INFORMATION MEMORANDUM

ROMANIA

ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE

EUR 7,000,000,000
Global Medium Term Note Programme

Under this EUR 7,000,000,000 global medium term note programme (the "**Programme**") described in this information memorandum (the "**Information Memorandum**"), Romania acting through the Ministry of Public Finance ("**Romania**" or the "**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 7,000,000,000 (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* (the "**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 fulfil 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 (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 (as defined under Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption 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 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	**SOCIETE GENERALE CORPORATE & INVESTMENT BANKING**

Dealers

BARCLAYS	**BNP PARIBAS**	**CITIGROUP**
DEUTSCHE BANK	**HSBC**	**ERSTE GROUP BANK AG**
SOCIETE GENERALE CORPORATE & INVESTMENT BANKING		**UNICREDIT BANK**

8 February 2013

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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 (the "**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*" (the "**Conditions**") as amended and/or supplemented by a document specific to such Tranche called final terms (the "**Final Terms**") or in a separate information memorandum specific to such Tranche (the "**Drawdown Information Memorandum**") as described under "*Final Terms and Drawdown Information Memorandum*" below. 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*" below 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 except pursuant to an exemption 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 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 (THE "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 7,000,000,000 (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 "**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 and references to the "**2010 PD Amending Directive**" mean Directive 2010/73/EU.

As of the date of this Information Memorandum, the Programme has been rated "Baa3" by Moody's Investors Service, Inc. ("**Moody's**"), "BB+" for senior unsecured Notes with a maturity of one year or more and "B" for senior 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 (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. 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 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 overallotment 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.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955 ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE OR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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 a European Union ("**EU**") or a non-EU member state.

Thus, according to EC Regulation No. 44/2001 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters of 22 December 2000, as amended, a final and conclusive judgment in commercial and civil matters rendered by a court from an EU Member State (other than Denmark) is directly recognised in Romania, except if, (i) such recognition is in breach of public order under Romanian private international law; (ii) a Romanian court or a court of another Member State has exclusive jurisdiction for the respective case or another court had exclusive jurisdiction under EU law including, without limitation, with regards to consumer protection or insurance matters; (iii) the foreign judgment is in conflict with a judgment rendered by a Romanian court in a legal dispute between the same parties; (iv) the foreign judgment was issued in absentia and the complaint or similar act was not provided to the defendant in time and in such a way for the defence to be prepared, but only if the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; or (v) the judgment cannot be reconciled with a judgment issued by a court from a Member State or other state in relation to the same object and having the same parties if the previous judgment meets the conditions for being recognised in Romania. Judgments rendered in an EU member state in commercial and civil matters, enforceable according the law applicable to the courts which have rendered them, may be enforced in Romania on the basis of an approval issued by the competent Romanian courts.

A judgment rendered in matters involving international private law relationships by a court of Denmark or a non-EU member state, such as the United States, may be recognised in Romania on the basis of a decision of the competent Romanian court and **provided that**, *inter alia*: (i) the judgment is final according to the law of the state where it was rendered; (ii) it was rendered by a court which was competent according to the law of the state where it was rendered; and (iii) there is reciprocity with respect to the recognition of foreign judgments between Romania and the respective state; (iv) the foreign judgment is not the result of fraud in the foreign procedure; (v) the foreign judgment is not in breach of public order under Romanian private international law; (vi) Romanian courts did not have exclusive jurisdiction over the subject matter; and (vii) no substantially similar action or proceeding involving the same parties was commenced before a court of competent jurisdiction in Romania before the commencement of the action or proceeding before the foreign jurisdiction which rendered the foreign judgment and such action or proceeding in Romania remains pending or has resulted in the subject matter of the foreign judgment being a final judgment in Romania. In order to be enforceable in Romania, such judgment must also (i) be enforceable according to the law of the court which rendered it; and (ii) the right to request the enforcement must not have been time barred. The enforcement of such judgment must be approved by the competent Romanian courts.

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 the "*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 (the "**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 World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**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 the "Terms and Conditions of the Notes" below or elsewhere in this Information Memorandum have the same meanings in this summary.

Issuer:	Romania, acting through the Ministry of Public Finance.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" below.
Arrangers:	Erste Group Bank AG and Société Générale.
Dealers:	Barclays Bank PLC, BNP PARIBAS, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG, HSBC France, 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.
Fiscal Agent:	Société Générale Bank & Trust.
Registrar, Paying Agent and Transfer Agent:	Citibank, N.A., London Branch.
Luxembourg Listing Agent:	Société Générale Bank & Trust.
Final Terms or Drawdown Information Memorandum:	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.
Listing and Trading:	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.
Clearing Systems:	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.
Initial Programme Amount:	Up to EUR 7,000,000,000 (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 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 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.

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 DTC and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the DTC Custodian. Beneficial interests in Notes represented by a Restricted Global Note Certificate may only be held through DTC at any time.

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: Notes will be issued on an unsubordinated basis.

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.

Denominations:	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.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes will have the benefit of a cross default as described in Condition 13 (*Events of Default*).
Taxation:	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 (*Taxation*)) 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.
Governing Law:	English law.
Enforcement of Notes in Global Form:	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 11 November 2011, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Ratings:	The following ratings have been assigned to the Programme: "BBB-" by Fitch; "Baa3" by Moody's; and "BB+" (for senior unsecured Notes with a maturity of one year or more) and "B" (for senior unsecured Notes with a maturity of less than one year) by S&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 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*" below.
Transfer Restrictions:	There are restrictions on transfers of Notes. See "*Transfer Restrictions*".

RISK FACTORS

The Issuer believes that the following factors may affect 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 to making any investment decision. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Information Memorandum have the same meanings in this section.

Risks Relating to Emerging Market Issuers

Investments in securities of issuers in emerging markets, such as Romania, generally involve a higher degree of risk than investments in securities of issuers in more developed markets. These higher risks include economic instability caused by a variety of factors such as a relatively narrow export base, reliance on imports, fiscal and current account deficits, reliance on foreign investment and changes in the political, economic, social, legal and regulatory environment. Actions of governments may be challenged by future governments. Emerging economies, such as the Romanian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Emerging markets, such as Romania, may also experience more instances of corruption of government and judicial officials and misuse of public funds than more mature markets.

As a consequence, an investment in Romania carries risks that are not typically associated with investing in more mature markets. Prospective investors should also note that emerging economies such as Romania's are subject to rapid change and that the information set out in this Information Memorandum may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets, such as Romania, is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisers before making an investment decision.

Risks Relating to Romania

An investment in a developing country such as Romania is subject to substantially 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 substantially 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 developing countries, such as Romania, are only suitable for sophisticated investors who can fully appreciate the significance of the risks involved.

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 could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the ongoing European sovereign debt crisis or the recent political turmoil in Europe, the Middle East and Africa will not negatively affect the economic performance of, or investor confidence in, developing markets, including Romania.

Political and economic uncertainty

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 reliance on industrial sector exports and a current account imbalance, each of which may affect Romania's creditworthiness.

Against the backdrop of austerity measures taken by the Romanian Government in 2010-2011 to counter the effects of the global financial and economic crisis, daily street protests took place in Bucharest and in other important cities in January 2012.

Since the beginning of 2012, there have been three changes of government in Romania (see *"Description of Romania – Overview - Political System"*). Since May 2012 USL supported Governments led by Prime Minister Victor Ponta have governed Romania. During June 2012, a conflict arose between the President Traian Basescu and the Government regarding Romania's representative at a European Council summit. Political tension between the President and the new parliamentary majority led by USL escalated in July 2012, as a result of the USL-led parliamentary majority replacing several dignitaries in key public functions, such as the presidents of the Parliament's Chambers and the Ombudsman. This was further exacerbated when the USL-led Government reviewed, by means of emergency government ordinances, the existing legal framework covering presidential impeachment referendums specifically to enable impeachment with a simple majority of voters. In connection with this, the USL-led Government also revised the powers of the Constitutional Court in matters concerning the impeachment of the President by the Parliament. These actions culminated in the impeachment of President Basescu by the Romanian Parliament on 6 July 2012, which was subject to a popular referendum that took place on 29 July 2012. However, the referendum was subsequently declared invalid due to a failure to attain the legal quorum. President Basescu resumed his functions on 28 August 2012.

Parliamentary elections took place on 9 December 2012 and USL won the majority of seats in the Parliament and proposed that Victor Ponta be nominated as Prime Minister. President Basescu approved the nomination and, on 21 December 2012, the Parliament approved the new government led by Prime Minister Ponta. The Ponta Government has the support of a strong USL majority of over 67% in the Romanian Parliament (see *"Description of Romania —Overview—Political System—Political and economic uncertainty"*).

There can be no assurance that the new government will continue the former Governments' strategy for addressing structural weaknesses in the Romanian economy. Even if such strategy continues, the reforms and the ongoing adjustment and fiscal consolidation measures that the Romanian authorities have undertaken in connection with financing agreements with the IMF and the European Commission (the "**EC**") could result in increased social pressures or an erosion of political support, making further reforms more difficult. Also, there can be no assurance that the current governing coalition will continue in its existing form. Political differences may arise between the constituent parties, which may result in further domestic political turmoil and social disruption.

Risks relating to global events

Since mid-2007 and continuing into 2009, the global economy experienced a significant downturn, the effects of which are ongoing. In response to this global financial crisis, governments in the United States, Europe and elsewhere have implemented (and continue to implement) significant economic stimulus packages, which have included, amongst other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee and purchase of certain forms of bank debt, purchase of distressed assets from banks and other financial institutions by the state, the purchase of sovereign debt by central banks, and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. Despite these actions, the volatility and market disruption in the global banking and other economic sectors have continued to a degree unprecedented in recent history.

Romania has recently 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. For example, gross domestic product ("**GDP**") declined by 1.1 per cent. in 2010 as compared to 2009 and 6.6 per cent. in 2009 as compared to 2008, before increasing by 2.2 per cent. in 2011 as compared to 2010 and by 0.2 per cent. in the first nine months of 2012 as compared to the same period of 2011. Due to these and other pressures resulting from the global economic crisis, Romania recorded (cash) budget deficits of 6.4 per cent. and 4.4 per cent. of GDP in 2010 and 2011, and 2.5 per cent. of GDP as at 31 December 2012, respectively (see *"Description of Romania—The Romanian Economy"* and *"Description of Romania —Public Finance—The general Consolidated Budget"*).

In 2010, a sovereign financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these states to continue to service their sovereign debt obligations. These concerns impacted financial markets and resulted in high and volatile bond yields on the sovereign debt of many EU nations. Despite the creation of a joint EU-IMF European Financial Stability Facility in May 2010, assistance packages to Greece, Ireland and Portugal, and announced plans in the summer of 2011 to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programmes and worries about sovereign finances persisted and, notwithstanding increased purchases of sovereign bonds by the European Central Bank and measures taken by other central banks to enhance global liquidity, ultimately spread from "peripheral" to "core" EU member states during the latter part of 2011. In December 2011, European leaders agreed to implement steps (and continue to meet regularly to review, amend and supplement such steps) to encourage greater long term fiscal responsibility on the part of the individual member states and bolster market confidence in the Euro and European sovereign debt. However, such proposed steps are subject to final agreement (and in some cases, ratification and/or other approvals) by the EU member states that are party to such arrangements and thus the implementation of such steps in their currently-contemplated form remains uncertain. Even if such steps are implemented, there is no guarantee that they will ultimately and finally resolve uncertainties regarding the ability of Eurozone states to continue to service their sovereign debt obligations. Further, even if such long term structural adjustments are ultimately implemented, the future of the Euro in its current form, and with its current membership, remains uncertain.

Ongoing concerns about the debt crisis in Europe, as well as the possible default by, or exit from the Eurozone of, one or more European states and/or the replacement of the Euro by one or more successor currencies, could have a detrimental impact on the global economic recovery and sovereign debt of European countries. Market and economic disruptions stemming from the 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 the 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.

The current economic crisis in the Eurozone could affect Romania's trade balance, which is heavily reliant upon intra-EU trade. In the first eleven months of 2012, 70.5 per cent. of Romania's (FOB) exports and 74.3 per cent. of Romania's (FOB) imports were attributable to intra-EU trade, Romania's main EU trade partners being Germany, Italy, France and Hungary (see *"Description of Romania—Foreign Trade and Balance of Payments"*). Therefore, a decline in trading activities within the EU as a result of the Eurozone crisis could adversely affect Romania's trade balance and negatively affect its economy. Concerns regarding the Eurozone crisis have also led to significant increases in secondary market yields for sovereign debt of both directly and indirectly affected countries in 2010 and 2011. This uncertainty has also led to general market volatility, reduced sovereign credit ratings in certain instances, and significant exchange rate volatility.

There can be no assurance that economic events at the global level or in countries with which Romania has a trading or investment relationship will not adversely affect Romania's economy and its ability to raise capital in the international debt markets in the future.

Prospective investors should ensure that they have sufficient knowledge and awareness of the global financial crisis, the Eurozone crisis and the economic situation and outlook in Romania as they consider necessary to enable them to make their own evaluation of the risks and merits of an investment in the Notes. In particular, prospective investors should take into account the current uncertainty as to how the global financial crisis, the Eurozone crisis and the wider economic situation will develop over time and how they will affect the Romanian economy.

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, 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 is 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. A depreciation in the exchange rate of Leu against the euro has contributed to the deterioration in the quality of credit portfolios in the banking system, as it became more expensive for Romanian borrowers with domestic currency denominated incomes to acquire foreign-currency denominated loans. Some of the borrowers of euro denominated loans have experienced difficulties servicing their loans.

Although recent monthly figures show that the promotion of foreign-currency denominated loans has been in decline in recent months, there can be no assurance that the measures which the National Bank of Romania ("**NBR**") has implemented to rebalance the currency composition of new loans in favour of Leu denominated loans, including tighter rules on foreign-currency lending by Romanian banks, will yield the expected results in stemming the growth of foreign-currency denominated loans. The growth of non-performing foreign-currency loans could, in turn, contribute to a worsening of banks' asset quality (non-performing loans ratio reached 18.2 per cent. in December 2012 as compared to 14.3 per cent. at the end of 2011 and 11.9 per cent. at the end of 2010) and may contribute to a decision by banks to exercise even more prudence in lending to domestic businesses. The faster pace of increase in 2012 reflects adjustments related to the implementation of International Financial Reporting Standards ("**IFRS**") in January 2012 (balance sheet recognition of non-performing claims previously recorded in off-balance sheet accounts), the revaluation of the quality of previously-restructured loans, and the constraints on customers' financial standing. 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 continues to outpace that related to Leu denominated lending (see "*Description of Romania—Monetary and 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 poses a challenge to financial stability in Romania. The world economy could be affected by a slower growth rate in developed economies in particular. Moreover, the fallout from the sovereign debt crisis via contagion in some countries in the EU and in the United States, along with the lingering vulnerabilities in certain banking sectors in Europe, may harm the 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 (37.69 per cent. of the total net assets of credit institutions in Romania), French (13.64 per cent.) and Greek (12.21 per cent.) banks (see "*Description of Romania—Monetary and Financial System—Banking System—General*"). As at 31 December 2012, foreign banks owned approximately 81.7 per cent. of banks' 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 ongoing 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 a weaker than expected economic performance. This may lead to, among other things, depleted capital in the event of increased economic stress and Leu depreciation. Resulting balance sheet mismatches may negatively affect the Romanian economy and, as a result, have an adverse effect on Romania's capacity to repay principal and make payments of interest on the Notes.

So far, the risks related to the deleveraging plan of Eurozone banks have not been significant: (i) the dynamics of non-government credit initially registered low positive figures, but, since September 2012, such figures have been negative, and (ii) the net asset sales show the same features as in the previous years and are aimed at improving banks' portfolio quality. Moreover, the adverse effects of the deleveraging process announced by large European banking groups have not significantly impacted Romania 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 investments. Parent banks have, to date, continued to provide capital to support their subsidiaries in the local market, and capital contributions were made by shareholders without recourse to public funds. Furthermore, the European Bank Coordination "Vienna Initiative 2.0" was launched in January 2012, with coordination by the EBRD, EIB, European Commission, IMF, and the World Bank, with the aim of 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, Government Ordinance 1/2012 amending and supplementing several pieces of legislation on credit institutions has also been adopted in order to set up a "bridge bank" to temporarily take over the operations of distressed banks which pose a threat to financial stability in Romania. Other backstop measures have also been made available, mainly consisting of private sector solutions (including purchases and assumptions by healthy banks of loan portfolios and/or deposit portfolios of troubled banks). 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 BB+ by S&P, Baa3 by Moody's and BBB-/BBB by Fitch (see "*Description of Romania—Public Finance—Public Debt—Credit Ratings*"). There can be no guarantee that Romania will not experience credit downgrades. A deterioration in key economic indicators 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 affect payment of principal and interest 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.

The 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.

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 undertaken a development project using PPPs. Several attempts have been made in Romania in the past to launch PPP projects, but the attempts have failed during contract negotiation, due to the lack of a proven legal framework governing this field, the lack of experience of the public authorities that initiate PPP projects, and the difficulty of completing PPP projects.

There can be no guarantees that infrastructure projects will be financed or constructed 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

The IMF noted in their October 2012 Country Report that structural reforms, including the state-owned enterprises corporate governance reform and the privatisation agenda, continue to experience significant delays. Given that state-owned enterprises account for over half of the activity in the energy sector and about a third in the transportation and storage sectors, the slow progress in restructuring inefficient state-owned enterprises severely hampers investment and growth. In particular, the Country Report outlined that inefficiencies in state-owned enterprises lead to poor operating performance, arrears, and less resources for investment, while losses and arrears in state-owned enterprises drain public finances and constrain the government’s fiscal policy flexibility. According to the statement of the IMF and the EC on the review of Romania's economic programme, which was released on 29 January 2013, corrective actions are necessary to achieve the objectives of Romania's public enterprise reform programme. The statement also indicated that the Romanian authorities expressed their commitment to resume work on public enterprise reform.

Structural reforms are expected to continue, although the risk of delays and setbacks, particularly of a political nature, is high. This could 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.

Balance of Payments

Romania's trade deficit reached 5.6 per cent. of GDP in 2011 and 5.8 per cent. in the first three quarters of 2012. Exports are still substantially dependent on imported inputs. Compared to the EU average, Romania's exports still exhibit a sub-optimal structure in terms of value added and are still constrained by poor infrastructure. Romania's export market share, albeit rising after EU accession, has remained relatively low. Its rise has relied almost entirely on price competitiveness, whereas non-price competitiveness recorded modest headway.

The current account deficit fell in 2009, reaching 4.2 per cent. from 11.6 per cent. of GDP in 2008. It remained low at 4.4 per cent. of GDP in 2010, 4.5 per cent. in 2011 and 4.2 per cent. (provisional data) in the first three quarters of 2012, but slow economic recovery may result in widening of this deficit. In addition, approximately 70 per cent. of Romania's exports are made within the EU. A slow economic recovery of EU member states may negatively impact Romania's exports and thus the trade deficit, as well as having a negative impact on the amount of foreign investment into Romania.

Exchange Rates and Inflation

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; 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 the wake of the global economic crisis. In December 2009, against the same period of the previous year, the RON depreciated on average against the euro by 7.3 per cent. in nominal terms and by 2.9 per cent. in real terms. Against the U.S. dollar the RON appreciated by 0.3 per cent. in nominal terms and by 5.0 per cent. in real terms. During 2010, the RON depreciated against the euro by 1.6 per cent. in nominal terms, which corresponds to an appreciation in real terms of 6.3 per cent., and against the U.S. dollar, it depreciated by 10.7 per cent., which corresponds to a depreciation of 3.6 per cent. in real terms. In 2011, the RON depreciated against the euro by 0.8 per cent. in nominal terms, while in real terms it appreciated by 2.3 per cent., and the RON depreciated against the U.S. dollar in nominal terms by 1.3 per cent., while in real terms it appreciated by 1.8 per cent. In December 2012 as compared to December 2011, the RON depreciated in nominal terms by 3.6 per cent. against the euro (which corresponds to an appreciation of 1.1 per cent. in real terms) and by 4.0 per cent against the U.S. dollar (which corresponds to an appreciation of 0.7 per cent. in real terms). 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). (see "*Description of Romania—Monetary and Financial System—Exchange Rate Policy*"). Any further deterioration of global economic prospects may lead to further depreciation of the RON. A significant depreciation of the RON could adversely affect the country's economic and financial condition.

In August 2005, the NBR adopted inflation targeting as the monetary policy strategy. As a result of macroeconomic policy measures, structural factors and certain incidental effects, disinflation continued until the second half of 2007 when a trend reversal occurred. At the end of 2007 the rate of inflation reached 6.57 per cent. (exceeding the target set at 4.00 per cent. ±1 percentage point). The annual inflation rate was 6.30 per cent. in December 2008 (in excess of the 2008 target of 3.80 per cent. ±1 percentage point). As at the end of 2009, annual consumer price index inflation stood at 4.74 per cent. (compared to a target rate of 3.50 per cent. ±1 percentage point). At the end of 2010 the annual consumer price index inflation was 7.96 per cent. (compared to a target rate of 3.50 per cent. ±1 percentage point). The annual CPI inflation rate fell from 3.14 at the end of 2011 to the lowest ever recorded level of 1.80 per cent. in April and May 2012 and subsequently rose to 4.95 per cent. in December 2012 on the back of a severe contraction of domestic agricultural output (coupled with tensions on the international markets for agricultural commodities) and of unfavourable statistical base effects.

According to the NBR's February 2013 Inflation report, the annual CPI inflation rate at the end of 2013 is projected to stand at 3.5 per cent., at the upper bound of the ± 1 percentage point variation band around the 2.5 per cent. central target due to several supply-side shocks in recent periods gradually dissipating. The annual CPI inflation is projected to follow a temporary upward trend until the second half of 2013, while resuming the disinflationary trend thereafter.

The assessment of the risks to the current inflation rate projection reveals a balance still tilted to the upside, but slightly less asymmetric as compared with the assessment presented in the NBR's November 2012 Inflation Report.

At the current juncture, the most relevant risk is related to the external environment and derives from possibly higher medium-term volatility of capital flows, amid the lingering uncertainties on the time span of the recovery process of the EU economy, and of the euro area in particular. Domestically, higher-than-projected administered price adjustment and potential slippages from the firm implementation of the macroeconomic policy mix and the structural reforms agreed with the international institutions (the EU, the IMF and the World Bank) might trigger a deterioration of investor sentiment towards the Romanian economy, which could heighten the volatility and costs of its financing sources.

Future financing from international organizations such as the IMF could require implementation of certain measures, including more stringent austerity measures

In 2009, Romania entered into loan agreements with the IMF, the World Bank and the EU for financial support during the global economic downturn. As a condition to these loans, it has agreed to implement severe austerity measures on Romania's public finances, including raising sales taxes and reducing public sector wages (see "*Description of Romania—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—External Financing Programmes*").

In 2011, Romania entered into precautionary agreements with the IMF and the EU. These agreements make medium-term financial assistance arrangements available to Romania in case of an emergency financial situation and signal the international community's continued support for the policies and measures currently under implementation. To date, no funds have been drawn under the precautionary agreements (see "*Description of Romania – Public Finance – Public Debt – Public Debt Instruments and External Financing Programmes*").

In addition to the support extended by the IMF and EU under the precautionary package, Romania negotiated with the World Bank in June 2012 a EUR 1 billion development policy loan with a deferred drawdown option ("**DPL-DDO**"). The programme monitored under this agreement focuses on the elements of the reform programme already agreed with the IMF and EC but gives a particular emphasis to three main areas. These are: (i) increasing budget revenues through improved tax compliance and fiscal discipline; (ii) improving the governance of state owned enterprises in the energy sector to enhance their efficiency and contribution to the budget; and (iii) enhancing fiscal sustainability and improving service in the health sector through the optimisation of public health services (see "*Description of Romania—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—World Bank*").

Romania has implemented all structural reforms agreed under the 2009-2011 financial support package and does not expect that it will be required to adopt any further structural reforms in relation to the above-mentioned precautionary agreements. The precautionary agreements do, however, set certain macroeconomic targets as conditions to be met to permit drawings. These macroeconomic targets set under the precautionary agreements can change over time through the IMF's and EC's ongoing monitoring and consultation process.

Teams from the IMF and the EC visited Bucharest from 15–29 January 2013 to conduct discussions on the IMF's eighth and final review and the EC's last review of Romania's economic programme. According to the statement of the IMF and the EC on the review of Romania's economic programme, an agreement was reached during the discussions on the corrective actions that are needed to achieve the objectives of the economic programme (most notably with respect to the reduction of government payment arrears and public enterprise reform) and on the 2013 draft budget. The IMF and EC precautionary programmes are currently set to expire in March 2013. In view of the time needed to take these measures and complete the reviews successfully, the Romanian authorities will seek an extension of their precautionary programme with the IMF until June 2013. This should also facilitate the completion of the last review by the EU (see "*Description of Romania—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—Stand-by Agreement*").

If the macroeconomic targets under the precautionary agreements concluded with the IMF or EU become tighter following future negotiations, or if Romania not only needs to draw upon the two agreements but also to seek further financing from supra- or international organisations, the availability of such financing might require Romania to implement further measures that could hamper economic growth and, if indirect taxes are increased again, result in significant inflation. There can be no guarantee that the IMF, the EC or other supra- or international organisations will make further similar financing programmes available to Romania in the future.

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

Historically, Romania has had a low absorption rate on programmes financed from EU post- accession funds, in particular from EU Structural and Cohesion Funds (European Regional Development Fund, Cohesion Fund, European Social Fund). As at 31 December 2012, Romania's absorption rate (the level of actual reimbursements by the EC as a percentage of the total amount of Structural and Cohesion Funds available to it) was 11.47 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—Post-accession Funds—Structural and Cohesion Funds—Allocations and Absorption of the EU Structural and Cohesion Funds as at 31 December 2012*"). The low absorption rates are due to a variety of issues (see "*Description of Romania—Membership of the European Union—EU Funding—Post-accession Funds–Structural and Cohesion Funds—Low absorption rates and ameliorative measures*").

The use of Structural and Cohesion Funds is also subject to a decommitment rule. Based on initial estimations of the Romanian authorities and of the European Commission, in 2012, Romania lost approximately EUR 190 million from the funds allocated to the operational programmes for environment, transport and competitiveness as a result of automatic decommitment. In 2013, EUR 6.5 billion of EU funds are at risk of being decommitted unless payment requests covering this amount are submitted to the EC (see "*Description of Romania—Membership of the European Union—EU Funding—Post-accession Funds–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 pre-suspended, and financial corrections were applied in respect of the expenditures under certain operational programmes (see "*Description of Romania—Membership of the European Union—EU Funding—Post-accession Funds–Structural and Cohesion Funds—Pre-suspension of payments and financial corrections under certain operational programmes*"). The EU funds allocated to the operational programmes subject to pre-suspension measures amount to a total of EUR 3.66 billion. If the Romanian authorities fail to implement the necessary measures to lift the pre-suspension of these operational programmes by the end of 2013, Romania will not be able to submit payment claims to the EC in respect of these operational programmes, and the amounts allocated under these operational programmes will be decommitted and permanently lost.

Furthermore, funding in respect of the 2014-2020 programming period, is currently still under negotiation with the EU. (see "*Description of Romania—Membership of the European Union—EU Funding—Post-accession Funds—Structural and Cohesion Funds—Funds under the 2014-2020 programming period*"). There is no guarantee that EU funds available to Romania in the 2014-2020 programming period will not be less than that allocated in the 2007-2013 programming period.

Against this backdrop, there can be no assurance that Romania will succeed in increasing its absorption rate of the EU post- accession funds. To the extent that Romania fails to maximise its use of EU funds or if there is a decrease in the amount of funding available to Romania, it will face an increased need to fund projects out of state revenue that could otherwise be deployed elsewhere. The loss of potential EU funding would have a negative impact on Romania's budget. Failure to maximise 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 the Government’s ability to repay the Notes.

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

Although progress was made recently in the field of money laundering by the passing of important laws 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 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 the 2012 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 178 (most corrupt), Romania was ranked 66th.

In its twelfth report under the Cooperation and Verification Mechanism with Romania, published on 30 January 2013, the EC noted in particular the advances made by the National Anti-corruption Directorate, Public Ministry and High Court of Cassation and Justice against high-level corruption and the progress of the National Integrity Agency. The EC did, however, stress the need to accelerate progress on its recommendations concerning integrity, the fight against corruption at all levels of Romanian society, the prosecution of money laundering and confiscation and the prevention and sanctioning of corruption relating to public procurement (see "*Description of Romania—Overview—Judiciary*").

Any future allegations or evidence of corruption or money laundering in Romania may have a material adverse effect on the Romanian economy, in particular on Romania's ability to attract foreign investment, and thus could negatively affect Romania's ability to repay principal and make payments of interest on the Notes.

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 it 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.

Since 2005, Romania has produced data in accordance with the IMF's Special Data Dissemination Standard. Nevertheless, there can be no assurance that the various ministries have in all periods applied this IMF standard in a manner fully consistent with that utilised by the IMF itself or that utilised by other countries.

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. It is estimated that the shadow economy's share of GDP slightly increased from 20 per cent. in 2007 to 23 per cent. in 2011. 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 challenges relating to the Romanian judicial system could have a negative effect on the economy and therefore on the Notes

The court system in Romania is underfunded compared to more mature jurisdictions. As Romania is a civil law jurisdiction, judicial decisions under Romanian law generally have no precedential effect. For the same reason, courts are generally 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. Furthermore, to date only a relatively small number of judicial decisions have been publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Romanian legislation to the public at large is generally limited. The Romanian judicial system has gone through several reforms to modernise and strengthen the independence of the judiciary (see "*Description of Romania—Overview—Judiciary*"). However, these reforms may not go far enough to effectively tackle the problem of non-unified jurisprudence. The new procedure codes introduce a new mechanism for unifying jurisprudence, but effective measures to ensure their entry into force are still underway.

The EC's twelfth report under the Cooperation and Verification Mechanism with Romania, published on 30 January 2013, which assessed the progress made by Romania in the judicial reform and the fight against corruption, recognised the overall progress made by Romania in these areas since accession and noted the need to accelerate progress on its recommendations in these areas. The EC's assessment also shows that Romania has implemented several but not all of the Commission's recommendations which aim at restoring the rule of law and the independence of the judiciary and notes that much remains to be done to fully implement its recommendations in these areas.

The uncertainties of the Romanian judicial system could have a negative effect on the economy and therefore on the Notes.

A significant increase of Romania's debt level could make it difficult to refinance debt on favourable terms or at all

Romania's level of aggregate public indebtedness according to national legislation (including guarantees) increased to 41.2 per cent. of GDP (preliminary data) at the end of December 2012, compared to 40.1 per cent. of GDP at the end of December 2011, while according to EU methodology general government debt increased to 38.0 per cent. of GDP at the end of December 2012, compared to 34.7 per cent. of GDP at the end of December 2011. Compared with that of most other EU Member States, Romania's public debt is relatively modest in aggregate amount and as a percentage of GDP. However, there can be no assurance that Romania will be able to maintain its debt at current levels. A substantial increase in Romania's indebtedness as well as 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, if at all. This development could, in turn, jeopardise Romania's ability to repay debt.

The increased 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. This increase is primarily attributable to the high proportion of foreign currency denominated loans to the private sector (during the period from January 2007 to December 2012, on average, 58.8 per cent. of loans to the private sector were denominated in a foreign currency, with the majority of such loans denominated in euro) that was fuelled in the pre-crisis period by the increasing availability of financing from local Romanian operations of foreign banks. However, monthly figures show that the proportion of foreign currency-denominated loans has been in decline during recent months, due, *inter alia*, to the implementation of NBR Regulation No. 24/2011 on loans to households. Further measures to support this trend consist, among others, of the new 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. By contrast, with respect to banks' liabilities, the proportion of foreign currency denominated deposits, which also include remittances from persons working abroad, in total deposits has been much lower (during the period from January 2007 to December 2012, on average, 34.9 per cent. of deposits were denominated in a foreign currency). As the NBR's monetary policy primarily impacts the Leu and has limited impact on foreign currencies, including the euro, the further proliferation 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 (the **"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.

Approximately a quarter of Romania's natural gas consumption is dependent on imports from Russia and certain other countries.

Romania's consumption of natural gas is dependent on imports from Russia. Currently, Romania's gas production capacity provides only approximately 80 per cent. of its annual usage. In 2010, imports of natural gas (mainly from Russia) represented 16.9 per cent. of Romania's total natural gas consumption for that year, while for 2011 and the first eleven months of 2012 the share of imported natural gas (mainly from Russia) represented 22.1 per cent. and 21.1 per cent., respectively, of total natural gas consumption for that period.

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 line with its threats, the Russian company Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, due to a failure to agree terms regarding the supply of natural gas, which also led to a decrease in supplies of natural gas to Romania. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogaz and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom, on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe. Recently Gazprom issued a USD 7 billion invoice to Ukraine for failing to meet the import requirements stipulated in their 2009 contract and this could lead to a new gas dispute between Ukraine's Naftogaz and Gazprom.

Romania's energy security represents an essential element of its economic development and as such one of Romania's priorities is to diversify energy sources and supply routes and to limit its dependency on imports. To this end Romania promotes certain important investment projects in the energy sector (see also "*Description of Romania—The Romanian Economy—Restructuring and Investment*"). Any changes affecting the implementation of such projects, combined with any situations similar to that in January 2009 affecting supplies of natural gas from Russia to Romania may have negative effects 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 likely will 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 then 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 then 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:

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to authorise amendments to the conditions of the Notes so as to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Such amendments may include a reduction or cancellation of the principal or other amounts payable under the Notes, amendment of the Events of Default, status, currency or payment dates, maturity date, interest rate and other payment terms in respect of the Notes and the modification or cancellation of the Deed of Covenant.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error. Any such change in the terms and conditions of the Notes may adversely affect the trading price of the Notes. See "*Terms and Conditions of the Notes—Meetings of Noteholders; Written Resolutions; Modification*".

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, which could follow from, amongst others, the EU Savings Directive. See "*Taxation*" and the risk factor "*—EU Savings Directive*" 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.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate following the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding measures) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The EC has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

A claimant 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 hydroelectric potential, areas of national or local 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 Public Property Law No. 213/1998 as subsequently amended (e.g. 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 fulfill 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 the Lei (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.

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.

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 (the "**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, 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 resulting 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.

Credit ratings may not reflect all risks and may change; restrictions on European regulated investors using ratings for regulatory purposes

As of the date of this Information Memorandum, the Programme has been rated "Baa3" by Moody's, "BB+" for senior unsecured Notes with a maturity of one year or more and "B" for senior unsecured Notes with a maturity of less than one year by S&P and "BBB-" by Fitch. These ratings may not reflect the potential impact of all risks related to the Issuer or to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Certain information with respect to the credit rating agencies and ratings is set out in this Information Memorandum and 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.

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. Any adverse change in Romania's credit rating could adversely affect the trading price of the 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 (the "**Registration Document**") containing the necessary information relating to the Issuer, a securities note (the "**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 (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**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 a New Global Note 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 SA/NV ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**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 (the "**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.

Whilst 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 (the "**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 (the "**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 (the "**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.

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.

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).

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.

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.

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

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.

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:

(i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or

(ii) 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 cooperation with market participants and that Notes to be held under the New Safekeeping Structure would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the 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 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 Depositary Trust Company ("**DTC**") and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the "**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:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Note Certificate", then:

    (a) 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 depositary with respect to the Global Note Certificate or DTC ceases to be a "**clearing agency**" registered under the 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;

    (b) 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

    (c) 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*" below 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*" below.

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" below.

1. **Introduction**

(a) ***Programme***: Romania (the "**Issuer**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to EUR 7,000,000,000 in aggregate principal amount of notes (the "**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 (the "**Final Terms**") which supplements these terms and conditions (the "**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 11 November 2011 (the "**Agency Agreement**") between the Issuer, Société Générale Bank & Trust as fiscal agent (the "**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 (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), paying agent (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agent appointed from time to time in connection with the Notes) and transfer agent (the "**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 (the "**Couponholders**" and the "**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 (the "**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 the 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.

(a) ***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) 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 constitute direct, general and unconditional, unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

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 (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) 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;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) 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

(iv) 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; and

(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.

(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 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 20 (*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 (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph 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) *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 (the "**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 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Note Certificate or Coupon to another Paying Agent in a Member State of the European Union; or

(d) 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) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform with such directive; and

(c) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

(d) 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; Modification

(a) ***Convening Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it at any time upon the request in writing of holders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes.

(b) ***Quorum***: The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be:

(i) two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes; or

(ii) at any adjourned meeting, two or more persons being or representing Noteholders whatever their principal amount of the Notes held or represented;

provided, **however**, **that** a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all Noteholders and Couponholders, whether present or not.

(c) ***Reserved Matters***: In these Conditions, "**Reserved Matter**" means any proposal:

(i) 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;

(ii) to effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(iii) 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;

(iv) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, 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;

(v) to change this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";

(vi) to change or waive the provisions of the Notes set out in Condition 4 (*Status*);

(vii) 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*); or

(viii) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 24 (*Governing Law and Jurisdiction*).

(d) ***Modification***: The Notes and these Conditions may be amended without the consent of the Noteholders or the 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, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

(e) ***Written Resolution***: In addition, the Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding

Notes, in the case of a Reserved Matter, or 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them, and on all Couponholders.

18. **Noteholders' Committee**

(a) ***Appointment***: The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent) signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Noteholders if any of the following events has occurred:

(i) an Event 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; or

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise),

provided, **however**, **that** no such appointment shall be effective if the holders of more than 25 per cent. of the aggregate principal amount of the outstanding Notes have either (I) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (II) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 20 *(Notices)* as soon as practicable after the notice is 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, (v) determine whether or not there is an actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer and (vi) upon making a determination of the absence of any actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer, agree to transact business at a combined meeting of the committee and such other person or persons as may have been duly appointed as representatives of the holders of securities of each such other series. Except to the extent provided in this paragraph (b) (*Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise. The Issuer shall pay any fees and expenses which are reasonably incurred by any such committee or any such combined committee (including, without limitation, the costs of giving notices to Noteholders, fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

(c) ***Outstanding Notes***: For the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders, (ii) this Condition 18 and Schedule 5 to the Fiscal Agency Agreement, those Notes (if any) which are for the first time being held by any person (including, but not limited to the Issuer or any Agency (as defined below) of the Issuer for the benefit of the Issuer or any Agency shall (unless and until ceasing to be so held) be deemed not to remain outstanding. As used in this Condition, "**Agency**" means any administrative sub-division, local administrative authority, ministry, department, authority or statutory corporation of the Issuer and the government thereof (whether or not such corporation is autonomous).

19. **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 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.

20. **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 20(a).

21. **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 (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**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.

22. **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.

23. **Redenomination, Renominalisation and Reconventioning**

(a) ***Application***: This Condition 23 (*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 (the "**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 (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**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 23) 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 23, 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.

24. 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 24(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 24 (*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 and the legal regime thereof), 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.

25. 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(d), 24 (a), (b), (c), (d), (f) and (g) and 26.

26. Hardship

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 defenses 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 Nominal Amount of Tranche] [Title of Notes]

under the EUR 7,000,000,000

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 (the "**Conditions**") set forth set forth in the Information Memorandum dated [•] 2013 [and the supplemental Information Memorandum dated [*date*]] (the "**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 (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 (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 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 (the "**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:	[•] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*).]
3.	Specified Currency or Currencies:		[•] (*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.)
4.	Aggregate Nominal Amount:	[•]
	[(i)] [Series]:	[•]
	[(ii) Tranche:	[•]]
5.	Issue Price:	[•] per cent. of the Aggregate Nominal 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	[*Specify details of any provision for convertibility of Notes into another interest or redemption/*

	Basis:		*payment basis*]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	[(i)]	Status of the Notes:	[Senior/[Dated/Perpetual]/Subordinated]
	[(ii)]	[Date [Min Fin] approval for issuance of Notes obtained:	[•] [and [•], respectively (*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 calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
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:	[•]
(xi)	Margin(s):	[+/-] [•] per cent. per annum
(xii)	Minimum Rate of Interest:	[•] per cent. per annum
(xiii)	Maximum Rate of Interest:	[•] per cent. per annum
(xiv)	Day Count Fraction:	[•]
(xv)	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*)
	(i)	[Amortisation/Accrual] Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	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 variable:	[•]
	(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*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[•]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PRO VISIONS 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 Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(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*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of	[•] per Calculation Amount

		calculation of such amount(s):	
	(iii)	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]

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 [•] nominal amount)] registered in the name of a nominee for [DTC]]

[Unrestricted Global Note Certificate [(U.S.$/Euro [•] nominal amount)] registered in the name of a nominee for [DTC/a common depositary 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, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition 23 (*Redenomination, Renominalisation and Reconventioning*)] apply]

32.	Consolidation provisions:		[Not Applicable/The provisions [in Condition 19 (*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 addresses/*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 address/*give name and address*]
36.	Total commission and concession:		[•] per cent. of the Aggregate Nominal 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 7,000,000,000 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: "BB+" (for senior unsecured Notes with a maturity of one year or more) and "B" (for senior unsecured Notes with a maturity of less than one year)]

Moody's Investors Service, Inc.: "Baa3"

Fitch Ratings Limited*: "BBB-"

(*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 (the "**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 (the "**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 (the "**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 (the "**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]
		[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 intra day 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*]

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; and (b) 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 DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in such Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream, Luxembourg. 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 DTC or its nominee. 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 nominal 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 (the "**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 20 (*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 depositary or a common depositary 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 20 (*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*).

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 South East it borders the Black Sea. The country is one of the largest in the Central European region and covers an area of approximately 238,000 square kilometres.

According to the preliminary data of the census conducted between 20 and 31 October 2011, Romania has a population of approximately 19 million as opposed to approximately 21.68 million as was registered at the 2002 census.

Political System

Political and economic uncertainty

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 reliance on industrial sector exports and an imbalance of exports compared to imports, each of which may affect Romania's creditworthiness.

Against the backdrop of austerity measures taken by the Romanian Government in 2010-2011 to counter the effects of the global financial and economic crisis, daily street protests took place in the Romanian capital Bucharest and in other important cities in January 2012. These protests were not dissimilar to protests occurring in other EU countries that have undertaken structural reform programmes.

Since the beginning of 2012, the Democrat-Liberal Party ("**PD-L**") supported Governments (the first led by Prime Minister Emil Boc and the second by Prime Minister Mihai-Razvan Ungureanu) failed to preserve their consecutive mandates following pressure from a Parliament where the political majority switched from PD-L to the Victor Ponta and Crin Antonescu co-led Social-Liberal Union ("**USL**"). Since May 2012, USL supported Governments led by Prime Minister Victor Ponta have governed Romania.

During June 2012, a conflict arose between the President and the Government concerning Romania's representative at the European Council summit in Brussels on 28-29 June 2012. The Romanian Parliament, where the USL commanded the majority of votes, adopted a political declaration mandating Prime Minister Victor Ponta to represent Romania at the European Council summit, the Constitutional Court ruled that it is the President who must attend European Council meetings in his capacity as head of State. Despite the ruling of the Constitutional Court, Prime Minister Ponta attended the European Council summit on 28-29 June 2012.

Political tension between President Traian Basescu and the new parliamentary majority led by USL escalated in July 2012, when the USL-led parliamentary majority replaced several dignitaries in key public functions, such as the presidents of the Parliament's Chambers and the Ombudsman. This was further exacerbated when the USL-led Government revised, by means of emergency government ordinances, the existing legal framework covering referendums with a view to enabling the validation of presidential impeachment referendums if the majority of voters attending the referendum voted against the President, as opposed to the previous position that presidential impeachment referendum would only be validated if the majority of voters registered with the electoral lists voted against the President. In connection with this, the USL-led Government also amended the powers of the Constitutional Court in matters concerning the impeachment of the President by the Parliament. These actions culminated with the impeachment of President Basescu by the Romanian Parliament on 6 July 2012, which was subject to a popular referendum. This referendum took place on 29 July 2012, and a majority of voters approved the impeachment. However, the referendum was subsequently declared invalid due to a failure to attain the legal quorum.

President Basescu resumed his functions on 28 August 2012, taking the office from Crin Antonescu, who acted as interim president during the period of President Basescu's suspension.

After the parliamentary elections that took place on 9 December 2012, the USL won the majority of seats in the Parliament and proposed that Victor Ponta be nominated as Prime Minister. President Basescu approved the nomination and subsequently, on 21 December 2012, the Parliament approved the new Government led by Prime Minister Ponta.

Recent History and Constitution

Following the Second World War, Romania fell under the influence of the Soviet Union, and, from 1948 to 1989, Romania 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.

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, by universal suffrage, for a four-year term.

Elections are county-constituency based with one deputy per 70,000 citizens and one senator per 160,000 citizens.

On 22 November 2009, a referendum proposed by the President was held to consider re-organising the Parliament to have a unicameral structure and to decrease the total members of parliament to a maximum of 300. The referendum was proposed because it was thought that a unicameral Parliament, with fewer members, would better address Romania's needs in the following ways: (i) the decision-making process in the Romanian Parliament would be faster and more efficient; (ii) budgetary expenses would be decreased; and (iii) corruption among highly ranked Romanian officials would be decreased. The referendum was validated, with a majority of voters voting in favour of the amendments but this has not yet led to any change to the Romanian constitution or to the structure and composition of the Parliament of Romania.

The following main political parties have parliamentary representation:

- **Social Democratic Party** (*Partidul Social Democrat*) ("**PSD**"): Social democratic, centre-left party led by Victor Ponta, part of the Social-Liberal Union ("USL");
- **Conservative Party** (*Partidul Conservator*) ("**PC**"): Conservative party founded by the Romanian businessman Dan Voiculescu and currently led by Daniel Constantin, part of the USL;
- **National Liberal Party** (*Partidul National Liberal*) ("**PNL**"): Liberal, centre-right party led by Crin Antonescu, part of the USL;
- **Democratic Liberal Party** (*Partidul Democrat-Liberal*) ("**PD-L**"): Liberal conservative, centre-right party led by Vasile Blaga, part of the Right Romania Alliance ("**ARD**");
- **People's Party – Dan Diaconescu** (*Partidul Poporului – Dan Diaconescu*) ("**PP-DD**"): Populist party led by media businessman Dan Diaconescu; and
- **Hungarian Democratic Union of Romania** (*Uniunea Democrat Maghiara din Romania*) ("**UDMR**"): Centrist, Hungarian minority party, led by Kelemen Hunor.

The 2008 election result showed an almost equal distribution of votes between the PD-L and the political union at that time between PSD and PC. However, starting in 2009, when the global financial crisis started to unfold in Romania, a significant number of members of the political parties who obtained parliamentary seats in 2008 have migrated between political parties, resulting in changes to political majorities within the Parliament and leading to the current USL-led parliamentary majority. This shift in the parliamentary majority was confirmed by the elections that took place on 9 December 2012, when USL obtained 395 seats in the Romanian Parliament out of a total of 588.

The breakdown of seats in the Parliament obtained by the main political coalitions and parties as a result of the elections on 9 December 2012 is as follows:

Chamber of Deputies: USL – 273, ARD – 56, PP-DD – 47, UDMR – 18;

Senate: USL – 122, ARD – 24, PP-DD – 21, UDMR – 9.

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.

Traian Basescu, re-elected as President of Romania in 2009 for a second term with 50.33 per cent. of the vote, was suspended from his office on 6 July 2012 following an impeachment procedure carried out by the Parliament. After invalidation of the referendum called to vote on his removal from office, President Basescu resumed his functions on 28 August 2012.

During the period of suspension of President Basescu, the presidential functions were exercised by Mr. Crin Antonescu, Chairman of the Senate and USL co-leader.

Local Government

Local government is conducted at the level of the 42 counties (*judete*) including Bucharest, and at municipal level. County and municipal authorities are generally responsible for providing education, social services and basic utilities within their area.

Government

The Government exercises the executive power of the state. It comprises of 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 also subject to the approval of the President.

Romania was led by a coalition Government representing the PD-L and PSD and PC alliance after the 2008 parliamentary elections and until 1 October 2009, after which, the PSD and PC members of the Government resigned, leaving Romania with a minority government of the PD-L. This resulted in a vote of no confidence against the minority government of the PD-L in the Romanian Parliament. As a result, on 13 October 2009, the PD-L minority government was dismissed. Following new elections, a new minority government comprising members of the PD-L, the UDMR and independents was approved by the Parliament of Romania on 23 December 2009.

The PD-L-led Government ceased its mandate in early 2012, when Prime-Minister Emil Boc resigned. A subsequent PD-L supported Government was formed, led by Prime Minister Mihai-Razvan Ungureanu, and was further dismissed in April 2012 following a new vote of no confidence initiated by the USL. Subsequently, President Traian Basescu nominated Victor Ponta, co-leader of USL, as Prime Minister, who was subsequently approved to office by the Parliament.

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

Judiciary

General Structure of the Judiciary and Constitutional Court

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

The Constitutional Court determines matters of constitutional significance.

The Constitution forbids the establishment of extraordinary jurisdictions; courts of law may only be established by law. Courts specialised in certain matters may be established, although these must also be regulated by law.

Ensuring the Independence of the Judiciary and Constitutional Court

All judges are independent and only obey the law. They are appointed by the President on the proposal of the Superior Council of Magistracy ("**Superior Council**"), which acts as the guarantor of the independence of the Judiciary. The Superior Council has 19 members: nine judges, five prosecutors and two representatives from civil society. The other three members of the 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. These reforms have been largely based on the Strategies for Reforming of the Judiciary, the National Anticorruption Strategy and the National Strategy for Fighting Against Organised Crime, which were implemented between 2003 and 2009.

The EC periodically evaluates the Romanian judicial system against four benchmarks (the "**Benchmarks**") under the Cooperation and Verification Mechanism (the "**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.

In its report dated 18 July 2012 that included an overall assessment of progress in Romania under the CVM since accession in 2007 (the "**2012 EC Report**"), the EC recognised the progress achieved by Romania under the CVM. The 2012 EC Report however raised serious concerns about the respect for the rule of law and the independence of the judiciary and made a number of recommendations. On 30 January 2013, the EC presented a subsequent report (the "**2013 EC Report**") to assess how its recommendations had been followed up.

The assessment under the 2013 EC Report determined that Romania had implemented several but not all of the recommendations aiming at restoring rule of law and the independence of the judiciary. The report noted that while the Constitution and the Constitutional Court's role and decisions have been respected, commitments regarding the independence of the judiciary and regarding the response to integrity rulings have not been adequately implemented. At the same time, the appointment of a new leadership for the prosecution and for the National Anticorruption Directorate (the "**DNA**") is still outstanding.

The EC welcomed the positive steps taken since July 2012, but explained that much remained to be done to fully implement its recommendations. The EC considered that a new Government and Parliament offered an excellent opportunity to consolidate these steps and address the outstanding points and concluded that a series of measures should be further implemented, including:

- introducing a clear framework of requirements to refrain from discrediting judicial decisions and undermining or putting pressure on magistrates, and ensuring effective enforcement of these requirements;

- reviewing existing standards to safeguard a free and pluralist media while ensuring effective redress against violation of individuals' fundamental rights and against undue pressure or intimidation from the media against the judiciary and anti-corruption institutions;

- ensuring that the new leadership in the prosecution and the DNA would enjoy public confidence and demonstrate the independence, integrity and professionalism needed to deliver effective results in fighting corruption;

- ensuring that the new Ombudsman shows uncontested authority, integrity, and independence, as well as a non-partisan approach;

- taking the necessary steps to ensure that Ministers subject to integrity rulings step down and ensuring swift application of the Constitutional rules on suspension of Ministers upon indictment.

