

Romania Watch: Public deficit was low until May, but to increase in H2

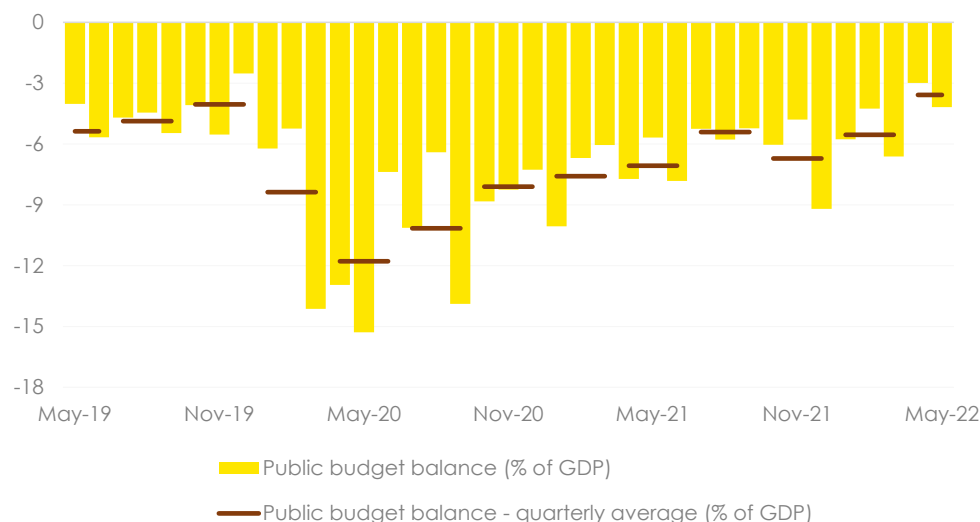
Public budget deficit during January-May was low, totaling only 4.8% of GDP according to our estimates. Public revenues growth was very fast, being also boosted by inflation. Still, we expect the public deficit to increase in H2 2022 and to reach 6.5% of GDP this year.

Disclaimer **4**

Analyst **7**



Public deficit was low during April and May



Source: Ministry of Public Finance, RBI/Raiffeisen Research

Note: In-house seasonally adjusted data

Public budget deficit totaled RON 20.9 bn in the first five months of the year, respectively 1.57% of official GDP forecast for the full year 2022. This level was lower as compared to that recorded in the first five months of 2021 (RON 26.2 bn, respectively 2.22% of 2021's nominal GDP).

Our assessment is that public deficit level from May was low if the official public budget deficit target of 5.84% of GDP for this year is considered as the benchmark. Thus, according to our in-house seasonally adjusted data (which could be revised in the next period), May's public budget deficit stood at 4.2% of nominal GDP estimated by us for this month. Also, during January-May, public deficit accounted for 4.8% of nominal GDP estimated by us for this period.

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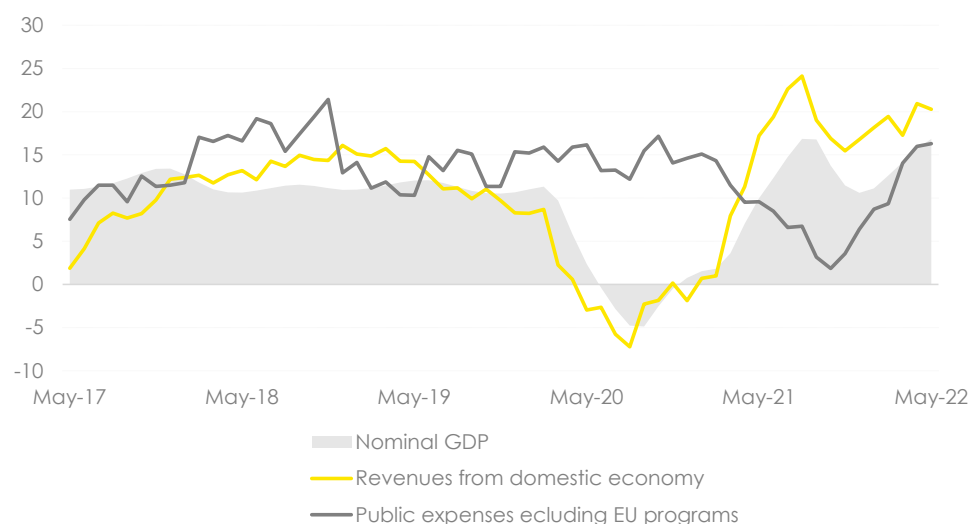
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Fast increase of public revenues, outpacing the advance of public expenses



