

Romania monthly economic review

January 2009

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State budget in 2009 - drafted on 2.5% economic growth

The budget bill for 2009 is drafted on the basis of an economic growth up to 2.5%, an average inflation of 5%, a current account deficit of the payment balance at 10.3% and a budgetary deficit of 2% of GDP, as Finance Minister, Gheorghe Pogea, said. The main reasons for the budgetary deficit at 5.2% were the over-estimated public revenues, 36% as against 30.9% achieved, which resulted in a gap of more than EUR 7 bn in GDP and a failure in accomplishing the estimation regarding VAT revenues, which were lower by EUR 1.67 bn (1.2% of GDP). The Minister also specified that GDP in current prices will amount, in 2009, to RON 579 bn, considering an exchange rate of RON 4 to EUR 1. The gross average salary will advance this year from RON 1,600 to RON 1,693, and the gross average salary earnings will advance from RON 1,790 to RON 1,820 (plus 5.8%). The Minister added that the number of jobless is also expected to advance from 403,400 to 505,000 persons in 2009. Regarding the budgetary revenues, the Government estimated that they would reach 32.1% of GDP and the investment expenditures will account for 5.6%. "The Government priority, at the beginning of the year, is to make sure that the economy advances through investments, which are expected to account for 5.6% of GDP, but also by settling the invoices issues and not paid on 31 December 2008, which are EUR 2.1 bn worth. The Minister informed that along with the settlement of the invoices, the Government will provide co-financing for attracting the European funds and they will grant a source for the VAT payment, so that company activity is not blocked. The previous Government spent EUR 6.7 bn more than collected, said the Prime Minister, Emil Boc. "Unfortunately, the additional expenditures were not directed to investments, infrastructure works but those additional resources were used for staff expenditures and expenditures for goods and services," he further explained, adding that the staff expenditures were by 35% higher compared to 2007, and those for goods and services, by 36%. The Prime Minister also specified that major outstanding amounts were noted for bills not cashed. "Money was not paid for the works made in 2008. There are outstanding debts of EUR 1.1 bn just at governmental level," Boc said. In terms of salary expenditures, those will be considered this year only if they fit the limit of expenditures foreseen in the budget draft, 34.6% of GDP. "The salary increases were not approached in the talks. For the time being, they were approached within the talks regarding the macro-economic framework, the revenues and the deficit. In

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this context, we shall try to establish these priorities, and if they fit, we shall have them considered, and if they do not fit, I tell you now that they will not be approved,” Pogeia explained. He added that the expenditure category included expenditures for investments and those for staff, and he underlined that in Romania the dynamics of staff in the central public administration, local one, agencies, those subsidies and non subsidized ones, with own revenues, has reached 30.6% of total staff in economy. At the same time, the Finance Minister drew the attention that public revenues would not exceed, in his opinion, 32.1% of GDP, which will result in a budgetary deficit of 3%.

Government includes growth stimulus measures in the budget draft

In the final draft of the budget law for this year, and after last-minute talks with the trade unions, among the key steps taken towards fiscal consolidation, the Government will: i) rise the social security contributions by 3.3% to 32.3%, ii) increase the excise taxes for tobacco, iii) freeze the pensions and wages in the budgetary sector in real terms, iv) cut the wage payroll in the budgetary sector from 8.4% to 7.5% of GDP and v) cut the current expenses with goods and services from 6.5% to 5% of GDP. In order to mitigate the social impact of the economic slowdown, the government will however i) implement gradually a minimum statutory pension of RON 350 (EUR 82) per month ii) help companies that send workers in technical unemployment and iii) increase the public investments in infrastructure to EUR 10 bn or 7% of GDP. Other growth stimulus measures, such as capitalizing CEC and Eximbank state-owned banks, helping the automotive industry and amending certain specifications of the Fiscal Code are also considered. Eximbank, CEC Bank, the Guarantee Fund for Rural Credit, the National Fund for SMEs (FNIMM), as well as the Businessmen's Association of Romania (AOAR), The National Association of Exporters and Importers of Romania (ANEIR) and The National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR) concluded a partnership for SME company support in Romania, in the context of the financial crisis. The National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR), along with AOAR and ANEIR will represent the interest of the beneficiaries of this agreement. Eximbank and CEC Bank can guarantee at most 80% of the value of medium and long-term funding, given by the 2 banks, including for SMEs participation in projects co-financed from European funds. Eximbank and FNIMM co-guarantee loans aimed at implementation of investment projects and bank guarantee letters issued to small and medium-sized enterprises. Eximbank's guaranteed value can be of maximum 50%. Through the agreement, the bank can also guarantee loans for farming projects, of up to 50-80% of the loan's value. Given the outlook in the main economic sectors, preventing GDP contraction (e.g. targeting a small growth in the region of 0.5%) this year would be a much appropriate target for the government under the circumstances of moderate fiscal deficit.

