

INFORMATION MEMORANDUM



**ROMANIA**

**ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE**

**EUR 20,000,000,000**  
**Global Medium Term Note Programme**

Under this EUR 20,000,000,000 global medium term note programme ("**Programme**") described in this information memorandum ("**Information Memorandum**"), Romania acting through the Ministry of Public Finance ("**Romania**" or "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes ("**Notes**") on the terms set out herein, as supplemented by a Final Terms or Drawdown Information Memorandum (each as defined herein). The aggregate principal amount of Notes outstanding will not at the time of issuance exceed EUR 20,000,000,000 (or the equivalent in other currencies).

This Information Memorandum does not comprise a prospectus for the purpose of the Prospectus Directive (as defined herein). Accordingly, this document has not been and will not be submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the *Luxembourg Commission de Surveillance du Secteur Financier* ("**CSSF**"), in its capacity as competent authority for the purposes of the Prospectus Directive.

Applications may be made for Notes to be admitted to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant Final Terms in respect of any issue of any Notes will specify whether or not such Notes will be admitted to listing and/or trading on any other market and/or stock exchange.

***Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfill its obligations under the Notes are discussed under "Risk Factors" below.***

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended ("**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except in certain transactions exempt from the registration requirements of the Securities Act. The Notes may be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S and (B) in registered form within the United States to persons who are "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). Prospective purchasers who are QIBs are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Information Memorandum, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Arrangers

**ERSTE GROUP BANK AG**

**SOCIÉTÉ GÉNÉRALE  
CORPORATE & INVESTMENT  
BANKING**

Dealers

**BANCA IMI  
CITIGROUP**

**BARCLAYS  
COMMERZBANK**

**BNP PARIBAS  
DAIWA CAPITAL MARKETS  
EUROPE**

**DEUTSCHE BANK**

**ERSTE GROUP BANK AG**

**GOLDMAN SACHS INTERNATIONAL**

**HSBC  
NATIXIS**

**ING  
NOMURA**

**J.P. MORGAN  
RAIFFEISEN BANK INTERNATIONAL AG**

**SOCIÉTÉ GÉNÉRALE  
CORPORATE & INVESTMENT BANKING**

**UNICREDIT BANK**

18 MAY 2016

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## IMPORTANT NOTICES

This Information Memorandum contains information provided by the Issuer in connection with the Programme and the Notes to be issued under the Programme. The Issuer accepts sole responsibility for the information contained in this Information Memorandum and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Information Memorandum is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Information Memorandum does not constitute a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 ("**Luxembourg Prospectus Law**") nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. Accordingly, this Information Memorandum does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004 (as amended) implementing the Prospectus Directive and it has not been and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the CSSF, in its capacity as competent authority under the Luxembourg Prospectus Law.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" ("**Conditions**") as amended and/or supplemented by a document specific to such Tranche called final terms ("**Final Terms**") or in a separate information memorandum specific to such Tranche ("**Drawdown Information Memorandum**") as described under "*Final Terms and Drawdown Information Memorandum*". In the case of a Tranche of Notes which is the subject of a Drawdown Information Memorandum, each reference in this Information Memorandum to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Information Memorandum unless the context requires otherwise. This Information Memorandum must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms must be read and construed together with the relevant Final Terms.

The Issuer has confirmed to the Dealers named under "*Subscription and Sale*" that this Information Memorandum contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Information Memorandum does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Information Memorandum and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Information Memorandum. Neither the delivery of this Information Memorandum or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Information Memorandum and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Information Memorandum or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

In particular, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes may be offered and sold (A) in bearer form or registered form outside the United States to non - U.S. persons in reliance on Regulation S and (B) in registered form within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

**NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS INFORMATION MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

Neither this Information Memorandum nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Information Memorandum or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Information Memorandum or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer, including consultation with its such tax, legal and financial advisors as it deems necessary.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed EUR 20,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In this Information Memorandum, unless otherwise specified, references to the "**Government**" are to the government of the Republic of Romania, references to the "**EEA**" are to the European Economic Area, references to a "**Member State**" are references to a Member State of the EEA, references to "\$", "**U.S.\$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**RON**" and "**Leu**" are to Romanian New Leu, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended, references to the "**Prospectus Directive**" mean Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in the relevant Member State, references to the "**2010 PD Amending Directive**" mean Directive 2010/73/EU, references to "**TWh**" are to terawatt hours and references to "**KWh**" are to kilowatt hours.

As of the date of this Information Memorandum, the Programme has been rated "Baa3" by Moody's Investors Service, Inc. ("**Moody's**"), "BBB-" for unsecured Notes with a maturity of one year or more and "A-3" for unsecured Notes with a maturity of less than one year by Standard & Poor's Credit Market Services France SAS ("**S&P**") and "BBB-" by Fitch Ratings Limited ("**Fitch**"). S&P and Fitch are both established in the EEA and are registered under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**"). Moody's is not established in the EEA and as of the date of this Information Memorandum is not certified under the CRA Regulation, nor is the rating it has given to the Programme endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above, which are assigned to the Programme and not to the

Notes issued under the Programme, or the rating(s) assigned to the Programme or to Notes already issued. There is no assurance that the Notes under the Programme will be assigned a rating, or that the rating assigned to a specific issue under the Programme will be the same as the rating assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit ratings agency (a "CRA") which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

***In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or overallocation must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.***

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Romania is a foreign sovereign nation, and a substantial portion of the assets of Romania are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon Romania, or to enforce in the United States, court judgments obtained in courts located in the United States, against Romania. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon US securities laws.

Furthermore, the United States and Romania currently do not have bilateral or other treaties between them providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be recognised or enforceable in Romania.

The procedure for the recognition and enforcement in Romania of a judgment rendered by a court in a jurisdiction outside Romania in commercial and civil matters depends on whether that jurisdiction is from (i) a state which is a member of the European Union ("EU") or a party to the 2007 Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters ("**Lugano Convention**") or (ii) a non-EU Member State which is not a party to the Lugano Convention.

A judgment of a court of law of a non-EU Member State which is not a party to the Lugano Convention made *in personam* for a certain sum, which is not impeachable as void or voidable under the internal laws of the foreign jurisdiction ("**Non-European Judgment**") would be recognised in Romania provided that: (a) the Non-European Judgment is final ("*hotarare definitiva*") according to the law of the state where it was made; (b) the court rendering such Non-European Judgment had, according to *lex fori*, jurisdiction to try the relevant litigation, but without relying exclusively on the presence in that jurisdiction of the defendant or of some of its assets which are not directly connected with that litigation; (c) there exists reciprocity regarding the effects of foreign judgments between Romania and the foreign jurisdiction which rendered the Non-European Judgment whose recognition is sought; (d) when given in default of appearance, the party who lost the trial was served in due course with the summoning for appearance for the hearing where the court tried the merits of the case and with the document which instituted the proceedings, was given the possibility to defend itself and was given the possibility to challenge the Non-European Judgment; (e) such Non-European Judgment was not obtained by fraud or in a manner manifestly inconsistent with or contrary to Romanian public order; (f) where the Non-European Judgment is rendered in an area of law where persons cannot dispose freely of their rights, the Non-European Judgment was not obtained exclusively for the purpose of withholding the matter from the incidence of the law that would otherwise be applicable pursuant to Romanian conflict of law rules; (g) no substantially similar action or proceeding involving the same parties resulted in a judgment (even if not final) of the Romanian courts or is pending before Romanian courts as at the date the action or proceeding commenced before the foreign jurisdiction which rendered the Non-European Judgment; (h) the Non-European Judgment is not irreconcilable with a prior foreign judgment which may be recognised in Romania; (i) Romanian courts did not have exclusive jurisdiction to try the subject matter of the Non-European Judgment pursuant to Romanian civil procedure laws; (j) the right of defence was not breached; (k) the Non-European Judgment may not be challenged in any other manner in the state where it was rendered; and (l) the application for recognition before Romanian courts is duly made according to the Romanian procedural rules and encloses all the documentation thereby required. Additionally, the recognition of the Non-European Judgment may not be refused solely for the reason that the foreign court rendering the Non-European Judgment applied another law than the law that would have been applicable according to Romanian conflict of law rules, except where the trial concerns the civil status and the capacity of a Romanian citizen and the solution adopted by the court differs from the solution that would have been reached according to the Romanian law.

A Non-European Judgment can be enforced in Romania based on a final decision of a Romanian competent court approving the enforcement, only if: (i) the requirements mentioned above for the recognition in Romania of Non-European Judgments are met; (ii) the Non-European Judgment is enforceable according to the law of the jurisdiction where it was made; (iii) where the Non-European Judgment establishes an obligation arising from a foreign fiscal law, there exists reciprocity regarding the effects of foreign judgments in the relevant fiscal matter between Romania and the foreign jurisdiction which rendered the Non-European Judgment whose recognition and enforcement is sought; (iv) the enforcement of such Non-European Judgment does not constitute, directly or indirectly, the enforcement of foreign penal laws; (v) the right to require enforcement has not expired/did not prescribe according to the statute of limitation provisions ("*prescriptia dreptului de a cere executarea silita*") of the Romanian law (the general limitation period under Romanian law is of three years as of the moment the judgment is final and enforceable); and (vi) the application

for enforcement before Romanian courts is duly made according to the Romanian procedural rules and encloses all the documentation thereby required.

A Non-European Judgment would be recognised and enforced in Romania in accordance with the foregoing paragraphs unless otherwise set forth by the international treaties to which Romania is a party.

A court judgment rendered in an EU Member State or a state which is a party to the Lugano Convention, other than Romania (a "**European Judgment**") would be recognised in Romania only if: (a) such recognition is not manifestly contrary to public order in Romania; (b) where it was given in default of appearance, if (i) the defendant was served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defence and failing that, if (ii) the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; (c) it is not irreconcilable with a judgment given in a dispute between the same parties in Romania; (d) it is not irreconcilable with an earlier judgment given in a EU Member State or a state which is a party to the Lugano Convention (other than Romania) or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfils the conditions necessary for its recognition in Romania; and (e) the European Judgment does not conflict with the provisions of Council Regulation (EC) No 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters or the Lugano Convention, dealing with jurisdiction in matters relating to insurance, jurisdiction over customer contracts and exclusive jurisdiction or the provisions of the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters dealing with jurisdiction in matters relating to insurance, jurisdiction over customer contracts, individual contracts of employment and exclusive jurisdiction, as applicable.

A European Judgment can be enforced in Romania based on a final decision of a Romanian competent court approving the enforcement, only if: (i) it is enforceable in the state where the European Judgment was made; (ii) the Romanian competent court is provided with a copy of the European Judgment which satisfies the conditions necessary to establish its authenticity; (iii) the Romanian competent court is provided with an original certificate issued by the relevant state's court or other competent authority substantially in the form set out in Annex V of the Council Regulation (EC) No 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters or the Lugano Convention or the form set out in Annex I of the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, as applicable, and none of the conditions above preventing the recognition of a European Judgment is applicable; (iv) where the European Judgment orders a periodic payment by way of penalty, (including but not limited to, default interest), the amount of the payment has been finally determined by the court of the state of origin; and (v) the right to enforce the final judgment is not restricted by any limitation period. The general limitation period under Romanian law is of three years as of the moment the judgment is final and enforceable.

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this Information Memorandum, as well as written and oral statements that Romania and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be forward-looking statements. Statements that are not historical facts, including, without limitation, statements about Romania's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. When used in this Information Memorandum, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date on which they are made and Romania undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Romania cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policy, including privatisations, and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic policies are implemented; (iii) the outlook for gross domestic product, inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of external debt repayment and debt service.



In addition to the factors described in this Information Memorandum, including those discussed under "*Risk Factors*", the following factors, among others, could cause future results to differ materially from those expressed in any forward-looking statements made herein:

- adverse external factors, such as global or regional economic slowdowns that may affect Romania, higher international interest rates, reduced demand for Romania's exports or increases in oil and gas prices, which could each adversely affect Romania's economy and in particular could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Romania;
- adverse domestic factors, such as recession, declines in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, exchange rate volatility, strong variations in yearly agricultural output, a reduction in gas supplies, difficulties in borrowing in the domestic and foreign markets, trade and political disputes between Romania and its trading partners, political uncertainty or lack of political consensus, which could each lead to lower growth in Romania and lower international currency reserves;
- decisions of Romania's official creditors regarding the provision of new debt or rescheduling of the existing debt and decisions of international organisations, such as the International Monetary Fund ("**IMF**") or the EU, regarding the terms of their financial assistance to Romania, and accordingly the net cash flow to or from Romania over the life of the Notes;
- decisions of international financial institutions such as the IMF, the European Bank for Reconstruction and Development ("**EBRD**") and the European Investment Bank ("**EIB**") regarding the funding of new or existing projects over the life of the Notes; and
- political and economic factors in Romania and abroad, which affect the timing and structure of economic reforms in Romania, the climate for FDI, the rate of absorption of the EU funds and the pace, scale and timing of privatisations in Romania.

#### **INFORMATION SOURCES**

The statistical information in this Information Memorandum has been derived from a number of different identified sources. All statistical information provided in this Information Memorandum may differ from that produced by other sources for a variety of reasons, including the use of different definitions, methodologies of calculation and cut-off times. The source for most of the financial and demographic statistics for Romania included in this Information Memorandum is data prepared by, and is stated on the authority of, the National Institute of Statistics, a Romanian government agency. The National Institute of Statistics harmonises, to the extent possible, its programmes and methodologies with the statistics of the EU. Certain other financial and statistical information contained herein has been derived from official Romanian government bodies including the Ministry of Finance and from the National Bank of Romania, and is stated on the authority of such bodies.

## OVERVIEW

*This following is a brief overview only and must be read, in relation to any Series of Notes, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Notes set out herein. The following overview does not purport to be complete and is qualified in its entirety by the remainder of this Information Memorandum. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Information Memorandum have the same meanings in this summary.*

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| <b>Issuer:</b>   | Romania, acting through the Ministry of Public Finance.   |
| <b>Risk Factors:</b>                                   | Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfill its obligations under the Notes are discussed under " <i>Risk Factors</i> " below.  |
| <b>Arrangers:</b>                                      | Erste Group Bank AG and Société Générale.   |
| <b>Dealers:</b>  | Banca IMI S.p.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG, Goldman Sachs International, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Natixis, Nomura International plc, Raiffeisen Bank International AG, Société Générale, UniCredit Bank AG and any other Dealer appointed from time to time by the Issuer generally in respect of the Programme or in relation to a particular Tranche of Notes. |
| <b>Fiscal Agent:</b>                                   | Société Générale Bank & Trust.  |
| <b>Registrar, Paying Agent and Transfer Agent:</b>     | Citibank, N.A., London Branch.  |
| <b>Luxembourg Listing Agent:</b>                       | Société Générale Bank & Trust.  |
| <b>Final Terms or Drawdown Information Memorandum:</b> | Notes issued under the Programme may be issued either (1) pursuant to this Information Memorandum and associated Final Terms or (2) pursuant to a Drawdown Information Memorandum. The terms and conditions applicable to any particular Tranche of Notes will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms or, as the case may be the relevant Drawdown Information Memorandum.   |
| <b>Listing and Trading:</b>                            | Applications may be made for Notes to be admitted from the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.   |
| <b>Clearing Systems:</b>                               | DTC, Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.   |
| <b>Initial Programme Amount:</b>                       | Up to EUR 20,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.   |

**Issuance in Series:**

Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.

**Forms of Notes:**

Notes may be issued in bearer form or in registered form. Bearer Notes will not be exchangeable for Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. No single Series or Tranche may comprise both Bearer Notes and Registered Notes.

***Bearer Notes***

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

***Registered Notes***

Each Tranche of Registered Notes will be represented by either:

- (i) Individual Note Certificates; or
- (ii) one or more Unrestricted Global Note Certificates in the case of Registered Notes sold outside the United States in reliance on Regulation S and/or one or more Restricted Global Note Certificates in the case of Registered Notes sold to QIBs in reliance on Rule 144A,

in each case as specified in the relevant Final Terms.

Each Note represented by an Unrestricted Global Note Certificate will either be: (a) in the case of an Unrestricted Global Note Certificate to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "NSS"), registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg or (b) in the case of an Unrestricted Global Note Certificate which is not to be held under the New Safekeeping Structure, registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg, or registered in the name of Cede & Co. as nominee for DTC if such Unrestricted Global Note Certificate will be held for the benefit of Euroclear and/or Clearstream, Luxembourg through DTC and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depository or such other nominee or custodian.

Each Note represented by a Restricted Global Note Certificate will either be:

(a) in the case of an Restricted Global Note Certificate to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "NSS"), registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg; or

(b) in the case of an Restricted Global Note Certificate which is not to be held under the New Safekeeping Structure, registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg, or registered in the name of Cede & Co. as nominee for DTC if such Restricted Global Note Certificate will be held for the benefit of Euroclear and/or Clearstream, Luxembourg through DTC or will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for DTC and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the DTC Custodian.

**Currencies:**

Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

**Status of the Notes:**

The Notes and Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer which rank and will at all times rank *pari passu*, without preference among themselves, with all other unsecured Public External Indebtedness (as defined in Condition 5 (*Negative Pledge*)) of the Issuer, from time to time outstanding, *provided, however*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, the Issuer shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and/or Coupons and vice versa. See "*Terms and Conditions of the Notes – Status*" and "*Risk Factors- Risks*

*Related to Notes Generally - The Issuer is not required to effect payment under the Notes equally or rateably with payment(s) under its other debt obligations and, in particular, is not required to make payment under the Notes at the same time as or as a condition of paying sums due under its other debt obligations and vice versa".*

**Status of the Notes:**

The Notes and Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer which rank and will at all times rank pari passu, without preference among themselves, with all other unsecured Public External Indebtedness (as defined in Condition 5 (Negative Pledge)) of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, the Issuer shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and/or Coupons and vice versa. See "Terms and Conditions of the Notes – Status" and "Risk Factors- Risks Related to Notes Generally - The Issuer is not required to effect payment under the Notes equally or rateably with payment(s) under its other debt obligations and, in particular, is not required to make payment under the Notes at the same time as or as a condition of paying sums due under its other debt obligations and vice versa".

**Issue Price:**

Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

**Maturities:**

Any maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the Issuer.

**Redemption:**

Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.

**Optional Redemption:**

Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.

**Interest:**

Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable

rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

|   |   |
|---|---|
| <b>Denominations:</b>                       | Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.   |
| <b>Negative Pledge:</b>                     | The Notes will have the benefit of a negative pledge as described in Condition 5 ( <i>Negative Pledge</i> ).  |
| <b>Cross Default:</b>                       | The Notes will have the benefit of a cross default as described in Condition 13 ( <i>Events of Default</i> ).   |
| <b>Taxation:</b>                            | All payments in respect of Notes will be made free and clear of withholding taxes of Romania, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 12 ( <i>Taxation</i> )) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.  |
| <b>Governing Law:</b>                       | English law.  |
| <b>Enforcement of Notes in Global Form:</b> | In the case of Global Notes and Global Note Certificates, individual investors' rights against the Issuer will be governed by a deed of covenant dated 21 May 2015 (" <b>Deed of Covenant</b> "), a copy of which will be available for inspection at the specified office of the Fiscal Agent.   |
| <b>Meetings of Noteholders:</b>             | <p>The Conditions contain a "collective action" clause which permits defined majorities to bind all Noteholders.</p> <p>If the Issuer issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation for voting purposes with any such future debt securities, thereby allowing 'cross-series' modifications to the terms and conditions of all affected series of Notes (even, in some circumstances, where majorities in certain Series did not vote in favour of the modifications being voted on). See "<i>Risk Factors – Risks Related to Notes Generally – The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes or of all affected Series of Notes</i>".</p> |
| <b>Ratings:</b>                             | <p>The following ratings have been assigned to the Programme:</p> <p>"BBB-" by Fitch;</p> <p>"Baa3" by Moody's; and</p> <p>"BBB-" (for unsecured Notes with a maturity of one year or more) and "A-3" (for unsecured Notes with a maturity of less than one year) by S&amp;P.</p> <p>Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above, which are assigned to the Programme and not to the Notes issued under the</p>   |

Programme, or the rating(s) assigned to the Programme or to Notes already issued. There is no assurance that the Notes under the Programme will be assigned a rating, or that the rating assigned to a specific issue under the Programme will be the same as the rating assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms.

Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

S&P and Fitch are both established in the EEA and are registered under the CRA Regulation. Moody's is not established in the EEA and as of the date of this Information Memorandum is not certified under the CRA Regulation, nor is the rating it has given to the Programme endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

**Selling Restrictions:**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom and Romania, see "*Subscription and Sale*".

**Transfer Restrictions:**

There are restrictions on transfers of Notes. See "*Transfer Restrictions*".

## RISK FACTORS

*The Issuer believes that the following factors may affect or hinder its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.*

*Prospective investors should read the entire Information Memorandum and reach their own views prior (including in consultation with any tax, legal and financial advisors as it deems necessary) to making any investment decision. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Information Memorandum have the same meanings in this section.*

### **Risks Relating to Romania**

***An investment in an emerging market such as Romania is subject to greater risks than an investment in a more developed country***

An investment in a country such as Romania, which joined the EU in 2007, but which is still an emerging market, is subject to greater risks than an investment in a country with a more developed economy and more developed political and legal systems. Although progress has been made in reforming Romania's economy and political and legal systems, the development of Romania's legal infrastructure and regulatory framework is still ongoing. As a consequence, an investment in Romania carries risks that are not typically associated with investing in more mature markets. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in Romania is appropriate. Generally, investments in emerging markets, such as Romania, are only suitable for sophisticated investors who can fully appreciate the significance and consequences of the risks involved. Romania is currently rated as an investment grade country by Standard & Poor's, Moody's, Fitch and Japan Credit Rating Agency (JCRA) with a "Stable" outlook from three of the rating agencies (Standard & Poor's, Fitch and JCRA) and a "Positive" outlook from Moody's.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in Romania's sovereign securities, as in any other comparable economy, could be adversely affected by negative economic or financial developments in other countries. The disruptions experienced since 2007 in the international capital markets, especially in relation to sovereign and, more recently, emerging markets debt, could lead to reduced global liquidity. Further, such disruptions could result in higher credit risk premiums for certain market participants, including Romania, which may lead to a reduction of available financing.

### ***Political and economic uncertainty could have an adverse effect on Romania's economy***

Romania has undergone major changes during its recent history. Many political and economic reforms have taken place, but Romania's economy still has a number of structural weaknesses. These include a reliance on industrial sector exports, an ageing population which will require greater government expenditures on social services in the future, and, historically, current account deficits, as well as delayed absorption of EU funds and a lack of certain key reforms, each of which may affect Romania's creditworthiness.

The political stability of Romania has been tested by a number of street protests. Starting in September 2013, several street protests took place in the Romanian capital of Bucharest and in other cities against the contemplated use of cyanide in connection with gold mining at the Rosia Montana site. These protests continued until a draft law on the gold mining project had been withdrawn from the Parliament. Street protests in 2014 were also aimed at certain legislative proposals of the Parliament meant to amend the Criminal Code and to implement amnesty for certain criminal acts, while the latter proposal was also criticised by representatives of several EU countries, the United States and European Commission. Protests also broke out across major Romanian cities in November 2014, following the first round of the presidential



elections. The protests were linked to allegations that Romanian citizens living in several cities abroad faced certain impediments during the voting process. Additional protests took place against the Government policy of allowing the production of shale gas in Romania until February 2015, when the main investor interested in shale gas production announced that it had decided to cease its shale gas operations in Romania.

Following the fire in Colectiv, a nightclub in Bucharest, which took place on 30 October 2015 and resulted in the death of more than 60 people, a new wave of street protests ensued. The protesters claimed that the corrupt political and administrative system was an important contributing factor to the fire and related fatalities and demanded, among other things, the resignation of the prime minister, Victor Ponta. After several days of demonstration, on 4 November 2015, the prime minister together with his entire cabinet, presented their resignations. A technocratic Government under the leadership of Dacian Cioloș and composed of several non-politically affiliated ministers took over. At that time, political parties represented in Parliament declared their support for the Government led by Mr. Cioloș to remain in office until the new parliamentary elections are held at the end of 2016.

The elections to be held at the end of 2016 entail inherent uncertainties about the outcome of the elections and the policies to be pursued by any newly elected Government after such elections. There can be no assurance that the Government that emerges from the elections will be effective in addressing structural challenges in the Romanian economy. Political and economic uncertainty could have an adverse effect on Romania's economy.

### ***Risks relating to macroeconomic events, particularly those affecting Europe and the European Union***

Romania experienced some contraction in its economy and other adverse economic and financial effects as a result of the global financial crisis, including a correction in the real estate sector and limited access to international capital markets, followed by a moderate resumption of growth starting in 2011-2012 and such growth has continued over the past several years.

Market and economic disruptions stemming from the sovereign debt crisis in Europe have affected, and may continue to affect, the inflow of capital for the purposes of investment; consumer confidence levels and spending; bankruptcy rates; levels of incurrence of and default on consumer debt; and home prices, among other factors. There can be no assurance that market disruptions in Europe, including the increased cost of funding for certain government institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. The possible exit from the Eurozone of one or more European states and/or the replacement of the euro by one or more successor currencies could cause significant market dislocations and lead to adverse economic and operational impacts that are inherently difficult to predict or evaluate, and otherwise may have potentially materially adverse impacts on the Issuer.

Economic and financial difficulties affecting other EU member countries may negatively affect Romania's economy due to the high percentage of Romania's trade that is realised with other EU countries. Any economic crisis in the Eurozone could significantly affect Romania's economy, which is heavily reliant upon intra-EU trade. In 2014, based on EU-28 data, 69.1 per cent. of Romania's (FOB) exports and 75.4 per cent. of Romania's (FOB) imports were attributable to intra-EU trade. During 2015, exports to other EU countries increased to 72.4 per cent. of total exports (a 3.3 percentage points increase from 2014) and imports from other EU countries increased to 77.1 per cent. of total imports (a 1.7 percentage points increase from 2014) (see "*Description of Romania—Foreign Trade and Balance of Payments*").

Foreign investors may also decrease investment in Romania, due to the difficulties experienced by other EU economies, resulting in lower demand for Romanian export products or services. Romania's economy may be adversely affected by financial and/or economic crises that are occurring or may occur in the future, including, but not limited to, issues arising from or linked to an economic slowdown in the Euro zone and a prolonged Euro zone depressed economy. Following the global financial crisis of 2008-2009, the EU has experienced a moderate recovery, but also recent periods of very slow growth. If the EU (or other countries with which Romania has a trading or investment relationship) experiences an extended period of very slow economic growth, or if it fails to maintain growth, Romania's economy would be adversely affected and such events could also affect Romania's ability to raise capital in the future.

Similarly, a decision by the United Kingdom to leave the EU in the June referendum could have indirect consequences on Romania's financial and economic health. While direct financial and economic linkages are limited and are unlikely to cause a significant direct impact, Romania could face contagion through European financial and trade channels.

Starting in mid-2015, the Middle East refugee crisis has intensified in Europe, which has created social, political and economic tensions in the transit and destination countries. The migrant crisis is an additional factor straining relations between the EU member states, which could contribute to a further deterioration of the EU's political and economic stability, which in turn could indirectly adversely affect Romania.

Prospective investors should ensure that they have sufficient knowledge and awareness of global financial and economic developments, the Eurozone crisis and the economic situation and outlook in Romania as they consider necessary to enable them to make their own evaluation (including in consultation with any tax, legal and financial advisors as it deems necessary) of the risks and merits of an investment in the Notes.

***Uncertain and unpredictable legislative framework in the financial and banking field***

A new law relating to the discharge of debts of mortgages ("**Debt Discharge Law**") has been approved by the members of the Chamber of Deputies on 13 April 2016 and promulgated by the President on 28 April 2016. The Debt Discharge Law gives the natural persons that have taken a mortgage loan the right to obtain a complete discharge of all indebtedness secured by the mortgages by transferring to the bank the ownership over the mortgaged property, regardless of the value of such property.

The scope of the Debt Discharge Law is limited in several ways: (i) only natural persons can benefit from Debt Discharge Law; (ii) the Debt Discharge Law will not apply to mortgage loans granted as part of the "First House" governmental program, which has been exempted (the "First House" program represents more than a half of outstanding volume of the mortgage loans); (iii) there is a ceiling for the loan of maximum EUR 250,000, calculated in RON using the exchange rate determined by the NBR at the time of obtaining the loan; (iv) the provisions of the Debt Discharge Law are only applicable if the loan was obtained for buying, constructing, extending, modernizing a dwelling, or, irrespective of its purpose, is guaranteed with at least one dwelling.

The National Bank of Romania ("**NBR**") has been very outspoken in its criticism of the Debt Discharge Law, estimating that it would lead to direct losses to the Romanian banking system of approximately RON 3 billion. The NBR also expects that the law will lead to banks imposing more stringent requirements on applicants for new loans, restricting access to credit and thereby impacting the mortgage market and the residential construction sector, ultimately resulting in lower GDP growth. The effect of the Debt Discharge Law on the economy and the extent to which economic growth will be depressed is as yet uncertain, with estimates ranging from 0.15 per cent. of GDP (the National Commission for Prognosis) to as high as 0.7 per cent. of GDP (the National Bank of Romania).

The Debt Discharge Law has only recently been passed and its consequences are not yet known. Investors should not place undue reliance on any estimates of the impact of the Debt Discharge Law.

***The Romanian banking sector has a high level of foreign currency denominated loans, which could result in the Romanian banking system experiencing additional stress due to a potential increase in non-performing loans resulting from currency fluctuations, which could have a material adverse effect on the Romanian economy***

Several Eastern European countries, including Romania, witnessed a notable increase in foreign currency denominated loans over the last decade as borrowers sought lower interest rates in foreign currency denominated loans, particularly euro denominated loans. In Romania, this was in part a consequence of the country's significant foreign trade activities with its European area partners, the large presence of EU-based companies and banks in Romania and the country's anticipated adoption of the euro. In the past, a depreciation in the exchange rate of RON against the euro contributed to the deterioration in the quality of credit portfolios in the Romanian banking system, as it became more expensive for Romanian borrowers with domestic currency denominated incomes to meet their obligations in foreign-currency.

The volume of foreign-currency denominated loans has continuously decreased since the second half of 2013. As at the end of February 2016, foreign-currency denominated loans declined by 12.5 per cent. (when expressed in EUR) as compared to the end of February 2015, following measures implemented by the NBR to rebalance the currency composition of new loans in favour of RON-denominated loans. Such measures include the introduction of tighter rules on foreign-currency lending by Romanian banks as well as the strengthening of client deposits in RON. The share of new EUR-denominated loans as a percentage of total new loans extended by domestic banks to companies and households narrowed to 36.5 per cent. in 2013, 24.5 per cent. in 2014 and 23.2 per cent. in 2015 (compared to 52.5 per cent. in 2011 and 44.7 per cent. in 2012). Therefore, credit risk that could materialize from loan portfolios denominated in foreign currencies is on a downtrend, as the share of foreign-currency denominated loans (of which most are denominated in EUR) as a percentage of total loans to the private sector (new and existing issuances)

decreased to 48.3 per cent. in February 2016, from 60.9 per cent. in December 2013 and 62.5 per cent. in December 2012.

As current levels of foreign currency denominated loans remain significant, the vulnerabilities stemming from the large stock of foreign currency loans remains a source of concern, while the risks associated with this type of financing continue to outpace those related to RON denominated lending (see "*Financial System—Banking System—Current Condition of the Banking Sector*" for further information).

***The high level of foreign ownership in the Romanian banking system makes it vulnerable to disruption as a result of internal or external factors***

The difficult external environment could pose a challenge to financial stability in Romania. In particular, the fallout from the sovereign debt crisis along with the lingering vulnerabilities in certain banking sectors in Europe, may harm economic growth in Romania and the capacity of the banking sector to access financing, as well as undermining banks' asset quality.

The Romanian banking sector is dominated by subsidiaries of banks incorporated in Eurozone countries, with a relatively large proportion of assets being held by Austrian (33.5 per cent. of the total net assets of credit institutions in Romania), French (13.1 per cent.) and Greek (10.8 per cent.) banks as at the end of February 2016 (see "*Description of Romania—Monetary and Financial System—Banking System—General*"). As at the end of February 2016, foreign banks also owned 90.5 per cent. of banks' net assets in Romania.

Foreign banks may rebalance their global loan portfolio in a manner that might adversely affect Romania as a result of events related or unrelated to Romania, including the potential economic turbulence in the Eurozone and sovereign debt markets. In addition, foreign banks may dispose of, decrease new funding to or refinance the funding to their subsidiaries operating in Romania in the event of weaker than expected economic performance. This may lead to, among other things, depleted capital in the event of increased economic stress and RON depreciation. Resulting balance sheet mismatches may negatively affect the Romanian economy and, as a result, have an adverse effect on Romania's capacity to meet its obligations under the Notes.

The adverse effects of the deleveraging process announced by large European banking groups have not significantly impacted Romania so far, due to the balanced macroeconomic policies under the EU-IMF-World Bank arrangements and the lending strategies of the leading banking groups operating in Romania, which contemplate preserving local capital outlays. Parent banks have, to date, continued to provide capital to support their subsidiaries in the local market, and capital contributions have been made by shareholders without any recourse to public funds (EUR 190 million in 2013, EUR 394 million in 2014 and an additional contribution of EUR 446 million as of December 2015). Furthermore, the European Bank Coordination "Vienna Initiative 2.0" launched in January 2012, coordinated by the EBRD, the EIB, the EC, the IMF, and the World Bank, aims also at avoiding disorderly deleveraging through coordinated action by home and host-country regulators and supervisors and the banks themselves. To provide protection for the Romanian banking system, Romania has implemented Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, which provides NBR with tools to address financial difficulties of credit institutions. However, there can be no assurance that these or other measures will be effective in preventing significant deleveraging in the Romanian banking sector, which may negatively affect the Romanian economy.

***There can be no assurance that Romania's credit rating will not change***

The long-term foreign and domestic currency debt of Romania is currently rated BBB-/A-3 by Standard & Poor's, Baa3 by Moody's, BBB-/BBB by Fitch and BBB/BBB+ by JCRA (see "*Description of Romania—Public Finance—Public Debt—Credit Ratings*"). The rating outlook is considered "Stable" by Standard & Poor's, Fitch and JCRA), while the outlook from Moody's is "Positive".

Deterioration in key economic indicators such as an increase in the fiscal deficit as a result of lower taxes or increased public expenditures or the materialisation of any of the risks discussed herein, may contribute to credit rating downgrades which could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Romania's ability to refinance existing indebtedness, finance its deficit and could adversely affect its capacity to meet its obligations under the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

### ***Infrastructure in Romania is underdeveloped, and Romania may experience difficulties in financing and developing infrastructure successfully***

Compared to Western Europe, infrastructure in Romania, particularly the transportation system, is underdeveloped. Romania currently has plans to undertake various development projects to improve infrastructure in the country (see "*Description of Romania—Transportation—Infrastructure Development*"). Various financing plans have been proposed and attempted to further infrastructure development, including the use of public private partnerships ("**PPP**"). Romania also funds infrastructure development using EU non-reimbursable funds and thus the development of infrastructure projects is connected to Romania's capacity to absorb such EU funds.

However, the funding and construction of infrastructure has been challenging. For example, whereas PPP projects have frequently been used in other countries in the EU for various investment objectives, Romania has not, to date, successfully completed a major PPP transport project. Several attempts have been made in Romania in the past to launch PPP projects, but the attempts have failed during contract negotiation, execution or completion due to the lack of a proven legal framework governing this field, the lack of experience of the public authorities that initiate PPP/concession projects, and the difficulty of completing PPP/concession projects during the financial crisis.

To address its infrastructure gap and improve its growth prospect, Romania will need to advance reforms in administration and the SOEs sector. The poor infrastructure is due partly to the dominance of inefficient SOEs in the transportation and energy sectors where quality of public investment is low.

There can be no guarantee that infrastructure projects will be financed or completed successfully, and any failure or delays in developing infrastructure projects in Romania may slow the growth in the Romanian economy.

### ***Delays in the reform of state-owned enterprises may hamper economic growth***

Historically and most recently in 2013, Romania entered into financial assistance agreements with the IMF and the European Commission. The IMF issued country reports which noted that Romania had made slow progress in restructuring inefficient state owned enterprises ("**SOEs**") and such delays were severely affecting growth and investment.

The 2015 IMF Article IV Consultation Concluding Statement highlighted the fact that SOE corporate governance suffered some setbacks in 2014 and that strict implementation of good governance principles, underpinned by a stronger legal framework and an effective enforcement mechanism, was needed to rebuild the reforms' credibility. The 2016 IMF Article IV Consultation Concluding Statement stated that the improved governance of energy and transport sector SOEs as well as the larger involvement of private capital in those sectors remained the key reform priorities. Moreover, the IMF mission recommended the adoption and continuous implementation of the draft legislation on improving corporate governance for SOEs as well as the restructuring of SOEs in difficult financial situation and implementation of a focused list of potential IPOs and privatizations.

The amendments to the draft law approving Government Emergency Ordinance No. 109/2011 discussed with the IMF, European Commission and World Bank in order to further improve the corporate governance framework for public enterprises have been recently adopted by the Chamber of Deputies, the decisional chamber.

The risk of delays and setbacks in implementing further structural reforms, particularly those risks which are of a political nature, is high. Any such delay or setback could further negatively impact improvements in the efficiency of, and the attractiveness of investing in, Romania's economy and, ultimately, adversely affect the trading price of the Notes.

### ***Romania is subject to risk in relation to external balances<sup>1</sup>***

Romania's current account deficit was 1.1 per cent. of GDP in 2013 (final data) and narrowed to 0.5 per cent. of GDP in 2014 (semi-final data), with goods and services balances contributing to this improvement. In 2015 (provisional data), the current account deficit widened to 1.1 per cent. of GDP, while primary income and goods balances enlarged their deficits. Romania's goods balance deficit was 4.0 per cent. in 2013 and widened to 4.2 per cent. in 2014 and

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<sup>1</sup> For the purposes of this document, the balance of payments is presented according to the International Monetary Fund's BPM6 Methodology. Thus, figures referred to as "Goods" in the current account are different from the foreign trade data produced by the National Institute for Statistics because, in order to comply with the BPM6 principle regarding change in ownership, the former exclude from the international trade in goods data, the value of goods processed in Romania and abroad and include the net exports of goods under merchandising).

further to 4.8 per cent. in 2015. The financial account recorded average net outflows of 1.7 per cent of GDP in 2013 to 2015, primarily as a result of scheduled repayments in the framework of the 2009 stand-by arrangement with the IMF. Although Romania's current account deficit improved from 2012 to 2014, it slightly widened in 2015 and that trend is expected to continue in 2016, as the large majority of Romania's exports are to the EU, a slow economic recovery or a return to recession in the EU member states to whom Romania primarily exports its goods and services, could negatively impact Romania's exports, and thus the trade deficit. A widening of the current account deficit could negatively impact Romania's economy.

Romania's recent trend of external deleveraging may not continue. High wage growth, expansionary fiscal policy and increased household lending could lead to a high growth in imports, which could widen the current account deficit. Higher deficits might necessitate external borrowing, and could therefore risk halting the trend of external deleveraging.

### ***Romania is subject to exchange rate and inflation risk***

The RON is subject to a managed-floating exchange rate regime, whereby the value of the RON against foreign currencies is determined in the interbank foreign exchange market. The NBR's monetary policy strategy is inflation targeting. The managed-floating exchange rate regime is in line with using inflation targets as a nominal anchor for monetary policy and allowing for a flexible policy response to unpredicted shocks likely to affect the economy, and the NBR does not target any level or range for the exchange rate. The ability of the NBR to limit volatility of the RON is contingent on a number of economic and political factors, including the availability of foreign currency reserves and foreign direct investment inflows, as well as developments in market sentiment and investors' risk aversion.

In December 2013, the RON gained 0.6 per cent. against the EUR and 5.1 per cent. against the U.S. dollar (compared to December 2012). In December 2014, the RON appreciated against the Euro in nominal terms by 0.1 per cent. while in real terms it appreciated by 0.9 per cent., and the RON depreciated against the U.S. dollar in nominal terms by 10.0 per cent., while in real terms it appreciated by 9.2 per cent. (compared to December 2013). In December 2015, the RON depreciated against the EUR by 1 per cent. in nominal terms and by 1.9 per cent. in real terms, and it depreciated against the U.S. dollar by 12.6 per cent. in nominal terms, and by 13.4 per cent. in real terms (compared to December 2014) (see "*Monetary and Financial System— Exchange Rate Policy*"). A significant depreciation of the RON could adversely affect the country's economic and financial condition.

Inflation targeting continues to be the monetary policy strategy of the NBR. After staying above 5 per cent. throughout the first half of 2013 (5.37 per cent. in June) following the food and energy price increases during September 2012-January 2013, annual consumer price index ("CPI") inflation rate fell markedly in the second part of 2013. Specifically it reached 1.6 per cent. in December 2013, thus entering the lower half of the  $\pm 1$  percentage point variation band around the 2.5 per cent. NBR's inflation target. The annual CPI inflation rate declined in 2014, falling to 0.83 per cent. in December and remained below the variation band of the inflation target until May 2015 (1.1 per cent.) and fell into negative territory in June, following the broadening of the scope of the 9 per cent. reduced VAT rate to all food items. At the end of 2015, the annual inflation rate stood at -0.9 per cent and continued to grow more negative in the first quarter of 2016 ( -2.98 per cent in March 2016), after a new change in the VAT regime (a 4 percentage point cut in the standard VAT rate, to 20 per cent, in January 2016).

According to the latest NBR projection published on 10 May 2016, the annual CPI inflation rate is projected to reach 0.6 per cent. at the end of 2016 and 2.7 per cent. at the end of 2017. The trajectory of CPI inflation is markedly affected by the fiscal measures concerning the successive indirect tax cuts, each measure having a first-round effect on the annual inflation rate over a limited period of one year since its implementation and producing sharp shifts in the inflation path. Significant effects stem from: the two-step cut in the standard VAT rate to 19 per cent., from 24 per cent. – by 4 percentage points as of 1 January 2016 and by another percentage point as of 1 January 2017; the broadening of the scope of the reduced VAT rates to certain types of goods and services as of 1 June 2015 (particularly food items) and 1 January 2016; and the removal of the special excise duty on fuels starting 1 January 2017. As a result, the CPI inflation rate is expected to post negative values until mid-2016 and witness two more, albeit less steep, shifts in its path, in January of 2017 and 2018 before rising to 3.3 per cent. at the end of the first quarter of 2018.

The annual inflation rate projection is affected by a number of risks. Domestically, risks surround the consistent implementation of an adequate macroeconomic policy mix and the possibility of delaying structural reforms, given the busy electoral schedule of 2016. On the side of fiscal and income policies, the outlook reveals a number of risks: a possible additional worsening of the fiscal parameters following additional pay rises in the public sector, including those associated with the implementation of the unified wage law for the public sector and the risk that such additional increases might induce a similar effect on private sector wages. Since such increases in wages would not be correlated with labour productivity gains, inflation could increase. An additional risk stems from the implementation of the Debt Discharge Law, given the inherent uncertainty surrounding the assessment of its impact on the domestic

macroeconomic environment. Regarding the external environment, significant risks to the inflation outlook stem from: the effects generated by the diverging monetary policy stances of the world's major central banks; the economic prospects for euro area countries and major emerging economies, China in particular; a possible exit of the United Kingdom from the European Union; and the management of the Greek sovereign debt over the long term.

### ***Romania is subject to risks of fiscal slippage and economic overheating***

Although the budget deficit is projected to stay below 3 per cent. in 2017 and then to gradually decrease toward the medium-term objective target according to the Convergence Program recently approved by the Government, the risk of fiscal slippage is still present due to, among other factors, increase in public wages, benefits and pensions, as well as the implementation of the new Fiscal Code, which reduces the dividend tax and VAT-levels. The Government's estimate of less than 3 per cent. deficit in 2016 and 2017 depends on strong economic growth, with an assumption of 4.2 per cent. real GDP growth in 2016. On the other hand, high economic growth, coupled with a low interest environment and a pro-cyclical fiscal policy stance as well as renewed credit growth, could increase the risk of overheating in the economy, and potentially lead to rapid growth in credit or asset prices in the absence of appropriate policy reactions, which could have a detrimental impact on systemic financial stability of Romania.

### ***Failure to access all available EU funds could slow Romania's further development***

Historically, Romania has had a low absorption rate on programmes potentially financeable from EU post-accession funds, in particular from EU Structural and Cohesion Funds (European Regional Development Fund, Cohesion Fund, European Social Fund), although since 2012 when the Ministry of European Funds was established the absorption rate has been increasing. As at 31 March 2016, Romania's current absorption rate (the level of amounts sent for reimbursements to the EC as a percentage of the total amount of Structural and Cohesion Funds available to it) was 65.80 per cent. of the total EU budget allocation for the 2007–2013 programming period (see "*Description of Romania—Membership of the European Union—EU Funding—Structural and Cohesion Funds—Allocations and Absorption of the EU Structural and Cohesion Funds as at 31 March 2016*"). The low absorption rates are due to a variety of issues (see "*Description of Romania—Membership of the European Union—EU Funding—Structural and Cohesion Funds—Low absorption rates and ameliorative measures*").

The use of Structural and Cohesion Funds is subject to a decommitment rule. Based on estimates of the Romanian authorities and of the European Commission, in 2012 Romania lost EUR 155 million from the funds allocated to the operational programmes for transport and competitiveness as a result of the automatic decommitment rule. In 2013 and 2014 no other amounts were decommitted. It is estimated that approximately EUR 94 million from the funds allocated for 2012 to the operational programme for human resources development will be automatically decommitted. Taking into account the procedure to be followed in case of automatic decommitment, the final decision regarding decommitment of funds relating to 2012 is expected from the European Commission during 2016.

For the 2007-2013 programming period, 31 December 2015 was the end of the eligibility period, but the programmes will be closed in 2017. According to the EU regulations, by 31 March 2017 the Member States have to submit to the Commission the final declaration of payments and other relevant documents for closure. Consequently, the final outcome of the absorption for the 2007-2013 can be set only after the acceptance of the closure documents by the European Commission. See "*Description of Romania—Membership of the European Union—EU Funding—Structural and Cohesion Funds—Decommitment rule*". Allocations that are decommitted will be permanently lost.

Additionally, funding under the Structural and Cohesion Funds for a number of operational programmes has been previously pre-suspended, and financial corrections were applied in respect of the expenditures under certain operational programmes.

In 2015, in order to avoid that similar situations occur in the future, Romania has taken various measures with a view to removing or significantly reducing the obstacles to absorption. Moreover, at the initiative of the European Commission, on 28 January 2015, the first technical meeting of the Task Force on Implementation was held. Following this meeting, the main actions to be implemented in order to accelerate the implementation of 2007 – 2013 programmes and to pave the ground for the implementation of the 2014 – 2020 programming exercise were agreed. These actions are transposed in a priority action plan ("**PAP**") that has been officially agreed between the Romanian Minister of the European Funds and the EU Commissioner for Regional Policy. The goal of the PAP is to avoid a substantial decommitment of funds on 31 December 2015, create the pre-requisites for achieving at least an 75 per cent. absorption rate, and ensuring the proper start of the 2014-2020 programming exercise. The PAP's measures are permanently monitored and the status of implementation is quarterly reported to the European Commission. Also the PAP is constantly updated based on the new measures that are needed in order to accelerate the implementation of operational programmes.

The implementation of the PAP priority actions envisaged the adoption of certain major legislative, regulatory and institutional measures that led to a considerably increase of the absorption rate in 2015, with a positive net effect of spending EU Funds on economic growth. A study prepared by the National Commission of Prognosis, has shown that at the end of the 2008-2015 period, the accumulated value of real GDP was 10.6 per cent. higher than in the scenario that excludes the utilisation of EU funds.

With respect to the 2014-2020 programming period, the availability of funds depends on Romania meeting a number of conditions before the end of 2016. As of the end of April 2016, Romania had fulfilled 14 conditions out of a total of 36 such conditions. While plans are in place to support the timely completion of the remaining 22 conditions, failure to meet the outstanding conditions could impact on the availability level of EU funds available to Romania for the 2014-2020 programming period, as European Commission could suspend the payments to the programme(s) affected by the unfulfilled conditionalities.

The loss of potential EU funding would have a negative impact on Romania's budget. Failure to utilise available funding could also slow the pace at which Romania is able to develop its infrastructure and economy, which could have an adverse effect on the Romanian economy and its capacity to meet its obligations under the Notes.

***Corruption and money laundering issues may hinder the growth of the Romanian economy, and otherwise have a material adverse effect on Romania and therefore on the Notes***

Although progress was made in the field of money laundering by the passing of important laws needed to implement the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of Commission Directive 2006/70/EC regarding politically exposed persons, independent analysts and media reports have identified corruption and money laundering as problems in Romania. In 2015, the Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 174 (most corrupt), Romania was ranked 58<sup>th</sup>.

Although Romania has implemented certain actions to effectively prosecute corruption cases, resulting in several high-profile convictions and several international evaluations have recognised Romania's improved track record in terms of effectively fighting high-level corruption cases in the fight against corruption, money laundering or setbacks in the implementation of the rule of law in Romania may have a material adverse effect on the Romanian economy.

***Official economic data and third party information included in this Information Memorandum may not be fully comparable with information on similar subjects from other sources or countries***

This Information Memorandum includes information and statistics from a range of government ministries and other state entities, including the Ministry of Public Finance, the NBR, the National Commission for Prognosis and the Ministry of Economy, Commerce and Business Environment. The various sources of this information may compile the information and statistics which they provide using differing methodologies and practices. These differences can produce variations in results. This Information Memorandum presents data as provided by the ministry or other source to which the data is attributed. No attempt has been made to reconcile such data to the data compiled by other ministries or state entities or by third party organisations.

The Romanian National Institute of Statistics estimates that, based on national statistics on tax evasion and the number of employees reported in business and household surveys, Romania has a significant shadow economy, though its current size is unknown. The accuracy of official economic data may therefore be distorted as a result of such shadow economy.

This Information Memorandum also provides information derived from third party sources. Romania has not independently verified such information.

***The inconsistent application of law in the Romanian courts could have a negative effect on the economy and therefore on the Notes***

The Romanian judicial system has been and is currently undergoing systemic reform aimed at (i) improving transparency and efficiency in the judicial process; (ii) removing conflicts of interest and incompatibilities within the judiciary; (iii) improving efficiency of the investigation and prosecution of high level corruption; and (iv) implementing a broad anti-corruption framework within the Romanian justice system.

To effect these reforms, Romania implemented new Criminal and Criminal Procedures Codes in February 2014 affecting several major judicial institutions including the Ministry of Justice, the High Court of Cassation and Justice

("HCCJ"), the Superior Council of Magistracy, and the National Institute for the Magistracy ("NIM"). In addition, the Strategy for the Development of the Judiciary for the years 2015-2020 put forward by the Ministry of Justice was approved by the government on 23 December 2014 and the action plan for implementing the Strategy was approved on the 13 April 2016. These documents draw heavily on recommendations made under the Co-operation and Verification Mechanism ("CVM"), as well as on studies developed with the World Bank, in particular the Functional Analysis of the Romanian judiciary. Drawing on a series of underlying principles based on the rule of law, the strategy defines objectives for further reform in the period 2015-2020 to make the judiciary more efficient and accountable and to increase its quality. The HCCJ has further developed its use of preliminary rulings and appeals to unify jurisprudence. It has also pursued measures to improve the dissemination of court judgements. Similar practical steps have been seen in the prosecution and in the judicial leadership more widely. Thematic inspections conducted by the Judicial Inspection also contribute to establishing consistent practice among judges. There has been progress on the publication of court decisions. The Ministry of Justice completed a project recently (financed through EU funds) of a portal consolidating existing legislation.

As Romania is a civil law jurisdiction, judicial decisions under Romanian law have no precedential effect. For the same reason, courts are not bound by earlier court decisions taken under the same or similar circumstances, which can result in the inconsistent application of Romanian legislation to resolve the same or similar disputes. The lack of predictability on court decisions may deter investment in Romania and thus could have a negative impact on economic growth. The Romanian judicial system has gone through several reforms to modernise and strengthen the system. While the 2016 CVM report from the European Commission to the European Parliament and the Council dated 27 January 2016 ("**2016 CVM Report**") highlights a number of areas of progress, it also points to several outstanding issues. Among these are a high degree of inconsistency in some court decisions, a lack of objective criteria in legislation surrounding the prosecution of certain government figures and an insufficiently systematic approach taken to tackle corruption. While the Minister of Justice has been able to secure increases in government funding to implement reform efforts, there can be no guarantee that future funding would be commensurate with needs, including in light of any potential budgetary setbacks or austerity measures. Without proper funding, it is unlikely that the reforms contemplated would be effectively implemented.

There can also be no certainty that ongoing reform efforts will produce the desired results or that the new strategies will prove successful. See "*Description of Romania—Overview—Judiciary and Constitutional Court—Reform of the Judiciary*". If Romania were unable to effectively and successfully implement its reform efforts or if existing reforms were to prove less effective than initially observed or contemplated, this would likely depress confidence in the Romanian judicial system, which may have a materially adverse effect on the Romanian economy.

### ***A significant increase of Romania's debt level could make it difficult to refinance debt on favourable terms***

Romania's level of aggregate public indebtedness according to national legislation (including guarantees) decreased to 41 per cent. of GDP as at the end of February 2016 (preliminary data), compared to 44.3 per cent. of GDP as at the end of December 2015, while according to EU methodology general government debt decreased to 38.4 per cent. of GDP as at the end of December 2015, compared to 39.8 per cent. of GDP as at the end of December 2014. Compared with that of most other EU Member States, Romania's public debt is smaller both in absolute terms and as a percentage of GDP. While recently Romania has had a decreasing level of private debt, which decreased to 39.4 per cent. of GDP (preliminary data) as at the end of December 2014, compared to 43.2 per cent. of GDP as at the end of December 2013, any increase in Romania's indebtedness or deterioration in financing conditions as a result of market, economic or political factors outside Romania's control could make it difficult for Romania to refinance its indebtedness on favourable terms though Romania maintains a policy of retaining a hard currency buffer amounting to around four months of gross funding needs. There is a relatively high level of non-resident ownership of public debt (approximately 50 per cent. (calculated as per EU methodology) as at the end of December 2015) and such is denominated in foreign currency, which entails currency risk. In addition, any deterioration of the current account deficit and/or a decrease in net foreign direct investments would add further pressure on Romania's external finances. Romania's public debt is also subject to foreign currency risk, as approximately 54 per cent. of the country's public debt was denominated in foreign currencies (principally in Euro) (calculated as per EU methodology) as at the end of December 2015, being mitigated partially by the existence of the hard currency buffer maintained at around four months of gross funding needs to ensure protection against any vulnerabilities arising from external factors.

Domestically, the risk of returning to pro-cyclical fiscal policies is growing, being already partly materialised as a result of the fiscal measures included in the Law No. 227/2015 on the Fiscal Code ("**New Fiscal Code**") and the measures adopted on the expenditure side related to the wage and social assistance increases, leading to a general government budget just below 3 per cent. deficit-to-GDP (ESA terms), which entails a reversal of the fiscal consolidation trend seen in 2010-2015.



### ***The use of the euro in financial transactions in Romania may adversely affect the effectiveness of the NBR's monetary policy***

The use of the euro in financial transactions in Romania has increased over the past decade, including during the global financial crisis, but has been on a downward trend since 2012. The increase was primarily attributable to the high proportion of foreign currency denominated loans to the private sector (with the majority of such loans denominated in euro), that was fuelled by the availability of financing of local Romanian operations of foreign banks and lower interest rates available on foreign currency denominated loans. The uptrend in the proportion of foreign currency-denominated loans slowed in the second half of 2012 due to the implementation of NBR Regulation No. 24/2011 on loans to households. Further measures to support this trend consisted, among others, of the NBR Regulation No. 17/2012 on lending conditions applied in order to implement the European Systemic Risk Board's recommendations on foreign-currency denominated loans.

With respect to banks' liabilities, the proportion of foreign currency denominated deposits, which also include remittances from persons working abroad, in total deposits of households and companies has been much lower (during the period from January 2015 to February 2016, on average, 34.0 per cent. of deposits were denominated in a foreign currency). As the NBR's monetary policy primarily impacts the RON and has limited impact on foreign currencies, including the euro, the large - scale use of the euro in the Romanian economy may undermine the ability of the NBR to implement its monetary policy. Similarly, the policies of the European Central Bank ("ECB") affecting the euro may indirectly impact the Romanian economy. Any limitations on the effectiveness of the NBR's monetary policy, whether due to the influence of the euro or otherwise, may have an adverse effect on the Romanian economy.

### **Factors Which Are Material for the Purpose of Assessing the Market Risks Associated with Notes Issued under the Programme**

#### ***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

#### ***Risks Related to the Structure of a Particular Issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

#### ***Notes subject to optional redemption by the Issuer***

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### ***Index Linked Notes and Dual Currency Notes***

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

### ***Partly Paid Notes***

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

### ***Variable rate Notes with a multiplier or other leverage factor***

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### ***Inverse Floating Rate Notes***

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### ***Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread

on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

### ***Notes issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### **Risks Related to Notes Generally**

Set out below is a brief description of certain risks relating to the Notes generally:

***The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes or of all affected Series of Notes.***

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series of Notes to be aggregated for voting purposes (*provided that*, each such Series also contains the collective action clauses in the terms and conditions of the relevant Notes).

The Issuer expects that all Series of Notes issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series of Notes. This means that a defined majority of the holders of such Series of Notes (when taken in the aggregate only, in some circumstances, and/or individually) would be able to bind all holders of Notes in all the relevant aggregated Series

Any modification or actions relating to reserved matters, including in respect of payments, amendment of the Events of Default and other important terms, may be made to a single Series of Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of such Notes, and to multiple Series of Notes with the consent of both (i) the holders of 66⅔ per cent. of the aggregate principal amount outstanding of all Series of Notes being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each Series of Notes being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable Condition in the Conditions, any such modification or action relating to reserved matters may be made to multiple Series of Notes with the consent of 75 per cent. of the aggregate principal amount outstanding of all Series of Notes being aggregated only, without requiring a particular percentage of the holders in any individual affected Series of Notes to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some Series of Notes only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series of Notes simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of a Series of Notes may be amended, modified or waived in relation to a Reserved Matter (as defined in Condition 17.5 (*Reserved Matters*) of the Terms and Conditions of the Notes) in certain circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series of Notes and, as such, without a minimum percentage of the Noteholders of the relevant Series (such as the Notes) having voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple Series of Notes may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that any Series of Notes issued under the Programme would be capable of aggregation with any such future debt securities.

***The terms and conditions of the Notes restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such a default.***

The Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent., in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50 per cent., in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

***The Issuer is not required to effect payment under the Notes equally or rateably with payment(s) under its other debt obligations and, in particular, is not required to make payment under the Notes at the same time as or as a condition of paying sums due under its other debt obligations and vice versa***

The Notes will at all times rank at least *pari passu* with all other unsecured Public External Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer. However, the Issuer will have no obligation to effect payment under the Notes equally or rateably with payment(s) under other unsecured Public External Indebtedness of the Issuer and, in particular, will have no obligation to make payment under the Notes at the same time or as a condition of paying sums due under other unsecured Public External Indebtedness of the Issuer.

#### ***Tax consequences of holding the Notes***

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in its particular circumstances. See "Taxation" below.

Bearer Notes generally may not be offered or sold in the United States or to U.S. persons. Unless an exemption applies, a U.S. person holding a Bearer Note or Coupon will not be entitled to deduct any loss on the Bearer Note or Coupon and must treat as ordinary income any gain realised on the sale or other disposition (including the receipt of principal) of the Bearer Note or Coupon.

#### ***Further Notes may be issued without the consent of Noteholders***

The Issuers may from time to time create and issue further Notes without the consent of Noteholders, subject to terms and conditions which are the same as those of existing Notes, or the same except for the amount of the first new payment of interest. Such new Notes may be consolidated and form a single series with outstanding Notes, if such further Notes are able to be treated as fungible for the purposes of US tax and securities laws.

#### ***A claimant may face delays in receiving payments under a court judgment or may not be able to enforce a court judgment against certain assets of Romania in certain circumstances***

Romania is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Romania against Romania. Enforcement of such judgments in Romania may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. There is also a risk that, notwithstanding the waiver of sovereign immunity by Romania, a claimant will not be able to enforce a court judgment against certain assets of Romania in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without Romania having specifically consented to such enforcement at the time when the enforcement is sought.

Certain rights and properties of Romania benefit from sovereign immunity under Romanian or international law, which implies, inter alia, that such rights and properties, on the grounds that they belong to the public domain of Romania or of Romanian administrative-territorial units (i.e. counties, cities or villages) cannot (i) be sold or otherwise subjected to transfer of ownership, (ii) constitute security for creditors or be subjected to foreclosure or (iii) be acquired by third parties by prolonged or good-faith possession (i.e. *usus capio*) or by any other means whatsoever. Such rights and properties include, without limitation, all the assets listed in Article 136, republished, of the Romanian Constitution and Article 859 of the Civil Code of Romania (i.e. subterranean resources of public interest, airspace, waters with marketable hydroelectric potential, of national interest, beaches, territorial waters, natural resources of the contiguous economic zone and the continental shelf, as well as other assets established by law), the assets listed in the Schedule to the Law No. 213/1998 regarding public property assets (eg electrical energy transportation networks, railway infrastructure and their tunnels, oil and gas pipes, navigable channels, reservoirs and dams etc.), any present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961 (including

the furnishings and other property therein and the means of transport of such mission), any "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 (including the furnishings and other property therein and the means of transport of such mission) or military property or military assets or property or assets of Romania related thereto, and any other assets that according to the Romanian laws or by their nature are of public use or interest and are acquired by legal means by the Romanian state or by the administrative-territorial units of Romania.

Under the Romanian Government Ordinance No. 22/2002 on the foreclosure of the public institutions' payment obligations under writs of enforcement as amended, the foreclosure of the payment obligations of public institutions (including Romania (as the Issuer)) established through writs of enforcement may only be carried out against the amounts included for such purposes in the relevant public budget. Should there be insufficient amounts in the budget for such purpose, Romania has the benefit of a six month period from the date of receipt of the summons for payment from a competent enforcement officer to fulfil its payment obligations before the relevant creditor may begin foreclosure proceedings against it according to the Code of Civil Procedure or other applicable foreclosure laws. Furthermore, a court of law may grant a grace period or rescheduling of payments at the request of Romania, if Romania evidences that it is unable to meet its obligations towards the relevant creditor because of obligations incumbent on the Issuer according to the law.

Prior to the accession of Romania to the EU, the practice of the Romanian courts was inconsistent when confronted with the request to issue judgments for amounts expressed in a currency other than RON. Following Romania's accession to the EU, such conduct could be deemed in breach of the European law principle of free movement of capital, nevertheless, there can be no assurance that a Romanian court will observe existing European case law. As a result, there may be cases where a Romanian court issues a judgment for amounts expressed in Romanian currency only, irrespective of the original currency of the claim.

The foreign exchange reserves of Romania are controlled and administered by the NBR, which is an independent central bank legally distinct from the government. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

Romanian courts are not familiar with the concept of insolvency of public authorities, and consequently the procedure for, and enforcement of payment under, the Notes in such circumstances is uncertain. Reference is made to "*Description of Romania—Judiciary and Constitutional Court—Disputes in front of ICSID*". While Romania is taking all the measures and actions to defend its position and its interest in respect of the matter referred to herein, there can be no assurance that the claimants in this or other proceedings will not seek to attach interest or principal of Romanian indebtedness, which may affect the proper delivery of payments to Noteholders.

### ***Change of law***

The conditions of the Notes are based on English law in effect as at the date of this Information Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Information Memorandum.

### ***Notes where denominations involve integral multiples***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### ***Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures***

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note and/or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global

Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***Transferability of the Notes may be limited under applicable securities laws***

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Certain Notes issued under the Programme may not be offered, sold or otherwise transferred in the United States or to, or for the account or benefit of, a U.S. person other than to persons that are QIBs. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended by the Issuer to restrict transfers of Notes as described under "Subscription and Sale" and "Transfer Restrictions". It is the obligation of each purchaser of Notes to ensure that its offers and sales of Notes comply with all applicable securities laws.

**Risks related to the market generally**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***The secondary market generally***

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

The market for securities issued by Romania is influenced by economic and market conditions in Romania and, to a varying degree, economic conditions in other Eastern European markets as well as global, emerging and developed markets generally. There can be no assurance that events which would cause volatility of the sort that occurred in worldwide financial markets in 1998 and 2008-2009, and which have continued to a considerable degree until the present, will not occur again, or that any such volatility will not adversely affect the price or liquidity of the Notes.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Romania. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit ("**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency - equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Currently there are no exchange control restrictions in place in Romania. However, it may be mentioned in the context of notes with a maturity of less than one year that, if significant short term foreign currency inflows were to exercise sufficient pressure on the foreign exchange market and significantly affect the central bank's monetary and foreign exchange policies, with significant impact on internal liquidity and material deterioration of the payments balance, under the NBR Regulation No. 4/2005 on foreign exchange operations, the NBR may activate certain safeguard measures. These safeguard measures may consist of: obliging residents and non-residents to notify the NBR of their intention to enter into short-term capital foreign exchange transactions; setting thresholds and other limitations for short-term capital foreign exchange transactions which generate capital inflows and outflows by residents and non-residents; temporarily withholding, in an account domiciled with the NBR, certain incoming/outgoing amounts denominated in RON or foreign currency resulting from short-term capital foreign exchange transactions and which generate capital inflows and outflows by residents and non-residents; applying a fee on transactions made on the foreign exchange market; increasing minimum reserve requirements for amounts representing short-term capital inflows, held by residents or non-residents with credit institutions; setting maturity restrictions for certain short-term capital foreign exchange transactions; restricting the introduction of new short-term capital foreign exchange transactions; and introducing additional monitoring measures concerning capital foreign exchange transactions and/or currency control measures. Nevertheless, by virtue of NBR Regulation No. 4/2005, the enforcement of such measures cannot extend beyond a period of six months and should be notified to the EC (and stopped, if so requested by the EC). They must also apply without discrimination and may not be directed solely against a particular transaction or entity.

### ***Interest rate risks***

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## **INFORMATION INCORPORATED BY REFERENCE**

All amendments and supplements to this Information Memorandum prepared by the Issuer from time to time shall be deemed to be incorporated in, and form part of, this document save that any statement contained herein or any documents incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

Copies of the documents specified above as containing information incorporated by reference in this Information Memorandum may be inspected, free of charge, at the specified office of the Paying Agent. Any information contained in any of the documents specified above which is not incorporated by reference in this Information Memorandum is either not relevant to investors or is covered elsewhere in this Information Memorandum.



## FINAL TERMS AND DRAWDOWN INFORMATION MEMORANDUM

In this section the expression "**necessary information**" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has endeavoured to include in this Information Memorandum all of the necessary information except for information relating to the Notes which is not known at the date of this Information Memorandum and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Information Memorandum and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Information Memorandum. Such information will be contained in the relevant Final Terms unless any of such information constitutes a significant new factor relating to the information contained in this Information Memorandum in which case such information, together with all of the other necessary information in relation to the relevant series of Notes, may be contained in a Drawdown Information Memorandum.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement this Information Memorandum and must be read in conjunction with this Information Memorandum. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Information Memorandum will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Information Memorandum. In the case of a Tranche of Notes which is the subject of a Drawdown Information Memorandum, each reference in this Information Memorandum to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Information Memorandum unless the context requires otherwise.

Each Drawdown Information Memorandum will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Notes or (2) by a registration document ("**Registration Document**") containing the necessary information relating to the Issuer, a securities note ("**Securities Note**") containing the necessary information relating to the relevant Notes and, if necessary, a summary note. In addition, if the Drawdown Information Memorandum is constituted by a Registration Document and a Securities Note, any significant new factor, material mistake or inaccuracy relating to the information included in the Registration Document which arises or is noted between the date of the Registration Document and the date of the Securities Note which is capable of affecting the assessment of the relevant Notes will be included in the Securities Note.

## FORMS OF THE NOTES

### Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form ("**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form ("**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in New Global Note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006, the ECB announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro ("**Eurosystem**"), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

While any Bearer Note issued in accordance with the United States Treasury Regulation §1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form as the rules in such regulations for purposes of Section 4701 of the Internal Revenue Code of 1986, as amended ("**TEFRA D Rules**") is represented by a Temporary Global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (substantially in the form to be provided) to the effect that the beneficial owners of such Temporary Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by the relevant clearing system(s) and the relevant clearing system(s) has or have given a like certification (based on the certifications it has or they have received) to the Paying Agent. Any reference in this section to the relevant clearing system(s) shall mean the clearing and/or settlement system(s) specified in the applicable Final Terms.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) or any successor rules in substantially the same form as the rules in such regulations for purposes of Section 4701 of the Internal Revenue Code of 1986, as amended ("**TEFRA C Rules**") or TEFRA D Rules are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### *Temporary Global Note exchangeable for Permanent Global Note*

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date ("**Exchange Date**") of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

1. Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, duly authenticated and, in the case of a Permanent Global Note in NGN form, effectuated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Notes represented by the Permanent Global Note in accordance with its terms against:
  - (a) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
  - (b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership, within 7 days of the bearer requesting such exchange.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership provided, however, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

2. If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

3. The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**");

- (a) on the expiry of such period of notice as may be specified in the Final Terms; or
- (b) at any time, if so specified in the Final Terms; or
- (c) if the Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
  - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

4. If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

### ***Temporary Global Note exchangeable for Definitive Notes***

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Bearer Notes in definitive form ("**Definitive Notes**") not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non- U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

5. If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

### ***Permanent Global Note exchangeable for Definitive Notes***

6. If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
  - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

7. If:
- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
  - (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

#### ***Legend concerning United States persons***

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

*"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."*

#### **Registered Notes**

Each Tranche of Notes in registered form ("**Registered Notes**") will be represented by either:

- (a) individual Note Certificates in registered form ("**Individual Note Certificates**"); or
- (b) one or more unrestricted global note certificates ("**Unrestricted Global Note Certificate(s)**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Unrestricted Registered Notes**") and/or one or more restricted global note certificates ("**Restricted Global Note Certificate(s)**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A ("**Restricted Registered Notes**"),

in each case as specified in the relevant Final Terms, and references in this Information Memorandum to "**Global Note Certificates**" shall be construed as a reference to Unrestricted Global Note Certificates and/or Restricted Global Note Certificates.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in co-operation with market participants and that Notes to be held under the New structure ("**New Safekeeping Structure**" or "**NSS**") would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro ("**Eurosystem**"), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Note represented by an Unrestricted Global Note Certificate will either be: (a) in the case of a Certificate which is not to be held under the New Safekeeping Structure, registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg registered in the name of Cede & Co. as nominee for DTC if such Unrestricted Global Note Certificate will be held for the benefit of Euroclear and/or Clearstream, Luxembourg through DTC and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depositary or such other nominee or custodian; or (b) in the case of an Unrestricted Global Note Certificate to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Each Note represented by a Restricted Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for The Depository Trust Company ("**DTC**") and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the

custodian for DTC ("**DTC Custodian**"). Beneficial interests in Notes represented by a Restricted Global Note Certificate may only be held through DTC at any time.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

#### ***Global Note Certificate exchangeable for Individual Note Certificates***

If the relevant Final Terms specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies "in the limited circumstances described in the Global Note Certificate", then:
  - (i) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note Certificate or DTC ceases to be a "**clearing agency**" registered under the U.S. Exchange Act of 1934 ("**Exchange Act**") or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;
  - (ii) in the case of any Unrestricted Global Note Certificate held by or on behalf of Euroclear, Clearstream, Luxembourg or any other relevant clearing system, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and
  - (iii) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

#### **Terms and Conditions applicable to the Notes**

The terms and conditions applicable to any Definitive Note or Individual Note Certificate will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*".

