Romania: Current account gap widens further in May

The current account (C/A) gap widened by 16% to €3.02 billion in January-May 2018 compared to the same period a year ago, driven by the trade deficit

Source: Shutterstock

Competitiveness issues in food industry

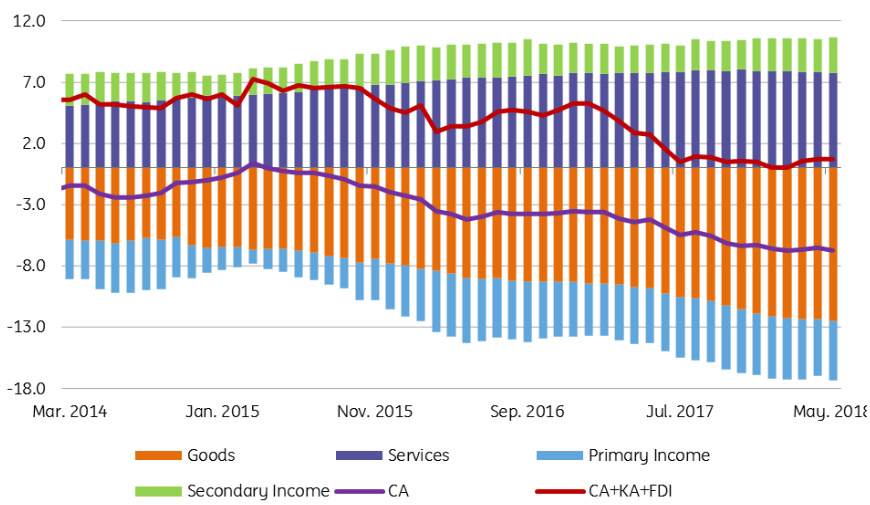
Despite signs of a slowdown in consumption, the trade balance on items such as food remains stubbornly negative suggesting that competitiveness issues prevail. Overall, the trade gap widened by 14.9% year on year in May, as export growth in the auto sector is levelling off while the food deficit has failed to correct.

January-May C/A balance (€m)

Source: NBR, ING

At €0.7 billion, the total external position still remains in positive territory. Foreign direct investments (FDI's) picked up a bit in May but are still covering only 56% of the C/A shortfall.

C/A structure and external position



Source: NBR, ING

RON seems still protected

So far, there are no convincing signs of a correction in the external imbalance. We see the C/A reaching -3.7% of GDP in 2018, versus -3.4% in 2017. Despite these weaker fundamentals, the Romanian leu (RON) is somewhat protected by higher carry. Also, the central bank is unlikely to allow meaningful RON depreciation due to a high exchange rate pass-through in inflation.

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