MINISTRY OF PUBLIC FINANCE

GOVERNMENT PUBLIC DEBT MANAGEMENT STRATEGY

2015 – 2017

General Directorate for Treasury and Public Debt

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Contents

1. Introduction 3
2. Objectives and scope 5
3. Description of the public government debt portfolio 5
    Evolution of government public debt 5
    Risks of the public government debt portfolio at end-2014 8
4. Funding sources 10
    Domestic market 10
    External market 16
5. Macroeconomic background în Romanian 19
    Risks to baseline projections 20
    Policy implications 21
6. Analysis and strategic guidelines 22
    Implications of the analysis of the existing debt portfolio, market development considerations and the macroeconomic analysis in the development of a debt management strategy 22
    Results of the analysis of alternative debt management strategies 23
    Strategic guidelines 24

Annex 1
Development of the domestic market of government securities 27
Annex 2
Improvement policy on cash management and measures to be taken 29

Acronyms

ATM	Average time to maturity (years)
ATR	Average time to re-fixing (years)
CEDB	Council of Europe Development Bank
EIB	European Investment Bank
IBRD	International Bank for Reconstruction and Development
NBR	National Bank of Romania
WB	World Bank
NCP	National Commission of Prognosis
PDs	Primary dealers
EMBIG	Emerging Markets Bond Index Global of JP Morgan
FED	United States Federal Reserve
IMF	International Monetary Fund
GMTN	Global Medium Term Note Program for the Eurobonds issuances on the foreign markets
IFIs	International Financial Institutions
NIS	National Institute of Statistics
MoPF	Ministry of Public Finance
GDP	Gross Domestic Product
EU	European Union

1. Introduction

The present Public Government Debt Management Strategy for 2015-2017 (hereinafter the Strategy) is a continuation of Public Government Debt Management Strategy for 2014-2016 and was prepared following the international sound practice as defined in the WB-IMF Guidelines for debt strategy design[1].

As it has been the case with previous documents, the Strategy for 2015-2017 is consistent with the medium-term Fiscal-Budgetary Strategy and with the agreements concluded with the international financial institutions (IMF/WB/EU). The Strategy provides the direction in which the authorities intend to steer the funding and the structure of the debt portfolio to meet *the Ministry of Public Finance's government public debt management objectives* as follows:

- Cover the government's financing needs and payment obligations, while minimizing medium and long-term costs;
- Limit the financial risks of the government public debt portfolio, and
- Develop a domestic market for government securities.

The implementation of the Public Government Debt Management Strategy for 2014

In 2014 all risk indicators were within the targets established through the public government debt management strategy for 2014-2016, as reflected in the presentation of financial indicators in the table below.

Table 1 : Risk indicators at the end of 2013 and of 2014

Indicators *)	31/12/2013	31/12/2014	Indicative targets according to the Strategy 2014-2016
A. Currency risk			
Share of domestic currency debt in total (% of total)	39,8%	39,6%	35% (minimum) – 50%
Share of EUR denominate debt in foreign currency denominated debt (% of total)	83,0%	81,9%	75% (minimum) – 90%
B. Refinancing risk			
Debt maturing in 1 (% of total)	17,0%	17,0%	10% - 20% (maximum)
Local currency debt maturing in 1 year (% of total)	28,0%	24,0%	25% - 35% (maximum)
ATM for total debt (years)	4,8	5,3	4,5 yrs (minimum) – 6,5 yrs
ATM for local currency debt (years)	3,5	3,6	2,5 yrs(minimum) – 4,5 yrs
C. Interest risk			
Debt re-fixing in 1 year (% of total)	18,0%	22,0%	20% - 30% (maximum)
Local currency debt re-fixing in 1 year (% of total)	12,0%	19,0%	25% - 35% (maximum)

*) without loans from the availabilities of the General Current Account of the State Treasury

Strategic guidelines:

The following principles shall guide the government funding decisions during the period 2015-2017:

1. Favoring a net financing in local currency to facilitate the development of the domestic securities market and to help mitigate foreign currency exposure.

[1] See "Developing a Medium-Term Debt Management Strategy (MTDS)—Guidance Note for Country Authorities, Prepared by the Staff of the World Bank and the International Monetary Fund February 24, 2009.

2. Pursuing a smooth redemption profile, especially in the local currency avoiding to the extent possible the concentration of principal repayments/refinancing of government securities in the short-term.
3. Mitigating refinancing risk by maintaining a foreign currency buffer and possibly contracting credit lines when their conditions are judged favorable for the government debt portfolio.
4. Maintaining the exposure to interest rate risk under control by monitoring the share of domestic debt refixing within the next year and the average time to refix for the total portfolio.
5. Maintaining presence in the international capital markets, through issuances of Eurobonds mainly in EUR and access the USD market or other foreign currencies markets on an opportunistic basis, selecting the longest possible maturities bearing in mind the cost of extending maturity.
6. Gradually elimination the issuance of government securities denominated in EUR in the domestic market, on medium term.
7. In the process of external financing, the foreign currency debt will be contracted mainly in EUR.
8. Continuation of the partnership with international financial institutions to benefit from favorable terms and conditions offered by these institutions.

These principles translate into indicative target ranges[2] for key risk indicators that allow flexibility in managing government public debt to respond to change of the conditions in the financial markets, as follows:

- to manage foreign currency risk:

1. keeping the share of local currency denominated debt between 40% (minimum) and 55% in total government public debt.
2. keeping the share of debt denominated in EUR as a proportion of foreign currency debt between 80% (minimum) and 95%.

- to manage refinancing risk

1. maintaining the share of debt maturing in the next 12 months between 20% and 30% (maximum) for the local currency debt and between 15% and 25% (maximum) for the total debt.
2. ATM should be maintained between 3.0 (minimum) and 5.0 years for local currency denominated debt and between 5.0 (minimum) and 7.0 years for total debt.
3. maintaining a foreign currency buffer at a comfortable level, in order to mitigate the risks corresponding to periods characterized by high volatility on the financial markets.

- to manage interest rate risk

1. the share of debt re-fixing its interest rate in the next 12 months should remain between 20% and 30% (maximum) for the local currency debt and between 15% and 25% (maximum) for the total debt.
2. maintaining ATR between 3 (minimum) and 5 years for local currency debt and between 4.5 (minimum) and 6.5 years for total debt.

2 The limit referred to as the minimum or maximum can't be exceeded during the period covered by the strategy (hard bound), while the other limit is to be achieved and can be exceeded (soft bound).

2.Objectives and scope

The Strategy will be the vehicle for the Ministry of Public Finance to achieve its debt management objectives as follows:

- Covering the government's financing needs and payment obligations, while minimizing medium and long-term costs;
- Limiting the financial risks of the government public debt portfolio, and
- Developing a domestic market for government securities.

The first two objectives are stated in the EGO no 64/2007 and are complemented by the domestic market development objective which was formulated in the previous strategies as well. The development of a liquid market of government securities and the construction and consolidation of a yield curve in national currency are important objectives both for reaching the first two objectives of the strategy and for the development of the Romanian financial market.

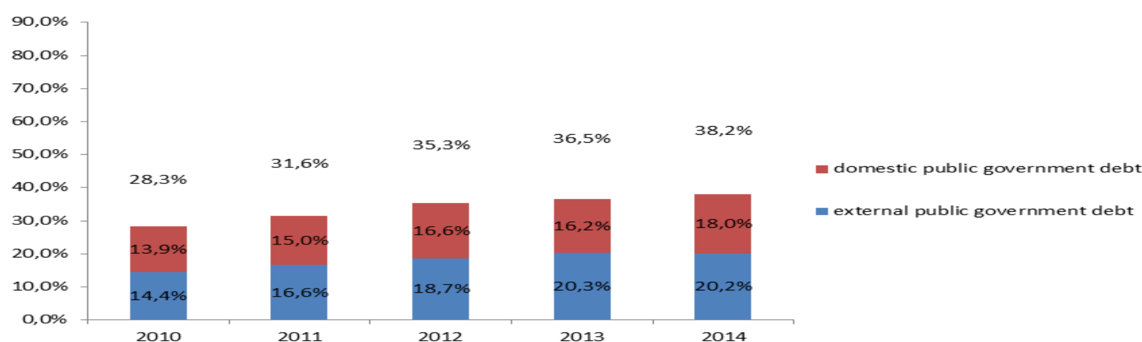
The scope of the Strategy is limited to debt contracted directly or guaranteed by the Government, through the Ministry of Public Finance, but excluding the loans from the State Treasury Account ("temporary financing"). Temporary financing is considered a cash management instrument and cannot be viewed as a financing vehicle in the medium-term. Nevertheless, considering that it is important to coordinate the government public debt management strategy with the cash management policy, including through temporary financing, as well as the interference between them, cash management strategy is presented in Annex 2[3].

3. Description of the public government debt portfolio[4]

Evolution of government public debt

At the end of 2014, the outstanding government public debt was RON 255.7 billion, representing 38.2% of GDP.

