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Romania:
Sober optimism

In Romania, 2.2% GDP growth in the first quarter of 2013 was driven solely by net exports. Industrial production and exports recovered at a remarkable pace in the first four months of the year, thus justifying a revision of the wiiw GDP forecast to 1.9% for 2013, with a slight downturn in both 2014 and 2015 owing to continuing bad performance in the euro area.

The first quarter 2013 GDP was as much as 2.2% above the level of the same period in the previous year which is one of the best results among the EU-27. Growth was driven solely by net exports while consumption and investments declined. The latter indicates a dire state of the economy. But April data for foreign trade and production indicate a continuing boom and also the prospects for agriculture look good. Therefore the wiiw GDP forecast is increased from 1.5% to 1.9% for 2013 and has been revised downwards for 2014 and 2015 due to continuing bad performance in the euro area.

Industrial production underwent a remarkable recovery in the first quarter of 2013 (+4.7) driven by manufacturing (+6.1%) and held back by the energy sector (-5.4%). The best performing manufacturing sectors with more than 10% increase were the production of other transport equipment, electrical equipment, pharmaceuticals, non-metallic minerals and chemicals. Exports were one of the driving forces behind most of these results, but also domestic demand increased, e.g. for pharmaceuticals due to higher healthcare expenditure and for waggons due to rail transport modernisation. Declines were reported in the production of beverages, tobacco, coke and refined petroleum and basic metals. The reasons for those declines can be related to weak export markets for metals and increased excise taxes for tobacco products. The outlook for industrial production is encouraging. New orders for exports rose in the first few months of 2013 while domestic orders stagnated. The industrial manager index has been positive through May including in some industries which reported declining production in the first quarter.

In contrast to industry, other economic activities showed less favourable results (with the exception of agriculture). Construction output and the value of services rendered to the population declined. Numerous SMEs went bankrupt in these sectors. The corporate risk assessment company Coface reported for Romania the second highest insolvency rate of companies (5.57%) in Central Europe (after Serbia) in 2012 and forecasts a further increase of insolvencies in 2013. In this respect the European Council recommendations of 29 May 2013 stressed the need for improving and simplifying the business environment by reducing the administrative burden. The related Progress Report of the Romanian government from March 2013 reveals that the country is in big delay with the implementation of the Small Business Act although it has introduced some SME support programmes earlier this year. The dire condition of the corporate sector is reflected in the development of financial indicators. As of end-April, non-government loans decreased by 2.1% (down 7.0% in real terms) year on year, on the back of a 3.8% increase in RON-denominated loans (down 1.5% in real terms) and a 5.4% decline in foreign currency-denominated loans expressed in RON.

The external sector was doing unexpectedly well in the first few months of the year. A current account surplus was achieved in the first three month of 2013 which is an absolute novelty for this country. Not only did the deficit in goods trade contract but also the incomes balance improved while the services balance turned positive. These improving balances compensated for the lower amounts of current transfers. Exports increased by 4.6% in the first quarter of 2013 following declines in the previous year (in current euro terms). There was a modest structural shift to new markets and medium-high-technology goods. A share of 70% of exports went to the EU, 1.6 percentage points less than in the first quarter of 2012, which points to some market diversification. For instance, a larger part of the Dacia cars was sold in the Mediterranean area than before. The export share of transport equipment increased by close to one percentage point, to 42.5% year on year. The contraction of imports by 1.1% can be related to lower domestic demand for energy carriers on account of the relatively mild winter. The share of these products in imports declined by more than three percentage points, to 8.8%, while the share of transport equipment rose by one percentage point to 34.6%. Longer-term and more detailed indicators also reveal rapidly growing intra-industry trade between Romania and the EU-15.

