MINISTRY OF FINANCE

GOVERNMENT DEBT MANAGEMENT STRATEGY

2023-2025

Directorate-General for Treasury and Public Debt

Bucharest 2023

Table of contents

ATM	Average time to maturity (years)
FSA	Financial Supervisory Authority
ATR	Average time to re-fixing (years)
ECB	European Central Bank
CEDB	Council of Europe Development Bank
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
NBR	National Bank of Romania
NCSP	National Commission of Strategy and Prognosis
PD	Primary Dealers
EMBIG	JP Morgan Emerging Markets Government Bond Spread
FED	Federal Reserve System
IMF	International Monetary Fund
GMTN	Framework program for medium-term government bond issues in foreign markets
IFI	International Financial Institutions
NIS	National Institute of Statistics
MF	Ministry of Finance
GDP	Gross Domestic Product
NRRP	Romania's National Recovery and Resilience Program
EU	European Union

1. Foreword

This Government Debt Management Strategy to the period 2023-2025 (hereinafter referred to as the “Strategy”) is a continuation of the Government Debt Management Strategy for the period 2022-2024 and was elaborated in accordance with international best practices defined in the Guidelines of the World Bank and IMF related to the elaboration of Public Debt Strategies[1] and in consultation with the NBR.
As with the previous editions, the revised Strategy for the time horizon 2023-2025 is consistent with the budgetary indicators provided in the Fiscal and Budgetary Strategy 2023-2025 and focuses exclusively on the structure of the government debt portfolio, especially on those matters which fall under the competence and responsibility of the government debt manager[2].
Therefore, the Strategy provides the direction in which the authorities intend to act in order to ensure financing and to improve the debt portfolio structure in order to fulfill the *Ministry of Finance’s government debt management objectives*, namely:

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

Implementation of the Government Debt Management Strategy in 2022 and in the first 5 months of 2023

Risk Indicators

The development of risk indicators shows that, from the beginning of 2022 until September, the risk indicators were within the indicative targets set according to the 2022-2024 Strategy. Starting with October 2022, in the context of the increase in the volume of short-term resources attracted for the implementation of the 2022 financing plan, in particular government securities for the population, the indicators regarding the refinancing risk and the interest rate "*Share of debt in RON due within 1 year (% of the total)*" and " *Average time to re-fixing for the total debt (years)*" temporarily exceeded the indicative targets set according to the 2022-2024 Strategy, but due to the issue mainly on maturities of more than 5 years in the first quarter of 2023, their evolution normalized, in the direction of fulfilling the targets set according to the Strategy.

---

[1] See „Elaboration of the Government debt management strategy on medium term” - a guide dedicated to government authorities, elaborated by the World Bank and the International Monetary Fund on February 24, 2009.
[2] Therefore, this document avoids assuming fiscal policy targets of the type of share of debt in GDP or debt cost in GDP, because the first indicator depends on the budget deficit targets and the second one depends on the budget deficit targets and the market evolution, both being outside the scope of control of public debt managers.

Table 1: Risk indicators

Indicators	December 31, 2020	May 30, 2023	Indicative targets according to the 2022-2024 Strategy
A. Currency risk			
Share of debt in RON in total debt (% of total)	48.3%	49.1%	45 % (minimum) – 60 %
Share of government debt in EUR in total debt in foreign currency (% of total)	83.9%	80.4%	80 % (minimum) – 95 %
B. Refinancing risk			
Share of debt due within 1 year (% of total)	14%	15%	10 % - 20 % (maximum)
Share of debt in RON due within 1 year (% of total)	21%	18%	10 % - 20 % (maximum)
Average time to maturity for the total debt (years)	7.3	7.4	7.0 years (minimum) – 8.5 years
Average time to maturity of the debt in RON (years)	4.5	4.9	4.0 years (minimum) – 6.0 years
C. Interest rate risk			
Share of debt that changes its interest rate within one year (% of total)	15%	15%	10 % - 20 % (maximum)
Share of debt in RON that changes its interest rate within one year (% of total)	19%	16%	10 % - 20% (maximum)
Average time to re-fixing for the total debt (years)	7.2	7.4	7.5 years (minimum) – 8.5 years
Average time to re-fixing for the debt in the national currency (years)	4.5	4.9	4.0 years (minimum) – 6.0 years

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

Strategic guidelines for 2023-2025

The following principles shall form the basis financing decisions in 2023-2025:

1. Ensuring financing mainly in the national currency, which will further facilitate the development of the domestic market of government securities and also support the reduction of the currency risk exposure, considering at the same time the absorption capacity of the domestic market, as well as the needs to diversify the investor base in government securities. Issuance in EUR on the domestic market will be considered in the context of the specific demand expressed by local investors, on average maturities, depending on the market conditions and the appetite manifested by the investment environment, under the conditions of an advantageous maturity/ cost ratio.
2. Achieving a profile as uniform as possible of debt repayment, including through the use of liability management operations (early redemptions or government securities switches).
3. Mitigating the refinancing risk and liquidity risk by maintaining a reserve[3] in foreign currency.
4. In the foreign financing process shall be considered the contracting of debt mainly in EUR and USD, but also other currencies depending on the opportunities identified, taking into account the cost/risk ratio, as well as the contribution to the diversification of the investment base. Introducing green bond issue, by creating the Sovereign Green Bond Framework.
5. Keeping under control the exposure to interest rate risk through limitation of the share of debt which changes its interest rate within one year and of the average time to re-fixing for the entire debt portfolio.
6. Using the financing instruments provided by international financial institutions (IBRD, EIB, CEB, EBRD, etc.), including those established in the European Union, to support the recovery and resilience process at Member State level, taking into account the advantageous terms and conditions offered by them.

[3]The foreign currency reserve will cover up to 4 months corresponding to the necessary gross financing.

These principles are expressed as indicative target intervals[4] for the main risk indicators to allow the necessary flexibility in the management of government debt in order to respond to the changes of conditions on the financial markets.

The risk indicators for the period 2023-2025 are as follows:

Indicators*	**Indicative targets 2023-2025 Strategy**
Share of debt in RON in total debt (% of total)	
Share of government debt in EUR in total debt in foreign currency (% of total)	45 % (minimum) – 60 %
D. Refinancing risk	75% (minimum) – 90%
Share of debt due within 1 year (% of total)	
Share of debt in RON due within 1 year (% of total)	10 % - 20 % (maximum)
Share of debt in RON in total debt (% of total)	15 % - 25 % (maximum)
Average time to maturity for the total debt (years)	6.5 years (minimum) – 8.0 years
Average time to maturity of the debt in RON (years)	4.0 years (minimum) – 6.0 years
E. Interest rate risk	
Share of debt that changes its interest rate within one year (% of total)	10 % - 20 % (maximum)
Share of debt in RON that changes its interest rate within one year (% of total)	15% - 25% (maximum)
Average time to re-fixing for the total debt (years)	6.5 years (minimum) – 8.0 years
Average time to re-fixing for the debt in the national currency (years)	4.0 years (minimum) – 6.0 years

* does not include loans from the funds available in the general current account of the State Treasury. Source: MF

2. Objectives and Scope

This Strategy is the policy document for government public debt management, the Ministry of Finance seeking to fulfill the following objectives:

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

The first two objectives are set out in GEO no. 64/2007 and are supplemented by the objective of developing the domestic market of government securities, which was also laid down in the previous Strategies. The development of a liquid market of government securities and the construction and consolidation of a yield curve in national currency are important objectives both in achieving the first two objectives of the Strategy, and for the development of the Romanian financial market to support the assurance of the financial resources necessary to cover the financing needs during economic and financial crisis periods or in periods marked by high volatility on the international markets.

The scope of the Strategy is limited to debt contracted directly or secured by the Government, through the MF, but does not include the loans from funds available in the general current

[4]The limit mentioned as minimum or maximum may not be exceeded during the period covered by the Strategy (hard bound), whereas the other limit represents the limit that is being pursued and may be exceeded (soft bound).

account of the State Treasury ("temporary financing") nor cash management instruments. Temporary financing as well as cash management instruments are liquidity management tools and cannot be considered medium-term financing instruments. However, given the importance of coordinating the Government Debt Management Strategy with the liquidity management policy, including with respect to temporary financing, as well as the dependence between them, Annex 2[5] covers the liquidity management strategy.

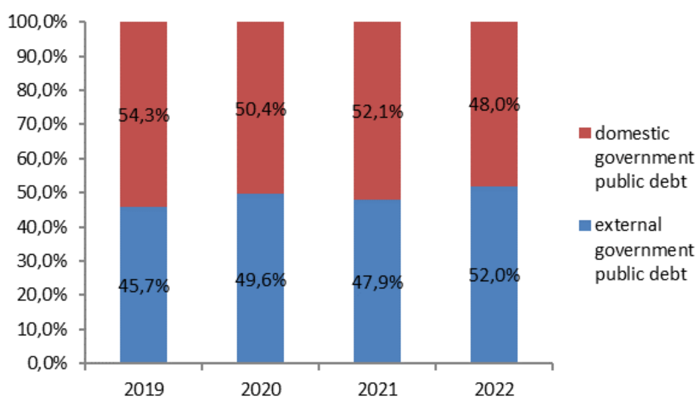
Description of the government debt portfolio at the end of 2022 [6]

The evolution of government public debt

At the end of 2022, the government debt was of RON 682.9 billion, representing 48.4% of GDP, in the context of an economic growth of 4.7%[7] and of a deficit of the general consolidated budget of 5.7% of GDP[8].

As a result of the strategy adopted regarding the financing of the budget deficit by maintaining a significant volume of Eurobonds issues on foreign markets, corroborated with IFIs financing (including the amounts attracted under the loan component for the implementation of the NRRP), under the conditions of recording significant borrowing costs on the domestic market, but also the increase in the demand of non-resident investors for government securities issued on the domestic market in the second part of the year, against the background of high financing needs, the structure of the government debt according to the residence criterion shows that the domestic government debt recorded a lower level at the end of 2022 compared to the previous years, about 48% being contracted from resident creditors and 52% from non-resident creditors.

Chart 1: Government debt by creditor residence type (% of total government debt)



Source: MF

In terms of structure by type of instruments, the government debt consists mainly of tradable debt instruments. Thus, government securities issued on the domestic market accounted for 41.3% of the total tradable debt instruments, those issued on the foreign market, 36.9%, and the share of state loans, non-tradable instruments, was 21.8% (see Chart 2).

---

[5]It shall be noted, however, that the major changes of the level of temporary financing may have an impact on the issues of government securities and may affect the development plans of the domestic market of government securities.

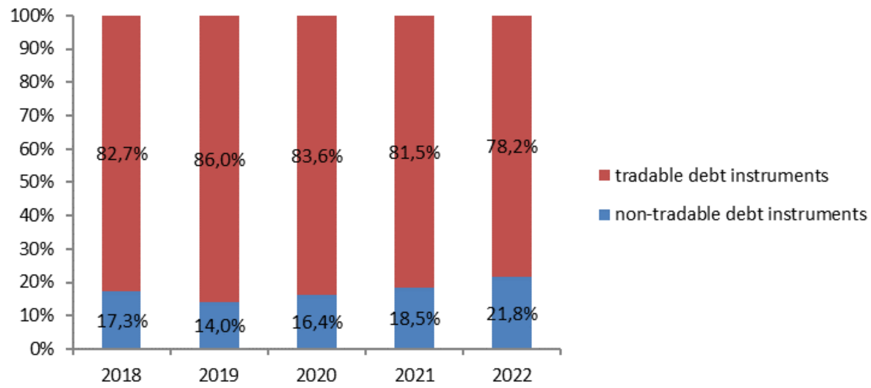
6 It does not include temporary financing and cash management instruments, nor the guarantees granted in the name and account of the State by Eximbank taken over in the records starting with 2022 according to the Decision of the Court of Accounts no.3/11.01.2023.

[7]NCSP - Spring forecast of the main macroeconomic indicators – May 5, 2023

[8]The consolidated general budget deficit according to the operative execution at the end of 2022 was in nominal value of RON 81.0 billion, representing 5.7% of GDP.

The increase in the share of loans in 2022 is due to the pre-financing and the first drawdown of the NRRP loan component, a loan with very attractive financial conditions, but whose availability is conditioned by the fulfillment of a set of reforms.

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

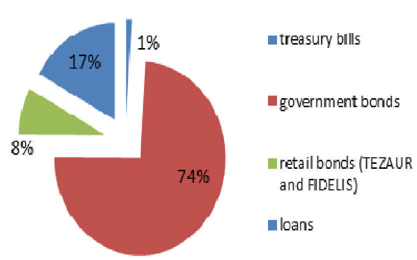


Source : MF

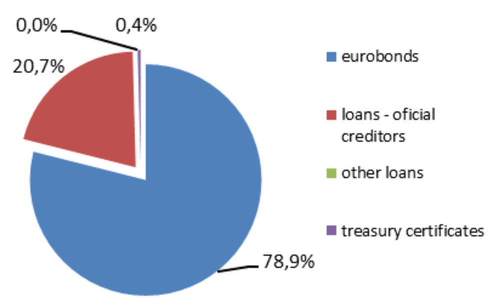
As shown in Chart 3, government securities represent the majority instrument in the structure of domestic debt, namely treasury certificates and government bonds, and, in a similar manner, foreign debt is mainly made up of bonds issued on the international capital markets and supplemented by loans contracted from international financial institutions, from the European Union and other creditors. The structure of external debt also includes government securities issued on the domestic market held by non-residents, while the structure of domestic debt includes Eurobonds held by residents.