### **Rights under Deed of Covenant**

Under the Deed of Covenant, persons shown in the records of DTC, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of DTC, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Final Terms will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form".*

### 1 Introduction

- (a) **Programme:** Romania ("**Issuer**") has established a Global Medium Term Note Programme ("**Programme**") for the issuance of up to EUR 20,000,000,000 in aggregate principal amount of notes ("**Notes**").
- (b) **Final Terms:** Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a final terms ("**Final Terms**") which supplements these terms and conditions ("**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) **Agency Agreement:** The Notes are the subject of an amended and restated issue and paying agency agreement dated 21 May 2015 ("**Agency Agreement**") between the Issuer, Société Générale Bank & Trust as fiscal agent ("**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and Citibank N.A., London Branch as registrar ("**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), paying agent (together with the Fiscal Agent, "**Paying Agents**", which expression includes any successor or additional paying agent appointed from time to time in connection with the Notes) and transfer agent ("**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agent and any reference to an "**Agent**" is to any one of them.
- (d) **The Notes:** The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the Specified Office of the Fiscal Agent and the Registrar and copies may be obtained from the Specified Office of the Fiscal Agent and the Registrar.
- (e) **Summaries:** Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to the detailed provisions of the Agency Agreement. Noteholders (as defined herein) and the holders of the related interest coupons, if any ("**Couponholders**" and "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

### 2 Interpretation

- (a) **Definitions:** In these Conditions the following expressions have the following meanings:
  - "**Accrual Yield**" has the meaning given in the relevant Final Terms;
  - "**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;
  - "**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;
  - "**Business Day**" means:
    - (A) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
    - (B) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;



**"Business Day Convention"**, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (A) **"Following Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (B) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (C) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (D) **"FRN Convention"**, **"Floating Rate Convention"** or **"Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (E) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**"Calculation Agent"** means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

**"Calculation Amount"** has the meaning given in the relevant Final Terms;

**"Coupon Sheet"** means, in respect of a Note, a coupon sheet relating to the Note;

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (**"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (A) if **"Actual/Actual (ICMA)"** is so specified, means:
  - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

- (iii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (v) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

- (vii) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

- (viii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and "**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (A) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (B) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**"Interest Period"** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**"ISDA Definitions"** means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

**"Issue Date"** has the meaning given in the relevant Final Terms;

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Rate of Interest"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Member State"** means a member state of the European Economic Area;

**"Minimum Rate of Interest"** has the meaning given in the relevant Final Terms;

**"Noteholder"**, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

**"Optional Redemption Amount (Call)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Optional Redemption Amount (Put)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Optional Redemption Date (Call)"** has the meaning given in the relevant Final Terms;

**"Optional Redemption Date (Put)"** has the meaning given in the relevant Final Terms;

**"Participating Member State"** means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

**"Payment Business Day"** means:

- (A) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation (if presentation is required) are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (B) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation (if presentation is required) are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

(A) in relation to euro, it means the principal financial centre of such Participating Member State as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(B) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**"Put Option"** means a put option in accordance with the provisions of Condition 10 (d) (*Redemption at the option of Noteholders*);

**"Put Option Notice"** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Put Option Receipt"** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Rate of Interest"** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

**"Reference Banks"** has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the relevant Final Terms;

**"Reference Rate"** has the meaning given in the relevant Final Terms;

**"Regular Period"** means:

(A) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(B) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and

(C) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**"Relevant Financial Centre"** has the meaning given in the relevant Final Terms;

**"Relevant Screen Page"** means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given in the relevant Final Terms;

**"Security Interest"** means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

**"Specified Currency"** has the meaning given in the relevant Final Terms;

**"Specified Denomination(s)"** has the meaning given in the relevant Final Terms;

**"Specified Office"** has the meaning given in the Agency Agreement;

**"Specified Period"** has the meaning given in the relevant Final Terms;

**"Talon"** means a talon for further Coupons;

**"TARGET2"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

**"TARGET Settlement Day"** means any day on which TARGET2 is open for the settlement of payments in euro;

**"Treaty"** means the Treaty establishing the European Communities, as amended; and

**"Zero Coupon Note"** means a Note specified as such in the relevant Final Terms.

(b) **Interpretation:** In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

### **3 Form, Denomination, Title and Transfer**

(a) **Bearer Notes:** Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) **Title to Bearer Notes:** Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

- (c) **Registered Notes:** Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (d) **Title to Registered Notes:** The Registrar will maintain the registers in accordance with the provisions of the Agency Agreement. A certificate (each, a "Note Certificate") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "Holder" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly.
- (e) **Ownership:** The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) **Transfers of Registered Notes:** Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its Specified Office.
- (h) **No charge:** The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or the Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) **Closed periods:** Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
- (j) **Regulations concerning transfers and registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

#### 4 Status

The Notes and Coupons constitute direct, unconditional and unsecured obligations of the Issuer which rank and will at all times rank *pari passu*, without preference among themselves, with all other unsecured Public External Indebtedness (as defined in Condition 5 (*Negative Pledge*)) of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, the Issuer shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and/or Coupons and *vice versa*.

## 5 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not create or permit to subsist any Security Interest other than a Permitted Security Interest (as defined below) in any of its property or assets to secure Public External Indebtedness of the Issuer unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.

**"Permitted Security Interest"** means:

- (a) any Security Interest upon property (or any revenues therefrom) to secure Public External Indebtedness incurred for the purpose of financing the acquisition or construction of such property;
- (b) any Security Interest existing on any property (or any revenues therefrom) at the time of its acquisition;
- (c) any Security Interest securing Public External Indebtedness incurred for the purpose of Project Financing **provided that** (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security Interest is granted consists solely of such assets and revenues;
- (d) any Security Interest existing on the original date of issue of each series of Notes; and
- (e) the renewal or extension of any Security Interest described in subparagraphs (a) to (d) above, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased.

**"Project Financing"** means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development, or exploitation of any property.

**"Public External Indebtedness"** means any obligations (other than the Notes) for borrowed monies that are (i) denominated or payable in a currency or by reference to a currency other than the lawful currency of Romania and (ii) evidenced or represented by bonds, notes or other securities which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

## 6 Fixed Rate Note Provisions

- (a) **Application:** This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11(A) (*Payments — Bearer Notes*) and Condition 11(B) (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) **Fixed Coupon Amount:** The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Calculation of interest amount:** The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a **"sub-unit"**



means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 7 Floating Rate Note and Index-Linked Interest Note Provisions

- (a) **Application:** This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11(A) (*Payments—Bearer Notes*) and Condition 11(B) (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) **Screen Rate Determination:** If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
- (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
- (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;
- provided, however, that** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;
- (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
- (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
- (B) determine the arithmetic mean of such quotations; and

- (v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) **ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
  - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and
  - (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
    - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
    - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,**provided, however, that** if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.
- (e) **Index-Linked Interest:** If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.
- (f) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

- (g) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (h) **Calculation of other amounts:** If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount.

The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

- (i) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (j) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 8 Zero Coupon Note Provisions

- (a) **Application:** This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Late payment on Zero Coupon Notes:** If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
- (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

## 9 Dual Currency Note Provisions

- (a) **Application:** This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Rate of Interest:** If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

## 10 Redemption and Purchase

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).
- (b) **Redemption at the option of the Issuer:** If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 21 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- (c) **Partial redemption:** If the Notes are to be redeemed in part only on any date in accordance with Condition 10(b) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(b) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (d) **Redemption at the option of Noteholders:** If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to (but excluding) such date. In order to exercise the option contained in this Condition 10(d), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(d), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(d), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.
- (e) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (d) above.

- (f) **Early redemption of Zero Coupon Notes:** Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
- (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(f) or, if none is so specified, a Day Count Fraction of 30E/360.

- (g) **Purchase:** The Issuer may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.
- (h) **Cancellation:** All Notes so redeemed or purchased by the Issuer and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 11 Payments

### (A) *Bearer Notes*

This Condition 11(A) is only applicable to Bearer Notes.

- (a) **Principal:** Payments of principal shall be made (where applicable) only against presentation and **(provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).
- (b) **Interest:** Payments of interest shall, subject to paragraph (h) below, be made only against presentation and **(provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) **Payments in New York City:** Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross

amount actually available for payment bears to the amount of principal due for payment;

- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
  - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons ("**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this subparagraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
  - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

- (f) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(A)(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(d) (*Redemption at the option of Noteholders*), Condition 10(b) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(B) **Registered Notes**

This Condition 11(B) is only applicable to Registered Notes.

- (a) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date

for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

- (b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11(B) arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Payment Record Date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment ("**Payment Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Payment Record Date.

## 12 Taxation

**Gross up:** All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Romania or of any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note, Note Certificate or Coupon presented for payment:

- (a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Note Certificate or Coupon by reason of its having some connection with Romania other than the mere holding of, or receipt of payment on, the Note, Note Certificate or Coupon; or
- (b) more than 30 days after the Relevant Date except to the extent that the holder of such Note, Note Certificate or Coupon would have been entitled to such additional amounts on presenting such Note, Note Certificate or Coupon for payment on the last day of such period of 30 days.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 12 (*Taxation*).

### 13 Events of Default

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

- (a) any amount of principal is not paid on the due date for payment thereof or any amount of interest on the Notes is not paid within 30 days of the due date for payment thereof; or
- (b) the Issuer fails to duly perform or observe any of its other material obligations under the Notes, which failure continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Fiscal Agent; or
- (c) Romania ceases to be a member of the IMF or to be eligible to use the general resources of the IMF, and such situation continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Fiscal Agent; or
- (d) (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public External Indebtedness of the Issuer, (ii) the Issuer defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable, and such default continues for more than the grace period, if any, originally applicable thereto or, in the case of interest where such grace period does not exceed 30 days, for more than 30 days or (iii) the Issuer defaults in the payment when due and called upon of any guarantee or indemnity of the Issuer in respect of any Public External Indebtedness of any other person and such default continues for more than the grace period, if any, originally applicable thereto or, if such grace period does not exceed 30 days, for more than 30 days; **provided that** the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this subparagraph (d) have occurred equals or exceeds \$70,000,000 or its equivalent; or
- (e) a moratorium on the payment of principal of, or interest on, the Public External Indebtedness of the Issuer is declared by the Issuer, unless such moratorium expressly excludes the Notes; or
- (f) the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its payment obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it shall be or become unlawful for the Issuer to perform or comply with all or any of its payment obligations set out in the Notes or any such obligations shall be or become unenforceable or invalid, in each case as a result of any law or regulation in Romania or any ruling of any court in Romania whose decision is final and unappealable,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such



notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

## **14 Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

## **15 Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

## **16 Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (a) the Issuer shall at all times maintain a Fiscal Agent; and
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

## **17 MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS**

### **17.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:**

- (a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (b) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 17.9 (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

- (c) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (d) The notice convening any meeting will specify, *inter alia*: (i) the date, time and location of the meeting;
- (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
  - (iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
  - (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (vi) whether Condition 17.2 (*Modification of this Series of Notes only*), or Condition 17.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (vii) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
  - (viii) such information that is required to be provided by the Issuer in accordance with Condition 17.6 (*Information*);
  - (ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 17.7 (*Claims Valuation*); and
  - (x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 17.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (f) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

- (i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
- (j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 17 and Condition 18 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

## 17.2 Modification of this Series of Notes only:

- (a) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (b) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:
  - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes;.
- (c) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
  - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be, and on all Couponholders.

## 17.3 Multiple Series Aggregation – Single limb voting:

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, *provided that* the Uniformly Applicable condition is satisfied.
- (b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

- (d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Extraordinary Resolution or Multiple Series Single Limb Written Resolution, as the case may be, and on all Couponholders and Couponholders of each other affected series of Debt Securities Capable of Aggregation.
- (e) The "**Uniformly Applicable**" condition will be satisfied if:
  - (i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (f) It is understood that a proposal under paragraph 17.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).
- (g) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### **17.4 Multiple Series Aggregation – Two limb voting:**

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
  - (i) at least 66 $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

- (c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
- (i) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually). Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
- (d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
- (e) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### 17.5 **Reserved Matters:**

In these Conditions, "**Reserved Matter**" means any proposal:

- (a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (d) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (f) to change the definition of "Uniformly Applicable";
- (g) to change the definition of "outstanding" or to modify the provisions of Condition 17.9 (*Notes controlled by the Issuer*);
- (h) change the legal ranking of the Notes;
- (i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 13 (*Events of Default*);
- (j) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be

taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 25 (*Governing Law and Jurisdiction*);

- (k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (l) to modify the provisions of this Condition 17.5;
- (m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
  - (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

#### **17.6 Information:**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 18 (*Aggregation Agent; Aggregation Procedures*), and provide the Fiscal Agent with the following information:

- (a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 17.1(d)(vii).

#### **17.7 Claims Valuation:**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) and Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

#### **17.8 Manifest error, etc.:**

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders or Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

#### **17.9 Notes controlled by the Issuer:**

For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution: (b) Condition 17.1 (*Convening Meetings of Noteholders: Conduct of Meetings of Noteholders; Written Resolutions*) and (c) Condition 13 (*Events of Default*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (i) **"public sector instrumentality"** means the National Bank of Romania, any department, ministry or agency of the government of Romania or any corporation, trust, financial institution or other entity owned or controlled by the government of Romania or any of the foregoing; and
- (ii) **"control"** means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition, to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 18.4 (*Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

#### **17.10 Publication:**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 18.7 (*Manner of publication*).

#### **17.11 Exchange and Conversion:**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders and Couponholders.

### **18 AGGREGATION AGENT; AGGREGATION PROCEDURES**

#### **18.1 Appointment:**

The Issuer will appoint an aggregation agent ("**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each

affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

#### **18.2 Extraordinary Resolutions:**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

#### **18.3 Written Resolutions:**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

#### **18.4 Certificate:**

For the purposes of Condition 18.2 (*Extraordinary Resolutions*) and Condition 18.3 (*Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 17.9 (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

#### **18.5 Notification:**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 18 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

#### **18.6 Binding nature of determinations; no liability:**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 18 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and Couponholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

#### **18.7 Manner of publication:**



The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 17 (*Meetings of Noteholders; Written Resolutions*), this Condition 18, Condition 19 (*Noteholders' Committee*) and Condition 13 (*Events of Default*):

- (a) through Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme* and The Depository Trust Company and/or any other clearing system in which the Notes are held;
- (b) in such other places and in such other manner as may be required by applicable law or regulation; and
- (c) in such other places and in such other manner as may be customary.

## 19 Noteholders' Committee

- (a) **Appointment:** Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate ) may by notice in writing to the Issuer (with a copy to the Fiscal Agent) appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:
  - (i) an Event of Default under Condition 13 (*Events of Default*);
  - (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 13 (*Events of Default*), become an Event of Default;
  - (iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or
  - (iv) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

Upon receipt of a written notice that a committee has been appointed in accordance with paragraph (a) above, and a certificate delivered pursuant to Condition 19.2 (*Certification*), the Issuer, shall give notice of the appointment of such a committee to:

- (i) all Noteholders in accordance with Condition 21 (*Notices*); and
- (ii) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

- (b) **Powers:** Such committee in its discretion may, among other things:
  - (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;
  - (ii) adopt such rules as it considers appropriate regarding its proceedings;
  - (iii) enter into discussions with the Issuer and/or other creditors of the Issuer;
  - (iv) (designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer;

Except to the extent provided in this Condition 19(b) (*Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

### 19.1 Engagement with the committee and provision of information

- (a) The Issuer shall:
  - (i) subject to paragraph (b) immediately below, engage with the committee in good faith;

- (ii) provide the committee with information equivalent to that required under Condition 17.6 (*Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
  - (iii) pay any reasonable fees and expenses of any such committee as may be agreed with it (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (b) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 19 and/or equivalent provisions set out in the conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

## 19.2 Certification

Upon the appointment of a committee, the person or persons constituting such a committee ("**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (a) that the committee has been appointed;
- (b) the identity of the initial Members; and
- (c) that such appointment complies with the conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate, which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 19.2 shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 19.1 (*Engagement with the committee and provision of information*).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

## 20 Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the outstanding Notes of any series of Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any Notes issued pursuant to this Condition 20 (*Further Issues*) and forming a single series with such Notes **provided that**, in the case of further Notes to which the TEFRA D Rules apply, such further Notes will initially be represented by Temporary Global Notes exchangeable for interests in Permanent Global Notes or Definitive Notes and such consolidation can only occur following the exchange of interests in the Temporary Global Notes for interests in the Permanent Global Notes or Definitive Notes upon certification of non U.S. beneficial ownership, and **provided further that**, in the case of Registered Notes that are part of a Series that was placed in whole or in part pursuant to Rule 144A under the Securities Act, such additional Notes are issued with less than *de minimis* original issue discount ("**OID**") for U.S. federal income tax purposes or as part of a qualified reopening for U.S. federal income tax purposes.

## 21 Notices

- (a) **Bearer Notes:** Notices to the Holders of Bearer Notes shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, in either

case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

- (b) **Registered Notes:** Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.
- (c) **Notices to Issuer:** All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Public Finances, 17, Apolodor Street, RO 70663 Bucharest, Romania for the attention of the External Public Finance Department, or such other address as may be notified by the Issuer to Noteholders in accordance with Condition 21(a) (*Bearer Notes*).

## 22 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency ("**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency ("**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

## 23 Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all euro amounts used in or resulting from such calculations will be rounded up to the nearest cent (with one half cent being rounded up), (d) all RON amounts used in or resulting from such calculations will be rounded up to the nearest ban (with one half ban being rounded up), and (e) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

## 24 Redenomination, Renominalisation and Reconventioning

- (a) **Application:** This Condition 24 (*Redenomination, Renominalisation and Reconventioning*) is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.
- (b) **Notice of redenomination:** If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date ("**Redenomination Date**"), being an Interest Payment Date

under the Notes falling on or after the date on which such country becomes a Participating Member State.

- (c) **Redenomination:** Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
- (i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however, that**, if the Issuer determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
  - (ii) if Notes have been issued in definitive form:
    - (A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date ("**Euro Exchange Date**") on which the Issuer gives notice ("**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (**provided that** such Notes and Coupons are available) and no payments will be made in respect thereof;
    - (B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 24) shall remain in full force and effect; and
    - (C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
  - (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.
- (d) **Interest:** Following redenomination of the Notes pursuant to this Condition 24, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.
- (e) **Interest Determination Date:** If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

## 25 Governing Law and Jurisdiction

- (a) **Governing law:** The Notes and any non-contractual obligations arising out of or in connection with the Notes shall be governed by, and construed in accordance with, English law.
- (b) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes).

- (c) **Appropriate forum:** The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) **Rights of the Noteholders to take proceedings outside England:** Condition 25(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 25 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) **Process agent:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Economic Counsellor, Embassy of Romania at 4 Palace Green, London W8 4QD. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.
- (f) **Consent to enforcement etc.:** The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.
- (g) **Waiver of immunity:** To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and to the extent it is permitted to do so under applicable law **provided, however, that** immunity is not waived in respect of public property as such is regulated by the applicable Romanian legislation (including, without limitation, Article 136 of the Romanian Constitution and the Romanian Law No. 213/1998 regarding public property assets), present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961 (including the furnishings and other property therein and the means of transport of such mission), "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 (including the furnishings and other property therein and the means of transport of such mission) or military property or military assets or property or assets of the Issuer related thereto.

## 26 Standard Clauses

For the purposes of Article 1203 of the Romanian Civil Code, the Issuer hereby expressly accepts all conditions in these terms and conditions which:

- (a) Provide in favour of the Holders of any Notes: (i) the limitation of liability; (ii) the right to unilaterally terminate (*denuntare unilaterala*) the Notes; (iii) the right to suspend performing the Holders' obligations; OR
- (b) Provide to the detriment of the Issuer: (i) the forfeiture of rights (*decadere din drepturi*); (ii) the forfeiture of the benefit of a timeline (*decaderea din beneficiul termenului*); (iii) the limitation of the right to raise defences (*dreptul de a opune exceptii*); (iv) the limitation of the right to contract with third parties; (v) the tacit renewal of the agreement; (vi) the applicable law; (vii) the submission to arbitration (*clauzele compromisorii*); or clauses derogating from the rules of court jurisdiction;

including, without limitation, Conditions 3(e), 4, 5, 7(j), 10(e) and (h), 13, 17.8, 25(a), (b), (c), (d), (f) and (g) and 27.

## 27 Hardship

Without prejudice to Condition 25(a) (*Governing law*), the Issuer, in full awareness of the contents and nature of the transaction contemplated by these terms and conditions, hereby assumes the risk of change of the circumstances under which these terms and conditions is entered into, in accordance with Article 1271 paragraph 3 letter (c) of the Romanian Civil Code, and hereby waives its right to raise defences based on hardship (*impreviziune*).

## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

**Final Terms dated** [●]

**ROMANIA**  
**acting through the Ministry of Public Finance**  
**Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]**  
**under the EUR 20,000,000,000**  
**Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

This document constitutes the final terms relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions ("**Conditions**") set forth set forth in the Information Memorandum dated [●] May 2016 [and the supplemental Information Memorandum dated [date]] ("**Information Memorandum**"). These Final Terms contain the final terms of the Notes and must be read in conjunction with such Information Memorandum [as so supplemented].

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended ("**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in certain transactions exempt from the registration requirements of the Securities Act.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Information Memorandum with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions ("**Conditions**") set forth in the Information Memorandum dated [original date]. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Information Memorandum dated [date] [and the supplemental Information Memorandum dated [date], save in respect of the Conditions which are extracted from the Information Memorandum dated [original date] and are attached hereto.]

Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.

- |   |      |                                   |  |
|---|------|-----------------------------------|--|
| 1 | (i)  | Issuer:                           | Romania, acting through the Ministry of Public Finance   |
| 2 | (i)  | [Series Number:]                  | [●]  |
|   | (ii) | [Tranche Number:]                 | [●]  |
|   |      |                                   | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)</i>   |
| 3 |      | Specified Currency or Currencies: | [●]  |
|   |      |                                   | <i>(If Notes are being cleared through DTC with interest and or principal payable in a currency other than U.S. dollars, check whether DTC will accept payments in such currency.)</i> |

- 4 Aggregate Principal Amount:
- [(i)] [Series]:
- [(ii)] Tranche:
- 5 Issue Price:  per cent. of the Aggregate Principal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
- 6 (i) Specified Denominations:
- (ii) Calculation Amount
- 7 (i) Issue Date:
- (ii) Interest Commencement Date: *[Specify/Issue Date/Not Applicable]*
- 8 Maturity Date: *[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
- 9 Interest Basis:  per cent. Fixed Rate]
- [[*Specify reference rate*] +/-  per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Other (*Specify*)]
- (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency]
- [Partly Paid]
- [Instalment]
- [Other (*Specify*)]
- 11 Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
- 12 Put/Call Options: [Investor Put]
- [Issuer Call]
- [(further particulars specified below)]



13 Date [Min Fin] approval for issuance of Notes  [and , respectively  
obtained: *(N.B. Only relevant where authorisation is required for the particular tranche of Notes)*

14 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15 **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(i) Rate[(s)] of Interest:  per cent. per annum [payable [annually/  
semi-annually/quarterly/monthly/other  
(specify)] in arrear]

(ii) Interest Payment Date(s):  in each year [adjusted in accordance with [specify  
Business Day Convention and any applicable  
Business Centre(s) for the definition of "Business  
Day"/not adjusted]

(iii) Fixed Coupon Amount[(s)]:  per Calculation Amount

(iv) Broken Amount(s):  per Calculation Amount, payable on the Interest  
Payment Date falling [in/on]

(v) Day Count Fraction: [30/360 /Actual/Actual (ICMA/ISDA)/other]

(vi) [Determination Dates]  in each year *(insert regular interest payment  
dates, ignoring issue date or maturity date in the  
case of a long or short first or last coupon. N.B. only  
relevant where Day Count Fraction is Actual/Actual  
(ICMA))*

(vii) Other terms relating to the method of [Not Applicable/give details]  
calculating interest for Fixed Rate Notes:

16 **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(i) Interest Period(s)

(ii) Specified Period:   
*(Specified Period and Specified Interest Payment  
Dates are alternatives. A Specified Period, rather  
than Specified Interest Payment Dates, will only be  
relevant if the Business Day Convention is the FRN  
Convention, Floating Rate Convention or Eurodollar  
Convention. Otherwise, insert "Not Applicable")*

- (iii) Specified Interest Payment Dates:
- (Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
- (iv) [First Interest Payment Date]:
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (vi) Additional Business Centre(s): [Not Applicable/give details]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]) [[Name] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]
- (ix) Screen Rate Determination:
- Reference Rate: [For example, LIBOR or EURIBOR]
  - Interest Determination Date(s):
  - Relevant Screen Page: [For example, Reuters LIBOR 01/EURIBOR 01]
  - Relevant Time: [For example, 11.00 a.m. London time/Brussels time]
  - Relevant Financial Centre: [For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
- (x) ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
  - ISDA Definitions 2006
- (xi) Linear Interpolation: Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)
- (xii) Margin(s): [+/-]  per cent. per annum
- (xiii) Minimum Rate of Interest:  per cent. per annum
- (xiv) Maximum Rate of Interest:  per cent. per annum
- (xv) Day Count Fraction:
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those

set out in the Conditions:

- 17 **Zero Coupon Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- [Amortisation/Accrual] Yield:  per cent. per annum
- Reference Price:
- Any other formula/basis of determining amount payable: [Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [10(f)]]
- 18 **Index-Linked Interest Note/other variable-linked interest Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due:
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other
- (iv) Interest Determination Date(s):
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:
- (vi) Interest or calculation period(s):
- (vii) Specified Period:
- (Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention.)*
- Otherwise, insert "Not Applicable")*
- (viii) Specified Interest Payment Dates:
- (Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
- (ix) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (give details)]
- (x) Additional Business Centre(s):
- (xi) Minimum Rate/Amount of Interest:  per cent. per annum
- (xii) Maximum Rate/Amount of Interest:  per cent. per annum

(xiii) Day Count Fraction: [●]

19 **Dual Currency Note Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

Rate of Exchange/method of calculating [give details]

Rate of Exchange:

Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]

Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]

Person at whose option Specified [●]

Currency(ies) is/are payable:

**PROVISIONS RELATING TO REDEMPTION**

20 Call Option [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Optional Redemption Date(s): [●]

(ii) Optional Redemption Amount(s) of each [●] per Calculation Amount Note and method, if any, of calculation of such amount(s):

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [●] per Calculation Amount

(b) Maximum Redemption Amount [●] per Calculation Amount

(iv) Notice period: [●]

21 Put Option [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

Optional Redemption Date(s): [●]

Optional Redemption Amount(s) of each Note [●] per Calculation Amount and method, if any, of calculation of such amount(s):

Notice period: [●]

22 Final Redemption Amount of each Note [●] per Calculation Amount

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

(i) Index/Formula/variable: [give or annex details]

(ii) Calculation Agent responsible for calculating the Final Redemption Amount: [●]

(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]

(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable: [●]

(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]

(vi) [Payment Date]: [●]

(vii) Minimum Final Redemption Amount: [●] per Calculation Amount

(viii) Maximum Final Redemption Amount: [●] per Calculation Amount

23 Early Redemption Amount

Early Redemption Amount(s) on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable]

*(If the Early Termination Amount are the principal amount of the Notes/ or the Early Termination Amount if different from the principal amount of the Notes)]*

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24 Form of Notes:

**Bearer Notes:**

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

*(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by a Permanent Bearer Global Notes exchangeable for Definitive Notes.)*

**Registered Notes:**

[Unrestricted Global Note Certificate exchangeable for unrestricted Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Unrestricted Global Note Certificate]

[Restricted Global Note Certificate exchangeable for Restricted Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Restricted Global Note Certificate]

[Restricted Global Note Certificate [(U.S.\$ [●]/Euro [●] principal amount)] registered in the name of a nominee for [DTC]]

[Unrestricted Global Note Certificate [(U.S.\$/Euro [●] principal amount)] registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]

[Restricted Global Note Certificate [(U.S.\$/Euro [●] principal amount)] registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]

- 25 New Global Note: [Yes] [No] [Not Applicable]
- 26 New Safekeeping Structure: [Yes] [No] [Not Applicable]
- 27 Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details*.  
*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(vi) and 18(x) relate*]
- 28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 29 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/*give details*]
- 30 Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 31 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 24 (*Redenomination, Renominatisation and Reconventioning*))] apply]

- 32 Consolidation provisions: [Not Applicable/The provisions [in Condition 20 (*Further Issues*)] [annexed to this Final Terms] apply]
- 33 Other final terms: [Not Applicable/*give details*]  
 [(*When adding any other final terms consideration should be given as to whether such terms trigger the need for a supplement to the Information Memorandum in accordance with the Information Memorandum.*)]

## DISTRIBUTION

- 34 (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names, addresses and underwriting commitments*]  
 (*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
- (ii) Date of Subscription Agreement:
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 35 If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]
- 36 Total commission and concession:  per cent. of the Aggregate Principal Amount
- 37 U.S. Selling Restrictions: [Reg. S Compliance Category 1/2]  
 (*In the case of Bearer Notes*) — [TEFRA C/TEFRA D/ TEFRA not applicable]  
 (*In the case of Registered Notes*) - [Not] Rule 144A Eligible
- 38 Non-exempt Offer: Not Applicable
- 39 Additional selling restrictions: [Not Applicable/*give details*]

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] public offer [admission to trading on the [regulated market of the Luxembourg Stock Exchange] [*other market*] of the Notes described herein] pursuant to the EUR 20,000,000,000 Global Medium Term Note Programme of Romania acting through the Ministry of Public Finance.

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of

**ROMANIA, ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE:**

By: .....  
 Duly authorised

## PART B — OTHER INFORMATION

### 1 LISTING

- (i) Listing [London/Luxembourg/Other (*specify*)/None]
- (ii) Admission to trading Application is has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

### 2 RATINGS

- Ratings: The Programme has been rated:
- Standard & Poor's Credit Market Services France SAS: "[●]" (for unsecured Notes with a maturity of one year or more) and "[●]" (for unsecured Notes with a maturity of less than one year)
- Moody's Investors Service, Inc.: "[●]"
- Fitch Ratings Limited\*: "[●]"
- (Other\*: The exact legal name of the rating agency entity providing the rating should be specified-for example "Standard & Poor's Credit Market Services France SAS", rather than just Standard and Poor's.)

#### ***Option 1 — CRA established in the EEA and registered under the CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**").

#### ***Option 2 — CRA not established in the EEA but relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**").

#### ***Option 3 — CRA is not established in the EEA and relevant rating is not endorsed under the CRA Regulation but CRA is certified under the CRA Regulation***

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**").



**Option 4 — CRA neither established in the EEA nor certified under the CRA Regulation and relevant rating is not endorsed under the CRA Regulation**

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

**[End of options]**

[In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.]

*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

**3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

**4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the offer **[●]**

*(See ["Use of Proceeds"] wording in Information Memorandum — if reasons for offer different, will need to include those reasons here.)*

[(ii) Estimated net proceeds: **[●]**

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii) Estimated total expenses: **[●]**

*[Include breakdown of expenses]*

*(It is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

**5 [Fixed Rate Notes only — YIELD]**

Indication of yield:



Calculated as [include details of method of calculation in summary form] on the Issue Date.

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 **[Floating Rate Notes only — HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7 **[Index-linked or other variable-linked notes only — PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

8 **[Dual Currency Notes only — PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described trigger the need for a supplement to the Information Memorandum in accordance with the terms of the Information Memorandum.)]*

9 **OPERATIONAL INFORMATION**

(i) CUSIP:  [Not applicable]

(ii) ISIN Code:

(iii) Common Code:

(iv) Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(v) Delivery: Delivery [against/free of] payment

(vi) Names and addresses of initial Paying Agent(s):

(vii) Names and addresses of additional Paying Agent(s) (if any):

(viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No][Not Applicable]

[Yes. Note that the designation "**yes**" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] [*include this text for Registered Notes*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][*include this text if "yes" selected in which case the Bearer Notes must be issued in NGN form*]/

[No. Whilst the designation is specified as "**no**" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by one or more Global Note Certificates, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of a Restricted Global Note Certificate held by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for DTC or in the case of any Restricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper; and (b) in the case of an Unrestricted Global Note Certificate held by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for DTC or in the case of any Unrestricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

### Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Fiscal Agent, the Registrar, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Fiscal Agent.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have

a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Note Certificates will be effected through the Fiscal Agent, the DTC Custodian, the Registrar and the Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg account holders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of a Restricted Global Note Certificate to be held by or on behalf of Euroclear, Clearstream, Luxembourg, DTC or the DTC Custodian will credit the respective principal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of the Euroclear, Clearstream, Luxembourg or DTC participants, as applicable. Ownership of beneficial interests in such Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg or DTC or its nominee(s). DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes represented by a Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of such Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Global Note Certificate are credited, and only in respect of such portion of the aggregate principal amount of such Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the relevant Global Note Certificate for Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, the Registrar, the Dealers or the Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

### **Conditions applicable to Global Notes**

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

**Payment Business Day:** In the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried

on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

**Payment Record Date:** Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment ("**Payment Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

**Exercise of put option:** In order to exercise the option contained in Condition 10(d) (*Redemption at the option of Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

**Partial exercise of call option:** In connection with an exercise of the option contained in Condition 10(b) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

**Notices:** Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, registered in the name of DTC's nominee or deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## DESCRIPTION OF ROMANIA

### OVERVIEW

#### *Territory and Population*

Romania is located in Eastern Central Europe, north of the Balkan Peninsula. Its neighbouring countries are Hungary, Ukraine, the Republic of Moldova, Bulgaria and Serbia. On the southeast it borders the Black Sea. The country is one of the largest in the Central European region and covers an area of approximately 238,390 square kilometres.

According to the final data of the 2011 census, Romania has a population of approximately 20.12 million, compared to approximately 21.68 million registered during the 2002 census.

### Political System

#### *Recent political developments*

Romania has undergone major changes during its recent history. Many political and economic reforms have taken place, but Romania's economy still faces a number of structural challenges. These include reliance on industrial sector exports and, historically, an imbalance of exports compared to imports, each of which may affect Romania's creditworthiness.

The latest parliamentary elections took place on 9 December 2012 and resulted in the Social-Liberal Union ("USL"), a political alliance between the Social Democratic Party (*Partidul Social Democrat*) ("PSD"), the National Liberal Party (*Partidul National Liberal*) ("PNL") and the Conservative Party (*Partidul Conservator*) ("PC"), winning over 67 per cent. of the parliamentary seats. The former ruling party, the Democrat-Liberal Party ("PD-L") was relegated into opposition. Between December 2012 and February 2014, Romania was led by an USL-supported Government, with Victor Ponta as the Prime Minister.

Starting in September 2013, several street protests took place in the Romanian capital Bucharest and in other major cities against the contemplated cyanide-based gold mining at Rosia Montana in Romania. These protests continued until the draft law on the gold mining project was withdrawn from the Parliament. Protests also took place against the Government's plan to allow the extraction of shale gas in Romania until February 2015, when the main investor interested in the shale gas extraction announced that it will cease its shale gas operations in Romania. Street protests in 2014 were also aimed at certain legislative proposals of the Parliament meant to amend the Criminal Code and to implement amnesty for certain criminal activities. The latter was also criticised by representatives of several EU Member States as well as the United States and the EC and was finally ruled unconstitutional and thus invalid by the Romanian Constitutional Court on 15 January 2014.

Starting in February 2014, internal struggles within USL began to surface. On 10 February 2014, the Social Democratic Party and the two minority parties of USL, the Conservative Party and the National Union for the Progress of Romania (*Uniunea Națională pentru Progresul României*), agreed to participate together in the 2014 euro-parliamentary elections as the newly-established USD. After distancing itself from the ruling coalition, the National Liberal Party, the second leading party in the USL, left the coalition, withdrew its ministers from the government and went into the opposition on 25 February 2014. On 4 March 2014, a Government supported by the PSD and UDMR (the ethnic Hungarian party) and still led by Prime Minister Victor Ponta was approved by the Parliament with a majority of 346 votes out of a total of 575. In December 2014, UDMR withdrew from the government coalition and was soon replaced by the newly established Reforming Liberal Party led by former Prime Minister Calin Popescu Tariceanu. The new Government was endorsed by the Parliament in December 2014, with a majority of 377 votes out of a total of 511.

A presidential election, in two rounds, was held in November 2014. After coming in second place to Victor Ponta in the first round, and amid protests of alleged voting hurdles being put in place targeting Romanian citizens living abroad directed against Mr. Ponta's government, Klaus Iohannis of the National Liberal Party won the election with 54.4 per cent. of the vote in the runoff.

Following the victory by President Iohannis in the November 2014 presidential elections and the subsequent failed attempts of the opposition to change the parliamentary majority, political uncertainty dominated most of 2015 and affected the implementation of reforms.

In July 2015, Prime Minister Victor Ponta resigned as the chairman of the ruling PSD. In September 2015, Romanian anticorruption prosecutors moved to bring to trial the case of Prime Minister Victor Ponta regarding charges of tax evasion, money laundering and making false statements while working as a lawyer in 2007 and 2008 and the trial

commenced on 21 September 2015. In June and September 2015, the Government led by Prime Minister Victor Ponta defeated two no confidence motions raised in the Romanian Parliament.

On 30 October 2015, there was a fire at Colectiv, a nightclub in Bucharest, which resulted in the death of over 60 people. In the aftermath of the tragedy, there was a wave of street protests where protesters claimed that Romania's corrupt political and administrative system was one of the main causes of the tragedy and demanded, among other things, the resignation of Victor Ponta, the prime minister of Romania at that time. After several days of demonstrations, on 4 November 2015, Victor Ponta and his cabinet of ministers resigned. A technocratic Government was appointed under the leadership of Dacian Cioloș, as a new prime minister, together with several technocratic ministers that have no or weak affiliations with political parties. The Government led by Mr. Cioloș is expected to remain in office until after parliamentary elections are held at the end of 2016.

### ***Recent History and Constitution***

Following the Second World War, Romania fell under the influence of the Soviet Union, and, from 1948 to 1989, had a communist government and a centrally-planned economy.

In December 1989, a popular revolt led to the downfall of the communist government. Non-communist political parties were then established and free elections were held.

On 21 November 1991, a new constitution establishing Romania as a parliamentary democracy was adopted by the Romanian Parliament and subsequently approved by popular referendum. The constitution formally separates the legislative, executive and judicial powers of the state. The constitution was amended in 2003, in anticipation of Romania's accession to the European Union, without altering the basic principles on which the political system of Romania was based.

Further amendments to the constitution are currently under debate in the parliamentary special committee appointed for this purpose, with the stated objective, among others, of lessening opportunities for conflict between the President and the Prime Minister by clarifying the responsibilities of each office and reducing the number of members of the Parliament. The proposals for amendment of the constitution were expected to be finalized and subjected to a popular referendum during 2015, however, the timetable was delayed due to political disagreements and since the Constitutional Court of Romania ruled that several of the draft amendments were not permissible amendments to the constitution, the exact timing of any future referendum is uncertain.

### ***Parliament***

Legislative power is vested in the Romanian Parliament. The Parliament of Romania has a bicameral structure consisting of the Senate and the Chamber of Deputies. Parliamentarians are directly elected for four-year terms.

Since December 2012, the following main political parties have had parliamentary representation:

- PSD: Social democratic, centre-left party led by Liviu Dragnea, following the resignation of Victor Ponta on 12 July 2015;
- the Alliance of Liberals and Democrats (Alianta Liberalilor si Democratilor) ("**ALDE**"), a liberal center-right party led by Calin Popescu Tariceanu and Daniel Constantin formed as a result of a merger between the PC and the Reformist Liberal Party (*Partidul Liberal Reformator*);
- PNL: Liberal, centre-right party led by Alina Gorghiu and Vasile Blaga (former leader of PD-L, which merged by absorption with PNL in December 2014);
- Hungarian Democratic Union of Romania (*Uniunea Democrat Maghiara din Romania*) ("**UDMR**"): Centrist, Hungarian minority party, led by Kelemen Hunor; and
- National Union for the Progress of Romania (*Uniunea Națională pentru Progresul Romaniei*) ("**UNPR**"). In July 2015, the People's Party – Dan Diaconescu (*Partidul Poporului – Dan Diaconescu*), founded by media businessman Dan Diaconescu, was merged into UNPR.

Parliamentary elections are scheduled to be held in Romania by the end of November 2016 and are to be conducted in accordance with changes introduced to Romania's electoral legislation in 2015. The new electoral legislation reintroduces a proportional list-based election system, which was last used in the 2004 elections. The proportional list-based election system requires voters to cast their vote for the list nominated by a political party, rather than for an individual. The new electoral rules provide for one deputy for every 73,000 citizens and one senator for every 168,000 citizens, which will reduce the total number of members of the Parliament. Under the new system, 466 parliamentary



seats (308 deputies, 18 minority deputies and 134 senators) will be elected, as opposed to the 588 parliamentary seats currently occupied by members of the Parliament elected in 2012. Romanian citizens living abroad will be represented by four deputies and two senators. A vote-by-mail system will also be introduced.

### ***President***

The President of Romania is the head of the Romanian state and is elected by popular vote for a five-year term. Upon election, the President cannot be a member of a political party. The President nominates the Prime Minister and formally appoints the Government. The President is also the president of the Romanian Supreme Council of Defence and the commander-in-chief of the Romanian armed forces.

The most recent presidential election was held in November 2014 following several high-profile corruption scandals in October of that year with the incumbent, former President Basescu, unable to stand as he had already served two terms. In the runoff held on 16 November 2014, Klaus Werner Iohannis (former leader of PNL since June 2014 and mayor of the city of Sibiu since 2000) was elected as the President of Romania with 54.43% of the votes as the Christian Liberal Alliance candidate, defeated the PSD candidate, Prime Minister Victor Ponta. The results of the election were confirmed by the Constitutional Court on 21 November 2014. President Iohannis was formally vested in the office on 21 December 2014, after the term of Traian Basescu ended.

### ***Local Government***

Local government is conducted at the level of the 42 counties (*judete*), including Bucharest, and at the municipal level. County and municipal authorities are generally responsible for providing education, social services and basic utilities within their area. Proposals for establishing administrative regions to replace the 42 counties are currently being discussed, but such a change can be adopted only through an amendment to the Romanian constitution, and no such amendment has been formally proposed.

Local elections are expected to be held on 5 June 2016. According to a recent amendment to the electoral law, mayors will be elected in a single round of elections, the candidate having the highest number of votes winning the election.

### ***Government***

The Government exercises the executive power of the state. It comprises the Prime Minister and his cabinet. In practice, the largest party or coalition of parties in the Parliament forms the Government. Each cabinet appointment is subject to the approval of the President.

Following the parliamentary elections on 9 December 2012, Victor Ponta was appointed Prime Minister and his government was approved by the Parliament on 21 December 2012 with a majority of 402 votes. The cabinet included certain new positions that reflected the priorities of the Government, such as the Minister of EU Funds, Minister Delegate for Infrastructure Projects of National Interest and Foreign Investments, Minister Delegate for Energy and Minister Delegate for Higher Education, Scientific Research and Technological Development.

After the resignation of all PNL-supported ministers during February 2014, a new Government led by Prime Minister Victor Ponta was approved and appointed by the Parliament on 4 March 2014 with a majority of 346 votes out of 575.

The Government was reshuffled in December 2014, after the resignation of all UDMR-supported ministers and the defeat in the presidential elections of the Prime Minister Victor Ponta. The Parliament validated the new Government, led by Prime Minister Victor Ponta, on 16 December 2014, with a majority of 377 votes out of a total of 511 votes.

Following the fire at Colectiv, a nightclub in Bucharest, which occurred on 30 October 2015 and resulted in the death of over 60 people, there was a wave of street protests where protesters demanded, among other things, the resignation of Prime Minister Victor Ponta. After several days of demonstrations, on 4 November 2015, Victor Ponta and his cabinet of ministers resigned.

On 17 November 2015, the Parliament appointed a new technocratic Government led by Mr. Cioloş with a majority of 389 votes. Mr. Cioloş previously served as the Minister for Agriculture during 2007-2008. Between 2010 and 2014, Mr. Cioloş was Romania's EU Commissioner and EU Commissioner for Agriculture and Rural Development. Several of the key ministers, including, but not limited to, the Minister of Economy, Commerce and Relations with the Business Environment (who is also a Deputy Prime-Minister), the Minister of Public Finances, the Minister of Justice and the Minister of European Funds are professionals who previously worked for private companies, international financial institutions or the European Commission, but have not previously engaged in political activity in Romania. The main objectives of the new cabinet are to enhance the economic growth and development and to organize parliamentary elections to be held at the end of 2016.

## Judiciary and Constitutional Court

### *General Structure of the Judiciary and Constitutional Court*

Judicial authority is vested with the High Court of Cassation and Justice ("**HCCJ**") and a series of other courts established by law. The lower courts are comprised of regional courts of appeal (*curti de apel*); tribunals (*tribunale*), specialised tribunals (*tribunale specializate*), military courts (*instante militare*) and courts of first instance (*judecatorii*).

According to the Constitution, the Constitutional Court is not deemed to be part of the judiciary. The Constitutional Court determines matters of constitutional significance.

The Constitution grants courts of law jurisdiction only to the extent established by law. Courts with specialised subject matter jurisdiction may also be established, although these must also be established by law.

### *Ensuring the Independence of the Judiciary and of the Constitutional Court*

Judges must be independent and obey only the law. They are appointed by the President, at the proposal of the Superior Council of Magistracy ("**Superior Council**"), which acts as guarantor of the independence of the judiciary. The Superior Council has 19 members: nine judges, five prosecutors and two representatives of the civil society. The other three members of the Superior Council are the Minister of Justice, the president of the HCCJ and the general public prosecutor of the Public Prosecutor's Office attached to the HCCJ.

The nine judges of the Constitutional Court are appointed (for a nine-year term that cannot be extended or renewed) by the President, the Chamber of Deputies and the Senate, each of which is entitled to make three appointments.

### *Reform of the Judiciary*

The Romanian judicial system has gone through several reforms aimed at modernising and strengthening the independence of the judiciary and further reforms are currently being planned. These reforms have been largely based on the Strategies for Reforming of the Judiciary, the National Anticorruption Strategies and the National Strategy for Fighting Against Organised Crime, which have been implemented so far.

The implementation of the new Criminal Code and Criminal Procedures Code in February 2014 was a major undertaking, and a test of the ability of the judicial system to adapt. The key institutions: the Ministry of Justice, the HCCJ, the Superior Council of Magistracy, the prosecution and the National Institute for Magistracy worked together to implement the change. The Romanian magistracy has been adapting to the new codes without derogating from its ongoing work and had to adapt to several innovative measures, such as a possibility for plea bargains, which since have been widely utilised. Romania established the National Integrity Agency ("**ANI**"), an independent, operational institution to control and verify the wealth, conflicts of interest and incompatibilities within the judiciary. The ANI has been operational since the end of 2007 and Romania was the first EU country to create such a specialized institution. Romania also has established the National Anticorruption Directorate, which is a specialised, independent structure, functioning within the General Prosecutors' Office that investigates high level corruption cases. On 20 March 2012, the Government approved a new National Anticorruption Strategy ("**NAS**") covering the period up to 2015 and an action plan to implement it.

The European Commission periodically evaluates the Romanian judicial system against four benchmarks ("**Benchmarks**") under the Cooperation and Verification Mechanism ("**CVM**"). These Benchmarks consist of: (i) ensuring a more transparent and efficient judicial process, notably by enhancing the capacity and accountability of the Superior Council and monitoring and reporting the impact of the new civil and criminal procedure codes; (ii) establishing an integrity agency with responsibilities for verifying assets, incompatibilities and potential conflicts of interest, and for issuing mandatory decisions on the basis of which deterrent sanctions can be taken; (iii) building on progress already made, continuing to conduct professional, non-partisan investigations into allegations of high-level corruption; and (iv) taking further measures to prevent and fight against corruption, in particular within local government.

The European Commission's 2015 CVM report dated 28 January 2015 ("**2015 CVM Report**") report highlighted a number of areas of progress, noting in particular that some of the relevant progress areas were building upon the success of earlier periods and thus further embedding the necessary practices and attitudes into the Romanian judicial system. The actions taken by the key judicial institutions to address high-level corruption have built momentum, and is believed to have carried through into increased confidence amongst Romanians about the judiciary in general, and anti-corruption prosecutions in particular. The report also indicates that this trend has been supported by an increased level of professionalism in the judicial system as a whole, including a willingness to defend the independence of the judiciary in a more consistent way and a more proactive approach towards consistency of jurisprudence.

The 2015 CVM Report also states that progress needs to be consolidated and further secured. While the implementation of the Criminal Code and the Criminal Procedure Code has shown the Government and the judiciary working together in a productive and pragmatic way, many legislative issues remain outstanding. There continues to be inconsistency in some court decisions, which remains a concern. According to the 2015 CVM Report, decisions in the Parliament on whether to allow the prosecution to treat parliamentarians like other citizens still seem to lack objective criteria and a reliable timetable. The Parliament has also, on occasion, been reluctant to apply final court or Constitutional Court decisions. The 2015 CVM Report also notes that while recognition that general corruption needs to be tackled is certainly building inside government, the scale of the problem necessitates a more systematic approach.

The 2016 CVM report from the European Commission to the European Parliament and the Council dated 27 January 2016 ("**2016 CVM Report**") stated that the 2014 and 2015 CVM Reports were able to highlight a number of areas where reform was being consolidated through a strong track record and that the continuation of the trend is in itself a sign of developing sustainability. Moreover, the 2016 CVM Report found that the track record of the key judicial and integrity institutions in addressing high-level corruption has remained impressive and that the judicial system as a whole has continued to show professionalism, including capacity to adapt to significant changes in the civil and criminal codes, efforts to unify jurisprudence and a willingness to defend the independence of the judiciary.

The 2016 CVM Report further stated that while Romania has made further progress towards the CVM benchmarks, several recommendations of the 2015 CVM Report had not yet been adopted, which demonstrates that judicial reform in 2015 did not enjoy the full consensus necessary to achieve sustainable progress. Judicial independence and respect for court decisions continue to face challenges and the reform of the Criminal Code and the Criminal Procedure Code was challenged in the Parliament. Moreover, decisions in Parliament on whether to allow the prosecution to treat parliamentarians like other citizens still lack objective criteria. While steps had been taken to tackle general corruption, these measures lacked scale and the political will required to address corruption as a systemic problem. Judicial reform and the fight against corruption remain important issues for Romanian society, able to inspire large-scale public demonstrations, and further support to the consolidation of reform is needed to ensure the irreversibility of progress.

The 2016 CVM Report also highlighted the fact that European Commission welcomed the constructive cooperation it has had with the Romanian authorities over the past year as well as the political commitment of the government to pursue reform and fight corruption. The 2016 CVM Report deems 2016 to be a test year for Romania in its progress towards the CVM benchmarks. The extent to which integrity issues prevail in the appointments to senior positions in the judiciary and the scrutiny of candidates in the upcoming elections will be key indicators of the progress of the reform, while continuation of the reform is being viewed as a signal of sustainability. The 2016 CVM Report recommended that Romania take action in, amongst others, the following areas: (i) improving judicial independence, by ensuring that clear and robust procedures are in place in time for the appointments to senior positions in the magistracy foreseen in 2016, as well as ensuring that the parliamentarians and the parliamentary process respect the independence of the judiciary; (ii) facilitating judicial reform by a stable legislative framework; (iii) improving the effective implementation of incompatibility rules and emphasizing the early prevention of incompatibility and conflicts of interests; and (iv) the fight against corruption, by applying corruption laws in a non-discriminatory manner and at all levels.

### ***Disputes in front of ICSID***

Currently, Romania is party to the following pending cases at the International Centre for Settlement of Investment Disputes ("**ICSID**"): (i) Marco Gavazzi and Stefano Gavazzi v. Romania and AVAS (ICSID Case No. ARB/12/25); (ii) Alpiq AG v. Romania (ICSID Case No. ARB/14/28); (iii) Ioan Micula, Viorel Micula and others v. Romania (ICSID Case No. ARB/14/29); and (iv) Gabriel Resources Ltd. and Gabriel Resources (Jersey) v. Romania (ICSID Case No. ARB/15/31).

#### *Case No. ARB/05/20 (Ioan Micula, Viorel Micula and others v. Romania)*

ICSID Case No. ARB/05/20 (Ioan Micula, Viorel Micula and others v. Romania) concerned certain tax incentives which Romania had made available to investors in certain disfavored regions and more specifically the fact that, in reliance on those incentives, which were to be maintained for a 10-year period, the claimants made substantial investments in the Ștei-Nucet-Drăgănești disfavoured region located in Bihor County. The claimants further claimed that Romania's revocation of these incentives upon its accession to the EU, which does not allow this type of incentives, caused them damages. On 11 December 2013, the ICSID Tribunal decided in favour of the claimants, ruling that the Romanian State must pay damages of approximately RON 376.43 million plus interest. Romania filed for an annulment of the award in April 2014 and the ICSID Tribunal rejected the application in February 2016.

Romania, acting through the Ministry of Public Finance, has executed its financial obligations established under the arbitral award rendered in ICSID Case No. ARB/05/20 ("**Award**") in the following manner:

- a portion of the Award was set off against the amounts owed to the general consolidated budget in relation to taxes by one of the claimants;
- a portion of the Award was satisfied through an enforcement procedure in respect of the accounts of the Ministry of Public Finance in Romania conducted by an enforcement officer acting on behalf of the claimants, until the enforcement procedure was suspended by a Romanian court of law; and
- the remaining portion of the Award (RON 472.8 million) was transferred into a blocked account in the name of the claimants, however the claimants can withdraw the money only if the European Commission decides that the Award either does not constitute state aid or alternatively is state aid that is compatible with the internal market. Since this transfer had been made, the transferred amounts are no longer at the disposal of the Ministry of Public Finance.

On 9 March 2015, Romania notified the five claimants that it had fulfilled all its financial obligations under the Award and, as a result, the judgement has been fully satisfied.

On 30 March 2015, the European Commission issued a decision whereby it established that the payment of the compensation awarded by the ICSID Tribunal in this case constituted state aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union, which is incompatible with the internal market, according to the state aid legislation of the European Union.

In accordance with this decision, Romania must not pay out any other amounts related to the Award and, additionally, must recover any incompatible state aid which has already been paid out in the implementation of this Award. According to the decision of the European Commission, Romania, through the Ministry of Public Finance, has taken measures to recover the state aid, as follows: (i) the recovery interest related to the amount of the incompatible state aid identified by the European Commission has been calculated; (ii) the necessary documentation has been sent to the National Agency for Fiscal Administration ("NAFA"), the body responsible with the enforcement in the field of state aid recovery; (iii) NAFA has taken measures against the beneficiaries of unlawful aid; (iv) the beneficiaries have challenged before the court the acts of the NAFA regarding the enforcement, these acts being currently suspended through court decisions. Out of the total amount of unlawful state aid of RON 876,227,889.08 including interest, RON 476,124,447.24 has been recovered. The NAFA imposed pledges amounting to RON 540,156,547 on the goods of the nine legal entities and two individuals identified in the decision of the European Commission.

The five claimants have refused to agree to the manner in which the Award was discharged by Romania and have commenced proceedings for the recognition and enforcement of the Award in a number of jurisdictions. In all such jurisdictions, Romania intends to argue that it has discharged its obligations under the Award in full, towards the five claimants, in accordance with its internal legislation, and shall request the relevant courts of law to acknowledge the lack of any further obligation of the Romanian state in respect of the Award.

According to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States adopted in Washington on 18 March 1965, the execution of an award shall be governed by the laws related to the enforcement of judgments in force in a state in which territory such execution is sought. In light of this, Romania intends to argue that it has executed the Award in full, according to its national legislation.

Romania believes that the arguments presented above could reasonably be expected to lead to the dismissal of any claim for the recognition and enforcement of the Award in these jurisdictions.

If however, Romania or its agents become subject to enforcement procedures in relation to the Award, so long as the decision of the European Commission dated 30 March 2015 is not suspended or annulled by the Court of Justice of the European Union, Romania believes that the decision of the European Commission dated 30 March 2015 may serve as a basis for the recovery of any amounts already paid under such procedures and prevent Romania from making any further payments in respect thereof.

Following the full discharge of Romania's financial obligations under the Award, one of the five claimants, Mr Viorel Micula filed a new application for recognition of the arbitral award in the Luxembourg courts, which he obtained on 8 May 2015. However, the court did not make any reference to the prohibition by the European Commission to pay under the award or acknowledge that Romania had already implemented the ICSID decision. Romania was not subpoenaed as part of the proceedings. Romania considers the Award to have been executed in full. On 10 November 2015, Romania filed an application for annulment of the court ruling approving the recognition of the Award.

On 15 September 2015, the Ministry of Public Finance was informed that the European Organisation for the Safety of Air Navigation (Eurocontrol) received a notice of a lien over the accounts of the Romanian Air Traffic Services Administration - Romatsa S.A. The lien was imposed as part of the proceedings initiated by Mr Viorel Micula for the

enforcement of the ICSID arbitral award in case ARB/05/20 (Ioan Micula, Viorel Micula and others v. Romania). On 24 September 2015, Romania challenged the enforcement proceedings initiated in the Kingdom of Belgium before the Tribunal of First Instance of Brussels. On 25 January 2016, the Tribunal ruled in favour of Romania, finding that, while the annulment or the revision of the arbitral award falls outside of its competence, the decision of the European Commission, establishing that the payment of the compensation awarded by the ICSID in this case constituted state aid incompatible with the internal market, has rendered the enforcement of the arbitral award illegal. On 29 February 2016, the claimants filed an appeal against the Tribunal's decision, however the appeal does not suspend the initial decision. The first hearing part of the appeal proceedings is scheduled for June 2016.

In addition to the proceedings described above, the Micula claimants have initiated proceedings in various other jurisdictions, including the United States of America ("USA"), the United Kingdom of Great Britain and Northern Ireland and France. The Award was recognized by courts in the United Kingdom of Great Britain and Northern Ireland, Luxembourg and France.

On 15 January 2015, Romania filed a claim for recognition of its fulfilment of its obligations under the Award, however the USA court has yet to rule on this claim.

While Romania is taking all the measures and actions to defend its position and its interest, there can be no assurance that the claimants in these or other proceedings will not seek to attach interest or principal of Romanian indebtedness, which may affect the proper delivery of payments to Noteholders.

*Case No. ARB/10/13 (Hassan Awdi, Enterprise Business Consultants, Inc. and Alfa El Corporation)*

At the beginning of March 2015, ICSID rendered a decision in the Case No. ARB/10/13 (Hassan Awdi, Enterprise Business Consultants, Inc. and Alfa El Corporation) whereby it rejected a large part of the applicants' claim amounting to over EUR 447 million plus interest.

Based on Government Decision No. 952/2015 regarding the supplement to the budget of the Authority for State Assets Administration ("AAAS") for the payment of damages granted by ICSID, on 22 December 2015, AAAS made payments of approximately USD 1.0 million and EUR 9.8 million to Hassan Awdi, Enterprise Business Consultants, Inc and Alfa El Corporation, respectively. The payments were awarded by ICSID in its decision in Case No. ARB/10/13 (Hassan Awdi, Enterprise Business Consultants, Inc. and Alfa El Corporation).

*Case No. ARB/14/28 (ALPIQ AG v. Romania)*

On 10 November 2014, ALPIQ AG, a Swiss company, filed an application for arbitration, claiming that Hidroelectrica's insolvency and subsequent scrutiny and termination of the agreements the latter had concluded for the delivery of electricity affected the interests of two of its subsidiaries operating in Romania. According to the arbitration claim, ALPIQ AG seeks that the arbitral tribunal: (i) finds that Romania has breached the Romanian-Swiss Agreement, ratified by Law No. 40/1994 as well as the Energy Charter Treaty, ratified by Law No. 14/1997; (ii) obliges Romania to pay the applicant compensation for all damages suffered together with interest and arbitration costs. ALPIQ AG has reserved the right to supplement or amend its claims. On 29 January 2016, ALPIQ AG submitted the memorial on the merits and related evidence.

*Other cases pending at ICSID*

In respect of Case No. ARB/14/29 (Ioan Micula, Viorel Micula and others v. Romania), the claimants allege a failure of Romania to rein in the country's black market in alcohol sales and an unilateral change in the contracts for exploiting mineral water which led to an increase in the cost of extraction. Based on media press reports, the claim, if upheld, would be for a material amount, however, the Government strongly believes that the case lacks merit and intends to defend it vigorously.

Case No. ARB/15/31 (Gabriel Resources Ltd. and Gabriel Resources (Jersey) v. Romania) relates to the way "Rosia Montana Gold Project" has been implemented by the Romanian state. To date, the arbitral tribunal has not been formed yet and the claimants have not detailed the facts on which their claim is based, nor have they quantified the damage.

Case No. ARB/12/25 (Marco Gavazzi and Stefano Gavazzi v. Romania and AVAS) regards claims which arise out of a series of measures taken by the respondent allegedly in breach of its obligations under the privatisation agreement concerning the steel plant in which the claimants had invested, leading to its liquidation.

## International Relations

Romania maintains diplomatic relations with 184 UN member states, as well as the Holy See, the Sovereign Military Order of Malta and Palestine. It has a broad foreign representation network, consisting of 147 diplomatic missions, as follows: 92 embassies, 7 permanent missions/delegations/representations to international organizations; 37 general consulates, 6 consulates, 1 vice-consulate, 4 consular offices as well as 18 Romanian Cultural Institutes and a network of 189 honorary consulates.

Romania has been a member of the North Atlantic Treaty Organisation ("NATO") since 2004 and of the EU since 2007. Another key component of Romania's foreign policy is its active contribution to the activities of the international fora, especially the UN, the Council of Europe, the OSCE and the World Trade Organisation. Romania is also seeking to develop and intensify its relations with the Organisation for Economic Cooperation and Development ("OECD") with a view to promoting its candidacy for membership.

On 23 June 2015, the Parliament of Romania adopted the National Defence Strategy for 2015-2019. Predictability and continuity were adopted as core principles to ensure the strategic credibility in Romania's foreign policy. The Strategy includes, amongst others, the following national security objectives: consolidation of the Strategic Partnership with the USA, strengthening the profile of Romania in NATO and the EU, strengthening cooperation with neighbouring countries and states at NATO's Eastern flank and increasing regional cooperation.

On 17 November 2015, the Parliament of Romania approved the Government led by Prime-Minister Dacian Cioloş. In addition to the objectives of strengthening Romania's profile in NATO and the EU, enhancing the strategic partnership with the US, paying special attention to regional issues, the new Cabinet has been focusing on strengthening the economic dimension of Romania's foreign policy, eliminating deadlocks in implementing European programmes, advancing national development and investment projects and support for judiciary independence and continuing the fight against corruption.

At the EU level, Romania focuses on strengthening its status as an active and responsible Member State, as demonstrated in the European debates on anti-crisis measures (by promoting a balance between the consolidation of economic governance and the encouragement of economic growth, technological development and job creation) and the 2014-2020 Multiannual Financial Framework promoting safe nuclear energy, completing the EU's internal energy market and developing the external dimension of energy security policy. Romania plays a key role in advancing the EU Strategy for the Danube Region, in stimulating the potential for cooperation in the Black Sea region and in actively supporting the further advancement of the enlargement policy. (For details regarding relations with the EU, see "*—Membership of the European Union*").

Romania is interested in preserving NATO as a strong and relevant alliance and is determined to fulfil its commitments in this regard. The country will continue to provide relevant contributions to NATO's policies, operations and missions. In preparation for the NATO Warsaw Summit, to be held on 8-9 July 2016, Romania plans to actively engage in collective defence actions, thus building a consolidated profile within the NATO. The presence in Romania of a higher number of NATO military personnel and assets is expected to effectively contribute to increasing the collective defence capability of the alliance, by deterring security challenges, thus serving the interests of all allies.

On 4 November 2015, Romania hosted the meeting of the Heads of States of Central and Eastern Europe that contributed to the unity, cohesion and solidarity within the NATO. The Joint Declaration reflected the participating countries' commitment to the indivisibility of allied security and to the long term strategic development of the alliance, in political, military and institutional dimensions.

As a frontier of NATO and the EU, Romania has a clear responsibility to protect common values and to share its experience regarding European and Euro-Atlantic integration processes with its neighbours in the South and in the East. As a security provider in the region, the country plans to continue working with allies and other partners in developing specific projects aimed at fostering synergy and inter-connections between NATO and the EU, including with a view to increasing the security and stability of the region.

As part of Europe and a bridge to Central Asia and Afghanistan, the wider Black Sea region is an important part of the Euro-Atlantic security. Consequently, Romania plans to support efforts aimed at enhancing regional security and cooperation projects. Strengthening the security in the wider Black Sea Area requires regional approaches and multilateral solutions based upon democratic participation of countries in the region, as well as EU, NATO and OSCE synergetic engagement. It also implies actions in accordance with international law. Romania also encourages a structured dialogue with countries in the Mediterranean region both in the NATO and the EU formats.

Given that Europe shares the objective of becoming a wide area of democracy, economic prosperity, stability and security, Romania plans to continue to strongly support more cooperation and coordination between NATO and the EU. In this respect, enhancing synergies between NATO and the EU should be one of the key elements of the future EU

Global Strategy on foreign and security policy. Both organizations have a common interest in an open, democratic and secure economic system, fit to meet global challenges. Also, both organizations are facing a commonality of threats and challenges and share common objectives on a wide range of issues (eg maritime, cyber and energy security, capabilities, hybrid warfare, strategic communication).

The adoption in 2011 of the Joint Declaration on Strategic Partnership for the 21st Century between the United States of America and Romania together with the signature and entry into force of the Agreement between Romania and the United States of America on the Deployment of the U.S. Ballistic Missile Defense (BMD) System in Romania marked a new stage in the development of the bilateral partnership with the USA. The bilateral project on missile defence with the United States, as well as the contribution to the development of the NATO BMD capability has increased Romania's role within NATO. The US Aegis Ashore defensive system in Romania was declared operational on 12 May 2016 and is expected to be further integrated into the NATO BMD capability at the Warsaw Summit, in July 2016, thus becoming a significant contribution to NATO's collective defence.

In addition to its strategic partnership with the USA, Romania cooperates similarly with France, Italy, the United Kingdom, Poland, Hungary, Turkey, Bulgaria, Spain, the Republic of Korea and Azerbaijan; it has strong relations with Germany and Austria (especially in the economic and financial field) and has also established special cooperation frameworks with countries such as China, Japan, and Israel. Romania's goal is to continuously substantiate and ensure the development of all these relationships. Moreover, Romania maintains and develops pragmatic cooperative relationships with all its, and the EU's, neighbouring states. For details regarding relations with the EU, see "*Membership of the European Union*". Romania also intends to expand its economic connections and trade and investment relations with partners from all over the world, such as Brazil, countries from North Africa, South-East Asia, Middle East, Gulf area and the South Caucasus. Along this line, Romania has established, since March 2013, a form of privileged cooperation with India. At the same time, the official visit of the Chinese Prime Minister to Bucharest in November 2013 signalled the intention of both sides to strengthen the bi-lateral political and economic relationships between Romania and China. The Romanian Prime Minister paid a return visit to China in 2014, followed by a visit to China by the Deputy Prime Minister in charge of economic affairs in 2015. These contacts further stimulated Romanian-Chinese economic cooperation, bringing progress to projects in the fields of energy, transport infrastructure, agriculture and information technology. While the Russian Federation represents an important economic partner - mainly as a raw materials provider – Romania has a firm stance on the events in Ukraine. In this respect, Romania fully endorsed and implemented all sanctions imposed by the EU against Russia.

Since 1990, Romania has steadily developed its relations with international financial organisations, including the IMF, the World Bank Group, the European Bank for Reconstruction and Development ("**EBRD**"), the European Investment Bank ("**EIB**"), the Council of Europe Development Bank ("**CEB**"), the Japan International Cooperation Agency ("**JICA**") and the Black Sea Trade and Development Bank ("**BSTDB**").

As at 29 February 2016, the aggregate outstanding value of the public portfolios of the World Bank, EIB, EBRD, CEB and JBIC in Romania was EUR 8,442 million, consisting of sovereign loans and guarantees mainly for the financing of public projects in the infrastructure and social sectors. As at 29 February 2016, the EIB, the International Finance Corporation ("**IFC**") and EBRD's aggregate contributions to private sector and local authorities financing have amounted to approximately EUR 870.7 million, representing 26 new projects, according to the information provided by the three international financial organisations.

The EBRD is expected to continue its policy dialogue with the Romanian authorities and in cooperation with relevant institutions to further develop the Romanian capital markets under the Local Currency and Capital Market Development Initiative, a programme developed by the EBRD. The main initiatives are: (a) creating a more local currency-friendly regulatory and monetary policy environment; (b) improving the related implementing legislation; and (c) streamlining, but not diminishing, the private pension pillar. The EBRD also supports investments in private sector renewable generation to promote competition and to help Romania meet its EU 2020 targets. Under these targets, Romania is required to increase its share of renewable energy to 38 per cent. of total electrical energy production, including from large hydro-electric plants, from the current level of 28 per cent. The Romanian Government has also started discussions with the EIB for three sovereign loans in an aggregate amount of approximately EUR 1.7 billion in order to cover the state budget contribution to the National Programme for Local Development and to several Operational Programmes under the 2014 – 2020 programming period and expects to finalise negotiations in relation to two of those loans totalling EUR 1.3 billion by the end of 2016.

