Was Fitch in a hurry when it lowered Romania's rating outlook? What arguments are there for Standard & Poor's and Moody's not to do the same? And 10 questions.

There is a strong asymmetry among the Central and Eastern European (CEE) countries in terms of country ratings and economic conditions. The performance of the countries that are part of the Eurozone should be higher, not the other way around. The analysis of economic data that underpins the decisions regarding rating allocations may indicate that Romania has been or is currently undervalued, or that its positioning at the lowest investment-grade level is rather unfair compared to other countries that do not have a better situation. Moreover, Fitch's downgrade of Romania's outlook from stable to negative adds further negative effects to an already complicated regional context, amid uncertainty and especially the war in Ukraine.

Despite all the progress made between 2014 and 2024, which we will detail below, Romania has remained or is rated lower in terms of both rating and outlook compared to all CEE and Baltic countries. It is as if Romania had stagnated politically, economically, and socially over the past decade, a notion contradicted by all international institutions, official statistics, and even the strengths highlighted in rating agencies' evaluation reports. Furthermore, as shown in the table below, updated with the latest available data, two out of the three major rating agencies place Romania in the lowest investment-grade category (Moody's and Fitch), while S&P places us in this category alongside Hungary.

2018

	Moodys	Fitch	S&P	Meaning	Moodys	Fitch	S&P
Investment Grade	Aaa	AAA	AAA	Prime			
	Aa1	AA+	AA+	High Grade			
	Aa2	AA	AA				
	Aa3	AA-	AA-		Cehia		Cehia, Estonia
	A1	A+	A+	Upper Medium Grade	Estonia	Cehia, Slovacia, Estonia	Slovacia, Slovenia
	A2	A	A		Polonia, Slovacia		Lituania
	A3	A-	A-		Lituania, Letonia	Polonia, Lituania, Slovenia, Letonia	Letonia
	Baa1	BBB+	BBB+	Lower Medium Grade	Slovenia		Polonia
	Baa2	BBB	BBB		Bulgaria	Bulgaria	
	Baa3	BBB-	BBB-		Romania, Ungaria	Romania, Ungaria	Romania, Bulgaria, Ungaria
Junk	Ba1	BB+	BB+	Non Investment grade Speculative			
	Ba2	BB	BB				
	Ba3	BB-	BB-				
	B1	B+	B+	Highly Speculative			
	B2	B	B				
	B3	B-	B-				
	Caa1	CCC+	CCC+	Substantial Risks			
	Caa2	CCC	CCC	Extremely Speculative			
	Caa3	CCC-	CCC-	In default with little prospect for recovery			
	Ca	CC	CC+				
		C	CC	In default			
			CC-				
	D	D	DDD				

2024

	Moodys	Fitch	S&P	Meaning	Moodys	Fitch	S&P
Investment Grade	Aaa	AAA	AAA	Prime			
	Aa1	AA+	AA+	High Grade			
	Aa2	AA	AA				
	Aa3	AA-	AA-		Cehia	Cehia, Estonia	Cehia, Slovenia
	A1	A+	A+	Upper Medium Grade	Estonia		Estonia, Slovacia
	A2	A	A		Lituania, Polonia, Slovacia	Slovenia, Lituania	Lituania, Letonia
	A3	A-	A-		Letonia, Slovenia	Polonia, Letonia, Slovacia	Polonia
	Baa1	BBB+	BBB+	Lower Medium Grade	Bulgaria		
	Baa2	BBB	BBB		Ungaria	Bulgaria, Ungaria	Bulgaria
	Baa3	BBB-	BBB-		Romania	Romania	Ungaria, Romania
Junk	Ba1	BB+	BB+	Non Investment grade Speculative			
	Ba2	BB	BB				
	Ba3	BB-	BB-				
	B1	B+	B+	Highly Speculative			
	B2	B	B				
	B3	B-	B-				
	Caa1	CCC+	CCC+	Substantial Risks			
	Caa2	CCC	CCC	Extremely Speculative			
	Caa3	CCC-	CCC-	In default with little prospect for recovery			
	Ca	CC	CC+				
		C	CC	In default			
			CC-				
	D	D	DDD				

2018

Rating Agency	Czechia	Poland	Romania	Lithuania	Slovakia	Bulgaria	Estonia	Slovenia	Hungary	Latvia
Moody's	A1 (positive)	A2 (stable)	Baa3 (stable)	A3 (stable)	A2 (positive)	Baa2 (stable)	A1 (stable)	Baa1 (stable)	Baa3 (stable)	A3 (stable)
Fitch	A+ (positive)	A- (stable)	BBB- (stable)	A- (stable)	A+ (stable)	BBB (stable)	A+ (positive)	A- (stable)	BBB- (positive)	A- (stable)
S&P	AA- (stable)	BBB+ (negative)	BBB- (stable)	A (stable)	A+ (stable)	BBB- (stable)	AA- (stable)	A+ (positive)	BBB- (positive)	A- (positive)

