

*The Barometer of the Romanian Economy*

# 7 THE BAROMETER OF THE ROMANIAN ECONOMY\*

Co-ordinator: MARIOARA IORDAN\*\*

## Introduction

"The Barometer of the Romanian Economy" intends to be a *mirror* of the evolution of the Romanian economy and, at the same time, to be its *global indicator of the state and trend*. "The Barometer of the Romanian Economy" was first published some years ago in *Microeconomia aplicată*, on the initiative and under the co-ordination of Professor Cezar Mereuță. Quarterly, during 1997-1999, eight issues were published until December 1999, when the publication ceased to exist. In 2000, "The Barometer of the Romanian Economy" reappeared as a semester topic in the *Romanian Journal of Economic Forecasting*, Nos.1-2.

### 1. Evolution of the Romanian Economy

- Developments in the second quarter of 2006 -

Elena PELINESCU

The macroeconomic performance of Romania continued to be favourable in the second quarter of 2006, revealing a continuation of the good start of the current year. The real GDP grew by 7.9% as compared to the same quarter of the last year, on the basis of the actual final consumption by households and investments; the positive balance of the consolidated budget represented 1.12% of the gross domestic product; the annualised inflation was below the 2006 target (5.6%) and the private sector continued to be preponderant in the structure of the social capital, supported by the acceleration of the privatisation process.

On the *production's side*, one may notice in the second quarter of 2006 the very high (double dynamics as compared to the services) overall increase in constructions as compared to the same period of 2005 and 2004. The *value added in the constructions sector* increased by 14.2% in the second quarter of 2006 as compared to the same period of the previous year. That dynamics of the value added of this sector was higher as compared to the industrial sector (almost double) or other sectors, as a result of the increasing interest in new constructions, especially the residential ones. The households' credits increased and, under these circumstances, the NBR Governor announced restrictive conditions for the new credits and increased the interest rate since March.

\* Parts of the articles published on the site *Barometer of the Romanian Economy*, Internet Securities Inc., ISI Emerging Markets, <http://www.securities.com>.

\*\* Institute of Economic Forecasting, Bucharest, e-mail: [miordan@ipe.ro](mailto:miordan@ipe.ro).



The Macroeconomic Indicators

	U.M.	Q I 2005 (% as against 1 <sup>st</sup> quarter 2004)	Q I 2006 (% as against 1 <sup>st</sup> quarter 2005)	Q II 2006* (% as against 2 <sup>nd</sup> quarter 2005)
Real GDP Growth	%	+6.0	+6.9	+7.8
Industry (Gross Value-added)	%	+5.2	+4.8	+7.8
Constructions Gross Value-added)	%	+3.8	+20.4	+14.2
Total Final Consumption, of which:	%	+11.9	+10.3	+11.7
- Actual Final Consumption of Households	%	+12.5	+10.9	+12.7
Gross Fixed Capital Formation	%	+5.2	+11.4	+12.2
Investment Rate	% of GDP	15.5	15.6	23.8
Export of Goods and Services	%	+8.8	+13.0	+10.5
Import of Goods and Services	%	+18.4	+18.7	+18.0
Inflation Rate (average)	%	+8.8	+8.41	+7.8
Unemployment Rate – eop	%	6.0	6.2	5.3
Consolidated General Budget Deficit	% of GDP million RON	+0.12 +307.07	+0.68 +2189.2	+1.12 +3608.3
Industrial Production Dynamics	%	+5.3	+4.5	+6.7
Export of Goods (FOB)	million EUR	5095**	6212.6*	12668*
Import of Goods (CIF)	million EUR	6156**	7907*	17053*
Current Account Deficit	% of GDP million EUR	-7.1 -980	-9.13 -1564	-10.78 -4170
Direct Investments (Net Flow)	million EUR	+762	+1749	+3243
Domestic Direct Debt	million RON	14939.2	15796.9	14157.3
External Effective Government Debt	million EUR	10882.4	10792.4	10629.2
Total Medium- and Long-Term External Debt	million EUR	20455.4	24716.5	25226.1
- Public Debt	million EUR	6626.6	6938.3	6866.7
- Public Guarantee Debt	million EUR	4022.1	4249.5	4149.5

Source: *INS Monthly Statistical Bulletin, NBR Monthly Bulletin, Ministry of Public Finances and author's calculation.*

\*For GDP and components, semi-defined data; provisional data for 2006; \*\* Revised data.



As a result of this measure, the dynamics of the value added of this sector decreased as compared to the first quarter of 2006, but its contribution to the GDP continued to rise up to 6% in the second quarter of 2006.

The *value added in the industry sector* increased by 7.8% in the second quarter of 2006 as compared to the same period of the last year, as a result of the increase in the domestic demand. In the second quarter of 2006, the contribution of the industry sector to the value added of the whole economy reached 31.2%, while that to the GDP was slowly decreasing as compared to the same period of the last year.

The *value added in agriculture* increased by 2.1%, higher as compared to the second quarter of 2005, but less as compared to the second quarter of 2004, while the share of this sector in the GDP reached 4.6% in the second quarter of 2006.

The *gross fixed capital formation* increased by 12.2% in the second quarter of 2006 as compared to the same period of the last year, higher as compared to the same quarter of the previous year, and the investment rate reached 23.8%, as a result of the direct investments. In the second quarter of 2006, the contribution of the gross capital formation to the GDP reached 23.4%, on the basis of the decrease in inventories. In addition, the capacity of the Romanian economy to absorb direct investments continued to grow fast, so that the net direct investment inflow reached 3243 million euros at the end of June 2006, by 1134 million euros over the level reached in the same period of the previous year.

The *actual final consumption by households* increased by 14.3% in the second quarter of 2006, stimulated by the new and easy credit conditions for consumer goods. Thus, the import of goods and services needed to cover domestic demand increased by 18% (by 3933 million euros as compared to the same period of 2005), and the current account deficit reached 4170 million euros, by 1195 million euros as compared to the same period of the previous year.