Romania is a founding member of the BSTDB, the financing arm of the Black Sea Economic Cooperation. Since it started operations in 1999, the BSTDB has financed over 30 projects in Romania (of which only one had a state guarantee), amounting to approximately EUR 329 million as of 31 March 2016.

There is no overall EU assessment of the impact of a potential exit of the United Kingdom of Great Britain and Northern Ireland from the EU. A possible exit of the United Kingdom of Great Britain and Northern Ireland from the

EU would entail a very complex and multi-layered process and the extent of its effects are difficult to estimate. However, it may be expected that such an exit would affect all member states, the EU as a whole as well as its future economic prospects. From an institutional perspective, if such an exit were to happen, it may be expected that a complicated process of negotiations (similar to that of EU integration) will take longer than foreseen in the Treaty for the European Union. There is additional uncertainty, including in respect of the social, economic, financial or security areas. Additionally, if the exit were to occur, its impact would depend on the type and extent of the relationship that the United Kingdom of Great Britain and Northern Ireland will negotiate with the EU going forward.

Romania is interested in supporting the Republic of Moldova by way of a reimbursable loan in an amount of EUR 150 million. On 29 January 2016, the Romanian prime minister, Mr. Cioloş, sent a letter to his Moldovan counterpart, prime minister Filip, indicating that the first tranche of the loan, in an amount of EUR 60 million, will be transferred subject to certain prerequisite conditions and measures. On 6 May 2016, the President of Romania promulgated Law No. 91/2016 ratifying the agreement concluded with the Republic of Moldova in respect of this loan and the law was published in the Official Gazette No. 360 dated 11 May 2016.

## MEMBERSHIP IN THE EUROPEAN UNION

### *Overview*

Romania has been an EU Member State since 1 January 2007. According to the EU Treaties, Romania holds 14 votes in the Council of the European Union, which ranks Romania amongst the Member States with medium voting power. The current Romanian member of the College of Commissioners in the EU holds the Regional Policy portfolio (for the period from 2014 to 2019). Romania is also involved in the activity of a number of European consultative bodies, with 15 representatives on the Economic and Social Committee and 15 representatives on the Committee of the Regions. Romania is also represented in the European External Action Service.

Following the European Parliament elections of 2014, Romania holds 32 out of the total of 751 parliamentary seats in the European Parliament. 12 Romanian Members of the European Parliament ("**MEPs**") are affiliated to the Popular Party, 15 MEPs are affiliated to the Social-Democrats Group, 3 MEPs to the Liberal Group, 1 MEP is affiliated to the European Conservatives and Reformists Group and 1 MEP is affiliated to the Europe of Nations and Freedom Group. Romanian MEPs actively participate in the specialized Committees of the European Parliament, as well as in a wide range of other European Parliament's formal bodies. Romania currently holds two vice-presidents positions in the European Parliament.

Romania supports the advancement of the European project, centred on major priorities such as economic growth, jobs, cohesion, stimulating investments, energy security and consolidation of the EU as a global actor, through its active involvement in, and contributions to, the debates at the level of the European Council, the Council of the European Union as well as within other European formats, where appropriate.

Romania also has a dynamic regional agenda. It plays a key role in advancing the EU strategy for the Danube Region ("**EUSDR**"), as well as in stimulating the potential for cooperation in the Black Sea area, and actively supports the continuation of European integration of the Western Balkans and Eastern neighbourhood countries.

The EUSDR, launched by Romania jointly with Austria, supports several EU policies, in particular the Europe 2020 Strategy, contributes to economic, social and territorial cohesion and assists EU candidate and potential candidate countries on their path towards the EU.

Romania has completed the evaluation process of the Schengen *acquis communautaire*, as confirmed in the conclusions of the 2011 June Justice and Home Affairs Council ("**JHA Council**") and by the positive vote of the European Parliament and reconfirmed by subsequent European Council conclusions.

At its meeting of 26-27 June 2014, the European Council reconfirmed, in its Minutes, the support for Romania's accession to the Schengen area and invited the Council to address the accession of Romania and Bulgaria to Schengen at its earliest convenience, with a view to considering the way forward on the basis of a two-step approach. The subject is constantly included as a priority on the agenda of the political diplomatic dialogue with the EU partners. Romania will continue to work with its European partners in order to identify solutions to facilitate progress on this issue as soon as possible. Romania considers that it has successfully fulfilled all technical requirements provided by the Schengen *acquis communautaire* in view of its accession.

Romania actively participated in the efforts to consolidate the Economic and Monetary Union and to create mechanisms for early warning and addressing future economic or financial crisis phenomena at the Eurozone and EU levels. Romania supported the setting-up of a reformed economic governance framework that takes into account and



adequately involves the non-euro Member States. Romania also participated in the intergovernmental initiatives aiming at further strengthening the economic cooperation/coordination.

Romania actively participated in the negotiations for the creation of the European Union banking union ("**Banking Union**"), including the establishment of the necessary instruments for ensuring the supervision and the resolution of the European banking system. In May 2014, Romania signed the intergovernmental agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.

Romania supports the ongoing processes of further consolidating the Economic and Monetary Union ("**EMU**"), within the boundaries of the European Treaties, as part of a policy aimed at stimulating economic growth through stronger governance of the eurozone, as well as maintaining transparency and openness towards non-euro states. Taking into account the country's goal of adopting the single currency, Romania supports an inclusive approach within the EMU consolidation process, which will not create new barriers to joining the euro area. This process should be designed within the existing framework of the EU institutions' competencies without creating new bodies or institutional structures which could render the European decision-making process more difficult. Romania supports an inclusive and transparent approach with regard to the non-Euro Member States in further advancing the consolidation of the EMU.

Moreover, Romania supported the adoption of the EU's Strategic Agenda, endorsed by the European Council in June 2014 and is actively participating in the ongoing discussions at EU level for the implementation of the objectives set forth in the European strategic document, which it fully shares: a union of jobs, growth and competitiveness, a union that empowers and protects all citizens, an Energy Union with a forward-looking climate policy, a union of freedom, security and justice, as well as the EU as a strong participant in the global community.

Energy and climate change are two of the main priority areas for Romania. In this respect, In 2014, Romania supported the adoption of the 2030 Climate and Energy Framework, in view of ensuring instruments and mechanisms aiming at making the EU's economy and energy system more competitive, secure and sustainable, while maintaining the right balance between the new ambitious commitments in the field and the need to preserve the competitiveness of the European industry.

On 25 February 2015, the European Commission released the communication "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy" which provides guidelines necessary for the long-term transformation of the European energy system and revision of EU energy policy. The release was preceded by an extensive consultation among the Member States.

Romania supports the concept of the Energy Union becoming a catalyst for the necessary reforms in the energy sector within the Energy Community, including through consolidating the regional energy interconnections. At the same time, Romania supports the preservation of each Member State's right to decide on the national energy mix with a focus on using the domestic primary resources, by observing the environment requirements and making the technologies used more efficient, with a view to ensuring an increased energy security. Romania believes that the integration process of the European energy market must continue, taking also into account the concrete investment opportunities in the field of developing energy infrastructure that this process offers. Moreover, in order to attain the decarbonisation objectives, Romania believes that the energy sector should undertake a profound transformation which will entail a high level of the investments. Romania follows closely the developments, at the EU level, aimed at capitalizing the nuclear energy as one of the necessary main sources to reach the EU decarbonisation objectives, thus significantly contributing to reducing GHG emissions in the field of energy production. In addition, Romania is concerned with adapting the future EU energy strategy in the field of research and development to the specificities of each Member State, by reason of efficiency, as well as in order to attract investments so as to promote the new technologies and to encourage innovation in the energy sector.

Romania believes that there is a strong need for strengthening the security of the energy sector in South-East Europe. Projects of common interest should be treated as priorities, with concrete steps taken to enable their timely implementation, including the provision of technical assistance and using all available European funds and financial instruments. In particular, in addition to offshore explorations for gas in the Black Sea, Romania is actively promoting the project known as "**BRUA**", which aims to connect Bulgaria, Romania, Hungary and Austria, and the Vertical Gas Corridor (with the participation of Romania, Bulgaria and Greece), which involves the transit of gas through Romania and the modernisation of Romania's national gas transport system. BRUA is progressing according to its timetable (with construction expected to start in 2017 and be finalized in 2019) and was identified by the European Union as a regional priority. The project has been selected within the Central East South Europe Gas Connectivity ("**CESEC**") framework as a high priority regional project that will increase gas market interconnectivity and provide security of supply. Moreover, due to Romania's consistent efforts, BRUA has also been confirmed as eligible for accessing EU financing through the Connecting Europe Facility ("**CEF**") instrument as a European project of common interest (PCI). On 19 January 2016, the EU allocated EUR 179.3 million to finance the first phase of the project proposed by Transgaz, the Romanian transmission system operator, as part of BRUA.

On 9 March 2015, the Romanian authorities received the application initiating proceedings in case C-104/15, the European Commission vs. Romania, regarding Romania's alleged failure to fulfil obligations provided by articles 4 and 13 paragraph 2 of Directive 2006/21/EC on the management of waste from extractive industries and amending Directive 2004/35/EC, related to the extension of the Boşneag pond, owned by the Romanian state and managed by Moldomin S.A. Moldova Nouă. Court proceedings are in the oral phase and the hearing took place on 17 March 2016. No date for a ruling has currently been set. If the judgment of the European Court of Justice finds that Romania has failed to fulfil its obligations deriving from EU law, no financial sanctions will be immediately applied. However, if the European Commission considers that Romania has not taken the necessary measures to comply with the judgment of the European Court of Justice, it may bring the case before the Court again, after giving Romania the opportunity to submit its observations, according to article 260 of the Treaty on the Functioning of the European Union. If the European Court of Justice finds that Romania has not complied with its judgment, it may impose a lump sum or penalty payment.

On 19 November 2015, the European Commission decided to refer Romania to the European Court of Justice for failing to transpose an EU Directive regarding the sulphur content of marine fuels, that was due to be transposed into national legislation by 18 June 2014. The European Commission proposed that a daily fine in an amount of EUR 38,042.60 be imposed on Romania. The final decision on the penalty rests with the European Court of Justice, which cannot exceed the amount specified by the European Commission. Should the European Court of Justice approve the fine, Romania will be bound to pay it from the date of the court's ruling and until it fully transposes the EU legislation into national law. On 11 February 2016, the Romanian authorities received the application whereby Romania was made a party to the case. The Romanian Government is preparing to file its statement of defence, as part of the written stage of the procedure before the European Court of Justice, and the Romanian authorities are making efforts for the transposition legislation to be passed before the European Court of Justice issues its ruling in the case. On 11 May 2016, Government Decision No. 346/2016 for the transposition of, among others, legislation regarding the sulphur content of marine fuels was passed and the adoption of this legislation was notified to the European Commission.

## **EU Funding**

### ***Pre-accession Funds***

After its accession to the EU, Romania continued to benefit from funding made available as part of the EU pre-accession funding programmes, including PHARE (Poland and Hungary: Assistance for Restructuring their Economies), ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development). Closing procedures are on-going in respect of most projects funded using pre-accession funds.

### ***Post-accession Funds***

Since 2007, the year of Romania's EU accession, the EU has provided and will continue to provide financial assistance to Romania through various instruments, among the most important of which are the EU Structural and Cohesion Funds and the European Agricultural Fund for Rural Development.

### ***Structural and Cohesion Funds***

#### ***Overview***

The EU Structural and Cohesion Funds are financial tools set up to implement the cohesion policy of the EU, with the aim of reducing economic disparity among regions and Member States of the EU. The EU Structural and Cohesion Funds include the European Regional Development Fund ("**ERDF**"), the European Social Fund ("**ESF**") and the Cohesion Fund ("**CF**"), each of which has different objectives and priorities. These three funds are intended to remain in place for the 2014 to 2020 programming period and have already begun to allocate funds for that programming period. Generally, support from the EU Structural and Cohesion Funds is granted to Romania for the purpose of accelerating its economic development. To this end, the EC approved seven sectorial operational programmes ("**SOP**") under the Structural and Cohesion Funds under which Romania was entitled to funding during the 2007-2013 programming period (i.e. increasing economic competitiveness, transport, environment, regional operational programmes, technical assistance, human resources development and administrative capacity development). Smaller financial support was also granted for cross-border and transnational activities.

In 2014, the authority over the current managing authorities for the SOP Human Resources and the SOP Competitiveness was transferred to the Ministry of European Funds, with a view to meeting the requirements of the management and control system set up for the 2014 to 2020 programming period, while also attempting to solve the difficulties encountered by the two managing authorities during the 2007 to 2013 programming period. In December

2014, the Ministry of European Funds took over the management of the SOP Environment and Transport as well. The structure of the Ministry of European Funds is being revised for the 2014 to 2020 programming period to include managing authorities for the Large Infrastructure SOP, the Competitiveness SOP, the Human Capital SOP and the Technical Assistance SOP. The Large Infrastructure SOP includes in one single programme three major sectors, namely transport, environment and energy.

#### *Allocations and Absorption of the EU Structural and Cohesion Funds 2007-2013 as at 31 March 2016*

The European Commission allocates specific amounts of funds to each of the seven operational programmes. The overall allocation for Romania under the EU Structural and Cohesion Funds in the 2007–2013 programming period was EUR 19.51 billion, of which EUR 12.53 billion represented structural funds (ie ERDF and ESF), EUR 6.52 billion was allocated under the Cohesion Fund and the balance of EUR 0.46 billion was allocated under the European Territorial Cooperation Objective (financed by the ERDF, this objective supports cross-border, transnational and interregional co-operation programmes). National co-financing for the period 2007-2013, as required by the grants, was approximately EUR 5.6 billion. For the 2007-2013 programming period the eligibility period ended on 31 December 2015, but the programmes will be closed in 2017. According to EU regulations, by 31 March 2017, the Member States have to submit to the European Commission the final declaration of payments and other relevant documents for closure of the programming period.

The value of the projects for which application has been made for financial assistance under the EU Structural and Cohesion Funds was, as at 31 March 2016, EUR 53.3 billion (more than 2.8 times the value of the EU funds budget allocated to Romania during the programming period). The number of contracts with beneficiaries signed as at 31 March 2016 was 15,739, totalling an eligible amount of EUR 26.4 billion (of which EUR 20.8 billion EU contribution), representing 109.11 per cent. of the EUR 19.05 billion allocation under EU Structural and Cohesion Funds (under the Convergence objective) for the 2007–2013 programming period.

The total payments to beneficiaries (including pre-financing and reimbursements) amounted to EUR 15.77 billion at 31 March 2016, consisting of the amounts actually paid to Romanian beneficiaries by the Romanian EU funds management authorities and including EU funding (EUR 13.92 billion) and national co-financing (EUR 1.85 billion). As at 31 March 2016, the total amount received from the EU by Romania under the 2007-2013 fund allocation was EUR 13.84 billion, of which EUR 2.11 billion represented pre-financing payments, while EUR 11.73 billion represented actual reimbursements made by the EU. This corresponds to an actual 61.57 per cent. absorption rate (computed using the level of actual reimbursements made by the European Commission as a percentage of the total amount of Structural and Cohesion Funds allocated for the 2007-2013 programming period). In 2016, reimbursements requested from the European Commission reached EUR 475 million while the total amount requested from the European Commission is EUR 12.54 billion for the entire programming period 2007-2013. This corresponds to a 65.80 per cent. current absorption rate (computed using the level of actual amounts requested from the European Commission as a percentage of the total EU budget allocation for the 2007-2013 programming period).

#### *Decommitment rule*

The use of Structural and Cohesion Funds and of the European Structural and Investment Funds is subject to a decommitment rule, which provides that the EU shall automatically decommit any part of a budget commitment in an operational programme that has not been used for payment of pre-financing or interim payments or for which an application for payment has not been sent by the end of a certain period (which is two or three years after the year when the financial allocation is granted). Appropriations that are decommitted are permanently lost. This rule has been in force throughout the 2007-2013 programming period and will apply to the 2014-2020 programming period as well.

Romania may not claim reimbursement of the decommitted amounts; the decommitment of funds, in principle, does not refer to recovery by the EU of any amounts already paid to Romania. Romania lost in 2012, as a result of automatic decommitment, EUR 155 million from the funds allocated to the operational programmes for transport and competitiveness. In 2013, in order to reduce the risk of automatic decommitment of funds from the 2007-2013 programming period for Romania and Slovakia, the decommitment deadlines applicable in respect of the two Member States for funds allocated in 2011 and 2012 were extended by one year, until the end of 2014 and 2015, respectively. The end date for eligibility of expenditure for the programming period remained unchanged at 31 December 2015. The measure was approved by the European Parliament on 20 November 2013 and as a result of application of this rule, Romania absorbed, in 2013 and 2014, all the allocated Structural and Cohesion Funds that had been at risk of decommitment and, consequently, no Structural and Cohesion funds were decommitted in 2013 and 2014.

Approximately EUR 94 million from the funds allocated for 2012 to the operational programme for human resources development will be automatically decommitted based on the "n+3 rule". The "n+3 rule" provides that the European

Commission will automatically decommit any part of the amount on the third year following the year of the annual budget commitment, if the Member State does not submit to the European Commission interim applications for payment that cover the annual commitment. A final decision regarding the decommitment of these funds is expected from the European Commission during 2016, after waiving the interruption of payments for this programme. In February 2016, the European Commission notified the Romanian authorities on the decision to interrupt the payments for the SOP Human Resources Development due to significant deficiencies in the functioning of the management and control system concerning the selection procedures and the verifications performed by the managing authority. Following the audit missions that took place in March-April 2016, it is expected that the interruption will be waived by the end of May 2016.

The final decommitment of funds for the 2007-2013 programmes is expected to occur in 2017. According to EU Regulations, the commitments still open on 31 December 2015 shall be automatically decommitted, if the European Commission has not received an acceptable application for payment in respect of such commitments by 31 March 2017.

#### *Low absorption rates and ameliorative measures*

When Romania first began accessing the Structural and Cohesion Funds, it struggled to fully absorb the amounts available and even the amounts allocated to it. The low level of payments made to beneficiaries by the national management authorities and the even lower level of the reimbursements made by the EC revealed problems and difficulties at both the beneficiary and the managing authority levels. Such difficulties affected the project preparation and submission stage, the appraisal, selection and contracting of projects and actual project implementation.

According to the "National Strategic Report for the Implementation of the Structural and Cohesion Funds", prepared by the Romanian authorities in 2009, the initial challenges to the absorption of EU funds in Romania started with the beneficiaries' difficulties in preparing projects (due mainly to a lack of experience in project elaboration, but also to heavy documentation requirements and limited technical assistance). Absorption of EU funds in Romania was also hampered by excessive time taken up by project appraisals; selection and contracting of and long-lasting administrative procedures; the limited administrative capacity and a lack of discipline on the part of the beneficiaries, resulting in poor observance of procedural deadlines or submissions of incomplete information and documentation to the managing authorities. Significant delays in project implementation result from difficulties in conducting public procurement procedures, owing to poor administrative resources and capacity and to repeated challenges to public procurement procedures. Public procurement procedures are often subject to challenge (*ie* 97 challenges in 2015 and 20 as at 30 April 2016), of which approximately one-third were admitted. On 10 May 2016, the Romanian Parliament cast a final vote on the new public procurement and concessions laws, aimed to transpose into Romanian legislation the EU public procurement reform. The new laws are currently under promulgation by the President. The Government has published for consultation draft methodological norms for the application of the public procurement and concessions laws and announced that it intends to adopt such norms soon after the entry into force of the new legislative package.

Also, along with the implementation of projects, various legal barriers to the implementation of projects have arisen and, in certain cases, impeded the completion of various stages of projects. A significant problem in the implementation stage consists of the beneficiaries' difficulties in securing the financial resources to start project implementation or even to finance their own contribution to the project financing, which has been exacerbated by the global financial crisis.

Funding under the Structural and Cohesion Funds for a number of operational programmes had been pre - suspended during the 2007 to 2013 programming period, and financial corrections were applied in respect of expenditures under certain operational programmes. 2013 and 2014 were difficult years for the Romanian authorities involved in the management of EU funds as they worked to overcome the issues identified in the 2009 report, but the absorption rate of EU structural and cohesion funds allocated for the 2007 to 2013 programming period, computed by reference to amounts requested from the European Commission, significantly increased from 33.48 per cent. at the end of 2013 to approximately 52 per cent. at the end of 2014 and 65.8 per cent. at the end of March 2016.

In order to assure the highest level of absorption, the Romanian authorities have implemented, and they intend to implement further, structural measures such as:

- Strengthening and improving the monitoring at the level of large infrastructure projects in order to speed up their implementation.
- Identification of potential reimbursement claims of alternative projects focusing on identifying similar national infrastructure programmes to projects initially identified as fund recipients. Active promotion of the alternative use of EU funds is to be ensured by the Government at the level of local authorities and county

councils as a result of the introduction of an additional allocation to local budgets which is conditioned upon the use of EU funds.

- Extending the use of project savings from the allocation of funds towards private beneficiaries involved in the project.
- Further reallocation among the priority goals of various programmes, in order to accommodate new investments for projects which are already partially implemented and identified and can therefore ensure rapid reimbursement from the European Commission. Some of these investments are to be promoted as phased projects, especially for infrastructure. In this regard, SOP Environment is analysing the proposal to reallocate CF funds towards flood prevention/protection measures.
- Increase the administrative capacity of programming departments through the use of European Investment Bank expertise or other technical assistance expertise in order to accommodate both the pressure for assessing new projects to be promoted under the 2007-2013 programmes and the preparation of the new generation of projects under the 2014-2020 programming period. The programming directorates for SOP Transport and SOP Environment are to be reinforced in order to cover the assessment of the new projects proposed for financing under EU funds.
- Extending the categories of eligible expenditures, thus allowing the reimbursement for expenditure already realised under the approved projects (mainly on works, e.g. expenditure incurred by the beneficiaries on their own expenses, without works contracts).
- Phasing of projects - identify under which programming period the expenditure could be declared as only certain projects are eligible for financing in both the 2007-2013 and the 2014-2020 programming periods

At the initiative of Commissioner for Regional Policy, Corina Cretu, a task force was created with the main objective of accelerating the absorption of 2007-2013 funds. This mechanism was proposed by the European Commission to eight member states, Romania included, which had an absorption rate of less than 60 per cent. at the end of 2014.

The main actions to be implemented in order to accelerate the implementation of 2007 to 2013 programmes and to pave the ground for the implementation of the 2014 to 2020 programming exercise were agreed in 2015.

These actions are transposed in a PAP that has been officially agreed between the Romanian Minister of the European Funds and the EU Commissioner for Regional Policy. The priority action plan's measures are permanently monitored and the status of implementation is quarterly reported to the European Commission. Also the PAP is constantly updated based on the new measures that are needed in order to speed up the implementation of operational programmes. The objectives of the PAP comprise avoiding a substantial de-commitment of funds on 31 December 2015, creating the prerequisites for achieving an absorption rate of at least 75 per cent, at the closure of the 2007-2013 programming period, and ensuring the proper start of the 2014-2020 programming exercise.

The PAP's measures are permanently monitored and the status of implementation is quarterly reported to the European Commission. Also, the PAP is constantly updated based on the new measures that are needed in order to accelerate the implementation of operational programmes.

In October 2015, Romania approved the National Strategy for Public Procurement, which aims to improve and reform the national system for public procurement, with direct consequences on the implementation of the European Structural and Investment Fund ("**ESI Fund**"). Through the implementation of the strategy, public procurement will become an even more significant economic strategic lever, given its large share of GDP and its major impact on the development of the economic and social infrastructure, public services and growth of confidence in national institutions.

The implementation of the National Strategy for Public Procurement is closely monitored by both the Romanian Government and the European Commission, considering that the fulfillment of the strategy measures is an *ex-ante* conditionality included in the Partnership Agreement for the 2014-2020 programming period ("**Partnership Agreement**").

For the Structural and Cohesion Funds allocated for the 2007-2013 programming period, starting with 2013, the necessary funds have been ensured by the Government by providing loans from the Treasury, on a monthly basis, so that the beneficiaries could be paid despite certain delays in the reimbursement of funds by the European Commission, particularly for the programmes where interruptions or pre-suspension of payments occurred.

*Funds under the 2014-2020 programming period*

The Partnership Agreement was adopted with EC Decision 5515/6.08.2014 (Romania being the 11th Member State for which this strategic document was adopted by the EC). The Partnership Agreement is the strategic document that defines Romania's development vision including its use of European Union support, and it indicates how investments will be concentrated in order to promote competitiveness, convergence and cooperation and to encourage local development, based on economic growth and social inclusion.

Investments from the European Structural and Investment Funds 2014-2020 ("ESIF") will be one of the most important tools to reduce development disparities between different regions of Romania, but also between Romania and other Member States.

The ESIF regulatory framework for the programming period 2014-2020 reflects the European Commission's orientation towards performance. The European Commission put in place a performance monitoring framework, including milestones and specific targets corresponding to each operational programme, the completion of which will be verified in 2018 and 2022. The European Commission will put in place, in order to improve the efficiency of spending of EU funds, performance reserves in amounts ranging between 5 and 7 per cent. of the allocations under each priority within the operational programmes, with the exception of priorities dedicated to technical assistance and programmes dedicated to financial instruments. The performance reserve amounts will be released subject to the achievement of the milestones set for 2018.

Another important tool of the performance monitoring framework is the use of *ex-ante* conditionalities to ensure the conditions for effective cohesion policy investments at the start of operational programmes reflecting, at the same time, the predictability of national sectorial policies. Member States must fulfil the *ex-ante* conditionalities no later than 31 December 2016 and report on their fulfilment no later than in the annual implementation report or the progress report for 2017 in accordance with EC Regulation no 1303/2013. Failure to complete actions necessary in order to fulfil the *ex-ante* conditionalities constitutes a ground for suspending interim payments by the European Commission to the priorities of the programme or programmes that are affected by the unfulfilled *ex-ante* conditionalities. A number of the *ex-ante* conditionalities for the 2014 to 2020 programming period have been fulfilled already and, for those which remain unfulfilled, Romania has adopted action plans containing concrete measures and deadlines to satisfy them. At the end of April 2016, out of the 36 *ex-ante* conditionalities Romania has to fulfil, 14 have been fulfilled and 22 partially fulfilled. The Ministry of European Funds is monitoring the action plans and is reporting on a regular basis to the Government on the status of fulfillment.

At the end of 2014, all operational programmes were officially submitted to the European Commission. Moreover, three operational programmes were adopted by the European Commission in 2014, namely "Competitiveness", with a EUR 1.3 billion allocation from the ERDF; "Technical Assistance" with a EUR 212 million allocation from the ERDF and "Aid for the Most Deprived" with a EUR 442 million allocation from the FEAD. Another two operational programmes were adopted in February 2015: "Human Capital" with a financial allocation of EUR 4.2 billion from the ESF and "Administrative Capacity" with a financial allocation of EUR 0.553 billion from the ESF. The Operational Programmes have been approved by the European Commission in 2014, 2015 and 2016.

In 2015 Romania received pre-financing from the European Commission for the following operational programmes: Competitiveness, Technical Assistance, Large Infrastructure, Regional, Human Capital, Administrative Capacity and European Aid for Most Deprived. As of March 2016, Romania received pre-financing from the European Commission for the following operational programs: Competitiveness, Technical Assistance, Large Infrastructure, Regional, Human Capital, Administrative Capacity and European Aid for the Most Deprived.

The Regional Operational Programme with a projected allocation of EUR 6.6 billion from ERDF was adopted by the European Commission in June 2015 and revised in 2016, with part of the initial allocation being used for the SME's Initiative Operational Programme. The Large Infrastructure Operational Programme with a projected allocation of EUR 2.48 billion from the ERDF and EUR 6.93 billion from the Cohesion Fund was adopted in July 2015.

In 2015, Romania decided to participate to the SME's Initiative and the new Operational Programme was adopted by the European Commission on 29 March 2016. The allocation for SME's Initiative Operational Programme of EUR 100 million was transferred from the Regional Operational Programme allocation.

In accordance with the Partnership Agreement, Romania's development in the 2014-2020 programming period will be sustained through ESIF support in intervention areas that have major impact, such as: sustainable transport and removing bottlenecks in key network infrastructures (EUR 6.1 billion); competitiveness of SMEs (EUR 3.1 billion), access to, and use and quality of, Information and Communication Technology (0.5 billion euro) and technological development and innovation (EUR 1 billion). In addition, EUR 0.8 billion will be spent on improving governance at the level of central and local public authorities. Drawdown of funds under these operational programmes as well as the specific assignment of funds to projects could commence as soon as mid-2015.

For 2014-2020, Romania has available financing of over EUR 43 billion in accordance with the Multiannual Financial Framework for 2014-2020, allocated as follows: Cohesion Policy – approximately EUR 23 billion (out of which EUR 450 million for the European Territorial Cooperation programmes); Connecting Europe Facility – EUR 1.24 billion; Common Agricultural Policy – EUR 19 billion (out of which EUR 11 billion for direct payments); European Maritime and Fisheries Fund – EUR 170 million and Fund for European Aid to the Most Deprived – EUR 440 million. The eligibility period for the 2014-2020 programmes is between 1 January 2014 and 31 December 2023. Therefore expenditure shall be eligible for a contribution from the ESI Funds only if it has been incurred by a beneficiary and paid within this period.

### **Agriculture related Financial Assistance**

The European Agricultural Fund for Rural Development ("**EAFRD**") was created to support the implementation of the EU's Common Agricultural Policy by funding investments to increase the competitiveness of the agricultural sector, the improvement of environment and the improvement of rural areas including improving the quality of life in these areas.

The European Agricultural Guarantee Fund ("**EAGF**") finances direct payments to farmers and implements measures to regulate the agricultural markets for example through intervention and export refunds. The purpose of the European Fisheries Fund ("**EFF**") is to grant financial support to ensure the conservation and sustainable use of marine resources. For financial details regarding the use of these funds by Romania please see the table titled "*Evolution of financial flows between Romania and the European Union as of 31 March 2016*" under "*Membership of the European Union*".

#### *Funds under the 2007-2013 programming period*

The 2007-2013 EU fund allocation for Romania for agriculture amounted to a total of EUR 14.91 billion, of which EUR 8.10 billion funds were allocated to Romania under the EAFRD, EUR 6.58 billion were allocated under the EAGF and EUR 230 million were allocated under the EFF.

As of 31 December 2015, EUR 8.46 billion was paid to National Rural Development Programme beneficiaries (financed under the EAFRD funds allocated to Romania). EUR 1.09 billion represented pre-financing amounts paid by the payment authority to the beneficiaries, EUR 6.34 billion corresponded to actual reimbursements made to the beneficiaries from EAFRD and the balance of EUR 1.03 billion represented payments out of the national budget. As of 31 December 2015, the absorption rate, when taking into account pre-financing amounts granted to Romania, was 95 per cent. As of 31 December 2015, the absorption rate based on the actual amounts reimbursed by the payment authority to the beneficiaries amounted to 78 per cent. The absorption rate based on all the amounts paid by the payment authority (including pre-financing amounts granted to beneficiaries and amounts reimbursed to beneficiaries) is 89 per cent. As at 31 December 2015, 98,444 projects had been approved, of which 82,637 financing contracts were concluded for a total eligible value of EUR 7.38 billion of which EUR 4.62 billion were financed by the EAFRD contribution. In accordance with EU regulations, the final eligibility date of expenditure under the 2007-2013 programming period was 31 December 2015.

By the end of April 2016, a total amount of EUR 199.49 million had been paid to beneficiaries from the EFF and the national budget, representing approximately 83.93 per cent. of the total allocation (237.70 million representing EFF and national budget financing). The value of financing contracts concluded is EUR 237.05 million, representing 99.73 per cent. of the total allocation.

#### *Funds under the 2014-2020 programming period*

The 2014-2020 EU fund allocation for the Romanian agricultural sector amounted to a total of EUR 20.66 billion, of which EUR 8.02 billion were allocated under EAFRD for rural development, EUR 12.39 billion were allocated under EAGF for direct payments, EUR 238.5 million were allocated for the national support programme in the wine sector and EUR 10 million were allocated for the apiculture programme. For the fishery and aquaculture sector, EUR 168.4 million was allocated under the European Maritime and Fishery Fund.

In 2014, Romania decided to transfer EUR 112.3 million from EAGF direct payments to rural development, resulting in a total amount of EUR 8.13 billion allocated to the National Rural Development Programme in the 2014-2020 period.

The following table shows the evolution of financial flows between Romania and the European Union as of 31 March 2016 under the Multiannual Financial Framework ("**MFF**"), *ie* the amounts received from MFF 2007-2013 and MFF 2014-2020, the amounts paid to the EU during 2007-2016 and the balance of the MFF 2007-2013 and MFF 2014-2020. The MFF establishes the maximum annual amounts which the EU may spend in different political

fields and it provides a budgetary discipline by ensuring that EU spending is predictable and stays within the agreed limits.



## Evolution of financial flows between Romania and the European Union as of 31 March

### NET FINANCIAL BALANCE

#### Amounts received from MFF 2007-2013

| Name  | Realised<br>2007 | Realised<br>2008 | Realised<br>2009 | Realised<br>2010 | Realised<br>2011 | Realised<br>2012 | Realised<br>2013 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>I. AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)</b>                                       | <b>1,599.71</b>  | <b>2,642.34</b>  | <b>2,930.24</b>  | <b>2,293.63</b>  | <b>2,621.59</b>  | <b>3,442.13</b>  | <b>5,556.83</b>  |
| <i>A. Pre-accession funds</i>   | <b>812.26</b>    | <b>747.68</b>    | <b>618.74</b>    | <b>273.17</b>    | <b>132.61</b>    | <b>43.90</b>     | <b>31.02</b>     |
| <i>B. Post-accession funds, of which:</i>   | <b>787.45</b>    | <b>1,894.67</b>  | <b>2,311.50</b>  | <b>2,020.46</b>  | <b>2,488.98</b>  | <b>3,398.24</b>  | <b>5,525.81</b>  |
| <i>i) Prepayments</i>   | 773.82           | 1,408.37         | 1,009.06         | 351.63           | 105.83           | 107.01           | 135.92           |
| <i>ii) Reimbursements (including EAGF)</i>  | 13.63            | 486.30           | 1,302.44         | 1,668.83         | 2,383.15         | 3,291.23         | 5,389.89         |
| <b>B1. Structural and Cohesion Funds, of which:</b>                                       | <b>421.38</b>    | <b>648.45</b>    | <b>917.84</b>    | <b>505.54</b>    | <b>708.36</b>    | <b>1,170.92</b>  | <b>2,963.12</b>  |
| <i>a) Prepayments from Structural and Cohesion Funds</i>                                  | 421.38           | 648.45           | 777.23           | 278.75           | 0.00             | 0.00             | 0.00             |
| <i>b) Reimbursements from Structural and Cohesion Funds</i>                               | 0.00             | 0.00             | 140.61           | 226.80           | 708.36           | 1,170.92         | 2,963.12         |
| <b>B2. Agricultural, Rural Development and Fishing Funds, of which:</b>                   | <b>15.13</b>     | <b>578.75</b>    | <b>565.93</b>    | <b>760.48</b>    | <b>883.05</b>    | <b>1,090.05</b>  | <b>1,229.99</b>  |
| <i>a) Prepayments/prefinancing from Agricultural, Rural Development and Fishing Funds</i> | 15.13            | 578.75           | 0.00             | 7.12             | 0.00             | 0.00             | 0.00             |
| <i>b) Reimbursements from Agricultural, Rural Development and Fishing Funds</i>           | 0.00             | 0.00             | 565.93           | 753.36           | 883.05           | 1,090.05         | 1,229.99         |
| <b>B3. The European Agricultural Guarantee Fund (EAGF)</b>                                | <b>6.89</b>      | <b>461.87</b>    | <b>575.93</b>    | <b>663.78</b>    | <b>768.95</b>    | <b>991.27</b>    | <b>1,174.70</b>  |
| <b>B4. Others (post-accession), from which:</b>   | <b>344.05</b>    | <b>205.60</b>    | <b>251.80</b>    | <b>90.65</b>     | <b>128.62</b>    | <b>146.00</b>    | <b>158.00</b>    |
| <i>a) Prepayments</i>   | 337.31           | 181.17           | 231.82           | 65.77            | 105.83           | 107.01           | 135.92           |
| <i>b) Reimbursements</i>  | 6.74             | 24.42            | 19.97            | 24.88            | 22.79            | 38.99            | 22.08            |

**Amounts received from MFF 2014-2020**  
**mil euro**

| Name   | Realised 2014 | Realised 2015 | Realised 2016<br>(execution as of<br>31 March 2016) | Realised<br>2014- 2016<br>(execution as of 31<br>March 2016) |
|--|---------------|---------------|---|--|
| <b>I.AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)</b>                                 | <b>48.51</b>  | <b>945.11</b> | <b>1,149.32</b>                                     | <b>2,142.94</b>  |
| i) Prepayments   | 48.51         | 914.84        | 727.70  | 1,691.05   |
| ii) Reimbursements (including EAGF)  | 0.00          | 30.27         | 421.60  | 451.88   |
| <b>A1. Structural and Cohesion Funds, of which:</b>                                | <b>48.51</b>  | <b>666.25</b> | <b>636.04</b>                                       | <b>1,350.80</b>  |
| a) Prepayments from Structural and Cohesion Funds                                  | 48.51         | 666.25        | 636.04  | 1,350.80   |
| b) Reimbursements from Structural and Cohesion Funds                               | 0.00          | 0.00          | 0.00  | 0.00   |
| <b>A2.Agricultural, Rural Development and Fishing Funds, of which:</b>             | <b>0.00</b>   | <b>248.59</b> | <b>86.03</b>  | <b>334.62</b>  |
| a) Prepayments/prefinancing from Agricultural, Rural Development and Fishing Funds | 0.00          | 248.59        | 86.03   | 334.62   |
| b) Reimbursements from Agricultural, Rural Development and Fishing Funds           | 0.00          | 0.00          | 0.00  | 0.00   |
| <b>A3. The European Agricultural Guarantee Fund (EAGF)</b>                         | <b>0.00</b>   | <b>0.00</b>   | <b>269.34</b>                                       | <b>269.34</b>  |
| <b>A4. Others, from which:</b>   | <b>0.00</b>   | <b>30.27</b>  | <b>157.92</b>                                       | <b>188.19</b>  |
| a) Prepayments   | 0.00          | 0.00          | 5.65  | 5.65   |
| b) Reimbursements  | 0.00          | 30.27         | 152.27  | 182.54   |

**AMOUNTS PAID TO THE EU DURING 2007-2016**

| Name                                      | Realised<br>2007 | Realised<br>2008 | Realised<br>2009 | Realised<br>2010 | Realised<br>2011 | Realised<br>2012 | Realised<br>2013 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>II. AMOUNTS PAID TO THE EU</b>         | <b>1,150.89</b>  | <b>1,268.93</b>  | <b>1,364.43</b>  | <b>1,158.91</b>  | <b>1,296.24</b>  | <b>1,427.77</b>  | <b>1,534.77</b>  |
| C. Romanian Contribution to the EU Budget | 1,129.13         | 1,246.78         | 1,315.49         | 1,109.25         | 1,234.26         | 1,405.57         | 1,469.80         |
| D. Other contributions                    | 21.77            | 22.15            | 48.94            | 49.66            | 61.98            | 22.20            | 64.96            |

**BALANCE OF MFF 2007-2013 AND MFF 2014-2020**

| Name  | Realised<br>2007 | Realised<br>2008 | Realised<br>2009 | Realised<br>2010 | Realised<br>2011 | Realised<br>2012 | Realised<br>2013 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>I. AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)</b>       | <b>1,599.71</b>  | <b>2,642.34</b>  | <b>2,930.24</b>  | <b>2,293.63</b>  | <b>2,621.59</b>  | <b>3,442.13</b>  | <b>5,556.83</b>  |
| A. AMOUNTS RECEIVED FROM THE EU BUDGET from MFF 2007-2013 | 1,599.71         | 2,642.34         | 2,930.24         | 2,293.63         | 2,621.59         | 3,442.13         | 5,556.83         |
| B. AMOUNTS RECEIVED FROM THE EU BUDGET from MFF 2014-2020 | -                | -                | -                | -                | -                | -                | -                |
| <b>II. AMOUNTS PAID TO THE EU BUDGET from MFF</b>         | <b>1,150.89</b>  | <b>1,268.93</b>  | <b>1,364.43</b>  | <b>1,158.91</b>  | <b>1,296.24</b>  | <b>1,427.77</b>  | <b>1,534.77</b>  |
| <b>III. Balance of financial flows = I - II</b>           | <b>448.82</b>    | <b>1,373.41</b>  | <b>1,565.81</b>  | <b>1,134.72</b>  | <b>1,325.35</b>  | <b>2,014.36</b>  | <b>4,022.07</b>  |

\*) Multifinancial Framework

## THE ROMANIAN ECONOMY

### Overview

In 2013, real GDP grew by 3.5 per cent. due to the positive contribution of net exports (which grew by 3.6 per cent. that year). In 2014, real GDP growth was 3.0 per cent. mainly due to an increase in household individual expenditures, while in 2015 real GDP growth was 3.8 per cent.

The GDP/capita increased from EUR 7,218 in 2013 to EUR 8,083 in 2015. The GDP/capita in purchasing power standards improved to 53.9 per cent. of the EU average in 2013 and 55.3 per cent. in 2014.

The following table shows the main macroeconomic indicators for the years 2013, 2014, 2015 and the first two months of 2016 (where available, and except where specified otherwise):

|  | Main Macroeconomic Indicators |        |                      |                       |
|--|-------------------------------|--------|----------------------|-----------------------|
|  | 2013                          | 2014   | 2015                 | Jan-Feb 2016          |
| Gross domestic product – current prices (EUR billion) <sup>(1)</sup>                   | 144.3                         | 150.2  | 160.4                | -                     |
| Real growth (percentage change) <sup>(1)</sup> .....                                   | 3.5                           | 3.0    | 3.8                  | -                     |
| GDP /per capita (RON).....   | 31,895                        | 33,524 | 35,928               |                       |
| Average exchange rate (EUR/RON).....   | 4.4190                        | 4.4446 | 4.4450               | 4.4926 <sup>(2)</sup> |
| Industrial production (percentage change) .....  | 7.8                           | 6.1    | 2.7                  | (0.5)                 |
| Agricultural production (percentage change) ..   | 24.5                          | 2.9    | (8.7) <sup>(3)</sup> | -                     |
| Retail <sup>(4)</sup> (percentage change).....   | 0.5                           | 6.4    | 8.9                  | 18.7                  |
| Current account balance (million EUR).....   | (1,539)                       | (686)  | (1,828)              | (337)                 |
| Real wage (percentage change) .....  | 0.8                           | 6.4    | 8.9                  | 14.9                  |
| Average inflation (percentage change) .....  | 3.98                          | 1.07   | (0.59)               | (2.59) <sup>(2)</sup> |
| Employment (percentage change) (according to LFS – Labour Force Survey) <sup>(5)</sup> | (0.6)                         | 0.8    | (0.9)                | -                     |

Notes:

- (1) Final data for 2013, semi-final data for 2014 and provisional data for 2015
- (2) Data for the three months ended March 2016
- (3) Data for the nine months ended September 2015
- (4) Excluding sale, maintenance and repair of motors, vehicles and motorcycles
- (5) Data according to the 2011 Population Census

In 2013, GDP increased by 3.5 per cent. mainly due to the positive contribution of net exports of 3.6 per cent. following the increased external demand which resulted in an increase in exports of goods and services in real terms by 19.7 per cent., while imports of goods and services increased by 8.8 per cent. Domestic demand fell by 0.1 per cent. due to the reduction in gross fixed capital formation of 5.4 per cent. Final consumption decreased by 0.3 per cent. as compared to 2012 in terms of an increase in private consumption by 0.7 per cent. and a reduction of government consumption by 4.6 per cent. Household consumption accelerated in the second half of 2013 amid low inflation and high agricultural production, which has boosted farmer's market and self-consumption, an important component of household consumption in Romania.

In 2014, Romania's GDP increased by 3.0 per cent. compared to 2013, principally due to increased domestic demand (3.1 per cent.) resulting from an increase in private consumption by 3.8 per cent., due to an increased propensity for consumption by the population and lower inflation. Gross fix capital formation increased by 2.5 per cent. Net exports had a negative contribution to real GDP growth (0.2 per cent.) due to an increase in import of goods and services in real terms by 8.9 per cent. while exports of goods and services increased by 8.6 per cent.

In 2015, Romania's GDP increased by 3.8 per cent. compared to 2014. The major drivers of growth were gross fixed capital formation, which grew by 8.8 per cent. and private consumption, which grew by 6.1 per cent., each compared to the previous year, due to the improvement of the purchasing power following the cut in VAT rate applicable to food,

non-alcoholic beverages and restaurants and catering services, the wage increases and the negative inflation rate. Net exports had a negative contribution to real GDP growth rate (1.5 percentage points).

According to the estimates published by the National Institute for Statistics on 13 May 2016, in the first quarter of 2016, GDP is estimated to have increased by 4.3 per cent. (unadjusted series), as compared to the same period of 2015.

Starting with September 2014, the National Institute for Statistics ("NIS") publishes quarterly and annual data regarding GDP, according to the European System of Accounts (ESA) 2010 methodology, which is aligned with the amendments brought to the System of National Accounts 2008 (SNA). The main methodological differences introduced by ESA 2010, as compared to ESA 1995, are in the areas of: capitalization of the research and development expenditures; capitalization of the military expenditures; goods sent abroad for processing are registered only as imported processing service and new norms related to the registration of rights over the pensions funds. The impact of the methodological changes and statistic improvements on the gross domestic product in 2012 was 1.7 per cent., out of which 0.5 per cent. was represented by the implementation of ESA 2010 (with research and development holding 0.4 per cent.) and 1.2 per cent. by improvements in the economic performance.

The following table shows percentage changes to GDP use components for 2013, 2014 and 2015:

#### Gross Domestic Product Use Components

|  | 2013   | 2014       | 2015       |
|--|--|------------|------------|
|  | <i>(percentage change against the previous year)</i> |            |            |
| Domestic demand  | (0.1)  | 3.1        | 5.3        |
| Final consumption  | (0.3)  | 3.1        | 5.2        |
| Private consumption expenditures   | 0.7  | 3.8        | 6.1        |
| Government consumption expenditures  | (4.6)  | 0.3        | 1.6        |
| Gross fixed capital formation  | (5.4)  | 2.5        | 8.8        |
| Changes in inventories<br>(Contribution to real GDP growth, percentage points) | 1.6  | 0.2        | (0.8)      |
| Net exports (Contribution to real GDP growth, percentage points)               | 3.6  | (0.2)      | (1.5)      |
| <b>Gross domestic product</b>  | <b>3.5</b>   | <b>3.0</b> | <b>3.8</b> |

Source: National Institute of Statistics

#### Structure of the Economy

Since 1990, the structure of the economy has changed significantly, with a shift from industry and agriculture to the service industry. The service sector increased its contribution to GDP growth from 26.5 per cent. in 1990 to 53 per cent. in 2015. Despite the increase, this share is below the level recorded in the developed economies of the EU, where the contribution of services to GDP exceeds 60 per cent.

The following table shows the structure of GDP by sector for the period for 2013, 2014 and 2015:

#### Structure of Gross Domestic Product by Sectors

|                                     | 2013                          | 2014 | 2015 |
|-------------------------------------|-------------------------------|------|------|
|                                     | <i>(structure, per cent.)</i> |      |      |
| Industry                            | 25.2                          | 24.9 | 23.2 |
| Agriculture, forestry and fisheries | 5.4                           | 4.7  | 4.2  |
| Construction                        | 7.0                           | 7.2  | 7.4  |
| Services - Total                    | 50.4                          | 51.6 | 53.0 |

|  |            |            |            |
|--|------------|------------|------------|
| Trade, hotel and restaurants, transport and communications | 19.6       | 20.3       | 21.4       |
| Financial, real-estate, renting and business services      | 18.3       | 18.5       | 18.7       |
| Other service activities                                   | 12.5       | 12.8       | 12.9       |
| Net taxes  | 12.0       | 11.6       | 12.2       |
| <b>Gross domestic product</b>                              | <b>100</b> | <b>100</b> | <b>100</b> |

Source: National Institute of Statistics

The following table shows percentage changes in sectoral components of GDP for 2013, 2014 and 2015:

#### Changes in Gross Domestic Product by Sectors

|  | 2013   | 2014       | 2015       |
|--|--|------------|------------|
|  | <i>(percentage change against the previous year)</i> |            |            |
| Industry   | 4.0  | 3.7        | 2.0        |
| Agriculture, forestry and fisheries                        | 33.7   | 2.4        | (9.4)      |
| Construction   | 4.4  | 2.3        | 8.8        |
| Services   | 1.4  | 2.5        | 4.7        |
| Trade, hotel and restaurants, transport and communications | (5.5)  | 4.0        | 7.7        |
| Financial, real-estate, renting and business services      | 16.5   | 1.4        | 2.9        |
| Other service activities                                   | (6.0)  | 1.6        | 2.4        |
| Gross value added  | 4.1  | 2.8        | 3.5        |
| Net taxes on goods   | (0.6)  | 4.2        | 5.6        |
| <b>Gross domestic product</b>                              | <b>3.5</b>   | <b>3.0</b> | <b>3.8</b> |

Source: National Institute of Statistics

#### Gross Value Added

In 2013, gross value added ("GVA") in industry increased by 4 per cent., as compared to 2012, followed by a 3.7 per cent. increase in 2014, as compared to 2013 and by a 2 per cent. increase in 2015, as compared to 2014.

The agricultural sector in Romania is strongly influenced by climatic conditions, which is reflected in the annual GVA developments in agriculture. Thus, in 2013, GVA in agriculture increased by 33.7 per cent., as compared to 2012, given the base effect generated by the severe drought which affected the country in 2012, followed by a 2.4 per cent. increase in 2014, as compared to 2013. In 2015, GVA in agriculture decreased by 9.4 per cent., as compared to 2014, mainly due to the unfavourable climate conditions.

In 2013, GVA in construction increased by 4.4 per cent., as compared to 2012, followed by a 2.3 per cent. increase in 2014, as compared to 2013 and a 8.8 per cent. increase in 2015, as compared to 2014.

GVA in the services sector increased by 1.4 per cent. in 2013 and by 2.5 per cent. in 2014, each compared to the previous year. In 2015, GVA in the services sector increased by 4.7 per cent., as compared to 2014.

#### Industrial Production

In 2013, Romania's industrial production increased by 7.8 per cent., primarily as a result of a 9.2 per cent. increase in production in the manufacturing sector, as compared to 2012.

In 2013, the turnover value of total industry recorded a 4.7 per cent. growth compared to 2012 and the manufacturing sector increased by 5.0 per cent.

In 2014, industrial production increased by 6.1 per cent. as compared to 2013, while manufacturing increased by 7.5 per cent.

In 2014, the turnover value of total industry increased by 7.8 per cent. as compared to 2013, and the manufacturing sector grew by the same rate.

In 2015, compared to 2014, the industrial production increased by 2.7 per cent., while manufacturing increased by 3.5 per cent.

In 2015, the turnover value of total industry increased by 2.4 per cent. as compared to 2014, and the turnover of the manufacturing sector increased by 2.7 per cent as compared to 2014.

In the first two months of 2016, as compared to the same period of 2015, industrial production decreased by 0.5 per cent. and manufacturing increased by 0.5 per cent.

In the first two months of 2016, the turnover value of total industry increased by 2.2 per cent. as compared to the same period of 2015 and the turnover value of the manufacturing sector increased by 3.1 per cent.

The decrease in industrial production in the sector of mining in 2015 and the first two months of 2016 is caused mainly by the decrease in mining-related services, by 38 per cent. in 2015, as compared to 2014 and by 50.5 per cent. in the first two months of 2016, as compared to the same period of the previous year.

The following table shows percentage changes in industrial production by sector for the years 2013, 2014, 2015 and the first two months of 2016:

#### **Industrial Production by Sectors**

|                       | <b>2013</b>   | <b>2014</b> | <b>2015</b> | <b>Jan-Feb 2016</b> |
|-----------------------|---|-------------|-------------|---------------------|
|                       | <i>(percentage change against the same period of the previous year)</i> |             |             |                     |
| Mining and quarrying  | 2.2   | 1.0         | (12.5)      | (14.7)              |
| Manufacturing         | 9.2   | 7.5         | 3.5         | 0.5                 |
| Energy                | (1.4)   | (4.7)       | 1.3         | (5.0)               |
| <b>Total industry</b> | <b>7.8</b>  | <b>6.1</b>  | <b>2.7</b>  | <b>(0.5)</b>        |

*Source: National Institute of Statistics*

In 2013, labour productivity increased by 8.7 per cent. compared to 2012. Labour productivity increased in the following branches: manufacture of coke and refined petroleum products with 20.7 per cent., manufacture of electrical industrial equipment with 19.1 per cent, manufacture of machinery and equipment with 17.8 per cent. and manufacture of other transport equipment with 16.5 per cent.

In 2014 labour productivity increased by 4.5 per cent. compared to 2013. The industrial branches with the highest manufacturing labour productivity were manufacture of computers, electronic and optical products with 35.7 per cent., manufacture of coke and refined petroleum products with 24.5 per cent. and manufacture of paper product and paper products with 19.1 per cent.

In 2015, labour productivity in industry remained constant, compared to 2014, mainly due to the increase of the average number of employees simultaneously with the growth of production.

In the first two months of 2016, labour productivity decreased by 3.1 per cent., as compared to the same period of 2015, due to wage increases. However, during this period, the following sectors have registered increases in labour productivity: manufacture of rubber and plastic products (30.6 per cent.), manufacture of tobacco products (29.3 per cent.), mining of coal ( 20.8 per cent.) and mining of metal ores (12.1 per cent.).

## *Natural Gas*

In 2013, the total amount of natural gas available in Romania amounted to 14.43 billion cubic metres, of which 10.85 billion cubic metres were generated by domestic production (75.2 per cent.) and 1.46 billion cubic metres were imported (10.1 per cent.), mainly from Russia, and the remainder represented existing stock.

In 2014, the total amount of natural gas available in Romania was 13.66 billion cubic metres, of which 11.06 billion cubic metres were generated by domestic production (80.9 per cent.) while 0.58 billion cubic metres (4.3 per cent.) represent total imported gas, mainly from Russia, and the remainder represented existing stock.

In 2015, the total amount of natural gas available in Romania was 10.79 billion cubic metres, of which 10.59 billion cubic metres was generated by domestic production (98.15 per cent.) while 0.20 billion cubic metres (1.85 per cent.) were imported, mainly from Russia. Between April and September 2015 the domestic production was sufficient to meet the internal demand for natural gas.

While the share of imported natural gas (mainly imported from Russia) of total natural gas resources used in Romania declined sharply between 2011 and 2015. Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Romania's neighbouring country, Ukraine, in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers including Romania.

In the first two months of 2016, the total amount of natural gas available in Romania was 1.89 billion cubic metres, of which 1.75 billion cubic metres was generated by domestic production (92.6 per cent.) while 0.14 billion cubic metres (7.4 per cent.) was imported, mainly from Russia, however the increase in the share of imports is considered to be seasonal.

In order to reduce dependency on any single source of natural gas, Romania is actively promoting projects to diversify both the delivery routes and sources of its natural gas, as evidenced by its interest in promoting the Azerbaijan – Georgia – Romania Interconnector project. Moreover, in order to further reduce import dependency, several projects relating to the development of unconventional resources are underway. These projects involve studies that will provide a clearer picture of Romania's potential in non-conventional resources. In conventional resources, there have been some encouraging developments in the exploratory work conducted in the Black Sea offshore. In July 2014, OMV Petrom and ExxonMobil Exploration and Production Romania Limited, an affiliate of Exxon Mobil Corporation, announced the start of drilling in the deepwater sector of the Neptun Block, offshore Romania in the Black Sea. Data collected during the drilling program will be used to assess the size and commercial viability of the gas field discovered in 2012.

Romania has made changes to its energy and natural gas legislation to harmonise it with EU requirements. The new legislation sets forth a plan for the liberalisation of the prices of natural gas. The liberalisation of the prices of natural gas was finalised for non-household consumers in January 2015, with the exception of thermal energy producers where natural gas is used to produce heat in cogeneration plants and heating plants for household consumption. The latest plan approved by Government Decision No 488/2015 which was passed on 1 July 2015, expects the gas market to be fully liberalised for household consumers by July 2021. According to the provisions of Electricity and Natural Gas Law No. 123/2012, as subsequently amended ("**Energy and Natural Gas Law**"), household consumers and thermal energy producers that use gas to produce heat for household consumption will be treated equally by the end of the regulated period, as regards the quantity and price of the natural gas they consume, regardless of whether they choose to be eligible or regulated.

From 1 January 2015 until 31 December 2018, Romanian natural gas producers and their affiliates must trade on the centralised markets, in a transparent and non-discriminating manner, a minimum quantity of gas destined for consumption within the Romanian market (at least 35 per cent. in 2015, at least 30 per cent. by 2016, at least 25 per cent. in 2017 and at least 20 per cent. in 2018). The same general obligation applies to traders and suppliers (except those that are also gas producers and oil agreement holders) starting on 1 March 2015 until 31 December 2018 (at least 30 per cent. in 2015, at least 25 per cent. by 2016, at least 20 per cent. by 2017 and at least 15 per cent. in 2018). There are currently two centralised markets available, one operated by OPCOM and the other operated by the Romanian Commodities Exchange.

## *Agriculture, Forestry and Fisheries*

Agriculture is an essential part of the national economy with significant economic and social importance. According to the latest Romanian Statistical Yearbook, Romania's aggregate agricultural area in 2014 represented approximately 14.6 million hectares or 61.4 per cent. of its total territory, of which arable land represented 64.2 per cent. of the total agricultural area. At the end of 2014, the total area covered by forests and other forest-like vegetation was 28.2 per cent. of the total land in Romania.



The oscillating performance of Romanian agriculture over the previous years is a direct result of the influence of weather conditions, in the context of the general absence of adequate technical facilities such as irrigation systems. Another factor contributing to poor results in agriculture is the fragmentation of agricultural lands, which makes irrigation, the use of large-scale mechanised equipment or the application of remedies more difficult.

According to the data released by National Institute of Statistics, as part of the Structural Survey in Agriculture 2013, the number of very small agricultural holdings (less than 1 hectare of utilised agriculture land) diminished in 2013, as compared with 2010, with approximately 76 thousand agricultural holdings, representing 54.5 per cent. of the total number of agricultural holdings. These small holdings represent only 5.0 per cent. of total utilised agricultural land. In 2013, compared to 2010, large agricultural holdings (*ie* those over 50 hectares of agricultural land) represented 0.6 per cent. of the total number of agricultural holdings, but represented 52.1 per cent. of the total utilised agricultural land.

The following table shows percentage changes in the agricultural production by type (excluding forestry) for 2012, 2013 and 2014:

**Agricultural Production<sup>(1)</sup>**

|                       | <b>2012</b>  | <b>2013</b> | <b>2014</b> |
|-----------------------|--|-------------|-------------|
|                       | <i>(percentage change against the previous year)</i> |             |             |
| Crop production       | (30.6)   | 38.8        | 2.9         |
| Livestock             | (0.6)  | (0.3)       | 2.5         |
| Agricultural services | (4.8)  | 32.4        | 24.3        |
| <b>Total</b>          | <b>(21.9)</b>  | <b>24.5</b> | <b>2.9</b>  |

Notes:

(1) According to the Eurostat methodology on "Economic Accounts for Agriculture"

Source: National Institute of Statistics; Eurostat

According to the data from the 2014 Romanian Statistical Yearbook, in 2013 as compared with 2012, the production of cereals for grains recorded the following increases: the production of maize and sorghum increased by 89.54 per cent., the production of barley and two-row barley increased by 56.3 per cent., the production of wheat increased by 37.7 per cent. and the production of rye increased by 30.6 per cent. In 2013 the production of sun-flower and soya beans increased by 53.2 per cent. and 43.7 per cent. respectively, as compared with 2012. In 2013, sugar beet production increased by 43.0 per cent. and potatoes production rose by 33.4 per cent., as compared to 2012.

According to data from the National Institute of Statistics, in 2014 the production of wheat increased by 4.0 per cent. compared to 2013, while harvested production of barley and two-row barley increased by 11.0 per cent. The production of rape for oil increased by 59.0 per cent., as compared to 2013. The production of maize grains increased by 6.0 per cent., soya beans production increased by 35.4 per cent., sugar beet production increased by 35.9 per cent. and sun-flower production increased by 2.2 per cent., as compared to 2013.

According to the latest provisional data released by the National Institute of Statistics, crop production decreased for most crops in 2015 mainly due to unfavourable weather conditions. In 2015, as compared with 2014, sugar beet production decreased by 27.9 per cent., maize production decreased by 26.0 per cent., potatoes production decreased by 21.0 per cent., sunflower production decreased by 19.7 per cent., rape production decreased by 9.4 per cent., barley and two-row barley production decreased by 7.6 per cent., oats production decreased by 4.7 per cent. and vegetables production decreased by 4.3 per cent. Some crops have recorded increases of production, as follows: wheat production increased by 3.5 per cent., dried pulses production increased by 7.0 per cent. and soya beans production increased by 29.1 per cent., as against 2014.

Romania has enacted various laws supporting the concentration of agricultural enterprises, the establishment of commercial undertakings, and the promotion of access to financing secured by agricultural property. The law regarding registration of land was also amended to centralise land title registration. These actions were accompanied by measures to assist the goal of restoring properties appropriated by the State during the communist era. Such measures primarily involve accelerating property litigation through expedited procedures and allowing the voluntary merger of land holdings.

In 2013, the Romanian Government supported the agricultural sector through various measures, such as reducing the excise duty for fuel used in agriculture (amounting to RON 76.6 million), providing complementary direct payments

in the livestock sector (amounting to RON 1.1 billion) and certain direct payment schemes (amounting to RON 5.92 billion), supporting the payment of insurance premiums and compensating for damage caused by pests or by unfavourable weather conditions.

In 2014, the Romanian Government supported the agricultural sector through various measures, such as providing complementary direct payments in the livestock sector (amounting to RON 927 million) and certain direct payment schemes (amounting to RON 6.47 billion), supporting the payment of insurance premiums and compensating for damage caused by plant disease or by unfavourable weather conditions.

In 2015, the subsidies granted from the state budget amounted to approximately RON 2.51 billion. The Romanian Government supported the agricultural sector through various measures, such as: aid granted to farmers for diesel excise duty (amounting to RON 539.4 million); aid granted to compensate the damages incurred as a result of the unfavourable weather conditions of April-September 2015 (amounting to RON 295.6 million); *de minimis* state aid for hydro-meteorological phenomena (floods or droughts) and ecological agriculture (amounting to RON 36.1 million); transitory state aid for the livestock and vegetable sector (amounting to RON 1.56 billion) and other subsidies supporting the payment of insurance premiums and animal breeding.

### **Construction**

In 2013, the volume of construction works (unadjusted series) dropped by 0.6 per cent. as compared to 2012. Capital repair works increased by 27.5 per cent. and maintenance and current repair works increased by 12.7 per cent., while new construction works declined by 9.4 per cent. compared to 2012. The volume of residential buildings and civil engineering grew by 5.4 per cent. and 1.4 per cent., respectively, while the volume of new non-residential buildings decreased by 7.5 per cent. compared to 2012.

In 2014, the volume of construction works in Romania declined by 6.7 per cent. as compared to 2013. This reduction was caused by the reduction in capital repair works by 17.9 per cent., in maintenance and current repairs works by 9.0 per cent. and in new construction works by 3.2 per cent. The two primary types of construction had divergent developments in 2014. While the volume of buildings under construction grew by 21.3 per cent., civil engineering reduced its volume by 21.8 per cent.

In 2015, the volume of construction works increased by 10.4 per cent., as compared to 2014. Capital repair works increased by 31.8 per cent., maintenance and current repairs works increased by 13.3 per cent. and new construction works increased by 5.2 per cent. By type of construction, the volume of construction work increased for civil engineering works by 20 per cent. and for non-residential buildings by 1.1 per cent., while residential buildings registered a decrease in volume of 5.8 per cent.

In the first two months of 2016, as compared to the same period of the previous year, the volume of construction works increased by 4.3 per cent. Maintenance and current repairs works increased by 10.6 per cent, capital repair works increased by 4.2 per cent. and new construction works increased by 2.2 per cent. By type of construction, the volume of residential and non-residential buildings grew by 13.2 per cent. and 6.8 per cent., respectively, while the volume of civil engineering decreased by 0.4 per cent.

The following table shows the percentage change in the construction sector for 2013, 2014, 2015 and for the first two months of 2016:

|   | 2013   | 2014   | 2015  | Jan-Feb 2016  |
|---|--|--------|-------|---------------|
|   | <i>(percentage change against the previous year)</i> |        |       |               |
| Construction Works                      | (0.6)  | (6.7)  | 10.4  | 4.3           |
| <i>of total by structural elements:</i> |  |        |       |               |
| New construction works                  | (9.4)  | (3.2)  | 5.2   | 2.2           |
| Capital repair works                    | 27.5   | (17.9) | 31.8  | 4.2           |
| Maintenance and current repairs works   | 12.7   | (9.0)  | 13.3  | 10.6          |
| <i>of total by type of construction</i> |  |        |       |               |
| a) Buildings                            | (4.1)  | 21.3   | (1.1) | Not available |
| Residential buildings                   | 5.4  | 32.6   | (5.8) | 13.2          |

|                           |       |        |      |       |
|---------------------------|-------|--------|------|-------|
| Non-residential buildings | (7.5) | 16.6   | 1.1  | 6.8   |
| b) Civil engineering      | 1.4   | (21.8) | 20.0 | (0.4) |

Source: National Institute of Statistics

In 2013, the number of finalized dwellings decreased by 1 per cent., as compared to 2012, amounting to 43,587 units, of which 52.9 per cent. were erected in rural areas. In 2014, 44,984 dwellings went into use, an increase of 1,397 units, as compared to the previous year. In 2015, 47,017 dwellings were finalized, an increase of 2,033 units as compared to 2014.

In 2013 as compared to the previous year, the number of building permits issued for buildings decreased by 0.2 per cent, amounting to 37,776 units. In 2014 as compared to the previous year, the number of building permits issued for buildings decreased by 0.3 per cent., amounting to 37,672 units; 62 per cent. of the building permits were issued for buildings in rural areas. In 2015, the number of building permits issued for buildings increased by 3.1 per cent., amounting to 39,112 units, as compared to 2014. In the first two months of 2016, 3,938 building permits were issued for residential buildings, representing 0.4 per cent. increase compared to the same period of the previous year.

### Services

In 2013, GVA in the services sector grew by 1.4 per cent. By sub-sectors the developments were: decreases in both "Trade, hotels and restaurants, transport and communications" and "Other service activities" of 5.5 per cent. and 6 per cent. respectively, and an increase in "Financial, real-estate, renting and business services" of 16.5 per cent.

In 2014, GVA in the services sector increased by 2.5 per cent. compared to 2013. Increases were recorded in all sub-sectors, including 4.0 per cent. in "Trade, hotels and restaurants, transport and communications", 1.4 per cent in "Financial, real-estate, renting and business services" and 1.6 per cent. in "Other service activities".

In 2015, GVA in the service sector increased by 4.7 per cent., compared to 2014. All sub-sectors recorded increases, including 7.7 per cent. in "Trade, hotels and restaurants, transport and communications", 2.9 per cent. in "Financial, real-estate, renting and business services" and 2.4 per cent. in "Other services activities".

### Energy

For 2013, 2014, 2015 and the first two months of 2016, the primary energy resources that together comprise Romania's domestic production were

|   | 2013                               | 2014         | 2015         | Jan-Feb<br>2016 |
|---|------------------------------------|--------------|--------------|-----------------|
|   | <i>(share of total, per cent.)</i> |              |              |                 |
| Net coal .....  | 18.0                               | 16.9         | 21.2         | 23.0            |
| Crude oil .....   | 15.6                               | 15.0         | 17.0         | 15.9            |
| Usable natural gas .....  | 33.6                               | 33.6         | 38.8         | 38.0            |
| Hydroelectric, wind and photovoltaic energy and nuclear electric energy ..... | 17.8                               | 19.7         | 23.0         | 23.1            |
| Others .....  | 15.0                               | 14.8         | -            | -               |
| <b>Total</b> .....  | <b>100.0</b>                       | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>    |

Note:

(1) Data for 2015 and the first 2 months of 2016 is based on the share of main primary energy resources.

Source: National Institute of Statistics

In 2013, the primary energy resources amounted to the equivalent of 39.2 million tons of oil equivalent, representing a 6.0 per cent. decrease compared to 2012. In this period, 65.9 per cent. of the total amount was generated by domestic production, 25.5 per cent. was generated from imports, and the remainder represented stock.

The domestic production of primary energy resources decreased in 2013 by 4.6 per cent. compared to the previous year. Net coal production and natural gas production decreased by 26.6 per cent. and 0.9 per cent., respectively. Domestic production of hydroelectric, wind, photovoltaic and nuclear energy and domestic production of crude oil increased in this period by 11.9 per cent. and 3.5 per cent., respectively.

In 2013, the total imports of primary energy resources decreased compared to 2012 by 14.0 per cent. The reduction have been recorded in case of electricity imports (-67.8 per cent.), usable natural gas (-49.3 per cent.), coal (-22.4 per cent.) and petroleum products (-15.7 per cent.). The crude oil imports increased by 3.3 per cent.

In 2014, the primary energy resources amounted to the equivalent of 40.2 million tons of oil equivalent, representing a 2.5 per cent. increase compared with 2013. Over this period, 65.4 per cent. of the total amount was generated by domestic production, 26.7 per cent. was generated from imports and the remainder represented stock.

In 2014, the domestic production of the main primary energy resources increased by 1.8 per cent. compared to the previous year. Domestic production of hydroelectric and nuclear energy and domestic production of natural gas increased in this period by 13.2 per cent. and 1.9 per cent., respectively. Net coal production and crude oil production decreased by 4.5 per cent., respectively by 1.9 per cent.

The imports of the main primary energy resources increased by 7.6 per cent. Imports of electricity and crude oil increased by 138.5 per cent. and 27.0 per cent., respectively. The import of natural gas and net coal decreased by 60.0 per cent. and 16.2 per cent. respectively, while the import of petroleum products increased by 2.5 per cent.

