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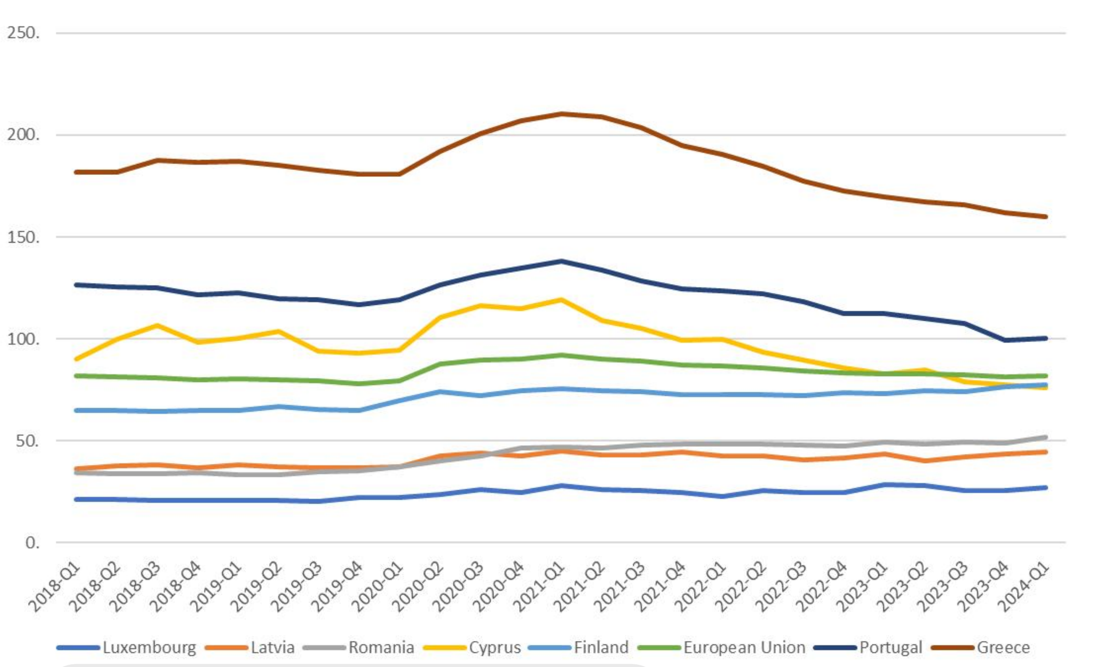
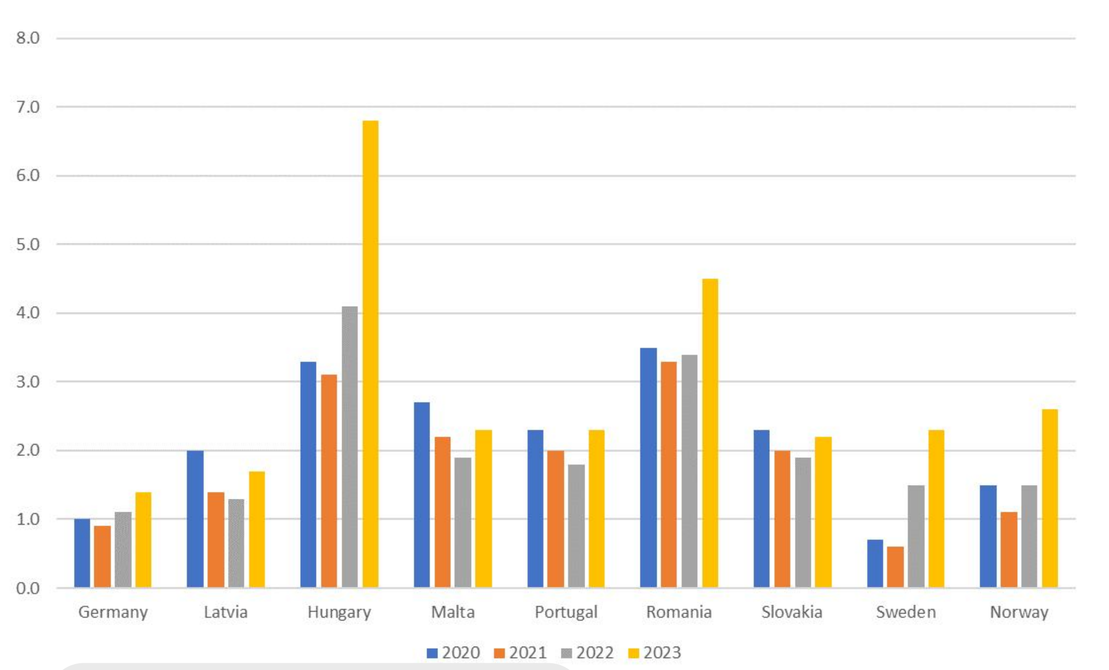


