MINISTRY OF FINANCE

GOVERNMENT DEBT MANAGEMENT STRATEGY

2024-2026

Directorate-General for Treasury and Public Debt

Bucharest, 2024

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ATM	Average time to maturity (years)
ASF	Financial Supervisory Authority
ATR	Average time to re-fixing (years)
ECB	European Central Bank
CEDB	Council of Europe Development Bank
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
NBR	National Bank of Romania
CNSP	National Commission for Strategy and Forecast
PD	Primary Dealers
EMBIG	J.P. Morgan Emerging Markets Bond Index
FED	Federal Reserve System of the United States of America
IMF	International Monetary Fund
MTN	Framework program for medium-term government securities issues in foreign markets
IFI	International Financial Institutions
NIS	National Institute of Statistics
MoF	Ministry of Finance
GDP	Gross Domestic Product
RRP	Romania's National Recovery and Resilience Program
EU	European Union

1. Introduction

This Government Debt Management Strategy for the period 2024-2026 (hereinafter referred to as the “Strategy”) is a continuation of the Government Debt Management Strategy for the period 2023-2025 and has been conducted in accordance with international best practices defined in the World Bank and IMF Guidelines on the Development of Public Debt Strategies[1] and in consultation with the NBR.

As in the previous editions, the revised Strategy for the time horizon 2024-2026 is consistent with the budget indicators set out in the Fiscal and Budgetary Strategy for 2024-2026 and focuses exclusively on the structure of the government debt portfolio, especially on those aspects that fall under the competence and responsibility of the government debt manager[2]. Therefore, the Strategy provides the direction in which the authorities intend to act to ensure financing and to improve the debt portfolio structure in order to in order to fulfill the *Ministry of Finance’s government debt management objectives*, namely:

- Ensuring the financing needs of the central public administration while minimizing the medium- and long-term costs;
- Limiting the risks associated with the government debt portfolio, and
- Developing the domestic securities market.

Implementation of the Government debt management strategy in 2023 and in the first 3 months of 2024

Risk Indicators

The evolution of risk indicators shows that during 2023 and the first quarter of 2024[3], the risk indicators were within the indicative targets set according to the Strategy for 2023-2025.

Table 1: Risk indicators

Indicators	31/12/2023	30/03/2024	Indicative targets according to Strategy for 2023-2025
A. Currency risk			
Share of debt in Lei in total debt (% of total)	49.2%,	48.3%	45 % (minimum) – 60 %
Share of government debt in EUR in total debt in foreign currency (% of total)	83.0%	80.8%	75 % (minimum) – 90 %
B. Refinancing risk			
Share of debt due within 1 year (% of total)	11%	11%	10 % - 20 % (maximum)
Share of debt in Lei due within 1 year (% of total)	15%	18%	15 % - 25 % (maximum)
Average time to maturity for the total debt (years)	7.4	7.3	6.5 years (minimum) – 8.0 years
Average time to maturity of the debt in Lei (years)	5.1	4.9	4.0 years (minimum) – 6.0 years
C. Interest rate risk			
Share of debt that changes its interest rate within one year (% of total)	11%	12%	10 % - 20 % (maximum)
Share of debt in Lei that changes its interest rate within one year (% of total)	13%	16%	15% - 25% (maximum)
Average time to re-fixing for the total debt (years)	7.3	7.2	6.5 years (minimum) – 8.0 years
Average time to re-fixing for the debt in the national currency (years)	5.1	4.9	4.0 years (minimum) – 6.0 years

* does not include loans from the funds available in the general current account of the State Treasury nor cash management instruments Source: MoF

[1]See “Elaboration of the medium-term public debt strategy”— updated guide for government authorities, prepared by the World Bank and the International Monetary Fund, February 2019.

[2]Consequently, the document does not include assuming debt-to-GDP ratio fiscal policy targets or debt-to-GDP cost, as the first indicator depends on deficit budget targets and the second depends on deficit budget targets and market developments, both of which are outside the control of public debt managers.

[3]For the purpose of this strategy, the information and data available in 2023 and at the end of the first quarter of 2024 were analyzed.

Strategic guidelines envisaged for 2024-2026

The following principles shall form the basis of financing decisions in 2024-2026:

1. Ensuring financing mainly in the national currency, which will further facilitate the development of the domestic market of government securities and at the same time support the decrease of the currency risk exposure, while taking into account the absorption capacity of the domestic market, as well as the need to diversify the investor base for government securities by expanding the distribution channels of government securities for the population as well as the issuance of bonds on the interbank market to meet the demand of resident and non-resident institutional investors. The EUR issuance on the domestic market shall be considered in the context of the specific demand expressed by local investors, on average maturities, depending on the market conditions and the appetite manifested by the investment environment, under the conditions of a maturity/advantageous cost ratio.
2. Achieving a more uniform debt repayment profile, including through the use of liability management operations (early redemptions or government securities exchanges).
3. Mitigating refinancing risk and liquidity risk by maintaining a foreign currency reserve[4].
4. In the foreign financing process, the contracting of debt predominantly in EUR and USD shall be considered, other currencies shall be taken into account depending on the opportunities identified and the cost/risk ratio, as well as their contribution to the diversification of the investment base, including through private placements and other types of instruments that may lead to the geographical diversification and the typology of investors. Green bond issuance shall be issued on the basis of the General Framework for Green Bonds at Sovereign Level approved at the beginning of 2024 depending on the estimates of eligible expenditure to which the amounts obtained from the issuance of green bonds can be allocated.
5. Keep interest rate risk exposure under control by limiting the share of debt that changes its interest rate in one year and maintaining an average period until the next interest rate change for the entire debt portfolio within reasonable parameters.
6. The use of financing instruments provided by international financial institutions (IBRD, EIB, CEB, EBRD etc.), including those established at European Union level to support the recovery and resilience process at Member State level, taking into account the advantageous terms and conditions offered by them.

These principles are expressed as indicative target ranges[5] for the main risk indicators that allow for the necessary flexibility in managing government debt to respond to changing financial market conditions.

[4]The foreign currency reserve shall cover up to 4 months related to the gross financing demand.
[5]The limit mentioned as minimum or maximum cannot be exceeded in the period covered by the strategy (hard bound), while the other limit represents the limit to which it tends and which can be exceeded (soft bound).

The risk indicators for the period 2024-2026 are as follows:

Indicators	**Indicative targets Strategy 2024-2026**
A. Currency risk	
Share of debt in Lei in total debt (% of total)	45 % (minimum) – 55 %
Share of government debt in EUR in total debt in foreign currency (% of total)	80% (minimum) – 90%
B. Refinancing risk	
Share of debt due within 1 year (% of total)	10 % - 20 % (maximum)
Share of debt in Lei due within 1 year (% of total)	15 % - 25 % (maximum)
Average time to maturity for the total debt (years)	7.0 years (minimum) – 8.0 years
Average time to maturity of the debt in Lei (years)	4.5 years (minimum) – 5.5 years
C. Interest rate risk	
Share of debt that changes its interest rate within one year (% of total)	10 % - 20 % (maximum)
Share of debt in Lei that changes its interest rate within one year (% of total)	15% - 25% (maximum)
Average time to re-fixing for the total debt (years)	7.0 years (minimum) – 8.0 years
Average time to re-fixing for the debt in the national currency (years)	4.5 years (minimum) – 5.5 years

* does not include loans from the State Treasury General Current Account Availability. Source: MoF

2. Objectives and Scope

This Strategy is the policy document in the management of the government debt, the Ministry of Finance seeks to fulfill the following objectives in this regard:

- Securing the financing needs of the central government while minimizing the medium- and long-term costs;
- Limiting the risks associated with the government public debt portfolio,
- Developing the domestic securities market.

The first two objectives are set out in GEO no. 64/2007 and are supplemented by the objective of developing the domestic market in government securities, which was also foreseen in previous strategies. The development of a liquid government securities market and the construction and consolidation of a yield curve in national currency are important objectives both in achieving the first two objectives of the Strategy and in supporting the further development of the domestic financial market, which remains the main market through which the necessary financial funds are attracted, intended to cover financing needs.

The scope of the Strategy is limited to debt contracted directly or guaranteed by the Government, through the MoF, but does not include loans from the general current account of the State Treasury ("temporary financing") nor cash management instruments. Temporary financing as well as cash management instruments are liquidity management instruments and are not considered medium-term financing instruments. Nevertheless, considering how important it is to coordinate the Government debt management strategy with the liquidity management policy, including with respect to temporary financing, as well as the dependence between them, Annex 2[6] covers the liquidity management strategy.

[6]It is important to note that major changes in the level of temporary funding may have an impact on the issuance of government securities and may affect the plans for the development of the government securities domestic market.

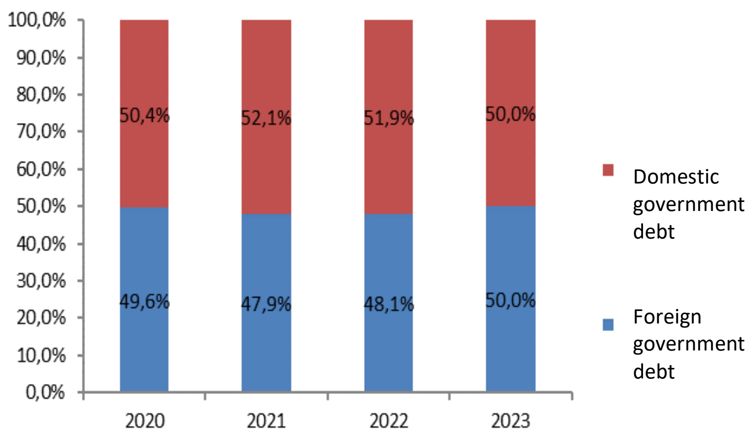
Description of government debt portfolio at the end of 2023[7]

Government debt evolution

At the end of 2023, the government debt was 794.9 billion Lei, representing 49.5% of GDP, amid an economic growth of 2.1%[8] and a deficit of the consolidated general budget of 5.7% of GDP[9].

In 2023, against the background of maintaining high financing needs, the strategy envisaged in terms of financing the budget deficit was to attract a significant volume of Eurobond issues on foreign markets, in conjunction with drawings and financing under loans contracted from IFIs (including the amounts attracted under the loan component for the implementation of RRP). At the same time, there was a significant increase in the demand of non-resident investors for government securities issued on the domestic market, resulting in an increase in their share in the total government securities market from 19.3% at the end of 2022 to 26.4% at the end of 2023. Under these circumstances, the structure of government debt by residency criterion shows that the share of domestic government debt in the total government debt slightly decreased to about 50% at the end of 2023, compared to the previous years.

Chart 1: Government debt by creditor residency criterion (% of total government debt)



Source: MoF

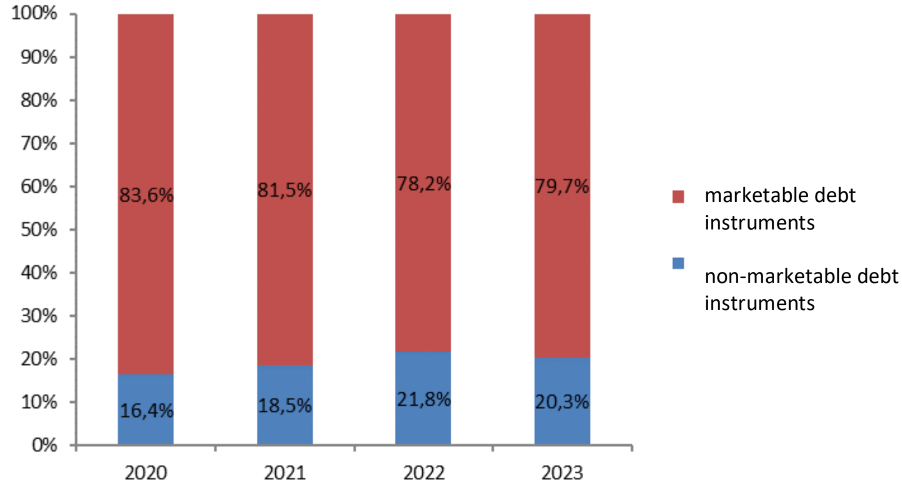
Government debt, depending on the type of instruments used, consists mainly of marketable debt instruments (about 80%). Thus, the government securities issued on the domestic market accounted for 42.3% of the total debt instruments, those issued on the foreign market 37.4%, while the share of state loans, non-marketable instruments, was 20.3% (see Chart 2).

Chart 2 : Marketable debt instruments vs. non-marketable debt instruments (% of total government debt)

[7] It does not include the temporary financing and cash management instruments, nor the guarantees granted in the name and account of the State by Eximbank taken over in the records starting with 2022 according to the Decision of the Court of Accounts no. 3/11.01.2023.

[8]CNSP - Spring forecast of the main macroeconomic indicators – April 30th, 2024

[9]The general consolidated budget deficit according to the operative execution at the end of 2023 was in nominal value of 89.9 billion Lei, representing 5.7% of GDP.

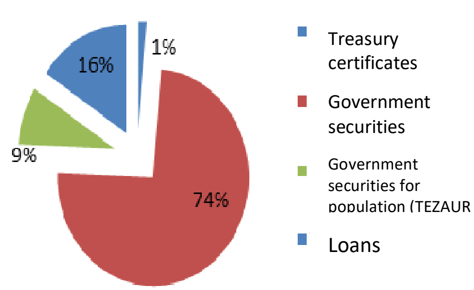


Source: MoF

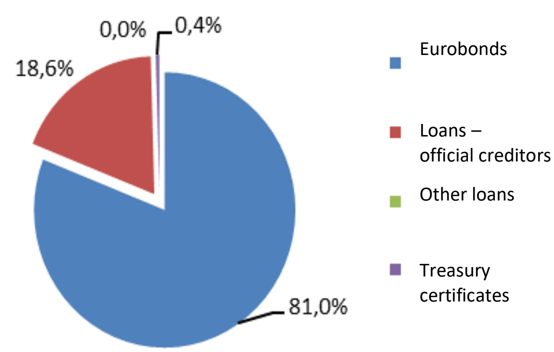
As shown in Chart 3, in the structure of domestic debt, government bonds are the majority instrument, consisting of treasury certificates and government bonds; similarly, foreign debt consists mainly of bonds issued on international financial markets and in addition of loans contracted from international financial institutions, from the European Union, including through the loan component for the implementation of the National Recovery and Resilience Plan (RRP) and other creditors. The structure of foreign debt also includes government bonds issued on the domestic market held by non-residents, while the structure of domestic debt includes Eurobonds held by residents.

