



Romania

€700,000,000

5.75% Notes due 2010

Issue price: 98.743%

The issue price of the €700,000,000 5.75% Notes due 2010 (the "Notes") of Romania (the "Issuer" or "Romania") is 98.743% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 2nd July 2010. See "Terms and Conditions of the Notes — Redemption and Purchase".

The Notes will bear interest from 2nd July 2003 at the rate of 5.75% per annum payable annually in arrear on 2nd July each year commencing on 2nd July 2004. Payments on the Notes will, subject as provided herein, be made in euro without deduction for or on account of taxes imposed or levied by Romania to the extent described under "Terms and Conditions of the Notes — Taxation".

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denominations of €1,000, €10,000 and €100,000 each. The Notes will initially be in the form of a temporary global note (the "Temporary Global Note"), without interest coupons, which will be deposited on or around 2nd July 2003 (the "Closing Date") with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream, Luxembourg"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "Permanent Global Note"), without interest coupons, not earlier than 40 days after the Closing Date 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. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denominations of €1,000, €10,000 and €100,000 each and with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.

Citigroup

JPMorgan

Deutsche Bank

UBS Investment Bank

This Offering Circular is dated 30th June 2003

The Issuer, having made all reasonable enquiries, has confirmed to Citigroup Global Markets Limited, Deutsche Bank AG London, J.P. Morgan Europe Limited and UBS Limited (together, the "Joint Lead Managers") that this Offering Circular contains all information regarding the Issuer and the Notes which is material in the context of the issue of the Notes, 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 in this Offering Circular on the part of the Issuer are honestly held or made and are not misleading in any material respect and that this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect. The Issuer accepts responsibility for the information contained in this Offering Circular accordingly.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Information under the heading "Romania" includes extracts from information and data publicly released by official and other sources. The Issuer accepts responsibility for the accurate reproduction of such information in this Offering Circular. Updated data has been included where available and such data is subject to further periodic revision. From time to time, external reports, data and information relating to the Issuer and its economic position and prospects may be published. Such reports may include projections or conclusions which are at variance with the information in this Offering Circular.

The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to the date of this Offering Circular. Unless otherwise indicated, all information in this Offering Circular is given as of the date of this Offering Circular.

The Joint Lead Managers of the offering do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances constitute any representation that there has been no adverse change or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) or in the affairs of the Issuer since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers 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 distribution of this Offering Circular and other offering material relating to the Notes, see "Subscription and Sale".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered in the United States or to U.S. persons.

In this Offering Circular, unless otherwise specified, references to "US\$", "U.S. dollars" or "dollars" are to the lawful currency for the time being of the United States of America, references to "Leu" or "Lei" are to the lawful currency for the time being of Romania, references to "Euro", "euro" or "€" are to the single currency introduced in the member states of the European Community which adopted such single currency at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended and references to "Special Drawing Rights" or "SDR" are to the currency of account of the International Monetary Fund ("IMF").

No representation is made that the Lei or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Lei, as the case may be, at the exchange rates referred to herein, at any particular exchange rate or at all. Translations of Lei amounts into U.S. dollars are solely for the convenience of the reader. The U.S. dollar/Lai and the Euro/Lai rates on 19 June 2003 were US\$1=Lai 32,720 and €1=Lai 38,114, respectively.

Certain of the statements contained in this Offering Circular that are not historical facts are “forward-looking” statements, which can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “should”, or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Prospective purchasers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Issuer undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof.

Unless otherwise stated, all annual information, including budgetary information, is based upon calendar years. The Issuer has experienced periods of high and variable rates of inflation. Unless indicated, the information and figures presented in this Offering Circular for prior years have not been restated to reflect such inflation. Potential investors should be aware that the effects of inflation mean that period-to-period comparisons may not be meaningful. See “Romania — Romanian Economy”. Figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary, and figures which are totals may not be an arithmetical aggregate of their components.

In connection with this issue, Deutsche Bank AG London (or any person acting for Deutsche Bank AG London) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Deutsche Bank AG London or any agent of Deutsche Bank AG London to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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Investment Considerations

Prospective investors should carefully review the entire Offering Circular, and in particular the investment considerations set forth below, before making a decision to invest in the Notes.

General

Investors in emerging markets such as Romania should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors should note that a feature of emerging markets such as Romania is that they are subject to rapid change and the information contained in this Offering Circular may become outdated relatively quickly.

Investment Considerations Relating to Romania

Political and Economic Considerations

Romania has over recent years undergone substantial political transformation, and in parallel with this transformation, Romania has pursued a programme of economic structural reform, designed to establish a free market economy through privatisation of state-owned enterprises and deregulation of the economy. There can be no assurance that the political initiatives necessary to achieve such a transformation or that such economic reforms or other reforms described elsewhere in this Offering Circular will be pursued or will achieve their intended aims.

Romania returned to positive GDP growth since 2000, but there can be no assurance that the positive growth trend will continue. Without the required reforms, Romanian Gross Domestic Product ("GDP"), which declined in each of the three years 1997 to 1999, could fall again. See "Romania — The Romanian Economy" below.

A significant issue facing Romanian economy is the high level of nominal inter-enterprise and budgetary arrears. The Ministry of Public Finances estimates that as at the end of 2001, arrears constituted approximately 35.7% of GDP, compared with 33.7% in 1997. A substantial proportion of these arrears are owed to the state and local budgets, and such arrears could act as a stimulant to inflation.

Economic Transition

Romania has made progress in the transition from a command economy to a market economy, and has experienced some success in implementing a stricter fiscal and monetary policy. Nevertheless, Romanian economic performance continues to be marked by certain areas of concern. The privatisation and restructuring process has proceeded more slowly than expected and the pace of reform is subject to political and economic factors. Costs incurred by the Government in relation to the restructuring and privatisation process may be significant. For a more detailed discussion of Romania's restructuring and privatisation progress, see "Romania — Structure of the Economy — Restructuring and Privatisation" below.

Social Unrest

The transition to a market economy has caused increased levels of unemployment. Unemployment may continue to rise as restructuring of unprofitable state-owned enterprises continues. This has resulted in labour unrest, with strikes and industrial action in some sectors, which could continue if the general economic situation does not improve. See "Romania — The Romanian Economy — Prices, Inflation, Wages and Employment" below.

Inflation

Inflation levels have been persistently high since 1990. Year-on-year inflation reached 17.8% at the end of 2002, representing a fall from the level recorded in 2001 of 30.3% and in 2000 of 40.7%. The Government's target for 2003 is 14.0% (year-on-year), although there can be no assurance that such target will be met.

Budget Deficit

Budget deficits have been recorded during each year since 1989. The budget deficit for 2002 (which includes central government, social security, local and other budgets) was 2.5% of GDP compared with 3.2% in 2001.

The budget deficit target for 2003 is 2.6% of GDP, although there can be no guarantee that the deficit will not exceed this target.

External Financing

Romania has reached agreements with the IMF, the World Bank and other international institutions on arrangements to obtain additional borrowing with which to meet some of its financing needs. The most recent stand-by agreement with the IMF was concluded in October 2001. Such arrangements with these institutions typically provide that drawdowns of funds will be conditional on Romania's fulfilment of a variety of economic and legislative goals. Failure to achieve such goals, and consequent inability to make drawdowns, could require Romania to seek other borrowing which might not be available at favourable terms, or at all. See "Relationships with Multilateral Financial Institutions and Financial Assistance Programmes" below.

European Union Negotiations

Romania is currently in negotiations for accession to the European Union (the "EU"). The target date set by the Romanian Government for accession to the EU is 1st January 2007. However, accession depends on a number of economic and political factors relating to both Romania and the EU and therefore there can be no guarantee that this target date will be achieved. See "Romania — International Relations" below.

Exchange Rate

The Leu has depreciated during each of the past five years, from the average exchange rate for 1998 of Lei 8,875.55 = US\$1.00 to the current exchange rate of Lei 32,720 = US\$1.00 and Lei 38,114 = €1.00 (as at 19 June 2003). The average annual exchange rate for 2002 was Lei 33,055 = US\$1.00 and Lei 31,255 = €1.00. The Government's target for 2003 is an average annual exchange rate of Lei 34,210 = US\$1.00. There can be no assurance that such rate will be achieved.

Statistics

Although a range of government ministries, along with the National Bank of Romania ("NBR") and the National Institute of Statistics, produce statistics on Romania and its economy, employing their best endeavours, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. This is partially due to the presence of the shadow economy and the existence of transactions not officially reported, which may have an impact on the reliability of the statistical information. Potential investors should also be aware that none of these statistics have been independently verified by any of the Managers. Statistical data appearing in this document has, unless otherwise stated, been obtained from or by the Ministry of Public Finances of Romania. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and consequently the resulting data may vary from source to source. In some cases, official statistical data for 2002 is not available as of the date of this Offering Circular. Consequently, certain references to 2002 figures are merely provisional figures or estimates by Romania based on the unofficial data available as at the date hereof.

Unless indicated, the information and figures presented in this Offering Circular have not been restated to reflect the effects of inflation. Thus, potential investors should be aware that distortions caused by inflation are present in such figures and information. As a result period-to-period comparisons may not be meaningful. See "Romania — The Romanian Economy — Inflation and Employment" below.

Investment Considerations Relating to the Notes

No Existing Market/Market Volatility

Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by Romanian issuers is influenced by economic and market conditions in other Central and Eastern European countries and other emerging markets. Events relating to such markets, even unrelated to Romania, may cause market volatility and such volatility may adversely affect the price of the Notes.

Credit Rating

Outstanding debt securities in foreign currency of Romania are rated B1 (outlook stable) by Moody's Investors' Service, BB- (outlook positive) by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. and BB- (outlook stable) by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Any change in Romania's credit rating could adversely affect the market price of the Notes.

Terms and Conditions of the Notes

The following is the text of the Terms and Conditions of the Notes which will be endorsed on each Note in definitive form:

The €700,000,000 5.75% Notes due 2010 (the "Notes", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Romania, acting through the Ministry of Public Finances (the "Issuer") are the subject of a fiscal agency agreement dated 2nd July 2003 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, Deutsche Bank AG London as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (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 during normal business hours at the Specified Offices (as defined below) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are in bearer form in the denominations of €1,000, €10,000 and €100,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. 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 any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2. Status

The Notes constitute direct, general, unconditional, (subject to the provisions of Condition 3) unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Issuer save for such obligations as may be preferred by mandatory provisions of applicable law.

3. 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 (as defined below) 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 the 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.

“Security Interest” means lien, pledge, mortgage, security interest, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest.

4. Interest

The Notes bear interest from 2nd July 2003 (the “Interest Commencement Date”) at the rate of 5.75% per annum, payable in arrear on 2nd July in each year (each, an “Interest Payment Date”) from and including 2nd July 2004, subject as provided in Condition 6.

Each Note will cease to bear interest from the expiry of the day immediately preceding the day on which they are due for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case the Note will continue to bear interest at such rate (as well after as before judgment) until 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, but in no event shall the Notes continue to bear interest beyond the fourteenth day after a notice given in accordance with Condition 14 has been published, to the effect that all funds necessary for the full redemption of the Notes have been provided to the Fiscal Agent.

Where interest is required to be calculated in respect of a period ending on a date other than an Interest Payment Date, it shall be calculated on the basis of the actual number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to, but excluding, the relevant payment date divided by the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to, but excluding, the next scheduled Interest Payment Date.

5. Redemption and Purchase

(a) Scheduled redemption

Unless previously purchased and cancelled, the Notes will be redeemed at their principal amount on 2nd July 2010, subject as provided in Condition 6.

(b) Purchase and Cancellation

The Issuer and its Agencies (as defined below) may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold. Any Notes so purchased, while held by or on behalf of the Issuer or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so cancelled will not be reissued.

In this Condition 5(b), “Agency” means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Issuer and the government thereof (whether or not such statutory corporation is autonomous).

6. Payments

(a) Principal

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by 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 Participating Member State of the European Communities.

(b) Interest

Payments of interest shall, subject to paragraph (f) 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 subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) Deduction for unmatured Coupons

If a Note is presented without all unmatured Coupons relating thereto, 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 principal amount of such Note, 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 principal amount of such Note. 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.

(e) Payments on business days

If the due date for payment of any amount in respect of any Note or Coupon is not a 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 business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means, in respect of any place of presentation, any day which is a day on which banks are open for business in such place of presentation and a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET) is operating.

(f) 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.

(g) Partial payments

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

"Specified Office" means in relation to any Paying Agent the office specified against its name at the end of these terms and conditions or such other office as the Paying Agent may specify pursuant to the terms of the Agency Agreement.

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Romania or any political subdivision or any authority thereof or therein having power to tax (together "Taxes"), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

- (a) held by a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with Romania other than the mere holding of such Note; or
- (b) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Notes or Coupons to another Paying Agent in a Member State of the European Union.

In these Conditions, "Relevant Date" means 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 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.

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 7.

8. Events of Default

If any of the following events ("Events of Default") occurs and is continuing, the Holder of any Note may, upon written notice to the Fiscal Agent given before all defaults in respect of the Notes shall have been cured, declare such Note to be immediately due and payable, together with accrued interest thereon:

- (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 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 US\$25,000,000 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.

Any notice declaring the Notes due in accordance with this Condition 8 shall be made by means of a written declaration delivered by hand or registered mail to the Fiscal Agent.

In the events specified in paragraphs (b), (c), (d) and (e), any notice declaring the Notes due shall, unless at the time such notice is received by the Fiscal Agent the event specified in paragraph (a) or (f) entitling Noteholders to declare their Notes due has occurred and is continuing, become effective only when the Fiscal Agent has received such notices from holders of at least 15% in principal amount of the Notes then outstanding.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes and Coupons

If any Note 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 stock exchange 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 or Coupons must be surrendered before replacements will be issued.

11. Paying Agents

In acting under the Agency Agreement and in connection with the Notes, 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 Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however*, that the Issuer shall at all times maintain a fiscal agent and a paying agent in Luxembourg and if the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 are implemented, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 below.

12. Meetings of Noteholders; Modification and Waiver

(a) 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 a resolution passed by persons holding or representing not less than three quarters of the aggregate principal amount of the outstanding Notes (an "Extraordinary Resolution"). Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however*, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, 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 the Noteholders and Couponholders, whether present or not.

(b) 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.

13. 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 that such Notes may be consolidated and form a single series with the outstanding notes of any series (including the Notes). References in these Conditions to the Notes shall include (unless the context requires otherwise) any other notes issued pursuant to this Condition 13 and forming a single series with the Notes.

14. Notices

(a) Notices to the Noteholders

So long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*) or, if such publication is not practicable, in another 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. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

(b) Notices to the 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 14(a).

15. 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.

16. Governing Law and Jurisdiction

(a) Governing law

The Notes are governed by, and shall be construed in accordance with, English law, except that all matters governing authorisation and execution by Romania are governed by the laws of Romania.

(b) Jurisdiction

The Issuer agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(c) Appropriate forum

The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

(d) Process agent

The Issuer agrees that the process by which any Proceedings are begun 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 the Issuer's behalf, 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.

(e) Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(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 may be 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 laws, including the Romanian Law No. 213/1998 regarding public property and the legal status thereof, provided, however that immunity is not waived in respect of present or future "*premises of the mission*" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, "*consular premises*" as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Issuer related thereto.

17. Third Party Rights

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

Use of Proceeds

The net proceeds of the issue of the Notes, expected to amount to €690,501,000, will be used by the Issuer in order to finance the State Budget deficit and refinance public debt.

Summary of Provisions Relating to the Notes in Global Form

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date 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.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("Definitive Notes") in the denominations of €1,000, €10,000 and €100,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg 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 (b) any of the circumstances described in Condition 8 (*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 attached, 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 at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes or (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes 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 (in the case of (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 a deed of covenant dated 2nd July 2003 (the "Deed of Covenant") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the 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 Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Notices

Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however*, that, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and in a leading English language daily newspaper with general circulation in Europe (which is expected to be the *Financial Times*).

Romania

Territory and Population

Geography

Romania is located in Eastern Central Europe north of the Balkan Peninsula. Neighbouring countries are Hungary, Ukraine, 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. Forests cover 26.7% of the area and 62% is agricultural land. In 2002, forestry and agriculture produced approximately 11.7% of Romania's GDP. The major natural resources are crude oil, timber, natural gas and coal and iron.



Population

Romania has a population of approximately 22.3 million of which 89.5% are Romanian, 6.6% are Hungarian and 3.9% are others. The major religious affiliations of the population are: Orthodox (86.7%), Roman-Catholic (4.7%), Reformed (3.2%), and Greek-Catholic (0.9%). More than half of the population (52.7%) live in towns. There are 24 cities exceeding 100,000 inhabitants, and there are eight cities whose population exceeds 300,000. Romania's capital, Bucharest, has a population of approximately two million. As of 1st July 2001, approximately 41.9% of the population was under 30 years of age. However, after 1989 Romania experienced a decline in the birth rate. The 2001 birth rate was 9.8 births per 1,000 people, a significant decrease from the 1989 birth rate of 16.0 births per 1,000 people.

Education is compulsory for those between ages 7 and 16. In 2001/2002 those enrolled in public and private education numbered approximately 4,526,900, representing almost 20.3% of Romania's population. The literacy rate is estimated to exceed 97%.

Political System

History and Constitution

During the Middle Ages and until the 1800s, the current territory of Romania was divided into three states — the Principality of Wallachia (*Tara Romaneasca*) in the south, the Principality of Moldova in the East, and the Principality of Transylvania in the North-West (inside the Carpathian Arch). The three states were for the first time brought together under the rule of Wallachian Prince Mihai the Brave in 1600, but their union did not survive Prince Mihai's death. The three states struggled for centuries for their independence, but they eventually became vassals of the Ottoman Empire while preserving their separate statehood. Transylvania came under Austrian control at the end of the 17th century, while Wallachia and Moldova remained under Ottoman dominance until well into the 19th century.

The birth of the modern Romanian state was recorded in 1859, when Wallachia and Moldova became united by each of them electing as Prince Alexandru Ioan Cuza. In 1866, Prussian Carol of Hohenzollern became Prince Carol I of Romania. In 1877, Romania declared its independence from the Ottoman Empire, which was confirmed as a result of the Balkan War of 1877–1878. In 1881, the country officially became the Kingdom of Romania. Its constitution provided for a democratic (if census based) system of government.

On 1st December 1918, in the aftermath of the First World War, Transylvania and a few other territories formerly under Austro-Hungarian dominance became united to Romania, thus unifying all of the provinces inhabited by Romanians in one state.

After the First World War, the constitution provided for universal voting in the elections for Parliament. Romania continued as a democratic constitutional monarchy until 1938, when King Carol II instituted his personal dictatorship. In 1940, King Carol II was forced to abdicate in favour of his son Mihai, then still a minor, while the Government was taken over by General Ion Antonescu as a military dictator. Under the dictatorship of General Antonescu, Romania took part in the Second World War as an ally of Germany. On 23rd August 1944, General Antonescu was demoted and Romania henceforth participated in the war effort on the side of the Allies.

Following the Second World War, Romania fell under the sphere of influence of the Soviet Union. Under communist pressure, the monarchy was abolished on 30th December 1947.

In the period from 1948 to 1989, Romania had a communist-style government which ruled under successive constitutions; the Constitution of the Romanian Peoples' Republic (13th April 1948 and 27th September 1952) and the Constitution of the Socialist Republic of Romania (21st August 1965). Under these acts, the Romanian Communist Party was the leading political force in the country and there was no separation of executive, legislative and judicial powers. The economy functioned under a central planning system.

In December 1989, a popular revolt led to the downfall of the communist government. Non-communist political parties were then established and the first free elections in the country since 1947 were held. On 21st November 1991, a new constitution was adopted by Parliament, which was validated by a referendum on 8th December 1991. The constitution established three separate governmental powers, the legislative, the executive and the judiciary and provided for parliamentary democracy. Romania has a bicameral parliamentary system. The lower house is the Chamber of Deputies which has 347 seats and the upper house is the Senate which has 140 seats. Parliament's mandate lasts for four years after which general elections must be held.

Romania's President is the head of state and is elected every four years. He nominates the Prime Minister and appoints the government on the basis of a vote of confidence by Parliament. He may dissolve Parliament

under certain conditions and order referenda on matters of national interest. He may sign international treaties in the name of Romania. He is the President of the Supreme Defence Council and is commander of the armed forces. He also appoints three out of the nine judges to the Constitutional Court.

Government

The Government of Romania is composed of the Prime Minister and his cabinet. Typically, the strongest party in Parliament is invited to form a government and chooses the Prime Minister, subject to approval by the President. The Prime Minister as head of the Government has the right to present legislative initiatives to Parliament. Each cabinet appointment is subject to the approval of the President. Each Minister within the cabinet is given a specific portfolio within the Government's mandate.

Local administration is conducted through the 42 *judete* or counties, including the municipality of Bucharest, which is also a separate administrative unit with county administrations. There are 263 cities and towns and 2,688 other local administration authorities. Most city and regional councils are responsible for providing education, social services and basic utilities within their territory.

Legislative Branch

Parliament is the country's chief law-making body. It passes constitutional, organic and ordinary laws. Legislative initiative is with the Government, Deputies and Senators or with a quorum of not less than 250,000 citizens. The conditions subject to which citizens may exercise their right to legislative initiative are regulated under Law 189/1999. Laws are submitted for promulgation to the President. Laws come into force as of the date of their publication in the Official Gazette or on the date set forth therein.

Judicial Branch

The 1991 constitution provides for an independent judicial system. This judicial system is made up of the Constitutional Court, Supreme Court of Justice, courts of appeals, county tribunals, lower courts and military tribunals. All courts are composed of professional judges. Judges are appointed by the President on the recommendation of the Superior Council of Magistrates. The Constitutional Court rules on the constitutionality of laws before their promulgation and also after promulgation when the constitutionality of specific laws is a key issue in matters brought before ordinary courts. The judges of the Constitutional Court are appointed for nine year terms by the President (three judges) and each of the two chambers of Parliament (three judges each).

Political Parties and Elections

The presidential election in November 2000 was won by Mr. Ion Iliescu, the candidate of the Party for Social Democracy in Romania ("PDSR") who polled 66.83% of the votes. The most recent general election was held on 26th November 2000. Following the parliamentary elections, the largest and leading political force in both the Chamber of Deputies and the Senate is the PDSR. For the purposes of running in the 2000 elections, the PDSR formed an alliance, the Social Democrat Pole, with the Romanian Social Democrat Party ("PSDR") and the Romanian Humanist Party ("PUR"). On 17th June 2001, the PDSR and the PSDR decided to merge. As a result, the PSDR ceased to exist, while the PDSR changed its name to the Social Democrat Party ("PSD"). The PSD holds 159 seats in the Chamber of Deputies and 62 seats in the Senate.

The following is the current structure of the two-chamber Parliament:

Party	Chamber of Deputies	Senate
Social Democrat Party ("PSD")	159	62
Greater Romania Party ("PRM")	70	36
Democratic Party ("PD")	27	9
National Liberal Party ("PNL")	26	13
Hungarian Democratic Union of Romania ("UDMR")	27	12
Minorities	18	—
Romanian Humanist Party ("PUR")	10	3
Independents	7	5
Total	344	140

The PSD formed a minority government, led by Adrian Nastase, the president of the PSD, as prime minister. The PSD signed bilateral protocols with the centre right UDMR and the PNL, in which these opposition parties agreed not to support any vote of no confidence for a period of one year in return for certain concessions from the PSD. In its agreement with the UDMR, the PSD undertook to respect the rights of minorities, in

particular in the use of minority languages in places where the minority constitutes at least 20% of the population. The PNL pledged its support in return for certain social and economic reforms. The protocol between the PSD and the PNL was broken on 17th May 2001, when the PNL submitted a vote of no confidence against the Government jointly with PD. The PRM is the largest opposition party.

On 19th June 2003, the Parliament approved the proposal of the Prime Minister to restructure the Government, involving a reduction in the total number of Ministries from 23 to 14 and a change of certain Ministers. The restructuring is aimed at increasing the operational efficiency of the Government and is not expected to result in a significant change of policy.

The following is a list of the proposed members of the Government, each of whom is a member of the ruling party:

Position	Held by
<i>Prime Minister</i>	Adrian Nastase
<i>Government Positions</i>	
Minister of Administration and Internal Affairs	Ioan Rus
Minister of Agriculture, Forests, Water and Environment	Ilie Sarbu
Minister of Communications and Information Technology	Dan Nica
Minister of Culture and Religion	Razvan Theodorescu
Minister of Economy and Trade	Dan Ioan Popescu
Minister of Education, Research and Youth	Alexandru Athanasiu
Minister of European Integration	Hildegard Puwak
Minister of Foreign Affairs	Mircea Geoana
Minister of Health	Mircea Beuran
Minister of Justice	Rodica Stanoiu
Minister of Labour, Social Solidarity and Family	Elena Dumitru
Minister of National Defence	Ioan Mircea Pascu
Minister of Public Finances	Mihai Tanasescu
Minister of Transport, Constructions and Tourism	Miron Mitrea
Minister for the Coordination of the General Secretarial Office of the Government*	Petru Serban Mihailescu
Minister Delegate for the Coordination of Control Authorities*	Ionel Blanculescu
Minister Delegate — Negotiator in Chief at the European Union*	Vasile Puscas
Minister Delegate for the Relationship with the Parliament*	Acsinte Gaspar
Minister Delegate for Public Administration*	Gabriel Oprea
Minister Delegate for the Relationship with Social Partners*	Marian Sarbu
Minister Delegate for Trade*	Eugen Dijmarescu

(*) Denotes a member of the Government not connected with a particular ministry.

The Government intends to continue to adopt economic structural reforms to promote the growth of a market economy, with special measures to assist small and medium-sized enterprises. Economic policy is intended to promote real economic growth and declining inflation. The Government also plans to implement measures aimed at reducing poverty and unemployment, improving child and health care and to engage in pension reform.

Starting in 2000, the Government has placed greater emphasis on fighting corruption and ensuring transparency in the decision making process both at governmental and local level. Similarly, the Government is seeking to improve the business environment. To this end it has established a new legislative framework, including Law No. 78/2000, regarding the prevention and punishment of the corruption offences, and Government Emergency Ordinance No. 43/2002 regarding the establishment of the National Anti-corruption Prosecutor's Offices. Law No. 161/2003 was passed recently, with the aim of improving the business environment and streamlining public administration so as to achieve better transparency and fairness.

In terms of foreign policy, the Government plans to cultivate relations with all of its neighbours, take an active role in multilateral institutions, to accelerate Romania's adoption of EU integration measures and to negotiate for entry into the EU in 2007. Although these are the current announced intentions of the Government, there can be no assurance that the Government will be able to, or may decide that for certain reasons it will not, implement these policies.

International Relations

Romania maintains diplomatic relations with 175 countries and has 131 embassies, permanent missions and consular offices abroad. Romania is an active member of the United Nations and has been involved in UN peacekeeping and humanitarian operations, including missions in Albania and Serbia and Montenegro.

Romania is a member of several international organisations, including the IMF, the International Bank for Reconstruction and Development ("IBRD"), the International Finance Corporation ("IFC"), the Multilateral Investment Guarantee Agency ("MIGA"), the European Bank for Reconstruction and Development ("EBRD"), the Bank for International Settlements ("BIS") and the World Trade Organisation ("WTO").

A basic foreign policy objective of Romania is integration into the European and Euro-Atlantic political, economic and security structures. Significant development towards achieving this goal has already been made. On 26th January 1994, Romania was the first Central European country to sign the North Atlantic Treaty Organisation ("NATO") Partnership for Peace. Full membership of NATO is a stated goal of the Government. Romania was invited to join NATO at the NATO summit in Prague, held in November 2002. Romania's accession to NATO is currently being ratified by the NATO member countries.

Since 1993, Romania has been a full member of the Council of Europe and is now seeking membership of the Organisation for Economic Co-operation and Development (the "OECD"). In addition, Romania's foreign policy is targeted toward developing normal relations and expanding co-operation with the other Central and East European countries, and with states of the former Soviet Union. Free trade agreements have been signed with the Czech Republic, Slovakia and the Republic of Moldova. On 1st June 1996, Romania joined the Central European initiative, which currently consists of 16 countries: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Italy, Macedonia, Moldova, Poland, Romania, Slovakia, Slovenia and the Ukraine. In July 1997, Romania joined the Central European Free Trade Association ("CEFTA").

On 1st February 1993, Romania signed an Association Agreement with the European Union (the "EU") and on 22nd June 1995 submitted its official application to join the EU. In December 1999, the European Council meeting in Helsinki decided to commence negotiations with Romania for admittance to the EU. In February 2000, the official opening of negotiations for Romania's admission took place at the level of the EU Council for General Affairs. So far, Romania has begun negotiations for 30 chapters of the *acquis communautaire*, 19 of which have already been provisionally closed, upon agreement being reached on the measures to be implemented and their respective timetable. There is currently one additional chapter on which negotiations are yet to begin. The most recently provisionally closed chapters are: free movement of capital and taxation and free movement of goods. In the second half of 2003, Romania aims provisionally to close six other chapters, including those covering free movement of services and financial control. The Government has announced that its goal is to conclude negotiations on all chapters by October 2004.

Romania's progress towards membership of the EU is reviewed by the European Commission on an annual basis. The most recent report was published on 9th October 2002. The report noted that progress had been made in some areas, for example, in launching a major programme of administrative reform, but the report also concluded that greater progress was needed in other areas, such as the fight against corruption and the improvement of the decision making and legislative process. With respect to the economy, the report noted that Romania has made progress towards establishing a functioning market economy for which the prospects have improved, and that completion of the reform agenda should allow Romania to be able to cope with competitive pressures and market forces within the EU in the medium term. The report also noted that Romania's reform agenda remains considerable, with fighting inflation and tightening the financial discipline of enterprises to prevent the accumulation of arrears being highlighted as priorities. The Government is committed to pursuing a policy of further integration with the EU, with the goal of membership of the EU by 2007. In its strategy paper and report "Towards the Enlarged Union", published on 9th October 2002, the European Commission noted that the commitments made by Romania in the negotiations are with a view to accession in 2007 and are generally being met. A "roadmap" for Romania's accession was published by the European Commission on 13th November 2002. The stated purpose of the "roadmap" is to support Romania in achieving its objective of joining the EU in 2007. The "roadmap" indicates the main steps that Romania needs to take to be ready for membership, with a particular focus on administrative and judicial issues and economic reform. These steps are staged over the short and medium term, or up to Romania's accession to the EU, and address specific issues in relation to each of the 30 negotiation chapters of the *acquis communautaire*. In the economic reform area, the European Commission will be responsible for monitoring progress made by Romania by reference to certain benchmarks including, but not limited to: rate of inflation, inter-enterprise arrears, collection rates in the energy sector, reform of tax regulations and tax administration, enforcement of property rights, privatisation, and infrastructure investments. To support

these efforts, the Commission proposed a progressive increase in the EU's financial assistance. The "roadmap" was approved by the Council of Ministers and the European Council in Copenhagen on 12th–13th December 2002.

