

Romania monthly economic review

April 2009

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Government sets principles for uniform pay system in budgetary sector

The government approved a bill stipulating the principles for reaching a uniform pay system in the budgetary sector, requested by the IMF to be enacted by the yearend and enforced within several years. Nonetheless, the principles fail to reach the sensitive issues of relative wages. Furthermore, the employees in Justice, Defence and Interior Ministries fight strongly to defend their preferential wages and pensions. As key principle, the government will reduce the ratio between the highest and lowest public wage from 70:1 to 15:1. This will be done by rising low wages and freezing high wages, the corrections being carried from Jan 2010 to 2012. The bonuses will be ceiled at 30% of the gross wage and some bonuses will be cut. This will reduce significantly the revenues of the employees in justice, Interior and Defense Ministries, which explain their resistance.

Lump sum tax to be levied in 2009

According to the Minister of Finance, the state will collect RON 350 mn from the lump sum tax in the last 7 months of this year. The purpose of introducing this tax was to replace a volatile basis on which the budget is based with a controllable one and to remove tax dodging. Based on information received from the Minister of Finance, a total amount of RON 350 mn will result from levying this tax in 2009. Data shows that 242,000 companies of the 617,000 existing ones had losses and, of the 242,000 companies, about 48% posted over EUR 2,500 a year in the average turnover. The profit making trading companies are going to pay a 16% tax but not less than the minimum limit for the annual revenue bracket they fit into. The analyses made by the Ministry of Public Finance reveal the fact that, in 2007, of the 617,525 legal taxpayers, 2,000 ensured over 85% of the public revenues.

Public budget is revised on deficit amounting to 4.6% of GDP

The Government has approved the budget revision for 2009, which provides for a budget deficit amounting to 4.6% of the GDP as against 2% initially, the public budget being based now on a 4% economic shrinkage and a GDP amounting to RON 531.25 bn, according to Minister of Public Finance, Gheorghe Pogea. After

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the revision the total budget revenues amount to RON 174.9 bn, accounting for 32.9% of the GDP, down by over RON 18 bn as against the initial projection, said the Minister of Public Finance. The total expenditure of the general budget is RON 199.3 bn, accounting for 37.5% of the GDP, and the budget deficit was projected at RON 24.3 bn (4.6% of the GDP). Pogea emphasized the fact that the revised budget gave the largest share to the investment expenses, which will top RON 38 bn in 2009 and will account for 19-20 % of the total expenses or 7% of the GDP. According to the official of the Ministry of Public Finance, the revised budget goes on ensuring the expenses for social protection whereas the staff expenditure dropped to RON 41.5 bn or 7.8% of the GDP, the expenses for goods and services were diminished to RON 27 bn (5% of the GDP) and the expenses on interests increased by over RON 1.8 bn to 1.58% of the GDP because of the development of the market conditions. To fit into the budget deficit of 4.6% of the GDP it was necessary to make an adjustment amounting to 1.1% of the GDP, of which 0.85% by reducing expenditure and 0.25% by increasing revenues, from introducing the lump sum tax (RON 350 mn) and by measures referring to the VAT deductibility in buying cars. The revenues of the general budget were diminished by RON 18.797 bn and the budget expenditure by RON 6.22 bn. The revenues of the state budget were reduced by RON 12.073 bn and the ones of the local budgets by RON 2.358 bn whereas the collection to the state social security budget is scheduled to decrease by RON 234.9 mn, the unemployment insurance budget, by RON 131.1 mn, and the single national fund of social health insurance, by RON 594.5 mn. As for budget expenditure, it dropped by RON 1.827 bn with the state budget, by RON 1.546 bn with the local budgets, by RON 4.1 mn with the state social security budget, by RON 8.9 mn with the single national fund for social health insurance, whereas the expenditure with the budget of unemployment insurance increased by RON 328 mn.