Chart 3: Debt structure by creditor residence criterion and debt instruments on December 31st, 2023

Domestic debt instruments



Foreign debt instruments



Source : MoF

In 2023, interest costs, expressed as average interest rates[10], recorded slight increases, as a result of the increase in interest rates, especially those related to domestic debt from 2022, but also high volumes of newly contracted debt to finance the budget deficit and refinancing

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[10] It was calculated as the ratio between the expected interest payments for 2024 and the balance existing at the end of 2023 for each debt instrument.

government debt. At the end of 2023, national currency debt remains more expensive than foreign currency debt[11], as shown in Table 2.

Table 2: Cost of debt contracted directly by the Government, through MoF, by types of instruments[12]

	31.12.2022	**31.12.2023**
Average interest rate of government debt (%)	*3.3*	*4.2*
1. in the national currency, of which	*5.3*	*5.8*
a. Treasury certificates with 1 year maturity	7.1	6.7
b. Government bonds with fixed rate and maturity between 1 and 5 years	4.1	5.1
c. Government bonds with fixed rate and maturity between 5 and 10 years	4.8	5.5
2. in foreign currencies, of which:	*2.6*	*3.4*
a. Bonds in EUR with 10 year maturity	2.8	3.0
b. Bonds in EUR with 5 year maturity	2.2	4.0
c. Bonds in EUR with 30 year maturity	3.3	3.3
d. Bonds in USD with 30 year maturity	4.8	4.3
e. EUR multilateral	1.1	1.5
f. USD multilateral	1.3	1.3

Source : MoF

The share of loans from international financial institutions and the European Union, contracted at favourable interest rates, partly explains the lower level of foreign financing cost. In addition, EUR-denominated international financial markets bonds were issued with lower nominal yields compared to domestic and USD-denominated government securities (without taking into account the impact of currency risk on costs), as shown in Chart 4.

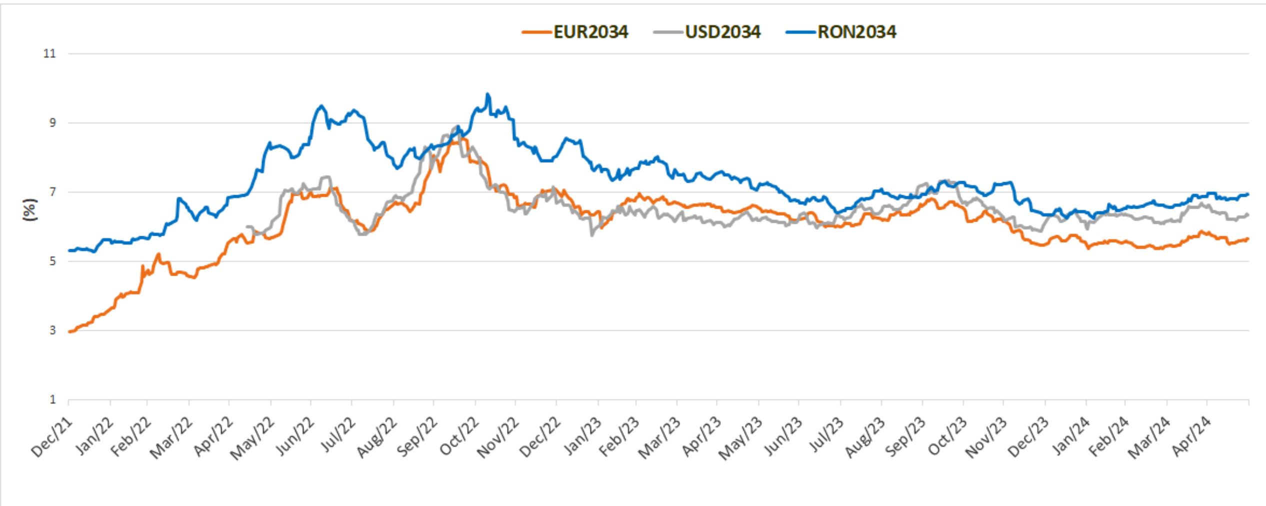
Between January 2023 and May 2024, the costs of financing in Lei on the domestic market remained above the levels of financing in USD and EUR for similar maturities, the interest rate differential decreasing to a minimum level reached in September 2023. In 2023, in the context of maintaining the high global level of interest rates and the constraints manifested on international markets in the context of the Russia-Ukraine conflict, foreign market resources were attracted in both EUR and USD, which are absolutely necessary in the context of limited demand on the domestic market, thus providing the necessary flexibility in carrying out the financing plan on foreign markets, as well as ensuring the diversification of the investor base in debt instruments issued by Romania. Through the successive increase of the financing plan, the adoption of a prudential policy was envisaged in the context of the increase of the budget deficit to about 5.7% of GDP, compared to the level of 4.4% of GDP announced at the beginning of the year, thus ensuring the pre-financing of the needs for 2024 as well as the consolidation of the foreign currency reserve of the State Treasury taking into account the anticipated fiscal pressures for this year. The dynamics of the demand for government securities was influenced by the expectations regarding the completion of the monetary policy strengthening cycle both at global level (FED and ECB) and at local level by the NBR.

In 2024, the MoF adopted a prudent financing strategy, similar to that of 2023, attracting in the first months of the year a significant part of the planned financing needs, in line with the financing practices and policies adopted by other sovereign issuers in the region (Poland,

[11]Excluding influences due to currency risk that may change in the event of a depreciation of the national currency the cost of debt in foreign currency (interest on foreign currency debt) significantly.
[12]The table shows the average interest rates for selected debt instruments, aggregated from all debt instruments forming the government debt portfolio.

Hungary etc.). Thus, in the first 5 months of 2024, about 65% of the announced gross financing needs for 2024 was already covered, the resources being equally attracted from the domestic and foreign markets, by issuing government securities with a volume of 59.3 billion Lei (does not include government securities issued and due in the current year) and Eurobond issues and private placements on foreign markets in the amount of about EUR 11 billion equivalent. The resources attracted from the foreign market at the beginning of the year were mainly denominated in EUR, given the consistent demand manifested by investors, demand also implied by the realization of the first issue of green Eurobonds.

Chart 4: Yield of domestic benchmark bonds vs. yields of Eurobonds issued on the foreign market (EUR and USD) with 10-year maturities



Source: Bloomberg.

During 2023, the yields of government securities issued on the domestic and foreign markets maintained their high level, but with a downward trend, especially on the domestic market, although a record volume of loans was recorded. The onset of 2024 recorded mixed developments in the yields of government securities issued by Romania, but the trend was of moderate growth amid the continuing uncertainties related to the conclusion of restrictive monetary policies adopted both on the foreign reference markets and on the domestic market, the expectations for the reduction of monetary policy rates being tempered and the reduction of rates being estimated for the second part of the year.

Risks associated to the government debt portfolio at the end of 2023

Currency risk

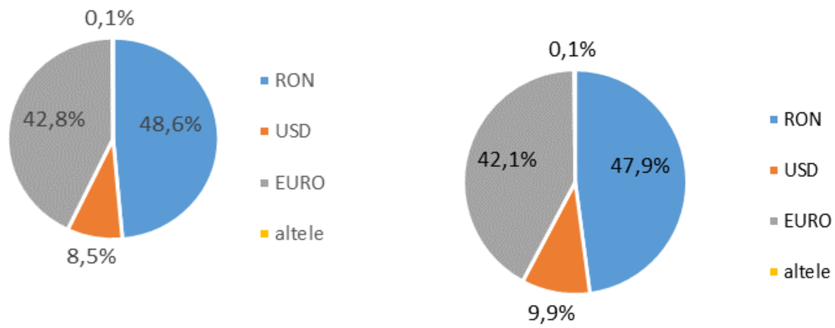
At the end of 2023, i.e. in March 2024, over 50%[13] of the government debt portfolio was denominated in foreign currency, a high level both compared to other EU Member States that have not adopted the European single currency and to other states in the same rating category as Romania. Significant currency risk exposure can be managed taking into account the relatively low volatility of the Lei/EUR exchange rate and as a result of foreign currency debt

[13]In December 2023 the share of foreign currency debt represents 51.4% of the total government debt, and in April 2024 the share is 52.1%

issued predominantly in EUR[14] in the long term (Chart 5) but also the policy of maintaining a foreign currency reserve at the disposal of the State Treasury.

Chart 5: Debt structure by types of currencies

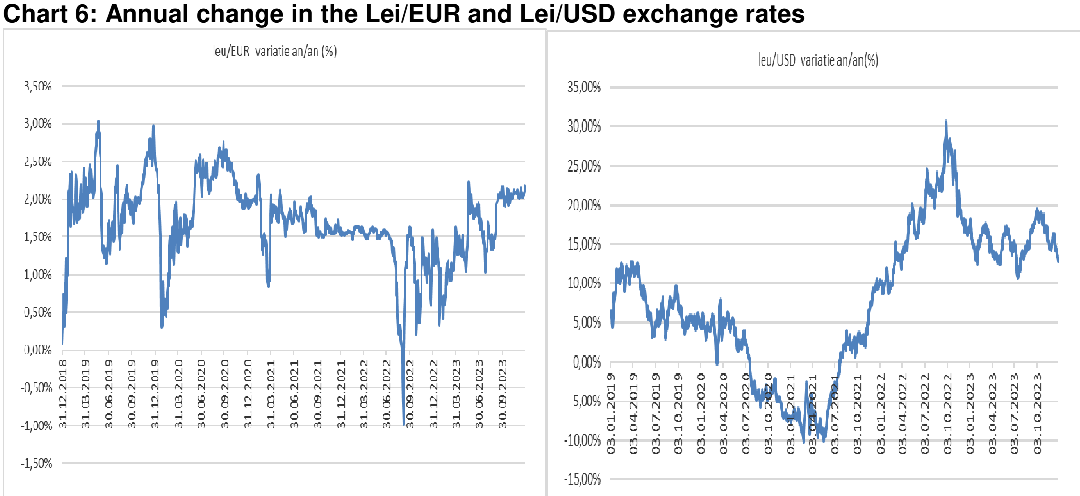
December 31st, 2023 **March 31st, 2024**



Source: MoF

At the end of March 2024, about 10% of the debt portfolio is denominated in USD, slightly increasing compared to the level of 9% recorded at the end of 2023. Taking into account the much higher volatility of the Lei/USD exchange rate[15] compared to the Lei/EUR exchange rate, it results that the debt contracted in USD has a much higher degree of risk than that contracted in EUR, as shown in Chart 6.

Chart 6: Annual change in the Lei/EUR and Lei/USD exchange rates



Source: NBR

In the event of pessimistic scenarios in 2024, for example the depreciation of the national currency by 5% against EUR and 15% against USD, the debt stock would increase by 25.8 billion Lei, respectively by 1.5% of GDP, and the payments on account of debt service (representing repayments of capital instalments/ refinancing of government securities and interest payments) would increase by approx. 2.8 billion Lei, respectively 0.6% in the revenues of the central government[16].

[14]Euro-denominated debt issued on a long and very long term (currently with maturities of up to 30 years for Eurobonds) with repayment in a single instalment (bullet-type) implies a repayment of the financing within a time frame in which the adoption of the EUR currency is feasible and therefore a low default currency risk.
[15]Calculated based on the Absolute Standard Deviation. Year/year variation determined based on daily average variations.
[16] Budget revenues calculated on the basis of cash data applying the EU methodology.

Consequently, the exposure to currency risk can be considered a moderate one. Moreover, the policy of maintaining a foreign currency reserve at the disposal of the State Treasury envisages limiting the currency risk related to repayments of foreign currency debt, this reserve being used directly for making payments of the government debt service in foreign currency.