First Benchmark

The Romanian authorities have undertaken a comprehensive legislative reform that consists of the adoption in 2009 and 2010 of four new judicial codes (the Civil Code, the Criminal Code, the Civil Procedure Code and the Criminal Procedure Code), which are to serve as the foundation for Romania's judicial process. The Civil and Criminal Codes bring a series of important changes in substantive rules governing civil relations and criminal matters, while the procedural codes aim to make court procedures more efficient, thus responding to the need to shorten the duration of the trials and to introduce flexibility, predictability, transparency and consistency in the judicial process.

The new Civil Code and its implementation law entered into force on 1 October 2011. The new Civil Code represents a significant step in the judicial reform process. The application of its provisions is expected to render the judicial process more efficient and to further contribute to the administration of the judicial process on the basis of modern principles, in line with EU developments in this area.

On the basis of the impact studies finalised in November 2011 and on the basis of the Ministry of Justice's and the Judiciary's analysis, the entry into force of the other three Codes will follow. The Civil Procedure Code was supposed to enter into force by 1 February 2013, but this deadline was extended by two weeks. The Criminal Code and Criminal Procedure Code are expected to come into force on 1 February 2014. The 2013 EC Report notes that more clarity is needed on how to avoid these dates slipping still further.

Measures are currently underway to prepare the judicial system for the entry into force of the new Codes.

As the EC stated in the 2012 EC Report, the legislative framework for the judicial system has been reformed. When all new Codes will have been brought into force, Romania will have overhauled its criminal and civil legislation. In the interim, Law no. 202/2010 (the "**Small Reform Law**") was put in place as a pragmatic step to address shortcomings. Other laws have also put in place important steps aimed at securing higher accountability and integrity for the judiciary.

At the end of 2011, Romania strengthened the legal basis for judicial accountability. Parliament passed amendments introducing new disciplinary offences and strengthening existing sanctions; they extended the role of the Minister of Justice and of the General Prosecutor in the course of disciplinary proceedings and increased the independence of the Judicial Inspection.

A project in partnership with the World Bank is currently under way with a view to comprehensively and independently evaluate the efficiency of the Romanian judicial system.

Significant progress has also been made in other areas in order to increase the efficiency of the courts and the caseload capacities within the judicial system including: closing up the small courts and prosecutors´ offices; strengthening the accountability of magistrates; and improving the transparency and objectivity of the procedure for promotion to the HCCJ.

On 4 December 2012, the Romanian Government also approved several amendments to the promotion procedure to the HCCJ. The amendments are aimed at shortening the procedure and reducing the costs thereof, while preserving the guarantees for a transparent procedure based on objective selection criteria.

The 2013 EC Report acknowledges the steps that had been taken to reduce the overall workload pressures on the Romanian judicial system, to ensure the accountability of the judicial system and the consistency and transparency of the judicial process. The report also recognises that since the 2012 EC Report, the Public Ministry, the Directorate-General for Anticorruption and the HCCJ have continued to work professionally and impartially, sometimes under extreme pressure and that the resilience of these institutions reinforced the conclusion that their track record on tackling high level corruption is one of the most significant signs of progress achieved by Romania under the CVM.

Second Benchmark

According to the requirement deriving from this Benchmark, Romania established the National Integrity Agency ("**ANI**"), an independent, operational institution, competent to control and verify the wealth, conflicts of interest and incompatibilities within the judiciary, which has been operational since the end of 2007. Romania was the first EU country to create such a specialized institution.

Under the law, all state dignitaries, civil servants in public institutions at local or central level, persons having management positions in the public education system and in the public health system and other specific persons have an obligation to complete annual public declarations of revenues and interests. ANI evaluates these declarations and refers matters regarding potential cases of conflicts of interests, incompatibilities and unjustified wealth to the competent authorities.

ANI's work has received positive feedback in the EC's reports since 2009, including in the 2013 EC Report. However, the EC maintained its concern that ANI's decisions were frequently challenged. Together with the frequent attempts to amend ANI's legal framework, this created an uncertainty which hindered Romania's ability to show that a robust integrity framework was in place.

Third Benchmark

The DNA is a specialised, independent structure, functioning within the General Prosecutors' Office, which investigates high level corruption cases.

Several procedural aspects have been improved in order to increase the efficiency of trials in high-level corruption cases. These include the repeal of several provisions, such as the de jure suspension of trials when objections of unconstitutionality are raised and the possibility of suspending criminal trials by raising the illegality exception. As a consequence, none of the high level corruption cases pending before the Criminal Section of the HCCJ have been suspended on such grounds since the reforms became effective. Furthermore, in order to accelerate the high-level corruption cases, the new leadership of the HCCJ promoted best practice through a more efficient and rigorous management of trials. These measures led to a number of first instance decisions in important cases from late 2011, as well as the first final corruption convictions with imprisonment pronounced against a former Prime Minister, a former Minister and against a current member of the Parliament. In the 2012 CVM Report, the HCCJ is positively highlighted for speeding up procedures and imposing dissuasive sanctions.

The DNA's track record has been consistently positive since 2008 and this is acknowledged in the EC's CVM reports, including the latest report in January 2013. DNA statistics show that during the last 5 years over 90 per cent. of its indictments have lead to convictions and that 90 per cent. of all investigations were finalised in less than one and a half years. There has been a substantial increase in the number of corruption cases resolved in the Romanian courts in 2011 and 2012 in comparison with 2010 and 2009. The number of final convictions issued based on the prosecutions launched by DNA doubled in 2012 compared to the previous year.

In the 2013 EC Report, the EC maintained its recommendations from the previous report, *inter alia*, that Romania demonstrate improved results in the prevention and sanctioning of corruption, fraud and conflicts of interest in public procurement across all sectors of government activity.

Fourth Benchmark

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 new strategy implements the relevant recommendations set out by the EC in the previous CVM reports and includes the areas identified as EU level priorities in the EU's Anticorruption Communication (launched in June 2011), including: the recovery of crime-related proceeds; the protection of whistleblowers; public procurement; the prevention of corruption in the political sector; and the protection of EU financial interests. This new strategy also prepares for the fourth round of evaluations by the Council of Europe's Group of States against Corruption concerning the prevention of corruption amongst members of Parliament, judges and prosecutors.

The new Government adopted the NAS on 23 May 2012 and on 12 June 2012 the Romanian Parliament unanimously endorsed the NAS by political declaration. This declaration included explicit support for maintaining the stability of the legislative and institutional anticorruption framework and for the fulfilment of all CVM Benchmarks.

The 2012 EC Report welcomed the NAS, and the latest 2013 EC Report acknowledged the progress of its implementation.

The 2013 EC Report concluded in its recommendations on the reform of the judiciary, integrity and the fight against corruption that there is a need to accelerate this progress. The EC will monitor progress while maintaining dialogue with the Romanian authorities, and will report at the end of 2013 on the reform process.

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) Ioan Micula, Viorel Micula and others v. Romania (ICSID Case No. ARB/05/20); (ii) The Rompetrol Group N.V. v. Romania (ICSID Case No. ARB/06/3); (iii) Mr. Hassan Awdi, Enterprise Business Consultants, Inc. and Alfa El Corporation v. Romania (ICSID Case No. ARB/10/13); (iv) Ömer Dede and Serdar Elhüseyni v. Romania and AVAS Privatization Agency of the Government of Romania (ICSID Case No. ARB/10/22); and (v) Marco Gavazzi and Stefano Gavazzi v. Romania and AVAS (ICSID Case No. ARB/12/25).

International Relations

Romania maintains diplomatic relations with 184 UN member states, plus the Holy See, Palestine and the Sovereign Military Order of Malta. It has a broad foreign representation network – 100 diplomatic missions abroad (bilateral and multilateral), 37 general consulates, 4 consulates, 1 vice-consulate, and 18 Romanian Cultural Institutes, as well as a substantial network of honorary consulates (over 160).

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 (the "**OECD**") with a view to promoting its candidacy for membership.

Romania is actively engaged in promoting stronger NATO-EU cooperation and the consolidation of the Transatlantic partnership, by: (a) helping to ensure the success of Allied military missions; (b) developing a NATO anti-missile system; (c) defining NATO's role in energy security; and (d) combating new threats. Adopting the Joint Declaration on Strategic Partnership for the 21st Century between the United States of America and Romania and the Agreement on the Deployment of the U.S. Ballistic Missile Defense System in Romania marked a new stage in the development of the bilateral partnership with the USA. The decision to operationalise the interim capability of NATO in missile defence, adopted at the Chicago Summit has developed Romania's role within NATO.

In addition to the strategic partnership with the USA, Romania cooperates similarly with France, Italy, the United Kingdom, Poland, Hungary, Turkey, the Republic of Korea and Azerbaijan; it has enhanced relations with Germany and Austria (especially in the economic and financial field), Spain (where a sizeable Romanian community resides), 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 cooperation with all its, and the EU's, neighbouring states. (For details regarding relations with the EU, see "*—Membership of the European Union*").

Strengthening the special partnership with the Republic of Moldova is a priority of Romanian diplomacy, within the wider Eastern foreign policy agenda. Overall, Romania is actively engaged in strengthening regional stability, either by promoting the interest of the countries that have stated their interest in joining the EU, or by establishing a dialogue based on European principles, on a constructive, modern and balanced basis, with the aim of a pragmatic, predictable, and forward-looking collaboration. Romania is actively promoting a comprehensive and integrated EU approach to the Black Sea area, through advances in sector domains such as maritime security, fisheries, energy, transport and environmental protection.

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 (the "**EBRD**"), the

European Investment Bank (the "**EIB**"), the Council of Europe Development Bank (the "**CEB**"), the Japanese Bank for International Cooperation (the "**JBIC**") and the Black Sea Trade and Development Bank (the "**BSTDB**").

At the end of August 2012, the aggregate outstanding value of the public portfolios of the World Bank, EIB, EBRD, CEB and JBIC in Romania was EUR 7,203 million, consisting of sovereign loans and guarantees mainly for the financing of public projects in the infrastructure and social sectors. As at January 2013, the EIB, the International Finance Corporation (the "**IFC**") and EBRD's aggregate contributions to private sector financing have amounted to approximately EUR 660 million, representing 18 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 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. In 2012, the EBRD signed 26 projects in Romania worth over EUR 600 million, mostly in the private sector. In addition the EBRD syndicated approximately EUR 200 million and mobilised over EUR 1 billion of financing. Investments with a sustainable energy component amounted to EUR 136 million, including equity in a local energy services company, municipal projects co-financing EU funds, renewable (wind farms) energy investment projects, sustainable energy dedicated lines of credit with local banks for both Small and Medium Enterprises ("**SMEs**") and municipalities and support for settlement of arrears to electricity suppliers.

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 approximately 23 projects in Romania (out of which only one had a state guarantee), amounting to approximately EUR 194 million, the outstanding amount as of end November 2012 being approximately EUR 52.2 million.

MEMBERSHIP OF THE EUROPEAN UNION

Overview

On 1 January 2007, Romania joined the EU. According to the EU Treaties, Romania has 14 votes in the Council of the European Union, which ranks Romania amongst the Member States with medium voting power. The Romanian member of the College of Commissioners in the EU holds the Agriculture and Rural Development portfolio (for the period 2010–2014). Romania is also involved in the activity of a number of European consultative bodies, with 15 representatives in the Economic and Social Committee and 15 representatives in the Committee of the Regions. Romania is actively represented in the recently established European External Action Service ("**EEAS**"), where three Romanian nationals were appointed to management positions.

Following the European Parliament elections of 2009, Romania holds 33 out of the total of 754 parliamentary seats in the European Parliament. 14 Romanian Members of the European Parliament ("**MEPs**") are affiliated to the Popular Party ("**EPP**"), 11 MEPs are affiliated to the Social-Democrats Group ("**S&D**") and 5 MEPs to the Liberal Group ("**ALDE**"), while the remaining 3 Romanian MEPs are not affiliated to any parliamentary political group. Romanian MEPs actively participate in a wide range of Committees of the European Parliament, including the Committees on Agriculture, Economy and Monetary Affairs, Budget, Foreign Affairs, Transport, Environment, International Trade, Internal Market and Regional Development.

Romania continues to focus on strengthening its status as an active and responsible EU Member State by being directly involved in European policy and its agenda. Romania plays a key role in advancing the EU strategy for the Danube region, as well as in stimulating the potential for cooperation in the Black Sea area, and supporting the European integration of the Western Balkans and Eastern neighbourhood countries.

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 (the "**JHA Council**") and by the positive vote of the European Parliament.

In its conclusions, the March 2012 European Council reiterated that all legal conditions have been met and called for a decision on Bulgaria and Romania's accession to the Schengen area to be taken. In September 2012, upon the recommendation of the European Council, Romania and Bulgaria also implemented additional flanking measures. In its Declaration to the minute of the meeting in December 2012, the European Council invited the JHA Council to reconsider the issue of Bulgaria and Romania's accession to the Schengen area in March 2013.

Romania's accession to the Schengen area is currently subject to a decision of the EU Member States.

In its 2012 convergence programme, Romania had maintained its commitment to adopt the Euro as its legal tender in 2015, which would be preceded by the accession to the European Exchange Rate Mechanism ("**ERM**") II in 2013-2014. However, there is a risk of euro adoption being postponed, even if Romania fulfils the *ex-ante* convergence criteria.

In 2011, Romania signed the Euro Plus Pact, a political commitment aiming to promote competitiveness and employment within the EU and to consolidate the public finance sustainability and the financial stability of Member States. In addition, in 2012 Romania ratified the Treaty on Stability, Convergence and Governance in the Economic and Monetary Union, aiming to foster budgetary discipline, strengthen the coordination of economic policies and improve the governance of the Eurozone. Romania has made a political commitment to apply the provisions of this treaty before joining the Eurozone.

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).

PHARE was the main instrument used by the EU to grant financial and technical assistance to countries from Central and Eastern Europe for restructuring their economies, institution building, creating the infrastructure necessary for accession to the EU and enhancing economic and social cohesion. Through the PHARE programme, Romania received a total funding of EUR 2.49 billion between 1998 and 2011, which represents 90.55 per cent. of the total PHARE budget allocated to Romania. Closing procedures are on-going in respect of most of the PHARE projects.

ISPA is an EU programme providing funding to candidate countries for improving and expanding their transport infrastructure to connect with the trans-European transport network and for alignment with European environmental standards. In the period 2000–2012, Romania received a total amount of funds under the ISPA instrument of EUR 1.72 billion, representing 84.88 per cent. of the total ISPA budget allocated to Romania. Limited payments under the ISPA programme will be made by the EC in the following years.

SAPARD represents a programme primarily directed at improving infrastructure for rural development and agriculture, and human resources development, including the competitiveness of agriculture and fisheries, in support of Romania's EU candidacy. Since 2000, Romania received from SAPARD assistance amounting to a total of EUR 1.02 billion, representing 87.69 per cent. of the total budget allocated to Romania. Closing procedures with the EC in respect of the SAPARD programme are ongoing, with no payments under the programme being foreseen in the future.

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

<u>Overview</u>

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 (the "**ERDF**"), the European Social Fund (the "**ESF**") and the Cohesion Fund (the "**CF**"), each with different sets of objectives and priorities. Generally, support from EU Structural and Cohesion Funds is granted to Romania for the purpose of accelerating its economic development. To this end, the EC approved seven operational programmes under which Romania is entitled to funding under the Structural and Cohesion Funds 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 is also granted for cross-border and transnational activities.

In 2004, Romania prepared an institutional framework for the coordination and implementation of structural instruments, setting up dedicated structures within the relevant ministries and other institutions. The institutional and procedural framework created for the Structural and Cohesion Funds underwent thorough scrutiny under the compliance assessment process. The management of EU Structural and Cohesion Funds allocated to Romania is coordinated at an overall level by the Authority for Coordination of Structural Instruments and by seven management authorities established for each operational programme specified above, charged with the management and implementation of the operational programmes. An audit authority originally set up in 2005 carried out a rigorous verification of the management and control systems for the implementation of EU funds, which were subsequently approved by the EU.

Since September 2011, the Authority for Coordination of Structural Instruments was part of the Ministry of European Affairs. The role of this Authority includes the functioning of the legal, institutional, procedural and programmatic framework for the management of pre-accession funds and of structural and cohesion funds, as well as monitoring, programming and evaluating the use of non-reimbursable financial assistance provided by the EU. Starting with December 2012, the attributions of the Ministry of European Affairs in respect of the coordination of European funds on behalf of Romania were subsumed under the newly created Ministry of European Funds.

Allocations and Absorption of the EU Structural and Cohesion Funds at 31 December 2012

The EC 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 is EUR 19.67 billion, of which EUR 12.66 billion represent structural funds (i.e. ERDF and ESF), EUR 6.55 billion is allocated under the Cohesion Fund and the balance of EUR 454.61 million is 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 funding instruments, is estimated at approximately EUR 5.6 billion. Romania will have access to the funds allocated for the 2007–2013 programming period until 2017, provided that the funds have been committed, i.e. financing contracts are entered into before the end of 2013.

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 December 2012, EUR 37.42 billion (nearly two times the value of the EU funds budget allocated to Romania during the programming period). The number of contracts with beneficiaries signed as of 31 December 2012 was 9,222, totalling an eligible amount of EUR 18.96 billion (out of which EUR 14.92 billion represented EU contributions), representing 77.58 per cent. of the EUR 19.21 billion allocation under EU Structural and Cohesion Funds (under the Convergence objective) for the 2007–2013 programming period. The number of contracts signed in 2012 increased by 19.15 per cent. and their value by 20.61 per cent. compared to 2011.

The total payments to beneficiaries (including pre-financing and reimbursements) amounted to EUR 4.66 billion at the end of December 2012, consisting of the amounts actually paid to Romanian beneficiaries by the Romanian EU funds management authorities and including EU funding (EUR 4.21 billion) and national co-financing (EUR 0.45 billion). As at 31 December 2012, the total amount received from the EU by Romania under the 2007-2013 fund allocation was EUR 4.31 billion (22.44 per cent. of the EU allocation for the entire period 2007-2013), of which EUR 2.11 billion represented pre-financing payments, while only EUR 2.20 billion represented actual reimbursements made by the EU. This corresponds to an actual 11.47 per cent. absorption rate (the level of actual reimbursements by the EC as a percentage of the total amount of Structural and Cohesion Funds available) of the total EU budget allocation for the 2007–2013 programming period (as at 31 December 2012).

In 2012, Romania absorbed EUR 1.138 billion under the seven operational programmes financed from Structural and Cohesion Funds, representing a 5.92 per cent. absorption rate, which is 1.62 times more than the 701 million EUR absorbed in 2011.

Decommitment rule

The use of Structural and Cohesion 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 until 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.

The decommitment means that the EU may not claim the decommitted amounts for reimbursement and, in principle, does not refer to recovery by the EU of any amounts already paid to Romania. 2011 was the first year when the rule of automatic decommitment applied to Romania, however, no funds were decommitted. Based on initial estimations of the Romanian authorities and of the European Commission, Romania lost in 2012, as a result of automatic decommitment, approximately EUR 190 million from the funds allocated to the operational programmes for environment, transport and competitiveness (the final amount of the decommitted funds will be computed by the European Commission, which will apply corrections based on exceptions foreseen in the applicable EU regulations on EU funds).

In 2013, EUR 6.5 billion of Structural and Cohesion funds will be decommitted unless payment requests covering this amount are submitted to the EC. This amount is allocated between the operational programmes as follows: EUR 1.74 billion for the transport operational programme, EUR 1.54 billion for the environment operational programme, EUR 1.07 billion for the competitiveness operational programme, EUR 1.2 billion for the human resources development operational programme, EUR 0.85 billion for the regional operational programme and EUR 1.64 billion for the technical assistance and administrative capacity operational programmes. To prevent these funds from being decommitted, the Romanian authorities are focusing on the implementation of measures necessary for lifting the pre-suspension of payments under certain operational programmes (see "*—Pre-suspension of payments and financial corrections under certain operational programmes*") and to generally avoid further suspension or interruption of payments.

Low absorption rates and ameliorative measures

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 reveals problems and difficulties at both the beneficiary and the managing authority levels. Such difficulties affect the project preparation and submission stage, the appraisal, selection and contracting of projects and actual project implementation.

The obstacles in the commencement stage of programme implementation and subsequently in the actual project implementation stage, over the 2007–2013 programming period, have been diverse. According to the "National Strategic Report for the Implementation of the Structural and Cohesion Funds", prepared by the Romanian authorities in 2009, the 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. 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.

In this regard, Romania has taken various measures ranging from simplifying and clarifying applicant guides to granting more flexibility to the eligibility criteria for applicants, amending impeding legislation and establishing financial facilities for beneficiaries. Despite the constant increase in the implementation pace, stronger measures and actions had to be further taken in order to speed the absorption of EU funds. Such measures have been included in the Priority Action Plan for Increasing the Capacity to Absorb Structural and Cohesion Funds

("**PAP**"), approved by the Romanian Government in April 2011, which includes the areas of development to be pursued with a view to removing or significantly reducing the obstacles to absorption.

The implementation of the PAP priority measures led to the adoption of certain important legislative/regulatory/institutional measures, including tightening of rules for granting pre-financing amounts to beneficiaries, verifying procedural aspects concerning public procurement contracts, preventing, identifying and sanctioning of irregularities in contracting and use of European funds and/or national public funds, as well as horizontal rules for over-commitment at the operational programme level.

In January 2012, the Ministry of European Affairs updated the PAP in order to ensure it corresponded to the actual status of implementation of operational programmes and to better address the priorities identified at this stage. The measures included in the PAP, which represent top priorities of the Romanian Government, refer to a general simplification of procedures (in particular, the procedures for the processing of the payment of claims), standardisation of tendering documents in key areas, such as transport and environment infrastructure, approval of the reimbursement of non-recoverable Value Added Tax ("**VAT**") from projects financed by EU structural funds beginning on 1 January 2012, reinforcement of the administrative capacity of the structures involved in the management of EU funds and providing direct support to the beneficiaries of major priority and strategic infrastructure projects. These measures had immediate impact in increasing the absorption rate, but other blockages occurred in the implementation of the operational programmes as a result of systemic deficiencies in the management and control of EU fund implementation. These impediments counterbalanced the positive impact of the PAP measures, thus requiring additional remedy measures.

In the context of the measures undertaken by the Romanian authorities to better use the allocated funds, the EC has recently approved the reallocation of funds between key areas of intervention within the same operational programme. Examples include allocating additional funds to the nuclear physics research project on extreme light infrastructure, financed under the competitiveness programme, and to the energy efficiency scheme regarding the heating of existing blocks of flats, which is financed under the regional programme. So far Romania has not reallocated funds between operational programmes.

Special funds amounting to RON 8.5 billion have been allocated under the draft 2013 State budget for national co-financing of projects financed through EU Funds. In addition to allocating national funds for co-financing purposes, the Government plans to create a buffer fund in order to allow managing authorities to make payments to the beneficiaries while payments by the EC are suspended, as such occurred in 2012 (in such cases, the Government assumes the beneficiaries' rights on the claims eventually paid by the EC).

Pre-suspension of payments and financial corrections under certain operational programmes

Following deficiencies identified by the EC during its audit missions in 2011, the EC requested that the Romanian authorities implement remedy measures in respect of a number of EU operational programmes (i.e. human resources, regional, environment, transport, increasing economic competitiveness).

Starting from 1 July 2012, the Romanian authorities have ceased sending payment requests to the EC under four operational programmes (i.e. regional, environment, transport, increasing economic competitiveness), based on an informal request, until completion of the assessment by the EC of the remedial measures implemented by the Romanian authorities. In July 2012, the EC took note of the actions and measures already undertaken to remedy the deficiencies, but determined that additional measures needed to be taken in order to give assurance that the management and control systems of the projects perform according to the requirements of sound financial management of EU funds.

On 25 October 2012, the EC pre-suspended the funding from the ERDF and from the CF to three operational programmes: the transport operational programme (projects for roads and railways), the regional operational programme (except for transport infrastructure) and the competitiveness operational programme. The issues required to be corrected related to public procurement deficiencies, financial management, the prevention and detection of fraud/suspicion of fraud and the prevention of conflicts of interest. The total amount of the payment requests transmitted to the EC in connection with projects financed under the regional, competitiveness and transport operational programmes, which have not been paid until the end of January 2013, was of EUR 402 million.

The resumption of payments was also conditional upon the acceptance by the Romanian authorities of the financial corrections proposed by the EC in relation to the expenditures declared under the transport, environment, competitiveness and regional operational programmes. Financial corrections are applied by the

EC to expenditure already paid but subsequently found to be irregular. Romania has accepted financial corrections amounting to a total of EUR 48 million in respect of public tenders concluded before 1 October 2011 under projects eligible under the transport, environment, competitiveness and regional operational programmes. Corrections will be applied also to the future payment requests to be submitted to the EC in respect of the public tenders concluded before 1 October 2011. The amounts available due to the financial corrections may be used by Romania for the financing of other projects within the same operational programmes or may be reallocated between programmes in order to finance new projects within the current programming period.

In December 2012, the EC resumed payments under the environment operational programme and partially under the regional operational programme. For the remaining parts of the regional operational programme and for the transport and competitiveness operational programmes, the action plans agreed by the Romanian authorities and the EC are being implemented, but the related payments will most likely not be resumed before the second quarter of 2013.

While pre-suspensions are in force, the Romanian management authorities are continuing the verification of payment requests submitted by the beneficiaries, and the accumulated amounts will be claimed from the EC once the pre-suspensions are lifted.

The EU funds allocated to the operational programmes subject to pre-suspension measures (excluding the human resources operational programme) that are subject to the decommitment rule at the end of 2013 (see "—*Decommitment rule*") amount to a total of EUR 3.66 billion (out of the total amount of EUR 6.5 billion). This includes EUR 0.85 billion corresponding to the entire regional operational programme, which is subject to only partial pre-suspension. In the case of the regional operational programme, it is expected that the decommitment risk for the entire EUR 0.85 billion amount could be avoided if payment claims were submitted by the end of 2013 for the areas which are not subject to the pre-suspension. If the Romanian authorities fail to implement the necessary measures to lift the pre-suspension of the operational programmes that are under pre-suspension by the end of 2013, Romania will not be able to submit payment claims to the EC in respect of these operational programmes, and the amounts allocated under these operational programmes will be decommitted and permanently lost.

Payments from the EC through the ESF for the operational programme for human resources were suspended from August 2012, when a preliminary audit report was sent to the Romanian authorities highlighting deficiencies in the functioning of the management and control system. Following corrective measures taken by the Romanian authorities, and assessed by an audit mission that took place in November 2012, and upon agreeing with the Romanian authorities on the application of financial corrections of 25 per cent., the EC accepted payment requests in respect of expenditures declared prior to November 2011; following the November 2012 audit mission, the EC accepted two more payment requests under the operational programme amounting to approximately EUR 142 million. The total corrections accepted by the Romanian authorities in respect of expenditures declared to the EU under the human resources operational programme until 31 December 2012 amount to a total of approximately EUR 122 million. Further corrections will be applied in 2013 to the payment requests filed without being subject to the revised verification procedures.

Resumption of payments for expenditures registered under the operational programme for human resources since November 2011 is conditional upon the adoption by the Romanian authorities of further measures, which must also be assessed by the EC's auditors. After an EC audit mission at the end of January 2013, the EC decided to lift the pre-suspension of the human resources operational programme and to resume payments for the payment requests submitted to the EC, with application of financial corrections of 25 per cent. of the value of such payments. During 2013, the EC auditors will carry out two more verification missions in Romania in order to assess the status and consistency of the implementation of corrective measures; in case of positive results of these audit missions, the EC could discard the 25 per cent. financial corrections applicable to the programme.

Funds under the 2014-2020 programming period

The Multi-annual Financing Framework for 2014-2020, including the amounts of EU funds to be made available to EU Member States, is currently under negotiation at the EU level. It is estimated that the allocation for Romania will not be less than the current allocation under the 2007-2013 framework. However, this is not a certainty as discussions are still ongoing. In order to increase the efficiency of the use of EU funding for the period of 2014-2020, the EC has introduced specific provisions on *ex-ante* conditionalities for the use of any EU funds. The Member States will have to fulfil the *ex-ante* conditionalities before any payment will be made under the framework to the operational programmes. The deadline for the fulfilment of these conditions is 31 December 2016, and must be reported to the EC in the annual implementation reports for 2017.

Agriculture related Financial Assistance

The European Agricultural Fund for Rural Development (the "**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 (the "**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 (the "**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 December 2012*" under "*—Membership of the European Union* ".

The 2007-2013 EU fund allocation for Romania for agriculture amounts to a total of EUR 14.64 billion, of which EUR 8.13 billion funds are allocated to Romania under the EAFRD, EUR 6.28 billion are allocated under the EAGF and EUR 230 million are allocated under the EFF.

As at 31 December 2012, a total amount of EUR 4.39 billion was paid to beneficiaries under the EAFRD funds allocated to Romania. Of this EUR 642.22 million represents pre-financing amounts, EUR 3.05 billion corresponds to actual reimbursements made by the EU and the balance of EUR 692.63 million represents payments out of the national budget. For this, the absorption rate based on the actual amounts reimbursed by the EC to the beneficiaries is 37.60 per cent.. The absorption rate based on all the amounts paid by the EU (including pre-financing amounts granted to beneficiaries and amounts reimbursed to beneficiaries) is 43.93 per cent. As at 31 December 2012, a number of 68,114 projects had been approved, of which 64,802 financing contracts were concluded for a total eligible value of EUR 6.94 billion. This corresponds to 51.04 per cent. of the total value of the EAFRD funds allocated to Romania.

The EC suspended the payments under the EFF, with effect from 13 January 2012, due to deficiencies of the management and control system. In order to resume payments, an action plan was put in place and remedial measures were implemented by the management authorities. A report on the measures adopted by Romania was sent to the National Audit Authority and the audit services of the EC for assessment. The Romanian Audit Authority will provide a report on the remedial measures, to support the resumption of payments. In order to assure the continuity programmes funded under the EFF, payments have been made from the national budget since the date that payments were suspended. However, as during the period of the suspension only a limited number of payment requests were sent to the EC, as a result an amount of EUR 22.4 million under the EFF was decommitted at the end of 2012. The value of the payment requests sent to the EC under EFF projects and for which payment is pending until the suspension is lifted amounts to EUR 49.1 million.

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

NET FINANCIAL BALANCE
MIL. EURO

Name	Total allocations 2007-2013	Programme for 2012	Execution as of 31 Dexcember 2012	Realised 2007	Realised 2008	Realised 2009
A	1	2	3	4	5	6
I. AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)	**38,418.16**	**4,812.19**	**3,387.79**	**1,578.17**	**2,615.51**	**2,895.47**
A. Pre-accession funds	**2,850.44**	**62.10**	**43.90**	**812.26**	**747.68**	**618.74**
B. Post-accession funds, out of which:	**35,567.72**	**4,750.09**	**3,343.89**	**765.92**	**1,867.84**	**2,276.73**
i) Prepayments	3,578.10	58.34	62.50	752.28	1,381.54	974.29
ii) Reimbursements (including EAGF)	31,989.62	4,691.75	3,281.39	13.63	486.30	1,302.44
B1. Structural and Cohesion Funds, out of which:	**19,667.65**	**2,417.76**	**1,169.69**	**421.38**	**648.45**	**917.84**
a) Prepayments from Structural and Cohesion Funds	2,105.87	0.00	0.00	421.38	648.45	777.23
b) Reimbursements from Structural and Cohesion Funds	17,561.77	2,417.76	1,169.69	0.00	0.00	140.61
B2. Agricultural, Rural Development and Fishering Funds, out of which:	**8,354.91**	**1,289.90**	**1,090.04**	**15.13**	**578.75**	**565.93**
a) Prepayments/prefinancing from Agricultural, Rural Development and Fishering Funds	600.99	0.00	0.00	15.13	578.75	0.00
b) Reimbursements from Agricultural, Rural Development and Fishering Funds	7,753.92	1,289.90	1,090.04	0.00	0.00	565.93
B3. The European Agricultural Guarantee Fund (EAGF)	**6,580.25**	**958.49**	**991.27**	**6.89**	**461.87**	**575.93**
B4. Others (post-accession), from which:	**964.91**	**83.94**	**92.89**	**322.51**	**178.76**	**217.03**
a) Prepayments	871.24	58.34	62.50	315.77	154.34	197.05
b) Reimbursements	93.67	25.60	30.38	6.74	24.42	19.97
II. AMOUNTS PAID TO THE EU (C+D)	**10,087.12**	**1,373.79**	**1,426.55**	**1,150.89**	**1,268.93**	**1,364.43**
C. Romanian Contribution to the EU Budget	**9,799.20**	**1,348.97**	**1,405.57**	**1,129.13**	**1,246.78**	**1,315.49**
D. Other contributions	**287.92**	**24.82**	**20.97**	**21.76**	**22.15**	**48.94**
III. Balance of financial flows = I - II	**28,331.03**	**3,438.40**	**1,961.25**	**427.28**	**1,346.58**	**1,531.04**

Notes: The net financial balance (NFB) is the instrument whereby the net national financial position is determined in relation to the budget of the European Unior the community budget.

The NFB is drafted on a monthly basis by the Budget Department with the Ministry of Public Finance, based on the information provided by national auth funds and contributions. In order to calculate the net financial position, the amounts actually collected from the European Union are compared with t period. Also, in relation to the NFB, the amounts scheduled to be collected/paid are compared to the amounts realised.

The scheduling of amounts is done at the beginning of each year and is updated during the course of the year depending on estimates transmitted to the provided by community law. In practice, the NFB is updated on a monthly basis.

Source: The Ministry of Finance of Romania

THE ROMANIAN ECONOMY

Overview

Romania experienced average annual growth rate of GDP of 6.3 per cent. in the period from 2001 to 2008, with growth peaking at 8.5 per cent. in 2004. Throughout the period, a higher than EU average growth rate contributed to a gradually decreasing gap in living standards between Romania and other EU Member States.

This trend was interrupted in the third quarter of 2008, when the global financial crisis started to impact the Romanian economy. The effects of the crisis on the economy intensified during the final quarter of 2008, further intensified during 2009 and continued in 2010. The real economy contracted significantly (by 6.6 per cent. in 2009) compared to 2008. A further contraction of 1.1 per cent. compared with 2009 was registered in 2010. In 2011, the growth rate of real GDP (2.2 per cent.) surpassed expectations, reflecting higher-than-expected agricultural production and external demand. The growth rate of real GDP in the first nine months of 2012 was 0.2 per cent in annual terms, with 0.3 per cent. growth in the first quarter, 1.1 per cent. growth in the second quarter and -0.5 per cent in the third quarter against the same quarters of the previous year, respectively.

GDP per capita increased from EUR 2,022 in 2001 to EUR 6,499 in 2008 and decreased to EUR 5,509 in 2009, increasing again to 6,152 in 2011. GDP per capita in purchasing power standards improved up to 47 per cent. of the EU average in 2008, remaining at the same level in 2009 and in 2010, while slightly increasing to 49 per cent. in 2011.

The following table shows the main macroeconomic indicators for the years 2008 to 2011 and the first nine months of 2012:

Main Macroeconomic Indicators

	2008	2009	2010	2011	January - September 2012
Gross domestic product – current prices (EUR billion)	139.8	118.3	124.4	131.4	94.2
Real growth (percentage change)	7.3	-6.6	-1.1	2.2	0.2
RON/per capita	23,936	23,341	24,436	26,070	-
Average exchange rate (EUR/RON)	3.683	4.237	4.210	4.238	4.456[(1)]
Private sector (per cent. of GDP)	71.1	69.9	71.3	70.8	-
Industrial production (percentage change)	2.6	-5.6	5.6	5.6	0.0[(2)]
Agricultural production (percentage change)	21.2	-2.2	1.0	8.9	-
Retail[(3)] (percentage change)	20.8	-14.1	-0.4	-2.5	2.9[(2)]
Current account balance (million EUR)	-16,157	-4,913	-5,493	-5,938	-4,245[(4)]
Real wage (percentage change)	16.5	-1.5	-3.7	-1,9	1.5[(5)]
Average inflation (percentage change)	7.85	5.59	6.09	5.79	3.33[(6)]
Employment (percentage change) (according to LFS – Labour Force Survey)	0.2	-1.3	0.0	-1.1	0.9

(1) The average value on 2012
(2) The value for the year 2012 compared to the value for the year 2011
(3) Excluding sale, maintenance and repair of motors, vehicles and motorcycles
(4) This figure refers to CAD for the first 11 months of 2012
(5) Value for the average of 2012, compared to the value for 2011; data estimated by the National Commission for Prognosis based on a monthly gross average earnings and average CPI
(6) Value for average annual CPI in 2012

In 2008, real GDP grew at 7.3 per cent. Gross fixed capital formation contributed significantly to the advancement of the economy, recording a rate of 15.6 per cent. in 2008. Private consumption contributed as well to GDP growth, as a result of increased disposable income. Exports of goods and services grew by 8.3 per cent., while imports increased by 7.9 per cent., leading to a negative contribution of net exports to real GDP growth.

In the second half of 2008, Romania began to experience the fall-out from the global financial crisis, with real GDP growth rates, on a quarterly basis, registering negative values (i.e. -0.4 per cent. in the third quarter of 2008 and -1.5 per cent. in the fourth quarter of 2008).

In 2009, the negative impact of the global financial crisis on the domestic economy was felt severely, with real GDP contracting by 6.6 per cent. compared to 2008, mainly due to the drop in domestic demand by 12.0 per cent. and of external demand by 6.4 per cent. Within domestic demand, final consumption contracted by 7.4 per cent. These changes reflected the deterioration in the cost and availability of credit and reduction in income following higher unemployment. Meanwhile, gross fixed capital formation decreased by 28.1 per cent. as the flow of foreign direct investment dropped and uncertainties (affecting the investment decisions of both companies and households, stemming from unfavourable expectations on their financial well-being) reduced capital goods demand. Net export registered a positive contribution to GDP's real growth in 2009 of 7.0 percentage points, as a consequence of the reduction, in the export of goods and services by 6.4 per cent. while imports declined by 20.5 per cent. Commencing with the third quarter of 2009, the recession began to abate due to, *inter alia*, the initial anti-crisis measures taken by the Romanian Government. The Government's ability to provide fiscal relief was limited by the significant budgetary deficit recorded in 2008, representing 5.7 per cent. of GDP (according to Eurostat). The Government nevertheless took a number of actions to increase fiscal consolidation and to gradually reduce the budgetary deficit.

As a result of the continuance of the decreasing trend in domestic demand, the economic decline continued in 2010 when gross domestic product decreased by 1.1 per cent. However, positive developments were registered, such as the decrease of the budget deficit from 9.0 per cent. of GDP in 2009 to 6.8 per cent. (according to Eurostat) and the maintaining of the current account deficit at 4.4 per cent. of GDP. 2010 was a recovery year for industrial production which increased by 5.6 per cent., fully recovering from the decrease of 2009, but with a structure better matched to the requirements of the internal and external markets. Further, Romania achieved a record amount of exported goods in 2010. Domestic demand decreased compared to 2009 by 1.1 per cent., mainly due to the decrease of the gross fixed capital formation (-1.8 per cent.), which was affected by lack of funding sources and lack of confidence by the private sector in the economic development. Much of the demand was covered by imports of goods and services, which rose by 11.1 per cent. while the exports of goods and services increased by 13.2 per cent. The reduction of unemployment in the second half of 2010 is also notable, with a 7.0 per cent. registered unemployment rate at the end of the year, compared to 7.8 per cent. at the end of 2009.

Following the broad programme implemented by the Romanian Government since 2009, including the Stand-by Financing Agreement with the IMF, the EU and the World Bank (which targeted fiscal consolidation and structural reforms), the Romanian economy registered positive results starting with the first quarter of 2011, so that the annual GDP increased by 2.2 per cent. as compared to 2010**.**

The positive growth rate of real GDP in 2011 reflected the higher-than-expected contribution of agricultural production and robust export demand. Domestic demand increased by 2.5 per cent. in 2011 compared to 2010, primarily due to increases in private consumption and gross fixed capital formation, by 1.1 per cent. and 7.3 per cent, respectively. Government consumption, including individual and collective consumption, increased by 0.2 per cent. The growth rate of exports of goods and services was slightly above of imports (10.3 per cent. versus 10.0 per cent.), with a negative contribution of net exports to real GDP growth of 0.5 percentage points. The rate of registered unemployment was 5. 2 per cent. at the end of December 2011.

In the first nine months of 2012, Romania’s GDP registered a very modest growth of 0.2 per cent. compared to the same period in 2011 in the context of drought with severe impact on the agricultural production, a relatively weaker external demand and the unfolding of the sovereign debt crises. However, in this period, gross fixed capital formation increased by 13.0 per cent., while domestic demand increased by 0.9 per cent. Final consumption remained low, with the increase of private consumption expenditures (+0.4 per cent.) and a decrease of government consumption expenditures (-0.6 per cent). A decrease in exports and imports of goods and services by 2.7 per cent., respectively 0.8 per cent. contributed to the limited GDP growth in the first nine months of 2012.

The following table shows percentage changes to the components of GDP use for 2008 to 2011 and the first nine months of 2012:

Gross Domestic Product Use Components

	2008	**2009**	**2010**	**2011**	**January - September 2012**
	(percentage change against the corresponding period of the previous year)				
Domestic demand	7.3	-12.0	-1.1	2.5	0.9
Final consumption	8.7	-7.4	-1.3	0.9	0.2
Private consumption expenditures	9.0	-10.1	-0.3	1.1	0.4
Government consumption expenditures	7.2	3.1	-4.7	-0.2	-0.6
Gross fixed capital formation	15.6	-28.1	-1.8	7.3	13.0
Changes in inventories					-2.4
(Contribution to real GDP growth, percentage points)	-3.5	1.4	0.4	0.1	

Gross Domestic Product Use Components

	2008	2009	2010	2011	January - September 2012
	(percentage change against the corresponding period of the previous year)				
Net exports (Contribution to real GDP growth, percentage points)	-1.0	7.0	0.0	-0.5	-0.7
Gross domestic product	**7.3**	**-6.6**	**-1.1**	**2.2**	0.2

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 services. In its first phase, the restructuring of industry led to a reduction in its contribution to GDP growth from about 40 per cent. in 1990 to about 26 per cent. by 2000. After 2000, the structural decline halted and the contribution to GDP made by industrial growth stabilised. These changes involved substantial reductions in employment, particularly in traditional heavy industries, such as steel, chemicals and machine manufacture. The service sector increased its contribution to GDP growth from 26.5 per cent. in 1990 to 43.5 per cent. in 2011. 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 years 2008 to 2011 and the first nine months of 2012:

Structure of Gross Domestic Product by Sectors

	2008	2009	2010	2011	January - September 2012
			(per cent.)		
Industry	23.0	24.1	28.4	28.9	27.8
Agriculture, forestry and fisheries	6.6	6.5	5.7	6.5	5.9
Construction	10.9	10.5	9.1	8.5	9.0
Services – Total	48.6	48.9	45.9	43.5	44.5
- Trade, hotel and restaurants, transport and communications	23.3	22.7	16.7	14.5	22.3
- Financial, real-estate, renting and business services	12.2	12.8	15.8	16.5	11.5
- Other service activities	13.1	13.4	13.4	12.5	10.7
Net taxes	10.9	10.0	10.9	12.5	12.9
Gross domestic product	**100**	**100**	**100**	**100**	**100**

Source: National Institute of Statistics

The following table shows percentage changes in sectoral components of GDP for 2008 to 2011 and the first nine months of 2012:

Changes in Gross Domestic Product by Sectors

	2008	2009	2010	2011	January - September 2012
	(percentage change against the corresponding period of the previous year)				
Industry	1.9	-1.4	4.0	0.1	-0.1
Agriculture, forestry and fisheries-15	20.7	-3.3	-5.5	12.4	-20.4
Construction	26.2	-9.9	-4.5	-6.4	0.7
Services	5.4	-7.4	-3.6	2.9	1.6
- Trade, hotel and restaurants, transport and communications	8.2	-9.4	-2.0	-1.5	1.6
- Financial, real-estate, renting and business services	4.4	-7.3	-3.8	9.6	4.5
- Other service activities	1.4	-3.8	-6.0	0.6	-1.7
Gross value added	7.5	-5.8	-1.8	1.7	-0.8
Net taxes on goods	5.9	-12.6	-4.6	6.1	7.5
Gross domestic product	**7.3**	**-6.6**	**-1.1**	**2.2**	**0.2**

Source: National Institute of Statistics

Gross Value Added

Gross Value Added ("**GVA**") in industry increased in 2008 (1.9 per cent.) at a slower pace than in 2007 (5.4 per cent.) under the effect of the first signs of the global crisis. In 2009 the global financial crisis was felt in full and triggered a decline of the GVA in industry by 1.4 per cent. 2010 was characterised by the resumption of GVA growth in industry by 4.0 per cent. and in 2011 increased by 0.1 per cent. GVA growth in industry was largely due to positive developments in foreign markets. In the first nine months of 2012, industry GVA decreased by 0.1 per cent. as compared to the same period in 2011.

The agricultural sector in Romania is strongly influenced by climatic conditions as evidenced by the annual growth rates of GVA in agriculture: a significant rise in 2008 of 20.7 per cent. and a deterioration of 3.3 per cent. in 2009. 2011 was a positive year for Romanian agriculture, with an increase of 12.4 per cent. of GVA. In the first nine months of 2012, as a result of the severe drought affecting the country, agricultural GVA decreased by 20.4 per cent. compared to the same period in 2011.

GVA in construction recorded a significant rise of 26.2 per cent. in 2008. The global financial crisis hit this sector and GVA decreased significantly as a result, as shown by the 2009 figures (-9.9 per cent.), 2010 figures (-4.5 per cent.) and 2011 figures (-6.4 per cent.). In the first nine months of 2012, construction GVA increased by 0.7 per cent as compared to the same period in 2011.

During the period of economic growth in 2007 and 2008, the GVA in the services sector increased but the onset of the global financial crisis meant that the volume of activity within this sector saw a reduction in both 2009 and 2010. GVA reduction in the services sector was due to reduced disposable incomes which resulted in a lower GVA in some types of services, for example trade, and a restriction on workloads in certain areas leading to a decrease in GVA in some categories of services, such as business services for enterprises and transportation. Also, the recession measures undertaken in order to reduce public expenditures, such as reducing public sector wages by 25 per cent. and restructuring public administration staff, led to a lower GVA in this sector. In 2011, GVA in the services sector increased by 2.9 per cent. compared to 2010. In the first nine months of 2012 GVA in the services' sector increased by 1.6 per cent. as compared to the same period in 2011.

Industrial Production

Total industrial production saw a decreasing trend in 2008 and 2009 as a consequence of the global financial crisis. In 2010 however, signs of recovery were visible, with a year-on-year 5.6 per cent. advance compared to 2009. In 2011, as compared with the same period in 2010, production increased by 5.6 per cent. in the industrial sector and by 5.6 per cent. in manufacturing. The increase was due to higher demand in this period. In 2012, as compared to the year 2011, industrial production stayed the same and decreased by 0.7 per cent. in the manufacturing sector.

The decline in the industrial sector in 2008 and 2009 had serious consequences for local economies in cities which are significantly dependent on a single industry. The services sector has developed at a steady rate, but is heavily concentrated in Bucharest. In other areas of the country it did not increase sufficiently to compensate for the decline in manufacturing and agricultural employment.

The industrial production recovery in 2010 was mainly triggered by exports. The 12 per cent. aggregate increase (internal and external market), in nominal terms, of industrial turnover during 2010 was, to a large extent, due to an increase of turnover on the external market which increased during the same period by 31.5 per cent., while the increase for the domestic market was 0.9 per cent.

The positive trend for the turnover value in industry has continued in 2012 with a 3.1 per cent. increase during that period, due to a general improvement in industrial activity, and in particular is due to the recovery of certain sectors that were affected by the crisis (textiles, other manufacturing, manufacture of fabricated metal products, except machinery and equipment, manufacture of furniture).

The turnover on the external market increased during the first eleven months of 2012 by 4.3 per cent. (including manufacture of food products by 37.3 per cent, manufacture of fabricated metal products except machinery and equipment by 24.6 per cent., product of wood and cork, except furniture, by 24.2 per cent. and manufacture of textiles by 23.0 per cent. and manufacture of wood).

Labour productivity in industry increased by 17.8 per cent. in 2010 (5.9 percentage points above the increase recorded in 2009). Significant increases in productivity were registered in the manufacture of motor vehicles and electrical equipment, sectors with positive developments in this period, but also by the manufacture of basic metals. In 2011, labour productivity continued its upward trend, increasing by 3.4 per cent., as against the same period of the previous year. This increase was mainly due to improvements in mining and quarrying and electricity, gas, steam and air conditioning production and supply. In the first ten months of 2012, overall labour productivity decreased by 2.3 per cent, as against the same period of the previous year. This decrease was triggered by decreases of activities such as the manufacture of rubber and plastic products, the manufacture of leather and related products and the manufacture of basic pharmaceutical products and pharmaceutical preparations. However, labour productivity increased in respect of repair and installation of machinery and equipment; manufacture of other transport equipment; manufacture of coke and refined petroleum products; electricity, gas, steam and air conditioning supply; mining of coal and lignite; and the manufacture of beverages.

The following table shows percentage changes in industrial production by sector for the years 2008 to 2012:

Industrial Production by Sectors*

	2008	2009	2010	2011	2012
	(percentage change against the corresponding period of the previous year)				
Mining and quarrying	-0.1	-11.9	-6.9	4.5	1.5
Manufacturing	3.1	-6.5	6.0	5.6	-0.7
Energy	0.4	7.0	8.1	6.3	4.5
Total industry	**2.6**	**-5.6**	**5.6**	**5.6**	**0.0**

* According to NACE Rev 2.

Source: National Institute of Statistics

Agriculture, Forestry and Fisheries

Agriculture is an essential part of the national economy with significant economic and social importance. Romania's aggregate agricultural area in 2010 represented approximately 14.6 million hectares or 61.4 per cent. of its total territory, of which arable land represented 64.3 per cent. of the total agricultural area. The area of arable land per inhabitant is 0.44 hectares. At the end of 2010, the total area covered by forests and other forest-like vegetation was 28.4 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 or the use of large-scale mechanised equipment or the application of remedies more difficult. In 2010, the land owned by small and very small agricultural enterprises (exploiting land of up to 2 hectares), made up 54.2 per cent. of the total number of agricultural enterprises in Romania, and represented 45.7 per cent. of the total agricultural area of the country, while large agricultural enterprises, owning more than 50 hectares of land, made up 0.8 per cent. of the total number of agricultural enterprises in Romania and their land represented only 0.46 per cent. of the total agricultural area of the country.

The following table shows percentage changes in the agricultural production by type (excluding forestry) for 2008 to 2011.

Agricultural production

	2008	2009	2010	2011*
	(percentage change against the corresponding period of the previous year)			
Crop production	40.9	-2.8	6.6	12.9
Livestock	-8.6	-1.2	-6.8	0.8
Agricultural services	-9.1	5.2	-26.5	-4.6
Total agriculture	**21.2**	**-2.2**	**1.0**	**8.9**

[1] According to the Eurostat methodology on "Economic Accounts for Agriculture".

Source: National Institute of Statistics

* *Semi-final data*

In 2008, relatively favourable climate conditions allowed wheat production to increase by 135.9 per cent., barley and two-row barley production by 127.6 per cent., maize production by 103.7 per cent. and sunflower production by 113.9 per cent. each as compared to 2007.

