June 12, 2025

12034
Romania

Long-term Rating	BBB
Outlook*	Negative
Short-term Rating	–

*Long-term Rating refers to Long-term Issuer Rating in principle.

▼ Overview

Romania had an estimated population of 19.02 million (as of January 2024) and a nominal GDP of 353.8 billion euros in 2024, making it the second-largest economy in Central and Eastern Europe (CEE) after Poland. After its regime change in 1989, the country promoted reforms toward democratization and a market economy, becoming a member of NATO in 2004 and the EU in 2007. It has made progress in the process of catching up by receiving the benefits of the EU membership such as the inflow of foreign capital and subsidies. Its GDP per capita in PPP terms exceeded USD47,000 as of 2024. On the other hand, the country faces twin deficits in the current account and fiscal balance and correcting them remains one of the challenges it needs to address. In recent years, Romania's policy making has been anchored by the Recovery and Resilience Plan (RRP) and the Excessive Deficit Procedure (EDP), but ongoing political turmoil is making progress on reforms and deficit reduction unclear.

▼ Political and social situation and economic policy

Following the resignation of the prime minister Ciolacu on May 5, Romanian politics has entered into an increasingly volatile stage. In the parliamentary elections held in December 2024, the PSD retained its position as the largest party, and a new, pro-EU coalition government consisting of the PSD, NPL, and the Democratic Alliance of Hungarians in Romania was formed at the end of December. While the composition of the coalition did not change significantly from the previous administration, the far-right Alliance for the Union of Romanians (AUR) came in second in this election and the far-right S.O.S. Romania and Party of Young People also won seats in parliament, each with 6-7% of the vote. In addition, in the first round of the presidential election held in November 2024, far-right, pro-Russian candidate Calin Georgescu (independent) came in first, indicating the country's political polarization. The Constitutional Court annulled the results of the presidential election for the reason of fraud, and in the first round of the re-run election held on May 4,2025 George Simion, the leader of the AUR, emerged the winner. In the run-off election on May 18, Nicusor Dan, the centrist, mayor of the capital, Bucharest defeated Mr. Simion, but the results of the first round led to the resignation of the prime minister Ciolacu and the withdrawal of his party PSD from the government coalition. JCR believes policymaking in Romania will become more difficult due to political turmoil, making progress on reforms unclear.

Being a member state of the EU means that policies are required to be conducted in accordance with the EU's economic and fiscal governance framework. In recent years, the EU's EDP and the RRP have been important policy anchors. The RRP sets out reforms and investments that each member country will implement by 2026 under the Recovery and Resilience Facility (RRF), which the EU established to promote post-COVID economic recovery. The RRF not only supports economic growth through expanded investment but also serves as an incentive to advance reforms since RRF funds are disbursed based on the progress of those investments and reforms. While much of the RRF funds allocated to Romania is earmarked for green transition and digital transformation, milestones also include judicial reforms, anti-corruption measures, and pension and tax reforms. As such, the RRF is intended to promote a wide range of reforms involving political, economic, and fiscal issues.

The degree of policy predictability provided by EU membership remains an important factor supporting Romania's creditworthiness. However, in 2024, a year in which multiple elections were held, spending measures such as increases in public-sector wages and pension hikes were implemented and public investment surged, causing public finance to deteriorate significantly in a way deviating from the government's plan. The government currently targets to reduce the fiscal deficit to below the EU threshold of 3% of GDP in 2031, meaning that Romania's fiscal consolidation plan is significantly delayed from the time the EDP was launched in 2020. Given these developments, JCR believes that policy credibility and its effectiveness have weakened compared to the past.

▼ Economic base

Romania is in the process of catching up as a latecomer member of the EU. It has been making progress on economic convergence by benefiting from the development of institutional frameworks in line with the EU standards, deepening integration with other member countries through trade and finance and receiving subsidies from the EU budget. Its GDP per capita in PPP terms approximately tripled over the 15 years since joining the EU, exceeding USD47,000 in 2024, the highest among the countries rated in the BBB range by JCR. Its governance indicators (as published by the World Bank) such as "rule of law" and "control of corruption" are also high compared to other countries in the BBB range. As for its economic structure, direct investment from Western European countries has led to building up a cluster of manufacturing industries, and more than 70% of exports are destined for other EU member states, including Germany. Structural challenges for the country include a decline in the labor force stemming from population aging and the outflow of skilled workers, which could become a hindrance to medium- to long-term growth if no countermeasures are taken.

