

Romania

Rating rationale

EU membership, access to EU investment funds: Romania has been allocated EUR 28.5bn (10.0% of 2022 GDP) in grants and loans via the EU recovery and resilience facility and REPowerEU programmes, alongside cohesion funds under the 2021-2027 EU Multiannual Financial Framework of around EUR 31bn (10.9% of 2022 GDP). This substantial allocation of EU monies enhances the authorities' reform agenda and anchors strategic medium-run investment projects, while reducing investment spending pressures on the budget.

Robust medium-run growth outlook: Romania's ratings are anchored by its strong growth potential, which we estimate at around 3.5-4.0%, driven by considerable EU investment funds. We project the Romanian economy to continue growing in 2024 by 2.7%, up from 2.0% in 2023, which was still above most peer economies.

Still-moderate public debt: High nominal GDP growth should largely, but not fully, mitigate the impact of sustained elevated fiscal deficits on public debt dynamics over our forecast horizon. We project a moderately rising general government debt-to-GDP ratio to around 55.5% by 2028 from an estimated 49.2% at YE 2023.

Rating challenges include: i) a rigid budget structure and a weak tax base constrain the budgetary outlook and have resulted in high, structural budget deficits; and ii) external vulnerabilities given elevated current account deficits, due, in part, to fiscal imbalances, and relatively moderate, albeit increasing, reserves to cover foreign currency liabilities under more stressed economic scenarios.

Figure 1: Romania's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating		
		Weight	Indicative rating	Notches	Notches	Notches			
Domestic economic risk		35%	a	RON	Romania	1/3	BBB-		
Public finance risk		20%	bbb			- 2/3			
External economic risk		10%	cc			- 2/3			
Financial stability risk		10%	aaa			0			
ESG risk	Environmental factors	5%	bbb+			[+0]		[-0]	0
	Social factors	7.5%	b						- 1/3
	Governance factors	12.5%	bbb-						0
Sovereign Quantitative Model		bbb			-1				
Additional considerations					0				

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

BBB-/Stable

Senior unsecured debt

BBB-/Stable

Short-term issuer rating/Outlook

S-2/Stable

Local currency

Long-term issuer rating/Outlook

BBB-/Stable

Senior unsecured debt

BBB-/Stable

Short-term issuer rating/Outlook

S-2/Stable

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Credit strengths and challenges

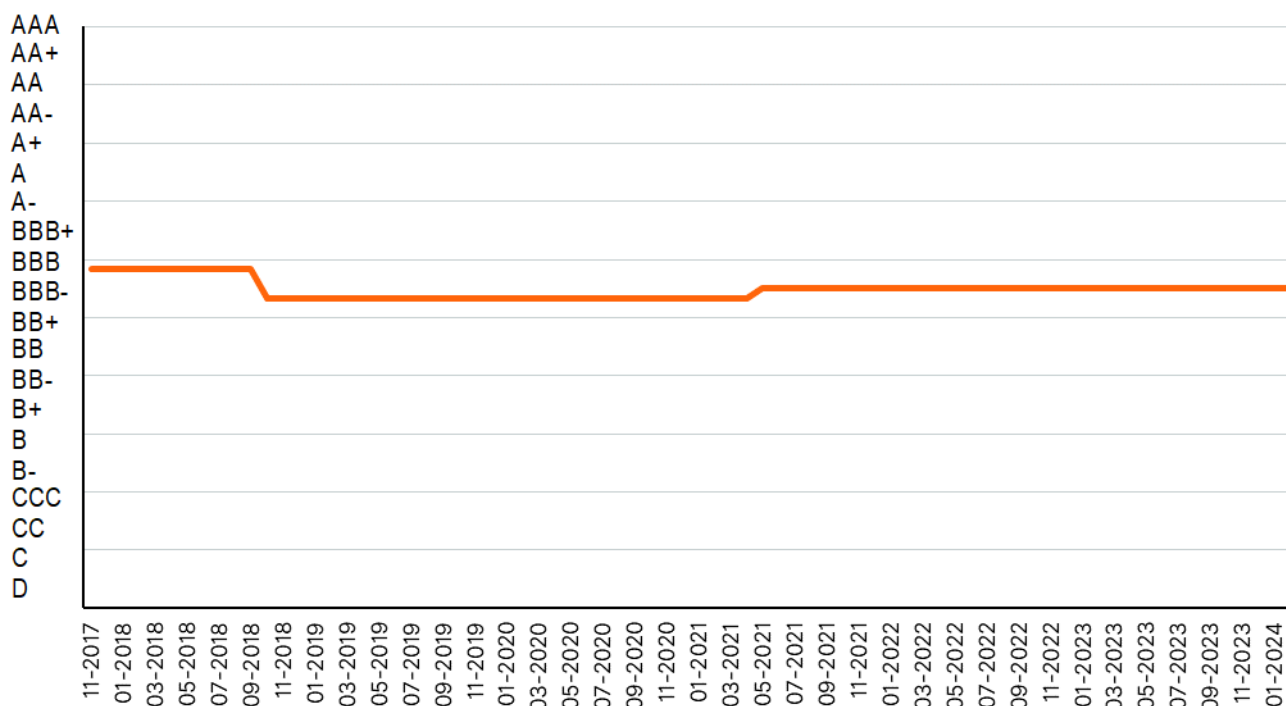
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • EU membership, access to substantial EU investment fund inflows, anchoring broad policy continuity • Robust medium-run economic growth outlook • Still-moderate public debt 	<ul style="list-style-type: none"> • Rigid budget structure and comparatively weak tax base, elevated fiscal deficits • External vulnerabilities with high current-account deficits and a relatively moderate, albeit improving, reserve coverage