In 2009, agricultural output was adversely affected particularly as a result of a significant drought, which was the main reason why performance in this sector was below 2008 levels. Cereal grain production decreased by 11.6 per cent. compared to 2008. Wheat production decreased by 27.5 per cent. and barley and two-row barley by 2.3 per cent.

In 2010, wheat production increased by 11.7 per cent., barley and two-row barley production increased by 10.9 per cent., maize production increased by 13.4 per cent. and sunflower production increased by 15.0 per cent., each as compared to 2009.

In 2011, wheat production increased by 22.7 per cent. and barley and two-row barley production increased by 1.4 per cent., maize production increased by 29.6 per cent. and sunflower production increased by 41.7 per cent., each as compared to 2010. In comparison with the previous year, the statistical data show that the main autumn crop productions also increased. The share of the crop production in total agricultural production amounted to 71 per cent. and the increases in this sector have led to an increase in total agricultural production.

2012 was affected by drought and this resulted in poor harvest. By the end of August 2012, (when the production of wheat, rye and triticales had been harvested from approximately 98 per cent. of the total cultivated area), the wheat, rye and triticales production had decreased by 30.6 per cent. and the barley and two-row barley harvested production had decreased by 31.7 per cent., in each case as against the same period of the previous year. A similar decrease was registered in respect of autumn cultures, at the end of November 2012. The production of corn and sorghum decreased by 52.0 per cent., sunflower by 27.3 per cent., soya by 35.2 per cent., autumn potatoes by 46.7 per cent. and sugar beet by 2.3 per cent. compared to the corresponding period in 2011.

The State 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 redistributing 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 2012, the Romanian Government supported the agricultural sector through various measures, such as reducing excise duty for fuel used in agriculture (amounting to a total of RON 226 million), complementary direct payments in the vegetal sector (amounting to RON 5.06 billion) and in the cattle (bovine, sheep, goats) sector (amounting to RON 521.2 million), support for the payment of insurance premiums, guarantees for agricultural production loans and compensation for damage caused by pests or by unfavourable weather conditions.

Construction

In 2008, the volume of construction works grew at a double digit rate, compared to 2007, with an increase in volumes of work in all three categories of construction (residential, non-residential and civil engineering). These increases occurred as a consequence of the rapid build-up of both residential and of non-residential areas, especially in large cities, the development of large infrastructure projects and the modernisation of schools. The increase in 2008 compared to 2007 was mainly determined by the need to replace infrastructure and to create an improved residential sector.

In 2009, the volume of construction declined by 18.3 per cent. in real terms as against 2008. The volume of work decreased for all three major categories (i.e. residential buildings, non residential buildings and civil engineering), caused mainly by the global financial crisis, which lowered demand for real estate, particularly in the residential sector, which saw an approximately 20 per cent. decline compared to 2008.

In 2010, the trend of decreasing construction volume continued, (11.0 per cent. lower compared to 2009), mainly due to banks imposing more stringent conditions on mortgage loans. The decrease in the residential sector was 35.7 per cent., as compared to 2009, while the non-residential and civil engineering sectors declined by 13.6 per cent. and 3.1 per cent., respectively.

In 2011, the volume of construction works registered a recovery after 2009 and 2010's sharp reductions, namely an increase of 2.8 per cent. as compared to the previous year (unadjusted series), reflecting a positive trend since

July 2011. This increase was supported by increases in capital repair works (10.3 per cent) and new construction works (2.5 per cent). Maintenance and current repair works were the only areas that reduced in volume to 0.7 per cent. Non residential buildings and civil engineering grew by 6.3 per cent. and 2.6 per cent. respectively, while residential buildings registered a reduction in volume of 2.3 per cent. due to a decline in demand.

In 2012, as compared to 2011, the volume of construction works decreased by 0.2 per cent. (unadjusted series) and increased by 1.6 per cent (adjusted series), respectively. New construction works increased by 5.9 per cent. Maintenance and current repair works registered a decreased of 11.4 per cent. and capital repair works registered a decrease of 8.9 per cent., compared to 2011. As regards constructions by type, in 2012, civil engineering and non-residential buildings grew by 2.9 per cent., and 2.1 per cent., respectively while residential buildings decreased by 15.4 per cent.

The following table shows the percentage change in the construction sector for 2008 to 2012:

Construction Sector

	2008	**2009**	**2010**	**2011**	**2012**
	(percentage change against the corresponding period of the previous year)				
Construction works[(1)]	26.9	-18.3	-11.0	2.8	-0.2
of total by structural elements:					
New construction works	17.7	-22.6	-1.3	2.5	5.9
Capital repair works	48.1	-10.1	-21.2	10.3	-8.9
Maintenance and current repairs works	51.1	-7.8	-19.4	-0.7	-11.4
of total by type of construction:					
a) Buildings.	37.1	-17.8	-23.9	2.9	[(2)]
Residential buildings	34.7	-20.2	-35.7	-2.3	-15.4
Non-residential buildings	39.4	-15.7	-13.6	6.3	2.1
b) Civil engineering	18.0	-12.2	-3.1	2.6	2.9

(1) Data recalculated according to NACE Rev.2; the figures for 2008 are computed based on monthly data.

(2) Data not available.

Note: The figures for 2008-2010 are final data and the figures for 2011 and 2012 are provisional data computed based on monthly data.

Source: National Institute of Statistics

The number of residential buildings finalised in the first nine months of 2012 decreased by 8.4 per cent. compared to the corresponding period in 2011, amounting to 26,654 units, out of which 56.7 per cent. were erected in rural areas. The number of building permits issued for residential buildings in the first eleven months of 2012 was of 35,521 units, a slight decrease (3.2 per cent.) compared to the same period in 2011; 66 per cent. of the building permits were issued for buildings in rural areas.

Services

During 2008, the GVA in the services sector grew by 5.4 per cent. As a result of the recession, the volume of activity within this sector subsequently diminished, leading to reductions of 7.4 per cent. in 2009 and 3.6 per cent. in 2010.

In terms of contributions by the various subsectors to overall service sector performance, growth was recorded in the 'hotels and restaurants, transport and communications' sector, which registered an increase of 8.2 per cent. in 2008, as well as the 'financial activities, real estate, renting and business services' sector, which saw an increase with 4.4 per cent. in 2008. Other service activities registered moderate increases (1.4 per cent. in 2008).

In 2009, the GVA in the 'trade, hotels and restaurants, transport and communications' subsector decreased by 9.4 per cent. and continued its slowdown in 2010, albeit at a slower pace (2.0 per cent.). The GVA in the financial activities, real estate, renting and business services' subsector, decreased by 7.3 per cent. in 2009 and by 3.8 per cent. in 2010. The GVA in 'other services' activities' decreased by 3.8 per cent. in 2009 and by 6.0 per cent. in 2010.

In 2011, GVA in the services sector increased by 2.9 per cent. A growth of 9.6 per cent. in GVA has been recorded in the financial activities, real estate, renting and business services subsector and 0.6 per cent. in other service activities, while the GVA in trade, hotels and restaurants, transport and communications subsector has decreased by 1.5 per cent.

In the first nine months of 2012, GVA in the services' sector increased by 1.6 per cent., of which the GVA in 'trade, hotels and restaurants, transport and communications' subsector increased by 1.6 per cent as compared to the same period in 2011, while GVA in 'financial activities, real estate, renting and business services' sector increased by 4.5 per cent. and GVA in 'other service activities' decreased by 1.7 per cent., respectively.

Energy

The Ministry of Economy has overall responsibility for securing the production and distribution of energy in Romania.

From 2008 to 2012, the primary energy resources that together comprised Romania's domestic production were:

	2008	2009	2010	2011	2012[(1)]
			(per cent.)		
Net coal	24.4	23.1	21.5	24.3	28.3
Crude oil	16.0	15.7	15.3	15.0	17.0
Usable natural gas	31.2	32.0	31.7	31.8	37.7
Hydroelectric energy and nuclear electric energy	14.7	15.1	16.8	15.6	17.0
Others	13.7	14.1	14.7	13.3	—
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Data for 2012 is based on the share of main primary energy resources.

Source: National Institute of Statistics

Romania's primary energy resources produced in 2008 amounted to the equivalent of 48.2 million tonnes of oil equivalent, representing a 1.5 per cent. increase compared to 2007. Of the total amount, 59.7 per cent. was generated by domestic production, 33.9 per cent. was generated by imports and 6.4 per cent. was produced from stocks existing at the beginning of the year.

In 2009, Romania's primary energy resources produced decreased to 42.7 million tonnes of oil equivalent, which represents a 11.3 per cent. decrease compared to 2008. Of the total amount, 65.6 per cent. of total resources was generated by domestic production, 26.3 per cent. was generated by imports and 8.1 per cent. was produced from stocks existing at the beginning of the year.

During 2010, the primary energy resources produced amounted to the equivalent of 42.5 million tonnes of oil equivalent, which represents a 0.6 per cent. decrease compared to 2009. Of the total amount, 64.6 per cent. was generated by domestic production, 26.5 per cent. was generated by imports and 8.9 per cent. was represented by stocks existing at the beginning of the year.

In 2010, production of coal decreased by 8.9 per cent., production of crude oil decreased by 4.6 per cent., and production of natural gas decreased by 2.9 per cent., each as compared to 2009. These decreases were partially offset by an 8.9 per cent. increase in the production of hydroelectric and nuclear energy in 2010 compared to 2009.

In 2010, there was a 15.6 per cent. decrease in the level of both coal and crude oil imports compared to 2009, while imported electricity and natural gas increased by 17.9 per cent. and 13.6 per cent., respectively, compared to 2009. In 2010, the total import of primary energy resources remained at the same level as in 2009.

In 2011, Romania's primary energy resources produced amounted to the equivalent of 42.4 million tons of oil equivalent, representing a 0.1per cent. decrease compared to 2010. Of this total, 64.7 per cent. was generated by domestic production and 27.3 per cent. by imports and 8.0 per cent. was represented by stocks existing at the beginning of the year.

The production of primary energy resources increased in 2011 by 0.1 per cent. compared to 2010. During 2011 decreases of 7.2 and 1.4 per cent. were recorded in the domestic production of hydroelectric and nuclear energy and in the domestic production of crude oil, respectively. Net coal production increased by 12.8 per cent. and natural gas production, increased by 0.2 per cent. compared to 2010.

In 2011, compared to 2010, imports of crude petroleum decreased by 6.4 per cent., imports of usable natural gas increased by 35.7 per cent., electricity increased by 34.8 per cent, net coal imports increased by 10.4 per cent. and imports of petroleum products increased by 8.6 per cent. During this period the total imports of primary energy resources increased by 2.9 per cent.

In 2012, the primary energy resources amounted to the equivalent of 34.0 million tons of oil equivalent, representing a 2.2 per cent. decreased compared to 2011. In this period, 66.9 per cent. of the total amount was generated by domestic production and 33.1 per cent. by imports.

The production of primary energy resources decreased in 2012 with 2.7 per cent. compared to 2011, because of the decrease in certain primary energy resources: domestic production of hydroelectric and nuclear energy (-7.4 per cent.), coal production (-3.7 per cent.) and crude oil production (- 2.1 per cent.). Natural gas production increased in this period by 0.1 per cent..

In 2012, the total imports of primary energy resources decreased as against 2011 by 1.2 per cent. In this period, coal imports increased by 29.2 per cent, electricity imports increased by 19.8 per cent and imports of petroleum products increased by 13.4 per cent. The imports of usable natural gas decreased in this period by 10.2 per cent and imported crude oil decreased by 5.9 per cent. It is likely that this decrease is due to the decline of domestic consumption and an increase in energy efficiency.

Electricity

The structure of the sources of electricity production from 2008 through 2012 is as follows:

	2008	2009	2010	2011	2012
			(per cent.)		
Electricity produced in thermo-power stations	56.2	52.5	47.2	54.9	55.8
Electricity produced in hydropower stations	26.49	27.28	33.2	24.0	20.5
Electricity produced in wind-power stations	0.01	0.02	0.5	2.2	4.4
Electricity produced in nuclear-electric stations	17.3	20.2	19.1	18.9	19.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Institute of Statistics

In 2009, the electricity production recorded a decline of 10.7 per cent., from 64.96 TWh in 2008 to 58.02 TWh. The decrease of electricity production was mainly due to lower electricity demand on foreign markets (exports of electricity declined by 43 per cent. in 2009), although domestic demand also fell (the final electricity consumption decreased by 10.0 per cent.). 52.5 per cent. of electric energy production in 2009 was provided by thermo-power stations, followed by 27.3 per cent. of production from hydropower stations and wind power stations, and by 20.2 per cent. from nuclear plants.

In 2010, the production of electricity recorded a 5.1 per cent. increase to 60.98 TWh as compared to 2009. Hydroelectric power production increased by 28.1 per cent. in 2010 due to favourable rainfall conditions for hydro power production. As a result, the share of electricity produced in hydroelectric and wind power stations increased by 33.7 per cent., while the share of electricity produced in classical thermo-power stations and nuclear-plants decreased to 47.2 per cent. and 19.1 per cent. respectively. In 2010 final electricity consumption increased by 9.9 per cent. as compared with 2009, while exports recorded a 3.2 per cent. increase.

In 2011, the electricity production was 62.2 TWh, representing an increase of 2.0 per cent. as against 2010. The production of electricity from hydroelectric power plants decreased by 26.2 per cent. due to low rainfall in 2011, a decrease that has been compensated by an 18.5 per cent. increase in electricity produced in thermoelectric power plants, which required a significant increase in coal production during this period. The classical thermo-power stations had the largest share of the total of electricity production (54.9 per cent.), followed by hydroelectric and wind power stations (26.2 per cent.) and nuclear plants (18.9 per cent.). During this period, the final electricity consumption increased by 3.4 per cent. and total electricity consumption in the Romanian economy increased by 4.1 per cent., while the electricity exports decreased by 3.3 per cent.

The electricity production in 2012 was 59.5 TWh, a decrease of 3.0 per cent. compared with the previous year. The production of electricity from hydroelectric power plants and nuclear power plants decreased in this period by 18.7 per cent. and 2.4 per cent., respectively. The electricity produced from wind power plants increased by 112.4 per cent. while electricity produced from thermoelectric power plants decreased by 0.4 per cent. The classic thermo-power stations had the largest share of total electricity production (55.8 per cent.), followed by hydroelectric and wind power stations (24.9 per cent.) and nuclear-electric stations (19.3 per cent.). During this period, final electricity consumption increased by 0.2 per cent., while total electricity consumption in the Romanian economy remained around the same level. Electricity exports decreased in this period by 71.1 per cent. from 2457.2 million KhW in the year of 2011 to 710.5 million KhW in the year of 2012. The decrease in exports of electricity in 2012 may be explained by the perception of increased risks in connection with Romania as a result of Hidroelectrica, Romania's main energy producer, entering insolvency proceedings. Another factor contributing to the reduction of exports was the decrease in production due to severe drought in 2012 (Hidroelectrica activated, as a result, the force majeure clause in a significant number of contracts to suspend its deliveries in 2012).

In the period from 2008 to 2011, Romania was a net exporter of electricity and, in light of the existing energy generation projects under development, indicating the expansion of renewable energy production, it will increase its energy production capacity in the near future. However, Romania must invest in the rehabilitation and development of the national energy grid in order to be able to manage such expansion of energy production capabilities. Studies performed by Transelectrica S.A., the national energy transmission and system operator, came to the conclusion that, currently, the technical conditions of the national electricity grid do not allow the installation of more than 3,500 – 4,000 MW from wind power plants without affecting the security of the electricity grid. At the present date, requests have been addressed to Transelectrica S.A. for the connection to the national grid of more than 30,000 MW capacity wind power plants.

In line with EU requirements, recent changes to the energy legislation set out a calendar for the liberalisation of electricity prices. Liberalisation started on 1 September 2012 in respect of non-households (completion of liberalisation is planned for 31 December 2013) and is expected to start at 1 July 2013 in respect of household consumption (to be completed on 31 December 2017). The timetable for such liberalisation has been created with the aim to ensure price protection for vulnerable end-users and affordable price levels.

The Government is currently considering potential measures for the reorganisation of Romanian electricity and heating companies with the goal of possible privatisation (see "*—The Romanian Economy—Overview—Privatisation*").

Electricity Market

Romania has liberalised its wholesale electricity market in accordance with EU requirements. The wholesale electricity market is based on bilateral contracts, concluded between producers and suppliers to the final customers (which account for approximately 50 per cent. of the total internal consumption in the first six months of 2012). In addition, Romania operates a centralised bilateral contracts market ("**PCCB**"), a centralised market of standardised bilateral contracts with continuous negotiation (the "**PCCB-NC**"), a Day Ahead Market ("**DAM**"), an intraday market ("**IDM**") and an operational balancing market ("**BM**").

The DAM is a part of the electricity wholesale market which offers to market participants the possibility to balance their own portfolio with their delivery obligations with one day in advance than the respective delivery days. The DAM rules create a centralised wholesale electricity market. In 2011, around 16 per cent. of transactions for electricity consumption were made on the DAM; in 2012, around 20 per cent. of the transactions for electricity consumption were made on the DAM. A yearly analysis indicates an increase by more than three times of the volumes traded on the DAM between 2005 (with trades accounting for 388,927 MWh) and 2012 (with trades accounting for 1,220,200 MWh). Until the end of December 2012, less than 1 per cent. of the total electricity consumption was traded on the IDM.

By September 2012, electricity transactions for domestic consumption with delivery in 2012, carried out on the centralised electricity markets (except the BM) amounted to approximately 35 per cent. of the entire domestic electricity consumption. In October, as a consequence of the deregulation of energy prices that started on 1 September 2012, more than 40 per cent. of the domestic electricity consumption was traded on the centralised electricity markets. This percentage has varied between 35 per cent. and 40 per cent. in the subsequent months. In 2012, 18.98 million MWh of electricity (the equivalent of around 35 per cent. of the electricity consumption in 2012) was contracted for delivery on the markets administered by OPCOM (the administrator of the Romanian electricity market), i.e. the DAM, the IDM and PCCB, which is an increase of 10 per cent. from 2011.

The BM is operated by Transelectrica S.A. in order to maintain the balance between the consumption and production of electricity. The volumes traded on the BM increased in 2011 and 2012 to around 8 per cent. of the yearly domestic electricity consumption from 5 per cent. in 2010. The increase was due to imbalances in the national power system generated by the oscillation of hydro energy production in the context of drought alternating with heavy rains in 2011 and 2012.

The development strategy of OPCOM currently includes two projects for products for electricity trading. One project is aiming to provide the possibility to conclude over-the-counter trades for standard products for daily, weekly, monthly and yearly delivery periods on continuous real time basis. The other project is aiming to provide the possibility to conclude long term bankable contracts, based on the provisions of a framework contract, using the flexible mechanism of the competitive dialogue and the electronic platform for conclusion of trades. Such a system was approved by the Romanian Energy Regulatory Authority ("**ANRE**") through regulation effective since the end of 2012. The new platform allows large electricity consumers to buy electricity directly from suppliers over longer timeframes (up to five years), with the use of price formulas applicable for the entire timeframe. The new trading system observes the transparency and non-discriminatory requirements laid down for electricity trading in the applicable Romanian legislation implementing the EU directives.

The Romanian electricity market is scheduled to be integrated in the Single European Market by 2014, thus increasing the expectations of an increased liquidity in the wholesale electricity market in the near future. Projects for the coupling of the Romanian electricity market with the electricity markets of neighbouring countries are ongoing. During 2012, the Romanian market operator, OPCOM, the transport and system operator, Transelectrica, and the Romanian regulator, ANRE, have entered into non-disclosure agreements with the market operators, transport and system operators and corresponding national regulators from the Czech Republic, Slovakia, Poland and Hungary, and have agreed to further analyse the accession by Romania and Poland to the Czech-Slovak-Hungary market coupling project. A similar market coupling project is ongoing with Bulgaria.

In addition, the investments in 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 scheme is authorised by EC through the Decision No. SA 33134.2011/N. The implementation of the green certificates scheme led to the commissioning in 2012 of 1,045 MW of renewable energy power plants, and a 2012 year-end total renewable energy production capacity under the promotion scheme of 2,284 MW.

Natural Gas

In 2008, Romania's total natural gas consumption was 15.6 billion cubic metres. Of the total gas for consumption, 11.2 billion cubic metres (71.8 per cent.) was generated by the domestic production and 4.4 billion cubic metres (28.2 per cent.) were imported, mainly from Russia.

In 2009, Romania's total natural gas consumption was 13.3 billion cubic metres. Of the total natural gas for consumption, 11.3 billion cubic metres (85.0 per cent.) was generated by domestic production and 2.0 billion cubic metres (15.0 per cent.) were imported, mainly from Russia.

In 2010, Romania's total natural gas consumption was 13.6 billion cubic metres. Of the total natural gas consumption, 10.9 billion cubic metres was generated by domestic production (80.1 per cent.), 2.3 billion cubic metres (16.9 per cent.) were imported, mainly, from Russia and the remainder represented consumption of existing stock.

In 2011, Romania's total natural gas consumption was 14.0 billion cubic metres. Of the total natural gas consumption, 10.9 billion cubic metres were generated by domestic production (77.9 per cent.) and 3.1 billion cubic metres (22.1 per cent.) were imported, mainly from Russia.

In 2012, Romania's total natural gas consumption was of 13.5 billion cubic metres. Of the total natural gas consumption, 10.6 billion cubic metres were generated by domestic production (78.5 per cent.) and 2.9 billion cubic metres were imported (21.5 per cent.), mainly from Russia.

In order to reduce dependency on any source of gas, Romania is actively promoting projects to diversify both the routes and sources of its gas, as evidenced by the Nabucco and AGRI projects (for further details, see "*—The Romanian Economy—Restructuring and Investment*"). Moreover, in order to further reduce import dependency, several projects relating to the development of unconventional resources are underway. These projects involve conducting 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, but further investigations are necessary before its potential can be assessed.

In line with EU requirements, recent changes to the energy and gas legislation set forth, *inter alia*, a road map for the liberalisation of the prices of natural gas. The liberalisation for non-households started on 1 February 2013 after the approval of the Romanian Government of a decision on the prices of domestic gas. The prices for non-households will be fully liberalised beginning January 2015. For households, the regulated gas prices will increase starting from July 2013, and they will be fully liberalised no later than the end of 2018. The timetable for such liberalisation was created with a view to ensure price protection for vulnerable end-users and affordable price levels.

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 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 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;
- The development of 21 new hydroelectric power station projects with an aggregate capacity of approximately 900 Megawatts;
- The Tarnita-Lapustesti pump storage hydroelectric power plant, with a capacity of 1,000 MW;
- The construction of the Nabucco gas pipeline; and
- The AGRI project (Azerbaijan-Georgia-Romania natural gas transport system).

The initial Nabucco project aimed to connect the Caspian Sea and Middle East gas reserves to European markets through a pipeline across five countries starting at the eastern Turkish border and ending at Baumgarten (the Austrian trading and technology hub). The projected total length of the pipeline was 3,282 km (457 km of which is in Romanian territory), and the amount of gas projected to be transported by 2014 was anticipated to be 10 billion cubic metres per annum ("**p.a.**"), with an estimated possible increase to 24 billion cubic metres p.a. by 2024. Nabucco is considered to play a key role in increasing competitiveness in the regional energy market by offering a new source of gas for Europe. On 8 June 2011, all the Nabucco partners signed the Project Support Agreements, intended to facilitate final investment decisions, attract investments in the project and help to ensure viable suppliers. A specific Nabucco law providing measures for facilitating the project implementation on Romanian territory is under consideration.

On 28 June 2012, the Shah Deniz II Consortium developing Azerbaijan's Shah Deniz gas field announced that the Nabucco West project had been selected as the single pipeline option for the potential export of Shah Deniz Stage 2 gas to Central Europe. In 2012, the Shah Deniz II Consortium had announced the selection of the Trans-Adriatic Pipeline as the potential route for export of Shah Deniz gas to Italy. In January 2013, the Nabucco shareholders signed a cooperation agreement and an equity option and funding agreement with the Shah Deniz partners and potential investors, with a view towards the development of the Nabucco project.

The Shah Deniz II Consortium will make a final decision between the Nabucco and the Trans-Adriatic Pipeline projects and will conclude related gas sales agreements in June 2013.

The AGRI project aims to supply natural gas from the Caspian region, mainly from Azerbaijan, to Romania and to the EU, in order to diversify sources and routes of natural gas supply and, thus, contribute to Romania's and the EU's long-term energy security. Natural gas from the Caspian region will be transported through the territory of Georgia and across the Black Sea by means of the Liquefied Natural Gas technology. Gas is intended to be liquefied in Georgia and re-gasified in Romania, where it will be partly uploaded in the Romanian natural gas transportation network for domestic consumption and partly transported further to the EU through the interconnected natural gas network from Hungary. A feasibility study for the project was commissioned and is expected to be finalised in March 2013.

The Romanian natural gas transportation network was connected to Hungary's transportation network in 2010. The gas transmission companies from the two States have negotiated a roadmap for the implementation of reverse flow for the interconnection, aiming to reach a reverse flow capacity of 50000 cm/h by the end of 2013. Romania thus has gained access to the EU natural gas transportation network. Romania plans to connect its natural gas transportation network with Bulgaria, Serbia and the Republic of Moldova. The interconnections with Moldova and with Bulgaria, respectively, are ongoing and are designed to have reverse flow. Financing for these projects will be available under an EU regulation promoting a programme to aid economic recovery by granting EU financial assistance to energy-related projects.

Projects for the construction of natural gas storage facilities are currently under development, aiming at storing natural gas in areas in the vicinity of the future Nabucco pipeline, but also in areas with large consumers or with large variations of natural gas consumption.

Transportation

The transport sector represents the second most important services category in the tertiary sector, representing more than 7 per cent. of GDP in 2011.

The following table shows the percentage change in the transport of passengers as compared to the previous year from 2008 to 2011 and the first nine months of 2012 as compared with the first nine months of 2011:

Change in Passengers Transported According to Modes of Transport

			2008	**2009**	**2010**	**2011**	**January - September 2012**
			(percentage change against the corresponding period of the previous year)				
1.	Interurban and international transport[1].....................		-	-11.1	-6.6	-1.6	1.6
	(i)	Railway transport.....................................	-11.3	-10.1	-8.6	-5.1	-8.1
	(ii)	Road transport[1].......................................	—	-11.7	-6.7	-1.0	4.2
	(iii)	Inland waterways transport.......................	-8.1	-17.0	-47.8	50.0	-18.0
	(iv)	Air transport...	15.9	0.2	11.4	6.5	0.4
	(v)	Maritime transport[2]	216.7	-65.8	76.9	16.1	21.1
2	Urban transport-total		0.0	-3.6	1.3	-6.0	-5.3

(1) Since 2008 modified statistical methodological reference year approach was applied

(2) Cruise passengers on cruise passenger excursions – inwards included

Source: National Institute of Statistics

The interurban and international transport of passengers decreased in 2011 by 1.6 per cent. due to decreases in railway transport (-5.1 per cent.) and road transport (-1.0 per cent.). In 2011, as compared to the previous year, increases were recorded for inland waterways transport (50.0 per cent.), maritime transport (16.1 per cent.) and air transport (6.5 per cent.) based on increased tourism demand and airborne passenger mobility. Urban transportation decreased by 6.0 per cent. in this period. In the first nine months of 2012 interurban and international transport of passengers increased by 1.6 per cent. as compared to the same period of the previous year, mainly due to an increase of 4.2 per cent. of road transport, which recorded a share of 80.0 per cent. of total interurban and international passengers transported, and also due to an increase of 21.1 per cent. in maritime transport which recorded a share of only 0.005 per cent. Inland waterways transport and railway transport decreased in this period by 18.0 per cent. and by 8.1 per cent. respectively, while air transport increased by 0.4 per cent. for the first nine months of 2012. Urban transport registered a decrease of 5.3 per cent.

The following table shows the percentage change in goods transported as compared to the previous year from 2008 to 2011 and the first nine months of 2012 as compared with the first nine months of 2011.

Change in Goods Transported According to Modes of Transport

	2008	2009	2010	2011	January - September 2012
	(percentage change against the corresponding period of the previous year)				
Goods transport – total[(1)]	-8.7	—	-26.4	4.7	0.4
1. Railway transport	-3.0	-24.2	4.6	14.7	-8.0
2. Road transport	2.2	-19.5	-40.5	5.2	3.5
3. Maritime transport	3.1	-28.6	5.8	2.0	4.2
4. Inland waterways transport [(1)]	3.0	—	29.7	-8.4	-5.3
5. Air transport	22.7	-11.1	8.3	5.9	6.7
6. Transport via petroleum pipe-lines	0.6	-31.2	-23.1	-8.1	-9.0

(1) Since 2009 reference year IWW transit transport data based on Harbour Masters reporting and IWW transport between Bulgarian ports equivalent to IWW transit transport for Romania included.

Source: National Institute of Statistics

Regarding goods transportation, in 2011 the most significant increase was recorded in railway transport (14.7 per cent.) and the most important decrease was recorded in inland waterways transport (-8.4 per cent.). In 2011 most modes of transport registered growth as compared with 2010, except for transport via petroleum pipelines and inland waterways transport, which registered a decline in each case. The rise in railway transport freight volumes was the outcome of railway infrastructure modernisation.

In the first nine months of 2012, goods transportation increased by 0.4 per cent. as compared to the same period of the previous year. Some means of goods transportation registered growth as compared to the same period of the previous year: air transport (+6.7 per cent.), maritime transport (+4.2 per cent.), road transport (3.5 per cent.), while the others registered decreases: inland waterways transport (-5.3 per cent.) railway transport (-8.0 per cent.), and transport via petroleum pipe lines (-9.0 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 and river navigation monitoring systems and modernising 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 such as the TEN-T programme (the regulations laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks, as revised in 2012), the CF, the ERDF and 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 and air infrastructures, while also emphasizing environmental protection, public health and passenger safety.

Another objective of Romania's transport policy is to ensure the efficient management of European funds that may be accessed in the transport sector. By the end of 2012, 87 transport projects financed from EU Structural Funds were established, the majority of which are expected to be fully implemented.

By the end of 2015, Romania plans to complete the construction of 487 km of new roads the renovation of 303 km of existing roads under TEN-T. Romania also aims to complete the construction of 251.35 km of new motorway by the end of 2013 and to renovate 209 km of railways, 18 rail stations and 98 rail bridges/tunnels by the end of 2015. Investments are also dedicated to modernise the Otopeni International Airport near Bucharest and plans exist to modernise two other airports by the end of 2015 (Suceava and Constanta). By the end of 2012, five contracts had been agreed to regarding port renovation. Additional plans exist for opening a minimum of 200 km of inland waterways for boat navigation (with a minimum depth of 2.5m).

After the 2012 parliamentary elections, the new Government decided to transfer the National Company for Motorways and National Roads in Romania ("**NCMNRR**") from the Ministry of Transport under the authority of the newly established Department for Infrastructure Projects of National Interest and Foreign Investments ("**DIPFI**"). The NCMNRR is currently being restructured into the National Motorways Company, to be placed under the supervision of the DIPFI, and the National Roads Company, which will be transferred back to the authority of the Ministry of Transport. At the same time, the management of EU funds related to the field of transport (including funds financing the construction of large infrastructure projects under DIPFI's authority) remains under the authority of the Ministry of Transport.

The two new entities, the National Motorway Company and the National Roads Company, are expected to prepare and publish, in the course of 2013, strategies for the development of the Romanian road transport infrastructure, which could include, inter alia, a revision of the financing sources of infrastructure development projects with the aim to increase the use of European funding in infrastructure development (including by amending existing infrastructure projects which are eligible for financing from European funds).

Two motorways projects (the Comarnic-Brasov motorway and the South section of the Bucharest ring road) were launched at the end of 2012 and the procedures for awarding the public works will be completed by the end of February 2013. The projects will be coordinated by the future National Motorways Company under DIPFI's supervision. Other infrastructure projects coordinated by the DIPFI are the Braşov-Târgu Mureş-Cluj-Borş motorway (Transylvania motorway), the Piteşti-Craiova motorway, a bridge over the Danube (Brăila-Galați) and a new large capacity terminal in Constanta South Port. These projects are expected to be funded via PPP.

Prices and Inflation

Romania experienced a steady decline in the positive rate of inflation ("**disinflation**") during the period from 2000 to 2006.

In August 2005, the NBR adopted inflation targeting as the monetary policy strategy. As a result of macroeconomic policy measures, structural factors and certain incidental effects, disinflation continued until the second half of 2007 when a trend reversal occurred. At the end of 2007, the rate of inflation reached 6.57 per cent. exceeding the target set at 4.0 per cent.

Even though the Government supported disinflation through a moderate rise in regulated prices (i.e. 5 per cent.), several strong external factors had a major contribution in the deviation of recorded inflation from the target band. This trend was not specific to Romania but was also obtained in other European countries due to weak agricultural production (which drove up food prices significantly) and pressures on the global oil market.

The annual increase in food prices reached 9.14 per cent. in December 2007, and food prices made the largest contribution to the increase in the rate of inflation during that year. This was due to: their high weight in the consumer basket; weather conditions affecting the domestic production of vegetables, fruit and grain; higher import prices; and a base effect arising from decreases in these prices in 2006.

Moreover, fiscal, budgetary and income policies remained expansionary and added to an excess demand for currency. In addition, wage growth surpassed labour productivity gains thus creating further inflationary pressures.

Unfavourable supply-side developments continued to drive inflation up in the first six months of 2008 (to a peak of 9.04 per cent. in July 2008). Inflation later subsided gradually due to bumper crops, declining external prices of commodities and other unprocessed foods, as well as the sharp fall in the oil price on foreign markets (which was reflected in domestic fuel prices). For most of 2008, excess demand, fuelled by rapid wage growth in the private sector and loose fiscal, budgetary and income policies, generated inflationary pressures. However, the economic slowdown triggered by the financial crisis and the subsequent change in consumer attitude in the fourth quarter of 2008 led to an easing of demand-side inflationary pressures. Therefore, the annual inflation rate fell to 6.3 per cent. in December 2008, although this was in excess of the 2008 target of 3.8 per cent.

In the first quarter of 2009, the annual inflation rate picked up temporarily, peaking at 6.89 per cent. in February, largely due to the sharp depreciation of the RON. The latter affected not only imports and goods and services whose prices were linked to the euro, but also the products liable to excise duties, after applying a higher exchange rate for calculating such taxes in RON at the beginning of the year. Inflationary pressures also came from higher EUR denominated excises on fuels and the reversal of the decline in world oil prices, a notable increase in unit labour costs and worsening inflation expectations. Later in 2009, once talks began with respect to a multilateral financing arrangement with foreign institutions, annual inflation moderated amid foreign investors' improved perception of the Romanian economy and lower inflation expectations.

Food prices contributed decisively to the moderation of annual inflation, increasing by only 0.38 per cent. in 2009 due to the sufficient supply of agricultural food items. The increase in the prices of non-food goods was at

7.72 per cent. during 2009. The two-stage increase in EUR denominated excise duties for tobacco products and the impact of a further rise in such duties expressed in RON as of 1 January 2010 had a considerable effect on the increase in prices for non-food goods: the contribution of tobacco products to the annual inflation rate was about 1.8 percentage points. Moreover, fuel prices increased ending the year 13.2 per cent. higher, driven by oil price developments in the international market. However, energy prices (electricity, heating and natural gas) posted a 2.2 per cent. annual decline due to cuts in natural gas prices.

Prices for services rose by 6.86 per cent. during 2009, mainly due to corrections of administered prices for communal services and to the national currency depreciation, most visible in telephony price changes.

As at the end of 2009, annual consumer price index inflation stood at 4.74 per cent. as compared to the target rate of 3.5 per cent.

During the first six months of 2010, annual inflation slowed to 4.38 per cent., despite increases in excise duties, corrections of administered prices and upward movements in oil prices in the international markets which led to increases in domestic fuel prices.

The five percentage point increase in VAT in July 2010 to 24 per cent. brought about a temporary pick-up in inflation. Moreover, in the second half of 2010, supply-side pressures in the agro-food market, especially in the vegetables and fruit segment, grew stronger, following lower domestic supply and higher external prices. The impact of higher global oil prices on fuel prices and some unfavourable base effects added to these pressures. Thus, at the end of 2010 the annual consumer price index inflation was 7.96 per cent. (above the 3.5 per cent. target).

The same supply-side adverse shocks contributed, along with higher excise duties on fuels, to the annual CPI inflation rate reaching 8.4 per cent. in May 2011, well above the upper boundary of the variation band around the 3 per cent. target. After this peak, the annual CPI rate fell gradually to 3.14 per cent. in December 2011, as a result of: (i) the substantial decline in food price inflation starting in June 2011 (to 0.95 per cent. in December 2011 compared to December 2010), due to the high domestic output of 2011 and the easing of tensions on the global food commodity markets; (ii) the statistical base effect associated with the fading of the first-round impact of the standard VAT rate hike in July 2010; (iii) the persistence of the aggregate demand deficit; and (iv) the prudent monetary policy stance.

Fuel and administered prices exerted upward pressures on headline inflation. The increase in fuel prices (8.4 per cent. in December 2011 compared to December 2010) was mainly the result of movements in international oil prices and the RON/USD exchange rate. In addition, as of 1 March 2011, a cut in the excise duty on energy products with at least 4 per cent. bio-fuel content was removed, resulting in a 0.12 percentage point increase in annual inflation. Administered prices were also negatively affected by a change in the regime of indirect taxes, i.e., the implementation of a tax aimed at supporting electricity production in cogeneration plants, led to a 5 per cent. rise in the electricity price as of 1 April. Moreover, the elimination of heating subsidies from the state budget as of August 2011 was a major cause of the increases seen in both heating prices and tariffs for water, sewerage and sanitation. Measures taken to reduce state-owned transportation companies' losses included adjustments of passenger railway and subway transport prices.

Annual adjusted CORE2 inflation (measured as CPI excluding administered prices, volatile prices (i.e. prices of vegetables, fruit, eggs, fuels) and prices for tobacco and alcohol) fell to below 3 per cent. in the latter part of 2011, as the VAT hike impact faded, reaching 2.4 per cent. in December 2011. However, this level still exceeds that recorded before the VAT increase, reflecting the adverse supply-side shocks that particularly affected food prices in the first half of 2011. In spite of predominantly backward-looking inflation expectations that also hampered disinflation, both non-food and services' core components recorded annual increases below those posted prior to the VAT rate hike, mainly due to persistently sluggish demand.

The following table shows percentage changes in consumer prices for the period from 2008 to 2012:

Increases in Consumer Prices

	2008	2009	2010	2011	2012
	(percentage change against the corresponding period of the previous year)				
Average Increase					
Food goods..	9.22	3.25	2.33	6.02	1.89
Non-food goods..	6.36	6.22	9.78	6.15	3.77
Services...	8.57	8.97	4.78	4.45	5.07

Increases in Consumer Prices

	2008	2009	2010	2011	2012
	(percentage change against the corresponding period of the previous year)				
Total	**7.85**	**5.59**	**6.09**	**5.79**	**3.33**
End of Period Increase					
Food goods	6.02	0.38	6.45	0.95	6.21
Non-food goods	5.96	7.72	9.76	4.45	4.48
Services	7.71	6.86	6.43	4.23	3.61
Total	**6.30**	**4.74**	**7.96**	**3.14**	**4.95**

Source: National Institute of Statistics

At the end of 2012, annual CPI inflation rate stood at 4.95 per cent., up from 3.14 per cent. at the end of 2011, after having recorded an all-time low of 1.8 per cent. in April and May and a peak of 5.33 per cent. in September. This uneven path was largely shaped by base effects, to which added the transitory adverse supply shocks associated with the unfavourable weather conditions. The persistently negative output gap continued to dampen inflationary pressures, whereas the higher expenses on agricultural inputs, the depreciation of the national currency and the hikes in fuel prices acted in the opposite direction. Thus, the annual inflation rate exceeded the upper bound of the variation band of ±1 percentage point around the 3 per cent. central target set for 2012.

Over the period, food prices saw notable pressures stemming from higher costs triggered by adverse weather conditions, namely heavy snowfalls (causing supply disruptions), followed by the regional drought which impacted both the prices of processed food and, even more substantially, those of fruit and vegetables. The annual dynamics of the latter increased by some 30 percentage points from December 2011, owing to the current developments (in September 2012, the monthly increase was a record high for the last decade, but such trend was partly reversed in the subsequent months), but also to a sizable unfavourable base effect associated with the drop in volatile food prices during the summer of 2011. Due to the fruit and vegetables price dynamics, the overall food component (the growth rate of which accelerated from 0.95 per cent. at the end of 2011 to 6.21 per cent. at the end of 2012) had the largest contribution to the 1.81 percentage point increase in headline inflation during 2012.

While still above headline inflation, the annual growth rate of fuel prices slowed by 3.2 percentage points from December 2011 to 5.2 per cent., at the end of 2012 following the easing pressures stemming from global crude oil prices during the last quarter of 2012.

Administered prices also recorded a lower annual growth rate (6.1 per cent. in December 2012), with the most notable adjustments occurring in the prices of electricity, natural gas and water, sewerage and sanitation services. Electricity prices rose by a cumulative 13 per cent. in July and December so as to ensure better cost recovery and to include the price of “green certificates” – a support scheme for producers of green energy – into the bills paid by households.

The annual adjusted CORE2 inflation increased by around 0.9 percentage points (to 3.3 per cent.) in December 2012 versus December 2011, following the hike in the annual growth rate of prices for market services, which are more sensitive to exchange rate developments. Moreover, in the second half of 2012, the above-mentioned adverse supply shock associated with the poor agricultural output contributed to the upward path of the annual dynamics of processed food items. The persistence of a considerable negative output gap continued to alleviate inflationary pressures, as illustrated by the relatively modest monthly increases in non-food prices.

According to the NBR’s February 2013 Inflation report, annual CPI inflation rate at the end of 2013 is projected to stand at 3.5 per cent., at the upper bound of the ± 1 percentage point variation band around the 2.5 per cent. central target (starting in 2013, the NBR adopted a flat multi-annual inflation target at 2.5 per cent. ±1 percentage point). The current projection envisages the annual inflation rate peaking at 5.9 per cent. in the second quarter of 2013, before slowing down considerably until early 2014 and reaching 3.2 per cent. at end of 2014. The temporary pick-up in consumer price growth in the second quarter of 2013 will be driven by components exogenous to the monetary policy influence, namely administered prices, prices of volatile food items (VFE), fuels, tobacco products and alcohol. However, assuming a normal harvest and in the face of a persistent demand deficit, adjusted CORE2 inflation is expected to fall in the second part of the year, also contributing to the slowdown in the annual CPI inflation.

The annual adjusted CORE2 inflation dynamics is seen sliding from 3.3 per cent. at the end of 2012 to a 2 per cent. low at the end of 2013, before stabilising around 2.2 per cent. in 2014. The annual core inflation rate is thus projected to return in the second half of 2013 to levels seen before last year's adverse shocks in food prices and the leu exchange rate. The forecasted dynamics are indicative of the fading impact of these shocks and gradually adjusting inflation expectations, in line with the envisaged prudent monetary policy stance, aimed at preventing the second-round effects of these shocks. Import price inflation, another major driver of adjusted CORE2 inflation, is seen decelerating, primarily as a result of the recent appreciation of the domestic currency against both euro and the U.S. dollar, while the persistence of a wide negative output gap is expected to further generate sizable disinflationary pressures.

The assessment of the risks to the current inflation rate projection reveals a balance still tilted to the upside, i.e. towards unfavourable deviations from the baseline scenario, but slightly less asymmetric as compared with the previous round.

Domestically, the balance of risks is less tilted to the upside, following the fading out of domestic political tensions, which were still present when the November 2012 Inflation Report was released. However, potential slippages from the firm implementation of the macroeconomic policy mix and the structural reforms agreed with the international institutions (the EU, the IMF and the World Bank), might trigger a deterioration of investor sentiment towards the Romanian economy, which could heighten the volatility and costs of its financing sources.

At the current juncture, the most relevant risk is related to the external environment and derives from possibly higher medium-term volatility of capital flows aimed at financing the domestic economic activity, amid the lingering uncertainties on the time span of the recovery process of the EU economy, and of the euro area in particular. On the one hand, should a less favourable scenario on EU-wide economic growth materialise, investor sentiment regarding investments in the region's emerging economies would worsen via contagion effects and the demand for Romania's exports would be constrained. This would ultimately result in weaker capital flows to the Romanian economy and in depreciation pressures on the leu, which could entail adverse effects on domestic consumer price dynamics and financing costs for both private and public sectors. On the other hand, against the backdrop of uncertainty surrounding euro area growth prospects, substantial capital inflows, including those seeking temporarily higher returns (and therefore inherently unsustainable), would increase the leu exchange rate volatility and would prevent an orderly unwinding of macroeconomic imbalances.

At the same time, future movements in global commodity prices are a relevant risk factor particularly over the medium term, given that, over this horizon, the persistence or increase of uncertainties regarding the euro area would have a detrimental impact on the dynamics of the EUR/USD exchange rate and, consequently, the RON/USD exchange rate. At the same time, risks associated with unfavourable deviations of the CPI inflation rate from the baseline scenario path continue to stem, in this forecasting round as well, from administered price adjustments in Romania, amid the ongoing uncertainty over the timing and magnitude of electricity and natural gas price increases. Moreover, in view of the large share of food items in the consumer basket, any unfavourable deviation from the baseline scenario assumption, i.e. normal agricultural crops in 2013 and 2014, could weigh heavily on the projected inflation path.

Wages

As a result of Romania's economic growth, wages reported double digit percentage increases over several years until 2008. Since 2009, as a result of the global financial crisis, wages increased marginally in nominal terms, while in real terms wages in Romania have decreased.

Gross Earnings

	2008	**2009**	**2010**	2011	**2012**[(1)]
Average gross nominal monthly earnings (value in RON)........	1,761	1,845	1,902	1,980	2,134
(*percentage change against the previous year*).........................	26.1	4.8	3.1	4.1	5.0
Average net nominal monthly earnings (value in RON)............	1,309	1,361	1,391	1,444	1,547
(*percentage change against the previous year*).........................	25.6	4.0	2.2	3.8	4.9
Real earnings (*percentage change against the previous year*)...	16.5	-1.5	-3.7	-1.9	1.5

[(1)]Percentage changes are against the provisional data from the same period of the previous year.

Source: National Institute of Statistics

In 2009, the average gross monthly earnings in the public sector, including general government, education and health and social assistance, reached a level of RON 2,223, while in the private sector it reached RON 1,745. The average gross monthly earnings in the public sector was higher than in the private sector until the end of 2010.

In the second half of 2010, when public sector wages were reduced by 25 per cent., the gap between the monthly earnings in the public sector and those in the private sector was reduced. Thus, in 2010, the average gross monthly earnings in the public sector were RON 1,988 and the average gross monthly earnings in the private sector were RON 1,878.

In January 2011, the wages in the public sector increased by 15 per cent., so that for 2011 average gross earnings in the public sector was RON 1,931, while the average gross earnings in the private sector was RON 1,993.

In June 2012, the wages in the public sector were increased by 8.0 per. cent., followed by another 7.4 per cent. increase in December 2012. In 2012, the average gross earnings in the economy reached RON 2,134, 5.0 per cent. higher than in 2011. In real terms, in 2012 real earnings grew by 1.5 per cent. as compared to 2011.

The gross minimum wage applicable to the whole economy generally increased from 2008 to 2011, from RON 540 in 2008 to RON 600 in 2009 and in 2010 and to RON 670 in 2011. For 2012 the gross minimum wage for the whole economy increased to RON 700. Two increases of the gross minimum wage will take effect in 2013, raising the gross minimum wage to RON 750 from 1 February 2013 and, starting from 1 July 2013, to RON 800.

The Government has implemented the unitary pay reform of the public sector wage framework legislation, laying out a uniform and comprehensive framework for pay scale, wage and bonus calculations. The main objective of the new pieces of legislation, the reduction of the public sector wage bill gradually to 7.2 per cent. of GDP by 2012 from over 9.2 per cent. of GDP in 2009 was met, as indicated by the 2012 year-end figures.

The 2010 cut of public sector wages was reversed by the end of 2012, following a two-step increase of public sector wages in June 2012 (by 8 per cent.) and December 2012 (by 7.4 per cent.). Together with the 2011 15 per cent. increase of public sector wages, the two salary increases restored the level of public sector wages to the level before the 2010 cut.

Employment

From 2005 until the global financial crisis in 2008, labour shortages appeared and grew in several areas of economic activity and in respect of various skills. Employers found it more and more difficult to select and retain adequately qualified workers with the result that they were obliged to concede higher wages and other benefits.

This trend was mainly attributable to two factors: (i) an increase in demand for labour, particularly in the services and construction sectors as a result of economic growth in the mentioned period (the employment rate for persons aged 15 to 64 went up to 59.0 per cent. in 2008), and (ii) the migration of workers abroad, a trend which gathered momentum after 2002 when the requirement for visas for the Schengen area was lifted.

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 and an influx of labour into Romania. Estimates indicate 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. The impact of this displacement has reversed in recent periods as significant numbers of Romanian citizens have returned due to adverse economic conditions abroad resulting from the global financial crisis.

The following table shows changes in labour force for the years 2008 to 2011 and for the first nine months of 2012:

Labour Force

	2008	2009	2010	2011	January – September 2012

	(percentage change against the corresponding period of the previous year)				
Active population[1][2]	-0.3	0.3	0.6	-0.7	1.1
Employment[1]	0.4	-0.9	0.2	-0.8	1.3
Employees...	1.9	-1.6	-2.4	1.5	1.2
	(per cent)				
Activity rate[1][2]..	62.9	63.1	63.6	63.3	64.3
Employment rate[1]	59.0	58.6	58.8	58.5	59.6
International Labour Organisation (ILO) unemployment rate	5.8	6.9	7.3	7.4	7.1

(1) Working age population (15 – 64 years old)

(2) Total number of individuals who are either employed or are actively seeking employment

Source: National Institute of Statistics

Before the financial and economic crisis, an increase in job supply and the Government's active employment policies led to an increase in the total number of people in employment and a decrease in unemployment. However, the labour force deficit has become a matter of concern in relation to certain sectors and professions where high wages exceeded productivity gains. In addition increased inflation has negatively impacted the external competitiveness of certain sectors.

In 2009, the slowdown in activity across all economic sectors put pressure on the labour market, leading to a 0.9 per cent. decrease in employment of the economically active population (15-64 years old). During 2010 the labour market stabilised and registered an employment increase of 0.2 per cent.

Due to the global financial crisis, the employment rate declined in 2009 to 58.6 per cent, but measures taken to re-launch the economy adopted in 2009 and 2010 led to a small increase in the employment rate to 58.8 per cent. in 2010. In 2011, the employment rate for the working age population (15-64 years old) decreased to 58.5 per cent. In the first nine months of 2012, the employment rate increased to 59.6 per cent.

The strong impact of the global financial crisis on the Romanian labour market is seen from the increase of the International Labour Organization (the "**ILO**") unemployment rate, which rose sharply from 5.8 per cent. in 2008 to 6.9 per cent. in 2009 and further to 7.3 per cent. in 2010. In 2011 the ILO unemployment rate increased slowly to 7.4 per cent. In the first nine months of 2012 it was 7.1 per cent.

Over the course of 2011 the registered unemployment rate has significantly decreased compared to the figures as at 31 December 2010. Whilst the ILO unemployment methodology aims at determining the total number of persons unemployed (regardless of whether they are registered as unemployed or not), the registered unemployment methodology is computed using official data on persons having registered as unemployed with the National Employment Agency.

