Romania

February 2017

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Agenda

Romania’s Profile

Key Features of Romania's Credit Profile

Strong Macroeconomic Framework

- In 2016 real GDP growth was 4.8%, the largest in the EU, with main drivers for 9 months:
  - On the demand side: private consumption of households (+ 8.9% YoY) and gross fixed capital formation (+5.3% YoY);
  - On the supply side: all sectors had positive growth, led by information and communication (+13.7%), trade(1) (+11.9% YoY) and agriculture(1) (+4.1% YoY).
- Romania had one of the highest growth rates in the EU during the las decade: the average GDP growth between 2004 and 2016 was 3.4% and in the last four years (2013-2016) was 3.8%.
- The forecasted growth for 2017 is 5.2%.
- After joining the EU, real convergence, expressed in GDP per capita in PPS, of EU average, was significantly improved from 39% in 2006 to 57% in 2015.

Well capitalized and liquid banking sector

- Comfortably high levels of provisioning for NPLs.
- NPL ratio(2) showed a sustained downward trend (21.5% in Sep 2014 to 11.0% in Jul 2016 and 10% in Sep 2016).
- No public funds used to bail out local banks.
- Very well capitalized banking sector, with an average total capital (solvency) ratio of 18.8% as of Sep 2016.
- Stable exchange rate.

Improving financial sector

- FDI increased by 18% in 2016.
- There is a constant decrease in the amount of foreign currency denominated deposits and loans.

Low Public Debt

- Public Debt to GDP ratio of 37.7% at end of December 2016, and 38.0% as of year-end 2015 (Eurostat, ESA methodology).
- 2010 – 2015 CAGR(2) for public debt of 5.1%.
- Prudent debt management policy, aimed at continued stability.
- Investment grade ratings from all major credit rating agencies - BBB- from S&P and Fitch, Baa3 from Moody's (positive outlook) and BBB from JCRA.

Notes: (1) Full category names as per the Romanian National Institute of Statistics are "Trade, hotel and restaurants, transport and communications" and "Agriculture, forestry and fisheries" respectively.
(2) Under the EBA Methodology. The same observation applies to data under the national methodology.
(3) CAGR – compound annual growth rate.

Stable and Resilient to External Risks

Greece	▪ Limited external trade exposure – Greece ranks below top 15 export destinations ▪ Moderate share of banks with Greek capital: Market share (by assets) of Greek banks' subsidiaries reduced from 12.2% at the end of 2014 to 10.5% in July 2016 ▪ Four Greek owned subsidiaries (not branches) operate in Romania. These are fully incorporated under Romanian law and subject to National Bank supervision. All four are adequately capitalized
Migrant Crisis	▪ Romania is not on the main Balkan route and the effects from Middle Eastern / African immigration flows have been limited.
Oil Prices	▪ Since Romania is a net importer of oil(1), low oil prices support export competitiveness and increase purchasing power. ▪ A possible rise in oil prices will have a negative, but limited effect.
Pro EU and NATO	▪ All major political parties in Romania are officially committed to EU and NATO membership ▪ No extremist parties are popular in Romania ▪ Romania houses a permanent NATO base and is part of the US Missile Defense Shield in Eastern Europe
Russia and Ukraine	▪ Trade relationships with Ukraine – small share in total foreign trade (less than 1%) ▪ Limited dependence on gas imports from Russia, since Romania is able to cover a large share of its gas consumption from domestic sources ▪ Very limited Russian presence in metallurgy, iron and steel and oil refining sectors. ▪ No credit institutions with Russian or Ukrainian shareholding
Exposure to Brexit	▪ The Brexit referendum has had limited negative impact so far on Romania, the initial volatility subsiding over time ▪ Uncertainty about the Brexit effects still remain, but exposure to UK economy is relatively limited, compared to other EU28 Member States.

Note: (1) As confirmed by the BP Statistical Report of World Energy 2015

Romania’s Solid Economic Growth

Romania's Economy: Macroeconomic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Macroeconomic Indicators							***Forecast***	***Forecast***	***Forecast***
Real GDP (% y-o-y)	1.1	0.6	3.5	3.1	3.9	4.8	5.2	5.5	5.7
Inflation rate (%, e.o.p.)	3.1	4.95	1.55	0.83	-0.93	-0.54	1.9	2.3	2.2
Inflation rate (%, annual average)	5.8	3.33	3.98	1.07	-0.59	-1.55	1.4	2.5	2.3
Budget balance (% GDP, cash)	-4.3	-2.5	-2.5	-1.7	-1.35	-2.41	-2.96	-2.96	-2.56
Budget balance (% GDP, ESA2010)	-5.3	-3.7	-2.1	-0.9	-0.7	-2.82(1)	-2.98	-2.92	-2.53
Government debt (% GDP, EU methodology)	34.2	37.3	37.8	39.4	38.0	37.7	37.7	37.9	37.7
Exports of goods (%, y-o-y)	21.2	-0.5	10.0	5.9	4.1	5.1	7.3	7.6	7.7
Current account balance (% GDP)	-4.9	-4.8	-1.1	-0.7	-1.2	-2.4(2)	-2.3	-2.2	-2.0
Interest And Exchange Rates									
NBR policy rate (%, e.o.p)	6.00	5.25	4.0	2.75	1.75(3)	1.75			
Average exchange rate (RON/EUR)	4.24	4.46	4.42	4.44	4.44	4.49	4.46	4.44	4.42
Labor Market Indicators									
ILO unemployment rate (%)	7.2	6.8	7.1	6.8	6.8	6.0	5.9	5.8	5.7

Source: National Institute of Statistics, National Commission of Prognosis –Winter forecast 2017; (1) Preliminary estimate; (2) Estimation of National Commission for Prognosis; (3) As of May 7th 2015.
Note: Budget balance (% of GDP cash and ESA2010) for the 2016-2019 period is estimated at the moment of the 2017 Budget drafting moment and is based on the 2018-2020 forecasts.