The share of the *final consumption component* in the GDP decreased from 94.37% in the first quarter of 2006 to 88.7% in the second quarter, as a result of the higher dynamics of the gross fixed capital formation.

At the same time, the *government's actual collective final consumption* increased by 0.9% and the *export of good and services* increased by 10.5%, below the level of the *import of goods and services*, which registered an increase by 18% as compared to the same period of 2005. The coverage degree of imports of goods by exports of goods reached 74.3% in the second quarter of 2006, due to the increase in the *trade deficit* up to 4385 million euros.

The *inflation rate* declined faster, to a level of 2.7% reached at the end of June 2006 (as compared to December 2005). In the second quarter of 2006, the average monthly inflation rate reached 0.044%, below the same period of 2005, which means an annualised inflation rate of around 5.4%.

The *domestic direct public debt* amounted to 14157.3 million RON at the end of June, according to the data offered by the Ministry of Public Finance, and the *guaranteed internal debt* reached 2040.5 million RON. The domestic public debt is financed directly by the state from the domestic market, including the amounts advanced temporarily from the surplus of the government accounts collected in the general

account of the state treasury: health social insurance fund, unemployment fund, special fund for insured's protection, special fund for the development of the energy system, special fund for modernizing roads. Looking at the structure, 87.4% of the total direct public debt is represented by the Treasury bills, with an average maturity of 443.4 days and 99.8% in national currency.

The *medium- and long-term external debt* increased from 24550.7 million euros in December 2005 to 25226.1 million euros at the end of the second quarter of 2006, much below the Maastricht criteria. The *direct public debt* decreased slowly, from 28.1% of the total medium- and long-term external debt in the first quarter of 2006 to 27.2% at the end of June 2006. The *public guaranteed debt* represented 16.4% at end of June, decreasing by 0.75 percentage points as compared to the end of March 2006.

In the second quarter of 2006, the *effective external government debt* amounted to 10629.2 million euros, decreasing by 318 million euros as compared to the end of 2005. By structure, 58% of the total was the direct external government debt and 32% represented the guaranteed debt. We mention that 57.3% of the total external government debt was long-term debt (over 10 years maturities). According to the ESA 95 Methodology, 9013.6 million euros represent the governmental external debt (without local external debt), which means more that 84.8% of the total external government debt.

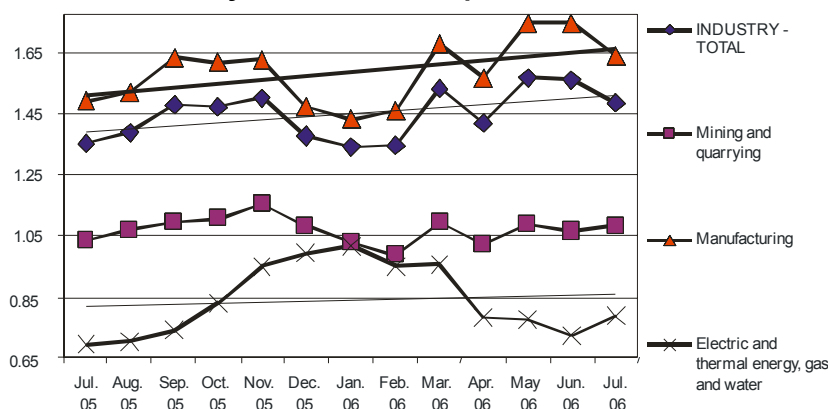
## 2. Industrial Production

(Source: Monthly Statistical Bulletin No. 7/2006, NIS)

Ionel FLORESCU

In the first seven months of 2006, the actual increase in *Industrial Output* amounted to 5.0%, by 1.4 percentage points higher than the previous increase. It is worth noticing that the actual increase in *Manufacturing* was also 1.4 percentage points higher than the previous one, thus determining the overall actual increase in industrial output (see the graph presenting the monthly dynamics of the output indices).

Monthly evolution of the production indices



### **The Barometer of the Romanian Economy**

The actual increase in *Electric and thermal energy, gas and water* reached 2.9% (2.4 percentage points previous increase) and 2.6% in *Mining and quarrying* (0.9 percentage points previous increase). Except for *Mining and quarrying*, all the trends went upwards.

The current dynamics was due to the change in industrial sectors as follows:

	% increase	E.f.p.a*	Trend
Industry - Total	5.0	1.4	Upward
Manufacturing	5.3	1.4	Upward
Electric and thermal energy, gas and water	2.9	2.4	Upward
Mining and quarrying	2.6	0.9	Downward

\* The percentage difference as against the previous interval (in percentage points).

As compared to the corresponding period in the previous year, the *Manufacturing Sector* recorded the highest increases in the following industries:

	% increase	E.f.p.a*	Trend
Road transport means	20.9	-1.9	Upward
Furniture and other industrial activities - n.e.s.	17.3	0.8	Upward
Other transport means	13.3	0.3	Upward
Food and beverages	13.0	2.3	Upward

\* The percentage difference as against the previous interval (in percentage points).

The most significant decreases were registered by the following industries:

	% increase	E.f.p.a*	Trend
Equipment, radio, TV sets and communications	-35.2	-2.5	Downward
Textiles and textile fabrics	-15.9	-0.8	Downward
Medical, precision, optical and watchmaking instruments and apparatus	-12.7	0.1	Downward
Ready-made clothes	-10.9	0.6	Downward

\* The percentage difference as against the previous interval (in percentage points).