Refinancing risk

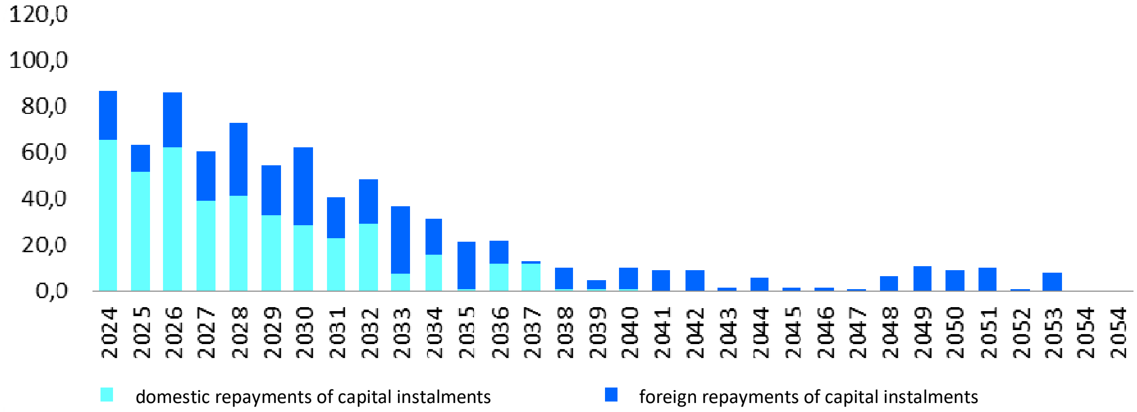
The volume of repayments of capital rates and refinancing of government securities, shown in Chart 7, is increasing and indicates an accumulation of repayments over the next 7 years, with a tendency to diminish the refinancing risk in the medium- and long term, which determines constant attention and permanent monitoring. The concentration of repayments in the period 2023-2030 is mainly observed at the level of domestic debt[17] reflecting the preference of past years of investors for government securities with an average remaining maturity of up to 5 years, although a positive change in their demand is observed, starting with the second part of 2022, by issuing predominantly government securities with residual maturities of more than 5 years on the domestic interbank market. The refinancing risk resulting from the continuation of the policy of building liquid series of benchmark bonds, with cumulative volumes of up to about 2.5-3 billion equivalent in EUR for each series of government securities, on the medium and long maturities segment, is diminished by the use of liability management operations (buy-back and bond-exchange), in 2023 volumes of about 4 billion Lei being exchanged. These measures will support the consolidation and expansion of the yield curve in Lei and will ensure the reduction of the exposure of the debt portfolio to refinancing and liquidity risk, but also the possibility of accumulating in advance the resources to cover the financing needs in the coming years on the domestic market, to the extent that market conditions will allow it. Also, the policy of maintaining a foreign currency reserve (buffer) aims to ensure the source of the refinancing of the due benchmark series, without the need to roll them over at the time of maturity, by making partial sales of foreign currency from the buffer. Expectations regarding the demand for government securities during 2024 and in the medium term are influenced by the global economic circumstances that remains complex both as a result of the post-COVID recovery process and as a result of the geopolitical crisis generated by the conflict in Ukraine, as well as maintaining inflation above the levels targeted by central banks. Maintaining a difficult geopolitical climate can amplify uncertainties among investors and generate significant fluctuations in their demand for government securities in a global economic environment characterized by high interest rates and volatile market conditions. From this perspective, the diversification of the investment base, through the consolidation of the retail segment for government securities, in conjunction with the increase in the share of private pension funds, as well as the diversification of the non-resident investor base, remains a very important objective in the government debt management.

With respect to foreign debt, the refinancing risk is relatively low, determined by the repayment structure of loans contracted from international financial institutions and the European Union (in a single instalment, with long and very long maturities), but also due to the extension of the average time to maturity for the foreign public debt portfolio by issuing Eurobonds with long and very long maturities (up to 30 years).

[17]After the market of the issuance.

Chart 7: Repayments of capital instalments corresponding to government debt over the time horizon 2024 - 2054

billion Lei



Source: MoF

The debt repayment profile determines an average time to maturity (ATM)[18] of 7.4 years at the end of 2023, respectively 5.1 years for debt denominated in national currency and 9.8 years for debt denominated in foreign currency.

Table 3: Refinancing risk indicators

Indicators	2022			2023		
	Debt denominated in the national currency	Debt denominated in foreign currency	Total	Debt denominated in the national currency	Debt denominated in foreign currency	Total
Share of debt due within 1 year (% of total)	21	9	14	15.0	8	11
Average time to maturity (years)	4.5	9.6	7.3	5.1	9.8	7.4

Source: MoF

In order to improve government debt management and avoid temporary pressures to ensure the financing sources of the budget deficit and the refinancing of the government debt, as well as to manage the refinancing and liquidity risk, since 2010, the MoF has established and consolidated the financial reserve (buffer) in foreign currency at the disposal of the State Treasury, currently continuing the policy of maintaining this reserve at a level to cover up to 4 months of the gross financing needs.

Interest rate risk

Given that only a small part of the debt is contracted with variable interest rates (see Table 4), as well as the strategy for extending the duration of the debt portfolio, the interest rate and refinancing risk are moderate and they have different features shown through specific indicators for these risks, if the debt portfolios in Lei and foreign currency are separately considered. Interest rate risk exposure is reduced for the foreign currency debt portfolio due to the fact that Eurobond issues and loans from international financial institutions, including those from the European Union, with long and very long maturities and fixed interest rates accounted for the majority of external debt at the end of 2023.

[18]Average time to maturity

Given the 1 percentage point increase in interest rates in 2024, this will lead to an increase in payments to the debt service by about 3.8 billion Lei, respectively by 0.8% of the revenues of the central government[19] for the debt in national currency, and by about 4.2 billion Lei, respectively by about 0.9% of the revenues of the central government for the debt in foreign currency.

Table 4: Interest rate risk indicators

Indicators	2022			2023		
	Debt denominated in the national currency	**Debt denominated in foreign currency**	**Total**	**Debt denominated in the national currency**	**Debt denominate d in foreign currency**	**Total**
Share of debt with fixed interest rate (% of total)	81.9	95.3	88.1	83.6	95.9	89.3
Share of debt that changes its interest within one year (% of total)	19.0	4.0	15.0	13	3.0	11
Average time to re-fixing (years)	4.5	9.5	7.2	5.1	9.2	7.3

Source: MoF

In view of the above, it can be concluded that the refinancing risk and the interest rate risk related to the debt denominated in national currency are indicators that need to be given increased attention and their assessment should be correlated with the third objective of the Medium-Term Government Debt Management Strategy, namely the development of the government securities domestic market. At the same time, the currency risk with a growing trend requires continuous monitoring and management, through the development of the domestic market and the diversification of debt instruments (e.g., those intended for retail investors, green bonds etc.), but also distribution channels. In order to limit the refinancing and liquidity risk, the policy of maintaining a financial reserve in foreign currency at the disposal of the State Treasury covering up to 4 months of the gross financing needs will continue, a policy that will have to be correlated with the financing needs and with the measures to be taken by the Romanian authorities to correct the excessive budget deficit, but also those to support the development of the economy.

4. Domestic and foreign financing in the context of domestic and international financial market developments between 2023 and May 2024 and medium-term expectations

Domestic Market

In January 2023, the NBR increased the monetary policy interest rate by another 0.25 percentage points, up to 7.0%, as well as the interest rates for the credit and deposit facility, to 8.0% and 6.0%, respectively. Representative interest rates were then kept unchanged throughout 2023 and the first half of 2024. At the same time, the NBR maintained throughout the period the levels in force of the reserve ratios for liabilities in Lei and foreign currency of credit institutions.

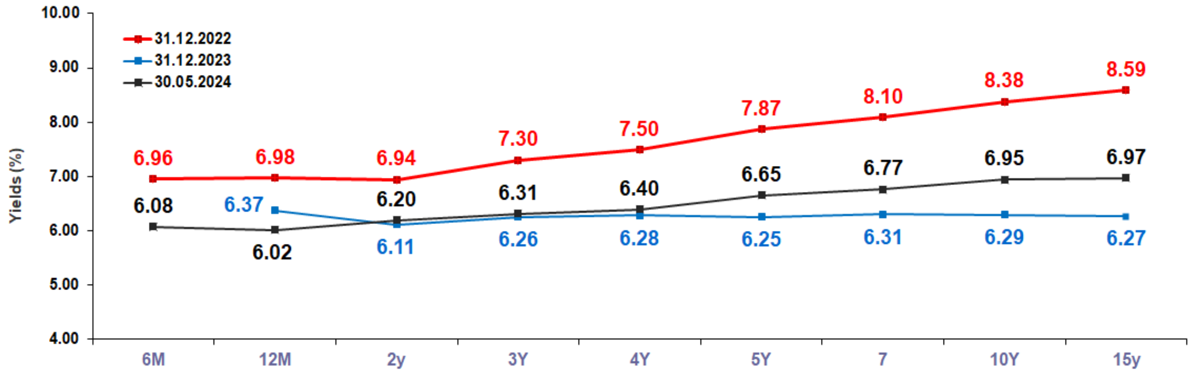
After the extremely high, double-digit levels recorded in 2022 but also in the first half of 2023, the annual CPI inflation rate recorded a downward trend, only temporarily interrupted by an increase in January, reaching the level of May at 5.1%.

At the end of 2023, the yield curve related to the sovereign bonds issued by the Romanian state on the domestic market reveals a significant annual decrease of about 50 – 220 basis points manifested on all maturity levels, especially for the segment over 5 years. In the first 5 months of

[19]Budget revenues calculated on the basis of cash data applying the EU methodology.

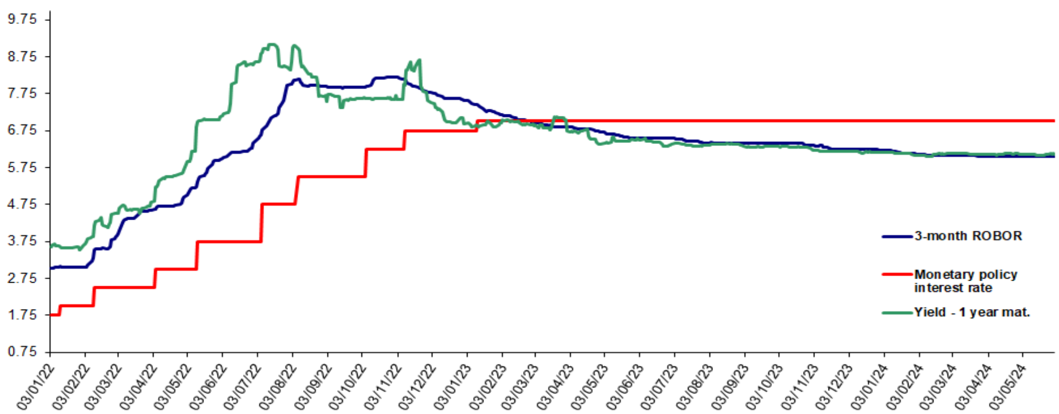
2024 compared to December 2023, yields showed an increasing trend, currently recording an increase of about 10-70 basis points, especially for the long maturity segment, given the significant reduction in demand for this segment, amid a reduction in demand from non-resident investors compared to the same period of last year.

Chart 8 : Evolution of yields on the domestic secondary market



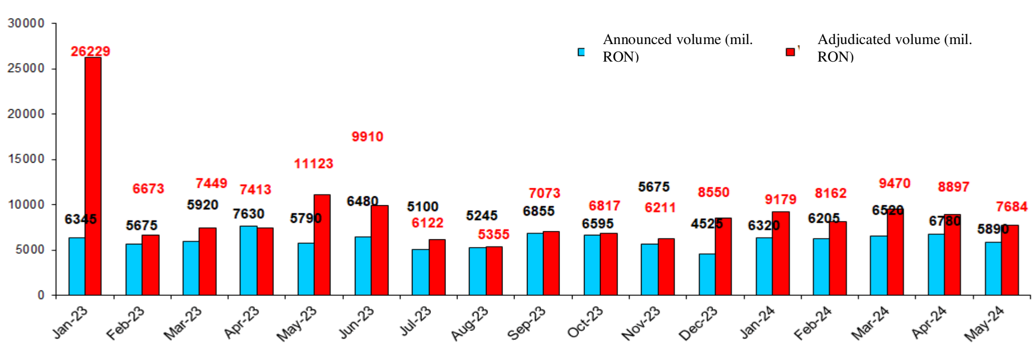
Source : Bloomberg

Chart 9: Evolution of the monetary policy interest rate vs. ROBOR at 3 months and government securities yields at 1 year



Source: MoF, NBR

Chart 10: Announced volume vs. adjudicated volume between January 2023 and May 2024

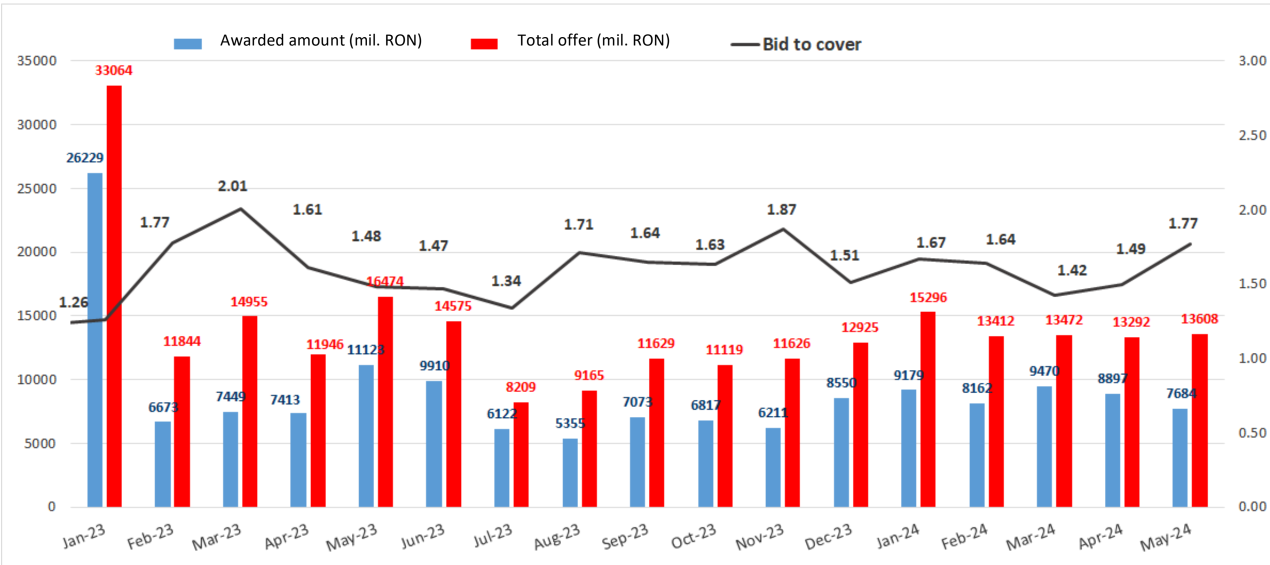


Source: MoF

For almost the entire year 2023, the amounts awarded at the auctions of government securities were above the level announced against the backdrop of high demand from investors, especially non-residents.

Moreover, in the first 5 months of 2024, the demand from investors remained consistent, although it decreased compared to the similar period of the previous year, the financing process on the domestic market being supported mainly by local investors. The interest of non-residents moderated, being also influenced by the substantial acquisitions made during 2023.

