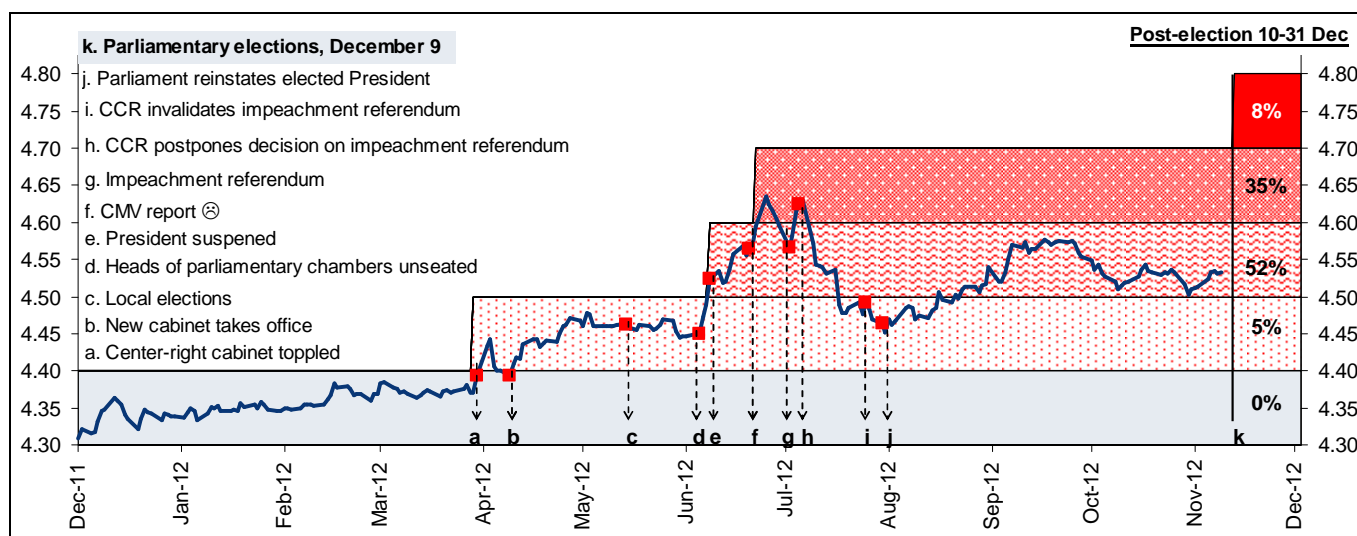




# Weekly Focus

Chart of the week – EURRON and significant events in 2012

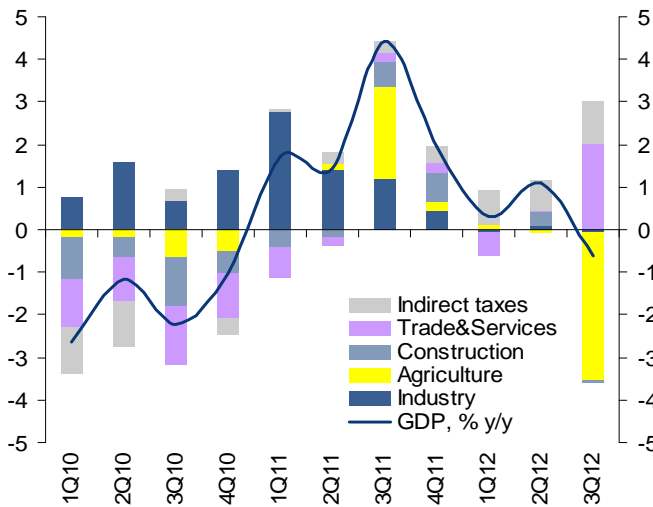


Source: BCR Research

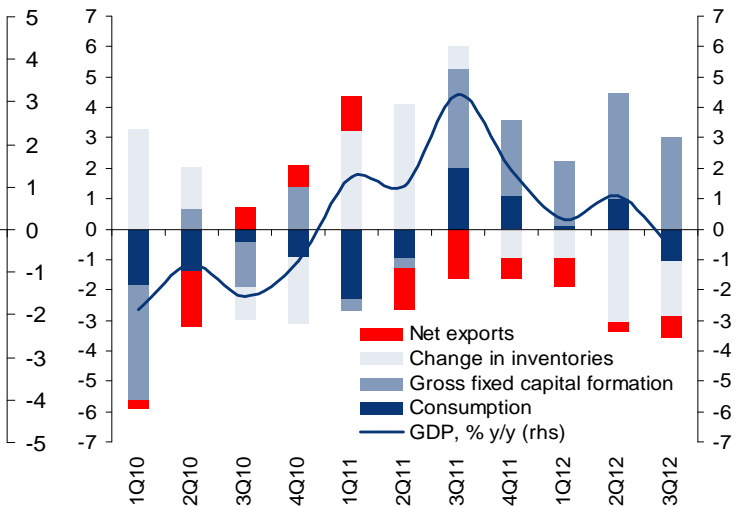
## Economy shrivels, due to meager harvest in 3Q12

- The National Institute of Statistics (INS) confirmed earlier this week that the Romanian economy contracted in the third quarter by 0.6% y/y. The detailed breakdown of GDP revealed a jaw-dropping fall of almost 30% in agriculture, which knocked an impressive 3.5% off the gross domestic product in 3Q12. Our earlier assumption that agricultural performance would draw a line between 3Q GDP remaining above zero and falling into the red zone unfortunately proved correct. Agriculture always has the greatest impact in the third quarter. As it is highly weather-sensitive and erratic, and thus difficult to predict from one year to the next, it can either provide an extra boost (+2.1% contribution to GDP in 3Q11), or be a substantial drag (-3.5% contribution to GDP in 3Q12) on the country's economic performance. However, it is unfair to pin the entire blame on agriculture, as it should be noted that GDP lacked support from two other important contributors – industry and construction – which combined dragged GDP down by around 0.2%. Since every cloud has a silver lining, trade & services and net indirect taxation both made an unexpected jump in 3Q12, pushing GDP up 3% and somewhat moderating the fall of the local economy. In the first nine months, GDP growth cooled to 0.2%, from 0.7% in the first six months.
- The situation was no better on the expenditure side in y/y terms. Surprisingly, after struggling to grow in the previous four quarters, household consumption succumbed in 3Q12 (-1.5% y/y). One of the main culprits behind this was the plummeting cottage food production, which stripped the vast majority of households in the rural areas of one significant source of income (more than 30% of average household expenditure is funded by income generated on a homestead). This time, our initial bet that part of the fall in cottage production would be outweighed by stronger retail sales, did not correspond with reality, which reinforces the fact that household consumption is still on shifting sands. In line with our expectations, net exports remained a drag, shaving 0.7% off quarterly GDP, as the volume of exports shied away more rapidly into the negative zone than imports. The run-down in inventories was still there in 3Q, with a sizable negative impact on GDP formation (-1.8%) and only the robust increase in gross fixed capital formation, which added 3% to GDP, helped domestic demand stay afloat (+0.1% y/y). One positive takeaway based on the developments in the first nine months is that the rebound in investments (+12%) drew much more on local resources, as the volume of imports was slightly negative (-0.7% y/y).

