

## ANALYSIS OF ROMANIA'S COUNTRY CREDIT RATING FROM THE PERSPECTIVE OF THE CREDIT RATING AGENCY MOODY'S INVESTORS SERVICE, 2011-2015 PERIOD

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*Abstract: In the paper "Analysis of Romania's country credit rating from the perspective of the credit rating agency Moody's Investors Service, the 2011-2015 period" we have presented an analysis of Romania's country credit rating as highlighted in the reports published by the credit rating agency Moody's. The Agency Moody's Investors Service claims that approximately 70% of Romania's exports are made to European countries, which means that a slowdown in the economic growth in Europe results in the worsening of the growing pace recently accelerated in Romania. Romania's indebtedness represents 31% of its gross domestic product.*

**Key words:** rating, credit rating agency, country risk

### INTRODUCTION

Often referred to as Moody's as well, Moody's Investors Service credit risk agency is the credit risk rating company of Moody's Corporation, which shows the traditional business line of the company and its historic name. The company was established in 1909 by John Moody, while in 1975 the company was identified as National Organization for Statistics Assessment by U.S. Securities and Exchange Commission. [3]

In relation to Moody's Investors Service, it is on the first place in the provision of credit risk ratings, risk research and analysis. Moody's engagement and expertise contribute to the transparency and integrity of financial markets. The rating history and the company analysis covers more than 115 countries, 22,000 financial issuers and 80,000 structured financial obligations. [2]

### MATERIALS AND METHODS

The paper was prepared based on the reports published by the country credit rating agency Moody's Investors Service for the analysed period.

In this paper, we have presented a few characteristics of the aforementioned agencies and the ratings obtained by Romania in the analysed period as they are presented in the reports of this country credit risk rating agency.

### RESEARCH RESULTS

In Romania, in 2011, the rating agency changed the rating outlooks of the local and external governmental bonds ratings to Baa3. In relation to the ceiling of the long-term bonds in a foreign currency and the deposit ceilings, they received the Baa3 rating, while the short-term bonds received the Prime-2 rating, and the short-term foreign currency bond ceiling received the Prime-3 rating. In relation to the short-term bank deposit rating, this rating is Baa3, and in relation to short-term ceilings, these ceilings received the Prime-3 rating. [9]

Moody's Investors Service Agency claims that approximately 70% of Romania's exports are to European Countries, which means that a slowdown of the economic growth in Europe will result in the worsening of Romania's accelerated growth pace. Romania's level of indebtedness is 31% of the gross domestic product. In 2011 the deficit is likely to decrease below 5% of the gross domestic product. According to Moody's Investors Service credit rating agency, the increase in gross domestic product is 3%, the inflation rate 3.14%,

the fiscal balance 4.4%, the current account balance 4.5%, and the external debt 75.3%. (Table 1)

According to Moody's Investors Service credit rating agency, Romania's ratings could grow based on proof that the fiscal prudence achieved in the past year can be supported by in the medium term and that the medium-term growth will be accelerated at the levels recorded in the past two years. The aspect that would adjust the rating downwards is a reversal of the fiscal consolidation programme, combined with the stagnation of the structural reform, which would lead to the worsening of credits to levels that could eventually be incomparable to Romania's current rating Baa3.

**Table 1.**

**Indicators used in the analysis of Romania's rating by Moody's Investors Service credit rating agency in 2011**

<b>Increase in gross domestic product</b>	3%
<b>Inflation rate</b>	3.14%
<b>Fiscal balance</b>	4.4%
<b>Current account balance</b>	4.5%
<b>External debt</b>	75.3%

*Source: Drafted by the author based on the data in the Annual Report - Moody's Investors Service credit rating agency in 2011.*