As compared to the previous interval, no new entrant appeared in both groups of industries. In the highly increasing industries the actual increases were slightly lower than in the previously analyzed interval, but the decrease in *Road transport means* was -1.9 percentage points lower as compared to -3.0 percentage points in the previously analyzed interval. As regards the highest decreasing industries, the decreases in output were 0.1–0.6 percentage points lower, except for *Equipment, radio, TV sets and communications* (which decreased by 2.5 percentage points, resulting in an actual increase of -35.2%) and *Textiles and textile fabrics* (which decreased by 0.8 percentage points, resulting in an actual increase of -15.9%).



In the *Mining and quarrying* sector, the production evolved as follows:

	% increase	E.f.p.a*	Trend
Increase in:			
Other extraction activities	12.1	0.7	Upward
Petroleum and natural gas extraction - excluding prospecting	3.6	0.1	Downward
Coal mining and preparation	1.8	2.4	Upward
Decrease in:			
Iron ore mining and preparation	-20.0	0.0	Downward

\* *The percentage difference as against the previous interval (in percentage points).*

During the analyzed interval, *Coal mining and preparation* entered the group of the growing industries (2.4 percentage points previous increase, resulting in a positive actual increase of 1.8%), while the *Other extraction activities* also recorded a positive growth (by 0.7%, resulting in an actual increase of 12.1 percentage points). In *Iron ore mining* the decrease in output was unchanged as compared to the previously analyzed interval.

The production of *Electric and Thermal power, gas and water* recorded an overall decrease due to the evolutions of its two industries:

	% increase	E.f.p.a*	Trend
Increase in:			
Production, transport and distribution of electric and thermal power, of gas and hot water	5.8	2.8	Upward
Decrease in:			
Water resources administration, water collection, purification and distribution	-7.2	1.0	Downward

\* *The percentage difference as against the previous interval (in percentage points).*

The situation improved as compared to the previously analyzed interval, the output in *Production, transport and distribution* increasing by 2.8 percentage points (resulting in an actual increase by 5.81%), while in *Water resources* the decrease in output continued to slow down (+1.0%, resulting in an actual decrease of 7.2%).

The changes in trends were:

- The *upward* trend during the previous period turned *downward* in the sector:
  - Mining and quarrying
- The *downward* trend during the previous period turned *upward* in the industries:
  - Other extraction activities
  - Other products of non-metallic minerals.



### 3. Foreign Trade

(Source: Monthly Statistical Bulletin No. 7/2006, NIS)

Nona CHILIAN

#### Foreign Trade Dynamics

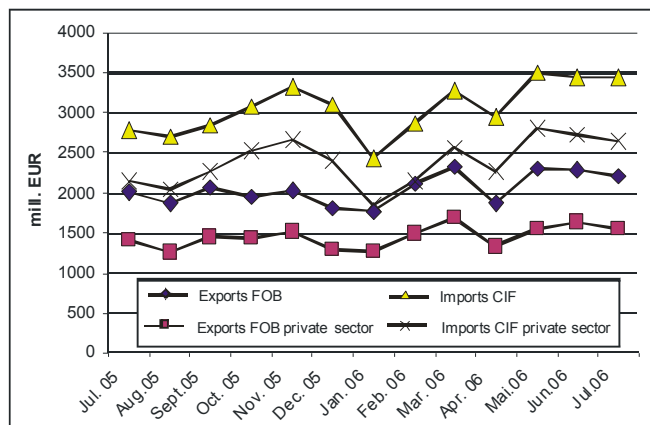
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	July 2006/ June 2006	July 2006/ July 2005	Jan-July 2006/ Jan-July 2005
Exports FOB	97.0	110.4	118.8
- of which, private sector	94.3	109.9	115.3
Imports CIF	99.8	123.9	125.1
- of which, private sector	97.3	123.7	123.8

Note: Data for January-June 2006 are rectified and for July 2006 are provisional and can be subsequently rectified.

Source: National Authority of Customs (NAC).

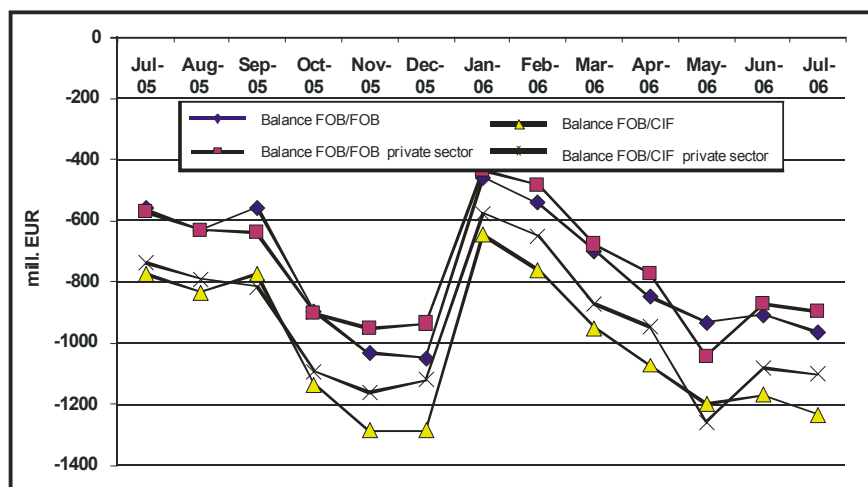
#### Foreign trade flows by sector



In July 2006, the *trade flow* pattern revealed another slowdown in the former ascending trend: the overall exports and the imports decreased slightly as compared to the previous month, while as compared to July 2005 and the cumulated interval both the overall exports and the imports increased (the exports significantly less than the imports). The private sector's trade flows evolutions were similar; however, as compared to July 2005 and the cumulated interval, both the exports and the imports increased significantly, but slightly less than the overall exports and imports. The situation signals significant structural changes on the way and possible difficulties in the activity of the exporting companies, the slower growth of the private sector's exports being likely to raise some concerns in the future, if it goes on. The exchange rate fluctuations (both in favor of the appreciation and depreciation of the national currency) will be able to influence to a significant extent the trade flow dynamics also in 2006.



