February 11, 2020

Lead analysts:

Zhannur Ashigali, Associate Director
+7 (495) 139-0302 ext.157
zhannur.ashigali@acra-ratings.ru

Dmitry Kulikov, Associate Director
+7 (495) 139-0492 ext.122
dmitry.kulikov@acra-ratings.ru

Romania

The government of Romania (hereinafter, Romania, or the country) has been assigned the following ratings under the international scale:

- **Long-term** foreign currency credit rating at **BBB** and local currency credit rating at **BBB**;
- **Short-term** foreign currency credit rating at **S2** and local currency credit rating at **S2**.

The outlook on the long-term foreign currency credit rating is **Stable** and local currency credit rating is **Stable**.

Credit rating rationale

Positive rating assessment factors	• Currently solid economic growth. • Diminishing external debt in the economy. • Low level of public debt and external debt.
Negative rating assessment factors	• Risks for long-term economic growth stemming from demographic trends and low innovation capacity. • High volatility of inflation. • Growing rigidity of public sector expenditures. • Low external debt coverage.
Stable outlook	• The Stable outlook assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.
Potential rating upgrade factors	• Structural reforms that will affect investments in infrastructure, human capital, mitigate negative emigration tendencies and support medium-long term growth perspectives. • More tangible efforts to constrain fiscal deficit and thus allowing to mitigate current account imbalance volume. • Stabilization of inflation within the target bands of 1.5–3.5% a year.
Potential rating downgrade factors	• Significant increase in the level of public debt and/or contingent liabilities of public sector. • Tangible drop of economic growth to levels of lower than 3% with sustained double-deficit of fiscal and current account balances. • Substantial decline of reserve coverage ratios, especially for the external FX debt.

Sovereign model results

Block	Indicative block rating	Modifier	Score	Modification of an indicative rating of a block	Final block rating
Macroeconomic position	A+	Potential economic growth	-1	-2	A-
		Sustainability of economic growth	-1		
		Efficacy of structural, economic and monetary policies	-1		
Public finances	BBB	Contingent liabilities and risk of them materializing on the sovereign’s balance sheet	0	-2	BB+
		Fiscal policy framework and fiscal flexibility	-2		
		Market access and sources of funding	-1		
		Debt sustainability	-1		
External position	A	Balance of payments vulnerabilities	0	-1	A-
		External debt sustainability	-1		
		Stability of currency regime	0		
Institutional framework	BBB-	Willingness to pay	0	0	BBB-
		History of defaults	0		
		Political instability and recent political decisions	0		
		Involvement in geopolitical conflicts, exposure to geopolitical risks	0		

Assigned credit rating

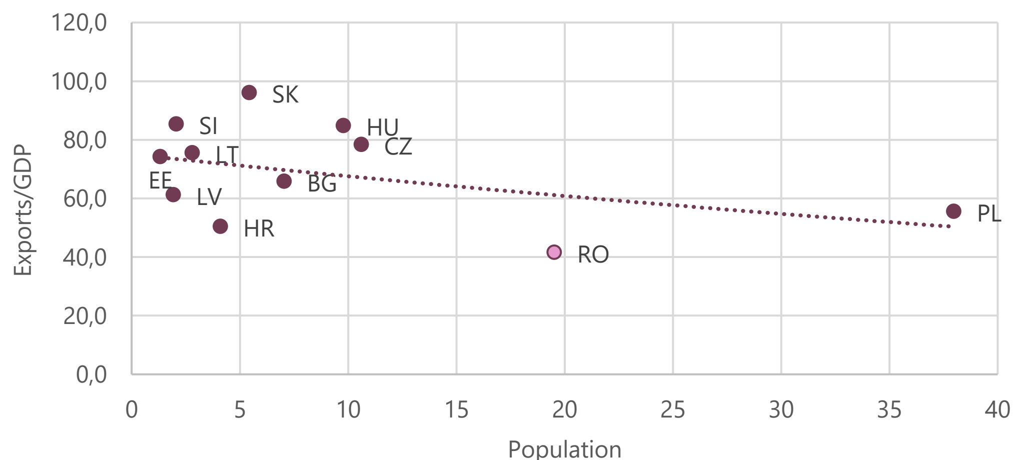
Indicative credit rating	A-
Modifier corrections to the indicative credit rating	-2
Final credit rating	BBB
Assigned credit rating	**BBB**

MACROECONOMIC SITUATION AND ECONOMIC POTENTIAL

Romania has experienced strong economic growth based on a procyclical pattern in its fiscal policy and the resulting domestic demand.

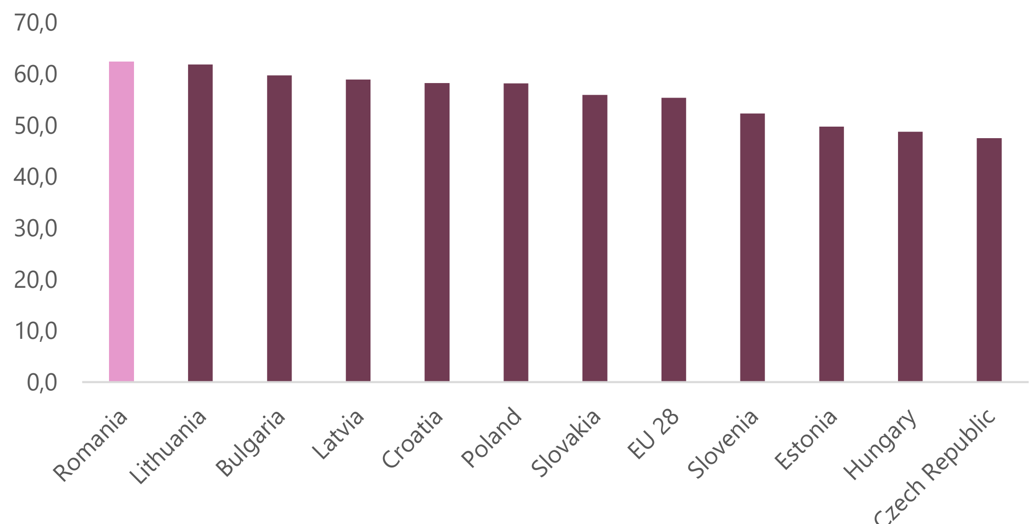
Middle-income country with an economy mainly driven by domestic demand. Romania is a middle-income country with a GDP per capita (by purchasing power parity) of 26.4 thousand international dollars, which is the third lowest among EU countries. Similar to most Central and Eastern Europe EU (EU CEE) countries, manufacturing plays a strong role in Romania's economy. In 2018, the share of manufacturing in the gross value added stood at 19.9%, the fifth highest in the EU. In contrast, compared to EU CEE peers, Romania's economy is less export oriented. In 2018, exports accounted for only 41.6% of GDP, which is unusually low for a mid-sized EU country (*Fig. 1*). Romania's export diversification is moderate in terms of products, with its main exports being vehicles and electric machinery, which both amounted to more than 15% of merchandise exports in 2017. Export diversification is moderate in terms of partners as well, with more than 20% of exports going to Germany and more than 10% to Italy. With lower participation in international trade, the country's economy is more dependent on domestic demand. Household consumption accounted for 62.4% of GDP in 2018, the fifth highest in the EU (*Fig. 2*). This is caused partially by Romania's geographic location on the periphery of the EU (Romania borders only two EU countries), which somewhat constrains the country's ability to participate in intra-EU trade.

