Romania’s budget deficit hits 1.8% of GDP

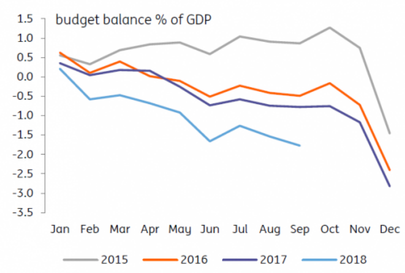
Romania's January to September budget deficit widens, but there's still solid growth in stable revenues, but these are being outpaced by a sharp rise in rigid costs

Source: shutterstock

Romania's budget shortfall widened from -1.54% from January to August to -1.77% at the end of the first three quarters, the biggest for the end-of-September figures since 2011. Nevertheless, it's behind the revised plans for a -2.61% budget gap for the period. Budget revenues increased by 13.6% YoY after three quarters with fiscal revenues up by a meagre 0.3% YoY affected by the fiscal changes at the start of the year.

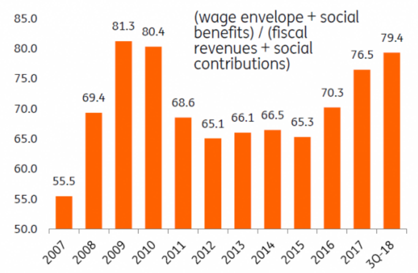
VAT revenues, representing 40.9% of fiscal revenues, increased by 9.0% YoY, though this could also be distorted by state reimbursements. Changes in tax levels and taxation for other important state revenue items are making the comparison with the previous year irrelevant. Budget expenditures increased by 18.4% YoY with the wage component, which represents 28.5% of state spending, up by 25.3% YoY and current expenditures ending the third quarter 9.0% YoY higher. Capital spending is up by 46.7% YoY influenced by defence spending. Net of all that, we estimate a 27.2% YoY rise. Another tranche of defence spending of 0.26% of GDP announced for September was most likely delayed as data suggest.

Fig 1 Budget execution into 4Q: this time is different?



Source: MinFin, ING

Fig 2 Rigid public spending reaching levels as % of stable revenues unseen since recession years



Source: MinFin, ING

It looks like the government remains committed to the 3.0% of GDP deficit target. Less impetuous spending usually clustered into the year-end and maybe requesting quarterly dividends from State Owned Enterprises (SOEs) if needed are likely to keep the budget deficit within the planned limit. The share of rigid state spending (up by 18% YoY) out of stable revenue sources (up by 12.8% YoY) reached almost 80%, limiting budget flexibility and increasing the vulnerability of public finances to potential shocks. Hence the commitment to the 3.0% of GDP budget deficit limit could become a trade-off between political costs for sticking to this 'fiscal rule' and those arising from entering the excessive deficit procedure (EDP), including lower budget flexibility. With economic growth slowing down both domestically and abroad, this balancing act looks increasingly challenging.

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