In 2001, Romania acted as president of the Organisation for Security and Co-operation in Europe (the "OSCE") with the foreign minister, Mircea Geoana, acting as its chairman. In July 2000, Mr. Adrian Severin was appointed President of the OSCE's Parliamentary Assembly. His mandate lasted for two years.

Romania has concluded bilateral treaties with Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Georgia, Hungary, Lithuania, Poland, Slovakia, Turkey, the Ukraine, Uzbekistan, Serbia and Montenegro. At the beginning of 2003, Romania concluded negotiations on a bilateral treaty with the Russian Federation, which is to be signed later this year.

Romania's relations with the Republic of Moldova are based on full respect for its independence and sovereignty. Given that two thirds of the population of Moldova is of Romanian origin and due to the historical, cultural and linguistic heritage of the two countries, special economic and cultural relations are favoured by both countries and Romania believes in the need to promote close relations with the Republic of Moldova and to foster economic integration and common cultural ties.

The Romanian Economy

Economic Performance

– 1990 to 1997

Economic reform in Romania began in 1990 after the collapse of the communist regime in 1989. As a result of a long period of economic hardship under a centrally controlled economy, the Government decided in 1990 to institute a process of gradual economic reforms. Among other things, the Government liberalised prices, reduced government subsidies, returned agricultural land to former owners or their heirs, created a two-tier banking system and modernised the tax system.

The period between 1990 and 1993 was marked by large reductions in exports (primarily as a result of a loss of major trading partners such as the Soviet Union, Iraq and former Yugoslavia), increased imports, current account deficits, high inflation and declining real GDP. In late 1993, the Government adopted more stringent measures to reduce inflation and improve general economic conditions. Throughout 1994 and 1995, the economy benefited from the recovery which began in late 1993. Exports increased significantly as did domestic demand while year-on-year inflation decreased from 61.7% in 1994 to 27.8% in 1995. Real annual growth in GDP was 3.9% in 1994 and 7.1% in 1995. However, economic growth was not accompanied by significant progress in the process of restructuring and privatisation of the state-owned companies. At the same time, prices for certain staples continued to be controlled by the Government during this period.

Romania's budget deficit rose significantly in the run-up to the elections in 1996, and this, combined with subsidised credits for agriculture, led to an acceleration of money supply growth. The year-on-year inflation rate increased to 56.9% in December 1996. Romania's economy continued to grow in 1996 (3.9% real annual growth rate in GDP), although at a slower rate than in 1995.

In 1997, the newly-elected government instituted an economic stabilisation programme. This programme was aimed at reducing the total consolidated general government deficit by approximately 3% of GDP. In addition, the Government introduced sharp rises in administered prices, notably for energy and agricultural products. Due to these price corrections, year-on-year inflation as at December 1997 rose at a level of 151.4%. In 1997, GDP declined by 6.1% from 1996 levels.

– 1998

Romania experienced negative economic growth in 1998, (4.8% GDP decline compared with 1997). Reductions in industrial output (–13.8%) and agricultural output (–7.6%) were the main contributing factors to the reduction in the GDP. Another relevant factor was the high trade deficit, which increased to US\$3,228 million (including the service balance) in 1998 from US\$2,361 million in 1997. The pace of privatisation increased towards the end of the year. At the end of 1998, the general consolidated budget deficit was 3.0% of GDP.

– 1999

In 1999, Romania made substantial progress in macroeconomic stabilisation despite difficult conditions. The year-on-year inflation rate reached 54.8%, largely as a result of the depreciation of the Leu which prompted a significant increase in prices in the final quarter of 1999. GDP contracted again in 1999 (a GDP decline of 1.2% compared to 1998). Industrial output decreased by 2.4%, although agricultural production increased 5.2%. The main achievement was a significant reduction in the current account deficit, which decreased to

approximately US\$1.4 billion, half of the 1998 level of approximately US\$2.9 billion. The consolidated budget deficit stood at 1.8% of GDP in 1999.

– 2000

In 2000, the Romanian economy witnessed a reversal in the previous trend of decline. The recovery was driven mainly by the growth in exports, which increased in 2000 by 22.1% over 1999, and related industrial output growth. Gross value added in industry grew by 5.9% in 2000 compared with the same period in 1999, with the fastest growth in those sectors producing goods for export markets, such as clothing, and those providing inputs to export sectors. Agricultural output fell in 2000 due to a severe drought. However, GDP growth in 2000 was 2.1% due to the increase in gross value added in industry, services and construction. Year-on-year inflation in 2000 was 40.7%. In 2000, approximately 1,341 companies were privatised. Consolidated budget deficit was 4.0% of GDP.

– 2001

In 2001, the Romanian economy continued to grow. GDP increased by 5.7% (according to revised data) in real terms. The increase was mainly supported by an increase in domestic demand by 8.2% compared to 2000, but also to an increase in exports of goods by 9.8% compared to 2000. Gross value added increased in industry by 7.9%, in agriculture by 25.2% (mainly as a rebound from the extreme drought in 2000) and in construction by 5.3%. Year on year inflation reached 30.3%, broadly in line with the Government's revised target of 30%. The current account deficit widened significantly, to US\$2.22 billion, representing an increase of approximately 64.1% over the previous year, mainly due to a greater increase of imports than exports. Privatisation continued to progress, with 127 companies being privatised in 2001. Consolidated budget deficit was 3.2% of GDP.

– 2002

In 2002, the GDP growth rate is estimated at 4.9%, primarily as a result of an increase in value added in industrial and construction activities (up by 4.2% and by 6.9% respectively, compared with 2001) and a rebound of the services sector (up by 5.3% compared with 2001). Gross value added in agriculture fell by 3.9%. Cumulatively, during 2001-2002, GDP grew by around 11% from 2000, thus offsetting the decline recorded in the 1997–1999 period. The consolidated budget deficit outperformed the target (actual deficit is estimated at 2.5% of GDP, compared with target of 2.6% of GDP) and the actual current account deficit of 2.6% of GDP was below the target of 3.4% of GDP. The 2002 current account deficit was US\$1,573 million, representing 3.4% of GDP, recording a decrease of around 30% compared to the previous year. Exports of goods increased by 21.8%, while imports of goods increased by 14.8%, leading to a trade deficit of US\$4.0 billion, below the level of 2001. At the end of 2002 the inflation rate was 17.8% (year-on-year), lower than the Government's revised target of 21%.

– 2003

For 2003, the GDP growth target is 5.2%, driven mainly by an increase in industrial output of 6.5%, in exports of 10.2% and in domestic demand of 4.8%. The Government's target for 2003 inflation is 14% year-on-year.

The following table shows the main economic indicators for the periods indicated:

	Year ended 31st December				
	2002 ⁽⁵⁾	2001 ⁽⁴⁾	2000 ⁽⁴⁾	1999	1998
GDP ⁽¹⁾	1,512,256.6	1,167,242.8	803,773.1	545,730.0	373,798.2
real annual growth rate (%)	4.9	5.7	2.1	(1.2)	(4.8)
per capita (thousands Lei)	67,539	52,089.5	35,826.4	24,300.0	16,611.2
private sector as % of GDP	66.8	67.9	65.6	63.7	61.4
Industrial output (%) ⁽²⁾	6.0	8.4	7.1	(2.4)	(13.8)
Agricultural output (%) ⁽²⁾	(6.2)	22.7	(14.8)	5.2	(7.6)
Retail sales (%) ⁽²⁾	0.8	1.9	(7.0)	(6.4)	20.6
Balance of current account ⁽³⁾	(1,573.0)	(2,223.0)	(1,355.0)	(1,437.0)	(2,917.0)
External public debt and publicly-guaranteed debt ⁽³⁾ (medium- and long-term)	9,550.9	7,719.4	6,957.0	6,219.3	6,966.9
Central state budget balance ⁽¹⁾	(47,618.1)	(35,762.6)	(27,600.7)	(12,852.5)	(10,085.8)
Annual change in real wages (%) ⁽²⁾	4.5	4.9	4.6	(3.8)	3.6
Average annual inflation rate (%)	22.5	34.5	45.7	45.8	59.1

Notes:

- (1) In billions of Lei at current prices (adjusted figures). The data was revised following the inclusion of special funds in the Central State Budget.
- (2) Percentage of annual change.
- (3) In millions of U.S. dollars.
- (4) Revised data.
- (5) Provisional data.

Sources: National Institute of Statistics, Ministry of Public Finance and National Bank of Romania.

Prices, Inflation, Wages and Employment

The transition to a market-oriented economy has had and continues to have a significant impact on prices, wages and employment.

The increase in consumer prices in 1997 (on average, 154.8%) was sparked by the former Government's programme of eliminating price controls on a wide variety of staple items (including bread, meat, edible oil and medicine) as well as fuel. In addition, there was a significant depreciation of the Leu in 1997 (following the removal of price constraints) with the result that prices rose significantly during 1997.

In 1998, strict monetary controls imposed by the National Bank of Romania ("NBR") helped slow inflation to 40.6% (December 1998 compared to December 1997), or an average annual inflation of 59.1%. A four stage programme of elimination of the cross subsidies in the energy sector was implemented in May 1998. Prices for services also posted a higher than average rise, as did certain administered prices (for items that remain subject to price controls and that are indexed to rise automatically with changes in the consumer price index), such as natural gas. Newly imposed excise duties also caused petroleum prices to rise further.

The average inflation rate was 54.8% as at December 1999 compared to December 1998. This increase was mainly due to corrections in controlled prices, such as rents and electricity, already recorded in the first six months of the year. These corrections were aimed at reducing the explicit and implicit state subsidies and cross-subsidies. The final stage of the elimination of cross-subsidies for energy consumption accounted for another significant correction of the remaining controlled prices that affected the inflation rate in 1999.

The initial inflation target for 2000 was 27% (year-on-year). A combination of factors made this target impossible to achieve. These included the high price of oil on the international markets (which triggered increases in energy prices in Romania), a severe drought (which affected food prices) and increases in public sector wages, and the target was subsequently revised to 40.0%. The inflation rate was 40.7% at the end of December 2000, compared to 54.8% in 1999. The average monthly inflation rate in 2000 was 2.9%, down from 3.7% in 1999.

The Government's initial inflation target for 2001 was 25% (year-on-year) and average annual inflation of 32%. The inflation target was revised upwards to 30% (year-on-year) because of factors such as (i) the disruption to the agro-food markets due to the drought in 2000 and embargos on meat imports from certain countries, which caused an increase in food prices and (ii) further adjustments to controlled prices, especially energy and natural gas prices. Inflation in 2001 reached 30.3% (year-on-year) and average inflation of 34.5%. Average monthly inflation in 2001 was 2.2%, down from 2.9% in 2000.

The target inflation rate for 2002 was set at 22%. The rise in consumer prices was below target, at 17.8% (year-on-year), representing a significant improvement over the 2001 level (30.3%). This was due to a better coordination of fiscal and monetary policies and to lower inflationary expectations, supported by the low depreciation of Leu against the US\$ (6% in nominal terms, end-of-period values). In consumer prices structure, in 2002, more significant increases have been registered in relation to the prices for services and non-food goods, while the prices of food goods registered growth below the level of general index. The monthly average inflation rate dropped from 2.9% in 2000 to 2.2% in 2001 and to 1.4% in 2002.

The inflation target for 2003 is 14%; recent inflation figures indicate that this target should be attainable (the inflation rate for the first five months of 2003 was 4.5% or 14.4% year-on-year).

The following table illustrates the movement of the consumer price index since 1998:

Consumer Price Index					
As at or year ended 31st December					
	2002	2001	2000	1999	1998
			(%)		
<i>Average Increase⁽¹⁾</i>					
Food goods	18.3	35.7	43.7	27.9	48.4
Non-food goods	25.5	33.1	44.0	52.3	60.2
Services	26.8	35.4	53.9	84.0	92.1
Total	22.5	34.5	45.7	45.8	59.1
<i>Year-on-year Increase⁽²⁾</i>					
Food goods	15.8	27.0	45.8	36.7	26.5
Non-food goods	18.8	31.4	37.5	60.2	46.8
Services	21.0	36.2	37.1	94.7	68.2
Total	17.8	30.3	40.7	54.8	40.6

Notes:

(1) As compared to the same period of the previous year.

(2) As compared to the same date of the previous year.

Source: National Institute of Statistics.

Real average annual wages rose in 1998 by 3.6% compared with 1997. In 1999 real average wages decreased by 3.8% compared with 1998. Real average wages increased by 4.6% in 2000. In 2001, real average wages increased by 4.9% compared to 2000 followed by a further increase in 2002 of 4.5% compared with 2001.

In December 2002, the average gross monthly salary was Lei 6,521,578 (approximately US\$194, at an average exchange rate for December 2002 of US\$1=Lei 33,654) and the average net monthly salary was Lei 4,525,696 (approximately US\$134). The minimum monthly gross wage in Romania is currently set at a level of Lei 2,500,000 (approximately US\$74).

The following table illustrates the wage trends since 1998:

Nominal and Real Wage Changes

	Average				
	2002	2001	2000	1999	1998
			(%)		
Increase/(decrease) in average nominal wage earnings per earner ⁽¹⁾	27.3	41.2	47.8	45.7	56.4
Increase/(decrease) in real wage per earner	4.5	4.9	4.6	(3.8)	3.5

Note:

(1) As compared to the previous year.

Source: National Institute of Statistics.

The transition to a market economy in Romania has caused unemployment as production has started to be brought into line with demand and inefficient enterprises have been scaled back or liquidated. The rise in unemployment since 1991 has been exacerbated by the collapse of the former communist bloc market ("COMECON"). Since 1997, unemployment rose steadily, from 6.6% at the end of 1996 to 11.8% in December 1999, due in part to the restructuring of unprofitable enterprises. Unemployment peaked at 12.5% in February 2000, but then gradually declined, reaching 10.5% in December 2000. At the end of 2001, the unemployment rate was 8.8%. The rate of registered unemployment fell to 8.1% at the end of 2002.

The increased unemployment has resulted in a certain level of labour unrest, with sporadic strikes and industrial action by workers in, among others, the mining, transport, healthcare, education and various manufacturing sectors. In most cases, the striking workers and the unions representing their interests have demanded pay increases and improved working conditions, including measures to reduce occupational diseases and injuries. The strikes and industrial action have nevertheless been localised and attempts to organise large-scale, nationwide actions have so far had limited success.

The Government has been forced to bear the cost of the increasing unemployment, in the form of unemployment benefits and other compensatory payments, severance pay, retraining of workers and subsidies to employers, primarily through the unemployment fund. Since 1st March 2003, unemployment benefits are provided for six, nine and twelve months, depending on the contribution period of the relevant person before becoming unemployed, namely from one to five years, from five to 10 years and over 10 years, respectively. With the entering into force of Law 76/2002 in March 2002, the amount of unemployment benefits is a monthly constant tax free value representing 75% of legal gross minimum wage in force at that time. Prior to July 2000, severance payments were granted to employees laid off by companies undergoing restructuring. Employees that were laid-off by reason of restructuring were entitled to compensatory payments representing six, nine or 12 monthly average salaries, and also to regular unemployment benefits after the period for which compensatory payments were available. Such severance payments from the Unemployment Fund totalled Lei 2,700 billion in 1999 and Lei 3,186 billion in 2000.

Since July 2000, only those persons who became unemployed as a result of the collective terminations stipulated in the Plan for the Enforcement of the Company Restructuring and Professional Reorientation Programme ("RICOP") may benefit from compensatory payments from the unemployment fund.

In order to assist unemployed people (including those laid off as a result of restructuring) find different jobs, the Government has started introducing incentives aimed at retraining unemployed persons, making financing available to companies hiring unemployed persons, or to companies undergoing a restructuring plan approved by the Ministry of Labour, and mediation and consulting services. As an additional incentive for small and medium sized enterprises, the profit tax was reduced by 20% for those companies which expand their workforce by 10% compared with the previous year.

The following table illustrates the general composition of employment and unemployment at the end of years 1998 to 2002:

Employment					
As at or year ended 31st December					
	2002	2001	2000	1999	1998
	(in thousands)				
Civilian labour force	n.a.	8,563	8,629	8,420	8,813
Registered unemployed	760.6	826.9	1,007.1	1,130.3	1,025.1
Unemployment rate	8.1%	8.8%	10.5%	11.8%	10.4%

Note:

n.a. means data not available.

Source: National Institute of Statistics.

Structure of the Economy

Over the last five years, the services sector made the largest contribution to the Romanian economy of any single sector. In 2002, it contributed approximately 50% of Gross Value Added ("GVA"). The services sector is composed of many different sub-sectors, including: trade; transportation and telecommunications; finance, banking and insurance; public administration; real estate; education and social assistance. Industry, on aggregate, is the second largest economic sector, with a contribution of approximately 32.5% of GVA in 2002. Agriculture, forestry and fishing play an important role in the Romanian economy. In 2002, agriculture, forestry and fishing represented approximately 13% of GVA. Construction accounted for approximately 5.6% of GVA in 2002.

Following three years of decline, real GDP grew by 2.1% in 2000 compared with 1999. This trend was maintained in 2001 and in 2002, when GDP grew by 5.7% and 4.9%, respectively (compared with the previous year).

Gross value added in industry increased by 7.2% in 2002 compared with 2001, while construction increased by 6.9%. Value added in agriculture decreased by 3.9% largely due to the adverse weather conditions. Value added in services grew by 5.3%.

A substantial informal economy exists and, by its nature, it is difficult to define the extent of this sector. Measures have been introduced to try to bring more of the shadow economy into the registered economy.

The following table shows the breakdown of GDP by various economic sectors:

Sector Composition of GDP					
Year ended 31st December					
	2002⁽¹⁾	2001⁽²⁾	2000⁽³⁾	1999⁽³⁾	1998⁽³⁾
	(Lei billion, current prices)				
Industry.....	439,490.6	328,926.8	219,479.4	135,343.8	98,212.8
Construction.....	75,705.4	57,206.5	39,287.1	27,376.7	19,029.2
Agriculture, forestry, hunting, fishing and fish farming	177,211.0	154,706.0	89,014.4	72,805.2	53,772.9
Services ⁽⁴⁾	675,932.0	513,323.9	372,127.6	253,356.0	166,097.4
Adjustment for imputed output of bank services	(15,501.3)	(11,501.2)	(8,583.5)	(8,406.6)	(5,564.7)
Gross value added	1,352,837.7	1,042,662.7	711,325.1	480,475.1	331,547.6
Taxes on product and customs duties	n.a.	130,626.3	97,114.6	68,848.2	45,666.0
Subsidies on product	n.a.	6,046.2	4,666.6	3,593.1	3,415.4
Gross domestic product	1,512,256.6	1,167,242.8	803,773.1	545,730.2	373,798.2

Notes:

(1) Provisional data.

(2) Revised data.

(3) Final data.

(4) Including: Trade, hotels, restaurants, transportation, storage, food service, telecommunications, public administration, education, health and social assistance, other services.

Source: National Institute of Statistics.

The following table shows the composition of GDP by elements of expenditure and index of GDP (annual data) for the periods indicated:

	Contribution			Index of GDP against Previous Year		
	Year Ended 31st December			Year Ended 31st December		
	2002 ⁽¹⁾	2001 ⁽¹⁾	2000 ⁽²⁾	2002 ⁽¹⁾	2001 ⁽¹⁾	2000 ⁽²⁾
	(%)			(%)		
Final consumption	82.68	85.18	86.16	103.0	106.0	101.5
Household consumption	76.03	78.52	78.95	103.0	106.6	100.2
Consumption by Public Administration	6.65	6.66	7.21	102.1	99.7	120.5
Gross Formation of Capital	23.11	22.58	19.47	—	—	—
Gross Formation of Fixed Capital	21.14	20.47	18.86	108.3	109.1	105.5
Inventory Value	1.97	2.10	0.57	—	—	—
Net exports	(5.79)	(7.75)	(5.63)	—	—	—
<i>GDP</i>	100.0	100.0	100.0	104.9	105.7	102.1

Notes:

(1) Provisional data.

(2) Final data.

Source: National Institute of Statistics.

Industrial Sector

Between 1998 and 1999 industrial production experienced a decline, due to the restructuring process and the closure of unprofitable enterprises which affected the mining and manufacturing sectors in particular. In 2000, industrial production recovered, when industrial output rose by 7.1% in volume terms compared with 1999. In 2001, industrial production continued to increase, by 8.2% in volume terms compared with 2000. Growth in industrial output continued in 2002, reaching a rate of 6.0% in volume terms compared with 2001. All the major industrial sectors registered positive growth during the period, with strongest growth in those sectors dedicated to export markets, particularly machinery and equipment, clothing and metallurgy, and those providing inputs to export sectors. In 2002, the private sector generated 78.6% of the gross value added in the industrial sector.

Gross Production Annual Percentage Changes by Industry

	Year Ended 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(%)				
Mining	(3.9)	5.0	5.0	(7.4)	(15.0)
Manufacturing	7.9	9.9	8.1	(1.4)	(13.9)
Energy	(1.7)	(1.3)	(0.4)	(5.3)	(11.6)
Total for all industry	6.0	8.4	7.1	(2.4)	(13.8)

Note:

(1) Provisional data.

Source: National Institute of Statistics.

Manufacturing

Food and beverages, crude oil processing, pulp and paper products, furniture, clothing, metallurgy and other industrial activities accounted for the majority of Romania's industrial production in 2002. In terms of employment, the main components of the manufacturing sector include machinery and equipment, food and beverages, textiles, chemicals, metallurgy and metal components, and road transportation equipment. After the fall of communism, Romania had to redirect its manufacturing output towards more demanding western markets where they are subject to exchange rate movements and foreign competition. Clothing and footwear continue to be the dominant exported products, and in 2002 accounted for 31.8% of all Romanian exports.

Mining and Energy

The output of Romania's extractive industries decreased in 2002 in comparison with 2001, with a year on year decrease in output of 3.2% in crude oil production and 4.4% in gas production. Coal production, in 2001, increased by 15% compared with 2000.

In the natural gas sector, ROMGAZ, the dominant gas public utility was reorganised into separate companies, with three companies, Exrogaz, Transgaz and Depogaz, in charge of gas exploitation, production and underground storage and two companies, Distrigaz Nord and Distrigaz Sud, in charge of distribution. The primary aim of the restructuring in this sector is to increase production, to foster competition and to prepare the individual companies for future privatisation, starting with the privatisation of the distribution companies.

S.N.P. Petrom S.A. ("Petrom"), the national oil company, is also being reorganised in order to increase production, reduce debt and increase efficiency. Currently, Petrom covers about 60-65% of the domestic demand for oil products and about 33% of the domestic demand for natural gas. The company made approximately 2,000 employees redundant in 1999 and the process of its privatisation has recently been restarted (see below — "Privatisation").

The output of the country's refineries decreased from 15.2 million tonnes in 1995 to 9.1 million tonnes in 1999. This reflected reduced consumption associated with the general economic slow-down. Since then, the output of the refineries increased to 10.6 million tons in 2000, 11.6 million tonnes in 2001 and 13.5 million tonnes in 2002. According to the Government Strategy, the objective is to increase the output of refineries to 14 million tonnes by 2005. Lukoil-Petrotel has been a private company since 1998, and Vega was privatised in 1999. In 2000, the Petromidia refinery was privatised followed in 2001 by the privatisation of RAFO Onesti.

The extractive industries and mining sectors have been subject to extensive restructuring, which has caused a decline in output in recent years.

The objective of the restructuring in the mining sector is to increase efficiency through loss-reduction in the exploitation of minerals and to reduce state subsidies to the sector. The Ministry of Industry and Resources is currently in the process of closing or is considering closing the unprofitable mines and, as at the end of 2002, 75 mines out of a total of 324 were closed. The numbers of employees in this sector has been reduced from a high of 103,000 as at 31st December 1997 to 68,175 as at the end of 2002. The engineering and environmental works relating to the closure have already been approved and will be financed from the state budget and from funds provided by the World Bank.

Energy

In 2001, approximately 76% of Romania's total energy consumption was supplied by domestic energy sources. The remainder of the country's needs are met primarily by imports of oil and gas from the former Soviet Union. In 2002, Romania's total electrical energy consumption increased by 2.0%, compared to 2001. In April 1996, the country's first nuclear power station, located at Cernavoda, commenced production. A second unit is under construction and is expected to be completed in 2005. Upon completion, the two nuclear facilities will have a capacity of 1,400 megawatts.

The Government has embarked on a policy of extensive restructuring in the energy sector, with the aim of increasing production efficiency. The Government believes that energy demand in the region will increase substantially and that Romania is well positioned to be a net exporter of energy. In 1998, the electricity company RENEL R.A. was reorganised into three separate companies, CONEL S.A., ("CONEL") dealing primarily with electricity generation, NUCLEARELECTRICA S.A., ("Nuclearelectrica") dealing primarily with nuclear energy production and the Autonomous Company for Nuclear Activities, dealing primarily with heavy water production. On 31st July 2000, CONEL was dissolved and divided up into four new companies with the Romanian State as the sole stakeholder. The four new companies are Transelectrica S.A. (electrical power transportation and energy market), Termoelectrica S.A. (electrical and thermal power generation), Hidroelectrica S.A. (hydroelectric power generation) and Electrica S.A. (electrical power distribution). Termoelectrica was subsequently restructured in 2002 when a number of its power production plants were hived off as separate entities. Electrica S.A. was organised as the holding company of eight regional subsidiaries, two of which are expected to be privatised in 2003. There are currently 21 projects relating to new hydroelectric power stations under development, which, when complete, would have an aggregate capacity of approximately 900 megawatts. (See below — "Restructuring").

In 2003, the national electricity transmission company, Transelectrica, became a member of the Union for the Co-ordination of Transmission of Electricity (UCTE), which is expected to facilitate exports to neighbouring

states experiencing a structural deficit of their electricity system (taking into account Romania's current overcapacity).

Since 2000 Romania has started the liberalisation of its electricity market, following the guidelines laid out in the relevant EU directives, which require member countries of the EU to allow a gradually increasing share of the market to be based on direct contracts negotiated between suppliers and eligible consumers.

The Government has embarked on a policy of eliminating cross-subsidies and subsidies in the energy sector. New tariffs aimed at eliminating household subsidies have been put into effect. Subsidies have also been eliminated in the natural gas sector.

Services Sector

In 2002, 64.4% of the gross value added in the service sector was generated by private enterprises. The services sector accounted for approximately 45% of GDP in 2000. This is a relatively low percentage by OECD standards. However, recent growth in some areas of the service sector has been significant, including transportation, telecommunications, finance, banking and insurance services. In education, health and social services, state budget financing has provided for a relatively small but stable contribution to GDP. The services sector growth in 2001 of 17% compared to 2000, was at a slower pace than industry, pending a revival in domestic demand. The services sector grew by 5.3% in 2002 compared with 2001.

Financial, Banking and Insurance

In 2002, financial, banking and insurance services amounted to approximately 1.5% of GDP. Institutions rendering financial services include banks, the Stock Exchange, the OTC market ("RASDAQ"), securities houses, investment funds and insurance companies. The Romanian banking system has undergone major restructuring since the fall of communism. At the end of 2002, there were 39 registered banks of which 31 were Romanian legal entities and eight were branches of foreign banks. The insurance market is dominated by 10 major companies which generate about 92% of total industry receipts. There are an additional 38 insurance companies in Romania which constitute the balance of the market. In 1998, 1999 and 2000, new laws governing banking activity (including the activity of credit co-operatives) and the insolvency of banks were introduced and enacted. Privatisation and restructuring of the remaining state banks are priorities for 2002. (See below — "Banking System –Transformation of the Banking System".)

Transportation and Telecommunications

Roads

Romania has 78,479 km of hard surface public roads of which 14,824 km are national roads and 63,655 km county and communal roads. The density of public roads represents 32.9 km per/100 square km territory. Most branch roads radiate from Bucharest, which is the main highway junction.

Between 1997 and 2008, Romania is pursuing the following strategic plan for the development of its road network:

1. main international routes are being rehabilitated in a five-phase programme with funding from international financial institutions and the state budget;
2. the existing national roads are being modernised through annual investment programmes financed through domestic sources, including budget transfers and the Fund for Roads as well as commercial loans;
3. a programme of motorway construction has been initiated with priority on East-West connections and the European Corridor IV (including a 96 km section between Bucharest and Pitesti and a 151 km section between Bucharest and Constanta). Also forming part of European Corridor IV is the Nadlac-Bucharest-Constanta motorway connecting the eastern port of Constanta with the Western border of Romania. Feasibility studies have been undertaken for a 196 km section between Deva-Nadlac and 5 by-passes (60 km) for five municipalities, of which two have already received financing: the Pitesti Bypass – EBRD financing, and the Sibiu Bypass – ISPA financing;
4. plans to extend the European Corridor IV motorway, financed by the EU, linking Romania and Bulgaria are progressing. Romania is focusing on the rehabilitation of the existing network of national roads that will provide access to the Calafat Bridge over the Danube. The works will be financed by the EU ISPA programme; and

5. there are 10 public-private partnership projects with an approximate aggregate value of €1,551 million which are scheduled to be completed by 2008, including portions of a new motorway linking Bucharest with Ploiesti and Brasov, the Bucharest ring road and a bridge over the Danube.

Railways and Urban Transport

Mass transportation is the predominant mode of urban transport in Romania and is regulated by the local authorities. Services are provided in major cities through bus networks, as well as trolley and tramway based systems. The national passengers and freight operators (CFR Calatori and CFR Marfa, respectively) link major cities in the country and provide connections with a large number of European cities such as Paris, Berlin, Munich, Prague, Vienna, Kiev, Moscow, Istanbul and Athens. The railway infrastructure company, CN CFR, operates 11,015 km of rail track, of which 3,950 km (35.9%) are electrified.

In accordance with the Government's strategy for the development of the railway sector during the period 2001–2010, the railway network will be upgraded particularly with reference to the pan-European transport corridors IV and IX, with the goal of allowing train speed of up to 160 km/h. Currently, the most advanced projects are in relation to the upgrading of the Constanta-Bucharest-Brasov sections of the network, for which funding has been secured from the main international financial institutions, such as the World Bank, the EBRD, the EIB and the JBIC, and also from the financial support offered by the EU through the ISPA programme.

At the same time, the two rail operators, CFR-Marfa and CFR-Calatori, are performing important rehabilitation programmes for their rolling stock, including the procurement of new equipment. In 2002, CFR Marfa launched a €120 million eurobond issue in order to finance its investment programme.

Bucharest's underground network has a total length of 62.95 km. There are three main tracks and 45 stations.

Shipping and Ports

The principal inland waterway is the Danube river, which travels 1,075 km through Romanian territory. The construction of the Danube-Black Sea Channel and of the Rhine-Main-Danube Channel created an important waterway that connects the Black Sea to the North Sea.