Chart 11: Demand and offer of government securities on the primary market during January 2023 and May 2024



Source: MoF

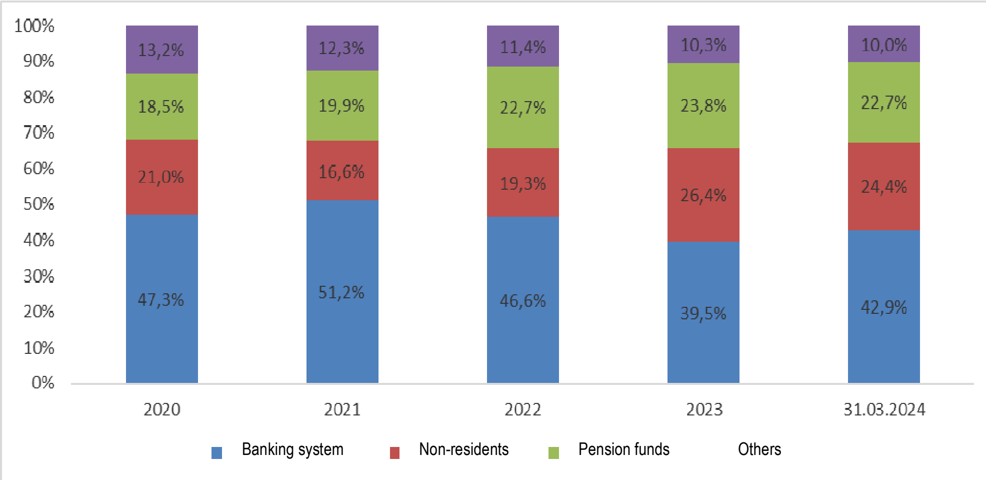
Investors' demand for government securities on the domestic market, expressed by the ratio between the investors' offer and the adjudicated volume (Bid-to-cover ratio), remained relatively constant, and the periods in which non-resident investors purchased government securities (the first and the last quarter of 2023) have indicated a revival of the market.

Investors base

Commercial banks continued to be the main investors on the domestic market of government securities, holding in their portfolio at the end of 2023, about 39.5% of the total volume of government securities issued on the domestic market, decreasing in relation to the end of 2022 (46%), followed by pension funds that recorded a slight increase in holdings to 23.8% at the end of 2023, compared to about 22.7% at the end of 2022. Holdings of government securities of commercial banks are decreasing, although government securities represent a significant share in the balance sheet of credit institutions in Romania, our country systematically occupying the first position among EEA states on this indicator.

Within the institutional investor segment, local asset management funds and private pension funds, although still holding a relatively small share in the government securities market, have been a stable participant in the government funding process. The investment structure of private pension funds shows the maintenance of an important proportion allocated in government securities from the total assets.

Chart 12 : Evolution of government securities by type of holders



Source: NBR

At the end of December 2023[20], the share of government securities in the investment structure of private pension funds was of approx.66%, an increase compared to the end of 2022 (62%).

Non-resident investors continue to represent an important segment of the government securities market, ensuring a complementary demand for local investors, through the interest manifested especially on long maturities, leading to the diversification of the investor base. Non-resident holdings increased sharply in 2023 and 2024, amounting to approx. 24.4% in March 2024, compared to 19.3% at the end of 2022, given a very high appetite for government securities, mainly on long maturities in the first months of the year. The effects of non-residents' increasing holdings should be closely monitored during periods of volatility, when investors tend to liquidate or reduce their exposures to emerging countries.

The increase in the presence of non-resident investors was influenced by the context of expectations to end the NBR monetary policy strengthening cycle, by the trajectory of the yield curve in Lei compared to those of the states in the region (the curves of Hungary and Poland were either reversed or flattened), as well as by the low volatility of the exchange rate, but also by internal factors, such as the increase in the liquidity of government securities on all segments, the introduction of liability management operations, the increase in the share of Romanian government securities in international indices (EMBIG - JP Morgan/Barclays), given that many institutional investors have an investment policy related to the structure of these indices.

The presence of Romanian government securities in the regional indices JPMorgan and Barclays continues to have a positive influence on the evolution of the acquisition of local government securities. At the end of May 2024, 23 series of Romanian government bonds were included in the GBI-EM Global Diversified Investment Grade index, with a 4.35% share, and 25 series in the Barclays EM Local Currency Government Index, with a 1.07% share at the end of March 2024.

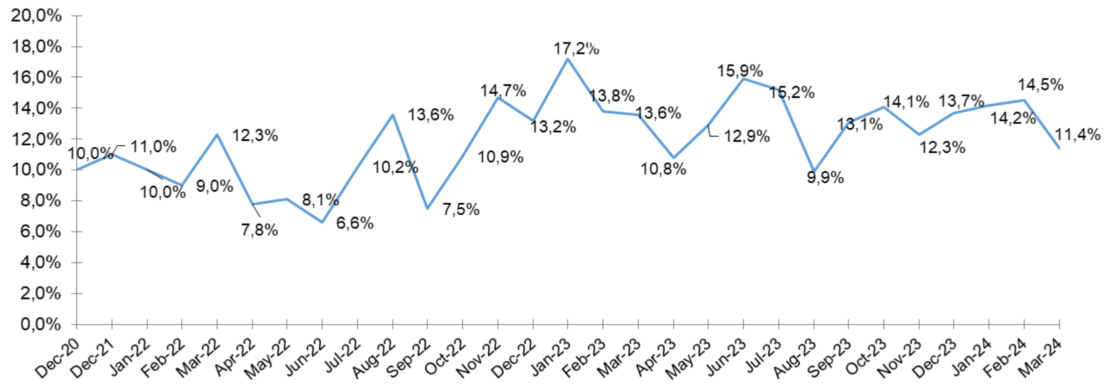
Secondary market

The liquidity of government securities on the secondary market is an important indicator in terms of the level of development of the government securities market. During 2023, the degree of liquidity, calculated as the ratio between the total volume of monthly transactions on the secondary market and the total volume of government securities, had an oscillating evolution,

[20]Source: ASF Monthly Trend Monitoring Report on Non-Banking Financial Markets, December 2023

reaching higher values in January (17.2%), June (15.9%), July (15.2%) and October (14.1%) and minimum levels in April (10.8%), August (9.9%) and November (12.3%), being correlated with the volumes issued on the primary market. The first months of 2024 marked a maintenance of the liquidity of government securities denominated in Lei compared to the end of 2023 under the conditions of important volumes issued on the primary market.

Chart 13: Evolution of the degree of liquidity of active government securities in Lei between 2021 and March 2024



Source: MoF

At the end of the seventh year of operation of the electronic platform of quotation and trading Romanian government securities (E-bond platform – provided by Bloomberg), its positive impact on the government securities market is observed. In relation to the minimum daily quotation obligations on the electronic quotation and trading platform[21], the primary dealers quoted several series of government securities, over a longer period of time during a day, at a lower margin between the sale and purchase quotes, periods of high volatility generating a restriction of the quotes offered by banks within this platform.

Implementation of the financing plan on the domestic market

During 2023, MoF maintained a predictable and flexible issuance policy adapted to the requirements of the investment environment, especially against the background of increasing financing needs during the year, the financing plan being successively increased from an initial volume of 160 billion Lei to the level of 203 billion Lei at the end of the year. Demand has been fluctuating, but overall it has been very good, both on domestic and foreign markets, amid a year marked by high uncertainties induced by both the geopolitical context and the war in Ukraine, as well as by the energy crisis and restrictive monetary policies adopted by central banks.

In 2023, government securities and loans were issued on the domestic market in a total amount of about 140.7 billion Lei equivalent, of which 3.57 billion EUR and 123.1 billion Lei, through:

[21]Minimum daily quotation obligations on the electronic quotation and trading platform provided for in Article 28 of the Order of the Minister of Public Finance no. 318/2022 approving the Framework Regulation on domestic government securities market operations to be cumulatively met, are the following: a) the provision of sale and purchase quotes for the series of government securities specified in letter d), for at least 5 hours daily, between 9 AM and 5.30 PM; b) the maximum margin between sale and purchase quotes should be 25 basis points; c) the minimum volume for each series of government securities quoted should be 10 million Lei, both for the sale quotation and the purchase quotation; d) the quotation of at least 4 series of government securities among those established periodically by the Market Committee, as follows: two series with a residual maturity of less than 5 years and two series with a residual maturity greater than or equal to 5 years.

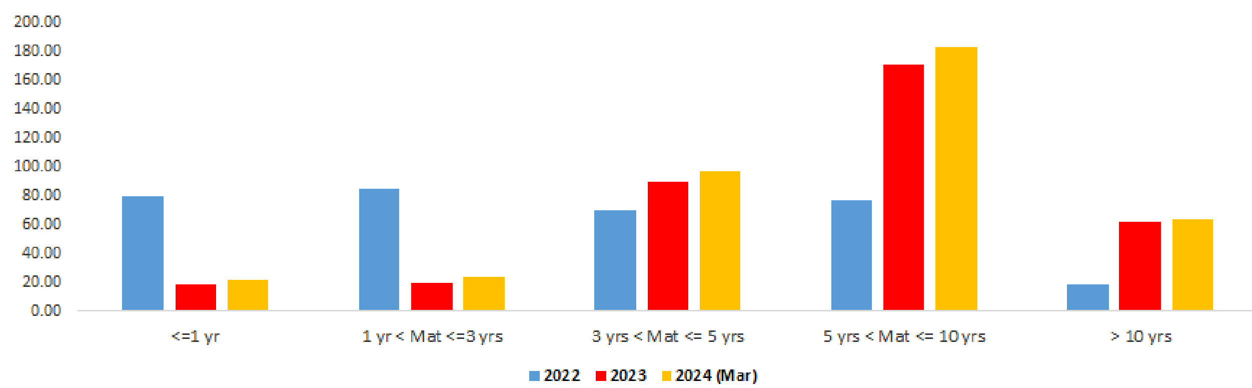
- Government securities tenders on the interbank market and loans:105.1 billion Lei and 1 billion EUR, with the following maturity structure (residual maturity):
    - 6.3% are discounted Treasury certificate issues with a maturity of up to 12 months and benchmark bond issues with a residual maturity of up to 1 year;
    - 28.4% are benchmark bond issues with residual maturities between 1 and 5 years;
    - 65.3% are benchmark bond issues with residual maturities between 5 and 15 years.
- Exchange operations: Government securities issued on the domestic market due in 2023 and 2024 with government securities with longer maturities in the amount of 4 billion Lei
- Government securities for the population: 21.5 billion Lei equivalent (respectively 15.1 billion Lei and 1.3 billion EUR), via TEZAUR and FIDELIS programmes.

Benchmark government bonds denominated in Lei with original maturities ranging from 3 to 15 years have been issued and reopened almost every month. The MoF policy aimed at extending the average time to maturity of government securities, with most of the issuance being issued in the medium and long maturities segment.

In 2023, the programmes for the population continued via the two TEZAUR and FIDELIS programmes. Within the TEZAUR programme carried out through the operative units of the State Treasury, as well as through the postal subunits of the National Company Poșta Română S.A., 12 issues with maturities between 1 and 3 years were launched, in which over 286,000 individuals invested approx. 12.1 billion Lei. Within the FIDELIS Programme carried out through the selected bank syndicate consisting of Banca Transilvania/BT Capital Partners, BCR, BRD and AlphaBank, 4 issues were launched, both in Lei (maturities between 1 and 3 years) and in EUR (maturities between 1 and 5 years), with a value attracted of approx. 9.4 billion Lei equivalent. In addition, during 2023, the Fidelis Programme included instalments dedicated to blood donors, amounting to 641 million Lei. Thus, 2023 brought a record level of over 21.5 billion Lei equivalent of the volume of government securities for the population issued through the 2 programmes.

In the first five months of 2024, domestic debt totalling 59.3 billion Lei equivalent was contracted, which also includes the amount of 11.1 billion Lei equivalent representing government securities for the population attracted under the TEZAUR and FIDELIS programmes.

Chart 14 : Structure of the government securities stock by maturities (initial maturity, billion Lei) 2022 - Mar 2024



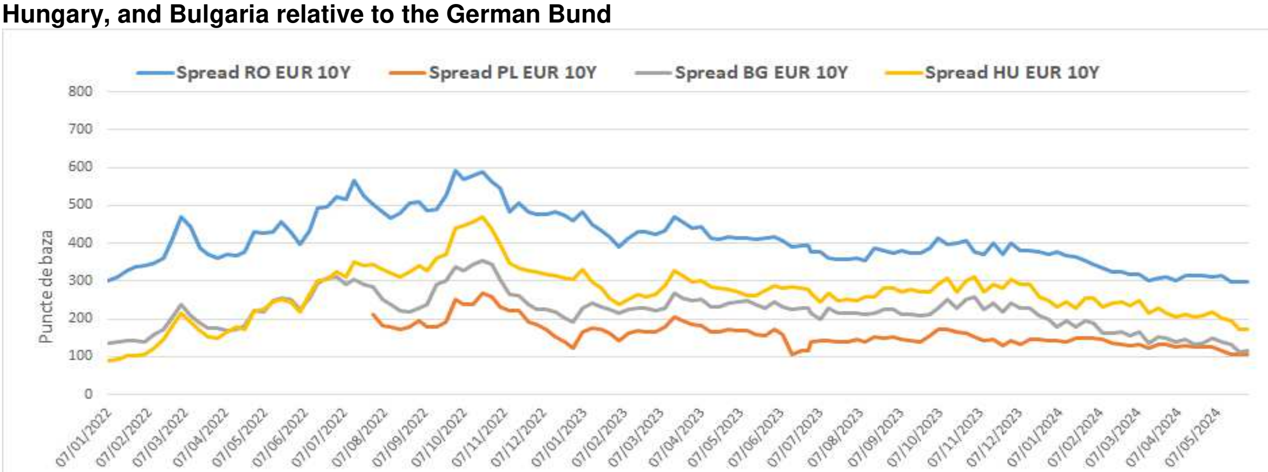
Source: MoF

The group of primary dealers on the domestic market consists of 8 banks - Banca Comercială Română S.A., Banca Romana pentru Dezvoltare – Groupe Société Générale S.A., Banca Transilvania S.A., Citibank Europe Plc. Dublin – Romania Branch, CEC Bank, ING Bank N.V. Amsterdam - Bucharest Branch, Raiffeisen Bank S.A., UniCredit Bank S.A.