Figure 1. Exports to GDP and population for EU CEE countries, 2018



Source: Eurostat

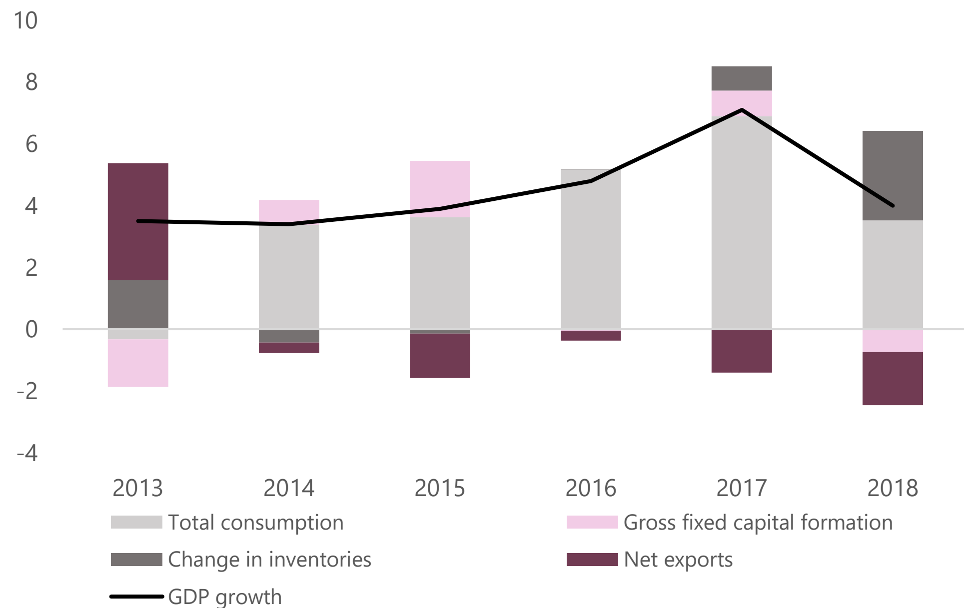
Figure 2. Household and non-profit institutions' consumption expenditures out of GDP, 2018



Source: Eurostat

Romania's GDP growth has been robust in recent years. Since 2016, it has averaged 5.3%, the third highest in the EU, primarily due to domestic consumption (*Fig. 3*) supported by strong growth in real wages. According to Romania's National Institute of Statistics, real net earnings have grown by 9.8% on average over the past five years. Growth is likely to remain robust in 2019, as Romania's relatively low share of exports in GDP partially shields it from the effects of the global economic slowdown. The latest projections from international institutions (IMF, European Commission) point to an increase of around 4% in 2019 (close to the 2018 level) before slowing to around 3.5% in 2020.

Figure 3. GDP growth composition



Source: AMECO

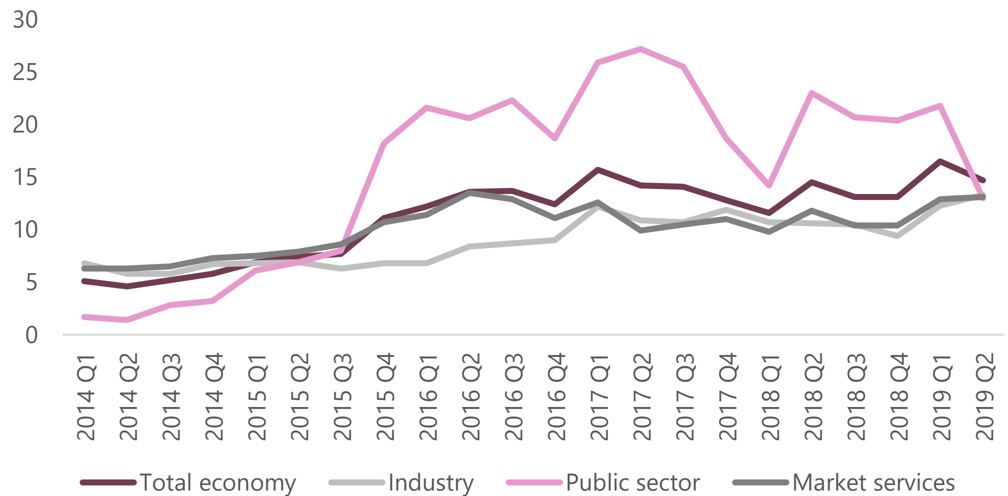
In the medium term, however, ACRA believes that risks to growth are tilted to the downside due to following factors:

(1) History shows that the current resilience to the global economic slowdown might fade if headwinds continue. GDP contracted heavily at the height of the financial crisis in 2009 and 2010 (by 5.5% and 3.9%, respectively).

(2) Growth is supported significantly by the widening "twin deficits" of the general government and the current account balances. This growth structure is subject to the willingness of investors to finance government deficits and capital inflows. Without this, financing the twin deficits could be constrained and, therefore, economic growth as well.

(3) Romania's consumption-heavy growth model depends on wage growth. Robust growth in wages in recent years has been driven mainly by administrative measures, namely a strong increase in public sector wages as well as the minimum wage. In 2016–2018, public wages grew by an average of more than 20% annually, approximately double the rate of the wage increase in the private sector. As a result, the gap between the public and private sectors is widening, as public sector gross wages are higher by approximately 40% compared to the private sector. ACRA believes that current wage growth dynamics are unsustainable without a significant improvement in productivity growth and that significant moderation in real wage growth in the medium term is very likely. Therefore, consumption will contribute less to economic growth.

Figure 4. Year-on-year wage growth by sector, %



Source: National Bank of Romania (NBR)

In contrast, improved absorption of EU funds would be a positive factor for Romania's growth in the medium term. Over the past two years, net budgetary transfers from the EU have dropped below 2% of GNI. This is low in ACRA's view, as Romania is entitled to considerable EU funding given its low GDP per capita. Considering its low absorption rate (34% by December 2019), Romania has the potential to increase its utilization of EU funds in the coming years. Sources from the current EU financial framework can be utilized until 2023, although it officially ends in 2020. While the upcoming 2021–2027 EU financial framework will likely be lower in terms of GDP and less focused on cohesion and regional development, Romania is likely to remain entitled to significant contributions from the EU budget given its low GDP per capita compared to EU average.