Romania has access to ocean shipping through its ports on the Black Sea. The port of Constanta is the largest of these, handling over half of Romania's sea cargo.

Air Transport

Romania has seventeen civil airports. Four of them (Bucharest-Otopeni, Bucharest-Baneasa, Timisoara and Constanta) are owned by the state, represented by the Ministry of Public Works, Transportation and Housing. The remaining 13 airports are administered by local counties. There are currently seven air operators licensed to carry out air transport operations. The main air carrier in Romania is the Romanian Air Transport National Company – ("TAROM"), which serves more than 30 cities on four continents.

Telecommunications

The main fixed line telecommunications operator in Romania is ROMTELECOM. The last restrictions in the communications market, referring to voice telephony and the supplying of leased lines, were lifted from 1st January 2003, when full liberalisation took place. New operators are already active on the market, providing services for international calls based on "voice-over-IP" technology or prepaid cards. Companies having transmission capabilities, such as National Radiocommunications Society, Telecommunications Romanian Railways, The National Post Company, Transelectrica, as well as cable TV companies announced their decision of entering the national telecommunications market. The process of privatisation of Romtelecom, the national fixed telephony operator, continued in 2002 and, at the beginning of 2003, the Greek group — OTE — became the major shareholder (54%). This privatisation is part of the Romanian Government strategy to reduce the state's economic participation in the market. In 2002 the number of fixed telephony subscribers reached 4,200,000, with a rate of penetration of 57% for households. The mobile phone industry experienced in the last years exponential growth and is one of the most dynamic sectors of the economy. Both the number of subscribers and the coverage area has increased dramatically since 2000. By the end of 2002, the number of mobile subscribers increased to 4,496,800, reaching in 2003 over 5,200,000 subscribers. Between 2000 and 2003 the growth rate of mobile telephony subscribers was 85.9%. There are two GSM 900 operators active on the market, Mobifon and Orange, with 71.9% and 77% coverage area, one using CDMA 2000 technology, Telemobil (Zapp), with 60% coverage area and Romtelecom's subsidiary, Cosmorom, which operates a DCS 1800 licence. Also, with 3.3 million subscribers, cable TV is very popular in Romania. With the rate of urban penetration reaching 78.5%, this

market is also in a process of consolidation, concentration and diversification, the providers moving towards data transmission, Internet and voice services as well.

Agricultural and Forestry Sector

In 2001 and 2002, agriculture and forestry accounted for 13.3% and 11.7% of GDP respectively. Approximately 62% of Romania is agricultural land and forests cover an additional 26.7% of the country. Crop production is dominated by cereal grains (wheat, rye and maize), sunflowers, vegetables, sugar beet, potatoes and fruits. Livestock consists of predominantly cattle, pigs, poultry, sheep and goats.

The 1991 law on land reform restricted the restitution of agricultural property to a maximum of 10 hectares for each former owner. Agricultural Production Cooperatives ("CAPs") were dismantled, but state owned farms were left untouched. People whose property formed part of the state farms received shares in the relevant farms instead of beneficial ownership rights over the land. A bill allowing further restitutions up to a maximum of 50 hectares, including from the lands currently being utilised by the state farms, was approved by Parliament on 1st January 2000. In addition, a programme of privatisation of the state-owned farms was agreed with the World Bank and is currently underway.

In 2002, 97.1% of GDP generated by the agriculture sector was generated by privately owned enterprises. Adverse weather conditions decreased output and agricultural production registered a decline in 2000 (down 14.8% in volume terms). In 2001, due to favourable weather conditions, agricultural output rebounded strongly, posting a 22.7% increase over 2000. In 2002, less favourable weather conditions prevailed, resulting in a decrease of agricultural output of 6.2% compared with 2001.

Construction Sector

Activity in the construction sector has followed the trend in Romanian investment development, with the volume of construction spending estimated at Lei 127,184.5 billion in 2002, which represents a decline in real terms over the level in 1997. Approximately 27,302 dwellings were completed in 2002. The private sector constitutes the largest component of construction spending, accounting for about 96.4% of the total in 2002.

The following table summarises the results of recent construction activity in Romania:

Construction Works by Ownership Type

	2002		2001		Structure	
	Current prices	Against 2001	Current prices	Against 2000	2001	2000
	(In billions of Lei)	(%)	(In billions of Lei)	(%)	(%)	(%)
Total	127,184.5	105.9	112,678.8	109.0	100.0	100.0
of which, by ownership type:						
– public	13,170.6	95.0	11,514.2	103.1	10.4	10.2
– private ⁽¹⁾	114,013.9	107.0	101,164.6	110.3	89.6	89.8

Note:

(1) Includes entirely private capital and mixed capital with a majority of private capital.

Source: National Institute of Statistics.

Subsidies

Since 1993, Government subsidisation of the Romanian economy has been substantially reduced. Budget subsidies as a percentage of GDP declined from 7.6% in 1992 to 2.0% in 1996. Since November 1996, the Government has further reduced subsidies. Subsidies to the industrial sector have been cut by 50% in real terms from 1996 levels. Non-transparent subsidies which the agricultural sector used to receive from the NBR in the form of directed credits have been eliminated. However, the agricultural sector receives direct budgetary subsidies. Total budgetary subsidies for the Romanian economy in 2001 amounted to 1.5% of GDP. In 2002, the budgetary subsidies to the economy amounted to 1.4% of GDP.

The cross-subsidies and subsidies in the energy sector have already been eliminated in the natural gas sector.

Budgetary and Inter-Enterprise Arrears

The level of inter-enterprise and budgetary arrears remained high at approximately 35.7% of GDP as at the end of 2001. Reducing budgetary and inter-company arrears has been a key performance criteria of the IMF programme. Arrears build-up represents a serious problem for the state budget. As at 31st December 2001, total budgetary arrears amounted to 5.75% of GDP, overdue amounts owed to banks amounted to 3.57% of GDP, while arrears to suppliers and other creditors amounted to 26.4% of GDP. Although officially updated figures for 2002 are not available as at the date hereof, the Government estimates that the level of arrears remains very high, broadly comparable with the 2001 levels.

The power sector has been worst affected by the high levels of unpaid bills between enterprises. One of the state-owned power generation companies severely affected by such arrears is Termoelectrica. To help Termoelectrica meet its financing needs to cover demand for heating during the winter, the Government issued guarantees in favour of Termoelectrica for an aggregate amount outstanding as at 31st December 2002 of US\$600 million and in favour of 18 thermal power plants for an amount of US\$120 million.

Furthermore, the high level of inter-enterprise arrears has contributed to the increase in the volume of budgetary arrears. As at 31st December 2001, total arrears amounted to Lei 66,411 billion. As at 31st December 2002 total arrears had increased to Lei 68,273.6 billion.

The Government is addressing the arrears problem through the implementation of several concerted actions including, *inter alia*, increasing the restructuring and privatisation of loss making companies, increasing the role of bankruptcy proceedings and improving tax collection.

In order to accelerate the process of recovering arrears and prevent further arrears from building up, several provisions were included in Law No. 161/2003 (a comprehensive law aimed at reducing corruption and at improving the business environment). These include measures for ensuring transparency in high public office and within the general business environment and for the prevention and punishment of corruption.

In accordance with this law, on 21st May 2003, a list including around 500 large taxpayers with outstanding budgetary obligations was posted on the web-site of Ministry of Public Finance. The list includes the amount of outstanding budgetary obligations recorded in the previous fiscal years, the total amount of the outstanding obligations and a description of the way in which the arrears are to be collected. This list is to be updated on a quarterly basis. An updated list including the major budget debtors among the small and medium sized enterprises is to be published on the same web-site in July this year.

The Government has also undertaken measures to increase the efficiency of tax collection, including an increased use of bankruptcy proceedings: between 1st January and 6th June 2003 the Government initiated 1,077 bankruptcy procedures from which Lei 302 billion was recovered and 48 cases of judiciary reorganisations from which Lei 57 billion was recovered.

Measures have also been taken to address the problem of inter-enterprise arrears, particularly in the energy sector, according to understandings reached with the IMF under the Stand-by Arrangement. Payment enforcement measures, mainly through disconnection of bad debtors and rescheduling of historical debts to utilities, undertaken in April and May 2003 improved the collection rates of the gas and electricity distributors. The largest non-payers to the gas and electricity utilities have been disconnected from the respective utilities services. Each of these companies will remain disconnected until the payment of the outstanding debts.

Restructuring and Privatisation

Prior to the collapse of communism in 1989, Romania was a command economy, with many large, unprofitable state enterprises dependent on the state committee for planning and on the COMECON market. Many of the products produced were of poor quality and produced at very high costs. The banking system in particular was highly uncompetitive, with only four state run banks — Romanian Commercial Bank, the agricultural bank Banca Agricolă, the Romanian Bank for Development and the Romanian Bank for Foreign Trade S.A. (known as Bancorex).

Restructuring

From 1990, the Government began to take steps to reform certain aspects of the national economy and to restructure large scale enterprises. Starting in 1991, the Government reformed the agricultural sector, converting it from a highly collectivised sector to one in which most property is privately owned. In 1999, more than 93.4% of agricultural output was from private farmers. Reform in the industrial sector has occurred at a slower pace.

However, the contribution of the private sector to industrial production has gradually increased over the years, from 23.3% in 1994 to 45.6% in 1998 and to 48.7% in 1999 and to 55.7% in 2000. On an overall basis in 1996, approximately 54.9% of GDP was produced by the private sector. This figure increased to 61.4% in 1998, to 63.7% in 1999 and to 65.5% in 2000. In 2001, the contribution of the private sector to GDP was 67.1%. The Government is committed to increasing the role of the private sector in the economy, including privatising the public utilities.

Legislation designed to aid the restructuring process was enacted in 1995 and 1997, and in 1999. Law no. 99/1999 was enacted accelerating economic reform by simplifying and unifying the procedures relating to privatisation and restructuring. This law also contains provisions modifying and simplifying the bankruptcy procedures, the regulation of leasing operations and taking and enforcing of security over assets other than real estate. In particular, the law requires liquidation of a company in the event that outstanding indebtedness exceeds a threshold calculated as a percentage of the company's assets. The threshold was lowered to 85% in January 2000 and to 50% in August 2000.

Since 1997, restructuring measures have been applied to approximately 1,400 companies, and 660 diagnostic analysis and restructuring plans have been developed.

Since 1999, the former State Ownership Fund ("SOF") and its successor, the Authority for Privatisation and Management of State Ownership (the "APAPS"), have taken a more active role in restructuring loss making enterprises with a view to their privatisation, and also in liquidating inefficient companies that could not be privatised. As at 29th March 2002, 54 companies were undergoing voluntary liquidation and 301 were facing judicial liquidation. At the end of the first quarter of 2003, the number of companies controlled by the APAPS that were undergoing liquidation proceedings was 353.

Concrete restructuring actions have been undertaken by the Government in several important areas of the economy, such as the mining and energy sector and the banking system. See "— Mining and Energy" above and "Banking System — Transformation of the Banking System" below.

Privatisation

The privatisation process began in Romania at the end of 1992 in accordance with the provisions of Law no. 58/1991 concerning the privatisation of companies.

This law provided that the privatisation process would be initiated in two stages:

- 30% of the equity of state-owned companies was to be transferred to the Romanian public through five Private Ownership Funds on a non-discriminatory basis, as recognition of their contribution to the creation of national welfare. These Private Ownership Funds have since been turned into Financial Investment Funds; and
- the remaining 70% of the equity of state-owned companies was available to be sold to Romanian and non-Romanian entities by the SOF, a financial and commercial public institution.

For each year during the period 1992 to 1996, the SOF prepared an annual privatisation programme for the following year and reported on its activities. The annual privatisation programme and annual report was sent for approval to the Romanian Parliament. During this period, the SOF focused on offering for sale shares in small and medium size enterprises. During the first period, equity was sold through auctions with preselected participants and direct negotiations with employees and managers of small companies. From the commencement of the privatisation programme in December 1992 through to the end of 1996, the SOF privatised 2,725 companies with an aggregate registered capital of Lei 3,570.1 billion. (Registered share capital is set at the time of issuance of shares.)

In 1995, further legislation was adopted to facilitate the acceleration of the privatisation process. This was known as the "mass privatisation law" and provided that Romanian citizens be granted vouchers exchangeable into up to 60% of the total issued share capital of 4,000 state-owned companies. Putting a large number of shares into the hands of the public fostered the development of the Romanian capital markets — the Bucharest Stock Exchange and RASDAQ. The remainder of the shares in each of these companies were offered for sale by the SOF to Romanian and non-Romanian entities through auctions with preselected participations or by direct negotiations.

In 1997, the new Government enacted legislation simplifying the requirements for restructuring companies, thereby enabling the privatisation process to accelerate. During the years 1997 to 2000, the SOF privatised 4,766 companies with an aggregate registered capital of Lei 18,579.2 billion.

From 1997, the involvement of foreign investors in the privatisation process became much more substantial. The value of privatisation contracts concluded with foreign investors was approximately US\$16 million in 1995 and US\$17 million in 1996, but increased substantially to US\$512 million in 1997 and US\$608 million in 1998. Among

the major privatisations in 1998 and 1999 were ROMTELECOM (the national telecommunications company), the Romanian Bank for Development ("RBD"), Petrotel (oil refinery), part of Banc Post, Santierul Naval Galati (shipyard) and Dacia Automobile Pitesti (automobile manufacturer). In 2000, significant privatisations included: Aerostar Bacau, Letea Bacău and Santierul Naval Tulcea (shipyard).

Under Law no. 99/1999, which came into force in June 1999, the privatisation process was decentralised to the extent that privatisation was no longer the exclusive domain of the SOF. Instead, certain companies, especially state monopolies that are being restructured, are being privatised by their respective ministries or local administrative authorities with tasks in this respect.

In 2000, the former SOF privatised 1,341 companies, of which 24 were large companies (share capital of over Lei 50 billion) and 247 were medium sized companies (share capital of between Lei 18 and 50 billion). Of the total, 413 were companies in which the SOF held residual shares. The total share capital privatised in 2000 was approximately Lei 6,000 billion, and approximately Lei 4,050 billion was transferred to the state budget during 2000, although further receipts (Lei 508.7 billion, €967,500 and US\$15.88 million) from these sales were received during 2001.

Under Government Emergency Ordinance no. 296/2000, the SOF has been reorganised and renamed the Authority for Privatisation and Management of the State Ownership (APAPS).

In 2001, the privatisation focus shifted from the number of companies privatised to the importance of such companies. Some of the better known companies that were privatised in 2001 were Banca Agricola, Sidex S.A. (steel manufacturer) (see below) and RAFO S.A. (oil refinery).

In March 2002, the Parliament adopted Law no. 137/2002 in order to introduce certain steps for accelerating the privatisation process. The law aims to correct certain problems encountered since the privatisation process started. One of the features designed to maximise the efficiency of the privatisation process is the ability of the APAPS or the other involved public institution to appoint during the privatisation process a special administrator for any company in which the state holds a majority stake. The special administrator is appointed by an agency agreement that specifies precisely how the affairs of the company are to be conducted during the privatisation process. This is to prevent situations that occurred in the past where the management of the relevant companies did not fully co-operate in the privatisation efforts. Other new features introduced by the law are the express acknowledgment of the increase of share capital with a participation of a private investor as a method of privatising a state owned company, and also the privatisation for a *de minimis* amount (1 Euro) for highly indebted companies. The law also contains provisions for the rescheduling of budget-related debts and provides for shorter procedural deadlines in the privatisation process.

The legal framework of privatisation has been improved by Government Emergency Ordinances no. 208/2002, 8/2003 and 22/2003. This new legislation targets the financial restructuring of state-owned companies whose aim is to increase their attractiveness for privatisation. APAPS aims to increase the pace of the privatisation process, in order to finalise, in general terms, the privatisation of companies in its portfolio by the end of 2003.

The post-privatisation monitoring is complementary to the actual privatisation. The legal framework for the post-privatisation monitoring was created in January 2002 through Government Emergency Ordinance no. 508/2002 and amended by Law no. 506/2002 and Government Ordinance no. 40/2003.

As a consequence, APAPS is now able to ensure equal treatment for all investors concerning the assessment of their post-privatisation commitments.

In 2002, the total number of companies privatised by APAPS was 280, out of which 30 were classified as large companies. The total share capital of the companies privatised by APAPS in 2002 was Lei 8,254 billion. The aggregate number of employees of these companies at the time of privatisation was 42,732. During the period January–May 2003, a further 96 companies were privatised, with an aggregate share capital of Lei 1,924.9 billion.

On 12th April 2001, Raiffeisen Zentralbank Österreich AG became the majority shareholder in Banca Agricolă through the privatisation process.

In July 2001, a contract was signed for the privatisation of SIDEX, the largest steel manufacturer in Romania and one of the largest in Central and Eastern Europe. The purchaser was LNM Ispat, which pledged a total investment (in purchase price and further investments) of approximately US\$500 million.

Romanian Commercial Bank S.A. ("BCR") was scheduled to be privatised in 2002. Due to the difficult trading conditions facing most large international banks at the end of 2002, and considering the scale of the expected investment in BCR (the largest bank in Romania by total assets and total capital) no valid offers were submitted by

29th November 2002, when the relevant deadline expired. The revised privatisation strategy of the Government contemplates the sale of a minority stake (approximately 25%) to two international institutions that expressed interest, namely the EBRD and IFC. The Government aims to conclude negotiations with the two institutions by 31st August 2003.

In 2001, a project was produced for the reorganisation of Casa de Economii si Consemnatiuni ("CEC") (State Savings Bank), to be financed with funds from the PHARE programme. In 2002, the programme agreed with the EU regarding the implementation of the restructuring plan for the privatisation of CEC has been followed. A twinning management contract, financed through a World Bank loan, is expected to be signed soon to support the middle management of the CEC in the implementation of the restructuring plan.

The privatisation process for PETROM, the state oil company, began in 1999. By the end of 1999, four foreign firms and a Romanian consortium had submitted bids for a 35% capital increase in Petrom. However, all bids were deemed by the Government to be unsatisfactory.

The privatisation of Petrom was restarted in December 2002, when a Ministry of Industry and Resources engaged a consortium led by Credit Suisse First Boston and ING Barings to advise on the privatisation. The consultants and the Ministry of Industry and Resources have agreed on a timetable envisaging the finalisation of the process in 2003 and are currently working together in order to determine a suitable privatisation strategy for Petrom.

The privatisation of the electricity distribution companies is ongoing and the privatisations of Electrica Dobrogea and Electrica Banat are currently expected by November 2003.

The Ministry of Industry and Resources has also started the privatisation in the gas sector, commencing with the privatisation of the two gas distribution companies, Distrigaz Sud and Distrigaz Nord. In March 2003, Credit Suisse First Boston was engaged as adviser for this privatisation.

A summary of the results of the privatisation process between 1998 and 2002 is set out below:

	Year ended 31st December				
	2002	2001	2000 ⁽¹⁾	1999	1998
Number of companies privatised					
Small (< 18 billion Lei)	215	89	1,070	906	912
Medium (< 18–50 billion Lei)	35	19	247	425	276
Large (> 50 billion Lei)	30	19	24	70	79
Total	<u>280</u>	<u>127</u>	<u>1,341</u>	<u>1,401</u>	<u>1,267</u>
	Year ended 31st December				
	2002	2001	2000	1999	1998
	(in billions of Lei)				
Privatised Share Capital	8,254.6	9,643.9	5,930.0	6,295.0	4,215.8

Note:

(1) Including sales of residual shares held by the State in companies already partly privatised.

Environment

Romania's environmental regulations during the communist era were not comparable to Western standards. The Government estimates that a large portion of the country's territory is seriously polluted and will require significant clean-up. With the change of government in 1990, Romania placed greater emphasis on addressing these problems.

The Ministry of Waters and Environmental Protection was established to monitor environmental factors and promote measures of environmental protection, as well as to represent the Government in relations with specialised international bodies. The Ministry controls 42 territorial Agencies of Environment Protection (which are local authorities that apply the policy and strategy regarding the environment on a local scale) as well as the Danube Delta Biosphere Reserve Administration.

The Government considers the environmental protection policy important. In 2001, it allocated 0.23% of GDP towards investment in this area, compared with 0.13% in 2000 and an average of 0.085% for the period between 1997 and 1999. The total value of investments in environmental protection in Romania in 2001 represented

1.73% of GDP, compared with 0.47% in 2000. Romania benefits from funds from external sources for environmental protection. Through the PHARE programme 19 environmental projects are currently underway, which have a total value of €43 million, of which €27 million is in the form of grants. The EU, through the ISPA programme, has approved 21 water quality and waste management projects totalling €717.4 million, of which €526.7 million is in the form of grants and €130.7 million is co-financed by Romania. In 2001, the European Commission selected eight projects, totalling more than €4 million, for financing.

In preparation for Romania's accession to the EU, the Ministry of Water and Environmental Protection published a Position Paper relating to the environmental protection negotiation chapter, outlining Romania's commitment to the transposition and implementation of the environmental *acquis*. The negotiations with the EU on environmental protection started on 21st May 2002 and approximately 80% of the EU environmental provisions have currently been transposed, including a complete transposition in the fields of nuclear safety and wild life protection.

The EU has made progress in environmental legislation and protection a priority in Romania's accession negotiations. Romania expects to be granted a transitional period to comply with the EU environmental regulations.

Balance of Payments and Foreign Trade

Balance of Payments

Romania's balance of payments has fluctuated in recent years due to a number of factors, most importantly changes in macroeconomic policies, GDP growth rates, and the development of capital inflows.

Current Account

The current account of Romania consists of the trade balance, services (mainly transportation and travel), income on investments and current transfers. Romania has had a current account deficit each year since 1990. This has resulted from levels of imports higher than exports. Levels of services and current transfers have been less volatile than changes in the trade balance, and thus changes in the current account are largely attributable to movements in the trade balance.

In 1997, the current account deficit fell slightly to US\$2,104 million, but rose to US\$2,917 million in 1998. In 1999, the current account deficit fell to US\$1,437 million, 50.7% less than 1998, due to the decrease in the trade, services and income deficits. In 2000, the current account deficit fell to US\$1,359 million, 5.7% less than 1999, due to the decrease in the services and income deficit and an increase in current transfers surplus. In 2001, the current account deficit amounted to US\$2,223 million, representing a 64.1% increase against 2000, due mainly to the increase in the trade balance deficit, which accounted for 7.4% of GDP compared with 4.5% in 2000. A significant part of the 2001 current account deficit was financed via net inflows of direct and portfolio investment.

In 2002, the current account deficit was US\$1,573 million (3.4% of GDP), representing a decrease of around 30% on 2001, due both to the increase in net current transfers by over one third and to slower growth in net imports of goods. 70% of the current account deficit has been financed via net inflows of direct investment. During the first quarter of 2003, the current account deficit was US\$170 million, a decrease of 31.2% compared to the similar period in 2002. This was due to the increase in the current transfers surplus, while the services balance recorded a surplus and the trade deficit contracted. The current account deficit for this period has been entirely supported by direct investment.

In 1997, exports of goods amounted to US\$8,431 million, an increase of 4.3% over 1996. This slight rise was mainly due to increased exports of basic metals, machines, electric equipment, transport means, textiles, clothing, footwear, wood and paper. At the same time, imports amounted to US\$10,411 million (FOB prices), a figure 1.4% smaller than the previous year; the decrease reflected smaller imports of consumer and intermediary goods.

In 1998, exports of goods amounted to US\$8,302 million, a decrease of 1.5% over 1997. At the same time, imports amounted to US\$10,927 million (in FOB prices), a figure 5.0% greater than the previous year, due to greater imports of consumer goods. Primarily as a result of this deterioration in the trade balance, the current account deficit increased in 1998 by 38.6% from 1997 year-end.

In 1999, exports of goods amounted to US\$8,487 million, an increase of 2.2% over 1998. This increase was due to the rise in exports of capital and consumer goods. Over the same time imports amounted to US\$9,744 million (FOB prices), a decrease of 10.8% against the previous year. The decrease reflected smaller imports of intermediary and capital goods, due to the sharp real depreciation of the Leu and to the cut in fiscal incentives for foreign investors' imports of technology. As a result, the current account deficit decreased by 50.7% in 1999 compared to 1998.

In 2000, exports of goods amounted to US\$10,366 million, an increase of 22.1% over 1999, due to the rise in all merchandise groups of exports excepting agricultural and food products. The factors behind this development were: the increase in domestic output by over 8%, government action (mainly the cut in profit taxes for export income to 5%), the increase of external prices of petroleum products and the development of trade in machinery, apparatus and electrical equipment under certain trade arrangements. Imports of goods amounted to US\$12,050 million (FOB prices), 23.7% higher than in 1999, due to the rise in all merchandise groups of imports. The factors contributing to this development were domestic demand, an increase in imports of cereals and food products due to drought effects and the increase in external prices of primary energy resources and non-ferrous metals.

During 2001, exports of goods amounted to US\$11,385 million, an increase of 9.8% over 2000, led by rising industrial output and a larger share of exports of manufactured goods, as well as the export-related soft loans, and the guarantees pledged for products with a long manufacturing cycle. The US\$1,019 million increase in exports was largely driven by higher volumes (over two-thirds of the exports surplus). Imports of goods totalled US\$14,354 million (FOB prices), 19.1% higher than over the same period of 2000, owing to

risers in all groups of commodities (including agro-food products (up 29.5%), basic metals (up 27.8%) and other commodities (up 23.0%)). Given the lower external prices for most imported goods, the US\$2,304 million increase in imports was solely the result of larger volumes, particularly in electrical machinery and apparatus, motor cars, crude oil and petroleum products.

Both domestic and external factors contributed to the full-year rise in imports. These factors included consolidation of economic growth, an increase in exports under outward processing trade arrangements (arrangements under which goods are imported into Romania solely for the purpose of processing and are then exported), the decline in food and farm output in 2000 (effecting the first half of 2001), the cut in domestic medicine production, the incentives granted to small- and medium-sized enterprises as well as to investors, the increased demand for primary energy resources, the appreciating Lei in real terms and weak external prices.

In 2002, exports of goods amounted to US\$13,869 million, an increase of 21.8% over 2001, due to the rise in all merchandise groups. The factors behind this development were: the increase of domestic output by over 7.9%, the increase in intermediary goods exports simultaneously with the reduction in exports of consumer goods and raw material; the demand of EU countries for clothing and footwear produced under outward processing trade arrangements; the real depreciation of the Leu against the Euro; the increase of EU demand for petroleum products.

At the same time, imports of goods were US\$16,482 million (FOB prices), 14.8% higher than 2001, due to the rise of imports in all merchandise groups, but agro-food products. The factors behind this development were: the economic growth; the increase in intermediary and consumer goods demand; the increase international oil price; the removal of custom duties for industrial goods originated in EU; and the suspension of VAT payments for imports consisting of machines, equipments and rare raw materials.

Over the first quarter 2003, exports of goods amounted to US\$4,039 million, an increase of 39.4% over the first quarter 2002, due to the rise in almost all merchandise groups except food products (down 5.7%). The factors behind this development were the real depreciation of the Leu against Euro and the increase in developing countries' demand for base metals, mineral products, chemical products, plastic products, wood, paper. At the same time, imports of goods were US\$4,485 million (FOB prices), 33.3% higher than over the same period in 2002, due to the rise in all merchandise groups imports. The factors behind this development were the increase in the international oil price and the increase in the demand for energy resources.

The trade deficit of US\$2,969 million for 2001 (a 76.3% increase on the 2000 trade deficit of US\$1,684 million) was the result of both domestic factors (including the need for retooling, measures to foster economic growth and reliance on energy imports) and external factors (such as the slowdown in global trade in the last few months of 2001).

In 2002 the trade balance deficit was US\$2,613 million, lessening both in absolute volume and as a percentage of GDP (by 12% and 1.7%, respectively), primarily as a result of the increase in exports. In the first quarter of 2003, the trade deficit was US\$446 million, showing a contraction of 4.7% as compared to the same period in 2002, while exports growth outpaced imports by 6.1%.

Over the 1996-1999 period, the services deficit varied between 15% and 27.5% of the current account deficit. The increase in the percentage of the current account deficit made up by the services deficit in 1999 was due to the sharp decrease (by more than half) of the former, given the fact that in absolute terms, the services deficit decreased by a lesser amount than the trade deficit. For 1999 as a whole, the services deficit was US\$395 million, a decrease of over one third against 1998, due to the rise of receipts by 11.5% and to the fall in payments of 3.7%.

In 2000, the services deficit was US\$254 million, 35.7% lower than 1999 due to deficits in transport, travel and other services diminishing by US\$141 million (11% of the current account deficit). In 2001, the services deficit was US\$115 million (5.2% of the current account deficit), 53.3% lower than 2000, due to the increase in receipts from other services by 11.5%.

In 2002, the services deficit was US\$27 million (1.7% of the current account deficit), 76.5% lower than 2001, due to the improved receipts/payments ratio in personal travel and other services. Over the first quarter 2003, the services balance recorded a surplus of US\$7 million (as compared to US\$20 million deficit over the first quarter 2002), due to the higher surplus in transport.

In 1999, the income deficit amounted to US\$411 million, a decrease of 7.0% against the previous year, due to higher compensation payments to employees. Although the income deficit was only 28.6% of the current

account deficit, its weight almost doubled against 1998, correlated with the corresponding positions of the financial account.

In 2000, the income deficit was US\$281 million (21% of the current account deficit), 30.7% lower than the 1999 income deficit, due to higher inflows of portfolio investment.

In 2001, the income deficit was US\$282 million (12.7% of the current account deficit), 1.1% lower than in 2000, as a result of the increase in incomes from official reserve management.

In 2002, the income deficit was US\$469 million, approximately 66% higher than in 2001, primarily due to higher interest payments for eurobonds and incomes from direct investment repatriated by non-residents. Over the first quarter 2003, the income deficit increased over one third (from US\$58 million to US\$79 million) as interest payments and income from direct investment repatriated by non-residents increased, while payments to employees declined.

In 1999, the current transfers surplus was US\$626 million, decreasing by nearly 17.0% against 1998, due to lower grants, PHARE and bilateral technical assistance.

In 2000, the current transfers surplus was US\$860 million, 37.4% higher than the previous year, due to cash transfers to residents and technical assistance.

In 2001, the current transfers surplus was US\$1,143 million, 32.9% higher than in 2000 due to cash transfers to residents and increased financial assistance, primarily from the EU.

In 2002, the current transfers surplus was US\$ 1,536 million, an increase of 34.4% as compared to 2001, due to private transfers from non-residents. Over the first quarter 2003, the current transfers surplus accounted for US\$348 million, the 16.4% increase over the same period of 2001 resulting from grants and private transfers from non-residents.

