ROMANIA

EUR 1,000,000,000
5.00 per cent. Notes due 2015

The issue price of the EUR 1,000,000,000 5.00 per cent. Notes due 2015 (the "**Notes**") of Romania (the "**Issuer**") is 99.250 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 18 March 2015.

The Notes will bear interest from 18 March 2010 at the rate of 5.00 per cent. per annum payable annually in arrear on 18 March each year commencing on 18 March 2011. 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*".

Application has been made to list the Notes on the Luxembourg Stock Exchange, which is a regulated market for the purposes of Article 4.1.14 of the Directive on Markets in Financial Instruments (Directive 2004/39/EC).

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

The Notes will be in bearer form and in the denomination of euro 1,000 each. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 18 March 2010 (the "**Closing Date**") with a common safekeeper for Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of euro 1,000 each and with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

This Offering Circular does not comprise a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**").

Joint Lead Managers

DEUTSCHE BANK **EFG EUROBANK** **HSBC**

Offering Circular dated 16 March 2010

The Issuer accepts responsibility for the information contained within this document. To the best of its knowledge and belief, the information contained within this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility accordingly.

*Deutsche Bank AG, London Branch, EFG Eurobank Ergasias S.A. and HSBC Bank plc (the "**Managers**") have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes or their distribution.*

No person is or has been authorised to give any information or to make any representation which is not contained in, or which is not consistent with, this Offering Circular or any other information supplied by or on behalf of the Issuer in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer that any recipient of this Offering Circular should purchase any Notes. 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.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since 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 in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this document may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published, in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe any such restrictions. In particular there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States and the United Kingdom. For a description of further restrictions on offers and sales of Notes and distribution of this Offering Circular see "Subscription and Sale" below.

The Notes have not been and will not be registered under the Securities Act of 1933 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 neither constitutes 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**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, and it has not been, and will not be,* *submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (Commission de Surveillance du Secteur Financier), in its capacity as competent authority under the Luxembourg Prospectus Law. The Notes, issued pursuant to this Offering Circular, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Directive.*

*In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community (as amended from time to time) and references to "**RON**", "**leu**" or "**lei**" are to the lawful currency for the time being of Romania.*

In connection with the issue of the Notes, HSBC Bank plc as Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the 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 person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Contents

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 1,000,000,000 5.00 per cent. Notes due 2015 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 *(Further issues*) and forming a single series therewith) of Romania (the "**Issuer**") are to be the subject of a fiscal agency agreement dated 18 March 2010 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Deutsche Bank AG, London Branch 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 Notes will bear interest from 18 March 2010 (the "**Issue Date**"), at the rate of 5.00 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 18 March 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 50 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 Issue 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 March 2015, 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 (*Events of Default*); or

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

(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 *d'Wort*) or on the internet site of the Luxembourg Stock Exchange (www.bourse.lu) 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 non contractual obligations arising out of or in connection with the Notes are governed by 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 out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes).

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

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 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 18 March 2010 (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 Notes, expected to amount to EUR 992,125,000 will be used by the Issuer in order to finance the State Budget deficit and refinance public debt, as necessary.

Romania

Romanian Eurobond Issue 2009 – Description of Issuer

1. Overview

Territory and population

Romania is located in East 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. Forests cover approximately 26.5 per cent. of the country and approximately 61.7 per cent. of the country is agricultural land.

In 2008, Romania had a population of approximately 21.50 million. Approximately 55.0 per cent. of the population lived in urban areas and approximately 1.94 million people lived in the country's capital city, Bucharest.

Political system

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 1991 constitution was amended in October 2003 to extend the President's term of office from four to five years. The constitution formally separates the legislative, executive and judicial powers of the state.

Parliament

Legislative power is vested in the Romanian Parliament.

The Parliament of Romania has a bicameral structure consisting of the Senate and the Chamber of Deputies. Parliamentarians are directly elected, by universal suffrage, for a four year term.

Elections are county-constituency based with one deputy per 70,000 citizens and one senator per 160,000 citizens. Currently, the Chamber of Deputies has 334 seats and the Senate has 137 seats.

On 22 November 2009, a referendum proposed by the President was held to reorganise the Parliament of Romania as a parliament with a unicameral structure and to decrease to a maximum of 300 the total number of members of the Parliament of Romania.

The President is permitted by the constitution to initiate referenda with respect to matters of national interest. The referendum relating to the Romanian Parliament was proposed because it was thought that a unicameral parliament with a decreased number of 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. This is because, in Romania, referenda are consultative only and do not automatically require the constitution to be changed. It is, however, expected that the procedure for amending the Constitution will be initiated at a certain (although as yet unannounced) date in the future to reflect the results of the referendum.

Legislation can be initiated by members of Parliament but most legislation is initiated by the Government. Legislation can also, subject to certain conditions, be initiated by the collective signed petition of at least 100,000 citizens having the right to vote and representing at least a quarter of all the counties as evidenced by at least 5,000 signatories per county.

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, subject to the approval of the President. Each cabinet appointment is also subject to the approval of the President.

The current Prime Minister is Emil Boc, leader of the Democratic Liberal Party.

Judiciary

Judicial authority is vested in the Constitutional Court, the High Court of Cassation and Justice, regional courts of appeal, county tribunals, lower courts and military tribunals.

All judges are independent professionals appointed by the President on the recommendation of the Superior Council of Magistrates of Romania, save that the nine judges of the Constitutional Court are appointed (for a nine year term) by the President, the Chamber of Deputies and the Senate, each of which is entitled to make three appointments.

The Romanian judicial system is currently undergoing a process of reform based upon both the Strategy for Reforming the Judicial System, 2005-2007 and the four "Benchmarks" established pursuant to the EU Cooperation and Verification Mechanism (the "**CVM**") on judicial reform and anti-corruption measures, namely (i) a more transparent and efficient judicial process, (ii) an agency (the National Integrity Agency) to deal with conflicts of interest, (iii) independent investigations of high-level corruption and (iv) a national anti-corruption strategy particularly in local government. On 31 October 2007, the Romanian Government adopted an action plan setting out measures to address the CVM Benchmarks.

On 22 July 2009 the EU reported on progress to achieve the Benchmarks. Progress made during 2009 included the following: new civil and criminal codes have been adopted; new procedural codes are under debate in the Parliament of Romania; the legal framework relating to judicial inspections and disciplinary proceedings against magistrates has been improved; free and fast public access to jurisprudence is ensured; the IT dimension of the judicial infrastructure is under continuous development; the National Integrity Agency, which verifies declarations of wealth and of interests of dignitaries, high-ranking officials, magistrates and civil servants, according to a report from the European Commission to the European Parliament and the European Council on progress in Romania under the co-operation and verification mechanism published in July 2009 (the "**July 2009 CE Report**"), is now operational and has delivered good results; there has been continuous improvement of the National Anti-corruption Department's track record of high-level corruption cases involving MPs, ministers and former ministers, high civil servants, judges, prosecutors, lawyers, mayors, police and customs officials; anti-corruption measures have been extended to other vulnerable sectors, such as the medical and the educational sectors through the National Anti-corruption Strategy regarding vulnerable sectors and the local public administration; a series of administrative procedures, such as the issuing of passports, driving licenses, car registration certificates, criminal and fiscal records, has been simplified; and local anti-corruption strategies have been adopted by territorial prosecution offices: these strategies have been described by the July 2009 CE Report as a "commendable initiative", which "raised awareness … concerning low level corruption" .

President

The President of Romania is the head of the Romanian state and is elected by popular vote for a five year term. The President cannot be a member of a political party.

The President nominates the Prime Minister and formally appoints the Government.

The President is also the president of the Romanian Supreme Council of Defence and the commander- in-chief of the Romanian armed forces.

The current President of Romania is Traian Basescu who was re-elected in 2009 for a second term with 50.33 per cent. of the votes. The presidential elections were held on 22 November 2009 and 6 December 2009 and the results were validated by the Romanian Constitutional Court on 14 December 2009. The next presidential election will be held in 2014.

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.

Political parties

The following political parties have parliamentary representation in the Chamber of Deputies:

- Democratic Liberal Party (*Partidul Democrat-Liberal, PD-L*) – liberal conservative, centre-right, led by Emil Boc, minority government
- Social Democratic Party (*Partidul Social Democrat, PSD*) – social democratic, centre-left, led by Victor Ponta, part of the PSD+PC union
- Conservative Party (*Partidul Conservator, PC*) – conservative, founded by the Romanian businessman Dan Voiculescu and currently led by Daniel Constantin, part of the PSD+PC union
- National Liberal Party (*Partidul Na ional Liberal, PNL*) – liberal, centre-right, led by Crin Antonescu, former member of the Justice and Truth Alliance
- Hungarian Democratic Union in Romania (*Uniunea Democrat Maghiar din România, UDMR*) – centrist, Hungarian minority party, led by Béla Markó

The last parliamentary elections took place on 30 November 2008. These were the first elections based on uninominal voting which allows voters to vote in favour of their preferred individual candidates. Before the voting reform Law No. 35/2008 was passed in March 2008, voters could only vote in favour of lists of candidates prepared by the political parties.

The election result showed an almost equal distribution of votes between the PD-L and the political union PSD+PC.

The following table shows the parliamentary seats currently held by each political party:

Party	**Chamber of Deputies**	**Senate**
PD-L	118	52
PSD+PC	106	48
PNL	55	24
UDMR	22	9
Independents	15	4
Ethnic minority parties	18	–
Total	**334**	**137**

Until 1 October 2009, Romania had a coalition government of the PD-L and PSD+PC. On that date, the PSD+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 Parliament of Romania. 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, of the UDMR and independents was approved by the Parliament of Romania on 23 December 2009.

International Relations

Romania maintains diplomatic relations with 182 countries.

Romania is an active member of the United Nations and has been involved in UN peacekeeping and humanitarian operations in the Western Balkans.

Romania is a full member of the Council of Europe and is also a member of the Organisation for Security and Co-operation in Europe ("**OSCE**").

Romania is also a member, and currently the President, of the Central European Initiative, which comprises 18 countries: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Italy, Macedonia, Republic of Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and the Ukraine. The Central European Initiative is mainly concerned with promoting regional infrastructure development.

In 2004, Romania joined The North Atlantic Treaty Organisation ("**NATO**") and, as a NATO member, provided troops to the International Security Assistance Force in Afghanistan and to the Kosovo Forces ("**KFOR**"). Romania also hosted the largest ever NATO summit in April 2008.

Romania became a member of the EU on 1 January 2007 and actively contributes to EU policies, including the Common European Security Policy/European Security and Defence Policy ("**CESP/ ESDP**").

Romania has strategic partnership agreements with several countries, including the United States of America, Italy, France, the United Kingdom, South Korea and Germany (in the economic field) and has special relations with China, Japan, South Korea and India. It is also seeking to consolidate new partnerships with Poland, Turkey and Azerbaijan, countries with which it has common political and economic interests.

Romania is seeking to join the Organisation for Economic Co-operation and Development (the "**OECD**").

2. Membership of the European Union (the "EU")

Romania applied in 1995 to join the EU and was admitted on 1 January 2007.

EU rules have been fully adopted in Romania in fields such as corporate governance, banking, insurance, financial services, energy, accounting and competition. Also, the energy, telecom and transportation sectors have been significantly opened to free competition.

In some areas, Romania has been granted extensions of time for the adoption of certain EU rules including the following material extensions of time:

- in the field of free movement of capital, EU citizens are still restricted from acquiring farm and forest lands for five and seven years respectively from 1 January 2007;
- in the field of free movement of services, until 31 December 2011 Romania may apply lower thresholds of compensation than the minimum compensation requirements specified by Directive 97/9/EC on investor-compensation schemes;
- Romania is allowed to grant fiscal aid to certain local industries for periods extending from one to four years;
- certain internal free trade areas may be maintained until 31 December 2011; and

- Romania has also been granted transitional periods until (at the latest) 2018 for the full implementation of EU environmental regulations on air quality, waste management, water quality and industrial pollution.

Romania has also been granted a variety of transitional periods and derogations in respect of excise duty on certain fuels, electricity, alcohol and tobacco, for small businesses, and the taxation of intra-group interest and royalties.

In order to assist it in preparing for EU membership, Romania received USD 518.3 million between 1999 and 2007 from the EU's "Poland and Hungary: Assistance for Restructuring their Economies" ("**PHARE**") programme for the purposes of institution building and investment support in a range of sectors, including industrial and infrastructure restructuring, education and healthcare (the PHARE programme is discussed further below, under "Public Finance – EU Funding").

Membership of the EU has stimulated emigration from certain sections of the Romanian labour force. Emigration has had both positive and negative macroeconomic effects. Prior to 2008, positive effects of Romania's EU membership included lower unemployment rates in Romania's underdeveloped regions, while increased monetary remittances from abroad have been a significant source of household income and have reduced the current account deficit. Negative effects of EU membership included the loss of skilled and highly-skilled labour (e.g. doctors), which led to labour shortages in some sectors. Emigration also contributed to larger wage increases which, in turn, fuelled inflation. During the 2008 and 2009 international financial crisis, these trends reversed following the return to their homeland of many Romanian workers, especially in the construction sector.

During 2007, there were no significant inflationary pressures related to Romania's membership of the EU. The adoption of the Common Customs Tariff has generally caused downward pressure on prices owing to the removal of customs duties between Romania and other EU member states and the fact that more than 70 per cent. of Romanian imports come from the EU. On the other hand, for most foodstuffs subject to the Common Agricultural Policy, market prices in the EU were already higher than the intervention price (the minimum guaranteed price paid by the EU for a particular agricultural product).

Romania does not expect to be able to join the exchange rate mechanism ("**ERM II**") before 2012 but, subject to achieving the necessary convergence, is aiming to join the euro-zone in 2015.

3. The Romanian Economy

Romania's preparation for, and its eventual, EU accession resulted in many positive economic developments in recent years.

An average annual rate of growth of 6.3 per cent. during the 2001-2008 period ensured the gradual decrease in the gap between Romania and other EU member states. The real gross domestic product ("**GDP**") growth rate (after inflation) of 7.9 per cent. in 2006 was one of the highest growth levels, either domestically or across the EU, recorded in recent years. GDP per capita increased from EUR 2,022.3 in 2001 to EUR 6,363.6 in 2008. Compared with the other EU member states, in 2008 GDP per capita in Purchasing Power Standards ("**PPS**") was 12,000 PPS, representing about 47 per cent. of the EU average, as against 2001 when it was 5,500 PPS, which represented about 28 per cent. of the EU average.

The international financial crisis started to impact on the Romanian economy from the third quarter of 2008. The effects of the crisis on the economy intensified during the final quarter of 2008 and during the first nine months of 2009, the real economy was strongly affected by the international financial crisis.

The following table shows the main macroeconomic indicators for the years 2006 to 2008 and the first eleven months of 2009:

Main Macroeconomic Indicators

	The first eleven months of 2009	**2008**	**2007**	**2006**
Gross domestic product – current prices (billion EUR)	79.0(1)	1,39.7	124.7	97.8
– Real growth (%)	-7.4(1)	7.3	6.3	7.9
– RON/per capita...	N/A***	23,932	19,315	15,968
Private sector (% of GDP)...	N/A***	71.7	72.0	71.6
Industrial production(2) – %	-6.7	2.6	10.3	9.3
Agricultural production(2) – %	0.8(1)	21.7	-17.7	2.4
Retail(2)(3) – %	-10.5	20.7	20.4	19.1
Current account balance (million EUR)	-4,681*	-16,157	-16,714	-10,156
Real wage – %..	2.8*	16.5	14.7	9.0
Average inflation – %	5.59(4)	7.85	4.84	6.56
Employment – % (according to AMIGO methodology)	-1.0(1)	0.2	0.4	1.8

(1) first nine months of 2009 compared against the first nine months of 2008

(2) percentage change, NACE Rev.2**

(3) excluding sale, maintenance and repair of motors, vehicles, motorcycles and retail fuels

(4) annual average

* provisional data

** NACE Rev. 2 is the second version of the EU- compliant classification, for statistical purposes, of economic activity in Romania by the National Institute of Statistics.

*** Data only calculated on a yearly basis

During 2001-2008, domestic demand was the main growth factor, recording an average increase of 9.4 per cent. p.a. An important factor in the historic growth of domestic demand was the adoption of the 16 per cent. flat rate of tax on profits and income on 1 January 2005 which led to a decrease in taxes on personal income and company profits. This stimulated the private sector to invest and consequently the ratio between consumption and investment improved. Gross fixed capital formation increased, on average, by 15.1 per cent. p.a. between 2001 and 2008 and private consumption expenditure increased by 10.4 per cent. p.a. over the same period.

On the whole, net exports made a negative contribution to real GDP growth, as a consequence of higher goods and services imports, due mainly to the strong dependency of the Romanian economy on the energy sector, raw materials and capital imports. Since 2004, the increased competitiveness of Romanian products has been reflected in changes to the structure of exports of industrial goods and productivity gains have improved the price competitiveness of Romanian products on the international market.

The negative impact of net exports on real GDP growth increased from 6.3 per cent. in 2006 to 9.5 per cent. in 2007 and to 11.3 per cent. in 2008. While exports of goods and services enjoyed real growth in 2008, 11.5 per cent. higher than the level of growth in 2007 (19.4 per cent. in 2008 compared to 7.9 per cent. in 2007), imports of goods and services recorded a decrease in growth of 9.7 per cent. (17.5 per cent. in 2008 compared to 27.2 per cent. in 2007).

Economic growth, as measured by real GDP, continued at a high level in 2008, despite a deterioration in international conditions for GDP growth, particularly in the second half of 2008, which saw an international financial crisis, an increase in oil prices and a general inflationary trend across the European Union.

GDP increased by 7.3 per cent. in 2008 compared with 2007. This increase was driven mainly by domestic demand for investment but also by external sources of investment. This, in turn, increased the trade and current account deficits.

In the first nine months of 2009, domestic demand decreased by 13.7 per cent. owing in large part to a decrease of 22.6 per cent. in final consumption. External demand fell by 10.1 per cent. and household actual individual final consumption decreased by 13.8 per cent..

Gross fixed capital formation decreased by 22.6 per cent. in the first nine months of 2009, owing to a decrease in volume of investments, the main component of this aggregate. Investments in new construction decreased by 9.3 per cent. and those in equipment (including means of transport) registered a fall of 37.3 per cent. as against the first nine months of 2008. The decrease in both exports of goods and services (-10.1 per cent.) and imports of goods and services (-24.3 per cent.) affected the Romanian trade balance and balance of payments deficit.

Gross value added for the first nine months of 2009 decreased by 7.1 per cent. for industry, 1.2 per cent. for agriculture, 11.9 per cent. for construction and 6.2 per cent. for services, in each case, compared to the first nine months of 2008.

The following table shows percentage changes to the components of the use of GDP for the years 2006 to 2008 and the first nine months of 2009:

Gross Domestic Product Use Components

	The first nine months of 2009*	**2008**	**2007**	**2006**
		(percentage change)		
Final consumption	-11.1	9.1	9.6	9.4
Private consumption expenditures	-13.8	9.5	11.9	12.7
Government consumption expenditures	1.1	7.1	-0.1	-4.1
Gross fixed capital formation	-22.6	16.2	30.3	19.9
Changes in inventory (Contribution to real GDP growth)	4.6	-4.3	-0.1	1.4
Net exports (Contribution to real GDP growth)	8.3	-0.8	-9.6	-6.3
Gross domestic product	**-7.4**	**7.3**	**6.3**	**7.9**

Source: National Commission for Economic Forecast ("NCEF") based on NIS data

* Percentage change against the first nine months of 2008

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 less than 26 per cent. by 2000. After 2000, the structural decline halted and the contribution to GDP made by industrial growth was stabilised. These changes involved substantial reductions in employment, particularly in traditional heavy industries, such as steel, chemicals and machine manufacture. The increase in the Romanian service sector is comparable with other developed economies and the service sector increased its contribution to GDP growth from 26.5 per cent. in 1990 to almost 50 per cent. in 2008.

The following table shows the structure of GDP by sector for the years 2006 to 2008 and the first nine months of 2009.

Structure of Gross Domestic Product by Sectors

	The first nine months of 2009	**2008**	**2007**	**2006**
		(percentages)		
Industry	24.5	22.9	24.3	24.5
Agriculture, forestry and fisheries	5.8	6.7	5.8	7.8
Construction	8.4	10.6	9.1	7.4
Services	50.5	48.9	49.3	48.6
Net taxes	10.8	10.9	11.5	11.7
Gross domestic product	**100**	**100**	**100**	**100**

Source: NCEF based on NIS data

This decline in the industrial sector has 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 has not increased sufficiently to compensate for the decline in manufacturing and agricultural employment.

These structural changes have been determined by the differing sectoral development of gross value added, where growth rates were higher than GDP growth rates in the construction sector during 2006 to 2008.

The following table shows percentage changes in sectoral components of GDP for the years 2006 to 2008 and for the first nine months of 2009.

Changes in Gross Domestic Product by Sectors

	The first nine months of 2009*	**2008**	**2007**	**2006**
		(percentage change)		
Industry	-7.1	1.9	5.4	7.2
Agriculture, forestry, fisheries	-1.2	21.9	-15.3	3.4
Construction	-11.9	26.1	33.9	23.4
Services	-6.2	5.4	7.0	6.8
Gross value added	-6.7	7.6	6.9	7.8
Net taxes on goods	-13.3	5.2	2.2	8.3
Gross domestic product	**-7.4**	**7.3**	**6.3**	**7.9**

Source: NIS

* Percentage change against the first nine months of 2008

Industrial production

Total industrial production increased overall in recent years, recording an annual average increase of 7.3 per cent. during 2006 to 2008, with a record growth rate of 10.3 per cent. in 2007 as a result of structural reforms implemented during the course of the preceding years. However the annual increase fell to 2.6 per cent. in 2008, while the first half of 2009 showed a decline of 6.7 per cent. in industrial output.

Prior to 2009, manufacturing recorded annual increases greater than total industry increases, as a result of the structural changes in this sector. Manufacturing also reached a rate of growth higher than that of industry as a whole and underwent certain structural changes: from 2005 to 2008, the manufacture of other products from non-metallic minerals (e.g. construction materials) and fabricated metal products, as well as the manufacture of rubber and plastic products, all registered significant growth, in comparison with the manufacture of clothing products, leather and footwear, whose rate of growth has generally slowed.

During the first eleven months of 2009, industrial output decreased by 6.7 per cent. in real terms, as compared to the first eleven months of 2008, but a recovery trend was suggested by the fact that the decrease in industrial output recorded during the third quarter of 2009 was 8.7 per cent. less than that recorded in the first quarter of 2009.

The following table shows percentage changes in industrial production by sector for the years 2006 to 2008 and for the first eleven months of 2009:

Industrial Production by Sectors*

	The first eleven months of 2009*	**2008**	**2007**	**2006**
		(percentage change)		
Mining and quarrying	-11.8	0.1	-1.6	2.4
Manufacturing	-7.8	3.1	12.1	12.5
Energy	5.9	0.4	4.3	-7.7
Total industry	-6.7	2.6	10.3	9.3

Source: NIS

* According to NACE Rev 2

** Compared to the first eleven months of 2008

Construction

During the period from 2005 to 2008, the volume of construction work increased annually on average by 18.9 per cent.. In 2008, construction work increased by 26.9 per cent. compared to 33.3 per cent. in 2007, with an increase in the value of works in all three categories of construction (residential, non-residential and civil engineering). The value of residential construction work in 2008 increased by 34.7 per cent.; the value of non-residential work by 39.4 per cent., and the value of civil engineering construction work by 18 per cent..

These trends occurred under the following circumstances:

- rapid expansion of inhabited and of non-residential areas, especially in big cities, mainly related to the externalisation of industrial and commercial areas and warehouses and, at the same time, of the general trend in construction towards greater levels of construction in peripheral and suburban areas;
- development of large infrastructure projects; and
- modernisation of schools, as well as construction of gym areas.

