ROMANIA

ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE

EUR 750,000,000 6.50 per cent. Notes due 2018
To be consolidated with and form a single series with the issue of
EUR 750,000,000 6.50 per cent. Notes due 2018
issued on 18 June 2008

The issue price of the EUR 750,000,000 6.50 per cent. Notes due 2018 to be issued on 11 September 2012 (the "**New Notes**") of Romania (the "**Issuer**") is 106.817 per cent. of their principal amount (plus accrued interest from 18 June 2012).

The New Notes are to be consolidated with and form a single series with the Issuer's EUR 750,000,000 6.50 per cent. Notes due 2018 issued on 18 June 2008 (the "**Original Notes**", together with the New Notes, the "**Notes**").

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 18 June 2018.

The New Notes will bear interest from 18 June 2012 at the rate of 6.50 per cent. per annum payable annually in arrear on 18 June each year commencing on 18 June 2013. Payments on the Notes will 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*".

This Offering Circular does not comprise a prospectus for the purpose of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). Accordingly, this document has not been and will not be submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Luxembourg Commission de Surveillance du Secteur Financier (the "**CSSF**"), in its capacity as competent authority for the purposes of the Prospectus Directive.

Application has been made for the New Notes to be admitted to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange which is a regulated market for the purposes of the Directive on Markets in Financial Instruments 2004/39/EC.

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 BNP Paribas, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc and UniCredit Bank AG (the "**Joint Lead Managers**") 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 New Notes will be in bearer form and in the denomination of EUR 1,000 each. The New 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 11 September 2012 (the "**Closing Date**") with a common safekeeper 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 in respect of the New Notes will be exchangeable, in whole or in part, for interests in the permanent global note (the "**Permanent Global Note**") in relation to the Notes, 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 ("**Definitive Notes**") in the denomination of EUR 1,000 each and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

Joint Lead Managers

BNP PARIBAS **DEUTSCHE BANK**

JPMORGAN **UNICREDIT BANK**

7 September 2012

IMPORTANT NOTICES

This Offering Circular (the "**Offering Circular**") contains information provided by the Issuer in connection with the Notes. The Issuer accepts responsibility for the information contained in this Offering Circular and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Offering Circular does not constitute a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus law**") nor a simplified prospectus pursuant to Chapter 2 if Part III of the Luxembourg Prospectus Law, nor a prospectus pursuant to Romanian Law no. 297/2004 on capital market. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive, as amended, and Commission Regulation (EC) No 809/2004, as amended, and it has not been and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Commission de Surveillance de Secteur Financier, in its capacity as competent authority under the Luxembourg Prospectus Law.

The New Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**").

The Issuer has confirmed to the Joint Lead Managers that this Offering Circular contains all information which is (in the context of the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the New Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Joint Lead Manager.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented.

The distribution of this Offering Circular and the offering, sale and delivery of the New 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 the distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Joint Lead Managers or any of them that any recipient of this Offering Circular should subscribe for or purchase any Notes. Each recipient of this Offering Circular shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer, including consultation with its tax, legal and financial advisors as it deems necessary.

The Notes will be rated Baa3, BB+ and BBB-, respectively by Moody's Investor Services Ltd ("**Moody's**"), Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and Fitch Ratings Limited ("**Fitch**").

In this Offering Circular, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**RON**" and "**Leu**" are to Romanian New Leu, references to "**EUR**", "**Euro**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended.

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

CONTENTS

Page

RISK FACTORS

Risks Relating to Romania

An investment in a developing country such as Romania is subject to substantially greater risks than an investment in a more developed country

An investment in a country such as Romania, which joined the European Union ("**EU**") in 2007 but is still an emerging market, is subject to substantially greater risks than an investment in a country with a more developed economy and more developed political and legal systems. Although progress has been made in reforming Romania's economy and political and legal systems, the development of Romania's legal infrastructure and regulatory framework is still ongoing. As a consequence, an investment in Romania carries risks that are not typically associated with investing in more mature markets. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate. Generally, investments in developing countries, such as Romania, are only suitable for sophisticated investors who can fully appreciate the significance of the risks involved.

In addition, international investors' reactions to the events occurring in one country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in Romania's sovereign securities could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the ongoing sovereign debt crisis or the recent political turmoil in other countries in Europe and the Middle East will not negatively affect the economic performance of, or investor confidence in, developing markets, including Romania.

Political and economic uncertainty

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

Against the backdrop of austerity measures taken by the Romanian Government in 2010-2011 to counter the effects of the global financial and economic crisis, daily street protests took place in the Romanian capital Bucharest and in other important cities in January 2012. These protests were not dissimilar to protests occurring in other EU countries that have undertaken structural reform programmes. The protesters demanded, among other things, the resignation of the Government formed by the Democrat Liberal Party ("**PD-L**") and its political partners and early elections. The Social Liberal Union ("**USL**") came to power in May 2012 following a parliamentary vote of no confidence of the then PD-L Government and, against the backdrop of increasing political tension between the ruling USL and the country's President, Mr Traian Basescu, in July 2012, USL successfully replaced dignitaries in key public functions (such as the presidents of the Parliament's Chambers and the Ombudsman). At the same time, the Government passed emergency ordinances limiting the powers of the Constitutional Court in matters concerning the impeachment of the country's President and amending referendum laws, although following the strong reaction of the European Commission, the United States and several European countries, the Romanian Parliament further amended these emergency ordinances, restoring the powers of the Constitutional Court and reverting to the previous quorum required for referendum validation. These actions culminated in the impeachment of President Basescu by the Romanian Parliament on 6 July 2012, which was subject to a popular referendum, that took place on 29 July 2012. However, the referendum was subsequently declared invalid due to lack of legal quorum. Traian Basescu resumed his functions on 28 August 2012, taking office from Crin Antonescu who acted as interim president during the period of President Basescu's suspension (see "*Description of Romania – Overview - Political System - Political and economic uncertainty*").

Should the current domestic political turmoil continue or intensify, this may affect policy making, slow down Romania's economic development and institutional reforms, test Romania's ability to reach the objectives set through its agreements with international financial institutions and place additional depreciating pressures on Romania's national currency and weaken Romania's ability to access international markets to finance its needs.

Parliamentary elections are currently scheduled for the second half of 2012. If these elections result in a different party or coalition forming a new government, there can be no assurance that the new government would continue the current Government's strategy for addressing those structural weaknesses. Even if the current Government programme continues, the reforms as well as the ongoing adjustment and fiscal consolidation measures that the Romanian authorities have undertaken in connection with financing agreements with the IMF and the European Commission (the "**EC**") could result in increased social pressures or an erosion of political support in the future, making further reforms more difficult.

Risks relating to global events

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

Romania has recently experienced some contraction in its economy and other adverse economic and financial effects as a result of the global financial crisis, including pressure on profitability due to compressed margins and rising credit impairments, a crisis in the real estate sector and limited access to international capital markets. For example, gross domestic product ("GDP") declined by 1.6 per cent. in 2010 as compared to 2009 and 6.6 per cent. in 2009 as compared to 2008, before increasing by 2.5 per cent. in 2011 as compared to 2010. Due to these and other pressures resulting from the global economic crisis, Romania recorded budget deficits of 6.5 per cent. and 4.4 per cent. of GDP in 2010 and 2011 (calculated in cash terms), respectively (see "*Description of Romania—The Romanian Economy*").

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

Risks and ongoing concerns about the debt crisis in Europe, as well as the possible default by, or exit from the Eurozone of, one or more European states and/or the replacement of the Euro by one or more successor currencies, could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt of European countries and the financial condition of European and other financial institutions, including the Issuer. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe have affected, and may continue to affect: the inflow of capital for the purposes of investment;

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

The current economic crisis in the Eurozone could disrupt Romania's trade balance, which is heavily reliant upon intra-EU trade. For the year 2011, 71.1 per cent. of Romania's (FOB) exports and 73.2 per cent. of Romania's (FOB) imports were attributable to intra-EU trade, Romania's main EU trade partners being Germany, Italy, France and Hungary (see "*Description of Romania – Foreign Trade and Balance of Payments*"). Therefore, a decline in trading activities within the EU as a result of the Eurozone crisis could adversely affect Romania's trade balance and negatively affect its economy. Concerns regarding the Eurozone crisis have also led to significant increases in secondary market yields for sovereign debt of both directly and indirectly affected countries in 2010 and 2011. This uncertainty has also led to general market volatility, reduced sovereign credit ratings in certain instances, and significant exchange rate volatility.

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

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

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

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

There can be no assurance that the measures which the National Bank of Romania ("**NBR**") has implemented to rebalance the currency composition of new loans in favour of Leu denominated loans, including tighter rules on foreign currency lending by Romanian banks, will yield the expected results in stemming the growth of foreign currency denominated loans. The growth of non-performing foreign currency loans could, in turn, contribute to a worsening of banks' asset quality (non-performing loans reached 16.8 per cent. in June 2012 as compared to 14.3 per cent. at the end of 2011 and 11.9 per cent. at the end of 2010 – see "*Description of Romania—Monetary and Financial System—Banking System—Current Condition of the Banking Sector*" for further information), and may contribute to a decision by banks to exercise even more prudence in lending to domestic businesses. This stagnation of credit conditions within Romania is likely to have a negative effect on Romania's GDP growth if it continues.

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

The difficult external environment poses a challenge to financial stability in Romania. The world economy could be affected by a slower growth rate in developed economies in particular. Moreover, the fallout from the sovereign debt crisis via contagion in some countries in the EU and in the United States of America, along with the lingering vulnerabilities in certain banking sectors in Europe, may harm the economic growth in Romania and the capacity of the banking sector to access financing, as well as undermining banks' asset quality.

The Romanian banking sector is dominated by subsidiaries of banks incorporated in Eurozone countries, with a relatively large proportion of assets being held by Austrian (38 per cent. of the total net assets of credit institutions in Romania), French (13 per cent.) and Greek (13 per cent.) banks (see "*Description of Romania – Monetary and Financial System – Banking System – Current Condition of the Banking Sector*"). As at 30 June 2012, foreign banks owned approximately 81.2 per cent. of banks' assets in Romania. Foreign banks may rebalance their global loan portfolio in a manner adversely affecting Romania as a result of events related or unrelated to Romania, including as a result of the ongoing economic turbulence in the Eurozone and sovereign debt markets. In addition, foreign banks may dispose of, decrease new funding to or refinance the funding to their subsidiaries operating in Romania due to actual or perceived deterioration in asset quality, particularly in the event of a weaker than expected economic performance. As a result of these or other factors, or other potential shocks, foreign banks may revise their business strategies in, or relating to, Romania and in particular their decision to fund their subsidiaries in Romania which in turn would impact the ability of those subsidiaries to lend in Romania. This may lead to, among other things, depleted capital in the event of increased economic stress and Leu depreciation. Resulting balance sheet mismatches may negatively affect the Romanian economy and, as a result, have an adverse effect on Romania's capacity to repay principal and make payments of interest on the Notes.

To provide protection for the Romanian banking system, Government Ordinance 1/2012 amending and supplementing several pieces of legislation on credit institutions has been adopted in order to set up a "bridge bank" to temporarily take over the operations of distressed banks which pose a threat to financial stability in Romania. Other backstop measures are also available, mainly consisting of private sector solutions (including purchases and assumptions by healthy banks of loan portfolios and/or deposit portfolios of troubled banks). However, there can be no assurance that global economic events will not adversely affect Romania's economy and its ability to raise capital in the external debt markets in the future.

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

The long-term foreign and domestic currency debt of Romania is currently rated BB+ (Outlook Stable) by S&P, Baa3 (Outlook Negative) by Moody's and BBB-/BBB (Outlook Stable) by Fitch. There can be no guarantee that Romania will not experience credit downgrades. A deterioration in key economic indicators or the materialisation of any of the risks discussed herein may contribute to credit rating downgrades which could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Romania's ability to refinance existing indebtedness, finance its deficit and could affect payment of principal and interest under the Notes.

Many issuers have been subject to rating downgrades in recent weeks. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in Romania's credit rating could adversely affect the trading price of the Notes.

The infrastructure in Romania is underdeveloped, and Romania may experience difficulties in financing and developing infrastructure successfully

Compared to Western Europe, infrastructure in Romania, particularly the transportation system, is underdeveloped. Romania currently has plans to undertake various development projects to improve infrastructure in the country. Various financing plans have been proposed and attempted to further infrastructure development, including the use of public private partnerships ("PPPs"). Romania also funds infrastructure development using EU non-reimbursable funds.

However, the funding and construction of infrastructure has been challenging. For example, whereas PPP projects have frequently been used in other countries in the European Union for various investment objectives, Romania has not, to date, successfully undertaken a development project using PPPs. Several attempts have been made in Romania in the past to launch PPP projects, but the attempts have failed during contract negotiation, due to the lack of a proven legal framework governing this field, the lack of experience of the public authorities that initiate PPP projects, and the difficulty of completing PPP projects.

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

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

The World Bank, EU and IMF noted in their April-May 2012 quarterly Review on Romania's Economic Programme that structural reforms, including the preparation of plans to privatise a number of state-owned enterprises and the introduction of private management in such enterprises, have proceeded unevenly. Structural reforms are expected to continue, although the risk of delays and setbacks, particularly of a political nature, is high. This could negatively impact improvements in the efficiency of, and the attractiveness of investing in, Romania's economy and, ultimately, adversely affect the trading price of the Notes.

Balance of Payments

Although the trade deficit has continued to narrow in 2011, reaching 5.5 per cent. of GDP, exports are still substantially dependent on imported inputs. Compared to the EU average, Romania's exports still exhibit a sub-optimal structure in terms of value added and are still constrained by poor infrastructure. Romania's export market share, albeit rising after EU accession, has remained relatively low. Its rise has relied almost entirely on price competitiveness, whereas non-price competitiveness recorded modest headway.

The current account deficit registered a highly significant adjustment during 2009, reaching 4.2 per cent. from 11.6 per cent. of GDP in 2008 (and levels between 10.4 per cent. and 13.4 per cent. in 2006-7.). It remained low at 4.4 per cent. of GDP in both 2010 and 2011. In addition, approximately 70 per cent. of Romania's exports are made within the EU. A slow economic recovery of EU member states may negatively impact Romania's exports and thus the trade deficit, as well as having a negative impact on the amount of foreign investment into Romania.

Exchange Rates and Inflation

The RON is subject to a managed-floating exchange rate regime, whereby the value of the RON against foreign currencies is determined in the interbank foreign exchange market. The ability of the NBR to limit volatility of the RON is contingent on a number of economic and political factors, including the availability of foreign currency reserves and foreign direct investment inflows, as well as developments in market sentiment and investors' risk aversion in the wake of the global economic crisis. In December 2009, against the same period of the previous year, the RON depreciated on average against the euro by 7.3 per cent. in nominal terms and by 2.9 per cent. in real terms. Against the U.S. dollar the RON appreciated by 0.3 per cent. in nominal terms and by 5.0 per cent. in real terms. During 2010, the RON depreciated against the euro by 1.6 per cent. in nominal terms, which corresponds to an appreciation in real terms of 6.3 per cent., and against the U.S. dollar, it depreciated by 10.7 per cent., which corresponds to a depreciation of 3.6 per cent. in real terms. In 2011, the RON depreciated against the euro by 0.8 per cent. in nominal terms, while in real terms it appreciated by 2.3 per cent., and the RON depreciated against the U.S. dollar in nominal terms by 1.3 per cent., while in real terms it appreciated by 1.8 per cent. In August 2012 (up to 23 August and compared to December 2011, the RON depreciated against the euro by 4.6 per cent. in nominal terms, with the depreciation coming to a halt in early August, and by 10.5 per cent against the U.S. dollar (see "*Description of Romania – Monetary and Financial System – Exchange Rate Policy*"). A significant depreciation of the RON could adversely affect the country's economic and financial condition. Any higher than expected inflation could lead to a reduction in consumer purchasing power and erosion of consumer confidence.

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

In 2009, Romania entered into loan agreements with the International Monetary Fund ("**IMF**"), the International Bank for Reconstruction and Development ("**IBRD**") and the EU as financial support during the global economic downturn. In this context, it has been agreed to implement severe austerity measures on Romania's public finances, including raising sales taxes and reducing public sector wages.

In 2011, Romania entered into new, precautionary agreements with the IMF, the European Union and the World Bank. These agreements make medium term financial assistance arrangements available to Romania in case of an emergency financial situation and signal the international community's continued support for the policies and measures currently under implementation. Up to now no funds have been drawn under the agreements.

Romania has implemented all structural reforms agreed under the 2009-2011 financial support package and does not expect that it will be required to adopt any further structural reforms in relation to the new, precautionary mentioned agreements. The macroeconomic targets set under the new agreements can change over time through the IMF's and European Commission's ongoing monitoring and consultation process.

If the macroeconomic targets under the precautionary agreements concluded with the IMF or EU become tighter following future negotiations, or if Romania not only needs to draw upon the two agreements but also to seek further financing from supra- or international organisations, the availability of such financing might require Romania to implement further measures that could hamper economic growth and, if indirect taxes are increased again, result in significant inflation.

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

A joint mission of the IMF/EC/WB visited Bucharest during July 31, 2012 to August 14, 2012, for the sixth review of Romania’s economic programme. Following the meetings, a staff-level agreement has been reached with the authorities on measures that will be discussed by the IMF’s Executive Board in a meeting that is tentatively scheduled for late September 2012, following which it is expected that the IMF will approve the revised Letter of Intent, enclosing the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding. The results of the review will also be presented to the Economic and Financial Committee of the EU in September 2012. Preliminary findings of the mission have been disclosed in the IMF's concluding statement of the mission dated August 14, 2012, which notes that progress has been made in reducing inflation as well as government and external deficits, but much remains to be done to increase still weak growth, that the recent political turmoil is taking a toll on the economy and has dented confidence and that Romania is vulnerable to contagion from the euro area crisis, which is why it is important for the Romanian authorities to focus on macroeconomic policy priorities, notably achieving sound public finances, promoting low inflation with a flexible exchange rate, containing financial sector risks, and pushing ahead with reforms to boost growth and job creation. Although the preliminary findings of the mission have been disclosed in the IMF's concluding statement of the mission, there is the possibility of additional disclosure in the very near future, through the release of a revised Letter of Intent, enclosing the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding; this could have a material impact on the trading price of the Notes.

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

Historically, Romania has had a low absorption rate of EU funds.

A member state seeking EU funds must first apply under certain programmes. The member state must then contract with, and subsequently pay, beneficiaries. Only at this point can the member state seek reimbursement from the EU, and it is at this point that the absorption rate is measured. As a result, relatively low absorption rates are natural in the earlier part of a programme. See "*Description of Romania—Membership of the European Union—EU Funding—Post-Accession Funds*".

In 2012, Romania faces the risk of automatic decommitment of certain funds provided by the EU. During its audit missions, the EC identified deficiencies in respect of five EU operational programmes and requested the implementation by Romanian authorities of remedy measures to address such deficiencies, while ceasing payments until completion of the implementation of such measures. The remedy measures implemented by Romanian authorities are currently subject to a verification procedure and until this stage is finalised payments to Romania will not be resumed in respect of these five operational programmes. Against this backdrop, there can be no assurance that Romania will succeed in increasing its absorption rate. Further, if payments by the EC under EU funds are suspended or ceased, while Romania continues to be bound to make payments to beneficiaries, this might lead to additional pressures on Romania's budgetary deficit. See "*Membership in the European Union—EU Funding—Post-accession Funds—Structural and Cohesion Funds*" for further information.

Furthermore, whilst the EU summit in Brussels in June 2012 concluded that plans to deal with the financial crisis in Greece would not affect the amount of EU funds, there can be no guarantee that the amount available to Romania will not decrease in the future.

To the extent that Romania fails to maximise its use of EU funds or there is a decrease in the amount of funding available to Romania, it will face an increased need to fund projects out of state revenue that could otherwise be deployed elsewhere. This loss of potential EU funding would have a negative impact on Romania's budget. Failure to maximise available funding could also slow the pace at which Romania is able to develop its infrastructure and economy.

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

Although progress was made recently in the field of money laundering by the passing of important laws needed to fully transpose the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of Commission Directive 2006/70/EC regarding politically exposed persons, independent analysts and media reports have identified corruption and money laundering as problems in Romania. In the 2011 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 178 (most corrupt), Romania was ranked 75^{th}.

In its tenth report under the Cooperation and Verification Mechanism with Romania, approved on 18 July 2012, the EC recommended that immediate action be taken to accelerate a number of important high level corruption trials and to prevent their collapse because of expiry of their statutory limitation periods. In addition, it recommended that urgent measures should be taken to improve the consistency and deterrent effect of penalties applied in high-level corruption cases in courts across Romania, the recovery of the proceeds of crime, the fight against money laundering and the protection against corruption, fraud and conflict of interest in the public procurement process across all sectors of government activity.

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

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

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

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

The Romanian National Institute of Statistics estimates that, based on national statistics on tax evasion and the number of employees reported in business and household surveys, Romania has a significant shadow economy. It is estimated that the shadow economy's share of GDP slightly increased from 20 per cent. in 2007 to 21.5 per cent. in 2010. The accuracy of official economic data may therefore be distorted as a result of such shadow economy.

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

The uncertainties relating to the Romanian judicial system could have a negative effect on the economy and thus on the ability of Romania to repay principal and make payments of interest on the Notes

The uncertainties relating to the Romanian judicial system could have a negative effect on the economy and thus on the ability of Romania to repay principal and make payments of interest on the Notes. The court system is underfunded compared to more mature jurisdictions. As Romania is a civil law jurisdiction, judicial decisions under Romanian law generally have no precedential effect. For the same reason, courts are generally not bound by earlier court decisions taken under the same or similar circumstances, which can result in the inconsistent application of Romanian legislation to resolve the same or similar disputes. Furthermore, to date only a relatively small number of judicial decisions have been publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Romanian legislation to the public at large is generally limited. The Romanian judicial system has gone through several reforms to modernise and strengthen the independence of the judiciary (see "*Description of Romania—Overview—Judiciary*"). However, these reforms do not go far enough to effectively tackle the problem of non-unified jurisprudence. The new procedure codes introduce a new mechanism for unifying jurisprudence, but effective measures to ensure their entry into force are still underway.

The EC tenth report under the Cooperation and Verification Mechanism with Romania, approved on 18 July 2012, which assessed the progress made by Romania in the judicial reform and the fight against corruption, recognised the overall progress made by Romania in these areas since accession. However, the EC considers that the recent steps by the Romanian Government raises serious concerns about the respect of principles such as rule of law and independence of the judiciary and therefore invited Romania to take further action to restore respect of such principles and mentioned that it would continue to monitor closely the progress in these areas.

The uncertainties of the Romanian judicial system could have a negative effect on the economy and thus on the ability of Romania to repay principal and make payments of interest on the Notes.

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

Romania's level of aggregate public indebtedness (excluding guarantees) increased to 35 per cent. of GDP at the end of May 2012, compared to 34.4 per cent. of GDP at the end of December 2011 and 32.2 per cent. of GDP as at the end of May 2011. Compared with that of most other EU Member States, Romania's public debt is relatively modest in aggregate amount and as a percentage of GDP. However, there can be no assurance that Romania will be able to maintain its debt at current levels. A substantial increase in Romania's indebtedness as well as deterioration in financing conditions as a result of market, economic or political factors outside Romania's control could make it difficult for Romania to refinance its indebtedness on favourable terms, if at all. This development could, in turn, jeopardise Romania's ability to repay debt.

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

The use of the euro in financial transactions in Romania has increased. This increase is primarily attributable to the high proportion of foreign currency denominated loans to the private sector (during the period from January 2007 to May 2012, on average, 58.3 per cent. of loans to the private sector were denominated in a foreign currency, with the majority of such loans denominated in euro) that was fuelled in the pre-crisis period by the increasing availability of financing from local Romanian operations of foreign banks. In contrast, with respect to banks' liabilities, the proportion of foreign currency denominated deposits, which also include remittances from persons working abroad, has been much lower (during the period from January 2007 to May 2012, on average, 34.9 per cent. of deposits were denominated in a foreign currency). As the NBR's domestic monetary policy primarily impacts the Leu and has limited impact on foreign currencies including the euro, the further proliferation of the euro in the Romanian economy may undermine the ability of the NBR to implement its monetary policy. Similarly, the policies of the European Central Bank (the **"ECB"**) affecting the euro may indirectly impact the Romanian economy. Any limitations on the effectiveness of the NBR's monetary policy, whether due to the influence of the euro or otherwise, may have an adverse effect on the Romanian economy.

Romania is dependent on imports of energy from Russia and other neighbouring countries

Romania's consumption of natural gas is dependent on imports from Russia. Currently, Romania's gas production capacity provides only approximately 80 per cent. of its annual usage. In 2010, imports of natural gas (mainly from Russia) represented 16.9 per cent. of Romania's total natural gas consumption for that year, while for 2011 and the first five months of 2012 the share of imported natural gas (mainly from Russia) represented 23.2 per cent. and 25 per cent., respectively, of total natural gas consumption for that period.

Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Romania's neighbouring country, Ukraine, in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers including Romania. In line with its threats, the Russian company Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, due to a failure to agree terms regarding the supply of natural gas, which also led to a decrease in supplies of natural gas to Romania. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogaz and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom, on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe.

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

Risks Related to Notes Generally

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

The Notes may not be a suitable investment for all investors

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

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error.

Tax consequences of holding the Notes

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in its particular circumstances, which could follow from, amongst others, the EU Savings Directive. See "*Taxation*" and the risk factor "—*EU Savings Directive*" below.

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The EC has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

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

A claimant may not be able to enforce a court judgment against certain assets of Romania or in certain circumstances

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

Certain rights and properties of Romania benefit from sovereign immunity under Romanian or international law, which implies, *inter alia*, that such rights and properties, on the grounds that they belong to the public domain of Romania or of Romanian administrative-territorial units (i.e. counties, cities or villages) cannot (i) be sold or otherwise subjected to transfer of ownership, (ii) constitute security for creditors or be subjected to foreclosure or (iii) be acquired by third parties by prolonged or good-faith possession (i.e. usus capio) or by any other means whatsoever. Such rights and properties include, without limitation, all the assets listed in Article 136, republished, of the Romanian Constitution and Article 859 of the Civil Code of Romania (i.e. subterranean resources of public interest, airspace, waters with hydroelectric potential, of national or local interest, beaches, territorial waters, natural resources of the contiguous economic zone and the continental shelf, as well as other assets established by law), the assets listed in the Schedule to the Public Property Law No. 213/1998 as subsequently amended (e.g. electrical energy transportation networks, railway infrastructure and their tunnels, oil and gas pipes, navigable channels, reservoirs and dams etc.), any present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961 (including the furnishings and other property therein and the means of transport of such mission), any "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 (including the furnishings and other property therein and the means of transport of such mission) or military property or military assets or property or assets of Romania related thereto, and any other assets that according to the Romanian laws or by their nature are of public use or interest and are acquired by legal means by the Romanian state or by the administrative-territorial units of Romania.

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

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

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

Romanian courts are not familiar with the concept of insolvency of public authorities, and consequently the procedure for, and enforcement of payment under the Notes in such circumstances is uncertain.

Change of law

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

Risks related to the market generally

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

The secondary market generally

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

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

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

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

As of the date of this Offering Circular the Notes have been rated Baa3 by Moody's, BB+ by S&P and BBB- by Fitch. These ratings may not reflect the potential impact of all risks related to the Issuer or to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in Romania's credit rating could adversely affect the trading price of the Notes.

Legal investment considerations may restrict certain investments

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The EUR 750,000,000 6.50 per cent. Notes due 2018 (the "**New 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 Finance, (the "**Issuer**") are to be consolidated and form a single series with the EUR 750,000,000 6.50 per cent. Notes due 2018 issued on 18 June 2008 (the "**Original Notes**", and together with the New Notes the "**Notes**") and are to be the subject of a fiscal agency agreement dated 18 June 2008 as amended and supplemented by a supplemental fiscal agency agreement dated 11 September 2012 (and as further amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A. 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 by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in the denomination of EUR 1,000 with Coupons attached at the time of issue. 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. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Status

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

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 New Notes will bear interest from 18 June 2012 (the "**Interest Commencement Date**"), at the rate of 6.50 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 18 June in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 65 in respect of each Note of EUR 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means EUR 1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Interest Commencement Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 June 2018, subject as provided in Condition 6 (*Payments*).

(b) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) (*Scheduled Redemption*) above.

(c) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.

(d) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

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 other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the Trans-European Automated Real-time Gross settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 ("**TARGET 2**").

(b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) 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) (*Principal*) 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 in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

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

(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 on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which TARGET 2 is open for the settlement of payments in euro.

(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.

7. Taxation

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

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Romania other than the mere holding of the Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

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

(d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to TARGET 2 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 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than Romania, references in these Conditions to Romania shall be construed as references to Romania and/or such other jurisdiction.

8. Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing:

(a) any amount of principal is not paid on the due date for payment thereof or any amount of interest on the Notes is not paid within 30 days of the due date for payment thereof; or

(b) the Issuer fails to duly perform or observe any of its other material obligations under the Notes, which failure continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Fiscal Agent; or

(c) Romania ceases to be a member of the IMF or to be eligible to use the general resources of the IMF, and such situation continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Fiscal Agent; or

(d) (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public External Indebtedness of the Issuer, (ii) the Issuer defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable, and such default continues for more than the grace period, if any, originally applicable thereto or, in the case of interest where such grace period does not exceed 30 days, for more than 30 days or (iii) the Issuer defaults in the payment when due and called upon of any guarantee or indemnity of the Issuer in respect of any Public External Indebtedness of any other person and such default continues for more than the grace period, if any, originally applicable thereto or, if such grace period does not exceed 30 days, for more than 30 days; *provided that* the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this subparagraph (d) have occurred equals or exceeds US$70,000,000 or its equivalent; or

(e) a moratorium on the payment of principal of, or interest on, the Public External Indebtedness of the Issuer is declared by the Issuer, unless such moratorium expressly excludes the Notes; or

(f) the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its payment obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it shall be or become unlawful for the Issuer to perform or comply with all or any of its payment obligations set out in the Notes or any such obligations shall be or become unenforceable or invalid, in each case as a result of any law or regulation in Romania or any ruling of any court in Romania whose decision is final and unappealable.

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

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

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 and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The 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) a fiscal agent, (b) a paying agent in Luxembourg and (c), a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

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

12. Meetings of Noteholders; Modification

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

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

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

(iii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iv) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

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

(vi) to change or waive the provisions of the Notes set out in Condition 2 (Status);

(vii) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 8; or

(viii) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 16.

(c) *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.

(d) *Written Resolution*: In addition, the Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a Reserved Matter, or 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them, and on all Couponholders.

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

(i) an Event of Default;

(ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8, become an Event of Default; or

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

provided, however, that no such appointment shall be effective if the holders of more than 25 per cent. of the aggregate principal amount of the outstanding Notes have either (I) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (II) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 14 as soon as practicable after the notice is delivered to the Issuer.

Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings, (iii) enter into discussions with the Issuer and/or other creditors of the Issuer, (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer, (v) determine whether or not there is an actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer and (vi) upon making a determination of the absence of any actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer, agree to transact business at a combined meeting of the committee and such other person or persons as may have been duly appointed as representatives of the holders of securities of each such other series. Except to the extent provided in this sub-paragraph (e), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise. The Issuer shall pay any fees and expenses which are reasonably incurred by any such committee or any such combined committee (including, without limitation, the costs of giving notices to Noteholders, fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

(f) *Outstanding Notes*: For the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders, (ii) this Condition 12 and Schedule 5 to the Fiscal Agency Agreement, those Notes (if any) which are for the time being held by any person (including, but not limited to the Issuer or any Agency (as defined below) of the Issuer for the benefit of the Issuer or any Agency shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

As used in this Condition, "**Agency**" means any political sub-division, local administrative authority, ministry, department, authority or statutory corporation of the Issuer and the government thereof (whether or not such corporation is autonomous).

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 as to form a single series with the Notes.

14. Notices

(a) 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*") or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

(b) 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 and all matters arising from or connected with 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) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes.

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (Governing law and jurisdiction) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Economic Counsellor, Embassy of Romania at 4 Palace Green, London W8 4QD. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the

Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *Consent to enforcement etc.*: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and to the extent it is permitted to do so under applicable 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.

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.

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 safekeeper for Euroclear and Clearstream, Luxembourg.

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

The Notes are intended to be held in a manner which would allow Eurosystem eligibility – that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

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 denomination of EUR 1,000 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 does in fact do so and no alternative successor clearing system is available or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs. The Permanent Global Note will also become exchangeable, in whole but not in part only and at the option of the Issuer, for Definitive Notes at the Specified Office of the Fiscal Agent if, by reason of any change in the laws of Romania, the Issuer is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

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 11 September 2012 (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. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

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 safekeeper 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*).

USE OF PROCEEDS

The net proceeds of the issue of the New Notes (including the payment of accrued interest from 18 June 2012), is expected to amount to EUR 812,180,239.73 and will be used by the Issuer in order to finance the budget deficit and refinance public debt.

DESCRIPTION OF ROMANIA

1. OVERVIEW

Territory and Population

Romania is located in Eastern Central Europe, north of the Balkan Peninsula. Its neighbouring countries are Hungary, Ukraine, the Republic of Moldova, Bulgaria and Serbia. On the South East it borders the Black Sea. The country is one of the largest in the Central European region and covers an area of approximately 238,000 square kilometres.

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

Political System

Political and economic uncertainty

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

Since the beginning of 2012, the PD-L-supported Governments (the first led by Prime Minister Emil Boc and the latter by Prime Minister Mihai-Razvan Ungureanu) failed to preserve their consecutive mandates following pressure from a Parliament where the political majority switched from PD-L to the Victor Ponta and Crin Antonescu co-led USL. Since May 2012 a USL-upheld Government led by Prime Minister Victor Ponta has governed Romania.

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

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

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

There can be no assurance whether the Victor Ponta Government or the Government to be formed after the parliamentary elections scheduled later in 2012 will continue the Government's strategy for addressing the aforementioned structural weaknesses initiated by the PD-L Governments or if the new governmental teams will pursue a different approach. In any case, the reforms as well as the ongoing adjustment and fiscal consolidation measures that the Romanian authorities have undertaken in connection with financing agreements with the IMF and the EC could result in increased social pressures or an erosion of political support in the future, making further reforms more difficult.

The political turmoil around President Basescu's impeachment might freeze policy making in Romania and slow down Romania's economic development and institutional reforms and eventually test Romania's ability to reach the objectives set through its agreements with international financial institutions.

Recent History and Constitution

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

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

On 21 November 1991, a new constitution, establishing Romania as a parliamentary democracy, was adopted by the Romanian Parliament and subsequently approved by popular referendum. The constitution formally separates the legislative, executive and judicial powers of the state.

The next parliamentary elections are due to take place in the second half of 2012.

Parliament

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

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

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

The following political parties have parliamentary representation:

- **Democratic Liberal Party** (*Partidul Democrat-Liberal*): Liberal conservative, centre-right party led by Vasile Blaga;

- **Social Democratic Party** (*Partidul Social Democrat*) ("**PSD**"): Social democratic, centre-left party led by Victor Ponta, part of the newly formed Social-Liberal Union;

- **Conservative Party** (*Partidul Conservator*) ("**PC**"): Conservative party founded by the Romanian businessman Dan Voiculescu and currently led by Daniel Constantin, part of the USL;

- **National Liberal Party** (*Partidul National Liberal*) ("**PNL**"): Liberal, centre-right party led by Crin Antonescu, part of the USL; and

- **Hungarian Democratic Union of Romania** (*Uniunea Democrat Maghiara din Romania*) ("**UDMR**"): Centrist, Hungarian minority party, led by Kelemen Hunor.

The 2008 election result showed an almost equal distribution of votes between the PD-L and the political union at that time between PSD and PC. However, starting in 2009, when the global financial crisis started to unfold in Romania, a significant number of members of the political parties who obtained parliamentary seats in 2008 have migrated between political parties, resulting in changes to political majorities within the Parliament and leading to the current USL-led parliamentary majority.

The following table shows the distribution of the parliamentary seats currently held by each parliamentary group:

Parliamentary group	Chamber of Deputies	Senate
PD-L	106	34
PSD	91	41
PNL	56	27
UDMR	20	7
Progressive parliamentary group	12	12
Ethnic minority parties	16	—
Others not affiliated to a parliamentary group	8	1
Vacant seats	—	—
Total	**309**	**123**

Source: Parliament Website.

President

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

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

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

Local Government

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

Government

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

Romania was led by a coalition Government representing the PD-L and PSD and PC alliance after the 2008 parliamentary elections and until 1 October 2009, after which, the PSD and PC members of the Government resigned, leaving Romania with a minority government of the PD-L. The resignations were prompted when the Prime Minister, with the approval of the President, dismissed the Minister of the Interior, a member of the PSD.

This resulted in a vote of no confidence against the minority government of the PD-L in the Romanian Parliament. As a result, on 13 October 2009, the PD-L minority government was dismissed. Following new elections, a new minority government comprising members of the PD-L, the UDMR and independents was approved by the Parliament of Romania on 23 December 2009.

On 3 September 2010, the Romanian Government underwent a further re-organisation whereby six members of the Government (including the Minister of Public Finance) were replaced.

The PD-L-led Government underwent further restructuring in 2011 only to cease its mandate in early 2012, when Prime-Minister Emil Boc resigned. A subsequent PD-L supported Government was formed, lead by Prime Minister Mihai-Razvan Ungureanu, and was further dismissed in April 2012 following a new vote of no confidence initiated by the USL. Subsequently, President Traian Basescu appointed Victor Ponta, co-leader of USL, as Prime Minister. Victor Ponta's Government is currently in government supported by a USL-led parliamentary majority.

Judiciary

General Structure of the Judiciary and Constitutional Court

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

The Constitutional Court determines matters of constitutional significance.

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

Ensuring the Independence of the Judiciary and Constitutional Court

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

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

Reform of the Judiciary

The Romanian judicial system has gone through several reforms aimed at modernising and strengthening the independence of the judiciary. These reforms have been largely based on the Strategies for Reforming of the Judiciary, the National Anticorruption Strategy and the National Strategy for Fighting Against Organised Crime, which were implemented between 2003 and 2009.

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

In its Report dated 18 July 2012 that includes an overall assessment of progress in Romania under the CVM since accession in 2007 (the "**EC Report**"), the EC recognises the progress achieved by Romania in all areas covered by the CVM and considers that in the future Romania could attain the objectives of the CVM, provided it takes swift action to guarantee the rule of law, maintains the direction and step up the implementation reforms. However, the EC considers that the recent political developments and recent steps by the Romanian Government (*Please refer to section "Political and economic uncertainty"*) raise serious concerns about the respect for the rule of law and the independence of the judiciary. As a result, the EC Report concludes that the progress in implementation of the Benchmarks which would be required for the EC to decide to end the CVM is not yet present and that the EC will adopt a further report under the CVM for Romania before the end of 2012 in order to assess whether the concerns regarding the rule of law and independence of the judiciary have been addressed.

First Benchmark

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

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

On the basis of the impact studies finalised in November 2011, the entry into force of the other three Codes will follow in 2013 (Civil Procedure Code – 1 February 2013, Criminal Code and Criminal Procedure Code – 2013). An Action Plan for the Implementation of the three Codes was finalised by the Ministry of Justice in early 2012 following consultations with all the relevant institutions. The EC Report notes however, that further details still have to be worked out, key decisions still have to be taken by the executive and the judiciary, and that the plan does not appear to have developed into the kind of comprehensive, living road-map envisaged.

Other important steps have been taken to increase the efficiency and to consolidate the capacity of the Romanian judiciary. Law no. 202/2010 ("**Small Reform Law**") introduced a series of measures to simplify and render efficient judicial provisions, anticipating the entry into force of the procedural codes. This law collected the most simple and efficient rules of the new procedural codes and provided a framework for their anticipated implementation (the criterion was to select those provisions that did not require supplementary preparation, be it administrative or training, but could trigger an immediate effect).

In line with the CVM recommendations, more comprehensive changes to the Judicial Inspection and Disciplinary System were adopted by the Romanian Parliament in December 2011, which seek to strengthen the disciplinary system through enhancing the autonomy of the Judicial Inspection, expanding the range of disciplinary offences and sanctions, and extending the power to initiate disciplinary action to the President of the High Court, the General Prosecutor and the Minister of Justice.

