

Romania: 2018 current account deficit flashing red

Romania's current account (C/A) deficit reached EUR9.4 billion, or -4.7% of GDP, in 2018. It has widened by 58% since 2017 while its financing structure has weakened

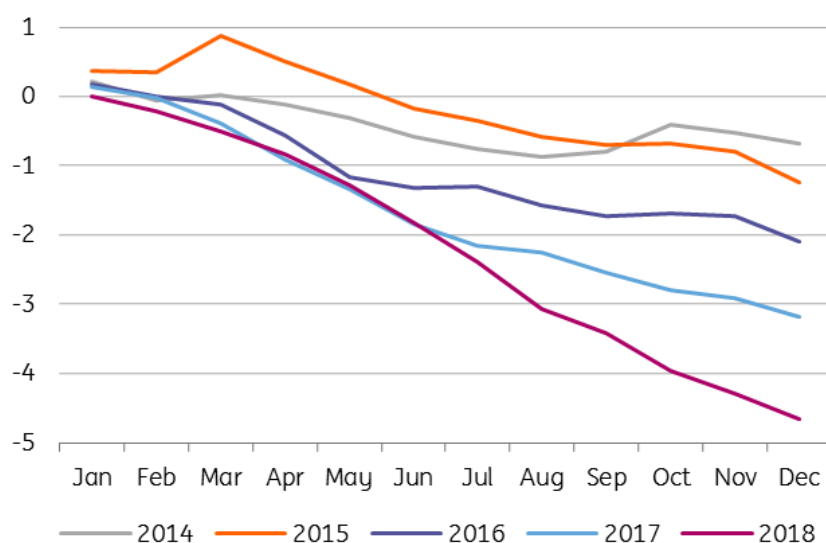


Source: Shutterstock

The main driver of the C/A deterioration has been the trade deficit widening by 16.8% since 2017, to reach -7.5% of GDP. The service sector, which should have been one of the offsetting factors of the trade deficit, has shrunk in nominal and relative terms to EUR8.1 billion (4.0% of GDP) from EUR8.2 billion (4.4% of GDP) in 2017.

-4.7% of GDP
C/A deficit in 2018

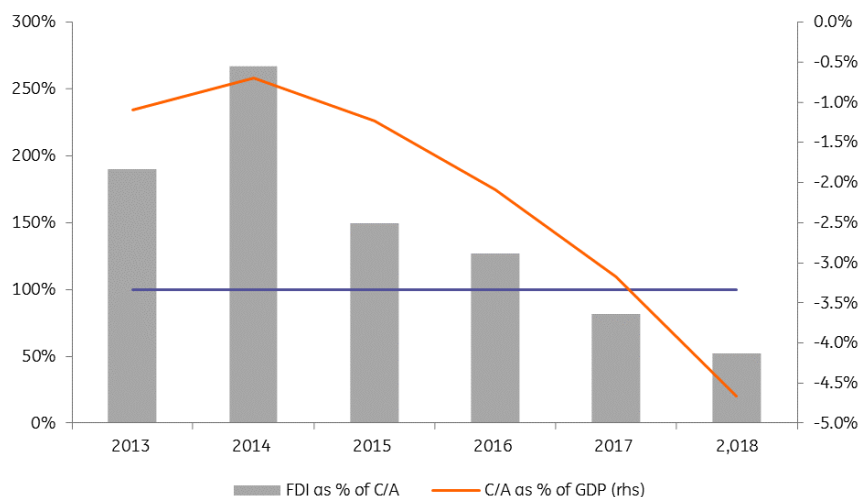
C/A deterioration (as % of GDP)



Source: NIS, NBR, ING

Another important offsetting factor – foreign direct investment (FDI) – was almost flat in 2018 and closed the year covering only 52% of the C/A deficit, down from 82% in 2017. The fiscal changes adopted in December 2018 will likely have negative effects on private investment and job creation, and so any material improvement in the coverage ratio is unlikely to come from higher FDI.

FDI coverage worsening



Source: NIS, NBR, ING

In its February 2019 Inflation Report, the NBR expects the C/A deterioration to continue in 2019 and its financing structure to remain “problematic”. In NBR’s view, the C/A widening could generate macroeconomic imbalances, “with direct impact on capital flows into Romania”. We too find little reason to hope for material improvements in C/A metrics in 2019, with any catalysts for improvement apparently absent. A slowdown in consumption could moderate the widening in C/A

though - we see this reaching -5.4% of GDP in 2019.

C/A breakdown as % of GDP



Source: NIS, NBR, ING

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