Foreign trade balances by sector



The overall and private sector's *trade balance deficits* were somewhat similar in July 2006 as compared to the previous month: all the deficits slightly increased, but the private sector's deficits were significantly lower than the overall ones. As compared to July 2005, the overall dynamics and the private sector deficit dynamics were also similar: the overall FOB/FOB deficit was 71.9% higher than the corresponding deficit registered in July 2005 and the overall FOB/CIF deficit was 58.6% higher, while the private sector FOB/FOB deficit was 57.8% higher than the corresponding deficit in July 2005, and the private sector FOB/CIF deficit was 50.1% higher.

Following the general patterns of trade flows, the *coverage ratio of imports by exports* (FOB/FOB) decreased in July 2006 to 69.6%, by 2.0 percentage points lower as against the previous month, and by 8.5 percentage points lower as against July 2005.

As regards the *main trade partners* of Romania in January-July 2006, the European Union was the leading partner, but the increase in the overall exports to this area continued to be lower than the overall increase in exports. Italy and Germany were the most important trade partners, followed by France and a group of 'medium' (in terms of export and import values), but important trade partners: Hungary, the UK, Austria, Spain, the Netherlands, Greece, Poland, Belgium and the Czech Republic. The increase in the exports to the main "traditional" trade partners was generally lower (except for Germany and France) or even reverted to decrease (as in the case of the UK and the Netherlands) than the increase in exports to some of the medium and smaller ones (such as Slovakia – more than double, Malta, Estonia, the Czech Republic, Hungary, Poland, Lithuania, Denmark and Finland). It is worth noticing the significant increases in the exports towards most of the countries that acceded to the EU in May 2004. An overall trade deficit was registered and small trade surpluses were recorded with some of the trade partners: Hungary, the United Kingdom, Greece, Cyprus and Malta.



The situation regarding the Balkans improved: the exports to the countries in the region increased, except for Croatia, but the imports from these countries also increased (except for Albania and Croatia), which might raise some concerns in the future (especially in the case of Turkey, the main trade partner in the region). The export values remained modest, except for the exports to Turkey, Bulgaria and Serbia-Montenegro. All the trade balances with the countries in this area registered surpluses.

The situation regarding the trade with the Community of Independent States continued to improve also in January-July 2006; the Romanian exports towards this area increased strongly, although the export values stayed modest. The most important market continued to be the Russian Federation; both the imports and the exports from/to this very large market increased significantly as against January-July 2005, and the Romanian exports were nearly two times higher as compared to the same interval, although reaching still modest amounts. A surplus in the trade relationships with the Republic of Moldova was recorded, and very strong signs of recovery were recorded in the trade with Ukraine (the exports being nearly three times higher in value, while the imports increased slightly as compared to January-July 2005) and even Belarus (nearly double export value, but from a very low base).

As regards the countries belonging to the European Free Trade Association, the Romanian exports to this market nearly doubled in value in January-July 2006 as compared to the same interval of 2005, and a trade surplus was recorded in the trade balance with Norway.

In January-July 2006, the exports increased by 18.8% as compared to the same interval of the previous year. The highest increases were registered in the sectors *Transport means* (62.2%), *Machinery and equipment* (38.6%), *Vegetable products* (34.3%), *Mineral products* (33.1%), *Optical, photo, cinema, medical, etc. instruments, parts and accessories* (31.7%) and *Plastics, rubber and articles thereof* (26.9%). Decreases occurred in the sectors *Vegetable or animal fats and oils* (by 27.3%), *Products not included in other sections* (by 9.7%), *Articles of stone, cement, ceramics, glass and other similar materials* (by 6.5%), *Paper, cardboard and articles thereof* (by 4.3%) and *Textiles and articles thereof* (by 1.3%). The highest positive structural changes were recorded by the sectors *Machinery and equipment*, *Transport means* and *Mineral products*, while the highest negative structural changes occurred in the sectors *Textiles*, *Footwear*, *Common metals* and *Miscellaneous goods and products* – which clearly signals important structural developments under way within the industrial structure, and a loss of competitiveness of the “traditional” Romanian export products, affected by the earlier appreciation of the national currency.

The imports increased by 25.1% in January-July 2006 as against the same interval of the previous year, the highest increases being recorded in the sectors: XXII – *Products not included in other sections* (by 38.0%), IV – *Food, beverages and tobacco* (by 38.0%), XVI – *Machinery and equipment* (by 32.6%), XVII – *Transport means and materials* (by 31.3%), V – *Mineral products* (by 30.3%), XV – *Common metals* (by 29.6%), II – *Vegetable products* (by 28.4%), III – *Vegetable and animal fats and oils* (by 27.9%), VII – *Plastics, rubber and articles thereof* (by 26.5%) and XX – *Miscellaneous goods and products* (by 26.1%). The highest positive structural changes (decreases) were recorded by the sectors *Textiles* and *Crude hides and*

skins, while the highest negative structural changes (increases) occurred in the sectors *Mineral products, Mechanical and electrical machinery, Transport means* and *Common metals*.

The *balance of trade by sectors* (FOB/CIF) recorded in January-July 2006 the highest *deficits* in the sectors: XVI (*Electrical machinery, appliances and equipment*) – EUR 2220.9 million, V (*Mineral products*) – EUR 1744.1 million, VI (*Chemicals and connected*) – EUR 1007.3 million, XVII (*Transport means*) – EUR 905.8 million, VII (*Plastics, rubber and articles thereof*) – EUR 731.4 million and IV (*Food, beverages, tobacco*) – EUR 521.8 million, while the main *surpluses* were in the sectors: XII (*Footwear*) – EUR 566.2 million (nearly the same surplus as in January-July 2005), XI (*Textiles*) – EUR 425.7 million, IX (*Wooden products, cork and wattles*) – EUR 339.7 million (the single slightly increasing surplus as compared to January-July 2005), XX (*Miscellaneous goods and products*) – EUR 282.5 million and XV (*Common metals and thereof*) – EUR 176.5 million (down to nearly a third of the surplus recorded in January-July 2005). The overall trade balance (provisional data) recorded a deficit amounting to EUR 7036.9 million, by 41.5% higher than in January-July 2005.

