IMPORTANT

You must read the following before continuing. The following applies to the Information Memorandum following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS INFORMATION MEMORANDUM MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES AND WITHIN THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" ("QIBs") AS DEFINED IN AND PURSUANT TO RULE 144A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT TO QIBs PURSUANT TO RULE 144A.

Confirmation of your representation: In order to be eligible to view this Information Memorandum or make an investment decision with respect to any securities, you must be a person who is outside the United States unless you are a QIB in the United States. By accepting the email and accessing this Information Memorandum, you shall be deemed to have represented to the Arrangers and Dealers named herein that you and any customers you represent, unless you are QIBs, are not in the United States; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia unless you are a QIB in the United States; and that you consent to delivery of such Information Memorandum by electronic transmission.

You are reminded that this Information Memorandum has been delivered to you on the basis that you are a person into whose possession this Information Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Information Memorandum to any other person.

Any materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

This document is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

This Information Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arrangers or Dealers named herein, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Information Memorandum distributed to you in electronic format and the hard copy version.

INFORMATION MEMORANDUM

ROMANIA

ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE

EUR 20,000,000,000

Global Medium Term Note Programme

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

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

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

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

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

Arrangers

ERSTE GROUP BANK AG	**SOCIÉTÉ GÉNÉRALE** **CORPORATE & INVESTMENT BANKING**

Dealers

BANCA IMI	**BARCLAYS**	**BNP PARIBAS**
CITIGROUP	**COMMERZBANK**	**DAIWA CAPITAL MARKETS EUROPE**
DEUTSCHE BANK	**ERSTE GROUP BANK AG**	**GOLDMAN SACHS INTERNATIONAL**
HSBC	**ING**	**J.P. MORGAN**
NATIXIS	**NOMURA**	**RAIFFEISEN BANK INTERNATIONAL AG**
SOCIÉTÉ GÉNÉRALE **CORPORATE & INVESTMENT BANKING**		**UNICREDIT BANK**

5 October 2017

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IMPORTANT NOTICES

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

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

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

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

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

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

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

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

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

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

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

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

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

As of the date of this Information Memorandum, the Programme has been rated "Baa3" by Moody's Investors Service Ltd. ("**Moody's**"), "BBB-" for unsecured Notes with a maturity of one year or more and "A-3" for unsecured Notes with a maturity of less than one year by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and "BBB-" by Fitch Ratings Limited ("**Fitch**"). Moody's, S&P and Fitch are in each case established in the EEA and are registered under Regulation (EU) No 1060/2009, as amended ("**CRA Regulation**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the over-allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

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

The procedure for the recognition and enforcement in Romania of a judgment rendered by a court in a jurisdiction outside Romania in commercial and civil matters depends on whether that jurisdiction is from (i) a state which is a member of the European Union ("**EU**"), (ii) a state which is a party to a bilateral or multilateral international convention by which Romania is bound, which waives the application of the Romanian Civil Procedure Code provisions on the recognition and enforcement of foreign judgments (including the 2007 Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters ("**Lugano Convention**") and the Convention of 30 June 2005 or Choice of Court Agreements (the "**Hague Choice of Court Convention**")) or (iii) a non-EU Member State which is not a party to any bilateral or multilateral international convention mentioned under paragraph (ii) above.

A judgment of a court of law of a non-EU Member State which is not a party to a bilateral or multilateral international convention by which Romania is bound, which waives the application of the Romanian Civil Procedure Code provisions on the recognition and enforcement of foreign judgments, made *in personam* for a certain sum, which is not impeachable as void or voidable under the internal laws of the foreign jurisdiction ("**Non-European Judgment**") would be recognised in Romania provided that the relevant conditions in respect of recognition of foreign judgments set out in the Romanian Civil Procedure Code are met. Among other requirements, such conditions require that: (a) the Non-European Judgment is final ("*hotarare definitiva*") according to the law of the state where it was made; (b) the court rendering such Non-European Judgment had, according to *lex fori*, jurisdiction to try the relevant litigation, but without relying exclusively on the presence in that jurisdiction of the defendant or of some of its assets which are not directly connected with that litigation; (c) there exists reciprocity regarding the effects of foreign judgments between Romania and the foreign jurisdiction which rendered the Non-European Judgment whose recognition is sought; (d) when given in default of appearance, the party who lost the trial was served in due course with a summons for appearance for the hearing where the court tried the merits of the case and with the document which instituted the proceedings, was given the possibility to defend itself and was given the possibility to challenge the Non-European Judgment; (e) such Non-European Judgment is not manifestly contrary to the Romanian private international public order law (such incompatibility is evidenced by taking into account, in particular, the criterion of strength of the link between the specific case and the Romanian jurisdiction, as well as the gravity of the consequences of such incompatibility); (f) where the Non-European Judgment is rendered in an area of law where persons cannot dispose freely of their rights, the Non-European Judgment was not obtained exclusively for the purpose of withholding the matter from the incidence of the law that would otherwise be applicable pursuant to Romanian conflict of law rules; (g) the claim has not been settled between the same parties through a judgment (even if not final) of the Romanian courts nor was pending before Romanian courts as at the date the foreign court was vested; (h) the Non-European Judgment is not irreconcilable with a prior foreign judgment which may be recognised in Romania; (i) Romanian courts did not have exclusive jurisdiction to try the subject matter of the Non-European Judgment; (j) the right of defence was not breached; (k) the Non-European Judgment may not be challenged in any other manner in the state where it was rendered; and (l) the application for recognition before Romanian courts is duly made according to the Romanian procedural rules and encloses all the documentation thereby required. Additionally, the recognition of the Non-European Judgment may not be refused solely for the reason that the foreign court rendering the Non-European Judgment applied another law than the law that would have been applicable according to Romanian conflict of law rules, except where the trial concerns the civil status and the capacity of a Romanian citizen and the solution adopted by the court differs from the solution that would have been reached according to the Romanian law.

A Non-European Judgment can be enforced in Romania based on a final decision of a Romanian competent court approving the enforcement, only if: (i) the requirements mentioned above for the recognition in Romania of Non-European Judgments are met; (ii) the Non-European Judgment is enforceable according to the law of the jurisdiction where it was made; (iii) where the Non-European Judgment establishes an obligation arising from a foreign fiscal law, there exists reciprocity regarding the effects of foreign judgments in the relevant fiscal matter between Romania and the foreign jurisdiction which rendered the Non-European Judgment whose recognition and enforcement is sought; (iv) the application for enforcement before Romanian courts is duly made according to the Romanian procedural rules and encloses all the documentation thereby required; and (v) the right to enforce the final judgment is not restricted by any limitation period.

A judgment of a court of law of a state which is a party to a bilateral or multilateral international convention by which Romania is bound, which waives the application of the relevant Romanian Civil Procedure Code provisions on the recognition and enforcement of foreign judgments (including the Lugano Convention and the Hague Choice of Court Convention) would be recognised and enforced in Romania in accordance with the rules set forth in the relevant convention.

Non-European Judgments stipulating for protective measures and those for which only a temporary enforcement is available ("*hotarari date cu executare proviziorie*") cannot be enforced in Romania.

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

A European Judgment can be enforced in Romania only if: (i) it is enforceable in the state where the European Judgment was made; (ii) the Romanian competent enforcement authority is provided with a copy of the European Judgment which satisfies the conditions necessary to establish its authenticity; (iii) the Romanian competent enforcement authority is provided with an original certificate issued by the relevant state's court or other competent authority substantially in the form set out in Annex I of the Regulation 1215/2012 and none of the conditions above preventing the recognition of a European Judgment is applicable; (iv) where the European Judgment orders a periodic payment by way of penalty, (including but not limited to, default interest), the amount of the payment has been finally determined by the court of the state of origin; and (v) the right to enforce the final judgment is not restricted by any limitation period.

In addition to the above, other conditions may be applicable with respect to specific matters under special local or international conventions.

In addition to and independently from the procedure provided by Regulation 1215/2012, Regulation (EC) No 805/2004 of the European Parliament and of the Council ("**Regulation 805/2004**") regulates the creation of a European Enforcement Order for uncontested claims (within the meaning of Regulation 805/2004) in civil and commercial matters. A European Judgment that has been certified as a European Enforcement Order in the EU Member State of origin (provided that the conditions set forth under Regulation 805/2004 for such certification have been met) shall be recognised and enforced in Romania without the need for a declaration of enforceability and without any possibility of opposing its recognition. The European Enforcement Order certificate shall take effect only within the limits of the enforceability of the judgment. The enforcement procedures shall be governed by Romanian law. A judgment certified as a European Enforcement Order shall be enforced in Romania subject to the same conditions as those applicable to a judgment rendered in Romania. Enforcement shall, upon application by the debtor, be refused by the competent Romanian enforcement authority if the judgment certified as a European Enforcement Order is irreconcilable with an earlier judgment given in any EU Member State or in a third country, provided that: (i) the earlier judgment involved the same cause of action and was between the same parties; and (ii) the earlier judgment was given in Romania or fulfils the conditions necessary for its recognition in Romania; and (iii) the irreconcilability was not and could not have been raised as an objection in the court proceedings in the EU Member State of origin.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

INFORMATION SOURCES

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

OVERVIEW

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

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

Clearing Systems:	The Depositary Trust Company ("**DTC**"), Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.
Initial Programme Amount:	Up to EUR 20,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Forms of Notes:	Notes may be issued in bearer form or in registered form. Bearer Notes will not be exchangeable for Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. ***Bearer Notes*** Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes

Each Tranche of Registered Notes will be represented by either:

(i) Individual Note Certificates; or

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

in each case as specified in the relevant Final Terms.

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

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

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

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

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

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

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

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

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

	constitute a contravention of section 19 of the FSMA by the Issuer.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.
Optional Redemption:	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes will have the benefit of a cross default as described in Condition 13 (*Events of Default*).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of Romania, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 12 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	English law.
Enforcement of Notes in Global Form:	In the case of Global Notes and Global Note Certificates, individual investors' rights against the Issuer will be governed by a deed of covenant dated 5 October 2017 ("**Deed of Covenant**"), a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Meetings of Noteholders:	The Conditions contain a "collective action" clause which permits defined majorities to bind all Noteholders. If the Issuer issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation for voting purposes with any such future debt securities, thereby allowing 'cross-series' modifications to the terms and conditions of all affected series of Notes (even, in some circumstances, where majorities in certain Series did not

vote in favour of the modifications being voted on). See "*Risk Factors – Risks Related to Notes Generally – The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes or of all affected Series of Notes*".

Ratings: The following ratings have been assigned to the Programme:

"BBB-" by Fitch;

"Baa3" by Moody's; and

"BBB-" (for unsecured Notes with a maturity of one year or more) and "A-3" (for unsecured Notes with a maturity of less than one year) by S&P**.**

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above, which are assigned to the Programme and not to the Notes issued under the Programme, or the rating(s) assigned to the Programme or to Notes already issued. There is no assurance that the Notes under the Programme will be assigned a rating, or that the rating assigned to a specific issue under the Programme will be the same as the rating assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms.

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

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

Moody's, S&P and Fitch are in each case established in the EEA and are registered under the CRA Regulation.

Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in

	the United States of America, the European Economic Area, the United Kingdom and Romania, see "*Subscription and Sale*".
Transfer Restrictions:	There are restrictions on transfers of Notes. See "*Transfer Restrictions*".

RISK FACTORS

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

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

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

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

Risks Relating to Romania

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

Romania has undergone major changes during its recent history. Many political and economic reforms have been implemented, but Romania's economy still has a number of structural weaknesses. These include under-capitalisation of both private and public firms, a large emigration of the working age population, an ageing population coupled with negative population growth, a very uneven distribution of gross domestic product (**"GDP"**) between regions, a significant transport infrastructure gap, historical current account deficits (although the current level is below the long-term trend), as well as delayed absorption of EU funds and a lack of certain key reforms.

Political and economic uncertainty and increasing direct pressure, including in the form of large street protests, as have been witnessed in Romania in recent years, could delay or stop economic and regulatory reforms in Romania and challenge political stability which could have an adverse effect on Romania's economy. See "*Description of Romania –Political System*" for further information in relation to political uncertainty and "*Description of Romania – International Relations*" for further information in relation to geopolitical and security challenges.

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

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

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in Romania's sovereign securities, as in any other comparable economy, could be adversely affected by negative economic or financial developments in other countries. Disruptions in the international capital markets, especially in relation to sovereign and as experienced more recently, emerging markets debt, could lead to reduced global liquidity. Further, such disruptions could result in higher credit risk premiums for certain market participants, including Romania, which may lead to a reduction of available financing. While Romania has put certain measures in place to offset such contagion risks, there can be no assurance that they will be sufficient to mitigate all future risks.

Romania is exposed to risks relating to macroeconomic events, particularly those affecting Europe and the European Union

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

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

Economic and financial difficulties affecting other EU member countries may negatively affect Romania's economy due to the high percentage of Romania's trade that is realised with other EU countries. Following the global financial crisis of 2008-2009, the EU experienced a moderate recovery, but also recent periods of very slow growth. If the EU or other countries with which Romania has a trading or investment relationship experience an extended period of very slow economic growth, or if they fail to maintain growth, Romania's economy would be adversely affected and such events could also affect Romania's ability to raise capital in the future. Any economic crisis in the Eurozone could significantly affect Romania's economy, which is heavily reliant upon intra-EU trade. See "*Description of Romania*" and "*Foreign Trade and Balance of Payments*".

Foreign investors may also decrease investment in Romania, due to the difficulties experienced by other EU economies, resulting in lower demand for Romanian export products or services (see "*Foreign Trade and Balance of Payments – Foreign Direct Investments*").

On 23 June 2016, citizens of the United Kingdom ("**UK**") voted in favour of leaving the EU ("**Brexit**"). The procedure for withdrawing from the EU was triggered by the UK on 29 March 2017. The implications of the UK's notification and the outcome of the negotiations with respect to Brexit with the other EU Member States, are not yet known. In addition, in March 2017, the European Commission ("**EC**") released a five-point white paper outlining the possible post-Brexit scenarios for the EU, among which a proposal for a multi-speed Europe, in which EU countries would work together on different levels of integration, and a proposal for the EU's gradual re-centralisation on the single market.

The uncertainty created by the Brexit process may also lead to heightened levels of market volatility both in the EU and globally which could indirectly affect the Issuer. In addition, as the UK is one of the main contributors to the EU budget, there is a risk that following Brexit, the EU budget and, consequently funds available to Romania, could be reduced.

Starting in mid-2015, the Middle East refugee crisis has intensified in Europe, which has created social, political and economic tensions in the transit and destination countries. The migrant crisis is an additional factor straining relations between the EU member states, which could contribute to a further deterioration of the EU's political and economic stability, which in turn could indirectly adversely affect Romania. While the migrant crisis has not directly affected Romania so far, there can be no assurance that it will not do so in the future.

