



# Romania

## Investor Presentation

September 2021



This presentation has been prepared by and is the sole responsibility of the Republic of Romania (the "Issuer"). It has not been reviewed, approved or endorsed by any manager retained by the Issuer. This presentation is provided for information purposes only. The contents of this presentation do not constitute or form part of an offer to sell or issue or any solicitation of any offer to purchase or subscribe for any securities for sale in any jurisdiction.

The information and opinions herein are believed to be reliable and have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions. There is no obligation to update, modify or amend this presentation or to otherwise notify the recipient if any information, opinion, projection, forecast or estimate set forth herein changes or subsequently becomes inaccurate.

The information herein includes statements that constitute forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ as a result of risks and uncertainties. Each recipient is strongly advised to seek its own independent advice in relation to any investment, financial, legal, tax, accounting or regulatory issues discussed herein. Analyses and opinions contained herein may be based on assumptions that, if altered, can change the analyses or opinions expressed. Nothing contained herein shall constitute any representation or warranty as to future performance of any security, credit, currency, rate or other market or economic measure. Furthermore, past performance is not necessarily indicative of future results. Romania disclaims liability for any loss arising out of or in connection with a recipient's use of, or reliance on, this presentation.

This presentation and the information contained herein is confidential and may not be reproduced, distributed or otherwise transmitted, in whole or in part, without the prior written consent of the Issuer. This document and/or the information contained herein, are not for publication or distribution, directly or indirectly, to persons in the United States (within the meaning of Regulation S under the Securities Act) or to entities in Canada, Australia or Japan or any other jurisdiction which prohibits the same except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of United States securities laws and/or the securities laws of other countries.

By accepting this document you will be taken to have represented, warranted and undertaken that (i) you are a person to whom this presentation may be given (as described above); (ii) you have read and agree to comply with the contents of this notice; and (iii) you will treat and safeguard as strictly private and confidential all such information and take all reasonable steps to preserve such confidentiality.



Chapter	Page
Overview	4
Response to COVID-19	8
Long Years of Uninterrupted GDP Growth	13
Sustainable Fiscal Policy	17
Prudent Public Debt Management	21
EU Funding	28



## Overview



# Snapshot of Romania's Economy



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

## Prudent Public Debt Management

## EU Funding

Area 238,391 sq. km

Population (2020) ~ 19.2775<sup>1</sup> mn

Average RON/EUR rate (Jan – Jun 2021) 4.9009

Average RON/EUR rate (2020) 4.8371

GDP (2020 current prices) RON 1,055.5<sup>2</sup> bn

GDP (2020 current prices) EUR 218.2<sup>2</sup> bn

GDP per Capita (2020) EUR 11,320<sup>1</sup>

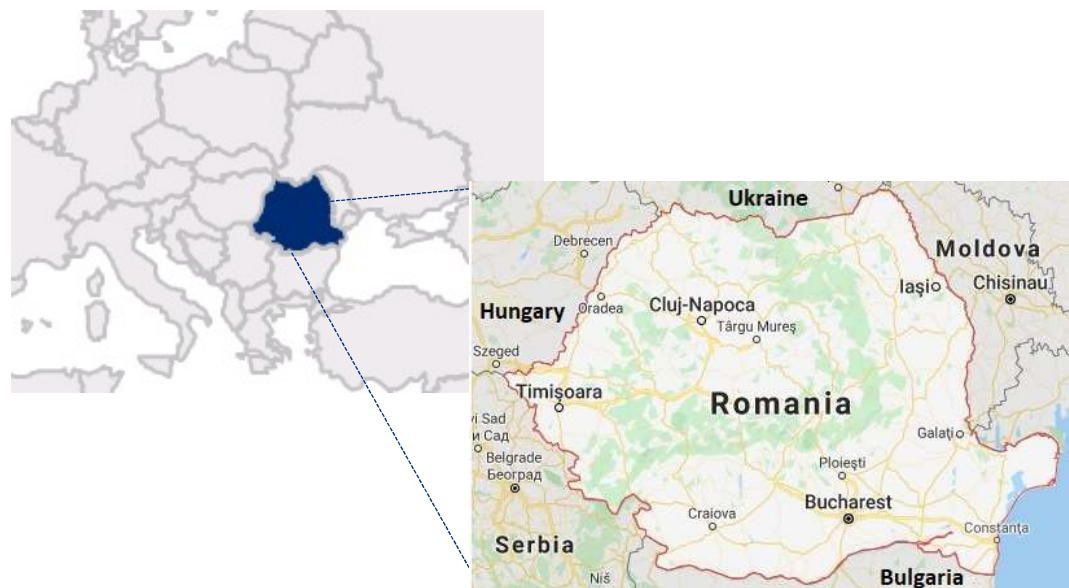
GDP Growth (H1 2021, y-o-y) 6.5%<sup>2</sup>

Average Inflation (2020) 2.63%

Annual Inflation Rate (July 2021) 5.25%

Unemployment<sup>3</sup> (July 2021) 2.96%

Public Debt / GDP (July 2021) 49.3%



## Current Credit Ratings

**S&P Global**

**BBB- / Stable**

since May 16, 2014;  
rating affirmed on  
April 16, 2021

**FitchRatings**

**BBB- / Negative**

since July 4, 2011;  
rating affirmed on  
April 23, 2021

**MOODY'S**

**Baa3 / Negative**

since October 6,  
2006; outlook revised  
on April 24, 2020

Source: National Institute of Statistics ("NIS"), Eurostat, National Bank of Romania, Map data ©2020 Google, GeoBasis-DE/BKG (©2009).

(1) Estimated data; (2) Forecasted data according to the National Commission of Strategy and Prognosis (August 2021, Summer Forecast); (3) Registered unemployment rate

# Key Features of Romania's Credit Profile



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

## Prudent Public Debt Management

## EU Funding

### Strong Macroeconomic Framework

- Romania had one of the highest growth rates in the EU prior the COVID-19 pandemic: the annual average GDP growth was 4.7%<sup>1</sup> during 2015–2019.
- After joining the EU, real convergence expressed in GDP per capita in PPS significantly improved from 39% in 2006 to 72% in 2020 of EU average.
- In 2020, the COVID-19 pandemic related recession of the Romanian economy was among the mildest across EU member states (-3.9%), due to a strong increase in GFCF (6.8%) that partially off-set the drop in final consumption .
- In the first half of 2021, compared to the first half of 2020, the gross domestic product registered an increase of 6.5% per gross series (provisional data). It is noteworthy that investments in infrastructure and those in the residential sector made in the first half of the year led to an increase in gross fixed capital formation by 11.9% compared to the first half of 2020.
- The estimates regarding GDP from the NCSP summer forecast, predict an increase of 7% for the year 2021, with 2 percentage points above the level from the spring one. This increase will cover the economic contraction in 2020 and lead to a raise of 2.9% above 2019.

### Well Capitalized and Liquid Banking Sector

- NPL ratio<sup>2</sup> showed a sustained downward trend (from 9.6% at end 2016 to 4.09% at end of 2019 and 3.8% at the end of 2020).
- To date, the Romanian government has not used public money to support local banks and their recapitalization has been entirely a responsibility of the shareholders.
- Very well capitalized banking sector, with a total capital adequacy ratio of 23.2%<sup>3</sup> as of December 2020.
- Stable exchange rate.

### Improving Financial Sector

- Lasting FDI growth: 30.5% in 2016, 6.2% in 2017 and 9.8% in 2018. In 2019 FDI decreased by 1.8% y-o-y. In 2020, FDIs stood at EUR 2,033 mn (provisional data as of end March 2021), a decrease by 60.7% y-o-y.
- Constant decrease of the share of foreign currency denominated deposits and loans.

### Sustainable Public Debt

- Public Debt to GDP ratio of 49.3% at end of July 2021, increased compared to 47.3% at the end of 2020 (Eurostat News release no. 48/22.04.2021, EU methodology), mainly due to the COVID-19 crisis.
- Sustainable debt management policy continued.

(1) Source: Eurostat; (2) Under the EBA Methodology; (3) National Bank of Romania, "Aggregate Indicators for Credit Institutions"

# Nominal Convergence Criteria



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

## Prudent Public Debt Management

## EU Funding

Convergence Criteria	Maastricht Requirements	Romania	Fulfilment of the criteria
Inflation rate (HICP) (% , annual average)	$\leq 1.5$ pp above -1.3% (the average of the three best-performing EU Member States) <sup>(1)</sup>	2.1% <sup>(1)</sup> (Feb. 2021)	No
Long-term interest rates (% p.a., annual average) <sup>(2)</sup>	$\leq 2$ pp above 0.7% (average of the three best-performing EU Member States in terms of price stability)	3.4% (Sept. 2020)	No
Exchange rate vs the euro <sup>(3)</sup> (2-year maximum percentage change)	$\pm 15\%$	+0.6 / -2.6% (Feb. 2021)	Yes
General government deficit (% of GDP) <sup>(4)</sup>	$\leq 3\%$	9.2%	No
Government debt (% of GDP) <sup>(5)</sup>	$\leq 60\%$	49.3%	Yes

(1) The reference value for February 2021 was calculated by the National Bank of Romania taking into account Greece, Cyprus and Estonia based on Eurostat data.

(2) Eurostat: the reference value for May 2020 was calculated by the NCSP, taking into account Ireland, Greece and Cyprus

(3) The level for Romania was calculated by the National Bank of Romania, based on Eurostat data ([https://ec.europa.eu/eurostat/databrowser/view/ert\\_bil\\_eur\\_m/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ert_bil_eur_m/default/table?lang=en)). Maximum percentage deviations of the bilateral exchange rate against the euro from its February 2019 average level in March 2019 to February 2021 based on daily data at business frequency. An upward / downward deviation implies that the currency was stronger / weaker than the average exchange rate in February 2019.