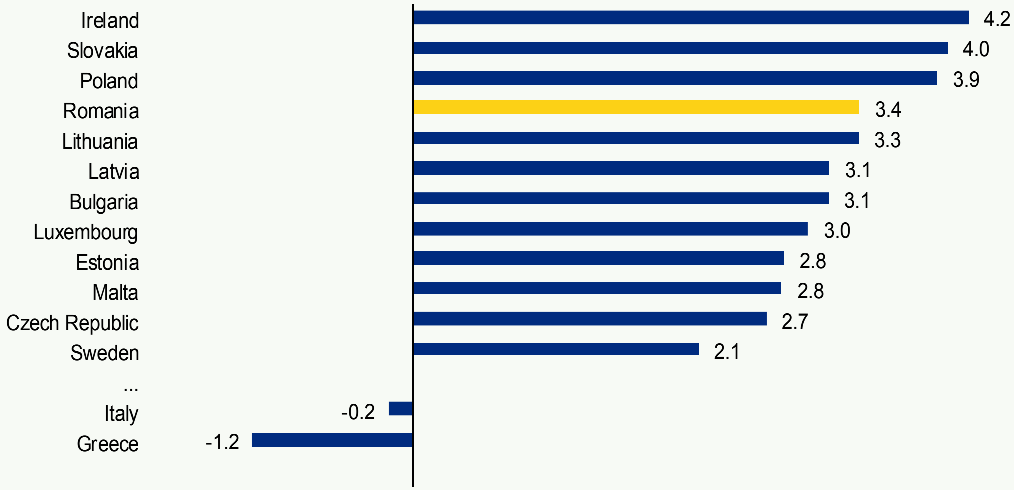
Perspectives for 2017 – 2020 - Key messages

- The economic model applied by the Government starting with 2017 is aimed at improving the business environment and the living standards.
  - For the 2017-2020 period is envisioned an annual average of economic growth of 5.2%.
  - GDP per capita in PPS (Purchasing Power Standard) is expected to reach the threshold of EU 28 average 70% until 2020.
  - The growth of the investments (gross fixed capital formation) will complement the growth, ensuring the sustainability of the economic growth.
  - The current account deficit will remain slightly above 2% of GDP in 2017 and the general consolidated budget deficit is expected to remain below the 3% threshold of the SGP, while the multiplying effect of the European funds and investments will intensify.

Source: National Commission of Prognosis

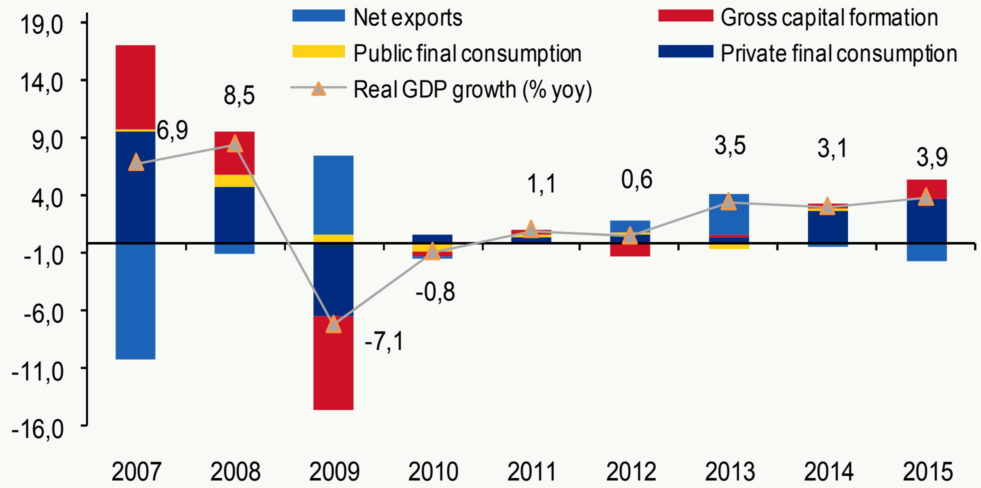
Economic Growth Supported by Domestic Demand

Romania is one of the fastest growing economies in the EU…
% GDP growth, average 2004 – 2015



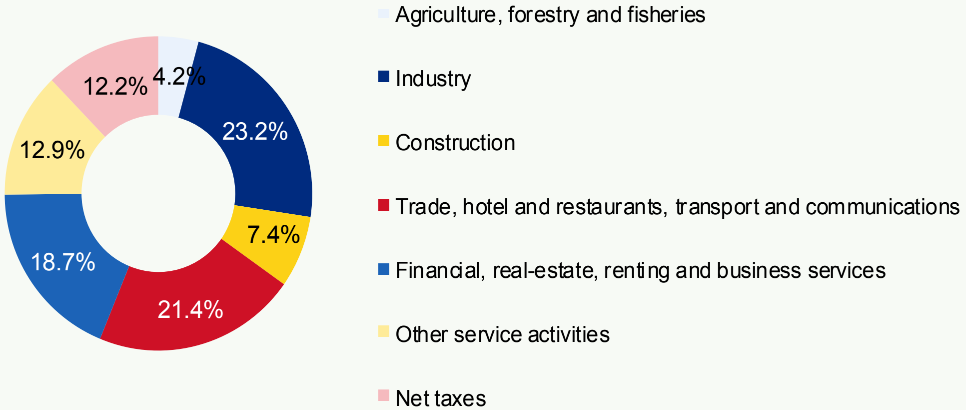
Source: Eurostat.

… with GDP growth underpinned by strong domestic demand
Aggregate demand, percentage points



Source: National Institute of Statistics.

The Romanian economy is diversified
Structure of gross domestic product by sectors in 2015, %



Source: National Institute of Statistics.

Industrial production underpins economic growth
% change in industrial production, YoY

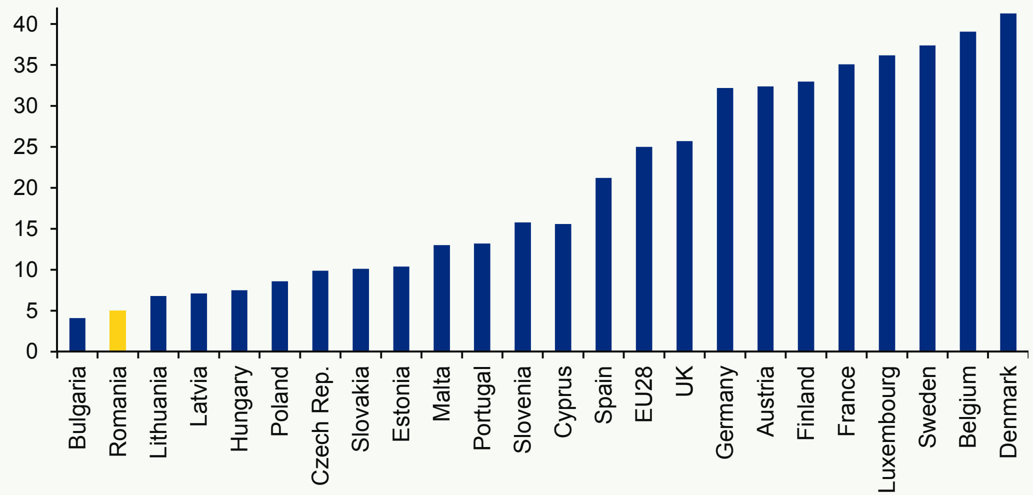
Source: National Institute of Statistics.

