# BOP REPORT

*20 November 2013*

## *Further improvement in external imbalances, external debt started to decrease*

- The 12M CA deficit decreased to 1.2% of the GDP in Q3 from 1.6% a quarter and 4.4% a year ago because the trade deficit declined heavily as exports managed to rise while imports fell on weak domestic demand
- The 12M rolling net financing capacity (NFC) – that shows the volume of repaid or absorbed amount of foreign liabilities – turned into a surplus of EUR 0.7 bn or 0.5% of GDP. The main drivers of the adjustment were the improvement in the fiscal balance and the fall in investment ratio.
- NFC was positive, however decreasing net FDI inflow with the positive NFC resulted in the fact that Romania could pay back debt of EUR 2.6 bn in net terms.
- Gross external debt without intercompany lending decreased to EUR 78 bn from EUR 80 bn a year ago (or from 61% of GDP to 56%). Short term external debt fell to EUR 19.4 bn from EUR 20.9 bn as banks continued to deleverage.
- We expect the CA deficit to widen next year from 0.6% to 1%, as domestic demand picks up. The external financial capacity is likely to deteriorate though, as recent history shows that it is more difficult to see steady progress in absorption of EU funds. But with nominal GDP growing we expect debt ratios compared to GDP to decrease further.

**The current account deficit** sank further to 1.2% of the GDP, according to our calculation, based on 12M rolling data. We have witnessed a continuous shrinking of the external imbalance this year, from 4.4% in September 2012 to the current 1.2%, as the trade gap (goods) narrowed from 5.7% in September 2012 to 3.1% in GDP in September 2013 (based on 12M rolling data).

**The net financial capacity** (C/A + capital balance + NEO) that shows the volume of repaid or absorbed amount of foreign liabilities has constantly improved this year and – turned into a surplus for the first time in the last decade reaching EUR +0.7 bn or 0.5% of GDP. This evolution was a result of the shrinking external imbalance and higher capital transfers. Capital transfers improved this year, especially EU transfers to the public administration which almost doubled in the first 9M of 2013 against the similar period in 2012. They were largely influenced by the unblocking of most operational programs as of June. The underlying real processes behind the improvement of the investment-saving balance are the decreasing fiscal deficit (from 4.3% of GDP in September 2012 to 2.8% in September 2012) and the decrease in investment activity parallel with weaker corporate lending.

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**Financing:** As in Q3 net FDI flow was negative 12M rolling numbers fell to EUR 1.9 bn (-27% YoY). But as a consequence of a positive NFC, non FDI flows reached EUR -2.6 bn (12M rolling).

**Total gross external debt decreased from EUR 100.2 bn in September 2012 to EUR 98.5 bn in September 2013.** Gross external debt without intercompany lending decreased to EUR 78 bn from EUR 80 bn a year ago (or from 61% of GDP to 56%). Short term external debt fell to EUR 19.4 bn from EUR 20.9 bn as banks continued to deleverage. **Net debt repayment was EUR 2.6 bn in one year.**

**We expect the CA deficit to widen next year from 0.6% to 1%, as internal demand picks up.** The external financial capacity is likely to deteriorate though, as recent history shows that it is more difficult to see steady progress in absorption of EU funds.

**Chart 1: Current Account (1)**

*The CA deficit shrank to -1.2% in GDP (12M rolling), as the trade gap declines*

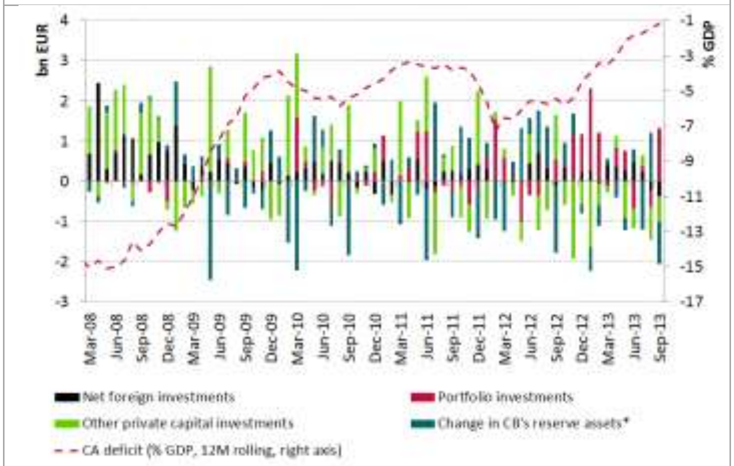



**Chart 2: Current Account (2)**

*The trade gap(goods) declined more than half during the first 9M, as imports retreated due to weak internal demand*