(4) Eurostat press release 48/2021 as of 22 April 2021 for 2020, ESA methodology.

(5) As at the end of July 2021. Source: Monthly Report of the Ministry of Finance.

Source: Eurostat, NBR and NCSP calculations.



## Response to COVID-19



# Romania Reacted Early and Adequately to Covid-19



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

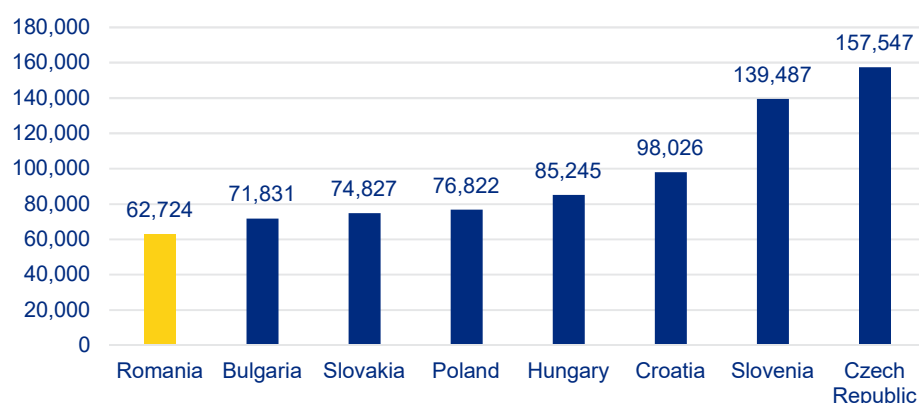
## Prudent Public Debt Management

## EU Funding

- Romania managed to contain the immediate spread of the virus due to a timely announcement of a state of emergency on March 16, 2020 and parallel implementation of a wide range of restrictive and pre-emptive measures. On May 15, 2020, Romania came out of the state of emergency and entered a state of alert on May 18, 2020.
- On December 27, 2020, Romania officially started the vaccination campaign against the SARS-CoV-2 coronavirus. On March 15, 2021, the vaccination of the general population commenced. On September 27, 2021, the vaccination with the booster / third dose started.
- As of September 27, 2021 the cumulative uptake of at least one dose in Romania was 33.9% of total active population.

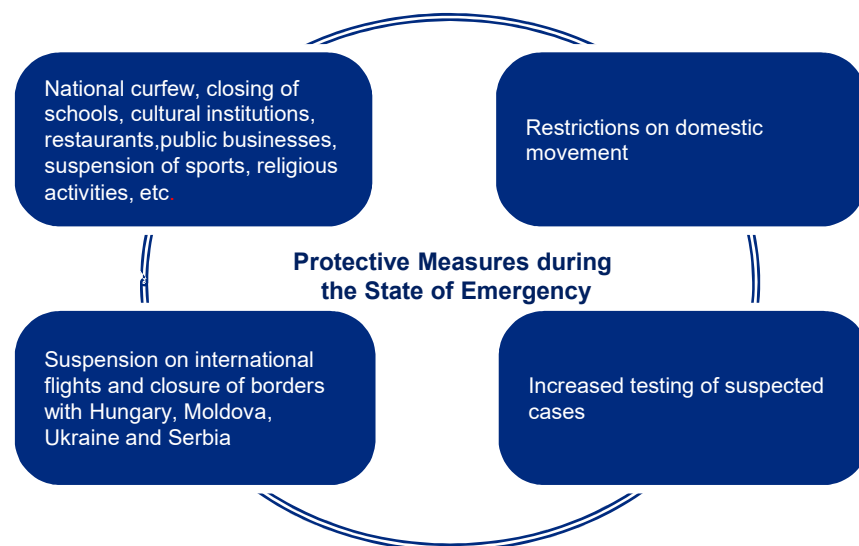
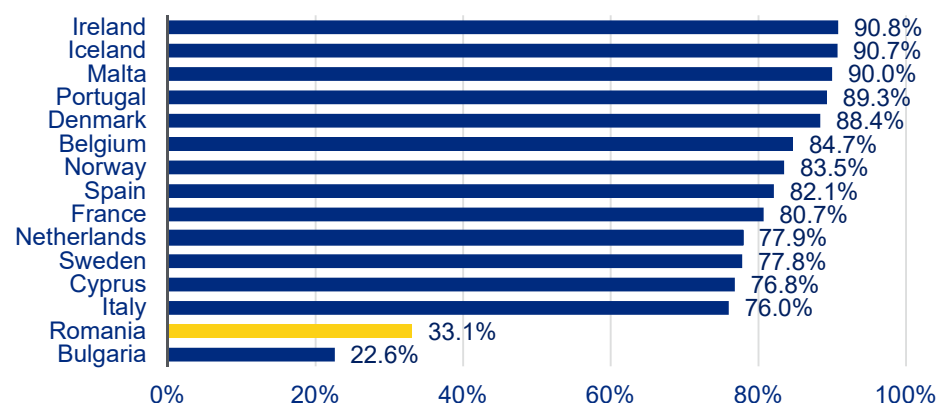
## Combined COVID-19 infection numbers as of September 27, 2021<sup>1</sup>:

Combined number of COVID-19 infections per 1 mn people:



## Full vaccination uptake as of September 27, 2021<sup>1</sup>

Full vaccination uptake among adults (18 years and above) in EU/EEA countries:



# Impact of Covid-19 on the Consolidated Budget 2020



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

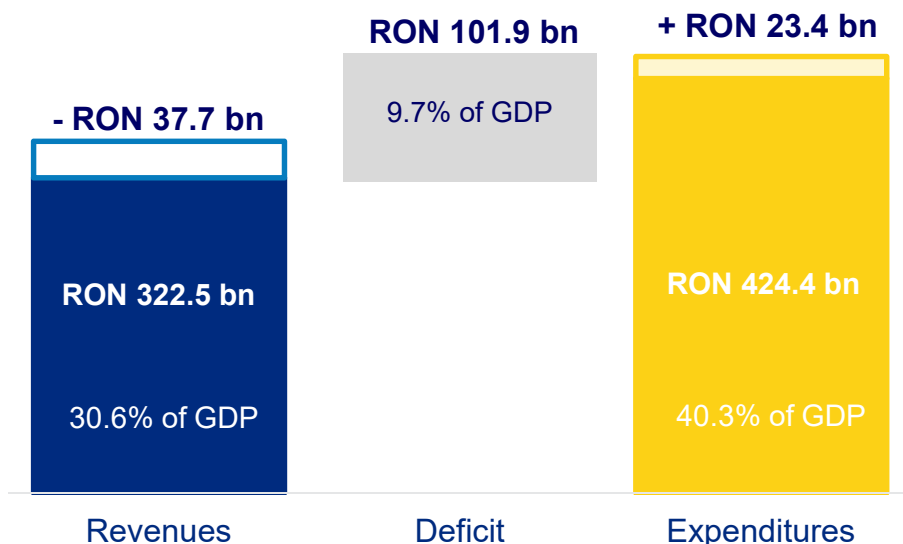
## Sustainable Fiscal Policy

## Prudent Public Debt Management

## EU Funding

- The budget for 2020 was significantly impacted by the COVID-19 pandemic, which decreased demand and internal and external trade.
- In the context of the **initially forecasted economic growth for 2020 of 4.1% of GDP**, the budget targets were set at:
  - the forecasted **revenues of 31.9% of GDP**,
  - **expenses of 35.5% of GDP**,
  - a target **government deficit of 3.6% of GDP** (compared to 4.6% of GDP in 2019).
- **April 2020** - The first budget amendment in 2020 was based on a macroeconomic forecast of the National Commission of Strategy and Prognosis („NCSP”), considering the measures, stimulating the economic growth and restricting the spread of the pandemic.
- **August 2020** – With the resurgence of Covid-19 pandemic in July, the second rectification was enacted through Government Emergency Ordinance to address the revision of GDP growth forecast, from negative 1.9% to negative 3.8% (real growth) and the need to reflect the additional measures taken in the public health, education and social protection sectors, as well as measures to limit the negative effects caused by the limitation or interruption of socio-economic activities in the budget.
- **November 2020** – One of the two main objectives of the third budget rectification was to ensure the necessary funding in the fields of health, social assistance and education. The main supplemented amounts considered the budget of the National Health Insurance Fund as well as the payment of active measures approved to combat the negative effects of the COVID-19 pandemic.

## Changes of the Consolidated Budget for the year 2020 due to Covid-19 Measures vs Initial Forecast



- The increase of the budgetary deficit by 6.1% of GDP, from 3.6% of GDP established during the initial budget construction for 2020 at 9.7% of GDP, incurred due to the:
  - Decrease of activity in the economic sectors affected by the COVID-19 pandemic and, as a result the decrease of the income tax revenues by 9.8% and the decrease of other taxes on income, profit and capital gains by 15.4% y-o-y;
  - Increase of social and investment expenditures and expenditures for supporting the economy in order to prevent and fight the effects of the COVID-19 pandemic. Expenditures on social assistance increased by 20.8% y-o-y, whereas the expenditures on goods and services increased by 7.0% determined mainly by additional payments for medicines, sanitary materials, reagents and other products necessary for diagnosing and treating patients infected with COVID-19.
- Key components of the revised deficit estimate included expenditures related to labour and social protection, health programs, SMEs support, local development, police force, agriculture and rural development, food safety, sanitizing measures, medical equipment, etc.



