



Ministry of Finance

Government Public Debt Report
31 December 2021

General Directorate of Treasury and Public Debt

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1. Developments of the Romanian economy in 2021

In 2021 Romania's economy returned to pre-pandemic levels earlier than expected. The economic and fiscal measures taken led to economic growth of 5.9%.

Romania ended 2021 with an annual inflation rate of 8.2% (up 6.1 percentage points from 2.1% in December 2020) and a BIM unemployment rate of 5.6%, 0.5 percentage points lower than in 2020 (6.1% in December 2020).

In 2021, the current account deficit increased to 7.0% of GDP, compared to 5.0% in 2020, with a projected level of 6.9% of GDP in 2022 and 6.3% of GDP in 2024.

Macroeconomic indicators

Indicators	2020	2021
GDP		
- billion RON	1058.9	1181.9
- real growth, %	-3.7	5.9
Current account balance (% in GDP)	-5.0	-7.0
Consumer Price Index (CPI)		
- end of the year	2.1	8.2
- annual average	2.6	5.1
Average exchange rate		
- RON/EUR	4.8371	4.9204
- RON/USD	4.244	4.14

Source: NCSP, MoF

The general consolidated budget deficit in cash terms in 2021 was 6.7% of GDP, while the budget deficit calculated according to the EU methodology (ESA2010) was 7.1% of GDP.

Under these circumstances, the gross financing needs determined by the level of the budget deficit and the amount of government debt refinancing are shown in the table below:

Financing needs (billion RON)

Indicator	2020	2021
Central government revenue ¹	216.953	250.564
Central government expenditure ²	314.262	335.635
Central government budget deficit ³ (I)	97.3	85.1

1 Calculated according to cash methodology by applying rules according to EU methodology

2 Calculated according to cash methodology by applying rules according to EU methodology

3 Calculated according to cash methodology by applying rules according to EU methodology

Refinancing government debt ⁴ (II)	47.1	53.5
Gross financing requirement (I+II)	144.4	138.6

Source: MoF

Sovereign rating

During 2021, Standard & Poor's and Moody's rating agencies maintained Romania's rating in the recommended investment grade category (Standard & Poor's - BBB-/A-3 and Moody's - Baa3/A-3) and revised the outlook from negative to stable. The decisions took into account the positive outlook for economic growth supported by Next Generation EU funds and the commitment of the Romanian authorities to fiscal consolidation under the excessive deficit procedure, but signalled a number of risks that could affect the sovereign rating in the coming period, such as the failure to achieve a sustained reduction in fiscal imbalances or a structural deterioration of public finances and a widening of the current account deficit.

In October 2021, Fitch confirmed the country's rating at BBB-/F-3 and negative outlook, given the moderate levels of public debt and debt service, as well as GDP per capita and the governance and human development indicators that are above those of neighbouring countries.

2. Strategy for financing the budget deficit and refinancing government debt in 2021

2.1. Financing the budget deficit

The financing of the budget deficit in 2021 was provided both from domestic sources (44.0%) and, in addition, from external sources. The sources needed to refinance the government public debt were provided from the markets on which this debt was issued, as well as from the foreign currency reserve at the disposal of the State Treasury.

The debt instruments used to finance the budget deficit and refinance public debt were:

- a) issues of government securities in RON, i.e. discount treasury bills and benchmark government bonds on the domestic market with medium and long-term maturities, up to 15 years,*
- b) issues of government securities in EUR on the domestic market,*
- c) government securities for the population launched under the TEZAUR Programme through the operational units of the State Treasury, as well as through the postal sub-units of the National Post Company of Romania, and under the FIDELIS programme implemented through the selected syndicate of banks formed by Banca Transilvania/BT Capital Partners, BCR and BRD,*

⁴ Volume of repayments of principal instalments and refinancing of government securities on account of government public debt, according to national legislation, calculated on the basis of the debt balance at the end of 2021 (includes government guarantees, but does not include temporary financing).

- d) Eurobond issues in EUR and USD on the international financial markets,
- e) drawdowns from domestic and external borrowing,
- f) loans from the General Current Account of the State Treasury,

In order to improve public debt management and to avoid seasonal pressures in ensuring sources of financing the budget deficit and refinancing government debt, in order to reduce refinancing and liquidity risk, it was envisaged to maintain a financial reserve (buffer) in foreign currency at the disposal of the State Treasury to cover the needs for financing the budget deficit and refinancing the public debt.

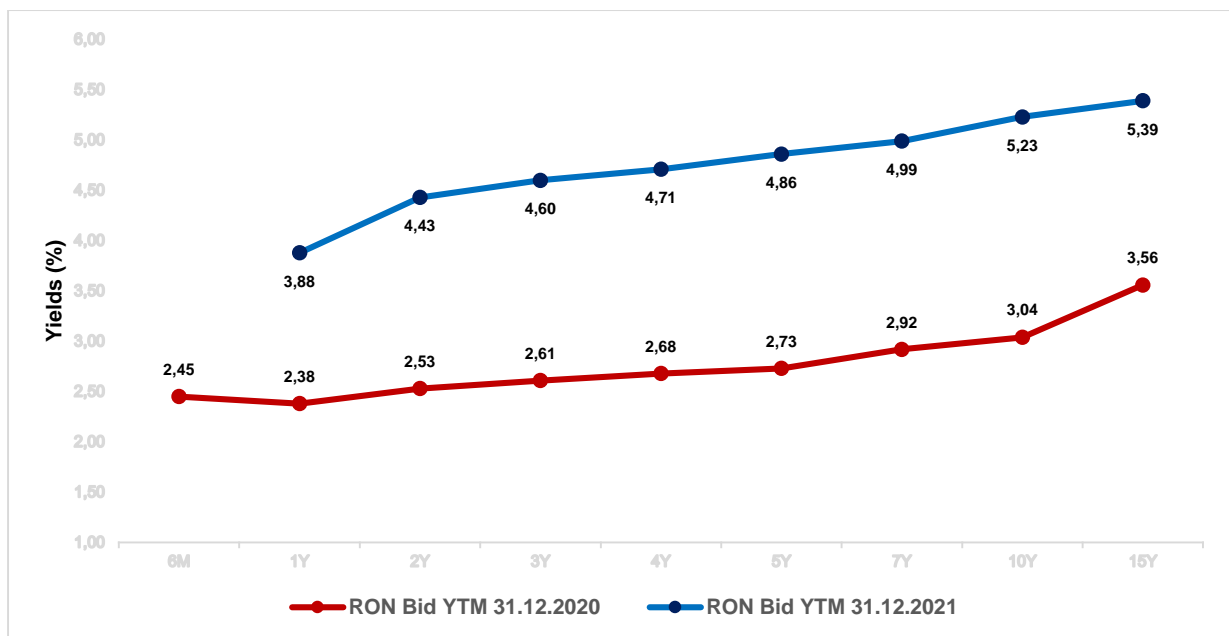
2.2 Domestic government securities market

Primary market

Developments in the domestic government bond market were influenced by a number of internal and external factors, such as political events, increased investor concerns about the sustainability of public finances and continued high financing needs as a result of the effects of the measures taken to combat the effects of the Covid-19 pandemic.

