23-I-0059
November 27, 2023

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Romania

<Assignment> Solicited Rating

Foreign Currency Long-term Issuer Rating:	BBB
Outlook:	Stable
Local Currency Long-term Issuer Rating:	BBB+
Outlook:	Stable

<Withdrawal> Unsolicited Rating

Foreign Currency Long-term Issuer Rating:	BBB
Local Currency Long-term Issuer Rating:	BBB+

Rationale

(1) The ratings are primarily supported by the country's relatively developed economic base, low government debt and the benefits it enjoys as an EU member state in the forms of subsidy and improvement on institutional frameworks. On the other hand, they are constrained by the constant current account deficit and the large fiscal deficit stemming from structural factors. Under the EU's excessive deficit procedure (EDP), the government has been addressing the reduction of the fiscal deficit, which swelled due to the impact of the easy fiscal policies promoted in the past and the COVID-19 pandemic. JCR expect that effects of the fiscal consolidation efforts will materialize in the medium-term as the government is demonstrating its clear commitment, actively promoting structural reforms anchored by the Recovery and Resilience Plan (RRP). The country's current account deficit will remain large in the medium term, but risks associated with its external finance is mitigated partly by the stable capital inflows from the EU funds. Based on the above, JCR assigned a "Stable" rating outlook.

(2) Following the accession to the EU in 2007, Romania has achieved economic development supported by the inflow of direct investment from advanced countries as well as through trade and financial ties with other EU member countries. Its per capita GDP exceeded USD 40,000 in PPP terms in 2022, and its governance indicators are also relatively high among the sovereigns rated in the BBB range by JCR. As for energy supply, the country is less dependent on Russia for natural gas as it covers around 80% of its gas demand with domestic production. The degree of self-sufficiency for gas is expected to be further enhanced in the future through the various initiatives the country is taking such as the development of the gas field in the Black Sea, which is scheduled to start production in 2026. The Romanian economy has been negatively affected by the surging commodity prices triggered by Russia's invasion of Ukraine and the economic deceleration in its major trading partners in the EU. Nevertheless, its performance has been relatively solid compared with those of other Central and Eastern European countries. Private consumption has been slowing since the second half of 2022 amid surging inflation, but the expansion of EU-funded investment has been supporting the economic growth. Real GDP growth in 2023 is set to slow down from 4.7% recorded in 2022 but still expected to be higher than 2%. A large amount of EU funds is allocated to Romania under the 2021-2027 multiannual financial framework and the Recover and Resilience Facility (RRF), inflow of which will continue to support economic growth in the medium term. JCR projects that Romania's real GDP growth will strengthen to the 3% level as inflation calms down and the EU economy picks up. JCR also notes that the RRF is an important factor in the assessment of Romania's creditworthiness, given that it serves as an incentive to promote reforms since disbursement of the funds is conditional on the implementation of investments and reforms set out in the RRP.

(3) Romania's current account balance has been constantly in deficit, which widened to 9.3% of GDP in 2022, the highest since 2009. While the higher energy prices partly explain the increased deficit, JCR views that much of it stems from the expansion of domestic demand and the deterioration of competitiveness due to the rise of the unit labor cost. The current account deficit therefore may remain large in the medium term, but some improvement is expected in line with fiscal consolidation. In 2022, around half of the current account deficit continued to be financed with the inflow of direct investment and capital transfers from the EU funds. Against this background, the high current account deficit has not led to a rise of the external debt to GDP. The stable inflow of the EU funds is expected to continue

to underpin the country's external financing for the time being. The country's financial system stays stable. Over the past decade or so, the banking sector has made progress in improving its funding structure by lowering reliance on foreign borrowings and reducing foreign currency loans. These have contributed to strengthening the sector's resilience to external shocks. Banks have been maintaining stable profitability and adequate capitalization, with their nonperforming loan ratio staying stable despite the weaker economic conditions and rising interest rates.

(4) The general government deficit (ESA basis), which widened to 9.3% of GDP in 2020, decreased to 6.3% of GDP in 2022, supported by higher tax revenues brought by economic recovery, decreased pandemic-related spending, and restrained expenditures. At 47.2% at the end of 2022, the general government debt to GDP ratio has been staying at a low level. The country's large fiscal deficit is attributable to the measures implemented in the past, including tax reductions, hikes of public-sector wages and increases in social benefits, especially pensions. The government is demonstrating its clear commitment to fiscal consolidation, aiming to reducing the deficit towards 3% of GDP in the medium-term as required under the EDP. The deficit in 2023 is not expected to decrease as much as the government planned, staying at a similar level recorded in 2022 partly affected by slower economic growth and the wage increase for certain public sector workers. From 2024 onwards, while the pension reform will lead to an additional pressure on the fiscal balance in the short-term, JCR expects that reduction of the deficit will gradually progress given the consolidation package of slightly above 1% of GDP will be implemented in 2024 and the cost of the support measures related the energy crisis will phase out. The government is currently working on the reforms to improve tax collection and enhance tax compliance in line with the RRP, effect of which is also expected to materialize in the medium-term. Spending pressures may mount ahead of the general and presidential elections scheduled at the end of 2024. Nevertheless, JCR holds that fiscal discipline will be largely maintained as the EDP and the RRP will continue to act as a policy anchor. The government debt-GDP ratio is projected to stabilize at around 50% in the medium-term supported by deficit reduction and nominal GDP growth.

Atsushi Masuda, Haruna Saeki

Rating

Issuer: Romania

<Assignment> Solicited Rating

Foreign Currency Long-term Issuer Rating: BBB   Outlook: Stable

Local Currency Long-term Issuer Rating : BBB+   Outlook: Stable

<Withdrawal> Unsolicited Rating

Foreign Currency Long-term Issuer Rating: BBB   Outlook: Stable

Local Currency Long-term Issuer Rating : BBB+   Outlook: Stable

Rating Assignment Date: November 21, 2023

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "Sovereign and Public Sector Entities" (October 1, 2021) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Romania
Rating Publication Date:	November 27, 2023

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base
The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base
The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions
The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy
The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government
The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment
The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government

  B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer, some independent media or, otherwise, JCR analyst’s scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR’s service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Economic Base
The credit rating is subject to alteration if there is an improvement or deterioration of the issuer’s economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

B) Fiscal Base
The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

C) External Positions
The credit rating is subject to alteration if there is a change in the issuer’s international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

杉浦輝一

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General Manager of International Rating Department

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