

# Romania monthly economic review

September 2008

## Latest developments

### In this issue:

- ▶ Industry, trade and services expected to grow
- ▶ Annual inflation down to 8.02% in August
- ▶ Trade deficit up by more than 10% in first seven months
- ▶ Short-term foreign debt drops down slightly first time in 3 years
- ▶ Population borrows EUR 2.3 bn, more than it saves
- ▶ Net monthly average salary rises by over 20% in 2007

### Ernst & Young SRL

Premium Plaza Building, 3<sup>rd</sup> Floor

63-69, Dr. Iacob Felix Street

Sector 1, 011033 Bucharest

Tel: (40-21) 402 4000

Fax: (40-21) 310 7193

Email: [office@ro.ey.com](mailto:office@ro.ey.com)

[www.ey.com](http://www.ey.com)

### Industry, trade and services expected to grow

The managers of the commercial companies estimate a growth of the activity in the processing industry, retail trade and services, and a trend to stability in the construction sector in the period September-November, compared to the 3 previous months, according to the studies of the economic situation made by the National Statistics Institute (INS). Thus, in the processing industry, the estimates point to a growth of the volume of production, while the number of employees will have a trend to stability. For the prices of the industrial products, it forecasts an upward trend. According to the estimates from September 2008, for the next 3 months it is predicted a trend to stability for the volume of production and the stock of orders from constructions. The same trend to stability that exists for the whole sector is predicted for the number of employees. The managers estimate a growth of the prices of the construction works in the next 3 months. In the retail trade, the managers of the commercial companies estimate a growth of the sales of commodities. The orders for commodities addressed to suppliers will have a positive evolution; the number of employees will have a slight growth, while the retail prices will rise. The economic situation from the sector of services was estimated to be good. According to the estimates from September 2008, the demand for services (turnover) will maintain, in the next 3 months, its upward trend in the sector as a whole. The number of employees will rise slightly, while the selling or invoicing prices for the services will register a rise in the next 3 months.

### Annual inflation down to 8.02% in August

The annual inflation (August 2007-August 2008) dropped in August to 8.02% vs. 9.04% in July, the consumer prices falling 0.09%, according to the data published by the National Statistics Institute. This deflation from August 2008 is the second after 1989, after August 2006 when the prices dropped 0.07%, decisive being at that time the fall of the food prices. Thus, in August 2008, the fall of the prices was largely determined by the fall of the service tariffs which dropped by an average of 0.9% in August. The evolution of inflation in August, a bit more optimistic than the market expectations, could determine the National Bank of Romania (NBR) to maintain or even to reduce the monetary policy interest rate this year, which will be reflected in a depreciation of the RON against the EUR, consider the economic

## In this issue (continued):

- 
- ▶ NBR: The rate of salary growth to be tempered after 2010
  - ▶ FDI in Romania: more than EUR 10 bn in 2008
  - ▶ Foreign investors shift attention towards southeast Romania
  - ▶ Romania, leader of greenfield projects in 2007
  - ▶ Romania to receive EUR 1.5 bn European funds in 2008
- 

analysts. NBR analysts note that the data regarding inflation in August comply with the expectations connected with the reduction of the consumer price index below 7% in December, and do not confirm the theories regarding the overheating of the economy. For September, the analysts anticipate an annual inflation rate of 7–7.1%, the prices being set to grow slightly or remaining unchanged.

### Trade deficit up by more than 10% in first seven months

The trade deficit has grown by 10.42% to EUR 12.7 bn in the first 7 months, compared to the same period in 2007, the National Statistics Institute informs. The dynamic of exports continues to be higher than the one of imports. Exports have grown by 18.5% to EUR 19.93 bn in the January-July period, while imports have grown by 15.2% to EUR 32.63 bn. The dynamic of exports was more accelerated than the one of imports, starting with December 2007. Expressed in the national currency, the deficit stood at RON 46.43 bn, up by 22.06% compared to the level registered in the same period last year. The exports grew by 30.9% to RON 72.86 bn, while the imports grew by 27.3% to RON 119.3 bn. The growth of the trade deficit in the first 7 months continues to be significantly below the growth registered in the same period last year. In the January-June 2007 period the trade deficit climbed by 63.08% when denominated in foreign currency and by 52.45% when denominated in the national currency. When it comes to intra-EU trade, the exports stood at RON 50.84 bn (EUR 13.91 bn) while the imports stood at RON 82.4 bn (EUR 22.53 bn), the values representing 69.8% of total exports and 69.% of total imports. Machines and transportation equipments have held the main share in the groups of products traded in January-June period (namely 34.3% of exported goods and 36.3% of imported goods). Other manufactured goods hold a share of 39.5% of the exported goods and 30.9% of imported goods. The INS data shows that in July the exports totaled RON 11.49 bn (EUR 3.18 bn) and the imports totaled RON 18.31 bn (EUR 5.07 bn). Compared to July 2007, the exports have risen by 38% in RON-denominated values and by 20.8% in EUR-denominated ones, while the imports have risen by 30.5% in RON-denominated values and by 14.2% in EUR-denominated ones.

