

ROMANIA'S CURRENT ACCOUNT DEFICIT IN 2016 ELECTIONYEAR

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Abstract

To correct the serious imbalances accumulated before the crisis from 2010 to 2014 there were a number of tough but necessary reforms that have resulted in today's macroeconomic situation.

The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purposes that started in the middle of 2015. Enforcing them would pose a risk to financial stability or a danger to economic performance. One of the risks that could materialize in this case is the risk of the current account deficit.

The evolution of the current account deficit, however, drew attention because of the level reached at the end of last year. The revised data of the National Bank of Romania show a deficit of 2.662 billion euros in the first nine months of 2016.

National Commission for Prognosis (CNP) provides data on government bases its budget projections. For 2016 it is estimated a current account deficit of 3.75 billion euros, double the 2015 level.

Keywords: risk, debt, trade deficit, current account deficit

JEL Classification: H1, H12, H6, H62, H63.

1. INTRODUCTION

The convergence criteria (known as the Maastricht criteria) allow EU member states to enter the third stage of European Economic and Monetary Union (EMU), when they can adopt the euro. Maastricht criteria are considered a necessary precondition, but not sufficient for adopting the euro.

Romania meets all five criteria of the Maastricht: inflation, interest on long-term budget deficit, public debt and exchange rate stability.

Also, Romania along with Rep. Czech and Poland fulfills 13 of the 14 criteria contained in the so-called "Dashboard", it followed by EU. From EU Member States, fewer criteria than Romania are met by Germany, the Netherlands, Austria, Sweden, and Finland.

Romania is developing in an international context, so any improvement in macroeconomic parameters mean more funding but at smaller interests; any decreasing in macroeconomic parameters will cause investors to direct investment in other countries.

2. DYNAMICS OF CURRENT ACCOUNT

In 2015, trade flows and external financial developments in Romania have created pressures on financial stability.

The evolution of the current account deficit, however, drew attention because of the level reached at the end of last year. Improving export competitiveness of domestic and capacity in the medium and long Romanian companies to export, including through energy efficiency (which remains below the European average) remain important targets for keeping the external deficit at a manageable level and ensuring that the development durable.

The dynamics of the current account deficit of Romania in the period 2010-2020 is presented in annex 1 and 2.

As can be seen from the data presented in the two annexes in the analyzed period the current account deficit of Romania permanently displayed an upward trend except 2013-2015. For this period there will be a deeper analysis of official statistics published by National Commission for Prognosis (CNP).

In 2015, the current account deficit of the balance of payments was 1 944 million, representing 1.2 percent of GDP, compared to 0.7 percent of GDP last year.

The evolution of the current account in 2014 was favorably influenced by the 24.8% increase in services surplus and deficit reduction by 34.8% of primary income.

The current account deficit in 2015 was influenced by an increase of 84.3% and primary income deficit increased by 19.2% percent of the goods deficit. These were partially offset by higher income balance surplus by 65.8% secondary and net service revenue increased by 15.8%.

The trade balance deficit recorded in the period 2014-2015 increased by 20.1% and 6.6% compared to 2013 and 2014 to 6537 million euros and 7.795 billion euros. Exports rose by 6.7% and imports by 8.2%, the trade balance deficit to GDP remained unchanged at 4.4% for 2014.

In 2015, exports and imports increased by 6.7% and the trade balance deficit ratio to GDP remained unchanged 4.7%. The structure of the balance trade balance by groups of goods reveals deficits: chemicals, plastics, mineral products, base metals, textiles, footwear. The trade balance deficit was generated entirely by intra while the relationship with the markets outside its registered a surplus.

The coverage of imports by exports in the period 2014-2015 was 87.7% and the openness of the economy declined from 74.8% in 2013 to 63.84% in 2015.

Exports of goods in the years 2014-2015 amounted to 46 814 million, 49 909 million, up 6.7%, respectively 2935 million and 3.095 billion euros, amid strengthening external demand the European Union.

Compared to the years 2013-2014, the structure by groups of goods exported goods reflects increasing share of exports of machinery, equipment and means of transport of agricultural products and other goods.

Imports of goods in the period 2014-2015, totaled 53 351 million, EUR 56.894 billion increasing by 8.2% compared to 2013 and 6.6% compared to 2014. Increase in import value was 4029 million, respectively 3543 million. Structure of imports by commodity groups reflects the increased share of imports of base metals and the textile, clothing, footwear.