Capital and Financial Account

The capital and financial account consists primarily of direct and portfolio investment, other net inflows of capital (loans, credits, currency, deposits and other) and reserve assets. The NBR is responsible for monitoring the capital account and maintaining adequate levels of reserves. The sources of financing to cover current account deficits are net capital inflows and drawings on the banking system's foreign exchange reserves.

The year 1997 was marked by increased repayments on loans and credits. Nevertheless, capital inflows from foreign direct investment, portfolio investment in the domestic capital market as well as from borrowings from external sources made it possible not only to service external debt but also to finance the current account deficit and increase gross official reserves to US\$3.1 billion.

In 1998, reduced net capital inflows (resulting from concerns over Romanian economic performance and from carry-over effects of the Russian financial crisis on the confidence of potential investors in Romania) and increased debt repayments were recorded. As a result, the gross official reserves declined to US\$2.3 billion at the end of the year.

In 1999, Romania made large medium and long term foreign debt repayments, amounting to approximately US\$2.4 billion. These were only partially offset by inflows from foreign investments of approximately US\$1.1 billion, a portion of which resulted from the privatisation programme. In 1999, Romania also used foreign exchange reserves to service its debt, as refinancing of the external debt was not immediately available. At 31st December 1999, the NBR foreign exchange reserves were US\$1,526 million compared to US\$1,375 million at 31st December 1998. Gross official reserves increased to US\$2,493 million in 1999, compared to US\$2,299 million in 1998.

In 2000, medium and long term foreign debt repayments amounted to US\$1.4 billion. Romania reverted to using foreign exchange reserves to pay external debt. The total value of the foreign debt servicing covered from official reserves amounted to US\$1.1 billion.

The total amount of external borrowings amounted to US\$2,761 million in 2000. As of 31st December 2000, foreign exchange reserves of the NBR equalled US\$2,469.7 million and gross official reserves increased to US\$3,390 million.

During 2001, foreign debt repayments amounted to US\$1.9 billion and the value of foreign debt service paid from NBR's reserves amounted to US\$1.3 billion. Gross capital outflows increased to US\$2,723 million (a 30.9% increase as against 2000), mainly due to medium- and long-term credit and loan repayments and bond repurchases. The gross capital inflows in 2001, including FDI, equalled US\$5,453 million, up 18.2% compared to 2000, mainly due to eurobonds issued by the Government (in an aggregate amount of US\$655

million) and by state-owned companies (Termoelectrica and Petrom), which enlarged portfolio investment inflows.

As of 31st December 2001, NBR's foreign exchange reserves increased to US\$3,922 million and the gross official reserves amounted to US\$4,861 million. The increase of US\$1,471 million in gross official reserves, as compared to the position at 31st December 2000, is a result of the NBR's net purchases on the foreign exchange market and the eurobond issues in 2001.

In 2002, foreign debt repayments amounted to US\$2.8 billion while the value of debt service paid from official reserves was US\$1.4 billion. Gross capital inflows rose to US\$6,253 million mainly due to foreign direct investments of US\$1.3 billion, medium and long term credits and eurobonds issued by the government (Euro 700 million) on the international capital market and bonds issued by the state owned enterprises.

In 2002, gross capital outflows amounted to US\$3,084 million, mainly due to medium and long term foreign debt repayments and bond repurchases. As of 31st December 2002 official foreign reserves amounted to US\$7,305.9 million and foreign exchanges reserves increased to US\$6,125.7 million. The factors behind these developments were: NBR purchases on the foreign exchange markets, eurobond issues, loans received from the IMF and World Bank, and the increase in gold price on the international market. In the first quarter of 2003 the foreign debt repayments recorded US\$0.6 billion and the total debt service paid from NBR's reserves amounted to US\$0.2 billion. In the same period the value of gross capital inflows represented US\$825 million while the total capital outflows was US\$468 million.

As at 31st March 2003 the official foreign reserves rose to US\$7,460.9 million and foreign exchange reserves recorded US\$6,323.0 million, mainly due to NBR's purchases on the foreign exchange market and to favourable impact from exchange rate changes (euro appreciation against US\$).

The following table sets out the balance of payments of Romania for the periods indicated:

Balance of Payments⁽¹⁾ (in millions of US\$)

Year Ended 31st December

	First Quarter 2003 ⁽³⁾				2002 ⁽³⁾				2001				2000				1999				1998				1997			
	Credit	Debit	Balance		Credit	Debit	Balance		Credit	Debit	Balance		Credit	Debit	Balance		Credit	Debit	Balance		Credit	Debit	Balance		Credit	Debit	Balance	
1. CURRENT ACCOUNT (A+B+C)	5,186	5,356	(170)		18,376	19,949	(1,573)		15,290	17,513	(2,223)		14,896	13,537	(1,359)		10,810	12,247	(1,437)		10,677	13,594	(2,917)		10,888	12,992	(2,104)	
A. Bunuri si servicii/Goods and services	4,666	5,105	(439)		16,201	18,841	(2,640)		13,418	16,502	(3,084)		14,071	12,133	(1,936)		9,854	11,506	(1,652)		9,528	12,756	(3,228)		9,954	12,315	(2,361)	
a. Goods (exports/imports) ⁽²⁾	4,039	4,485	(446)		13,869	16,482	(2,613)		11,385	14,354	(2,969)		12,050	10,366	(1,684)		8,487	9,744	(1,257)		8,302	10,927	(2,625)		8,431	10,411	(1,980)	
b. Services	627	620	7		2,332	2,359	(27)		2,033	2,148	(115)		2,021	1,767	(254)		1,367	1,762	(395)		1,226	1,829	(603)		1,523	1,904	(381)	
Transportation	268	236	32		954	873	81		828	733	95		655	652	3		538	547	(9)		513	591	(78)		585	531	56	
Travel	78	87	(9)		335	396	(61)		362	449	(87)		425	359	66		252	402	(150)		260	458	(198)		526	581	(55)	
Other services	281	297	(16)		1,033	1,090	(57)		843	966	(123)		941	756	185		579	813	(234)		453	780	(327)		410	692	(282)	
Compensation of employees	90	169	(79)		367	836	(469)		455	737	(282)		606	325	281		152	563	(411)		263	705	(442)		204	526	(322)	
Direct investment income	28	1	27		136	11	125		112	4	108		5	325	320		92	7	85		445	6	14		1	4	30	
Portfolio investment income	1	48	(47)		11	197	(186)		15	117	(102)		72	8	(64)		2	52	(50)		13	154	(141)		4	30	(26)	
Other investment income	53	3	50		184	181	3		178	105	73		74	103	29		9	89	(80)		1	121	(120)		0	76	(76)	
Portfolio investment (interest)	8	117	(109)		36	452	(416)		150	511	(361)		455	120	(335)		49	415	(366)		204	424	(220)		186	419	(233)	
General Government	430	82	348		1,008	272	736		1,417	274	1,143		219	860	77		804	178	626		886	133	753		730	151	579	
Other sectors	67	3	64		298	177	121		232	31	221		29	79	122		79	122	57		73	52	18		64	18	46	
Other sectors	363	79	284		1,510	255	1,255		1,165	243	922		790	980	156		725	156	589		813	112	701		648	133	515	
Other sectors	1,654	830	824		7,564	5,215	2,349		6,739	5,240	1,499		3,970	5,120	3,263		2,050	3,263	1,213		5,419	3,665	1,754		2,339	189	2,150	
B. CAPITAL AND FINANCIAL ACCOUNT (A+B)	43	2	41		35	7	28		108	13	95		37	3	34		0	1	(1)		39	0	39		43	0	43	
a. Capital transfers	31	2	29		41	5	36		108	13	95		37	3	34		0	1	(1)		39	0	39		43	0	43	
General Government	31	2	29		41	5	36		108	13	95		37	3	34		0	1	(1)		39	0	39		43	0	43	
Other sectors	12	2	10		15	7	8		13	2	11		1	2	1		0	1	(1)		0	0	0		0	0	0	
Acquisitions/Sales of non-produced financial assets	1,611	838	773		7,469	5,208	2,261		6,631	5,227	1,404		3,969	5,083	1,114		3,263	2,049	1,214		5,380	3,665	1,715		2,296	189	2,107	
B. Financial Account	430	65	375		1,326	236	1,090		1,303	129	1,174		70	1,106	70		1,102	77	1,025		2,063	23	2,040		1,239	5	1,224	
a. Direct investment	0	14	(14)		45	58	(13)		48	31	17		34	11	8		24	24	(16)		0	21	21		9	0	9	
b. Portfolio investment	430	41	389		1,284	178	1,106		1,255	98	1,157		36	1,065	36		1,094	53	1,041		2,052	21	2,031		1,220	5	1,215	
Assets	43	57	(14)		894	503	391		1,155	580	575		371	473	102		1,094	53	1,041		2,052	21	2,031		1,220	5	1,215	
Liabilities	40	56	(16)		886	495	391		1,135	552	583		360	434	74		1,094	53	1,041		2,052	21	2,031		1,220	5	1,215	
Other investment	1,137	641	496		5,224	2,661	2,563		4,150	3,025	1,125		2,508	907	1,601		2,153	1,960	193		2,802	3,254	(452)		0	0	0	
Assets	241	83	158		890	176	714		795	845	(50)		889	562	(37)		176	125	51		0	0	0		0	0	0	
Liabilities	6	15	(9)		39	18	(21)		67	114	(47)		0	0	0		25	13	12		0	0	0		0	0	0	
Long-term loans and credits	2	4	(2)		8	12	(4)		22	26	(4)		0	0	0		0	0	0		0	0	0		0	0	0	
Short-term loans and credits	5	4	1		20	8	12		79	77	2		56	(7)	103		87	16	0		0	0	0		0	0	0	
Long-term outstanding export bills	51	33	18		286	120	166		248	150	98		190	20	0		0	0	0		0	0	0		0	0	0	
Short-term outstanding export bills	23	0	23		21	0	21		1	113	(112)		7	5	(2)		0	0	0		0	0	0		0	0	0	
Currency	150	0	150		504	0	504		338	360	(22)		603	294	(309)		0	0	0		0	0	0		0	0	0	
Residents' deposits abroad	0	29	(29)		0	12	(12)		40	5	35		33	4	(29)		48	25	23		0	0	0		0	0	0	
Other assets	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Long-term	0	29	(29)		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Liabilities	896	558	338		4,334	2,485	1,849		3,355	2,180	1,175		1,619	2,853	1,234		1,977	1,835	142		2,802	3,254	(452)		0	0	0	
Use of fund credits/loans from fund	0	9	(9)		110	98	12		67	117	(50)		95	115	20		72	139	(67)		0	126	(126)		0	0	0	
Long-term loans and credits	595	376	219		3,333	1,821	1,512		2,449	1,451	996		981	2,220	981		1,239	1,760	380		1,738	1,396	342		0	0	0	
Short-term loans and credits	137	31	106		396	298	98		289	228	61		259	227	(32)		0	0	0		328	584	(236)		0	0	0	
Long-term outstanding import bills	10	11	(1)		32	38	(6)		87	85	2		62	64	(2)		145	316	(171)		0	341	(108)		0	0	0	
Short-term outstanding import bills	105	131	(26)		206	140	66		233	200	33		199	193	(6)		0	0	0		395	719	(324)		0	0	0	
Currency	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Non residents' deposits in Romania	24	0	24		122	0	122		169	26	143		23	34	11		0	0	0		0	0	0		0	0	0	
Other liabilities	25	0	25		133	90	43		61	73	(12)		0	0	0		0	0	0		0	0	0		0	0	0	
Long-term	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Short-term	1	0	1		12	0	12		16	8	8		43	50	7		0	0	0		0	0	0		0	0	0	
Documents in transit	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Barter and clearing accounts	0	0	0		0	1	(1)		7	1	8		35	25	(10)		8	12	(4)		5	8	(3)		0	0	0	
Reserve Assets (NBR)	0	75	(75)		5	1,807	(1,802)		0	1,484	(1,484)		942	14	(928)		0	0	0		0	0	0		0	0	0	
Monetary gold	0	0	0		0	2	(2)		0	5	(5)		0	0	0		0	0	0		0	0	0		0	0	0	
SDRs	0	3	(3)		5	0	5		6	6	(6)		5	9	4		0	0	0		0	0	0		0	0	0	
Reserve position in the IMF	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
Foreign exchange	0	72	(72)		0	1,805	(1,805)		0	1,473	(1,473)		935	0	(935)		0	0	0		0	0	0		0	0	0	
Other Assets	0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0		0	0	0	
NET ERRORS AND OMISSIONS	0	654	(654)		0	776	(776)		724	0	724		0	288	209		935	0	224		194	0	1,163		1,064	0	(46)	

Notes:
(1) Actual data.
(2) Provisional data.
(3) Provisional Data.
Source: National Bank of Romania.

The following table presents the level of gold and foreign exchange which comprise the gross official reserves at the dates indicated:

Gold and Foreign Exchange Reserves

	As at 31st March	As at 31st December				
	2003	2002	2001	2000	1999	1998
			(in millions of US\$)			
Gold.....	1,137.9	1,180.2	938.7	920.0	966.6	924.3
Foreign exchange (including SDRs) ⁽¹⁾	6,323.0	6,125.7	3,922.5	2,469.7	1,526.3	1,374.8
Total	7,460.9	7,305.9	4,861.2	3,389.7	2,492.9	2,299.1

Note:

(1) SDR — Special Drawing Rights, the account currency of the IMF.

Source: National Bank of Romania.

Foreign Trade

Since January 1990, Romania's trade policy has undergone radical changes. Many tariff and non-tariff barriers have been suspended, the State has ended its monopoly on foreign trade and private initiative has been encouraged. Since January 1992, the process of harmonising import customs tariff with EU standards has been underway and has now been substantially completed. The number of types of goods which are forbidden from export has been reduced and import licenses are now no longer required.

Romania has taken a number of steps to integrate its economy into world trade. In February 1993, it signed an association agreement with the EU. It also concluded a free trade agreement with the European Free Trade Association ("EFTA") member countries. In January 1995, Romania became a member of the WTO. Since 1995, import tariffs have become the main trade policy instrument. Following the commitments assumed in the WTO and in other international agreements, the level of tariffs is reviewed annually. As a WTO member, Romania has undertaken to limit customs duties to between 0% and 350% for agricultural products and to 35% for industrial products. In July 1997, the agreement of Romanian accession to CEFTA came into effect. CEFTA membership benefits Romania by eliminating or discounting customs duties on the export of industrial products and by providing concessions regarding trade in agricultural products with member countries. Implementation of CEFTA in the agricultural sector proved more difficult to achieve, due to the high export subsidies offered by Hungary to its producers.

Trade with the EU has grown significantly since Romania signed an association agreement with the EU in 1993, and the EU is Romania's largest trade partner. Trade with the EU accounted for approximately 67.8% of Romania's exports and approximately 57.3% of its imports in 2001. Four countries (Italy, Germany, France and the United Kingdom) accounted for 79.3% of Romania's total exports to the EU and 78.3% of its imports from the EU during this period.

In 2002, trade with EU accounted for 67.1% of Romania's exports and 58.4% of its imports. The same four countries accounted for 80.4% of Romania's total exports to EU and 78.3% of the corresponding imports. In the first quarter of 2003 the exports to EU rose to 68.9%, while imports from EU declined to 56%. Italy, Germany, France and United Kingdom accounted for 79.4 of exports to EU and 78.7% of imports from EU.

The following table sets out the geographic distribution of Romania's trade with its main trading partners for the periods indicated:

Distribution of Trade

	Imports (CIF)						Exports (FOB)					
	First quarter 2003 ⁽¹⁾	2002 ⁽¹⁾	2001	2000	1999	1998	First quarter 2003 ⁽¹⁾	2002 ⁽¹⁾	2001	2000	1999	1998
(in millions of US\$)												
European Union												
Austria	162	593	441	332	311	347	123	422	342	251	243	249
Belgium	68	284	256	197	190	215	66	218	193	178	151	155
France	312	1,139	979	799	704	815	273	1,055	919	722	530	491
Germany	703	2,651	2,364	1,923	1,841	2,064	658	2,163	1,781	1,627	1,507	1,629
Greece	66	265	327	372	198	205	113	388	316	324	213	201
Italy	951	3,693	3,100	2,443	2,062	2,059	1,028	3,461	2,838	2,319	1,980	1,827
Portugal	17	49	32	19	13	15	9	33	21	24	25	17
Spain	63	290	219	130	109	121	88	204	179	114	107	84
Sweden	40	180	156	177	145	148	20	66	61	120	44	47
The Netherlands	101	390	322	284	243	278	137	434	386	329	327	313
United Kingdom	173	682	539	536	444	397	252	804	586	546	412	303
Czech and Slovak Republics	139	511	414	310	261	302	268	87	68	47	327	34
Hungary	151	639	599	513	414	547	124	431	371	355	271	219
Poland	114	349	275	193	160	146	34	107	100	102	120	82
Republic of Moldova	17	50	39	41	40	62	23	110	111	142	101	129
Russian Federation	531	1,287	1,184	1,120	704	1,062	8	40	83	89	47	81
Ukraine	114	344	320	196	109	167	11	38	45	90	63	53
China	115	374	253	211	145	178	71	209	89	85	36	23
Egypt	7	21	39	—	34	44	24	119	113	—	153	184
Iran	1	4	7	—	4	31	16	64	43	—	12	18
Israel	40	108	151	84	98	111	23	149	121	77	66	95
Japan	57	217	154	170	118	85	3	12	18	16	19	24
Switzerland	39	155	169	154	127	135	22	71	54	58	57	51
Turkey	166	560	377	271	237	272	188	576	451	627	468	323
United States	135	535	491	391	370	499	159	598	357	380	317	319
Other countries	578	2,487	2,345	2,188	1,476	1,532	298	2,010	1,739	1,744	1,191	1,351
Total of all Imports and Exports	4,860	17,857	15,552	13,054	10,557	11,838	4,039	13,869	11,385	10,366	8,487	8,302

Note:

(1) Provisional data.

Source: National Institute of Statistics.

Composition of Trade

In 2001, the export composition by merchandise groups was: textiles, clothing, footwear (34.8%, compared to 31.8% in 2000), machines, apparatus, equipment and transport means (20.0% compared to 18.9%), basic metals (13.3%, compared to 16.0%), other goods (9.2%, compared to 8.7%), chemical and plastic products (6.4%, compared to 7.2%), mineral products (6.9%, compared to 7.9%), wood products, paper (5.6%, compared to 6.2%) and agro-food products (3.8%, compared to 3.3%). The export increase of 9.8% over 2000 came from the following merchandise groups: agro-food products, textiles, clothing, footwear, machinery and appliances, transport means, and other goods.

In 2002, the export composition by merchandise groups was: textiles, clothing, footwear (33.7%, compared to 34.8% in 2001), machines, apparatus, equipments and transport means (21.3%, compared to 20.0%), basic metals (12.9%, compared to 13.3%), other goods (9.0%, compared to 9.2%) chemical and plastic products (6.1%, compared to 6.4%), mineral products (8.5%, compared to 6.9%), wood, paper (5.4%, compared to 5.6%), agro-food products (3.1%, compared to 3.8%). The export increase of 21.8% over 2001 came mainly from mineral products and machines, apparatus, equipments and transport means.

During the first quarter 2003, the export composition by merchandise groups was: textiles, clothing, footwear (33.9%, compared to 36.8% during the first quarter of 2002), machines, apparatus, equipments and transport means (21.1%, compared to 19.4%), basic metals (12.6%, compared to 12.4%), other goods (9.2%, compared to 9.4%), chemical and plastic products (6.4%, compared to 6.2%), mineral products (9.6%, compared to 7.6%), wood, paper (5.2%, unmodified), agro-food products (2.0%, compared to 3.0%).

The following table sets out the composition of Romania's exports for the periods indicated:

Composition of Exports (FOB — basis)

	Year Ended 31st December				
	2002 ⁽³⁾	2001	2000	1999	1998
	(in millions of US\$) ⁽¹⁾				
Live animals and animal products	145	131	126	116	94
Vegetable products	178	181	119	250	181
Animal or vegetable oils and fat	10	25	21	54	70
Food-stuff, beverages and tobacco	102	97	72	64	91
Mineral products ⁽²⁾	1,177	784	822	502	507
Chemical products	482	503	518	327	336
Plastics, rubber and related articles	359	231	229	182	174
Wooden products, excluding furniture	624	530	564	495	385
Paper and articles thereof	125	105	81	48	46
Textiles and textile articles	3,510	2,979	2,506	2,197	2,162
Footwear and similar	1,166	982	789	683	609
Articles of stone, plaster, cement, ceramics, glass and other similar materials	200	172	161	159	157
Basic metals and articles thereof	1,789	1,516	1,658	1,310	1,583
Machinery, appliances and electrical equipment; sound and video recorders and players	2,172	1,680	1,451	968	790
Transport means	787	598	509	450	427
Miscellaneous goods and products	1,043	871	740	682	690
Total Exports	13,869	11,385	10,366	8,487	8,302

Notes:

(1) Any conversion to dollars is made at the exchange rate prevailing when the transaction took place.

(2) Includes mineral fuels and oils.

(3) Provisional data.

Source: National Institute of Statistics.

Export of goods (FOB) classified by National Accounts System

	Year ended 31st December ⁽¹⁾			
	2001	2000	1999	1998
	(in millions of US\$, except for percentages)			
1. Capital goods	933.6	772.7	563.8	520.0
–% in total (%).....	8.2	7.5	6.6	6.3
2. Intermediary goods	5,259.7	5,133.5	4,048.1	3,989.9
–% in total (%).....	46.2	49.5	47.7	48.1
3. Consumer goods	4,881.8	4,084.0	3,627.8	3,521.2
–% in total (%).....	42.9	39.4	42.8	42.3
4. Other goods.....	309.9	376.3	247.2	270.9
–% in total (%).....	2.7	3.6	2.9	3.3
Total	11,385	10,366.5	8,486.9	8,302.0

Note:

(1) No data for 2002 is available as at the date hereof.

Source: National Institute of Statistics.

In 2001, the import composition by merchandise groups was: machines, appliances, equipment and transport means (27.8% compared to 28.9% in 2000), textiles, clothing, footwear (17.7%, compared to 18.0%), mineral products (14.4%, compared to 14.5%), chemical and plastic products (12.7% compared to 12.7%), other goods (9.4%, compared to 9.1%), agro-food products (7.8%, compared to 7.1%), basic metals (7.3%, compared to 6.8%) and wood products, paper (2.9%, compared to 2.9%). The increase in imports of 19.1% over 2000 came from all merchandise groups.

The import composition by merchandise groups in 2002 was: machines, apparatus, equipments and transport means (28.6%, compared to 27.8% in 2001), textiles, clothing, footwear (18.0%, compared to 17.7%), mineral products (12.8%, compared to 14.4%), chemical and plastic products (13.9%, compared to 12.7%), other goods (9.5%, compared to 9.4%), agro-food products (6.6%, compared to 7.8%), basic metals (7.4%, compared to 7.3%), wood, paper (3.2%, compared to 2.9%). The increase in imports of 14.8% against 2001 came from all merchandise groups, except agro-food products.

The import composition by merchandise groups over the first quarter 2003 was: machines, apparatus, equipments and transport means (27.6%, compared to 26.8% during the first quarter of 2002), textiles, clothing, footwear (17.3%, compared to 17.9%), mineral products (15.6%, compared to 15.5%), chemical and plastic products (13.9%, compared to 13.3%), other goods (9.0% compared to 9.2%), agro-food products (6.5%, compared to 7.5%), basic metals (6.8%, compared to 6.6%), wood, paper (3.3%, compared to 3.2%).

The following table sets out the composition of Romania's imports for the periods indicated:

Composition of Imports (CIF- basis)

	Year Ended 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(in millions of US\$) ⁽¹⁾				
Live animals and animal products.....	295	280	148	123	208
Vegetable products.....	276	335	273	224	226
Animal or vegetables oils and fats	66	34	35	32	56
Food-stuff, beverages and tobacco	536	558	476	417	524
Mineral products.....	2,278	2,237	1,893	1,252	1,687
Chemical products.....	1,502	1,218	1,077	975	1,028
Plastics, rubber and related articles.....	980	758	582	477	512
Wooden products, excluding furniture	149	110	83	68	59
Paper and articles thereof.....	419	345	291	264	311
Textiles and textiles articles.....	2,930	2,500	2,131	1,937	1,825
Footwear and similar	291	254	223	190	198
Articles of stone, plaster, cement, ceramics	292	230	179	155	163
Basic metals.....	1,321	1,138	891	688	790
Machinery, appliances	4,092	3,527	3,216	2,483	2,723
Transport means	1,017	798	552	420	485
Miscellaneous goods and products.....	1,413	1,230	1,005	852	1,043
Total Imports	17,857	15,552	13,055	10,557	11,838

Note:

(1) Provisional data.

Source: National Institute of Statistics.

Imports of Goods (CIF) classified by National Accounts System

	Year ended 31st December ⁽¹⁾			
	2001	2000	1999	1998
	(in millions of US\$, except for percentages)			
1. Capital goods	2,559.1	2,057.5	1,743.5	1,900.6
–% in total (%).....	16.5	15.8	16.5	16.1
2. Intermediary goods	10,287.7	8,891.3	6,882.9	7,538.9
–% in total (%).....	66.1	68.1	65.2	63.7
3. Consumer goods	2,427.0	1,943.8	1,746.0	1,984.4
–% in total (%).....	15.6	14.9	16.5	16.8
4. Other goods.....	278.2	161.9	184.4	413.9
–% in total (%).....	1.8	1.2	1.8	3.5
Total	15,552.0	13,054.5	10,556.8	11,837.8

Note:

(1) No data for 2002 is available as at the date hereof.

Source: National Institute of Statistics.

Foreign Direct Investment

As a part of its economic transformation efforts, Romania implemented a policy to encourage foreign direct investment as a means for attracting capital, infusing new managerial skills and creating employment opportunities. The Government has adopted legislation to provide equal treatment to foreign investors and providing them with unrestricted access to most sectors of the economy. Foreign investors may own up to 100% of a Romanian entity, repatriate all profit and capital, and retain all export earnings. In addition, investment incentives may be made available by the Government for major investors, including tax holidays and tariff exemptions for imported equipment for projects worth over US\$50 million. In 1999, the Government only granted such incentives to Renault for its acquisition of the Romanian car manufacturer Automobile Dacia. The Government has subsequently adopted a moratorium on granting such incentives pending the review by the IMF of the impact such incentives may have on budget revenues. To date, the IMF has not indicated its agreement to the granting of such incentives. Romania has been a member of the Multilateral Investment Guarantee Agency and the IFC since 1992.

In 1999, net inflows of foreign direct investment (in cash and in kind) amounted to US\$1,025 million, a reduction of almost one half compared to 1998, due to the lack of foreign investors' confidence in the potential of the Romanian economy in a period when GDP was still declining. The most important inflows from privatisation (US\$260 million) were obtained from the sale of stakes in the Romanian Bank for Development and Automobile Dacia Pitesti. Foreign direct investments covered over 70% of the current account deficit.

In 2000, net inflows of foreign direct investment (in cash and in kind) amounted to US\$1,048 million, up 2.2% compared to 1999. The principal investing countries in 2000 were South Korea, the United States, Germany, Italy, France, The Netherlands, Cyprus, Austria, the United Kingdom and Turkey. From a geographical point of view, the significant majority of investments were from Western Europe (61%), followed by Asia (15%), North America (11%) and Middle East (6%).

In 2001 Law no. 332/2001, was adopted in order to support investments with a significant impact on the economy. This law, relating to investments in excess of US\$1,000,000 (either foreign or domestic) provides certain incentives relating to tax deductions and exemptions from customs duties for imported equipment. In 2001, the net inflows of foreign direct investment (in cash and in kind) amounted to US\$1,174 million, an increase of 12% over 2000. The principal investing countries in 2001 were the Netherlands, Germany, France, the United States, Cyprus, Austria and Italy.

In 2002 net inflows of foreign direct investment equalled US\$1,090 million, decreasing slightly as compared to 2001 (by 7.1%). Net inflows of foreign direct investment of non-residents totalled US\$1,106 million, down 4.4% from a year earlier; financial flows to the non-bank sector accounted for 64% of foreign direct investment, while the remainder was investment in kind. At the end of 2002, taking into account the value

of underwritten capital, the main investing countries in Romania were: the Netherlands, Germany, USA, France, Austria and Italy.

In the first quarter of 2003, foreign direct investment amounted to US\$375 million, increasing by 53.7% compared with first quarter 2002, primarily in form of equity capital in the non-banking sector.

Monetary and Financial System

The National Bank of Romania

The National Bank of Romania ("NBR") is the central bank of Romania. The primary objective of the NBR, as set forth in Law no. 101/1998 (the National Bank Law as amended), is to maintain overall price stability through stability of the domestic currency. To this end, the NBR is responsible for the drafting and implementation of the monetary, foreign exchange, credit and payment policies and for the prudential licensing and supervision of banks so as to ensure the normal performance of the banking industry.

In its capacity as the monetary authority of Romania, the NBR performs three basic functions:

- banker to banks (currency issue and refinancing);
- banker to the State (the Ministry of Public Finances account holder); and
- manager of the country's foreign reserves (gold and foreign currency).

The NBR may extend loans to the Government to bridge the temporary gap of the general account of the Treasury, under very restrictive and strictly specified terms.

The NBR is wholly-owned by the State. The Government and the NBR maintain a close working relationship. While the NBR is expected to support the Government's economic policy, the NBR's power to determine monetary policy is not subject to any review or consent by the Government. The NBR is controlled by a Board of Directors who are appointed to their office by Parliament and serve for terms of six years, with the possibility of being re-elected.

The NBR's head office is in Bucharest and it has 22 regional offices throughout Romania which assist in supervising financial institutions, clearing payments and organising the distribution of currency. The NBR is a shareholder in the EBRD, IMF, IFC and the World Bank Group (see "Relationship with Multilateral Financial Institutions").

Monetary Policy

In conducting its monetary policy, the NBR utilises specific market-based procedures and instruments: money market operations, standing credit and deposit facilities and minimum reserve requirements. The NBR may discount, acquire, accept or sell claims and securities issued by the State, banks or any legal entity, and may take deposits from banks under the terms it deems appropriate for the attainment of its monetary policy target. In addition, the NBR publishes exchange rates, sets the NBR's reference rate (by aggregating market prices for the day), buys or sells Government securities in the open market, sets rates for the NBR's purchase or repurchase of Government securities from commercial banks and engages in other similar transactions that affect liquidity within the financial sector. The primary objective of the NBR is to maintain overall price stability through the stability of the domestic currency.