European Commission recommendations for Romania

The effective implementation of the required reforms critically depends on Romania's ability to improve urgently the efficiency and effectiveness of its public administration at both central and local level, by building up effective regulatory control and enforcement capacity, reads the European Commission recommendation following the 2009 update of the broad guidelines for the economic policies of the member states and the Community and on the implementation of member states' employment policies. According to the European Commission, in the current economic context, Romania's first priority should be to tackle macroeconomic and fiscal imbalances that pose risks to the sustainability of its medium to long-term growth path. At the same time, as its cost-advantages are gradually eroding, Romania should speed up structural reforms to transform the

economy from one based on cost-advantages to one based more on productivity, innovation and knowledge, tapping into new sources of growth. Brussels points out that Romania has continued the implementation of its National Reform Programme, although progress has been slow. Romania has continued to conduct a loose fiscal policy, which has contributed to macro-economic and fiscal imbalances. It has implemented some measures to improve the quality of education and continued the implementation of its research and development strategy. In order to preserve external competitiveness and to contain the current account deficit and inflation, the EC recommends Romania to significantly tighten fiscal policy and urgently implements a binding medium-term fiscal framework. It also revises the composition of expenditure to increase the share of growth-enhancing spending inter alia by reducing and redirecting state aid to horizontal objectives and keeps wage developments in line with productivity growth. In the context of a coherent better regulation policy, urgently implements measures to substantially reduce administrative procedures and delays in obtaining authorizations, in order to improve the business environment and reduce sources for corruption. At the same time, the European Council argues the Romanian authorities should improve the quality and labor market relevance of the education and training systems, including lifelong learning, reduces early school leaving, and facilitates the transition of young people into employment, including through work-based training. The Commission warns that implementation of the energy and climate change package, agreed by the European Council, will require close attention. The Commission adopted 'country chapters' and recommendations under the Lisbon Growth and Jobs Strategy. These will also help ensure the European Economic Recovery Plan is implemented in a way that builds for the future as well as responds to the economic crisis. The country chapters analyze progress in each European Union member state in implementing the Growth and Jobs Strategy, taking account of the crisis. They include proposals for formal recommendations for endorsement by the Spring European Council. The Commission has also adopted reports on the overall implementation of the Lisbon Strategy in the macro and micro-economic and employment fields.

Romania bets on attracting funds worth EUR 2.42 mn in 2009

Romania bets on attracting European funds worth some EUR 2.42 bn in 2009. The Minister of Public Finance, Gheorghe Pogea, announced that the 2009 budget stands at EUR 51.16 (35.3% of the GDP), out of which 31.63% of the GDP represent revenues from domestic sources, 0.79% of the GDP represent pre-accession funds and 0.88% of the GDP represent post-accession funds, with a deficit of 2% of the GDP that needs to be financed. With a gross domestic product estimated at EUR 144.7 bn, the pre-accession funds the government relies on this year stand at EUR 1.143 bn, with the post-accession funds standing at EUR 1.27336 bn. Romania has attracted post-accession funds worth no more than EUR 203 mn in the 2 years since it became member of the European Union, although it had EUR 3.1 bn at its disposal, the Minister of Public Finance said.

Over 400 SAPARD projects in Romania still benefit from EU funds

Over 400 Special Accession Programme for Agriculture and Rural Development (SAPARD) projects, estimated at EUR 90 mn, will still benefit from European Union funds and beneficiaries have until late September 2009 to submit reimbursement applications, Romania's Payment Agency for Rural Development and Fishing (APDRP), which manages SAPARD funds, confirmed. The SAPARD program should have been completed at the end of 2008, but the European Commission adopted a decision on 2 December 2008 allowing both Bulgaria and Romania to extend the deadline for payment of SAPARD funds by one year, from 31 December 2008 to 31 December 2009. The extension of the deadline will give the Bulgarian

and Romanian authorities extra time to ensure all problems are properly addressed before final payments are made. In regards the EU subsidies for agriculture, Romanian farmers receive EUR 110/ha in 2009, while the average amount in the other EU countries is EUR 250/ha. Producers received EUR 47/ha in 2008 from European funds and EUR 50 from the national budget. Subsidies on farm land will go up to EUR 49/ha, by an average 5% per year, and the complementary payment from the national budget will amount to EUR 60/ha. Central bank projects 8% GDP growth this year.