In terms of energy balance, natural gas accounts for around 30% of the country's energy mix. However, the country meets most of its domestic natural gas consumption through domestic production, and its dependence on Russian gas has traditionally been relatively low among the EU member states. According to Eurostat, the ratio of domestic production to domestic consumption climbed to 97.2% in 2023 from 73.9% in 2021. Meanwhile, the country's gas imports from Russia decreased significantly in 2022, with procurement from alternative sources seen to be progressing. Moreover, a gas field development project (Neptun Deep) in the Black Sea is currently underway, with production scheduled to begin in 2026. After the start of this operation, Romania is expected to achieve complete self-sufficiency in natural gas.

▼ Economic trends

Despite rising inflation caused by higher energy prices and slower external demand, the Romanian economy had maintained relatively high growth among the CEE countries in 2022 and 2023, driven by private consumption and investment. The economic slowdown became clear in 2024, with the real GDP growth rate falling to 0.8% from 2.4% in 2023. Private consumption was strong as disposable income rose on minimum wage and public-sector wage hikes and a large increase in pensions. However, this was offset by a large negative contribution from net exports. Exports fell on sluggish external demand while imports swelled on strong domestic demand. Gross fixed capital formation also fell compared to 2023 due to sluggish investment by corporations and a decline in construction investment following the end of the investment cycle financed by the EU funds under the 2014-2020 financial framework. In the medium term, while fiscal tightening will slow the growth of private consumption, increased inflows of EU funds, primarily from the RRF, are expected to lead to higher investment which will support growth. JCR expects the real GDP growth rate to be around 2% in 2025-2026 supported also by a recovery of external demand. Downside risks to the economy include uncertainty in the external environment, such as rising geopolitical tensions, a sluggish German economy, and the impact of Trump tariffs as well as the impact of fiscal austerity on domestic demand.

Regarding the EU funds, around 31.0 billion euros are allocated under the 2021-2027 Multiannual Financial Framework (MFF), with 28.0 billion euros still available as of February 2025. As for the RRF, the approved allocation for Romania (as revised in November 2023) is 28.5 billion euros, consisting of 13.6 billion euros in grants and 14.9 billion euros in loans, equivalent to 13% of GDP in 2020. Of this, approximately 19.5 billion euros (about 6% of 2024 GDP) remain to be used. Assuming a full disbursement of the remaining funds, the annual average fund inflows from the MFF and RRF over the next few years will be around 3% of GDP.

Consumer price (HICP) inflation (year-on-year) declined from the peak of 14.6% in November 2022 to 5.1% in March 2025 (EU average: 2.5%). However, inflationary pressures remain strong due to wage growth, strong consumption, and a tight labour market, with core inflation, excluding energy and unprocessed food, standing at 5.4% (EU average: 2.8%), one of the highest in the EU. The National Bank of Romania lowered its policy rate, which had been at 7% since January 2023, by a total of 50 basis points in July and August 2024, and has since kept it at 6.5%.

▼ Financial system

Romania's financial system remains stable. Following the global financial crisis and the European debt crisis, important structural reforms have progressed in the banking sector. The improvement in the funding structure has been particularly remarkable. In the past, the banking sector had relied on external funding, mainly borrowing from parent banks, but now it is mainly funded by domestic deposits. On the other hand, foreign currency-denominated loans, which were the main cause of increased nonperforming loans, have been curtailed. The proportion of foreign currency-denominated loans in total loans currently stand at the 30% level, a significant decline from over 60% in 2013. JCR judges that the financial system's resilience to external shocks has increased as its liquidity, exchange rate and credit risks have been significantly reduced.

The banking sector's nonperforming loan ratio (as defined by the EBA) had been on a declining trend since 2014. Despite the economic slowdown and rising interest rates in recent years, the ratio remained low at 2.46% as of the end of 2024. Its profitability has also been stable, with the capital adequacy ratio staying sufficient at 23.7% at the end of 2024.

▼ Resilience to external shocks

The country's current account balance has been chronically in deficit. The deficit was large at 6.6% of GDP in 2023 even after the impact of rising energy prices had subsided, but it expanded to 8.4% of GDP in 2024 due mainly to an increased trade deficit. In addition to temporary factors such as reduced agricultural exports and increased energy imports due to drought, the higher deficit in 2024 appears to have been attributable to a slump of exports caused by the sluggish EU economy and an increase in imports brought by the growth of domestic demand. JCR views that medium- to long-term factors causing the high current account deficit include procyclical fiscal policies and declining competitiveness due to rising unit labor costs. Since these structural factors are not easy to resolve in the short time, JCR projects the current account deficit/GDP ratio to remain high in coming years although some improvements are expected in line with fiscal consolidation.