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

There is an uncertain and unpredictable legislative framework in the financial and banking field

In the course of 2016, two pieces of legislation impacting the Romanian banking and financial sector, the Debt Discharge Law and the CHF Conversion Law, were passed by the Romanian Parliament and subsequently declared unconstitutional by the Constitutional Court. The potential impact of these laws on Romanian financial institutions, as well as the uncertainty surrounding their implementation while they were under review by the Constitutional Court had an adverse effect on the stability of the Romanian banking and financial sector. See "*Monetary and Financial System – Banking Sector – Structure of the Banking Sector*". While the decisions of the Constitutional Court ultimately allayed concerns about the impact of these laws, future legislative uncertainty of this type could have an adverse impact on the stability of the Romanian banking and financial sector and on Romania's economy as a whole.

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

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

The Romanian banking sector is dominated by subsidiaries of banks incorporated in Eurozone countries, with a relatively large proportion of assets being held by Austrian (25.1 per cent. of the total net assets of credit institutions in Romania), French (13.5 per cent.), Dutch (11.8 per cent.), Italian (10.2 per cent.) and Greek (9.8 per cent.) banks as at the end of June 2017 (see "*Description of Romania*" and "*Monetary and Financial System—Banking System—General*"). As at the end of June 2017, foreign banks also owned 91.0 per cent. of banks' net assets in Romania.

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

The adverse effects of the deleveraging process announced by large European banking groups have not significantly impacted Romania so far, due to the balanced macroeconomic policies under the EU-IMF-World

Bank arrangements and the lending strategies of the leading banking groups operating in Romania, which emphasise the importance of preserving local capital outlays. Parent banks have, to date, continued to provide capital to support their subsidiaries in the local market, and capital contributions have been made by shareholders without any recourse to public funds.

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

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

A credit rating downgrade could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Romania's ability to refinance existing indebtedness, finance its deficit and could adversely affect its capacity to meet its obligations under the Notes.

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

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

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

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

To address its infrastructure gap and improve its growth prospects, Romania will need to advance reforms in administration and the state-owned enterprises ("**SOEs**") sector. The poor infrastructure is due partly to the dominance of inefficient SOEs in the transportation and energy sectors where quality of public investment is low.

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

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

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

The 2017 IMF Article IV Consultation Concluding Statement, mentioned among other things, the risks of policy buffers erosion, and the ongoing need for more fiscal discipline. In addition, increased attention to potential financial sector risks is warranted.

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

Romania is subject to risk in relation to external balances[1]

Romania's current account deficit has been increasing recently. See "*Foreign Trade and Balance of Payments*". In addition, as the large majority of Romania's exports are to the EU, a slow economic recovery or a return to recession in the EU member states to whom Romania primarily exports its goods and services, could negatively impact Romania's exports, and thus the trade deficit. A widening of the current account deficit could negatively impact Romania's economy.

Romania's recent trend of external deleveraging may not continue. High wage growth, expansionary fiscal policy and increased household lending could lead to a high growth in imports, which could widen the current account deficit. Higher deficits might necessitate external borrowing, and could therefore risk halting the trend of external deleveraging (see "*Foreign Trade and Balance of Payments – Foreign Direct Investments*").

Romania is subject to exchange rate and inflation risk

The RON is subject to a managed-floating exchange rate regime, whereby the value of the RON against foreign currencies is determined in the interbank foreign exchange market. The NBR's monetary policy strategy is inflation targeting. The managed-floating exchange rate regime is in line with using inflation targets as a nominal anchor for monetary policy and allowing for a flexible policy response to unpredicted shocks likely to affect the economy, and the NBR does not target any level or range for the exchange rate. The ability of the NBR to limit volatility of the RON is contingent on a number of economic and political factors, including the availability of foreign currency reserves and foreign direct investment inflows, as well as developments in market sentiment and investors' risk aversion. See "*Monetary and Financial System—Monetary Policy—Exchange Rate Policy*". While the volatility of the exchange rate against EUR compares more favourably than peer countries, a significant depreciation of the RON could adversely affect the country's economic and financial condition.

Romania's public debt is also subject to foreign currency risk, as approximately 52 per cent. of the country's public debt was denominated in foreign currencies (principally in euro) (calculated as per EU methodology) as at the end of March 2017. While this risk is partially mitigated by the existence of the hard currency buffer maintained at around four months of gross funding needs to provide protection against any vulnerabilities arising from external factors, there can be no assurance that the buffer will be adequate to eliminate this risk.

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

As the NBR's monetary policy primarily impacts the RON and has limited impact on foreign currencies, including the euro, the large-scale use of the euro in the Romanian economy may undermine the ability of the NBR to implement its monetary policy. Similarly, the policies of the European Central Bank ("**ECB**") affecting the euro may indirectly impact the Romanian economy. Any limitations on the effectiveness of NBR's monetary

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

policy, whether due to the influence of the euro or otherwise, may have an adverse effect on the Romanian economy.

At present, risks to the NBR's inflation projection are associated with both internal and external developments. Domestically, risks stemming from future developments in fiscal and income policies remain high, given the broader package of taxation and wage measures to be implemented following the cabinet reshuffle and the increased uncertainty regarding the implementation of a unified wage law as well as the measures that would accompany it, which are designed to alleviate its expansionary effects. In addition, there is uncertainty about the possible adoption of corrective fiscal measures in the context of the envisaged budget revision which were important in terms of their potential effects on investment and consumption behaviour. Another domestic risk to the inflation outlook is associated with the administered prices, given the persistence of uncertainties about the size and timing of future adjustments in natural gas and electricity prices. On the external side, heightened uncertainties persist with regard to the implications that Brexit and the effect of monetary policy stances of the major central banks, as well as the conduct of other central banks in the region, will have on the global macroeconomy. Additional risks stem from the future evolution of global economic activity, fuelled by the uncertainty about the traction coming from major emerging economies, especially China, and uncertainty over the impact that large oil inventories worldwide will have on future crude oil prices, which are likely to counter the effects of the agreement to extend the oil-supply cuts, in which both Organization of the Petroleum Exporting Countries ("**OPEC**") and some non-OPEC countries take part. Another source of risk stems from the relatively low price increases worldwide, in general, and in the EU, in particular. The latter developments carry the potential to generate downward deviations from the forecasted path, given the increasingly significant presence of global value chains and that of large retailers as well as from the globalisation of production chains worldwide, and the higher contribution from imported goods to cover domestic consumption, which is seen to rise amid, *inter alia*, fiscal and wage stimuli. Nevertheless, the recent data for August 2017 showed a return to negative monthly interest rates (this time not being influenced by tax cuts) and a decline in year-on-year inflation rate as of August 2017 (to 1.2 per cent.).

Romania is subject to risks of fiscal slippage and economic overheating

Although the budget deficit is projected to stay below 3 per cent. in 2017 and then to gradually decrease toward the medium-term objective target according to the Convergence Program recently approved by the Government, the risk of fiscal slippage is still present due to, among other factors, increase in public wages, benefits and pensions, as well as the implementation of the new Fiscal Code, which reduces the dividend tax and VAT-levels. The Government's estimate of less than 3 per cent. deficit in 2017 depends on strong economic growth, with an assumption of 5.6 per cent. real GDP growth in 2017 according to the last figure used for the recent budgetary revision. On the other hand, high economic growth, coupled with a low interest environment and a pro-cyclical fiscal policy stance, as well as renewed credit growth, could increase the risk of overheating in the economy, and potentially lead to an increase in credit or asset prices in the absence of appropriate policy reactions, which could have a detrimental impact on systemic financial stability of Romania. Nevertheless, overheating refers to the positive output gap being the difference between real GDP and potential GDP. The latter is a non-observable measure, which has been subject to frequent revisions, as growth consolidation after a crisis implies changes in the time series for both real and potential GDP. Growth rates of potential GDP are still below those from the pre-crisis period, which means that the output gap could be revised downwards in the future if potential GDP would be revised upwards – which also has implications on the structural deficit.

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

Historically, Romania has had a low absorption rate on programmes potentially financeable from EU accession funds, in particular from EU Structural and Cohesion Funds (European Regional Development Fund, Cohesion Fund, European Social Fund) and although since 2012 when the Ministry of European Funds was established the absorption rate has been significantly increasing. As at 1 September 2017, Romania's current absorption rate (the level of amounts sent for reimbursements to the EC as a percentage of the total amount of Structural and Cohesion Funds available to it) was 89.08 per cent. of the total EU budget allocation for the 2007–2013 programming period (see "*Description of Romania—Membership in the European Union—EU Funding—Structural and Cohesion Funds 2007 – 2013 —Allocations and Absorption of the EU Structural and Cohesion Funds as at 1 September 2017*"). The low absorption rates are due to a variety of issues (see "*Description of Romania— Membership of the European Union—EU Funding—Structural and Cohesion Funds—Low absorption rates and ameliorative measures*"). As at 1 September 2017, the total amount received by Romania from the EU under the 2007-2013 fund allocation was approximately EUR 16.99 billion (90.44 per cent. of the 2007-2013 fund allocation), of which EUR 2.11 billion represented pre-financing payments, while EUR 14.88 billion represented actual reimbursements made by the EU.

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

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

The implementation of the PAP priority actions envisaged the adoption of certain major legislative, regulatory and institutional measures that led to a considerable increase of the absorption rate in 2015, with a positive net effect of spending EU funds on economic growth. A study prepared by the National Commission of Prognosis, has shown that at the end of the 2008-2016 period, the accumulated value of real GDP was 13.6 per cent. higher than in the scenario that excludes the utilisation of EU funds.

With respect to the 2014-2020 programming period, the availability of funds depends on Romania meeting 36 ex-ante conditions. Romania considers that 35 ex-ante conditions have been fulfilled as required by EC regulation. As of the end of August 2017, the European Commission accepted that Romania had fulfilled 29 ex-ante conditions. Romania reported to the Commission that one ex-ante condition has not been fulfilled (related to the waste sector). Accordingly, the European Commission suspended payments with respect to the unfulfilled conditionality. Romania adopted a strict action plan in order to fulfil this conditionality by the end of 2017. The loss of potential EU funding would have a negative impact on Romania's budget. Failure to utilise available funding could also slow the pace at which Romania is able to develop its infrastructure and economy, which could have an adverse effect on the Romanian economy and its capacity to meet its obligations under the Notes.

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

Although progress was made in the field of money laundering by the passing of important laws needed to implement the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of Commission Directive 2006/70/EC regarding politically exposed persons, independent analysts and media reports have identified corruption and money laundering as problems in Romania. The implementation of the fourth anti-money laundering directive (Directive 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing), whose transposition deadline expired in June 2017, is still pending in Romania. The delay in the implementation has triggered the commencement of infringement procedures by the European Commission, a first notice in this respect having been sent to Romania in July 2017.

In 2017, the Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 174 (most corrupt), ranked Romania as being 57th with a score of 48/100.

Although Romania has implemented certain actions to effectively prosecute corruption cases, resulting in several high-profile convictions and several international evaluations have recognised Romania's improved track record in the fight against corruption, instances of corruption in the public and private sectors continue to occur. Further setbacks in the implementation of the rule of law in Romania, particularly with respect to corruption, may have a material adverse effect on the Romanian economy.

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

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

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

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

The inconsistent application of law in the Romanian courts could have an adverse effect on the economy and therefore on the Notes

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

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

As Romania is a civil law jurisdiction, judicial decisions under Romanian law have no precedential effect. For the same reason, courts are not bound by earlier court decisions taken under the same or similar circumstances. The Romanian judicial system has gone through several reforms to modernise and strengthen the system. While the 2017 CVM report from the European Commission to the European Parliament and the Council dated 25 January 2017 ("**2017 CVM Report**") highlights a number of areas of progress including a steadily growing track record in terms of investigating, prosecuting and deciding upon high-level corruption cases over the years (with regular indictments and conclusion of cases concerning politicians of all ranks and parties, as well as civil servants, magistrates and businessmen), it also points to several outstanding issues including the repetition of similar offences which suggests that corruption prevention efforts have not been wholly effective. While the Minister of Justice has been able to secure increases in government funding to implement reform efforts, there can be no guarantee that future funding would be commensurate with needs, including in light of any potential budgetary setbacks or austerity measures. Without proper funding, it is unlikely that the reforms contemplated would be effectively implemented.

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

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

Romania's level of aggregate public indebtedness according to national legislation (including guarantees) decreased to 43.2 per cent. of GDP as at the end of June 2017 (preliminary data), compared to 44.6 per cent. of GDP as at the end of December 2016, while according to EU methodology general government debt decreased to 37.1 per cent. of GDP as at the end of March 2017, compared to 37.6 per cent. of GDP as at the end of December 2016. Compared with that of most other EU Member States, Romania's public debt is smaller both in absolute terms and as a percentage of GDP.[2] However, any increase in Romania's indebtedness or deterioration in financing conditions as a result of market, economic or political factors outside Romania's control could make it difficult for Romania to refinance its indebtedness on favourable terms though Romania maintains a policy of retaining a hard currency buffer amounting to around four months of gross funding needs which diminishes significantly the refinancing risk. There is a relatively high level of non-resident ownership of public debt (approximately 48 per cent. (calculated as per EU methodology) as at the end of March 2017) and such is denominated in foreign currency, which entails currency risk. In addition, any deterioration of the current account deficit and/or a decrease in net foreign direct investments would add further pressure on Romania's external finances.

[2] According to Eurostat news release 118/20 June 2017

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

The Notes may not be a suitable investment for all investors

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

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

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

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

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

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

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

Risks Related to the Structure of a Particular Issue of Notes

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

Notes subject to optional redemption by the Issuer

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

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

Index Linked Notes and Dual Currency Notes

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

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

Partly Paid Notes

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

Variable rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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

Risks Related to Notes Generally

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

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

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

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

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

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

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

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

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

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

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

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

Tax consequences of holding the Notes

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

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

Further Notes may be issued without the consent of Noteholders

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

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

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

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

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

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

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

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

Change of law

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

Notes where denominations involve integral multiples

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

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

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

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

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

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

Transferability of the Notes may be limited under applicable securities laws

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

Risks related to the market generally

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

The secondary market generally

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

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

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Legal investment considerations may restrict certain investments

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

INFORMATION INCORPORATED BY REFERENCE

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

The section "*Terms and Conditions of the Notes*" as contained in pages 38 – 68 (inclusive) of the Information Memorandum relating to the Programme dated 18 May 2016 and the section "*Terms and Conditions of the Notes*" as contained in pages 42 – 73 (inclusive) of the Information Memorandum relating to the Programme dated 21 May 2015, each of which has previously been published and has been filed with the CSSF, shall be incorporated by reference in, and form part of, this Information Memorandum.

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

FINAL TERMS AND DRAWDOWN INFORMATION MEMORANDUM

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

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

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

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

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

FORMS OF THE NOTES

Bearer Notes

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

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

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

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

Temporary Global Note exchangeable for Permanent Global Note

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

1. Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, duly authenticated and, in the case of a Permanent Global Note in NGN form, effectuated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Notes represented by the Permanent Global Note in accordance with its terms against:

   (a) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

   (b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership, within seven days of the bearer requesting such exchange.

