Romania: Current account looks bad

After four months of 2019, Romania posted a EUR2.3 billion C/A deficit, 38% more than the same period of 2018. How long can the policymakers stay in denial?

Source: Shutterstock

First some warnings from the central bank...

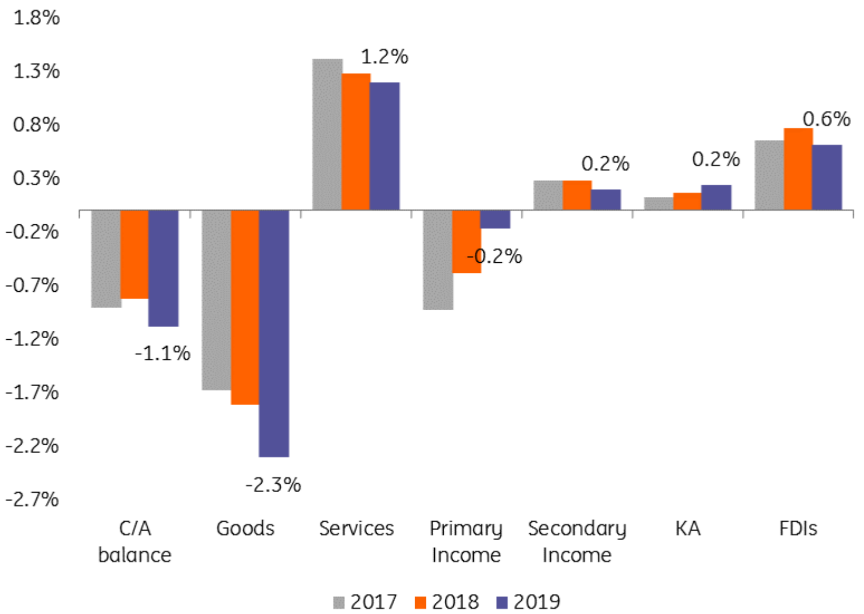
On 5 June 2019, while presenting the latest Financial Stability Report, National Bank of Romania (NBR) Governor Mugur Isarescu stated that “the most important financial and economic challenge that Romania will face in the upcoming period is the current account deficit”. While not the first time that Isarescu has raised this issue, it does seem as though the rhetoric on this subject is becoming slightly more emphatic each time. Nevertheless, addressing this imbalance should be a matter of structural reforms and should not be done through exchange rate depreciation. Only a couple of weeks ago, Isarescu cited the risk of a ‘re-euroisation’ of the economy should a currency depreciation occur.

...then from the real economy

The April 2019 current account data confirms the increasing deterioration in Romania’s external imbalances. As usual, the goods sector continues to contribute negatively, posting a EUR1.33 billion deficit in April alone, the largest since 2008. The Easter holiday period has likely been behind most of the deterioration. For the entire January-April period, the goods deficit reached almost

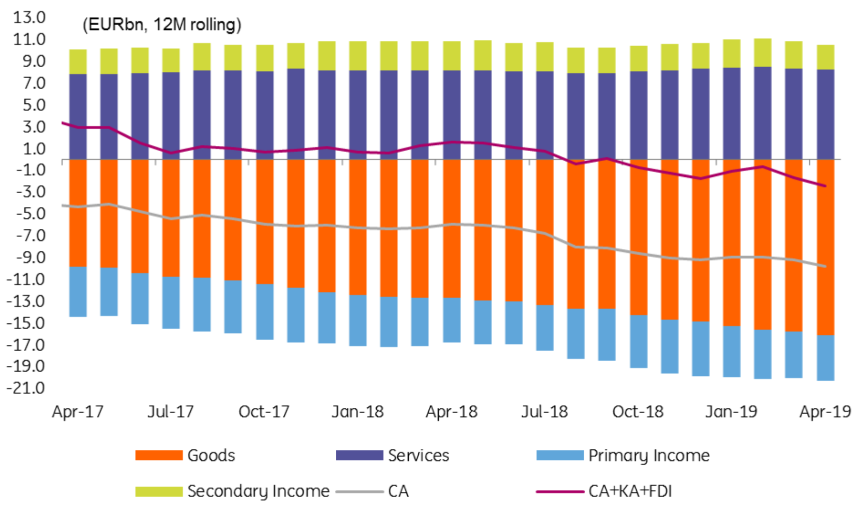
EUR5 billion, as it expanded 35% versus January-April 2018. On a 12-month rolling basis, the total external position moved deeper into negative territory, at €2.4 billion.

January-April C/A breakdown (% of GDP)



Source: NBR, ING

External position submerging into negative territory



Source: NBR, ING

So what do we make of this? While badly needed, a fiscal consolidation looks unlikely given the electoral context. Hence, most of the burden will fall on the central bank, again. Despite the poor fundamentals which point to weakness in the Romanian leu, a relatively stable EUR/RON for most of 2019 looks to be the main scenario, with a correction higher likely to be allowed only after this year's electoral cycle ends in November with the presidential elections.

Author

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

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