Recent Monetary Policy

In 1997, the Government sought to bolster economic growth prospects by adopting a programme that rapidly abolished or diminished price controls on a wide variety of staple products (including wheat, meat, milk, butter and edible oil). This liberalisation, together with the imposition of higher tariffs for industrial inputs (and resultant higher prices for industrial outputs) caused high inflation (151.4% for the year) and overwhelmed the NBR's efforts to utilise monetary policy as a means to slow inflation. Inflationary pressures, combined with the rapid depreciation of the Leu during 1997, caused the supply of broad money ("M2") to increase from Lei 30,334 billion as at 31st December 1996, to Lei 62,150 billion as at 31st December 1997.

In 1998, the NBR sought to lower the inflation rate to 45% by exercising tighter control over the monetary base as a primary policy instrument. This method proved effective, as the annual rate of inflation fell to 40.6% in 1998 (on a December to December basis) from 151.4% a year earlier. By imposing severe control on monetary variables, monetary policy succeeded in absorbing most of the inflation expectations, as well as the impact on prices created by fiscal adjustment and changes in administered prices. Monetary expansion was boosted at the end of the year in the wake of the acceleration of the privatisation process, as such expansion was required to off-set larger than expected inflows of foreign currency. M2 increased sharply by 16.8% to Lei 92,530 billion in December 1998.

For 1999, the main objective of monetary policy was to reduce inflation and achieve a durable macroeconomic stabilisation. The efficiency of monetary policy was seriously affected during 1999, as a result of the sudden decrease in the money demand. The lack of confidence in the banking system as well as the

economic decline influenced the level of money demand during the whole year. Consequently, M2 decreased by 6.4% during 1999 (in real terms), though the money supply increased in real terms only in February, July, August and December. In order to reduce the excess liquidity, the level of required reserves was subject to several changes in 1999. The required reserves ratio for deposits held in national currency at the NBR increased from 15 to 20% in July and then again to 25% in November and to 30% in December. The required reserves for foreign currency deposits increased from 15 to 20% in July 1999. The interest payable on required reserves was also raised, in order to partially off-set the additional costs for the banks caused by higher reserve requirements.

The main characteristics of monetary policy during 2000 were the continuation of the current account adjustment process, which led to the preservation of a consistent surplus on the foreign exchange market, and a better public debt management, which strongly influenced monetary policy.

The NBR intervened strongly in order to (i) provide liquidity to some state-owned banks undergoing a restructuring process prior to privatisation and (ii) enable the Bank Deposits Guarantee Fund to compensate the depositors of two bankrupt banks, by extending two credit lines to the Fund. The crisis with which the financial system was confronted during May 2000 required intervention aimed at preventing an adverse effect on the entire banking system.

An important factor was also the entering into force of the new "Regulation on open market operations performed by the NBR and on standing facilities granted to banks" and of the rules for its implementation, which allowed for the diversification of the NBR monetary policy instruments, as well as for the changing of the characteristics of some of the previously used instruments.

In 2001, the main features of monetary policy were the remonetisation of the economy and the trend of diminishing inflation. Broad money increased in real terms by 12%, while credit to non-government also grew by 20% for Lei denominated loans and by 22% for loans denominated in foreign currency. Consistent with the trend of disinflation, interest rates recorded a downward trend, with real interest rates for Lei denominated instruments tending to converge with the interest rates for foreign currency denominated instruments. The NBR continued to use open market operations as its most active tool of implementing monetary policy. On the foreign exchange market, the NBR continued to act as a net purchaser, with the goal of preventing an excessive appreciation in real terms of the domestic currency compared with the U.S. dollar or the Euro. As part of Romania's negotiations for EU accession, the NBR has set a timetable for the liberalisation of capital account operations, with a goal of abolishing all restrictions by the time of Romania joining the EU. The last restrictions to be lifted will be those placed on operations by non-residents with Romanian money market instruments.

In 2002, the monetary policy was more firmly oriented towards disinflation. The policy of monetary restraint as well as the NBR's increasing ability to implement such policy played a significant part in decelerating inflation — whose annual rate dropped below the initial target (17.8%, compared to 22%). The implementation of the monetary policy continued to encounter a structural excess liquidity in the banking system, with the monetary absorptions of the central bank, expressed as a flow, reaching a record level (23.3% of GDP). Non-governmental credit rose in real terms by 28.9%. In this context, the central bank extended the use of market based monetary policy instruments, especially of deposit taking operations, while at the same time placing less reliance on the reserve requirements mechanism. This mechanism was rendered more flexible starting in August 2002, and the reserve rate for lei deposits was reduced in November from 22% to 18%; at the same time the reserve ratio corresponding to foreign currency deposits was raised to 25% in order to discourage foreign currency lending which increased through the year.

The following table sets out selected monetary aggregates for the period December 1997 to December 2002:

Monetary Aggregates

	31st December				
	2002	2001	2000	1999	1998
	(in billions of Lei)				
Currency outside banks	45,577	35,635	25,742	17,372	11,525
Demand deposits	42,726	28,673	20,589	12,297	10,585
Narrow money-M1 ⁽¹⁾	88,304	64,309	46,331	29,669	22,110
Saving deposits	88,894	63,706	44,549	39,238	30,967
Time deposits	49,702	26,713	19,324	14,737	9,252
Forex deposits of residents	146,812	115,784	74,856	50,482	30,202
Broad money-M2 ⁽²⁾	373,711	270,512	185,600	134,122	92,530

Notes:

(1) Currency outside banks plus demand deposits.

(2) M1 plus saving deposits plus time deposits plus foreign exchange deposits of residents.

Source: National Bank of Romania.

Interest Rates

The interest rate policy promoted by the NBR in 1997 focused on achieving positive real interest rates in order to help restore confidence in the Leu. However, the NBR's capacity to influence interest rates by the use of specific instruments or policies is limited by the NBR's net debit position in relation to the banking system as a whole. Interest rates progressed unevenly in 1997, at times outpacing inflation and at other times lagging behind it. Interest rates were particularly high in the first half of 1997, due to the heavy depreciation of the Leu, which caused banks to raise interest rates in response.

In 1998, interest rates again evolved unevenly. From February to July, interest rates showed a downward trend in response to decelerating inflation and monetary policy signals. Again the discount rate was lowered, but inflationary expectations returned to drive rates higher towards the end of the year. For the year, lending rates to non-bank clients fluctuated moderately and credit to non-government institutions exceeded 1997 levels.

In 1999, lending rates to non-banks rose steadily, although deposit rates increased more slowly. Interest rates in 1999 were very volatile in the interbank market. This volatility resulted from strains and unfavourable expectations in the foreign exchange market, tight controls on liquidity and interventions by the NBR in the foreign exchange and money markets. The presence of several banks in financial difficulties as borrowers on the Interbank market contributed to increased volatility.

In 2000, the NBR maintained the position of net debtor in relation to the banking system. This position represented an obstacle for using interest rates on deposits with it as an active instrument of monetary policy. Therefore, as an alternative, the NBR used the regular auction of reverse repurchase agreements bearing a variable interest rate, with a maturity of one month, as a tool of monetary policy from August 2000.

Interest rates recorded a downward trend after they reached a peak in January 2000. This trend reflected the changes undergone in the main factors determining the level of interest rates:

- the freeing of the interbank market from the distortions caused by troubled banks;
- the surplus on the money market, relatively modest on average, but significant over some periods;
- the relative alleviation of inflationary pressures; and
- the co-ordination of monetary policy with public debt management.

Consistent with its disinflation policy, since March 2002, NBR has initiated a reduction of its own interest rates. The gradual approach taken by the NBR regarding interest rates was justified by the need to prevent a potential rise of inflationary pressures and expectations. During the year, the ceiling interest rate on NBR's stabilisation operations (aiming to reduce excess liquidity in the monetary market) was gradually reduced by approximately 15 percentage points. The interest rates applied by the commercial banks in relation with non-bank, non-government clients have followed the trend of the yields attached to deposits with the NBR, but their decline was much slower. Under these circumstances, the real interest rates on term deposits remained, in general, positive, the gains offered by them being higher than those offered by dollar deposits.

The key refinancing interest rates during the period from December 2000 to December 2002 are presented in the following table:

**National Bank of Romania — Annual Average Interest Rate
(for domestic currency operations)**

	2002	2001	2000
	(% per annum; end of period)		
Reference rate*	20.4	35.0	35.0
Reverse repo interest rate	21.0	33.6	42.3
Deposit taking interest rate	19.6	34.4	47.8
Lending facilities.....	45.0	65.0	75.0
Deposits facilities	5.0	6.0	5.0

* until 1st February 2002, discount rate.

Note: Starting in March 2000, according to Regulation no. 1 on open market operations performed by the NBR and lending and deposits facilities granted to banks.

	Lending Rate			Deposit Rate		
	Average	Non-bank customers	Interbank operations (including relations with NBR	Average	Non-bank customers	Interbank operations (including relations with NBR)
			(% per annum)			
2003 April.....	19.60	23.85	14.91	10.38	10.13	17.37
March	20.49	25.94	14.45	11.64	11.36	18.33
February	20.24	25.89	14.44	11.90	11.71	16.38
January.....	21.97	27.87	16.38	12.48	12.34	16.50
2002 December	23.1	28.9	17.3	13.0	12.8	16.7
November	23.9	30.3	17.3	14.6	14.5	17.9
October	25.1	32.0	18.5	15.9	15.9	18.1
September.....	26.0	32.5	19.7	16.5	16.4	19.8
August	28.0	34.6	21.4	17.9	17.8	20.3
July	29.0	35.0	22.4	18.5	18.4	19.3
June	30.5	36.7	23.8	20.5	20.3	24.5
May.....	32.1	38.1	25.0	21.9	21.7	25.8
April	32.3	37.9	25.8	21.9	21.7	26.2
March	33.4	39.6	25.3	23.7	23.5	28.8
February	33.2	39.1	25.1	22.9	22.8	25.3
January.....	34.4	40.4	26.4	23.5	23.3	28.7
2001 December	34.7	40.6	26.8	23.7	23.4	29.4
November	34.4	39.9	26.7	23.6	23.4	28.1
October	36.3	42.4	27.4	24.7	24.6	28.4
September.....	37.0	42.8	29.0	24.4	24.2	29.9
August	37.7	44.0	28.9	25.5	25.4	28.0
July	38.6	45.1	29.2	27.2	27.0	31.1
June	40.3	46.8	30.3	27.8	27.7	31.6
May.....	42.7	49.4	30.8	29.3	28.9	38.0
April	42.0	48.1	31.0	29.4	28.7	41.2
March	43.5	50.3	32.8	29.9	29.5	35.3
February	40.3	46.0	29.0	27.5	27.0	33.9
January.....	42.6	49.2	30.9	29.3	29.1	32.7
2000 December	42.6	49.2	30.6	28.9	28.6	33.2
November	41.1	47.2	29.8	28.6	28.2	33.9
October	42.2	48.2	30.4	29.6	29.4	32.5
September.....	39.8	45.4	28.8	26.8	26.4	33.2
August	40.9	47.3	27.0	27.1	27.0	27.3
July	43.2	51.2	26.2	29.5	29.4	29.9
June	43.6	50.5	29.3	30.1	29.9	32.8
May.....	48.9	57.0	29.4	33.7	34.0	30.9
April	51.5	60.2	30.2	37.0	37.1	34.9
March	54.8	63.7	35.8	41.4	41.2	44.2
February	55.2	62.9	38.4	42.2	41.6	55.0
January.....	55.8	63.4	39.5	42.3	41.8	48.1
1999 December	55.2	62.0	42.6	42.1	41.3	49.6
November	52.7	60.7	36.6	41.0	40.7	45.3
October	53.2	61.7	34.8	42.8	42.9	41.7
September.....	59.0	68.6	31.4	43.7	44.0	38.6
August	62.4	72.4	32.4	47.8	48.7	41.4
July	67.8	75.6	36.6	49.6	49.2	52.1
June	66.2	72.6	46.9	49.2	49.1	49.8
May.....	63.4	69.8	42.1	50.8	49.8	54.7
April	63.2	64.5	58.2	53.3	47.9	82.0
March	62.5	61.9	64.6	53.2	46.1	89.7
February	58.2	59.2	55.4	51.3	44.5	101.8
January.....	53.0	58.7	36.1	45.0	42.5	65.0

Source: National Bank of Romania.

Foreign Exchange and Convertibility of the Romanian Leu

The NBR draws up and implements the regulations governing foreign currency operations, and supervises the implementation of the foreign exchange regime in Romania.

As a result of Romania having assumed the obligations referred to in Article VIII, Sections 2, 3 and 4 of the International Monetary Fund Statute, current account (as opposed to capital account) transactions have been liberalised for both residents and non-residents.

Banks, and other entities permitted by law, may release foreign currency in cash for residents and non-residents from their foreign currency accounts. Individuals may enter into Romania with foreign currency cash amounts, up to a limit equivalent to US\$10,000 per person and per journey and are required to declare at the Romanian customs authorities foreign currency cash amounts exceeding US\$10,000. Individuals may take out foreign currency in cash up to a limit equivalent to US\$10,000 per person and per journey. For amounts of cash in foreign currency exceeding the equivalent of US\$10,000 per person and per journey, individuals are required to declare to the Romanian customs authorities such amounts and to deposit them with the customs authorities who will complete receipts in the holder's name, such amounts being released upon return to the country.

Regarding capital account operations, Circular no. 26/2001, amending and supplementing Regulation no. 31997, aligned the terminology, definitions and classification in this area with the provisions of Directive 88/361/EEC. This created the legal framework necessary for the gradual liberalisation of capital account transactions which are currently subject to licensing thus allowing complete liberalisation before Romania's accession to the EU.

Since the issuance of Circular no. 26/2001 important steps have been taken to liberalise capital operations. Thus, the following additional operations have been liberalised: direct investments by residents abroad; real estate investments by residents abroad; the admission of domestic securities and units of national collective investment undertakings to foreign capital markets; medium and long term credits related to commercial transactions or to the provision of services granted by residents to non-residents; guarantees granted by non-residents to residents; transfers in performance of insurance contracts; financial loans and credits whose reimbursement deadlines are less than one year granted to residents by non-residents; the physical import and export of financial assets (excepting cash payment instruments); acquisition of foreign securities and units of foreign collective investment undertakings by residents; financial loans and credits granted to non-residents by residents and guarantees granted by residents to non-residents.

As of 1st January 2004, the following types of transaction will no longer be subject to NBR licensing: capital movements relating to the admission of foreign securities and foreign units of collective investments undertakings to the Romanian capital markets; operations in non-residents' deposit accounts denominated in Lei opened with Romanian financial institutions and the physical import and export of financial assets (cash payment instruments).

Consequently, after 1st January 2004, money market transactions and operations through residents' current and deposit accounts opened with foreign financial institutions will be the only remaining capital account operations still to be liberalised (until the date of accession to EU).

Exchange Rate Policy

Significant steps were taken by the NBR in 1997 to remove administrative control over foreign exchange operations by granting banks free access to the foreign exchange market and full liberalisation of both foreign exchange market and exchange rates.

The most notable progress made in 1998 was the formal notice to the IMF on 26th March 1998 with regard to the decision by Romania to adopt the obligations under Art. VIII of the IMF's Articles of Agreement; this included a commitment to abolish restrictions on current account operations and not to adopt any such restrictions in the future.

Due to the strong external constraints, mainly the peak of foreign debt service due in 1999, the foreign exchange policy played an active role in this period. The NBR's intervention on the foreign exchange market registered a record level of Lei 1,800 billion (gross foreign currency purchases). During the first quarter of 1999, the instability of demand/supply for foreign currency encouraged speculative behaviour in the foreign exchange market, which led to a 25.1% nominal depreciation of the national currency. Since April 1999 an excess supply of foreign currency has been maintained in the exchange market. In only nine months, an excess supply of US\$839.5 million of foreign currency accumulated, due to the permanent adjustment of the trade balance. As a result, the national currency depreciated at a slower pace during the last three quarters

of 1999 (2.7% on a monthly average). In 1999, the real depreciation of the Lei was 9.4% (average December/average December), which led to an improvement in Romania's external competitiveness.

The main goal of the exchange rate policy in 2000 was to increase foreign exchange reserves to enable the smooth servicing of foreign debt, the smooth functioning of the foreign exchange market and the preservation of the exchange rate credibility. Another important goal was the consolidation of the currency account convertibility of the national currency.

In 2000, the excess supply of foreign currency provided by the Romanian banks' clients prevented the rise of speculative behaviour and provided the platform for the frequent NBR interventions in the market with a view to maintaining the competitiveness of Romanian exports. The NBR consolidated its position of net buyer (the volume of net purchases exceeded US\$1,145 million at the end of December 2000), increasing its currency reserves to US\$2,496.9 million at the end of December 2000, up US\$971 million from the end of 1999. The NBR successfully avoided a significant real appreciation of the domestic currency; during the year 2000, the Leu depreciated by 1.1% in real terms against the U.S. dollar and appreciated by 11.35% in real terms against the Euro.

The NBR maintains a managed floating foreign exchange regime which enables the exchange rate to reflect the demand/supply ratio established by the market; therefore, the NBR's intervention is aimed at preventing wide swings of the exchange rate without targeting any particular level of the exchange rate. The exchange rates used by exchange bureaus fluctuate approximately one percentage point against interbank rates while the black market disappeared once individuals gained unlimited access to foreign exchange.

Exchange rate policy

The exchange rate policy played a key role in slowing the pace of price increases and in calming down the inflationary expectations; simultaneously, it sustained the improvement of the economy's external position. In the context of rising of the euro/dollar exchange ratio on the international financial markets, the use of the informal currency basket (euro, dollar) as a reference in conducting NBR's exchange rate policy was beneficial, resulting in a strengthening of the Leu compared to the dollar by 10.5% and in its depreciation by 2.9%, in real terms, as against the European currency.

The NBR continued to counteract the pressure exerted by the capital inflows on the national currency, moderating the tendency of the appreciation of the Leu against the basket; as a result, the NBR's net purchases from the foreign exchange market reached in this year a record amount (about US\$1,777 million). Thus, as a side effect of its exchange rate policy, NBR has raised substantially the foreign reserves which attained this year an absolute maximum amounting to US\$6,145 million. The negative effects of these interventions consisted in increased difficulty in combating the excess liquidity.

The following table sets forth information with respect to the Leu/Dollar exchange rates for the years 1997 to 2001.

Leu/Euro and Leu/Dollar Exchange Rates

	For Euro*		For Dollar	
	Average	End of Period	Average	End of Period
31st December 2002	31,255	34,919	33,055	33,500
31st December 2001	26,027	27,881	29,060	31,597
31st December 2000	19,956	24,118	21,692	25,926
31st December 1999	16,296	18,331	15,333	18,255
31st December 1998	9,989	12,788	8,876	10,951

Source: National Bank of Romania.

*ECU till 31st December 1998.

Banking System

General

Prior to 1989, when Romania was a centrally controlled economy, the banking system consisted of only five state-owned banks which conducted banking operations as a monopoly in their respective business sectors, (foreign trade financing, agriculture and agri-business financing, personal savings and loans to individuals). Until April 1991, the NBR functioned both as a central bank (issuing currency and administering central accounts) and a commercial bank for the industrial sector. In April 1991, as part of the reform process,

Parliament adopted new laws relating to commercial banking activity and the status of the NBR, which created a two-tier banking system. As a result, the NBR retained its central bank functions and its commercial banking activities were transferred to the Romanian Commercial Bank which had been established in December 1990. The NBR became independent of the Government in the performance of its duties. The law also enabled the development of a network of commercial banks under the authorisation and supervision of the NBR.

With the development of a more complex banking system, many of the regulations of the 1991 banking laws had become obsolete by 1998. A new package of banking laws was adopted in 1998 — Law no. 58/1998 Banking Law, Law no. 101/1998 regarding the Statute of the National Bank of Romania and Law no. 83/1998 on the bankruptcy procedure for banks — that incorporated both Romania's experience accumulated in the years elapsed since the adoption of the first banking laws in 1991 and its international experience.

Transformation of the Banking System

The development of a modern banking system in Romania is not yet complete. Further actions will be required to remove structural constraints which will help, among other things, increase competition in the loan and deposit markets, improve credit operations and translate savings into investment.

Until 1993, the banking system had not played a major role in providing credit to the economy as intercompany arrears were substantial and high levels of inflation made prudent credit analysis difficult. In addition, the lack of mechanisms for the proper enforcement of debt combined with significant social and political pressure made it difficult for banks to curtail financing to non-viable companies, resulting in increases in non-performing assets. These factors contributed to the unavailability of long-term funding for fixed asset investment thus impeding the restructuring of the economy. Such factors prevailed during the 1997-1999 period. In addition, as a result of high levels of inflation, depositors chose to place new funds in foreign currency instruments and banks experienced significant reductions in their capital base. Loans and deposits in foreign currency began to represent an increasing share of the balance sheets of banks.

As a result of the 1992-1996 Government's policy of subsidising of certain sectors of the economy, some of the state banks such as Bancorex and Banca Agricolă were forced to make large loans that proved uncollectable. This fact coupled with a rather lax supervision of lending generally by the NBR led to large bad loan portfolios, especially for the two above mentioned banks. After 1996, such policies were abandoned. The Government initiated the privatisation and restructuring of state-owned banks, while seeking to prevent the risk represented by the weakest banks from spreading into the banking system generally.

The restructuring of two major state owned banks, Bancorex and Banca Agricolă, began in 1999. With respect to Bancorex, on 31st July 1999 the National Bank withdrew its banking licence. All files relating to non-performing assets were physically transferred to the Agency for the Recovery of Bank Receivables ("ARCB"), an agency set up to deal with the bad debts of state owned banks restructured or liquidated and all corresponding assets were transferred from the balance sheet of Bancorex to the ARCB. All retail deposits as well as most corporate deposits were transferred to Romanian Commercial Bank S.A. ("BCR"). In addition, BCR assumed the other liabilities of Bancorex, and the Government issued T-bills to BCR to offset such liabilities. At the shareholders' meetings of the two banks, resolutions were passed authorising a merger by absorption of Bancorex into BCR. The absorption of Bancorex's assets was completed in September 1999 and became operational from 21st October 1999.

In the case of Banca Agricolă, the Government embarked on a restructuring programme aimed at reducing its losses, downsizing and recapitalising the bank, with a view to Banca Agricolă's ultimate privatisation. The recapitalisation was effected by issuing domestic treasury bonds to Banca Agricolă in exchange for certain of its non-performing assets, which were transferred to the ARCB. The total amount of bonds issued up to 31st December 2000 was Lei 12,050.0 billion (equivalent to US\$735.9 million, calculated at the exchange rate valid on the issuing date). Simultaneously, a consortium led by Lazard Freres and including Raiffeisen Zentralbank Österreich AG ("Raiffeisen") was appointed to advise on the privatisation of Banca Agricolă. In February 2001, Raiffeisen resigned from the consortium and submitted its bid to acquire a majority stake in Banca Agricolă, together with the Romanian American Enterprise Fund ("RAEF"). The privatisation contract was signed on 15th April 2001. The proceeds of the sale amounted to US\$52 million.

Restructuring and privatisation of the banking sector is one of the main objectives in the structural reforms programme supported by the IMF and the World Bank.

Encouraging Competition

The Government encourages competition within the banking system to improve not only the functioning of the banking system as a whole but also to provide additional products and services to customers. In this area, the Government encourages the establishment of banks with foreign capital participation. Foreign banks may hold 100% of the equity of newly established Romanian banks or open branches or representative offices. Since 1992, foreign capital participation in the banking system has increased significantly. See "Structure of the Banking System" below. Privatisation is another factor contributing to increased competition. See "Restructuring and Privatisation — Privatisation" above.

Modernising Payments Clearing Systems

By law, all banks licensed by the NBR have to hold a Lei denominated settlement account with the NBR in order to participate within the domestic payment and settlement systems. Within these systems only payments denominated in the domestic currency (Lei) are processed. By law, final settlement is done by the NBR. Cross-border payments are made only through foreign correspondent banks, the messaging network for these payments being SWIFT.

The Romanian payment and settlement systems are subject to an ongoing reorganisation and development process for implementing an interbank electronic payment system. To this end, the banking community in Romania set up the National Company for Funds Transfer and Settlement ("TransFonD") in June 2000. TransFonD became operational in early May 2001 by performing, as the NBR's agent, a significant part of the payment activity. TransFonD's main objective is to implement, together with the NBR, the new interbank electronic payment system. The new national payment system will be in line with equivalent existing systems in the EU, and will subsequently be able to connect to TARGET. Romania benefits from Phare assistance in implementing the project on the interbank electronic payment system, which involves: a Real Time Gross Settlement System (RTGS), an Automated Clearing House (ACH) and a Government Securities Registration and Settlement System.

Developing a Deposit Insurance System

Under Law No. 66/1996 (as amended), the Government guarantees in full only individuals' deposits held with the Casa de Economii Consemnatiuni (CEC). A more general deposit insurance scheme, covering general commercial banks, was put in place in 1996 by establishing the Bank Deposits Guarantee Fund. Starting in 2000, the credit cooperatives were included in the bank deposit insurance scheme. The fund is mainly financed by contributions from each deposit-taking institution. The current ceiling of the bank deposits guarantee is Lei 118,469,000. The insured amount is adjusted semi-annually in line with the consumer price index.

New Banking Regulations

The banking system reform focuses on the improvement of prudential supervision, strengthening of the legal framework governing banking activity, consolidation of the central bank's authority and privatisation of the banking system.

The package of laws introduced in 1998, governing banking activity, the bankruptcy of banks and the Statute of the NBR represented further steps toward the goal of achieving a sound banking system. Based upon the above-mentioned legal framework, since 1999 there has been an ongoing process of issuing new regulations regarding banking licensing, changes in the banks' condition, minimum share-capital of banks and branches of foreign banks, the banking register, the opening in Romania of representative offices by foreign banks, banks' own funds, limitation of the banks' credit risk (solvency, large exposures, loans granted to related parties and bank employees), credit and placements classification and provisioning, merger and spin-offs of banks, liquidity and supervision of foreign exchange positions financial derivative instruments operations, know your customer standards.

On 13th August 2000, Emergency Government Ordinance No. 97/2000, regarding credit cooperative organisations, became effective. This ordinance, as approved by Law No. 200/2002, revised the status of credit cooperative organisations established through Law 106/1996, to the effect of placing these institutions under the control of the NBR and strengthening prudential measures in this sector. Cooperative credit organisations are autonomous, non-governmental associations, lacking political affiliation, the primary purpose of which is to perform banking operations for the benefit of their members. The NBR issued a set of regulations applicable to credit cooperative organisations based on which these credit institutions are subject to financial standards and requirements similar to those pertaining to banks. The NBR issued prudential rules regarding licensing of credit cooperative organisations, own funds and capital of credit cooperative

organisations and changes in their condition, as well as the amendment of the existing rules applicable to banks regarding limitation of credit risk (solvency, large exposures and loans granted to related persons and employees) and credit and placements classification and provisioning.

Likewise, as regards the payments field, several rules that regulate the activity of banks were adopted so as to become applicable to credit cooperative organisations.

In October 2001, the Banking Law was amended in order to introduce more stringent requirements for the shareholders of banks and higher ethical and professional standards that must be fulfilled by the top management of banks. The NBR has also introduced accounting regulations for credit institutions that are based on the International Accounting Standards. In addition, the format of accounts used by banks was adopted by credit cooperative organisations under the rules governing them.

With a view to ensuring the full transposition into the national legislation of the relevant acquis communautaire, especially the provisions of Directive 2000/12/CE related to the taking up and pursuit of the business of credit institutions, the Banking Law is expected to be amended and supplemented in the near future. These amendments take into account the recommendations made by the European Commission and are aimed at eliminating the barriers existing as regards the right of free establishment and free provision of services by banks. Further to the coming into force of the aforementioned amendments, the NBR will issue new regulations for its enforcement, including those regarding the internal control of banks. Currently, the NBR is engaged in drafting the latter rules.

Structure of the Banking System

Since 1991, the banking system has gone through a rapid transformation and the number of commercial banks has increased from an initially licensed six banks to some 38 banks (including eight branches of foreign banks), as at 30th June 2003, and various credit cooperative networks (comprising a central body and 565 affiliated credited cooperatives). As at 31st December 2002, the total assets of the banks in Romania amounted to Lei 469.7 trillion. As at 31st December 2002, two commercial banks continued to be majority state-owned (Banca Comerciala Romana and Eximbank), one was fully state-owned (CEC), eight were branches of foreign banks (Banque Franco-Roumaine, Frankfurt Bucharest Bank AG, National Bank of Greece, Italo-Romena Bank, ING Bank N.V., MISR Romanian Bank, Garanti Bank International N.V. and Banca di Roma) and 28 were banks funded with private capital, of which 24 banks have majority foreign ownership. In April 2001, an agreement was signed between the APAPS, the RAEF and Raiffeisen for the sale of Banca Agricolă. On 11th August 2002, the privatisation of Banc Post was completed with EFG Ergasias acquiring the remaining 17% of the share capital from APAPS.

In 2002, there were several changes in the banking market including the merger of Raiffeisenbank Romania and Banca Agricola Raiffeisen following the privatisation of the former, the licensing of the first bank, Banca de Microfinantare – MIRO Bank – specialised in micro-credits, as well as the withdrawal of the licences of three banks (Banca Romana de Scont, Banca de Investitii si Dezvoltare and Banca Turco-Romana) whose assets represented less than 0.5% of the aggregate assets of all banks in the market. Such changes led to the consolidation of the position held by foreign capital in the banking system, which represented 56% of the total banking assets as of 31st December 2002.

While the percentage of assets, loan and deposits of non state-owned banks has increased, the state-owned banks continue to represent a significant market share of total assets in the banking system. The Government expects this situation to change rapidly as privatisation in the banking sector continues. In addition to the commercial banks discussed above, there is also one state-owned savings bank, CEC, whose main customer base consists of individuals. In 1999, Law No. 66/1996, as amended by Law No. 250/1998 was republished. The Law reorganised CEC into a joint-stock company subject to the prudential supervision of the NBR. Its household deposits continue to be guaranteed by the State.

The following table shows the composition of the Romanian banking sector as of 31st December 2002:

Composition of Romanian Banking Institutions

Type of capital	Number of banks	Total loans (% of market share)	Total deposits	Total balance sheet
State-owned	1	1.8	8.7	7.7
Majority state-owned banks	2	29.5	30.5	32.7
Majority privately-owned banks,	28	58.2	52.8	52.2
of which:				
– majority domestic capital.....	4	3.7	2.8	3.2
– majority foreign capital.....	24	54.5	50.0	49.0
Branches of foreign banks.....	8	10.5	8.0	7.4

Source: National Bank of Romania.

