

BEST'S COUNTRY RISK REPORT

Romania CRT-3

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Romania is a CRT-3 country, with moderate levels of economic, political, and financial system risk. In 2017, GDP grew 7.0%, driven by strong household consumption, fiscal stimulus, and wage growth.
- Medium-term growth is expected to moderate as fiscal stimulus wanes. Forecast for 2018 GDP is 5.1% and 3.5% for 2019.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions include many of the Eastern European countries such as Bosnia and Herzegovina, Belarus, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic and political frameworks to be more in line with European Union standards. The region has economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

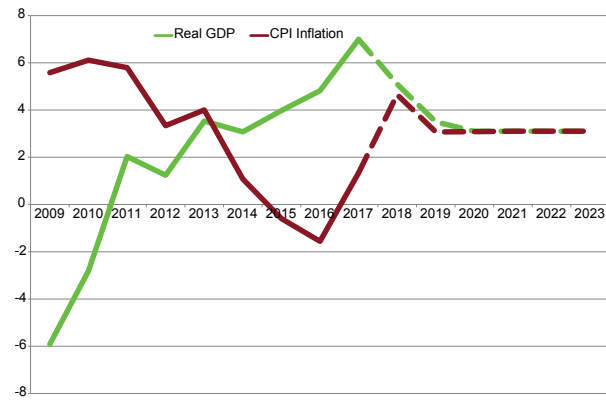
Vital Statistics 2017		
Nominal GDP	USD bn	211.32
Population	mil	19.6
GDP Per Capita	USD	10,757
Real GDP Growth	%	7.0
Inflation Rate	%	1.3
United Nations Estimates		
Literacy Rate	%	98.8
Urbanization	%	54.9
Dependency Ratio	%	48.0
Life Expectancy	Years	75.4
Median Age	Years	41.1
Insurance Statistics		
Insurance Regulator	Financial Supervisory Authority	
Premiums Written (Life)	USD mil	516
Premiums Written (Non-Life)	USD mil	1,951
Premiums Growth (2016 - 2017)	%	5.1
Regional Comparison		
	Country Risk Tier	
Romania	CRT-3	
Czech Republic	CRT-2	
Croatia	CRT-4	
Poland	CRT-2	
Slovenia	CRT-2	
Bulgaria	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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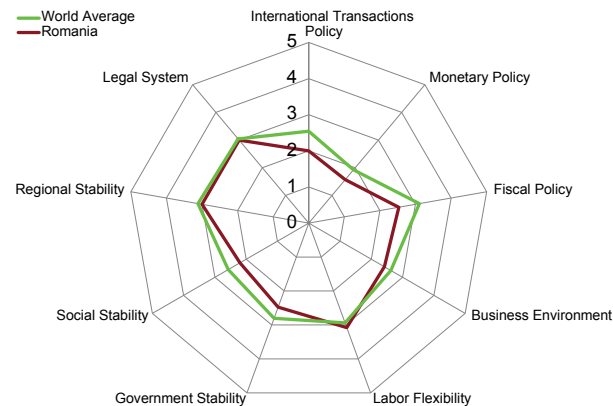
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

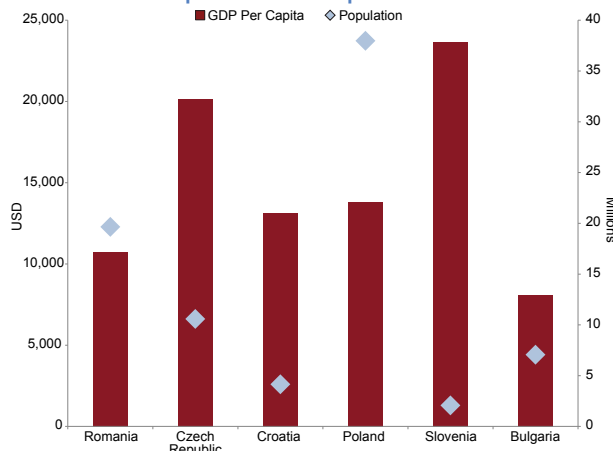
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Industry, trade, food services, and public administration are the largest sectors in Romania's economy. Exports are a main driver of growth, with most bound for the EU. As such, economic expansion in the EU and stabilizing commodity prices should bolster Romania's economy. However, the reliance on exports makes the country vulnerable to external shocks.
- Inflation turned positive in 2017, following two years of negative rates. Medium-term inflation rates are expected to range between 3.0% and 4.0%.
- Romania has a well-educated workforce. Labor costs are substantially lower than in Western Europe, giving the country a competitive advantage.
- Challenges include an underdeveloped infrastructure, an ageing populace, the potential for a rise in emigration of skilled labor, and an inefficient tax collection system.

Political Risk: Moderate

- The current president is Klaus Iohannis of the National Liberal Party. The political system does experience periods of instability—the country has had three prime ministers since 2016. The current Prime Minister is Vasilica Dăncilă, a member of the Social Democratic Party. The next presidential and legislative elections are scheduled for November 2019 and December 2020, respectively.
- The government has undertaken expansionary fiscal policy measures to help stimulate the economy. Higher spending has led to elevated, but still moderate, current account and fiscal deficits.
- Romania joined the EU in 2007 but is not a member of the Schengen Area, which allows for the free movement of people.
- Institutional weakness persists, with ongoing corruption at the national and municipal levels. The judiciary is not completely independent and is vulnerable to political influence.

Financial System Risk: Moderate

- The Financial Supervisory Authority supervises and regulates the insurance industry.
- To enhance financial stability, Romania's government recently passed a draft law establishing a National Committee for Macro Prudential Supervision.
- In 2018, the IMF conducted a Financial Sector Assessment Program, which assesses the stability of a country's financial system as a whole, on Romania. Despite a decline in non-performing loans (from 21.9% in 2013 to 6.4% in December 2017), some financial system risks are increasing. These risks include an increase in banks' holdings of domestic sovereign debt and the potential for a rise in loan defaults. The financial system remains small.