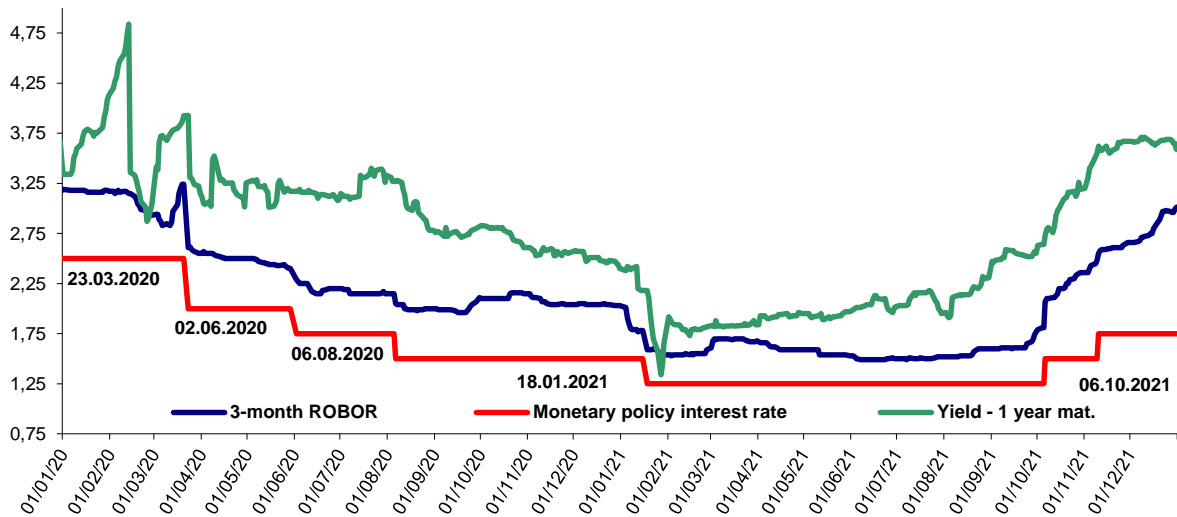
During 2021, the yield curve has been on an upward trend with increases of around 150-220 bps. The variations were mainly influenced by the inflation outlook, which led the National Bank of Romania to increase the monetary policy interest rate in two steps in October and November with each 0.25%, reaching 1.75% at the end of the year.

Evolution of domestic secondary market yields at the end of 2021 vs. the end of 2020



Source: MoF

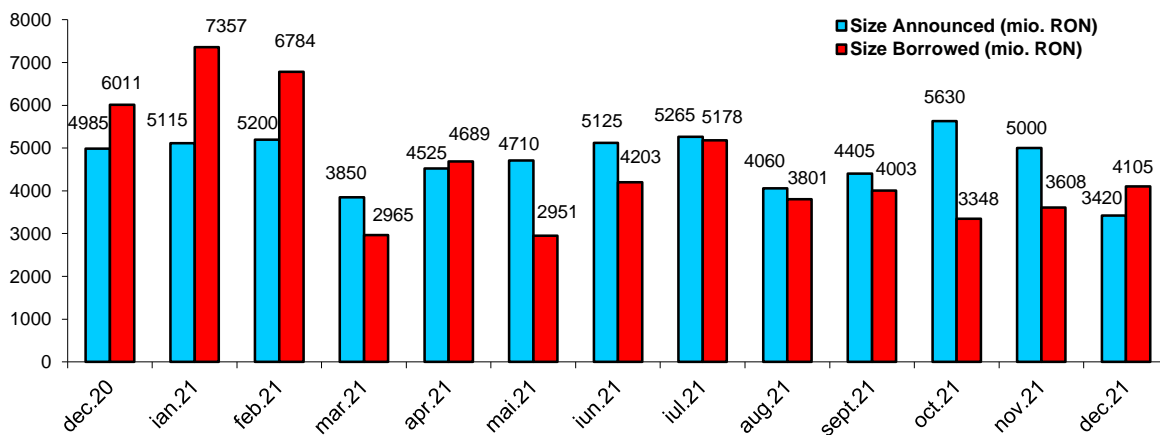
Monetary policy interest rate vs. 3-month ROBOR and 1-year yields



Source: MoF, NBR

During 2021, the Ministry of Finance maintained a predictable and flexible government bond issuance policy, adapted to the requirements of the investment environment, especially against the backdrop of increased financing needs in the context of the pandemic and the evolution of domestic market conditions that fluctuated considerably.

Announced volume vs. adjudicated volume in the period December 2020 - December 2021



Source: MoF

The issuance policy has been predictable and flexible and adapted to the requirements of the investment environment, especially in the context of increased financing needs in the context of the pandemic and the evolution of domestic market conditions which have fluctuated considerably.

In 2021, government securities were issued on the domestic market for a total amount of 70.4 billion RON equivalent, including EUR-denominated government bonds worth

EUR 1.7 billion and government securities for the population worth 9.3 billion RON, representing about 51% of the gross financing needs of the central government⁵ .

