Romania

September 2017

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Agenda

Romania’s Profile

Key Features of Romania's Credit Profile

Strong Macroeconomic Framework

- Romania had one of the highest growth rates in the EU during the last decade: the average GDP growth between 2004 and 2016 was 3.4% and during 2013-2016 was 3.8%.
- 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.
- In 2016 real GDP growth was the highest in the EU, at 4.8% driven by:
  - On the demand side: private consumption of households (+7.3% YoY) and collective final consumption expenditure of General Government (+3.3% YoY);
  - On the supply side: all sectors except agriculture contributed to GDP growth, led by information and communication (+13.8% YoY), wholesale and retail (+11.3% YoY) and professional, scientific and technical activities (+7.9% YoY).
- The forecasted GDP growth for 2017 is 5.6%, and preliminary data on H1 2017 shows a 5.8% growth YoY.

Well capitalized and liquid banking sector

- Comfortably high levels of provisioning for NPLs. NPL ratio(1) showed a sustained downward trend (21.5% in September 2014 to 11.0% in July 2016 and 9.04% in May 2017).
- No public funds used to bail out local banks.
- Very well capitalized banking sector, with an average total capital (solvency) ratio of 19.8% as of Mar 2017.
- Stable exchange rate.

Improving financial sector

- FDI increased by 19.4% in 2016, and decreased by 13.3% in H1 2017.
- There is a constant decrease in the amount of foreign currency denominated deposits and loans.

Low Public Debt

- Public Debt to GDP ratio of 36.9% at end of July 2017, and 37.6% as of year-end 2016 (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 (stable outlook) and BBB from JCRA.

Notes: (1) Under the EBA Methodology. The same observation applies to data under the national methodology.
(2) 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 process 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 EU Member States.

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

Investment Opportunities in Romania

Availability of qualified workforce	▪ The number of software developers is estimated to top 100,000 until 2018, with a growth rate of 7,000 graduates annually; Approximately 26% of the total annual graduates are in technical fields, while around 10% of the annual graduates are in medical sciences and roughly 28% are in Biology, Chemistry or Mathematics.
Availability of local business partners and suppliers	▪ The number of start-ups and blue chips companies is increasing, including the niche fields in which they are operating; ▪ Aside from the two car producing companies there are over 600 companies which supply car components and parts; ▪ There are over 32 companies operating in the aerospace and other transport services, providing R&D as well as components.
Labor costs	▪ Software development costs are the lowest in the EU at 39 USD/hour; ▪ Manufacturing costs are among the lowest in Europe at 5 EUR/hour, compared to the European average of 25 EUR/hour.
Internet and IT infrastructure	▪ Romania ranked 2nd in the EU and 12th globally for peak internet connection speed with 95 Mbps according to Akamai Report – State of the Internet in Q1 2017 (in Q3 2016 Romania ranked 1st in the EU).
Access to grants and investment stimulus	▪ Romania has a state aid policy favorable for investors, based on 2 main schemes (one for stimulating employment and one for stimulating investments with a major impact in the economy); the cumulated budget allocated for these schemes amounts to EUR 1.5 bn.
Access to European market	▪ Around 80% of the local software and IT services production is exported, a significant part of it in the EU; ▪ Automobile exports amount to approximately 25% of total exports, mainly to Germany, Austria, France and Italy; ▪ Romania exports EUR 1.6 bn. worth of equipment mainly to the EU.
Fiscal policy	▪ The fiscal policy is oriented to support demand: Romania has one of the lowest single rate tax in the region and EU28 (16%, 3rd in the EU); IT&C and R&D employees are exempted from income tax; reinvested profit is not taxed; investors which start industrial parks, production locations, scientific or technological parks are exempted from land, construction and urban tax; dividend tax is 5%; average taxes are below EU average.

Meets all nominal convergence criteria

Convergence Criteria	Maastricht requirements	Romania
Inflation rate (HICP) (%, annual average)	≤ 1.5 pp above the average of the three best-performing EU Member States[(1)] (0.2% at July 2017)	0.3 (July 2017)
General government deficit (% of GDP)[(2)]	≤ 3%	3.0
Government debt (% of GDP)[(2)]	≤ 60%	37.6
Exchange rate vs the euro[(3)] (2-year maximum percentage change)	± 15%	+0.8/-3.5 (July 2017)
Long-term interest rates (% p.a., annual average)	≤ 2 pp above the average of the three best-performing EU Member States in terms of price stability (2.1% at July 2017)	3.6 (July 2017)

Notes: (1) The reference value for July 2017 was calculated by taking into account Bulgaria, Ireland and Romania.
(2) 2016, ESA 2010 methodology.
(3) Maximum percentage changes in the exchange rate versus the euro during August 2015 – July 2017. Calculations are based on daily data series, by reference to the average for July 2015.
Source: Eurostat, NBR calculations

National Development Bank

- Supporting a sustainable development and addressing the market failures and funding gaps by funding viable projects in the economy (bank-like instruments - lending and guarantees);
- Following Romanian Government's request EC has approved recently the funding under SRSS (Structural Reform Support Service) of consultancy services in order to perform an ex-ante analysis of market failures in Romania and assist Romanian Government in designing the institutional structure and the business plan for a National Development Bank;
- According to the time schedule the legislative framework for the newly created development bank will be developed in the first semester of 2018 while the business plan will follow in the second part of the year.

Sovereign Development and Investment Fund (FSDI)

- Will invest in profitable and sustainable projects (mostly through equity instruments) either directly or indirectly with the objective of reaching a multiplying effect by leveraging available financial resources from the domestic and external markets;
- The Ministry of Public Finance has launched recently the public consultation on the draft legislation to create the FSDI;
- By the end of September the draft legislation will be submitted for Government approval and then to the Parliament for its adoption;
- Early 2018 - establishment of the Fund.

Sovereign Development and Investment Fund (FSDI) – Objectives and Benefits

Objectives

- Manage the share of the state in profitable companies from various economic sectors;
- Develop and finance profitable and sustainable investment projects, to mobilize resources from the market using own funds and borrowed funds, by direct participation or through other investment funds or investment companies;
- Manage the financial assets at its disposal, in order to be profitable.

Benefits

- creating sustainable funding sources to support the implementation of projects in diverse economic areas based on economic profitability and financial sustainability;
- an efficient catalyst role to attract private funds (banks, pension funds, investment funds) which, together with their own funds, will finance the investment projects with an economic multiplier effect;
- supporting Romania's efforts to achieve the emerging market position for the domestic capital market by increasing its liquidity following the listing on the Bucharest Stock Exchange and AERO of the companies in the FSDI's portfolio;
- increasing the absorption of European non-reimbursable funds by participating in financing investment projects together with other local and international financial institutions.