### Short-term foreign debt drops down slightly first time in 3 years

Short-term foreign debt fell slightly in the Q2 of the year, which put an end to over 3 years of uninterrupted growth. Midway through the year, short-term debt amounted to EUR 17.59 bn, 3.4% lower than the EUR 18.22 bn recorded in March, according to data from the National Bank of Romania. The correction was generated by the decline in short-term funding attracted by local banks by almost EUR 700 mn, to EUR 7.8 bn. Companies, in turn, saw a very slight rise in the amount of short-term loans attracted, to EUR 9.6 bn. Banks and private companies account for almost all short-term (less than a year) loans attracted from abroad. Short-term foreign debt has seen a high growth rate since 2005. While volumes amounted to EUR 2.7 bn at the end of 2004, by December 2006, they had gone up 4 times and reached EUR 10.9 bn. The all-time high was reached in March this year, when overall short-term loans attracted amounted to EUR 18.22 bn.

### Population borrows EUR 2.3 bn, more than it saves

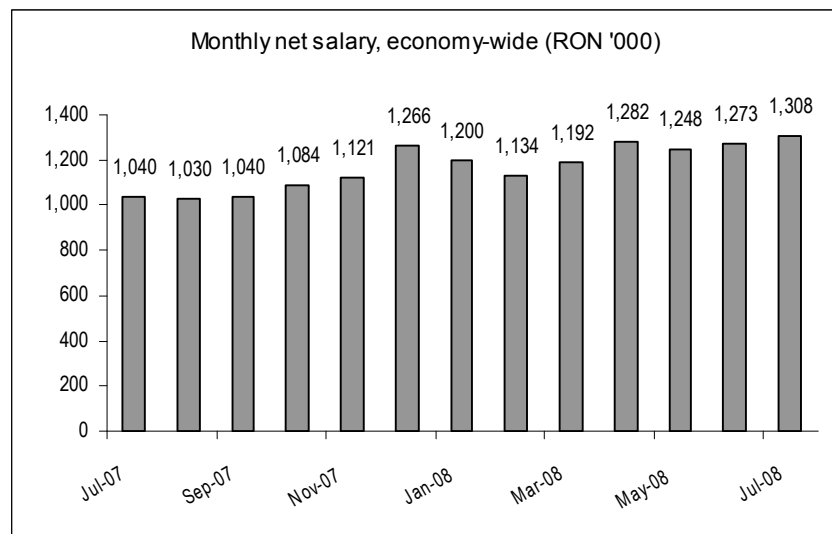
Credits contracted by the population from banks exceeded deposits by a sum equivalent to EUR 2.3 bn in July, following the accelerated growth of lending, according to data from the NBR. The sum is 110% higher than in July 2007. The statistics broken down into currencies reveal that the imbalance is generated by foreign currency, which is less covered by deposits attracted by the population. However, banks sit more comfortably when it comes to funding in RON, where

credits are still lower than deposits attracted. The difference between credits and deposits in foreign currency reached EUR 5.15 bn in July, slightly up from the previous month, when it amounted to EUR 5.09 bn. The difference between deposits and credits in RON is positive, but down in July, to a sum equivalent to EUR 2.79 bn, from EUR 2.98 bn in June. This imbalance comes amid a strong appetite from the population for loans in foreign currency, fuelled by the relatively attractive interests, while the population's savings are mainly in RON.