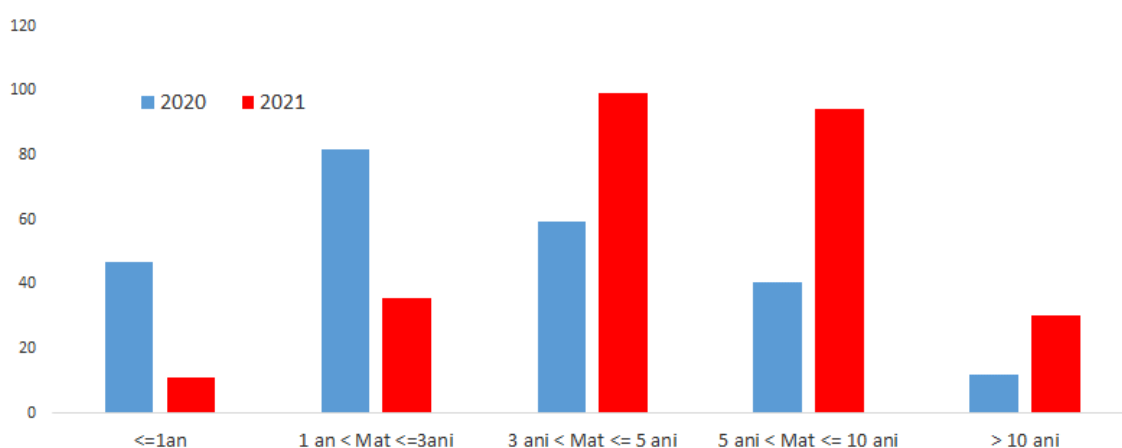
Government securities issued on the interbank market had the following structure:

- a) 13.4% represent issues of discount treasury bills and benchmark bond issues with residual maturities up to 1 year;
- b) 28.4% represent benchmark bond issues with residual maturities between 1 and 5 years; and
- c) 58.2% represent benchmark bond issues with residual maturities between 5 and 14 years.

Benchmark government bonds denominated in RON with maturities of 3, 4, 5, 7, 8, 10 and 15 years were issued and reopened almost every month. The Ministry of Finance's policy has been to extend the average remaining maturity of government securities, with a large share of issuance in the medium and long maturity segment.

In 2021, issues to the population continued through the two programmes TEZAUR and FIDELIS. Under the TEZAUR Programme, which is carried out through the operational units of the State Treasury, as well as through the postal sub-units of the National Post Company of Romania S.A., 11 issues were launched with maturities ranging from 1 to 5 years, in which more than 114,467 individuals invested RON 5.1 billion. Under the FIDELIS Programme, four issues were launched through the selected syndicate of banks formed by Banca Transilvania/BT Capital Partners, BCR and BRD, both in RON (maturities between 1 and 3 years) and in EUR (maturities between 2 and 5 years), with a value attracted of 4.3 billion RON equivalent.

Structure of government securities issues by maturity (initial maturity, RON billion)



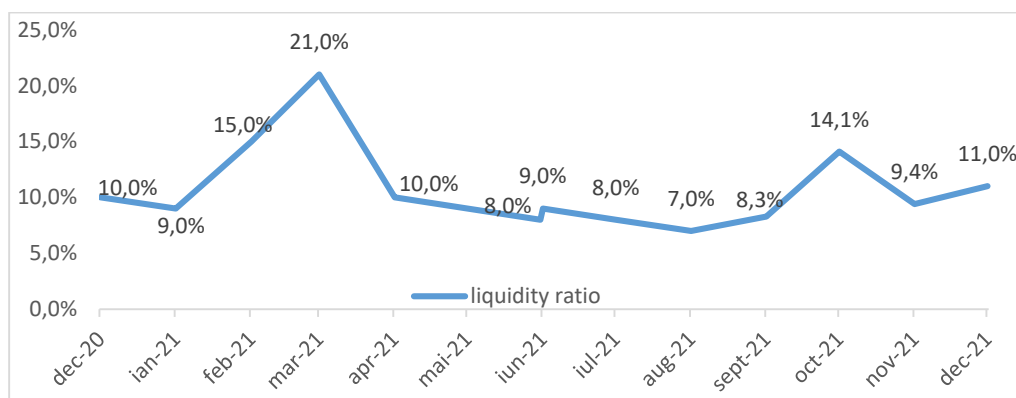
Source: MoF

⁵Presented in Chapter 1

Secondary market

During 2021, the liquidity ratio, calculated as the ratio of the total volume of monthly transactions on the secondary market and the total volume of government securities, fluctuated, reaching higher levels in March (21.0%), October (14.1%) and minimum levels in June, July and August with the sharp rise in inflation.

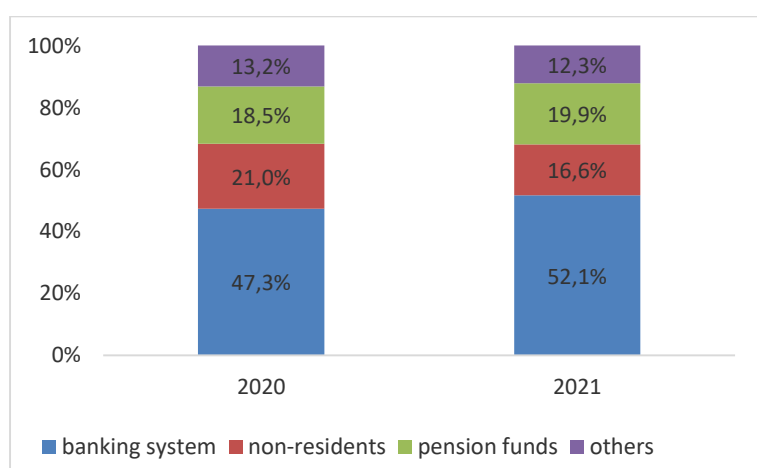
The evolution of the liquidity ratio of government securities in RON active in the period
December 2020 - December 2021



Source: MoF

In the context of a moderate advance in lending activity by financial institutions during 2021 and the liquidity surplus in the market, commercial banks continued to be the main investors in the domestic government securities market, holding 51.2% of the total volume of government securities issued in the domestic market at the end of 2021, up from 47.3% at the end of 2020, followed by pension funds, that increased their holdings to 19.9% at the end of 2021 compared to 18.5% at the end of 2020.

Evolution of government securities by type of holders



Source: NBR

At the end of 2021, non-resident investors held 16.6% of total issuance of government securities, down from 21.0% at the end of 2020.

Within the institutional investor segment, local asset management funds and private pension funds, while still holding a relatively small share of the government securities market, have been a stable participant in the government funding process. The investment structure of private pension funds continued to be maintained with a majority share of government securities in total assets.

The presence of Romanian government securities in the JPMorgan and Barclays regional indices continues to have a positive influence on the local market. At the end of 2021, 19 series of Romanian government bonds were included in the GBI-EM Global Diversified Investment Grade Index, with a weight of around 3.51%, and 19 series in the Barclays EM Local Currency Government Index, with a weight of 0.88%.

