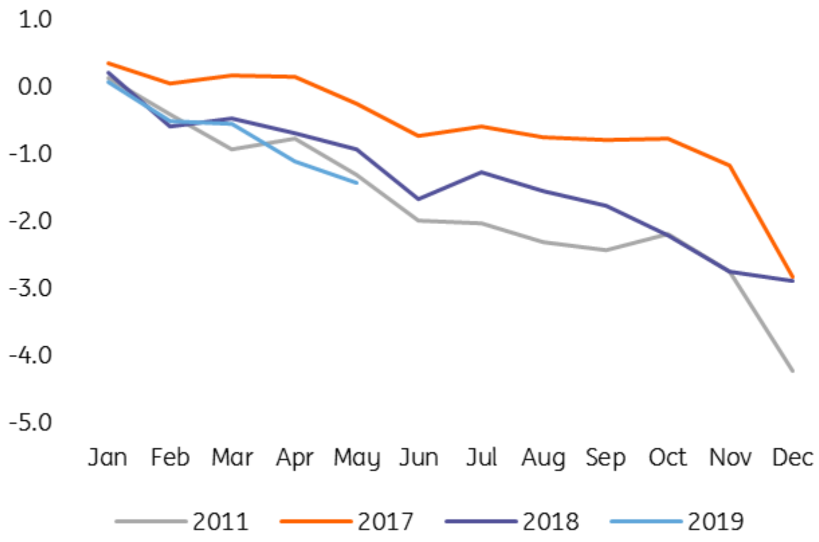
Romania: Budget deficit widens in May

The budget deficit has widened to 1.43% of GDP in May, compared to 0.86% for the same period of 2018. Sticking to the 3.0% of GDP limit is becoming a lot more difficult

Source: Shutterstock

The last time the consolidated budget came close to such a deficit after five months was in 2011, when it came in at 1.31% and ended the year at 4.2%. It's probably not necessary to be quite that pessimistic now, but things are not shaping up favourably, at least in terms of for meeting the 3.0% of GDP threshold.



Source: MinFin, ING

Revenues were up by 11.6% (versus the 16% targeted increase for the year) but the ballooning wage bill, which increased 24.6% and social benefits (+15%) have pushed expenditures up 16.3% (versus the 14% full year target). The share of fixed spending (wages and pensions) versus cyclically-sensitive revenues (fiscal revenues and social contributions) stood at 81.4% in May.

Fig 2 Rigid spending share increasing

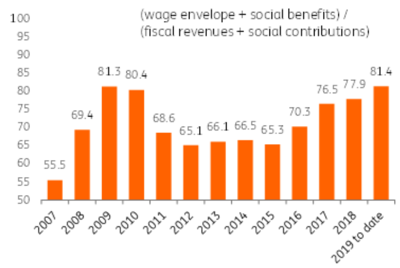
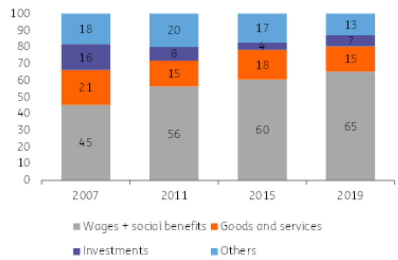


Fig 3 May spending structure(% of total spending)



Source: MinFin, ING

As the government still looks committed to the 3.0% of GDP target, we expect more of the same (as in previous years) to be delivered in the current year: investment cut to a minimum, requests for special dividends from state-owned enterprises, VAT reimbursement delays, and maybe (just maybe) a freeze in new hiring in the public sector. The recently enacted pension law, which envisages a 15% pension increase starting 1 September 2019 has been already incorporated into this year's budget bill. However, this was done under the ambitious expectation of 5.5% GDP growth this year and the above-mentioned targets for revenues and expenses. So far, neither of these variables seem to fit the reality.

> Sticking to the 3.0% deficit target will likely be a trade-off once again between two types of political costs: exceeding it and activating the Excessive Deficit Procedure or sticking to it and taking some unpopular measures as a result. A patchwork of different solutions just doesn't seem to be enough at this point.

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