The registered unemployment rate as at the end of June 2012 was 4.58 per cent., which represents the lowest level of the registered unemployment rate since the beginning of the global financial crisis. As at 31 December 2012 the registered unemployment rate was 5.59 per cent.

Registered Unemployment Rate

	as at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(per cent.)		
Registered Unemployment Rate...............................	4.4	7.8	7.0	5.2	5.59

Source: National Employment Agency

As shown in the table above, the crisis resulted in a strong increase in the registered unemployment rate since 2008, increasing to 7.8 per cent. at the end of 2009 and peaking at 8.4 per cent. at the end of March 2010. Since that peak, on the back of a slight economic recovery (leading to a growth of 2.2 per cent. of the GDP in 2011), the registered unemployment rate has decreased gradually, corresponding to a trend which continued until June 2011, when the registered unemployment rate reached 4.84 per cent, after which it increased again to 5.2 per cent. as at 31 December 2011. The descending trend in registered unemployment is explained by the positive effects of the labour legislation reform adopted by the Government in order to boost economic activity and employment in 2010 and 2011.

In the first months of 2012, the unemployment rate continued to decrease but increased again in the latter part of the year, as a result of reduced economic activity and prolonged drought affecting agriculture, leading to a year-end unemployment rate of 5.59 per cent.

Challenges in the labour market were addressed in a new Labour Code in force since May 2011. This new legislation aimed to make the labour market more flexible for employers by, *inter alia*, increasing the duration of temporary contracts and the duration of probation periods, enhancing the use of temporary work agents, reducing the costs of firing personnel, allowing employers to hire staff within 45 days of collective lay-offs or allowing employers to fire personnel on performance criteria. Measures were taken also to fight against the use of informal workers by increasing the penalties for hiring such workers.

An assessment of the labour market completed by the Ministry of Labour, Family and Social Protection in consultation with the business environment representatives, social partners and academic environment underlines that the amendments to the Labour Code contributed to various key developments in the labour market during 2012. The relaxation of the rules applicable to individual labour contracts for limited duration led to the increase of the number of individual employment contracts for limited duration, from 394.1 thousand on 1 January 2011 to 460.1 thousand on 19 December 2012 (with 80.2 thousand contracts signed only in September 2012). The positive trend registered in 2012 is confirmed also by an increase of the number of employment contracts for limited duration (from 5,060.9 thousand such contracts in May 2012 to 5,072.3 thousand in December 2012). A significant increase was also registered in the number of day labourers (from 227.7 thousand day labourers in May 2012 to 340.8 thousand day labourers on 19 December 2012). Also, the authorities have taken measures to fight undeclared work by carrying 98.3 thousand labour inspections between January-November 2012, further to which 84.2 thousand sanctions were applied.

An amendment to the legislation on the unemployment insurance system is expected to be debated in Parliament in early 2013. The envisaged changes generally aim at supporting the growth of the employment rate at 70 per cent. until 2020 and, consequently, the reduction of unemployment, as well as the social integration of unemployed persons. The proposed amendments include measures such as the revision of the current 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 that have 5 years from the date of employment.

The amendments to the legal framework also aim at addressing the issue of the social integration of young people (i.e. between 15 and 24 years of age), where a 22.7 per cent. unemployment rate was registered in the third quarter of 2012 (in slight decrease compared with the same quarter of 2011, when the unemployment rate for this age category was 24.1 per cent.). 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; the provision of professional information and advice; the regulation of a legal framework for internships; and the promotion of the education and vocational training for youth.

Social Security System

Unemployment Benefits

The unemployment insurance system mandatorily comprises: 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. Insured persons comprise individuals obtaining income according to the law and for which the employer is required to withhold and pay individual contribution to the unemployment insurance system and the persons that become insured through an unemployment insurance contract.

The main sources of revenue to the unemployment insurance budget is 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 a partial compensation of income lost as a result of job loss or 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.

Due to the economic and financial crisis, the surplus of RON 579,804,913 in the unemployment insurance budget registered in 2008 turned into a deep deficit of RON 1,301,930,895 in 2009 and RON 2,501,647,362 in 2010. 2011 saw the unemployment insurance budget return to a minimum surplus, which is also the target in the 2012 budget.

The following table shows the evolution of realised unemployment insurance budget as at 31 December 2008, 2009, 2010, 2011 and the budget for 2012:

Unemployment Insurance Budget

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012 budget**
			(RON)		
Revenues	1,935,584,453	1,420,592,212	1,320,409,493	2,377,839,279	2,049,256,000
Expenditure	1,355,779,540	2,722,523,107	3,822,056,855	2,170,786,677	1,854,641,000
Surplus/Deficit	579,804,913	-1,301,930,895	-2,501,647,362	207,052,602	194,615,000

Source: National Employment Agency

The deficit of the unemployment insurance budget is explained by the high rise in expenses with unemployment benefits. The expenditures in 2008, 2009, 2010, 2011 and in 2012 are presented in the following table:

Unemployment Benefits Expenditure

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(RON)		
Guarantee fund expenses	5,042,011	5,022,366	27,222,039	17,676,648	29,914,919
Education	30,955,162	22,193,318	23,209,885	26,598,532	33,092,187
Insurance and social assistance	1,098,790,945	2,502,688,945	3,589,757,796	1,893,924,217	1,416,396,529
General economic, commercial and employment activities	220,995,332	192,618,478	181,867,135	232,587,280	256,721,498
Total expenditure	1,355,783,540	2,722,523,107	3,822,056,855	2,170,786,677	1,736,125,133
Per cent. of GDP	0.27	0.55	0.74	0.40	0.29

Source: National Employment Agency

The annual evolution on registered unemployed persons as at 31 December 2008, 2009, 2010, 2011 and at the end of 2012 is presented in the following table:

Number of Registered Unemployed Persons

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
Receiving Benefits	143,549	435,497	329,640	182,538	194,473
Not Receiving Benefits	259,892	273,886	297,320	278,475	299,302
Total	**403,441**	**709,383**	**626,960**	**461,013**	**493,775**

Source: National Employment Agency

The expenditures during 2008, 2009, 2010, 2011 and 2012 on active employment measures designed to reduce the level of unemployment and to foster employment is presented in the following table:

Expenditure on Active Employment Measures

Active employment measure	**2008**	**2009**	**2010**	**2011**	**2012**
			(RON)		
Vocational Training.............................	27,468,059	20,460,565	20,911,890	25,449,740	31,970,624
Stimulating employment of graduates..	56,565,971	51,179,163	34,444,861	34,710,945	36,931,286
Stimulating employment of unemployed persons before the expiration of unemployment period..	14,402,498	15,707,546	26,269,357	16,787,582	11,697,487
Stimulation of labour mobility	6,481,252	5,337,918	7,778,658	8,424,318	5,438,910
Stimulating the employment of unemployed from disadvantaged groups........................	101,500,373	70,343,152	55,590,953	82,216,111	85,184,262
Payments to foster graduates employment	3,558,704	2,550,489	2,765,121	2,820,533	2,577,077
Payments under Law 72/2007	1,359,961	290,892	318,228	362,971	473,556
Payments for vocational training of graduates (Article 84 of Law 76/2002)	0	156.986	881.774	1,356,681	968,919
Payments under Law 116/2002	15,943,897	13,206,858	12,090,430	15,306,762	22,175,345
Programs for temporary employment...	57,844,666	32,233,079	29,531,090	205,427	0
Active measures to combat unemployment (Counselling and career assistance)........................	3,856,945	1,412,795	3,213,751	3,638,235	1,972,037
Pre-dismissal services	1,517,386	767,919	627,640	840,471	886,304
Low interest loans for SMEs................	3,220,991				
Total	**293.720.703**	**213.647.362**	**194.423.753**	**192,119,776**	**200,275,807**
Expenditure on active measures as a share of GDP (per cent.)..	0.05	0.04	0.03	0.03	0.03

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. Around 78 per cent. of total public expenditure on health (based on consolidated budget figures) comes from the National Health Insurance House (the "**NHIH**"), while just over 22 per cent. comes from other sources. 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, reduced from 14 per cent. in 2008.

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 19 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 new law in 2011 extending the pool of payers by including all pensioners with incomes of over 740 RON a month.

In 2010 the ownership of the majority of hospitals was passed to local administrations. Hospitals are currently 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 during 2008, 2009, 2010, 2011 and the nine months ended 30 September 2012 (cumulated data):

Public health expenses during 2008–2012

Active employment measure	**2008**	**2009**	**2010**	**2011**	**Q1+Q2+Q3 (30 September) 2012**
General consolidated budget of health expenditure (*RON million*)	**19,810.3**	**18,286.2**	**19,434.0**	**20,520.3**	**16,236.8**

Public health expenses during 2008–2012

Active employment measure	**2008**	**2009**	**2010**	**2011**	**Q1+Q2+Q3 (30 September) 2012**
Per cent. of GDP	3.8	3.6	3.7	3.5	2.7
State budget (*RON million*)	2,408.1	2,063.9	2,076.9	2,435.1	1,538.2
Local administrations' budgets (*RON million*)	310.4	868.3	4,094.4	6,816.7	5,117.4
National Health Insurance Fund budget (*RON million*)	15,870.6	14,351.7	16,469.7	16,785.7	13,488.7
Foreign credit inputs (*RON million*)	111.8	8.0	0.0	0.0	0.0
Fully/partially own income financed institutions budget(1) (*RON million*)	13.177.0	12,597.1	9,221.6	6,065.5	4,314.0
EU funding (*RON million*)	12.7	9.9	6.6	4.0	0.0
Transfers between budgets(2) (*RON million*)	11,927.1	11,606.3	12,425.0	11,582.4	8,215.5
Financial operations (*RON million*)	153.2	6.5	10.2	4.3	5.9

(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.

This is driven by a combination of low governmental revenues as a percentage of GDP as well as low public healthcare budgets. The level of consolidated budget revenues in Romania is much lower than the EU average. Between 2006 and 2009, consolidated revenues averaged 3.6 per cent. of GDP in Romania. Further, the share of total state spending allocated to health is also low (10.4 per cent. of total public expenditure as of 2008) when compared to the EU average of 15 per cent. of government expenditures. This is the lowest share of public spending in any EU country. However, in accordance with the letter of intent signed by the Romanian Government with the IMF, with the recommendations of the World Bank health system functional review and the recommendations of a report of the Presidential Commission on Public Health, Romania must reach a target of 6 per cent. of GDP allocated to the health sector (the Ministry of Health proposed to reach this percentage until 2016 by subsequent increases).

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 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 grew from just under 9 per cent. of total healthcare spending in 2008 to 15.6 per cent. in 2012 and to an estimated 13.33 per cent. in 2013. These are shared between relatively cost effective public health programs and relatively expensive hospital-based activities.

Between 2005 and 2008, public health sector revenues increased by an annual average nominal rate of 23 per cent., compared with a 21 per cent. increase in total public revenues. However, the funding needs of the health sector were growing at a faster rate than the increases in available funding. This was exacerbated by an increase in the amount of, and the removal of ceilings on, reimbursed medicine. According to the Romanian Academic Society, this led the NHIH to delay paying drug and other suppliers and to accumulate debt. The analysis by the Romanian Academic Society shows the NHIH moving from a small surplus in 2006 and 2007 to growing deficits in 2008 and 2009. Part of the deficit had to be covered by reserves held by the NHIH. However, the reserves were insufficient to cover the entire deficit. By mid-2010, the NHIH had accumulated debts of RON 4.6 billion, of which RON 1.1 billion were estimated to be in arrears. The greater part of the debts were to medicine suppliers. A national budget amendment was made in August 2010 to make available RON 2.96 billion to cover such arrears. In 2011 the budget of the NHIH was supplemented for covering arrears with RON 585 million. In 2012, an additional RON 150 million was allotted to cover arrears through a budget rectification. By the end of 2012, NHIH had fully paid its arrears to suppliers of health services. At the same time, arrears for the hospitals under the authority of the Ministry of Health fell from RON 63.7 million at 31 December 2011 to RON 11.3 million at 31 December 2012.

Based on the draft budget law for 2013, the 2013 health budget will be RON 8.6 billion, an increase of RON 3.88 billion as compared to 2012.

The expected implementation of Directive 2011/7/EU on combating late payments in commercial transactions is expected to trigger significant consequences for the Romanian public health system. One of its major provisions consists of the establishment of a firm contractual payment period of 60 days for the obligations of public entities providing healthcare. The payment periods used in the Romanian public health system are currently 210 days (for medicine acquisitions) and 120 days (for acquisitions under the health programmes). Starting from the date of entry into force of the national legislation implementing Directive 2011//7/EU on combating late payment in commercial transactions, an increase in public health system expenses is expected, as past obligations become due sooner, and new obligations will have to be paid sooner. The increase in the budget of the Ministry of Health in 2013 compared to 2012 aims partially at ensuring sufficient funds to cover the supplementary payment obligations resulting from the reduction of the payment period. Currently, a draft law implementing Directive 2011/7 on combating late payment in commercial transactions has been submitted to the Parliament; it is not clear, however, if the implementing provisions will enter into force by 16 March 2013, the date when the directive becomes effective.

The Ministry of Health plans to implement during 2013 and onward a number of reforms which will aim to strengthen the control over expenses in the health system.

Based on legislation issued in 2012, the Ministry of Health will implement, 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).

The Ministry of Health intends to shift the focus of the healthcare system from hospital care to primary health care and ambulatory care, in order to address patients' medical conditions at lower levels of the system and reduce expensive hospital costs. This reform is reflected in the 2013 draft budget by an increase in the funds allocated to primary health care (including the primary health care physicians) and ambulatory care.

Aiming for a clear separation of responsibilities in the healthcare sector, the Ministry of Health intends to focus mainly on preventive programs, on the control of major risk diseases and on emergency services. Other healthcare programmes will be supervised only by the NHIH. Currently, there is an overlap in the responsibilities of the Ministry of Health and the NHIH in respect of certain national health programmes. The separation of responsibilities between the Ministry of Health and the NHIH will start in March 2013 and will likely allow a better control over the expenditure of healthcare programmes. Also starting in March 2013, the Ministry of Health and the NHIH will cease making payments to private hospitals for in-patient care. Such payments will be directed towards public hospitals for in-patient care expenses and, for the moment, will be a cost-relief measure for the healthcare budget.

Pension System Reform

The following table shows the average number of employed persons versus the number of pensioners and the dependency ratio throughout 2008, 2009, 2010 and 2011:

	2008	2009	2010	2011
Average no. of employees (*thousands*)	5,046	4,774	4,376	4,198
Average no. of pensioners (*thousands*)	4,666	4,719	4,768	4,745
Dependency ratio	1.08	1.01	0.92	0.89

Source: National House of Public Pensions

The average number of pensioners for 2012 was 4.703 (thousands).

Public Pension System (First Pillar)

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.

A deficit of RON 2.91 billion in 2008 (approximately EUR 0.79 billion at the 2008 year-average exchange rate) increased in 2009 to RON 6.46 billion (approximately EUR 1.51 billion at the 2009 year-average exchange rate). The deficit continued to increase in 2010, when it amounted to RON 10.95 billion (approximately EUR 2.6 billion at the 2010 year-average exchange rate), and in 2011 to RON 13.33 billion (approximately EUR 3.14 billion at the 2011 year-average exchange rate). After a minor decrease in 2012 to RON 13.15 billion (approximately EUR 2.95 billion at the 2012 year-average exchange rate), the 2013 estimated deficit of the public pension system is expected to increase to RON 13.41 billion (approximately EUR 3.01 billion at the 2012 year-average exchange rate). The increase of the deficit in 2011 is largely due to the inclusion in the public pensions system of special categories of pensioners such as military and police.

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 (the "**UPPL**") include: annual indexation of the state pension to the forecast consumer price index instead of gross average wage, prohibiting discretionary pension increases, introducing measures to reduce fraudulent claims for disability pensions, gradually increasing the retirement age for women from 60 years to 63 years by 2030, 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. For each employee, the employer allocates 31.3, 36.3 or 41.3 per cent. (depending on working conditions) of the gross salary to the pension fund, out of which 10.5 per cent. (which includes the contribution to the second pillar pension system) is owed by the employees.

The adoption of the UPPL improved the viability of the pension system and contributed to the sustainability of public finances. Further to the implementation of the law, the real average retirement age increased in the whole system (for men, from 57.8 years in 2010 to 58.4 years in 2012; for women, from 56.1 years in 2010 to 56.6 years in 2012). Also, the number of persons who registered for pension decreased with 29% in the period from 2010 to 2012, from 307.282 in 2010 to 238.566 in 2012, as well as the number of people who registered for partial early retirement, which decreased from 42.340 in 2010 to 22.758 in 2012. The implementation of stringent criteria regarding access to disability pension retirement in order to discourage abusive disability pension retirement, unjustified by medical reasons, lead to a decrease of the number of persons who have signed up to invalidity pension, from 61.905 pensioners in 2010 to 33.426 pensioners in 2012.

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, as well as the creation of the Private Pension System Supervisory Commission (the "**CSSPP**"). The CSSPP is a specialised, independent and self-financed authority responsible for the prudential regulation and supervision of the functioning of the private pension system. Starting from 15 March 2013, the responsibilities of the CSSPP will be taken over by the newly created Financial Supervision Authority (the "**SFA**").

Consequently, Romania has implemented a new strategy for reforming and modernising the pension system based on the diversification of pension resources (the multi-pillar system), which follows the European trends in this field.

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 the individual 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 require supplementary financial obligations for the state. In 2008, the privately administered pension funds received the first contributions, namely 2 per cent. of the participant's gross salary. In 2012, the quota transferred to the second pillar represents 3.5 per cent. and will increase in 2013 to 4.0 per cent. The quota will be increased gradually until it reaches 6 per cent. in 2016.

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 2008, 2009, 2010, 2011 and 2012:

As at	Net assets	No. of pension funds
	(RON millions)	
31 December 2008	832[(1)]	14 pension funds
31 December 2009	2,384.4	12 pension funds
31 December 2010	4,331.9	9 pension funds
31 December 2011	6,416.4	9 pension funds
31 December 2012	9,637.3	9 pension funds

(1) First contributions to the second pillar pension funds were collected in May 2008.

Source: Private Pensions System Supervisory Commission

The decrease in the number of pension funds from 14 in 2008 to 9 in 2012 was due to certain mergers of funds.

As at the end of December 2011, the number of registered participants was 5,516,020, representing an increase of 6.56 per cent. compared to December 2010, further increasing to 5,772,514 at the end of December 2012, a 4.65 per cent. increase compared to December 2011. The table below shows the evolution of the number of participants to the second pillar pension system as at 31 December 2008, 2009, 2010, 2011 and 2012:

As at	No. of participants 2nd pillar
31 December 2008	4.03 million
31 December 2009	4.56 million
31 December 2010	5.19 million
31 December 2011	5.52 million
31 December 2012	5.77 million

Source: Private Pensions System Supervisory Commission

Third Pillar

The voluntary pension scheme (third pillar) became operational in June 2007 and is based on individual accounts and voluntary participation.

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.

Contributions of up to 15 per cent. of the monthly gross salary or similar income may be made to voluntary pension funds. The contribution can be divided between employer and employee.

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 2008, 2009, 2010, 2011 and 2012:

As at	Net assets	No. of pension funds
	(RON millions)	
31 December 2008	84.3	9
31 December 2009	204.04	13
31 December 2010	328.00	13
31 December 2011	435.65	11
31 December 2012	598.92	11

Source: Private Pension System Supervisory Commission

The decrease in the number of pension funds from 13 in 2010 to 11 in 2012 was due to certain mergers of funds.

As at the end of December 2011, the number of registered participants was of 260,379, an increase of 17.50 per cent. compared to December 2010. The table below shows an increase in the number of participants to the third pillar pension system as at 31 December 2008, 2009, 2010, 2011 and 2012:

As at	No. of participants 3rd pillar
31 December 2008	150,745
31 December 2009	187,172
31 December 2010	221,605
31 December 2011	260,379
31 December 2012	292,146

Source: Private Pensions System Supervisory Commission

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.

Subsidies allocated in 2008 were RON 7,898.5 million, representing an increase of 14.9 per cent. in nominal value compared with 2007, but a relative decrease when viewed as a percentage of GDP (1.5 per cent. of GDP in 2008 compared to 1.7 per cent. of GDP in 2007).

Subsidies continued their downward trend (as a percentage of GDP) to 1.4 per cent. of GDP in 2009 and to 1.1 per cent. of GDP in 2011, as a result of the desire to continue to reduce state intervention in the economy. The decrease of subsidies allocation in 2011 was mainly due the elimination of heating subventions granted from the state budget (being replaced by heating aid for persons with small incomes) as well as to the gradual replacement of subventions from the Romanian budget for farmers to subsidies paid through EU funding. As at November 2012, subsidies from the general consolidated budget amounted to approximately 0.9 per cent. of GDP and is budgeted to be 0.8 per cent. of GDP for 2013.

Privatisation

Prior to the collapse of communism in 1989, Romania was a state-run economy, with many large state enterprises dependent on the state committee for planning and on the COMECON market. Since 1990, the Romanian economy has undergone several economic reform programmes and has become a market-oriented economy. Privatisation was one of the most important methods used by the Romanian Government to shift the balance of the economy from the public sector towards the private sector.

The Romanian privatisation laws provide the same rights for non-resident investors as for any resident investor. Romania has adopted the New York Convention on Recognition and Enforcement of Arbitral Awards (1958) by State Council Decree nr. 186/1961 and has ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID) (1965) by State Council Decree nr. 62/1975.

Until 2006, the Authority for State Assets Recovery ("**AVAS**") was the main institution in charge of the privatisation process in Romania. AVAS, set up as a public institution under the authority of the Romanian Government, was re-organised at the end of 2006 by merger with the Office for State Ownership and Privatisation in Industry ("**OPSPI**")"). At the end of 2008, OPSPI was transferred back, together with its portfolio, to the Ministry of Economy. In addition, the line ministries, through their specialised departments, undertook administration and privatisation for the companies in their portfolios.

Authority for State Assets Recovery

At the end of 2012, AVAS's portfolio comprised stakes in 641 companies, amounting to a total nominal value of RON 1,070.2 million. Out of the total 641 companies, only 321 are currently operational and the nominal value of AVAS's participation in these companies amounts to RON 120.5 million. AVAS holds majority stakes only in 11 operational companies.

During the period from December 1992 until the end of 2012, AVAS concluded a total of 11,645 share transactions for a total divested share capital exceeding RON 9,000 million (figures refer to share sale-purchase contracts concluded, addenda to contracts for the sale of additional shares, contracts concluded during merger with OPSPI, share sale-purchase contracts which were subsequently written off, the share sale on stock exchange market).

AVAS has carried out significant divestitures in the banking sector, such as the privatisation of Banca Comerciala Romana S.A., the largest State-owned commercial bank in Romania, in the case of which a majority stake was sold to Erste Bank der Oesterreichischen Sparkassen AG, the privatisation of Banca Romana pentru Dezvoltare S.A. through an acquisition by Société Générale S.A. and the taking over of Banca Agricola S.A. by the Austrian Raiffeisen Bank International AG.

In 2008, 37 share-sale purchase agreements were concluded in respect of companies in the AVAS portfolio, corresponding to a divestiture of shares with a combined face value of approximately RON 6 million.

Beginning in late 2008, due to the global financial crisis, merger and acquisition activity decreased, which included privatisation activity. In 2009, only five share sale-purchase agreements were concluded in respect of companies in the AVAS portfolio corresponding to a divestiture of shares with a combined face value of approximately RON 3 million. In 2010, six sale-purchase agreements were signed, and in 2011, 17 sale-purchase agreements were signed (of these 17, three sale-purchase agreements were concluded for the sale of what had been majority State-owned stakes), totalling a divested share capital of RON 2.3 million. In 2012, five stakes of shares were sold. AVAS's right to divest State ownership in the companies under its portfolio is however limited by the attachment of most of AVAS's majority State-owned stakes of shares by AVAS's creditors.

Although no specific targets are set for AVAS within the Agreements concluded by the Romanian Government with the IMF, the World Bank or the EU, as regards privatisation, it is intended that AVAS will restructure State-owned companies in order to increase the attractiveness and facilitate their divestiture (including both majority and minority owned companies), except for Research and Development institutes. AVAS plans to complete mid 2013 a detailed analysis of the economic, financial and operation performances of the companies under its administration, and where possible to consolidate its position in companies from the AVAS portfolio, which would allow AVAS to implement the most efficient strategies of administration and privatisation of such companies. Recently, based on two Emergency Ordinances, AVAS will consolidate its position as main creditor in two companies, Fortus Iasi and Aversa Bucuresti, by taking over from the National Agency for Fiscal Administration the overdue payments of these companies to the state budget.

AVAS was subject to reorganisation at the end of December 2012, becoming the Authority for State Assets Administration ("**AAAS**"). The new institution is placed under the coordination of the Minister of Economy while remaining subordinated to the Government. The reorganisation will allow 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. AAAS is currently in the process of designing its strategy for 2013.

Office for State Ownership and Privatisation in Industry

The Office for State Ownership and Privatisation in Industry ("**OPSPI**") is a public institution, subordinated to the Ministry of Economy ("**ME**"). ME is the shareholder of a number of large state owned companies in strategic fields, in respect of which OPSPI has organised privatisation and investment raising projects. OPSPI is mainly involved in the privatisation of state-owned energy companies in Romania.

Significant privatisations of energy companies include the privatisation of Petrom S.A., the national oil and gas company, privatised through acquisition by OMV A.G. Austria, and the privatisation of both natural gas distribution and national supply companies, Distrigaz Nord S.A. Targu-Mures and Distrigaz Sud S.A., Bucharest, privatised through acquisitions by E.ON Ruhrgas A.G. and Gaz de France respectively. Between 2004 and 2007, five out of the eight electricity distribution and supply companies in Romania were privatised through acquisitions of majority stakes by ENEL SpA, Italy, E.ON Energie A.G., Germany and CEZ a.s., and the Czech Republic..

In October 2009, S.C. Electrica S.A., the national electricity distribution and supply company (under MECMA-OPSPI coordination) and CEZ a.s. (Czech Republic) finalised the transaction related to the option right provided in the privatisation contract of S.C. Electrica Oltenia S.A., representing the sale of 18.99 per cent. of the share capital of the companies resulting from the unbundling of S.C. Electrica Oltenia S.A (currently CEZ Distributie S.A. and CEZ Vanzare S.A.). In December 2009, Electrica S.A. and Enel SpA finalised the acquisition price adjustment transaction resulting from the unbundling of S.C. Electrica Muntenia Sud S.A. (currently Enel Distributie Muntenia S.A. and Enel Energie Muntenia S.A.). In July 2010, Electrica S.A. sold to CEZ a.s. the remaining shares it owned in S.C. CEZ Servicii S.A.

Currently, the portfolio of ME managed by OPSPI includes several companies that have a significant impact on the national economy, such as Compania Nationala de Transport a Energiei Electrice "Transelectrica" S.A., Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias, Societatea Nationala de Transport Gaze Naturale "Transgaz" S.A. Medias, Societatea Nationala "Nuclearelectrica" S.A., Societatea Comerciala de Producere a Energiei Electrice in Hidrocentrale "Hidroelectrica" S.A., S.C. Complexul Energetic "Oltenia" S.A. – the new energy producer created by the merger of S.N. a Lignitului with the three energetic complexes of Rovinari, Turceni and Craiova – Societatea Comerciala "Oltchim" S.A., S.C. Complexul Energetic "Hunedoara" S.A. – the new energy producer created by merger of Electrocentrale Deva and Electrocentrale Paroseni, Electrocentrale Bucuresti S.A. or Electrocentrale Grup S.A. (resulting from the restructuring of Termoelectrica S.A.).

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 major state-owned companies (including both its majority and minority state shareholdings in such companies). As a result, ME through OPSPI has undertaken a programme seeking to sell its shareholdings in several companies from its portfolio.

ME, through OPSPI, successfully completed in March 2012 the secondary public offering of 15 per cent. in Transelectrica S.A.

In April 2012, OPSPI signed the sale contract for the entire stake in S.C. ISCIR-CERT S.A. The 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. Roman Copper Corp Canada filed a claim in court against ME, requesting to be reimbursed for the amount of the letter of guarantee of participation. The litigation is currently pending.

OPSPI has selected advisors for the sale of its 15 per cent. stakes in each of Transgaz S.A. and Romgaz S.A. The preparation of secondary public offerings for these two companies is on-going.

OPSPI has started privatisation procedures for Hidroelectrica S.A., Romania's largest hydro power producer. However, after the selection of the investment banks for the privatisation process, on 15 June 2012 Hidroelectrica filed for voluntary insolvency with the declared aim of reorganising its business. The Bucharest Tribunal admitted the insolvency claim and appointed a judicial administrator on 20 June 2012. The judicial administrator has cancelled all the contracts entered into by the Hidroelectrica with energy traders at below-market prices. According to the judicial administrator's report, the total revenue that will be generated up until 2018 by cancelling the contracts is approximately EUR 1.19 billion, whereas negotiation of the contracts for the years 2012-2018 is expected to result in additional revenue of EUR 220 million. The filing of the insolvency request for Hidroelectrica also resulted in certain financial institution creditors of Hidroelectrica having to set up significant provisions to cover their exposure to Hidroelectrica.

By the end of March 2013, ME intends to launch an initial public offer on the capital markets for the increase of S.N. Nuclearelectrica S.A.'s share capital by 10 per cent. ME has selected the underwriting syndicate and a contract with the members of the syndicate will be signed by mid-February 2013.

Under OPSPI coordination, Electrica S.A. intends to sell both its subsidiaries Electrica Serv S.A. and Electrica Furnizare S.A. (a new company created by merging the three remaining Electrica S.A. supply subsidiaries and the supply activity of Electrica S.A.) during the first half of 2013. OPSPI also plans to sell Electrica S.A.'s minority holdings currently owned in its distribution and supply subsidiaries privatised with strategic investors between 2004 and 2007. At the same time, Electrica S.A. will sell, under OPSPI coordination, the majority stake owned in its distribution subsidiaries, Electrica Muntenia Nord, Electrica Transilvania Sud and Electrica Transilvania Nord.

In order to increase the efficiency of the company and to speed up the privatisation of Oltchim S.A., OPSPI started the special administration and financial supervising procedure in July 2012. Privatisation procedures initiated in September 2012 were subsequently revoked for failure of the winning bidder to comply with OPSPI's requirements. The winning bidder has initiated legal proceedings against ME in an attempt to nullify the decision terminating the negotiations without concluding a sale-purchase agreement, requesting the court to issue a ruling compelling ME to conclude the privatisation (the litigation is currently suspended). In response, OPSPI has filed a claim in court against the winning bidder for fraud (the litigation is currently pending). 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 entry into insolvency proceedings was approved on 30 January 2013 and the special administrators appointed. As in the case of Hidroelectrica's insolvency, financial institution creditors of Oltchim are expected to have to set up significant provisions to cover their exposure to Oltchim.

OPSPI will continue the privatisation efforts in respect of other companies from ME's portfolio. The new power producer Complexul Energetic Oltenia S.A. (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) is expected to be privatised by an initial public offering of shares. The privatisation of Electrocentrale Bucuresti S.A., the combined heat and power producer in Bucharest, is subject to an agreement on the outstanding arrears of RADET Bucuresti, the Bucharest City Hall-owned heat distributor, owed to Electrocentrale Bucuresti S.A. The new power producer Complexul Energetic Hunedoara S.A., established by the merging of Electrocentrale Deva and Electrocentrale Paroseni with the viable mines from Compania Nationala a Huilei, is expected to be privatised by an initial public offering of a majority stake of shares in the company. Furthermore, the Romanian Government and ME have included on a priority list various projects aiming to raise capital for the rehabilitation or enhancement of environmental compliance of energy facilities, as well as the resumption of 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 Electrocentrale Bucuresti S.A., Electrocentrale Galati S.A., UT Midia S.A., Complexul Energetic "Oltenia" S.A., Complexul Energetic "Hunedoara" S.A.

Romanian Ministry of Transport

The Romanian Ministry of Transport (the "**MT**") is responsible for the privatisation of Romania's main transport companies. From 2003 to 2010, the MT privatised 18 commercial entities in the road and maritime transport sectors by selling shareholdings on behalf of the Romanian state. 25 commercial entities in the rail transport sector were also divested from the State portfolio. Currently, the Romanian state, acting through the MT, is the majority shareholder in 22 transport companies.

In 2010, MT completed only one privatisation process - the sale of 4.44 per cent. of the share capital of Antrepriza de Reparații şi Lucrări ARL Cluj S.A. for EUR 0.7 million.

MT adopted a programme for 2011 and 2012, which included the restructuring, privatisation and, where appropriate, liquidation of several companies under MT's authority. This programme was designed to fulfil Romania's commitments under the memorandum entered into with the IMF dated 3 March 2011 (see "*—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—Stand-by Agreement*" for further details). As the objectives of the programme were not met until the end of 2012, the programme will be pursued in 2013, subject to additional terms being agreed with the IMF during January 2013.

The 2011-2012 programme included the privatisation of Tarom S.A., the largest Romanian air transport company, by means of a public offering on the BVB market. Given the poor market conditions, the privatisation, scheduled to be completed until the end of 2012, was successively postponed. Currently, MT proposes, as a realistic time horizon for the privatisation of the company, the end of 2013. During 2012, however, MT completed the change of the management team in Tarom S.A., as part of the restructuring process in the company, with assistance from the World Bank.

Another item included in the restructuring and privatization programme for 2011-2012, also agreed with the IMF, was the privatization of CFR Marfa S.A. by direct sale of 100 per cent. shares in the company. In one of the final stages of the approval process in respect of the privatization procedures, Romania's Supreme Defense Council rejected, at the end of September 2012, the privatization of the company. After the review of the privatisation strategy by the Government at the beginning of 2013, the Supreme Defense Counsel endorsed, in February 2013, the majority privatisation of CFR Marfa S.A.

MT will pursue in 2013 the privatization plans in respect of seven other companies from its portfolio, including three companies managing the airports of Bucharest, Constanta and Timisoara and four companies active in navigation infrastructure management. The privatization, due to be initially completed in 2012, has as new term for finalization the end of 2013.

The 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. It is estimated that the shadow economy's share of GDP slightly increased from 20 per cent. in 2007 to 23 per cent. in 2011.

FOREIGN TRADE AND BALANCE OF PAYMENTS

In recent years Romania has recorded a strong improvement in its external balance, as evidenced by the drop in current account deficit from 11.6 per cent. of GDP in 2008 to 4.2 per cent. in 2009. The current account deficit remained low at 4.4 per cent. of GDP in 2010. It widened to 4.5 per cent. of GDP in 2011 (semi-final data) and decreased to 4.2 per cent over the first three quarters of 2012. The current account deficit financing through non-residents' direct investment decreased from 40.4 per cent. in 2010 to 30.6 per cent. in 2011 and slightly recovered to 33.9 percent over the first eleven months of 2012. In January-November 2012, capital transfers (mainly consisting of EU funds) accounted for almost one third of the current account deficit financing. In 2011 net external financing from medium and long-term loans decreased sharply as compared to the previous year (mainly due to the 2010 disbursements in connection with the Stand-by Agreement with the IMF), even turning negative towards the end of the year, whilst short-term net flows increased their contribution to the financing of the current account deficit. From January to November 2012, net external borrowings on medium - and long-term maturities turned into net outflows, while short term borrowings had a positive contribution as a financing source for the current account deficit.

Foreign Trade

In the period 2007 - 2011, exports recorded an average growth rate of 12.9 per cent., while imports increased on average by 9.6 per cent. The faster decrease in imports compared to exports recorded in 2009 led to a drop in the trade deficit as a share of GDP, from 13.7 per cent. in 2008 to 5.8 per cent. in 2009. In 2010, the share of trade deficit in GDP was 6.1 per cent. (final data), with exports growing faster than imports (28.5 per cent. and 25.0 per cent, respectively). In 2011, exports increased by 21.2 per cent. and imports by 17.2 per cent. compared to 2010, with the trade deficit accounting for 5.6 per cent. of GDP (semi-final data).

The following table shows changes in foreign trade for the years 2008, 2009 2010, 2011 and January-November 2012:

	2008	2009	2010	2011[(2)]	January-November 2012 [(3)]
Current account deficit (EUR[(1)] million)	-16,157	-4,913	-5,493	-5,938	-4,245
- per cent. of GDP	-11.6	-4.2	-4.4	-4.5	-4.2
Trade balance FOB[(4)] (EUR million)..................	-19,109	-6,871	-7,577	-7,409	-6,588
- per cent. of GDP	-13.7	5.8	-6.1	-5.6	-5.8
Exports of goods (EUR million).........................	33,725	29,084	37,360	45,274	41,906
- annual percentage change	14.1	-13.8	28.5	21.2	-0.2[(5)]
Imports of goods FOB[(4)] (EUR million)..............	52,834	35,955	44,937	52,683	48,494
- annual percentage change	11.5	-31.9	25.0	17.2	0.0 [(5)]

(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

(2) Semi-final data

(3) Provisional data. Shares in GDP are calculated as of 2012 Q1-Q3

(4) 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=1.0834 up to 2009 data and 1.0430 from 2010 data on, published by the National Institute of Statistics

(5) Representing the annual change from January- November 2011 to January- November 2012.

Source: Data released by National Institute of Statistics and the NBR

Main Trends in 2008 to 2011 and in January- November 2012

In 2008 the trade deficit, which has the strongest impact on Romania's current account, amounted to EUR 19,109 million FOB-FOB, up 7.2 per cent. from the previous year (more than half of the trade deficit being recorded in the second and third quarters of 2008). The increase in the trade deficit was a result of costlier energy products, agri-food products and metallurgy products. The growth rate of exports outpaced that of imports by 2.6 per cent. whereas the share of trade deficit in GDP narrowed by 0.6 per cent. to 13.7 per cent. By types of goods, only textiles, clothing and footwear recorded a surplus in 2008.

In 2009 the trade deficit was EUR 6,871 million, down 64.0 per cent. year-on-year amidst a stronger decline in imports than in exports, whereas the share of trade deficit in GDP decreased by 7.9 percentage points to 5.8 per cent. The coverage of imports through exports (Export FOB/Import FOB) increased year-on-year by 17.1 percentage points to 80.9 per cent., while the openness of the Romanian economy (Export FOB+Import FOB/GDP) decreased year-on-year by 6.9 percentage points to 55.0 per cent.

In 2010, the trade deficit was EUR 7,577 million, up 10.3 per cent. year-on-year amidst a stronger increase in exports than in imports (from 2010 on a new CIF/FOB coefficient of 1.043 set by the National Institute of Statistics is used to convert CIF imports instead of the former coefficient of 1.0834, which has resulted in an increase in the FOB levels recorded). The share of the trade deficit in GDP increased by 0.3 percentage points to 6.1 per cent. The coverage of imports through exports (Export FOB/Import FOB) and the openness of the Romanian economy (Export FOB+Import FOB/GDP) increased year-on-year by 2.2 percentage points and 11.2 percentage points, to 83.1 per cent. and 66.2 per cent. respectively. By type of goods, trade surplus was recorded under: textiles, clothing and footwear and wood and paper products; six groups of goods recorded deficits: chemical and plastic products; mineral products; agri-foods; metal products; machinery; equipment; transport means; and other goods. The trade balance by production stage highlights deficits under all groups of goods.

In 2011 (based on semi-final data), the trade deficit was EUR 7,409 million (2.2 per cent. lower as compared to 2010). Out of the total trade deficit, 86.9 per cent. was generated by intra-EU trade, ahead of trade with non-EU countries (13.1 per cent.). The coverage of imports through exports added 2.8 percentage points to 85.9 per cent., whilst the openness of the Romanian economy increased year-on-year by 8.4 percentage points to 74.6 per cent. Three merchandise groups recorded trade surpluses: textiles, clothing and footwear, wood and paper products, machinery, equipment and transport means. By output stages, consumer and capital goods ended up with a surplus, whilst intermediate goods and commodities recorded deficits.

In the first eleven months of 2012 (based on provisional data) the trade deficit increased by 1.0 per cent. to EUR 6,588 million, of which 98.3 per cent was due to intra EU trade. The coverage of imports through exports decreased by 0.2 percentage points to 86.4 per cent (as compared to the first eleven months of 2011). Chemical products, mineral fuels and manufactured products classified mainly by commodity posted the highest deficits, while the most important surpluses were recorded by textiles, clothing and footwear, machines and transport equipment, non-ferrous minerals and mineral fuels.

Exports and Imports

Exports of goods amounted to EUR 33,725 million in 2008, up 14.1 per cent. from the previous year as a result of higher external prices, larger export volume and the shift in structure in favour of capital goods, as well as the depreciation of the domestic currency against the Euro in real terms. The share of exports to GDP rose from 23.7 per cent. in 2007 to 24.1 per cent. in 2008.

On a year-on-year comparison, the exports structure by output stage indicated an expansion in the share of exports of capital goods (by 2.8 percentage points to 15.3 per cent.) and raw materials (up 1.8 percentage points to 7.0 per cent), along with a decline in the share of intermediate goods (down 1 percentage point to 57.0 per cent.) and consumer goods (down 3.6 percentage points to 20.7 per cent.).

Over 60 per cent. of the increase in export value resulted from the larger export volume (consisting primarily of machinery, electrical machinery, cereals, motorcars, tractors, petroleum products, pharmaceuticals, seeds, fruit, boilers, turbines, engines, mechanical devices and electricity), with the remaining 40 per cent. representing the contribution of higher external prices (in respect of pig iron, iron, steel, petroleum products, boilers, turbines, engines, mechanical devices, fertilisers, seeds, fruit, rubber articles, furniture and light fittings).

Manufactured goods accounted for 94.8 per cent. of Romania's exports (EUR 31,981 million in 2008). Exports of manufactured goods increased by 11.4 per cent. in 2008 as compared to 2007. Most industrial sub-sectors experienced an increase in exports, except for: wearing apparel; pulp, paper and paper products; construction materials; leather goods and footwear; woodworking products; textiles and textile products; and furniture, which decreased. Above-average increases in exports were recorded by the following sub-sectors: radio, television and communication equipment; computer technology and office equipment; tobacco products; food and beverages; medical instruments; watches and clocks; petroleum products; publishing houses, polygraphy and recording reproducible registrations; rubber and plastic products; chemicals; and road transport means and machinery and equipment (except electrical and optical devices).

Imports of goods stood at EUR 52,834 million FOB in 2008 (or EUR 57,240 million CIF (Cost, Insurance and Freight)), an increase of 11.5 per cent. from 2007. The share of imports of goods in GDP decreased from 38.0 per cent. to 37.8 per cent. year-on-year. In 2008, the structure of imports by production stage reflects an increase in the weight of raw materials by 0.8 percentage points (to 13.6 per cent.) and consumer goods by 0.7 percentage points (to 15.9 per cent.), along with a decrease in the share of capital goods by 1.4 percentage points (to 2.4 per cent.) and in intermediate goods by 0.1 percentage points (to 46.5 per cent.).

In 2008, five groups accounted for 83 per cent. of total imports: machinery, equipment and transport means; chemical and plastic products; mineral products; metal products; and agro-food products. All five groups recorded increases in the value of products imported.

Approximately 54 per cent. of the increase in import value (EUR 5,463 million) was due to the larger volume of imports (of electrical machinery, appliances and equipment, boilers, turbines, engines and mechanical devices, pharmaceutical products, plastics and plastic articles, optical instruments, petroleum products and miscellaneous chemicals), while the remaining 46 per cent. was due to higher external prices (for crude oil: products made of pig iron, iron, steel; mineral fuels; motorcars, tractors; and natural gas and petroleum products).

One third of the categories of goods imported in 2008 posted above-average growth rates as compared to the previous year, including: crude oil; medicines; natural gas; electrical apparatus for wired telephony and telegraphy; freight transport vehicles; tractor parts and accessories; wires, cables and insulated conductors; petroleum products; pork; integrated circuits; iron and steel flat or rolled plates; anthracite and pit coal; and iron ore; iron or steel semi-finished products and furniture.

In 2009 exports of goods amounted to EUR 29,084 million, down 13.8 per cent. year-on-year, as a result of the global financial crisis, although the share of GDP rose from 24.1 per cent. in 2008 to 24.6 per cent. in 2009. In terms of value, approximately 81 per cent. of the EUR 4,641 million decrease in exports as compared to the preceding year was attributed to the decreases in volume (electrical machinery, equipment and apparatus; boilers, turbines and engines; metallurgy products; petroleum products; clothing and footwear; and plastic products and fertilisers). In year-on-year comparison terms, the structure of exported goods by production stage shows a rise in the share of capital goods by 6.1 percentage points to 21.4 per cent, in that of consumer goods by 2.3 percentage points to 23.0 per cent. and in that of raw materials by 0.2 percentage points to 7.2 per cent., along with a decline in the share of intermediate goods by 8.6 percentage points to 48.4 per cent.

Imports of goods amounted to EUR 35,955 million in 2009, a reduction of 31.9 per cent. from 2008 with the share of GDP decreasing from 37.8 per cent. to 30.4 per cent. Approximately 88 per cent. of the fall in import value amounting to EUR 16,879 million resulted from decreases in volume (motorcars and tractors; boilers, turbines, engines and mechanical apparatus; electrical machinery and apparatus; cast iron, steel and steel products; crude oil; natural gas; natural fuels; furniture; plastic materials; and ceramic products). In 2009, the structure of imports by production stage reflected a rise in the weight of intermediate goods by 4.5 percentage points to 51 per cent. and in consumer goods by 3.7 percentage points to 19.6 per cent. along with a decrease in the share of capital goods by 5.6 percentage points to 18.4 per cent. and in that of raw materials by 2.6 percentage points to 11.0 per cent. as compared to 2008.

In 2010 exports of goods amounted to EUR 37,360 million, up 28.5 per cent. year-on-year, as a result of the recovery of external demand. The share of exports as a percentage of GDP rose from 24.6 per cent. in 2009 to 30.0 per cent in 2010. In terms of value, of the EUR 8,276 million increase in exports as compared with the preceding year, around 60 per cent. can be attributed to increases in volume (cars, tractors; electrical machinery, equipment and devices; boilers, turbines and engines; metallurgy products; wood and articles thereof; rubber articles; and footwear) and 40 per cent. to higher external prices (electrical machinery, equipment and devices; metallurgy products; petroleum products; pharmaceutical products; cereals; aluminium and articles thereof; plastics; and boilers, turbines and engines). In terms of the year-on-year comparison, the structure of exported goods by production stage shows a rise in the share of intermediate goods by 1.6 percentage points to 50.0 per cent. and raw materials by 1.1 percentage point to 8.3 per cent., along with a decline in the share of consumer goods by 1.8 percentage points to 21.2 per cent. and in the share of capital goods by 0.9 percentage points to 20.5 per cent.

Imports of goods amounted to EUR 44,937 million in 2010, up 25.0 per cent. (this was in part due to a new CIF/FOB coefficient of 1.043 instead of the former 1.0834) as compared with 2009 with the share of GDP increasing from 30.4 per cent. to 36.1 per cent. from 2009 to 2010. Import value rose by EUR 8,982 million, of which around 60 per cent. resulted from increases in volume (electrical machinery and related apparatus; motorcars and tractors; boilers, turbines and engines; mechanical devices; cast iron, steel and steel products;

aluminium and articles thereof; petroleum products; plastics; rubber products; and seeds and fruits) and around 40 per cent. from higher external prices (electrical machinery and related apparatus; crude oil; boilers, turbines and engines; plastics; cast iron, steel and steel products; pharmaceutical products and petroleum products; and natural gas and mineral fuels). In 2010, the structure of imports by production stage reflected an increase in the percentage of total imports of intermediate goods by 3.0 percentage points to 54.0 per cent. and in raw materials by 0.1 percentage points to 11.1 per cent., coupled with a decrease in the share of consumer goods by 2.1 percentage points to 17.5 per cent. and in the share of capital goods by 1.0 percentage point to 17.4 per cent.

In 2011 (based on semi-final data), exports of goods amounted to EUR 45,274 million, up 21.2 per cent. year-on-year, as a result of the sustained external demand in the first half of the year. The share of exports as a percentage of GDP rose from 30.0 per cent. in 2010 to 34.5 per cent. in 2011. In terms of value, more than 60 per cent. of the EUR 7,915 million increase in exports as compared with the preceding year can be attributed to increases in volume (electrical machinery, equipment and devices; boilers, turbines and engines; wood and articles thereof; cars, tractors; rubber articles; pig-iron, iron and steel products; pharmaceutical products) and almost 40 per cent. to higher external prices (petroleum products; cars, tractors; pig-iron, iron and steel; electrical machinery, equipment and devices; and textiles, and clothing). In terms of the year-on-year comparison, the structure of exported goods by production stage shows a rise in the share of intermediate goods by 1.5 percentage points to 51.5 per cent. and raw materials by 0.2 percentage points to 8.5 per cent., along with a decline in the share of capital goods by 1.6 percentage points to 18.9 per cent as well as in that of consumer goods by 0.1 percentage points to 21.1 per cent.

Imports of goods amounted to EUR 52,683 million in 2011, up 17.2 per cent. as compared with 2010, with their share in GDP increasing from 36.1 per cent. to 40.1 per cent. from 2010 to 2011. Import value rose by EUR 7,746 million, of which over 50 per cent. resulted from higher external prices (crude oil; petroleum products; plastics and articles thereof; pharmaceutical products; mineral fuels; rubber products; electrical machinery and equipment; aluminium and articles thereof; natural gas; footwear, clothing; and cereals) and the rest from increases in volume (boilers, turbines and engines; cars, tractors; electrical machinery and related apparatus; cast iron, steel and steel products; natural gas; rubber products; and organic chemicals). In 2011, the structure of imports by production stage reflected an increase in the percentage of total imports of intermediate goods by 0.9 percentage points to 54.8 per cent. and of raw materials by 0.9 percentage points to 12.0 per cent., coupled with a decrease in the share of consumer goods by 1.3 percentage points to 16.2 per cent. and in the share of capital goods by 0.4 percentage points to 17 per cent.

In 2011, the geographical distribution of exports showed a 19.1 per cent. year-on-year increase in intra-EU exports to EUR 32,160 million. The share of intra-EU exports of total exports was 71 per cent, down 1.3 percentage points versus 2010. Exports to the European Union went up for most groups of goods, with the exception of mineral products. Extra-EU exports amounted to EUR 13,114 million, up 26.8 per cent. versus 2010 and accounting for 29 per cent. of total exports. The first ten export destinations in 2011, holding about two thirds of total export, were the following: Germany (18.6 per cent.), Italy (12.8 per cent.), France (7.5 per cent.), Turkey (6.2 per cent.), Hungary (5.6 per cent.), Bulgaria (3.6 per cent.), the United Kingdom (3.2 per cent.), the Netherlands (3.1 per cent.), Spain (2.4 per cent.), and Poland (2.4 per cent.).

The geographical distribution of imports showed that intra-EU imports amounted to EUR 38,600 million, up 16.3 per cent. year-on-year. The share of intra-EU imports in total increased by 0.2 percentage points compared to 73.1 per cent. in 2010. Imports from the EU posted increases for all group of goods. Extra-EU imports equalled EUR 14,083 million, up 16.3 versus 2010, accounting for 26.7 per cent. of total imports. In 2011, Romania's imports came mainly from the following ten countries: Germany (17.2 per cent.), Italy (11.5 per cent.), Hungary (8.8 per cent.), France (5.8 per cent.), the People's Republic of China (4.5 per cent.), Kazakhstan (4.1 per cent.), Austria (4.0 per cent.), Poland (4.0 per cent.), Russian Federation (3.7 per cent.), and Turkey (3.4 per cent.).