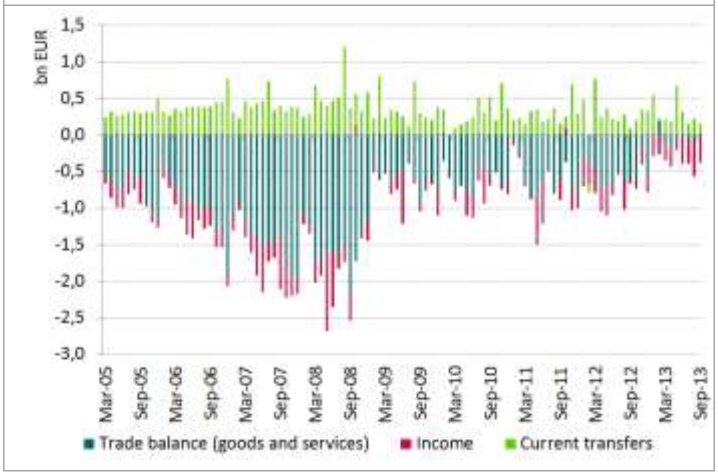



**Chart 3: EU funds' evolution**

*12M rolling data shows EU funds absorption improved*


*Source: NBR, OTP Research*

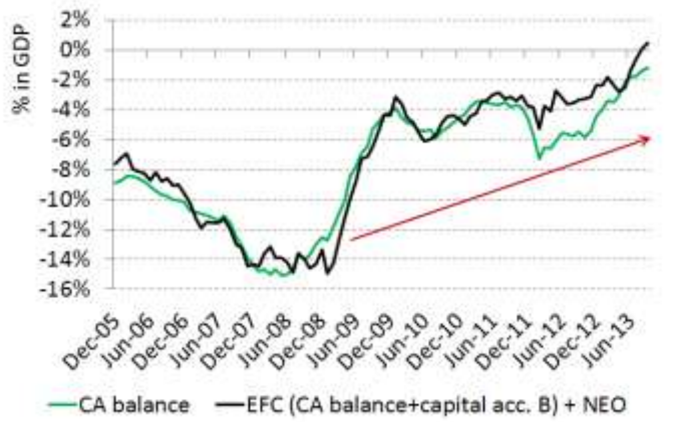
**Chart 4: FDI**

*The FDI are still declining at fast pace*


*Source: NBR, OTP Research*

**Chart 5: Main indicators of external balance** (% in GDP)

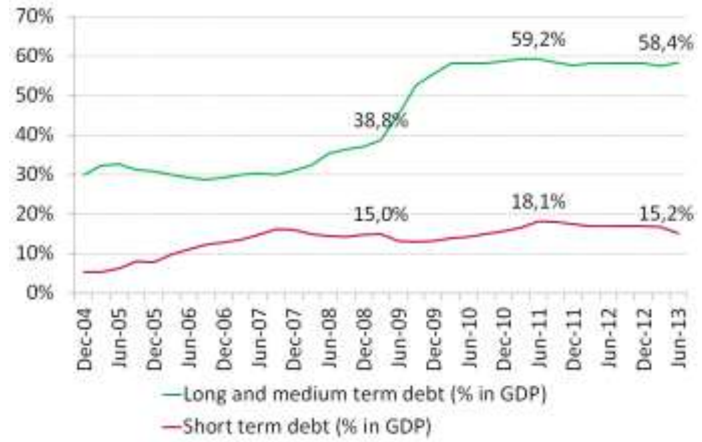
*The external financing capacity became positive*




*Source: NBR, OTP Research*

**Chart 6: Indicators of external indebtedness**

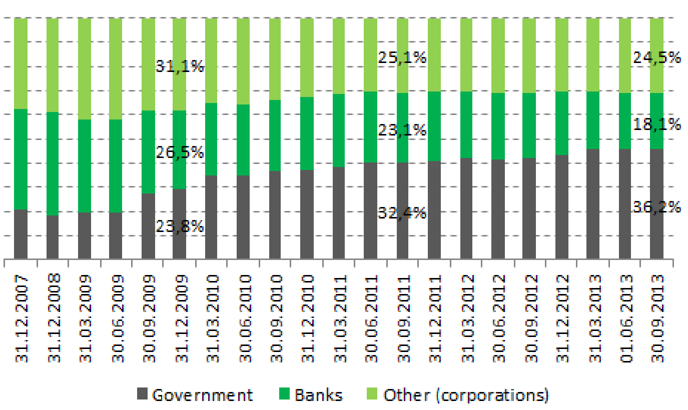
*External indebtedness falls as banks and corporations repay their debt; public debt increased this year*




*Source: NBR, OTP Research*

**Chart 7: The structure of gross external debt**

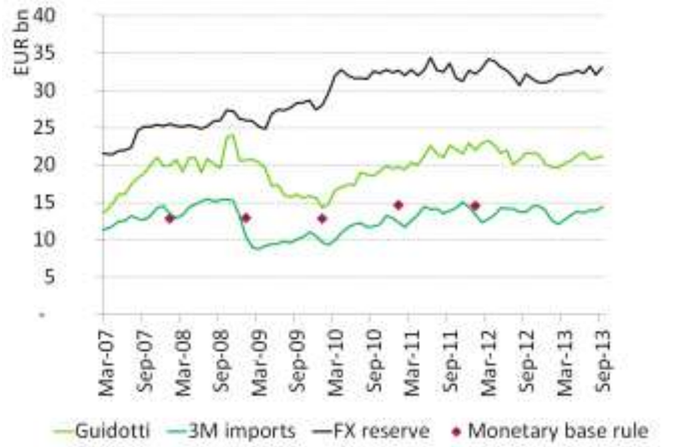
*More than one third of the external debt is held by the government*




*Source: NBR, OTP Research*

**Chart 8: FX Reserve adequacy**

*The FX reserves are adequate by most of the used measures*




*Source: NBR, OTP Research*

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