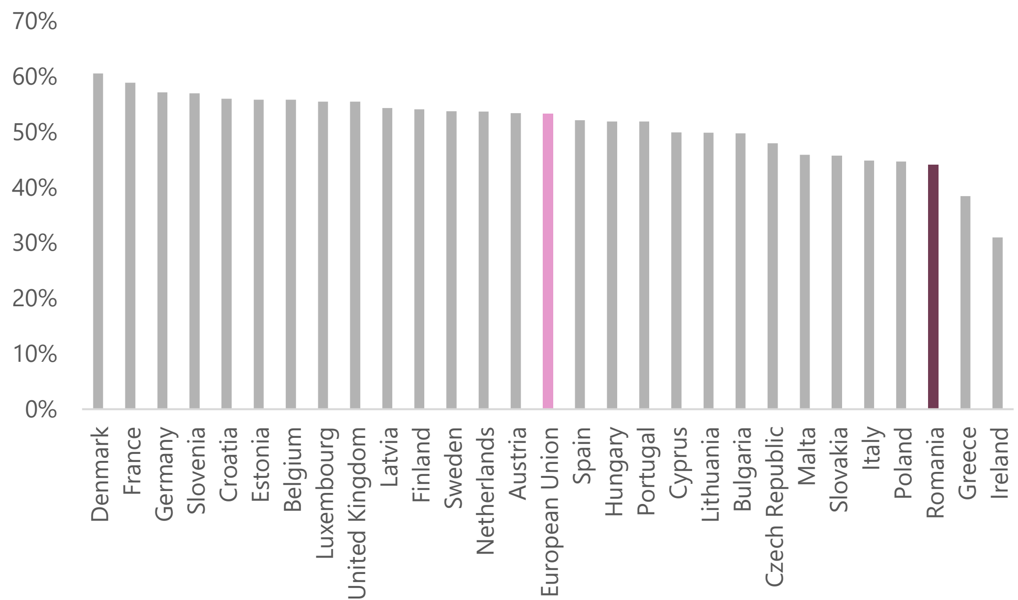
Figure 5. Average net budgetary transfers from the EU (% of GNI) for the EU CEE, 2010–2018

Source: European Commission

Weak competitiveness and demographics challenge the economy. In the long term, Romania will face challenges related to competitiveness and demographic developments. The decoupling of wage growth from productivity growth is strong due to low share of compensation out of the gross value added (*Fig. 6*) and labor costs remaining very low compared to EU peers[1]. Despite this, ACRA does not foresee an imminent risk of substantial loss of competitiveness. However, in order to sustain higher wage growth in the longer term, the country's economy has to boost its innovative potential.

[1] EUR 6.8 per hour in 2018, while the EU CEE average stood at 10.5 and EU 28 average at 22.1.

Figure 6. Share of compensation of employees on gross value added in the EU, 2018



Sources: AMECO, ACRA

Romania's innovative capacity is poor by EU standards. In 2015–2017, Romania spent only 0.49% of its GDP on R&D, the least among EU countries. The country is also among the worst in the EU in terms of quality of research (measured by the Adjusted Research Excellence Index), the number of patents and R&D personnel per capita, and PISA scores. Moreover, the free movement of labor within the EU increases brain drain. Romania's competitiveness is constrained by low regulatory quality as well; it scores among the worst EU countries in both the Global Competitiveness Index and Doing Business rankings. The country's business environment is unpredictable due to frequent changes in legislation. The tax code alone was subject to 86 new measures in 2013–2018.

Demographic trends are negative due to high emigration and low fertility rates. While the fertility rate at 1.7% is above the EU average, it is still below the replacement level, which is high for Romania considering the high emigration rates. In 2008–2017, Romania lost on average 0.3% of its population annually due to net migration, and its net migration rate was the third-worst in the EU. The working age population is projected to shrink by 30% by 2060, which would constrain GDP growth in the long term. Moreover, Romania suffers from very high inequality by EU standards. In 2018, the GINI index stood at 35.1, while the EU stood at 30. This implies lower upward mobility within society, constraining the utilization of human capital.

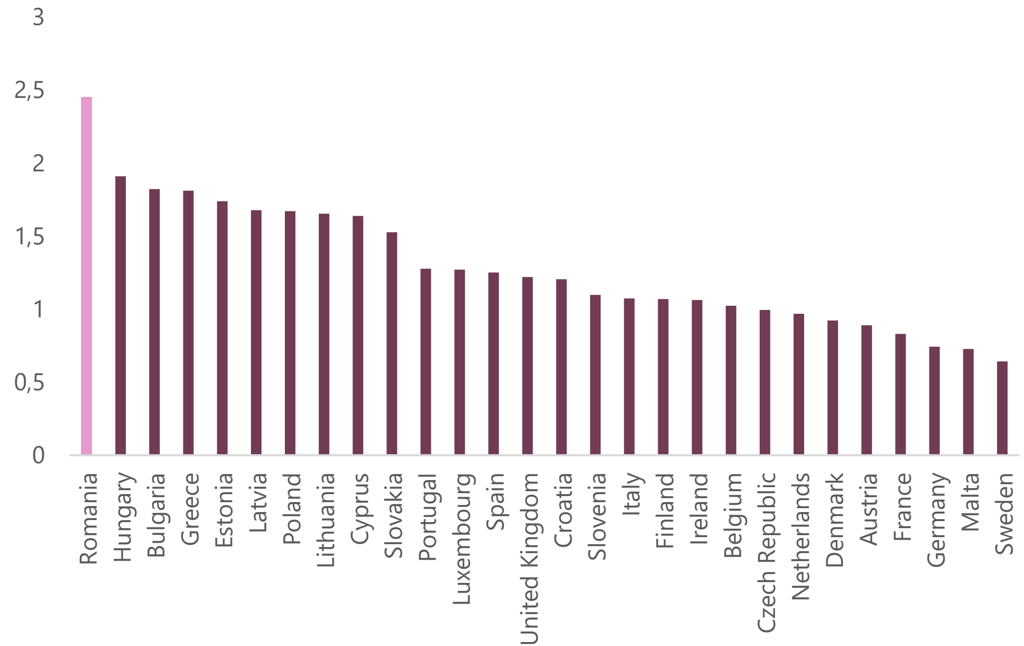
Taking all of this into account, the country's economic growth is very likely to slow down substantially in the long term due to low innovative capacity, constraints on competitiveness, and negative demographic trends. The European Commission projects the potential growth rate to slow to below 1.5% by 2040.

Inflation is very volatile by EU standards, due in large part to frequent changes in indirect taxation.

Inflation is close to the target-corridor bounds. Inflation in Romania is very volatile by EU standards. Over the past 10 years, the average annual HICP inflation has fluctuated between -1.1% and 6.1%. Within this period, the year-end inflation has been within the NBR's target range four times based on national CPI inflation data. The 10-year volatility of the average annual HICP inflation rate is close to 2.5%, by far the highest among EU countries. This reflects, among other things, frequent changes in indirect taxation and administered prices. Looking at the HICP inflation at constant tax rates, the average annual inflation has been running either within the target corridor or very close to it over the last ten years, implying that frequent changes in taxation are playing a significant role in the volatility of inflation (*Fig. 8*).

This creates challenges in anchoring inflation expectations. While ACRA acknowledges that the challenges for Romania's economy stem from the worsening external environment, further progress in the NBR's policy tightening would contribute to a better anchoring of inflation expectations in ACRA's view, should the inflation continue to run above the target range and the output gap remain positive.

