

Romania Watch: Large external imbalances persist

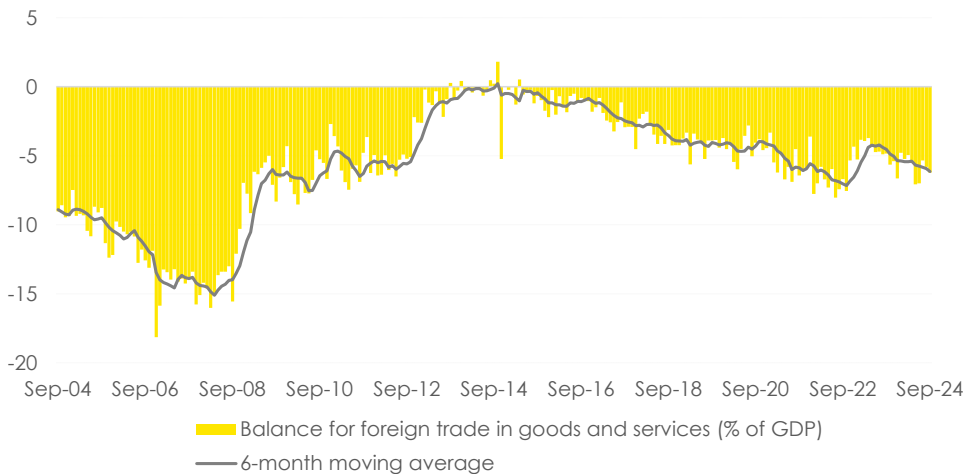
Current account deficit widened to 7.5% of GDP in Jan-Sep 2024 from 7% of GDP in 2023. The enlargement was fuelled by increase of foreign trade deficit as weak external demand hampered exports' growth and solid increase in domestic demand inflated imports.

Disclaimer 4

Analyst 8



Foreign trade deficit on an upward trend in 2024



Note: in-house seasonally adjusted data

Source: National Institute of Statistics, RBI/Raiffeisen Research

Current account deficit persists at elevated levels. According to our in-house seasonally adjusted data, in September the current account deficit stood at 7.6% of the nominal GDP estimated by us for this month. The level was close to that of 7.5% of GDP recorded during January-August.

The current account deficit was on the increase starting mid-2023, and its level during Q3 2024 year (7.7% of GDP) largely outpaced that recorded in Q3 2023 (7.0% of GDP). The enlargement of the current account deficit over the recent five quarters has been almost exclusively supported by the increase of the foreign trade deficit in goods and services. According to our in-house seasonally adjusted data, the foreign trade deficit in goods and services stood at 5.8% of GDP in Q3 2024, a level much above that of 4.8% of GDP recorded in Q3 2023. Exports of both goods and services had a poor performance over the past year (+0.5% yoy in terms of value for exports of goods in Q3, and +3.1% yoy for exports of services), being hampered by fragile foreign demand and by loss of competitiveness for some domestic industries. On the other hand, imports of goods and services increased at a solid pace over the past year on the back of strong advance in domestic demand

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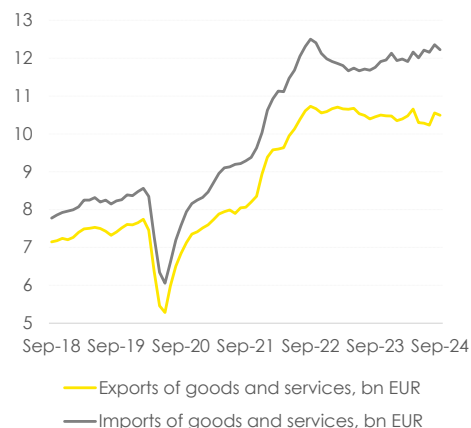
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(consumption and investments). In value terms, in Q3 imports of goods increased by 5.0% yoy, while imports of services increased by 5.2% yoy.

