MINISTRY OF FINANCE

GOVERNMENT DEBT MANAGEMENT STRATEGY

2021-2023

General Directorate for Treasury and Public Debt

Bucharest 2021

Contents

ATM	Average time to maturity (years)
ASF	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 Bond Spread
FED	Federal Reserve System of the United States of America
EAGF	European Agricultural Guarantee Fund
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
NSRF	Financing facility of the national strategic financing framework
GDP	Gross Domestic Product
PNDR	National Rural Development Program
EU	European Union

1. Foreword

This Government debt management strategy corresponding to the period of 2021-2023 (hereinafter referred to as the „Strategy”) represents a continuation of the Government debt management strategy for the period of 2019-2021 and was elaborated in accordance with international best practices defined in the Guidelines of the World Bank and the IMF related to the elaboration of public debt strategies[1] and through consulting with the NBR.
Just like the previous editions, the revised Strategy for the time horizon 2021-2023 is consistent with the budget indicators provided in the Fiscal and Budgetary Strategy for 2021-2023 and focuses exclusively on the structure of the government debt portfolio, especially on those aspects 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 to ensure financing and to improve the structure of the debt portfolio in order to fulfill *the Ministry of Finance's government debt management objectives*, namely:

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

Implementation of the Government debt management strategy in 2020

[1] See „Elaboration of the medium term public debt strategy” - 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.

In 2020, all risk indicators were within the limits set through the Government debt management strategy for 2019-2021, as shown by the presentation of financial risks from the table below:

Table 1: Risk indicators at the end of years 2020 and 2019

Indicators*	**December 31, 2020**	**December 31, 2019**	**Indicative targets in accordance with the 2019-2021 Strategy**
A. Currency risk			
Share of debt in Lei in total debt (% of total)	47.9%	49.8%	45% (minimum) – 60%
Share of government debt in EUR in total debt in foreign currency (% of total)	84.2%	83.4%	80% (minimum) – 95%
B. Refinancing risk			
Share of debt due within 1 year (% of total)	10.0%	12%	10% - 20% (maximum)
Share of debt in Lei due within 1 year (% of total)	16.0%	17%	15% - 25% (maximum)
Average time to maturity for the total debt (years)	7.3	6.7	6.0 years (minimum) –7.0 years
Average time to maturity of the debt in Lei (years)	4.2	4.1	3.5 years (minimum) -5.0 years
C. Interest rate risk			
Share of debt that changes its interest rate within one year (% of total)	12.0%	14%	10% - 20% (maximum)
Share of debt in Lei that changes its interest rate within one year (% of total)	15.0%	17%	15% - 25% (maximum)
Average time to re-fixing for the total debt (years)	7.4	6.8	6.0 years (minimum) - 7.0 years
Average time to re-fixing for the debt in the national currency (years)	4.2	4.1	3.5 years (minimum) - 5.0 years

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

Strategic guidelines for 2021-2023

The following principles shall form the basis of financing decisions in 2021-2023:

1. Financing mainly in the national currency, which would continue to facilitate the development of the domestic market of government securities and also support the decrease of the currency risk exposure considering at the same time the absorption capacity of the domestic market and, generally, the demand for debt instruments in Lei[3], as well as the needs to diversify the investor base for government securities. In the case of high financing needs, due to excessive budget deficits, the net financing (budget deficit) shall be achieved in a relatively balanced way from domestic and foreign sources.
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 a reserve in foreign currency[4] at a comfortable level and maybe through other instruments, according to the conditions and terms thereof.
4. In the foreign financing process shall be considered the contracting of debt mostly in EUR and the opportunistic accessing of international capital markets in USD or other currencies, considering the extension of the average maturity of the government debt portfolio, as well

[3] Apart from domestic demand for government securities in Lei, nonresidents can play an important role both with respect to the volumes placed on the domestic market, and to the structure on maturities in the financing process, considering the high appetite thereof for government securities with medium and long term maturities.
[4] The reserve in foreign currency must cover a number of months corresponding to the necessary gross financing.

as the cost/risk ratio associated thereto and the diversification of the investment base, under the conditions of use of financial derivatives (currency swap) after the conclusion of the specific documentation with eligible counterparts.

5. In the implementation of the financing plan shall be considered the introduction of green bond issues, according to the completion of the General framework for green bonds at sovereign level, through coordinated efforts of the line ministries and the identification of expenses/projects which shall be subject to financing through these bonds.
6. Issues on the domestic market in EUR shall be considered only in the context of the specific demand expressed by local investors, on medium term maturities, according to market conditions and to the appetite manifested by the investment environment, on the basis of an advantageous maturity/cost ratio.
7. 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.
8. Using the financing instruments offered by the international financial institutions, including those established in the European Union, considering the advantageous terms and conditions they offer.

These principles are expressed as indicative target intervals[5] for the main risk indicators, to allow flexibility in the management of government debt in order to respond to the changes of conditions on the financial markets, as follows:

- *for the management of currency risk*:

1. keeping the share of debt denominated in the national currency in the total government debt between 45% (minimum) and 60%.
2. keeping the share of debt denominated in EUR in the total debt denominated in foreign currency in the interval of 80% (minimum) and 95%. At the time of use of derivative financial instruments, this indicator shall be calculated after assessing the debt as a result of the use of currency swaps.

- *for the management of the refinancing risk*

1. keeping the share of debt due within 1 year in the 15%-25% interval (maximum) for the debt in the national currency and between 10% and 20% (maximum) for total debt.
2. the average time to maturity should be maintained between 4.0 years (minimum) and 6.0 years for the debt in national currency and between 7.0 years (minimum) and 8.5 years for total debt.
3. maintaining a financial reserve in foreign currency at a comfortable level, so as to mitigate the risks corresponding to the periods characterized by high volatility on the financial markets.

- *for the management of the interest rate risk*

1. the share of debt which changes its interest rate within one year should remain between 15% and 25% (maximum) for the debt in the national currency and between 10% and 20% (maximum) for the total debt.
2. keeping the average time to re-fixing between 4.0 years (minimum) and 6.0 years for the debt in national currency and between 7.0 years (minimum) and 8.5 years for the total debt.

[5] 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).

2. Objectives and scope

This Strategy is the policy document for government public debt management and the Ministry of Finance seeks to fulfill the following objectives in this regard:

- 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 provided in GEO no. 64/2007 and are supplemented by the objective of developing the domestic market of government securities, which was also mentioned on the previous Strategies. The development of a liquid market of government securities and the construction and consolidation of a yield curve in the national currency are important objectives both in reaching the first two objectives of the Strategy, and for the development of the Romanian financial market to sustain the assurance of the financial resources necessary to cover the financing needs during economic and financial crisis periods or during the periods marked by high volatility on the international markets.
The scope of the Strategy is limited to the debt contracted directly or secured by the Government through the Ministry of Finance, but does not include the loans from funds available in the general current account of the State Treasury ("temporary financing"). Temporary financing is a liquidity management tool and cannot be considered a medium term financing instrument. Nevertheless, considering how important it is to coordinate the Government debt management strategy with the liquidity management policy, including with respect to temporary financing, as well as the interferences between them, Annex 2[6] covers the liquidity management strategy.

3. Description of the government debt portfolio[7]

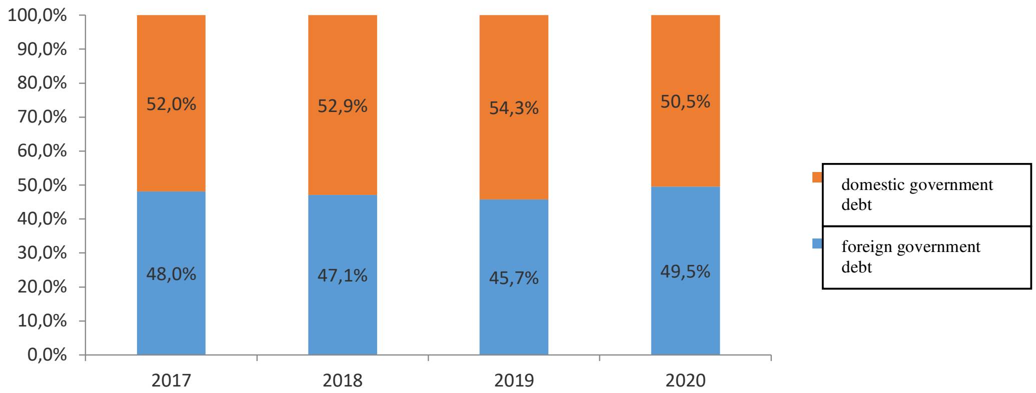
Government debt evolution

At the end of 2020, the government debt was of 508.8 billion Lei, representing 48.3% of GDP, in the context of an economic decline of 3.9% of GDP and of a deficit of the general consolidated budget of 9.67% of GDP[8].

As a result of the strategy adopted in recent years with respect to the financing of the budget deficit mainly through the issuance of government securities on the domestic market, as well as through the increase of the demand of resident investors for Romanian Eurobonds, the structure of government debt according to the residence criterion shows that domestic government debt registered a lower level at the end of 2020 compared to previous years, government debt being at 50.5% contracted with resident creditors and 49.5% with nonresident creditors.

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

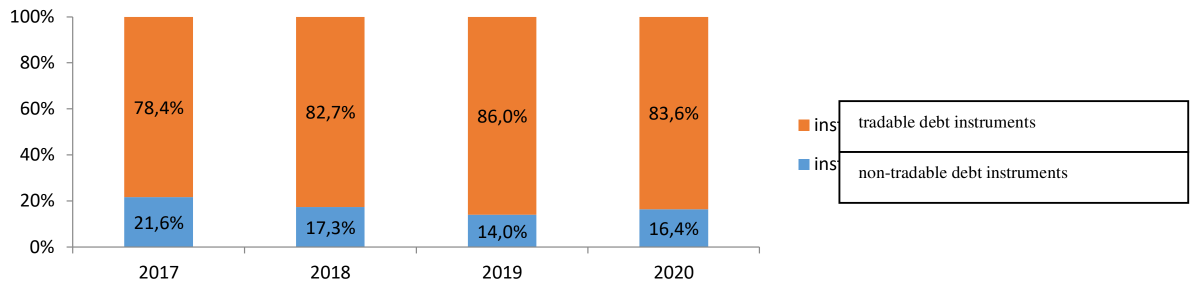
[6] It shall be noted, however, that the major changes of the level of temporary financing may have an impact on the issues of government securities and may affect the development plans of the domestic market of government securities.
[7] Preliminary data in accordance with the national legislation do not include temporary financing.
[8] The GDP of 2020 according to NIS communique of March 2021



Source: MF

As it can be noted in graph 2, the structure of government debt is mainly made of tradable debt instruments (issued prevalently in the national currency), which, through the characteristics thereof, allow flexibility and efficiency in attracting the financing sources and adapting to investor requirements.