Chart 3: Debt structure by creditor residence criterion and debt instruments

Domestic Debt Instruments



Foreign Debt Instruments



Source : MF

In 2022, interest costs, expressed as average interest rates[9], recorded slight increases, as a result of the increase of interest rates, especially those related to domestic debt. At the end of 2022, the debt in national currency remains more costly than the debt[10] in foreign currency as shown in Table 2.

Table 2: The cost of debt contracted directly by the Government, through the MF, by types of instruments[11]

	December 31, 2022	December 31, 2021
Average interest rate of government debt (%)	*3.3*	*3.1*
1. in national currency, of which	*5.3*	*3.8*
a. Treasury certificates with 1 year maturity	7.1	2.7
b. Fixed-rate government bonds with maturity between 1 and 5 years	4.1	3.9
c. Fixed-rate government bonds with maturity between 5 and 10 years	4.8	4.8
2. in foreign currencies, of which:	*2.6*	*2.4*
a. Bonds in EUR with 10 year maturity	2.8	2.7
b. Bonds in EUR with 5 year maturity	2.2	1.2
c. Bonds in EUR with 30 year maturity	3.3	3.3
d. Bonds in USD with 30 year maturity	4.8	4.3
e. EUR multilateral	1.1	1.5
f. USD multilateral	1.3	1.3

Source: MF

The share of loans from international financial institutions and the European Union, contracted at favorable interest rates, explains the lower level of external financing cost. Moreover, bonds issued on international financial markets denominated in EUR were issued with lower nominal yields compared to those of government securities issued in national currency and in USD (without taking into account the impact of currency risk on costs), as shown in Chart 4. In 2022 and the first 5 months of 2023, the costs of financing in RON on the domestic market remained above the levels of financing in USD and EUR for similar maturities, the interest rate differential decreasing to a minimum level reached in October 2022, and starting with 2023 the spread recorded a constant decrease. In 2022, in the context of the global increase in interest rates and constraints on international markets in the context of the Russia-Ukraine conflict, foreign market resources were attracted in both EUR and USD, which are absolutely necessary in the context of limited demand on the domestic market, thus providing the necessary flexibility in carrying out the financing plan on foreign markets, as well as ensuring the diversification of the investor base into debt instruments issued by Romania. Taking into account the significant challenges in the implementation of the 2022 financing plan, in conjunction with a higher gross financing need due to the significant increase in the debt to be refinanced, the strategy for the implementation of the financing plan announced for 2023 focuses on achieving a significant pre-financing of the financing needs in the conditions of strong manifestation both on the domestic and foreign markets. The dynamics of demand is influenced by expectations of completing the strengthening cycle of monetary policies at both global (FED and ECB) and local (NBR) level. Thus, in the first 5 months of 2023 already approx. 60% of the gross

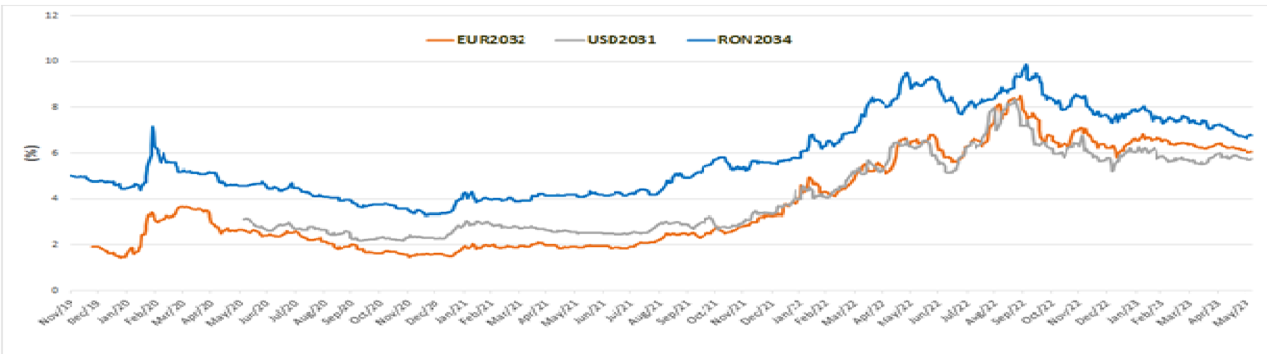
[9]They were calculated as the ratio between the foreseen interest payments for 2023 and the existing balance at the end of 2022 for every debt instrument.

[10]Excluding influences due to currency risk that may change in the event of a depreciation of the national currency the cost of the foreign currency debt (interest on foreign currency debt) significantly.

[11]The table shows the average interest rates for selected debt instruments, aggregated from all debt instruments forming the government debt portfolio.

financing needs announced for 2023 was covered, the resources being mainly attracted from the domestic market, by issuing government bonds with a volume of RON 61.0 billion (does not include government securities issued and due in the current year). The resources attracted from the foreign market at the beginning of the year were mainly denominated in USD, given the depth of this market and the consistent demand manifested by investors, but also the significantly higher credit risk margins related to Eurobonds compared to those in USD, given the substantial volumes of EUR-denominated issues of Romania launched in previous years, in the investors' portfolios.

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



Source: MF

Starting with the last quarter of 2021, the yields of government securities issued on the domestic and foreign markets returned to an upward trend, a trend that increased strongly in 2022 against the background of the acceleration of the inflationary context and the Russia-Ukraine conflict, followed by a strong decline in the last quarter of the year and stabilization during 2023.

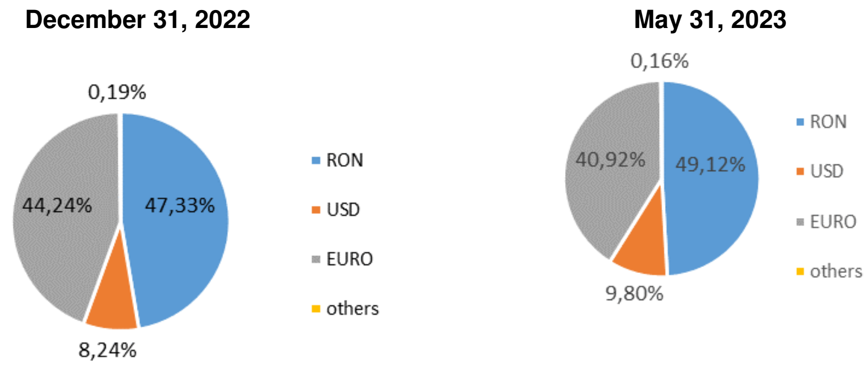
Risks associated to the government debt portfolio at the end of 2022

Currency risk

At the end of 2022, respectively in May 2023, over 50%[12] of the government debt portfolio was denominated in foreign currency, a high share both compared to other EU Member States that have not adopted the European single currency and to other states in the same rating category as Romania. Significant currency risk exposure can be managed taking into account the relatively low volatility of the RON/EUR exchange rate and as a result of foreign currency debt issued predominantly in EUR in the long[13] term (Chart 5).

[12]In December 2022, the share of foreign currency debt represents 52.7% of the total government debt and 50.9% in May 2023
[13]The debt denominated in EUR issued on long and very long term (with maturities of up to 30 years currently for Eurobonds) with a single installment structure (of bullet type) presupposes a repayment of the financing within a time interval during which the adoption of the EUR currency is feasible and, as a result thereof, a low inherent currency risk.

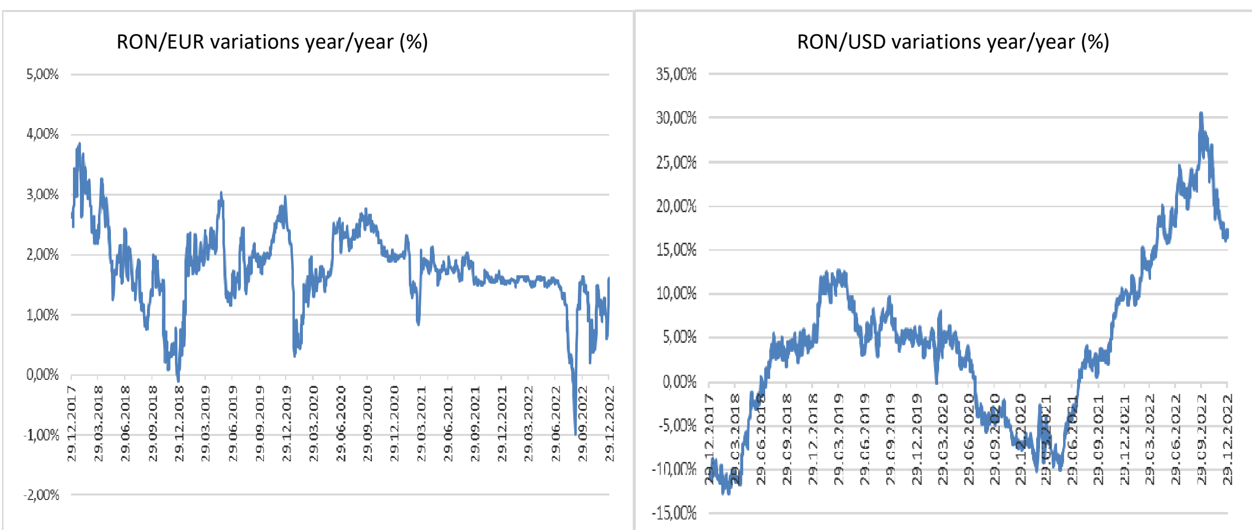
Chart 5: Debt structure by currency type



Source: MF

Considering that at the end of May 2023 about 10% of the debt portfolio is denominated in USD, increasing compared to the end of 2022 when it accounted for approx. 8% of the debt portfolio, and the volatility of the RON/USD exchange rate[14] was in the last three years about five times higher than that of the RON/EUR exchange rate, the debt contracted in USD presents a degree of risk higher than the one contracted in EUR, as shown in Chart 6 as well.

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



Source: NBR

In the case of pessimistic scenarios in 2023, for example the depreciation of the national currency by 5% against EUR and 15% against USD, the debt stock would increase by RON 21.3 billion, respectively by 1.3% of GDP, and the payments on account of debt service (representing repayments of capital installments/ refinancing of government securities and

[14]Calculated on the basis of Absolute Standard Deviation. Year/year variation determined on the basis of daily average variations.

interest payments) would increase by approx. 3 billion lei, respectively 0.7% in the revenues of the central government[15].

Therefore, the exposure to currency risk can be considered moderate. Moreover, the policy of maintaining of a reserve in foreign currency available to the State Treasury considers the limitation of the currency risk that corresponds to the repayment of the debt in foreign currency, this reserve being used directly for the payments of government debt in foreign currency.

Refinancing risk

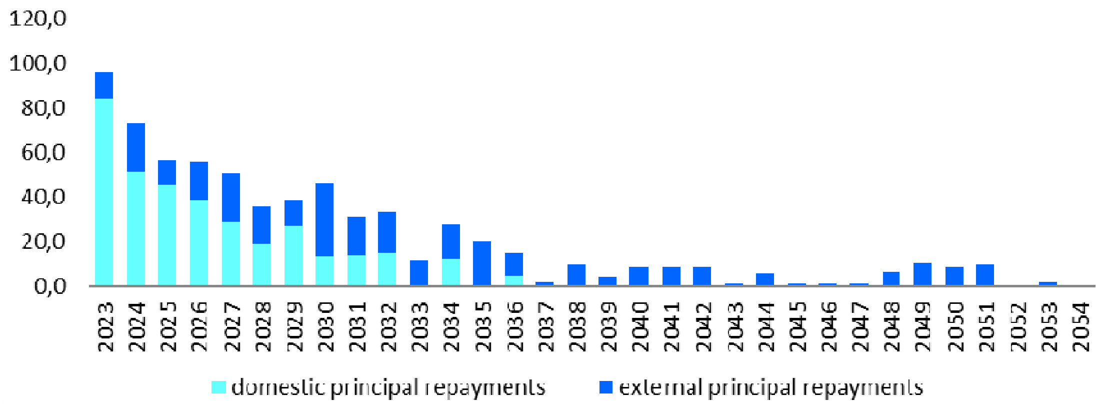
The structure of repayment of capital installments and refinancing of government securities, shown in Chart 7, indicates an accumulation of repayments over the next 5 years, with a decreasing trend of the refinancing risk in the medium and long term. The concentration of repayments in the period 2023-2030 is mainly observed at the level of domestic debt[16] reflecting the preference of investors in previous years for government securities with an average remaining maturity of up to 5 years, although a positive change in investor demand is observed starting from the second part of 2022, by issuing predominantly government securities with residual maturities of more than 5 years on the domestic interbank market. The refinancing risk resulting from the continuation of the policy of building liquid series of benchmark bonds, with cumulative volumes of up to about EUR 2.5-3 billion equivalent for each series of government securities, on the segment of medium and long term maturities, is decreased by using buy-back and bond-exchange operations, measures that will support the consolidation and expansion of the yield curve in RON and will ensure the reduction of the exposure of the debt portfolio to refinancing and liquidity risk, but also the possibility of accumulating in advance the resources to cover the financing needs of the following years on the domestic market, to the extent that market conditions allow it. At the same time, the policy of maintaining a foreign currency reserve (buffer) aims to ensure the source of the refinancing of the due benchmark series, without the need to roll them over at the time of maturity, by making partial sales of foreign currency from the buffer. Expectations regarding the demand for government securities during 2023 and in the medium term are influenced by the extremely complicated global economic climate both as a result of the post-COVID recovery process and as a result of the geopolitical crisis generated by the conflict in Ukraine that fueled the increase in fuel and raw materials costs, disruptions in logistics supply chains and the increase in inflation. Maintaining a difficult geopolitical climate can amplify uncertainties among investors and generate significant fluctuations in their demand for government securities in a global economic environment characterized by high interest rates and volatile market conditions. From this perspective, the diversification of the investment base through the consolidation of the retail segment for government securities, corroborated with the increase in the share of private pension funds and non-resident investors and the diversification of the latter remains a very important objective in debt management.