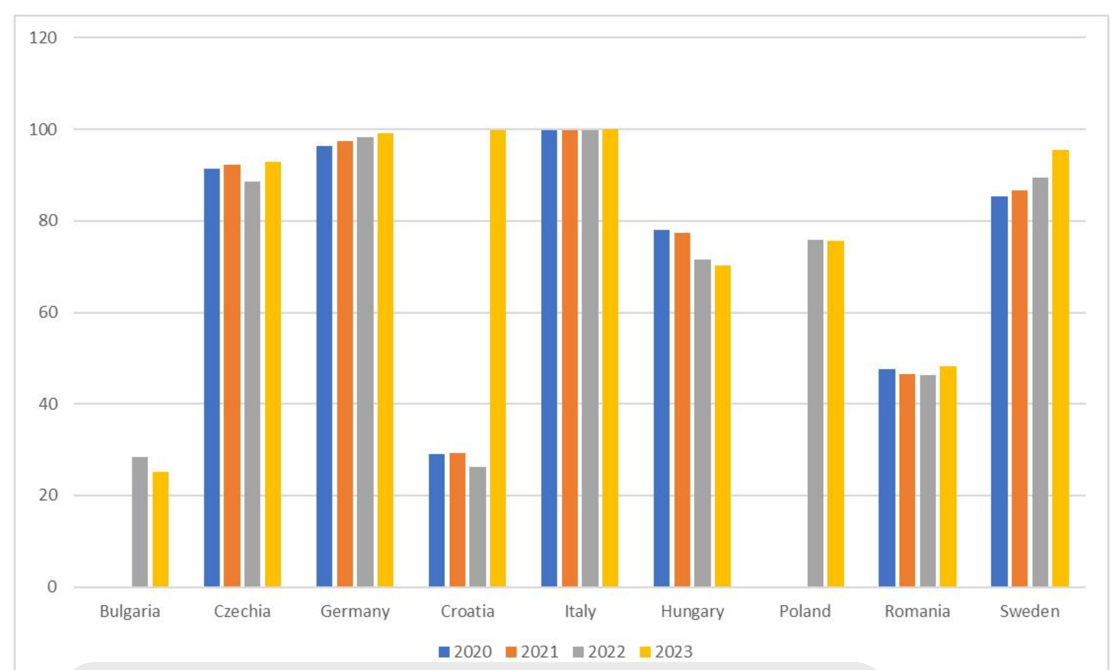
Governments debt % of GDP

Source: Eurostat



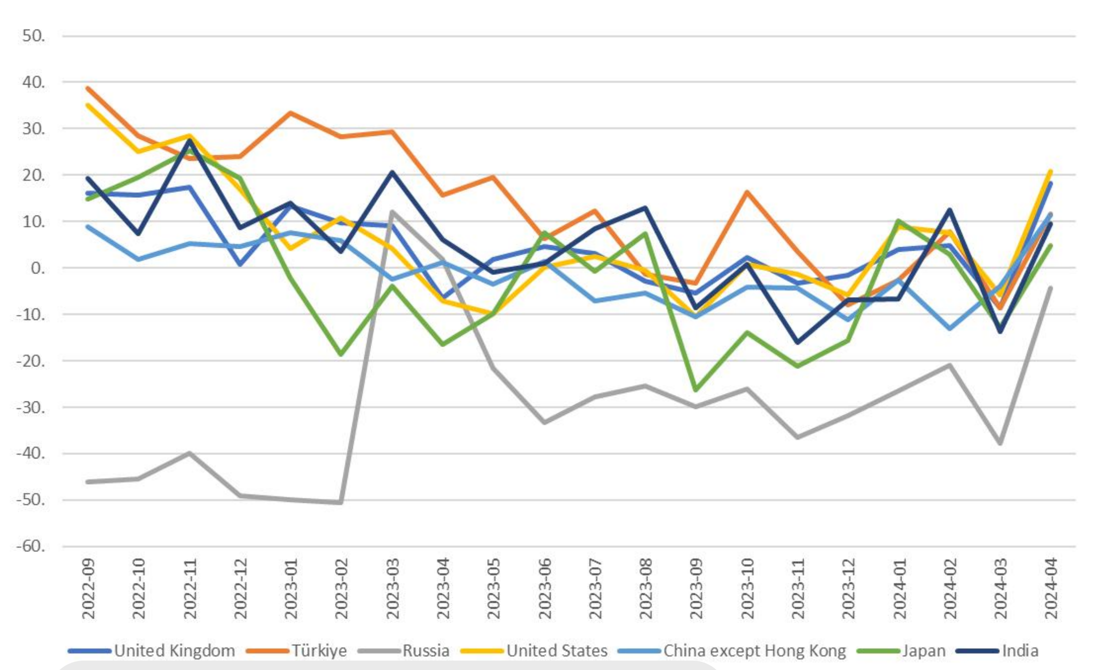
Apparent cost of debt %

Source: Eurostat



Percentage of debt by national currency

Source: Eurostat



EU Exports Growth Rate % YoY

Source: Eurostat

DEBT STRUCTURE AND TRADE BALANCE

Government Debt Structure

Romania's general government debt as a percentage of GDP has shown fluctuations in recent years. As of the latest data, Romania's debt-to-GDP ratio is close to 52%, which is relatively moderate compared to the EU average of approximately 90%. But the trend is opposite to the EU's. While the average EU level of debt decreased from 90.8% of GDP at the end of 2022 to 88.6% at the end of 2023, Romania's debt has increased by +1.8 pp. Between 2022 and the end of 2023, 18 EU countries registered decrease in the debt to GDP ratio and 9 countries registered increase. The largest decreases were in Portugal (-13.3pp), Greece (-10.8pp), and Cyprus (-8.3pp), while the largest increases were in Finland (+2.3pp), Latvia (+1.8pp), and Romania (+1.3pp). At the end of 2023, 13 out of 27 EU countries reported ratios higher than 60 % and five recorded debt-to-GDP ratios higher than 100% (Greece, Italy, France). The lowest ratios were recorded by Estonia (19.6%), Bulgaria (23.1%), and Luxemburg (25.7%).

In Romania, the central government holds the majority of the general government debt, similar to most EU countries. The local and state government debts are minimal, emphasizing the centralization of fiscal responsibilities. This distribution aligns Romania with other EU member states, where central governments typically bear the largest debt burden. The impact of consolidation, which eliminates inter-subsector liabilities within the general government, reduces Romania's overall reported debt by a small margin. This indicates limited internal borrowing between different government levels, suggesting a relatively straightforward debt structure.

