

Budget deficit, quite difficult to bring below 8 pct in 2021 (analysis)

It will be quite difficult to bring the budget deficit below 8 percent in 2021 against the backdrop of the relatively unchanged fiscal policy and public spending, and the financing of widened fiscal deficits during the pandemic period is likely to drive public debt towards the level of 60 percent in 2022 compared to 35 percent in 2019, shows an analysis made by Euler Hermes, published on Thursday.

According to the cited source, at local level, macroeconomic indicators to be monitored in the next period through their persistence will be the current account deficit (expected to increase as the economic recovery translates into higher imports vs. exports), but also the budget deficit, respectively the public debt - as a percentage of GDP.

"It will be quite difficult to bring the budget deficit below 20 percent in 2021 in terms of the relatively unchanged fiscal policy and public spending. Also, the financing of widened fiscal deficits from the pandemic period is likely to lead public debt to 60 percent in 2022 compared to 35 percent in 2019," said Mihai Chipirliu, CFA, Risk Director Euler Hermes Romania.

"In Romania's case, the forecasts for the growth of the 2021 Gross Domestic Product have been repeatedly revised upwards, the projection of + 6.5 percent a few months ago being already corrected by the European Commission at 7.4 percent and 4.9 percent for 2022. Inflation is also forecast to increase to over 3 percent this year, being one of the highest in the European Union, even if below the one in Hungary or even Poland where it could exceed 4 percent," the authors of the analysis maintain.

Although there were internal factors - such as consumer demand resistance - the inflationary surge was strongly fueled in the first half of the year by the sharp rise in global commodity prices.

"We maintain the opinion that inflation will be rather a temporary phenomenon, with a lower intensity in the second part of the year," the analysis also shows.

In the second quarter of 2021, GDP is expected to grow by almost + 2 percent quarterly. "The reduction of economic uncertainty will, in turn, set the stage for an increase in the pace of consumption in the second half of the year (with excessive savings of 1.5 percent of GDP, accelerating the recovery). Last but not least, domestic demand in the euro area will receive a boost from the EU Recovery Fund of 750 billion euros," according to the analysis.