The surplus of the services balance in 2014 totaled 5868 million euros compared to 4700 million in 2013, following positions recorded increases: processing services, property owned by third parties, transport of goods (mainly cars), computer services and information, professional and managerial advisory services, civil engineering services.

In 2015 the surplus of the services balance amounted to 6796 million compared with 5868 million in 2014, strengthening it from increasing proceeds from: Road transport of goods, services, processing services assets owned by third parties, services.

Primary income deficit in 2014 totaled 2029 million euros, 34.8% higher value compared to 2013, mainly due to lower other investment income deficit, easing of interest payments on foreign loans and the increase in value European funds received in grants (European Agricultural Guarantee Fund).

2015 primary income deficit widened to 3739 million euros, 84.3% higher value compared to 2014 mainly due to income from direct investment and portfolio.

Secondary income account surplus in 2014 totaled 1685 million euros, down 37.3%, mainly due to lower volume of inflows of EU funds in the form of current transfers (in particular the European Social Fund).

2015 secondary income balance surplus totaled 2793 million euros, up 65.8%, mainly due to a higher volume of inflows of EU funds such as current transfers (European Social Fund, the European Agriculture and Rural Development)

3.RISK OF CURRENT ACCOUNT DEFICIT OF ROMANIA

The current account deficit of the balance of pay after an attenuation in the second quarter increased in the first nine months of 2016, (table 1) recording a deficit - an increase of two and a half times to 2.661 billion euros compared with a deficit of 1.099 billion of euros in the same period of 2015. This deficit increased mainly due to the deteriorating trade balance and strong growth in remittances by foreign investors, repatriation of dividends by foreign companies, according to BNR data.

Contrary to expectations, this deficit was recorded amid an economic advance accelerated to 4.3 percentage points in the first quarter and by 6 percentage points in the second quarter. The current account of balance of payments records the amounts received and the amounts paid by Romania in international economic relations with the other states. External component based heavily deficient contribute to increasing current account deficit.

Although the first three quarters of this year has seen a significant increase in GDP, given the significant increase of income, the deficit in trade in goods got wider from about 5 billion euros to 6.4 billion euros for the same period of year 2015.

Increasing current account deficit was due to trade in goods (88% of the increase in the deficit), the domestic industry is not able to take fast enough additional demand from the population, and not having external demand which offset the overall balance of goods.

Data published official statistics (annex 3) show that the balance of goods, as a part of the current account balance of payments deficit has increased this year to 6.93 billion euros. The trade deficit (calculated FOB / CIF) in the first nine months of this year was 25.1 percentage points higher compared to the same period of 2015.

The trade deficit (calculated FOF / FOB) in the first nine months of this year was 27.2 percentage points higher compared to the same period of 2015, reaching 6.4 billion euros. The difference between the two trade deficits as a way computing is mainly transportation cost.

Table 1.CURRENT ACCOUNT BALANCE OF PAY

Components	2015 (January to September) *			2016 (January to September) *		
	Credit	Flow	Hip	Credit	Flow	Hip
1. CURRENT ACCOUNT	55 162	56 262	1099	57 971	60 632	2662
A.Bunuri and services	49 068	49 081	-11	51 758	52 498	-740
A.1. Goods	36 879	41912	5031	38 736	45137	6400
A.2.Servicii	12 189	7168	5021	13 023	7366	5659

Processing services for goods owned by third parties	1864	124	1741	1924	145	1778
Transport services	3843	1336	2508	4039	1359	2679
Tourism / Travel	1158	1402	-243	1193	1440	-246
Other services	5323	4307	1016	5867	4420	1447
B. Revenue primary	2101	5059	2957	2194	5993	3802
C. Secondary Income	3992	2124	1870	4019	2141	1880

Note: According to the Handbook balance of payments and international investment position IMF-sixth edition (BPM6)

Data Source: National Institute of Statistics - International trade in goods; NBR calculations.