The fiscal stance was sound as observed by the EU Commission in its latest (May 2013) assessment. Only modest adjustments were suggested to bring down the general government deficit from 2.9% of GDP in 2012 to 2.6% in 2013 and 2.4% in 2014. Both revenues and expenditures are expected to increase albeit at a slower pace than GDP. At the same time, the EU Commission has requested Romania to step up efforts to support economic growth and poverty reduction. While the IMF shares the Commission's view on deficit reduction, its additional requests are more detailed in terms of measures which may increase competitiveness. The latter refer first of all to fiscal arrears of municipalities and the loss reduction in state-owned companies for which detailed management and privatisation targets have been set. As the government was in delay with meeting these requirements by the deadline of end-March 2013, the programme was extended until the end of June. Progress has been sluggish and most likely several of the targets will not be met in due time. The non-transparent financial situation of state-owned companies such as the Romanian Post and the rail transport company CFR Marfa deter high bids for the privatisation tenders which have therefore been repeatedly modified to attract interest. In other instances, private management under state ownership was thought to be a viable option but the line ministries have been reluctant to give up their control. A problematic point is that any restructuring, with or without privatisation, would entail layoffs and even the possibility of this brings workers to the street which then calls for a political solution.

Earlier this year the government expressed its wish to sign a new stand-by precautionary agreement with the IMF but may refrain from it in view of protracted problems with fulfilling the current accord and its improved international financial position. Abundant liquidity on capital markets and increasing trust in the stability of the Romanian government may further bring down the cost of market financing. But a row with the IMF may undermine this expectation. As a constructive solution, the IMF may declare the current accord as technically closed in July even if conditions are not fully met.

The National Bank of Romania continued its cautious policy and did not decrease the policy rate from the 5.25 fixed a year earlier. Still there was an important monetary easing by narrowing the interest rate band around the policy rate by one percentage point to +/-3% for deposits and borrowing, thus reducing the costs of banks. The main reason for keeping the policy rate in place was the relatively high rate of inflation, 4.8% in the first quarter of 2013. This was the result of hikes in energy prices and excise duties at the beginning of the year and food price increases in the second half of 2012. Gas price hikes are scheduled for July while food prices are not expected to rise on account of a good harvest. The strengthening domestic currency contributed to sobering inflation.

Based on the performance in the first four months of the year, the 2013 GDP growth forecast has been revised upwards. Arguments are numerous: household consumption may revive in the wake of a good harvest, fiscal austerity eases, there are signs of improved access to EU Cohesion Funds, and also net exports contribute positively to growth. But there are also some sobering arguments: financial difficulties in the enterprise sector, low capacity of the government to implement consistent policies, and sluggish demand in the euro area. The protracted recession in the latter may hinder exports growth which will impact on industrial production and wages also in the medium run. Therefore we scaled back the expectations for 2014 and 2015 as improvements in the domestic economy may not proceed fast enough and even less so in the external environment.

