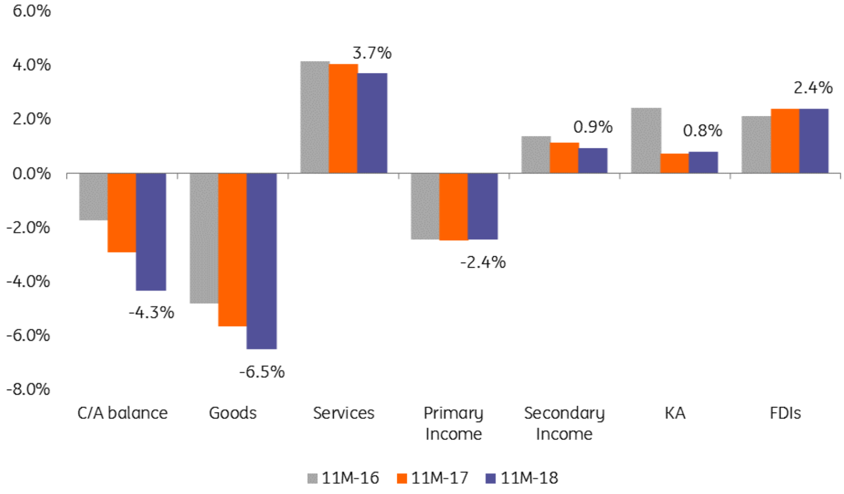
Romania: Current account from bad to worse

The current account (C/A) deficit reached EUR8.7 billion after 11 months of 2018, 60% higher than during the same period of 2017

Source: Shutterstock

November 2018 data didn't bring much of a change in terms of the factors driving the C/A deficit. What was bad is now worse. In particular the goods trade balance remains deep in negative territory, at EUR-13.2 billion, or 6.5% of GDP for the entire January-November 2018 period. The surplus on the services side has shrunk in both nominal and relative terms, coming in at EUR7.5 billion, or 3.7% of GDP.

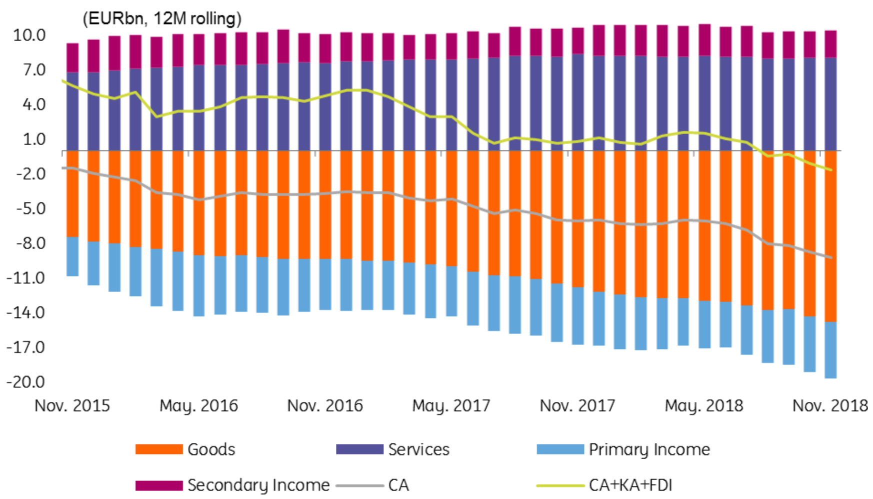
Current account breakdown after 11-months, as % of GDP



Source: NBR, ING

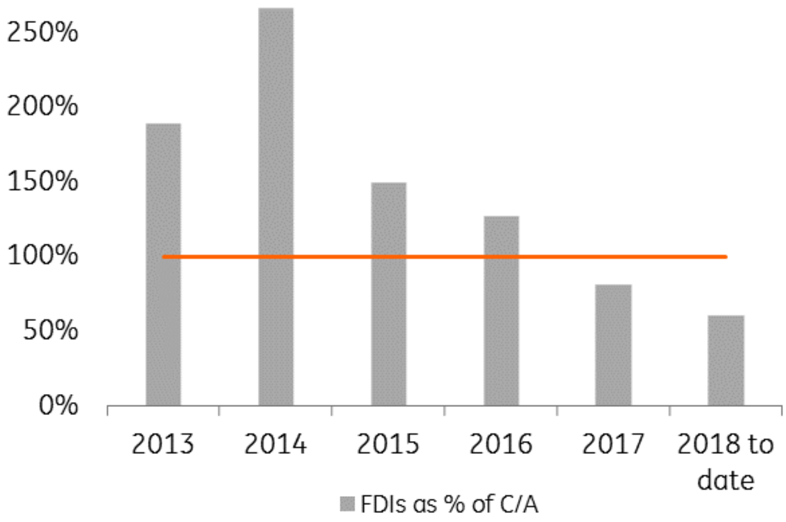
On a 12 months rolling basis, the total external position dipped further into negative territory, at EUR-1.6 billion. Foreign direct investments (FDI) diminished for the third consecutive month, coming at a meagre EUR294 million in November 2018. Capital inflows remained rather sluggish. FDI coverage of the C/A deficit is now 55%.

External position goes further into negative territory



Source: NBR, ING

FDI coverage



Source: NBR, ING

After today's data, our 4.2% forecast for the C/A deficit for the entire 2018 is clearly unobtainable, with the deficit already touching 4.3% after 11-months. December is likely to add another 0.3-0.4 percentage points to this. The recent weakening of the Romanian leu could help the rebalancing process, but this will not be a panacea for the economy. Increased absorption of EU funds, fiscal consolidation and boosting FDI would definitely be a more successful remedy.

Author

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Disclaimer