In recent years, the majority (2021-2023 average: 68%) of the current account deficit had been financed by capital inflows via net foreign direct investment and capital transfer mainly from the EU funds. These inflows do not lead to an increase in external debt and are deemed to be stable sources of external financing. However, the structure of external financing has recently been changing somewhat amid the widening of the current account deficit. In 2024, inflows of non-resident's direct investment in Romania and EU funds declined, and as a result, the coverage of the current account deficit by net foreign direct investment and capital transfer fell to 32%. External financing is expected to remain supported by inflows of EU funds in the medium term, but if dependence on other sources such as portfolio investment goes up, its stability will become more susceptible to changes in the sentiment of foreign investors.

At the end of 2024, the gross external debt/GDP ratio and the net external liabilities/GDP ratio on an IIP basis stood at 57.9% and 42.5%, respectively, both up from 56.5% and 41.2% at the end of 2023. However, the external debt position has not deteriorated significantly over a period of around five years. In addition, the majority of the net external liabilities (IIP basis) is made up of direct investment, and the net external liabilities/GDP ratio excluding direct investment was low at 9.1% at the end of 2024. The country's foreign exchange reserves increased from 59.8 billion euros at the end of 2023 to 62.1 billion euros at the end of 2024, covering 1.3 times the short-term external debt and 5.1 times the monthly imports in the year.

▼ Fiscal position

The general government deficit/GDP ratio (based on EU standards, accrual basis) expanded significantly from 6.6% in 2023 to 9.3% in 2024. According to the fiscal statistics on a cash basis, revenues in 2024 increased 10% from the previous year, partly because of the consolidation measures decided in September 2023. However, expenditures grew 19% from the previous year due mainly to rises in public-sector wages, social benefits, and capital expenditures, with the expenditure-to-GDP ratio rising by nearly 3pp. As for social benefits, cost of pension hikes was large as increases due to recalculation carried out as part of the pension reform added to those resulting from the indexation.

From around 2016 through to the period before the COVID-19 pandemic, Romania introduced large-scale tax cuts and implemented a series of increases in public-sector wages and pensions since around 2016. As a result, the fiscal deficit/GDP ratio widened to 4.3% in 2019, above the EU threshold of 3%, and the size of the deficit was large within the EU. Despite the government's efforts to curb the deficit, as exemplified by the introduction of the consolidation measures equal to around 1% of GDP in 2023, the deficit target has been revised repeatedly in recent years due to slower economic growth and expenditure overruns. Against this background, post-COVID fiscal consolidation has not progressed as planned by the government. In particular, the widened fiscal deficit in 2024 far exceeded JCR's presumption.

In accordance with the requirements under the EDP, fiscal consolidation efforts are expected to get fully underway from 2025 onwards. In fact, the government has been demonstrating its commitment to fiscal consolidation, as indicated by its decision on a consolidation package through the emergency ordinance immediately after taking office. The package focuses on curbing the growth of expenditures and includes measures such as a freeze on the level of public-sector wages and pension indexation and a halt of new hiring in the government sector. Including revenue-related measures, the size of the package is approximately 2% of GDP. As part of this will be offset by the impact of pension recalculation, the fiscal deficit/GDP ratio in 2025 is planned to be 7% according to the government's plan. In line with the EU's new fiscal rules that allow the adjustment period to be extended by up to seven years, Romania has postponed its target year for reducing the fiscal deficit to 3% of GDP to 2031. JCR expects the fiscal deficit to remain high in the medium term if no additional measures are taken.

The government is committed to implementing major tax reforms under the RRP and is also working to reform tax administration to strengthen tax collection and improve tax compliance. It also plans to push ahead with pension and public-sector wage reforms, indicating its intention to address factors that have led to unpredictable increases in spending. These reforms, if implemented, could accelerate the pace of deficit reduction, and also lead to an improvement of fiscal sustainability in the longer term. However, JCR believes that the fragmented political environment is making policy steering harder and there is a growing risk that reforms and deficit reduction measures will not proceed as planned.

The general government debt/GDP ratio rose to 54.8% at the end of 2024 from 48.9% at the end of 2023. This is still somewhat lower than the average for the countries rated in the BBB range by JCR and is also relatively low within the EU. However, the increase in the government debt/GDP ratio was larger in 2024 than in recent years due to the recording of a large fiscal deficit and the slowdown in nominal GDP growth. The ratio is expected to continue rising in the medium term and may exceed the EU's 60% threshold within a few years. The interest payment/revenue ratio rose from the 4% range in 2020-2022 to 6.4% in 2024. JCR believes that the debt burden will continue to increase as the debt balance and interest costs rise, negatively affecting the government's fiscal space and debt servicing capacity.