Foreign market

Evolutions of the foreign markets and of Romanian Eurobonds
The evolution of Romanian Eurobonds denominated in EUR recorded decreasing variations during 2023 with values between 20 and 154 basis points with an average decrease of 94 basis points. During the year there were two periods of sustained growth in March and October, but these were corrected in the last two months of the year. Dollar-denominated instruments have seen declines ranging from 15 to 38 basis points with an average drop of 24 basis points. These instruments were also affected by the March and October corrections, behaving similarly to EUR-denominated securities.
During 2023, the spread of Eurobonds issued by Romania varied around 400 basis points, with the first 5 months of the current year recording a positive evolution of about 100 basis points.

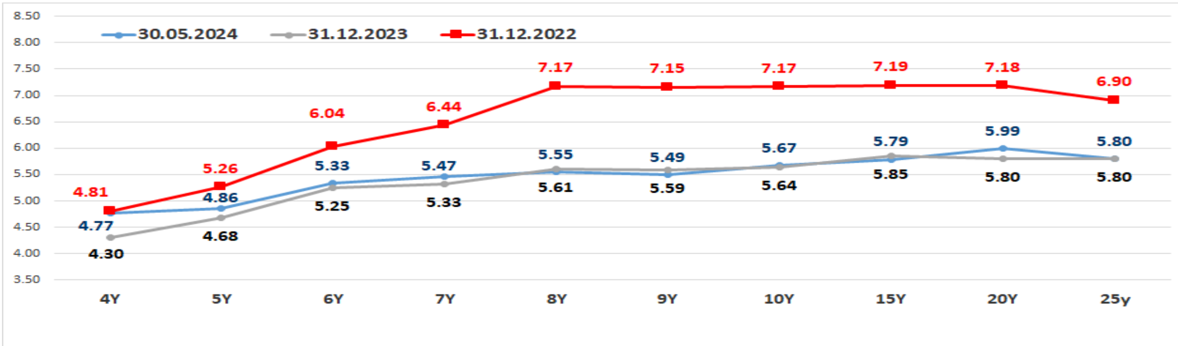
Chart 15: The evolution of the spread of Eurobonds in EUR with 10 years maturity of Romania, Poland, Hungary, and Bulgaria relative to the German Bund



Source: MoF

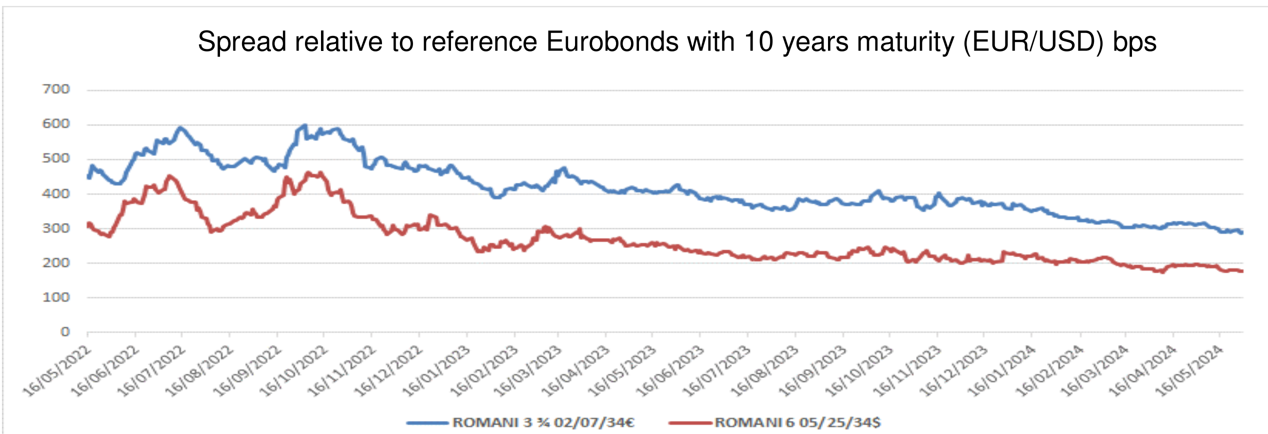
The yields of Eurobonds denominated in EUR recorded significant decreases during 2023 of about 70-160 basis points as a result of the improvement of investors' perception regarding the evolution of the inflation rate and the policies to be addressed by the central banks, during 2023 there was a flattening trend of the yield curve. In the first 5 months of 2024, there were no major changes in the yields of EUR-denominated bonds, the uncertainties regarding the monetary policies to be adopted in the Euro area, cumulated with the issuance program in this period, causing a low volatility of yields around the values recorded at the end of 2023.

Chart 16 : The evolution of the yield curve of Romania's Eurobonds issued in EUR on the foreign market



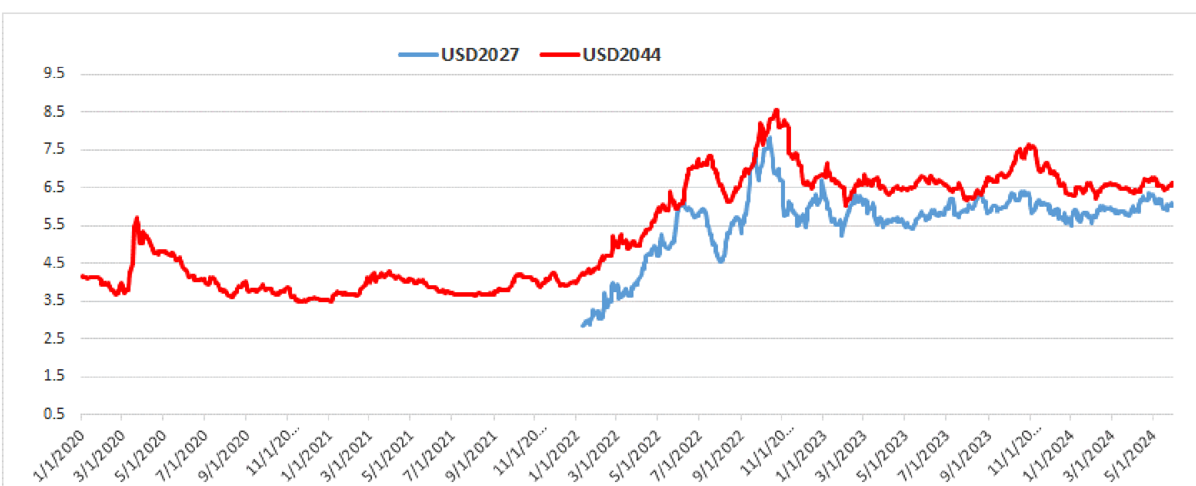
Source: MoF

At the end of 2023, there was an increase in the yields of USD-denominated Eurobonds, the return to previous levels being achieved through a rapid correction, with the first five months of 2024 recording minimum variations with a slight upward trend.



Since the end of 2022, the spreads of Eurobonds issued by Romania have seen a constant decrease (on average 120-150 bps), throughout the period being recorded a higher spread for issues denominated in the European currency, which is mainly generated by the much higher net issuance in the single currency compared to the US currency.

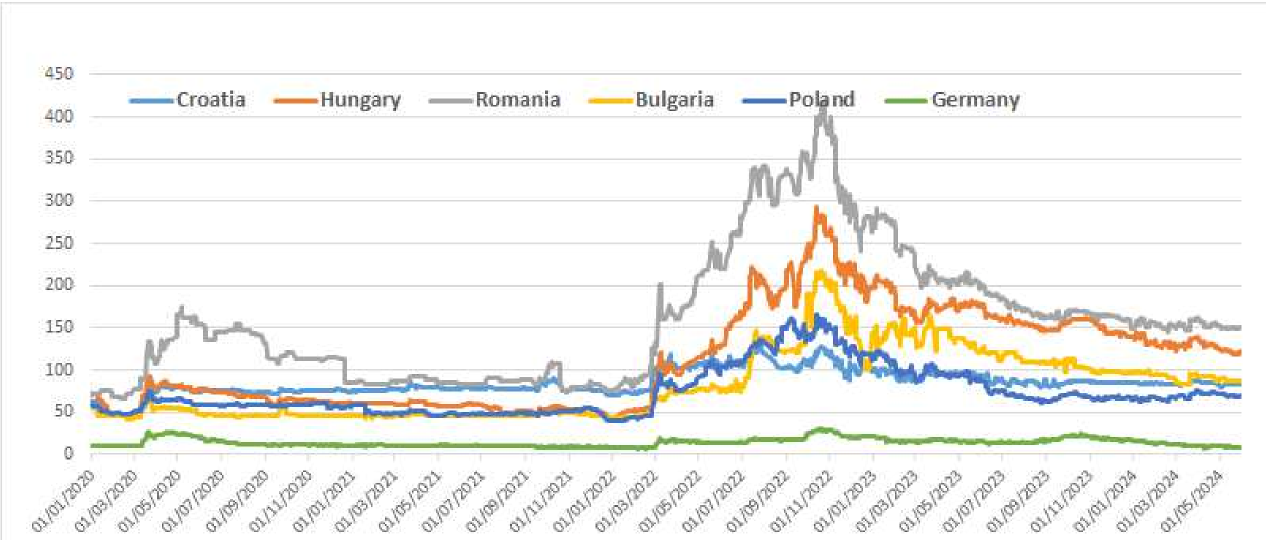
Chart 17: The yields of Romania's Eurobonds issued in USD on the foreign market with maturity in 2027 and 2044



Source: Bloomberg

Romania's CDS (credit default swap)[22] quotations, which represent the price of the insurance against the risk of non-payment, recorded sharp decreases until September 2023, after which the levels remained at a constant level.

Chart 18: Evolution of CDS (Credit Default Swaps) quotations on 5 years



Source: Bloomberg

Implementation of the financing plan on the foreign markets

In 2023, it was envisaged to ensure a constant presence on foreign financial markets at cost-effective conditions for Romania, as well as to diversify the investor base and strengthen the financial reserve in foreign currency at the disposal of the State Treasury at a level to cover up to approximately 4 months of the gross financing needs. The amount of 10.6 billion EUR equivalent was drawn, through 3 Eurobond issues and 13 private placements. The terms and conditions of government securities launched on foreign markets are as follows:

Month	Total Value	Maturity	Value	Coupon	Maturity	Value	Coupon	Maturity	Value	Coupon
January 2023	**3.99 billion USD**	5 years	1.24 billion USD	6.625%	10 years	1.5 billion USD	7.125%	30 years	1.25 billion USD	7.625%
February 2023	**2.0 billion EUR**	3 years (residual)	0.6 billion EUR	5.000%	6 years (residual)	1.4 billion EUR	6.625%	-	-	-
September 2023	**3.25 billion EUR**	5 years	1,5 billion EUR	5.500%	10 years	1.75 billion EUR	6.375%	-	-	-

[22]The evolution of CDS reflects investors' perception of country risk and impacts the financing costs of that country.

During 2023, different from previous years, an amount of 1.3 billion EUR equivalent through private placements, following a consistent demand manifested by the investment environment, transactions carried out by reopening series of Eurobonds already issued. Even if the amounts drawn through this instrument have a marginal role in the implementation of the financing plan and are not a main objective of the MoF, their usefulness lies in the efficiency of the price at which they are achieved (without share premium compared to the yields recorded in the secondary market) and the possibility of capturing different market moments throughout the year compared to the market moments in which public issuance are launched. In addition, the quick and easy way to use these instruments offers the MoF the possibility of implementing the financing plan in optimal conditions.

In the first five months of 2024, the amount of 11.1 billion EUR equivalent was drawn, through 3 Eurobond issues and a private placement. The terms and conditions of government securities launched on foreign markets are as follows:

Month	**Total Value**	**Maturity**	**Value**	**Coupon**	**Maturity**	**Value**	**Coupon**
January 2024	**4 billion USD**	5 years	2 billion USD	5.875%	10 years	2 billion USD	6.375%
February 2024	**4 billion EUR**	7 years	2 billion EUR	5.375%	12 years	2 billion EUR	5.625%
May 2024	**3.24 billion EUR**	8 years	1.842 billion EUR	5.250%	13 years	1.4 billion EUR	5.625%

The February 2024 issue included the first instalment of green Eurobonds issued by Romania, the interest of investors for this instrument being very high, which led to obtaining very advantageous borrowing costs compared to the yields recorded in the secondary market (a negative share premium – greenium of 10 basis points was obtained in the context of an oversubscription of more than 5 times for the green instalment), thus inducing a reappraisal of the entire yield curve denominated in EUR.

By using loans in the form of private placements, it was envisaged to complement the financing in the international financial markets and to optimize the costs related to the financing through these instruments.

Foreign market operations in 2023 and in the first 5 months of 2024 also included drawdowns totalling approx. 1.27 billion EUR, respectively 0.86 billion EUR related to loans contracted from international financial institutions (EIB, IBRD, CEB etc.) and the amounts made available in 2023 under the loan component for the implementation of the National Recovery and Resilience Plan (RRP) amounted to 893 million EUR

Sovereign Rating

During 2023, Standard & Poor's and Moody's maintained Romania's rating in the investment category (Standard & Poor's – BBB-/A-3 and Moody's – Baa3/P-3). The decisions took into account the positive perspective for economic growth supported by Next Generation EU funds and the Romanian authorities' commitment to fiscal consolidation under the excessive deficit procedure, but signalled a number of risks that could affect the sovereign rating in the coming period, such as the failure to achieve a sustained reduction in fiscal imbalances or the structural deterioration of public finances, as well as the widening of the current account deficit or an increase in geopolitical risk as a result of the Russian invasion of Ukraine.