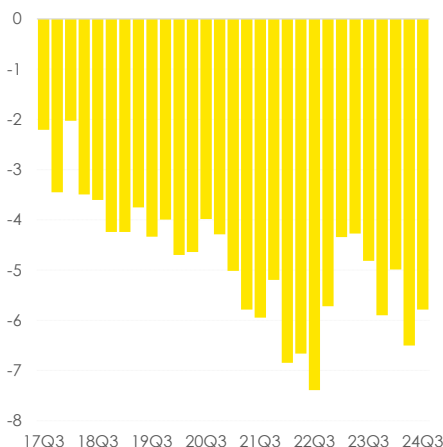
Value of exports and imports of goods and services



Note: in-house seasonally adjusted data; 6-month moving averages

Source: NIS, RBI/Raiffeisen Research

Foreign trade balance (% of GDP)

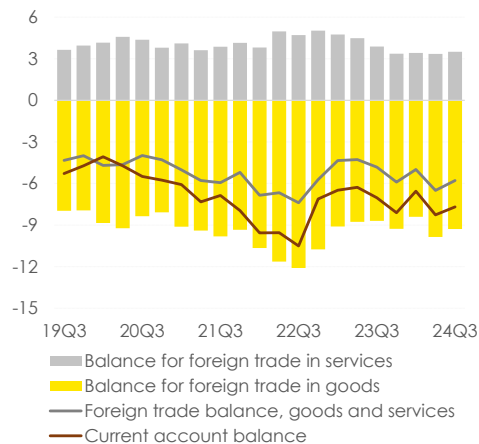


Note: in-house seasonally adjusted data; own estimates for Q3 nominal GDP

Source: National Bank of Romania, Raiffeisen Bank

We expect the current account deficit to be close to 7.8% of GDP this year, and to decrease only slightly in 2025, to a level of 7.2% of GDP. Exports' growth would probably remain contained in the coming period given that only a gradual rebound is foreseen in case of external demand, and this should limit the improvement of the current account deficit in the coming period.

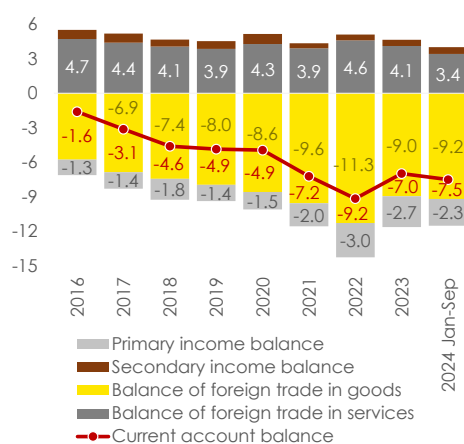
Balance of current account and foreign trade (% of GDP)



Note: in-house seasonally adjusted data

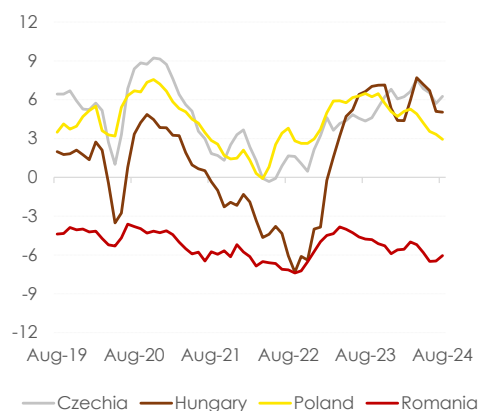
Source: National Bank of Romania, National Institute of Statistics, RBI/Raiffeisen Research

Contributions to the current account balance (% of GDP)