With respect to foreign debt, the refinancing risk is reduced, as a result of the repayment structure of loans contracted from international financial institutions and from the European Union (in a single installment, on long and very long terms), but also as a result of the extension of the average time to maturity for the foreign public debt portfolio as a result of the issuance of Eurobonds with long and very long maturities (up to 30 years).

[15] Budget revenues calculated on the basis of cash data applying the EU methodology.
[16] According to the market of issue.

Chart 7: The repayment of capital installments related to government debt over the time horizon 2023 - 2054

billion RON



Source: MF

The debt repayment profile determines an average time to duration (ATM)[17] of 7.3 years at the end of 2022, respectively of 4.5 years for debt denominated in national currency and of 9.6 years for debt denominated in foreign currency.

Table 3: Refinancing risk indicators

Indicators	**2021**			**2022**		
	Debt denominated in the national currency	**Debt denominated in foreign currency**	**Total**	**Debt denominated in the national currency**	**Debt denominated in foreign currency**	**Total**
Share of debt due within 1 year (% of total)	18	5.0	12	21	9.0	14
Average time to maturity (years)	4.2	10.2	7.5	4.5	9.6	7.3

Source: MF

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

Interest rate risk

Given that only a small part of the debt is contracted with variable interest rate (see Table 4), as well as the strategy for extending the duration of the debt portfolio, the interest rate and the refinancing risk are moderate, showing different features in terms of specific indicators for these risks, if the debt portfolios in RON and foreign currency are separately considered. The

[17]Average time to maturity

exposure to the interest rate risk exposure is reduced for the debt portfolio in foreign currency as a result of the fact that Eurobond issues and loans from international financial institutions, including those from the European Union, with long and very long maturities and fixed interest rates accounted for the majority of foreign debt at the end of 2022. Thus, an increase of 1 percentage point of interest rates in 2023 will lead to the increase of payments on account of debt service by approx. RON 2.8 billion, respectively by 0.8% of the revenues of the central government[18] for debt in national currency, and by approx. RON 3.1 billion, respectively by about 0.9% of the revenues of the central government for debt in foreign currency.

Table 4: Interest rate risk indicators

Indicators	2021			2022		
	Debt denominated in the national currency	**Debt denominated in foreign currency**	**Total**	**Debt denominated in the national currency**	**Debt denominated in foreign currency**	**Total**
Share of debt with fixed interest rate (% of total)	79.3	95.3	87.6	81.9	95.3	88.1
Share of debt that changes its interest within one year (% of total)	18.0	4.0	14.0	19.0	4.0	15.0
Average time to re-fixing (years)	4.2	10.4	7.5	4.5	9.5	7.2

Source: MF

Given the things presented above, it can be concluded that the refinancing risk and the interest rate risk related to the debt denominated in the national currency are indicators that need to be given increased attention and their assessment should be correlated with the with the third objective of the Government debt management strategy on medium term, namely the development of the domestic market of government securities. For the purpose of limiting the refinancing and liquidity risks it shall be continued the policy of maintaining of a financial reserve in foreign currency available to the State Treasury to cover up to 4 months of the gross financing needs, a policy that will have to be correlated with the financing needs and with the measures to be taken by the Romanian authorities to correct the excessive deficit, as well as with the measures to support the development of the economy.

4. Domestic and external financing in the context of domestic and international financial market developments between 2022 and May 2023 and expectations on medium term

Domestic market

As of 2022, given the increase in inflationary pressures at a faster pace than the targets set by central banks, firm reactions have been initiated by the monetary authorities of the major economies (US-FED, EU-ECB, UK-Bank of England, etc.) but also in the central and eastern European region, which have taken steps to conclude the net asset purchase programs promoted during the pandemic and have initiated cycles of increase in reference rates.

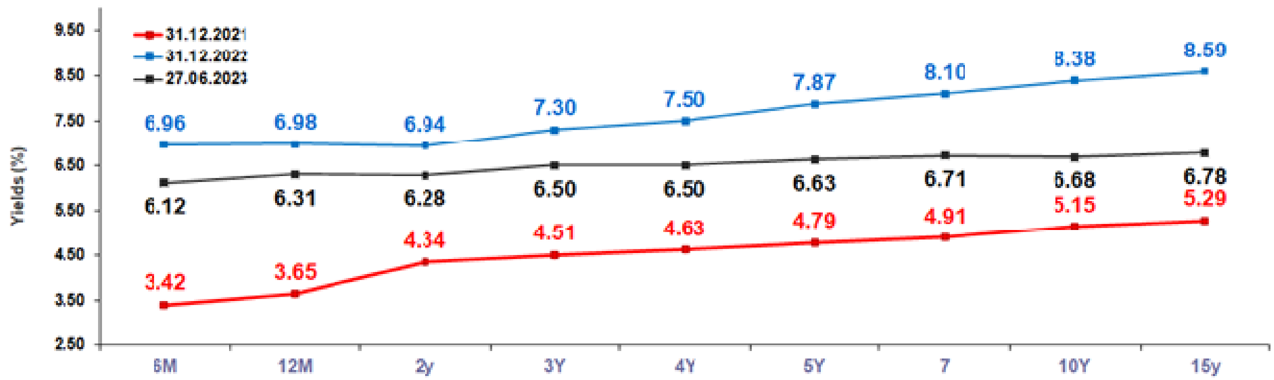
Against this background, amid high inflation projections, the NBR increased the key interest rate by 9 consecutive times between January 2022 and January 2023, by a total of 5.25 percentage points, to 7.0%, while the interest rate for the credit facility was increased to 8.0% and that of the deposit facility to 6.0%. Thus, the NBR has kept firm control over the liquidity on the money

[18]Budgetary revenues calculated on the basis of cash data applying the EU methodology.

market and has maintained the levels in force of the mandatory minimum reserve ratios for the RON and foreign currency liabilities of credit institutions.

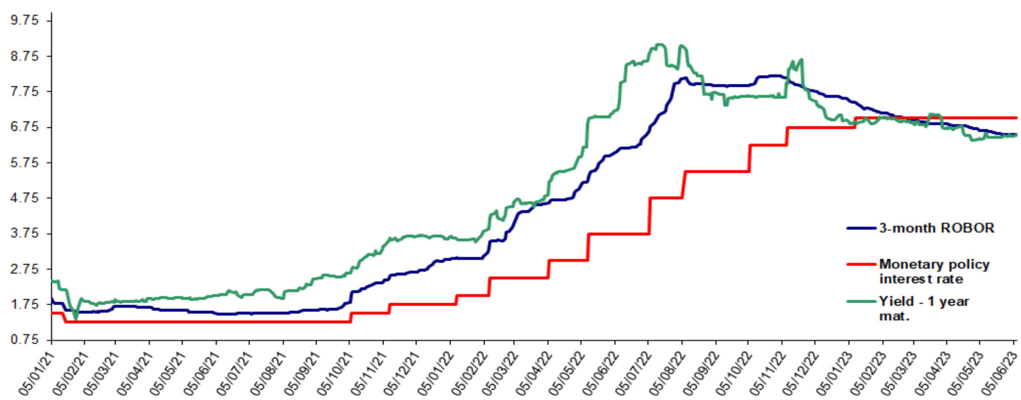
At the end of 2022, the yield curve related to the sovereign bonds issued by the Romanian state on the internal market reveals a significant annual increase of about 250 – 330 bps manifested on all maturity levels, especially for the maturity segment over 5 years. Since the last quarter of 2022, yields have shown a decreasing trend, with a decrease of about 50 – 150 bps compared to the beginning of the year, especially for the long maturity segment.

Chart 8: Evolution of yields on the domestic secondary market



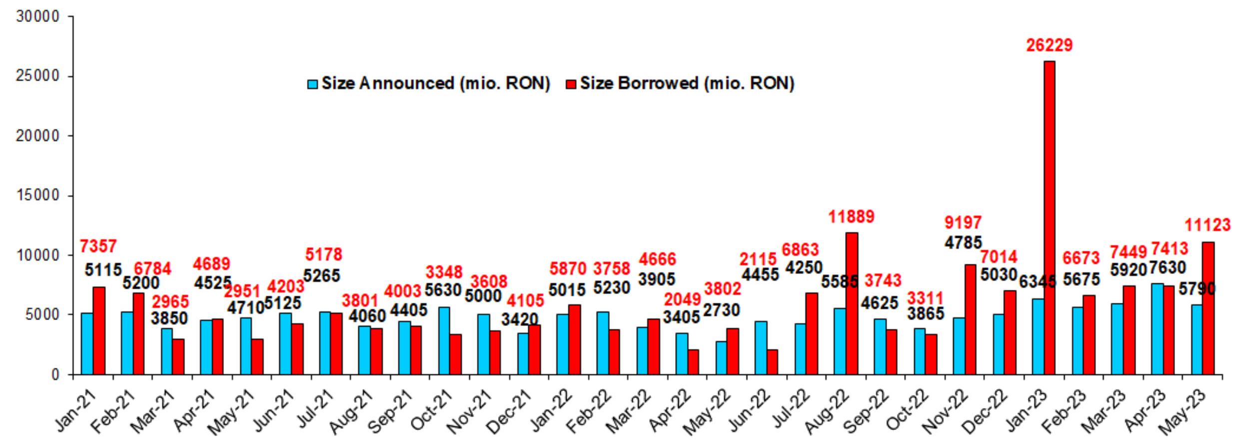
Source : Bloomberg

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



Source: MF, NBR

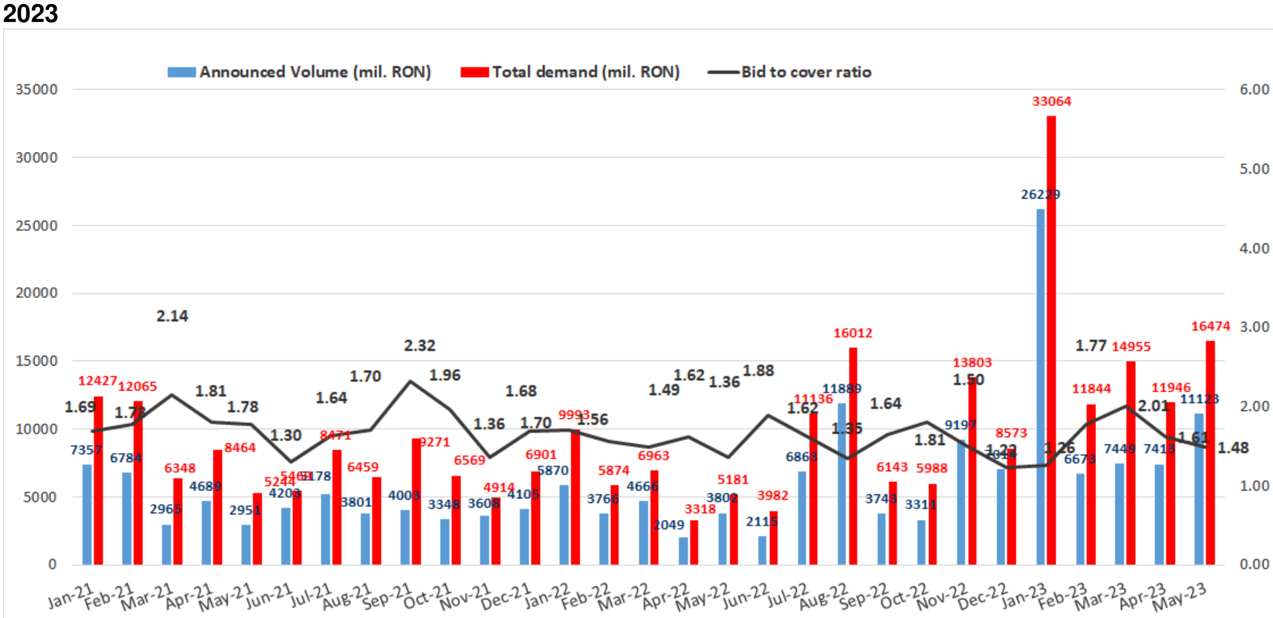
Chart 10: Announced volume vs. adjudicated volume between January 2021 and May 2023



Source: MF

The year 2022 started with a lower level of adjudicated values compared to the previous period (January 2021), subsequently the developments in the government securities auctions were adjusted in relation to the level of liquidity in an internal market sensitive to international geopolitical and economic developments, with a consistent demand at the end of the year. The first 5 months of 2023 recorded a significant increase in the interest shown by investors, the adjudicated amounts being above the level announced against the background of a very good demand from both non-residents and local investors.