IMF: Romania must hold its budget deficit below RON 14.5 bn by the end of June

International Monetary Fund (IMF) urged Romania in a memorandum attached to the letter sent to Romanian authorities, to keep the budget deficit under RON 14.5 bn at the end of first half of 2009, namely 2.73% of GDP. Sources in the Government said the IMF had attached a memorandum to the letter sent yesterday which includes technical details, such as to meet the quarterly limits on budget deficit. In the event of a failure of the state to meet quarterly limits on budget deficit set at EUR 14.5 bn, experts from IMF and European Commission may request the Government to proceed with another revision of the budget, with the occasion of a first review of conditions attached to the external loan scheduled for July, officials said. The State Secretary of the Ministry of Finance said that the experts from IMF and EC are expected to arrive in Romania on 10 July for an assessment of Romanian economy, and if the revenues are short of projections, a new budget revision will be made in Q3. If the annual state revenues will prove to be short of expectations, it will be made an additional letter together with the representatives of European Commission and the IMF, when it is very likely to resort to new measures to meet the budget deficit projected at 4.6% of GDP.

Current Account shrinks by 75% y/y to EUR 614 mn in January-February

The Current Account shrunk by 75% y/y to EUR 614 mn in Jan-Feb, or 0.5% of the projected full-year GDP (EUR 123.5 bn) compared to 1.8% of GDP one year earlier, according to the Central Bank of Romania (BNR). Judging from unrevised January CA data, the CA must have narrowed dramatically by 93% y/y to EUR 89 mn in February alone. The CA gap in the past 12 months ending in February decreased to EUR 15.3 bn from EUR 16.3 bn one month earlier and nearly EUR

16.9 bn 2 months earlier. The BNR projects the CA deficit to drop from last year's 12.3% of GDP to 7-8% this year and the downward correction in the past months confirms their expectations. The balance of foreign trade with goods was the main driver of CA narrowing in January-February, given the 36% y/y drop in imports that exceeded by far the exports' 26% y/y contraction, but the other elements of the CA also contributed to the correction particularly in February. Specifically, the inflows under Current Transfer, mainly reflecting the remittances from abroad and the inflows under the EU budget operations, increased by 32% y/y in January-February and 73% y/y in February alone. The outflows under the same Current Transfers however shrunk on an annualized base in both January and February. The balance of the Incomes' account also contributed to the CA's narrowing particularly as the outflows, reflecting the external debt service among others, narrowed by 23% y/y in January-February.

Medium and long-term debt has risen

The foreign medium and long-term debt has registered a level of EUR 51.4 bn at the end of February, up by 1.4% since 31 December 2008, representing 71.6% of the total external debt. The short-term foreign debt stood at EUR 20.34 bn at the end of February, representing 28.4% of the total foreign debt and dropping by 9% since December 2008. The total foreign debt at the end of February stood at EUR 71.749 bn, down by 1.9% compared to the EUR 73.067 bn level registered on 31 December 2008. The financing of the external debt stood at EUR 6.917 bn in the first 2 months of the year.

Romania's trade deficit narrows 51.2% in February

Imports fell by more than one third in February while exports reduced by a quarter year-on-year, leading to a 51.2% shrink in Romania's commercial deficit to EUR 764 mn. This is the fourth month in a row that sees an annual decline in both exports and imports. Thus, imports crashed by 36% on February 2008 to almost EUR 2.84 bn and exports compressed by 27.7% to EUR 2.07 bn, dragging the trade deficit down from EUR 1.57 bn to EUR 764 mn. The largest decline was reported in the trade with countries outside the European Union (EU), where Romania imported 36.2% less goods. Imports from the other EU members dropped by 36% to EUR 2.065 bn. Exports to countries outside the EU borders were worth EUR 496.1 mn in February, down 39.6% on the similar month of 2008, while exports to non-EU countries only reduced 23% to EUR 1.576 bn. Exports grew 7.9% month-on-month in February and imports hiked 12.1%. The first 2 months of the year reported exports of EUR 3.99 bn, down 26% on the similar period of 2008, while imports diminished 36.2%, exceeding EUR 5.36 bn. Romania's trade gap for the first 2 months of this year stood at EUR 1.37 bn, down 54.5% y/y.