2.3. Eurobond issues and external borrowings in 2021

Romanian Eurobond yields in EUR and USD were more resilient than those in the domestic market, with increases ranging from 30-140 bps.

In 2021, an amount of EUR 7 billion was raised from the external markets through Eurobond issues, as follows:

- on 14 April - EUR 3.5 billion in a two-tranche Eurobond issue, of which EUR 2 billion with a 12-year maturity (yield 2.104%, coupon 2.000%) and EUR 1.5 billion with a 20-year maturity (yield 2.773%, coupon 2.750%);
- on 13 July - EUR 3.5 billion in a two-tranche Eurobond issue, of which EUR 2 billion with a maturity of 9 years (yield 1.756%, coupon 1.750%) and EUR 1.5 billion with a maturity of 20 years (yield 2.992%, coupon 2.875%).

In 2021 funding was also ensured through drawings totalling approx. EUR 1.5 billion corresponding the loans contracted from financial institutions.

The funds were used to finance the budget deficit, to refinance the public debt and to strengthen the foreign currency financial reserve (buffer) at the disposal of the State Treasury.

2.4 Cash management in 2021

Cash management operations are carried out by the State Treasury to cover temporary cash shortages during the year arising from the gap between receipts and payments to/from the Treasury's general current account.

In accordance with the legislation in force⁶, the permanent balance between the resources of the general current account of the State Treasury and the financing needs can be achieved by:

1. attracting short-term deposits from credit or other financial institutions;

⁶Based on the provisions of Article 8 of GEO 146/2002 on the formation and use of resources channelled through the State Treasury, as well as OMFP no.1235/2003 for the approval of the Methodological Norms for the application of the provisions of Government Emergency Ordinance no.146/2002 on the formation and use of resources channelled through the State Treasury, approved with amendments by Law no.201/2003

2. the use of the RON equivalent of amounts sold to the state foreign exchange reserve, from foreign currency cash accounts resulting from state loans assigned for financing and refinancing public debt, as well as from other sources established by law.

In 2021 against the background of the temporary gap between budget payments and receipts for financing temporary gaps in the State Treasury, the State Treasury carried out operations to attract deposits in the total amount of **93,875 million RON**, with an average interest rate of 1.57% and an average maturity of 13.73 days, as follows:

- January 2021 = 8,810 million RON,
- February 2021 = 1,700 million RON,
- March 2021 = 5,900 million RON,
- April 2021 = 5,730 million RON,
- May 2021 = 4,425 million RON,
- June 2021 = 17,590 million RON,
- July 2021 = 8,125 million RON,
- August 2021 = 3,340 million RON,
- September 2021 = 5,630 million RON,
- October 2021 = 2,165 million RON,
- November 2021 = 14,060 million RON,
- December 2021 = 16,400 million RON.

As regards the use of foreign currency amounts for financing temporary cash shortages, the State Treasury carried out 61 foreign exchange operations for a total amount of EUR 9,456.6 million, as follows:

- January 2021 - 1 foreign exchange operation for a total amount of EUR 91.0 million,
- February 2021 - 1 foreign exchange operation in the amount of EUR 100.0 million,
- March 2021 - 1 foreign exchange operation for a total amount of EUR 590.0 million,
- April 2021 - 1 foreign exchange operation for a total amount of EUR 160.0 million,
- May 2021 - 7 foreign exchange operations for a total amount of EUR 1,051.0 million,
- June 2021 - 1 foreign exchange operation for a total amount of EUR 170.0 million,
- July 2021 - 7 foreign exchange operations totalling EUR 1,067.0 million,
- August 2021 - 6 foreign exchange operations totalling EUR 1,070.0 million,
- September 2021 - no foreign exchange operations were carried out,
- October 2021 - 8 foreign exchange operations for a total amount of EUR 792.8 million,
- November 2021 - 16 foreign exchange operations totalling EUR 1,941.1 million,
- December 2021 - 12 foreign exchange operations for a total amount of EUR 2,423.7 million.

The state budget deficit of previous years recorded in the accounts, not financed by state loans, together with loans granted for the redemption at maturity of state loans issued to finance or refinance the public debt and the temporary cash gap resulting from the daily gap between the cumulative state budget revenue and expenditure reported electronically by the regional treasuries, is temporarily financed by borrowing from the general current account of the State Treasury.

According to GEO 64/2007 on public debt, temporary borrowing from the general current account of the State Treasury is a public debt instrument that can be reimbursed by state loans to refinance government public debt.

For loans from the general current account of the State Treasury, interest was paid in the total amount of RON 76.6 million, the service of repayments totalled RON 218.9 billion.

The direct public government debt account, according to the procedure, is entered in the amount of RON 19.1 billion and represents the net increase in the balance of loans on the general current account of the State Treasury.

The service related to the repayments of cash management instruments by attracting deposits amounted to RON 87.92 billion, of which repayments of capital instalments accounted for RON 87.88 billion and the related interest payments were RON 44.16 million.

3. Analysis of the government debt portfolio and the risks associated with this debt

In the context of macroeconomic developments and domestic and external financial markets, the public debt contracted as of 31 December 2021 stood at RON 698.1 billion, of which government public debt amounted to RON 679.2 billion (representing 97.3% of total public debt) and local public debt amounted to RON 18.9 billion (representing 2.7% of total public debt), against a background of economic growth of 5.9% of GDP⁷ and a general consolidated budget deficit of 6.7% of GDP⁸.

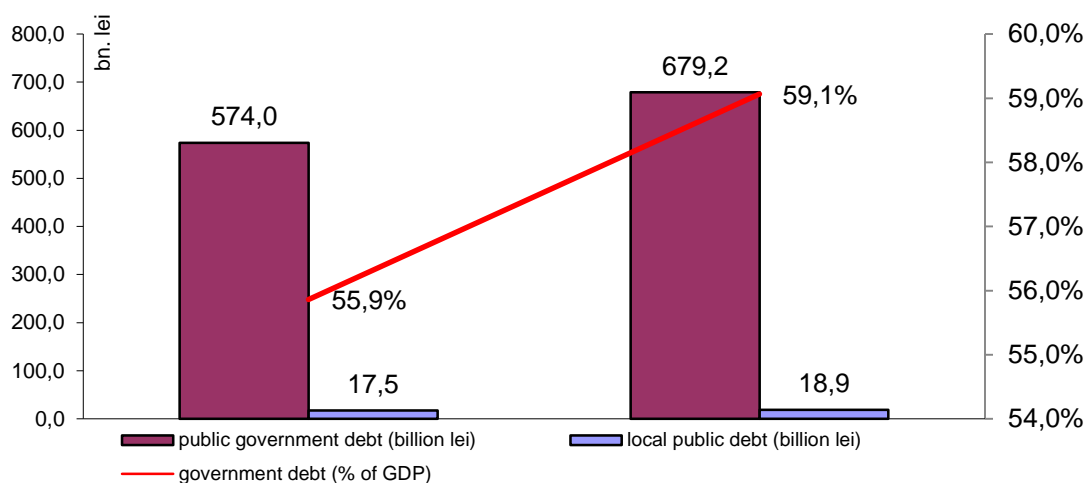
The increase in public debt in 2021 compared to 2020, with RON 106.6 billion, was mainly due to the debt incurred to cover the financing needs of the budget deficit, as well as the volume of refinancing of government public debt.