2024

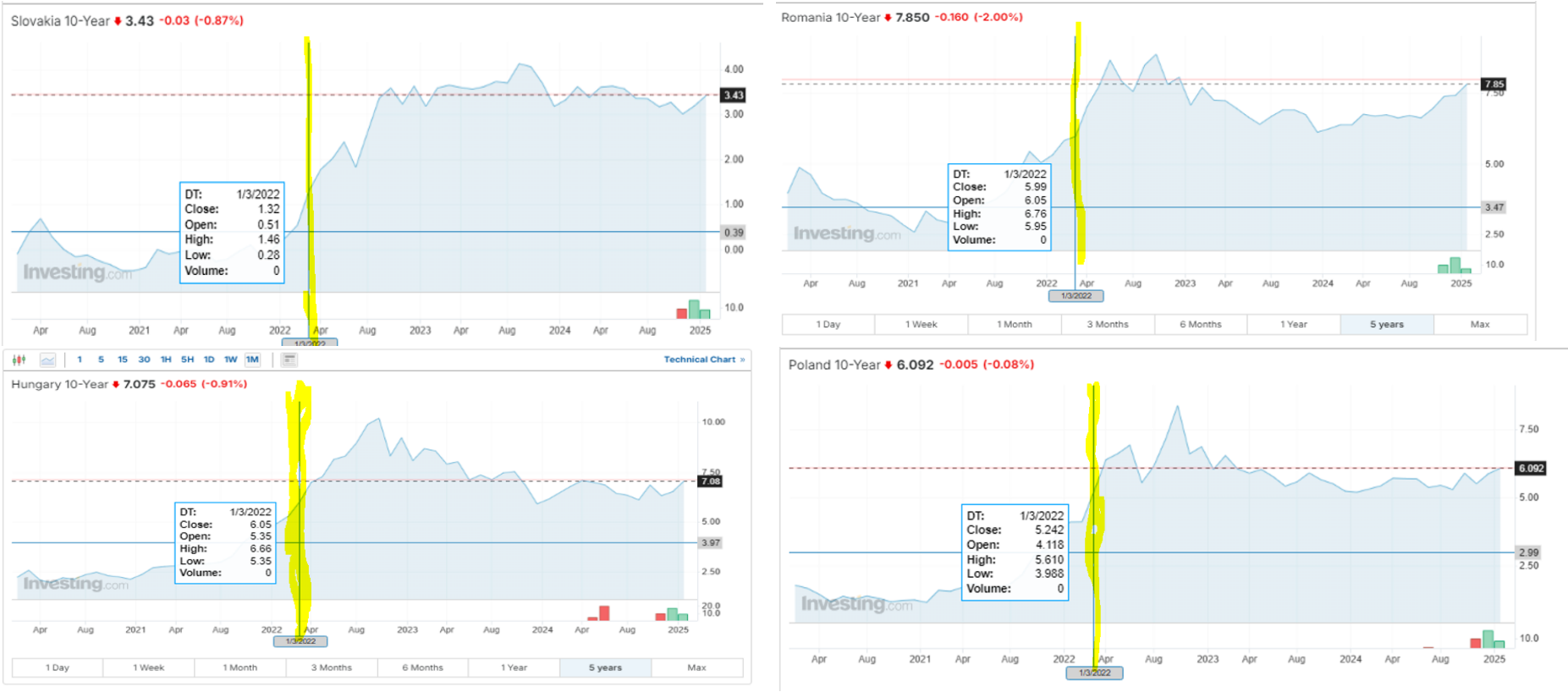
Rating Agency (Country Rating)	Czechia	Poland	Romania	Lithuania	Slovakia	Bulgaria	Estonia	Slovenia	Hungary	Latvia
Moody's	Aa3 (stable)	A2 (stable)	Baa3 (stable)	A2 (stable)	A2 (negative)	Baa1 (stable)	A1 (stable)	A3 (positive)	Baa2 (negative)	A3 (stable)
Fitch	AA- (stable)	A- (stable)	BBB- (negative)	A (stable)	A- (stable)	BBB (positive)	A+ (stable)	A- (stable)	BBB (stable)	A (stable)
S&P	AA- (stable)	A- (stable)	BBB- (stable)	A (stable)	A+ (stable)	BBB (positive)	A+ (stable)	AA- (stable)	BBB- (stable)	A (stable)

In the calendar scheduled for 2024, Fitch indicated March 1 and August 30 as evaluation dates for Romania. However, on December 17, unexpectedly, the rating agency announced a downgrade of Romania's outlook from Stable to Negative. The official statement cited negative contagion on the economy caused by political uncertainty following the second round of the presidential elections.

This raises the **first question**. **Why was Romania penalized at the first sign of political turbulence, while Slovakia, for example, maintained three rating levels above Romania and still holds a stable outlook**, despite: a) The assassination of investigative journalist Ján Kuciak and the subsequent political crisis, massive protests, and the resignation of the prime minister (2018); b) The assassination attempt on Prime Minister Robert Fico, which sparked intense debates about the uncertain and polarized political climate in the country (2024); c) The energy dispute with Ukraine and the visit to Moscow, which triggered protests (2024); d) The political crisis in Slovakia that started in October 2024 and continues to manifest, with a motion of no confidence being initiated, a fragile majority, and a parliamentary deadlock (the ruling coalition holds 76 out of 150 seats, while the opposition controls 71 seats, and three members of parliament are independents)?

Similarly, most European countries with political instability, fragile coalitions, and parties considered extremist still maintain a stable outlook. Additionally, Slovakia's structural budget deficit is close to Romania's level.

The second question arises because political uncertainty has exploded worldwide (and especially in Europe), with a significant impact on countries near the war in Ukraine. Therefore, **how fair is it to downgrade the outlook/rating of countries bordering the war in Ukraine without adequately quantifying and extracting the negative contagion in terms of political risk, financing costs, and direct economic aid provided to support Ukraine and Moldova**? The images below speak louder than words.



The yields on 10-year bonds issued by four countries bordering Ukraine have increased substantially since the moment of Russia's invasion and have remained high, with minor fluctuations. The increase ranged between 100 and 200 basis points. A simple estimate indicates that this led to an increase in additional interest expenditures on government debt (March 2022 – December 2024) of €3 billion for Romania, €3.4 billion for Slovakia, €7.8 billion for Hungary, and €14.4 billion for Poland. Would a change in outlook/rating at a time when discussions about resolving the conflict in Ukraine are ongoing not be a pro-cyclical action, prolonging the negative economic effects of the war in the border countries even beyond its end?

The following questions arise from our analysis based on the common evaluation methodology used by the three major rating agencies. These agencies have a somewhat similar structure in terms of the quantitative analysis performed. They assess developments across several pillars:

institutional progress, economic trends, public finance health, and monetary stability, as well as the evaluation of strengths and external risks. We are unsure of the weight given to the subjective analysis, the so-called expert analysis, which seems to carry considerable importance.

In the latest reports published regarding Romania, Fitch, for example, views political tensions and uncertainty as factors that could affect future fiscal consolidation efforts, especially in the context of a divided parliament. It also highlights the high budget deficit, driven by rapidly increasing expenditures, particularly on wages and pensions. Additionally, fiscal consolidation faces a significant trade-off related to its impact on economic growth, as well as the risks generated by financial market volatility, which will put pressure on interest expenditures. The report also mentions the rising public debt (expected to reach 62% of GDP by 2026), the high external imbalance, and competitiveness-related issues.

