

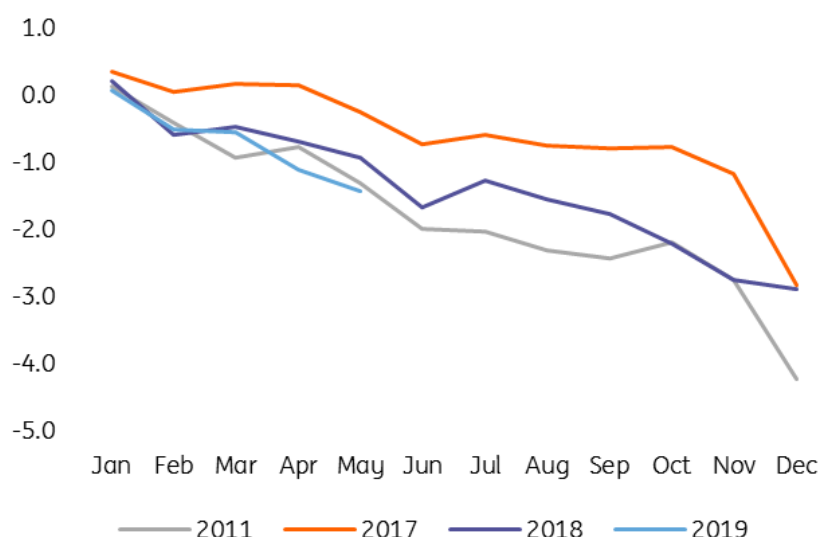
## Romania: Budget deficit widens in May

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

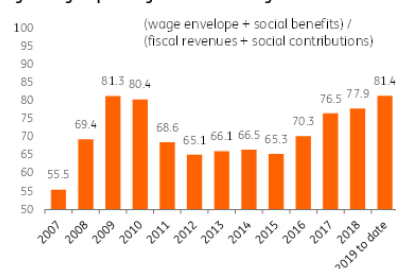
The last time the consolidated budget came close to such a deficit after five months was in 2011, when it came in at 1.31% and ended the year at 4.2%. It's probably not necessary to be quite that pessimistic now, but things are not shaping up favourably, at least in terms of for meeting the 3.0% of GDP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



Source: MinFin, ING

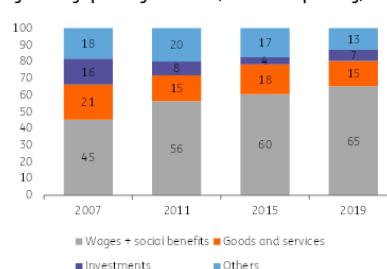
Revenues were up by 11.6% (versus the 16% targeted increase for the year) but the ballooning wage bill, which increased 24.6% and social benefits (+15%) have pushed expenditures up 16.3% (versus the 14% full year target). The share of fixed spending (wages and pensions) versus cyclically-sensitive revenues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

Fig 2 Rigid spending share increasing



Source: MinFin, ING

Fig 3 May spending structure(% of total spending)



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.

## Author

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).