Graph 1: Evolution of public government debt[5] (in % of GDP)



Source: MoPF

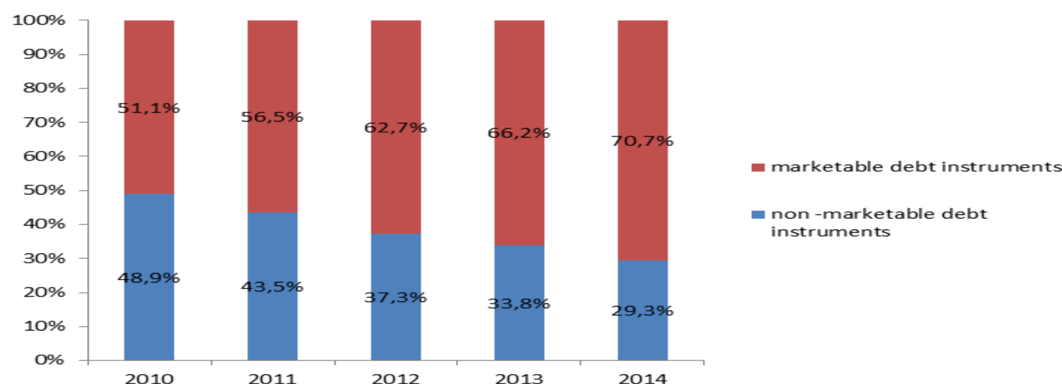
[3] It should be noted however that drastic changes in the level of temporary financing may have an impact in the issuance of government securities and can affect the plans for developing the domestic debt market.

[4] Preliminary data according to national legislation, does not include temporary financing.

[5] According to the creditor's residence criterion

As illustrated in graph 2, the structure of the public government debt has continuously improved from a portfolio comprising mainly non-marketable debt (external[6] loans contracted with IFIs) to one with more marketable debt instruments (with a growing proportion issued in local currency).

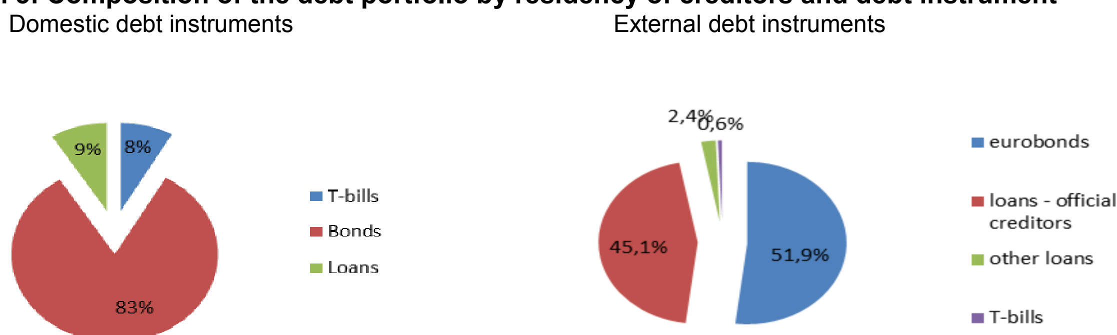
Graph 2 : Marketable debt instruments vs non-marketable debt instruments



Source: MoPF

From the outstanding public government debt at the end of 2014, 48.7% was domestic and 51.3% external. As presented in graph 3, the bulk of the domestic debt is represented by government securities, namely T-bills and T-bonds (mainly denominated in local currency), whereas the external debt is mainly represented by loans contracted with IFIs and bonds issued in the international capital markets.

Graph 3: Composition of the debt portfolio by residency of creditors and debt instrument



Source : MoPF

Government securities issued in the domestic and external markets represented 70.7% of total public government debt compared to 29.3% of loans, and 54.5% of these securities are denominated in local currency.

The overall cost, approximated by the average interest rates[7], decreased slightly in 2014 driven by lower interest rates especially of external debt. Debt in local currency at end-2014 remains more expensive than debt in foreign currencies[8] as presented in table 2.

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6 Criterion of residency of creditors.

7 Calculated as interest payments projected for 2015 divided by outstanding amount for each debt instrument at end-2014.

8 Excluding the influences due to currency risk which can significantly change the cost of debt in foreign currency (interests corresponding to debt in foreign currency), in case of a depreciation of the national currency

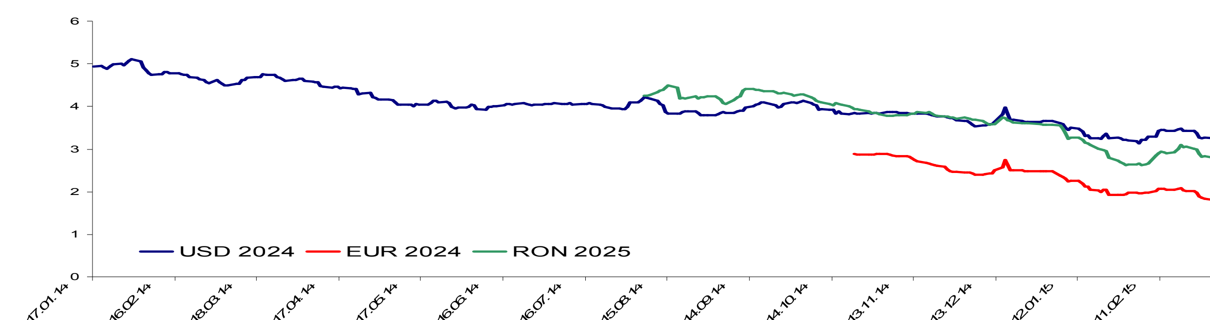
Table 2: Cost of direct debt by type of instruments[9]

	31.12.2013	31.12.2014
Average interest rate of public government debt (%)	4.7	*4.3*
1. in local currency, o/w	*6.0*	*5.3*
a. T-Bills with 1 year maturity	5.1	2.0
b. T-Bonds fixed with 1 - 5 year maturity	6.3	5.7
c. T-Bonds fixed with 5 - 10 year maturity	6.1	6.0
2. in foreign currencies, o/w:	*3.8*	*3.6*
a. EUR bonds with 10 years maturity	5.4	4.5
b. EUR bonds with 3-5 years maturity	4.5	4.3
e. EUR multilateral	2.7	1.9
f. USD bonds with 10 years maturity	-	5.7
g. USD multilateral	1.0	1.4

Source : MoPF

The significant portion of multilateral loans contracted at concessional rates explain the lower cost of external funding; in addition, bonds placed in the international capital markets are usually issued at lower nominal yields (without considering the impact of currency risk on the costs) compared to local currency securities as illustrated in graph 4. Nevertheless, as of the beginning of 2015 and until the present (March 2015), the costs corresponding to financing in RON on the domestic market decreased for the first time a lot below the levels of the costs of USD financing on similar maturities (for example, for the 10 years maturity, the yields of bonds in RON are at levels below 3%, while the yields corresponding to bonds with similar maturities denominated in USD are around the level of 3.40%), which is favorable to the increase of financing in RON, reducing the attractiveness of external financing in USD (the analysis considers not using hedging instruments for the financing in USD).
The dollar has appreciated at the highest level against the euro in the first half of the year, supported by the signs of strengthening of US economy and the growing interest of investors in US assets.

Graph 4: Domestic benchmark bond yield vs 10 yrs eurobonds issued on the external market in Euro and USD



Source: MoFP

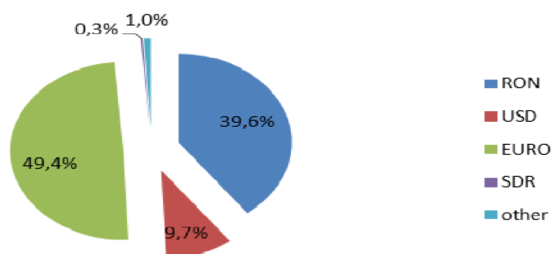
9 The table shows the average interest rates for selected stylized debt instruments.

Risks of the public government debt portfolio at end-2014

Currency risk

At the end of 2014 close to 60% of the government public debt portfolio was denominated in foreign currencies. While at first sight this ratio would suggest a significant exposure to foreign currency risk, the relative low volatility of the RON/ EUR rate and the share of long-term foreign currency debt denominated in EUR[10] make the risk related to this exposure easier to manage.

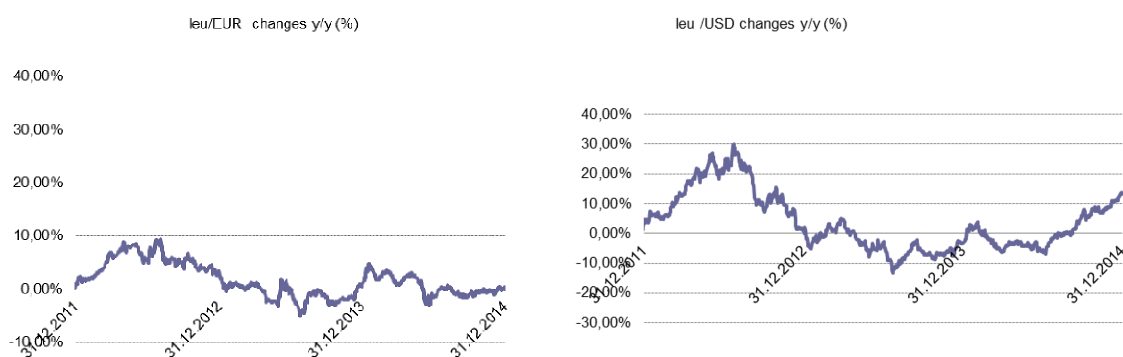
Graph 5: Public government debt by currency



Source: MoFP

As illustrated in Graph 6, debt contracted in USD is significantly riskier than that contracted in EUR. Over the last 3 years the volatility of the RON/USD has been four to five times higher compared to the RON/EUR exchange rate.
In the last period, USD appreciated strongly against other currencies and particularly against the Euro, as a result of US economic performance and FED perspectives to give up of easing the monetary policy and to rise the interest rates for instruments denominated in USD, market expectations being for a parity of 1:1 by the end of 2015.