In 2008, there was an increase, (albeit a lesser increase than in 2007) in all categories of construction work: new construction works (17.7 per cent.), capital repair works (48.2 per cent.) and maintenance and repair works (51.1 per cent.). The need to replace infrastructure and an improved residential sector were significant factors influencing the increase.

In the first eleven months of 2009, the volume of construction works (gross) decreased by 16.7 per cent. as compared to the corresponding period in 2008. This decrease follows a reduction of 13.5 per cent. in new construction work, 25.7 per cent. in capital repair works and 21.1 per cent. in maintenance and repair works. Within construction categories, the following decreases were recorded: residential by 17.6 per cent., non-residential construction by 16.6 per cent. and engineering construction by 16.4 per cent..

The following table shows the percentage change in the construction sector for the years 2006 to 2008 and the first eleven months of 2009.

Construction Sector

	The first eleven months of 2009*	**2008**	**2007**	**2006**
	(percentage change)			
Construction[(1)]	**-16.7**	**26.9**	**33.3**	**15.4**

(1) Data recalculated according to NACE Rev.2

* Percentage change against the first 11 months of 2008

Source: NIS

Agriculture and forestry

Agriculture is an essential part of the national economy with significant economic and social importance. In 2008, the percentage of GDP represented by agriculture and fisheries was approximately 6.5 per cent.. Romania's aggregate agricultural area in 2008 represented 61.7 per cent. of its total territory, of which arable land represented 64 per cent. of the total agricultural area. The area of arable land per inhabitant is 0.44 ha.

At the beginning of 2008, the total area covered by forests and other forest-like vegetation was 28.3 per cent. of the total land in Romania.

The following table shows percentage changes in the value of agricultural production (excluding forestry) for the years 2006 to 2008 and the first nine months of 2009.

Value of Agricultural Production

	The first nine months of 2009*	**2008**	**2007**	**2006**
	(percentage change)			
Crop production	4.6 %	40.9	-28.7	2.2
Livestock	-6.9 %	-8.6	-0.6	2.4
Agricultural services	2.7 %	-9.1	32.5	7.0
Total agriculture	**0.8 %**	**21.2**	**-17.7**	**2.4**

* Percentage change against the first nine months of 2008

Source: NIS

In 2007, agricultural output was adversely affected, particularly as a result of drought, and this was the main reason why performance in this sector was below that in 2006. Wheat production decreased by 44.9 per cent. compared to 2006.

In 2008, normal climate conditions allowed wheat production to increase by 235.9 per cent., barley and two-row barley production by 227.5 per cent., maize production by 203.7 per cent. and sunflower production by 213.9 per cent., against 2007.

In 2009, agricultural output was adversely affected, particularly as a result of drought, which was the main reason why performance in this sector was below that in 2008. Wheat and corn production decreased by 31.8 per cent. and 0.5 per cent., respectively, compared to 2008.

In 2008, the gross value added in agriculture increased by 21.9 per cent. in comparison with 2007.

During the first nine months of 2009, the gross value added in agriculture decreased by about 1.2 per cent. in comparison with the first nine months of 2008.

As a result of an analysis of the condition of Romania's rural areas, the National Strategic Plan for Rural Development of Romania (the "**NSP**"), for the period 2007-2013, was prepared. The NSP, which was drafted in compliance with the Strategic Guidelines of the European Community, defined the following general policy objectives for the period 2007-2013:

- increase in the competitiveness of the agricultural, food and forestry sectors;
- improvement of the environment and the countryside;
- improvement of quality of life in rural areas and the diversification of the rural economy; and
- initiation and operation of local development initiatives (in accordance with "Liason entre actions de developpement rural" or "LEADER", which is one of four initiatives financed by EU structural funds and is designed to those active in the agricultural sector to consider the long term potential of their regions).

These general policy objectives are to be pursued through, amongst other things, the application of measures in accordance with EC Regulation No. 1698/2005 on support for rural development.

The NSP implements the National Rural Development Programme 2007-2013, which outlines the basis for ensuring Romania's accession to the European Agricultural Fund for Rural Development ("**EAFRD**"). This document details measures on objectives, activities, investment types, eligible beneficiaries and quantification indicators. The National Rural Development Programme 2007-2013 aims to develop a competitive agricultural and forestry sector based on knowledge and on private initiative that is able to adapt to the long term changes, that takes into account EU rules, that protects the environment and that fosters the processing sector. For this purpose, special attention is to be paid to:

- improving the vocational training and consultancy services for farmers and forest owners in order to raise the management abilities facing a new environment;
- carrying on the farms' restructuring process and development, especially of semi-subsistence, as well as increasing competitiveness of agricultural and forestry products; and
- restructuring the processing sectors of agricultural and forestry products.

In addition, steps have been taken to clarify the legal regime for land ownership. The consolidation of land property holdings was supported by new property laws which supported the concentration of agricultural enterprises, the setting-up of commercial undertakings, and the taking of finance by promoting financings secured against agricultural property. The law regarding registration of land was also amended, with the aim of facilitating the centralisation of land title registrations.

These legal measures were also supported by full retrocession in kind, where possible, of properties nationalised during the communist era, by the acceleration of land litigation by means of the establishment of expedited procedures, and by allowing the voluntary merger of land holdings.

Energy

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

Romania's primary sources of energy production in 2007 and 2008 and the first eleven months of 2009 were as follows:

	The first eleven months of 2009	**2008**	**2007**
		(per cent.)	
Net coal	19.4	21.7	22.4
Crude oil	32.3	27.0	29.3
Usable natural gas	30.2	28.4	29.8
Hydroelectric energy and nuclear electric energy	12.6	8.5	6.9
Others	5.5	14.4	11.6
Total	**100.0**	**100.0**	**100.0**

Romania's primary available energy resources in 2008 amounted to the oil equivalent of 49.5m tonnes, a 2.0 per cent. increase compared to 2007. Of that amount, 58.3 per cent. came from domestic production and 33.1 per cent. from imports, the remaining 8.6 per cent. being stocks.

In the first eleven months of 2009, primary available energy resources amounted to the oil equivalent of 31.1m tonnes, a 17.1 per cent. reduction compared to the corresponding period in 2008. The first eleven months of 2009 saw a reduction in the production of coal (12.2 per cent.), oil (4.6 per cent.) and natural gas (5.2 per cent.) compared to the corresponding period in 2008 but a small increase in hydro and nuclear power (0.7 per cent.) (again, compared to the corresponding period in 2008).

The first eleven months of 2009 also saw imports of coal decrease by 68.9 per cent. and net imports of natural gas decrease by 59.7 per cent. compared to the corresponding period in 2008; overall imports of primary energy resources fell by 33.7 per cent. during these first eleven months.

Romania's domestic crude oil requirements are adequately met by the international crude oil market and there are no obstacles to transporting crude oil to Romania by sea, rail or via pipeline.

Energy exports fell by 40.3 per cent. during the first eleven months of 2009 due to decreased demand in countries which traditionally imported from Romania.

Electricity

The sources of electricity production in 2007 and 2008 and the first eleven months of 2009 were:

	The first eleven months of 2009	**2008**	**2007**
Electricity produced in classical thermo-power	51.6%	56.2%	61.6%
Electricity produced in hydropower stations	27.8%	26.5%	25.9%
Electricity produced in nuclear-electric stations	20.6%	17.3%	12.5%

In 2008, gross electricity production was 64.96 TWh, an increase of 5.3 per cent. on 2007. End user consumption increased by 2.0 per cent. compared to 2007, and electricity exports increased by 53.9 per cent..

During the first eleven months of 2009, electricity production fell by 11.8 per cent. compared to the corresponding period in 2008. End user consumption decreased by 8.9 per cent. due to reduced electricity consumption within the economy of 13.3 per cent., while electricity exports decreased by 40.3 per cent..

The fall in electricity production was due to a reduction in the demand for electricity during 2009 (which was caused by the economic downturn). The decrease mainly affected industrial consumption of electricity, whereas residential consumption increased slightly.

On 5 February 2010, the Government adopted Government Decision No. 56/2010 regarding the establishment of measures for reorganising electricity and heat companies in Romania through the setting up of two national energy companies, "Electra" and "Hidroenergetica". The Supreme Council of National Defense has also consented to the restructuring process. The two companies will generate 45 per cent. to 48 per cent. of electricity each, in a mix of units: hydro, thermal and, in one case, nuclear. Viable coal mines will also form part of the two companies. The Competition Council in Romania is analysing the restructuring process in light of provisions of national competition law in terms of the market impact of the two new national energy companies (in the absence of a European Community dimension). However, there are no concerns regarding bundling because the Government's restructuring plan only involves electricity producers and does not cover transmission or distribution companies. The two companies will not be functional until a favourable decision has been given by the Competition Council.

Natural gas

In 2007, total natural gas consumption within Romania was 16.1 million m^3, of which 2.6 million m^3 represented domestic consumption (16.2 per cent.). Of the total natural gas consumption, 11.4 million m^3 (70.7 per cent.) were from domestic production and 4.8 million m^3 (27.5 per cent.) were imported from Russia.

In 2008, total natural gas consumption fell to 15.6 million m^3 of which 2.8 million m3 represented domestic consumption (17.71 per cent.). Of the total consumption, 11.4 million m^3 (72.1 per cent.) were from domestic production and 4.3 million m^3 (27.7 per cent.) were from imports from Russia.

27.7 per cent. of Romania's domestic gas consumption in 2009 was also imported from the Russia.

To reduce its dependency on any one source, Romania is actively promoting projects to diversify both the routes and sources, such as through the Nabucco project (described in more detail below). Romania is also considering the possibility of bringing Caspian gas across the Black Sea, as liquefied natural gas.

Due to its domestic gas reserves and the fact that Romania has gas storage facilities of over 3 billion m^3 to be used as an extra supply source during winter, the January 2009 gas crisis had no major consequence on the country. Shutting down supply to several big industrial consumers solved the gas deficit in Romania's network system.

Electricity market

Romania has liberalised its wholesale electricity market in accordance with EU requirements. In electricity, Romania operates a Day Ahead Market ("**DAM**") and an operational balancing market.

The DAM is a part of the electricity wholesale market on which electricity for each trading interval (of one hour) of the corresponding delivery day is traded, based on offers submitted by registered market participants. The DAM rules (provided in chapter 5 of the Commercial Code of the Wholesale Electricity Market, approved by ANRE Ordinance No. 25 on 22 October 2004) create a centralised wholesale electricity market. The balancing market is operated by Transelectrica (the "**TSO**") in order to maintain the balance between electricity consumption and production.

Restructuring and investment

The Government intends to restructure the energy sector, with the aim of increasing production efficiency. The main priorities 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. Although Romania already enjoys a greater degree of security of energy supply than many other countries in the region insofar as it is not heavily reliant upon imports for its energy needs (it has large domestic resources of hard coal and lignite) and its integrated power infrastructure allows domestic electricity production to be flexibly switched between domestic sources as circumstances require, it is nonetheless diversifying the routes and sources of the supply of natural gas and is looking to exploit domestic renewable energy sources and domestic coal to reduce to an even greater extent its energy dependency on imports.

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

- the construction of two nuclear units (3 and 4) at Cernavoda power plant, with financial assistance from the EBRD; (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/brownfield projects by Termoelectrica, using fossil fuels;
- 21 projects relating to new hydroelectric power stations under development, which, when complete, will have an aggregate capacity of approximately 900 megawatts; and
- the construction of the oil pipeline “PEOP” and the gas pipeline “Nabucco”.

The PEOP project is an oil pipeline linking Constanta harbour in Romania with Trieste in Italy, crossing Serbia, Croatia and Slovenia. This project is expected to bring significant cost advantages in terms of long distance transportation. The Romania-Serbia-Croatia route is the most direct way to transport oil from the Black Sea to the European market. A feasibility study has confirmed the amount of oil reserves available for export in the Caspian Sea region, with an estimated increase from 50 million tonnes to 70 million in 2010 and 344 million by 2020. This increase in the quantity of Caspian and Russian oil production highlights a deficit in the transportation capacity in the Black Sea region, which is a key driver behind the PEOP project.

The Nabucco project will connect the Caspian Sea and Middle East gas reserves with European markets, through a pipeline across five countries, starting at the Turkish border and ending at Baumgarten, the Austrian trading and technology hub. The total length of the pipeline is 3,282 km, 457 km of which is currently in Romanian territory, and the amount of gas that will be transported in 2014 is estimated at 8 billion m^3 p.a., with a possible increase to 31 billion m^3 p.a. by 2030. As there is currently no other supply line, Nabucco is expected to play a key role in increasing competitiveness in the regional energy market, by offering a new gas source for Europe. Romania has played a leading role in obtaining the EU’s endorsement of the project, in the context of a common energy security policy.

Transportation

The transport sector represents the second most important services category in the tertiary sector (after trade), with a 7.3 per cent. share of GDP in 2008. From 2005 to 2008, the gross value added in transport increased annually, having higher rates than those for real GDP.

The following tables show changes to the transport of passengers and goods during the years 2006 to 2008 and the first nine months of 2009.

Change in Passengers Transported According to Mode of Transport

	The first nine months of 2009*	2008	2007	2006
	(percentage change)			
Passenger transport - total	(1)	(1)	2.2	-2.8
1. Interurban and international transport	(1)	(1)	-0.6	-2.3
(i) Railway transport – total	-10.6	-11.3	-6.5	2.1
(ii) Road transport – total	-9.2	(1)	1.3	-4.2
(iii) Inland waterways transport – total	-18.3	-9.2	(1)	(1)
(iv) Air transport - total	-0.9	12.6	47.6	23.5
2. Urban transport -total	-3.4	0.0	2.6	-2.8

(1) Data not available.

* against the first nine months of 2008

Source: NIS

Change in Goods Transported According to Mode of Transport

	The first nine months of 2009*	2008	2007	2006
	(percentage change)			
Goods transport – total	(2)	1.3	5.0	6.2
1. Railway transport	-29.6	-3.0	0.6	-1.3
2. Road transport	-20.8	2.2	6.4	9.2
3. Maritime transport	(2)	(2)	-36.4	18.5
4. Inland waterways transport	(2)	-0.1	0.7	-9.7
5. Air transport	-8.9	8.9	-16.7	0.0
6. Transport via petroleum pipe-lines	-28.3	0.7	-3.1	-5.2

(2) Data not available.

* against the first nine months of 2008

Source: NIS

In 2007 there was an increase of 47.6 per cent. in the number of passengers that used air transport compared to 2006 (this was partially due to the introduction of low cost airlines); in 2008 there was an increase of 12.6 per cent. compared to 2007; however the first nine months of 2009 showed a decline of 0.9 per cent. in the number of passengers transported by air compared to the corresponding period for 2008.

In terms of passenger transport, even though urban transport on short distances continued to register an 86 per cent. share of annual total transported passengers, the period from 2006 to 2008 saw a clear improvement in medium distance transport, due to both inter-city and international road transport. During the years 2006 to 2008, there was an increase in business and tourism flights (including for Romanian citizens working abroad), before and especially after EU accession, but also an increase in domestic travel, as a consequence of an improvement in the standard of living during this period. Thus, in 2008, there was a 15.9 per cent. growth in the number of passengers using air transport. This significant increase was mainly due to the operation of the low cost flights.

Passenger traffic on railways saw a decrease in 2008 in the number of transported passengers (-11.3 per cent.), while the first nine months of 2009 registered a decrease of 10.3 per cent. in the number of passengers transported by railway as against the same period in 2008.

Although there was an increase of 10.5 per cent. in passenger use of metro lines in 2008, in the first nine months of 2009 such use was 4.4 per cent. lower than that in the first nine months of 2008.

The progress in goods transport during 2005-2008 was mainly due to the enlargement of the road transport network, with the distance of transported goods increasing by an annual average of over 15 per cent. during this period.

Goods transported by air in 2008 increased by 8.9 per cent.. Nevertheless, goods transported by railway in 2008 saw a reduction of 3 per cent. in comparison with 2007. In the first nine months of 2009, the goods transported by railway registered a 29.6 per cent. decrease against the first nine months of 2008.

In terms of public-private partnership projects to be implemented in the transportation sector, a services concession contract was signed in 2009 for the gas supply to the A2 motorway and a works concession contract for the construction, operation and maintenance of the Comarnic-Bra ov motorway was signed on 17 January 2010. For the latter contract, 12 bidders competed, four of which (the Colas-Bouygues, Bilfinger Berger – Porr, Vinci-Aktor and Strabag led consortia) made it to the Best and Final Offer stage. The winner was the Vinci-Aktor consortium and financial close is to follow.

Information technology and communications

In 2008, the turnover of IT companies was EUR 2.67 billion, 22.1 per cent. higher than in 2007. The gross value added of the IT sector and related services was EUR 1.08 billion, compared to EUR 884.0 million in 2007. The share of total IT expenditure in GDP has increased from 2.1 per cent. in 2006 to 2.6 per cent. in 2008, below the average level of the EU-27 of 2.7 per cent..

Expenditure in the communications sector has remained fairly constant (6.2 per cent. of GDP), which exceeds considerably the EU-27 average of 3.0 per cent..

In 2008, the number of subscribers for mobile phone services increased by around 7.7 per cent., reaching 1,145.4 subscribers per thousand capita and the number of subscriptions for broadband internet access has increased from 100.2 subscriptions in 2007 to 118 subscriptions per thousand capita in 2008. The number of landline telephones per thousand capita has increased from 197.8 in 2006 to 234.4 in 2008. The average number of private households with PC's per 100 households has increased from 26 in 2007 to 45 in 2008 and the share of the expenditures for communication (within overall consumption expenditures) increased from 5.1 per cent. to 5.5 per cent..

In 2009, the number of subscribers for mobile phone services increased by around 0.6 per cent., reaching 133.9 subscriptions per 1000 inhabitants. The number of subscriptions for fixed broadband internet access has increased by 25.74 per cent. from 4.04 million connections in 2008 to 5.08 million connections in 2009, while the number of mobile broadband internet connections increased from 1.53 million in 2008 to 2.42 million in 2009. The number of landline telephones per 100 inhabitants remained at 24.1 in 2009.

Research and development

In 2006, total expenditure on research and development amounted to RON 1,565.8 million, of which RON 1,319.2 million (84.3 per cent.) was current expenditure and RON 246.6 million (15.7 per cent.) was capital expenditure. The share of capital expenditure increased by 3.6 per cent. compared with 2005. Of total research and development expenditure, 59 per cent. was funded from public sources, an increase in the public share of funding of 9.2 per cent. in 2006, when compared to the figures for 2005.

Total expenditure on research and development amounted to RON 2,177.3 million in 2007, increasing by 39 per cent. compared with 2006. In 2008, total expenditure on research and development amounted to RON 2,980.7 million, increasing by 37 per cent. compared with 2007.

In accordance with the revised 2009 budget, public funds allocated for research and development in 2009 are 0.3 per cent. of GDP.

Prices and inflation

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

In August 2005, the National Bank of Romania shifted to a new monetary policy strategy, specifically targeting inflation. In December 2005, the annual inflation rate fell to 8.6 per cent., marginally above the +/- 1 percentage point band around the 7.5 per cent. target. The pace of disinflation slowed as a result of: (i) the higher annual rate of increase of regulated prices, energy prices in particular; (ii) ahead of schedule implementation of the timetable for raising excise duties to bring them to the minimum level in the European Union; and (iii) an increase in volatile prices (for vegetables, fruit, eggs and fuel), caused by several adverse shocks, including unfavourable weather conditions, avian flu and soaring oil prices worldwide.

The annual inflation rate dropped to 4.87 per cent. at the end of 2006, below the central target set at 5 per cent.. This drop can be attributed to macroeconomic policy measures, structural factors and certain incidental effects.

In the second half of 2007 a trend reversal occurred, with the inflation rate reaching 6.57 per cent. at the end of 2007, thus exceeding the central target set at 4.0 per cent.

Even though the Government supported disinflation 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. The phenomenon was not specific to Romania but was also visible at a European level due to weak results in agricultural production (which drove up food prices significantly), pressures on the global oil market and uncertainties caused by the international financial crisis which led to a depreciation of domestic currencies.

The increase in food prices reached 9.14 per cent. in December 2007, up 8.07 percentage points year on year, meaning that food prices made the greatest contribution to the growth of the inflation rate. This was due to their high weighting in the consumer basket, weather conditions affecting the domestic production of vegetables, fruit and grain, higher import prices and to a base effect arising from developments in these prices in the previous year.

Moreover, fiscal, budgetary and income policies remained expansionary and added to the existing excess demand; wage growth surpassed labour productivity gains, thus creating further inflationary pressures.

The unfavourable supply-side shocks continued to drive inflation up in the first half of 2008 (to a peak of 9.04 per cent. in July 2008), subsiding gradually due to the 2008 bumper crops, the declining external prices of commodities and other unprocessed foods, as well as to the sharp fall in the oil price on foreign markets (reflected in domestic fuel prices). For most of 2008, excess demand, fuelled by fast wage growth in the private sector and tax, fiscal, budgetary and income policies, generated inflationary pressures. However, the economic slowdown triggered by the international financial crisis and the subsequent change in consumer sentiment in the fourth quarter of 2008 led to an easing of demand-side inflationary pressures. Thus, the annual inflation rate fell to 6.3 per cent. in December 2008, but continued to stay above the targeted ±1 percentage point band around the 3.8 per cent. target.

The annual inflation rate continued the upward trend shown since 2008 until February 2009, when it reached a maximum level of 6.89 per cent. p.a.. Starting in March 2009, the annual inflation trend reversed and a level of 4.65 per cent. was reached at the end of November 2009. In December 2009, the inflation rate was 4.74 per cent..

Food prices contributed positively to the moderation of annual inflation, increasing by 0.38 per cent. in 2009, which increase was 4.36 percentage points lower than the total annual rate of inflation.

The increase in the price of non-food goods during 2009 was, at 7.72 per cent., 1.76 percentage points higher than the corresponding increase during the previous year. The two stage increase in excise duties for tobacco products had a considerable effect on the increase of prices for non-food goods: the contribution of this group of products to the annual inflation rate was about 1.8 percentage points.

Tariffs on services increased by 6.86 per cent. during 2009, 0.85 percentage points lower than the increase recorded in the previous year. Increases in tariffs during this period resulted mainly from national currency depreciation, which influenced services related to the euro, such as air transport (8.41 per cent.) and telephone services (7.83 per cent.).

Pressures on inflation also came from the exchange rate, which recorded a nominal depreciation at the beginning of 2009, followed by a period of relative stability and, in the last month of 2009, appreciation. Prices of imported goods have been negatively affected by these circumstances, especially in the first half of 2009. Prices of administered goods linked to the euro or to the US dollar have also been affected. “Prices of administered goods” refer to prices which are not freely established on the market in respect of, for example, drugs, railway transport, maritime transport, postal and delivery tariffs etc.

During 2009, changes in consumer prices reflected a reduction of demand brought about by the international financial crisis. At the same time, the following measures contributed to disinflation: the prudential measures taken by NBR (namely, credit restraint) and the restrictive wages and budgetary policies promoted by the government.

As a consequence, the macroeconomic policy mix in 2009 was focussed towards assisting recovery and keeping inflation down.

The following table shows percentage changes in consumer prices for the years 2006 to 2009.