## Employment and wages

### Net monthly average salary rises by over 20% in 2007

The national gross average salary in 2007 stood at LEI 1,396, up 21.8% (LEI +250) against 2006, and the net monthly average salary stood at LEI 1,042, up 20.3% (LEI + 176), informs the National Statistics Institute. Compared with the national average, the net monthly average salary in 2007 was 2.5 times bigger in financial brokerage, up 91.7% in public administration, up 73.1% in the extractive industry, up 51.3% in electricity, gas and water supply, up 19.4% in transport and communications and up 12.8% in education. Below the national average were the net monthly average salaries in the following fields: hotels and restaurants (-7.5%), agriculture and forestry (-28.2%), trade (-21%), processing industry (-16.5%), construction sector (-15.5%), healthcare and social assistance (-9%). In 2007, the level of the net salary exceeded the level in 1990 by over 3,200 times. The index of the real salary (expressed in relation with the trend of consumer prices) stood at 111.8% versus 1990, up 52.4% against 2000.



Source: *The National Statistics Institute*

### NBR: The rate of salary growth to be tempered after 2010

The salaries will grow slower starting with 2010, below 10%, according to NBR officials. But, until then, the progress of the real salaries will continue, as part of the process of filling up the gap between Romania and the developed countries from the EU, declared the adviser to NBR governor, Lucian Croitoru. The NBR official considers that the correlation of the rate of growth of the salaries and that of labour productivity ceased in 2007 and so it remained. It is difficult to believe that the salaries will continue to rise by 25% in the following years, added Croitoru, who says that the salaries from the public sector in Romania tend to be bigger than the

salaries from certain private sectors. In the world, the public sector is paid less than in the private sector, in the condition in which it is less correlated with the evolution of the economy. In July, the average net salary reached RON 1,308 (EUR 365), up almost 26% against the same month of 2007.

## Foreign direct investments in Romania

### FDI in Romania: more than EUR 10 bn in 2008

The level of FDI in Romania will surpass EUR 10 bn, considering that their value stood at EUR 4.75 bn in H1 according to the National Statistics Institute. The same FDI value was mentioned in August by the Minister of Economy and Finances, while the Romanian Agency for Foreign Investments estimated an FDI level of only EUR 8 bn. In 2007 Romania drew foreign investments of EUR 7 bn. On the other hand INS also pointed out that the services and construction sectors have brought the biggest contribution to the GDP's record-breaking 8.8% growth in H1, with the entire economic sectors bringing a positive contribution. The services contributed 3.8%, the construction sector contributed 2.2% while the industrial sector contributed 1.6% to the GDP growth. The net product taxes contributed 1.1% and agriculture contributed 0.1%

### Foreign investors shift attention towards southeast Romania

As industrial parks and areas in western Romania become saturated, foreign investors have begun to identify undiscovered areas and focus their operations in newly created locations with development potential, such as Oltenia. The Romanian Agency for Foreign Investments (ARIS) is currently handling projects worth above EUR 5 bn, mostly for car part production. Cluj is the best prepared from an administrative point of view and we could send any investor there, but there is not much space left. Now, interest runs high in Oradea, Beius, and Calarasi. We are supporting Craiova and southern Romania, but were also trying to send investors to Moldova. The biggest investment in Cluj was finalized by Nokia Finnish mobile phone producer, which will be followed by producer of electrical engines Emerson, which is set to build 5 plants in Tetarom II industrial park with a EUR 125 mn investment. According to ARIS, the EUR 5 bn projects are mainly investments started in the past, which are about to be finalized or expanded, but there are also some new projects, attracted this year. As examples, we have Pirelli, Renault, Continental and Draxlmaier.

So far, western areas have boasted the highest investment retention degree, where companies like Continental, SEWS, Takata-Petri and Draxlmaier operate, followed by southern areas, with the Mioveni industrial park and the area around Ploiesti, where Michelin, Yazaki and Timken factories operate. The around 90 projects the Agency is now assisting, with a cumulated value of EUR 5 bn, will generate more than 35,000 jobs, according to ARIS data, mostly in the car and constructions industries.

The biggest project on the Agency's table, Austrias Voestalpine, involving funds worth EUR 5.5 bn will also create as many as 5,000 jobs, should the investment be carried out in Constanta. FDIs in the H1 of this year climbed to EUR 4.7 bn, up 35% from the same period of 2007. The sectors managing to attract the biggest number of investors were car part production, constructions, services, the banking and real estate fields, as well as telephony and communications, just like in previous years. According to ARIS, the 35% growth rate posted in H1 will maintain in the second half of the year, so that the volume of investments will revolve around EUR 10 bn.