Labour Market Conditions Supportive of Long-Term Growth

- Romanian labor costs per hour are among the most competitive in the EU
- Highly educated workforce: #54 / #187 in 2013 according to the United Nations Education Index(1)
- Romania's unemployment rate remains substantially lower than the EU28 average
  - The unemployment rate in 2016 was 6.0%(2), which was lower than in 19 of the 28 EU countries

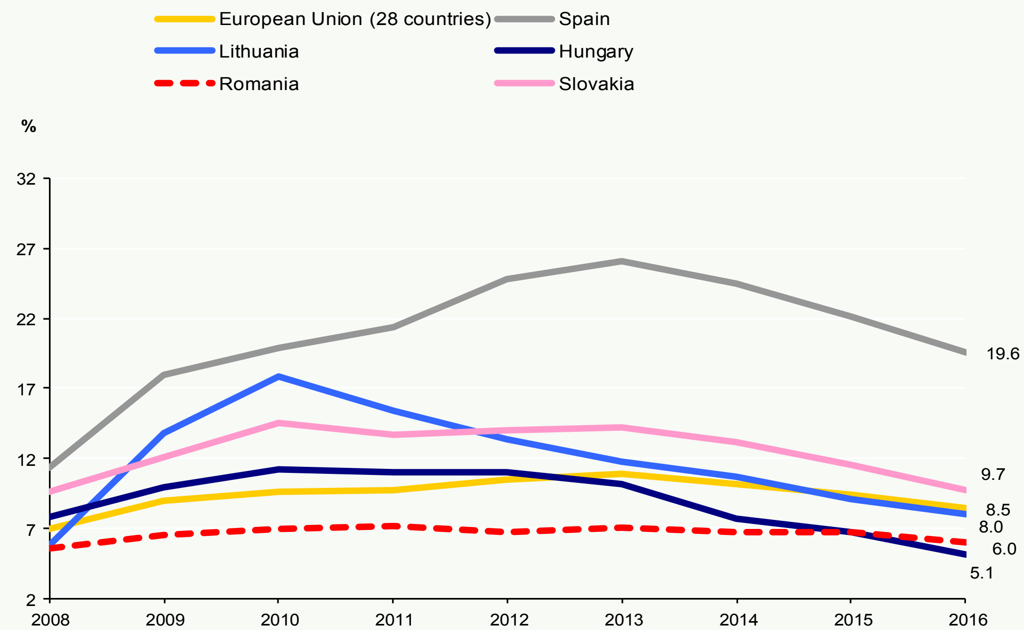
Notes: (1) Based on 2013 data, the most recently available.
(2) Based on Eurostat data.

Low labour costs…
Labour costs per hour, EUR as of 2015



Source: Eurostat. Data according to ESA 2010 methodology.

Low unemployment
Unemployment % according to the ILO methodology



Source: Eurostat.

Sustainable Fiscal Policy and Budget Performance

2016 Budget Execution

Revenues

- Revenues to the general consolidated budget, in the amount of RON 223.7 billion (29.5% of GDP), decreased by 4.3% in nominal terms compared to the previous year
- As compared to 2015, revenues registered increases in the collection of: profit tax (+ 11.7%), social security contributions (+ 6.3%), income and salary tax (+ 4.2%) and excise tax (+ 3.6%)
- Revenues from the collection of VAT decreased by 9.6%, as compared to the previous year, due to both the reduction of the VAT standard rate from 24% to 20% from 1 January 2016 and the adoption of a reduced VAT rate of 9% applicable for food items, from 1 June 2015

Expenditures

- The expenditure of the general consolidated budget, in an amount of RON 242 billion, decreased in nominal terms by 0.6% YoY, and by 2.3 percentage points (as a percentage of GDP)
- Personnel expenditure increased by 9.5%, as compared to the previous year, mainly influenced by salary increases in the second part of 2015 and by the increase of the minimum gross salary
- Goods and services expenditures increased by 1.2% YoY, while the expenditure for social assistance increased by 7.7% YoY
- Investment expenditure, including capital expenditure and the expenditure related to development programs amounted to RON 29.5 billion, representing 3.9% of GDP

The general consolidated budget showed a deficit of 2.41% of GDP in 2016, below the 2.75% target

Source: Ministry of Public Finance.

2017 Budget Framework

The 2017 budget was built assuming a cash deficit of 2.96% of GDP (ESA deficit of 2.98% of GDP)

Macroeconomic assumptions for the 2017 Budget	Value
GDP (RON billion)	815.2
Real growth rate (%)	**5.2**
Average exchange rate RON/EUR	4.46
Inflation / annual average (%)	1.4
Average number of employees (‘000s)	4,954
No. of unemployed persons registered as at the end of year (‘000s)	387
- Rate of registered unemployment (%)	4.3
Gross average salary (RON/month)	3,131
Goods exports – growth (%)	7.3
Goods imports – growth rate (%)	8.1
Current account balance (% of GDP)	-2.3

Source: Ministry of Public Finance.

January 2017 Budget Execution

Revenues

- Revenues to the general consolidated budget, in the amount of RON 19.2 billion (2.4% of GDP), decreased by 5.7% in nominal terms compared to January 2016
- As compared to January 2016, revenues registered increases in the collection of: income and salary tax (+ 24.9%), tax on foreign trade and international transactions (+ 10.1%), social security contributions (+ 9.4%), as well as capital revenues (+ 63.9%)
- Revenues from the collection of VAT decreased by 24.8%, as compared to January 2016, due to the reduction of the VAT standard rate from 24% to 20% from 1 January 2016, which was reflected from February 2016

Expenditures

- The expenditure of the general consolidated budget, in an amount of RON 16.2 billion, increased in nominal terms by 3.5% YoY compared to January 2016, but decreased by 0.1 percentage points (as a percentage of GDP)
- Personnel expenditure increased by 8.2%, as compared to January 2016, mainly influenced by salary increases in the second part of 2016
- Goods and services expenditures decreased by 7.4% YoY, while the expenditure for social assistance increased by 9.5% YoY, as compared to January 2016
- Investment expenditure, including capital expenditure and the expenditure related to development programs amounted to RON 305.8 million, representing 0.04% of GDP

The general consolidated budget showed a surplus of 0.37% of GDP in January 2017

Source: Ministry of Public Finance.