An impact study project, aiming to evaluate the efficiency of the Romanian judicial system, has already started. The technical objective of the project is to provide an efficiency analysis of: the organisation and functioning of the Romanian judicial system; the management of resources in the system; and the support processes within the system. The contract with the World Bank for performing the functional review of the judicial system was signed on 17 February 2012. The project aims to produce a factual, figure based evaluation of the entire judiciary and provide recommendations for further judicial reform. The impact study is expected to provide the framework for continuing the modernisation process in line with the expectations provided under the first Benchmark, but internalised in a document that will ultimately become the basis for the next judicial strategy.

The EC Report includes certain recommendations for Romania in areas such as the reform of the judiciary, accountability of the judicial system, consistency and transparency of the judicial process, effectiveness of judicial action.

Second Benchmark

According to the requirement deriving from this Benchmark, Romania established the National Integrity Agency (ANI), an independent, operational institution, competent to control and verify the wealth, conflicts of interest and incompatibilities, which has been operational since the end of 2007.

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

ANI’s track record has been consolidated over the previous four years and it has received positive feedback in the EC’s reports since 2009. However, the EC Report notes that ANI's progress has been hindered by a series of challenges and recommends that Romania should: enforce prompt sanctions with a deterrent effect; streamline judicial review of ANI decisions through improvements to judicial procedures and practice and a review of ANI's legal framework; and speed up final verdicts and improve their consistency and deterrent effect.

Third Benchmark

The National Anticorruption Directorate (the "**DNA**") is a specialized, independent structure, functioning within the General Prosecutors' Office, which investigates high level corruption cases.

Several procedural aspects have been improved in order to increase the efficiency of trials in high-level corruption cases. These include the repeal of several provisions, such as the de jure suspension of trials when objections of unconstitutionality were raised and the possibility of suspending criminal trial by raising the illegality exception. As a consequence, none of the high level corruption cases pending before the Criminal Section of the HCCJ have been suspended on such grounds since the reforms became effective. Furthermore, in order to accelerate the high-level corruption cases, the HCCJ has taken a number of managerial and administrative measures to improve the celerity of high-level corruption trials**.** These measures led to a number of first instance decisions in important cases from late 2011, as well as the first final corruption convictions with imprisonment pronounced against a former Prime Minister, a former Minister and against a current member of the Parliament.

The DNA's track record has been consistently positive since 2008 and this is acknowledged in the EC's CVM reports, including the latest report in July 2012. DNA statistics show that during the last 5 years over 90 per cent. of its indictments have lead to convictions and that 90 per cent. of all investigations were finalised in less than one and a half years.

There has been a substantial increase in the number of corruption cases resolved in the Romanian courts in 2011 and the first part of 2012 in comparison with 2010 and 2009. 83 per cent. of the people against whom final decisions were given in 2011 received convictions and only 17 per cent. were acquitted.

The EC Report recommends, inter alia, that Romania should improve results in the prevention and sanctioning of corruption, fraud and conflicts of interest in public procurement across all sectors of government activity.

Fourth Benchmark

On 20 March 2012 the Government approved a new National Anticorruption Strategy ("**NAS**") covering the period up to 2015 and an action plan to effect it.

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

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

The EC Report recommends that Romania implements the NAS and establishes a comprehensive system of monitoring so that all agencies of government set targets and report annually, in a common and comparable format, on the prevention and sanctioning of corruption, fraud and conflicts of interest. In line with the NAS, Romania intends to establish clear procedural rules and best practice for decisions of Parliament to allow investigation, arrest and search of parliamentarians.

Disputes in front of ICSID

Currently, Romania is party to the following pending cases at the International Centre for Settlement of Investment Disputes (ICSID): (i) Ioan Micula, Viorel Micula and others v. Romania (ICSID Case No. ARB/05/20); (ii) The Rompetrol Group N.V. v. Romania (ICSID Case No. ARB/06/3); (iii) Mr. Hassan Awdi, Enterprise Business Consultants, Inc. and Alfa El Corporation v. Romania (ICSID Case No. ARB/10/13); and (iv) Ömer Dede and Serdar Elhüseyni v. Romania and AVAS Privatization Agency of the Government of Romania (ICSID Case No. ARB/10/22).

International Relations

Romania maintains diplomatic relations with 182 countries and has a broad foreign representation network – 104 diplomatic missions abroad (bilateral and multilateral), 36 general consulates, 2 consulates, as well as a substantial network of honorary consulates (over 160).

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

Romania is actively engaged in promoting stronger NATO-EU cooperation and the consolidation of the Transatlantic partnership, by: (a) helping to ensure the success of Allied military missions; (b) developing a NATO anti-missile system; (c) defining NATO's role in energy security; and (d) combating new threats. The signing in September 2011 by the Romanian Minster of Foreign Affairs and the American Secretary of State of the Agreement on the Deployment of the U.S. Ballistic Missile Defense System in Romania is significant not only to Romania's bilateral strategic cooperation with USA and for Romania's defence interests, but also to the security of Allied territory. Moreover, the recent NATO Parliamentary Assembly (Bucharest, October 2011) marked an enhancement of Romania's status on the international stage.

Romania has strategic partnerships with USA, France, Italy, Poland, Hungary, the Republic of Korea, the United Kingdom and Azerbaijan; it has enhanced relations with Germany and Austria (especially in the economic and financial field), Spain (where an important Romanian community resides), and has also established special cooperation frameworks with countries such as China, Japan, Turkey and Israel. Romania's goal is to continuously substantiate and ensure the consolidation of all these relationships. Moreover, Romania maintains and develops pragmatic cooperation with all its, and the EU's neighbouring states. (For details regarding relations with the EU, refer to section "*Membership of the European Union*").

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

At the end of December 2011, the aggregate outstanding value of the public portfolios of the IBRD, EIB, EBRD, CEB and JBIC in Romania was EUR 7,129 million, consisting of sovereign loans and guarantees for the financing of public projects in the infrastructure and social sectors. By the end of June 2012, the EIB, IFC and EBRD's aggregate contributions to private sector financing grew to approximately EUR 1523 million, representing 41 new projects.

The EBRD is expected to continue its policy dialogue with the Romanian authorities and cooperation with relevant institutions to further develop the Romanian capital markets under the Local Currency and Capital Market Development Initiative, a programme developed by the EBRD. The main initiatives are: (a) creating a more local currency-friendly regulatory and monetary policy environment; (b) improving the implementing legislation; and (c) streamlining, but not diminishing, the private pension pillar. The EBRD also supports investments in private sector renewable generation to promote competition and to help Romania meet its EU 2020 targets. Under these targets, Romania is required to increase its share of renewable energy to 38 per cent. of total electrical energy production, including from large hydro-electric plants, from the current level of 28 per cent.

Romania is a founding member of the BSTDB, the financing arm of the Black Sea Economic Cooperation. Since it started operations in 1999, the BSTDB has financed approximately 21 projects in Romania (out of which only one has a state guarantee), amounting to approximately EUR 172 million, the outstanding amount as of end March 2012 being approximately EUR 24.7 million.

2. MEMBERSHIP OF THE EUROPEAN UNION

Overview

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

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

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

In its conclusions, the March 2012 European Council reiterated that all the legal conditions have been met for the decision on Bulgaria and Romania's accession to the Schengen area to be taken. Also, the European Council acknowledged the continuous efforts undertaken by Bulgaria and Romania and expressed that a decision on Romania's and Bulgaria's accession to the Schengen area would be taken at the time of the September 2012 meeting of the Justice and Home Affairs Council.

In its 2012 convergence program, Romania maintains its commitment to adopt Euro as its legal tender in 2015, which should be preceded by the accession to the European Exchange Rate Mechanism (ERM) II in 2013-2014. However, there is a risk of euro adoption being postponed, if the euro area will consolidate once the sovereign debt crisis has come to an end, even if Romania fulfils the ex-ante convergence criteria.

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

EU Funding

Pre-accession Funds

After its accession to the EU, Romania continued to benefit from funding made available as part of the EU pre-accession funding programmes including PHARE (Poland and Hungary: Assistance for Restructuring their Economies), ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development).

PHARE was the main instrument used by the EU to grant financial and technical assistance to countries from Central and Eastern Europe for restructuring their economies, institution building, creating the infrastructure necessary for accession to the EU and enhancing economic and social cohesion. Through the PHARE programme, Romania received total funding of EUR 2.49 billion between 1998 and 2011, which represents 90.55 per cent. of the total PHARE budget allocated to Romania. The PHARE programme is now closed, with limited payments under on-going projects scheduled for mid 2012.

ISPA is an EU programme providing funding to candidate countries for improving and expanding their transport infrastructure to connect with the trans-European transport network and for alignment with European environmental standards. In the period 2000–2011, Romania received a total amount of funds under the ISPA instrument of EUR 1.66 billion, representing 81.77 per cent. of the total ISPA budget allocated to Romania. Payments under the ISPA programme will be made by the EC until 2013.

SAPARD represents a programme primarily directed at improving infrastructure for rural development and agriculture, and human resources development, including the competitiveness of agriculture and fisheries, in support of Romania's EU candidacy. Since 2000, Romania has benefited from SAPARD assistance amounting to a total of EUR 1.02 billion, representing 87.93 per cent. of the total budget allocated to Romania. The SAPARD programme is now closed.

Post-accession Funds

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

Structural and Cohesion Funds

The EU Structural and Cohesion Funds are financial tools set up to implement the Cohesion policy of the European Union, and include the European Regional Development Fund (the "**ERDF**"), the European Social Fund (the "**ESF**") and the Cohesion Fund (the "**CF**"), each with different sets of objectives and priorities. Generally, support from EU Structural and Cohesion Funds is granted to Romania for the purpose of accelerating its economic development. To this end, the EC approved seven operational programmes under which Romania is entitled to funding under the Structural and Cohesion Funds during the period 2007-2013 (i.e. increasing economic competitiveness, transport, environment, regional operational programmes, technical assistance, human resources development and administrative capacity development). Smaller financial support is also granted for cross-border and transnational activities.

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

Since September 2011, the role of coordinating structural instruments was taken over by the newly created Ministry of European Affairs. The role includes the functioning of the legal, institutional, procedural and programmatic framework for the management of pre-accession funds and of structural and cohesion funds, as well as monitoring, programming and evaluating the use of non-reimbursable financial assistance provided by the EU. The main objective regarding the management of EU funds is to increase the efficiency of the implementation of the operational programmes for improved absorption of EU funds (in order to achieve the target of 90 per cent. fund absorption set at the outset of Romania's EU membership) and to avoid a substantial decommitment of funds at the end of the programming period 2007-2013.

The overall allocation of EU Structural and Cohesion Funds for Romania, in the period between 2007–2013, is EUR 19.67 billion, of which EUR 12.66 billion represent structural funds (i.e. ERDF and ESF), EUR 6.55 billion is allocated under the Cohesion Fund and the balance of EUR 454.61 million is allocated under European Territorial Cooperation Objective. National co-financing for the period 2007-2013, as required by the funding instruments, is estimated at approximately EUR 5.6 billion. Romania will have access to the funds allocated for the 2007–2013 programming period until 2017 (however, these funds are only available if committed, i.e. conclusion of financing contracts before the end of 2013).

At the same time, the value of the projects for which application has been made for financial assistance under the EU Structural and Cohesion Funds was, at 31 July 2012, EUR 36.96 billion (i.e. 1.9 times the value of the EU funds budget allocated to Romania during the programming period), while the number of projects submitted to the management authorities during 2012 increased by 7.45 per cent. from the end of 2011. The number of contracts with beneficiaries signed as of 31 July 2012 was 8760, totalling an eligible amount of EUR 18.20 billion. The EU contribution represents 73 per cent. of the EU allocation for the period 2007–2013. The number of contracts signed in 2012, by 31 July 2012, increased by 13 per cent. and their value by 16 per cent. compared to 31 December 2011.

Despite the above, the total amount received from the EC by Romania under the 2007-2013 fund allocation was, at 31 July 2012, EUR 3.96 billion, of which EUR 2.1 billion represented pre-financing payments and EUR 1.86 billion represented actual reimbursements made by the EC, corresponding to an actual 9.67 per cent. absorption rate of the total EU budget allocation for the programming period 2007–

2013 (absorption rate computed at 31 July 2012). In the period between 1 January and 31 July 2012, the reimbursements received from the EC amounted to EUR 791.32 million.

The use of Structural and Cohesion Funds is subject to a de-commitment rule, which provides that the EC shall automatically decommit any part of a budget commitment in an operational programme that has not been used for payment of the pre-financing or interim payments or for which an application for payment has not been sent until the end of a certain period (which is two or three years after the year when the financial allocation is granted). The de-commitment means that the EC may not claim for reimbursement of the concerned amounts and, in principle, does not refer to recovery by the EC of any amounts already paid to Romania. 2011 was the first year when the rule of automatic decommitment applied to Romania, however, no funds were decommitted. Romania faces the risk of automatic decommitment for certain programmes if the requests for payments sent to the EC by 31 December 2012 do not amount to the cumulative targets established by EC. The low level of payments made to beneficiaries by the national management authorities and furthermore the even lower level of the reimbursements made by the EC reveals problems and difficulties at both the beneficiary and the managing authority levels. Such difficulties affect the project preparation and submission stage, the appraisal, selection and contracting of projects and actual project implementation.

The obstacles in the commencement stage of programme implementation and subsequently in the actual project implementation stage, over the interval 2007–2013, were quite diverse. In accordance with the "National strategic report for the implementation of the Structural and Cohesion Funds", prepared by the Romanian authorities, the challenges to the absorption of EU funds in Romania start with the beneficiaries' difficulties in preparing projects (due mainly to a lack of experience in project elaboration, but also due to heavy documentation requirements and limited technical assistance). Absorption of EU funds in Romania is also hampered by the extensive time consumed in project appraisal; selection and contracting of and long-lasting administrative procedures; and the limited administrative capacity and a lack of beneficiaries' discipline, resulting in poor observance of procedural deadlines or submissions of incomplete information and documentation to the managing authorities. Significant delays in project implementation result from difficulties in conducting public procurement procedures, owing to poor administrative resources and capacity and to repeated challenges to public procurement procedures. Also, along with the implementation of projects, various legal barriers to the implementation of projects have arisen and, in certain cases, impeded the completion of various stages of projects. A significant problem in the implementation stage consists of the beneficiaries' difficulties in securing the financial resources to start project implementation or even to finance their own contribution to the project financing, which has been exacerbated by the global financial crisis.

Confronted with problems implementing EU funds in Romania, Romania took various measures ranging from simplifying and clarifying applicant guides, to granting more flexibility to the eligibility criteria for applicants, amending impeding legislation and establishing financial facilities for beneficiaries. Despite the constant increase in the implementation pace, stronger measures and actions had to be further taken in order to speed the absorption of EU funds.

Such measures have been included in the Priority Action Plan for Increasing the Capacity to Absorb Structural and Cohesion Funds ("**PAP**"), approved by the Romanian Government in April 2011, which includes the areas of development to be pursued with a view to removing or significantly reducing the obstacles to absorption.

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

In January 2012, the Ministry of European Affairs updated the PAP in order to ensure it corresponded to the actual status of implementation of operational programmes and to better address the priorities identified in this stage. The measures included in the PAP, which represent top priorities of the Romanian Government, refer to a general simplification of procedures (in particular, the procedures for the processing of the payment of claims), standardisation of tendering documents in key areas, such as transport and environment infrastructure, reinforcement of the administrative capacity of the structures involved in the management of EU funds and providing direct support to the beneficiaries of major priority and strategic infrastructure projects. Other important measures were the increase of the EU co-financing rate with 10 per cent. for EU Structural Funds projects and the approval of the reimbursement of non-recoverable VAT from projects financed by EU structural funds beginning on 1 January 2012.

Following deficiencies identified by the EC during its audit missions, the EC has requested that the Romanian authorities implement remedy measures in respect of a number of EU operational programmes (i.e. human resources, regional, environment, transport, increasing economic competitiveness). Starting from 1 July 2012, the Romanian authorities have ceased to send to the EC payment requests under four operational programmes (i.e. regional, environment, transport, increasing economic competitiveness), based on an informal request, until completion by the EC of the verification of remedy measures implemented by the Romanian authorities. By end of August 2012, the results of audit missions in respect of the abovementioned four operational programmes had not yet been communicated by the EC. In respect of the human resources operational programme, the EC sent a preliminary audit report to the Romanian authorities at the beginning of August 2012. Feedback is expected by the EC from the Romanian authorities by October 2012 in order to finalise the audit report. Until that moment, the EC will not resume payments under the human resources operational programme.

The Multi annual Financing Framework for 2014-2020, including the level of EU funds to be made available to the Member States, is subject to negotiations at EU level. The estimation currently is that the allocation for Romania will be at least at the level of the current allocation 2007-2013, but discussions on the financial envelope are still open. The EC considers applying specific requirements for the use of allocated EU funds in order to increase the efficiency of using the EU funds.

Agriculture-related Financial Assistance

The European Agricultural Fund for Rural Development (the "**EAFRD**") is an instrument of financial assistance created to support the implementation of the EU's Common Agricultural Policy and aims to support member countries in the implementation of the Common Agricultural Policy. The European Agricultural Guarantee Fund (the "**EAGF**") finances direct payments to farmers and implements measures to regulate agricultural markets (such as intervention and export refunds), while the purpose of the European Fisheries Fund (the "**EFF**") is to grant financial support to ensure the conservation and sustainable use of marine resources. See the table regarding the evolution of financial flows between Romania and the European Union under "*—Membership of the European Union—EU Funding—Post-accession Funds*" for financial details regarding the use of these funds by Romania.

During the programming period 2007–2013, the funds allocated to Romania under the EAFRD amount to approximately EUR 8.1 billion, for investments in various areas of development, such as the increase of competitiveness of the agricultural sector, improvement of environment and rural areas or of the quality of life in rural areas. Out of the EAFRD funds allocated to Romania, as at 31 July 2012, a total amount of EUR 3.96 billion was paid to beneficiaries, out of which EUR 550.62 million represents pre-financing amounts, EUR 2.76 billion corresponds to actual reimbursements made by the EU and the balance of EUR 649.22 million represents payments out of the national budget. The absorption rate based on the actual amounts reimbursed by the EC to the beneficiaries was, at 31 July 2012, of 33.96 per cent., while the absorption rate based on all the amounts paid by the EC (including pre-financing amounts granted to beneficiaries and amounts reimbursed to beneficiaries) was of 39.38 per cent. As at 31 July 2012, a number of 66,912 projects had been approved, out of which a number of 62,954 financing contracts were concluded for a total eligible value of EUR 6.8 billion, which corresponds to 49.56 per cent. compared to the total value of the EAFRD funds allocated to Romania.

Evolution of financial flows between Romania and the European Union as of 31 July 2

NET FINANCIAL BALANCE

	Name	Total allocations 2007-2013	Program for 2012	Execution as of 31 July 2012	Realised 2007	Realised 2008	Realised 20
						Million EURO	
I.	**Amounts received from the EU budget (A+B)** ...	**38,418.16**	**5,238.44**	**2,454.02**	**1,578.16**	**2,615.49**	**2,89**
A.	Pre-accession funds..	2,850.44	62.10	54.20	812.26	747.68	61
B.	Post-accession funds out of which"	35,567.72	5,176.33	2,399.82	765.90	1,867.81	2,27
	i) Prepayments...	3,578.10	66.36	5.87	752.28	1,381.54	97
	ii) Repayments (including EAGF)	31,989.62	5,109.97	2,393.96	13.62	486.27	1,30
Bl.	Structural and Cohesion Funds out of which"	19,667.65	2,590.15	809.85	421.38	648.45	91
	a) Prepayments from Structural and Cohesion Funds..	2,105.87	0.00	0.00	421.38	648.45	77
	b) Repayments from Structural and Cohesion Funds..	17,561.77	2,590.15	809.85	0.00	0.00	14
B2.	Agriculture, rural development and fishing funds, out of which:	8,354.91	1,500.00	664.85	15.13	578.75	56
	a) Prepayments /pre-financing from agriculture, rural development and fishing funds	600.99	0.00	0.00	15.13	578.75	0
	b) Repayments from agriculture, rural development and fishing funds.........................	7,753.92	1,500.00	664.85	0.00	0.00	56
B3.	The European Agricultural Guarantee Fund (EAGF)	6,580.25	1,000.00	914.37	6.89	461.87	57
B4.	Others (post-accession), out of which:	964.91	86.18	10.76	322.50	178.74	21
	a) Prepayments...	871.24	66.36	5.87	315.77	154.34	19
	b) Repayments..	93.67	19.82	4.89	6.73	24.40	1
II.	**Amounts paid to the EU (C+D)**	**10,087.12**	**1,373.43**	**885.06**	**1,150.89**	**1,268.93**	**1,36**
c.	Romania's contribution to the EU budget	9,799.20	1,348.61	866.71	1,129.13	1,246.78	1,31
D.	Other contributions..	287.92	24.82	18.35	21.77	22.15	4
III.	**Balance of financial flows = 1-11**	**28,331.03**	**3,865.00**	**1,568.96**	**427.27**	**1,346.56**	**1,53**

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

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

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

Source: The Ministry of Finance of Romania

3. **THE ROMANIAN ECONOMY**

Overview

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

This trend was interrupted in the third quarter of 2008, when the global financial crisis started to impact the Romanian economy. The effects of the crisis on the economy intensified during the final quarter of 2008, further intensified during 2009 and continued in 2010. The real economy contracted significantly (by 6.6 per cent. in 2009) compared to 2008. A further contraction of 1.6 per cent, compared with 2009, was registered in 2010. In 2011, the growth rate of real GDP (2.5 per cent) surpassed expectations, reflecting higher-than-expected agricultural production and external demand. The growth rate of real GDP in the first quarter of 2012 was 0.3 per cent in annual terms. Based on preliminary estimations, GDP increased in the second quarter of 2012 by 0.5 per cent. compared to the first quarter of 2012 and by 1.7 per cent. compared to the same period in 2011.

GDP per capita increased from EUR 2,022 in 2001 to EUR 6,499 in 2008 and decreased to EUR 5,509 in 2009, increasing again to 6,393 in 2011. GDP per capita in purchasing power standards improved up to 47 per cent. of the EU average in 2008, remaining at the same level in 2009 and in 2010, while slightly increasing to 49 per cent in 2011.

The following table shows the main macroeconomic indicators for the years 2007 to 2011 and the first half of 2012:

Main Macroeconomic Indicators

	2007	**2008**	**2009**	**2010**	**2011**	**H1 2012**
Gross domestic product – current prices (EUR billion)	124.7	139.8	118.3	124.1	136.5	25.2[(1)]
Real growth (percentage change)	6.3	7.3	-6.6	-1.6	2.5	0.8
RON/per capita	19,315	23,936	23,341	24,383	27,093	-
Average exchange rate (EUR/RON)	3.337	3.683	4.237	4.210	4.238	4.3888
Private sector (per cent. of GDP)	72.0	71.1	69.9	71.3	-	-
Industrial production (percentage change)	10.3	2.6	-5.5	5.5	5.6	0.2
Agricultural production (percentage change)	-17.7	21.2	-2.2	1.0	11.4	-
Retail[(1)] (percentage change)	20.4	20.8	-14.1	-0.4	-2.5	4.1
Current account balance (million EUR)	-16,714	-16,157	-4,915	-5,517	-5,995	-2,411
Real wage (percentage change)	14.7	16.5	-1.5	-3.7	0.5[(*)]	1.8[(3)]
Average inflation (percentage change)	4.84	7.85	5.59	6.09	5.79	2.04[(4)]
Employment (percentage change) (according to LFS – Labour Force Survey)	0.4	0.2	-1.3	0.0	-1.1	-0.5[(5)]

[(1)] Value for the period 1 January-31 March 2012
[(2)] Excluding sale, maintenance and repair of motors, vehicles and motorcycles
[(3)] Value for the average on 6 months 2012, compared to the value for the same period of 2011; data estimated by the National Commission for Prognosis based on a monthly gross average earnings and average CPI
[(4)]Value for annual CPI in June 2012
[(5)]Value for Q1 2012 compared to Q1 2011

In 2007 and 2008, real GDP continued to grow at high rates, namely 6.3 per cent. and 7.3 per cent., respectively. Gross fixed capital formation contributed significantly to the advance of the economy, recording rates of 30.3 per cent. in 2007 and 15.6 per cent. in 2008, respectively. Private consumption contributed as well to GDP growth, as a result of increased disposable income. Exports of goods and services grew by 7.8 per cent. and 8.3 per cent., respectively, while imports increased by 27.3 per cent. and 7.9 per cent., leading to a negative contribution of net exports to real GDP growth.

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

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

As a result of the continuance of the decreasing trend in domestic demand, the economic decline continued in 2010 when gross domestic product decreased by 1.6 per cent. However, positive developments were registered, such as the decrease of the budget deficit from 9.0 per cent. of GDP in 2009 to 6.8 per cent. (according to Eurostat) and the maintaining of the current account deficit at 4.4 per cent. of GDP. 2010 was a recovery year for industrial production which increased by 5.5 per cent., fully recovering the decrease of 2009, but with a structure better matched to the requirements of the internal and external markets. Further, Romania achieved a record amount of exported goods in 2010. Domestic demand decreased compared to 2009 by 1.5 per cent., mainly due to the decreasing of the gross fixed capital formation (-2.1 per cent.), which was affected by lack of funding sources and lack of confidence by the private sector in the economic development. Much of the demand was covered by imports of goods and services, which rose by 11.9 per cent. while the exports of goods and services increased by 14.0 per cent. The reduction of unemployment in the second half of 2010 is also notable, with a 7.0 per cent. registered unemployment rate at the end of the year, compared to 7.8 per cent. at the end of 2009.

Following the broad programme implemented by the Romanian Government since 2009, including the Stand-by Financing Agreement with the International Monetary Fund (the "**IMF**"), the EU and the World Bank (which targeted fiscal consolidation and structural reforms), the Romanian economy registered positive results starting with the first quarter of 2011, so that the annual gross domestic product increased by 2.5 per cent. as compared to 2010**.**

The positive growth rate of real GDP in 2011 reflected the higher-than-expected contribution of agricultural production and robust export demand. Domestic demand increased by 3.0 per cent. in 2011 compared to 2010, primarily due to increases in private consumption and gross fixed capital formation by 1.3 per cent. and 6.3 per cent, respectively. Government consumption, including individual and collective consumption, decreased by 3.5 per cent. The growth rate of imports of goods and services was higher than that of exports (10.5 per cent. versus 9.9 per cent), with a negative contribution of net exports to real GDP growth of 0.8 percentage points. The rate of registered unemployment was 5.12 per cent. at the end of December 2011.

In the first quarter of 2012, Romania's GDP registered a very modest growth in the context of relatively weaker external demand and the unfolding of the sovereign debt crises. However, in this period, gross fixed capital formation increased by 12.2 per cent., while domestic demand increased by 1.2 per cent. Final consumption remained low, with the increase of the private consumption expenditures (+0.5 per cent) and a decrease of the government consumption expenditures (-1.2 per cent). Negative comparative values for net exports (decreasing by 2.2 per cent.) and net imports (decreasing by 0.3 per cent.) contributed to the limited GDP growth in the first quarter of 2012.

In the second quarter of 2012, the economic activity significantly improved, leading to 1.2 per cent. real GDP growth and an overall growth of 0.8 per cent. over the first semester of 2012.

The following table shows percentage changes to the components of GDP use for 2007 to 2011 and the first quarter of 2012:

Gross Domestic Product Use Components

	2007	2008	2009	2010	2011	Q1 2012
	(percentage change against the corresponding period of the previous year)					
Final consumption	9.6	8.7	-7.4	-1.3	0.3	0.2
Private consumption expenditures	11.9	9.0	-10.1	-0.4	1.3	0.5
Government consumption expenditures	-0.1	7.2	3.1	-4.4	-3.5	-1.2
Gross fixed capital formation	30.3	15.6	-28.1	-2.1	6.3	12.2
Changes in inventories (Contribution to real GDP growth, percentage points)	-0.1	-3.5	1.4	0.0	1.4	-1.0
Net exports (Contribution to real GDP growth, percentage points)	-9.6	-1.0	7.0	0.0	-0.8	-1.0
Gross domestic product	**6.3**	**7.3**	**-6.6**	**-1.6**	**2.5**	**0.3**

Source: National Institute of Statistics

Structure of the Economy

Since 1990, the structure of the economy has changed significantly, with a shift from industry and agriculture to services. In its first phase, the restructuring of industry led to a reduction in its contribution to GDP growth from about 40 per cent. in 1990 to about 26 per cent. by 2000. After 2000, the structural decline halted and the contribution to GDP made by industrial growth stabilised. These changes involved substantial reductions in employment, particularly in traditional heavy industries, such as steel, chemicals and machine manufacture. The service sector increased its contribution to GDP growth from 26.5 per cent. in 1990 to 45.4 per cent. in 2011. Despite the increase, this share is below the level recorded in the developed economies of the EU, where the contribution of services to GDP exceeds 60 per cent.

The following table shows the structure of GDP by sector for the years 2007 to 2011 and the first quarter of 2012:

Structure of Gross Domestic Product by Sectors

	2007	2008	2009	2010	2011	Q1 2012
	(per cent.)					
Industry	24.3	23.0	24.1	25.8	26.3	30.1
Agriculture, forestry and fisheries	5.8	6.6	6.5	6.0	6.5	2.7
Construction	9.1	10.9	10.5	9.9	9.8	6.2
Services – Total	49.3	48.6	48.9	48.6	45.4	47.2
- Trade, hotel and restaurants, transport and communications	22.7	23.3	22.7	23.3	22.4	25.4
- Financial, real-estate, renting and business services	13.7	12.2	12.8	13.2	12.2	8.6
- Other service activities	12.9	13.1	13.4	12.0	10.8	13.2
Net taxes	11.5	10.9	10.0	9.7	12.0	13.8
Gross domestic product	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Institute of Statistics

The following table shows percentage changes in sectoral components of GDP for 2007 to 2011 and the first quarter of 2012:

Changes in Gross Domestic Product by Sectors

	2007	2008	2009	2010	2011	Q1 2012
	(percentage change against the corresponding period of the previous year)					
Industry	5.4	1.9	-1.4	4.8	5.0	-0.2
Agriculture, forestry and fisheries-15	-15.3	20.7	-3.3	-6.3	11.3	4.0
Construction	33.9	26.2	-9.9	-7.3	2.7	0.0
Services	7.0	5.4	-7.4	-2.3	-0.1	-1.3
- Trade, hotel and restaurants, transport and communications	10.3	8.2	-9.4	-1.2	0.6	0.0
- Financial, real-estate, renting and business services	7.2	4.4	-7.3	-0.9	-0.1	-1.7
- Other service activities	1.5	1.4	-3.8	-5.5	-1.5	-3.4
Gross value added	6.9	7.5	-5.8	-1.3	2.4	-0.6
Net taxes on goods	2.2	5.9	-12.6	-4.8	2.7	6.1
Gross domestic product	**6.3**	**7.3**	**-6.6**	**-1.6**	**2.5**	**0.3**

Source: National Institute of Statistics

Gross Value Added

Gross Value Added ("**GVA**") in industry increased in 2008 (1.9 per cent.) at a slower pace than in 2007 (5.4 per cent.) under the effect of the first signs of the global crisis. In 2009 the global financial crisis was felt in full and triggered a decline of the GVA in industry by 1.4 per cent. 2010 was characterised by the resumption of GVA growth in industry by 4.8 per cent., a trend that persisted in 2011 when it increased by 5.0 per cent. GVA growth in industry was largely due to positive developments in foreign markets. In the first quarter of 2012, industry GVA decreased by 0.2 per cent. as compared to the same period in 2011.

The agricultural sector in Romania is strongly influenced by climatic conditions as evidenced by the annual growth rates of GVA in agriculture: -15.3 per cent. in 2007, followed by a significant rise in 2008 of 20.7 per cent. and a deterioration of 3.3 per cent. In 2009. 2011 appears to have been a positive year for Romanian agriculture, with an increase of 11.3 per cent. of GVA. In the first quarter of 2012, agricultural GVA registered a 4 per cent. increase as compared to the same period in 2011.

GVA in construction recorded significant rises in 2007 (33.9 per cent.) and 2008 (26.2 per cent.). The global financial crisis hit this sector as shown by the 2009 figures (-9.9 per cent.) and 2010 figures (-7.3 per cent.) when GVA decreased significantly. In 2011, GVA in construction increased by 2.7 per cent. In the first quarter of 2012, construction GVA maintained the same level as in the first quarter of 2011.

During the period of economic growth from 2007 to 2008, the GVA in the services sector increased but the onset of the global financial crisis meant that the volume of activity within this sector saw a reduction in both 2009 and 2010. GVA reduction in the services sector was due to reduced disposable incomes which resulted in a lower GVA in some types of services, for example trade, and a restriction on workloads in certain areas leading to a decrease in GVA in some categories of services, such as business services for enterprises and transportation. Also, the recession measures undertaken in order to reduce public expenditures, such as reducing public sector wages by 25 per cent. and restructuring public administration staff, led to a lower GVA in this sector. In 2011, GVA in the services sector decreased by 0.1 per cent. compared to 2010. In the first quarter of 2012 GVA in the services' sector decreased by 1.3 per cent. as compared to the first quarter of 2011.

Industrial Production

Total industrial production saw a decreasing trend in 2008 and 2009 as a consequence of the global financial crisis. In 2010 however, signs of recovery were visible, a year-on-year 5.5 per cent. advance compared to 2009. In 2011 against the same period of 2010, production increased by 5.6 per cent. in the industrial sector and by 5.6 per cent. in manufacturing. The increase was due to higher demand in this period. In the first six months of 2012 as against the same period in 2011, production increased by 0.2 per cent. in the industrial sector and decreased by 0.8 per cent. in the manufacturing sector.

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

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

The positive trend for the turnover value in industry per total (3.1 per cent) has continued in the first six months of 2012, due to a general improvement in industrial activity, and in particular is due to the recovery of certain sectors that were affected by the crisis (textiles, other manufacturing, manufacture of fabricated metal products, except machinery and equipment, manufacture of furniture). The turnover on the external market increased during the first six months of 2012 by 3.3 per cent. (including manufacture of food products by 48.8 per cent, manufacture of textiles by 29.7 per cent. manufacture of fabricated metal products except machinery and equipment by 24.8 per cent. and manufacture of wood and product of wood and cork, except furniture, by 22.3 per cent.).

The positive trend for the turnover value in industry per total (3.5 per cent) has continued in the first five months of 2012, due to a general improvement in industrial activity, and in particular is due to the recovery of certain sectors that were affected by the crisis (textiles, other manufacturing, manufacture of fabricated metal products, except machinery and equipment, manufacture of furniture). The turnover on the external market increased during the first five months of 2012 by 3.7 per cent. (including manufacture of food products by 46.5 per cent, manufacture of textiles by 31.4 per cent. manufacture of fabricated metal products except machinery and equipment by 24.8 per cent. and manufacture of wood and product of wood and cork, except furniture, by 20.0 per cent.).

Labour productivity in industry increased by 17.8 per cent. in 2010 (5.9 percentage points above the increase recorded in 2009). Significant increases in productivity were registered in the manufacture of motor vehicles and electrical equipment, sectors with positive developments in this period, but also by the manufacture of basic metals. In 2011, labour productivity continued its upward trend, increasing by 4.3 per cent, as against the same period of the previous year. This increase was mainly due to improvements in mining and quarrying and electricity, gas, steam and air conditioning production and supply. In the first six months of 2012, labour productivity decreased by 2.7 per cent, as against the same period of the previous year. This decrease was registered for manufacture of rubber and plastic products, the manufacture of basic pharmaceutical products and pharmaceutical preparations and the manufacture of leather and related products. However, labour productivity increased in mining of coal and lignite, manufacture of other transport equipment, electricity, gas, steam and air conditioning supply, repair, manufacture and installation of machinery and equipment.

The following table shows percentage changes in industrial production by sector for the years 2007 to 2011 and the first six months of 2012:

Industrial Production by Sectors*

	2007	2008	2009	2010	2011	H1 2012
	(percentage change against the corresponding period of the previous year)					
Mining and quarrying	-1.6	-0.1	-11.9	-6.9	4.5	-1.3
Manufacturing	12.1	3.1	-6.5	6.0	5.6	-0.8
Energy	4.3	0.4	7.0	8.2	6.3	7.7
Total industry	**10.3**	**2.6**	**-5.5**	**5.5**	**5.6**	**0.2**

* According to NACE Rev 2.
Source: National Institute of Statistics

Agriculture, Forestry and Fisheries

Agriculture is an essential part of the national economy with significant economic and social importance. Romania's aggregate agricultural area in 2010 represented approximately 14.6 million hectares or 61.4 per cent. of its total territory, of which arable land represented 64.3 per cent. of the total agricultural area. The area of arable land per inhabitant is 0.44 hectares. At the end of 2010, the total area covered by forests and other forest-like vegetation was 28.4 per cent. of the total land in Romania.

The following table shows percentage changes in the agricultural production by type (excluding forestry) for 2007 to 2011.

Agricultural production

	2007	2008	2009	2010	2011*
	(percentage change against the corresponding period of the previous year)				
Crop production	-28.7	40.9	-2.8	6.6	12.9
Livestock	-0.6	-8.6	-1.2	-6.8	0.8
Agricultural services	32.5	-9.1	5.2	-26.5	-4.6
Total agriculture	**-17.7**	**21.2**	**-2.2**	**1.0**	**8.9**

[1] According to the Eurostat methodology on "Economic Accounts for Agriculture".
Source: National Institute of Statistics
* *Provisional data*

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

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

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

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

2012 has been affected by drought and this is expected to result in a poor harvest. By end-July 2012, wheat, rye and triticales production decreased by 16.8 per cent., while barley and two-row barley harvested production decreased by 28.9, according to the data released by the National Institute of Statistics.

The State has enacted various laws supporting the concentration of agricultural enterprises; the establishment of commercial undertakings; and the promotion of access to financing secured by agricultural property. The law regarding registration of land was also amended to centralise land title registration. These actions were accompanied by measures to assist the goal of redistributing properties appropriated by the State during the communist era. Such measures primarily involve accelerating property litigation through expedited procedures and allowing the voluntary merger of land holdings.

Construction

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

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

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

In 2011, the volume of construction works registered a recovery after 2009 and 2010's sharp reductions, namely an increase of 2.8 per cent. as compared to the previous year (unadjusted series), reflecting a positive trend since July 2011. This increase was supported by increases in capital repair works (10.3 per cent) and new construction works (2.5 per cent). Maintenance and current repair works were the only areas that reduced in volume to 0.7 per cent. Non-residential buildings and civil engineering grew by 6.3 per cent. and 2.6 per cent. respectively, while residential buildings registered a reduction in volume of 2.3 per cent. due to a decline in demand.

In the first six months of 2012, as compared to the same period in 2011, the volume of construction works (unadjusted series) increased by 7.5 per cent. In terms of elements of structure, maintenance and current repair works registered a decrease of 10.8 per cent. and capital repair works registered a decrease of 8.6

per cent., while new construction works grew by 18 per cent. compared with the corresponding period in 2011. As regards constructions by type, in the first six months of 2012 civil engineering grew by 18.7 per cent., while residential buildings and non-residential buildings reduced by 13.5 per cent. and 2.5 per cent. respectively.

The following table shows the percentage change in the construction sector for 2007 to 2011 and the first six months of 2012:

Construction Sector

	2007	2008	2009	2010	2011	H1 2012
	(percentage change against the corresponding period of the previous year)					
Construction works[(1)]	33.3	26.9	-18.3	-11.0	2.8	7.5
of total by structural elements:						
New construction works	50.1	17.7	-22.6	-1.3	2.5	18.0
Capital repair works	13.6	48.1	-10.1	-21.2	10.3	-8.6
Maintenance and current repairs works	-1.4	51.1	-7.8	-19.4	-0.7	-10.8
of total by type of construction:						
a) Buildings	51.5	37.1	-17.8	-23.9	2.9	-6.4
Residential buildings	92.1	34.7	-20.2	-35.7	-2.3	-13.5
Non-residential buildings	26.1	39.4	-15.7	-13.6	6.3	-2.5
b) Civil engineering	20.6	18.0	-12.2	-3.1	2.6	18.7

(1) Data recalculated according to NACE Rev.2; the figures for 2007 and 2008 are computed based on monthly data.
Source: National Institute of Statistics

Services

During 2007 and 2008, the GVA in the services sector grew by 7 per cent. in 2007 and 5.4 per cent. in 2008, but since the recession, the volume of activity within this sector has diminished, leading to reductions of 7.4 per cent. in 2009 and 2.3 per cent. in 2010.