Romania's business sentiment remains mostly negative in January

Romanian managers remain mostly negative about the performance of the country's economy in the 3 months through March, with expectations for stabilization in the retail and services sectors, the National Institute of Statistics (INS) said. Managers in the industrial sector expect a decrease in output due to reduced number of orders and contracts over the past 3 months. Managers also expect job cuts and prices are seen slightly rising. Managers of construction companies project further output cuts, whereas property prices are expected to also rise. In the retail sector sales and employment figures are expected to remain unchanged. Prices, however, are seen going up in the 3 months through March. In the services sector managers are expecting steady demand through March. For its January survey Romania's statistics board interviewed managers in a total of 7,843 companies in the four sectors.

Annual inflation of 6.3% in December 2008, below BNR estimates

The inflation rate registered a slight fall last year, to 6.3%, against 6.57% in 2007, a level below the expectations of the analysts and of the Central Bank, on the background of a good performance in December, when the consumer prices rose only 0.23%, according to the National Institute of Statistics (INS) data. The estimates of the analysts regarding inflation in December were between 0.48% and 0.8% in monthly terms and between 6.5% and 6.9% for the whole year 2008, while the most recent prediction of BNR was 6.7%. The inflation target set by the central bank was 3.8% (+/- 1%) for 2008, which means that the annual rate exceeded by 1.5% the upper level of the interval. Last year, the services represented the main sector with price rises, with a growth of the tariffs of 7.71%, followed by food - 6.02%, the non food commodities ranking last - 5.96%. According to the latest data released by the National Prognosis Commission (CNP), there is an estimate an annual average growth in consumption prices worth 3.7% in 2010, a growth worth 3.2% for 2011 and a growth worth 2.8% for 2011.

Exports down 17% in December 2008

Romanian exports have dropped by approximately 17% in December 2008 compared to the same period in 2007, while in the first 10 days of January the exports towards non-EU markets have registered a steeper drop of 46%, according to the estimates of the National Association of Romanian Exporters (ANEIR). The exporters need for state support is extremely high given that, according to ANEIR data, the exports have dropped by approximately 17% in December, while the exports towards non-EU markets have registered a drop of 46% in the first 10 days of January. The President of ANEIR considers that, together with Eximbank, they have already done everything in their power in order to back the exports against the backdrop of the crisis. At the same time ANEIR has asked BNR to lower the reference interest rate and to intervene on the currency exchange market in order to prop-up the RON. In other developments, ANEIR is asking for maintaining Eximbank's current leadership against the backdrop of the crisis and for using the bank's profit to strengthen its capital.

CA deficit widens 8% y/y to EUR 16 bn in January- November 2008

The CA deficit widened by 8% y/y to EUR 16 bn in January - November but shrank to about 11.7% of the projected full-year GDP compared to 12.2% a year earlier. The CA gap narrowed by 14% y/y to EUR 1.6 bn in November alone, but possible revisions may alter significantly this estimate. The 30% y/y narrowing of the fob/fob foreign trade deficit (goods alone) in November was reported earlier last week and hinted in advance to the improvement of the CA balance. The balance of trade with services improved even more significantly, both in January -November and in November alone. Namely, the surplus for January-November widened by 34% y/y to EUR 714 mn, while the balance moved into surplus area (EUR 271 mn) in November alone, from a one year earlier deficit of EUR 74 mn. The outflows under the Income account, reflecting mostly the foreign investors' repatriation of interest and profit funds, surged by 19% y/y in Jan-Nov and by 90% y/y in November alone, while such outflows are likely to further expand with investors' risk aversion. The negative balance of Incomes account already reached EUR 5.5 bn in the past 12 months, from 4.2 bn in 2007 and 3.2 bn in 2006. The inflows under Current Transfers, mostly accounting for the wage remittances, expanded by 20% y/y to EUR 7.8 bn in January - November but narrowed by 20% y/y to EUR 480 mn in November alone witnessing constraints on the financial capacity of the workers abroad, which are going to tighten. Net foreign direct investments increased by 29% y/y to EUR 8.6 bn in January - November (6.5% of GDP) and covered 54% of the CA deficit, up from 45% last year. Nonetheless, the prospects for future FDI inflows are rather gloomy and the coverage ratio will likely decrease this year.