New government proposed measures

Main fiscal measures considered in building the 2017 Budget

- Extending the exemption of profit tax for reinvested profit;
- Reducing the standard VAT rate from 20% to 19%;
- Reducing the excise levels for energy products;
- Eliminating the personal income tax for pensions below or equal to RON 2,000;
- Eliminating the social insurance health contributions for pensioners;
- Eliminating the 5 average gross salary ceiling for the payment of the social security contribution (CAS);
- Eliminating the tax on special constructions;
- Modifying one of the conditions to be fulfilled by the Romanian legal entities as micro-enterprises by raising the ceiling for the realized revenues at December 31st of the previous fiscal year from EUR 100,000 to EUR 500,000;
- Introducing 1% tax rate on revenues for the micro-enterprises with one or more employees and eliminating the 2% tax rate for the micro-enterprises with one employee;
- Introducing a special VAT regime for farmers.

Source: Ministry of Public Finance

New government proposed measures – cont'd

Main social and salary increase measures considered in building the 2017 Budget

- Starting with February 1st 2017 the minimum national base salary guaranteed in payment is increased to RON 1,450 from RON 1,250;
- 15% increase of health and education personnel salaries starting with January 1st 2017;
- 20% increase for salaries of the local authorities' employees under the local administration;
- Increasing with 50% the gross salary and supplements for the personnel of public institutions which deal with shows and concerts starting with February 1st 2017;
- Increasing the level of social indemnities for pensioners from RON 400 to RON 520 starting with March 1st 2017;
- Increasing the pension point value to RON 1,000 staring with July 1st 2017;

Source: Ministry of Public Finance

Other proposed measures

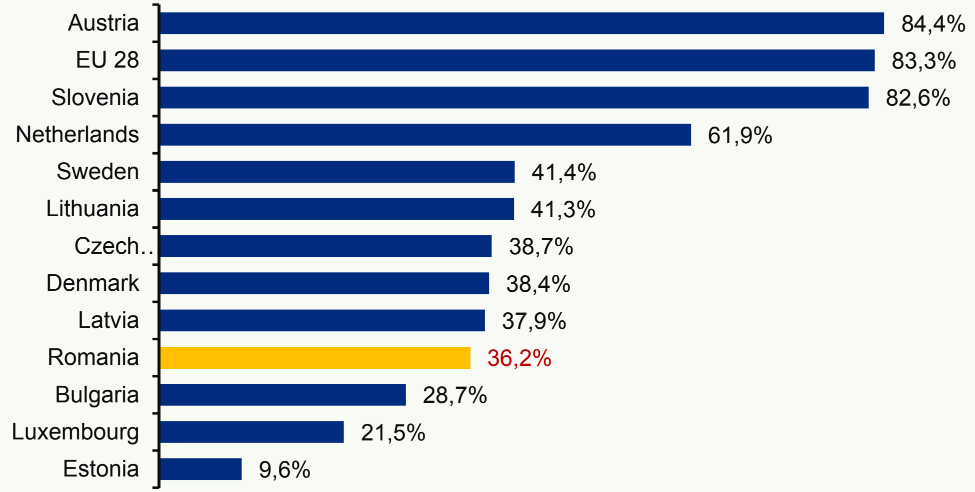
- More friendly tax environment and lowering the tax burden to one of the lowest in the EU: introduce the Tax Nomenclature, reducing the number of taxes especially through a law eliminating 102 taxes (including the radio-TV tax, the environment stamp for used vehicles, 33 consular taxes, 13 extra judiciary taxes and many more) and facilitate online payment;
- Promote new Prevention Law, which will forbid the control bodies of the government to sanction an economic entity before an informing and prevention stage has been completed (with the exception of penal situations);
- State guarantees (80%) for National Programs for key sectors (agriculture, tourism, construction etc.), for the creation of new jobs in counties with high unemployment and for supply chain finance;
- Develop National programs for apprenticeship and traineeship financed from Operational Program Human Capital and the State Budget;
- Establish the Sovereign Development and Investment Fund (FDSI) which will aim at developing and funding profitable and sustainable investments in competitive sectors by direct involvement or together with institutional and private investors.

Public Debt at Sustainable Levels

Public Debt is Sustainable

Romania has the #4 lowest Debt / GDP ratio in the EU

General Government Debt / GDP Q3 2016, %



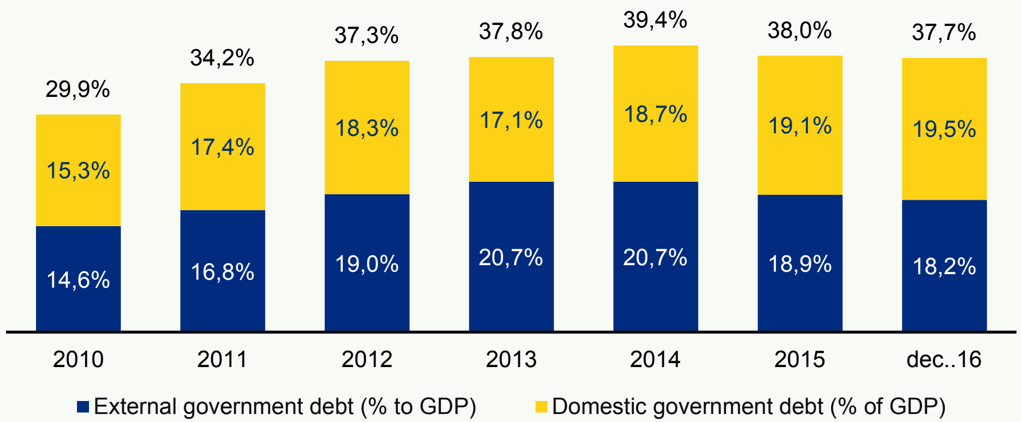
Source: Eurostat – release January 2017 Government Debt.

(% of GDP)	2013	2014	2015e	2016f	2017f	2018f
Gross financing need, out of which:	11.3%	9.0%	8.8%	9.1%	8.4%	8.2%
- Budgetary Deficit	2.5%	1.7%	1.4%	2.4%	2.96%	2.96%
- Refinancing of Public Debt	8.8%	7.3%	7.4%	6.7%	5.4%	5.24%
Foreign Currency Buffer	3.9%	4.6%	3.7%	3.6%	2.9%	2.7%
Net Government Debt[1]	33.9%	34.8%	34.3%	34.1%	34.8%	35.2%

Notes: (1) Calculated as Gross government debt (EU Methodology) - Foreign currency buffer.
Source: Ministry of Public Finance.