Graph 2: Tradable debt instruments v. non-tradable debt instruments (% in total government debt)

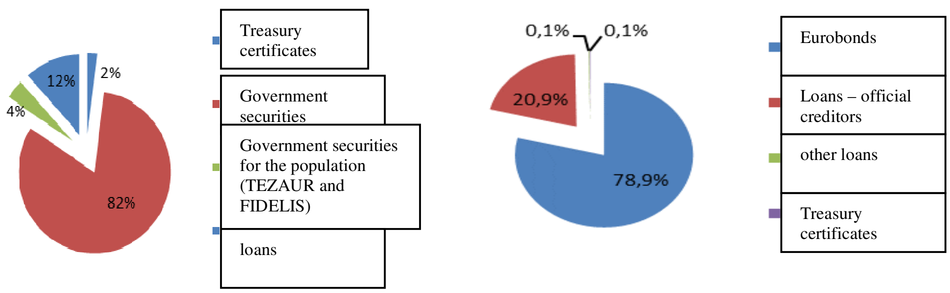


Source: MF

Compared to State loans whose share was of 16.4% in the total government debt, government securities issued on the domestic market represented 48.7% and those issued on the foreign market 34.9%. This tendency also includes the efforts of the MF to diversify the investor base and increase the accessibility of natural persons to purchasing government securities, through a continuance of issuances of government securities for the population in the two dedicated programs, i.e. Tezaur and FIDELIS, within the limit of an indicative yearly ceiling.
As shown in graph 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 includes government securities issued on the domestic market held by nonresidents, while the structure of internal debt includes the Eurobonds held by residents.

Graph 3: Debt structure according to the creditor residence criterion and debt instruments

Domestic debt instruments
Foreign debt instruments



Source: MF

Costs, expressed as average interest rates[9], decreased in 2020, as a result of the decrease of interest rates, especially those corresponding to domestic debt. The debt in national currency at the end of 2020 remains more costly than the debt in foreign currency[10] as shown in table 2.

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

	12.31.2019	**12.31.2020**
Average interest rate of government debt (%)	*3.8*	*3.3*
1. in the national currency, of which	*4.3*	*4.1*
a. Treasury certificates with 1 year maturity	3.7	3.2
b. Government bonds with fixed rate and maturity between 1 and 5 years	3.8	3.9
C. Government bonds with fixed rate and maturity between 5 and 10 years	5.3	5.1
2. in foreign currencies, of which:	*3.2*	*2.6*
a. Bonds in EUR with 10 year maturity	2.8	2.9
b. Bonds in EUR with 5 year maturity	2.4	1.3
c. Bonds in EUR with 30 year maturity	3.7	3.6
d. EUR multilateral	3.0	1.6
e. Bonds in USD with 30 year maturity	5.6	4.9
f. USD multilateral	1.4	1.3

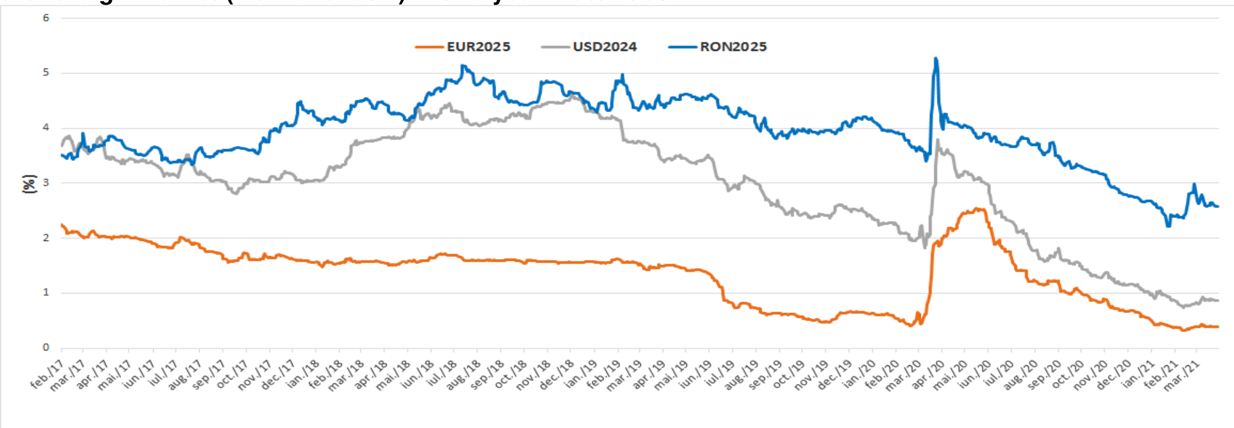
Source: MF

The share of loans from international financial institutions contracted at favorable interest rates explains the lower level of the foreign financing cost. In addition, the bonds issued on the international capital markets denominated in EUR are issued with lower nominal yields compared to those which correspond to the government securities issued in the national currency and in dollars (without considering the impact of the currency risk on costs), as shown in graph 4. In 2019-2020, the costs corresponding to financing in Lei on the domestic market stayed over the levels of that in USD and EUR for similar maturities, the interest differential being accentuated in the second part of 2020. Considering the objective of the MF regarding the maintaining of the share of debt denominated in EUR in the total debt in foreign currency within the interval of 80% (minimum) - 95%, the issues on the foreign markets in 2019 were made in EUR and they presented the benefit of more advantageous costs compared to those in USD. In 2020, in the context of higher needs generated by the

[9] They were calculated as ratio between the foreseen interest payments for year 2021 and the existing balance at the end of 2020 for every debt instrument.
[10] Excluding the influences due to currency risk which can significantly change the cost of debt in foreign currency in case of a depreciation of the national currency (interests corresponding to the debt in foreign currency).
[11] The table presents the average interest rates for the selected debt instruments, aggregated from all debt instruments which make up the government debt portfolio.

increase of the budget deficit due to the COVID-19 pandemic, the issues on the foreign markets included both issues in EUR and in USD, the latter ensuring the diversification of the investor base.

Graph 4: The yield of a benchmark bond on the domestic market v. the yields of Eurobonds issued on the foreign market (EUR and USD) with 5 year maturities



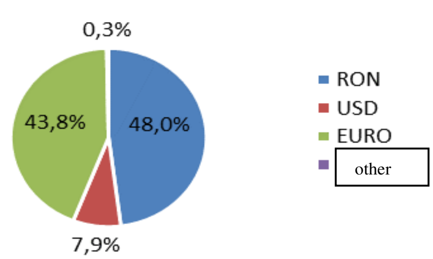
Source: MF

Risks associated to the government debt portfolio at the end of 2020

Currency risk

At the end of 2020, 52% of the government debt portfolio was denominated in foreign currency. This represents a high share, both compared with other EU member states which have not adopted the single European currency, and with countries which have similar ratings at world level. The important exposure to currency risk can be managed under conditions of a relatively low volatility of the Lei/EUR exchange rate and as a result of the debt in foreign currency issued on long-term mainly in EUR[12] (graph 5).

Graph 5: Debt structure on currency type

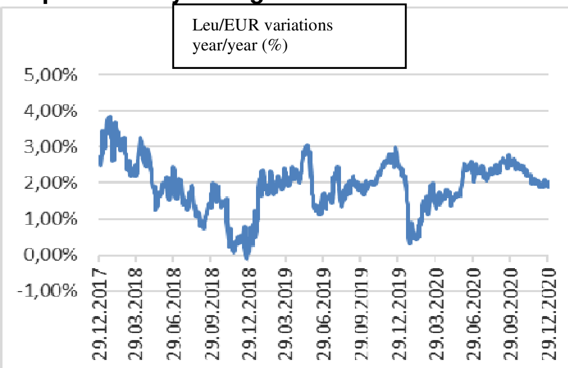


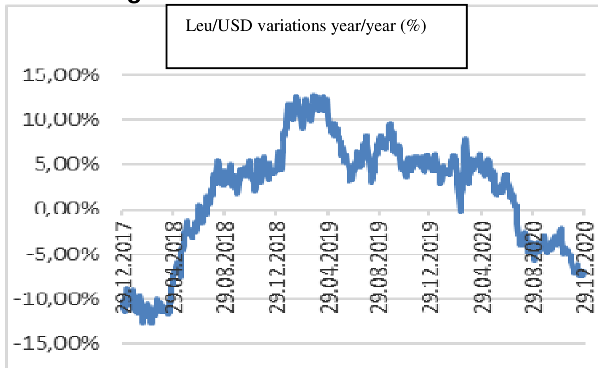
Source: MF

Considering that approximately 7.9% of the debt portfolio is denominated in USD and the volatility of the Lei/USD exchange rate has been approximately three times higher in recent years than that of the Lei/EUR exchange rate, the debt contracted in USD presents a degree of risk higher than the one contracted in EUR, as shown in graph 6 as well.

[12] 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.

Graph 6: Yearly change of the Lei/EUR and Lei/USD exchange rates





Source: MF, NBR

In the case of pessimistic scenarios, for example the depreciation of the national currency relative to EUR of 5% and relative to USD of 15% in 2021 would lead to the increase of the debt stock by 16.8 billion Lei or by 1.5% of GDP and to an increase of debt service payments (capital installment repayment/refinancing of government securities and interest payments) by 1.2 billion Lei or 0.4% of the revenues of the central government[13].
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 therepayment 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 presented in graph 7 indicates an accumulation of refunds in the first 5 years, although the tendency is to adjust the repayment graph with the effect of reduction of the medium and long term refinancing risk. The concentration of refunds in the first 5 years is noted especially for the domestic debt[14] reflecting the preference of investors for government securities with average time to maturity of up to 5 years. For the management of this risk it is being considered to continue the policy of building liquid series of benchmark bonds up to the equivalent of approximately 2.5 billion EUR for each series of government securities, on the segment of medium and long term maturities, correlated with the use of liability management operations (buy-back and bond-exchange), measures which shall support the consolidation and extension of the yield curve in Lei and shall ensure both the reduction of the exposure of the debt portfolio to the refinancing and liquidity risk and the possibility of making in advance the refinancing of the needs from the following years from the domestic market, to the extent market conditions allow it. During 2021, as well as on medium term, the expectations are for the demand for government securities from the investment environment to remain at comfortable levels and to ensure the coverage of the financing needs from the domestic market. At the same time, the maintaining of the sovereign exposure in the investors' portfolios depends on a complex of external and internal factors, like the evolution of the rating at sovereign level, the credibility of fiscal consolidation policies, the evolutions of the external financial markets and of the key interest rates (FED and BCE), etc. For example, in 2020 were due government securities with a total value of approximately 33.5 billion Lei. The refinancing of these bonds could have represented a challenge in the financing process from the domestic market, given that

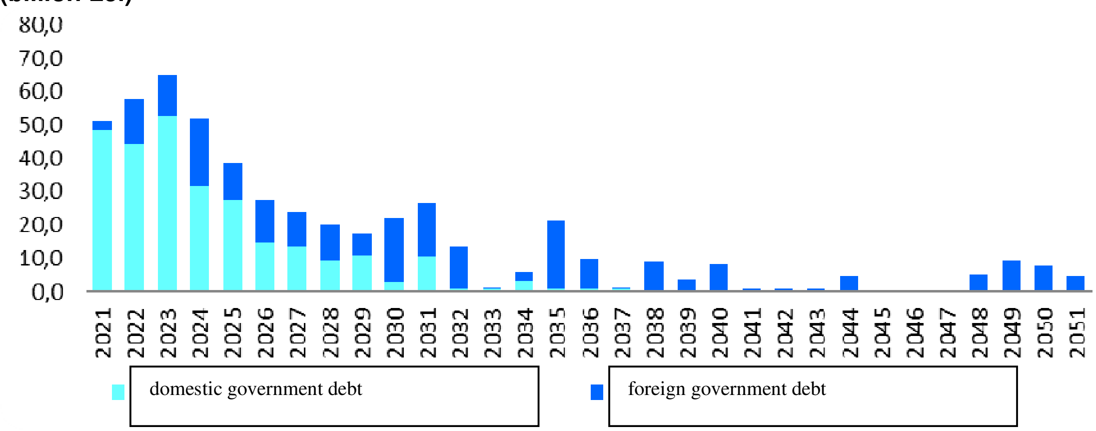
[13] The budget revenues calculated on the basis of cash data applying the EU methodology.
[14] According to the market of issuance.

commercial banks, which are still the most important investment segment for government securities (holding approximately 47.3% of the nominal value of government securities) would have used alternative and more profitable investments once the demand for financing of the private sector increased.