During March 2024, Fitch confirmed its country rating at BBB-/F-3 as well as its stable perspective. The decision to reconfirm the sovereign rating and maintain the stable perspective is supported, in the opinion of the agency, by the membership of the European Union and the capital flows of the European Union supporting investment and macroeconomic stability of the country, as well as by the positive evolution of GDP per capita and governance and human development indicators, which are at higher levels than countries in the same rating category.

The rating agencies Standard & Poor's and Moody's maintained in the first four months of 2024 Romania's rating in the investment category (Standard & Poor's – BBB-/A-3 and Moody's – Baa3/P-3), as well as the stable perspective.

Expectations regarding the evolution of financial markets during 2024-2026

Measures to combat inflation and geopolitical risks at high levels following the military conflict in Ukraine pose medium- and long-term challenges and will focus government efforts globally. NBR inflation projections[23] indicate declining annual CPI inflation rates from 6.6% at the end of 2023 to 4.9% at the end of 2024 and 3.4% in March 2026. At the same time, the expectations regarding the reduction of the monetary policy rate could have beneficial effects on the yields of government securities in Lei, especially in the second part of 2024.

Financial markets will continue to react to the uncertainties generated by the economic and geopolitical environment specific to this period through fluctuations in interest rates and safe haven asset prices, caused by changes in the perception of financial markets that will generate capital migrations to other assets. Exchanges could undergo significant corrections under the possible impact of increased volatility of financial flows driven by specific risks.

In the context of international vulnerabilities, but also depending on domestic economic and political developments, periods of volatility in the yield curve of government securities can be expected.

The financing process on medium term

On medium term, the MoF will continue to maintain a flexible approach in carrying out the financing process, both from the perspective of accessing the domestic and foreign markets and the debt instruments used, aiming to ensure the predictability and transparency of the supply of government securities, in order to be able to react promptly and appropriately to potential changes in market trends and investor behaviour.

Depending on the conditions and windows of opportunity in foreign financial markets, the MoF is considering partial pre-financing of financing needs during the year, a policy that it intends to continue in the coming years. This is a common practice to ensure the financing needs of debt management agencies at EU level, thus relieving the pressure on sources to cover financing needs during the current year.

On the domestic market, in order to reduce financing costs and promote a better functioning of the secondary market, the MoF intends to continue the policy of building a series of liquid benchmark government bonds along the entire yield curve, while pursuing a transparent government securities issuance policy, aiming to achieve volumes per issue of approximately 3

[23]NBR - Inflation Report - May 2024

billion EUR (this level may be exceeded in particular for issues with maturities beyond 2028 given the increase in the volumes of the swap/switch operations, as well as the growth of the government securities market), with prior information to the market in terms of volumes, frequency of launch/reopening of certain categories of maturities. MoF may issue EUR-denominated government securities on the domestic market in the context of identifying a demand for such instruments from local investors, in the absence of alternative instruments, thus creating the premises for a maturity/cost-effective ratio.

The MoF will also continue to use specific liability management operations[24], such as early redemptions or exchanges of government securities, in order to facilitate the refinancing process of accumulated high-volume series that become due and to accelerate the process of creating series of liquid benchmark government securities.

In conjunction with the volumes drawn, a flexible maturity structure will be considered in the financing process, ensuring that the State's financing needs are covered and allowing the duration of the debt portfolio to be extended and the medium-term refinancing risk to be reduced. In this regard, it is important to diversify the local investment base, given that commercial banks still hold an important share of government securities in their portfolios, although the trend is downward.

It should also be borne in mind that, under the assumption/scenario of increasing interest rates, even temporarily, the holdings/portfolios of banks' government securities may have a negative effect on the profitability and capitalization of banks, as a result of the recognition of mark-to-market losses on fixed-income instruments held, which could affect demand in tenders of government securities from the banking sector, which is still the most important investment segment on the domestic market.

Equally important is the evolution of the level of participation in the government securities market of the other categories of local investors, i.e. investment funds, private pension funds, retail investors, with important potential in supporting the development of the domestic market in government securities.

In this context, in the implementation of the medium-term financing plan, the MoF envisages measures to diversify the holdings of government securities with an effect on reducing the risk of concentration and reducing the pressure on yields on the primary market. For this purpose, the MoF envisages the issuance of green bonds according to the evolution of the conditions on the domestic market but especially according to the potential for achieving such issues in the light of the estimated volumes of eligible expenditure to which amounts from such issues may be allocated. In order to increase the accessibility of individuals and to diversify the channels for selling government securities as saving instruments, the MoF shall maintain the offer of government securities dedicated to individuals, by continuing the issuance of government securities for the population within the two dedicated programmes TEZAUR and FIDELIS, considering the possibility of distributing these government securities in online format by using card accounts, an instrument that could also have a very good addressability for Romanian citizens in the diaspora.

In terms of accessing the *foreign market*, the MoF intends to maintain a constant presence on the international financial markets, including through green bond issues, and to continue the operations of managing liabilities (early redemption/exchange) in order to mitigate the refinancing risk according to market conditions, allowing to obtain advantageous costs for the Romanian State.

[24]The tenders related to the early buy-back and switch operations on the domestic market are carried out using the electronic platform developed by the NBR for the tenders related to the primary market.

The MoF will maintain flexibility in terms of time of access to international markets, volume and currency of foreign issuance, taking into account the associated costs, risk considerations, as well as the evolution of demand and terms and conditions of issuance on the domestic market, and will also use private placements in view of the flexibility offered by them and the advantageous conditions in terms of financing costs.

The MoF also intends to use instruments outside the MTN Programme both by accessing specific markets, such as the Japanese market by launching Samurai issuance, and other types of investments that may address specific investors given the benefit of diversifying the investment base.

The operational framework for derivatives is expected to be completed by 2025 so that they can be used to manage risks associated with foreign exchange and interest rate risk (in particular hedging using cross currency swaps).

At the same time, on the medium term, the EU financial assistance package, which Romania also benefits from, through the Recovery and Resilience Facility, will play an important role both in achieving the budget correction and in implementing essential programs and investments that support the resilience and resilience of the economy in the context of the recovery after the COVID-19 crisis, as well as the growth potential through major reforms and key investments to facilitate the green and digital transition. For the implementation of the RRP, Romania benefits from funds amounting to 28.5[25] billion EUR, of which 13.6 billion EUR are non-reimbursable grants, and 14.9 billion EUR represents support in the form of a loan (amount drawn until the end of 1st semester of 2024 being 3.8 billion EUR. The use of the loan component will have a positive impact in reducing the financing costs at sovereign level, taking into account the very advantageous costs related to the loan (i.e. in the financial terms to which the EC borrows on behalf of the EU from the financial markets, plus the costs incurred by the EC to obtain and manage the respective financing), which will positively influence the interest expenses related to the government debt and implicitly on the budget deficit in the years following the use of the drawdowns from this loan.

On the medium term, the MoF intends to continue the partnership with international financial institutions, including the European Union, in order to benefit from the financial advantages related to their products in limiting costs and extending the maturity of the debt portfolio through the offered cost and maturity conditions, in order to finance the budget deficit and refinancing the government debt, making funds available based on the implementation of measures and/or other necessary actions in the field of sectoral reforms.

Table 7: Financing sources corresponding to the estimated financing needs *)

Financing sources	Maturity (years)	Value (billions)		
Domestic market		**2024**	**2025**	**2026**
1. Treasury certificates (billion Lei)	up to 1 year	10	10	10
2. Benchmark bonds in Lei (billion Lei)	over 1 year	83.6	59.2	75.9
1. 2. Government securities for the population (billion Lei)	1 - 5 years	20	20	20
Foreign market				
1. Issues of Eurobonds under the MTN Programme (billion EUR equivalent)				
EUR/USD	3 - 30 years	11.0	8.5	6.5
2. Loans from international financial institutions (billion EUR)				

[25]On November 21st, 2023, the European Commission positively assessed the revised RRP, its new value being 28,511.58 million EUR

a) Loans from EIB (incl. SPL), IBRD, CEB etc.	on average 15-20 years, of which 4-5 years grace period; maturity varies depending on the financier and the loan status[26]	1.7	1.0	1.1
b) Loans from the European Union under the loan component of the RRP of approx. 14.94 billion EUR	On average approx. 20 years	0.7	4.9	**7.6**

*) correlated with the maintaining of a financial reserve in foreign currency available to the State Treasury of up to 4 months. Source: MoF

5. Macroeconomic framework[27] in Romania

In 2023, Romania recorded an economic growth of 2.1%, in a difficult geopolitical context and unprecedented challenges in the European economy regarding supply chains and energy markets, which mainly affected the industry, whose gross added value decreased by 2.3%. The other sectors had positive dynamics.

The special priority given by the Government to investment projects (financed both from domestic funds and through RRP) increased the gross value added from construction by 11.0%, and in correspondence, on the demand side, the gross fixed capital creation increased by 14.4%. Total final consumption increased by 3.5%, being influenced by some remaining effects of the inflationary shock of the previous year, and external demand had a neutral contribution to growth, as both exports and imports of goods and services decreased by 1.4%.

For the time frame of the Government Debt Management Strategy (2024-2026), the forecasts of the National Commission for Strategy and Prognosis envisage a **robust economic growth** that improves from 3.4% in 2024 to 4.4% in 2026, slightly above potential. On the supply side, the following are envisaged: (i) the recovery of the industrial sector with the improvement of the economic climate and the mitigation of shocks, (ii) the impact of European funding for infrastructure projects on construction works, and (iii) the development of high added value services. On the demand side, investments (gross fixed capital creation) will be the determining factor of economic growth, supported by inflows of European funds and allocations from the recovery and resilience mechanism, followed by private consumption while net export will have a slightly negative contribution.

After the significant **price** increases in 2022, which had strong negative effects in the economy among both companies and households, there is the beginning of a trend to mitigate inflationary pressures, so that the **annual inflation rate** was 6.6% in December 2023 (from 16.4% in December 2022). On an annual average, inflation stood at 10.4%.

According to the forecasts made by the National Commission for Strategy and Prognosis, it is estimated that the disinflationary process will continue, so that in December 2024 the annual inflation rate will reach 4.6%. In the period 2025-2026, a downward trend of inflation is expected, as the effects of supply shocks will diminish, so that the rate projected at the end of 2026 will reach 2.6%, a rate approximately equal to the central point of the target of 2.5% ± 1 percentage point of the National Bank of Romania. A similar trajectory will also follow the annual average inflation rate that will ease, from 10.4% in 2023 to 2.9% in 2026.

In 2023, **the labour market** proved resilient, despite the economic downturn. The ILO unemployment rate was 5.6%, similar to the previous year, and the average gross salary increased by 13.8%. Given that the average net wage increased by 14.5%, the purchasing power of employees increased by 3.7%. According to forecasts, these developments will continue on the medium term in that: (i) the unemployment rate according to the ILO

[26]Part of the loans are already in the repayment period, and for others the financial terms are established on the occasion of each drawdown,

[27]The chapter is developed based on the projection of macroeconomic indicators published by the CNSP - Spring Forecast, April 30, 2024

methodology will decrease from 5.5% in 2024 to 4.9% in 2026, and (ii) the purchasing power of employees will accelerate its increase to 5.1% in 2024 and will return to 3.5% and 4.0% in 2025 and 2026, respectively. Moreover, the high economic growth on the medium term will generate new jobs, so that in 2026 the number of employees, according to the ILO definition, will reach 6811.0 thousand people, exceeding the level in 2023 by 213.7 thousand people (+ 3.2%).

In 2023, the **current account deficit** narrowed significantly to 7.0% of GDP, from 9.2% of GDP in 2022, a phenomenon driven almost entirely by the adjustment of the trade deficit. For 2024, the current account deficit of the balance of payments is expected to widen slightly to 24.7 billion EUR (from 22.6 billion EUR in 2023), in line with the acceleration of economic growth, but in relative terms it remains at 7.0% of GDP. On the medium term, the current account deficit will not exceed in absolute value the threshold of 26.0 billion EUR, while in relative terms its share in GDP will decrease to 6.3% in 2026.

The macroeconomic framework related to the Government Debt Management Strategy, set up for the period 2024-2026, is the one developed by the National Commission for Strategy and Prognosis in the context of the current difficult geopolitical climate and the uncertainties derived from the multitude of shocks manifested in recent years, taking into account the results of 2023 and the economic and social developments in the first months of 2024.

The international context, as anticipated by the main international organizations, is in the process of recovery on the medium term, but with major divergences in terms of economic growth between developed and emerging economies. As for the inflation rate, one of the most acute challenges of this period, a slowdown in price growth is expected in the coming years, but faster in developed economies.

The **International Monetary Fund (IMF)** forecasts global economic growth to remain at 3.2% from 2023 to 2024 and 2025, respectively[28]. The economic recovery is not uniform as GDP increases of 1.7% and 1.8% are projected in 2024 and 2025 respectively for developed economies as a whole, while in the case of emerging economies the activity dynamics will be more than doubled, respectively 4.2% in each of the two forecast years. For the Euro area, the perspective is slightly more negative than for the group of developed economies, with economic growth expected at just 0.8% in 2024 and 1.5% in 2025. For the main economies in the Euro area and at the same time Romania's most important trade partners, GDP dynamics are forecast, which are in positive territory in 2024, but with a low magnitude (Germany by 0.2% and Italy and France by 0.7%) and which accelerate in 2025 in the case of Germany (1.3%) and France (1.4%) and remain at the same level in the case of Italy. The global inflation rate will slow down from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, also with a high degree of divergence, in the sense that disinflation will be more pronounced in advanced economies.

In the view **of the Organization for Economic Co-operation and Development (OECD)[29]**, the global economy is also developing positively and will grow by 3.1% in 2024 and by 3.2% in 2025, maintaining a degree of differentiation between developed and emerging economies. In the case of the Euro area, the OECD anticipates economic growth of 0.8% in 2024 which accelerates to 1.5% in 2025. For the large economies of the monetary block, there is a recovery in economic activity, even if at levels significantly below the global economy, as follows: Germany from 0.2% in 2024 to 1.1% in 2025, France from 0.7% to 1.3% and Italy from 0.7% to 1.2%. The disinflation process will continue globally but differentiated as in the case of IMF forecasts. The inflation rate will reach the monetary policy target for the Euro area in 2025, while for smaller EU countries it will be slightly higher.