# Wide-Ranging Economic Stimuli Counter the Effect of the Pandemic



Overview

**Response  
to Covid-19**

Long Years of Uninterrupted  
GDP Growth

Sustainable Fiscal  
Policy

Prudent Public Debt  
Management

EU Funding

**Restarting the Economy After Covid-19 is a Key Priority for the Romanian Government and specific measures have been introduced to address the challenges and mitigate the effects of the crisis**



## Decisive Fiscal and Economic Measures for about 3% of 2019 GDP

- Increased funds allocated to the healthcare system
- The State pays 75% of the individual gross wage (with a cap) for technical unemployment, in case of employees affected by Covid-19
- Employees with suspended contracts receive for three months 41.5% of their gross basic salary from the unemployment insurance budget
- The State pays 50% of salaries of employees 16-29 years and >50 years old
- Wage benefits for parents staying home with children
- Corporate tax discount of 10% in Q1-Q3 2020, if tax is paid by 25 April 2020
- Property tax dues postponed by three months
- 2020 tax exemption for hospitality sector taxpayers with restricted activities
- Cancellation of interest and penalties for late fiscal dues and installments
- Faster VAT reimbursement and settling of negative VAT amounts as well as VAT exemption for supplies, imports and purchases of masks and equipment
- Debt moratorium of up to nine months (but no later than December 31, 2020) on loans for certain debtor categories, with incomes directly or indirectly affected by Covid-19
- Social security contributions delayed for affected companies
- Suspension of foreclosures affecting debtors with overdues
- RON 20 bn guarantees for loans of SME's and micro-enterprises: up to 80-90% of loan, with a cap. (For 2021 the guarantee ceiling is established at RON15 bn).
- Subsidised interest for investments and deferred utility bills of SMEs



## Response of the National Bank of Romania

### I. Monetary Policy Measures

- Monetary policy rate was cut from 2.50% to 1.25% (Jan.2021)
- The symmetrical corridor defined by interest rates on standing facilities around the monetary policy rate was narrowed to  $\pm 0.5$  percentage points from  $\pm 1.0$  percentage points. Thus:
  - the deposit facility rate was reduced successively to 0.75% from 1.50%
  - lending facility rate was lowered successively to 1.75% from 3.50%
- Leu-denominated government securities purchased on the secondary market
- Carried out repo operations, providing liquidity to credit institutions
- EUR 4.5 bn repo line with ECB for high-quality collateral activated

### II. Operational Measures

- Measures supporting the smooth functioning of settlements and payments in RON
- Credit institutions provided with continuous cash flow and liquidity
- Flexibility in the use of macroprudential capital buffers (temporarily, in line with similar action in other EU countries; except for institutions paying dividends)
- Liquidity coverage ratio < 1.0, if needed
- Recommendation to avoid dividend distribution or reduce capital
- Cap on pension funds' investments in government securities lifted till 2021
- IFRS reporting for non-financial institutions postponed from 2022 to 2023

Sources: National Bank of Romania, IMF



Series of support measures have been introduced by the European Commission and are available to Romania and other Member States

## Lines of EU Support and Implementation by the Ministry of Investments and European Projects

- EUR 3.1-3.9 bn in transfers from the EU budget to Romania (part of the EU Coronavirus Response Investment Initiative).
- Additional funds to be received from the SURE financial instrument (up to EUR 100 bn), the EU Solidarity Fund (in support of public expenditures on employment), the European Economic Recovery Fund and the EIB.
- Adoption of Government Emergency Ordinance (43/2020) treating EU financed support measures, i.e. expenses and costs covered via:

### Most Deprived OP<sup>1</sup>

- distribution of aid to affected individuals, elderly people, people with disabilities

### Large Infrastructure OP

- reimbursements for medical equipment, devices and related expenses

### Human Capital OP

- reimbursements of costs of staff in the social assistance sector
- reimbursements of monthly risk remunerations paid to doctors and medical staff
- reimbursements of compensations granted to Covid-19 hit businesses

### Measures Aimed at Increasing Funds' Absorption Flexibility and Avoiding Decommitment of Funds

- Launch of calls for proposals within the Coronavirus Response Investment Initiative
- Continuation, postponement or suspension of projects' implementation
- Increase of pre-financing from 10% to 30% of contract values
- Extension of pre-financing deadlines
- Extension of works' execution and reimbursement deadlines
- Suspension of various activities during the state of emergency: submission deadlines, execution of debt securities, monitoring visits
- Electronic registration of documents

### Administration of State Aid

- In line with the temporary state aid framework of the EU, the MIEP<sup>2</sup> is carrying out analysis of financial statements of relevant entities and will relocate funds within OPs to enhance financing measures, where needed

(1) Operational Programme; (2) Ministry of Investments and European Projects



**Long Years of Uninterrupted  
GDP Growth**

# Romania's Economy: Macroeconomic Indicators



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Macroeconomic Indicators</b>	<b>Estimate</b>									
Real GDP (% y-o-y)	2.0	3.8	3.6	3.0	4.7	7.3	4.5	4.1	(3.9)	7.0 <sup>f</sup>
Inflation rate (% , e.o.p.)	5.0	1.6	0.8	(0.9)	(0.5)	3.3	3.3	4.0	2.1	5.0 <sup>f</sup>
Inflation rate (% , annual average)	3.3	4.0	1.1	(0.6)	(1.5)	1.3	4.6	3.8	2.6	4.2 <sup>f</sup>
Budget balance (% GDP, cash)	(2.5)	(2.5)	(1.7)	(1.4)	(2.4)	(2.8)	(2.8)	(4.6) <sup>n</sup>	(9.7)	(7.2)
Budget balance (% GDP, ESA 2010)	(3.7)	(2.1)	(1.2)	(0.6)	(2.6)	(2.6)	(2.9)	(4.3) <sup>n</sup>	(9.2)	(8.2)
Government debt (% GDP, EU methodology)	37.1	37.6	39.2	37.8	37.3	35.1	34.7	35.3 <sup>o</sup>	47.3 <sup>r</sup>	49.1 <sup>g</sup>
Exports of goods (% , y-o-y)	(0.5)	10.0	6.7	4.9	6.2	9.6	8.1 <sup>s</sup>	2.0 <sup>p</sup>	(8.7) <sup>p</sup>	13.4 <sup>f</sup>
Current account balance (% GDP)	(5.0)	(0.9)	(0.3)	(0.8)	(1.6)	(3.1)	(4.6)	(4.9) <sup>p</sup>	(5.2) <sup>p</sup>	(5.5) <sup>f</sup>
<b>Interest And Exchange Rates</b>										
NBR policy rate (% , e.o.p)	5.25	4.0	2.75	1.75	1.75	1.75	2.50	2.50	1.50	1.25
Credit facility rate	9.25	7.00	5.25	3.25	3.25	2.75	3.50	3.50	2.00	1.75
Deposit facility rate	1.25	1.00	0.25	0.25	0.25	0.75	1.50	1.50	1.00	0.75
Average exchange rate (RON/EUR)	4.46	4.42	4.44	4.45	4.49	4.57	4.65	4.75	4.84	4.92 <sup>f</sup>
<b>Labor Market Indicators</b>										
ILO unemployment rate (%)	6.8	7.1	6.8	6.8	5.9	4.9	4.2	3.9	5.0	4.8 <sup>f</sup>

Source: NIS (For 2012-2018 data are according to Press Release No. 263 from 9 October 2020), for 2020 NIS (Preliminary autumn forecast for the budget amendment 2020), Budget Law no 50/2019, Fiscal Budgetary Strategy 2019-2020 (Ministry of Finance). NIS (Winter forecast 2021); Budget Law March 236/2021, Fiscal Budgetary Strategy 2020-2021 (Ministry of Finance).

Notes: Budget balance (% of GDP cash and ESA2010) for the 2018-2019 period is estimated at the moment of the 2018 Budget adoption. 2020 estimates are part of budget planning for 2020 and the medium-term. Revised 2013 – 2019 data in the context of common European benchmark revision 2019; (n) April 2020 EDP Notification; (o) Eurostat Newsletter no. 156/22.10.2020; (f) NCSP Summer Forecast, August 2021;

(g) The general government debt estimation due to the first budget rectification in 2021, approved by GEO no. 97/2021; (r) Eurostat Newsletter no.48/22.04.2021; (p) Provisional data.