Sovereign Development and Investment Fund (FSDI) – Characteristics

Fund Structure

- FSDI will be created as a financial intermediation company with sole shareholder the Romanian state throughout its lifetime. The regulation, the strategy and the activity of the FSDI will be subject to the budget deficit and government debt EU rules to maintain the classification of FSDI outside of general government sector, during its lifetime.

FSDI's Own Funds (Equity)

- State-owned shares in several profitable companies that will be included in the FSDI's portfolio as well as a cash contribution of around RON 1,850 million. The share packages are transferred into FSDI's property and it can freely dispose of them as its own assets. FSDI will not be able to alienate in any way these shares if it loses its position as majority shareholder of the company in question. Cash payments will be paid within a 3 years period from the setting up, based on FSDI's needs.

Governance

- The FSDI will be managed in a dual system, by a Supervisory Board and an Executive Board, in an independent manner, in accordance with its constitutive act and its investment policy, in order to obtain profits under market conditions by acquiring assets and liabilities and assuming the risks associated with such commercial activities within the limits of the investment strategy approved by the shareholder;
- The Romanian State, through the MPF, will approve the investment strategy and investment plan, but asset and liability management will be done independently by the FSDI management;
- According to FSDI's regulation, the Fund will observe the best governance principles of sovereign wealth funds (the Santiago Principles);
- The Supervisory Board will be appointed on a competitive basis. The first members of the Supervisory Board are appointed through the Government Decision with the mandate to appoint the Executive Board and organize the FSDI's activity.

Sovereign Development and Investment Fund (FSDI) – Characteristics (cont'd)

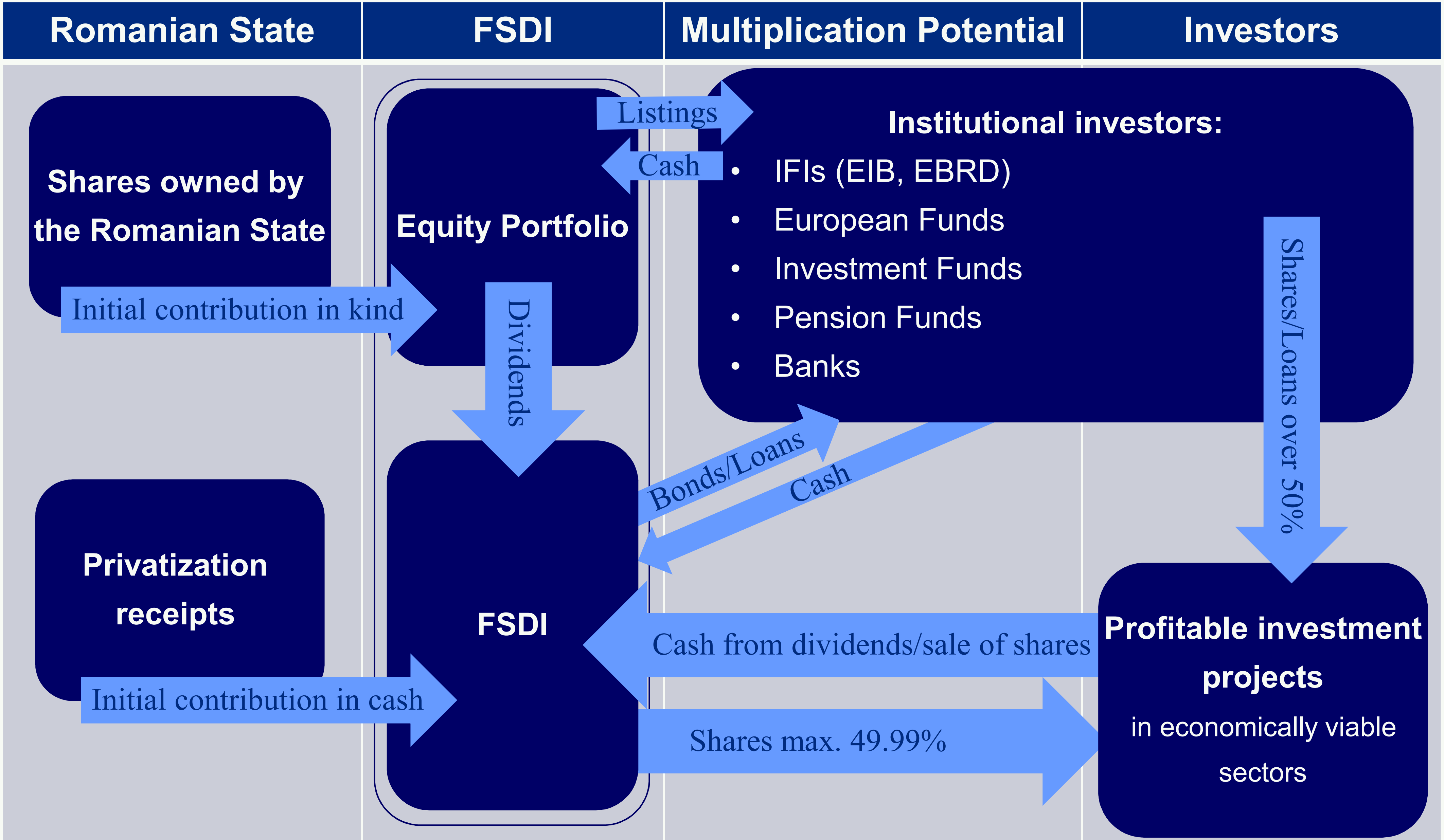
FSDI Financing

- Dividends received in the account of the shares held in its portfolio;
- Income from operations with own financial instruments and from financial instruments issued by other entities;
- Privatization receipts;
- Loans, including issuing bonds;
- Other sources permitted by law.

Investment policy

- Investment projects in competitive sectors, including equity investments, co-financing of PPP projects and co-financing of projects funded by European funds;
- Investments in financial instruments issued by other entities;
- Management of shares in its portfolio.