For the first eleven months of 2012 (based on provisional data) exports of goods stood at EUR 41,906 million, 0.2 per cent lower than in the same period of 2011, due to the relatively poor performance of machines and transport equipment, non-ferrous minerals, mineral fuels, oils and fats. The geographical distribution of exports shows a decrease by 1.3 per cent. in exports to other EU countries and an increase by 2.5 per cent. in exports outside the EU. The share of exports to other EU countries in total exports was 70.5 per cent. (EUR 29,543 million), 0.8 percentage points down as compared to the same period in 2011. Germany, Italy and France accounted for 37.9 per cent. of all Romanian exports. Nevertheless, the importance of Italy as an export market for Romania has been steadily decreasing (from 17.8 per cent. in 2006 to 12.2 per cent. for the first ten months of 2012), while that of Germany has been increasing (from 15.7 per cent. in 2006 to 18.8 per cent. for the first ten months of 2012). Exports to the other countries at the epicentre of the sovereign debt crisis (such as Greece, Spain, Portugal and Ireland) are fairly limited in size, currently representing around 4 per cent. of the total. The relatively high import content of exports and the limited share of companies that export only to the EU (these companies accounting for 0.1 per cent. of the gross value added delivered by the corporate sector in December 2011) alleviate the possible adverse impact from developments in the Eurozone on the trade balance.

For the first eleven months of 2012, imports stayed practically flat at EUR 48,494 million, compared with the corresponding period in 2011. The breakdown by geographical origin shows a 1.7 per cent. increase in imports from other EU countries and a 4.7 per cent. decrease in imports from outside the EU. The share of imports from other EU countries in total imports was, as at the end of November 2012, 74.3 per cent. (EUR 36,022 million), up 1.3 percentage points as compared to the same period in 2011.

The shares of groups of goods (according to the Combined Nomenclature on the basis of which goods must generally be classified when declared to customs in the EU) in total exports and in total imports in 2010, 2011 and January-October 2012 (the latest available detailed data by product) are shown in the table below:

TRADE BALANCE – GROUPS OF GOODS AND SECTIONS

	Export FOB (per cent.)			**Import FOB (per cent.)**		
	2010	**2011^s**	**Jan-Oct 2012^p**	**2010**	**2011^s**	**Jan-Oct 2012^p**
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1. Agri-food items	**8.3**	**8.9**	**9.0**	**8.4**	**8.1**	**8.6**
I. Live animals and animal products	1.2	1.3	1.6	2.1	1.8	1.9
II. Vegetable origin products	4.4	4.6	4.4	2.4	2.4	2.6
III. Animal or vegetable oils and fats	0.4	0.5	0.4	0.5	0.4	0.4
IV. Foodstuff, beverages, tobacco	2.4	2.4	2.6	3.4	3.5	3.7
2. Mineral products (V)	**5.5**	**5.9**	**5.5**	**11.0**	**12.1**	**12.9**
3. Chemical and plastic products	**9.5**	**10.3**	**11.1**	**16.9**	**17.1**	**17.7**
VI. Chemical products	4.4	4.8	5.3	10.0	9.9	10.4
VII. Plastics, rubber	5.1	5.5	5.8	7.0	7.2	7.3
4. Wooden products, paper	**3.9**	**3.8**	**4.2**	**2.9**	**2.5**	**2.4**
IX. Wooden products	3.3	3.2	3.6	0.8	0.7	0.7
X. Wood pulp, paper	0.6	0.6	0.6	2.0	1.9	1.7
5. Textiles, clothing, footwear	**11.7**	**11.0**	**11.0**	**7.6**	**7.6**	**7.5**
XI. Textiles and articles thereof	8.5	8.0	8.1	6.5	6.4	6.5
XII. Footwear	3.2	3.0	2.9	1.1	1.2	1.1
6. Common metals (XV)	**11.9**	**12.3**	**11.6**	**10.9**	**11.3**	**10.9**
7. Machinery, apparatus, electric equipment, transport means	**42.5**	**41.3**	**40.3**	**35.9**	**35.1**	**33.8**
XVI. Machinery, appliances and electric equipment	27.1	27.0	25.6	28.6	27.5	26.2
XVII. Transport means	15.4	14.4	14.8	7.3	7.6	7.6
8. Others	**6.6**	**6.4**	**7.3**	**6.3**	**6.2**	**6.1**
VIII. Undressed leather and dressed leather, furs and fur products	0.6	0.6	0.6	1.4	1.3	1.3
XIII. Stone products, cement, ceramics, glass	0.6	0.6	0.6	1.4	1.4	1.3
Miscellaneous goods and products	5.3	5.2	6.1	3.6	3.5	3.5

s=semi-final data; p=provisional data

Some totals may differ from the sum of components due to rounding.

Source: National Institute of Statistics

The main markets for imports and exports for Romania in 2009 to 2011 and January-October 2012 are presented in the table below:

TRADE BALANCE – GEOGRAPHICAL DISTRIBUTION

	Export (per cent.)				**Import (per cent.)**			
	2009	**2010**	**2011^s**	**Jan-Oct 2012^p**	**2009**	**2010**	**2011^s**	**Jan-Oct 2012^p**
Country Group								
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Intra EU Trade (EU-27)................................	**74.3**	**72.3**	**71.0**	**70.5**	**73.1**	**73.1**	**73.3**	**74.2**
Germany..	**18.7**	**18.1**	**18.6**	**18.8**	**17.3**	**16.9**	**17.2**	**17.6**
Italy...	**15.5**	**13.9**	**12.8**	**12.2**	**11.7**	**11.7**	**11.5**	**11.1**
France..	**8.1**	**8.3**	**7.5**	**6.9**	**6.2**	**5.9**	**5.8**	**5.8**
Hungary...	**4.4**	**4.8**	**5.6**	**5.4**	**8.5**	**8.7**	**8.8**	**9.1**

Bulgaria	**3.8**	**3.6**	**3.6**	**3.9**	**2.4**	**3.1**	**2.9**	**2.9**
United Kingdom of Great Britain and Northern Ireland	**3.3**	**3.7**	**3.2**	**3.5**	**2.2**	**2.3**	**2.3**	**2.4**
Spain	**3.0**	**3.0**	**2.4**	**2.5**	**1.9**	**2.1**	**2.3**	**2.3**
Netherlands	**3.3**	**2.8**	**3.1**	**2.8**	**3.9**	**3.6**	**3.2**	**3.5**
Poland	**2.2**	**2.6**	**2.4**	**2.4**	**3.6**	**3.8**	**4.0**	**4.3**
Austria	**2.3**	**2.3**	**2.2**	**2.3**	**4.8**	**4.1**	**4.0**	**4.2**
Extra EU Trade (extra-EU-27)	**25.7**	**27.7**	**29.0**	**29.5**	**26.9**	**26.9**	**26.7**	**25.8**
Turkey	**5.0**	**7.0**	**6.2**	**5.5**	**3.7**	**3.6**	**3.4**	**3.2**
Russian Federation	**1.8**	**2.2**	**2.3**	**2.3**	**3.9**	**4.3**	**3.7**	**4.1**
USA	**1.2**	**1.5**	**1.8**	**1.9**	**1.3**	**1.1**	**1.1**	**1.4**
Ukraine	**1.2**	**1.4**	**1.8**	**1.8**	**0.6**	**1.1**	**1.4**	**0.9**
Republic of Moldova	**1.3**	**1.2**	**1.3**	**1.3**	**0.3**	**0.3**	**0.4**	**0.6**
People's Republic of China	**0.7**	**0.8**	**0.9**	**0.9**	**4.9**	**5.3**	**4.5**	**3.8**
Japan	**0.3**	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Kazakhstan	**0.2**	**0.2**	**0.3**	**0.1**	**3.5**	**2.8**	**4.1**	**4.1**

s = semi final data; p = provisional data

Source: National Institute of Statistics

Balance of Payments

Current Account

In 2008, the current account deficit narrowed to EUR 16,157 million, down 3.3 per cent. year-on-year, accounting for 11.6 per cent. of GDP. Trade balance (goods) had the largest impact on the current account, reaching 13.7 per cent. of GDP. The dampening effect of goods flows on the current account was only partly offset by the larger surpluses under services (EUR 659 million, 61.1 per cent. higher as compared to 2007, due to a significantly lower deficit under "freight") and current transfers (EUR 5,976 million, up 23.8 per cent. year-on-year, from EU structural funds) and the lower income deficit (EUR 3,683 million, down 10.8 per cent. year-on-year on account of incomes derived from non-residents' direct investment in Romania).

In 2009, the balance of payments current account posted a deficit of EUR 4,913 million, down 69.6 per cent. year-on-year, accounting for 4.2 per cent. of GDP. In 2009, the trade deficit, which has the largest effect on the current account, amounted to EUR 6,871 million, down 64.0 per cent. from the previous year. The narrowing of the current account deficit was also the result of a contraction in income deficit of non-residents from direct investment. The positive impact of goods and income flows on the current account was partly alleviated by the unfavourable developments in the services balance and current transfers balance. Services balance deficit amounted to EUR 292 million, compared to a EUR 659 million surplus in 2008, as a result of deeper decreases of receipts than in payments. The current transfers balance surplus reached EUR 4,150 million, down 30.5 per cent. over 2008, mainly due to the fall in workers' remittances.

In 2010, the current account deficit amounted to EUR 5,493 million, 11.8 per cent. above the 2009 figure. The main impact on the current account deficit was exerted by the increase in trade deficit together with the reduction in current transfers surplus. The trade balance deficit widened by 10.3 per cent. to EUR 7,577 million, with intra-EU trade accounting for about three fourths of the figure. The balance of current transfers posted a surplus of EUR 3,594 million in 2010, down 13.4 per cent. from the previous year, on the back of lower receipts from workers' remittances and EU funds disbursement. Net official transfers accounted for less than 18 per cent. of the current transfers surplus, while over 82 per cent. represented net private transfers. Net workers' remittances totalled EUR 2,241 million, down 21.5 per cent. from 2009. The services balance posted a surplus of EUR 404 million in 2010, as compared with a deficit of EUR 292 million in the previous year, due to the improvement in the receipts/payments ratio for freight and passenger transportation and other services (communication, information, construction services). Receipts from services totalled EUR 6,622 million (6.3 per cent. lower than in 2009, as a result of decreases for virtually all service components relating to "transportation", "travel" and "other services"), while services-related payments equalled EUR 6,218 million, a decrease of 15.5 per cent. as compared to 2009. The income balance ended 2010 with a EUR 1,914 million deficit, which was close to the result recorded in 2009 of EUR 1,902 million. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 2,342 million, 25.1 per cent. above the 2009 figure. Dividends on direct and portfolio investment recorded a negative balance of EUR 2,022 million, up 18.9 per cent. compared to 2009. Compensation of employees ended 2010 with a positive balance of EUR 417 million, down 6.5 per cent. as compared to 2009.

In 2011 (based on semi-final data), the current account deficit amounted to EUR 5,938 million, 8.1 per cent. above the 2010 figure. The main impact on the current account deficit was exerted by the 15.3 per cent. increase in income deficit to EUR 2,207 million (on the back of higher interest payments) and by the decline in net current transfers surplus by 7.1 per cent. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 2,766 million, 18.1 per cent. above the 2010 figure. Dividends on direct and portfolio investment recorded a negative balance of EUR 2,290 million, up 13.3 per cent. as compared to 2010 . Compensation of employees ended 2011 with a positive balance of EUR 407 million, as compared to EUR 417 million a year earlier. The current transfers surplus decreased to EUR 3,338 million, mainly due to the decrease in workers' remittances and other private transfers. Net official transfers accounted for one fifth of the current transfers surplus, while the remaining 80 per cent. represented net private transfers. Net workers' remittances totalled EUR 2,126 million, down 5.1 per cent. from 2010. The trade balance deficit narrowed by 2.2 per cent. to EUR 7,409 million, with intra-EU trade accounting for 86.9 per cent. of the figure. The services balance posted a surplus of EUR 340 million in 2011, 15.8 per cent. below the previous year's level, mainly attributable to other services (construction services, audio-visual services, operating lease, charges for the use of intellectual property). Receipts from services totalled EUR 7,253 million (9.5 per cent. higher than in 2010, as a result of increases for virtually all service components relating to "transportation", "travel" and "other services"), while services-related payments equalled EUR 6,913 million, an increase of 11.2 per cent. as compared to 2010.

In the first eleven months of 2012 (based on provisional data), the current account deficit totalled EUR 4,245 million, down 18.9 percent compared to the same period of 2011. The main impact on current account developments was exerted mainly by the decrease in the income deficit (down EUR 707 million) as well as by the increase in the services surplus (up EUR 263 million) and in the current transfers surplus (up EUR 86 million). The balance of current transfers posted a surplus of EUR 3,137 million in the first eleven months of 2012, 2.8 percent higher than in January-November 2011, mainly on the back of private transfers other than workers' remittances. Net private transfers accounted for 87.2 percent of the current transfers surplus, while net official transfers accounted for the remaining share. Workers' net remittances totalled EUR 1,776 million, 3.8 percent below the level recorded in the first eleven months of 2011. The income balance ended on a EUR 1,348 million deficit, down 34.4 percent from the first eleven months of 2011. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 2,100 million, down 16.8 percent as compared with January-November 2011. Dividends on direct and portfolio investment recorded a negative balance of EUR 1,892 million, 11.8 percent below the level recorded in the comparable period of 2011. Compensation of employees ended the period with a positive balance of EUR 444 million, as compared with EUR 376 million in the first eleven months of 2011. The services balance posted a EUR 554 million surplus as compared with EUR 291 million in January-November 2011, the increase coming mainly from the improvement of the receipts/ payments ratio related to financial, legal, insurance, R&D and IT services. Receipts from services totalled EUR 6,761 million (2.7 percent above the level recorded in the first eleven months of 2011, on the back of increases in "travel" and "other services"), while services-related payments were EUR 6,207 million, slightly below the figure recorded in January-November 2011. The trade deficit was EUR 6,588 million, up 1.0 percent as compared to the first eleven months of 2011.

Capital and Financial Account

In 2008, the balance on the capital and financial account totalled EUR 17,830 million, 2.1 per cent. higher than the balance in 2007, mainly due to non-residents' direct investment, which covered 57.6 per cent. of the current account deficit. Medium and long-term credits and loans received by domestic borrowers amounted to EUR 5,723 million, with the main recipients being the real estate, public administration and banking sectors.

In 2009, the positive balance of the financial and capital account amounted to EUR 5,883 million, down 67.0 per cent. over the previous year. This was mainly the result of lower levels of direct investment and other capital investment by non-residents in Romania. Net direct investment declined 61.9 per cent. year-on-year to EUR 3,550 million. Portfolio investments recorded net inflows of EUR 516 million (compared with EUR 563 million worth of net outflows in 2008). Net external financing from medium- and long-term loans amounted to EUR 10,151 million, up 77.4 per cent. against the previous year. This result was significantly influenced by the first two disbursements under the Stand-by Arrangement entered into with the IMF. Net outflows from short-term loans were EUR 4,676 million, 2.8 times higher than in 2008. In 2009, 71 per cent. of the current account deficit (EUR 4,913 million) was covered by non-residents' direct investment.

In 2010 the balance of the capital and financial account reached EUR 5,728 million, 2.6 per cent. below the level recorded in 2009, mainly as a result of a drop in direct investment, which offset an increase in reserve assets. Reserve assets increased by EUR 3,488 million, a significant increase over the 2009 results, mainly attributable to the inflows from the IMF and EU borrowings. Net direct investment totalled EUR 2,236 million, down 37 per cent. as compared to 2009; net direct investment of non-residents stood at EUR 2,220 million. Net inflows from medium and long-term loans were EUR 3,685 million, compared with EUR 10,151 million in 2009, mainly due to a base effect (higher amounts were released in 2009 in connection with the Stand-by Agreement with the IMF). A positive influence on the capital and financial account was attributable to portfolio investment and other capital investment (mainly deposits and trade credits). Net inflows from portfolio investment accounted for EUR 875 million in 2010, as compared with EUR 516 million in 2009, boosted by bond transactions on the secondary market.

In 2011 (based on semi-final data), the balance of the capital and financial account reached EUR 5,497 million, 4.0 per cent. below the level recorded in 2010. This was mainly the result of lower direct investment and other capital investment in Romania. Net direct investment of non-residents in Romania declined 18.2 per cent. compared to 2010 to EUR 1,815 million. Portfolio investments resulted in net inflows of EUR 1,675 million as compared with EUR 875 million in 2010, as a result of the EUR 1.2 billion of Eurobonds and from government bond transactions performed on the secondary market. Medium- and long-term loans from abroad recorded net outflows of EUR 59 million as compared to net inflows of EUR 3,685 million in the previous year. Net inflows from short-term loans recorded EUR 922 million as compared to EUR 247 million in 2010. In 2011, 30.6 per cent. of the current account deficit (EUR 5,938 million) was covered by non-residents' direct investment. Reserve assets increased by EUR 897 million against 2010, mainly from changes in the foreign exchange reserve requirements of credit institutions, inflows into the Ministry of Public Finance’s accounts, and income from management of foreign exchange reserves.

In the first eleven months of 2012 (based on provisional data), the balance on the capital and financial account reached EUR 3,248 million, 26.6 percent below the level recorded in January-November 2011. This was the result of higher net payments related to medium- and long-term borrowings and lower net inflows from foreign direct investment. Medium- and long-term loans from abroad recorded net outflows of EUR 1,157 million as compared to EUR 209 million in the same period of the previous year, following the repayments under the 2009 Stand-by Agreement with the IMF. Net direct investment recorded EUR 1,390 million, as compared to EUR 1,420 million in the same year-earlier period, of which non-residents’ net direct investment in Romania accounted for EUR 1,440 million versus EUR 1,388 million in January-November 2011. Portfolio investment resulted in net inflows of EUR 2,199 million as compared with EUR 1,830 million in the same period of the previous year, as a result of the government bonds worth of EUR 1.5 billion issued. Net inflows from short-term loans recorded EUR 189 million as compared with EUR 970 million in the first eleven months of 2011. Net capital transfers ended-up with a positive balance of EUR 1,340 million, from EUR 361 million in the same period of the previous year, the bulk of the increase consisting of EU funds. In January-November 2012, 65.5 percent of the current account deficit (which was of EUR 4,245 million) were covered by non-residents' direct investment and capital transfers. Reserve assets decreased by EUR 1,680 million as compared to the end of 2011.

BALANCE OF PAYMENTS FOR THE YEARS 2008-2011 AND JANUARY - NOVEMB

ITEM	2008 CREDIT	2008 DEBIT	2008 NET	2009 CREDIT	2009 DEBIT	2009 NET	2010 CREDIT	2010 DEBIT	2010 NET	2011[1] CREDIT	2011[1] DEBIT
(*EUR million*)											
1. CURRENT ACCOUNT (A+B+C)	**53,582**	**69,739**	**-16,157**	**44,055**	**48,968**	**-4,913**	**50,904**	**56,397**	**-5,493**	**59,517**	**65,455**
A. Goods and services	**42,479**	**60,929**	**-18,450**	**36,148**	**43,311**	**-7,163**	**43,982**	**51,155**	**-7,173**	**52,528**	**59,596**
a. Goods (export fob - import fob[3])	**33,725**	**52,834**	**-19,109**	**29,084**	**35,955**	**-6,871**	**37,360**	**44,937**	**-7,577**	**45,274**	**52,683**
b. Services	**8,754**	**8,095**	**659**	**7,064**	**7,356**	**-292**	**6,622**	**6,218**	**404**	**7,253**	**6,913**
- Transportation	2,684	2,697	-13	2,077	2,000	77	1,928	1,156	772	2,227	1,344
- Travel	1,358	1,477	-119	884	1,051	-167	860	1,238	-378	1,019	1,408
- Other services	4,712	3,921	791	4,102	4,306	-204	3,834	3,824	10	4,007	4,161
B. Income	**2,268**	**5,951**	**-3,683**	**1,188**	**3,090**	**-1,902**	**924**	**2,838**	**-1,914**	**1,274**	**3,481**
- compensation of employees	1,156	115	1,041	492	46	446	484	67	417	499	92
- direct investment income	13	2,983	-2,970	24	874	-850	-112	541	-653	48	485
- portfolio investment income	838	675	163	538	313	225	438	456	-18	578	558
- other investment (interest)	260	2,177	-1,917	134	1,857	-1,723	115	1,774	-1,659	149	2,347
C. Current transfers	**8,836**	**2,859**	**5,977**	**6,718**	**2,568**	**4,150**	**5,998**	**2,404**	**3,594**	**5,716**	**2,378**
- public administration	2,227	1,302	925	2,360	1,597	763	1,998	1,357	641	1,984	1,371
- other sectors	6,609	1,557	5,052	4,359	971	3,388	4,000	1,047	2,953	3,732	1,006
2. CAPITAL AND FINANCIAL ACCOUNT (A+B)	**81,444**	**63,614**	**17,830**	**76,672**	**70,789**	**5,883**	**72,882**	**67,154**	**5,728**	**75,963**	**70,466**
A. Capital account	**992**	**371**	**621**	**992**	**346**	**646**	**575**	**327**	**248**	**1,181**	**461**
a. Capital transfers	**880**	**264**	**616**	**791**	**278**	**513**	**475**	**245**	**230**	**844**	**284**
- public administration	480	1	479	562	147	415	275	112	163	713	146
- other sectors	399	263	136	229	131	98	200	133	67	131	138
b. Acquisitions/sales of nonproduced-nonfinancial assets	**112**	**107**	**5**	**201**	**68**	**133**	**100**	**82**	**18**	**337**	**177**
B. Financial account	**80,452**	**63,244**	**17,208**	**75,679**	**70,444**	**5,235**	**72,307**	**66,827**	**5,480**	**74,782**	**70,005**
a. Direct investment	**18,728**	**9,420**	**9,308**	**13,435**	**9,885**	**3,550**	**13,927**	**11,691**	**2,236**	**14,544**	**12,706**
- abroad	55	243	-188	156	94	62	294	278	16	187	164
- in Romania	18,673	9,177	9,496	13,279	9,791	3,488	13,633	11,413	2,220	14,357	12,542
b. Portfolio investment	**2,551**	**3,114**	**-563**	**1,714**	**1,198**	**516**	**3,626**	**2,751**	**875**	**5,421**	**3,746**
- assets	455	668	-213	597	736	-139	566	953	-387	771	813
- liabilities	2,095	2,446	-351	1,118	462	656	3,059	1,798	1,261	4,650	2,933
c. Financial derivatives	**600**	**890**	**-290**	**379**	**430**	**-51**	**472**	**450**	**22**	**428**	**499**
d. Other investment	**57,118**	**48,400**	**8,718**	**60,151**	**57,806**	**2,345**	**54,282**	**48,447**	**5,835**	**54,388**	**52,157**
- assets	**12,400**	**13,055**	**-655**	**15,429**	**17,390**	**-1,961**	**17,812**	**17,731**	**81**	**22,423**	**21,740**
1. Long-term loans and credits	268	209	59	170	221	-51	632	304	328	1,233	490
1.1. Trade credits	132	43	89	75	26	49	385	32	353	846	24
1.2. Financial loans	136	166	-30	95	196	-101	248	272	-24	387	466
2. Short-term loans and credits	2,241	3,074	-833	1,758	2,623	-865	2,173	3,155	-982	2,401	2,662
2.1. Trade credits	1,876	2,266	-390	1,614	2,256	-642	1,891	2,517	-626	2,156	2,267
2.2. Financial loans	365	808	-443	145	368	-223	282	639	-357	245	394
3. Currency and short-term deposits	9,375	9,317	58	13,161	14,253	-1,092	14,855	14,052	803	18,491	18,155
4. Other assets	516	454	62	339	293	46	151	220	-69	298	433
- long-term	294	262	32	122	146	-24	14	46	-32	30	79
- short-term	222	192	30	217	146	71	137	174	-37	268	355
- liabilities	**44,717**	**35,346**	**9,371**	**44,722**	**40,416**	**4,306**	**36,471**	**30,716**	**5,755**	**31,965**	**30,417**
1. Use of IMF credits and loans	0	0	0	6,769	0	6,769	4,247	0	4,247	908	0
2. Long-term loans and credits	12,499	6,776	5,723	10,784	7,402	3,382	8,517	9,079	-562	8,267	9,234
2.1. Trade credits	129	459	-330	48	681	-633	11	659	-648	101	579
2.2. Financial loans	12,370	6,317	6,053	10,736	6,721	4,015	8,506	8,419	87	8,166	8,655
3. Short-term loans and credits	8,244	9,091	-847	5,460	9,269	-3,809	7,200	5,971	1,229	6,025	4,842
3.1. Trade credits	2,431	3,438	-1,007	1,655	2,907	-1,252	2,810	2,353	457	2,746	2,477

3.2. Financial loans	5,813	5,653	160	3,806	6,361	-2,555	4,390	3,617	773	3,278	2,365
4. Currency and short-term deposits	18,359	17,587	772	18,369	21,464	-3,095	14,268	13,992	276	14,885	14,498
5. Other liabilities	5,615	1,891	3,724	3,340	2,282	1,058	2,238	1,675	563	1,881	1,844
- long-term	4,853	1,297	3,556	3,192	1,972	1,220	2,108	1,365	743	1,601	1,484
- short-term	762	594	168	148	310	-162	131	310	-179	280	360
e. Net foreign assets NBR (increase "-"/decrease "+")	38	-	38	-	1,124	-1,124	-	3,488	-3,488	-	**897**
3. Net errors and omissions	**-**	**1,673**	**-1,673**	**-**	**970**	**-970**	**-**	**235**	**-235**	**440**	**-**

[1] semi-final data; [2] provisional data; Some totals may differ from the sum of components due to rounding.

Foreign Direct Investment ("FDI")

In Romania, Foreign Direct Investment ("**FDI**") flows recorded from 1990 to 2011 amounted to EUR 53.4 billion. They increased by EUR 24.0 billion in total between 2007 and 2011. By economic activity, FDI during 1990 to 2011 was channelled to manufacturing (31.5 per cent. of total FDI), out of which the largest recipients were: oil processing, chemicals, rubber and plastic products (6.3 per cent.), transport means (5.2 per cent.), metallurgy (4.9 per cent.), food, beverages and tobacco (4.1 per cent.) and cement, glassware, and ceramics (3.2 per cent.). Certain sectors (wood products, including furniture or manufacture of computers, electronic, optical and electrical products) still hold a relatively small share, i.e. 1.9 per cent. of total FDI. Apart from industry, other activities benefitting from significant FDI are financial intermediation and insurance, including banks, non-bank financial institutions and insurance companies and account for 18.2 per cent. of total FDI, trade (11.4 per cent.), construction and real estate transactions (10.7 per cent.), electricity, natural gas and water (7.9 per cent.). Greenfield investments were oriented towards manufacturing (13.6 per cent. of total FDI), trade (9.3 per cent.), construction and real estate (7.0 per cent.) and financial intermediation and insurance (6.8 per cent.).

In 2008, net direct investment amounted to EUR 9.31 billion, up 32.1 per cent. as compared to 2007. Non-residents' net direct investment in Romania totalled approximately EUR 9.5 billion, of which EUR 4.87 billion represented equity stakes (including re-invested earnings) and EUR 4.62 billion represented intra-group loans. Privatisation receipts amounted to EUR 872.8 million, from two significant privatisations: the sale of a 72.4 per cent. stake in Automobile Craiova to Ford Motor Company in March 2008 (EUR 57 million) and the sale of a 64.4 per cent. stake in Electrica S.A. Muntenia SUD to ENEL in April 2008. The largest contributions to direct investment in 2008 were from: Austria (18.8 per cent.); The Netherlands (17.2 per cent.); Germany (15.4 per cent.); France (8.8 per cent.); Italy (7.3 per cent.); Greece (6.5 per cent.); Switzerland (4.7 per cent.); Cyprus (3.9 per cent.); Luxembourg (2.3 per cent.); and Hungary (1.8 per cent.).

In 2009, net direct investment declined 61.9 per cent. year-on-year to EUR 3.55 billion, mainly due to the global financial crisis, tightening credit conditions and an uncertain outlook for global growth in the short term. Investment by non-residents in Romania amounted to EUR 3.488 billion, of which EUR 1.729 billion were equity stakes (including re-invested earnings) and EUR 1.759 billion represented intragroup loans (i.e. loans between foreign investors and resident companies). The largest contributions to direct investment in 2009 were from: The Netherlands (21.8 per cent.); Austria (18.1 per cent.); Germany (13.4 per cent.); France (8.5 per cent.); Greece (6.6 per cent.); Italy (5.1 per cent.); Cyprus (4.7 per cent.); Switzerland (4.2 per cent.); Belgium (2.2 per cent.); and USA (2.1 per cent.).

In 2010, net direct investment declined 37.0 per cent. year-on-year to EUR 2,236 million. Investment by non-residents in Romania amounted to EUR 2,220 million (covering 40.4 per cent. of the current account deficit), of which EUR 1,824 million were equity stakes (including re-invested earnings) and EUR 396 million were intra-group loans. The largest contributions to direct investment in 2010 were from: The Netherlands (20.7 per cent.); Austria (17.8 per cent.); Germany (12.2 per cent.); France (8.3 per cent.); Greece (5.7 per cent.); Italy (5.3 per cent.); Cyprus (4.9 per cent.); Switzerland (3.8 per cent.); USA (2.6 per cent.); and Spain (2.0 per cent.).

According to the final data for 2011, non-residents' direct investment in Romania was EUR 1,815 million as compared with EUR 2,220 million for 2010 (mainly as a result of the decline in equity capital consolidated with the net loss to EUR 1,512 million from EUR 1,824 million), covering 30.6 per cent. of the current account deficit. Out of the total figure, intra-group loans amounted to EUR 303 million.

In the first eleven months of 2012 (provisional data) non residents' direct investment in Romania amounted to EUR 1,440 million (33.9 per cent of the current account deficit) as compared to EUR 1,388 million in the same period of 2011, on the back of an increase of intra-group loans and a slightly lower estimated loss associated with the investment. The residents' investment abroad increased by EUR 51 million over 2012 to date as compared with a decrease of EUR 32 million over the first eleven months of 2011. Starting 2010 non residents' direct investment in Romania downward trend decelerated both in absolute terms and as a share of GDP.

The following table shows net foreign direct investment in Romania for the years 2008 to 2011 and January – November 2012:

	Net Foreign Direct Investment[(1)]

	2008	2009	2010	2011	January-November 2012
			(EUR million)		
Net FDI	9,496	3,488	2,220	1,815	1,440
Equity capital and reinvested profits/estimated net loss[(2)]	4,873	1,729	1,824	1,512	473
Other capital (intra-group loans)	4,623	1,759	396	303	967

(1) Non-residents' investment in Romania

(2) Including investment in kind

Source: National Bank of Romania

In order to further encourage investments in Romania, measures have been taken to strengthen fiscal administration, increase transparency and to create legal resources to resolve contractual disputes promptly. 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. A decrease in total taxation rate by two percentage points, from 47 per cent. in 2008 to 45 per cent. in 2011 is also expected to help stimulate investment. The Romanian Government intends to further support economic growth and to attract foreign investments by implementing measures such as VAT exigibility upon receipt of payment by the VAT payer, increasing deductibility for investments in research and development projects or the temporary suspension of social contributions for employers hiring unemployed persons.

Governmental incentives are available for investments made in various fields, such as 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 terms of stimulating private investments, the Romanian Government has implemented a package of measures to encourage large investment projects. From November 2007 to December 2011 the Ministry of Public Finance, through the state aid scheme, administered aid amounting to EUR 330.54 million to support 22 large investment projects (amounting to EUR 1,227.76 million) and creating a total number of 6,951 jobs. Additionally, various state aid schemes are available for small and medium enterprises.

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:

(a) to develop and apply monetary policies and foreign exchange policies;

(b) to authorise, regulate and supervise, from a prudent perspective, credit institutions;

(c) to promote and monitor the good functioning of payment systems in order to ensure financial stability;

(d) to issue Romanian legal tender (banknotes and coins);

(e) to establish a foreign currency regime and to supervise its observance; and

(f) 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 a five-year term 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 of 8 per cent.; (ii) reinforce the bank 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 of the business, operations or network; (v) reduce the risk inherent to 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 the 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, in which case the credit institution is bound to sell them; (iii) require the credit institution to draw up and approve a recovery plan to improve the condition of its business; (iv) require the 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 stance. 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 stance 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

2008

The NBR raised the policy rate in several successive stages during the first six months of 2008 prompted by the resurgence of inflation as a result of powerful economic and financial shocks in world and domestic markets and the sharp deterioration of the short and medium term inflation outlook (due to the expected increase in excess demand and adverse effects of supply side factors). The upward trend in policy rate that was initiated in October 2007 was followed by six consecutive increases totalling 2.75 percentage points; these moves were implemented during the period from January to July 2008, taking the policy rate from 7.5 per cent. to 10.25 per cent. The series of interest rate increases were subsequently discontinued and the policy rate was left unchanged during the second half of 2008, as, while inflation resumed its decline, the central bank faced the risk of still-high demand-pull inflationary pressures, stemming from persistently strong GDP growth in the third quarter of 2008 and the likely easing of fiscal and income policies in the run up to the November 2008 parliamentary elections. Further inflationary pressures came from the exchange rate, amid the deepening and broadening of the financial crisis.

During the first part of 2008, the impact of monetary policy rate adjustments was enhanced by the NBR's firm management of money market liquidity. Throughout the first three quarters of 2008, the NBR engaged mainly in deposit taking operations, aiming at absorbing excess reserves. However, against the background of a continuous decline in the structural liquidity surplus of the banking system, the system shifted to a negative net liquidity position starting in October 2008. The NBR tailored its monetary policy to the new context accordingly; the minimum reserve requirements on RON denominated liabilities have been lowered from 20 per cent. to 18 per cent. and liquidity management was made more flexible in order to facilitate the functioning of interbank money markets and, therefore, assist with the sustainable financing of the economy. To cover the liquidity needs of the banking system, from the fourth quarter of 2008, the NBR's market operations were directed towards injecting liquidity (initially through foreign exchange swaps, and lately through repo operations). Nevertheless, episodes of excess liquidity triggered the need for the central bank to resort to liquidity absorbing operations (deposits and reverse repos).

The annual growth in loans to the private sector continued to accelerate until January 2008 (where it was at 55.5 per cent.), mainly on account of the still strong competition within the banking system and further rapid increase in population incomes (in case of households). However, the growth in loans to the private sector slowed down during the subsequent months, posting a much faster deceleration after July 2008 (up to 25.8 per cent. in real terms in December). Constraint on the loan supply increased following less readily available external financing, amid the global crisis, and the dwindling excess liquidity across the banking system; adding to these was the impact of increased wariness of credit institutions, as reflected by the tightening of lending terms due to heightening adverse selection risk and the switch to investments perceived to be safer, namely government bonds and to some extent foreign assets. Demand for loans was increasingly affected by the marked hike in lending rates, as well as by the stronger uncertainties surrounding the future path of the exchange rate. The development of total credit to the private sector mirrored the decline in the growth rate of loans to households and to a lesser extent of those to companies; the growth rates of both RON and foreign currency denominated loans declined faster during the second half of 2008, on the back of liquidity constraints on global financial markets, the continuous decline in the structural liquidity surplus of the banking system, the enforcement of tighter prudential rules on household loans and the heightened adverse selection. Financial intermediation rose (with the share of credit to the private sector in GDP reaching 39.3 per cent. from 35.9 per cent. in the previous year), while the monetisation of the economy lost momentum (with the share of broad money (M3) in GDP dropping to 34.5 per cent. from 35.9 per cent.).

2009

The steep increase in the RON exchange rate and the risk of persistent depreciation pressures, together with a still wide current account deficit and strong deepening of the budget deficit, were the main reasons for maintaining the monetary policy interest rate status quo in January 2009. The maintenance of an extremely prudent monetary policy stance was aimed at supporting the orderly adjustment of the accumulated major macroeconomic disequilibria and implicitly the sustainable convergence of the inflation rate towards the announced medium-term targets.

The increasingly visible contraction of the Romanian economy in the context of the global financial and economic crisis and the resulting disinflation at a speed consistent with the achievement of medium-term inflation target caused the NBR to initiate a prudent easing of monetary policy in February 2009 by cutting the monetary policy interest rate marginally by 0.25 percentage points to 10 per cent. After a temporary halt in March and April, the easing process was continued by a further cut in the policy rate of 0.50 percentage points (to 9.5 per cent. per annum) in May 2009. Together with the anticipated increase in disinflationary pressures of the negative output gap, major factors in the NBR's decision were also the accelerated adjustment of the external disequilibrium during the first months of 2009, followed by the initiation of a relative stabilisation of the exchange rate of the RON as well as the presumed strengthening of fiscal and income policies in accordance with the terms of the agreement with the IMF, the EU and other financial institutions. The prospects of further alleviating inflationary pressures caused by the large economic downturn led the NBR to further reduce the policy rate between June and September 2009, in three steps of 0.5 percentage points each, to 8.0 per cent. In November 2009, the NBR Board decided to keep the policy rate unchanged at 8.0 per cent. One of the reasons behind the decision was the envisaged short-term inflationary effect of increases in excise duties starting in January 2010. More important, however, was the potential adverse impact on inflation expectations of rising risks related to fiscal and income policies in the context of increased tensions in the domestic political field at the end of 2009.

The downward trend in the monetary policy rate was accompanied during 2009 by reductions of the minimum reserve ratios: (i) in March 2009, the minimum reserve ratio on foreign denominated liabilities with residual maturities of over two years was reduced from 40 per cent. to zero; (ii) in June 2009, the NBR decided to decrease the minimum reserve ratio on RON and foreign currency denominated liabilities of credit institutions with residual maturities of up to two years to 15 per cent. and 35 per cent. respectively, starting with the 24 July to 23 August 2009 maintenance period; (iii) a further reduction (of 5 percentage points) of the minimum reserve ratio on credit institutions' foreign currency denominated liabilities with residual maturities of up to two years was implemented in August (starting with the 24 August to 23 September 2009 maintenance period); and (iv) in November 2009, the minimum reserve ratio on credit institutions' foreign currency denominated liabilities with residual maturities of up to two years was further cut by five percentage points to 25 per cent. starting with the 24 November to 23 December 2009 maintenance period.

At the same time, the NBR took new measures concerning the management of liquidity conditions in the money market, changing the manner in which key liquidity providing operations were performed; starting with the second half of April 2009, the NBR increasingly conducted repo transactions via fixed rate tenders (policy rate) with one month maturities and full allotment, which caused the yield curve in the interbank money market to gradually return to normal. However, in August 2009, confronted with the need to increase the flexibility of its open-market operations, the NBR reduced the maturity of its main instrument of monetary policy from one month to one week. During the first part of 2009, the temporary excess liquidity was absorbed by the monetary authority via reverse repo and deposit taking operations, and also via the deposit facility. The volume of these operations remained however much lower than that of injections.

All these measures were aimed particularly at: (i) facilitating the smooth functioning of the interbank money market and the convergence of yields on interbank transactions to the policy rate; (ii) improving liquidity conditions for both domestic and foreign currencies and ensuring a gradual elimination of the distorted positioning of the interest rates applied by credit institutions to their customers *vis-à-vis* the monetary policy rate and interbank rates; and (iii) supporting a sustainable revival of the lending process in the Romanian economy.

During the first nine months of 2009, the annual growth rate of credit to the private sector continued to decline rapidly, on account of both local and foreign currency components, until it turned negative (-2.4 per cent. in real terms in September 2009) for the first time since 2001. This downward trend stopped temporarily in October 2009 as a result of RON depreciation against the Euro, before resuming in the following two months and reaching -3.6 per cent. in December 2009 (its highest negative growth rate for past eight and a half years). However, this decline in the pace of growth was mostly the result of the statistical effect of domestic currency appreciation, as the negative dynamics of the local currency component was stable (in real terms), while that of the foreign currency component, expressed in Euro, eased only slightly. Similar developments were seen in the annual growth rates of both household and corporate loans, with a faster decline occurring in the case of credit to companies.

2010

At the beginning of 2010, the NBR resumed the rate cutting cycle against the background of a stabilisation of the domestic political climate (following the Parliament's approval of a new cabinet in December 2009) together with the reactivation of the multilateral external financing arrangements with the EU, the IMF and World Bank, which improved the perception regarding the outlook for the Romanian economy (for further details, see "*—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes*"). Between January and May 2010 the policy rate was lowered in four consecutive steps by a total of 1.75 percentage points to 6.25 per cent. The main argument behind this decision was the outlook for consolidation of disinflation in the medium term, in line with the expected magnitude and duration of the negative output gap. The reductions decided in January, February and March were 0.5 percentage points each. However, in May the rate cutting pace slowed to 0.25 percentage points, owing to increasing upside risks to the inflation outlook, generated by both the domestic economic environment (relative to the prospects of fulfilling the fiscal and public sector income policy commitments) and the uncertainties surrounding the external economic developments amid the tensions caused by the public finance crisis in Greece; in this context, an additional reason behind the decision was the risk of the exchange rate becoming excessively volatile.

In June, August and September 2010, the NBR kept the monetary policy rate unchanged at 6.25 per cent. This decision was adopted against the background of a severe deterioration of the short-term inflation outlook under the impact of the VAT rate increase from 19 to 24 per cent. as from 1 July 2010. The updated macroeconomic projection envisaged a significant increase in inflation over the first part of the forecast horizon, with the baseline scenario placing the annual CPI inflation rate at 7.8 per cent. in December 2010. However, it was considered that the inflation rate would return within the variation band around the central target after mid-2011 (once the first round effects of the VAT rate increase had faded) combined with GDP remaining below its potential level over the forecast period. The NBR decision was aimed at firmly anchoring inflation expectations and, hence, countering potential second round effects of the VAT rate increase. The deviation of the projected annual inflation rate from the December 2010 target did not entail an upward revision of the inflation rate. The approach was primarily motivated by the temporary nature of this deviation, originating from supply-side shocks outside the influence of monetary policy, and was aimed at preventing inflation expectations from becoming unanchored over a longer period, by reaffirming NBR's commitment toward its inflation targets and reconfirming its focus on medium-term inflation goals.

The Board of Directors of the NBR (the "**NBR Board**") decided to further keep the monetary policy rate unchanged at 6.25 per cent. in its November 2010 meeting with a view to ensuring a firm anchoring of inflation expectations and thus consolidating the prospects for the resumption and subsequent continuation of the disinflation process at the pace implied by the medium-term inflation targets.

During the second half of 2010, the NBR liquidity management aimed to support the adjustment in interest rates on loans and deposits in domestic currency, as financial market conditions were characterised by lower uncertainties surrounding the financial crisis in the region and a relative normalisation of foreign exchange and money market conditions.

In the context of the 2010 third quarter medium-term forecasting round and the drafting of the November 2010 Inflation Report, the NBR Board took the necessary steps to substantiate and set the 2012 inflation target. Following the assessment of the new projections and of the related risks and uncertainties, mainly those arising from factors beyond monetary policy control, which have also arisen from the implementation of the necessary fiscal consolidation, the NBR decided to maintain the 2012 inflation target at 3 per cent. ±1 percentage point. Moreover, the NBR Board decided to set a flat multiannual inflation target of 2.5 per cent. ±1 percentage point beginning in 2013. The shift towards a flat multi annual inflation target is expected to have a positive effect on Romania's existing inflation targeting framework, as it encourages monetary policy to pursue longer term objectives consistent with fostering medium term price stability in the Romanian economy. These measures are meant to ensure the sustainable decline of inflation rates in the medium term to a level compatible with the inflation criterion in the Maastricht Treaty and the ultimate shift to a steady, long term inflation target in line with the ECB's quantitative definition of price stability. At the same time, these measures reflect the NBR's concern with respect to balancing the establishment of feasible inflation targets without hampering relative price changes that may be triggered by structural adjustments of the Romanian economy.

2011

The need to ensure a firm anchoring of inflation expectations and thus consolidating the prospects for the resumption and subsequent continuation of the disinflation process at the pace implied by the medium term inflation targets motivated the NBR's Board decisions to keep the policy rate unchanged at 6.25 per cent., adopted in its meetings held between January and September 2011.

During the first six months of 2011, the decisions were taken as, while demand-side disinflationary pressures were expected to persist, the inflation outlook was adversely impacted by the recent and future action of a number of supply-side factors (sharper adjustments of administered prices and significant increases in food and energy prices), likely to induce the risk of a deterioration of inflation expectations over the medium term. Moreover, the overall balance of risks of inflation rate deviating from the baseline scenario trajectory continued to be tilted to the upside. The most relevant risks were the possible protraction/pickup of the increase in world prices of commodities, especially food items and energy, the potentially larger-than-expected adjustments in regulated prices and, possibly, indirect taxes over the period ahead (in Romania, but also in some EU/Eurozone countries), in the context of the need for furthering fiscal consolidation, as well as the risk of second-round effects of these shocks.

In its March 2011 meeting, the NBR Board decided to lower the minimum reserve requirements ratio on credit institutions' foreign currency denominated liabilities with residual maturities of up to two years to 20 per cent. (from 25 per cent.) starting with the 24 April to 23 May 2011 maintenance period. The measure was aimed at increasing the flexibility of banks' use of foreign currency liquidity as well as continuing the gradual alignment to ECB standards in the field.

The decision in August 2011 to keep the policy rate unchanged was taken in consideration of the improvement in the inflation outlook mainly in the short-term stemming from, besides the fading of VAT rate hike effects, the recent downward correction in some agro-food prices, the relatively more favourable forecasts regarding the short-term impact of supply-side shocks deriving from the developments in international food, commodities and energy (including crude oil) markets. Another consideration was the relative deepening in the anticipated negative output gap compared to the previous NBR quarterly projection and, implicitly, in the disinflationary pressures this was expected to exert. On the other hand, the risks to medium-term inflation expectations continued to be significant, given the likely near-term administered price adjustments, as well as new potential medium-term supply-side shocks (further administered price adjustments and unfavourable developments in global commodity prices). Behind the NBR's decision stood also the risks stemming from the heightened uncertainties about the ongoing sovereign debt crisis and its impact on global international financial markets and implicitly on the capital flows towards the Romanian economy. These uncertainties increased afterwards, prompting the NBR Board to preserve the existing level of the policy rate in its September meeting, despite the subsequent acceleration of the disinflation process, backed by a steep reduction in volatile food prices, and the prospects for its consolidation, at least over the short term (and implicitly for the 12-month inflation rate to approach the target set for the end of 2011).

The NBR resumed its prudent rate cutting cycle in late 2011, lowering the monetary policy rate in November 2011 by 0.25 percentage points, to 6.0 per cent. The decision was warranted by the significant improvement in current inflation performance (the annual inflation rate dropped to a 20-year low of 3.45 per cent. in September 2011, from 7.93 per cent. in June 2011) and in the inflation outlook, particularly in the short run – implying that the projected 12-month inflation rate remains inside the variation band around the 3 per cent. midpoint of the inflation targets throughout 2011 and 2012.

2012

In January, February and March 2012 the NBR Board continued the prudent rate cutting cycle, lowering the policy rate in three consecutive steps of 25 basis points each, from 6.0 per cent. to 5.25 per cent. The primary reason for these decreases was the substantial improvement in current inflation performance and in the inflation outlook, which envisaged that the annual inflation rate would remain within the variation band around the central targets set for 2012 and 2013. This improvement in the inflation outlook was primarily due to the nearly complete phase-out of the first round effect of the VAT rate hike in July 2010 and the significant correction in volatile food prices, which provided a context in which the disinflationary effects of the persistent negative output gap became more manifest.

In the first months of 2012, the NBR decided to further tailor the minimum reserve mechanism to current and prospective domestic macroeconomic and financial conditions, strongly influenced by external developments; hence, the restrictiveness of this mechanism was slightly eased by removing the constraint imposed on extending the initially-set maturity of bank liabilities (the regulation on reserve requirements was amended by repealing the requirement to only take into account the initially set maturity and ignore its subsequent extensions/renewals, when calculating the residual maturity of liability items included in the reserve base. The ECB had no objections to the regulation, and the measure came into force on 24 February 2012.) The decision was also aimed at implementing a new stage of the harmonisation process of the NBR minimum reserve system with ECB standards.

At the same time, the NBR expanded the range of eligible assets accepted for its monetary policy operations to include the USD denominated sovereign bonds issued by Romania on international markets (which came into force on 1 March 2012). Also, following the implementation of the direct links between SaFIR and RoClear systems, the list of eligible assets was expanded (from 10 April 2012) with the RON denominated bonds issued by international financial institutions, deposited with the RoClear system. The instruments with the same characteristics deposited with the Euroclear system became eligible in October 2011.

In May 2012, the NBR discontinued the policy rate downtrend initiated at the end of 2011, leaving it unchanged at 5.25 per cent. The key rate was further kept unchanged in the subsequent meeting held in June 2012. Both decisions were adopted as the outlook for inflation to remain within the variation band around the midpoint targets throughout the policy-relevant horizon (reconfirmed by the updated forecast of medium-term macroeconomic developments) was affected in the short run by significantly higher fluctuations in investors' risk perception. These correlated to changing expectations regarding both the economic growth in the Eurozone and at global level and the effects on the economies in Central and Eastern Europe induced by the beginning of a deleveraging process by some European Union credit institutions in the context of the ongoing sovereign debt crisis which, together with domestic developments in an election year, could have heightened capital flow volatility.

In its meeting on 2 August 2012, the NBR Board decided to leave the monetary policy rate unchanged at 5.25 per cent. The maintenance of a prudent monetary policy was motivated by the increased asymmetric risks affecting the outlook for inflation in the short run, while the updated forecast reconfirmed that the annual inflation rate would stay within the variation band around the central target. These risks were related to: (i) the heightened global risk aversion and the persistent domestic political tensions, which could have entailed additional net capital outflows, with an unfavourable impact on the Leu exchange rate, and (ii) the future dynamics of international prices of imported food commodities, as well as of domestic food prices, if the output for certain crops were lower than that projected in the baseline scenario.

This latter risk materialised, at least in part, in the following months, and, together with the accumulated depreciation of the Leu against major currencies, and the manifestation of a statistical base effect, led to a significant acceleration of inflation (the annual inflation rate increased from 2.04 per cent. in June to 5.33 per cent. in September). At the same time, subsequent assessments showed a deterioration of the short-term inflation outlook, under the impact of adverse supply-side shocks, as well as a persistence, over very short term, of risks to the inflation outlook induced by the potential heightening of the volatility of capital flows, and implicitly, of the exchange rate - amid a a potential worsening of the external environment, possibly overlapped with the domestic electoral context -, but also the persistence of a high aggregate demand deficit and of the intensity of its disinflationary pressures. Against this background, it was expected that the inflation rate would return and consolidate in 2014 within the variation band around the mid-point of the medium term inflation target. In this context, in its meetings of 27 September 2012 and 2 November 2012, the NBR board decided to extend the status quo of the monetary policy rate, and of the minimum reserve requirement ratios, on both Leu and foreign currency denominated liabilities of credit institutions; at the same time, in November the NBR Board decided to focus on firm liquidity management within the banking system.

The statistical data released prior to the meeting of the NBR Board held on January, 7, 2013 indicated that in October and November 2012 the annual inflation rate declined notably, reaching 4.56 percent, mainly as the result of the relative improvement, also vis-à-vis expectations, of volatile price developments and of the Leu exchange rate behaviour. Also, against this background, strengthened by appreciation trend of the Leu manifested over the last weeks of 2012, as well as following the likely protraction of low dynamics of economic activity - implying a very likely 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 by the end of 2013. However, given the persistence of risks and uncertainties surrounding this outlook, stemming from developments of 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 Leu - and foreign currency-denominated liabilities of credit institutions, and to ensure an adequate liquidity management in the banking system.