# Growth Supported by Domestic Demand and Capital Formation



Overview

Response  
to Covid-19

Long Years of Uninterrupted  
GDP Growth

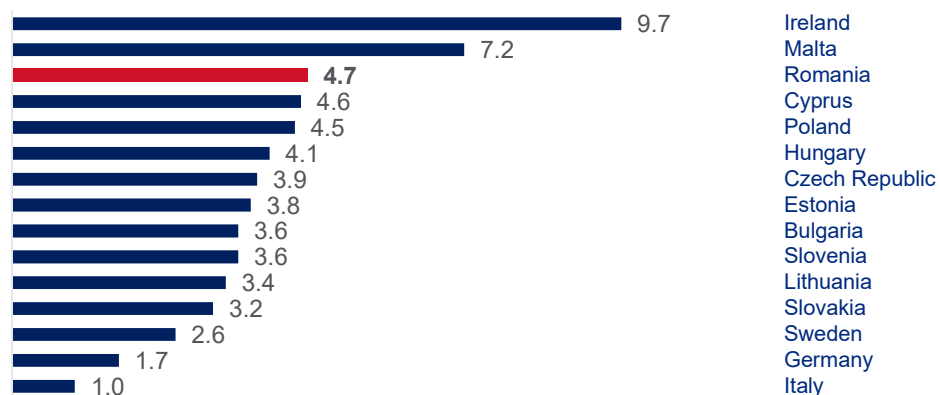
Sustainable Fiscal  
Policy

Prudent Public Debt  
Management

EU Funding

## Romania is One of the Fastest Growing Economies in the EU

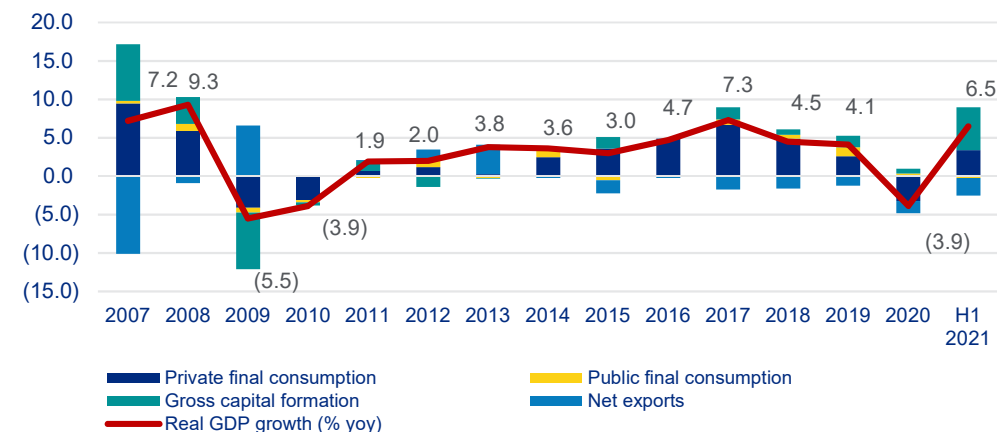
% GDP Growth, Average 2015–2019



Source: Eurostat

## GDP Growth is Underpinned by Domestic Demand

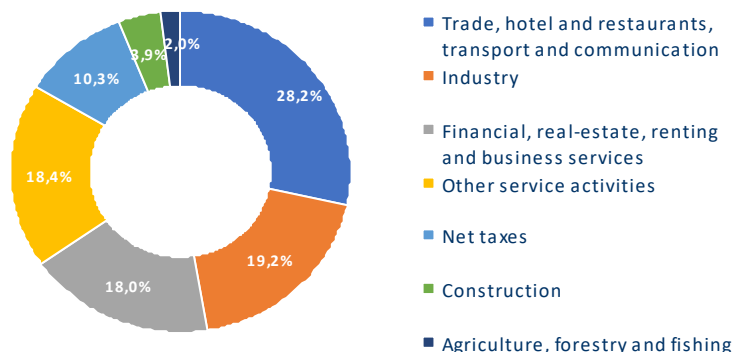
GDP Components, %



Source: NIS

## The Romanian Economy is Diversified

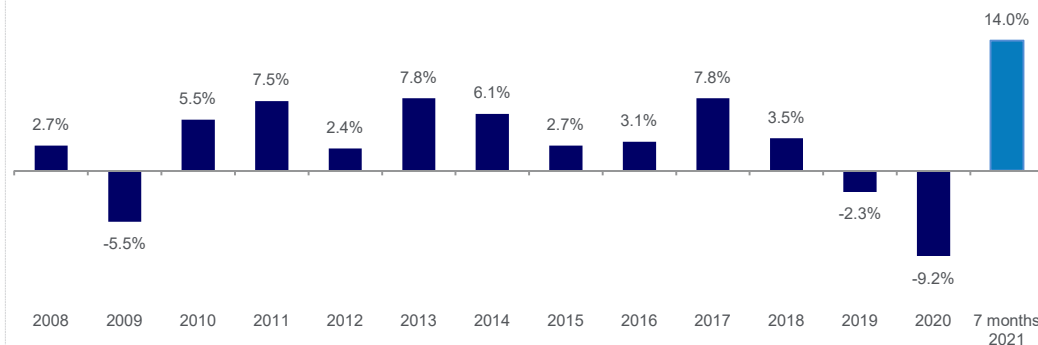
Structure of Gross Domestic Product by Sectors in H1 2021, %



Source: NIS

## Industry Slump Offset by Consumption and Capital Formation

Real Change in Industrial Production, y-o-y, (base year 2015)



Source: NIS

# Labour Market Conditions Supportive of Long-Term Growth



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

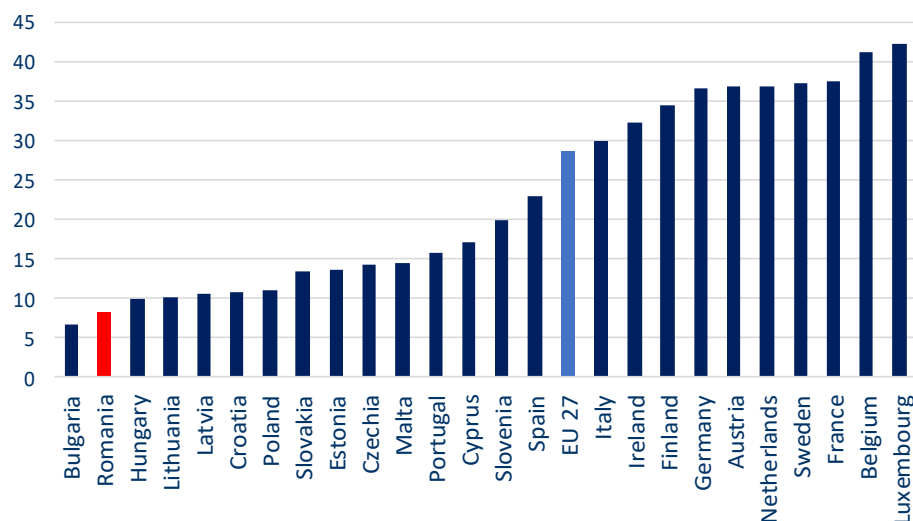
## Prudent Public Debt Management

## EU Funding

- Highly educated workforce as evidenced by the United Nations' Human Development Indicators 2020: skilled employees constitute 81.7% of the Romanian labour force and 70.7% of the population are internet users. The country ranked **#49 / #189**, according to the current Human Development Index.
- Romanian labour costs per hour remain among the most competitive in the EU.
- In July 2021, the EU implemented Covid-19 measures, influencing the unemployment in the Union. Romania's unemployment rate (ILO methodology) is nevertheless kept below the EU27 average and remains one of the lowest among the member states to date: 5.1% in July 2021.

## Labour Costs in Romania are Sustained at one of the Lowest Levels in the EU

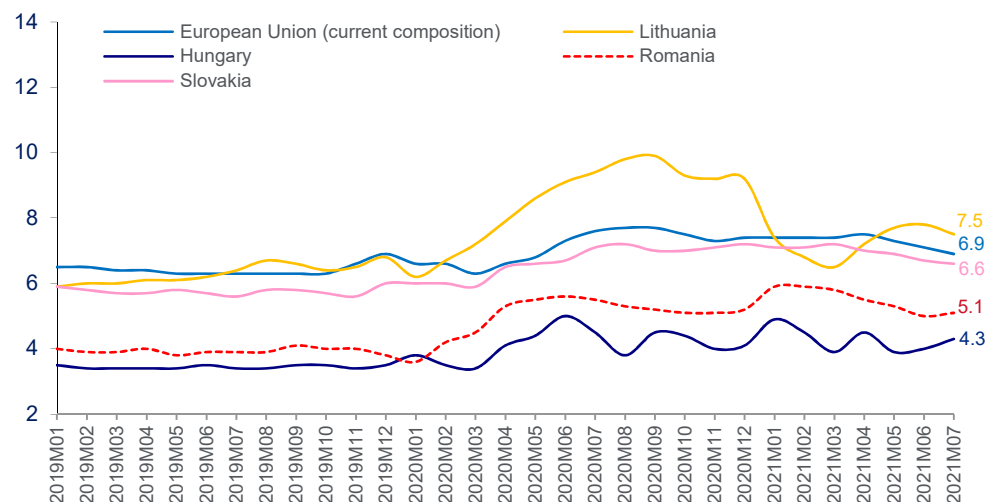
Annual data as of 2020, EUR



Source: Eurostat. Data according to ESA 2010 methodology

## Unemployment Rate Below the EU Average

Unemployment rate (monthly, seasonally adjusted), %



Source: Eurostat, ILO Methodology



## Sustainable Fiscal Policy



# 2020 Budget: Overview and Key Assumptions



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

## 2020 Budget Execution

- Revenues to the general consolidated budget, in the amount of RON 322.52 bn, increased by 0.4% in nominal terms compared to 2019.
  - Increase in the collection of: social contributions (+0.7%), personal income tax (+4.9%);
  - Decreases in the collection of: corporate income tax (-9.8%), excises (-2.4%), VAT (-7.0%), non-tax revenues (-9.8%);
  - Reimbursements from the EU amounted to RON 33.56 bn (+32.4% increase compared to the level registered in 2019).
- The expenditures of the general consolidated budget, in the amount of RON 424.43 bn, increased in nominal terms by 14.8% YoY compared to 2019.
  - Personnel expenditures increased by 7.5%;
  - Expenditures on goods and services increased by 7.0%, while the expenditure for social assistance increased by 20.8%;
  - Investment expenditure amounted to RON 53.2 bn, the largest amount invested in the economy in the last 10 years (RON 9.5 bn higher than in 2019). Subsidies expenditure amounted to RON 8.1 bn.

The execution of the general consolidated budget, during the period of 1 January 2020 to 31 December 2020, ended with a cash deficit of RON 101.92 bn, or 9.7% of GDP.

