

Romania: Current account deficit balloons

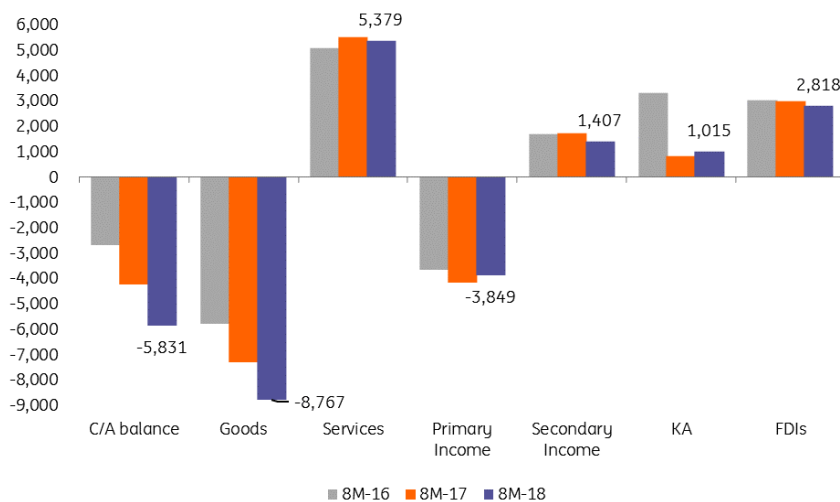
We are revising our 2018 forecast for the current account (C/A) deficit from -3.7% to -4.2% of GDP after it widened by a whopping 37.8% to €5.83 billion in January-August 2018, compared to the same period of 2017



Source: Shutterstock

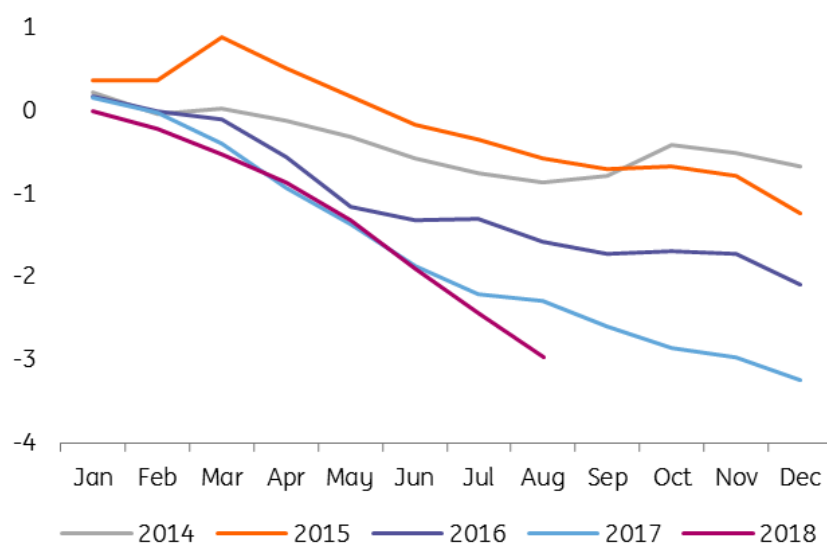
After the trade deficit posted a 20.2% year-on-year widening in January-August 2018 to €8.8 billion (4.4% of GDP), the C/A deficit followed with a no less impressive 37.8% widening for the same period, reaching 2.9% of GDP. Trade balance aside, low EU funds absorption and a levelling-off in the services surplus also contributed to the widest C/A gap since 2012 (when it reached 3.4% by August).

January-August C/A (euro bn)



Source: NBR, ING

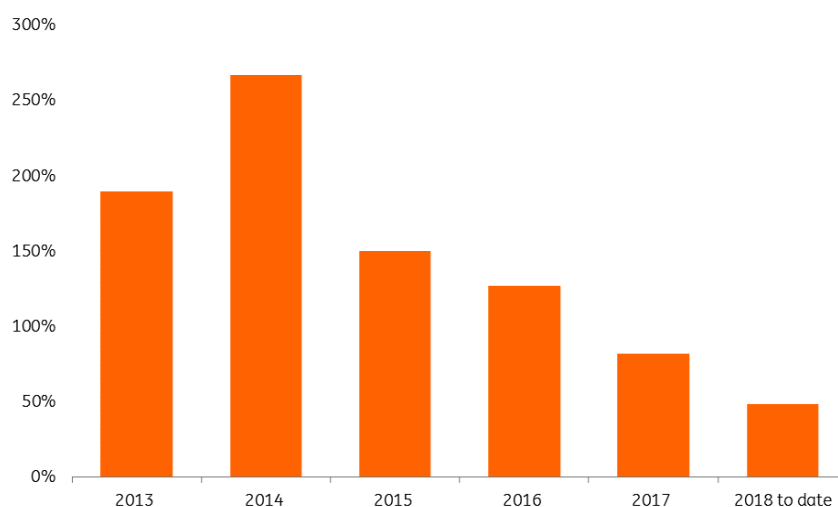
January-August C/A (% of GDP)



Source: NBR, ING

On the year, foreign direct investments (FDIs) cover only 48% of the C/A deficit compared to 82% for the full 2017, which should raise an eyebrow from the central bank. This is even more important in the context of a relative appreciation of the Romanian leu versus its regional peers since the beginning of this year, while Romania is running trade deficits with most of its neighbours.

FDI coverage of C/A (%)



Source: NBR, ING

Given the persistent widening of the trade deficit even as the economy slows down, a levelling off of surpluses on the services balance and a sluggish absorption of EU funds, we revise our 2018 forecast for the C/A deficit from 3.7% to 4.2% of GDP. While these developments normally call for some nominal depreciation of the Romanian leu, the central bank seems ready to let it slide for now as headline inflation is still printing way above the target band of 2.5%±1ppt. Structural factors affecting the competitiveness in some sectors (mainly agriculture) could also be cited for the widening of the trade deficit. Hence, no reasons for optimism regarding the external position in the near-term.

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>.