Chart 11: Demand and offer of government securities in the primary market between January 2021 and May 2023



Source: MF

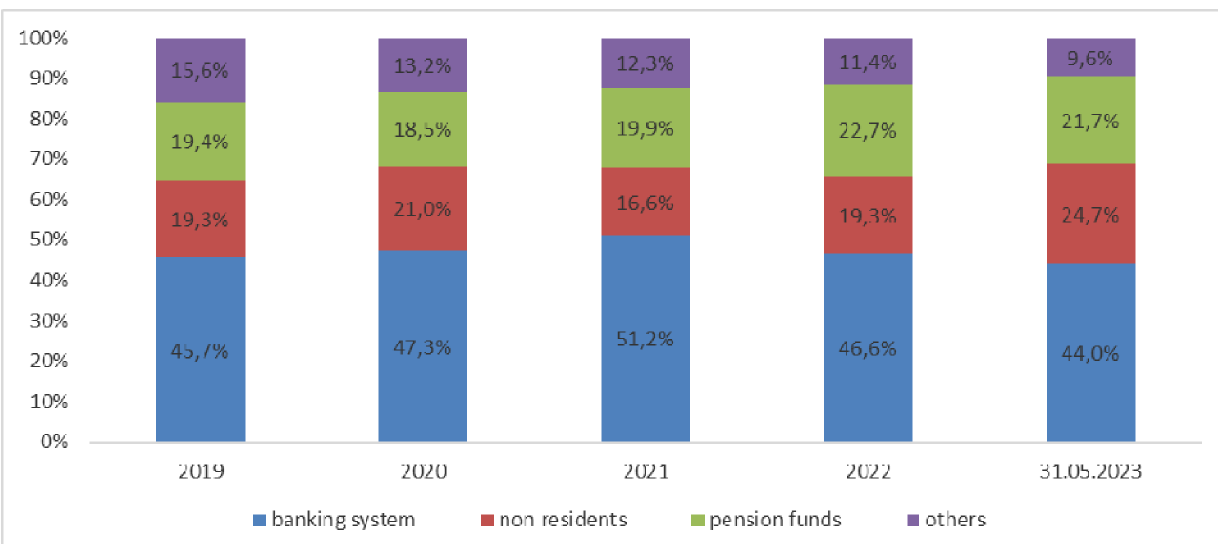
Investors' demand for government securities on the domestic market, graphically revealed by the total offer and by the ratio between the investors' offer and the announced volume (Bid-to-cover ratio), decreased significantly during 2021 compared to the previous year, and the beginning of 2022 did not bring significant changes in the investors' offer to participate, the trend being of a decrease in the total offers, which is correlated with the evolution of the adjudicated volume over the analysis interval (January 2021 - October 2022). Since November 2022, the demand of investors for government securities has increased significantly, with adjudicated amounts above the announced level.

Investor base

Commercial banks continued to be the main investors on the domestic market of government securities, holding in their portfolio at the end of 2022, approx. 46% of the total volume of government securities issued on the domestic market, down from the end of 2021 (51.2%), followed by pension funds which registered an increase in holdings to 22.7% at the end of 2022 compared to approx. 20% at the end of 2021.

In the segment of institutional investors, local funds of administration of assets and private pension funds, although still holding a relatively low share on the government securities market, have been a stable participant in the process of government financing. The investment structure of private pension funds continued to be maintained with a majority share in government securities from the total assets.

Chart 12: Evolution of government securities by type of holders



Source: NBR

At the end of May 2023[19], the share of government securities in the investment structure of private pension funds was about 65%, an increase compared to the end of 2022 (62%).

Non-resident investors continue to represent an important segment of the government securities market, ensuring a complementary demand for local investors through the interest shown

[19]Source: FSA Monthly Trend Monitoring Report on Non-Banking Financial Markets, May 2023

especially on long maturities, leading to the diversification of the investor base. At the end of 2022, holdings stood at around 19.3%, up from 16.6% at the end of 2021, at the end of May 2023 at 24.7%, amid a very high appetite for government securities, mainly on long maturities in the first months of the year.

The effects of non-residents' increasing holdings should be closely monitored during periods of volatility, when investors tend to liquidate or reduce their exposures on emerging countries.

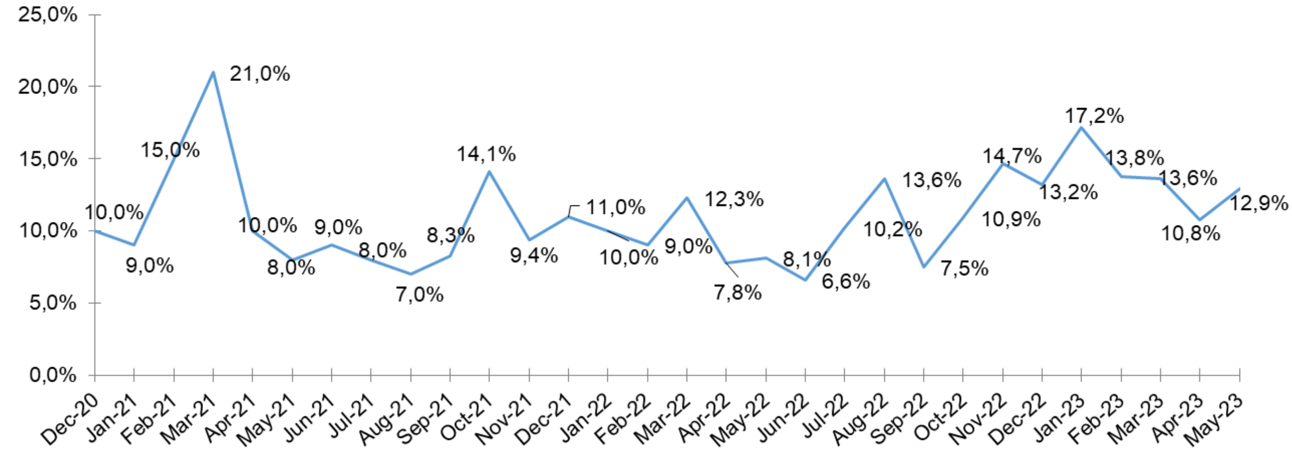
The increase in the presence of non-resident investors was influenced by the context of the expectations to end the NBR monetary policy strengthening cycle, by the shape of the yield curve in RON compared to those in the region (the curves of Hungary and Poland were either reversed or flattened) as well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

The presence of Romanian government securities in the regional indices JPMorgan and Barclays continues to have a positive influence on the local market. At the end of May 2023, 20 series of Romanian government bonds were included in the GBI-EM Global Diversified Investment Grade index, with a weight of approximately 3.66%, and 23 series in the Barclays EM Local Currency Government Index, with a weight of 0.99%.

Secondary market

The liquidity of government securities on the secondary market is an important indicator in terms of the level of development of the government securities' market. During 2022, the degree of liquidity, calculated as the ratio between the total volume of monthly transactions on the secondary market and the total volume of government securities, had an oscillating evolution, reaching higher values in March (12.3%), August (13.6%), November (14.7%) and December (13.2%) and minimum levels in April (7.8%) June (6.6%) and September (7.5%), when the investors' interest was mainly directed to the primary market as a result of the high government financing needs. The first part of 2023 marked an increase in the liquidity of government securities denominated in RON under the conditions of significant volumes issued on the primary market, the level of liquidity of government securities denominated in RON on the domestic market being higher than that recorded during 2022.

Chart 13: Evolution of the degree of liquidity of active government securities in RON between 2020 and May 2023



Source: MF

At the end of the fifth year of operation of the electronic platform for quotation and trading of Romanian government securities (E-bond platform – provided by Bloomberg), it can be noticed the positive impact on the government securities market is observed. Relative to the minimum daily quotation obligations on the electronic quotation and trading platform[20], the primary dealers quoted more series of government securities for a longer period throughout one day, at a lower margin between the bid and ask quotations.

Implementation of the financing plan on the domestic market

During 2022, MF kept a predictable and flexible issuance policy, adapted to the requirements of the investment environment, especially against the background of increasing financing needs in the context of the pandemic and the evolution of the conditions on the domestic market that fluctuated considerably. Demand has been fluctuating in a year marked by high uncertainties induced by both the geopolitical context and the war in Ukraine, as well as by the energy crisis and restrictive monetary policies adopted by central banks.

In 2022, government securities and loans were issued on the domestic market in a total amount of approx. 90 billion in RON equivalent, including government bonds denominated in EUR in the amount of EUR 1.0 billion and government securities dedicated to the population amounting to RON 18.2 billion.

Government securities issued on the interbank market had the following structure:

a) 9.2% represents issuance of treasury bonds with discount and issues of benchmark bonds with residual maturities of up to 1 year;

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

b) 28.3% represents issuance of benchmark bonds with residual maturities between 1 and 5 years; and

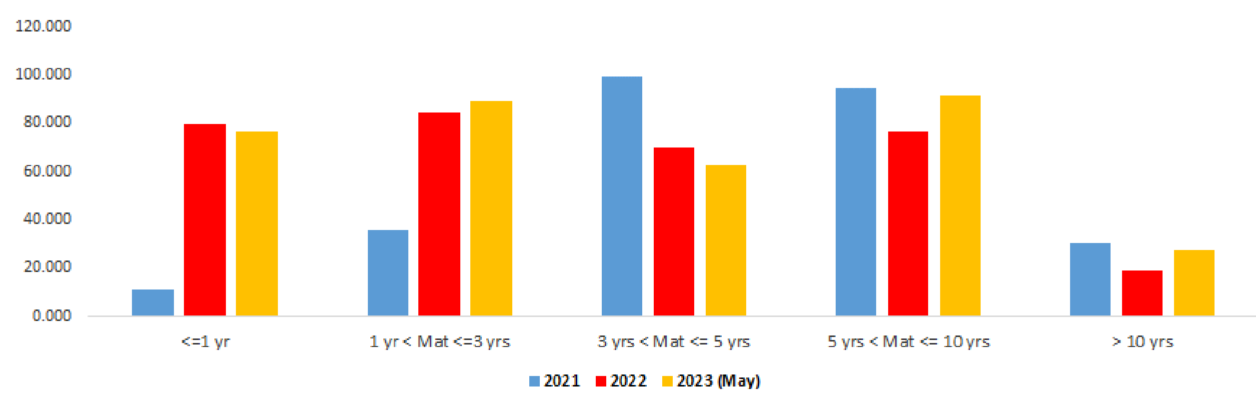
c) 62.5% represents issuance of benchmark bonds with residual maturities between 5 and 14 years.

Benchmark government bonds denominated in RON with original maturities ranging from 3 to 15 years have been issued and reopened almost every month. The Ministry of Finance’s policy sought to extend the average time to maturity of government securities, a significant portion of issuance featuring medium- and long-term maturities.

In 2022, continued the issuance dedicated to the population, through the two programs, TEZAUR and FIDELIS. In the TEZAUR Program, which is implemented through the operative units of the State Treasury, as well as through the post subunits of Compania Nationala Posta Romana S.A., were launched 11 issues with maturities between 1 and 5 years, in which over 114,000 natural persons invested approx. RON 12.1 billion. In the FIDELIS Program, which is implemented through the selected bank union made up of Banca Transilvania/BT Capital Partners, BCR, BRD and AlphaBank, were launched four issues, both in RON (maturities between 1 and 3 years) and in EUR (maturities between 1 and 2 years), with an attracted value of approx. 6 billion in RON equivalent. Thus, 2022 brought a record level of over 18 billion in RON equivalent of the volume of government securities dedicated to the population issued through the 2 programs, the yields of government securities exceeding the bank deposit rates in the context of a constant increase in interest rates on the money market.

In the first five months of 2023, a domestic debt totalling 65.7 billion in RON equivalent was contracted, which also includes the amount of 6.8 billion in RON equivalent of government securities issues for the population attracted under the TEZAUR and FIDELIS programs.