In terms of contributions by various subsectors to overall service sector performance, growth was recorded in the 'hotels and restaurants, transport and communications' sector, increase of 10.3 per cent. in 2007 and 8.2 per cent. in 2008, as well as the 'financial activities, real estate, renting and business services' sector, which saw an increase of 7.2 per cent. in 2007 and 4.4 per cent. in 2008. Other service activities registered moderate increases (1.5 per cent. in 2007 and 1.4 per cent. in 2008).

In 2009, the GVA in the 'trade, hotels and restaurants, transport and communications' subsector decreased by 9.4 per cent. and continued its slowdown in 2010, albeit at a lower pace (1.2 per cent.). The GVA in the financial activities, real estate, renting and business services' subsector, decreased by 7.3 per cent. in 2009 and by 0.9 per cent. in 2010. The GVA in 'other services' activities' decreased by 3.8 per cent. in 2009 and by 5.5 per cent. in 2010.

In 2011, GVA in the services sector continued its decline at a slower pace than in previous years (-0.1 per cent.). There was 0.6 per cent. growth in GVA in the trade, hotels and restaurants, transport and communications subsector, while GVA by the financial activities, real estate, renting and business services subsector decreased by 0.1 per cent. and other service activities by 1.5 per cent.

In the first quarter of 2012, GVA in the services' sector decreased by 1.3 per cent., of which the GVA in 'trade, hotels and restaurants, transport and communications' subsector maintained the same level as in the first quarter of 2011, while GVA in 'financial activities, real estate, renting and business services' sector decreased by 1.7 per cent. and GVA in 'other service activities' reduced by 3.4 per cent., respectively.

Energy

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

From 2007 to the first six months of 2012, the primary energy resources that together comprised Romania's domestic production were:

	2007	2008	2009	2010	2011[(1)]	H1 2012[(1)]
				(per cent.)		
Net coal	25.1	24.4	23.1	21.5	28.9	28.1
Crude oil	17.0	16.0	15.7	15.3	16.7	17.0
Usable natural gas	33.2	31.2	32.0	31.7	36.6	37.7
Hydroelectric energy and nuclear electric energy	12.0	14.7	15.1	16.8	17.8	17.2
Others	12.7	13.7	14.1	14.7	—	—
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Data for 2011 and the first six months of 2012 is based on the share of main primary energy resources.
Source: National Institute of Statistics

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

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

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

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

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

In 2011, Romania's main primary energy resources produced amounted to the equivalent of 34.9 million tons of oil equivalent, representing a 2.1 per cent. increase compared to 2010. Of this total, 67.3 per cent. was generated by domestic production and 32.7 per cent. by imports.

The production of main primary energy resources increased in 2011 by 1.6 per cent. compared to 2010. During 2011 decreases of 8.9 and 2.2 per cent. were recorded in the domestic production of hydroelectric and nuclear energy and in the domestic production of crude oil, respectively. Net coal production increased by 14.4 per cent. and natural gas production, increased by 0.2 per cent. compared to 2010.

In 2011, compared to 2010, imports of crude petroleum decreased by 6.4 per cent., imports of usable natural gas increased by 38.8 per cent., net coal imports increased by 10.1 per cent., imports of petroleum products increased by 6.6 per cent. and electricity by 1.1 per cent. During this period the total imports of main primary energy resources increased by 3.3 per cent.

In the first six months of 2012 the main primary energy resources amounted to the equivalent of 17.3 million tons of oil equivalent, representing a 2.8 per cent. decrease compared with the first six months of 2011. In this period, 66.3 per cent of the total amount was generated by domestic production and 33.7 per cent by imports.

The production of main primary energy resources decreased in the first six months of 2012 with 1.8 per cent. compared to the same period of 2011. The domestic production of coal increased in this period by 1.5 per cent., and natural gas production recorded its first growth (+0.1 per cent) against the same period of 2011. The domestic production of hydroelectric and nuclear energy decreased by 10.1 per cent and domestic production of crude oil decreased by 2.1 per cent.

In the first six months of 2012 the total imports of main primary energy resources decreased as against the first six months of 2011 by 4.7 per cent. In this period the electricity imports increased by 80.3 per cent, coal imports increased by 64.8 per cent and imports of petroleum products increased by 44.2 per cent The imports of useable natural gas decreased in this period by 28.7 per cent and imported crude oil decreased by 7.0 per cent. It is likely that this decrease is due to the decline of domestic consumption and an increase in energy efficiency.

Electricity

The structure of the sources of electricity production from 2007 through 2011 and the first six months of 2012 is as follows:

	2007	2008	2009	2010	2011	H1 2012
			(per cent.)			
Electricity produced in thermo-power stations	61.6	56.2	52.5	47.2	54.6	54.2
Electricity produced in hydropower stations	25.89	26.49	27.28	33.2	24.6	24.0
Electricity produced in wind-power stations	0.01	0.01	0.02	0.5	1.6	3.9
Electricity produced in nuclear-electric stations	12.5	17.3	20.2	19.1	19.2	17.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Institute of Statistics

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

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

In 2011 electricity production was 61.0 TWh, an increase of 2.1 per cent. as against 2010. The production of electricity from hydroelectric power plants decreased by 25.3 per cent. due to low rainfall in 2011, a decrease that has been compensated by an 18.9 per cent. increase in electricity produced in thermoelectric power plants, which required a significant increase in coal production during this period. The classical thermo-power stations had the largest share of the total of electricity production (54.6 per cent.), followed by hydroelectric and wind power stations (26.2 per cent.) and nuclear plants (19.2 per cent.). During this period the final electricity consumption increased by 4.0 per cent. and total electricity consumption in the Romanian economy increased by 4.4 per cent. The electricity exports decreased by 19.2 per cent.

Electricity production in the first six months of 2012 was 30.5 TWh, a decrease of 5.9 per cent. compared with the first six months of the previous year. The production of electricity from hydroelectric power plants and nuclear power plants decreased in this period by 21.8 per cent. and 3.3 per cent. respectively. The electricity produced from wind power plants increased by 109.0 per cent. while electricity produced from thermoelectric power plants increase by 2.3 per cent.. The classic thermo-power stations had the largest share of total electricity production (54.2 per cent), followed by hydroelectric and wind power stations (27.9 per cent) and nuclear-electric stations (17.9 per cent). During this period the final electricity consumption increased by 1.5 per cent. and total electricity consumption in the Romanian economy increased by 1.5 per cent. Electricity exports decreased in this period by 76.1 per cent.

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

In line with EU requirements, recent changes to the energy legislation set forth a calendar for the liberalisation of electricity prices. Liberalisation is planned to start on 1 September 2012 in respect of companies (completion of liberalisation is planned for 31 December 2013) and at 1 July 2013 in respect of households' consumption (to be completed on 31 December 2017).

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

Electricity Market

Romania has liberalised its wholesale electricity market in accordance with EU requirements. The wholesale electricity market is based on bilateral contracts, concluded between producers and suppliers to the final costumers (65-70 per cent. of total internal consumption). In addition, Romania operates a centralised bilateral contracts market ("**PCCB**"), a Day Ahead Market ("**DAM**") and an operational balancing market ("**BM**").

In 2011, approximately 20 to 25 per cent. of electricity has been commercialised through PCCB. The DAM is a part of the electricity wholesale market on which electricity for each trading interval (one hour) of the corresponding delivery day is traded, based on offers submitted by registered market participants (around 15 to 20 per cent. of transactions for electricity consumption was on the DAM). The DAM rules create a centralised wholesale electricity market. The balancing market is operated by Transelectrica ("**TSO**") in order to maintain the balance between the consumption and production of electricity (around 5 per cent. of electricity consumption was traded on BM).

Through the Authorisation Decision No. SA 33134.2011/N, the EC has approved a support scheme for the promotion of electricity produced from renewable energy sources based on mandatory quotas and green certificates trading.

Natural Gas

In 2007, Romania's total natural gas consumption was 16.1 billion m3. Of the total natural gas for consumption, 11.3 billion m3 (70.2 per cent.) was from domestic production and 4.8 billion m3 (29.8 per cent.) was imported, mainly from Russia.

In 2008, Romania's total natural gas consumption was 15.6 billion m3. Of the total gas for consumption, 11.2 billion m3 (71.8 per cent.) was generated by the domestic production and 4.4 billion m3 (28.2 per cent.) was imported, mainly from Russia.

In 2009, Romania's total natural gas consumption was 13.3 billion m3. Of the total natural gas for consumption, 11.3 billion m3 (85.0 per cent.) was generated by domestic production and 2.0 billion m3 (15.0 per cent.) was imported, mainly from Russia.

In 2010, Romania's total natural gas consumption was 13.6 billion m3. Of the total natural gas consumption, 10.9 billion m3 was generated by domestic production (80.1 per cent.), 2.3 billion m3 (16.9 per cent.) was imported, mainly, from Russia and the remainder represented consumption of existing stock.

In 2011, Romania's total natural gas consumption was 13.8 billion m3. Of the total natural gas consumption, 10.6 billion m3 was generated by domestic production (76.8 per cent.) and 3.2 billion m3 (23.2 per cent.) was imported, mainly from Russia.

In the first six months of 2012, Romania's total natural gas consumption was 7.1 billion m3. Of the total natural gas consumption, 5.3 billion m3 was generated by domestic production (74.6 per cent.) and 1.8 billion m3 was imported (25.4 per cent.), mainly from Russia.

In order to reduce dependency on any source of gas, Romania is actively promoting projects to diversify both the routes and sources of its gas, as evidenced by the Nabucco or AGRI projects (for further details, see "*—The Romanian Economy—Restructuring and Investment*").

In line with EU requirements, recent changes to the energy and gas legislation set forth, *inter alia*, a road map for the liberalisation of the prices of natural gas. According to the gas road map the liberalisation is planned to start on 1 December 2012 for non-households. The prices for non-households will be fully liberalised beginning in January 2015. For households, the regulated gas prices will increase starting in July 2013, and they will be fully liberalised no later than end - 2018.

Restructuring and Investment

The Government intends to seek to restructure the energy sector with the aim of increasing production efficiency. The main objectives of Government policy in respect of the energy sector are ensuring security of supply, the increase of energy efficiency and the use of renewable energy sources. Romania already enjoys a greater degree of security of energy supply than many other countries in the region, insofar as it is less reliant upon imports for its energy needs due to its reserves of hard coal and lignite, oil and gas and its integrated power infrastructure allows domestic electricity production to be flexibly switched between domestic sources as circumstances require. Nonetheless Romania is diversifying the routes and sources of its supply of natural gas and is looking to exploit domestic renewable energy sources and domestic coal in order to reduce its energy dependency on imports.

Romania has made progress with its reform agenda for State-owned energy companies, in line with the restructuring plans discussed with the IMF.

The most important investment projects being promoted by the Government in the energy sector include:

- The construction of two nuclear units (3 and 4) at the Cernavoda power plant, in a consortium with private investors (Romania already has two nuclear facilities, the second of which was completed in 2007, together having an aggregate capacity of 1,400 megawatts);
- The development of *greenfield* and *brownfield* projects by Termoelectrica and other Romanian producers using fossil fuels;
- 21 projects relating to new hydroelectric power stations under development, which when completed, will have an aggregate capacity of approximately 900 megawatts;
- The Tarnita-Lapustesti pump storage hydroelectric power plant, with a capacity of 1000 megawatts;
- The construction of the Nabucco gas pipeline;
- The AGRI project (Azerbaijan-Georgia-Romania natural gas transport system); and
- Hydroelectric power station to be built in partnership with Bulgaria on the Danube, if this investment proves to be feasible.

The initial Nabucco project aimed to connect the Caspian Sea and Middle East gas reserves to European markets through a pipeline across five countries starting at the eastern Turkish border and ending at Baumgarten (the Austrian trading and technology hub). The projected total length of the pipeline was 3,282 km (457 km of which is in Romanian territory), and the amount of gas projected to be transported by 2014 was anticipated to be 8 billion m3 per annum ("**p.a.**"), with an estimated possible increase to 31 billion m3 p.a. by 2030. Nabucco is considered to play a key role in increasing competitiveness in the regional energy market by offering a new source of gas for Europe. On 8 June 2011, all the Nabucco partners signed the Project Support Agreements, intended to facilitate final investment decisions, attract investments in the project and help to ensure viable suppliers.

On 28 June 2012, the BP and Statoil co-led Shah Deniz II Consortium developing Azerbaijan's Shah Deniz gas field announced that the Nabucco West project had been selected as the single pipeline option for the potential export of Shah Deniz Stage 2 gas to Central Europe. Earlier in 2012, the Shah Deniz II Consortium has announced the selection of the Trans-Adriatic Pipeline as the potential route for export of

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

The AGRI project aims to supply natural gas from Caspian region, mainly from Azerbaijan, to Romania and to the EU, in order to diversify sources and routes of natural gas supply and thus contribute to Romania's and the EU's long-term energy security. Natural gas originating from the Caspian region will be transported through the territory of Georgia and across the Black Sea by means of the Liquefied Natural Gas technology. Gas is intended to be liquefied in Georgia and re-gasified in Romania, where it is intended to either be uploaded in the Romanian natural gas transportation network for domestic consumption or further transported to the EU through the interconnected natural gas network from Hungary. A feasibility study for the project was commissioned and is expected to be finalised in November 2012.

The Romanian natural gas transportation network was connected to Hungary's transportation network in 2010. Romania thus has gained access to the EU natural gas transportation network. Romania plans to connect its natural gas transportation network with Bulgaria, Serbia and Moldova. Financing for these projects will be available under an EU regulation promoting a programme to aid economic recovery by granting EU financial assistance to energy-related projects.

Transgaz and FGSZ Ltd. Hungary have negotiated a road map for implementation of reverse flow technology. The works and action program was signed on 10 July 2012 and aims by the end of 2013 to reach a reverse flow capacity of 50000 cm/h.

A bidirectional flow interconnection with Bulgaria will be implemented until 30 June 2013 with EU financing under the European Energy Programme for Recovery Programme (EEPR).

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

Transportation

The transport sector represents the second most important services category in the tertiary sector, representing more than 7 per cent. of GDP in 2010.

The following table shows the percentage change in the transport of passengers as compared to the previous year from 2007 to 2011 and the first quarter of 2012 as compared with the first quarter of 2011:

Change in Passengers Transported According to Modes of Transport

			2007	2008	2009	2010	2011	Q1 2012
			(percentage change against the corresponding period of the previous year)					
1.	Interurban and international transport[(1)]		-0.2	-	-11.1	-6.6	-1.6	2.0
	(i)	Railway transport	-6.5	-11.3	-10.1	-8.6	-5.1	-12.9
	(ii)	Road transport[(1)]	1.3	—	-11.7	-6.7	-1.0	5.7
	(iii)	Inland waterways transport	11.1	-8.1	-17.0	-47.8	48.8	-43.0
	(iv)	Air transport	42.5	15.9	0.2	11.4	6.5	0.0
	(v)	Maritime transport[(2)]	—	216.7	-65.8	76.9	17.4	-
2	Urban transport-total		2.7	0.0	-3.6	1.3	-6.0	-6.8

(1) Since 2008 modified statistical methodological reference year approach was applied
(2) Cruise passengers on cruise passenger excursion – inwards included
Source: National Institute of Statistics

The interurban and international transport of passengers decreased in 2011 by 1.6 per cent. due to decreases in railway transport (-5.1 per cent) and road transport (-1.0 per cent). In 2011, as compared to the previous year, increases were recorded for inland waterways transport (48.8 per cent), maritime transport (17.4 per cent) and air transport (6.5 per cent) based on increased tourism demand and airborne passenger mobility. Urban transportation decreased by 6.8 per cent. in this period. In the first quarter of 2012 interurban and international transport of passengers increased by 2.0 per cent. as compared to the same period of the previous year, mainly due to an increase of 5.7 per cent. of road transport, which recorded a share of 81.2 per cent. of total interurban and international passengers transported. Inland waterways transport and railway transport decreased in this period by 43.0 per cent. and by 12.9 per cent.

respectively, while air transport remained at the same level for the first quarter of 2012. Urban transport registered a decrease of 6.8 per cent.

The following table shows the percentage change in goods transported as compared to the previous year from 2007 to 2011 and the first quarter of 2012 as compared with the first quarter of 2011.

Change in Goods Transported According to Modes of Transport

	2007	2008	2009	2010	2011	Q1 2012
	(percentage change against the corresponding period of the previous year)					
Goods transport – total[(1)]	4.8	-8.7	—	-26.4	4.7	-10.6
1. Railway transport	0.7	-3.0	-24.2	4.6	14.7	-5.5
2. Road transport	6.4	2.2	-19.5	-40.5	5.2	-12.0
3. Maritime transport	4.8	3.1	-28.6	5.8	2.0	-3.4
4. Inland waterways transport [(1)]	0.4	3.0	—	29.7	-8.4	-26.9
5. Air transport	-4.3	22.7	-11.1	8.3	3.8	6.2
6. Transport via petroleum pipe-lines	-3.1	0.6	-31.2	-23.1	-8.1	-2.7

[(1)] Since 2009 reference year IWW transit transport data based on Harbour Masters reporting and IWW transport between Bulgarian ports equivalent to IWW transit transport for Romania included.
Source: National Institute of Statistics

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

In the first quarter of 2012 goods transport decreased by 10.6 per cent. as compared to the same period of the previous year. All means of goods transport registered decreases, with the exception of air transport (+6.2 per cent.). The largest decreases were registered in inland waterways transport (-26.9 per cent.) and road transport (-12.0 per cent.).

The reduction of passenger and goods transport volume registered in mostly all the transportation means is mainly due to unfavourable weather conditions between the end of January and mid-February 2012.

Infrastructure Development

The Romanian Government is dedicated to making significant investments in infrastructure-related projects in order to improve the country's poor infrastructure system. The main areas of infrastructure development to which the Romanian Government has committed funds (which include projects that have been or may be developed in partnership with the private sector), include: constructing and modernising roads and motorways, modernising national railways, constructing and/or rehabilitating navigation facilities and river navigation monitoring systems and modernising airports. With a view to support the development of infrastructure projects, changes were brought to the public-private partnership framework legislation.

As at June 2012 Romania had built 414.76 kilometres of new motorway, at an estimated cost of EUR 2,172.7 million, with another 350.09 kilometres of motorway under construction and due to be completed by 2013. Plans for building and modernising national roads and ring roads are in different stages of execution. Investments are also dedicated to modernising the Otopeni International Airport near Bucharest and the railways forming the Trans-European Railway Corridor IV.

The Romanian Government approved in November 2011 a list of 100 infrastructure investment projects (including transportation and environmental infrastructure) to be financed with EU Structural Funds. The list was revised to include projects that are going to be implemented but have not yet approved. In April 2012 the Government approved a list of 150 major and strategic projects, financed from four operational programmes (environment, transport, competitiveness and regional operational programmes) and committed to implementing these projects before the end of 2015..

At 30 June 2012, implementation had already started in respect of 106 projects (in amount of over EUR 9.5 billion).

37 transport infrastructure projects have been included in the priority projects list. Out of these, the most important transportation infrastructure projects include the building of four motorway sections (Orastie-Sibiu, Cernavoda-Constanta, Arad-Timisoara, Nadlac-Arad), the rehabilitation of national roads (e.g. the Alexandria-Craiova national road) and the building of ring roads (e.g. Constanta, Alexandria, Carei), as well as 2 major projects for railway rehabilitation on the IV Pan European Corridor (Curtici-Simeria, Brasov-Simeria) and modernization of 15 railway stations (e.g. Pitesti, Piatra-Neamt, Targu-Mures).

Prices and Inflation

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

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

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

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

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

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

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

Food prices contributed decisively to the moderation of annual inflation, increasing by only 0.38 per cent. in 2009 due to the sufficient supply of agricultural food items. The increase in the prices of non-food goods was at 7.72 per cent. during 2009. The two-stage increase in EUR-denominated excise duties for tobacco products and the impact of a further rise in such duties expressed in RON as of 1 January 2010 had a considerable effect on the increase in prices for non-food goods: the contribution of tobacco products to the annual inflation rate was about 1.8 percentage points. Moreover, fuel prices increased ending the year 13.2 per cent. higher, driven by oil price developments in the international market. However, energy prices (electricity, heating and natural gas) posted a 2.2 per cent. annual decline due to cuts in natural gas prices.

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

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

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

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

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

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

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

The following table shows percentage changes in consumer prices for the period from 2007 to 2011 and the first seven months of 2012:

Increases in Consumer Prices

	2007	2008	2009	2010	2011	July 2012
	(percentage change against the corresponding period of the previous year)					
Average Increase						
Food goods	3.89	9.22	3.25	2.33	6.02	-0.73
Non-food goods	4.99	6.36	6.22	9.78	6.15	3.55
Services	6.63	8.57	8.97	4.78	4.45	5.52
Total	**4.84**	**7.85**	**5.59**	**6.09**	**5.79**	**2.33**
End of Period Increase						
Food goods	9.14	6.02	0.38	6.45	0.95	1.19
Non-food goods	3.60	5.96	7.72	9.76	4.45	3.37

Increases in Consumer Prices

	2007	2008	2009	2010	2011	July 2012
	(percentage change against the corresponding period of the previous year)					
Services	8.55	7.71	6.86	6.43	4.23	5.69
Total	**6.57**	**6.30**	**4.74**	**7.96**	**3.14**	**3.00**

Source: National Institute of Statistics

In July 2012 the annual CPI inflation rate was 3.00 per cent., down 0.14 percentage points as compared to the end of 2011 and in line with the 3 per cent. target set for the current year. This decline was prompted mainly by the favourable base effects associated with processed food, fuel and tobacco prices. Moreover, deflation was supported by the dynamics of fuel prices, following a considerable fall in global crude oil prices in the second quarter of 2012 that significantly offset the effects of the depreciation of the Leu against the US dollar.

Prices of food items posted a slight increase in year-on-year terms, as a result of the unfavourable base effect associated with the decrease in volatile prices during the summer of 2011, but also as a result of adverse weather conditions during 2012 (heavy snowfalls followed by drought) and on the nominal depreciation that affected the price of imported food items. The depreciation of the Leu against the Euro had a visible impact on the prices of market services, whose annual dynamics witnessed a jump of over 4 percentage points as compared to December 2011.

Annual adjusted CORE2 inflation remained fairly stable, posting a value of 2.33 per cent. in July 2012, given that the developments in its three components (food items, non-food items and market services) offset each other. The relatively low level of this core measure was maintained throughout this period mainly on the back of the sluggish aggregate demand and favourable inflation expectations, and in spite of the hike in the exchange rate.

The annual growth rate of prices of non-food items slowed in the first half of 2012 against the background of the persistent demand deficit, fiercer competition amid the aggressive expansion of several supermarkets/hypermarkets, as well as the static prices of energy (electricity and natural gas prices were unchanged, whereas heating prices saw minor adjustments). Moreover, fuel prices recorded a decelerating annual growth rate (despite monthly rises January through May), the influence of the falling international oil price being partly offset by the weakening of the Lei against the US dollar.

Services prices witnessed a faster annual growth, given Leu depreciation against the euro and their higher sensitivity (as compared to prices of goods) to exchange rate movements.

Wages

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

Gross Earnings

	2008	2009	2010	2011[(1)]	H1 2012[(1)]
Average gross nominal monthly earnings (value in RON)	1,761	1,845	1,902	2,032	2,094
(*percentage change against the previous year*)	26.1	4.8	3.1	4.9	4.1
Average net nominal monthly earnings (value in RON)	1,309	1,361	1,391	1,475	1,520
(*percentage change against the previous year*)	25.6	4.0	2.2	4.8	4.1
Real earnings (*percentage change against the previous year*)	16.5	-1.5	-3.7	-0.9	1.8

(1) provisional data based on monthly survey on earnings. Percentage changes are against the provisional data from the same period of the previous year.

Note: the figures for 2008-2010 are final data

Source: National Institute of Statistics

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

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

In January 2011, the earnings in the public sector increased by 15 per cent., so that for 2011 the estimated level of average gross earnings in the public sector was RON 1,885, while the average gross earnings in the private sector was RON 2,067.

Over the first six months of 2012 average gross earnings reached RON 2,094, 4.1 per cent. higher than in the corresponding period in 2011. In real terms, real earnings grew by 1.8 per cent. as compared to the same period in 2011. In the public sector the average gross earnings increased by 2.9 per cent. as compared to the same period in 2011 and in the private sector by 4.4 per cent.

The gross minimum wage applicable to the whole economy generally increased from 2008 to 2011, from RON 540 in 2008 to RON 600 in 2009 and in 2010 and to RON 670 in 2011. For 2012 the gross minimum wage for the whole economy increased to RON 700.

The 2010 cut of public sector wages is expected to be reversed by the end of 2012, following a two-step increase of public sector wages in June 2012 (by 8 per cent.) and December 2012 (by 7.4 per cent.). It is estimated that, together with the 2011 15 per cent. increase of public sector wages, the two increases scheduled for 2012 will restore the level of public sector wages to the level before the 2010 cut. At the same time, the Government implemented the unitary pay reform of the public sector wage framework legislation, laying out a uniform and comprehensive framework for pay scale, wage and bonus calculations. The main objective of the new pieces of legislation is to reduce the public sector wage bill gradually to 7.2 per cent. of GDP by 2012 from over 9.2 per cent. of GDP in 2009.

Employment

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

This trend was mainly attributable to two factors: (i) an increase in demand for labour, particularly in the services and construction sectors as a result of economic growth in the mentioned period (the employment rate for persons aged 15 to 64 went up to 58.8 per cent. in 2007 and to 59.0 per cent. in 2008), and (ii) the migration of workers abroad, a trend which gathered momentum after 2002 when the requirement for visas for the Schengen area was lifted.

Romania's economy faced labour market adjustments as a result of the global financial and economic crisis.

Romania's accession to the EU labour market led to increased labour mobility with free movement of Romanian workers to other EU Member States and an influx of labour into Romania. Estimations indicate approximately 2.5 million Romanian citizens work abroad, mostly in EU Member States; this labour force displacement has had a visible impact on the national labour market. The impact of this displacement has reversed in recent periods as significant numbers of Romanian citizens have returned due to adverse economic conditions abroad resulting from the global financial crisis.

The following table shows changes in labour force for the years 2007 to 2011 and the first quarter of 2012 against the first quarter of 2011:

Labour Force

	2007	2008	2009	2010	2011	Q1 2012
	(percentage change against the corresponding period of the previous year)					
Active population[(1)(2)]	-1.1	-0.3	0.3	0.6	-0.7	-0.4
Employment[(1)]	-0.2	0.4	-0.9	0.2	-0.8	-0.4
Employees	0.5	1.9	-1.6	-2.4	1.5	0.5

Labour Force

	2007	2008	2009	2010	2011	Q1 2012
	(percentage change against the corresponding period of the previous year)					
	(per cent.)					
Activity rate[(1)(2)]	63.0	62.9	63.1	63.6	63.3	62.9
Employment rate[(1)]	58.8	59.0	58.6	58.8	58.5	58.0
International Labour Organisation (ILO) unemployment rate	6.4	5.8	6.9	7.3	7.4	7.6

(1) Working age population (15 – 64 years old)
(2) Total number of individuals who are either employed or are actively seeking employment
Source: National Institute of Statistics

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

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

Due to the global financial crisis, the employment rate declined in 2009 to 58.6 per cent, but measures taken to re-launch the economy adopted in 2009 and 2010 led to a small increase in the employment rate to 58.8 per cent. in 2010. In 2011, the employment rate for the working age population (15-64 years old) decreased to 58.5 per cent. and in first quarter of 2012 to 58.0 per cent.

The strong impact of the global financial crisis on the Romanian labour market is seen from the increase of the ILO unemployment rate, which rose sharply from 5.8 per cent. in 2008 to 6.9 per cent. in 2009 and further to 7.3 per cent. in 2010. In 2011 the ILO unemployment rate increased slowly to 7.4 per cent. and in the first quarter of 2012 to 7.6 per cent.

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

The registered unemployment rate as at the end of June 2012 was 4.49 per cent., which represents the lowest level of the registered unemployment rate since the beginning of the global financial crisis. In July 2012 the registered unemployment rate was 4.77 per cent.

Registered Unemployment Rate

	as at 31 December					
	2007	2008	2009	2010	2011	July 2012
	(per cent.)					
Registered Unemployment Rate	4.1	4.4	7.8	6.97	5.12	4.77

Source: National Employment Agency

As shown in the table above, the crisis created a strong increase in the registered unemployment rate after 2007, to 7.8 at the end of 2009, peaking at 8.36 per cent. at the end of March 2010. Since that maximum point, the registered unemployment rate decreased gradually since April 2010, commencing a trend which continued until June 2011 when the registered unemployment rate reached 4.84 per cent, after which it increased to 5.12 per cent. as at 31 December 2011. The descending trend in registered unemployment is explained by the positive effects of the labour legislation reform adopted by the Government in order to boost economic activity and employment in 2010 and 2011.

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

An amendment to the Law no. 76/2002 on the unemployment insurance system and stimulation of employment is prepared to enter into force in 2013 and will implement measures aiming to support the growth of the employment rate to 70 per cent. until 2020 (from 58.00 per cent. in June 2012) and, consequently, the reduction of unemployment and social integration of unemployed. Measures include, *inter alia*: subsidies from the unemployment insurance fund and other sources covering the labour costs incurred in programs aimed at temporary employment of unemployed labour; provision of allowances of up to 50 per cent. of the value of the reference social indicator (currently amounting to RON 500) for people not eligible for unemployment benefits and who attend vocational training; mobility allowances for unemployed persons; and free assessment of skills acquired by unemployed.

The amendments to the legislation are also aimed at addressing the issue of the social integration of young people (i.e. those between 15 and 24 years of age), where a 23.9 per cent. unemployment rate was registered at the end of the first quarter of 2012 (a slight increase compared to the end of 2011, when the unemployment rate for this age category was 23.7 per cent.). These include, inter alia: the promotion of labour market participation of young people at risk of social exclusion by providing incentives to employers to employ such workers; the provision of professional information and advice; the regulation of a legal framework for internships; and the promotion of the education and vocational training for youth or the granting of loans in preferred conditions for business start-ups.

Social Security System

Unemployment Benefits

The unemployment insurance system mandatorily comprises: persons engaged in individual labour contracts or temporary employment contracts, except pensioners; civil servants and other persons appointed to perform public functions; people working in elective office or certain other government positions; soldiers; and others who obtain income from certain additional activities covered by the law.

Unemployment benefits are paid out to insured persons out of an unemployment fund that is operated separately from the principal social security budget. Insured persons comprise individuals obtaining income according to the law and for which the employer is required to withhold and pay individual contribution to the unemployment insurance system and the persons that become insured through an unemployment insurance contract.

The main sources of revenue to the unemployment insurance budget is represented by contributions paid by employers and the individual contributions of insured persons.

The unemployment insurance budget mainly covers the following expenditures: payment of unemployment benefits, including in certain circumstances, unemployment benefits conferred by competent institutions of other EU Member States; the payment of contributions for state social insurance and for health insurance for the beneficiaries of unemployment benefits; certain compensatory payments granted by law; the financing of certain measures aimed at stimulating employment and at preventing unemployment; and the financing of vocational training services.

Unemployment benefits represent a partial compensation of income lost as a result of job loss or an income for graduates of educational institutions who did not find a job after graduation. Unemployment benefits are paid monthly to unemployed persons for six, nine or twelve months, depending on the length of contribution, and represents 75 per cent. of the social reference indicator, plus, for those with a contribution period exceeding three years, an additional amount based on length of contribution and average monthly base salary.

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

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

Unemployment Insurance Budget

	As at 31 December				
	2008	2009	2010	2011	2012 budget
			(RON)		
Revenues	1,935,584,453	1,420,592,212	1,320,409,493	2,377,839,279	2,443,035,000
Expenditure	1,355,779,540	2,722,523,107	3,822,056,855	2,170,786,677	2,254,901,000
Surplus/Deficit	579,804,913	-1,301,930,895	-2,501,647,362	207,052,598	188,134

Source: National Employment Agency

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

Unemployment Benefits Expenditure

	As at 31 December				
	2008	2009	2010	2011	May 2012
			(RON)		
Guarantee fund expenses	5,042,011	5,022,366	27,222,039	17,676,648	7,523,424
Education	30,955,162	22,193,318	23,209,885	26,598,532	12,073,732
Insurance and social assistance	1,098,790,945	2,502,688,945	3,589,757,796	1,893,924,217	626,855,053
General economic, commercial and employment activities	220,995,332	192,618,478	181,867,135	232,587,280	116,995,538
Total expenditure	1,355,783,540	2,722,523,107	3,822,056,855	2,170,786,677	763,447,747
Per cent. of GDP	0.27	0.55	0.74	0.40	0,12

Source: National Employment Agency

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

Number of Registered Unemployed Persons

	As at 31 December				
	2008	2009	2010	2011	May 2012
Receiving Benefits	143,549	435,497	329,640	182,538	137.201
Not Receiving Benefits	259,892	273,886	297,320	278,475	272.737
Total	**403,441**	**709,383**	**626,960**	**461,013**	**409.938**

Source: National Employment Agency

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

Expenditure on Active Employment Measures

Active employment measure	**2008**	**2009**	**2010**	**2011**	**May 2012**
			(RON)		
Vocational Training	27,468,059	20,460,565	20,911,890	25,449,740	11,779,050
Stimulating employment of graduates	56,565,971	51,179,163	34,444,861	34,710,945	16,909,317
Stimulating employment of unemployed persons before the expiration of unemployment period	14,402,498	15,707,546	26,269,357	16,787,582	4,453,711
Stimulation of labour mobility	6,481,252	5,337,918	7,778,658	8,424,318	2,128,552
Stimulating the employment of unemployed from disadvantaged groups	101,500,373	70,343,152	55,590,953	82,216,111	40,863,156
Payments to foster graduates employment	3,558,704	2,550,489	2,765,121	2,820,533	1,126,998
Payments under Law 72/2007	1,359,961	290,892	318,228	362,971	8,682
Payments for vocational training of graduates (Article 84 of Law 76/2002)	0	156.986	881.774	1,356,681	251,181
Payments under Law 116/2002	15,943,897	13,206,858	12,090,430	15,306,762	9,188,895
Programs for temporary employment	57,844,666	32,233,079	29,531,090	205,427	0
Active measures to combat unemployment (Counselling and career assistance)	3,856,945	1,412,795	3,213,751	3,638,235	647,951
Pre-dismissal services	1,517,386	767,919	627,640	840,471	382,933
Low interest loans for SMEs	3,220,991				
Total	**293.720.703**	**213.647.362**	**194.423.753**	**192,119,776**	**87,740,426**
Expenditure on active measures as a share of GDP (per cent.)	0.05	0.04	0.03	0.03	0.01

Source: National Employment Agency

Health System in Romania

Romania relies on a social health insurance system to finance a large part of its health care. Introduced in 1998 this system has been beneficial as it has increased the amount of public spending available to the sector. Around 78 per cent. of total public expenditure on health (based on consolidated budget figures) comes from the National Health Insurance House (the "**NHIH**"), while just over 22 per cent. comes from other sources. NHIH is the institution that manages the National Health Insurance Fund. The Romanian health insurance system is based on the collection of payroll deductions from employers and employees. Self-employed and other citizens can also enrol in the system by paying voluntary contributions set at the same rate as the employee contributions made by regular employees. The overall insurance contribution rate, taking employers' and employees' contributions together, is currently 10.7 per cent. of a contributor's salary, reduced from 14 per cent. in 2008.

About one-half of NHIH spending was on hospital care, with drugs and medical supplies representing the second highest expenditure comprising approximately one-third of the total, whereas primary health care only made up about 6.9 per cent. of NHIH spending. While almost the entire population of approximately 21.5 million individuals are entitled to benefits, until 2010 only a quarter paid direct contributions. This increased to approximately 3.5 million individuals with the implementation of a new law in 2011, which extends the pool of payers by including all pensioners with incomes of over 700 RON a month.

In 2010 the ownership of the majority of hospitals was passed to local administrations. Hospitals are currently reimbursed through the NHIH and the Ministry of Health for approximately 95 per cent. of their operating costs, while local administrations are required to contribute 3 to 5 per cent. of such costs for the hospitals in their jurisdictions. Some local councils are making contributions of up to 20 per cent. of operating costs. The decentralisation of authority over hospitals has put a financial burden on local authorities, which are now liable for the maintenance and repair of hospital buildings and for the provision of services.

Following the expected implementation of legislation on co-payments, aimed at increasing the contributions paid by patients, it is intended that there will be an increase in the amount of private spending in the health care system. Co-payment legislation is designed to raise income and to structure and reinforce incentives for patients to seek care in the most appropriate setting. Payment will be required for all visits to family doctors, out-patient specialists, and hospitals, as well as for diagnostic tests.

The following table shows public health expenses during 2008, 2009, 2010, 2011 and the first quarter of 2012:

Public health expenses during 2008–2011

Active employment measure	**2008**	**2009**	**2010**	**2011[(1)]**	**Q1 2012**
General consolidated budget of health expenditure (*RON million*)	**19,810.3**	**18,286.2**	**19,434.0**	**20,520.3**	**4,852.8**
Per cent. of GDP	3.8	3.6	3.7	3.5	0.8
State budget (*RON million*)	2,408.1	2,063.9	2,076.9	2,435.1	484.1
Local administrations' budgets (*RON million*)	310.4	868.3	4,094.4	6,816.7	1,558.04
National Health Insurance Fund budget (*RON million*)	15,870.6	14,351.7	16,469.7	16,785.7	4,126.3
Foreign credit inputs (*RON million*)	111.8	8.0	0.0	0.0	0.0
Fully/partially own income financed institutions budget[(2)] (*RON million*)	13.177.0	12,597.1	9,221.6	6,065.5	1,188.5
EU funding (*RON million*)	12.7	9.9	6.6	4.0	0.0
Transfers between budgets[(3)] (*RON million*)	11,927.1	11,606.3	12,425.0	11,582.4	2,504.1
Financial operations (*RON million*)	153.2	6.5	10.2	4.3	0.0

(1) Values for the period 1 January – 31 December 2011 (December 2011 data is unaudited)
(2) Hospitals of the Ministry of Health
(3) Subject to deduction from the total amount
Source: Ministry of Public Finance

Romania has historically committed a lower share of its national wealth to healthcare than other EU Member States.

This is driven by a combination of low governmental revenues as a percentage of GDP as well as low public healthcare budgets. The level of consolidated budget revenues in Romania is much lower than the EU average. Between 2006 and 2009, consolidated revenues averaged 33.6 per cent. of GDP in Romania while the EU-27 average was 44.5 per cent. Further, the share of total state spending allocated to health is also low (10.4 per cent. of total public expenditure as of 2008) when compared to the EU average of 15 per cent. of government expenditures. This is the lowest share of public spending in any EU country. However, in accordance with the letter of intent signed by the Romanian Government with the IMF, with the recommendations of the World Bank health system functional review and the recommendations of a report of the Presidential Commission on Public Health, Romania must reach a target of 6 per cent. of GDP allocated to the health sector (the Ministry of Health proposed to reach this percentage until 2016 by subsequent increases).

In recent years there has been significant growth in the resources available to the health sector which has exceeded the rate of growth in the general public sector. The significant beneficiaries, in terms of share of total spending, have been the national health programmes. They have grown from just under 9 per cent. of total healthcare spending in 2008 to an expected 15.31 per cent. in 2011. These are mainly hospital-based interventional programmes targeted at small populations of patients.

