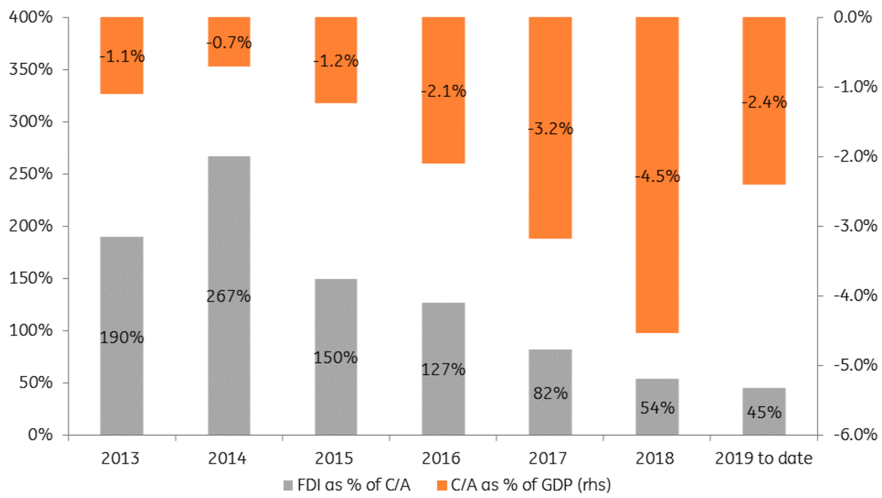
Romania: mid-year current account widens by 38%

Romania's first-half current account (C/A) deficit stands at EUR5.1 billion, 38% wider than the same period in 2018. We keep our C/A deficit forecast for the whole 2019 at 5.4% of GDP

People on Calea Victoriei, Bucharest

While the C/A deficit widening is nothing short of a standard headline for Romania, a few things stand out after taking the mid-year snapshot:

Foreign direct investments' (FDI) coverage is getting worse: only 45% of the C/A deficit was covered by FDI's in the first six months of 2019. As usual, central bank officials particularly highlighted in the latest minutes the increased worries pertaining to C/A developments and their financing structure.

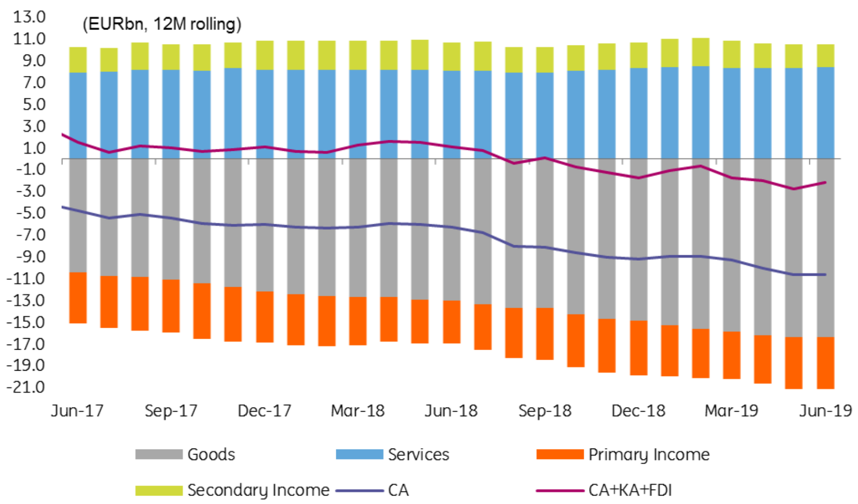


Source: NBR, ING

The goods sector continues to be the main driver of C/A deterioration; its deficit expanded by 24% in the first six months of 2019 compared to the same period last year. Here, the latest trade balance data does offer a ray of hope as the pace of trade deficit widening seems to be levelling off as imports fell more than exports in June.

Source: NBR, ING

On a 12-month rolling basis, the total external position (CA+KA+FDI) recovered somewhat, from EUR-2.7billion last month to EUR-2.2billion at mid-year.



Source: NBR, ING

Predictably, the capital account saw nice inflows in June (EUR419 million) and we expect even more to show up for July as bond-related inflows have been particularly strong recently. This does help the financing of the C/A to a good extent but it is obviously not the best source due to its inherent volatility.

The road ahead

Even though signs of economic slowdown seem to emerge from all directions, the pace does not look worrying yet. We strongly believe that the window of opportunity brought (and bought) by the relatively unexpected shift towards a dovish stance from major central banks should be used for fiscal consolidation. For now, we do not see particularly good reasons to expect that, especially given the heavy election calendar ahead. Given these, we maintain our -5.4% of GDP forecast for the 2019 C/A deficit.

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