Macroeconomic Assumptions for the 2020 Budget	2020 August rectification	2020 November rectification
GDP (RON bn)	1,058.0	1,050.5
<b>Real Growth Rate (%)</b>	<b>-3.8</b>	<b>-4.2</b>
Inflation / end of year (%)	2.8	2.2
Inflation / annual average (%)	2.8	2.7
Average number of employees ('000s)	5,070	5,090
No. of unemployed persons registered as at the end of year ('000s)	338	320
- Rate of registered unemployment (%)	3.9	3.7
Gross average salary (RON / month)	5,114	5,160
Goods exports – growth rate (%)	-10.5	-10.3
Goods imports – growth rate (%)	-7.2	-6.6

Source: (1) Ministry of Finance – Report on the execution of the General Consolidated Budget as of 31 December 2020

# 2021 Budget: Overview and Key Assumptions



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

## The new measures that impact the budget spending in 2021 reflect a prudent budget policy

- Revenues to the general consolidated budget, were estimated at RON 364.9 bn (32.7% of GDP);
- Increasing the funds allocated for investments (from RON 53.1 bn in 2020 to RON 62.0 bn in 2021), reaching 5.5% of GDP;
- Recovery of some fiscal obligations declared and postponed to payment in 2020 by the effect of the law (GEO no. 29/2020);
- Increase of revenues from EU amounts by 1 percentage point relative to GDP;
- Measures to improve tax collection;
- Capitalization of 5G licenses;
- Supporting the business environment by continuing public guarantees programs (SME Invest, SME Leasing and SME Factor);
- Minimum wage increase to RON 2,300 starting 1 January 2021, representing an increase of 3.1% compared to December 2020.
- The expenditures of the general consolidated budget were estimated at RON 444.9 bn (39.8% of GDP);
- Starting with January 1, 2021, the amount of wages in the public sector are maintained at the level of December 2020;
- In 2021, the amount of bonuses, allowances and compensations are maintained at the level of December 2020 (e.g.: food allowance, merit allowance, etc.);
- In 2021 the public sector employees will not be granted holiday vouchers and awards. Holiday vouchers granted in 2019 and 2020 can still be used in 2021;
- Compensation of overtime for public sector employees only with appropriate free time;
- Students, up to 26 years old, will no longer have free access to local public transport, domestic car transport, domestic train and naval transport, but benefit from a 50% reduction of fares;
- Pension Law postpones the planned pensions increase to 2023 and 2024.

	Macroeconomic Assumptions for the 2021 Budget	First Budget Rectification - September 2021
GDP (RON bn)	1,116.8	1,174.9
<b>Real Growth Rate (%)</b>	<b>4.3</b>	<b>7.0</b>
Inflation / end of year (%)	2.5	5.0
Inflation / annual average (%)	2.4	4.2
Average number of employees ('000s)	5,158	5,162
No. of unemployed persons registered as at the end of year ('000s)	310	287
- Rate of registered unemployment (%)	3.6	3.3
Gross average salary (RON / month)	5,380	5,520
Goods exports – growth rate (%)	7.7	13.4
Goods imports – growth rate (%)	9.7	13.4

Source: Ministry of Finance, National Commission of Strategy and Prognosis



## August 2021 Budget Execution – Deficit of 3.35% of GDP

- Revenues to the general consolidated budget, in the amount of RON 240.81 billion (20.5% of GDP), increased by 19.6% in nominal terms compared to the same period of last year.
- Increases in the collection of: personal income tax (+15.7%), social security contributions (+13.7%), corporate income tax (+26.6%), excises (+16.6%) and non-tax revenues (+1.5%), YoY compared to the same period of last year.
- Revenues from VAT amounted to RON 49.6 billion in the first eight months of 2021 (41.2% more than the level recorded in the same period of last year).
- Reimbursements from the EU: RON 17.41 billion, more than 30.8% compared to the level registered in the same period of the previous year.
- The expenditures of the general consolidated budget, in the amount of RON 280.16 billion, increased in nominal terms by 9.4% YoY compared to the same period of last year.
  - Personnel expenditure increased by 2.6%, compared to the same period of last year.
  - Goods and services expenditures increased by 8.7%, while the expenditure for social assistance increased by 9.2%.
  - Subsidy expenditure amounted to RON 4.25 billion.
  - Expenditure on projects financed from non-reimbursable external funds (including subsidies from the European Union related to agriculture) amounted to RON 19.16 billion, 38.1% higher compared to the same period of last year.
  - Investment expenditure amounted to RON 30.19 billion, more than 25.2% compared to the level registered in the same period of the previous year.



## Prudent Public Debt Management



# Public Debt is on a Sustainable Path



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

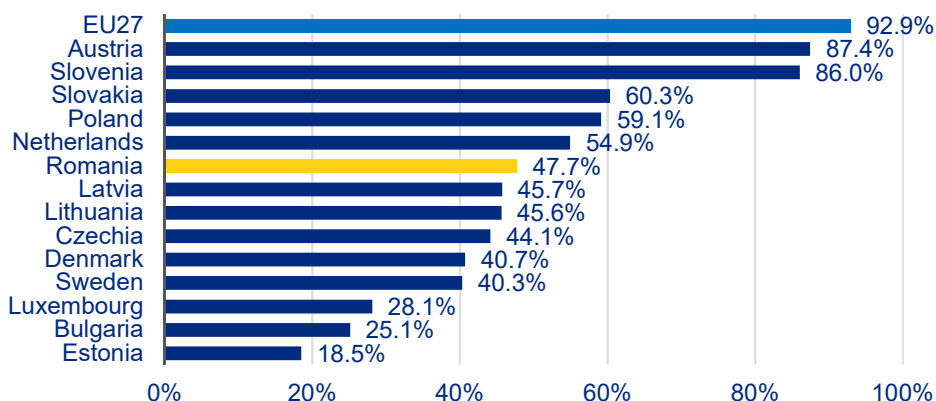
## Sustainable Fiscal Policy

## Prudent Public Debt Management

## EU Funding

### Romania has one of the lowest Debt / GDP Ratios in the EU

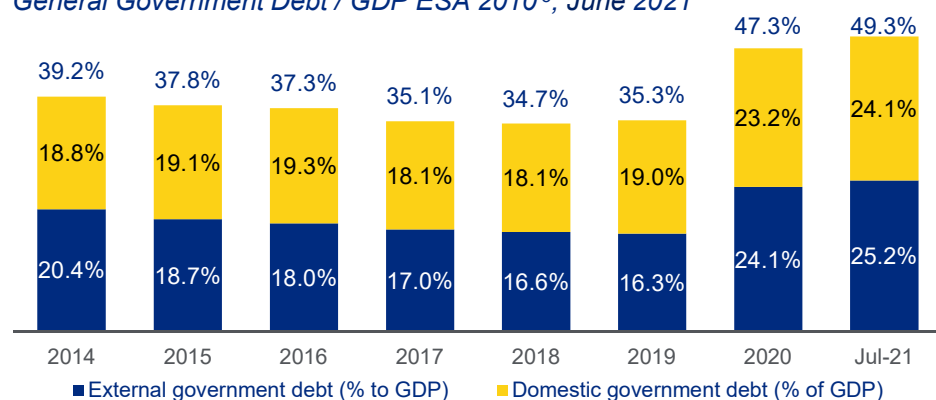
General Government Debt / GDP, Q1 2021



Source: Eurostat press release no. 84/22.07.2021

### Debt / GDP Ratio is Stable...

General Government Debt / GDP ESA 2010<sup>3</sup>, June 2021



Source: Ministry of Finance – (EU Methodology).

(1) Ministry of Finance (own calculation)

(2) Ministry of Finance - historical compilation of the Public Debt Bulletin and projection of the Ministry of Finance for 2021; Calculated as Gross government debt (EU Methodology) – Foreign currency buffer

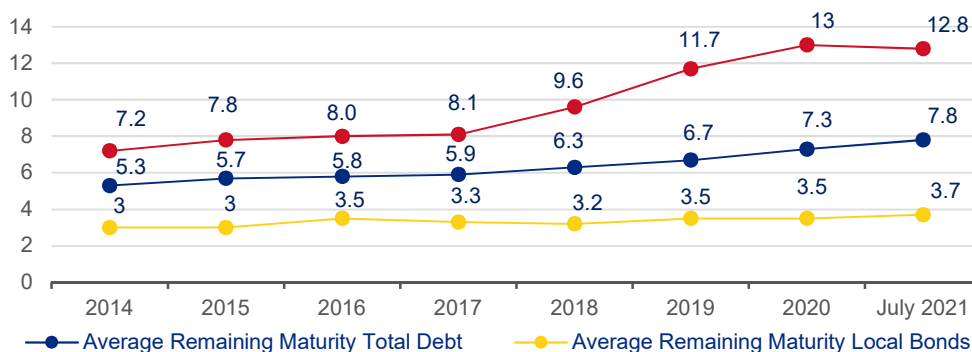
(3) Ministry of Finance - according to EU methodology, the debt to GDP ratio was calculated taking into consideration the sum of GDP for the last four quarters. Preliminary data for July 2021

(% of GDP)	2017	2018	2019	2020P	2021F
<b>Gross Financing Need, Out of which<sup>1</sup>:</b>					
– Budgetary Deficit	7.6%	7.4%	8.6%	14.1%	11.5%
– Refinancing of Public Debt <sup>1</sup>	4.8%	4.6%	4.0%	4.5%	4.4%
<b>Foreign Currency Buffer<sup>2</sup></b>	2.9%	2.6%	1.8%	3.1%	2.8%
<b>Net Government Debt<sup>2</sup></b>	32.2%	32.1%	33.5%	44.2%	46.3%

(P) Provisional. (F) Forecasted.

### ...with a Prudent Maturity Profile

Average Remaining Maturity in years



Source: Ministry of Finance (public government debt according to the national legislation, without temporary financing).