In 2015, the main primary energy resources amounted to 32.9 million tons of oil equivalent, representing a 2.0 per cent. increase, compared to 2014. During this period, 67.1 per cent. of the total amount was generated by domestic production, while 32.9 per cent. was generated from imports.

In 2015, the domestic production of the main primary energy resources increased by 0.7 per cent. compared to the same period in 2014 and the domestic production of coal and hydroelectric and nuclear energy increased by 6.3 and 1.0 per cent. respectively.

In the first two months of 2016, the main primary energy resources amounted to 5.5 million tons of oil equivalent, representing a 1.6 per cent. increase, compared to the same period in 2015. Over this period, 68.3 per cent. of the total amount was generated by domestic production, while 31.7 per cent. was generated from imports.

In the first two months of 2016, the domestic production of the main primary energy resources decreased by 0.8 per cent. compared to the same period of 2015 and the domestic production of coal increased by 4.3 per cent.

### **Electricity**

The structure of the sources of electricity production for 2013, 2014, 2015 and the first two months of 2016 is as follows:

|   | <b>2013</b>                        | <b>2014</b>  | <b>2015</b>  | <b>Jan-Feb 2016</b> |
|---|------------------------------------|--------------|--------------|---------------------|
|   | <i>(share of total, per cent.)</i> |              |              |                     |
| Electricity produced in thermo-power stations     | 45.9                               | 40.9         | 43.1         | 45.2                |
| Electricity produced in hydropower stations       | 26.0                               | 29.4         | 25.4         | 23.2                |
| Electricity produced in wind power stations       | 7.7                                | 9.4          | 10.8         | 12.8                |
| Electricity produced in nuclear-electric stations | 19.7                               | 17.8         | 17.7         | 17.3                |
| Electricity produced in photovoltaic sun stations | 0.7                                | 2.5          | 3.0          | 1.5                 |
| <b>Total</b>                                      | <b>100.0</b>                       | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>        |

Source: National Institute of Statistics

In 2013, electricity production was 58.9 TWh, a decrease of 0.3 per cent. compared with 2012. The production of electricity from thermo-power stations decreased in this period by 17.1 per cent. The electricity produced by wind-power plants increased by 71.2 per cent., while electricity produced by hydro-power stations and nuclear power plants increased by 24.1 per cent. and 1.3 per cent., respectively. In this period classic thermo-power stations had the largest share within the total electricity production (45.9 per cent.), followed by hydro-power, wind power and photovoltaic sun stations (34.4 per cent.) and nuclear-electric stations (19.7 per cent.). In 2013, total electricity consumption decreased by 4.8 per cent. Electricity exports increased in this period by 114.6 per cent., from 1,148.7 million KWh in 2012 to 2,465.9 million KWh in 2013.

In 2014, electricity production was 65.7 TWh, representing an increase of 11.5 per cent. compared to 2013. The electricity produced in hydro-power stations and wind-power stations increased by 25.9 per cent., and 37.2 per cent. respectively. The production achieved by nuclear power plants increased by 0.5 per cent. The production of electricity from thermo-power stations decreased in this period by 0.4 per cent. Hydro-power, wind-power and photovoltaic

sun stations had the largest share of total electricity production (41.3 per cent.), followed by classic thermo-power stations (40.9 per cent.) and nuclear-electric stations (17.8 per cent.). In 2014, final electricity consumption increased by 3.2 per cent. Electricity exports increased by 232.1 per cent., from 2,465.9 million KWh in 2013 to 8,189.6 million KWh in 2014.

In 2015, electricity production was 65.6 TWh, representing a decrease of 0.1 per cent., as compared to 2014. The electricity generated in wind power stations and photovoltaic sun stations increased by 49.1 per cent. and 53.4 per cent. respectively. The electricity generated in thermo-power stations increased by 6.2 per cent. The production of hydropower stations and nuclear electric stations decreased by 12.2 per cent. and 0.3 per cent. respectively. Final electricity consumption increased by 6.0 per cent. The export of electricity rose by 28.1 per cent., from 8,199.9 million KWh in 2014 to 10,503.7 million KWh in 2015.

In the first two months of 2016, electricity production was 11.6 TWh, representing an increase of 1.1 per cent., as compared to the same period of 2015. The electricity generated in photovoltaic sun stations, wind-power stations and thermo power stations increased by 24.9 per cent., 16.5 per cent. and 7.4 per cent. respectively. The electricity generated in hydro-power stations decreased by 15.4 per cent. Final electricity consumption increased by 5.8 per cent. The export of electricity decreased by 9.3 per cent., from 1706.6 million KWh in the first two months of 2015 to 1548.3 million KWh in the same period of 2016.

In line with EU requirements, changes to energy legislation set out a calendar for the liberalisation of electricity prices. Liberalisation started on 1 September 2012 in respect of non-households and at 1 July 2013, respectively, in respect of household consumption (to be completed on 31 December 2017). As at 1 January 2014, the market for non-household energy consumption was fully liberalised. The timetable for such liberalisation has been created with the aim to ensure price protection for vulnerable end-users and affordable price levels.

### ***Electricity Market***

Romania has a balanced portfolio of electricity generation capacities comprising hydro, nuclear, coal and natural gas-fired power plants, with renewable growing rapidly, being a net exporter of electricity.

The Romanian electricity market was fully liberalised on 1 July 2007. However, in practice, a large regulated electricity supply market continued to exist thereafter. Currently, electricity is supplied under two systems: the regulated market, which covers households and part of the industrial sector and the competitive market, mainly represented by large industrial consumers. In 2015, the process of liberalization of the electricity market for non-household consumers and the implementation of the timetable for eliminating regulated prices for non-household consumers of electricity was completed. Pursuant to the Electricity and Natural Gas Law, the liberalization process for household consumers will be completed by 31 December 2017. Starting with 1 July 2015, 50 per cent. of the total energy used by household consumers is on free market prices, while 50 per cent. has a price regulated by ANRE decision.

Starting with the date of entry into force of the Electricity and Natural Gas Law, the structure of the wholesale market has substantially changed due to the introduction of the obligation to sell electricity through public, centralized, non-discriminatory and transparent transactions. Thus, transactions between participants in the wholesale electricity market are concluded exclusively as a result of participation on one of OPCOM S.A.'s ("**OPCOM**") platforms, including the centralised bilateral contracts market (comprising two trading platforms - the centralised bilateral contracts market with continuous negotiation (PCCB-NC), and the centralised bilateral contracts market with extended auctions mechanism (PCCB-LE)), the Day-Ahead Market (PZU), the Intraday Market and the centralised market with double continuous negotiation for electricity bilateral contracts (CM-OTC).

The participants to the CM-OTC trade based on bilateral power contracts agreed before participating to the trading and based on the European Federation of Energy Traders' standard contract. Each participant has to prepare its eligibility list including currently at least eight participants on the market eligible as potential counterparties for entering into transactions and concluding agreements. The eligibility lists are published with OPCOM and may be updated by the participants.

The Romanian electricity market is currently integrated in the Single European Market, thus increasing the expectations of an improved liquidity in the wholesale electricity market in the near future. The "4M Market Coupling" (respectively the price coupling of the day-ahead markets from Romania, Hungary, Slovakia and Czech Republic) was launched in November 2014 as an intermediate step towards the Single European Market.

Investments in the generation of electricity from renewable energy sources ("**E-RES**") are supported by a scheme for the promotion of electricity produced from renewable energy sources based on mandatory quotas and green certificates trading. The implementation of the green certificates scheme led to the commissioning of approximately 3,937 MW of E-RES capacities (wind, solar, biomass and new micro-hydro) from the total of 4,349 MW of E-RES

accredited capacities by December 2013, which triggered an increase of the obligation of electricity suppliers to purchase green certificates. The cost of the green certificates was transferred to the electricity bills of electricity consumers (either individual or industrial). In reaction to the resulting considerable increase of electricity prices and in line with developments in other EU countries, Romania analysed and implemented structures for decreasing the support granted to E-RES producers. Thus, the trading of a certain number of green certificates per MWh of electricity produced by new micro- hydro, wind and solar capacities has been deferred until 2017 for producers licensed until 31 December 2013.

In addition, the number of green certificates made available for generation facilities licensed as E-RES producers after 1 January 2014 was reduced (from 6 to 3 certificates per MWh for solar projects, from 2 to 1.5 certificates per MWh until 2017, respectively from 1 to 0.75 starting with 2018 for wind projects and from 3 to 2.3 certificates per MWh for qualifying hydro-power projects). In addition, industrial consumers of electricity may apply for exemptions from the obligation to purchase green certificates, which results in a lower aggregate demand. The consequence of the revision of the legislation promoting renewable energy resources was a decrease of investments in renewable energy capacities. By December 2014, there were accredited E-RES capacities (wind, solar, biomass and micro-hydro) totalling approximately 4,450 MWh (including E-RES capacities with interrupted accreditation), while in December 2015 these reached approximately 4,662 MWh.

### ***Restructuring and Investment***

The Government intends to restructure the energy sector with the aim of increasing production efficiency, in line with the common energy policy at EU level.

The main objectives of Government policy in respect of the energy sector are ensuring security of supply, the increase of energy efficiency and the use of renewable energy sources. Romania enjoys a greater degree of security of energy supply than other countries in the region as it is less reliant upon imports for its energy needs (due to its reserves of hard coal and lignite, oil and natural gas) and its integrated power infrastructure which allows domestic electricity production to be flexibly switched between sources. Romania is diversifying the routes and sources of natural gas supply and is looking to exploit domestic renewable energy sources and domestic coal in order to reduce its energy dependency on imports.

Romania has made progress with its reform agenda for state-owned energy companies, in line with the restructuring plans discussed with the IMF, the European Commission and the World Bank.

The most important investment projects being promoted by the Government in the energy sector include:

- The construction of two additional nuclear units (3 and 4) at the Cernavoda power plant, in a consortium with private investors (Romania already has two nuclear facilities with an aggregate capacity of 1,400 MW);
- The development of *greenfield* and *brownfield* projects by Romanian producers using fossil fuels (including a new core unit of minimum 500 MWh at Electrocentrale Rovinari - Complexul Energetic Oltenia);
- The Tarnita-Lapustesti pump storage hydroelectric power plant, with a capacity of 1,000 MW;
- The Azerbaijan-Georgia-Romania natural gas transport system known as the "AGRI" project.

The AGRI project continues to be a priority for the Ministry of Energy. The feasibility study performed in relation to the AGRI project highlighted its profitability. The Ministry of Energy believes that the AGRI project is in line with the intentions of the European Commission, as highlighted in the Strategy for liquified natural gas and gas storage.

The Romanian natural gas transportation network was connected to Hungary's transportation network and indirectly with the EU natural gas transportation network in 2010. The physical reverse flow capacity at Csanadpalota interconnection point, from 1 November 2014, is 50,000 c.m./h (10,000 c.m./h firm capacity and 40,000 c.m./h interruptible capacity). Romania plans to connect its natural gas transportation network with Bulgaria, Serbia and the Republic of Moldova. A first step towards interconnecting with Moldova was made in August 2014, through the inauguration of the Iasi-Ungheni 42 km long pipeline. There are ongoing interconnection projects which will allow bi-directional flows at the interconnections with Hungary and Bulgaria: (i) the Interconnection between Romania and Hungary (Arad-Szeged), where additional technical developments of both the Romanian and Hungarian gas transport systems are necessary to reach the maximum bi-directional capacity of 4.4 b.c.m./year ; (ii) the Interconnection between Romania and Bulgaria (Giurgiu-Ruse) is designed to have reverse flow. Due to economic feasibility grounds, the deadline for implementing the maximum bidirectional flow for both interconnections has been set for the end of 2019.

Projects for the construction of natural gas storage facilities are, at the date of this document, under development, aiming at storing natural gas in areas with large consumers or with large variations of natural gas consumption.

## Transportation

The following table shows the percentage change in the transport of passengers as compared to the previous year for 2013, 2014 and 2015:

|  | Change in Passengers Transported According to Modes of Transport |      |        |
|--|--|------|--------|
|  | 2013   | 2014 | 2015   |
|  | <i>(percentage change against the previous year)</i>             |      |        |
| 1. Interurban and international transport <sup>(1)</sup> | 3.6  | 4.6  | (0.9)  |
| (i) Railway  | (0.2)  | 12.8 | 2.7    |
| (ii) Road  | 4.6  | 2.8  | (2.3)  |
| (iii) Inland waterways                                   | 17.2   | -    | -      |
| (iv) Air   | (0.2)  | 8.3  | 14.5   |
| (v) Maritime   | 61.2   | 27.8 | (48.4) |
| 2. Urban transport total                                 | 0.7  | 12.2 | -      |

Note:

(1) Cruise passengers excursions – inwards included

Source: National Institute of Statistics

In 2013, inter-city and international transport of passengers increased by 3.6 per cent. as compared to the previous year, mainly due to an increase of maritime transport (61.2 per cent.), inland waterways transport (17.2 per cent.) and road transport (4.6 per cent.). Air transport of passengers decreased in 2013 by 0.2 per cent. Urban transport increased by 0.7 per cent.

In 2014, the inter-city and international transport of passengers increased by 4.6 per cent. as compared to the previous year, due to increases in maritime transport (27.8 per cent.), railway transport (12.8 per cent.) and air transport (8.3 per cent.). Urban transport registered an increase of 12.2 per cent. as compared to 2013.

In 2015, inter-city and international transport of passengers decreased by 0.9 per cent., as compared to the previous year, mainly due to the decreases of maritime transport (48.4 per cent.) and road transport (2.3 per cent.). Air transport increased by 14.5 per cent. and railway transport increased by 2.7 per cent.

The following table shows the percentage change in goods transported as compared to the previous year for 2013, 2014 and 2015:

**Change in Goods Transported According to Modes of Transport**

|                                      | 2013   | 2014  | 2015 |
|--------------------------------------|--|-------|------|
|                                      | <i>(percentage change against the previous year)</i> |       |      |
| Good transport - total               | 0.2  | 0.6   | 4.9  |
| 1. Railway                           | (9.7)  | 0.8   | 9.0  |
| 2. Road                              | 1.6  | (0.3) | 4.0  |
| 3. Maritime                          | 10.4   | 0.4   | 1.8  |
| 4. Inland waterways                  | (3.9)  | 3.6   | 7.9  |
| 5. Air                               | 7.8  | 1.9   | 6.5  |
| 6. Transport via petroleum pipelines | (2.5)  | 13.2  | 4.7  |

*Source: National Institute of Statistics*

Goods transport increased in 2013 by 0.2 per cent. as compared to the previous year. The most significant increases were recorded in maritime transport (10.4 per cent.) and air transport (7.8 per cent.). The other means of goods transport registered decreases: railways transport (9.7 per cent.), inland waterways transport (3.9 per cent.) and transport via petroleum pipe lines (2.5 per cent.) or experienced little growth (road transport 1.6 per cent.).

In 2014, goods transport increased by 0.6 per cent. as compared to the previous year, due to increases of transport via petroleum pipelines (13.2 per cent.), inland waterways transport (3.6 per cent.) and air transport (1.9 per cent.). The only mean of goods transport to register a decrease as compared to the previous year was road transport (0.3 per cent.).

In 2015, goods transport increased by 4.9 per cent. All means of goods transport registered growth as compared to the previous year: railway transport (9.0 per cent.), inland waterways transport (7.9 per cent.), air transport (6.5 per cent.), transport via petroleum lines (4.7 per cent.), road transport (4.0 per cent.) and maritime transport (1.8 per cent.)

### ***Infrastructure Development***

The Romanian Government is dedicated to making significant investments in infrastructure-related projects in order to improve the country's poor infrastructure system. The main areas of infrastructure development to which the Romanian Government has committed funds (which include projects that have been or may be developed in partnership with the private sector) include: constructing and modernising roads and motorways, modernising national railways, constructing and/or rehabilitating navigation facilities, inland waterways, river navigation monitoring systems and modernising ports and airports.

Romania's main objectives in the transport infrastructure sector are to implement the Trans-European Transport Network ("**TEN-T**") policies with the support of EU financial instruments, further to investments made within the SOP Transport 2007-2013 (under the Convergence objective) by ESIF allocated within the Large Infrastructure Operational Programme 2014-2020, the TEN-T programme (continued through the Connecting Europe Facility, granting of Community financial aid in the field of the trans-European transport, energy networks and digital services), EIB's loans and credit guarantees. Romania's main objective is to develop a sustainable transport system by means of modernising and developing the road, rail, naval, air infrastructures as well as the duane infrastructure and facilitating intermodal connections, while emphasizing environmental protection, public health and passenger safety.

As established within the Partnership Agreement, the main development needs for the 2014-2020 period in the transport sector are aimed at improving the accessibility in Romania and in its regions and their connectivity, as well as at improving the governance of the sector and the sustainability of Romania's transport mix together with increasing the attractiveness of alternatives to road-based transport.

The memorandum approving the General Transport Master Plan of Romania ("**GTMP**") and mandating the Ministry of Transport to transmit it to the European Commission was approved on 25 February 2015 and the final version of the plan was approved by the European Commission in July 2015. The domestic official approval for GTMP is expected to be in the form of a law passed by the Parliament. It is expected that the proposed law will enter into Parliamentary debate at the end of May 2016. The GTMP is a strategic document that is intended to give a clear strategy for the



development of Romania's transport sector over the long-term and to provide implementable solutions for its existing transport problems, therefore its creation, as well as the corresponding implementation strategy has been a complex process of defining, planning and prioritising infrastructure projects. In the short term, the "Transport Strategy" as presented in the GTMP envisages the finalization of infrastructure projects started in the EU funds 2007-2013 programming period, as well as the preparation of the new investments for the 2014-2020 programming period. The GTMP budgeted approximately EUR 3 billion for all such transport sector projects. In 2016-2017, the Ministry of Transport ("MT") expects to spend an amount of approximately EUR 1.4 billion, 75 per cent. of which will be covered by the EU funds while 25 per cent. will be covered by national contribution.

Another objective of Romania's transport policy is to ensure the efficient management of European funds that may be accessed in the transport sector. For the 2007-2015 implementation period, 136 projects financed from EU Structural Funds under the SOP Transport were contracted as at the end of December 2015. 30 transport projects that had not been finalised by 31 December 2015 have been split into two phases and the second phase (with a total budget of EUR 2.3 billion) would be financed from the Large Infrastructure Operational Programme 2014-2020. At the end of 2015, the following principal goals were achieved through implementing projects co-financed by EU funds within the SOP Transport 2007-2013: 575 kilometres of TEN-T roads, of which 286 kilometres of motorways; 127 kilometres of TEN-T rehabilitated/modernised railways; 14 modernised rail stations and 6 rehabilitated bridges, and 125 kilometres of TEN-T inland waterways opened for navigation. In addition, 8 airports and 5 ports were financed for the implementation of infrastructure projects along with 12 traffic safety projects and 6 environmental protection projects.

#### *Railways*

Romania aims to modernize approximately 353 kilometres of railways, 150 kilometres of which were completed by the end of 2015, 62 kilometres are currently undergoing modernization and the remaining 141.5 kilometres currently scheduled for rehabilitation works. Of the 15 railway stations in the modernisation programme, 12 are complete and another 3 railway stations are expected to be completed in 2016. Modernisation plans also include rehabilitating a total of 98 railway bridges, culverts and tunnels. 8 structures (4 bridges, 3 culverts and 1 tunnel) were rehabilitated at the end of 2015 and 54 other structures are currently in different phases of construction. For the remaining 36 railway structures, the public tender procedures are in the evaluation phase or undergoing.

#### *Air*

Investments have also been allocated to continue the expansion of the Otopeni International Airport near Bucharest and to finalise, in 2016, the modernization of four other airports (Craiova, Satu-Mare, Baia-Mare and Tulcea). In 2015, the modernization of the Suceava, Constanta, Iasi and Oradea airports was completed.

#### *Waterways*

At the end of 2015, four infrastructure projects related to maritime and inland waterway transport were completed at the Port of Constanta. These projects included the extension of the North breakwater, the construction of a new bridge over the Danube – Black Sea Canal and the development of railway capacity. For the ports on the Danube, infrastructure projects are being developed with the goal of enhancing access to such ports and improving related infrastructure. During 2015, in order to improve the navigation on the Danube River, two projects were submitted and approved under the CEF programme: "*FAST Danube – Improvement of the navigation conditions on the Romanian – Bulgarian common sector*" and "*FAIRWAY – Implementation of the Master Plan for Rehabilitation and Maintenance on the Danube River and its tributaries*", an initiative developed under the European Union Strategy for the Danube Region.

#### *Roads*

At the end of 2014, authority over the National Company for Motorways and National Roads was transferred to the Ministry of Transport from the Department for Infrastructure Projects of National Interest and Foreign Investments.

As at April 2016, several sections of motorways aggregating 270.66 kilometres were in different stages of construction. Tender procedures were on-going at different stages for the construction of 192.29 kilometres of motorway and the contracts for the revision of the feasibility studies were signed for another 361.71 kilometres.

Rehabilitation, construction and modernisation of national roads were also carried out in 2016. As of April 2016, 845.5 kilometres of national roads were under construction, with financing from the EIB, ERDF and the state budget.

The EU-funded motorway Sibiu-Orastie, inaugurated in November 2014, was partially closed in September 2015 due to deficiencies in the surface of the asphalt. A decision has been made to demolish the affected segment of the motorway and re-build it.

## ***Inflation***

After staying above 5 per cent. throughout the first half of 2013 (5.37 per cent. in June) following the food and energy price increases during September 2012-January 2013, annual consumer price index ("CPI") inflation fell markedly in the second part of 2013. Specifically it reached 1.6 per cent. in December 2013, thus entering the lower half of the  $\pm 1$  percentage point variation band around the 2.5 per cent. central target. The major drivers of disinflation were the low food prices following the good harvest and the cut in the VAT rate for flour, bread and other bakery products from 24 per cent. to 9 per cent. as of 1 September. Disinflation was also supported by the abating tensions on the global oil markets, the persistent negative output gap and the appreciation of the RON versus the major currencies. The latter two factors, along with the significantly higher food supply, lower inflation expectations and the VAT rate cut, explain the sharp reduction in core inflation. Adjusted CORE2 inflation rate dropped to minus 0.15 per cent. in December 2013 from 3.25 per cent. in December 2012, one third of this reduction being caused by the VAT rate cut.

The annual CPI inflation rate stayed on a general downward trend in 2014, falling to 0.83 per cent. in December and remained below the variation band of the inflation target in the first quarter of 2015, reaching 0.79 per cent. in March 2015. Apart from the persistence of the negative output gap and steadily improving inflation expectations, the continued disinflation was prompted by the sharp decline in the oil prices starting in the second half of 2014, the good harvest and the oversupply on the domestic market due to Russia's ban on fruit and vegetables from European countries. The negative annual rates of the adjusted CORE2 inflation up to August 2014 reversed in September to reach 1 per cent. (as a result of the VAT rate cut effect no longer having an impact) and hovered around this level until January 2015. As a result of a stronger RON, negative inflation in the eurozone and the effects of the oil price decline working through the economy, annual core inflation decreased further to 0.8 per cent. in February and March 2015.

The annual CPI inflation rate stayed below the inflation target until June 2015, when it fell sharply into negative territory due in significant part to the impact of extending the reduced VAT rate (9 per cent.) to all food items, non-alcoholic beverages and public food services. The CPI inflation rate reached a low of negative 1.87 per cent. in August 2015. However, by December 2015, the negative CPI inflation annual rate recovered somewhat to negative 0.9 per cent. Beyond the statistical effect induced by the contractions in global oil prices, the upward trend in inflation was driven by higher agricultural prices (as a result of below average harvests), the weaker RON and also by the increase in aggregate demand in the second part of the year.

In the first quarter of 2016, the annual CPI inflation dropped to negative 3 per cent., due to further reduction in indirect taxes, with the standard VAT rate being cut from 24 per cent. to 20 per cent. in January 2016. The underlying CPI measure (adjusted for the VAT cuts) followed a downward trend as well, given the stronger domestic currency and low commodity prices. However, CORE inflation (adjusted for VAT cuts) increased from an average of around 1 per cent. during 2015 to above 1.2 per cent. in the first months of 2016, reflecting the rapidly closing negative output gap.

The following table shows percentage changes in consumer prices for 2013, 2014, 2015 and the first three months of 2016:

|                               | <b>Increases in Consumer Prices</b>                  |             |             |                   |
|-------------------------------|--|-------------|-------------|-------------------|
|                               | <b>2013</b>  | <b>2014</b> | <b>2015</b> | <b>March 2016</b> |
|                               | <i>(percentage change against the previous year)</i> |             |             |                   |
| Food goods                    | 2.96   | (1.63)      | (3.80)      | (6.5)             |
| Non-food goods                | 5.19   | 2.45        | 0.93        | (0.44)            |
| Services                      | 3.19   | 3.16        | 2.04        | (0.04)            |
| <b>Total</b>                  | 3.98   | 1.07        | (0.59)      | (2.59)            |
| <b>End of Period Increase</b> |  |             |             |                   |
| Food goods                    | (1.81)   | (0.41)      | (6.20)      | (6.74)            |
| Non-food goods                | 3.62   | 1.25        | 1.95        | (0.91)            |
| Services                      | 3.43   | 2.25        | 2.41        | (0.47)            |
| <b>Total</b>                  | 1.55   | 0.83        | (0.93)      | (2.98)            |

Source: National Institute of Statistics

According to the latest NBR projection published on 10 May 2016, the annual CPI inflation rate is projected to reach 0.6 per cent. at the end of 2016 and 2.7 per cent. at the end of 2017. The trajectory of CPI inflation is expected to be markedly affected by the fiscal measures concerning the successive indirect tax cuts, each measure having a first-round effect on the annual inflation rate over a limited period of one year from its implementation and producing sharp shifts in the inflation path. Significant effects stem from: the two-step cut in the standard VAT by 4 percentage points rate from 24 per cent. to 19 per cent. as of 1 January 2016 and by another percentage point as of 1 January 2017; the broadening of the scope of the reduced VAT rates to certain types of goods and services as of 1 June 2015 (particularly food items) and 1 January 2016; and the removal of the special excise duty on fuels starting 1 January 2017. As a result, the CPI inflation rate is envisaged to post negative values until mid-2016 and witness two more, albeit less steep, shifts in its path, in January of 2017 and 2018 before rising to 3.3 per cent. at the end of the first quarter of 2018.

Annual adjusted CORE2 inflation rate is expected to remain in the proximity of its end-March level until May 2016, to stay just under 1 per cent. in the latter half of 2016, and subsequently embark on an upward trend, reaching 3.7 per cent. at the end of the first quarter of 2018. This evolution owes to stronger underlying inflationary pressures: an expected rise in excess demand after the reversal of the cyclical position of the economy in the second part of this year, along with the swifter increase in unit wage costs; the upward adjustment of inflation expectations, as first-round effects of VAT rate cuts fade out and second-round effects abate; and the gradually faster dynamics of import prices, reflecting the developments in external prices.

The inflation forecast is expected to differ from the baseline scenario provided some of the envisaged risks would materialize. These risks stem from both the domestic and the external environment. Domestically, risks surround the inconsistent implementation of an adequate macroeconomic policy mix and the possibility of delaying structural reforms, given the busy electoral schedule of 2016. As regards fiscal and income policies, the outlook reveals a number of risks: a possible additional worsening of the fiscal parameters following additional pay rises in the public sector, including those associated with the implementation of the unified wage law for the public sector; the risk that such additional increases might induce effects on private sector wage dynamics that would create an imbalance between pay rises and labour productivity gains, with unfavourable consequences on inflation. An additional risk source stems from the implementation of the Debt Discharge Law, given the uncertainty surrounding the assessment of its impact on the domestic macroeconomic environment in the baseline scenario.

Regarding the external environment, significant risks to the inflation outlook could arise from: the effects generated by the diverging monetary policy stances of the world's major central banks; the economic prospects for euro area countries and major emerging economies, China in particular; a possible exit of the United Kingdom from the European Union; and the management of the Greek sovereign debt over the long term. Should some of these risks materialise, Romania could be negatively impacted through the external demand coming from the EU, Romania's main trading partner, and the investors' confidence with respect to the developments on regional financial markets.

### **Wages**

The following table shows gross earnings for 2013, 2014, 2015 and the first two months of 2016:

|   | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Jan-Feb<br/>2016<sup>(1)</sup></b> |
|---|-------------|-------------|-------------|---------------------------------------|
| Average gross nominal monthly earnings (value in RON)                     | 2,163       | 2,328       | 2,560       | 2,691                                 |
| <i>(percentage change against the previous year)</i>                      | 4.8         | 7.6         | 8.5         | 12.0                                  |
| Average net nominal monthly earnings (value in RON)                       | 1,579       | 1,697       | 1,848       | 1,947                                 |
| <i>(percentage change against the previous year)</i>                      | 4.8         | 7.5         | 8.3         | 12.2                                  |
| <b>Real earnings</b> <i>(percentage change against the previous year)</i> | 0.8         | 6.4         | 8.9         | 14.9                                  |

Note:

(1) Percentage changes are against the provisional data from the same period of the previous year.

Source: National Institute of Statistics

Note: The figures for 2013 and 2014 are final data. The figures for 2015 and the first two months of 2016 are provisional data estimated by the National Commission for Prognosis based on monthly statistical data.

In 2013, the average gross earnings in the total economy increased by 4.8 per cent. as compared to 2012 to RON 2,163. The average net earnings increased by 4.8 per cent. In real terms, the real wage increased by 0.8 per cent. in 2013 as compared to 2012.

The average gross earnings in the public sector was RON 2,342, 12.9 per cent. higher than in 2012, while the average gross earnings in the private sector was RON 2,120, 2.9 per cent. higher than in 2012.

In 2014, the average gross earnings were at the level of RON 2,328, 7.6 per cent. higher than in 2013; the net average earnings have grown by 7.5 per cent., while real earnings went up by 6.4 per cent. as compared to 2013.

The average gross earnings in the public sector were RON 2,574, 9.9 per cent. higher than in 2013, while the average gross earnings in the private sector were RON 2,269, 7.0 per cent. higher than in 2013.

In 2015, the average gross earnings increased to RON 2,560, 8.5 per cent. higher than during 2014. Net average earnings grew by 8.3 per cent. and real wages increased by 8.9 per cent., compared to 2014. In the public and private sectors, average gross earnings reached RON 2,582 and RON 2,554, respectively.

The gross minimum wage was increased from 1 January 2015 to RON 975 and from 1 July 2015 to RON 1,050. The gross minimum wage was increased to RON 1,250, starting with 1 May 2016.

Between September and November 2015, the following salary increases for personnel paid from public funds were approved: (i) salaries paid to personnel in the public health system and personnel in the public social assistance system were increased by 25 per cent. starting in October 2015 and December 2015, respectively; (ii) salaries paid to personnel in the education system (teaching staff, auxiliary teaching staff and non-teaching staff) were increased by 15 per cent. starting in December 2015; and (iii) salaries paid to most other categories of personnel paid from public funds, including personnel in the local and central administration, were increased by 10 per cent. starting in December 2015, to the extent that such personnel did not receive other increases during 2015.

In the first two months of 2016 the average gross earnings increased to RON 2,691, 12 per cent. higher than during the same period of 2015. The net average earning grew by 12.2 per cent. and the real wage increased by 14.9 per cent., compared to the same period of 2015. In the public and private sectors, average gross earnings reached RON 2,975 and RON 2,622, respectively.

### ***Employment***

Romania's economy faced labour market adjustments as a result of the global financial and economic crisis. Romania's accession to the EU labour market led to increased labour mobility with free movement of Romanian workers to other EU Member States. Estimates indicate that approximately 2.5 million Romanian citizens work abroad, mostly in EU Member States; this labour force displacement has had a visible impact on the national labour market, as it has reduced the supply of skilled labour. The trends in the evolution of unemployment in Romania are determined by particularities of Romania's economic structure. The large proportion of the population living in rural areas, the relatively large share of the public sector, the size of the hidden economy and of the informal labour market and the significant number of daily workers are among the economic factors influencing the unemployment evolution. As a consequence, the unemployment reduction did not follow the trend of economic growth in the previous years.

The following table shows changes in labour force for 2013, 2014 and 2015:

### Labour Force<sup>(1)</sup>

|   | 2013   | 2014 | 2015  |
|---|--|------|-------|
|   | <i>(percentage change against the previous year)</i> |      |       |
| Active population <sup>(2)(3)</sup>                       | (0.2)  | 0.6  | (0.3) |
| Employment <sup>(2)</sup>                                 | (0.5)  | 0.9  | (0.2) |
| Employees   | 0.2  | 1.9  | 3.6   |
|   | <i>(per cent.)</i>                                   |      |       |
| Activity rate <sup>(2)(3)</sup>                           | 64.9   | 65.7 | 66.1  |
| Employment rate <sup>(2)</sup>                            | 60.1   | 61.0 | 61.4  |
| International Labour Organisation (ILO) unemployment rate | 7.1  | 6.8  | 6.8   |

#### Notes:

- (1) Data according to the 2011 Population Census and The Households Labour Force Survey (AMIGO)
- (2) Working age population (15 – 64 years old)
- (3) Total number of individuals who are either employed or are actively seeking employment

Source: National Institute of Statistics

In 2013, the employment rate for the working age population increased to 60.1 per cent. and further increased to 61.0 per cent. in 2014.

In 2013, given the increased participation in the labour market, a small increase of unemployment was registered and the unemployment rate (according to the International Labour Organization ("ILO") methodology) was 7.1 per cent. The positive economic evolution in 2013 and 2014 was also translated in the labour market and the unemployment rate registered a decreasing trend reaching 6.8 per cent. by the end of 2014. A similar value of 6.8 per cent. was reached by the end of 2015. The latest available provisional data indicates a seasonally adjusted unemployment rate of 6.5 per cent. in January and February 2016.

As at 31 December 2013 the registered unemployment rate was 5.7 per cent. and slightly decreased during 2014 to 5.3 at 31 December 2014 and the latest available data indicates a rate of 4.88 per cent. in November 2015 and 4.90 per cent. in December 2015, decreasing from 5.54 per cent. in January 2015.

#### As at 31 December

|                              | 2013 | 2014 | 2015 |
|------------------------------|------|------|------|
|                              | %    |      |      |
| Registered Unemployment Rate | 5.7  | 5.3  | 4.90 |

Source: National Institute of Statistics

The number of active individual employment contracts concluded for an unlimited duration registered with the relevant authorities was of 5,178,501, as at 31 December 2013 and of 5,342,159, at 31 December 2014. The number of active individual employment contracts concluded for an unlimited duration registered at 31 December 2015 was 5,591,864. At 31 March 2016, the number of registered active individual employment contracts concluded for an unlimited duration is 5,656,379.

The relaxation of the rules applicable to active individual employment contracts for limited duration led to the increase of the number of active individual employment contracts for limited duration from 435,557 at 31 December 2013, to 482,423 at 31 December 2014 and to 501,782 at 31 December 2015. At 31 March 2016, the number of registered active individual employment contracts concluded for limited duration is 507,613.

A significant increase was also registered in the number of daily labourers (from 516,310 registered daily labourers at 31 December 2013 to 664,857 daily labourers at 31 December 2014 and to 778,722 daily labourers at 31 December 2015). At 31 March 2016, the number of daily labourers was 803,626.

The authorities took measures to fight against undeclared work by carrying out 100,457 labour inspections between January and December 2013, further to which 14,605 fines were applied and 438 criminal prosecution procedures were initiated. Between January and December 2014 the authorities carried out 130,720 inspections, further to which 13,589 fines were applied and 333 criminal prosecution procedures were initiated. Between January 2015 and March 2016, the number of labour inspections carried out by the authorities is 91,756, further to which 11,833 fines were applied and 323 criminal prosecution procedures were initiated.

On the other hand, an amendment to the legislation on the unemployment insurance system was adopted in 2013 in order to address the challenges in the labour market. The changes aim at supporting the growth of the employment rate until 2020 and, consequently, the reduction of unemployment, as well as the social integration of unemployed persons. The amendments include measures such as the revision of the legal framework for the provision of services of free skills evaluation for registered unemployed persons; the extension of the target group for mobility bonuses measures by including long-term unemployed persons; the reduction of the duration of the obligation to maintain contractual relations for employers that hire young graduates, unemployed persons over 45 years, unemployed single parents and people with disabilities or the provision of employment subsidies to employers that hire unemployed persons who, within five years from the date of employment, would meet the conditions for early retirement pension or for age limit retirement.

The amendments to the legal framework also aim at addressing the issue of professional integration of young people (i.e. between 15 and 24 years of age), where a 24.0 per cent. unemployment rate was registered in 2014. Such measures include, inter alia, the promotion of the participation to the labour market of young people at risk of social exclusion by providing incentives to employers to employ such workers. Additionally, in order to facilitate the integration of young workers in labour market, the provision of professional information and counselling services was strengthened and the legal framework for internships was adopted in December 2013. The legal framework for apprenticeship was amended and supplemented and education and vocational training has been promoted in order to reduce the number of youths who are unemployed. In 2014, further rules designed to support internship schemes and ensure that they provide desired benefits (such as evaluation of interns and financing of the internship process) were enacted.

## **Social Security System**

### ***Unemployment Benefits***

The unemployment insurance system is mandatorily available to: persons engaged in individual labour contracts or temporary employment contracts, except pensioners; civil servants and other persons appointed to perform public functions; people working in elective office or certain other government positions; soldiers; and others who obtain income from certain additional activities covered by the law.

Unemployment benefits are paid out to insured persons out of an unemployment fund that is operated separately from the principal social security budget.

The main sources of revenue of the unemployment insurance budget are represented by contributions paid by employers and the individual contributions of insured persons.

The unemployment insurance budget mainly covers the following expenditures: payment of unemployment benefits, including in certain circumstances, unemployment benefits conferred by competent institutions of other EU Member States; the payment of contributions for state social insurance and for health insurance for the beneficiaries of unemployment benefits; certain compensatory payments granted by law; the financing of certain measures aimed at stimulating employment and at preventing unemployment; and the financing of vocational training services.

Unemployment benefits represent (i) partial compensation of income lost as a result of job loss or (ii) an income for graduates of educational institutions who did not find a job after graduation. Unemployment benefits are paid monthly to unemployed persons for six, nine or twelve months, depending on the length of contribution, and represents 75 per cent. of the social reference indicator, plus, for those with a contribution period exceeding three years, an additional amount based on length of contribution and average monthly base salary.

The following table shows the evolution of realised unemployment insurance budget as at 31 December 2013, 2014, 2015 and the 2016 budget:

### Unemployment Insurance Budget

|                 | 2013          | 2014          | 2015          | 2016 Budget   |
|-----------------|---------------|---------------|---------------|---------------|
|                 | <i>(RON)</i>  |               |               |               |
| Revenues        | 1,764,301,740 | 1,789,980,041 | 1,790,077,695 | 1,893,811,000 |
| Expenditure     | 1,779,033,089 | 1,557,505,680 | 1,318,146,184 | 1,385,402,000 |
| Surplus/Deficit | (14,731,349)  | 232,474,361   | 471,931,511   | 508,409,000   |

Source: National Employment Agency

The expenditures in 2013, 2014, 2015 and the first three months of 2016 are presented in the following table:

|  | Unemployment Benefits Expenditure |                      |                      |                     |
|--|-----------------------------------|----------------------|----------------------|---------------------|
|  | As at 31 December                 |                      |                      |                     |
|  | 2013                              | 2014                 | 2015                 | As at 31 March 2016 |
|  | <i>(RON)</i>                      |                      |                      |                     |
| Guarantee fund expenses .....                                | 45,592,946                        | 19,642,436           | 26,607,505           | 3,013,088           |
| Education .....  | 33,793,948                        | 34,521,945           | 35,335,777           | 7,089,206           |
| Insurance and social assistance .....                        | 1,440,364,894                     | 1,274,902,502        | 918,375,170          | 236,407,498         |
| General economic, commercial and employment activities ..... | 259,281,301                       | 228,438,797          | 337,827,732          | 37,005,263          |
| <b>Total expenditure</b> .....                               | <b>1,779,033,089</b>              | <b>1,557,505,680</b> | <b>1,318,146,184</b> | <b>283,515,055</b>  |
| Per cent of GDP .....  | 0.27                              | 0.23                 | 0.18                 | 0.04                |

Source: National Employment Agency

The annual evolution on registered unemployed persons as at 31 December 2013, 2014 and 2015 is presented in the following table:

|                              | As at 31 December |                |                |
|------------------------------|-------------------|----------------|----------------|
|                              | 2013              | 2014           | 2015           |
| Receiving Benefits .....     | 199,626           | 140,955        | 108,533        |
| Not Receiving Benefits ..... | 312,707           | 337,383        | 327,709        |
| <b>Total</b> .....           | <b>512,333</b>    | <b>478,338</b> | <b>436,242</b> |

Source: National Employment Agency

The expenditures during 2013, 2014, 2015 and the first three months of 2016 on active employment measures designed to reduce the level of unemployment and to foster employment are presented in the following table:

### Expenditure on Active Employment Measures

| Active employment measure   | 2013               | 2014               | 2015               | As at 31<br>March 2016 |
|---|--------------------|--------------------|--------------------|------------------------|
| Vocational training .....   | 32,594,710         | 33,759,301         | 29,449,679         | 6,654,822              |
| Stimulating employment of graduates .....   | 36,854,313         | 37,109,978         | 39,699,637         | 9,464,768              |
| Stimulating employment of unemployed persons before the expiration of unemployment period ..... | 13,405,52          | 14,386,712         | 14,499,715         | 3,408,168              |
| Stimulation of labour mobility .....  | 5,355,561          | 4,168,723          | 3,359,971          | 375,392                |
| Stimulating the employment of unemployed from disadvantaged groups .....                        | 86,005,695         | 84,210,560         | 89,118,312         | 20,691,197             |
| Payments to foster graduates employment ...   | 2,711,984          | 2,921,894          | 2,589,265          | 590,157                |
| Payments under Law 72/2007 .....  | 476,801            | 630,564            | 803,481            | 0                      |
| Payments for vocational training of graduates (Article 84 of Law 76/2002) .....                 | 849,775            | 698,138            | 503,699            | 147,238                |
| Payments under Law L76/2002 modified L250/2013 (solidarity contracts) .....                     | 23,119,084         | 14,852,514         | 7,892,478          | 1,476,328              |
| Programs for temporary employment .....   | 0                  | 0                  | 0                  | 0                      |
| Active measures to combat unemployment (Counselling and career assistance) .....                | 2,295,086          | 2,192,104          | 1,528,250          | 18,985                 |
| Pre-dismissal services .....  | 875,508            | 952,926            | 888,019            | 71,874                 |
| Low interest loans for SMEs .....   | 0                  | 0                  | 0                  | 0                      |
| Law No. 335/2013 on internships .....   | 0                  | 17,649             | 254,779            | 53,594                 |
| <b>Total .....</b>  | <b>204,544,038</b> | <b>195,901,063</b> | <b>190,587,285</b> | <b>42,952,523</b>      |
| Expenditure on active measures as a share of GDP (per cent) .....                               | 0.03               | 0.03               | 0.03               | 0.01                   |

Source: National Employment Agency

### Health System in Romania

Romania relies on a social health insurance system to finance a large part of its health care. Introduced in 1998, this system has been beneficial as it has increased the amount of public spending available to the sector. The National Health Insurance House ("NHIH") is the institution that manages the National Health Insurance Fund. The Romanian health insurance system is based on the collection of payroll deductions from employers and employees. Self-employed and other citizens can also enrol in the system by paying voluntary contributions set at the same rate as the employee contributions made by regular employees. The overall insurance contribution rate, taking employers' and employees' contributions together, is currently 10.7 per cent. of a contributor's salary.

About one-half of NHIH spending was on hospital care, with drugs and medical supplies representing the second highest expenditure comprising approximately one-third of the total, whereas primary health care only made up about 6.9 per cent. of NHIH spending. While almost the entire population of approximately 18 million individuals (as approximated after the 2011 census) are entitled to benefits, until 2010 only about five million paid direct contributions. The number of contributors increased by approximately 3.5 million individuals as an effect of the implementation of a law in 2011 extending the pool of payers by including all pensioners with incomes of over 740 RON a month. In March 2016, the legislation was amended and the pool of payers currently includes all pensioners whose monthly income exceeds the value of one "pension point" (RON 871.7 in 2016).

In 2010 the ownership of the majority of hospitals was passed to local administrations. Hospitals are reimbursed through the NHIH and the Ministry of Health for approximately 95 per cent. of their operating costs, while local administrations are required to contribute 3 to 5 per cent. of such costs for the hospitals in their jurisdictions. Some local councils are making contributions of up to 20 per cent. of operating costs. The decentralisation of authority over



hospitals has put a financial burden on local authorities, which are now liable for the maintenance and repair of hospital buildings and for the provision of services.

The following table shows public health expenses for 2013 - 2015 and the 2016 budget:

**Public health expenses for 2013 - 2015 and the 2016 program**

|  | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016<br/>Budget</u> |
|--|-------------|-------------|-------------|------------------------|
| Per cent of GDP  | 4.3         | 4.0         | 4.1         | 4.2                    |
| State budget ( <i>RON million</i> )  | 2,725.3     | 3,143.7     | 3,758.5     | 4,766.0                |
| Local administrations' budgets ( <i>RON million</i> )                                  | 8,073.5     | 8,456.5     | 9,273.9     | 9,809.1                |
| National Health Insurance Fund budget ( <i>RON million</i> )                           | 21,870.6    | 21,487.3    | 22,013.3    | 24,791.8               |
| Foreign credit inputs ( <i>RON million</i> )   | 0.0         | 0.0         | 0.0         |                        |
| Fully/partially own income financed institutions <sup>(1)</sup> ( <i>RON million</i> ) | 6,245.5     | 6,457.2     | 6,998.1     | 5,762.8                |
| EU funding ( <i>RON million</i> )  | 0.0         | 1.6         | 22.4        | 6.2                    |
| Transfers between budgets <sup>(2)</sup> ( <i>RON million</i> )                        | (11,446.8)  | (12,869.3)  | (13,119.0)  | (13,952.2)             |
| Financial operations ( <i>RON million</i> )  | (41.1)      | (16.1)      | (29.5)      | (15.7)                 |

Notes:

(1) Hospitals of the Ministry of Health

(2) Subject to deduction from the total amount

Source: Ministry of Public Finance

Romania has historically committed a lower share of its national wealth to healthcare than other EU Member States.

In recent years there has been significant growth in the resources available to the health sector which exceeded the rate of growth in the general public sector. The most significant beneficiaries, in terms of share of total spending, have been the national health programmes which attempted to partially cover the financing deficits of the health insurance budget for certain types of services. National health programmes reached 13.33 per cent. of total healthcare spending in 2013, 13.88 per cent. in 2014 and 16.13 per cent. in 2015. These are shared between relatively cost effective public health programs and relatively expensive hospital-based activities.

The Ministry of Health implemented in 2013-2014 a number of reforms aiming to strengthen the control over expenses in the health system.

The Ministry of Health has implemented, in the course of 2013, a centralised system of acquisition of medicine, equipment and other materials in the healthcare sector (in respect of expenses financed by the Ministry of Health). As at September 2015, there were 38 centralized procurement proceedings for drugs, vaccines and other medical supplies.

The Romanian state budget for 2015 provided for an increase of 6.2 per cent. in funds allocated to primary health care services, from 1,424.9 million RON in 2014 to 1,513.7 million RON in 2015, and an increase of 5.0 per cent. in funds allocated to specialised ambulatory care services, from 623.3 million RON in 2014 to 655.2 million RON in 2015.

In 2016, the budget for primary care is RON 1,515.5 million (including permanent centers), a slight increase as compared to 2015 and representing 6.97 per cent. of the total health expenditure of NHIH, excluding costs arising from cost-volume/cost-volume-result contracts and costs arising from the salary increases granted, in late 2015, to personnel paid from public funds.

The Ministry of Health also has continued to reduce the number of hospital beds by implementing the National Bed Plan for the period 2014 – 2016, according to which:

- for 2014, the total number of beds approved nationally is 121,579;
- for 2015, the total number of beds approved nationally is 120,579;

- for the year 2016, the total number of beds approved nationally is 119,579.

The reform of the healthcare sector initiated in Romania in 2013 also aimed at separating the responsibilities of the relevant authorities to clear overlaps between authorities with respect to certain national health programmes. As a result of the reform, the Ministry of Health focuses mainly on preventive programs, on the control of major risk diseases and on emergency services, while the NHIH has taken charge of other programmes. The separation of responsibilities between the Ministry of Health and the NHIH allowed better control over the expenditure of healthcare programmes.

As part of the reform of the Romanian health care system, the Ministry of Health has conducted public consultations with respect to establishing a basic health services package and a minimal health services package. In December 2013, the Ministry of Health finalised the package, which includes emergency services, preventive services, primary care, certain ambulatory and hospital services. Medical services which are not included in the basic services package would be covered with additional private health insurance. The project was approved in June 2014.

The basic package aimed to decrease admissions to hospitals, increase the number of cases resolved in day-care facilities and to establish the conditions for the development of primary health care and ambulatory services. Under the package, certain diagnoses (104 medical conditions), surgical procedures (96) and medical services (36) will be dealt with in day-care facilities. Admission to hospital is allowed, however, in cases of medical need.

The minimum package of health services for 2014 and 2015 was defined by Government Decision No. 400/2014 and by Order 388/186/2015, which approved the methodological norms for the application Government Decision No. 400/2014 in 2015. At the primary health care level, preventive consultations were introduced for people over the age of 18 to check for certain major diseases and conditions. For 2016 and 2017, the minimum package of health services is defined by Government Decision No. 161/2016, which will enter into force on 1 July 2016.

The development of private health insurance will help increase financial resources in the Romanian health system, as medical services not included in the basic package can be covered through supplemental private insurance. The Ministry of Health will review the financial and social impact of various private health insurance alternatives and help establish an appropriate legal framework for the industry.

In the area of prescription drugs, the National Agency for Medicines and Medical Devices is the competent national authority implementing the health technology assessment mechanism, in accordance with the order mentioned, and it proposes to the Ministry of Health the list of approved drugs. Order No. 861/2014 was published in an effort to update the list of approved drugs. Order No. 861/2014 more specifically approves the criteria and methodology for health assessment, the documentation to be submitted by applicants, methodological tools used in the evaluation process for including (or excluding) or expanding indications of drugs. In addition, GEO No. 69/2014 (which amended GEO No. 77/2011) created a legal basis for the introduction of cost-volume and cost-volume-result contracts. Since 2014, 54 new drugs for diseases with a major impact on health and for which there is no alternative therapy were placed on the list and 16 drugs were delisted, while 21 other drugs have been moved to a new list with a compensation rate of 20 per cent. These were the first substantial changes to the list of subsidized drugs since 2008.

The Parliament is also considering amending the clawback legislation related to calculation of the clawback contribution. The motivation for implementing the proposal is the fact that the current tax calculation formula involves a 38 per cent. taxation on generic medicines, compared to 10 per cent. for non-generic medicines. At the date of this Information Memorandum, the proposal is still under debate.

In line with strategic directions of health strategy, an analysis of the resources needed to modernise the healthcare infrastructure was developed and will be implemented as a World Bank project. A loan was approved by the World Bank Board in March 2014 to implement this project, which commenced in late 2015. The main objectives of the project on health sector reform - improving the quality and efficiency of the health system are:

- Rationalising the hospital network by providing goods, works, services other than consulting, advisory services and training in selected emergency regional hospitals, district hospitals and regional hospitals;
- Strengthening secondary outpatient specialist care by providing goods, works, services other than consulting, consultancy and training;
- Improving the capacity of the Ministry of Health and other relevant government institutions for governance and management of the health sector, in order to reduce the gap between policy and practice and to reinforce the capacity and improve quality of care by providing goods, works, services other than advisory, consultancy and training; and

- Supporting the Ministry of Health and the Project Management Unit (PMU) in the management and implementation of the project, including fiduciary duties, monitoring, evaluation and reporting by providing goods, works, services other than consulting, consulting services, training, audit and operational costs.

### **Pension System Reform**

The following table shows the average number of employed persons versus the number of pensioners and the dependency ratio throughout 2013, 2014 and 2015:

|   | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|---|-------------|-------------|-------------|
| Average no. of employees ( <i>thousands</i> ) .....                                 | 4,443.6     | 4,507.7     | 4,545.3     |
| Average no. of pensioners based on state social security ( <i>thousands</i> ) ..... | 4,681       | 4,682       | 4,683       |
| Dependency ratio .....  | 1.05        | 1.04        | 1.03        |

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Note: The figures for 2013 - 2014 are final data. The figures for 2015 are provisional data estimated by the National Commission for Prognosis based on monthly statistical data

The average number of pensioners in December 2015 was 4,686.7 (thousands) and 4,679.04 (thousands) in March 2016.

## ***Public Pension System***

The Romanian public pensions system, which has been traditionally financed by the Romanian Government by means of subsidies, has seen its deficit increase since 2008 as a result of a number of factors in Romania that combined to put pressure on the pension system, including demographic factors (the ageing of population); increases in state expenditures per person on pensions and other pressures on the state social insurance budget; the emergence of special public pensions (which introduced a number of privileges and favourable treatment of certain professional categories, leading to a large gap between the highest and lowest paid state pension); and the existence of laws governing the organisation and functioning of different pension schemes for certain professions which was hampering the functioning of the pension system.

The 2013 deficit of the public pension system was RON 12.30 billion (approximately EUR 2.75 billion at the 2013 December-average exchange rate). In 2014, the deficit increased to RON 13.47 billion (approximately EUR 3.0 billion at the 2014 December average exchange rate). In 2015, the deficit increased further to RON 18.4 billion (approximately EUR 4.0 billion at the 2015 December-average exchange rate). The deficits of the public pensions system budget were covered by amounts transferred from the state budget in the form of subsidies.

Aiming to tackle the growth of the deficit of the public pension system under the impact of the global economic crisis, and in order to meet a condition of the financial assistance programmes with the IMF and the EU, the Romanian Government has reformed the Romanian public pension system for the purpose of ensuring its financial stability, eliminating the inequities in the system and stimulating private savings through a voluntary private pension system.

The reforming measures under Law No. 263/2010 on the unitary system of public pensions ("UPPL") include: annual indexation of the state pension to the forecast consumer price index instead of gross average wage, prohibiting discretionary pension increases, gradually increasing the retirement age, by January 2015, to 60 years for women and 65 years for men, introducing measures to reduce fraudulent claims for disability pensions, gradually increasing the retirement age for women from 60 years to 63 years by 2030, increasing by 2030 the contribution periods for old age pension, gradually equalising the contributions for women and men by 2030, introducing disincentives for early retirement and integrating the special pension systems (such as those for military and certain professions) into a unified public pension system.

The public pension system under the UPPL is contribution-based. Social insurance funds are derived from the contributions paid by natural and legal persons that are part of the public pension system and social insurance rights are granted on the basis of the contributions paid. As of October 2014, the contribution quotas for employees are 26.3 per cent., 31.3 per cent. and 36.3 per cent. of the gross salary, of which 10.5 per cent. (including the contribution to the second pillar pension system) is owed by the employees.

The adoption of UPPL improved the viability of the pension system and contributed to the sustainability of public finances. Partly as a result of the passage of the UPPL the real average retirement age increased in the whole system, from 57.8 years in 2010 to 58.9 years in 2015 for men and from 56.1 years in 2010 to 57.0 years in 2015 for women. Also, given the tighter requirements for anticipated pensions, the number of persons who registered for pension decreased from 307,282 in 2010 to 299,491 in 2015, and the number of people who registered for partial early retirement decreased from 42,340 in 2010 to 25,151 in 2015. The implementation of stringent eligibility requirements for disability pension retirement, designed to discourage abuse, led to a decrease of the number of persons who have signed up for disability pension, from 61,905 pensioners in 2010 to 58,697 pensioners in 2015.

## ***Subsidies***

Subsidies are granted by the Romanian government primarily for the support of public railroad transportation, public subway transportation, exports, business environment and international trade, farmers, programmes for preservation and closing of mines. The following Government ministries offer subsidies out of the state budget in order to support projects in these areas: the Ministry of Transportation and Infrastructure, the Ministry of Regional Development and Tourism, the Ministry of Economy, the Ministry of Agriculture and Rural Development and the Ministry of National Defence.

In 2013, subsidies from the general consolidated budget accounted to 0.8 per cent. of GDP. In 2014 and 2015 subsidies accounted to 0.9 per cent. of GDP and are budgeted at the same level for 2016.

## ***Privatisation***

Until 2006, the Authority for State Assets Recovery ("**AVAS**") was the main institution in charge of the privatisation process in Romania. AVAS was subject to reorganisation at the end of December 2012, becoming the Authority for State Assets Administration ("**AAAS**"), placed under the coordination of the Minister of Economy and subordinated to the Government. The reorganisation allowed AAAS to correlate its administration and privatisation policies with the national industrial strategy and with the policies for the recovery of State claims over privatised companies.

Following several departmental restructurings, the Ministry of Energy, Small and Medium Enterprises and the Business Environment is developing the privatisation, administration and restructuring of the companies in the energy sector.

## ***Authority for State Assets Administration***

As at 1 April 2016, AAAS's portfolio comprised stakes in 554 companies, amounting to a total nominal value of AAAS's participation of approximately RON 1 billion. Out of the total 554 companies, only 288 are currently operational and the nominal value of AAAS's participation in these companies amounts to RON 231.45 million. AAAS holds majority stakes in six operational companies and the total share capital held by the state does not exceed RON 132 million.

During the period from December 1992 until the end of March 2016, AAAS concluded a total of 11,666 share transactions for a total divested share capital exceeding RON 9,000 million. These figures refer to share sale-purchase contracts concluded, addenda to contracts for the sale of additional shares, contracts concluded during the merger with the Office for State Ownership and Privatisation in Industry ("**OPSPI**"), share sale-purchase contracts which were subsequently written off and share sale on stock exchange market.

## ***Department for Privatisation and State Ownership Administration***

OPSPI was a public institution, subordinated to the Ministry of Economy (currently the Ministry of Economy, Commerce and Relationship with the Business Environment ("**MECRMA**")). MECRMA is the shareholder of a number of large state owned companies in strategic fields, in respect of which OPSPI organised privatisation and investment raising projects. OPSPI was mainly involved in the privatisation of state-owned energy companies in Romania. In October 2015, OPSPI ceased operations and was replaced by the Department for Privatisation and State Ownership Administration ("**DPAPS**"), the legal successor of OPSPI. DPAPS is responsible for the privatisation of and raising capital for the projects of such companies and exercises, on behalf of the MECRMA, its authority on privatisation and, within the limits approved by the Minister, exercises all the rights and obligations of the State as a shareholder. DPAPS intends to continue the privatisation projects initiated by OPSPI and launch the privatisation of other companies in its portfolio.

The initial privatisation procedure of CupruMin S.A., finalised in early 2012, was subsequently revoked by the Romanian Government when the highest bidder, Roman Copper Corp Canada, refused to comply with certain terms requested by OPSPI. Subsequently, Roman Copper Corp Canada filed a claim in court against MECRMA (at the time, Ministry of Economy), requesting to be reimbursed for the amount of the letter of guarantee of participation. A final decision in favour of Roman Copper Corp Canada was passed and the payment obligations of the Romanian state were fulfilled.

On 16 April 2013, MECRMA (at the time, Ministry of Economy), through OPSPI, successfully completed the secondary public offer of 15 per cent. in Transgaz S.A., with proceeds amounting to RON 315 million. On 16 June 2015, the General Shareholders Assembly of Transgaz S.A. voted to start the procedure of a corporate bond issue, unsecured, up to a maximum of RON 500 million, minimum 5-year maturity, fixed interest rate of maximum 4.5 per cent., to finance "The development plan of national transport system of natural gas for 2014-2023".

Based on a memorandum approved by the government of Romania, on 25 January 2013 Oltchim S.A. filed for voluntary insolvency with the aim to restructure its business. The initiation of the insolvency proceedings was approved on 30 January 2013 and judicial administrators were appointed. On 14 March 2013 a special administrator was appointed and a reorganisation plan is currently under development, aiming to increase the production capacity of the company as well as attracting investors. The reorganization plan of Oltchim S.A. was voted and approved on 9 March 2015, following judicial approval on 22 April 2015. The reorganization plan has been implemented with positive results. However, it remains necessary for Oltchim S.A. to continue to reduce costs and to identify potential investors and funding sources in order to continue the company's activity and to increase the production capacity by approximately 30 per cent.

Currently, the portfolio managed by MECRMA includes companies in the mineral resources sector (such as Societatea Națională a Sării S.A., Societatea Națională a Apelor Minerale S.A., Cupru Min S.A., Compania Națională Minvest

S.A.), the defense sector (Compania Națională ROMARM S.A., Romaero S.A., IAR S.A., Avioane Craiova S.A., Santierul Naval Mangalia S.A. etc.), electricity and natural gas transportation companies (Compania Națională de Transport a Energiei Electrice "Transelectrica" S.A. and Societatea Națională de Transport Gaze Naturale "Transgaz" S.A.) and several other companies in tourism and other sectors of activity.

### ***Ministry of Energy***

The Ministry of Energy (formerly The Ministry of Energy, Small and Medium Enterprises and the Business Environment) was organized pursuant to Government Decision No. 980 dated 22 December 2015. The Ministry of Energy is responsible for the strategy implementing the Government's priorities in the energy and energy resources sectors. The Ministry of Energy took over the activities and structures of the former Department of Energy and of the Department of Small and Medium Enterprises, Business Environment and Tourism, except those in the tourism sector.

The Ministry of Energy is involved in the privatisation of state-owned energy companies in Romania and, to this end, implements the structural reform of the Romanian energy sector. The reform of state-owned enterprises in the energy sector focuses on: extending implication of the private sector in the economy based on capital market development and sustaining the investment projects in state owned companies in the energy sector; improving the corporate governance and appointing professional management in the state owned companies in the energy sector. On 27 November 2015, the Ministry of Energy signed the framework agreement for the selection and placement of directors of enterprises wholly or majority owned by the state and placed this responsibility under the supervision of the Ministry of Energy

Currently, the portfolio managed by the Ministry of Energy includes companies in the energy sector and energetic mineral resources companies, such as Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias, Societatea Nationala "Nuclearelectrica" S.A., Societatea de Producere a Energiei Electrice in Hidrocentrale "Hidroelectrica" S.A. (in insolvency procedure), Electrocentrale Bucuresti S.A., Electrocentrale Grup S.A., Complexul Energetic Oltenia S.A., Complexul Energetic Hunedoara S.A., Compania Nationala a Uraniului; Regia Autonoma Tehnologii pentru Energia Nucleara.

In accordance with the precautionary Stand-by Agreement entered into with the IMF, the Romanian Government committed to restructure loss making companies and to privatise large state-owned companies (including both its majority and minority state shareholdings in such companies). As a result, the Ministry of Energy undertook a programme seeking to sell its shareholdings in several energy companies, continuing the privatisation program initiated by the Department of Energy.

On 25 June 2014, as part of the Romanian government's privatisation program, the initial public offer of Electrica S.A., the leading electricity distribution and supply company in Romania, completed. The total size of the offer was approximately RON 1.9 billion, comprising 177,188,744 new shares in the form of offered shares and GDRs. Admission to trading of the shares on the Bucharest Stock Exchange and of GDRs on the London Stock Exchange took place on 4 July 2014.

In December 2013, the privatisation process began for hydroelectric power generation company, Hidroelectrica S.A., Romania's largest power producer, which exited the insolvency procedure at the end of June 2013. Following the admission by the Bucharest Court of Appeal of the appeals formulated by energy traders, Hidroelectrica re-entered insolvency on the 25 February 2014. The privatisation process will be resumed after the declaration by the court of the closure of the insolvency procedure.

According to preliminary data, in 2015, Hidroelectrica S.A. registered a gross profit of RON 1,105 million and a turnover of RON 3,183 million despite a drought in July-September 2015.

The Ministry of Energy plans to continue the privatisation efforts in respect of other companies in its portfolio.

Complexul Energetic Oltenia S.A. is a coal based power generation company created by the merger of Societatea Nationala a Lignitului with the three energetic complexes of Rovinari, Turceni and Craiova and registered in 2012 with the Romanian Trade Registry.

Starting in June 2015, Complexul Energetic Oltenia S.A. laid off almost 2,000 employees. Two open pits were closed and the company is undertaking a dismantling process and environment remediation of the areas. For units 1 and 2 at Chiscani, the initiation of the sale process through public auction was approved. For unit 6 at Turceni, the decision was made to stop the rehabilitation investment.

Complexul Energetic Oltenia S.A. is currently implementing a restructuring and business efficiency programme in order to increase the company's attractiveness to investors. The initial public offering is expected to take place in the first half of 2017, provided that the market conditions are favourable.

By approving Government Ordinance No. 14/2014, a legal framework to spin off the Berbești mine and transfer it to another operator was created. On the basis of this framework, the transfer of UMC Berbești related assets of CE Oltenia to CET Govora was completed at the end of March 2015.

Electrocentrale Bucuresti S.A., the combined heat and power producer in Bucharest has been spun-off. After the spin-off process's completion, Electrocentrale Bucuresti S.A. has continued its ordinary trading activity with the Romanian State acting as its primary shareholder through the Ministry of Energy with a share of 97.51 per cent.

Also, as result of a spin-off process, the following companies were established on 30 September 2014: Electrocentrale Constanta SA owned by the Romanian state through the Ministry of Energy and Electrocentrale Titan S.A., where the Romanian state through the Ministry of Energy owns 28.8 per cent. of the share capital.

Complexul Energetic Hunedoara S.A., a coal based power generation company, merged with the viable mines from Societatea Nationala a Huilei at the end of June 2013. Due to Complexul Energetic Hunedoara S.A.'s difficult economic situation, in May 2015, the privatisation process was stopped by the Government Decision No. 334/May 2015. A notification for rescue state aid was authorised by the European Commission at the end of April 2015. The first tranche of the aid in an amount of RON 98,476,900 was provided in July 2015, while the second tranche in an amount of RON 68,523,100 is conditional upon the reimbursement by Complexul Energetic Hunedoara S.A. of a loan granted by the Ministry of Public Finance to allow the company to repay illegal state aid which it had received in 2010-2011. According to the European Commission Decision, the rescue aid is not designed for the mining activity, but to ensure the necessary liquidity to cover the minimum current expenditure of the company for a period of six months after granting the aid. On 8 January 2016, the European Commission was pre-notified regarding the transformation of the individual rescue aid into restructuring aid. On 7 January 2016, the Hunedoara Court ordered the opening of insolvency proceedings against Complexul Energetic Hunedoara S.A., however the decision was overturned by the Alba Iulia Court of Appeal on 3 May 2016 and the application for opening the insolvency procedure will be re-tried.

Societatea de Administrare a Participatiilor in Energie S.A. (SAPE S.A.), a newly-formed state-owned company spun-off Electrica in 2014 and placed under the authority of the Ministry of Energy, took over the rights and obligations resulting from the privatisation contracts signed by Electrica. SAPE is currently involved in the following litigations pending before the International Court of Arbitration in Paris of the International Chamber of Commerce: Case No. 19431/MHM against Enel Investment Holding BV; Case No. 20512/MHM against Enel Investment Holding B.V.; and Case No. 21256/MHM – E.ON Romania v. SAPE S.A.

The Ministry of Energy continues the projects involving independent power producer joint ventures between the Romanian government and private investors for setting up new power generation units. These projects, which are currently in various stages of implementation, involve companies such as UT Midia S.A., Complexul Energetic Oltenia S.A. (Electrocentrala Rovinari), Hidro-Tarnita Lapustesti, Nuclearelectrica S.A. (completing the nuclear units 3 and 4 of 720 MW each, from the Cernavodă Nuclear Power Plant).

### ***Ministry of Transport***

As at January 2016, the portfolio managed by MT included the main companies in the transport and transport infrastructure sector, such as Societatea Națională de Transport Feroviar de Marfă "C.F.R. - Marfă" S.A., Societatea Națională de Transport Feroviar de Călători "C.F.R. - Călători" S.A., Compania Națională "Administrația Porturilor Maritime" S.A. Constanța, Compania Națională "Aeroporturi – București" S.A., Societatea "Compania Națională de Transporturi Aeriene Române – TAROM" S.A.

The privatisation process of freight railway company CFR Marfa S.A., initially scheduled to be completed in June 2016, is currently inactive given MT's opinion, presented recently to the IMF representatives, that the company should undergo restructuring for a 2-year period prior to its privatisation, to ensure long-term sustainability and increase its attractiveness for the investors.

MT is currently evaluating the continuation of the privatisation efforts concerning the remainder of the principal companies in its portfolio, such as the companies managing the airports of Bucharest and the Constanta Port, which are expected to involve a secondary public offering for 5 per cent. of the share capital and, respectively, an initial public offering for 20 per cent. of the share capital, on the Bucharest Stock Exchange.

### ***Shadow Economy***

Romania has a significant shadow economy, around half of which is believed to be based on unregistered labour. Its size, although difficult to verify, is estimated by the authorities based on national statistics on tax evasion and the number of employees reported in the business and household surveys prepared by the National Institute of Statistics.



## FOREIGN TRADE<sup>2</sup> AND BALANCE OF PAYMENTS

The current account deficit was 1.1 per cent. of GDP in 2013 (final data); narrowing to 0.5 per cent. of GDP in 2014 (semi-final data) and slightly increasing to 1.1 per cent. of GDP in 2015 (provisional data). In 2013, 2014 and 2015, after the decrease in the absolute level of the current account deficit, non-residents' direct investment entirely covered the current account deficit. In 2013 and 2014 the capital transfers were 1.9 times higher and 5.6 times higher, respectively, than the current account deficit while in 2015 this ratio was 2.0. From 2012 to date, net external borrowings with medium- and long-term maturities turned into net outflows, after the redemption of the loans under the 2009 Stand-by Agreement commenced.

### Trade in goods

An improvement of Romania's goods balance started in 2009 and continued in 2013, with the goods deficit narrowing to 4.0 per cent. of GDP as a result of rising exports and nearly flat imports. However, due to a decrease in exports and increase in imports, the share of the goods' balance deficit in GDP in 2014 increased to 4.2 per cent. of GDP, followed by a further increase to 4.8 per cent. of GDP in 2015.