Imports FOB are calculated by the NBR based on coefficient CIF / FOB conversion of 1.0430 set by the NIS. 89

Reducing the deficit in the services balance was due to the increase by 13 percentage points from last year thus adjusting the deficit by 5.66 billion euros. The surplus recorded balance of services reached 5.66 billion increasing by 12.7 percentage points compared to the same period January-September 2015. The positive balance of services started to not cope with the negative of hip segment assets.

Primary income balance recorded a deficit of 28.5 percentage points more than in January-September 2015. This balance includes mainly dividends repatriated by investors and in the first nine months, a deficit of 3.8 billion euros of which 1 only billion in September.

Primary income deficit of 3801 million euros has increased because of its growth by 30 percentage points on primary income segment, mainly on account of direct investment income, portfolio recover money that is brought into the country in the form of profits transferred abroad -54 % of growth deficit (sum of 88% of trade in goods and 54% was mitigated by the positive impact of 41% service).

Secondary income balance recorded a surplus of 0.6 percentage points higher in the period January-September 2015 reached 1.88 billion euro. This balance also includes European funds received by Romania.

According to data published by official statistics, the current account deficit of the balance of payments kept growing trend in 2016. If in 2015 Romania's external deficit increased 2.5 times compared to 2014 reaching 1.83 billion euros in 2016 this increase - 2.5 times - has already been registered in the first nine months.

Growth was forced sore domestic consumption and an increase in imports. Current account share in GDP was recorded by official estimates already after the first three quarters.

The revised data of the National Bank of Romania show a deficit of 1.1 billion euros and 2.662 billion euros in the first nine months of 2015, and 2016.

CONCLUSIONS

National Commission for Prognosis (CNP) provides data on government bases its budget projections. For 2016 it is estimated a current account deficit of 3.75 billion euros, double the level of 2015.

The central bank's financial stability reports contain a full analysis and risks that could severely damage the economic macro stability, financial stability.

To correct the serious imbalances accumulated before the crisis in the years 2010-2014 were taken a number of tough but necessary reforms that have resulted in today's macroeconomic situation. If the lessons of the crisis are ignored, forgotten all that has been achieved with so much effort, sacrifice will be lost, will be canceled. The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purposes started in mid-2015.

Intensifying populist legislative initiatives on the line from the middle of last year until now, pose a risk to financial stability or a danger to economic performance. One of the risks that could materialize in this case is the risk of the current account deficit.

Romania is developing in an international context, so any improvement in macroeconomic parameters mean more funding and less expensive abundance and their deterioration will cause investors to direct investment in other countries.

This paper has been developed within the period of sustainability of the project entitled ***“Horizon 2020 - Doctoral and Postdoctoral Studies: Promoting the National Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research”***, contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**

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Annex 1. MACROECONOMIC INDICATORS 2010 - 2014

MACROECONOMIC INDICATORS 2010 - 2014 CURRENT ACCOUNT BALANCE OF PAYMENTS					
	2010	2011	2012	2013	2014
Current account	-5492	-5923	-5843	-1168	-1013
Receipts	50 903	59 534	60659	65 158	68 768
Payment	56 395	65 457	66502	66 326	69 781
1. The balance of goods and services	-7170	-7054	-6249	-743	-669
Export	43 982	52 545	53 472	57 306	61 916
Import	51 152	59 599	59 721	58 049	62 585
1.1 Trade Balance	-7575	-7394	-7379	-5443	-6537
Export	37360	45 292	45070	43 879	46 814
Import	44 935	52 686	52449	49 322	53 351
1.2 Balance of services	405	340	1129	4700	5868
Export	6622	7253	8402	13427	15102
Import	6217	6913	7273	8727	9234
2. Balance of primary income	-1916	-2207	-3025	-3112	-2029
Export	923	1274	1380	2505	2300
Import	2839	3481	4405	5617	4329
3. Secondary income balance	3594	3338	3431	2687	1685
Receipts	5998	5715	5807	5347	4552
Payment	2404	2377	2376	2660	2867
Current account / GDP%	-3.86	-4.41	-4.47	-0.94	-0.68
GDP billion. lei	637 456	595 367	565 097	533 881	667 577
GDP billion. euro	142,140	134,434	130,819	124,599	148,943
course lei / euro	4.4847	4.4287	4.3197	4.2848	4.4821
openness of ec.	57.90	72.88	74.55	74.80	67.25

Note: National Commission for Prognosis, "Projection of main macroeconomic indicators for the period 2010-2014"