# Stable Government Borrowing Profile



## Overview

## Response to Covid-19

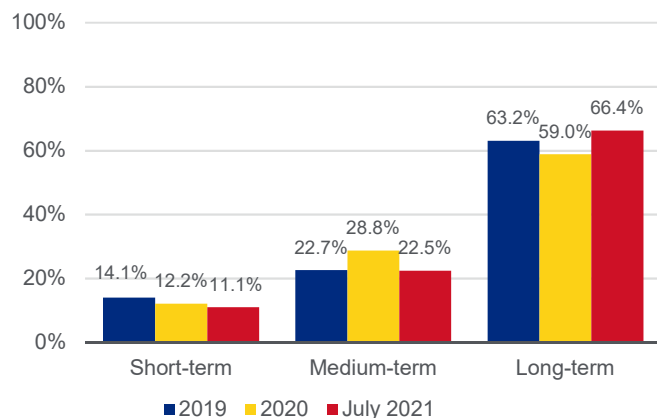
## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

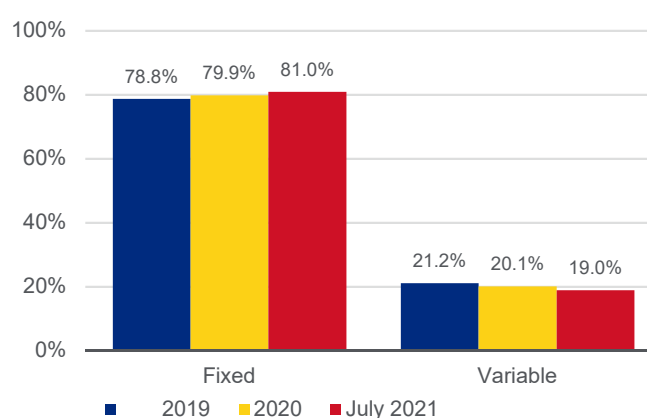
## Prudent Public Debt Management

## EU Funding

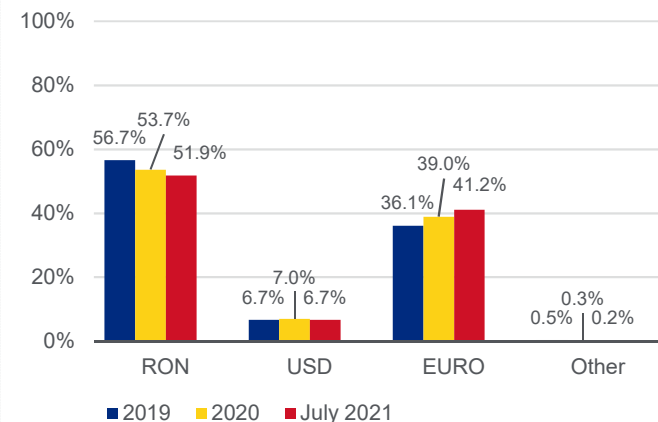
### Increasingly Long Tenor Borrowings...



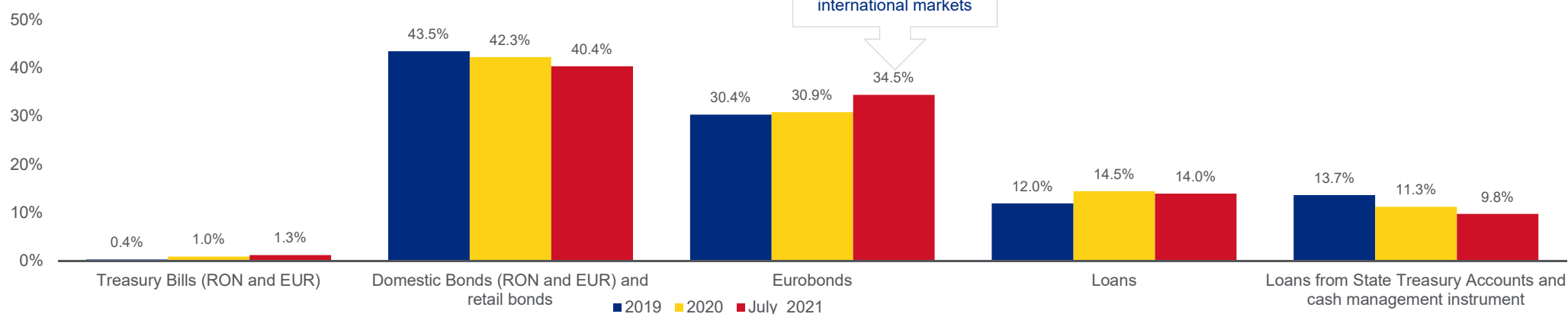
### ...Mostly Paying Fixed Interest...



### ...Primarily in RON and EUR...



### ...are Reinforced by a Stable Mix of Funding Instruments



Source: Ministry of Finance. Historical compilation of the Public Debt Bulletin, at the end of July 2021

Note: Based on national legislation.

# Investment Grade Ratings Underpin Strong Market Performance



## Overview

## Response to Covid-19

## Long Years of Uninterrupted GDP Growth

## Sustainable Fiscal Policy

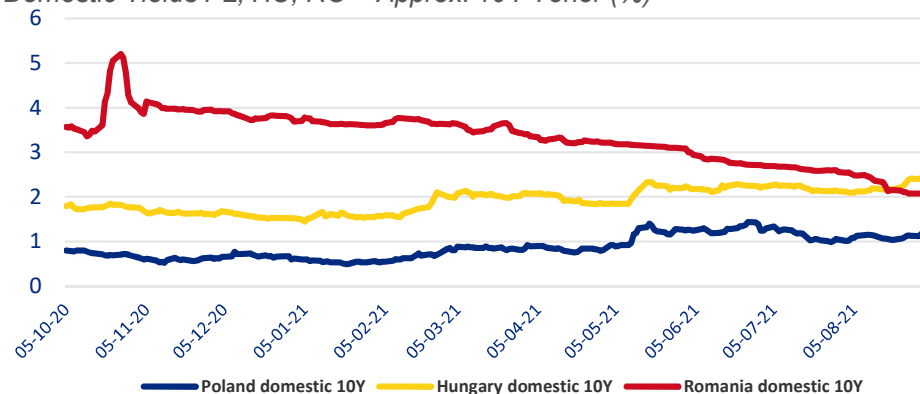
## Prudent Public Debt Management

## EU Funding

- After the first wave of COVID-19 pandemic from March 2020 to July 2020, Romanian domestic yields have been compressing given the improved general market sentiment.
- There was a slight correction in the second half of Q1 2021 in line with the interest rate developments globally and expected policy rate decisions of NBR.

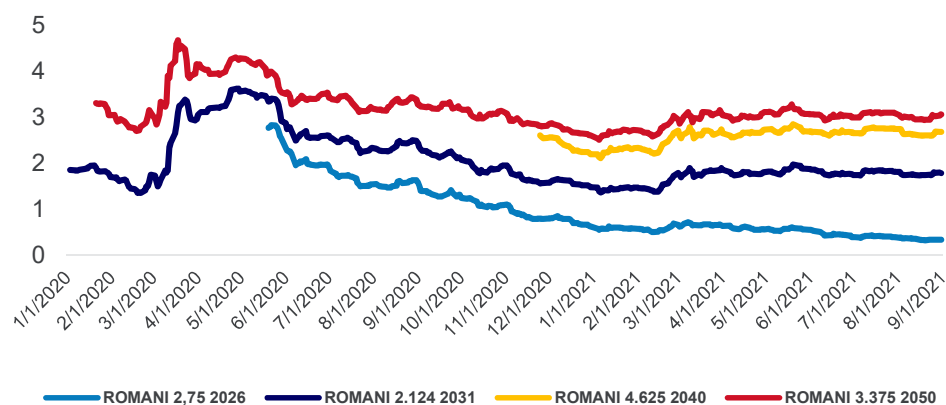
## Yields have been relatively stable, on Romania's domestic debt...

Domestic Yields PL, HU, RO – Approx. 10Y Tenor (%)



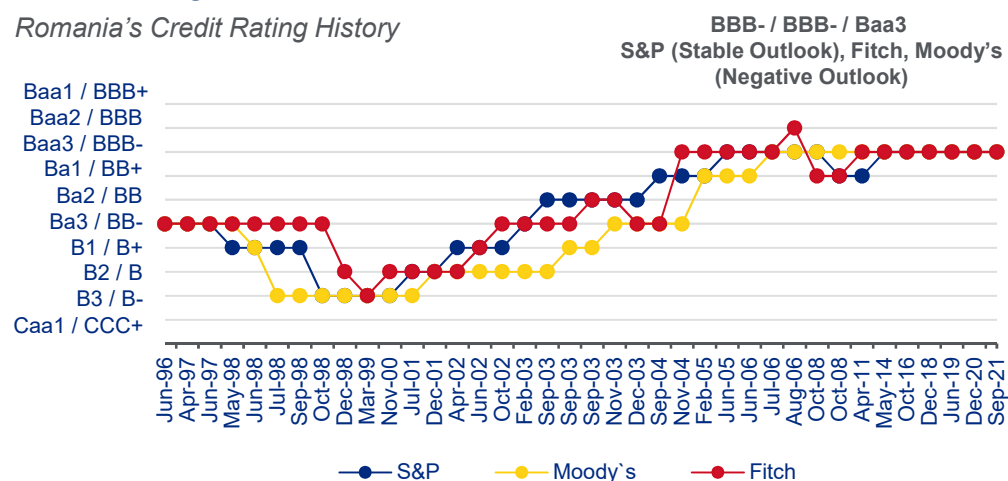
## ...and on its foreign debt

Bid Yields of Romanian Eurobonds, %



## Romania Regained Full Investment Grade Status in 2014

Romania's Credit Rating History



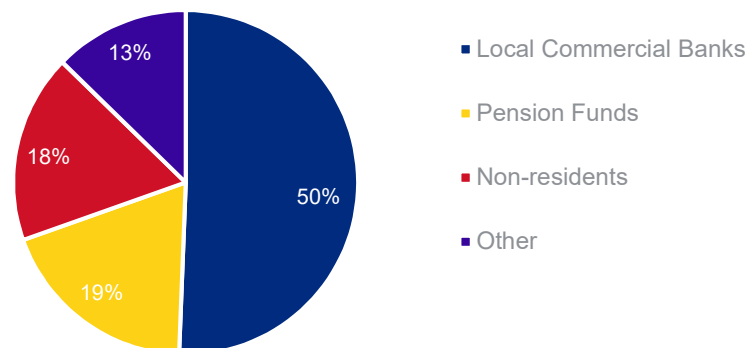
Source: Market data.