The following table shows changes in foreign trade for 2013-2015:

|   | 2013    | 2014 <sup>(S)</sup> | 2015 <sup>(P)</sup> |
|---|---------|---------------------|---------------------|
| Current account balance ( <i>EUR</i> <sup>(1)</sup> million). | (1,539) | (686)               | (1,828)             |
| - per cent of GDP   | (1.1)   | (0.5)               | (1.1)               |
| Trade balance FOB <sup>(2)</sup> ( <i>EUR</i> million)        | (5,816) | (6,335)             | (7,776)             |
| - per cent of GDP   | (4.0)   | (4.2)               | (4.8)               |
| Exports of goods ( <i>EUR</i> million)                        | 43,879  | 46,807              | 49,121              |
| - annual percentage change                                    | 10.0    | 6.7                 | 4.9                 |
| Imports of goods FOB <sup>(2)</sup> ( <i>EUR</i> million)     | 49,695  | 53,142              | 56,897              |
| - annual percentage change                                    | 1.1     | 6.9                 | 7.1                 |

Notes:

- (1) The amounts in RON or other foreign currency have been converted into EUR at the exchange rate at the time of the relevant transactions. Ratios to GDP refers to January-September data
- (2) Free on board ("**FOB**") means the seller's obligation to deliver is fulfilled when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. Imports FOB of goods are calculated based on the coefficient of transformation CIF/FOB= 1.0430, published by the National Institute of Statistics
- (S) Semi-final data
- (P) Provisional data

Source: NBR

### *Main trends in 2014 and 2015*

In 2014 (semi-final data), the goods deficit was EUR 6,335 million, 8.9 per cent. above the level recorded in 2013, with exports growing by 6.7 per cent. and imports by 6.9 per cent. The trade deficit was fuelled by intra-EU trade, while the extra-EU trade recorded a surplus of EUR 1,388 million. The coverage of imports through exports went down by 0.2 percentage points to 88.1 per cent. The split between deficits and surpluses at the merchandise group level remained unchanged compared to the previous year.

In 2015 (provisional data), the goods deficit increased by 22.7 per cent. to EUR 7,776 million, with import growth (7.1 per cent.) outpacing export growth (4.9 per cent.). The intra-EU trade made up 94.7 per cent. of the goods deficit. The coverage of imports through exports went down by 1.7 percentage points to 86.3 per cent.

<sup>2</sup> For the purposes of this document, trade in goods is compiled according to the International Monetary Fund's BPM6 Methodology. Thus the figures refer to the "Goods" balance in the current account and are different from the foreign trade data produced by the National Institute for Statistics in that the former exclude from the international trade in goods data, the value of goods processed in Romania and abroad and include the net exports of goods under merchanting – in order to comply with the BPM6 principle of change in ownership)

### ***Exports and imports of goods included in the balance of payments***

In 2014 (semi-final data) exports of goods totalled EUR 46,807 million, 6.7 per cent. above the prior year's level, due to positive performances of most commodity groups (Combined Nomenclature) except for a minor decrease in the share of wood and paper products. Exports to other EU countries increased by 9.2 per cent., with a corresponding increase in the share of total exports (by 1.6 percentage points to 69.1 per cent.), while exports to countries outside the EU rose by only 1.5 per cent. Over the same period, imports of goods amounted to EUR 53,142 million, 6.9 per cent. up from 2013. Imports of goods purchased from EU countries increased by 6.7 per cent. (but decreased from 75.6 to 75.4 per cent. as a share in total imports), while imports from countries outside the EU increased by 7.7 per cent.

In 2015 (provisional data) exports of goods totalled EUR 49,121 million, 4.9 per cent. above the prior year's level, due to positive performances of most commodity groups (Combined Nomenclature) except for mineral products, wood and paper products. Exports to other EU countries increased by 9.8 per cent., with a corresponding increase in the share of total exports (by 3.3 percentage points to 72.4 per cent.), while exports to countries outside the EU decreased by 5.9 per cent. Over the same period, imports of goods amounted to EUR 56,897 million, 7.1 per cent. up from 2014. Imports of goods purchased from EU countries increased by 9.4 per cent. (from 75.4 to 77.1 per cent. as a share in total imports), while imports from countries outside the EU increased by 0.2 per cent.

The shares of groups of goods (according to the Combined Nomenclature) in total exports and in total imports in 2013-2015 and the first two months of 2016 are shown in the table below:

**TRADE BALANCE – GROUPS OF GOODS AND SECTIONS**

|   | Export FOB         |                   |                   |                              | Import FOB         |                   |                   |                              |
|---|--------------------|-------------------|-------------------|------------------------------|--------------------|-------------------|-------------------|------------------------------|
|   | 2013               | 2014 <sup>p</sup> | 2015 <sup>p</sup> | Jan-Feb<br>2016 <sup>p</sup> | 2013               | 2014 <sup>p</sup> | 2015 <sup>p</sup> | Jan-Feb<br>2016 <sup>p</sup> |
|   | <i>(per cent.)</i> |                   |                   |                              | <i>(per cent.)</i> |                   |                   |                              |
| Total   | 100.0              | 100.0             | 100.0             | 100.0                        | 100.0              | 100.0             | 100.0             | 100.0                        |
| <b>1 Agri-food items</b> .....  | <b>12.0</b>        | <b>11.9</b>       | <b>12.0</b>       | <b>10.9</b>                  | <b>10.1</b>        | <b>9.6</b>        | <b>10.6</b>       | <b>10.2</b>                  |
| I Live animals and animal products .....                                  | 1.7                | 1.6               | 1.6               | 1.3                          | 2.1                | 2.6               | 2.1               | 1.9                          |
| II Vegetable origin products .....  | 6.8                | 6.7               | 6.3               | 5.7                          | 2.8                | 2.7               | 3.5               | 3.5                          |
| III Animal or vegetable oils and fats .....                               | 0.5                | 0.5               | 0.5               | 0.4                          | 0.4                | 0.4               | 0.3               | 0.3                          |
| IV Foodstuff, beverages, tobacco  | 2.9                | 3.2               | 3.7               | 3.5                          | 4.7                | 4.0               | 4.7               | 4.4                          |
| <b>2 Mineral products (V)</b> .....                                       | <b>6.2</b>         | <b>7.1</b>        | <b>5.2</b>        | <b>5.1</b>                   | <b>11.1</b>        | <b>10.3</b>       | <b>7.3</b>        | <b>6.3</b>                   |
| <b>3 Chemical and plastic products</b> .....                              | <b>11.2</b>        | <b>10.6</b>       | <b>10.3</b>       | <b>10.2</b>                  | <b>18.7</b>        | <b>18.1</b>       | <b>18.2</b>       | <b>19.6</b>                  |
| VI Chemical products .....  | 5.0                | 4.5               | 4.1               | 3.9                          | 11.2               | 10.7              | 10.7              | 12.1                         |
| VII Plastics, rubber .....  | 6.2                | 6.2               | 6.2               | 6.3                          | 7.5                | 7.4               | 7.5               | 7.6                          |
| <b>4 Wood products, paper</b> .....                                       | <b>5.0</b>         | <b>4.7</b>        | <b>4.4</b>        | <b>4.3</b>                   | <b>2.5</b>         | <b>2.5</b>        | <b>2.6</b>        | <b>2.6</b>                   |
| IX Wooden products .....  | 4.3                | 4.0               | 3.7               | 3.6                          | 0.7                | 0.8               | 0.9               | 0.8                          |
| X Wood pulp, paper .....  | 0.7                | 0.7               | 0.7               | 0.8                          | 1.8                | 1.7               | 1.7               | 1.8                          |
| <b>5 Textiles, clothing, footwear</b> ...                                 | <b>5.6</b>         | <b>5.5</b>        | <b>5.4</b>        | <b>5.5</b>                   | <b>5.4</b>         | <b>5.7</b>        | <b>5.8</b>        | <b>6.3</b>                   |
| XI Textiles and articles thereof ...                                      | 4.0                | 3.9               | 4.0               | 4.0                          | 4.6                | 4.8               | 5.1               | 5.3                          |
| XII Footwear .....  | 1.6                | 1.6               | 1.4               | 1.5                          | 0.8                | 0.9               | 0.8               | 1.0                          |
| <b>6. Common metals (XV)</b> .....  | <b>10.3</b>        | <b>9.7</b>        | <b>9.2</b>        | <b>9.2</b>                   | <b>10.6</b>        | <b>10.9</b>       | <b>10.9</b>       | <b>10.8</b>                  |
| <b>7. Machinery, apparatus, electric equipment, transport means</b> ..... | <b>42.2</b>        | <b>42.5</b>       | <b>45.3</b>       | <b>46.6</b>                  | <b>35.8</b>        | <b>36.7</b>       | <b>37.8</b>       | <b>37.6</b>                  |
| XVI Machinery, appliances and electric equipment .....                    | 25.2               | 25.8              | 27.8              | 28.4                         | 27.5               | 26.8              | 28.2              | 27.8                         |
| XVII Transport means .....  | 17.0               | 16.8              | 17.5              | 18.2                         | 8.1                | 10.0              | 9.6               | 9.8                          |
| <b>8. Others</b> .....  | <b>7.6</b>         | <b>7.9</b>        | <b>8.2</b>        | <b>8.3</b>                   | <b>6.0</b>         | <b>6.2</b>        | <b>6.8</b>        | <b>6.4</b>                   |
| VIII Undressed leather and dressed leather, furs and fur products .....   | 0.3                | 0.3               | 0.3               | 0.3                          | 0.8                | 0.9               | 1.0               | 1.0                          |
| XIII Stone products, cement, ceramics, glass .....                        | 0.6                | 0.6               | 0.6               | 0.6                          | 1.3                | 1.3               | 1.3               | 1.2                          |
| Miscellaneous goods and products .....                                    | 6.6                | 7.0               | 7.3               | 7.3                          | 3.8                | 4.0               | 4.5               | 4.2                          |

Note:

p=provisional data

Some totals may differ from the sum of components due to rounding.

Source: National Institute of Statistics, National Bank of Romania calculations

The main markets for imports and exports for Romania in 2013, 2014, 2015 and the first two months of 2016 are presented in the table below:

**TRADE BALANCE – GEOGRAPHICAL DISTRIBUTION**

| Country Group  | Export FOB         |                   |                   |                              | Import FOB         |                   |                   |                              |
|--|--------------------|-------------------|-------------------|------------------------------|--------------------|-------------------|-------------------|------------------------------|
|  | 2013               | 2014 <sup>P</sup> | 2015 <sup>P</sup> | Jan-Feb<br>2016 <sup>P</sup> | 2013               | 2014 <sup>P</sup> | 2015 <sup>P</sup> | Jan-Feb<br>2016 <sup>P</sup> |
|  | <i>(per cent.)</i> |                   |                   |                              | <i>(per cent.)</i> |                   |                   |                              |
| Total  | 100.0              | 100.0             | 100.0             | 100.0                        | 100.0              | 100.0             | 100.0             | 100.0                        |
| <b>- Intra EU Trade (EU-28), of which</b>            | <b>67.5</b>        | <b>69.1</b>       | <b>72.4</b>       | <b>74.4</b>                  | <b>75.6</b>        | <b>75.4</b>       | <b>77.1</b>       | <b>78.4</b>                  |
| Germany  | 17.8               | 18.1              | 19.2              | 20.3                         | 18.2               | 18.4              | 19.7              | 20.5                         |
| Italy  | 8.6                | 9.2               | 9.9               | 10.0                         | 9.1                | 8.9               | 9.3               | 8.8                          |
| France   | 7.0                | 7.0               | 6.9               | 7.5                          | 5.8                | 5.6               | 5.5               | 6.4                          |
| Hungary  | 5.1                | 5.3               | 5.7               | 5.5                          | 8.8                | 8.2               | 8.4               | 8.5                          |
| Bulgaria   | 3.8                | 3.8               | 3.6               | 3.4                          | 3.0                | 3.0               | 3.2               | 2.7                          |
| United Kingdom of Great Britain and Northern Ireland | 3.8                | 3.7               | 4.0               | 4.2                          | 2.0                | 2.1               | 2.3               | 2.3                          |
| Spain  | 2.5                | 2.8               | 3.1               | 3.2                          | 2.4                | 2.7               | 2.7               | 2.7                          |
| Netherlands  | 2.8                | 2.5               | 2.6               | 2.6                          | 3.5                | 3.8               | 4.1               | 4.1                          |
| Poland   | 2.6                | 2.8               | 3.0               | 3.0                          | 4.8                | 6.3               | 5.2               | 5.2                          |
| Austria  | 2.3                | 2.4               | 2.5               | 2.5                          | 4.2                | 3.9               | 4.0               | 3.8                          |
| <b>- Extra EU Trade (extra- EU-27), of which</b>     | <b>32.5</b>        | <b>30.9</b>       | <b>27.6</b>       | <b>25.6</b>                  | <b>24.4</b>        | <b>24.6</b>       | <b>22.9</b>       | <b>21.6</b>                  |
| Turkey   | 5.8                | 5.0               | 4.4               | 4.5                          | 3.5                | 3.4               | 3.7               | 3.4                          |
| Russian Federation                                   | 3.1                | 3.2               | 2.0               | 2.1                          | 4.4                | 4.0               | 3.2               | 3.3                          |
| USA  | 1.8                | 1.9               | 2.0               | 1.9                          | 1.1                | 1.2               | 1.1               | 1.0                          |
| Ukraine  | 2.1                | 1.3               | 0.5               | 0.6                          | 0.7                | 0.6               | 0.8               | 0.7                          |
| Republic of Moldova                                  | 1.4                | 1.5               | 1.3               | 0.9                          | 0.6                | 0.4               | 0.5               | 0.4                          |
| People's Republic of China .                         | 0.9                | 1.2               | 1.1               | 1.0                          | 3.7                | 4.1               | 4.7               | 4.8                          |
| Japan  | 0.5                | 0.4               | 0.4               | 0.3                          | 0.5                | 0.4               | 0.5               | 0.5                          |
| Kazakhstan   | 0.2                | 0.1               | 0.1               | 0.1                          | 3.4                | 4.1               | 1.7               | 1.2                          |

Note:

p = provisional data

Some totals may differ from the sum of components due to rounding.

Source: National Institute of Statistics, National Bank of Romania calculations.

## **Balance of Payments**

### ***Current Account***

According to the International Monetary Fund's BPM6 Methodology, the "Current Account" consists of goods (calculated based on the international trade in goods data, from which the value of goods processed in Romania and abroad is eliminated and to which the net exports of goods by merchants is added; in order to comply with the BPM6 principle of change in ownership), services (which also include the value of the processing of goods owned by others and is not simply translated from goods, but compiled based on alternate data sources, i.e. quarterly surveys of international trade in services), primary income (including compensation of employees, investment income and other primary income) and secondary income (purely current transfers). The methodological change has been coherently applied across EU countries starting with the reference month of July 2014, and, in order to ensure comparability, the 2013 data have also been compiled according to the new methodology.

In 2014 (based on semi-final data), the current account balance displayed a deficit of EUR 686 million, as compared with EUR 1,539 million in the previous year, amid the narrowing of the primary income balance deficit (by EUR 1,209 million) and the widening of the services surplus (by EUR 1,165 million). The primary income deficit narrowed by 38.8 per cent. to EUR 1,903 million, mainly from investment income and EU subsidies. The services surplus rose further (to EUR 5,867 million in 2014), boosted by larger receipts from processing of goods owned by others, freight transport and IT services. The secondary income surplus narrowed to EUR 1,685 million, down 37.3 per cent. from 2013, with lower inflows of EU funds of current transfers nature. The goods deficit increased by 8.9 per cent. to EUR 6,335 million. Exports of goods further expanded (by 6.7 per cent. amid the 9.2 per cent. growth in exports to EU Member States), at a slower pace than imports (up 6.9 per cent., with purchases from countries outside the EU increasing by 7.7 per cent.).

In 2015 (provisional data) the current account deficit increased to EUR 1,828 million (from EUR 686 million in 2014). The main drivers for this increase were the widening of the primary income and goods deficits (by EUR 1,903 million and EUR 1,441 million, respectively). The primary income deficit from direct and portfolio investment doubled to EUR 3,806 million. The goods deficit widened by 22.7 per cent. to EUR 7,776 million, while chemical and plastics products, base metals, textiles and clothing deficits continued to increase. At the same time, the secondary income and services had a favourable impact on the current account. The secondary income surplus increased to EUR 2,818, mainly due to higher inflows of EU funds of current transfers' nature (especially from European Social Fund and European Agricultural Fund for Rural Development). The services surplus increased by 18.2 per cent. in 2015 to EUR 6,936 million, mainly due to higher receipts from road transportation and computer and information services.

In the first two months of 2016, the current account deficit increased to EUR 337 million, from EUR 42 million in the corresponding period of 2015. The goods deficit increased to EUR 930 million (from EUR 529 million in January-February 2015), all merchandise groups witnessing either higher deficits or smaller surpluses. The primary income deficit increased by 13.9 per cent. to EUR 573 million compared to the corresponding period of 2015, mainly from lower EU subsidies (European Agricultural Fund for Rural Development). The secondary income surplus increased from EUR 60 million to EUR 234 million year-on-year (the combined result of a lower level of the contribution to the EU budget and a higher inflow of funds from the EU of current transfers nature). The services surplus remained nearly flat to EUR 932 million compared to the same period of 2015.

### ***Capital Account***

In 2013, the capital account saw net inflows of EUR 3,038 million, an increase of more than 60 per cent. from a year earlier, driven by the doubling of the capital transfers surplus which in turn was primarily caused by a more than 75 per cent. rise in funds from the European Union (mainly from the Regional Development Fund, the Cohesion Fund, and the European Agricultural Fund for Rural Development).

The same growth in inflows from these European funds resulted in the upward trend of the capital account in 2014 as net capital inflows increased to EUR 3,954 million.

In 2015, the capital account recorded a surplus of EUR 3,909 million, broadly comparable to 2014 level and fully covering, for the third consecutive year, the current account deficit. The capital account surplus continued to exceed the current account deficit in the first two months of 2016, due to inflow of EU funds of current transfers nature (mainly European Regional Development Fund).

### ***Financial Account***

In 2014 (based on provisional data), the financial account recorded net outflows of EUR 3,068 million, compared with EUR 1,673 million in 2013, particularly due to portfolio investment, which saw higher redemptions of government bonds, and other investment, which reflected primarily the scheduled repayments under the Stand-By Arrangement

concluded with the IMF in 2009, as well as to some increase in residents' deposits with non-resident deposit-taking corporations. Direct investment recorded net inflows in amount of EUR 2,702 million, down 7.6 per cent. from 2013 (EUR 2,924 million), amid the net losses recorded by the direct investors.

Net inflows of portfolio investment amounted to EUR 2,859 million in 2014, compared to EUR 5,431 million a year earlier. This was primarily attributable to higher redemptions of government bonds as compared with the previous year level – according to the schedule. Other investment recorded net outflows worth EUR 9,890 million, 24.9 per cent. above the level of 2013, mainly reflecting a smaller volume of new loans and the contraction in new non-residents' deposits with resident deposit-taking corporations. Reserve assets decreased by EUR 1,235 million as compared with 31 December 2013.

In 2015 (provisional data), the financial account continued to record net outflows, totalling EUR 2,855 million, which was below the previous year level (EUR 3,068 million). The main reasons for the lower level of outflows are to be found under the "other investment" item, which comprised of a higher volume of non-residents' deposits with resident banks, a lower volume of residents' deposits abroad and a lower level of repayments related to external borrowings. Direct investment recorded net inflows of EUR 2,765 million, broadly comparable with the previous year level. Non-residents' investment in Romania (estimates) totalled 3,044 million, out of which equity capital and net reinvested earnings accounted for 3,335 million and intra-group loans recorded the net negative value of EUR 291 million. Portfolio investment recorded net outflows of EUR 776 million, versus net inflows amounting to EUR 2,859 million in 2014, due to the lower volume of government bonds issued in 2015. Other investment ended the year 2015 with net outflows lower than in the previous period (EUR 5,482 million in the period under review, as compared with EUR 9,890 million in 2014), mainly due to a higher volume of non-residents' deposits with resident banks, a lower volume of residents' deposits abroad and a lower level of repayments related to external borrowings.

In the first two months of 2016, the financial account net outflows totalled EUR 1,083 million, as compared with EUR 1,196 million in the corresponding period of 2015. This was primarily due to the declining level of repayments related to external borrowings. Direct investment recorded net inflows of EUR 320 million, as compared with EUR 197 million in the first two months of 2015. Non-residents' investment in Romania (estimates) totalled 354 million, out of which equity capital and net reinvested earnings accounted for 400 million and intra-group loans recorded the net negative value of EUR 46 million. Portfolio investment recorded net inflows of EUR 54 million, versus net inflows amounting to EUR 136 million in the same period a year ago, along with the lower interest of domestic banks in acquiring external assets of portfolio investment nature. Other investment ended the first two months of 2016 with net outflows lower than in the previous period (EUR 2,783 million in the period under review, as compared with EUR 3,599 million in January-February 2015), mainly due to a lower level of repayments related to external borrowings.

## BALANCE OF PAYMENTS FOR THE YEARS 2013, 2014, 2015 AND THE FIRST TWO MONTHS E

| Item  | 2013                 |               |                | 2014*                |               |                | 2015**               |               |                |
|---|----------------------|---------------|----------------|----------------------|---------------|----------------|----------------------|---------------|----------------|
|   | Credit               | Debit         | Balance        | Credit               | Debit         | Balance        | Credit               | Debit         | Balance        |
|   | <i>(EUR million)</i> |               |                | <i>(EUR million)</i> |               |                | <i>(EUR million)</i> |               |                |
| <b>I. Current Account .....</b>                             | <b>65,160</b>        | <b>66,699</b> | <b>(1,539)</b> | <b>68,658</b>        | <b>69,344</b> | <b>(686)</b>   | <b>73,995</b>        | <b>75,823</b> | <b>(1,828)</b> |
| <b>A. Goods and services .....</b>                          | <b>57,309</b>        | <b>58,422</b> | <b>(1,114)</b> | <b>61,908</b>        | <b>62,376</b> | <b>(468)</b>   | <b>65,899</b>        | <b>66,739</b> | <b>(831)</b>   |
| <b>a. Goods<sup>(2)</sup> .....</b>                         | <b>43,879</b>        | <b>49,695</b> | <b>(5,816)</b> | <b>46,807</b>        | <b>53,142</b> | <b>(6,335)</b> | <b>49,121</b>        | <b>56,897</b> | <b>(7,776)</b> |
| - General merchandise on a balance of payments basis .....  | 43,826               | 49,695        | (5,869)        | 46,696               | 53,142        | (6,446)        | 49,111               | 56,897        | (7,786)        |
| - Merchancing – export net .....                            | 53                   | 0             | 53             | 111                  | 0             | 111            | 10                   | 0             | 111            |
| Merchancing – goods acquired .....                          | (236)                | 0             | (236)          | (178)                | 0             | (178)          | (233)                | 0             | (233)          |
| Merchancing – goods sold .....                              | 289                  | 0             | 289            | 289                  | 0             | 289            | 243                  | 0             | 289            |
| <b>b. Services</b>  | <b>13,430</b>        | <b>8,727</b>  | <b>4,702</b>   | <b>15,101</b>        | <b>9,234</b>  | <b>5,867</b>   | <b>16,778</b>        | <b>9,842</b>  | <b>6,936</b>   |
| - Manufacturing services on physical inputs owned by others | 2,275                | 142           | 2,134          | 2,525                | 163           | 2,362          | 2,607                | 172           | 2,435          |
| - Transportation  | 3,880                | 1,386         | 2,494          | 4,391                | 1,577         | 2,814          | 5,277                | 1,796         | 3,481          |
| - Travel  | 1,196                | 1,547         | (351)          | 1,378                | 1,824         | (445)          | 1,535                | 1,854         | (319)          |
| - Other services  | 6,078                | 5,652         | 426            | 6,806                | 5,670         | 1,136          | 7,359                | 6,019         | 1,340          |
| <b>B. Primary income</b>                                    | <b>2,505</b>         | <b>5,617</b>  | <b>(3,112)</b> | <b>2,197</b>         | <b>4,101</b>  | <b>(1,903)</b> | <b>2,403</b>         | <b>6,209</b>  | <b>(3,812)</b> |
| - Compensation of employees                                 | 553                  | 68            | 485            | 545                  | 60            | 486            | 596                  | 45            | 530            |
| - Investment income   | 775                  | 5,424         | (4,649)        | 326                  | 3,935         | (3,609)        | 371                  | 6,020         | (5,694)        |
| Direct investment   | 69                   | 2,874         | (2,806)        | (84)                 | 1,763         | (1,848)        | 55                   | 3,961         | (3,905)        |
| Portfolio investment income                                 | 49                   | 835           | (786)          | 25                   | 713           | (688)          | 77                   | 959           | (882)          |
| Other investment income                                     | 120                  | 1,715         | (1,595)        | 97                   | 1,459         | (1,362)        | 50                   | 1,100         | (1,053)        |
| Reserve assets income                                       | 537                  | 0             | 537            | 289                  | 0             | 289            | 188                  | 0             | 417            |
| - Other primary income                                      | 1,177                | 125           | 1,052          | 1,326                | 106           | 1,220          | 1,436                | 144           | 1,292          |
| <b>C. Secondary income</b>                                  | <b>5,347</b>         | <b>2,660</b>  | <b>2,687</b>   | <b>4,552</b>         | <b>2,867</b>  | <b>1,685</b>   | <b>5,693</b>         | <b>2,875</b>  | <b>2,827</b>   |
| General government  | 1,544                | 1,579         | (35)           | 801                  | 1,791         | (989)          | 1,858                | 1,689         | 1,669          |
| - Other sectors   | 3,803                | 1,081         | 2,722          | 3,751                | 1,076         | 2,675          | 3,835                | 1,187         | 2,660          |
| <b>A. Capital account</b>                                   | <b>3,163</b>         | <b>125</b>    | <b>3,038</b>   | <b>4,047</b>         | <b>93</b>     | <b>3,954</b>   | <b>4,012</b>         | <b>104</b>    | <b>3,908</b>   |

| Item   | 2013                 |            |              | 2014*                |           |              | 2015**               |           |              |
|--|----------------------|------------|--------------|----------------------|-----------|--------------|----------------------|-----------|--------------|
|  | Credit               | Debit      | Balance      | Credit               | Debit     | Balance      | Credit               | Debit     | Balance      |
|  | <i>(EUR million)</i> |            |              | <i>(EUR million)</i> |           |              | <i>(EUR million)</i> |           |              |
| <i>a. Capital transfers</i>  | <b>3,021</b>         | <b>115</b> | <b>2,906</b> | <b>3,927</b>         | <b>81</b> | <b>3,845</b> | <b>3,781</b>         | <b>54</b> | <b>3,727</b> |
| - General government   | 3,018                | 11         | 3,007        | 3,922                | 0         | 3,921        | 3,298                | 1         | 3,299        |
| - Other sectors  | 3                    | 104        | (101)        | 5                    | 81        | (76)         | 483                  | 54        | 428          |
| <i>b. Gross acquisitions /disposals of nonproduced nonfinancial assets</i> | <b>142</b>           | <b>10</b>  | <b>132</b>   | <b>120</b>           | <b>12</b> | <b>108</b>   | <b>232</b>           | <b>49</b> | <b>153</b>   |



| Item   | 2013  |  |              | 2014*                                       |  |              | 2015**                                      |  |              |
|--|---|--|--------------|---|--|--------------|---|--|--------------|
|  | Net acquisition<br>of assets <sup>(3)</sup> | Net incurrence of liabilities <sup>(3)</sup> | Net          | Net acquisition<br>of assets <sup>(3)</sup> | Net incurrence of liabilities <sup>(3)</sup> | Net          | Net acquisition<br>of assets <sup>(3)</sup> | Net incurrence of liabilities <sup>(3)</sup> | Net          |
|  | <i>(EUR million)</i>                        |  |              | <i>(EUR million)</i>                        |  |              | <i>(EUR million)</i>                        |  |              |
| <b>B. Financial account</b>                                      | <b>2,432</b>                                | <b>758</b>                                   | <b>1,673</b> | <b>202</b>                                  | <b>(2,866)</b>                               | <b>3,068</b> | <b>808</b>                                  | <b>(2,048)</b>                               | <b>2,855</b> |
| <i>a. Direct Investment</i>                                      | (27)  | 2,897  | (2,924)      | 228   | 2,930  | (2,702)      | 734   | 3,499  | (2,765)      |
| - Equity   | 129   | 2,430  | (2,302)      | (203)                                       | 2,851  | (3,054)      | 131   | 3,301  | (3,170)      |
| 362 Equity other than reinvestment of earnings                   | 127   | 2,768  | (2,641)      | 12  | 4,226  | (4,214)      | 131   | 2,699  | (2,568)      |
| Reinvestment of earnings   | 1   | (338)  | 339          | (215)                                       | (1375)                                       | 1,160        | 0   | 601  | (601)        |
| - Debt instruments   | (156)                                       | 466  | (622)        | 431   | 79   | 352          | 603   | 199  | 404          |
| <i>b. Portfolio investment</i>                                   | 225   | 5,656  | (5,431)      | 105   | 2,964  | (2,859)      | 253   | (523)  | 776          |
| - Equity and investment fund shares/units                        | (47)  | 781  | (828)        | 3   | 435  | (432)        | 123   | (504)  | 627          |
| - Debt securities  | 272   | 4,875  | (4,603)      | 102   | 2,528  | (2,427)      | 130   | (19)   | 149          |
| <i>c. Financial derivatives</i>                                  | (35)  | 0  | (35)         | (26)  | 0  | (26)         | (37)  | 0  | (37)         |
| <i>d. Other investment</i>                                       | 127   | (7,795)                                      | 7,921        | 1130  | (8,760)                                      | 9,890        | 458   | (5,024)                                      | 5,482        |
| 1. Other equity other direct investment and portfolio investment | 57  | 0  | 57           | 5   | 0  | 5            | 11  | 0  | 11           |
| 2. Currency and deposits   | 163   | (2,625)                                      | 2,788        | 1,003                                       | (2,856)                                      | 3,859        | 110   | (1,427)                                      | 1,537        |
| 3. Loans   | (152)                                       | (4,490)                                      | 4,338        | 342   | (5,495)                                      | 5,837        | 249   | (3,590)                                      | 3,839        |
| 4. Insurance, pension and standardized guarantee schemes         | 2   | 0  | 1            | 2   | 0  | 2            | 1   | 0  | 1            |
| 5. Trade credits and advances                                    | (34)  | (694)  | 660          | (238)                                       | (385)  | 147          | (268)                                       | 18   | (286)        |
| 6. Other accounts receivable/payable                             | 90  | 14   | 76           | 16  | (23)   | 40           | 355   | (25)   | 380          |
| 7. SDRs  | 0   | 0  | 0            | 0   | 0  | 0            | 0   | 0  | 0            |
| <i>e. Reserve Assets</i>   | 2,143                                       | 0  | 2,143        | (1,235)                                     | 0  | (1,235)      | (600)                                       | 0  | (600)        |
| <b>3. Net errors and omission</b>                                |   |  | <b>(174)</b> | <b>0</b>                                    | <b>0</b>                                     | <b>(200)</b> | <b>0</b>                                    | <b>0</b>                                     | <b>775</b>   |

Notes:

(\*) Revised data

(\*\*) Provisional data

(1) BPM6 methodology

(2) FOB imports are BNRs' figures calculated using INS's 1,0430 CIF/FOB coefficient

(3) "+" = Increases; "-" = Decreases

Differences between total and the sum of components are due to rounding.

## Foreign Direct Investment

According to the results of the latest statistical survey regarding foreign direct investment ("FDI"), in 2014 FDI flows decreased by 10.8 per cent. to EUR 2.4 billion compared to EUR 2.7 billion in 2013. FDI was channelled primarily to manufacturing (32 per cent. of the total), out of which the main recipients were: oil processing and chemicals (5.7 per cent. of the total), transport means (5.4 per cent.), metallurgy (4.5 per cent.) and food, beverages and tobacco (4 per cent.). Apart from manufacturing, other activities that also attracted significant FDI were financial intermediation and insurance (13 per cent. of total FDI), wholesale/retail trade (11.7 per cent.), electricity, natural gas and water (11.1 per cent.), construction and real estate transactions (9.8 per cent.) and IT&C (6 per cent.). Out of the total FDI stock of EUR 60.2 billion, about two thirds consisted of equity, including reinvested earnings (EUR 43.2 billion), while net credit from foreign investors amounted to EUR 17 billion. The four largest countries from which FDI originated as at 31 December 2014 were The Netherlands (23.6 per cent. of FDI at end-2014), Austria (16.1 per cent.), Germany (12.4 per cent.) and France (6.8 per cent.), which has been the same ranking since 2009.

In 2014 (final data) non residents' direct investment in Romania amounted to EUR 2.4 billion (3.5 times larger than the current account deficit) as compared to EUR 2.7 billion in 2013, attributable mainly to a decrease in net credit. Residents' investment abroad decreased by EUR 282 million in 2014 after decreasing by EUR 211 million in 2013.

Preliminary data for 2015 indicates that non-residents' direct investment in Romania amounted to EUR 3.0 billion (an increase of 25.7 per cent. as against 2014), leading to an FDI stock accumulation of about EUR 63 billion. Residents' investment abroad increased by EUR 278 million after decreasing in the two preceding years by a total of almost EUR 500 million.

The following table shows non-residents' net foreign direct investment in Romania from 2013 to the first two months of 2016.

| <b>Net Foreign Direct Investment<sup>(1)</sup></b>       |                      |             |                           |                                   |
|--|----------------------|-------------|---------------------------|-----------------------------------|
|  | <b>2013</b>          | <b>2014</b> | <b>2015<sup>(2)</sup></b> | <b>Jan-Feb 2016<sup>(2)</sup></b> |
|  | <i>(EUR million)</i> |             |                           |                                   |
| Net FDI .....  | 2,712                | 2,421       | 3,044                     | 354                               |
| Equity capital and estimated net loss <sup>(1)</sup> ... | 2,427                | 2,846       | 3,335                     | 400                               |
| Other capital (intra-group loans) .....                  | 285                  | (425)       | (291)                     | (46)                              |

Notes:

(1) Non residents' investment in Romania

(2) Preliminary data

Source: National Bank of Romania

Various incentives are offered to investors (irrespective of local or foreign status), including governmental non-reimbursable grants for the acquisition of assets, governmental contributions when new workplaces are created, incentives in the form of interest reductions to investors when contracting loans for investments or state guarantees to investors. Investors are also entitled to apply for European Union funds for the reimbursement of eligible expenses incurred in connection with certain types of investments.

Governmental incentives are available for investments made in, among other sectors, agricultural and industrial processing activities, electric and thermal energy production and supply, environment protection, IT and communications and research and development. Upon completion of various conditions related to the investments and provided that the relevant State aid schemes are created by the competent authorities, investors are entitled to request and benefit from the incentives established under the relevant legislation.

In 2014 the Romanian Government implemented a new package of EUR 1.2 billion state aid to support regional development with the aim of creating new jobs and encouraging large investment projects with major economic impact.

From November 2007 to April 2016, the Ministry of Public Finance, through the state aid schemes that it administered, granted aid amounting to EUR 795.1 million to support 69 large investment projects with a total value of EUR 3,097.5 million and creating at least 22,843 new jobs. Additionally, various state aid schemes are available for SME's and large enterprises at the level of other several public authorities, both from budgetary and EU funds.

The Department of Foreign Investments and Public-Private Partnership, operating under the name InvestRomania since February 2016, is the governmental body dedicated to providing professional support and advice to foreign investors in Romania. Its purpose is to attract and facilitate foreign direct investment in Romania and support new or existing Romanian companies leverage their capabilities to expand to new markets. Its mission is to increase inward FDI by internationally promoting Romania's business offer and assisting worldwide entrepreneurs in project implementation. Its activities include: providing general information on legal framework, the investment climate, key business sectors and locations, acting as main interface with public authorities (central/local) in relevant project areas, supporting companies that consider engaging with the Romanian market or developing their current units, match-making company's needs with the local resources and opportunities including identifying local suppliers. Continuously contributing to inward FDI attraction to domestic economy since 2002, under various forms, InvestRomania enhanced the country's image and visibility as a profitable investment location with the international business community. Its activities resulted in a EUR 11 billion project portfolio generating over 150,000 new jobs, featuring worldwide players including Renault Technologie (EUR 450 million), Renault Mechanique (EUR 226 million), Ina Schaeffler (EUR 700 million), Saint Gobain (EUR 120 million), Calsonic Kansei (EUR 120 million), Procter & Gamble (EUR 70 million), Martifer (EUR 170 million), Bosch (EUR 180 million), Daimler (EUR 300 million), Continental (EUR 1 billion), Emerson (EUR 400 million).

## **MONETARY AND FINANCIAL SYSTEM**

### **National Bank of Romania**

The NBR is the central bank of Romania, organised as an independent public institution and has its headquarters in Bucharest. The main objective of the NBR, set forth in its statutory provisions, is to maintain overall price stability.

The NBR is empowered and authorised:

- to develop and apply monetary policies and foreign exchange policies;
- to authorise, regulate and supervise, from a prudential perspective, credit institutions;
- to promote and monitor the proper functioning of payment systems in order to ensure financial stability;
- to issue Romanian legal tender (banknotes and coins);
- to establish a foreign currency regime and to supervise its observance; and
- to manage the international reserves of the Romanian state.

The Government, acting through the Ministry of Public Finance, and the NBR maintain a close working relationship. Although the NBR is expected to support the Government's economic policy, the NBR's power to determine monetary policy or to generally perform its duties is not subject to any review or consent by the Government. The NBR does not receive instructions from any public authority, institution or any other authority.

The NBR is managed by a board of nine members and its executive functions within the Monetary Policy Committee and the Supervisory Committee are delegated to a governor, a first deputy governor and two deputy governors. The members of the board of the NBR are appointed by the Parliament for five-year terms and can be reappointed.

In its capacity as bank supervisor, the NBR has the legal power to require credit institutions to: (i) hold own funds over the minimum solvency ratio; (ii) reinforce internal governance arrangements, processes, mechanisms and strategies; (iii) apply a specific provisioning policy or treatment of assets in terms of own funds requirements; (iv) impose restrictions or limitations on business, operations or network; (v) reduce the risk inherent in their activities, products and systems; (vi) limit variable remuneration as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; and (vii) use net profits to strengthen their capital base.

The NBR is also empowered to: (i) withdraw the approval granted to the credit institution managers and/or board members; (ii) limit the qualifying holdings of the credit institution in financial or non-financial institutions, effectively forcing a sale of such holdings; (iii) require the credit institution to draw up and approve a recovery plan to improve the condition of its business; (iv) require shareholders with qualifying holdings to financially support the credit institution by increasing the share capital or by providing subordinated loans and/or by converting such loans into shares; and (v) prohibit or limit profit distribution for purposes other than those provided by law, until the NBR ascertains that the financial condition of the credit institution has been restored.

### **Monetary Policy**

The chief monetary policy instruments used by the NBR are open market operations, standing facilities and reserve requirements. Open market operations are conducted at the central bank's initiative and play a role in steering interest rates, managing liquidity conditions in the money market and signalling the monetary policy. The NBR may not acquire from the primary market receivables against the state, central and local public authorities, autonomous administrations, national companies and other majority state owned companies or receivables against other bodies and public companies from EU Member States. The main categories of open market operations available to the NBR on the secondary market are: repo operations, deposit-taking operations, issuance of certificates of deposit, reverse repo operations, credit operations against eligible assets as collateral, outright sales/purchases of eligible assets and foreign exchange swaps. The NBR's standing facilities to credit institutions, consisting of a credit facility and a deposit facility, aim to absorb and provide overnight liquidity, signal the general monetary policy and bind overnight interbank rates by the corridor defined by the interest rates on the lending and deposit facilities. The standing facilities are available to credit institutions upon request.

## ***Recent Monetary Policy***

2013

The statistical data released prior to the meeting of the NBR Board held on 7 January 2013 indicated that in October and November 2012 the annual inflation rate declined notably, reaching 4.56 per cent., mainly as the result of the relative improvement, also vis-à-vis expectations, in volatile price developments and of the RON exchange rate behaviour. Also, against this background, strengthened by appreciation trend of the RON which manifested over the last weeks of 2012, as well as following the likely protraction of low economic activity, which implied a widening of the aggregate demand deficit, the short-term inflation outlook also registered a significant improvement, consolidating the forecast for the annual inflation rate to return within the target band (starting with 2013, the NBR adopted a flat multi-annual inflation target of 2.5 per cent., plus or minus one percentage point) by the end of 2013. However, given the persistence of risks and uncertainties surrounding this outlook, stemming from developments of the external environment and of capital flows, as well as from the behaviour of administered prices and of certain volatile prices, in its first meeting of 2013, the NBR Board decided to extend the status quo of the policy rate and of the minimum reserve requirements ratios applied to RON- and foreign currency-denominated liabilities of credit institutions, and to ensure adequate liquidity management in the banking system.

In December 2012, the annual inflation rate increased, reaching 4.95 per cent., a level above the upper bound of the target band, but nevertheless marginally below the forecast presented in the November 2012 Inflation Report. At the same time, the updated projection of medium-term macroeconomic developments (February 2013 Inflation Report) reconfirmed that the inflation rate would return to the upper bound of the target band towards the end of 2013, but also indicated that inflation would temporarily accelerate during the first half of 2013, mainly as a result of larger administered price adjustments. Under these circumstances, the monetary policy interest rate was kept unchanged at 5.25 per cent. at the NBR Board meeting of 5 February 2013. This level of the monetary policy interest rate was further maintained in March 2013 as well, given, on the one hand, the reconfirmed outlook for the annual inflation rate to resume its decline in the second part of 2013, given lessening effects of adverse supply-side shocks and the disinflationary effects of a sizable aggregate demand deficit, and, on the other hand, the risks to inflation expectations potentially caused by a temporary reacceleration of inflation in the second quarter of 2013, as well as the risks of increased volatility of capital flows, implicitly of the EUR/RON exchange rate, arising from tensions on the international financial markets under the impact of the Cyprus crisis.

The updated projection of medium-term macroeconomic developments (NBR's May 2013 Inflation Report) indicated a significant improvement of the short-term inflation outlook, mainly driven by the relatively more favourable influence of supply-side factors stemming from the downward revision of the projected annual dynamics of volatile and administered prices. The annual inflation rate was expected to decline to 3.2 per cent. by the end of 2013 (i.e. 0.3 percentage points lower than in the previous projection), after running above the target band until the second half of 2013. In this context, with a view to effectively anchoring inflation expectations and strengthening the prospects for the annual inflation rate to return inside the band around the medium-term target after the effects of adverse supply-side shocks have faded, the NBR Board decided in its meeting on 2 May 2013 to keep the monetary policy rate unchanged at 5.25 per cent. At the same time, in order to moderate interest rate volatility on the interbank money market and consolidate the transmission of the policy rate signal, the NBR Board had decided to narrow the corridor defined by interest rates on standing facilities to  $\pm 3$  percentage points. In its meeting on 1 July 2013, the NBR Board decided to lower the monetary policy rate by 25 basis points, to 5.0 per cent. The decision was taken as the most-recent short-term projection reconfirmed the outlook for disinflation to resume starting July 2013, with the annual inflation rate expected to decelerate at a faster pace and re-enter in September/October 2013, the  $\pm 1$  percentage point variation band around the 2.5 per cent. target. In addition, the adjusted CORE2 annual inflation rate was anticipated to stay on a downward trend, amid the persistence of the negative output gap.

In its meeting on 5 August 2013, the NBR Board decided to increase to 50 basis points the pace of its rate cuts. The reason for this decision was the major inflection in inflation expected in the period between July and September, resulting in the 12-month inflation rate re-entering within the variation band of the target (2.5 per cent.  $\pm 1$  percentage point). At the same time, the baseline scenario of the updated projection (August 2013 Inflation Report) revealed an improvement in the outlook for inflation throughout the policy-relevant horizon, as well as for the core inflation, supported by the relative steepening of the downward adjustment of inflation expectations and by the expected protraction of a significant aggregate demand deficit. In addition, disinflationary factors prevailed in the balance of risks to the inflation outlook in the near-term, given emerging premises of a significantly higher-than-expected increase in the year's crop, as well as the implementation of an announced cut of the VAT rate applied to bread and other bakery products from 1 September 2013.

The data released in the subsequent period confirmed the expected steep deceleration of inflation during the first two months of the third quarter of 2013, while also showing the prospects for disinflation to accelerate more than expected during the subsequent two quarters, under the transitory impact induced by the materialization of the above-mentioned

risks. Moreover, benefiting from the favourable revision of some of its main assumptions, the updated projection of medium-term macroeconomic developments revealed the outlook for the annual inflation rate to remain below the mid-point of the flat target over the next four quarters, and even to fall below the lower bound of the interval in the first part of 2014. The projection also showed that, once the temporary action of the disinflationary factors faded, the annual inflation rate would follow an upward correction, but remain at levels marginally lower than previously projected, implicitly within the variation band of the flat target, throughout the policy-relevant horizon. In this context, the NBR Board decided to further lower the policy rate in two steps of 25 basis points each in its meetings of 30 September and 5 November 2013.

#### *2014*

The policy rate-cutting cycle was extended in January 2014 with another reduction of 25 basis points, to 3.75 per cent, as new assessments reconfirmed the outlook for the annual inflation rate to decline further to historical lows during the first part of 2014. This outlook was due to the favourable base effect and the impact of the 2013 bumper crop, the development being in line with the previous forecasts of the annual inflation rate returning and subsequently remaining inside the variation band of the 2.5 per cent. target.

In February 2014, the NBR cut the policy rate by an additional 25 basis points, to 3.50 per cent. The decision was made because of a perceived likelihood of a decline in the annual inflation rate in the first months of 2014 at levels below the lower bound of the variation band of the 2.5 per cent. target, prompted by the favourable base effects associated with developments in administered prices and with food prices, and by the persistence of the impact of a reduction in the VAT rate on some bakery products overlapping the effects exerted by fundamentals. Equally, the decision was warranted by the confirmed outlook for the annual inflation rate to remain in the upper half of the variation band of the target in the medium term (after the fading of transitory disinflationary effects of the supply-side shocks which occurred in 2013), amid the consolidation of inflation expectations in line with the target and the persistence of a negative output gap.

The subsequent reconfirmation of the inflation projections, implying the return and the maintenance of the annual inflation rate in the upper half of the variation band of the target, prompted the NBR Board to keep the policy rate unchanged at 3.5 per cent. in its March and May 2014 meetings. That level was maintained also in July 2014, as incoming data and the updated projections of short-term developments revealed a significant downward deviation of the annual inflation rate from prior forecasts (under the impact of one-off factors), while the consolidation over a longer horizon of the 12-month inflation rate at levels below those forecasted previously was still uncertain.

#### *2015-2016*

The prudent policy rate-cutting cycle was resumed in August 2014 and extended through to March 2015, as the annual inflation rate continued to stay mostly below the lower bound of the variation band of the target, implicitly below the previously-projected levels, falling to 0.83 per cent. in December 2014 and to 0.40 per cent. in February 2015. Its projected trajectory saw repeated/significant downward revisions and remained, in the February 2015 update of the quarterly macroeconomic forecast, at levels significantly below the mid-point of the target, even at the longer horizon of the projection. In the recent period and in the short-run, the change in inflation behaviour was exclusively due to the temporary action of supply-side factors (the abrupt decline in the international oil price and the increased supply of agricultural products boosted also by imports), while in the medium-term it was mainly driven by the relatively more subdued expected developments of adjusted CORE2 inflation as a result of the decline in inflation expectations in medium term, the downward revision of expected inflation in the euro area and other EU countries and the persistence of the negative output gap, albeit on a narrowing trend.

In this context, the NBR cut the policy rate in six consecutive steps of 25 basis points each, to 2.00 per cent in March 2015. In its meeting of 6 May 2015, the board of the NBR decided to lower the monetary policy rate by a further 25 basis points to 1.75 per cent. per annum. The decision was taken as a result of the perceived increased likelihood of the annual inflation rate slipping temporarily into negative territory (largely due the measure on lowering the VAT rate to 9 per cent., from 24 per cent., for all food items, non-alcoholic beverages and public food services as of 1 June 2015) and staying, once the influence of this fiscal measure has ended, below the midpoint of the inflation rate target, amid the gradual narrowing of the negative output gap, and further low inflation expectations and subdued euro area inflation. The reductions in the monetary policy rate were complemented by the progressive narrowing of the symmetrical corridor formed by the interest rates on NBR's standing facilities around the policy rate (in six consecutive steps implemented since September 2014) to plus or minus 1.75 percentage points in May 2015; the measure was aimed at reducing the volatility of the interbank money market rates and consolidating the transmission of the monetary policy rate signal.

Following the seven successive rate cuts of 0.25 percentage points implemented between August 2014 and May 2015, the NBR Board reconsidered the monetary policy cycle. The monetary policy interest rate has been left unchanged at

1.75 per cent. in all NBR's Board meetings since 1 July 2015, including in the meetings on 5 February 2016 and 31 March 2016. The February 2016 decision was taken as the updated medium-term projection reconfirmed the expectations for an initial decline, followed by an increasing annual inflation rate, arising from the nature of the fiscal easing measures implemented at the beginning of 2016. Thus, according to the February 2016 medium-term projection, the annual inflation rate was seen falling deeper and remaining in the negative territory during the first five months of 2016, as a result of the significant transitory disinflationary effects expected to be exerted by the new cuts in indirect taxes (especially the reduction in the VAT rate from 24 per cent. to 20 per cent.) overlapping those already manifested as a result of the VAT rate cut on all food items (in June 2015) and the further decline in fuel prices. However, the annual inflation rate is expected to revert to positive values starting with the second half of 2016, as, after the fading out of the one-off impact of the fiscal measures, the opposite effects are expected to be exerted by the aggregate demand - amid the easing of the fiscal and income policies in 2016 - and by the increase in unit labour costs.

The expected renewed deepening of the annual inflation rate into the negative territory in the first months of 2016 was confirmed by subsequently released statistical data. The data also revealed a further increase in the annual GDP growth in the fourth quarter of 2015, primarily as a result of the main components of domestic absorption, as well as the maintenance of the high growth rate of consumption demand in the first quarter of 2016. These statistical assessments also indicated the prospects for the annual inflation rate to remain negative until June 2016. This is expected primarily as a result of the cut of the standard VAT rate and of other indirect taxes and the persistence of mixed risks to future inflation developments arising from the possible additional easing of the fiscal and income policies in the context of the election year, and from increased uncertainties regarding the economic growth in the euro area.

In its most recent meeting on 5 May 2016, the NBR Board kept the monetary policy rate unchanged at 1.75 per cent., primarily in view of the projected path of the annual inflation rate and its major determinants, as well as the accompanying risks of the potential fiscal and income policy stance, the changes to financial legislation, and the uncertainty about global economic growth and the recovery of the euro area economy.

During 2014 and 2015, the NBR also lowered the minimum reserve requirement ratios on RON denominated liabilities of credit institutions (by three percentage points in January 2014, two percentage points in September 2014 and by another two percentage points in May 2015, to 8 per cent.), and on their foreign currency-denominated liabilities (in three steps of two percentage points in January, July and November 2014, to 14 per cent.); both measures were meant to continue the harmonisation of the reserve requirements mechanism with ECB standards in practice, while the first one was aimed primarily at supporting the sustainable recovery of lending activity.

In its meeting on 7 January 2016, the NBR Board decided to cut the minimum reserve requirements ratio on foreign exchange denominated liabilities of credit institutions from 14 per cent. to 12 per cent. starting with the 24 January-23 February 2016 maintenance period. This decision was taken against the background of decrease in foreign currency denominated loans and in order to continue the harmonization of the reserve requirements mechanism with the standards and practices of the European Central Bank and the major central banks across the European Union.

#### *Expected future developments in monetary policy*

The NBR will further set its monetary policy with a view to meeting the medium-term inflation target through the solid anchoring of inflation expectations and in a manner supportive of economic growth, by restoring confidence and reinvigorating lending, while maintaining the cyclical consistency of monetary policy and synchronizing it with the monetary policy cycles of central banks in the region and in the euro area. The inflation outlook and the assessment of the balance of risks to the inflation forecast are the key factors behind future monetary policy decisions.

#### ***Recent Developments in the Lending Process***

##### *2013*

The negative annual dynamics of lending to the private sector (expressed in real terms) continued until July 2013, when it reached a 12 year record low (partially attributable to the effects of RON appreciation). In the subsequent four months, the decline in lending to the private sector slowed down. The dynamics of loans made in foreign currency advanced in negative territory throughout 2013, while those of loans in RON improved somewhat between August and October 2013. Against this backdrop, the share of foreign currency- denominated loans in total lending to the private sector declined to a three and a half year low of 60.9 per cent.

The annual growth rate of lending to corporations and to households (expressed in real terms) remained negative. Loans to corporations were at historic lows, mostly on behalf of the foreign currency-denominated component. Consumer lending contracted further, although the pace of decline slowed starting in September 2013, while housing loans continued to grow, benefitting from the strong acceleration in the domestic currency-denominated component,

reflecting the change in the "First Home" programme such that it has been conducted exclusively in domestic currency since August 2014.

#### 2014

In 2014, the annual dynamics of lending to the private sector (in real terms) remained negative, but the decline was slower compared to the previous year, reflecting the positive development of RON-denominated loans, as well as the overall statistical effects of RON depreciation and a lower annual inflation rate respectively. Opposite effects were exerted by the steeper contraction of the foreign currency-denominated component (expressed in euros) and, starting in the second quarter of 2014, by an acceleration in loan sales and write-offs from banks' balance sheets. Against this backdrop, the share of the foreign currency-denominated loans in total lending to the private sector continued to decrease. A breakdown by client type shows that lending to households (expressed in real terms) was higher than in the previous year, while lending to corporations remained close to the levels of the last year. For households, this evolution reflected the continuing increase in the RON-denominated component, triggered in its turn by the strong acceleration in lending for house purchases (mainly due to the "First House" government programme), and by the improvement, although still modest, in the dynamics of consumer loans; instead the growth rate of the foreign currency-denominated loans (expressed in euro) contracted until reaching the historical minimum. For corporations, the dynamics of the RON-denominated credit stood solely in positive territory, while that of the foreign currency-denominated credit (expressed in euro) widened its negative value.

#### 2015

The annual growth rate of lending to the private sector became positive in 2015 (3.0 per cent. in December, expressed in nominal terms, compared to -3.3 per cent. at end of 2014) for the first time in almost three years, driven by the strong rebound in RON-denominated loans (the annual growth rate of which increased over the same period to 19.7 per cent., from 7.9 per cent.) Thus, after having remained stable at negative levels during the first months of the year, the growth rate of lending to the private sector started to rise since May 2015, with increasingly robust growth of RON-denominated loans reflecting the general increase in the volume of new loans, caused by the decline of interest rates in response to the gradual easing of the monetary policy stance over the past year via a range of tools (policy rate cuts, narrowing of the symmetrical corridor of interest rates on the NBR's standing facilities around the policy rate, reduction in minimum reserve requirements ratios and adequate liquidity management). Foreign currency-denominated loans continued to decrease, and amounted to 51.3 per cent. of total credit to private sector in July 2015. Aside from the increase in domestic currency lending, the movements in credit to the private sector reflected the effect of the removal of non-performing loans ("NPL") from banks' balance sheets, by the purchase of loans previously sold by some banks, as well as by the conversion into RON of certain Swiss Franc-denominated loans. The breakdown by client revealed that the growth rate of loans to households continued to outperform that of companies, recording positive values starting March 2015. The growth rate of loans to companies remained negative, but recovered to some extent in June 2015.

The annual growth rate of lending to the private sector continued to increase between August and December 2015, reaching its maximum over the course of the past three years at the end of 2015. This reflected the effect of the increase in the volume of new loans in RON. Against this background, the growth rate of RON denominated loans to both households and companies grew, while that of the foreign currency-denominated loans decreased, reaching the lowest level in more than 15 years in October 2015. The growth rate of lending to households picked up in November, after having been relatively stable since June at a high level as compared to the last three and a half years. The growth rate of lending to companies continued to recover, and as such in December 2015 it entered positive territory for the first time in more than two and a half years.

#### 2016

In January and February 2016, the growth rate of lending to the private sector decreased slightly (to 2.4 per cent., expressed in nominal terms), but remained high as compared to the last three years, with both credit to households and to companies accounting for this evolution. The growth rate of RON denominated loans reached the highest level in seven years in February 2016 (20.7 per cent.), reflecting the prolonged acceleration in loans to households and the relative stagnation in loans to companies. By contrast, the foreign currency-denominated loans accelerated their rate of decline.

#### *Inflation Rates, Target Inflation Rates and Monetary Policy Rates*

The following table sets out actual quarterly inflation rates, annual target inflation rates and monetary policy rates as at the end of each quarter of the years from 2013 to March 2016:



| End of Period        | Inflation Rate Target Inflation Rate Monetary Policy Rate |     |      |
|----------------------|---|-----|------|
|                      | <i>(per cent.)</i>  |     |      |
| March 2013 .....     | 5.25  | —   | 5.25 |
| June 2013.....       | 5.37  | —   | 5.25 |
| September 2013 ..... | 1.88  | —   | 4.50 |
| December 2013.....   | 1.55  | 2.5 | 4.00 |
| March 2014 .....     | 1.04  | 2.5 | 3.50 |
| June 2014.....       | 0.66  | 2.5 | 3.50 |
| September 2014 ..... | 1.54  | 2.5 | 3.25 |
| December 2014.....   | 0.83  | 2.5 | 2.75 |
| March 2015.....      | 0.79  | 2.5 | 2.25 |
| June 2015 .....      | (1.55)  | 2.5 | 1.75 |
| September 2015 ..... | (1.73)  | 2.5 | 1.75 |
| December 2015 .....  | (0.93)  | 2.5 | 1.75 |
| March 2016 .....     | (2.98)  | 2.5 | 1.75 |

Sources: National Institute of Statistics, National Bank of Romania

### **Monetary Aggregates**

The following table shows selected monetary aggregates as at 31 December 2013, 2014, 2015 and 31 March 2016:

|   | As at 31 December    |            |           | As at     |
|---|----------------------|------------|-----------|-----------|
|   | 2013                 | 2014       | 2015      | 31 March  |
|   |                      |            |           | 2016      |
|   | <i>(RON million)</i> |            |           |           |
| M1 (narrow money) – Total.....  | 100,310.6            | 118,581.6  | 149,601.6 | 145,969.3 |
| Currency in circulation .....   | 34,784.4             | 39,890.4   | 46,481.7  | 46,540.3  |
| Overnight deposits .....  | 65,526.2             | 78,691.3   | 103,119.9 | 99,428.9  |
| M2 (intermediate money) – Total .....   | 241,251.0            | 261,572.7  | 286,171.6 | 280,654.7 |
| M1 .....  | 100,310.6            | 118,581.6  | 149,601.6 | 145,969.3 |
| Deposits with agreed maturity<br>of up to 2 years.....  | 140,940.4            | 142,991.1  | 136,569.9 | 134,685.4 |
| M3 broad money.....   | 241,547.1            | 261,831.2  | 286,301.1 | 280,765.8 |
| M2 .....  | 241,251.0            | 261,572.76 | 286,171.6 | 280,654.9 |
| Other financial instruments.....<br>(repurchase agreements, MMFs shares/units,<br>debt securities with maturity of up to 2 years) | 296.1                | 258.5      | 129.5     | 111.1     |

Note:

This table illustrates the monetary aggregates as (re)calculated according to the new methodology on statistical reporting by monetary financial institutions implemented by the NBR as from 1 January 2007, in order to harmonise its regulations with those of the ECB. Some totals may differ from the sum of components due to rounding.

Source: National Bank of Romania

## ***Interest Rates***

### *2013*

In the first months of 2013, overnight money market rates began trending downwards, reinforced by the NBR's decisions to gradually increase the amount of liquidity injected through its weekly repo tenders in January and February and to resume the full-allotment procedure in March. After moving somewhat closer to the policy interest rate in July, these interest rates fell rapidly in August and, against the background of the persistent easing of liquidity conditions, remained in the lower part of the corridor defined by interest rates on NBR's standing facilities around the policy rate. ROBOR rates (3 to 12-months) also benefited from improved liquidity conditions and began 2013 by moving on a downward path which steepened in March and April especially at the short end of the maturity spectrum. Against this background, the 3-month ROBOR declined and then stabilized in May to approximately 100 basis points below the policy rate. The 6- and 12-month ROBOR continued their downward adjustment which slightly accelerated in the first part of May due to the impact of revised expectations regarding the future path of the monetary policy interest rate. In early June, the 3 to 12-month ROBOR rates saw an increase, which was partly reversed afterwards, such that they stood roughly 40 to 60 basis points below the policy rate during the rest of that month. Reflecting the monetary policy rate cuts and credit institutions' expectations on the outlook for liquidity conditions and the policy rates path, interest rates for longer maturities were on a prolonged downward trend from August through October. They stabilized afterwards, before adjusting further downward during the first half of December so that, by the end of 2013, the 3 to 12-month ROBOR rates stood approximately 80 to 150 basis points below the monetary policy rate.

### *2014-2016*

After a further decline during the first weeks of 2014, three month to twelve month ROBOR rates rose swiftly near the monetary policy rate at the end of January 2014, as a result of a change in both liquidity conditions and banks' expectations on their outlook. Towards the end of February 2014, interbank money market interest rates began moving slightly downward, particularly in the case of shorter maturities. At the end of March 2014, three month ROBOR rates stood approximately 50 basis points below the monetary policy rate, while rates on longer maturities were roughly 15 basis points lower than the monetary interest rate. After having been broadly stable in April 2014, the three month to twelve month ROBOR rates resumed their downward movement in May 2014 as liquidity conditions on the money market improved. They stayed on a descending trajectory during subsequent months, before stabilising at levels between 65 and 115 basis points below the policy rate by early August 2014. Beginning with the second half of August 2014, longer-term money market rates followed an upward trend and neared the monetary policy rate in the first days of October 2014, as liquidity conditions tightened again. However, the liquidity surplus re-emerged and expanded until January 2015, driven by the resumption of, and subsequent increase in, the Treasury's liquidity injections and the fall in banks' demand for reserves as a result of the reduction of the minimum reserve requirement ratio on their RON-denominated liabilities, before declining, yet remaining at significant levels, during most of the remainder of the first quarter of 2015. Liquidity conditions tightened temporarily at the end of March and early April, under the impact of increased absorption of autonomous liquidity factors. Against this background, very short term rates neared the deposit facility rate in November 2014 and subsequently consolidated at those levels, rising only briefly to the proximity of the policy rate at the end of first quarter and the beginning of the second quarter 2015. The three month to twelve month ROBOR rates also were impacted by the change in current and expected liquidity conditions, as well as the NBR's decisions to extend the policy rate-cutting cycle and banks' expectations with respect to the future trajectory of the policy rate, resuming their downtrend in the second half of October, and continuing it through to April 2015.

The liquidity surplus decreased at the end of March and in April and May 2015, due to the increased absorptions associated with Treasury's operations and/or rise in currency outside the NBR, before increasing again in June and July 2015, due to the influence of Treasury's reserve injections and the reduction of the minimum reserve requirement ratio on banks' RON-denominated liabilities. In August, the liquidity declined again. Against this background, very short term rates neared the deposit facility rate in November 2014 and consolidated at those levels, rising only briefly to proximity with the policy rate in April and May 2015 and late August 2015. The three month to twelve month ROBOR rates also were impacted by the change in current and expected liquidity conditions, as well as by the NBR's current and expected decisions regarding the policy rate, resuming their trend in the second half of October 2014, and continuing it through to March 2015. Longer-term rates tended to stabilise afterwards. In August 2015, the three month to twelve month ROBOR rates stood at levels between 10 and 40 basis points below the monetary policy rate.

Liquidity conditions tightened somewhat in September and October 2015, but only temporarily, as the liquidity surplus saw a strong expansion from November 2015 up to January 2016 due to large reserve injections arising from State Treasury's operations and narrowed gradually in subsequent months. Hence, overnight interbank rates declined and stood in the proximity of the deposit facility rate, while the three-month to twelve-month ROBOR rates trended

downwards from October 2015 until February 2016, and remained broadly stable afterwards around the new historical lows.

The interest rates applied by credit institutions on new time deposits and new loans decreased throughout 2013 against the background of the downward trend in the monetary policy rate and ROBOR rates on the interbank money market, recording at the end of that interval historical lows on both categories of customers. Thus, the average interest rate on new loans to non-financial corporations decreased by 2.92 percentage points to 6.84 per cent., while the corresponding interest rate on new loans to households registered the largest decline (-3.36 percentage points to 9.05 per cent.). In turn, the average interest rate on new time deposits went down by 2.96 percentage points (to 2.19 per cent.) in the case of non-financial corporations and by 1.71 percentage points (to 3.92 per cent.) in the case of households.

The interest rates on new time deposits and new loans continued to decline in 2014, reaching successive historical lows against the background of the downward trend in monetary policy interest rate and ROBOR rates on the interbank money market; during this period, they posted nevertheless some minor fluctuations in both directions mainly due to changes in composition of flows. Thus, the average interest rate on new time deposits of households declined by 1.15 percentage points to 2.77 per cent., while that corresponding to non-financial corporations decreased by 1.10 percentage points to 1.09 per cent. in December 2014. The decline of the average interest rates on new loans was even more pronounced on both categories of customers over the whole period under review (-1.89 percentage points to 7.16 per cent. in the case of households and -1.36 percentage points to 5.48 per cent. in the case of non-financial corporations).

During the first seven months of 2015, the average interest rates charged by banks on new time deposits and new loans continued to record historical lows on both households and non-financial corporations customer segments. Thus, the average interest rate on new time deposits extended its decline in the non-financial corporations sector (-0.31 percentage points to 0.80 per cent.), as well as on that of the household sector (-1.09 percentage points, to 1.69 per cent.). At the same time, the average interest rate on new loans to non-financial corporations continued to decrease (-1.18 percentage points, to 4.69 per cent. in July 2015). The average interest rate for new loans to households increased temporarily in the period January-February 2015; however, in the following months, it resumed its decline, reaching 6.84 per cent. in July 2015 (-0.43 percentage points, compared to December 2014).

The average interest rates applied by credit institutions to new time deposits and new loans generally fell further in the period of August 2015 through February 2016. Thus, interest rates on new time deposits decreased to new historical lows both in the case of non-financial corporations (by 0.34 percentage points to 0.46 per cent.) and households (by 0.48 percentage points to 1.22 per cent.). Meanwhile, the average interest rate on new loans to non-financial corporations decreased by 0.34 percentage points to 4.35 per cent., while the corresponding interest rate for households stood essentially unchanged at 6.85 per cent., after having displayed some fluctuations around the overall downtrend, also driven by variations in the composition of new loans.

Following the Debt Discharge Law entering into force, the NBR expects that lending rates set by the financial institution will increase by approximately 0.2 percentage points.

The following table shows key financing interest rates as at 31 December 2013, 2014 and 2015 and 31 March 2016:

**National Bank of Romania - Annual Interest Rate (Domestic Currency Operations)**

|                        |      | As at<br>31 December |      | As at 31<br>March |
|------------------------|------|----------------------|------|-------------------|
|                        | 2013 | 2014                 | 2015 | 2016              |
| Policy rate .....      | 4.00 | 2.75                 | 1.75 | 1.75              |
| Lending facility ..... | 7.00 | 5.25                 | 3.25 | 3.25              |
| Deposit facility ..... | 1.00 | 0.25                 | 0.25 | 0.25              |

Source: National Bank of Romania

The following table shows annual average interest rates for loans and term deposits as at 31 December 2013, 2014, 2015 and 29 February 2016:

### Annual Average Interest Rates for Loans and Term Deposits (for Domestic Currency Operations)

|                                  | As at 31 December  |      | As at 29 February |      |
|----------------------------------|--------------------|------|-------------------|------|
|                                  | 2013               | 2014 | 2015              | 2016 |
|                                  | <i>(per cent.)</i> |      |                   |      |
| <b>Individuals</b>               |                    |      |                   |      |
| Loans .....                      | 11.32              | 9.47 | 7.56              | 7.25 |
| Term deposits .....              | 4.03               | 2.92 | 1.62              | 1.48 |
| <b>Non-financial corporation</b> |                    |      |                   |      |
| Loans .....                      | 7.36               | 5.93 | 4.70              | 4.50 |
| Term deposits .....              | 2.69               | 1.61 | 0.85              | 0.75 |
| <b>Total</b>                     |                    |      |                   |      |
| Loans .....                      | 9.14               | 7.65 | 6.21              | 5.98 |
| Term deposits .....              | 3.67               | 2.54 | 1.41              | 1.29 |

Note:

The table is compiled according to the new methodology implemented by the NBR as from 1 January 2007, in order to harmonise its regulations with applicable ECB Regulation (EU/1072/2013) and (ECB/2013/34 ) starting with 1 December 2014).

Source: National Bank of Romania

### **Foreign Exchange and Convertibility of the RON**

The NBR issues and implements regulations governing foreign currency transactions in Romania and supervises their implementation under NBR Regulation No. 4/2005, as amended and republished ("**FX Regulation**").

The FX Regulation sets out safeguard measures for foreign exchange transactions which the NBR may apply in the event of substantial changes in domestic liquidity or severe imbalances of payments.

In contemplation of the accession of Romania to the EU, all capital transactions had been liberalised by 1 September 2006 under the FX Regulation. As such, residents and non-residents currently engage freely in both current and capital transactions, in foreign and domestic currency.

The imported and exported cash amounts are regulated by Regulation (EC) No. 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community, directly applicable in Romania and which is within the competence of the National Customs Authority of Romania.

### **Exchange Rate Policy**

The exchange rate of the RON is determined in the interbank foreign exchange market.