Increases in Consumer Prices

	2009	**2008**	**2007**	**2006**
	(percentage change)			
Average Increase				
Food goods	3.25	9.22	3.89	3.84
Non-food goods	6.22	6.36	4.99	8.47
Services	8.97	8.57	6.63	8.20
Total	**5.59**	**7.85**	**4.84**	**6.56**
End of year Increase				
Food goods	0.38	6.02	9.14	1.07
Non-food goods	7.72	5.96	3.60	8.33
Services	6.86	7.71	8.55	5.12
Total	**4.74**	**6.30**	**6.57**	**4.87**

Source: NIS

Wages

Real net wages increased rapidly (averaging a 13 per cent. year-on-year increase) between 2005 and 2008, driven by: (i) robust economic growth, which has encouraged profit in the private sector; (ii) a gradual fall in unemployment, due both to a substantial migration of workforce abroad and to stronger domestic labour demand; (iii) large wage increases in the public sector, partly as a result of raising the gross monthly minimum wage economy-wide from RON 310 (EUR 86) in 2005 to RON 500 (EUR 137) during January-September 2008 and RON 540 (EUR 142) during October-December 2008 respectively; and (iv) fiscal easing following the introduction of a flat tax rate in 2005. In the whole economy, average net nominal monthly earnings were RON 1,309 (EUR 355) in 2008 as compared to RON 746 (EUR 206) in 2005. The 2008 average net nominal monthly earnings were 1.8 times higher than in 2005.

At the beginning of 2009, the gross minimum wage in the whole economy rose to RON 600 (around EUR 141). In November 2009 as compared to January 2009, real net wages recorded a decrease of 2.3 per cent. against a background of shrinking economic activity and measures to limit public sector wage increases.

Gross average earnings increased by 9.3 per cent. (to RON 1,877) during the first eleven months of 2009, when compared with the first eleven months of 2008, while net average earnings increased by 8.6 per cent. (to RON 1,372).

The following table shows percentage changes in monthly earnings for the years 2006 to 2008 and the first eleven months of 2009.

Monthly Earnings

	The first eleven months of 2009*	**2008**	**2007**	**2006**
		(percentage change)		
Average gross nominal monthly earnings	9.3	26.1	21.8	18.4
Average net nominal monthly earnings	8.6	25.6	20.3	16.1
Real earnings	2.8	16.5	14.7	9.0

* Percentage increase against the first eleven months of 2008

Employment

In 2006, the key legislation governing the labour market, first introduced in 2003, was amended in compliance with Government Emergency Ordinance No. 55/2006 amending Law No. 53/2003 – Labour Code. The amendments were mainly intended to increase flexibility in the labour market by: (i) extending the maximum temporary labour contract duration from 18 months to 24 months; (iii) simplifying the mass dismissal procedure and the reduction of the period after such dismissal procedure during which an employer may not hire new employees from 12 months to 9 months; and (iii) improving the holiday entitlement system.

From 2005 until the international financial crisis in 2008 and 2009, labour shortages appeared and then grew in several economic activities and in respect of various different skills. Hence, 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 period (the average employment rate for persons aged 15 to 64 went up from 57.7 per cent. in 2005 to 58.8 per cent. in 2006 and 2007 and to 59.0 per cent. in 2008, before declining slightly to 58.3 per cent. during the first half of 2009); and (ii) the migration of workers abroad, a phenomenon which gathered momentum after 2002, when the requirement for visas for the Schengen area was lifted.

The following table shows changes in labour force for the years 2006 to 2008 and the first half of 2009:

Labour Force

	First half of 2009**	2008	2007	2006
	(percentage change)			
Active population*	-0.1	-0.3	-1.1	2.1
Employment*	-0.7	0.4	-0.2	2.0
Employees	-0.3	1.9	0.5	4.2
	(percentage)			
Activity rate*(1)	62.6	62.9	63.0	63.7
Employment rate*	58.3	59.0	58.8	58.8
ILO unemployment rate	6.6	5.8	6.4	7.3

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

* working age population (15 – 64 years old)

** Percentage change against first half of 2008

Source: NCEF computed data based on NIS

In 2007 and 2008, the labour market experienced two trends, one positive and the other problematic. On the positive side, 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. On the negative side, the labour force deficit became a matter of concern in relation to certain sectors or professions in circumstances where high wages exceeded productivity gains, generated increased inflation, and had a negative impact on the external competitiveness of certain industrial sub-sectors (light industry, in particular).

During the first half of 2009, the slowdown in activity across all economic sectors put pressure on the labour market, leading to a 0.7 per cent. decrease in employment.

Foreign Direct Investment ("FDI")

During 2005-2008, the FDI annual average in Romania was EUR 7.8 billion, as against EUR 2.2 billion during 2000-2004. The amount of FDI has increased by around EUR 25.8 billion between 2006-2008. At 31 December 2008, accumulated FDI in Romania was approximately EUR 48.8 billion. Investor confidence in the business environment of Romania is demonstrated by the level of reinvested profit (EUR 1.5 billion in 2004, EUR 1.2 billion in 2005, EUR 2.7 billion in 2006 EUR 1.3 billion in 2007 and EUR 1.6 billion in 2008).

In 2006, net direct investment amounted to EUR 8.72 billion, two thirds higher than in 2005, amid a rise in non-residents' direct investment in Romania. Non-residents' net direct investment in Romania totalled EUR 9.06 billion, up 73.8 per cent. from 2005, of which equity capital and intra-group loans accounted for 70 per cent., the remainder representing reinvested earnings and in-kind contributions to equity capital. Privatisation proceeds triggered a rise in share capital by EUR 2.2 billion, as compared with EUR 0.8 billion in 2005, driven by the takeover by Erste Bank AG of Austria of a 36.8 per cent. stake in Romanian Commercial Bank S.A. ("**BCR**") in October 2006. The net value of intra-group loans amounted to EUR 2.23 billion, up 63.7 per cent. from 2005, the majority of such loans were provided by investors in Austria, the Netherlands, Italy, Germany, France and Greece.

In 2007, net direct investment 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 and in-kind contributions to share capital. 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.), construction and real-estate transactions (7.8 per cent.) services delivered to companies (4.5 per cent.) and others (3.2 per cent.). The main investors were: 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 against 2007. Non-residents' net direct investment in Romania totalled EUR 9.5 billion, of which 82.6 per cent. represented equity capital and intracompany loans (EUR 4.87 billion and EUR 4.62 billion, respectively), the remainder representing reinvested earnings and in-kind contributions. Privatisation receipts amounted to EUR 872.8 million, from two significant privatisation deals: the sale of a 72.4 per cent. stake in S.C. Automobile Craiova equities to Ford Motor Company in March 2008 (EUR 57 million) and the sale of a 64.4 per cent. stake in the capital of S.C Electrica S.A. Muntenia SUD equities to ENEL in April 2008 (50 per cent. of shares are direct acquisition worth EUR 390.2 million and 14.4 per cent. is the increase in equity capital worth EUR 425.6 million). The main 10 investors were: 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 (1.7 per cent.).

In the first eleven months of 2009 net direct investment totalled EUR 3.75 billion, down 56.2 per cent. against the first eleven months of 2008. Non-residents' direct investment in Romania totalled EUR 3.83 billion, down by 55.7 per cent. as compared to the first eleven months of 2008, of which intra-group loans accounted for 46.3 per cent., equity stakes for 50.1 per cent. and reinvested earnings for 3.6 per cent..

The following table shows net foreign direct investment in Romania for the years 2006 to 2008 and the first eleven months of 2009:

Net Foreign Direct Investment(1), 2006 – 2008 and the first eleven months of 2009

	The first eleven months of 2009	2008	2007	2006
		(Eur millions)		
Net FDI	3,826	9,496	7,250	9,060
1. Equity capital(2)	1,916	5,265	2,220	4,159
– of which privatisation(3)	n.a.	873	n.a.	2,200
2. Reinvested earnings	137	-392	1,327	2,673
3. Other capital (intracompany loans)	1,773	4,623	3,703	2,228

Notes:

(1) Includes non-residents' investment in Romania

(2) Including investment in kind

(3) Details on privatised companies:

Source: Surveys on inward FDI for 2006 – 2008, ITRS for first 11 months of 2009

Subsidies

Subsidies in 2007 were lower than in 2006 (1.7 per cent. of GDP in 2007 compared to 2.2 per cent. of GDP in 2006), with a nominal cut of 7.5 per cent. (representing 0.13 per cent. of GDP). This was consistent with the downward trend of subsidies as a result of the reduction of the state's role in the national economy. 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 the percentage of GDP (1.6 per cent. of GDP in 2008 compared to 1.7 per cent. of GDP in 2007).

Subsidies continued their downward trend to 1.3 per cent. of GDP in 2009 and will continue this trend to 1.2 per cent. of GDP in 2010, as a result of the state continuing to reduce its intervention in the economy as well as due to robust market mechanisms.

The following Government ministries receive subsidies out of the state budget as support for various projects: 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.

Privatisation

Prior to the collapse of communism in 1989, Romania was a command economy, with many large, inefficient state enterprises dependent on the state committee for planning and on the COMECON market. Many of the products produced were of poor quality and produced at very high costs. Since 1990, a large number of privatisations have occurred.

Authority for State Assets Recovery

The main institution in charge of the privatisation process is the Authority for State Assets Recovery ("**AVAS**"). AVAS runs a successful privatisation process, with a success rate of around 95 per cent.; and companies in its portfolio are involved in various sectors, including the processing industry, banking, agriculture and tourism.

During the period from December 1992 to June 2009 a total of 11,617 share sale-purchase contracts have been concluded for a total share capital sold of RON 8,954 million.

Notable privatisations carried out over the past few years include the following:

The privatisation contract for BCR was signed on 21 December 2005, with the Austrian bank Erste Bank AG taking a controlling stake in BCR. Also, in 2005, the Romanian State completed the privatisation processes for two companies acting in the natural gas sector, Distrigaz Nord SA Targu-Mures and Distrigaz Sud SA, Bucharest. Between 2004 and 2007, five out of the eight of the electricity distribution companies in Romania were privatised.

In 2008 37 share sale and purchase agreements were concluded in respect of companies in the AVAS portfolio which, between them, had a combined share capital of RON 90,772,178 (of which sold share capital amounted to approximately RON 6 million).

In terms of privatisations carried out in 2009, by September 2009, 5 share sale and purchase agreements had been concluded in respect of companies in the AVAS portfolio which, between them, had a combined share capital of approximately RON 21 million (of which, sold share capital amounted to approximately RON 3 million).

In recent years, AVAS has carried out significant privatisations in the banking sector. Currently, it holds only one state-owned bank in its portfolio, namely, Eximbank SA Bucuresti, a specialised bank which supports Romanian business by providing financing, guarantee and insurance products. For the time being, AVAS does not plan to privatise this bank.

Office for State Ownership and Privatisation in Industry

Under Law no. 308/2008, a number of energy companies have been transferred from the AVAS portfolio to the Office for State Ownership and Privatisation in Industry ("**OPSPI**") with the result that AVAS no longer has any energy companies in its portfolio. OPSPI has drafted a mandate setting out strategic guidelines and targets regarding the privatisation of companies under the portfolio of the Ministry of Economy for 2009 and 2010, which mandate will be submitted to the Government for approval. At present, the remaining shares owned by S.C. Electrica S.A. in CEZ Vanzare and CEZ Distributie are in the process of being sold.

In order to increase efficiency and prevent overlap in administrative spending, the Government is currently contemplating several scenarios regarding a new institutional arrangement for the main entities dealing with privatisation in Romania (namely, AVAS and OPSPI) by the merger or creation of a new department

Romanian Ministry of Transport and Infrastructure

The Romanian Ministry of Transport and Infrastructure is in charge of the privatisation of Romania's main transport companies.

From 2003 to 2008, the Romanian Ministry of Transport and Infrastructure privatised 18 commercial entities in the road and maritime transport sector by selling the packages of shares that it managed in the name of the Romanian state. Also, 25 commercial entities in the rail transport sector were divested from state-owned companies and privatised.

Currently, the Romanian state, through the Romanian Ministry of Transport and Infrastructure, is the majority shareholder in 23 national commercial entities which, according to Government Decision No. 76/2009, as amended by Government Decision 104/2009, on the organisation and functioning of the Romanian Ministry of Transport and Infrastructure, are under its authority. Of these:

- eight national companies in the transport field have been included in the 2009 privatisation programme. The objective is to complete the sale through secondary public offers or a 5 per cent. stake in shares owned in the eight companies and to list the shares issued by the companies on the Bucharest Stock Exchange;
- one commercial company is in voluntary liquidation and three commercial companies in judicial liquidation; and
- seven national companies and four commercial companies are not included in the Ministry of Transport and Infrastructure's 2009 privatisation programme.

In January 2010, the management of the Ministry of Transport and Infrastructure approved a programme of measures to be conducted in 2010, including measures relating to shareholder in state quality management, restructuring, privatization and, where appropriate, liquidation of companies and national companies (and those companies' and national companies' subsidiaries) under the Ministry of Transport and Infrastructure's authority.

The 2010 programme will essentially provide for the continuation of measures which were provided for in the 2009 programme but left unfinished, namely:

- listing the shares of the eight national companies included in the Ministry of Transport and Infrastructure's 2009 privatisation programme at the BVB, by selling a package of 5 per cent. of their capital through secondary public offering; and
- the sale of further stakes, resulting from the inclusion in the capital of three companies of amounts of land which were obtained as part of the privatisation process developed during the previous years.

The process of admitting the shares owned in the eight companies included in the Ministry of Transport and Infrastructure's 2009 privatisation programme to listing has not yet been completed in view of the potentially adverse effect on the listing process of the international financial crisis. The deadline established by legislation for completing the listing process has now expired. The Ministry of Transport and Infrastructure has therefore decided to postpone listing these shares until amending legislation has been enacted establishing a new deadline for completing the listing process. Meanwhile, the Ministry of Transport and Infrastructure has passed draft legislation to establish such new deadline**.**

The eight national companies referred to above are the following:

- Compania Năţională "Aeroportul Internaţional Henri Coandă - Bucureşti" S.A.;
- Societatea Naţională "Aeroportul Internaţional Bucureşti Băneasa – Aurel Vlaicu" S.A.;

- Societatea Naţională "Aeroportul Internaţional Mihail Kogalniceanu - Constanţa" S.A.;
- Societatea Naţională "Aeroportul Internaţional Timişoara -Traian Vuia" S.A.;
- Compania Naţională "Administraţia Canalelor Navigabile" S.A. Constanta;
- Compania Naţională "Administraţia Porturilor Dunării Maritime" S.A. Galaţi;
- Compania Naţională "Administraţia Porturilor Dunării Fluviale" S.A. Giurgiu; and
- Compania Naţională "Administraţia Porturilor Maritime" S.A. Constanţa.

The 2010 privatisation programme may be supplemented or amended, as the case may be, upon the request of the leadership of the Ministry of Transport and Infrastructure.

Since the beginning of the privatisation process, equal treatment has been afforded to all interested investors regardless of whether they are Romanian or foreign individuals or legal entities. Romanian law requires the equal treatment of foreign investors, providing them with unrestricted investment access to all economic sectors.

Fondul Proprietatea

S.C. Fondul "Proprietatea" S.A. ("**Fondul Proprietatea**") was incorporated in December 2005 with the purpose of providing financial resources for compensating people in relation to fixed assets appropriated from them that cannot be restituted in kind. After satisfying certain requirements, the holders of compensation rights, decided according to the special legal provisions, will become shareholders of Fondul Proprietatea.

Eligible persons become shareholders of Fondul Proprietatea by means of share transfers from the majority shareholder (the Ministry of Public Finance) so that, during the existence of Fondul Proprietatea, the Ministry of Public Finance will decrease the stock it holds in the share capital of Fondul Proprietatea. The Ministry of Public Finance shareholding has decreased from 100 per cent. upon the incorporation of Fondul Proprietatea to approximately 59.83 per cent. currently.

The shares are distributed by dividing the value determined during the compensation procedure by the nominal value of the share (RON 1), until such time as Fondul Proprietatea is listed on the Bucharest Stock Exchange, when the compensation procedure will take into account the average price for the shares transaction.

The initial share capital of Fondul Proprietatea is RON 4,240,540,675 and includes the assets provided at Article 9 paragraph 1, letters (a) to (e) of Title VII of Law No. 247/2005 (as further described below), as subsequently amended and completed. The legislation provides that, should the aggregate amount of compensation (that has not yet been assessed) exceed the value of the contributions to the share capital of Fondul Proprietatea, the Romanian state (acting through the Ministry of Public Finance) will provide supplements through share capital increases.

The assets contributing towards the share capital of Fondul Proprietatea are mainly represented by stocks held in various national entities and companies (i.e. Transgaz, Transelectrica, Henri Coanda Airport, Petrom, Posta Romana) that the Romanian State, through different representative institutions, assigned upon their incorporation. Such contributions form the portfolio of Fondul Proprietatea, and the proficient management of this portfolio results in an income and value increase for the shareholders.

Fondul Proprietatea operates on the basis of the general principles applicable to the organisation and operation of a closed investment company. Portfolio management is to be performed by Franklin Templeton Investment an international organisation well-known in the active management field which was formally appointed on 25 February 2010.

The profit obtained by Fondul Proprietatea is allocated according to the legislation applicable to the state owned companies in force, with a minimum of 50 per cent. as dividends. The dividends collected by the

Ministry of Public Finance from Fondul Proprietatea are redirected to the National Authority for Property Restitution to be used as cash compensation for those persons so entitled who selected this form of compensation, within certain thresholds.

The Shadow Economy

Romania has a significant shadow economy, around half of which is based on unregistered labour. Its size, although difficult to verify, is estimated by the authorities from national statistics on tax evasion and the number of employees who do not appear in the household census. It is estimated that the shadow economy's share of GDP rose from 14.5 per cent. in 2004 to 21 per cent. in 2008. It is also estimated that VAT evasion has risen from RON 7.4 billion in 2004 to RON 24 billion in 2008, although this large increase is partly due to the increase in the national economy.

As part of the External Financing Programme (see page 70) Romania will introduce new legislation during the first half of 2010 to improve tax administration and deal with tax evasion, which remains particularly serious in VAT and pay-as-you-earn pension contributions; however, tax evasion is a structural problem of the national economy to which there is no short term solution.

4. Foreign Trade and Balance of Payments

Romania's GDP growth rate and increase in investment have been achieved by attracting a large volume of investment from external sources. This has led to the deepening of the current account deficit.

A. Foreign trade

Romania's foreign trade continues to increase significantly. During 2005-2008, both exports and imports increased on average by 15.5 per cent. and 21.6 per cent., respectively. The increase in imports led to an increase in the trade deficit as a share in GDP, from 9.8 per cent. in 2005 to 13.7 per cent. in 2008. More than two thirds of Romania's foreign trade is conducted with other EU member states. Furthermore, over 70 per cent. of Romania's trade with the EU was carried out with only 6 countries: Italy, Germany, France, Hungary, Austria and the UK.

The following table shows changes in foreign trade for the years 2006 to 2008 and the first eleven months of 2009:

Changes in Foreign Trade

	The first eleven months of 2009*	2008	2007	2006
Current account deficit (EUR million)	-4,681	-16,157	-16,714	-10,156
% of GDP	-11.6	-13.4	-10.4	
Trade balance FOB-FOB (EUR million)	-5,973	-19,109	-17,822	-11,759
% of GDP		-13.7	-14.3	-12.0
Exports of goods (EUR million)	26,688	33,725	29,549	25,850
annual percentage change	-16.0	14.1	14.3	16.2
Imports of goods FOB (EUR million)	32,661	52,834	47,371	37,609
percentage change	-34.1	11.5	26.0	25.1

* Compared to the first eleven months of 2008

Source: NCEF based on data released by NIS and NBR

In 2006, exports of goods amounted to EUR 25.85 billion, up 16.2 per cent. from 2005, as a result of higher external prices (for petroleum products - until September 2006, machinery, metal products, chemicals, plastics and furniture) and an increase in volume exports of processed goods (intermediate goods and capital goods). Compared with 2005, the commodity structure of exports by output stage indicated a higher share of capital goods (by 1.3 per cent. to 8.5 per cent.), intermediate goods (by 2.5 per cent. to 56.4 per cent.) and raw materials (by 0.6 per cent. to 7 per cent.) along with a decline in the share of consumer goods (by 4.4 per cent. to 28.1 per cent.). *Source: System of National Accounts ("**SNA**").*

In 2006, imports Free on Board ("**FOB**") amounted to EUR 37.61 billion, up 25.1 per cent. against 2005. This development was driven by stronger domestic demand for capital goods (motorcars, tractors and other road vehicles, apparatus and mechanical devices, electrical machinery, appliances and equipment) and energy products as well as an increase in raw material prices (in 2006, the average price per barrel of crude oil rose by about 20 per cent. against 2005). The prices of raw materials (energy resources excluded) on international markets rose on average by approximately 26 per cent., owing to significant increases recorded both in metal prices in the first part of the year and in farming products prices towards the year-end. The structure of imports by output stage shows an increase in the share of capital goods (by 1.4 per cent. to 17.8 per cent.) and raw materials (by 10.3 per cent. to 5.2 per cent.), along with a decrease in the share of consumer goods (by 0.7 per cent. to 15.8 per cent.) and intermediate goods (by 1 per cent. to 61.2 per cent.). The FOB trade deficit was EUR 11.76 billion in 2006, up EUR 3.95 billion from 2005 as a result of accelerated growth in imports, driven by economic growth which led to stronger demand for capital goods and primary energy resources and by a rapid increase in non-government credit for durables (including financial leasing, mainly for motor cars).

In 2007, exports amounted to EUR 29.55 billion, up 14.3 per cent. as against 2006, as a result of higher external prices, larger volumes and the change in the structure of exports in favour of capital and intermediate goods. As compared with 2006, the commodity structure of exports pointed to an expansion in the share of capital goods (up 1.2 per cent. to 9.7 per cent.) and intermediate goods (up 2.8 per cent. to 59.2 per cent.) along with a decline in the share of consumer goods (down 3.6 per cent. to 24.5 per cent.) and raw materials (down 0.5 per cent. to 6.5 per cent.). Imports amounted to EUR 47.37 billion, up 26 per cent. versus 2006, amid higher crude oil prices on international markets and stronger domestic demand for capital goods (motorcars, tractors and other road vehicles; engines, apparatus and mechanical devices; electrical machinery, appliances and equipment), intermediate goods (transport equipment and other processed products for industry) and consumer goods (household appliances; wearing apparel and footwear; food and beverages). The year-on-year increase in import value ran at EUR 9.76 billion, some 92 per cent. of this advance being accounted for by the rise in the volume component.

The structure of imports by output stage in 2007 shows an increase in the share of capital goods (by 1.3 per cent. to 19.1 per cent.), raw materials (by 1.2 per cent. to 6.4 per cent.) and consumer goods (by 0.4 per cent. to 16.2 per cent.), alongside a decrease in the share of intermediate goods (by 2.9 per cent. to 58.3 per cent.). The trade deficit was EUR 17.82 billion in 2007, rising year on year both in absolute terms and as a share of GDP (by EUR 6.06 billion and 2.3 per cent. respectively). The 51.6 per cent. widening of the trade deficit against 2006 owed to slower export dynamics (particularly in the case of petroleum products, textiles, wearing apparel and footwear) and faster expansion of imports. Despite the depreciation of the RON in the second half of 2007, exports of goods increased by 16.4 per cent. as compared to the corresponding period of 2006, in comparison with only 12.2 per cent. in the first half. In the same time, imports decreased from 29.2 per cent. in the first half, to 23.3 per cent. during the second half of 2007. The covering degree of CIF (Cost, Insurance and Freight) imports by exports was 57.6 per cent. in 2007, 6 percentage points below the level recorded in 2006.

In 2008, exports amounted to EUR 33.73 billion, 14.1 per cent. higher compared to 2007, slightly decelerating as compared to the 14.3 per cent. growth rate recorded in 2007 on the back of the 1.6 per cent. contraction of exports in the fourth quarter of 2008. The export surplus versus 2007 resulted both from external prices and volume components, as well as from structural changes in favour of goods with higher value added and real depreciation of the RON as compared to Euro. FOB imports amounted to EUR 52.83 billion, slowing their growth rate down to 11.5 per cent. (from 26 per cent. in 2007), mainly on the back of the 9 per cent. decrease recorded in the fourth quarter of 2008. Around 46 per cent. of the import surplus was due to higher external prices, especially for crude oil, fuels, natural gas, petroleum products, mineral oil, pig-iron, iron and steel, electrical equipment, machinery, cars and tractors. The trade deficit was EUR 19.11 billion (up 7.2 per cent. versus 2007), i.e. 13.7 per cent. of GDP (down 0.7 per cent. from 2007). Throughout

2008, the exports growth rate constantly outpaced imports, the related spread being equal to 2.6 percentage points on the whole year.