Between 2005 and 2008, public health sector revenues increased by an annual average nominal rate of 23 per cent., compared with a 21 per cent. increase in total public revenues. However, the funding needs of the health sector were growing at a faster rate than the increases in available funding. This was exacerbated by an increase in the amount of, and the removal of ceilings on, reimbursed medicine. According to the Romanian Academic Society, this led the NHIH to delay paying drug and other suppliers and to accumulate debt. The analysis by the Romanian Academic Society shows the NHIH moving from a small surplus in 2006 and 2007 to growing deficits in 2008 and 2009. Part of the deficit had to be covered by reserves held by the NHIH. However, the reserves were insufficient to cover the entire deficit. By mid-2010, the NHIH had accumulated debts of 4.6 billion RON, of which 1.1 billion RON were estimated to be in arrears. The greater part of the debts were to medicine suppliers. A national budget amendment was made in August 2010 to make available RON 2.96 billion to cover such arrears.

Romania is now preparing to change its existing health legislation and a new health legal framework is being publically debated. The reform of the health care system includes, *inter alia*, the enlargement of the collection pool, the transformation of public county insurance houses into mutual health insurance companies, the definition of the service packages to be funded from the state budget and the creation of a market for supplementary health insurance products.

Pension System Reform

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

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

Source: National House of Public Pensions

The average number of pensioners as at the end of June 2012 was 4,703 thousand.

Public Pension System (First Pillar)

In light of the impact of the global economic crisis, and in order to meet a condition of the financial assistance programmes with the IMF and the EU, the Romanian Government has reformed its pension system for the purpose of ensuring its financial stability, eliminating the inequities in the system and stimulating private savings through a voluntary private pension system.

The need for reform has been triggered by a number of trends in Romania that combined to put pressure on the pension system, including demographic factors (the ageing of population) and consequently the increase of the number of pensioners compared to the number of contributors; increases in state expenditures per person on pensions and other pressures on the state social insurance budget; the emergence of special public pensions (which introduced a number of privileges and favourable treatment of certain professional categories, leading to a large gap between the highest and lowest paid state pension); and the existence of laws governing the organisation and functioning of different pension schemes for certain professions which was hampering the functioning of the pension system.

The reforming measures under Law No. 263/2010 on the unitary system of public pensions (the "**UPPL**") include: annual indexing of the state pension to the forecast consumer price index instead of gross average wage, prohibiting discretionary pension increases, introducing measures to reduce fraudulent claims for disability pensions, gradually increasing the retirement age for women from 60 years to 63 years by 2030, gradually equalising the contributions for women and men by 2030, introducing disincentives for early retirement and integrating the special pension systems (such as those for military and certain professions) into a unified public pension system.

The public pension system under the UPPL is contribution-based. Social insurance funds are derived from the contributions paid by natural and legal persons that are part of the public pension system and social insurance rights are granted on the basis of the contributions paid. For each employee, the employer allocates 31.2, 36.3 or 41.3 per cent. (depending on working conditions) of the gross salary to the pension fund, out of which 10.5 per cent. (which includes the contribution to the second pillar pension system) is owed by the employees.

The adoption of the UPPL is expected to improve the viability of the pension system and to contribute to the sustainability of public finances.

Private Pension System

Pension reform in Romania has included the introduction and implementation, within the pension system, of two private pension pillars, one mandatory (second pillar) and the other voluntary (third pillar), both managed by private companies, as well as the creation of the Private Pension System Supervisory Commission (the "**CSSPP**"). The CSSPP is a specialised, independent and self-financed authority responsible for the prudential regulation and supervision of the functioning of the private pension system.

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

Second Pillar

Participation in the second pillar is mandatory for employees and certain other persons up to 35 years old and voluntary for those between 35 and 45 years old.

The contribution to a private pension fund represents a part of the individual social insurance contribution payable to the public pension system. The contribution to a pension fund is deducted from the monthly gross salary of the participant, the level of which is determined by the amount of salary an employee receives. The contribution to a pension fund does not require supplementary financial obligations for the state. In 2008, the privately administered pension funds received the first contributions, namely 2 per cent. of the participant's gross salary. In 2012, the quota transferred to the second pillar represents 3.5 per cent. The quota will be increased gradually until it reaches 6 per cent. in 2016.

Contributions were first paid to privately managed pension funds in 2008. The table below shows the number of pension funds (second pillar) and the total value of their net assets as at 31 December 2008, 2009, 2010, 2011 and end of June 2012:

As at	Net assets	No. of pension funds
	(RON millions)	
31 December 2008	832[1]	14 pension funds
31 December 2009	2,384.4	12 pension funds
31 December 2010	4,331.9	9 pension funds
31 December 2011	6,416.4	9 pension funds
30 June 2012	7,920.7	9 pension funds

(1) First contributions to the second pillar pension funds were collected in May 2008.
Source: Private Pensions System Supervisory Commission

The decrease in the number of pension funds from 14 in 2008 to 9 in 2011 was due to certain mergers of funds.

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

As at	**No. of participants 2nd pillar**
31 December 2008	4 03 million
31 December 2009	4.56 million
31 December 2010	5 19 million
31 December 2011	5.52 million
30 June 2012	5.66 million

Source: Private Pensions System Supervisory Commission

Third Pillar

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

Contributions to a voluntary pension fund are established according to the rules of the various voluntary pension schemes, are charged and transferred by the employer together with the mandatory social security contributions or, as the case may be, paid by the participant, monthly, into a pension fund account.

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

The amount representing the contributions to voluntary pension fund is tax deductible for both participant and employer up to the RON equivalent of EUR 400 per fiscal year.

The table below shows the number of pension funds (third pillar) and the total value of their net assets at 31 December 2008, 2009, 2010, 2011 and end of June 2012:

As at	**Net assets**	**No. of pension funds**
	(RON millions)	
31 December 2008	84.3	9
31 December 2009	204.04	13
31 December 2010	328.00	13
31 December 2011	435.65	11
30 June 2012	512.23	11

Source: Private Pension System Supervisory Commission

The decrease in the number of pension funds from 13 in 2010 to 11 in 2011 was due to certain mergers of funds.

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

As at	**No. of participants 3rd pillar**
31 December 2008	150,745
31 December 2009	187,172
31 December 2010	221,605
31 December 2011	260,379
30 June 2012	276,706

Source: Private Pensions System Supervisory Commission

Subsidies

Subsidies are granted by the Romanian government primarily for the support of: public railroad transportation, public subway transportation, exports, business environment and international trade, farmers, programmes for preservation and closing of mines. The following Government ministries offer subsidies out of the state budget in order to support projects in these areas: the Ministry of Transportation and Infrastructure, the Ministry of Regional Development and Tourism, the Ministry of Economy, Commerce and Business Environment, the Ministry of Agriculture and Rural Development and the Ministry of National Defence.

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

Subsidies continued their downward trend (as a percentage of GDP) to 1.4 per cent. of GDP in 2009 and to 1.1 per cent. of GDP in 2011, as a result of the desire to continue to reduce state intervention in the economy. The decrease of subsidies allocation in 2011 was mainly due the elimination of heating subventions granted from the state budget (being replaced by heating aid for persons with small incomes) as well as to the gradual replacement of subventions from the Romanian budget for farmers to subsidies paid through EU funding. For 2012 subsidies from general consolidated budget are estimated at RON 5,291.3 according to the revised program (representing approximately 0.9 per cent. of GDP). At the August 2012 budget rectification, the Government maintained subsidies at 0.9 per cent. of GDP.

Privatisation

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

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

Until 2006, the Authority for State Assets Recovery (the "**AVAS**") was the main institution in charge of the privatisation process in Romania. AVAS was re-organised at the end of 2006 by merger with the Office for State Ownership and Privatisation in Industry (the "**OPSPI**"). Starting at the end of 2008, OPSPI, took over a substantial portfolio of large companies from the AVAS's portfolio. In addition, the line ministries, through their specialised departments, undertake administration and privatisation for the companies in their portfolio.

Authority for State Assets Recovery ("AVAS")

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

One of the most important privatisations carried out by the Romanian State is represented by the privatisation of Banca Comerciala Romana S.A. ("**BCR**"), the largest State-owned commercial bank in Romania in terms of assets and market share. The agreement for BCR was signed on 21 December 2005, with the Austrian bank Erste Bank AG taking a controlling stake.

In addition to the BCR privatisation, AVAS has carried out significant divestitures in the banking sector, such as the privatisation of Banca Romana pentru Dezvoltare through an acquisition by Société Generale and the taking over of Banca Agricola by the Austrian Raiffeisen Bank.

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

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

Although no specific targets are set for AVAS as regards privatisation, it is intended that AVAS will restructure State-owned companies in order to sell such companies (including both majority and minority owned companies), except for institutes of research and development. AVAS plans to complete in 2012 an analysis of the economic, financial and operation performances of the companies under its administration. The Romanian Government plans to consolidate its holdings in companies in AVAS' ownership, which would allow AVAS to implement the most efficient strategies of administration and privatisation of such companies.

Office for State Ownership and Privatisation in Industry ("OPSPI")

OPSPI is a public institution, subordinated to the Ministry of Economy, Trade and Business Environment ("**MECMA**"). MECMA is the shareholder of a number of large state owned companies in strategic fields, as to which OPSPI has organised privatisation and investment raising projects. OPSPI is mainly involved in the privatisation of state-owned energy companies in Romania.

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

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

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

In accordance with the precautionary Stand-by Agreement entered into with the IMF, the Romanian Government committed to restructure loss making companies and to privatise major state-owned companies (including both its majority and minority state shareholdings in such companies). As a result, MECMA through OPSPI has undertaken a programme seeking to sell its shareholdings in several companies from its portfolio.

MECMA through OPSPI successfully completed in March 2012 the secondary public offering of 15 per cent. in Transelectrica S.A., which was oversubscribed at a level of 158,83 per cent.

In April 2012, OPSPI signed the sale contract for the entire stake of S.C. ISCIR-CERT S.A. The privatisation procedure of CupruMin S.A., finalised in early 2012, was subsequently revoked by the Romanian Government when the highest bidder, Roman Copper Corp Canada, refused to comply with certain terms requested by OPSPI. Roman Copper Corp Canada filed a claim in court against MECMA and the litigation is currently pending.

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

For Hidroelectrica S.A., Romania's largest hydro power producer, OPSPI has selected the investment banks for the intended share capital increase by issuance of an additional 10 per cent. shares.

On 15 June 2012, Hidroelectrica filed for voluntary insolvency with the declared aim of reorganising its business. The Bucharest Tribunal admitted the insolvency claim and appointed a judicial administrator on 20 June 2012.

The opening of insolvency proceedings, which has generated a negative reaction from the financial institutions exposed to Hidroelectrica and which may cause future difficulties for other state-owned companies was made because of the company's deteriorating financial position. The judicial administrator has cancelled all contracts at below-market prices with energy traders and reported to have secured cost savings of approximately euro 75 million per annum.

According to Hidroelectrica's judicial administrator's report for the period 26 June to 15 July 2012, the judicial administrator intends to analyse the possibility of continuing the privatisation during the insolvency proceedings.

With respect to the relationship with the banks, the aforementioned report provides that there are no outstanding payments under the investment loans contracted by Hidroelectrica and that the payments under the facilities agreements shall be made in accordance with the payment schedules agreed with the banks. However, the reports also provides that EBRD has notified Hidroelectrica that a facility agreement in the amount of Euro 110 million has been suspended.

By the end of March 2013, MECMA intends to finalise an initial public offer on the capital markets for the increase of S.N. Nuclearelectrica S.A.'s share capital by 10 per cent.

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

In order to increase the efficiency of the company and to speed up the privatisation of Oltchim S.A., OPSPI started the special administration and financial supervising procedure in July 2012. Privatisation announcements were published in both local and international press and bids are expected until 17 September 2012 with OPSPI expected to announce the winning bidder on 18 September 2012.

OPSPI will also continue privatisation efforts in the following companies:

- the new power producer S.C. Complexul Energetic Oltenia S.A. (created by the merger of Societatea Nationala a Lignitului with the three energetic complexes of Rovinari, Turceni and Craiova and registered on 31 May 2012 at the Romanian Trade Registry);

- Electrocentrale Bucuresti S.A., where the privatisation program includes the majority privatisation of Elcen, a combined heat and power generator in Bucharest;

- the new power producer S.C. Complexul Energetic Hunedoara S.A., established by the merging of Electrocentrale Deva and Electrocentrale Paroseni with the viable mines from Compania Nationala a Huilei.

Furthermore, as a part of its commitment under the Stand-by Agreement with the IMF, the Romanian Government is expected to enter into joint ventures with strategic investors for setting up of new power generation units at Electrocentrale Bucuresti S.A., Electrocentrale Galati S.A., Electrocentrale Deva S.A.

Romanian Ministry of Transport and Infrastructure

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

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

MTI adopted a programme for 2011 which included the restructuring, privatisation and, where appropriate, liquidation of several companies under MTI's authority. This programme was designed to fulfil Romania's commitments under the memorandum entered into with the IMF dated 3 March 2011 (see "*—Public Finance—Public Debt—Public Debt Instruments and External Financing Programmes—Stand-by Agreement*" for further details).

Under this programme, reviewed several times in 2011 and 2012, MTI intended to offer for sale by the end of June 2012 20 per cent. of the share capital of Tarom S.A., the largest Romanian air transport company, by means of an initial public offering on the BVB. However, in the current difficult market conditions and negative trends the MTI management decided to postpone the public offering until autumn - winter 2012.

In accordance with the Stand-By Agreement MTI is also undertaking the privatisation of the majority stake in CFR Marfã S.A. by the end of October 2012.

Also in accordance with the actual privatisation programme, MTI will seek the admission to trading on the BVB of seven majority owned companies by the sale of 5 per cent. of each of their capital through initial public offerings. The seven companies include the three companies managing the airports of Bucharest, Constanta and Timisoara and four companies active in navigation infrastructure management. Under Law no. 302/ 29 December 2011 the deadline for the listing of the mentioned companies is set for 31 December 2012.

The Shadow Economy

Romania has a significant shadow economy, around half of which is believed to be based on unregistered labour. Its size, although difficult to verify, is estimated by the authorities based on national statistics on tax evasion and the number of employees reported in the business and household surveys prepared by the National Institute of Statistics. It is estimated that the shadow economy's share of GDP slightly increased from 20 per cent. in 2007 to 21.5 per cent. in 2010.

4. **FOREIGN TRADE AND BALANCE OF PAYMENTS**

In recent years Romania has recorded a strong improvement in its external balance, as evidenced by the drop in current account deficit from 13.4 per cent. of GDP in 2007 to 11.6 per cent. of GDP in 2008, 4.2 per cent. in 2009, 4.4 per cent. in 2010 (provisional data) and 4.4 per cent. in 2011 (provisional data). This development was attributed in 2009 and 2010 to contracting domestic demand and lower financial inflows as a result of the global financial crisis. The external deficit adjustments were accompanied by a tightening of financing conditions and some major changes in financing patterns. The sharp narrowing of the current account deficit was mainly generated by the lower trade deficit. In 2009, imports decreased faster than exports. Both exports and imports started to increase as of 2010, with the growth rate of exports outpacing that of imports. In 2011, the current account deficit stood at 4.4 per cent. of GDP (provisional data), with an increase in income deficit, a decline in services' and current transfers' surpluses and a decrease in trade deficit.

Foreign Trade

In the period from 2007 through 2011, exports recorded an average growth rate of 11.1 per cent., while imports increased on average by 2.6 per cent. The faster decrease in imports compared to exports recorded in 2009 led to a drop in the trade deficit as a share in GDP, from 13.7 per cent. in 2008 to 5.8 per cent. in 2009. In 2010, the share of trade deficit in GDP was 6.1 per cent. (provisional data), as a result of a higher export growth rate compared to the import growth rate (28.5 per cent. and 25.1 per cent, respectively). In 2011, exports increased by 20.5 per cent. and imports by 16.9 per cent. compared to 2010, with the trade deficit accounting for 5.5 per cent. of GDP (provisional data).

The following table shows changes in foreign trade for the years 2007, 2008, 2009 2010, 2011 and the first half of 2012:

	2007	2008	2009	2010[(2)]	2011[(2)]	H1 2012 [(2)]
Current account deficit (EUR[(1)] million)	-16,714	-16,157	-4,913	-5,518	-5,995	-2,411
- per cent. of GDP	-13.4	-11.6	-4.2	-4.4	-4.4	…
Trade balance FOB[(3)] (EUR million)	-17,822	-19,109	-6,871	-7,600	-7,522	-3,460
- per cent. of GDP	-14.3	-13.7	-5,8	-6.1	-5.5	…
Exports of goods (EUR million)	29,549	33,725	29,084	37,368	45,041	22,300
- annual percentage change	14.3	14.1	-13.8	28.5	20.5	1.0[(4)]
Imports of goods FOB[(3)] (EUR million)	47,371	52,834	35,955	44,968	52,563	25,760
- annual percentage change	26.0	11.5	-31.9	25.1	16.9	0.8

(1) The amounts in RON or other foreign currency have been converted into EUR at the exchange rate at the time of the relevant transactions

(2) Provisional data

(3) Free on board (FOB) means the seller's obligation to deliver is fulfilled when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. Imports FOB of goods are calculated based on the coefficient of transformation CIF/FOB=1.0834 up to 2009 data and 1.0430 from 2010 data on, published by the National Institute of Statistics

(4) Representing the annual change from H1 2011 to H1 2012.

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

Main Trends 2008 to 2011 and the first half of 2012

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

In terms of geographical spread, intra-EU trade accounted for the largest share of the trade deficit, i.e. 68.1 per cent. of which trade with the euro area accounted for 45.5 per cent. Over 90 per cent. of the trade deficit recorded in 2008 was owed to trade relations with Germany, the Russian Federation, Kazakhstan, Hungary, China, Austria, Poland, the Netherlands, Italy and the Czech Republic (listed in descending order according to the size of the trade deficit).

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

In 2010 (based on provisional data), the trade deficit was EUR 7,600 million, up 10.6 per cent. year-on-year amidst a stronger increase in exports than in imports (by 28.5 per cent. and 25.1 per cent. respectively), (from 2010 on a new CIF/FOB coefficient of 1.043 set by the National Institute of Statistics is used to convert CIF imports instead of the former coefficient of 1.0834, which has resulted in an increase in the FOB Levels recorded). The share of the trade deficit in GDP increased by 0.3 percentage points to 6.1 per cent. The coverage of imports through exports (Export FOB/Import FOB) and the openness of the Romanian economy (Export FOB+Import FOB/GDP) increased year-on-year by 2.2 percentage points and 11.3 percentage points, to 83.1 per cent. and 66.3 per cent. respectively. By type of commodities, trade surpluses were recorded under: textiles, clothing and footwear and wood and paper products; six groups of commodities recorded deficits: chemical and plastic products; mineral products; metal products and agri-foods; machinery, equipment and transport means and other goods.

In 2011 (based on provisional data), the trade deficit was EUR 7,522 million, a reduction of 1 per cent. as compared to 2010. Out of the total trade deficit, 85.7 per cent. was generated by intra-EU trade, ahead of trade with non-EU countries (14.3 per cent.). The coverage of imports through exports added 2.6 percentage points to 85.7 per cent., while the openness of the Romanian economy increased year-on-year by 5.2 percentage points to 71.5 per cent. Three merchandise groups recorded trade surpluses: textiles, clothing and footwear, wood and paper products, machinery, equipment and transport means. By output stages, only consumer goods ended up with a surplus, while capital goods, intermediate goods and commodities recorded deficits.

In the first half of 2012 (based on provisional data) the trade deficit decreased by 1.1 per cent. to EUR 3,460 million, of which 89.6 per cent. was generated by intra-EU trade. Coverage of imports through exports increased by 0.3 percentage points to 86.6 per cent. compared with the first half of 2011. Chemicals, base metals, agri-food products, mineral fuels and construction materials posted deficits, while transport means, footwear, wood products and furniture recorded surpluses.

Exports and Imports

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

On a year-on-year comparison, the commodity structure of exports by output stage indicated an expansion in the share of exports of capital goods (by 2.7 per cent. to 15.3 per cent.) and raw materials (up 1.8 per cent. to 7.0 per cent), along with a decline in the share of intermediate goods (down 1 per cent. to 57.1 per cent) and consumer goods (down 3.6 per cent. to 20.6 per cent.).

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

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

Imports of goods stood at EUR 52,834 million FOB in 2008 (or EUR 57,240 million CIF (Cost, Insurance and Freight)), an increase of 11.5 per cent. from 2007. The share of imports of goods in GDP decreased from 38.0 per cent. to 37.8 per cent. year-on-year. In 2008, the structure of imports by production stage reflects an increase in the weight of raw materials by 0.9 per cent. (to 13.8 per cent.) and consumer goods by 0.7 per cent. (to 16 per cent.), along with a decrease in the share of capital goods by 1.4 per cent. (to 23.9 per cent.) and in intermediate goods by 0.2 per cent. (to 46.3 per cent.).

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

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

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

In 2009 exports of goods amounted to EUR 29,084 million, down 13.8 per cent. year-on-year, as a result of the global financial crisis, although the share of GDP rose from 24.1 per cent. in 2008 to 24.6 per cent. in 2009. In terms of value, approximately 81 per cent. of the EUR 4,641 million decrease in exports as compared to the preceding year was attributed to the decreases in volume (electrical machinery, equipment and apparatus; boilers, turbines and engines; metallurgy products; petroleum products; clothing and footwear; and plastic products and fertilisers). In year-on-year comparison terms, the structure of exported goods by production stage shows a rise in the share of capital goods by 6.1 per cent. to 21.4 per cent, in that of consumer goods by 2.4 per cent. to 23.0 per cent. and in that of raw materials by 0.3 per cent. to 7.3 per cent., along with a decline in the share of intermediate goods by 8.8 per cent. to 48.3 per cent.

Imports of goods amounted to EUR 35,955 million in 2009, a reduction of 31.9 per cent. from 2008 with the share of GDP decreasing from 37.8 per cent. to 30.4 per cent. Approximately 88 per cent. of the fall in import value amounting to EUR 16,879 million resulted from decreases in volume (motorcars and tractors; boilers, turbines, engines and mechanical apparatus; electrical machinery and apparatus; cast iron, steel and steel products; crude oil; natural gas; natural fuels; furniture; plastic materials; and ceramic products). In 2009, the structure of imports by production stage reflected a rise in the weight of intermediate goods by 4.6 per cent. to 51 per cent. and in consumer goods by 3.7 per cent. to 19.6 per cent. along with a decrease in the share of capital goods by 5.5 per cent. to 18.4 per cent. and in that of raw materials by 2.8 per cent. to 11.0 per cent. as compared to 2008.

In 2010 (based on provisional data), exports of goods amounted to EUR 37,368 million, up 28.5 per cent. year-on-year, as a result of the recovery of external demand. The share of exports as a percentage of GDP rose from 24.6 per cent. in 2009 to 30.1 per cent. in 2010. In terms of value, of the EUR 8,284 million increase in exports as compared with the preceding year, 59 per cent. can be attributed to increases in volume (cars, tractors; electrical machinery, equipment and devices; boilers, turbines and engines; metallurgy products; wood and articles thereof; rubber articles; and footwear) and 41 per cent. to higher external prices (electrical machinery, equipment and devices; metallurgy products; petroleum products; pharmaceutical products; cereals; aluminium and articles thereof; plastics; and boilers, turbines and engines). In terms of the year-on-year comparison, the structure of exported goods by production stage shows a rise in the share of intermediate goods by 1.5 per cent. to 49.9 per cent. and raw materials by 1.0 per cent. to 8.3 per cent., partially offset by a decline in the share of consumer goods by 1.9 per cent. to 21.0 per cent. and in the share of capital goods by 0.6 per cent. to 20.8 per cent.

Imports of goods amounted to EUR 44,968 million in 2010, up 25.1 per cent. (this was in part due to a new CIF/FOB coefficient of 1.043 instead of the former 1.0834) as compared with 2009 with the share of GDP increasing from 30.4 per cent. to 36.2 per cent. from 2009 to 2010. Import value rose by EUR 9,013 million, of which 57.3 per cent. resulted from increases in volume (electrical machinery and related apparati; motorcars and tractors; boilers, turbines and engines; mechanical devices; cast iron, steel and steel products; aluminium and articles thereof; petroleum products; plastics; rubber products; and seeds and fruits) and 42.7 per cent. from higher external prices (electrical machinery and related apparati; crude oil; boilers, turbines and engines; plastics; cast iron, steel and steel products; pharmaceutical products and petroleum products; and natural gas and mineral fuels). In 2010, the structure of imports by production stage reflected an increase in the percentage of total imports of intermediate goods by 2.9 percentage points to 53.8 per cent. and in raw materials by 0.2 percentage points to 11.2 per cent., coupled with a decrease in the share of consumer goods by 2.0 percentage points to 17.6 per cent. and in the share of capital goods by 1.1 percentage points to 17.4 per cent.

In 2011 (based on provisional data), exports of goods amounted to EUR 45,041 million, up 20.5 per cent. year-on-year, as a result of the sustained external demand in the first half of the year. The share of exports as a percentage of GDP rose from 30.1 per cent. in 2010 to 33 per cent. in 2011. In terms of value, 63 per cent. of the EUR 7,673 million increase in exports as compared with the preceding year can be attributed to increases in volume (electrical machinery, equipment and devices; boilers, turbines and engines; wood and articles thereof; cars, tractors; rubber articles; pig-iron, iron and steel products; pharmaceutical products) and 37 per cent. to higher external prices (petroleum products; cars, tractors; pig-iron, iron and steel; electrical machinery, equipment and devices; and textiles, and clothing). In terms of the year-on-year comparison, the structure of exported goods by production stage shows a rise in the share of intermediate goods by 1.6 per cent. to 51.3 per cent. and raw materials by 0.1 per cent. to 8.5 per cent., partially offset by a decline in the share of capital goods by 1.6 per cent. to 19.3 per cent.

Imports of goods amounted to EUR 52,563 million in 2011, up 16.9 per cent. as compared with 2010, with their share in GDP increasing from 36.2 per cent. to 38.5 per cent. from 2010 to 2011. Import value rose by EUR 7,595 million, of which 53.5 per cent. resulted from higher external prices (crude oil; petroleum products; plastics and articles thereof; pharmaceutical products; mineral fuels; rubber products; electrical machinery and equipments; aluminium and articles thereof; natural gas; footwear, clothing; and cereals) and 46.5 per cent. from increases in volume (boilers, turbines and engines; cars, tractors; electrical machinery and related apparati; cast iron, steel and steel products; natural gas; rubber products; and organic chemicals). In 2011, the structure of imports by production stage reflected an increase in the percentage of total imports of intermediate goods by 0.8 percentage points to 54.8 per cent. and of raw materials by 0.8 percentage points to 11.9 per cent., coupled with a decrease in the share of consumer goods by 1.3 percentage points to 16.3 per cent. and in the share of capital goods by 0.4 percentage points to 17 per cent.

In 2011, the geographical distribution of exports showed an 18.8 per cent. year-on-year increase in intra-EU exports to EUR 32,031 million. The share of intra-EU exports of total exports was 71.1 per cent, down 1.0 percentage points versus 2010. Exports to the European Union went up for most groups of goods, with the exception of mineral products. Extra-EU exports amounted to EUR 13,010 million, up 24.9 per cent. versus 2009 and accounting for 28.9 per cent. of total exports. The first ten export destinations in 2011, holding about two thirds of total export, were the following: Germany (18.6 per cent), Italy (12.8 per cent), France (7.5 per cent), Turkey (6.2 per cent), Hungary (5.6 per cent), Bulgaria (3.6 per cent), the United Kingdom (3.2 per cent), the Netherlands (3.1 per cent), Spain (2.4 per cent), and Poland (2.4 per cent).

The geographical distribution of imports showed that intra-EU imports amounted to EUR 38,479 million, up 17.2 per cent. year-on-year. The share of intra-EU imports in total increased by 0.2 percentage points compared to 73.2 per cent. in 2010. Imports from the EU posted increases for all group of goods. Extra-EU imports equalled EUR 14,084 million, up 16.1 versus 2010, accounting for 26.8 per cent. of total imports. In 2011, Romania's imports came mainly from the following ten countries: Germany (17.2 per cent), Italy (11.4 per cent), Hungary (8.8 per cent), France (5.8 per cent), the People's Republic of China (4.5 per cent), Kazakhstan (4.1 per cent), Austria (4.0 per cent), Poland (4.0 per cent), Russian Federation (3.7 per cent), and Turkey (3.4 per cent).

In the first half of 2012 (based on provisional data) exports of goods stood at EUR 22,300 million, 1 per cent. higher as compared to the same period of 2011, due to the relatively good performance of food and live animals, beverages and tobacco, animal and vegetable oils, fats and waxes, chemicals, manufactured goods classified chiefly by material. The geographical distribution of exports shows an increase by 0.2 per cent. in exports to other EU countries and by 3.1 per cent. in exports outside of the EU. The share of exports to other EU countries in total exports was 71.1 per cent., 0.6 percentage points down as compared to the same period in 2011. Imports grew 0.8 per cent. to EUR 25,760 million, driven by chemicals, mineral fuels, beverages and tobacco, raw materials. The breakdown by geographical origin shows a 3 per cent. increase in imports from other EU countries and a 5.1 per cent. decrease in imports from outside the EU. The share of imports from other EU countries in total imports was 73.6 per cent., up 1.7 percentage points as compared to the same period in 2011.

The main markets for imports and exports for Romania in 2009 to 2011 and the first five months of 2012 are presented in the table below:

TRADE BALANCE – GEOGRAPHICAL DISTRIBUTION
provisional data

	Export (per cent.)				**Import (per cent.)**			
	2009	**2010**	**2011**	**Jan- May* 2012**	**2009**	**2010**	**2011**	**Jan-May 2012**
Country Group								
TOTAL..	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Intra EU Trade (EU-27)	**74.3**	**72.1**	**71.1**	**71.1**	**73.1**	**73.0**	**73.2**	**73.5**
Germany..	**18.7**	**18.1**	**18.6**	**19.4**	**17.3**	**16.9**	**17.2**	**17.0**
Italy..	**15.5**	**13.8**	**12.8**	**12.3**	**11.7**	**11.7**	**11.4**	**11.4**
France..	**8.1**	**8.3**	**7.5**	**6.9**	**6.2**	**6.0**	**5.8**	**6.0**
Hungary..	**4.4**	**4.7**	**5.6**	**5.7**	**8.5**	**8.7**	**8.8**	**9.3**
Bulgaria..	**3.8**	**3.6**	**3.6**	**4.0**	**2.4**	**3.1**	**2.9**	**2.5**
United Kingdom of Great Britain and Northern Ireland..	**3.3**	**3.6**	**3.2**	**3.4**	**2.2**	**2.3**	**2.3**	**2.3**
Spain..	**3.0**	**3.0**	**2.4**	**2.3**	**1.9**	**2.1**	**2.3**	**2.1**
Netherlands..	**3.3**	**2.7**	**3.1**	**2.7**	**3.9**	**3.6**	**3.2**	**3.6**
Poland..	**2.2**	**2.6**	**2.4**	**2.5**	**3.6**	**3.8**	**4.0**	**4.2**
Austria..	**2.3**	**2.3**	**2.2**	**2.3**	**4.8**	**4.1**	**4.0**	**4.1**
Extra EU Trade (extra-EU-27)........................	**25.7**	**27.9**	**28.9**	**28.9**	**26.9**	**27.0**	**26.8**	**26.5**
Turkey..	**5.0**	**7.0**	**6.2**	**5.6**	**3.7**	**3.4**	**3.4**	**3.3**
Russian Federation..	**1.8**	**2.2**	**2.3**	**2.2**	**3.9**	**4.3**	**3.7**	**4.8**
USA..	**1.2**	**1.5**	**1.8**	**1.9**	**1.3**	**1.3**	**1.1**	**1.6**
Ukraine..	**1.2**	**1.4**	**1.8**	**1.7**	**0.6**	**1.1**	**1.4**	**1.1**
Republic of Moldova..	**1.3**	**1.2**	**1.3**	**1.2**	**0.3**	**0.3**	**0.4**	**0.6**
People's Republic of China..	**0.7**	**0.8**	**0.9**	**0.9**	**4.9**	**5.3**	**4.5**	**3.8**
Japan..	**0.3**	**0.4**	**0.4**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**
Kazakhstan..	**0.2**	**0.2**	**0.3**	**0.0**	**3.5**	**2.8**	**4.1**	**3.8**

* Detailed data for the first half of 2012 will be available after 20 September

Source: National Institute of Statistics

To the extent that it translates into stagnant or even contracting economic activity in Romania's major trading partners, the sovereign debt crisis will have a detrimental impact on export dynamics. On average over the last five years, 72 per cent. of total Romanian exports were directed to EU countries, with exports to the Eurozone accounting for 55 per cent. of the total. Currently, the main trading partners are Germany, Italy and France, which account for around 40 per cent. of Romanian exports. Nevertheless, the importance of Italy as an export market has been steadily decreasing in the last five years (from 17.8 per cent. in 2006 to 12.8 per cent. in 2011), while that of Germany has been increasing (from 15.7 per cent. in 2006 to 18.6 per cent. in 2011). Exports to the other countries at the epicentre of the sovereign debt crisis (such as Greece, Spain, Portugal and Ireland) are fairly limited in size, representing less than 5 per cent. of the total. So far, Romanian exports have held up relatively well, posting positive quarter on quarter dynamics in terms of volume, despite the fact the Eurozone economy has been stagnating or contracting for the last two quarters.

Moreover, the relatively high import content of exports and the limited share of the companies that export only to the euro area (these companies account for 0.1 per cent. of the gross value added delivered by the corporate sector in June 2011) also alleviate the possible adverse impact from developments in the euro area on the trade balance.

Balance of Payments

Current Account

In 2007, the current account deficit widened to EUR 16,714 million, up 64.6 per cent. year-on-year, accounting for 13.4 per cent. of GDP compared with 10.4 per cent. in 2006. The trade balance deficit had a major impact on the current account, reaching 14.3 per cent. of GDP, 2.3 per cent. above the 2006 figure. The current account deficit widening was also fuelled by larger incomes derived by non-residents from direct investment. The dampening effect of the goods and income flows on the current account was only partly offset by the good performance of the services balance and net inflows in terms of current transfers. Net foreign direct investment covered 42.2 per cent. of the current account deficit, while the remaining gap was financed via capital transfers and medium and long-term borrowing.

The services balance posted a surplus of EUR 409 million in 2007, as compared with EUR 4 million in 2006, due to the increase in receipts of "passenger transport", "business travel" and "other services". The income balance displayed a EUR 4,127 million deficit (approximately 25 per cent. of the current account deficit), up 27.1 per cent. from 2006, caused by higher non-residents' receipts from direct investment and interest payments on loans extended to the banking sector and the real estate sector. This development was partly offset by the EUR 257 million rise in compensation of people working abroad. The balance of current transfers posted a surplus of EUR 4,825 million in 2007, down 0.4 per cent. from 2006, as a result of the deficit under "current transfers of the government sector". The balance of private transfers displayed a surplus of EUR 5,121 million, up 10.5 per cent. from 2006, as a result of the acceleration of money flows to residents.

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

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

In 2010 (based on provisional data), the current account deficit amounted to EUR 5,518 million, 12.3 per cent. above the 2009 figure. The main impact on the current account deficit was exerted by the increase in trade deficit together with the reduction in current transfers surplus. The trade balance deficit widened by 10.6 per cent. to EUR 7,600 million, with intra-EU trade accounting for about three fourths of the figure. The balance of current transfers posted a surplus of EUR 3,592 million in 2010, down 13.4 per cent. from the previous year, on the back of lower receipts from workers' remittances and EU funds disbursement. Net official transfers accounted for less than 18 per cent. of the current transfers surplus, while over 82 per cent. represented net private transfers. Net workers' remittances totalled EUR 2,241 million, down 21.5 per cent. from 2009. The services balance posted a surplus of EUR 404 million in 2010, as compared with a deficit of EUR 294 million in the previous year, due to the cut in freight payments. Receipts from services totalled EUR 6,622 million (6.3 per cent. lower than in 2009, as a result of decreases for virtually all service components relating to "transportation", "travel" and "other services"), while services-related payments equalled EUR 6,219 million, a decrease of 15.5 per cent. as compared to 2009. The income balance ended 2010 with a EUR 1,914 million deficit, which was close to the result recorded in 2009 of EUR 1,902 million. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 2,342 million, 25.1 per cent. slightly below the 2009 figure. Dividends on direct and portfolio investment recorded a negative balance of EUR 2,022 million, up 18.9 per cent. compared to 2009. Compensation of employees ended 2010 with a positive balance of EUR 417 million, down 6.5 per cent. as compared to 2009.

In 2011 (based on provisional data), the current account deficit amounted to EUR 5,995 million, 8.6 per cent. above the 2010 figure. The main impact on the current account deficit was exerted by the 23.8 per cent. increase in income deficit to EUR 2,369 million, on the back of higher interest payments. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 2,246 million, 4.1 per cent. below the 2010 figure. Dividends on direct and portfolio investment recorded a negative balance of EUR 2,041 million, similar to the 2010 level. Compensation of employees ended 2010 with a positive balance of EUR 408 million, as compared to EUR 417 million a year earlier. The current transfers surplus decreased by 2 per cent. as against 2010, to EUR 3,521 million, with a small decrease in workers' remittances and other private transfers. Net official transfers accounted for one fourth of the current transfers surplus, while the remaining 75 per cent. represented net private transfers. Net workers' remittances totalled EUR 2,028 million, down 9.5 per cent. from 2010. The trade balance deficit narrowed by 1 per cent. to EUR 7,522 million, with intra-EU trade accounting for over 85.7 per cent. of the figure. The services balance posted a surplus of EUR 375 million in 2011, 7.2 per cent. below the previous year's level, from travel and other services (financial, communication, insurance, operational lease). Receipts from services totalled EUR 7,354 million (11.1 per cent. higher than in 2010, as a result of increases for virtually all service components relating to "transportation", "travel" and "other services"), while services-related payments equalled EUR 6,979 million, an increase of 12.2 per cent. as compared to 2010.

In the first half of 2012 (based on provisional data), the current account deficit totalled EUR 2,411 million, down 29.4 per cent. compared to the same period of 2011. The main impact on current account developments was exerted mainly by the increase in the current transfers surplus (by EUR 224 million) and in the services surplus (EUR 218 million), together with the decrease in the income and trade deficits (by EUR 525 million and EUR 39 million respectively). The balance of current transfers posted a surplus of EUR 1,908 million in the first half of 2012, 13.3 per cent. higher than in January-June 2011, on the back of private transfers and other than workers' remittances. Net official transfers accounted for 23.8 per cent. of the current transfers surplus, while net private transfers held the remaining share. Workers' net remittances totalled EUR 945 million, slightly above the level recorded in the first half of 2011. The income balance ended the first half of 2012 on a EUR 1,162 million deficit, down 31.1 per cent. from the first half of 2011. Interest income (related to direct, portfolio and other investment) showed a negative balance of EUR 1,252 million, down 1.7 per cent. as compared with January-June 2011. Dividends on direct and portfolio investment recorded a negative balance of EUR 1,054 million, 2 per cent below the level recorded in the corresponding period of 2011. Compensation of employees ended on a positive balance of EUR 234 million, as compared with EUR 195 million in the first six months of 2011. The services balance posted an EUR 303 million surplus as compared with an EUR 85 million surplus in January-June 2011, the increase coming mainly from higher receipts related to transportation, travel, insurance and IT services, marketing and opinion polls. Receipts from services totalled EUR 3,739 million (14.2 per cent. above the level recorded in the first six months of 2011, caused by increases in all components relating to "transportation", "travel" and "other services"), while services-related payments were EUR 3,436 million, up 7.8 per cent as compared to January-June 2011. The trade deficit was EUR 3,460 million, down 1.1 per cent. as compared to the first half of 2011.

Capital and Financial Account

In 2007, the balance of the capital and financial account equalled EUR 17,468 million, 83.2 per cent. higher than in 2006, due to: (i) higher absorption capacity of funds for equipment purchase under the non-redeemable technical assistance programme (net capital transfers ended the year with a EUR 707 million surplus, compared to a EUR 26 million deficit in 2006); (ii) increases in loans extended to the real estate and banking sectors (EUR 5,228 million net inflows of credits and loans, which was 2.4 times higher than in 2006); (iii) net inflows of portfolio investments (EUR 482 million, compared to net outflows amounting to EUR 195 million in 2006); and (iv) the EUR 4,252 million increase in the NBR's reserve assets generated by: (a) income from the management of foreign reserves, (b) higher returns on government bonds in the NBR's portfolio, (c) incremental income due to the increase in the investable base as a result of the change in foreign exchange reserve requirements of credit institutions and (d) other net inflows.