▼ Overall assessment

The ratings on Romania are primarily supported by the country's relatively developed economic base, comparatively low government debt level and various benefits it enjoys as an EU member state. On the other hand, they are constrained by its chronic current account deficit and large fiscal deficit stemming from structural factors. The outlook of the ratings is "Negative". In 2024, the fiscal deficit far exceeded JCR's presumption as additional spending measures were implemented ahead of the elections in the context of a slower economic growth. This has resulted in a deterioration in the medium-term fiscal outlook. The current account deficit has also remained high, with external financing less dependent on non-debt-creating capital flows. There is heightened political uncertainty due to the polarization of the parliament and the collapse of the coalition government, which could negatively affect policy implementation. JCR expects that the government will adhere to policymaking anchored by the EDP and the RRP and will closely monitor the implementation of fiscal consolidation measures and their effectiveness.

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Selected Economic and Fiscal indicators

		2020	2021	2022	2023	2024
Nominal GDP	EUR billion	221	242	282	324	354
Population (as of January)	million	19.2	19.0	19.1	19.1	19.0
GDP per capita (purchasing power parity)	USD	34,161	37,450	41,923	45,520	47,180
Real GDP growth rate	%	-3.7	5.5	4.0	2.4	0.8
Consumer price inflation (HICP)	%	2.6	5.0	13.8	10.4	5.6
Unemployment rate (annual average)	%	6.1	5.6	5.6	5.6	5.3
General government revenue/GDP	%	32.3	32.6	34.3	34.0	34.1
General government expenditure/GDP	%	41.5	39.8	40.7	40.6	43.5
General government balance/GDP	%	-9.2	-7.1	-6.4	-6.6	-9.3
General government debt/GDP	%	46.6	48.3	47.9	48.9	54.8
Current account balance/GDP	%	-5.1	-7.2	-9.5	-6.6	-8.4
Gross external debt/GDP	%	57.4	58.9	54.6	56.5	57.9
Gross external debt/exports of good and services	%	155.9	145.3	125.9	145.2	162.7
Foreign currency reserves/monthly imports	times	4.9	4.3	4.0	5.1	5.1
Foreign currency reserves/short-term external debt	times	1.1	1.0	1.0	1.3	1.3

* Figures for the most recent period could be indicators based on preliminary figures.

(Source) National Institute of Statistics, ,Ministry of Public Finance, National Bank of Romania, Eurostat

Ratings

	Rating	Outlook*	Amount	Currency	Rate (%)	Issue Date	Maturity Date	Release
Foreign Currency Long-term Issuer Rating	BBB	Negative	-	-	-	-	-	2025.03.28
Local Currency Long-term Issuer Rating	BBB+	Negative	-	-	-	-	-	2025.03.28
Japanese Yen Bonds-First Series(2024)(Green Bonds)	BBB	-	22,000	JPY	2.1	2024.10.11	2027.10.08	2025.03.28
Japanese Yen Bonds-Second Series(2024)(Green Bonds)	BBB	-	3,600	JPY	2.63	2024.10.11	2029.10.11	2025.03.28
Japanese Yen Bonds-Third Series(2024)(Green Bonds)	BBB	-	7,400	JPY	3.14	2024.10.11	2031.10.10	2025.03.28

History of Long-term Issuer Rating

(Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
1996.03.05	BB+	-	Romania
1998.09.28	#BB+	-	Romania
1998.12.15	#BB-	-	Romania
1999.04.14	BB-	-	Romania
2000.05.29	BB-	-	Romania

2001.12.12	BB-	Positive	Romania
2002.12.18	BB	Stable	Romania
2003.12.17	BB	Positive	Romania
2004.11.15	BB+	Positive	Romania
2005.09.09	BBB-	Stable	Romania
2006.11.29	BBB	Stable	Romania
2008.12.18	BBB-	Negative	Romania
2010.12.17	BBB-	Stable	Romania
2015.04.23	BBB-	Positive	Romania
2016.03.18	BBB	Stable	Romania
2020.06.22	BBB	Negative	Romania
2023.02.01	BBB	Stable	Romania
2025.03.28	BBB	Negative	Romania

*Outlook for long-term issuer rating, or direction in case of Credit Monitor

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