At the same time, in 2020 it is noted an ascending trend compared to 2019 of the owners of commercial banks relative to the holding of other classes of institutional investors, like private pension funds. Also, it must be noted that government securities are by far the most liquid instrument available on the domestic financial markets, being also the most liquid instrument eligible for monetary market operations.

With respect to foreign debt, the refinancing risk is reduced, as a result of the repaymnent structure of loans contracted from the international financial institutions and from the European Union (in a single installment, on long and very long terms), as well as due to 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 (of up to 30 years).

Graph 7: The repayment of capital installments corresponding to government debt at the end of 2020 (billion Lei)



Source: MF

The debt repayment profile determines an average time to maturity (ATM) of 7.3 years at the end of 2020, respectively of 4.2 years for the debt denominated in the national currency and of 10.3 years for the debt denominated in foreign currency.

Table 3: Refinancing risk indicators

Indicators	2019			2020		
	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)	17.0	8.0	12.0	16.0	6.0	10.0
Average time to maturity (years)	4.1	9.3	6.7	4.2	10.3	7.3

Source:MF

For the improvement of public debt management and the avoidance of seasonal pressure in ensuring the financing sources of budget deficit and of refinancing of government public debt, as well as for the management of refinancing and liquidity risk, starting in 2010, the MF has constituted and consolidated the financial reserve (buffer) in foreign currency at the disposal of the State Treasury; currently, the policy is to maintain 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 debt contracted with variable interest rate (see Table 4) and following the strategy of extension of the duration of the debt portfolio, the interest rate risk and the refinancing risk are moderate and they have different features shown through specific indicators for these risks, if the debt portfolios in Lei and foreign currency are separately considered. On the other hand, the exposure to the interest rate risk is reduced for the debt portfolio in foreign currency as a result of the fact that the issuances of Eurobonds and the loans from international financial institutions, including from the European Union, with long and very long maturities and a fixed interest rate represented the majority of this debt at the end of 2020. Thus, an increase of 1 percentage point of interest rates in 2021 will lead to the increase of payments on account of debt service of approximately 2.4 billion Lei, respectively 0.8% of the revenues of the central public administration[15] for the debt in national currency, and by approximately 2.6 billion Lei, respectively by approximately 0.9% of the revenues of the central public administration for the debt in foreign currency.

Table 4: Interest rate risk indicators

Indicators	2019			2020		
	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)	93.5	90.1	91.8	89.8	92.5	91.2
Share of debt that changes its interest within one year (% of total)	17.0	6.0	14.0	15.0	5.0	12.0
Average time to re-fixing (years)	4.0	9.2	6.6	4.2	10.6	7.4

Source: MF

Given the things presented above, it can be concluded that the refinancing risk and the interest rate risk corresponding to the debt denominated in the national currency, even if they have been stayed at a relatively constant level throughout the entire year 2020, continue to be risks associated to the government debt portfolio which should not be neglected and which must be correlated with the third objective of the Government debt management strategy on medium term, namely that of 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 be taken in the context of the COVID pandemic.

[15] The budget revenues calculated on the basis of cash data applying the EU methodology.

4. Internal and external financing in the context of the evolutions of domestic and international financial markets during 2019 - March 2021 and expectations on medium term

Domestic market

In 2019, the evolutions on the foreign environment, the slowing down of economic growth at global level, as well as the continuance of quantitative relaxation policies at the level of the main central banks, i.e. FED and ECB, were reflected in the decrease of the yields for sovereign government securities in the advanced economies, as well as in the CEE area that Romania is part of. Starting with the month of September 2019, it was noted a resuming of the ascending tendency, the evolutions of the yields on the secondary market of government securities being within the tendencies of those noted at regional level.

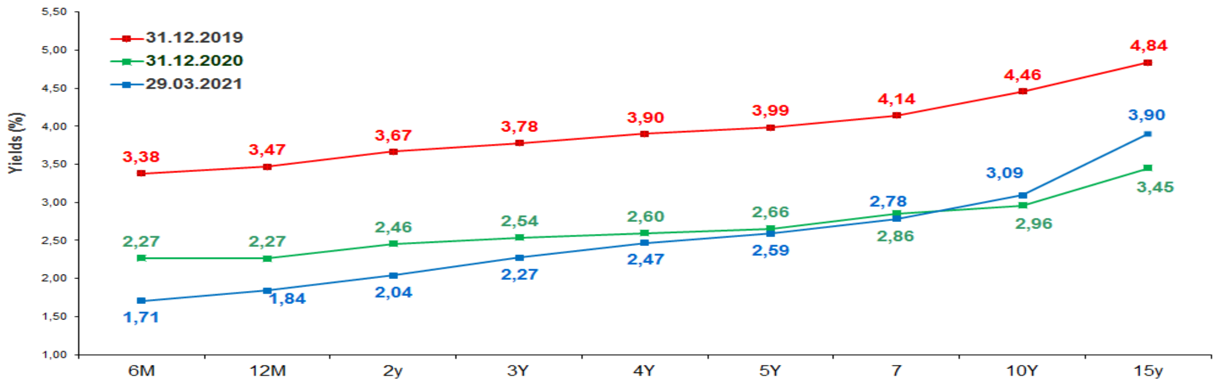
At the same time, the domestic market of government securities was also influenced by a series of internal factors, as well as by political events, the increase of investors' concerns regarding public finance sustainability and, starting with the first months of 2020, by the increase of financing needs and the effects caused by the Covid-19 pandemic.

Although the start of the health crisis during March 2020 led to a decrease of the demand for government securities and to seasonal pressure on the yields of government securities, starting with the following month, as a result of the actions of the central bank, the yields stabilized and the demand registered a gradual increase, which allowed the MF to adjudicate a monthly volume that was bigger than the announced volume of government securities to cover the growing financing needs.

The yield curve had a descending tendency of down to 50bps in the first two months of 2020, but at the beginning of the Covid-19 pandemic it was strongly affected, with strong yield increases of over 120-130 bps for all maturities. Starting with the end of the month of March it was noted a tendency towards stabilization, and then the descending trend advanced until the end of the year, being positively influenced by the market liquidity, by the measures of intervention of the National Bank of Romania, through the successive decrease of the monetary policy interest in March to 2%, in June to 1.75%, in August to 1.50% and in January 2021 to 1.25%, as well as by the performance of repo operations and purchases of government securities in Lei from the secondary market, and by the stabilization of the political environment.

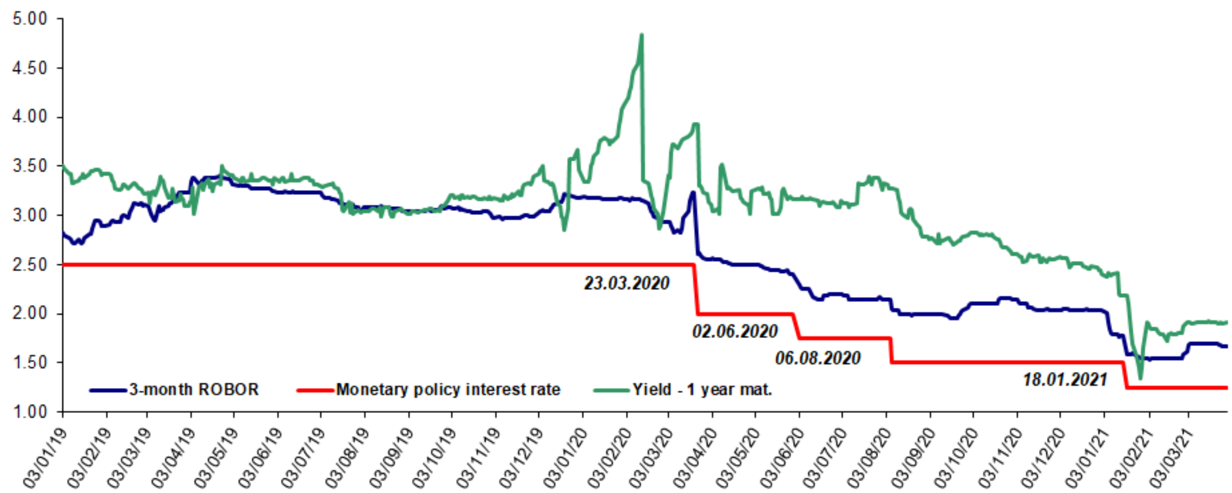
At the beginning of 2021, the yields of government securities registered a positive performance on the basis of the positive perception from the international financial markets and of the domestic economic and political evolutions, in the context of a decrease of the monetary policy interest rate in January 2021. Starting with the middle of February, the reference markets registered corrections which were also reflected in the yields of Romanian securities that had an ascending evolution, followed by a stabilization trend, in accordance with the positive expectation for economic recovery.