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Strengthened fiscal consolidation anchors debt-to-GDP trajectory • Sustained reduction in current-account deficit, build-up of reserves and/or tangible steps in the adoption of the euro to curtail external sector risks • Strengthened capacity for reform, including improvements in EU fund absorption 	<ul style="list-style-type: none"> • Weaker fiscal outlook • Elevated current-account deficit, intensified financing pressures and/or shrinking reserves increase external vulnerabilities • Curtailed capacity to absorb EU investment funds undermines growth and public finance outlooks

Figure 2: Rating history¹



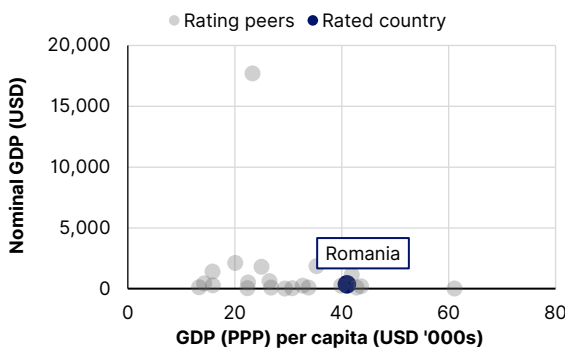
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Romania's Domestic Economic Risk

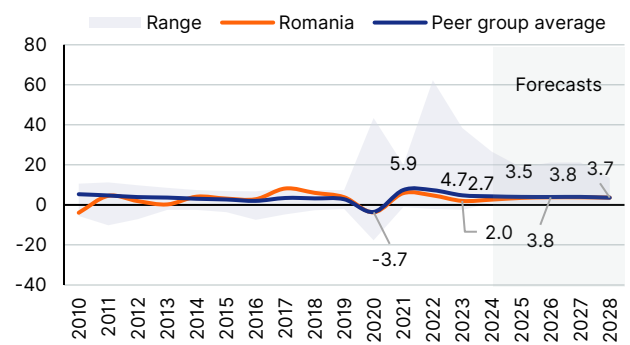
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Strong	+1/3	Strong growth potential, but challenges from adverse demographics and slow progress on structural reform
	Monetary policy framework	Neutral	0	Adequate monetary policy response during the crisis
	Macroeconomic stability and sustainability	Neutral	0	Diversified industrial sector; shortages in skilled labour

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



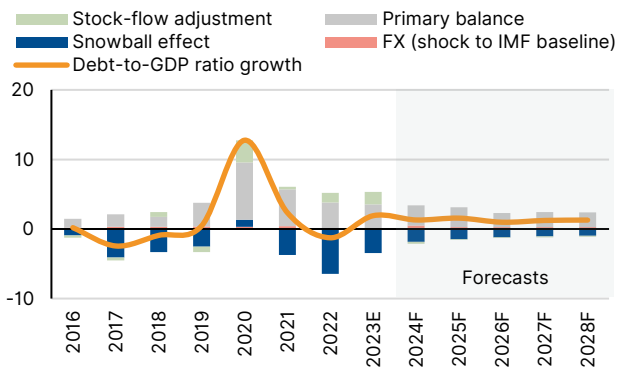
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Romania's Public Finance Risk

