S&P Global Ratings (/en_US/web/guest/home)

Romania 'BBB-/A-3' Ratings Affirmed; Outlook Remains Negative

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Overview

We project that Romania's economy will contract by 5.2% in real terms in 2020 and that the fiscal deficit will widen to 9.2% of GDP.
In our base-case scenario, we expect that after the December parliamentary election, the incoming government will implement credible consolidation efforts to stabilize net government debt a 60% of GDP.
That said, Romania's complex political dynamics continue to obscure its future policy direction and the reliability of policy execution.
We are therefore affirming our 'BBB-/A-3' sovereign credit ratings on Romania. The outlook is negative.

Rating Action

On Dec. 4, 2020, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on Romania. The outlook remains negative.

Outlook

The negative outlook is based on the risks to Romania's fiscal and external balances over the next 12 months. These are likely to materialize if policymakers fail to produce a credible plan to l fiscal imbalances.

We could lower our ratings on Romania if fiscal and external imbalances remain elevated for longer than we currently anticipate, for instance, because of challenges to fiscal policy design after upcoming elections. In our view, Romania's funding cost could rise if the incoming government fails to present a credible fiscal policy framework.

We could revise the outlook to stable if Romania's incoming government swiftly anchors fiscal consolidation, leading to a stabilization of Romania's public and external finances.

Rationale

Despite deteriorating in 2020, Romania's government and external debt stocks remain moderate. Moreover, we anticipate that the government that assumes office after the December general will reduce fiscal imbalances.

We believe that any incoming administration is likely to continue to provide ample fiscal support to foster economic recovery through 2021. That said, it would have to deal with, and potential back, fiscal rigidities created through previous policy decisions. These include costly hikes to pensions and other social benefits. Policy uncertainty is exacerbated by the confrontational and c political landscape, which could make it difficult to build a coalition after the December elections.

Institutional and economic profile: The December parliamentary elections will be key to providing visibility on the medium-term trajectory of public financ

The implementation of a balanced and credible fiscal agenda will be crucial to support the economic recovery and maintain financial market confidence.
We project that Romania's economy will contract by 5.2% in 2020 before rebounding by 4% in 2021.
EU funds absorption will be key to aiding economic rebalancing, although implementation risks remain.
Romania has scheduled parliamentary elections for Dec. 6. The elections are being closely contested and will be crucial to Romania's future fiscal and economic policy direction. In our base-ca scenario, we expect that the incoming government will take firm steps toward viable fiscal consolidation during its term. Rebalancing a rigid budget position will require rolling back costly soc benefits and pension reforms; under current legislation, pensions are due to rise by 40%. Timing is of the essence, given that the Romanian Constitutional Court has previously decided that pe levels cannot be reduced once they have been paid out.

We estimate that Romania's output will contract by 5.2% in 2020. Although the firm lockdown measures employed over the year took a significant toll on full-year domestic demand, primarily second quarter, the construction sector has recorded solid performance for nine months, partly because Romania maintained its level of public investments. Weak external demand from key tr partners will eat into exports, of which over 20% go to Germany and 10% to Italy. Both countries also face deep recessions in 2020.

The forecast remains sensitive to the uncertain epidemiological situation and the possibility of fresh containment measures. We project Romania's economic activity will recover in 2021, with r growing by 4%. However, we anticipate that the economy will return to its 2019 level only by 2022.

We continue to regard Romania's EU membership as an important policy anchor. Together with the policy choices of the incoming government, the fiscal stimulus forthcoming at the supranati level will be key to shaping Romania's macroeconomic rebalancing. Romania will be a strong beneficiary of the structural funds designated under the EU's upcoming Multiannual Framework, al the newly created EU Recovery and Resilience Fund (RFF). The grants portion alone under the RFF equals about 6% of Romanian 2019 GDP, and a similar amount in loans is available to unlock a cheap financing. Should the funds be fully deployed and successfully absorbed, it would help sustain Romania's growth prospects, facilitating the budgetary rebalancing that we envision in ou case for 2021-2023.