**GDP formation – resource approach**



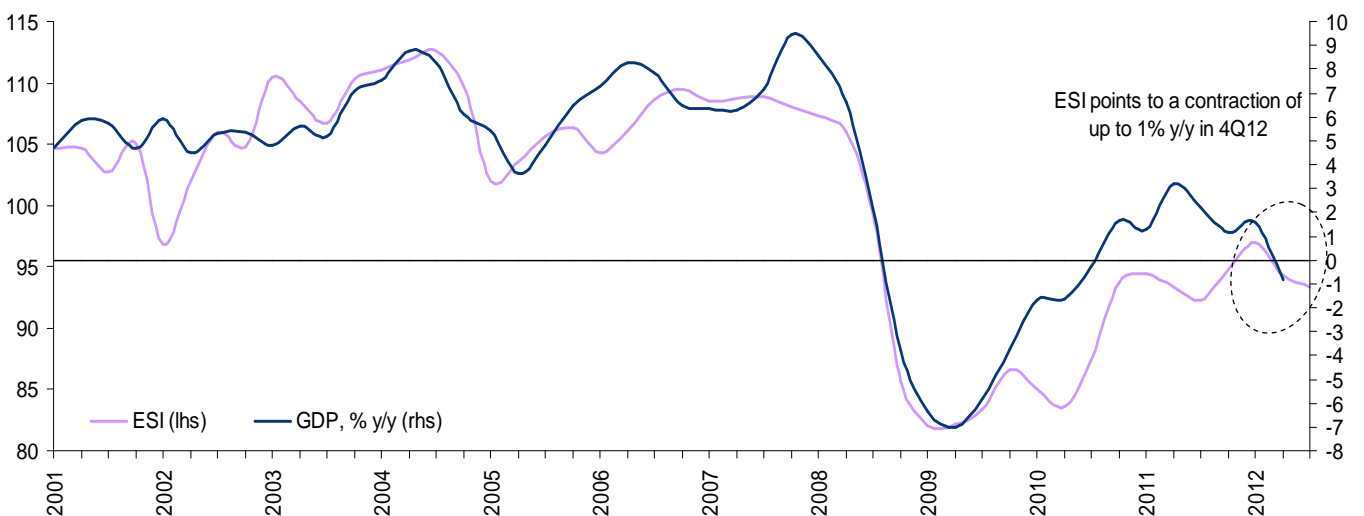
**GDP formation – expenditure approach**



Source: BCR Research, INS

- For the first time in the last six months, Romanian economic sentiment inched up in November (94.2) as part of a more general move seen across the European Union. Basically, the slight improvement in overall sentiment was broad based, as all five sub-components edged up in November, even though the improvement was more evident in some parts – consumer confidence, services and industry – than in others. The uplift in the November sentiment in industry to -3.5, from -4.5 in the previous month (still below the long-term average of -2.2) was propped up by better production expectations and improved stock adequacy. It should be noted that overall new orders for industrial products were marginally down m/m in November, while export orders were only a shade better than in October. As the cold season is setting in, the energy sector will ramp up production, running interference for weak manufacturing, which is likely to linger in the red zone for the remainder of this year. However, a deeper fall in manufacturing could be averted, as new orders in the Eurozone and top four export partners of Romania (Germany, Italy, France and Hungary) saw some notable improvements.
- Consumer confidence livened up somewhat in November, probably spurred by the upcoming rise in public wages and the recent announcement of pension hikes in 2013. Retail sales have so far seen pretty robust growth rates, while big retailers continued to expand their networks, especially in the big cities – retail managers expect the business situation to improve. The sentiment in services improved in November but failed to poke into positive territory (-0.8 vs. -3.5 in October), while construction reported only marginal improvement in November, on slightly higher order books. However, sentiment in construction is still hovering well below the long-term average (-26.8 vs. -13.3).

**GDP and economic sentiment**



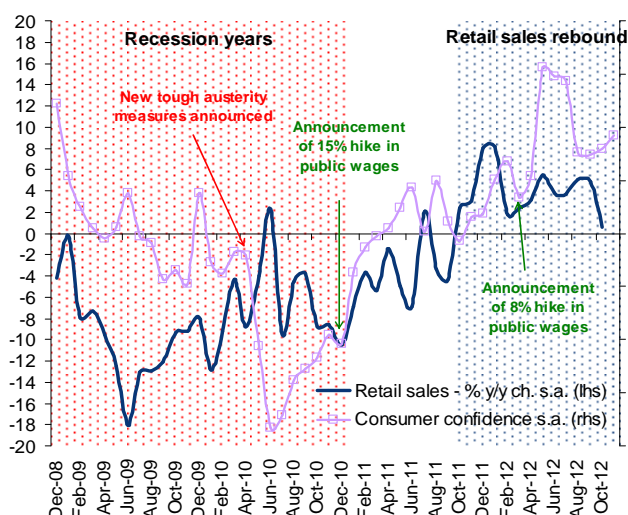
Source: BCR Research, European Commission, INS

- Outlook:** The recent improvement in economic sentiment does not alter our growth outlook for Romania, while we continue to see the economy ticking over this year (0%) and inching up just 1% in 2013. The recession in the Eurozone this year and the delicate recovery, if any, in 2013 (+0.1%) will weigh on the Romanian economy, which still shows a positive growth differential of around 1% over the single currency area. Domestic demand will be the main growth driver in 2013, while the impact of net exports (external demand) is likely to remain slightly negative, as the local economy is still exhibiting a significant propensity towards imports either for investment or consumption.

