BOP REPORT

19 February 2014

CA deficit shrank to 1.1% in 2013; net financing capacity is in good shape at 2% of GDP

- Romania's current account deficit likely ended the year at 1.1% of GDP, down from 4.4% in 2012. The main adjustment comes from the shrinking of the trade deficit from 5.6% to 2.5% in 2013;
- The net financial capacity (C/A + capital balance + NEO) saw a drastic improvement in 2013 and turned to a surplus of 2% of GDP from 2.4% deficit a year ago;
- As FDI mounted by 17% YoY, net debt repayment was 4% of GDP (EUR 5.5 bn) in one year;
- Gross external debt without intercompany lending fell to EUR 75 bn (or 53% of GDP) from EUR 79 bn (or 60% of GDP) in December 2012. Banks continued to deleverage while public external debt mounted by nearly EUR 4 bn;
- Short-term external debt fell to EUR 19.5 bn. FX reserves are adequate and stand at EUR 32.5 bn (Dec 2013);
- In 2014, we expect a cyclical widening of CA deficit to 2%. Consequently, a deterioration of the external financing capacity is in the cards, as EU funds will probably not outperform 2013, especially since the political focus this year seems to fall on the presidential elections and the governing USL coalition gives signs of exhaustion.

Current account deficit likely ended the year at 1.1% of GDP, down from 4.4% in 2012. The main adjustment comes from the shrinking of the trade deficit from 5.6% to 2.5% in 2013.

Net financing capacity (C/A + capital balance + NEO) saw a drastic improvement in 2013 and turned to a surplus of 2% of GDP in Q4 2013, from a 2.4% deficit a year ago. Especially in the second half of the year, we saw positive figures, in line with the increased absorption of EU funds. For 2014, the state budget is focused on continued and sustained EU funds absorption but on the other hand we also expect a cyclical widening of the CA deficit. Unfortunately, the data bears not only good news: Romania managed to achieve this result through fiscal consolidation, lower investments of the private sector and scarce lending to the corporate sector.

Financing: The revised data show that quarterly FDI flows were positive in 2013. The most significant were Q2 and Q4 in terms of flows: of the total yearly amount of EUR 2.6 bn (+17% YoY), net flows stood at EUR~ 900 mn in Q2 and at EUR 1.1 bn in Q4, respectively. Portfolio investments were significant this year as well, at EUR 3.8 bn, and net outflows (EUR 650 mn) were recorded in Q4.

Total gross external debt continued to drop, to EUR 96.4 bn from EUR 99.7 bn in December 2012 and from EUR 99.4 bn in June 2013**. Banks are deleveraging** (Chart 7) and their external debt fell to EUR 17.5 bn from EUR 20.7 bn in December 2012. **The government added nearly EUR 4 bn in external debt in 2013**, in a year when repayment to the IMF reached a peak of around EUR 5 bn. Gross external debt without intercompany lending fell to EUR 75 bn (or 53% of GDP) from EUR 79 bn in December 2012 (or 60% of GDP). Short-term external debt fell to EUR 19.5 bn from EUR 20.9 bn in December 2012. **Net debt repayment was EUR 5.5 bn in one year**.

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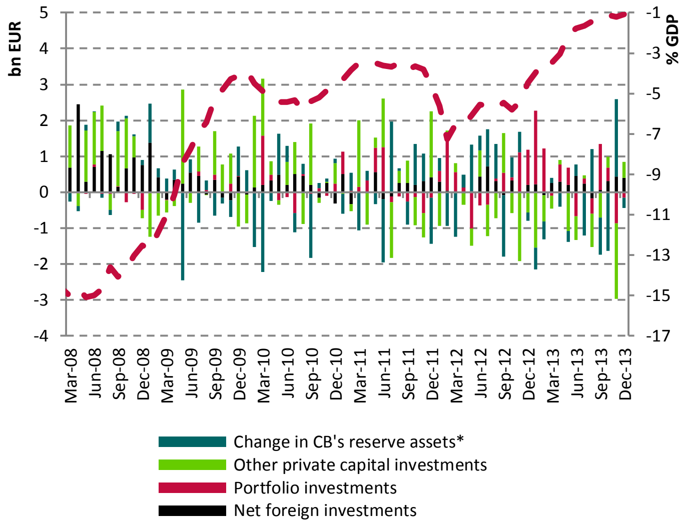
In 2014, we foresee a widening of the CA deficit to 2% from the current 1.1% as internal demand is expected to pick up and push up imports. It follows that the net financial capacity will deteriorate slightly, as EU funds will probably not outperform 2013, especially since the political focus this year seems to fall on the presidential elections and the governing USL coalition gives signs of exhaustion.