Chart 14: Structure of government securities issues by maturities (initial maturity, billions of RON) 2021 – May 2023



Source: MF

Furthermore, starting with May 2022, the group of primary dealers on the domestic market was extended by accepting CEC Bank, together with the 7 existing dealers - Banca Comercială Română S.A., Banca Română pentru Dezvoltare – Groupe Société Générale S.A., Banca Transilvania S.A., Citibank Europe Plc. Dublin – Romania Branch, ING Bank N.V. Amsterdam - Bucharest Branch, Raiffeisen Bank S.A., UniCredit Bank S.A.

Foreign market

Developments of the foreign markets and of Romanian Eurobonds

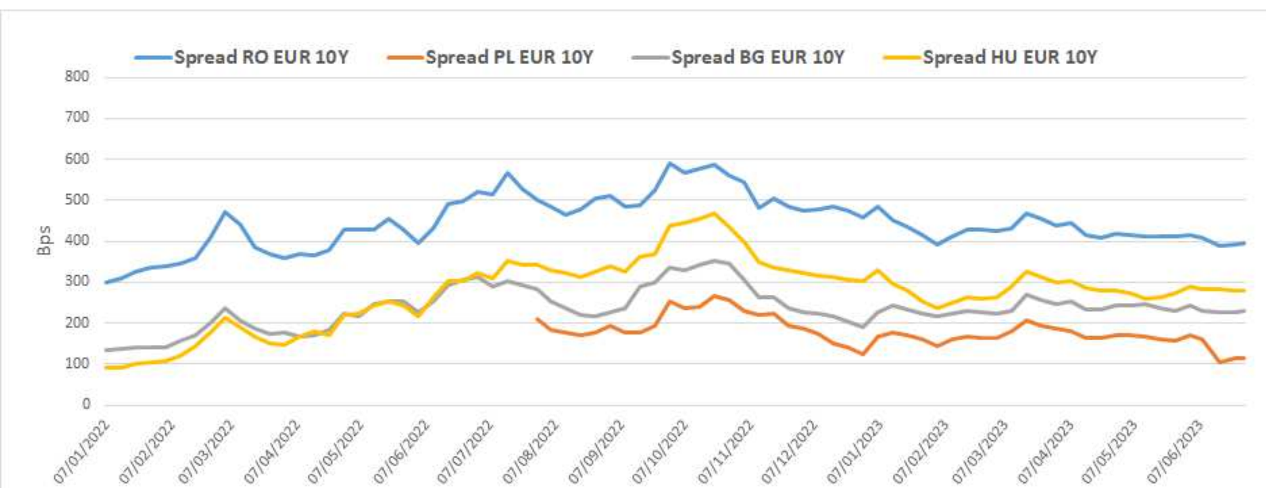
The forecasts for the gradual return to normal economic activity in a post-pandemic context, as well as the global inflationary pressures felt since the second half of 2021, have led central banks and monetary authorities to promote measures to restrict the liquidity of markets by reducing in order to conclude the net asset purchase programs (quantitative easing) carried out in order to support the economies affected by the COVID-19 pandemic.

Central banks in Central and Eastern Europe (CEE) reacted most quickly to inflation, raising interest rates as early as June 2021. Thus, the Central Bank of Hungary increased the reference interest rate from a minimum of 0.6% in June 2021 to 13% in September 2022, the Central Bank of Poland from 0.5% in October 2021 to 6.75% in September 2022, the Czech Central Bank from 0.5% to 7% in June 2022, and the National Bank of Romania from 1.25% in September 2021 to 7% in January 2023.

The perspective of rising reference interest rates as a central instrument of monetary policy to combat inflation has generated an upward trend of interests at global level which continued during 2022. The military conflict in Ukraine that began at the end of February 2022 added more volatility to interest dynamics, with CEE3 countries[21] recording an acceleration in interest growth as a result of the proximity to the conflict area as investors directed their portfolios to safe haven assets in anticipation of rising benchmark interest rates. Thus, the yield curves of CEE3 countries have outlined reversal trends due to the accelerated increase in yields over short and medium maturities that exceeded yields on long terms.

In the period following the shock of the COVID-19 outbreak, the spread of Romanian Eurobonds towards the German Bund entered a decreasing trend, slightly more pronounced than that of similar Eurobonds issued in the region. The onset of the conflict in Ukraine generated an increase in the spreads of Eurobonds denominated in euros, the maximum being reached during October 2022, with consistent decreases[22] of about 100 basis points since then.

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

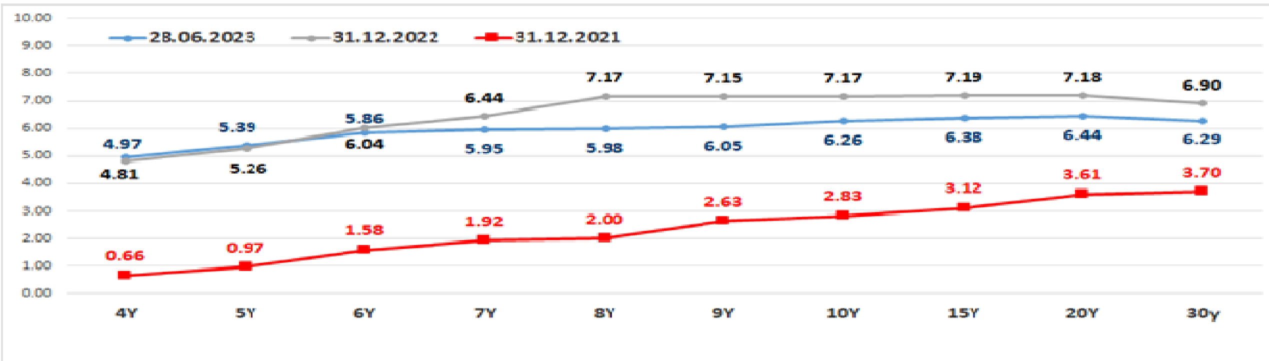


Source: MF

[21] Poland, Hungary, Czech Republic
[22] On June 28, 2023

The yields on euro-denominated government bonds denominated in EUR increased significant growth during 2022 of approx. 400-450 basis points as a result of the conflict in Ukraine and the evolution of inflation in the Eurozone, with a flattening trend of the yield curve during 2023, namely increases of 20-30 basis points for the maturity segment up to 5 years and decreases of 40-90 basis points for maturities longer than 5 years.

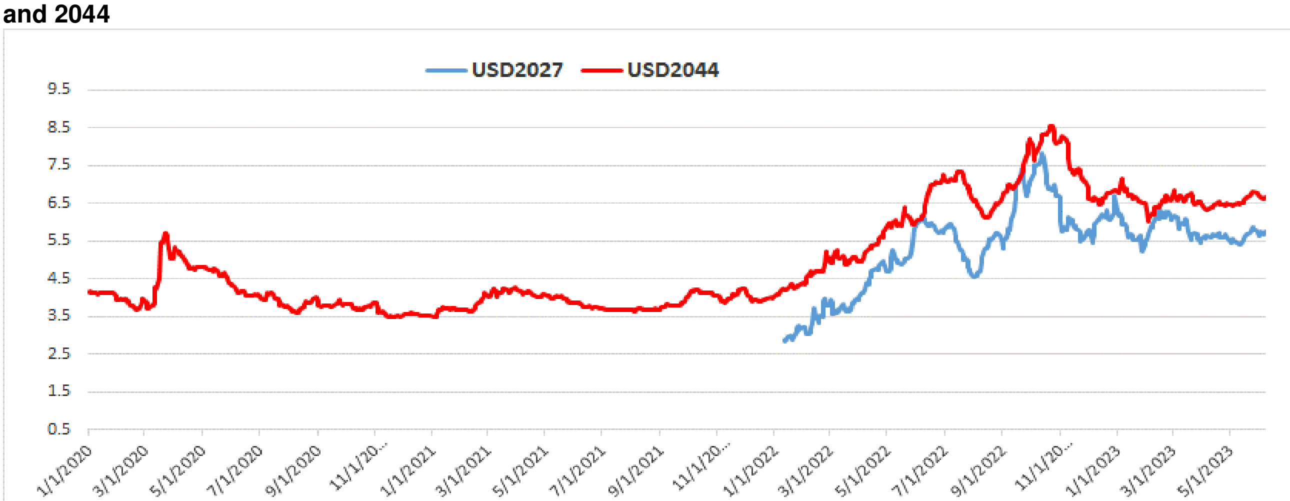
Chart 16 : Evolution of the yield curve of Romania's Eurobonds issued in EUR on the foreign market



Source: MF

Although the yields of Romania's Eurobonds issued in USD on the foreign market were relatively stable during 2021, the onset of the conflict in Ukraine generated significant increases, a maximum being recorded during November 2022, and decreases of about 150-200 basis points compared to the beginning of the year.

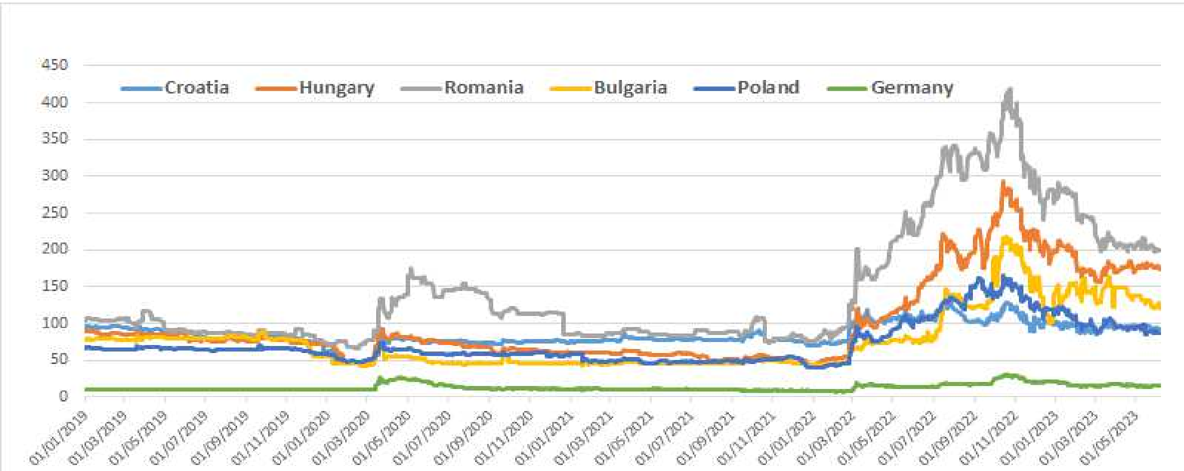
Chart 17: The yields of Romania's Eurobonds issued in USD on the foreign market with maturity in 2027 and 2044



Source: Bloomberg

Romania's CDS (credit default swap) quotations, which represent the price[23] of insurance against the risk of default, have registered increases in February-October 2022, reflecting the highest level in the region as a result of the increase in the general risk perception of investors in the context of the Russia-Ukraine conflict, as well as the increase in inflation rate. Since the last quarter of 2022, there have been sharp decreases, with the period January – June 2023 recording a constant evolution.

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



Source: Bloomberg

Implementation of the financing plan from foreign markets

In 2022, it was envisaged to ensure a constant presence on foreign financial markets at cost-effective conditions for Romania, as well as to diversify the investor base and strengthen the financial reserve in foreign currency at the disposal of the State Treasury at a level to cover up to approximately 4 months of the gross financing need. It was attracted, through 4 issues and 4 private placements, the amount of 8.5 billion in EUR equivalent. The terms and conditions of government securities launched on foreign markets are as follows:

Month	Total Value	Maturity	Value	Coupon	Maturity	Value	Coupon
January 2022	**2.44 billion USD**	5 years	1.35 billion USD	3.000%	10 years	1.09 billion USD	3.625%
February 2022	**2.5 billion EUR**	6 years	1.25 billion EUR	2.125%	12 years	1.25 billion EUR	3.750%
May 2022	**1.75 billion USD**	5 years	1 billion USD	5.250%	12 years	0.75 billion USD	6.000%

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

September 2022	**1.35 billion EUR**	4 years	0.600 billion EUR	5.000%	7 Years	0.750 billion EUR	6.625%

In the first half of 2023, the amount of 6.2 billion in EUR equivalent was attracted through 2 issues and 4 private placements. The terms and conditions of government securities launched on foreign markets are as follows:

Month	Total Value	Maturity	Value	Coupon	Maturity	Value	Coupon	Maturity	Value	Coupon
January 2023	**3.99 billion USD**	5 years	1.24 billion USD	6.625%	10 years	1.5 billion USD	7.125%	30 years	1.25 billion USD	7.625%
February 2023	**2 billion EUR**	3 years (residual)	0.6 billion EUR	5.000%	6 years (residual)	1.4 billion EUR	6.625%	-	-	-

By using loans in the form of private placements, it was envisaged to supplement financing on international financial markets.

The operations on the foreign market in 2022 also included drawdowns totalling approx. EUR 4 billion related to loans contracted from international financial institutions (EIB, IBRD, etc.) as well as loans from the European Union (EU) under the financing instruments established at EU level since 2020.