Flexibility and performance profile: Past fiscal slippages have led to a government balancing act as authorities grapple with the problematic budget structu

Rising interest costs add further strain to an already rigid budget.
The external deficit's financing mix continues to deteriorate as net foreign direct investment (FDI) weakens.
We expect inflation will remain steady and foreign exchange pressures contained as the central bank conducts measured policy easing through 2021.
Policy choices in recent years have weakened the foundations for sustainable public finances. In 2019, Romania had the highest structural budget deficit in the EU and also sported the lowest r fiscal revenue to GDP. Furthermore, most of Romania's key budgetary allocations (such as pensions and child care allowances) are structural, rather than being attributable to one-off measure inflicts further medium-term strain on an already rigid budget structure.

In response to the effects of the pandemic lockdowns, the authorities have launched a series of fiscal and economic measures to shield companies and workers from the economic standstill. W estimate the overall size of the fiscal stimulus package at 3% of GDP. Including the budgetary effect of automatic stabilizers, such as from unemployment insurance, we anticipate that the mea introduced will increase fiscal expenditure by 1.2%.

The contracting economy, combined with pandemic-related stimulus, falling fiscal revenue, and another bout of increases to social spending (pensions and child care allowances) will widen Ro budgetary deficit this year. For 2020, we estimate that Romania's fiscal deficit will be about 9.2% of GDP, including a decline in revenue due to the economic contraction, which will push net ge government debt past 40% of GDP. In addition, credit support, in the form of government guarantees on bank lending to small-and-midsize enterprises for working capital and investment pu will add a total 1.5% of GDP to the state's guarantee commitments.

With spending on wages and pensions now standing at about 90% of tax revenue, Romania's budget structure is highly rigid. Although it is not part of our base case, if the 40% pension hike w implemented, we estimate that spending on wages and pensions alone would exceed government fiscal revenue in 2021. We do not expect the government to tighten fiscal policy through 202 bid to foster economic recovery. However, we believe authorities will seek to adjust the budget's structural composition, making spending less rigid and improving revenue collection, while ste toward a gradual reduction in the deficit. We project the government deficit will stand at 7.2% of GDP in 2021 and decline to 5.5% in 2022.

We estimate the public-sector financing requirement in 2021 will comprise about 10% of GDP, and we expect most will be sourced from the domestic market. In this regard, we anticipate that domestic banking sector will support the government's financing needs, but its capacity to digest the total financing needs of the government will be constrained. The banking sector's existin exposure to the government, at more than 20% of its assets, is already substantial.

The state treasury has recently restarted its retail issuance program to expand its domestic sources of financing. Moreover, the treasury enjoys flexibility from a sizable hard currency buffer of 5% of GDP and recently replenished by the inflow of €3 billion (1.4% of 2019 GDP) worth of SURE funds from the EU in November 2020. The SURE program offers temporary support to mitigate unemployment risks in an emergency.

Given the magnitude of government's financing need in 2021, we expect the National Bank of Romania (NBR) could again be needed to backstop financing in 2021. The NBR deployed and exec government bond purchasing program in 2020 that provided liquidity to the market and settled the erratic domestic market. At present, the NBR holds Romanian leu (RON) 4.8 billion of gover securities (1% of total government commercial debt) on its balance sheet. It put its program on hold after the November monetary policy meeting. Although we anticipate that the NBR will abso additional government debt via secondary market purchases in extraordinary circumstances, we do not expect a return to full-scale monetary financing of the government's budget.

We expect Romania's current account deficit to average 5% of GDP through 2023. In our view, the widening trade deficit demonstrates the underlying competitiveness problems. At the same ti observe that the current account deficit is increasingly covered by debt-financed inflows, which pushes Romania's narrow net external debt ratio toward 45% of current account receipts in 202 are risks of further strains on net FDI as international companies face pressure.