Sovereign Development and Investment Fund (FSDI) - Mechanism



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	5.6	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	1.1	2.5	2.3
Budget balance (% GDP, cash)	-4.2	-2.5	-2.5	-1.7	-1.35	-2.4	-2.96	-2.96	-2.56
Budget balance (% GDP, ESA2010)	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0	-2.97	-2.9	-2.5
Government debt (% GDP, EU methodology)	34.2	37.3	37.8	39.4	38.0	37.6	38.0	38.3	38.1
Exports of goods (%, y-o-y)	21.2	-0.5	10.0	5.9	4.1	5.1	9.0	7.6	7.7
Current account balance (% GDP)	-4.9	-4.8	-1.1	-0.7	-1.2	-2.3	-2.7	-2.6	-2.3
Interest And Exchange Rates									
NBR policy rate (%, e.o.p)	6.00	5.25	4.0	2.75	1.75(1)	1.75	1.75		
Average exchange rate (RON/EUR)	4.24	4.46	4.42	4.44	4.45	4.49	4.56	4.55	4.54
Labor Market Indicators									
ILO unemployment rate (%)	7.2	6.8	7.1	6.8	6.8	5.9	5.3	5.0	4.8

Source: National Institute of Statistics, National Commission of Prognosis – Autumn preliminary forecast 2017; (1) 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

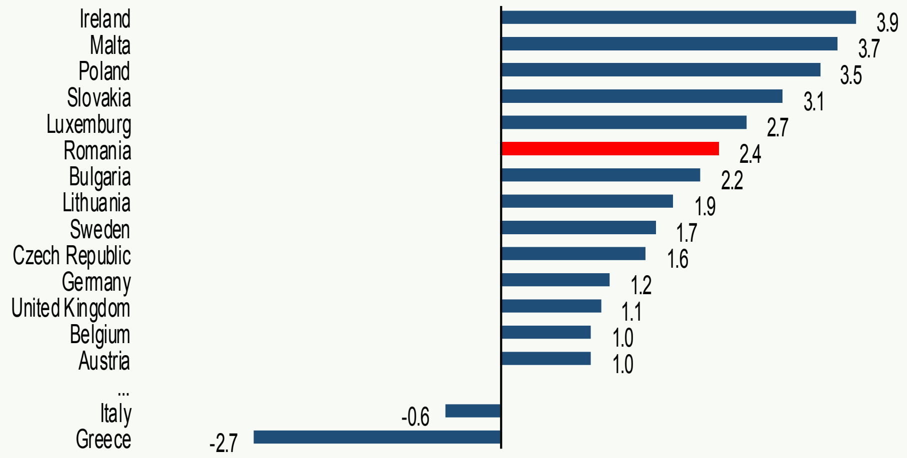
- The economic model applied by the Government starting with 2017 is aimed at improving the business environment, firms' competitiveness and the living standards, according to the 2017 Convergence Program:
  - For the 2017-2020 period is envisioned an annual average of economic growth of 5.5%.
  - GDP 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 engines of the economic 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…

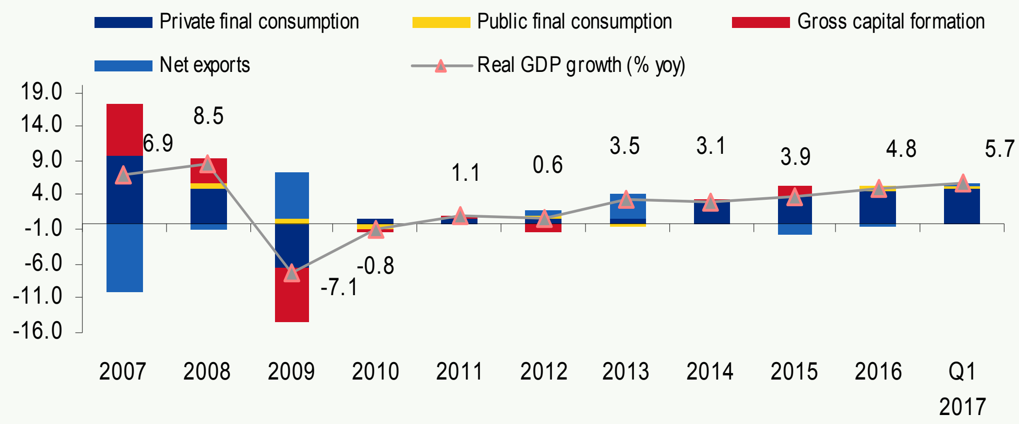
% GDP growth, average 2007 – 2016



Source: Eurostat.

… with GDP growth underpinned by strong domestic demand

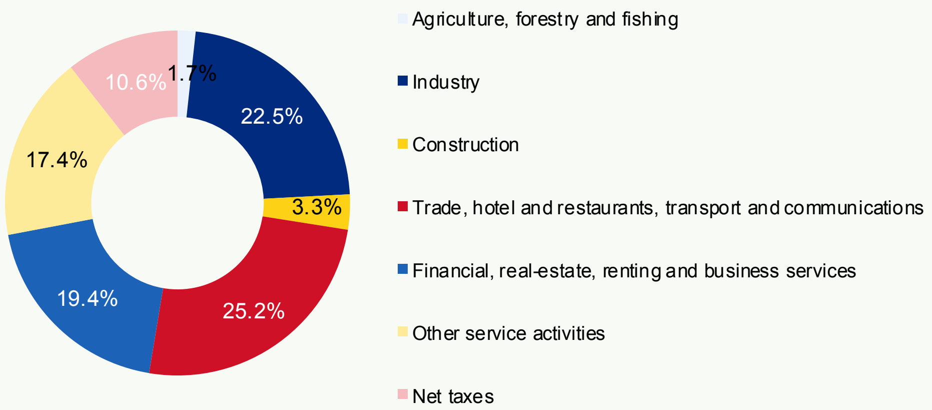
GDP components, percentage points



Source: National Institute of Statistics.

The Romanian economy is diversified

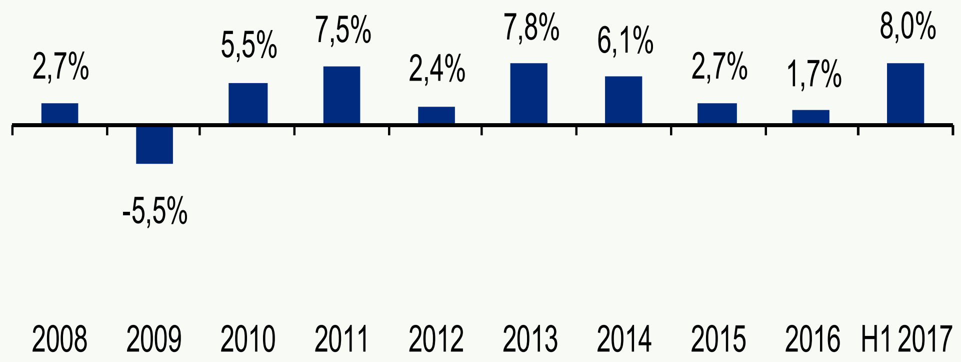
Structure of gross domestic product by sectors in Q1 2017, %



Source: National Institute of Statistics.