INS: Inflation rate of 0.5% in March

The inflation rate stood at 0.5% in March, while the annual inflation rate (March 2008 – March 2009) climbed to 6.71%, according to the data recently published by the National Institute of Statistics (INS). According to the INS, the average monthly inflation rate stood at 0.9% from 1 January to 31 March 2009, compared to a level of 0.7% registered in the same period last year. Compared to February 2009, the prices of foodstuffs grew by 0.39%; the prices of merchandise grew by 0.68%, while the prices of services grew by 0.33%. Compared to March 2008 the prices of foodstuffs grew by 5.69%, the prices of services grew by 8.84%, while the prices of merchandise grew by 6.69%. On the other hand, the volume of retail trade turnover (with the exception of trade with vehicles and motorcycles) registered in February 2009 dropped by 2.2% as a gross series compared to January and by 4.4% as a series adjusted to the number of working days and seasonality, the INS shows. The sales of merchandise have registered a drop of 6.5%, while the sales of beverages

and tobacco have dropped by 4.8%. The volume of turnover for bulk and retail trade, for the maintenance and repair of vehicles and motorcycles have dropped by 7.3% in February 2009 compared to the level registered the month before, as a series adjusted to the number of working days and seasonality.

INS: Construction works volume up by 6.7% in February

According to the National Institute of Statistics (INS), in February 2009 the volume of construction works grew by 6.7% compared to the level registered the month before, however that volume dropped by 8.6% as a series adjusted to the number of working days and seasonality. At the same time, compared to February 2008, the volume of construction works dropped by 4.4% as a gross series and by 1.1% as a series adjusted to the number of working days and seasonality. In what concerns the structure, drops were registered in new construction works (-5.8%) and capital repair works (-2%). On the other hand, the maintenance and repair works have risen by 1.8%. The INS statistic shows that the construction works volume has dropped by 23.5% in residential buildings, by 8.4% in engineering construction works and by 0.9% in non-residential buildings. The drop in the construction works volume stood at 1.1% in February 2009 compared to the level registered in the same month the year before. The European statistics office (Eurostat) has shown that after registering the highest growth in the annual rhythm of construction works in the European Union for 8 consecutive months, in February 2009 Romania has registered the strongest drop in the construction works volume in the EU (-8.6%). The EU registered a drop of 1.6% and the Euro Area one of 1.8%. Another INS report shows that the retail trade turnover (with the exception of trade with cars and motorcycles) has dropped in February 2009 compared to the month before by 2.2% as a gross series and by 4.4% as a series adjusted depending on the number of working days and seasonality. Overall, the retail trade turnover registered a 4.4% drop. On the other hand, the average nominal gross wage stood at RON 1,863, 1.3% higher than the one registered the previous month and the average nominal net wage stood at RON 1,358, 0.2% higher than the level registered the previous month. The highest values of the average nominal net wage stood at RON 3,313 in the air transportation sector, while the lowest stood at RON 728 in the hotels and restaurants sector.

Bankruptcies in Romania 55% on the rise in Q1

The number of bankruptcies in Romania advanced by 55% y/y in the first 3 months and the number of newly-registered firms slipped by 34.4%, an effect of the economic downturn, according to data from the Trade Registry Office (ONRC). The first 3 months of the year brought 4,948 bankruptcies, 1,771 more than in the similar period last year. The most affected companies were those with Romanian capital (4,247). Companies in the retail industry, the car and motorcycle repairing and in the processing industry and real estate topped the list with bankruptcies. Most such cases were registered in Bucharest - 557. What's more, 34.4% fewer companies were set up in the Q1 this year, over the similar period last year. The number dropped to 18,738, out of which more than 9,900 in the retail and gross sales.

Credit developments in March

The governmental credit (of the central administration, local administrations and the administrations of the social security systems) increased in March by 18%, up to RON 29.308 bn, the National Bank of Romania (BNR) announced on Monday. On 31 March 2009, the governmental credit recorded a growth of 189.3% (171.1% in real terms) as against 31 March 2008. The deposits of the nongovernmental customers residents decreased in March by 0.2% as against February 2009, up to RON 15.410 bn. Non-governmental credits to credit institutions dropped by 2.1% in

March, 2009, (- 2.6% in real terms), against February 2009, down to RON 20.261 bn, Romanian National Bank (BNR) announced. Thus, credits granted in the national currency RON shrank by 0.9% (-1.4 % in real terms), while the foreign currency credits expressed in RON dropped by 2.9% (expressed in EUR, the foreign currency credits dropped by 1.6%). The non-governmental credit recorded a growth by 23.1% (15.4% in real terms) on 31 March 2009, against 31 March 2008, due to an increase by 12% in the component in RON (5% in real terms) and by 32.1% in the component in foreign currency expressed in RON (expressed in EUR, the growth in the foreign currency credit stood at 16.3%).