In Romania, in 2012, the rating agency changed the rating outlooks of the local and external governmental bond ratings from the negative Baa3 rating to the stable one. In relation to the government short-term local debt, it remained unchanged, receiving the Prime-3 rating. The agency also changed the rating on the ceiling of the long-term debts and deposit ceilings, from the A3 rating to the Aa3 rating, of the long-term bonds from the A3 rating to the A1 rating, and the short-term foreign currency bond from P-2 to P-1. In relation to the rating on the long-term bank deposit ceilings, it remained unchanged, i.e. Baa3, like the short-term ceiling rating of P-3. [9]

Moody's Investors Service credit rating agency claims that 50% of Romania's exports are dedicated to countries in the euro area, while other 20% are dedicated to other countries in the European Area. The second reason why Moody's Investor Service credit rating agency gave Romania a negative rating was that Romania's external debt accounted for 72% of the gross domestic product. Moody's Investor Service credit rating agency noted that the country credit profile benefited from relatively low rates of the government debt, and from fiscal consolidation efforts that led to a decrease in Romania's fiscal deficit to 5.2 % in 2012. According to Moody's Investors Service credit rating agency, the increase in gross domestic product is 1%, the inflation rate 5%, the fiscal balance 4%, the current account balance 4.4%, and the external debt 77.3%. (Table 2)

**Table 2.**

**Indicators that led to Romania's rating analysis by Moody's Investors Service credit rating agency in 2012**

<b>Increase in gross domestic product</b>	1%
<b>Inflation rate</b>	5%
<b>Fiscal balance</b>	4%
<b>Current account balance</b>	4.4%
<b>External debt</b>	77.3%

*Source: Drafted by the author based on the data in the Annual Report - Moody's Investors Service credit rating agency in 2012.*

In 2013 Moody's Investors Service credit rating agency gave Romania, from the point of view of the governmental bonds, the Baa3 rating, and for the government short-term external debt, it received from the agency the Prime-3 rating, for the long-term foreign currency bonds in Romania the A3 rating, for the long-term bank deposit ceiling in Romania the A3 rating, and for the long-term ceiling in a foreign currency the A3 rating. In relation to the rating on the long-term bank deposit ceiling it received the Baa3 rating. Moody's Investors Service credit rating agency gave the short-term foreign currency ceilings the Prime-2 rating, and to short-term deposits the Prime-3 rating. The global financial ratings and those in the euro area led to a substantial deterioration of Romania's public finance. In 2013 the fiscal deficit was decreased by 2.3% of the gross domestic product, thus meeting the conditions agreed with the International Monetary Fund and the European Union. One of the reasons that led to a negative rating from Moody's Investors Service is that approximately 50% of the Romanian Exports are dedicated to the euro area, while most Romanian banks are held in parts of the countries in the euro area. Romania's gross domestic product recorded a decrease by 3.5%, the inflation recorded a decrease by 1.6% compared to the end of 2012 which recorded an inflation rate of 5%, which led to competitiveness. The increase in exports was accelerated, while imports remained relatively low, resulting in a decrease of the current account deficit by up to 1.1% in 2013, compared to 4.4% in 2012. In relation to the gross domestic product, it recorded an increase by 3.5%, the fiscal balance recorded a decrease by -2.3%, while Romania's external debt was 70.1%. [12]

**Table 3.**  
**Indicators that led to Romania's rating analysis by Moody's Investors Service credit rating agency in 2013**

<b>Increase in gross domestic product</b>	3.5%
<b>Inflation rate</b>	1.6%
<b>Fiscal balance</b>	-2.3%
<b>Current account balance</b>	-1.1%
<b>External debt</b>	70.1%

*Source: Drafted by the author based on the data in the Annual Report - Moody's Investors Service credit rating agency in 2013.*

In 2014 Moody's Investors Service credit rating agency granted the Baa3 rating to the long-term bonds and the Prime-3 rating to short-term bonds. The agency gave the A3 rating to the local bond ceilings, the A3 rating to the long-term foreign currency bonds, and the Prime-2 rating to the short-term foreign currency bonds. In relation to the ceilings of the foreign currency deposits, it received the A3 rating, the ceiling of foreign currency deposits receives the Baa3 rating, while the ceiling of the short-term deposit receives the Prime-3 rating

