

## Romania



Three years of debate came to an end in March 2008 when the Romanian Parliament approved the single-member constituency, under which one member is elected per constituency. The first election under the new system followed in November, resulting in a coalition between the left wing Social Democratic Party and the centre-right Democratic Liberal Party, whose president Emil Boc is now prime minister. Some observers believe, however, that the stability and longevity of the coalition is open to doubt, primarily due to the rising unemployment rate and unfavourable economic situation. In addition, Romania is under the threat of penalties from the EC unless its authorities take action to reduce the incidence of high-level corruption. The country's target date for adopting the Euro is 2014.

Romania's population stood at 22.2 million in 2008, out of which 54.5% were economically active. While the unemployment rate fell by 0.3 percentage points to 5.8% in 2008, it is expected to rise sharply in 2009. However, there is a view that this will create some slack in the labour market, which will help the Romanian Central Bank in its bid to control inflation by controlling the wage growth. In 2008, the average monthly gross wage rose by 4.7% to EUR 502, and the bank has stated that salary rises over the next three years should not exceed 5.9% in nominal terms in 2009, 3.9% in 2010 and 3.5% in 2011.

May 2009, saw the IMF release the first EUR 5 billion tranche of the EUR 20 billion loan agreed between the Romanian government the IMF, the World Bank, the EU and other agencies.

Designed to ease pressure on the balance of payments and the currency – the Romanian Leu (RON) – the loan is also intended to restore faith in the economy and stimulate bank lending. Its effects were rapidly visible in an improved exchange rate, while the RON's slide against the Euro started in July 2008, culminating in January and February 2009 at a historic low of 4.3, down from a 2008 average of 3.68, the announcement of the loan saw the beginning of a rally, which resulted in a rate of 4.24 by the end of March. Further stabilisation of the currency is expected in the second half of 2009 due both to the loan and to the government's strong commitment to a prudent fiscal policy. The main foreign banks operating in Romania have also pledged to support their subsidiaries by refinancing the external debt repayments that fall due during 2009.



While the fourth quarter of 2008 was relatively weak, Romanian GDP, fuelled by availability of credit, grew by 7.1% during the year as a whole to stand at EUR 125 billion. Negative growth is widely expected in 2009, followed however by a predicted modest recovery for 2010 and 2011.

Average annual inflation reached 7.9% in 2008, and although the rate had already fallen to 6.3% by the end of the year, the depreciation of the RON against the Euro in early 2009 saw consumer prices rise by 2.6% in the first quarter of 2009 alone. While a reduction in domestic demand is expected to bring the rate of inflation down to some 4.4% by the end of 2009, this is still higher than the National Bank's targets and more than is forecast for most other EU member states.

Romania is subject to the EC's excessive deficit procedures. In 2008, the country's current account deficit reached EUR 16.9 billion, although over half of this figure was covered by FDIs. While FDIs were among the highest in the CE region, totalling over EUR 9 billion in 2008, it showed a year-on-year drop of 13.9% in the first quarter of 2009.

However, it is expected that FDIs levels will recover due to Romania's relatively low costs for skilled labour, simplified taxation (flat tax system), and low costs of rent and land favoured by investors.

In late 2008, banks virtually ceased lending, threatening the ability of businesses to service their existing debt. In addition, lower incomes, higher interest rates, growing incidence of bad debt and a depreciating RON conspired to worsen the quality of the bank portfolios.

The two largest companies in 2009 within Romania are still both energy and resources companies – first place belongs to Petrom SA, controlled by the Austrian OMV Group, which grew its turnover by 23.6%. Second-placed Rompetrol Rafinare, which is owned by KazMunaiGaz, grew even more strongly with a 44.6% rise in its turnover. Renault-owned Automobile Dacia also needed to take strong action, including temporary closure, however, the company has recently seen increased exports to Germany and other western European countries. Fourth-placed steel company ArcelorMittal Galati successfully addressed some significant commercial challenges to achieve a record profit while posting a reduced turnover.



Romania	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	-0.1	-0.1	22.2
Average monthly gross wage (EUR)	26.7	4.7	501.9
EUR Exchange rate vis-à-vis	-2.6	11.7	4.0
USD Exchange rate vis-à-vis	-4.6	16.6	2.9
	Real change (%)	Real change (%)	EUR mil.
GDP	6.1	7.1	125,024
Private consumption	11.5	9.1	81,974
Public consumption	0.4	3.1	19,548
Gross fixed capital investments	21.4	19.3	41,664
Exports (goods and services)	8.3	18.9	38,639
Imports (goods and services)	22.2	17.1	54,405
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-4,806	-947	-22,709
Current account balance	-3,859	-221	-16,898
General government balance	-702	-3,892	-6,751
General government gross debt	922	2,479	17,003
External debt	361	943	8,377
Foreign currency reserves	4,820	913	26,221
	Percentage point change	Percentage point change	%
Economic activity rate	-0.3	-0.3	54.5
Unemployment rate	-0.7	-0.3	5.8
CPI rate (previous year = 100%)	-0.9	-0.3	6.3
Central bank interest rate	-3.2	2.8	10.3
Interbank BUBOR 12M	-2.5	6.9	15.5
10-year yield on Treasury Bond	2.3	4.7	11.5

Sources used: Reuters EcoWin Pro

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