In 2008, despite the influence of certain unfavourable factors, foreign trade improved structurally, with high value added products constituting a higher proportion of exports. The following factors affected foreign trade in 2008:

- In the fourth quarter of 2008 economic growth slowed down sharply owing to the rapidly expanding fallout from the international financial crisis on the Romanian economy via foreign trade and financial channels. The annual pace of GDP growth decelerated to 2.9 per cent. in the fourth quarter of 2008 from 9 per cent. over the first three quarters of 2008, causing GDP to fall short of its forecasted level.

- The main factors behind the contraction in foreign trade were, on the one hand, the compression in economic activity of the main trade partners and, on the other hand, the moderation in domestic demand for investment and consumption (especially for durables) as well as the lower price of some commodities (most notably fuels). Thus, the FOB/FOB trade deficit amounted to EUR 1.3 billion in December 2008, down about 30.6 per cent. against 2007.

- National currency depreciation increased from 8.0 per cent. to 14.2 per cent. during 2008, as compared to 2007.

In the first eleven months of 2009, exports totalled EUR 26.69 billion, down 16.0 per cent. as compared to the first eleven months of 2008, due to the contraction in external demand, mainly from non-EU countries. The exports reduction was attributed to the decrease in mineral products, chemical and related products and other manufactured goods. The exports of machinery, equipment, transport means and agri-food products increased during the period. Imports decreased by 34.1 per cent. to EUR 32.66 billion, while all merchandise groups declined compared with the first eleven months of 2008, especially mineral products, basic metals, machinery, equipment and transport. The trade deficit was EUR 5.97 billion, decreasing by 66.5 per cent. compared to the first eleven months of 2008, with imports decreasing quicker than exports.

B. Balance of Payments

Current Account

In 2006, the balance-of-payments current account deficit widened to EUR 10.16 billion, up 47.4 per cent. year-on-year, accounting for 10.4 per cent. of GDP compared with 8.6 per cent. in 2005. The trade balance had a major impact on the current account, its deficit reaching 12 per cent. as a share of GDP, 2.2 per cent. higher than 2005, driven by growth in imports. The current account deficit widening was also fuelled by larger incomes derived by non-residents from direct investment. The dampening effect of goods and income flows on the current account was only partly offset by a good performance, for the fourth consecutive year, of net inflows of current transfers and by a positive services balance. In 2006, 86 per cent. of the current account deficit was covered by FDI, the remaining gap being financed via medium and long-term borrowing. In 2006, the services balance went into a surplus of EUR 4 million, as compared with a deficit of EUR 349 million in 2005, on the back of higher receipts from passenger transport, communication services, construction, IT and inter-subsidiaries services. The income balance ended 2006 EUR 3.25 billion in deficit (32.0 per cent. of the current account deficit), up 39.6 per cent. from 2005, owing to non-residents' receipts from direct investment (reinvested earnings) and interest payments for loans to the banking sector, government sector and other sectors. The balance of current transfers recorded a surplus of EUR 4.85 billion, up 34.8 per cent. from 2005, due to private transfers whose share in total transfers stood at nearly 96 per cent., down 2.4 per cent. from 2005 (concurrent with the rise in transfers to the government sector), as a result of an acceleration of money flows to residents. Among these, remittances from abroad constituted 83.6 per cent., of which Italy held 36.7 per cent., followed by Spain (23.4 per cent.), the United Kingdom (5 per cent.) and Germany (3 per cent.).

In 2007, the current account deficit widened to EUR 16.71 billion, up 64.6 per cent. year on year, accounting for 13.4 per cent. of GDP against 10.4 per cent. in 2006. The trade balance had a further major impact on the current account, reaching 14.3 per cent. as a share of GDP, 2.3 per cent. above the previous year's 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 43.4 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 4.13 billion deficit (about 25 per cent. of the current account deficit), up 27.1 per cent. from 2006, owing to higher non-residents' receipts from direct investment and interest payments for loans extended to the banking sector and the real 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 4.83 billion in 2007, down 0.4 per cent. from 2006, on the back of the deficit under "current transfers of the government sector". The balance of private transfers displayed a surplus of EUR 5.12 billion, up 10.5 per cent. from 2006, as a result of the acceleration of money flows to residents. Among these, remittances from abroad ran at 93.3 per cent., out of which Italy held 42 per cent., followed by Spain (26 per cent.), United Kingdom (5.4 per cent.), Germany (4.5 per cent.), USA (3.5 per cent.), Greece (2.8 per cent.), France (2.8 per cent.), Austria (1.9 per cent.) and Ireland (1.6 per cent.).

In 2008, the current account deficit slowly narrowed to EUR 16.16 billion, down 3.3 per cent. year on year, accounting for 11.8 per cent. of GDP against 13.4 per cent. in 2007. Trade balance (goods) had the strongest impact on the current account, reaching a 14.0 per cent. deficit-to-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 the significantly lower deficit under "freight") and current transfers (EUR 5.98 billion, up 23.8 per cent. year on year, from EU structural funds) and the narrower income deficit (EUR 3.68 billion, down 10.8 per cent. year on year on account of incomes derived from non-residents' direct investment in Romania).

In the first eleven months of 2009 the current account deficit narrowed to EUR 4.68 billion, down 69.4 per cent. versus the first eleven months of 2008 and 81.7 per cent. of which was financed by non-residents' direct investment in Romania. The main impact on the current account deficit was brought about by the trade deficit, down 66.5 per cent. from the corresponding period in 2008 to EUR 5.97 billion, as well as by the income deficit, down 43.1 per cent. to EUR 1.94 billion. The services balance posted a deficit of EUR 364 million, as compared with a surplus worth EUR 528 million in the first eleven months of 2008, due to the reduction in business travel and other services receipts (communication, financial, licence fees, advertising, marketing and opinion polls). Net inflows in terms of current transfers narrowed by 33.3 per cent. to EUR 3.59 billion, due to lower workers remittances.

Capital and Financial Account

In 2006, the balance on the capital and financial account equalled EUR 9.53 billion, 47 per cent. higher than in 2005, due to the following developments in relation to the capital and financial account components: (i) an increase in direct investment by non-residents in Romania, including the takeover by Erste Bank Austria of 36.8 per cent. of BCR's capital (EUR 2.2 billion) and increased reinvested profits and intra-group loans; (ii) the decline in net inflows of portfolio investment, owing to the redemption by SNP Petrom of joint-stock company bonds worth EUR 125 million issued in 2001, in the absence of new issues; (iii) the decrease in the value of medium and long-term loans and credits, due mainly to the lower volume of loans taken by bank, non-bank and government sectors; and(iv) the partial cancellation of the debts owed to Romania by Iraq and Congo, which caused the capital account to end the year in deficit.

In 2007, the balance on capital and financial account equalled EUR 17.47 billion, 83.3 per cent. higher than in 2006, due to (i) higher absorption capacity of funds for equipment purchase under PHARE non-redeemable technical assistance (net capital transfers ended the year on a EUR 707 million surplus, compared to a EUR 26 million deficit in 2006); (ii) increase in loans extended to the real and banking sectors (EUR 5.2 billion net inflows of MLT credits and loans, 2.4 times higher than in 2006); (iii) net inflows of portfolio investment (EUR 482 million, versus net outflows amounting to EUR 195 million in 2006), owing to operations in securities performed by the real sector; (iv) the EUR 4.5 billion rise in NBR's reserve assets coming from: income from the management of foreign reserves, higher return on government bonds in the NBR's portfolio, incremented income due to the increase in the investable base as a result of the change in foreign exchange reserve requirements of credit institutions and other net inflows.

In 2008, the balance on the capital and financial account totalled EUR 17.83 billion, 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 5.72 billion, up 10.2 per cent., with the main recipients being the real sector, public administration and banking sector.

In the first eleven months of 2009[1], the balance on the capital and financial account reached EUR 4.52 billion, 74.2 per cent. below the level recorded in the first eleven months of 2008, due to: (i) decrease in net FDI (from EUR 8.55 billion in the first eleven months of 2008 to EUR 3.75 billion); (ii) twofold increase in net outflows of ST credits and (loans worth EUR 2.72 billion, as compared to EUR 1.29 billion in the first eleven months of 2008); (iii) reversal in cash and deposits[2] (from EUR 808 million in net inflows in the first eleven months of 2008 to EUR 3.06 billion in net outflows in the first eleven months of 2009).

1 Provisional data

2 Other capital investment includes: financial derivatives, currency and deposits, other assets, other liabilities, errors and omissions.

BALANCE OF PAYMENTS, 2006 – 2008 and the first eleven months of 2009

EUR millions

Item	2006			2007			2008			The first eleven months of 2009		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1. CURRENT ACCOUNT (A+B+C)	**38,700**	**48,856**	**-10,156**	**46,051**	**62,765**	**-16,714**	**53,582**	**69,739**	**-16,157**	**39,531**	**44,212**	**-4,681**
A. Goods and services	**31,437**	**43,192**	**-11,755**	**36,434**	**53,847**	**-17,413**	**42,479**	**60,929**	**-18,450**	**32,675**	**39,012**	**-6,337**
a. Goods (export fob - import fob)**	**25,850**	**37,609**	**-11,759**	**29,549**	**47,371**	**-17,822**	**33,725**	**52,834**	**-19,109**	**26,688**	**32,661**	**-5,973**
b. Services	**5,587**	**5,583**	**4**	**6,885**	**6,476**	**409**	**8,754**	**8,095**	**659**	**5,987**	**6,352**	**-365**
– Transportation	1,498	1,916	-418	1,814	2,390	-576	2,684	2,697	-13	1,748	1,806	-58
– Travel	1,034	1,035	-1	1,173	1,120	53	1,358	1,477	-119	829	916	-87
– Other services	3,055	2,632	423	3,898	2,966	932	4,712	3,921	791	3,411	3,630	-219
B. Income	**1,726**	**4,972**	**-3,246**	**2,429**	**6,556**	**-4,127**	**2,268**	**5,951**	**-3,683**	**1,024**	**2,962**	**-1,938**
– compensation of employees	922	33	889	1,186	40	1,146	1,156	115	1,041	394	35	359
– direct investment income	-17	3,318	-3,335	43	4,376	-4,333	13	2,983	-2,970	25	1,001	-976
– portfolio investment income	469	566	-97	829	647	182	838	675	163	498	282	216
– other investment (interest)	352	1,055	-703	371	1,492	-1,121	260	2,177	-1,917	107	1,644	-1,537
C. Current transfers	**5,537**	**692**	**4,845**	**7,187**	**2,362**	**4,825**	**8,836**	**2,859**	**5,977**	**5,831**	**2,238**	**3,593**
– public administration	288	81	207	932	1,229	-297	2,227	1,302	925	2,039	1,407	632
– other sectors	5,249	611	4,638	6,255	1,134	5,121	6,609	1,557	5,052	3,792	831	2,961
2. CAPITAL AND FINANCIAL ACCOUNT (A+B)	**46,501**	**36,969**	**9,532**	**68,784**	**51,316**	**17,468**	**80,025**	**62,196**	**17,829**	**65,112**	**60,588**	**4,524**
A. Capital account	**732**	**757**	**-25**	**1,229**	**412**	**817**	**992**	**371**	**621**	**649**	**257**	**392**
a. Capital transfers	**681**	**707**	**-26**	**990**	**283**	**707**	**880**	**264**	**616**	**595**	**235**	**360**
– public administration	450	592	-142	677	70	607	480	1	479	405	127	278
– other sectors	231	115	116	313	213	100	399	263	136	190	108	82
b. Acquisitions/sales of nonproduced-nonfinancial assets	**51**	**50**	**1**	**239**	**129**	**110**	**112**	**107**	**5**	**54**	**23**	**31**
B. Financial account	**45,769**	**36,212**	**9,557**	**67,555**	**50,905**	**16,650**	**79,033**	**61,825**	**17,208**	**64,463**	**60,330**	**4,133**
a. Direct investment	**14,148**	**5,425**	**8,723**	**14,267**	**7,220**	**7,047**	**18,728**	**9,420**	**9,308**	**8,402**	**4,656**	**3,746**
– abroad	13	350	-337	18	222	-204	55	243	-188	266	345	-79
– in Romania	14,135	5,075	9,060	14,249	6,999	7,250	18,673	9,177	9,496	8,137	4,311	3,626
b. Portfolio investment	**1,510**	**1,705**	**-195**	**3,347**	**2,865**	**482**	**2,551**	**3,114**	**-563**	**5,315**	**5,195**	**120**
– assets	162	813	-651	739	635	104	455	668	-213	4,597	4,803	-206
– liabilities	1,348	892	456	2,608	2,230	378	2,095	2,446	-351	718	392	326
c. Financial derivatives	**38**	**123**	**-85**	**248**	**546**	**-298**	**600**	**890**	**-290**	**378**	**386**	**-8**
d. Other investment	**30,073**	**23,801**	**6,272**	**49,693**	**35,768**	**13,925**	**57,118**	**48,400**	**8,718**	**50,368**	**48,151**	**2,217**
– assets	**7,264**	**8,157**	**-893**	**11,116**	**11,714**	**-598**	**12,400**	**13,055**	**-655**	**12,041**	**13,874**	**-1,833**
1. Long-term loans and credits	715	202	513	295	172	123	268	209	59	141	212	-71
1.1. Trade credits	663	17	646	234	31	203	132	43	89	48	15	33
1.2. Financial loans	52	185	-133	60	141	-81	136	166	-30	92	197	-105
2. Short-term loans and credits	1,666	2,551	-885	1,803	2,466	-663	2,241	3,074	-833	1,616	2,248	-632
2.1. Trade credits	1,423	1,545	-122	1,497	1,771	-274	1,876	2,266	-390	1,490	1,923	-433
2.2. Financial loans	243	1,006	-763	306	695	-389	365	808	-443	127	325	-198
3. Currency and short-term deposits	4,495	4,989	-494	8,538	8,564	-26	9,375	9,317	58	9,992	11,141	-1,149
4. Other assets	388	415	-27	480	512	-32	516	454	62	292	273	19
– long-term	262	297	-35	225	225	0	**294**	**262**	**32**	109	138	-29
– short-term	126	118	8	255	287	-32	222	192	30	183	135	48
– liabilities	**22,809**	**15,644**	**7,165**	**38,577**	**24,055**	**14,522**	**44,717**	**35,3462**	**9,3711**	**38,327**	**34,277**	**4,050**
1. Use of IMF credits and loans	0	134	-134	0	0	0	0	0	0	6,769	0	6,769
2. Long-term loans and credits	6,480	4,221	2,259	11,172	5,899	5,273	12,499	6,776	5,723	7,201	5,757	1,444
2.1. Trade credits	242	481	-239	358	382	-24	129	459	-330	45	622	-577
2.2. Financial loans	6,238	3,740	2,498	10,815	5,517	5,298	12,370	6,317	6,053	7,157	5,136	2,021
3. Short-term loans and credits	7,845	3,101	4,744	7,908	6,381	1,527	8,244	9,091	-847	4,293	6,379	-2,086
2.1. Trade credits	2,295	1,275	1,020	2,913	2,054	859	2,431	3,438	-1,007	1,586	2,746	-1,160
2.2. Financial loans	5,550	1,826	3,724	4,994	4,328	666	5,813	5,653	160	2,707	3,632	-925
4. Currency and short-term deposits	7,690	6,790	900	15,833	10,348	5,485	18359	17,587	772	16,741	19,950	-3,209
5. Other liabilities	794	1,398	-604	3,665	1,348	2,317	8615	1891	3,724	3,322	2,190	1,132
– long-term	423	551	-128	2,506	193	2,310	4853	1297	3556	3,182	1,901	2,310
– short-term	371	847	-476	1,159	1,152	7	762	594	168	140	289	-149
e. Net foreign assets NBR (increase "-"/decrease "+")	–	**5,158**	**-5,158**	**0**	**4505**	**-4505**	**38**	**0**	**0**	**0**	**1942**	**-1,942**
3. Net errors and omissions	**624**	–	**624**	–	**753**	**-753**	–	**1673**	**1673**	**157**	–	**157**

*) provisional data

**) CIF/FOB coefficient=1.0834, published by the National Institute of Statistics

* provisional data

** CIF/FOB coefficient=1.0834, published by the National Institute of Statistics

5. Monetary and Financial System

National Bank of Romania

The NBR is the central bank of the Republic of Romania. The NBR is an independent public institution with its headquarters in Bucharest.

The main object of the NBR, set forth in Law No. 312/2004 on the National Bank of Romania, 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, while promoting and monitoring the integrity of payment systems;

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

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

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

The Government and the NBR maintain a close working relationship. Although the NBR is expected to support government economic policy, the NBR's power to determine monetary policy is not subject to any review or consent by the Government.

The NBR is managed by a board of nine members and its executive functions 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.

Monetary Policy

In conducting monetary policy, the NBR makes use of specific instruments and procedures. The main monetary policy instruments 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 main categories of open market operations available to the NBR 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 aim to absorb and provide overnight liquidity, signal the general monetary policy stance and steer overnight interbank rates by reference to the interest rates on the lending and deposit facilities. The standing facilities are available to credit institutions acting on their own initiative.

Recent Monetary Policy

Inflation targeting was officially adopted as a policy strategy in August 2005. Faced with the increased inflationary potential of aggregate demand and supply shocks and liberalisation of capital movements (in April 2005, non-residents were granted access to RON term deposits), which, coupled with improving country risk evaluation, led to domestic currency appreciation, the NBR gradually reduced interest rates with the intention of achieving a sustainable slowdown of inflation. The NBR also extended minimum reserve requirements and introduced other prudential and administrative measures (e.g. loan-to-income limits for household borrowing and own funds commercial bank exposure limits to unhedged borrowers).

The reduction in interest rates was achieved through a change in the way the NBR conducted open-market operations: the monetary policy interest rate was gradually reduced to 7.5 per cent. and interest rates on standing facilities were cut, to 14 per cent. (in respect of the credit facilities) and 1 per cent. (in respect of the deposit facility). To contain foreign-currency-denominated credit growth and consolidate traditional monetary transmission channels, the NBR gradually applied the 30 per cent. minimum reserve requirement on foreign exchange liabilities with maturities of over two years and subsequently raised this ratio to 35 per cent.; at the same time, the NBR cut by two percentage points (to 16 per cent.) the reserve ratio for RON-denominated liabilities.

In 2006 the NBR was prompted to tighten monetary policy as inflation threatened to increase due to: (i) an increase in the projected size and duration of excess demand; (ii) structural policy measures due to be implemented during this period (such as indirect tax increases and regulated price adjustments); and (iii) a substantial increase in projected budget expenditures for 2006. In the first half of 2006, the monetary policy rate was raised, in two stages, to 8.75 per cent.. In addition, in February 2006, the NBR increased the reserve ratio on foreign exchange-denominated liabilities of credit institutions from 35 per cent. to 40 per cent. and in June 2006 it increased the reserve ratio on RON-denominated liabilities from 16 per cent. to 20 per cent.. In October 2006, additional measures were taken to contain the credit risk associated with loans to households by making access to bank and non-bank borrowing more difficult.

The NBR was prompted to lower the policy rate in four successive moves during the first half of 2007 when the inflation outlook improved against a backdrop of (i) a projected decline in demand-driven inflationary pressures, and (ii) faster appreciation of the RON versus the major currencies. The rate cuts ranged from 0.75 to 0.25 percentage points and were implemented in February, March, May and June, taking the policy rate to 7 per cent. by mid-2007. However, this downward trend was discontinued in the first part of the third quarter of 2007 and the policy rate was raised by half of a percentage point in October 2007, when the key rate reached 7.5 per cent.. The trend reversal occurred as a response to the unexpected upturn in inflation and particularly to the worsening of its outlook in the short and medium term.

The NBR continues to exert control over liquidity in the money markets and the policies it has implemented in order to absorb excess liquidity have resulted in a gradual narrowing of the gap between money market interest rates and the NBR's reference rate. At the same time, given the availability of credit in the private sector and the prospect of its continuation, the NBR kept the minimum reserve ratios unchanged at 20 per cent. on RON-denominated liabilities and 40 per cent. on foreign currency-denominated liabilities.

The NBR raised the policy rate in several successive moves during the first half of 2008 prompted by an upsurge in inflation brought about by the international financial crisis. The short and medium term inflation outlooks at the domestic level deteriorated in particular as a result of the projected increase in excess demand and supply-driven factors. The upward trend that had been 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 to 10.25 per cent.. The rate-hiking series was subsequently discontinued and the policy rate was left unchanged until January 2009, when inflation began to decrease again and uncertainties surrounding its outlook grew in the context of the deepening and broadening of the international 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, aimed at absorbing excess reserves. However, against the background of a continuous decline in the structural liquidity surplus of the banking system, the system shifted into a negative net liquidity position starting in October 2008. The NBR tailored its monetary policy to the new context accordingly; the minimum reserves for RON denominated liabilities was 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 mainly towards injecting liquidity (initially via foreign exchange swaps, and lately chiefly via repo operations). Nevertheless, the occurrence of episodes of excess liquidity triggered the need for the central bank to also 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.), but slowed down in the following months, posting a much faster deceleration after July 2008 (until 25.7 per cent. in real terms in December). This development mirrored the decline in the growth rate of loans to households and to a lesser extent of those to companies; both RON and foreign currency denominated loans' growth rates declined quicker in the second half of 2008. Financial intermediation rose (with the stock 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 M3 in GDP dropping to 34.5 per cent., from 35.9 per cent.).

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 preservation of an extremely prudent monetary policy stance was aimed at restoring economic balance and helping to ensure the convergence of the inflation rate towards set targets.

The increasingly visible contraction of the Romanian economy and the consequent inflation deceleration at a speed consistent with the medium-term inflation target caused the NBR to initiate a prudent monetary policy relaxing process in February 2009 pursuant to which the monetary policy interest rate was marginally lowered by 0.25 percentage points to 10 per cent.. The inflation spike occurring at the end of the first quarter of 2009, caused by RON depreciation and frontloading of tobacco excise tax, allowed the consolidation of the monetary policy relaxation process by decreasing the monetary policy interest rate by an additional 0.50 percentage points (to 9.5 per cent. per annum) in May 2009. Major factors in the NBR's decision were also the restoration of a degree of economic balance 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, 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, were the increased tensions in the domestic political field at the end of 2009 and the adverse effect it was thought that changing the policy rate would have on inflation expectations.

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 0; (ii) in June 2009, the NBR decided to lower 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 – 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 - 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 5 per cent. to 25 per cent. starting with the 24 November – 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 in the latter half of April 2009, the NBR increasingly conducted repo transactions via fixed-rate tenders (policy rate) with one-month maturities and full allotments. This modification resulted in a gradual normalisation of the yield curve in the interbank money market. 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 halted in October 2009 as a result of RON depreciation against the euro. Credit to the private sector resumed its decline (in annual real terms) in the following months, reaching -3.6 per cent. in December 2009, its biggest negative growth rate for 8 and a half years, mainly as a result of the accounting effect of domestic currency appreciation. In the last two months of 2009, especially December 2009, the negative pace of foreign currency credit eased slightly and that of local currency credit was rather steady (both in real terms). 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.

The stabilisation of the domestic political climate in 2010 together with the reactivation of the multilateral external financing arrangements with the EU, the IMF and other financial institutions (which improved the perceived outlook for the Romanian economy) allowed the NBR to resume a downward trend in the monetary policy rate. This approach has also been driven by the decline in core inflation seen at the end of 2009 and the prospects of this trend continuing over the medium term. Consequently, during January and February 2010, the NBR lowered the monetary policy rate, in two successive moves of 0.5 percentage points each, to 7 per cent..