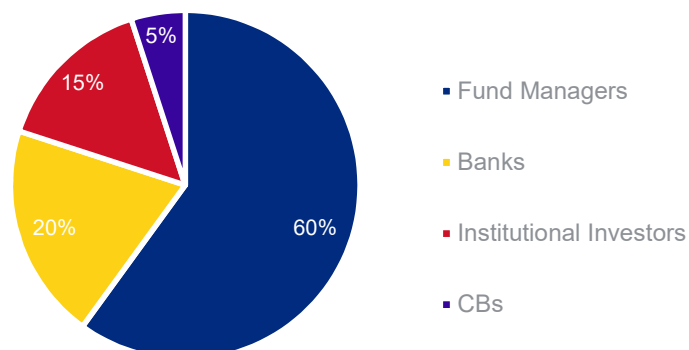
## Domestic Capital Markets Instruments

- On the domestic government securities market, Ministry of Finance intends to issue a wide range of maturities between 6 months and 15 years on the interbank market, building liquid benchmarks to an equivalent of about EUR 2.5 bn.
- In 2021 Ministry of Finance will continue to issue retail bonds with 1 to 5 years maturity via treasury offices, postal units and banks. This year Ministry of Finance has also issued retail bonds via the Bucharest Stock Exchange in EUR and local currency.

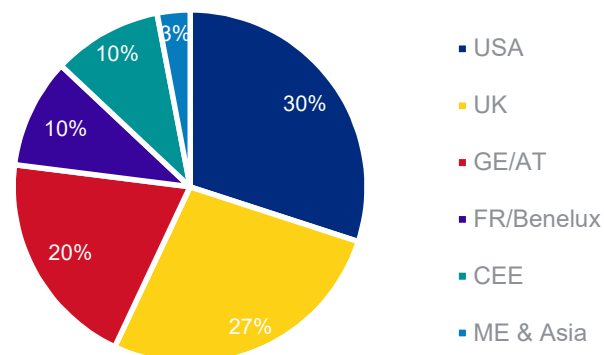
## Holders of domestic market government securities<sup>(1)</sup>



## Average Eurobonds Distribution by Investor Type<sup>(2)</sup>



## Average Eurobonds Distribution by Geography<sup>(2)</sup>



Note: statistics for longer tenors, 10Y+

(1) Source: Ministry of Finance. Public Debt Bulletin, end of July 2021

(2) Source: Ministry of Finance (own calculation).

# Prudent Debt Management Policy



Overview

Response  
to Covid-19

Long Years of Uninterrupted  
GDP Growth

Sustainable Fiscal  
Policy

Prudent Public Debt  
Management

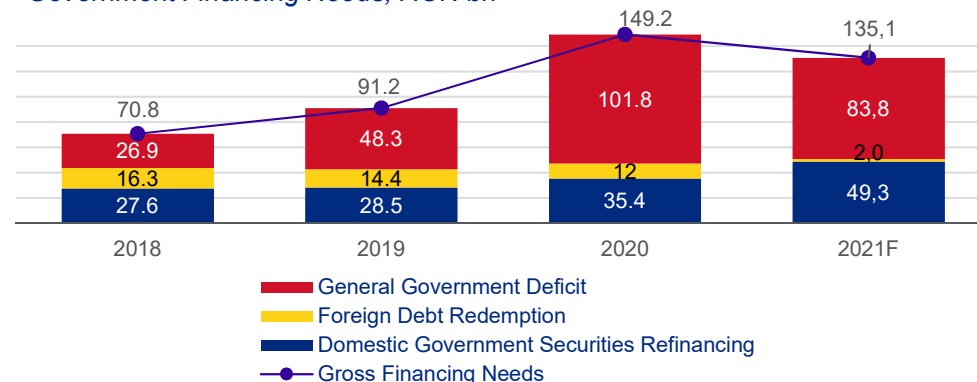
EU Funding

## Romania Enjoys Robust Market Access

- Romania's funding sources are well diversified:
  - Domestic market** via RON and EUR government securities issued on the interbank market and retail government securities;
  - External market** (Eurobonds, Institutional Loans from IFIs and government agencies).
- A hard currency buffer has been built up to cover up to four months of gross financing needs.
- As a result of the Covid-19 pandemic measures introduced in Romania, the total government financing needs for 2020 were revised from RON 86.9 bn to about RON 149.2 bn. The Government financed the gap via RON 101.8 bn domestic market issuance and EUR 12 bn from the foreign market, by issuing Eurobonds and loans, including EC loan (SURE). For 2021, the government financing needs are estimated at RON 135.1 bn.

## Financing Needs

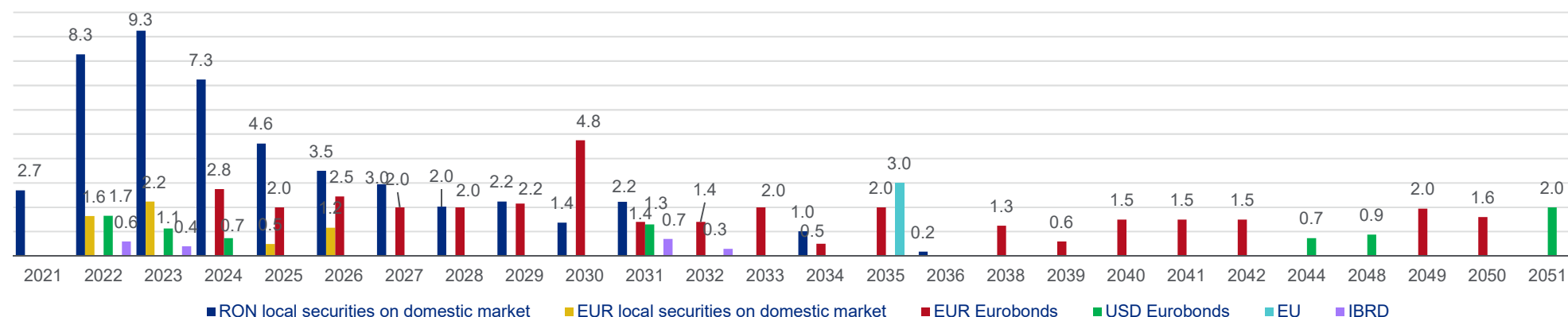
Government Financing Needs, RON bn



Source: Ministry of Finance (own calculation),

## Government Debt Maturity Structure is Well Distributed across a Long Horizon

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



Source: Ministry of Finance. Data as of August 31, 2021.

# Prudent Debt Management Policy (Cont'd)



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

## Sovereign Debt Risk Management Targets

	Parameters <sup>1</sup>	Levels as of July 31, 2021	Levels as of December 31, 2020	Indicative Targeted Min / Max Ranges (2021–2023) <sup>2</sup>
Currency Risk	■ Share of domestic currency debt, % of total	46.7	47.9	45 (Min) – 60
	■ Share of EUR debt out of total foreign-currency denominated debt, %	85.6	84.2	80 (Min) – 95
Refinancing Risk	■ Debt maturing in one year, % of total	8.0	10.0	10 – 20 (Max)
	■ Local currency debt maturing in one year, % of total	13.00	16.0	15 – 25 (Max)
	■ ATM <sup>3</sup> for total debt, years	7.8	7.3	7.0 (Min) – 8.5
	■ ATM <sup>3</sup> for local currency debt, years	4.2	4.2	4.0 (Min) – 6.0
Interest Rate Risk	■ Debt re-fixing in one year, % of total	9.0	12.0	10 – 20 (Max)
	■ Local currency debt re-fixing in one year, % of total	12.0	15.0	15 – 25 (Max)
	■ ATR <sup>4</sup> for total debt, years	7.8	7.4	7.0 (Min) – 8.5
	■ ATR <sup>4</sup> for local currency debt, years	4.2	4.2	4.0 (Min) – 6.0

## Objectives of the Debt Management Strategy

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

## Strategic Guidelines During 2021–2023

- The net financing mainly in local currency is as a move to further facilitate the development of the domestic market of government securities and help mitigate foreign currency exposure, at the same time considering the domestic market absorption capacity and, in general, the demand for debt instruments denominated in lei, as well as the need for a further diversification of the investor base of government securities.
- Pursue a smooth redemption profile, avoiding to the extent possible the concentration of principal repayments/refinancing of government securities in the short-term.
- Mitigate the refinancing risk and the liquidity risk by maintaining a foreign currency buffer at a comfortable level and possibly by using other instruments depending on the terms and conditions thereof.
- Maintain a presence on the international capital markets, through issuances of Eurobonds mainly in Euro and access the USD market or other foreign currency markets on an opportunistic basis, giving consideration to the extension of the debt portfolio average maturity and taking into account the cost/risk ratio associated thereto and the diversification of the investment base, under the conditions of using financial derivatives (currency swap) after the conclusion of the specific documentation with eligible counterparties.
- In the implementation of the financing plan, the issuance of green bonds is considered, depending on the completion of the Green Bond Framework.
- The euro issuances on the domestic market will be considered only if there is a special demand from domestic investors at medium maturities, depending on market conditions and the appetite manifested by the investment environment, provided that there is a beneficial maturity/cost ratio.
- Maintain the exposure to interest rate risk under control by monitoring the share of domestic debt re-fixing within the next year and the average time to re-fix for the total portfolio.
- The use of financing instruments offered by international financing institutions to benefit from the favorable terms and conditions attached to those instruments.