Graph 6: Annual change in the RON/EUR and RON/USD exchange rates



Source: MoFP; NBR

In the case of a pessimistic scenarios, for example a depreciation of the local currency against EUR by 10% and against USD by 30% in 2015 would increase the debt stock by RON 21.0 billion or 3.0% of GDP and the debt service payments by RON 0.8 billion

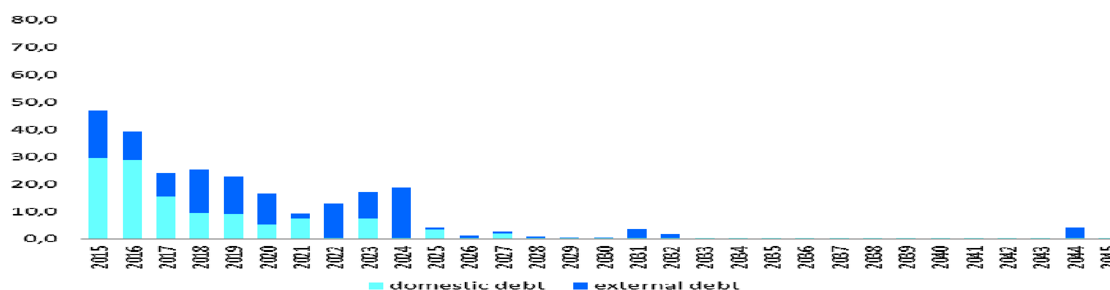
10 Long-term euro denominated debt issued with a bullet structure implies a redemption of the principal within a time-horizon in which euro adoption is feasible and therefore a reduced implied currency risk.

or 0.4% of central government revenues[11]. Accordingly, the exposure to exchange rate risk could be considered moderate but not negligible, given the established timing for adopting the EUR in 2019.

Refinancing risk

The structure of principal repayments and refinancing of government securities presented in graph 7 shows some accumulation of repayments in the first 5 years. The concentration of repayments over the short term is particularly noticeable in the domestic debt[12] and reflects the importance of T-bills in the government funding reaching 10.5 billion RON at end 2014. The refinancing of these obligations may pose a challenge in the financing process from the domestic market if the banks were to find alternative and more profitable placements with the revival of demand for credit from the private sector[13]. On the external side, refinancing risk is low mainly as a result of the repayment structure of the loans contracted with the international financial institutions, but also as a result of the extension of the average remaining maturity for the external debt portfolio following the issuance of Eurobonds with long and very long maturities.

Graph 7: Principal repayment schedule on public government debt at end- 2014



Source: MoPF

The redemption profile of the debt portfolio results in an average time to maturity (ATM) of 5.3 years: 3.6 years for local currency denominated debt and 6.4 years for debt denominated in foreign currencies.

Table 3: Refinancing risk indicators

	2013			2014		
	Domestic currency denominated debt	Foreign currency denominated debt	**Total**	Domestic currency denominated debt	Foreign currency denominated debt	Total
Debt maturing in 1 year (% of total)	28.0	5.8	17.0	24.0	12.3	17.0
ATM (years)	3.5	5.8	4.8	3.6	6.4	5.3

Source: MoPF

11 Revenues according to cash methodology applying EU methodology.

12 By market of issuance.

13 MFP aims to increase the share of domestic issuances used for deficit financed from 60% in 2015 to 70% in 2016 and in 2017, issuing a maximum volume of government securities of about RON 45 billion (for budget deficit financing and for refinancing of the public debt) estimated for 2016.

Interest rate risk

Given the small portion of debt contracted at variable rates (see Table 4), interest rate and refinancing risks are similar: high for local currency obligations and low for foreign currency ones. Thus, a 1% increase in interest rates in 2015 will increase debt service payments by RON 1.0 billion, i.e. 0.6% of central government revenues[14], in the local currency debt and RON 1.5 billion, i.e. 0.9% of central government revenues, in the foreign currency debt. It is important to be mentioned that the exposure to interest rate risk is diminished for foreign currency debt portfolio due to the fact that loans from international financial institutions represents 47.0% of this debt at the end of 2014.

Table 4: Interest risk indicators

	2013			2014		
	Domestic currency debt	Foreign currency debt	Total	Domestic currency debt	Foreign currency debt	Total
Share of fixed rate debt (% of total)	88.4	85.8	86.8	86.7	83.1	84.5
Debt re-fixing in 1 year (% of total)	12.0	18.0	18.0	19.0	24.0	22.0
Average time to re-fixing – ATR (years)	3.5	5.9	4.8	3.6	6.6	5.4

Source: MoPF

Given the above, we can conclude that the refinancing and interest rate risks for lei denominated debt continue to be the most important risks associated to public government debt portfolio, whereas the exposure to currency risk is easier to manage but cannot be neglected given the established timing for adopting the EUR in 2019.

4 . Funding sources

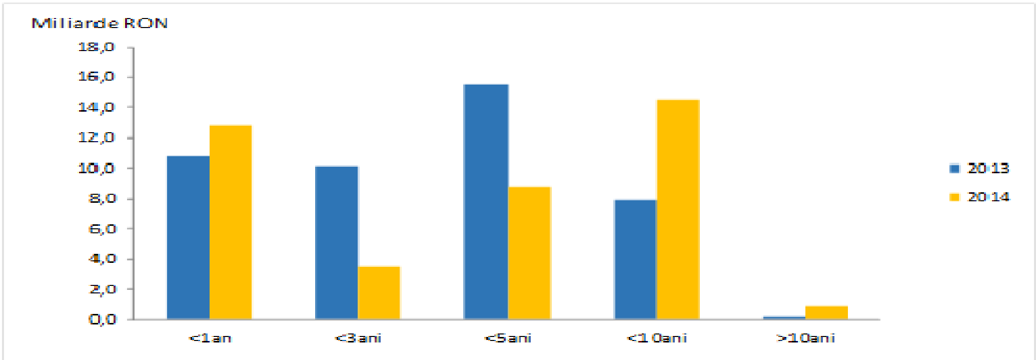
Domestic market

Description of the funding operations in 2014

In 2014 the domestic market assured RON 44.7 billion, 71.5% of the central government borrowing needs[15]. Thus, T-bills with up 1 year maturities of lei 12.8 billion were issued and T-bonds of lei 31.9 billion, out of which lei 4.17 billion were denominated in EUR. As illustrated in chart 8 the MoPF continued its efforts to extend the average maturity of the government securities by increasing the share of medium and long-term government securities, which allowed to increase the funding raised over 10 year segments. New T-bonds series with 5 and 10 year maturities were issued and reopened almost every month.
As shown in Chart 8 MoFP continued its efforts to extend the average maturity of government securities which allowed for increased funding beyond 10 years maturity.

14 Idem 11
15 Presented in chapter 5

Graph 8: Breakdown of government securities issuance by maturity



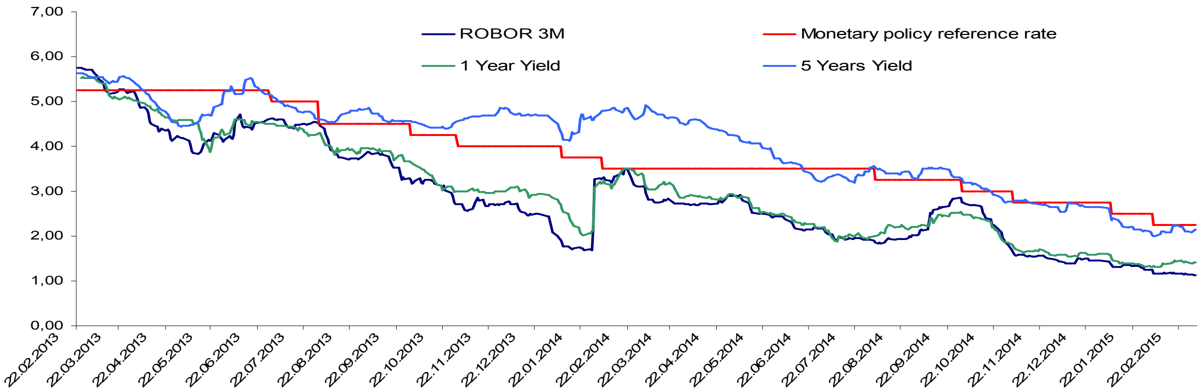
Source: MoPF

In accordance with the financing plan, in the first part of 2014, the MoPF issued 5-year T-bonds denominated in EUR, in order to build up resources necessary to redeem the the T-bond denominated in EUR due in May, which amounts to EUR 1.3 billion and to maintain the foreign currency reserve in cash at a comfortable level[16]. Even though these instruments allow for the extension of the remaining maturity of the debt portfolio and to take advantage of certain windows of opportunity, the MoPF's medium term policy is to gradually reduce its issuances denominated in EUR on domestic market given the objective of building and consolidating the yield curve in local currency.

Market developments in 2014

The yields of government securities continued along the downward path of the past two years triggered by NBR's relaxation measures of the monetary policy, their development being influenced as well by the liquidity conditions in money market, the RMO cuts for the liabilities in lei for the credit institutions and the appetite of non-resident investors.

Graph 9: Comparison between the monetary policy rate, 3M ROBOR and yields for 1 and 5 years

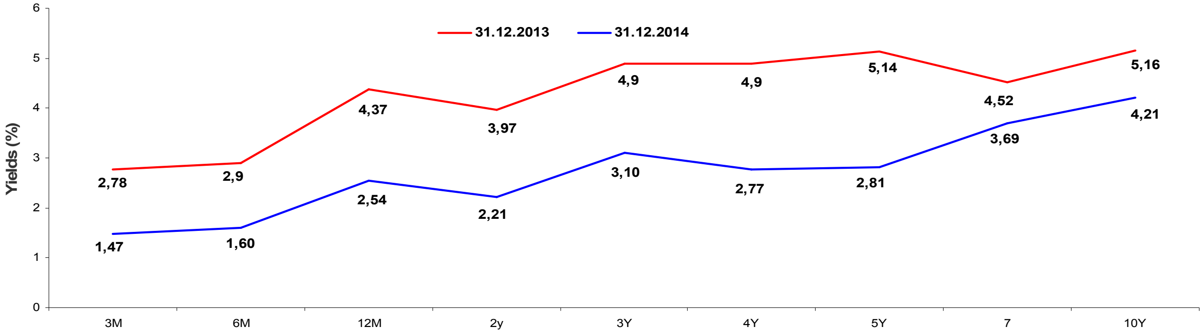


Source: MoPF, NBR

16 The foreign currency cash buffer is necessary to reduce the refinancing risk and the liquidity risk, and the net interest paid is a necessary cost for insurance against possible shocks.