## **Romania, leader of greenfield projects in 2007**

Romania was last year the leader of East Europe in regards to the number of companies with foreign participation to the share capital of the greenfield investment projects, according to the World Investments Report 2008 (with data for the year 2007), worked out by the UN Conference for Trade and Development (UNCTAD). In 2007 there were 366 greenfield investment projects in Romania, against 333 in Poland, the next classified in the region. As for the companies with foreign participation to the share capital, which operate in Romania, their number reached 155,517 last year, which reflects the improvement of the business climate, declared the Vice President of the Romanian Agency for Foreign Investments. According to UNCTAD report, Romania was in 2007 the second favourite destination for the foreign investors, after Poland, from the group of the new EU member states. The volume of FDIs was EUR 7.14 bn in 2007, in the conditions in which compared to 2006 there were no spectacular privatizations, and most of the investments were Greenfield ones. According to ARIS representative, the agency tries to direct the foreign investors towards sectors with big value added and state of the art technology, and mentioned in this respect Renault investment project from Titu of EUR 450 mn, and Nokia, Ericsson and Microsoft investments.

## **EU integration challenges for Romania**

### **Romania to receive EUR 1.5 bn European funds in 2008**

Romania will be the net beneficiary of EUR 1.5 bn European funds in 2008, according to a representative of the Ministry of the Economy and Finance (MEF). 'The European funding of 2008 projects has come to EUR 2.8–2.9 bn, whilst the national contribution was EUR 1.3 bn,' added the official. So far, Romania has received EUR 2 bn in European funds. The ISPA funds amounted to over EUR 300 mn in 2008. Over 3,000 project applications had been made before August and the main areas where the EU funds will be directed to are the environment and transport infrastructures. From another point of view, MEF will replace the EUR 1 bn national financing with European funds in the case of 3 transport infrastructure projects. 'The national financing of EUR 1 bn of the Cernavoda-Constanta, Lugoj-Arad motorways and Constanta ring road will be replaced by EU funds,' said the MEF official. The approximate value of the 3 projects is EUR 2 bn. EUR 1 bn is from the European Investment Bank and the Romanian state's contribution is EUR 1 bn. The Ministry of Economy is holding talks with EBRD representatives on setting up a fund to finance projects implemented by the local authorities. This fund should be fed by commercial banks with financing, to the extent deemed appropriate by them, and by the Romanian state. For now, there are talks with EBRD on how the fund should be operated and on the procedures governing the allocation of sums applied for by the local authorities.

## Key macroeconomic indicators

Years	Months	Employed people (y/y change) <sup>1+2</sup>	Monthly net average wage (RON) <sup>2</sup>	Registered unemployment rate (% of labour force) <sup>2</sup>	Consumer Price Index (% y/y, end of period) <sup>1</sup>	Central + Local Budgets (% of GDP)	Exports (EUR million, fob) <sup>1</sup>	Imports (EUR million, cif) <sup>1</sup>	Trade balance (EUR million, fob-cif) <sup>1</sup>	Monthly FDI, net (EUR million) <sup>2</sup>
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2007 out of which:										
	August	2.8%	1030	3.9	4.96	-0.19	2240	4046	-1806	4139
	September	2.9%	1040	3.9	6.03	-0.30	2486	4176	-1690	5138
	October	3.0%	1084	4.1	6.84	-0.37	2819	5023	-2203	5958
	November	2.8%	1121	4.2	6.67	-1.44	2763	4986	-2223	6644
	December	3.1%	1266	4.1	6.57	-3.09	2253	4325	-2072	7069
2008 out of which:										
	January	2.5%	1200	4.3	7.26	+0.20	2487	3900	-1413	663
	February	2.2%	1134	4.3	7.97	-0.20	2826	4338	-1512	475
	March	2.1%	1192	4.2	8.63	-0.40	2706	4698	-1992	450
	April	2.2%	1282	3.9	8.62	-0.20	2723	4827	-2104	1630
	May	2.0%	1248	3.8	8.46	-0.80	2971	4754	-1783	768
	June	1.8%	1273	3.8	8.61	-1.50	3034	5047	-2013	772
	July	1.8%	1308	3.8	9.04	-1.10	3190	5077	-1887	-

Sources: <sup>1</sup> INSSE <sup>2</sup> National Bank of Romania (Monthly Bulletins) <sup>3</sup> cumulated from the beginning of the year, compared with the same period of previous year

Notes: - No data available