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

2. If:

   (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

   (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

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

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

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

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

   (c) if the Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

      (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

      (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

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

4. If:

   (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

   (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

   (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

Temporary Global Note exchangeable for Definitive Notes

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

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

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

5. If:

   (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

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

Permanent Global Note exchangeable for Definitive Notes

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

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

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

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

(ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

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

7. If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

Legend concerning United States persons

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

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

Registered Notes

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

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

(b) one or more unrestricted global note certificates ("**Unrestricted Global Note Certificate(s)**") in the case of Registered Notes sold outside the United States in reliance on Regulation S ("**Unrestricted Registered Notes**") and/or one or more restricted global note certificates ("**Restricted Global Note Certificate(s)**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A ("**Restricted Registered Notes**"),

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

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

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

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

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

Global Note Certificate exchangeable for Individual Note Certificates

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

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

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

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

    (i) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note Certificate or DTC ceases to be a "clearing agency" registered under the U.S. Exchange Act of 1934 ("**Exchange Act**") or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;

    (ii) in the case of any Global Note Certificate held by or on behalf of Euroclear, Clearstream, Luxembourg or any other relevant clearing system, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

    (iii) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

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

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

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

Terms and Conditions applicable to the Notes

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

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

Rights under Deed of Covenant

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

TERMS AND CONDITIONS OF THE NOTES

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

1 Introduction

(a) ***Programme***: Romania ("**Issuer**") has established a Global Medium Term Note Programme ("**Programme**") for the issuance of up to EUR 20,000,000,000 in aggregate principal amount of notes ("**Notes**").

(b) ***Final Terms***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a final terms ("**Final Terms**") which supplements these terms and conditions ("**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) ***Agency Agreement***: The Notes are the subject of an amended and restated issue and paying agency agreement dated 5 October 2017 ("**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent ("**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), paying agent ("**Paying Agents**", which expression includes any successor or additional paying agent appointed from time to time in connection with the Notes) and transfer agent ("**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG as registrar ("**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Fiscal Agent, the Registrar, the Paying Agents and the Transfer Agent and any reference to an "**Agent**" is to any one of them.

(d) ***The Notes***: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the Specified Office of the Fiscal Agent and the Registrar during normal business hours and copies may be obtained from the Specified Office of the Fiscal Agent and the Registrar.

(e) ***Summaries***: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to the detailed provisions of the Agency Agreement. Noteholders (as defined herein) and the holders of the related interest coupons, if any ("**Couponholders**" and "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2 Interpretation

(a) ***Definitions***: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means:

(A) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(B) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

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

(A) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(B) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(C) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(D) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(E) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

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

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

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

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

(A) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(B) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(C) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(i) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(A) as the same may be adjusted in accordance with the relevant Business Day Convention; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Payment Business Day**" means:

(A) if the currency of payment is euro, any day which is:

  (i) a day on which banks in the relevant place of presentation (if presentation is required) are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(B) if the currency of payment is not euro, any day which is:

  (i) a day on which banks in the relevant place of presentation (if presentation is required) are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

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

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

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

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

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

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

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

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

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

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

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

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

"**Regular Period**" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3 Form, Denomination, Title and Transfer

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

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

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

(d) *Title to Registered Notes*: The Registrar will maintain the registers in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or the Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4 Status

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

5 Negative Pledge

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

"**Permitted Security Interest**" means:

(a) any Security Interest upon property (or any revenues therefrom) to secure Public External Indebtedness incurred for the purpose of financing the acquisition or construction of such property;

(b) any Security Interest existing on any property (or any revenues therefrom) at the time of its acquisition;

(c) any Security Interest securing Public External Indebtedness incurred for the purpose of Project Financing provided that (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security Interest is granted consists solely of such assets and revenues;

(d) any Security Interest existing on the original date of issue of each series of Notes; and

(e) the renewal or extension of any Security Interest described in subparagraphs (a) to (d) above, provided that the principal amount of the Public External Indebtedness secured thereby is not increased.

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

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

6 Fixed Rate Note Provisions

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11(A) (*Payments — Bearer Notes*) and Condition 11(B) (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7 Floating Rate Note and Index-Linked Interest Note Provisions

(a) *Application*: This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11(A) (*Payments—Bearer Notes*) and Condition 11(B) (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

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

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

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) *Index-Linked Interest:* If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

(f) Maximum or Minimum Rate of Interest: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

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

(h) *Calculation of other amounts:* If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount.

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

(i) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange (or listing agent as the case may be) and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent (if not the Calculation Agent), the Registrar, the Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8 Zero Coupon Note Provisions

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9 Dual Currency Note Provisions

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

10 Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).

(b) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 21 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(c) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 10(b) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(b) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant

Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(d) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to (but excluding) such date. In order to exercise the option contained in this Condition 10(d), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(d), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(d), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (d) above.

(f) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

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

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

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

11 Payments

(A) Bearer Notes

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

(a) *Principal*: Payments of principal shall be made (where applicable) only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

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

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

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

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

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

(f) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(A)(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(d) (*Redemption at the option of Noteholders*), Condition 10(b) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(B) Registered Notes

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

(a) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11(B) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Payment Record Date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment ("**Payment Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Payment Record Date.

12 Taxation

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

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

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

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

13 Events of Default

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

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

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

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

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

(f) the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its payment obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it shall be or become unlawful for the Issuer to perform or comply with all or any of its payment obligations set out in the Notes or any such obligations shall be or become unenforceable or invalid, in each case as a result of any law or regulation in Romania or any ruling of any court in Romania whose decision is final and unappealable, then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

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

14 Prescription

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

15 Replacement of Notes and Coupons

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

16 Agents

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

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

(a) the Issuer shall at all times maintain a Fiscal Agent; and

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

(c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Fiscal Agent, Registrar, Paying Agents or Transfer Agents or in their Specified Offices shall promptly be given to the Noteholders.

17 Meetings of Noteholders; Written Resolutions

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

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 17.9 (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer setting out the purpose of the meeting. The Issuer will set the time and place of the meeting. The Issuer will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will arrange such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(d) The notice convening any meeting will specify, *inter alia*:

(i) the date, time and location of the meeting;

(ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(vi) whether Condition 17.2 (*Modification of this Series of Notes only*), or Condition 17.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(vii) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(viii) such information that is required to be provided by the Issuer in accordance with Condition 17.6 (*Information*);

(ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 17.7 (*Claims Valuation*); and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 17.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(f) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 17 and Condition 18 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

17.2 Modification of this Series of Notes only:

(a) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:

(i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(c) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

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

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

17.3 Multiple Series Aggregation – Single limb voting:

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, *provided that* the Uniformly Applicable condition is satisfied.

(b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Extraordinary Resolution or Multiple Series Single Limb Written Resolution, as the case may be, and on all Couponholders and Couponholders of each other affected series of Debt Securities Capable of Aggregation.

(e) The "**Uniformly Applicable**" condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under paragraph 17.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

17.4 Multiple Series Aggregation – Two limb voting:

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of*

Noteholders; Written Resolutions), as supplemented if necessary, which is passed by a majority of:

(i) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually). Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.

(e) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

17.5 Reserved Matters:

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

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

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

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

(d) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(f) to change the definition of "Uniformly Applicable";

(g) to change the definition of "outstanding" or to modify the provisions of Condition 17.9 (*Notes controlled by the Issuer*);

(h) change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 13 (*Events of Default*);

(j) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 25 (*Governing Law and Jurisdiction*);

(k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) to modify the provisions of this Condition 17.5;

(m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;

(n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

    (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

    (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

17.6 Information:

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series*

Aggregation – Single limb voting) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 18 (*Aggregation Agent; Aggregation Procedures*) with the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 17.l(d)(vii).

17.7 Claims Valuation:

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

17.8 Manifest error, etc.:

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

17.9 Notes controlled by the Issuer:

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

(i) "**public sector instrumentality**" means the National Bank of Romania, any department, ministry or agency of the government of Romania or any corporation, trust, financial institution or other entity owned or controlled by the government of Romania or any of the foregoing; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition, to, the board of directors of a corporation, trust, financial institution or other entity.

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

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

17.10 Publication:

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

17.11 Exchange and Conversion:

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

18 Aggregation Agent; Aggregation Procedures

18.1 Appointment:

The Issuer will appoint an aggregation agent ("**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

18.2 Extraordinary Resolutions:

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

18.3 Written Resolutions:

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

18.4 Certificate:

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

The certificate shall:

(a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

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

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

18.5 Notification:

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

18.6 Binding nature of determinations; no liability:

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

18.7 Manner of publication:

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

(a) through Euroclear Bank SA/NV, Clearstream Banking S.A. and The Depository Trust Company and/or any other clearing system in which the Notes are held;

(b) in such other places and in such other manner as may be required by applicable law or regulation; and

(c) in such other places and in such other manner as may be customary.

19 Noteholders' Committee

(a) *Appointment*: Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may by notice in writing to the Issuer (with a copy to the Fiscal Agent) appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:

(i) an Event of Default under Condition 13 (*Events of Default*);

(ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 13 *(Events of Default),* become an Event of Default;

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

(iv) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

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

(i) all Noteholders in accordance with Condition 21 *(Notices*); and

(ii) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

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

(b) *Powers*: Such committee in its discretion may, among other things:

(i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;

(ii) adopt such rules as it considers appropriate regarding its proceedings;

(iii) enter into discussions with the Issuer and/or other creditors of the Issuer;

(iv) (designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer;

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

19.1 Engagement with the committee and provision of information

(a) The Issuer shall:

(i) subject to paragraph (b) immediately below, engage with the committee in good faith;

(ii) provide the committee with information equivalent to that required under Condition 17.6 (*Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and

(iii) pay any reasonable fees and expenses of any such committee as may be agreed with it (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

(b) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 19 and/or equivalent provisions set out in the conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

19.2 Certification

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

The certificate shall certify:

(a) that the committee has been appointed;

(b) the identity of the initial Members; and

(c) that such appointment complies with the conditions of the relevant bond documentation.

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

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

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

20 Further Issues

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

21 Notices

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

(c) *Notices to Issuer*: All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Public Finances, 17, Apolodor Street, RO 70663 Bucharest, Romania for the attention of the External Public Finance Department, or such other address as may be notified by the Issuer to Noteholders in accordance with Condition 21(a) (*Bearer Notes*).

22 Currency Indemnity

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

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

23 Rounding

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

24 Redenomination, Renominalisation and Reconventioning

(a) *Application*: This Condition 24 (*Redenomination, Renominalisation and Reconventioning*) is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

(b) *Notice of redenomination*: If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date ("**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

(c) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

(ii) if Notes have been issued in definitive form:

(A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date ("**Euro Exchange Date**") on which the Issuer gives notice ("**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 24) shall remain in full force and effect; and

(C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

(d) *Interest*: Following redenomination of the Notes pursuant to this Condition 24, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

(e) *Interest Determination Date*: If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

25 Governing Law and Jurisdiction

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes shall be governed by, and construed in accordance with, English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes).

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

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 25(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 25 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Economic Counsellor, Embassy of Romania at 4 Palace Green, London W8 4QD. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

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

(g) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and to the extent it is permitted to do so under applicable law provided, however, that immunity is not waived in respect of public property as such is regulated by the applicable Romanian legislation (including, without limitation, Article 136 of the Romanian Constitution and the Romanian Law No. 213/1998 regarding public property assets), present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961 (including the furnishings and other property therein and the means of transport of such mission), "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 (including the furnishings and other property therein and the means of transport of such mission) or military property or military assets or property or assets of the Issuer related thereto.

26 Standard Clauses

Without prejudice to Condition 25(a) (*Governing Law*), for the purposes of Article 1203 of the Romanian Civil Code, the Issuer hereby expressly accepts all conditions in these terms and conditions which:

(a) Provide in favour of the Holders of any Notes: (i) the limitation of liability; (ii) the right to unilaterally terminate (*denuntare unilaterala*) the Notes; (iii) the right to suspend performing the Holders' obligations; OR

(b) Provide to the detriment of the Issuer: (i) the forfeiture of rights (*decadere din drepturi*); (ii) the forfeiture of the benefit of a timeline (*decaderea din beneficiul termenului*); (iii) the limitation of the right to raise defences (*dreptul de a opune exceptii*); (iv) the limitation of the right to contract with third parties; (v) the tacit renewal of the agreement; (vi) the applicable law; (vii) the submission to arbitration (*clauzele compromisorii*); or clauses derogating from the rules of court jurisdiction;

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

27 Hardship

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

FORM OF FINAL TERMS

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

Final Terms dated [●]

ROMANIA
acting through the Ministry of Public Finance

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]

under the EUR 20,000,000,000

Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the final terms relating to the issue of Notes described herein. [Terms used herein shall be deemed to be defined as such for the purposes of the Conditions ("**Conditions**") set forth set forth in the Information Memorandum dated [*date*] [and the supplemental Information Memorandum dated [*date*]] ([together,]the "**Information Memorandum**"). These Final Terms contain the final terms of the Notes and must be read in conjunction with such Information Memorandum [as so supplemented].] [*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Information Memorandum with an earlier date.*]

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

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

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

1	(i)	Issuer:	Romania, acting through the Ministry of Public Finance
2	(i)	[Series Number:]	[●]
	(ii)	[Tranche Number:	[●]

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

12	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13	Date [Min Fin] approval for issuance of Notes obtained:	[●] [and [●], respectively (*N.B. Only relevant where authorisation is required for the particular tranche of Notes*)
14	Method of distribution:	[Syndicated/Non–syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub–paragraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/ semi–annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of* "*Business Day*"]/not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(vi) [Determination Dates:	[●] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
16	**Floating Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Interest Period(s):	[●]
	(ii) Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert* "*Not Applicable*"*)*
	(iii) Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN*

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

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

		Convention/Preceding Business Day Convention/other (give details)]
	(x) Additional Business Centre(s):	[●]
	(xi) Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(xii) Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(xiii) Day Count Fraction:	[●]
19	**Dual Currency Note Provisions**	[Applicable/Not Applicable]
	(If not applicable, delete the remaining sub-paragraphs of this paragraph)	
	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20	Call Option	[*Applicable/Not Applicable*] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(a) Maximum Redemption Amount	[●] per Calculation Amount
	(iv) Notice period:	[●]
21	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	Optional Redemption Date(s):	[●]
	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount

	Notice period:	[●]
22	Final Redemption Amount of each Note	[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable- linked:	
	(i) Index/Formula/variable:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) [Payment Date]:	[●]
	(vii) Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii) Maximum Final Redemption Amount:	[●] per Calculation Amount
23	Early Redemption Amount	
	Early Redemption Amount(s) on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*If the Early Termination Amount are the principal amount of the Notes/ or the Early Termination Amount if different from the principal amount of the Notes*)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24	Form of Notes:	**Bearer Notes**: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on

[●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

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

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

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

Registered Notes:

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

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

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

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

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

25	New Global Note:	[Yes] [No] [Not Applicable]
26	New Safekeeping Structure:	[Yes] [No] [Not Applicable]
27	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*.

		Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(vi) and 18(x) relate]
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
30	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition 24 (*Redenomination, Renominalisation and Reconventioning*)] apply]
32	Consolidation provisions:	[Not Applicable/The provisions [in Condition 20 (*Further Issues*)] [annexed to this Final Terms] apply]
33	Other final terms:	[Not Applicable/*give details*] [(*When adding any other final terms consideration should be given as to whether such terms trigger the need for a supplement to the Information Memorandum in accordance with the Information Memorandum.*)]

DISTRIBUTION

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

		(*In the case of Registered Notes*) – [Not] Rule 144A Eligible
38	Non-exempt Offer:	Not Applicable
39	Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

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

RESPONSIBILITY

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

Signed on behalf of

ROMANIA, ACTING THROUGH THE MINISTRY OF PUBLIC FINANCE:

By: ....

Duly authorised

PART B — OTHER INFORMATION

1 **LISTING**

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

2 **RATINGS**

Ratings:

The Programme has been rated:

Standard & Poor's Credit Market Services Europe Limited: "[●]" (for unsecured Notes with a maturity of one year or more) and "[●]" (for unsecured Notes with a maturity of less than one year)]

Moody's Investors Service Ltd.: "[●]"

Fitch Ratings Limited*: "[●]"

(*Other*: The exact legal name of the rating agency entity providing the rating should be specified-for example* "*Standard & Poor's Credit Market Services Europe Limited*", *rather than just Standard and Poor's*.)

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

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

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

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

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

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

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

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

[***End of options***]

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

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

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

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

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

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

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

[(i)	Reasons for the offer:	[●] (*See [*"*Use of Proceeds*"*] wording in Information Memorandum — if reasons for offer different, will need to include those reasons here*.)]
[(ii)]	Estimated net proceeds:	[●] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
[(iii)]	Estimated total expenses:	[●] [*Include breakdown of expenses*] (*It is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above*.)

5 [**Fixed Rate Notes only — YIELD**

Indication of yield:	[●]

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

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

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

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

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

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

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

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

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

9 **OPERATIONAL INFORMATION**

(i)	CUSIP:	[●] [Not applicable]
(ii)	ISIN Code:	[●]
(iii)	Common Code:	[●]
(iv)	Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(v)	Delivery:	Delivery [against/free of] payment
(vi)	Names and addresses of initial Paying Agent(s):	[●]
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not Applicable]
		[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the

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

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

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

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

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

Transfers of Interests in Global Notes and Global Note Certificates

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

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

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

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

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

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

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

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

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

Conditions applicable to Global Notes

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

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

Payment Business Day: In the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

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

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

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

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

DESCRIPTION OF ROMANIA

Overview

Territory and Population

Romania is located in Central Eastern Europe, north of the Balkan Peninsula. Its neighbouring countries are Hungary, Ukraine, the Republic of Moldova, Bulgaria and Serbia. On the southeast it borders the Black Sea. The country is the second largest in the Central European region and covers an area of 238,391 square kilometres.

According to the final data of the 2011 population and households' census, Romania has 20.12 million inhabitants and 7.1 million households.

Political System

Recent political developments

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

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

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

In July 2015, Prime Minister Victor Ponta resigned as the chairman of the ruling party, PSD. In September 2015, Romanian anti-corruption prosecutors moved to bring to trial the case of Prime Minister Victor Ponta regarding charges of tax evasion, money laundering and making false statements while working as a lawyer in 2007 and 2008 and the trial commenced on 21 September 2015. In June and September 2015, the Government led by Prime Minister Victor Ponta defeated two no confidence motions raised in the Romanian Parliament.

On 30 October 2015, there was a fire at Colectiv, a club in Bucharest, which resulted in the death of over 60 people. In the aftermath of the tragedy, there was a wave of street protests where protesters demanded, among other things, the resignation of Mr. Victor Ponta, the prime minister of Romania at that time. After several days of demonstrations, on 4 November 2015, Mr. Victor Ponta and his cabinet of ministers resigned. A technocratic Government was appointed under the leadership of Mr. Dacian Cioloş, as a new prime minister, together with several technocratic ministers that had no or weak affiliations with political parties. The temporary executive remained in office until the parliamentary elections of 11 December 2016.

The latest parliamentary elections took place on 11 December 2016 and resulted in a political alliance between the Social Democratic Party (Partidul Social Democrat – "**PSD**") and the Alliance of Liberals and Democrats (*Alianta Liberalilor si Democratilor* – "**ALDE**"), winning the majority (over 53 per cent.) of the parliamentary seats (250 seats out of 466). The remaining seats ("opposition") were distributed between the National Liberal Party (Partidul National Liberal – "**PNL**"), the "Save Romania Union" (*Uniunea Salvaţi România* – "**USR**"), the Popular Movement Party (*Partidul Mişcarea Populară* – "**PMP**") and the Hungarian Democratic Union of Romania (*Uniunea Democrat Maghiara din Romania* – "**UDMR**").

On 4 January 2017, the newly elected Parliament gave the confidence vote to the government, supported by the PSD – ALDE coalition, with Mr. Sorin Grindeanu (PSD) being appointed as the prime minister. The vote was 295 “for”, 133 “against” and one abstention. Out of the 27 ministers the government has, 23 are from PSD, 3 are from ALDE and one is independent.

Protests against OUG (Government Emergency Ordinance) No. 13 from 31 January 2017, referring to some aspects of the Criminal Code (and resulting in the decriminalisation of certain offences), were organised in several cities of Romania in January and February 2017. As a result, the OUG No. 13 was repealed by the Government on 5 February 2017, and the issue of reforming the Criminal Code was sent to the Parliament. The Grindeanu cabinet was dismissed by a motion of no confidence in Parliament, on 21 June 2017.

In the new cabinet, led by Mr. Mihai Tudose, that took office on 29 June 2017, the two deputy prime ministers carried on from the previous executive, as well as a number of ministers, including the minister of energy, the minister of foreign affairs, the minister of agriculture and rural development, the minister of transport, the minister of internal affairs and the minister of labour and social justice, with new incumbents appointed, notably, as minister of finance, minister of justice and minister of national defence. New portfolios were created for a minister (formerly minister-delegate) for European affairs and a minister-delegate for European funds (formerly part of a deputy prime minister’s remit). The new cabinet states in its Programme that 2017-2020 is expected to raise challenges for Romania, in terms of both opportunities and risks. It sets out accordingly a vision of public policies centred on the objective of building a balanced, inclusive society.

Recent History and Constitution

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

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

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

Further amendments to the constitution are currently under debate in the parliamentary special committee appointed for this purpose, with the stated objective, among others, of reducing risks for conflict between the President and the Prime Minister by further clarifying their responsibilities and reducing the number of Members of Parliament.

Government

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

Parliament

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

Since December 2016, the following main political parties have had parliamentary representation:

- the Social Democratic Party (Partidul Social Democrat): Social democratic, centre-left party led by Liviu Dragnea, following the resignation of Victor Ponta on 12 July 2015;

- the Alliance of Liberals and Democrats (*Alianta Liberalilor si Democratilor*), a liberal centre-right party led by Calin Popescu Tariceanu formed as a result of a merger between the Conservative Party (P*artidul Conservator*) and the Reformist Liberal Party (*Partidul Liberal Reformator*);
- the National Liberal Party (*Partidul National Liberal*): Liberal, centre-right party led by Ludovic Orban;
- the "Save Romania Union" (*Uniunea Salvaţi România*), a centrist and reformist alliance, newly constituted;
- the Hungarian Democratic Union of Romania (*Uniunea Democrat Maghiara din Romania*): Centrist, Hungarian minority party, led by Kelemen Hunor; and
- the Popular Movement Party (*Partidul Mişcarea Populară*).

Parliamentary elections were held in Romania on 11 December 2016, in accordance to the changes introduced to Romania's electoral legislation in 2015. The new electoral legislation reintroduces a proportional list-based election system, which was last used in the 2004 elections. The proportional list-based election system requires voters to cast their vote for the list nominated by a political party, rather than for an individual. The new electoral rules provide for one deputy for every 73,000 citizens and one senator for every 168,000 citizens, which will reduce the total number of members of the Parliament. Under the new system, 466 parliamentary seats (308 deputies, 18 minority deputies and 134 senators) were elected, in comparison with the 588 parliamentary seats previously occupied by members of the Parliament elected in 2012. Romanian citizens living abroad are represented by four deputies and two senators. A vote-by-mail system was also introduced.

President

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

The most recent presidential election was held in November 2014. In the runoff, Klaus Werner Iohannis (former leader of PNL since June 2014 and mayor of the city of Sibiu since 2000) was elected as the President of Romania with 54.43 per cent. of the votes, defeating the then Prime Minister Victor Ponta.

Local Government

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

General local elections were last held on 5 June 2016. According to an amendment to the electoral law, mayors were elected in a single round of elections, the candidate having the highest number of votes winning the election.

Judiciary and Constitutional Court

General Structure of the Judiciary and Constitutional Court

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

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

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

Ensuring the Independence of the Judiciary and of the Constitutional Court

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

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

Reform of the Judiciary

The Romanian judicial system has gone through several reforms aimed at modernising and strengthening the independence of the judiciary and further reforms are currently being planned. These reforms have been largely based on the Strategies, which have been implemented so far. The Strategy for the Development of the Judiciary for 2015 to 2020 was put forward by the Ministry of Justice and approved by the Government on 23 December 2014 through Government Decision no. 1155/2014, published in the Romanian Official Gazette no. 19 on 12 January 2015. This document draws heavily on CVM recommendations, as well as on studies developed with the World Bank, in particular the Functional Analysis of the Romanian judiciary. Drawing on a series of underlying principles based on the rule of law, the strategy defines objectives for further reform in the period 2015 to 2020 to make the justice more efficient and accountable and to increase its quality. The action plan for implementation of the strategy was approved through Government Decision no. 282/2016, published in the Romanian Official Gazette no. 311 on 22 April 2016.

The implementation of the new Criminal Code and Criminal Procedures Code in February 2014 was a major undertaking and a test of the ability of the judicial system to adapt. The Ministry of Justice, the HCCJ, the Superior Council of Magistracy, the prosecution and the National Institute for Magistracy worked together to implement the change. The Romanian magistracy has been adapting to the new codes without derogating from its ongoing work and had to adapt to several innovatory measures, such as a possibility for plea bargains, which since have been widely utilised. Romania established the National Integrity Agency ("**ANI**"), an independent and operational institution to control and verify the wealth, conflicts of interest and incompatibilities within the judiciary. The ANI has been operational since the end of 2007 and Romania was the first EU country to create such a specialised institution. Romania also has established the National Anticorruption Directorate, which is a specialised, independent structure, functioning within the General Prosecutors' Office that investigates high-level corruption cases. Following an extensive public consultation process, the Government approved, on 10 August 2016, the National Anticorruption Strategy ("**NAS**") for 2016-2020. The document continues a number of good practices identified in the implementation of the previous strategy and proposes a paradigm change, focusing on prevention and education measures to prevent acts of corruption. This change involves responsibility at a managerial level, in all institutions and public enterprises. On 23 August 2016, the Government published the new NAS 2016-2020, adopted by Government Decision no. 583/2016, together with the performance indicators, risks associated with objectives and measures of the strategy and verification sources, list of the measures of institutional transparency and corruption prevention, as well as evaluation indicators and standards of publication of information of public interest. It was published in the Romanian Official Gazette no. 644 on August 23, 2016.

The main purpose of NAS 2016-2020 is to promote integrity, by strictly applying the legal and institutional framework for preventing and combating corruption in Romania. NAS 2016-2020 also aims to increase the quality and impact of implementing the provisions on institutional transparency in the public sector.

NAS 2016-2020 was drafted following a complex consultation process, where approximately 90 entities from the civil society, public institutions, private companies and business associations were involved. Its aim is to promote integrity through the rigorous application of the legal and institutional framework for preventing corruption in Romania. The document has a multidisciplinary character and is expected to be implemented by a large variety of actors, such as public institutions which represent the executive, legislative and judicial authorities, the local administrations, including the business sector and the civil society.

For each type of intervention proposed by the strategy, there are general and specific objectives provided. The strategy was developed with a focus on transparency in decision making and open governance, supported by a three-tiered approach to strategic intervention: prevention, education and combating.

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

The Report from the Commission to the European Parliament and the Council on progress in Romania under the Co-operation and Verification Mechanism was published on 25 January 2017 – covering the 10 years since the establishment of the CVM.

The Commission's 2014, 2015 and 2016 CVM reports highlighted a positive trend and a track record pointing to strong progress and growing irreversibility of the reforms under the CVM. This positive trend was confirmed in 2016 with a continued track record for the judicial institutions in a time of change in leadership and a strong impetus by the government to strengthen corruption prevention. The 10 years' perspective of developments under the CVM also shows that, despite some periods when reform lost momentum and was questioned, Romania has made major progress towards the achieving CVM Benchmarks.

As well as tracking progress over the past 10 years, CVM reports since 2014 have underlined how the consistency of progress has started to point to sustainability. Legislative and institutional steps have begun to establish a track record, thanks to the commitment shown by many judges and prosecutors, the implementation work of ministers of justice and the good co-operation between the Romanian authorities and the Commission.

One particular area where this broader environment has evolved in a positive direction is transparency. In many areas of the CVM's work, there has been a noticeable trend, including over 2016-2017, towards better quality information about the judicial system and about corruption, and more openness in making this accessible.

The last 2017 CVM report points out that following the entry into force of the new Codes, CVM reports have noted the increasing use and the effectiveness of the legal consistency mechanisms implemented by the High Court of Cassation and Justice (HCCJ). In recent years, the legal mechanisms were complemented by managerial efforts to promote consistency and the online availability of all court decisions. The 2016 CVM Report also noted signs of a cultural shift in favour of consistency within the judiciary.

As far as the consistency of court decisions is concerned, the 2017 CVM Report specifies, in 2016, the High Court of Cassation and Justice continued to provide solutions to inconsistencies of court decisions through the legal mechanisms of appeal in the interest of the law and preliminary questions. The attitude of rank and file judges has changed as well, with a better consideration for the need to take into account decisions of other courts in similar cases. The judicial management and the National Institute of Magistracy will need to continue to promote consistency in law and practice and to develop the tools to facilitate the consistent application of the law as the follow-up of jurisprudence by public administration and excessive workload of courts continue to impact on the consistency of court decisions. Further obstacles to the consistency of court decisions relate rather to broader issues concerning the legislative process.

The HCCJ has the main role in the unification of the court's case law. The main mechanisms for the unification of the jurisprudence of courts are provided for by the Civil procedure law: legal appeals (art. 514) and notifications to the HCCJ for delivering a preliminary ruling on the clarification of certain laws (the mechanism of the preliminary rulings – art. 519 of the Civil procedure law).