Employment and wages

As many as 500,000 employees have gross wages over EUR 1,000

The number of employees with gross wages over EUR 1,000 grew 12 times in 4 years and by 70% in 2008, due to the boom in foreign investments. Half a million people had in October last year gross average wages of over EUR 1,000 euros, that its a 70% surge as against October 2007, according to figures carried by the National Institute of Statistics (INS). Therefore, over 10% of employees in economy have wages higher than EUR 1,000. At a gross wage worth some EUR 1,000 the net wage is of some EUR 700. The minimal wage in France is over EUR 1,300. The number of employees with gross wages higher than EUR 1,000 has increased significantly over the past years from 40,000 in 2004 to 500,000 last year. 'The period was of growth. Giving salaries worth EUR 1,000 had become a practice and mirrored the fight for people, but also tensions on the labor market, in a solid context of growth. For an European country, the fact that only 10% of employees earn a gross wage worth EUR 1,000 is scant,' said Florin Pogonaru, President of the Romanian Businessmen Association (AOAR). However, last year reported the biggest growth in the number of those with high salaries, 200,000 employees. 2008 was the year with the biggest rise in foreign direct investments (FDIs), which outstripped EUR 9 bn as against EUR 7.2 bn in 2007 and almost double as against 2004, when they stood at EUR 5 bn. The strengthening of investments inflows has intensified the struggle for labor force, triggering higher salaries. The National Institute of Statistics (INS) carries a statistical research each year regarding the distribution of employees on salary groups based on the figures of October of the previous year, allowing for 13 salary groups, from the minimal wage and below it, up to over RON 8,000. Wages of over RON 8,000 had in October 44,300 employees, whereas the salary group ranged between RON 7,000 and RON 8,000 had some 22,000 employees. The bulk of employees in Romanian economy have gross average wages ranging between RON 651 and RON 1,000, respectively 1.1 million people.

Other developments

Credits granted by non-bank financial institutions climb to EUR 9.2 bn

The over 200 non-bank financial institutions (NBFI) in Romania - consumer credit companies, mortgage firms, leasing and factoring firms reached over EUR 9.2 bn in credits granted at the end of last year, 30% more than the March 2008 value, according to data published by the NBR (National Bank of Romania). Calculated in EUR, the volume of loans climbed 21% against March 2008, when the NBR first published quarterly data on this market, apart from those in the Annual Financial Stability Reports. Loans granted by NBFIs accounted for around 18.5% of overall non-government credit in the banking system in December 2008, which amounted to almost EUR 49.7 bn, from 17% in March last year. The data published by the NBR target non-bank financial institutions included in the General Register, i.e. all

leasing, consumer credit firms, mortgage lending, factoring, micro-crediting firms and to other types of loans, with such firms being required to secure the NBR's approval to continue their activity four years ago, and now report financial results to the Romanian central bank on a quarterly basis. The NBF's overall assets reached EUR 11.15 bn in December last year, 30% more than in March. The NBF's assets accounted for around 14% of the overall assets in the banking system at the end of last year.

Banks' provisions for bad loans surge 107% y/y to EUR 2.25 bn at end of February

The banks' provisions for bad loans surged by 138% y/y, or 107% when expressed in euros, to EUR 2.25 bn as the debtors face problems in servicing their loans. The stock of bank loans decelerated to an annualized rate of 29% y/y, or 12% y/y when expressed in EUR, from much steeper advance in the past. Bank loans were EUR 46.3 bn at end-February. In relative terms, the provisions hit 4.85% of loans, from 4.4% one month earlier and 2.6% one year earlier. The share of loss-type loans doubled on annualized basis to 5.6% from 5.2% one month earlier and 2.8% one year earlier. In February alone, the banks allocated more resources to provisioning (RON 889 mn) than to rising the stock of loans (RON 248 mn). The loss-type loans generated by households (past-due by more than 90 days), accounting for some 10% of the total loss-type loans, also surged by 154% y/y to RON 1.1 bn (EUR 254 mn) as of end of February. The rise was smaller yet still impressive, 120% y/y, when expressed in EUR. The total stock of past-due debt owed by households (above 30 days) increased by 11% y/y to RON 1.3 bn.

