

2004-6
May 24, 2004

Foreign: **BB/Positive**, Local: **BB+/Positive** (Latest rating review released on December 17, 2003)

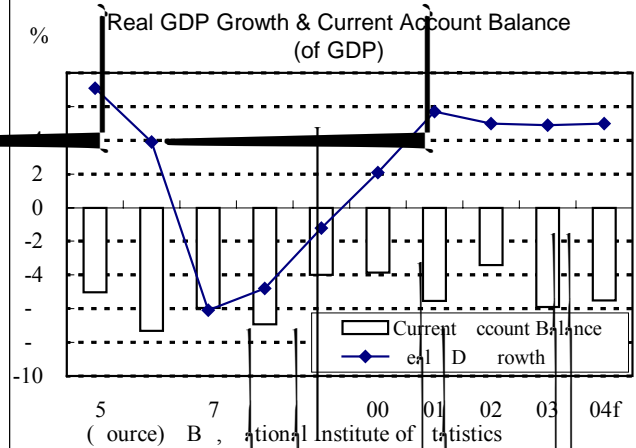
<Main Viewpoints on the Rating>

Positive Factors

Improved macroeconomic performance.
Maintenance of fiscal discipline.
Reduced public debt-service payments brought by extended loan terms and declining interest rates.

Negative Factors

Delay in structural reforms in terms of efficiency and administration.
Expansion of current account deficit amid rapid growth of outstanding credits in private sector.



Updated: from February 2004 to April 2004

Positive Factors

Romania's real GDP grew strongly by 4.1% in 2003, after growing by 5.0% in 2002, primarily driven by private consumption and capital investments. Growth was supported by a significant improvement of external environment, including the entry into force of the EU accession treaty, the EU accession, and the Romanian government's request for a precautionary standby arrangement totaling USD 250 million. The Executive Board meeting in June will have a positive impact on the rating for Romania's EU accession.

Negative Factors

Current account deficit widened to 5.1% of GDP in 2003 from 3.4% in 2002, mainly due to a trade deficit. Although the National Bank of Romania (BNR) put a stricter standard for bank lending in place in February 2004, JCR expects that the current account deficit will only improve to 5.5% of GDP in 2004.

<Outlook and Creditable Points>

(1) Real GDP growth by 5% in 2004 is in line with the government projection, though C/A deficit is expected to remain over 5% of GDP

Real GDP grew by 4.1% in 2003, after growing by 5.0% in 2002, or just in line with the government projection of 4.0%, primarily spurred by private consumption and gross fixed capital formation. The government projected a recovery in economic activity in 2004, with a growth rate of 5.0% in 2004, and 5.5% in 2005. However, the government's growth rate of 5.0% is a target for the EU accession. The current account deficit is expected to deteriorate to 5.1% of GDP in 2004, and 5.5% in 2005. The stricter standard for bank lending introduced in February 2004 may help to reduce the current account deficit, but it is expected to shrink only slightly to 5.5% of GDP in 2004. The government's adjustment is expected to continue in 2004. The state-owned enterprises, including the mining sector, are expected to continue to be adjusted. The business sentiment is expected to improve in 2004, after falling to a low of 55% in March 2004. The government's adjustment in the sector is expected to continue in 2004.

*1) Refer to 'overemployment' in the JCR review, <http://www.jcr.co.jp/svc/cxo/rm04-02.pdf>.

(2) 'Precautionary Standby Arrangement' in July