**Annex 2. PROJECTION MAIN MACROECONOMIC INDICATORS
2015 - 2020**

PROJECTION MAIN MACROECONOMIC INDICATORS 2015 – 2020 CURRENT ACCOUNT BALANCE OF PAYMENTS						
	2015	2016	2017	2018	2019	2020
Current account	-1945	-3755	-4045	-4370	-4530	-4650
Receipts	73 795	76120	81 185	86505	92 455	98 950
Payment	75 740	79 875	85230	90 875	96 985	103600
1. The balance of goods and services	-999	-2080	-2670	-3280	-3565	-3680
Export	65742	68 520	72 920	77 770	83 380	89 450
Import	66 741	70600	75 590	81050	86 945	93 130
1.1 Trade Balance	-7795	-9380	-10 950	-12 630	-14 150	-15 570
Export	49 099	51520	54600	58 050	62100	66550
Import	56 894	60900	65 550	70 680	76 250	82120
1.2 Balance of services	6796	7300	8280	9350	10585	11890
Export	16 643	17000	18320	19720	21280	22900
Import	9847	9700	10040	10370	10695	11010
2. Balance of primary income	-3739	-4575	-4250	-4200	-4200	-4410
Export	2353	2000	2250	2400	2500	2690
Import	6092	6575	6500	6600	6700	7100
3. Secondary income balance	2793	2900	2875	3110	3235	3440
Receipts	5700	5600	6015	6335	6575	6810
Payment	2907	2700	3140	3225	3340	3370
Current account / GDP%	-1.23	-2.24	-2.24	-2.27	-2.21	-2.15
GDP billion. lei	712 800	758 500	807 400	861 600	916 600	977 200
GDP billion. euro	157,543	167,303	180,659	192,588	204,717	216,602
course lei / euro	4.5245	4.5337	4.4692	4.4738	4.4774	4.5115
openness to ec.	67.28	67.20	66.51	66.84	67.58	68.64

Note: National Commission for Prognosis, "Projection of main macroeconomic indicators for the period 2016-2020
According NCP – november 2016

Annex 3.CURRENT ACCOUNT BALANCE OF PAYMENTS

Components	2015 (January to September) *			2016 (January to September) *		
	Credit	Flow	Hip	Credit	Flow	Hip
1. CURRENT ACCOUNT	55 162	56 262	1099	57 971	60 632	2662
A.Bunuri and services	49 068	49 081	-11	51 758	52 498	-740
A.1. Goods	36 879	41 912	5031	38 736	45 137	6400
package freight	36 858	41 912	5048	38 741	45 137	6393
Merchanting - net export	20	-	20	-6	-	-6
Merchanting - goods purchased	-154	-	-154	-197	-	-197
Merchanting - goods sold	175	-	175	193	-	193
A.2.Servicii	12 189	7168	5021	13 023	7366	5659
Processing services for goods owned by third parties	1864	124	1741	1924	145	1778
Transport services	3843	1336	2508	4039	1359	2679
Tourism / Travel	1158	1402	-243	1193	1440	-246
Construction services	274	85	186	293	75	219
Insurance and pension funds	59	174	-112	52	173	-122
Financial services	180	199	-21	167	194	-25
Fees for use of intellectual property	58	522	-468	50	565	-515
Telecommunications, computer and information	1938	853	1083	2259	900	1357
Other business services	2495	2127	369	2717	2205	513
Personal, cultural and recreational	57	37	20	55	45	11
Goods and government services, nec	61	77	-17	58	84	-25
B. Revenue primary	2101	5059	2957	2194	5993	3802
Compensation of employees	444	30	412	513	45	469
Investment income	236	4930	4694	417	5789	5376
Direct investment income	-25	3248	3271	52	4152	4098
Portfolio investment income	81	781	-697	109	884	-774
Income from other investments	41	902	-860	31	756	-725
Income from reserve assets	135	-	135	223	-	223
Other primary income	1421	98	1325	1262	158	1104
C. Secondary Income	3992	2124	1870	4019	2141	1880
Public administration	1178	1259	-83	1442	1147	296
other sectors	2815	864	1950	2579	992	1586

Note: According to the Handbook balance of payments and international investment position IMF-sixth edition (BPM6)