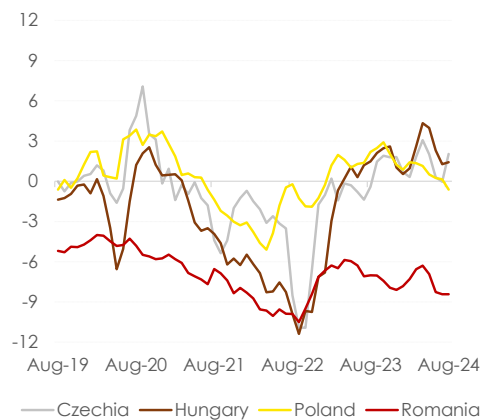


Source: National Bank of Romania, National Institute of Statistics, RBI/Raiffeisen Research

Foreign trade balance (% of GDP)



Current account balance (% of GDP)



Note: 3-months moving averages; in-house seasonally adjusted data

Source: Eurostat, RBI/Raiffeisen Research

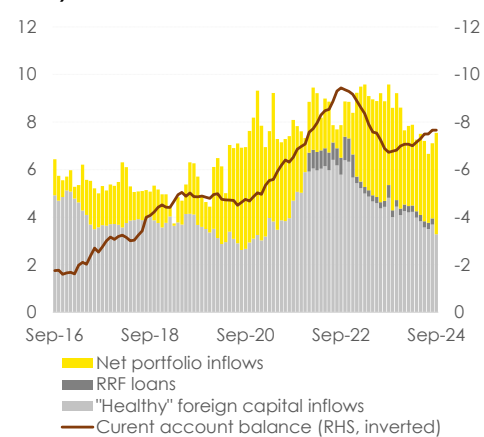
Note: 3-months moving averages; in-house seasonally adjusted data

Source: Eurostat, RBI/Raiffeisen Research

Our estimates and seasonally adjusted data show that only 34.2% of the current account deficit in the first nine months of the year was financed by "healthy" financing sources (mainly capital transfers from the EU and net foreign direct investment). Net portfolio inflows, mainly consisting of acquisition of Eurobonds by non-residents, were very large during January-September, allowing the current account deficit to be easily funded (four Eurobond issuances and a teaser green Samurai Bond). As a result, net portfolio inflows totaled EUR 14,2 bn during January-September, or 4% of the GDP estimated by us for the full year 2024. Also, the central bank's FX reserves recorded net inflows amounting to EUR 5.7 bn during January-September, while EURRON exchange rate remained very stable.

Borrowing from foreign markets through the sale of Eurobonds is necessary to ensure an adequate financing of both the public budget deficit and of the current account deficit. Under these circumstances, we believe that the implementation of sound macroeconomic policies remains essential to maintain investors' interest in Romanian assets. All eyes are now on the fiscal consolidation measures expected to be announced and enforced after parliamentary elections.

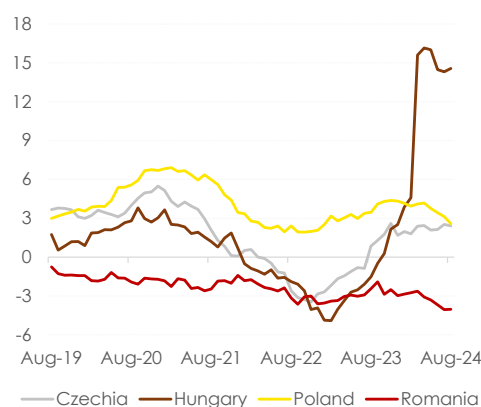
Funding of current account deficit (% of GDP)



Note: cumulated data over the last 12 months; seasonally adjusted data; "Healthy" foreign capital inflows include net FDIs and capital account balance (reflecting mainly net capital transfers from the EU); RRF = Recovery and Resilience Facility

Source: National Bank of Romania, RBI/Raiffeisen Research

Extended CA balance (% of GDP)



Note: data over last 12 months; Extended CA balance = current account balance + capital account balance + FDIs

Source: Eurostat, RBI/Raiffeisen Research

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	Column A	Column B
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
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
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
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Creation time of this publication: 13/11/2024 15:55 P.M. (EET);

First Dissemination of this publication: 13/11/2024 15:55 P.M. (EET)

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