In December 2012, the annual inflation rate increased again, 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 the previous forecast that inflation rate would return at the upper bound of the target band (2.5 per cent ± 1 percentage points starting in 2013) towards the end of 2013, but also the outlook for inflation to 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 percent. in the NBR Board meeting of February, 5, 2013. The decision was motivated by the need to effectively anchor inflation expectations, thereby aiming to support the disinflation process expected to resume in the third quarter of 2013 and to consolidate thereafter, against the background of lessening effects of adverse supply-side shock and manifestation of disinflationary effects of the ample aggregate demand deficit.

Expected future developments in monetary policy

The NBR's most recent quarterly projection of medium-term macroeconomic developments reconfirms the outlook for annual inflation rate to return in the beginning of 2014 within the target band and to consolidate subsequently in the upper half of the variation band around the mid-point of the medium-term inflation target (starting 2013, the NBR adopted a flat multi-annual inflation target of 2.5 per cent. ±1 percentage point). Underlying this outlook is mainly the expected dissipation of the effects of agri-food price increases, the resumption of the downward adjustment of inflation expectations, as well as the persistence of elevated values of the aggregate demand deficit. At the same time, certain risks to future inflation developments still persist, being mostly related to the future behaviour of administered prices and of some volatile prices; also, potential future episodes of exacerbating global risk aversion induced by possible unfavourable developments in certain Eurozone states or in the US - likely to impact the behaviour of the leu exchange rate-, cannot be ruled out.

Against this background, through an optimal dosage of its instruments, NBR will further seek to ensure a prudent stance of monetary policy, in a bid to firmly anchor inflation expectations and ensure the fulfilment of the medium-term inflation target.

Recent Developments in the Lending Process

2010

The annual growth rate of lending to the private sector (expressed in real terms) stood in negative territory in 2010 (with the exception of June), consistent with the unfavourable economic environment, which affected both credit supply and demand; to this added in July the statistical effect of the CPI increase on account of the VAT rate hike.

The growth rate of Leu denominated loans also stood in negative territory, while that of foreign currency denominated loans accelerated markedly, highlighting the general preference for borrowing in foreign currency, amid the persistence of a high spread between the costs of loans in Lei and in Euro; consequently, the average share of foreign currency loans in total lending to the private sector increased to 62 per cent.

The breakdown by institutional sector reveals that both companies' and households' lending continued to be muted. This reflected, on one hand, banks' increased concerns regarding the quality of their loan portfolio, the deterioration of the risk perception towards certain sectors/debtors and the size of the loan-to-deposit ratio, and, on the other hand, borrowers' worsening expectations concerning their financial standing and also the robust precautionary demand for money. However, lending to companies performed better than that to households.

2011

The annual growth rate of lending to the private sector (expressed in real terms) advanced in negative territory until July, when it rebounded sharply, as the base effect coming from the CPI increase dissipated (after the first-round effects of the VAT rate increase had faded). In September, the growth rate of lending to the private sector turned positive, due also to the statistical effect of the Leu depreciation, the resuming economic growth, the keener competition among banks and their improved outlook on the risks associated with certain debtors/sectors of the economy.

The dynamics of the Leu denominated component posted an upward trend, entering positive territory in September, while that of the foreign currency denominated component (expressed in euro) stood rather stable; however, the average share of the foreign currency component in total lending to the private sector reached 63 per cent.

Among borrowers, signs of lending revival emerged particularly on the corporate side, with Leu denominated loans performing better that those in foreign currency, following an overall downward trend in lending rates on new business in domestic currency. Despite its slight improvement, the dynamics of lending to households remained negative, in line with the low debt-servicing capacity of this segment, the weak labour market and the still high incentive to save.

2012

The annual growth rate of lending to the private sector (expressed in real terms) accelerated strongly until April, mostly on account of the statistical effect of the exchange rate, and then declined continuously until December 2012; starting September 2012, it stood in negative territory, mostly on account of the statistical effect of the increase in CPI. The deceleration was more pronounced for foreign currency-denominated lending (expressed in Euro). However, given the depreciation of RON against the EUR, the share of foreign currency-denominated loans in total lending to the private sector stood at around 63 per cent. throughout the last quarter of 2012. As for the breakdown of loans by client, the growth rate of lending to both companies and households started to decline in 2012 Q2, although lending to companies continued to perform better than that to households. The above developments were probably triggered by a deterioration in the confidence and expectations regarding economic activity, and also by banks' increased concerns regarding their own balance sheets adjustments, also from the perspective of a potential continuation of deleveraging in the Eurozone.

Corporate loans in domestic currency maintained their growth rate (expressed in real terms) rather high from the perspective of the last four years (despite the deceleration seen especially in November and December 2012), while the growth rate of their foreign currency-denominated loans (expressed in Euro) declined strongly (-3.6 percent at the end of 2012). As for households, the growth rate of housing loans in Leu (expressed in real terms) outpaced in November 2012, for the first time ever, the growth rate of housing loans in foreign currency (expressed in Euro), while the stock of consumer loans decreased throughout 2012 irrespective of currency. The latter were most likely consequences of the latest NBR Regulation aimed at discouraging lending in foreign currency to unhedged borrowers and the excessive growth in consumer credit (NBR Regulation No. 24/2011).

Looking ahead, developments in lending will hinge upon the behaviour of loan demand and loan supply parameters. Thus, loan demand may suffer further due to the agents' still unfavourable perception regarding the economic outlook and potential impact to their financial standing. At the same time, loan supply may be constrained by the increase of banks' prudence, motivated by the insufficient improvement in credit institutions' expectations regarding the economic activity, the risk perception associated with certain types of borrowers, concerns with regard to the quality of their assets, and the effects of a potentially long-lasting rationing of their access to external financing, against the background of a possible continuation of deleveraging and capitalisation efforts by Eurozone credit institutions.

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 the period 2008-2012:

End of Period	Inflation Rate	Target Inflation Rate	Monetary Policy Rate
		(per cent.)	
March 2008	8.63	—	9.50
June 2008	8.61	—	10.00
September 2008	7.30	—	10.25
December 2008	6.30	3.8	10.25
March 2009	6.71	—	10.00
June 2009	5.86	—	9.50
September 2009	4.94	—	8.00
December 2009	4.74	3.5	8.00
March 2010	4.20	—	6.50
June 2010	4.38	—	6.25
September 2010	7.77	—	6.25
December 2010	7.96	3.5	6.25
March 2011	8.01	—	6.25
June 2011	7.93	—	6.25
September 2011	3.45	—	6.25
December 2011	3.14	3.0	6.00
March 2012	2.40	—	5.25
June 2012	2.04	—	5.25
September 2012	5.33	—	5.25
December 2012	4.95	3.0	5.25

Sources: National Institute of Statistics, National Bank of Romania

Monetary Aggregates

The following table shows selected monetary aggregates as at 31 December 2008, 2009, 2010, 2011 and 2012:

	As at 31 December				
	2008	2009	2010	2011	2012
			(RON million)		
M1 (narrow money)- Total	92,548.50	79,361.50	81,592.30	85,834.09	89,020.18
Currency in circulation	25,286.80	23,967.60	26,793.60	30,610.31	31,476.67
Overnight deposits	67,261.70	55,393.90	54,798.70	55,223.78	57,543.51
M2 (intermediate money)-Total	173,628.80	188,013.00	199,572.10	212,058.93	221,829.01
M1	92,548.50	79,361.50	81,592.30	85,834.09	89,020.18
Deposits with agreed maturity of up to 2 years	81,080.30	108,651.50	117,979.80	126,224.84	132,808.83
M3 broad money	174,027.80	189,630.30	202,772.60	216,207.86	222,017.15
M2	173,628.80	188,013.00	199,572.10	212,058.93	221,829.01
Other financial instruments (repurchase agreements, MMFs shares/units, debt securities with maturity of up to 2 years)	399	1,617.30	3,200.50	4,148.93	188.14

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.

Source: National Bank of Romania

Some totals may differ from the sum of components due to rounding.

Interest Rates

During the first six months of 2008, short-term money market rates tracked closely the monetary policy rate and their volatility abated considerably as a result of the adequate management of money market liquidity via open market operations by the NBR. However, from July to September 2008, in the context of the declining liquidity surplus in the banking system, the impact of autonomous factors increased and money market rates rose above the monetary policy rate. During the fourth quarter of 2008 and the first quarter of 2009, interbank money market rates rose to levels close to the upper band of the interest rate corridor. This trend was caused by a number of different factors, mostly of a structural nature: the shift of the banking system's net liquidity from surplus to deficit and the associated higher uncertainty among market participants regarding current and short-term liquidity conditions. Other factors arose from the intensifying financial crisis, namely: (i) a loss of confidence among banks; (ii) the possible downward adjustment of exposure limits between some banks; and (iii) episodes of increased speculative demand for domestic currency from non-residents, particularly in the second part of October 2008. However, at the end of March 2009, overnight money market rates adjusted relatively rapidly to lower levels, and then stabilised around the monetary policy rate as banks' demand for reserves was covered, to an increasing extent and subsequently almost completely, via the central bank's repo operations. In turn, the yields at the longer end of the money market yield curve followed a gradual downward correction, benefiting from the NBR's improved liquidity management, as since mid-April the NBR's repo operations were conducted as fixed-rate tenders with one-month maturities and full allotment. By alleviating market uncertainty regarding future liquidity conditions, this decision led to a significant decline in term spreads (most of this correction occurred in April and May). At the same time, the volatility of interest rates declined substantially.

Interbank money market rates rose again temporarily during the fourth quarter of 2009 and their spread with respect to the monetary policy rate widened. The substantial increase in budget deficit financing needs for the last quarter of 2009 and greater uncertainty on the part of banks regarding future liquidity conditions were among the main driving factors behind these developments.

Between January 2008 and January 2009, credit institutions' interest rates on new time deposits and loans increased, reflecting the upward trend in the monetary policy interest rate and interbank money market rates, as well as banks' enhanced need for domestic resources, tighter credit standards and credit institutions' increased prudence in the context of heightened uncertainties regarding the effects of the financial crisis on the Romanian economy. Interest rates on new time deposits increased faster than those on new loans, as the greater need for resources made banks pursue a more aggressive promotion of higher-yield savings products. Starting in February 2009, interest rates declined, gradually adjusting their distorted positioning with respect to the policy interest rate and the interbank money market rates. The average interest rate on new time deposits of households decreased by 6.15 percentage points as compared to January 2009 (reaching 9.91 per cent. in December 2009), while the average interest rate on new time corporate deposits decreased by 7.11 percentage points, to 9.57 per cent. During the period from February to December 2009, the average interest rate on new loans to non-financial corporations decreased by 5.79 percentage points to 15.40 per cent. By contrast, the average interest rate on new loans to households declined only by 2.49 percentage points (to 16.58 per cent. in December), showing a relatively high degree of rigidity, which may be attributed to the higher risk attached by banks to such customers.

January through April 2010, money market rates declined steeply reaching levels below the monetary policy rate across the entire maturity spectrum. Their developments reflected the combined influence of: (i) the policy rate cuts implemented by the NBR; (ii) the easing of liquidity conditions in the money market; and (iii) market expectations regarding the future evolution of policy rate and liquidity in the banking system. However, at the end of April 2010 and notably at the beginning of May 2010, three to twelve month ROBOR rates increased significantly, repositioning themselves at levels above the monetary policy rate as a result of: (i) increased risk premium in the context of severe tensions on the global financial markets and heightened domestic risks related to the fulfilment of fiscal and public sector income policy objectives; and (ii) a change in banks' perception regarding current and future liquidity conditions in the banking system. In the context of overnight ("ON") interbank rates evolving in the lower part of the interest rates corridor since June 2010, three to twelve month ROBOR rates were adjusted downwards at the end of July 2010 and remained relatively stable at levels just above the policy rate, before entering a slight downward trend in October 2010. Their decline accelerated in January 2011, mainly reflecting a fall in the risk premium owing inter alia to a significant alleviation of uncertainties that had surrounded the fiscal consolidation process until the end of 2010. In mid-February 2011, money market rates posted an upward correction across all maturities, induced by tighter liquidity conditions as well as an adjustment of market expectations of the future path of interest rates. Interest rates decline resumed shortly after, being more pronounced for maturities up to 3 months. It continued until the end of July 2011, when it reversed in the context of a relative tightening of liquidity conditions. As a result, ON rates went up gradually, returning closer to the monetary policy interest rate. In turn, money market rates on longer maturities either re-converged to the policy rate (in case of the 3-month ROBOR) or increased their spreads to the policy rate by up to 40 basis points (in case of the 6-month and 12-month ROBOR). The three to twelve-month ROBOR rates remained broadly stable until mid-November 2011, when they experienced a brief increase, before embarking on a slight downward trend. Between the end of December 2011 and mid-April 2012, money market rates fell significantly across the maturity spectrum, due to the combined influence of the monetary policy rate cuts implemented by the NBR and an easing of liquidity conditions. After a period of relative stability, in mid-May the entire money market yield curve shifted upwards, notably in its front end, under the combined influence of tighter liquidity conditions and the revision of banks' expectations regarding the policy rate and the liquidity situation. During the following three months, interest rates for all maturities were broadly static in the close proximity of the monetary policy rate. Very short-term interbank money market rates increased somewhat in August, following the NBR's decision to cap the amount of liquidity injected through its weekly repo tenders and declined to a certain extent in the subsequent months (amidst the temporary resumption of the full-allotment procedure at the NBR's weekly repo tenders). These interest rates increased again afterwards, notably in November, as the NBR tightened liquidity management in the banking system, and have since stood on average at about 50 basis points above the policy rate, despite a temporary increase in volatility observed in December. ROBOR rates on longer maturities also posted an increase during the first half of August (by about 60 basis points across the maturity spectrum), which was partly reversed in the subsequent month. After a period of relative stability, these rates trended upwards during November, notably on shorter maturities, reflecting the impact of changes in current and expected money market liquidity conditions, adjusted at slightly lower levels in December and remained broadly steady afterwards. An incipient decline occurred then in mid-January, reflecting, among others, the relatively lower restrictiveness of liquidity conditions.

Credit institutions' interest rates on new time deposits and loans saw their decline accelerating during the first four months of 2010 (amid the downward trend of money market rates and the significant improvement in the liquidity conditions in the money market) and stood broadly flat thereafter, until July 2010. During the second half of the year, they displayed a different behaviour for the two main categories of non-bank clients, as interest rates applicable to households were influenced by several one-off effects. Thus, the average interest rate on new loans to households moved slightly upwards, largely due to an increase in margins charged by banks following the entry into force of new regulations on credit agreements for consumers (Government Emergency Ordinance No. 50/2010); by contrast, interest rates on new loans to non-financial corporations resumed their decline. Interest rates on new time deposits of non-financial corporations also followed a downward trend, while those on new time deposits of households remained broadly flat, particularly owing to promotional offers associated with the introduction of a 16 per cent. tax rate on interest gains. Following these developments, during 2010, the average interest rate on new loans to non-financial corporations declined by 6 percentage points, reaching 9.4 per cent. in December and the average interest rate on new loans to households dropped by 4.90 percentage points to 11.68 per cent. Over the same period, the average interest rates on time deposits of non-financial corporations fell by 4.21 percentage points to 5.36 per cent., while in the case of household deposits the downward adjustment was somewhat smaller (-2.29 percentage points, to 7.62 per cent.).

Moving broadly in line with developments in interbank rates, the average interest rates on new time deposits and new loans fell in January 2011 and posted a temporary increase in the subsequent month, before entering a downward trend which extended until July 2011. They increased between August and November 2011, primarily reflecting the upward trend in short-term money market rates (for maturities of one to three months), which were more sensitive to the temporary tightening of liquidity conditions, but declined again in December 2011. Following these developments, the average interest rate on new loans to households was 12.66 per cent. in December 2011 (from 11.68 per cent. in December 2010), while the average interest rate on new loans to non-financial corporations reached 9.74 per cent. (from 9.40 per cent. in December 2010). The average interest rate on new time deposits of non-financial corporations increased to 5.78 per cent. (from 5.36 per cent. in December 2010) while the corresponding rate for households declined by approximately 1 percentage point to 6.58 per cent. The subsequent downtrend of the monetary policy rate and interbank ROBOR rates was also followed by the interest rates for non-bank clients. Thus, during the first four months of 2012 the average interest rate on new time deposits of households fell by 0.64 percentage points (to stand at 5.94 per cent. in April 2012), while the average interest rate on new loans to households decreased by 1.08 percentage points (to 11.58 per cent.) on account of a broad based decline in interest rates on all categories of loans. In the case of non-financial companies, the average interest rate on new time deposits shrank significantly (-1.21 percentage points, to stand at an over six-year low of 4.57 per cent.); at the same time, the average lending rate on new business dropped 0.91 percentage points to a historical low of 8.83 per cent. The average interest rate on new time deposits of non-financial corporations increased in the period of May to December 2012 to 5.15 per cent., while the average interest rate on new loans to non-financial corporations increased in the same period to 9.79 per cent.. The average interest rate on new time deposits of households continued to fall, reaching 5.56 per cent. in September and increased to 5.64 per cent. in December; at the same time, the average interest rate on new loans to households decreased to a historical low of 11.09 per cent. in June and increased subsequently to 12.43 per cent. in December.

The following table shows key financing interest rates as at 31 December 2008, 2009, 2010, 2011, 2012 and as at 31 January 2013:

National Bank of Romania – Annual Interest Rate (Domestic Currency Operations)

	As at 31 December					As at 31 January
	2008	2009	2010	2011	2012	2013
Policy rate	10.25	8.00	6.25	6.00	5.25	5.25
Lending facility	14.25	12.00	10.25	10.00	9.25	9.25
Deposit facility	6.25	4.00	2.25	2.00	1.25	1.25

Source: National Bank of Romania

The following table shows annual average interest rates for loans and term deposits as at 31 December 2008, 2009, 2010, 2011 and 2012:

Annual Average Interest Rates for Loans and Term Deposits (for Domestic Currency Operations)

	As at 31 December				
	2008	2009	2010	2011	2012
Individuals					
Loans	16.59	17.11	14.83	14.00	13.26
Term deposits	12.12	9.56	7.18	6.24	5.31
Non-financial corporations					
Loans	18.34	16.06	10.57	10.45	10.13
Term deposits	14.81	9.07	5.47	5.59	4.94
Total					
Loans	17.47	16.58	12.65	12.09	11.50
Term deposits	13.22	9.42	6.70	6.07	5.22

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 (ECB/2001/18 and (ECB/2009/7) starting with 1 June 2010).

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 (the "**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.

2007 – 2008

The almost continuous downward path on which the EUR/RON embarked in previous years reversed in August 2007 due to the shift in investor appetite for riskier assets, prompted by the US sub-prime crisis and by the worsening of market expectations caused by the reassessment of domestic economic fundamentals. The improved investor perception regarding the short term changes in domestic fundamentals and the increased interest rates differential and expectations that this would increase further interrupted this trend from April to August 2008. However, as the global financial crisis picked up dramatically in September, the EUR/RON exchange rate followed a sharp upward trend and its volatility increased; this change was linked to the general weakening of the main currencies in the region. Consequently, in 2008, for the first time in five years, the RON depreciated in real terms compared to the Euro (4.2 per cent.).

2009

In line with the trend shown by other currencies in the region (the Hungarian Forint, the Polish Zloty and the Czech Crown), the RON depreciation intensified further in January 2009 on account of a severe deterioration in global market sentiment, to which added the uncertainties regarding the new Government's ability to adopt and implement proper measures aimed at an orderly unwinding of macroeconomic disequilibria; hence, the EUR/RON exchange rate peaked at EUR 1/RON 4.3127 on 22 January 2009 and its average value increased by 7.5 per cent., the highest since May 2002, while transactions on the interbank forex market increased. Though downward pressures on regional currencies continued to mount, the EUR/RON exchange rate departed from the prevailing trend in the region, due to the NBR's tight monetary policy stance and the lower depth of the forex market. These events coincided with the announcement of an IMF-EU staff-level agreement with Romania as part of a multilateral financial support package. Thus, in April 2009, the RON posted its first nominal appreciation versus EUR in eight months. However, as financial investor perception on regional risk worsened, the RON depreciated again in September 2009. This evolution was enhanced further by: (i) the more pronounced domestic political instability, as a result of the Parliament's non-confidence vote to the Government on 13 October; and (ii) the risk of Romania's rating downgrade in the event of threats to the smooth implementation of the multilateral external financing arrangement with the EU, and World Bank. However, since November 2009 the RON posted a different evolution, owing to the relatively higher global risk appetite and more favourable expectations of investors on the domestic market and, implicitly, on the developments in the exchange. This impact was to a certain extent amplified by the monetary policy decisions adopted by the NBR in early November (which kept the monetary policy interest rate at 8 per cent. and maintained the existing levels of the minimum reserve requirements ratio on foreign currency liabilities) against the background of heightened tensions in the domestic political field and, subsequently, by delays in the tranches due from the IMF/EU. The validation by the Parliament of the new Government on 23 December 2009 had also a favourable bearing on the developments in the EUR/RON exchange rate, resulting in an almost continuous path of appreciation as against the Euro as of this point. Thus, compared to Euro, during 2009 the RON depreciated in real terms by a mere 2.9 per cent., while strengthening against USD by 0.3 per cent. in nominal terms (5.0 per cent. in real terms).

2010

The appreciation of the RON against the Euro accelerated in January 2010, boosted by an improved economic situation in the region generally and brighter investor perception with respect to developments in the Romanian economy following the reactivation of the multilateral external financing arrangement with international financial institutions. Against this backdrop, in January 2010, the EUR/RON average exchange rate posted its sharpest drop in nine months (2 per cent.) while its growth became increasingly correlated with the Polish Zloty and the Hungarian Forint. Further on, the interest rate differential and possibly the abundant liquidity on the global financial market, in its search for higher yields, added to the upward pressures on the currencies in the region. The EUR/RON exchange rate movements were also influenced, to a certain extent, by: (i) Fitch Ratings and Standard & Poor's revising Romania's outlook to stable; and (ii) the rising foreign currency reserve of the NBR, as a result of further disbursements from the IMF and EC loans and of the successful placement of the Eurobond issue of the Ministry of Public Finance. On 25 March 2010 the EUR/RON exchange rate posted its lowest result since January 2009 (RON 4.0653/EUR 1). The EUR/RON exchange rate witnessed a trend reversal in April which reflected high investor concerns regarding Greece's debt crisis and its potential spill-over effects, to which was added in May 2010 the possibly adverse impact of the authorities' fiscal consolidation measures on the pace of economic recovery in EU Member States. The upward movement of the EUR/RON exchange rate was also amplified by the deterioration of investor perception on the near-term outlook of the Romanian economy, in the context of: (i) the downward revision of GDP and budget deficit forecasts in 2010; and (ii) increased uncertainties surrounding the Government's ability to implement the measures announced on 7 May 2010 aimed at cutting budget expenditures and as a result, to comply with the terms of the agreement with the EU, IMF and international financial institutions. These pressures were alleviated to a certain extent by the NBR's tighter management of money market liquidity and the ensuing increase in money market rates. In line with regional trends, the domestic currency weakened at a faster pace against the Euro in June, amid the worsening perception of risk associated with developments across the region. The difficulties faced by the Romanian authorities in adopting the additional fiscal consolidation measures also had a negative effect on exchange rate developments. Consequently, the IMF's Executive Board postponed for a few days its periodic review of the fulfilment of conditions laid down in the Stand-by Agreement hence also postponing the disbursement of another tranche from the related loan. Thus, tensions built up progressively on the interbank forex market, its turnover peaking at a 17-month high in June 2010 and the EUR/RON exchange rate witnessed an abrupt increase, posting successive historical highs during the last days of June (on June 30 2010, the exchange rate reached RON 4.3688/EUR 1). However, despite the rise in volatility, its daily values remained below the similar parameters reported by the major currencies in the region.

The strong upward trend followed by the EUR/RON exchange rate in the last ten-day period of June 2010 reversed in early July 2010, amid the alleviation of uncertainties about the implementation of the budget austerity programme proposed by the Government. In this context, on 8 July 2010, the exchange rate reverted to RON 4.2285/EUR 1, dropping 3.3 per cent. as compared to the end of June 2010. Subsequently, the EUR/RON exchange rate movement reflected principally the changes in market sentiment, induced to a lower extent by the fluctuations in global risk appetite and to a higher extent by changes in the magnitude of uncertainties surrounding the implementation and efficiency of fiscal consolidation measures adopted by the Romanian authorities. Under the circumstances, the EUR/RON exchange rate no longer followed the sharp downward trend manifested in the case of the Czech Koruna and the Polish Zloty and recorded upward movements at the end of August 2010, early September 2010 (amid the heightened local political and social tensions and the change in government structure) and late October 2010 (amid persistent uncertainties regarding fiscal consolidation). However, the sharp increase in risk aversion triggered by the Irish crisis and by renewed concerns regarding the sovereign debt crises in Europe had only a moderate effect on the EUR/RON exchange rate as: (i) the government succeeded in adopting the agreed measures prior to the IMF Board meeting scheduled for January 2011; and (ii) the latest data released (with respect to the third quarter GDP, budget and current account deficit) was better than expected. As a result, in the last two months of the year 2010 the RON followed an almost steady path against the Euro and its daily volatility continuously decreased, reaching in December 2010 the lowest value in thirteen months in December 2010. Following these events in 2010, the RON depreciated by only 1.6 per cent. in nominal terms compared to the Euro, while, in real terms, it appreciated by 6.3 per cent.; in comparison to the USD, the RON depreciated by 10.7 per cent. in nominal terms (3.6 per cent. in real terms), as the USD strengthened in 2010 against the major currencies.

2011

The slightly downward trend followed by the EUR/RON exchange rate in the first part of January resumed within the last ten days of February, and accelerated in March, when, unlike most currencies in the region, the RON continued to strengthen against the Euro. This was supported by the ongoing improvement in investors' sentiment, due to the consistent implementation of structural reforms and especially due to an improved performance reported by some economic sectors, as evidenced by recent developments in certain economic indicators, including some that are important to exchange rate developments. At the same time, the domestic currency exchange rate turned out to be less responsive to the adverse factors that shaped the external environment during this period, namely the earthquake and related events in Japan and their potential reverberations on the global economy, as well as the re-intensification of uncertainties surrounding the developments in Greece, Spain and Portugal. Thus, in March the EUR/RON exchange rate recorded a sharp downward trend, its value decreasing by 2 per cent. This trend was brought to a halt in mid-Q2 by a renewed flare-up of the sovereign debt crisis. The upward movement of the EUR/RON exchange rate gained momentum starting the second week of June, amid the renewed rise in global risk aversion triggered by escalating political and social tensions in Greece, which jeopardised the adoption of additional measures to curb the budget deficit and public debt. The increase in the perceived probability of Greece's default generated significant adverse effects on the European financial system. Under the circumstances, the success of Romania's first Eurobond issue under the MTN Programme did not appear to coincide with a significant improvement in investor sentiment towards the domestic economy, the RON recording in June the highest depreciation against the Euro in the region (1.9 per cent.); this evolution was most likely due to the higher contagion risk associated with the local banking system and the Romanian economy by the international investors. Hence, the volatility of the EUR/RON exchange rate also increased, peaking at a 12-month high.

The EUR/RON volatility amplified even further in July, reaching its highest value since April 2009, as in the context of intensified tensions in the international financial market investors turned highly sensitive to the unfolding events/released data. The period of increase in value of the Lei against the Euro following Romania's upgrade to investment grade by Fitch in early July 2011 was brief. Moody's downgrading of Portugal and Ireland to sub-investment grade and increasing fear of contagion to Italy and Spain, whose sovereign bond spreads vis-à-vis Germany reached new record highs meant that similar to the other emerging market currencies in the region the RON resumed its depreciation against the Euro.

The adverse impact of the external environment on the EUR/RON exchange rate appeared to ease from August 2011, as domestic economic developments were in line with the parameters laid down in the EU/IMF precautionary agreement and with market expectations. Thus, although the global economic perspective further deteriorated and tensions on international financial markets persisted, the EUR/RON volatility decreased (being also the lowest in the region) and the RON depreciated by only 0.2 per cent. (in August the PLN/EUR increased by 3 per cent. and HUF/EUR by 1.7 per cent.). The EUR/RON traded in a narrow range until 9 September 2011 when, similar to the exchange rates of other currencies in the region, it re-entered an upward phase, as global risk aversion elevated due to renewed concerns regarding the future tackling of Europe's debt crisis and deteriorating global economic prospects. As a result, the EUR/RON followed an almost continuous upward rise, posting on 30 September 2011 its highest value in 14 months (4.3533). However, due to the relatively lower volume of non-resident portfolio investments, the RON's nominal depreciation vis-à-vis the Euro (0.7 per cent. in September 2011) trailed behind the sharp weakening witnessed by the Polish Zloty (5.1 per cent.) and the Hungarian Forint (4.5 per cent.); moreover, the EUR/RON volatility remained the lowest in the region. The EUR/RON exchange rate fluctuated in a narrow range in the first part of October 2011, similar to the Euro's exchange rates with the Czech Koruna and Polish Zloty, and resumed its upward trend amid increased global risk aversion and the EBRD's downward revision of the economic growth forecast for the CEE countries (including Romania) in 2011-2012. Toward the end of October 2011, the EUR/RON exchange rate tended to stabilise as a result of positive expectations in the run-up to the meeting of the Euro-area Heads of State or Government. However, the global positive sentiment reversed quickly due to subsequent unfavourable events, including the negative rating developments with respect to some EU countries, which led to increased tensions and volatility on the global financial market. Nevertheless, the impact of adverse developments in the Eurozone on the EUR/RON exchange rate was moderated to some extent by: (i) the positive message conveyed by EU/IMF statements, which confirmed the fulfilment of all performance criteria by the end of September 2011; (ii) the steadily favourable trend of some relevant indicators published in November 2011, including the flash estimate of GDP for the third quarter of 2011; and (iii) the less expected NBR's decision to lower its monetary policy interest rate. As a result, whereas the exchange rates of the main regional currencies were marked by high volatility and mixed ample movements, the EUR/RON exchange rate fluctuated in a narrow range in November 2011 and the first half of December 2011. Subsequently, EUR/RON exchange rate recorded a slow decrease due to: (i) the easing of tensions on the external financial market (recourse to the ECB's newly announced three-year long-term refinancing operation and the announcement of additional austerity measures by some Eurozone governments led to a temporary easing of tensions on the financial market) and, more importantly; and (ii) the confirmation by Moody's of Romania's current sovereign rating with a "stable" outlook. During 2011, the RON depreciated against the Euro by only 0.8 per cent. in nominal terms, while in real terms it appreciated by 2.3 per cent.; against the USD it depreciated by 1.3 per cent. in nominal terms, while in real terms it appreciated by 1.8 per cent.

2012

The decreasing trend of the EUR/RON exchange rate since mid-December 2011 reversed in the first part of January 2012 due to a temporary worsening of investor sentiment towards the region following the events in Hungary (which included delays in Hungary resuming negotiations with the IMF/EU and Fitch's decision to lower Hungary's sovereign rating); thus, similar to the regional trend, the EUR/RON exchange rate increased, reaching 4.3627 on 11 January 2012, its highest value since June 2010. Subsequently, as this unfavourable influence abated, the regional currencies, the Leu included, strengthened against the Euro. The exchange rates of the currencies in the region extended their fast downward path until the end of February, thus totally/partially correcting the marked increase they had seen in the fourth quarter of 2011. Nonetheless, the EUR/RON exchange rate fluctuated in a relatively narrow variation band between 20 January and 15 March with a slight upward trend, its divergent trajectory from the regional trend most likely reflecting a relative decline in autonomous capital inflows amid the weakening of the Eurozone economy and, thus, investors' less favourable sentiment towards the short-term outlook for the domestic economy. To these added, in the second half of March, a temporary change in forex market operators' expectations on the immediate movements in the EUR/RON exchange rate and implicitly in the attractiveness of remuneration of investments in the local financial market.

Following these developments, from October 2011 to March 2012, the Leu depreciated by 1.9 per cent. in nominal terms against the Euro (and appreciated by 0.8 per cent. in real terms) whilst compared to U.S. dollar it depreciated by 6.0 per cent. in nominal terms and by 3.3 per cent. in real terms.

Since April, currencies in the region, the Leu included, re-entered a downward path against the Euro as temporary tensions resurfaced on the global financial market fuelled by uncertainties regarding the further implementation of austerity measures in some Eurozone countries in an electoral context (Greece and France) and by signals that the economies of some countries have deteriorated (Spain and Portugal). This trend accelerated in May amid a marked worsening of the global financial market sentiment induced by (i) the significantly higher uncertainty surrounding economic and political developments in Greece, including speculations on the country leaving the Eurozone; (ii) worsening of the problems faced by the Spanish banking system; and (iii) the deterioration of the economic growth outlook in the Eurozone, the EU and worldwide.

The subsequent weakening of the pressures on the exchange rates of the main currencies in the region caused a reversal in the trend displayed in June by some of these currencies. However, the EUR/RON exchange rate continued to increase slightly, amid persistent concerns related to the potentially stronger adverse impact exerted by the adjustment process of the European banking system and by the weakening of the Eurozone economy, thus affecting the investors' perception on the risk associated with the local economy and financial market (on 29 June 2012, Moody's Investors Service downgraded Romania's rating prospect from "stable" to "negative").

In July, the external environment continued to be dominated by elevated levels of global risk aversion, as the economic prospects further deteriorated (the IMF revised downwards its global growth forecast for 2013 and warned that the outlook could deteriorate further) and uncertainties regarding the sovereign debt crises persisted (Moody's Investors Service downgraded Italy's sovereign rating as well as the rating of some major Italian banks and there was renewed speculation that Spain may need a full international bailout and that Greece might eventually exit the Eurozone). To this context added the uncertainties associated with the events on the local political scene. Against this background, in July the EUR/RON exchange rate accelerated its monthly increase to 1.9 per cent., posting several historical highs. The sizeable increase of the EUR/RON exchange rate was corrected however almost entirely in August, due to the cumulative influence of external and local developments, including:

(i) a general improvement in market sentiment on expectations of a further monetary stimulus by ECB/FED;

(ii) the positive sentiment induced by the joint IMF/EC/World Bank statement on the conclusion of the sixth review of Romania's economic program;

(iii) the favourable development (compared to analysts' expectations) in some of the economic indicators published during the period;

(iv) the preservation of a prudent monetary policy stance; and

(v) the moderation of local political tensions in the last decade of August.

In September 2012, the EUR/RON exchange rate re-entered an upward trend, reflecting the impact of the decrease in the autonomous capital inflows and the relative worsening of expectations on the short-term outlook of the Leu exchange rate, fuelled inter alia by the unfavourable evolution compared to analysts' expectations of some economic indicators released during this period and by increased uncertainties associated with the nearing parliamentary elections. The RON/EUR exchange rate saw a reversal towards the end of October, benefitting by the subsequent slight improvement in the anticipations of some market operators, against the background of the tightening of liquidity control in the banking system by the NBR in October and the subsequent decision of the NBR Board to preserve the status-quo of the monetary policy interest rate.

Following the completion of the parliamentary elections, the RON/EUR exchange rate steepened its downward trend, its evolution mirroring mainly the visible improvement in investors' perception over the risk associated with the Romanian financial market and implicitly the latter's increased relative attractiveness; the exchange rate movement was also boosted by the decline in the global risk aversion owing primarily to the ECB and FED decisions and the announcement concerning the Spanish government's request to access European funds with a view to recapitalising the banking system.

Compared to December 2011, in December 2012, the Leu depreciated against the Euro by 3.6 per cent. in nominal terms (and appreciated by 1.1 per cent. in real terms), and against the U.S. dollar the leu depreciated by 4.0 per cent. in nominal terms and appreciated by 0.7 per cent. in real terms, as the latter slightly appreciated against the other major currencies.

The downward movement of EUR/RON accelerated in the first part of January 2013, reflecting, inter alia, the most likely increased interest of non-resident investors for local RON-denominated government securities, fuelled also by the JP Morgan announcement stating the eligibility of Romania for entry into its GBI-EM index series, based upon the stated rules. 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).

EUR/RON and USD/RON Exchange Rates

The following table sets out the EUR/RON and USD/RON exchange rates as at 31 December 2008, 2009, 2010, 2011 and 2012 and the average EUR/RON and USD/RON exchange rates for the years ended 31 December 2008-2012, as well as the corresponding figures for January 2013:

EUR/RON and USD/RON Exchange Rate

	2008		2009		2010		2011		2012		2013	
	31 Dec.	Average	31 Dec.	Average	31 Dec.	Average	31 Dec.	Average	31Dec.	Average	31Jan.	Average
EUR	3.9852	3.6827	4.2282	4.2373	4.2848	4.2099	4.3197	4.2379	4.4287	4.4560	4,3828	4,3793
USD	2.8342	2.5189	2.9361	3.0493	3.2045	3.1779	3.3393	3.0486	3.3575	3.4682	3,2332	3,2949

Source: National Bank of Romania

Real Effective Exchange Rate

In annual terms, the CPI-based real effective exchange rate (the "**REER**") decreased throughout 2009, mainly as a result of the depreciation of the Leu compared to both the Euro and the U.S. dollar, which began in September 2008 amid the broader and deeper global financial crisis and its more pronounced effects on emerging economies. In 2010 and 2011, the annual change in the REER was mostly positive primarily as a result of: (i) the widening inflation differential compared to Romania's main trading partners, which was induced to a large extent by the increase in excise duties on tobacco products and the 5 percentage point increase in the VAT rate in July 2010; and (ii) the appreciation of the Leu in early 2010 and from April 2011 to August 2011. The observed REER appreciation had no material impact on the share of Romanian exports on the main foreign markets, which continued an upward trend during 2010 and 2011. In the second half of 2011, REER appreciation lost momentum, with the annual increase in the REER reaching levels below 1 per cent. towards the end of 2011. These developments were triggered by the depreciation of the Leu against both the Euro and the U.S. dollar and the inflation differential turning slightly negative. In the first seven months of 2012 the annual dynamics of REER were negative, reaching a depreciation of approximately 9 per cent. in July 2012, mainly as a result of the further weakening of the Leu both against the U.S. dollar (-19.7 per cent. in July 2012) and the Euro (-6.8 per cent. in July 2012). Subsequently, the REER depreciation lost momentum, reaching 3.24 per cent. in December 2012 as the Leu started to gain ground against both U.S. dollar and euro, which triggered a nominal effective depreciation of 4.96 per cent. year-on-year at the end of 2012. After contributing to the REER depreciation in the first half of the year, the inflation differential turned positive from July 2012 and stood at around 1.7 percentage points at the end of 2012. However, in 2012, the share of Romanian exports on the EU market posted similar level to that registered at the end of 2011.

Statutory Reserves

Romania's foreign exchange reserves reached EUR 33,193 million equivalent at 31 December 2011 (EUR 761 million higher as compared with 31 December 2010). The increase in reserves came against the backdrop of inflows totalling EUR 17,323 million compared to outflows of EUR 16,562 million during 2011. The main inflows were due to changes in credit institutions' required reserves, income earned from reserve management, inflows to the Ministry of Public Finance's accounts with the NBR, as well as to valuation effects. Outflows were triggered by changes in banks' minimum reserve requirements and by payments on public and publicly guaranteed foreign currency debt.

Romania's foreign exchange reserves reached EUR 31,206 million equivalent at 31 December 2012, EUR 1,987 million lower compared to 31 December 2011. The main inflows for the period, totalling EUR 22,441 million, were due to inflows into the Ministry of Public Finances' accounts (including the Ministry of Public Finances' bond issues equivalent to EUR 4,796 million), changes in credit institutions' foreign currency required reserves with the NBR, inflows into the EC's accounts and income from the management of foreign currency reserves. Main outflows for the period, totalling EUR 22,428 million, were due to interest payments and principal repayments on foreign currency public debt (including the amount equivalent to EUR 1,707 million representing repayment of principal and interest payments on Romania's Stand-by Arrangement with the International Monetary Fund) and credit institutions' required reserves.

As of 31 January 2013, Romania's foreign exchange reserves amounted to EUR 31,459 million, an increase of EUR 253 million compared to 31 December 2012. The main inflows, totalling EUR 1,985 million, were due to inflows into the Ministry of Public Finances' accounts (including flows from the Ministry of Public Finances' internal bond issue amounting to EUR 519 million), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC. Main outflows for the period, totalling EUR 1,732 million, were due to interest and principal payments on foreign currency public and decreases in credit institutions' required reserves.

Romania's stock of gold held as reserve assets has remained at approximately 103.7 tonnes since the second half of 2007 and was valued at EUR 4,118 million at 31 January 2013. The value of the gold reserves has increased steadily due to changes in market prices in the last few years, totalling EUR 4,207 million as of 31 December 2012 compared to EUR 4,058 million as of 31 December 2011. As at the end of 2010 the value of gold reserves was EUR 3,518 million, compared with EUR 2,556 million at the end of 2009, EUR 2,049 million at the end of 2008 and EUR 1,880 million at the end of 2007.

The NBR's international reserves have increased between 2007 and 2011. Some of the key reasons for this include: NBR's net purchases off the foreign exchange market; changes in the minimum reserve requirement ratios on foreign currency denominated liabilities of credit institutions (which had a positive impact until 2009); income from the management of foreign exchange reserves; and inflows into the Ministry of Public Finance's accounts. From May 2009 onwards, the funds disbursed from the financial package concluded with international financial institutions under the IMF umbrella added to the other inflows. Under the financial aid agreement concluded with international financial institutions, Romania drew an amount equivalent to EUR 18.099 billion from 2009 to 2011, out of which EUR 9,785 million went to the NBR's foreign exchange reserves. The loans are scheduled to be repaid between 2012 and 2023.

The amount of total reserves was EUR 30,859 million as at the end of 2009, EUR 35,950 million as at the end of 2010, EUR 37,252 million as at the end of 2011, and EUR 35,413 million as at the end of 2012.

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 2009, 2010, 2011, 2012 and as at 31 January 2013.

Romania's international reserves:

	As at 31 December				*As at 31 January*
	2009	**2010**	**2011**	**2012**	**2013**
			(EUR millions)		
Foreign exchange reserves..........................	28,303	32,432	33,193	31,206	31,459
Gold reserves..	2,556	3,518	4,058	4, 207	4, 118
Total reserves..	30,859	35,950	37,251	35, 413	35, 577

Source: National Bank of Romania
Some totals may differ from the sum of components due to rounding.

The main drivers of future changes in the NBR's reserve assets position are expected to be the payments scheduled for the 2013—2015 period arising from the loans disbursed between 2009 and 2011 under the Stand-by Agreement concluded with the International Monetary Fund in May 2009 within the multilateral financial assistance package, in cooperation with the EU and the World Bank. Other 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. Possible disbursements, if any, can be made during 2011 2013 under the precautionary Stand-by Agreement concluded by Romania in March 2011 with the International Monetary Fund for an amount equivalent to EUR 3.7 billion as well as under the precautionary financial assistance agreements negotiated with the European Union for an amount equivalent to EUR 1.4 billion and with the World Bank for an amount equivalent to EUR 0.4 billion.

By 31 December 2012, seven tranches totalling SDR 2.64 billion (approximately EUR 3.2 billion) had been made available to Romania, but have not been used to date. Two subsequent disbursements, totalling SDR 450.6 million, are contingent upon completion of the seventh and eighth reviews. Monetary policy decisions may also have an impact on the international reserve size and currency composition.

Banking System

General

The process of privatisation of the banking system carried out by AVAS commenced in 1998 with Banca Romana pentru Dezvoltare, a transaction which was finalised in 1999, followed by Bancpost in 1999 and Banca Agricola in 2001. In 2006, the privatisation of BCR, the largest bank in Romania in terms of assets market share, was finalised when Erste Bank (a leading Austrian bank) bought a controlling stake in BCR for EUR 3.75 billion (see also "*—The Romanian Economy—Overview—Privatisation*").

Structural changes continued during 2007: UniCredit Romania merged with HVB Tiriac Commercial Bank to form UniCredit Tiriac Bank, and a banking licence was granted to Millennium Bank of Portugal. EU banks LA CAIXA, Fortis Bank and Finicredito of Portugal opened branches in Bucharest. Following changes to their ownership structures, Finansbank changed its name to Credit Europe Bank, Mindbank changed its name to ATE Bank, and Romexterra Bank changed its name to MKB Romexterra Bank.

In 2008, a banking licence was granted to BCR Banca pentru Locuinte and Depfa Bank of Ireland opened a Bucharest branch. UniCredit Tiriac Bank acquired the assets owned by Banca di Roma–Bucharest branch following the merger between UniCredit Group and Capitalia (the shareholders of the two credit institutions involved). Following its international acquisition of ABN Amro Bank, Royal Bank of Scotland took over ABN Amro Bank (Romania). C.E.C. changed its name to CEC Bank and Egnatia (Romania) SA changed its name to MARFIN Bank (Romania). Also in 2008, Banca Sanpaolo IMI Bank changed its name to Banca Comerciala Intesa Sanpaolo Romania following the merger between Intesa SpA and SanPaolo IMI SpA.

In August 2009, banking licences were granted to GE GARANTI BANK SA (owned by entities of General Electric Group and by entities of Dogus Holding AS Group), which commenced operations on 28 May 2010, and to Banca Comerciala Feroviara SA (owned by Romanian shareholders). Other events in 2009 included the closing of Depfa Bank's Bucharest branch in August, a merger process whereby Raiffeisen Banca pentru Locuinte absorbed HVB Banca pentru Locuinte and which was finalised in December; and the transformation of Citibank Romania, a former local subsidiary, into a bank branch (of Citibank Europe).

In 2010, GarantiBank International NV-Romania Branch transferred its business to GE Garanti Bank SA (licensed by the NBR in August 2009) which became operational on 28 May 2010. On 10 December 2010, GE Garanti Bank SA changed its name to Garanti Bank SA due to the fact that General Electric Group (GE) decided to sell its participation in GE Garanti Bank SA as well as in Turkiye Garanti Bankasi AS.

In 2011, the number of credit institutions legally incorporated in Romania remained constant at 33 entities (including credit cooperative organisations), while the total number of foreign bank branches decreased from nine to eight entities in July 2011, following the closure of Anglo Romanian Bank Ltd branch, which transferred its business to Banca Comerciala Romana SA. Two of the existing banks changed their names in 2011, with Caja de Ahorros y Pensiones de Barcelona (LA CAIXA) Bucharest branch changing its name to CAIXABANK in July 2011 and LIBRA BANK SA changing its name to LIBRA INTERNET BANK SA in August 2011. Furthermore, the administration of the shares held by the state in Banca de Export-Import a Romaniei EXIMBANK S.A. was transferred from the Authority for State Assets Recovery to the Ministry of Public Finance under Government Emergency Ordinance No. 83/2011.

Some changes also occurred in relation to foreign banks' shareholders: Volksbank Romania SA added a new main shareholder, namely VBI Beteiligungs Gmbh, that replaced Volksbank International AG; and the significant shareholder of Marfin Bank Romania SA became Marfin Popular Bank Public Co Ltd. Cyprus, after its merger with Marfin Egnatia Bank Greece. Further, Marfin Popular Bank Public Co Ltd Cyprus has changed its name to Cyprus Popular Bank Public Co Ltd.

During 2012, the shareholder structure of Banca Romaneasca, a member of the NBG Group, changed following the sale by the EBRD of its 10.209 per cent. stake to the National Bank of Greece, the bank's other shareholder.

In April 2012 MKB Romexterra Bank changed its name to Nextebank. In June 2012, the NBR approved the acquisition of the majority shareholding held by Emporiki Athens in Emporiki Bank Romania by IUB Holding (with Credit Agricole as significant shareholder). Emporiki Bank Romania has subsequently changed its name to Credit Agricole Bank Romania SA in August 2012.

In July 2012, the shareholder structure of Eurobank Ergasias SA ("**Eurobank**"), the parent undertaking of Bancpost S.A., was changed. The EFG European Financial Group Luxembourg SA ("**EFG Group**"), which was the ultimate EU parent holding company of Eurobank, notified the Bank of Greece that the ordinary shares held by the EFG Group had been transferred to nine individual members of the Latsis family and to the John S. Latsis Public Benefit Foundation. These shareholders, who had already indirect participation in Eurobank through their holdings in the share capital of EFG Group via a family trust, became indirectly the ultimate natural persons controlling Eurobank via an equal number of separate legal entities. Consequently, Eurobank will be deconsolidated from the EFG Group since the latter is no longer the parent undertaking of the bank.

On 1 October 2012, Banca C.R. Firenze Romania SA was subject to a merger through absorption by Intesa Sanpaolo Romania SA. Consequently, the licence of Banca C.R. Firenze Romania SA has been revoked.

In November 2012, ProCredit Holding, the shareholder of ProCredit Bank Romania with 32.22 per cent. of the share capital of the Romanian credit institution, notified the NBR about its intention to acquire the remaining 67.77 per cent. stake from the other shareholders, reaching a participation of 99.99 per cent. in the share capital of ProCredit Bank Romania.

In December 2012, the NBR approved the acquisition of the majority stake held by Agricultural Bank of Greece in ATE Bank Romania SA by Piraeus Bank Greece. According to the information provided by the competent supervisory authority of the Agricultural Bank of Greece, its licence has been revoked after the transfer of part of its operations to Piraeus Bank Greece (including its equity participation in ATE Bank Romania).

In December 2012, pursuant to the public offer initiated by the National Bank of Greece S.A. (NBG) to acquire Eurobank Ergasias S.A., the controlling shareholder of the Romanian credit institution Bancpost S.A., NBG notified the NBR about its intention to acquire an indirect controlling participating stake in the share capital of Bancpost S.A. subject to the outcome of the public offer.

TBI Bank EAD Sofia, Bucharest Branch, a new foreign bank branch, is expected to become operational during 2013.

Market share of credit institutions in terms of assets:

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
	(per cent. market share)				
Banks with majority state capital	5.2	7.3	7.4	8.2	8.4
Banks with majority domestic private capital	6.6	7.4	7.5	8.7	9.9
Banks with majority foreign capital	88.2	85.3	85.1	83.1	81.7

Market share of credit institutions in terms of assets:

	As at 31 December				
	2008	2009	2010	2011	2012
	(per cent. market share)				
Total banking system	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank of Romania

In terms of assets, the market share of banks with majority foreign capital continued its downward path reaching 81.7 per cent. in December 2012, mainly due to sales of fixed and non-performing assets. Banks with a majority of Austrian capital further hold the largest market share (37.7 per cent. as of December 2012). The market share of banks with a majority of Greek capital declined to 12.2 per cent at the end of December 2012, below that of banks with a majority of Romanian capital.

Banking System Ownership (per cent. of total assets)

	2008	2009	2010	2011	2012
Romania	11.81	14.75	14.96	16.97	18.32
Austria	38.83	38.13	38.31	38.62	37.69
Cyprus	0.08	0.16	0.43	1.39	1.37
France	15.76	14.13	13.98	13.74	13.64
Greece	17.47	17.61	16.74	13.33	12.21
Hungary	2.03	1.76	1.59	1.38	1.56
Italy	2.10	2.02	2.32	2.52	2.63
Netherlands	8.93	8.32	8.58	8.77	9.06
Portugal	0.38	0.60	0.61	0.59	0.70
Other	2.6	2.5	2.5	2.7	2.82

Source: National Bank of Romania

The share in total equity capital held by banks with majority foreign capital has been fairly stable over the last five years, at around 77 per cent. (77.7 per cent. in December 2012). Banks with majority Austrian capital further hold the largest share (26.1 per cent. as of December 2012). The share of banks with majority Greek capital started to decline in 2010, reaching 19.2 per cent. at the end of December 2012.