Romanian Banking Regulation and Business Standards

Banking Regulation and Supervision

Banks are regulated by Banking Law no. 58/1998, Law no. 83/1998 regarding the bankruptcy of banks and by NBR regulations issued pursuant to the Banking Law and the NBR's Statute. The Banking Law requires that all banks be licensed by the NBR and provides that the banks may carry out the following activities:

- (a) deposit acceptance;
- (b) credits contracting, which includes factoring and discounting of trade bills, including forfeiting;
- (c) issuance and administration of payment and credit instruments;
- (d) payments and settlements;
- (e) financial leasing;
- (f) funds transfer;
- (g) issuance of guarantees and commitments;
- (h) transaction on their own or on the clients' account with:
 - negotiable monetary instruments (cheques, bills of exchange, certificates of deposits);
 - foreign currency;
 - derivative financial instruments;
 - precious metals and objects made of precious metals, precious stones;
 - securities;
- (i) intermediation of securities investments and providing related services;
- (j) administration of the clients' portfolios, on the clients' behalf and at their risk;
- (k) securities custody and administration;
- (l) acting as depository for investments trusts;
- (m) safe boxes renting;
- (n) financial and banking consulting; and
- (o) mandate operations.

Banks may carry out the activities provided by the legislation on securities and stock exchanges through separate subsidiaries operating under the regulation and supervision of the National Securities Commission, with the exception of the activities which, according to this legislation, must be performed directly by the banks. As a result of the anticipated amendments to the Banking Law, banks will be allowed to perform directly the activities provided for by the legislation in force regarding securities and stock exchanges. As

regards financial leasing, banks will be allowed to carry out directly such activities with effect from Romania's accession date to the European Union. Until this date, these operations may be performed via distinct companies, set up as subsidiaries for this purpose.

According to the banking legislation, the NBR is the authority vested with the power and responsibility to licence, regulate and supervise the banking system in Romania. In order to ensure the viability of the banking system, the NBR is empowered:

- to issue regulations, to take measures to impose the observance of regulations and to apply the legal penalties in the case of non-observance; and
- to control and verify, based on the reports received and by on-site inspections, the registers, accounts and any other documents of the licensed banks, to the extent it considers necessary for the fulfilment of its supervisory functions.

The prudential supervisory system of the NBR consists of both off site and on site supervision.

Off site supervision involves the collection, review and analysis of the prudential reports (relating to solvency, large exposure, related party lending, credit classification and provisioning, foreign exchange positions, own funds and liquidity) submitted by banks, in order to determine the trend and performance of banks individually and the banking system and to identify cases when banks are not complying with NBR regulations. These reports can be used to check adherence to prudential requirements. Off site monitoring often identifies potential problems, particularly in the interval between on site inspections, thereby providing early detection and allowing prompt corrective action before any such problem should become more serious. Conclusions and findings arising from off site supervision assist in the selection of the banks to be supervised through on site inspections. On site supervision must be carried out, for each bank, at least once every year. The main goal for on site examinations is to assess the bank's viability and soundness by verifying and analysing a range of matters including the accuracy of reports received from the bank, the overall operations and condition of the bank, the adequacy of the bank's risk management system and internal control and audit procedures, the quality of the loan portfolio and the adequacy of loan loss provisions, and management capacity to identify, monitor and control the risk incurred by the bank during operational activities, the bank's adherence to laws and regulations and the terms stipulated in the banking licence. Based on the above assessments, a conclusion regarding the overall performance of the bank and its risk profile can be drawn.

Minimum Capital Requirements

Required minimum share capital and own funds for banks has been set at Lei 370 billion. Existing banks are required to increase their share capital from the current minimum of Lei 320 billion to Lei 370 billion by 31st May 2004.

According to the Banking Law, on incorporation, the minimum capital subscribed has to be paid up in full, in cash, at the moment of the setting up. In the case of a capital increase, the social capital has to be paid-up, entirely and in cash, at the moment of the subscription.

In accordance with the above mentioned Law (Law no. 58/1998), the branches of the foreign banks must permanently maintain an endowment capital, at the level provided by the regulations of the NBR for Romanian banks.

During 2002, the NBR issued rules regarding the own funds and capital of credit cooperative organisations, computed on a individual and consolidated basis. The following capital and own funds' requirements have been imposed on these credit institutions:

- the minimum level of the credit cooperatives' capital, as set forth in the Government Emergency Ordinance no. 97/2000, approved by Law no. 200/2002, is Lei 100 million, while the minimum level of their own funds is Lei 3 billion. The latter requirement must be met by 31st May 2004, but until then the minimum level of credit cooperatives' own funds is Lei 100 million.
- the minimum level of capital and own funds of the credit cooperatives' central bodies is Lei 50 billion. This level must be attained by 31st May 2004, but until then the requirement being Lei 15 billion. The National Bank of Romania will further modify this limit so as to represent by 1st January 2006 the equivalent of Euro 5 million.
- the minimum level of the aggregated capital and own funds of credit cooperatives' networks is Lei 250 billion. This level must be attained by 31st May 2004, but until then the requirement is Lei 150 billion. In case of credit cooperative organisations' networks licensed under the transitional

provisions of the Government Emergency Ordinance no. 97/2000, the current aggregated capital and own funds requirements are Lei 75 billion, and the central bodies shall ensure the attainment of the prescribed limit of Lei 150 billion within one year from the licensing date.

General reserve for credit risk

Under the Banking Law, banks are required to set aside from gross profit amounts to establish a general reserve for credit risk, equal to 2% of the relevant bank's aggregate balance of credits. Prior to 1st January 1995, this reserve was 0.5% of the balance of credits existing at the end of each year. Beginning on 1st January 1995, the NBR adopted specific rules requiring an increase of the general reserve to 2% of the balance of credits existing at the end of each year. With the approval of the board of directors of the bank, the mandatory reserve must be used exclusively to cover any losses resulting from existing credits and only after all other legal measures for recovering such credits and to cover such losses have been exhausted.

In accordance with the future amendments to the Banking Law, the notion of general reserve for credit risk will be replaced by fund for general banking risks. The banks will be required to allocate from their profit, after the deduction of the profit tax, the amounts required in order to set up the fund for general banking risks, up to the limit of 1% of the balance of risk-bearing assets specific to the banking activity, according to the NBR's regulations.

Minimum Reserve Requirements

As a prudential measure, and also in order to give the NBR more flexibility in carrying out its monetary policy, banks are required to keep in deposit ("reserve") with the NBR, a minimum amount calculated as a percentage of their customer deposits. The minimum reserves required to be kept with the NBR are, from March 2002, 22% of all Lei and foreign currency deposits. This compares with the previously required amounts of 27% of Lei deposits and 20% of foreign currency deposits. These minimum reserve requirements do not apply to deposits by the NBR and legal persons bound to set minimum compulsory reserves with the NBR, those from external financial institutions with a maturity exceeding 12 months at the end of the applicable period, nor to deposits from the general current account of the State Treasury. They are calculated every fifteen days.

Loan Classification

In 1994, the NBR adopted a classification of loans made by Romanian banks in conformity with international standards. It also established credit risk provisions with respect to such loans based on the classification of the loan. In July 2000, the NBR published Regulation 2/2000 on the classification of loans and placements and the establishment, regularisation and use of specific provisions for credit risk replaced thereafter by Regulation 5/2002 which has been in force since 1st January 2003. The Regulation became effective on 1st October 2000 and is applicable to banks that are Romanian legal persons and regulates the classification of credits granted to non-bank customers, credits granted to other banks and the placements made with such banks, as well as the setting up, regulation and use of specific risk provisions.

Loans and placements are classified as follows: standard and loss in the case of credits and placements for the banking sector. In the case of credits and placements for the non-banking sector, these are: standard, watch, sub-standard, doubtful and loss. For each of these categories a provisioning coefficient is stipulated as follows: zero (0) for the standard category; 0.05 for the watch category; 0.2 for the sub-standard category; 0.5 for the doubtful category and 1 for loss.

Credits and placements are classified according to the debt service (the creditor's capacity to pay a debt on the maturity date) the financial performance of the entity (its financial soundness leased upon administrative and qualitative factors and the commencement of legal procedures against the debtor. Banks must report to the NBR, no later than ten days after the end of the month for which the report is made, the situation of credit and placement classification of specific provisions for credit risk.

In December 2002, the NBR amended Regulation no. 5/2002 and its methodological rules by Regulation no. 7/2002 so as to make such rules also applicable to credit organisations.

Solvency Ratio

The NBR has established specific rules regarding the solvency of banks, which require banks to provide permanently for an adequate level of solvency, computed as a ratio between their own funds/core capital and net exposure (the aggregate net on-balance sheet exposures, weighted according to their credit risk degree). Risk weighting for banks' assets range from 0% to 100%. For off balance sheet items, a conversion

factor into credit equivalent is applied, and they are then treated as assets and framed within credit risk categories. Since September 1999, the solvency ratio (own funds/net exposure) has been increased from 8% to the current 12%, while the solvency ratio (core capital/net exposure) was set at 8%. For further information on the impact of new capital adequacy requirements see "Transformation of the Banking System".

In 2002, these rules were amended by Rules no. 11/2002 so as to take into account the provisions of Rules no. 10/2002 on derivatives and amended by Rules no. 20/2002, so as to be also applicable to credit cooperative organisations.

Participation in other companies

According to the Banking Law, the total value of the long term investments of a bank in securities issued by a commercial company which is not engaged in one or more of the financial activities permitted to be carried out by banks, may not exceed:

- (a) 20% of the share capital of the respective company; and
- (b) 10% of the bank's own funds.

The total value of the bank's long-term investments in securities issued by such commercial companies may not exceed 50% of the bank's own funds.

The total value of a bank's investments in securities, placed on its own behalf and for its own account, may not exceed 100% of the bank's own funds, except for those placed in T-bills.

The prospective law amending the existing Banking Law stipulates that any investment of a bank in shares, stocks and other securities of a participating nature issued by entities, other than credit institutions, financial institutions, insurance companies or ancillary banking services providers may not exceed 15% of its own funds and 20% of the share capital of that company or, as the case may be, of the total amount of the securities of a participating nature issued by such an entity. The total amount of a bank's financial holdings may not exceed 60% of its own funds.

Lending Limits

The NBR's Rules no. 8/1999, regarding the limitation of the banks' credit risk, regulate the methodology for calculating the solvency ratio, the large exposures as well as loans granted to related parties and bank's employees. The rules define a large exposure as being the net exposure towards a single debtor which is equal to at least 10% of the bank's own funds and establish limits for the level of a large exposure at a maximum of 20% from the bank's own funds. The total amount of a bank's large exposure may not exceed 800% of the bank's own funds. Further, the total amount of the net exposure towards related parties and bank's employees may not exceed 20% and 5% respectively of the bank's own funds.

In order to limit the credit risk, banks 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 these regulations. The provisions regarding the credit risk management will be detailed in the NBR rules on internal control, risk management and internal audit in banks, which have already been drafted by the NBR.

The same lending limits are also applicable to credit cooperative organisations, as Rules no. 8/1999 were amended by Rules no. 20/2002.

Foreign Exchange Risk Exposure Limit

In accordance with NBR's regulations, banks and Romanian legal persons, which are not permitted to hold foreign currency positions (either long or short) exceeding 10% of their own funds, calculated for positions in each individual foreign currency. The aggregate foreign currency position of a bank may not exceed 20% of the own funds of the bank.

Regarding branches of foreign banks, limits are imposed only on the net total foreign currency position (the equivalent of US\$ 1 million). This indicator is computed as an algebraic sum of the net foreign currency position on the relevant day and that of the previous day.

These limits are calculated and must be complied with on a daily basis.

Credit and Deposit Facilities Granted by the NBR to Banks

In May 2000, the NBR Regulation regarding money market operations performed by the NBR and the credit and deposit incentives granted by the NBR to banks became effective. In compliance with this Regulation, the NBR performs operations on the money markets such as reversible sale/purchase operations and repurchase/reverse repurchase of assets eligible for trading, grant of credits collateralised with assets eligible for securing, operations regarding sale/purchase of assets eligible for trading, issuance of deposit certificates, foreign currency swaps with banks that are Romanian legal entities and Romanian branches of foreign banks that meet the requirement for the establishment of minimal obligatory reserves and comply with solvency coefficients (for banks that are Romanian legal persons) or with the requirement for the establishment of minimal obligatory reserves and banking prudence applicable in the countries of origin, in the case of Romanian branches of foreign banks.

To obtain credits for very short terms, banks may resort to credit facilities — Lombard credit — granted by the NBR for overnight periods. The interest rate — Lombard rate — is established by the NBR's Board of Administration. The grant of Lombard credit is conditional upon its being collateralised with assets eligible for securing. The value presented as security must cover 100% of the credit and the related interest.

Banks may also establish deposits with the NBR, overnight, with a fixed interest rate. The NBR's Board of Administration establishes the level of the interest rate per deposit.

Liquidation

A new legal framework for the bankruptcy procedure for banking institutions was established by Law no. 83/1998, which entered in force on 22nd May 1998, as amended by Emergency Government Ordinance No. 186/1999 and by Emergency Government Ordinance No. 138/2001.

By the end of 2003 the full compliance of the national legislation with the provisions of directive on the reorganisation and the winding up of credit institutions will be achieved.

Capital Markets

Bucharest Stock Exchange ("BSE")

The first post-1989 securities law, (no. 52/1994) (the "1994 Securities Law"), was passed by Parliament in 1994. Under the provisions of this law, the National Securities Commission ("CNVM") was established. The Bucharest Stock Exchange was established on 21st April 1995 as a public entity which is effectively managed by its members through the Stock Exchange Association.

The 1994 Securities Law was repealed by Emergency Government Ordinance No. 28/2002 regarding the securities, financial investment services and regulated markets (the "Capital Markets Ordinance") approved by Law No. 525/2002. The Capital Markets Ordinance aims to allow more flexibility in introducing and trading new products, while providing for stricter regulation and supervision of the markets. At the same time, the Capital Markets Ordinance seeks to improve the protection of minority shareholders in publicly traded companies. It is also aimed at a better approximation of Romanian legislation to EU standards, in the context of Romania's current EU accession efforts. Simultaneously with the Capital Markets Ordinance, another Emergency Government Ordinance, No. 26/2002, was approved for the regulation of entities for collective placement in securities (investment funds).

The CNVM is entrusted with supervising the securities market. The CNVM appoints the General Commissioner of the BSE, who is responsible for supervising activities on the Exchange. The Exchange Committee, composed of nine representatives of the securities companies, appoints the General Manager of the BSE, who is responsible for the execution of its policies and day-to-day operation of the exchange. Both the members of the Exchange Committee and the General Manager are confirmed by the CNVM.

Companies listed on the BSE are classified in two tiers according to their overall performance. Companies listed in the base category can be promoted to the first tier if they meet the following main requirements: three years of operation; equity capital of Lei equivalent of Euro 8 million as a minimum net profit for the last two years of operation (excluding financial revenues); management performance and integrity; adequate working capital; and 15% of their capital is to be offered to the public.

The BSE trading system is a computerised order-driven system, which allows for interaction of actual buyers and selling orders in the market. Trading sessions consist of a continuous trading mechanism for securities listed both in the base and first categories. The BSE increased the number of trading sessions to five days a week on 5th May 1997. In 2001, BSE launched a new trading platform to serve as a support for the secondary market of bonds issued by governments, municipalities and corporations.

BSE rules do not discriminate against foreign investors.

The BSE commenced on 20th November 1995 with an initial listing of six companies. As at 31st December 2002, 65 companies and five municipal bonds were listed on the BSE. On 13th June 2003, the capitalisation of the BSE was US\$3,210 million. With the exception of the stocks listed on BSE's first tier (currently 19 stocks), trading on the BSE is relatively illiquid.

OTC Market

RASDAQ is an electronic system for trading securities modelled after the NASDAQ system in the United States. It is a quote-driven system without a specific market or broker association structure. RASDAQ trading commenced in October 1996.

The initial purpose of RASDAQ was to provide a market for the shares resulting from the privatisation programme. Mass privatisation put shares of small- and medium-sized companies into private hands. The shares of these companies are now traded on the RASDAQ system. However, other small companies are expected to list their shares on RASDAQ, as only minimal requirements have been established for admission to trading on the system. As at 31st December 2001, 5,083 companies were listed on the RASDAQ market. On 13th June 2003, the capitalisation of RASDAQ was US\$2,187.5 million. The RASDAQ is a relatively illiquid market.

The officials of BSE and RASDAQ recently decided to merge the two markets by the end of 2003 in order to consolidate the Romanian capital market.

Public Finance

General

The Romanian public finance system is composed of the Central State Budget, the budgets of local government authorities, the State social security budget, and special funds, which include the health insurance fund, the APAPS and others. The Consolidated General Budget is a consolidation of these separate budgets which excludes the flow between the budgets.

Starting in 2003, the health insurance budget is drafted, approved and incorporated as an annex to the Central State Budget. Also, the unemployment insurance budget is attached to the social security budget. Any other funds were either incorporated into the Central State Budget, or they were abolished.

The following table sets out the revenues and expenditures of these budgets from 1998 to 2002. In addition, programme data for the 2003 Consolidated General Budget is provided.

The Consolidated General Budget

	Programme 2003	Outturn data 2002	2001	2000	1999	1998
	(in billions of Lei, except for percentages)					
The Central State Budget⁽¹⁾						
Revenues.....	241,235.5	179,205.5	148,249.4	128,028.8	96,785.1	68,914.9
Expenditures	291,045.0	226,823.6	184,012.1	155,629.5	109,637.6	79,000.7
Balance.....	(49,809.5)	(47,618.1)	(35,762.7)	(27,600.7)	(12,852.5)	(10,085.8)
Balance as a % of GDP	(2.7)	(3.1)	(3.1)	(3.4)	(2.4)	(2.7)
Local Budgets						
Revenues.....	117,782.8	93,069.4	71,042.8	33,357.0	21,252.8	13,454.2
Expenditures	117,582.8	92,519.7	70,523.0	33,140.6	20,869.4	13,381.5
Balance.....	200.0	549.7	519.8	216.4	383.4	72.7
Balance as a % of GDP	0.0	0.0	0.0	0.0	0.1	0.0
State social security budget⁽²⁾						
Revenues.....	154,525.1	115,244.6	89,924.8	60,285.9	44,085.7	28,028.8
Expenditures	150,021.7	118,401.0	92,676.7	64,900.4	47,366.2	31,852.0
Balance.....	4,503.4	(3,156.4)	(2,751.9)	(4,614.5)	(3,280.5)	(3,823.2)
Balance as a % of GDP	0.2	(0.2)	(0.2)	(0.6)	(0.6)	(1.0)
Special funds						
Revenues.....	59,391.9	71,668.5	54,582.5	36,775.4	29,005.5	18,553.8
Expenditures	96,751.6	90,957.7	71,585.2	51,391.0	33,776.6	19,759.8
Balance.....	(37,359.7)	(19,289.2)	(17,002.7)	(14,615.6)	(4,721.1)	(1,206.0)
Transfers between budgets (to be eliminated from revenues and expenditures in consolidation)...	(10,478.8)	(11,666.9)	(12,058.5)	(7,351.7)	(12,071.1)	(11,127.2)
Adjustments according to IMF methodology (to be eliminated from expenditures)	(32,945.6)	(31,431.4)	(17,417.9)	(14,569.4)	(10,392.5)	(3,820.8)
Consolidated general government⁽³⁾						
Revenues.....	562,456.5	447,521.1	351,741.0	251,095.4	179,108.0	117,824.5
Expenditures	611,976.7	485,603.7	389,320.6	283,140.4	189,186.2	129,046.0
Balance ⁽⁴⁾	(49,520.2)	(38,082.6)	(37,579.6)	(32,045.0)	(10,078.2)	(11,221.5)
Balance as a % of GDP ⁽⁴⁾	(2.6)	(2.5)	(3.2)	(4.0)	(1.8)	(3.0)
Gross Domestic Product.....	1,871,000.0	1,512,256.6	1,167,242.7	803,773.1	545,730.2	373,798.2

Notes:

- (1) For 2003 two special funds have been included in the central state budget.
- (2) Includes state social security budget and unemployment fund.
- (3) Excludes flows between the budgets.
- (4) Total (including adjustments) according to IMF methodology.

Source: Ministry of Public Finances.

The Central State Budget

The Central State Budget reflects revenues and expenditures for the central government only (i.e. the Government, ministries and central agencies) and does not include local governments or governmental revenues and expenditures of the remaining special funds and of the State Social Security Budget. The Ministry of Public Finances prepares the Central State Budget and the social security budget on an annual basis, then, it is approved by the Government and it is submitted to Parliament for consideration and ultimate approval.

The following table sets out the Government's revenues and expenditures for the years 1998 to 2002 and projected figures for the 2003 Central State Budget:

Central State Budget (presented on a cash basis in billions of Lei)

	Programme data 2003	2002	2001 ⁽¹⁾	2000	1999	1998
Revenues	241,235.5	179,205.5	148,249.4	128,028.8	96,785.1	68,914.9
Current	240,446.5	178,649.4	146,891.7	127,353.7	92,165.9	64,380.3
Tax	223,569.3	167,752.4	137,317.3	120,996.8	87,774.0	61,855.8
Direct Tax	50,489.2	41,851.1	41,186.5	36,968.4	28,628.5	23,508.4
out of which						
Profit Tax	39,396.0	29,978.8	21,991.0	19,927.3	16,646.0	10,845.6
Tax on salaries and tax on income	2,851.2	2,552.2	8,089.2	8,568.0	7,207.6	10,094.9
Other	8,242.0	9,320.1	11,106.3	8,473.1	4,774.9	2,567.9
Indirect Tax	173,080.1	125,901.3	96,130.8	84,028.4	59,145.5	38,347.4
VAT	90,221.1	72,644.4	51,793.2	50,438.7	32,471.2	22,493.1
Customs Tax	8,183.0	9,361.5	9,038.2	8,702.3	7,846.7	5,741.4
Excises and oil tax	45,880.0	32,433.5	27,292.6	18,701.3	14,977.9	7,105.2
Other	28,816.0	11,461.8	8,006.8	6,186.1	3,849.7	3,007.7
Non Tax	16,877.2	10,897.0	9,574.4	6,356.9	4,391.9	2,524.5
Capital (total)	551.0	212.1	85.8	206.1	4,201.3	3,228.1
Grants	0.0	121.1	6.5	257.7	0.0	0.0
Receipts from repayments of loan	238.0	222.9	1,265.4	211.3	417.9	1,306.5
Expenditures	291,045.1	226,823.6	184,012.0	155,629.5	109,637.6	79,000.7
(by functional classification)						
Public authorities	18,325.2	13,579.6	11,050.1	7,683.1	4,108.5	2,866.9
Defence	31,754.8	23,759.0	17,579.0	14,060.0	8,347.2	6,707.6
Public order and national safety	32,395.3	25,331.1	20,017.1	13,947.7	7,535.6	5,205.1
Education	15,335.6	12,632.7	9,884.2	22,058.5	14,223.8	10,801.7
Health	12,428.4	9,429.2	6,774.7	4,475.7	4,025.5	3,511.3
Culture and sport activity	4,855.5	4,211.0	3,702.2	3,077.3	1,746.6	1,466.5
Social welfare, children allowances and pensions	32,567.5	27,012.7	23,656.6	12,899.4	11,053.7	8,030.3
Community amenity affairs and housing	5,818.9	4,272.6	2,529.4	1,945.6	1,357.3	664.8
Environment	2,306.9	2,226.4	1,479.8	816.4	470.5	282.1
Mining, chemical, energy and other industrial branches	15,260.5	8,684.6	5,892.6	4,213.6	2,795.5	2,057.9
Agriculture and forestry	14,099.1	11,729.1	10,680.1	9,091.8	4,974.6	4,539.8
Transportation and communications	30,307.5	18,485.6	14,106.8	9,952.3	7,273.0	3,357.5
Other economic affairs and services	13,828.8	3,739.3	2,057.8	1,408.6	836.3	738.5
Research affairs	3,442.3	2,982.1	2,591.1	1,522.6	1,019.4	1,049.7
Other expenditures	5,090.7	2,008.9	1,335.1	1,083.9	780.6	617.4
Transfers from state budget	1,900.0	3,264.7	3,806.5	4,149.0	4,788.7	8,031.0
Interest payment for public debt	49,988.2	53,020.0	46,427.0	43,219.4	33,347.0	16,611.5
Expenditures from Government disposal reserves fund	1,120.1	302.1	421.7	0.00	307.5	328.7
Lending	219.8	152.9	20.2	24.6	646.3	2,132.4
Surplus(+)/Deficit(-)	(49,809.6)	(47,618.1)	(36,762.6)	(27,600.7)	(12,852.5)	(10,085.8)
Deficit as % of GDP	(2.7)	(3.1)	(3.1)	(3.4)	(2.4)	(2.7)
Gross Domestic Product	1,871,000.0	1,512,256.6	1,167,242.7	803,773.1	545,730.2	373,798.2

Note: For consistency reasons, data was revised following the inclusion of the special funds in the Central State budget

(1) For 2003, two (2) special funds have been included in the central state budget.

(2) Prior to 2000, the budget included privatisation receipts. Starting in 2000, the privatisation receipts are held in a separate account of the Treasury and are to be used for repayment of domestic debt.

The 1998 Budget

The Central State Budget for 1998 was designed to achieve macrostabilisation and thorough structural reforms. The general framework of the economy for 1998 was more complicated than that of 1997. The principal goals for 1998 were to reduce dramatically the inflation rate, stop the decrease of GDP, reduce the balance of payments current account deficit and increase the currency reserves.

The 1998 Central State Budget revenues of Lei 68,914.9 billion were characterised by the following structure. Current revenues represented 93.4% of budgeted receipts. Direct taxes represented 34.1% and indirect taxes represented 55.6% of total revenues. The most important indirect taxes included VAT (32.6%), excise and oil taxes (10.3%), and customs duties (8.3%).

Central State expenditures were budgeted at Lei 79,000.7 billion in 1998, which led to a deficit of Lei 10,085.8 billion, which represented 2.7% of GDP. Overall, the Central State Budget deficit decreased from 3.62% of GDP, in 1997, to 2.7% of GDP, in 1998.

The 1999 Budget

The Central State Budget for 1999 was designed to achieve essentially the same goals as for 1998, i.e., macroeconomic stabilisation and structural reform.

The 1999 Central State Budget realised revenues of Lei 96,785.1 billion. Current revenues represented 95.2% of budgeted receipts. Direct taxes represented 28.6% and indirect taxes were 61.1% of total revenues. The largest contributions to indirect taxes were value added tax (33.5%), excise and oil taxes (15.5%) and customs duties (8.1%).

Central State expenditures were Lei 109,637.6 billion in 1999, which resulted in a deficit of Lei 12,852.5 billion representing 2.4% of GDP. The Government succeeded in maintaining the budget deficit well within the limits agreed with the IMF under the stand-by arrangement. See "Relationship with Multilateral Financial Institutions — International Monetary Fund".

The 2000 Budget

The Central State Budget for 2000 was designed to consolidate the previous goals of macroeconomic stability and structural reform.

The 2000 Central State Budget realised revenues of Lei 128,028.8 billion. Current revenues represented 99.5% of budgeted receipts. Direct taxes were 28.9% and indirect taxes were 65.6% of total revenues. The largest contributions to indirect taxes were given by value added tax (39.4%), excise and oil tax (14.6%) and customs duties (6.8%). The Government's stated objective of fiscal reform on the revenue side was generally to lower tax quotas, widen the tax base, decrease the fiscal burden on the economy by decreasing the rate of profit tax and value added tax, reduce some excise quotas and introduce excise duties on the retail price of certain goods. A new law on the profit tax came into force in January 2000, which lowered the general profit tax rate from 38% to 25% and provided that profit resulting from exports is subject to a tax rate of 5%. This law also grants a tax credit of 10% on eligible investments (mainly relating to upgrading of equipment and technology). On 1st January, 2000 a new comprehensive law on individual income taxation came into effect.

Central State Budget expenditures were Lei 155,629.5 billion in 2000, resulting in a deficit of Lei 27,600.7 billion, representing 3.4% of GDP. The budgeted deficit for the consolidated budget was 4.0% of GDP.

In the year 2000, the consolidated budget deficit reached Lei 32,045 billion with revenues standing at Lei 251,095.4 billion and expenditures of Lei 283,140.4 billion. While local budgets and other extra-budgetary funds, such as the health insurance fund and special fund for education were in surplus, other budgetary components registered a deficit. The Social Security Budget deficit widened to Lei 4,610.5 billion over the year 2000, while the unemployment benefit fund registered a deficit of Lei 0.5 billion.

The consolidated budget deficit was 4.0% of GDP in 2000.

Since 2000, privatisation receipts have not been included in the state budget but are held in a separate account and are used for the repayment of the domestic debt.

The 2001 Budget

The 2001 Central State Budget aimed to achieve a balanced approach designed to promote macro-economic stability while reducing the budget deficit as a percentage of GDP.

The 2001 Central State Budget realised a total revenue of Lei 148,249.4 billion. Total revenue increased as a percentage of GDP by 3.2% compared with 2000, to 12.7% of GDP. Direct tax revenues represented 27.8% of total revenues of the Central State Budget and indirect tax revenues represented 64.9% of such revenues in 2001. Starting in 2001, local authorities were given additional responsibilities in managing and financing the education system (up to high school level) and, consequently, a proportion of 29.6% of the collected VAT was re-allocated to the local authorities to support them in such financing.

The expenditures of the Central State Budget amounted to Lei 184,012 billion, resulting in a deficit of Lei 35,762.7 billion, representing 3.1% of GDP. This compares with the deficit of the Consolidated General Budget of Lei 37,579.6 billion, representing 3.2% of GDP. Part of the deficit of the Central State Budget is explained by the continued transfers to finance the deficit of the Social Security Budget. The expenditure of the Social Security Budget amounted to Lei 92,676.7 billion, resulting in a deficit of Lei 2,751.9 billion, representing 0.2% of the GDP. Average inflation during 2001 was higher than that contemplated by the budget target (33.3%, compared with 25%), requiring the Central State Budget to be amended in order to keep the deficit under control, primarily by reducing capital expenditure in the last quarter of 2001.

The 2002 Budget

The 2002 Central State Budget realised total revenues of Lei 179,205 billion. The total revenues decreased as a percentage of the GDP from 12.7% in 2001 to 11.85% due to the transfer to the local public authorities of several types of revenues and expenses.

The Central State Budget realised total expenses of Lei 226,823.6 billion in 2002, resulting in a deficit of Lei 47,618.1 billion, representing 3.1% of the GDP.

In 2002, the consolidated budget deficit reached Lei 38,082.6 billion representing 2.5% of the GDP, less than the projected deficit of 2.9% of the GDP.

The 2003 Budget

The target for the consolidated budget deficit 2003 is 2.6% of the GDP. The basic assumptions underlying the 2003 budget are economic growth of approximately 5% of GDP and inflation of 14% (December to December).

The 2003 budget forecast suggested an increase in the revenues for 2003, which are expected to be 35% greater in nominal terms than in 2002, whereas expenditure is expected to grow by only 28%. The increase in revenues (in real terms) is expected to arise primarily from indirect taxation, due to both the increased domestic spending by households and the increase in the rate of certain indirect taxes such as excise duties and fuel tax.

