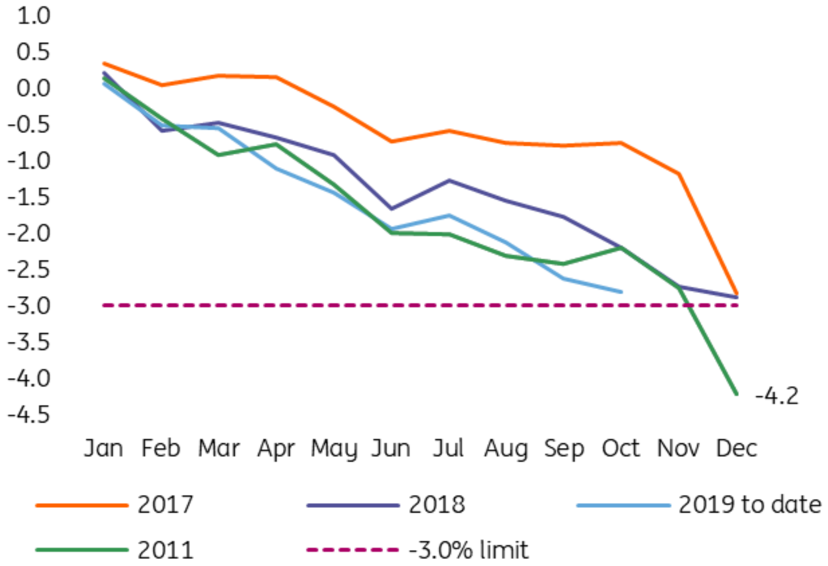
Romania: Budget deficit revised up to 4.3% of GDP

The government has just announced its targets, including a budget deficit of 4.3% of GDP for 2019. This means sharply higher financing needs for year-end. Where is the money going to come from?

Source: Shutterstock

The government's budget for October shows the deficit at 2.80% of GDP while a revision to the budget draft targets a fiscal deficit of 4.3% of GDP for the full year. This is a major revision from the previous 2.76% target. We already suggested that remaining within the 3.0% limit looked impossible this year, but reaching 4.3% of GDP brings things to a whole new level.

Striking resemblance with 2011



Source: MinFin, ING

October aside (as it's less relevant now that we have the budget revision draft), the 4.3% target points to some funding issues which we try to highlight below. It could mean that the government tries to bring any overdue payments up to date and maybe even take into this year's budget whatever can be taken from the next year's spending in order to be able to show a markedly better deficit in 2020. Even so, getting back within the 3.0% of GDP limit in 2020 is unlikely in our view, given that the pension and wage hikes seem to be going ahead as planned, while snap elections (which would allow for some earlier fiscal consolidation) don't seem to be an imminent possibility.

Show me the money

At 4.3% of GDP, the 2019 full year nominal deficit will stand somewhere around RON44.75 billion (assuming the new nominal GDP of RON1040.8 billion). On top of this are redemptions worth RON50.8 billion, hence the total amount to be issued in 2019 should be around RON95.5 billion. As of today (26 November) the total issuance in local and hard currency is RON74.1 billion. This leaves RON21.4 billion to be financed in December and the few days left from November.

No matter how we look at it, RON21 billion to be financed in December is a lot. The average monthly issuance this year has been around RON4.2 billion. Some local euro issuance will help (a reopening of the Dec-2023 bond issued earlier this month has just been announced, with a target of EUR200 million) but even assuming a generous upsize in all primary market auctions (provided the demand is there), we'd still be far off. Still, the MinFin has at its disposal the FX financing buffer, which normally should cover four months of gross financing needs.

It won't get any easier in 2020

For 2020, assuming nominal GDP of RON1110 billion and our forecast for a budget deficit of 3.7% of GDP, the Ministry of Finance will need to finance RON41.1 billion from the market. In addition, there are redemptions (RON plus hard currency) of RON51.7 billion, which gives us a grand total to be financed of RON92.8 billion in 2020. The issue here will be the leu-euro split, as it is difficult to assess yet how receptive investors will be to the rising financing needs. Assuming Eurobonds issuance in the ballpark of EUR5.0 billion in 2020, it would leave some RON69 billion to be financed from the local market. That's about RON5.7 billion per month, quite a lot higher than the 2018 average of RON3.7 billion per month or the 2019-to-date average of RON4.2 billion.

It will get tight

The immediate issue for the MinFin is finding financing sources to close the 2019 budget. If the deficit target reaches 4.3% as assumed, Romania would likely fall under the European Commission's Excessive Deficit Procedure. The key here will be -in our view – if the Commission allows Romania a more gradual fiscal consolidation or if it requires swift fiscal reforms and spending cuts. From a macroeconomic perspective, we prefer the former as it would prevent an abrupt economic slowdown. From the EC's perspective, however, things could look different, given the extent of Romania's deviation from the assumed targets.

Author

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