Banking System Ownership (per cent. of total equity capital)

	2008	2009	2010	2011	2012
Romania	22.79	23.53	23.13	23.47	22.32
Austria	22.08	20.85	20.06	23.45	26.06
Cyprus	0.29	0.27	0.23	1.26	0.93
France	6.25	5.78	4.91	4.55	11.63
Greece	24.00	27.57	26.17	23.80	19.16
Hungary	4.56	4.57	5.45	3.66	3.80
Italy	4.59	2.49	2.47	4.69	3.73
Netherlands	8.74	8.09	11.09	10.69	8.65
Portugal	1.81	2.66	2.80	1.46	1.25
Other	4.89	4.20	3.70	2.97	2.48

Source: National Bank of Romania

Structure of the Banking Sector

As of 31 December 2012, the total net balance sheet assets owned by credit institutions amounted to EUR 82.6 billion and the share of assets in the Romanian banking system held by banks with total or majority private capital was 91.6 per cent. The share of assets held by banks with total or majority foreign capital, including foreign bank branches, was 81.7 per cent. Banks with total or majority state-owned capital held only 8.4 per cent. of total assets.

As of 31 December 2012, the Romanian banking system comprised 40 registered credit institutions, consisting of one majority state-owned institution (Eximbank), one fully state-owned institution (CEC Bank), eight branches of foreign banks (ING Bank N.V., Italo-Romena Bank, BLOM Bank France, Bank of Cyprus, Fortis Bank, CAIXABANK, Finicredito and Citibank Europe) and 30 credit institutions with private capital (including CREDITCOOP – the network of credit cooperatives), of which 25 had majority foreign ownership.

The share capital of the banking system was approximately EUR 5.6 billion as at 31 December 2012, representing a total increase of about 32 per cent. compared to the level in December 2011. This increase was mainly due to the transition to IFRS and applying the IAS 29 provisions, according to which, in hyperinflationary countries, the share capital has to be adjusted to the inflation index.

Greece, Austria, France and the Netherlands have invested the largest share of capital in the Romanian banking system.

EU accession also opened up the Romanian banking market to other EU banking institutions. At the end of January 2013, 244 banks from EU Member States notified 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 31 December 2012:

Type of Capital	**Number of banks**	**Total loans**	**Total deposits**	**Total balance sheet**
		(per cent. market share)		
State-owned	1	5.0	7.8	7.3
Majority state-owned	1	0.4	0.3	1.1
Majority privately-owned banks, of which	30	86.5	82.6	82.9
- majority domestic capital	5	8.21	10.2	9.9
- majority foreign capital	25	78.3	72.4	73.0
Branches of foreign banks	8	8.1	9.3	8.7

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.

During October 2008 (when the global financial crisis was deemed to have hit Romania) there were no bank failures in Romania and no need for support or bail-out measures from central Government. Factors that aided the stability of the Romanian banking system include: (i) the measures taken by the NBR with a view to enhancing credit institutions' capacity to withstand economic shocks; (ii) the fulfilment of commitments taken by the parent banks of the nine leading subsidiaries in Romania aimed at providing ex ante additional capital under the Vienna Initiative, which reaffirmed their long-term commitment to the country; and (iii) increased caution with respect to lending. The banking sector's capitalisation should remain adequate over the medium-term, and no significant support from either public or private sources is required in order to safeguard financial stability, despite some idiosyncratic vulnerabilities.

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 new precautionary Stand-by Agreement signed in 2011 with the EU, the IMF and the World Bank, 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.

Exposure on Romania to foreign banks participating in the Vienna Initiative has decreased in December 2012 by 8.4 per cent. against the end of March 2009. For the banking system as a whole, around 70 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.

The analysis of aggregate balance sheet assets confirmed the trends identified since the fallout from the global economic crisis first hit the Romanian financial system: (i) the slowdown in banking business, mainly as a result of tighter lending conditions; (ii) the steadily growing exposure to the government sector; and (iii) the drop in credit institutions' placements with the central bank. The annual change in aggregate balance sheet assets, which had been negative in real terms in 2010 and 2011, recorded positive values for most of 2012, the exceptions being September and December. At the end of 2012, it stood at -1.8 per cent. (gross data).

In 2012, bank deposits remained relatively constant in real terms, while credit to the private sector declined by 3.5 percent. Consequently, the loan-to-deposit ratio decreased moderately (from 119.1 per cent. in December 2011 to 114.5 per cent. in December 2012), suggesting an orderly deleveraging.

In nominal terms, financial intermediation calculated as the share-to-GDP of gross loans to private sector stood at 40.1 per cent. in December 2011 (similar to the level recorded in December 2010) and 38.6 per cent. in December 2012. The share of banking sector gross assets to GDP was 70.55 per cent. in December 2011 and 69.2 per cent in December 2012, down from 73.56 per cent in December 2010.

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. Loan portfolio quality worsened further, albeit at a slower pace and subsequently the pressure on bank asset quality is expected to start abating, amid a gradual consolidation of economic growth and tighter risk management by banks. The non-performing loan ratio (compiled as loans and interest overdue for more than 90 days and/or for which legal proceedings were opened to loans and related interest outstanding) reached 18.2 per cent. in December 2012 (against 7.9 per cent. as at 31 December 2009, 11.9 per cent. as at 31 December 2010 and 14.3 per cent. as at 31 December 2011). However, total prudential provisioning per loans and interest overdue for more than 90 days and/or for which legal proceedings were opened against the operation/debtor stood at 102.1 per cent. in December 2012, (97.8 per cent. in December 2011). The implementation of International Financial Reporting Standards ("**IFRS**") as of January 2012 resulted in a positive difference between the previous total prudential provisions and those determined according to IFRS. In order to avoid a distortion of the prudential indicators – due solely to changes of the reporting standards – and an artificial improvement in financial indicators, prudential filters were introduced at the same time when the IFRS became the new accounting standards, ensuring the consistency of prudential indicators with their values under the previous accounting regime.

The depreciation of the domestic currency versus the Euro might have contributed to an increasing burden on private debtors in economy taken into account that the share of foreign currency denominated loans (out of which most is in Euro) in total lending to the private sector was of 62.5 per cent. in December 2012.

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; and (iv) enhancing the early intervention tools for distressed credit institutions. 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 further increased by 40.7 per cent. from December 2011 to December 2012, after rising by 28.8 per cent. between December 2010 and December 2011. The non-performing bank loan ratio picked up to 19.5 per cent. in December 2012 from 14.4 per cent. in December 2011. Nevertheless, there are signs of an approaching peak in the non-performing loan ratio. There is a tendency for the dynamics of the non-performing ratio to slow down and the number of companies generating their first non-performing loans follows a downward path. Moreover, the number of companies that received new funding from banks outpaced the number of companies where the credit lines were not renewed. Conversely, the increasing default probability suggests a further uptrend in the non-performing loan ratio.

In the household sector, the non-performing loan ratio increased to 9.5 per cent. in December 2012 from 8.2 per cent. in December 2011. Housing mortgage loans account for one third of household loans and provide the smallest non-performing loan ratio among the entire credit portfolio to households (5.96 per cent. compared to 9.5 per cent. for total households in December 2012). In the same period (December

2011 – December 2012), the volume of non-performing loans increased by almost 18 per cent., faster than the 5 per cent. increase between December 2010 and December 2011. The outlook for the future developments remains mixed. The recovery rate for overdue loans (between 1-90 days past due) improved in 2012 and households' expectations of their financial standing have also improved. On the other hand, the number of debtors, who recorded for the first time more than 90 days overdue payments in 2012, increased by 14.7 per cent. (compared to the same period of the previous year). Additionally, the debt rescheduling measures applied in order to enhance households' repayment capacity might have a reduced efficiency, the conditions on the labour market are still uncertain and the risk stemming from foreign currency lending remains high.

Throughout 2012, banks continued to tighten their credit standards applicable to households' loans, especially for mortgage loans. For consumer lending, credit standards remained unchanged in the second half of 2012 after being tightened in the first two quarters. Banks anticipate a marginal tightening for both types of loans in the first quarter of 2013. In the case of corporate loans, credit standards remained constant during 2012 (except for marginal tightening in the first quarter of 2012). Credit institutions expect the tightening trend to resume in the first quarter of 2013

In order to increase banks' resilience to global financial crisis-induced shocks, the NBR established a 10 per cent. prudential threshold for the solvency ratio (against the minimum regulated level of 8 per cent.). In addition, with a view to ensuring effective supervision, the central bank required solvency reports to be submitted on a monthly basis (rather than quarterly, as stipulated under the legal framework in force) by banks with negative financial results, a large volume of non-performing claims or below-average solvency ratios. Credit institutions reported a sufficiently high capital adequacy ratio in order to cover credit risk as a result of the NBR exercising tighter oversight of developments in this area and banks' efforts to raise additional capital, as required by the central bank. The solvency ratio stood at a comfortable 14.6 per cent. in December 2012 and 14.9 per cent. in December 2011 (compared to 14.7 per cent. in December 2009 and 15 per cent. in December 2010). Tier 1 capital ratio (Tier 1 capital per total capital requirements) posted a relatively flat level between 2009 and 2011 (fluctuating between 10.6 per cent. and 12.1 per cent.), before rising to 13.5 per cent. as at 31 December 2012. This was mainly due to significant capital increases made by shareholders (EUR 379 million in 2011 and EUR 111 million in 2012), 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 80 per cent. of total own funds until December 2011 and 92 per cent. as at the end of 2012 due to changes in regulations related to the implementation of IFRS and prudential filters.

From a credit risk perspective, the Romanian banking sector is not directly exposed to developments in Italy, Spain, Portugal, Ireland or Greece, given that for the banking system as a whole the share of external assets is low (2.4 per cent. of total assets in December 2012). Italian and Portuguese subsidiaries have a paid-in capital market share of 3.73 per cent. and 1.25 per cent. respectively, while Spain and Ireland play a marginal role mainly because banks incorporated in these countries chose to establish branches rather than subsidiaries.

Greek banking capital is present in Romania through five banks incorporated as Romanian legal entities (Alpha Bank, ATE Bank, Banca Romaneasca – National Bank of Greece Group, Bancpost, Piraeus Bank). These banks continue to hold together an important position in terms of capital invested in Romania, accounting for approximately 19.2 per cent. of total equity capital of the banking system as at 31 December 2012. Figures are lower in terms of assets, loans and deposits, i.e. about 12.2 per cent., 14.1 and 10.4 per cent. respectively at the same date. 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, above the 8 per cent. regulatory level and even exceeding the banking system average (16.7 per cent. compared with 14.6 per cent. as at 31 December 2012).

The direct transmission of risks from European public sectors to the local banking sector appears to be remote. Currently, domestic banks' holdings of euro area government securities account for a meagre 0.01 per cent. in total balance sheet assets of the Romanian banking system.

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 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 liquidity ratio (effective liquidity/required liquidity) was 1.38 as at 31 December 2009, 1.35 as at 31 December 2010, 1.36 as at 31 December 2011 and 1.42 as at 31 December 2012.

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012 (provisional data)**
			(per cent.)		
Solvency ratio [1]	13.76	14.67	15.02	14.87	14.64
Tier 1 capital per total capital requirements [(2)]	10.64	11.53	12.13	11.97	13.46
NPL/Total classified loans [(3)]	n/a	7.89	11.85	14.33	18.23
Provisioning of NPLs [(3)]	n/a	98.14	96.95	97.77	102.12
Liquidity ratio	2.47	1.38	1.35	1.36	1.42

(1) Solvency ratio and Tier 1 ratio are available only quarterly.

(2) Capital requirements data were available only from 2008.

(3) Comparable data for the compilation of NPLs and provisioning were available only from 2009, according to NBR Regulation 3/2009.

Source: National Bank of Romania

Non-performing loans ratio continued to increase in 2012 (from 14.3 per cent. at the end of 2011 to 18.2 per cent. at the end of 2012), mainly due to the revaluation of the quality of previously-restructured loans and the constraints on customers' financial standing. The faster pace of increase seen in January 2012 was influenced by the IFRS-related adjustments (balance sheet recognition of non-performing claims previously recorded in off-balance sheet accounts).

The continued need to adequately provision for NPLs and the slowdown in the growth rate of credit to the private sector have kept profitability in negative territory (at the end of December 2012, return-on-assets stood at -0.6 per cent. and return-on-equity at -5.4 per cent.). The downward trend of profitability in the domestic banking sector amounted to aggregate losses of RON 2,119 million in 2012.

The NBR conducts solvency stress tests on a regular basis that are consistent with a methodology it developed in cooperation with the IMF. The aim is to assess the impact of possible adverse changes in the macroeconomic environment on the banking system's solvency both at an aggregate level and for each credit institution. The risk factors considered are variables such as economic growth, exchange rate, interest rate and inflation rate. The results of the latest stress test on banking system solvency conducted in May 2012 covered an eight-quarter horizon (from 1 April 2012 to 31 March 2014) and proved that the Romanian banking sector has adequate solvency indicators: the solvency ratio and the Tier 1 capital ratio would drop by at most 2.4 percentage points (to about 12.2 per cent. and 11.3 per cent., respectively) in the unlikely event of the considered adverse scenario materialising, against the background of a substantial increase (over 31 per cent.) in the level of loan loss provisions due to the worsened quality of the loan portfolio (an increase driven mainly by exposures to the corporate sector). Despite the plunge in operating income following a lower net interest income due to lending rates and the larger share of low-yield fixed-income assets the banking sector maintains a good capacity to withstand considerable shocks; nevertheless, losses are unevenly distributed across the system, with larger banks being in a better position to register operating profits due to scale economies and, implicitly, less vulnerable to adverse developments in the macroeconomic environment.

The NBR also periodically conducts macroprudential 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 whilst managing and maintaining system-wide liquidity and pursuing comfortable levels of prudential indicators.

The main amendments to the regulatory framework are not expected to bring about notable changes in capitalisation, provisioning or liquidity levels of credit institutions in Romania, considering that the current prudential requirements implemented by the NBR cover risks to an adequate extent.

Implementation of Basel III will, most likely, not lead 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 cushion the impact of Basel III on capital requirements for local entities. The introduction of IFRS starting with the financial year 2012 is in line with the global trend of harmonising national financial reporting and accounting standards with international ones, given the ongoing economic developments towards globalisation of banking operations and, implicitly, the acute need for an international harmonisation of accounting rules underlying the financial information disclosed to the public. In 2011, the NBR focused on preparing the necessary measures for IFRS implementation in order to preserve prudent levels of provisions, solvency and capital buffers of credit institutions even after 1 January 2012.

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.

Romanian Banking Regulation and Business Standards

Banking Regulation and Supervision

Credit institutions are currently principally regulated by Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy (the "**Banking Law**") and, among others, by Government Ordinance No. 10/2004 regarding the procedure of judicial reorganisation and bankruptcy of credit institutions. Notable recent amendments to the main legal framework include:

- an amendment of the Banking Law during 2009 to ensure the transposition of EU Directive 2007/44/EC, which introduced procedural rules and strict evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector in each EU Member State;

- amendments to the Banking Law in association with the multilateral agreement concluded by Romania with the IMF, the EU and international financial institutions, which were passed through Law No. 270/2009, and which strengthen the NBR's prerogative to request, after assessing the prudential and financial performance indicators of a credit institution, that significant shareholders financially support the credit institution in distress and/or to prohibit or limit profit distributions until the financial condition of the credit institution is restored;

- amendments to the Banking Law adopted by Government Emergency Ordinance No. 26/2010 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 in the event of distress, as well as to implement the provisions on cooperation between 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 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 (the "**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; and

- amendments to the Banking Law were introduced by Government Emergency Ordinance No. 43/2012, in the context of regulating adequate procedures in case of prudential vulnerability of credit institutions, allowing, as a stabilisation measure, the involvement of the DGF as a shareholder in such credit institutions.

As a result of the implementation of a variety of regulations and amendments to their provisions, the current prudential regulatory framework ensures:

(i) harmonisation with Basel II framework (Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, as amended by, among others, Directive 2009/111/EC, Directive 2009/83/EC and Directive 2009/27/EC). The prudential regulatory framework was also amended in order to transpose Directive 2010/76/EU amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (CRD III); and

(ii) harmonisation with guidelines issued by the Committee of European Banking Supervisors (the "**CEBS**"), including in the field of prudential reporting system harmonised with COREP and FINREP requirements. As of 1 January 2011, CEBS' responsibilities have been taken over by the European Banking Authority (the "**EBA**"), established by Regulation (EC) No. 1093/2010). Other areas in which the CEBS guidelines/Basel Committee documents 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.

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, 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. Regulation No. 10/2012 amending NBR Regulation No. 18/2012 on governance arrangements of credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities, as further amended and supplemented was issued in order to bring the provisions of Regulation No. 18/2009 in line with those of ESRB Recommendation of 22 December 2011 on U.S. dollar denominated funding of credit institutions (ESRB/2011/2). To this end, the NBR regulated credit institutions' obligation to establish formal contingency funding plans determining strategies for solving liquidity deficits in crisis situations, whether such crises are at the level of the relevant credit institutions or at the global market level, for currencies in which credit institutions are active. Such contingency funding plans should consider at least the contingency funding sources available in the event of a reduction in supply from different counterparty classes and should be integrated with the continuous liquidity risk assessments and with the results of scenarios and assumptions used in crisis simulations. Credit institutions should consider the feasibility of measures included in their contingency funding plans if more than one credit institution tries to undertake them at the same time.

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 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 (Order No. 9/2010) and ensured the compliance with the regulation on bookkeeping rules in accordance with IFRS (Order No. 27/2010), 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**") was updated by the issuance of NBR Order No.1/2011 (for consolidated reporting) and NBR Order No.3/2011 (for individual reporting) considering both the effective implementation of IFRS starting with financial year 2012 and the compliance with CEBS revised guidelines. Also, for a unitary approach at the level of Romanian branches of credit institutions having their head offices in other Member States and in order to ensure the financial and accounting statistical information needed to perform various accounting and financial analysis at the NBR, NBR Order No.2/2011 was issued, consistent with the accounting regulations according to IFRS applicable starting with financial year 2012. In October 2011, NBR Order No.12/2011 was issued, amending NBR Orders Nos. 1, 3 and 2/2011. The main objective of this Order was to eliminate the requirement to use a specific method for financial asset recognition as regards these reports, by giving discretion to each credit institution/branch in choosing the appropriate method, consistent with the accounting policies and methods approved by their management. In July 2012, the NBR issued Order No.6/2012 amending Order No.1/2011 (ensuring the unitary application of FINREP consolidated reporting framework, by including in the regulation the answers provided by the European Banking Authority to FINREP implementation questions), Order No.8/2012 amending Order No.3/2011 (correlating FINREP individual reporting framework to FINREP consolidated reporting framework) and Order No.7/2012 amending Order No.2/2011 (ensuring the comparability of the financial information requested to Romanian branches of the credit institutions having their head-offices in other Member States with FINREP individual reporting framework).

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.

As regards the implementation of Basel III and CRD IV Directive (Capital Requirements Directive IV), Romania will follow the implementation timetable to be adopted after the negotiation of the CRD IV Directive and implementing regulation proposals at EU level including taking into consideration the developments related to the EU Banking Union.

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 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 Banking Law and by implementing regulations issued jointly by the NBR and The National Securities Commission (the "**CNVM**"), 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 that of foreign currency denominated reserve requirements is to moderate the expansion of foreign exchange loans.

Category of minimum mandatory reserves (MMR)	**RON**	**Foreign Currency**
	(per cent.)	
MMR for liabilities with a residual maturity of less than 2 years	15	20
MMR for liabilities with a residual maturity of more than 2 years		
with prepayment clause	15	20
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 avoiding 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, from 2012 the classification of loans and investments based on the NBR methodology continues 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.

Loan Classification for Creditors other than Credit Institutions

The legal framework on the classification of loans granted by creditors other than credit institutions (non-bank financial institutions, payment institutions and electronic money institutions) has been in force since 2007, and has been amended several times, the most recent one being in force as of July 2012 (NBR Regulation 5/2012). This latest amendment keeps unchanged the methodology used for loan classification and for determining the provisioning level.

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

Credit institutions must maintain own funds which are at all times at least equal to the sum of the following capital requirements:

(a) 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 applicable NBR-CNVM regulations, as appropriate;

(b) in respect of their trading-book business, for position risk, settlement and counter party risk, the capital requirements determined in accordance with the relevant NBR-CNVM regulations;

(c) in respect of all of their business activities, for foreign-exchange risk and for commodities risk, the capital requirements determined in accordance with the relevant NBR-CNVM regulations; and

(d) in respect of all of their business activities, for operational risk, the capital requirements determined in accordance with the relevant NBR-CNVM regulations.

Participation in Other Enterprises

A Romanian credit institution is not permitted under the Banking Law to hold qualifying participations (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) in excess of 15 per cent. of its own funds. Romanian credit institutions may not acquire qualifying holdings in an undertaking if in this manner they may exercise control over the undertaking in question.

The aggregate qualifying participations of a credit institution in such undertakings cannot exceed 60 per cent. of its own funds.

Such thresholds can be exceeded only in exceptional circumstances, in which case the NBR would require the credit institution either to increase its own funds or take other equivalent measures.

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, which aims to ensure that a credit institution's involvement in such operations will be based on a prudent decision-making process and the value of shares temporarily held shall be fully deducted from the credit institution's own funds to avoid an artificial improvement of its prudential indicators.

Lending Limits

The exposure of a credit institution to a connected client or a group of connected clients is considered a "large exposure" if its value is equal to or exceeds 10 per cent. of the institution's own funds.

The relevant regulation establishes the following principal large exposure limits:

- an institution must not incur an exposure to a client, or group of connected clients, with a value in excess of 25 per cent. of its own funds;
- where that client is an institution or where a group of connected clients 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); or
  - EUR 500,000 (in the case of investment firms),

  whichever is the higher.

In order to limit credit risk, institutions are obliged to establish adequate administrative and internal control procedures so as to ensure the supervision and the management of credit risk, as well as the ongoing compliance with the limits stipulated by the Regulation.

In order to prevent abuses arising from exposures to related parties, as provided by the Basel Core Principle No. 11, 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.

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.

Foreign Exchange Risk Exposure Limit

In accordance with NBR regulations, Romanian banks (but not Romanian branches of EU-established banks) are not permitted to hold foreign currency positions (either long or short) exceeding 10 per cent. of their own funds, calculated for positions in each individual foreign currency. The aggregate foreign currency position of a Romanian bank may not exceed 20 per cent. of its own funds.

Deposit Guarantee Scheme

At the end of 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 has been amended in order to:

- consolidate the 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).

Government Ordinance No. 13/2011 amends the banking and DGF legislation 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 compensation. The DGF can borrow from the Government in the event of insufficient resources for deposit compensation payments. Also, the DGF legislation has been recently modified with a view to aligning it with the newly introduced bridge bank powers (Government Ordinance No. 1/2012).

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 non-banking financial institutions legal framework applies to financial institutions which are not organised as credit institutions and which engage in the observance of the legal requirements for 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.

As of 30 June 2012, the financial aggregate indicators of non-banking financial institutions were as follows: a total share capital of RON 3.3 billion; total assets of RON 26.8 billion; loans granted of RON 22.1 billion; and non-performing loans of RON 5.9 billion.

As of 31 December 2012, there were 187 non bank financial institutions registered in the General Register, under the NBR supervision, out of which 52 are listed in the Special Register, being under NBR prudential supervision. In the second semester of 2012, there were 11 deletions from the General Register following either own requests of the non-bank institutions themselves or as a result of a process of merger, division or other causes provided by law. In the same period, 3 newly established non bank institutions have been registered with the General Register.

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

On 1 November 2009, Government Emergency Ordinance No. 113/2009 on payment services (the "**Payment Services Ordinance**"), which implemented Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market, came into force. The legislation applies to credit institutions, electronic money institutions, post office giro institutions which are entitled under national law to provide payment services and to payment institutions, which is a newly established category of payment services provider.

The NBR is the authority entitled to authorise and perform prudential supervision of payment institutions, according to the existing regulatory framework.

As at December 2012, the NBR had issued 7 payment institutions licences and 24 payment services agents were registered in the Payment Institutions Register kept by the NBR (7 of which in the second semester of 2012.

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 authority entitled to authorise and perform prudential supervision of electronic money institutions, according to the existing regulatory framework.

Financial System Supervision

In December 2012, the Romanian Government approved, by way of emergency ordinance, the establishment of the FSA. The FSA is a specialized autonomous administrative institution, independent and self-financed, which, by 15 March 2013, is expected to take over the responsibilities of the CNVM, the Insurance Supervisory Commission (the "**CSA**") and the CSSPP, thus overseeing the capital markets and the insurance and private pension markets.

Capital Markets

The National Securities Commission

Law no. 297/2004 (the "**Capital Market Law**") and Government Ordinance no. 32/2012 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, as well as the activity of issuers and the operations with financial instruments, while the Government Ordinance regulates the activity of asset management companies and collective investment undertakings. These two pieces of legislation implement the provisions of the main European directives in the field of capital markets.

Capital markets in Romania are subject to regulation and supervision by CNVM, set up as an independent administrative authority. The CNVM is made up of seven members appointed by the Romanian Parliament.

With a view to aligning the Romanian capital markets laws and practice to European and international standards, while ensuring their adjustment to local particularities, the CNVM constantly follows and captures the recent developments in the international and European capital markets and is actively cooperating with EU competent authorities as well as with International Organisation of Securities Commission ("**IOSCO**") members. The CNVM ensures the transposition of the capital markets *acquis communautaire* into national legislation. The CNVM is actively involved in the activities of the working groups of the Emerging Markets Committee of IOSCO, as well as in various working groups set up for the preparation of European Union legislation in the field of capital markets. The CNVM also supports the activity of the European Securities and Markets Authority ("**ESMA**"), the independent authority acting objectively and solely in the interest of the European Union in the field of capital markets.

In terms of supervisory activity, the CNVM has focused on strengthening its monitoring capacity over regulated entities. One of the CNVM's priorities has been to ensure the implementation of the reporting requirements both for issuers and other entities and to ensure a fair treatment for investors. The CNVM 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 CNVM of an application for the electronic supervision of issuers and other regulated entities through reports, easing the CNVM's monitoring mission. Issuers failing to comply with the legal requirements were notified accordingly by the CNVM.

The CNVM 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 2012, the CNVM conducted several market abuse investigations, which were further continued by the relevant prosecutors' offices, on grounds of insider trading or market manipulation.

The CNVM 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 CNVM in 2011 and 2012 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 Administration and Interior – 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 CNVM, 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.

	As at 31 December				
Entity	**2008**	**2009**	**2010**	**2011**	**2012**
Investment firms authorised by the CNVM	72	63	55	52	46
Credit institutions authorised by the NBR.................................	13	15	14	12	12
Investments firms authorised by the home competent authority in a Member State	659	798	1,026	1,200	1,362
Credit institutions authorised by the relevant authority in a Member State	112	114	127	129	144
Branches of investment firms from other EU Member States....	2	5	5	4	6
Branches of credit institutions from other EU Member States ...	4	3	3	3	3
Total...	**862**	**998**	**1230**	**1,400**	**1,573**

Source: National Securities Commission

Investment firms and credit institutions from other EU Member States are registered with the CNVM in order to perform financial services in Romania further to notifications addressed to the CNVM 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, may be registered as participants on the Romanian stock exchanges in order to perform transactions on their respective markets. Among the intermediaries registered with the Bucharest Stock Exchange (the "**BVB**"), four intermediaries are foreign entities originating from Austria, Belgium, Bulgaria and the Czech Republic. Their accumulated traded value in 2012 was around 5 per cent. of the total traded value on the BVB regulated markets. As of 31 December 2012, one foreign intermediary originating from Bulgaria was registered with the Sibiu Stock Exchange.

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 CIUs (undertakings for collective investment in transferable securities ("**UCITS**") and collective investment undertakings, other than UCITS ("**non-UCITS**")) as well as on other entities that operate in Romania:

Collective Investment Undertakings

Entity	As at 31 December 2008	2009	2010	2011	2012
Undertakings for collective investment in transferable securities ("UCITS"):					
Open-end investment funds(performing activities in practice.)	57	54	58	61	63
Collective investment undertakings, other than UCITS (non-UCITS):					
Closed-end investment funds (active)	14	16	18	22	24
Investment companies	5	5	6	6	6
Total no. of CIUs	76	75	82	89	93
Management companies	25	24	21	22	22
Depositories	9	9	9	10	10
Entities from Member States					
UCITS authorised in a Member State and whose units have been distributed in Romania	37	34	33	28	26

Source: National Securities Commission

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 2008	2009	2010	2011	2012
Number of management companies	**25**	**24**	**22**	**22**	**22**
Total assets under management (million EUR)	**1,659**	**2,644**	**6,155**	**6,563**	**7.660**
Equity funds and investment companies (excluding ETF)	1,497	1,881	4,997	4,989	4.947
Bond funds	46	231	410	629	2.637
Hybrid funds	93	78	67	65	72
Money market funds	23	454	682	880	4
ETFs	-	-	-	-	0.15
Number of CIUs	**76**	**75**	**82**	**89**	**93**
Equity funds and investment companies (excluding ETF)	27	26	28	31	32
Bond funds	11	16	17	17	23
Hybrid funds	30	27	31	32	36
Money market funds	8	6	6	9	1
ETFs	—	—	—	—	1

Source: Management companies reports submitted by NSC. 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, i.e.the BVB and the Sibiu Stock Exchange ("**Sibex**"). Both market operators are also registered as system operators. Each of BVB and Sibex operates two MiFID-compliant regulated markets (a spot market and a derivatives market) and an alternative trading system.

The BVB

The BVB was set up on 21 April 1995 as an institution of public interest effectively managed by its members through the Stock Exchange Association. The BVB Association decided on 10 January 2005 to change BVB'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. The end of this transformation process on 13 July 2005 permitted the merger between BVB and the Rasdaq Electronic Exchange, a process further continued when on 30 November 2005 the BVB Extraordinary General Assembly approved the merger plan by which BVB absorbed Rasdaq. Five years later, in 2010, the BVB S.A. became a public listed company and its shares are traded on the regulated market, Equities Section, Tier 2, under the symbol BVB.

BVB is authorised by the CNVM as market operator and, as such, manages the Spot Regulated Market and the Derivatives Regulated Market. Companies listed on the BVB Spot Regulated Market are classified in three tiers, which vary depending on their compliance with several qualitative and quantitative criteria. The Spot Regulated Market also has an International Tier.

As of 31 December 2012, there were 79 companies listed on BVB's Spot Regulated Market, of which 77 are domestic companies and two are foreign companies. At the same date, there were 39 issues of bonds listed with BVB, out of which 36 issues were municipal bonds issues, two foreign corporate bonds and one domestic corporate bond. The first exchange-traded funds were admitted to trading on the BVB market in August 2012..

BVB also operates the Rasdaq Market. As of 31 December 2012, more than 1,000 companies were listed on the Rasdaq Market.

Capitalisation of the BVB Regulated Markets

As at	**Market Capitalisation**	**Year Change**
	(EUR billions)	*(percentage)*
31 December 2008	11.63	-52.8
31 December 2009	19.05	63 9
31 December 2010	23.89	25.4
31 December 2011	16.39	-31.4
31 December 2012	22.06	34.6

Source: BVB

Trading Values on the BVB Regulated Markets

	As at 31 December			
Trading Volumes	**2008**	**2009**	**2010**	**2011**
Total trading volumes (EUR)	1,934,963,088	1,491,104,988	1,912,248,005	2,579,994,297
Stock (EUR)	1,862,705,398	1,196,792,317	1,309,465,970	2,347,019,189
Bonds (EUR)	52,623,109	277,781,791	563,155,455	104,322,989
Rights (EUR)	13,117,760	-	1,096,704	12
Fund Units (EUR)	1,255,060	651,324	2,508,795	2,055,983
Structured Products (EUR)	-	-	10,695,332	102,583,159
Futures (EUR)	5,261,761	15,879,556	25,325,749	24,012,965
Number of trading days	250	250	255	255

Trading Volumes	**As at 31 December 2012**
Total trading volumes (EUR)	2,011,999,547
Stock (EUR)	1,581,108,803
Bonds (EUR)	266,304,164
Rights (EUR)	1
Fund Units (EUR)	1,111,709
Structured Products (EUR)	154,394,832
Futures (EUR)	9,080,038
Number of trading days	250

Source: BVB

Note: The table does not include the values of the public offers conducted by BVB and of the transactions on the Unlisted Market

Daily Average Turnover of the BVB Regulated Markets

Year	**Daily Average Turnover**	**Year Change**
	(EUR millions)	*(percentage)*
2008	7.74	-54.23
2009	5.96	-22.94
2010	7.50	25.75
2011	10.22	32.27

Year	Daily Average Turnover	Year Change
	(EUR millions)	*(percentage)*
2012	8.64	-15.46

Source: BVB

The global financial crisis and the Eurozone sovereign debt crisis had several effects on capital markets in Romania.

Stock index values dropped sharply in 2008 and in the first quarter of 2009 as the global financial crisis eroded investors' confidence on the short-term growth potential of the Romanian capital market. The recovery following the slump was moderate, lasted about one year and was accompanied by a liquidity shortfall. Brokerage companies saw their revenues cut and acted to restructure their activity by decreasing expenditures. At the beginning of the economic and financial crisis, the main Romanian stock exchanges indices fell by around 80 per cent. Recovery started in 2009, but until January 2013 Romanian stock indices failed to reach the pre-crisis levels. Also, market capitalisation dropped by 53 per cent. by the end of 2008, recovery being in January 2013 at around 90 per cent. of the beginning of 2008 level. In May 2010, the Greek sovereign debt crisis triggered another significant stock market correction and affected the recovery path.

The increase in total turnover in 2011 compared to 2010 is mainly due to the admission to trading on the regulated market administrated by BVB of Fondul Proprietatea on 25 January 2011. The listing of Fondul Proprietatea is considered to be a key reference point in the modern history of the Romanian capital market. Fondul Proprietatea was established by the Romanian Government in December 2005 as a closed investment company and is managed by Franklin Templeton Investment Limited. Fondul Proprietatea was the first issuer in Romania which started trading through global accounts without pre-validation and short selling mechanisms.

During 2012, the average daily turnover of equity trading was approximately 27 per cent. lower than the previous year. The main event of 2012 was the secondary public offering of a 15 per cent. stake in Transelectrica S.A. that took place in March 2012. Investor interest in the offer was high, particularly on the retail tranche. The offer was oversubscribed and the value of the trade was almost RON 165 million.

BVB Indices

BVB Indices	Value as at 31 December 2012	Change in 2012 (compared to 31 December 2011)
	(points)	*(per cent.)*
BET	5,149.56	18.74
BET-XT	486.44	19.93
BET-C	2,786.11	6.28
BET-FI	25,375.38	31.20
BET-NG	628.34	2.61

Source: BVB

The increase by 18.74 per cent. of the main BVB index in 2012 as compared to 2011 level represented one of the greatest index increases in the EU in 2012. This is due to the fact that the BVB market is considerably more volatile than other EU markets, but this discrepancy tends to be eliminated over time.

Sibex

In 2003, Sibex was authorised as an exchange by the CNVM and in 2004 the CNVM authorised Sibex's derivatives market. In late 2009, the CNVM authorised a spot market operated by Sibex for equity, bonds and other financial instruments (where currently only Sibex itself is traded). Sibex's spot market has been operational since 22 January 2010 (Sibex's shares began trading on the same date). In 2009, the alternative trading system operated by Sibex was approved by the CNVM. Trading on the alternative trading system started only in September 2010, when Prodplast Imobiliare SA was admitted to trading (currently the only company listed on Sibex's alternative trading system).

Trading Values at SIBEX

Trading Volumes	Values at 31 December 2009	Values at 31 December 2010	Values at 31 December 2011	Values at 31 July 2012	Values at 31 December 2012
Total trading volumes ...	2,483,287	22,943,045	24,999,176	4,851,044	6,984,149
Futures	2,430,849	1,620,078	1,613,469	1,287,342	1,472,260
Options	52,438	17,716	13,078	1,044	1,096
Spot Market	—	15,895,566	16,779,926	3,035,003	4,732,266
ATS	—	5,409,685	6,592,703	527,655	778,527

Source: SIBEX

Money Laundering

Legislation on anti-money laundering and anti-terrorist financing activities ("**AML/CTF**") was enacted in Romania in 2002, namely Law No. 656/2002 on the prevention and sanctioning of money laundering, as well as for setting up some 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 examinations on credit institutions, which have resulted in letters of recommendation or mandated courses of action that imposed immediate remediation of deficiencies within certain deadlines, or sanctions for non-compliance with a legal provision, 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.

Also, in 2008 Romania implemented legislation for the purpose of ensuring the application and enforcement of international financial sanctions. The new legislation places obligations on natural and legal persons as well as on public authorities and applies, at national level, the international sanctions issued by the United Nations or by the European Union. To this end, inter alia, entities specified by the AML/CTF legislation were required to report suspicious transactions.

In December 2011, the Romanian Parliament adopted the Law no.238/2011 for the approval of the Governmental Emergency Ordinance no. 53/2008 for amending and completing the Law no. 656/2002 on prevention and sanctioning of money laundering, as well as for setting up some measures for prevention and combating terrorism financing. This normative act includes new legislative measures, adopted in order to comply with the recommendations included in the Moneyval Report of the Council of Europe of the Third Round detailed Assessment on Romania in the field of combating money laundering and terrorism financing. In addition, regulations were adopted implementing the international sanctions regime.

From 2008 to 2012, the National Office for Prevention and Control of Money Laundering ("**NOPCML**"), the leading Romanian authority responsible for investigating money laundering cases, submitted to the General Prosecutor's Office attached to the High Court of Cassation and Justice 1260 cases of money laundering (in 2012, NOPCML submitted 346 such notifications), with a total value in excess of EUR 2,890 million (the value of money laundering cases notified by NOPCML in 2012 exceeded EUR 1,600 million). According to NOPCML records, tax evasion comprised over 70 per cent. of the cases notified to the General Prosecutor Office.

In the performance of its activity, NOPCML cooperates closely with the Ministry of Justice, the General Prosecutor's Office attached to the High Court of Cassation and Justice 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 of the unemployed 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, on 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 subdivision (such as a city or a county) has been limited to 30 per cent. of their total revenues (consisting of taxes, fees, contributions, other income and allocated shares from income tax, less revenues raised from some sale of asset) as averaged across the last three years preceding the year in which approval is requested. 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.

Medium Term Budgetary Planning Process

Although medium term budgetary planning has been utilised in Romania since 2003, the Medium Term Budgetary Framework (the "**MTBF**") became mandatory only when Law no. 69/2010 on fiscal responsibility (the "Fiscal Responsibility Law") entered into force in 2010 resulting in medium term budget ceilings requiring approval by Parliament. According to the Fiscal Responsibility Law, by the end of May in each year the Government must submit to Parliament the Medium Term Fiscal Strategy (including the MTBF) together with a draft law approving medium term ceilings for certain budgetary expenditures. The annual budget laws must observe the ceilings set by the MTBF and approved by Parliament.

The most important recent 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 the end of May each year the Government has to present the Fiscal Strategy (the "FS") (covering the following 3 years) to Parliament;

- *Parliament Approval on Key Medium Term Budgetary Targets*: Together with the FS, the cabinet submits a draft law to be debated and voted on by the Parliament. The provisions in this law set a maximum threshold for the budget balance (as a percentage of GDP), personnel expenditure (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, etc;

- *Binding Medium-term Targets*: When preparing the annual budget the maximum thresholds referred to above must be observed;

- *Escape Clauses*: The MTBF (which is part of the FS) 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 FS; 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 MTBF and if not the Ministry of Public Finance will prepare a new draft MTBF. This revision must be approved by Parliament and is subject to the review and opinion of the Fiscal Council;

- *New Fiscal Rules*: (i) The annual growth rate of total expenditure cannot be higher than the forecasted annual growth rate of nominal GDP if the budget is balanced or in surplus in the previous year; (ii) the macroeconomic forecast utilised for budget planning has to be compared with the EC official forecast and any difference clearly presented; (iii) during the budget year funds approved for public investment cannot be transferred to current expenditure; (iv) and there cannot be more than two budget rectifications during one year, (v) and 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 forecast; and on the Fiscal Strategy, Annual Budget Law, Budget execution and major legislative initiatives which can have an impact on budget revenues and expenditures.

Taxation system

The following table presents the share of the main sources of revenue in the general consolidated budget as at 31 December 2009, 2010, 2011 and 2012:

	As at 31 December			
	2009	**2010**	**2011**	**2012**
	(per cent.)			
Social security contributions	30.4	27.1	27.8	26.7
VAT	21.8	23.3	26.3	26.2
Non-fiscal revenues	9.8	11.7	10.2	9.5
Income tax	11.8	10.6	10.5	10.9
Excises	9.9	10.3	10.5	10.5
Corporate tax	7.6	6.0	5.7	5.6
Other	8.7	11.0	9.0	10.6
Total	**100**	**100**	**100**	**100**

Source: Ministry of Public Finance

Value Added Tax

Since 1 July 2010 the standard rate of Value Added Tax has increased from 19 per cent. to 24 per cent. in the context of a package of measures that was required in order to achieve a balance between the level of income and expenditure, related with macroeconomic objectives, considering that the level of revenues was deeply affected by the economic and financial crisis.

Romania applies a reduced rate of 9 per cent. VAT for a limited range of services and/or deliveries of goods, including medicine and books.

Romania also applies a reduced rate of 5 per cent. VAT for the supply of social housing and the supply of the land upon which social housing is constructed.

From 1 July 2012 the VAT registration threshold was increased from RON 119,000 to RON 220,000, (approximately EUR 65,000, calculated using the exchange rate from the date when Romania joined the EU).

Romania applies a VAT cash accounting system starting from 1 January 2013. This measure was adopted in order to support small and medium enterprises. This system is applied by companies with a turnover below EUR 500,000. If after a period of 90 days the invoices are not cashed, VAT will become due.

The provisions regarding VAT are in accordance with the *acquis communautaire*, (Council Directive 2006/112/EC on the common system of value added tax, with subsequent modifications and completions).

Income Tax

The Fiscal Code establishes a personal tax on salaries, income from independent activities, lease operations, dividends and interest each of which are currently levied at a rate of 16 per cent.

The 16 per cent. tax rate applies to the gains of individuals from: transfer of securities, currency sale purchase operations; income from the liquidation of a legal person; pension income; income from agriculture, forestry and pisciculture; income from prizes; and income from other sources.

For gambling income a 25 per cent. tax rate applies.

In case of transfer of immovable property different tax rates apply depending on the period for which the property has been held and on the value of the immovable property (either 1 per cent., 2 per cent. or 3 per cent.).

Under the Romanian Fiscal Code, for individuals, the incomes from holding and dealing of state bonds and/or debentures issued by the administrative territorial units (local authorities) are not taxable.

Excises

Romania applies excise duties for the 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 other products such as coffee.

Being an EU Member State, Romania had an obligation to reach the minimum levels of excise duties required by EU directives. In 2007, Romania reached the minimum levels for almost all excise goods, with the exception of unleaded petroleum, gas oil and cigarettes, for which a transitional period was obtained.

Between 2009–2013, Romania 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.

At the moment, Romania has to reach only the minimum excise duty level for cigarettes (due to the new directive on manufactured tobacco – Directive 2011/64/UE). This level is anticipated to be reached by 31 December 2017, according to the calendar already regulated by the national legislation.

Corporate Tax

Corporate tax is calculated at a rate of 16 per cent. on taxable profits and is required to be calculated and paid quarterly. From 1 January 2013 onwards certain categories of taxpayers may opt for an annual payment tax system, based on quarterly instalments representing a quarter of the profit tax paid in the previous year.

In accordance with Emergency Government Ordinance No. 117/2010 amending the Fiscal Code, from 1 January 2011 a simplified system of taxation was introduced for "micro-enterprises" by applying a flat 3 per cent. tax rate on their income.

According to the provisions of the Government Ordinance no. 8/2013, from 1 February 2013 onwards, the system of taxation for “micro-enterprises” becomes mandatory for the Romanian legal persons fulfilling all the following conditions, on 31 December 2012:

- they carry out activities others than in the banking field, in the insurance and reinsurance fields, in the area of the capital market, except for the legal persons conducting brokerage activities in these domains, in the fields of gambling, consulting and management;
- they have earned, during the last fiscal year, incomes not exceeding the RON equivalent of EUR 65,000;
- their registered capital is held by persons others than the Romanian state and the local authorities.

The tax rate on dividends paid by a Romanian legal person to another Romanian legal person is 16 per cent.

Local Taxes and Fees

Every 3 years, the local taxes and fees paid to local budgets are adjusted to the aggregate inflation index. The last adjustment was enacted in 2013, generating an increase in local taxes of approximately 16 per cent. As an exception, for the year 2013, local authorities may decide to maintain the level of local taxes as in 2012, only in the case where they have no arrears on 31 December 2012.

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 recently 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 National Agency for Fiscal Administration (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 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 2008, 2009, 2010, 2011 and 2012:

	2008	2009	2010	2011	2012
	(RON million)				
A. REVENUE	165,546.6	157,243.9	168,674.2	181,919.9	193,148.2
Current incomes	159,743.7	151,576.3	158,501.8	173,887.4	184,030.7
Taxes	94,846.8	88,334.4	92,993.0	104,686.9	114,044.6
Income fee, profit and capital gain from legal entities	14,425.9	13,262.3	10,953.4	11,015.7	11,814.1
Income fee, profit and capital gain from individuals	18,523.0	18,567.6	17,972.7	19,090.9	20,968.8
Property fees and taxes	3,253.9	3,377.7	3,801.5	3.976.4	4,060.4
Fees and taxes on goods and services	57,249.1	52,082.2	59,291.8	69,558.3	76,127.4
Fee on the external trade and international transactions	962.3	655.5	574.0	673.7	707.3
Other fiscal fees and taxes	432.6	389.1	399.6	371.9	366.7
Contributions to social securities	49,007.7	47,860.2	45,703.8	50,637.5	51,658.3
Non-fiscal incomes	15,889.1	15,381.7	19,805.1	18,562.9	18,327.8
Incomes from capital	1,075.7	548.2	684.7	769.1	652.7
Donations	3,020.7	3,269.8	4,054.1	766.3	442.8
Amounts in distribution	1,681.2	-82.0	-21.6	385.5	42.9
Amounts received from EU	n/a	1,916.3	5,439.7	6,111.7	7,979.1
Financial operations	25.3	15.3	15.4	—	—
B. TOTAL EXPENSES	190,340.2	193,679.3	202,282.0	205,818.5	207,922.1
Current expenses	164,963.9	174,232.8	183,270.2	183,630.9	189,274.3
Personnel related expenses	45,609.7	46,837.6	42,836.9	38,422.7	40,798.8

	2008	2009	2010	2011	2012
			(RON million)		
Goods and services	33,008.7	28,325.9	29,567.9	31,767.4	34,443.9
Interest	3,650.7	6,060.6	7,274.3	8,882.4	10,710.8
State aid	7,898.5	7,215.4	6,734.5	6,406.6	6,121.7
Transfers between the units of the public administration	888.6	398.2	503.7	501.9	1,357.9
Other transfers	13,866.6	14,085.0	15,696.8	13,632.1	10,993.1
Projects financed from non-reimbursable EU Funds post-accession (including national co-financing)	n/a	2,676.0	7,313.3	10,787.5	13,217.9
Social assistance	54,160.4	63,957.6	68,612.7	68,007.5	67,048.5
Other expenses	5,880.7	2,579.0	2,933.2	3,111.8	2,967.5
Programmes financed from reimbursable funds (including local funds)	n/a	2,097.5	1,796.9	2,111.2	1,614.0
Capital expenses	25,843.2	21,940.3	19,439.8	22,678.7	19,304.9
Loans granted	14.4	8.5	219.2	—	—
Payments for previous years	-481.3	-678.5	-647.2	-491.1	-657.1
Eximbank(1)	—	-1,823.8	—	—	—
C. SURPLUS/DEFICIT	-24,793.6	-36,435.4	-33,607.8	23,898.6	-14,773.9
Deficit as per cent. of GDP	-4.8	-7.3	-6.4	-4.3	-2.5
Deficit as per cent. of GDP (according to ESA 95)	-5.7	-9.0	-6.8	-5.7	-2.8
Gross domestic product	514,654.0	501,139.0	522,561.1	556,700	585,200

Notes: 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 2008 to 2011 according to EU methodology (European System of Accounts 1995):

	2008	2009	2010	2011
		*(EUR billions)**		
Revenues (EUR billions)	47.0	38.0	41.4	44.2
Public expenditure (EUR billions)	54.9	48.6	49.9	51.7
Deficit as per cent. of GDP	-5.7	-9.0	-6.8	-5.7

* EUR/RON exchange rates used are based on the NBR average exchange rate for the year.

Source: Ministry of Public Finance

Fiscal and Budgetary Developments—2008

In the 2008 general consolidated budget, revenue represented 32.2 per cent. of GDP, while expenditure accounted for 37.0 per cent. The resulting deficit was RON 24.8 billion, or 4.8 per cent. of GDP. The 2008 revenue figure represents a 23.4 per cent. increase from the 2007 revenue figure, with such increase mainly due to salaries tax (28.7 per cent.) and VAT (30.8 per cent.).

The 2008 expenditure figure represented an increase of 29.4 per cent. from the 2007 figure. The increase was mainly due to a rise in personnel expenses and social assistance. Personnel expenses rose by 35.4 per cent. against the same period of 2007, and those for social assistance by 39.4 per cent. (pension, aid, allocations, etc).

Additionally, subsidies allocated in 2008 were RON 7,898.5 million, representing an increase of 14.9 per cent. in nominal value compared with 2007, but a decrease in terms of percentage of GDP (1.5 per cent. of GDP in 2008 compared to 1.7 per cent. of GDP in 2007). Capital expenditure was RON 25,843 million, representing 5.0 per cent. of GDP (against an estimate of 5.3 per cent.).

The deficit represented 4.8 per cent. of GDP on a cash basis (or 5.7 per cent. according to ESA95) for 2008.

Fiscal and Budgetary Developments—2009

In 2009, the general consolidated budget deficit was RON 36,435.4 million, representing 7.3 per cent. of GDP. This was below the annual ceiling (RON 36,500 million, 7.3 per cent. of GDP) set under the Stand-by Agreement approved by the IMF.

Revenues of the general consolidated budget remained below target, at 99.5 per cent. of the revised estimation. Nevertheless, the deviation from the previous year's revenue decreased from 6.0 per cent. at the end of November 2009 to -5.0 per cent. at the end of December 2009.

In nominal terms, income tax increased by 0.3 per cent. against 2008 while profit tax decreased by 8.9 per cent. against 2008.

In the case of taxes on goods and services, excises increased by RON 1,935.2 million against 2008, but revenues from VAT decreased by RON 6,551.1 million against 2008.

Expenditure of the general consolidated budget during 2009 was RON 193,679.3 million, representing an increase of 1.8 per cent. against 2008. The level of expenditure is in line with the programme limit, representing 99.6 per cent. of the annual estimation. Personnel expenditure for 2009 recorded an increase of 2.7 per cent. against 2008.

The increase of social assistance expenses by RON 9.8 billion against 2008 is due to an increase in pension points from October 2008 and a minimum guaranteed social pension allowance which started in April 2009. Expenditure in goods and services recorded a decrease of 14.2 per cent. against 2008 following the application of measures. Interest expenditure in 2009 increased by 66 per cent. against 2008.

