Romania trade balance: How bad can it get?

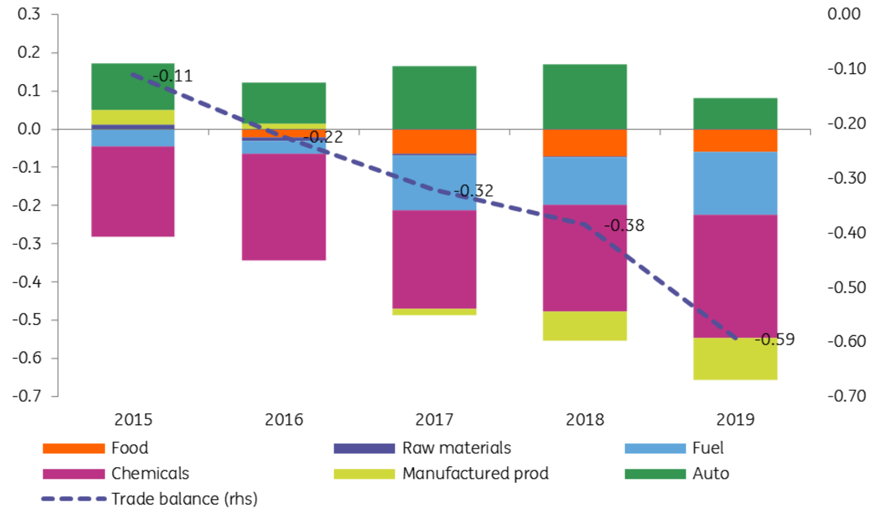
At EUR1.26 billion, the trade gap in January is the largest January deficit since 2008. At this pace, the 2019 trade gap could turn from bad to terrible

Romania's trade balance widened in January 2019 by 62% compared to January 2018. That is EUR1.26 billion or approximately 0.6% of GDP.

On the imports side, we can see that the share of fuel has increased (while decreasing on the export side), likely due to the cap on gas prices enacted by 114/2018 government emergency decree (the same one which included the bank levy). Imports expanded by 9.2% year-on-year, more than half coming from auto and other manufactured imports.

On the other hand, exports expanded at their slowest pace since April-2017 at a mere 1.6%. As most of the time, the auto sector is the only one posting a trade surplus, but the trend doesn't look supportive as these surpluses have been lower and lower throughout last year.

January trade balance breakdown as % of GDP



Source: NIS, ING

The central bank's trade-off between reaching the CPI target while maintaining external competitiveness didn't go that well in 2018. Inflation came into the target band helped by oil prices, but current account exceeded the medium term equilibrium level seen at 4% of GDP. With inflationary pressures persisting, the central bank is likely to accept weaker RON and short-term inflation overshooting target as currency vulnerabilities are on the rise.

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