The 2004 Budget

Subject to agreement being reached with the International Monetary Fund, the Government is considering a potential increase in the consolidated deficit for 2004 to 3.7% of GDP, in order to allow increased public spending on infrastructure projects, such as highway construction. Although the Government is pursuing a policy of implementing such projects in a public-private partnership system, the obligations of the state deriving from these arrangements are expected to be reflected in the budget deficit for 2004 and beyond.

Budgetary Arrears

See "Romania — Subsidies — Budgetary and Inter-Enterprise Arrears" above.

Local Budgets

Local budgets are prepared, approved and executed according to the law regarding 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 value added tax collected by 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 only for investment purposes. The local authorities are required by law to provide certain essential local services such as social services, education, childcare and road maintenance.

State Social Security Budget

The social security budget is independent of the Central State Budget, although it is subject to approval by Parliament each year. The system functions on the "pay-as-you-go" principle, with contributions paid by

employers representing the main source of income of the system. The main types of benefits include benefits for temporary work incapacity caused by diseases, accidents or maternity, death benefits, old age pensions and disability and survivor benefits. The majority of the expenditures from the social security budget are in the form of pension benefits.

Unemployment benefits are paid out of an unemployment fund which is operated separately from the principal social security budget. For a discussion of unemployment benefits, see "The Romanian Economy — Prices, Inflation, Wages and Employment" above.

The Central State Budget covers social assistance to the elderly. The medical insurance (assistance) is covered by the Health Insurance Fund.

The social security budget also covers social assistance to the elderly. The social services provided under this scheme include medical care and supervision at home, housing support, meals at home, shopping, counselling, day care centres, temporary shelters, as well as recovery and rehabilitation of the incapacitated.

Pension System Reform

The reform of the state pension system envisages certain measures designed to upgrade the state pension system and also the introduction of privately managed pension schemes. The primary aspects of the Romanian pension reform proposals involve the establishment of three elements of security, which are aimed at promoting a more stable pension system that can withstand demographic and macroeconomic changes. The proposal incorporates a mandatory public component, a mandatory private component and an optional private component.

According to Law No. 19/2000 the first element, the mandatory public component, is guaranteed by the State and involves a splitting of contributions, with the covered employee contributing 1/3 and the employer 2/3 of a rate settled by law on an annual basis. This is a significant variation from the previous arrangement, in which employers were responsible for all such contributions. The plan is managed and administered by the National Pension House, an autonomous sub-governmental organisation.

Generally, the standard retirement age is currently 62 for men and 57 for women but according to Law No. 19/2000 is to be gradually increased to 65 years for men and 60 years for women by 2014. The entire period of contribution to the state pension fund required to obtain full benefits will increase gradually up to 2014 from 25 years to 30 years for women and from 30 years to 35 years for men.

The Government considers that the second element of reform to the Romanian pension system, namely establishing a mandatory private component, could be implemented if sources for covering the public pension fund deficit are found.

The establishment of an optional pension scheme will be offered to persons with a higher capacity for saving.

Special Funds

According to Law on Public Finances No. 500/2002, the special funds are approved through special laws and are established outside the State Budget and State Social Security Budget. Special funds are the health insurance fund and unemployment fund. These funds are approved as annexes to the law approving the State Budget and, respectively, to the law approving the State Social Security Budget.

The Budget Process

The Ministry of Public Finances prepares two main budgets each year. The Central State Budget is prepared by the Government, through the Ministry of Public Finances, based on draft budgets from the direct recipients of budgetary allocations. The Consolidated General Budget includes the Central State Budget plus the State Social Security Budget, the budgets of the Special Funds, and Local Government Budgets. The Ministry of Public Finances prepares the Consolidated State Budget based on the draft budgets which these entities submit each year.

The budgets submitted to the Ministry of Public Finances include a budget for investments by public institutions and other capital expenditures. These investment and capital expenditure budgets are based on a listing of potential projects and supporting detail on the nature of the project and its component costs.

The State Social Security System, the special funds, and Local Governments are responsible for management of their own revenues and expenditures. The drafting and execution of their budgets is done in accordance with the laws which govern the operation of these entities and public finances laws.

The following Table sets out the procedure and deadlines required to be followed under the Public Finance Law for the approval of the State Budget every year.

Date	The stage for the issue of the budget for the following year	Institution in charge
31st March	Preliminary prognosis of macroeconomic and social indicators for the budgetary year and for the following three years.	The Ministry of Development and Prognosis
1st May	Submission to the Government of the objectives of the budgetary and fiscal policy for the budgetary year and the following three years, together with the thresholds of expenditure for the main credit managers.	The Ministry of Public Finances
15th May	Approval of the thresholds for the main credit managers and submission to the Parliament of the information on the main drivers of the macroeconomic, budgetary and fiscal policy.	The Government
1st June	Submission of thresholds of expenditure and of the framework letter to the main credit managers which shall indicate the macroeconomic context within which the main credit managers will establish their budgetary requirements.	The Ministry of Public Finances
15th June	Recommendation of changes, where appropriate, to the expenditure thresholds for the main credit managers, changes triggered by modifications in the macroeconomic framework. Approval of recommended changes. Informing the main credit managers about the subject changes.	The Ministry of Public Finances The Government The Ministry of Public Finances
15th July	Filing the proposed budgets and estimates for the budgetary year and the following three years, prepared in accordance with the terms of the framework letter, with the Ministry of Public Finances.	The main credit managers
1st August	Filing the draft budgets with the Ministry of Public Finances on the basis of the discussions held with the Ministry of Public Finances and of the Government decisions.	The main credit managers The Ministry of Public Finances The Government
30th September	Drafting and filing with the Government of the draft budgets and the budgetary laws, based on the draft budgets of the main credit managers, accompanied by the Report on the macroeconomic position for the budgetary year for which the draft budget is drafted and its projection in the following three years.	The Ministry of Public Finances
15th October	Approval and tabling with the Parliament of the draft budgets and the budgetary laws.	The Government
Until 28th December	Approval of the budget and the budgetary laws.	The Parliament

If the budgetary laws are not approved within not less than three days before the expiry of the budgetary year, the government shall fulfil the tasks set forth in the budget of the preceding year and the monthly thresholds of expenditure cannot exceed, as a rule, $\frac{1}{12}$ of the provisions of the budgets of the preceding year.

Recipients of primary budgetary allocations negotiate their budgets for the following year with the Ministry of Public Finances according to a multi-stage process established by law. As part of this process, recipients of primary budgetary allocations are required to submit their draft budgets to the Ministry of Public Finances. The Ministry of Public Finances examines these budgets and negotiates maximum levels of expenditure for

each entity under its respective budget. By 1st June each year with approval of the Prime Minister, the Ministry of Public Finances notifies the recipients of direct budgetary allocations of their final expenditure limits, consistent with the financial policy of the Government.

The recipients of primary budgetary allocations then finalise their draft budgets, consistent with these expenditure limits. They are submitted to the Ministry of Public Finances by 1st August accompanied by documentation and detailed explanations regarding revenue and expenditure. These are used by the Ministry of Public Finances to prepare the draft of the Central State Budget, the State Social Security Budget, and the budgets of the special funds. These budgets must be submitted through the Government to Parliament by 15th October. A report on the economic situation of the country, projections for the next year, and a draft of the budgetary law are included in the submission to Parliament. The draft budgetary law approves expenditures for the year to which it applies.

The budget is approved by Parliament in its 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 Government applies provisions of the previous year's budget until the budget for the current year is adopted.

Revenue and expenditure of the Central State Budget, the State Social Security Budget, and the budgets of the special funds are distributed quarterly.

Cash execution accounts are presented to the Ministry of Public Finances by recipients of primary budgetary allocations. On the basis of these accounting reports, the Ministry of Public Finances prepares the annual general execution account for the Central State Budget, the State Social Security Budget, and the budgets of the special funds. The annual general execution account for each of these budgets is submitted to the Government for examination. The Government then submits the annual general execution account for the Central State Budget, the State Social Security Budget, and the budgets of the special funds to Parliament for approval by 1st July of the year following execution. These annual general execution accounts are approved by Parliament after verification by the Court of Accounts.

The Ministry of Public Finances also prepares the annual general account of the state public debt, which includes accounting of both internal and external indebtedness. The general account of the public debt is attached to the annual general execution account of the Central State Budget when it is submitted to Parliament.

The preparation, approval, and execution of the Central State Budget and other budgets is based on the Government's strategy for development of the public sector after analysis of developments in financial markets and the economy, and recognising the level of outstanding internal and external government debt.

The Budget — Revenues and Financing

The three main sources of revenue for the Central State Budget are individual income tax, corporate tax and value added tax. The corporate tax is paid and calculated at a rate of 25% on taxable profits and is required to be paid quarterly. The value added tax is generally 19%. The income tax law, which became effective on 1st January 2000, establishes a tax on salaries, on income from independent activities, lease operations, dividends and interest. Income tax is currently levied at a rate of between 18 and 40%.

The financing of any deficit in the Central State Budget is accomplished by the expenditure of temporary reserves in the General State Treasury Account, through state loans or state guarantees of loans, and through public bond issues. However, under existing Romanian law, various regulations and restrictions apply to the issuance of government debt in domestic and external markets. The Government modernised the legislation on public debt through the adoption of Law no. 81/1999.

Romania's domestic Government debt market effectively started in 1991 with the regular issuance of treasury bills by the Ministry of Public Finances. This practice replaced the previous Government practice of borrowing money directly from the NBR. During 1994, the Ministry of Public Finances shifted its emphasis toward longer term issues to extend its domestic debt profile. In 1997, initial distribution of Government Securities was changed from subscription to an auction-based system. In May 1998, the auction of Government Securities was changed from a single price to a multiple price-based system.

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 mature not more than 364 days after the date of issue; and
- long-term treasury bonds with maturities of at least 366 days and not exceeding 30 years issued as interest bearing or discounted instruments.

The Government is also empowered to negotiate loans and issue securities in international markets under the provisions of Romanian laws. Romania, acting through the Ministry of Public Finances, issued on the international capital markets the following debt instruments (which are still outstanding): €150,000,000 11% Notes 2000/2003, €150,000,000 11.5% Notes due 2005 in November 2000, €150,000,000 11.5% Notes 2001/2005 in January 2001, €600,000,000 10.625% Notes 2001/2008 in June 2001 and €700,000,000 8.50% Notes 2002/2012 in May 2002 and will issue €700,000,000 5.75% Notes due 2010 on or about 2nd July 2003.

Public Debt

Overview

Public debt of Romania is subject to Public Debt Law, No. 81/1999. For reporting purposes relating to internal indebtedness, Romania classifies internal public indebtedness as public indebtedness incurred directly by the State, including the amounts advanced temporarily from the surplus in the treasury account and does not include indebtedness incurred by state-owned enterprises. For reporting purposes relating to external indebtedness, in addition to indebtedness incurred directly by the State, Romania also includes indebtedness incurred by all financial institutions and enterprises guaranteed by the State (external public indebtedness). As used in this section, internal indebtedness means loans from sources inside Romania and external indebtedness means loans from sources outside Romania.

Public Indebtedness

	As at 31st December					
	2002 ⁽²⁾	2001	2000	1999	1998	1997
	(in billions of Lei, except percentages)					
Internal public debt	108,433.8	91,227.7	73,703.6	65,157.7	26,915.7	15,093.3
% of nominal GDP	7.1	7.9	9.2	13.1	7.3	6.0
External public debt ⁽¹⁾	320,120.3	242,800.8	177,789.9	112,710.0	76,285.8	54,948.7
% of nominal GDP	21.2	20.9	22.1	21.6	20.7	21.7
Total public debt	428,554.1	334,028.5	251,493.35	181,222.1	103,201.5	70,042.0
% of nominal GDP	28.3	28.7	31.3	34.7	28.0	27.7
Nominal GDP	1,512,256.6	1,164,242.7	803,773.1	521,735.5	368,260.7	252,925.7

Notes:

(1) Conversion of external public debt in Lei is made using the exchange rates for the end of reporting period according to the Law of Public Debt no. 81/1999.

(2) Preliminary data

Source: Ministry of Public Finances.

The pattern of increases and decreases in the ratio of public debt to GDP reflect a variety of factors influencing the Romanian economy. The US dollar level of external public debt increased very modestly, from US\$6,849 million as of 31st December 1997 to US\$6,966 million as of 31st December 1998, reflecting Romania's limited access to foreign borrowings. The level of such borrowings declined to US\$6,174 million as of 31st December 1999 due to high levels of this debt maturing in the first half of 1999, which repayments were partially funded out of foreign reserves rather than refinancing. As at 31st December 2000, total external public debt stood at US\$6,858 million. Nevertheless, in Lei terms there has been a significant rise in external public debt relative to GDP during 1997 and 1999. This results from rapid depreciation of the Leu (immediately creating higher levels of external debt when measured in terms of Lei) coupled with economic contraction (in real terms), though these effects are partially mitigated by Romania's high rate of inflation. During 1998, the Leu depreciated somewhat more slowly, and the effects of inflation on GDP caused the ratio of external public debt to GDP to decline. Internal public debt as a portion of GDP decreased from 31st December 1999 to the end of 2002, mainly due to the redemption of domestic debt using the receipts from privatisation and AVAB.

At the end of 2002, total public debt was approximately 28.3% of GDP, down from 28.7% in 2001, of which external public debt was 21.2% in 2002, compared with 20.9% in 2001, and internal public debt was 7.1% of GDP, down from 7.9% in 2001.

Of the internal public debt in 2002, the proportion of short-term debt to total debt represented 85.4% of the internal public debt. Medium-term debt represented 14.6% of total internal public debt. Of the external public debt in 2002, 19% had a maturity of between one and five years, 30% had a maturity of between five and ten years and 51% had a maturity of over ten years.

Public and publicly guaranteed external debt service for 2003 is estimated to be US\$2.1 billion.

Debt Management

Under Romanian law, the Ministry of Public Finances must approve the terms of all direct internal and external indebtedness incurred by the State, as well as guarantees in the name of the State. The Government expects to restrict State guarantees in the future to major investments, particularly projects financed by

multilateral financial institutions. Under Government Emergency Ordinance 168/2002 regarding the approval of Romania's external public indebtedness level for 2003, as approved by Law No. 94/2003, the Government put a maximum limitation on Romania's public external indebtedness to be incurred in 2003 of US\$3.4 billion. This includes indebtedness incurred directly by the State, and debt of the NBR, debt of financial institutions and companies guaranteed by the State. This limit is determined by reference to a number of macro-economic indicators, including GDP, export volumes, the trade deficit and foreign currency reserves.

Internal Public Indebtedness

The internal public indebtedness of the State as of 31st December for the years 1997–2002, comprised the following:

	As at 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(in billions of Lei)				
Internal public debt.....	108,433.8	91,227.7	73,703.6	65,154.7	26,915.7
By instruments:					
Treasury securities.....	69,719.3	47,792.6	33,277.3	19,901.8	15,012.5
Bonds	15,861.7	27,016.7	26,586.2	32,809.6	11,874.7
Other	22,852.8	16,418.4	13,840.1	12,443.3	28.5
By maturity:					
Short term	92,572.1	64,211.0	67,440.0	32,345.1	15,012.5
Medium and long term	15,861.7	27,016.7	26,586.2	32,809.6	11,903.2

Note:

(1) Preliminary data.

Source: Ministry of Public Finances.

The total internal public indebtedness of the State (excluding debt guaranteed by the State) as at 31st December, 2002 was Lei 108,433.8 billion, equivalent to approximately 7.1% of GDP, down from 7.9% in 2001. Approximately 72.2% of this amount was utilised to finance and refinance the budgetary deficits, while approximately 21.1%, was temporarily supported from the surplus in the treasury account. Lei 15,751.5 billion (6.7%), was used to finance other financial requirements approved according to special laws.

The treasury securities issued by the State in 2002 were predominantly short-term treasury bills or treasury certificates issued as interest bearing or discount instruments, as well as longer-term treasury securities such as treasury bonds. The short-term treasury securities were issued through public subscription by the auction. The auction process uses the unitary price of selling treasury bills by the multiple price auction method.

The 2002 budget assumed an average nominal interest rate on treasury bills of 33.07%. During 2002, the highest rate was 40.03%, while the lowest rate was 16.0%. The average real rate was approximately 25%.

The State Budget Law for 2003 assumes an average nominal rate for the year of 21%, and year-on-year annual inflation of 13.8%. Therefore, the Government expects to see a reduction in real interest rates on treasury bills in 2003. However, there can be no guarantee that such rates will be achieved.

External Public Indebtedness

As of 31st December 2002, Romania's outstanding external public debt (including debt guaranteed by the State) was equal to US\$9.55 billion, an increase of 24.4% from the end of 2001. Approximately US\$2.9 billion of new external public debt was contracted in 2002, of which approximately 51% was direct debt and 49% was debt guaranteed by the Government. Total external public debt service in 2002 was US\$2,176.4 million, of which US\$991.7 million was direct debt and US\$1,184.7 million was publicly guaranteed debt. External public debt service in 2003 is projected to be US\$2,057.7 million.

The following tables sets out the currency breakdown of Romania's external public debt at the end of the periods indicated:

External Public Debt by Currency

	As at 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(in millions of US\$)				
US\$	4,302	3,938	3,837	3,432	3,411
Deutsche Mark	0	592	690	814	928
ECU/Euro	4,474	2,199	1,013	505	551
SDRs	426	386	453	458	538
Swiss Franc	149	128	107	119	160
French Franc	0	133	199	236	288
Canadian Dollar	0	0	0	4	7
Italian Lira	0	31	43	57	92
Japanese Yen	148	124	370	441	814
Netherlands Guilder	0	8	10	7	1
Danish Krona	1	2	4	6	9
South Korean Won	56	46	46	43	30
Austrian Schilling	0	96	85	50	34
Pound Sterling	0	1	1	2	3
Total	9,556	7,684	6,858	6,174	6,966

Note:

(1) Preliminary data.

Source: Ministry of Public Finances.

The following table sets out Romania's outstanding external public debt by borrower at the end of the periods indicated:

External Public Debt by Borrower

	As at 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(in millions of US\$)				
Central government	6,718	5,281	4,427	3,279	3,373
National Bank	426	386	739	776	1,566
Financial institutions	0	0	0	0	31
State-owned enterprises	2,013	1,616	1,379	2,001	1,918
Private companies	399	401	313	118	78
Total	9,556	7,684	6,858	6,174	6,966

Note:

(1) Preliminary data.

Source: Ministry of Public Finances.

Breakdown of external public debt for 1997–2002 by type of obligation:

	As at 31st December				
	2002 ⁽¹⁾	2001	2000	1999	1998
	(in millions of US\$)				
Direct external public debt	6,276.7	4,964.1	4,639.4	3,925.4	4,814.1
Publicly guaranteed debt	3,279.2	2,720.2	2,218.2	2,248.8	2,152.0
Total external public debt	9,555.9	7,684.3	6,857.6	6,174.2	6,966.1

Note:

(1) Preliminary data.

Source: Ministry of Public Finances.

The 10 largest borrowers whose debts are guaranteed by the State, by the outstanding debt at 31st December 2002 were:

	(in millions of US\$)
CONEL — (TERMOELECTRICA S.A.)	546.4
Romtehnica — acting on behalf of the Ministry of Defence	461.1
Ministry of Health and Family	250.7
Tarom — Company for air transportation	202.1
Ministry of Public Works, Transport and Housing	161.9
SNNE — National Company for Nuclear Electricity	127.3
Special Telecommunication Service	120.0
Grand Hotel	105.7
ROMTELECOM — Company for telecommunication	95.7
SNCFR — National Railways Company	86.3

Source: Ministry of Public Finances.

The following table sets out the repayment schedule for Romania's external public debt:

External Public Debt Service Payments*

	Year Ended 31st December				
	2002**	2001	2000	1999	1998
	(in millions of US\$)				
Guaranteed by Government:					
– principal	999.3	659.4	566.7	466.1	602.5
– interest and commission.....	185.4	165.3	172.6	129.8	151.7
Total debt service	1,184.7	824.7	739.3	595.9	754.2
Direct debt:					
– principal	695.0	715.6	366.4	1,356.5	525.5
– interest and commission.....	296.7	276.1	225.3	241.5	279.1
Total debt service	991.7	991.7	591.7	1,598.0	804.6
External public debt:					
– principal	1,694.3	1,375.0	933.1	1,822.6	1,128.0
– interest and commission.....	482.1	441.4	397.9	371.3	430.8
Total debt service	2,176.4	1,816.4	1,331.0	2,193.9	1,558.8

* includes the payments for the credits reimbursed until the end of the period

Source: Ministry of Public Finances.

** does not include the arrears paid to Sweden amounting to US\$90 millions.

The following table sets out the amortisation schedule for Romania's external public indebtedness:

Amortisation Schedule for Outstanding External Public Debt (as at 31st December 2002)

	2003	2004	2005	2006	2007	Total	After
	(in millions of US\$)						
Guaranteed by Government							
Principal	903.7	992.8	687.8	598.8	508.9	3,692.0	1,669.9
Interest and Commission	190.7	173.9	124.1	99.5	76.1	664.3	203.4
Total debt service	1,094.4	1,166.7	811.9	698.3	585.0	4,356.3	1,873.3
Direct Debt							
Principal	593.9	522.2	736.9	528.1	647.8	3,028.9	6,359.6
Interest and Commission	389.6	378.2	375.1	330.1	312.1	1,785.1	1,381.5
Total debt service	983.5	900.4	1,112.0	858.2	959.9	4,814.0	7,741.1
External Public Debt							
Principal	1,497.6	1,515	1,424.7	1,126.9	1,156.7	6,720.9	8,029.5
Interest and Commission	580.3	552.1	499.2	429.6	388.2	2,449.4	1,584.9
Total debt service	2,077.9	2,067.1	1,923.9	1,556.5	1,544.9	9,170.3	9,614.4

Source: Ministry of Public Finances.

COMECON Agreement and Other Outstanding Claims

After the dissolution of the COMECON trading system in 1990, Romania entered into negotiation with its former COMECON trading partners to settle all outstanding indebtedness, denominated both in transfer roubles ("TR") and convertible currencies.

In December 1995, Romania concluded negotiations with Germany, which had assumed the claims and debts of the former German Democratic Republic, agreeing to pay the net amount outstanding to Germany in Deutsche Marks over a period of four years starting in 2000.

Amounts owed to Germany are included in the external public debt of Romania.

Romania has already paid all of its debts to its creditor countries under COMECON agreements. Hence, Romania is a net creditor to the former COMECON countries, with outstanding claims amounting to approximately TR972.5 million as of 31st December 2002. The debtors are Cuba, Mongolia and the Democratic People's Republic of Korea, Cuba being the main debtor owing 98.8% of all outstanding claims to the former COMECON countries.

Romania has successfully settled all outstanding claims regarding the pre-World War II foreign debt and post-World War II Communist era nationalisation (in all cases below the nominal value) with the exception of the debt to Sweden. Such claims relate to treasury bonds issued by Romania dating back to 1929 and losses incurred by Swedish citizens due to the nationalisation of their property in Romania between 1949 and 1951. Pursuant to an agreement signed between the Romanian and Swedish Governments on 24th June 2001 Romania paid the equivalent of US\$120 million to Sweden.

In turn, Romania has significant foreign debt claims in respect of a number of countries including Russia and Iraq, amounting to US\$2,145.4 million (of which Iraq owes 80.4% of total debt claims) as of 31st December 2002.

Relationships with Multilateral Financial Institutions and Financial Assistance Programmes

International Monetary Fund

Romania became a member of the IMF on 15th December 1972. Since 1990 it has benefited from financial assistance granted by the IMF through a series of stand-by arrangements (1991, 1992, 1994, 1995 — when the 1994 stand-by arrangement was extended, increased and rescheduled, 1997, 1999, 2000 — when the 1999 stand-by arrangement was extended and rescheduled), two Compensatory and Contingency Financing Facilities (CCFF) and a Systemic Transformation Facility (STF).

Romania also received substantial technical assistance from the IMF in a number of key areas, such as implementing a modern banking system, fiscal policy, creating a market-oriented legal structure, and improving the collection and reporting of statistics.

Financial assistance from the IMF is generally conditional on meeting certain macroeconomic targets agreed between Romania and the IMF, which typically include limits relating to the size of the fiscal deficit, the development of monetary aggregates, gross foreign reserves and net external debt. Romania remained in compliance with the agreed performance criteria for the 1991 and 1992 stand-by arrangements. However, compliance was not fully observed with respect to the 1994, 1995 and 1999 stand-by arrangements.

The 1999 stand-by arrangement, initially for a value of SDR400 million extended and rescheduled in June 2000, expired on 28th February 2001 after the disbursement of two tranches amounting to an aggregate of SDR139.75 million. The reasons for the partial disbursement mainly related to Romania's failure to observe certain performance criteria in connection with the financial condition of state-owned enterprises (level of arrears, wage growth) and to delays in implementing structural reforms.

A new stand-by arrangement was agreed by Romania and the IMF on 31st October 2001. This arrangement involved an 18 month stand-by credit facility amounting to SDR300 million (approximately US\$383 million) of which SDR52 million (approximately US\$66 million) was immediately disbursed. The approval of the stand-by arrangement by the IMF was subject to Romania taking certain prior actions, including the submission of the 2002 budget to the Parliament in a form agreed with the IMF, the approval of a plan to contain wages and reduce employment in the state controlled enterprises and other measures to reduce the quasi-fiscal deficit, primarily generated by the energy sector.

The macroeconomic and structural adjustment programme agreed with the IMF mission envisaged as its objectives reducing inflation (creating room for reaching a single digit inflation rate by 2004), stabilising and improving the current account deficit and tightening fiscal policy. The agreed fiscal policy was combined with measures to improve financial performance in state-owned enterprises such as the implementation of a prudent wage policy in 2002, the improvement in the collection rate of the main utilities and further price adjustments in the energy sector. These measures were intended to reduce the quasi-fiscal deficit, particularly the losses in the energy sector and the level of inter-enterprise and budgetary arrears. The programme also provided for important measures to improve the legal and regulatory framework for the financial sector, particularly the strengthening of banking supervision.

The structural reform programme envisaged further privatisation and restructuring, covering all the sectors of the economy, including public utilities, in line with the understandings so-far reached with the World Bank under the PSAL II programme.

On 28th August 2002, the Executive Board approved the completion of the first and second reviews, a decision that enabled Romania to draw another SDR82.67 million (about US\$109 million – representing two simultaneous tranches) and to have access to the remaining tranche of the macro-financing program loan for BoP support from the EU.

In October 2002 and February 2003, Romania held discussions with the IMF mission for the third review of the Stand-by Arrangement. The mission assessed that, since the first and second reviews, Romania had made significant progress, the macroeconomic developments in 2002 were quite favourable and, in some respects, particularly inflation, the current account deficit and growth exceeded the objectives of the revised programme.

To update and complete the policies for 2003 and to address the remaining setbacks which occurred in the structural area, mainly wage policy in the monitored SOEs, enforcement of payments to energy utilities, and privatisation, the Government agreed a new Supplementary Memorandum on Economic and Financial Policies (SMEFP-2) with the IMF in February 2003.

Some of the main measures of the programme, including all the actions required prior to the Board presentation, have already been implemented. The Government launched a comprehensive programme for restructuring the largest of the remaining state owned enterprises in the APAPS portfolio regarding privatisation, and in the mining sector, including layoffs and downsizing of non-viable units.

On 25th April 2003, following the completion of all prior actions required under the programme, the IMF Executive Board approved the third review of the Stand-by Arrangement and the extension of the Arrangement by 5½ months to mid-October 2003, based on the policies agreed under the SMEFP-2. This decision enabled Romania to draw SDR55.1 million (about US\$76 million) immediately.

Under the fourth, and final, review of the Stand-by Arrangement, the IMF will assess the compliance with the end-June quantitative performance criteria and the progress under the structural performance criteria, including the privatisation of BCR (sale of a blocking minority share to EBRD and IFC by end-July). A new mission may be scheduled for the end of July, to discuss the policies for 2004 and the continuation of the programme with the IMF under a Precautionary Stand-by Arrangement.

The World Bank Group (IBRD, IFC, MIGA)

International Bank for Reconstruction and Development (IBRD)

From 1991 to the present, IBRD has approved 37 IBRD financed operations with a total commitment of US\$3.65 billion, with the Banks ranking first among the creditors of Romanian institutions by value of the loan agreements signed. With the Government embarking on extensive reforms, the World Bank has redefined its lending programme to help Romania achieve economic recovery. To help the Government cope with its economic and social challenges, the IBRD is assisting in strengthening the social safety net, increasing investments in health and education, enhancing the effectiveness of government services and protecting the environment. Over the medium term the IBRD has agreed to give priority to supporting EU accession-related programmes.

In addition, the IBRD provided support for the Government reforms programmes consisting of restructuring, privatisation, reorganisation and strengthening of various sectors, such as: agricultural, financial and enterprise sectors, social sector, banking, private sectors through various structural adjustment loans, including SAL — Structural Adjustment Loan, SPAL — Social Protection Adjustment Loan, ASAL — Agricultural Sector Adjustment Loan, FESAL — Financial and Enterprise Sectors Adjustment Loan and PSAL — Private Sector Adjustment Loan.

In recent years, Romania has made important progress in carrying out structural reforms and its privatisation programme with the support of the World Bank's Private Sector Adjustment Loan (PSAL I), which was successfully completed in June 2000. As the privatisation process has been declared a priority for the government, the measures already implemented through PSAL I were intended to be further enhanced and supplemented in a second programme — PSAL II. The loan will help sustain five key development objectives: (i) the privatisation of the state-owned banks; (ii) the divestment of the largest loss-making public sector industrial and commercial entities from the government portfolio, especially in the field of large utilities; (iii) the improvement of the legal and regulatory framework for financial and private sector development; (iv) the strengthening of the business environment; and (v) focus on social welfare.

On 12th September 2002, the World Bank's Executive Board of Directors approved a US\$300 million equivalent Second Private Sector Adjustment Loan (PSAL II), and a US\$18.6 million Private and Public Sector Institution Building Loan to support structural reforms in Romania. Immediately after PSAL II became effective, the first tranche of €169.9 million was disbursed on 15th October 2002.

As regards project loans, since 1991, IBRD loan commitments to Romania (excluding structural adjustment loans) exceed US\$2 billion covering a number of sectors. Up to 1996 these included a Railway Rehabilitation Project and Road Rehabilitation Project, a loan to help finance and modernise the Romanian Electricity Authority, a loan for an Employment and Social Protection Project, a loan for an Education Reform Project, a loan for a Petroleum Sector Development Project, a loan for a Private Farmer Support Project and a loan for rehabilitation of the health sector.