In 2009, investment expenditure, including capital expenditures and transfers for development programmes, was RON 35.2 billion, representing 7.0 per cent. of GDP.

Fiscal and Budgetary Developments – 2010

The execution of the general consolidated budget for the year 2010 ended with a deficit of RON 33.6 billion, 6.43 per cent. of GDP, under the deficit target threshold (RON 34.6 billion, or 6.8 per cent. of GDP) set as an objective of the budgetary strategy for the year 2010 and provided in the Supplemental Letter of the Stand-by Agreement signed with the IMF.

The budget deficit for 2010 decreased compared to 2009 from 7.3 per cent. to 6.4 per cent. of the GDP due to both the monitoring and controlling of the overall level of expenses, although the increase of mandatory interest payments, unemployment aid, payment of arrears in the health sector and the financing of projects from EU financing sources was inevitable, as well as the increase of collections in the second half of the year due to the implementation of fiscal measures.

Incomes from the general consolidated budget amounted to RON 168.7 billion, an increase of more than 7.3 per cent. compared to the previous year. This increase was registered in the context of maintaining the 16 per cent. flat rate throughout 2010 and despite the application of various measures such as the elimination, consolidation or reduction of 189 taxes and costs of non-fiscal nature, the non-taxation of reinvested earnings and the granting of an additional deduction of 20 per cent on the costs of research and development in calculating taxable profits.

The increase of incomes compared to 2009 was mainly registered in relation to tax on goods and services (VAT) (+14.3 per cent.) and excises (+11.1 per cent.) as well as in relation to non-fiscal incomes (+29 per cent.).

In 2010, revenue generated by income tax decreased by 3.2 per cent. compared to 2009, while revenue generated by corporate tax and social contributions decreased by 14.9 per cent. and 4.5 per cent., respectively.

Revenue generated by income tax amounted to RON 17,956.8 million, 3.2 per cent. lower than the previous year. Decreases were recorded as a result of the decrease in the number of employees by 6.7 per cent. and of the average gross salary gain (caused by the implementation of legal provisions regarding the decrease by 25 per cent. of salary rights owed to budgetary personnel during the second half of the year).

Collections from VAT recorded a 14.3 per cent. increase compared to 2009, from 6.8 per cent. in 2009 to 8.4 per cent. in 2010, mainly due to the increase of the VAT rate from 19 per cent. to 24 per cent. starting with the second half of 2010, but also because of the increase of collections from internal operation by 9.9 per cent. and from imported goods by 27.1 per cent. in 2010 compared to 2009. The improvement of collections was also due to the effect of enforcing the Government Emergency Ordinance No. 54/2010 regarding certain measures for fighting against tax evasion.

Collection of excises were 11.1 per cent. higher than the same period of the previous year as a result of the increase in the level of taxation from 1 January 2010. The increase of collections was due to the increase by 14.2 per cent. of the average exchange rate for EUR/RON taken into account for the payment of excises for 2010, as well as due to the increase of the amount of excises in the first six months of 2010 compared to the same period of 2009 with respect to: unleaded gasoline; diesel fuel; natural gas for non-commercial consumption; intermediate alcohol products; cigarettes; and electricity.

Social insurance contributions decreased by 4.5 per cent. compared to 2009. The main causes of this decrease were the decrease in the number of employees and the reduction of voluntary compliance, although the average contributions for the social insurance state budget increased by 0.27 per cent. starting with income for February 2010, the exemption of companies hiring unemployed people from the payment of health insurance contributions ("**CAS**") for a period of six months and the facilities deriving under the regulation of temporary unemployment and the salary decrease of the budgetary personnel during the second half of the year.

The amounts reimbursed by the EC in respect of payments made for European financing projects increased by 184 per cent. (RON 5.4 billion in 2010 as opposed to RON 1.9 billion in 2009), compared to the same period of 2009.

Other measures aiming at increasing receipts consisted of, inter alia, broadening the tax base by taxing compensation payments and vouchers and the adoption of a 16 per cent. tax rate applicable to interest income received by resident individuals.

Expenses incurred with respect to the general consolidated budget amounted to RON 202.3 billion, increasing in nominal terms by 4.4 per cent. compared to last year, representing 38.7 per cent. of GDP.

The restrictive character of the budgetary policy with its emphasis on reducing consumption spending led to major changes in the structure of expenditures. This was caused by reducing the weight of personnel costs and increasing the weight of development costs, especially expenses for EU financed projects and transfers for development programmes.

Personnel costs decreased by one percentage point of GDP over the previous year, representing 21 per cent. of total expenses compared to 27 per cent. as projected in the Budget Law No. 11/2010. In the first six months of 2010 personnel costs exceeded the projections, reaching 52.3 per cent. of the annual programme. However, due to measures taken by the Government starting on 1 July 2010, such as reducing the salaries of all employees in the public sector by 25 per cent., restructuring the administrative system at central and regional levels and continuing the layoffs of surplus personnel, the original projection for personal costs was met. Furthermore, due to the measures adopted by the Government, the public wage bill dropped from 8.2 per cent. of GDP in 2010 to 6.6 per cent of GDP in 2011.

Further public spending cuts were made in addition to a global 15 per cent. reduction in social benefits (except for pensions) and the freezing of the pension point value starting with the second half of 2010. These measures led to a drop in social assistance expenditure from 13.1 per cent of GDP in 2010 to 11.8 per cent. of GDP in 2011.

Goods and services expenses increased by 4.4 per cent. compared to 2009, mainly due to the increase of budget expenses of the National Fund for Social, Health and Insurance for the payment of arrears.

Interest expenses increased by 20 per cent. due to the increase of accumulated deficits from the previous years and the contracting of loans in order to cover such deficits.

Expenses related to EU financed programmes increased by 173.3 per cent. compared to the same period of 2009, representing 1.4 per cent. of GDP.

Investment expenses including capital expenditure as well as development programmes financed from internal and external sources in 2010 amounted to RON 33.7 billion, namely 6.4 per cent. of GDP. 98 per cent. of the annual distributions for capital expenditures in the state budget were actually used.

Fiscal and Budgetary Developments – 2011

According to unaudited data, the execution of the consolidated budget in 2011 resulted in a budget deficit of RON 23.9 billion representing 4.3 per cent. of GDP, which is in line with the target deficit for 2011 of 4.4 per cent. of GDP.

Following Eurostat's recommendations regarding the methodology of calculating the deficit for the state-owned enterprises that have been reclassified in the general government sector, for the purpose of calculating and obtaining more accurate data, the Minister of Public Finance issued the Order No. 2443/2011 requesting that 28 state owned enterprises provide monthly, quarterly and yearly reports on their financial situation to be included in the ESA deficit.

Revenues to the general consolidated budget amounted to RON 181.9 billion, 7.9 per cent. higher than in 2010. This was mainly due to an increase of revenues derived from VAT and excises, which increased by 22.1 per cent. and 10.4 per cent., respectively, as compared to 2010. The increase of revenues from excises was also due to the increase of excise level for certain products such as diesel fuel, intermediate products, cigarettes as well as to the application of measures for combat of fiscal evasion.

Social security contributions showed an increase of 10.8 per cent. as at the end of 2011 as compared to the previous year. Corporate tax revenue in 2011 increased by 1.9 per cent. compared to 2010. The main gap remained with respect to non-fiscal revenues that decreased by 6.3 per cent., while the amounts reimbursed by EU increased by 12.4 per cent., as compared to the previous year. Various measures such as the expansion of the base of healthcare contributions applicable to pension income (with a positive impact of 0.3 per cent. on GDP), the expansion of the tax base for pension contributions or the increase of local taxes for persons owning more than one property were adopted throughout 2011.

In nominal terms, the expenses as at the end of December 2011 were in the amount of RON 205.8 billion and posted an increase of 1.7 per cent. compared to the previous year, mainly due to an increase in expenses for EU financed projects.

Expenses associated with goods and services increased by 7.4 per cent., as compared to the previous year, due to payments for medical services and pharmaceuticals.

The personnel costs, subsidies and social assistance costs remained under the level recorded in 2010 (-10.3 per cent., -4.9 per cent. and -0.9 per cent., respectively). Payments for EU financed projects increased by 47.5 per cent. as compared to 2010, while interest expenses increased by 22.1 per cent.

Public spending reduction measures were maintained throughout 2011 and included an extension of the freeze of the pension point value to the level registered in 2010 and reductions or eliminations of temporary crisis subsidies (including subsidies for heating), which were replaced with targeted social assistance mechanisms. The Government put in place a strategy to eliminate central government and social security arrears after completing a comprehensive exercise to account for all unpaid bills by the end of 2010 and continued reforms in the health sector in order to eliminate the historic mismatch between entitlements and available resources and obtained additional fiscal savings and efficiency gains from continued educational reform.

The public sector wage bill was further reduced compared to previous years further to reductions in public employment to 1.2 million from 1.4 million in 2008.

Fiscal and Budgetary Developments - 2012

The state budget for 2012 was approved by the State Budget Law no. 293/2011, published in the Official Gazette of Romania no. 914, dated 22 December 2011 and was amended in August and October 2012.

The basis of the first budgetary rectification in August 2012 included a slower growth of GDP of approximately 1.2 per cent. compared to 1.8 – 2.3 per cent as estimated at the date of drafting the State Budget Law; deviations of the 2012 budget results after the first half of 2012 compared to initial estimations and the need to ensure compliance with the requirements of the precautionary Stand-by

Agreement with the IMF of March 2011. After consultations with the IMF and EC, the budget was amended to result in a slight relaxation of fiscal consolidation from a cash deficit of 1.9 per cent. of GDP to a target of 2.2 per cent. of GDP.

The second budgetary rectification in October 2012 was determined by a series of factors including: the analysis of the budgetary results during January-August 2012; the need to fund the operations of the main credit coordinators (e.g. ministries) until the end of 2012, the need to provide the funds necessary for the payment of arrears in certain activity areas; and the need to maintain the deficit of the general consolidated budged at the level of RON 13,660 million, respectively 2.2 per cent. of GDP.

Fiscal consolidation continued in 2012, and the budget deficit declined by over 40 per cent. compared to 2011, from 4.3 per cent. of GDP to 2.5. per cent. More negative influences on the budget deficit were recorded due to temporary blocking of EU funds reimbursements, to deficiencies in previous years (0.2 per cent. of GDP) and to the downward revision of nominal GDP (0.1 per cent. of GDP).

Revenues of the general consolidated budget amounted to RON 193.1 billion, 6.2 per cent. higher year on year in nominal terms and by 0.3 percentage points in GDP. Tax revenues recorded in nominal terms an increase by 8.9 per cent. over the previous year, registering positive developments in income tax (+9.9 per cent.), VAT (+5.4 per cent.), excises (+6.0 per cent.), corporate tax (+5.3 per cent.). Revenues from other taxes on goods and services have also increased significantly due to collection since 2012 of the contribution to the financing of health expenditures, according to Government Emergency Ordinance no. 77/2011 regarding claw back. Compared to 2011, state budget revenues increased by 6.7 per cent. and local budgets revenues increased by 10 per cent., but overall the general government revenues decreased by 1.3 per cent., following a decrease of 5.4 per cent. year on year in revenue of financed institutions.

Social security contributions amounted to RON 50.6 billion, an increase of 2.0 per cent. over the previous year.

Expenses of general government amounted to RON 207.9 billion, representing 35.5 per cent. of GDP. This represents an increase in nominal terms by 1.0 per cent. over the previous year, but as a share of GDP, expenses decreased by 1.5 percentage points. The increase is due to a corresponding increase in EU-funded projects related expenses by 22.5 per cent., interest related expenses by 20.6 per cent., goods and services related expenses by 8.4 per cent. Spending on goods and services increased at the level of local governments and national health fund as a result of payments made for medical services and medicines. Personnel expenditure increased by 6.2 per cent. as compared to the previous year, due to the reinstatement, to the benefit of the budgetary personnel, of the previously eliminated 8 per cent. of their wages and other salary related rights awarded by writs of execution. Investment expenditure including capital expenditures and the related development programs financed from internal and external sources, amounted to RON 35.5 billion (6.1 per cent. of GDP).

Arrears of the General Consolidated Budget

According to the Stand-by Agreement signed with the IMF and the EC, arrears decreased in 2011 from RON 1 billion to RON 0.8 billion. The following table shows the breakdown of arrears (outstanding for more than 90 days in accordance with the definition in the Stand-by Agreement concluded with the IMF) by sectors as at 31 December 2009 and 2010, 2011 and 2012:

	As at 31 December			
	2009	**2010**	**2011**	**2012**
	(millions RON)			
State Budget[1]	638.9	57.4	85.9	27.7
Local Budget	925.7	910.0	752.8	840.2
Social Security Budget	14.1	159.3	0.8	0
Total	**1,578.7**	**1,126.7**	**839.5**	**867.9**

(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 the local public administration authorities from certain economic activities, the Government adopted Government Emergency Ordinance No. 51/2010 regulating 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 from privatisation up to RON 1.5 billion and at an interest rate of 6.25 per cent. for the purpose of paying outstanding debts (recorded as at 31 December 2009) towards economic operators, suppliers of goods, services and works, including towards economic operators providing public services of generation, transmission and distribution of thermal energy in a centralised system. The amounts obtained from such loans are used exclusively for settling: (i) outstanding fiscal obligations of suppliers or goods, services and works; and (ii) outstanding fiscal obligations of the economic operators 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 will include, separately, budgetary credits for the payment of arrears from the previous year; no new budgetary commitments can be made unless the arrears under the heading expenses are paid; such measures have been further amended by the Government Emergency Ordinance No. 3/2013, which provide for the obligation of local authorities to reduce arrears by at least 85 per cent. until 31 March 2013; and

- with respect to arrears in the health sector, the Government allocated additional funds throughout 2011, by Government Decision No. 924/2011 and 247/2011, amounting to RON 0.6 billion, which led to their drastic reduction.

In addition, the Government took measures for the purpose of reducing the arrears of companies that are majority state-owned, such as:

- an allocation by Government Ordinance No. 10/2011 directing to the local authorities' budget RON 302.7 million to enable them to pay their debts to suppliers of thermal energy. This measure aims to reduce local authorities' debts towards large state-owned companies active in the energy field;

- an allocation by Government Ordinance No. 10/2011 for increasing the share capital of Compania Nationala de Cai Ferate CFR S.A. with RON 130 million;

- an approval by the Government Emergency Ordinance No. 84/2011 of the possibility of CFR S.A., C.N. a Huilei S.A. Petrosani and SC Termoelectrica S.A. to pay their debts to the consolidated state budget by transferring assets and equity to the State; and

- 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 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 neutral agreements from the perspective of the 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 conditioned by the success of the action plans they agreed, to provide insurance that they will not accumulate further arrears.

The clawback tax generated RON 1,811.4 million in 2012, which will be used to pay the 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 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 at the end of 2012.

In its opinion relating to the second budgetary rectification in 2012, the Fiscal Council indicated that the arrears of the local budgets appear to represent a recurring issue that reflects a lack of financial discipline as well as certain deficiencies in the application of the Local Public Finance Law No. 273/2006. The Fiscal Council underlined the need for a strict application of the Local Public Finance Law No. 273/2006.

2013 Budget

The draft budget law for 2013 was adopted by the Parliament on 7 February 2013 and is subject to promulgation by the President.

The main objectives of the 2013 draft budget include the following: (i) ensuring the resources for a sustainable economic development through an increase of the expenditure in the general consolidated budget by RON 15.4 billion; (ii) continuation of the fiscal consolidation process by a more rapid increase of revenue than the increase of expenditure following the implementation of a package of fiscal measures aiming at increasing the taxable base and application of the solidarity principle; (iii) strengthening the budgetary discipline by diminishing the misuse of expenses in the central administration and by paying the arrears in the health sector, transport infrastructure and local administration; (iv) reforming the public investments through a substantial increase of funds allocated for co-financing of European projects and financing in 2013 with priority, from own sources, of those investments with a high degree of execution that can be finalised by the end of 2014; (v) improving the multiannual budgetary planning; (vi) transparency in the use of public funds and good practices for budgetary reporting; (vii) adequate management of public debt.

The following table presents the macroeconomic indicators on the basis of which the draft 2013 budget was made:

Macroeconomic indicator	**2013**
GDP (*RON million*)	623,314
Economic growth (*per cent*)	1.6
Average annual inflation (*percent*)	4.3
Average exchange rate /RON/EUR	4.5
Revenue of the general consolidated budget (*RON million*)	209,285
Total revenue as percent in GDP	33.6
Expenditure of the general consolidated budget (*RON million*)	222,679
Total expenditure as per cent in GDP	35.7
Deficit (*RON million*)	(-13,394)
Deficit as per cent in GDP	-2.1

Total expenditure in the 2013 general consolidated budget show an increase of RON 15.4 billion as compared to 2012. This is due to :

- personnel expenditure, which show an increase of RON 5.4 billion as compared with 2012 triggered by the reinstatement of the wages previously reduced by 25 per cent. and the payment of the second tranche of the amount awarded to the budgetary personnel by writs of execution representing salary related rights.

  The 2013 budget was drafted with a view to maintain the salary rights at the level in December 2012, which triggers the full reversal of the 2010 wage cuts. As far as the vacant positions in public institutions and authorities are concerned, the policy remains the same, i.e. only one out of seven vacant positions can be occupied. The 2013 draft budget envisages financing a maximum number of 1,187,000 employees in the budgetary sector. In the personnel related expenses in the draft general consolidated budget for 2013 an amount of RON 0.9 billion is allocated for the payment of the 10 per cent. tranche of amount awarded to the budgetary personnel by writs of execution representing salary related rights.

- goods and services, which register an increase of RON 3.1 billion year on year. This increase is due to amounts designated for the payment of arrears in the health sector.

- social assistance posting an increase of RON 2.9 billion mainly due to the increase of the pension point by 4 per cent.

- national co-financing, which register an increase of RON 4 billion due to support of the projects that can benefit from EU funds.

The 2013 draft budget was prepared with a view to ensure the adequate financial, procedural and contractual measures for commencing and finalising the infrastructure investments that have an immediate economic and social impact. The investment expenses for 2013 amount to RON 36.9 billion (5.9 per cent. of GDP). Investment expenses represent 16.6 per cent. of the total budgetary expenses.

The 2013 draft budget includes certain measures for stimulating economic growth such as:

- Increase of available income of population by: indexation of the pensions with 4 per cent., increase of the minimum wage from RON 700 to RON 750 as of 1 February 2013 and to RON 800 as of 1 July 2013;

- Increase efficiency of investments by targeting those projects that can be financed from EU funds;

- Increase number of new jobs: net increase of 55,000 jobs as provided under the draft 2013 budget;

- Payment of arrears: releases resources in the private sector and contributes to the increase of liquidity in economy;

- Grant of state aids for investments: (i) state aid scheme for stimulating economic growth trough support of investments; (ii) state aid scheme regarding durable economic development; (iii) state aid scheme for supporting investments that promote regional development through the use of new technologies and creation of new jobs

The 2013 draft budget envisages the continuation of the fiscal consolidation process by increasing revenue faster than expenditure further to the implementation of a certain fiscal measures aimed at expanding the taxable base and applying the solidarity principle

The target deficit for 2013 will amount to 2.4 per cent. of GDP in ESA terms and 2.1 per cent. in cash terms.

The fiscal consolidation in 2013 is based on a new budgetary strategy where revenue increase rate is higher than the expenditure increase rate. In this context, the Government intended that the fiscal consolidation package is achieved mainly through an increase in budgetary revenue, which is currently at the lowest level in EU as per cent. in GDP. The new fiscal measures that form the basis of the 2013 draft budget is expected to result in an additional RON 2.9 billion to the budget, out of which RON 1.8 billion are allocated for investment expenditure and RON 1.1 billion for reducing the budget deficit for 2013.

Medium Term Budget Objectives

The fiscal-budgetary projections in the medium term are based on a series of essential economic and institutional landmarks: macroeconomic stability, fiscal-budgetary responsibility and financial discipline. The fundamental objectives of the fiscal-budgetary strategy for 2013-2015 include:

- creating a performing public finance system that is transparent and that could lead to an increase in budgetary revenues by expanding the taxable base and not by increasing the fiscal burden on the economy;

- ensuring macroeconomic stability and public debt sustainability by maintaining the budget deficit in the current trend of fiscal consolidation;`

- simplifying the tax system; creating predictability of the fiscal-budgetary framework for developing the private and public economic environment;

- increasing the quality of public finances, strengthening fiscal discipline and governance, as well as diminishing discretionary decisions in fiscal and budgetary policies; and

- rationalizing expenses and increasing transparency of use of funds in parallel with reconsidering the public acquisitions based on opportunity, priority and efficiency criteria;

Therefore, besides the fiscal-budgetary policy measures regarding the increase in the collection of budgetary incomes and in the quality of public expenses, certain structural reforms are required for the purpose of decreasing losses and arrears and strengthening the financial discipline especially in the state owned companies.

The fiscal-budgetary strategy is aimed at implementing a new approach with respect to the relationship between the state and the tax payers based on transparency and fairness.

The specific objective of the budget policy is to continue adjusting the budget deficit to reach the targets of 2.4 per cent. of GDP in 2013; 2.0 per cent. of GDP in 2014; and 2.0 per cent. of GDP in 2015 (according to the European System of Accounts ("**ESA**")).

Public Debt

Overview

The public debt of Romania is subject to Government Emergency Ordinance No. 64/2007 (the "**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 increased to 40.1 per cent. of GDP at the end of December 2011 and to 41.2 per cent at the end of December 2012. This was primarily due to operations for financing the budget deficit, refinancing the public debt and due to guarantees issued under the "First House" Programme (see also "*—Foreign Trade and Balance of Payments—Foreign Direct Investment*").

With respect to the debt structure an increase of the government public indebtedness has been registered from 37.8 per cent. of GDP at the end of 2011 to 38.8 per cent. of GDP as at the end of December 2012 and the level of local public indebtedness of 2.3 per cent. of GDP was recorded at the end of 2011 while the level at the end of December 2012 was 2.4 per cent. of GDP.

The following table shows public indebtedness indicators according to national legislation as at 31 December 2008, 2009, 2010, 2011 and December 2012:

	31 December 2012 (preliminary data)		**31 December 2011**		**31 December 2010**		**31 December 2009**		**31 December 2008**	
	mil RON	**mil EUR**	**mil RON**	**mil EUR**	**mil RON**	**mil EUR**	**mil RON**	**mil EUR**	**mil RON**	**mil EUR**
1. Public government debt of:	**227,214.2**	**51,304.9**	**210,388.6**	**48,704.4**	**182,510.3**	**42,594.8**	**136,493.8**	**32,271.1**	**100,556.4**	**25,227.4**
a) direct public debt	214,076.0	48,338.3	199,284.6	46,133.9	167,632.5	39,122.6	126,571.7	29,925.2	91,942.0	23,066.2
b) guaranteed debt	13,138.2	2,966.6	11,104.0	2,570.5	14,877.8	3,472.2	9,922.1	2,345.9	8,614.4	2,161.2
- weight in GDP (%)	*38.8%*	*38.8%*	*37.8%*	*37.8%*	*34.9%*	*34.9%*	*27.2%*	*27.2%*	*19.5%*	*19.5%*
- direct debt, weight in GDP (%)	36.6%	36.6%	35.8%	35.8%	32.0%	32.0%	25.3%	25.3%	17.9%	17.9%

- guaranteed debt, weight in GDP (%)	2.2%	2.2%	2.0%	2.0%	2.8%	2.8%	2.0%	2.0%	1.7%	1.7%
2.Local debt of:	**13,857.2**	**3,128.9**	**12,866.6**	**2,978.6**	**11,948.9**	**2,788.7**	**10,835.2**	**2,561.8**	**9,238.7**	**2,317.8**
a) contracted directly	13,209.8	2,982.8	12,186.8	2,821.2	11,065.8	2,582.6	10,090.2	2,385.6	8,530.8	2,140.2
b) guaranteed by local public authorities	647.4	146.1	679.8	157.4	883.1	206.1	745.0	176.2	707.9	177.6
- weight in GDP (%)	*2.4%*	*2.4%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.2%*	*2.2%*	*1.8%*	*1.8%*
- direct debt, weight in GDP (%)	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%	2.0%	2.0%	1.7%	1.7%
- guaranteed debt, weight in GDP (%)	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
3. Public debt	***241,071.4***	***54,433.9***	***223,255.2***	***51,683.0***	***194,459.2***	***45,383.5***	***147,329.0***	***34,832.8***	***109,795.1***	***27,545.2***
Total public debt, weight in GDP (%)	41.2%		40.1%		37.1%		29.4%		21.3%	
GDP (mln. RON)	585,200.0		556,700.0		523,700.0		501,100.0		514,700.0	
Exchange rate at the end of reporting period (EUR/Lei)	**4.4287**		**4.3197**		**4.2848**		**4.2296**		**3.9860**	

Source: Ministry of Public Finance

Governmental Public Indebtedness

The level of external governmental public indebtedness according to national legislation increased by RON 64.3 billion from December 2008 to December 2012, mainly due to loans contracted from external markets in order to support the budget deficit financing and refinancing of public debt in the period from the end of 2008 to December 2012. In March 2010, the Ministry of Public Finance issued a Eurobond of EUR 1 billion with a coupon of 5 per cent. and 5 year maturity, the proceeds of which were partially used for the redemption of a Eurobond of EUR 700 million issued in 2002. The remaining funds were used for deficit financing. In June 2011, the Ministry of Public Finance made a drawdown under Romania's EMTN Programme of EUR 1.5 billion with a coupon of 5.25 per cent. and 5 years maturity, the proceeds of which were used for budget deficit financing and refinancing the public debt. In January 2012, Romania successfully executed its inaugural USD transaction, borrowing USD 1.5 billion for 10 years with 6.75 per cent. coupon. At the end of February 2012, the Ministry of Finance used the window of opportunity of increased foreign interest for Romanian assets within the improved market environment and re-opened the issue, placing an additional USD 750 million with a yield of 6.45 per cent. (from 6.875 per cent. of initial issuance launched in January). In September 2012, Romania re-opened the 2008 issue due in 2018 and placed EUR 750 million notes with a 5.10 per cent. interest rate. On 31 October 2012, Romania issued EUR 1.5 billion notes due 2019, taking advantage of falling yields. The seven-year notes had a coupon of 4.875 per cent. and were priced to a yield of 5.04 per cent (lower than the rate of 5.1 per cent for bonds due in June 2018 sold by Romania in the previous month). According to national legislation, the level of external governmental public indebtedness (representing direct external liabilities of Romania or liabilities guaranteed by Romania) represented 17.6 per cent. of GDP as at the end of December 2012, registering an increase as compared with the level recorded at the end of 2011 (15.7 per cent. of GDP).

According to EU methodology, the external central government debt (including debt of companies reclassified in central government sub-sector) represented 19.3 per cent. of GDP at 31 December 2012, registering an increase as compared with the level at the end of 2011 (17.1 per cent. of GDP).

Domestic public government debt according to national legislation increased during the period from December 2008 to December 2012 by RON 62.6 billion, and as a percentage of GDP by 9.3 per cent due to the financing of budget deficits and refinancing of public government debt mainly from domestic sources in period 2009-December 2012. 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 December 2012, outstanding government securities issued on the domestic market in RON and EUR amounted to RON 100.2 billion, of which treasury bills represented RON 27.3 billion and bonds RON 72.9 billion.

According to EU methodology the level of general government debt increased to 38.0 per cent. of GDP as at the end of December 2012 compared to 34.7 per cent. as at the end of 2011.

As an EU member state, Romania has to observe the ceiling for general government debt of 60 per cent. of GDP (according to EU methodology). The Fiscal Responsibility Law will be amended to reflect such ceiling.

The governmental public indebtedness of the State according to national legislation during the years ended 31 December 2008, 2009, 2010, 2011 and 2012 developed as follows:

	31 December 2008	**31 December 2009**	**31 December 2010**	**31 December 2011**	**31 December 2012 (preliminary data)**	**December 2012 - per cent.-**
			RON millions			
Public Government Debt	**100,556.4**	**136,493.8**	**182,510.3**	**210,388.6**	**227,214.2**	**100%**
			by type of debt:			
- direct debt	91,942.0	126,571.7	167,632.5	199,284.6	214,076.0	94.2%
- guaranteed debt	8,614.4	9,922.1	14,877.8	11,104.0	13,138.2	5.8%
			by creditors:			
- multilateral	20,533.5	34,634.1	52,719.3	63,551.4	65,544.8	28.8%
- bilateral	312.9	272.4	287.1	203.8	193.5	0.1%
- private banks and others	79,710.0	101,587.3	129,503.9	146,633.4	161,475.9	71.1%
			by instruments:			
- T-bills	8,106.9	23,432.2	32,659.2	33,743.8	27,262.5	12.0%
- cash management instruments	0.0	0.0	0.0	2,200.0	0.0	0.0%
- Bonds (ROL &Forex)	9,505.7	23,146.2	34,021.4	50,110.0	72,929.1	32.1%
- Eurobonds	8,569.9	9,093.6	10,497.8	17,062.8	31,912.3	14.0%
- loans	34,779.2	52,687.4	73,895.2	75,426.9	78,307.3	34.5%
- loans from surplus of State Treasury account	39,594.7	28,134.4	31,436.7	31,845.1	16,803.0	7.4%
			by initial maturity:			
- short - term	49,526.6	51,566.6	64,095.9	67,788.9	44,065.5	19.4%
- medium - term (1-5 years)	10,712.5	27,096.1	42,792.2	55,152.1	77,705.6	34.2%
- long - term	40,317.3	57,831.1	75,622.2	87,447.6	105,443.1	46.4%
			by interest type:			
- fixed	31,495.2	57,934.4	95,049.1	115,406.3	154,147.0	67.8%
- variabile	69,061.2	78,559.4	87,461.2	94,982.3	73,067.2	32.2%
			by currency:			
- RON	60,024.8	64,302.0	82,628.6	101,241.2	99,989.6	44.0%
- USD	9,227.5	8,629.1	8,458.1	6,091.6	12,671.4	5.6%
- EURO	28,102.8	56,646.1	78,118.8	89,349.8	101,706.8	44.8%
- SDR	20.5	3,984.7	9,645.9	9,977.0	9,496.5	4.2%
- CHF	306.8	235.5	180.0	138.2	108.1	0.0%
- CAD	714.9	623.2	806.8	750.8	700.6	0.3%
- JPY	1,914.0	1,904.9	2,542.6	2,840.0	2,541.2	1.1%
- WON	124.3	128.5	129.5	0.0	0.0	0.0%
- GBP	121.0	40.0	0.0	0.0	0.0	0.0%

Source: Ministry of Public Finance

This breakdown of public government debt at the end of December 2012 shows that debt contracted directly by the state represented 94.2 per cent. of total public government debt and that 5.8 per cent. was guaranteed debt. At the same date, the government securities issued on domestic and external markets represented 58.1 per cent. of total public government debt, the remaining being covered by loans, including loans from funds available in the State Treasury general current account. Out of the government debt 19.4 per cent. was short-term debt and 80.6 per cent. was medium and long-term debt while the breakdown by interest rate type indicates that 32.2 per cent. of total debt is floating interest rate debt. Structure by currencies shows that 44.0 per cent. of public government debt was denominated in RON, and 79.9 per cent. of total non-RON hard currency debt was denominated in EUR.

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 the deficit financing. From 2009, all debt management operations operated in the past by the line ministries (government debt reimbursements or drawings) are taken over by the Ministry of Public Finance.

At the end of December 2012, the outstanding amount of state guarantees was RON 13.1 billion (2.2 per cent of GDP), of which RON 6.1 billion were guarantees granted for companies, RON 6.8 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 precautionary Stand-by Agreement concluded with the IMF, the EU and the World Bank in the spring of 2011, the ceiling for guarantees issued by the Romanian Government is set at RON 14 billion (covering the period 2009-2012), but it may be adjusted with the value of guarantees to be issued for financing of the Nabucco project (see "*—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—External Financing Programmes*" and "*—The Romanian Economy—Restructuring and Investment"*) and the Fiscal Budgetary Strategy 2012 - 2014 sets the ceiling for governmental guarantee issues at RON 10 billion for 2012. The Fiscal Budgetary Strategy 2013 – 2015 sets the ceiling for 2013 at RON 6 billion and at the same level for 2014.

Total public government debt service according to national legislation in 2011 was RON 59.5 billion, of which RON 56.8 billion is for direct debt and RON 2.7 billion is for guaranteed debt. At the end of 2012, the total public government debt service was RON 63.9 billion, out of which RON 63.0 billion was for direct debt and RON 0.9 billion was for guaranteed debt.

The following table sets out the repayment schedule for Romania's public government debt service:

	2008	**2009**	**2010**	**2011**	**2012 (preliminary data)**
			(RON millions)		
Direct debt service:					
- principal*	9,752.2	49,837.3	38,008.2	48,533.4	52,532.4
- interest and commission	3,176.2	5,449.4	6,824.9	8,298.8	10,465.0
Total government direct public debt service	12,928.4	55,286.7	44,833.1	56,832.3	62,997.4
Guaranteed debt service:					
- principal	1,055.0	1,276.0	1,082.8	2,475.0	730.4
- interest and commission	295.2	337.8	190.7	178.6	154.4
Total government guaranteed public debt service	1,350.2	1,613.8	1,273.5	2,653.6	884.8
Public government debt service					
- principal	10,807.2	51,113.3	39,091.0	51,008.4	53,262.8
- interest and commission	3,471.4	5,787.2	7,015.6	8,477.5	10,619.4
Total government public debt service	14,278.6	56,900.5	46,106.6	59,485.9	63,882.2

(*) 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 31 December 2012, the debt service of public government debt outstanding is scheduled to decrease between 2013 to 2019. 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 December 2012:

	2013	2014	2015	2016	2017	2018	2019	Thereafter
				(RON millions)				
Direct debt service:								
Principal*	55,788.8	32,186.7	29,661.8	18,552.9	15,514.4	16,400.9	14,549.2	31,421.2
Interest and Commission	9,587.3	6,727.3	5,051.9	3,948.3	3,058.2	2,456.0	1,640.3	3,512.4
Total government direct public debt service	65,376.1	38,914.0	34,713.7	22,501.2	18,572.6	18,856.9	16,189.5	34,933.6
Guaranteed debt service:								
Principal	997.8	1,051.7	2,303.1	811.0	843.5	596.2	539.6	5,995.3
Interest and Commission	149.2	132.8	92.9	69.5	58.8	36.3	28.8	98.3
Total government guaranteed public debt service	1,147.0	1,184.5	2,396.0	880.5	902.3	632.5	568.4	6,093.6
Public government debt service								
Principal	56,786.6	33,238.4	31,964.9	19,363.9	16,357.9	16,997.1	15,088.8	37,416.5
Interest and Commission	9,736.5	6,860.1	5,144.8	4,017.8	3,117.0	2,492.3	1,669.1	3,610.7
Total government public debt service	66,523.1	40,098.5	37,109.7	23,381.7	19,474.9	19,489.4	16,757.9	41,027.2

(*) 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 December 2012

Source: Ministry of Public Finance.

Public Debt Instruments and External Financing Programmes

Government Bonds

Due to increased risk aversion in the market since the last quarter of 2008, the Ministry of Public Finance has tailored its domestic market financing strategy towards short term issues, meeting the demand of investors for such maturities. Thus, since November 2008, treasury bills with a maturity of three months were reintroduced, while treasury bills with a maturity of one month were reintroduced between January and July 2009.

Romanian treasury securities 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 treasury bonds with maturities of 3, 5, 7, 10, 12 and 15 years (in RON) and of 3 and 4 years (in EUR) issued as interest bearing; and
- benchmark bonds with maturities of 2, 3, 4, 5, 7, 10 and 15 years.

Since January 2009, maximum yields for treasury bills and benchmark bonds have decreased, with this trend being more pronounced for shorter maturities as the NBR continued to inject liquidity into the money market and lower the monetary policy rate (from 10.25 per cent. in August 2008 to 5.25 per cent. in May 2012). Compared to yields for government securities issued in December 2008, the yield for government securities issued up to December 2012 decreased by approximately 7.7 per cent. for benchmark bonds and by 8.0 per cent. for treasury bills.

The Government is also empowered to negotiate loans and issue securities in international markets under the provisions of Romanian law. 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 6.50 per cent. interest rate, initially issued in June 2008 and increased in September 2012, due 2018;

- Notes in the amount of EUR 1,000,000,000 with 5.00 per cent. interest rate, issued in March 2010, due 2015;

- 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 USD 2,250,000,000 with 6.75 per cent. interest rate due 2022, initially issued in January and increased in February 2012; and

- Notes in the amount of EUR 1,500,000,000 with 4.875 per cent. interest rate , issued in November 2012, due in 2019.

The Notes in the amount of EUR 700,000,000 with 8.50 per cent. interest rate, issued in May 2002 were repaid in May 2012.

In November 2012, Barclays announced that they would include Romanian bonds to its flagship Emerging Markets Local Currency Government Index as of 31 March 2013. Subsequently, in January 2013 JP Morgan also announced that Romanian bonds were eligible for inclusion in its Government Bonds Index - Emerging Markets (GBI-EM) index series. According to the latter announcement, inclusion is subject to final determination, but is slated for inclusion in the 1 March 2013 rebalance.

External Financing Programmes

On 25 March 2009, Romania agreed the terms of a multi-lateral external financing programme (the "**Financing Programme**") of EUR 19.95 billion. The purpose of the Financing Programme was to assist Romania in managing its balance of payments, financing its budget deficit and refinancing some of its existing debt. Furthermore, the Financing Programme played a crucial role in returning financial conditions in Romania to normal and promoting the economic recovery of the country.

Under the Financing Programme the financing sources from each financier are:

	(EUR billions)
International Monetary Fund Letter of Intent of 24 April 2009*	12.95
EC Memorandum of Understanding of 26 June 2009**	5
World Bank Development Policy Loans**	1
EBRD/EIB—Loans to the private sector	1
	19.95

* 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)

** the entire amount was withdrawn by Ministry of Public Finance and used for budgetary purposes

Stand-by Agreement

The financial terms of the Stand-by Agreement are based on IMF regulations. The loans have grace periods of three years and are repayable in two years in eight equal instalments. The Stand-by Agreement was ratified by the Government on 22 September 2009.

The first tranche of EUR 4.94 billion equivalent was disbursed to NBR on 6 May 2009. Following the first Financing Programme review by the IMF in August 2009, the second tranche of EUR 1.84 billion equivalent was disbursed on 23 September 2009. After the combined third and fourth reviews in January 2010 of performance criteria and structural benchmarks, the Government approved the release of the third and fourth tranches of EUR 2.45 billion equivalent.

The second tranche disbursed on 23 September 2009 and the third and fourth tranches disbursed on 23 February 2010 were equally split between the NBR and the Ministry of Public Finance. The third and fourth tranches totalled SDR 2.18 billion (EUR 2.45 billion equivalent) and brought the total disbursements under the IMF Stand-by Agreement to SDR 8.26 billion (about EUR 9.23 billion). One half of the second, third and fourth tranches of the IMF credit was used by the Ministry of Public Finance for budget deficit financing while the other half was used by the NBR for balance of payments support.

The fifth tranche of the IMF credit of SDR 768 million was disbursed to NBR on 7 July 2010, while the sixth tranche of the IMF credit of SDR 769 million and the seventh tranche of SDR 769 million were disbursed to NBR on 28 September 2010 and 11 January 2011, respectively. The eighth tranche, the last of the agreement in the amount of SDR 874 million, was not drawn, as the authorities deemed it unnecessary given the economic environment.

On 25 March 2011, the IMF's Executive Board approved a 24-month precautionary Stand-by Agreement in the amount equivalent to SDR 3,090.6 million (about EUR 3.5 billion, 300 per cent. of quota). The Stand-by Agreement came into effect on 31 March 2011. Since then six reviews were completed and the IMF Board of Executive Directors approved the revised Letters of Intent as well as the Technical Memoranda of Understanding. As a consequence, SDR 2.640 billion (approximately EUR 3.2 billion, or about USD 4.1 billion) is readily available to Romania and can be disbursed to the NBR on demand. In completion of the September review in 2012, the Executive Board also approved a waiver for the non-observance of a performance criterion regarding central government and social security domestic arrears and the change to the performance criterion concerning the net foreign assets of the central bank.

The seventh review under the Stand-by Agreement was conducted during 15–29 January 2013, following postponement in light of parliamentary elections that took place on 9 December 2012.

According to the statement of IMF and the EC released on 29 January 2013 on the review of Romania's economic program, agreement was reached, at staff level, on corrective actions that are needed to achieve the objectives of the programme, notably regarding the reduction of government payment arrears and public enterprise reform, and on the 2013 draft budget. In view of the time needed to take these measures and complete the reviews successfully, the Romanian authorities will request a three-month extension of their programme with the IMF. This should also facilitate the completion of the last review by the EU.

The statement also provides that preliminary estimates suggest that real GDP growth in 2012 was almost flat and that in 2013, growth is projected to pick up to around 1.6 percent, mainly driven by domestic demand. Inflation increased to 5 percent at the end of 2012, partly due to higher food prices following the bad harvest, and is expected to come down in the second half of 2013 to slightly above 3.5 percent by year-end. The current account deficit is expected to remain around 4 percent of GDP in 2013.

The IMF and the EC concluded that the fiscal imbalances that built up before the global financial crisis have been largely corrected. Preliminary estimates suggest that the 2012 budget deficit in accrual terms was reduced to below 3 percent of GDP—as planned. However, the cash deficit target was missed, mainly due to suspensions of reimbursements for some EU-funded projects due to past irregularities discovered by the Romanian audit authorities.

Based on the IMF/EC statement, the 2013 budget targets a deficit of 2.4 percent of GDP in accrual terms and 2.1 percent in cash terms. The budget allows for the increase of public sector wages so as to restore them to pre-crisis levels, a 4 percent increase in pensions, and also includes a significant allocation to reduce payment periods in health care to 60 days, in line with the EU Late Payments Directive (7/2011/EU). Revenue measures include some reductions in tax deductions, improved taxation of agriculture, and making the turnover tax of 3 percent on small enterprises mandatory. The minimum wage will increase from RON 700 by RON 50 on February 1, and then by another RON 50 on July 1.

With respect to the public enterprise reform, the IMF/EC statement provides that the Romanian authorities expressed their commitment to resume such reform: the secondary public offering of 15 percent of the capital of Transgaz will be finalized in the coming months and a majority share in CFR Marfa will be sold to a strategic investor. As agreed, Oltchim has been put into insolvency (for further details see "*The Romanian Economy—Office for State Ownership and Privatisation in Industry*") . Efforts to appoint professional boards and managers in public enterprises will be stepped up. The roadmaps for electricity and natural gas price deregulation will be strictly followed, while measures will be taken to protect the most vulnerable households.

*Memorandum of Understanding ("**MoU**")*

The Memorandum of Understanding ("**MoU**") and the financial terms of the loan agreement (the "**Loan Agreement**") between the EC and Romania, which is based on the provisions of the MoU, were approved by the Government on 30 June 2009. The Loan Agreement provides for a series of 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 27 July 2009: EUR 1.5 billion, repayable in January 2015, with an interest rate of 3.125 per cent. p.a.;
- 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.;
- on 22 June 2011: EUR 0.15 billion, repayable in October 2018, with an interest rate of 3.125 per cent. p.a.

On 12 May 2011, the Council of the European Union adopted a decision to make available precautionary medium-term financial assistance of up to EUR 1.4 billion for Romania. The EU assistance for Romania under the Balance of Payments facility comes in conjunction with IMF support through the Stand-by Agreement in the amount of SDR 3,090.6 billion (*Please refer to section "Stand-by Agreement" above*), approved on 25 March 2011, which the authorities will also treat as precautionary.

Two Supplemental Memoranda of Understanding were subsequently issued.

The latest review of the Loan Agreement took place during 15-29 January 2013 (see *"Stand-by Agreement"* above).

World Bank

According to the Country Partnership Strategy, the World Bank has made available three development policy loans ("**DPLs**"). They were disbursed to the Ministry of Public Finance on 21 October 2009 (DPL1 – EUR 300 mill.), 30 June 2011 (DPL2 – EUR 300 mill.) and 28 December 2011 (DPL3 – EUR 400 mill.) 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 750 million under result based financing for social assistance and health reforms. The result based loan in the amount of EUR 500 million, currently under implementation, 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. The remaining EUR 250 million will support the health sector.

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 will support the Government of Romania's commitments under the EU Fiscal Compact and is available as a fiscal buffer following the successful implementation of the above DPLs.

The DPL-DDO will support 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.

A World Bank loan in amount of about EUR 75 million is currently under preparation. The loan aims to support the tax modernisation process. It will be implemented by NAFA and the withdrawn amounts will be used for budgetary purposes in accordance with the provisions of the public debt legislation.

Expected Strategies and Trends for Public Debt

At the end of December 2012 public debt according to national legislation rose to 41.2 per cent. of GDP, compared with 40.1 per cent. of GDP as at the end of 2011. This is primarily due to financing of the budget deficit, refinancing the public debt and due to guarantees issued under governmental programs.

The budgetary deficit in 2012 (of 2.5 per cent. of GDP) was financed from internal and 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

- privatization receipts.

In terms of external financing of budgetary deficit and refinancing of public debt, the Ministry of Public Finance used the external loans received from the financial package of EUR 19.95 billion agreed with the IMF, the EC and the World Bank, out of which in 2011 approximately EUR 2.05 billion had been drawn, for financing the budget deficit. The current agreements with the IMF and EC are treated as precautionary.

The Issuer ratified a new World Bank loan for social assistance in the amount of EUR 500 million that will be disbursed between 2012 and 2014.

For the period 2012 to 2014, as a result of anticipated economic growth, the public debt according to national legislation is estimated to be below 42.5 per cent. of GDP. In 2014, the level of public debt according to national legislation is estimated to reach about 42.5 per cent. of GDP, while the general government debt according to EU methodology is estimated at 38.6 per cent. of GDP.

In terms of government public debt management, the Government approved in July 2012 its medium term strategy for the period from 2012 to 2014. The main objectives of the approved strategy are: (i) to cover the government financing needs and payment obligations, while minimizing medium and long term costs (to this end, the strategy includes limitations applicable to public debt management, i.e. ceiling of 1.6 per cent. of GDP for the cost of Governmental public debt and a ceiling of 10.5 per cent. for the medium-term servicing of the government public debt); (ii) risk limitation in the government public debt portfolio and (iii) to develop the domestic market of government securities. Over the 2012-2014 reference period, the

Government plans to finance the budget deficit using a balanced approach between domestic and external financing sources.

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 signed a contractual agreement with the World Bank treasury for technical assistance, which would be 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 also in the process of developing tertiary legislation for the use of financial derivatives. In the near future, Romania anticipates limiting its usage of financial derivatives for the purposes of the administration of its public indebtedness.

Credit Ratings

In May 2012, Standard & Poor's Ratings Services affirmed its 'BB+/B' long and short-term foreign and local currency sovereign credit ratings on Romania. The transfer and convertibility assessment is 'BBB+'. The ratings are supported by the country's improving fundamentals; the fiscal deficit is declining, the current account deficit has narrowed, and the economy has started to rebalance, with the support of an IMF programme.

In June 2012, Fitch Ratings affirmed Romania's Long-term foreign currency Issuer Default Rating ("**IDR**") at 'BBB-', and its Long-term local currency IDR at 'BBB'. Fitch has simultaneously affirmed Romania's Short-term rating of 'F3' and Country Ceiling of 'BBB+'. The affirmation of the ratings reflects the country's implementation of substantial fiscal consolidation.

In June 2012, Moody's kept unchanged the Baa3 ratings for long term (local and foreign-currency) as well as the Prime-3 ratings on the government's short-term local and foreign-currency debt but noted Romania's ties to the Eurozone, relatively high level of foreign currency debt and significant annual external debt repayment obligations.

In December 2011, Japan Credit Rating Agency affirmed Romania's rating of "BBB-"/"BBB" (FC/LC). The ratings primarily reflect Romania's reduction of its fiscal deficit through progress made on structural reforms and low government debt.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for budget deficit financing and redemption of public debt.

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. 571/2003 on the fiscal code as subsequently amended and supplemented (the "**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; 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.

By way of exception to (a) to (d) above, neither a foreign citizen enjoying diplomatic or consular regime within Romania, nor a foreign citizen who is an employee or officer of an international or intergovernmental organisation registered in Romania, nor a foreign citizen who is an officer or an employee of a foreign state in Romania, nor their family members will be deemed to be resident natural persons in Romania.

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 outside the territory of Romania 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.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The EC has proposed certain amendments to this Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

U.S. FEDERAL INCOME TAXATION

The discussion of U.S. federal income tax matters in this Information Memorandum is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal tax penalties, and was written to support the promotion or marketing of the Programme. Each taxpayer should seek advice based on such person's particular circumstances from an independent tax advisor.

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);
- Notes with an original maturity of 30 years or less; 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;
- 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 (the "**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 repeated, 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. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes, which are not being marketed to U.S. persons. U.S. Holders should consult their own tax advisors 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. Partners of partnerships holding Notes should consult with their tax advisors regarding the U.S. federal income tax consequences of an investment in the Notes.

The discussion of U.S. federal income tax consequences set out below is for general information only. All prospective purchasers should consult their tax advisors as to the particular tax consequences to them of owning the Notes, including their eligibility for the benefits of the U.S.-Romanian Income Tax Treaty (the "Treaty"), the applicability and effect of state, local, foreign 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 will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their own tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount ("**OID**") Notes and foreign currency Notes are described under "*— Original Issue Discount*," "*— Contingent Payment Debt Instruments*," 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 an 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 that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., 1⁄4 of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to 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 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 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 advisors about making this election in light of their particular circumstances.

Market Discount

If a U.S. Holder purchases 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 nonrecognition 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 certain nontaxable 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.

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 noncontingent principal payments due under the Variable Interest Rate Note by 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) 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*" below for a discussion of the U.S. federal income tax treatment of such Notes.

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 qualified 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 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 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 purposes of computing a U.S. Holder's foreign tax credit limitation. 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 Notes*." 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) 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 Note 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 the Holder's 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 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 noncontingent 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 of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken 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 "*—Reportable Transactions*").

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 amounts 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 advisors 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 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 the taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income 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.

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 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 this election must apply it consistently to all Notes from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortisable bond premium on 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 realised 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 advisor with respect to the 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 realised 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 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 advisors 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 Barclays Bank PLC, BNP PARIBAS, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG, HSBC France, Société Générale, UniCredit Bank AG and any other dealer appointed from time to time (the "**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 11 November 2011 (the "**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 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 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. *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 Financial Services and Markets Act 2000 (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

2. *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.

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.

TRANSFER RESTRICTIONS

Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Registered Notes outside the United States 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 it is located outside the United States (as defined Regulation S);

(ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(iii) it understands that such 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 that 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 one or more QIBs, in each case in accordance with any applicable securities laws of any State of the United States; and

(iv) 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).

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; (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; and (3) the Issuer and the Dealers have not made, and cannot make, any representation as to the availability of the exemption from registration provided by Rule 144;

(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 (THE "**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 ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS 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. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE NOTES;

(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 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 (the "**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 nominal 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 Decision No. 1264/2010 of the Romanian Government passed on 8 December 2010. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the 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, as may be amended or replaced from time to time, concerning the approval of the medium term sovereign notes programme, 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.

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 Dealer Agreement;

(e) the Programme Manual (which contains the forms of the Notes in global and definitive form); and

(f) 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

INDEX OF DEFINED TERMS

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