Industrial production underpins economic growth

% real change in industrial production, YoY



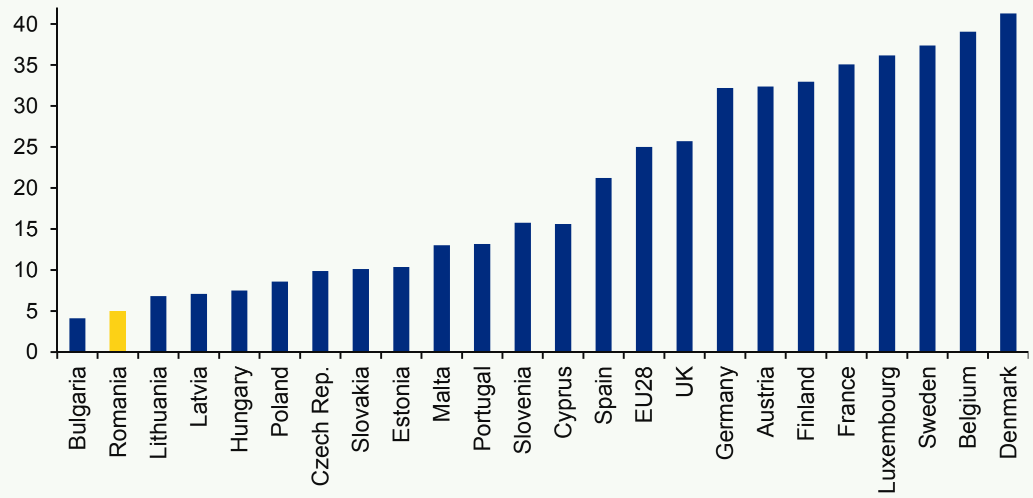
Source: National Institute of Statistics.

Labour Market Conditions Supportive of Long-Term Growth

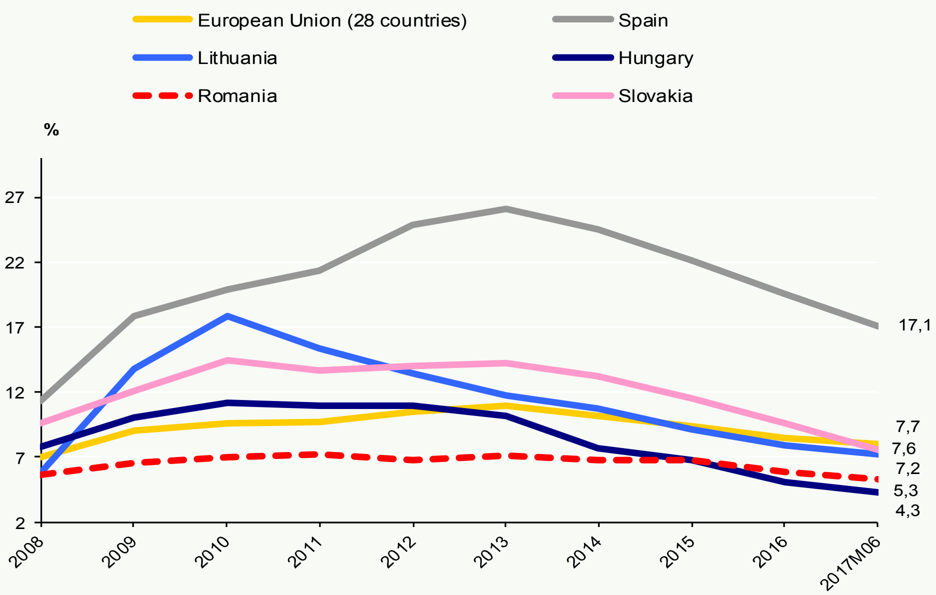
- Romanian labor costs per hour are among the most competitive in the EU
- Highly educated workforce: #54 / #187 in 2013 according to the United Nations Education Index(1)
- Romania's unemployment rate remains substantially lower than the EU28 average
  - The unemployment rate in June 2017 was 5.3%(2), which was lower than in 16 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



Low unemployment
Unemployment % according to the ILO methodology



Source: Eurostat. Data according to ESA 2010 methodology.

Source: Eurostat.

Sustainable Fiscal Policy and Budget Performance

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.

August 2017 Budget Execution

Revenues

- Revenues to the general consolidated budget, in the amount of RON 160.4 billion (19.2% of GDP), increased by 8.9% in nominal terms compared to the same period of last year;
- As compared to the same period of 2016, revenues registered increases in the collection of: income and salary tax (+10.4%), social security contributions (+16.6%),non-fiscal revenues (+14.0%) as well as capital revenues (+13.4%);
- Revenues from the collection of VAT decreased by 1.7%, as compared to the same period of 2016, due to the reduction of the VAT standard rate from 24% to 20% from January 1st 2016, which was reflected from February 2016 and the reduction of the VAT standard rate from 20% to 19% which was reflected from February 2017.

Expenditures

- The expenditure of the general consolidated budget, in the amount of RON 166.9 billion, increased in nominal terms by 11.0% YoY compared to the same period of last year;
- Personnel expenditure increased by 21.4%, as compared to the same period of 2016, mainly influenced by salary increases in the second part of 2016;
- Goods and services expenditures increased by 4.1% YoY, while the expenditure for social assistance increased by 11.3% YoY, as compared to the same period of last year;
- Investment expenditure, including capital expenditure and the expenditure related to development programs amounted to RON 10.5 billion, representing 1.3% of GDP.

The general consolidated budget showed a deficit of 0.78% of GDP in August 2017

Source: Ministry of Public Finance.

First Budget Rectification 2017

In September, the first budget rectification was made for 2017. This was determined by:

- Analyzing the economic results so far which argue for the possibility of an economic growth of 5.6% compared to 5.2%, as estimated at the drafting of the state budget law and a gross domestic product with a nominal value of RON 837.1 billion, compared to RON 815.2 billion, as initially estimated;
- The budget execution for the first seven months of 2017 ended with a deficit of RON 5.1 billion, or 0.63% of GDP, against the deficit of RON 1.74 billion lei, i.e. 0.23% of GDP, in the same period of 2016, falling within the 3% of GDP deficit;
- The need to correlate budgetary planning with the projected evolution of macroeconomic indicators and budget execution for the first 7 months of the year;
- The need to provide funds for the payment of approved salary increases.

