

## Romania: Is the mid-year budget deficit out of control?

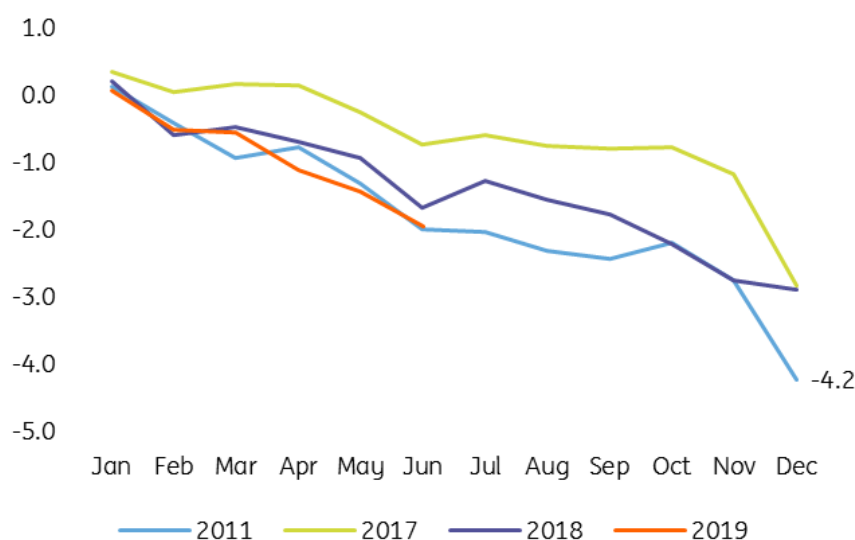
After the first six months of the year, Romania's budget deficit hit 1.94% of GDP. We are not changing our budget deficit forecast of 3.0% of GDP. However, more ample measures are needed this year in order to stay within this limit



Source: Shutterstock

Things seem to have deteriorated a bit on the fiscal policy front as the mid-year budget execution doesn't leave much room to manoeuvre for the rest of 2019. Last time the consolidated budget came close to this figure was in 2011. In fact, so far in 2019, both the deficit numbers and execution pattern seem to resemble 2011 when we closed the year with a budget deficit of 4.2% of GDP.

## Execution pattern resembles 2011



Source: MinFin, ING

## Some bird's-eye maths

The nominal deficit stands at RON19.9 billion. This means that if it were to stay within the 3.0% deficit limit, the government has just under RON11bn of deficit spending left for the remaining six months of 2019 (we took into account the official nominal GDP forecast of RON1031mn). Expenses, however, are about to increase, starting 1 September 2019, by about RON2.1bn per month - destined for the already approved 15% pension increase. This leaves very little fiscal space. So where will the money come from?

As usual, investments are likely to take a hit. Capital spending at mid-year stands at RON7.9bn and is projected to reach around 4.6% of GDP this year, or c. RON47bn. Given that in the last three years, the share was broadly constant around 2.5%, we seriously doubt that this year's target will be reached. We think that between 1.2% and 1.7% of GDP will be saved by cutting these expenses. But still, a bit more (we estimate c.0.3-0.6% of GDP) is needed. Where from?

Most likely a patchwork of measures will kick in again and we will see a bit of everything: SOE's special dividends, VAT reimbursement delays, less impetuous year-end spending among other things. More ample measures are being discussed as well, such as taxing special pensions, increasing tobacco excises earlier than planned and a special tax on sugary drinks. The budget revision due this month will bring more clarity on how the government plans to remain within the 3.0% deficit limit.

We acknowledge that the budget situation doesn't look rosy at all at mid-year but still believe that the government is committed to keeping the deficit under 3.0% of GDP (in fact the current official target is -2.76% of GDP for 2019). With the economy still in decent shape and policymakers with a reasonably good track record of budget patching, we stick to our -3.0% forecast for the end of 2019.

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