#### 4. Exchange Rate

(Source: Monthly Statistical Bulletin Nos. 1-12/2005 and 7/2006, NIS)

**Cornelia SCUTARU**

#### Evolution of the Nominal Exchange Rate

July 2006

- as against the EUR –

	RON/EUR*	% as against the previous month	% as against December of the previous year
Nominal exchange rate – monthly average	3.5723	100.7	97.6
Nominal exchange rate – at end of period	3.5458	99.4	96.4

\* Since July 1<sup>st</sup>, 2005, all the nominal values are reported in RON. 1 RON = 10,000 ROL.

#### Evolution of the Nominal Exchange Rate

July 2006

- as against the USD –

	RON/USD*	% as against the previous month	% as against December of the previous year
Nominal exchange rate – monthly average	2.8167	100.5	91.3
Nominal exchange rate – at end of period	2.7799	99.0	89.4

\* Since July 1<sup>st</sup>, 2005, all the nominal values are reported in RON. 1 RON = 10,000 ROL.

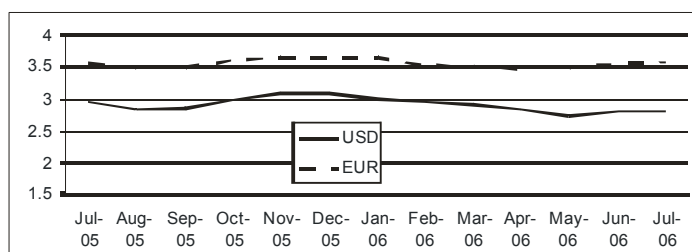


The evolution of the exchange rate as against the EUR as compared to the previous month revealed a depreciation (by 0.7 percentage points) of the national currency (monthly average).

As against USD, in July 2006 a depreciation (by 0.5 percentage points) of the national currency as against the previous month was recorded (monthly average), reflecting the USD/EUR exchange rate dynamics.

As compared to the *currency basket* proposed by the NBR (75% EUR, 25% USD), a depreciation by 0.65% of the national currency occurred in July, while inflation was 0.11%. As against the last month of the previous year, the currency basket appreciated by 3.975%, while inflation reached 2.78%.

**Evolution of the exchange rate (monthly average)**



As compared to the *other saving instruments* (state securities with descending trend), the foreign currencies were for a long time the alternative sources of saving mostly appreciated by population. However, the latest developments are likely to impose the re-evaluation of such options, bringing major changes in the forex markets, at the Stock Exchange and on the real estate market.

2003 revealed an *appreciation as against the USD* (by 2.7 percentage points) and depreciation *as against the EUR* (by 18.5 percentage points), while inflation reached 14.1% (December-to-December). As against the euro, the depreciating trend of the national currency was significant in 2002 and 2003.

A *change* in the trend occurred in February-March 2004: while the inflation as against December of the previous year reached 2.2%, in March the ROL appreciated as against the euro by 1.3 percentage points as compared to December 2003. The depreciation of ROL as against the euro resumed in April; nevertheless, in May-September 2004 the process stagnated. Major changes occurred over the interval October-December, when a strong appreciation of the national currency occurred as against both the US dollar and the euro (stronger as against the former). As a conclusion, 2004 was a year of *major developments* in the exchange rate.

The same trend of appreciation of the RON as against the euro continued also in 2005 until September, but in October-December the trend changed. However, an increase in the US dollar/euro exchange rate was revealed over the period June-December, reflected by the slight depreciation of the RON as against the euro.

2006 started with an appreciation of the RON both as against the EUR and as against the USD, higher as against the latter, reflecting the international markets dynamics. The appreciation continued also over the period February-May, but in June a

depreciation of the RON as against the EUR and USD (stronger as against the latter, due to the international evolutions) occurred – a trend maintained also in July.

It is worth noticing that since December 2002 the *EUR dynamics as against the US dollar* has practically changed the power ratio between the two currencies in favour of the euro. Although the tradition maintained for a long time the US dollar as the main foreign currency for saving, the euro won its position on the domestic forex market. The evolution of the EUR/USD ratio in favour of the euro eases up the transition towards saving in the single European currency.

### 5. Inflation

(Source: Price Statistical Bulletin Nos.1-12/2005, 7/2006, NIS)

**Cornelia SCUTARU**

#### Consumer Price Indices

July 2006

	% as against the previous month	% as against December of the previous year	% as against October 1990
Total	100.11	102.78	280705.8
Food goods	98.76	100.11	218933.0
Non-food goods	101.15	105.44	294774.3
Services	100.55	102.38	489595.6

During the analyzed period (July 2005-July 2006), the *consumer price indices* as against October 1990 went upwards, highly dampened by the low inflation rate; a certain decrease was recorded by the services in February and March 2006 and by the food goods in June and July 2006.

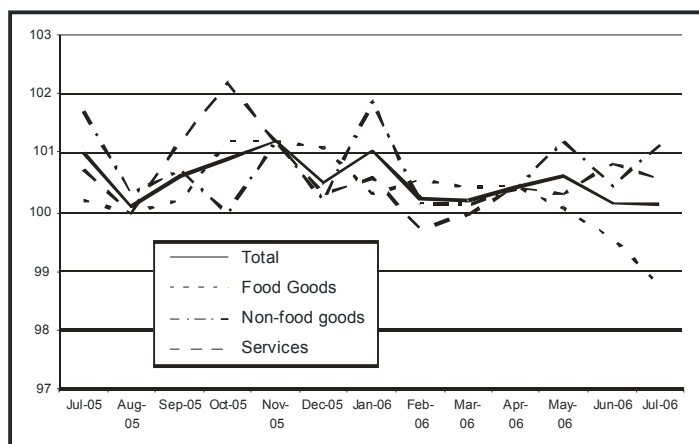
As compared to the previous years, 2004 revealed a moderate inflation dynamics. However, the repeated energy price increases strongly impacted by propagated effects upon inflation during the winter 2003-2004. It was one of the most sensitive areas as regards the impact upon inflation.