In 2008, the balance on the capital and financial account totalled EUR 17,830 million, 2.1 per cent. higher than the balance in 2007, mainly due to non-residents' direct investment, which covered 58.8 per cent. of the current account deficit. Medium and long-term credits and loans received by domestic borrowers amounted to EUR 5,723 million, up 10.2 per cent., with the main recipients being the real estate, public administration and banking sectors.

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

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

In 2011 (based on provisional data), the balance of the capital and financial account reached EUR 5,240 million, 8.5 per cent. below the level recorded in 2010. This was mainly the result of lower direct investment and other capital investment in Romania. Net direct investment of non-residents in Romania declined 13.5 per cent. versus 2010 to EUR 1,920 million. Portfolio investments resulted in net inflows of EUR 1,839 million as compared with EUR 875 million in 2010, as a result of the EUR 1.2 billion of government bonds issued through Erste Bank Vienna as a lead manager and from dealings in securities performed by the general government. Net external financing from medium- and long-term loans amounted to EUR 14 million as compared to EUR 3,685 million in the previous year. Net inflows from short-term loans recorded EUR 1,313 million as compared to EUR 247 million in 2010. In 2011, 32 per cent. of the current account deficit (EUR 5,995 million) was covered by non-residents' direct investment.

In the first five months of 2012 (based on provisional data), the balance of the capital and financial account reached EUR 982 million, 2.9 times below the level recorded in January-May 2011. This was the result of lower direct investment, portfolio investments and other capital investment. Net direct investment recorded EUR 463 million, as compared to EUR 893 million in the same year-earlier period, of which non-residents’ net direct investment in Romania was EUR 465 million versus EUR 849 million in January-May 2011. Portfolio investment resulted in net inflows of EUR 983 million as compared with EUR 1624 million in the same period of the previous year, as a result of the EUR 700 million of government bonds redeemed through Deutsche Bank. Net external financing from medium- and long-term loans amounted to EUR 206 million as compared to EUR 1,111 million in the same period of the previous year. Short-term loans recorded net outflows of EUR 520 million as compared to net inflows of EUR 633 million in the first five months of 2011. In January-May 2012, 24.2 per cent. of the current account deficit (EUR 1,920 million) were covered by non-residents' direct investment.

BALANCE OF PAYMENTS FOR THE YEARS 2007-2011 AND THE FIRST HALF OF

	2007			2008			2009			2010[P]			
ITEM	**CREDIT**	**DEBIT**	**NET**	**CREDIT**	**DEBIT**	**NET**	**CREDIT**	**DEBIT**	**NET**	**CREDIT**	**DEBIT**	**NET**	**CRE**
(***EUR million***)													
1. CURRENT ACCOUNT (A+B+C)	**46,051**	**62,765**	**-16,714**	**53,582**	**69,739**	**-16,157**	**44,055**	**48,968**	**-4,913**	**50,911**	**56,429**	**-5,518**	**59**
A. Goods and services	**36,434**	**53,847**	**-17,413**	**42,479**	**60,929**	**-18,450**	**36,148**	**43,311**	**-7,163**	**43,990**	**51,187**	**-7,197**	**52**
a. Goods (export fob - import fob[1])	**29,549**	**47,371**	**-17,822**	**33,725**	**52,834**	**-19,109**	**29,084**	**35,955**	**-6,871**	**37,368**	**44,968**	**-7,600**	**45**
b. Services	**6,885**	**6,476**	**409**	**8,754**	**8,095**	**659**	**7,064**	**7,356**	**-292**	**6,622**	**6,219**	**403**	**7**
- Transportation	1,814	2,390	-576	2,684	2,697	-13	2,077	2,000	77	1,928	1,156	772	2
- Travel	1,173	1,120	53	1,358	1,477	-119	884	1,051	-167	860	1,238	-378	1
- Other services	3,898	2,966	932	4,712	3,921	791	4,102	4,306	-204	3,834	3,824	10	4
B. Income	**2,429**	**6,556**	**-4,127**	**2,268**	**5,951**	**-3,683**	**1,188**	**3,090**	**-1,902**	**924**	**2,838**	**-1,914**	**1**
- compensation of employees	1,186	40	1,146	1,156	115	1,041	492	46	446	484	67	417	
- direct investment income	43	4,376	-4,333	13	2,983	-2,970	24	874	-850	-112	541	-653	
- portfolio investment income	829	647	182	838	675	163	538	313	225	438	456	-18	
- other investment (interest)	371	1,492	-1,121	260	2,177	-1,917	134	1,857	-1,723	115	1,774	-1,659	
C. Current transfers	**7,187**	**2,362**	**4,825**	**8,836**	**2,859**	**5,977**	**6,718**	**2,568**	**4,150**	**5,998**	**2,404**	**3,594**	**5**
- public administration	932	1,229	-297	2,227	1,302	925	2,360	1,597	763	1,998	1,357	641	2
- other sectors	6,255	1,134	5,121	6,609	1,557	5,052	4,359	971	3,388	4,000	1,047	2,953	3
2. CAPITAL AND FINANCIAL ACCOUNT (A+B)	**68,784**	**51,316**	**17,468**	**81,444**	**63,614**	**17,830**	**76,672**	**70,789**	**5,883**	**72,882**	**67,154**	**5,728**	**69**
A. Capital account	**1,229**	**412**	**817**	**992**	**371**	**621**	**992**	**346**	**646**	**575**	**327**	**248**	
a. Capital transfers	**990**	**283**	**707**	**880**	**264**	**616**	**791**	**278**	**513**	**475**	**245**	**230**	
- public administration	677	70	607	480	1	479	562	147	415	275	112	163	
- other sectors	313	213	100	399	263	136	229	131	98	200	133	67	
b. Acquisitions/sales of nonproduced-nonfinancial assets	**239**	**129**	**110**	**112**	**107**	**5**	**201**	**68**	**133**	**100**	**82**	**18**	
B. Financial account	**67,555**	**50,905**	**16,650**	**80,452**	**63,244**	**17,208**	**75,679**	**70,444**	**5,235**	**72,307**	**66,827**	**5,480**	**68**
a. Direct investment	**14,267**	**7,220**	**7,047**	**18,728**	**9,420**	**9,308**	**13,435**	**9,885**	**3,550**	**13,927**	**11,691**	**2,236**	**6**
- abroad	18	222	-204	55	243	-188	156	94	62	294	278	16	
- in Romania	14,249	6,999	7,250	18,673	9,177	9,496	13,279	9,791	3,488	13,633	11,413	2,220	6
b. Portfolio investment	**3,347**	**2,865**	**482**	**2,551**	**3,114**	**-563**	**1,714**	**1,198**	**516**	**3,626**	**2,751**	**875**	**7**
- assets	739	635	104	455	668	-213	597	736	-139	566	953	-387	2
- liabilities	2,608	2,230	378	2,095	2,446	-351	1,118	462	656	3,059	1,798	1,261	5
c. Financial derivatives	**248**	**546**	**-298**	**600**	**890**	**-290**	**379**	**430**	**-51**	**472**	**450**	**22**	
d. Other investment	**49,693**	**35,768**	**13,925**	**57,118**	**48,400**	**8,718**	**60,151**	**57,806**	**2,345**	**54,282**	**48,447**	**5,835**	**53**
- assets	**11,116**	**11,714**	**-598**	**12,400**	**13,055**	**-655**	**15,429**	**17,390**	**-1,961**	**17,812**	**17,731**	**81**	**21**
1. Long-term loans and credits	295	172	123	268	209	59	170	221	-51	632	304	328	1
1.1. Trade credits	234	31	203	132	43	89	75	26	49	385	32	353	
1.2. Financial loans	60	141	-81	136	166	-30	95	196	-101	248	272	-24	
2. Short-term loans and credits	1,803	2,466	-663	2,241	3,074	-833	1,758	2,623	-865	2,173	3,155	-982	2
2.1. Trade credits	1,497	1,771	-274	1,876	2,266	-390	1,614	2,256	-642	1,891	2,517	-626	2
2.2. Financial loans	306	695	-389	365	808	-443	145	368	-223	282	639	-357	

3. Currency and short-term deposits	8,538	8,564	-26	9,375	9,317	58	13,161	14,253	-1,092	14,855	14,052	803	16
4. Other assets	480	512	-32	516	454	62	339	293	46	151	220	-69	
- long-term	225	225	0	294	262	32	122	146	-24	14	46	-32	
- short-term	255	287	-32	222	192	30	217	146	71	137	174	-37	
- liabilities	**38,577**	**24,055**	**14,522**	**44,717**	**35,346**	**9,371**	**44,722**	**40,416**	**4,306**	**36,471**	**30,716**	**5,755**	**32**
1. Use of IMF credits and loans	0	78	-78	0	0	0	6,769	0	6,769	4,247	0	4,247	
2. Long-term loans and credits	11,172	5,899	5,273	12,499	6,776	5,723	10,784	7,402	3,382	8,517	9,079	-562	8
2.1. Trade credits	358	382	-24	129	459	-330	48	681	-633	11	659	-648	
2.2. Financial loans	10,815	5,517	5,298	12,370	6,317	6,053	10,736	6,721	4,015	8,506	8,419	87	7
3. Short-term loans and credits	7,908	6,381	1,527	8,244	9,091	-847	5,460	9,269	-3,809	7,200	5,971	1,229	6
2.1. Trade credits	2,913	2,054	859	2,431	3,438	-1,007	1,655	2,907	-1,252	2,810	2,353	457	2
2.2. Financial loans	4,994	4,328	666	5,813	5,653	160	3,806	6,361	-2,555	4,390	3,617	773	3
4. Currency and short-term deposits	15,833	10,348	5,485	18,359	17,587	772	18,369	21,464	-3,095	14,268	13,992	276	14
5. Other liabilities	3,665	1,348	2,317	5,615	1,891	3,724	3,340	2,282	1,058	2,238	1,675	563	1
- long-term	2,506	196	2,310	4,853	1,297	3,556	3,192	1,972	1,220	2,108	1,365	743	1
- short-term	1,159	1,152	7	762	594	168	148	310	-162	131	310	-179	
e. Net foreign assets NBR (increase "-"/decrease "+")	-	4,505	-	38	-	38	-	1,124	-1,124	0	3,488	-3,488	
3. Net errors and omissions	**-**	**753**	**-753**	**-**	**1,673**	**-1,673**	**-**	**969**	**-969**	**-**	**210**	**-210**	

(P) Provisional data
(1) CIF/FOB coefficient=1.0834, published by the National Institute of Statistics, for the data up to 2009. For data from 2010 on, CIF/FOB coefficient=1.043, as published by the
Source: National Bank of Romania

Foreign Direct Investment ("FDI")

The amount of FDI attracted to Romania from 1990 to 2011 is approximately EUR 54.35 billion. The amount of FDI increased by around EUR 22.45 billion in total between 2007 and 2010. By economic activity, FDI during 1990 to 2010 (EUR 52,585 million) went to manufacturing (32 per cent. of total FDI), out of which the largest recipients were: oil processing, chemicals, rubber and plastic products (6.9 per cent.), metallurgy (5.3 per cent.), transport means (4.9 per cent.), food, beverages and tobacco (3.9 per cent.) and cement, glassware, and ceramics (3.2 per cent.). Certain sectors (such as textiles, wearing apparel and leather goods) still hold a relatively small share, i.e. 1.6 per cent. of total FDI. Apart from industry, activities that have also attracted significant FDI are financial intermediation and insurance, which include banks, non-bank financial institutions and insurance companies and account for 19.1 per cent. of total FDI, construction, trade (12.4 per cent.) and real estate transactions (9 per cent.), IT and communications (5.9 per cent.). Greenfield investments were oriented towards manufacturing (13.9 per cent. of total FDI), trade (10.2 per cent.), financial intermediation and insurance (6.8 per cent.) and construction and real estate (5.5 per cent.).

In 2007, net direct investment (i.e. the value of new investments in Romania by non-residents and the net value of investments overseas by residents) equalled EUR 7.05 billion, down 19.2 per cent. year-on-year. However, after deducting EUR 2.2 billion in the privatisation receipts for 2006, net direct investment increased by 8.0 per cent. in 2007. Non-residents' net direct investment in Romania totalled EUR 7.25 billion, of which equity holdings and intra-group loans accounted for 81.7 per cent., the remainder representing reinvested earnings. The net value of intra-group loans amounted to EUR 3.7 billion, up 66.3 per cent. from 2006. FDI was channelled mostly to industry (40.7 per cent.), financial intermediation and insurance (23.3 per cent.), trade (14.0 per cent.), construction and real estate transactions (7.8 per cent.), post and telecommunications (6.5 per cent.), services delivered to companies (4.5 per cent.) and others (3.2 per cent.). The largest contributions to direct investment in 2007 were from: Austria (21.4 per cent.); The Netherlands (16.3 per cent.); Germany (11.7 per cent.); France (8.8 per cent.); Greece (7.5 per cent.); Italy (6.1 per cent.); Switzerland (5.1 per cent.); Cyprus (4.7 per cent.); Turkey (1.9 per cent.); and Hungary (1.7 per cent.).

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

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

In 2010, net direct investment declined 37.0 per cent. year-on-year to EUR 2.236 million. Investment by non-residents in Romania amounted to EUR 2,220 million (covering 40.5 per cent. of the current account deficit), of which EUR 1,824 million were equity stakes (including re-invested earnings) and EUR 396 million were intra-group loans. The largest contributions to direct investment in 2010 were from: The Netherlands (20.7 per cent.); Austria (17.8 per cent.); Germany (12.2 per cent.); France (8.3 per cent.); Greece (5.7 per cent.); Italy (5.3 per cent.); Cyprus (4.9 per cent.); Switzerland (3.8 per cent.); USA (2.6 per cent.); and Spain (2.0 per cent.).

According to provisional data for 2011, non-residents' direct investment in Romania was EUR 1,920 million as compared with EUR 2,220 million for 2010, mainly as a result of the decline in equity capital consolidated with net loss (to EUR 1,618 million from EUR 1,824 million), covering 32 per cent. of the current account deficit. Out of the total figure, intra-group loans amounted to EUR 302 million and equity stakes (considered together with estimated net loss) contributed EUR 1,618 million.

In the first six months of 2012 (provisional data) non-residents' direct investments in Romania amounted to EUR 621 million (25.8 per cent of the current account deficit) as compared to EUR 874 million in the same period of 2011.

The following table shows net foreign direct investment in Romania for the years 2007 to 2011 and the first six months of 2012:

	Net Foreign Direct Investment[1]					
	2007	2008	2009	2010	2011	2012 H1
			(EUR million)			
Net FDI	7,250	9,496	3,488	2,220	1,920	621
Equity capital and reinvested profits/estimated net loss[2]	3,547	4,873	1,729	1,824	1,618	280
Other capital (intracompany loans)	3,703	4,623	1,759	396	302	341

(1) Non-residents' investment in Romania
(2) Including investment in kind
Source: National Bank of Romania

In order to further encourage investments in Romania, measures have been taken to strengthen fiscal administration, increase transparency and create legal resources to resolve contractual disputes promptly. Various incentives are offered to investors (irrespective of local or foreign status), including governmental non-reimbursable grants for the acquisition of assets, governmental contributions when new workplaces are created, incentives in the form of interest reductions to investors when contracting loans for investments or State guarantees to investors. Investors are also entitled to apply for European Union funds for the reimbursement of eligible expenses incurred in connection with certain types of investments. A decrease in total taxation rate by two percentage points, from 47 per cent. in 2008 to 45 per cent. in 2011 is also expected to help stimulate investment. The Romanian Government intends to further support economic growth and to attract foreign investments by promoting measures such as VAT exigibility upon receipt of payment by the VAT payer, increasing deductibility for investments in research and development projects or the temporary suspension of social contributions for employers hiring unemployed persons.

Governmental incentives are available for investments made in various fields, such as agricultural and industrial processing activities, electric and thermal energy production and supply, environment protection, IT and communications and research and development. Upon completion of various conditions related to the investments and provided that the relevant State aid schemes are created by the competent authorities, investors are entitled to request and benefit from the incentives established under the relevant legislation.

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

5. MONETARY AND FINANCIAL SYSTEM

National Bank of Romania

The National Bank of Romania (the "**NBR**") is the central bank of Romania, organised as an independent public institution and has its headquarters in Bucharest. The main objective of the NBR, set forth in its statutory provisions, is to maintain overall price stability. To this end, the NBR is empowered:

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

(ii) to authorise, regulate and supervise, from a prudent perspective, credit institutions and to promote and monitor the good functioning of payment systems in order to ensure financial stability;

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

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

(v) to manage the international reserves of the Romanian state.

The Government, acting through the Ministry of Public Finance, and the NBR maintain a close working relationship. Although the NBR is expected to support the Government's economic policy, the NBR's power to determine monetary policy or to generally perform its duties is not subject to any review or consent by the Government. The NBR does not receive instructions from any public authority, institution or any other authority.

The NBR is managed by a board of nine members and its executive functions within the Monetary Policy Committee and the Supervisory Committee are delegated to a governor, a prime-vice-governor and two vice-governors. The members of the board of the NBR are appointed by the Parliament for a five-year term and can be reappointed.

In its capacity as bank supervisor, the NBR has the legal power to require credit institutions to: (i) hold own funds over the minimum solvency ratio of 8 per cent.; (ii) reinforce the bank internal governance arrangements, processes, mechanisms and strategies; (iii) apply a specific provisioning policy or treatment of assets in terms of own funds requirements; (iv) impose restrictions or limitations of the business, operations or network; (v) reduce the risk inherent to their activities, products and systems; (vi) limit variable remuneration as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; and (vii) use net profits to strengthen the capital base.

The NBR is also empowered to: (i) withdraw the approval granted to the credit institution managers and/or board members; (ii) limit the qualifying holdings of the credit institution in financial or non-financial institutions, in which case the credit institution is bound to sell them; (iii) require the credit institution to draw up and approve a recovery plan to improve the condition of its business; (iv) require the shareholders with qualifying holdings to financially support the credit institution by increasing the share capital or by providing subordinated loans and/or by converting such loans into shares; and (v) prohibit or limit profit distribution for purposes other than those provided by law, until the NBR ascertains that the financial condition of the credit institution has been restored.

Monetary Policy

The chief monetary policy instruments used by the NBR are open market operations, standing facilities and reserve requirements. Open market operations are conducted at the central bank's initiative and play a role in steering interest rates, managing liquidity conditions in the money market and signalling the monetary policy stance. The NBR may not acquire from the primary market receivables against the state, central and local public authorities, autonomous administrations, national companies and other majority state owned companies or receivables against other bodies and public companies from EU Member States. The main categories of open market operations available to the NBR on the secondary market are: repo operations, deposit-taking operations, issuance of certificates of deposit, reverse repo operations, credit operations against eligible assets as collateral, outright sales/purchases of eligible assets and foreign exchange swaps. The NBR's standing facilities to credit institutions, consisting of a credit facility and a deposit facility, aim to absorb and provide overnight liquidity, signal the general monetary policy stance and bind overnight interbank rates by the corridor defined by the interest rates on the lending and deposit facilities. The standing facilities are available to credit institutions upon request.

Recent Monetary Policy

2008

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

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

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

2009

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

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

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

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

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

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

2010

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

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

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

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

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

2011

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

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

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

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

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

2012

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

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

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

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

In its meeting of 2 August 2012, the NBR Board decided to leave the monetary policy rate unchanged at 5.25 per cent., considering that the outlook for the annual inflation rate to stay within the variation band around the central target, reconfirmed by the updated forecast, was affected in the short run by increased asymmetric risks and that heightened global risk aversion, together with persistent domestic political tensions, could have generated additional capital outflows with an unfavourable impact on the RON exchange rate. The worsening of the balance of risks to the inflation outlook warranted the maintenance of prudent monetary policy conduct with a view to achieving effective anchoring of inflation expectations and ensuring price stability in the medium term.

Expected future developments in monetary policy

According to the current assessment, the annual inflation rate is expected to remain inside the variation band around the central target throughout the forecast horizon, despite the short-term outlook being marked by conjunctural trends in financial markets and the unfavourable statistical base effect anticipated to become temporarily manifest in the latter half of 2012.

At the same time, the balance of risks to the inflation outlook remains tilted to the upside, owing to both external and domestic factors. Therefore, in the period ahead, the monetary policy will maintain its prudent stance, in a bid to firmly anchor inflation expectations and to consolidate the prospects of maintaining the annual inflation rate within the variation band around the medium-term targets.

Recent Developments in the Lending Process

2010

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

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

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

2011

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

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

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

2012

In the first five months of 2012, the growth rate of lending to the private sector (expressed in real terms) accelerated strongly, mostly on account of the statistical effect of the exchange rate. Thus, the share of foreign currency-denominated loans in total lending to the private sector reached 64.4 per cent. However, starting April, the growth rates of both Leu- and foreign currency-denominated loans (expressed in euro) have slowed down, the decline of the latter becoming more pronounced in June-July. The same tendency was visible in the composition of loans by type of clients, although lending to companies remained stronger than that to households. The above developments were probably triggered by a halt in the recovery of confidence and in the improvement of expectations regarding economic activity, and also by banks' increased concerns regarding their own balance sheets adjustments, also from the perspective of a potential intensification of deleveraging in the Euro area.

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

Inflation Rates, Target Inflation Rates and Monetary Policy Rates

The following table sets out actual quarterly inflation rates, annual target inflation rates and monetary policy rates as at the end of each quarter of the years 2007-2012:

End of Period	Inflation Rate	Target Inflation Rate	Monetary Policy Rate
		(per cent.)	
March 2007	3.66	—	7.50
June 2007	3.80	—	7.00
September 2007	6.03	—	7.00
December 2007	6.57	4.0	7.50
March 2008	8.63	—	9.50
June 2008	8.61	—	10.00
September 2008	7.30	—	10.25
December 2008	6.30	3.8	10.25
March 2009	6.71	—	10.00
June 2009	5.86	—	9.50
September 2009	4.94	—	8.00
December 2009	4.74	3.5	8.00
March 2010	4.20	—	6.50
June 2010	4.38	—	6.25
September 2010	7.77	—	6.25
December 2010	7.96	3.5	6.25
March 2011	8.01	—	6.25
June 2011	7.93	—	6.25
September 2011	3.45	—	6.25
December 2011	3.14	3.0	6.00
March 2012	2.40	—	5.25
June 2012	2.04	—	5.25

Sources: National Institute of Statistics, National Bank of Romania

Monetary Aggregates

The following table shows selected monetary aggregates as at 31 December 2007, 2008, 2009, 2010, 2011 and 30 June 2012:

	As at 31 December					As at 30 June
	2007	2008	2009	2010	2011	2012
			(RON million)			
M1 (narrow money)- Total	79,914.40	92,548.50	79,361.50	81,592.30	85,834.09	87,840.00
Currency in circulation	21,441.70	25,286.80	23,967.60	26,793.60	30,610.31	31,895.40
Overnight deposits	58,472.50	67,261.70	55,393.90	54,798.70	55,223.78	55,944.60
M2 (intermediate money)-Total	148,043.60	173,628.80	188,013.00	199,572.10	212,058.93	216,449.70
M1	79,914.40	92,548.50	79,361.50	81,592.30	85,834.09	87,840.00
Deposits with agreed maturity of up to 2 years	68,129.30	81,080.30	108,651.50	117,979.80	126,224.84	128,609.60
M3 broad money	148,115.50	174,027.80	189,630.30	202,772.60	216,207.86	216,930.80
M2	148,043.60	173,628.80	188,013.00	199,572.10	212,058.93	216,449.70
Other financial instruments (repurchase agreements, MMFs shares/units, debt securities with maturity of up to 2 years)	71.9	399	1,617.30	3,200.50	4,148.81	481.20

Note: This table illustrates the monetary aggregates as (re)calculated according to the new methodology on statistical reporting by monetary financial institutions implemented by the NBR as from 1 January 2007, in order to harmonise its regulations with those of the ECB.
Source: National Bank of Romania

Interest Rates

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

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

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

January through April 2010, money market rates declined steeply reaching levels below the monetary policy rate across the entire maturity spectrum. Their developments reflected the combined influence of: (i) the policy rate cuts implemented by the NBR; (ii) the easing of liquidity conditions in the money market; and (iii) market expectations regarding the future evolution of policy rate and liquidity in the banking system. However, at the end of April 2010 and notably at the beginning of May 2010, three to twelve month ROBOR rates increased significantly, repositioning themselves at levels above the monetary policy rate as a result of: (i) increased risk premium in the context of severe tensions on the global financial markets and heightened domestic risks related to the fulfilment of fiscal and public sector income policy objectives; and (ii) a change in banks' perception regarding current and future liquidity conditions in the banking system. In the context of overnight ("**ON**") interbank rates evolving in the lower part of the interest rates corridor since June 2010, three to twelve month ROBOR rates were adjusted downwards at the end of July 2010 and remained relatively stable at levels just above the policy rate, before entering a slight downward trend in October 2010. Their decline accelerated in January 2011, mainly reflecting a fall in the risk premium owing inter alia to a significant alleviation of uncertainties that had surrounded the fiscal consolidation process until the end of 2010. In mid-February 2011, money market rates posted an upward correction across all maturities, induced by tighter liquidity conditions as well as an adjustment of market expectations of the future path of interest rates. Interest rates decline resumed shortly after, being more pronounced for maturities up to 3 months. It continued until end-July 2011, when it reversed in the context of a relative tightening of liquidity conditions. As a result, ON rates went up gradually, returning closer to the monetary policy interest rate. In turn, money market rates on longer maturities either re-converged to the policy rate (in case of the 3-month ROBOR) or increased their spreads to the policy rate by up to 40 basis points (in case of the 6-month and 12-month ROBOR). The three to twelve-month ROBOR rates remained broadly stable until mid-November 2011, when they experienced a brief increase, before embarking on a slight downward trend. Between end-December

2011 and mid-April 2012, money market rates fell significantly across the maturity spectrum, due to the combined influence of the monetary policy rate cuts implemented by the NBR and an easing of liquidity conditions. After a period of relative stability, in mid-May the entire money market yield curve shifted upwards, notably in its front end, under the combined influence of tighter liquidity conditions and the revision of banks' expectations regarding the policy rate and the liquidity situation. Subsequently, interest rates for all maturities were broadly static in the close proximity of the monetary policy rate, before rising by up to 70 basis points throughout August on account of a relative tightening of liquidity conditions.

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

Moving broadly in line with developments in interbank rates, the average interest rates on new time deposits and new loans fell in January 2011 and posted a temporary increase in the subsequent month, before entering a downward trend which extended until July 2011. They increased between August and November 2011, primarily reflecting the upward trend in short-term money market rates (for maturities of 1-3 months), which were more sensitive to the temporary tightening of liquidity conditions, but declined again in December 2011. Following these developments, the average interest rate on new loans to households was 12.66 per cent. in December 2011 (from 11.68 per cent. in December 2010), while the average interest rate on new loans to non-financial corporations reached 9.74 per cent. (from 9.40 per cent. in December 2010). The average interest rate on new time deposits of non-financial corporations increased to 5.78 per cent. (from 5.36 per cent. in December 2010) while the corresponding rate for households declined by approximately 1 percentage point to 6.58 per cent. The subsequent downtrend of the monetary policy rate and interbank ROBOR rates was also followed by the interest rates for non-bank clients. Thus, during the first four months of 2012 the average interest rate on new time deposits of households fell by 0.64 percentage points (to stand at 5.94 per cent. in April 2012), while the average interest rate on new loans to households decreased by 1.08 percentage points (to 11.58 per cent.) on account of a broad-based decline in interest rates on all categories of loans. In the case of non-financial companies, the average interest rate on new time deposits shrank significantly (-1.21 percentage points, to stand at an over six-year low of 4.57 per cent.); at the same time, the average lending rate on new business dropped 0.91 percentage points to a historical low of 8.83 per cent. In the period May-June 2012, the average interest rates on new time deposits and new loans of non-financial corporations increased (to 4.93 per cent. and 9.52 per cent. respectively) in line with interbank ROBOR rates. By contrast, in the case of households the average interest rates on new time deposits and new loans extended their decline (reaching 5.57 per cent. and a historical low of 11.09 per cent. respectively).

The following table shows key financing interest rates as at 31 December 2007, 2008, 2009, 2010, 2011 and 30 June 2012:

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

	As at 31 December					As at 30 June
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Policy rate	7.50	10.25	8.00	6.25	6.00	5.25
Lending facility	12 00	14.25	12.00	10.25	10.00	9.25
Deposit facility	2.00	6.25	4.00	2.25	2.00	1.25

Source: National Bank of Romania

The following table shows annual average interest rates for loans and term deposits as at 31 December 2007, 2008, 2009, 2010, 2011 and as at 30 June 2012:

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

	As at 31 December					As at 30 June
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Individuals						
Loans	14.23	16.59	17.11	14.83	14.00	13.05
Term deposits	6.79	12.12	9.56	7.18	6.24	5.58
Non-financial corporations						
Loans	11.84	18.34	16.06	10.57	10.48	9.55
Term deposits	6.76	14.81	9.07	5.47	5.59	4.94
Total						
Loans	13.05	17.47	16.58	12.65	12.09	11.11
Term deposits	6.78	13.22	9.42	6.70	6.07	5.43

Note: The table is compiled according to the new methodology implemented by the NBR as from 1 January 2007, in order to harmonise its regulations with applicable ECB Regulation (ECB/2001/18 and (ECB/2009/7) starting with 1 June 2010).
Source: National Bank of Romania

Foreign Exchange and Convertibility of the RON

The NBR issues and implements regulations governing foreign currency transactions in Romania and supervises their implementation under NBR Regulation No. 4/2005, as amended and republished (the "**FX Regulation**").

The FX Regulation sets out safeguard measures for foreign exchange transactions which the NBR may apply in the event of substantial changes in domestic liquidity or severe imbalances of payments.

In contemplation of the accession of Romania to the EU, all capital transactions had been liberalised by 1 September 2006 under the FX Regulation. As such, residents and non-residents currently engage freely in both current and capital transactions, in foreign and domestic currency.

The imported and exported cash amounts are regulated by Regulation (EC) No. 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community, directly applicable in Romania and which is within the competence of the National Customs Authority of Romania.

Exchange Rate Policy

The exchange rate of the RON is determined in the interbank foreign exchange market.

2007 – 2008

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

2009

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

2010

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

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

2011

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

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

The adverse impact of the external environment on the EUR/RON exchange rate appeared to ease from August 2011, as domestic economic developments were in line with the parameters laid down in the EU/IMF precautionary agreement and with market expectations. Thus, although the global economic perspective further deteriorated and tensions on international financial markets persisted, the EUR/RON volatility decreased (being also the lowest in the region) and the RON depreciated by only 0.2 per cent.

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

2012

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

Since April, currencies in the region, the Leu included, re-entered a downward path against the Euro as temporary tensions resurfaced on the global financial market fuelled by uncertainties regarding the further implementation of austerity measures in some Euro zone countries in an electoral context (Greece and France) and by signals that the economies of some countries have deteriorated (Spain and Portugal). This trend accelerated in May amid a marked worsening of the global financial market sentiment induced by (i) the significantly higher uncertainty surrounding economic and political developments in Greece, including speculations on the country leaving the euro area; (ii) worsening of the problems faced by the Spanish banking system; and (iii) the deterioration of the economic growth outlook in the euro area/EU and worldwide. In this context, in July the RON depreciated by 3.8 per cent. in nominal terms against the

Euro (in the same period the Polish Zloty depreciated by 0.1 per cent. and the Czech Koruna by 2.5 per cent).

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

In the first seven months of the year, the Leu depreciated by 4.9 per cent. in nominal terms (3.4 in real terms) compared to the Euro, while its volatility remained the lowest in the region. The Leu depreciated by 11.2 per cent. in nominal terms (10.5 in real terms) versus the US dollar, due to the latter's strengthening on the external financial market.

In July, the external environment continued to be characterised by elevated levels of global risk aversion, as the economic prospects further deteriorated (the IMF revised downwards its global growth forecast for 2013 and warned that the outlook could deteriorate further) and uncertainties regarding the sovereign debt crises persisted (Moody's Investors Service downgraded Italy's sovereign rating as well as the rating of some major Italian banks and there was renewed speculation that Spain may need a full international bailout and that Greece might eventually exit the euro area). To this context added the uncertainties associated with the events on the local political scene. Against this background, the RON/EUR exchange rate accelerated its increase, posting several historical highs. However, in early August, the RON/EUR exchange rate resumed its decrease against the background of an improvement in global risk sentiment and of some favourable domestic developments (the IMF/EC/WB concluded the sixth review of Romania's economic programme and some of the macroeconomic data published during the period - Q2 GDP flash estimates and current account deficit - were slightly better than expected). Consequently, by August 23 the RON had appreciated in nominal terms by 0.3 per cent against the Euro and by 0.8 per cent versus the US dollar.

EUR/RON and USD/RON Exchange Rates

The following table sets out the EUR/RON and USD/RON exchange rates as at 31 December 2007, 2008, 2009, 2010 and 2011 and the average EUR/RON and USD/RON exchange rates for the years ended 31 December 2007-2011, as well as the 2012 data June year to date:

EUR/RON and USD/RON Exchange Rate

	2007		2008		2009		2010		2011		2012	
	31 Dec.	Average	31 Dec.	Average	31 Dec.	Average	31 Dec.	Average	31 Dec.	Average	30 Jul.	Average Jan.-Jul
EUR	3.6102	3.3373	3.9852	3.6827	4.2282	4.2373	4.2848	4.2099	4.3197	4.2379	4.5694	4.4116
USD	2.4564	2.4383	2.8342	2.5189	2.9361	3.0493	3.2045	3.1779	3.3393	3.0486	3.7242	3.4300

Source: National Bank of Romania

Real Effective Exchange Rate

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

Statutory Reserves

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

As of 31 July 2012, Romania's foreign exchange reserves amounted to EUR equivalent 32,141 million, a decrease of EUR 1,052 million compared to 31 December 2011. The main inflows for the period, totalling EUR 10,707 million, were due to inflows into the Ministry of Public Finances' accounts (including the Ministry of Public Finances' bond issue of EUR 1,706 million equivalent), changes in credit institutions' mandatory foreign exchange reserves with the NBR, inflows into the European Commission's accounts and income from the management of foreign exchange reserves. Main outflows for the period, totalling EUR 11,759 million, were due to credit institutions' mandatory reserves requirements and interest payments and principal repayments on foreign currency public debt.

The value of the gold reserves has increased steadily due to changes in market prices, totalling EUR 4,413 million as of 31 July 2012 against EUR 3,767 million as of 31 July 2011. The quantity of gold in reserves has remained at approximately 103.7 tonnes since the second half of 2007.

The NBR's international reserves have increased in the last five years. Some of the key reasons for this include: NBR's net purchases off the foreign exchange market; changes in the minimum reserve requirement ratios on foreign currency-denominated liabilities of credit institutions (which had a positive impact until 2009); income from the management of foreign exchange reserves; and inflows into the Ministry of Public Finance's accounts. From May 2009 onwards, the funds disbursed from the financial package concluded with international financial institutions under the IMF umbrella added to the other inflows. Under the financial aid agreement concluded with international financial institutions, Romania drew an amount equivalent to EUR 18.098 billion during 2009-2011, out of which EUR 9,785 million went to the NBR's foreign exchange reserves. Repayment of the loans is scheduled for 2012-2022.

As regards the extent to which the reserves are encumbered by liens, the central bank has opened custody accounts with international financial institutions in order to manage the foreign reserves. The technical procedures of the custodians, which are commonly used for custody and settlement systems, may entitle the custodians to exercise certain remedies and to benefit from certain guarantees in relation to the participants, in case of non-compliance with the custodians' general terms and conditions, which are intended to ensure the fulfilment of such participants' obligations.

The NBR is not engaged in any type of currency derivative transactions.

The main drivers of future changes in the NBR's reserve assets position are expected to be the payments scheduled for the 2012-2015 period arising from the loans disbursed between 2009 and 2011 under the Stand-by Agreement concluded with the International Monetary Fund in May 2009 within the multilateral financial assistance package, in cooperation with the European Union and the World Bank. Other changes to NBR's reserve assets could be triggered by monetary policy decisions impacting the international reserves size and currency composition as well as inflows/outflows triggered by foreign currency public debt management. Possible disbursements, if any, can be made during 2011-2013 under the precautionary Stand-by Agreement concluded by Romania in March 2011 with the International Monetary Fund for an amount equivalent to EUR 3.5 billion as well as under the precautionary financial assistance agreements negotiated with the European Union for an amount equivalent to EUR 1.4 billion and with the World Bank for an amount equivalent to EUR 0.4 billion.

By 31 July 2012, six tranches (in the amount of SDR 60 million, SDR 430 million, SDR 430 million, SDR 430 million, SDR 430 million and SDR 430 million respectively) totalling SDR 2.21 billion (approximately EUR 2.67 billion) had been made available to Romania, but have not been used.

Banking System

General

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

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

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

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

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

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

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

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

In April 2012 MKB Romexterra Bank changed its name to Nextebank.

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

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

Further changes in the shareholder structure of the banking system are expected to occur in 2012:

- Banca C.R. Firenze Romania SA is expected to finalise in the last quarter of this year the merger process with Intesa SanPaolo Romania SA; and

- According to the information provided by the competent supervisory authority of the Agricultural Bank of Greece, its licence has been revoked after the transfer of part of its operations to Piraeus Bank Greece (including its equity participation in ATE Bank Romania).

Market share of credit institutions in terms of assets:

	As at 31 December					As at 30 June
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(per cent. market share)			
Banks with majority state capital	5.4	5.2	7.3	7.4	8.2	9.1
Banks with majority domestic private capital	6.9	6.6	7.4	7.5	8.7	9.7
Banks with majority foreign capital	87.7	88.2	85.3	85.1	83.1	81.2
Total banking system	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank of Romania

The market share of banks with majority foreign capital continued its downward path reaching 81.2 per cent. in June 2012, mainly due to sales of fixed and non-performing assets. Banks with majority Austrian capital further hold the largest market share (38 per cent. as of June 2012). The market share of banks with majority Greek capital declined to around 12 per cent. at end-June 2012, falling below that of banks with majority Romanian capital.

Banking System Ownership (% of total assets)

	2008	**2009**	**2010**	**2011**	**H1 2012**
Romania	11.81	14.75	14.96	16.97	18.80
Austria	38.83	38.13	38.31	38.62	38.01
Cyprus	0.08	0.16	0.43	1.39	1.38
France	15.76	14.13	13.98	13.74	13.41
Greece	17.47	17.61	16.74	13.33	12.08
Hungary	2.03	1.76	1.59	1.38	1.50
Italy	2.10	2.02	2.32	2.52	2.53
Netherlands	8.93	8.32	8.58	8.77	9.20
Portugal	0.38	0.60	0.61	0.59	0.68
Other	2.6	2.5	2.5	2.7	2.41

Source: National Bank of Romania

Structure of the Banking Sector

New entrants to the banking market, mergers of foreign bank entities and changes to bank shareholdings have over the years reshaped the ownership of the Romanian banking sector.

As of 30 June 2012, the total net balance sheet assets owned by credit institutions amounted to EUR 83.4 billion and the share of assets in the Romanian banking system held by banks with total or majority private capital was 90.9 per cent.. The share of assets held by banks with total or majority foreign capital, including foreign bank branches, was 81.2 per cent. Banks with total or majority state-owned capital held only 9.1 per cent. of total assets.

As of 30 June 2012, the Romanian banking system comprised 41 registered credit institutions, consisting of one majority state-owned institution (Eximbank), one fully state-owned institution (CEC Bank), eight branches of foreign banks (ING Bank N.V., Italo-Romena Bank, BLOM Bank France, Bank of Cyprus, Fortis Bank, LA CAIXA, Finicredito and Citibank Europe) and 31 credit institutions with private capital (including CREDITCOOP – the network of credit cooperatives), of which 26 had majority foreign ownership.

The level of banking system capitalisation was approximately EUR 5.5 billion as at 30 June 2012, representing a total increase of about 34.4 per cent. compared to the capitalisation in December 2011. This increase was mainly due to the transition to the IFRS and applying the IAS 29 provisions, according to which, in hyperinflationary countries, the share capital has to be adjusted to the inflation index.