We will attempt to illustrate the strengths and weaknesses of the Romanian economy, aiming to advocate for the reevaluation of Romania under the new European and, importantly, regional economic conditions.

1. The First Pillar of Analysis refers to Institutional Assessment. The indicators used here by rating agencies are those estimated by the World Bank in the Worldwide Governance Indicators (details available here), but additional informational value can also be provided by those calculated by the IMD in the Global Competitiveness Report (IMD). In the following tables, we will compare Romania's performance with nine other countries from Central and Eastern Europe and the Baltic States over the past 9–10 years.

Regarding the indicators on government effectiveness, estimated annually by the World Bank (latest official data are for 2023), we observe that Romania has the best dynamic performance among the analyzed countries in the Political Stability and Absence of Terrorism criterion, ranks 2nd in the Rule of Law, 3rd in Control of Corruption, 4th in Voice and Accountability, and 8th out of 10 in Government Effectiveness.

	World Bank - Indicators on Institutional Development / Government Efficiency														
	Voice and accountability		Differences	Political stability and absence of violence/terrorism		Differences	Government effectiveness		Differences	Rule of law		Differences	Control of corruption		Differences
Years / Countries (Rating)	**2014**	**2023**		**2014**	**2023**		**2014**	**2023**		**2014**	**2023**		**2014**	**2023**	
Bulgaria (Baa1 stable; BBB positive; BBB positive)	0.37	0.39	0.02	0.08	0.34	0.26	-0.11	0.05	0.16	-0.08	-0.01	0.07	-0.30	-0.14	0.16
Czechia (Aa3 stable; AA- stable; AA- stable)	1.03	1.08	0.05	0.99	0.97	-0.02	1.03	1.11	0.08	1.14	1.14	0.00	0.43	0.77	0.34
Estonia (A1 stable; A+ stable; ; A+ stable)	1.17	1.22	0.05	0.78	0.66	-0.12	1.01	1.26	0.25	1.37	1.43	0.06	1.30	1.54	0.24
Hungary (Baa2 negative; BBB stable; BBB- stable)	0.55	0.36	-0.19	0.67	0.73	0.06	0.58	0.37	-0.21	0.51	0.43	-0.08	0.16	0.00	-0.16
Latvia (A3 stable; A- stable; A stable)	0.85	0.99	0.14	0.49	0.59	0.10	0.95	0.70	-0.25	0.87	1.04	0.17	0.41	0.70	0.29
Lithuania (A2 stable; A stable; A stable)	0.96	1.07	0.11	0.74	0.74	0.00	0.98	1.05	0.07	0.94	1.27	0.33	0.55	0.78	0.23
Poland (A2 stable; A- stable; A- stable)	1.11	0.63	-0.48	0.84	0.56	-0.28	0.77	0.42	-0.35	0.87	0.46	-0.41	0.68	0.57	-0.11
Romania (Baa3 stable; BBB - negative; BBB- stable)	0.43	0.50	**0.07**	0.05	0.37	**0.32**	0.22	-0.09	**-0.31**	0.24	0.44	**0.20**	-0.22	0.04	**0.26**
Slovakia (A2 negative; A- stable; A+ stable)	0.96	0.91	-0.05	1.04	0.57	-0.47	0.79	0.23	-0.56	0.49	0.60	0.11	0.12	0.29	0.17
Slovenia (A3 positive; A- stable; AA- stable)	0.96	1.08	0.12	0.97	0.82	-0.15	1.00	1.04	0.04	1.00	1.04	0.04	0.72	0.78	0.06
Score dynamics 2023 compared to the score in 2014	Romania Rank 4			Romania Rank 1			Romania Rank 8			Romania Rank 2			Romania Rank 3		

Sursa: http://info.worldbank.org/governance/WGI/#home

Regarding most institutional development indicators, Hungary and, especially, Poland and Slovakia have regressed over the past 10 years.

