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Focus Notes: Romania

Romania: Signs of current account reversal in Romania

- ✓ NBR announced in the past week the balance of payments for the first quarter. The current account deficit shows signs of reversal in Romania. The current account deficit widened by 65% to €1.5bn in Q1 2010 against € 0.9 bn in Q1 2009. The current account stood at 1.2% of the projected full year GDP against 0.8% at the same period last year.
- ✓ The good news is that trade dynamics continue to improve, yet at a slower pace compared to the first two months. Exports continue their robust rebound by 19.3% yoy compared to 20% in the first two months. The recovery in Euro area where the majority of exports is heading to, coupled with the weakened RON drives the exports rebound.
- ✓ In contrast, imports picked up by 11% in Q1 against 7% in the first two months. The revival of imports is closely tied to the rebound in exports. A large part of imported materials is used as inputs for exported goods because of insufficient domestic industrial capacity. As a result, the trade deficit declined by 24% yoy in Q1.
- ✓ The balance of services recorded a €273 mn deficit which is three times higher than last year. This was generated mostly by the sector of tourism (€119 mn) as a result of fewer visits in the country. If the balance of services is included, then the trade deficit of goods and services decline is contained at 10% yoy at the same period.
- ✓ The bad news is that the current transfers' surplus appears to have declined by 63% yoy at the same period. The current account transfers surplus was traditionally the item that reduced the current account deficit. Declining remittances and low EU funds' absorption was the main culprit behind this development.
- ✓ The economic crisis had a negative impact on remittances. Remittances from Romanian workers abroad in Italy and Spain were 38% yoy less. In addition, EU funds net inflows appear to have decreased because of low absorption in March and the effect of Romania's contribution in the EU budget. However, we will be looking for more data in the coming months to see if this is going to be the trend for the rest of this year.

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| mn Euros | Q1 2009 | | | Q1 2010 | | | % |
|--------------------------------------|---------|--------|---------------|---------|--------|---------------|-------------|
| CURRENT ACCOUNT | 10,525 | 11,435 | -910 | 10,642 | 12,148 | -1,506 | 65% |
| A. Goods & Services | 8,280 | 9,891 | -1,611 | 9,220 | 10,662 | -1,442 | -10% |
| a. Goods (exports fob - imports fob) | 6,601 | 8,148 | -1,547 | 7,879 | 9,048 | -1,169 | -24% |
| b. Services | 1,679 | 1,743 | -64 | 1,341 | 1,614 | -273 | 327% |
| - transport | 482 | 459 | 23 | 410 | 480 | -70 | |
| - tourism - travel | 200 | 214 | -14 | 115 | 234 | -119 | |
| - other | 997 | 1,070 | -73 | 816 | 900 | -84 | |
| B. Incomes | 309 | 827 | -518 | 207 | 725 | -518 | 0% |
| C. Current transfers | 1,936 | 717 | 1,219 | 1,215 | 761 | 454 | -63% |

- ✓ On the financing side, net FDI inflows plunged by 65% yoy to €750 mn. At the moment, net FDI inflows cover 50.1% the current account shortfall compared to 162% in Q1 2009
- ✓ In our view, the data confirm our expectations of a swift reversal in the current account dynamics in Romania. This is in line with our forecast of current account deficit at 5.5% of GDP in 2010, up from 4.5% in 2009.
- ✓ Yet there is one more implication: Although we don't anticipate the current account pick up to exert downward pressure on the local currency. However, its dynamics will certainly not help the RON in appreciating.

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