#### **2013**

The downward movement of EUR/RON accelerated in the first part of January 2013, reflecting, among other factors, the improvement of global financial market sentiment and, especially, the increased interest of non-resident investors for local RON-denominated government securities. Consequently, in January 2013, the RON gained 2.5 per cent. against the euro and 3.9 per cent. against the U.S. dollar (compared to December 2012). After trading in a rather narrow range and displaying a short-lived depreciation episode related to the events in Cyprus, the RON appreciated in April against the euro as risk aversion declined following the new agreement between the Eurogroup and the Cyprus authorities backed also by the IMF, the decision of Bank of England to hold its key rate at a record low and maintain its bond purchases size, and that of Bank of Japan to double its monthly bond purchases. The EUR/RON downward trend was also supported by some better than expected domestic economic developments (fourth quarter and year 2012

GDP, current account and trade balance, retail sales and industrial output): thus, the RON strengthened on April 29 to 4.3224/EUR, a level last seen in October 2011. Similar to the behaviour of other currencies in the region, the EUR/RON trended upwards in May, as global financial market sentiment became very sensitive to any comments/news regarding an earlier than expected decision by the Federal Reserve to taper its monthly financial assets purchases, and reached an eight month high on 7 June (4.5535). However, the EUR/RON declined at lower levels in the last part of June and in July, against the background of a relative improvement in global risk appetite, while its daily volatility abated significantly. In August and early September, the EUR/RON exchange rate trended upwards, amid market participants' strengthening expectations regarding the Federal Reserve's decision to start tapering its monthly financial asset purchases in September. Nonetheless, as the deterioration of the global market sentiment was associated with the greater importance investors attached to local/regional fundamentals in their portfolio reallocation decisions, its adverse effects have been less intensely felt by the local financial market, most likely due to the consistently favourable evolution of some relevant economic indicators (GDP, current account and trade balance), to which added the EU Council decision to abrogate the excessive deficit procedure for Romania and the ongoing/completion of talks over a new arrangement with the IMF/EC/WB. In addition, following the adoption in September of the Federal Reserve's decision to keep the financial asset purchase programme in place in the forthcoming period, the EUR/RON exchange rate saw its upward movement come to a halt and then witnessed moderate fluctuations, trading in a narrow range during October through to the first half of December. However, after Federal Reserve's decision to trim the pace of its monthly asset purchases, the RON/EUR volatility slightly increased. Compared to December 2012, in December 2013 the RON appreciated by 0.6 per cent. in nominal terms (2.1 per cent. in real terms), while compared to US dollar it appreciated by 5.1 per cent. in nominal terms (6.7 per cent. in real terms), as the latter depreciated against other major currencies.

## 2014

Financial investors' sentiment towards emerging markets deteriorated markedly in early 2014, the mounting tensions in some of these markets (e.g. Turkey) having secondary effects to some extent in the regional and local financial markets. Thus, the EUR/RON exchange rate began an upward trend and peaked at a seven-month high on 10 January (EUR 1 = RON 4.5447). The upward movement came to a halt towards the end of January 2014, with the EUR/RON exchange rate displaying afterwards two-way fluctuations, which reflected the contagion effects, albeit limited, from the geopolitical crisis in Ukraine on Central and Eastern European markets, but also the favourable impact of better than expected domestic economic developments (the fourth quarter of 2013 GDP flash data, trade/current account balance and industrial output). The pressure on the exchange rates of the currencies in the region eased to some extent following the referendum in Crimea, and the EUR/RON exchange rate entered a downward path in the second half of March 2014, which continued until June 2014 as a result of higher global risk appetite and improved investor perception towards the domestic economy and financial markets. The latter was fostered mainly by the further positive performance of domestic fundamentals and by Standard & Poor's decision to upgrade the country's sovereign rating to investment grade. Consequently, the average EUR/RON exchange rate hit a 13-month low in June 2014 and its volatility decreased.

The EUR/RON exchange rate interrupted its downward path in July 2014 and subsequently recorded sideways movements, reflecting the shifting influences generated by fluctuations in global risk aversion, stemming, on the one hand, from (i) the successive unfavourable news concerning some banks in the euro area, (ii) the escalation of geopolitical tensions and, against this background, the increasing concerns about the impact of new sanctions being possibly imposed on Russia and (iii) anticipation of an earlier monetary policy rate hike by the Federal Reserve, and on the other hand, from increased expectations that the ECB would start purchasing asset-backed securities in the coming period. The volatility of the EUR/RON exchange rate declined following the September ECB decisions, and for the following two months the EUR/RON followed a smooth upward path, with only short-lived fluctuations, mainly triggered by swings in international financial market sentiment. The exchange rate trend steepened in December, given the impact of increased global risk aversion, owing in part to heightened uncertainty surrounding the knock-on effects of the abrupt decline in oil prices on the world economy, markedly higher risks to the Russian economy and the ensuing sharper depreciation of the rouble, and mounting concerns over the situation in Greece. A temporary influence that enhanced this sentiment was the higher uncertainty over the Federal Reserve's decision in December on the prospective adjustment of its monetary policy stance.

Thus, compared to December 2013, in December 2014 the RON appreciated against the euro by 0.1 per cent. in nominal terms (0.9 in real terms), while compared to the US dollar it depreciated by 10 per cent. in nominal terms (9.2 in real terms) as the latter appreciated significantly against the euro.

## 2015

The EUR/RON exchange rate experienced fluctuations in the first six months ended 30 June 2015, with the RON initially depreciating against the EUR in January, but appreciating from February to April. In May, the trajectory of the

EUR/RON exchange rate reversed and the trend of Euro strengthening steepened towards the end of June, amid higher volatility on external financial markets, triggered initially by the reconsideration by some investors of the euro area inflation outlook, which raised questions about the sustainability of the very low readings hit by long-term bond yields and, possibly, by the EUR/USD rate, as well as heightened uncertainty surrounding the timing of the increase in interest rates by the US Federal Reserve and concerns related to the Greek financial crisis. On 29 June 2015, the RON/EUR reached the highest level since early 2015 (4.4931). Following the EU agreement on Greece on 13 July 2015, the RON/EUR returned to the levels seen in February (4.4041). In mid-August, similar to the exchange rates of other currencies in the region, the RON/EUR displayed a relatively moderate upward movement as volatility on the financial markets increased amid fears of a global economy slowdown following developments in China.

The RON/EUR exchange rate stabilised between mid-September and the second part of October, due to the improvement in global financial market sentiment following the adoption of monetary policy easing measures by the Chinese Central Bank and prevailing expectations that the U.S. Federal Reserve would postpone an increase in interest rates. The RON then re-entered a depreciation trend against the EUR, and, even more pronounced, against the US dollar, in the context of rising expectations for a U.S. Federal Reserve rate increase in the last month of 2015. That trend steepened in December, as the RON (similar to the Hungarian Forint and the Polish Zloty) experienced the impact of increased volatility of the global financial markets following the European Central Bank decision to keep bond purchases at a lower level than expected by some market participants.

As such, on 29 December 2015 the EUR/RON exchange rate posted its highest value in three years, which was 4.5381. In comparison to December 2014, in December 2015, the RON depreciated against the EUR by 1.0 per cent. in nominal terms (1.9 per cent. in real terms), while compared to the US dollar it depreciated by 12.6 per cent. in nominal terms (13.4 per cent. in real terms), as the US dollar appreciated significantly against the euro.

#### 2016

The uptrend of the EUR/RON exchange rate continued in January (though at a slower pace compared to December) amid the sell-off in global, and implicitly regional, financial markets reflecting the resurgence of investors' concerns about the outlook for global economic growth. However, in the first half of February the EUR/RON saw a sharp downward correction as investors' sentiment towards regional economies improved given the signals that the ECB might deliver additional monetary easing, higher than expected rate of domestic economic growth in the fourth quarter of 2015. Further on, the EUR/RON halted its decline and tended to stabilize at higher levels compared to those prevailing in the final part of 2015 amid the mixed developments on the global financial market given inter alia the stronger-than-expected easing measures adopted by ECB in March but also the temporary upward revision of market expectations regarding the trajectory of Fed interest rates and a change in investor perception of the risk associated to the Romanian economy/financial market, likely motivated by the recent and expected stance of fiscal and income policies and certain legislative initiatives. Thus, in the first quarter of 2016 the RON appreciated by 0.9 per cent. compared to euro in nominal terms while compared to the US dollar it appreciated by 3 per cent. in nominal terms.

#### *EUR/RON and USD/RON Exchange Rates*

The following table sets out the EUR/RON and USD/RON exchange rates as at 31 December 2013, 2014 and 2015 and the average EUR/RON and USD/RON exchange rates for the years ended 31 December 2013 through 2015:

|          | <b>EUR/RON and USD/RON Exchange Rate</b> |                |                |                |                |                |
|----------|--|----------------|----------------|----------------|----------------|----------------|
|          | <b>2013</b>                              |                | <b>2014</b>    |                | <b>2015</b>    |                |
|          | <b>31 Dec.</b>                           | <b>Average</b> | <b>31 Dec.</b> | <b>Average</b> | <b>31 Dec.</b> | <b>Average</b> |
| EUR..... | 4.4847                                   | 4.4190         | 4.4821         | 4.4446         | 4.5245         | 4.4450         |
| USD..... | 3.2551                                   | 3.3279         | 3.6868         | 3.3492         | 4.1477         | 4.0057         |

*Source: National Bank of Romania*

## *Real Effective Exchange Rate*

After signalling year-on-year appreciation throughout 2013 (between a maximum of 8.3 per cent. in July and a year end of 3.6 per cent.), the annual change in the CPI based real effective exchange rate ("**REER**") turned slightly negative in the first two months of 2014, due to a nominal depreciation against the euro, and, to a lesser extent, a contribution made by the inflation differential (in fact, throughout 2014 and the first two months of 2015, REER dynamics were mainly shaped by the performance of the Nominal Effective Exchange Rate as the inflation differential made only a modest contribution). Starting in March 2014, the weaker RON with respect to the euro in year-on-year terms was offset by a nominal appreciation against the US dollar, resulting in moderately positive REER dynamics. Mid-year readings reflected a stronger RON against both the euro and the US dollar, so that in June the annual change of the REER stood at 3 per cent. (the highest value for 2014). Towards the end of the third quarter of 2014 and in the fourth quarter of 2014, the influence of the stronger US dollar gradually gained momentum, which translated into a downward trend of the REER annual change, while the RON/euro pair remained on a steady path. In December 2014, REER annual dynamics turned negative (-0.2 per cent.), and were at -1.7 per cent. in February 2015, as the downward trend continued in 2015.

Over the course of 2015, the REER posted negative year-to-year dynamics, amid a weaker domestic currency (although the exchange rate against the euro did not change significantly), and lower prices. However, the latter development should be interpreted from the perspective of price competitiveness, as it results from lower consumer taxes. It is important to note that REER indicators based on other deflators (calculated by the European Commission and available up to September 2015) also demonstrated price competitiveness gains in the first three quarters of 2015 as compared to the same period in 2014. In the first two months of 2016, the BIS-calculated REER continued to post negative values, although decreasing in magnitude, as the year-on-year growth rate of the nominal effective exchange rate was virtually nil in January and turned positive in February, for the first time in 14 months. The consumer price differential contributions went deeper into negative territory, again mostly due to a new cut in consumption taxes.

As compared to 2013, in 2014 the share of EU-directed exports widened by 1.5 percentage points, to around 71 per cent. In 2015, Romanian exports of goods have benefitted from price competitiveness gains, but also from the rise in industry-directed FDI, and continued to expand their market share in Europe, advancing 7.9 per cent. in value terms against 2014, the growth rate being more than twice as large as the EU28's (except Romania) imports growth rate. Nevertheless, extra-EU exports dropped, as the situation in emerging markets deteriorated further: recession in Russia, which affected machinery and equipment exports, and slower growth of the Chinese economy, strongly impacting the international price of metals, which depressed local production. In the first two months of 2016, exports of goods dynamics stayed on an upward path (increase of 4.1 per cent.), driven by sales on the EU market (increase of 7.1 per cent.)

## *International Reserves*

As of 31 December 2013, Romania's foreign exchange reserves amounted to EUR 32,525 million, an increase of EUR 1,319 million compared to 31 December 2012. The main inflows, totaling EUR 17,233 million, were due to inflows into the Ministry of Public Finances' accounts (including flows from the Ministry of Public Finances' local and external bond issue amounting to EUR 4,723 million, as well as from the first drawdown under the EUR 1 billion development policy loan provided by the World Bank, of EUR 700 million), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totaling EUR 15,914 million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt and decreases in credit institutions' required reserves.

As of 31 December 2014, Romania's foreign exchange reserves amounted to EUR 32,216 million, a decrease of EUR 309 million compared to 31 December 2013. The main inflows, totaling EUR 21,780 million, were due to inflows into the Ministry of Public Finances' accounts (including flows from the Ministry of Public Finances' local and external bond issuances amounting to EUR 5,128 million, as well as from the second drawdown under the EUR 1 billion Development Policy Loan provided by the World Bank, of EUR 300 million), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totaling EUR 22,089 million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt and decreases in credit institutions' required reserves.

As of 31 December 2015, Romania's foreign exchange reserves amounted to EUR 32,238 million, an increase of EUR 22 million compared to 31 December 2014. The main inflows, totaling EUR 13,129 million, were due to inflows into the Ministry of Public Finances' accounts (including flows from the Ministry of Public Finances' local and external bond issuances amounting to EUR 2,000 million, as well as from the 750 million drawdown under the first fiscal effectiveness and growth development policy loan provided by the World Bank), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totaling EUR 13,107

million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt (including the interest as well as the principal instalments of the loan from the European Commission of approximately EUR 1,547 million and the repayment of the principal and interest of the euro denominated bonds totalling EUR 1,975.7 million) and decreases in credit institutions' required reserves.

As of 31 March 2016, Romania's foreign exchange reserves amounted to EUR 31,282 million, a decrease of EUR 956 million compared to 31 December 2015. The main inflows, totalling EUR 5,244 million, were due to inflows into the Ministry of Public Finances' accounts (including the amounts resulted from the Ministry of Public Finance issuances of Eurobonds with a nominal value of EUR 1,250 million), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totalling EUR 6,200 million, were due to interest and principal payments on foreign currency public debt (from which, EUR 1,621.4 million represents the repayment of the principal and interest of the euro denominated bond issued by the Ministry of Public Finances which matured on 26 February 2016 and EUR 122 million represents the last principal instalment on Romania's loan from the International Monetary Fund), the entering into force of the decision to cut the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 12 per cent. from 14 per cent. starting with 24 January - 23 February 2016 maintenance period and decreases in credit institutions' required reserves.

Romania's gold reserve assets has remained at approximately 103.7 tones since the second half of 2007 and was valued at EUR 3,618 million on 31 March 2016, EUR 371 million higher than on 31 December 2015. The value of the gold reserves totalled EUR 4,207 million as of 31 December 2012. During 2013, the sharp drop in market prices has put the value of the gold reserves onto a downward trend, reaching a value of EUR 2,909 million as of 31 December 2013. The trend was reversed during 2014 and 2015 and the value of gold reserves has reached EUR 3,290 million as of 31 December 2014 and EUR 3,247 million as of 31 December 2015.

The NBR's level of foreign exchange reserves has decreased between January 2012 and March 2016, mainly due to the repayments of principal amounts to the IMF and the EC, under the 2009 multilateral financial assistance agreement, and as a result of changes in credit institutions' required reserves. Under the IMF 2009 Stand-by arrangement, Romania has made repayments of principal between August 2012 and January 2016. Under the EC 2009 financial assistance, Romania has repaid 30 per cent of the original loan, as of March 2016. The decrease in the credit institutions' required reserves followed the NBR board's decisions to lower the minimum reserve ratio on foreign currency denominated liabilities of credit institutions with a residual maturity of up to two years from 20 per cent at the end of 2013 to 12 per cent starting on 24 January 2016. The main inflows during the same period were inflows in the EC account and inflows in the Ministry of Public Finances' accounts (from local and external bond issues and development policy loans concluded with international institutions).

The amount of total reserves was EUR 35,434 million as at the end of 2013, EUR 35,506 million as at the end of 2014 and EUR 35,485 million as at the end of 2015.

As regards the extent to which the reserves are encumbered by liens, the central bank has opened custody accounts with international financial institutions in order to manage the foreign reserves. The technical procedures of the custodians, which are commonly used for custody and settlement systems, may entitle the custodians to exercise certain remedies and to benefit from certain guarantees in relation to the participants, in case of non-compliance with the custodians' general terms and conditions, which are intended to ensure the fulfilment of such participants' obligations. The NBR is not engaged in any type of currency derivative transactions.

The following table shows Romania's international reserves as at 31 December 2013, 2014, 2015 and as at 31 March 2016:

| <b>Romania's international reserves</b> |                                       |                                       |                                       |                                    |
|---|---------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|
|   | <b>As at 31<br/>December<br/>2013</b> | <b>As at 31<br/>December<br/>2014</b> | <b>As at 31<br/>December<br/>2015</b> | <b>As at 31<br/>March<br/>2016</b> |
|   | <i>(EUR million)</i>                  |                                       |                                       |                                    |
| Foreign exchange reserves.....          | 32,525                                | 32,216                                | 32,238                                | 31,282                             |
| Gold reserves .....                     | 2,909                                 | 3,290                                 | 3,247                                 | 3,618                              |
| <b>Total reserves .....</b>             | <b>35,434</b>                         | <b>35,506</b>                         | <b>35,485</b>                         | <b>34,900</b>                      |

Source: National Bank of Romania

Some totals may differ from the sum of components due to rounding.



Future changes to NBR's reserve assets could be triggered by monetary policy decisions impacting the international reserves size and currency composition as well as inflows/outflows triggered by foreign currency public debt management.

## Banking System

### General

A variety of structural changes by way of privatisation or the granting of banking licenses, including to domestic branches of foreign based banks, occurred over the years. However, the share of domestic majority owned private banks, foreign majority owned private banks and state majority owned banks has remained largely consistent over the past three years.

At 29 February 2016, the share of assets held by banks with total or majority private capital in total assets of the Romanian banking system was 91.8 per cent., while the share of assets held by banks with total or majority foreign capital, including foreign bank branches, was 90.5 per cent. Banks with total or majority state-owned capital held only 8.2 per cent., while the private domestic capital held only 1.3 per cent. As at 29 February 2016, the total net balance sheet assets of the Romanian banking system amounted to EUR 83.2 billion and the share capital was approximately EUR 5.6 billion.

### Market share of credit institutions in terms of assets

|  | As at 31 December               |              |              | As at 29<br>February |
|--|---------------------------------|--------------|--------------|----------------------|
|  | 2013                            | 2014         | 2015         | 2016                 |
|  | <i>(per cent. market share)</i> |              |              |                      |
| Banks with majority state capital.....             | 8.5                             | 8.8          | 8.3          | 8.2                  |
| Banks with majority domestic private capital ..... | 1.51                            | 1.3          | 1.4          | 1.3                  |
| Banks with majority foreign capital.....           | 90.0                            | 89.9         | 90.3         | 90.5                 |
| <b>Total banking system.....</b>                   | <b>100.0</b>                    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>         |

Source: National Bank of Romania

In terms of net assets, the market share of banks with majority foreign capital was 89.9 per cent. in December 2014 and 90.3 per cent. in December 2015 (90.5 per cent. in February 2016). The largest share of this majority foreign ownership was Austrian (33.5 per cent. February 2016). The market share of banks with majority Greek capital has been relatively steady over the last three years (12.2 per cent. in December 2014), decreasing in 2015 and the first two months of 2016 (10.8 per cent. in February 2016).

### Banking System Ownership (per cent. of total net assets)

|                  | 2013  | 2014  | 2015* | February<br>2016* |
|------------------|-------|-------|-------|-------------------|
| Romania.....     | 10.04 | 10.11 | 9.65  | 9.53              |
| Austria .....    | 37.04 | 36.37 | 33.27 | 33.52             |
| Cyprus .....     | 1.47  | 1.54  | 1.65  | 1.72              |
| France.....      | 13.52 | 12.91 | 13.54 | 13.13             |
| Greece.....      | 12.28 | 12.16 | 10.65 | 10.76             |
| Hungary.....     | 1.52  | 1.30  | 2.27  | 2.22              |
| Italy.....       | 2.69  | 2.48  | 2.41  | 2.36              |
| Netherlands..... | 8.50  | 8.93  | 10.27 | 10.48             |
| Portugal.....    | 0.79  | 0.66  | -     | -                 |
| Other.....       | 12.16 | 13.55 | 16.29 | 16.28             |

\* Provisional data.

Source: National Bank of Romania

The share in total equity capital held by banks with majority foreign capital was 85.9 per cent. in December 2015 (85.6 per cent. in February 2016), down by 0.4 percentage points from December 2014. Banks with majority Austrian capital further hold the largest share (22.2 per cent. in February 2016). The share of banks with majority Greek capital was 17.2 per cent. in December 2015 (17.2 per cent. in February 2016), up by 0.5 percentage points from December 2014.

#### Banking System Ownership (per cent. of total equity capital)

|                  | 2013  | 2014  | 2015* | February 2016* |
|------------------|-------|-------|-------|----------------|
| Romania.....     | 14.41 | 13.70 | 14.07 | 14.41          |
| Austria .....    | 27.77 | 30.66 | 22.25 | 22.16          |
| Cyprus .....     | 2.26  | 2.14  | 2.38  | 2.37           |
| France .....     | 11.43 | 10.39 | 11.16 | 11.12          |
| Greece.....      | 16.72 | 15.36 | 17.23 | 17.16          |
| Hungary.....     | 3.37  | 2.84  | 4.99  | 4.97           |
| Italy.....       | 3.67  | 3.37  | 3.69  | 3.67           |
| Netherlands..... | 7.51  | 8.12  | 8.88  | 8.85           |
| Portugal.....    | 1.22  | 1.12  | -     | -              |
| Other.....       | 11.64 | 12.31 | 15.35 | 15.29          |

\* Provisional data.

Source: National Bank of Romania

#### Structure of the Banking Sector

At the end of February 2016, the Romanian banking system had 36 credit institutions, which consisted of one majority state owned institution (Eximbank), one fully state owned institution (CEC Bank), seven branches of foreign banks and 27 credit institutions with private capital (including Banca Centrală Cooperatistă CREDITCOOP – the network of credit cooperatives), of which 23 had majority foreign ownership. The total number of credit institutions declined from 40 to 36 after the closing of two foreign banks branches (Montepio Credito - Instituicao Financeira de Credito SA and The Royal Bank of Scotland plc) and the merger through absorption between OTP Bank and Millenium Bank, on one hand, and between Banca Transilvania and Volksbank on the other hand.

EU accession has also opened up the Romanian banking market to other EU banking institutions. As at 13 May 2016, 282 banks from EU Member States had filed a notice of their intention to provide services within Romania on a cross border basis without establishing Romanian branches.

The following table shows the composition of the Romanian banking sector as at 29 February 2016:

| Type of Capital                             | Number of banks | Total loans              | Total deposits | Total balance sheet |
|---|-----------------|--------------------------|----------------|---------------------|
| (% market share)                            |                 | (per cent. market share) |                |                     |
| State-owned .....                           | 1               | 6.2                      | 7.4            | 7.0                 |
| Majority state-owned .....                  | 1               | 0.9                      | 0.5            | 1.2                 |
| Majority privately-owned banks, of which .. | 27              | 82.2                     | 80.3           | 80.6                |
| - majority domestic capital .....           | 4               | 1.0                      | 1.3            | 1.3                 |
| - majority foreign capital .....            | 23              | 81.2                     | 79.0           | 79.3                |
| Branches of foreign banks .....             | 7               | 10.7                     | 11.8           | 11.2                |

Source: National Bank of Romania

## ***Current Condition of the Banking Sector***

Romania has continued to enjoy financial stability, despite the difficult global and domestic economic conditions that occurred following the onset of the international financial crisis. Risks to the banking sector were countered by efforts of credit institutions such as consolidation of solvency, provisioning and liquidity levels amid the NBR's measures addressing prudential regulation, supervision and adequate management of risks faced by the banking system.

A beneficial contribution to safeguarding financial stability was the European Bank Coordination Initiative, under which the nine participating banks have fulfilled their aggregate commitments to maintain their exposure and ensure a capital adequacy ratio above 10 per cent. for every subsidiary in Romania. In 2012, the new European Bank Coordination "Vienna Initiative 2.0" was launched with the purpose of preventing disorderly or overly fast financial deleveraging, as well as strengthening cooperation between home and host supervisory authorities. The successful completion in 2013 of the precautionary Stand-by Agreement signed in 2011 with the EU, the IMF and the World Bank and the signing of a similar agreement, together with the commitments undertaken by the Romanian authorities under the national programmes, are seen as anchors for maintaining financial stability and furthering structural reforms in order to boost the economic growth potential.

As of March 2016, exposure to Romania of the foreign banks participating in the "Vienna Initiative 1.0" has decreased by 43.4 per cent. since the end of March 2009, with the exit of Volksbank from this group of banks further to its takeover by Banca Transilvania accounting for 6 per cent. of such decrease. Around 68 per cent. of credit lines from parent banks have maturities of over one year and do not have any early repayment clauses; some part of the credit lines were converted into subordinated lending (Tier II capital items), thus consolidating headline solvency numbers.

Aggregate gross assets amounted to 411.8 billion RON at the end of February 2016, up by 2.3 per cent. (5.1 per cent. in real terms) compared with the same period of the previous year. This increase reflected, among other things, the joint influence of: (i) the enhancing of nonperforming loan resolution since the third quarter 2014 (the credit institutions started the process of cleaning their balance sheets in April 2014 following NBR recommendations) and (ii) the consolidation of the domestic deposit base. Claims on the government sector saw a trend reversal starting in December 2013 (5.4 per cent. in December 2014, 5.7 per cent. in December 2015 and 0.9 per cent. in February 2016, real annual change), after contracting for ten successive months. These developments reflected the slight increase of the share of securities held by residents and increasing public debt.

Private sector deposits continued to grow in real terms (7.3 per cent. at the end of December 2014, 9.6 per cent. at the end of December 2015 and 12.5 per cent. in February 2016), while credit to the private sector declined in real terms by 4.1 per cent. and increased by 4.0 per cent. and 5.2 per cent. in the periods mentioned. Consequently, the loan-to-deposit ratio continued to decrease (from 101.3 per cent. in December 2013 to 90.5 per cent. in December 2014 and 85.9 per cent. in February 2016), suggesting an orderly deleveraging.

In nominal terms, financial intermediation calculated as the share-to-GDP of gross loans to private sector declined from 34.3 per cent. in December 2013 to 31.5 per cent. in December 2014 and 30.7 per cent. in December 2015. The share of banking sector gross assets to GDP was 64.1 per cent. in December 2013, 60.6 per cent. in December 2014 and 58.0 per cent in December 2015.

Since the start of the financial crisis, the NBR has continued to pursue a prudent monetary policy stance (see "*Monetary and Financial System—Monetary Policy—Recent Monetary Policy*"), in an attempt to ensure inflation converges with medium term targets, and to bring money market rates, bank lending and deposit rates to normal levels, with a view to consolidating favourable conditions for the sustainable resumption of lending to the private sector and the subsequent economic rebound. Credit risk has remained the major vulnerability of the banking sector. However, the sales of loans and write-off activity determined the reduction in NPLs and the NPLs ratio (13.9 per cent. in December 2014, 12.8 per cent. in June 2015, 11.7 per cent. in November 2015). As of February 2016 the NPLs ratio was 13.7 per cent. (based on the new EBA definition). Credit risk continued to be adequately covered as a result of a prudent approach of credit institutions, encouraged by the proactive prudential actions of the central bank. Firstly, the degree of NPL coverage with IFRS provisions remained at a comfortable level of 57.5 per cent. at the end of February 2016 (according to EBA definition). Secondly, both the level and the quality of own funds have remained satisfactory: (i) the total capital ratio (former solvency ratio) stood at 17.5 per cent. in December 2015, considerably above the minimum regulated level of 8 per cent., (ii) own funds consist overwhelmingly of high loss-absorbency capacity components (with a Tier 1 capital ratio of 15.1 per cent. in December 2015). This was mainly due to significant capital increases made by shareholders in terms of cash contribution (i.e. EUR 111 million in 2012, EUR 190 million in 2013, EUR 394 million in 2014 and an additional contribution of EUR 446 million as of December 2015), as well as new provisioning rules under IFRS from January 2012. The capital base of Romanian banks proved its resilience, as Tier 1 capital accounts for 86.3 per cent. of total own funds at end-December 2015.

The deepening negative dynamics of foreign exchange loans registered in 2014 (-10.6 per cent. expressed in RON and -10.5 per cent. expressed in euro), in 2015 (-9.9 per cent. and -10.8 per cent.) and February 2016 (-11.9 per cent. and -12.5 per cent, respectively) compared with the same period of the previous year contributed to the significant decrease in the share of this component in private sector loans (to 48.3 per cent. in February 2016). The volume of CHF-denominated loans to households in December 2015 was RON 9.8 billion, representing a decrease of 21 per cent. compared to such loans in December 2014. The number of borrowers with CHF-denominated loans fell to 60,429 in December 2015, representing a decrease of 20 per cent. from the previous year. These drops were primarily as a result of: (i) the conversion of about 17,400 CHF-denominated loans into RON-denominated loans and (ii) the fact that a part of CHF-denominated loan portfolios reached maturity or were sold.

The main challenges lying ahead are: (i) managing the risk that could occur in the event of adverse developments in international markets as a result of the sovereign debt crisis or the considerably slower growth in developed economies; (ii) improving bank asset quality; (iii) achieving a more balanced currency breakdown of flows of new loans. These challenges call for further efforts to maintain adequate solvency, provisions and liquidity, as well as for additional prudential measures.

For non-financial corporations, the volume of non-performing loans decreased by 25.1 per cent. from December 2013 to December 2014, after rising by 14.7 per cent. between December 2012 and December 2013. The non-performing bank loan ratio decreased to 18.7 per cent. in December 2014 from 23.6 per cent. in December 2013. The descendent trend in non-performing loans came after banks intensified their efforts to improve the quality of their balance sheets. Based on the new EBA definition, the non-performing bank loan ratio for non-financial companies was 26.2 per cent. in December 2015. Under the previous methodology, the non-performing loan ratio was 16.1 per cent. in December 2015. The difference between the two values is due to the fact that the latter does not include the loans classified as non-performing due to the unlikelihood that the borrower will pay (approximately 40 per cent. of the total non-financial companies' non-performing loans as of December 2015). However, most of the loans classified as non-performing due to the unlikelihood to pay have a good payment behavior (89 per cent. have a delay lower than 15 days). In the first two months of 2016, the volume of non-performing loans decreased by 0.6 per cent. compared with December 2015. Although the volume of non-performing loans decreased, the NPL ratio slightly increased to 26.5 per cent. in February 2016, due to reduction in loans granted to non-financial companies of 1.7 per cent. in the same period. The average default rate reported for Romanian companies with outstanding bank loans remains on a downward trend, reaching 4.3 per cent. in December 2015, compared with 5.4 per cent. in December 2014 and 6.9 per cent. in December 2013. This is mainly due to the positive expectations regarding the macroeconomic evolution, as well as to the aggregate improvement in companies' financial soundness. In this context, the average default rate stood for the first time below the level seen at the outbreak of the financial crisis in Romania.

In the household sector, the non-performing loan ratio decreased to 7.8 per cent in December 2014, down 2.4 percentage points as compared to December 2013, while the volume of non-performing loans diminished by 24.6 per cent. during the same period. Previously, in 2013, the non-performing loan ratio increased by approx. 1 percentage point, while the volume of non-performing loans expanded by 6 per cent. The dynamics observed in 2014 were mainly driven by the removal of non-performing loans from banks' balance sheets either through loan sales or write-offs. Households' debt servicing capacity has improved in the context of a rise in households' disposable income and a relatively steady employment rate in 2014. The recovery rate for overdue loans (between 1 to 90 days past due) decreased only slightly, by 1 percentage point between 2013 and 2014 and the number of debtors who recorded for the first time 90 days overdue payments dropped by 23.2 per cent. during the same period. Nevertheless, the elements that characterize the persistence of nonperforming conditions, such as the low efficiency of debt rescheduling measures and the long process of foreclosure procedures (24 months for non-mortgage consumer loans and approximately 18 months for mortgage-backed consumer loans) remained unchanged in the period under analysis.

The non-performing loan ratio was 9.1 per cent in December 2015 (according to the new definition for the non-performing loan ratio, in line with the methodology developed by the European Banking Authority; the value computed using the previous definition was 5.9 per cent in December 2015). The volume of non-performing loans decreased by 21.7 per cent (April through December 2015), mainly due to loan sales and the removal of non-performing loans from banks' balance sheets. Households' debt servicing capacity has remained moderately risky, the most vulnerable debtors being those with very low wages (below minimum income). The recovery rate for overdue loans (between 1 to 90 days past due) exhibited a very slow decrease of 0.3 percentage points in 2015, and at year-end it stood at 5 percent. The number of debtors who recorded 90 days overdue payments for the first time decreased by 36.6 per cent during the same reference period.

During the first two months of 2016, the non-performing loan ratio continued to decrease, reaching 9 per cent. The number of debtors who had 90 days overdue payments for the first time further decreased by 1.8 per cent during this period.

Throughout 2013, banks continued to tighten credit standards applicable to household loans, especially for mortgage loans, and to corporate loans, with the exception of the last quarter, when standards remained largely unchanged.

In 2014, banks maintained credit standards unchanged for household loans. In the case of loans to non-financial companies, credit standards remained unchanged in 2014, with the exception of one quarter of easing.

During 2015, banks eased credit standards for loans granted to the household sector, while for non-financial companies, credit standards were mostly kept unchanged. For the first half of 2016, lending conditions are expected to remain unchanged for companies and consumer lending to households, whereas for real-estate loans credit standards are envisaged to be tightened somewhat.

From a credit risk perspective, the Romanian banking sector is not directly exposed to developments in Italy, Ireland or Greece, given that for the banking system as a whole the share of external assets is low (6.0 per cent. of gross assets at February 2016). Italian subsidiaries had a paid-in capital market share of 3.7 per cent. at February 2016, while Ireland plays a marginal role mainly because banks incorporated in Ireland have chosen to establish branches rather than subsidiaries in Romania.

Greek banking capital is present in Romania through four banks incorporated as Romanian legal entities (Alpha Bank, BANCA ROMANEASCA SA, a member of the NBG Group, Bancpost, Piraeus Bank). These banks continue to hold together a moderate position both in terms of net assets (10.8 per cent. in February 2016, 10.7 per cent. in December 2015, 12.2 per cent. in December 2014 and 12.3 per cent. in December 2013) and share capital (17.2 per cent. in February 2016, 15.4 per cent. in December 2014 and 16.7 per cent. in December 2013 of total capital of the banking system). In terms of deposits of non-government resident clients, market share remained relatively unchanged in December 2014 (10.3 per cent.) compared with December 2013 (10.5 per cent.), decreasing to 8.4 per cent. in February 2016. According to the latest data reported to the NBR, each of these banks meets the prudential requirements in terms of capitalisation and liquidity. Moreover, the overall solvency ratio for these banks remained at a comfortable level (20.9 per cent. in December 2015), above the 8 per cent. regulatory level and the banking system average (17.5 per cent.). Also, subsidiaries of Greek banks have an adequate level of IFRS provisioning.

The direct transmission of risks from European public sectors to the local banking sector appears to be remote. In February 2016, domestic banks' holdings of euro area government securities accounted for a meager 0.07 per cent. in total balance sheet assets of the Romanian banking system. Moreover, the events in Cyprus have not exerted a significant impact on domestic financial markets, nor on the Romanian banking sector, as the crisis had repercussions only on banks with Cypriot capital (whose share in total net assets of the domestic banking sector was 1.7 per cent. in February 2016), while household and corporate deposits witnessed normal fluctuations.

The contagion risk from the European banking sector is important, but manageable. Stress test exercises carried out by the NBR revealed an adequate resilience of the domestic banking sector in the event of a massive foreign financing withdrawal, with challenges relating to currency mismatch of on- and off-balance sheet exposures, certain asset sales and safeguarding lending to the real sector. Credit institutions with Greek or Cypriot capital could weather a liquidity shock relatively well, due to prudential indicators suited to the existing risks. However, the specific challenges faced by parent banks in their home country call for more effort in assessing risks. The NBR closely monitors domestic and international developments, while also adequately managing and maintaining system-wide liquidity and pursuing comfortable levels of provisioning and solvency ratios.

The potential impact of the Debt Discharge Law on the banking sector is discussed in paragraph *Uncertain and unpredictable legislative framework* in the financial and banking field of the *Risk Factors - Risks Relating to Romania* section.

The liquidity ratio (effective liquidity/required liquidity) was 1.53 as at 31 December 2013, 1.62 at December 2014 and 1.94 at 31 December 2015.

|  | <b>As at 31 December</b> |             |                           |
|--|--------------------------|-------------|---------------------------|
|  | <b>2013</b>              | <b>2014</b> | <b>2015<sup>(2)</sup></b> |
|  | <i>(per cent.)</i>       |             |                           |
| Solvency ratio .....                               | 15.46                    | 17.59       | 17.51                     |
| Tier 1 capital per total capital requirements..... | 14.09                    | 14.56       | 15.07                     |
| NPL/Total classified loans.....                    | 20.10                    | 13.94       | 13.61                     |
| Provisioning of NPLs <sup>(1)</sup> .....          | 89.8                     | 69.9        | 57.4                      |
| Liquidity ratio.....                               | 1.53                     | 1.62        | 1.94                      |

Notes:

(1) Coverage ratio using the IFRS provisions for NPLs and the additional prudential filters. Since 2014 coverage ratio using the IFRS provisions for NPLs.

(2) 2015 data is provisional. Since December 2015, the NPLs ratio and the provisioning of NPLs are based on the European Banking Authority' definitions.

Source: National Bank of Romania

The banking sector recorded a net loss at the end of 2014 (RON -4.3 billion) due to the banks' efforts to reduce their NPLs. In 2015 and in 2016, the banking sector recorded a net profit (RON 4.9 billion at the end of December 2015 and RON 0.9 billion at the end of February 2016).

The National Bank of Romania performs regularly stress tests of credit institutions' capital adequacy based on macroeconomic scenarios envisaging the potential developments of the main risk factors: economic growth, exchange rate, interbank interest rates, risk premium, real estate market prices. The stress tests imply both estimating credit institutions' operating results according to the analysed scenarios (including the effects of unrealised losses on capital) and capturing the impact of scenarios on adjustments for impairment of financial assets (provisions). Stress tests are conducted for microprudential purposes, as well as for identifying the main systemic risk factors. The latest solvency stress test of credit institutions covered a 12-quarter horizon (2015 – 2017).

The NBR also periodically conducts macro-prudential liquidity stress tests in order to assess the ability of the banking sector to withstand major withdrawals of foreign funding and/or deposits. The latest results of the liquidity stress test indicate an adequate resilience of the domestic banking sector. However, issues still exist from currency mismatches, certain asset sales and the need to safeguard lending to the real sector. The NBR will continue to monitor domestic and international developments while managing and maintaining system- wide liquidity and pursuing comfortable levels of prudential indicators.

NBR considers that the current prudential requirements cover risks to an adequate extent. Implementation of Basel III has not led to requirements of additional, large capital increases by credit institutions in Romania. The high share of Tier 1 capital in total capital and the lack of hybrid capital instruments cushioned the impact of Basel III on capital requirements for local entities.

To date, the Romanian Government has not used public funds to support the stability of the financial system. The recapitalisation of the banking sector was entirely supported by bank shareholders. The backstop measures available in Romania mainly consist of private sector solutions and only a few public sector solutions. The authorities adopted further amendments to the legal framework in order to improve the bank recovery and resolution mechanisms so as to preserve stability and to avoid systemic contamination. The private sector solutions of the backstop toolkit consist of supervisory and resolution measures, available to the NBR in accordance with its statutory powers.

The existing legal framework provides the NBR with the tools to manage financial stability threats posed by the deterioration of the financial situation of the banking system. There was no situation that required using these tools to date. The set of stabilization measures for the credit institutions in distress is additional to the special administration procedure, and consist of: (i) the total or partial transfer of assets and liabilities of a credit institution to one or more eligible institutions; (ii) the appointment of the Bank Deposit Guarantee Fund as a delegated administrator and as a shareholder of the credit institution; and (iii) the transfer of assets and liabilities of a credit institution to a bridge bank, established for this purpose. The stabilisation measures are based on the financial resources accumulated in the Bank Deposit Guarantee Fund, without considering the principle of minimum cost. Where the resources of the Bank Deposit

Guarantee Fund are insufficient, they may be supplemented by loans granted to it by the Ministry of Public Finance, in which case the general lending conditions are to be set by Government decision.

### **Implementation of CRD IV in Romania**

Directive 2013/36/EU was transposed into domestic legislation through Government Emergency Ordinance No. 113/2013 amending and supplementing Government Emergency Ordinance No 99/2006 on credit institutions and capital adequacy, as well as through secondary regulations.

The NBR assessed the impact of implementation of CRD IV/CRR package on the Romanian banking system. The outcome of the assessments points to the compliance of credit institutions in Romania both with the new capital requirements and with the liquidity requirements.

The NBR assessed the impact of introducing the new capital requirements set forth in the Capital Requirements Directive IV ("**CRD IV**") on the banking system via a questionnaire developed in line with the European Banking Authority's ("**EBA**") recommendations. The 31 respondents, credit institutions Romanian legal entities, were classified into 8 large credit institutions and 23 smaller- size banks based on the distribution of total assets held. The figures reported by the respondent banks are presented in the table below.

**Equity ratios of credit institutions in Romania, according to the new capital requirements set forth in CRD IV (data as of 31 December 2014, arithmetic mean)**

|                                 | <b>Number of credit institutions</b> | <b>Common Equity Tier (CET 1)</b> | <b>Tier 1 capital</b> | <b>Total equity (Tier 1 + Tier 2)</b> |
|---------------------------------|--------------------------------------|-----------------------------------|-----------------------|---------------------------------------|
|                                 |                                      |                                   | <i>(per cent.)</i>    |                                       |
| Large credit institutions ..... | 6                                    | 14.3                              | 14.3                  | 16.8                                  |
| Small credit institutions ..... | 25                                   | 14.5                              | 14.5                  | 18.2                                  |
| Total credit institutions ..... | 31                                   | 14.3                              | 14.3                  | 17.3                                  |

Source: National Bank of Romania (Provisional data)

Based on reported data, all credit institutions in Romania with the exception of two small banks will fulfil the CRD IV capital requirements. Both countercyclical capital buffer and systemic risk buffer are considered zero because, on the one hand, lending is not on the excessive growth side, and on the other hand, the NBR considers necessary to assess opportunity for the implementation of systemic risk buffer only after phasing out the national prudential filters.

In order to assess the impact of the new liquidity requirements on the Romanian banking sector, the NBR launched, in 2013, a data collection exercise in line with European legislation.

According to the analyses conducted and based on data as of March 2014, the introduction of minimum requirements on the Liquidity Coverage Ratio ("**LCR**") indicator will not have a material impact on the Romanian banking sector, as most domestic credit institutions comply with the 100 per cent. threshold laid down in the Regulation. Smaller, non-systemically important credit institutions have reported LCR values below the threshold.

A caveat is warranted in relation to the outcome of the liquidity test since changes will be made to the existing LCR reporting templates and instructions by the EBA's Implementing Technical Standards (ITS) that amend Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the LCR following the European Commission's Delegated Act specifying the LCR. The new ITS are under development at the date of this document.

Over the period ahead, the NBR will continue to conduct assessments in order to quantify the impact, the limits and the manner of using national options in line with the new European legislative framework vis -à-vis the domestic banking sector.

## **Romanian Banking Regulation and Business Standards**

### **Banking Regulation and Supervision**

Credit institutions are mainly regulated by the Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy ("**Banking Law**"), as subsequently amended and supplemented and by Regulation No. 575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 ("**CRR**") and, among others, by the

Law No. 85/2014 regarding the procedures for the prevention of insolvency and the insolvency procedures. Notable amendments to the main national legal framework include:

- amendments to the Banking Law adopted by Government Emergency Ordinance No. 26/2010 as amended and supplemented in order to, among others, strengthen the special administrator's capability to deal with the banks in a weak financial position and to be able to respond in a timely and effective fashion to the supervisory authorities and crisis management of EU Directive 2009/111/EC;
- amendments to the Banking Law introduced by Law No. 231/2010 aimed at transposing the provisions of EU Directive 2010/76/EU regarding capital requirements for the trading book and for the re- securitisation and the supervisory review of remuneration policies of credit institutions and of EU Directive 2010/16/EU with respect to the exclusion of a certain institution from its application domain;
- amendments to the Banking Law and to a series of other main pieces of legislation introduced by Government Ordinance No. 13/2011 concerning legal remunerative and penalty interest for monetary obligations, as well as for regulating certain financial-fiscal measures in the banking field, as amended and supplemented aimed at inter alia, (i) providing the legal framework for the application in Romania of EP/EC Regulation No. 1093/2010 and of EP/EC Regulation No. 1092/2010, (ii) amending the legislation applicable to the Deposit Guarantee Fund ("DGF") in order to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorised by the NBR regarding the transfer of deposits, including purchase and assumption operations, if such use of DGF resources would be less costly than the direct payment of compensations and (iii) ensuring the appropriate correlation of the legislation applicable to special administration of credit institutions;
- amendments to the Banking Law and to the DGF brought by Government Ordinance No. 1/2012 aimed at providing the legal framework for a set of stabilisation measures, including bridge-bank powers, as tools at the NBR's disposal for dealing with credit institutions in distress, when they pose a threat to financial stability;
- amendments to the Banking Law were introduced by Government Emergency Ordinance No. 43/2012, as amended and approved by Law No. 271/2013 in the context of regulating adequate procedures in case of the stabilisation measure regarding the involvement of the DGF as a shareholder in such credit institutions;
- amendments to the Banking Law were introduced by Law No. 272/2013, in order to make clear that implementing the stabilisation measures in case of a threat to financial stability also includes protecting the depositors and maintaining public confidence in the banking system, with a view to applying the stabilisation measures even in the case of small-sized credit institutions; also, the amendments are intended to more clearly specify the general objectives pursued by the National Bank of Romania when applying any of the stabilisation measures (to ensure business continuity for critical activities in case of disruptions that could materially impair the functioning of the economy or of the financial market; to preserve financial stability and market discipline; and to protect covered deposits); and
- as regards the transposition of CRD IV (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC) provisions into the national legal framework, Romania observed the implementation timetable set at EU level by adopting Government Emergency Ordinance No. 113/2013 on some budgetary measures and on amending and supplementing Government Emergency Ordinance No. 99/2006, as amended and supplemented, which contains provisions envisaging the strengthening of the legal framework on credit institutions and investment firms in areas such as corporate governance, prudential supervision and sanctions. The Government Emergency Ordinance No. 113/2013 was approved by Law No. 29/2015.

In 2015, the Romanian Parliament adopted the Law No. 304/2015 on the issuances of covered bonds, followed by secondary legislation issued by the NBR in the beginning of 2016. The new legislation was developed according to the best practices set out in the EBA Report on EU Covered Bonds Frameworks and Capital Treatment (2013). The capacity of credit institution to use covered bonds as a stable financing tool could be seriously affected by the Debt Discharge Law, since this piece of legislation could create difficulties in respect of the cover pool's dynamic optimisation process.

At the beginning of 2016, the NBR issued secondary legislation on the issuances of covered bonds, in order to implement the new law on covered bonds. The main areas addressed by the secondary legislation are:

- (i) the procedure for the NBR approval of the issuance of covered bonds and the authorization of the cover pool monitor;



- (ii) conditions for structuring of the portfolio;
- (iii) requirements for the management of asset and liabilities risks in covered bonds (including the calculation of overcollateralization requirements, the liquidity risk management, conditions for using derivative financial instruments for hedging the interest rate and foreign exchange risk, stress tests factors);
- (iv) supervisory reporting obligations for the issuer to be transmitted to the NBR; and
- (v) transparency and disclosure obligations for the issuer.

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council ("**BRRD**") was transposed into Romanian legislation by Law No. 312 as of 4 December 2015, which establishes the domestic grounds for the recovery and resolution of credit institutions, and which repealed certain provisions of GEO No. 99/2006 on credit institutions and capital adequacy regarding the stabilisation measures.

The current prudential regulatory framework ensures:

- (i) harmonisation with CRD IV and adequate measures to facilitate the implementation of CRR (Regulation No. 575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012);

In the above-mentioned context, the following were issued:

- NBR Regulation No. 5/2013 on prudential requirements for credit institutions, as amended and supplemented, which ensures the transposition of the provisions of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and specifies the manner in which the national options included in the CRD IV package have been exercised;
- NBR-FSA Regulation No. 7/8/2013 repealing certain regulatory acts. The said Regulation concerns acts that were jointly issued by the National Bank of Romania and the National Securities Commission to implement Directives 2006/48/EC and 2006/49/EC, whose application ceases with the entry into force of the CRD IV package.
- (ii) harmonisation with guidelines issued by the Committee of European Banking Supervisors ("**CEBS**"). As of 1 January 2011, CEBS' responsibilities have been taken over by the European Banking Authority, established by Regulation (EC) No. 1093/2010). Other areas in which the CEBS/EBA guidelines were transposed into Romanian regulations refer to governance arrangements, remuneration policies, internal capital adequacy assessment process and management of significant risks, liquidity cost benefit allocation, conditions for outsourcing of activities, assessment and validation of using advanced approaches for calculating capital requirements for credit and operational risks, retention requirements in securitisation transactions, clarifications regarding the revised large exposures regime and clarifications regarding the exemption of some short-term exposures from the application of the large exposures regime, the eligibility criteria for capital instruments to be recognised as original own funds.

Moreover, starting with the CRD IV/CRR implementation, credit institutions are required to observe the EC's implementing regulations laying down technical standards, directly applicable in all Member States, including also those related to the reporting field.

One of the key objectives of the regulations is to continue the harmonization process of national regulations with the guidelines and standards issued by CEBS/EBA.

In November 2011, the NBR issued Regulation No. 25/2011 on credit institutions' liquidity, which was subsequently amended and supplemented by Order No. 26/2011, aimed at improving the methodology of computing the liquidity ratio and being in line with the developments in the accounting field related to IFRS introduction. Accordingly, credit institutions are required to permanently maintain the liquidity ratio for all the operations in RON equivalent at least at the level of 1 (one) for the maturity bands of up to one year. At the same time, credit institutions shall distinctly calculate the liquidity ratios for operations in euro and for operations in RON for all the maturity bands, as well as for all the operations in RON equivalent for the maturity band of over one year. As concerns liquidity, NBR Regulation No. 5/2013 ensures the transposition of relevant provisions of Directive 2013/36/EU and of some provisions from Principles for sound liquidity risk management and supervision issued by the Basel Committee in

2008 into national legislation, as well as the compliance with European Systemic Risk Board ("**ESRB**") recommendations. In this respect, NBR Regulation No. 5/2013 maintains the provisions which are in line with those of ESRB Recommendation of 22 December 2011 on US dollar denominated funding of credit institutions (ESRB/2011/2). In December 2014, the NBR issued Regulation No. 5/2014 on supplementing the NBR Regulation No. 5/2013, aimed to supplement the regulatory framework on liquidity risk in order to be fully compliant with the Recommendation B – Risk management of asset encumbrance by institutions of ESRB Recommendation on funding of credit institutions (ESRB/2012/2). The regulation also transposes the liquidity risk provisions of CEBS guidelines on the management of concentration risk under the supervisory review process.

At the beginning of 2012, the Romanian banking system implemented IFRS as its accounting basis and for the drawing up of individual financial statements. As a preparatory step for implementing IFRS as the statutory accounting standard, the NBR issued Order No. 15/2009, as subsequently amended and supplemented, requiring credit institutions to prepare two sets of financial statements for the financial years 2009, 2010 and 2011: (i) one according to the Romanian Accounting Standards ("**RAS**"), which served as the statutory financial statements, and (ii) another according to IFRS, which served for informational purposes only, that also included a note disclosing the differences between RAS and IFRS, for comparison, and to further prepare credit institutions for the application of IFRS. IFRS financial statements were obtained by restating the RAS information. The NBR has also issued the necessary notification of the change to banks along with a timetable (NBR Order No. 9/2010) and ensured the compliance with the regulation on bookkeeping rules in accordance with IFRS (NBR Order No. 27/2010, as amended and supplemented), in accordance with the objective set out in the letter of intent signed in Bucharest on 5 February 2010 and approved by the decision of the International Monetary Fund's Executive Board on 19 February 2010 regarding the implementation of the IFRS by the Romanian banking sector starting with financial year 2012. NBR Order No. 9/2010 includes the main objectives regarding IFRS implementation to be observed by credit institutions and which stipulates credit institutions' obligation to: (i) shift to accounting record-keeping and to the preparation of individual financial statements in compliance with the IFRS, starting with financial year 2012; (ii) develop their own action plans regarding IFRS implementation; and (iii) inform the NBR periodically on the implementation of the measures set out under their action plans.

NBR Order No. 27/2010 includes the accounting rules for banks' operations (chart of accounts and its content) in accordance with the treatments set out by IFRS and provisions regarding the drawing up of individual financial statements (approval, auditing and publication) along with the shift to the effective enforcement of IFRS. At the end of 2011, NBR Order No. 27/2010 was amended by NBR Order No. 29/2011 to introduce certain new accounts in the chart of accounts so as to ensure they contained the accounting records necessary for tax authorities to determine tax obligations.

The financial reporting framework for prudential supervision purposes ("**FINREP**"), as well as the reporting framework applicable to Romanian branches of credit institutions having their head offices in other Member States, were updated considering both the effective implementation of IFRS starting with financial year 2012.

In the context of IFRS implementation as an accounting basis at individual level, the prudential regulatory framework establishing the treatment of prudential filters that would preserve prudent bank solvency, provisions and reserves was finalised.

At the date of this document, the FINREP, approved by the European Banking Authority, is governed by the (EU) Regulation No. 680/2014, being directly applicable to the EU credit institutions. In order to ensure the optimal conditions for the unitary application of the FINREP individual reporting framework by the Romanian credit institutions, as well as the correlation thereof with the new FINREP consolidated reporting framework, this framework was adapted for solo reporting purposes and NBR Order No. 6/2014 was issued. For ensuring the continuity of the financial and accounting statistical information, reported by the Romanian branches of credit institutions having their head offices in other Member States, needed for performing analyses and studies at the NBR level, NBR also issued the Order No. 5/2014.

The prudential supervision system of the NBR consists of both off-site and on-site inspections.

Off-site supervision consists mainly of regularly monitoring the activities of individual credit institutions, groups of credit institutions and the banking sector as a whole, reviewing compliance with the prudential rules (relating to matters such as solvency, large exposures, related party lending, credit classification and provisioning, foreign exchange positions, own funds and liquidity) and limits, and taking remedial measures when problems are identified. It is based on the continuous appraisal of all available information on credit institutions' activities taken from various sources, in particular the statements and reports regularly submitted by credit institutions on an individual and consolidated basis, credit institutions' financial statements and annual reports, auditors' reports, credit institutions' presentations, the results of on-site inspections and information-gathering visits and other sources, including publicly available reports. Meetings with credit institutions' representatives also help supervisors obtain additional information on credit

institutions' activities and performance. Conclusions and findings arising from off-site supervision assist in the selection of credit institutions to be supervised through on-site inspections and the related activities.

In addition to regular assessment of credit institutions' financial condition, off-site supervision also focuses on some other aspects of credit institutions' activities relating to the assessment of the suitability of persons intending to acquire qualifying share holdings and the approval of persons nominated for members of the board and executive managerial positions based on factors such as their reputation, moral integrity and experience and the approval of external auditors.

Regulatory framework developments have changed the supervisory methodology substantially, from a compliance-based approach to a risk-based assessment. The NBR focuses on enhancing the quality of supervision through a greater involvement of credit institutions' management in risk management, credit institutions' assessment focusing on their risk profile and consolidated supervision based on close cross-border cooperation, both between consolidating credit institutions and their corresponding supervisory authorities.

On-site inspections are carried out according to the annual programme of inspections approved by the NBR's Supervisory Committee, focusing on areas such as credit, market, operational and reputational risk management, management of IT systems, money laundering prevention and overall assessment of internal control systems. During on-site inspections, assessments are made of the methods used by credit institutions to identify, measure, evaluate, monitor and limit the risks that they face. Attention is given to the methods applied by credit institutions to measure, evaluate and monitor risks, to whether the information used in risk management is complete, reliable and up-to-date, and also to whether there is a clear definition and assignment of responsibilities to competent departments and staff members. On this basis, relevant conclusions are drawn regarding the overall performance of credit institutions and their risk profiles.

### ***Minimum Capital Requirements***

The minimum capital requirements of credit institutions are regulated by the CRR and the NBR Regulation No. 5/2013 on the prudential requirements for credit institutions, in accordance with which:

- the minimum initial capital of a bank is RON 37 million;
- the minimum initial capital of a mortgage bank or a building society is RON 25 million;
- the minimum amount of the initial capital and of the own funds of a central body of credit cooperatives is the equivalent in RON of EUR 5 million;
- the minimum amount for the own funds of a credit cooperative is RON 300,000; and
- the minimum amount of the total capital and of the own funds of a cooperative network is set at the equivalent in RON of EUR 10 million.

The subscribed minimum capital of a credit institution has to be paid up, in full and in cash, on incorporation. Similarly, in capital increase operations, the subscribed capital has to be paid-up, in full and in cash, at subscription.

### ***Minimum Reserve Requirements***

The main function of RON denominated reserve requirements is the monetary control and stabilisation of interbank money market rates while the function of foreign currency denominated reserve requirements is to moderate the expansion of foreign exchange loans. During the period of 2014 through 2016 to date, the NBR reduced the minimum reserve requirement ratios on RON-denominated liabilities of credit institutions to 8 per cent. from 15 per cent., and on their foreign currency-denominated liabilities to 12 per cent. from 20 per cent. Both measures were aimed at ensuring further harmonization of the minimum reserve requirements mechanism with the relevant standards and practices of the European Central Bank and the major central banks across the EU, while the former was primarily geared towards supporting the sustainable recovery of lending activity.

| <b>Category of minimum mandatory reserves ("MMR")</b>  | <b>RON</b>         | <b>Foreign<br/>Currency</b> |
|--|--------------------|-----------------------------|
|  | <i>(per cent.)</i> |                             |
| MMR for liabilities with a residual maturity of less than 2 years .....                        | 8                  | 12                          |
| MMR for liabilities with a residual maturity of more than 2 years with prepayment clause ..... | 8                  | 12                          |
| without prepayment clause .....  | 0                  | 0                           |

Source: National Bank of Romania

### ***Provisioning and Loans/Investments Classification***

#### ***Credit Institutions***

Since 2012, all provisions are determined according to IFRS as adjustments for impairment losses.

From a prudential perspective, with a view to avoid any disruptions in terms of prudential ratios, the adopted approach for switching to IFRS was to preserve and adapt the requirements of the former prudential framework (NBR Regulation 3/2009 on the classification of loans and investments, and the establishment, adjustment and use of specific provisions for credit risk, as subsequently amended and supplemented).

As a consequence, since 2012 the classification of loans and investments based on the NBR methodology has continued to be performed monthly, but only for the purpose of establishing if there is a need for additional prudential value adjustments beyond those required by IFRS adjustments. Such prudential value adjustments are used in conjunction with IFRS adjustments in calculating prudential indicators such as own funds, solvency, large exposures, foreign exchange position. In the context of applying the CRD IV package, as of 1 January 2014, some new provisions and amendments needed to be implemented, mainly with a view to reconciling the national legal framework with the CRD IV requirements, e.g. (i) the total of the additional prudential value adjustments is now subject to a 4-year phasing out process complying with the CRD IV provisions and (ii) a new allocation method is in place establishing in a manner compatible with CRD IV the value to be assigned to the exposures representing loans/investments when computing the prudential ratios in the calculation of which the net value of these assets is needed.

#### ***Loan Classification for Creditors other than Credit Institutions***

Pursuant to the NBR Regulation 5/2012, loans granted by creditors other than credit institutions to their non- bank debtors are classified from an exposure perspective into five categories: standard, watch, sub-standard, doubtful and loss. For each of these categories the provisioning coefficients are stipulated as follows: zero (0) for "standard", 0.05 for "watch", 0.2 for "sub-standard", 0.5 for "doubtful" and 1 for "loss" in the case of loans other than those booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk; and 0.07 for "standard", 0.08 for "watch", 0.23 for "sub-standard", 0.53 for "doubtful" and 1 for "loss" in case of loans booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk.

Credit exposures are classified by the reporting institutions according to debt service history (the number of past-due days from the maturity date) and the commencement of legal proceedings against the debtor.

Credit exposures against which specific provisions are to be set up are those remaining after deducting any security interests securing the loan that are eligible for risk mitigation. The institution can decide whether to deduct such security interests or not. Security interests eligible for deduction range from any type of collateral (provided that the collateral is specified in the internal norms of the institution and provided that the institution has in place a methodology for determining the fair value of the collateral, which should be in line with applicable IFRS) to a set of personal guarantees stipulated in the legal framework along with their coefficients used to adjust the value of the guarantee to be deducted. Security interests securing the principal of credits classified as "loss" and in respect of which legal proceedings have been started and/or in respect of which at least 90 days elapsed since the credit became overdue are eligible to be taken into account (up to 25 per cent. as a general rule, and in case of certain types of collateral of a better quality up to 50 per cent.) as credit risk mitigation factors, while the security interests securing the payment of interest on these credits are not eligible to be taken into account.

Institutions must send a report on the classification of credits and investments to the NBR, along with the specific provisions for credit risk, no later than twenty-five days after the end of the quarter for which the report is made.

### ***Capital Adequacy***

The own funds requirements for credit institutions are regulated by the CRR. Hence, credit institutions shall maintain own funds which are at all times at least equal to the sum of the following capital requirements:

- for credit risk and dilution risk in respect of all of their business activities (other than trading - book business), 8 per cent. of the total of their risk weighted exposure amounts calculated, in accordance with the relevant provisions of the CRR;
- for credit valuation adjustment risk, in accordance with the relevant provisions of the CRR;
- in respect of their trading-book business, for position risk, settlement and counter party risk, the capital requirements determined in accordance with the relevant provisions of the CRR;
- in respect of all of their business activities, for foreign exchange risk, settlement and commodities risk, the capital requirements determined in accordance with the relevant provisions of the CRR; and
- in respect of all of their business activities, for operational risk, the capital requirements determined in accordance with the relevant provisions of the CRR.

### ***Capital Buffers***

According to the NBR Order No. 12/2015 regarding the capital conservation buffer and the countercyclical capital buffer, issued on the basis of Recommendation of the National Committee for Financial Stability No. 1/2015 regarding the implementation of capital buffers in Romania, starting from January 2016, the credit institutions have to maintain a capital conservation buffer of Common Equity Tier 1 capital equal to 0.625 per cent. of their total risk exposure amount, which will rise gradually over the next three years. The countercyclical capital buffer will be 0 per cent.

According to the NBR Order No. 11/2015 regarding the buffer which is applicable to credit institutions authorized in Romania and identified as other systemically important institutions by the National Bank of Romania, issued on the basis of Recommendation of the National Committee for Financial Stability No. 1/2015 regarding the implementation of capital buffers in Romania, the credit institutions authorized in Romania and identified as other systemically important institutions by the National Bank of Romania on the basis of the data collected in 2015 have to maintain a buffer of 1 per cent. of their total risk exposure amount.

According to the NBR Order No. 1/2016 regarding the systemic risk buffer, issued on the basis of Recommendation of the National Committee for Financial Stability No. 3/2015 regarding the implementation of the systemic risk buffer in Romania, starting from 31 March 2016 the systemic risk buffer was set at 1 per cent. for all exposures of credit institutions with parent credit institutions registered in a country for which the rating of bonds issued by the central government is not "investment-grade", according to the large rating agencies recognized as external credit assessment institutions.

### ***Participation in Other Enterprises***

According to the NBR Regulation No. 5/2013 and the CRR, for qualifying holdings (direct or indirect holdings in an undertaking which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking) in an undertaking (other than a credit institution, financial institution, insurance/reinsurance undertaking or an undertaking carrying on activities which are a direct extension of banking services or concern services ancillary to banking, such as leasing, factoring, management of investment funds, data processing services or any other similar activity) for the purpose of calculating the capital requirement, Romanian credit institutions shall apply a risk weight of 1,250 per cent. to the greater of the following:

- the amount of qualifying holdings in excess of 15 per cent. of the eligible capital;
- the total amount of qualifying holdings that exceed 60 per cent. of the eligible capital of the institution.

According to the Banking Law, Romanian credit institutions may not acquire qualifying holdings in an undertaking if in this manner they may exercise control over the undertaking in question.

In order to establish a prudential treatment for temporary holdings of capital during a financial reconstruction or rescue operation of an undertaking operating outside the financial sector (debt-to-equity-swap operations), in accordance with the agreement concluded by Romania with the IMF and EU, the NBR published Regulation No. 26/2011, as further amended, which aims to ensure that a credit institution's involvement in such operations will be based on a prudent decision-making process.

### ***Lending Limits***

With respect to lending limits, credit institutions shall observe the rules established by EU Regulation No. 575/2013 regarding the large exposures of a credit institution to a connected client or a group of connected clients.

In order to prevent abuses arising from exposures to related parties, as provided by the Basel Core Principle No. 11, the NBR set out provisions to limit such exposures and to prevent banks from performing non-arm's length transactions with related parties. The limits on exposures to related parties are harmonised with those imposed for large exposures:

- an institution shall not incur an exposure to a related party or group of related parties, with a value in excess of 25 per cent. of its own funds;

where that client is an institution or where a group of related parties includes one or more institutions, the exposure shall not exceed 25 per cent. of the institution's own funds or EUR;

- 150 million (in the case of credit institutions), whichever the higher.

In line with the previous regulatory framework on responsible and sustainable lending and borrowing, in December 2012 the NBR implemented the recommendations of the European Systemic Risk Board on lending in foreign currency, aiming at strengthening the currency and interest rate risk awareness mechanism for unhedged borrowers and introducing the creditors' obligation to evaluate, apart from households, the companies' creditworthiness, in order to create prerequisites for forex loans to be granted only to debtors that are able to cope with the increase in loan instalments resulting from a severe depreciation of the RON and an increase in the loan's currency interest rate. The NBR has also adopted regulations requiring credit institutions to incorporate in their internal risk management systems the risks incurred by foreign currency lending and to account for these risks in their internal pricing and internal capital allocation.

### ***Deposit Guarantee Scheme***

In 2010 the legal framework was amended in order to set the level of coverage at EUR 100,000. Pursuant to the stand-by agreement concluded between the IMF and Romania at the end of 2010, the legal framework was amended in order to:

- consolidate the Deposit Guarantee Fund ("**DGF**") funding regime, with a view to enhancing confidence in the banking system, by eliminating contingent credit lines by banks as a financial resource to be used if necessary by the DGF;
- improve the governance arrangements of the DGF in order to ensure that neither members of the board nor employees of credit institutions are allowed to participate in the DGF Board; and
- establish the mechanism that ensures the applicability of the provisions on granting compensation for the persons negatively affected by the measures provided for and implemented during special administration of credit institutions, in accordance with the provisions of the Banking Law (according to the Banking Law, compensations shall be supported from a special fund administered by the DGF).

The DGF can borrow from the Government in the event of insufficient resources for deposit compensation payments. Also, the DGF legislation was modified with a view to aligning it with Romanian bridge bank powers.

In 2015, following the approval of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast), the national legal framework was updated in order to ensure the transposition of this directive into national legislation by the Law No. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund. The Bank Deposit Guarantee Fund is regulated as a scheme administered by a public body and, according to the law, is also entrusted with the authority to administer the resolution fund.

### ***Non-Bank Financial Institutions Sector***

Non-bank financial institutions are entities performing lending activities as their core business; the main difference from credit institutions is that the former are not entitled to accept cash deposits or other repayable funds from the public. Non-bank financial institutions are supervised/monitored and regulated by the NBR in order to ensure financial stability based on a healthy and sustainable development of the market, as well as the removal of regulatory discrimination between these entities and credit institutions.

The legal framework for non-bank financial institutions applies to financial institutions which are not organised as credit institutions and which engage in lending activities in the broad sense, that is: (i) lending, including: consumer

credits, mortgage credits, real-estate credits, micro-credits, financing of commercial transactions, factoring, discounting and forfeiting operations; (ii) financial leasing; (iii) guarantees and commitments; (iv) granting of credits in exchange of goods for safekeeping (such as pledging via pawnshops); (v) granting of credits to members of mutual benefit organisations; and (vi) other credit-like financing methods. The non-bank financial institutions must maintain a share capital of at least EUR 200,000 or EUR 3,000,000 in the case of non-bank financial institutions that include the granting of mortgage credits in the scope of their activity.

At 31 December 2015, there were 172 non-bank financial institutions registered in the General Register, under the NBR oversight, out of which 44 are listed in the Special Register and are under NBR prudential supervision. In 2015, there were 9 deletions from the General Register, following either of the non-bank institutions own requests (6 cases) or as a result of other causes provided by law.

At 31 December 2015, the financial aggregate indicators of non-bank financial institutions were as follows: a total share capital of RON 3.04 billion; total assets of RON 25.2 billion; loans and commitments granted of RON 38.6 billion and nonperforming loans (including commitments) of RON 4.6 billion.

In the non-bank financial institutions sector, the prudential supervision system of the NBR consists of both off-site and on-site supervision.

Off-site supervision consists mainly of regularly monitoring the activities of individual non-bank financial institutions, reviewing compliance with the prudential rules (relating to matters such as large exposures, related party lending, credit classification and provisioning and own funds) and limits, and taking remedial measures whenever problems are identified. It is based on the continuous appraisal of all available information on non-bank financial institutions' activities taken from various sources, in particular the statements and reports regularly submitted by non-bank financial institutions, non-bank financial institutions' financial statements and annual reports, auditors' reports, the results of on-site inspections and other sources. Conclusions and findings arising from off-site supervision assist in the selection of non-bank financial institutions to be supervised through on-site inspections and the related activities.

On-site inspections are carried out according to the annual programme of inspections approved by the NBR's Supervisory Committee, focusing mainly on areas such as the management of granting loans to individuals and companies, credit, market, operational and reputational risk management, money laundering prevention and overall assessment of internal control and audit systems.

## **Payment Services Sector**

The NBR is the sole authority entitled to authorise and perform prudential supervision of payment institutions, according to the existing regulatory framework.

At 31 December 2015, there were 9 payments institutions registered in Register of Payment Institutions and 50 agents through which they provide payment services in Romania and abroad. Among authorized payment institutions, five also hold the quality of non-banking financial institution, been registered in the General Register.

Following the approval of Directive (EU) 2015/2366 on payment services in the internal market, the national legal framework will be updated in order to ensure the transposition of this directive into the national legislation.

## **Electronic Money Institutions Sector**

Law No. 127/2011 on the issuance of electronic money came into force on 25 June 2011 and applies to credit institutions and electronic money institutions, entitled under national law to issue electronic money. Law No. 127/2011 implements Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

The NBR is the sole authority entitled to authorise and perform prudential supervision of electronic money institutions, according to the existing regulatory framework.

As at 31 December 2015 there were three authorized electronic money institutions.