In 2005, the increase in inflation was moderate; the highest increase being recorded in the non-food goods in April and in services in February and April. The May-December interval was characterized by low inflation levels in all the three domains (food goods, non-food goods and services).

2006 started with quite a high inflation (1.03%), especially in the case of the non-food goods (1.88%). In February, March and April the inflation decreased significantly, and diminutions in the consumption prices were recorded by the services only in February and March. In May, an increase in inflation occurred, especially due to the increase in the prices of the non-food goods. June and July brought a new drop in inflation, based mostly on the decrease in the prices of the food goods.



### Evolution of the Consumer Price Index as against the Previous Month



The correlation with *industrial production prices* for the domestic market is maintained. As regards the *inflation dynamics as against that of the exchange rate*, the appreciation of the leu in the past months has completely changed the power ratio and the role of the exchange rate in the inflationary process at work within the Romanian economy. In July 2006, a depreciation by 0.65% of the RON<sup>1</sup> as against the currency basket occurred (in its new structure, 75% EUR and 25% USD) as compared to the previous month, while inflation reached 0.11%. As compared to December 2005, the currency basket appreciated by 3.975%, while inflation reached 2.78%.

#### 6. Wage Earnings of the Population

(Source: Monthly Statistical Bulletin No. 7/2006, NIS)

Crenguța PANĂ

#### Evolution of the Nominal Net Average Salary Earnings

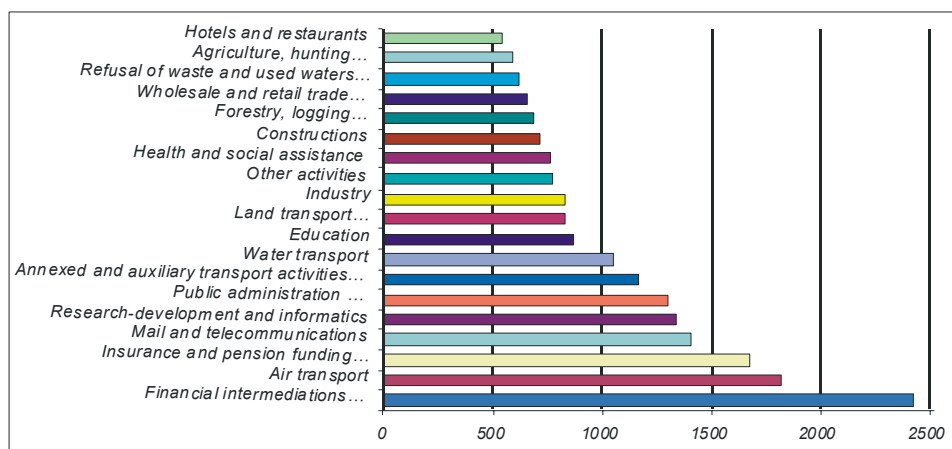
July 2006

	RON/ month	% as against the previous month
Total	842	100.8
Agriculture, hunting and annex services	596	102.2
Forestry, logging and related service activities	692	106.6
Industry	826	102.1
Constructions	716	102.3
Wholesale and retail trade; repair of motor vehicles, motorcycles and repair of personal and household goods	663	102.0

<sup>1</sup> Since July 1<sup>st</sup>, 2005, the nominal values are reported in RON. 1 RON = 10,000 ROL.

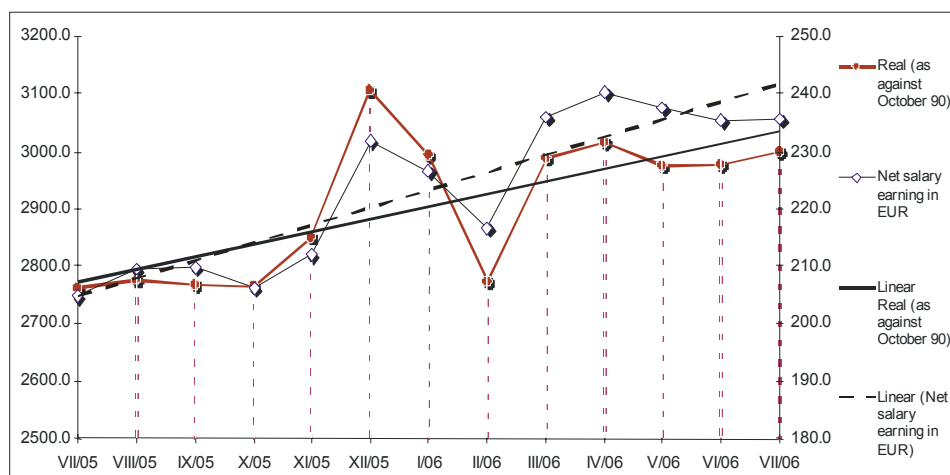
	RON/ month	% as against the previous month
Hotels and restaurants	547	102.6
Land transport; transport via pipelines	839	100.6
Water transport	1050	105.2
Air transport	1813	98.8
Annexed and auxiliary transport activities; travel agencies activities	1169	100.5
Mail and telecommunications	1404	105.1
Financial intermediations (except for activities of social insurance public system)	2419	91.6
Insurance and pension funding (except activities of social insurance public system)	1682	112.9
Research-development and informatics	1340	103.2
Public administration and defence; social insurance of public sector	1298	102.4
Education	874	95.7
Health and social assistance	761	99.9
Refusal of waste and used waters; reclamation, sanitation and similar activities	626	102.1
Other activities	776	100.3