A breakdown by financial instrument points that the government debt is predominantly composed of debt securities, reflecting a preference for market-based borrowing mechanisms. Loans also constitute a significant part, highlighting direct borrowing from financial institutions and international bodies. This mix of financial instruments is consistent with practices observed across the EU. Data for the end of 2023 shows that for the EU, debt securities represented 82.9% of government debt, loans 14.4%, while currency and deposits 2.7%.

A considerable part of Romania's debt is held by non-residents, exposing the country to possible external financial conditions and exchange rate fluctuations. This reliance on foreign investors is a common trait among several EU countries but requires careful management to mitigate risks associated with global market volatility. The share of debt held by non-residents was high in 14 EU countries with Cyprus (95.7%), Estonia (79.8%), and Latvia (66%) having the highest values. At the other side of the spectrum, we have Sweden with 16.9% and Malta (21.8%).

Romania's debt structure, just like the EU's average, favors long-term borrowings, which account for the majority of its obligations. This strategy helps in reducing rollover risks and stabilizing fiscal management over the long term.

The remaining maturity profile of Romania's debt indicates a significant part maturing within a few years. The balanced distribution across different maturity horizons helps in managing repayment schedules and avoiding large refinancing needs at a single point in time.

More than half of Romania's government debt is denominated in foreign currencies, particularly euro. Among the non-euro currencies countries within the EU, Denmark has 96.4 % in DKK, Czechia and Sweden record 93.2% in CZK and SEK, respectively.

