

Romania: mid-year current account widens by 38%

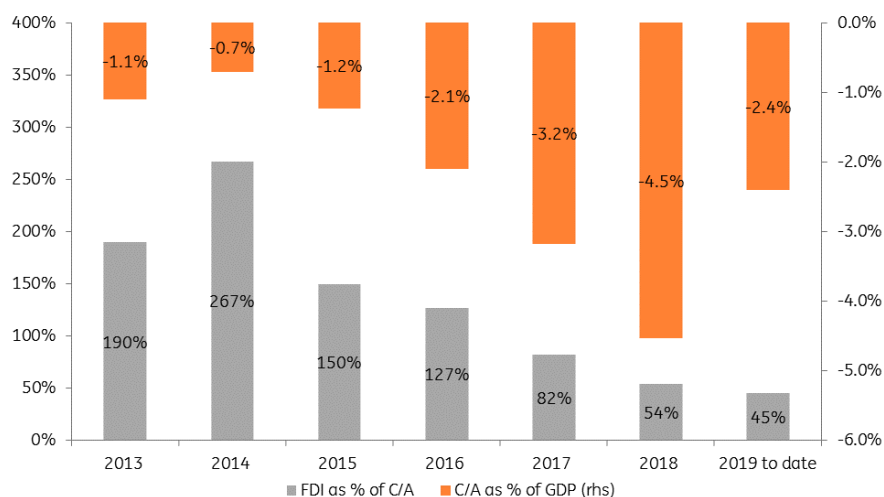
Romania's first-half current account (C/A) deficit stands at EUR5.1 billion, 38% wider than the same period in 2018. We keep our C/A deficit forecast for the whole 2019 at 5.4% of GDP



People on Calea Victoriei, Bucharest

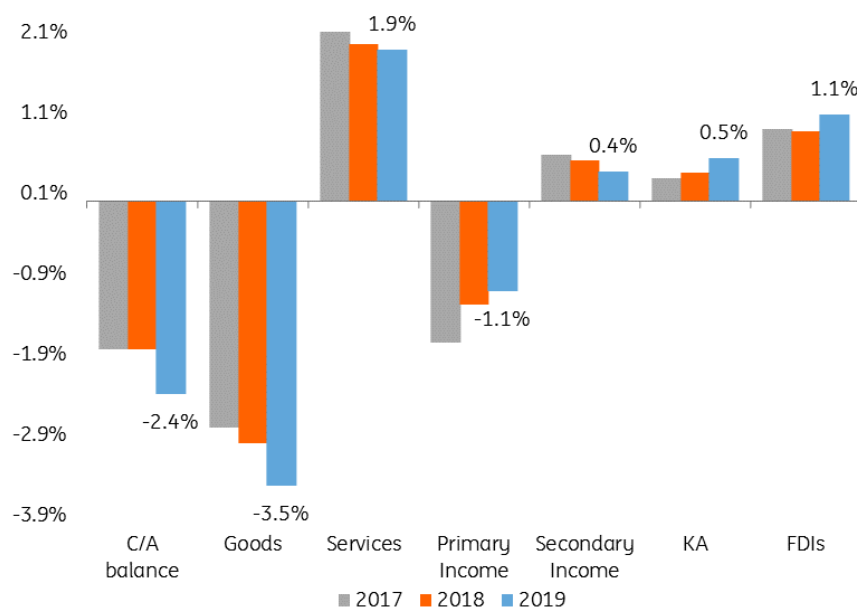
While the C/A deficit widening is nothing short of a standard headline for Romania, a few things stand out after taking the mid-year snapshot:

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.



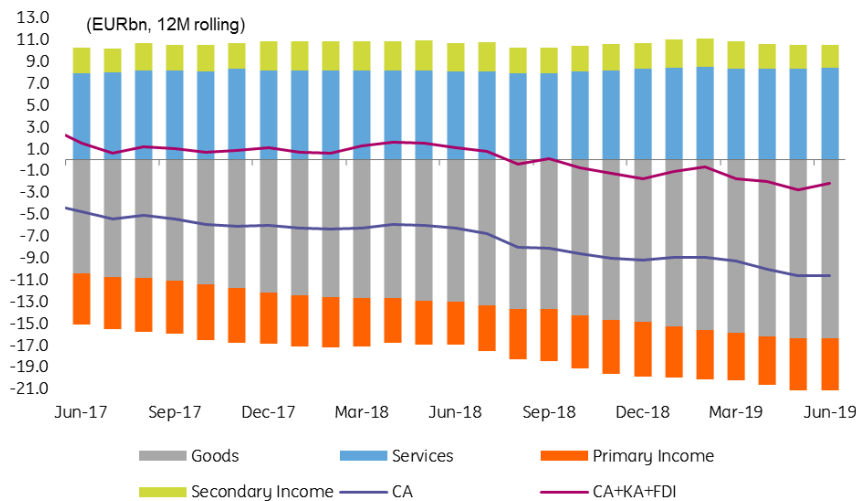
Source: NBR, ING

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.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.