Debt / GDP is stable…

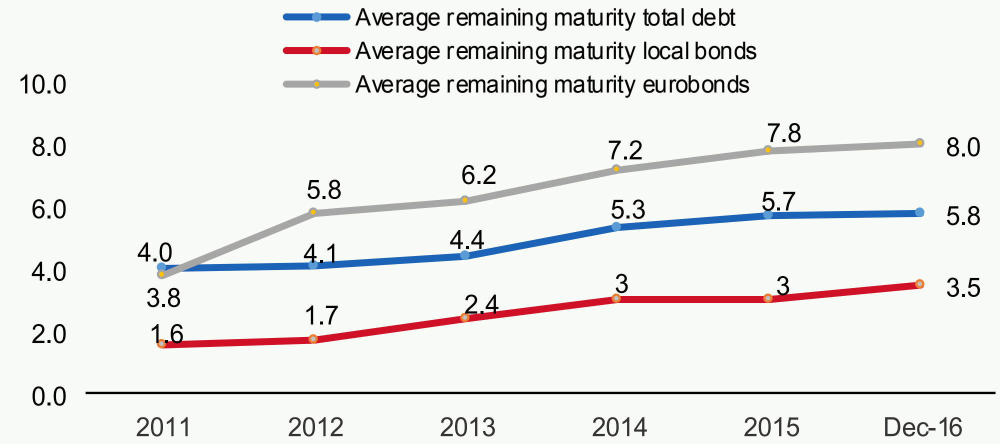
General Government Debt / GDP ESA 2010 – December 2016



Source: Ministry of Public Finance - (EU Methodology).

…and based on a prudent maturity[(1)] profile

Average Remaining Maturity (December 2016) in years

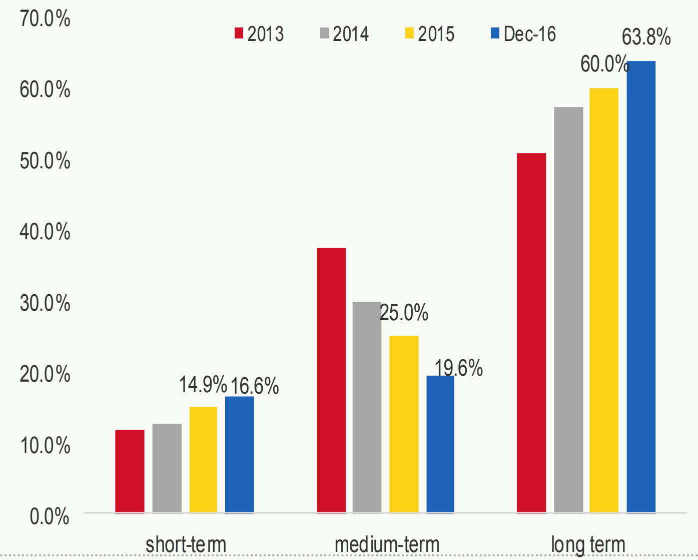


(1) Of public government debt according to the national legislation

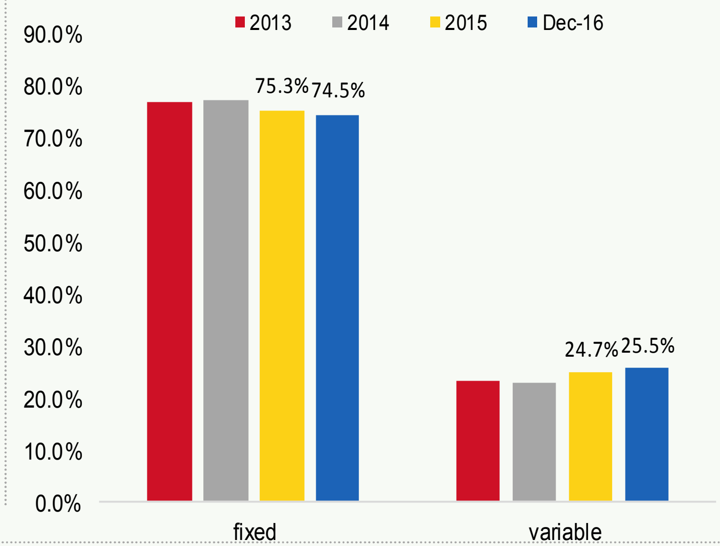
Source: Ministry of Public Finance.