“Romania's Baa3 government rating is supported by reduced fiscal deficits and a still comparatively low government debt-to-GDP ratio. In addition, Moody's expects that continued integration with the European Union (EU) will contribute to improvements in the country's institutional framework and capacity. Upward pressure on the rating could be exerted by a continuation of Romania's robust real GDP growth, de improvements in the country's institutional framework and effectiveness, a prolonged stabilisation in government and external debt ratios, and/or a shift in the government debt structure that reduced refinancing risks.” [12]

According to Moody's Investors Service credit rating agency, the increase in the real gross domestic product was 2.8%, the inflation rate 0.8%, the fiscal balance -1.4%, the current account balance -0.5%, and the external debt 50.3%. (Table 4)

**Table 4.**  
**Indicators that led to Romania's rating analysis by Moody's Investors Service credit rating agency in 2014**

<b>Increase in gross domestic product</b>	2,8%
<b>Inflation rate</b>	0,8%
<b>Fiscal balance</b>	-1,4%
<b>Current account balance</b>	-0,5%
<b>External debt</b>	50,3%

Source: Drafted by the author based on the data in the Annual Report - Moody's Investor Service in 2014.

In 2015 Moody's Investors Service credit rating agency gave the Romanian government, in relation to the long-term bonds, the Baa3 rating, and for the short-term bonds the Prime-3 rating. "The key drivers for changing the outlook on Romania's ratings to positive from stable are: Romania's sizeable fiscal adjustment in the recent past, leading to a significant reduction of the government's fiscal deficit and contributing to a stabilization of the government's debt-to-GDP ratio, the macroeconomic policy procyclicality that led to a rapid increase in wages, a deterioration of the price competitiveness and an increase in the current account deficit." [13]

Moody's Investors Service credit rating agency gives, for the local and foreign-currency bonds, the A3 rating, and for the bank deposits the same A3 rating. In relation to the long-term ceiling for the foreign-currency deposits, that rating remained unchanged, i.e. at the Baa3 rating level. In relation to short-term obligations, foreign-currency obligations remained unchanged at the Prime-2 rating level, and the ceiling of the foreign-currency bank deposits remained unchanged at the Prime-3 rating level. According to Moody's Investors Service credit rating agency, increase in gross domestic product is 4.8%, the inflation rate -0.5%, the fiscal balance -2.8%, the current account balance -2.3%, and the external debt 52.2%. (Table 5)

**Table 5.**  
**Indicators that led to Romania's rating analysis by Moody's Investors Service credit rating agency in 2015**

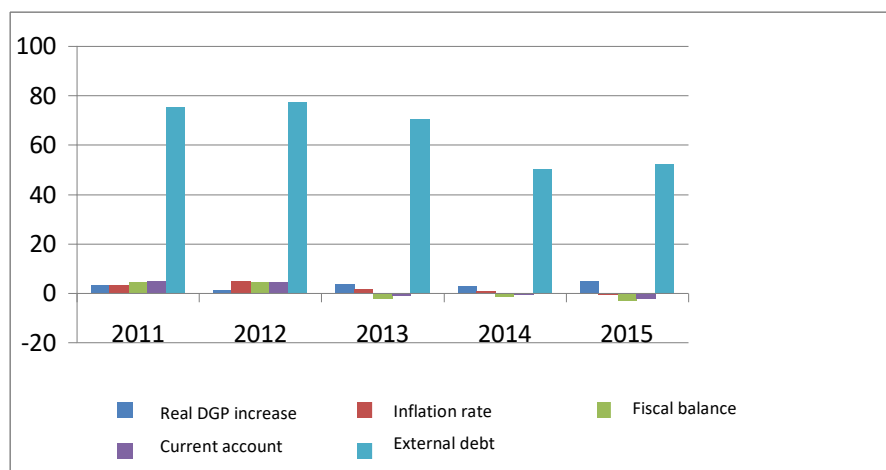
<b>Increase in gross domestic product</b>	4.8%
<b>Inflation rate</b>	-0.5%
<b>Fiscal balance</b>	-2.8%
<b>Current account balance</b>	-2.3%
<b>External debt</b>	52.2%

Source: Drafted by the author based on the data in the Annual Report - Moody's Investors Service credit rating agency in 2015.