⁷NCSP - Summer forecast of main macroeconomic indicators - July 2022

⁸The general consolidated budget deficit according to the operational execution at the end of 2021 was in nominal value of RON 80.0 billion representing 6.7% of GDP.

GDP for 2021 - according to the summer forecast of the NCSP - July 2022

Evolution of public debt



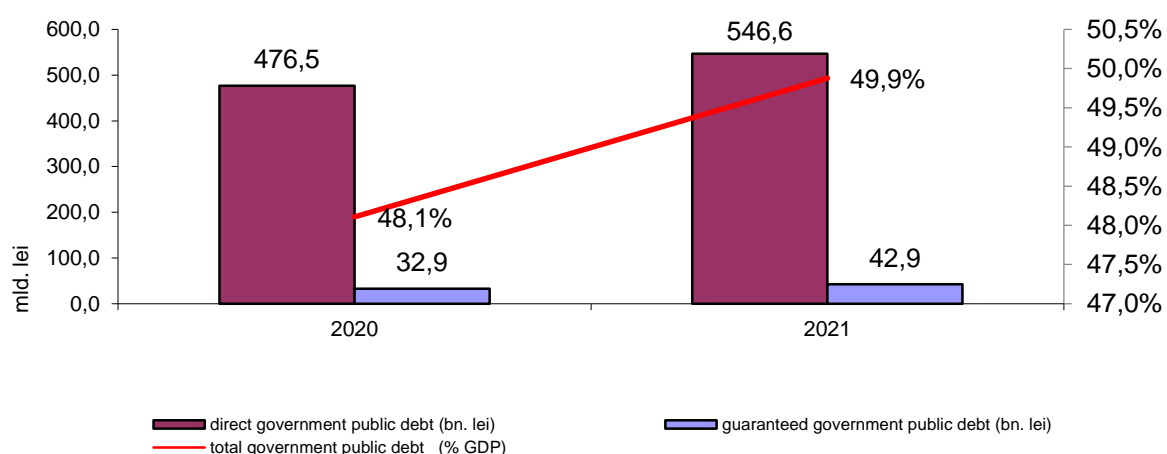
Source: MoF

3.1. Government debt portfolio and its associated risks ⁹

Government public debt as of 31 December 2021 was worth RON 589.5 billion, representing 49.9% of GDP.

Direct government public debt maintains its highest share in total government public debt (92.7%). Guaranteed government public debt accounted for 7.3% of total government public debt, as a result of guarantees granted under government programmes, mainly through the government's First House/New House Programme and the Programme to support small and medium-sized enterprises and small enterprises with medium market capitalisation IMM INVEST ROMÂNIA.

Government public debt by type of debt



Source :MoF

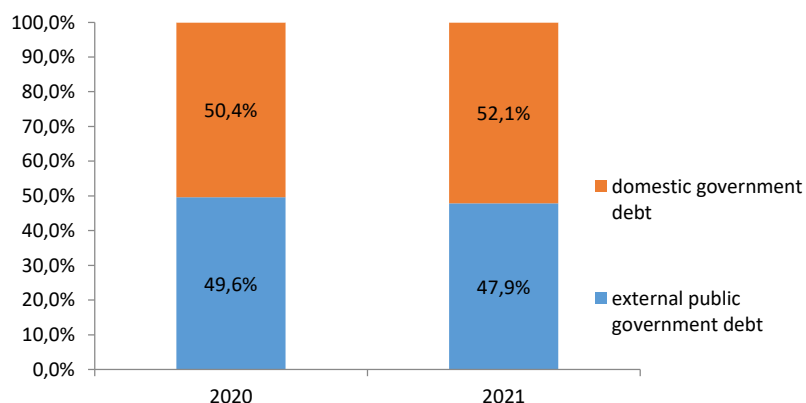
⁹Does not include temporary financing or cash management instruments, in line with the Medium-Term Government Debt Management Strategy

State guarantees granted in 2021 for government programs were worth RON 14.0 billion, as follows:

Government programme	Guarantees granted in 2021	Guarantee ceilings allocated in 2021
The governmental programme "Prima Casă/Noua Casă" (GEO no. 60/2009)	RON 1.5 billion	RON 1.5 billion
Programme to support small and medium-sized enterprises and small enterprises with medium market capitalization IMM INVEST ROMANIA (GEO no.110/2017)	RON 12.2 billion	RON 15 billion
Support programme for small and medium-sized enterprises "SME LEASING OF EQUIPMENT AND EQUIPMENT" (GEO no.118/2020)	RON 0.01 billion	RON 2 billion
Programme on granting some facilities for loans granted by credit institutions and non-bank financial institutions to certain categories of debtors (GEO no.37/2020)	RON 0.3 billion	

About 52% of the government public debt outstanding at the end of 2021 was contracted from resident creditors and about 48% from non-resident creditors. The majority of domestic government debt was represented by government securities, while external debt was represented by Eurobonds issued on international capital markets and external borrowings from international financial institutions.

