Moody's : Baa3, Stable | Fitch : BBB-, Stable | S&P : BBB-

Strengths	Weaknesses
• Close ties with Eurozone member countries • Diversified industrial sector • Sustainable public debt • Recent integration into the Schengen area could create new trade opportunities	• Demographic decline: aging population, significant emigration (particularly of young graduates) • Geographical proximity to the Russo-Ukrainian war • Endemic corruption which undermines institutions, fuels public distrust, and harms the business climate

Important reminders

Shortly after the fall of the Berlin Wall, on November 9, 1989, **the Romanian revolution broke out on December 16 of the same year and led to the overthrow of the communist regime** and the execution of the dictator Nicolae Ceaușescu.

This event inaugurates **the beginning of the metamorphosis of the communist regime into a parliamentary democracy and of a state planned economy into a market economy.**

Medium-sized country (240,000 km^2) of **19 million inhabitants**, between Ukraine, Hungary, and Bulgaria (among others) and has a Black Sea coastline. **The country has a real GDP per capita of 10,250 euros.**

Member of NATO since 2004, member of the European Union since 2007 without having joined the euro zone.

The country **has close ties with neighboring Moldova**, with which it shares a common language and culture. **The Moldovan Constitution provides for the convening of a referendum to decide on the question of reunification with Romania. However, tensions linked to the pro-Russian region of Transnistria make this possibility unlikely in the immediate future.**

News

Romania officially entered the Schengen area on March 31, 2024, under partial membership limited to airports and seaports.

Romania is experiencing a **"super electoral year"**, which begins on June 9 with the municipal and European elections, the presidential election will be held next September, and legislative elections will follow in December.

According to polls, the **far-right, Eurosceptic AUR party is expected to win between 20 and 30% in the next European elections.**

Context

Since 2021, **the country has been led by a coalition and provides for a rotation every 18 months at the head of government between the National Liberal Party (center-right) and the Social Democratic Party (center left)** from which the Prime Minister comes, Marcel Ciolacu since June 15, 2023.

The **government in place has a comfortable majority in the Chamber of Deputies** with 183 seats, including 104 from the PSD and 79 from the PNL, for a majority set at 166 seats.

The **Romanian economy faces a double challenge : the population is aging** (the share of the population aged over 64 reached 29.1% in 2020 and would increase to 53.9% in 2050 according to projections by the UN) and there is **strong emigration** (more than 5 million Romanians have left their country to go to Western Europe).

Economic facts

Since joining the EU in 2007, Romania has made significant progress in terms of economic convergence. Indeed, GDP/inhabitant increased from 39% of the EU average in 2006 to 77% in 2022, this was made possible by an influx of foreign capital and an **increasingly efficient and diversified productive fabric.**

After a year 2022 marked by strong growth of +4.7%, the year 2023 resulted in a slowdown in the economy with growth of +2.0%. This slowdown is attributable to negative shocks following Russia's invasion of Ukraine, namely: an energy crisis which boosted the inflation rate **(16.8% in 2022, 7.4% in January 2024)**, an increase in interest rates to try to curb it, which led to a **weaker external and domestic demand.**

Romania records a **public deficit of -5.3%, a figure which is higher than other countries in the zone.** This situation **should significantly improve soon**, **following a set of tax measures promulgated last October which should generate 4 billion euros in additional revenue per year (i.e., 20% of the 2023 deficit). Concerning spending control, this is complicated to carry out in a context of increasing prices, an aging population, and the reception of Ukrainian refugees.**

In June 2023, the European Commission, however, warned the country that the lack of improvement in the budgetary situation could lead to the suspension of aid under the cohesion fund.

Romania's public debt has been on an **upward trend again since 2022 and could approach 50% of GDP in 2024.** However, it remains below the EU average (83% in 2023) and the majority of countries in the area.

This debt is held almost 60% by the country's residents, mainly in the medium term, and is denominated almost exclusively in euros. **According to the European Commission, Romania has a level of debt which presents moderate risks in the short term, as well as in the medium term.**

As for the external position, the **current balance deteriorated to reach -9.3%** due to an increase in import costs linked to the **international macroeconomic situation**, **with inflation imported from Germany and Italy with which Romania maintains important ties. This situation should improve**, in the medium term thanks to the moderation of the price of imported goods, and in the longer term thanks to the drop in gas imports involved in the exploitation of reserves near the Black Sea. Moreover, in this segment, Romania could go from dependent to net exporter.

The external debt/GDP ratio should stabilize around 50% of GDP. This debt is 60% public debt, coming from European funds, limiting sustainability risks.

Foreign exchange reserves increased by around 25% between the end of 2022 and October 2023, to reach around 60 billion dollars (or 54.8 billion in euros), which covers between 4 and 5 months of imports.

As for monetary policy, the NBR gradually increased its **key rate to 7%** in January 2023 (2% in January 2022) and has maintained it since that date. The NBR's upcoming decisions will be dictated by the evolution of price increases, economic activity but also by the decisions of the ECB and other central banks in the zone to limit rate differences which would imply tensions. on the local currency.

The Romanian government aims to join the euro zone in 2029, which seems unlikely because, as it stands, Romania does not respect any of the criteria set by the Maastricht Treaty.

As part of the **National Recovery and Resilience Plan, the country should receive up to 80 billion euros in European funds over the period 2021-2027, or around 33% of its GDP.**

The Romanian banking sector is small, with around thirty establishments, 19 of which have majority foreign ownership. **Nearly 70% of banking assets are held by institutions with foreign capital**. The **level of capitalization is comfortable** (more than 23% at the end of December) and **relatively stable with a ratio higher than the EU average (19%). The NPL rate has fallen sharply to reach less than 3% (more than 20% in 2014) but remains higher than the EU average (1.8%)**. **Romanian banks are exposed to sovereign risk with nearly 22% of their assets in the form of public debt securities. Also, Romanian banks are subject to BRRD directives.**

Conclusion: Recent successive crises (COVID, invasion of Ukraine) have severely affected Romania. The coming years will be decisive for analyzing the real resilience of its economy. Its growing integration within the ecosystem of the European Union, its substantial internal market and its energy independence are all elements which represent reasons for hope. However, doubts remain about its ability to meet the major challenges ahead. Among these, the fight against corruption, which is endemic there, in fact the country is in 63rd place in the ranking of the corruption perception index, the second worst performance among the countries of the Union, and the demographic decline explained by a low birth rate and significant emigration. In this “super-election year”, it would be wise to know the proposals of each of the political actors to provide answers to these two issues which seem unavoidable in the hypothesis of a boom in the Romanian economy.

Written on 30th May 2024