NBR brought the monetary policy rate in successive cuts from 5.75% in January 2012 to 2.25% in February 2015. As shown in graph 10, the interest rates for government securities on short and medium term registered an accentuated decrease below NBR policy rate given given an increased offer for these maturities.

Graph 10 : Primary Market Yields at the end of 2014 vs the end of 2013

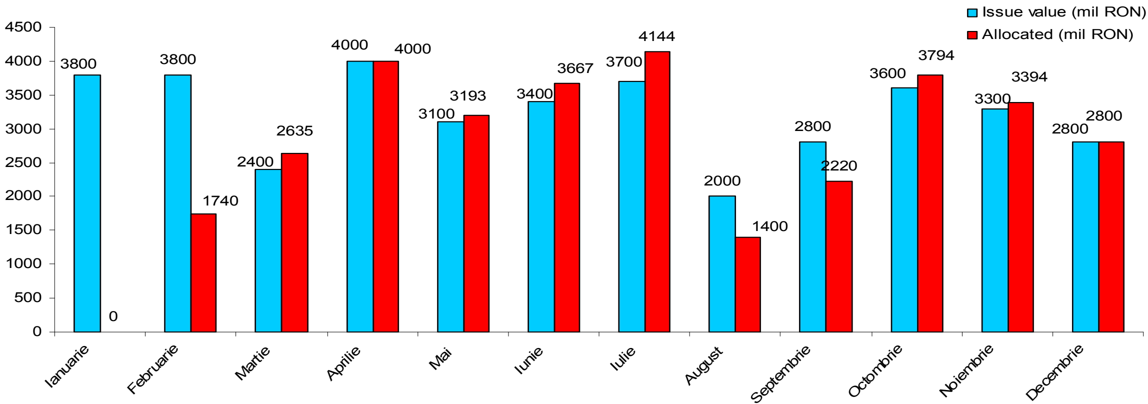


Sourse : MFP

A key driver of the strong appetite for government securities was Standard and Poor's upgrade of Romania to investment grade which triggered an increase in the weight of Romania government securities in regional indices starting with July 2014. Thus, at the end of 2014, 9 series of T-bonds were included in the JP Morgan GBI-EM Global Diversified index with a share of 2.52% and 8 series in the Barclays EM Local Currency Government index. The compression in yields was also noticeable for securities issued in EUR with 5 years maturity, yields decreasing by 173 basis points since January 2014 to reach 1.345% at the end of 2014.

From this perspective, in 2014 the MoPF took advantage of the high liquidity in the market and extended the maturity of government securities, in order to reduce refinancing risk. As shown in graph 11, most auctions were overwritten, the local banks being the main buyers of short-term government securities and non-residents being the main investors in long-term government securities.

Graph 11: Allocated volume

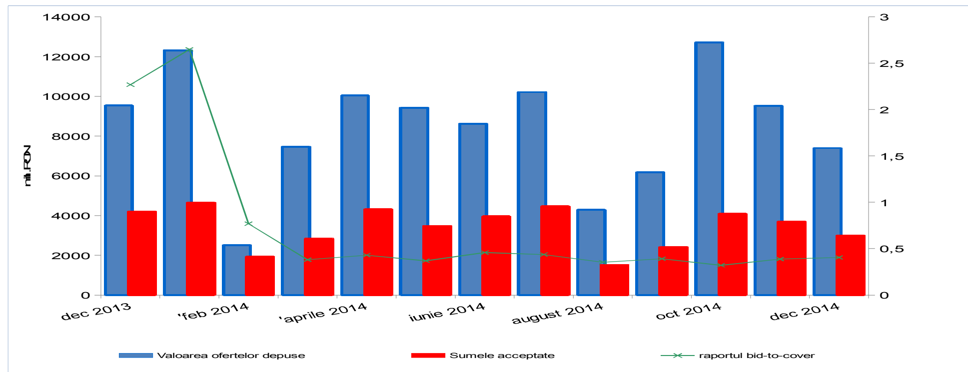


Source: MoPF

Graph 12 shows the demand in auctions performed throughout the year. Also, the MoPF continued efforts to pursue a predictable issuance policy, the announced

amounts being allocated entirely in most of the auctions. The exceptions were during periods of volatility and in case of long-term auctions, when higher amounts were allocated, given high level of demand and the objective to extend the average remaining maturity.

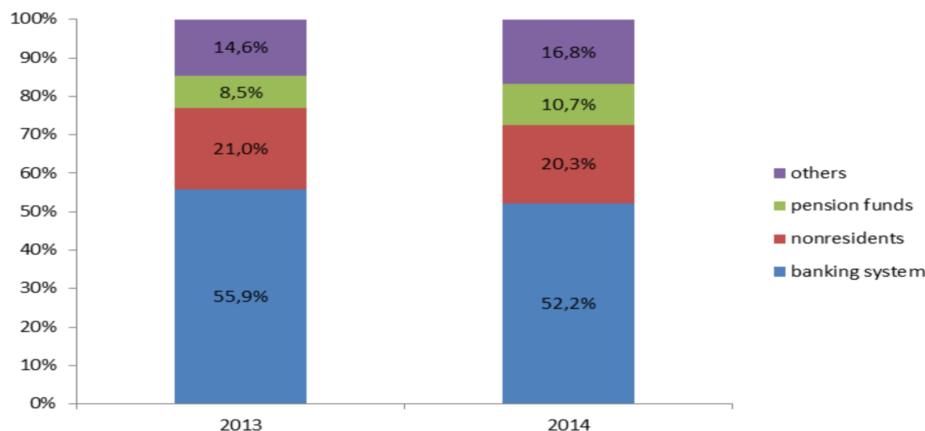
Graph 12: Demand and offer of government securities on the primary market



Investor base

At the end of 2014, the domestic government securities' market continued being dominated by commercial banks that held 52.2 % of the total outstanding government securities; next in importance were the non-residents with holdings to 20.3%, while pension funds' holdings reached 10.7%.

Graph 13: Government securities by holders



Source : NBR

Banks will continue to remain the main supplier of funds to the government. This supportive demand is determined by the context of declining in the total stock of the loans provided to the private sector following the externalisation of the NPLs while the resumption in the lending activity is expected to be gradual. The investors' preference focuses on maturities of up to 7 and marginally to 10 years, especially for the most liquid instruments included in the regional indices.

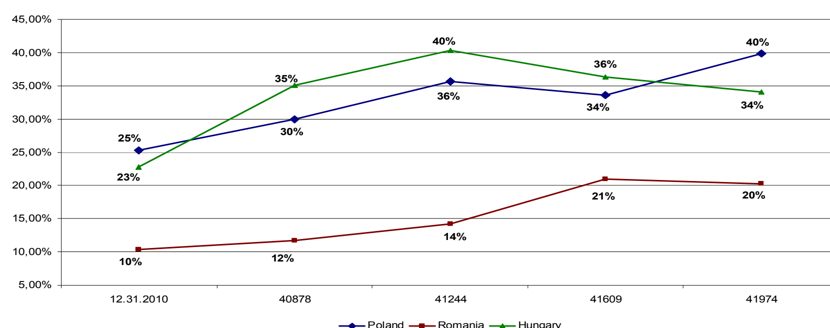
As institutional investors, local asset managers and pension funds have a relatively small share in the government securities however on ascendant trend and significant

potential to support the development of the local government securities market in the near future. Total net assets of the private pension funds increased from RON 10.2 billion in 2012 to reach RON 14.7 billion in 2013 and 20.33 billion in 2014 (pillars II+III), and it is expected that the total net assets held by private pension funds will maintain their upward trend[17], as the contribution to Pillar II will gradually increase to 6% by 2016. Moreover, assets of private pension funds shall also increase as the mandatory contribution (currently 10.5%) under public system (Pillar I) will gradually shift to privately-managed funds (Pillar II) by 2016.

Non-residents holdings remained relatively constant throughout the year at approximately 20%, a level which is more below the one registered for peers (Poland, Hungary).

The behavior of non-resident investors is slightly volatile, being influenced by developments related to financial markets, following the monetary policy decisions taken by FED and ECB. The policies adopted by the two central banks have different effects in terms of investors' appetite for assets issued by European countries (such as Romania). Non-residents are seen as an important investors in government securities since their demand is complementary to that of local investors as result of their interest in long maturities.

Graph 14: Evolution of holdings by types of investors



Secondary market

Contrary to the strong performance of the primary market the liquidity in the secondary market, which is an important indicator of the development of the government securities market, dropped in 2014 and performs at low levels compared to international standards. The degree of liquidity, calculated by dividing the volume of monthly transactions in the secondary market and the total volume of the government securities, dropped to 21.1% in December 2014 from 52.8% at the end of 2013.