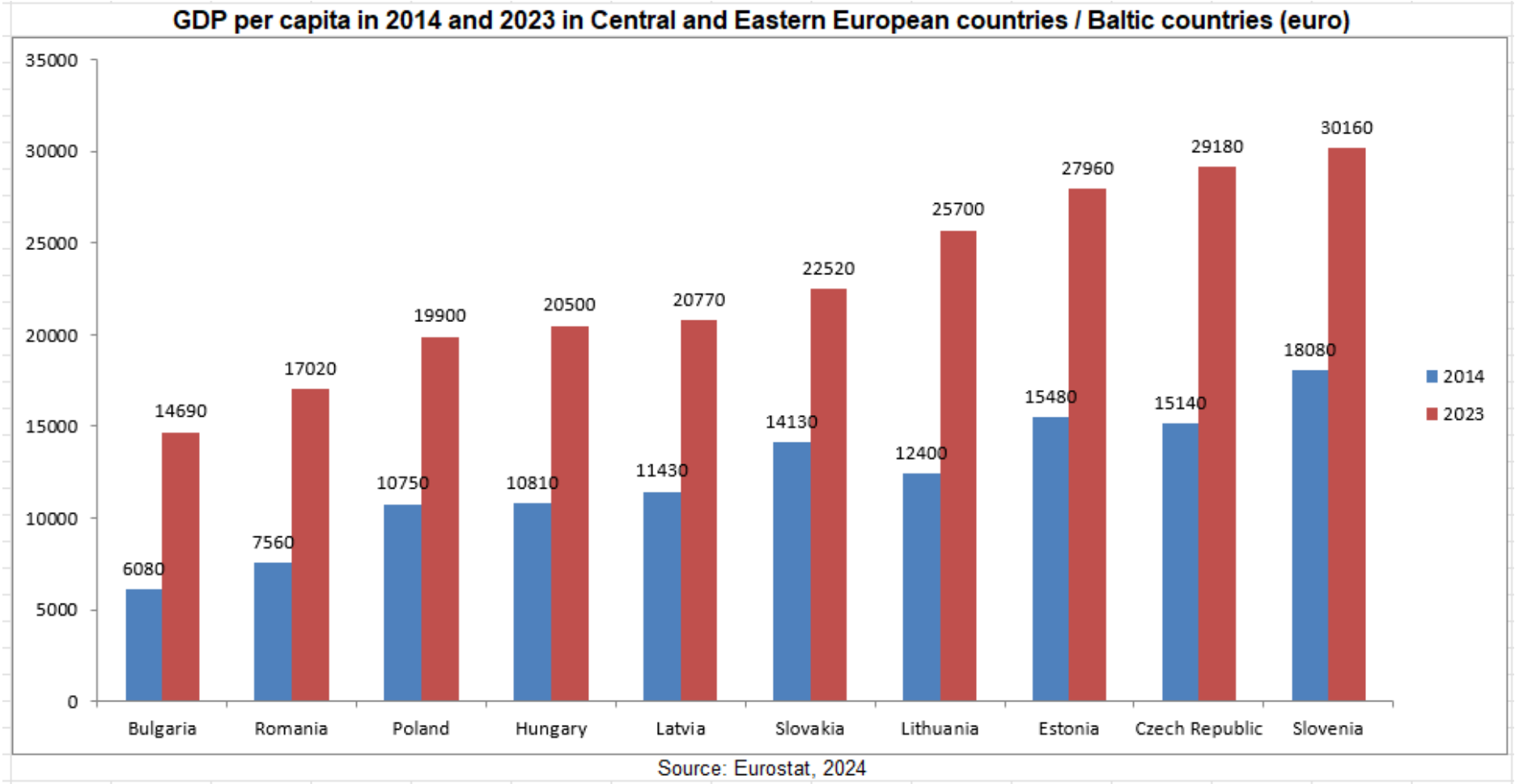
The third question: If such great importance is given to this evaluation criterion (as seen in Fitch's approach to Romania in terms of political stability), why do all the aforementioned countries still have a stable outlook from Fitch and a higher rating than Romania?

By complementing the analysis with the assessment of institutional development and competitiveness based on the indicators estimated in the Global Competitiveness Reports (IMD 2024 report and historical database), we will observe that Romania ranks 6th out of the 10 considered countries, ahead of Poland, Hungary, Latvia, and Slovakia.

The Global Competitiveness Report - IMD			
Years / Countries (Rating)	**2015**	**2024**	**Differences**
Bulgaria (Baa1 stable; BBB positive; BBB positive)	45.78	47.35	1.57
Czechia (Aa3 stable; AA- stable; AA- stable)	62.21	70.21	8.00
Estonia (A1 stable; A+ stable; ; A+ stable)	64.38	68.17	3.79
Hungary (Baa2 negative; BBB stable; BBB- stable)	52.50	52.10	-0.40
Latvia (A3 stable; A- stable; A stable)	61.85	59.13	-2.72
Lithuania (A2 stable; A stable; A stable)	62.01	69.89	7.88
Poland (A2 stable; A- stable; A- stable)	61.77	61.65	-0.12
Romania (Baa3 stable; BBB - negative; BBB- stable)	**52.84**	**53.47**	**0.63**
Slovakia (A2 negative; A- stable; A+ stable)	53.30	46.94	-6.36
Slovenia (A3 positive; A- stable; AA- stable)	46.25	57.99	11.74
Score dynamics 2024 compared to the score in 2015	***Romania - rank 6 out of 10***		
https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/			

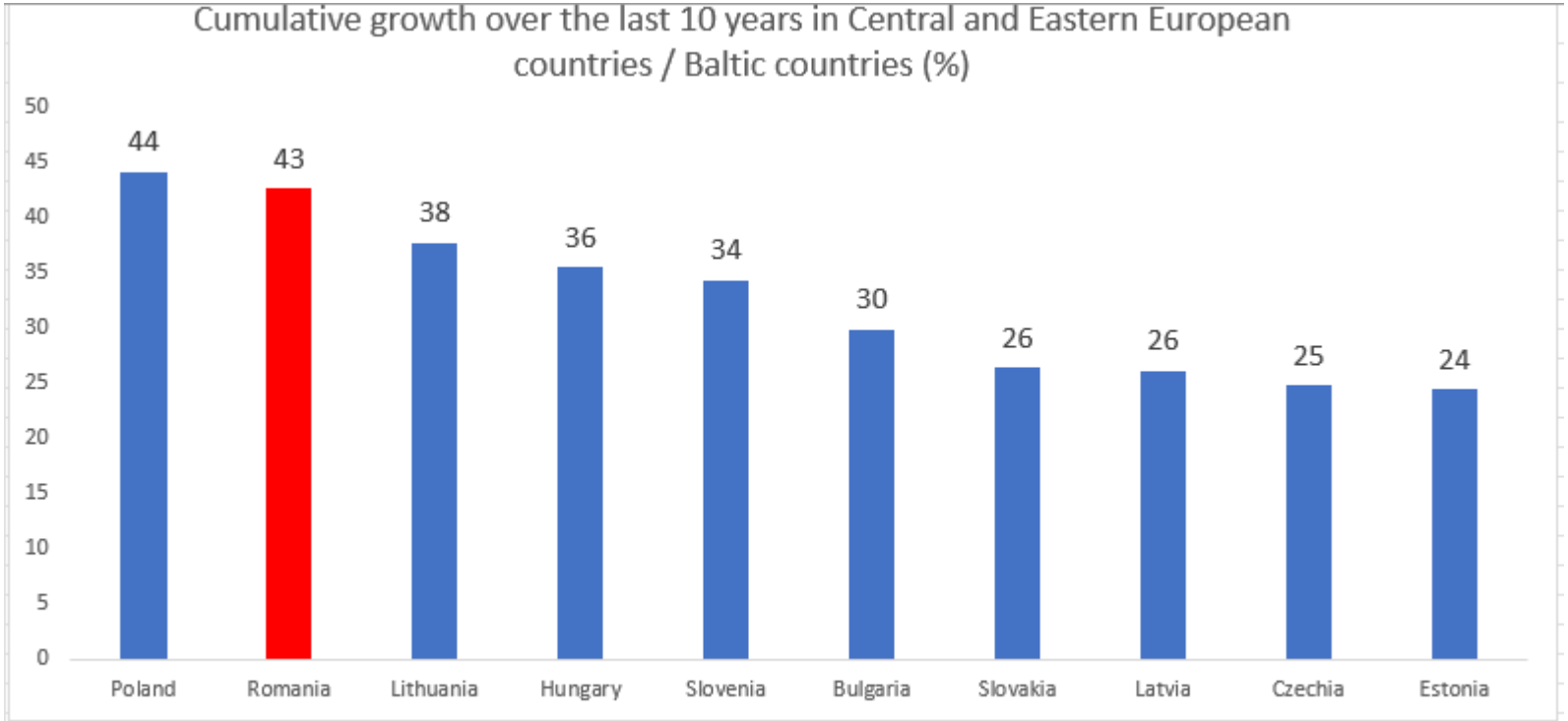
The fourth question: If Romania has shown moderate performance in this area over the past 10 years (and in 2024 we are ranked above Slovakia, Bulgaria, and Hungary), why has this not been considered as a strength to increase our country's rating level or outlook?