Figure 7. 10-year volatility of annual inflation

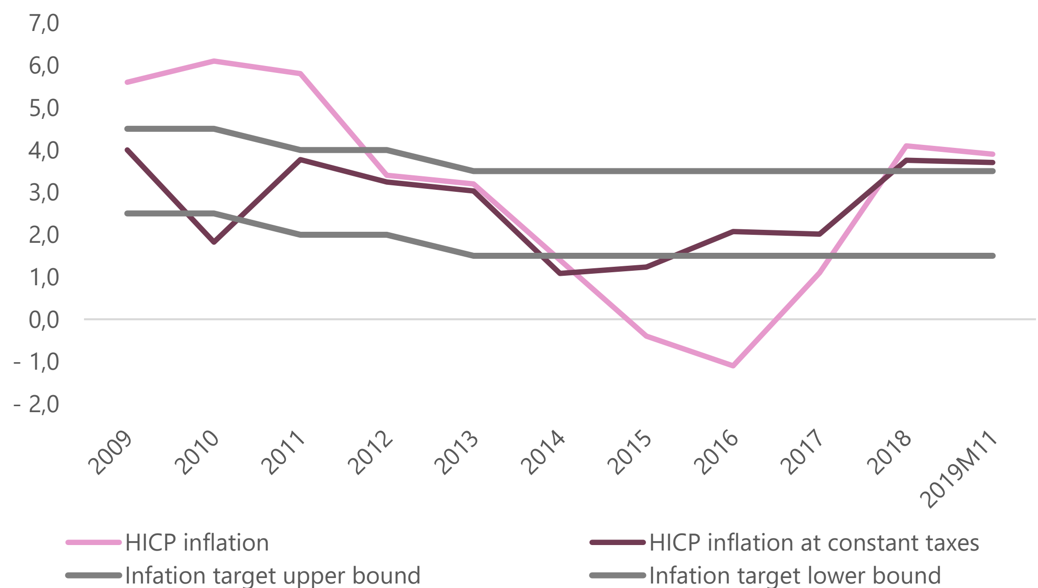


Source: Eurostat, ACRA

NBR's policy rate hardly matches the scope of the problem with inflation outturn.

In 2018, inflation stood at 4.1%, which was the highest level in the EU. It was driven mainly by food and energy prices. In the first eleven months of 2019, it moderated slightly to 3.9%, mainly due to a slowdown in energy prices. ACRA expects the inflation rate to remain elevated in the medium term, as robust wage growth is likely to spill over into prices in the non-tradable service sector.

Figure 8. Dynamics of the average annual HICP inflation at current and constant taxes

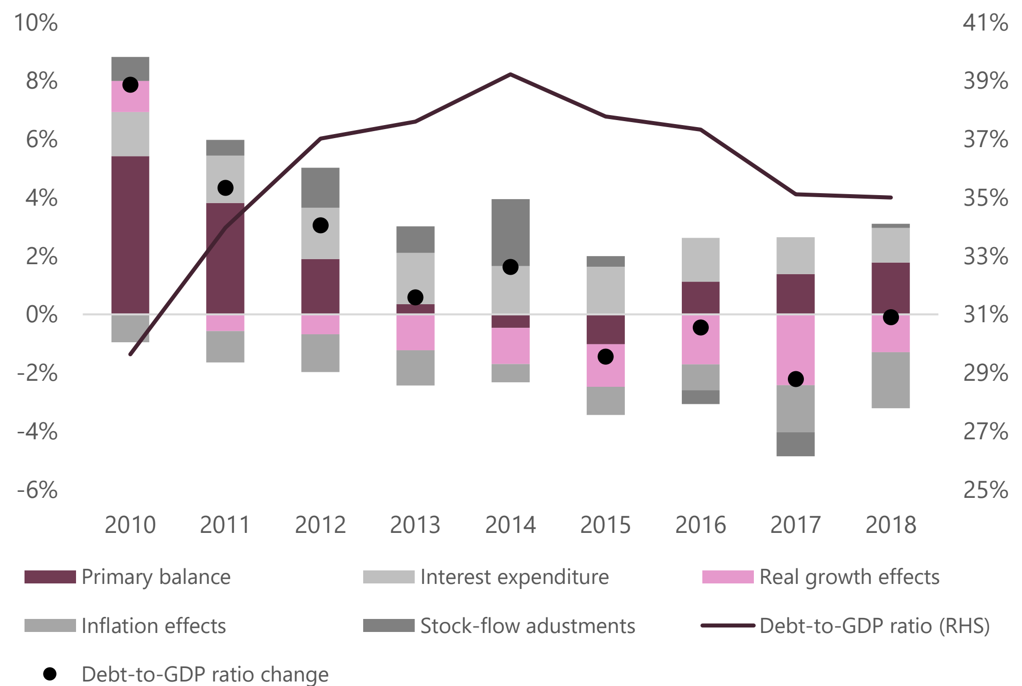


Source: Eurostat, NBR, ACRA

PUBLIC FINANCE

Romania's general government debt is low by EU standards. In 2018, it stood at 35% of GDP (109% of revenue). However, its decline since its 2014 peak of around 39% of GDP can be attributed mainly to very strong nominal GDP growth, which has averaged 9% since 2015. High nominal GDP growth disguises the deteriorating primary balance, whose deficit widened to 1.8% of GDP in 2018. The overall general government deficit (including interest expenditures) stood at 3.0%, the second worst in the EU.

Figure 9. Contributions to the change in the debt to GDP ratio



Sources: Eurostat, ACRA

The country's low level of publicly held debt is a supporting trend for the public finance group of factors.

The general government balance is projected to widen further due to recent legislative measures including increases in public wages and pensions. Both the IMF and the European Commission project a deficit of around 3.5% GDP in 2019, far above the government's initial target of 2.8% and the 3% EU budget rule. The government has recently raised the target for the cash deficit to 4.43% of GDP. Deficits are likely to remain elevated in the coming years, as the new pension law assumes doubling pensions from the pay-as-you-go pension pillar by 2022. The IMF estimates an increase in pension spending as a share of GDP by 3.2% by 2022 compared to a non-policy change scenario. With no additional fiscal effort and slowing nominal GDP growth, debt to GDP is expected to increase rapidly in the coming years. The European Commission expects it to increase to above 60% within 10 years.

Romania's debt structure indicates some risk. The domestic financial market is shallow, therefore Romania has to rely heavily on external financing. Moreover, recent measures lowering contributions to the private pension pillar are likely to have an adverse effect on the availability of domestic funds to finance new debt. The share of both external and foreign exchange denominated debt are close to 50%. Moreover, foreign exchange denominated debt coverage by international reserves is only slightly above 100%. Coverage could drop below this threshold if there is an increase in FX debt or central bank interventions in the FX market to support the currency.

However, the redemption profile of the government debt mitigates risks. The average residual maturity of the general government debt, which stood at 6.9 years in October 2019, is the highest among non-Eurozone EU-CEE countries.

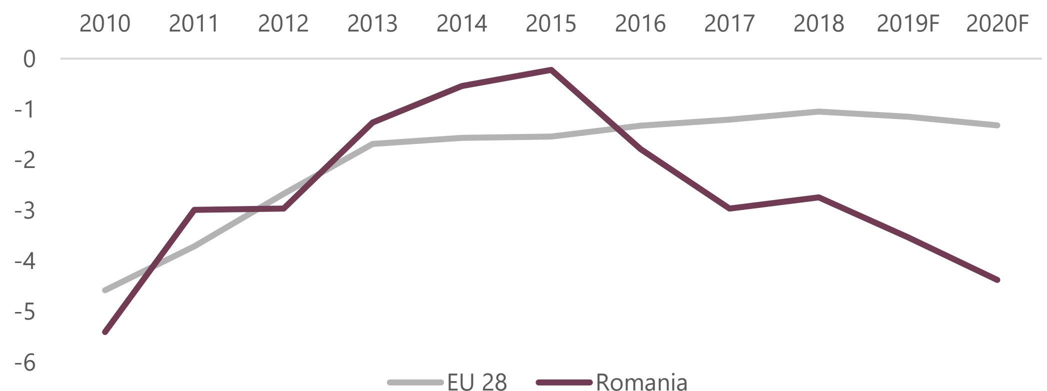
Figure 10. Risk characteristics of debt for non-Eurozone EU CEE countries (2018 or later)