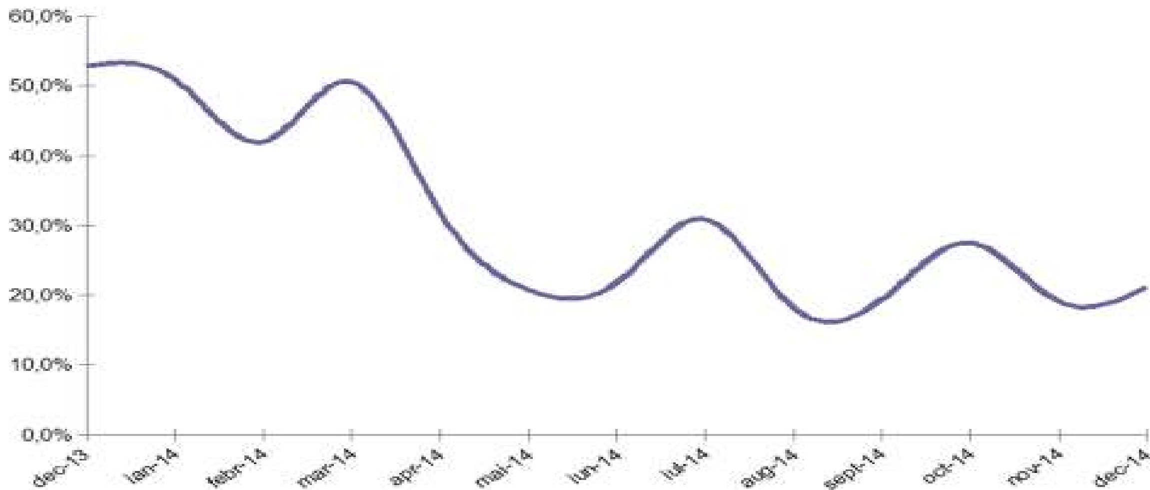
The low levels of trading in the secondary market could reflect market factors, such as the anticipation of further yield reduction following the accommodative policy of the NBR and structural deficiencies, such as the lack of secondary market instruments such as repos and the absence of an active participation of the Romanian Treasury with repos, buy backs, exchanges etc.

To improve liquidity and trading in the secondary market, MoPF introduced in January 2013, through the Regulation no. 11/2012 on the primary market of government

17 According to the estimates of APAPR, in 2015 the pension funds' assets are estimated to increase by 25-30%, on average.

securities, a set of criteria to assess the primary dealers' performance, with a strong focus on their activity on the secondary market.

Graph 15: Evolution of the degree of liquidity of the government securities in lei active between December 2013 and December 2014



Source: MoPF

Expectations for 2015-2017

The domestic market shall remain the main source of financing the State budget deficit and for refinancing of the government public debt.

To reduce funding costs and promote a better functioning of the secondary market the MoPF intends to continue building liquid benchmarks across the yield curve with a transparent issuance policy that will define the number of benchmark securities, ranges for issue sizes, as well as information in advance of the market in terms of volume, frequency of issuing/reopening of certain maturities. As part of this policy, the medium term plans plans are to gradually reduce the issuances in euro denominated bonds on domestic market, until they are eliminated.
Part of the policy to build up more liquid benchmarks is to introduce by the mid 2015 the electronic trading platform (ETP) which will contribute to increasing the transparency of quotations and hence the price formation of the government securities creating the conditions to decrease in trading costs to the participants in the secondary market.

In 2015, subject to procedural and operational framework being completed, the MoPF intends to use specific secondary market operations, like buy backs and exchanges, in order to accelerate the building of liquid benchmark bonds and to facilitate the refinancing of series with high volumes which become due. In a similar manner, the MoPF intends to start using reverse repo operations as an efficient cash management tool based on prior consultation with the NBR, in order to coordinate the financing and cash management policies with monetary policies.

Also, in order to increase the accessibility of small investors to government securities, in 2015 MoPF plans to have in place a pilot project for the issuance of government securities to the retail investors, through the Bucharest Stock Exchange.

External market

Description of the funding operations in 2014

In 2014 the MPF raised EUR 4.4 billion equivalent, on the external markets, respectively EUR 2.8 billion and USD 2.0 billion, and these amounts covered approximately 31.6% of the government borrowing requirements[18] as supplemented by EUR 0.5 billion on loans contracted with IFIs. Also the favorable market conditions made the authorities to prefinance the refinancing of external debt maturing in January 2015.

Table 5 presents the issuances of bonds on international capital markets starting with 2008.

Table 5: Romanian bonds issued on external market

ISIN	Issue date	Currency	Maturity	Amount	Coupon	Issue Spread	Initial Yield	Current Yield
XS0371163600	18.06.2008	EUR	18.06.2018	0.75 bl.	6,5	+213.10 bp vs DBR 4 ¼ 18	6,698	0,740
	11.09.2012			0.75 bl.		+404 bp vs Mid Swap	5,100	
XS0495980095	18.03.2010	EUR	18.03.2015	1 bl.	5	+268 bp vs Mid Swaps	5,038	0,118
XS0638742485	17.06.2011	EUR	17.06.2016	1.5 bl.	5,25	+255 bp vs Mid Swaps	5,315	0,443
US77586TAA43	07.02.2012	USD	07.02.2022	1.5 bl.	6,75	506.60 bp vs T 2 02/15/22	6,875	3,172
US77586RAA86	06.03.2012			0.75 bl.		453.70+UST	6,450	
XS0852474336	07.11.2012	EUR	07.11.2019	1.5 bl.	4,875	+370 bp vs Mid Swaps	5,040	0,980
US77586TAC09 US77586RAB69	22.02.2013	USD	22.08.2023	1.5 bl.	4,375	+235.5 bp vs Mid Swaps	4,500	3,261
XS0972758741	18.09.2013	EUR	18.09.2020	1.5 bl.	4,625	+295 bp vs Mid Swaps	4,769	1,295
	28.10.2013			0.5 bl		+250 bp vs Mid Swaps	4,150	
US77586RAC43 US77586TAE64	22.01.2014	USD	22.01.2044	1 bl.	6,125	+245.00 bp vs T 3 ? 08/15/43	6,258	4,319
US77586RAD26 US77586TAD81	22.01.2014	USD	22.01.2024	1 bl.	4,875	+215.00 bp vs T 2 ¾ 11/15/23	5,021	3,274
XS1060842975	24.04.2014	EUR	24.04.2024	1.25 bl.	3,625	+200 bp vs Mid Swaps 223.10 bp vs DBR 1 ¾ 02/15/24	3,701	1,790
XS1129788524	28.10.2014	EUR	28.10.2024	1.50 bl.	2,875	+185 bp vs Mid Swaps 209.90 bp vs DBR 1 08/15/24	2,973	1,803

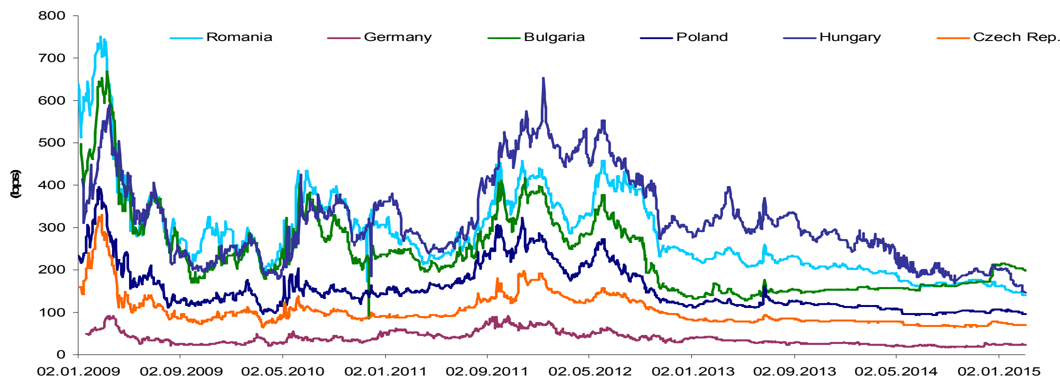
Source: MoPF

Market developments in 2014

The interest rates for government securities in foreign currency continued decreasing in 2014, driven by the evolution of interest rates in the EU and the continued compression of the spreads for Romania (see graph 16).

18 Idem 25

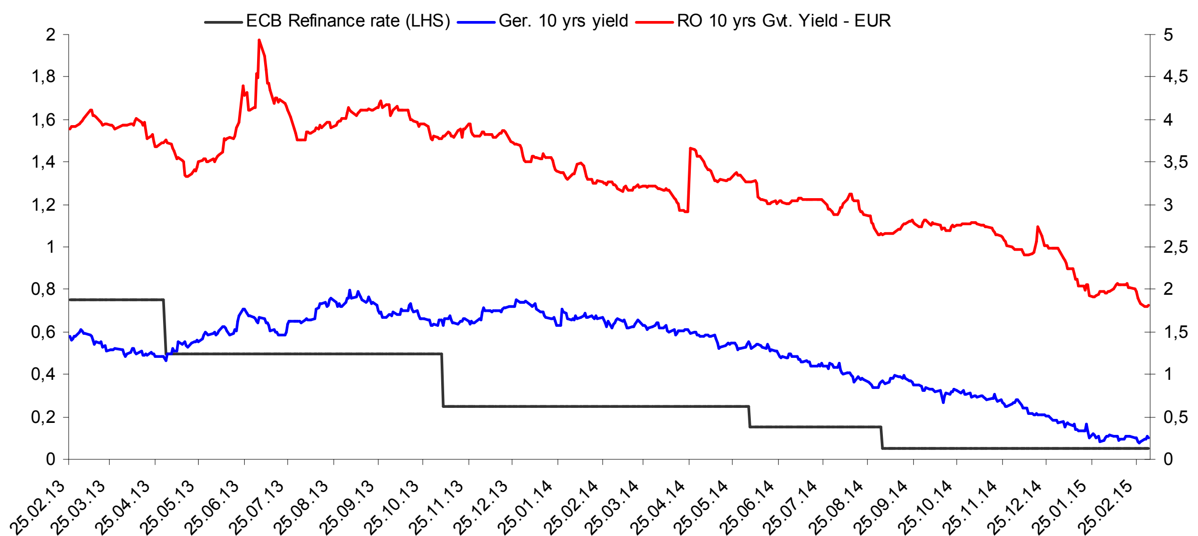
Graph16: EU rates



Source : Reuters

The accommodative monetary policy in the major economies continued pushing yields to record lows in core bond markets and abundant liquidity drove investors to search for yield in lower-rated European economies. These developments triggered Romania 10-year CDS spread to Germany to reach historical lows at the end 2014 (see graph 17).