2. The second pillar of analysis refers to overall economic developments, including economic growth dynamics, the size of the economy, etc. Regarding **GDP per capita levels and the speed of economic growth/convergence**, it is true that Romania is still in the second-to-last place among the analyzed countries (a weak point), but we must also consider: the **cumulative growth rate of real GDP** (a strong point), and the **speed of convergence** relative to the EU average (a strong point). Although initial conditions matter, a 2.25-fold increase in GDP per capita in euros for Romania is a notable achievement.



Since credit rating assessment should be a dynamic action, we believe it is essential to acknowledge Romania's high convergence speed compared to other countries in Central and Eastern Europe. The cumulative real GDP growth during the period 2014–2023 was 43% in Romania's case (ranking 2nd after Poland), surpassing the performances of the other analyzed countries.

However, Romania's rating has remained unchanged, despite this strong economic growth.



Source: Eurostat, 2024

Moreover, the analysis of GDP per capita at purchasing power parity (PPP) relative to the EU average = 100 shows that Romania has made the most significant leap during the period 2014–2023.

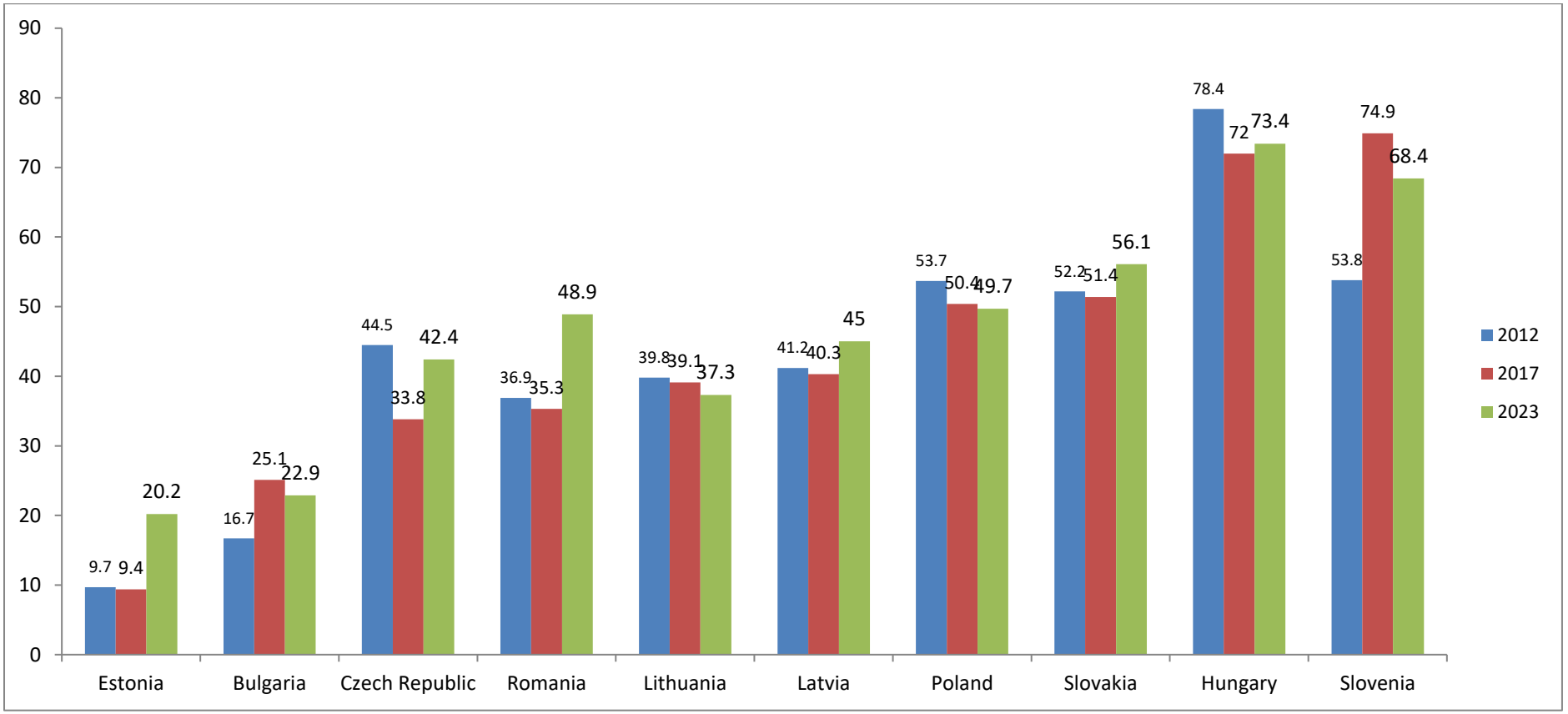
GDP per capita at purchasing power parity (EU=100)			
Countries	2014	2023	Differences
Romania	55	78	23
Bulgaria	48	64	16
Lithuania	75	87	12
Slovenia	82	92	10
Latvia	61	70	9
Poland	68	77	9
Hungary	69	77	8
Czechia	88	90	2
Estonia	78	80	2
Slovakia	78	74	-4
Source: Eurostat, 2024			