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[28] International Monetary Fund Report - **World Economic Outlook, April 2024: Steady but Slow: Resilience amid Divergence**, April 2024

[29] OECD Report - OECD Economic Outlook, May 2024

As regards **the fiscal policies on the medium term**, according to the provisions of the *Fiscal and Budget Strategy for the period 2024-2026*, they are subsumed by the general objective of continuing gradual fiscal consolidation, achieved in a balance between the need for fiscal adjustment and the need to support the economic recovery, the health system, infrastructure, climate change mitigation measures and the implementation of digitization, as well as the achievement of the green transition that remains a priority in the current difficult circumstances. The pace of consolidation takes into account the fact that important reforms of the RRP, such as the new pension law, as well as the implementation of investment projects from grants and loans from the RRP to be completed by the end of 2026 and requiring important budgetary amounts, must be implemented in 2024. The construction of the budget for 2024 envisaged a return to the path of adjustment of the budget deficit, support for the economy and vulnerable categories, along with an increase in investment allocations. In addition, the medium-term objectives of fiscal policy include reforming public investment, simplifying taxation and improving legislation in the field, maintaining government debt at a sustainable level, increasing and improving the structure of tax revenues, increasing the performance of the tax and customs administration, eliminating distortions and gaps, all of which have the role of establishing a fairer, more efficient, simpler and more transparent tax system.

In the difficult domestic and international context, the budget execution for 2023 ended with a cash budget deficit of 5.7% of GDP, above the target of 4.4% of GDP, on which the budget had originally been built and which was in line with the European Council Recommendation of 18 June 2021 to end the situation of excessive public deficit in Romania.

On the medium term (2024–2026), under conditions of fiscal consolidation, the reduction of the budget deficit will reduce the need for financing at government level and implicitly maintain the public debt at a sustainable level.

Table 8: Forecast of the financing needs

Indicator	2023 operative execution	2024 forec.	2025 forec.	2026 forec.
Revenues of the central public administration (billion Lei)[30]	419.8	497.8	520.8	563.3
Expenditures of the central public administration (billion Lei)[31]	510.4	583.7	610.6	648.9
Budget deficit pertaining to the central public administration (I) (billion Lei)[32]	90.6	85.9	89.9	85.6
Refinancing of the Government debt[33] (II) (billion Lei)	95.8	94.6	71.3	71.9
Gross refinancing needs (I+II) (billion lei)	186.4	180.5	161.2	157.5

Source: MoF

[30]Calculated on the basis of cash data applying the EU methodology.
[31]Idem27
[32]Idem27
[33]The volume of repayments of equity instalments and government securities refinancing on account of government debt, according to national law, calculated on the basis of the debt balance at the end of 2023 (includes state guarantees, but does not include temporary financing).

The macroeconomic assumptions of the Strategy for the period 2024-2026 are presented in the table below.

Table 9: Basic scenario of macroeconomic forecasts

Indicators	2023	2024forec.	2025forec.	2026forec.
Nominal GDP (billion Lei)	1,605.6	1,767.3	1,922.4	2,077.6
GDP growth (%)	2.1	3.4	4.0	4.4
Budget deficit pertaining to the central government [34] (% of GDP)	-5.7*)	-4.9	-4.7	-4.1
Current account deficit (% of the GDP)	-7.0	-7.0	-6.6	-6.3
Inflation (end of year %)	6.6	4.6	3.4	2.6
(Average annual) inflation %	10.4	5.6	4.0	2.9
Average Lei/EUR exchange rate	4.95	5.00	5.06	5.12
Average Lei/USD exchange rate	4.57	4.63	4.68	4.74

Source: CNSP Spring Forecast, April 30th, 2024
*) operative execution on December 31st, 2023

Changing the fiscal governance framework as of 2024

In February 2024, a legislative package to reform the economic governance framework for Member States was approved at EU level. The objectives of the new framework are to strengthen the sustainability of Member States' debt and to promote sustainable and inclusive growth in all Member States through growth-enhancing reforms and investments. The new fiscal governance framework takes into account the different fiscal challenges and introduces risk-based surveillance, which differentiates Member States according to their individual fiscal positions. For Member States with a budget deficit of more than 3% of GDP or a government debt of more than 60% of GDP, the Commission will issue a "reference trajectory" that provides guidance to Member States in the preparation of national fiscal-structural plans that will ensure that the debt is placed on a plausible downward trajectory or remains at prudent levels and the budget deficit is brought and maintained below 3% of GDP over the medium term, including for Romania in the Excessive Deficit Procedure. The plans will be assessed by the Commission and approved by the Council on the basis of common EU criteria, while a single operational indicator – net primary expenditure – will serve as a basis for monitoring and assessing compliance.

At the end of 2023, the government debt ratio, calculated as per the EU methodology, was 48.8%[35] of GDP below the 60% ceiling set by the Maastricht Treaty, and according to preliminary data at the end of April 2024 it is 52.1% of GDP. The government debt includes the amounts made available for the implementation of the National Recovery and Resilience Plan (RRP) but also the debt contracted to finance the budget deficit approved for 2024, as well as the refinancing of the due government debt.

Increased financing needs at government level, especially as a result of excessive budget deficits (above the limit of 3% of GDP) will impact the government debt calculated as per the EU methodology and for this purpose the measures provided by the Fiscal Responsibility Law 69/2000 for maintaining a sustainable level of government debt must be considered.

[34] Calculated on the basis of cash data applying the EU methodology.
[35] According to EUROSTAT Report - July 2024

Risks corresponding to initial projections

Budgetary projections and economic forecasts may deviate from the levels in the baseline scenario, due to the possible materialization of risks that may arise both internally and externally, with different implications for the evolution of public finances.

The continuation of the Russia-Ukraine war and the international sanctions put in place, likely to affect the domestic macroeconomic and financial developments on the way of worsening the energy crisis and bottlenecks in production and supply chains, as well as the developments on the international financial market, together with the monetary policy conduct of central banks are important benchmarks that may affect the investment appetite for financial assets issued by emerging economies.

Although on a downward trajectory, combating inflation remains an important challenge for central banks. During 2023, the major central banks (the EDF[36] and the ECB[37]) successively increased their reference rates while maintaining their restrictive policy in the first part of 2024. In June 2024, after nine months of maintaining constant rates, the ECB decided to reduce the three key interest rates by 25 basis points, taking into account the positive perspective for inflation developments and the strength of monetary policy transmission.

As for the domestic market, it will be influenced by the expectations regarding the evolution of the budget deficit, which is subject to additional pressures in the context of an electoral year. The new result of the European Parliament elections, which includes an important share of far-right parties, can influence the pro-European majority and generate unpredictability of the economic and political environment at international level, which will also influence domestic developments.

Given the maintenance of excessive budget deficits as a result of the Excessive Deficit Procedure, but also the application of the new economic and fiscal governance framework from 2024, the issuance of new debt necessary to cover high financing needs on the domestic market must take into account the absorption capacity of the domestic market and the characteristics of the holders of government securities issued on this market (the banking sector is still the main holder). This risk factor can be mitigated on long term by increasing demand from institutional investors, such as pension funds or other capital market participants, such as local asset management funds and insurance companies, but also by issuing new debt instruments, including green bonds. In recent years, the nominal value of holdings of government securities in the portfolios of privately managed pension funds and voluntary pension funds has shown an increasing trend, while their share in total assets has increased by about 4% over the same period. The MoF will continue the dialogue with Romanian or foreign institutional investors, in order to consolidate the holdings of government securities issued by Romania in their portfolio.

Political implications at macroeconomic level

The macroeconomic projections in the baseline scenario indicate a decrease in the central government's financing needs in 2024 compared to 2023 and a gradual decrease in the following years as the budget deficit gradually reduces. Thus, financing strategies will have to be implemented taking into account the volume of debt refinancing and budget deficits, decreasing on the medium term, while increasing tolerance for financial risks. In the medium-term financing process, the MoF will consider achieving its specific objectives, but will take into account the macroeconomic context and changes in demand at the level of the investment base both internally and externally.

[36]The EDF increased interest rates 4 times in 2023 to the level of 5.25% – 5.50%, the highest level in the last 22 years

[37]The ECB increased interest rates 6 times in 2023 - the main refinancing operations rate to 4.5%, the marginal lending facility rate to 4.75% and the deposit facility rate to 4.00%

In conclusion, the main risks associated with the macroeconomic assumptions in the baseline scenario show that, in the light of the anticipated/estimated monetary policy decisions both internally and externally, a volatile market context is expected to remain, at least for 2024. A major impact on financing policy will be the implementation of the new economic and fiscal governance framework at EU level as of 2024 and the trajectory set by the EC for maintaining government debt at a sustainable level.

6. Analysis and strategic guidelines

The strategic guidelines on the management of Romania's government debt reflect the cost-risk relationship associated with the current government public debt portfolio[38], the plans for the development of the domestic market in government securities and the medium-term macroeconomic framework.

Implications of the analysis of the existing government debt portfolio, of the macroeconomic framework and of the market context over government debt management

Although decreasing compared to previous years, exposure to **refinancing risk and implicitly to domestic debt interest rate risk continues to be the main sources of risk for the current government debt portfolio.**

The currency risk, in the context of high financing needs, is gaining more and more importance, being alleviated by the share of debt in foreign currency issued on the long term (denominated in EUR and USD), as well as by the maintenance of the financial reserve in foreign currency at the disposal of the State Treasury. The contracting of debt on long and very long maturities and the diversification of the investor base further justify the option of issuing USD-denominated Eurobonds as well as other currencies, provided that they are limited in the total external financing, the existence of the buffer policy and especially given the start of using derivative financial instruments. Currently, the analysis carried out shows that in the absence of the necessary framework for the use of derivatives to manage the risks related to financing in other currencies, USD financing on the medium and long term remains more expensive and risky than EUR financing[39]. However, when using currency swaps, the cost associated with the use of long and very long term hedging instruments charged by the counterparty should be considered.

In order to limit the refinancing risk, the MoF will continue to use specific liability management operations, such as early redemptions or government securities exchanges.

Based on these considerations, the MoF assessed the financing alternatives that facilitate the limitation of exposure to refinancing and interest rate risk, as well as the change in the currency structure of foreign currency financing.

For the analysis of the refinancing risk, two approaches were used: i) the issuance of government securities in national currency with maturities as long as possible, and ii) the replacement of financing by Lei-denominated government securities on the domestic market with financing by EUR-denominated government bonds issued on a long-term basis. In addition, several funding strategies with different currency structures (EUR vs. USD) were simulated to examine the cost-risk relationship as a result of long term bond issues in USD.

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[38]The government debt portfolio was considered at the end of 2023.

[39] The current yields (on June 4th, 2024) on EUR-denominated Eurobonds are 5.626% for the 10-year maturity and 5.765% for 25 years, while those on USD Eurobonds issues on the same maturities are 6.389% and 6.421%, respectively.

Alternative financing strategies were compared based on the debt service projection based on different alternative exchange rate and interest rate scenarios. The baseline scenario, determined as the most likely, was used to calculate the estimated cost of the different strategies. The risk was calculated by reporting the increase in the resulting cost, as a result of the application of shocks at the market rates used[40] in the baseline scenario, to the cost in the baseline scenario. Two cost and risk indicators were used: the debt-to-GDP ratio and the interest payments-to-GDP ratio, both indicators being calculated for the end of the third year of analysis, i.e. 2026. The results of the cost-risk analysis are supplemented by macroeconomic considerations, those related to the development of the internal market in government securities, as well as recent trends in external financial markets, as presented below.

Results of the analysis on alternative government debt management strategies

Extending the average time to maturity (ATM) for debt in national currency: Managing exposures to the refinancing risk characterizing debt in national currency using more instruments denominated in Lei with medium and long-term maturities has become more feasible, although it still depends on the appetite and positioning of non-resident investors on the yield curve as well as on the sensitivity of local institutional investors to interest rate risk. Under these circumstances, the cost of extending the average time to maturity is almost similar in terms of the debt-to-GDP ratio and relatively low in terms of the share of interest payments in GDP. Therefore, the scenario analysis supports the MoF's debt refinancing policy issued on the domestic market on maturities as long as possible, depending on the investors' appetite that will lead to the increase of the average time to maturity, as the cost increase is relatively small compared to the improvement of the debt repayments/redemptions profile and the protection it offers against a possible unexpected and sustained increase in short-term interest rates.

Such a strategy contributes at the same time to the development of the domestic market of government securities, by increasing the liquidity of government securities issued on the medium and long term, with an impact on the development of the secondary market. The improvement in liquidity can be achieved both by increasing the share of Romanian government securities in regional benchmarks, the use of the electronic trading platform on the secondary market (E-bond) and the use of liability management operations (early redemptions and securities exchanges). However, a reasonable increase in the net volume of medium- and long-term domestic government securities issues should be considered, taking into account the constraints caused by the limited absorption capacity of the domestic market of an increased volume of medium- and long-term government securities, correlated at the same time with the maintenance of the high exposure of the banking sector to government securities, although in 2023 the volumes awarded for residual maturities of more than 5 years were over 60% of the total government securities issued on the interbank market and in the first 5 months of 2024 over 45%.