**Ranking of economic activities by descending order of the average net monthly earnings, July 2006**



In July 2006 the breakdown by activities, in ascending order, revealed the following: in eight activities the average net nominal wage earnings exceeded RON 1000/month: *Financial intermediations, Air transport, Insurance and pension funding, Mail and telecommunications, Research-development and informatics, Public administration and defence; social insurance of public; Annexed and auxiliary transport activities; travel agencies activities and Water transport.* In *Financial intermediations*, a significant decrease in the average net nominal wage earnings was recorded: from 2461 RON/month to 2419 RON/month (that means a decrease by about 8.4 percentage points as compared to the previous month). The average net nominal wages in *Hotels and restaurants; Agriculture, hunting and annex service; Refusal of waste and used waters; reclamation, sanitation and similar activities; Forestry, logging and related service activities; Wholesale and retail trade; Constructions; Other activities; Health and social assistance; Industry and Land transport; transport via pipelines* are still lower than the economy average (RON 842/month).

**Average monthly earnings, July 2005 - July 2006**



The average net nominal wage increased slightly in July 2006 over the whole economy as compared to the previous month (by 0.8 %). Increases in the average net nominal wage were recorded in this month in almost all the sectors: *Insurance and pension funding (except for activities of social insurance public system)* (by 12.9%); *Forestry, logging and related service activities* (by 6.6%); *Water transport* (by 5.2%); *Mail and telecommunications* (by 5.1%); *Research-development and informatics* (by 3.2%); *Hotels and restaurants* (by 2.6%); *Public administration and defence; social insurance of public sector* (by 2.4%); *Constructions* (by 2.3%); *Agriculture, hunting and annex services* (by 2.2%); *Refusal of waste and used waters; reclamation, sanitation and similar activities* (by 2.1%); *Industry* (by 2.1%); *Wholesale and retail*

trade (by 2.0%); Land transport; transport via pipelines (by 0.6%); Annexed and auxiliary transport activities; travel agencies activities (by 0.5%) and Other activities (by 0.3%), while decreases occurred in the following sectors: Financial intermediations (except activities of social insurance public system) (by 8.4%); Education (by 4.3%); Air transport (by 1.2%) and Health and social assistance (by 0.1%).

The trend of the *real net wage earnings* (as against October 1990) over the interval July 2005–July 2006 showed an increase, while the trend of the *net wage earnings expressed* in euro showed a slight increase as against the previous month. One may observe that these two trends get closer to one another than in the previous month. Also, it should be noticed that in this month the *real net wage earnings* (as against October 1990) recorded a slight increase as against the previous month of the same year and an increase by 8.6 percentage points as against the same month of the previous year. A similar evolution was recorded by *the net wage earnings expressed* in EUR: an increase by 15.1 percentage points as against the same month of the previous year and an increase by only 0.2 percentage points as against June 2006. As against October 1990, the ratio of the net average salary earnings to the consumer price index decreased in July 2006 by 8.9%.

Over the interval July 2005–July 2006, the difference between the *average gross nominal wage earnings* and the *average net wage earnings* increased gradually (with some decreases in some months) over the entire interval, with a slight increase in the current month.

## 7. Unemployment

(Source: Monthly Statistical Bulletin No. 7/2006, NIS)

Carmen UZLĂU

### Unemployment End of July 2006

Total number of unemployed (thou. persons)	446,798
Unemployment rate <sup>*)</sup>	5.1

\*) The ratio of the total number of unemployed to active civilian population on 1st January, 2006.

In the country, in July 2006 the unemployment rate ranged between 9.3% (Harghita) and 2% (Timiș). *Counties with an unemployment rate below 10.0 %* were: Arad, Alba, Sălaj, Argeș, Buzău, Giurgiu, Iași, Brăila, Sibiu, Mureș, Tulcea, Bacău, Dolj, Bistrița-Năsăud, etc.

In July 2006, the *territorial distribution* of unemployment showed concentrations of the counties within the intervals: 5.1-5.9% (11 counties), 2-4.9% (15 counties), 6-7.4% (11 counties) and 7.2-9.3.1% (5 counties).

The evolution of the unemployment rate over the interval June 2005–July 2006 showed that the unemployment rate recorded in July 2006 was lower than in June, 5.5%, respectively. The trend was slightly downwards in the past four months.





### 8. Retail Trade and Market Services Rendered to Households

(Source: Monthly Statistical Bulletin No. 7/2006, NIS)

Marioara IORDAN

#### Turnover without VAT of the Volume Indices of Retail Trade and Market Services Rendered to Households

Indicators	Turnover indices (%) , in July <sup>1</sup> 2006 as against:		1.I.-31.VII.2006 as against 1.I.-31.VII.2005 ( % )
	April 2005	March <sup>2</sup> 2006	
Turnover without VAT of the volume indices of retail trade (excepting motor vehicles and motorcycles trade) - Total	128.4	102.2	125.8
Turnover without VAT of the volume indices of wholesale and retail trade maintenance and repair of motor vehicles and motorcycles ; retail trade of motor vehicles fuels - Total	124.4	100.0	119.0
Turnover without VAT of Volume Indices of Market Services to the Population - Total	117.9	103.8	106.9

Note: Since 2005, the turnover volume indices are calculated based on turnover without VAT. In order to ensure the indicator comparability, the data for 2004 were rectified. The turnover volume indices are computed under methodological conditions and comparable prices having as a reference period the average of 2004=100.

<sup>1</sup>Provisional data.

<sup>2</sup>Rectified data.