Over the past 10 years, Romania has surpassed Latvia, Greece, Croatia, Slovakia, Hungary, and Poland (a strong point). Another key indicator also demonstrates Romania's rapid real convergence. Regarding household consumption at purchasing power parity (PPP), Romania has reached 89% of the EU27 average, surpassing Spain (88%), Portugal (88%), Slovenia (87%), and Poland (86%), and being ahead of Malta (85%), Czechia (81%), Greece (79%), Croatia (78%), Estonia (77%), Latvia (75%), Slovakia (75%), Bulgaria (73%), and Hungary (70%). Source: https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240619-2

The fifth question: Given Romania's strong performance in terms of convergence speed, why has this not been considered a relevant factor for improving the country's rating level or outlook?

3. The third pillar of evaluation relates to the health of public finances. In recent years, the budget deficit has remained at high levels, mainly due to the COVID-19 crisis, as well as increased defense spending and other expenditure categories. However, Romania continues to maintain one of the lowest government debt-to-GDP ratios, at 49% at the end of 2023 and 54% of GDP in October 2024, with around 93% of it being medium and long-term, featuring a well-balanced diversification between domestic currency (leu) and foreign currency, as well as a diverse investor base, especially after the bond issuances for the citizens.

Government debt to GDP (%)



Sursa: Eurostat, 2024

A lower share of short-term government debt means a lower probability of entering a liquidity crisis and lower interest costs to the budget.

On the other hand, Romania has some of the largest effective and structural budget deficits among the countries analyzed, but Hungary, Poland, and Slovakia are also at levels of over 5% of GDP. The latter reached almost 6% of GDP in 2024.

General government balance ESA (% in PIB)

	2012	**2017**	**2023**	**2024 estimates**
Bulgaria	-0.8	1.6	-2.0	-2.6
Czechia	-3.9	1.5	-3.8	-2.5
Estonia	-0.4	-0.5	-2.8	-3.
Latvia	-1.5	-0.3	-2.4	-2.8
Lithuania	-3.1	0.4	-0.7	-2.
Hungary	-2.3	-2.5	-6.7	-5.4
Poland	-3.8	-1.5	-5.3	-5.8
Romania	-3.8	-2.5	-6.5	-8.2
Slovenia	-4.2	0.1	-2.6	-2.4
Slovakia	-4.4	-1.0	-5.2	-5.8

Source: Eurostat, AMECO, 2024

Structural balance (% in PIB)

	2012	**2017**	**2023**	**2024 estimates**
Bulgaria	-1.	1.7	-2.3	-2.7
Czechia	-1.2	0.5	-3.2	-1.7
Estonia	0.6	-1.9	-1.1	-0.8
Latvia	-1.	-1.1	-2.6	-2.6
Lithuania	-2.1	-0.7	0.1	-1.2
Hungary	-0.7	-3.7	-6.4	-4.7
Poland	-3.8	-1.6	-4.7	-5.3
Romania	-3.8	-2.7	-6.2	-7.4
Slovenia	-1.1	0.1	-3.1	-2.3

Slovakia	-3.7	-1.0	-5.	-5.5

Source: AMECO, European Commission's Autumn Forecasts, 2024

Beyond the situation of public finances in the short term, the analysis of the sustainability of public finances is measured in the European Union using short-, medium- and long-term risk indicators. The European Commission publishes annually the values of three such indicators S0, S1, and S2, as well as the threshold values for these indicators (for details see Debt Sustainability Monitor, 2023).

Short-term sustainability is calculated based on the S0 indicator, a value that allows an assessment of short-term fiscal risks by aggregating economic fundamentals in the fiscal and financial fields. The table below analyzes the values of the S0 indicator for Romania along with the 9 Member States taken into account according to the *Debt Sustainability Monitor 2023*. In terms of short-term fiscal risks, Romania has a low risk associated with it, below the risk coefficients estimated for countries such as Poland, Hungary, or Slovakia. However, by sub-components, the European Commission signals the cyclically adjusted budget deficit but also the primary budget balance.

Countries	Short-term sustainability indicator S0 (threshold = 0,46)	Medium-term sustainability indicator S1	Long-term sustainability indicator S2
Romania	0.31 (low)	4.7 (medium)	3.7 (medium)
Poland	0.39 (low)	3.2 (medium)	3.8 (medium)
Hungary	0.46 (low)	2.5 (medium)	4.3 (medium)
Bulgaria	0.21 (low)	1.6 (low)	2.4 (low)
Estonia	0.3 (low)	-0.9 (low)	-0.4 (low)
Latvia	0.31 (low)	1.3 (low)	1.3 (low)
Lithuania	0.27 (low)	3.3 (medium)	4.4 (medium)
Czechia	0.24 (low)	3.0 (medium)	4.8 (medium)
Slovakia	0.38 (low)	8.7 (high)	9.9 (high)
Slovenia	0.2 (low)	4.7 (medium)	6.2 (high)

Sursa: Debt Sustainability Monitor, 2023

In the medium and long term, Romania, Poland, Lithuania, and Slovenia face a moderate risk regarding the sustainability of public finances, driven by the increased financing needs resulting from emigration and an aging population, which are increasing expenditures for both pensions and healthcare services. It is worth noting that countries such as Italy, Portugal, France, Belgium, and Spain were considered at high risk in the medium term concerning sustainability.

The sixth question: Developed EU countries have modernized while going through periods of high budget deficits, especially when facing economic crises and co-financing EU-funded projects (Germany in 2004-2005, Spain and France throughout 2008-2017, but also in the last five years, with Italy and Poland exceeding the deficit rule 13 and 11 times, respectively, in the past 20 years).

