# S&P affirms Romania’s rating at “BBB-/ A-3”, outlook stable

**Standard & Poor's Global Ratings affirmed on October 14 its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on Romania, with a stable outlook, the agency announced in a release.**

S&P analysts point out that Romania's economy has seen a robust growth in the first half of the year (5.7% year on year), despite the Russia-Ukraine war's indirect effects, but they expect growth rates to decrease substantially over the next few quarters. Moreover, high inflation, buoyed by rising food and energy prices, are likely to cut into disposable incomes, limiting private consumption, a key growth driver in recent years. Given the government's consolidation strategy, S&P also believes further fiscal stimulus to the private sector will moderate, which will weigh on domestic demand from next year.

GDP growth in Romania is expected to moderate to about 4% over 2023-2025, compared with closer to 6% in 2021-2022, as the recovery in demand following the COVID-19 pandemic wanes and high inflation, at least in the near term, curbs consumption growth; still, S&P analysts are confident high EU fund inflows will support economic activity.

"Over 2023-2025, we believe Romania's economic development will be highly contingent on the execution of EU-funded investments. The country has EU grants of 25%-30% of GDP available to it under the RRF and the previous and current Multiannual Financial Framework (MFF)," the rating agency notes.

Romania's current account deficit (CAD) is seen rising past 8% of GDP this year, the highest since 2008, pushed by high domestic demand, rising import prices, and primary income outflows. However, the CAD is next seen decreasing through 2025 as domestic demand moderates, partly due to the government's fiscal consolidation plans. High nominal GDP growth will support the moderation in fiscal deficits, helping contain government debt, net of liquid government assets, at below 50% of GDP.

"Further supporting the ratings are Romania's continued access to external financing in difficult market conditions, together with the benefits from the country's EU membership, which constitutes a key policy anchor and benefits the institutional framework," the rating agency states.

The stable outlook assigned to Romania's ratings balances economic risks from the Russia-Ukraine conflict - mainly in the form of surging inflation and more adverse economic developments in Romania's main trading partners - and the country's high twin deficits against the buffers provided by its still-modest stock of external and government debt and incoming EU transfers.

"We anticipate that commitments under the EU's Recovery and Resilience Facility (RRF) will continue to anchor authorities' commitment to political reforms and fiscal consolidation," S&P points out.

The agency warns that it could lower Romania's ratings over the next two years if the government's medium-term fiscal consolidation efforts prove insufficient, failing to sustainably reduce deficits below 4% of GDP, or if the government's financing costs increase beyond its expectations; or if financing for Romania's twin deficits were to be increasingly oriented toward debt-creating external flows, perhaps due to lower-than-expected inflows of EU funds.

In the upside scenario, S&P could raise the ratings if there is evidence that Romania can sustain high economic growth, while the current account deficit and government's fiscal deficit narrow, indicating the economy's strengthening productive capacity.

Early this month, Fitch Ratings also affirmed Romania's sovereign rating at 'BBB minus' with a negative outlook, this being the lowest "investment-grade" step (recommended for investments).