The measures taken into account in the budget rectification concern mainly:

- Increasing the excise level on energy products;
- Increase of the dividend income with the amounts allocated in previous years to other reserves and used as own financing source;
- Ensure funds for payment of salary increases for different categories of staff in the budgetary system, approved in 2017;
- Extend the student scholarship during the academic year (12 months);
- Provide funds for the payment of social assistance rights (pensions and benefits, child raising rights, indemnities for people persecuted for ethnic reasons);
- Allocation of additional amounts to finance small and medium enterprises support programs.

On the total consolidated general budget, the revenues were increased by RON 1.1 billion and the expenses by RON 1.7 billion, thus causing an increase of the deficit by RON 0.6 billion. However, given the improvement in the economic growth forecast, the cash budget deficit remains at the same level of GDP as in the original planning, i.e. 2.96%.

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

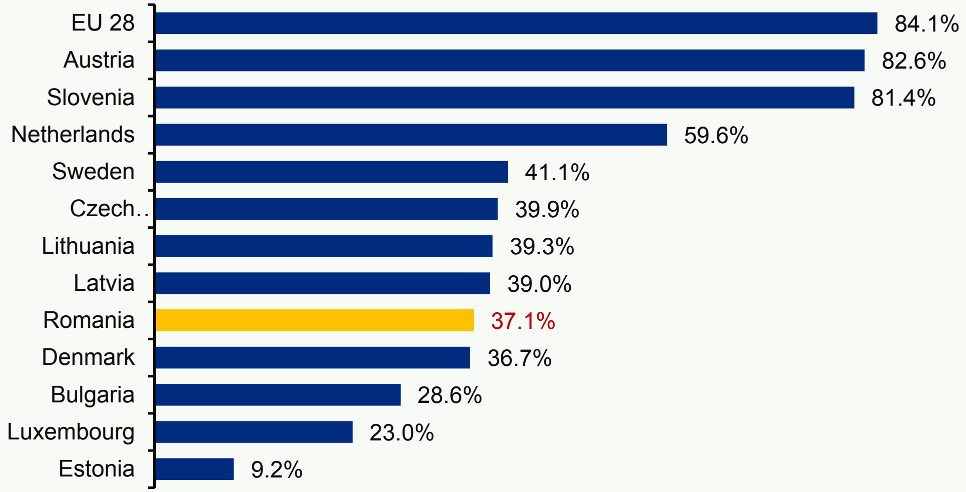
- More friendly tax environment and lowering the tax burden to one of the lowest in the EU: introduce the Tax Nomenclature, reducing the number of taxes especially through a law eliminating 102 taxes (including the radio-TV tax, the environment stamp for used vehicles, 33 consular taxes, 13 extra judiciary 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 #5 lowest Debt / GDP ratio in the EU

General Government Debt / GDP Q1 2017, %



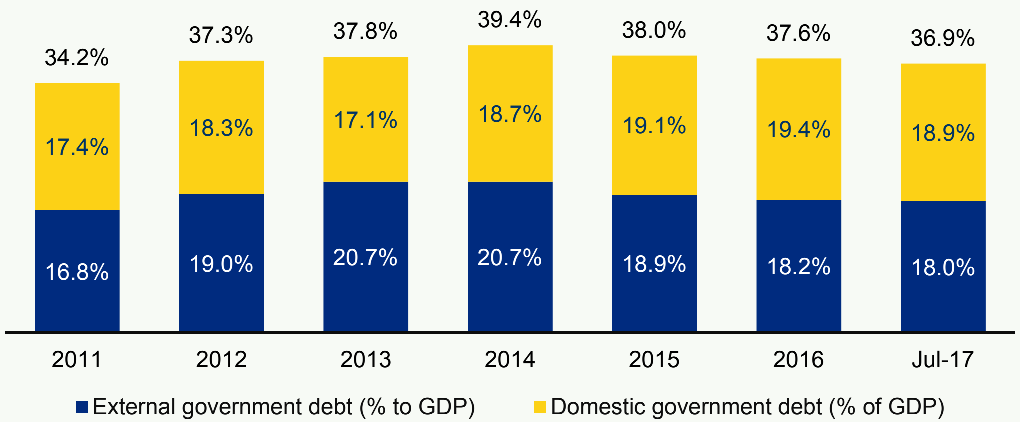
Source: Eurostat – release July 2017 Government Debt.

(% of GDP)	2013	2014	2015	2016e	2017f	2018f
Gross financing need, out of which:	11.3%	9.0%	8.8%	9.1%	7.8%	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%	4.9%	5.2%
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%	34.0%	35.1%	35.6%

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

Debt / GDP is stable…

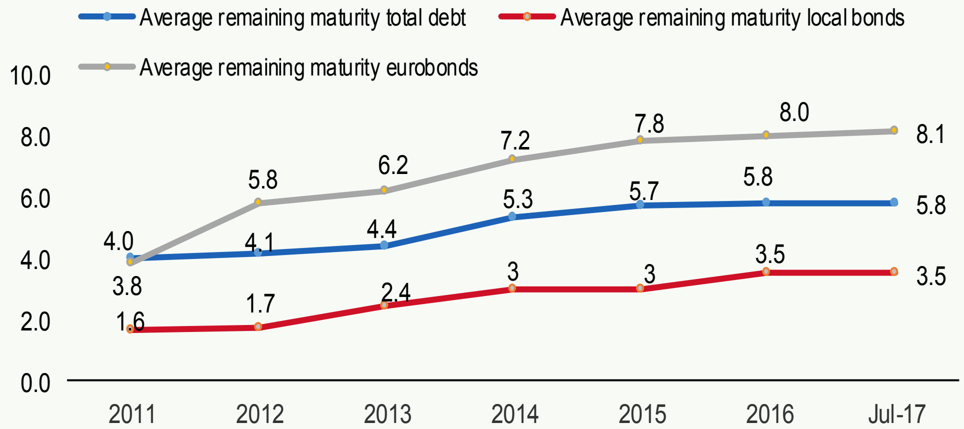
General Government Debt / GDP ESA 2010 – July 2017