**Table 6.**  
**Indicators that led to Romania's rating analysis by Moody's Investors Service credit rating agency in the 2011-2015 period**

Year	2011	2012	2013	2014	2015
	%	%	%	%	%
<b>Real GDP increase</b>	3	1	3.5	2.8	4.8
<b>Inflation rate</b>	3.14	5	1.6	0.8	-0.5
<b>Fiscal balance</b>	4.4	4	-2.3	-1.4	-2.8
<b>Current account balance</b>	4.5	4.4	-1.1	-0.5	-2.3
<b>External debt</b>	75.3	77.3	70.1	50.3	52.2

Source: Drafted by the author based on the data in the Annual Report - Moody's Investors Service credit rating agency in the 2011-2015 period.



**Figure 1. Evolution of the indicators used by Moody's Investors Service credit rating agency in analysing the rating in Romania in the 2011-2015 period**

*Source: Drafted by the author based on data collected from table 6.*

According to the data provided by Figure 1. we can notice that the external debt recorded the highest value in 2011 i.e. 75.3%, and the lowest value in 2014 i.e. 50.3%. The current account balance recorded the highest value in 2011, i.e. 4.5%, and the lowest value was recorded in 2014 i.e. -0.5%. The fiscal balance recorded the highest value in 2011, 4.4%, while the lowest value was recorded in 2014 i.e. -1.4%. The inflation rate recorded the highest value in 2012 namely 5%, and the lowest value in 2015, i.e. -0.5%. In relation to the increase in the gross domestic product, we can note that the highest percentage was recorded in 2015, i.e. 4.8%, and the lowest value in 2012, i.e. 1%. All these indicators were used by the Moody's Investors Service agency and made Romania's rating be approximately constant throughout the entire period between 2011 and 2015.

## CONCLUSIONS

In Romania, in 2011, the rating agency changed the rating outlooks of the local and external governmental bonds ratings to Baa3. In relation to the ceiling of the long-term bonds in a foreign currency and the deposit ceilings, they received the Baa3 rating, while the short-term bonds received the Prime-2 rating, and the short-term foreign currency bond ceiling received the Prime-3 rating. In relation to the short-term bank deposit rating, this rating is Baa3, and in relation to short-term ceilings, these ceilings received the Prime-3 rating.

In Romania, in 2012, the rating agency changed the rating outlooks of the local and external governmental bond ratings from the negative Baa3 rating to the stable one. In relation to the government short-term local debt, it remained unchanged, receiving the Prime-3 rating.

Moody's Investors Service credit rating agency gave Romania, in 2013, from the point of view of the governmental bonds, the Baa3 rating, and for the government short-term external debt, it received from the agency the Prime-3 rating, for the long-term foreign currency bonds in Romania the A3 rating, for the long-term bank deposit ceiling in Romania the A3 rating, and for the long-term ceiling in a foreign currency the A3 rating. In relation to the rating on the long-term bank deposit ceiling it received the Baa3 rating.

In 2014 Moody's Investors Service credit rating agency granted the Baa3 rating to the long-term bonds and the Prime-3 rating to short-term bonds. The agency gave the A3 rating to the local bond ceilings, the A3 rating to the long-term foreign currency bonds, and

the Prime-2 rating to the short-term foreign currency bonds. In relation to the ceilings of the foreign currency deposits, it received the A3 rating, the ceiling of foreign currency deposits receives the Baa3 rating, while the ceiling of the short-term deposit receives the Prime-3 rating.

In 2015 Moody's Investors Service credit rating agency gave the Romanian government, in relation to the long-term bonds, the Baa3 rating, and for the short-term bonds the Prime-3 rating.

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