ARIS: Foreign investors roll 12 projects in Q1 in Romania

Romanian Agency for Foreign Investments (ARIS) received in the Q1 12 projects drafts worth EUR 719 mn which means some 3,400 new jobs will be created. Most of the projects are Greenfield investments and some are in the equipment making industry and in renewable energies. ARIS said, using data from the trade registry body, that 1,301 new companies were registered in the first 2 months this year. The country's Central Bank (BNR) said foreign direct investments (FDIs) in the first 2 months hiked 38% over the similar period last year, to EUR 1.374 bn. FDI stood during the first 2 months of last year at EUR 995 mn, covering only 39.7% of the current account deficit at the moment. Of all the investments recorded between 1 January and 28 February, capital participations weighed 45.2%, the reinvested profit 16.4% and the intra-group credits 38.4%. The loans contracted by companies headquartered in Romania from their mother-companies might widen the current account deficit as they will be returned when they mature. Their weight dropped however during the analyzed period from where they stood last year, at 50.8%. Last year's current account deficit was covered in proportion of 53.5% by FDI, which amounted to EUR 9.02 bn, 24.45% up from 2007. Romania's balance of payments gap decreased by 75.5% during the first 2 months of the year, to EUR 614 mn, as the commercial deficit shrank significantly.

FDI in February - EUR 1.37 bn

The foreign direct investments stood at EUR 1.37 bn in February, up by 38% from the level registered in the same period last year when the FDI stood at EUR 995 mn, the data issued by the National Bank of Romania (BNR) reveals. The capital participations represented 45.2% of the total FDI registered in the first 2 months, the intra-group credits represented 38.4% and the reinvested profits 16.4%. The FDI have fully covered the current account deficit for the second consecutive month. In fact, in the first 2 months of 2009 the deficit dropped by 75.5% compared

to the same period last year, reaching a level of EUR 614 mn. Compared to the same period last year, in the first month of this year the current account deficit dropped by 54.6% to EUR 525 mn. The trade deficit that dropped by 59.5% to EUR 961 mn compared to the same period last year has had a determining influence on the drop that the current account deficit registered in the first 2 months of this year. The deficit registered by the goods and services balance has dropped by 250% from EUR 2.23 bn in the first 2 months of last year to EUR 894 mn during the same period this year. On the goods segment the deficit has also dropped by almost 250% from EUR 2.37 bn to EUR 961 mn, while on the services segment the deficit has dropped from EUR 135 mn to EUR 67 mn. The deficit registered by the revenues has dropped from EUR 806 mn in the first 2 months of last year to EUR 692 mn during the same period this year. On the other hand, the transfers have registered a hike of 81%, reaching a level of EUR 972 mn.

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:										
	September	2.9	1040	3.90	6.03	-0.30	2486	4176	-1690	5138
	October	3.00	1084	4.10	6.84	-0.37	2819	5023	-2203	5958
	November	2.80	1121	4.20	6.67	-1.44	2763	4986	-2223	6644
	December	3.10	1266	4.10	6.57	-3.09	2253	4325	-2072	7069
2008 out of which:										
	January	2.50	1200	4.30	7.26	+0.20	2487	3900	-1413	663
	February	2.20	1134	4.30	7.97	-0.20	2826	4338	-1512	475
	March	2.10	1192	4.20	8.63	-0.40	2706	4698	-1992	450
	April	2.20	1282	3.90	8.62	-0.20	2723	4827	-2104	1630
	May	2.00	1248	3.80	8.46	-0.80	2971	4754	-1783	768
	June	1.80	1273	3.80	8.61	-1.40	3034	5047	-2013	772
	July	1.80	1308	3.80	9.04	-1.00	3190	5077	-1887	924
	August	1.70	1277	3.87	8.02	-1.40	2619	4330	-1711	754
	September	1.90	1296	3.90	7.30	-1.70	2915	5253	-2338	549
	October	1.80	1327	4.00	7.39	-1.80	3219	5229	-2010	954
	November	1.20	1361	4.10	6.74	-	2536	4215	-1679	492
	December	0.50	1489	4.40	6.30	-	1923	3374	-1451	539
2009 out of which:										
	January	1.24	1355	4.9	6.71	-	1912	2489	-577	-
	February	-	1358	5.3	6.90	-	2072	2836	-764	-
	March									

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