Graph 8: Evolution of the yields on the internal secondary market



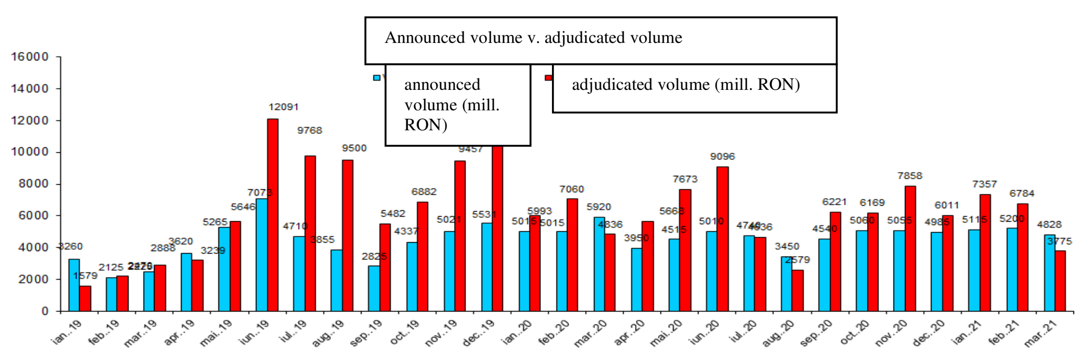
Source: Bloomberg

Graph 9: Monetary policy interest rate vs. ROBOR at 3 months and yields at 1 year



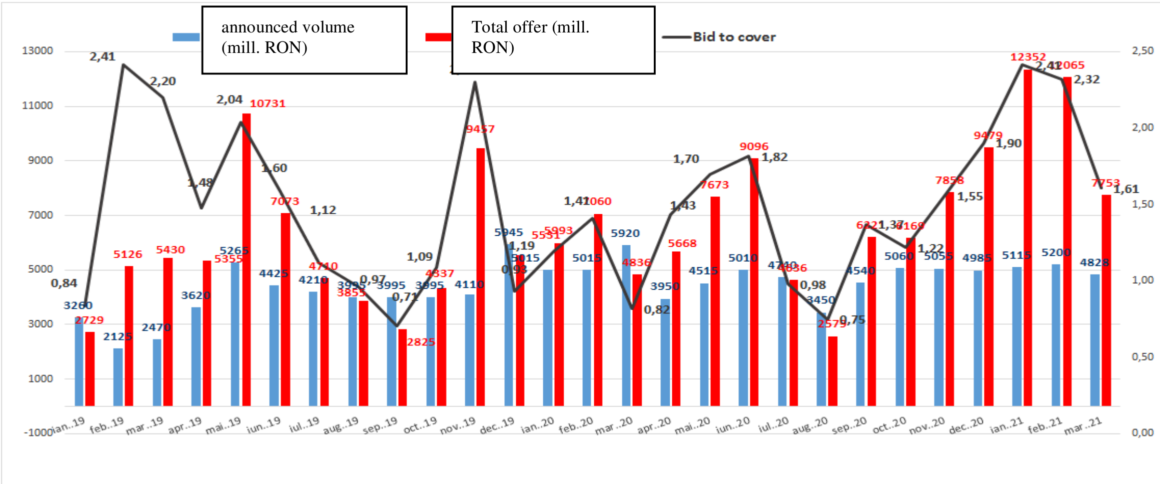
Source: MF, NBR

Graph 10: Announced volume vs. adjudicated volumeduring January 2019 - March 2021



Source: MF

Graph 11: Demand and offer of government securities on the primary market during January 2019 - March 2021



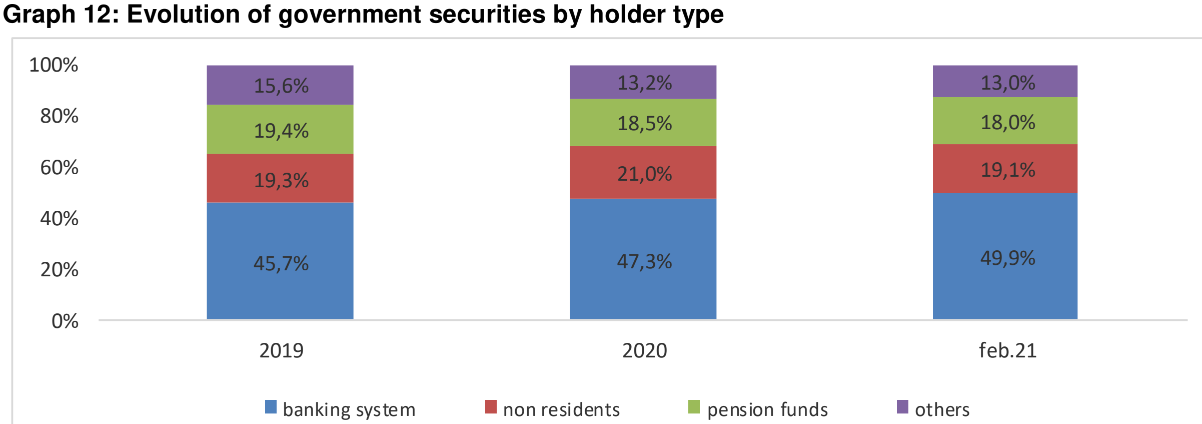
Source: MF

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 February 2021 approximately 50% of the total volume of government securities issued on the domestic market, which is an increase compared to the end of 2020 (47.3%), being followed by pension funds, which registered a decrease of holdings to 18.0% at the end of February 2021 compared to 18.5% at the end of 2020. At the same time, the National Bank holds approximately 2% of government securities, following the purchase operations started in March 2020 in the context of the Covid-19 pandemic.

In the segment of institutional investors, local funds of administration of assets and private pension funds, although they still hold a relatively low share on the market of Government securities, represented a stable participant to the process of government financing. The investment structure of private pension funds continued to hold a majority share in government securities from the total assets. Thus, government securities are held up to approximately 22% in the investment portfolios of collective investment bodies, 66% in the investment structure of private pension funds, and insurance companies have invested 39% of their assets in government securities[16].

Graph 12: Evolution of government securities by holder type



Source: NBR

[16] According to the report of ASF on the stability of non-banking financial markets 2/2020

Non-resident investors continue to represent an important segment of the market of government securities, providing additional demand to that of local investors, being interested mainly in long-term maturities, and helping diversify the investor base. At the end of February 2021, the holdings were around the value of 19.1%, a slight decrease compared to the level of 21% registered at the end of 2020.

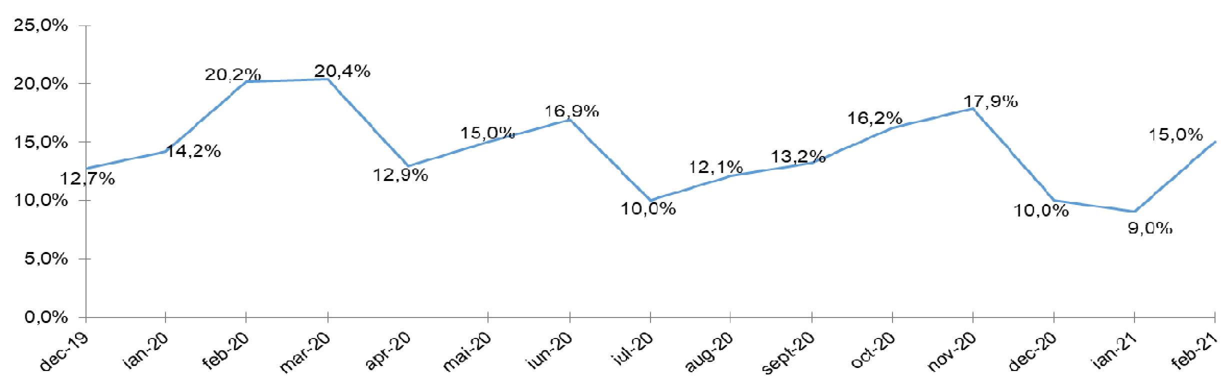
Relatively low holdings of non-residents limited the vulnerability of the domestic market to periods of volatility, when investors have the tendency to liquidate or reduce their exposures on the emerging countries.
At the same time, the increase of non-resident investors' presence could be influenced by internal factors, like: the development of a more liquid swap market in Romania for longer maturities, the increase of the liquidity of government securities on all segments, the introduction of liability management operations, the increase of the share of Romanian government securities in the international indices (JP Morgan/Barclays), considering that a large part of institutional investors have an investment policy related to the structure of these indices.

The presence of Romanian Government securities in the JPMorgan and Barclays indices continues to have a positive influence on the local market. At the end of February 2021, 15 series of Romanian Government securities were included in the GBI-EM Global Diversified Investment Grade Index, with a weight of approximately 3% and 20 series in Barclays EM Local Currency Government Index, with a weight of 1.08%.

The secondary market

The liquidity of government securities on the secondary market represents an important indicator with regard to the level of development of the government securities' market. During 2020, the liquidity degree, calculated as 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 volumes in the months of February (20.2%), March (20.4%), and November (17.9%), and minimum levels in July and December (10%), when the investors' interest moved to the primary market as a result of the high government financing needs, a tendency which was maintained in January 2021 as well.

Graph 13: Evolution of the degree of liquidity of active government securities in Lei between 2019 and February 2021



Source: MF

At the end of the fourth year of operation of the electronic platform of quotation and trading of Romanian government securities (the E-bond platform - provided by Bloomberg), it can be noticed the positive impact thereof on the government securities' market. Nevertheless, in 2020 was registered a decrease of the traded volumes, as the effects of the COVID-19 pandemic emerged. Relative to the minimum daily quotation obligations on the electronic quotation and trading platform[17], primary dealers quoted more series of government securities for a longer period throughout one day, at a lower margin between bid and ask quotations.

Implementation of the financing plan on the domestic market in 2020 and in the first 3 months of 2021

In 2020, the Ministry of Finance kept a predictable and flexible issuance policy, adapted to the requirements of the investment environment, especially on the basis of the increase of financing needs in the context of the pandemic and of the evolution of the conditions on the domestic market which had considerable fluctuations.

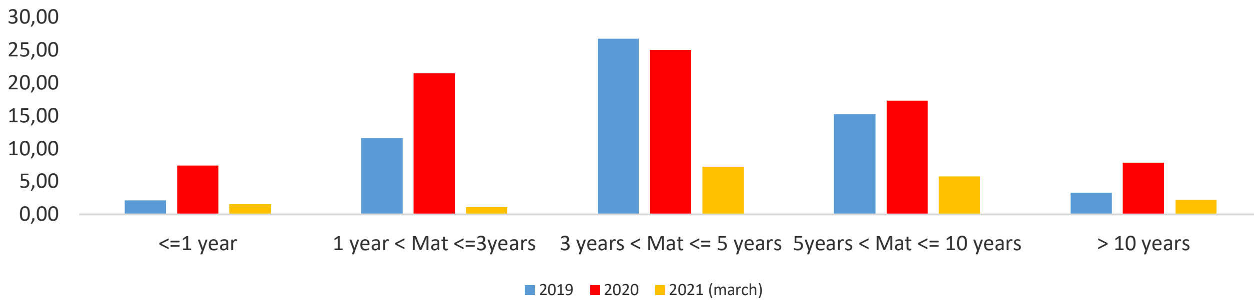
In 2020 were issued government securities on the domestic market of a total value of 91.4 billion Lei equivalent, including government securities denominated in EUR of 2.3 billion EUR and government securities dedicated to the population of 6.5 billion Lei, representing 61.8% of the gross financing needs of the central public administration[18].
Government securities issued on the interbank market had the following structure:
a) 9.3% represents issuance of treasury bonds with discount and issues of benchmark bonds with residual maturities of up to 1 year;
b) 58.2% represents issuance of benchmark bonds with residual maturities between 1 and 5 years; and
c) 32.5% represents issuance of benchmark bonds with residual maturities between 5 and 14 years.
Benchmark government bonds denominated in lei, with maturities of 3, 4, 5, 7, 10, and 15 years, were 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 2020 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 4 issuance with maturities between 1 and 5 years, in which over 46.400 natural persons invested 1.78 billion Lei. In the FIDELIS Program, which is implemented through the selected bank union made up of Banca Transilvania/BT Capital Partners, BCR, and BRD, were launched two issuance in the second semester of 2020, both in Lei (maturities between 1 and 4 years), as well as in EUR (maturity of 5 years), with an attracted value of 4.748 billion in Lei equivalent.
For year 2021, the estimated value to be attracted through issuances of government securities for the population through the Programs Tezaur and FIDELIS is of approximately 8-10 billion in Lei equivalent.

