

## Romania: Current account deficit continues to widen

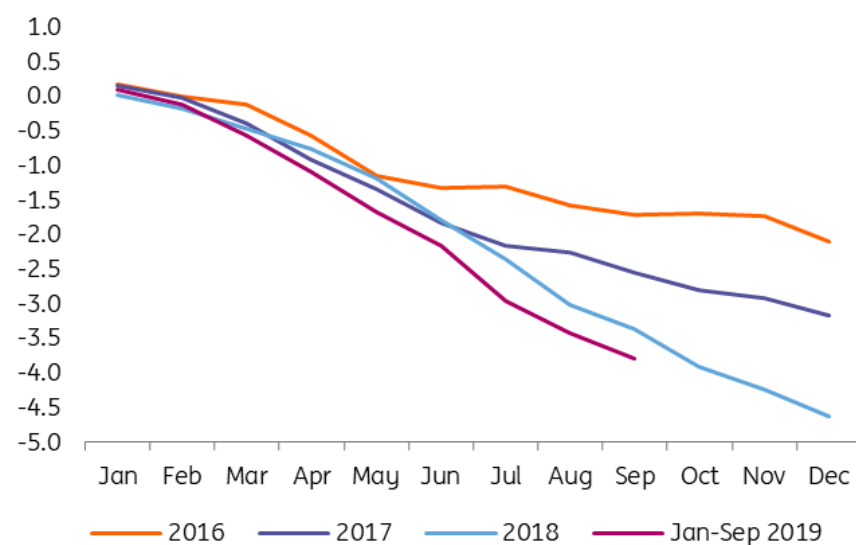
After three quarters of 2019, the current account deficit stands at EUR8.1 billion, 19% wider than in the same period of 2018. Only half of it is covered by direct investments



Our base case is now for just one 25bp rate cut from the National Bank of Romania in its last meeting of the year in November, with risks for delays towards 2026

To start with the very few positives that can be drawn from today's data, the widening of Romania's current account deficit seems to have slowed lately. A 19% year-to-date widening is down from 26.7% in the January-June period and 27.1% after the first quarter. It might not resemble a correction yet, but these could be early signs of a turn in trend.

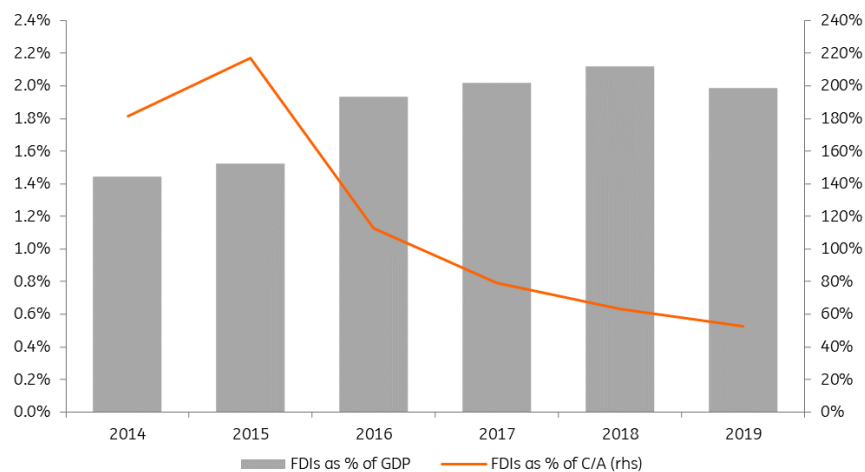
## C/A deficit as % of GDP



Source: NBR, ING

The financing structure of the current account deficit has not improved, as foreign direct investments (FDI) still cover around 52% of the deficit as of Sep-2019.

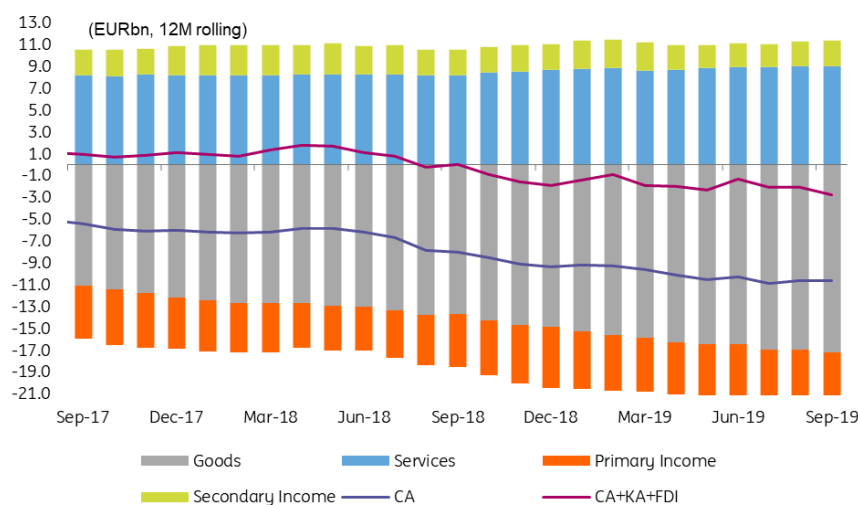
## FDI coverage not improving



Source: NBR, ING

On a 12-month rolling basis, the total external position (CA+KA+FDI) moved deeper into negative territory, at €2.8 billion.

## External position submerging in negative territory



Source: NBR, ING

It has become common in recent months for central bank Governor Mugur Isarescu to address the issue of external imbalances (and the current account in particular) on pretty much every occasion. It's becoming clear though that exchange rate depreciation is not considered a solution, and more is being expected from the fiscal side. Still, we believe that currency depreciation should be considered, at least in line with the inflation differential between Romania and its main trading partners. The Romanian leu has been strengthening in real terms for a while now, adding an additional headache to exporters. In the latest minutes, "some Board members" called for the central bank to stay "alert and prepared for a potential necessary prompt reaction" on externally-driven FX weakness despite the fact that the minutes also acknowledged "price competitiveness losses recorded by some companies, amid higher wage costs and the quasi-stability of the leu exchange rate".

## January-September C/A breakdown as % of GDP



Source: NBR, ING

Given that meaningful fiscal consolidation doesn't look to be on the government's radar for now, upside pressure on the EUR/RON should remain a theme for the months to come. We still believe a correction higher could be allowed in December 2019 or early 2020. As for the current account deficit, our -5.4% of GDP forecast for 2019 looks realistic, though the chances for a slightly better figure have certainly increased. Still, November's Black Friday sales and December shopping season should push the deficit to more than -5.0% of GDP.

### 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).