The following table sets out actual quarterly inflation rates, annual target inflation rates and monetary policy rates at the end of each quarter for the years 2006, 2007, 2008 and 2009.

End of Period	Inflation Rate	Target Inflation Rate	Monetary Policy Rate
December 2005	8.6%	7.5%	–
March 2006	8.4%	–	8.50%
June 2006	7.1%	–	8.75%
September 2006	5.5%	–	8.75%
December 2006	4.87%	5%	8.75%
March 2007	3.7%	–	7.50%
June 2007	3.8%	–	7.00%
September 2007	6.0%	–	7.00%
December 2007	6.57%	4%	7.50%
March 2008	8.63%	–	9.50%
June 2008	8.61%	–	10.0%
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%

Monetary Aggregates

The following table shows selected monetary aggregates as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 November 2009:

	30 November 2009	31 December 2008	31 December 2007	RON millions December 2006
M1 (narrow money) – Total	78,641	92,549	79,914	48,726
Currency in circulation	23,760	25,287	21,442	15,130
Overnight deposits	54,881	67,262	58,473	33,596
M2 (intermediate money) – Total	184,200	173,629	148,044	110,442
M1	78,641	92,549	79,914	48,726
Deposits with agreed maturity of up to 2 years	105,559	81,080	68,129	61,716
M3 (broad money) – Total	185,696	174,028	148,116	110,821
M2	184,200	173,629	148,044	110,442
Other financial instruments (repurchase agreements, MMFs shares/units, debt securities with maturity of up to 2 years)	1,496	399	72	379

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 European Central Bank ("ECB").

Source: NBR

Interest Rates

In 2006, money market rates developed around the monetary policy rate. However, in December 2006, loose control over liquidity resulted in a persistent decoupling of money market rates from the policy rate. Following the renewed tightening of interest rate policy in November 2005, the declining trend in interest rates applied by banks to non-bank clients stabilised during the first months of 2006. While yields on term deposits subsequently followed an upward trend, reaching an average of 5.1 per cent. in December 2006, interest rates on non-government credit continued to decrease slightly, down to an average of 15.7 per cent. in December 2006.

Interbank deposit rates came closer to the policy rate in late February 2007, following the tightening of monetary control by the NBR. However, from March 2007, the money market experienced very tight liquidity conditions, mainly due to the strong impact of various autonomous factors. Consequently, interbank rates witnessed significant spikes and rose well above the policy rate until the end of June 2007. However, the changes brought about to the monetary policy operational framework by the NBR, and its tightening of the liquidity control policy, reduced the volatility of interbank rates considerably in the second half of 2007, which gradually returned close to the policy rate; the average interest rate on the interbank market was 7.2 per cent. in December 2007, which was 1.55 per cent. higher than in December 2006.

Interest rates applied by banks to non-bank clients remained broadly stable from January to May 2007 both on term deposits and loans, despite the high volatility of money market rates. Subsequently, they entered a slightly downward trend which continued until August, although between September and November they increased again.

During the first half of 2008, the 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 a 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 a surplus to a deficit and the associated higher uncertainty among market participants regarding current and short-term liquidity conditions. Other factors arose from the intensifying international financial crisis, namely (i) loss of confidence among banks, (ii) possible downward adjustment of exposure limits between some banks, (iii) episodes of increased speculative demand for domestic currency from non-residents, particularly in the latter part of October 2008. However, at the end of March 2009, overnight money market rates adjusted relatively rapidly to lower levels, and have since stabilised around the monetary policy rate as banks' demand for reserves has been covered, to an increasing extent and subsequently almost completely, via central bank's repo operations. In turn, the yields at the longer end of the money market yield curve have followed a gradual downward correction, benefiting from the NBR's improved liquidity management, as since mid-April the central bank's repo operations have been 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 has declined substantially.

Interbank money market rates rose again temporarily during the final quarter of 2009 and their spread vis-à-vis 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 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 international financial crisis on the Romanian economy. Interest rates on new 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 vis-à-vis the policy interest rate and the interbank money market rates. The average interest rate on new time deposits of households decreased by 6.13 per cent. as compared to January 2009 (reaching 9.93 per cent. in December 2009), while the average interest rate on new time deposits of companies decreased by 7.11 per cent. to 9.57 per cent.. During the period from February to December 2009, the average interest rate for new loans to non-financial corporations decreased by 5.79 percentage points to 15.40 per cent.. By contrast, the average interest rate for 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.

Throughout January and February 2010, money market rates declined significantly, as a combined result of the cut in the monetary policy rate implemented by the NBR and a relative easing of liquidity conditions. As a result, yields at the longer end of the money market yield curve embarked on a rapid convergence process towards levels consistent with the NBR's policy rate.

The following table shows key financing interest rates as at 31 December 2006, 2007 and 2008, and 31 August 2009:

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

	2009	**2008**	**2007**	**2006**
	(% per annum as at 31 December)*			
Policy rate	8.00	10.25	7.5	8.75
Lending facility	12.00	14.25	12.00	14.00
Deposit facility	4.00	6.25	2.00	1.00

Notes:

* For 2009, % per annum shown is as at 31 August, rather than 31 December

Source: NBR

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

	Individuals		Non-financial corporations		Total	
	Loans	Term deposits	Loans	Term deposits	Loans	Term deposits
			(% per annum)			
31 December 2007	14.23	6.80	11.84	6.76	13.05	6.78
31 December 2008	16.59	12.12	18.34	14.881	17.47	13.22
30 November 2009	17.12	9.70	16.03	9.02	16.57	9.51

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). Source: NBR

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 (republished in Monitorul Oficial al Romaniei, Part I, No. 616/06.09.2007) (the "**FX Regulation**").

The FX Regulation also specifies safeguard measures for foreign exchange transactions applicable 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 have been liberalised since 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.

Exchange Rate Policy

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

The RON began to appreciate against the euro towards the end of 2004. During 2006, the RON continued to appreciate quickly against the major currencies due to strong pressures exerted by FDI and other capital inflows – volatile streams included – and spurred on by faster convergence in advance of Romania's accession to the EU. However, contrary to expectations, the implementation of the last step of capital account liberalisation on 1 September 2006 did not have a noticeable impact on the foreign exchange market or, implicitly, on its price parameters. The real appreciation of the domestic currency against the euro was 12.4 per cent. during 2006.

Subsequently, the RON continued to strengthen during the first few months of 2007; increased risk appetite, higher return opportunities followed by more sizeable capital inflows, especially volatile ones, enhanced an even faster appreciation for the RON, which became increasingly overvalued towards the end of the second quarter of 2007. The trajectory of the RON/EUR rate reversed at the end of July 2007 and its depreciation accelerated in August 2007 due to the shift in investor appetite for riskier assets, prompted by the US "sub-prime" crisis and also by the worsening of market expectations caused by the reassessment of domestic economic fundamentals. The RON depreciated more quickly in early September 2007 at a time when developments in the RON/euro exchange rate were no longer linked to those of other regional currencies as unfavourable expectations of operators were rekindled by adverse economic and political developments. From November 2007, new pressures on the exchange rate emerged against a background of successive outbreaks of uncertainty in the international financial markets and the worsening perception of the current and short-term prospects of the Romanian economy. Consequently, the real appreciation of the RON against the euro lowered in December 2007 to 3.1 per cent..

The RON continued to depreciate against the euro in the first quarter of 2008 and subsequently embarked on a mild, but still hesitant, downward trend. However, this trend reversed as the appreciation of the RON against the euro accelerated toward the end of June 2008, mainly as a result of (i) increased interest rates differential and expectations that this differential would increase further, and (ii) improved investor perception regarding the short term changes in domestic fundamentals. The effect that the re-ignition of high turbulence and volatility episodes in the international financial markets had on domestic currency changes was, initially, not significant; however, as the international financial crisis picked up dramatically in September 2008, the RON/EUR exchange rate showed a sharp upward trend while its volatility increased; this change was linked to the general weakening of the main currencies in the region. Further upward pressure on the RON/EUR exchange rate stemmed from residents' unprecedented purchases of foreign currency and a larger volume of speculative transactions conducted in this context by some forex market operators. However, the latter developments were reined in by the NBR via verbal interventions and tighter conditions on the money market. Pressures toward RON depreciation regained momentum in December, when the RON was adversely impacted by investors' growing lack of confidence, amid the significant worsening of developments in emerging markets asset class, regionally and elsewhere. Thus, in real terms, the depreciation of the RON against the euro in 2008 was 4.2 per cent.

In common with the trend shown by either currencies in the region, RON depreciation intensified further in January 2009 on account of a severe deterioration in investors' sentiment, to which were added uncertainties regarding the new government's ability to adopt and implement proper measures aimed at an orderly unwinding of macroeconomic disequilibria. Against this background, the RON/EUR exchange rate posted a series of record highs, which reached a peak value on 21 January 2009 (RON 4.3127/EUR 1). Pressures on weakening regional currencies continued to mount as investors' non-discriminate perception of the regional economies worsened even further; however, the RON/EUR exchange rate was partly disconnected from the trajectory of the main currencies in the region due to the NBR's still tight monetary policy stance and the lower liquidity on the interbank forex market. Subsiding depreciation pressures faced by the currencies in the region provided further support to the RON, which entered an appreciation path as of late March 2009, following also the announcement of an IMF-EU staff-level agreement with Romania as part of a multilateral financial support package. This trend accelerated further, backed by improved financial investors' risk appetite; thus, in April 2009, the RON posted its first nominal appreciation compared to the euro in eight months while its correlation with other currencies in the region increased. The RON/EUR remained almost stable during July – August 2009. However, since September 2009, financial investors' perception of the risk associated with investments in the regional financial market has worsened, the exchange rates of the main regional currencies against the euro entering an upward slope, which became steeper in October 2009.

Pressures on the RON/EUR exchange rate were also intensified by (i) pronounced domestic political instability as a result of the vote of no-confidence given by Parliament to the government in office on 13 October 2009 and (ii) the risk of a downgrade in Romania's sovereign rating in the absence of a smooth unfolding of the multilateral external financing arrangement with the EC, the IMF and other international financial institutions. As a result, in October 2009, the RON recorded the largest nominal depreciation versus the euro in eight months (1.1 per cent.).

However, in November 2009, the RON posted an appreciation against the euro, owing mainly to the relatively higher global appetite for risk and improved sentiment towards economies in the region. The following factors also had a favourable impact on the expectations of investors in the domestic market and, implicitly, on the developments in the exchange rate: (i) the better-than-anticipated development, relatively speaking, of some economic indicators published during this period, (ii) the European Commission's improved projections on developments in the Romanian economy for 2010 and 2011, and (iii) the reiteration by foreign banks of their commitment to maintain exposures on the domestic market. This favourable impact was reinforced by the monetary policy decisions adopted by the NBR in early November 2009, against the background of, first, higher pressures facing the domestic political environment and, subsequently, delays in the external funds inflows announced for the final quarter of 2009 under the external financing arrangement. The validation of the new government by Parliament on 23 December 2009, which paved the way for reactivating the multilateral external financing arrangement, also had a favourable bearing on developments in the RON/EUR exchange rate, which has since commenced an almost uninterrupted steep downward path (on 13 January 2010, the RON/EUR exchange rate posted a nine-month low). During 2009, the depreciation of the RON against the EUR was 2.9 per cent. in real terms.

The following table sets forth the RON/EUR and RON/USD exchange rates for the years 2005, 2006, 2007, 2008 and 2009.

RON/EUR and RON/USD Exchange Rate

	EUR		USD	
	Average	**31 December**	**Average**	**31 December**
2009	4.2372	4.2282	3.0493	2.9361
2008	3.6827	3.9852	2.5189	2.8342
2007	3.3373	3.6102	2.4383	2.4564
2006	3.5245	3.3817	2.8089	2.5676
2005	3.6234	3.6771	2.9137	3.1078

Source: NBR (The figures are based on the prudential reports submitted by banks to the NBR before the conclusion of their accounting balance sheet.)

Banking System

General

Extensive reform of the banking system began in 2004 in preparation for Romania's accession to the EU. Government Ordinance No.10/2004 on the reorganisation and bankruptcy of credit institutions implemented EU Directive No. 2001/24/EC. Law No. 312/2004 harmonised the functioning and operations of the National Bank of Romania with the EU system of central banks and the European Central Bank.

Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy (the "**Government Emergency Ordinance No. 99/2006**"), approved by Law No. 227/2007, and further amended and supplemented the fundamental law of the Romanian banking system implementing EU Directives No.2006/48/EC, No.2006/49/EC, No. 2000/46/EC, No. 2001/24/EC, and No.89/117/EEC with effect from 1 January 2007, and EU Directive 2004/39 with effect from 21 July 2007 and EU Directive No.2007/44/EC with effect from 23 March 2009.

The process of privatisation of the banking system carried out by AVAS commenced in 1998 with Banca Romana pentru Dezvoltare followed by Bancpost in 1999 and Banca Agricola in 2001; in 2006 a controlling stake in BCR, the largest bank in Romania in terms of market share, was bought by Erste Bank (a leading Austrian bank) for EUR 3.75 billion.

Currently, there are two state-owned banks in the AVAS portfolio, namely, CEC Bank, a totally state-owned bank, and Eximbank, a majority state-owned bank, mainly involved in issuing guarantees for import-export operations.

Structural changes continued during 2007: Unicredit Romania merged with HVB Tiriac Commercial Bank to form UniCredit Tiriac Bank; a banking licence was granted to Millennium Bank of Portugal; EU banks LA CAIXA, Fortis Bank and Finicredito of Portugal opened branches in Bucharest; and, 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.

2008 also saw the licensing of BCR Banca pentru Locuințe; the opening of a Bucharest branch by Depfa Bank of Ireland; the acquisition by UniCredit Țiriac Bank of the assets owned by Banca di Roma – Bucharest branch, following the merger between the two credit institutions' shareholders (UniCredit Group and Capitalia); the acquisition of ABN Amro Bank by Royal Bank of Scotland; C.E.C changed its name to CEC Bank, Egnatia MARFIN Bank, and 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, two banking licenses were granted to GE GARANTI BANK SA (owned by entities of General Electric Group and by entities of Dogus Holding AS Group - Turkish undertaking) and to Banca Comercială Feroviara SA (owned by Romanian shareholders).

In November 2009, Raiffeisen Banca pentru Locuințe was subject to a merger by absorption with HVB Banca pentru Locuințe (the absorbed entity).

2009 saw the transformation of Citibank Romania, a former local subsidiary, into a bank branch (Citibank Europe) and the closure of the Bucharest branch of Depfa Bank. Thus, the number of foreign banks branches remained unchanged (10 such entities), all of them being from other EU member states.

Structure of the Banking Sector

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

As of 30 September 2009, total assets owned by credit institutions amounted to EUR 76.81 billion. There were 42 registered credit institutions, comprising one majority state-owned institution (Eximbank), one fully state-owned institution (CEC Bank), ten branches of foreign banks (ING Bank N.V., Italo-Romena Bank, Anglo Romanian Bank, Garanti Bank International, BLOM Bank France, Bank of Cyprus, Fortis Bank, LA CAIXA, Finicredito and Citibank Europe) and 30 credit institutions with private capital (including CREDITCOOP – the network of credit cooperatives) of which 26 had majority foreign ownership.

The banking system is majority privately held. As at 30 September 2009, the share of assets held by banks with total or majority private capital in total assets of the Romanian banking system was 93.9 per cent., while the share of assets held by banks with total or majority foreign capital, including foreign bank branches, was 86.8 per cent.. Banks with total or majority state-owned capital held only 6.1 per cent. Only two credit institutions with majority state-owned capital remain, CEC Bank (the former Casa de Economii si Consemnatiuni), with a share in total banking sector capital of 4.9 per cent., and Eximbank (the Export-Import Bank), with an analogous share of 1.2 per cent.

The level of banking system capitalisation was approximately EUR 3.4 billion as at 30 June 2009, representing an increase of 6 per cent. since December 2008, mainly from 2008 profit distribution and new cash contributions of banks' shareholders.

The main countries of origin of the capital invested in the Romanian banking system are currently Greece, Austria and the Netherlands.

EU accession also opened up the Romanian banking market to other EU banking institutions. During 2008 and the first nine months of 2009, 199 institutions from EU Member States notified their intention to provide services within Romania on a cross-border basis without establishing Romanian branches. Provision of such cross-border banking services is not regulated by the NBR.

The following table shows the composition of the Romanian banking sector as at 31 December 2008:

Type of Capital	Number of banks	Total loans	Total deposits	Total balance sheet
		(% of market share)		
State-owned	1	4.5	5.2	4.4
Majority state-owned	1	0.8	0.0	0.9
Majority privately-owned banks, of which	31	88.5	88.4	89.1
– majority domestic capital	4	6.8	6.6	6.6
– majority foreign capital	27	81.7	81.8	82.5
Branches of foreign banks	10	6.2	6.4	5.6

Source: NBR

Current Condition of the Banking Sector

From 2005 to the third quarter of 2008, sound economic fundamentals supported the demand for loans by household and business borrowers. Improved macrostabilisation, coupled with credit institutions' endeavours to consolidate their position in the Romanian market, strengthened the overall stability and soundness of the Romanian domestic banking system. The focus by the NBR on the quality of its supervision processes, against a background of larger and more complex transactions, made a large contribution to the health of the banking system.

Moreover, in order to prevent a deterioration of the main soundness indicators in the wake of the global crisis, the NBR has taken a number of important measures to contain its fallout, especially in the fields of capital adequacy, liquidity and assets quality.

The expansion of aggregated bank balance sheet assets during 2008 (an increase of 25.1 per cent.) was mainly due to the increased competition on the local market. The share of total bank assets in GDP has risen steadily, from 44.8 per cent. in 2005, to 50.1 per cent. in 2006, to 60.9 per cent. in 2007 and to 62.4 per cent. at the end of December 2008. In 2009, due to the weakening of the local macroeconomic environment, the increase of the aggregate banking net assets was only 2.6 per cent. in the first nine months of 2009. Against this background, non-government loans grew at a rate of 34 per cent. between December 2007 and December 2008, and 2.4 per cent. between September 2008 and September 2009. The general credit risk ratio (the share of risk-weighted assets of total assets at accounting value) decreased from 51 per cent. at December 2008 to around 50 per cent. at the end of September 2009 due to the slowdown in lending activity.

Starting with the last quarter of 2008, the deterioration of the quality of the loan portfolio was more pronounced, due to both slower economic growth and depreciation of the national currency, though indicators defining the quality of the loan portfolio are at moderate levels (e.g. past due and doubtful loans as a proportion of total loans[3] (net value)[3] was 0.3 per cent. in December 2008, 0.7 per cent. in March 2009, 1.0 per cent. in June 2009 and 1.3 per cent. in September 2009, the percentage of loans granted to non-bank clients classified under loss in total loans (overdue loans of more than 90 days) was 2.8 per cent. at 31 December 2008, 4.0 per cent. at 31 March 2009, 4.7 per cent. at 30 June 2009 and 6.5 per cent. at 30 September 2009, respectively). The coverage in loan provisions of non-performing loans ("**NPLs**") was 86.2 per cent. in December 2008, 88.5 per cent. in March 2009, 89.6 per cent. in June 2009 and 87.7 per cent. in September 2009.

However, notwithstanding the developments in 2009, the Romanian banking system is still sound, with solvency and liquidity ratios well above domestic prudential requirements. The trend of these indicators was supported by the growing capitalisation of the banking system through profit distribution and new cash contributions of shareholders. In 2007, 2008 and in the first nine months of 2009, solvency ratios were above the applicable mandatory threshold of 8.0 per cent. (or 10 per cent. – see further below) at 13.78 per cent., 13.76 per cent., and 13.73 per cent. respectively. Every bank in Romania in fact had a solvency ratio above 10 per cent. as of the end of September 2009 and 20 banks' ratios were above the banking system's average. The NBR closely monitored capital adequacy ratios and requested some banks submit solvency ratios on a monthly, instead of quarterly, basis. Moreover, the NBR required some banks to reach and maintain a certain level of solvency ratio (10 per cent.) which is above the minimum regulatory level (8 per cent.). This was especially the case for the banks incurring losses, those with adverse trends of asset quality and those with levels of solvency ratio below the average of the banking system. With regard to liquidity, the overall indicator is above the prudential requirements. This ratio was 2.31 in March 2009 and 1.63 in September 2009. In 2009, all banks complied with the prudential requirements for the overall liquidity ratio. (Liquidity ratio is calculated as the rate of effective liquidity and necessary liquidity).

At the same time, in order to quantify *ex ante* the need for additional capital required to maintain the prudential solvency ratio in the event of a worsening economic environment, the NBR, together with IMF staff, agreed to run certain stress test scenarios on the banking sector. These stress tests show each bank's level of own funds subsequent to the application of the shocks and thus the additional funds which would be needed to attain the minimum prudential 10 per cent. solvency ratio. All banks underwent the stress testing

3 at net value based on the accounting balance sheet

exercise based on stress factors included in the Government's economic programme. According to the baseline scenario used during the testing, own funds drop by about 21 per cent. so that, in order for the solvency threshold to be attained, an additional capital contribution in an amount of EUR 1 billion would be needed.

Romanian Banking Regulation and Business Standards

Banking Regulation and Supervision

Credit institutions are currently principally regulated by Government Emergency Ordinance No. 99/2006 and by Government Ordinance No. 10/2004 on the reorganisation and bankruptcy of credit institutions.

During 2009, Government Emergency Ordinance 99/2006 was amended by Government Emergency Ordinance 25/2009 in order to ensure the transposition of Directive 2007/44/EC, which introduced identical procedural rules and strict evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector among EU Member States.

Also, under the multilateral agreement concluded by Romania with IMF-EU-IFI, additional amendments to Government Emergency Ordinance 99/2006 have been passed through Law No. 270/2009, the key objective of which was to strengthen the NBR's prerogative to request, after assessing the financial condition of the credit institution, that significant shareholders financially support the bank in distress, and/or to prohibit or limit profit distributions until the financial condition of the credit institution is restored.

Further amendments to Government Emergency Ordinance No. 99/206 are foreseen in the near future, objectives of which will be to strengthen a special administrator's ability to deal with 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 Directive 2009/111/EC of the European Parliament and of the Council amending Directives 2006/48/EC,2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management.

Government Emergency Ordinance No. 99/2006 is applied through secondary legislation issued by the NBR or by the NBR and the National Securities Commission ("**NSC**") jointly, the latter particularly in the field of capital adequacy. The NSC is an autonomous administrative authority currently regulated by Romanian Government Emergency Ordinance No. 25/2002.

According to Government Emergency Ordinance No.99/2006, a credit institution is allowed to undertake the following activities in Romania, in accordance with its banking licence:

(a) acceptance of deposits and other repayable funds;

(b) lending including, inter alia: consumer credit, mortgage credit, factoring with or without recourse, financing of commercial transactions, including forfeiting;

(c) financial leasing;

(d) providing payment services;

(e) issuing and administering means of payment, such as credit cards, travellers' cheques and other similar means of payments, including issuing of electronic money;

(f) issuing guarantees and commitments;

(g) trading on own account and/or on account of clients, according to the law, in: money market instruments such as cheques, bills, promissory notes and certificates of deposit; foreign currency; financial futures and options; exchange and interest-rate instruments; and transferable securities and other financial instruments;

(h) participating in securities issues and other financial instruments by underwriting and selling them or by selling them and providing services related to such issues;

(i) advising on capital structure, business strategy and other related issues, advising and providing other services relating to mergers and the purchase of undertakings as well as other advisory services;

(j) providing portfolio management and advice;

(k) safekeeping and administration of financial instruments;

(l) intermediating in the inter-bank market;

(m) providing credit reference services related to the provision of data and other credit references;

(n) providing safe custody services;

(o) engaging in operations in precious metals, gems and objects thereof;

(p) acquiring participations in the capital of other entities; and

(q) engaging in any other activities or the provision of services in the financial field, subject to any special laws regulating those activities.