	Share of external debt	Share of FX debt	Average residual maturity (years)	Reserve coverage of FX debt
Romania	47.8%	50.4%	6.9	113%
Bulgaria	44.4%	81.7%	6.2	243%
Czech Rep.	40.1%	12.0%	6.2	1619%
Croatia	36.7%	75.1%	4.1	69%
Hungary	36.5%	22.8%	4.0	136%
Poland	50.2%	31.0%	4.9	142%

Sources: Eurostat, ECB (EU methodology)

ACRA considers Romania's fiscal framework to be weak. Despite having a set of fiscal rules in place, the sanction mechanisms are weak and the government has not respected them in recent years. The balanced budget law calls for a structural deficit below 1% of GDP or the establishment an appropriate path to achieve this objective if this figure exceeds 1%. In fact, the structural balance gradually worsened from to -0.1% of potential GDP in 2015 to -2.7% in 2018, and the European Commission expects this trend to continue in the coming years. Taking into account robust economic growth in recent years, the country's fiscal stance is strongly pro-cyclical, which prevents it from building fiscal cushions for headwinds, i.e. downturns in the business cycles. Debt rules stipulate that the debt to GDP ratio shall not exceed 60% of GDP. Although Romania complies with this rule, it has not been tested yet due to relatively low debt levels.

Figure 11. Structural budget balance of Romania and EU 28 including the European Commission's forecasts (% of potential GDP)



Source: AMECO

Fiscal flexibility is deteriorating due to increases in wage and pension bills. The share of wages, social transfers, and interest payments on total revenues rose to 74% in 2018 from around 60% in 2014–2015. This can be explained partially by lower EU fund absorption in 2017–2018, which has lowered government revenue. Nevertheless, this figure is the 7th highest in the EU, the highest among EU CEE countries, and is likely to increase further as a result of pension increases and ongoing wage increases in the public sector. Budget flexibility is also constrained by the high volatility of general government revenues. Over the last five years, the volatility of revenues to GDP ratio has stood at 1.65%, the third highest in the EU.

Potential pension liabilities imply increased fiscal burden in the medium term.

Romania has some room to increase its budget flexibility by increasing its tax level. The tax to GDP ratio at 27.1% in 2018 was the second lowest in the EU, while the EU average stood at 40.3%. However, room to increase revenues is constrained by significant issues with tax collection. According to the latest EU VAT gap report, the difference between actual and estimated VAT revenues was estimated at 35.5% in 2017, the highest in the EU (for the EU, the figure stood at 11.2%). Romania has lost EUR 6.4 bln (3.4% of GDP).

Contingent liabilities are related mainly to the financial sector. Non-financial sector liabilities stood at 5% of GDP in 2017 (the second lowest in the EU) and are mainly related to government guarantees and the liabilities of state owned enterprises (SOE). ACRA notes that more than 40% of the SOE liabilities are attributable to loss making enterprises, which are more likely to need state support. Nevertheless, the share of their liabilities stood only at 1.16% of GDP, which is below the EU average.

Although Romania’s banking sector performance is stable, ACRA see several risks:

(1) The banking system shows signs of moderate euroization. Approximately a third of loans and deposits are denominated in foreign currencies (mostly euros), making it susceptible to exchange rate risk.

(2) Government bonds constitute a relatively high share of banking sector assets (over 21%, the second highest in the EU), which makes the banking sector susceptible to increases in spreads on government bonds.

(3) Recent changes in legislation (e.g., bank asset taxes that are reduced based on credit growth, new reference rate for household loans) have the potential to distort credit allocation and negatively impact the profitability of banks.

In contrast, ACRA sees several factors mitigating the risks to the financial sector:

(1) Banking sector indicators are strong. All relevant indicators are better than the unweighted average for EU countries. Romania’s banks are very profitable. In 2018, their return on equity was the second highest in the EU.

Figure 12. Banking sector indicators for Romania compared to the unweighted EU average

	Common Equity Tier 1 Ratio	Liquid Assets to Short Term Liabilities	Leverage Ratio	Return on Equity	Non-Performing Loans Ratio	Loan Loss Provision Ratio
Romania	17.2	50.9	8.9	13.6	4.1	83.2
EU-unweighted average	17.1	40.8	12.3	8.1	4.9	57.7
Period	Q1 2019	Q2 2019	Q1 2019	2018	Q1 2019	Q1 2019

Sources: ECB, ACRA

(2) Total credit to the private non-financial sector is the lowest in the EU. In Q2 2019, it stood at only 48.2% of GDP (15.7% of GDP is attributable to households and 32.5% to non-financial corporations). Moreover, the dynamics are positive, the ratio has declined steadily since 2012, pointing to the low risk of credit bubbles.

(3) The NBR has introduced measures to limit lending to low income borrowers by capping the maximum level of indebtedness to 40% of net income in domestic currency and 20% in foreign currency.

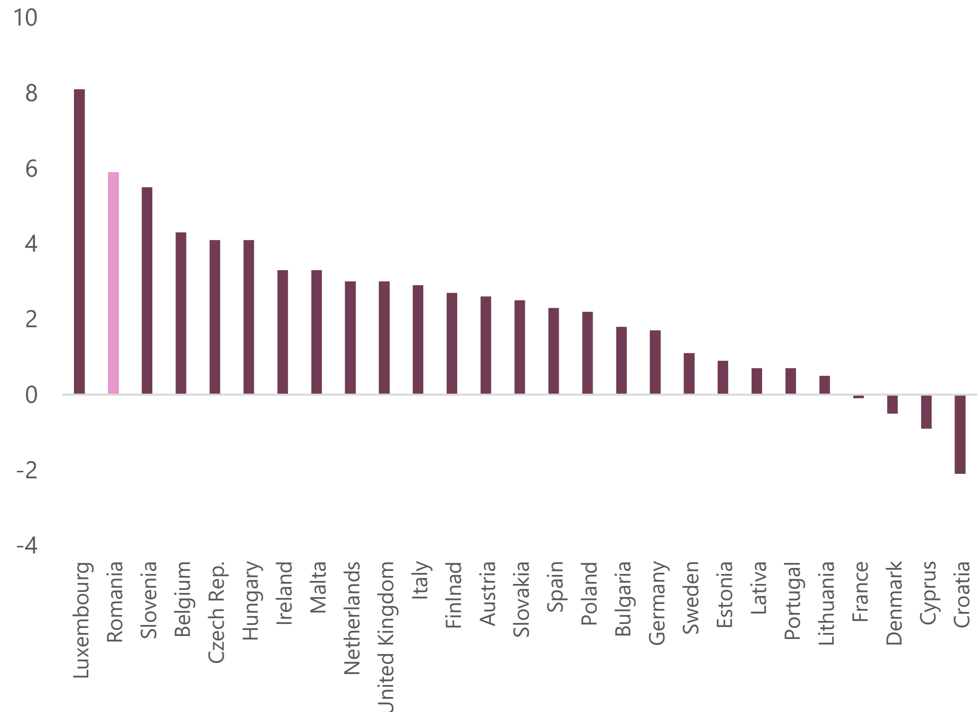
(4) Romania’s financial sector has been very resilient during the financial crisis. Despite a sharp increase in non-performing loans, Romania was one of the few EU countries that did not have to provide direct assistance to its financial sector. This was due to the high foreign ownership of banks, as 75% of banking sector assets are held by banks with foreign capital.