Sovereign Rating

During 2022, the rating agencies Standard & Poor's and Moody's maintained Romania's rating in the category of recommended for investments (Standard & Poor's – BBB-/A-3 and Moody's – Baa3/P-3). The decisions took account of the positive perspective of economic growth supported by Next Generation EU funds and the Romanian authorities' commitment to fiscal consolidation under the excessive deficit procedure, but signaled a number of risks that could affect the sovereign rating in the coming period, such as the failure to achieve a sustained reduction in fiscal imbalances or the structural deterioration of public finances, as well as the widening of the current account deficit or an increase in geopolitical risk as a result of the Russian invasion of Ukraine.

In October 2022, Fitch confirmed the country rating at BBB-/F-3 and the negative prospect, taking into account Romania's EU membership and EU capital flows that support external stability and internal macro-stability, as well as the evolution of GDP per capita and governance and human development indicators that are above those recorded by neighboring countries.

During March 2023, Fitch confirmed the country rating at BBB-/F-3 and improved the prospect from negative to stable. The decision to revise Romania's rating prospect was supported, in Fitch's opinion, by the stabilization of the public debt and the implementation of policies aimed at ensuring a gradual fiscal consolidation, as well as by the political stability in our country and the reduction of risks regarding the war in Ukraine and the subsequent energy crisis.

Standard & Poor's and Moody's maintained in the first five months of 2023 Romania's rating in the category of recommended investment (Standard & Poor's – BBB-/A-3 and Moody's – Baa3/P-3), as well as the stable prospect.

Expectations regarding the evolution of financial markets during 2023-2025

The measures to combat inflation and geopolitical risks at high levels following the military conflict in Ukraine represent challenges on medium and long term and will focus government efforts globally. Against this background, interest rates are most likely to remain at high levels both globally and domestically, with the NBR inflation projections[24] indicating declining annual CPI inflation rates of 7.1% at the end of 2023, down to 4.2% at the end of 2024 and to 3.9% in March 2025.

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

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

The financing process on medium term

On medium term, the MF will continue to maintain a flexible approach in carrying out the financing process, both in the light of accessing domestic and foreign markets and the debt instruments used, aiming to ensure the predictability and transparency of the offer of government securities, in order to be able to react promptly and appropriately to potential changes in market trends and investors' behavior.

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

On the domestic market, in order to reduce financing costs and promote an improved operation of the secondary market, the MF intends to continue the policy of building a series of liquid benchmark government bonds on the entire yield curve, along with a transparent policy of issuing government securities, seeking to reach volumes per issue of approximately EUR 2.5-3 billion, with prior information of the market in terms of volumes, frequency of launching/reopening of certain categories of maturities. The MF may issue government securities denominated in EUR on the domestic market if an important demand for such instruments coming from the local investors is found, in the absence of alternative instruments, thus creating the assumptions for an advantageous maturity/cost ratio.

Also, according to the completion of the procedural and operational framework with the NBR[25], starting with 2022, it is considered the use of specific liability management operations, such as early redemptions or switches of government securities in order to facilitate the process of refinancing of accumulated high-volume series, which become due and to accelerate the process of creating series of liquid benchmark government securities.

[24] NBR - Inflation Report - May 2023
[25] The auctions related to the early buy-back and switch operations on the domestic market are carried out using the electronic platform developed by the NBR for the auctions related to the primary market.

Correlated with the attracted volumes, the financing process shall consider a flexible structure of maturities, which would continue to allow the extension of the debt portfolio duration and the reduction of the refinancing risk on medium term. In this respect, it is important to diversify the local investment base, where the share of government securities held by commercial banks remains high, although with a downward trend.

In the situation of increasing interest rates for emerging markets which also include Romania, even temporarily government securities holdings have a negative effect on the profitability and capitalization of banks as a result of the recognition of mark-to-market losses on fixed-income instruments held, which affects demand at government securities auctions.

To the same extent, it is important the evolution of the level of participation to the market of government securities of the other categories of local investors, namely investment funds, private pension funds, with an important potential in supporting the development of the domestic market of government securities.

In this context, in the implementation of the medium term financing plan, the MF is considering measures for diversification of the holding of government securities with an effect on the mitigation of the concentration risk and on the decrease of pressure over the yields on the primary market. For this purpose, as well as in order to increase the accessibility of natural persons and the diversification of sales channels of government securities, as saving instruments, the MF will maintain the offer of government securities dedicated to natural persons, by continuing the issue of government securities for the population within the two dedicated programs, Tezaur and FIDELIS.

With respect to accessing the *foreign market*, the MF intends to maintain a constant presence on the international financial markets and to continue the liability management operations (early redemption/switch) in order to mitigate the refinancing risk according to market conditions, allowing to obtain advantageous costs for the Romanian State.

The MF will remain flexible with regard to the moment of accessing the international markets, the volume and currency of external issues, taking into account the associated costs, risk considerations, as well as the evolution of demand and the terms and conditions of issue on the domestic market.

In addition, during 2023, the Ministry of Finance intends to launch the first issue of green/social/sustainability Eurobonds, in the context of the completion of the Sovereign Green Bond Framework, as well as accessing the Japanese market by launching a Samurai issue.

At the same time, on the medium term, the EU financial support envelope, which Romania also benefits from, through the Recovery and Resilience Facility, will play an important role both in achieving the budget correction and in implementing essential programs and investments that support the resilience and adaptability of the economy in the context of the recovery after the COVID-19 crisis, as well as the growth potential through major reforms and key investments to facilitate the green and digital transition. For the implementation of the NRRP, Romania benefits from funds amounting to EUR 27 billion, of which EUR 12.1 billion[26] are non-reimbursable financing and EUR 14.94 billion are loan support. The use of the loan component will have a positive impact in reducing the financing costs at sovereign level, taking into account the very advantageous costs related to the loan (i.e. in the financial terms to which the EC borrows on behalf of the EU from the financial markets, plus the costs incurred by the EC to obtain and manage the respective financing), which will have a positive impact on the interest spending related to the public debt and implicitly on the budget deficit in the years following the use of the drawdowns from this loan.

[26]The value was revised from the level of EUR 14.2 billion by the EC according to Article11(2) of EU Regulation (2021)/241

On the medium term, the MF intends to continue the partnership with international financial institutions, including the European Union, in order to benefit from the financial advantages that correspond to the products thereof in limiting the costs and extending the maturity of the debt portfolio through the cost and maturity conditions offered, for the purpose of financing the budget deficit and refinancing the government debt, the amounts being made available on the basis of the implementation of certain measures and/or other actions necessary in the field of sector reforms.

Table 7: Financing sources related to estimated financing needs *)

Financing sources	Maturity (years)	Value (billions)		
Domestic market		**2023**	**2024**	**2025**
1. Treasury Certificates (RON billions)	Up to 1 year	6	6	6
2. Benchmark bonds in RON and EUR (billion Ron)	over 1 year	77	71	68
1. Government securities for the population (RON billions)	1 - 5 Years	15	15	15
Foreign market				
1. Eurobond issues under the MTN Programme (billion EUR equivalent)				
EUR/USD	Over 10 Years	8.5	7.0	3.0
2. Loans from international financial institutions (EUR billion):				
a) Loans from EIB (including SPL), IBRD, CEDB, etc.	On average 15/20 years of which 4-5 years grace period; maturity varies depending on the Financier and the loan status[27]	0.8	0.8	0.6
b) Loans from the European Union under the loan component of the NRRP of about EUR 14.94 billion[28]	On average approx. 20 years	0.9	1.9	4.6

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

5. Macroeconomic framework[29] in Romania

In 2022, Romania's economy returned to pre-pandemic levels earlier than anticipated. Active economic and fiscal measures have been effective in supporting economic activity: the economic growth of 4.7% in 2022 reflects a full economic recovery, driven, on the demand side, mainly by private consumption and investment, with an average annual growth rate of approx. 4.2% forecast for 2023-2025.

Romania ended 2022 with an annual inflation rate of 16.4%, the highest increase in 20 years. Domestic inflationary pressures were mainly generated by price increases in energy goods but also by increases in food commodity prices. On an annual average, inflation stood at 13.8%. Above-average increases were noted in food prices (15.7%), followed by non-food goods (14.7%), while services fees increased at a slower pace, by 7.8%.

As of 2023, inflation has recorded a downward trend and according to the forecasts of the National Commission for Strategy and Prognosis it is estimated that inflation will end in 2023 at a level of 7.4%. In the period 2024-2025, a downward trend of inflation is expected, as the effects of supply shocks diminish, so that inflation projected at the end of 2025 will reach 2.9%

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

[28]The financing plan for 2023 includes for conservative reasons the amounts estimated to be made available in 2023 under the second instalment of the loan component related to NRRP. If the 3rd instalment will be made available during 2023, it will contribute to the consolidation of the foreign currency buffer and will ensure the pre-financing of the financing needs in 2024.

[29]The chapter is developed based on the projection of macroeconomic indicators published by the NCSP- Spring Forecast, May 5, 2023

and 3.2%, respectively, as an annual average.

Romania has managed to maintain a relatively stable economic balance, including in terms of the labour market, which has been supported by the establishment of support measures for employees and employers, the improvement of flexibility in the workplace, as well as re-routing the human resources to sectors less affected by the crisis and with growth prospects in the coming years. Under these circumstances, in 2022, compared to the previous year, there was an increase in both the employed population and the number of employees (by 0.7% and 1.1%, respectively), while the ILO unemployment rate remained constant (at 5.6%). A downward trend of the unemployment rate is estimated in the medium term, with a level of 5.4%, 4.9% for 2024 and 4.5% in 2025 being forecast for the end of 2023.

In 2022, the current account deficit increased to 9.3% of GDP, compared to 7.3% in 2021. In 2023 as a whole, the current account deficit of the balance of payments is expected to reach a value of EUR 26.2 billion, representing 8.1% of GDP. On the medium term, the current account deficit will remain at an annual average value of EUR 27.3 billion with a share in GDP of 7.2% for 2025.

The macroeconomic framework set up for 2023-2025 is based on considerations such as the economic developments of 2022, the reassessment of the developments of the macroeconomic indicators in the context of the conflict between Russia and Ukraine and the international sanctions imposed, the effects of the energy crisis and the disruptions in the supply chains, manifested since the second half of 2021, which increased with the outbreak of war, as well as the attraction of European funds through the National Recovery and Resilience Plan and the Multiannual Financial Framework.

For that matter, the **IMF (April 2023)** estimates a global economic growth of 2.8% for 2023 and 3.0% for 2024. Advanced economies are expected to experience an average slowdown in economic growth of 1.3% this year and 1.4% in 2024, respectively, while more pronounced growth in developing countries is expected to materialize, of 3.9% in 2023 and 4.2% in 2024. For the Eurozone states, a growth of 0.8% is expected in 2023 (by 0.1 p.p. above winter estimates and by 0.3 p.p. above last year's autumn estimates), due in particular to the adjustment of the economic growth forecasts for Spain (+0.4 p.p. to 1.5%) and Italy (0.1 p.p. to 0.7%). For the German economy, a slight recession is expected this year (-0.1%) followed by a growth of 1.1% in 2024. In 2024, the Eurozone economies could grow by 1.4%.

According to the latest data published by the **World Bank (April 2023),** with the exception of Russia and Ukraine, economic growth in the economies forming the Europe and Central Asia region is projected to decelerate to 2.4% in 2023 from 4.7% the previous year, reflecting the impact of tighter financial conditions, persistent inflation and low external demand. Growth in 2023 could be even weaker given the escalation of war in Ukraine, if global and regional monetary policy tightens rapidly or if there is a sharp reversal of capital flows in the region. For 2024, an economic growth of 2.7% is expected in the region. Compared to the projections for this year from January, the region's growth prospect improved by 1.3 p.p., while for 2024 the economic growth was slightly revised down by 0.1 p.p. For the Central European region (Bulgaria, Croatia, Hungary, Poland and Romania) the economic growth for 2023, compared to the previous forecast, was maintained at 1.1% and adjusted upwards by 0.2 p.p. for 2024 (2.9%).

OECD estimates (June 2023) indicate an average global GDP growth projection of 2.7% in 2023 and 2.9% in 2024. Growth in the global economy is expected to remain below the trend between 2023 and 2024, although the level is expected to improve in 2024 as inflation gradually eases and real incomes strengthen. Growth in the euro area is estimated at about 0.9% in 2023 and 1.5% in 2024, but the benefits of lower energy and food prices will support the reduction of inflation in 2023, although core inflation will remain high.

The budgetary planning for the years 2023 - 2025 was based on the measures taken by the Romanian Government in 2021 and 2022 to recover the economy and stop the negative effects of the pandemic, to which the new measures taken during 2023 are added, which will influence the macroeconomic framework and the budgetary indicators over the period 2023-2025, as well as the financing priorities from the national budget, and the expectations of a real GDP growth of 2.8% for 2023.

The budgetary plan for 2023 is influenced by fiscal and budgetary policy aimed at adopting fiscal measures for economic development and preparing for the challenges and opportunities offered by the transition to a green and digital economy. The EU financial envelope finances projects in the field of digitization, combating pollution, infrastructure, health, education, structural reforms, better governance of the public sector, development of competitive advantages that have the effect of increasing potential GDP. The commitment of the Romanian authorities to implement Romania's National Recovery and Resilience Plan (PNRR) represents an economic and financial opportunity to mitigate the economic and social impact of the COVID-19 pandemic and to prepare for the challenges and opportunities offered by the transition to a green economy and the digital transition.