A credit institution may also directly participate in the capital markets. In this respect, subject to a notification addressed to the NSC and the presence of the relevant activities in the banking licence, a credit institution can directly provide financial services to the public.

The NBR has adopted a new prudential reporting system, harmonised with COREP and FINREP requirements and has already transposed into regulations some other guidelines issued by the Committee of European Banking Supervisors (CEBS). In September 2009, the NBR has adopted a new regulation (Regulation No. 18/2009) which covers the governance arrangements, internal capital adequacy assessment process and management of significant risks and conditions for outsourcing the activities of credit institutions. The new regulation transposes Pillar II (Guidelines on the Application of the Supervisory Review Process under Pillar 2) and other CEBS documents (such as those relating to the concentration risk, outsourcing, stress testing, liquidity, interest rate risk in the banking book, remuneration policy, risk management). At the same time, the new regulation that will replace the existing rules No. 17/2003 concerning organisation and internal control of the business of credit institutions and material risks management, as well as the organisation and internal auditing of credit institutions also transposes documents of Basel Committee concerning risk management, internal control and audit *(Core Principles for Effective Banking Supervision; Framework for internal control systems in banking organisations, Internal audit in banks and the supervisor's relationship with auditors)*, responsibilities of the management body *(Enhancing corporate governance for banking organisations)*, compliance function (*Compliance and the compliance function in banks),* residual risk, securitisation and operational risk *(International Convergence of Capital Measurement and Capital Standards – Basel II)* and liquidity risk *(Principles for Sound Liquidity Risk Management and Supervision)*.

During December 2009, new regulations transposing CEBS *Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches* were issued by the NBR (Regulation No. 25/2009 and Regulation No. 26/2009).

During December 2009, the National Bank of Romania has adopted a new regulation concerning liquidity – *Regulation no. 24/2009 on credit institutions' liquidity.* This new regulation is applicable to all credit institutions and improves the methodology of computing the liquidity ratio in line with the developments in the accounting regulation and in the financial markets.

The form and the content of the reporting forms concerning the liquidity ratio, as well as the frequency and the manner of submitting them to the National Bank of Romania are established by *Order no. 13/2009 on reporting the liquidity ratio and the large liquidity risk.*

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 oversight 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 (principally arising from the recent developments in the legal framework and NBR regulations) have changed the supervisory methodology substantially, from a compliance-based approach to a risk-based assessment. In this regard, 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 a 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. Based on the above assessments, relevant conclusions may be 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 Government Emergency Ordinance No. 99/2006, by the joint NBR-NSC Regulation No.13/18/2006 concerning the calculation of minimum capital requirements for credit institutions and investment firms amended by the joint NBR – NSC Regulation No. 29/10/2009 and by the joint NBR - NSC Regulation No. 18/23/2006 on own funds of credit institutions and investment firms, as further amended and supplemented by the joint NBR-NSC Regulations No.10/12/2007, No.10/8/2008 and No.6/3/2009.

According to the joint NBR - NSC Regulation No. 18/23/2006 on own funds of credit institutions and investment firms, the minimum initial capital of a bank, or of a branch of a non-EU bank is RON 37 million. The minimum initial capital of a mortgage bank or a saving bank in the housing field is RON 25 million, and of an electronic money institution is RON 12 million. The minimum amount of the initial capital on own funds of a central body of credit cooperatives is the equivalent in RON of EUR 5 million. The minimum limit of own funds of a credit cooperative is set at RON 300,000.

The minimum amount of the total capital on 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. In a capital increase, the 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 stabilisation of interbank money market rates while that of foreign currency-denominated reserve requirements is to contain the expansion of foreign exchange loans. The reserve ratios for liabilities with a residual maturity of up to less than two years from the end of the observance period are currently 15 per cent. for RON-denominated deposits and 25 per cent. for foreign currency denominated deposits.

Loan Classification

The present legal framework on the classification of loans and investments has been in force since 2003 and has been amended/supplemented several times and recast in 2009. It extends to Romanian credit institutions, branches of non-EU credit institutions and non-bank financial institutions.

Loans granted by credit institutions and by non-bank financial institutions to their non-bank debtors are classified into five categories: standard, watch, sub-standard, doubtful and loss, while exposures (credits and investments) incurred by credit institutions to other credit institutions are classified into two categories: standard 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", 0.50 for "doubtful" and 1 for "loss" for 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" for 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. Furthermore, in the case of credit institutions, the financial performance of the debtor (its financial soundness according to quantitative and qualitative factors) is to be taken into consideration.

Credit exposures against which specific provisions are to be set up are those remaining after deducting any guarantees securing the loan that are eligible for risk mitigation. The institution can decide whether to deduct such guarantees or not. Guarantees 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. Guarantees securing the principal of credits classified as "loss" and in respect of which legal proceedings have been started and/or in respect of which 90 days or more have elapsed since the credit became overdue are eligible to be taken into account (up to 25 per cent.) as credit risk mitigation factors, while the guarantees securing the payment of interest on these credits are not eligible to be taken into account.

Institutions must send to the NBR a report on the classification of credits and investments, and the specific provisions for credit risk, no later than seventeen days after the end of the month for which the report is made (in case of credit institutions) and no later than twenty five days after the end of the quarter for which the report is made (in case of non-bank financial institutions).

Capital Adequacy

According to Regulation No. 13/18/2006, as amended by NBR and NSC Regulation No. 29/10/2009, 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, as appropriate, in accordance with NBR-NSC Regulation No. 14/19/2006 on credit risk treatment using the standardised approach, for credit institutions and investment firms; NBR-NSC Regulation No. 15/20/2006 on credit risk treatment using the internal model-based approach, for credit institutions and investment firms, as subsequently amended; and/or NBR-NSC Regulation No. 21/26/2006 on credit risk treatment regarding securitised exposures and securitisation positions;

(b) in respect of their trading-book business, for position risk, settlement and counter party risk, the capital requirements determined in accordance with NBR-NSC Regulation No.22/27/2006 on capital adequacy of credit institutions and investment firms;

(c) in respect of all of their business activities, for foreign-exchange risk and for commodities risk, the capital requirements determined according to the NBR-NSC Regulation No.22/27/2006 on capital adequacy of credit institutions and investment firms; and

(d) in respect of all of their business activities, for operational risk, the capital requirements determined in accordance with NBR-NSC Regulation No.24/29/2006 regarding the calculation of the minimum capital requirements for operational risk of credit institutions and investment firms.

Participation in other enterprises

According to Banking Ordinance No. 99/2006, a Romanian credit institution is not permitted 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 this would enable them to exercise control over the undertaking in question.

The aggregate qualifying participations of a credit institution in such undertakings cannot exceed 50 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.

Lending Limits

NBR - NSC Regulation No. 16/21/2006 regarding large exposures of credit institutions and investment firms regulates the permitted exposures of credit institutions and investment firms.

A "large exposure" is net exposure towards a single debtor the value of which is at least 10 per cent. of the institution's own funds.

The 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 or group of connected clients is the parent undertaking or a subsidiary of the institution and/or one or more subsidiaries of that parent undertaking, the value of the exposure must not exceed 20 per cent. of the institution's own funds; and
- an institution may not incur large exposures which in total exceed 800 per cent. of its own funds.

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.

Under Regulation No. 3/2007 on reducing the credit risk on loans granted to individuals, as amended, the Romanian credit institutions intending to exceed an established limit of 35 per cent. for the total debt service ratio are required to draw up specific internal rules on lending to individuals. These rules, and the limits (over

35 per cent.) for the indebtedness ratio, are subject to the NBR's Supervision Department prior validation. In this framework, creditors were permitted to establish the maximum level of indebtedness for each clients' category taking into consideration the interest rate risk and the exchange rate risk.

Some new requirements were also settled in determining the clients' eligible income, by establishing that the creditors should take into consideration the client's income in strict relation to the income tax statement.

Foreign Exchange Risk Exposure Limit

In accordance with NBR regulations, Romanian 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.

Romanian branches of EU-established banks are not subject to these regulations.

Deposit Guarantee Scheme

At the end of June 2009, the legal framework regarding the deposit guarantee scheme has been harmonised with Directive 2009/14 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay. The coverage level for all categories of depositors was raised to EUR 50,000 and the time limit for actually paying out the compensation has been significantly reduced.

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.

Law No. 93/2009 applies to non-bank financial institutions which engage in lending activities in the broad sense, that is: (i) lending, including: consumer credits, mortgage credits, real-estate credits, micro-credits, financing of commercial transactions, factoring, discounting and forfeiting operations; (ii) financial leasing; (iii) guarantees and commitments; (iv) granting of credits in exchange of goods for safekeeping (such as pledging via pawnshops); (v) granting of credits to members of mutual benefit organisations; and (vi) other credit-like financing methods.

Payment Services Sector

On 1 November 2009, Emergency Ordinance No.113/2009 on payment services, which implemented the 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 Emergency Ordinance 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.

Capital Markets

*The National Securities Commission (the "**NSC**")*

The Capital Markets Law No. 297/2004 (the "**Law**") is the main piece of legislation regulating capital markets in Romania. In particular, the Law regulates, among other things, the provision of regulated financial services, the offering of securities, the obligations of issuers of securities, and the establishment and operation of regulated markets and alternate trading systems and collective investments undertakings. The

Law implements the provisions of Directive 93/22/EEC on investment services, Directive 97/9/EC and the other EU Directives regarding financial markets.

Capital markets are supervised in Romania by the NSC.

The NSC is made up of seven members: a president, two vice-presidents and four commissioners. Their appointment is made by the Parliament in a joint session of both chambers.

The Bucharest Stock Exchange

The Bucharest Stock Exchange (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 the BVB's legal status from an institution of public interest into a joint stock company, in accordance with Romania' Companies and Capital Market Acts. The end of this transformation process, on 13 July 2005, permitted the merger between BVB and the Rasdaq Electronic Exchange ("**BER**"), a process which was wound up on 30 November 2005 when the BVB Extraordinary General Assembly approved the merger document by which BVB absorbed BER. After the merger with BER, the BVB became the only regulated market in Romania where equities and bonds were traded. Companies listed on the BVB regulated market are classified in one of three tiers according to their overall corporate performance.

The main conditions for being listed in first tier are as follows: (i) three years of operation; (ii) equity capital of RON equivalent of EUR 30 million, (iii) a minimum net profit for the last two years of operation (excluding financial revenues); and (iv) 25 per cent. free-float.

BVB rules do not discriminate against foreign investors.

The BVB started its activities on 20 November 1995 with an initial listing of six companies. As of 15 January 2010 there were 69 listed companies on the regulated market and 61 listed series of bonds (of which 26 are government bonds) on the BVB regulated market. At the end of 2009, the total market capitalisation of listed equities was EUR 22.1 billion (RON 90.8 billion). The daily average turnover of the BVB regulated market was EUR 7.6 million (RON 27.8 million) in 2008, EUR 4.8 million (RON 20.4 million) in 2009 and EUR 4.7 million (RON 19.5 million) in the first half of January 2010. In 2009, the "blue chips" index of the BVB, the BET, closed the year at 4,690.57 points, having increased by more than 60 per cent. during 2009.

BVB Indices	**Value at 31.12.2009 (points)**	**Change in 2009 (%)**
BET	4,690.57	+61.68
BET-XT	461.95	+66.55
BET-C	2,714.77	+37.31
BET-FI	23,885.96	+90.33
BET-NG	596.16	+71.10
ROTX	9,674.67	+46.80
RAQ-I	2,362.57	+5.52
RAQ-II	5,491.44	+12.43
RASDAQ Compozit	2,239.51	+8.13

2008 marked one of the most complex years in the modern evolution of the Romanian capital markets in general, and of the BVB in particular. After more than a decade of upward indicators and exchange indices, emphasised and sustained by the recent EU integration process, 2008 showed a decrease in market prices and turnover. However, notwithstanding negative changes in liquidity and the reference prices of market listed companies, a number of significant events took place in the Romanian capital markets in 2008, some of which are listed below:

- the listing on the BVB of the first foreign company, the Austrian bank Erste Bank, on 14 February 2008;
- a new version of the BVB trading system was launched on 4 April 2008. The Arena Gateway application represents a technological upgrade and allows the exchange of information between the

intermediaries' systems and the BVB's system by using the Application Programming Interface (API). The effect of API is that all functions of the central system trading operations are available and easily integrated within participants' systems, optimising operational flow with online trading platforms administered by intermediaries, and increasing efficiency in using the capacity of the communication lines between the BVB system and participants;

- the number of derivative products available for trading on the BVB increased in number through diversification of the underlying of future contracts, to which single stock futures and currency futures were added;
- on 1 July 2008, the BVB launched two new indices: BET-XT (Bucharest Exchange Trading Extended Index) and BET-NG (Bucharest Exchange Trading Energy and Related Utilities Index). Their purpose is to reflect the market prices of the most liquid 25 companies, including SIFs listed on the BVB and engaged in the energy and related utilities sector;
- the first series of the Government bonds was listed at BVB on 4 August 2008; and
- the first fund was listed on the BVB regulated market under the Collective Investment Undertakings category.

Recently, another regulated spot market for equities, bonds and other financial instruments was authorised by the NSC to be operated by Sibiu Monetary Financial and Commodities Exchange ("**Sibex**"). Previously, this market operator only managed a derivatives regulated market. The new Sibex spot market has been operating since 22 January 2010 and currently trades equities.

During 2009, Romania's domestic capital markets continued to follow the international pattern as the financial crisis spread globally and investors' risk aversion increased. While in 2008 stock index values dropped sharply and investor sentiment on short-term growth potential of Romanian capital market worsened, in 2009 security prices seemed to stabilise, but liquidity halved. Brokerage companies saw their revenues slump and acted to restructure their activity by cutting expenditures. However, a slight improvement was noticeable by the end of 2009, when the major global economies returned to positive growth and domestic presidential elections ended.

Money Laundering

Significant progress was made in 2008 in adopting important anti money-laundering legislation in order to fully transpose the provisions of Directive 2005/60/EC, Directive 2006/70/EC regarding politically exposed persons ("PEPs") and to implement recommendations made by experts in the Assessment Report on Romania. In this regard, Law No. 656/2002 on the prevention and penalising of money laundering (the primary legislation prohibiting money-laundering in Romania) was amended by Emergency Governmental Ordinance no. 53/2009 and Governmental Decision no. 594/2009. At the same time, the secondary legislation in the field of AML/CTF regarding "know your customer" standards was repealed and a new secondary legislation was enacted in accordance with the amendments brought to the primary legislation, and is focusing on the implementation of the risk based approach imposed by the two Directives of the European Union in the field and the Financial Action Task Force Recommendations.

6. Public Finance

The Budgetary System

The Romanian Ministry of Public Finance prepares two main budget laws each year. The central state budget is prepared by the Romanian Government, acting through the Ministry of Public Finance, based on draft budgets from the direct recipients of budgetary allocations. The consolidated general budget includes the central state budget plus the state social security budget, the special funds budgets, and local government budgets. The Ministry of Public Finance prepares the consolidated general state budget based on the draft budgets which these entities submit each year.

The budgets submitted to the Ministry of Public Finance include a programme for investment by public institutions and other capital expenditures, approved as an appendix to the first line spending units budget (ministries and other state agencies), through the annual budget law. 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 expenditure for investments, which will be detailed and approved through separate documents by the primary credit ordinates.

The state social security system, the special funds and local governments are responsible for the management of their own revenues and expenditure. The drafting and execution of their budgets is done in accordance with the laws which govern the operation of these entities and public finances laws.

The budget is approved by Parliament in its entirety. If the central state budget and the state social security budget have not been approved by the end of the year preceding the period budgeted, the Romanian Government applies the provisions of the previous year's budget until the budget for the current year is adopted.

Revenue and expenditure of the central state budget, the state social security budget and the budgets of the special funds are distributed quarterly.

The preparation, approval, and execution of the central state budget and other budgets are based on the Romanian Government's strategy for development of the public sector after analysis of developments in financial markets and the economy, taking into account the level of outstanding internal and external government debt.

The Budget — Revenues and Financing

The three main sources of revenue for the central state budget are individual income tax, corporate tax and value added tax. Corporate tax is paid and calculated at a rate of 16 per cent. on taxable profits and is required to be paid quarterly.

The Fiscal Code establishes a tax on salaries, income from independent activities, lease operations, dividends and interest. Such taxes are currently levied at a rate of 16 per cent., save for tax on dividends, which is 10 per cent. for legal entities and 16 per cent. for natural persons. Value added tax is generally 19 per cent.. The provisions regarding value added tax, namely Title VI of Law No. 571/2003 regarding the Fiscal Code, with subsequent modifications and completions, are in accordance with the *acquis communautaire*, (Council Directive 2006/112/EC on the common system of value added tax).

No amendments to Romanian fiscal provisions concerning value added tax are currently expected, with the exception of amendments arising from amendments to Council Directive 2006/112/EC.

The financing of any deficit in the central state budget is accomplished by the expenditure of temporary reserves in the General State Treasury Account, through state loans or state guarantees of loans, and through public bond issues. However, under existing Romanian laws, various regulations and restrictions apply to the issuance of government debt in domestic and external markets. The main piece of legislation on public debt is currently Government Emergency Ordinance 64/2007.

Due to increased risk aversion in the market since 2008, domestic commercial banks have preferred to invest in Romanian Government securities rather than provide loans to private businesses. 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 re-introduced and, from the beginning of 2009, treasury bills with a maturity of one month.

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 5, 7, 10, 12 and 15 years (in RON) and of 1, 3 and 4 years (in EUR) issued as interest bearing;

- index-linked bonds with a maturity of 5 years; and
- benchmark bonds with maturities of 3, 5 and 10 years.

Since January 2009, maximum yields for treasury bills and benchmark bonds have decreased, with this trend being more pronounced for shorter maturities as the NBR continued to inject liquidity into the money market and lower the monetary policy rate. Compared to yields for government securities issued in December 2008, government securities issued in February 2010 decreased by 5.75 per cent. for benchmark bonds and by 7.07 per cent. for treasury bills. Due to the decision of the NBR taken on 3 February 2010 to cut the key interest rate to 7.0 per cent. and reduce the average inflation target set for this year, it is expected that the level of such yields will continue to decline smoothly.

The Romanian Government is also empowered to negotiate loans and issue securities in international markets under the provisions of Romanian laws. Romania, acting through the Ministry of Public Finance, has issued the following debt instruments on the international capital markets (which are still outstanding): EUR 700,000,000 8.50 per cent. Notes due 2012 in May 2002, EUR 700,000,000 5.75 per cent. Notes due 2010 in July 2003 and EUR 750,000,000 6.50% Notes due 2018 in June 2008.

Local Budgets

Local budgets are prepared, approved and executed according to the law regarding local public finances and the law on local public administration. These laws authorise local authorities to develop and approve their own budgets and assign to them certain sources of revenue, including a share of personal income tax and value added tax collected by the central state budget. Additional local budget revenues come from property taxes. Local authorities are required to balance their current spending and they are able to contract loans for investment purposes and for refinancing public local debt. According to the provisions of Article 63(4) of the Law on local public finance, No. 273/2006, the legal limit on indebtedness of a Regional or Local Government ("**RLG**") is 30 per cent. of their own revenues[4] consisting of taxes, fees, contributions, other income and allocated shares from income tax. There is an exception from these provisions for loans contracted by the RLGs in order to assure the pre-financing and/or co-financing of the projects which benefit from pre- and post-accession non-reimbursable external funds from the European Union. But even in this case, their indebtedness has to be at reasonable levels in order to assure the RLGs' functioning and to avoid financial stress. Also, the Law on local public finance stipulates at Article 62(12) that the service of local public debt is not the obligation or responsibility of the Government and will be paid from the local budgets or by contracting loans for refinancing direct local public debt. However, in order to control public debt levels, local government debt has to be authorised by a special Commission (the Commission for Local Government Debt Authorisation) chaired by the secretary of state of the Ministry of Public Finance. In November 2008, the Government approved Government Emergency Ordinance No. 37/2008 by Law No. 275/2008 in order to strengthen the financial discipline of local governments, under which annual caps for the local governments' new borrowings and for their drawings (expenditures) under the borrowing facilities will be established since the latter influences the general consolidated budget. This means that the Commission for Local Government Debt Authorisation will analyse the disbursements schedules for new borrowings of the local governments as well as their outstanding drawings in order to ensure the stability of expenditure under local government debt facilities.

Local authorities are required by law to provide certain essential local services such as social services, education, childcare and road maintenance.

State Social Security Budget

The social security budget is independent of the central state budget, although it is subject to approval by Parliament each year. The system functions on the "pay-as-you-go" principle, with the contributions paid by employers representing the main source of income of the system. The main types of benefit include old age pensions, early retirement pensions, partial early retirement pensions, invalidity pensions, survivor pensions

4 The revenues are calculated based on the simple average of the latest three years and the forecast of revenues is based on a maximum assumption of 10% yearly increase of the reference base.

and death benefits. The majority of the expenditure from the social security budget is in the form of pension benefits.

Unemployment benefits are paid out of an unemployment fund which is operated separately from the principal social security budget.

Funds available to the unemployment insurance budget chiefly cover the following expenditures:

(a) payment of unemployment benefits, including, in certain circumstances, unemployment benefits conferred by competent institutions of other EU Member States;

(b) the payment of contributions for state social insurance and of contributions for health social insurance for the beneficiaries of unemployment benefits, established according to the law;

(c) compensatory payments granted according to the law;

(d) fees, commissions and other expenditures occasioned by the carrying out of the payments provided in sub-paragraphs (a) to (c) above;

(e) the financing of measures aiming to stimulate employment and to prevent unemployment;

(f) the financing of vocational training services for persons who, by law, are entitled to such services free of charge;

(g) the financing of studies, reports and analyses regarding the labour market, commissioned from specialised institutions by the National Commission for Employment and the National Agency for Employment;

(h) the organisation and functioning of the National Agency for Employment, including the carrying out of investment objectives, endowments and other expenses such as capital expenses, within the limits provided by the law;

(i) participation in the activities of certain international organisations, including the payment of contributions for affiliation thereto;

(j) the application of debt recovery measures;

(k) the co-financing of certain projects regarding the modernisation of employment and vocational training services on the basis of certain international agreements;

(l) the co-financing of certain programmes to stimulate employment;

(m) the reimbursement of loans contracted under conditions of law, as well as the payment of interests and commissions related to such loans; and

(n) other expenses arising under the legislation in force.

The level of expenditure of the unemployment insurance budget must be supported by the Ministry of Labour, Family and Social Protection, at the request of the National Agency for Employment, on the basis of social indicators established using analyses, studies and forecasts of developments in the labour markets.

The central state budget covers social assistance to the elderly. Medical insurance (assistance) is covered by a health insurance fund. The social security budget also covers social assistance to the elderly. The social services provided under this scheme include medical care and supervision at home, housing support, meals at home, shopping, counselling, day care centres, temporary shelters, as well as recovery and rehabilitation for the incapacitated.

The key parameters of the pension system are to be reformed, the first step in such reform being the draft pension law which has been submitted by the Government to the Parliament. As well as freezing pensions for 2010 and ensuring a gradual move to indexation by inflation rather than by wages and further adjustment in the retirement age, the reforms also aim to (i) eliminate costly and inequitable special regimes established for certain workers, (ii) revisit conditions for early retirement to ensure that incentives provide an actuarially fair system and (iii) allocate disability-related pension rights to ensure that possibilities for fraud are adequately curtailed.

Financial overviews

The Romanian Government's medium-term fiscal policy is based on the objective of ensuring the sustainability and improvement of the quality of public finances, in parallel with consolidating economic growth, and sustaining the nominal and real convergence process with the European Union. Consolidation of the revenue tax base continues to be essential for ensuring that there are the necessary resources needed for economic development and meeting Romania's commitments as an EU Member State. Against a background in recent years of higher growth of wages than that of labour productivity, and the inflationary pressures this exerts, the risk of deteriorating external competitiveness is increased. Consequently, fiscal policy for 2009 aims to reduce the pace of public wage growth and to ensure a restrictive budget expenditure framework.