Taking all of this into account, ACRA considers the contingent liability risks to Romania’s public finances stemming from the banking sector as contained.

In the long term, the country’s debt sustainability will face challenges due not only to the current state of public finances, which puts the debt to GDP ratio on a growth trajectory in a non-policy change scenario, but also costs related to aging. The European Commission estimates an increase in pensions, healthcare, and long-term care costs of more than 3% of GDP by 2060 and states that Romania has to undergo an upfront permanent fiscal

adjustment of 5.9% GDP, the second highest in the EU, in order to stabilize the debt to GDP ratio in the long term. Recent measures, including a robust increase in pensions, are very likely to push this figure even higher. A delay in addressing these challenges could lead to deterioration in Romania's creditworthiness.

Figure 13. The European Commission's S2 ratio (upfront and permanent fiscal effort needed to stabilize debt to GDP in the long term), 2018



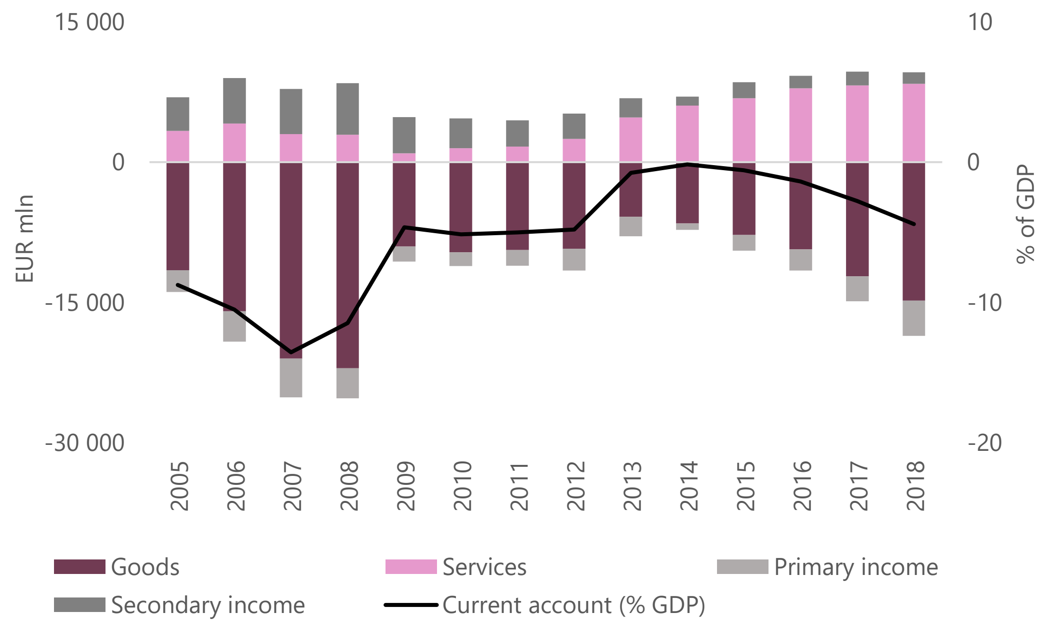
Source: European Commission

EXTERNAL POSITION

The current account deficit has widened significantly from an almost balanced position in 2014 on the back of a deteriorating merchandise trade balance. In 2018, the current account deficit reached 4.4% of GDP, the highest among EU countries (along with Cyprus). It is projected to further widen in 2019 to above 5% due to strong domestic consumption supported by fiscal expansion, and a slowdown in export growth in light of a weakening external environment. The growing current account deficit coupled with moderating economic growth could trigger depreciation of the local currency, which recorded the second weakest performance against the euro among the EU CEE currencies in the past decade. Potential currency depreciation, which may materialize in the conditions of a severe financial crisis or further widening of the twin deficit, could make the government and others sectors' debt load heavier due to the high portion of FX debt in the total indebtedness and its insufficient coverage.

Looking at the structure of the trade deficit, the widening has been driven almost exclusively by consumption goods, which points to increased consumption financed by an increase in external liabilities. This development is susceptible to the willingness of the external sector to finance the current account deficit, which may erode should global financial conditions undergo a sharp tightening (as was the case in 2009), or in the event of further widening of domestic imbalances.

Figure 14. Components of Romania's current account balance



Source: NBR

The current account deficit is mainly financed by foreign direct investments (FDI) and surpluses on the capital account related to EU transfers. In the last five years, net FDI averaged 2.3% of GDP, whereas the surplus of the capital account stood at 2.0% of GDP. The contribution of portfolio investments (mainly in government bonds) is relatively low — it has averaged 1.1% of GDP, which mitigates the risk of sudden capital outflows. In addition, the current account balance is propped up by services, whose net export reached 4.1% of GDP, and personal remittances receivable, which accounted for 2% of GDP in 2018.

External debt to GDP has been declining in recent years as a result of stagnating external debt coupled with robust GDP growth. It has fallen since its peak of 77.5% of GDP in Q2 2011 to 50% in Q2 2018, which is very low by EU standards. However, Romania only has limited access to external financing in local currency, which makes its ability to refinance external debt susceptible to currency risks. The share of FX debt in external debt stood at 85% in Q2 2019, the third highest among the non-Eurozone EU CEE countries. Reserve coverage of FX debt is low — in Q2 2019, it stood at 42%. The coverage of external debt maturing in 12 months starting from Q2 2019 stands at around 80%. Assuming that the maturing external debt has the same currency composition as the total external debt, the reserve coverage of the FX external debt and FX interest payments due in one year is below 100%. This makes Romania's external position susceptible to refinancing risk in case of a sudden shift of investor sentiment toward the country's assets.

However, the refinancing risk is mitigated by the structure of external debt. More than 30% of it can be attributed to intercompany lending, which ACRA views as a stable source of financing. Almost 40% can be attributed to the general government, which has a relatively long residual maturity, leaving around 30% to banks and private non-financial sector, which are more prone to refinancing risk.

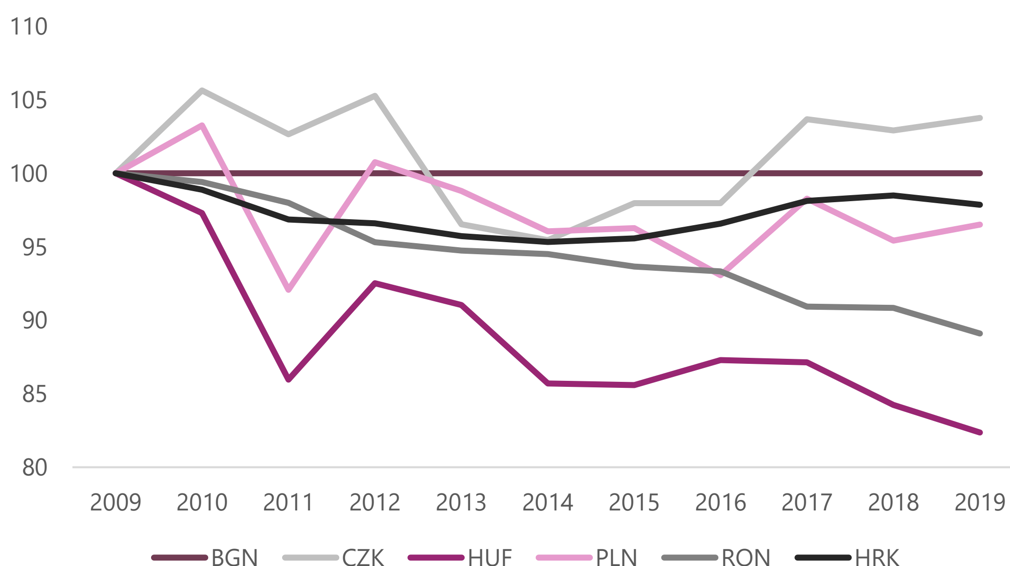
Figure 15. Risk characteristics of Romania's external debt and non-Eurozone EU CEE peers (Q2 2019)