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

EU accession also opened up the Romanian banking market to other EU banking institutions. At the end of July 2012, 236 banks from EU Member States notified their intention to provide services within Romania on a cross-border basis without establishing Romanian branches.

The following table shows the composition of the Romanian banking sector as at 30 June 2012:

Type of Capital	**Number of banks**	**Total loans**	**Total deposits**	**Total balance sheet**
		(per cent. market share)		
State-owned	1	4.4	8.5	7.8
Majority state-owned	1	0.4	0.5	1.3
Majority privately-owned banks, of which	31	86.8	82.4	82.9
- majority domestic capital	5	7.8	10.1	9.7
- majority foreign capital	26	79.0	72.3	73.2
Branches of foreign banks	8	8.4	8.6	8.0

Source: National Bank of Romania

Current Condition of the Banking Sector

Romania has continued to enjoy financial stability, despite the difficult global and domestic economic conditions that occurred following the onset of the international financial crisis. Risks to the banking sector were countered by efforts of credit institutions such as consolidation of solvency, provisioning and liquidity levels amid NBR's measures addressing prudential regulation, supervision and adequate management of risks faced by the banking system.

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

A beneficial contribution to safeguarding financial stability was the European Bank Coordination Initiative, under which the nine participating banks have fulfilled their aggregate commitments to maintain their exposure and ensure a capital adequacy ratio above 10 per cent. for every subsidiary in Romania. The new precautionary Stand-by Agreement signed in 2011 with the EU, the IMF and the World Bank, together with the commitments undertaken by the Romanian authorities under the national programmes, are seen as anchors for maintaining financial stability and furthering structural reforms in order to boost the economic growth potential.

Exposure on Romania to foreign banks participating in the Vienna Initiative has decreased in July 2012 by 6 per cent. against end-March 2009. Around 70 per cent. of credit lines from parent banks have maturities of over one year and do not have any early repayment clauses; some part of the credit lines were converted into subordinated lending (tier II capital items), thus consolidating the banks' solvency.

The analysis of aggregate balance sheet assets confirmed the trends identified since the fallout from the global economic crisis first hit the Romanian financial system: (i) the slowdown in banking business, mainly as a result of tighter lending conditions; (ii) the steadily growing exposure to the government sector and (iii) the drop in credit institutions' placements with the central bank. The dynamics of aggregate balance sheet assets, which had been negative in real terms in 2010 and 2011, turned positive in 2012, recording at end-June 2012 an annual change of +3.4 per cent. (gross). The change was largely attributable to the relative rebound in credit dynamics (the real annual change in loans to the private sector has become positive since September 2011, reaching an overall increase of 4.1 per cent. in July 2012, driven mainly by the corporate sector with an increase of 6.6 per cent.), in the context of the statistical influence associated with the weaker Leu.

Despite the trend growth of bank deposits (+6.7 per cent. year-on-year in real terms in July 2012), the loan-to-deposit ratio declined slightly (from 119.1 per cent. in December 2011 to 118.9 per cent. in July 2012), thus confirming the orderly nature of deleveraging.

Financial intermediation (calculated as a share to GDP of non-government loans granted by domestic credit institutions) declined slightly in 2011 and in the first seven months of 2012 as compared to 2010 (38.6 per cent. in December 2011 and 38.1 per cent. in July 2012 as compared to 40.8 per cent. at end-2010, due to the statistical effect generated by the economic contraction in 2010). The share to GDP of bank assets followed a similar slight reduction in 2011 versus 2010 (61.2 per cent. as compared to 66.6 per cent. but this is due to the base effect).

Since the outbreak of the financial crisis, the NBR has continued to pursue a prudent monetary policy stance (see "*—Monetary and Financial System—Monetary Policy—Recent Monetary Policy*), in an attempt to ensure inflation converges with medium-term targets, and to bring money market rates, bank lending and deposit rates to normal levels, with a view to consolidating favourable conditions for the sustainable resumption of lending to the private sector and the economic rebound. Credit risk has remained the major vulnerability of the banking sector. Loan portfolio quality worsened further, albeit at a slower pace and, subsequently, the pressure on bank asset quality is expected to start abating, amid a gradual consolidation of economic growth and tighter risk management by banks. The non-performing loan ratio (compiled as loans and interest overdue for more than 90 days and/or for which legal proceedings were opened against the operation/debtor to loans and related interest outstanding) reached 16.8 per cent. in June 2012 (against 7.9 per cent. as at 31 December 2009, 11.9 per cent. as at 31 December 2010 and 14.3 per cent. as at 31 December 2011). However, total provisioning per loans and interest overdue for more than 90 days and/or for which legal proceedings were opened against the operation/debtor stood at 97.9 per cent. in June 2012, (97.8 per cent. in December 2011).

The depreciation of the domestic currency versus the Euro might have contributed to an increasing burden on private debtors in economy taken into account that the share of foreign currency denominated loans (out of which most is in Euro) in total lending to the private sector was of 63.764 per cent in June 2012.

The main challenges lying ahead are: (i) managing the contagion risk that could occur in the event of adverse developments in international markets as a result of the sovereign debt crisis or the considerably slower growth in developed economies; (ii) improving bank asset quality; (iii) achieving a more balanced currency breakdown of flows of new loans; and (iv) enhancing the early intervention tools for ailing credit institutions. These challenges call for further efforts to maintain adequate solvency, provisions and liquidity, as well as for additional prudential measures.

For non-financial corporations, the volume of non-performing loans further increased by 44 per cent. in July 2011-June 2012, after rising by 40 per cent. between July 2010 and June 2011, while the non-performing bank loan ratio picked up (to 17.4 per cent. in June 2012 from 13.4 per cent. in June 2011). In the household sector, the non-performing loan ratio increased to 9.5 per cent. in June 2012 (from 7,97 per cent. in June 2011). In the same period, the volume of non-performing loans increased by almost 25 per cent, exceeding the previous increase of (5 per cent. increase in the period July 2010- June 2011).

Since 2012, banks have exhibited a more prudent attitude towards lending to both non-financial companies and households, by increasing the lending standards for both consumer and mortgage loans. For the third quarter of 2012, credit institutions expect the tightening trend to conclude for both types of loans.

In order to increase banks' resilience to global financial crisis-induced shocks, the NBR established a 10 per cent. prudential threshold for the solvency ratio (against the minimum regulated level of 8 per cent.). In addition, with a view to ensuring effective supervision, the central bank required solvency reports be submitted on a monthly basis (rather than quarterly, as stipulated under the legal framework in force) by banks with negative financial results, a large volume of non-performing claims or below-average solvency ratios. Credit institutions reported a sufficiently high capital adequacy ratio in order to cover credit risk as a result of NBR exercising tighter oversight of developments in this area and banks' efforts to raise additional capital, as required by the central bank. . The solvency ratio stood at a comfortable 14.7 per cent. in June 2012 and 14.9 per cent. in December 2011 (compared to 14.7 per cent. in December 2009 and 15 per cent. in December 2010). Tier 1 capital ratio (Tier 1 capital per total capital requirements) posted a relatively flat level between 2008 and 2011 (fluctuating between 11.5 per cent. and 12 per cent.), before rising to 13.6 per cent. as at 30 June 2012. This was mainly due to significant capital increases made by shareholders (by EUR 379 million in 2011 and EUR 53 million in the first half of 2012), as well as new provisioning rules under IFRS, since January 2012. The capital base of Romanian banks proved its resilience, as Tier 1 capital accounts for 80 per cent. of total own funds until December 2011 and 93 per cent. as at end-June 2012 due to changes in regulations related to the implementation of IFRS and prudential filters.

Greek banking capital is present in Romania through five banks incorporated as Romanian legal entities (Alpha Bank, ATE Bank, Banca Romaneasca – National Bank of Greece Group, Bancpost, Piraeus Bank). These banks continue to hold together an important position in terms of capital invested in Romania, accounting for approximately 19.4 per cent. of total capital of the banking system as at 30 June 2012. Figures are lower in terms of assets, loans and deposits, i.e. about 12.5 per cent., 14.7. and 9.8 per cent. respectively at the same date. According to the latest data reported to the NBR, each of these banks meets the prudential requirements in terms of capitalization and liquidity. Moreover, the overall solvency ratio for these banks remained at a comfortable level, above the 8 per cent. regulatory level and even exceeding the banking system average (16.6 per cent. compared with 14.7 per cent. as at 30 June 2012).

The liquidity ratio of the banking system was maintained above the prudential requirements (the mandatory level is 1). This ratio was 1.38 as at 31 December 2009, 1.35 as at 31 December 2010, 1.36 as at 31 December 2011 and 1.39 as at 30 June 2012. Liquidity ratio is calculated as the ratio between effective liquidity and required liquidity.

	As at 31 December				**As at 31 March**	**As at 30 June**
	2008	**2009**	**2010**	**2011**	**2012**	**2012**
				(per cent.)		
Solvency ratio [1]	13.76	14.67	15.02	14.51	14.63	14.66
Tier 1 capital per total capital requirements [(2)]	10.64	11.53	12.13	11.97	13.76	13.65
NPL/Total classified loans [(3)]	n/a	7.89	11.85	14.33	15.88	16.76
Provisioning of NPLs [(2)]	n/a	98.14	96.95	97.51	99.17	97.91
Liquidity ratio	2.47	1.38	1.35	1.36	1.44	1.39

(1) Solvency ratio and Tier 1 ratio are available only quarterly.
(2) Capital requirements data were available only from 2008.
(3) Comparable data for the compilation of NPLs and provisioning were available only from 2009, according to NBR Regulation 3/2009.
Source: National Bank of Romania

Non-performing loans continued to increase in the first half of 2012, mainly due to the adjustment in banks' balance sheets based on IFRS.

The continued need to adequately provision for NPLs and the moderate speed of resumption in lending to the private sector have kept profitability in slightly negative territory (in the first half of 2012, return-on-assets stood at -0.11 per cent. and return-on-equity at -0.96 per cent.).

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

The main amendments to the regulatory framework are not expected to bring about notable changes in capitalisation, provisioning or liquidity levels of credit institutions in Romania, considering that the current prudential requirements implemented by the NBR cover risks to an adequate extent. Implementation of Basel III will, most likely, not lead to requirements of additional, large capital increases by credit institutions in Romania. The high share of Tier 1 capital in total capital and the lack of hybrid capital instruments cushion the impact of Basel III on capital requirements for local entities. The introduction of IFRS starting with the financial year 2012 is in line with the global trend of harmonising national financial reporting and accounting standards with international ones, given the ongoing economic developments towards globalisation of banking operations and, implicitly, the acute need for an international harmonisation of accounting rules underlying the financial information disclosed to the public. In 2011, the NBR focused on preparing the necessary measures for IFRS implementation in order to preserve prudent levels of provisions, solvency and capital buffers of credit institutions even after 1 January 2012.

To date, the Romanian Government has not used public funds to support the stability of the financial system. The recapitalisation of the banking sector was entirely supported by bank shareholders. The backstop measures available in Romania mainly consist of private sector solutions and only a few public sector solutions. The authorities adopted further amendments to the legal framework (Government Ordinance 1/2012 amending and supplementing several pieces of legislation on credit institutions and Government Emergency Ordinance 43/2012 amending Art. 240[28] para. (1) of Government Emergency Ordinance 99/2006 on credit institutions and capital adequacy) in order to improve the bank resolution and liquidation mechanism so as to preserve stability and to avoid systemic contamination. The private sector solutions of the backstop toolkit consist of supervisory and resolution measures, available to the NBR in accordance with its statutory powers.

The existing legal framework provides the NBR with the tools to manage financial stability threats posed by the deterioration of the financial situation of the banking system. There was no situation that required using these tools up to now. The set of stabilization measures for the credit institutions in distress is additional to the special administration procedure, and consist of: (i) the total or partial transfer of assets and liabilities of a credit institution to one or more eligible institutions; (ii) the appointment of the Bank Deposit Guarantee Fund as a delegated administrator and shareholder of the credit institution; (iii) the transfer of assets and liabilities of a credit institution to a bridge bank, established for this purpose. According to Government Emergency Ordinance No 99/2006 on credit institutions and capital adequacy, as further amended and supplemented, the stabilization measures are based on the financial resources accumulated in the Bank Deposit Guarantee Fund or borrowed by this institution from the Ministry of Public Finance at market rates for up to two years where its resources are insufficient.

Romanian Banking Regulation and Business Standards

Banking Regulation and Supervision

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

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

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

- amendments to the Banking Law adopted by Government Emergency Ordinance No. 26/2010 in order to, among others, strengthen the special administrator's capability to deal with the banks in a weak financial position and to be able to respond in a timely and effective fashion in the event of distress, as well as to implement the provisions on cooperation between supervisory authorities and crisis management of EU Directive 2009/111/EC;

- amendments to the Banking Law introduced by Law No. 231/2010 aimed at transposing the provisions of EU Directive 2010/76/EU regarding capital requirements for the trading book and for the re-securitisation and the supervisory review of remuneration policies of credit institutions and of EU Directive 2010/16/EU with respect to the exclusion of a certain institution from its application domain;

- amendments introduced by Government Ordinance No. 13/2011 aimed at providing the legal framework for the application in Romania of EP/EC Regulation No. 1093/2010 and of EP/EC Regulation No. 1092/2010 and ensuring appropriate correlation with the amendments on the Deposit Guarantee Fund scheme (the "**DGF**") legislation in order to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorised by the NBR regarding the transfer of deposits, including purchase and assumption operations, if such use of DGF resources would be less costly than the direct payment of compensations;

- amendments to the Banking Law and to the DGF were introduced by Government Ordinance 1/2012 amending and supplementing several pieces of legislation on credit institutions, aimed at providing the legal framework for a set of stabilisation measures, including bridge-bank powers, as tools at the NBR's disposal for dealing with credit institutions in distress, when they pose a threat to financial stability; and

- amendments to the Banking Law were introduced, in the context of stabilisation measures, by Government Emergency Ordinance 43/2012 amending Art. 240^{28} para. (1) of Government Emergency Ordinance 99/2006 on credit institutions and capital adequacy, for best use of the Bank Deposit Guarantee Fund’s resources, in the context of implementing the stabilisation measure that allows the involvement of the DGF as a shareholder in a credit institution.

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

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

(ii) harmonisation with guidelines issued by the Committee of European Banking Supervisors (the "**CEBS**"), including in the field of prudential reporting system harmonised with COREP and FINREP requirements. As of 1 January 2011, CEBS' responsibilities have been taken over by the European Banking Authority (the "**EBA**"), established by Regulation (EC) No. 1093/2010). Other areas in which the CEBS guidelines/Basel Committee documents were transposed into Romanian regulations refer to governance arrangements, remuneration policies, internal capital adequacy assessment process and management of significant risks, conditions for outsourcing of activities, assessment and validation of using advanced approaches for calculating capital requirements for credit and operational risks, retention requirements in securitisation transactions and clarifications regarding the exemption of some short-term exposures from the application of the large exposures regime.

One of the key objectives of the regulations is to continue the harmonization process of national regulations with the guidelines and standards issued by CEBS/EBA.

In November 2011, the NBR issued Regulation No. 25/2011 on credit institutions' liquidity, aimed at improving the methodology of computing the liquidity ratio and being in line with the developments in the accounting field related to IFRS introduction. Accordingly, credit institutions are required to permanently maintain the liquidity ratio for all the operations in RON equivalent at least at the level of 1 (one) for the maturity bands of up to one year. At the same time, credit institutions shall distinctly calculate the liquidity ratios for operations in Euro and for operations in RON for all the maturity bands, as well as for all the operations in RON equivalent for the maturity band of over one year. Regulation No. 10/2012 amending NBR Regulation No. 18/2012 on governance arrangements of credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities, as further amended and supplemented was issued in order to bring the provisions of Regulation No. 18/2009 in line with those of ESRB Recommendation of 22 December 2011 on US dollar-denominated funding of credit institutions (ESRB/2011/2). In this respect, the following additional requirements were introduced: (i) contingency funding plans were established for currencies in which credit institutions are active; (ii) credit institutions should consider the feasibility of measures included in their contingency funding plans if more than one credit institution tries to undertake them at the same time; and (iii) contingency funding plans should consider the contingency funding sources available in the event of a reduction in supply from different counterparty classes.

At the beginning of 2012, the Romanian banking system implemented IFRS as its accounting basis and for the drawing up of individual financial statements. As a preparatory step for implementing IFRS as the statutory accounting standard, the NBR issued Order No. 15/2009 requiring credit institutions to prepare two sets of financial statements for the financial years 2009, 2010 and 2011: (i) one according to the Romanian Accounting Standards ("**RAS**"), which served as the statutory financial statements, and (ii) another according to IFRS, which served for informational purposes only, that also included a note disclosing the differences between RAS and IFRS, for comparison, and to further prepare credit institutions for the application of IFRS. IFRS financial statements were obtained by restating the RAS information. The NBR has also issued the necessary notification of the change to banks along with a timetable (Order No. 9/2010) and ensured the compliance with the regulation on bookkeeping rules in accordance with IFRS (Order No. 27/2010), in accordance with the objective set out in the Letter of Intent signed in Bucharest on 5 February 2010 and approved by the Decision of the International Monetary Fund's Executive Board on 19 February 2010 regarding the implementation of the IFRS by the Romanian banking sector starting with financial year 2012. NBR Order No. 9/2010 includes the main objectives regarding IFRS implementation to be observed by credit institutions and which stipulates credit institutions' obligation to: (i) shift to accounting record-keeping and to the preparation of individual financial statements in compliance with the IFRS, starting with financial year 2012; (ii) develop their own action plans regarding IFRS implementation; and (iii) inform the NBR periodically on the implementation of the measures set out under their action plans.

NBR Order No. 27/2010 includes the accounting rules for banks' operations (chart of accounts and its content) in accordance with the treatments set out by IFRS and provisions regarding the drawing up of individual financial statements (approval, auditing and publication) along with the shift to the effective enforcement of IFRS. At the end of 2011, NBR Order No. 27/2010 was amended by NBR Order No.

29/2011 to introduce certain new accounts in the chart of accounts so as to ensure they contained the accounting records necessary for tax authorities to determine tax obligations.

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

In the context of IFRS implementation as an accounting basis at individual level, the prudential regulatory framework establishing the treatment of prudential filters that would preserve prudent bank solvency, provisions and reserves was finalised.

As regards the implementation of Basel III and CRD IV Directive (Capital Requirements Directive IV), Romania will follow the implementation timetable to be adopted after the negotiation of the CRD IV Directive and implementing regulation proposals at EU level. Currently, the forecasted date for entering into force of the CRD IV Directive and implementing regulation is 1 January 2013, with the same timetable for transitory provisions as Basel III.

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

Off-site supervision consists mainly of regularly monitoring the activities of individual credit institutions, groups of credit institutions and the banking sector as a whole, reviewing compliance with the prudential rules (relating to matters such as solvency, large exposures, related party lending, credit classification and provisioning, foreign exchange positions, own funds and liquidity) and limits, and taking remedial measures when problems are identified. It is based on the continuous appraisal of all available information on credit institutions' activities taken from various sources, in particular the statements and reports regularly submitted by credit institutions on an individual and consolidated basis, credit institutions' financial statements and annual reports, auditors' reports, credit institutions' presentations, the results of on-site inspections and information-gathering visits and other sources, including publicly available reports. Meetings with credit institutions' representatives also help supervisors obtain additional information on credit institutions' activities and performance. Conclusions and findings arising from off-site supervision assist in the selection of credit institutions to be supervised through on-site inspections and the related activities.

In addition to regular assessment of credit institutions' financial condition, off-site supervision also focuses on some other aspects of credit institutions' activities relating to the assessment of the suitability of persons intending to acquire qualifying share holdings and the approval of persons nominated for members of the board and executive managerial positions based on factors such as their reputation, moral integrity and experience and the approval of external auditors.

Regulatory framework developments have changed the supervisory methodology substantially, from a compliance-based approach to a risk-based assessment. The NBR focuses on enhancing the quality of supervision through a greater involvement of credit institutions' management in risk management, credit institutions' assessment focusing on their risk profile and consolidated supervision based on close cross-border cooperation, both between consolidating credit institutions and their corresponding supervisory authorities.

On-site inspections are carried out according to the annual programme of inspections approved by the NBR's Supervisory Committee, focusing on areas such as credit, market, operational and reputational risk management, management of IT systems, money laundering prevention and overall assessment of internal control systems. During on-site inspections, assessments are made of the methods used by credit institutions to identify, measure, evaluate, monitor and limit the risks that they face. Attention is given to the methods applied by credit institutions to measure, evaluate and monitor risks, to whether the information used in risk management is complete, reliable and up-to-date, and also to whether there is a clear definition and assignment of responsibilities to competent departments and staff members. On this basis, relevant conclusions are drawn regarding the overall performance of credit institutions and their risk profiles.

Minimum Capital Requirements

The minimum capital requirements of credit institutions are regulated by the Banking Law and by implementing regulations issued jointly by the NBR and The National Securities Commission (the "**CNVM**"), in accordance with which:

- the minimum initial capital of a bank is RON 37 million;
- the minimum initial capital of a mortgage bank or a building society is RON 25 million;
- the minimum amount of the initial capital and of the own funds of a central body of credit cooperatives is the equivalent in RON of EUR 5 million;
- the minimum amount for the own funds of a credit cooperative is RON 300,000;
- the minimum amount of the total capital and of the own funds of a cooperative network is set at the equivalent in RON of EUR 10 million.

The subscribed minimum capital of a credit institution has to be paid up, in full and in cash, on incorporation. Similarly, in capital increase operations, the subscribed capital has to be paid-up, in full and in cash, at subscription.

Minimum Reserve Requirements

The main function of RON-denominated reserve requirements is the monetary control and stabilisation of interbank money market rates while that of foreign currency-denominated reserve requirements is to moderate the expansion of foreign exchange loans.

Category of minimum mandatory reserves (MMR)	**RON**	**Foreign Currency**
	(per cent.)	
MMR for liabilities with a residual maturity of less than 2 years	15	20
MMR for liabilities with a residual maturity of more than 2 years		
with prepayment clause	15	20
without prepayment clause	0	0

Source: National Bank of Romania

Provisioning and Loans/Investments Classification

Credit Institutions

Since 2012, all provisions are determined according to IFRS as adjustments for impairment losses.

From a prudential perspective, with a view to avoiding any disruptions in terms of prudential ratios, the adopted approach for switching to IFRS was to preserve and adapt the requirements of the former prudential framework (NBR Regulation 3/2009 on the classification of loans and investments, and the establishment, adjustment and use of specific provisions for credit risk, as subsequently amended and supplemented).

As a consequence, from 2012 the classification of loans and investments based on the NBR methodology continues to be performed monthly, but only for the purpose of establishing if there is a need for additional prudential value adjustments beyond those required by IFRS adjustments. Such prudential value adjustments are used in conjunction with IFRS adjustments in calculating prudential indicators such as own funds, solvency, large exposures, foreign exchange position.

Loan Classification for Creditors other than Credit Institutions

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

Loans granted by creditors other than credit institutions to their non-bank debtors are classified from an exposure perspective into five categories: standard, watch, sub-standard, doubtful and loss. For each of these categories the provisioning coefficients are stipulated as follows: zero (0) for "standard", 0.05 for "watch", 0.2 for "sub-standard", 0.5 for "doubtful" and 1 for "loss" in the case of loans other than those booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk; and 0.07 for "standard", 0.08 for "watch", 0.23 for "sub-standard", 0.53 for "doubtful" and 1 for "loss" in case of loans booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk.

Credit exposures are classified by the reporting institutions according to debt service history (the number of past-due days from the maturity date) and the commencement of legal proceedings against the debtor.

Credit exposures against which specific provisions are to be set up are those remaining after deducting any security interests securing the loan that are eligible for risk mitigation. The institution can decide whether to deduct such security interests or not. Security interests eligible for deduction range from any type of collateral (provided that the collateral is specified in the internal norms of the institution and provided that the institution has in place a methodology for determining the fair value of the collateral, which should be in line with applicable IFRS) to a set of personal guarantees stipulated in the legal framework along with their coefficients used to adjust the value of the guarantee to be deducted. Security interests securing the principal of credits classified as "loss" and in respect of which legal proceedings have been started and/or in respect of which at least 90 days elapsed since the credit became overdue are eligible to be taken into account (up to 25 per cent. as a general rule, and in case of certain types of collateral of a better quality up to 50 per cent.) as credit risk mitigation factors, while the security interests securing the payment of interest on these credits are not eligible to be taken into account.

Institutions must send a report on the classification of credits and investments to the NBR, along with the specific provisions for credit risk, no later than twenty-five days after the end of the quarter for which the report is made.

Capital Adequacy

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

(a) for credit risk and dilution risk in respect of all of their business activities (other than trading book business), 8 per cent. of the total of their risk-weighted exposure amounts calculated, in accordance with applicable NBR-CNVM regulations, as appropriate;

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

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

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

Participation in Other Enterprises

A Romanian credit institution is not permitted under the Banking Law to hold qualifying participations (direct or indirect holdings in an undertaking which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking) in an undertaking (other than a credit institution, financial institution, insurance/reinsurance undertaking or an undertaking carrying on activities which are a direct extension of banking services or concern services ancillary to banking, such as leasing, factoring, management of investment funds, data processing services or any other similar activity) in excess of 15 per cent. of its own funds. Romanian credit institutions may not acquire qualifying holdings in an undertaking if in this manner they may exercise control over the undertaking in question.

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

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

In order to establish a prudential treatment for temporary holdings of capital during a financial reconstruction or rescue operation of an undertaking operating outside the financial sector (debt-to-equity-swap operations), in accordance with the agreement concluded by Romania with the IMF and EU, the NBR published Regulation No. 26/2011, which aims to ensure that a credit institution's involvement in such operations will be based on a prudent decision-making process and the value of shares temporarily held shall be fully deducted from the credit institution's own funds to avoid an artificial improvement of its prudential indicators.

Lending Limits

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

The relevant regulation establishes the following principal large exposure limits:

- an institution must not incur an exposure to a client, or group of connected clients, with a value in excess of 25 per cent. of its own funds;
- where that client is an institution or where a group of connected clients includes one or more institutions, the exposure shall not exceed 25 per cent. of the institution's own funds or:
  - EUR 150 million (in the case of credit institutions); or
  - EUR 500,000 (in the case of investment firms),

  whichever is the higher.

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

In order to prevent abuses arising from exposures to related parties, as provided by the Basel Core Principle No. 11, NBR set out provisions to limit such exposures and to prevent banks from performing non-arm's length transactions with related parties. The limits on exposures to related parties are harmonised with those imposed for large exposures.

Further to a recent review by the NBR of the regulatory framework governing loans to individuals with the main objective of balancing the currency loan structure for individuals, the law was amended in order to further consolidate the financial stability and to ensure that debtors unhedged against forex risk have the capacity to reimburse their loans, so that the cost of such lending products adequately reflect the associated risk. Essentially, the NBR regulation requires that banks define stricter criteria for granting loans in foreign currency, without affecting the access to mortgage loans in foreign currency secured with immovable assets. The regulation improves the mechanism of information and notice to clients with respect to the risks of loans in foreign currency and the consequences of the forex and interest rate risks.

Foreign Exchange Risk Exposure Limit

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

Deposit Guarantee Scheme

At the end of 2010 the legal framework was amended in order to set the level of coverage at EUR 100,000. Pursuant to the Stand-by Agreement concluded between the IMF and Romania at the end of 2010, the legal framework has been amended in order to:

- consolidate the Deposit Guarantee Fund funding regime, with a view to enhancing confidence in the banking system, by eliminating contingent credit lines by banks as a financial resource to be used if necessary by the DGF;

- improve the governance arrangements of the DGF in order to ensure that neither members of the board nor employees of credit institutions are allowed to participate in the DGF Board; and

- establish the mechanism that ensures the applicability of the provisions on granting compensation for the persons negatively affected by the measures provided for and implemented during special administration of credit institutions, in accordance with the provisions of the Banking Law (according to the Banking Law, compensations shall be supported from a special fund administered by the DGF).

Government Ordinance No. 13/2011 amends the banking and DGF legislation to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorised by the NBR regarding the transfer of deposits, including purchase and assumption operations, if such use of DGF resources would be less costly than the direct payment of compensation. The DGF can borrow from the Government in the event of insufficient resources for deposit compensation payments. Also, the DGF legislation has been recently modified with a view to aligning it with the newly introduced bridge bank powers (Government Ordinance no. 1/2012).

Non-Bank Financial Institutions Sector

Non-bank financial institutions are entities performing lending activities as their core business; the main difference from credit institutions is that the former are not entitled to accept cash deposits or other repayable funds from the public. Non-bank financial institutions are supervised/monitored and regulated by the NBR in order to ensure financial stability based on a healthy and sustainable development of the market, as well as the removal of regulatory discrimination between these entities and credit institutions.

The non-banking financial institutions legal framework applies to financial institutions which are not organised as credit institutions and which engage in the observance of the legal requirements for lending activities in the broad sense, that is: (i) lending, including: consumer credits, mortgage credits, real-estate credits, micro-credits, financing of commercial transactions, factoring, discounting and forfeiting operations; (ii) financial leasing; (iii) guarantees and commitments; (iv) granting of credits in exchange of goods for safekeeping (such as pledging via pawnshops); (v) granting of credits to members of mutual benefit organisations; and (vi) other credit-like financing methods. The non-bank financial institutions must maintain a share capital of at least EUR 200,000 or EUR 3,000,000 in the case of non-bank financial institutions that include the granting of mortgage credits in the scope of their activity.

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

As of 30 June 2012, there were 195 non-bank financial institutions registered in the General Register, under the NBR supervision, out of which 53 are listed in the Special Register, being under NBR prudential supervision. There were 10 deletions from the General Register following either own requests of the non-bank institutions themselves or as a result of sanctions imposed by the NBR. In the same period, two newly-established non-bank institutions have been registered with the General Register.

In the non-bank financial institutions sector, the prudential supervision system of the NBR consists of both off-site and on-site supervision.

Off-site supervision consists mainly of regularly monitoring the activities of individual non-bank financial institutions, reviewing compliance with the prudential rules (relating to matters such as large exposures, related party lending, credit classification and provisioning and own funds) and limits, and taking remedial measures whenever problems are identified. It is based on the continuous appraisal of all available information on non-bank financial institutions' activities taken from various sources, in particular the statements and reports regularly submitted by non-bank financial institutions, non-bank financial institutions' financial statements and annual reports, auditors' reports, the results of on-site inspections and other sources. Conclusions and findings arising from off-site supervision assist in the selection of non-bank financial institutions to be supervised through on-site inspections and the related activities.

On-site inspections are carried out according to the annual programme of inspections approved by the NBR's Supervisory Committee, focusing mainly on areas such as the management of granting loans to individuals and companies, credit, market, operational and reputational risk management, money laundering prevention and overall assessment of internal control and audit systems.

Payment Services Sector

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

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

As at June 2012, the NBR had issued seven payment institutions licences and seventeen payment services agents were registered in the Payment Institutions Register kept by NBR.

Electronic Money Institutions Sector

Law No. 127/2011 on the issuance of electronic money came into force on 25 June 2011 and applies to credit institutions and electronic money institutions, entitled under national law to issue electronic money. Law No. 127/2011 implements Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

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

Capital Markets

The National Securities Commission

Law no. 297/2004 (the "**Capital Markets Law**") is the main law regulating capital markets in Romania. In particular, the Capital Markets Law regulates the operation of regulated markets and alternative trading systems, the activity of investment firms, management companies and collective investments undertakings, as well as the activity of issuers and the operations with financial instruments. The Capital Markets Law implements the provisions of the main European directives in the field of capital markets.

Capital markets in Romania are subject to regulation and supervision by the National Securities Commission (the "**CNVM**"), set up as an independent administrative authority. The CNVM is made up of seven members, which are appointed by the Romanian Parliament.

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

In terms of supervisory activity, the CNVM has focused on strengthening its monitoring capacity over regulated entities. One of the CNVM's priorities has been to ensure the implementation of the reporting requirements both for issuers and other entities and to ensure a fair treatment for investors. The CNVM monitors the completeness of the periodic reports as well as the observance by issuers of the deadline for the submission of these reports. Significant achievements in this respect were made by the implementation by the CNVM of an application for the electronic supervision of issuers and other regulated entities through reports, easing the CNVM's monitoring mission. Issuers failing to comply with the legal requirements were notified accordingly by the CNVM.

The CNVM also undertakes real-time monitoring of transactions performed on the Romanian regulated markets and analyses any abnormal movements of the prices and the quantity of the transactions carried out during trading sessions for the purposes of detecting possible cases of market abuse. During 2011 and the first half of 2012, the CNVM conducted several market abuse investigations, which were further continued by the relevant prosecutors' offices, on grounds of insider trading or market manipulation.

The CNVM exercises its monitoring prerogatives also by performing regular and transparent controls of the activity of regulated and supervised entities. The control activity performed by the CNVM in 2011 was finalised with sanctions, notifications of the companies under investigation with regard to the obligation to remedy the deficiencies ascertained by the control teams and notification of other state institutions (e.g. the National Office for Prevention and Control of Money Laundering, the Ministry of Administration and Interior – General Inspectorate of Romanian Police, the Prosecutor's Office attached to the High Court of Cassation and Justice and the National Agency for Fiscal Administration).

Capital Market Intermediaries

Investment services and activities are performed by intermediaries such as investment firms authorised by the CNVM, credit institutions authorised by the NBR, as well as by foreign regulated entities authorised in an EU Member State or in a non-EU State by the relevant home State authorities.

Intermediaries on the local capital market

The following table shows the number of intermediaries on the local market.

	As at 31 December				As at 30 June
Entity	**2008**	**2012**	**2010**	**2011**	**2012**
Investment firms authorised by the CNVM	72	47	55	52	47
Credit institutions authorised by the NBR	13	12	14	12	12
Investments firms authorised by the home competent authority in a Member State	659	1,291	1,026	1,200	1,291
Credit institutions authorised by the relevant authority in a Member State	112	136	127	129	136
Branches of investment firms from other EU Member States	2	4	5	4	4
Branches of credit institutions from other EU Member States	4	3	3	3	3
Total	**862**	**1,493**	**1230**	**1,400**	**1,493**

Source: National Securities Commission

Investment firms and credit institutions from other EU Member States are registered with the CNVM in order to perform financial services in Romania further to notifications addressed to the CNVM by the relevant competent authorities of the relevant Member States. Most of the notified EU intermediaries, including credit institutions, are from the United Kingdom. Intermediaries, both Romanian and foreign, may be registered as participants on the Romanian stock exchanges, in order to be able to perform transactions on their markets. Among the intermediaries registered with the Bucharest Stock Exchange (the "**BVB**"), only four intermediaries are foreign entities, originating from Austria, Belgium, Bulgaria and the Czech Republic. Their accumulated traded value (from January 2012 to June 2012) was 3.90 per cent. of the total traded value on the BVB regulated markets. No foreign intermediaries are currently registered with the Sibiu Stock Exchange.

Collective Investment Undertakings (*Organisme de Plasament Colectiv*)

Over recent years, collective investment undertakings ("**CIUs**") have strengthened their role as alternative savings vehicles, collecting significant financial resources from individuals and legal persons.

The table below shows statistical data on CIUs (UCITS and non-UCITS) as well as on other entities that operate in Romania:

Collective Investment Undertakings

	As at 31 December				As at 30 June
Entity	**2008**	**2012**	**2010**	**2011**	**2012**
Undertakings for collective investment in transferable securities ("UCITS"):					
Open-end investment funds(performing activities in practice.)	57	62	58	61	62
Collective investment undertakings, other than UCITS (non-UCITS):					
Closed-end investment funds (performing activities in practice)	14	22	18	22	22
Investment companies	5	6	6	6	6
Total no. of CIUs	76	90	82	89	90
Management companies	25	22	21	22	22
Depositories	9	9	9	10	10
Entities from Member States					
UCITS authorised in a Member State and whose units have been distributed in Romania	37	34	33	28	26

Source: National Securities Commission

On a year-on-year basis since 2009, in the context of an increased aversion to risk caused by the global financial crisis, Romanian investment funds saw a growth in the ratio of bank deposits and bonds in the investment funds' overall level of assets. The total portfolio invested in bonds by UCITS and non-UCITS has increased by 57,60 per cent. in June 2012 compared to the end of May 2012.

	As at 31 December				As at 30 June
Development of mutual funds	**2008**	**2012**	**2010**	**2011**	**2012**
Number of management companies	**25**	**24**	**22**	**22**	**22**
Total assets under management (million EUR)	**1,659**	**2,644**	**6,155**	**6,563**	**6,674**
Equity funds and investment companies (excluding ETF)	1,497	1,881	4,997	4,989	4,507
Bond funds	46	231	410	629	1,119
Hybrid funds	93	78	67	65	65
Money market funds	23	454	682	880	983
ETFs	-	-	-	-	—
Number of CIUs	**76**	**75**	**82**	**89**	**90**
Equity funds and investment companies (excluding ETF)	27	26	28	31	31
Bond funds	11	16	17	17	18
Hybrid funds	30	27	31	32	33
Money market funds	8	6	6	9	8
ETFs	—	—	—	—	—

Source: National Securities Commission

Regulated Markets and Alternative Trading Systems

In the Romanian capital market there are two market operators authorised by the CNVM, namely the Bucharest Stock Exchange (the "**BVB**") and the Sibiu Stock Exchange ("**Sibex**"), which operate four regulated markets (in accordance with the provisions of Markets in Financial Instruments Directive No. 2004/39/EC of the European Parliament and of the Council).

The BVB

The BVB was set up on 21 April 1995 as an institution of public interest effectively managed by its members through the Stock Exchange Association. The BVB Association decided on 10 January 2005 to change BVB's legal status from an institution of public interest into a joint stock company in accordance with the Romanian Companies Law No. 31/1990 and the Capital Markets Law. The end of this transformation process on 13 July 2005 permitted the merger between BVB and the Rasdaq Electronic Exchange, a process further continued when on 30 November 2005 the BVB Extraordinary General Assembly approved the merger plan by which BVB absorbed Rasdaq. Five years later, in 2010, the BVB S.A. became a public listed company and its shares are traded on the regulated market, Equities Section, Tier 2, under the symbol BVB.

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

As of 30 June 2012, there were 81 companies listed on BVB's Spot Regulated Market, of which 79 are domestic companies and 2 are foreign companies. At the same date, there were 38 issues of bonds listed with BVB, out of which 36 issues were municipal bonds and the remaining 2 issues were foreign corporate bonds. BVB also operates the RASDAQ market, where, as of 30 June 2012, shares issued by a total of 1127 companies were traded. The shares of 20 international companies were available for trading on the BVB ATS market.

Capitalisation of the BVB Regulated Markets

As at	**Market Capitalisation**	**Year Change**
	(EUR billions)	*(percentage)*
31 December 2007	24.6	14.9
31 December 2008	11.63	-52.8
31 December 2009	19.05	63 9
31 December 2010	23.89	25.4
31 December 2011	16.39	-31.4

Source: BVB

Trading Values on the BVB Regulated Markets

	As at 31 December			
Trading Volumes	**2008**	**2009**	**2010**	**2011**
Total trading volumes (EUR)	1,934,963,088	1,491,104,988	1,912,518,087	2,605,946,056
Stock (EUR)	1,862,705,398	1,196,792,317	1,309,736,053	2,349,040,633
Bonds (EUR)	52,623,109	277,781,791	620,461,723	128,253,304
Rights (EUR)	13,117,760	-	1,096,704	12
Fund Units (EUR)	1,255,060	651,324	2,508,795	2,055,983
Structured Products (EUR)	-	-	10,695,332	102,583,159
Futures (EUR)	5,261,761	15,879,556	25,325,749	24,012,965
Number of trading days	250	250	255	255

Trading Volumes	**As at 30 June**
	2012
Total trading volumes (EUR)	1,276,591,974
Stock (EUR)	997,675,264
Bonds (EUR)	186,223,992
Rights (EUR)	0
Fund Units (EUR)	723,436
Structured Products (EUR)	86,554,719
Futures (EUR)	5,414,564
Number of trading days	125

Source: BVB

Daily Average Turnover of the BVB Regulated Markets

Year	Daily Average Turnover	Year Change
	(EUR millions)	*(percentage)*
2007	16.91	52.24
2008	7.74	-54.23
2009	5.96	-22.94
2010	7.50	25.75
2011	10.22	32.27

Source: BVB

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

Stock index values dropped sharply in 2008 and in the first quarter of 2009 as the global financial crisis eroded investors' confidence on the short-term growth potential of the Romanian capital market. The recovery following the slump was moderate, lasted about one year and was accompanied by a liquidity shortfall. Brokerage companies saw their revenues cut and acted to restructure their activity by decreasing expenditures. At the beginning of the economic and financial crisis, the main Romanian stock exchanges indexes fell by around 80 per cent., more than other European indexes. Since 2009, they have started to recover some of the losses, but so far they have not reached the previous levels. Also, the capitalisation dropped by 53 per cent. by the end of 2008 and started regaining the losses afterwards, being now (as of May 2012) at around 70 per cent. of the level it was at the beginning of 2008.