Reducing the refinancing risk by refinancing the debt in Lei due on the domestic market through government securities on 10 years denominated in EUR: The management of the exposures to the national currency debt refinancing risk through EUR financing is advantageous in terms of the debt cost, but if the analysis focuses on stocks, the currency risk prevails and the increase in the debt ratio in EUR amplifies the exposure of the portfolio to a possible depreciation of the national currency. When used as a cost indicator the share of interest payments in GDP, strategies with a predominant financing in EUR have a lower cost, and a lower associated risk comparable to financing predominantly in national currency. The analysis from the perspective of the cost differential is determined by the fact that the domestic interest rates continue to

[40]For the analysis, the forward reference rates for EUR and USD taken from Bloomberg on May 17th, 2024 were used

remain above those in EUR by about 1.3% (Chart no. 8 and 16) for the 10-year maturity, although the cost differential has decreased sharply from the level of 2.5% recorded in 2021. It is recommended to use funding in EUR to cover high but limited financing needs, given the impact of a possible depreciation of the Leu and the high share of debt in EUR compared to countries in the same rating category, according to the ratings agencies' assessments.

Structure of the portfolio in foreign currency: Simulation results lead to medium-term preference for EUR versus USD funding. The quantitative analysis shows that, from the perspective of the current and forward yield curves, the USD financing implies an increase in cost, compared to the EUR financing. This reflects estimates of higher interest rates in USD, as well as a significantly more volatile Lei/USD exchange rate than Lei/EUR, given the appreciation of the US currency compared to EUR.

As the USD market is much more liquid, with a diversified investor base that has allowed Romania to borrow with long maturities, while maintaining high financing needs on foreign markets, USD financing will be used to supplement the amounts drawn from foreign markets, contributing to the expansion of the remaining maturity of the debt in the context of high volumes of Romanian Euro-denominated government securities already in the investors' portfolios. Although on the medium term the intention is to maintain the foreign debt exposure predominantly in EUR, however, if there are opportunities in terms of cost/maturity and taking into account the benefits of diversifying the investment base, with impact on the capacity and medium and long-term financing terms and conditions, both the issuance of debt in USD and in other currencies, such as accessing the Japanese market by issuing bonds, will continue to be considered.

In this regard, in order to reduce the exposure to currency and interest rate risk associated with the government debt portfolio, after the completion of the operational and procedural framework, the MoF envisages the use of derivatives (especially cross-currency swaps), in this regard ISDA Master Agreement framework agreements were concluded in 2022 with a number of counterparties, and steps are currently being taken to expand their number.

At the same time, in order to improve government debt management and avoid temporary pressures in ensuring the financing sources of the budget deficit and the refinancing of the government debt, in order to reduce the refinancing and liquidity risk, the MoF considers maintaining the financial reserve (buffer) in foreign currency at the disposal of the State Treasury, in an amount equivalent to cover the financing needs of the budget deficit and refinancing the government debt covering up to 4 months of the gross financing needs.

In conclusion, in the context of high budget deficits, Romania falling under the Excessive Deficit Procedure, the MoF aims to ensure the financing of the budget deficit and the refinancing of the government debt mainly in national currency in order to continue the development process of the domestic market, correlated with the absorption capacity of the domestic market of government securities in Lei, in parallel with accessing external capital markets according to the opportunities offered on these markets, in order to extend the average maturity for total debt and diversify the investment base. At the same time, the policy of contracting loans from IFIs will be continued in order to ensure robust sources of financing and to ensure the minimization of costs in the medium and long term.

The MoF will continue to promote the development of domestic market in government securities, through the measures and actions presented in Annex no. 1.

Strategic guidelines

The following principles shall form the basis for financing decisions in 2024-2026:

1. Ensuring financing mainly in national currency, which will further facilitate the development of the domestic market in government securities and at the same time support the reduction of exposure to currency risk, while taking into account the absorption capacity of the domestic market, as well as the need to diversify the investor base in government securities by expanding the distribution channels of government securities for the population as well as the issuance of bonds on the interbank market to meet the demand of resident and non-resident institutional investors. The EUR issues on the domestic market will be considered in the context of the specific demand expressed by local investors, on average maturities, depending on the market conditions and the appetite manifested by the investment environment, under the conditions of a maturity/advantageous cost ratio.
2. Achieving a more uniform debt repayment profile, including through the use of liability management operations (early redemptions or government securities exchanges).
3. Mitigating refinancing risk and liquidity risk by maintaining a foreign currency reserve.
4. In the foreign financing process, the contracting of debt predominantly in EUR and USD will be considered, other currencies will be taken into account depending on the opportunities identified and the cost/risk ratio, as well as their contribution to the diversification of the investment base, including through private placements and other types of instruments that may lead to the geographical diversification and the typology of investors. Green bond issues will be issued on the basis of the General Framework for Green Bonds at Sovereign Level approved at the beginning of 2024 depending on the estimates of eligible expenditure to which the amounts obtained from the issuance of green bonds can be allocated.
5. Keeping interest rate risk exposure under control by limiting the share of debt that changes its interest rate in one year and maintaining an average period until the next interest rate change for the entire debt portfolio within reasonable parameters.
6. The use of financing instruments provided by international financial institutions (IBRD, EIB, CEB, EBRD etc.), including those established at European Union level to support the recovery and resilience process at Member State level, taking into account the advantageous terms and conditions offered by them.

These principles are expressed as indicative target ranges for the main risk indicators, reflecting the desired composition of the government public debt portfolio, as follows:

Currency risk:

1. Ensuring a higher share of net financing from domestic sources as of 2024 and maintaining the share of national currency-denominated debt in the total government debt between 45% (minimum) - 55%.
2. Maintaining the share of EUR-denominated debt in the total foreign currency-denominated debt in the range of 80%(minimum) – 90%. With the use of derivatives, this indicator will be calculated after the measurement of the debt due to the use of currency swaps.

Refinancing risk

1. Maintaining the debt share due within 1 year in the range of 15% and 25% (maximum) for debt in national currency and between 10% and 20% (maximum) for total debt.
2. Maintaining the average time to maturity within 4.5 years (minimum) and 5.5 years for domestic currency debt and between 7.0 years (minimum) and 8.0 years for total debt.
3. Maintaining a financial reserve in foreign currency at a comfortable level, so as to mitigate the risks related to periods characterized by high volatility in financial markets.

Interest rate risk

1. Maintaining the share of debt that changes its interest rate in one year in the range of 15% and 25% (maximum) for debt in national currency and between 10% and 20% (maximum) for total debt.
2. Maintaining the average time to re-fixing between 4.5 years (minimum) and 5.5 years for national currency debt and between 7.0 years (minimum) and 8.0 years for total debt.

Table 10: Targets for the main risk indicators

Risk exposure	Indicator	Indicative targets for 2024-2026
Currency risk	Share of debt in the national currency in total debt (% of total) Share of debt denominated in EUR in total debt in foreign currency (% of total)	45% (minimum) - 55% 80% (minimum) - 90%
Refinancing risk	Share of debt due within 1 year (% of total) Share of debt in the national currency due within 1 year (% of total) Average time to maturity for the total debt (years) Average time to maturity for the debt in the national currency (years)	10% - 20% (maximum) 15% - 25% (maximum) 7.0 years (minimum) - 8.0 years 4.5 years (minimum) - 5.5 years
Interest rate risk	Share of debt that changes its interest rate within one year (% of total) Share of debt in Lei that changes its interest rate within one year (% of total) Average time to re-fixing for the total debt (years) Average time to re-fixing for the debt in the national currency (years)	10% - 20% (maximum) 15% - 25% (maximum) 7.0 years (minimum) – 8.0 years 4.5 years (minimum) – 5.5 years

Source: MoF

The implementation of the Strategy for 2024 - 2026 shall be monitored on a monthly basis, by following the compliance of the debt indicators with the established targets and the publication thereof in the monthly bulletin available on the website of the Ministry of Finance. According to Government Emergency Ordinance no. 64/2007 on public debt, as subsequently amended and supplemented, the strategy is revisable yearly or anytime market conditions and/or financing requirements impose it.

Marcel – Ioan BOLOȘ

Minister of Finance

Annex no. 1

Developing the domestic government securities market

The medium term strategic objectives for development of the domestic government securities market seek to increase the efficiency of this market by improving the liquidity, the degree of transparency and by consolidating the yield curve thereof. In order to fulfil the aforementioned objectives, the MoF has planned a set of actions, some of which shall be implemented in the near future, as follows:

1. *Increasing the efficiency on the government securities market by consolidating and expanding the yield curve on the domestic government securities market:*
   - 1.1. Maintaining the policy on the creation and maintenance of liquid benchmark government securities, amounting to approx. 3 billion EUR equivalent, as the main financing instrument on the domestic market;
   - 1.2. Continuing the use of liability management operations in order to accelerate the process of creating liquid benchmark government securities, in parallel with the management of refinancing and liquidity risk;
   - 1.3. Issuance of short-term treasury certificates for the purpose of liquidity management, according to investor demand.

2. *Development of government securities programmes for the population*

   - 2.1. Continuing the issuance of government securities for the population within the TEZAUR and "FIDELIS" programmes and their distribution through various distribution channels, respectively through the territorial units of the State Treasury, the Romanian Post and credit institutions.
   - 2.2. Exploring the possibility of an efficient online distribution channel targeting the segment of Romanians living abroad
   - 2.3. Measures to increase the attractiveness of these instruments to facilitate the online underwriting and repayment of amounts due to investors.

3. *Diversifying and extending the investor base by:*

   - 3.1. Issuing a wide range of instruments, with different maturities taking into account the different investment appetite of local and international investment environments, including private placements; in addition to issuing green bonds, it is envisaged to issue Samurai bonds on the Japanese market;
   - 3.2. Balancing the rights and obligations of primary dealers and increasing competition between primary dealers by attracting new primary dealers and/or increasing the activity of existing ones, leading to increased distribution, intermediation and trading of government securities while increasing transparency in price formation;
   - 3.3. Analysing the opportunity to issue new debt instruments required by market participants (such as index-linked or floating-interest bonds), as the government securities market develops, but avoiding debt portfolio fragmentation;
   - 3.4. Continuing the organization of non-deal roadshows for investors.

4. *Measures of increasing the liquidity of the government securities market*:

   4.1. Monitoring and promoting improvements to the electronic platform for listing and trading of government securities by primary dealers (E-Bond), in order to improve the liquidity and transparency of government securities prices and reduce the risks associated with trading activities,
   4.2. Concentration of the liquidity of government securities in a small number of benchmark government securities, with an equivalent value of approx. 3 billion EUR per issue;
   4.3. Using liability management operations (such as early redemption or exchange) to reduce the risk of refinancing, setting up liquid benchmark government bonds, to increase the liquidity of government securities;

5. *The measures considered for increasing the transparency and predictability of the market of government securities include*:

   5.1. A transparent government securities issuance policy by publishing the annual government securities issuance calendar, quarterly announcements and monthly prospectuses, as well as, where appropriate, presenting changes due to changing market conditions in a flexible and timely manner;
   5.2. Continuous dialogue with internal market participants to ensure timely communication of the actions considered by MoF;
   5.3. Regular publication on the institution's page in the Public Debt section of the information relevant to investors regarding the amount and structure of government debt;
   5.4. Managing the Bloomberg page dedicated to MoF, taking into account its widespread use by domestic and international investors.

Annex no.2

Policy of improvement of liquidity management and the measures that shall be taken

In order to optimize the management of liquidities, the MoF seeks to implement the following measures:

1. To continue to maintain the objective of improvement of the prognosis regarding the prognosis of the general current account balance of the State Treasury, by increasing cooperation with other entities in order for them to provide the forecasted information.
2. To adopt a more active management of liquidities in order to reduce balance fluctuation, both by issuing treasury certificates and/or by contracting short-term loans, depending on budget execution and the evolution of the budget deficit, and by actively managing current surplus balances.

The use of treasury certificates and short-term loans shall be carried out so that does not affect the key objective of developing the domestic government securities market in terms of extending the average maturity of the government debt portfolio. At the same time, the possibility of adopting a more active conduct regarding the placement of available funds (if the forecast of the general current account balance of the State Treasury will allow it) will be explored, based on prior consultations with the NBR.

3. For the purpose of consolidating the institutional framework, in order to ensure an improved coordination of the financing process of the budget deficit, of management of government debt and of management of the State liquidities, monthly meetings of the Commission for planning the financial flows of the State Treasury will continue to be organized, with the participation of representatives of the MoF, NAFA and NBR[41].
4. Due to the gap between budget collections and payments made within one month, the State Treasury shall continue to resort to cash management operations, for example through the attraction of very short term deposits from credit institutions, with the purpose of covering temporary cash gaps, according to the evolution of budget execution.
5. Another short term financing instrument for the deficit is represented by the loans from the available funds of the general current account of the State Treasury (worth about 118 billion Lei at the end of December 2023), contracted in accordance with the provisions of the Government Emergency Ordinance no. 146/2002 on the formation and use of resources through the State Treasury, as subsequently amended; this ordinance provides the use of the funds available in the general current account of the State Treasury to finance through temporary loans the budget deficits of the previous years and of the current year.

Although there is the advantage of using this instrument to finance the state budget deficit at low costs (the average interest rate on these loans was 0.54% in 2023), however, this instrument has the disadvantage that it depends on the funds available in the account. If the funds available in the General Current Account of the State Treasury are reduced, the State Treasury shall resort to attracting deposits under market conditions from credit institutions on a bi/multilateral basis or selling the existing foreign currency cash in the foreign currency reserve at the disposal of the MoF.

Therefore, the use of this debt instrument entails uncertainty and refinancing risk (even if no loan repayment deadline is set), with potential consequences for the management of government debt. An important aspect to mention is the fact that the funds currently available in the General

[41] As a guest

Current Account of the State Treasury also include revenues in Lei generated by the privatization activity and the more these revenues are used, the fewer funds remain available in the account.

6. Foreign currency reserve at the disposal of the State Treasury

In order to improve government debt management and avoid temporary pressures in ensuring the financing sources of the budget deficit and the refinancing of the government debt, in order to reduce the refinancing and liquidity risk, the MoF shall continue the policy of maintaining a financial reserve (buffer) in foreign currency at the disposal of the State Treasury, in an amount equivalent to cover the financing needs of the budget deficit and refinancing the government debt covering up to 4 months of the gross financing needs.