External Financing Programme

On 25 March 2009, Romania agreed the terms of a multi-lateral external financing programme ("**Programme**") of EUR 19.95 billion. The purpose of the Programme is to assist Romania in managing its balance of payments, financing its budget deficit and refinancing some of its existing debt. Furthermore, the Programme plays a crucial role in returning financial conditions in Romania to normal and promoting the economic recovery of the country.

The providers of finance under the Programme are:

	EUR
	(billions)
International Monetary Fund ("**IMF**") – Stand-by Arrangement ("SBA") of 4 May 2009	12.95
European Community ("**EC**") – Memorandum of Understanding ("MoU") of 26 June 2009....	5
World Bank ("**WB**") – Development Policy Loans..	1
EBRD/EIB – Loans to the private sector..	1
	19.95

SBA

The financial terms of the SBA are based on IMF regulations. The loans have maturities of up to three years and are repayable in eight equal instalments. The SBA was ratified by the Government on 22 September 2009 by Emergency Ordinance No. 99/2009 and was approved by the Parliament. It is expected to be promulgated by the President by the end of March 2010. A first tranche of the equivalent of EUR 4.9 billion was disbursed to the NBR on 6 May 2009. Following the first Programme review by the IMF in August 2009, a second tranche of the equivalent of EUR 1.85 billion, 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 (through Emergency Ordinance No. 10/2010 the release of the third and fourth tranches of the equivalent of EUR 2.45 billion. The second tranche disbursed on 23 September 2009 and the third and fourth tranches disbursed on 23 February 2010 were equally split between NBR and the Ministry of Public Finance.

MoU

The MOU and the financial terms of the loan agreement between the European Community and Romania which is based on the provisions of the MoU (the "Loan Agreement") were approved by the Government on 30 June 2009 by Emergency Ordinance No. 82/2009 and approved by the Parliament by Law No. 364/2009. The Loan Agreement provides for a series of bullet loans with an average maturity of seven years. Under the MoU, the first tranche of EUR 1.5 billion, repayable in January 2015, with an interest rate of 3.125 per cent. p.a. was disbursed on 27 July 2009 to the Ministry of Public Finance for budget deficit purposes. The second tranche is due to be disbursed in mid March 2010. Following the joint IMF/EC/WB review in January 2010, a supplementary MOU was approved by the Government on 23 February 2010 through Emergency Ordinance No. 11/2010. Further tranches are scheduled for disbursement as follows:

	EUR
	(billions)
March 2010	up to 1
During Q2 2010	up to 1.15
During Q4 2010	up to 1.2
During Q2 2011	up to 0.15

Disbursement of funds by the IMF, EC and WB to Romania under the Programme are subject to the fulfilment of several conditions related to structural economic reform, the purpose of which are to secure fiscal consolidation and sustainable reductions in spending over the medium term:

- Public sector reform. The 2010 budget reflects the adjustment measures agreed with the international institutions. The Fiscal Responsibility Law (the "**FRL**"), and the Medium Term Budgetary Framework ("the "**MTBF**") will further consolidate the fiscal policy and the budgetary process. The FRL was presented to Parliament in November 2009 and is expected to be approved by the end of March 2010. The MTBF is expected to be approved by the end of May 2010. In particular, legislation is expected to be passed in relation to local government and self-financed public organisations which will have the effect of standardising the costs of local government and removing extreme local disparities in areas such as staff numbers and road construction costs.

- Wage reform. The Unitary Pay Law (the "**UPL**") which was approved by the Parliament in 2009, will be gradually implemented in order to reduce the public sector wage bill from 9.4 per cent. to below 7 per cent. of GDP by 2015. The UPL will provide a transparent and uniform system for all civil servants, while securing significant savings over the medium term. Public sector wages (except for the lowest paid) will be frozen in 2010 and any future increases in public sector wages will be conditional upon achieving the personnel cuts needed in order to meet the wage bill targets for the period covering 2011 to 2015. The draft legislation was discussed with the IMF, EC and WB and is to be approved by the Government by September 2010.

- Public Pensions. The Unitary Public Pension Law (the "**UPPL**") was approved by the Government on 10 February 2010 and was submitted to the Parliament for approval. It is expected to be approved by June 2010. The UPPL provides for the annual indexing of the state pension to the forecast consumer price index instead of (as at present) the gross average wage; the prohibition of discretionary pension increases; the reduction in false claims for disability pensions; the equalisation of the retirement age of men and women to 65 starting in 2015, and disincentives to early retirement.

- Social assistance. Measures will be taken for streamlining and focusing current programmes. Minimum guaranteed income was increased by 15 per cent. from 1 July 2009 (Emergency Ordinance No. 57/2009, approved by Law No. 4/2010). Revised legislation relating to children's allowances is expected to be submitted to the Government for approval by the end of April 2010.

WB

According to the Country Partnership Strategy, the WB will make available three development policy loans ("**DPLs**"). The first DPL of EUR 300 million was approved by the Government by Emergency Ordinance No. 98/2009, ratified by Law No. 390/2009 and disbursed on 21 October 2009. The approval of the second DPL is scheduled for the first semester of 2010 and the third DPL for the second semester of 2010.

In the health sector, conditions are aimed at improving health services and relate to updating the hospital rationalisation strategy and the introduction of a co-payment concept in health benefits, while a public awareness campaign will be scheduled nationwide. The relevant legislation is being finalised with technical assistance from the World Bank.

In the field of education, the 2010 budget aims to introduce country wide standards of costs in view of further decentralisation in the sector. The DPL programme includes elements for improving access and quality of education.

In the financial sector, corporate and mortgage debt restructuring guidelines will be published, which aim 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 will align this legislation to best international practices in terms of financial and political independence.

In respect of government guarantees, the Government has also agreed to revise the limit on the issue of government guarantees in 2010, from RON 6 million to RON 12 billion, in order to assist the co-financing of investment projects which the EU and other unilateral agencies.

There are other specific conditions agreed under the Programme which will be fulfilled on the basis of continuing discussion, review by, and technical assistance from the IMF, European Commission and World Bank.

EU Funding

The overall amount of EU Structural and Cohesion Funds allocation for Romania is EUR 19.67 billion of which EUR 12.66 billion represent Structural Funds under the Convergence Objective, EUR 6.55 billion is allocated under the Cohesion Fund and EUR 455 million is allowed under the European Territorial Cooperation Objective (including transfers to the Instrument for Pre-accession Assistance – IPA, and to the European Neighbourhood and Partnership Instrument – ENPI). The total funding received by Romania since 2007 by way of Structural and Cohesion Funds is EUR 1.94 billion.

During 2007-2009, Romania also received amounts as part of the EU pre-accession funding programmes, PHARE, ISPA and SAPARD, as these programmes remain available after accession. Romania received EUR 723.46 million under the PHARE programme, aimed at institution building and investment support for regulatory infrastructure and economic and social cohesion. Romania received a further EUR 615.3 million under the ISPA programme (primarily directed at transport and environmental improvements) and EUR 497.8 million under the SAPARD programme (primarily directed at rural infrastructure and human resources development, including the competitiveness of agriculture and fisheries).

Support from Structural and Cohesion Funds under the Convergence objective is granted for intervention areas defined within seven Operational Programmes ("**OPs**"), of which five are supported by the European Regional Development Fund and the Cohesion Fund (Sectoral Operational Programme ("**SOP**") Increase of Economic Competitiveness, SOP Transport, SOP Environment, Regional Operational Programme and OP Technical Assistance) and two OPs supported by the European Social Fund (SOP Human Resources Development and OP its Administrative Capacity Development).

Romania prepared an institutional framework for the coordination and implementation of structural instruments, setting up dedicated structures within the line ministries and other institutions. The institutional and procedural framework created for Structural and Cohesion Funds underwent thorough scrutiny under the compliance assessment process. The Audit Authority carried out a rigorous verification of the management and control systems and sent its first reports to the European Commission by the middle of 2008. Due to the sustained efforts of the Romanian authorities, the managing and control systems for all of the seven operational programmes financed under the Convergence Objective have already received the compliance assessment from the EC and have been approved.

To ensure full political support and a strategic coordination in the absorption process, in January 2009 a high level Interinstitutional Working Group was created under the direct coordination of the Prime Minister. The Working Group meets weekly and proved to have a key role in engaging all resources with the aim of accelerating the implementation of EU funds. The efforts were focused on the identification and implementation of some simplification measures, giving special attention to streamlining the procedures, facilitating the access of the beneficiaries to the financial resources needed to implement projects through pre-financing, as well as simplifying administrative requirements for the potential beneficiaries.

Romania also benefits from an important financial allocation under the Common Agricultural Policy of about EUR13.5 billion of which EUR 8 billion is allocated to rural development and about EUR 5.5 billion to direct support for the agricultural sector.

The Central State Budget

The following table shows income and revenues relating to the general consolidated budget for the years 2006 to 2009:

Main indicators of General Consolidated Budget 2006 – 2009

	2006	2007	2008	2009 provisional data
A. REVENUE	111388.2	134173.3	165546.6	156624.9
Current incomes	108612.2	130057.3	159743.7	151086.4
Taxes	64133.9	76622.5	94846.8	88324.3
Income fee, profit and capital gain from legal entities	9318.9	11917.0	14425.9	13278.5
Income fee, profit and capital gain from individuals	9786.3	14401.9	18523.0	18551.4
Property fees and taxes	2544.4	2944.9	3253.9	3377.7
Fees and taxes on goods and services	39555.2	46162.5	57249.1	52072.1
Fee on the external trade and international transactions	2596.2	855.7	962.3	655.5
Other fiscal fees and taxes	332.9	340.6	432.6	389.1
Contributions to social securities	33021.0	39443.4	49007.7	47872.0
Non-fiscal incomes	11457.4	13991.4	15891.7	14890.2
Incomes from capital	1019.8	962.5	1075.7	547.0
Donations	1756.2	3153.5	3020.7	5058.1
Amounts in distribution		1681.3	1681.2	-82.0
Financial operations		25.3	25.2	15.3
B. TOTAL EXPENSES	116049.7	147141.2	190340.2	193025.4
Current expenses	101232.3	127512.7	164964.0	170517.1
Personnel related expenses	27593.3	33695.8	45609.7	46710.7
Goods and services	21380.7	25186.8	33008.7	28835.0
Interest	2735.6	3095.6	3650.7	6061.8
State aid	7429.4	6874.7	7898.5	7215.4
Transfers between the units of the public administration	863.6	2599.6	880.7	489.4
Other transfers	7713.4	14169.1	13874.6	12042.0
Projects financed from non-reimbursable EU Funds post-accession (including national co-financing)	n/a	n/a	n/a	2371.7
Social assistance	30860.5	38850.4	54160.4	63962.1
Other expenses	2655.8	3040.6	5880.7	738.6
Programmes financed from reimbursable funds (including local funds)	n/a	n/a	n/a	2090.4
Capital expenses:	14773.2	19607.4	25843.1	23175.3
Loans granted:	44.2	21.1	14.4	9.4
Payments for previous years		-481.3	-481.3	-676.3
C. SURPLUS/DEFICIT	-4661.4	-12967.9	-24793.6	-36400.6
Deficit as % of GDP*	-1.4	-3.1	-4.9	-7.2
Gross domestic product*	344650.6	412761.5	503958.7	505503.0

* 2009 annual GDP related to June prognosis

Note: 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 are in cash basis.

Fiscal and budgetary developments – 2006

The most important characteristics of the 2006 budget were high revenue collections. In 2006, fiscal policy faced two major challenges: maintaining a prudent approach (with a view to ensuring external sustainability and continuing the disinflation process) and, concurrently, ensuring and consolidating the financing sources needed to support the commitments resulting from Romania's EU accession.

Budgetary revenues in 2006 continued the upward trend started in 2005. This was due to both the favourable cyclical position of the economies as described above, improvements to the tax administration process and the results of the tax reform.

Accelerated economic growth, improved tax collection and tax reforms generated a significant increase of budgetary revenues by 22.8 per cent. in nominal terms as compared to the previous year. These budgetary revenues amounted to RON 111,388.2 million, reaching 32.3 per cent. of GDP.

On the expenditure side of the 2006 general consolidated budget, total spending was 33.7 per cent. of GDP. Total consolidated expenditure in 2006 amounted to RON 116,049.8 million, a nominal increase of 25.2 per cent. relative to 2005.

The capital budget in 2006 increased by 70.8 per cent. relative to the previous year. These funds were mainly used for investment projects related to infrastructure, including transport, environment, health, education and reconstructing infrastructure damaged by the severe floods, as well as for preparing projects with financing from structured instruments.

The fiscal outcome in 2006 was a deficit of 1.4 per cent. of GDP.

The main fiscal measures adopted in 2006 were a cut in social security contributions by 1.5 percentage points and the introduction of a fee on tobacco and alcohol products for the purpose of raising additional finance for certain programmes of the Ministry of Health. Despite the cut in social security rates, actual collections increased by 20.2 per cent. in nominal terms compared to 2005.

Fiscal and budgetary developments – 2007

The main objectives of fiscal policy in 2007 were: to enlarge the tax base on profits; to maintain the flat rate of taxation at 16 per cent.; to reduce further social security contributions by 2 percentage points; to increase excises in accordance with EU directives; and to increase the tax on real estate and the tax on vehicles.

Budgetary revenues in 2007 continued the previous upward trends, increasing by 20.5 per cent. relative to 2006, with an aggregate increase in nominal terms of 48.0 per cent. compared to 2005. As a percentage of GDP, revenues reached 32.5 per cent. of GDP in 2007.

Expenditure of the general consolidated budget increased in nominal terms by 26.8 per cent. compared to 2006, reaching 35.6 per cent. of GDP.

The deficit of the general consolidated budget was 3.1 per cent. of GDP, within the target for the year.

For 2007, both budgetary revenues and expenditure under-performed against the targets set for the year mainly due to the following factors:

(a) the collection of budgetary revenues was affected in the first quarter of the year by a change in VAT-related legislation, which resulted in the slower collection of VAT. Since this legislative change was reversed in mid-April 2007, VAT collection started to pick up. However, the loss of revenues in the first quarter was not recovered until the end of the year; and

(b) budgetary expenditure was reduced due to the decision of the Ministry of Public Finance to impose a tighter control over public spending by establishing monthly ceilings during April to June and in December.

The budget in 2007 also had to accommodate within expenditure additional funds for agricultural producers affected by the severe drought, as well as supplementary spending resulting from legislation approved by the

Parliament during the year, such as bringing forward by two months a pensions increase initially scheduled for 1 January 2008.

Globally, the overall execution of the general consolidated budget demonstrated an improvement in public finance quality, by speeding up the pace of capital expenditure, continuing the reduction of subsidies and increasing control over the development of goods and services expenditure.

Fiscal and budgetary developments – 2008

In the 2008 general consolidated budget, revenue represented 32.8 per cent. of GDP, while expenditure accounted for 37.8 per cent.. The resulting deficit was RON 24.9 billion, or 4.9 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, with current expenditure recording an increase of 29.4 per cent. against the same period of 2007, which 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 7898 million, representing an increase of 14.9 per cent. in nominal value compared with 2007, but a decrease in terms of percentage of GDP (1.6 per cent. of GDP in 2008 compared to 1.7 per cent. of GDP in 2007). Capital expenditure was RON 25,843 million, representing 5.1 per cent. of GDP (against an estimate of 5.3 per cent.).

The deficit represented 4.9 per cent. of GDP in cash basis and 5.5 per cent. in ESA95 terms for 2008.

Fiscal and budgetary developments – 2009

In 2009, the general consolidated budget deficit was RON 36,400.6 million, representing 7.2 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 Arrangement approved by the IMF.

Revenues of 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 -5.4 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 1,933.2 million against 2008, but revenues from VAT decreased by RON 6,551.1 million against 2008.

Social security contributions recorded a decrease of -2.3 per cent. of GDP against 2008.

Expenditure of general consolidated budget during 2009 was RON 193,025.4 million, representing an increase of 1.4 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 2.4 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 12.6 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.

Budgetary and Inter-Enterprise Arrears

As a result of a number of policies adopted by the National Agency for Fiscal Administration (the "**NAFA**") during the period 2005-2008, levels of overdue payments to the State including unpaid taxes (as an absolute amount and as a percentage of GDP) reduced.

These policies include the introduction of monthly monitoring of budgetary income collection, supervised by the NAFA. Additionally, all legal regulations granting the postponement of due tax payments have been repealed, through the Government Emergency Ordinance No. 26/2005.

There is special supervision of the reduction in budgetary arrears for large and medium taxpayers, as follows:

(i) since July 2006, the administration of large taxpayers from across Romania has been conducted by a sole fiscal body, the General Directorate for the administration of large taxpayers;

(ii) in April 2006 the first body for the administration of medium taxpayers was established within the General Directorate of public finance of the city of Bucharest; and

(iii) since April 2007, public finance administration bodies for medium taxpayers have been established within all the General Directorates of public finance bodies for each Romanian county.

Enforcement activities for the recovery of overdue budgetary obligations have been intensified. Additionally, 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.

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. The system automatically initiates all notification procedures.

The effect of these management measures was to increase the income volume cashed in respect of the consolidated general budget for 2008 by 26.2 per cent. compared to 2007.

During 2008, 7,019 claims were filed with the relevant courts of justice, amounting to an aggregate sum of RON 3.99 billion and between 1 January 2009 and 31 March 2009, 2,122 claims were filed with the relevant courts of justice for a total amount of RON 1.68 billion.

In order to assist the gathering of budgetary arrears from taxpayers, the Romanian Ministry of Public Finance publishes a quarterly list on its website setting out all large, medium and small taxpayers (except for small undertakings, taxpayers in bankruptcy proceedings and for obligations for which the taxpayers have filed legal challenges) for whom due budgetary obligations are registered, as well as all proceedings started for recovering these obligations. On 30 September 2009, the due budgetary obligations amounted to RON 7,856.6 million for large taxpayers and to RON 10,113.4 million for medium and small taxpayers.

A new system of information exchange with other institutions (both within Romania and elsewhere in the European Union) has been established in order to obtain relevant information regarding the incomes and the assets of debtors. This will allow the Government to determine the outstanding sums of money in such debtors' accounts (in RON or foreign currency), through the use of client databases kept by commercial banks.

In order to enhance budgetary income collection, as well as increase the efficiency of the fiscal administration authorities, a categorisation process has been implemented by which the payers are designated as large, medium or small taxpayers. As at 31 December 2009, there were 18,573 designated medium taxpayers (4,372 of whom were administered by the General Directorate of Bucharest and 14,201 were administered by the General Directorates of the other counties) and 1,434 large taxpayers.

On 31 December 2009, the volume of budgetary arrears registered by legal persons amounted to RON 48.14 billion, representing fiscal obligations due and not paid towards the state budget, the social security insurance budget, the budget of the national fund for health insurance and unemployment insurances (representing 9.06 per cent. of GDP).

A new target-based management system was developed, which establishes performance objectives for the management of local fiscal administration bodies in recovering budgetary arrears and in increasing the percentage of voluntary payment. The target for the reduction of budgetary arrears for 2009 was set at 10 per cent. of these budgetary obligations which were overdue in 2008.

One of the main measures taken in the 2009 budget rectification related to meeting revenue indicators laid down in budgets (in circumstances where, in 2008, revenues from VAT should have been RON 47 billion, of which only RON 40.9 billion (or 86.9 per cent.) were collected) and stipulated that economic operators with full or majority state control would be monitored for observance of a strict programme relating to reduction of arrears.

Pension System Reform

The first step in reforming the Romanian public pensions system was taken in 2001, with the coming into force of Law No. 19/2000 on the public system of pensions and other social insurance rights (the "**Pensions Law**").

During the first stage of the reform implementation, the Pensions Law stipulated measures aimed at the long term decrease of the fiscal deficit of the social insurance budget as follows:• the gradual increase of the standard retirement age from 57 to 60 years for women and from 62 to 65 years for men, up to 2014;

- the award of extra pension points, in order to encourage continued participation in the labour market even after individuals become fully eligible for retirement;
- an increase in the minimum length of contribution for both sexes, from 10 to 15 years, up to 2014, and in the full length of contribution will increase from 25 to 30 for women and from 30 to 35 years for men; and
- the implementation of a new pension calculation methodology, based on a system of pension points that takes into account incomes earned throughout a person's entire career, significantly improving the ratio between contributions and the amount of pension benefits, and taking into account aspects related to redistribution.

The second phase of the reform process began in 2005 and was represented by a set of reform measures aimed at the establishment of a multi-pillar system and the continuation of efforts to consolidate the first pillar of public pensions.

First pillar provision

The Romanian pension system has undergone important reforms in the last number of years, aimed at improving the sustainability of the old pay-as-you-go public system.

The system now consists of a mandatory, pay-as-you-go (first pillar) pension, and two components of supplementary pensions which are privately managed: a mandatory system of individual accounts (second pillar) and a voluntary system of individual accounts (third pillar). The goal of the private pension system is to provide private pensions, aside from and supplementary to the pension provided by the public system pension, on the basis of collecting and investing contributions for the participants.

A key element in the consolidation of public pension system is the externalisation of non-contributory benefits from the first pillar. Thus, a series of benefits were eliminated from state social insurances budget, such as:

- since 2005, farmers' pension payments were transferred to the state budget; and
- since 2006, the payment of indemnities for the raising and taking care of children up to the age of 2 years, and also the payment of medical and maternity leave, has been transferred to the state budget and to the health social insurances budget respectively.

The second pillar provision

The Law No. 411/2004 on Privately Administered Pension Funds, republished, regulates the principles of establishment, organisation and operation of privately administrated pension funds, pension funds' administrators, and the coordination of activities carried out by other entities involved in this area.

As from the first quarter of 2008, a proportion of individual social security contributions to the public pension system (9.5 per cent. of wages) is to be directed compulsorily towards privately managed pension funds (2.0 per cent. of wages the first year,[5] increasing in stages by 0.5 percentage points each year until reaching a contribution rate of 6.0 per cent. after 8 years).

These pension funds will be obligatory for all those under 35 years of age and voluntary for those between 35 and 45 years of age.

An individual's personal assets can be used only for the payment of a compulsory pension at the standard retirement age set for the public pension system. Only those pensioned as a result of disability and those persons whose personal assets at the date of withdrawal are too low to entitle them to a compulsory pension are excepted from this rule. In such cases, individuals receive a lump sum as one-off payment or several payments within five years.

The administrator is a pension company authorised by the Romanian Private Pension Supervisory Commission.

Currently[6], there are 12 pension funds managed by 12 administrators and approximately 4.57 million participants and the net asset value of the funds is RON 2.384 million.

Third pillar provision

The Law No. 204/2006 on voluntary pensions provides a system available to a large range of participants, allowing individual participation (employed and self-employed persons, civil servants, persons elected in public positions, or anyone who is earning money from professional activities and is paying taxes).

The employee and/or the employer may contribute to a pension scheme up to 15 per cent. of the salary or professional income of an employee and the contributions are tax deductible by up to EUR 200 in any fiscal year, both for the employee and the employer. The qualifications for receiving the pension are set at 60 years of age, with at least 90 monthly contributions and if accumulated personal assets are sufficient to satisfy a minimum pension amount under the voluntary private pension scheme.

The administrator must be a new pension company, an insurance company, or an asset management company, and must be authorised by the Private Pension System Supervision Commission.

13 voluntary funds[7], managed by 10 administrators, were active at the end of December 2009 with approximately 187 thousand participants. The net asset value of funds was approximately RON 204 million.

The Romanian Private Pension Supervisory Commission is an autonomous administrative authority, and is a legal person under the control of the Parliament. Its scope is protecting the pension funds' members' interests by creating and maintaining a fair, efficient and transparent market using the following tools: regulation, licensing, supervision and control of the pension companies and pension funds.