[17] The minimum daily quotation obligations on the electronic quotation and trading platform provided by art. 24 in the Order of the minister of public finance no. 2245/2016 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 3 hours daily, between 10 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 5 million Lei, both for the bid quotation and for the ask quotation; **d)** quotation of minimum 4 series of government securities with maturities of 1, 3, 5, 7, 10 years, among those established periodically by the Market Committee, as follows: two series with residual maturity shorter than 5 years and two series with residual maturity longer than or equal to 5 years.
[18] Presented in Chapter 5

In the first three months of 2021 were issued government securities on the interbank market amounting to a total of 16.8 billion Lei in securities denominated in Lei and 1.46 billion EUR, as well as government securities for the population through which was attracted the amount of 1.6 billion Lei in the TEZAUR Program and, respectively, 0.7 billion Lei, and 0.14 billion EUR in the FIDELIS Program.

Graph 14: Structure of issuance of government securities by maturities (initial maturity, billion Lei) - years 2019, 2020, and the first 3 months of 2021



Source: MF

Foreign market

Evolutions of the foreign markets and of Romanian Eurobonds in 2020

The year 2020 started in the context of the measures of relaxation of monetary policies, both in the European area and in the USA, through which it was sought to ensure monetary liquidity in the economies which already started to feel the first signs of tehnic recession, for the purpose of calibrating the financing costs in the context of assurance of inflation targeting objectives.

The start of the pandemic crisis at the end of February 2020, although sudden and unexpected and causing the generalized collapse of the prices of assets due to the panic which quickly enveloped all the segments of the global financial market, generated a fast and consistent response of the monetary and financial authorities from the entire world, especially in the area of developed economies. The central banks immediately reduced monetary policy interest rates and extensive support programs were started for the national economies which were very seriously affected by the measures of quarantine of the population (lockdown), through which were temporarily closed substantial segments of the global economy.
FED took the measure of reducing the reference interest rate to zero through two successive cuts in March, immediately after the start of the COVID-19 pandemic and initiated an extensive support program for the economy, which amounted to 2.3 trillion USD and which is still in progress, together with the quantitative relaxation program through which were injected approximately 2.7 trillion USD through purchases of assets. ECB, which was already on a negative territory with the monetary policy interest rate, quickly implemented measures related to liquidity assurance in the economy through the banking system and initiated extensive measures of support for the European economies, among which the most known is the program of purchases of assets in the context of the pandemic (PEPP) amounting to 1.850 billion EUR, while the Multiannual Financial Framework adopted in the European Union, which was conceived in the pandemic context and amounts to 1.824 billion EUR contains a series of

components which seek to recover and increase the resilience of economies by guiding investments in key fields.

As a result of the prompt response of the financial authorities at global level, the financial markets have been quickly stabilized after an unprecedented episode of volatility and huge losses on most investments in the first half of March. The markets of sovereign debts stabilized at low levels of interest, which has supported the financing of the economy at minimum costs, and FED announced that it maintained the reference interest in the current minimum interval of 0-0.25%, while the ECB maintained interests on the negative territory. The margins between the bonds of peripheral Europe (Italy, Spain, and Portugal) and those of Germany stabilized at pre-pandemic levels, which maintained low interest rates on medium term.
The yields of Eurobonds issued by Romania followed a tendency of significant compression on the basis of favorable liquidity conditions and low interest rates existing on the international markets in the context of the pandemic,

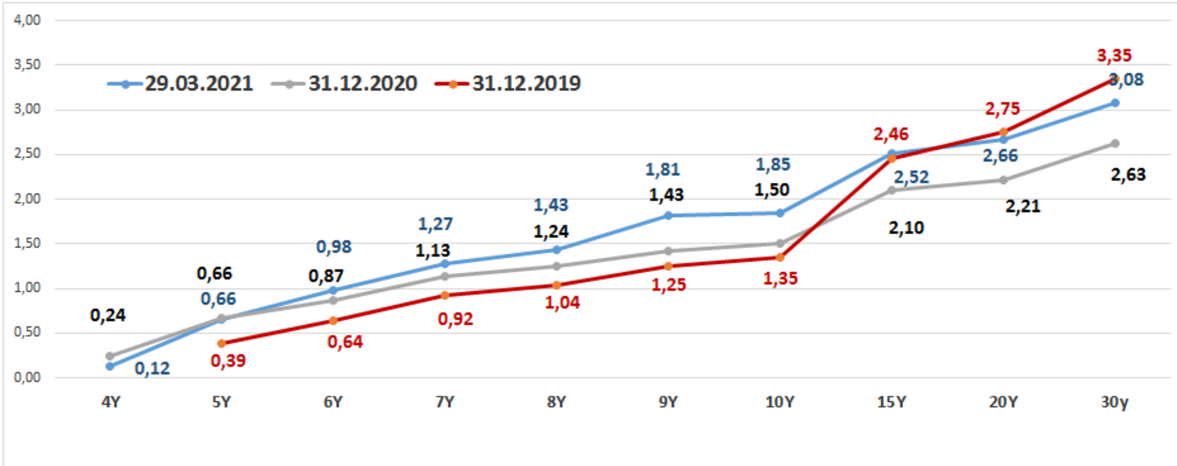
The difference between the yields of government securities issued by Romania on the international markets and the yield of reference bonds of Germany registered an accentuated increase once with the start of the pandemic, and currently, as a result of a positive evolution of yields for Romanian government securities, it decreased down to the level registered at the end of 2019.

Graph 15: The 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

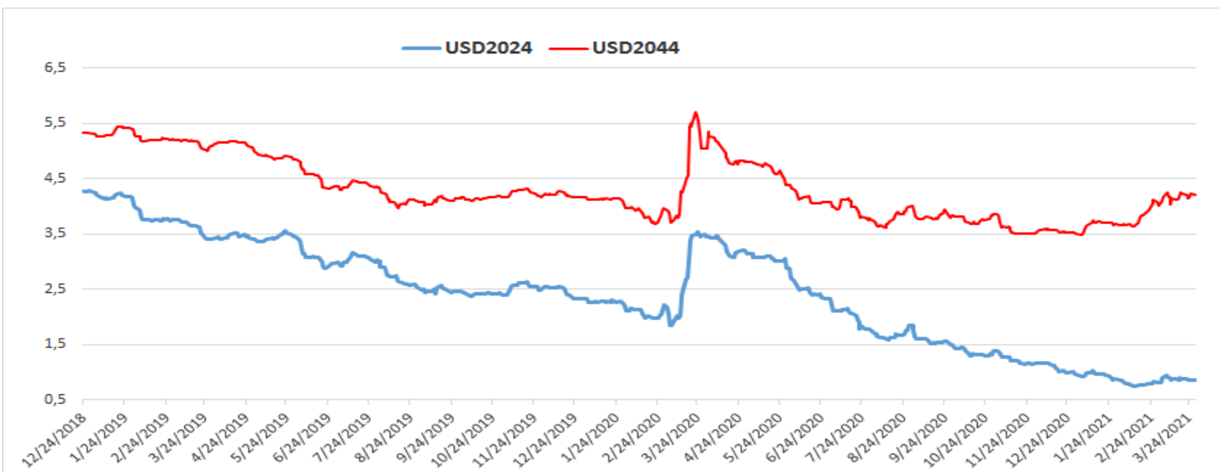
The yields of State Eurobonds denominated in EUR maintained at levels slightly superior to those of 2019 by approximately 20 bps on the 5-10 year segment and were significantly lower on the segment of long maturities of 15-30 years, with margins of 30-60 bps, as a result of the new issuance made in 2020, which benefited of the favorable global framework of low yields. After the sharp increase during March-May, the yields of issuance denominated in USD followed a constant decrease, so that at the end of the year registered decreases of approximately 60-130 bps on average, compared to the beginning of 2020.

Graph 16: The evolution of the yield curve of Romania's Eurobonds issued in EUR on the foreign market



Source: MF

Graph 17: The yields of Romania's Eurobonds issued in USD on the foreign market with maturity in 2024 and 2044

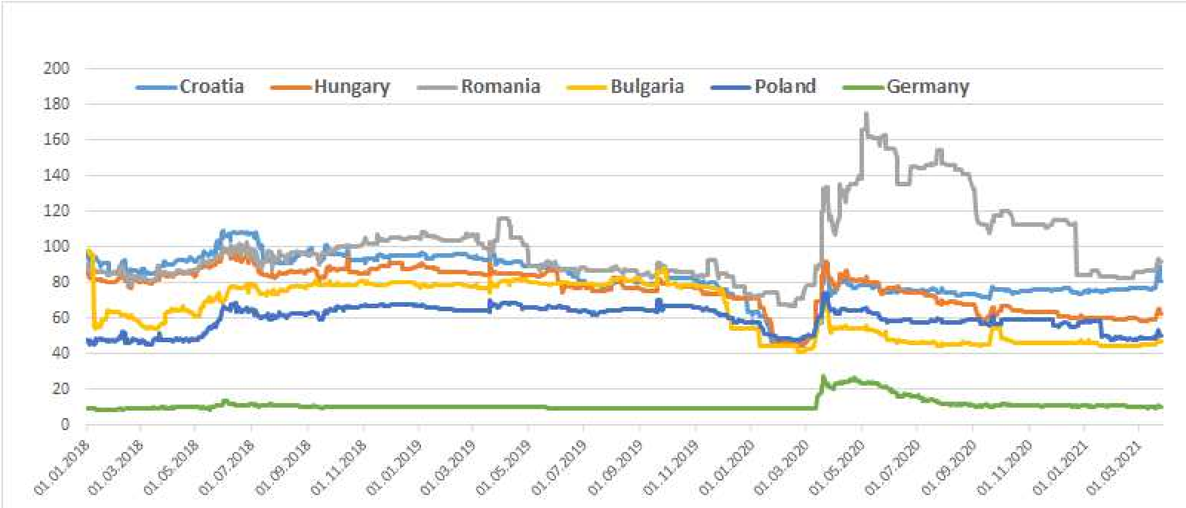


Source: Bloomberg

Romania's CDS (credit default swap)[19] quotations, which represent the price of insurance against the risk of default, have registered increases in April - May 2020, reflecting the highest level in the region at the time when the pandemic crisis started, and they subsequently maintained at significantly higher levels to those registered by other neighboring countries, but an accentuated decrease thereof is noted as of the beginning of 2021.

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

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



Source: Bloomberg

Implementation of the financing plan on the foreign markets in 2020 and in the first 3 months of 2021

In 2020 was attracted from the foreign markets through issuance of Eurobonds the amount of 11.7 billion in EUR equivalent, of which 8.8 billion EUR and 3.3 billion USD, as follows:

- on January 28 was attracted the amount of 3 billion EUR through one issuance of Eurobonds in two installments, of which 1.4 billion EUR with a maturity of 12 years (yield of 2.025%, coupon of 2.000%) and 1.6 billion EUR with a maturity of 30 years (yield of 3.391%, coupon of 3.375%);
- on May 26 was attracted the amount of 3.3 billion EUR through one issuance of Eurobonds in two installments, of which 1.3 billion EUR with a maturity of 5 years (yield of 2.793%, coupon of 2.750%) and 2 billion EUR with a maturity of 10 years (yield of 3.624%, coupon of 3.624%).
- on July 14 was attracted the amount of 3.3 billion USD through one issuance of Eurobonds in two installments, of which 1.3 billion USD with a maturity of 10 years (yield of 3.045%, coupon of 3.000%) and 2 billion USD with a maturity of 30 years (yield of 4.000%, coupon of 4.000%).
- on December 2 was attracted the amount of 2.5 billion EUR through one issuance of Eurobonds in two installments, of which 1 billion EUR with a maturity of 9 years (yield of 1.468%, coupon of 1.375%) and 1.5 billion EUR with a maturity of 20 years (yield of 2.650%, coupon of 2.625%).