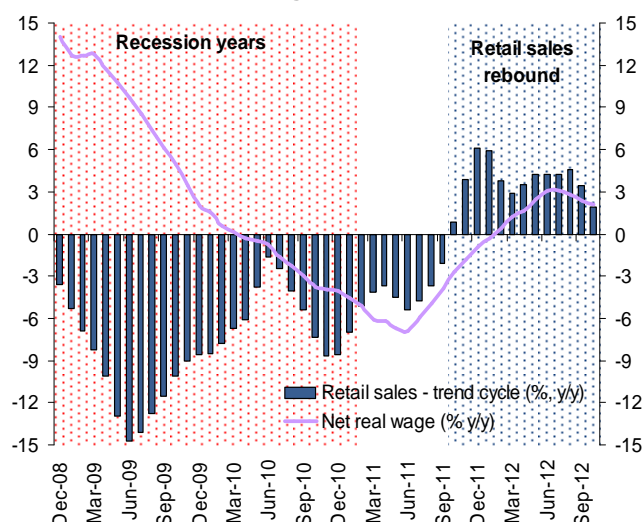
**Retail sales softened in October**

- Monthly retail sales came in weaker in seasonally-adjusted terms in October (-2%), bringing the annual growth rate down to only 0.7%. The move came in pretty stark contrast with consumer confidence, which ticked up marginally in October, based on the revised data by the European Commission. The monthly retail sales decline was broad based, with food products leading the fall (-3.4%). Retail sales of fuels also tumbled 2.9% against the previous month and this was pretty much a surprise, as the price of fuels for personal transport was cheaper by around 1.3% m/m. In annual terms (s.a.), food and non-food remained in positive territory, but fuels could not avoid easing into negative territory. In YTD terms, retail sales slackened to 3.8% in the first ten months, from 4.3% in January-September.

**Retail sales and consumer confidence**



**Retail sales and net real wage**



Source: BCR Research, INS, EC

- Outlook:** Retail sales could perk up a bit in November, as consumer confidence brightened on high hopes that the cabinet will deliver on the election promise to raise public wages and increase pensions, which will in any case come into effect as of 2013 (although a further increase in public wages should have muted impact on the private sector wage bill). Meanwhile, high inflation (despite the pull-back in October) will continue to be a downer for retail sales. This could be more visible in the food area, where the paltry crop this year has already taken a pretty heavy toll on prices (+3% for the whole food category and +11% for vegetables during August-October 2012). Sluggish consumer lending remains a drag on sales of non-food products for the remainder of this year, but the recent flurry of sales related to Black Friday and the beginning of the Christmas shopping season may keep them from a steeper downward path. We continue to see retail sales advancing by around 2.5% this year.