- In 2014, 2015, 2016 and 2017 (1 January – 31 August) in criminal matters there were lodged a total of 112 preliminary rulings, and there have been settled a total of 105 preliminary rulings.
- In 2014, 2015, 2016 and 2017 (1 January – 31 August) in civil matters there were lodged a total of 223 preliminary rulings, and there have been settled a total of 180 preliminary rulings.
- In 2014, 2015, 2016 and 2017 (1 January – 31 August) there were lodged a total of 86 appeals in the interest of law, and there have been settled a total of 69 appeals in the interest of law (in civil and criminal matters).

In addition, for the unification of jurisprudence, the relevant decisions are published on the HCCJ website. The database on the HCCJ website currently includes 4,972 relevant decisions (summaries) and 124.707 decisions with the integral text (anonymised), including the preliminary rulings.

(A) The first benchmark concerned the judicial system, focusing on establishing an independent, impartial, and efficient system, strengthening the consistency of the judicial process, and improving transparency and accountability. In this area, institutional and legislative progress has been substantial.

Since 2012, the Superior Council of the Magistracy (the "**SCM**") has established itself as manager of the judicial system and has shown an increasing willingness to fulfil its constitutional role, notably in terms of defending the independence of the judiciary, a key role that will now fall to the new Superior Council, recently elected.

In 2016, polling continued to suggest a strong public perception of judicial independence and trust in the judiciary.

In the last three years, the Ministry of Justice, the SCM and the judiciary have shown their willingness and capacity to work together and find solutions to take reform forward. This has been supported by the increased resources allocated to the judiciary, notably by the last two governments.

The rigour of entry procedures into the magistracy, supported by obligatory training by the National Institute of Magistracy, has also been seen to have played an important part in consolidating the professionalism, as well as the independence, of the magistracy.

The SCM is also responsible for sanctioning professional misconduct and disciplinary offences by magistrates. The investigation of such cases rests with the Judicial Inspection. In 2012, a major reform of the Judicial Inspection consolidated it as an independent and professional institution. This has made the Inspection more efficient and authoritative, as confirmed again by its track record in 2016. The disciplinary decisions of the SCM can be appealed before the High Court of Cassation and Justice and the 2016 CVM Report noted that the chain of decisions became more predictable and consistent.

Romania has adopted and implemented new Civil and Criminal Codes with a view to modernising the substantive law and improving the efficiency and consistency of the judicial process. The new Civil Code entered into force in 2011, the Code for Civil Procedures in 2013 and the new Criminal Codes in 2014.

By adapting to this major reform, the judicial system as a whole has shown its professionalism. There is evidence that the result has seen some acceleration in the length of court proceedings, enhanced respect for fair trial rights, as well as more consistency in judicial decisions.

The Constitutional Court has played an important role in further development of the rule of law and the consolidation of an independent justice system. Since the constitutional upheaval of 2012, many decisions of the Constitutional Court have contributed to upholding the independence of justice and have sought to provide solutions linked to the balance of powers and respect for fundamental rights that could not be solved by the justice system alone.

The majority of the 12 decisions by the Constitutional Court in 2016 annulling provisions of the new Criminal Code and Code of Criminal Procedures were taken on the basis of respect of the European Convention on Human Rights.

One important development in 2016 in the area of implementation of court decisions relating to confiscation of criminal assets was the agreement to set up the new National Agency for Management of Seized Assets.

Overall, Romania has made substantial progress on much of the first benchmark, but this has not been without difficulties, and efforts are still required to demonstrate track record in areas, including respect for judicial independence in Romania's public life, finalising reforms of the criminal and civil codes and ensuring efficiency in the implementation of court decisions by all.

(B) The second benchmark concerns the establishment of an integrity agency with responsibilities for verifying assets, incompatibilities and potential conflicts of interest, and for issuing mandatory decisions on the basis of which dissuasive sanctions can be taken.

Now Romania has a comprehensive framework for integrity for public officials and ANI has established itself as an independent institution to implement these rules. When challenged, its decisions and the sanctions it can apply have been consistently endorsed by the courts. The track record of the ANI in investigating unjustified wealth, incompatibilities and administrative conflicts of interest has gradually increased, with a consistent trend of significant results since 2013, confirmed again in 2016.

ANI will have another tool with the PREVENT system of ex-ante checks on public procurement, the legislation for which was agreed in Parliament in autumn 2016 and which should include all conflicts of interests as defined by the new Public Procurement laws. The efficacy of this system will be tested in 2017.

ANI also worked closely with the Permanent Electoral Authority in 2016 to ensure that decisions on integrity were carried forward into the eligibility of candidates. This proved effective, with candidates elected in the local elections, despite an integrity ruling, subsequently removed or resigning from office, and with parties and the electoral authorities using the ANI information to avoid ineligible candidates presenting themselves for parliamentary elections.

Overall, Romania has made substantial progress on the second benchmark and the ANI can be considered to have established itself as a respected institution. This was also demonstrated by the fact that it was entrusted in 2016 with the development of the PREVENT system. It also plays an important role in the National Anti-Corruption Strategy 2016-2020 for corruption prevention.

(C) This third benchmark concerns professional, non-partisan investigations into allegations of high-level corruption.

CVM reports have shown a steadily growing track record in terms of investigating, prosecuting and deciding upon high-level corruption cases over the years, with a clear acceleration after 2011.

Since 2013, the track record of the institutions involved in investigating, prosecuting and ruling on high-level corruption has been strong, with regular indictments and conclusion of cases concerning politicians of all ranks and parties, as well as civil servants, magistrates and businessmen.

The National Anti-Corruption Directorate investigates a high number of cases and establishes hundreds of cases for trial for high and medium level corruption every year; and the High Court of Cassation and Justice and the Courts of Appeal rule final sentences in a high number of high-level and medium-level corruption cases.

There has also been a strong trend towards confiscation of assets to recover the damage caused by corruption offences. The track record, consistently maintained in 2016, is a positive sign.

With the entry into force of the new Criminal Codes in 2014, Romania now has a comprehensive legal framework for combatting corruption crimes.

Overall, the achievements of Romania in this area have attracted widespread recognition and substantial progress has been made on the third benchmark.

(D) The fourth benchmark concerned further measures to prevent and fight against corruption, in particular within local government.

The National Anti-Corruption Strategy is the core instrument of corruption prevention by public administration at national and local level.

The Government adopted a new anti-corruption strategy for 2016–2020 in August 2016, notably seeking to target the identified weaknesses with specific measures.

There is no doubt that measures have been introduced by successive governments to address corruption, with a serious effort to develop anti-corruption strategies and some innovative preventive measures. However, though some progress has been made towards fulfilling the fourth benchmark, important challenges remain in the effective implementation of the preventive policies that have recently been defined.

Overall, the 10 years perspective shows that Romania has made major progress towards the CVM benchmarks. A number of key institutions and much important legislation is in place and an established track record can be seen in many areas. The Commission also considers that Romania has demonstrated that a number of internal safeguards exist against abrupt reversals of progress.

There are, however, important remaining shortcomings which need to be addressed. Reform needs to continue on the same path and internal safeguards need to be further strengthened in order to ensure the irreversibility required to satisfactorily fulfil the benchmarks.

At the same time, a number of key issues identified in earlier reports have remained outstanding, and therefore this report cannot conclude that the benchmarks have been fulfilled. However, this report is able to identify a very limited number of key recommendations for the provisional closing of individual benchmarks and then the conclusion of the CVM process. Most of them focus on the responsibility and accountability required by the Romanian authorities and the internal safeguards needed to ensure the irreversibility of the results. It will also be supported by the development of reporting and accountability mechanisms to continue once the CVM has ended. The Commission believes that the CVM objectives can be achieved by following the recommendations set out in this report. The speed of the progress will depend on how quickly Romania will be able to fulfil them in an irreversible way, and avoid negative steps which call into question the progress made so far.

On 23 August 2017, legislative proposals were presented to the public by the minister of justice relating to a draft law amending and supplementing Law no. 303/2004 on the statute of magistrates, of Law no. 304/2004 on the judicial organization and of Law no. 317 on the Superior Council. On 30 August 2017, the Ministry of Justice transmitted the finalised draft comprising such legislative proposals to the Superior Council for a consultative opinion, as provided by law and also published the draft legislative proposals on the webpage of the Ministry of Justice, in order to ensure complete transparency, so that any interested person would have the possibility to consult it and send observations and proposals.

The Superior Council issued a negative opinion during the last week of September 2017, saying that Superior Council does not agree to the changes proposed under the legislative proposals.

Disputes in front of ICSID

Currently, Romania is party to the following pending cases at the International Centre for Settlement of Investment Disputes ("**ICSID**"): (i) Alpiq AG v. Romania (ICSID Case No. ARB/14/28); (ii) Ioan Micula, Viorel Micula and others v. Romania (ICSID Case No. ARB/14/29); (iii) Gabriel Resources Ltd. and Gabriel Resources (Jersey) v. Romania (ICSID Case No. ARB/15/31); and (iv) The Nova Group Investments BV v. Romania (ICSID Case No. ARB/16/19).

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

On 10 November 2014, ALPIQ AG, a Swiss company, filed an application for arbitration, claiming that Hidroelectrica's insolvency and subsequent scrutiny and termination of the agreements that Hidroelectrica had concluded for the delivery of electricity affected the interests of two of ALPIQ AG's subsidiaries operating in Romania. According to the arbitration claim, ALPIQ AG seeks that the arbitral tribunal: (i) finds that Romania has breached the Romanian-Swiss Agreement, ratified by Law No. 40/1994 as well as the Energy Charter Treaty, ratified by Law No. 14/1997; and (ii) obliges Romania to pay the applicant compensation for all damages suffered together with interest and arbitration costs. ALPIQ AG has reserved the right to supplement or amend its claims. On 29 January 2016, ALPIQ AG submitted the memorial on the merits and related evidence. Following a Tribunal hearing on jurisdiction and merits in Paris on 27 June to 1 July 2017, the Tribunal issued Procedural Order No. 4 concerning provisional measures on 10 September 2017. The case is currently pending.[3]

Case No. ARB/14/29 (*Ioan Micula, Viorel Micula and others v. Romania*)

The claimants allege a failure of Romania to rein in the country's black market in alcohol sales and a unilateral change in the contracts for exploiting mineral water which led to an increase in the cost of extraction. Based on media press reports, the claim, if upheld, would be for a material amount, however, the Government strongly believes that the case lacks merit and intends to defend it vigorously. The hearings are scheduled for April 2018.

Case No. ARB/15/31 (*Gabriel Resources Ltd. and Gabriel Resources (Jersey) v. Romania*)

On 30 June 2017, the applicants filed a detailed memo containing 416 pages and nine expert reports. The main dissatisfaction that the claimants in the arbitral file have with the Romanian state is that it delayed and unjustifiably blocked the issuance of the necessary agreements for the implementation and development of the Roşia Montană mining project. The applicants claim compensation amounting to USD 3.28 billion, to which a LIBOR plus 4 per cent. capital interest is to be added starting from 29 July 2011 until the date of payment of the arbitration decision (i.e. USD 4.377 billion at current value for 30 June 2017). In accordance with the

[3] https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=ARB/14/28

procedural timetable set by the arbitral tribunal, Romania has to submit the first detailed written defence (Counter – Memorandum) by 15 February 2018.

Case No. ARB/16/19 (*The Nova Group Investments BV v. Romania*)

The Nova Group Investments complains about a series of measures taken by the competent public authorities in relation to an insurance company, which subsequently entered bankruptcy proceedings, as well as an alleged denial of the right to a fair trial as part of criminal proceedings (undertaken by the prosecution bodies and by the courts) concerning the representatives of the investor. On 21 July 2017, the claimant submitted a memo detailing its arbitral claim. The amount of compensation requested by the claimant is: EUR 42.6 million plus interest. Romania needs to submit the first detailed written defence (the Counter-Memo) by 30 January 2018.

International Relations

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

Romania has been a member of the North Atlantic Treaty Organisation ("**NATO**") since 2004 and of the EU since 2007. Another key component of Romania's foreign policy is its active contribution to the activities of the international fora, especially the UN, the Council of Europe, the Organisation for Security and Co-operation in Europe ("**OSCE**") and the World Trade Organisation. Romania is also seeking to develop and intensify its relations with the Organisation for Economic Cooperation and Development ("**OECD**") with a view to promoting its candidacy for membership. The process was substantially accelerated in 2017, including by a series of high level contacts with OECD. Romania has made strong efforts directed towards actively participating in OECD working structures, acceding to new OECD working groups, legal instruments and recommendations and promoting its candidacy to the organization in relation with OECD members and the Secretariat (including in high-level contacts). As a result of all these efforts, Romania's candidacy file was positively appreciated in all recent OECD Council meetings where the subject of enlargement process was discussed and, to our knowledge, Romania is now in a favourable position to be nominated, by an OECD Council decision expected during the fourth quarter of 2017, for receiving an invitation to participate in accession negotiations.

On 23 June 2015, the Romanian Parliament adopted the National Defence Strategy for 2015-2019. Predictability and continuity were adopted as core principles to ensure the strategic credibility in Romania's foreign policy. The strategy includes, *inter alia*, the following national security objectives: consolidation of the Strategic Partnership with the US, strengthening the profile of Romania in NATO and the EU, strengthening co-operation with neighbouring countries and states at NATO's Eastern flank and increasing regional co-operation. Special focus was also placed upon strengthening the economic dimension of Romania's foreign policy and eliminating deadlocks in implementing European programmes. There is full consensus and broad support for this approach from all political parties, as well as from representatives of the academic, media and non-governmental sectors.

Thus, in the field of foreign affairs, the cabinet emphasises in particular that Romania's status as an EU and NATO member state is instrumental to the modernisation of the Romanian society, and to the consolidation and enhanced visibility of Romania's international profile. Romania's effectiveness in its participation in international affairs is predicated on an integrated strategic vision of foreign and security policies.

This should, in turn, be underpinned by an accurate assessment of the risks and opportunities implied by the country's geopolitical position at the external borders of the EU and NATO, including as a priority, a solid and convincing contribution to extending democratic prosperity, security and predictability to its immediately surrounding region, as an integral part of ensuring its own national security, in a regional and international context presently marked by instability.

Romania remains a relative pillar of stability at the NATO and EU frontier, at the crossroads of multiple security challenges for the Euro-Atlantic stability and security. On the Eastern flank of the Euro-Atlantic area and in the proximity of its southern flank, Romania assumed a double responsibility: to strengthen its national defence, by increasing defence spending to 2 per cent. of GDP in 2017, and also to contribute to NATO's adaptation to a challenging security environment generated by the evolutions in the Eastern and Southern neighbourhoods.

Special attention will also be given to the preparations for the anniversary of the Great Centenary in 2018, for a successful mandate at the presidency of the Council of the EU in 2019 and for Romania's candidacy for a non-permanent seat in the UN Security Council for the period 2020-2021, as well as for its ongoing bid for OECD membership, all confirming Romania's specific international status and capacity for contribution.