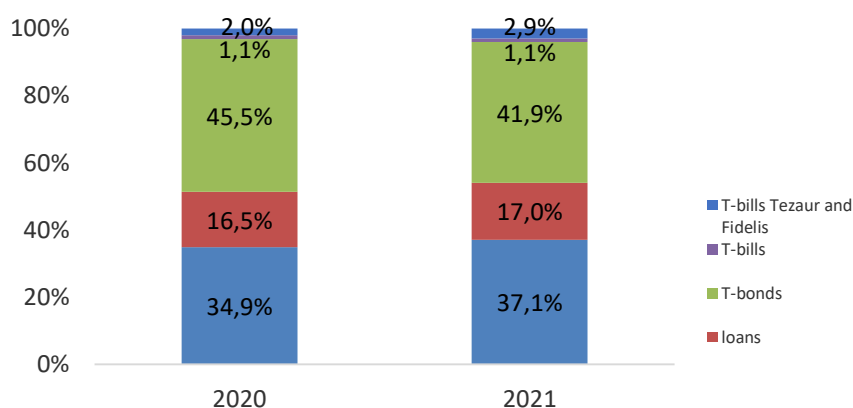
Government public debt by creditor residency criterion (% of total debt)



Source: MoF

At the end of 2021, the share of government securities represented 83.0% of total government debt, compared to 83.5% at the end of 2020, and in the maturity structure, short-term government securities accounted for 1.1% of total government debt, remaining at a similar level to 2020.

The instrument-based structure of government debt is as follows:
(% government public debt)



Source: MoF

Government public debt service

Government public debt service for 2021 increased with RON 10.0 billion, as shown in the table below:

	billion RON	
	2020	2021
Government debt service	60.8	70.8
of which:		
- direct ¹⁰	59.2	67.4
- guaranteed	1.6	3.4
Government debt service	60.8	70.8
of which:		
- capital installment ¹¹	47.1	53.5
- interest and commissions	13.7	17.3

Other¹² indicators on government public debt service are as follows:

Indicators	2020	2021
External government debt service/export of goods and services ¹³	4.6%	2.0%

¹⁰ It does not include repayments on loans from the general current account of the State Treasury and on cash management instruments.

¹¹ It does not include repayments on loans from the general current account of the State Treasury and on cash management instruments.

¹² Expenditures and revenues of the general consolidated budget for 2021 are operational data, and for the indicators in points 1 and 2 the export of goods and services published by the National Commission for Strategy and Forecasting April 2022 was taken into account.

¹³ The indicator shows the extent to which payments on account of foreign government debt service are covered by receipts from exports of goods and services.

Interest on external government debt/Export of goods and services ¹⁴	1.5%	1.5%
Interest and commissions/Income general consolidated budget ¹⁵	4.3%	4.6%
Interest and commissions /Expenditure general consolidated budget ¹⁶	3.3%	3.8%

3.2 Implementation of the Government Debt Management Strategy for 2021-2023

The main objectives set by the **Government Debt Management Strategy for 2021-2023** remain unchanged from previous years, namely:

1. ensuring the financing needs of the central government, while minimising costs in the medium and long term,
2. limiting the risks associated with the government debt portfolio, and
3. development of the domestic government securities market,

and the risk indicators were within the target ranges set out in this Strategy.

Performance of risk indicators in year 2021

a. Evolution of currency risk indicators

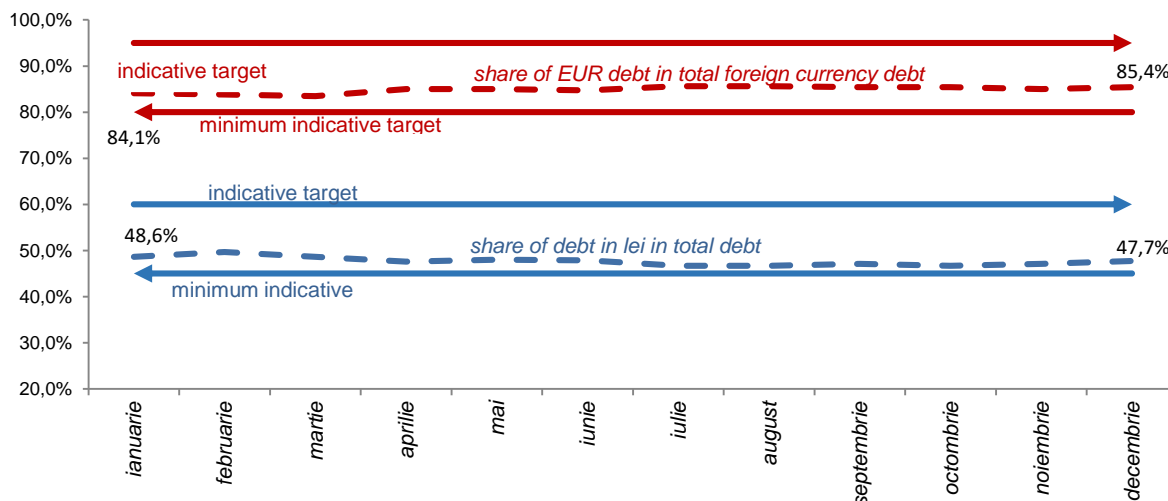
The indicators of the share of government debt in EUR in total government debt in foreign currency and the share of government debt denominated in RON in total government debt were within the target ranges set by the Strategy throughout the year, The share of government debt denominated in EUR in total government debt in foreign currency stood at a level (85.4%) increasing compared to the beginning of the year (84.1%), while the share of government debt denominated in RON in total government debt decreased slightly to 47.7% at the end of 2021.

Performance of foreign exchange risk indicators

¹⁴ The indicator shows the extent to which the interest cost of foreign government debt is covered by the proceeds from the export of goods and services.

¹⁵ The indicator shows the extent to which interest and fees on government debt are covered by general government revenue.

¹⁶ The indicator represents the share of interest and commission payments on government debt in total expenditure from the general consolidated budget.