### Macro developments

		1M_11	3M_11	6M_11	9M_11	12M_11	1M_12	3M_12	6M_12	9M_12
<b>Industry</b>	y/y % ch.	<b>11.9</b>	<b>11.4</b>	<b>7.5</b>	<b>6.8</b>	<b>5.6</b>	<b>1.2</b>	<b>-0.4</b>	<b>0.2</b>	<b>-0.2</b>
- Manufacturing	y/y % ch.	14.3	13.2	7.8	7.1	5.6	0.9	-1.6	-0.8	-1.2
- Electricity, gas, steam and air conditioning	y/y % ch.	3.5	3.7	5.5	5.6	6.3	0.9	7.8	7.7	6.8
- Mining and quarrying	y/y % ch.	1.6	3.8	7.6	5.6	4.5	5.4	-0.8	-1.3	1.0
- Capital goods	y/y % ch.	13.9	14.1	6.1	6.4	5.8	6.4	3.2	3.8	2.7
- Durables	y/y % ch.	15.2	13.7	7.7	4.3	1.1	-4.3	-1.5	1.8	2.4
- Intermediery goods	y/y % ch.	20.6	21.1	14.8	12.7	10.0	-1.9	-7.2	-4.7	-4.7
- Consumption goods	y/y % ch.	7.9	2.6	1.1	1.0	-0.2	-1.9	-0.8	-0.7	-0.6
<b>New orders</b>	y/y % ch.	<b>41.1</b>	<b>26.4</b>	<b>19.4</b>	<b>17.2</b>	<b>13.4</b>	<b>-2.3</b>	<b>0.6</b>	<b>0.7</b>	<b>-0.9</b>
<b>Construction</b>	y/y % ch.	<b>-8.5</b>	<b>-4.4</b>	<b>-5.0</b>	<b>-0.1</b>	<b>2.8</b>	<b>14.9</b>	<b>-1.1</b>	<b>7.5</b>	<b>3.2</b>
- Residential	y/y % ch.	0.3	-13.4	-26.5	-14.5	-2.3	-24.1	-31.0	-13.5	-15.1
- Non-residential	y/y % ch.	-9.4	0.4	4.7	10.6	6.3	31.6	-12.5	-2.5	-6.9
- Infrastructure	y/y % ch.	-10.7	-3.3	-1.4	-0.2	2.6	19.5	14.8	18.7	13.5
<b>Retail sales</b>	y/y % ch.	<b>-5.7</b>	<b>-5.5</b>	<b>-5.8</b>	<b>-4.7</b>	<b>-2.5</b>	<b>10.2</b>	<b>3.7</b>	<b>4.1</b>	<b>4.0</b>
- Food	y/y % ch.	-7.4	-10.7	-9.7	-8.1	-6.2	3.7	4.8	3.6	2.9
- Non-food	y/y % ch.	0.5	-1.3	-3.4	-2.6	0.2	6.7	0.2	1.3	2.3
- Fuels	y/y % ch.	-15.4	-5.1	-4.2	-3.5	-1.7	31.4	9.4	10.3	8.6
<b>Auto vehicles sales and related services</b>	y/y % ch.	<b>10.7</b>	<b>4.8</b>	<b>0.5</b>	<b>4.0</b>	<b>3.3</b>	<b>-0.4</b>	<b>-3.9</b>	<b>-2.0</b>	<b>-4.2</b>
<b>Wholesale (nom. growth)</b>	y/y % ch.	<b>27.4</b>	<b>18.4</b>	<b>13.1</b>	<b>12.9</b>	<b>12.1</b>	<b>3.6</b>	<b>3.7</b>	<b>11.1</b>	<b>n/a</b>
<b>Household services</b>	y/y % ch.	<b>7.3</b>	<b>7.4</b>	<b>6.4</b>	<b>10.5</b>	<b>9.9</b>	<b>-1.5</b>	<b>-2.8</b>	<b>-2.5</b>	<b>-1.9</b>
<b>Services to companies (nom. growth)</b>	y/y % ch.	<b>5.0</b>	<b>4.6</b>	<b>1.9</b>	<b>4.1</b>	<b>5.3</b>	<b>4.8</b>	<b>2.4</b>	<b>5.5</b>	<b>5.7</b>