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

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

Against this background, Romania is interested in NATO remaining a strong and relevant alliance and is determined to fulfil its commitments in this regard. Romania will continue to provide relevant contributions to NATO's policies, operations and missions and will continue to develop its national defence capabilities, in line with its commitment to increase the defence budget to 2 per cent. of the GDP in 2017 and to maintain it at this level for the next 10 years. The presence in Romania of a notable number of allied military personnel and assets contributes to increasing the deterrence and collective defence capability of the NATO.

Beginning in 2017, as part of consolidating its regional and European profile, Romania has placed a special emphasis on promoting and contributing to the further development of the *Three Seas Initiative*, bringing together the countries from the Adriatic, Black Sea and Baltic regions around the strategic objectives of stimulating regional development, and the economic, infrastructure and interconnectivity potential of these areas, to the benefit of the participating countries and of overall EU economic convergence. In line with this, Romania will host the next summit of the *Three Seas Initiative* in 2018.

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

Romania also strongly supports more co-operation and co-ordination between NATO and the EU. Both organisations have a common interest in an open, democratic and secure economic system, fit to meet global challenges. Both organisations are also facing a commonality of threats and challenges and share common objectives on a wide range of issues (e.g. maritime, cyber and energy security, hybrid warfare and strategic communication). Romania is also member of the global coalition against ISIS, together with all members of the EU and NATO.

Romania is particularly well placed, geographically and historically, to perform the role of promoter of Euro-Atlantic values into neighbouring regions. Its wide-ranging expertise can help constructively advance on tackling the arch of instability around the Black Sea, while deepening regional co-operation in order to prevent conflicts by addressing their causes. Against this background, pragmatic and efficient co-operation with NATO allies, EU member states and like-minded partners represents one of the strongest guarantees for a democratic, stable and prosperous Romania. Furthermore, both NATO and the EU are highly trusted in Romania, as they are seen as a community of values, providers of security and prosperity.

The adoption in 2011 of the Joint Declaration on Strategic Partnership for the 21st Century between the United States of America and Romania together with the signature and entry into force of the Agreement between Romania and the United States of America on the Deployment of the U.S. Ballistic Missile Defense (BMD) System in Romania marked a new stage in the development of the bilateral partnership with the USA. The U.S. Aegis Ashore defensive system in Romania was declared operational on 12 May 2016 and afterwards integrated into the NATO BMD capability at the Warsaw Summit, in July 2016, thus becoming a significant contribution to NATO’s collective defence. The strategic partnership between Romania and the United States, in its bilateral and regional dimensions, was reaffirmed by the Presidents of Romania and the U.S. during their meeting in June 2017.

In addition to its strategic partnership with the USA, Romania co-operates similarly with France, Italy, the United Kingdom, Poland, Hungary, Turkey, Bulgaria, Spain, the Republic of Korea and Azerbaijan; it has strong relations with Germany and Austria (especially in the economic and financial fields) and has also established special co-operation frameworks with countries such as China, Japan, and Israel. Romania’s goal is to continuously substantiate and ensure the development of all these relationships. Moreover, Romania maintains and develops pragmatic co-operative relationships with all its, and the EU’s, neighbouring states.

Romania maintains good neighbourly relationships with the Republic of Moldova and Ukraine and develops its co-operation both on a bilateral dimension and as an EU member state. Romania supports strongly their political association and economic integration with the EU, with a view to creating a secure, stable and prosperous area at the EU’s Eastern borders. In this sense, the full entrance into force of the EU – Ukraine Association Agreement on 1 September 2017 is a reference moment. Romania offers financial and technical assistance to the Republic of Moldova and Ukraine to support the reform process and institution building and co-operating in a wide range of fields. Romania also supports the Republic of Moldova financially by way of a reimbursable loan in an amount of EUR 150 million. On 6 May 2016, the President of Romania promulgated Law No. 91/2016 ratifying the agreement concluded with the Republic of Moldova in respect of this loan and the law was published in the Official Gazette No. 360 dated 11 May 2016. The first instalment was advanced in August 2016, subject to certain prerequisite conditions and measures. Following the Republic of Moldova’s Agreement with the IMF, on 27 February 2017, Romania has advanced the second instalment of EUR 50 million. As regards the third instalment – EUR 40 million – the procedures are ongoing, taking into consideration the fact that the bilateral agreement will expire at the end of 2017 and the latest IMF evaluation on the reform of the financial system in the Republic of Moldova was positive.

Romania also intends to expand its economic connections and trade and investment relations with partners from all over the world, such as Brazil, countries from North Africa, South-East Asia, Middle East, Gulf area and the South Caucasus. Along this line, Romania has established, since March 2013, a form of privileged co-operation with India. At the same time, the official visit of the Chinese Prime Minister to Bucharest in November 2013 signalled the intention of both sides to strengthen the bi-lateral political and economic relationships between Romania and China. The Romanian Prime Minister paid a return visit to China in 2014, followed by a visit to China by the Deputy Prime Minister in charge of economic affairs in 2015. These contacts further stimulated Romanian-Chinese economic co-operation, bringing progress to projects in the fields of energy, transport infrastructure, agriculture and information technology.

While the Russian Federation represents an important trade partner, mainly as an energy resources supplier, Romania fully complies with its international obligations to implement the restrictive measures imposed in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

Over the last 20 years, Romania's accession to the Organization for Economic Cooperation and Development (OECD) has been at the top of the foreign policy agenda, enjoying wide support across Romanian society – from governmental stakeholders to business communities and civil society. Romania officially presented its candidacy to OECD in April 2004, November 2012 and February 2017. Accession to the OECD is seen not as a goal "*per se*", but as a means to drive the overall domestic reform agenda. OECD membership would be a natural progression following NATO and EU accession in 2004 and 2007, respectively. According to the technical criteria recently endorsed by the OECD Ministerial Conference in June 2017 to evaluate membership applicants, Romania is a good performer and has an excellent track-record of cooperation with the organisation in a wide range of domains. Romania is a participant in 12 OECD bodies, an associate in another 10 bodies and projects, an invitee in over 20 work formats, adhered to 35 OECD legal instruments and made voluntary contributions of EUR 2.8 million in grants (since 2007). Inter-ministerial meetings to co-ordinate national engagement with OECD took place in Romania as early as 2010, under the guidance of the Ministry for Foreign Affairs. On 1 September 2016, an Inter-ministerial Committee for Romania's relations with OECD was formally established within the General Secretariat of the Government. Around 30 ministries and agencies participate in the Inter-ministerial Committee which is chaired by a State Secretary nominated by the Prime-Minister as the Government's Representative for OECD affairs.

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

As at 31 July 2017, the aggregate outstanding value of the public portfolios of the World Bank, EIB, EBRD, CEB and the Japan Bank for International Cooperation ("**JBIC**") in Romania was EUR 7,543 million, consisting of sovereign loans and guarantees mainly for the financing of public projects in the infrastructure and social sectors. As at 31 July 2017, the EIB, the International Finance Corporation ("**IFC**") and EBRD's aggregate contributions to private sector and local authorities financing have amounted to approximately EUR 386.4 million, representing nine new projects, according to no objection letters issued by the Ministry of Public Finance. Also, in June 2017, the IFC issued a RON 70 million bond as a private placement, the first issuance in Romanian lei under the IFC's Global Medium Term Note Programme for financing the private sector.

In December 2014, the European Commission launched the Investment Plan for Europe ("**IPE**"), and on 1 July 2015, Regulation 2015/1017 of 25 June 2015 on the European Fund for Strategic Investments ("**EFSI**"), the European Investment Advisory Hub ("**EIAH**") and the European Investment Project Portal ("**EIPP**") was approved. EIAH was launched on 1 September 2015 and EIPP was launched on 1 June 2016, together with the European Commission's proposal to extend EFSI in time. As resolved by the European Council on 28 June 2016, the European Commission published its revised proposal for the second phase of EFSI on 14 September

2016 and the ECOFIN Council reached general agreement on the revised EFSI Regulation in its December 2016 meeting. Several EIB Group operations with financial institutions were signed in 2016 under EFSI (both under the Infrastructure and Innovation Window, implemented by the EIB, and the SME Window, implemented by the European Investment Fund), aiming at enhancing access to finance for SMEs. Furthermore, Romania is participating in dialogue at the EU level regarding the IPE and the future of the EFSI[4], implemented by the EIB.

The EBRD is expected to continue its policy dialogue with the Romanian authorities and in co-operation with relevant institutions to further develop the Romanian capital markets under the Local Currency and Capital Market Development Initiative, a programme developed by the EBRD. The main initiatives are: (i) creating a more local currency-friendly regulatory and monetary policy environment; (ii) improving the related implementing legislation; and (iii) streamlining, but not diminishing, the private pension pillar. The EBRD also supports investments in private sector renewable generation to promote competition and to help Romania meet its EU 2020 targets. Under these targets, Romania is required to increase its share of renewable energy to 38 per cent. of total electrical energy production, including from large hydro-electric plants. In 2016, renewable energy provided 42 per cent. of Romania's national electricity production.

In June and July 2016, the Romanian Government signed two sovereign loans in an aggregate amount of EUR 660 million with the EIB and in July 2017 a new loan in an amount of EUR 1 billion in order to cover the state budget contribution to several OPs under the 2014 – 2020 programming period. Three EIB loans with financial institutions were signed in 2016 under EFSI, aiming at enhancing access to finance for small and medium-sized enterprises ("**SMEs**").

Romania is a founding member of the BSTDB, the financing arm of the Black Sea Economic Cooperation. Since it started operations in 1999, the BSTDB has financed over 30 projects in Romania (of which only one had a state guarantee), amounting to approximately EUR 345 million as of June 2017.

Membership in the European Union

Overview

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

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

Romania supports the advancement of the European project, centred on major priorities such as economic growth, jobs, cohesion, stimulating investments, energy security and consolidation of the EU as a global actor,

[4] COM (2016) 359 final and COM (2016) 581 final.

through its active involvement in, and contributions to, the debates at the level of the European Council, the Council of the European Union, as well as within other European formats, where appropriate.

There is no comprehensive EU assessment of the impact of the exit of the United Kingdom of Great Britain and Northern Ireland from the EU. An exit of the United Kingdom of Great Britain and Northern Ireland from the EU would entail a very complex and multi-layered process and the extent of its effects are difficult to estimate. However, it may be expected that such an exit would affect all member states, the EU as a whole, as well as its future economic prospects. From an institutional perspective, if such an exit were to happen, it may be expected that a complicated process of negotiations (similar to that of EU integration) will take longer than foreseen in the Treaty for the European Union. There is additional uncertainty, including in respect of the social, economic, financial or security areas. While negotiations on the terms of the UK's exit are underway, the ultimate outcome remains uncertain.

Following the official start of the negotiations in June 2017, Romania, as part of the EU27, aims for an orderly and predictable withdrawal process, setting the conditions for a future agreement between the EU and the UK. Romania fully supports the mandate given to the Chief-negotiator, Michel Barnier, as well as the principles agreed at the European Council level that will govern the process of negotiations. The main premise for Romania is that, until the withdrawal negotiations are over, UK remains an EU Member State, with all deriving rights and obligations, according to EU law. In negotiations, Romania's main objective is to minimise the potential negative effects caused by the UK's decision to leave the EU on Romanian citizens living, working and studying in the UK as well as on the overall EU budget.

Romania supports a close partnership between the EU and the UK following the Brexit vote that will provide the opportunity to continue and extend co-operation in areas of common interest, such as defence, security and external policy. In addition, Romania and the UK have a strategic partnership setting the frame for our future co-operation.

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

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

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

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

Romania has fulfilled the necessary criteria to become a full member of the Schengen area since 2012 and continues to actively participate in the implementation of the new security measures at EU level. Romania has welcomed the renewed appeal of President Juncker in his speech on the State of the Union concerning the need for Romania and Bulgaria to immediately become full members of the Schengen area, as a necessary measure for strengthening the EU's external borders. Joining the Schengen area remains a major political objective for

Romania and Romania will continue to work closely with all EU Member States to achieve the common goal of strengthening EU internal security.

Romania participated in an active manner in the negotiation process for the establishment of the necessary instruments designed to ensure the European banking system supervision resolution mechanisms. It also takes part in the discussions aiming at completing the EU banking union. In May 2014, Romania signed the intergovernmental agreement on the transfer and mutualisation of contributions to the Single Resolution Fund and in November 2016 adopted the law for the ratification of this agreement.

Romania supports the ongoing processes of further consolidating the Economic and Monetary Union ("**EMU**"), within the boundaries of the European Treaties, as part of a policy aimed at stimulating economic growth through stronger governance of the Eurozone, as well as maintaining transparency and openness towards non-euro states. Romania actively participated in the efforts to consolidate the Economic and Monetary Union and to create mechanisms for early warning and addressing future economic or financial crisis phenomena at the Eurozone and EU levels. Romania supported the setting-up of a reformed economic governance framework that takes into account and adequately involves the non-euro Member States. Romania also participated in the intergovernmental initiatives aiming at further strengthening the economic co-operation/co-ordination. Taking into account the country's goal of adopting the single currency, Romania supports an inclusive approach within the EMU consolidation process, which will not create new barriers to joining the euro area. This process should be designed within the existing framework of the EU institutions' competencies without creating new bodies or institutional structures which could render the European decision-making process more difficult. Romania supports an inclusive and transparent approach with regard to the non-Euro Member States in further advancing the consolidation of the EMU, without creating new barriers to joining the euro area.

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

Energy and climate change are two of the main priority areas for Romania. In this respect, in 2014, Romania supported the adoption of the 2030 Climate and Energy Framework, in view of ensuring instruments and mechanisms aimed at making the EU's economy and energy system more competitive, secure and sustainable, while maintaining the right balance between the new ambitious commitments in the field and the need to preserve the competitiveness of the European industry. The EU's 2030 Climate and Energy Framework and its future legislation for implementation is essential in demonstrating the EU`s commitment for achieving the goal of the Paris Agreement.

The target to reduce overall EU greenhouse gas emissions by at least 40 per cent. below 1990 levels by 2030 must be achieved by the sectors covered by the EU emissions trading system (EU ETS) which will have to reduce their emissions by 43 per cent. compared to 2005 while non-ETS sectors will have to reduce their emissions by 30 per cent. compared to 2005. In July 2015, the European Commission launched its Directive proposal to reform the EU ETS to enhance cost-effective emissions reductions and low carbon investment. In July 2016 the European Commission presented the non-ETS package, including legislative proposals which continue the implementation of 2030 Climate and Energy Framework, namely on burden-sharing between the Member States for non-ETS sectors (transport, construction and agriculture), the decarbonisation of the transport sector and on land-use and forestry.

The Paris Agreement entered into force on 4 November 2016. Now the EU must deliver its part and also ratify the Agreement; at the same time, the ratification process will be completed by each Member State individually.

Romania completed the national process of ratification of the Paris Agreement and deposited the instrument of ratification to the UN secretariat in June 2017.

With regard to the energy field, on 25 February 2015, the European Commission released the communication "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy" which provides guidelines necessary for the long-term transformation of the European energy system and revision of EU energy policy. The first State of the Energy Union Report of 18 November 2015 highlighted the issues where further attention is needed in order to continue building the Energy Union and brought together a series of Commission reports and initiatives in an integrated way.