The operations on the foreign market in 2020 also included drawings amounting to a total of approximately 4 billion EUR corresponding to the loans contracted from international financial institutions, of which the first installment from the loan from the European Commission within the SURE (*European instrument for temporary support to mitigate unemployment risks in an emergency following the COVID-19 outbreak*) amounted to 3 billion EUR.

Table 6: Issuances of due Eurobonds launched on the external financial markets

Issuance date	Currency	Maturity	Adjudicated (billion)	Coupon (%)
February 7, 2012	USD	February 7, 2022	1.50	6,750
March 6, 2012			0.75	
February 22, 2013	USD	August 22, 2023	1.50	4,375
September 18, 2013	EUR	September 18, 2020	1.50	4,625
October 28, 2013			0.50	
January 22, 2014	USD	January 22, 2044	1.00	6,125
January 22, 2014	USD	January 22, 2024	1.00	4,875
April 24, 2014	EUR	April 24, 2024	1.25	3,625
October 28, 2014	EUR	October 28, 2024	1.50	2,875
October 29, 2015	EUR	October 29, 2025	1.25	2,750
February 25, 2016			0.75	
October 29, 2015	EUR	October 29, 2035	0.75	3,875
February 25, 2016			0.50	
April 19, 2017			0.75	
May 26, 2016	EUR	May 26, 2028	1.00	2,875
October 5, 2016			1.00	
April 19, 2017	EUR	April 19, 2027	1.00	2,375
February 8, 2018	EUR	February 8, 2030	0.75	2,500
February 8, 2018	EUR	February 8, 2038	1.25	3,375
June 15, 2018	USD	June 15, 2048	1.20	5,125
October 11, 2018	EUR	March 11, 2029	1.15	2,875
October 11, 2018	EUR	March 11, 2039	0.60	4,125
April 3, 2019	EUR	December 8, 2026	1.15	2,000
April 3, 2019	EUR	April 3, 2034	0.50	3,500
April 3, 2019	EUR	April 3, 2049	1.35	4,625
July 16, 2019			0.60	
July 16, 2019	EUR	July 16, 2031	1.40	2,124
January 28, 2020	EUR	January 28, 2032	1.40	2,000
January 28,	EUR	January	1.60	3,375

2020		28, 2050		
May 26, 2020	EUR	February 26, 2026	1.3	2.75
May 26, 2020	EUR	May 26, 2030	2.0	3,624
July 14, 2020	USD	February 14, 2031	1.3	3,000
July 14, 2020	USD	February 14, 2051	2.0	4,000
December 2, 2020	EUR	December 2, 2040	1.5	2,625
December 2, 2020	EUR	December 2, 2029	1.0	1,375

Source: MF

Sovereign rating

During 2020, the rating agencies Moody's and Fitch kept Romania's evaluation in the category of recommended for investments (Moody's - Baa3/A-3 and Fitch -BBB-/F-3), but revised the perspective from stable to negative. The decisions took account of the positive perspective of economic growth compared to other countries from the same rating category and the low share of public debt in GDP, but signaled a series of risks which might affect the sovereign rating in the following period, like the increase of macroeconomic imbalances or the structural deterioration of public finance, as well as the international investment position.

In December of 2020, Standard & Poor's confirmed the country rating at BBB-/A-3 and the negative perspective, considering the moderate level of public debt and external debt, as well as the confidence that the Romanian government will reduce the fiscal imbalances and will continue to offer extensive fiscal support to encourage economic recovery in 2021.

Expectations regarding the evolution of financial markets during 2021-2023

The elimination of the effects of the economic crisis generated by the global pandemic caused by COVID-19 will focus government efforts at global level. The recovery of the global economy at pre-pandemic levels and the resuming of economic growth are lengthy processes caused by the maintaining of uncertainties regarding the elimination of the pandemic phenomenon, as well as by the overcoming of economic and financial difficulties generated by the pandemic's effects, considering also the risks of the technical recession whose first effects were felt in 2019. This is why government support programmes for the economies affected by the pandemic will continue on medium term until the reestablishment of macroeconomic and financial balances through dedicated programs of purchase of specific public and private assets, the continuance of quantitative relaxation programmes in most developed economies, and employment financing programmes in the context of the pandemic. Banks will continue to receive financing at the current levels situated at historical minimums, which will most probably be maintained on medium term.
The global economic and financial context, corroborated with the listed measures, refers for the period of 2021-2023 to the maintaining of interest rates at the current minimum levels, with excess liquidity and facilitation of access to financing at macroeconomic and sovereign level in order to allow the countries to cover their financing needs. Financial markets will continue to react to the possible economic uncertainties through fluctuations of the interest rates and of the quotations of refuge assets caused by changes of perception on the financial markets which will generate migrations of the capitals towards other assets. Stock markets might continue to grow, being fueled by the excess liquidity generated by government programmes, as well as afterwards, through the overcoming of the pandemic crisis, and the economic and financial

environment shall be influenced by the evolution of the pandemic and of the vaccination process.
In the context of amplification of vulnerabilities at international level, as well as of the economic and political evolutions at internal level, seasonal reactions can be expected of the yield curve of government securities, as well as adjustments of the participation of the categories of local investors to the internal financing process.

The financing process on medium term

On medium term, the financing of the budget deficit and the refinancing of government debt shall be mainly made from domestic sources and supplementary, from foreign sources, and under the excessive deficit procedure shall seek at least a balanced net financing from the domestic markets and the foreign financial markets. The MF will continue to maintain a flexible approach in performing the financing process, seeking to ensure the predictable and transparent nature of the offer of government securities, in order to be able to react promptly and adequately to the possible changes in market tendencies and the investors' behavior.

According to market conditions, the Ministry of Finance is considering a partial pre-financing of the financing needs, in the first part of the year, a policy which it intends to continue in the following years as well, depending on the conditions and windows of opportunity on the foreign financial markets. This a common practice of assurance of the financing needs of debt management agencies at EU level, reducing in this manner the pressure of assurance of sources for coverage of financing needs during the current year, given that there are bigger volumes of debt redemption in the first part of the year.

On the domestic market, in order to reduce financing costs and to promote an improved operation of the secondary market, the MF intends to continue the policy of building a series of liquid benchmark bonds on the entire yield curve, at the same time with a transparent policy of issuance of government securities, seeking to reach volumes per issuance/series with an equivalent value of approximately 2.5 billion EUR, with prior information of the market with respect to the volumes, the 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, this creating the assumptions for an advantageous maturity/cost ratio.

Also, according to the completion of the procedural and operational framework together with the NBR[20] it is considered the use of specific liabilities management operations of the type of early redemptions or switches of government securities in order to facilitate the process of refinancing of the series with large accumulated volumes, which become due and accelerating the process of creation of series of government securities of liquid benchmark type up to 2.5 billion in EUR equivalent.

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 sense, it is important the structure of the local investment base, in which the share of holdings of government securities of commercial banks is still maintained at a high level.

Thus, if a scenario of increase of interest rates or of the risk premium for the emerging markets which include Romania is materialized, the holdings of government securities may have a negative effect on the profitability and capitalization of banks as a result of the recognition of losses on the market marking of fixed income instruments held, which might seasonally affect

[20] The auctions for early redemption (buy back) operations and government security exchange (switch) operations on the domestic market shall be made by using the electronic platform developed by the NBR for the auctions on the primary market.

the demand at the auctions of government securities, although the holdings of government securities represent an important source of liquidity for the banking system, being accepted as eligible assets for monetary policy operations.

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 according to the level of demand for these instruments and to the evolution of the financing process.

With respect to accessing the *foreign market*, the MF intends to maintain a constant presence on the international financial markets. Also, after a first exercise performed in June 2018 through the partial redemption of the bonds in USD due in 2022, it is considered to continue the performance of liabilities management operations (accelerated switch), depending on the market conditions that allow the Romanian state to obtain advantageous costs.

The MF will remain flexible with regard to the moment of accession of the international markets and the volume of external issuances, considering the associated costs, the risk considerations, the possible implications of the central bank's policy, as well as the evolution of the local market.

On medium term, the MF intends to continue its partnership with the international financial institutions, in order to benefit of 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, inclusive by the European Union,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 corresponding to the estimated financing needs *)

Financing sources	Maturity (years)	Value (billions)		
Domestic market		**2021**	**2022**	**2023**
1. Treasury certificates (billion Lei)	up to 1 year	11	12	12
2. Benchmark bonds in Lei (billion Lei)	over 1 year	54	64	63
4. Certificates and bonds in EUR (billion EUR)	up to 5 years	2.0	1.0	1.0
5. Government securities for the population (billion Lei)	1-5 years	10.0	8.0	8.0
Foreign market				
1. Issues of bonds in the MTN Programme (billion EUR equivalent)				
- EUR/USD	Over 10 years	7.4	9.5	7.0

2. Loans from international financial institutions (billion EUR):				
a) Loans from EIB (including SPL), IBRD, CEDB, etc.	vary according to the financier and the status of the loan (some are already in repayment, and for others the terms are set on the occasion of the drawing, according to the option of the MF)	0.1-0.4	0.1-0.5	0.1-0.5
	on average 15/20 years, of which 4-5 years of grace period			
b) Loans from the European Union	Vary according to the financial terms under which the EU borrows from the capital market to ensure that financing (for example, for the SURE loan the average maturity is of over 15 years)	1.1	0	0

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

5. Macroeconomic framework in Romania

In 2020, Romania's economy registered a decline of 3.9%[21], and in the following period it is estimated that the gross domestic product will increase at an average yearly pace of approximately 4.7%[22].
With respect to the consumer price index, Romania ended 2020 with an average annual inflation rate of 2.6 %[23], but it increased in February 2021 to 3.16%. At the end of 2021 it is estimated that the inflation rate will reach 2.5% and at the end of 2023 it will reach 2.3%[24].

The unemployment rate was at 3.4%[25]at the end of 2020, i.e. approximately 0.5% bigger than at the end of 2019 (2.9%). For the end of 2021, it is estimated to reach 3.6%[26], and on medium term it will follow a descending trend, reaching 2.8% in 2023.

In 2020, the current account deficit[27] increased to 5.0% of GDP, compared to 4.7% in 2019. On medium term, although Romania has one of the highest current account deficits in the EU, it is estimated to decrease from 4.6% of GDP in 2021 to 4.1% in 2023.

The macroeconomic framework configured for the period 2021-2023 was based on considerations like the economic evolutions of 2020, the evolution of the economic growth being mainly sustained by investments and consumption - in a domestic environment favored by the stability and predictability of macroeconomic policies, as well as of the efficient government policies with an effect of alleviating the shock of the Covid crisis; the European and global framework characterized by recovery, which is also reflected in the Fall forecast of the European Commission, in the 2020 Fall forecast of the International Momentary Fund which estimates for 2021 a growth of the European economy of 5.0% and, respectively, 5.2% with respect to world economy.