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

…and based on a prudent maturity(1) profile

Average Remaining Maturity (July 2017) in years

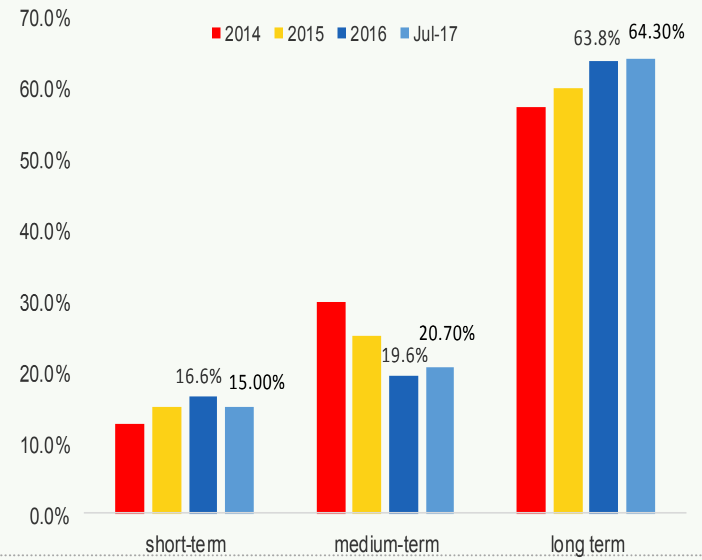


(1) Of public government debt according to the national legislation

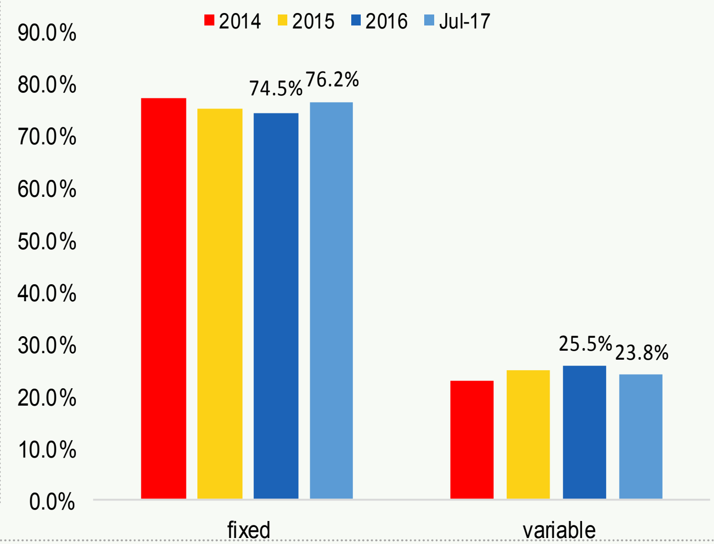
Source: Ministry of Public Finance.