Graph17: CDS 10-years spread vs Germany



Source: Bloomberg

The downward trend of the yields was interrupted by short periods of volatility due to the geopolitical tensions in Ukraine. Even in the US where the FED initiated the turnaround in monetary policy, the exit from quantitative easing, 10 year yields dropped from 3% in December 2013 to 2.17% at the end of 2014. In Europe a further impulse to low rates came from the ECB's decision to reduce the monetary policy interest rate to 0.05% in September 2014; this move triggered similar actions by several central banks in the region.

Against the backdrop of a respite in the European sovereign debt crisis and of a general rally on financial markets, financing conditions in Romania have eased markedly. The good economic performance, in particular on the budgetary side, along with the inclusion of the government securities in Barclays' and JP Morgan's emerging

market indices, have fostered positive investor sentiment towards Romania and helped the MoPF to further reduce its funding costs, extend the maturities, increase liquidity of the instruments and broaden the investor base.

Expectations for 2015 - 2017

In medium term, we expect strong appetite of foreign investors for paper issued by countries in the EU with strong economic fundamentals and good financing positions. A key driver will be ECB's quantitative easing following the decision of January 2015 of extending its purchases of assets in the Euro zone through a program that will be carried out between March 2015 and September 2016. [19]

The key risks remain the geopolitical shocks and the potential market overreaction to the beginning of a tightening in the Fed Funds rate in the USA. Romania however could be less vulnerable to these shocks given the relatively low level of participation of non-resident investors compared to other countries in the region. The foreseen inflow of European funds contributing to the consolidation of foreign currency reserves should also mitigate the above-mentioned risks.

The Ministry plans to maintain Romania's presence in the international capital markets albeit at slower pace since the domestic market will be sourced as the main fund provider for the government. Most issuances of Eurobonds on external markets will be denominated in EUR to consolidate and expand the price references for the government securities with particular interest in the longer maturities subject to market conditions.

Nevertheless, the issuance of Eurobonds in USD or in other currencies on external markets will also be considered as it offer advantages in terms of longer maturities, increased capacity of absorption of new issuances and a diverse investor base. The latter is particularly important for Romania as a funding alternative in case external events result in limited access to financing in the European markets.

The Ministry will retain flexibility in terms of timing and size bearing in mind cost and risk considerations as well as the potential implications on NBR objectives and monetary policy, as well as local market developments. In addition, the MoPF plans to use buy backs and exchanges to facilitate the refinancing of securities with high volumes and interest rates maturing in the near term.

Also, the implementation of structural reforms in key economic sectors, as well as of priority programs/projects of Romanian economy will continue to be funded through loans contracted from international financial institutions (World Bank, EIB, ECDB, EBRD).

On medium term, the MoPF intends to continue its partnership with the international financial institutions to take advantage of the financial advantages of their products, such as the IBRD loans (DPL) and those contracted to finance the state budget deficit and refinance the public government debt, the availability of the amounts being made subject to the implementation of the investments and/or other necessary actions required under sectorial reforms.

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[19] Until the Council of Governors considers the adjustment of the sustained inflation (in accordance with its objective of targeting inflation rates below, but close to 2% on medium term)

Table 6: Estimated financial conditions of the potential funding sources

	Maturity / grace period (years)	Amount (billion currency)		
Domestic market		2015	2016	2017
1. T bills	6M up to 1 Y	10- 15	10 – 15	10 – 15
2. Benchmark bonds in RON	up to 15 Y	25 – 30	30-35	25-30
3. Bonds in EUR	4Y	0,5	0	0
External market				
1. Issuance under MTN Programme				
- EURO	up to 15 Y	2	1	1
-USD	10Y to 30 Y	0	0	0
2. Loans from IFIs:				
a) EIB (incl. NSRF and PNDR), EBRD and CEB loans	15Y/20Y (2-5Y grace period)	0,17	0,1-0,2	0,05-0,14
b) IBRD loan other than DPL	10/20 Y	0,1	0,1-0,14	0,1-0,2
c) DPL loan	18/20Y	0,75-1,45	0-0,70	0-0,70
d) bilateral agencies (JICA – EUR equivalent)		0	0-0,04	0-0,05

Source: MoPF

5. Macroeconomic background in Romania

In 2014[20] Romania achieved for the first time the required level in 5 nominal indicators[21] for the adoption of the Euro and for accessing the Eurozone.

Given the international economic environment and the economic and financial developments in the euro area, for 2015, the forecast scenario[22] for Romania provides a growth of GDP by 2.8%, while in 2014 a 2.9% economic growth was registered. Domestic demand will be the main driver of economic growth and on the supply side it is expected to improve the economic activity in industries with high export potential, in the construction sector, that can capitalize the infrastructure needs existing in all areas, as well as in the service sector.

After a significant adjustment in 2014 to 0.5% of GDP, the current account deficit is expected to not exceed 1.1% of GDP in 2015.

It is estimated that the annual inflation rate will fall on a slightly upward trend, but it will remain to modest values throughout 2015.The anticipation of the low values of the annual inflation rate recorded at the beginning of 2015 takes place mainly in the context of a negative influence anticipated for products with volatile prices (due to negative annual growth anticipated for subgroup of fuels and of volatile food prices (LFO) under the impact of the significant decline in international oil price during the fourth quarter of 2014, respectively, the manifestation of transitory shocks in the second half of last year for "fruits and vegetables"). To the end of 2015 it is estimated that inflation will not exceed 2.6%, with an annual average of 1.3%.

20 Source: NBR

21 Inflation rate (not more than 1.5pp above the three best performing Member States), long-term interest rates (not more than 2 pp above the rate in the three best performing Member States in terms of price stability), exchange rate stability (participation in ERM II for at least 2 years without severe tension), budgetary deficit (not more than 3% of GDP), public debt (not more than 60% of GDP)

22 Source: NCP

On medium term, it is important to continue promoting structural reforms in order to increase the potential economic growth of Romania and accelerating convergence with the EU amid the successful consolidation of the macroeconomic framework in recent years.
The process of fiscal consolidation towards achieving the medium-term objective (MTO) in 2015, in accordance with the Stability, Coordination and Governance Treaty of the Economic and Monetary Union, ratified by Romania through the Law no. 83/ June 14,2014 and entered into force on January 1, 2013, will result in a downward trend of the gross financing needs. With relatively small budget deficits, the gross financing needs will primarily be the result of the refinancing of the government public debt as shown in the table below.

Table 7: Projections of the financing needs

Indicator	2014	2015	2016	2017
Central government revenues (RON billion)[23]	165.5	176.5	191.4	197.5
Central government expenditures (RON billion)[24]	180.1	190.3	199.8	206.7
Central government deficit (I) (RON billion)[25]	14.6	13.8	8.4	9.2
Refinancing of public government debt[26] (II) (RON billion)	47.9	46.8	39.1	23.9
Gross financing needs (I+II) (RON billion)	62.5	60.6	47.5	33.1

Source : MoPF

The macroeconomic assumptions for the Strategy 2015-2016 are summarized in the table below.

Table 8 : Baseline macroeconomic projections

Indicators	2014	2015	2016	2017
Nominal GDP(RON billion)	669.5	705.0	743.5	785.5
GDP growth(%)	2.9	2.8	3.0	3.3
Central government deficit[27] (% in GDP)	-2.2	-2.0	-1.1	-1.2
Current account deficit (% in GDP)	-0.5	-1.1	-1.2	-1.3
Inflation (end of the year %)	0.83	2.6	2.8	2.5
Inflation(annual average %)	1.07	1.3	2.8	2.7
Average exchange rate RON /EUR	4.4446	4.46	4.44	4.42
Average exchange rate RON /USD	3.3492	3.88	3.83	3.78

Source: NCP, MoPF , INSSE

Risks to baseline projections

Deviations from these baseline macroeconomic projections described above could result from the materialization of the risks at international level, including those resulting from the worsening of geopolitical tensions (Greece situation, the intensification of conflicts in the Middle East and Northern Africa, the conflict in Ukraine and the sanctions imposed on Russia), which could reduce the confidence of

23 Calculated in accordance with the cash methodology applying EU methodology.

24 Idem 23

25 Idem 23

26 Principal repayments of public government debt according to national legislation based on the outstanding at the end of December 2014 (includes guarantees and does not includes temporary financing).

27 Idem 23

European consumers, and from heightened volatility in the financial markets due to the FED tightened monetary policy compensated by the ECB monetary policy which may increase of aversion towards risk at global level affecting the vulnerable emerging economies.External shocks associated with these risks can reduce economic growth via the contraction of exports or the slowdown of capital inflows[28], and can trigger an increase in the government funding needs and higher funding costs.

Among key domestic risks adverse climate conditions can also reduce economic growth via lower agriculture output, with a direct effect on inflation and economic growth, lowering government revenues and pushing up food prices, increasing the need to support the affected population and widening the government primary deficit.

In December 2014, the Eurozone entered deflation (negative inflation), which was influenced by the significant decrease of the price of oil, by almost 50% in 2014, as well as by the slowing growth rhythm of the economies in the Euro zone, to which the already existing risks are added: the still low level of investments (both public and private), the slowing of reforms and the insignificant decrease of public and private debt. Together, all these risks reduce the potential of a sustainable economic growth, both in the euro area and the EU as a whole. At the same time, the cost of financing in local currency may also increase in countries where the central banks change their monetary policy to respond to the worsening global conditions.

