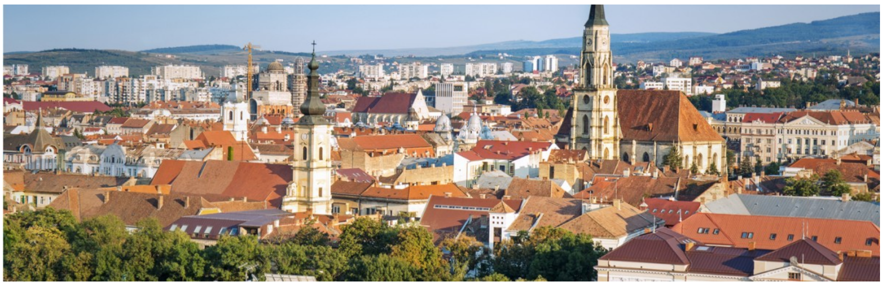
Romania: C/A at -3.5% of GDP in 2017

This is wider than our initial forecast of -3.2%, which did not include the payment of the first tranche for a defence system of c.0.35% of GDP

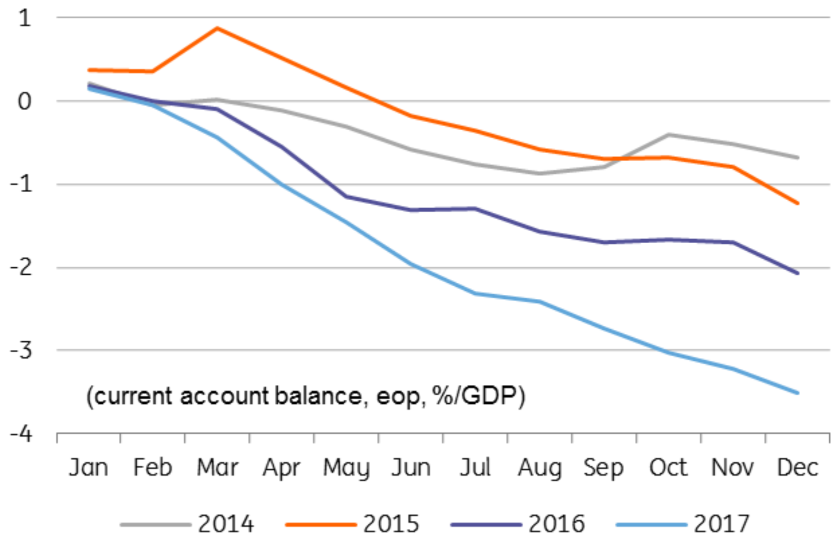


The deterioration of the C/A balance was mostly expected due to the fast widening of the trade deficit by c.30% YoY in 2017. Behind the trade balance shortfall are: uncompetitive food industry, higher oil prices and a lower surplus in the auto sector likely due to the elimination of a car emission tax at the start of the year. The latter, which led to a surge in second-hand car imports, is likely to be reintroduced in some form this year. Second-hand car registration jumped by 75.2% YoY in 2017.

71% C/A covered by FDIs in 2017

from 129% in 2016

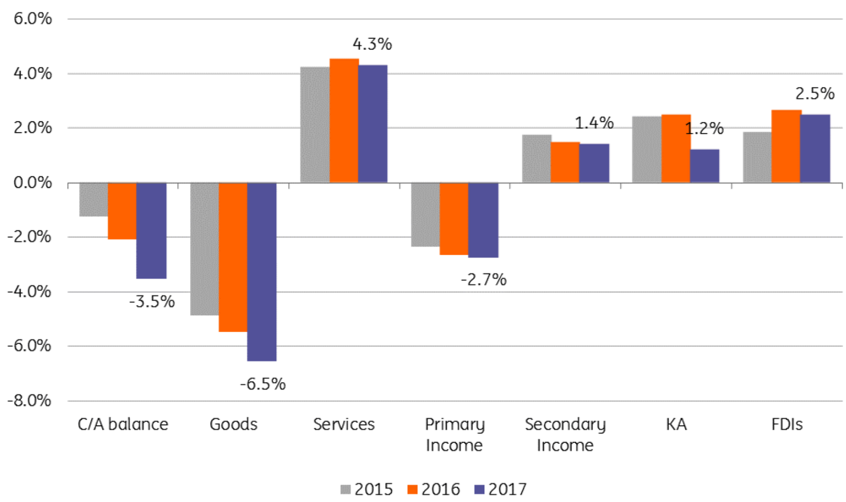
C/A deterioration



Source: NBR, NIS, ING

The surplus on the services side increased by a meagre 3.1% YoY in 2017, not keeping up with the widening trade gap for goods. Primary income was another important factor for the C/A deterioration widening by 12.7% to EUR-5bn. FDIs ticked up only by 1.4% YoY and are covering only c.71% of the C/A shortfall vs 129% in 2016. The capital account (C/A) inflows dropped sharply by c.48% to EUR2.2bn. The overall external position (C/A+KA+FDI) barely remained in positive territory at only EUR0.3bn.

External position (% of GDP)



Source: NBR, NIS, ING

We are comfortable with our projection for C/A widening peaking-out and expect the C/A at -2.8% of GDP in 2018 as we expect a slowdown in consumption. It is likely to be fully funded by FDIs. Our forecast does not include eventual new tranches for the defence system.

Hence, it could come 0.3-0.4ppt of GDP wider, but still post a modest improvement from a year ago.

Author

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com