public debt. Particularly, payments on public and publicly guaranteed debt totaled EUR 393 million. The value of the gold stock once again changed because of dynamics of international prices of gold, as the weight of the stock remained unchanged. As international prices of gold inched down a bit, the value of Romania's gold stock also decreased insignificantly (by 0.5% mom to EUR 3.117 billion). The overall international reserves of Romania totaled EUR 34.41 billion as of March 31st, which is a 1.29% mom decline.

Monthly foreign trade balance



Source: NBR

Current account components and FDI, EUR billion



Source: NBR, INSSE