Policy implications

The baseline macroeconomic projections indicate declining of funding requirements and stabilizing the share of government debt to GDP over the coming years. This means that the borrowing strategies will be implemented having in view mainly the volume of refinancing debt, while increasing the tolerance to financial risks.

In addition, the macroeconomic context points to lower and stable inflation together with a relatively stable foreign exchange rate may facilitate the extension of maturities for government securities issued in local currency and make external funding sources less costly compared with domestic sources.

In conclusion, the main risks associated with macroeconomic assumptions in the baseline scenario refers to amplification of risks at international level, especially the worsening of geopolitical risks, of the uncertainties regarding the monetary policy of the FED, which was compensated by a decision of the ECB of January 2015 of extending the program of purchase of assets by investing a monthly EUR 60 billion until the end of September 2016 in bonds issued by the governments in the Euro zone, by agencies and European institutions, which will contribute to easing financial conditions and increasing investors' appetite for the assets of countries with low rating (such as Romania) On the other hand, adverse climate conditions could further slowdown economic growth and increase of budgetary deficit but this risk is partially mitigated by the commitment to reach the structural fiscal deficit of 1% of GDP in 2015[29].

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28 The exposure to the volatility of capital flows may have increased after the inclusion of the Romanian bonds denominated in local currency in the benchmark indexes of Barclay's and JP Morgan due to the increase access of non-residents to the local bond market.

29 This is established through the Fiscal Budgetary Strategy on 2014-2016 elaborated in accordance with the Fiscal Responsibility Law, which was amended in 2013 to integrate structural fiscal targets and corrective actions in case of deviations.

6. Analysis and strategic guidelines

The strategic guidelines for managing public government debt in Romania reflect the cost-risk tradeoffs in the current debt portfolio[30], the plans to deepen the debt market in local currency and the medium-term macroeconomic program.

Implications of the analysis of the existing debt portfolio, market development considerations and the macroeconomic analysis in the development of a debt management strategy

While declining compared to previous years the exposure to refinancing risk and interest rate risk in the domestic market continue to be the main sources of risk for the existing government debt portfolio; currency exposure is still significant but is mitigated by the large share of foreign currency debt denominated in Euro and the perspectives of adoption of the EUR[31]. Longer tenors and a more diverse investor justify the funding in USD; however the analysis shows that USD funding is both costlier and riskier compared to funding in EUR.

Current market conditions allow Romania relatively easy access to funding in the domestic debt market and in the international capital markets. Recent efforts to promote the deepening of the domestic market such as the inclusion of government bonds in regional market indices have resulted in maintaining a considerable demand from non-residents (approximately 20% of the active portfolio for government securities); other measures related to the functioning of the PD system, the improvement of the infrastructure for the secondary market and the use of specific instruments for this market (buy-backs and bond exchange) should improve liquidity and further strengthen investor's demand in the future.

Whereas forward yield curves indicate that both external and domestic interest rates are expected to increase in the future they both continue breaking historical lows. The QE initiated by ECB in March 2015 is bound to further reduce long term rates containing the potential of forward rates to increase. With lower yields in the Eurozone, Romania could continue benefiting from the search for return from investors looking for EUR-like denominated assets and this should help keep interest rates both in RON and EUR at relatively low levels.

Macroeconomic projections indicate a stable debt ratio to GDP with declining funding needs while low inflation together with a relatively stable exchange rate may facilitate the extension of maturities for government securities in local currency and a lower cost for external financing. Significant risks associated to these baseline scenarios include worsening of geopolitical tensions which may increase the volatility in the international financial markets with impact on emerging markets, as well as a growth below potential in the member states of EU.

Based on these considerations, the MoPF evaluated financing alternatives that help mitigate the exposure to refinancing and interest rate risk. Two approaches were used: first relying more in longer tenor local currency securities and second replacing the

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30 At the end of 2014

31 Estimated for 2019.

financing in short-term T-Bills by long-term bonds in EUR. In addition, to examine the cost-risk tradeoff raised by the issuance of long-term bonds in USD, several borrowing strategies with different composition of foreign currencies (EUR versus USD) were simulated.

Alternative funding strategies were compared based on the projections of debt service under different scenarios of exchange rates and interest rates. The baseline scenario, defined as the estimate with higher probability of occurring, was used to calculate the expected cost of the different strategies. Risk was measured as the increase in cost resulting from applying shocks to the market rates used in the baseline scenario. Two indicators of cost and risk were used: debt / GDP and interest / GDP, both calculated at the end of the third projection year 2017. The results of the cost-risk analysis are then complemented by domestic market development and macroeconomic considerations as described below.

Results of the analysis of alternative debt management strategies

Extension of average time to maturity (ATM) in domestic currency debt: Addressing the refinancing exposures in domestic currency debt using more RON denominated instruments on medium and long term maturity is getting more favorable, considering the historical minimum levels of the yields of government securities during the period analysis. Under these circumstances, the cost of extending ATM is relatively small in terms of debt/GDP and interest payments/GDP. Accordingly, the scenario analysis supports strategies that raise ATM as the cost increase is relatively small compared to the improvement in the redemption profile and the protection offered against a sudden and sustained increase in short-term interest rates.

This strategy could yield important additional benefits in terms of market development if long tenor securities are traded more actively in the secondary market. The increase in the weight of Romanian government securities in the government bond indices should help, but critical impulses to improve liquidity may come from the introduction of an electronic trading platform and the use of secondary market instruments (buybacks and bond exchanges) by MPF. The use of liabilities management operations is to be implemented based on prior consultation with the NBR, to coordinate the policy for government financing and cash management with monetary policy.

Reduce refinancing risk by rollover the T-bills with Euro denominated securities: Addressing refinancing risk in the local currency debt with Euro funding is advantageous when looking at the debt servicing flows. Indeed, when interest to GDP is used as the cost indicator, strategies with more Euro funding have lower cost and lower associated risk. The cost advantage reflects the relatively higher interest rates in RON while the risk differential responds to the fact that domestic interest rates are significantly more volatile. However, if the analysis centers on the stocks, foreign currency risk dominates and increasing the share of the EUR leaves the portfolio more exposed to a potential correction of RON.

Composition of the foreign currency portfolio: The results of simulations indicate a clear preference for borrowing in EUR over USD. The quantitative analysis shows that at the current and implied forward yield curves, USD financing adds both to the

portfolio cost and risk compared to EUR financing. This reflects higher interest rates in USD and a USD/RON exchange rate significantly more volatile than EUR/RON.

On the other hand, the more liquid USD market allows Romania placements up to 30 years, adding also the diversification of the investor base. In the future, the government plans to take advantage of these benefits hedging the exposure to the USD by using currency swaps. Access to derivative instruments (currency swaps) will provide the authorities the opportunistic access to the USD markets while maintaining the main exposure in EUR.

In order to use financial derivates (currency swaps and interest rate swaps), for the creation of the procedural and technical framework thereof, the MoPF will benefit from technical assistance from the World Bank as part of a project for which financing from European Funds (OPAC) was requested for a period of 12 to 18 months.

In the end, the MoPF favors a net financing more in local currency debt to contribute to domestic market development while pursuing a diversification of healthy funding sources including an opportunistic access to the international capital markets in currencies other than the EUR. Decreasing gross financing needs on medium term, mainly driven by the refinancing of local currency debt, allows the use of more financing from domestic market and the authorities will continue promoting its development as explained in the Annex 1.

Strategic guidelines

The following principles shall guide the government funding decisions during the period 2015-2017:

1. Favoring a net financing in local currency to facilitate the development of the domestic securities market and to help mitigate foreign currency exposure.
2. Pursuing a smooth redemption profile, especially in the local currency avoiding to the extent possible the concentration of principal repayments/refinancing of government securities in the short-term.
3. Mitigating refinancing risk by maintaining a foreign currency buffer and possibly contracting credit lines when their conditions are judged favorable for the government debt portfolio.
4. Maintaining the exposure to interest rate risk under control by monitoring the share of domestic debt refixing within the next year and the average time to refix for the total portfolio.
5. Maintaining presence in the international capital markets, through issuances of Eurobonds mainly in EUR and access the USD market or other foreign currencies markets on an opportunistic basis, selecting the longest possible maturities bearing in mind the cost of extending maturity.
6. Gradually elimination the issuance of government securities denominated in EUR in the domestic market, on medium term.
7. In the process of external financing, the foreign currency debt will be contracted mainly in EUR.
8. Continuation of the partnership with international financial institutions to benefit from favorable terms and conditions offered by these institutions.

Next, these principles are translated as indicative targets for the key financial risk indicators that reflect the desired composition of the government debt portfolio, as follows:

Foreign currency risk:

1. Assuring net financing more from domestic sources[32] and keeping the share of local currency debt in a 40% (minimum)-[33]55%. This share shall gradually increase to protect the government against the risk of sudden stops and the reversal of capital flows taking into consideration the absorption capacity of the domestic market for government securities and its cost.
2. Maintaining the ratio of Euro denominated debt in total foreign currency debt in the 80% (minimum) -95% corridor.

Refinancing risk

1. Keeping the share of debt maturing within one year in the 20% - 30% (maximum) range for the local currency debt and 15%-25% (maximum) for the total debt.
2. Maintaining ATM in the range of 3.0 years (minimum) - 5.0 years for local currency debt and 5.0 years (minimum) – 7.0 years for total debt.
3. Maintaining a foreign currency buffer[34] at a comfortable level, so as to mitigate the risks corresponding to periods of high volatility on the financial markets.