In May 2010, the Greek sovereign debt crisis triggered another significant stock market correction and affected the recovery path. The increases of the main BVB indexes in 2009, respectively BET and BET-C, followed the same trend in 2010. Unlike BET and BET-C, the BET – FI index continued to have positive growth during the first months of 2010, however during the rest of the year it registered a slight decrease. The stock indices stood almost flat between June and December 2010.

The increase in total turnover in 2011 compared to 2010 is mainly due to the admission to trading on the regulated market administrated by BVB (Equity Securities 1st tier) of Fondul Proprietatea on 25 January 2011, which is now considered to be a key reference point in the modern history of the Romanian capital market. Fondul Proprietatea, established by the Romanian Government in December 2005 (see also "—*The Romanian Economy—Overview—Privatisation*"), is a closed investment company, managed by Franklin Templeton Investment Limited, a company registered in Great Britain, active in Romania through a branch located in Bucharest. Fondul Proprietatea was the first issuer in Romania which started trading through global accounts without pre-validation and short selling mechanisms. During the time between its listing to 31 December 2011, Fondul Proprietatea generated over 134,000 transactions amounting to over RON 5.12 billion.

2011 revealed an increase in average daily turnover on most markets operated by the BVB, along with the listing of new companies (six new companies were listed on the BVB regulated market and only one was delisted) and instruments. If the first quarter was characterised by increasingly better prospects for the Romanian economy and the capital market in general, during the subsequent three quarters attention was drawn to the sovereign debt crisis. The uncertainty in the region has affected investors' appetite for risk. As a result, many stock exchanges in the region, including BVB, have been undergoing a period characterised by decreasing indices and trading values.

Another effect of this crisis was a decrease in the number of investors, which led to fewer transactions concluded on national stock exchanges, with lower volumes and values. In 2012, the average daily value is 46 per cent. of the level in 2007 and the average daily number of trades is 49 per cent. compared to that of 2007.

In the first half of 2012, the average daily turnover of equity trading was 22.52 per cent. down from the previous year. The main event of the first half of 2012 was the secondary public offering of a 15 per cent. stake in Transelectrica S.A. that took place in March 2012. Investors' interest in the offer was high, particularly on the retail tranche. The offer was oversubscribed and the value of the trade was almost RON 165 million.

The main indices on the BVB were highly volatile in the first half of 2012. After an upward trend in January and February, the main BVB indices witnessed a tranquil period up to early May, following which they have begun to decline. This owed mainly to the political tensions related to elections in May in countries such as France or Greece, which added to the existing economic and financial tensions caused by the Eurozone sovereign debt crisis and the global financial crisis. Therefore, the capitalisation of the BVB shrank approximately 15 per cent. in May as compared with the previous month and reached EUR 16.8 billion, before rising to EUR 17.2 billion in June. In the same period, the market price/earnings ratio narrowed from 10.46 per cent. in April to 6.72 per cent. in May, before widening to 6.84 per cent. in June, hinting at an increase in investor risk aversion.

Despite a delay in economic recovery in the world economies in the first quarter of 2012, international capital markets, however, have increased and even exceeded the first-quarter performance of previous years. The BVB recorded one of the highest growths in the world, with a rise in BET of almost 24 per cent. in the first quarter of 2012, followed by a sharp decrease in the second quarter of 2012, in line with the international markets.

BVB Indices

BVB Indices	**Value as at 31 December 2011**	**Change in 2011 (compared to 31 December 2010)**
	(points)	*(per cent.)*
BET	4,336.95	-17.68
BET-XT	405.62	-13.81
BET-C	2,621.41	-15.74
BET-FI	19,341.50	-12.00
BET-NG	612.35	-20.68

Source: BVB

Sibex

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

Trading Values at SIBEX

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

Source: SIBEX

Money Laundering

Legislation on anti-money laundering and anti-terrorist financing activities ("**AML/CTF**") was enacted in Romania in 2002. In 2008, significant progress was made in the field of money laundering by the adoption of important AML/CTF legal acts needed to fully transpose the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of Commission Directive 2006/70/EC as regards politically exposed persons, and to implement the recommendations in the Assessment Report on Romania adopted by the Moneyval Committee of the Council of Europe.

New money laundering monitoring authorities were created, such as the Division for "Monitoring of International Sanctions Enforcement, Prevention of Money Laundering and Terrorist Financing", which supervises compliance with NBR requirements in matters of money laundering and financing of terrorist activities. Since its establishment, the new division has conducted examinations on credit institutions, which have resulted in letters of recommendation or mandated courses of action that imposed immediate remediation of deficiencies within certain deadlines, or sanctions for non-compliance with a legal provision, in order to minimise the risk of money laundering and terrorist financing.

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

The framework of anti-money laundering legislation includes provisions applicable in respect of the authorisation and prudential supervision of payment institutions, transposing the relevant *acquis communautaire*. Responsibility for the supervision of payment institutions, including from a money laundering perspective, was assigned to the NBR**.**

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

Since 2008 and the first six months of 2012, the National Office for Prevention and Control of Money Laundering ("**NOPCML**"), the leading Romanian authority responsible for investigating money laundering cases, has submitted to the General Prosecutor's Office attached to the High Court of Cassation and Justice 1075 cases of money laundering (since 1 January 2012, NOPCML has submitted 161 such notifications), with a total value in excess of EUR 1,950 million (the value of money laundering cases notified by NOPCML in 2012 exceeds EUR 700 million). In accordance with NOPCML records, tax evasion amounts for over 70 per cent. of the cases notified to the General Prosecutor Office.

In the performance of its activity, NOPCML cooperates closely with the Ministry of Justice, the General Prosecutor's Office attached to the High Court of Cassation and Justice and the Court of Accounts. NOPCML is also part of the newly founded Inter-ministerial Committee against corruption, transnational organised criminality and of serious forms of financial and economic criminality.

6. PUBLIC FINANCE

The Budgetary System

The Budgetary Process

The Romanian Ministry of Public Finance prepares two main budget laws each year (the central state budget law and the state social security budget law). The central state budget is prepared by the Romanian Government, acting through the Ministry of Public Finance, and is based on draft budgets (proposals) from the direct recipients of budgetary allocations (line ministries).

The budget proposals submitted to the Ministry of Public Finance include programmes for investment by public institutions and other capital expenditures. These investment and capital expenditure programmes are based on a listing of certain projects approved in accordance with the legal provisions in force, as well as global amounts for other expenditures for investments.

The budgets are approved by Parliament in their entirety. If the central state budget and the state social security budget have not been approved by the end of the year preceding the period budgeted, the Romanian Government applies, with certain limitations, the provisions of the previous year's budget until the budget for the current year is adopted.

The consolidated general budget is prepared by the Ministry of Public Finance and includes among others: the central state budget plus the state social security budget; the special funds; the autonomous and self-financed institutions' budgets; and the local government budgets

The state social security system and local governments are each responsible for the management of their own revenues and expenditure.

- *State Social Security Budget*

  The state social security budget is independent of the central state budget, although it is subject to approval by Parliament each year. The public pension system is based on a "pay as you go" principle, with the contributions paid by employers representing the main source of income for the system. The majority of expenditure from the state social security budget is in the form of pension benefits including old age pensions, early retirement pensions, partial early retirement pensions, invalidity pensions, survivor pensions and death benefits.

- *Special Funds*

  Special Funds are the national health insurance funds, the budget of which is approved as an annex to the central state budget law, and the budget of the unemployed insurances which is approved along with the state social security budget law.

- *Local Budgets*

  Local budgets are prepared, approved and executed according to the law on local public finances and the law on local public administration. These laws authorise local authorities to develop and approve their own budgets and assign to them certain sources of revenue, including a share of personal income tax and certain other taxes collected at the level of the central state budget. Additional local budget revenues come from property taxes. Local authorities are required to balance their current spending and they are able to contract loans for investment purposes and for refinancing local public debt.

  Since 2011 when the Government Emergency Ordinance no. 63/2010 amending Law on local public finances no.273/2006 came into force, the budgets of administrative territorial units are prepared and approved in two sections, operational and development.

  Each of the two sections has its own revenue and expenditure. Thus, operational expenditure includes current expenses and repayment of loans, while development expenditure includes capital expenditures and post-accession EU co-financed projects.

Amounts can be transferred from the operational section to the development section only after payments for operational costs have been completely secured.

Local budgets of communes, towns, cities, Bucharest districts, counties and the Bucharest municipality, as well as the budgets of public institutions financed from their own revenues and subsidies from local budgets and external grant budgets are approved, on the "balanced budget" condition, while the development section deficit can be covered by the previous year operational section's surplus.

The annual budget will include distinct appropriations for payment of the previous year's arrears.

Since 2011, revenues and expenditures presented off budget have been included in the local budget.

Since 1 January 2011, the permitted level of indebtedness of each administrative territorial subdivision (such as a city or a county) has been limited to 30 per cent. of their total revenues (consisting of taxes, fees, contributions, other income and allocated shares from income tax, less revenues raised from some sale of asset) as averaged across the last three years preceding the year in which approval is requested. Loans contracted and/or guaranteed by the administrative territorial subdivision relating to financing of projects which benefit from pre and post-accession non-reimbursable external funds from the European Union are not included in the calculation.

Medium Term Budgetary Planning Process

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

The most important recent reforms regarding the fiscal framework (as provided under the Fiscal Responsibility Law) include the following:

- *Mandatory Medium-term Planning*: A new stage has been introduced in the budgetary calendar. By the end of May each year the Government has to present the Fiscal Strategy (the "**FS**") (covering the following 3 years) to Parliament;

- *Parliament Approval on Key Medium Term Budgetary Targets*: Together with the FS, the cabinet submits a draft law to be debated and voted on by the Parliament. The provisions in this law set a maximum threshold for the budget balance (as a percentage of GDP), personnel expenditure (as a percentage of GDP), guarantees issued by the government and local authorities, loans contracted by local authorities, total expenditure excluding financial assistance from EU, etc;

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

- *Escape Clauses*: The MTBF (which is part of the FS) may be revised if: (i) there is a change in the scope of the general consolidated budget; (ii) there is a significant worsening of the macroeconomic indicators used in preparing the FS; or (iii) there is a change in government. In the latter case the new government will make public whether its programme is consistent with the MTBF and if not the Ministry of Public Finance will prepare a new draft MTBF. This revision must be approved by Parliament and is subject to the review and opinion of the Fiscal Council;

- *New Fiscal Rules*: (i) The annual growth rate of total expenditure cannot be higher than the forecasted annual growth rate of nominal GDP if the budget is balanced or in surplus in the previous year; (ii) the macroeconomic forecast utilised for budget planning has to be compared with the EC official forecast and any difference clearly presented; (iii) during the budget year funds approved for public investment cannot be transferred to current expenditure; (iv) and there cannot be more than two budget rectifications during one year, (v) and a budget rectification may take place during one year and only in the second half of the year; and

- *The New Fiscal Institution*: The Fiscal Responsibility Law introduces the Fiscal Council, an independent body made up of five members, one from each of the Romanian Academy, Romanian National Bank, the Academy of Economic Studies, the Romanian Banking Institute and the Romanian Banking Association, who are appointed by the Parliament for a period of nine years.

The Fiscal Council issues opinions and recommendations on official macroeconomic and budgetary forecast; and on the Fiscal Strategy, Annual Budget Law, Budget execution and major legislative initiatives which can have an impact on budget revenues and expenditures.

Taxation system

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

	As at 31 December		
	2009	**2010**	**2011**
		(per cent.)	
Social security contributions	30.4	27.1	27.8
VAT	21.8	23.3	26.3
Non-fiscal revenues	9.8	11.7	10.2
Income tax	11.8	10.76	10.5
Excises	9.9	10.3	10.5
Corporate tax	7.6	6.0	5.7
Other	8.7	11.0	9.0
Total	**100**	**100**	**100**

Source: Ministry of Public Finance

Value Added Tax

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

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

Romania also applies a reduced rate of 5 per cent. VAT for the supply of social housing and the supply of the land upon which social housing is constructed.

The provisions regarding value added tax are in accordance with the *acquis communautaire*, (Council Directive 2006/112/EC on the common system of value added tax, with subsequent modifications and completions).

Income Tax

The Fiscal Code establishes a personal tax on salaries, income from independent activities, lease operations, dividends and interest each of which are currently levied at a rate of 16 per cent.

The 16 per cent. tax rate applies to the gains of individuals from: the transfer of securities from currency sale purchase operations; income from the liquidation of a legal person; pension income; agricultural income with some exceptions; income from prizes; and income from other sources.

For gambling income a 25 per cent. tax rate applies, and in case of transfer of immovable property different tax rates apply depending on the period for which the property has been held and on the value of the immovable property (either 1 per cent., 2 per cent. or 3 per cent.).

Excises

Romania applies excise duties for the goods which are mandatorily subject to excise tax at the EU level (ethyl alcohol, alcoholic beverages, manufactured tobacco, energy products and electricity), but also for other products such as coffee.

Being an EU Member State, Romania had an obligation to reach the minimum levels of excise duties required by EU directives, of excise duties. In 2007, Romania reached the minimum levels for almost all excise goods, with the exception of unleaded petroleum, gas oil and cigarettes, for which a transitional period was obtained.

Between 2009–2011, Romania increased the excise duty level for these products. Also, taking into account budgetary needs and the tax evasion in this area, the excise duty level was also increased for other products such as intermediate products and other fermented beverages.

At the moment, Romania has to reach the minimum excise duty level only for gas, oil and cigarettes (due to the new directive on manufactured tobacco – Directive 2010/10/UE). These levels will be reached in 2013 for gas and oil and in 2018 for cigarettes.

Corporate Tax

Corporate tax is paid and calculated at a rate of 16 per cent. on taxable profits and is required to be paid quarterly. From 1 January 2013 onwards certain categories of taxpayers may opt for a quarterly payment tax system, in which tax any profit is determined and paid on a quarterly basis, or an annual payment tax system, based on quarterly instalments representing a quarter of the profit tax paid in the previous year.

In accordance with Emergency Government Ordinance No. 117/2010 amending the Fiscal Code, from 1 January 2011 a simplified system of taxation was introduced for "small and medium enterprises" by applying a flat 3 per cent. tax rate on their income.

From 1 July 2010 the tax rate on dividends paid by a Romanian legal person to another Romanian legal person has been 16 per cent.

Local Taxes and Fees

Every 3 years, the local taxes and fees paid to local budgets are adjusted to the aggregate inflation index. The last adjustment was enacted in 2010, generating an increase in taxes of approximately 20 per cent. The next adjustment will be decided in 2012 and is scheduled to come into force in 2013.

Budgetary Income Collection

In order to enhance budgetary income collection, as well as to increase the efficiency of the fiscal administration authorities, certain measures have been recently implemented such as:

- implementation of a new categorisation system whereby taxpayers are divided into large, medium or small taxpayers;

- creation of special fiscal bodies responsible for supervising the decrease in budgetary arrears for large and medium taxpayers;

- a new IT system has been implemented, offering the possibility of identifying in real time taxpayers who have not complied with their declaration/payment requirements; and

- enforcement activities for the recovery of overdue budgetary obligations have been intensified. In addition, filings of insolvency proceedings (judicial reorganisation or bankruptcy) against taxpayers who have still not paid amounts owing following enforcement proceedings have been increased (such insolvency proceedings are a last resort and are strategically monitored).

In order to mitigate the effects of the economic crisis on companies' liquidity, and to prevent the accumulation of budgetary arrears, the National Agency for Fiscal Administration (the "**NAFA**") has implemented certain special measures including:

- the acceleration of the VAT refund process by new refund procedures, a special regime for exporters and the possibility to follow up online the settlement stage of a VAT refund claim; and
- the reinstatement of lost payment facilities as a result of the economic crisis effects (regulated by Government Emergency Ordinance 46/2009).

Financial Overviews

The objective of the Romanian Government's medium-term fiscal policy is based on the following main aspects: (i) ensuring the sustainability and improvement of the quality of public finances; (ii) consolidating economic growth; and (iii) sustaining the process of nominal and real convergence with the European Union. Consolidation of the tax base continues to be essential for ensuring that there are the necessary resources for economic development and to meet Romania's commitments as an EU Member State.

2010 was a difficult year due to the economic crisis and certain fiscal adjustments were made in order to reach the target deficit of 6.8 per cent. of GDP. The adjustment measures included:

- an increase of VAT by five percentage points (from 19 per cent. to 24 per cent.);
- a reduction of wages in the public sector by 25 per cent.; and
- a reduction of 15 per cent. for the majority of social assistance expenses.

The budgetary execution for 2010 resulted in a budget deficit of 6.4 per cent. of GDP (below the 6.8 per cent. target agreed with the IMF).

The objectives of the fiscal budgetary policy for 2011 included:

- the gradual reduction of the budget deficit from 6.5 per cent. of GDP in 2010 to 4.4 per cent. in 2011;
- a predictable fiscal system by maintaining a flat rate of 16 per cent. for both income tax and profit tax;
- a simplified system of taxation was introduced for "small and medium size enterprises" starting 1 January 2011 (a 3 per cent. tax rate on income was introduced);
- a continuation of adjustments and the restructuring of the public expenses system by: including the wages related expenses in 7.2 per cent. of GDP for 2012 as opposed to 7.5 per cent. in 2011; and decreasing subsidies and expenses for goods and services, thus leaving room for expenses that can contribute to economic development; and
- improving and prioritising expenses for investments focusing on resources for the acceleration of EU funds absorption.

The General Consolidated Budget

The following table shows income and revenues relating to the general consolidated budget for the years ended 31 December 2008, 2009, 2010, 2011 and for the first semester of 2012:

	2008	**2009**	**2010**	**2011**	**H1 2012**
			(RON million)		
A. REVENUE	165,546.6	157,243.9	168,674.2	181,919.9	92,990.8
Current incomes	159,743.7	151,576.3	158,501.8	173,887.4	89,725.3
Taxes	94,846.8	88,334.4	92,993.0	104,686.9	54,949.4
Income fee, profit and capital gain from legal entities	14,425.9	13,262.3	10,953.4	11,015.7	6,178.1
Income fee, profit and capital gain from individuals	18,523.0	18,567.6	17,972.7	19,090.9	10,391.5
Property fees and taxes	3,253.9	3,377.7	3,801.5	3.976.4	2,498.9

	2008	2009	2010	2011	H1 2012
			(RON million)		
Fees and taxes on goods and services	57,249.1	52,082.2	59,291.8	69,558.3	35,358.9
Fee on the external trade and international transactions	962.3	655.5	574.0	673.7	329.7
Other fiscal fees and taxes	432.6	389.1	399.6	371.9	192.3
Contributions to social securities	49,007.7	47,860.2	45,703.8	50,637.5	25,516.9
Non-fiscal incomes	15,889.1	15,381.7	19,805.1	18,562.9	9,258.9
Incomes from capital	1,075.7	548.2	684.7	769.1	292.6
Donations	3,020.7	3,269.8	4,054.1	766.3	88.5
Amounts in distribution	1,681.2	-82.0	-21.6	385.5	-187.9
Amounts received from EU	n/a	1,916.3	5,439.7	6,111.7	3,072.3
Financial operations	25.3	15.3	15.4	—	—
B. TOTAL EXPENSES	190,340.2	193,679.3	202,282.0	205,818.5	99,780.2
Current expenses	164,963.9	174,232.8	183,270.2	183,630.9	92,248.6
Personnel related expenses	45,609.7	46,837.6	42,836.9	38,422.7	19,557.2
Goods and services	33,008.7	28,325.9	29,567.9	31,767.4	15,540.5
Interest	3,650.7	6,060.6	7,274.3	8,882.4	6,278.1
State aid	7,898.5	7,215.4	6,734.5	6,406.6	3,051.8
Transfers between the units of the public administration	888.6	398.2	503.7	501.9	416.6
Other transfers	13,866.6	14,085.0	15,696.8	13,632.1	5,529.4
Projects financed from non-reimbursable EU Funds post-accession (including national co-financing)	n/a	2,676.0	7,313.3	10,787.5	6,373.6
Social assistance	54,160.4	63,957.6	68,612.7	68,007.5	33,525.0
Other expenses	5,880.7	2,579.0	2,933.2	3,111.8	1,272.1
Programmes financed from reimbursable funds (including local funds)	n/a	2,097.5	1,796.9	2,111.2	704.4
Capital expenses	25,843.2	21,940.3	19,439.8	22,678.7	7,877.1
Loans granted	14.4	8.5	219.2	—	—
Payments for previous years	-481.3	-678.5	-647.2	-491.1	-345.5
Eximbank[(1)]	—	-1,823.8	—	—	—
C. SURPLUS/DEFICIT	-24,793.6	-36,435.4	-33,607.8	23,898.6	-6,789.5
Deficit as per cent. of GDP[(1)]	-4.8	-7.3	-6.4	-4.1	-1.1
Deficit as per cent. of GDP (according to ESA 95)	-5.7	-9.0	-6.8	-5.2	-0.3*)
Gross domestic product	514,654.0	501,139.0	522,561.1	578,551.9	607,541

(1) Represent amounts from state budget and unused by Eximbank

Notes: Data regarding general consolidated budget were compiled by including budgets of local public institutions financed partially or totally from own revenues, internal and external local loans, revenue and expenditure outside the local budget, budget of public institutions subordinated to ministries, budget of Property Fund and issuance of compensation titles. Data has been prepared on a cash basis

Source: Ministry of Public Finance

The following table shows revenues, expenditure and deficit as a percentage of GDP figures relating to the general consolidated budget for the years 2008 to 2010 according to EU methodology (European System of Accounts '95):

	2008	2009	2010
		(EUR billions)*	
Revenues (EUR billions)	47.0	38.0	41.4
Public expenditure (EUR billions)	54.9	48.6	49.9
Deficit as per cent. of GDP	-5.7	-9.0	-6.8

* RON/EUR exchange rates used are based on the NBR average exchange rate for the year.

Source: Ministry of Public Finance

Fiscal and Budgetary Developments—2008

In the 2008 general consolidated budget, revenue represented 32.2 per cent. of GDP, while expenditure accounted for 37.0 per cent. The resulting deficit was RON 24.8 billion, or 4.8 per cent. of GDP. The 2008 revenue figure represents a 23.4 per cent. increase from the 2007 revenue figure, with such increase mainly due to salaries tax (28.7 per cent.) and VAT (30.8 per cent.).

The 2008 expenditure figure represented an increase of 29.4 per cent. from the 2007 figure. The increase was mainly due to a rise in personnel expenses and social assistance. Personnel expenses rose by 35.4 per cent. against the same period of 2007, and those for social assistance by 39.4 per cent. (pension, aid, allocations, etc).

Additionally, subsidies allocated in 2008 were RON 7,898.5 million, representing an increase of 14.9 per cent. in nominal value compared with 2007, but a decrease in terms of percentage of GDP (1.5 per cent.

of GDP in 2008 compared to 1.7 per cent. of GDP in 2007). Capital expenditure was RON 25,843 million, representing 5.0 per cent. of GDP (against an estimate of 5.3 per cent.).

The deficit represented 4.8 per cent. of GDP on a cash basis (or 5.7 per cent. according to ESA95) for 2008.

Fiscal and Budgetary Developments—2009

In 2009, the general consolidated budget deficit was RON 36,435.4 million, representing 7.3 per cent. of GDP. This was below the annual ceiling (RON 36,500 million, 7.3 per cent. of GDP) set under the Stand-by Agreement approved by the IMF.

Revenues of the general consolidated budget remained below target, at 99.5 per cent. of the revised estimation. Nevertheless, the deviation from the previous year's revenue decreased from 6.0 per cent. at the end of November 2009 to -5.0 per cent. at the end of December 2009.

In nominal terms, income tax increased by 0.3 per cent. against 2008 while profit tax decreased by 8.9 per cent. against 2008.

In the case of taxes on goods and services, excises increased by RON 1,935.2 million against 2008, but revenues from VAT decreased by RON 6,551.1 million against 2008.

Expenditure of the general consolidated budget during 2009 was RON 193,679.3 million, representing an increase of 1.8 per cent. against 2008. The level of expenditure is in line with the programme limit, representing 99.6 per cent. of the annual estimation. Personnel expenditure for 2009 recorded an increase of 2.7 per cent. against 2008.

The increase of social assistance expenses by RON 9.8 billion against 2008 is due to an increase in pension points from October 2008 and a minimum guaranteed social pension allowance which started in April 2009. Expenditure in goods and services recorded a decrease of 14.2 per cent. against 2008 following the application of measures. Interest expenditure in 2009 increased by 66 per cent. against 2008.

In 2009, investment expenditure, including capital expenditures and transfers for development programmes, was RON 35.2 billion, representing 7.0 per cent. of GDP.

Fiscal and Budgetary Developments – 2010

The execution of the general consolidated budget for the year 2010 ended with a deficit of RON 33.6 billion, 6.43 per cent. of GDP, under the deficit target threshold (RON 34.6 billion, or 6.8 per cent. of GDP) set as an objective of the budgetary strategy for the year 2010 and provided in the Supplemental Letter of the Stand-by Agreement signed with the IMF.

The budget deficit for 2010 decreased compared to 2009 from 7.3 per cent. to 6.4 per cent. of the GDP due to both the monitoring and controlling of the overall level of expenses, although the increase of mandatory interest payments, unemployment aid, payment of arrears in the health sector and the financing of projects from EU financing sources was inevitable, as well as the increase of collections in the second half of the year due to the implementation of fiscal measures.

Incomes from the general consolidated budget amounted to RON 168.7 billion, an increase of more than 7.3 per cent. compared to the previous year. This increase was registered in the context of maintaining the 16 per cent. flat rate throughout 2010 and despite the application of various measures such as the elimination, consolidation or reduction of 189 taxes and costs of non-fiscal nature, the non-taxation of reinvested earnings and the granting of an additional deduction of 20 per cent on the costs of research and development in calculating taxable profits.

The increase of incomes compared to 2009 was mainly registered in relation to tax on goods and services (value added tax) (+14.3 per cent.) and excises (+11.1 per cent.) as well as in relation to non-fiscal incomes (+29 per cent.).

In 2010, revenue generated by income tax decreased by 3.2 per cent. compared to 2009, while revenue generated by corporate tax and social contributions decreased by 14.9 per cent. and 4.5 per cent., respectively.

Revenue generated by income tax amounted to RON 17,956.8 million, 3.2 per cent. lower than the previous year. Decreases were recorded as a result of the decrease in the number of employees by 6.7 per cent. and of the average gross salary gain (caused by the implementation of legal provisions regarding the decrease by 25 per cent. of salary rights owed to budgetary personnel during the second half of the year).

Collections from value added tax recorded a 14.3 per cent. increase compared to 2009, from 6.8 per cent. in 2009 to 8.4 per cent. in 2010 (and is expected to reach 8.6 per cent. of GDP in 2012), mainly due to the increase of the VAT rate from 19 per cent. to 24 per cent. starting with the second half of 2010, but also because of the increase of collections from internal operation by 9.9 per cent. and from imported goods by 27.1 per cent. in 2010 compared to 2009. The improvement of collections was also due to the effect of enforcing the Government Emergency Ordinance No. 54/2010 regarding certain measures for fighting against tax evasion.

Collection of excises were 11.1 per cent. higher than the same period of the previous year as a result of the increase in the level of taxation from 1 January 2010. The increase of collections was due to the increase by 14.2 per cent. of the average exchange rate for EUR/RON taken into account for the payment of excises for 2010, as well as due to the increase of the amount of excises in the first six months of 2010 compared to the same period of 2009 with respect to: unleaded gasoline; diesel fuel; natural gas for non-commercial consumption; intermediate alcohol products; cigarettes; and electricity.

Social insurance contributions decreased by 4.5 per cent. compared to 2009. The main causes of this decrease were the decrease in the number of employees and the reduction of voluntary compliance, although the average contributions for the social insurance state budget increased by 0.27 per cent. starting with income for February 2010, the exemption of companies hiring unemployed people from the payment of health insurance contributions ("**CAS**") for a period of six months and the facilities deriving under the regulation of temporary unemployment and the salary decrease of the budgetary personnel during the second half of the year.

The amounts reimbursed by the EC in respect of payments made for European financing projects increased by 184 per cent. (RON 5.4 billion in 2010 as opposed to RON 1.9 billion in 2009), compared to the same period of 2009.

Other measures aiming at increasing receipts consisted of, *inter alia*, broadening the tax base by taxing compensation payments and vouchers and the adoption of a 16 per cent. tax rate applicable to interest income received by resident individuals.

Expenses incurred with respect to the general consolidated budget amounted to RON 202.3 billion, increasing in nominal terms by 4.4 per cent. compared to last year, representing 38.7 per cent. of GDP.

The restrictive character of the budgetary policy with its emphasis on reducing consumption spending led to major changes in the structure of expenditures. This was caused by reducing the weight of personnel costs and increasing the weight of development costs, especially expenses for EU financed projects and transfers for development programmes.

Personnel costs decreased by one percentage point of GDP over the previous year, representing 21 per cent. of total expenses compared to 27 per cent. as projected in the Budget Law No. 11/2010. In the first six months of 2010 personnel costs exceeded the projections, reaching 52.3 per cent. of the annual programme. However, due to measures taken by the Government starting on 1 July 2010, such as reducing the salaries of all employees in the public sector by 25 per cent., restructuring the administrative system at central and regional levels and continuing the layoffs of surplus personnel, the original projection for personal costs was met. Furthermore, due to the measures adopted by the Government, the public wage bill dropped from 8.2 per cent. of GDP in 2010 to 6.6 per cent of GDP in 2011 and is estimated to reach 6.7 per cent. of GDP in 2012.

Further public spending cuts were made in addition to a global 15 per cent. reduction in social benefits (except for pensions) and the freezing of the pension point value starting with the second half of 2010.

These measures led to a drop in social assistance expenditure from 13.1 per cent of GDP in 2010 to 11.8 per cent. of GDP in 2011 and is estimated to reach 11.1 per cent in 2012.

Goods and services expenses increased by 4.4 per cent. compared to 2009, mainly due to the increase of budget expenses of the National Fund for Social, Health and Insurance for the payment of arrears.

Interest expenses increased by 20 per cent. due to the increase of accumulated deficits from the previous years and the contracting of loans in order to cover such deficits.

Expenses related to EU financed programmes increased by 173.3 per cent. compared to the same period of 2009, representing 1.4 per cent. of GDP.

Investment expenses including capital expenditure as well as development programmes financed from internal and external sources in 2010 amounted to RON 33.7 billion, namely 6.4 per cent. of GDP. 98 per cent. of the annual distributions for capital expenditures in the state budget were actually used.

Fiscal and Budgetary Developments – 2011

According to unaudited data, the execution of the consolidated budget in 2011 resulted in a budget deficit of RON 23.9 billion representing 4.1 per cent. of GDP, which is in line with the target deficit for 2011 of 4.4 per cent. of GDP.

Following Eurostat's recommendations regarding the methodology of calculating the deficit for the state-owned enterprises that have been reclassified in the general government sector, for the purpose of calculating and obtaining more accurate data, the Minister of Public Finance issued the Order No. 2433/2011 requesting that 28 state owned enterprises provide monthly, quarterly and yearly reports on their financial situation to be included in the ESA deficit.

Revenues to the general consolidated budget amounted to RON 181.9 billion, 7.9 per cent. higher than in 2010. This was mainly due to an increase of revenues derived from VAT and excises, which increased by 22.1 per cent. and 10.4 per cent., respectively, as compared to 2010. The increase of revenues from excises was also due to the increase of excise level for certain products such as diesel fuel, intermediate products, cigarettes as well as to the application of measures for combat of fiscal evasion.

Social security contributions showed an increase of 10.8 per cent. as at the end of 2011 as compared to the previous year. Corporate tax revenue in 2011 increased by 1.9 per cent. compared to 2010. The main gap remained with respect to non-fiscal revenues that decreased by 6.3 per cent., while the amounts reimbursed by EU increased by 12.4 per cent., as compared to the previous year. Various measures such as the expansion of the base of healthcare contributions applicable to pension income (with a positive impact of 0.3 per cent. on GDP), the expansion of the tax base for pension contributions or the increase of local taxes for persons owning more than one property were adopted throughout 2011.

In nominal terms, the expenses as at the end of December 2011 were in the amount of RON 205.8 billion and posted an increase of 1.7 per cent. compared to the previous year, mainly due to an increase in expenses for EU financed projects.

Expenses associated with goods and services increased by 7.4 per cent., as compared to the previous year, due to payments for medical services and pharmaceuticals.

The personnel costs, subsidies and social assistance costs remained under the level recorded in 2010 (-10.3 per cent., -4.9 per cent. and -0.9 per cent., respectively). Payments for EU financed projects increased by 47.5 per cent. as compared to 2010, while interest expenses increased by 22.1 per cent.

Public spending reduction measures were maintained throughout 2011 and included an extension of the freeze of the pension point value to the level registered in 2010 and reductions or eliminations of temporary crisis subsidies (including subsidies for heating), which were replaced with targeted social assistance mechanisms. The Government put in place a strategy to eliminate central government and social security arrears after completing a comprehensive exercise to account for all unpaid bills by the end of 2010 and continued reforms in the health sector in order to eliminate the historic mismatch between entitlements and available resources and obtained additional fiscal savings and efficiency gains from continued educational reform.

The public sector wage bill was further reduced compared to previous years further to reductions in public employment to 1.2 million from 1.4 million in 2008.

Arrears of the General Consolidated Budget

According to the Stand-by Agreement signed with the IMF and the EC, arrears decreased in 2011 from RON 1 billion to RON 0.8 billion.

The following table shows the breakdown of arrears (outstanding for more than 90 days in accordance with the definition in the Stand-by Agreement concluded with the IMF) by sectors as at 31 December 2009 and 2010, 2011 and for the first half of 2012:

	As at 31 December			
	2009	**2010**	**2011**	**H1 2012**
			(millions RON)	
State Budget[(1)]	638.9	57.4	85.9	121.2
Local Budget	925.7	910.0	752.8	997.8
Social Security Budget	14.1	159.3	0.8	3.7
Total	**1,578.7**	**1,126.7**	**839.5**	**1,122.8**

(1) Includes State budget and self-financed.
Source: Ministry of Public Finance

Certain measures have been taken to reduce arrears such as:

- in order to address the issue of receivables outstanding against the local public administration authorities from certain economic activities, the Government adopted Government Emergency Ordinance No. 51/2010 regulating certain measures to reduce arrears in the economy, as well as other financial measures. As a result, the Ministry of Public Finance can grant to administrative-territorial units loans from the proceeds obtained from privatisation up to RON 1.5 billion and at an interest rate of 6.25 per cent. for the purpose of paying outstanding debts (recorded as at 31 December 2009) towards economic operators, suppliers of goods, services and works, including towards economic operators providing public services of generation, transmission and distribution of thermal energy in a centralised system. The amounts obtained from such loans are used exclusively for settling: (i) outstanding fiscal obligations of suppliers or goods, services and works; and (ii) outstanding fiscal obligations of the economic operators which have outstanding claims to recover from economic operators providing the public services of generation, transmission and distribution of thermal energy in a centralised system;

- certain financial measures have been implemented through amendments to the Local Public Finance Law No. 273/2006: the annual budget will include, separately, budgetary credits for the payment of arrears from the previous year; no new budgetary commitments can be made unless the arrears under the heading expenses are paid; and

- with respect to arrears in the health sector, the Government allocated additional funds throughout 2011, by Government Decision No. 924/2011 and 247/2011, amounting to RON 0.6 billion, which led to their drastic reduction.

In addition, the Government took measures for the purpose of reducing the arrears of companies that are majority state-owned, such as:

- an allocation by Government Ordinance No. 10/2011 directing to the local authorities' budget RON 302.7 million to enable them to pay their debts to suppliers of thermal energy. This measure aims to reduce local authorities' debts towards large state-owned companies active in the energy field;

- an allocation by Government Ordinance No. 10/2011 for increasing the share capital of Compania Nationala de Cai Ferate CFR S.A. with RON 130 million;

- an approval by the Government Emergency Ordinance No. 84/2011 of the possibility of CFR S.A., C.N. a Huilei S.A. Petrosani and SC Termoelectrica S.A. to pay their debts to the consolidated state budget by transferring assets and equity to the State; and

- an approval by Government Ordinance No. 30/2011 of an aid scheme for all companies which pay the basic debts to the consolidated state budget by exempting the payment of the related accessories.

Six different mechanisms will also be used in relation to state owned enterprises: (i) non-viable companies will be placed in bankruptcy allowing legal procedures for settling claims of creditors to commence; (ii) companies that have sufficient liquidity will be required to pay their arrears according to an agreed timetable; (iii) the government has developed neutral agreements from the perspective of the budgetary impact that will cancel or clear the arrears to the State; (iv) where applicable, Romania will seek to obtain the acceptance of the EU competition authorities to develop plans to increase capital and/or financial support to pay arrears; (v) mechanisms will be developed to facilitate restructuring and securitising state owned enterprises' arrears; and (vi) where possible, Romania will consider the use of debt-to-equity swaps or privatisations to cancel arrears. Companies participating in these schemes will be strictly conditioned by the success of the action plans they agreed, to provide insurance that they will not accumulate further arrears.

Furthermore, based on the Financing Programme, in 2011-2012 the Romanian Government is to appoint private management teams in at least the following State-owned companies: Compania Nationala Poşta Română; Tarom S.A., Societatea Nationala C.F.R. Marfã; Electrificare C.F.R.; Electrica Furnizare S.A.; Hidroelectrica S.A.; and Compania Nationala Romarm Aparat Central, Oltchim S.A. In 2012, the Romanian Government intends to proceed to the appointment of private management personnel for Compania Nationala C.F.R. S.A. and Societatea Nationala C.F.R. Călători S.A.

The arrears in respect of the state owned companies that are monitored in accordance with the IMF agreement have been kept at a level of 2.7 per cent. of GDP in the first quarter of 2012.

2012 Budget

The state Budget for 2012 was approved by the State Budget Law no.293/2011, published in the Official Gazette of Romania no. 914, dated 22 December 2011.

The annual budget law and the 2012 budget, as well as the budget for 2013-2015, established the 2012 budgetary framework that will allow the continuation of economic activities and the allocation of funds to public services.

Background of the budget construction:

- the first foreign multilateral financial agreement with the EC, IMF and WB was successfully finalised, helping the foreign deficit adjustment, ensuring a proper foreign financing and improving confidence in the outlook of the domestic economy. The preventive financial support arrangements with EU/IMF will ensure the consolidation of medium term reforms started in 2009-2010;

- the Government will seek to consolidate the positive results achieved by the reform measures started in 2010 with respect to the unified wage law in the public sector, the national education law and the pension law;

- the Government intends to continue to pursue the targets and objectives undertaken by the Government in the 2012-2014 Fiscal and Budgetary Strategy in order to reach the 2011 and 2012 budget deficit targets.

Core aspects of the 2012 budget:

- Continue fiscal consolidation to ensure sustainable budget deficit targets in line with the medium term expenditure framework.

  The deficit foreseen for 2012 will amount to 2.8 per cent. of GDP in ESA terms and 2.2 per cent. in cash terms.

This is an ambitious target below the 3 per cent. stipulated in the Maastricht Treaty and looking ahead to the year 2014, this is the first step Romania has taken towards a budget built on a structural deficit of maximum 0.7 per cent. of GDP, required by the dramatic change of financial models after the crisis.