Romania's twin deficits reinforce each other: on the current account, as rising fiscal stimulus pushes up demand and imports; and on the financial account, as a chunk of higher financing requ is met by selling debt to nonresidents. Therefore, any sizable increase in permanent spending, such as a 40% pension hike, would be detrimental to both Romania's fiscal and external perform and would likely prompt a disorderly budgetary correction that would have repercussions for the economy's fragile rebound after the pandemic.

Further widening of the fiscal and external imbalances could precipitate external financing stress and complicate monetary policy execution under the Romanian leu's managed float regime. T risks are pronounced, especially in the context of a still-meaningful degree of euroization. Elevated exchange rate volatility could have severe repercussions on public- and private-sector bala sheets because about half of Romania's government debt and an estimated 40% of financial sector deposits are denominated in foreign currency.

In response to the pandemic, the NBR cut its key monetary policy rate in three steps to 1.5% from 2.5% in 2020. In addition, it introduced a series of easing measures that include:

Providing banks with liquidity through repurchase agreements, and
Reducing the reserve requirement ratio on foreign exchange (FX) liabilities.
With inflation below target at 2.2%, we believe the NBR could consider additional monetary easing to fuel recovery in 2021. That said, we anticipate that the NBR will proceed with caution, prio FX stability and maintaining the attractiveness of leu savings. We expect the NBR will uphold its policy credibility, retain its independence, and successfully anchor inflation expectations as it h domestic markets to digest the government's financing requirements over 2021.

Romania's predominantly foreign-owned banking sector remains sound, in our view, and we see it as a limited contingency risk for the government. That said, the underbanked Romanian mar prevents the financial sector from acting as an intermediator and catalyst to economic activity. With loans to the private sector at 25% of GDP in March 2020, the Romanian banking sector rank Europe in terms of financial intermediation.

The system is predominantly deposit-funded, with a sectorwide loan-to-deposit ratio of 69% at March 2020 (compared with its peak of 142% in 2010). We anticipate that the system is likely to to absorb lower profitability owing to the Ministry of Finance's nine-month loan moratorium. The system also benefits from low levels of nonperforming loans, which, at 4%, are markedly lowe over 21% in June 2014. However, some deterioration in asset quality might be inevitable as support measures are withdrawn over the next year.