Stable Government Borrowing Profile

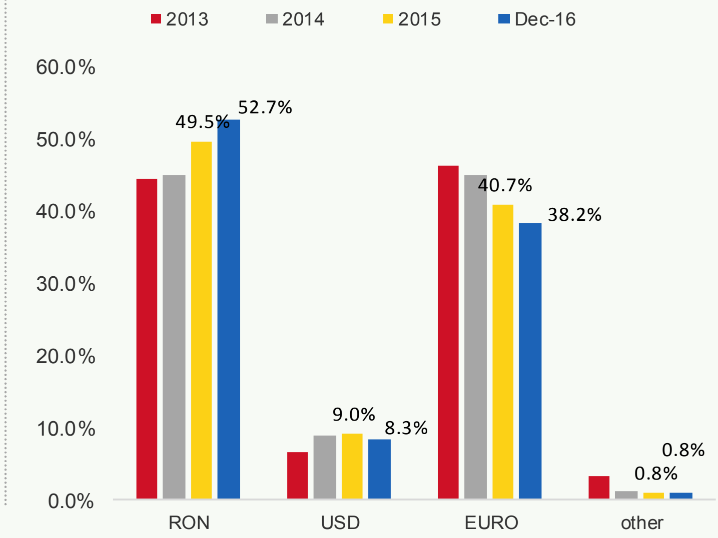
Increasingly long tenor borrowings…



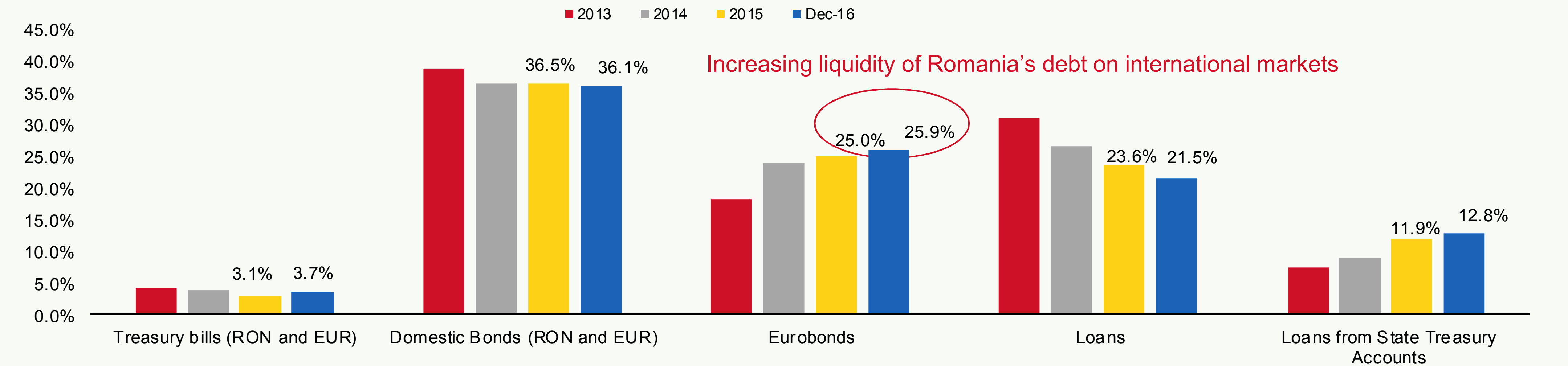
…mostly paying fixed interest…



…primarily in RON and EUR…



… are reinforced by a stable mix of funding instruments



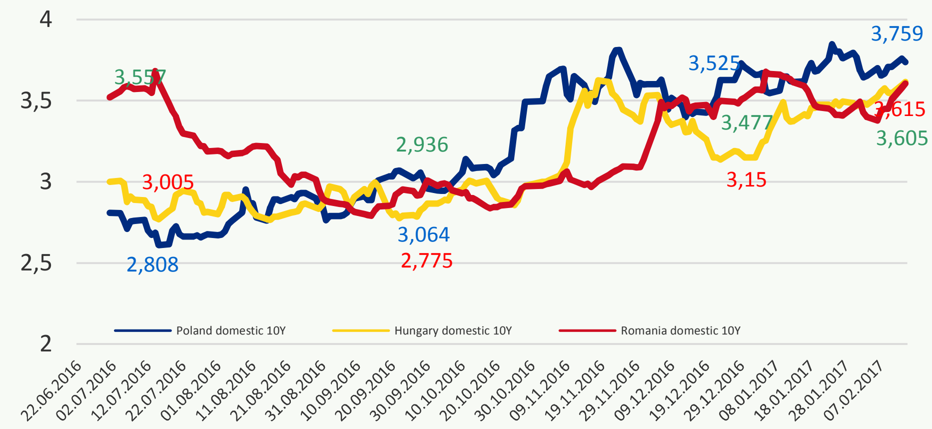
Source: Ministry of Public Finance; Note: Based on national legislation.

Romanian Credit has shown Strong Market Performance

- Romanian yields have shown resilience during volatile periods and are still at relatively low levels while strong spread compression happened across the curve since January 2016 and after Brexit referendum
- Investment grade status by S&P, Moody's, Fitch, with positive outlook from Moody's since December 2015
- The historically low yield environment has allowed Romania to extend its average debt duration (outstanding yield curves: up to 20 years in EUR and 30 years in USD) at favorable prices

Strong resilience to Brexit effects compared to our peers…

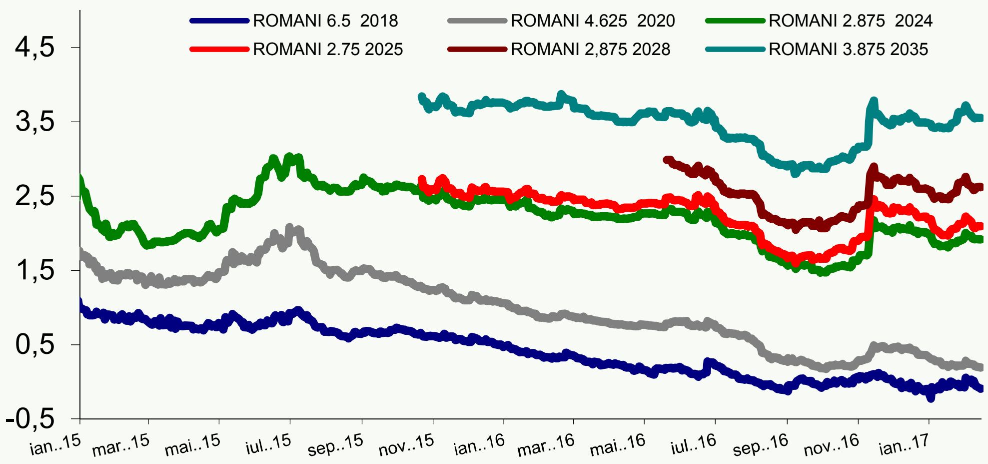
Domestic 10Y yields PL, HU, RO (%)