## **Financial System Supervision**

In December 2012, the Romanian Government approved, by way of emergency ordinance, the establishment of the Financial Supervisory Authority ("**FSA**"). From 30 April 2013, the FSA took over the responsibilities of the National Securities Commission ("**CNVM**"), the Insurance Supervisory Commission ("**CSA**") and the Private Pension System

Supervisory Commission ("CSSPP"), thus overseeing the capital markets and the insurance and private pension markets.

The FSA is a specialized autonomous administrative institution, independent and self-financed, led by a council of nine members, including a president, a first vice-president and three vice-presidents with executive functions, each with specific tasks corresponding to one of the three sectors of financial supervision.

### **Private Pension System**

Pension reform in Romania has included the introduction and implementation, within the pension system, of two private pension pillars, one mandatory (second pillar) and the other voluntary (third pillar), both managed by private companies.

#### **Second Pillar**

Participation in the second pillar is mandatory for employees and certain other persons up to 35 years old and voluntary for those between 35 and 45 years old.

The contribution to a private pension fund represents a part of an individual's social insurance contribution payable to the public pension system. The contribution to a pension fund is deducted from the monthly gross salary of the participant, the level of which is determined by the amount of salary an employee receives. The contribution to a pension fund does not impose supplementary financial obligations on the state. In 2008, the privately administered pension funds received the first contributions, namely 2 per cent. of each participant's gross salary. In 2014, the contributions represented 4.5 per cent. of a participant's gross salary, which increased to 5.0 per cent. starting on 1 January 2015. It will be increased gradually until it reaches 6 per cent.

Contributions were first paid to privately managed pension funds in 2008. The table below shows the number of pension funds (second pillar) and the total value of their net assets as at 31 December 2013, 2014 and 2015:

| <b>As at</b>           | <b>Net assets</b><br><i>(RON million)</i> | <b>No. of pension funds</b> |
|------------------------|---|-----------------------------|
| 31 December 2013.....  | 13,939.14                                 | 8 pension funds             |
| 31 December 2014.....  | 19,117.60                                 | 7 pension funds             |
| 31 December 2015 ..... | 24,673.59                                 | 7 pension funds             |

Note:

(1) First contributions to the second pillar pension funds were collected in May 2008.

Source: Financial Supervision Authority

The decrease in the number of pension funds from 14 in 2008 to 7 in 2014 was due to certain mergers of funds.

The table below shows the evolution of the number of participants to the second pillar pension system as at 31 December 2013, 2014 and 2015:

| <b>As at</b>          | <b>No. of participants</b><br><b>2<sup>nd</sup> pillar</b> |
|-----------------------|--|
| 31 December 2013..... | 6.04 million   |
| 31 December 2014..... | 6.29 million   |
| 31 December 2015..... | 6.56 million   |

Source: Financial Supervision Authority

#### **Third Pillar**

The voluntary pension scheme (third pillar) became operational in June 2007 and is based on individual accounts and voluntary participation. The activity of the funds pursuing business within this system is regulated by Law 204/2006 on voluntary pensions.



Contributions to a voluntary pension fund are established according to the rules of the various voluntary pension schemes, are charged and transferred by the employer together with the mandatory social security contributions or, as the case may be, paid by the participant, monthly, into a pension fund account.

The amount representing the contributions to voluntary pension fund is tax deductible for both participant and employer up to the RON equivalent of EUR 400 per fiscal year.

The table below shows the number of pension funds (third pillar) and the total value of their net assets at 31 December 2013, 2014 and 2015:

| <b>As at</b>          | <b>Net assets</b>    | <b>No. of pension funds</b> |
|-----------------------|----------------------|-----------------------------|
|                       | <i>(RON million)</i> |                             |
| 31 December 2013..... | 811.61               | 10                          |
| 31 December 2014..... | 1,039.79             | 10                          |
| 31 December 2015..... | 1,252.22             | 10                          |

Source: Financial Supervision Authority

The decrease in the number of pension funds from 13 in 2010 to 11 in 2012 was due to certain mergers between, and dissolutions of, certain funds.

The table below shows an increase in the number of participants to the third pillar pension system as at 31 December 2013, 2014 and 2015:

| <b>As at</b>     | <b>No. of participants 3<sup>rd</sup> pillar</b> |
|------------------|--|
| 31 December 2013 | 313,348  |
| 31 December 2014 | 346,452  |
| 31 December 2015 | 382,318  |

Source: Financial Supervision Authority

### **Insurance Market**

The FSA is a full member of the European Insurance and Occupational Pensions Authority (EIOPA), an institution which has replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) since January 1, 2011. FSA is also a member of the European Insurance and Occupational Pensions Committee (EIOPC), as well as of the International Association of Insurance Supervisors (IAIS).

Insurance activity in Romania may be pursued only subject to an authorization granted by the FSA or due to an authorisation in another European Union Member State.

Recent significant changes were introduced to the legislation on the insurance sector with the following laws having been published and entered into force:

- the Law No. 237/2015 on the authorization and supervision of the business of insurance and reinsurance, which transposes into the national legislation the provisions of the EU Directive 2009/138, Directive 2011/89 and Directive 2014/51, was published in the Official Gazette of Romania No. 800 of 28 October 2015 and entered into force on 1 January 2016;
- the Law No. 246/2015 on the insurers' recovery and resolution was published in Official Gazette of Romania No. 813 of 2 November 2015.

During 2015, FSA issued 24 rules regarding the insurance sector, mainly related to quantitative and qualitative requirements for insurance companies, accounting regulation, authorisation and functioning of the insurance/reinsurance brokers and the policyholders' guarantee fund.

## Data regarding the insurance undertakings and intermediaries

| Number of insurance undertakings  | 2013       | 2014       | 2015       |
|-----------------------------------|------------|------------|------------|
| <b>Insurers (total), of which</b> | <b>37</b>  | <b>37</b>  | <b>35</b>  |
| <i>Non-life</i>                   | 20         | 20         | 20         |
| <i>Life</i>                       | 9          | 9          | 8          |
| <i>Composite</i>                  | 8          | 8          | 7          |
| <b>Insurance intermediaries</b>   | <b>610</b> | <b>597</b> | <b>603</b> |

Foreign ownership in the Romanian insurance sector accounted for 83.21 per cent. of the sector, or RON 2.88 billion in 2013, 83.65 per cent., or RON 2.95 billion in 2014, and 89.53 per cent., or RON 3.15 billion in 2015. As of 31.12.2015, Austrian investors held 38.46 per cent of the foreign capital of Romanian insurers, while French investors held 14.80 per cent and Irish and Dutch investors held 9.55 per cent and respectively 8.58 per cent.

On 26 August 2015, FSA Board decided to withdraw the authorization and to request the entry into bankruptcy of the company Societatea Asigurare-Reasigurare Astra S.A. ("Astra").

## Financial data regarding the insurance market

|   | 2013          | 2014          | 2015*)        |
|---|---------------|---------------|---------------|
|   | (RON billion) | (RON billion) | (RON billion) |
| <b>Gross written premium (total), of which.....</b>   | <b>8.124</b>  | <b>8.086</b>  | <b>8.751</b>  |
| <i>Non-Life</i> .....                                 | 6.490         | 6.449         | 6.937         |
| <i>Life</i> .....                                     | 1.634         | 1.637         | 1.814         |
| <b>Gross indemnities paid (total), of which .....</b> | <b>4.983</b>  | <b>4.854</b>  | <b>4.573</b>  |
| <i>Non-life</i> .....                                 | 4.217         | 4.036         | 3.773         |
| <i>Life</i> .....**)                                  | 0.766         | 0.818         | 0.800         |
| <b>Assets</b> .....                                   | <b>18.358</b> | <b>18.963</b> | <b>N/A</b>    |
| <b>Capital</b> .....                                  | <b>2.246</b>  | <b>2.587</b>  | <b>3.520</b>  |
| <b>Insurance reserves (total), of which.....</b>      | <b>13.320</b> | <b>13.750</b> | <b>14.059</b> |
| <i>Non-Life</i>                                       | 6.972         | 7.598         | 7.451         |
| <i>Life</i>   | 5.869         | 6.152         | 6.608         |

\*) Preliminary data based on reporting done before the final audited reporting

\*\*\*) Data for gross indemnities paid for life includes maturities and redemptions

Note: In respect of 2015 data, the total amount of the gross written premium and gross indemnity paid include for Astra only the data reported at 30 June 2015. With regard to assets, capital and insurance reserves, the amounts presented as at 31 December 2015 do not include data regarding Astra.

## Details on the insurance activity in Romania

|  | 2013              | 2014              | 2015*             |
|--|-------------------|-------------------|-------------------|
|  | (no. of policies) |                   |                   |
| <b>Concluded Insurance Agreements (total), of which: (no.)</b> | <b>16,167,723</b> | <b>15,264,373</b> | <b>14,672,594</b> |
| <i>Non-Life</i> .....  | 11,628,069        | 11,572,537        | 11,071,298        |
| <i>Life</i> .....  | 4,539,654         | 3,691,836         | 3,601,296         |

\* contracts in force as at end of year (for 2015 the figures do not include Astra)

## Data regarding the Motor Third Party Liability Insurance

|   | 2013                 | 2014  | 2015  |
|---|----------------------|-------|-------|
|   | <i>(RON billion)</i> |       |       |
| <b>Insurance providing motor third party liability insurance</b><br>..... | 11                   | 11    | 9     |
| <b>Gross written premium</b> .....  | 2.367                | 2.672 | 3.115 |
| <b>Gross indemnities paid</b> .....                                       | 1.873                | 1.894 | 1.947 |

### Capital Markets

Law No. 297/2004, as amended and supplemented ("**Capital Market Law**"), Government Ordinance No. 32/2012, as amended and supplemented, ("**GO 32/2012**") and the Regulation No. 1/2006, as amended and supplemented ("**Regulation 1/2006**"), represent the main legal framework for capital markets in Romania. In particular, the Capital Market Law regulates the operation of regulated markets and alternative trading systems, the activity of investment firms, the market abuse regime, as well as the activity of issuers, while GO 32/2012 regulates the activity of asset management companies and collective investment undertakings and Regulation 1/2006 contains detailed provisions regarding the implementation of certain provisions of the Capital Market Law. These three pieces of legislation implement the provisions of the main European directives in the field of capital markets. On 27 March 2015, the Regulation 1/2006 was amended in order to adapt its provisions to the primary legislative changes made by the GEO No. 90/2014 and by the Law No. 10/2015.

The GEO No. 90/2014 for the amendment and completion of the Law No. 297/2014 was published on December 30, 2014. The act:

- reduced the time period necessary for admission to trading;
- aligned certain provisions on public offers to the Prospectus Directive, removing requirements on public offer notice and clarifying the publicity regime for public offers;
- clarified the power of attorney regime by introducing the possibility for shareholders to be represented in the general meeting of shareholders by general authorization, if the power of attorney is granted by the shareholder, in his capacity as a customer, to an intermediary or a lawyer, subject to certain exceptions;
- simplified procedures for submission of documents for participation of shareholders in general meetings;
- modified and simplifying the voting by correspondence procedure;
- reduced the time limit for the payment of dividends;
- provided for payment of dividends by issuers through the central depository and participants to the clearing-settlement and registry system;
- introduced the obligation to submit copies of identity documents of shareholders to the central depository;
- relaxed requirements related to quorum and decision making procedures for extraordinary general meetings of shareholders that annul shareholders' pre-emptive rights in case of capital increases in cash or by contribution in kind;
- increased to 20 per cent. the limit of voting rights in regulated market operators;
- brought the requirements of quorum and majority vote in general meetings of market operators in line with the provisions of the Company Law No. 31/1990; and

- brought the capital requirements for investment firms in line with the provisions of the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, without imposing additional capital requirements to those currently in place.

In October 2014, the Law No. 151/2014 ("**Law 151/2014**"), regarding the legal status of shares traded on the RASDAQ market or the unlisted securities market was adopted, providing a term and a procedure which had to be observed in order to clarify the legal status of the shares traded on the RASDAQ market or the unlisted securities market. To this end, within a period of 120 days of the entry into force of the Law 151/2014, each extraordinary general meeting of the shareholders of the companies listed on the RASDAQ market or the unlisted securities market had to decide whether the company would transfer on a regulated market or an alternative trading system or it would withdraw from the market. Law 151/2014 also established that the activity of the RASDAQ Market and of the unlisted securities market would terminate by operation of law at the expiry of a period of 12 months after the date of entry into force of the law, which occurred at the end of October 2015.

The Law No. 10/2015 approving Government Emergency Ordinance No. 32/2012 on undertakings for collective investment in transferable securities and investment management companies and amending, and supplementing Capital Market Law No. 297/2004 was published on 12 January 2015 and:

- introduced provisions imposing that the evaluation of the creditworthiness of the assets of UCITS shall not solely or mechanically rely on credit ratings issued by credit rating agencies;
- strengthened the FSA's surveillance prerogatives related to capital market operations in accordance with the European Union law;
- designated the FSA as the competent authority responsible for the fulfilment of duties under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories;
- allowed market operators to choose between the unitary administration or a two-tier system;
- set the irrevocability of transfer orders entered into the clearing and settlement system;
- amended the provisions regarding central counterparties and central clearing houses, as well as clarifying the FSA/NBR roles and powers in what concerns the central counterparty;
- introduced special provisions on the theft of the financial instruments of clients and/or money funds that shall be deemed as a crime;
- introduced amendments in order to create the legal premises for amending the articles of association for a financial investment companies in accordance with Law No. 31/1990 regarding the conditions of quorum and majority vote required for the general meetings of shareholders; and
- introduced amendments regarding the sanctions regime.

On 18 November 2015, Law No. 268/2015 for the approval of the GEO No. 90/2014 was published in the Official Journal of Romania. This piece of legislation:

- relaxed requirements related to quorum and decision making procedures for extraordinary general meetings of shareholders that annual shareholders' pre-emptive rights in case of capital increases in
- increased to 20 per cent. the limit of voting rights in regulated market operators;
- brought the requirements of quorum and majority vote in general meetings of market operators in line with the provisions of the Company Law No. 31/1990; and
- brought the capital requirements for investment firms in line with the provisions of the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, without imposing additional capital requirements to those currently in place.

Law No. 312/2015 on the recovery and resolution of credit institutions and investment firms was published in the Official Journal of Romania, on 11 December 2015. This law modifies certain provisions of the Capital Market Law regarding companies admitted to trading in order to align the current disposals to the legislation on recovery and resolution of investment firms, including:

- Art. 203 (on obligations of persons holding more than 33 per cent. of the voting rights in a company to launch a public offer to all holders of securities as soon as possible but no later than 2 months after reaching this holding) does not apply in the case of use of tools, powers and mechanisms for resolution under the law on recovery and resolution of credit institutions and investment firms;
- General meetings are allowed to decide that a meeting of the general assembly to decide on a capital increase can be done in a shorter period than the period provided for in article 243 (1) in order to avoid the conditions for the resolution procedure under Law No. 312/2015 on recovery and resolution of credit institutions and investment firms.

With a view to aligning the Romanian capital markets legislation and practice to European and international standards, while ensuring their adjustment to local particularities, the Romanian competent authority constantly follows and captures the recent developments in the international and European capital markets. The FSA is a full member of the European Securities and Markets Authority and of the International Organisation of Securities Commission .

In terms of supervisory activity, the FSA focuses on strengthening its monitoring capacity over regulated entities. One of the FSA's priorities is to ensure the implementation of the reporting requirements both for issuers and other entities and to ensure a fair treatment for investors. The FSA monitors the completeness of the periodic reports as well as the observance by issuers of the deadline for the submission of these reports. Significant achievements in this respect were made by the implementation by the Romanian competent authority of an application for the electronic supervision of issuers and other regulated entities through reports, easing the FSA's monitoring mission. Issuers failing to comply with the legal requirements are notified accordingly by the FSA.

The FSA also undertakes real-time monitoring of transactions performed on the Romanian regulated markets and analyses any abnormal movements of the prices and the quantity of the transactions carried out during trading sessions for the purposes of detecting possible cases of market abuse. During 2011 and 2014, the Romanian competent authority conducted several market abuse investigations, which were further continued by the relevant prosecutors' offices, on grounds of insider trading or market manipulation.

The FSA exercises its monitoring prerogatives also by performing regular and transparent controls of the activity of regulated and supervised entities. The control activity performed by the Romanian competent authority in recent years was finalised with sanctions, notifications of the companies under investigation with regard to the obligation to remedy the deficiencies ascertained by the control teams and notification of other state institutions (e.g. the National Office for Prevention and Control of Money Laundering, the Ministry of Internal Affairs, the General Inspectorate of Romanian Police, the Prosecutor's Office attached to the High Court of Cassation and Justice and the National Agency for Fiscal Administration).

## Capital Market Intermediaries

Investment services and activities are performed by intermediaries such as investment firms authorised by the FSA, credit institutions authorised by the NBR, as well as by foreign regulated entities authorised in an EU Member State or in a non-EU State by the relevant home State authorities.

### *Intermediaries on the local capital market*

The following table shows the number of intermediaries on the local market.

|   | <b>As at 31 December</b> |             |             |
|---|--------------------------|-------------|-------------|
|   | <b>2013</b>              | <b>2014</b> | <b>2015</b> |
| Investment firms authorised by the FSA.....   | 39                       | 31          | 30          |
| Credit institutions authorised by the NBR .....                                     | 10                       | 10          | 8           |
| Investments firms authorised by the home competent authority in a Member State..... | 1,436                    | 1,467       | 1,490       |
| Credit institutions authorised by the relevant authority in a Member State.....     | 147                      | 148         | 147         |
| Branches of investment firms from other EU Member States .....                      | 7                        | 6           | 8           |

|   |              |              |              |
|---|--------------|--------------|--------------|
| Branches of credit institutions from other EU Member States ..... | 4            | 4            | 4            |
| <b>Total</b> .....  | <b>1,641</b> | <b>1,666</b> | <b>1,685</b> |

Source: Financial Supervision Authority

Investment firms and credit institutions from other EU Member States are registered with the FSA in order to perform financial services in Romania further to notifications addressed to the FSA by the relevant competent authorities of the relevant Member States. Most of the notified EU intermediaries, including credit institutions, are from the United Kingdom. Intermediaries, both Romanian and foreign, must be registered as participants on the Romanian stock exchanges in order to perform transactions on those markets. Among the intermediaries registered with the Bucharest Stock Exchange ("**BSE**"), seven intermediaries are foreign entities originating from Austria, Belgium, Bulgaria, Poland, Hungary and the Czech Republic. Also, there is one foreign intermediary originating from Bulgaria that is registered with the Sibiu Stock Exchange ("**Sibex**").

### **Collective Investment Undertakings (*Organism de Plasament Colectiv*)**

Over recent years, collective investment undertakings ("**CIUs**") have strengthened their role as alternative savings vehicles, collecting significant financial resources from individuals and legal persons.

The table below shows statistical data on active CIUs (undertakings for collective investment in transferable securities ("**UCITS**") and collective investment undertakings, other than UCITS ("**non-UCITS**")), as well as on other entities active in Romania:

## Collective Investment Undertakings

|   | As at 31 December |            |            |
|---|-------------------|------------|------------|
|   | 2013              | 2014       | 2015       |
| <b>Undertakings for collective investment in transferable securities ("UCITS"):</b>       |                   |            |            |
| Open-end investment funds (performing activities in practice) .....                       | 64                | 70         | 74         |
| <b>Collective investment undertakings, other than UCITS (non-UCITS):</b>                  |                   |            |            |
| Closed-end investment funds (active) .....  | 31                | 32         | 29         |
| Investment companies .....  | 6                 | 6          | 6          |
| <b>Total no. of CIUs</b> .....  | <b>101</b>        | <b>108</b> | <b>109</b> |
| <b>Management companies</b> .....   | <b>22</b>         | <b>21</b>  | <b>21</b>  |
| <b>Depositories</b> .....   | <b>7</b>          | <b>8</b>   | <b>6</b>   |
| Entities from Member States   |                   |            |            |
| UCITS authorised in a Member State and whose units have been distributed in Romania ..... | 26                | 29         | 50         |

Source: Financial Supervision Authority

On a year-on-year basis since 2009, in the context of an increased aversion to risk caused by the global financial crisis, Romanian investment funds registered a growth in the ratio of bank deposits and bonds in the investment funds' overall level of assets.

| Development of mutual funds                                  | As at 31 December |              |              |
|--|-------------------|--------------|--------------|
|  | 2013              | 2014         | 2015         |
| <b>Number of management companies</b> .....                  | <b>22</b>         | <b>21</b>    | <b>21</b>    |
| <b>Total assets under management (million EUR)</b>           | <b>7,992</b>      | <b>8,788</b> | <b>9,119</b> |
| Equity funds and investment companies (excluding ETFs) ..... | 5,054             | 4,628        | 4,488        |
| Bond funds .....   | 2,793             | 3,871        | 4,239        |
| Hybrid funds .....   | 128               | 261          | 365          |
| Money market funds .....                                     | 17                | 28           | 27           |
| ETFs .....   | 0.18              | 0.54         | 0.48         |
| <b>Number of CIUs</b> .....                                  | <b>101</b>        | <b>108</b>   | <b>109</b>   |
| Equity funds and investment companies (excluding ETFs) ..... | 33                | 34           | 32           |
| Bond funds .....   | 24                | 27           | 30           |
| Hybrid funds .....   | 42                | 45           | 45           |
| Money market funds .....                                     | 1                 | 1            | 1            |
| ETFs .....   | 1                 | 1            | 1            |

Source: Management companies reports submitted by FSA. Reports total assets can be found on the official websites of investment funds managed.

## Regulated Markets and Alternative Trading Systems

Two market operators are registered on the Romanian capital market, the BSE and the Sibex. Both market operators are also registered as system operators.

## ***The Bucharest Stock Exchange***

The BSE was set up on 21 April 1995 as an institution of public interest effectively managed by its members through the Stock Exchange Association. The BSE Association decided on 10 January 2005 to change the BSE's legal status from an institution of public interest into a joint stock company in accordance with the Romanian Companies Law No. 31/1990 and the Capital Markets Law. A key result of this transformation process, finalised on 13 July 2005, was the merger between BSE and the Rasdaq Electronic Exchange, a process further continued when on 30 November 2005 the BSE Extraordinary General Assembly approved the merger plan by which BSE absorbed Rasdaq. Five years later, in 2010, the BSE S.A. became a listed company and its shares are admitted to trading on the regulated market.

The BSE is authorised by the FSA as a market operator and, as such, it manages a spot regulated market ("**Spot Regulated Market**"). Companies listed on the BSE Spot Regulated Market are classified in two tiers ("Premium" and "Standard"), according to their compliance with several qualitative and quantitative criteria. The Spot Regulated Market also has an International Tier and Other International Financial Investments Sector. The BSE is also authorised by the FSA as a system operator. In this quality, BSE operates an Alternative Trading System (Multilateral Trading Facility) with two main sections: one dedicated to the listing of small and medium size enterprises (AeRO) and one dedicated to trading of foreign shares already listed on a regulated market in EU or on another exchange in a non - EU country, using market-maker services.

As at 31 March 2016, there were 84 companies listed on BSE's Spot Regulated Market, of which 82 are domestic companies and 2 are foreign companies. At the same date, there were 47 issues of bonds listed on BSE, of which 38 issues were municipal bonds, 2 foreign corporate bonds and 6 domestic corporate bonds. The first exchange-traded fund was admitted to trading on the BSE market in August 2012; as at March, 31 2016, 2 mutual funds and one exchange traded fund were listed on the BSE's spot market.

The BSE system operator manages the Alternative Trading System. As at 31 March 2016, there were 301 companies were traded on the two markets sections of the Alternative Trading System operated by the BSE, out of which 275 companies were listed in the section dedicated to small and medium enterprises (AeRO) and 26 companies were traded in the section dedicated to trading of foreign shares already listed on a regulated market in EU or on another exchange in a non-EU country. As at the same date, three issues of bonds and one issue of mutual funds were listed on the Alternative Trading System.

### *Capitalisation of the BSE Regulated Markets*

| <b>As at</b>           | <b>Market Capitalisation</b><br><i>(EUR billion)</i> | <b>Year Change</b><br><i>per cent.</i> |
|------------------------|--|--|
| 31 December 2013 ..... | 29.98  | 35.9                                   |
| 31 December 2014 ..... | 28.99  | (3.3)                                  |
| 31 December 2015 ..... | 32.24  | 11.21                                  |

*Source: BSE*

### *Trading Values on the BSE Regulated Markets*

|                                  | <b>As at 31 December</b> |               |               | <b>31 March</b> |
|----------------------------------|--------------------------|---------------|---------------|-----------------|
| <b>Trading Volumes</b>           | <b>2013</b>              | <b>2014</b>   | <b>2015</b>   | <b>2016</b>     |
| Total trading volumes (EUR)..... | 2,028,446,245            | 2,277,882,633 | 2,030,242,344 | 436,667,743     |
| Stock (EUR).....                 | 1,803,965,503            | 2,189,085,151 | 1,836,996,472 | 378,640,940     |
| Bonds (EUR).....                 | 95,210,737               | 34,986,357    | 100,840,387   | 27,574,283      |
| Rights (EUR).....                | 6,459,754                | 0             | 0             | 0               |
| Fund Units (EUR).....            | 1,703,194                | 2,523,996     | 1,737,589     | 214,327         |
| Structured Products (EUR).....   | 120,425,947              | 51,287,129    | 90,667,896    | 30,238,193      |
| Futures (EUR).....               | 681,111                  | 0             | 0             | 0               |



|                             |     |     |     |    |
|-----------------------------|-----|-----|-----|----|
| Number of trading days..... | 251 | 250 | 251 | 64 |
|-----------------------------|-----|-----|-----|----|

Source: BSE

Note: The table does not include the values of the public offers conducted by BSE and of the transactions on the Unlisted Market

#### Daily Average Turnover of the BSE Regulated Markets

| Year      | Daily Average Turnover<br>(EUR million) | Year Change<br>(per cent.) |
|-----------|---|----------------------------|
| 2013..... | 8.08                                    | 0.37                       |
| 2014..... | 9.11                                    | 12.75                      |
| 2015..... | 8.09                                    | (11.20)                    |

Source: BSE

#### BSE Indices

| BSE Indices | Value as at<br>31 December 2015<br>(points) | Change in 2015 (compared to<br>31 December 2014)<br>(per cent.) |
|-------------|---|---|
| BET         | 7,004.32                                    | (1.11)  |
| BET-XT      | 640.42                                      | 0.33  |
| BET Plus    | 1,034.65                                    | (1.25)  |
| BET-TR      | 7,977.94                                    | 3.14  |
| BET-FI      | 30,276.49                                   | (0.02)  |
| BET-NG      | 606.14                                      | (14.02)   |
| BET-BK      | 1,341.69                                    | 2.55  |

Source: BSE

The BET index, reflecting the performance of the securities of the 10 most liquid companies admitted to trading on the BSE regulated market, has decreased in 2015, as at 31 December 2015, by 1.11 per cent. compared to end-year 2014. BET-FI, which represents the index of the investment companies admitted to trading on the BSE regulated market, has decreased in 2015, as at 31 December 2015, by 0.02 per cent. compared to end-year 2014. The BET-XT index, which reflects the performance of the securities of the 25 most liquid companies admitted to trading on the BSE regulated market, increased in 2015 by 0.33 per cent. compared to end-year 2014 and the BET-NG, which represents the index of the energy and utilities companies admitted to trading on the BSE regulated market decreased in 2015, as it was 14.02 per cent. lower at 31 December 2015 than it was at 31 December 2014.

#### The Sibiu Stock Exchange

In 2003, Sibex was authorized as an exchange by the CNVM and in 2004 the CNVM authorized Sibex's derivatives market. In late 2009, CNVM authorized the regulated spot market operated by Sibex for equity, bonds and other financial instruments. Sibex's spot market has been operational since 22 January 2010. Also in 2009, the alternative trading system ("ATS") operated by Sibex was approved by the CNVM.

In 2013, Sibex signed a partnership agreement with OPCOM for the development and launching of power derivatives on Sibex's derivatives regulated market.

In February 2014, Sibex signed a cooperation agreement with HELEX GROUP and in December 2014, Sibex finalized the connection of the derivatives market to a central counterparty, ATHEXClear, as well as the migration of the derivatives market to a new trading system provided by ATHEX Group.

At the end of March 2015, Sibex also completed the migration of the regulated spot market and alternative market to the new trading system OASIS provided by ATHEX GROUP. Thus, from 30 March 2015, all the markets administered by

Sibex, including the regulated derivatives market, the regulated spot market and the alternative market, have been operating on the same new trading system.

In 2015, following the closure of the RASDAQ market, 35 companies were listed on the alternative market administered by Sibex.

#### Trading Volumes at SIBEX

| Trading Volumes            | Values at<br>31 December<br>2013 | Values at<br>31 December<br>2014 | Values at<br>31 December<br>2015 | Values at<br>31 March<br>2016 |
|----------------------------|----------------------------------|----------------------------------|----------------------------------|-------------------------------|
|                            | <i>(Trades)</i>                  |                                  |                                  |                               |
| Total trading volumes..... | 3,387,600                        | 2,066,515                        | 19,369,020                       | 581,112                       |
| Futures.....               | 419,949                          | 354,153                          | 14,041                           | 2,213                         |
| Options.....               | 15                               | 1                                | 0                                | 0                             |
| Spot Market.....           | 2,155,871                        | 561,148                          | 100                              | 147,612                       |
| ATS.....                   | 811,765                          | 1,151,213                        | 19,354,879                       | 431,287                       |

Source: Sibex

### Money Laundering

First legislation on anti-money laundering was enacted in Romania in 1999 (Law No. 21/1999), which was subsequently repealed by the Law No. 656/2002 on the prevention and sanctioning of money laundering, as well as on establishing measures for preventing and combating terrorism financing. In 2008, significant progress was made in the field of money laundering by the adoption of important AML/CTF legal acts needed to fully transpose the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of EC Directive 2006/70/EC as regards politically exposed persons, and to implement the recommendations in the Assessment Report on Romania adopted by the Moneyval Committee of the Council of Europe.

New money laundering monitoring authorities were created, such as the Division for "Monitoring of International Sanctions Enforcement, Prevention of Money Laundering and Terrorist Financing", which supervises compliance with NBR requirements in matters of money laundering and financing of terrorist activities. Since its establishment, the new division has conducted 189 examinations of credit institutions, which have resulted in 104 letters of recommendation or mandated courses of action that imposed immediate remediation of deficiencies within certain deadlines and 34 contravention fines for non-compliance with legal provisions amounting RON 540,000, in order to minimise the risk of money laundering and terrorist financing. The supervision of payment institutions and electronic money institutions from a AML/CTF perspective is entrusted to the NBR.

In 2013, Romania was subject to the evaluation process conducted by Moneyval and the mutual evaluation report on the 4th assessment visit of Romania was adopted at its 44th Plenary (Strasbourg, 31 March – 4 April 2014).

In 2014, the National Office for Prevention and Control of Money Laundering ("NOPCML") submitted to the General Prosecutor's Office attached to the High Court of Cassation and Justice ("GPO") 334 cases of money laundering; 5 notifications were sent to the GPO and Romanian Intelligence Service for suspicions of terrorism financing; and 377 notifications were sent to competent bodies for other offences. During 2014, the board of the NOPCML decided to suspend financial operations with a total value of EUR 9.3 million.

In 2015, NOPCML submitted to the GPO 476 cases of money laundering; 6 notifications were sent to the GPO and Romanian Intelligence Service for suspicions of terrorism financing; and 369 notifications were sent to competent bodies for other offences. During 2015, the Board of the NOPCML decided to suspend financial operations with a total value of EUR 7.5 million.

In the performance of its activity, NOPCML cooperates closely with the Ministry of Justice, the GPO and the Court of Accounts. NOPCML is also part of the newly founded Inter-ministerial Committee against corruption, transnational organised criminality and of serious forms of financial and economic criminality.

## **PUBLIC FINANCE**

### **The Budgetary System**

#### *The Budgetary Process*

The Romanian Ministry of Public Finance prepares two main budget laws each year (the central state budget law and the state social security budget law). The central state budget is prepared by the Romanian Government, acting through the Ministry of Public Finance, and is based on draft budgets (proposals) from the direct recipients of budgetary allocations (line ministries).

The budget proposals submitted to the Ministry of Public Finance include programmes for investment by public institutions and other capital expenditures. These investment and capital expenditure programmes are based on a listing of certain projects approved in accordance with the legal provisions in force, as well as global amounts for other expenditures for investments.

The budgets are approved by Parliament in their entirety. If the central state budget and the state social security budget have not been approved by the end of the year preceding the period budgeted, the Romanian Government applies, with certain limitations, the provisions of the previous year's budget until the budget for the current year is adopted.

The consolidated general budget is prepared by the Ministry of Public Finance and includes among others: the central state budget plus the state social security budget; the special funds; the autonomous and self-financed institutions' budgets and the local government budgets.

The state social security system and local governments are each responsible for the management of their own revenues and expenditure.

- *State Social Security Budget*

The state social security budget is independent of the central state budget, although it is subject to approval by Parliament each year. The public pension system is based on a "pay as you go" principle, with the contributions paid by employers representing the main source of income for the system. The majority of expenditure from the state social security budget is in the form of pension benefits, including old age pensions, early retirement pensions, partial early retirement pensions, disability pensions, survivor pensions and death benefits.

- *Special Funds*

Special Funds are the national health insurance funds, the budget of which is approved as an annex to the central state budget law, and the budget for unemployment insurances, which is approved along with the state social security budget law.

- *Local Budgets*

Local budgets are prepared, approved and executed according to the law on local public finances and the law on local public administration. These laws authorise local authorities to develop and approve their own budgets and assign to them certain sources of revenue, including a share of personal income tax and certain other taxes collected at the level of the central state budget. Additional local budget revenues come from property taxes. Local authorities are required to balance their current spending and they are able to contract loans for investment purposes and for refinancing local public debt.

Since 2011 when the Government Emergency Ordinance No. 63/2010 amending the Law on local public finances No. 273/2006 came into force, the budgets of administrative territorial units are prepared and approved in two sections, operational and development.

Each of the two sections has its own revenue and expenditure. Thus, operational expenditure includes current expenses and repayment of loans, while development expenditure includes capital expenditures and post-accession EU co-financed projects.

Amounts can be transferred from the operational section to the development section only after payments for operational costs have been completely secured.

Local budgets of communes, towns, cities, Bucharest districts, counties and the Bucharest municipality, as well as the budgets of public institutions financed from their own revenues and subsidies from local budgets and external grant budgets are approved, under the "balanced budget" condition, while the development section deficit can be covered by the previous year operational section's surplus.

The annual budget will include distinct appropriations for payment of the previous year's arrears. Since 2011, revenues and expenditures presented off budget have been included in the local budget.

Since 1 January 2011, the permitted level of indebtedness of each administrative territorial unit/subdivision (such as a city or a county) has been limited to 30 per cent. of their own revenues (consisting of taxes, fees, contributions, other income and allocated shares from income tax) as averaged across the last three years preceding the year in which approval is requested, less the income resulting from the sale of certain assets over the same period, belonging to the private domain of the respective administrative territorial subdivision. Loans contracted and/or guaranteed by the administrative territorial subdivision relating to financing of projects which benefit from pre and post-accession non-reimbursable external funds from the European Union are not included in the calculation.

The loans contracted and/or guaranteed by administrative territorial subdivisions in respect of the financing of projects which benefit from pre- and post-accession non-reimbursable external funds from the European Union are exempted from the 30 per cent. limit of the level of indebtedness.

### ***Medium Term Budgetary Planning Process***

Although medium term budgetary planning has been utilised in Romania since 2003, the Medium Term Budgetary Framework ("**MTBF**") became mandatory only when Law No. 69/2010 on fiscal responsibility ("**Fiscal Responsibility Law**") entered into force in 2010 resulting in medium term budget ceilings requiring approval by Parliament.

The most important reforms regarding the fiscal framework (as provided under the Fiscal Responsibility Law) include the following:

- *Mandatory Medium-term Planning:* A new stage has been introduced in the budgetary calendar. By 15 July of each year the Ministry of Public Finances shall submit to the Government the Fiscal Budgetary Strategy ("**FBS**") (covering the following 3 years), which shall be further presented to the Parliament by 15 August each year;
- *Parliament Approval on Key Medium Term Budgetary Targets:* Together with the FBS, the cabinet submits a draft law to be debated and voted on by the Parliament, which includes a maximum threshold for the structural deficit (as a percentage of GDP), the cash budget balance (as a percentage of GDP), personnel expenditures (as a percentage of GDP), guarantees issued by the government and local authorities, loans contracted by local authorities, total expenditure excluding financial assistance from EU, public debt (as a percentage of GDP), etc.;
- *Binding Medium-term Targets:* When preparing the annual budget the maximum thresholds referred to above must be observed;
- *Escape Clauses:* The FBS may be revised if: (i) there is a change in the scope of the general consolidated budget; (ii) there is a significant worsening of the macroeconomic indicators used in preparing the FBS; or (iii) there is a change in government. In the latter case the new government will make public whether its programme is consistent with the FBS and if not the Ministry of Public Finance will prepare a new draft FBS. This revision must be approved by Parliament and is subject to the review and opinion of the Fiscal Council;
- *New Fiscal Rules:* (i) The structural deficit cannot be higher than 0.5 per cent. of GDP (or 1.0 per cent. of GDP if the public debt is comfortably below 60 per cent. of GDP); (ii) public debt should not be higher than 60 per cent. of GDP; (iii) intermediate prudential Public Debt thresholds have been set at 45 per cent., 50 per cent. and 55 per cent. of GDP; (iv) an automatic correction mechanism has been put in place if a deviation of the above rules occurs; (v) annual increase of public sector expenditure has to be in line with the rules set by the EC Regulation No. 1466/1997; (vi) the macroeconomic forecast utilised for budget planning has to be compared with the EC official forecast and any difference clearly presented; (vii) during the budget year funds approved for public investment cannot be transferred to current expenditure; (viii) and there cannot be more than two budget rectifications during one year; and (ix) a budget rectification may take place only in the second half of the year; and
- *The New Fiscal Institution:* The Fiscal Responsibility Law introduces the Fiscal Council, an independent body made up of five members, one from each of the Romanian Academy, Romanian National Bank, the Academy of Economic Studies, the Romanian Banking Institute and the Romanian Banking Association, who are appointed by the Parliament for a period of nine years. The Fiscal Council issues opinions and recommendations on official macroeconomic and budgetary forecasts, and on the FBS, Annual Budget Law, Budget execution and major legislative initiatives which can have an impact on budget expenditures. The Fiscal Council also monitors the observance of the fiscal rules.

## Taxation system

The following table presents the share of the main sources of revenue in the general consolidated budget as at 31 December 2013, 2014 and 2015:

|                                    | As at 31 December |             |      |
|------------------------------------|-------------------|-------------|------|
|                                    | 2013              | 2014        | 2015 |
|                                    |                   | (per cent.) |      |
| Social security contributions..... | 27.1              | 26.9        | 24.7 |
| VAT.....                           | 25.9              | 23.7        | 24.5 |
| Non-fiscal revenues .....          | 8.6               | 8.1         | 8.3  |
| Income tax .....                   | 11.3              | 11.1        | 11.4 |
| Excises.....                       | 10.5              | 11.2        | 11.1 |
| Corporate tax .....                | 5.5               | 5.7         | 5.9  |
| Other.....                         | 11.1              | 13.3        | 14.1 |
| Total.....                         | 100               | 100         | 100  |

Source: Ministry of Public Finance

### Value Added Tax

According to the New Fiscal Code, with subsequent amendments and completions, the standard VAT rate was reduced from 24 per cent. to: (i) 20 per cent. from 1 January 2016; and (ii) 19 per cent. from 1 January 2017.

Romania applies a reduced VAT rate of 9 per cent. for the supply of: food products, restaurant and catering services (excluding alcoholic beverages); drinking water and irrigation water in agriculture; orthopaedic products and prostheses (except for dental prostheses); human and veterinary medicines and accommodation in hotels.

Romania also applies a reduced VAT rate of 5 per cent. for the supply of: social housing and the land on which they are built; school-books, books, newspapers and magazines, except for those used solely or principally for advertising; services consisting in admission to castles, museums, memorial houses, historical, archaeological and architectural monuments, zoos and botanical gardens, fairs, exhibitions and cultural events, sporting events and cinemas, other than those exempted.

The VAT registration threshold applied for small undertakings is RON 220,000 (approximately EUR 65,000 calculated using the exchange rate on the day of Romania's accession to EU). Entities that carry out activities which generate revenues below this threshold are not obliged to register for VAT purposes, but can opt to do so. Romania currently applies an optional VAT cash accounting system which is available to companies with a turnover of less than RON 2,250,000 lei (approximately EUR 500,000), adopted in order to assist SMEs.

### Income Tax

The New Fiscal Code establishes a personal tax on salary income, income from independent activities, lease operations and interest each of which are currently levied at a rate of 16 per cent.

As of 1 January 2016, the income tax rate for the income received by individuals as dividends, including the income derived in relation to holding participation titles (shares, fund units, etc.), as defined by the legislation related to collective investment funds, will decrease from 16 per cent. to 5 per cent.

### Excises

Romania applies excise duties to goods which are mandatorily subject to excise tax at the EU level (ethyl alcohol, alcoholic beverages, manufactured tobacco, energy products and electricity), but also for the tobacco contained in the heated tobacco products and liquids containing nicotine.

As an EU Member State, Romania has an obligation to reach the minimum levels of excise duties required by EU directives. In 2007, Romania reached the minimum levels for almost all goods subject to excise duties, with the exception of unleaded petroleum, gas oil and cigarettes, for which a transitional period was obtained.

Between 2009 and 2015, Romania gradually increased the excise duty level for these products. Also, taking into account budgetary needs and the tax evasion in this area, the excise duty level was also increased for other products such as intermediate products and other fermented beverages. As of 1 January 2015, the level of the excise duties is

expressed in RON. The level of the harmonised excise duties is updated on an annual basis, by reference to the growth in consumer prices, calculated over a period of 12 months ending in September of the year that precedes the period for which the new level of excise duties shall apply, by comparison to the level of the consumer prices for the period October 2013 – September 2014 which was officially announced by the National Institute for Statistics.

From 1 January 2016, the New Fiscal Code includes the following fiscal measures in relation to excise duty:

- Realignment of the levels of excise duties on alcohol and alcoholic beverages, as follows:
  - increase of excise duty on still fermented beverages from RON 47.38 / hl / product to RON 396.84 / hl / product;
  - decrease of excise duty on beer from RON 3.9 / hl / 1 Plato degree to RON 3.3 / hl / 1 Plato degree and, on beer produced by independent producers whose annually production does not exceed 200,000 hl, from RON 2.24 / hl / 1 degree Plato to RON 1.82 / hl / 1 Plato degree;
  - decrease of excise duty on intermediate products from RON 781.77 / hl / product to RON 396.84 / hl / product;
  - decrease of excise duty on sparkling wines from RON 161.33 / hl / product to RON 47.38 / hl / product and, on sparkling fermented beverages from RON 213.21 / hl / product to RON 47.38 / hl / product; and
  - decrease of excise duty on alcohol from RON 4,738.01 / hl of pure alcohol to RON 3,306.98 / hl of pure alcohol and, on ethyl alcohol produced by small distilleries from RON 2,250.56 / hl of pure alcohol to RON 1,653.49 / hl of pure alcohol.
- Removal of taxation for crude oil from domestic production.
- Removal from the sphere of non – harmonised excise duty of the following products: coffee, jewellery, furs, cars with a capacity greater than 3000 cm<sup>3</sup>, yachts, weapons, ammunition and marine engines with power over 100 hp.
- Introducing in the sphere of non – harmonised excise duty on following products:
  - the liquids containing nicotine which are designed for inhalation, using an electronic device as e-cigarette – 0.5 RON/ml; and
  - the tobacco contained in the heated tobacco products – 384 RON/kg.

Starting 1 January 2017, in the field of excise duty, the New Fiscal Code includes the following fiscal measures:

- Decreasing the rates of excise duty for the following energy products:
  - diesel: from RON 1,897.08 /1000 l to RON 1,518.04 /1000 l;
  - unleaded petrol from RON 2,035.40 /1000 l to RON 1,656.36 /1000 l;
  - leaded petrol from RON 2,327.27 /1000 l to RON 1,948.23 /1000 l.
- Removal of the reduced rate of excise duty on diesel used by cargo shippers and people carriers, as a result of the significant reduction on standard diesel excise duty applied in Romania.

Also, the method of calculation of the excise duties will change starting on 1 January 2017 (1 April 2017 for cigarettes on an annual basis) and the level of such excise duties will be updated annually to reflect the growth of consumer prices from the prior 12 months compared to the level of the consumer prices for the period October 2014 – September 2015, which is officially announced by the National Institute for Statistics.

### ***Corporate Income Tax***

According to the New Fiscal Code, as subsequently amended, Romanian corporate tax system is represented by:

- a general system of taxation, corporate income tax, consisting in applying a tax rate of 16 per cent. on the taxable profit related to each fiscal period, and
- starting with 1 January 2017 - a simplified system of taxation, tax on micro-enterprises income, by applying a differentiated tax rate depending on the employees number (1 per cent. for micro-enterprises having 2 employees,

inclusive; 2 per cent. for micro-enterprises having 1 employee; 3 per cent. for micro-enterprises without employees) on income from all sources less certain types of income specifically mentioned by the legislation. This system is applicable to entities that have revenues up to EUR 100,000: after exceeding this threshold, such entities will become corporate income tax payers.

Corporate income tax is calculated at a tax rate of 16 per cent. applied on the taxable profit and is required to be calculated and paid quarterly. Starting with 1st of January 2016, the tax rate on dividends paid by a Romanian legal person to another Romanian legal person is 5 per cent.

The New Fiscal Code, as amended, contains certain fiscal measures implemented in order to (i) stimulate the incorporation of holding companies, (ii) attract foreign capital and (iii) create incentives for the repatriation/investment of domestic capital.

These fiscal measures consist mainly of:

- the inclusion in the category of non-taxable income of the income from assessment/reassessment/sales/assignments of the equity securities held in a Romanian legal person or a foreign legal person located in a country which has concluded a double tax treaty with Romania, provided that the Romanian taxpayer has held for an uninterrupted period of one year at least 10 per cent. of the share capital of the relevant legal person;
- the inclusion in the category of non-taxable income of the dividends received from a foreign legal person located in a third country which has concluded a double tax treaty with Romania, provided that the Romanian legal person receiving the dividends has held for an uninterrupted period of one year at least 10 per cent. of the share capital of the legal person that distributes the dividends; and
- the tax exemption for the income obtained by a Romanian legal person from the liquidation of another Romanian legal person or a foreign legal person located in a third country which has concluded a double tax treaty with Romania, provided that, at the moment the liquidation procedures commence, the Romanian legal person receiving the income has held for an uninterrupted period of one year at least 10 per cent. of the share capital of the legal person under liquidation.

Other tax facilities stipulated by the New Fiscal Code, as amended, are:

- effective 1 July 2014 the tax exemption scheme for profit reinvested in the production and/or acquisitions of technological equipment was introduced. As of 1 January 2016, this tax facility was extended for profit reinvested in production and/or acquisitions of computers and peripheral equipment, machinery house, control and billing, and software.

From 1 February 2013, the additional deduction of 20 per cent. for research and development expenditures was increased to 50 per cent., with respect to the expenses eligible for these activities. The accelerated depreciation method is applied to the equipment designed for this activity.

### ***Construction Tax***

As of 1 January 2014, a 1.5 per cent. tax payable to the state budget and applicable to the value of certain construction projects was introduced. This tax applies to constructions other than those that qualify as a "building" under Romanian legislation (which are already subject to the tax on buildings due to the budgets of local administrative-territorial units). Examples of such constructions include hydro-electric dams, electricity transmission towers and oil wells, construction projects and works for the reconstruction, modernization, consolidation, modification or expansion of constructions which are or shall be transferred, under the ownership of the state or the administrative-territorial units and constructions of "arable terraces, fruit plantations and vineyards". The level of this tax was reduced to 1 per cent. starting with 2015.

According to the provisions of the New Fiscal Code, as subsequently amended, from 1 January 2016 the construction tax has been modified as follows:

- removal from the taxable base of construction value of the subgroup 1.2 "Agricultural buildings" Catalogue on classification and the normal useful life of fixed assets;
- the tax on construction will be abolished from 1 January 2017.

### ***Taxation of non-residents***

The following types of income, when derived from Romanian sources by non-residents are not considered as subject to withholding tax:

- interest paid on public debt instruments;
- income obtained from transactions involving the use of derivative financial instruments for risk management purposes in relation to holding public debt instruments;
- income from the trading of state securities and bonds issued by administrative-territorial units domestically or on foreign markets; and
- interest related to instruments issued by the NBR for the achievement of monetary policy targets and income from the trading of transferable securities issued by the NBR; and
- interest from debt instruments/debt securities issued by Romanian companies, set up according to the Law No. 31/1990, republished, as subsequently amended and supplemented, if the debt instruments/debt securities are issued under a prospectus approved by the competent regulatory authority and the interest is paid to a person who is not affiliated to the issuer of the debt instruments/securities.

### ***Local Taxes and Fees***

The New Fiscal Code regulates the local taxes and fees which generate revenues for local budgets. The local taxes and fees include property taxes (the tax on buildings, tax on land, tax on vehicles, taxes on advertising, fees for issuing of certificates and permits) as well as other taxes and fees which can be set by local municipalities based on the provisions of the New Fiscal Code.

The New Fiscal Code provides that from 2016 the main criterion for determining the tax on buildings is the actual use of the property—residential, non-residential or mixed and not primarily the legal status of the owner (individual or legal entity).

The tax rates are similar for individuals and legal entities who own similar types of buildings. The tax base is the assessed value of the building, based on standards approved by the National Association of Authorized Valuers. An exception applies with respect to the value of residential buildings owned by individuals is an area-based value, adjusted by coefficients designed by the law, which take into consideration the quality of the building, location and rank of municipality.

The New Fiscal Code also provides a set of the mandatory tax exemptions, but also gives powers to municipalities to permit partial or full tax exemptions in specific cases.

Under the New Fiscal Code, municipalities benefit from more local autonomy as they are allowed to increase any local tax or fee by up to 50 per cent., according to specific local conditions. Also, for poorly maintained buildings or land in the built-up area of the locality, municipalities may increase the taxes by up to 500 per cent.

From 1 January 2017, the values provided in the Fiscal Code in connection with local taxes and fees will be updated on an annual basis, rather than every 3 years, based on to the inflation index for the previous year.

### ***Budgetary Income Collection***

In order to enhance budgetary income collection, as well as to increase the efficiency of the fiscal administration authorities, certain measures have been implemented, such as:

- implementation of a new categorisation system whereby taxpayers are divided into large, medium or small taxpayers;
- creation of special fiscal bodies responsible for supervising the decrease in budgetary arrears for large and medium taxpayers;
- a new IT system has been implemented, offering the possibility of identifying in real time taxpayers who have not complied with their declaration/payment requirements; and
- enforcement activities for the recovery of overdue budgetary obligations have been intensified. In addition, filings of insolvency proceedings (judicial reorganisation or bankruptcy) against taxpayers who have still not paid amounts owing following enforcement proceedings have been increased (such insolvency proceedings are a last resort and are strategically monitored).



In order to mitigate the effects of the economic crisis on companies' liquidity, and to prevent the accumulation of budgetary arrears, the NAFA has implemented certain special measures including:

- the acceleration of the VAT refund process by new refund procedures, a special regime for exporters and the possibility to follow up online the settlement stage of a VAT refund claim; and
- the reinstatement of lost payment facilities as a result of the economic crisis effects (regulated by Government Emergency Ordinance No. 46/2009).

### The General Consolidated Budget

The following table shows income and revenues relating to the general consolidated budget for the years ended 31 December 2013, 2014 and 2015:

|  | 2013                 | 2014       | 2015       |
|--|----------------------|------------|------------|
|  | <i>(RON million)</i> |            |            |
| <b>A. REVENUE</b> .....  | 200,374.3            | 214,314.9  | 233,554.3  |
| Current incomes.....   | 190,704.8            | 199,962.2  | 215,401.1  |
| Taxes .....  | 119,109.9            | 124,964.7  | 138,302.1  |
| Income fee, profit and capital gain from legal entities .....  | 12,179.8             | 13,163.2   | 14,814.5   |
| Income fee, profit and capital gain from individuals .....   | 22,746.9             | 24,213.0   | 27,276.4   |
| Property fees and taxes .....  | 4,403.2              | 6,185.1    | 5,738.0    |
| Fees and taxes on goods and services .....   | 78,775.0             | 80,343.1   | 89,207.8   |
| Fee on the external trade and international transactions .....   | 620.0                | 643.0      | 816.0      |
| Other fiscal fees and taxes .....  | 385.0                | 417.5      | 449.4      |
| Contributions to social securities .....   | 54,383.2             | 57,585.4   | 57,604.0   |
| Non-fiscal incomes .....   | 17,211.7             | 17,412.0   | 19,495.0   |
| Incomes from capital .....   | 654.7                | 1,072.4    | 918.2      |
| Donations.....   | 207.0                | 80.3       | 6.3        |
| Amounts in distribution .....  | -365.2               | 272.7      | (28.8)     |
| Amounts received from EU .....   | 9,173.0              | 12,927.3   | 17,257.5   |
| Financial operations.....  | —                    | —          | —          |
| <b>B. TOTAL EXPENSES</b> .....   | 216,168.3            | 225,808.1  | 243,915.5  |
| Current expenses.....  | 199,117.3            | 209,512.2  | 226,688.1  |
| Personnel related expenses .....   | 46,241.0             | 50,400.1   | 52,025.6   |
| Goods and services .....   | 38,538.6             | 39,538.0   | 40,808.3   |
| Interest .....   | 10,755.5             | 10,201.7   | 9,571.7    |
| State aid .....  | 5,154.3              | 6,108.2    | 6,274.8    |
| Transfers between the units of the public administration.....  | 1,012.5              | 502.7      | 1,779.9    |
| Other transfers .....  | 10,692.9             | 11,834.0   | 11,272.7   |
| Projects financed from non-reimbursable EU Funds post-accession (including national co-financing)..... | 14,210.3             | 14,820.2   | 24,069.9   |
| Social assistance .....  | 68,388.5             | 71,192.6   | 75,945.5   |
| Projects financed from non-reimbursable EU Funds post-accession financing programme 2014-2020          | -                    | 31.9       | 495.7      |
| Other expenses.....  | 3,213.3              | 4,291.0    | 3,988.0    |
| Programmes financed from reimbursable funds (including local funds) .....                              | 910.6                | 591.7      | 455.9      |
| Capital expenses .....   | 17,975.1             | 17,246.2   | 18,263.4   |
| Loans granted .....  | —                    | —          | —          |
| Payments for previous years .....  | (924.1)              | (950.3)    | (1,035.9)  |
| Eximbank <sup>(1)</sup> .....  | —                    | —          | —          |
| <b>C. SURPLUS/DEFICIT</b> .....  | (15,794.0)           | (11,493.2) | (10,361.3) |
| Deficit as % of GDP.....   | (2.5)                | (1.7)      | (1.5)      |
| Deficit as % of GDP (according to ESA 2010)  | (2.1)                | (0.9)      | (0.7)      |
| Gross domestic product .....   | 637,456.0            | 667,577.4  | 712,832.3  |

Note:

(1) Data regarding general consolidated budget were compiled by including budgets of local public institutions financed partially or totally from own revenues, internal and external local loans, revenue and expenditure outside the local budget, budget of public institutions subordinated to ministries, budget of Property Fund and issuance of compensation titles. Data has been prepared on a cash basis.

Source: Ministry of Public Finance

The following table shows revenues, expenditure and deficit as a percentage of GDP figures relating to the general consolidated budget for the years 2013 to 2015 according to EU methodology (European System of Accounts 2010):

|  | 2013                               | 2014  | 2015  |
|--|------------------------------------|-------|-------|
|  | <i>(EUR billion)<sup>(1)</sup></i> |       |       |
| Revenues (EUR billion) .....           | 47.8                               | 50.3  | 55.8  |
| Public expenditure (EUR billion) ..... | 50.8                               | 51.6  | 57.0  |
| Deficit as % of GDP .....              | (2.1)                              | (0.9) | (0.7) |

Note:

(1) EUR/RON exchange rates used are based on the NBR average exchange rate for the year.

Source: Ministry of Public Finance

### **2013 Budget Execution**

The execution of the budget remained within the limits of the targets established by Romania and the IMF. The deficit recorded at 31 December 2013 was 15.8 billion, representing 2.47 per cent. of GDP, a slight decrease compared with the deficit recorded in the prior year. Deficit levels were maintained within the limits of the budget policy targets set for this year.

Revenues in 2013 amounted to RON 200.4 billion (representing 31.4 per cent. of GDP) – an increase of 3.7 per cent. compared to the same period in 2012. Tax revenues registered an overall increase of 4.4 per cent. compared to 2012, of which income tax revenue was increased by 8.5 per cent., social contributions by 5.7 per cent., profit tax collections by 0.7 per cent., excise collections by 4.2 per cent. VAT collections increased by 2.6 per cent. as at 31 December 2013 compared with 2012.

The expenses of the general consolidated budget amounted to RON 216.2 billion (representing 33.9 per cent. of GDP), an increase of 4.0 per cent. compared with 2012. This was due to an increase in staff expenditures of 13.3 per cent. as a result of restoring the wages in the public sector in December 2012. Compared to 2012, expenditures on goods and services increased by 11.9 per cent. (as a result of the payment of arrears by the local authorities and of payments made from the national health system), interest increased by 0.4 per cent. and expenditures on subsidies decreased by 0.2 percentage points of GDP as compared to the previous year. Also, investment expenditures amounted to RON 31.6 billion (representing 4.9 per cent. of GDP) in 2013.

#### *Closing of excessive deficit procedure*

Based on the 2012 budget outcome and given that the European Commission services forecast deficits below 3 per cent. in 2013-2014, following an overall assessment on 21 June 2013, the EU Council abrogated its Decision 2009/590/EC on the existence of an excessive deficit in Romania.

### **2014 Budget execution**

According to final data, the consolidated general budget for the year 2014 ended with a deficit of 1.72 per cent. of GDP as compared to 2.48 per cent. of GDP in 2013, a reduction in nominal terms by RON 4.3 billion.

Consolidated general government revenue, amounting to RON 214.3 billion and representing 32.1 per cent. of GDP was 7 per cent. higher in nominal terms as compared to the previous year. There were increases in revenues from: social insurance contributions (RON 3,202.2 million), excises (RON 2,988.8 million), property taxes (RON 1,781.9 million), income taxes (RON 955.9 million), and profit tax (RON 1,312 million). VAT revenues declined over the same period of the previous year by 1.8 per cent., while the VAT receipts increased by 3.6 per cent., tax refunds were 19.7 per cent. higher. Revenue from tax on use of goods decreased by 35.6 per cent. due to the fact that in the previous year license fees for rights of use of radio frequencies in the amount of RON 2.0 billion were charged. At the local government level, there were also increases over the previous year in property taxes by 3.4 per cent., in tax on use of goods by 2.8 per cent. and 2.4

per cent. in non-tax revenues. Amounts received from the European Union payments were 13 billion, 38.7 per cent. higher than the same period last year.

Consolidated general government expenditures, amounting to RON 225.8 billion, increased in nominal terms by 4.5 per cent. over the same period in the previous year, being at the same level in percentage points to GDP. Staff costs increased by 9.0 per cent. over the same period previous year, due to the increase in gross minimum wage to RON 850 from 1 January 2014 and to RON 900 from 1 July 2014 and due to an earlier payment of amounts due in 2015 to certain categories of public sector employees pursuant to court judgements. Compared to the previous year, there was a reduction of interest expense by 5.1 per cent. due to lower yields at bond auctions benchmark programs. Expenditures for projects financed from external funds were at the same level in percentage terms as compared to the previous year, or RON 609 million. The costs of investment, including capital expenditures and the related development programs financed from internal and external sources were RON 32.7 billion, or 4.9 per cent. of GDP, as compared to the prior year.

## **2015 Fiscal and Budgetary Developments**

### **2015 – Initial Budget**

The budget law for 2015 was adopted by the Parliament and published in the Official Journal on 30 December 2014. The cash budget deficit target has been set at 1.8 per cent. of GDP, which corresponds to an ESA deficit of 1.2 per cent. of GDP (to which 0.25 percentage points are added – representing an adjustor for EU funds co-financing) and a structural deficit of 1.0 per cent. of GDP.

The main objectives of the 2015 budget were (i) retaining the five percentage points reduction to social security contributions paid by the employers (which was effective as of October 2014); reducing the tax on special construction from 1.5 per cent. to 1.0 per cent.; (iii) increasing national co-financing to support EU-funded projects; (iv) increasing the minimum wage to RON 975 as of 1 January 2015 and to RON 1,050 as of 1 July; (v) setting a five per cent. indexation of public pensions; (vi) increasing social allowances for most poor families, pensioners and disabled people; (vii) increasing the salaries of teachers and teaching support staff by five per cent. as of 1 March 2015 and by a further five per cent. as of 1 September 2015; and (viii) increasing the salaries of health and social care staff, by an additional RON 100 as of 1 January 2015.

The following table shows the macroeconomic indicators used for the 2015 budget:

|   |                |
|---|----------------|
| GDP (RON million).....  | <b>709,681</b> |
| Real growth rate (%).....   | <b>2.5</b>     |
| Average exchange rate RON/EUR .....   | 4.42           |
| <b>Inflation</b>  |                |
| – annual average (%) .....  | 2.2            |
| Average number of employees (thousand persons) .....                        | 4,582          |
| No. of unemployed persons registered as at the end of year (thousands)..... | 465            |
| - Rate of registered unemployment (%).....                                  | 5.1            |
| Gross average salary (RON/month).....                                       | 1,758          |
| Goods & Services exports – growth (%) .....                                 | 5.9            |
| Goods & Services imports – growth rate (%).....                             | 6.9            |
| Current account balance (% of GDP) .....                                    | -1.5           |

### **2015 – First budget rectification**

The budget rectification was determined by:

- the analysis of the economic results which substantiated the possibility of a 3.3 per cent. economic growth as compared to 2.5 per cent. which was estimated during preparation of the state budget law, and a nominal amount of the gross domestic product of RON 701 billion, as compared to RON 709.7 billion, as initially forecasted. These differences were due to the re-assessment of the GDP deflator from 2.7 per cent. to 1.8 per cent., as a result of the decrease of the VAT rate for food products which was not taken into account during the preparation of the state budget law; and
- the reflection in the budget of the financial impact of certain legislative changes (e.g., the reduction of the VAT rate for food products from 24 per cent. to 9 per cent., the increase of salaries for certain categories of employees, as well as the increase of certain social benefits).

Overall, the revenues and expenditures in the general consolidated budget increased by the same amount (i.e., 4.6 billion RON). As a result, the budget deficit stood at RON 13 billion, whereas the deficit/GDP ratio increased from 1.83 per cent. to 1.86 per cent. due to the statistical re-evaluation of the GDP deflator as compared to the initial budget.

#### *2015 - Second budget rectification*

In October 2015, the budget was amended for the second time. The revenues to the general consolidated budget increased by RON 2,624 million, primarily due to an increase in collections.

The expenditures of the general consolidated budget increased by RON 2,633 million, particularly to secure funds required for the approved salary increase for personnel in the public healthcare system starting on 1 October 2015 and the payment of the tranche corresponding to 2016 of the sums under court judgements regarding salary rights obtained by personnel paid from public funds.

Following the second budget amendment, the budget deficit was kept at RON 13 billion, representing 1.85 per cent. of GDP, which was the same level as initially planned.

#### *2015 - Budget Execution as at 31 December 2015*

The general consolidated budget for the year 2015 ended with a deficit of 1.45 per cent. of GDP, within the target of 1.85 per cent. of GDP set forth in the fiscal-budgetary strategy for 2015.

Compared to the previous year, the deficit decreased from 1.72 per cent. of GDP to 1.45 per cent. of GDP, while in nominal terms it decreased by RON 1.1 billion.

In 2015, the revenues to the general consolidated budget, in the amount of RON 233.6 billion and representing 32.8 per cent. of GDP, increased by 9 per cent. in nominal terms year-on-year. Their proportion of GDP increased by 0.7 percentage points within the same period. On a year-on-year basis, collection of VAT increased by 12.3 per cent., collection of income tax increased by 12.4 per cent., collection of profit tax increased by 13 per cent., collection of non-fiscal revenues increased by 12 per cent. and collection of excise duties increased by 8 per cent. Collection of social contributions slightly increased as compared to 2014, despite the 5 percentage points reduction applied to employers' contributions and the growth by 0.5 percentage points of the contribution to the second pensions pillar. At the level of the local administration, collection of property taxes and income increased by 1.5 per cent., collection of taxes on the use of goods increased by 4.8 per cent. and collection of non-fiscal revenues increased by 4.1 per cent., year-on-year.

Amounts received from the EU payments were RON 17 billion, which was 49.3 per cent higher compared to the previous year.

The expenditures of the general consolidated budget, in the amount of RON 243.9 billion, increased in nominal terms by 8 per cent. compared to 2014 and by 0.4 percentage points year-on-year as a percentage of GDP. Personnel expenditures increased by 3.2 per cent. compared to the previous year, due to salary increases for personnel in the local public administration, in the public healthcare system and in the education system. Compared to 2014, interest expenditures decreased by 6.2 per cent. in 2015, due to the drop in yields for benchmark bonds.

In parallel, expenditures related to projects financed by non-refundable external funds increased by 62.4 per cent year-on-year.

Investment expenditures, including capital expenditures, as well as expenditures related to development projects financed through internal and external sources, reached RON 41.3 billion in 2015, representing 5.8 per cent. of GDP, as opposed to RON 32.7 billion in 2014.

The increase in expenditures during the final months of 2015, and particularly during December, was mainly due to investments, both financed from EU funds and from own sources, with refundable financing. Investment expenditures during December 2015 were in an amount of RON 15.1 billion, of which RON 7 billion were incurred for sustaining projects with EU funding and RON 8 billion were incurred for capital expenditures.

Given that the eligibility period for payments related to projects under the 2007-2013 financial framework expired at the end of 2015, efforts were made with a view to ensuring the necessary funds which Romania had to allocate in order to co-finance EU-funded projects. In December only, payments of approximately RON 9.1 billion were made, compared to the monthly average was of approximately RON 1.5 billion out of which RON 7 billion were investment expenditures with the remainder being subsidies for farmers and other payments on the account of the European Union.

In December 2015, the amount allocated for aid granted to farmers for the purchase of diesel fuel was increased by approximately 40 per cent., to RON 106 million allocated through the Ministry of Agriculture.

The increase of personnel expenditures during November and December 2015 was mainly triggered by the following factors: (i) the fourth tranche of sums under court judgments regarding salary rights for personnel to be paid from public funds was paid in advance; and (ii) the salary increase granted to personnel in the public healthcare system as of 1 October 2015.

NAFA has taken measures to improve tax collection and make fiscal administration more taxpayer-friendly and intends to restructure the unit for large taxpayers. In 2015, the Anti-Fraud Department of NAFA has focused on monitoring, supervising and auditing the economic sectors for which tax evasion, financial indiscipline and poor tax compliance are more frequent, as part of its efforts to prevent non-compliance by making taxpayers aware of the activities undertaken by anti-fraud inspectors. NAFA's efforts have resulted in an increase in voluntary tax compliance by 0.7 percentage points, from 94.1 per cent. in 2014 to 94.8 per cent. in 2015, mainly due to the intensification of public information campaigns as well as due to the audits carried out in relation to the purchase and use, by economic operators, of electronic cash registers and the observance of financial discipline.

### **2016 Budget**

The budget for 2016 assumes a cash deficit of 2.8 per cent. of GDP (revenues of 31 per cent. of GDP and expenditures of 33.8 per cent. of GDP), which translates into an ESA computed deficit of 2.95 per cent. of GDP.

For the expenditures forecast, certain measures taken by both the Parliament and the Government during 2015 were taken into account, which resulted in the increase of budget expenses for 2016 of approximately RON 13 billion.

Some of the measures which influenced the budget expenditures in the general consolidated budget for 2016 were: the doubling of child benefit (RON 1.8 billion), the rise of compensations for war veterans and persons persecuted for ethnic reasons (RON 0.6 billion), the 25 per cent. salary increase for personnel in the public health system (RON 1.8 billion), the 15 per cent. salary increase for personnel in the education system (RON 1.7 billion), the 12 per cent. salary increase for personnel in public institutions of local subordination (RON 1.3 billion), the 25 per cent. salary increase for personnel in the public social assistance system (RON 556 million), compensation for persons with disabilities (RON 240,6 million), the 10 per cent. salary increase for other categories of personnel paid from public funds (RON 3 billion), the update of the food and equipment quota for policemen and military personnel (RON 1 billion), the creation of service pensions for court clerks, flight crew, diplomatic and consular personnel and Parliamentary public servants (RON 0.3 billion).

The implementation of the New Fiscal Code is expected to lead to a decrease in budget revenue for 2016 of approximately RON 10.2 billion. The following measures have the largest impact on revenues: the cut of the tax rate on dividends from 16 per cent. to 5 per cent. (RON 1.5 billion), the lowering of the VAT rate from 24 per cent. to 20 per cent. (RON 7 billion) and the introduction of a new system of taxation on micro-enterprises income (RON 0.3 billion).

The following table shows the macroeconomic indicators used for the 2016 budget:

|   |       |
|---|-------|
| GDP (RON million).....  | 746.6 |
| Real growth rate (%).....   | 4.1   |
| Average exchange rate RON/EUR.....  | 4.44  |
| Inflation.....  |       |
| – annual average (%) .....  | 0.5   |
| Average number of employees (thousand persons) .....                        | 4,780 |
| No. of unemployed persons registered as at the end of year (thousands)..... | 450   |
| - Rate of registered unemployment (%).....                                  | 4.8   |
| Gross average salary (RON/month).....                                       | 2,681 |
| Goods & Services exports – growth (%).....                                  | 5.8   |
| Goods & Services imports – growth rate (%).....                             | 7.2   |
| Current account balance (% of GDP).....                                     | (1.2) |

The estimated impact on public spending due to the changed legislation regarding the calculation of the indemnity granted to persons in parental leave is approximately RON 200 million in 2016 (5 months of implementation) and approximately RON 600 million in 2017.

### **2016 - Budget Execution - first quarter**

The general consolidated budget registered a budgetary surplus of RON 3.01 billion (0.4 per cent. of GDP), which was within the deficit target set forth for the first quarter.