(1) Relates to government public debt according to national legislation excluding temporary financing; (2) Risk indicators presented 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 2021–2023; The Debt Management Strategy 2021–2023 was approved in May 2021; (3) ATM – average time to maturity; (4) ATR – average time to re-fixing.



**EU Funding**



# EU Funds Absorption has Accelerated in the Past Years



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

Operational Program	Development Objective	Allocation 2007–2013	Absorption Rate (Amount Requested to EC) (%)							
			Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	August 2021
		EUR bn	%	%	%	%	%	%	%	%
<b>RO Program<sup>(1)</sup></b>	Economic, social, balanced and sustainable regional development	3.71	57	64	85	93	100	100	100	100
<b>SOP<sup>(2)</sup> Environment</b>	Protect and improve the environment and living standards	3.98	42	62	79	84	94	94	94	94
<b>SOP Transport</b>	Modernization and development of European priority transport axes within Romania and the national transport infrastructure as a whole	3.76	57	62	77	81	92	92	92	92
<b>SOP Increase of Economic Competitiveness</b>	Fostering growth towards a knowledge-based economy	2.54	57	76	105 <sup>3</sup>	100	100	100	100	100
<b>SOP Human Resources Development</b>	Open, knowledge-based society through provision of conditions facilitating human resources development	3.20	47	55	73	91	91	91	91	91
<b>OP Administrative Capacity Development</b>	Help increase the responsiveness of Romania's public administration and judicial system	0.21	72	89	99	100	100	100	100	100
<b>OP Technical Assistance</b>	Strengthening the capacity of beneficiaries to prepare and implement EU financed projects	0.17	55	81	113 <sup>3</sup>	100	100	100	100	100
<b>Total</b>		<b>17.57<sup>4</sup></b>	<b>52</b>	<b>63</b>	<b>83</b>	<b>89</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>

- To assure the highest level of absorption, Romania implemented the following 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 were submitted by the Member States up to March 31, 2017.

(1) Abbreviations: Regional Operational; (2) Abbreviations: Sectoral Operational Program; (3) Includes amount requested through top-up mechanism; (4) The 2007–2013 allocation was modified due to the amounts decommitted.

Source: Ministry of Investments and European Projects

# EU Funds Absorption under the 2014–2020 Programming Period



Overview	Response to Covid-19	Long Years of Uninterrupted GDP Growth	Sustainable Fiscal Policy	Prudent Public Debt Management	EU Funding
----------	----------------------	--	---------------------------	--------------------------------	------------

Operational Program	Funds Allocated, EUR bn	Absorption Rate (Amount Requested to EC) (%)						
		Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	August 2021
OP Technical Assistance	0.33	0	0	23.28	37.29	56.90	59.92	65.83
OP Competitiveness	1.83	0	0	6.48	17.01	25.38	23.31	28.78
OP Human Capital (including Youth Employment Initiative: EUR 0.11bn)	4.36	0	0	0.09	14.87	25.28	43.00	49.50
OP Administrative Capacity	0.56	0	0	4.15	12.95	23.23	33.56	40.70
OP Large Infrastructure	9.12	0	0	10.13	17.77	25.24	38.85	47.78
OP Regional	6.86	0	0	0.41	12.78	22.86	34.86	43.03
OP for SME's Initiative*	0.10	0	0	93.09	-	-	-	-
OP's for European Territorial Cooperation	0.48	0	0.54	1.76	9.56	21.19	33.27	45.99
OP Aid for the Most Deprived**	0.44	0	0.97	17.37	17.35	30.27	48.24	39.55
<b>Total</b>	<b>23.98</b>	<b>0</b>	<b>0.02</b>	<b>5.62</b>	<b>15.65</b>	<b>24.87</b>	<b>37.48</b>	<b>45.18</b>

- Cohesion funds are aimed at reducing disparities between the various regions and the lags of the least-favoured regions;
- Aside from cohesion funds, during the 2014–2020 period, Romania has additional available financings of approx. EUR 22 bn, under the Common Agricultural Policy;
- At 31<sup>st</sup> of August 2021, the total amounts received from the European Commission, pre-financing and reimbursements related to the operational programs financed by the ESIF and Fund for European Aid to the Most Deprived (FEAD), are at approx. EUR 18 bn (17.8 bn ESIF and 0.2 bn FEAD), which means. 52% of the EU allocation for these programs (about EUR 34.6 bn).

## Increased Focus on Controls

- **Performance Oriented:** There is a monitoring framework, including milestones and specific targets corresponding to each operational programme
  - Their completion is verified for 2018 and 2023
- **Improving efficiency of EU funds spending:** the EC is putting in place performance reserves in amounts ranging between 5 and 7% of (most of) the allocations under each priority within the operational programmes
  - The performance reserve amounts were 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

**As of 31 August 2021, Romania ranked 7<sup>th</sup> among the 27 Member States, in absolute values of EU funds received.  
The contracting rate of 144% creates a prerequisite for an increase in the absorption rate in the upcoming period.**

Note: The allocations for 2014-2020 OP's were modified according to the last versions of the approved operational programmes. Consequently, some percentages have been diminished.

\* The OP for SME's Initiative was included in the OP Regional by EC approval from 16.10.2018. \*\*OP AD – the percentage decreased due to the revision of some amounts

Source: Ministry of Investments and European Projects



- **Next generation EU (NGEU)** is a new, temporary and exceptional instrument, intended exclusively to support Member States in recovering from the crisis.
- The **total value of this instrument is 750 bn euro**, of which 390 bn euro will be provided to Member States in the form of grants and 360 bn euro in the form of loans.
- Through the NGEU, a number of programs and instruments will be additionally funded to complement the allocations in the European budget, with a **focus on financing investments and reforms that will increase the resilience of the Member States and the Union.**
- All of the money raised through Next Generation EU and the new EU budget will be channeled through EU programs, across three pillars:
  - **The first pillar is support to Member States** for investment and reforms to address the crisis, by:
    - Recovery and Resilience Facility (RRF), who will support Member States to implement investments and reforms that are essential for a sustainable recovery.
    - REACT-EU, who will provide a top-up for cohesion support to Member States. This will be available from 2020 and will support workers and SMEs, health systems and the green and digital transitions and will be available across various sectors – from tourism to culture.
  - **The second pillar is about** kick-starting the EU economy by incentivizing private investment:
    - InvestEU
  - **The third pillar** is about learning the lessons of the crisis.
- According to the Multiannual Financial Framework (MFF) agreement for 2021-2027, this is an ambitious and comprehensive package combining the classical MFF with an extraordinary Recovery effort destined to tackle the effects of an unprecedented crisis in the best interest of the EU. The MFF, reinforced by Next Generation EU, will be **the main European tool for EU recovery.**

Operational Programs under NGEU:	Funds Allocated, EUR bn
Recovery and Resilience Facility	672.25
ReactEU	47.5
Horizon Europe	5
InvestEU	5.6
European Agricultural Fund for Rural Development	7.5
Just Transition Fund	10
RescEU	1.9
<b>Total</b>	<b>750</b>

# MFF 2021 – 2027 & Next Generation EU



Overview

Response  
to Covid-19

Long Years of Uninterrupted  
GDP Growth

Sustainable Fiscal  
Policy

Prudent Public Debt  
Management

EU Funding

- The next **EU Multiannual Financial Framework (“MFF”)**, along with the new recovery instrument **Next Generation EU (“NGEU”)** are expected to play a central role in Romania’s economic recovery.

MFF 2021-2027 <sup>(1)</sup>		Next Generation EU (NGEU) <sup>(1)</sup>	
Cohesion Policy	EUR 29.2 bn	<b>Recovery and Resilience Facility (RRF)</b>	EUR 29,2 bn: (EUR 14,2 bn in form of grants, EUR 14.9 bn in form of loans)
Common Agricultural Policy	EUR 20.7 bn	REACT-EU	EUR 1.3 bn (p)
Just Transition Fund (EU Green Deal)	EUR 0.9 bn*	Just Transition Fund	EUR 1.2 bn (p)
		European Agricultural Fund for Rural Development	EUR 0.7 bn
<b>Total MFF</b>	<b>EUR 49.9 bn</b>	<b>Total NGEU</b>	<b>EUR 32.4 bn</b>
<b>Total allocated EU Funds</b>		<b>~ EUR 82.3 bn (p)**</b>	

- The **NGEU amount** represents 4%<sup>(2)</sup> of the total value of this fund, Romania receiving the **5<sup>th</sup> highest allocation of all EU member states**.
- Favorable implementation conditions for the new resources available from NGEU, regarding the possibility to allocate, **in 2021, a pre-financing amount of 10% for the funds from the Recovery and Resilience Facility (RRF)** (the most consistent instrument in terms of allocations).
- Romania submitted its National Plan on 31 May, 2021 and it was formally approved by the EC on **27 September, 2021**. **Romania aims to access the full RRF allocation of 29.2 billion euro** by its Recovery and Resilience Plan, with grants in focus in the first stage and then by loans in order to fulfill its component programs of the National Plan:
  - 70% of this amount is available for contracting in the period 2021-2022,
  - 30% being available in 2023 to be engaged until the end of that year.
- Through the NGEU, Romania intends **to address investment needs in the private sector** by providing grants and support programs. The decision aims to ensure working capital measures, by financing
  - investment needs,
  - economic growth measures,
  - companies digitalization schemes and
  - measures to support employment growth.

(1) Current prices; 2) According to current prices the total NGEU envelope amounts to EUR 808 billion; \*included in the Cohesion Policy amount; \*\*(p) Provisional data

Source: Ministry of Investments and European Projects, Ministry of Finance



**Thank you!**