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Chief Economist

"Government debt structure and costs. Growing Trade Deficits. Debt Management and Trade Performance.

CONTACT

Romania faces a relatively high apparent cost of debt (the ratio of accrued interest expenditure as a percentage of the average debt over the year), reflecting the interest rates paid on its borrowings. This cost is influenced by market perceptions of risk and overall economic stability. The highest cost in 2023 was recorded by Hungary (6.8%), then by Poland and Romania (each 4.5%). In all EU countries, except Italy, Denmark, and France, the cost of debt increased since year 2022. The decrease in inflation in 2023 had the reverse effect. Romania's government debt structure presents a blend of challenges and strengths. While the centralization of debt management and reliance on long-term instruments provide stability, the high proportion of foreign-held and foreign-denominated debt, along with relatively high borrowing costs, can pose risks. Strategic fiscal policies are essential to maintain sustainability and mitigate these risks. The detailed analysis of various aspects of government debt highlights the need for a proactive fiscal management to support Romania's economic stability and growth.

Trade Balance

The Eurostat report from April 2024 highlights significant developments in the international trade balances of the European Union (EU). According to Eurostat, in April 2024, the EU reported a trade surplus of €13.9 billion, contrasting with a deficit of €14.2 billion in April 2023. The extra-EU exports rose by 14.9% to €222.1 billion, while imports increased slightly by 0.3% to €208.1 billion. The cumulative surplus for January to April 2024 was €66.2 billion, compared to €33.3 billion in the same period of 2023.

The trade balance by sector showed a mixed performance. The energy sector continued to record an increasing deficit, with the euro area energy deficit increasing from €23.7 billion to €26.2 billion and the EU's energy deficit worsening from €27.4 billion to €29.6 billion. The Chemicals sector recorded a decrease of surplus from €23.4 billion to €21.2 billion. The EU's primary goods sector showed a mixed performance with an increase in food and drink exports but a decline in raw materials and energy imports.

Regionally, the trade with major partners also revealed interesting trends. The EU's trade with the United States saw significant growth, with exports increasing by 21.9% and imports by 3.8%. Exports to China grew by 11.5%, while imports decreased by 4.2%, leading to a reduced trade deficit. The trade with the UK improved, with exports up by 18.4% and imports down by 8.1%.

The euro area and the EU experienced significant improvements in their trade balances in April 2024, driven by robust export growth and relatively stable imports. However, the energy sector remains a significant challenge, and sectoral and regional disparities continue to shape the overall trade dynamics.

In Romania, in April 2024, the exports increased by 14.8% while the imports increased by 17.8% compared with April 2023. The exports reached 8,290.1 million euro while imports amounted to 10,962.4 million euro pointing to a commercial deficit of 2,672.3 million euros. During the first four months, the exports increased by 0.8% while the imports increased by 1.7%, compared with the same period last year. This reached a trade deficit of 9,320.9 million euro, greater by 440.1 million euro (+5.0%) than the one from the same period last year. Out of the 31,288.2 million euro in exports during the first four months, 72.7 % were in relation to the EU – an increase of +0.4% compared with the same period in 2023. Imports with the EU were 73.6% – an increase of 1.8% from same period in 2023. A breakdown of components shows that the highest structure of exports and imports is represented by the machinery and transport equipment (47.2% for export and 36.1% for import) according to the National Institute of Statistics.

Key Takeaways

1. Government Debt
- Romania's debt-to-GDP is close to 52%, rising as the EU average falls.
- Most debt is central government-held, with significant foreign exposure.
- Long-term borrowing is favored, but over half is in foreign currencies.
- Romania faces high borrowing costs, driven by perceived risks.

2. Trade Balance
- The EU flipped to a trade surplus in April 2024 due to strong export growth.
- Romania's trade deficit grew, with imports rising faster than exports.
- Machinery and transport equipment dominate Romania's trade.

Looking ahead

1. Government Debt
- Romania's debt ratio may keep rising, with risks from foreign-held debt and borrowing costs.
- Stabilizing debt will require fiscal reforms and improved economic stability.

2. Trade Balance
- The EU might maintain trade surpluses, but energy deficits remain a challenge.
- Romania's trade deficit could stay high supported by strong consumption.