Chart 1: Current Account (1)

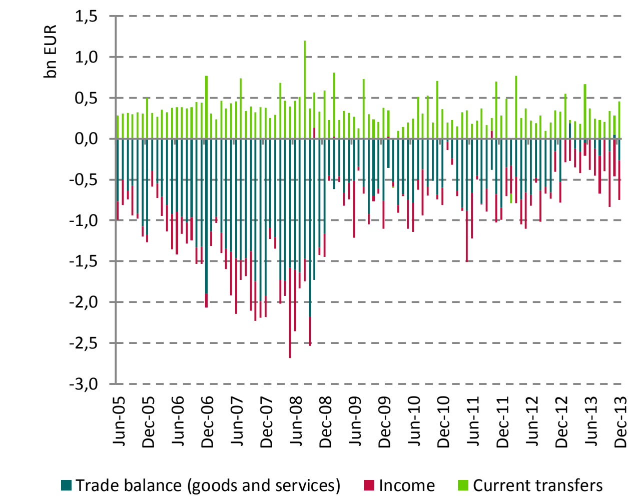
CA deficit shrank to 1.1% in GDP (12M rolling)



Sources: NBR, OTP Research

Chart 2: Current Account (2)

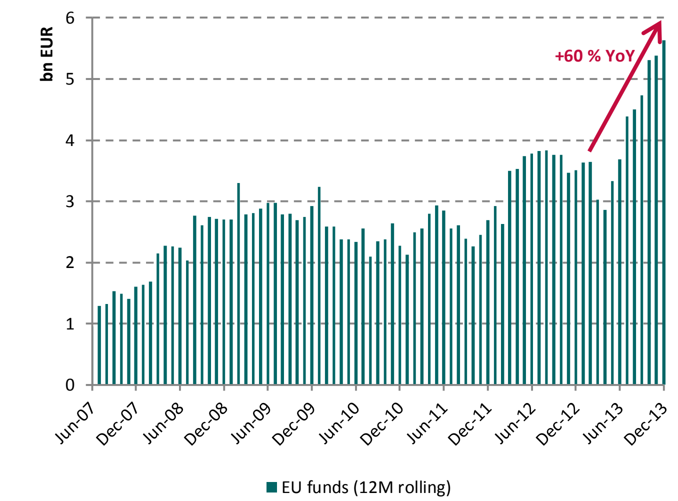
Trade gap declined by more than half in 2013



Sources: NBR, OTP Research

Chart 3: EU funds' evolution

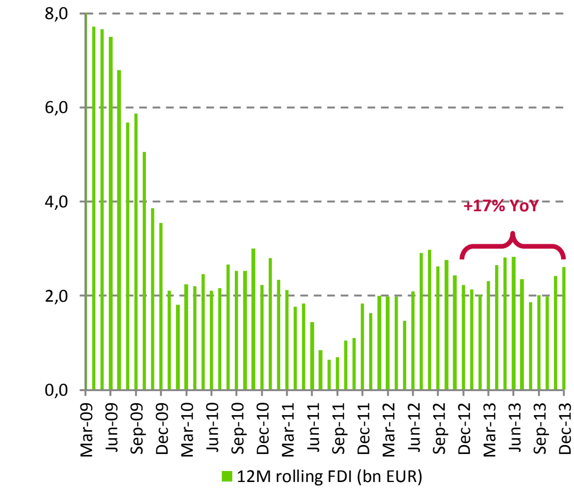
EU funds absorption on much better footing