- Turnover without VAT of the volume indices of retail trade (except motor vehicles and motorcycles trade)

The turnover volume of the retail trade increased by 2.2% in July 2006 as against the previous month, due to the increase in the sales of *non-food goods* by 2.2 %, while the sales of *food goods* increased by 1.4 %. Under comparable circumstances, in July 2006 the turnover of the companies with their main activity in *retail trade* increased by 28.4% as compared to the same period of 2005, due to the increase by 27.5% in the sales of the *food goods* and by 29.2% in the *non-food goods* sales.

- Turnover without VAT of the volume indices of wholesale and retail trade, maintenance and repair of motor vehicles and motorcycles; retail trade of motor vehicles fuels

The overall turnover stagnated in July 2006 as compared to June 2006, as a result of the decrease by 4.1% in the retail trade of motor vehicles, motorcycles, related parts and accessories maintenance and repair of motor vehicles and the increase by 5.2% in the retail trade of fuels for motor vehicles, motorcycles. As compared to the same month of the previous year, the turnover without VAT of volume indices of wholesale and retail trade, maintenance and repair of motor vehicles and motorcycles (including



retail trade of fuels for motor vehicles) increased by 24.4%, due to the increase by 27.4% in the retail trade of motor vehicles, motorcycles, afferent parts and accessories maintenance and repair of motor vehicles and by 21.1% in the trade of motor vehicles, motorcycles, spare parts and accessories.

- *Turnover without VAT of the volume indices of market services to the population*

The *turnover volume market services to the population* in July 2006 increased by 3.8% as compared to June 2006, due to the increase by 22.7% in the *Hotels and restaurants* activities. In the other service industries decreases in activity ranging between -41.0% (*Laundry, clearing and dyeing textiles and furs*) and -24.2% (*Hairdresser and other beauty activities*) were recorded.

As against July 2005, under comparable circumstances, *the market services rendered to the population* increased in July 2006 by 17.9%. The turnover volume indices of market services rendered to the population increased by 23.4% in the *Hotels and restaurants*, by 14.1% in the *Hairdresser and other beauty activities* and by 4.6% in the *Gambling and other recreation activities*. The *Activities of travel agencies and tour-operators, activities of tourist assistance* decreased by 21.0 %.

The linear trend of the turnover volume evolution in retail trade for the population over the interval July 2005–July 2006 was downwards, while the trends in retail trade maintenance and repair of motor vehicles and motorcycles; retail trade of motor vehicles fuels and in market services for the population went upwards.

### 9. Monetary Evolutions

(Source: Monthly Statistical Bulletin No. 7/2006, NBR)

**Petre CARAIANI**

#### Evolution of Credits to Non-government

July 2006\*

	Bill. RON***, end of period	% as against the previous month	% as against the same month of the previous year
Credit to non-government	79400.7	103.8	157.0
In RON	42043.6	104.9	206.4
In convertible currencies**	37357.0	102.4	123.7

\* *Provisional data.*

\*\* *At the exchange rate for the end of the month.*

\*\*\* *Since July 1<sup>st</sup>, 2005, the nominal values have been reported in RON. 1 RON = 10,000 ROL.*

In July 2006, the *credit in RON* increased by 4.9 percentage points as against the previous month, at a lower pace than it increased in the previous month. During the last 12 months, an increase in the non-governmental credits occurred (by 57 percentage points as against the same month of the previous year). Similarly to the previous interval, the *credits in hard currencies* recorded a lower increase (by 23.7



percentage points as against the same month of the previous year) than the credits in RON (by 106.4 percentage points as against the same month of the previous year).

### Evolution of Broad Money

July 2006\*

	Billion RON**	% as against the previous month	% as against the same month of the previous year
Reserve money (daily average)	23924.3	96.8	131.9
Broad money (M2) of which:	95888.0	100.8	129.4
M1	28929.5	104.1	150.9
Quasi money	66958.5	99.5	121.9

\*Provisional data.

\*\* Since July 1<sup>st</sup>, 2005, the nominal values are reported in RON. 1 RON = 10,000 ROL.

Both M2 and M1 have continued to grow again as against the previous month, with M1 growing at a faster speed, with a 4.1% growth rate. The *structure* of M2 in July 2006 indicated that 30.1% (at a higher level as compared to the previous month) was comprised in M1.

### 10. The State Budget

(Source: Monthly Statistical Bulletin Nos. 7/2005, 7/2006, NIS)

Liana PECICAN

According to the data published by the NIS, in July 2006 the *total revenues* collected by the state budget amounted to 24371.30 million RON. The *surplus* over this period reached 555.70 million RON, representing over 2.28% of the budget revenues, while the deficit of the same period of the last year stayed at 255.6 million RON, representing 1.27% of the budget revenues.

*On the revenue side*, an increase by 21.34% in revenues was recorded in January-July 2006 as compared to the same period of the previous year, mainly due to the major increase in the other taxes on income (by 91.18%), in the amounts broken down from VAT (by 37.84%) and especially due to the major increase in the capital revenues (by over 300%).

The taxes and fares on goods and services represented 58.37%, the tax on income, profit and capital earnings represented 28.38%, the non-fiscal revenues represented 6.21% and the insurance contributions represented 0.78% of the total revenues during the analyzed period.

*On the expenditure side*, the payments made over the interval January-July 2006 amounted to 23815.60 million RON, an increase by 17.08% as compared to the same period of the previous year.

The most important payments were the expenditures on defence, public order and social security (26.82% of the total expenditures), social assistance and social benefits (25.79% of the total expenditures). The situation was similar to that of the same period of 2005. As compared to the same period of the last year, the general



public services expenditures increased by over 90%, the expenditures on public services and development and dwellings increased by 68.38%, the social assistance expenditures increased by 42.28%, and the expenditures on fundamental research increased by 55.87%. The expenditures on mining and quarrying, manufacturing and construction and on health (by almost 18%) decreased.