Budget planning for 2021-2023 was based on the measures taken by the Government of Romania in different fields affected by the crisis, like the economic field, that of social assistance, health and education, using the fiscal and budget policy to stop the negative effects of the pandemic, which will influence the macroeconomic framework and the budget indicators on the 2021-2023 horizon, as well as the financing priorities from the national budget, the measures adopted to incentivize the competitiveness of Romanian economy with the

[21] Source: NIS
[22] Source: NCSP Winter forecast, January 2021
[23] Source: Monthly bulletin of the NBR of January 2021
[24] Source: NCSP Winter forecast, 2021
[25] Source: NIS
[26] Source: NCSP Winter forecast, January 2021
[27] Source: NCSP Winter forecast, January 2021

economies developed in the European Union, as well as the expectations of a real GDP growth of 4.3% for 2021.
On the conditions of budget deficits of over 3% of GDP in 2021-2023, but with a descending evolution on medium term, 2024 being the year in which it is estimated that the budget deficit will be below the 3% of GDP target provided by the Maastricht Treaty, the volume of refinancing of government debt represents approximately 39-47% of the gross financing needs, as presented in the table below:

Table 8: Forecast of the financing needs

Indicator	2020 operative execution	2021 forec.	2022 forec.	2023 forec.
Revenues of the central public administration (billion Lei)[28]	258.2	300.0	310.4	332.8
Central public administration expenditure (billion Lei)[29]	359.6	381.1	381.9	376.7
Budget deficit pertaining to the central public administration (I) (billion Lei)[30]	101.4	81.1	71.5	71.5
Refinancing of the Government debt[31] (II) (billion Lei)	46.6	51.0	57.9	64.9
Gross refinancing needs (I+II) (billion lei)	148.0	132.1	129.4	136.4

Source: FM

At the end of 2020, the share of government debt calculated in accordance with the EU methodology, was at 47.3% of GDP, exceeding the ceiling of 47% of GDP provided in GEO no. 201/2020 on the rectification of the State budget for 2020, as a result of the contracting of public debt in order to cover the financing needs of the budget deficit (9.67% of GDP according to the preliminary execution), the consolidation of the financial reserve in foreign currency available to the State Treasury and the assurance of partial refinancing of the financing needs of 2021.
In this framework, according to the provisions of the Fiscal and budget responsibility law no. 69/2010, if public debt exceeds 45% of the gross domestic product, but it is below 50% of the gross domestic product, the Ministry of Finance shall present to the Government a report on the justification of the increase of government debt and proposals for maintaining of this indicator at a sustainable level.
On medium term (2021-2023), the estimates regarding the evolution of government debt are that this indicator shall be kept at a sustainable level which shall not exceed 55.0% of GDP.
The macroeconomic hypotheses of the Strategy for the period 2021-2023 are presented in the table below.

Table 9: Basic scenario of macroeconomic forecasts

Indicators	2020	2021 forec.	2022 forec.	2023 forec.
Nominal GDP (billion Lei)	1053.9	1116.8	1204.2	1301.6
GDP increase/decrease (%)	-3.9*)	4.3	4.7	5.0
Budget deficit pertaining to the central public administration[32] (% of GDP)	-9.6**)	-7.3	-5.9	-5.9
Current account deficit (% of the GDP)	-5.0*)	-4.6	-4.4	-4.1
Inflation (end of year %)	2.06*)	2.5	2.4	2.3
(Average annual) inflation %	2.63*)	2.4	2.6	2.5
Average Lei/EUR exchange rate	4.8371*)	4.89	4.93	4.97
Average Lei/USD exchange rate	4.244*)	4.18	4.21	4.25

Source: NCSP, MF
*) realized
**) operative execution

[28] Calculated on the basis of cash data applying the EU methodology.
[29] Idem 28
[30] Idem 28
[31] The volume of reimbursements of capital rates and refinancing of Government securities on account of the Government public debt, in accordance with the national legislation, calculated on the basis of the debt balance at the end of 2020 (includes State guarantees, but does not include temporary financing).
[32] Calculated on the basis of cash data applying the EU methodology.

Risks corresponding to initial projections

Budget estimatation and economic forecasts can deviate from the levels of the basic scenario, as a result of a possible materialization of the risks which might arise both at domestic and foreign level, with different implications on the evolution of public finance.

Even if the pandemic is kept under control as a result of the experience acquired by the countries in the management thereof, the damages caused in 2020 can be bigger than it would have been expected, and the consumers and the business environment might have a more restrictive behavior, which will have an influence on consumption and investments.
On the other hand, there are assumptions for economic growth beyond expectations, supported by an efficient management of the pandemic and by the vaccination process being made more efficient, as well as by the acceleration of digitalization or of other technologies introduced during the pandemic.
Economic growth might be affected by a slower pace of resuming the commercial exchanges with the Member States of the EU and with other relevant countries from outside of the Community area.
At domestic level, the failure to observe the vaccination strategy might cause trouble for the economic activities in all the sectors of the economy.

The deviations from the macroeconomic projections of the basic scenario, which might lead to volatility that affects the investment appetite for the financial assets issued by emerging economies, might come from the estimates regarding the uncertainties related to international trade, geopolitical tensions, the adjustment of the investors' risk appetite, with implications on the emerging markets, climate change, as well as other external events (the extension of the coronavirus, with unfavorable effects on global demand, as well as the increase of foreign exchange markets' volatility).

The expectations for tightening of the two monetary policies (ECB and FED) have significantly decreased, which has a balanced impact on the yield curve on the two financial markets, as well as on the emerging markets.

The markets of sovereign debts stabilized at low levels, and this has supported the financing of the economy at minimum costs, and FED announced that it maintained the reference interest rates in the current minimum interval of 0-0.25%, while the ECB maintained interest rates on the negative territory. Practically, FED will maintain interest rates close to zero as long as necessary until inflation in the USA will increase over the 2% target, pushing market expectations with respect to the first increase of the rate until 2023.

In the session of January 21, 2021, the ECB reconfirmed the accommodating orientation of the monetary policy on the base of assessment of the economic and monetary conditions in the context of the uncertainties generated by the COVID-19 pandemic by keeping interest rates at the current levels or at lower levels until it is noted a robust convergence of the inflation perspectives towards a lower level, but sufficiently close to 2% and the continued performance of procurement within the programme of monthly purchase of assets in case of emergency (*pandemic emergency purchase programme* PEPP) through the continued supply of an extensive volume of liquidity throughout the period of the pandemic. At the same time, net purchases within the asset purchase programme - APP will continue until at least the end of

March 2022, at a monthly pace of 20 billion EUR. Also, the ECB will continue to supply an extensive volume of liquidity through its refinancing operations.

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 excessive budget deficits on medium term (over 3% of GDP), the issuance of new debt necessary to cover high financing needs on the domestic market must consider the absorption capacity of the domestic market and the characteristics of the holders of government securities issued on this market (the banking sector still being the main holder, although the share thereof in the total has slightly decreased below 50%). This risk factor can be diminished on the long term by increasing demand on the side of institutional investors, like pension funds or other participants from the capital market, like the local asset management funds or insurance companies.

Political implications at macroeconomic level

The macroeconomic projections from the basic scenario indicate the decrease of the financing needs of the central public administration compared to 2020 and the stabilization of government debt in GDP in the following period. This means that the financing strategies will have to be implemented by considering the volume of debt refinancing and of budget deficits of over 3% of GDP, but decreasing on medium term, in parallel with the increase of tolerance to 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 assumptions from the basic scenario show that the anticipated/estimated monetary policy decisions both at internal and external level anticipate that the market segment will remain vulnerable, at least in 2021.

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[33], 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 to the interest rate risk of the debt issued on the domestic market continues to represent the main risk sources for the current government debt portfolio. Currency risk is moderate, being alleviated by the share of debt in foreign currency issued on the long term (denominated in EUR), as well as by the maintaining of the financial reserve in foreign currency available to the State Treasury. The advantage of long and very long maturities and the diversification of the investor base continue to justify the option of issuance of Eurobonds denominated in USD,

[33] At the end of 2020.

especially under the conditions of using currency swaps as a result of concluding the ISDA documentation with possible counterparts in 2021. The analysis shows that currently, in the absence of the framework necessary for the use of derivative financial instruments for management of the risks which correspond to financing in other currencies, financing in USD is more costly and riskier than financing in EUR[34]. Nevertheless, it must be considered the cost associated to the use of long and very long term hedging instruments.

In order to limit the refinancing risk, the Ministry of Finance intends to use specific liabilities management operations of the type of early redemptions or government security switches, after completing together with the NBR the legal framework, which is estimated for the first part of 2021.

Based on these considerations, the MF assessed the financing alternatives which facilitate the limitation of exposure to the refinancing risk and the interest rate risk. Two approaches were used: the first approach considers the issuance of government securities in the national currency on maturities as long as possible, and the second approach replaces financing through treasury certificates with short term maturity with that through government securities denominated in EUR issued on long term. 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 in the basic scenario with the cost from the basic scenario. Two cost and risk indicators were used: the share of debt in GDP and the share of payments of interests in GDB, both calculated for the end of the third year of analysis, namely 2023. The results of the cost-risk analysis are supplemented by the macroeconomic considerations and those related to the development of the domestic market of government securities, as presented below.

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

<u>Extending the average time to maturity (ATM) for the debt in the national currency:</u> Managing the exposures to the refinancing risk which characterize the debt in national currency using more instruments denominated in Lei with medium and long term maturities is still more favorable, considering the levels which are still relatively low of the yields of government securities for the analysis period. Under these circumstances, the cost corresponding to the extension of the average time *<u>to maturity</u>* is relatively small from the perspective of the debt in GDP and of the share of interest payments in GDP. Therefore, the analysis of the scenario supports the strategies which increase the average time *<u>to maturity</u>*, because the cost increase is relatively small compared to the improvement of the profile of debt refunds/redemptions and the protection they offer relative to the unexpected and sustained increase of short term interest rates.
This strategy may contribute to the development of the market, through the increase of liquidity for government securities issued on medium and long term, with an impact on the development of the secondary market. Liquidity improvement may come both from the increase of the share of Romanian government securities in the regional reference indices, through the use of the electronic trading platform on the secondary market (E-bond) and the use of liability

[34] Current yields (on March 22, 2021) which correspond to the Eurobonds denominated in EUR with maturities in 2024 are at approximately 0.129%, given that those corresponding to the issues of Eurobonds in USD with maturities in 2024 are at approximately 0.879%.

management operations (early redemptions and security switches), after the technical and operational framework necessary for the use of these instruments is completed in collaboration with the NBR, this being estimated to be done in the first part of 2021. Nevertheless, the simulations of the costs which correspond to this strategy do not take into account the limitation generated by the absorption capacity of an increased volume of government securities on medium and long term by the domestic market. Thus, this scenario must take into account a reasonable increase of the net volume of issues of government securities on medium and long term on the domestic market, correlated with the high exposure on government securities of the banking sector.