As of 2021, Romania has been on a path of gradual adjustment of the deficit towards the target recommended by the European Commission, but ensuring sustainable economic growth throughout the forecast horizon, with the budget deficit decreasing from 6.7% of GDP in 2021 to 5.7% of GDP in 2022.

Fiscal and budgetary policy for 2023 and in the medium term ensures the gradual reduction of the budget deficit without affecting the support capacity of the economy and the promotion of investments. The budget approved for 2023 and the medium-term estimates reflect an ESA budget deficit of 4.4% of GDP this year, and the deficit will reach in 2024 below 3.0% of GDP, within the Maastricht Treaty provisions by the end of the forecast horizon, which will allow the exit from the Excessive Deficit Procedure.

The budgetary consolidation on the medium term will be achieved mainly on the basis of the adjustment of the share of permanent spending in GDP, against the background of maintaining a prudent wage policy in the budgetary sector (as in previous years), while a significant increase in investments is projected, providing the basis for a sustainable economic growth in the medium and long term, at the expense of the multiplier effect in the economy. At the same time, the increase in the share of budget revenues will be supported by the accelerated absorption of European funds, respectively by the improvement in the collection of current revenues, against the background of a supra-unitary elasticity of these revenues compared to the nominal GDP dynamics, in the context of the implementation of the reforms and investments covered by the National Recovery and Resilience Plan.

On the medium term (2023–2025), under conditions of fiscal consolidation, the reduction of the budget deficit will reduce the financing needs at government level and implicitly maintain the government debt at a sustainable level.

Table 8: Financing needs forecast

Indicator	2022 operative execution	2023 forecast	2024 forecast	2025 forecast
Revenues of the central government (billion RON)[30]	376.4	432.2	455.1	495.2
Spending of the central government (billion RON)[31]	458.1	499.7	505.2	548.6
Budget deficit pertaining to the central government (I)				

[30]Calculated on the basis of cash data applying the EU methodology.
[31]Idem 27

(billion RON)[32]	81.7	67.6	50.0	53.4
Refinancing of the Government Debt[33] (II) (billion RON)	69.2	92.5	90.7	69.4
Gross financing requirement (I+II) (billion RON)	150.9	160.0	140.7	122.8

Source: MF

At the end of 2022, the share of government debt calculated in accordance with the EU methodology, was at **47.3%**[34] of GDP below the 60% ceiling set by the Maastricht Treaty.

According to the Fiscal and Budgetary Strategy, on the medium term (2023 – 2025) and the Convergence Programme (2023-2026), under conditions of fiscal consolidation, the estimates regarding the evolution of the gross government debt, according to the EU methodology, are to place this indicator at a sustainable level below 50% of GDP.

The **government debt indicator** calculated in accordance with the methodology of the European Union, based on preliminary data, expressed as a percentage of GDP, is at the level of 50.1% of GDP at the end of May 2023 and includes the pre-financing of the loan component for the implementation of NRRP but also the debt contracted to finance the budget deficit approved for 2022 and the refinancing of the due public debt. **For the end of 2023, the government debt forecast as a percentage of GDP is 47.1% of GDP**[35], calculated on the basis of the economic growth of 2.8% projected for 2023[36] and the level of the consolidated general government deficit of 4.4% of GDP.

The macroeconomic hypotheses of the Strategy for the period 2023-2025 are presented in the table below.

Table 9: Baseline scenario of macroeconomic forecasts

Indicators	2021	2022	2023 forecast	2024 forecast	2025 forecast
Nominal GDP (billion RON)	1,187.4	1,409.8	1,591.0	1,758.5	1,913.8
GDP growth (%)	5.8	4.7	2.8	4.8	5.0
Budget deficit pertaining to central government [37] (% of GDP)	-7.0	-5.7*)	-4.4	-2.95	-2.9
Current account deficit (% of GDP)	-7.3	-9.3	-8.1	-7.7	-7.2
Inflation (end of year %)	8.2	16.4	7.4	3.9	2.9
Inflation (annual average %)	5.1	13.8	10.7	5.4	3.2
Average RON/EUR exchange rate	4.92	4.93	4.94	5.0	5.06
Average RON/USD exchange rate	4.16	4.69	4.58	4.63	4.69

Source: NCSP Spring Forecast, May 5, 2023
*) operative execution on December 31, 2022

Risks corresponding to initial projections

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

[32]Idem 27
[33]The volume of repayments of capital instalments and government securities refinancing on account of government debt, according to national law, calculated on the basis of the debt balance at the end of 2022 (includes state guarantees, but does not include temporary financing).
[34]According to EUROSTAT Communication no.47 – 21 April 2023
[35]According to the Convergence Program 2023-2026 – Section 4. Developments and level of government debt
[36]NCSP Spring Forecast, May 5, 2023
[37] Calculated on the basis of cash data applying the EU methodology.

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

Combating inflation will remain an important challenge for central banks. During 2023, the FED increased interest rates 3 times to 5.00%-5.25, according to official releases. In order to implement a monetary policy restrictive enough to bring inflation back to 2%, the FED will take into account the cumulative tightening of monetary policy, the gaps with which monetary policy affects economic activity and inflation, as well as economic and financial developments, in particular the effects of interest rate increases on the financial situation of banks, especially in the context of the recent problems faced by the US banking system, which culminated in the bankruptcy of 3 banks. In addition, the FED will continue to reduce its government securities holdings.

The Bank of England also proceeded to successive increases in the reference interest rate of the pound sterling during 2023 up to the value of 5.0% made in June 2023. The ECB also increased the interest rate on the main refinancing operations to 4%, the interest rates on the marginal lending facility to 4.25% and that on the deposit facility to 3.25%.

With respect to the domestic market, it shall be influenced by both the unpredictability of the economic and political environment at international level, and by the evolutions at domestic level.

Given the expected budget deficits of 4.4% in 2023 and below 3% of GDP during 2024-2025, the issue of new debt necessary to cover still high financing needs on the domestic market must take into account the absorption capacity of the domestic market and the characteristics of the holders of government securities issued on this market (the banking sector is still the main holder). This risk factor can be mitigated on long term by increasing demand from institutional investors such as pension funds or other capital market participants such as local asset management funds and insurance companies. Since the beginning of 2022, the nominal value of holdings of government securities in the portfolios of privately managed pension funds and voluntary pension funds has shown an increasing trend, while their share in total assets has decreased marginally over the same period. The MF will continue the dialogue with Romanian or foreign institutional investors, in order to consolidate the holdings of government securities issued by Romania in their portfolio.

Political implications at macroeconomic level

The macroeconomic projections in the basic scenario indicate an increase in the central government's financing needs in 2023 compared to 2022 and a gradual decrease in the following years as the budget deficit gradually reduces to 2.9% of GDP in 2025. Thus, financing strategies will have to be implemented taking into account the volume of debt refinancing and budget deficits of over 3% of GDP in 2023, but decreasing on the medium term, while increasing tolerance for financial risks. In the financing process on medium term, the MF will consider reaching its specific objectives, but it will also take into account the macroeconomic framework and the changes in demand at the level of the investment base both at internal and external level.

In conclusion, the main risks associated with the macroeconomic hypotheses in the basic scenario show that, in the light of the anticipated/estimated monetary policy decisions both internally and externally, a volatile market context is expected to remain, at least for 2023.

6. Analysis and strategic guidelines

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

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

Although it is decreasing compared to previous years, the exposure to the **refinancing risk and implicitly to the interest rate risk of the debts issued on the domestic market continues to represent the main risk sources for the current government public debt portfolio.**

The currency risk is moderate, being mitigated by the share of debt in foreign currency issued on the long term (denominated in EUR and USD), as well as by the maintaining of the financial reserve in foreign currency at the disposal of the State Treasury. The contracting of the debt on long and very long maturities and the diversification of the investor base further justify the option of issuing Eurobonds denominated in USD, especially in the context of using currency swaps, following the conclusion of the ISDA documentation with a series of counterparties. Currently, the analysis carried out shows that in the absence of the necessary framework for the use of derivatives to manage the risks related to financing in other currencies, USD financing for maturities of up to 5 years and on the very long term (30 years) is more costly and riskier than financing in EUR[39]. Nevertheless, the analysis must take into account the cost associated to the use of long and very long term hedging instruments.

In order to limit the refinancing risk, the MF will continue to use specific liability management operations, such as early redemptions or government securities switches, started as of June 2022 following the completion, in collaboration with the NBR, of the applicable legal framework.

Based on these considerations, the MF assessed financing alternatives that facilitate the limitation of exposure to refinancing and interest rate risk.

Two approaches were used: i) the issuance of government securities in the national currency for maturities as long as possible, and ii) the replacement of financing through government securities denominated in RON on the domestic market with financing through government securities denominated in EUR issued on a long-term basis. In addition, in order to analyze the cost-risk relationship as a result of the issues of long term bonds in USD were simulated several financing strategies with different structures of currencies (EUR versus USD).

The alternative financing strategies were compared on the basis of the projection of the debt service based on different alternative scenarios for the exchange rate and the interest rates. The basic scenario, determined to be the most probable, was used to calculate the estimated cost of different strategies. The risk was calculated by comparing the increase of the cost resulting from the applying of shocks to the market rates used[40] in the base scenario, to the cost in the base scenario. Two cost and risk indicators were used: the debt-to-GDP ratio and the

[38]The government public debt portfolio was considered at the end of 2022.
[39] The current yields (as of June 28, 2023) on Eurobonds denominated in EUR are 6.25% for the 10-year maturity and 6.28% for 30 years, while those on Eurobonds issues denominated in USD on the same maturities are 6.18% and 6.77%, respectively.
[40]For the analysis, forward reference rates for Euro and USD taken from Bloomberg on May 18, 2023 were used

interest payments-to-GDP ratio, both indicators being calculated for the end of the third year of analysis, namely 2025. The results of the cost-risk analysis are supplemented by macroeconomic considerations, those related to the development of the domestic market in government securities, as well as recent trends in external financial markets, as presented below.

Results of the analysis related to the alternative public debt management strategy

Extending the average time to maturity (ATM) for the debt in the national currency: Managing the exposures to the refinancing risk which characterize the debt in national currency using more instruments denominated in RON with medium and long term maturities is increasingly favorable. Under these circumstances, the cost of extending the average time to maturity is similar in terms of the debt-to-GDP ratio and relatively low in terms of the share of interest payments in GDP. Therefore, the scenario analysis supports the MF's debt refinancing policy issued on the domestic market on maturities as long as possible, corresponding to the investors' appetite that will lead to the increase of the average time to maturity, because the cost increase is relatively small compared to the improvement of the debt repayments/redemptions profile and the protection it offers against a possible unexpected and sustained increase in short-term interest rates.

This strategy contributes at the same time to the development of the domestic market of government securities, by increasing the liquidity of government securities issued on the medium and long term, with an impact on the development of the secondary market. The improvement in liquidity can come both by increasing the share of Romanian government securities in regional benchmarks, by using the electronic secondary market trading platform (E-bond), and by using liability management operations (early redemptions and securities switches). However, a reasonable increase in the net volume of medium- and long-term domestic government securities issues should be considered, taking into account the constraints caused by the limited absorption capacity of the domestic market of an increased volume of medium- and long-term government securities, correlated at the same time with the high exposure of the banking sector to government securities, although in 2022 and in the first 5 months of 2023 the adjudicated volumes for residual maturities of more than 5 years were over 60% of the total government securities issued on the interbank market.

Reduction of the refinancing risk by refinancing the RON debt due on the domestic market through 10-year government securities denominated in EUR: The management of the exposures to the national currency debt refinancing risk through EUR financing is advantageous in terms of the debt cost, but if the analysis focuses on stocks, the currency risk prevails and the increase in the debt ratio in EUR amplifies the exposure of the portfolio to a possible depreciation of the national currency. When using as a cost indicator the share of interest payments in GDP, strategies with a predominant financing in EUR have a lower cost, and a lower associated risk comparable to financing predominantly in national currency. The cost differential analysis is determined by the fact that domestic interest rates currently remain above those in EUR by about 0.5% for the 10-year maturity, although the cost differential has sharply reduced from the level of 2.5% recorded in 2021. It is recommended to use financing in EUR to cover high but limited financing needs, given the impact of the exchange rate depreciation and the high share of debt in EUR compared to countries in the same rating category, according to the assessments of the rating agencies.