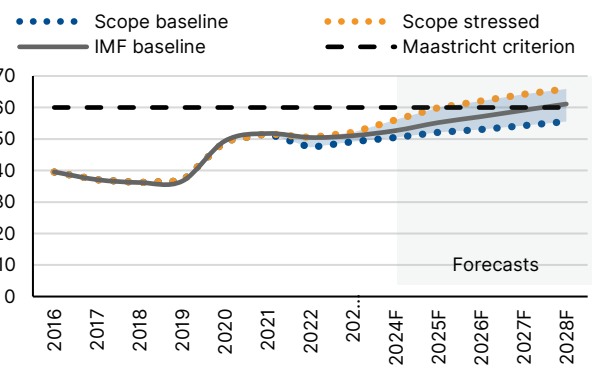
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Fiscal policy framework	Weak	-1/3	Track record of expansionary fiscal policies and excess deficits, rigid budgetary structure; recent introduction of moderate fiscal consolidation package
	Long-term debt trajectory	Weak	-1/3	Moderately rising public debt burden and slow pace of fiscal consolidation pose medium-run debt sustainability challenge
	Debt profile and market access	Neutral	0	Access to funding on relatively favourable terms; but higher financing rates than some peers, risk from high FX share of debt and comparatively lesser access to lenders of last resort as a non-euro-area EU state

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

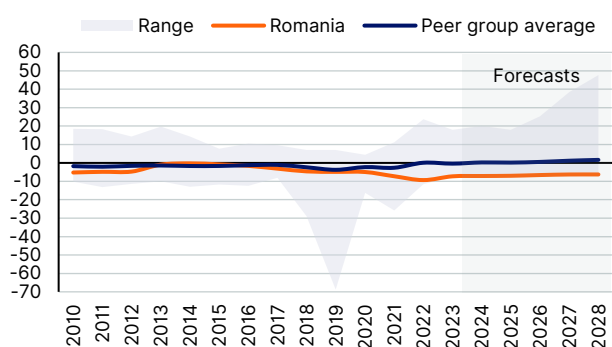
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Romania's External Economic Risk

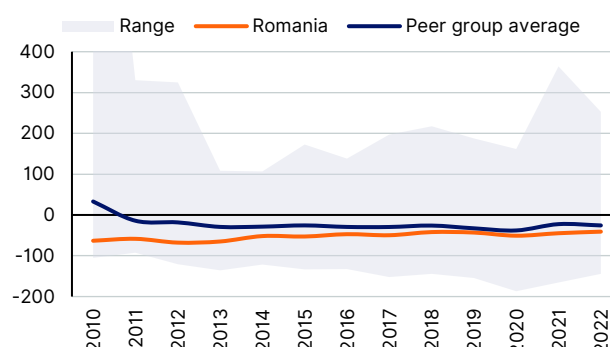
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CC	Current account resilience	Weak	-1/3	Structural current account deficits, high investment needs of the economy with relatively low domestic savings
	External debt structure	Neutral	0	Sizeable (over 50%) share of direct investments in external liabilities
	Resilience to short-term external shocks	Weak	-1/3	Moderate reserve coverage relative to peers and the IMF's adequacy threshold but reserves have risen significantly to cover foreign currency liabilities under more stressed scenarios

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



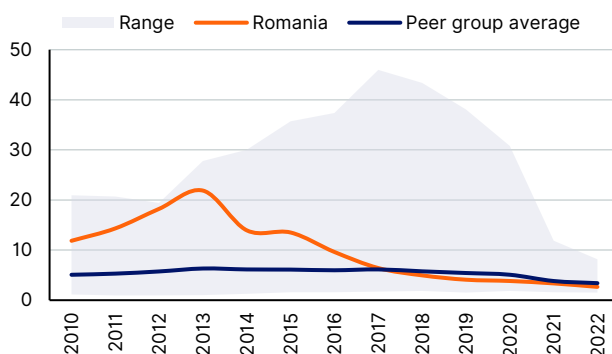
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Romania's Financial Stability Risk