Reducing the refinancing risk by refinancing the due treasury certificates in Lei through government securities denominated in EUR: The management of exposures to the debt refinancing risk in the national currency through financing in EUR is advantageous from the perspective of the debt cost. Thus, when using the share of interest payments in GDP as an indicator of cost, strategies with a predominant financing in EUR have a comparable cost, but have a lower associated risk compared to financing predominantly in national currency. The analysis from the perspective of the risk differential responds to the fact that interest rates on the domestic market are much more volatile. Nevertheless, if the analysis focuses on stocks, currency risk prevails, and increasing the share of debt in EUR amplifies the exposure of the portfolio to a possible depreciation of the national currency.

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 Lei/USD exchange rate which is significantly more volatile than the Lei/EUR one, in terms of the appreciation of the American currency compared to EUR.
Although the USD market is traditionally more liquid, with a diversified investor base and has allowed Romania to borrow with very long maturities (up to 30 years), the favorable conditions on the EUR market of recent years have allowed the extension of the maturity of Romanian government securities up to 30 years and this is an additional argument for the issuance of Eurobonds predominantly on the EUR market. Nevertheless, in case of existence of opportunities based on the cost/maturity ratio when issuing Eurobonds denominated in other currencies, corroborated with the management of the risk of exposure to these currencies through the use of currency swap instruments, considering the cost associated with the use of hedging instruments on long and very long term, such instruments can be considered while at the same time maintaining the main exposure in EUR.

Within this meaning, in order to reduce the exposure to currency risk and to the interest rate risk associated with the government debt portfolio, the Ministry of Finance is considering to use derivative financial instruments (especially currency swap considering the exposure of the current debt portfolio), and in 2021 shall be finalized the operational framework and shall be concluded framework agreements of the type of ISDA Master Agreement with a series of counterparts.

On medium term, it is considered the diversification of financing instruments, through the issuance of “green” bonds and a first stage in this respect is represented by the creation of the general framework of issues of green bonds at sovereign level with identification in the State budget of the projects of “green” investments/expenses with support from the line ministries and the Ministry of Investments and European Projects, in its capacity as coordinating authority of the National Plan of Recovery and Resilience.

At the same time, for the purpose of improving the management of public debt and avoiding seasonal pressures in the assurance of financing sources for the budget deficit and of refinancing of the Government public debt, in order to reduce the refinancing risk and liquidity risk, the Ministry of Finance is considering to maintain the financial reserve (buffer) in foreign currency available to the State Treasury at the value equivalent for the coverage of the financing needs of the budget deficit and the refinancing of the public debt up to 4 months of the gross financing needs.

To conclude, under the conditions of excessive budget deficits (of over 3% of GDP) on medium term, the MF is considering a relatively balanced net financing from domestic and foreign sources, but with the assurance of financing of the budget deficit and of refinancing of public debt predominantly in the national currency to continue the development process of the domestic market, in parallel with accessing the foreign capital markets in EUR and contracting loans from IFIs in order to ensure robust financing sources, keeping opportunistic access on the international financial markets in other currencies than EUR, in case of obtaining an advantageous cost/risk ratio for the Romanian State, diversifying the investor base and using derivative financial instruments (currency swap).

The Ministry of Finance will continue to promote the development of the internal market of 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 2021-2023:

1. Financing mainly in the national currency, which would continue to facilitate the development of the domestic market of government securities and also support the decrease of the currency risk exposure considering at the same time the absorption capacity of the domestic market and, generally, the demand for debt instruments in Lei[35], as well as the needs to diversify the investor base for government securities. In the case of high financing needs, due to excessive budget deficits, the net financing (budget deficit) shall be achieved in a relatively balanced way from domestic and foreign sources.
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[36] at a comfortable level and maybe through other instruments, according to the conditions and terms thereof.
4. In the foreign financing process shall be considered the contracting of debt mostly in EUR and the opportunistic accessing of international capital markets in USD or other currencies, considering the extension of the average maturity of the government debt portfolio, as well as the cost/risk ratio associated thereto and the diversification of the investment base, under the conditions of use of financial derivatives (currency swap) after the conclusion of the specific documentation with eligible counterparts.
5. In the implementation of the financing plan shall be considered the introduction of green bond issues, according to the completion of the General framework for green bonds at

[35] Apart from domestic demand for government securities in Lei, nonresidents can play an important role both with respect to the volumes placed on the domestic market, and to the structure on maturities in the financing process, considering the high appetite thereof for government securities with medium and long term maturities.
[36] The reserve in foreign currency must cover a number of months corresponding to the necessary gross financing.

sovereign level, through coordinated efforts at the level of the line ministries and the identification of expenses/projects which shall be subject to financing through these bonds.
6. Issuance on the domestic market in EUR shall be considered only in the framework of the specific demand expressed by local investors, on medium term maturities, according to market conditions and to the appetite manifested by the investment environment, on the basis of an advantageous maturity/cost ratio.
7. Keeping under control the exposure to the 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.
8. Using the financing instruments offered by the international financial institutions, including those established in the European Union, considering the advantageous terms and conditions they offer.

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

Currency risk:
1. Ensuring a higher share of net financing from domestic sources and maintaining the share of debt denominated in the national currency in the total government debt between 45% (minimum) and 60%. This financing strategy shall consider the absorption capacity of the domestic market of government securities and the cost associated thereto.
2. Keeping the share of debt denominated in EUR in the total debt denominated in foreign currency in the interval of 80% (minimum) and 95%. At the time of use of derivative financial instruments, this indicator shall be calculated after assessing the debt as a result of the use of currency swaps.

Refinancing risk
1. Keeping the share of debt due within 1 year in the 15%-25% interval (maximum) for the debt in the national currency and between 10% and 20% (maximum) for total debt.
2. Keeping the average time to maturity I between 4.0 years (minimum) and 6.0 years for the debt in national currency and between 7.0 years (minimum) and 8.5 years for total debt.
3. Maintaining a financial reserve in foreign currency at a comfortable level, so as to mitigate the risks corresponding to the periods characterized by high volatility on the financial markets.

Interest rate risk
1. Maintaining the share of debt which 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 the total debt.
2. Maintaining the average time to re-fixing between 4.0 years (minimum) and 6 years for the debt in national currency and between 7.0 years (minimum) and 8.5 years for the total debt.

Table 10: Targets for the main risk indicators

Risk exposure	Indicator	Indicative targets for 2021 -2023
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% 80% (minimum) – 95 %
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) 7.0 years (minimum) - 8.5 years 4.0 years (minimum) - 6.0 years
Interest rate risk	Share of debt that changes its interest rate within one year (% of total) Share of debt in Lei that changes its interest rate within 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) 7.0 years (minimum) - 8.5 years 4.0 years (minimum) - 6.0 years

Source: FM

The implementation of the Strategy for the period 2021 - 2023 shall be monitored on a monthly basis, by following the debt indicators to be in the limits of the established targets and the publication thereof in the monthly bulletin of the MF available on the website of the Ministry of Finance. According to Government Emergency Ordinance no. 64/2007 on public debt, as subsequently amended and supplemented, the strategy is revisable yearly or anytime market conditions and/or financing requirements impose it.

Alexandru Nazare

MINISTER OF FINANCE

Annex no. 1

Developing the domestic government securities market

The medium term strategic objectives for development of the domestic government securities market seek to increase the efficiency of this market by improving the liquidity, the degree of transparency and by consolidating the yield curve thereof. In order to fulfill the aforementioned 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*:

   1.1. Consolidating and extending the yield curve on the domestic government securities market:

      1.1.1. Defining a policy of creation and maintaining of the government securities of liquid benchmark type amounting to up to 2.5 billion EUR equivalent, as the main financing instrument on the domestic market;

      1.1.2. Using liability management operations for the purpose of accelerating the process of creation of government securities of the type of liquid benchmark as of 2021, in parallel with the management of the refinancing risk and supporting the Strategy's implementation, at the same time as increasing the value of benchmark bonds of up to 2.5 billion EUR equivalent;

      1.1.3. Issuing short term treasury certificates for the purpose of managing liquidities.

   1.2. Diversifying and extending the investor base by:

      1.2.1. 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, at the same time as taking measures to increase the attractiveness of these securities and creating the possibility of on-line subscription by individual investors;

      1.2.2. Issuance of a series as large as possible of instruments, with different maturities, by considering the different investment needs of the local and international investment environments;

      1.2.3. Balancing the rights and liabilities of primary dealers and increasing competition between the primary dealers by attracting new primary dealers (including international financial institutions) which would lead to the increase of the distribution, intermediation and trading of government securities at the same time as increasing transparency in price formation;

   1.3. Analyzing the opportunity to issue new debt instruments requested by market participants (such as indexed or floating rate bonds), as the government bond market develops and avoids fragmentation of this market;

   1.4. Exploring the opportunity of reducing the individual nominal value of government securities for the purpose of ensuring access as extensive as possible of small investors to these instruments.

   1.5. Continued organization of promotional tours for the investors of "non-deal roadshow" type.

2. *Measures of increasing the liquidity of the government securities market*:

   2.1. 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;
   2.2. Concentrating the liquidity of government securities in a low number of benchmark government securities of an equivalent value of up to 2.5 billion EUR per issuance;
   2.3. 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;

3. *The measures considered for increasing the transparency and predictability* of the market of government securities include:

   3.1. 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;
   3.2. Continuous dialogue with the participants from the domestic market in order to ensure timely communication of the actions considered by the MF;
   3.3. 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;
   3.4. Management of the Bloomberg page dedicated to the MF, considering the use thereof at a large scale 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. To continue to maintain the objective of development and consolidation of the prognosis regarding the cash flow of the State Treasury through the elaboration of the prognosis of the general current account balance of the State Treasury for a period of three months in advance and the improvement of cooperation with other entities in order for them to provide the forecasted information.

2. To adopt a more 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, either under the form of term deposits or, preferably, through reverse repo transactions.

Thus, according to the evolution of the budget execution in 2021, the intention of the State Treasury is to issue treasury certificates or to contract short term loans[37]. At the same time, it shall be analyzed the possibility of adopting a more active conduct with respect to the placement of available funds, mainly under the form of reverse repo transactions[38], on the basis of prior consulting with the NBR. The introduction of treasury certificates and short term loans shall be made in such a manner so as not to affect the key objective regarding the development of the domestic market of government securities with respect to the extension of the average maturity of the government debt portfolio presented in the Government debt management strategy on medium term.

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, in 2020 were held monthly meetings of the Financial Flows Planning Committee of the State Treasury, with participation of representatives of the MF, ANAF, and NBR; such meetings shall be organized in the following period as well.

4. Due to the gap between budget collections and payments made within one month, especially towards the end of the year, the State Treasury shall continue to resort to cash management operations, for example 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*, which were of 64.6 billion Lei at the end of December 2020, contracted in accordance with the provisions of

[37] Under 1 year

[38] The reversible transaction presents the advantage of an easy execution and of automatic collateralization and shall contribute to the activity of the monetary market.

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.

In spite of the advantage of using this instrument, like financing the State budget deficit at low costs, since the average interest rate of these loans was below 0.47% in 2020, 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 shall be used, like the attraction of deposits under market conditions from credit institutions or the sale of available funds in foreign currency existing in the MF's foreign currency reserve.

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.

A very important aspect is that the funds currently available in the General Current Account of the State Treasury also include revenues in Lei generated by the privatization activity and the more these revenues are used, the fewer funds remain available in the account.