<b>Exports (FOB)</b>	y/y % ch.	<b>47.7</b>	<b>40.0</b>	<b>28.7</b>	<b>25.0</b>	<b>20.9</b>	<b>1.9</b>	<b>0.0</b>	<b>1.0</b>	<b>-0.5</b>
	€ mn.	3,420	11,071	22,163	33,677	45,176	3,486	11,065	22,374	33,506
- EU exports	y/y % ch.	40.1	35.9	25.7	22.8	19.1	4.8	0.1	0.4	-1.6
	€ mn.	2,456	8,009	15,855	23,961	32,088	2,574	8,018	15,913	23,579
<b>Imports (CIF)</b>	y/y % ch.	<b>30.5</b>	<b>25.9</b>	<b>20.8</b>	<b>19.6</b>	<b>16.9</b>	<b>8.7</b>	<b>1.8</b>	<b>1.0</b>	<b>0.1</b>
	€ mn.	3,629	12,554	26,677	40,575	54,812	3,946	12,782	26,932	40,622
- EU imports (CIF)	y/y % ch.	30.9	24.0	20.0	18.8	17.1	11.0	5.4	3.4	2.3
	€ mn.	2,586	8,954	19,044	29,127	39,815	2,870	9,442	19,686	29,785
<b>Trade deficit (FOB-FOB)</b>	€ mn.	<b>-59</b>	<b>-966</b>	<b>-3,414</b>	<b>-5,226</b>	<b>-7,408</b>	<b>-297</b>	<b>-1,190</b>	<b>-3,449</b>	<b>-5,441</b>
<b>C/A deficit</b>	€ mn.	<b>54</b>	<b>-594</b>	<b>-3,348</b>	<b>-4,780</b>	<b>-5,937</b>	<b>26</b>	<b>-359</b>	<b>-2,176</b>	<b>-3,671</b>
<b>FDIs (inflows)</b>	€ mn.	<b>493</b>	<b>169</b>	<b>475</b>	<b>861</b>	<b>1,814</b>	<b>107</b>	<b>88</b>	<b>339</b>	<b>1,109</b>
<b>CPI</b>	eop - %	<b>6.99</b>	<b>8.01</b>	<b>7.93</b>	<b>3.45</b>	<b>3.14</b>	<b>2.72</b>	<b>2.40</b>	<b>2.04</b>	<b>5.33</b>
- Core 2 (unadj.)	eop - %	5.06	5.61	5.80	3.07	2.78	2.69	2.47	2.33	3.20
<b>Gross wages</b>	RON	<b>1,963</b>	<b>2,056</b>	<b>2,026</b>	<b>2,017</b>	<b>2,209</b>	<b>2,022</b>	<b>2,126</b>	<b>2,140</b>	<b>2,122</b>
	y/y % ch. 12m	1.9	0.8	0.8	3.1	4.9	5.2	5.9	6.2	5.4
<b>Budget balance</b>	% of GDP	<b>0.1</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-2.5</b>	<b>-4.4</b>	<b>0.2</b>	<b>-0.6</b>	<b>-1.1</b>	<b>-1.2</b>
	RON mn.	819	-5,190	-11,197	-13,884	-23,837	1,005	-3,388	-6,790	-7,172
<b>EUR/RON</b>	eop	<b>4.25</b>	<b>4.11</b>	<b>4.23</b>	<b>4.35</b>	<b>4.32</b>	<b>4.34</b>	<b>4.38</b>	<b>4.45</b>	<b>4.53</b>
	avg	4.26	4.22	4.18	4.21	4.24	4.34	4.35	4.39	4.43
<b>Key rate</b>	eop - %	<b>6.25</b>	<b>6.25</b>	<b>6.25</b>	<b>6.25</b>	<b>6.0</b>	<b>5.75</b>	<b>5.25</b>	<b>5.25</b>	<b>5.25</b>
<b>ROBOR 3M</b>	eop - %	<b>5.0</b>	<b>5.7</b>	<b>5.5</b>	<b>6.2</b>	<b>6.1</b>	<b>5.4</b>	<b>4.6</b>	<b>5.3</b>	<b>5.6</b>
	avg - %	5.3	6.1	5.7	5.7	5.8	5.5	5.0	5.0	5.2