Table RO

Romania: Selected Economic Indicators

	2009	2010	2011	2012 [1]	2012	2013	2013	2014	2015
					1st quarter			Forecast	
Population, th pers., average [2]	21480	21438	19070	19000	.	.	18950	18900	18900
Gross domestic product, RON mn, nom.	501139	523693	556708	587499	112819	121448	632100	675700	724400
annual change in % (real)	-6.6	-1.1	2.2	0.7	0.4	2.2	1.9	2.0	2.1
GDP/capita (EUR at exchange rate)	5500	5800	6900	6900	.	.	.	.	.
GDP/capita (EUR at PPP)	11100	11400	13300	13700	.	.	.	.	.
Consumption of households, RON mn, nom.	304667	327242	345047	358514	76303	75808	.	.	.
annual change in % (real)	-10.4	-0.3	1.2	1.0	1.3	-0.3	0.8	1.0	1.5
Gross fixed capital formation, RON mn, nom.	122442	129422	144558	156928	21980	22155	.	.	.
annual change in % (real)	-28.1	-1.8	7.3	5.0	11.3	-0.7	2.0	4.0	4.0
Gross industrial production [3]									
annual change in % (real)	-5.5	5.5	7.4	2.4	1.8	4.7	3.0	4.0	5.0
Gross agricultural production (EAA)									
annual change in % (real)	-2.2	1.0	8.9	-21.8	.	.	.	.	.
Construction industry [3]									
annual change in % (real)	-15.0	-13.2	2.8	1.2	6.2	-4.1	.	.	.
Employed persons, LFS, th, average	9243.5	9239.4	9137.7	9262.8	9018.8	.	9300	9300	9400
annual change in %	-1.3	0.0	-1.1	1.4	-0.6	.	0.4	0.0	1.1
Unemployed persons, LFS, th, average	680.7	725.1	730.2	701.2	740.1	.	.	.	.
Unemployment rate, LFS, in %, average	6.9	7.3	7.4	7.0	7.6	.	7.0	7.0	6.5
Reg. unemployment rate, in %, end of period	7.8	7.0	5.2	5.6	5.2	5.6	.	.	.
Average gross monthly wages, RON [4]	1845	1902	1980	2079	2059	2171	.	.	.
annual change in % (real, net)	-1.5	-3.7	-1.9	1.5	0.9	-0.3	.	.	.
Consumer prices (HICP), % p.a.	5.6	6.1	5.8	3.4	2.7	4.8	4.2	3.5	3.5
Producer prices in industry, % p.a.	2.4	4.4	7.1	5.3	4.8	5.2	.	.	.
General governm.budget, EU-def., % of GDP									
Revenues	32.1	33.3	33.8	33.5	.	.	34.1	.	.
Expenditures	41.1	40.1	39.4	36.4	.	.	36.6	.	.
Net lending (+) / net borrowing (-)	-9.0	-6.8	-5.6	-2.9	.	.	-2.6	-2.4	-2.2
Public debt, EU-def., % of GDP	23.6	30.5	34.7	37.8	.	.	36.0	37.0	37.0
Central bank policy rate, % p.a., end of period [5]	8.00	6.25	6.00	5.25	5.25	5.25	.	.	.
Current account, EUR mn	-4938	-5476	-5936	-5264	-795	69	-5000	-5500	-6000
Current account, % of GDP	-4.2	-4.4	-4.5	-4.0	-3.1	0.2	-3.5	-3.6	-3.7
Exports of goods, BOP, EUR mn	29091	37333	45264	45007	11073	11579	46400	49600	53100
annual change in %	-13.6	28.3	21.2	-0.6	0.0	4.6	3.0	7.0	7.0
Imports of goods, BOP, EUR mn	35959	44901	52661	52375	12265	12131	53400	56900	60900
annual change in %	-31.8	24.9	17.3	-0.5	1.9	-1.1	2.0	6.5	7.0
Exports of services, BOP, EUR mn	7061	6622	7253	7632	1632	1641	8000	8500	9000
annual change in %	-19.3	-6.2	9.5	5.2	10.0	0.6	5.0	6.0	6.0
Imports of services, BOP, EUR mn	7352	6216	6911	7090	1711	1488	7400	7800	8300
annual change in %	-9.1	-15.5	11.2	2.6	18.5	-13.0	4.0	6.0	6.0
FDI inflow, EUR mn	3490	2227	1798	1861	358	211	1800	.	.
FDI outflow, EUR mn	-61	-12	-25	31	34	95	0	.	.
Gross reserves of NB excl. gold, EUR mn	28249	32606	33166	31095	34582	32208	.	.	.
Gross external debt, EUR mn	81206	92458	98724	98969	99867	101087	.	.	.
Gross external debt, % of GDP	68.7	74.4	75.2	75.1	75.8	70.4	.	.	.
Average exchange rate RON/EUR	4.2399	4.2122	4.2391	4.4593	4.3533	4.3866	4.40	4.42	4.45
Purchasing power parity RON/EUR	2.1047	2.1414	2.2031	2.2555	.	.	.	.	.

Note: Gross industrial production, construction output and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary. - 2) From 2011 according to census October 2011. - 3) Enterprises with 4 and more employees. - 4) Quarterly data refer to enterprises with 4 and more employees. - 5) One-week repo rate.

Source: wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.