Structure of the portfolio in foreign currency: The simulation results show a clear preference for financing in EUR rather than in USD. The quantitative analysis shows that, from the perspective

of current and forward yield curves, financing in USD presupposes the increase of the cost compared to financing in EUR. This reflects the estimates related to higher interest rates in USD, as well as a RON/USD exchange rate, which is significantly more volatile than the RON/EUR one, in terms of the appreciation of the American currency compared to EUR.
As the USD market is much more liquid, with a diversified investor base that has allowed Romania to borrow with long maturities while maintaining high financing needs on foreign markets, USD financing will be used in addition to the amounts attracted from foreign markets, contributing to the expansion of the remaining maturity of the debt in the context of high volumes of Romanian government securities denominated in EUR already in the investors' portfolios. Although in the medium term the intention is to maintain the external debt exposure predominantly in EUR, however, if there are opportunities in terms of cost/maturity and taking into account the benefits of diversifying the investment base, impacting on the capacity and medium and long-term financing terms and conditions, both the issuance of debt in USD and in other currencies, such as accessing the Japanese market by issuing Samurai bonds, will continue to be considered. The risk management derived from exposure in other currencies will be achieved through the use of currency swaps, taking into account the cost associated with the use of long and very long term hedging instruments.

In this regard, in order to reduce the exposure to foreign exchange and interest rate risk associated with the government debt portfolio, the MF envisages the use of derivatives (especially cross-currency swaps), in this regard ISDA Master Agreement framework agreements were concluded in 2022 with a number of counterparties, and a series of legislative changes necessary for the use of derivatives were also made.

At the same time, in order to improve public debt management and avoid seasonal pressures in ensuring the financing sources of the budget deficit and of refinancing of the government public debt, in order to reduce the refinancing risk and liquidity risk, the MF is considering to maintain the financial reserve (buffer) in foreign currency available to the State Treasury, at a value equivalent for the coverage of the financing needs of the budget deficit and refinancing the public debt covering up to 4 months of the gross financing needs.

In conclusion, given the projected budget deficits of 4.4% in 2023 and up to 3% of GDP in 2024-2025, the MF is considering to ensure the financing of the budget deficit and the refinancing of government debt mainly in the national currency in order to continue the development of the domestic market, correlated with the absorption capacity of the domestic market of government securities in RON, in parallel with accessing foreign capital markets in EUR but also in USD and in other currencies, depending on the opportunities offered on these markets, in order to extend the average maturity for total debt and diversify the investment base. At the same time, the policy of contracting loans from IFIs will be continued in order to ensure robust sources of financing and to ensure the minimization of costs on the medium and long term.
The MF will continue to promote the development of the domestic market in government securities, through the measures and actions presented in Annex no.1.

Strategic guidelines

The following principles shall form the basis of financing decisions in 2023 - 2025:

1. Financing mainly in the national currency on the medium term, which will further facilitate the development of the domestic market of government securities and at the same time support the reduction of exposure to currency risk taking into account the demand for debt

instruments in RON[41], as well as the needs to diversify the investor base in government securities. EUR issues on the domestic market will be considered only in the context of the specific demand expressed by local investors, at medium maturities, depending on the market conditions and the appetite manifested by the investment environment, under the conditions of an advantageous maturity/cost ratio.

2. Achieving a profile as uniform as possible of debt repayment, avoiding as much as possible to concentrate the repayments of capital installments/refinancing of government securities on short-term, including through the performance of liabilities management operations (early redemptions or switches of government securities).
3. Mitigating the refinancing risk and the liquidity risk through maintaining of a reserve in foreign currency available to the State Treasury to provide[42] the necessary protection in the event of periods of financial market volatility.
4. In the foreign financing process, consideration will be given to: contracting debt predominantly in EUR and USD, but also in other currencies depending on the opportunities identified, taking into account the cost/risk ratio associated with it and contributing to the diversification of the investment base; extending the number of counterparties with which ISDA framework agreements will be concluded that will also allow the use of derivatives such as currency swaps to better manage the exposure to currency risk; introducing green/social/sustainability bond issues in the context of the completion of the Sovereign Green Bond Framework, in order to diversify the investment base.
5. Keeping the interest rate risk exposure under control by limiting the share of debt that changes its interest rate in one year and the average period until the next re-fixing for the entire debt portfolio.
6. Using the financing instruments provided by international financial institutions (IBRD, EIB, CEB, EBRD, etc.), including those established at European Union level to support the recovery and resilience process at Member State level, taking into account the advantageous terms and conditions offered by them.

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

Currency risk:

1. Ensuring a higher share of net financing from domestic sources starting with 2024 and maintaining the share of debt denominated in the national currency in the total government debt between 45% (minimum) - 60%.

2. Maintaining the share of debt denominated in EUR in the total debt denominated in foreign currency in the range of 75%(minimum) – 90%. With the use of derivatives, this indicator will be calculated after the measurement of the debt due to the use of currency swaps.

Refinancing risk

1. Maintaining the debt share due within 1 year in the range of 15% and 25% (maximum) for debt in the national currency and between 10% and 20% (maximum) for total debt.

2. Maintaining the average time to maturity between 4.0 years (minimum) and 6.0 years for debt in national currency and between 6.5 years (minimum) and 8.0 years for total debt.

3. Maintaining a financial reserve in foreign currency at a comfortable level, so as to mitigate the risks related to periods characterized by high volatility on financial markets.

---

[41] In addition to domestic demand for government securities in RON, non-residents can play an important role both in terms of volumes placed on the domestic market and the maturity structure in the financing process, given their high appetite for government securities with medium and long-term maturities.

[42] The foreign currency reserve must cover a number of months related to the gross financing needs.

Interest rate risk

1. Maintaining the share of debt that changes its interest rate within one year between 15% and 25% (maximum) for the debt in the national currency and between 10% and 20% (maximum) for total debt.
2. Maintaining the average time to re-fixing between 4.0 years (minimum) and 6.0 years for the debt in the national currency and between 6.5 years (minimum) to 8.0 years for total debt.

Table 10: Targets for the main risk indicators

Risk exposure	Indicator	Indicative targets for 2023-2025
Currency risk	Share of debt in the national currency in total debt (% of total) Share of debt denominated in EUR in total debt in foreign currency (% of total)	45% (minimum) - 60% 75% (minimum) - 90%
Refinancing risk	Share of debt due within 1 year (% of total) Share of debt in the national currency due within 1 year (% of total) Average time to maturity for the total debt (years) Average time to maturity for the debt in the national currency (years)	10% - 20% (maximum) 15% - 25% (maximum) 6.5 years (minimum) - 8.0 years 4.0 years (minimum) - 6.0 years
Interest rate risk	Share of debt that changes its interest rate in one year (% of total) Share of debt in RON that changes its interest rate in one year (% of total) Average time to re-fixing for the total debt (years) Average time to re-fixing for the debt in the national currency (years)	10% - 20% (maximum) 15% - 25% (maximum) 6.5 years (minimum) – 8.0 years 4.0 years (minimum) – 6.0 years

Source: MF

The implementation of the Strategy for the period 2023 - 2025 will be monitored on a monthly basis, by following the compliance of the debt indicators with the established targets and the publication thereof in the Monthly Government Debt Bulletin available on the website of the Ministry of Finance. According to the Government Emergency Ordinance no. 64/2007 on public debt, as subsequently amended and supplemented, the strategy is revisable yearly or whenever market conditions and/or financing needs impose it.

Marcel – Ioan BOLOȘ

MINISTER OF FINANCE

Annex no. 1

Developing the domestic government securities market

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

1. *Increasing the efficiency on the government securities market by consolidating and expanding the yield curve on the domestic government securities market:*
   1.1. Defining a policy of the creation and maintenance of liquid benchmark government securities, amounting to up to 2.5-3 billion in EUR equivalent, as the main financing instrument on the domestic market;
   1.2. Continued use of liability management operations to accelerate the process of creating liquid benchmark government securities, while managing refinancing risk and supporting the implementation of the Strategy.
   1.3. Issuing short-term treasury certificates for the purpose of liquidity management, according to investor demand.

2. *Developing the government securities programmes dedicated to population*

   2.1. Continued issuances of government securities for the population within the TEZAUR and "FIDELIS" programmes and distribution thereof through different distribution channels, respectively through the territorial units of the State Treasury, of the Romanian Post and of credit institutions.
   2.2. Measures to increase the attractiveness of these instruments to facilitate the online underwriting and repayment of amounts due to investors.

3. *Diversification and widening of the investor base by:*

   3.1. Issuance of series as large as possible of instruments with different maturities taking into account the different investment needs of local and international investment environments; in this regard, it is envisaged to issue green/sustainable/social bonds and to issue Samurai bonds on the Japanese market;
   3.2. Balancing the rights and obligations of primary dealers and increasing competition between primary dealers by attracting new primary dealers to increase the distribution, intermediation and trading of government securities while increasing transparency in price formation;
   3.3. Analyzing the opportunity to issue new debt instruments required by market participants (such as index-linked or floating-interest bonds), as the government securities market develops and in order to avoid fragmentation of this market;
   3.4. Continued organization of promotional tours for non-deal roadshow investors.

4. *Measures to increase the liquidity of the government securities market*:

    4.1. Monitoring the electronic platform of quotation and trading of government securities by primary dealers (E-Bond) in order to improve the liquidity and transparency of prices of government securities and reduce the risks associated with the trading activities, as well as to promote improvements within the meaning of giving investors the possibility of obtaining quotations through the platform from every primary dealer;
    4.2. Concentrating the liquidity of government securities in a small number of benchmark government securities of an equivalent value of up to EUR 2.5-3 billion per issue;
    4.3. Using liabilities management operations (of early redemption or switch type) to reduce the refinancing risk, establish government securities of liquid benchmark type, increase liquidity and support the actions of the MF of implementation of the Strategy;

5. *Measures considered to increase the transparency and predictability of* the government securities market include:

    5.1. A transparent policy of issuance of government securities through publication of the yearly schedule of issuances of government securities, of quarterly announcements and monthly prospectuses, as well as, when applicable, the presentation in a flexible and timely manner of the amendments due to changes in the market conditions;
    5.2. Continuous dialogue with the participants from the domestic market in order to ensure timely communication of the actions considered by the MF;
    5.3. Regular publication on the web page of the institution in the Public Debt section of the information which is relevant for the investors with respect to the value and structure of public debt;
    5.4. Managing the Bloomberg page dedicated to MF, taking into account its widespread use by domestic and international investors.

Annex no. 2

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

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

1. Continue to maintain the objective of improvement of the prognosis regarding the general current account balance of the State Treasury, by increasing cooperation with other entities in order for them to provide the forecasted information.
2. Adopt an active management of liquidities in order to reduce balance fluctuation, both through the issuance of treasury certificates or through contracting short term loans, according to budget execution and the evolution of the budget deficit, as well as through the active management of excessive current balances.

Thus, depending on the evolution of the budget execution, as well as the demand from the primary dealers, the intention of the State Treasury is to issue treasury certificates or to contact short term loans[43].

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

3. For the purpose of consolidating the institutional framework, in order to ensure an improved coordination of the financing process of the budget deficit, of management of government debt and of management of the State liquidities, monthly meetings of the monthly meetings of the Financial Flows Planning Committee of the State Treasury will continue to be organized, with the participation of representatives of the MF, NAFA and NBR[44].
4. Due to the gap between budget collections and payments during within one month, the State Treasury will continue to resort to cash management operations, through the attraction of very short term deposits from credit institutions, with the purpose of covering temporary cash gaps, according to the evolution of budget execution.
5. Another short term financing instrument for the deficit is represented by the loans from the available funds of the general current account of the State Treasury, amounting to RON 105.019 billion at the end of December 2022, contracted in accordance with the provisions of the Government Emergency Ordinance no. 146/2002 on the formation and use of resources through the State Treasury, as subsequently amended; this ordinance provides the use of the funds available in the general current account of the State Treasury to finance through temporary loans the budget deficits of the previous years and of the current year.

Despite of the advantage of using this instrument, to finance the state budget deficit at low costs, as the average interest rate on these loans was 0.27% in 2022, however, this instrument presents the disadvantage that it depends on the funds available in the account. If the funds available in the General Current Account of the State Treasury are low, other solutions are used, such as attracting deposits under market conditions from credit institutions on a bi/multilateral basis or the sale of available funds in foreign currency existing in the MF's foreign currency reserve.

43 Maturity less than 1 year
44 As a guest

Therefore, the use of this debt instrument implies uncertainty and refinancing risk (even if no deadline is set for the loan's repayment), having a negative impact on the management of government debt. Thus, the MF's intention is to refinance this debt instrument gradually, on the long term, through issuances of government securities, but only if the necessary gross financing is reduced as a result of the fiscal and budget consolidation and of the reduction of the budget deficit below 3% of GDP on the medium term.
An important aspect to mention is that the funds currently available in the General Current Account of the State Treasury also include revenues in RON from the privatization activity, and the use of these revenues causes the decrease of the funds available in the account.

6. Foreign currency reserve available to the State Treasury

In order to improve government debt management and avoid seasonal pressures in ensuring the financing sources of the budget deficit and the refinancing of the government public debt, in order to reduce the refinancing and liquidity risk, the MF will continue the policy of maintaining a financial reserve (buffer) in foreign currency available to the State Treasury, in an amount equivalent for the coverage of the financing needs of the budget deficit and refinancing the public debt covering up to 4 months of the gross financing needs.