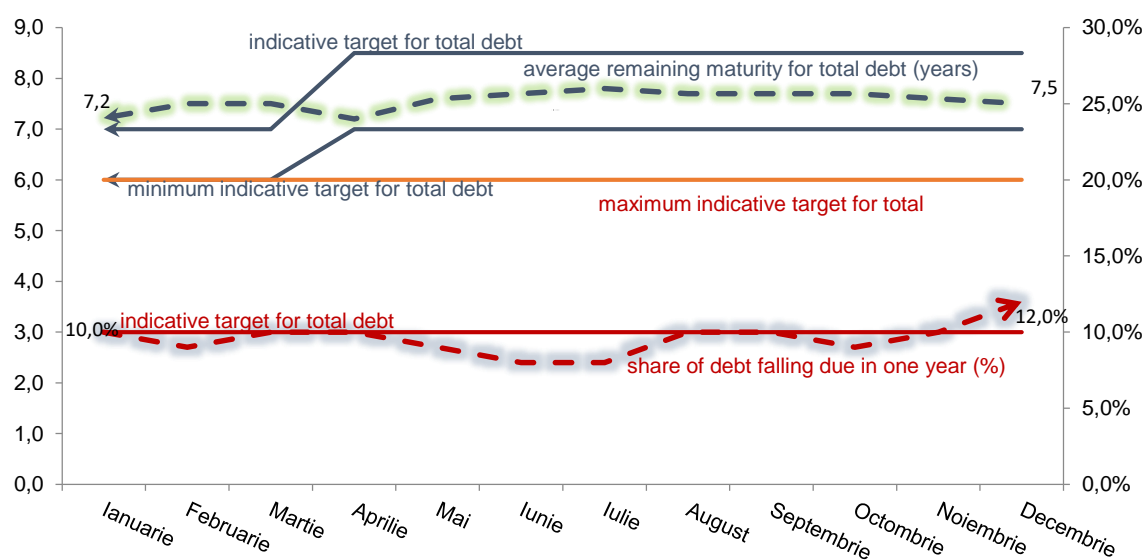
Source: MoF

b. Development of refinancing risk indicators

The refinancing risk indicators for the total government debt portfolio were within the target ranges set by the Strategy throughout 2021.

The *average remaining maturity* indicator of the government debt portfolio increased slightly from 7.2 years in January to 7.5 years in December, mainly due to issuance of long and very long-term (up to 30 years) government securities on the external market and long-term foreign currency borrowing, while the *share of debt maturing within 1 year* in total government debt reached 12% at the end of 2021.

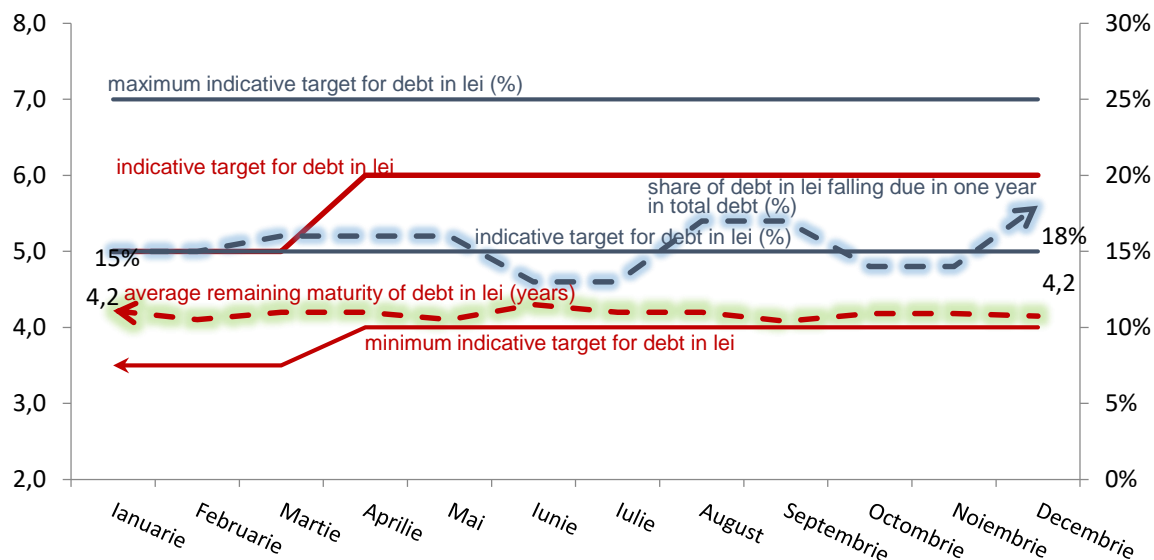
Performance of refinancing risk indicators for total government debt



Source: MoF

At the end of 2021 the *average remaining maturity of government debt in RON* was maintained at the same level of 4.2 years, and the *share of government debt in RON due within one year* fluctuated throughout the year, recording a level of 18% at the end of 2021.

Performance of refinancing risk indicators for debt denominated in RON

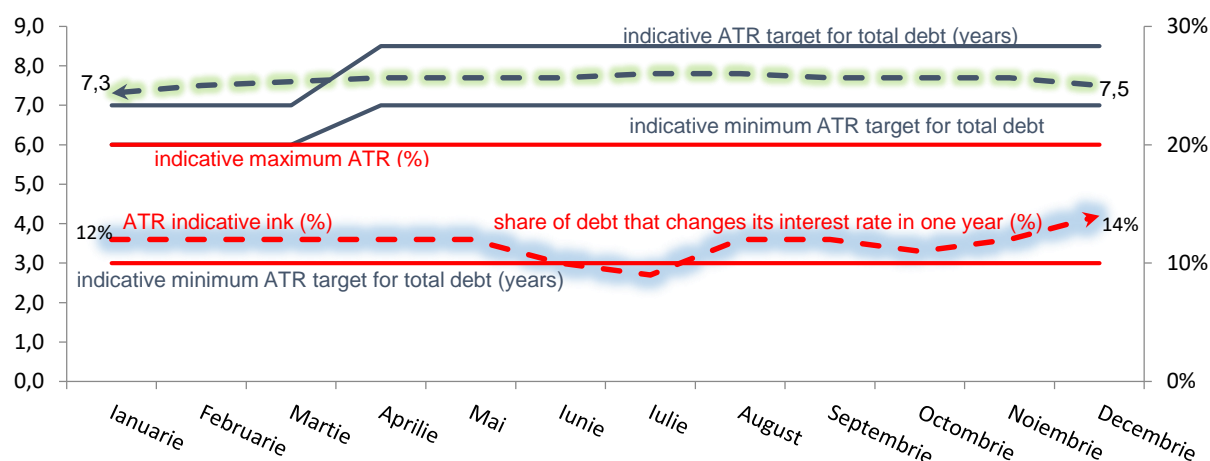


Source: MoF

c. Development of interest rate risk indicators

Indicators for the entire government debt portfolio were within the indicative targets set by the Strategy at the end of 2021, i.e. *the average period until the next interest rate change (ATR)* was 7.5 years and the *share of debt that changes its interest rate in one year* in total government debt was 14%.

