Romania: Issuance leader in the region

Fiscal policy continues to consolidate. Borrowing needs are at a record high due to the heavy maturity calendar. However, net issuance of ROMGBs is almost the same as last year. Romania is the region's leader with 44% of planned bonds issued year-to-date. We also see strong frontloading on the FX issuance side. We expect positive news from rating agencies

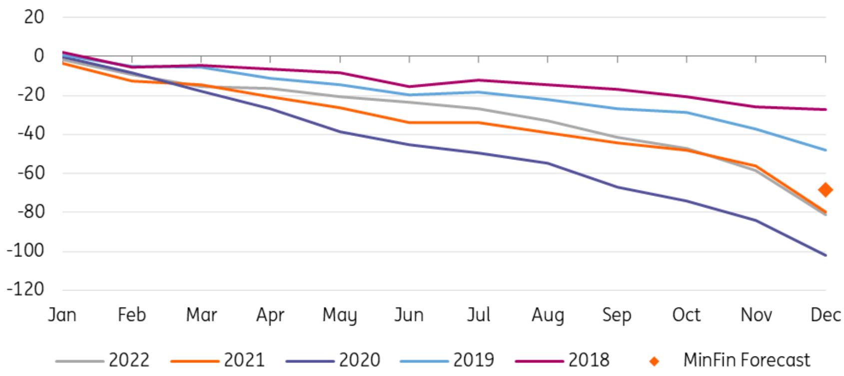
Source: Shutterstock

Fiscal policy: Continued consolidation of the state budget

The multi-annual effort to reduce the budget deficit to below 3.0% of GDP is in full swing. To date, Romania has ticked the intermediary milestones by reaching a deficit of 6.7% of GDP in 2021 and 5.7% in 2022. So far so good we would say, but the most difficult part is to follow, as bringing the budget deficit from 9.7% in 2020 to 4.4% in 2023 is – somewhat counterintuitively – easier to do than bringing it from 4.4% to 3.0%. That is because we are now reaching the structural part of the deficit, the stickier one. Moreover, 2024 is an electoral year, which usually doesn't help with deficit reduction.

That said, the commitment to deficit reduction has so far been quite strong. Whether the fiscal consolidation will involve a complete rethink of the tax system or a mild reshuffle of the current one is probably a matter for late 2024. Meanwhile, some patchwork before elections could do the job. The publicly discussed one-off measures such as a solidarity tax for large companies apparently fit into this shorter-sighted policy framework which is compatible with electoral or pre-electoral years. To sum up, we expect the deficit target of 4.4% of GDP to be met this year. Going to 3.0% in 2024 will be challenging but it is clearly not out of the question.

State budget development and 2023 forecasts (RONbn)

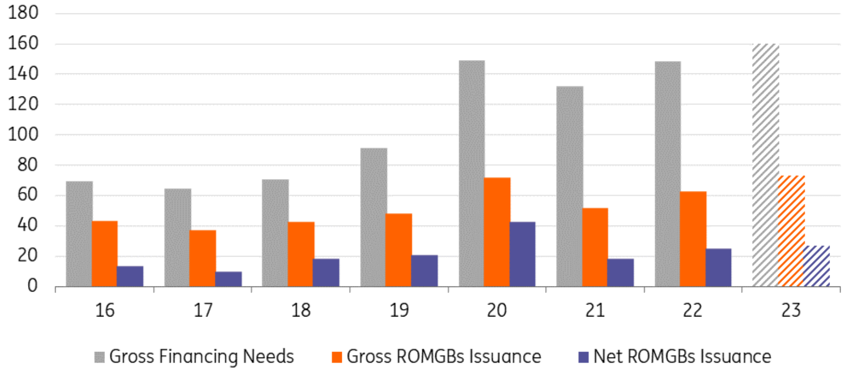


Source: MinFin, ING

Record-high financing needs due to heavy maturity calendar

After revising this year's plan higher, the Ministry of Finance expects gross borrowing needs to reach RON160bn (10.5% of GDP), up 7.6% from last year but mainly due to the heavy maturity calendar, assuming the budget deficit target will be met. We estimate gross Romania government bond (ROMGBs) issuance at RON73.2bn, up 12.1% from last year and the most since 2020. On the other hand, we expect net ROMGBs issuance of RON26.5bn, nearly the same as in the previous year. Debt maturities this year reach all-time highs totalling RON91.6bn, mainly due to maturing ROMGBs (RON46.7bn). However, FX maturities are also quite high this year thanks to EUR-denominated ROMGBs (EUR2.7bn), a USD-denominated Eurobond (USD1.5bn) and two loans provided by the International Bank for Reconstruction and Development amounting to USD0.7bn. Thus, we also expect a relatively high supply of FX issuance of EUR8bn in Eurobonds and EUR2bn in EUR-denominated ROMGBs this year. The rest of the borrowing needs should be covered through the issuance of retail bonds (RON15bn), T-bills, EU money and loans from supranational entities (see table for full breakdown).