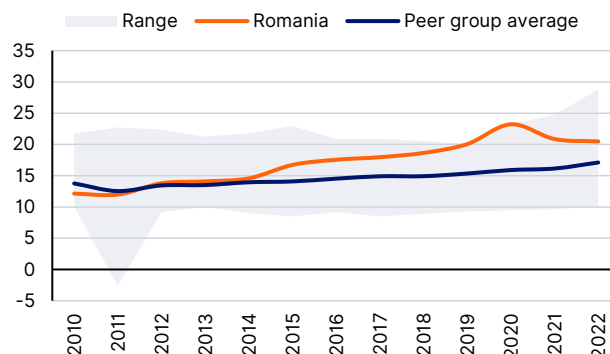
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and liquid banking sector; profitability and asset quality impacted by crises
	Financial sector oversight and governance	Neutral	0	Effective supervision; timely and comprehensive regulatory measures
	Financial imbalances	Neutral	0	Still-elevated but declining foreign-currency exposure in the banking system; low financial intermediation

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



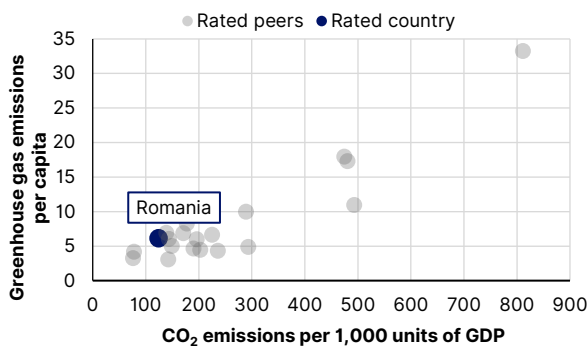
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Romania's ESG Risk

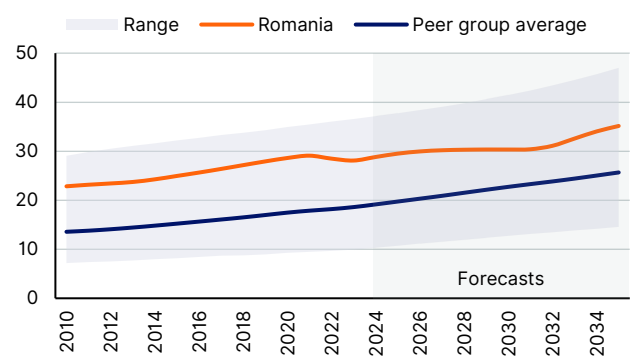
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Environmental factors	Neutral	0	High carbon and energy intensity of the economy, higher energy self-sufficiency compared to peers
	Social factors	Weak	-1/3	Elevated poverty and income inequality, adverse demographics trends
	Governance factors	Neutral	0	Enhanced political stability in the near-term to result in broad policy continuity following 2024 elections

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

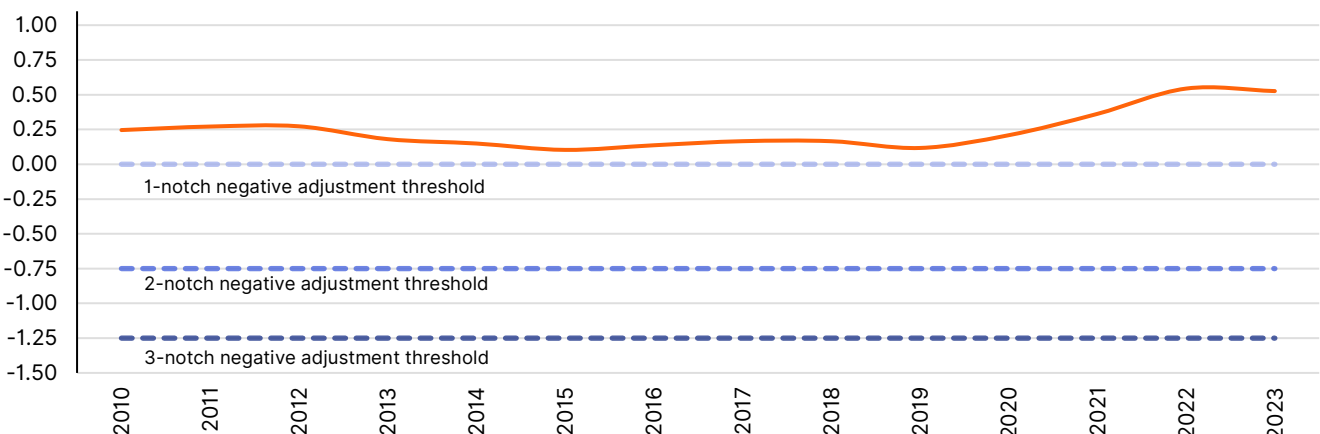
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Romania, 3-year moving average