Industrial production drops 11.5% y/y in November 2008

According to the National Institute of Statistics (INS) the industrial production index collapsed by 11.5% y/y in November 2008. The production in the core manufacturing sector dropped more abruptly by 12.8% y/y. The non-durable consumer goods was the sole segment that gained ground, at 4.4% y/y, while the production of durable consumer goods collapsed by 24.1% y/y. The downward correction was heralded by the rather moderate 2.8% y/y slowdown in October (revised from preliminary 3%), but mostly by the companies in key sectors announcing lower capacity utilization. The amplitude of the downward correction is in line with the expectations and will probably remain large and possibly expand at least during December and Q1 as the demand in the sector of metallurgy, automotive, chemistry and light industry remain weak. Under these circumstances, the 4.5% expansion of the value added generated by the industry this year, projected by the government recently, seems highly optimistic and the overall GDP growth may fall into the negative territory also.

Employment and wages

ANOFM expects 60,000 more layoffs by the end of March

Almost 60,000 people will lose their jobs in Romania by the end of March 2009, in the context in which there were 404,000 unemployed people registered by the end of 2008. This totals 4.4% of the total active population of Romania, the National Employment Agency (ANOFM) announced. According to ANOFM, as many as 641 companies nationwide have announced layoffs. A previous estimation, from November 2008, pointed to 29,000 layoffs for the interval between January through March. For 2009, the most affected sectors will be the construction sector, with 12,036 layoffs, the road transport vehicles industry, 4,650 layoffs, the chemical substances and products sector, 3,369 layoffs, extraction of crude oil and natural gas, 3,026. The largest number of layoffs, 53,073, were announced by companies running on private capital, with other 3,639 layoffs having been announced by

companies running on state capital, and with 1,084 companies running on mixed capital. Layoffs will follow the following calendar: 32,608 layoffs were scheduled for January, 18,780 for February, and 6,372 for March. The draft budget takes into account 100,000 layoffs during the year, with the number of unemployed to come thus to 505,000, from 404,000 at the end of 2008.

CNP revises downward net average wage in 2009, to RON 1,352

Romanians' net average wage will rise to RON 1,352 in 2009, up 6.3% compared to 2008, when it stood at RON 1,272, according to main macroeconomic indicators outlook over 2008-2013 released by the National Prognosis Commission (CNP). In its final autumn outlook CNP estimated a net average wage per economy of RON 1,384 in 2009, higher than the January forecast. According to CNP, the gross average wage in 2009 is estimated at RON 1,820 compared to RON 1,720 last year, although lower than the estimated earnings in the autumn, of RON1,865. For 2010, CNP estimates a net salary of RON 1,460, 8% higher from 2008, whereas the gross average wage is estimated at RON 1,970, 8.2% higher than this year. The number of employees is estimated to rise 0.2% in 2009, to 6.285 mn from 6.274 mn in 2008. In 2010, CNP January outlook shows a rise in the number of employees of 1.3% compared to this year up to 6.365 mn. In 2013 the number of employees is estimated to attain 6.56 mn. CNP predicts that the unemployment rate, calculated in line with the International Labor Office standards, will reach 6.8% in 2009, higher when compared with 2008 (5.8%) and 6.3% in 2010. Registered unemployed is expected to reach the number of 680,000, a jump of 17.6% from 2008 and the overall occupied population to rise to 8.871 mn persons.

Romania to raise salaries, pensions by 5.0% in 2009

Romania will raise salaries and pensions by 5.0% this year to match the expected inflation rate, announced the Prime Minister, Emil Boc. "In 2009 salaries and pensions will be increased by the inflation rate, meaning by 5.0%: by 3.0% from April, to be paid in May, and by 2.0% on 1 October, to be paid in November," Boc told a news conference. Romania's bipartite coalition cabinet discussed the 2009 budget draft, but despite its promise to finally adopt the draft and send it to parliament. Boc said that further consultations with trade unions will be held next week before submitting the draft to the lawmakers. Romania's parliament approved a 50% rise in teachers' wages last year, just before the November 30 general election. The parties of the current government coalition, the Democrat-Liberals and the Social Democrats, vowed at the time they would fulfill the parliament decision once they come to power.