The seventh question: It is evident that Romania's 2024 budget deficit exceeds the sustainability threshold required to stabilize the debt-to-GDP ratio. However, would the harsh perception of Romania change if we evaluated a "net" primary budget deficit for 2024 below 3% of GDP, by excluding the following elements from the 8.6% deficit (cash methodology): 2.1% of GDP in interest expenses, 0.6% of GDP in additional military spending (NATO commitment), 1.6% of GDP in co-financing for EU-funded projects (EU commitment), 1% of GDP as contributions to private pension funds (enhancing pension system sustainability, EU commitment), one-off expenditures for supporting Ukraine and Moldova? Most of these factors are excluded under the new fiscal rules from the net primary expenditure trajectory, as they are considered relevant factors.

4. The fourth pillar of assessment relates to monetary developments. Concerns about the evolution of inflation become only partially justified given that the trend is disinflationary in the medium term (even if there will still be inflationary impulses, including those generated by the existence of the strongest drought in the last 100 years in Romania or other exogenous factors). As both rating agencies and international financial bodies acknowledge in the assessment reports, Romania has consistent monetary policies and a solid, solvent, and liquid banking system, with adequate asset quality, low non-performing loan ratio, and a high level of coverage of provisions according to the latest financial stability report conducted by the NBR. Romania did not use a single euro of public money to save a bank when many European states were doing so (during and after the financial crisis) and did not have any problems related to financial stability. The leu was the most stable currency in Central and Eastern Europe compared to the main currencies. The solvency stress tests show that the Romanian banking sector currently has a high resilience to adverse shocks at the micro and macroeconomic levels, with comfortable capital adequacy indicators.

5. The fifth pillar by which a country's ability to cope with external shocks is assessed relates precisely to developments in the external sector. External vulnerability is estimated mainly based on the dynamics of the current account deficit, external debt, adequacy of international reserves,

etc. Romania has mixed developments in this assessment pillar, from the high share of the current account deficit in GDP (and financing below the sustainability threshold from non-debt-generating flows) (weak point) to the adequacy of international reserves (strong point).

Current account deficit to GDP (%)

Countries	2014	2024
Bulgaria	0.2	0.3
Czechia	-1.2	4.3
Estonia	0.8	-1.5
Latvia	-1.7	-3.2
Lithuania	4.0	2.7
Hungary	1.5	2.1
Poland	-1.4	0.6
Romania	-0.1	-8.3
Slovenia	5.8	3.0
Slovakia	1.0	-1.3

Source: European Commission's Autumn Forecast, 2024

In the case of Romania, the development of the indicator is a source of concern as long as it is not financed in a proportion of 80-100% of non-debt-generating capital flows (foreign direct investments and European investment funds). Reducing the current account deficit in the coming years and its healthy financing through the complete absorption of European funds and those from the PNRR remains a priority. The strategy based on Productivism and industrial revival can bring this indicator within normal limits, below 3-4% of GDP. An important detail that can be added is that in the structure of the trade deficit by groups of goods (consumer and cars, capital and intermediate goods), most of the deficit is generated not by what is considered in a "traditional" way, namely by foreign trade in consumer goods, but rather by the category of capital and intermediate goods, which signals even more intensely the need to rebuild internal value chains in industries considered key.

The adequacy of the international reserves held at the National Bank of Romania is good, given that the international foreign exchange reserves at the NBR (gold and foreign currencies) were 45 billion euros in November 2021 and currently they are 71 billion euros (+58%). The external debt in GDP was 54.9% of GDP three years ago and currently, it is 52.4% of GDP. The coverage ratio of short-term external debt with foreign

exchange reserves at the NBR has increased from 82.3% to 102% at present (consistent with the IMF recommendation on the adequacy of reserves).

In terms of net external debt, Romania is the ninth of the ten countries analyzed.

Net external debt to GDP (%)

Countries / Years	2014	2023
Bulgaria	18.2	-33.6
Czechia	-6.2	-8.3
Estonia	-10.3	-33.5
Latvia	34.5	8.5
Lithuania	28.8	-10.3
Hungary	57	9
Poland	36.3	4.6
Romania	30.1	19.2
Slovenia	37.1	-8.5
Slovakia	27.4	33.8

Source: Eurostat, 2024

Therefore, the situation regarding the adequacy of international reserves is comfortable according to all the relevant criteria defined in the methodology of international financiers and the specialized literature (Greenspan Guidotti Rule, coverage of 3 months of imports, coverage of at least one-fifth of M2, etc.). Some countries with a higher rating than Romania, in the analyzed group, have much lower adequacy of reserves (see Slovenia, Slovakia, Lithuania and Hungary in some indicators).

Countries/ Criteria	Ratio of Reserve / ARA Metric	Reserves / Broad Money	Reserves / Short Term Debt	Reserves / (Import/12)
Tresholds	1.5 and more 1 - 1.5 0.5 - 1 under 0.5 no data	0.5 and more 0.2 - 0.5 0.05 - 0.2 under 0.05 no data	1.5 and more 1 - 1.5 0.5 - 1 under 0.5 no data	12 and more 6 - 12 3 - 6 under 3 no data
Bulgaria	2.11	0.53	4.55	8.9
Czechia	3.44	0.61	n.a	8.96
Estonia	n.a	n.a	n.a	n.a
Latvia	n.a	n.a	0.24	1.88
Lithuania	0.24	0.07	0.15	0.86
Hungary	1.25	0.45	1.14	3.97
Poland	1.48	0.35	1.01	5.27
Romania	1.28	0.48	1.15	6.38
Slovenia	0.18	0.05	n.a	0.53
Slovakia	0.4	0.11	n.a	1.09
Source: IMF, 2024				

Moreover, Romania complied with the recommendation to maintain a buffer in the Treasury to cover 3 to 4 months of the gross financing needs.

Eighth question: Given the fact that Romania managed to overcome financially the shock caused by political uncertainty precisely by the existence and activation of these prevention/early warning algorithms, why was it sanctioned by reducing the outlook?

6. The gross financing need (strong point compared to some European countries and weak point compared to others) is down sharply compared to 5 years ago, according to IMF data. It is known that a large magnitude of this financing need (some studies estimate the alert threshold at 9-10% of GDP for emerging countries and 15% of average GDP for developed countries) leads to the probability of more difficult absorption of shocks on international financial markets.

