

Romania: Budget deficit widens as spending balloons

This is the first budget deficit after four months since 2014 and the main problem seems to be ballooning expenditures



Source: Shutterstock

The budget deficit has widened after four months to -0.65% of GDP from -0.48% at the end of the first quarter. This compares with a surplus of 0.16% at the end of April 2017.

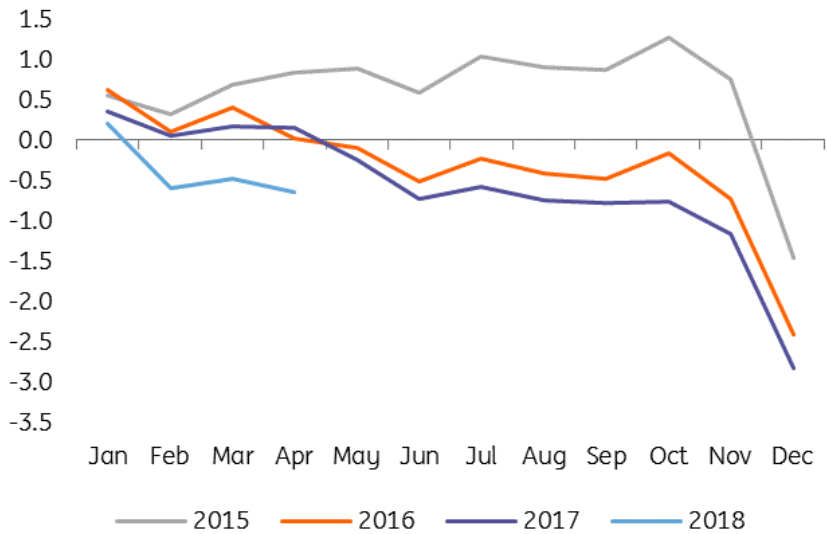
Budget revenues were up by 10.7% year on year with fiscal changes late last year and at the start of this year making each item comparison less relevant. Budget expenditures were up 21.5% up YoY mainly driven by a sharp rise in the wage envelope by 20.4% YoY, versus the 11.6% full-year plan.

Social assistance spending increased by 10.8% YoY with another 10% hike in pensions by mid-year versus the full-year planned increase of 5.9%. Public sector wages and social assistance hit 61.4% of total budget expenditures after four months versus 57.2% budgeted for the whole year. This limits the room for response by the government, provided there is a requirement for fiscal intervention.

There is a huge increase in capital expenditures too with an important part relating to defence

spending.

Year-to-date budget deficit as % of GDP



Source: MinFin, ING

With the economy growing below government expectations and ballooning quasi-permanent spending, the mid-year budget revision could be rather ample, provided the government remains committed to the -3.0% of GDP budget threshold.