Key Statistics

Table 1

Romania--Selected Indicators										
(Mil. RON)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	
Economic indicators (%)										
Nominal GDP (bil. RON)	669	713	765	858	952	1,060	1,035	1,109	1,182	1,
Nominal GDP (bil. $)	200	178	188	212	242	250	245	255	263	2
GDP per capita (000s $)	10.0	9.0	9.5	10.8	12.4	12.9	12.6	13.2	13.6	1
Real GDP growth	3.6	3.0	4.7	7.3	4.5	4.2	(5.2)	4.0	3.0	3.
Real GDP per capita growth	4.0	3.4	5.3	8.0	5.1	4.8	(4.9)	4.3	3.3	3.
Real investment growth	3.8	7.0	(0.1)	3.5	(1.1)	17.8	(6.1)	6.0	4.0	3.
Investment/GDP	24.7	25.1	23.3	23.4	22.8	22.9	22.7	23.0	23.1	2
Savings/GDP	24.5	24.5	22.0	20.6	18.4	18.2	18.2	17.9	18.0	1
Exports/GDP	41.2	41.0	41.2	41.5	41.6	40.4	40.2	40.4	40.6	4
Real exports growth	8.5	4.6	16.3	7.8	5.3	4.0	(4.5)	5.0	4.0	4.
Unemployment rate	6.8	6.8	5.9	4.9	4.2	3.9	7.0	7.1	6.8	6.
External indicators (%)										
Current account balance/GDP	(0.2)	(0.6)	(1.4)	(2.8)	(4.4)	(4.7)	(4.5)	(5.1)	(5.2)	(5
Current account balance/CARs	(0.3)	(1.2)	(2.9)	(5.9)	(9.4)	(10.3)	(9.9)	(11.0)	(11.1)	(1
CARs/GDP	47.0	47.6	47.6	47.3	46.6	45.7	46.0	46.2	46.6	4
Trade balance/GDP	(4.4)	(4.9)	(5.5)	(6.5)	(7.2)	(7.8)	(8.2)	(8.9)	(9.1)	(9
Net FDI/GDP	1.8	1.8	2.7	2.6	2.4	2.2	1.0	2.0	2.0	2.
Net portfolio equity inflow/GDP	0.3	0.1	(0.3)	(0.1)	(0.2)	(0.3)	(0.1)	(0.1)	(0.0)	(0
Gross external financing needs/CARs plus usable reserves	110.5	102.1	103.6	100.3	102.3	102.8	100.9	102.9	104.8	1
Narrow net external debt/CARs	49.8	43.6	31.3	33.0	26.5	27.2	34.0	37.9	41.9	4
Narrow net external debt/CAPs	49.6	43.1	30.4	31.2	24.2	24.7	31.0	34.1	37.8	3
Net external liabilities/CARs	115.3	115.5	100.6	107.7	93.5	94.8	103.0	107.6	111.9	1
Net external liabilities/CAPs	114.9	114.1	97.8	101.7	85.5	85.9	93.7	96.9	100.7	9
Short-term external debt by remaining maturity/CARs	50.1	41.3	35.7	28.3	27.6	25.8	26.4	25.5	25.2	2
Usable reserves/CAPs (months)	4.3	4.7	3.9	3.8	3.7	3.5	3.8	3.5	3.3	2.
Usable reserves (mil. $)	33,515	30,334	33,876	38,246	36,903	39,373	38,478	36,824	35,223	3
Fiscal indicators (general government; %)										
Balance/GDP	(1.2)	(0.6)	(2.6)	(2.6)	(2.9)	(4.4)	(9.2)	(7.2)	(5.5)	(4
Change in net debt/GDP	1.9	1.5	0.3	2.4	3.4	5.4	10.2	9.2	6.0	4.
Primary balance/GDP	0.5	1.0	(1.1)	(1.4)	(1.8)	(3.2)	(7.9)	(5.7)	(3.8)	(2
Revenue/GDP	34.1	35.5	31.9	30.8	31.9	31.8	30.8	34.0	35.0	3
Expenditures/GDP	35.3	36.1	34.5	33.5	34.8	36.1	40.0	41.2	40.5	3
Interest/revenues	4.8	4.6	4.7	4.1	3.6	3.6	4.2	4.5	5.0	5.
Debt/GDP	39.2	37.8	37.3	35.1	34.7	35.3	46.5	52.4	55.2	5
Debt/revenues	114.9	106.5	117.0	113.9	108.8	111.0	151.2	154.2	157.6	1
Net debt/GDP	32.3	31.7	29.9	29.0	29.6	32.0	43.0	49.3	52.3	5
Liquid assets/GDP	6.9	6.0	7.4	6.1	5.1	3.3	3.5	3.1	2.9	2.
Monetary indicators (%)										
CPI growth	1.4	(0.4)	(1.1)	1.1	4.1	3.9	2.3	2.8	3.0	3.
GDP deflator growth	1.5	3.5	2.6	4.5	6.3	6.8	3.0	3.0	3.5	3.
Exchange rate, year-end (RON/$)	3.69	4.15	4.30	3.89	4.07	4.26	4.20	4.50	4.50	4.
Banks' claims on resident non-gov't sector growth	(3.0)	3.1	1.1	5.6	7.9	6.6	2.0	4.5	4.5	4.