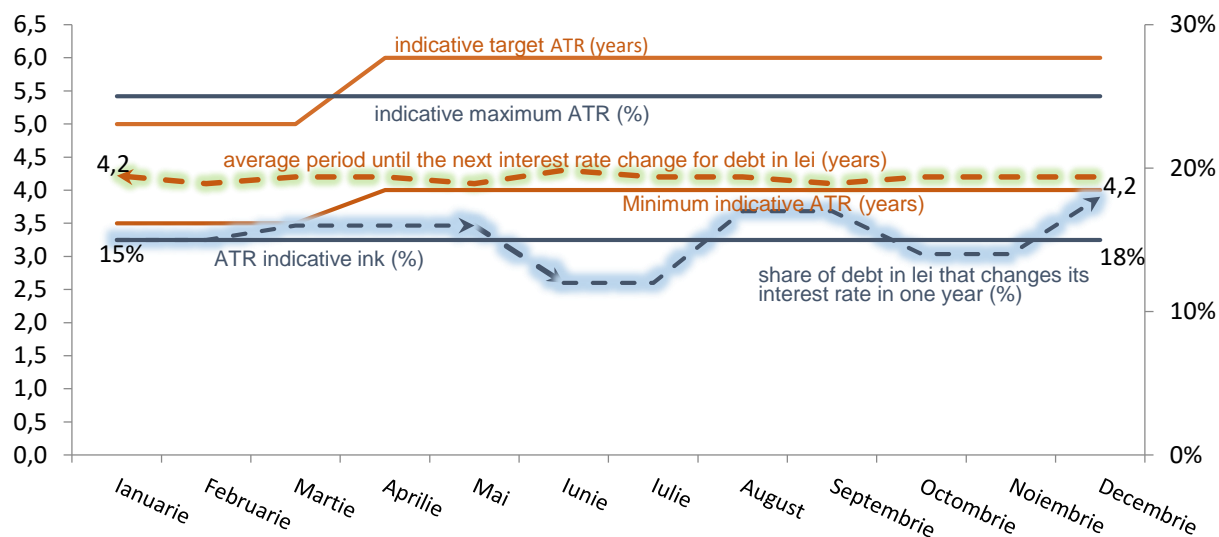
Performance of interest rate risk indicators for total government debt



Source: MoF

As regards the interest rate ratios for the local currency debt indicators, they fluctuated throughout 2021, following the evolution of the refinancing risk indicators for debt in RON, within the indicative targets set by the Strategy, at the end of 2021.

Performance of interest rate risk indicators for government debt in RON



Source: MoF

4. Government debt according to EU methodology

At the end of 2021, gross government debt¹⁷ according to the EU methodology remained at a sustainable level of 48.8% of GDP, below the 60% ceiling set by the Maastricht Treaty, and if liquid financial assets¹⁸ are taken into account, the level of net government debt was 41.2% of GDP.

According to data published by EUROSTAT¹⁹, at the end of 2021 Romania ranked 19th among EU Member States in terms of level of indebtedness, with the average government debt for the euro area (EA 19) being 95.6% of GDP and that for the EU27 being 88.1% of GDP.

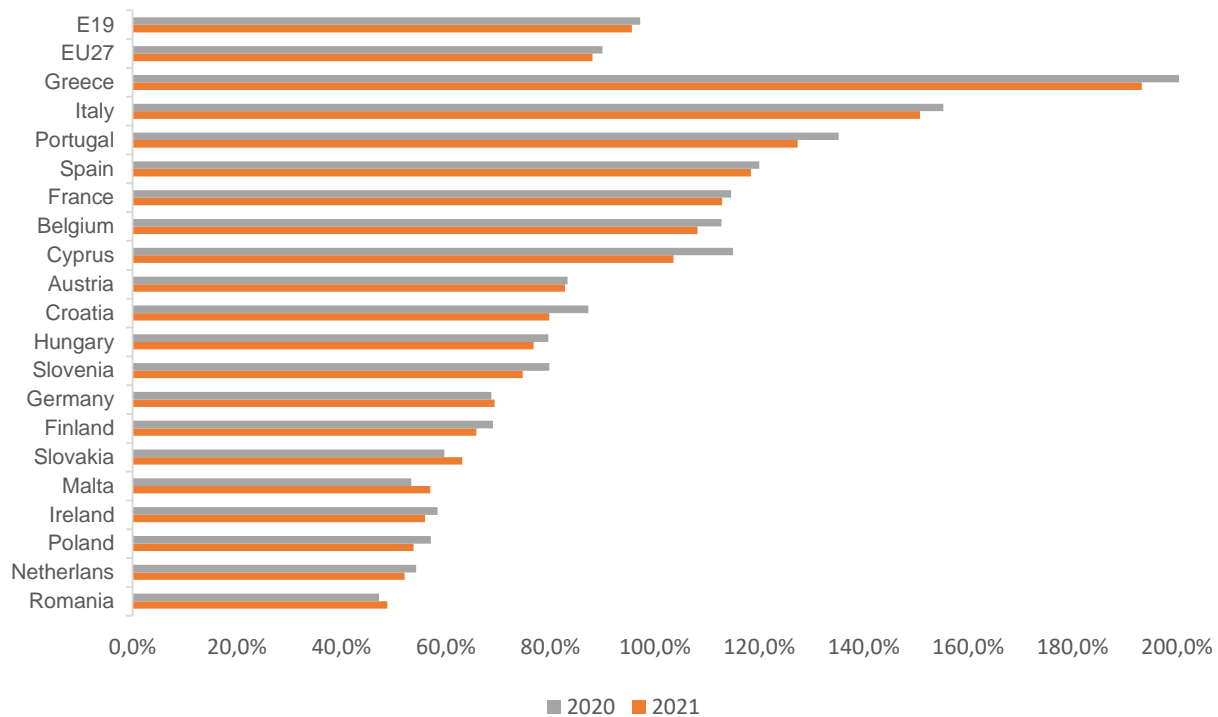
A total of 14 Member States had a level of government debt in GDP of more than 60% of GDP at the end of 2021, with the highest levels in Greece (193.3%), Italy (150.8%), Portugal (127.4%), Spain (118.4%), France (112.9%), Belgium (108.2%) and Cyprus (103.6%).

EU27 comparisons (% government debt to GDP)

¹⁷Represents general government debt at nominal value, consolidated within the general government sub-sectors and does not include guarantees granted by the State and the territorial administrative units, except those paid from the budget, or for which 3 successive payments have been made by the guarantor.

¹⁸ AF1(gold and SDRs), AF2(deposits and cash), AF3(securities other than shares), AF5 (shares and other equity, if listed, including units of mutual funds).

¹⁹ Eurostat News Release No. 46/2022 of 22 April 2022



Source: Eurostat

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