Sources: NBR, OTP Research

Chart 4: FDI

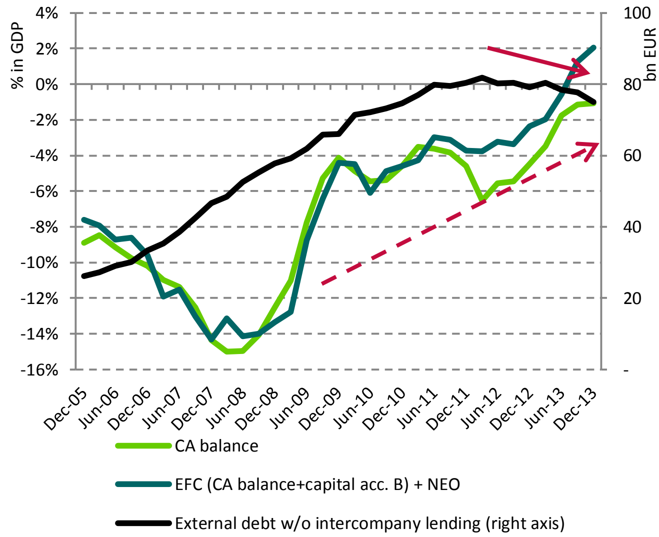
Net FDI took off in 2013



Sources: NBR, OTP Research

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

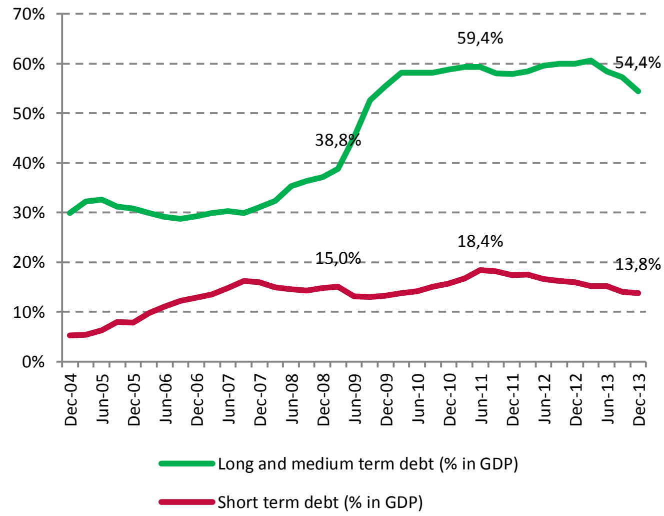
The external financing capacity touched 2% in GDP



Sources: NBR, OTP Research

Chart 6: Indicators of external indebtedness

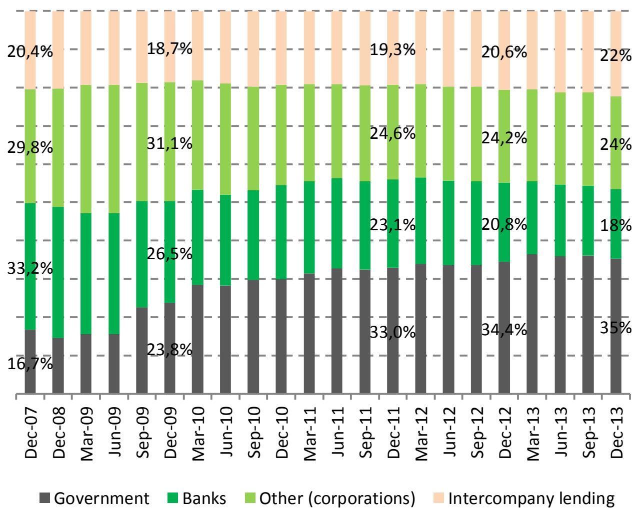
External indebtedness falls, both short term and long term



Sources: NBR, OTP Research

Chart 7: The structure of gross external debt

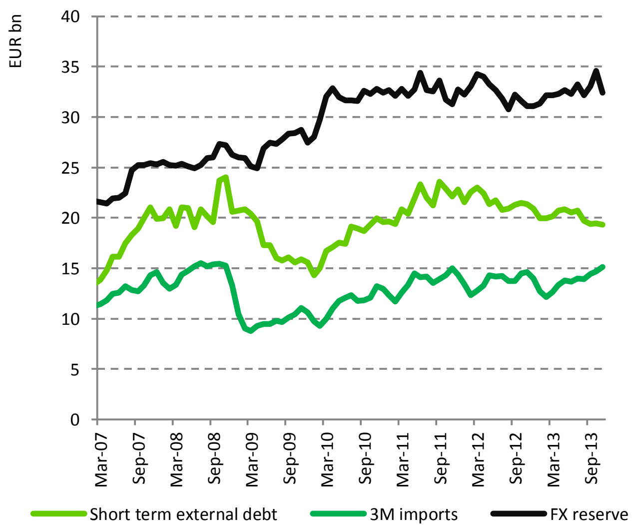
Banks continued deleveraging in 2013; intercompany lending gains importance



Sources: NBR, OTP Research

Chart 8: FX Reserve adequacy

FX reserves are adequate



Sources: NBR, OTP Research

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