Other developments

FDI up by 31.9% in the first 11 months of 2008

The foreign direct investment (FDI) in Romania have grown by 31.88% to EUR 8.645 bn in the January-November 2008 period compared to the same period in 2007, managing to cover 54% of the current account deficit, the National Bank of Romania (BNR) data shows. Thus, in the first 11 months of 2007 the FDI stood at EUR 6.55 bn, covering 43% of the current account deficit, a share that was 11% lower than the one covered by the FDI registered in the same period in 2008. Capital participations and reinvested profit represented 51.3% of the FDI registered in the first 11 months of last year, while intra-group credits represented the remaining 48.7%. The loans contracted by companies in Romania from their mother-companies abroad have the potential to deepen the current account deficit. The current account deficit has grown in the first 11 months of last year by 7.8% to

approximately EUR 16 bn, the National Bank data shows. Its growth was 10 times lower than the one registered in the same period in 2007. The BNR data points to an important adjustment in the current account's growth rhythm. That rhythm went from 72.6% in the first 11 months of 2007 to only 7.8% in the same period in 2008. As happened before, the trade deficit has played the crucial role in the balance of payments. In the January-November 2008 period the trade deficit reached approximately EUR 17 bn, representing a 6% growth compared to the level registered in the same period in 2007. The exports have outstripped the imports by 3.7%. The BNR data also shows that the balance of transfer payments has climbed by 21.6% from EUR 4.4 bn in January-November 2007 to EUR 5.4 bn in the same period in 2008. The services continue to register an upward trend, nevertheless growing to EUR 714 mn, compared to the EUR 531 mn level registered the year before. On the other hand, the revenues deficit has grown to EUR 5.2 bn from EUR 3.8 bn in 2007. The medium and long-term foreign debt stood at EUR 49.7 bn on 30 November 2008, up by 29.2% from the level it registered on 31 December 2007. Meanwhile, data collected from The Ministry of Public Finance showed that the consolidated budget registered a deficit of RON 14.836 bn in the first 11 months of 2008, representing 2.94% of estimated GDP. During that period the total budget revenues stood at RON 146.772 bn, namely 29.1% of GDP. The VAT and excise taxes held the largest share in that figure, namely RON 52.242 bn or 10.3% of GDP.

Retail sales growth drops to 2.8% y/y in November 2008

The retail sales expressed in comparable prices inched up by 2.8% y/y in November, moderating dramatically from 16% y/y in Jan-Oct, according to preliminary data of the National Institute of Statistics (INS). The retail sales in November mark already a visible slowdown after the impressive growth of around 18% y/y in the past 5 years, and they will predictably shrink on annual basis in Q1 on the back of scarce consumer finance and narrowing disposable incomes. Sales had already moderated to an 8.4% y/y growth rate in October from 16.8% one month earlier, driven by moderate sales of non-food items that further reached negative growth rate of 1.3% y/y in November. The sales of cars and car-related parts shrunk by 11.3% y/y in November and the car sales alone drop even more according to industry reports.

Key macroeconomic indicators

Years	Months	Employed people (y/y change) ¹⁺²	Monthly net average wage (RON) ²	Registered unemployment rate (% of labor force) ²	Consumer Price Index (% y/y, end of period) ¹	Central + Local Budgets (% of GDP)	Exports (EUR million, fob) ¹	Imports (EUR million, cif) ¹	Trade balance (EUR million, fob-cif) ¹	Monthly FDI, net (EUR million) ²
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2007 out of which:										
	August	2.8%	1030	3.90	4.96	-0.19	2240	4046	-1806	4139
	September	2.9%	1040	3.90	6.03	-0.30	2486	4176	-1690	5138
	October	3.0%	1084	4.10	6.84	-0.37	2819	5023	-2203	5958
	November	2.8%	1121	4.20	6.67	-1.44	2763	4986	-2223	6644
	December	3.1%	1266	4.10	6.57	-3.09	2253	4325	-2072	7069
2008 out of which:										
	January	2.5%	1200	4.30	7.26	+0.20	2487	3900	-1413	663
	February	2.2%	1134	4.30	7.97	-0.20	2826	4338	-1512	475
	March	2.1%	1192	4.20	8.63	-0.40	2706	4698	-1992	450
	April	2.2%	1282	3.90	8.62	-0.20	2723	4827	-2104	1630
	May	2.0%	1248	3.80	8.46	-0.80	2971	4754	-1783	768
	June	1.8%	1273	3.80	8.61	-1.50	3034	5047	-2013	772
	July	1.8%	1308	3.80	9.04	-1.10	3190	5077	-1887	924
	August	1.7%	1277	3.87	8.02	-1.30	2619	4330	-1711	754
	September	1.9%	1296	3.90	7.30	-1.70	2915	5253	-2338	549
	October	1.8%	1327	4.00	7.39	-1.70	3219	5229	-2010	954
	November	-	1361	4.10	6.74	-	2536	4215	-1679	-
	December	-	1489	4.40	6.30	-	-	-	-	-

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

Notes: - No data available