Stable Government Borrowing Profile

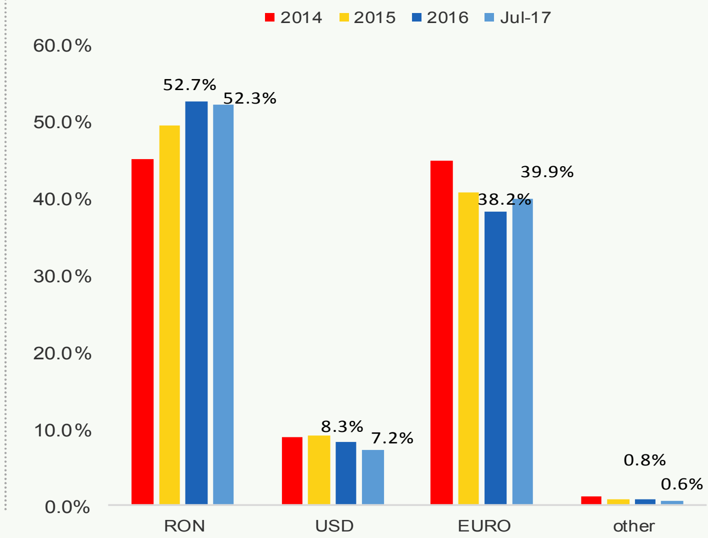
Increasingly long tenor borrowings…



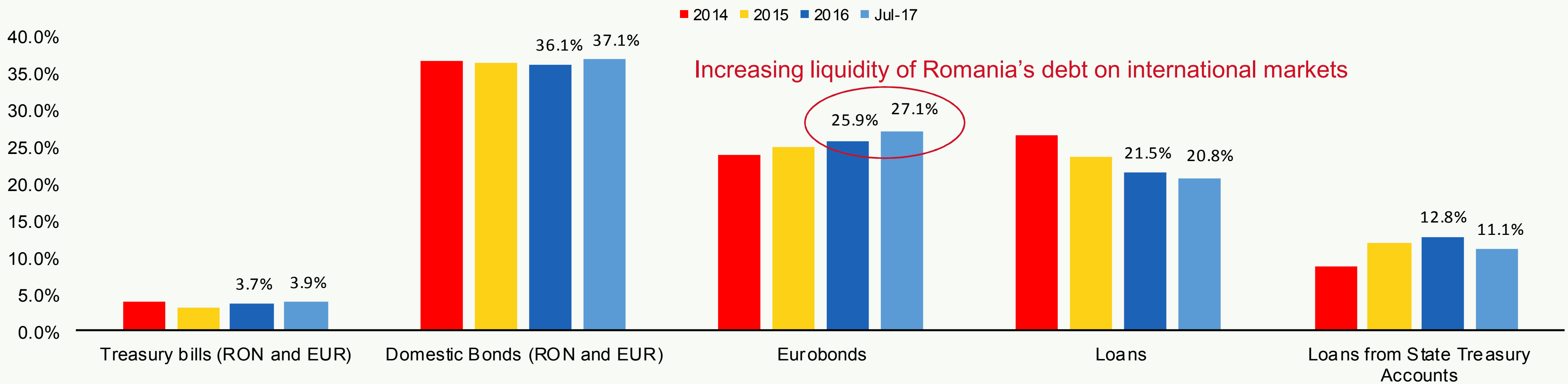
…mostly paying fixed interest…



…primarily in RON and EUR…



… are reinforced by a stable mix of funding instruments



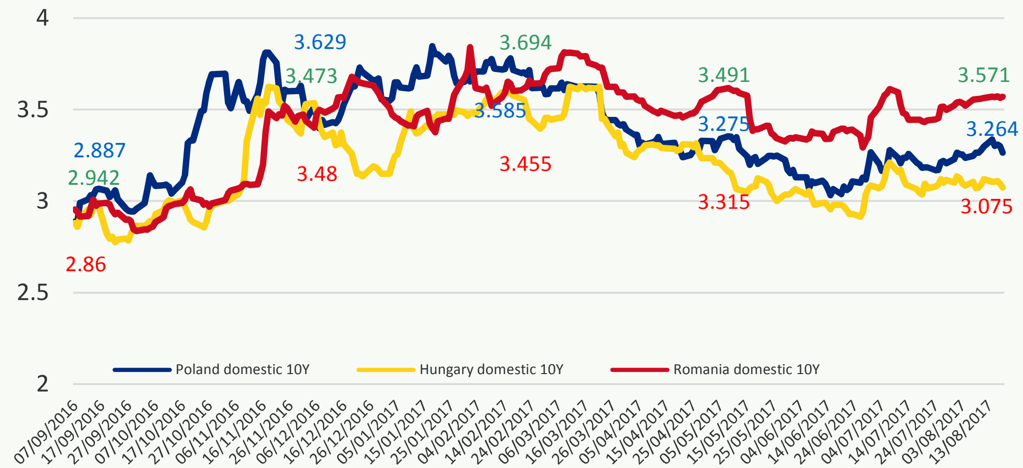
Source: Ministry of Public Finance; Note: Based on national legislation.

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 with stable outlook by S&P, Moody's and Fitch.
- 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…

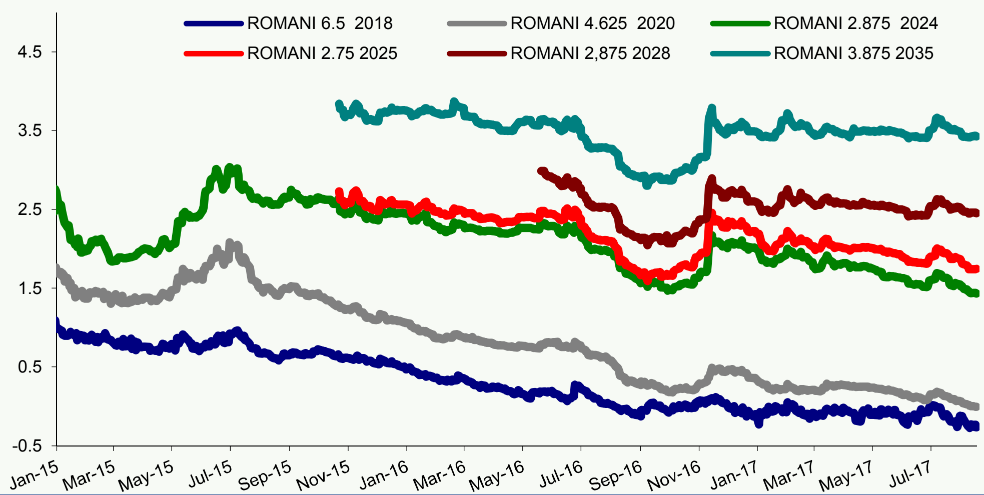
Domestic 10Y yields PL, HU, RO (%)



Source: Market data

…stable yields…

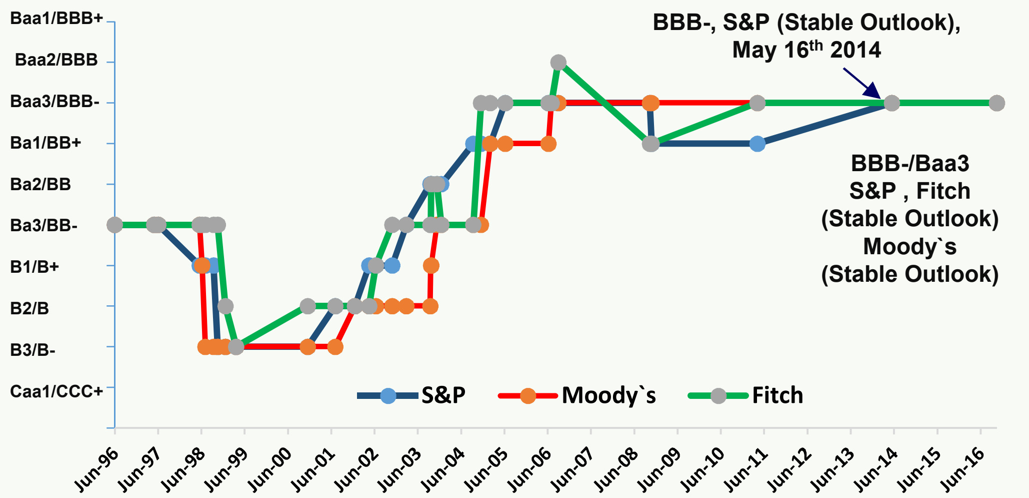
Bid Yields of Romanian EUR Eurobonds, %



Source: Market data

… and investment grade rating

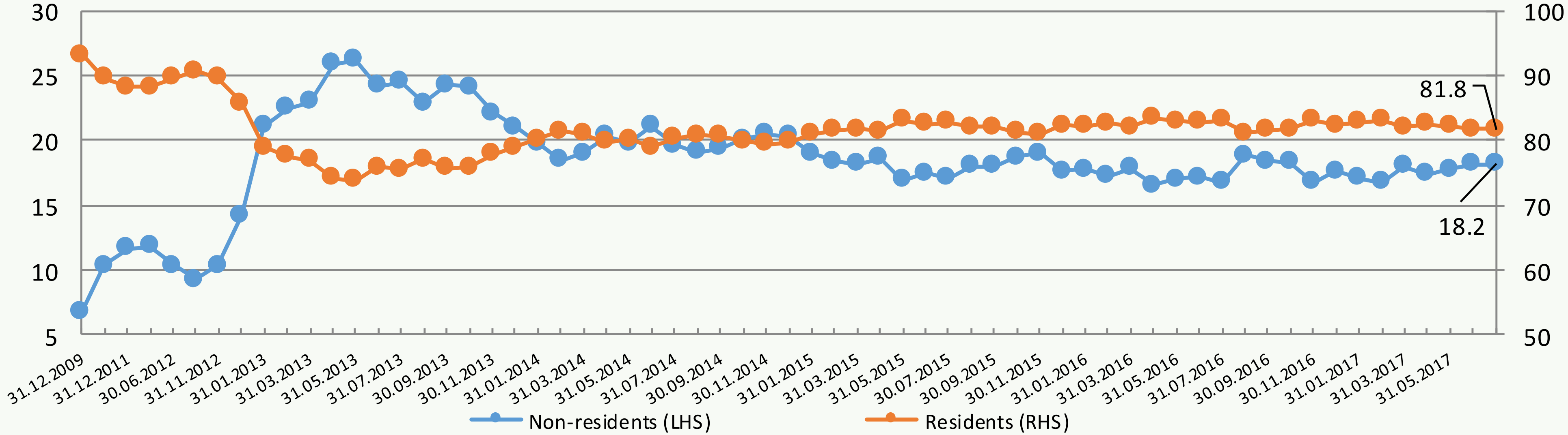
Romania's credit rating history



Source: Market data

Holdings of Government Securities

Domestic government securities held by non-residents, %



- Holders of domestic market government securities (end July 2017)
  - non-residents 18.2%
  - local commercial banks 46.9%
  - pension funds 15.8%
- 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%.