	External debt (% of GDP)	FX external debt (% of total)	Reserves (% of FX external debt)	External debt of private NFC sector excluding direct investments (% of total)	Net international investment position (% of GDP)
Romania	50.0%	84.9%	41.1%	31.4%	-45.1%
Bulgaria	63.7%	96.7%	75.4%	44.1%	-31.8%
Croatia	84.7%	94.1%	47.4%	47.6%	-57.3%
Hungary	101.8%	76.3%	25.2%	26.8%	-49.0%
Czech Republic	80.0%	49.2%	153.6%	59.7%	-20.6%
Poland	60.8%	62.3%	54.1%	35.8%	-52.8%

Sources: Eurostat, ECB, World Bank, ACRA

The Romanian leu is slowly depreciating against the euro. Over the last 10 years, the leu has been on a modest depreciation path against the euro, on average losing 1.1% of its value annually. The leu's performance against the euro was the second weakest among the EU-CEE currencies in the past decade. In ACRA's view, this trend is likely to continue in the medium term as a result of the twin deficits, elevated inflation and an expected slowdown in economic growth.

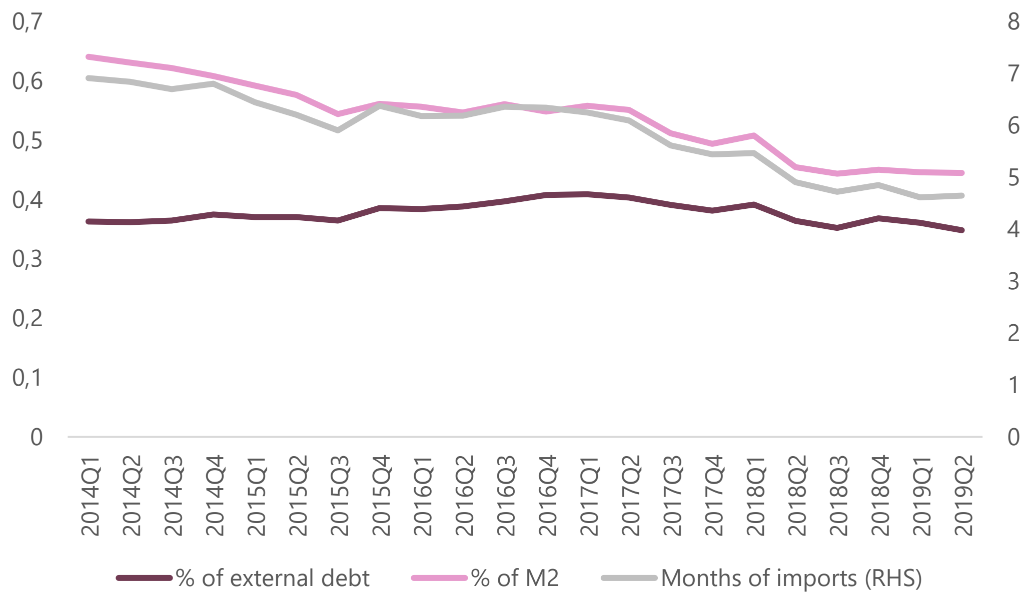
Figure 16. Performance of non-Eurozone EU CEE currencies vs. the euro (31.12.2009=100)



Sources: ECB, ACRA

With the exception of short-term debt, reserve coverage ratios are adequate despite stagnating reserves. Reserve coverage ratios are declining as stagnating reserves cannot keep up with Romania's growing economy. They currently cover 35% of external debt, 4.6 months of imports, and 47% of M2. However, despite this decline, reserve coverage ratios are close the average of Romania's EU CEE peers and ACRA assesses them as adequate, except for the aforementioned coverage of short-term debt.

Figure 17. Reserve coverage ratios

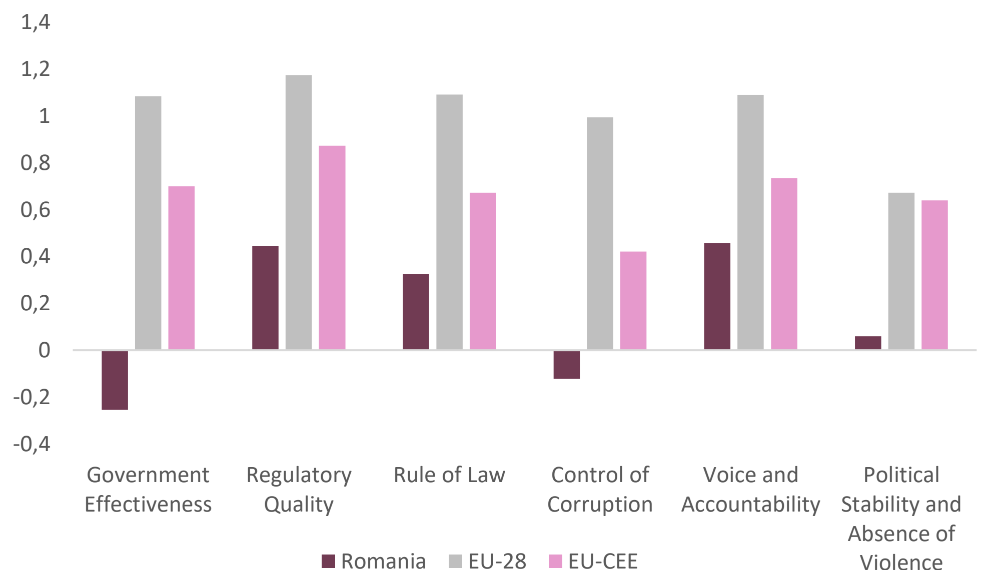


Sources: ECB, Eurostat, NBR, ACRA

INSTITUTIONAL FACTORS

The average score for Romania's Worldwide Governance Indicators (WGIs) is only slightly above the world average and is the worst in the EU. Romania is lagging behind, especially in the Government Effectiveness and Control of Corruption categories, which could imply a relatively high level of rent seeking and misallocation of resources in the economy with a potentially negative impact on economic growth. Romania's government effectiveness, which has the worst score among all EU countries, is hampered by legislative uncertainty demonstrated by frequent changes to legislation without proper consultation with stakeholders or impact assessments. Inefficient government bureaucracy was named as the second most problematic factor for doing business in the 2017–2018 WEF Global Competitiveness Report (it was chosen by 12.9% of respondents). Corruption came fifth in this ranking (11.7% of respondents).