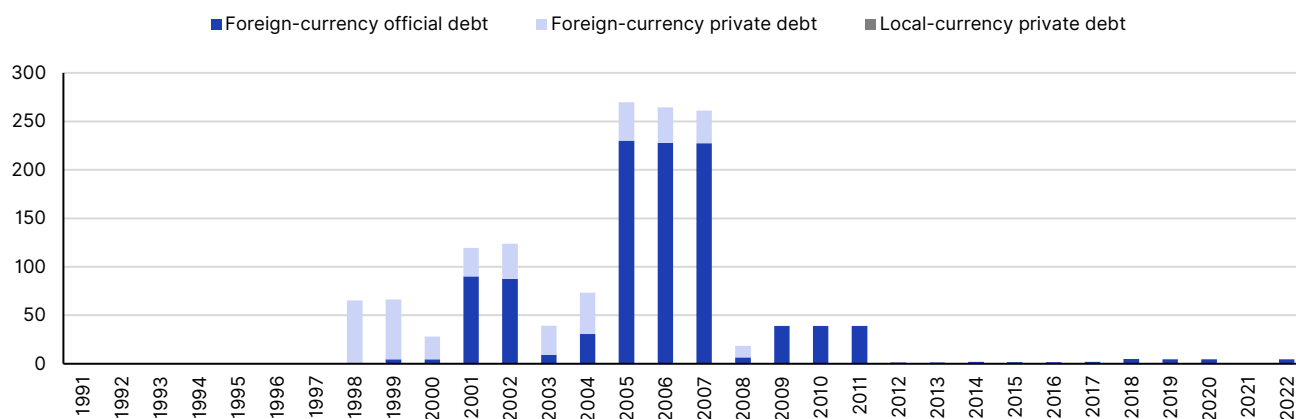
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
China
Georgia
Greece
Hungary
Turkey

*Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 29 February 2024	151

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	29.5	31.4	30.8	34.2	38.7	41.0
	Nominal GDP, USD bn	IMF	243	251	252	286	301	350
	Real growth, %	IMF	6.0	3.8	-3.7	5.9	4.7	2.2
	CPI inflation, %	IMF	4.6	3.8	2.6	5.0	13.8	10.7
	Unemployment rate, %	WB	4.2	3.9	5.0	5.6	5.4	-
Public Finance	Public debt, % of GDP	IMF	36.2	36.6	49.4	51.7	50.5	51.0
	Net interest payment, % of government revenue	IMF	4.6	3.9	4.6	4.8	6.5	7.6
	Primary balance, % of GDP	IMF	-1.4	-3.4	-8.3	-5.3	-3.8	-3.9
External Economic	Current-account balance, % of GDP	IMF	-4.6	-4.9	-4.9	-7.2	-9.3	-7.3
	Total reserves, months of imports	WB	4.2	4.1	5.5	4.3	4.0	-
	NIIP, % of GDP	IMF	-42.0	-43.2	-50.8	-44.8	-40.9	-
Financial Stability	NPL ratio, % of total loans	IMF	5.0	4.1	3.8	3.4	2.7	-
	Tier 1 ratio, % of risk-weighted assets	IMF	17.9	17.9	18.5	22.7	19.0	18.8
	Credit to the private sector, % of GDP	WB	25.5	24.6	25.8	26.4	24.8	0.5
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	147.2	138.6	134.7	135.3	124.5	-
	Income share of bottom 50%, %	WID	16.7	17.2	17.1	16.3	16.3	-
	Labour-force participation rate, %	WB	67.6	68.4	68.9	65.2	-	-
	Old-age dependency ratio, %	UN	27.2	27.9	28.6	29.1	28.5	28.1
	Composite governance indicators*	WB	0.2	0.2	0.2	0.2	0.3	-
	Political stability, index	WB	0.0	0.5	0.5	0.6	0.5	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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