

# Romania Watch: Current account deficit decreased substantially this year

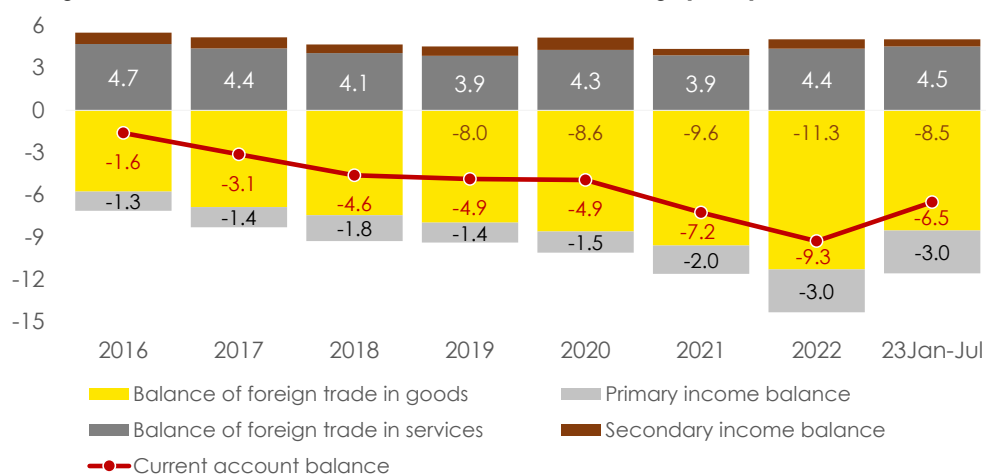
Foreign trade deficit and current account deficit have reduced substantially from their peaks in Q3 2022. Foreign trade deficit from July was one of the lowest observed this year. We foresee the current account deficit at 7% of GDP in 2023, down from 9.3% of GDP in 2022.

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Foreign trade deficit and current account deficit decreased largely this year



Note: in-house estimates for real GDP during January-July 2023

Source: NBR, RBI/Raiffeisen Research

According to our in-house seasonally adjusted data, the deficit of foreign trade with goods and services decreased to a level slightly below EUR 1 bn in July, amounting to approximately 3.6% of our estimated nominal GDP for this month. This was one of the lowest monthly foreign trade deficits recorded this year. The favorable development in the foreign trade balance in July was supported by both a reduction in the deficit of foreign trade with goods and an increase in the surplus of foreign trade with services.