- Maintain a long term sustainable level of the public debt.

  In 2012, the government debt (according to ESA95 EU methodology) is estimated at 34.4 per cent. of GDP, and is expected to go below 34.0 per cent. of GDP in 2013-2015, which is under the 60 per cent. required by the Maastricht Treaty.

- Stability, predictability and simplification of the fiscal system.

  - Preserve the flat tax rate;

  - Cut the number of ad-hoc changes, to ensure the fiscal system's predictability and stability;

  - Improve the efficiency of the fiscal system; and

  - Reduce the number of non-fiscal tariffs and fees.

- Restructure public expenditures to have a better control over these expenditures.

  - The improvement and prioritization, in 2012, of an increase of over 2 billion Leu in investment expenditures, compared to 2011, shows that consideration is being given to boosting efficiency in allocating funds to public expenditures and creating the room for committing expenditures that are expected to have a multiplying economic effect and lead to growth and the creation of new jobs.

  - Allocation of funds required to implement EU-co financed projects, as a move to boost absorption.

    Absorption of foreign grant funds is among the Romanian Government's top priorities. The best use of the substantial EU allocation to Romania for 2007-2013 (around 34.6 billion Euros) is a must, as this is one of the core elements in upholding the budget, taking account of the investing strategy and the fact that these funds are not reimbursable.

  - Continue cutting on subsidies to various economic operators, which accounts for a reduced government intervention in the economy and reflecting the market economy rules actually working.

- Continue reducing existing arrears and preventing new arrears by:

  - Improved corporate governance;

  - A general corporate governance reform that has been underway, requiring independent external audits to be run at regular intervals, the publication of financial data on a quarterly basis and the strengthening of OECD principles with respect to the corporate governance and the rights of minority-stake owners; and

  - An improved framework of concepts and procedures, the passage and consolidation of the top-down budgeting and the program budgeting. The budgetary and fiscal responsibility law 69/2010, introducing a more prudential conduct of the fiscal and budgetary policy featuring budget streamlining elements such as *the multi-annual budget planning, the medium term budget framework, numerical fiscal rules, principles of expenditure efficiency and sustainability,* that is in line with the EU-fostered budget framework of the Member States, accounted for an important step in the implementation of the public budget reforms.

Revenues:

The estimation of budget revenues has been based on:

- the corporate income tax, personal income tax and VAT rates left unchanged, in parallel with expanding the tax base;
- improved revenue collection and tax management;
- a lowered number of non-fiscal fees and tariffs; and
- implementation of the increased excise duties according to the established calendar, for both diesel oil and cigarettes.

Expenditures:

The expenditure policy in 2012 will be focused on continued fiscal consolidation, a process that is to be in some way relaxed, given the weak economic circumstances.

The public spending adjustments and the performance of the macroeconomic indicators have created the fiscal space for:

- a phased-in reversal of the 2010 wage cuts; and
- addressing the legal issues related to the 5.5 per cent. social security contribution withheld from pensions.

The Government approved in August 2012 a budgetary rectification based on the following:

- growth of the gross domestic product of approximately 1.2 per cent. in 2012, compared to 1.8-2.3 per cent. as estimated at the date of the drafting of the State Budget Law;
- gross domestic product, in nominal terms, increased from RON 579.6 billion, as initially estimated, to RON 607.3 billion.
- deviations of the 2012 budget results after the first half of 2012 compared to the initial estimations.
- the need to ensure compliance with the requirements of the precautionary Stand-by Agreement with the IMF of March 2011.
- the adoption of reparatory measures in favour of public employees (i.e. aimed at restoring public sector wages to the level before the 25 per cent. cuts in 2010) and pensioners (i.e. the restitution of amounts equal to the deductions of social health insurance contributions applied to the base pension level of RON 740 since January 2011).
- the adoption of various measures for the reduction of public spending and enhancing financial discipline.

After an analysis of the budget status after the first half of 2012, with the occasion of the August 2012 budget rectification, the amounts of 10 per cent. retained from the budgets of the main credit release authorities, which could be used only in the second semester of the year subject to approval through budget rectification, were cancelled with the exception of amounts corresponding to staff expenses and owed on account of international obligations.

After the rectification, the income to the general consolidated budget is estimated at RON 196.0 billion (32.3 per cent. of the GDP), and the expenses of the general consolidated budget are estimated to be RON 209.6 billion (34.5 per cent. of the GDP).

The revised 2012 budget saw an increase of the general consolidated budget deficit from RON 11,210.0 million as initially estimated, namely 1.9 per cent. of the gross domestic product, to RON 13,660.0

million, namely 2.2 per cent. of the gross domestic product. The deficit target complies with the 3 per cent. of the GDP threshold provided under national legislation for 2012.

Personnel expenses, although increased as a result of the public sector salary increase, continue to decrease as percentage from the GDP, being estimated at 6.7 per cent. of the gross domestic product, still under the 7.2 per cent. of the gross domestic product target for 2012.

The Government has agreed the terms of the budget rectification with the representatives of the international financial bodies, namely the International Monetary Fund, the European Commission and the World Bank.

2012 Interim Budget Execution

Until July 2012, revenues increased by 8 per cent. due to an upward year-on-year trend in VAT (with an increase of 6.3 per cent.), excise duties (with an increase of 5.2 per cent.), social contributions (with an increase of 5.3 per cent.), as well as in income tax (with an increase of 16 per cent.). Expenditures increased until the end of July 2012 by 3.4 per cent., however decreasing in real terms by 0.3 per cent. of GDP as compared to the same period of the previous year. As at 30 July 2012 the budget deficit amounted to 1.15 per cent. of GDP (compared with a cash deficit of 2.2 per cent. of GDP at the end of 2011).

Medium Term Budget Objective

For the medium term, the Government has established the elements of fiscal consolidation as follows:

- Restructure public expenditures to adjust the current expenditures and bring them to sustainable levels, with a view to cut the budget deficit and allocate discretionary expenditures to investment projects;
- Improve the policy in the investment sector;
- Continue the policy aimed at reducing and preventing arrears;
- Improve the corporate governance;
- Maintain the government debt at sustainable levels on a long term; and
- Improve the tax revenues policy by: fighting tax evasion, boosting revenue collection efficiency, encouraging voluntary compliance.

The specific objective of the budget policy is to continue adjusting the budget deficit to reach the planned targets of 2.2 per cent. of GDP in 2013; 1.2 per cent. of GDP in 2014; and 0.9 per cent. of GDP in 2015 (according to ESA).

For the six month period ending 30 June 2012 Romania was within the budget deficit targets set by the IMF and the EC.

Public Debt

Overview

The public debt of Romania is subject to Government Emergency Ordinance No. 64/2007 (the "**Debt Ordinance**"), which came into force in June 2007. For the purposes of reporting governmental public indebtedness, Romania distinguishes between governmental public indebtedness incurred directly and governmental public indebtedness guaranteed by the Romanian Government through the Ministry of Public Finance, and includes amounts advanced temporarily from the credit of the treasury account and debt contracted directly by line ministries. For the purposes of reporting local public indebtedness, Romania includes indebtedness incurred directly or guaranteed by local public administration authorities in accordance with the Debt Ordinance and Law No. 273/2006 on local public finance.

The level of the total public indebtedness increased to 38.6 per cent. of GDP at the end of December 2011 and 38.2 at end of June 2012 compared to 37.2 per cent. of GDP as at the end 2010, primarily due to operations for financing the budget deficit, refinancing the public debt and guarantees issued under the "First House" Programme (see also "*—Foreign Trade and Balance of Payments—Foreign Direct Investment*").

With respect to the debt structure an increase of the government public indebtedness has been registered from 36.4 per cent. of GDP at the end of 2011 to 36.1 per cent. of GDP as at the end of June 2012 and the level of local public indebtedness of 2.2 per cent. of GDP was recorded at the end of 2011 and 2.2 per cent. at the end of June 2012.

The following table shows public indebtedness indicators as at 31 December 2008, 2009, 2010, 2011 and June 2012:

	30 June		**31 December**							
	2012 (preliminary data)		**2011 (preliminary data)**		**2010**		**2009**		**2008**	
	mil RON	*mil EUR*	*mil RON*	*mil EUR*	*mil RON*	*mil EUR*	*mil RON*	*mil EUR*	*mil RON*	*mil EUR*
1. Public government debt of:	**219,100.9**	**49,242.8**	**210,388.6**	**48,704.4**	**182,510.3**	**42,594.8**	**136,493.8**	**32,271.1**	**100,556.4**	**25,227.4**
a) direct public debt	207,204.5	46,569.1	199,284.6	46,133.9	167,632.5	39,122.6	126,571.7	29,925.2	91,942.0	23,066.2
b) guaranteed debt	11,896.4	2,673.7	11,104.0	2,570.5	14,877.8	3,472.2	9,922.1	2,345.9	8,614.4	2,161.2
- weight in GDP (%)	*36.1%*	*36.1%*	*36.4%*	*36.4%*	*34.9%*	*34.9%*	*27.2%*	*27.2%*	*19.5%*	*19.5%*
- direct debt, weight in GDP (%)	34.1%	34.1%	34.4%	34.4%	32.1%	32.1%	25.3%	25.3%	17.9%	17.9%
- guaranteed debt, weight in GDP (%)	2.0%	2.0%	1.9%	1.9%	2.8%	2.8%	2.0%	2.0%	1.7%	1.7%
2.Local debt of:	**13,070.9**	**2,937.7**	**12,866.6**	**2,978.6**	**11,948.9**	**2,788.7**	**10,835.2**	**2,561.8**	**9,238.7**	**2,317.8**
a) contracted directly	12,547.6	2,820.1	12,186.8	2,821.2	11,065.8	2,582.6	10,090.2	2,385.6	8,530.8	2,140.2
b) guaranteed by local public authorities	523.3	117.6	679.8	157.4	883.1	206.1	745.0	176.1	707.9	177.6
- weight in GDP (%)	*2.2%*	*2.2%*	*2.2%*	*2.2%*	*2.3%*	*2.3%*	*2.2%*	*2.2%*	*1.8%*	*1.8%*
- direct debt, weight in GDP (%)	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	1.7%	1.7%
-guaranteed debt, weight in GDP (%)	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
3. Public debt	***232,171.8***	***52,180.5***	***223,255.2***	***51,683.0***	***194,459.2***	***45,383.5***	***147,329.0***	***34,832.8***	***109,795.1***	***27,545.2***
Total public debt, weight in GDP (%)	38.2%		38.6%		37.2%		29.4%		21.3%	
GDP (mln. RON)	607,541.0		578,551.9		522,600.0		501,100.0		514,700.0	
Exchange rate at the end of reporting period (EUR/Lei)	**4.4494**		**4.3197**		**4.2848**		**4.2296**		**3.9860**	

(1) Based on provisional data
Source: Ministry of Public Finance

Governmental Public Indebtedness

The level of external governmental public indebtedness increased by RON 55.8 billion from December 2008 to June 2012, mainly due to loans contracted from external markets in order to support the budget deficit financing and refinancing of public debt in the period from the end of 2008 to June 2012. In March 2010, the Ministry of Public Finance issued a Eurobond of EUR 1 billion with a coupon of 5 per cent. and 5 year maturity, the proceeds of which were partially used for the redemption of a Eurobond of EUR 700 million issued in 2002. The remaining funds were used for deficit financing. In June 2011, the Ministry of Public Finance made a drawdown under Romania's EMTN Programme of EUR 1.5 billion with a coupon of 5.25 per cent. and 5 years maturity, the proceeds of which were used for budget deficit financing and refinancing the public debt. In January 2012, Romania successfully executed the inaugural USD transaction, borrowing USD 1.5 billion for 10 years with 6.75 per cent. coupon. At the end of February 2012, the Ministry of Finance used the window of opportunity of increased foreign interest for Romanian assets within the improved market environment and re-opened the issue, placing an additional USD 750 million with a yield of 6.45 per cent. (from 6.875 per cent. previously). The tap was four times oversubscribed, with investors' bids amounting to USD 3.2 billion. According to national legislation, the level of external governmental public indebtedness (representing external liabilities contracted directly or guaranteed by Romania) represented 15.6 per cent. of GDP as at the end of June 2012.

Domestic public government debt increased during the period from December 2008 to June 2012 by RON 62.8 billion, and as a percentage of GDP by 8.5 per cent. due to the financing of budget deficits mainly from domestic sources in period 2009-June 2012. Since 2007 government securities have been issued regularly in accordance with the Ministry of Public Finance's objectives of developing the government securities markets, building the yield curve for these instruments, increasing the transparency and predictability of the issuance process and limiting the currency risk for the government debt portfolio. At the end of June 2012, outstanding government securities issued on the domestic market in RON and EUR amounted to RON 97.8 billion, of which treasury bills represented RON 30.4 billion and bonds RON 67.4 billion.

According to EU methodology the level of general government debt increased to 34.6 per cent. of GDP as at the end of June 2012 compared to 33.3 per cent. as at the end of 2011.

The governmental public indebtedness of the State during the years ended 31 December 2008, 2009, 2010, 2011 and June 2012 developed as follows:

	31 December				30 June 2012	June 2012
	2008	**2009**	**2010**	**2011 (preliminary data)**	**(preliminary data)**	**per cent.**
				RON millions		
Public Government Debt	**100,556.4**	**136,493.8**	**182,510.3**	**210,388.6**	**219,100.9**	**100%**
				by type of debt:		
- direct debt	91,942.0	126,571.7	167,632.5	199,284.6	207,204.5	94.6%
- guaranteed debt	8,614.4	9,922.1	14,877.8	11,104.0	11,896.4	5.4%
				by creditors:		
- multilateral	20,533.5	34,634.1	52,719.3	63,551.4	66,066.9	30.2%
- bilateral	312.9	272.4	287.1	203.8	215.8	0.1%
- private banks and others	79,710.0	101,587.3	129,503.9	146,633.4	152,818.2	69.7%
				by instruments:		
- T-bills	8,106.9	23,432.2	32,659.2	33,743.8	30,415.1	13.9%
- cash management instruments	0.0	0.0	0.0	2,200.0	0.0	0.0%
- Bonds (ROL &Forex)	9,505.7	23,146.2	34,021.4	50,110.0	67,406.8	30.8%
- Eurobonds	8,569.9	9,093.6	10,497.8	17,062.8	22,416.5	10.2%
- loans	34,779.2	52,687.4	73,895.2	75,426.9	78,424.2	35.8%
- loans from surplus of State Treasury account	39,594.7	28,134.4	31,436.7	31,845.1	20,438.3	9.3%
				by initial maturity:		
- short - term	49,526.6	51,566.6	64,095.9	67,788.9	50,853.4	23.2%
- medium - term (1-5 years)	10,712.5	27,096.1	42,792.2	55,152.1	72,050.1	32.9%
- long - term	40,317.3	57,831.1	75,622.1	87,447.6	96,197.4	43.9%
				by interest type:		
- fixed	31,495.2	57,934.4	95,049.1	115,406.3	139,468.8	63.7%
- variable	69,061.2	78,559.4	87,461.2	94,982.3	79,632.1	36.3%
				by currency:		
- RON	60,024.8	64,302.0	82,628.6	101,241.2	101,022.2	46.1%
- USD	9,227.5	8,629.1	8,458.1	6,091.7	13,869.5	6.3%
- EURO	28,102.8	56,646.1	78,118.8	89,349.8	89,923.1	41.0%
- SDR	20.5	3,984.7	9,645.9	9,977.0	10,445.4	4.8%
- CHF	306.8	235.5	180.0	138.2	126.8	0.1%
- CAD	714.9	623.2	806.8	750.8	753.7	0.3%
- JPY	1,914.0	1,904.9	2,542.6	2,840.0	2,960.2	1.4%
- WON	124.3	128.5	129.4	0.0	0.0	0.0%
- GBP	121.0	40.0	0.0	0.0	0.0	0.0%

(1) Based on provisional data
Source: Ministry of Public Finance

This breakdown of public government debt at the end of June 2012 shows that debt contracted directly by the state represented 94.6 per cent. of total public government debt and that 5.4 per cent. was guaranteed debt. At the same date, the government securities issued on domestic and external markets represented 54.9 per cent. of total public government debt, the remaining being covered by loans, including loans from funds available in the State Treasury general current account. Out of the government debt 23.2 per cent. was short-term debt and 76.8 per cent. was medium and long-term debt while the breakdown by interest rate type indicates that 36.3 per cent. of total debt is floating interest rate debt. Structure by currencies shows that 46.1 per cent. of public government debt was denominated in RON, and 76.2 per cent. of total non-RON hard currency debt was denominated in EUR.

In accordance with the Debt Ordinance, the Romanian Government, acting through the Ministry of Public Finance can issue state guarantees or on-lend only for major investment programmes/projects of companies and local government debt, and only after parliamentary approval under a special law authorising the guarantee or on-lending. On-lending to other ministries (project financing) was also curtailed and has been replaced by the deficit financing. From 2009, all debt management operations operated in the past by the line ministries (government debt reimbursements or drawings) are taken over by the Ministry of Public Finance.

At the end of June 2012, the outstanding amount of state guarantees was RON 11.9 billion, of which RON 6.2 billion were guarantees granted for companies, RON 5.7 billion were granted under the "First House" Programme and other governmental programmes and RON 0.2 billion were for the banking sector under special laws. According to the new precautionary Stand-by Agreement concluded with the IMF, the EU and the World Bank in the spring of 2011, the ceiling for guarantees issued by the Romanian Government is set at RON 14 billion (covering the period 2009-2012), but it may be adjusted with the value of guarantees to be issued for financing of the Nabucco project (see "*—Public Finance —Public Debt—Public Debt Instruments and External Financing Programmes—External Financing Programmes*"). The Fiscal Budgetary Strategy 2012-2014 sets the ceilings for governmental guarantee issues at RON 10 billion for 2012 and RON 6 Billion for 2013 and 2014, respectively.

Total public government debt service in 2011, was RON 59.5 billion, of which RON 56.8 billion is for direct debt and RON 2.7 billion is for guaranteed debt. In first six months of 2012, the total public government debt service was RON 33.4 billion, out of which RON 32.9 billion is for direct debt and RON 0.05 billion is for guaranteed debt.

Total public government debt service in 2011, was RON 59.5 billion, of which RON 56.8 billion is for direct debt and RON 2.7 billion is for guaranteed debt. In first five months of 2012, the total public government debt service was RON 28.7 billion, out of which RON 28.3 billion is for direct debt and RON 0.4 billion is for guaranteed debt.

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

	2008	**2009**	**2010**	**2011 (preliminary data)**	**Jan – June 2012 (preliminary data)**
			(RON million)		
Direct debt service:					
- principal*	9,752.2	49,837.3	38,008.2	48,533.4	27,077.9
- interest and commission	3,176.2	5,449.4	6,824.9	8,298.8	5,773.2
Total government direct public debt service	12,928.4	55,286.7	44,833.1	56,832.3	32,851.1
Guaranteed debt service:					
- principal	1,055.0	1,276.0	1,082.8	2,475.0	488.6
- interest and commission	295.2	337.8	190.7	178.6	81.1
Total government guaranteed public debt service	1,350.2	1,613.8	1,273.5	2,653.6	569.7
Public government debt service					
- principal	10,807.2	51,113.3	39,091.0	51,008.4	27,566.5
- interest and commission	3,471.4	5,787.2	7,015.6	8,477.5	5,854.3
Total government public debt service	14,278.6	56,900.5	46,106.6	59,485.9	33,420.8

(1) Includes refinancing of government securities issued on domestic market
(2) Based on provisional data
Note: Debt service in foreign currency was converted in RON using the annual average exchange rates.
Source: Ministry of Public Finance.

As at 30 June 2012, the debt service of public government debt outstanding is scheduled to decrease between 2012 to 2015. The Eurobonds of EUR 700 million issued in 2002 were repaid in May 2012 and the Eurobonds of EURO 1 billion issued in 2010 are to be repaid in 2015. The following table sets out the debt service schedule for Romania's public government indebtedness based on outstanding debt as at the end of June 2012:

	July - Dec 2012	2013	2014	2015	Thereafter
Direct debt service:					
Principal*	25,465.5	44,407.9	27,567.3	23,783.0	85,980.8
Interest and Commission	4,172.5	7,878.6	5,670.1	4,266.7	12,283.5
Total government direct public debt service	29,638.0	52,286.5	33,237.4	28,049.7	98,264.3
Guaranteed debt service:					
Principal	471.5	898.6	893.3	2,205.4	7,427.6
Interest and Commission	88.3	146.7	130.7	91.5	293.8
Total government guaranteed public debt service	559.8	1,045.3	1,024.0	2,296.9	7,721.4
Public government debt service					
Principal	25,937.0	45,306.5	28,460.6	25,988.4	93,408.4
Interest and Commission	4,260.8	8,025.3	5,800.8	4,358.2	12,577.3
Total government public debt service	30,197.8	53,331.8	34,261.4	30,346.6	105,985.7

Note: The payments in foreign currency are converted in RON using the exchange rate at the end of June 2012
Source: Ministry of Public Finance.

Public Debt Instruments and External Financing Programmes

Government Bonds

Due to increased risk aversion in the market since the last quarter of 2008, the Ministry of Public Finance has tailored its domestic market financing strategy towards short term issues, meeting the demand of investors for such maturities. Thus, since November 2008, treasury bills with a maturity of three months were reintroduced, while treasury bills with a maturity of one month were reintroduced between January and July 2009.

Romanian treasury securities consist of the following:

- short-term treasury bills or treasury certificates, which may be issued as interest bearing or discounted instruments, and which mature no more than one year after the date of issue;
- medium- or long-term treasury bonds with maturities of 3, 5, 7, 10, 12 and 15 years (in RON) and of 3 and 4 years (in EUR) issued as interest bearing; and
- benchmark bonds with maturities of 2, 3, 4 (April 2012), 5, 7 (May 2012), 10 and 15 years (February 2012).

Since January 2009, maximum yields for treasury bills and benchmark bonds have decreased, with this trend being more pronounced for shorter maturities as the NBR continued to inject liquidity into the money market and lower the monetary policy rate (from 10.25 per cent. in August 2008 to 5.25 per cent. in May 2012). Compared to yields for government securities issued in December 2008, the yield for government securities issued up to June 2012 decreased by approximately 6.7 per cent. for benchmark bonds and by 8.9 per cent. for treasury bills.

The Government is also empowered to negotiate loans and issue securities in international markets under the provisions of Romanian law. Romania, acting through the Ministry of Public Finance, has issued the following debt instruments on the international capital markets (which are still outstanding):

- Notes in the amount of EUR 750,000,000 with 6.50 per cent. interest rate, issued in June 2008 and due 2018;
- Notes in the amount of EUR 1,000,000,000 with 5.00 per cent. interest rate, issued in March 2010 and due 2015;

- Notes in the amount of EUR 1,500,000,000 with 5.25 per cent. interest rate, issued in June 2011 and due 2016, and
- Notes in the amount of USD 2,250,000,000 with 6.75 per cent. interest rate due 2022, initially issued in January and increased in February 2012.

The Notes in the amount of EUR 700,000,000 with 8.50 per cent. interest rate, issued in May 2002 were repaid in May 2012.

External Financing Programmes

On 25 March 2009, Romania agreed the terms of a multi-lateral external financing programme (the "**Financing Programme**") of EUR 19.95 billion. The purpose of the Financing Programme was to assist Romania in managing its balance of payments, financing its budget deficit and refinancing some of its existing debt. Furthermore, the Financing Programme played a crucial role in returning financial conditions in Romania to normal and promoting the economic recovery of the country.

Under the Financing Programme the financing sources from each financier are:

	(EUR billions)
International Monetary Fund Letter of Intent of 24 April 2009*	12.95
European Community Memorandum of Understanding of 26 June 2009**	5
World Bank Development Policy Loans**	1
EBRD/EIB—Loans to the private sector	1
	19.95

* the last tranche amounting EUR 1.01 billion equivalent (SDR 0.874 billion) was not drawn as the authorities decided to treat it as precautionary; the total amount withdrawn by NBR was EUR 9.79 billion equivalent (SDR 8.623 billion) and by MoPF of EUR 2.15 billion (SDR 1.947 billion)

** the entire amount was withdrawn by MoPF and used for budgetary purposes

Stand-by Agreement

The financial terms of the Stand-by Agreement are based on IMF regulations. The loans have grace periods of three years and one quarter and are repayable in two years in eight equal installments. The Stand-by Agreement was ratified by the Government on 22 September 2009.

The first tranche of EUR 4.94 billion equivalent was disbursed to NBR on 6 May 2009. Following the first Financing Programme review by the IMF in August 2009, the second tranche of EUR 1.84 billion equivalent was disbursed on 23 September 2009. After the combined third and fourth reviews in January 2010 of performance criteria and structural benchmarks, the Government approved the release of the third and fourth tranches of EUR 2.45 billion equivalent.

The second tranche disbursed on 23 September 2009 and the third and fourth tranches disbursed on 23 February 2010 were equally split between the NBR and the Ministry of Public Finance. The third and fourth tranches totaled SDR 2.18 billion (EUR 2.45 billion equivalent) and brought the total disbursements under the IMF Stand-by Agreement to SDR 8.26 billion (about EUR 9.18 billion). One half of the second, third and fourth tranches of the IMF credit was used by the Ministry of Public Finance for budget deficit financing while the other half was used by the NBR for balance of payments support.

The fifth tranche of the IMF credit of SDR 768 million was disbursed to NBR on 7 July 2010, while the sixth tranche of the IMF credit of SDR 769 million and the seventh tranche of SDR 769 million were disbursed to NBR on 28 September 2010 and 11 January 2011, respectively. The eighth tranche, the last of the agreement in the amount of SDR 874 million, was not drawn, as the authorities deemed it unnecessary given the economic environment.

The IMF's Executive Board approved on 25 March 2011 a new 24-month precautionary Stand-by Agreement in the amount equivalent to SDR 3,090.6 million (about EUR 3.5 billion, 300 per cent. of quota). The Stand-by Agreement came into effect on 31 March 2011. Since then five reviews were completed and the IMF Board of Executive Directors approved the revised Letters of Intent as well as the Technical Memoranda of Understanding. As a consequence, SDR 2,21 billion are readily available and can be disbursed to NBR on demand.

A joint mission of the IMF/EC/WB visited Bucharest during July 31, 2012 to August 14, 2012, for the sixth review of Romania's economic programme. Following the meetings, a staff-level agreement has been reached with the authorities on measures that will be discussed by the IMF's Executive Board in a meeting that is tentatively scheduled for late September 2012, following which it is expected that the IMF will approve the revised Letter of Intent, enclosing the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding. The results of the review will also be presented to the Economic and Financial Committee of the EU in September 2012 (please see further "*Risk Factors - Future financing from international organizations such as the IMF could require implementation of certain measures, including more stringent austerity measures"* on page 6 above**).**

*Memorandum of Understanding ("**MoU**")*

The MoU and the financial terms of the loan agreement (the "**Loan Agreement**") between the European Community and Romania, which is based on the provisions of the MoU, were approved by the Government on 30 June 2009. The Loan Agreement provides for a series of bullet loans with an average maturity of seven years. Under the MoU and its subsequent amendments (three addendums, approved by Government), the tranches were disbursed to the Ministry of Public Finance (for budget deficit purposes) as follows:

- on 27 July 2009: EUR 1.5 billion, repayable in January 2015, with an interest rate of 3.125 per cent. p.a.;
- on 11 March 2010: EUR 1 billion, repayable in May, 2019, with an interest rate of 3.375 per cent. p.a.;
- on 22 September 2010: EUR 1.15 billion, repayable in April 2017, with an interest rate of 2.375 per cent. p.a.;
- on 24 March 2011: EUR 1.2 billion, repayable in January 2018, with an interest rate of 3.25 per cent. p.a.;
- on 30 June 2011: EUR 0.15 billion, repayable in June 2018, with an interest rate of 3.125 per cent. p.a.

On 12 May 2011, the Council of the European Union adopted a decision to make available precautionary medium-term financial assistance of up to EUR 1.4 billion for Romania. The EU assistance for Romania under the Balance of Payments facility comes in conjunction with IMF support through the Stand-by Agreement in the amount of SDR 3,090.6 billion (*Please refer to section "Stand-by Agreement" above*), approved on 25 March 2011, which the authorities will also treat as precautionary.

Two Supplemental Memoranda of Understanding were subsequently issued.

World Bank

According to the Country Partnership Strategy, the World Bank (the "**WB**") has made available three development policy loans ("**DPLs**"). They were disbursed to the Ministry of Public Finance on 21 October 2009 (DPL1 – EUR 300 mill.), 30 June 2011 (DPL2 – EUR 300 mill.) and 28 December 2011 (DPL3 – EUR 400 mill.) respectively. They are bullet loans repayable in 2022 (DPL1 and (DPL2) and 2023 (DPL3).

The disbursements under the DPLs were made based upon implementation of legislation aimed at strengthening public sector finances, social protection and the financial sector.

In the health sector, conditions were aimed at improving health services and related to updating the hospital rationalisation strategy and the introduction of a co-payment concept in health benefits, while a public awareness campaign was scheduled nationwide.

In the field of education, the first DPL programme included elements for improving access and quality of education, enhancing fiscal savings and improving financial management.

In the financial sector, corporate and mortgage debt restructuring guidelines were published, which aimed to provide businesses and individuals with a roadmap for out of court restructuring and thereby avoiding recourse to court insolvency proceedings. Amendments to legislation relating to financial sector supervisors and regulators have aligned this legislation to best international practices in terms of financial and political independence.

The World Bank is continuing in providing financial support of EUR 750 million under result based financing for social assistance and health reforms. The result based loan in the amount of EUR 500 million, currently under implementation, aims to support the improvement of the overall performance of the social assistance system by strengthening performance management, improving equity, improving administrative efficiency and reducing error and fraud. The remaining EUR 250 million will support the health sector.

The World Bank's Board of Executive Directors also approved on 12 June 2012 an International Bank for Reconstruction and Development (IBRD) loan of EUR 1 billion for Romania (Deferred Drawdown Option Development Policy Loan). It will support the Government of Romania's commitments under the EU Fiscal Compact and would be available as a fiscal buffer and follows the successful implementation of the above DPLs.

The DPL DDO will support reforms in several sectors aiming to:

- enhance the efficiency of public spending and the Government's revenue raising capacity through better compliance with tax laws;
- improve governance of state owned enterprises in the energy and transport sectors to reduce the drain on the budget, generate savings and attract the private capital needed to modernise plants and increase their competitiveness, and pursue the liberalization of energy markets; and
- enhance the quality of public health care by reducing unjustified outlays and reallocating resources to high return preventive care and health promotion programs.

An IBRD loan in amount of about EUR 75 million is currently under preparation. The loan aims to support the tax modernisation process. It will be implemented by NAFA and the withdrawn amounts will be used for budgetary purposes in accordance with the provisions of the public debt legislation.

Expected Strategies and Trends for Public Debt

It is estimated that public debt will rise to 40.2 per cent. of GDP by the end of 2012, compared with 38.6 per cent. of GDP as at the end of 2011, this is primarily due to financing of the budget deficit and debt refinancing.

The budgetary deficit in 2012 (of 2.2 per cent. of GDP) is being financed from internal and external sources using the following instruments:

- issuances of treasury bills and benchmark bonds on the domestic market;
- disbursements under agreed loans for project financing;
- new external loans;
- loans contracted by the local public administration authorities;
- Eurobond issuances on the international capital markets, and
- privatization receipts.

In terms of external financing of budgetary deficit and refinancing of public debt, the Ministry of Public Finance used the external loans received from the financial package of EUR 19.95 billion agreed with the IMF, the EC and the World Bank, out of which by December 2011 approximately EUR 2.05 billion had been drawn, for financing the budget deficit. The current agreements with the IMF and EC are treated as precautionary.

The Issuer ratified a new World Bank loan for social assistance in the amount of EUR 500 million that will be disbursed between 2012 and 2014.

For the period 2012 to 2014, in accordance with the Mid-Term Strategy for Governmental Public Debt Administration adopted by the Ministry of Finance in accordance with the Public Debt Ordinance and approved by the Romanian Government, as a result of anticipated economic growth, the public debt is estimated to be below 40.5 per cent. of GDP. In 2014, the level of public debt according to national legislation is estimated to reach about 38.5 per cent. of GDP, while the general government debt according to EU methodology is estimated at 33.0 per cent. of GDP.

In terms of government public debt management, the Government approved in July 2012 its medium term strategy for the period from 2012 to 2014. The main objectives of the approved strategy are: (i) to cover the government financing needs and payment obligations, while minimizing medium and long term costs (to this end, the strategy includes limitations applicable to public debt management, i.e. ceiling of 1.6 per cent. of GDP for the cost of Governmental public debt and a ceiling of 10.5 per cent. for the medium-term servicing of the government public debt); (ii) risk limitation in the government public debt portfolio and (iii) to develop the domestic market of government securities. Over the 2012-2014 reference period, the Government plans to finance the budget deficit using a balanced approach between domestic and external financing sources.

Starting with 2010, in order to improve public debt management and to avoid the seasonal pressure to finance the budget deficit and refinance debt, the Ministry of Public Finance established a financial reserve (buffer) in foreign currency, which will be consolidated to an amount equivalent to the needs of financing the budget deficit and refinancing the public debt over a period of approximately four months. Furthermore, Romania finalised the Terms of Reference for the technical assistance of the IBRD treasury, which would be financed through the Programme Administrative Capacity Development ("**PODCA**"). Its components consist of: cash and debt management; transactions on secondary markets; and simplification of the public debt payment process. Romania is also in the process of developing secondary legislation for the use of financial derivatives. In the near future, Romania anticipates limiting its usage of financial derivatives for the purposes of the administration of its public indebtedness.

Credit Ratings

In May 2012, Standard & Poor's Ratings Services affirmed its 'BB+/B' long and short-term foreign and local currency sovereign credit ratings on Romania with a stable outlook. The transfer and convertibility (T&C) assessment is 'BBB+'. The ratings are supported by the country's improving fundamentals; the fiscal deficit is declining, the current account deficit has narrowed, and the economy has started to rebalance, with the support of an IMF programme.

In June 2012, Fitch Ratings affirmed Romania's Long-term foreign currency Issuer Default Rating (IDR) at 'BBB-', and its Long-term local currency IDR at 'BBB' with both ratings Outlook at Stable. Fitch has simultaneously affirmed Romania's Short-term rating of 'F3' and Country Ceiling of 'BBB+'. The affirmation of the ratings reflects the country's implementation of substantial fiscal consolidation.

In June 2012, Moody's kept unchanged the Baa3 ratings for long term (local and foreign-currency) as well as the Prime-3 ratings on the government's short-term local and foreign-currency debt while revising Romania's outlook to negative from stable citing Romania's ties to the Eurozone, relatively high level of foreign currency debt and significant annual external debt repayment obligations.

In December 2011, Japan Credit Rating Agency affirmed Romania's rating of "BBB-"/"BBB" (FC/LC), each with a "stable" outlook. The ratings primarily reflect Romania's reduction of its fiscal deficit through progress made on structural reforms and low government debt.

TAXATION

ROMANIA

The following is a general description of certain Romanian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Romania of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Under Law No. 571/2003 on the fiscal code as subsequently amended and supplemented (the "**Romanian Fiscal Code**"), certain types of income received by non-residents from Romanian sources are subject to Romanian tax at the rates prescribed by the Romanian Fiscal Code, irrespective of whether the income is received in Romania or abroad. For the purposes of the Romanian Fiscal Code:

(i) a "non-resident" is defined as any foreign legal person, any non-resident natural person, and any other foreign entities, including undertakings for collective investment in transferable securities, without legal personality, which are not registered in Romania according to the law;

(ii) a "foreign legal person" is defined as any legal person which is not a Romanian legal person and any legal person established pursuant to European law which is not headquartered in Romania;

(iii) a "Romanian legal person" is defined as any legal person established in accordance with Romanian law;

(iv) a "legal person established pursuant to European law" is defined as any legal person established in accordance with and by the mechanics contemplated by European regulations;

(v) a "non-resident natural person" is defined as any natural person which is not a resident natural person; and

(vi) a "resident natural person" is defined as any natural person that meets at least one of the following conditions: (a) is domiciled in Romania, or (b) has the centre of his vital interests (Romanian language: "*centrul intereselor vitale*") located in Romania, or (c) is present in Romania for a period or several periods exceeding in aggregate 183 days during any twelve consecutive months, and that period(s) end(s) in the relevant calendar year, or (d) is a Romanian citizen that works abroad as an officer or an employee of the Romanian state.

By way of exception to (a) to (d) above, neither a foreign citizen enjoying diplomatic or consular regime within Romania, nor a foreign citizen who is an employee or officer of an international or intergovernmental organisation registered in Romania, nor a foreign citizen who is an officer or an employee of a foreign state in Romania, nor their family members will be deemed to be resident natural persons in Romania.

Taxation of non-resident Noteholders

Under the Romanian Fiscal Code interest payable to non-resident Noteholders on the Notes is exempted from taxation. Also, for capital gains (determined as the difference between the sale price and the acquisition price and in some cases, the transaction costs) arising on the transfer outside the territory of Romania of any Notes between non-residents, such non-resident Noteholders are not taxed. Therefore no tax on interest or capital gains will be levied on such income.

Other information

Romania is a party to over 80 Double Tax Treaties with other jurisdictions, most of which are based on the OECD Model Convention.

EU SAVINGS TAX DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with one of two procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system applies for a transitional period; currently, the withholding tax rate is set at 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

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

The EC has announced on 13 November 2008 proposals to amend the EU Savings Directive. The European Parliament approved an amended version of this proposal on 24 April 2009. If implemented, the proposed amendments would, inter alia, (i) extend the scope of the EU Savings Directive to payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of EU resident individuals, and (ii) provide for a wider definition of interest subject to the EU Savings Directive. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

The Joint Lead Managers will, in a subscription agreement dated 7 September 2012 (the "**Subscription Agreement**") and to be made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agree to subscribe the Notes at their issue price of 106.817 per cent. of their principal amount (plus accrued interest from 18 June 2012) less a combined management and underwriting commission of 0.04 per cent. of their 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 closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. 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, U.S. 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, U.S. persons.

In addition, until 40 days after commencement of the offering, any 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.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

1. ***Financial Promotion:*** It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

2. ***General compliance:*** It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Romania

The Notes may not be offered or sold in Romania, nor may this Offering Circular or any other material relating to the Notes be distributed in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

Each Joint Lead Manager has represented and agreed that it has not directly or indirectly offered or sold and will not offer or sell any Notes in Romania and that it has not distributed and will not distribute any offering material relating to the Notes in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

Each Joint Lead Manager has agreed that it will comply with all applicable securities laws and regulations in force in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular or any other offering materials.

General

Other than with respect to the admission to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange, 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

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

2. The creation and issue of the Notes has been authorised by Romanian Government Decision No. 1561/2007 on the approval of the contracting of a foreign financing in the form of a bond issue denominated in Euro on foreign capital markets as published in the Romanian Official Gazette Part I No. 882 of 21 December 2007, by the Memorandum adopted by the Romanian Government on 27 June 2012 concerning the approving of the reopening of the issue of bonds realized on 18 June 2008, by the Memorandum adopted by the Romanian Government on 7 July 2012 concerning the approval of the financial institutions that will manage the reopening of the issue of bonds realized on 18 June 2008, by the Memorandum adopted by Romanian Government on 30 August 2012 concerning the increase of the amount relating to the reopening of the issue of bonds realized on 18 June 2008 and by the Order of the Ministry of Public Finance no. 1.166 of 3 September 2012 published in the Romanian Official Gazette Part I No. 631 of 3 September 2012 (the "**Authorisations**").

3. There are no legal or arbitration proceedings against or affecting the Issuer, or any of its assets, nor is the Issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

4. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

   (a) the Agency Agreement;

   (b) the Deed of Covenant;

   (c) the Authorisations referred to above; and

   (d) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Notes in New Global Note form).

5. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In respect of the New Notes whilst represented by the Temporary Global Note, the ISIN is XS0827485474, the common code is 082748547 and the WKN is A1G881.

   In respect of the Original Notes and (following exchange of the Temporary Global Note for the New Notes for the Permanent Global Note) the Notes, the ISIN is XS0371163600, the common code is 037116360 and the WKN is A0TWZD.

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