Source: Market data

…stable yields…

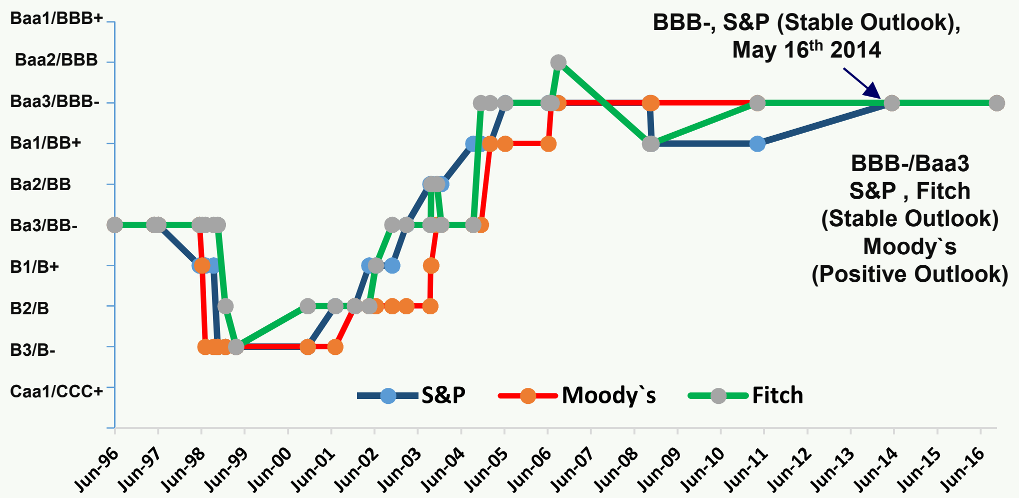
Bid Yields of Romanian EUR Eurobonds, %



Source: Market data

… and investment grade rating

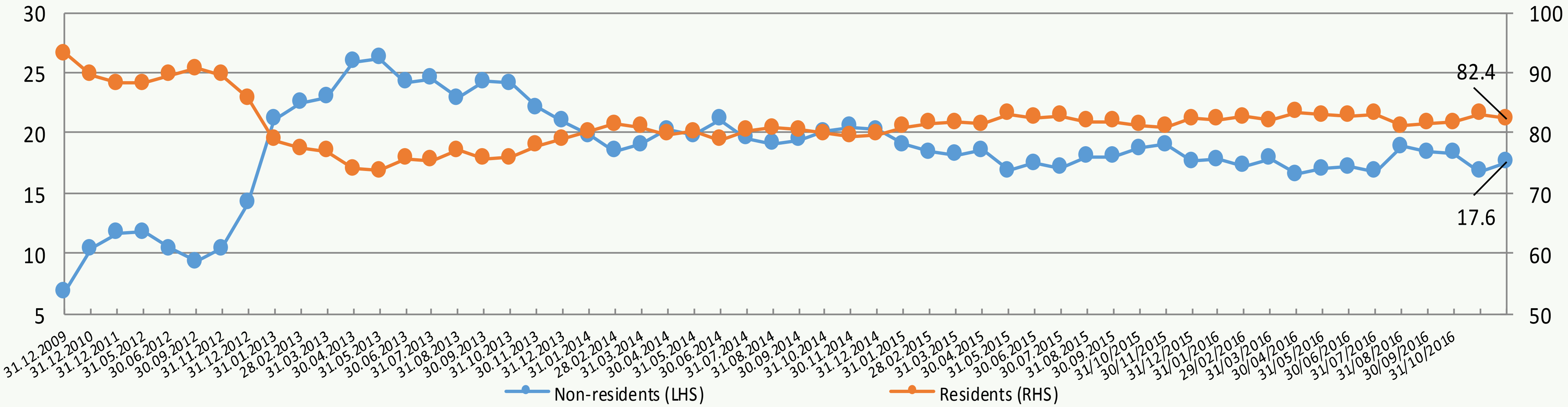
Romania's credit rating history



Source: Market data

Holdings of Government Securities

Domestic government securities held by non-residents, %



- Holders of domestic market government securities (end December 2016)
  - non-residents 17.6%
  - local commercial banks 47.1%
  - pension funds 13.8%
- Average participation in Eurobonds issues
  - Fund managers 60-70%
  - institutional investors 10-20%
  - commercial and private banks 15-25%
  - central banks 3-5%;
- Geographical distribution of Eurobond issuances in EUR – mostly Western European Countries (Germany and Austria around 8% for issues of 10Y and 20% for longer tenors, UK around 25% on average, France and Benelux around 10% etc); Central and Eastern European states (usually around 10%), and investors from the Middle East and Asia had an average participation of around 2-3%.

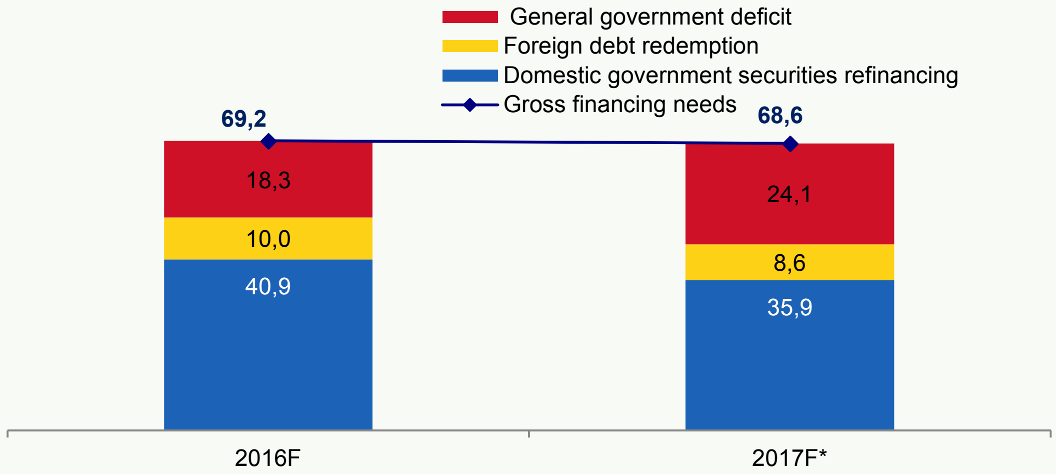
Prudent Debt Management Policy

…robust market access…

- Romania's funding sources are well diversified:
  - **Domestic market via** government securities issues in RON and in EUR
  - **External market** (Eurobonds, Institutional Loans from IFIs and government agencies)
- A hard currency buffer has been built up to cover around four months of gross funding needs

…with low financing needs…

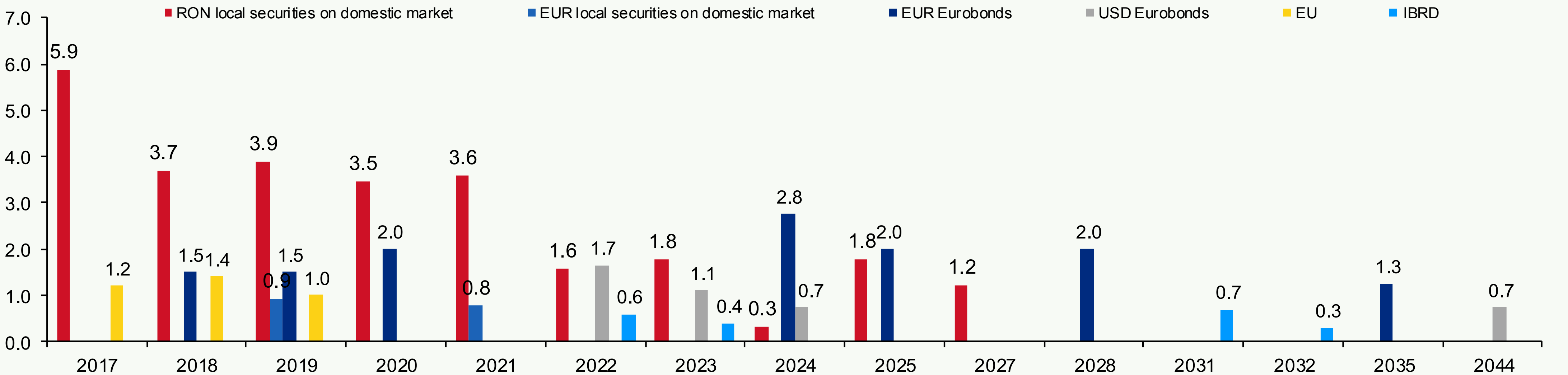
Government Financing Needs, RON bn



* Based on estimated Budget (cash) deficit of 2.96% of GDP.
Source: Ministry of Public Finance

… and confirmed by a balanced redemption profile

Redemption Profile of Government Securities and External Loan Facilities, EUR bn



Source: Ministry of Public Finance. Data as of February 14th, 2017.