**Andreea-Elena DRAGHIA**

Analyst Editor

+40 764601-526

Andreea-Elena.DRAGHIA@raiffeisen.ro

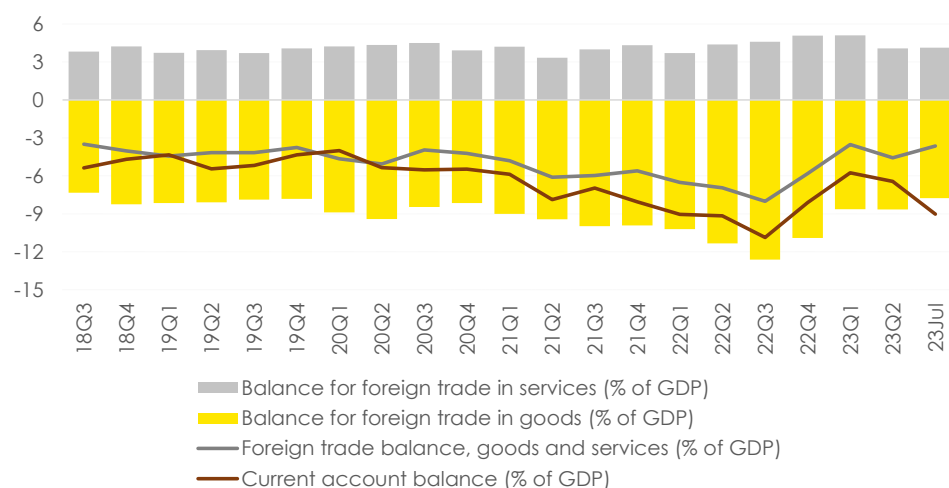
**Nicolae COVRIG**

Analyst

+40 79 971-8476

Nicolae.Covrig@raiffeisen.ro

## Favorable developments for foreign trade deficit continued in July



Note: in-house seasonally adjusted data

Source: NBR, RBI/Raiffeisen Research

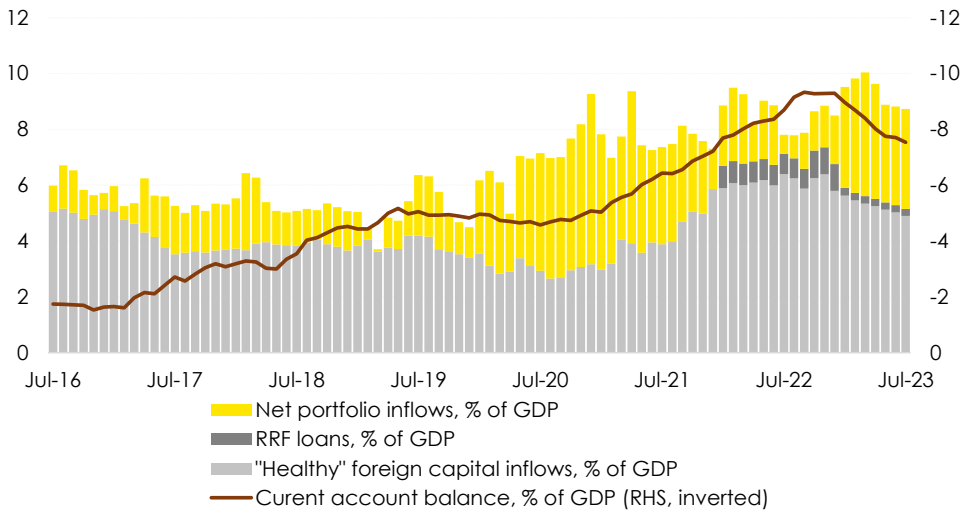
However, according to our in-house seasonally adjusted data, there was a deterioration in the current account deficit in July, which increased to EUR 2.4 bn (representing approximately 9% of our estimated nominal GDP for this month). The widening of the current account deficit in July was fueled by a very large deficit for the primary income balance (EUR 1.5 bn according to our in-house seasonally adjusted data) as the central bank estimated very large profits for companies classified as foreign direct investments (FDIs). We consider these significant profits estimated for July to be a transitory development that temporarily amplified the current account deficit this month, without repeating in the following months. At the same time, we do not exclude the possibility of a downward revision of this value to a certain extent in the coming period. For example, the new data that were released by the NBR yesterday showed a substantial downward revision of the FDIs' profits for Q2, and implicitly a downward revision of the primary income balance deficit by approximately EUR 937 mn compared to initial estimates. So, considering the new estimates, our in-house seasonally adjusted data place the current account deficit at EUR 5.1 bn in Q2 (or 6.5% of this quarter's nominal GDP), a visibly lower level than the initial estimates indicated (EUR 5.9 bn or 7.5% of the GDP).

Decrease of the foreign trade deficit and the current account deficit starting Q3 2022 was supported by decrease in commodity prices and by decrease in imports' volume on the back of reduction of consumption of energy products and of weakening of domestic demand. Our seasonally adjusted data place the current account deficit for the first seven months of this year at 6.5% of the nominal GDP estimated by us for this period, down from a level of 9.3% of GDP realized in 2022. Our current scenario assumes a current account deficit of 7% of GDP for this year.

According to our in-house seasonally adjusted data, "healthy" foreign capital inflows, i.e. capital transfers from the EU and net FDIs, covered around 61.5% of the current account deficit observed during January-July 2023. We expect the transfers in EU funds from the European Commission to increase in the second half of this year as compared with the first half of the year, resulting in an improvement of this coverage ratio. The implementation of the National Recovery and Resilience Plan is much behind the plan, and funds' disbursements in 2023 are likely to come short of our initial expectations (only EUR 2.8 bn instead of around EUR 5.5 bn). However, in January-July, Romania recorded very large portfolio inflows, totaling EUR 12.8 bn or 4.0% of our GDP estimate for the full year. Romania had three Eurobond issuances this year (two in January and one in September), borrowing a cumulative EUR 9.1 bn, and completely fulfilling this year's borrowing target in Eurobond issuances (set at EUR 7.5-8.5 bn). Also, non-residents have

substantially increased their holdings of Romanian government bonds during the first part of the year (by RON 30.3 bn). So, the very large portfolio inflows already observed by the date would ensure the full funding of the current account deficit this year if they would not be reversed by the end of this year.

**Very large portfolio inflows support the funding of the current account deficit**



Note: cumulated data over the last 12 months; seasonally adjusted data; "Healthy" foreign capital inflows include net FDI and capital account balance (reflecting mainly net capital transfers from the EU); RRF = Recovery and Resilience Facility  
Source: NBR, RBI/Raiffeisen Research

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Symbol	Date	Recommendation	Company
RO	24.07.2023	Under Revision	Romania
RO	21.03.2023	Under Revision	Romania
RO	29.11.2022	Under Revision	Romania
History of long term recommendations			
Symbol	Date	Recommendation	Company
RO	24.07.2023	Not rated	Romania
RO	21.03.2023	Not rated	Romania
RO	29.11.2022	Not rated	Romania

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	<b>Column A</b>	<b>Column B</b>
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	<b>Column A</b>	<b>Column B</b>
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## FABIAN BLASCH

📍 Austria   
✉ [fabian.blasch@rbinternational.com](mailto:fabian.blasch@rbinternational.com)

## AMADEA HIESS

📍 Austria   
✉ [amadea.hiess@rbinternational.com](mailto:amadea.hiess@rbinternational.com)

## MARKUS TSCHAEPECK

📍 Austria   
✉ [markus.tschaepeck@rbinternational.com](mailto:markus.tschaepeck@rbinternational.com)


## VALBONA GJEKA

📍 Albania   
✉ [valbona.gjeka@raiffeisen.al](mailto:valbona.gjeka@raiffeisen.al)