Source: Ministry of Public Finance, RBI/Raiffeisen Research

Note: % yoy, 6-month moving averages

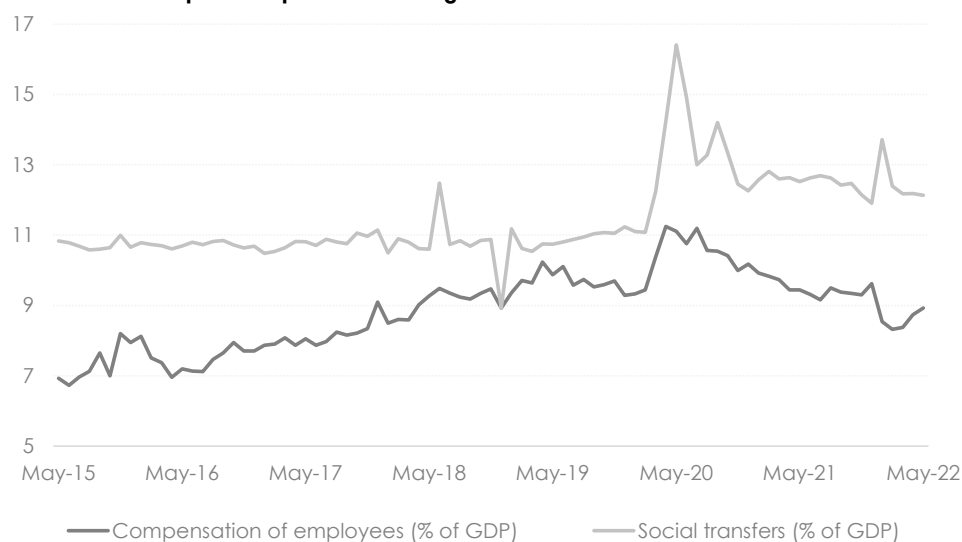
The low level of the public budget deficit from the first five months of the year was the result of rapid increase in public revenues, which outpaced the pace growth of public expenditures. Thus, public revenues collected from the domestic economy during January-May 2022 were 19.2% higher than those collected in the similar period from 2021, while public spending excluding EU funded programs increased by 15% yoy in the first five months of this year.

The rapid and sustained growth trend of public revenues from January-May was determined by the continued economic growth, but also by the rapid increase of prices and of households' income (wages and other forms of income). The very rapid increase of energy prices had a major favorable impact on public budget execution in the first five months, reducing the public deficit size. Thus, the government collected a large amount of revenues in taxes and royalties as a result of surge in energy prices, but made very small payments toward suppliers of electricity and natural gas for mandatory discounts they had to apply to prices paid by final consumers.

Growth in public spending has also accelerated this year, but to a lesser extent than the increase in public revenues. Especially growth of public wages has remained modest this year, and personnel spending in the first 5 months of 2022 was only 4.6% above its level from the first 5 months of 2021. Public investment increased in May after a large contraction in April, outpacing by 2.3% the monthly average level from the first quarter. Public investment has increased again this year after falling significantly in the second half of 2021. However, public spending on investments during the first 5 months of this year was 2.5% lower than that observed in the similar period of 2021 (which implies a much larger contraction in terms of volume).

We expect public budget deficit to increase in the second half of the year amid the implementation of new support measures for population and companies and the acceleration of payments toward electricity and natural gas suppliers. Our current baseline scenario places this year's public deficit at 6.5% of GDP, above the current official target of 5.84% of GDP.

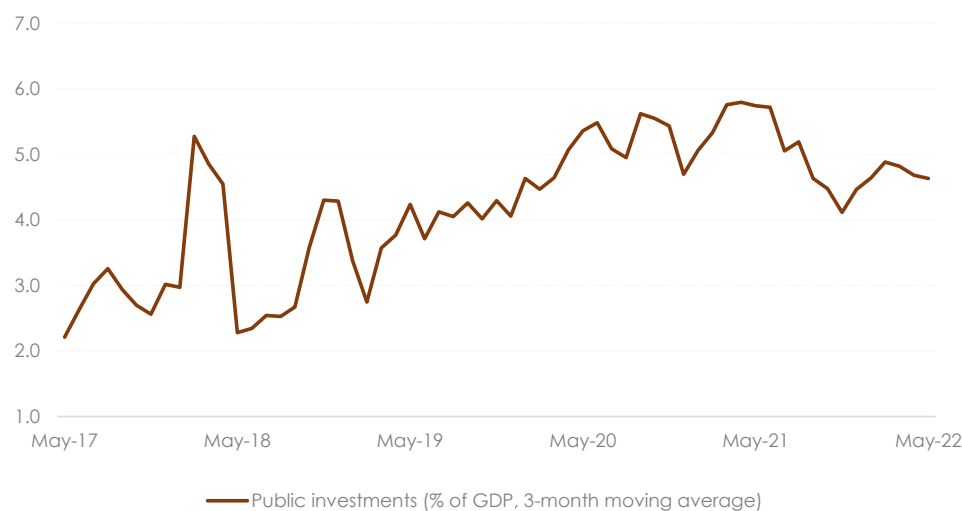
Good control over public expenses with wages and social transfers



Source: Ministry of Public Finance, RBI/Raiffeisen Research

Note: In-house seasonally adjusted data

Rebound of public investments after their large contraction in H2 2021



Source: Ministry of Public Finance, RBI/Raiffeisen Research

Note: In-house seasonally adjusted data

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