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Moody’s Ratings affirms Romania’s Baa3 ratings, maintains negative outlook

Paris, <Rating Date Pending> -- Moody’s Ratings (Moody’s) has today affirmed Romania’s long-term issuer and senior unsecured ratings at Baa3 and also affirmed the senior unsecured MTN rating at (P)Baa3. The short-term issuer ratings have also been affirmed at Prime-3. The outlook remains negative.

The decision to maintain the negative outlook reflects the high implementation risks related to Romania’s ambitious multi-year fiscal consolidation programme, despite the initial progress made in reducing the deficit.

Political conditions have become more challenging following the passage of a no-confidence vote against the previous prime minister in May. Political fragmentation has delayed the formation of a new government, although we expect a new administration will take office after the summer break.

This fragmented political backdrop increases the risk that fiscal consolidation could lose momentum. The coming months will be important in assessing Romania’s ability to maintain political support for a prolonged fiscal adjustment and to implement structural measures that would support debt stabilization and improve debt affordability over time.

The affirmation of Romania’s Baa3 ratings reflects the initial progress achieved under the government’s fiscal consolidation programme, which is slowing the increase in the government’s debt and interest burden. The rating affirmation also incorporates the country’s integration into European Union (EU, Aaa stable) institutional frameworks, which supports policy credibility and provides access to EU-provided financing. It also incorporates Romania’s solid growth potential, and relatively high wealth levels compared to peers. At the same time, Romania’s credit profile is constrained by a high susceptibility to event risk, which is – apart from the challenging domestic political situation – largely driven by its elevated exposure to geopolitical risk due to its proximity to the war in Ukraine (Ca stable) and its large structural current account deficits.

Romania's long-term local and foreign-currency country ceilings remain unchanged at A2. The four-notch gap between the local currency ceiling and the sovereign rating reflects a moderate government footprint in the economy, moderate predictability of government actions and reliability of key institutions, as well as moderate political and external vulnerability risks. As a EU member state, Romania's fiscal and macroeconomic policies are subject to regular assessments by the European Commission, and the strong interconnectedness through trade and investment linkages minimizes the risk of transfer and convertibility restrictions in our view.

RATINGS RATIONALE

RATIONALE FOR MAINTAINING THE NEGATIVE OUTLOOK

Romania’s fiscal consolidation has reduced the deficit somewhat more quickly than we expected when we maintained the negative outlook on Romania’s Baa3 ratings in September 2025. However, the negative outlook remains appropriate because the government still faces significant political and implementation risks in sustaining the large, multi-year fiscal adjustment needed to contain the deterioration in debt affordability and stabilise debt dynamics.

These challenges are largely political. Romania has never held snap parliamentary elections since 1989, and they are therefore unlikely. Nevertheless, the highly fragmented domestic political landscape means that it is not clear what government will be formed following two failed attempts. Our baseline assumption is that a new government will be formed after the summer break; a new government needs to be in place in the early autumn if a 2027 budget is to be passed before the end of 2026. Although political volatility will remain a feature of Romania's political landscape for the foreseeable future, our view of the country's ability to remain on track with fiscal consolidation will be a key rating consideration.

Despite the slightly faster than expected deficit reduction, Romania's interest burden will still increase in the coming years given high refinancing needs and the prevalence of market-based funding. We estimate refinancing needs at around 12% of GDP on average, over 2026-28 and average yields on Romanian debt have increased significantly over the last two years. We think that interest costs will increase to 3.3% in 2028 from 2.8% of GDP in 2025, up from 2.0% of GDP in 2023. The concessional terms of the Security Action for Europe (SAFE) and Recovery and Resilience Facility (RRF) loans help to constrain the increase in the interest burden, but they do not prevent it from rising under our current interest rate assumptions given the prevalence of market-based funding. Romania's borrowing costs remain sensitive to fiscal and political developments. Successful implementation of fiscal consolidation and evidence of policy continuity could support a more favourable funding environment than we currently assume, limiting the deterioration in debt affordability.

As a result of still elevated primary deficits and rising interest costs, we expect the debt burden to continue to increase, albeit at a slower pace than we anticipated at the time of our last rating committee. We project debt will increase to 64.5% of GDP in 2028 from 59.3% in 2025. Our current baseline assumes a gradual further reduction in deficits that stabilise the debt burden at around 66% of GDP by the end of this decade. However, this expectation is subject to significant uncertainty.

RATIONALE FOR THE AFFIRMATION OF THE Baa3 RATINGS

The affirmation of the Baa3 ratings reflects the fiscal consolidation that has been achieved in 2025 and 2026 that, in turn, is slowing the increase in Romania's debt and interest burden. After outperforming expectations in 2025, in the first half of 2026 the government's fiscal consolidation efforts have again materially outperformed our earlier expectations (and their own targets). We now expect Romania's 2026 headline deficit to decline significantly to 5.8% of GDP, down over two percentage points in one year, thanks to expenditure restraint and revenues holding up in spite of challenging macroeconomic conditions.

The affirmation of Romania's ratings is also supported by the economy's solid growth potential as well as its comparatively high wealth levels. It also reflects Romania's integration into EU institutional frameworks that provides both institutional and financial support. That said, the strength of Romania's institutions and governance is still somewhat weaker than that of rating peers, particularly due to challenges in areas such as control of corruption and fiscal policy effectiveness.

The country's credit profile is also constrained by a high susceptibility to event risk. This is largely driven by its elevated exposure to geopolitical risk due to its proximity to the war in Ukraine though its large, structural current account deficits are also a material credit challenge.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) CONSIDERATIONS

Romania's ESG credit impact score of CIS-3 indicates that ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time. This reflects moderate exposure to social risks—mainly due to a rapidly aging population as well as net emigration and weaker access to basic services than many regional peers. It also reflects governance challenges in areas such as control of corruption and fiscal policy management.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely given the negative outlook. The outlook could return to stable if it is clear that a political consensus still exists in favour of implementing and maintaining a large fiscal effort beyond 2026 that structurally controls expenditure growth and increases revenue intake. This combination of political support and structural fiscal changes would increase confidence in policy continuity, improve market confidence and reduce financing costs, thereby limiting the deterioration in debt affordability. Signals that this support exists could include passage of a deficit-reducing 2027 budget before the end of 2026 as well as passage of a public wage law that stabilises and then reduces the government's wage bill.

Downward pressures on the rating would stem from a political and policymaking environment that is unlikely to be conducive to sustaining a large fiscal effort over a number of years. This, in turn, would put Romania's interest costs and debt burden on a steady upward trajectory, negating the positive effects of the deficit reduction observed in 2025 and 2026. A reversal of credit-positive reforms that have passed in recent years would also put downward pressure on the ratings.

A significant increase in geopolitical risk emanating from the war in Ukraine or increasing pressure on the funding of Romania's elevated current account deficit would also add to negative rating pressures.

The principal methodology used in these ratings was Sovereigns published in May 2026 and available at https://ratings.moodys.com/rmc-documents/466021. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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