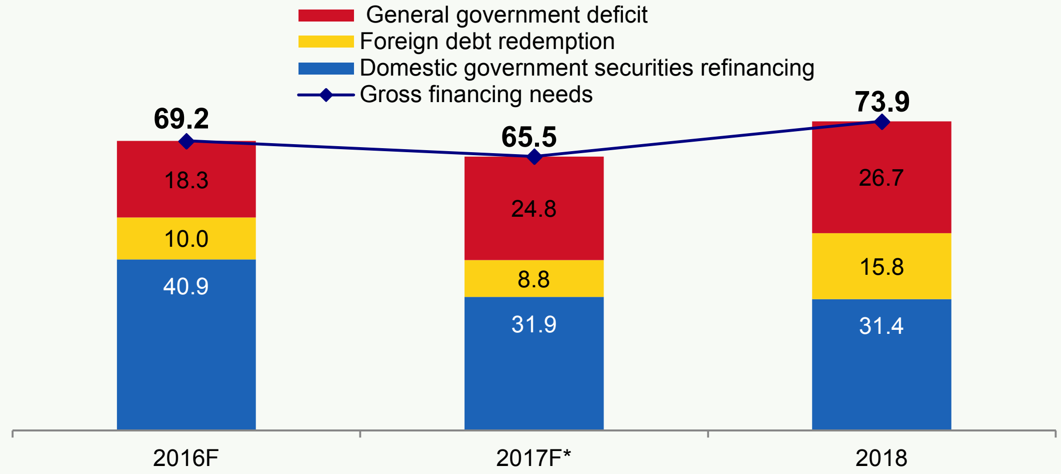
Prudent Debt Management Policy

…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

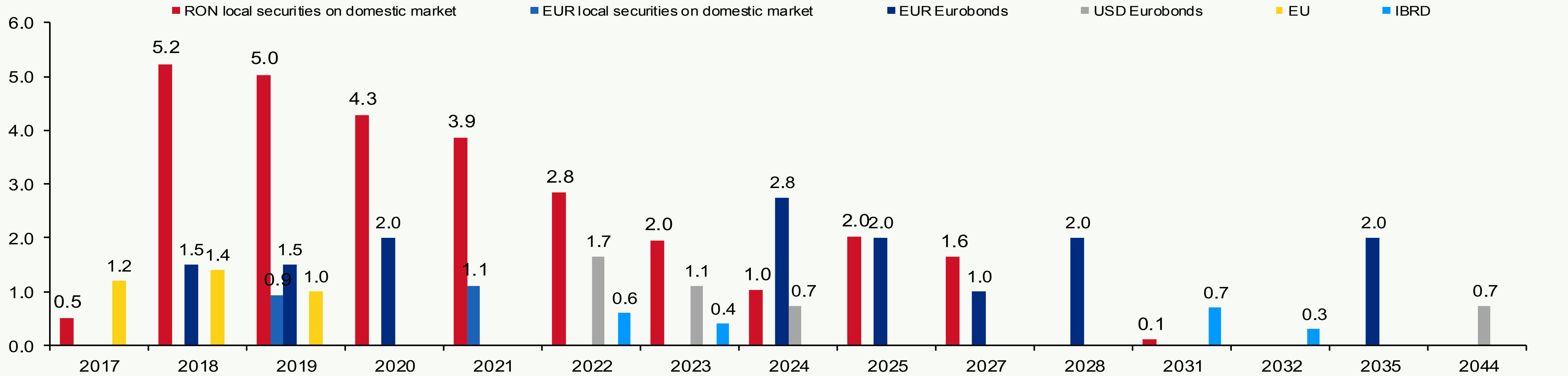


* Based on estimated Budget (cash) deficit of 2.96% of GDP.

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 September 27th, 2017.

Prudent Debt Management Policy (cont'd)

…underpinned by conservative targets

	Parameters[1]	Levels as of July 2017[2]	Levels as of Dec 31, 2016	Indicative targeted min / max ranges (2017- 2019)
Currency Risk	Share of domestic currency debt, % of total	46.3	45.7	45 – 60
	Share of EUR debt out of total foreign-currency denominated debt, %	83.5	80.8	80 – 95
Refinancing Risk	Debt maturing in one year, % of total	12.0	13.0	10 – 20
	Local currency debt maturing in one year, % of total	16.0	22.0	20 – 30
	ATM[3] for total debt, years	5.8	5.8	5.5 – 7.0
	ATM[3] for local currency debt, years	3.9	3.8	3.5 – 5.0
Interest Rate Risk	Debt re-fixing in one year, % of total	16.0	16.0	10 – 20
	Local currency debt re-fixing in one year, % of total	14.0	20.0	20 – 30
	ATR[4] for total debt, years	5.8	5.9	5.5 – 7.0
	ATR[4] for local currency debt, years	3.9	3.8	3.5 – 5.0

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 2017-2019

- 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 July 2017.

Notes: (1) Relates to government public debt according to national legislation excluding the General Current Account.
(2) Risk indicators presented for July 2017 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 2017-2019
(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	July 15th 2017
		EUR bn	%	%		%
RO Program[1]	Economic, social, balanced and sustainable regional development	3.97	57	64	85	93
SOP[2] Environment	Protect and improve the environment and living standards	4.41	42	62	79	84
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	81
SOP Increase of Economic Competitiveness	Fostering growth towards a knowledge-based economy	2.54	57	76	105*	100
SOP Human Resources Development	Open, knowledge-based society through provision of conditions facilitating human resources development	3.20	47	55	73	91
OP Administrative Capacity Development	Help increase the responsiveness of Romania's public administration and judicial system	0.21	72	89	99	100
OP Technical Assistance	Strengthening the capacity of beneficiaries to prepare and implement EU financed projects	0.17	55	81	113*	100
TOTAL		**18.78****	**52**	**63**	**83**	**89**

- 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 were submitted 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	1
OP Aid for the Most Deprived	0.44	1
TOTAL	**23.45**	**0.04**

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!