	2014		2024	
	Debt to average maturity (percent of GDP)	**Gross Financing Need** (percent of GDP)	**Debt to average maturity** (percent of GDP)	**Gross Financing Need** (percent of GDP)
Austria	10.1	11.7	6.6	7.2
Belgium	13.7	15.3	10.3	17.9
Czechia	8.3	7.7	15.2	6.5
France	14	17.4	13.9	10.2
Germany	11.7	6.6	9.0	5.7
Italy	21.9	27	19.7	22.1
Lithuania	6.7	6.2	4.6	5.9
Netherlands	10.3	13.1	5.1	4.4
Portugal	23.4	20.8	12.2	6.7
Slovakia	8.3	6.7	7.3	8.2
Slovenia	14.9	16.1	7.5	3.2
Spain	16.9	20.5	13.3	5.4
…	…	…	…	…
Average Advanced Economies IMF	**17**	**21.3**	**16.4**	**16.5**
Hungary	18.4	23.8	14.6	15.2
Poland	10	10.4	9.8	12.6
Romania	9.2	9.4	8.1	13.2
…	…	…	…	…
Average Emerging Economies IMF	**6.3**	**10.8**	**10.8**	**5.0**

Source: IMF, Fiscal Monitor, 2014 and 2024

It can be easily seen from the table above that the average gross financing requirement for the current year is 16.5% of GDP in developed countries taken into account and 5.0% of GDP for emerging and developed countries. Among the developed European countries, the situations of Italy with 22.1% of GDP needed for financing, and Belgium with 17.9% of GDP are of concern. In the second group of countries analyzed, we see Hungary with 15.2% of GDP, Slovakia with 8.2% of GDP, Poland with 12.6% of GDP and the Czech Republic with 6.5% of GDP.

Regarding the identification and assessment of economic imbalances, the European Commission uses the Macroeconomic Imbalances Procedure. Here Romania is at level 2 in the group of countries analyzed with 3 indicators outside the sustainability thresholds (Poland has only one, the Czech Republic, Estonia, and Slovenia have 2 each, Bulgaria and Lithuania have 3, Hungary and Latvia have 4 and Slovakia has 5!?).

	External imbalances and competitiveness					**Internal imbalances**						**Employment indicators**	
	Current account balance - % of GDP (3-year average)	Net international investment position (% of GDP)	Real effective exchange rate, based on HICP (change % in 3 years)	Export performance to developed countries (change % in 3 years)	Nominal unit labor cost index (Change % in 3 years)	Gross public debt (% of GDP)	Consolidated household debt (% of GDP)	Consolidated NFC (Non-Financial Corporations) debt (% of GDP)	Consolidated credit flow to households (% of debt stock at t–1)	Consolidated credit flow to NFC (% of debt stock at t–1, excluding FDI)	Real house price index (2015=100) (change % in one year)	Unemployment rate (% of labor force aged 15–74)	Labor force participation rate (3-year change in percentage points) (% of active population aged 15–74)
Threshold	-4/6%	-35%	± 3%(EA); ± 10% (Non-EA)	-3%	9% (EA); 12%(Non-EA)	60%	55%	85%	14%	13%	9%	10%	-0.2%
Czechia	-2.1	-13.4	24.2	0.8	17.2	42.4	31	41.8	4.9	0.6	-1.7	2.6	0.7
Poland	-0.6	-32.6	9.2	7.7	23.9	49.7	23.7	32.2	-0.2	4.0	8.8	2.8	4.3
Romania	-7.8	-39.5	6.7	6.8	27.5	48.9	12.5	28.2	2.8	9.6	3.3	5.6	2.7
Hungary	-3.9	-36.8	10.2	1.2	35.4	73.4	16.9	55.5	3.4	8.0	7.1	4.1	2.9
Bulgaria	-0.9	-6.8	8.5	15.4	26.9	22.9	23.5	48.3	16.3	8.5	9.9	4.3	1.3
Estonia	-3.1	-21.1	15.7	7.7	32.5	20.2	36.8	54.5	6.3	3.8	5.9	6.4	2.0
Latvia	-1.2	-26.0	10.8	-1.7	25.8	45.0	18.6	35.8	5.2	1.8	3.7	6.5	-1.4
Lithuania	-1.2	-4.6	12.8	6.6	37.3	37.3	21.2	29.9	6.6	12.1	9.8	6.9	0.3
Slovakia	-5.4	-54.9	7.5	-3.1	17.8	56.1	44	41.4	4.6	2.5	-0.2	5.8	2.0
Slovenia	2.4	2.3	1.1	0.2	15.2	68.4	23.9	34.7	3.9	-2.1	7.2	3.7	1.4

Ninth question: Given that Romania's outlook has been reduced by Fitch Ratings including due to external imbalances and looking at the table according to the 2023 Macroeconomic Imbalance Procedure, how can we understand why Slovakia (5 out of 5 indicators in imbalance) but also Hungary and Latvia (3 out of 5 indicators in imbalance) do not currently have a negative outlook/rating downgrade?

There is also **one last question** to which we also have an answer. **What do we expect from Standard and Poor's, Moody's and Fitch?** Why the revaluation of Romania? Because of the significant response of spreads, government bond yields to changes in credit ratings, as well as the prospects associated with them, are empirically tested. Because, regarding the European and regional context, taking into account the developments of the last few days in Romania (the rapid formation of a new Government, the adoption of the GEO with concrete measures on fiscal consolidation to reach a budget deficit of 7% of GDP) and taking into account the commitments in the PNRR and the Structural Budget Plan and the fiscal budgetary rules/sanctions associated with their non-compliance, Romania does not deserve this perspective / this rating qualification.

Romania should strictly comply with its commitments made under the National Structural Budget Plan 2025-2031, to prevent the reduction of investor confidence and reduce risks related to the risk premium.

All we hope for is an objective expert analysis of Standard and Poor's, and Moody's and the reassessment of Fitch Ratings' analysis, in line with today's realities and Romania's high development prospects, based on reforms and investments.

The opinion of the authors is personal and does not represent the position of the institutions in which they are employed or collaborate.

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