On 16 February 2016, the European Commission presented the energy security package, which aims to strengthen energy security in EU, including through measures addressing possible energy supply interruptions. The package sets out a wide range of measures to strengthen the EU's resilience to gas supply disruptions. These measures include moderating energy demand, increasing energy production in Europe (including from renewables), further developing a well-functioning and fully integrated internal energy market, as well as diversification of energy sources, suppliers and routes. Further, the proposals aim to bring more transparency to the European energy market and create more solidarity between the Member States.

On 30 November 2016, the European Commission launched the Clean Energy package ("**The Clean Energy for All Europeans**"), which aims to reform the energy market while supporting the transition to clean energy. The proposals cover energy efficiency, renewable energy, the design of the electricity market, security of electricity supply and governance rules for the Energy Union. In addition, the Commission proposes a new way forward for eco-design, as well as a strategy for connected and automated mobility. The package also includes actions to accelerate clean energy innovation and to renovate Europe's buildings. It provides measures to encourage public and private investment, promote EU industrial competitiveness and mitigate the societal impact of the clean energy transition. The aim of the European Commission is to finalise the negotiations on the legislative proposals by the end of 2017.

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

Furthermore, Romania believes that there is still room for strengthening the energy security of South-East Europe. In this respect, it believes that an increased dialogue among the actors in the region on the development of national energy policies will eventually deliver political and financial support for strategic energy projects, creating a more integrated energy market and producing energy at affordable prices for consumers in a safe and sustainable way within a good regulatory framework. In addition, any new initiative aimed at significantly influencing the present energy security paradigm in the region must be developed in close co-operation with the European Commission, so as to take into account the interests of all parties involved and to ensure compliance with EU law, respect for the solidarity principle and attention to market competitiveness.

In particular, in addition to offshore explorations for gas in the Black Sea, Romania is actively promoting the project known as "BRUA", which aims to interconnect Bulgaria, Romania, Hungary and Austria. The BRUA project is an essential element of the Vertical Corridor, integrating the Greek and Bulgarian energy markets with the Hungarian and Austrian ones. This project aims to ensure diversification of gas supply sources away from the Russian Federation, to enhance security of energy supply for Romania, Southeastern Europe and Central Europe. Following discussions with the European Commission, it was decided within the Central and South Eastern Europe Gas Connectivity ("**CESEC**") the staging of the project and its achievement in two phases. After the implementation of Phase I, 1.75 bcm/year transmission capacity will be ensured at the interconnection between Romania and Hungary, and 1.5 bcm/year on the interconnection between Romania and Bulgaria. Phase II involves the increasing of the transmission capacity in the Romania – Hungary direction up to 4.4 bcm/year. BRUA Phase I was included by CESEC in the list of priority projects for the region, BRUA Phase II was included in the list of conditional projects and, after the confirmation of the Black Sea gas sources, will be included in the priority list. Both projects are included in the second list of the PCIs and were proposed for list 3. BRUA is progressing according to its timetable (with construction works expected to start in the first part of 2018, Phase I planned to be finalised in December 2019 and Phase II in 2020). Moreover, due to Romania's consistent efforts, BRUA Phase I has also been confirmed as eligible for accessing EU financing through the Connecting Europe Facility ("**CEF**") instrument as a European project of common interest (PCI). On 19 January 2016, the EU allocated EUR 179.3 million to finance the Phase I of the project proposed by Transgaz, the Romanian transmission system operator, as part of BRUA. On 9 September 2016, Transgaz signed the agreement on accessing the grant worth EUR 179 million, part of the Connecting Europe Facility, funding BRUA's works on Romanian territory. On 19 July 2017, a Memorandum of Understanding was signed by the transmission system operators from Romania (Transgaz), Greece (DESFA), Bulgaria (Bulgartransgaz) and Hungary (FGSZ), along with the consortium operating the GR-BG interconnector (ICGB) for the construction of the Vertical Corridor.

At the end of July 2017, Romanian stakeholder in BRUA (Transgaz) received the Hungarian counterpart (FGSZ)'s letter announcing their decision to cancel the Romania-Hungary-Austria open season procedure and the proposal to launch a similar process only for the Romanian-Hungarian interconnection point, at this time, considering the economic stability and feasibility of the project. Due to the very limited timeframe for the approval and in order not to jeopardise the original start of commercial operations on 1 October 2022, the Romanian relevant authorities approved, under an urgency procedure, the standalone Romania-Hungary project.

This decision was taken in consultation and with the full support of the EU Commission and trying to preserve the interests of the Black Sea developers. Romania has also been informed by the EU Commission that the dialogue between Hungary and Austria continues, at technical level, in order to resolve the current issues.

Additional discussion and negotiations between the companies involved and at the level of EU regarding the allocation of the quantities related to the second phase of development are needed. The Phase II implies the increase of directional capacity from 1.75 billion c.m to 4.4 billion c.m. at the Romanian-Hungarian border, beginning in 2022, and the distribution of the gas volumes to the regional market.

Transgaz is in ongoing dialogue with all the other stakeholders in the project and is fully committed to taking all required actions to successfully perform this project of particular relevance to the European and regional gas market. On a wider perspective, Romania maintains a strong commitment for gas market integration. Once completed, BRUA will significantly add to the energy security of the entire region.

Cases before the Court of Justice of the European Union

There are currently 58 infringement procedures against Romania, out of which 57 are in the pre-litigation phase and one is in the litigation phase (case C-301/17).

C-104/15 – Directive 2006/21/CE on the management of waste from extractive

On 14 July 2017, the Romanian authorities received a letter of formal notice from the European Commission in case 2012/2182. This case regards Romania's alleged failure to comply with the Court of Justice of the EU ("**Court**") judgment in case C-104/15, the European Commission vs. Romania.

In the judgment of 21 July 2016 in case C-104/15, the Court found that Romania had not fulfilled its obligations deriving from articles 4 and 13 paragraph (2) of Directive 2006/21/CE on the management of waste from extractive industries and amending Directive 2004/35/EC. More precisely, Romania had failed to take the adequate measures to prevent pollution with dust emerging from the surface of the Boşneag-extension pond, which belongs to a bankrupt company named S.C. Moldomin S.A.

Romania had an initial two-month deadline to reply to the letter of formal notice, which was extended by a further two months to 14 November 2017.

If Romania does not comply until the deadline for its reply to the letter of formal notice, it is likely that the European Commission will decide to initiate proceedings before the Court of Justice and request that penalties (lump sum and penalty payments) be applied to Romania for its misconduct (the application of such penalties and their amount is in the sole competence of the Court of Justice).

The average duration of a direct action before the Court of Justice was 19.3 months in 2016, according to the 2016 CJEU Annual Report-Judicial Activity.

Given that a breach of EU Law by Romania has already been established, it is likely that proceedings in this case will have a shorter duration.

C-301/17 – Directive 1993/31/EC on the landfill of waste

On 30 May 2017, the Romanian authorities received the application initiating Court proceedings (the litigation phase) in case C-301/17, the European Commission vs. Romania.

The case regards Romania's alleged breach of its obligations under Article 14(b) in conjunction with Article 13 of Directive 1999/31/EC on the landfill of waste. According to the Commission, Romania has failed to comply with the obligation to adopt all measures necessary in order to close down as soon as possible, under Articles 7(g) and 13 of that directive, 68 landfill sites.

Court proceedings are in the written phase and Romania lodged its defence on the 8 September 2017.

Even if, by its judgment in this case, the Court shall find that Romania has failed to fulfil its obligations deriving from EU law, it will not impose financial penalties.

If case C-301/17 is decided against Romania and the Commission will consider that the necessary measures to comply with the judgment have not been taken, it may initiate proceedings against the Romania, according to Article 260(2) of the Treaty on the Functioning of the EU.

The proceedings regarding failure to comply with a judgment would consist of a one-stage pre-litigation phase (letter of formal notice) and the litigation stage.

At this point in the procedure, the European Commission could request the Court of Justice to apply penalties (lump sum and penalty payments) to Romania for its misconduct (the application of such penalties and their amount is in the sole competence of the Court of Justice).

Case 2015/2153 – Directive 2008/98/CE on Waste

On 24 April 2017, the European Commission has taken the decision to initiate proceedings against Romania before the CJEU (i.e. to initiate the litigation phase) regarding case 2015/2153.

According to the Commission, Romania has failed to fulfil its obligations under Articles 28(1), 29(1), 30(1) and 33(1) of Directive 2008/98/CE on Waste, because it has not adopted a new National Waste Management Plan and a Waste Prevention Programme.

However, an application to that end has not yet been received by the Romanian authorities.

If the Commission lodges an application, the procedural stages would be the same as the ones described for case C-301/17.

Transposition of the EU Directive regarding sulphur content of marine fuels

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

In December 2014, the European Commission launched the Investment Plan for Europe, and on 1 July 2015, Regulation 2015/1017 of 25 June 2015 on the European Fund for Strategic Investments ("**EFSI**"), the European Investment Advisory Hub ("**EIAH**") and the European Investment Project Portal ("**EIPP**") was approved. EIAH was launched on 1 September 2015 and EIPP was launched on 1 June 2016, together with the European Commission's proposal to extend EFSI in time. As resolved by the European Council on 28 June 2016, the European Commission published its revised proposal for the second phase of EFSI on 14 September 2016 and the ECOFIN Council reached general agreement on the revised EFSI Regulation in its December 2016 meeting. Several EIB Group operations with financial institutions were signed in 2016 under EFSI (both under the Infrastructure and Innovation Window, implemented by the EIB, and the SME Window, implemented by the European Investment Fund), aiming at enhancing access to finance for SMEs.

EU Funding

Pre-accession Funds

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

Post-accession Funds

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

Structural and Cohesion Funds

Overview

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

For the 2014-2020 programming period, EUR 43 billion have been allocated to Romania, according to the Multiannual Financial Framework. Out of this amount, the allocation for European Structural and Investment Funds (ESIF) is EUR 31 billion. The allocation for the Cohesion Policy, which is financed under ESIF, is EUR 23 billion.

In 2014, the authority over the current managing authorities for the SOP Human Resources and the SOP Competitiveness was transferred to the Ministry of European Funds, with a view to meeting the requirements of the management and control system set up for the 2014 to 2020 programming period, while also attempting to solve the difficulties encountered by the two managing authorities during the 2007 to 2013 programming period. In December 2014, the Ministry of European Funds took over the management of the SOP Environment and Transport as well. The structure of the Ministry of European Funds was also revised for the 2014 to 2020 programming period to include managing authorities for the Large Infrastructure SOP, the Competitiveness SOP, the Human Capital SOP and the Technical Assistance SOP. The Large Infrastructure SOP includes in one single programme three major sectors, namely transport, environment and energy.

Following the parliamentary elections held on 11 December 2016, the coordination of the 2007-2013 structural instruments and 2014-2020 European structural and investment funds ("**ESIF**") has been consolidated into the Ministry for Regional Development, Public Administration and European Funds ("**MRDPAEF**"). This was intended to leverage the impact of these instruments, align their objectives to the national priorities and contribute to the overall development of regions.

The MRDPAEF now oversees all management authorities ("**MAs**") for the Cohesion Policy under a single entity with the aim of stronger coordination.

This new approach, based on concentration and centralisation, is expected to lead to improvements in the management and overall coordination of the funds' implementation.

Allocations and Absorption of the EU Structural and Cohesion Funds 2007-2013 as at 1 September 2017

The European Commission allocates specific amounts of funds to each of the seven OP. The overall allocation for Romania under the EU Structural and Cohesion Funds in the 2007–2013 programming period was EUR

19.51 billion, of which EUR 12.53 billion represented structural funds (i.e. ERDF and ESF), EUR 6.52 billion was allocated under the Cohesion Fund and the balance of EUR 0.46 billion was allocated under the European Territorial Cooperation Objective (financed by the ERDF, this objective supports cross-border, transnational and interregional co-operation programmes). National co-financing for the period 2007-2013, as required by the grants, was approximately EUR 5.6 billion. For the 2007-2013 programming period, the eligibility period ended on 31 December 2015, with the programmes closing in 2017. According to EU regulations, by 31 March 2017, the Member States submitted to the European Commission the final declaration of payments and other relevant documents for closure of the programming period. Romanian authorities submitted the final declarations of payments to the European Commission for all the operational programmes in a timely manner. Based on the final balances the absorption rate reached approximately 89 per cent. of the EU allocation.

As at 1 September 2017, the value of the projects for which application has been made for financial assistance under the EU Structural and Cohesion Funds was EUR 53.3 billion (more than 2.7 times the value of the EU funds budget allocated to Romania during the programming period). The number of contracts with beneficiaries signed as at 1 September 2017 was 15,587, totalling an eligible amount of EUR 24.5 billion (of which EUR 19.2 billion EU contribution), representing 102.41 per cent. of the EUR 18.78 billion allocation under EU Structural and Cohesion Funds (under the Convergence objective) for the 2007–2013 programming period.

The total payments to beneficiaries (including pre-financing and reimbursements) amounted to EUR 16.97 billion at 1 September 2017, consisting of the amounts actually paid to Romanian beneficiaries by the Romanian EU funds management authorities, and including EU funding (EUR 12.84 billion) and national co-financing (EUR 1.92 billion). As at 1 September 2017, the total amount received from the EU by Romania under the 2007-2013 fund allocation was EUR 16.99 billion, of which EUR 2.11 billion represented pre-financing payments, while EUR 14.88 billion represented actual reimbursements made by the EU. This corresponds to an actual 79.23 per cent. absorption rate (computed using the level of actual reimbursements made by the European Commission as a percentage of the total amount of Structural and Cohesion Funds allocated for the 2007-2013 programming period).

Following the submission of the final applications for payment in 2017, the total amount requested from the European Commission is EUR 16.73 billion, which corresponds to approx. 89 per cent. of the EU allocation for 2007 – 2013 programming period.

Decommitment rule

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

2007 – 2013

Romania may not claim reimbursement of the decommitted amounts; the decommitment of funds, in principle, does not refer to recovery by the EU of any amounts already paid to Romania. Romania lost in 2012, as a result of automatic decommitment, EUR 155 million from the funds allocated to the OP for transport and competitiveness. In 2013, in order to reduce the risk of automatic decommitment of funds from the 2007-2013 programming period for Romania and Slovakia, the decommitment deadlines applicable in respect of the two Member States for funds allocated in 2011 and 2012 were extended by one year, until the end of 2014 and 2015, respectively. The end date for eligibility of expenditure for the programming period remained unchanged at 31 December 2015. The measure was approved by the European Parliament on 20 November 2013, and as a result of application of this rule, Romania absorbed, in 2013 and 2014, all the allocated Structural and Cohesion Funds that had been at risk of decommitment and, consequently, no Structural and Cohesion Funds were decommitted in 2013 and 2014. It is estimated that approximately EUR 94 million from the funds allocated for 2012 to the operational programme for human resources development will be automatically decommitted. Taking into account the procedure to be followed in case of automatic decommitment, the final decision regarding decommitment of funds relating to 2012 is expected from the European Commission during 2016.