The IBRD has approved loans for projects of a social nature, namely a US\$70 million loan for school rehabilitation, approved in October 1998, a US\$5 million loan for child protection, approved in July 1998, a US\$5 million loan for cultural heritage, approved in December 1998 and a US\$10 million loan for participating in the Romanian Fund for Social Development. Other loans were granted for the purposes of establishing a cadastre record system amounting to US\$25.5 million, approved in January 1998, and for guarantees such as that issued for the Telecommunications Reform Support Project amounting to

US\$23 million and approved in May 1998. In June 1999, a US\$44.5 million project on mines closure and social mitigation was approved by the World Bank.

Projects approved by the IBRD in 2000 included a US\$11 million Agriculture Support Services Loan approved in January, a US\$17.1 million Trade Transport Facilitation Project, and US\$40 million Health II Project, both approved in June 2000.

In April 2001, the IBRD approved a US\$80 million Rural Finance Development Project seeking to promote economic growth and reduce poverty in the rural areas through provision of financial services in those areas. Amongst other benefits, this project will help the rural economy absorb the funds that are allocated under the EU Special Programme for Agriculture and Rural Development ("SAPARD"), by making available third party financing of the projects partly financed from SAPARD funds.

In May 2001, negotiations were concluded for a US\$50 million loan designed to support the social welfare reforms. This loan, known as the Social Sector Development Project, was ratified in August 2001.

On 16th January 2002, a US\$20 million loan was signed for the Social Development Fund Project phase II, and was ratified in April 2002. The objectives of this project consist of poverty alleviation through measures and investments to improve living conditions in rural poor communities and the increase in local capacity for organisation. In early April 2002, another US\$40 million loan was signed for the Rural Development Project.

The World Bank Group country assistance strategy (CAS) for 2002-2004 has two lending scenarios. If Romania's approach to economic reform is a hesitant one (including the failure in relations with the IMF), the World Bank Group assistance will be very limited, centred on a few poverty-focused interventions and technical assistance for institutional building (the low case scenario being the World Bank lending significantly reduced to a total of US\$60 million). If, on the other hand, Romania proceeds with accelerated reforms, the World Bank Group (IBRD, IFC, MIGA) will support a broad set of structural and sectoral reforms to accelerate growth and pave the way for Romania's accession to the EU, in addition to an enhanced programme of poverty reduction (the high case scenario being the World Bank commitments increasing up to US\$995 million during 2002-2004).

As of 31st December 2002, the World Bank's active portfolio amounted to US\$1,390 million and consisted of 25 operations, of which 22 are IBRD-lending operations and three are GEF grants. Thus, the active portfolio is the second largest in the ECA region in terms of the number of projects and the third in terms of commitments. Besides the active portfolio, the overall portfolio includes five Government executed grants: two Japanese-funded PHRD grants, two IDF grants and one NETH financed grant. Thus, the World Bank portfolio in Romania totals 30 operations, with an aggregate net commitment of US\$1,395 million.

The portfolio structure and the instruments used reflect alignment towards Country Assistance Strategy and Government's objectives of poverty reduction and accession to the EU.

Since the beginning of 2003, two important loans have been signed: US\$25 million loans for financing the Romania Forestry Programme (end of January 2003) and US\$60 million loans for financing the Rural Education project (May 2003). Negotiations for financing another important project (the Irrigation Rehabilitation Project (US\$80 million)) which is included in the Country Assistance Strategy for Romania will be started this summer.

The 2003 Joint Portfolio Review (JPR) that started in early January was the third review undertaken jointly by the Romanian Government and the World Bank. The JPR has proven to be a very effective management tool for both the World Bank and the Government, as it provides a strategic overview of the effectiveness of the World Bank's portfolio in achieving the development objectives.

Regarding the portfolio performance, during the last three years, the risk of Romania's portfolio risk business continued to decrease (for 2003, the number of projects at risk represented 4% of the total number of projects in the portfolio, down from 15% in 2002). This performance is based on the results achieved during the two previous years, further consolidated by increased supervision from the Government and the World Bank.

International Finance Corporation (IFC)

Since Romania became a member of the IFC in September 1990, the IFC has approved investments in a number of sectors including investments in Romlease and Alcatel Network Systems Romania in 1994, Efes Brewery, Rambox, FCR Fund, Demir Bank Romania and MobilRom in 1997, in Garanta, Direct Romania-Moldova Fund, Banc Post and Krupp Compa Arcuri SA-Sibiu in 1998 and in Ambro SA Suceava in 1999. The IFC has also worked to promote direct foreign investment by seeking opportunities to provide both equity

and debt support to private Romanian and foreign joint venture enterprises engaged in general manufacturing, agriprocessing and infrastructure. For example, in February 1997, the IFC approved a US\$20 million loan and a US\$5 million equity investment in a US\$70 million greenfield brewery, sponsored by Efes of Turkey, this being the IFC's first commercial syndication for a Romanian company.

The IFC has taken a leading role in providing support for the development of small and medium sized enterprises. To increase such enterprises' access to both debt finance and risk capital, the IFC established Romania's first leasing company, Romlease, in 1994. The IFC also made an equity investment of US\$450,000, representing 15% of Romlease's share capital, and has extended a US\$5 million loan to the company. Since commencing operation in early 1995, Romlease has written 41 lease contracts for a gross lease value of US\$16.2 million. Another initiative to support small- and medium-sized enterprises included the establishment of a Small Business Lending Programme, providing a US\$5 million credit line. The programme is jointly operated with the Romanian-American Enterprise Fund, which has committed US\$5 million to financing for the project. Also, in November 1997, IFC approved a project regarding the establishment of Demir Bank intended to provide a large range of banking services to medium-sized Romanian and foreign enterprises. The value of the project is around US\$35 million, out of which the IFC financing amounts to US\$8.2 million. In March 1998, the IFC approved a US\$600,000 financing for a US\$3 million project regarding the establishment of Garanta insurance company, a joint venture between the Greek insurance company Ethniki and Banc Post Romania.

The IFC has also invested US\$2 million in the Danube Fund, a venture capital fund sponsored by Greece's Alpha Credit Bank Group. The Danube Fund invests primarily in private Romanian companies. A similar project was approved in June 1998 for a US\$7.8 million IFC financing for establishing the Direct Romania-Moldova Fund. Also, in October 1997, a US\$10 million financing was approved for the establishment of the FCR Fund (Foreign & Colonial Romanian Investment Company) for investments in Romanian companies under the privatisation process. In June 2000, a further US\$5 million of IFC financing was approved, providing for the establishment of the SEAF Trans-Balkan Fund for equity investments in small and medium-sized enterprises in the Balkan area, including Romania.

To promote capital market development, the IFC provided extensive technical assistance in drafting the 1994 Securities Law, as well as in the creation of the BSE and Securities Commission. In 1998, the IFC made the largest investment to date in the Romanian banking sector, by extending a US\$10 million convertible loan to Banc Post, supplemented in 2001 with the second tranche (in an amount of US\$10 million).

Investment in the Romanian banking sector continued with a US\$6 million loan for Banca Romaneasca, a second loan for Demir Romlease in 2000 and US\$2,025,000 loan for Microfinance Bank Romania (MIRO Bank) in 2001.

Regarding the Microfinance Bank, IFC recently decided to subscribe for additional shares in the Bank within the context of the capital increase of MIRO Bank.

In March 2003 IFC informed the Romanian Government about its intentions to finance the first company specialised in granting mortgage loans, Ro-Fin Mortgage Loan Company, through a US\$5 million loan and equity subscription in the amount of up to US\$1 million. The IFC is also considering an investment of up to €10 million in S.C. Arctic S.A., a Romanian refrigerator manufacturer, to finance its capital expenditures and to restructure its existing debt.

Recently, IFC received the Romanian Government's "no objection" letter for the most important investment of the Corporation in the Romanian banking sector, consisting of (a) a US\$75 million loan granted to Banca Comerciala Romana in order to finance the Bank's activities, and (b) an agreement to purchase the Bank's shares for a price not exceeding US\$75 million equivalent.

Other sectors of the Romanian economy supported by IFC are industry, through ICME ECAB and Kronospan investments in 2001, and the health sector, through the International Dialysis Centers BV and Euromedic Diagnostics.

Multilateral Investment Guarantee Agency (MIGA)

The objective of the MIGA is to encourage foreign investment in developing countries by providing guarantees against the risks of currency transfer, expropriation, war and civil disturbances and breach of contracts by the host government and advisory services to developing member countries to improve their attractiveness to foreign investment. In Romania, MIGA has guaranteed:

- in 1997, the establishment of the International Commercial Black Sea Bank (Romania) S.A. (the amount of the investment is US\$5,840,000) and the establishment of a company for the re-treatment of tailings to produce gold and silver in Aurul S.A. Baia Mare (in an amount of US\$22,120,000);
- in 1998, the establishment of the Romanian Efes Brewery S.A. (in an amount of US\$45,000,000) and construction and operation of an office building which will be leased to a foreign company in Romania — SF Bau Ploiesti (in an amount of US\$11,125,000);
- in 1999, an expansion of the investment in SF Bau Ploiesti, undertaken by a supplemental investor (also in an amount of US\$11,125,000) and the establishment of a plant to recycle domestic waste from the city of Bucharest into high-grade organic fertilizer, soil reconditioner and building materials – S.C. Invest International Romania (in the amount of US\$25,000,000);
- in 2001, the investment in Banca Agricola S.A. under the on-going banking sector privatisation process (in an amount of US\$53,500,000) and the renovation and extension of the Clinic Coltea in Bucharest (in an amount of €65,000,000);
- in 2002, the establishment of the Raiffeisen Leasing S.R.L. (in amount of US\$25 million) and a shareholder loan for the expansion of HVB Romania's lending activities, in particular for the local companies including SMEs (in the amount of US\$15 million); and
- in 2003, a loan from Raiffeisen Zentralbank Österreich AG (RZB) granted to Raiffeisen Bank S.A. – Romania (in the amount of US\$38 million) in order to support the expansion of the lending activities of the Romanian bank with particular focus on SMEs.

MIGA has helped in promoting opportunities in the mining sector through workshops on how to conduct business with foreign mining companies and through a large scale regional conference on mining investments opportunities in Eastern Europe and Central Asia. In addition, MIGA's Investment Marketing Services Department has supported sector-oriented investment promotion activities, particularly in the mining and tourism sectors.

European Bank for Reconstruction and Development (EBRD)

Romania is a founding member of the EBRD and ranks among the first in terms of signed loan agreements. As at the end of December 2002, the Bank committed around €2.4 billions, to over 80 investment projects for both the public and private sector. The distribution of the portfolio is broad, with no single sector dominating. The largest exposure is in the infrastructure sectors at about 55%.

The active portfolio includes 56 projects in Romania, out of which 6 are contracted/guaranteed by the government with total disbursements of around €800 million, as at the end of December 2002.

The projects by sectors in the public portfolio focus on:

- transportation: targeting areas such as roads and railways rehabilitation and highways modernisation;
- telecommunication: one loan for the modernisation of the telecommunication system (granted to Romtelecom in order to provide resources for implementation of their investment programme prior to privatisation) signed early in February 1992, entirely disbursed by end 1998.
- banking: two loans of US\$85 million supporting the agriculture development, granted to Banca Agricola, fully disbursed by 1998.
- municipal utilities: a US\$25 million for the wholesale market development signed in 1994 and used almost entirely; two successive projects for the development of water supply and waste-water treatment (the first project of US\$28 million signed in April 1995 is entirely disbursed, while out of the second one of US\$75 million, over 90% is already disbursed). A similar project of US\$45 million, signed in April 1997 is aimed at improving the quality and efficiency of district heating in five medium-sized cities. Other projects on water supply in the Jiu Valley mining zone and thermal energy supply were signed in 1996 and 1997.
- the energy sectors: three projects amounting to US\$161 million supporting the modernisation of the petroleum sector signed in 1992, and fully utilised by 1996; a project financing the upgrading in the operational efficiency of the energy system amounting to €78.1 million signed in November 1995, over 87% of which is disbursed; and a loan to the National Power Grid Company, in the amount of US\$51.47 million, signed in December 2000.

EBRD has continued an innovative approach to infrastructure investment by: (a) targeting the needs of local municipalities; and (b) pioneering the use of private finance for public infrastructure.

Since May 2002, the EBRD has granted loans amounting to €52.5 million, guaranteed by counties, for the rehabilitation of the sewerage network and wastewater treatment plants in Constanta, Brasov, Arad and Iasi. These loans represent 20–25% of the project's costs, the remaining 75–80% of the required funds being provided through the EU pre-accession programme ISPA.

In April 2003 the EBRD granted a loan of €51.5 million (contracted by the municipality) for the regeneration of the historic zone, the improvement of the traffic management system and for the improvement of the district heating system of Bucharest.

On 4th April 2003, a new €24 million loan guaranteed by the state has been granted to the Romanian Railways.

The EBRD also intends to make major investments in Romanian agriculture which is considered to be one of the less productive sectors of the economy.

From the private portfolio, a US\$150 million loan was granted by the EBRD to the largest oil company in Romania – S.N. Petrom. The EBRD arranged this corporate loan to assist Petrom in restructuring before it privatised. The EBRD provided \$100 million, while five co-lending Western commercial banks provided \$50 million. The EBRD acted for the syndication of the full amount of the loan, which was made directly to the company without a sovereign guarantee. This is the largest long-term syndicated loan to a state-owned company in Romania, its privatisation representing a significant step towards the modernisation of the Romanian energy sector.

The EBRD Board approved a €101 million equivalent loan for Ispat-Sidex in September 2002. The loan is aimed to enable the company to upgrade its production facilities and improve operational and commercial efficiency and product quality. This project represents the first case of the Bank's involvement in a post-privatisation restructuring of a large and high profile industrial company in Romania.

The strategy of the EBRD in Romania is to undertake further financing of the privatised companies that have been previously included in the APAPS's portfolio, in order to make the companies listed for privatisation more attractive.

On 19th December 2002, the EBRD arranged a €55.4 million loan for Apa Nova, the recently privatised water company in Bucharest, in order to finance the completion of a water treatment plant in Bucharest, and bring the city's water-treatment facilities in line with the EU environmental and health standards. The project is the first public-private partnership in Romania's water industry involving international institutions.

The EBRD has advanced two loans to BCR (Banca Comerciala Romana) (Romania's largest Bank) in order to support Romania's local entrepreneurs. The EBRD's first loan of €20 million was advanced to BCR in 2001, and as a result BCR made more than 500 loans to small and medium-sized enterprises in only 17 months. On 9th December 2002 EBRD granted a second €20 million loan, this loan being complemented by €1.8 million in technical assistance and other financial support from the European Union to support staff training and to ensure successful implementation of the loan. These amounts are part of the EU/EBRD SME Finance Facility, a European Commission programme carried out in cooperation with the EBRD to promote SME growth and development across the 10 countries expected to join the EU.

A similar loan will be granted to Banca Transilvania, amounting to up to €5 million, for the same purpose.

In January, the Bank provided a €50 million credit line to BCR, primarily for on-lending to individuals as mortgage loans. Further mortgage loans to other institutions involved in mortgage lending are under consideration.

The EBRD has recently made up to €20 million available to Banc Post to fund its forthcoming mortgage programme. The programme is aimed at meeting a surging demand for housing loans from individuals wanting to buy their own homes in a country where the mortgage market is still in its infancy. The long-term loan to Banc Post is the second such credit extended by the EBRD to Romania's banking sector this year.

European Investment Bank (EIB)

Since it began to operate in Romania in 1991, the EIB has committed over €2.2 billion, an amount which ranks Romania among the most important partners of the EIB in Central and Eastern Europe.

All the public sector sovereign-guaranteed lending extended by the EIB to date has concerned investments designed to strengthen public infrastructure and services and is characterised by trans-European network

(TEN) features, with a view to the integration of the country into the EU. Lending extended by the EIB on a commercial basis was targeted mainly to support EU industrial and infrastructure investments in Romania and structured in association with prime international commercial banks.

The projects designed for infrastructure development focus on the transportation network through:

- three loans granted for roads rehabilitation of €65 million, €70 million and €225 million signed in 1993, 1996 and 1998, and a loan of €200 million for railway modernisation signed in 1998; the local transport network in Timisoara and Bucharest is also supported through the loans of €19 million, signed in August 1999 and €63 million signed in November 1999.
- development and modernisation of air traffic services, through two loans totalling €40 million, signed in 1993 and 1994 and fully disbursed.
- subway modernisation supported in three stages of €100 million, out of which €60 million has already been disbursed;
- the rehabilitation of Constanta harbour facilities through a €35 million loan.

The telecommunications network is supported through two loans of €80 and €40 million, which are fully disbursed.

The rehabilitation and modernisation of the thermal-energy system is supported at the local level (Bucharest and Cluj) through two loans of €35 million signed in November 1997 and €3.5 million signed in August 1999.

Two other loans were granted for technology modernisation in the former CONEL company, totalling €85 million. In December 2000, the loans for the National Power Grid Project were €96 million from the EIB and €55 million from the EBRD.

Responding to the increasing demands of future European Integration, the EIB has further developed its lending strategy by signing new projects such as: a €40 million loan for the modernisation of the Tarom air fleet (signed in December 1999 and already entirely disbursed); a €250 million loan for flood damage rehabilitation, signed in August 2000; a €110 million loan for Bucharest urban infrastructure (signed in November 2000); a €15 million loan for Infrastructure/Environment for Constanta harbour (signed in November 2000) (the second phase of the harbour rehabilitation project); a €245 million Road Rehabilitation Project (fourth stage); a €15 million railways modernisation project (second stage); a €115 million project for subway modernisation (second stage) and a €7 million project for the modernisation of Bucharest Urban Transport.

In March 2003, the loan for the Bucharest Urban Infrastructure Project was amended and the amount of the loan was reduced to €41.45 million.

On 8th March 2002, the EIB made available to Romania a total amount of €333 million, by concluding three new loan agreements. These were a loan amounting to €240 million for the Roads Rehabilitation Project (fifth stage), a loan amounting to €38 million for the Sulina Canal Bank Protection Project and a loan amounting to €55 million for co-financing the Municipal Water Infrastructure Project. Due to the fact that the last mentioned loan represented 25% of the project cost, the remaining 75% of the required funds will be provided through the EU pre-accession programme, ISPA, and the beneficiaries will be five municipalities, namely Braila, Cralova, Pascani, Cluj and Focsani. This loan represented the first case of EIB's involvement in the co-financing of ISPA projects. The second similar case will be a future loan for the Municipal Water Infrastructure II Project, having as its beneficiaries three other municipalities: Buzau, Satu Mare, Piatra Neamt.

A second loan amounting to €29 million for ISPA co-financing in the water sector is intended to be granted by the end of 2003. Out of these projects loans, over €1,000 million had been disbursed as at the end of December 2002.

Two other projects are expected to be signed this summer, namely the Bucharest School Infrastructure project (amounting to €112.2 million) and the Romania School Infrastructure project (amounting to €131 million).

Council of Europe Development Bank (CEDB)

The Council of Europe Development Bank (CEDB) is a multilateral development bank, administrated under the authority of the Council of Europe. It participates in projects and programmes of social nature through long-term financing and guarantees.

Romania became the 25th member of the bank in March 1996. Since then, the CEDB has participated in nine projects in Romania, amounting to approximately US\$165 million, which are part-financed together with other international financial institutions (IBRD, EIB) or non-governmental organisations. These are:

- rehabilitation of the Baltesti hospital, seriously damaged by a storm, with equipment amounting to approximately US\$220,000, through a loan of US\$0.22 million, signed in June 1996 and entirely disbursed.
- rehabilitation and modernisation of the Bucharest district heating network part-financed by the CEDB (€10 million) and by the EIB (€35 million), signed in 1998.
- rehabilitation of about 900 schools, part-financed by the CEDB (US\$13.8 million) and by the IBRD (US\$70 million), signed in October 1997.
- rehabilitation and conversion of state-owned resident care institutions and related services to improve children's health and social situation, part-financed by the CEDB (€10 million), by the IBRD (US\$5 million), by the EU's PHARE programme (US\$0.5 million) and by various foreign and Romanian donors (€8.8 million), signed in January 1999.
- recovery and rehabilitation of the neuropsychiatric centre Gura Ocnitei through a project amounting to US\$1.67 million, signed in July 1999.
- a US\$10 million project in order to support the social infrastructure related to protection of the environment, rural modernisation, health, education and job creation, signed August 2000.
- social infrastructures for the prevention of natural disasters and rehabilitation of infrastructures damaged by floods throughout Romania, part-financed by the CEDB (€20 million); in January 2003, CEDB approved the second phase of the project amounting to €40 million.
- a US\$60 million Social Housing Project for social dwelling construction signed in August 2001.

Out of these projects loans, a total amount of over €108 million had been disbursed by the end of December 2002.

Japanese Bank for International Cooperation (JBIC)

JBIC was established on 1st October 1999, by merging the Export-Import Bank of Japan (JEXIM) and The Overseas Economic Co-operational Fund (OECF). The two former financing institutions supported Romanian project/programmes within the Official Development Assistance (ODA).

From the OECF, Romania has received financial support for two infrastructure projects, namely the Roads Rehabilitation Project and the Constanta-South Development Project. The loan agreements for these two projects were signed on 27th February 1998 and the total amount extended was JPY 21,989 million. Both projects are considered to be priorities in the field of transportation and are intended to promote development and economic growth in Romania.

JBIC extended another ODA Loan for the Railway Modernisation Project of the Bucharest-Constanta Line (signed on 30th March 2001) in amount of JPY25,635 million (US\$217 million equivalent) which was ratified in October 2001.

Out of these project/programmes loans, the first disbursements were made in 2000, and currently represent an amount approximately equivalent to US\$25.75 million in terms of consulting services and equipment acquisitions.

The former JEXIM extended two structural adjustment loans as co-financing for two similar loans previously granted by the IBRD, namely SAL and FESAL.

The disbursement conditions for the loans were related to those established with the IBRD and referred to macroeconomic stabilisation (conclusion of Stand-by Arrangements with the IMF for FESAL-JEXIM) and the agreed structural adjustment conditions.

The SAL-JEXIM of US\$100 million equivalent in Japanese yen ("JPY") was signed in June 1992 and was disbursed in full.

The FESAL-JEXIM loan agreement was signed in July 1997 for a total amount of US\$50 million equivalent in JPY. After the conclusion of the SBA with the IMF on 5th August 1999, an amount of US\$30 million in JPY equivalent was immediately disbursed (25th August 1999), the balance of US\$20 million being cancelled.

International Fund for Agricultural Development (IFAD)

In May 1999, Romania signed its first loan agreement with the IFAD, namely a SDR 12.4 million (equivalent to US\$16.4 million) out of which US\$2.6 million has already been disbursed. Apuseni Rural Development Project intended to support the stabilisation and enhancement of the economic environment in the rural areas of the Apuseni Mountains through promoting private farmer investments.

Black Sea Trade and Development Bank (BSTDB)

Romania is a founding member of the BSTDB, the financing arm of the Black Sea Economic Cooperation, whose member countries are Albania, Armenia, Azerbaidjan, Bulgaria, Georgia, Hellenic Republic, Moldova, Romania, Russian Federation, Turkey and Ukraine. Since it started operations in 1999, the BSTDB has financed 9 projects in Romania (out of which only one was supported by a state guarantee), mostly in energy and SMEs sectors, amounting to around US\$68 million.

EU Assistance Programmes

Romania has access to a number of EU assistance programmes. EU pre-accession programmes comprise SAPARD (agricultural reforms), ISPA (structural reforms) and PHARE (technical and administrative reforms). Under these programmes, Romania is expected to receive about €650 million annually (including €150 million annually under the SAPARD programme, US\$250 million annually under the PHARE programme and €240 million annually under the ISPA programme). For the period 1999-2003, Romania received through the National Fund €438.3 million from the EU's PHARE programme, which provides support for technical and administrative reform. The current overall objective of PHARE is to help the candidate countries to prepare for accession.

Under these programmes, Romania received assistance in a range of sectors including industrial and infrastructure restructuring, education and healthcare.

During the period 2000-2006, PHARE support is focusing on two main areas: institution building and investment.

- *Institution building* (around 30% of PHARE resources) is defined as helping the candidate countries to develop the structures, strategies, human resources and management skills needed to strengthen their economic, social, regulatory and administrative capacity. PHARE will contribute to the financing of institution building in all sectors to help the candidate countries to implement the *acquis* and to prepare for participation in EU policies.
- *Investment support* (around 70% of PHARE resources) will take two forms:
 - (a) investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and direct, *acquis*-related investments; and
 - (b) investment in economic and social cohesion through measures similar to those supported in the EU through the European Regional Support Development Fund and the European Social Fund.

In addition, the new pre-accession instrument for structural policies, ISPA, will provide assistance to Romania during the period 2000-2006 to contribute to the preparation for accession in the area of economic and social cohesion for:

- environmental measures enabling the beneficiary countries to comply with the requirements of environmental law; and
- transport infrastructure measures which promote sustainable mobility; this includes interconnection and interoperability of national networks, as well as with the trans-European networks together with access to such networks.

ISPA financing for Romania is expected to average approximately €240 million per year for both environmental and transport infrastructure projects. To date, 32 Financing Memoranda have been signed, out of which ten are for transport infrastructure projects, 21 for environmental projects and one is a "horizontal measure" (namely, a financing agreement serving multiple objectives), with an aggregate value of US\$1,171.1 million.

Measures implemented as part of ISPA shall be of a sufficient scale to have a significant impact in the field of environmental protection and the improvement of transport infrastructure networks. The total cost of each measure shall in principle be not less than €5 million. In duly justified cases, taking into account the specific circumstances concerned, the total cost of a measure may be less than €5 million.

Under the programme for sustainable agricultural and rural development, SAPARD, Romania will be provided with assistance during the period 2000-2006 in particular in the following two areas:

- contributing to the implementation of the *acquis* concerning the common agricultural policy and related policies; and
- solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in Romania.

The EU works closely with the multilateral financial institutions, in particular the EBRD and the World Bank, with a view to facilitating the co-financing of projects relating to pre-accession priorities.

EU assistance for financing projects through the three pre-accession programmes, PHARE, ISPA and SAPARD is conditional on respect by Romania of its commitments under the Europe Agreement, further steps towards satisfying the Copenhagen criteria and in particular progress in meeting the specific priorities of the Accession Partnership signed in 2000.

Debt Record

In the early 1980s, during the communist regime, the then existing government ceased payment on and restructured its external debt. This debt was subsequently repaid in full. Since 1989, Romania has not defaulted on the payment of principal of, or premium or interest on, any debt obligation issued by it and has made all payments under its guarantees upon its verification of claims under such guarantees.

Taxation

Romanian Taxation

The following is a general description of certain Romanian tax considerations relating to the Notes. It does not propose to be a complete analysis of all tax considerations relating to the Notes. It relates only to the position of persons who are the absolute beneficial owners of their Notes and does not necessarily apply where income on the Notes is deemed to be the income of any other person. It may not apply to certain classes of persons such as dealers or foreign persons who hold the Notes through a partnership with a Romanian company. Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes on acquiring, holding and disposing of notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon Romanian law and practice as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Payments of principal and of interest on the Notes to any individual (regardless of residence), or any legal entity which is not resident in Romania, will not be subject to taxation in Romania (except in the case of a non-resident legal entity which receives such payments through a permanent establishment situated in Romania), and no withholding of any Romanian tax will be required on such payments.

In addition, gains realised on the sale or exchange of the Notes by individuals who are not Romanian citizens, or legal persons who are not resident in Romania, will not be subject to taxation in Romania (except in the case of individuals who hold the Notes through a fixed base situated in Romania or who are present in Romania for more than 183 days in a 12-month period in which the gain was realised, or legal persons who hold the Notes through a permanent establishment situated in Romania).

A legal person will not be resident in Romania for these purposes if it is incorporated under the laws of a country other than Romania.

No Romanian stamp duty is payable on the issue of the Notes or on the transfer of the Notes by delivery.

EU Savings Directive

On 3rd June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1st January 2005, provided that certain non-EU countries and territories adopt similar measures from the same date. Under the directive each Member State will be 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 for the benefit of an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Subscription and Sale

Citigroup Global Markets Limited, Deutsche Bank AG London, J.P. Morgan Europe Limited and UBS Limited (the "Joint Lead Managers") have, in a subscription agreement (the "Subscription Agreement") dated 30th June 2003, jointly and severally agreed, on the terms and subject to the conditions contained therein, to subscribe and pay for the Notes at the price of 98.743% of their principal amount, which represents the issue price set forth on the cover page of this Offering Circular less a combined management and underwriting commission and selling concession of 0.10% of such principal amount. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the Notes. The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Notes.

The Notes have not been and will not be registered under the Securities Act and are subject to US tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons. Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, US persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

Each Joint Lead Manager has agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes shall only be sold to Investors qualified as per Art. 31 paragraph 2 of the Regolamento Consob n. 11522 of 1st July 1998. In any case such Notes shall be placed, sold and/or offered neither in the primary nor in the secondary market to individuals residing in Italy.

The Notes may not be offered or sold within Romania or to residents of Romania except to the extent permitted by applicable law.

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Joint Lead Managers 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 Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

General Information

Responsibility

The Issuer accepts responsibility for the information contained in this document and has taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects.

Governing Law

The Agency Agreement, the Deed of Covenant and the Notes will be governed by and interpreted in accordance with the laws of England except that all matters governing authorisation, execution and issuance by Romania will be governed by the laws of Romania.

Authorisations

The issue by Romania of the Notes is made pursuant to Public Debt Law No. 81/1999 and to Government Emergency Ordinance No. 168/2002 regarding the approval of Romania's external public indebtedness level for the year 2003, as approved by Law No. 94/2003.

Stock Exchange Listing

Application has been made to list the Notes on the Luxembourg Stock Exchange.

Litigation

There are no litigation 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 material in the context of the issue of the Notes.

Availability of Documents

For so long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, the Issuer will maintain a Paying Agent in Luxembourg. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected during normal business hours at the offices of the Paying Agent in Luxembourg:

- (a) the Agency Agreement;
- (b) the Deed of Covenant; and
- (c) the documents referred to under "Authorisations" above.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The common code of the Notes will be 017163833, and the ISIN will be XS0171638330.

ROMANIA

c/o Ministry of Public Finances

17, Apolodor Street
RO-70663 Bucharest
Romania

FISCAL AGENT

Deutsche Bank AG London

Winchester House
1 Great Winchester Street
London EC2N 2DB

PAYING AGENT

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer
L-1115 Luxembourg

LEGAL ADVISERS

*To the Issuer
as to English law:*

Linklaters

One Silk Street
London EC2Y 8HQ
England

*To the Managers
as to English law:*

Clifford Chance

200 Aldersgate Street
London EC1A 4JJ
England

*To the Managers
as to Romanian law:*

Badea, Radu & Asociatii

235 Calea Dorobantilor
Sector 1 Bucharest
Romania

LISTING AGENT

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer
L-1115 Luxembourg