Total financing needs and ROMGBs issuance (RONbn)



Source: NBR, ING estimates

Massive frontloading puts MinFin in a comfortable situation

The Ministry of Finance took advantage of the global rally at the beginning of the year and the decline in ROMGB yields to massively frontload the supply in the local market. Since the beginning of the year, MinFin has secured 44% of all planned issuance, by far the most among its CEE peers, according to our calculations. We have also seen strong activity on the FX side, where MinFin issued almost 70% of its planned Eurobonds in January (USD3.75bn and EUR2.00bn). This stands in line with the trend seen of increased Eurobond issuance from Central and Eastern Europe this year, with almost USD25bn raised in the region, driving the strongest start to the year on record for emerging market sovereigns. Overall, combined with a heavy cash buffer, Romania's MinFin is in arguably the best position among its peers, giving it the option of avoiding issuance in the event of a sell-off and higher yields.

44% Issued ROMGBs vs ING estimate for this year

During February and March, supply declined significantly, and we expect MinFin to continue its gradual pace of issuance throughout the year, depending on market conditions. On the other hand, demand remains strong and is actually rising in bid-to-cover terms from January's average of 1.3x to March's 1.8x, indicating still strong market interest. We expect MinFin to focus on issuing ROMGBs with maturities of 6y+ (currently the average maturity is 4.5y) given its comfortable situation and heavy maturity calendar in coming years.

Financing needs for 2023 (RONbn)

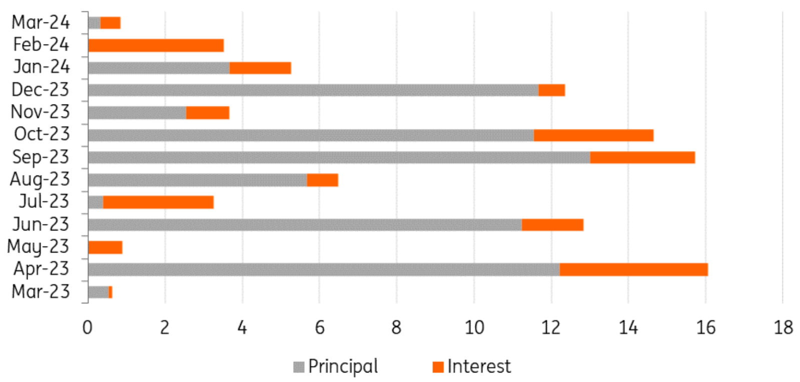
	MinFin	ING	YTD	% Covered
State Budget	68.4	68.4		
Domestic Redemptions	79.0	79.0		
Foreign Debt Redemptions	12.6	12.6		
Total financing needs	**160.0**	**160.0**		
ROMGB Issuance		73.2	32.2	44.0%
Private Placement				
ROMGB EUR-denominated		9.9		
Retail Bonds		15.0	1.5	9.9%
T-Bills Issuance		5.0		
Eurobond Issuance		39.6	27.1	68.4%
EU Money		9.9		
Supranational Loans		7.4		
Total financing sources		**160.0**		
Net ROMGB Issuance		**26.5**		

Source: MinFin, ING estimates

Slowdown in FX issuance and focus on new markets

On the FX side, the MinFin was significantly oversubscribed during January, so it can be assumed that it will not rush to issue more, especially amid the recent market volatility. Given the massive supply of EUR issuance last year and the high concentration (38% of the bonds are denominated in EUR), it can be assumed that the preference will be for issuance in other currencies, especially more in USD in the second half of the year. Further USD issuance would likely be well received by investors, as the continued heavy supply in EUR in recent years has acted as a technical headwind to Romania's Eurobond performance and credit spread tightening. Also, recently MinFin announced that it is working on a legislative framework for JPY-denominated bond issuance. However, it can be assumed that further issuance will be in smaller volumes of around EUR1bn in size.

ROMGBs maturity calendar (RONbn)



Source: Refinitiv, ING

Technicals: Positive news from the ratings side

We remain of the opinion that Romania will maintain its investment grade for the foreseeable future. With fiscal consolidation underway, we think that agencies' main attention point will shift from the budget gap to the external imbalances. While the issue is in many ways even trickier, we find it unlikely to be a game changer, at least as long as Romania's relationship with the EU (and EU money) remains solid. We are reasonably optimistic that Fitch will change its rating outlook from negative to neutral in 2023. While more than that is difficult to be achieved before an electoral year, our expectations are slightly tilted to the upside, meaning that a positive outlook from S&P and/or Moody's is not out of the question for this year.

In the GBI-EM space, ROMGBs have seen several changes within the index this year. ROMGB 8.25/32 was added in January, and ROMGB 3.50/25 and 4.25/36 were added in February. On the other hand, ROMGB 4.40/23 was removed. Looking ahead, only four eligible bonds are not included in the index at the moment (8.75/28, 8.00/30, 7.35/31, 7.90/38). Given the current composition of maturity buckets, we could see the inclusion of ROMGB 8.00/30 in the coming months and the removal of 4.00/23 due to short maturities.

In terms of foreign bondholders, Romania moved from the bottom position in the CEE4 to the third position, overtaking Poland. In relative terms, however, inflows from abroad are the highest in the region, together with Hungary. Thus, over the past six months, the share has risen from levels as low as 15% to almost 20%, reflecting the growing interest in ROMGBs.

Authors

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

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