## OLGA ZHEGULO

📍 Belarus   
✉ [olga.zhegulo@priorbank.by](mailto:olga.zhegulo@priorbank.by)

## MIRZA ZORNIC

📍 Bosnia Herzegovina   
✉ [mirza.zornic@raiffeisengroup.ba](mailto:mirza.zornic@raiffeisengroup.ba)

## HELENA HORSKA

📍 Czech Republic   
✉ [Helena.Horska@rb.cz](mailto:Helena.Horska@rb.cz)

## ZOLTÁN TÖRÖK

📍 Hungary   
✉ [torok.zoltan@raiffeisen.hu](mailto:torok.zoltan@raiffeisen.hu)

## ANDREEA-ELENA DRAGHIA

📍 Romania   
✉ [Andreea-Elena.DRAGHIA@raiffeisen.ro](mailto:Andreea-Elena.DRAGHIA@raiffeisen.ro)


## GREGORY CHEPKOV

📍 Russia   
✉ [grigory.chepkov@raiffeisen.ru](mailto:grigory.chepkov@raiffeisen.ru)

## TIBOR LORINCZ

📍 Slovakia   
✉ [tibor\\_lorincz@tatrabanka.sk](mailto:tibor_lorincz@tatrabanka.sk)


## GUNTER DEUBER

📍 Austria   
✉ [gunter.deuber@rbinternational.com](mailto:gunter.deuber@rbinternational.com)


## MATTHIAS REITH

📍 Austria   
✉ [matthias.reith@rbinternational.com](mailto:matthias.reith@rbinternational.com)


## FRANZ ZOBL

📍 Austria   
✉ [franz.zobl@rbinternational.com](mailto:franz.zobl@rbinternational.com)

## FJORENT RRUSHI

📍 Albania   
✉ [Fjorent.Rrushi@raiffeisen.al](mailto:Fjorent.Rrushi@raiffeisen.al)


## ASJA GRDJO

📍 Bosnia Herzegovina   
✉ [asja.grdjo@raiffeisengroup.ba](mailto:asja.grdjo@raiffeisengroup.ba)


## ELIZABETA SABOLEK-RESANOVIC

📍 Croatia   
✉ [elizabetha.sabolek-resanovic@rba.hr](mailto:elizabetha.sabolek-resanovic@rba.hr)

## LEVENTE BLAHÓ

📍 Hungary   
✉ [levente.blaho@raiffeisen.hu](mailto:levente.blaho@raiffeisen.hu)


## DOROTA STRAUCH

📍 Poland   
✉ [dorota.strauch@raiffeisen.pl](mailto:dorota.strauch@raiffeisen.pl)

## IONUT DUMITRU

📍 Romania   
✉ [Ionut.Dumitru@raiffeisen.ro](mailto:Ionut.Dumitru@raiffeisen.ro)

## STANISLAV MURASHOV

📍 Russia   
✉ [stanislav.murashov@raiffeisen.ru](mailto:stanislav.murashov@raiffeisen.ru)

## SERHII KOLODII

📍 Ukraine   
✉ [serhii.kolodii@raiffeisen.ua](mailto:serhii.kolodii@raiffeisen.ua)


## CASPER ENGELEN

📍 Austria   
✉ [casper.engelen@rbinternational.com](mailto:casper.engelen@rbinternational.com)


## GOTTFRIED STEINDL

📍 Austria   
✉ [gottfried.steindl@rbinternational.com](mailto:gottfried.steindl@rbinternational.com)


## BRISIDA BUZI

📍 Albania   
✉ [Brisida.BUZI@raiffeisen.al](mailto:Brisida.BUZI@raiffeisen.al)

## ARISTEA VLLAHU

📍 Albania   
✉ [Aristea.Vllahu@raiffeisen.al](mailto:Aristea.Vllahu@raiffeisen.al)


## IVONA ZAMETICA

📍 Bosnia Herzegovina   
✉ [ivona.zametica@raiffeisengroup.ba](mailto:ivona.zametica@raiffeisengroup.ba)

## ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia   
✉ [zrinka.zivkovic-matijevic@rba.hr](mailto:zrinka.zivkovic-matijevic@rba.hr)

## GERGELY PÁLFFY

📍 Hungary   
✉ [gergely.palfy@raiffeisen.hu](mailto:gergely.palfy@raiffeisen.hu)

## NICOLAE COVRIG

📍 Romania   
✉ [Nicolae.Covrig@raiffeisen.ro](mailto:Nicolae.Covrig@raiffeisen.ro)

## ANASTASIA BAYKOVA

📍 Russia   
✉ [ABAIKOVA@raiffeisen.ru](mailto:ABAIKOVA@raiffeisen.ru)

## LJILJANA GRUBIC

📍 Serbia   
✉ [ljiljana.grubic@raiffeisenbank.rs](mailto:ljiljana.grubic@raiffeisenbank.rs)

## OLEKSANDR PECHERYTSYN

📍 Ukraine   
✉ [oleksandr.pecherytsyn@raiffeisen.ua](mailto:oleksandr.pecherytsyn@raiffeisen.ua)

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