A five member Board appointed by the Parliament governs the Romanian Private Pension Supervisory Commission.

External Financing Programme

Further steps in public pension reform are a condition of the External Financing Programme and these are described in the section with that heading on page 70.

5 In 2009, the compulsory contribution was also 2 per cent..

6 Information and data for end of December 2009. The mandatory funds are active effectively (collecting contribution from the participants) from May 2008.

7 Information and data for end of December 2009. The voluntary funds are active effectively (collecting contribution from the participants) from May 2007

Special Funds

According to the Law on Public Finances No. 500/2002, special funds are approved through special laws and are established outside the central state budget and state social security budget. These are the sole national fund of health insurance, the budget of which is approved as an annex to the central state budget law and the budget of the unemployment insurances which is approved along with the state social securities budget law.

Public Debt

Overview

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 public indebtedness, Romania classifies government public indebtedness as public indebtedness incurred directly or guaranteed by the Romanian Government through the Ministry of Public Finance, including 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.

At the end of December 2009, public government debt as a percentage of GDP was 27.4 per cent..

The following table shows public debt indicators as at 31 December 2007, 31 December 2008 and 31 December 2009:

	31 December 2009		**31 December 2008**		**31 December 2007**	
	mil RON	**mil EUR**	**mil RON**	**mil EUR**	**mil RON**	**mil EUR**
1. Public government debt of:	**137,609.3**	**32,534.8**	**100,514.3**	**25,216.8**	**76,149.7**	**21,092.9**
a) direct public debt	127,735.5	30,20.4	91,904.9	23,056.9	67,141.0	18,597.6
b) guaranteed debt	9,873.8	2,334.4	8,609.4	2,159.9	9,008.7	2,495.3
– weight in GDP (%)	27.2%	27.2%	19.9%	19.9%	18.4%	18.4%
– direct debt, weight in GDP (%)	25.2%	25.2%	18.2%	18.2%	16.2%	6.2%
– guaranteed debt, weight in GDP (%)	2.0%	2.0%	1.7%	1.7%	2.2%	2.2%
2. Local debt of:	**10,445.8**	**2,469.7**	**9,237.7**	**2,317.5**	**6,174.5**	**1,710.3**
a) contracted directly	9,679.0	2,288.4	8,529.8	2,139.9	5,606.1	1,552.9
b) guaranteed by local public authorities	766.8	181.3	707.9	177.6	568.4	157.4
– weight in GDP (%)	2.1%	2.1%	1.8%	1.8%	1.5%	1.5%
– direct debt, weight in GDP (%)	1.9%	1.9%	1.7%	1.7%	1.4%	1.4%
– guaranteed debt, weight in GDP (%)	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
3. Public debt	**148,8055.1**	**35,004.5**	**109,752.0**	**27,534.4**	**82,324.2**	**22,803.2**
Total public debt, weight in GDP (%)	29.3%		21.7%		19.9%	
GDP (mil RON)	505,503.0		503,958.7		412,761.5	
Exchange rate at the end of reporting period (EUR/RON)	4.2296		3.9860		3.6102	

Source: Ministry of Public Finance

Public Government Indebtedness

The level of external public government debt increased by EUR 2.3 billion from January 2006 to December 2009, mainly due to loans contracted from internal and external markets in foreign currencies in order to support the budget deficit financing in 2009. In 2008, the Ministry of Public Finance issued a Eurobond of EUR 750 million (interest rate of 6.5 per cent. and 10 year maturity), that it used for the redemption of a Eurobond of EUR 600 million issued in 2001 and the difference was used for deficit financing.

In March 2009, Romania agreed an external financial assistance package of EUR 19.95 billion for projects in the private sector, of which EUR 12.95 billion (SDR 11.433 billion) relates to the IMF, EUR 5 billion to the EC, EUR 1 billion to the World Bank and another EUR1 billion to the EBRD.

The IMF Stand-by arrangement was approved by the IMF Board of Directors on 4 May 2009 and the first tranche of SDR 4.37 billion (EUR 4.96 billion) was disbursed by the NBR on 6 May 2009 and used for balance of payments support and to increase foreign currency reserves. On 21 September 2009 the Executive Board of the IMF completed its first review of Romania’s economic performance and a second tranche of SDR 1.72 billion (about EUR 1.85 billion) from this credit was disbursed by the NBR and the Ministry of Public Finance on 23 September 2009. Third and fourth tranches totalling SDR 2.18 billion (EUR 2.45 billion) were disbursed on 23 February 2010, bringing total disbursements under the IMF Stand-by arrangement to SDR 8.26 billion (about EUR 9.26 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.

In accordance with the Memorandum of Understanding (MoU) between the EC and Romania, signed on 26 June 2009, the first tranche of EUR 1.5 billion was disbursed in July 2009 for budget deficit financing. The entire amount of this tranche is repayable in January 2015. A second disbursement of EUR 1 billion is scheduled for March 2010.

The World Bank (“**WB**”) will provide assistance through three development policy loans (“**DPLs**”) that will be used for budget deficit financing. The first DPL of EUR 300 million, disbursed by the Ministry of Public Finance on 21 October 2009, is a bullet loan repayable in November 2022.

Domestic public government debt increased during the period from January 2006 to December 2009 by RON 69.3 billion, and as a percentage of GDP by 11.3 per cent. due to the financing of budget deficits mainly from domestic sources from 2007 to 2009. In 2006, no securities were issued (the budget deficit was financed temporarily from a surplus in the State Treasury account), but starting in 2007 government securities were 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 exposure risks for the government debt portfolio. At the end of December 2009, outstanding government securities issued on the domestic market in RON and EUR amounted to RON 46.6 billion, consisting of treasury bills of RON 23.4 billion and bonds of RON 23.2 billion.

The public indebtedness of the State during the period from January 2006 to December 2009 developed as follows:

	31 December 2006	31 December 2007	31 December 2008	December 2009 (preliminary data)	December 2009 -per cent-
			RON millions		
Public Government Debt	**59,868.4**	**76,149.7**	**100,514.3**	**137,609.3**	**100%**
			by type of debt:		
– direct debt	49,829.9	67,141.0	91,904.9	127,735.5	92.8%
– guaranteed debt	10,038.5	9,008.7	8,609.4	9,873.8	7.2%
			by creditors:		
– multilateral	16,372.5	15,171.0	20,527.9	34,628.6	25.2%
– bilateral	703.1	416.2	267.9	288.9	0.2%
– private banks and others	42,792.8	60,562.5	79,718.5	1,02,691.8	74.6%
			by instruments:		
– T-bills	1,086.0	2,514.4	8,106.9	23,431.6	17.0%
– bonds	3,137.8	7,649.9	9,505.7	23,146.2	16.8%
– Eurobonds	6,763.3	7,220.4	8,469.9	9,093.6	6.6%
– loans	29,042.1	9,357.2	34,737.1	52,389.9	38.1%
– loans from surplus of State Treasury account	19,839.2	29,407.8	39,594.7	29,548.0	21.5%
			by maturity:		
– short term	20,949.8	31,922.2	49,526.6	52,979.6	38.5%
– medium term (1-5 years)	5,849.3	8,872.9	10,741.6	30,806.46	22.4%
– long term	33,069.3	35,354.6	40,246.1	53,823.1	39.1%
			by interest rate type:		
– fixed interest rate debt	19,336.4	22,821.2	31,457.9	63,120.1	45.9%
– variable interest rate debt	40,532.0	53,328.5	69,056.4	74,489.2	54.1%
			by currency:		
– RON	24,461.7	40,499.7	60,012.4	65,361.42	47.5%
– USD	10,919.0	9,306.3	9,239.0	8,656.6	6.3%
– EUR	21,211.1	23,360.5	28,161.3	56,567.70	441.1%
– SDR	265.8	35.4	0.0	3,950.4	2.8%
– CHF	361.9	327.4	305.3	235.6	0.5%
– CAD	802.8	887.3	715.1	768.5	0.6%
– JPY	1,282.3	1,310.5	1,836.0	1,901.6	1.4%
– WON	161.0	153.6	124.4	128.6	0.1%
– GBP	402.8	269.0	120.8	39.8	0.1%

Source: Ministry of Public Finance.

This breakdown of public government debt at the end of December 2009 shows that debt contracted directly by the state represented 92.8 per cent. and that 7.2 per cent. was guaranteed debt. At the same date, the government securities issued on domestic and external markets represented 40.4 per cent. of total debt, the remaining being covered by loans, including loans from funds available in the State Treasury general current account. Out of the government debt 38,45 per cent. was short-term debt and 61.5 per cent. was medium and long-term debt while the breakdown by interest rate type indicates that 54.1 per cent. of total debt is floating interest rate debt. By currencies 47.5 per cent. of public government debt was denominated in RON, and 40.2 per cent. of total hard currency debt was denominated in EUR.

At the end of December 2009, the outstanding amount of state guarantees was RON 9,873.8 million, out of which RON 6,183.8 million were guarantees granted for companies and RON 2,071.6 million were guarantees granted for individuals under the “First house” Programme and RON 1,618.4 million were for the banking sector under special laws. 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 and, 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.

Total public government debt service for 2009 was RON 56.7 billion, out of which RON 55.1 billion is for direct debt and RON 1.3 billion is for guaranteed debt.

The following table sets out the repayment schedule for Romania’s public government debt service:

	Year Ended 31 December			
	2007	**2008**	**2008**	**2009**
	(RON millions)			
Direct debt service				
– principal*	4,069.7	6,516.3	9,557.6	49,684.7
– interest and commission	2,088.7	2,131.5	3,107.5	45,389.5
Total debt service	6,158.4	8,647.8	12,665.2	55,074.2
Guaranteed debt service:				
– principal	1,811.3	1,395.3	1.296.9	1,240.9
– interest and commission	498.3	383.5	404.7	366.9
Total debt service	2,309.7	1,778.7	1,701.6	1,607.8
Public government debt service:				
– principal	5,881.1	7,911.6	10,854.5	450,925.7
– interest and commission	2,587.0	2,515.0	3,512.2	5,756.3
Total debt service	8,468.1	10,426.6	14,366.7	56,682.0

* Includes refinancing of government securities issued on domestic market

Note: debt service in foreign currency was converted in RON using the annual average exchange rates.

Source: Ministry of Public Finance.

The debt service of public government debt outstanding at December 2009 is decreasing over the years 2010 and 2012. The Eurobonds issued in 2003 and 2002 are to be repaid. The following table sets out the amortisation schedule for Romania's public government indebtedness:

Amortisation Schedule for Outstanding Public Government Debt (as at December 2009)

	2010	2011	2012	2013	Thereafter
			RON millions		
Direct Debit					
Principal	31,030.9	12,793.1	18,714.5	10,375.7	53,508.0
Interest and Commission	6,138.3	4,466.5	3,844.3	2,333.2	6,730.6
Total government direct public debt service	37,169.2	17,259.6	22,558.8	12,708.9	60,238.7
Guaranteed Debt					
Principal	1,005.8	9,12.5	756.7	655.1	6,380.8
Interest and Commission	260.9	204.0	177.6	135.8	502.1
Total government guaranteed debt	1,266.7	1,116.5	934.3	790.9	6,882.9
Public Government Debt					
Principal	32,036.8	13,705.7	19,471.1	11,030.9	59,888.8
Interest and Commission	6,399.2	4,670.4	4,022.0	2,469.0	7,232.8
Total government public debt service	38,435.9	1,376.1	23,493.1	13,499.9	67,121.46

Note: The payments in foreign currency are converted in RON using the exchange rate at the end of December 2009.
Source: Ministry of Public Finance.

Expected Strategies and Trends for Public Debt

The financing of budgetary deficit in 2010 (estimated at 5.9 per cent. of GDP) will be done in a mostly balanced way from internal and external sources using the following instruments:

– issuances of treasury bills and benchmark bonds on the domestic market denominated in local and foreign currency;

– disbursements under agreed loans for project financing;

– loans for projects financing;

– new external loans;

– loans contracted by the local public administration authorities;

– Eurobond issuance on the international capital markets; and

– amounts recovered by the Authority for State Assets Recovery from the non-performing banking assets and other sources.

In terms of external financing of budgetary deficit and refinancing of public debt, the Ministry of Public Finance intends to use the external loans received from the financial package of EUR 19.95 billion agreed with the IMF, the European Commission and the World Bank , out of which in 2010 approximately EUR 4.0 billion will be drawn for financing the budget deficit.

In 2020, the level of the general government debt according to national legislation is estimated to reach about 33.3 per cent. of GDP. This level will still represent one of the lowest in the EU.

Credit Ratings

During 2009, Romania's ratings for long-term hard currency debt were reaffirmed by all rating agencies, namely BB+ by S&P, BB+ by Fitch and BBB- by JCR (all three with a Negative Outlook) and Baa3 by Moody's (Stable Outlook). Moody's is the only rating agency that assigns Romania an "investment grade" rating.

In February 2010, Fitch announced an improvement to Romania's outlook from Negative to Stable and reaffirmed its BB+ rating. The other main agencies reaffirmed the current ratings on 14 January 2010 (JCR), 14 May 2009 (S&P) and 2 September 2009 (Moody's) in light of the External Financing Programme (see section headed *External Financing Programme* on page 70), and the Government's commitment to significant budgetary consolidation on both the expenditure and revenue sides, which aims to reduce the budget deficit to below 3 per cent. of GDP in 2011.

These ratings positively reflect the multilateral assistance programme aimed at stabilising the economy and easing the re-financing pressure. Moody's declared that reaffirming Romania's investment-grade credit status "was based on the country's medium economic and institutional strength, backed by the compelling prospects for long-term income convergence and EU membership". Moreover, the low government debt ratio at the start of the international financial crisis has allowed the Government to increase its debt to support the economy without unduly threatening its repayment capacity. Additionally, the recent reaffirmation of the rating from JCR reflected also an "expanded production capacity resulting from investments prompted by massive inflows of foreign direct investment and EU subsidy", while Fitch considered that the approval of a contractionary budget in 2010 and the resumption of the External Financing Programme has "significantly reduced fiscal and external financing risks and the threat of further macroeconomic instability".

Each of the rating agencies referred to above has generally declared that any downgrading action will depend to a crucial extent on the Government's ability to follow the agreed assistance programme. S&P declared that "the ratings could stabilise at the current level if the public finances are put on a consolidation path, and if the private sector's access to external financing improves and pressures on the banking sector subside". No rating action for Romania has been taken by S&P following their visit in November 2009. No rating action has been announced by any of the rating agencies referred to above.

1. Relationships with Multilateral Financial Institutions and Financial Assistance Programmes

Financial assistance has been given to Romania by the IMF through a series of stand-by arrangements, two compensatory and contingency financing facilities and a systemic transformation facility (please see also the section headed *External Financing Programme* on page 70).

In March 2009, the Romanian authorities agreed with the IMF a two-year stand-by agreement for EUR 12.95 billion and a total external financing package from the IMF, the European Union, the World Bank and EBRD of EUR 19.95 billion, the agreement stipulating several conditions regarding structural reforms and other conditions for the Romanian authorities to meet related to macroeconomic indexes.

The broad objectives of the financing package were: reducing the impact of the financial crisis, avoiding a severe economic recession, the faster recovery of economic growth, protecting vulnerable categories of population, ensuring fiscal sustainability on a medium and, in the long term, preparing Romania for entering the Euro-zone, decreasing excessive pressures on the exchange rate, maintaining a comfortable liquidity level on the national financial market, providing external financing to an adequate level, at smaller costs and enhancing the level of confidence in development estimates regarding the Romanian economy.

The World Bank Group

*The International Bank for Reconstruction and Development (the "***IBRD***")*

At the end of April 2009, the total outstanding value of the IBRD's public portfolio was EUR 1,784 million, consisting of sovereign loans and guarantees for the financing of public projects such as infrastructure, social sectors (health and education) etc.

The IRBD is one of the providers of assistance under the External Financing Programme described in the section headed *External Financing Programme* on page 70 above.

The Country Partnership Strategy ("**CPS**") for Romania for the period 2009-2013 builds on the same strategic pillars maintained by the Government – public sector reform, growth and competitiveness, and social and spatial inclusion.

The objectives of the public sector reform pillar are, in the short-term, to reduce fiscal vulnerabilities while protecting priority services and social assistance; and, in the medium-term, to improve the accountability and responsiveness of public administration and the predictability, transparency and efficiency of public resource management.

The objectives of the growth and competitiveness pillar are, in the short-term, to support crisis-management measures in the financial sector and, in the medium-term, to support EU convergence goals through improved business environment, enhanced skills and innovation capacities, upgraded infrastructure, and more efficient agriculture.

The objectives of the social and spatial inclusion pillar are, in the short-term, to protect new and existing poor from the adverse effects of the crisis and, in the medium-term, to promote social inclusion and rural development.

During 2009, the IBRD issued RON denominated bonds in an aggregate amount of RON 325 million in Romania, as follows:

- 15 May 2009, RON 50 million issue, with a maturity of 1 year and a coupon of 9.25 per cent. p.a.;
- 26 August 2009, RON 100 million issue, with a maturity of 2 years and a coupon of 7.50 per cent. p.a
- 2 December 2009, RON 100 million issue, with a maturity of 2 years and a coupon of 7.75 per cent. p.a.; and
- 17 December 2009, RON 75 million issue, with a maturity of 1.5 years and a coupon of 7.75 per cent. p.a..

*International Finance Corporation ("***IFC***")*

Total IFC financing to the private sector in Romania amounts to approximately USD 1.1 billion, with a portfolio of 54 projects and represents IFC's third largest portfolio in Europe and Central Asia. The IFC envisages a phased reduction of its involvement in Romania within a period of five years, subject to market conditions, offering support to selective sectors and activities where it can still add value and which cannot be supported by the commercial sector and market.

*Multilateral Investment Guarantee Agency ("***MIGA***")*

The objective of MIGA is to encourage foreign investment in developing countries by providing guarantees against the risks of currency transfer, expropriation, war and civil disturbances and breach of contracts by the host government. It also provides advisory services to developing member countries to improve their attractiveness to foreign investment. The last MIGA operation in Romania was in 2004 and Romania is unlikely to consider future MIGA guarantees.

European Investment Bank ("EIB")

At the end of December 2009, the total outstanding value of the EIB's public portfolio was EUR 2,213.03 million, consisting of sovereign loans for the financing of public projects such as infrastructure, social sectors (health and education) etc. During 2009, the Government of Romania borrowed an EIB loan amounting to EUR 395 million for the construction of a new metro line in Bucharest and to purchase the rolling stock to operate the line and replace the obsolete units running on the existing network.

The EIB's private portfolio is one of the largest portfolios held by the EIB in Central and Eastern Europe, having at the end of November 2009, 35 projects with a total value of EUR 2.95 billion.

In 2009, the EIB requested the formal approval of the Ministry of Public Finance for the financing of 11 projects in Romania with a total value of EUR 1.012 billion. By the end of December 2009, the EIB had issued two RON denominated bonds in the Romanian domestic market, as follows:

– in 2007, a RON 300 million issue with a maturity of 7 years and a coupon of 7 per cent. p.a.; and

– on 24 February 2009, a RON 150 million straight issue with a maturity of 7 years and a coupon of 12.625 per cent. p.a..

European Bank for Reconstruction and Development ("EBRD")

Romania is a founding member of the EBRD and ranks among its most significant partners in terms of signed loan agreements.

However, the total outstanding value of the EBRD's public portfolio to Romania is currently very small due to the fact that EBRD activity has been targeted to the private sector. Consequently at the end of November 2009 the total outstanding value of the EBRD's public portfolio was only EUR 160.76 million.

According to EBRD statistics, 75 per cent. of the financing supports the private sector and total investments in Romania amount to approximately EUR 4.4 billion. By the end of November 2009, the EBRD requested the formal approval of the Ministry of Public Finance for nine investment projects in Romania, with a total value of EUR 818.3 million, in the following sectors: environment, infrastructure and portfolio investment.

The EBRD is one of the providers of assistance under the External Financing Programme described on page 70.

The EBRD's priorities for Romania as envisaged in its strategy for the period 2008-2010, are:

– the private enterprise sector, by providing support to the private sector (including small to medium sized companies and leading domestic corporates) with a special focus on business competitiveness and expansion throughout Romania and cross-border, especially to other countries in the region;

– the energy sector, by continuing the investments with both the public and private sectors in energy generation, transmission and distribution, while supporting policy dialogue to promote appropriate regulatory and institutional reform; and

– infrastructure, by improving the Romania's national infrastructure, (especially in the area of the transport), to ensure enhanced regional cooperation, improved trade and the utilisation of single market benefits.

By the end of November 2009, the EBRD had issued RON denominated bonds in the aggregate amount of RON 230 million in Romania, with maturities of 3 and 10 years, as follows:

– 5 February 2009, first RON 115 million issue, with a maturity of 10 years and a coupon rate of 11.25 per cent. p.a.;

– 2 March 2009, RON 50 million issue, with a maturity of 3 years and a coupon rate of 15.5 per cent. p.a.;

– 28 April 2009, RON 50 million issue, with a maturity of 3 years and a coupon rate of 12.5 per cent. p.a.; and

– 15 May 2009, RON 15 million increase of the RON 115 million 10-year bond launched on February 5, 2009.

Council of Europe Development Bank ("CEDB")

From 1996 to 2007, the CEDB invested in a total of 24 projects amounting to approximately EUR 1.27 billion, of which over EUR 579 million had been disbursed by the end of December 2007, resulting in an outstanding amount of EUR 717 million.

Japanese Bank for International Cooperation ("JBIC")

At the end of November 2009, the total outstanding value of the JBIC's public portfolio was EUR 372.19 million consisting of sovereign loans and guarantees for the financing of public projects in the infrastructure sector (energy and transport).

Black Sea Trade and Development Bank ("BSTDB")

Romania is a founding member of the BSTDB, the financing arm of the Black Sea Economic Cooperation. Since it started operations in 1999, the BSTDB has financed over 23 projects in Romania (out of which only one has a state guarantee), amounting to approximately USD 308.2 million, the outstanding amount on 31 October 2009 being approximately USD 21.2 million. In 2008, Romania held 14 per cent. of subscribed and paid capital of BSTDB.

Taxation

The following is a general description of certain Romanian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Romania of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

ROMANIA

Taxation

Pursuant to Parliament Law No. 571/2003 on the fiscal code (subsequently 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 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, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent.

Also with effect from 1 July 2005, a number of non-EU countries and certain dependent or associated territories of certain Member States have agreed to adopt 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 in a Member State. In addition, the Member States have entered into reciprocal 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 in one of those territories.

Subscription and Sale

Deutsche Bank AG, London Branch, EFG Eurobank Ergasias S.A. and HSBC Bank plc (the "**Managers**") will, in a subscription agreement dated 16 March 2010 (the "**Subscription Agreement**") and to be made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agree to subscribe the Notes at their issue price of 99.250 per cent. of their principal amount less a combined management and underwriting commission of 0.0375 per cent. of their principal amount. The 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 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, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

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.

Switzerland

The Offering Circular relating to the Notes does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations. The Notes will not be listed on the SIX Swiss Exchange and, therefore, the Offering Circular may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange.

Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the Notes with a view to distribution. The investors will be individually approached by any Manager from time to time.

General

No action has been or will be taken in any jurisdiction by the Issuer or any 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 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 Order of the Romanian Ministry of Finance No. 2609/2009 on the approval of the contracting of a financing in the form of a bond issue denominated in Euro on foreign capital markets, in a minimum amount of EUR 500 million and a maximum amount of EUR 1,500 million, with a maturity of at least five years, and the designation of the managers of the transaction, as published in the Romanian Official Gazette No. 611 dated 8 September 2009.

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 Fiscal Agency Agreement; and

   (b) the Deed of Covenant; and

   (c) the Authorisations referred to above.

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. The ISIN is XS0495980095 and the common code is 049598009.

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