Interest rate risk

1. Keeping the share of debt re-fixing its interest rate within one year in a 20%-30% (maximum) range for the local currency debt and 15%-25% (maximum) for the total debt.
2. Maintaining ATR in a 3.0 years (minimum) – 5.0 years range for local currency debt and 4.5 years (minimum) – 6.5 years for total debt.

Table 9: Targets for key risk indicators

Risk exposure	Indicator	Indicative range for 2015-2017
Currency risk	Share of domestic currency debt in total (% of total) Share of EUR denominate debt in foreign currency denominated debt (% of total)	40% (minimum) - 55% 80 % (minimum) - 95 %
Refinancing risk	Debt maturing in 1 year (% of total) Local currency debt maturing in 1 year (% of total) ATM for total debt (years) ATM for local currency debt (years)	15% - 25% (maximum) 20% - 30% (maximum) 5.0 years (minimum) – 7.0 years 3.0 years (minimum) – 5.0 years
Interest rate risk	Debt re-fixing in 1 year (% of total) Local currency debt re-fixing in 1 year (% of total) ATR for total debt (years) ATR for local currency debt (years)	15 % - 25% (maximum)- 20 % - 30% (maximum) 4.5 years (minimum) – 6.5 years 3 years (minimum)– 5 years

32 60% of deficit financed from domestic sources in 2015, 70% in 2016 and in 2017.

33 Idem 2

34 The foreign currency reserve represents the funds in foreign currency available to the State Treasury, exclusive of collections from privatization revenues.

The implementation of the Strategy 2015-2017 will be monitored monthly by following the debt indicators are in line with targets set and they will be published in the Monthly Bulletin of MoPF on its website. According to the Government Emergency Ordinance no. 64/2007 on public debt, as amended and supplemented, the strategy will be review annually or whenever market conditions and/or financing needs require.

VICTOR- VIOREL PONTA
PRIME-MINISTER

INTERIM MINISTER OF PUBLIC FINANCE

Annex 1

Development of the domestic market of government securities

The medium-term strategic objectives for the development of the domestic market of government securities aim at increasing its efficiency through improving its liquidity, transparency and the consolidation of the yield curve. To achieve the above-mentioned objectives the MoPF has planned a set of actions, some of which will be implemented in the short-term as follows:

1. *Increase the efficiency of the government securities market*:
   1.1. Consolidate and extend the yield curve on the domestic market of government securities:
      1.1.1. Set up the policy for the creation and maintenance of liquid benchmark securities as main financing instrument on the domestic market;
      1.1.2. Use liability management operations to accelerate the creation of liquid benchmark securities (based on prior consultation with the NBR, to coordinate the policy for government financing and cash management with monetary policy) while tackling the refinancing risk and supporting the implementation of the debt management strategy;
      1.1.3. Issue of 3month T-bills for cash management purposes, as well as further issuance of 6 and 12 month T-bills;
      1.1.4. Strengthen the primary dealers' rights and obligations to increase competitiveness in the primary market, through the conclusion of a bilateral agreement between the MoPF and the primary dealers.
   1.2. Diversify and expand the investor base by:
      1.2.1. Launching a pilot program of issuances dedicated to the population (private individuals) through the Bucharest Stock Exchange, considering their interest in government securities due both to the applicable fiscal advantages, as well as to the fact that these instruments are guaranteed by the State;
      1.2.2. Preserving the growth rhythm of the net assets held by the private pension funds, given the redirection towards privately managed pension funds of a higher percentage of mandatory contributions;
      1.2.3. Increasing the segment of investors of insurance funds type, given the preference thereof for public debt instruments with long maturity.
      1.2.4. Encouraging international financial institutions to access the primary market as primary dealers.
   1.3. Analyze the opportunity of issuing new debt instruments required by market participants (like index bond), as well as specific instruments for the population, with the purpose of enlarging the investor base, supporting the market of government securities and promoting the long term saving.
   1.4. Explore the opportunity to reduce the individual nominal value of government securities, to ensure the widest access to these instruments by small retail investors.

2. *The measures to increase the liquidity of government securities market*:

   2.1. The introduction of an electronic trading platform for the supply of firm quotations in the secondary market in order to monitor primary dealers'

compliance with secondary market requirements designed to improve the liquidity and price disclosure/ transparency and to reduce risks associated with trading activity;

2.2. Concentrate the liquidity of government securities in a small number of benchmarks with amounts equivalent of Euros 1.5- 2.0 billion, for each issuance, according to their maturity;

2.3. Use secondary market operations (like bond-exchanges or buy-backs) to reduce the refinancing risk and build up the liquid benchmark bonds, to increase liquidity and support the measures of the MoPF of implementation of the public debt management strategy;

2.4. Conduct reverse repos and securities lending for cash management purposes and to support the activity of the market makers, based on prior consultation with the NBR, to coordinate the policy for government financing and cash management with monetary policy;

2.5. Collaboration with the NBR to create the procedural and technical framework in order to attract and facilitate direct access for the international financial institutions on the primary market of government securities as primary dealer.

3. The measures under consideration *to increase the transparency and predictability* of the government securities market include:

   3.1. Transparent issuance policy by publishing annually and quarterly issuance calendar and monthly prospectus, and, where appropriate, while presenting flexibly and timely any amendments due to the changes in market conditions;

   3.2. Continuous dialogue with the participants in the domestic market to ensure timely communication of the actions under consideration by MoPF;

   3.3. Regular publication on www.mfinante.ro of information relevant to investors in terms of debt amount and composition;

   3.4. Manage Bloomberg page dedicated to MoFP taking into account the broaden use of it by the majority of internal and international investors.

Annex 2

Improvement policy on cash management and measures to be taken

Based on the recommendations under WB TA project, in order to improve cash management the MoPF is aiming to implement the following measures:

1. strengthening the institutional framework for a better coordination of cash and debt management process. Thus, a committee was created within MoPF, for a better coordination of the public government debt management process and cash management by using during the period covered by the Strategy:
   - the secondary market instruments (of the type buy backs and bond exchange), in order to accelerate the creation of liquid benchmark bonds and to facilitate the refinancing of series with high volumes when they mature; and
   - of reverse repo operations for an efficient management of MoPF liquidities;
2. further developing of State Treasury's cash flow forecasting by extending the daily cash flow forecast from one month to three months and improving the co-operation with other entities for their supplying forecast information;
3 moving to a more active cash management to reduce fluctuations in cash balances, both issuing shorter –term T-bills (1-3 months) and by managing directly the excess current balances, either in the form of term deposits or preferable reverse repos. The first steps are to issue shorter-term T-bills (3-months T-bills will be issued as of February 2015), and to be more active in the investment of cash surpluses, in particular via reverse repo[35], based on prior consultation with the NBR, to coordinate the policy for government financing and cash management with monetary policy. The introduction of shorter-term T-bills will be done in a way that does not undermine the debt management strategy, especially the key objective of which is to lengthen the average maturity of the liability portfolio.

The loans from the availabilities of state treasury accounts in amount of lei 25.2 billion at end-2014 were contracted in accordance with the Government Emergency Ordinance 146/2002 *on the formation and use of the resources going through the State Treasury*, as subsequently amended, which allows the use of the funds available in the State Treasury Current Account to finance, through temporary borrowings, budget deficits from previous years.

Despite of the advantage of using this instrument, such as the low-cost financing of the state budget deficit, since the interest rate of these borrowings was around 1% per year in 2014 this instrument has a number of disadvantages as well, like:

- it is an atypical instrument, as other European Treasuries use the state loans/government securities to integrally finance the budget deficits, with the liquidity surpluses placed in cash management instruments;
- depends on the funds available in the account, and in case of low available funds other solutions are used, such as attracting market deposits from credit institutions or selling the hard currency proceeds available in the foreign currency buffer of the MPF.

35 The repo has the advantage that it is easy to execute, automatically collateralized, and will contribute to money market activity.

Consequently, the reliance on this debt instrument brings uncertainty and refinancing risk (even no deadline for repaid this borrowing is established) impacting negatively on the government public debt management. Therefore, the intention is to gradually refinance this instrument by issuing government securities.

A very important aspect is that the funds currently available in the general account of the State Treasury also include revenues in Lei coming from the privatization activity, and the more this revenue is used the less available funds are left in this account.

In order to stimulate the absorption of the structural funds, it was created a mechanism of temporary allocation of the amounts from privatization revenues registered in the account of the State Treasury to the primary spending units with role of Management Authority and to the Ministry of Agriculture and Rural Development; therefore, through:

- Government Emergency Ordinance no. 64/2009 on the financial management of structural instruments and the use thereof for the convergence objective, as subsequently amended and supplemented, art. 11 [1] established that throughout the budget exercise the balance of the amounts allocated from the privatization revenues to the primary spending units with role of management authorities, determined as a difference between the total amounts allocated and the total amounts returned to the Ministry of Public Finance cannot exceed the maximum ceiling of Lei 4 billion or EUR equivalent.
- the annual budget laws for the Ministry of Agriculture and Rural Development allocated amounts to ensure the resources necessary for the application of direct payments per area, specific aid, as well as those corresponding to the measures and market and intervention schemes, from the privatization revenues.

The mechanism presupposes that the amounts temporarily allocated from privatization revenues should be completed from the amounts received from the European Commission as a result of the transmission to it of the payment applications corresponding to the operational programs.

At the same time, considering the need to reach the major priorities of the Government of increasing the absorption of external non-reimbursable funds from the programming period 2007-2013 and considering the extension of the implementation of n+2, of the projects, it was necessary to create a mechanism of support for the financing of the local public administration authorities by granting loans from privatization revenues to the local public administration units/subdivisions on a long term of 15 years, so as to allow the implementation of their projects.