Prudent Debt Management Policy (cont'd)

…underpinned by conservative targets

	Parameters[1]	Levels as of Dec 2016[2]	Levels as of Dec 31, 2015	Indicative targeted min / max ranges (2016- 2018)
Currency Risk	Share of domestic currency debt, % of total	45.7	42.7	40 – 55
	Share of EUR debt out of total foreign-currency denominated debt, %	80.8	80.6	80 – 95
Refinancing Risk	Debt maturing in one year, % of total	13.0	18.0	15 – 25
	Local currency debt maturing in one year, % of total	22.0	28.0	20 – 30
	ATM[3] for total debt, years	5.8	5.7	5 – 7
	ATM[3] for local currency debt, years	3.8	3.4	3 – 5
Interest Rate Risk	Debt re-fixing in one year, % of total	16.0	23.0	15 – 25
	Local currency debt re-fixing in one year, % of total	20.0	28.0	20 – 30
	ATR[4] for total debt, years	5.9	5.7	4.5 – 6.5
	ATR[4] for local currency debt, years	3.8	3.4	3 – 5

Objectives of the Debt Management Strategy

- Cover funding needs of the central government and payment of obligations, while minimizing medium and long term debt costs
- Limit financial risks for the government public debt portfolio
- Develop the domestic market for government securities

Strategic Guidelines During 2016-2018

- Pursue policy of favoring local currency net financing to develop the domestic debt market and mitigate foreign currency exposure
- Smoothening redemption profile
- Foreign currency buffer to mitigate refinancing and liquidity risks
- Keep presence on the euro market, mainly in EUR and access to US dollar market or other foreign currency markets on an opportunistic basis
- External financing will be contracted mainly in EUR
- The issuance of domestic government securities in EUR can be considered only under the circumstances of reimbursement/refinancing of similar instruments
- Monitor exposure to interest rate risk by maintaining under control the share of domestic debt refixing within the next year and ATR for the total portfolio
- Continue the use of financing instruments offered by international financial institutions to benefit from favorable terms and conditions

Source: Ministry of Public Finance: Public Debt Bulletin December 2016.

Notes: (1) Relates to government public debt according to national legislation excluding the General Current Account.
(2) Risk indicators presented for July 2016 are calculated for public government debt according to national legislation, excluding loans from availabilities of the State treasury account (temporary financing), in line with the limits established in the Debt Management Strategy 2016-2018
(3) ATM – average time to maturity. (4) ATR – average time to re-fixing.

Improved EU Funds Absorption

EU Funds Absorption has Accelerated in the Past Years

Operational Program	Development Objective	Allocation 2007 - 2013	Absorption Rate Dec 2014	Dec 2015	Dec 2016	Jan 31st 2017
		EUR bn	%	%		%
RO Program(1)	Economic, social, balanced and sustainable regional development	3.97	57	64	85	85
SOP(2) Environment	Protect and improve the environment and living standards	4.41	42	62	79	79
SOP Transport	Modernization and development of European priority transport axes within Romania and the national transport infrastructure as a whole	4.29	57	62	77	77
SOP Increase of Economic Competitiveness	Fostering growth towards a knowledge-based economy	2.54	57	76	105	105*
SOP Human Resources Development	Open, knowledge-based society through provision of conditions facilitating human resources development	3.20	47	55	73	73
OP Administrative Capacity Development	Help increase the responsiveness of Romania's public administration and judicial system	0.21	72	89	99	99
OP Technical Assistance	Strengthening the capacity of beneficiaries to prepare and implement EU financed projects	0.17	55	81	113	113*
TOTAL		**18.78****	**52**	**63**	**83**	**83**

- To assure the highest level of absorbtion, Romania implemented structural measures:
  - Strengthening and improving of the monitoring at the level of large infrastructure projects in order to speed up implementation
  - Active promotion by the Government of the alternative use of EU funds, through similar projects
  - Further reallocation among priority goals of various programmes
  - Increase the administrative capacity of programming departments through the use of European Investment Bank expertise
  - Extending the categories of eligible expenditures, allowing the reimbursement for expenditure already realised under the approved projects
  - Phasing of projects between the 2007 – 2013 and the 2014 – 2020 programming periods

Note: the final absorption rate can be calculated after the acceptance by the EC of the final documents for closure, that must be subitted by the Member States up to 31 March 2017.

Source: Ministry of European Funds. Abbreviations: (1) Regional Operational; (2) Sectoral Operational Program.

- Includes amount requested through top-up mechanism

** The 2007 – 2013 allocation was modified due to the amount decommited in 2016 for SOP Human Resources Development

EU Funds Absorption under the 2014 – 2020 Programming Period

Operational Programme	Funds Allocated, EUR bn	Absorption Rate (amount requested to EC) (%)
OP Technical Assistance	0.21	0
OP Competitiveness	1.33	0
OP Human Capital (including Youth Employment Initiative: EUR 0.11 bn)	4.33	0
OP Administrative Capacity	0.55	0
OP Large Infrastructure	9.41	0
OP Regional	6.60	0
OP for SME's Initiative	0.10	0
OP's for European Territorial Cooperation	0.48	0.2
OP Aid for the Most Deprived	0.44	1
TOTAL	**23.45**	**0.02**

In accordance with EU regulations, member states can not submit applications for interim payments before the designation of authorities involved in the management system and control of these funds.

- Cohesion funds are aimed at reducing disparities between the various regions and the backwardness of the least-favoured regions
- Aside from cohesion funds, during the 2014 – 2020 period, Romania has additional available financings of approx. EUR 20bn, under the Common Agricultural Policy

Increased Focus on Controls

- **Performance Oriented:** There is a monitoring framework, including milestones and specific targets corresponding to each operational programme
  - Their completion will be verified in 2018 and 2022
- **Improving efficiency of EU funds spending:** the EC is putting in place performance reserves in amounts ranging between 5 and 7 per cent of (most of) the allocations under each priority within the operational programmes
  - The performance reserve amounts will be released subject to the achievement of the milestones set for 2018
- **Ex-ante conditionalities** to ensure the conditions for effective cohesion policy investments and predictability of national sectorial policies

The impact of EU Funds on the Romanian economy is set to increase given Romania's strides in improving EU fund absorption and the increased focus on European Commission Control

Thank you!

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