The revenues to the general consolidated budget, in the amount of RON 55.57 billion and representing 7.3 per cent. of GDP, increased by 1.1 per cent. compared to the same period of the previous year. The rate of the collection programme was of 96.8 per cent.

The fiscal revenues collected by the National Agency for Fiscal Administration were by 6.7 per cent. higher than envisaged for the first quarter of 2016. They consist of revenues collected in the account of the main four components of the general consolidated budget, respectively: the state budget, the social security budget, the unemployment security budget and the unique national fund of health insurances budget.

The evolution of the revenues of the general consolidated budget is as follows:

- Collection of profit tax amounted to RON 3.95 billion and represented 0.5 per cent. of GDP while the rate of collection was 118.8 per cent. The positive evolution in the collection of profit tax is due to the reduction in the number of companies that have registered net losses in the first half of 2015 ( approximately 56,000 companies, as opposed to 64,000 companies in the first half of the previous year);
- Collection of income tax was RON 6.67 billion and the rate of collection was 102.6 per cent;
- The rate of collection of property tax was 74.1 per cent. Non-fulfillment of the collection programme at the local level was caused by the postponement of the payment date for property tax, the deadline being extended to 30 June. Before 30 June, 10 per cent. reduction applies to the full payment of the housing, land and car tax;
- Collection of VAT was RON 14.31 billion, representing 1.9 per cent. of GDP. The rate of collection for the first quarter of 2016 was 108.4 per cent. The increase, compared to the quarterly collection programme for VAT, was mainly due to the collection level in January 2016, which reflected the economic activity in December 2015. Other causes include additional influence generated by the increase in budgetary expenditures in December 2015, as well as the 18.7 per cent. increase of the turnover from retail trade (with the exception of auto and motorcycle trades) in the first two months of 2016;
- The collected excises amounted to RON 6.16 billion and represented 0.8 per cent. of GDP, the rate of the collection programme for the first quarter being 103.2 per cent;
- Collection from other taxes on goods and services amounted to RON 537.1 million, representing a collection rate of 52.8 per cent. of the quarterly collection programme. This reduction was mainly caused by the collection, below the programmed level, of the contribution owed for medicines to the unique national fund of health insurances budget, as a result of the diminishing value of subsidized medicine consumption, given the decrease in their prices from 1 July 2015;
- Collection from taxes on the usage of goods, authorization of usage of goods or on performing certain activities was 112.9 per cent. The collection was mainly influenced by the positive evolution in the collection to the state budget of taxes on gambling which had a collection rate of 133 per cent., as well as in the contributions to the budgets of institutions that are fully or partially financed from own revenues;
- Collection from taxes on foreign trade and international transactions amounted to 112.6 per cent., due to the 4.9 per cent. increase in non-EU imports of goods in the first two months of 2016;
- Collection from insurance contributions amounted to 1.9 per cent. of GDP, representing 95.2 per cent. collection rate compared to the programme;
- Non-fiscal revenues were RON 4.27 billion (0.6 per cent. of GDP), representing 96.5 per cent. collection rate compared to the estimated programme.

The expenditures of the general consolidated budget amounted to RON 52,556.9 million and represented 6.9 per cent. of GDP, increasing by 5 per cent. compared to the expenditures of the previous year, but decreasing by 0.1 percentage points as share of GDP, as follows:

- The personnel expenditure has increased with 8.1 per cent. compared to the same period of the previous year, being influenced by the salary increases in the last part of 2015, as well as the increase of the minimum gross salary with RON 75 starting with 1 July 2015;
- Social assistance expenses have increased compared to the same period of the preceding year with 6.8 per cent. , mainly because of the 5 per cent. increase of the pension point starting with 1 January 2016 and of the doubling the state allowance for children starting 1 June 2015;
- The investment expenditure, including capital expenses, as well as the ones relating to the development programs financed from internal and external sources amounted to RON 4.4 billion (0.6 per cent. of GDP).

### **Arrears of the General Consolidated Budget**

The following table shows the breakdown of government arrears (outstanding for more than 90 days in accordance with the definition in the stand-by agreement 2009-2011 concluded with the IMF) by sectors for 2013, 2014, and 2015:

|                                   | <b>2013</b>          | <b>2014</b>  | <b>2015</b> |
|-----------------------------------|----------------------|--------------|-------------|
|                                   | <i>(RON million)</i> |              |             |
| State Budget <sup>(1)</sup> ..... | 20.0                 | 5.6          | 12.9        |
| Local Budget.....                 | 196.2                | 120.7        | 72.9        |
| Social Security Budget .....      | 0.1                  | 0.0          | 0.1         |
| <b>Total</b> .....                | <b>216.3</b>         | <b>126.3</b> | <b>85.9</b> |

Note:

(1) Includes State budget and self financed.

Source: Ministry of Public Finance

Certain measures have been taken to reduce arrears such as:

- in order to address the issue of receivables outstanding against local public administration authorities as a result of certain economic activities, the Government adopted Government Emergency Ordinance No. 51/2010 enacting certain measures to reduce arrears in the economy, as well as other financial measures. As a result, the Ministry of Public Finance can grant to administrative-territorial units loans from the proceeds obtained through privatisation of up to RON 1.5 billion at an interest rate of 6.25 per cent. for the purpose of paying outstanding debts (recorded as at 31 December 2009) to suppliers of goods, services and works, including towards entities providing the public services of generation, transmission and distribution of thermal energy in a centralised system. The amounts obtained from such loans are to be used exclusively for settling: (i) outstanding fiscal obligations to suppliers of goods, services and works; and (ii) outstanding fiscal obligations to entities which have outstanding claims to recover from economic operators providing the public services of generation, transmission and distribution of thermal energy in a centralised system;
- certain financial measures have been implemented through amendments to the Local Public Finance Law No. 273/2006: the annual budget includes, separately, budgetary credits for the payment of arrears from the previous year; no new budgetary commitments can be made unless the arrears are paid.

In addition, the Government took measures for the purpose of reducing the arrears of companies that are majority state-owned, such as an approval by Government Ordinance No. 30/2011 of an aid scheme for all companies which pay the basic debts to the consolidated state budget by exempting the payment of the related accessories.

Six different mechanisms will also be used in relation to reducing the arrears of state owned enterprises: (i) non-viable companies will be placed in bankruptcy allowing legal procedures for settling claims of creditors to commence; (ii) companies that have sufficient liquidity will be required to pay their arrears according to an agreed timetable; (iii) the government has developed agreements with a neutral budgetary impact that will cancel or clear the arrears to the State; (iv) where applicable, Romania will seek to obtain the acceptance of the EU competition authorities to develop plans to increase capital and/or financial support to pay arrears; (v) mechanisms will be developed to facilitate restructuring and securitising state owned enterprises' arrears; and (vi) where possible, Romania will consider the use of debt-to-equity swaps or privatisations to cancel arrears. Companies participating in these schemes will be strictly held to the success of the action plans they agreed in order to provide insurance that they will not accumulate further arrears.

The clawback tax generated RON 1,811.4 million in 2012 to pay outstanding invoices. All revenues derived from the clawback tax will be used to reduce payment periods and ensure that no arrears will accrue in the pharmaceutical sector. The clawback tax generated RON 1,064.0 million in 2013, RON 1,521.7 million in 2014, and RON 1,623.4 million in 2015.

The arrears in respect of the state owned companies that are monitored in accordance with the IMF agreement have been kept at a level of 2.0 per cent. of GDP since the end of 2012. Outstanding payments by active state companies (which are not in various insolvency stages as stipulated by the legislation) recorded a level of RON 6.8 billion (1.1 per cent. of GDP) at the end of 2013 and a level of RON 3.5 billion (0.519 per cent. of GDP) at the end of 2014 which fell close to the target set by the International Financial Institutions ("**IFIs**") for this year of RON 3.4 billion.

According to preliminary data, at the end of 2015, the same indicator recorded a level of RON 3.6 billion (0.515 per cent. of GDP).

## Public Debt

### Overview

The public debt of Romania is subject to Government Emergency Ordinance No. 64/2007 ("**Debt Ordinance**"), which came into force in June 2007. For the purposes of reporting governmental public indebtedness, Romania distinguishes between governmental public indebtedness incurred directly and governmental public indebtedness guaranteed by the Romanian Government through the Ministry of Public Finance, and includes amounts advanced temporarily from the credit of the treasury account and debt contracted directly by line ministries. For the purposes of reporting local public indebtedness, Romania includes indebtedness incurred directly or guaranteed by local public administration authorities in accordance with the Debt Ordinance and Law No. 273/2006 on local public finance.

The level of the total public indebtedness calculated on the basis of the national legislation (including guarantees) decreased to 41.0 per cent. of GDP at the end of February 2016 (preliminary data) compared to 44.3 per cent. at the end of December 2015.

With respect to the debt structure, a decrease of the government public indebtedness has been registered from 42.0 per cent. of GDP at the end of 2015 to 38.9 per cent. of GDP as at the end of February 2016, while the level of local public indebtedness recorded at the end of 2015 decreased from 2.3 per cent. to 2.1 per cent. at the end of February 2016.

The following table shows public indebtedness indicators according to national legislation for 2013, 2014, 2015 and 29 February 2016:

|   | 31 December 2013 |          | 31 December 2014 |          | 31 December 2015 |          | 29 February 2016<br>(preliminary data) |          |
|---|------------------|----------|------------------|----------|------------------|----------|--|----------|
|   | (RON m)          | (EUR m)  | (RON m)          | (EUR m)  | (RON m)          | (EUR m)  | (RON m)                                | (EUR m)  |
| 1. Public government debt of:             |                  |          |                  |          |                  |          |  |          |
| a) direct public debt                     | 252,179.8        | 56,231.1 | 280,763.8        | 62,641.1 | 299,095.8        | 66,105.8 | 294,597.6                              | 65,917.3 |
| b) guaranteed debt                        | 237,972.1        | 53,063.1 | 265,448.5        | 59,224.1 | 283,533.0        | 62,666.2 | 279,003.9                              | 62,428.2 |
| - weight in GDP (%)                       | 14,207.7         | 3,168.0  | 15,315.3         | 3,417.0  | 15,562.8         | 3,439.7  | 15,593.7                               | 3,489.1  |
| - direct debt, weight in GDP (%)          | 39.56%           | 39.56%   | 42.1%            | 42.1%    | 42.0%            | 42.0%    | 38.9%                                  | 38.9%    |
| - guaranteed debt, weight in GDP (%)      | 37.33%           | 37.33%   | 39.8%            | 39.8%    | 39.8%            | 39.8%    | 36.9%                                  | 36.9%    |
| 2. Local debt of:                         | 2.23%            | 2.23%    | 2.3%             | 2.3%     | 2.2%             | 2.2%     | 2.0%                                   | 2.0%     |
| a) contracted directly                    | 14,971.1         | 3,338.3  | 14,891.7         | 3,322.5  | 16,595.8         | 3,668.0  | 16,100.9                               | 3,602.6  |
| b) guaranteed by local public authorities | 14,376.2         | 3,205.6  | 14,360.3         | 3,203.9  | 16,018.4         | 3,540.4  | 15,539.7                               | 3,477.1  |
| - weight in GDP (%)                       | 594.9            | 132.7    | 531.4            | 118.6    | 577.4            | 127.6    | 561.2                                  | 125.6    |
| - direct debt, weight in GDP (%)          | 2.3%             | 2.3%     | 2.2%             | 2.2%     | 2.3%             | 2.3%     | 2.1%                                   | 2.1%     |
| - guaranteed debt, weight in GDP (%)      | 2.2%             | 2.2%     | 2.1%             | 2.1%     | 2.2%             | 2.2%     | 2.0%                                   | 2.0%     |
| 3. Total public debt                      | 0.1%             | 0.1%     | 0.1%             | 0.1%     | 0.1%             | 0.1%     | 0.1%                                   | 0.1%     |
| Total public debt, weight in GDP (%)      | 267,150.9        | 59,569.4 | 295,655.5        | 65,963.6 | 315,691.6        | 69,773.8 | 310,698.5                              | 69,519.9 |
|   |                  | 41.9%    |                  | 44.3%    |                  | 44.3%    |  | 41.0%    |



|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| GDP (mln. RON)   | 637,456.0 | 667,577.4 | 712,832.3 | 757,031.0 |
| Exchange rate at the end of reporting period (EUR/RON) | 4.4947    | 4.4821    | 4.5245    | 4.4692    |

Source: Ministry of Public Finance

### Governmental Public Indebtedness

The level of external governmental public indebtedness, which represented direct external liabilities of Romania or liabilities guaranteed by Romania increased by RON 3.6 billion from December 2015 to February 2016. This was mainly due to the debt contracted for deficit financing and refinancing of the public debt.

According to national legislation, the level of external governmental public indebtedness decreased from 18.6 per cent. of GDP at the end of 2015 to 18.0 per cent. of GDP as at the end of February 2016. (Source: Ministry of Public Finance)

Domestic public government debt according to national legislation decreased during the period from December 2015 to February 2016 by RON 8.1 billion, while as a percentage of GDP decreased by 2.4 per cent. Since 2007 government securities have been issued regularly in accordance with the Ministry of Public Finance's objectives of developing the government securities markets, building the yield curve for these instruments, increasing the transparency and predictability of the issuance process and limiting the currency risk for the government debt portfolio. At the end of February 2016, outstanding government securities issued on the domestic market in RON and EUR amounted to RON 114.9 billion compared to RON 118.2 billion as at 31 December 2015, of which treasury bills represented RON 11.6 billion and bonds RON 103.3 billion. (Source: Ministry of Public Finance)

The governmental public indebtedness of the State according to national legislation for 2013, 2014, 2015 and 29 February 2016, developed as follows:

|  | 31 December 2013 | 31 December 2013 | 31 December 2014 | 31 December 2014 | 31 December 2015 | 31 December 2015 | 29 February 2016 (preliminary data) | 29 February 2016 (preliminary data) |
|--|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------------------|-------------------------------------|
| Public Government Debt                         | 252,179.8        | 100%             | 280,763.8        | 100%             | 299,095.8        | 100%             | 294,597.6                           | 100%                                |
| - direct debt                                  | 237,972.1        | 94.4%            | 265,448.5        | 94.5%            | 283,533.0        | 94.8%            | 279,003.9                           | 94.7%                               |
| - guaranteed debt                              | 14,207.7         | 5.6%             | 15,315.3         | 5.5%             | 15,562.8         | 5.2%             | 15,593.7                            | 5.3%                                |
| - multilateral                                 | 65,415.4         | 25.9%            | 60,926.1         | 21.7%            | 55,050.9         | 18.4%            | 54,216.8                            | 18.4%                               |
| - bilateral                                    | 195.1            | 0.1%             | 184.2            | 0.1%             | 172.0            | 0.1%             | 171.6                               | 0.1%                                |
| - private banks and others                     | 186,569.3        | 74.0%            | 219,653.5        | 78.2%            | 243,872.9        | 81.5%            | 240,209.2                           | 81.5%                               |
| - T-bills                                      | 10,298.1         | 4.1%             | 10,793.4         | 3.8%             | 9,176.0          | 3.1%             | 11,573.5                            | 3.9%                                |
| - cash management instruments                  | 0.0              | 0.0%             | 0.0              | 0.0%             | 0.0              | 0.0%             | 0.0                                 | 0.0%                                |
| - Bonds (ROL & Forex)                          | 98,137.6         | 38.9%            | 102,920.5        | 36.7%            | 109,073.5        | 36.5%            | 103,300.7                           | 35.1%                               |
| - Eurobonds                                    | 45,841.9         | 18.2%            | 67,140.9         | 23.9%            | 74,749.7         | 25.0%            | 79,422.6                            | 27.0%                               |
| - loans  | 78,746.4         | 31.2%            | 74,989.5         | 26.7%            | 70,577.5         | 23.5%            | 69,661.8                            | 23.6%                               |
| - loans from surplus of State Treasury account | 19,155.8         | 7.6%             | 24,919.5         | 8.9%             | 35,519.1         | 11.9%            | 30,639.0                            | 10.4%                               |
| - short-term                                   | 29,453.9         | 11.7%            | 35,713.0         | 12.7%            | 44,695.1         | 15.0%            | 42,212.5                            | 14.3%                               |
| - medium-term (1-5 years)                      | 94,759.7         | 37.65%           | 83,930.1         | 29.9%            | 74,901.8         | 25.0%            | 66,568.2                            | 22.6%                               |
| - long-term                                    | 127,966.2        | 50.7%            | 161,120.7        | 57.4%            | 179,498.9        | 60.0%            | 185,816.9                           | 63.1%                               |
| - fixed  | 193,674.7        | 76.8%            | 216,343.8        | 77.1%            | 225,331.4        | 75.3%            | 223,784.1                           | 76.0%                               |
| - variable                                     | 58,505.1         | 23.2%            | 64,420.0         | 22.9%            | 73,764.4         | 24.7%            | 70,813.5                            | 24.0%                               |
| - RON  | 111,762.1        | 44.3%            | 126,434.7        | 45.0%            | 148,073.9        | 49.5%            | 145,002.0                           | 49.2%                               |
| - USD  | 16,269.2         | 6.5%             | 24,796.2         | 8.8%             | 26,843.8         | 9.0%             | 26,433.9                            | 9.0%                                |

|        |           |       |           |       |           |       |           |       |
|--------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|
| - EURO | 116,459.1 | 46.2% | 126,304.5 | 45.0% | 121,706.0 | 40.7% | 120,571.7 | 40.9% |
| - SDR  | 5,047.7   | 2.0%  | 743.6     | 0.3%  | 0.0       | 0.0%  | 0.0       | 0.0%  |
| - CHF  | 82.3      | 0.0%  | 65.0      | 0.0%  | 51.6      | 0.0%  | 50.9      | 0.0%  |
| - CAD  | 567.9     | 0.2%  | 521.8     | 0.2%  | 423.9     | 0.1%  | 429.1     | 0.1%  |
| - JPY  | 1991.5    | 0.8%  | 1,898.0   | 0.7%  | 1,996.6   | 0.7%  | 2,110.0   | 0.8%  |

Source: Ministry of Public Finance

At the end of February 2016, the debt contracted directly by the state represented 94.7 per cent. of total public government debt and 5.3 per cent. was guaranteed debt. At the same date, the share of government securities issued on domestic and external markets was 66.0 per cent. of total public government debt, as the difference was covered by loans, including loans from funds available in the State Treasury general current account. Out of the government debt 14.3 per cent. was short term debt, and 85.7 per cent. was medium and long term debt while the breakdown by interest rate type indicates that 24.0 per cent. of total debt is floating interest rate debt, 49.2 per cent. of public government debt was denominated in RON and 80.6 per cent. of total non RON hard currency debt was denominated in EUR (40.9 per cent.).

In accordance with the Debt Ordinance, the Romanian government, acting through the Ministry of Public Finance can issue state guarantees or on-lend only for major investment programmes/projects of companies and local government debt, and only after parliamentary approval under a special law authorising the guarantee or on-lending. On-lending to other ministries (project financing) was also curtailed and has been replaced by deficit financing. All debt management operations are operated by the Ministry of Public Finance.

At the end of February 2016, the outstanding amount of state guarantees was RON 15.6 billion (2.0 per cent. of GDP), of which RON 2.5 billion were guarantees granted for companies, RON 12.9 billion were granted under the "First House" Programme and other governmental programmes and RON 0.2 billion were for the banking sector under special laws.

According to the medium-term Fiscal Budgetary Strategy, the ceiling for government guarantees issuances for 2016 was set at RON 8 billion. Government guarantees issued in 2015 amounted to RON 3 billion, comprising RON 2.9 billion in guarantees issued by the Ministry of Public Finance under governmental programmes (such as the "First House" Programme) and approximately RON 0.1 billion in guarantees issued by local public authorities. In 2016, subject to further Government approval of programme ceilings, the Ministry of Public Finance intends to provide state guarantees for, inter alia, the "First House" Programme, co-financing of certain investment projects, residential buildings, energy efficiency projects, building improvement programmes, SMEs working capital programmes and acquisition of new vehicles programmes.

Total public government debt service according to national legislation in 2015 was RON 59.2 billion, of which RON 56.3 billion were for direct debt and RON 2.9 billion were for guaranteed debt. For the first two months of 2016, the total public government debt service was RON 17.7 billion, of which RON 17.6 billion was for direct debt and RON 0.1 billion was for guaranteed debt.

The following table sets out the repayment schedule for Romania's public government debt service:

|   | 2013            | 2014            | 2015            | January-February 2016<br>(preliminary data) |
|---|-----------------|-----------------|-----------------|---|
| Direct debt service:  |                 | (RON million)   |                 |   |
| - principal* .....  | 54,803.9        | 46,886.3        | 47,206.5        | 15,859.3                                    |
| - interest and commission.....                              | 10,193.1        | 9,533.1         | 9,091.2         | 1,808.3                                     |
| <b>Total government public debt service.....</b>            | <b>64,997.0</b> | <b>56,419.5</b> | <b>56,297.7</b> | <b>17,667.6</b>                             |
| Guaranteed debt service:                                    | 1,061.7         | 1,042.5         | 2,811.6         | 58.1  |
| - principal .....   |                 |                 |                 |   |
| - interest and commission.....                              | 111.8           | 99.2            | 53.4            | 0.9   |
| <b>Total government guaranteed public debt service.....</b> | <b>1,173.5</b>  | <b>1,141.7</b>  | <b>2,865.0</b>  | <b>59.0</b>                                 |
| Public government debt service                              | 55,865.6        | 47,928.8        | 50,018.1        | 15,917.4                                    |
| - principal .....   |                 |                 |                 |   |
| - interest and commission.....                              | 10,304.9        | 9,632.4         | 9,144.6         | 1,809.2                                     |
| <b>Total government public debt service.....</b>            | <b>66,170.4</b> | <b>57,561.2</b> | <b>59,162.7</b> | <b>17,726.6</b>                             |

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Notes:

\*Includes refinancing of government securities issued on the domestic market.

Note: Debt service in foreign currency was converted in RON using the annual average exchange rates.

*Source: Ministry of Public Finance.*

As at 29 February 2016, the debt service of public government debt outstanding is scheduled to decrease between 2017 and 2020. The following table sets out the debt service schedule for Romania's public government indebtedness according to national legislation based on outstanding debt as at the end of February 2016.

|  | March-<br>December<br>2016 | 2017     | 2018     | 2019     | 2020     | Thereafter |
|--|----------------------------|----------|----------|----------|----------|------------|
|  | <i>(RON million)</i>       |          |          |          |          |            |
| <b>Direct debt service:</b>                      |                            |          |          |          |          |            |
| Principal  | 33,327.0                   | 28,917.5 | 34,782.3 | 32,757.4 | 22,760.4 | 126,459.3  |
| Interest and Commission                          | 9,164.6                    | 9,406.0  | 8,173.7  | 6,625.3  | 5,441.3  | 23,726.2   |
| Total government direct public debt service      | 42,491.6                   | 38,323.5 | 42,956.0 | 39,382.7 | 28,201.7 | 150,185.5  |
| <b>Guaranteed debt service:</b>                  |                            |          |          |          |          |            |
| Principal  | 1,312.6                    | 1,004.0  | 911.9    | 841.7    | 785.9    | 10,737.6   |
| Interest and Commission                          | 34.5                       | 41.8     | 21.4     | 16.0     | 12.6     | 43.8       |
| Total government guaranteed public debt services | 1,347.1                    | 1,045.8  | 933.3    | 857.7    | 798.5    | 10,781.4   |
| <b>Public government debt service:</b>           |                            |          |          |          |          |            |
| Principal  | 34,639.6                   | 29,921.5 | 35,694.2 | 33,599.1 | 23,546.3 | 137,196.9  |
| Interest and Commission                          | 9,199.1                    | 9,447.8  | 8,195.1  | 6,641.3  | 5,453.9  | 23,770.0   |
| Total government public debt service             | 43,838.7                   | 39,369.3 | 43,889.3 | 40,240.4 | 29,000.2 | 160,966.9  |

Note:

\*

Includes refinancing of government securities issued on domestic market.

Note: The payments in foreign currency are converted in RON using the exchange rate at the end of February 2016

Source: Ministry of Public Finance.

## ***Public Debt Instruments and External Financing Programmes***

### ***Government Bonds***

In the recent years, despite periods of market volatility, the general decrease of the yield on government securities enabled the Ministry of Public Finance to shift its domestic market financing strategy towards medium and long term maturities, thus meeting the demand of investors for a broader range of maturities up to 15 years.

Romanian government securities issued on domestic market consist of the following:

- short-term treasury bills or treasury certificates, which may be issued as interest bearing or discounted instruments, and which mature no more than one year after the date of issue;
- medium- or long-term benchmark bonds with maturities of 3, 5, 7, 10 and 15 years (in RON) and of 3, 4 and 5 years (in EUR) issued as interest bearing.

During this period, the descending trend of domestic government securities yields was supported by NBRs actions, which consisted of injecting liquidity into the money market and pursuing monetary easing policy actions (the key rate was cut from 6.25 per cent. in November 2011 to 1.75 per cent. in May 2015). By the end of 2013 yields decreased considerably to 2.9 per cent. for notes with a one year maturity, 3.97 per cent. for three years maturity, 4.9 per cent. for notes with a five years maturity and 4.52 per cent. for ten years maturity.

In 2015, despite periods of market volatility, the government securities were issued according to the financing programmes.

In October 2015, the Ministry of Public Finance issued on the external markets EUR 2 billion of dual-tranche Notes under its MTN Programme, with maturity of ten years (EUR 1.25 billion.) and of 20 years respectively (EUR 750 million). In February 2016, the October 2015 issuance was reopened and an additional amount of EUR 1.25 billion was issued on the external capital market (EUR 0.75 billion Notes due 2025 and EUR 0.5 billion Notes due 2035).

Under the provisions of Romanian law, the Government is also empowered to negotiate loans and issue securities in international markets. Thus, Romania, acting through the Ministry of Public Finance, has issued the following debt instruments on the international capital markets (which are still outstanding):

- Notes in the amount of EUR 1,500,000,000 with 5.25 per cent. interest rate, issued in June 2011, due 2016;
- Notes in the amount of EUR 1,500,000,000 with 6.50 per cent. interest rate, initially issued in June 2008 and increased in September 2012, due 2018;
- Notes in the amount of EUR 1,500,000,000 with 4.875 per cent. interest rate, issued in November 2012, due in 2019;
- Notes in the amount of EUR 2,000,000,000 with 4.625 per cent. interest rate, issued in September 2013 and increased in October 2013, due in 2020;
- Notes in the amount of USD 2,250,000,000 with 6.75 per cent. interest rate due 2022, initially issued in January and increased in February 2012;
- Notes in the amount of USD 1,500,000,000 with 4.375 per cent. interest rate, issued in February 2013, due in August 2023;
- Notes in the amount of USD 1,000,000,000 with 4.875 per cent. interest rate, issued in January 2014, due in 2024;
- Notes in the amount of EUR 1,250,000,000 with 3.625 per cent. interest rate, issued in April 2014, due in 2024;
- Notes in the amount of EUR 1,150,000,000 with 2.875 per cent. interest rate, issued in October 2014, due in 2024;
- Notes in the amount of EUR 2,000,000,000 with 2.750 per cent. interest rate, issued in October 2015 and February 2016, due in 2025;
- Notes in the amount of EUR 1,250,000,000 with 3.875 per cent. interest rate, issued in October 2015 and February 2016, due in 2035; and
- Notes in the amount of USD 1,000,000,000 with 6.125 per cent. interest rate, issued in January 2014, due in 2044.

#### *External Financing Programmes*

On 25 March 2009, Romania agreed the terms of a multi-lateral external financing programme ("**2009-2011 Financing Programme**") of EUR 19.95 billion. The purpose of the 2009-2011 Financing Programme was to assist Romania in managing its balance of payments, financing its budget deficit and refinancing some of its existing debt.

Under the 2009-2011 Financing Programme the financing sources from each financier were:

|  | <i>(EUR billion)</i> |
|--|----------------------|
| International Monetary Fund Letter of Intent of 24 April 2009 <sup>(1)</sup> ..... | 12.95                |
| EC Memorandum of Understanding of 26 June 2009 <sup>(2)</sup> .....                | 5.00                 |
| World Bank Development Policy Loans <sup>(2)</sup> .....                           | 1.00                 |
| EBRD/EIB-Loans to the private sector.....  | 1.00                 |
|  | 19.95                |

Notes:

(1) The last tranche amounting EUR 1.01 billion equivalent (SDR 0.874 billion) was not drawn as the authorities decided to treat it as precautionary; the total amount withdrawn by the NBR was EUR 9.79 billion equivalent (SDR 8.623 billion) and by Ministry of Public Finance of EUR 2.15 billion (SDR 1.947 billion).

(2) The entire amount was drawn by Ministry of Public Finance.

Simultaneously with the completion of the 2009-2011 Financing Programme, Romania requested the approval of a new precautionary package. On 25 March 2011, the IMF's executive board approved a new 24-month precautionary stand-by agreement in the amount equivalent to SDR 3,090.6 million (approximately EUR 3.5 billion, 300 per cent. of quota) in conjunction with World Bank commitments of EUR 400 million, and precautionary support of EUR 1.4 billion under EU's balance of payments financing facility made available pursuant to the Council Decision No. 2011/289/EU of 12 May 2011 ("**2011-2013 Financing Programme**"). This arrangement signalled the international community's continued support for Government policies. The 2011-2013 Financing Programme was completed in 30 June 2013.

After the successful completion of the 2011-2013 Financing Programme, in July 2013 Romania negotiated a follow-up precautionary arrangement with the IMF and the EU. The new 24 month stand-by agreement in the amount of SDR 1751.34 million (approximately EUR 2 billion, 170 per cent. of Romania, IMF quota) was approved by the IMF's Executive Board on 27 September 2013 and is in conjunction with the support provided to Romania by the EU, of up to EUR 2 billion, approved on 22 October 2013 by Council Decision No. 2013/531/EC ("**2013-2015 Financing Programme**").

Romania's agreements with the IMF/European Commission under the 2013-2015 Financing Programme expired in September 2015.

### *Memorandum of Understanding*

The Memorandum of Understanding ("**MoU**") and the financial terms of the loan agreement ("**Loan Agreement**") between the European Commission and Romania under the 2009-2011 Financing Programme, were approved by the government on 30 June 2009. The Loan Agreement provided for a series of five bullet loans with an average maturity of seven years. Under the MoU and its subsequent amendments (three addendums, approved by government), the tranches were disbursed to the Ministry of Public Finance (for budget deficit purposes) as follows:

- on 11 March 2010: EUR 1 billion, repayable in April 2019, with an interest rate of 3.375 per cent. p.a.;
- on 22 September 2010: EUR 1.15 billion, repayable in September 2017, with an interest rate of 2.375 per cent. p.a.;
- on 24 March 2011: EUR 1.2 billion, repayable in April 2018, with an interest rate of 3.25 per cent. p.a.; and
- on 22 June 2011: EUR 0.15 billion, repayable in October 2018, with an interest rate of 3.125 per cent. p.a.

The European Commission joined the three IMF review missions that took place during 22 October – 5 November 2013, 21 January – 4 February 2014, 2-12 June 2014 and 27 January – 10 February 2015, the ones in June 2014 and January 2015 representing the first review of Romania's precautionary balance of payments programme with the European Union.

### *World Bank*

According to the Country Partnership Strategy, the World Bank made available to Romania three development policy loans ("**DPLs**"). They were disbursed to the Ministry of Public Finance on 21 October 2009 (DPL1 – EUR

300 million), 30 June 2011 (DPL2 – EUR 300 million) and 28 December 2011 (DPL3 – EUR 400 million) respectively. They are bullet loans repayable in 2022 (DPL1 and DPL2) and 2023 (DPL3).

The disbursements under the DPLs were made based upon implementation of legislation aimed at strengthening public sector finances, social protection and the financial sector.

In the health sector, conditions were aimed at improving health services and related to updating the hospital rationalisation strategy and the introduction of a co-payment concept in health benefits, while a public awareness campaign was scheduled nationwide.

In the field of education, the first DPL programme included elements for improving access and quality of education, enhancing fiscal savings and improving financial management.

In the financial sector, corporate and mortgage debt restructuring guidelines were published, which aimed to provide businesses and individuals with a roadmap for out of court restructuring and thereby avoiding recourse to court insolvency proceedings. Amendments to legislation relating to financial sector supervisors and regulators have aligned this legislation to best international practices in terms of financial and political independence.

The World Bank is continuing to provide financial support of EUR 500 million under result based financing for social assistance which aims to support the improvement of the overall performance of the social assistance system by strengthening performance management, improving equity, improving administrative efficiency and reducing error and fraud.

On 12 June 2012, the World Bank's Board of Executive Directors also approved a World Bank loan of EUR 1 billion for Romania (Development Policy Loan with a Deferred Drawdown Option, or "**DPL- DDO**"), the Loan Agreement for which was approved by Emergency Government Ordinance No. 51 dated 19 September 2012. This loan supported the Government of Romania's commitments under the EU Fiscal Compact. The DPL-DDO has supported reforms in several sectors aiming to:

- enhance the efficiency of public spending and the Government's revenue raising capacity through better compliance with tax laws;
- improve governance of state owned enterprises in the energy and transport sectors to reduce the drain on the budget, generate savings and attract the private capital needed to modernise plants and increase their competitiveness, and pursue the liberalization of energy markets; and
- enhance the quality of public health care by reducing unjustified outlays and reallocating resources to high return preventive care and health promotion programs.

The amendments to the draft law approving Government Emergency Ordinance No. 109/2011 discussed with the IMF, European Commission and World Bank in order to further improve the corporate governance framework for public enterprises have been recently adopted by the Chamber of Deputies, the decisional chamber. Amendments aim at helping to increase the transparency of state enterprises' activity and hiring professional managers in their leadership structures, by means such as: (i) enlarging the scope and applicability of the legal framework to financial institutions, investment companies, asset management companies, insurance companies; (ii) introducing informal working tools in the selection process of managers and directors, such as the letter of expectations, whereby the public coordinating authority establishes expected performance indicators on the supervisory board and management of the public company, and the declaration of intent, by which the shortlisted candidates for the position of director present their vision / program on public company development; (iii) harmonizing the objectives and action plan of the supervisory board and the executives; (iv) restructuring the sanctions regime by introducing penalties for non-compliance with the terms of the selection procedure and for the preparation of the management plan, and the introduction of penalties for the public coordinating authority which delays the start of the selection procedure.

Within the World Bank Country Strategy 2009-2013, in 2013 the Romanian authorities entered into a new loan with the World Bank in the amount of EUR 70 million with the goal of supporting the tax modernisation process. The loan is implemented by NAFA and the drawn amounts are used for budgetary purposes in accordance with the provisions of the public debt legislation.

Moreover, through the current World Bank Country Partnership Strategy 2014-2017 (as approved in May 2014), it was agreed that the Romanian authorities could contract from IBRD over that period, EUR 4 billion (at a rate of approximately EUR 1 billion per year) of which 70 per cent. will finance two new DPLs series and 30 per cent. will be for loan operations in order to sustain sectorial reforms (*ie* in the health, education, energy, environment and social inclusion areas. In this respect, in June 2014 Romania has concluded with the World Bank two loan agreements amounting to EUR 1 billion (of which EUR 750 million represents the first development policy loan within the

first DPL series, and EUR 250 million will assist in financing the Health Sector Reform - Improving Health System Quality and Efficiency Project. Both new loans are currently effective.

In April 2015, a new loan in the amount of EUR 200 million for the secondary education sector was signed with the World Bank and two other loans in an aggregate amount of approximately EUR 800 million are expected to be concluded with the World Bank by the end of 2016 (of which a loan for EUR 48 million was signed in April 2016).



### *Other external financing programmes*

Other external financing programmes include, inter alia, an EIB loan in amount of EUR 1 billion that was concluded in November 2008 for co-financing the Facility National Strategic Reference Framework (NSRF ) as supports for the absorption of European funds by covering the state budget contribution for the projects included in the Sectorial Operational Programs (SOP) of Environment, Transport and Increasing Economic Competitiveness, and with the possibility to finance up to 50 per cent. of funding for similar projects included in SOP Transport (out of which EUR 326.4 million left to be disbursed). In addition, in December 2013 and May 2014 Romania concluded with the EIB a new financing facility in a total amount of EUR 300 million for Rural Development EU co-financing, which was entirely disbursed in 2015. On the other hand, the Romanian Government has also started discussions with the EIB for three sovereign loans in an aggregate amount of approximately EUR 1.7 billion in order to cover the state budget contribution to the National Programme for Local Development and to several Operational Programmes under the 2014-2020 programming period and expects to finalise negotiations in relation to two of those loans, totalling EUR 1.3 billion by the end of 2016.

A new loan in an amount of EUR 175 million aimed to continue the social housing programme was also concluded with the Council of Europe Development Bank in January 2016.

As at 29 February 2016, the EBRD had in place 9 projects worth EUR 294.7 million, the most important one being the Bond Programme for the Municipality of Bucharest in the RON equivalent of up to EUR 75 million for subscription in a series of unsecured bonds, with maturities of 3, 5, 7 and 10 years, issued in May 2015 as part of Bucharest's EUR 500 million Eurobond refinancing. Other projects include: Sonaca Aerospace Romania project, with a value of up to EUR 8 million; Digital Cable Systems project, with a value of up to EUR 10 million; R2CF Mehedinti sub-project, with a value of up to EUR 5.7 million; Sibiu Urban Infrastructure Rehabilitation project, with a value of up to EUR 15 million; R2CF Ilfov sub-project, with a value of up to EUR 6.5 million; CEZ Distribution Romania project, with a value of up to EUR 152 million Romania Iasi Country Waste Management project, with a value of up to EUR 7.5 million and ETI European Food Industries with a value of EUR 15 million.

Since it started operations in 1999, the BSTDB has financed over 30 projects in Romania (of which only one had a state guarantee), amounting to approximately EUR 329 million as of 31 March 2016.

The EIB signed 7 projects in Romania in 2015 for the private sector and local authorities, worth over EUR 211 million, and approved a new other private project in an amount of EUR 275 million financing the services sector and Romania's Small and Medium Enterprises and Midcaps.

As at 29 February 2016, the aggregate outstanding value of the public portfolios of the World Bank, EIB, EBRD, CEB and JBIC in Romania was EUR 8,442 million, consisting of sovereign loans and guarantees mainly for the financing of public projects in the infrastructure and social sectors. As at 29 February 2016, the EIB, the IFC and EBRD's aggregate contributions to private sector and local authorities financing amounted to approximately EUR 870.7 million, representing 26 new projects, according to the information provided by the three international financial organisations.

### ***Expected Strategies and Trends for Public Debt***

At the end of December 2016 public debt according to national legislation is expected to increase to 45.1 per cent. compared with 44.3 per cent. of GDP as at the end of 2015, due to financing of the budget deficit, refinancing of the public debt, maintaining the foreign exchange buffer and the guarantees issued under governmental programs.

The budgetary deficit in 2016 (estimated at 2.8 per cent. of GDP) is expected to be financed mainly from domestic sources (65 per cent.) and in subsidiary from external sources using the following instruments:

- issuances of treasury bills and benchmark bonds on the domestic market;
- disbursements under loans contracted for project financing;
- new external loans;
- loans contracted by the local public administration authorities;
- Eurobond issuances on the international capital markets; and
- privatisation receipts.

For the period 2016 to 2018, as a result of anticipated economic growth, the public debt according to national legislation is estimated to be below 46.0 per cent. of GDP. As of the end of 2015, the level of public debt according to national

legislation was 44.3 per cent. of GDP, while the general government debt according to EU methodology was at 38.4 per cent. of GDP.

In terms of government public debt management, the Government approved in March 2015 its medium term strategy for the period 2015 to 2017. The main objectives of the approved strategy are: (i) covering the government financing needs and payment obligations, while minimizing medium and long term costs; (ii) limiting the financial risks of the government public debt portfolio and (iii) developing a domestic market for government securities. The Ministry of Public Finance is in the process of updating its debt management strategy for 2016-2018.

Starting with 2010, in order to improve public debt management and to avoid the seasonal pressure to finance the budget deficit and refinance debt, the Ministry of Public Finance established a financial reserve (buffer) in foreign currency, which will be consolidated to an amount equivalent to the needs of financing the budget deficit and refinancing the public debt over a period of approximately four months. Furthermore, Romania benefited from the technical assistance of the World Bank treasury, which was financed through the Programme Administrative Capacity Development ("PODCA"). Its components consist of cash and debt management, transactions on secondary markets and the simplification of the public debt payment process. Romania is to develop legal and technical framework for the use of financial derivatives also with the technical assistance from the World Bank, under a project financed from European Funds (OP-AC) for a period of 18 months. In the near future, Romania anticipates a limited usage of financial derivatives for the purposes of the administration of its public indebtedness.

### **Public debt according to the EU methodology<sup>3</sup>**

The general government debt according to EU methodology decreased to 38.4 per cent. of GDP as at 31 December 2015 from 39.8 per cent. of GDP as at 31 December 2014. With respect to the debt structure, the central government indebtedness has decreased from 37.4 per cent of GDP at 31 December 2014 to 36.2 per cent. of GDP as at 31 December 2015 and the level of local government indebtedness has decreased from 2.4 per cent. of GDP recorded at 31 December 2014 to 2.2 per cent. of GDP as at 31 December 2015.

The following table shows general government indebtedness indicators as at 31 December 2014 and 31 December 2015 by sub-sectors of general government:

|                                      | 31 December<br>2014 |                 | 31 December<br>2015 (preliminary data) |                 |
|--------------------------------------|---------------------|-----------------|--|-----------------|
|                                      | mil RON             | mil EUR         | mil RON                                | mil EUR         |
| <b>1. Central government debt:</b>   | <b>249,823.1</b>    | <b>55,738.0</b> | <b>258,081.8</b>                       | <b>57,041.0</b> |
| - weight in GDP (%)                  | 37.4%               | 37.4%           | 36.2%                                  | 36.2%           |
| <b>2. Local government debt of:</b>  | <b>16,000.1</b>     | <b>3,569.8</b>  | <b>15,812.8</b>                        | <b>3,494.9</b>  |
| - weight in GDP (%)                  | 2.4%                | 2.4%            | 2.2%                                   | 2.2%            |
| <b>3. Social security funds:</b>     | <b>0.0</b>          | <b>0.0</b>      | <b>0.0</b>                             | <b>0.0</b>      |
| - weight in GDP (%)                  | 0.0%                | 0.0%            | 0.0%                                   | 0.0%            |
| <b>4. General government debt</b>    | <b>265,823.2</b>    | <b>59,307.7</b> | <b>273,894.6</b>                       | <b>60,535.9</b> |
| Total public debt, weight in GDP (%) |                     | 39.8%           |  | 38.4%           |

<sup>3</sup> For the purpose of the Excessive Deficit Procedure (EDP) in the Economic and monetary union (EMU), as well as for the Growth and Stability Pact, the current Protocol 12, annexed to the 2012 consolidated version of the Treaty on the Functioning of the European Union, provides a complete definition of government debt: "debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government".

This definition is supplemented by Council Regulation (EC) No 479/2009, as amended by the Commission Regulation (EU) No 220/2014 (which has only updated references to ESA 2010 instruments) specifying the components of government debt with reference to the definitions of financial liabilities in ESA 2010. In this context, the stock of government debt in the Excessive Deficit Procedure (EDP debt) is equal to the sum of liabilities, at the end of year N, of all units classified within the general government sector (S.13) in the following categories: AF.2 (currency and deposits) + AF.3 (debt securities) + AF.4 (loans).

|  |           |           |
|--|-----------|-----------|
| GDP (mln. RON)*)                                       | 667,577.4 | 712,832.3 |
| Exchange rate at the end of reporting period (EUR/Lei) | 4.4821    | 4.5245    |

Source: Ministry of Public Finance

The general government debt presented a relatively high level of non-resident ownership of public debt (approximately 50 per cent. as at 31 December 2015, compared to 52 per cent. as at 31 December 2014). Romania's public debt is also subject to foreign currency risk, as almost 54 per cent. of the country's public debt was denominated in foreign currencies (mainly in EUR) as at 31 December 2015, compared to 57 per cent., as at 31 December 2014.

The following table shows general government indebtedness indicators as at 31 December 2014 and 31 December 2015:

|                                   | 31 December<br>2014<br>mil. RON | 31 December<br>2014<br>- per cent.- | 31 December 2015,<br>(preliminary data)<br>mil. RON | 31 December<br>2015<br>- per cent.- |
|-----------------------------------|---------------------------------|-------------------------------------|---|-------------------------------------|
| <b>General government debt</b>    | <b>265,823.2</b>                | <b>100.0%</b>                       | <b>273,894.6</b>                                    | <b>100.0%</b>                       |
| <i>a. by creditor's residency</i> |                                 |                                     |   |                                     |
| - domestic debt                   | 127,605.5                       | 48.0%                               | 137,897.3   | 50.3%                               |
| - external debt                   | 138,217.7                       | 52.0%                               | 135,997.3   | 49.7%                               |
| <i>b. by maturity</i>             |                                 |                                     |   |                                     |
| - short term                      | 17,808.2                        | 6.7%                                | 17,873.5  | 6.5%                                |
| - medium and long term            | 248,015.1                       | 93.3%                               | 256,021.1   | 93.5%                               |
| <i>c. by debt instruments</i>     |                                 |                                     |   |                                     |
| - currency and deposits           | 6,754.7                         | 2.5%                                | 8,752.7   | 3.2%                                |
| - securities                      | 184,460.7                       | 69.4%                               | 196,021.1   | 71.6%                               |
| short term                        | 10,712.2                        | 4.0%                                | 9,007.7   | 3.3%                                |
| long term                         | 173,748.5                       | 65.4%                               | 187,013.4   | 68.3%                               |
| - loans                           | 74,607.9                        | 28.1%                               | 69,120.8  | 25.2%                               |
| short term                        | 341.3                           | 0.1%                                | 113.1   | 0.0%                                |
| long term                         | 74,266.6                        | 27.9%                               | 69,007.7  | 25.2%                               |
| <i>d. by currency</i>             |                                 |                                     |   |                                     |
| - lei                             | 114,390.0                       | 43.0%                               | 126,605.4   | 46.2%                               |
| - Euro                            | 123,047.6                       | 46.3%                               | 117,963.7   | 43.1%                               |
| - USD                             | 24,710.8                        | 9.3%                                | 26,833.8  | 9.8%                                |
| - others                          | 3,674.9                         | 1.4%                                | 2,491.6   | 0.9%                                |

The general government debt according to EU methodology is expected to be 39.1 per cent. of GDP at the end of December 2016, higher than 38.4 per cent. of GDP recorded at 31 December 2015. For the period 2017 to 2019, as a result of anticipated economic growth, the public debt according to EU methodology is forecasted to be below 40 per cent. of GDP.

According to the Convergence Program estimation for 2016-2019, a fiscal slippage translated into a cash deficit to be financed of 3.9 per cent. of GDP, would lead to a higher the level of public indebtedness, which could increase by up to 5.8 per cent. of GDP at the end of 2019 compared with the level of general government debt estimated for 2019 of 39.3 per cent. of GDP.

### **Credit Ratings**

In December 2015, Moody's affirmed Romania's Baa3 ratings and changed the outlook from *Stable* to *Positive*. The key drivers for changing the outlook were Romania's significant progress in correcting its macroeconomic imbalances,

reducing the economy's vulnerability to external shocks and paving the way for robust economic growth. Also, Moody's took into account Romania's sizeable fiscal adjustment in the recent past, leading to a significant reduction of the government's fiscal deficit and contributing to a stabilization of the government's debt-to-GDP ratio.

On 22 January 2016, Fitch ratings has affirmed Romania's long and short-term foreign and local currency sovereign credit ratings at BBB-/BBB with *Stable* outlook. Fitch's rating is based on Romania's healthier economic outlook, in particular its improved fiscal position and more favourable governance indicators than its 'BBB' range peers.

In April 2016, Standard & Poors Ratings Services affirmed its 'BBB-/A-3 long and short-term foreign and local currency sovereign credit ratings on Romania with *Stable* outlook, based on Romania's moderate external and fiscal debt amid reasonably firm growth prospects.

In March 2016, Japan Credit Rating Agency (JCRA) upgraded Romania's long-term foreign currency and local currency ratings at BBB and BBB+ respectively, with *Stable* outlook, based on Romania's improvement in the financial system, the prospect of a sound economic growth driven by domestic demand and low level of government debt.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used for budget deficit financing, redemption of public debt and liability management operations (buy-backs or exchanges).

## TAXATION

### Romanian Taxation

The following is a general description of certain Romanian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Romania of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Information Memorandum and is subject to any change in law that may take effect after such date.

Under Law No. 227/2015 on the fiscal code as subsequently amended and supplemented ("**Romanian Fiscal Code**"), certain types of income received by non-residents from Romanian sources are subject to Romanian tax at the rates prescribed by the Romanian Fiscal Code, irrespective of whether the income is received in Romania or abroad. For the purposes of the Romanian Fiscal Code:

- (i) a "**non-resident**" is defined as any foreign legal person, any non-resident natural person, and any other foreign entities, including undertakings for collective investment in transferable securities, without legal personality, which are not registered in Romania according to the law;
- (ii) a "**foreign legal person**" is defined as any legal person which is not a Romanian legal person and any legal person established pursuant to European law which is not headquartered in Romania;
- (iii) a "**Romanian legal person**" is defined as any legal person established in accordance with Romanian law;
- (iv) a "**legal person established pursuant to European law**" is defined as any legal person established in accordance with and by the mechanics contemplated by European regulations;
- (v) a "**non-resident natural person**" is defined as any natural person which is not a resident natural person, as well as any foreign citizen enjoying diplomatic or consular regime within Romania, any foreign citizen who is an employee or officer of an international or intergovernmental organisation registered in Romania, any foreign citizen who is an officer or an employee of a foreign state in Romania, or their family members; and
- (vi) a "**resident natural person**" is defined as any natural person that meets at least one of the following conditions: (a) is domiciled in Romania, or (b) has the centre of his vital interests (Romanian language: "*centrul intereselor vitale*") located in Romania, or (c) is present in Romania for a period or several periods exceeding in aggregate 183 days during any twelve consecutive months, and that period(s) end(s) in the relevant calendar year, or (d) is a Romanian citizen that works abroad as an officer or an employee of the Romanian state.

### *Taxation of non-resident Noteholders*

Under the Romanian Fiscal Code interest payable to non-resident Noteholders on the Notes is exempted from taxation. Also, for capital gains (determined as the difference between the sale price and the acquisition price and in some cases, the transaction costs) arising on the transfer on international financial markets of any Notes between non-residents, such non-resident Noteholders are not taxed. Therefore no tax on interest or capital gains will be levied on such income. Additionally, the income obtained by non-residents from financial derivative transactions utilised for the hedging of Romanian governmental public debt is exempted from Romanian withholding tax.

### *Other information*

Romania is a party to over 80 double tax treaties with other jurisdictions, most of which are based on the OECD Model Convention.

### Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to Notes which are admitted to the Official List and to trading on the regulated market of the Luxembourg Stock Exchange. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere.

This summary is based upon the law as in effect on the date of this Information Memorandum. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

*Prospective holders of Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes on the basis of this Information Memorandum, including the effect of any state or local taxes, under the tax laws of Luxembourg and each country of which they are residents.*

All payments of interest and principal by the Paying Agent under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005, as amended, which has introduced a 10 per cent. withholding tax (which is final when Luxembourg resident individuals are acting in the context of the management of their private wealth) on savings income (i.e. with certain exemptions, savings income within the meaning of the Directive 2003/48/EC ("**Savings Directive**") paid by a paying agent within the meaning of the Savings Directive. Responsibility for the withholding of such 10 per cent. tax is assumed by the paying agent within the meaning of this law and not by the Issuer.

In addition, pursuant to the law of 23 December 2005, as amended, Luxembourg resident individuals who are the beneficial owners of savings income paid by a paying agent within the meaning of the Savings Directive established outside Luxembourg, in a Member State of either the European Union or the European Economic Area, or in a jurisdiction having concluded an agreement with Luxembourg in connection with the Savings Directive, can opt to self declare and pay a 10 per cent. tax on this savings income. This 10 per cent. tax is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

In accordance with the law of 25 November 2014, Luxembourg elected out of the withholding tax system in favour of an automatic exchange of information under the Savings Directive as from 1 January 2015. Payments of interest by Luxembourg paying agents to non resident individual Noteholders and to certain residual entities are thus no longer subject to any Luxembourg withholding tax. However, on 10 November 2015, the Council of the European Union adopted Council Directive 2015/2060, repealing the Savings Directive with effect from 1 January 2016. Certain provisions of the Savings Directive will continue to be effective during 2016 and Austria will continue to apply the Savings Directive until 31 December 2016 (and until 30 June 2017 in relation to some of its obligations or, in any case, until those obligations have been fulfilled). The repeal of the Savings Directive is aimed at preventing overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). As at the date of this Information Memorandum, the above mentioned Council Directive 2015/2060 has not yet been implemented under Luxembourg national legislation but a bill was presented to the Luxembourg parliament on 29 March 2016 and is currently under review.

### **The Proposed Financial Transaction Tax ("FTT")**

On 14 February 2013, the European Commission published a proposal ("**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia ("**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions).

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their "issue price" (as defined below);
- Notes held as capital assets;
- U.S. Holders (as defined below); and
- Notes treated as debt for U.S. federal income tax purposes.

This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, foreign, or other tax laws. This discussion also does not describe all of the tax consequences that may be relevant in light of a Holder's particular circumstances or to Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- investors liable for the alternative minimum tax or the Medicare tax on net investment income;
- individual retirement accounts and other tax deferred accounts;
- tax-exempt organizations;
- persons holding Notes as part of a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes and their partners; or
- former citizens or residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended ("**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, all as of the date of this Information Memorandum and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Notes should consult the relevant Final Terms of the Drawdown Information Memorandum for any additional discussion regarding U.S. federal income taxation.

This summary does not discuss Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes, such as Index-Linked Notes, Dual Currency Notes, other variable-linked Notes and Notes that are not principal protected, may be specified in the relevant Final Terms of the Drawdown Information Memorandum. Moreover, this summary does not discuss Bearer Notes, which are not being marketed to U.S. persons. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes. U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Notes.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- an individual that is a citizen or resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or



- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Entities classified as partnerships for U.S. federal income tax purposes holding Notes should consult with their tax advisers regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS, AND POSSIBLE CHANGES IN TAX LAW.

### Payments of Stated Interest

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holder's method of accounting for U.S. federal income tax purposes, **provided that** the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. Holder with respect to a Note and original issue discount ("**OID**"), if any, accrued with respect to the Notes generally will constitute foreign source income for U.S. federal income tax purposes. Special rules governing the treatment of interest paid with respect to OID Notes and Foreign Currency Notes (each as defined below) are described under "*— Original Issue Discount*" and "*— Foreign Currency Notes.*"

### Original Issue Discount

A Note, other than a Note with a term of one year or less (a "**short-term note**"), that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued at original discount for U.S. federal income tax purposes (and will be referred to as an "**OID Note**") unless the Note satisfies a *de minimis* threshold (as described below). The "issue price" of a Note generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Note generally will equal the sum of all payments required to be made under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable (other than in Notes of the Issuer) at least annually during the entire term of the Note at a single fixed rate of interest, at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option in a manner that minimizes the yield on the Note, and the U.S. Holder will be deemed to exercise any put option in a manner that maximizes the yield on the Note.

If the difference between a Note's issue price and its stated redemption price at maturity is less than a *de minimis* amount (generally 1/4 of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, or, if the Notes provide for principal payments before maturity, the product of the same percentage and their weighted average maturity) the Note will not be considered to have OID. U.S. Holders of Notes with a *de minimis* amount of OID will include this OID in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

A U.S. Holder of OID Notes that mature more than one year from their date of issuance will be required to include OID in income for U.S. federal income tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received. Under these rules, U.S. Holders generally will have to include in taxable income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any particular Note (including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant

yield method based on the compounding of interest, and generally may revoke such election (a "**constant yield election**") only with the permission of the U.S. Internal Revenue Service ("**IRS**"). If a U.S. Holder makes a constant yield election with respect to a Note with market discount (discussed below), the U.S. Holder will be treated as having made an election to include market discount in income currently over the life of all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies. U.S. Holders should consult their tax advisers about making this election in light of their particular circumstances.

### **Variable Interest Rate Notes**

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by an amount equal to or more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than 3 months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument," then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) equal to or in excess of a specified de minimis amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument, and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt

instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. See "*Contingent Payment Debt Instruments*" for a discussion of the U.S. federal income tax treatment of such Notes.

### **Market Discount**

If a U.S. Holder purchases after its original issuance a Note (other than a short-term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an OID Note, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an OID Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of, a Note, including disposition in certain non-recognition transactions, as ordinary income to the extent of the market discount accrued on the Note at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the Holder to include market discount in income as it accrues. An election to include market discount in income as it accrues applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies and may not be revoked without the consent of the IRS. In addition, a U.S. Holder that does not elect to include market discount in income currently may be required to defer, until the maturity of the Note or its earlier disposition (including in certain non-recognition transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Note.

Market discount will accrue on a straight line basis unless a U.S. Holder makes an election on a Note to accrue on the basis of a constant interest rate. This election applies only to the market discount Note with respect to which it is made and is irrevocable.

### **Acquisition Premium and Amortisable Bond Premium**

A U.S. Holder who purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of OID that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Note for an amount that is greater than the stated redemption price at maturity, the Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Note. A Holder who elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "*Original Issue Discount*") for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the Holder's debt Notes with amortisable bond premium.

### **Short-Term Notes**

In general, an individual or other cash basis U.S. Holder of a short-term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on short-term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the short-term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not

required and do not elect to accrue OID on short-term Notes will be required to defer deductions for interest on borrowings allocable to short-term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a short-term Note are included in the short-term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a short-term Note as if the short-term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the short-term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### **Sale, Exchange or Retirement of the Notes**

Upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of OID and market discount included in the Holder's gross income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and decreased by any bond premium or acquisition premium previously amortised and by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid qualified stated interest on the Note. Amounts attributable to accrued but unpaid qualified stated interest are treated as payments of interest as described under "*— Payments of Stated Interest.*"

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Note, to the extent of any accrued discount not previously included in the Holder's taxable income. See "*— Original Issue Discount*" and "*—Market Discount.*" In addition, other exceptions to this general rule apply in the case of Foreign Currency Notes, and contingent payment debt instruments. See "*—Foreign Currency Notes*" and "*— Contingent Payment Debt Instruments.*" The deductibility of capital losses is subject to limitations.

### **Contingent Payment Debt Instruments**

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate that do not qualify as "variable rate debt instruments" for purposes of the OID rules) that are neither remote nor incidental, they generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield," and the differences between actual payments on the Note and the Note's "projected payment schedule," as described below. The comparable yield is determined by the Issuer at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

### **Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.**

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments, unless the Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of its method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment debt instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable

year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
  - the amount of all previous interest inclusions under the contingent payment debt instrument over;
  - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent that the U.S. Holder's total interest inclusions on the contingent payment debt instrument exceed the total net negative adjustments on the contingent payment debt instrument the U.S. Holder took into account as ordinary losses, and the balance as capital loss. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a contingent payment debt instrument will generally be foreign source. The deductibility of capital losses is subject to limitations. In addition, if a Holder recognises loss above certain thresholds, the Holder may be required to file a disclosure statement with the IRS (as described under "*Tax Reporting*").

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The Holder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Debt Instruments**"). Very generally, these Notes are accounted for like a contingent debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Debt Instruments. The relevant amount must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such Notes.

## **Foreign Currency Notes**

The following discussion summarises the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of Notes that are denominated in a specified currency other than the U.S. dollar, or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**Foreign Currency Notes**").

The rules applicable to Foreign Currency Notes could require some or all gain or loss on the sale, exchange or other disposition of a Foreign Currency Note to be recharacterised as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and may depend on the Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a Holder should make any of these elections may depend on the Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. The U.S. dollar value of the accrued income generally will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year.

An accrual method U.S. Holder or cash method U.S. Holder accruing OID may elect to translate interest income (including OID) into U.S. dollars at the spot rate on the last day in the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the relevant taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes such an election must apply it consistently to all Notes from year to year and cannot change the election without the consent of the IRS.

The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the payment of interest is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required or who elects to currently accrue OID or market discount.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a Note is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the Foreign Currency Note. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a Foreign Currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the Holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such Foreign Currency Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment, or the settlement date for the purchase, in the case of Notes traded on an established securities market that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). A U.S. Holder who purchases a Foreign Currency Note with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a Foreign Currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued qualified stated interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the Holder on the sale, exchange or retirement of the Foreign Currency Note. The source of the

foreign currency gain or loss will be determined by reference to the residence of the Holder or the "qualified business unit" of the Holder on whose books the Note is properly reflected. Any gain or loss realized by these Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the Holder's income, provided that the Note is not a Foreign Currency Contingent Payment Debt Instrument. Holders should consult their own tax adviser with respect to the U.S. federal income tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a Foreign Currency Note that is traded on an established securities market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. If either (i) the Note is not traded on an established securities market or (ii) it is, and the Holder is an accrual method taxpayer that does not make the election described above with respect to such Note, exchange gain or loss may result from currency fluctuations between the trade date and the settlement date of the purchase or sale. Any gain or loss realized by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

### **Information Reporting and Backup Withholding**

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the Holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is timely furnished to the IRS. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

### **Tax Reporting**

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.\$50,000 in a single taxable year if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

U.S. Holders should consult their own tax advisers regarding any additional tax reporting or filing obligations they may have as a result of the acquisition, ownership or disposition of the Notes, including reporting requirements related to the holding of certain foreign financial assets. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.



## SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Banca IMI S.p.A, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG, Goldman Sachs International, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Natixis, Nomura International plc, Raiffeisen Bank International AG, Société Générale, UniCredit Bank AG and any other dealer appointed from time to time ("**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 21 May 2015 ("**Dealer Agreement**") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

### **Selling Restrictions**

#### ***United States of America***

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States, except pursuant to an exemption, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder. The applicable Final Terms will identify whether TEFRA C or TEFRA D rules apply or whether TEFRA is not applicable.

The Notes will be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S and (B) in registered form within the United States only to persons who are QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Dealer Agreement provides that the Arranger, or any other Dealer with the prior written consent of the Arranger, may directly or through its respective agents or affiliates arrange for the resale of Restricted Registered Notes in the United States only to QIBs pursuant to Rule 144A.

Each issuance of index-linked Notes shall be subject to additional U.S. selling restrictions as the Relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed that, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

#### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

1. *No deposit-taking*: in relation to any Notes having a maturity of less than one year:
  - a. it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - b. it has not offered or sold and will not offer or sell any Notes other than to persons:

- i. whose ordinary activities involved them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
- ii. who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

2. *Financial Promotion*: It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
3. *General compliance*: It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Romania**

The Notes may not be offered or sold in Romania, nor may this Information Memorandum or any other material relating to the Notes be distributed in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not directly or indirectly offered or sold and will not offer or sell any Notes in Romania and that it has not distributed and will not distribute any Drawdown Information Memorandum or any Final Terms or any related offering material relating to the Notes in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

### **General**

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Final Terms, no action has been or will be taken in any jurisdiction by the Issuer or any Dealer that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Information Memorandum, any Final Terms or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Information Memorandum or any Final Terms come are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Information Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Information Memorandum.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge) comply with all applicable securities laws and regulations in force in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum, any Final Terms or any other offering materials. Other persons into whose hands this Information Memorandum or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Information Memorandum or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealer described in the paragraph headed "General" above.

Certain of the Dealers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their

customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## TRANSFER RESTRICTIONS

### Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Information Memorandum and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:
  - (a) it is not a U.S. person and it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and it is located outside the United States (within the meaning of Regulation S); and
  - (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:
  - (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or
  - (b) to the Issuer; or
  - (c) in the case of Unrestricted Registered Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,in each case in accordance with any applicable securities laws of any State of the United States; and
- (iii) it understands that the Issuer, the Fiscal Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealer(s).

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Note Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Note Certificate only upon receipt by the Registrar of a written certification from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Note Certificate, as described above under "*Forms of the Notes*".

Notes represented by an interest in a Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Note Certificate and become an interest in a Note represented by a Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Note Certificate.

### Rule 144A Notes

Each purchaser of Restricted Registered Notes in reliance on Rule 144A, by accepting delivery of this Information Memorandum, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

- (i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

- (ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of their respective affiliates, in each case in accordance with any applicable securities laws of any State of the United States; and (2) it will, and each subsequent holder of the Restricted Registered Notes is required to, notify any purchaser of the Restricted Registered Notes from it of the resale restrictions applicable to the Restricted Registered Notes;
- (iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED ("**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (4) TO THE ISSUER OR ITS AFFILIATES OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES;

- (iv) if it is acquiring any Notes for the account of one or more QIBs, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (v) the purchaser understands that the Issuer, the Fiscal Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealer(s).

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

## CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing Systems. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuers nor any Dealer takes any responsibility for the accuracy thereof. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

### DTC Book-Entry System

Registered Notes whether as part of the initial distribution of the Notes or in the secondary market, are eligible to be held in book-entry form in DTC.

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("**Direct Participants**") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations ("**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below, and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest with respect to the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Notes for Individual Note Certificates, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Note Certificate, will be legended as set forth under "*Transfer Restrictions*".

### **Book-entry Ownership of and Payments in respect of DTC Notes**

The Issuer may apply to DTC in order to have each Tranche of Notes represented by the Restricted Global Note Certificate, and if applicable, the Regulation S Global Note, accepted in its book-entry settlement system. Upon the issue of any Global Registered Notes, DTC or its custodian will credit, on its internal book-entry system, the respective principal amounts of the individual beneficial interests represented by such Global Registered Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer.

Ownership of beneficial interests in a Global Registered Note will be limited to Direct Participants or Indirect Participants. Ownership of beneficial interests in a Global Registered Note will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Registered Note registered in the name of DTC's nominee will be made to the order of such nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the relevant Paying Agent on behalf of DTC's nominee and the relevant Paying Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Registered Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Paying Agents, the Registrar or the Issuer. Payments of principal, premium, if any, and interest, if any, on Notes to DTC are the responsibility of the Issuer.

### **Transfers of Notes Represented by Global Registered Notes**

Transfers of any interests in Notes represented by a Global Registered Note will be effected in accordance with the customary rules and operating procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be. The laws of some states within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Registered Note to such persons

may depend upon the ability to exchange such Notes for Individual Note Certificates. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Registered Note held by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or to otherwise take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Registered Note held by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Transfers at any time by a holder of a book-entry interest in a Restricted Global Note Certificate to a transferee who takes delivery of such book-entry interest through a Regulation S Global Note for the same Series of Notes will only be made upon delivery to the Registrar of a certificate setting forth compliance with the provisions of Regulation S. Prior to the expiration of the distribution compliance period (as defined in Regulation S), ownership of book-entry interests in a Regulation S Global Note will be limited to persons that have accounts with Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, or persons who hold such book-entry interest through Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, and any sale or transfer of such book-entry interest to a US person (within the meaning of Regulation S) shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A. Transfers at any time by a holder of a book-entry interest in a Regulation S Global Note to a transferee who takes delivery of such book-entry interest through a Restricted Global Note Certificate for the same Series of Notes will only be made upon receipt by the Registrar or the Transfer Agent of a written certificate from the transferor of such book-entry interest to the effect that such transfer is being made to a person whom such transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities laws of any state of the United States.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, and/or the Paying Agents, as the case may be, and any custodian with whom the relevant Global Registered Notes have been deposited.

On or after the relevant issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in DTC and Euroclear or Clearstream, Luxembourg participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear or Clearstream, Luxembourg on the other, transfers of interests in the relevant Global Registered Notes will be effected through the Registrar and/or the relevant Paying Agent, as the case may be, and the custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payments must be made separately.

Euroclear, Clearstream, Luxembourg and DTC have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Registered Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Registrar, the Paying Agents or any Dealer(s) will be responsible for any performance by Euroclear, Clearstream, Luxembourg and DTC or its respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Registered Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.



## GENERAL INFORMATION

### Responsibility

The Issuer accepts sole responsibility for the information contained in this Information Memorandum and has taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects.

### Authorisation

The establishment of the Programme was authorised by Government Decision No. 1264/2010 on the approval of the sovereign notes framework programme "Medium Term Sovereign Notes", as rectified through the rectification published in the Official Gazette of Romania, Part I, No. 730 of 29 October 2012 and as amended by Government Decision No. 361/2013, by Government Decision No. 923/2013, by Government Decision No. 192/2015 and by Government Decision No. 242/2016. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations (including without limitation such ministerial orders or approvals or governmental memoranda or approvals as may be required under applicable law from time to time) in connection with each issue and performance of Notes thereunder.

### Issue of Notes

The maximum aggregate principal amount of Notes outstanding from time to time under the Programme will not exceed the maximum amount specified in the Government Decision No. 1264/2010 on the approval of the sovereign notes framework programme "Medium Term Sovereign Notes", as rectified through the rectification published in the Official Gazette of Romania, Part I, No. 730 of 29 October 2012 and as amended by Government Decision No. 361/2013, by Government Decision No. 923/2013, by Government Decision No. 192/2015 and by Government Decision No. 242/2016 and as may be rectified, amended or replaced from time to time, and in any other applicable Romanian law. The issue of Notes is made in accordance with the Government Emergency Ordinance No. 64/2007 on public debt, as subsequently amended, and Government Decision No. 1470/2007 on the approval of the methodological norms for the application of the Government Emergency Ordinance No. 64/2007 on public debt, as subsequently amended.

### No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2015.

### Legal and Arbitration Proceedings

There are no legal or arbitration proceedings against or affecting the Issuer, or any of its assets, nor is the issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

### Documents on Display

Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of Société Générale Bank & Trust, 11 avenue Emile Reuter, L-2420 Luxembourg for 12 months from the date of this Information Memorandum:

- (a) the current Information Memorandum in relation to the Programme, together with any amendments or supplements thereto;
- (b) the Agency Agreement;
- (c) the Deed of Covenant;
- (d) the Programme Manual (which contains the forms of the Notes in global and definitive form); and
- (e) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Bearer Notes in New Global Note form and Registered Notes to be held under the New Safekeeping Structure).

**Clearing of the Notes**

The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The appropriate Common Code and the Committee on Uniform Security Identification Procedures (CUSIP) Number, International Securities Identification Number (ISIN) and/or Common Code in relation to the Notes of each Series will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

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