Banks' claims on resident non-gov't sector/GDP	32.0	31.0	29.2	27.5	26.7	25.6	26.7	26.1	25.6	2!
Foreign currency share of claims by banks on residents	33.7	29.3	25.4	22.0	20.8	19.6	31.3	31.3	31.3	3
Foreign currency share of residents' bank deposits	33.1	32.4	31.3	31.8	33.2	34.3	31.0	31.0	31.0	3
Real effective exchange rate growth	0.7	(3.4)	(1.8)	(1.5)	2.8	(0.5)	N/A	N/A	N/A	N

Sources: Eurostat (economic indicators), Bank of Romania and IMF (monetary indicators), Eurostat (fiscal and debt indicators), and National Bank of Romania (external indicators).
Adjustments: No data adjustments applied.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus th in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid clair nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. RON--Romanian le -Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Romania--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Policy choices over the past few years have led to very procyclical fiscal policies and, hence, weakened support for sustainable public finances. The count suffers from weak transparency, owing to political interference undermining institutional independence.
Economic assessment	4	Based on GDP per capita ($) as per the Selected Indicators in Table 1.
External assessment	3	The Romanian leu is neither a reserve nor an actively traded currency. Based on narrow net external debt and gross external financing needs as per the S Indicators in Table 1.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indica Table 1. Bank exposure to government sector stands at over 20% and over 40% of government debt is denominated in foreign currency in 2019.
Monetary assessment	3	Managed float. Since 2005, the National Bank of Romania has targeted inflation but hasn't moved to a full-inflation targeting framework. It therefore inte in foreign exchange markets. The central bank enjoys operational independence with market-based instruments.
Indicative rating	bbb-	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BBB-	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	BBB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external asse (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordanc S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

Criteria | Governments | Sovereigns: Sovereign Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10221157), Dec. 18, 2017
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017
General Criteria: Principles Of Credit Ratings (/en_US/web/guest/article/-/view/sourceId/6485398), Feb. 16, 2011
General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments (/en_US/web/guest/article/-/view/sourceId/5402435), May 18, 2009

Related Research

Sovereign Ratings List (/en_US/web/guest/article/-/view/sourceId/11724117), Nov. 9, 2020
Sovereign Ratings History (/en_US/web/guest/article/-/view/sourceId/11725464), Nov. 9, 2020
Global Sovereign Rating Trends Midyear 2020: Outlook Bias Turns Negative As Governments Pile On Debt To Face COVID-19 (/en_US/web/guest/article/-/view/sourceId/11594719), July 30, 2
Sovereign Risk Indicators (/en_US/web/guest/article/-/view/sourceId/11689747), Oct. 12, 2020. An interactive version is also available at http://www.spratings.com/sri (http://www.spratings.com/sri)
Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study (/en_US/web/guest/article/-/view/sourceId/11478233), May 18, 2020
Sovereign Debt 2020: Emerging Market EMEA Borrowing Will Likely Inch Up 0.6% To $473.3 Billion (/en_US/web/guest/article/-/view/sourceId/11354902), Feb. 20, 2020

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qua and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee deci views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating actio 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Romania

Sovereign Credit Rating	BBB-/Negative/A-3
Transfer & Convertibility Assessment	A-
Senior Unsecured	BBB-
Short-Term Debt	A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefo read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contai "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of Ratings www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left c Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (4 33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Regulatory Disclosures For Each Credit Rating Including Ratings List Table (/en_US/web/guest/article/-/view/sourceId/100047854?pu=true)
Disclosures include requirements relating to press releases or reports published in accordance with Article 10(1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirem available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

Key Elements Underlying The Credit Rating

ESG Credit Factors
Solicited Or Unsolicited Status
Analysts Primarily Responsible For The Credit Rating
Office Responsible For The Credit Rating
Materials Used In The Credit Rating Process
Criteria Applied
Models Applied, Loss, And Cash Flow Analysis Performed
Scenario Analysis
Sensitivity Analysis
Risk Warning, Understanding Credit Rating Categorizations, And Criteria
Rated Entity Notification
Ancillary And Additional Services
Attributes And Limitations Of The Credit Rating
Information Specific To Structured Finance And Securitization Instruments

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