Note: Unadjusted series for industry, constructions, trade and services  
 Source: BCR Research, Central Bank, INS

## Macro forecasts

	2005	2006	2007	2008	2009	2010	2011	2012f	2013f	2014f
<b>Real economy</b>										
GDP - %, y/y real change	4.2	7.9	6.3	7.3	-6.6	-1.6	2.5	0.0	1.1	2.3
GDP - RON bn	289	345	416	515	501	523	579	606	638	676
GDP per capita - EUR tsd	3.7	4.5	5.8	6.5	5.5	5.8	6.4	6.4	6.6	7.0
Private consumption - %, y/y real ch.	9.6	11.6	10.3	8.9	-9.1	-0.3	0.7	0.7	1.4	2.2
GFCF - %, y/y real change	15.3	19.9	30.3	15.6	-28.1	-2.1	6.3	3.5	4.4	5.0
Industrial production - % y/y real ch.	2.0	7.1	5.4	2.7	-5.6	5.6	5.6	-0.5	1.4	2.4
Retail sales - %, y/y real ch.	17.5	13.5	16.4	19.9	-14.1	-0.4	-2.5	2.5	3.0	4.2
<b>External sector</b>										
Exports (FOB) - EUR bn.	22	26	30	34	29	37	45	45	46	48
Imports (FOB) - EUR bn.	30	38	47	53	36	45	52	52	53	56
Trade balance - % of GDP	-9.8	-12.0	-14.3	-13.7	-5.8	-6.1	-5.5	-5.4	-5.3	-5.5
C/A balance - % of GDP	-8.6	-10.4	-13.4	-11.6	-4.2	-4.4	-4.2	-3.4	-3.5	-3.6
FDIs (inflows) - % of GDP	6.5	9.3	5.8	6.8	3.0	1.8	1.4	1.2	1.3	1.5
<b>Prices</b>										
CPI - y/y (%)	8.6	4.9	6.6	6.3	4.7	8.0	3.1	5.5	4.7	3.9
CPI - average (%)	9.0	6.6	4.8	7.9	5.6	6.1	5.8	3.4	6.1	4.0
IPPI - y/y (%)	9.6	11.6	10.5	7.9	1.4	6.3	7.0	6.0	5.0	3.8
<b>Labour market</b>										
Unemployment rate - %	7.2	7.3	6.4	5.8	6.9	7.3	7.4	7.4	7.3	7.2
Gross wages - RON	968	1,146	1,396	1,761	1,845	1,902	1,995	2,119	2,225	2,336
Gross wages - %, real change	8.6	11.1	16.2	16.9	-0.8	-2.8	-0.9	2.7	-1.0	1.0
<b>Public sector</b>										
Fiscal deficit - % of GDP (ESA)	-1.2	-2.2	-2.9	-5.7	-9.0	-6.8	-5.5	-3.4	-2.7	-2.3
Public debt - % of GDP (Eurostat)	15.8	12.4	12.8	13.4	23.6	30.5	33.3	34.2	34.4	34.1
<b>Interest rates</b>										
Monetary policy rate, eop	7.50	8.75	7.50	10.25	8.00	6.25	6.00	5.25	5.25	5.25
ROBOR 3M - %, eop	7.6	8.6	8.4	15.5	10.7	6.2	6.1	5.9	5.8	5.5
ROBOR 3M - %, average	9.8	8.8	7.8	13.0	11.7	6.7	5.8	5.3	5.9	5.7
<b>FX rates</b>										
EUR/RON average	3.62	3.52	3.34	3.68	4.24	4.21	4.24	4.45	4.52	4.51
USD/RON average	2.19	2.81	2.44	2.52	3.05	3.18	3.04	3.48	3.77	3.76
EUR/USD average	1.24	1.25	1.37	1.47	1.39	1.33	1.39	1.28	1.20	1.20

Source: BCR Research, Erste Group Research, Central Bank, INS, Eurostat

## BCR Research

Weekly Focus | Fixed Income | Romania

7 December 2012

### Macro and Fixed Income:

Dumitru Dulgheru	+4 (021) 312 67 73/1029	<a href="mailto:DumitruTeodor.Dulgheru@bcr.ro">DumitruTeodor.Dulgheru@bcr.ro</a>
Florin Eugen Sinca	+4 (021) 312 67 73/1026	<a href="mailto:Eugen.Sinca@bcr.ro">Eugen.Sinca@bcr.ro</a>
Dorina Cobiscan	+4 (021) 312 67 73/1028	<a href="mailto:Dorina.Cobiscan@bcr.ro">Dorina.Cobiscan@bcr.ro</a>

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