Figure 18. WGIs for Romania (world average = 0)



Sources: World Bank, ACRA (2018)

Political stability, for which Romania has the second worst score among the EU countries, is constrained by frequent changes of government and a strongly divided electorate. These factors have resulted in large-scale protests in reaction to legislature seeking to pardon politicians who have broken the law (which also demonstrates the weak score in the Rule of Law category). Romania has had six prime ministers since 2015, and three acting ones on top of that. The latest change in power came in early November 2019, when the parliament approved a new government led by the centrist National Liberal Party after the previous government led by the Social Democratic Party lost a no-confidence vote in October. The new government has set its sights on fiscal consolidation and institutional reform. However, since it is a minority government, and therefore has to rely on the support of multiple parties, and only has approximately a year until the next elections, it is uncertain how realistic these goals are.

Romania also scores the worst in the EU in ACRA's human capital index, which is composed of average years of schooling, adult mortality rates, and life expectancy at birth. This implies a considerable underutilization of human capital, which is an essential resource for economic growth. The low score in this index is also underpinned by other statistics. Among the EU countries, Romania has the highest rate of treatable deaths (207.7 per 100,000 inhabitants in 2016), the second highest share of population at risk of poverty and social exclusion (35.7% in 2017), and the third-highest proportion of early leavers from education and training in the EU (16.4% in 2018).

Appendix 1. Comparative analysis of Romania and the sample group

Comparison of macroeconomic and institutional indicators for 2018

		Slovakia	Czech Republic	Hungary	Poland	Romania	Bulgaria
Macroeconomics	GDP per capita (USD)	35,130	37,371	31,903	31,939	26,447	23,156
	Real GDP growth (%)	4.0	3.0	5.1	5.1	4.0	3.1
	CPI (% y-o-y)	2.5	2.0	2.9	1.2	4.1	2.6
	Openness of economy (% of GDP)	190.2	150.4	165.5	107.8	86.5	129.2
	Unemployment *	5.6	2.1	3.4	3.2	4.0	4.1
Public finance	General government debt (% of GDP)	49.4	32.6	70.2	48.9	35.0	22.3
	External general government debt (% of GDP)	28.3	13.0	25.3	24.3	16.7	9.9
	General government budget balance (% of GDP)	-1.1	1.1	-2.3	-0.2	-3.0	1.8
External position	Current account (% of GDP)	-2.6	0.3	-0.5	-1.0	-4.4	5.4
	Primary income balance (% of GDP)	-2.0	-5.3	-3.9	-4.1	-1.9	-1.2
	Short-term external debt to total external debt (%) **	41.7	49.2	9.8	14.1	14.2	13.8
	External debt position (% of GDP)	113.6	81.5	99.9	63.4	49.2	65.6
	Export diversification index ***	0.48	0.43	0.41	0.40	0.45	0.45
Institutional framework ****	Political stability and absence of violence	0.75	1.04	0.76	0.55	0.06	0.42
	Government effectiveness	0.71	0.92	0.49	0.66	-0.25	0.27
	Rule of law	0.53	1.05	0.56	0.43	0.33	-0.03

* Q3 2019, after seasonal adjustment.
** At original maturity excluding direct investment.
*** Indicates the extent of differences between the country's trade structure and the average world indicator and ranges from 0 (weak differences) to 1 (strong differences).
**** Assessment of effectiveness ranges from approximately -2.5 (weak) to 2.5 (strong).
Sources: Eurostat, ECB, NBR, IMF, World Bank, UNCTAD

Appendix 2. Key indicators

Balance of payments, EUR bln

	2015	2016	2017	2018
Balance of trade	**-7.8**	**-9.3**	**-12.2**	**-14.8**
Exports	49.1	52.2	57.2	61.8
Imports	56.9	61.5	69.4	76.6
Balance of services	**6.8**	**7.9**	**8.2**	**8.4**
Exports	17.2	18.9	21.7	23.8
Imports	10.4	11.0	13.5	15.4
Balance of income	**0.0**	**-0.9**	**-1.2**	**-2.5**
Income receivable	10.1	10.1	9.8	9.7
Income payable	10.1	11.0	11.0	12.2
Current account	-0.9	-2.4	-5.2	-9.0
Current account, % of GDP	-0.6	-1.4	-2.8	-4.4
International reserves at the end of the period	35.5	37.9	37.1	36.8

Sources: NBR, Eurostat

External position (assets and liabilities), EUR mln

	2013	2014	2015	2016	2017	2018
External debt	**98,069**	**94,744**	**92,068**	**92,910**	**97,361**	**99,841**
long-term	89%	89%	87%	87%	87%	86%
short-term (up to 1 year)	11%	11%	13%	13%	13%	14%
External liabilities	**98,069**	**94,744**	**92,068**	**92,910**	**97,361**	**99,841**
Sovereign issuer, including	35,686	35,238	32,938	33,696	34,937	36,147
monetary authorities	5,820	2,598	1,559	1,258	1,172	1,199
general government	29,865	32,641	31,379	32,439	33,765	34,948
Banks	19,031	16,231	14,320	11,162	9,938	9,038
Other sectors	43,352	43,275	44,807	48,052	52,486	54,655
including intra-corporate loans	20,326	19,253	22,062	26,091	29,199	31,655
External assets, excluding shares *	**50,057**	**53,628**	**52,493**	**60,164**	**62,289**	**66,258**
Sovereign issuer, including	37,138	37,403	37,570	41,300	41,543	41,965
international reserves	35,435	35,506	35,485	37,905	37,107	36,800
other external assets	1,703	1,897	2,085	3,395	4,436	5,165
Banks	2,152	3,489	4,346	5,205	6,024	7,338
Other sectors **	10,767	12,736	10,578	13,659	14,722	16,954
Net debt	**-48,012**	**-41,116**	**-39,575**	**-32,746**	**-35,071**	**-33,583**
Sovereign issuer	1,452	2,164	4,632	7,604	6,606	5,818
Banks	-16,879	-12,742	-9,974	-5,956	-3,914	-1,700
Other sectors	-32,585	-30,539	-34,229	-34,393	-37,763	-37,701
International investment position (net), % of GDP	-62	-57	-54	-48	-47	-44
External debt, % of GDP	68	63	57	55	52	49

Sources: NBR, IMF

Budget indicators, % of GDP

General government	2015	2016	2017	2018
Income	35.5	31.9	30.9	32.3
Expenses	36.1	34.5	33.6	35.2
including debt servicing expenses	**1.6**	**1.5**	**1.3**	**1.2**
Primary budget balance	**1.0**	**-1.1**	**-1.4**	**-1.8**
Overall budget balance	-0.6	-2.6	-2.6	-3.0
General government debt	**37.8**	**37.3**	**35.1**	**35.0**
% of income	**106.4**	**116.9**	**113.4**	**108.5**
Central government				
Income	25.1	22.2	20.8	20.8
Expenses	26.7	25.1	23.7	24.1
including debt servicing expenses	**1.6**	**1.4**	**1.2**	**1.1**
Primary budget balance	0.0	-1.5	-1.8	-2.1
Overall budget balance	**-1.6**	**-2.9**	**-3.0**	**-3.3**
Central government debt	37.4	37.6	35.8	35.9
% of income	149.1	169.3	172.2	172.4
Note: nominal GDP, EUR bln	160.3	170.4	187.8	202.9

Source: Eurostat

Rating history

None.

Regulatory disclosure

The sovereign credit ratings have been assigned to Romania under the international scale based on the Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

The sovereign credit ratings have been assigned to Romania for the first time. The sovereign credit ratings and their outlook are expected to be revised within 182 days following the publication date of the press release on the sovereign credit rating assignment as per the Calendar of planned sovereign credit rating revisions and publications.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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