For the 2007-2013 programming period, 31 December 2015 was the end of the eligibility period, but the programmes will be closed in 2017. According to the EU regulations, by 31 March 2017 the Member States had to submit to the Commission the final declaration of payments and other relevant documents for closure. Consequently, the final outcome of the absorption for the 2007-2013 can be set only after the acceptance of the closure documents by the European Commission. Allocations that are decommitted will be permanently lost.

In 2016 the procedure applicable in case of automatic decommitment was finalised and the allocation of Human Resources Development OP was decommitted with EUR 276 million.

The decommitments for the 2007-2013 programmes amounted to approx. EUR 431 million.

According to EU regulations and guidelines for closure, the commitments that remained open on 31 December 2015 shall be automatically decommitted, if the European Commission has not received an acceptable application for payment in respect of such commitments by 31 March 2017. Consequently, the final decommitment of funds for the 2007-2013 programmes is expected to occur after the acceptance by the European Commission of the documents for closure and the balance of the final payment.

2014 – 2020

The "n+3 rule" is applied in the new 2014-2020 programming period, which in contrast to the previous programming period applies to the entire period, with the aim of significantly reducing the automatic decommitment thresholds. All the operational programmes ("**OP**") were adopted by mid-2015, except for the OP "SMEs Initiative" for which the decision on the elaboration of this distinct programme was adopted later in 2016.

The decommitment shall be applied for the first time, at the end of 2017, but only for the OPs adopted by the EC at the end of 2014 (OP Competitiveness, OP Technical Assistance, OP "European Aid for Most Deprived"). Based on estimates made by Romanian authorities on the payment applications that will be sent to EC in 2017, there is not expected to be any risk of decommitment for these OPs. Based on the estimations (officially submitted to EC) of the payment applications that will be sent to EC until the end of 2017, there is no risk of decommitment for these OPs.

The OPs adopted in 2015 (OP Large Infrastructure, OP Human Capital, OP Administrative Capacity and OP Regional) will benefit from the "carry-over" procedure by which the 2014 commitments are carried over to 2015, with decommitment at the end of 2018. The OP "SMEs Initiative" will be subject to decommission procedure at the end of 2019.

Low absorption rates and ameliorative measures

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

According to the "National Strategic Report for the Implementation of the Structural and Cohesion Funds", prepared by the Romanian authorities in 2009, the initial challenges to the absorption of EU funds in Romania started with the beneficiaries' difficulties in preparing projects (due mainly to a lack of experience in project elaboration, but also to heavy documentation requirements and limited technical assistance). Absorption of EU funds in Romania was also hampered by excessive time taken up by project appraisals, selection and contracting of and long-lasting administrative procedures, the limited administrative capacity and a lack of discipline on the part of the beneficiaries, resulting in poor observance of procedural deadlines or submissions of incomplete information and documentation to the managing authorities. Significant delays in project implementation result from difficulties in conducting public procurement procedures, owing to poor administrative resources and capacity and to repeated challenges to public procurement procedures. Public procurement procedures are often subject to challenge.

On 26 May 2016, the new public procurement laws (public procurement, concession, utilities and remedies) entered into force, transposing into Romanian legislation the EU public procurement Directives. In June 2016, the Romanian Government approved the methodological norms for the application of the public procurement and utilities laws and in November 2016, the methodological norms for the application of the concession law. The legislation aims to create a modern legal framework that responds to challenges and problems identified in implementing the relevant legislation, and which supports consistent interpretations and avoid uncertainties in practice.

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

Funding under the Structural and Cohesion Funds for a number of OP had been pre-suspended during the 2007 to 2013 programming period, and financial corrections were applied in respect of expenditures under certain OP. 2013 and 2014 were difficult years for the Romanian authorities involved in the management of EU funds as they worked to overcome the issues identified in the 2009 report, but the absorption rate of EU structural and Cohesion Funds allocated for the 2007 to 2013 programming period, computed by reference to amounts requested from the European Commission, significantly increased from 33.48 per cent. at the end of 2013 to approximately 52 per cent. at the end of 2014 and 89 per cent. at the end of March 2017.

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

- Strengthening and improving the monitoring at the level of large infrastructure projects in order to speed up their implementation.
- Identification of potential reimbursement claims of alternative projects focusing on identifying similar national infrastructure programmes to projects initially identified as fund recipients. Active promotion of the alternative use of EU funds is to be ensured by the Government at the level of local authorities and county councils as a result of the introduction of an additional allocation to local budgets which is conditioned upon the use of EU funds.
- Extending the use of project savings from the allocation of funds towards private beneficiaries involved in the project.
- Further reallocation among the priority goals of various programmes, in order to accommodate new investments for projects which are already partially implemented and identified and can therefore ensure rapid reimbursement from the European Commission. Some of these investments are to be promoted as

phased projects, especially for infrastructure. In this regard, SOP Environment is analysing the proposal to reallocate CF funds towards flood prevention/protection measures.

- Increase the administrative capacity of programming departments through the use of European Investment Bank expertise or other technical assistance expertise in order to accommodate both the pressure for assessing new projects to be promoted under the 2014 to 2020 programmes and the preparation of the new generation of projects under the 2014-2020 programming period. The programming directorates for OP Large Infrastructure were reinforced in order to cover the assessment of the new projects proposed for financing under EU funds.
- Extending the categories of eligible expenditures, thus allowing the reimbursement for expenditure already realised under the approved projects (mainly on works, e.g. expenditure incurred by the beneficiaries on their own expenses, without works contracts).
- Phasing of projects – identify under which programming period the expenditure could be declared as only certain projects are eligible for financing in both the 2007-2013 and the 2014-2020 programming periods

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

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

These actions were transposed in a priority action plan ("**PAP**") that has been officially agreed between the Romanian Minister of the European Funds and the EU Commissioner for Regional Policy. The PAP's measures are permanently monitored and the status of implementation is periodically discussed with the European Commission. The PAP is constantly updated based on the new measures that are needed in order to speed up the implementation of OP. The objectives of the PAP comprise avoiding a substantial de-commitment of funds, creating the pre-requisites for maximisation of the absorption rate at the closure of the 2007-2013 programming period, and ensuring the proper start of the 2014-2020 programming exercise.

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

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

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

Funds under the 2014-2020 programming period

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

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

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

Another important tool of the performance monitoring framework is the use of ex-ante conditionalities to ensure the conditions for effective cohesion policy investments at the start of OP reflecting, at the same time, the predictability of national sectorial policies. Member States must fulfil the ex-ante conditionalities and report on their fulfilment no later than in the annual implementation report or the progress report for 2017 in accordance with EC Regulation no 1303/2013. Failure to complete actions necessary in order to fulfil the ex-ante conditionalities constitutes a ground for suspending interim payments by the European Commission to the priorities of the programme or programmes that are affected by the unfulfilled ex-ante conditionalities. At present, 29 ex-ante conditionalities for the 2014 to 2020 programming period have been fulfilled already and six were reported to the Commission as fulfilled. One ex-ante conditionality, related to the waste sector, is not fulfilled and Romania adopted a strict action plan in order to fulfil it by the end of 2017.

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

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

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

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

In accordance with the Partnership Agreement, Romania's development in the 2014-2020 programming period is sustained through ESIF support in intervention areas that have major impact, such as: sustainable transport and removing bottlenecks in key network infrastructures (EUR 6.1 billion); competitiveness of SMEs (EUR 3.1 billion), access to, and use and quality of, information and communication technology (0.5 billion euro) and technological development and innovation (EUR 1 billion). In addition, EUR 0.8 billion will be spent on improving governance at the level of central and local public authorities.

For 2014-2020, Romania has available financing of over EUR 43 billion in accordance with the Multiannual Financial Framework for 2014-2020, allocated as follows: Cohesion Policy – approximately EUR 23 billion (out of which EUR 480 million for the European Territorial Cooperation programmes); Connecting Europe Facility – EUR 1.24 billion; Common Agricultural Policy – EUR 20.66 billion, (out of which EUR 12.39 billion were allocated under EAGF for direct payments,); European Maritime and Fisheries Fund – EUR 168 million and Fund for European Aid to the Most Deprived – EUR 441 million. The eligibility period for the 2014-2020 programmes is between 1 January 2014 and 31 December 2023. Expenditure is eligible for a contribution from the ESI Funds only if it has been incurred by a beneficiary and paid within this period.

Designation/implementation process

The designation of the structures involved in management and control systems of the 2014-2020 OP was fully acknowledged and assumed by Romanian authorities and the necessary documents were submitted to the Audit Authority in April 2017.

The Romanian managing and certifying authorities for the OP financed through the 2014-2020 period were officially designated based on the necessary measures implementation and IT dedicated system development, European Commission being informed accordingly.

In accordance with the EC regulations, after the official designation of authorities involved in the management and control systems, Romanian authorities started to submit payment applications to reimburse the eligible expenditures declared by the beneficiaries.

Even where Romania could not submit applications for payment to EC, the implementation process at national level has started. All the Management Authorities started the implementation of OP by launching, in public consultation, guidelines for applicants on different investment priorities, and subsequently calls for proposals.

To date, for the programmes financed under ESIF, excluding the agriculture sector, over 66 per cent. of the corresponding allocation has been launched. It is estimated that by the end of 2017, over 90 per cent. of the total allocation will be launched.

Applicants have already submitted projects which are under different stages of evaluation/contracting/implementation. MAs have signed 965 financing contracts, in total amount of approximately EUR 5.4 billion, representing approximately 19 per cent. of the total EU allocation.

The main measures envisaged by MRDPAEF for the improvement of absorption of ESIF are the following:

- strengthening the monitoring of large infrastructure projects in order to closely follow the implementation, detect bottlenecks and identify corrective measures;
- speeding up of the evaluation process by all MAs, observing the procedural time limits for assessment, selection and contracting, as well as analysing the possibility to reduce some of them. Also, the process of 2014-2020 OP implementation must be transparent and fair in the use of funds;

- using the technical assistance provided by IFIs in order to improve the process of ESIF management;
- an integrated approach of informing the public and the potential beneficiaries regarding the financing opportunities provided by ESIF;
- a plan for the training of the staff involved in the management system, based on identified training needs;
- ensuring necessary funds from other sources, if needed, so that the beneficiaries could be paid despite certain delays in the reimbursement of funds by the European Commission.

Agriculture related Financial Assistance

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

The European Agricultural Guarantee Fund ("**EAGF**") finances direct payments to farmers and implements measures to regulate the agricultural markets, for example through intervention and export refunds. The purpose of the European Fisheries Fund ("**EFF**") is to grant financial support to ensure the conservation and sustainable use of marine resources. For financial details regarding the use of these funds by Romania, please see the table titled "*Evolution of financial flows between Romania and the European Union as of 31 July 2017*" under "—*Membership in the European Union*".

Funds under the 2007-2013 programming period

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

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

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

Funds under the 2014-2020 programming period

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

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

The following table shows the evolution of financial flows between Romania and the European Union as of 31 July 2017 under the Multiannual Financial Framework ("**MFF**"), *i.e.* the amounts received from MFF 2007-2013 and MFF 2014-2020, the amounts paid to the EU during 2007-2017 and the balance of the MFF 2007-2013 and MFF 2014-2020. The MFF establishes the maximum annual amounts which the EU may spend in different political fields and it provides a budgetary discipline by ensuring that EU spending is predictable and stays within the agreed limits.

Evolution of financial flows between Romania and the European Union as of 31 July 2017

Net Financial Balance

Amounts received from MFF 2007-2013

Name	Realised 2007	Realised 2008	Realised 2009	Realised 2010	Realised 2011	Realised 2012	Realised 2013	Realised 2014	Realised 2015	Realised 2016	Realised 2017 (execution as of 31 July 2017)	Realised 2007-2017 (execution as of 31 July 2017)
						(mil euro)						
I. AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)	1,599.71	2,642.34	2,930.24	2,293.63	2,621.59	3,442.13	5,556.83	5,932.51	5,493.30	4540.14	9,63	37,062.44
A. Pre-accession funds	812.26	747.68	618.74	273.17	132.61	43.90	31.02	19.25	29.33	1.51	0.00	2,709.47
B. Post-accession funds, of which:	787.45	1,894.67	2,311.50	2,020.46	2,488.98	3,398.24	5,525.81	5,913.26	5,463.98	4538. 63	9,63	34,352.97
i) Prepayments	773.82	1,408.37	1,009.06	344.51	105.83	107.01	135.92	130.33	146.82	46.39	8,34	4,216.39
ii) Reimbursements (including EAGF)	13.63	486.30	1,302.44	1,675.94	2,383.15	3,291.23	5,389.89	5,782.93	5,317.16	4492.24	1,29	30,136.58
B1. Structural and Cohesion Funds, of which:	421.38	648.45	917.84	505.54	708.36	1,170.92	2,963.12	3,587.61	2,635.56	3693.39	1,29	17,253.45
a) Prepayments from Structural and Cohesion Funds	421.38	648.45	777.23	278.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,125.81
b) Reimbursements from Structural and Cohesion Funds	0.00	0.00	140.61	226.80	708.36	1,170.92	2,963.12	3,587.61	2,635.56	3693.39	1,29	15,127.64
B2. Agricultural, Rural Development and Fishering Funds, of which:	15.13	578.75	565.93	760.48	883.05	1,090.05	1,229.99	841.02	1,247.35	522.29	0,00	7,734.02
a) Prepayments/prefinancing from Agricultural, Rural Development and Fishering Funds	15.13	578.75	0.00	7.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	593.88
b) Reimbursements from Agricultural, Rural Development and Fishering Funds	0.00	0.00	565.93	760.48	883.05	1,090.05	1,229.99	841.02	1,247.35	522.29	0,00	7,140.15
B3. The European Agricultural Guarantee Fund (EAGF)	6.89	461.87	575.93	663.78	768.95	991.27	1,174.70	1,325.84	1,420.24	269.34	0.00	7,658.82
B4. Others (post-accession), from which:	344.05	205.60	251.80	90.65	128.62	146.00	158.00	158.79	160.83	53.62	8,34	1,706.68
a) Prepayments	337.31	181.17	231.82	65.77	105.83	107.01	135.92	130.33	146.82	46.39	8,34	1,496.71

Name	Realised 2007	Realised 2008	Realised 2009	Realised 2010	Realised 2011	Realised 2012	Realised 2013	Realised 2014	Realised 2015	Realised 2016	Realised 2017 (execution as of 31 July 2017)	Realised 2007-2017 (execution as of 31 July 2017)
						(mil euro)						
b) Reimbursements...........	6.74	24.42	19.97	24.88	22.79	38.99	22.46	28.47	14.01	7.23	0,00	209.97

Amounts received from MFF 2014-2020

Name	Realised 2014	Realised 2015	Realised 2016	Realised 2017 (execution as of 31 July 2017	Realised 2014-2017 (execution as of 31 July 2017)
			(mil euro)		
I.AMOUNTS RECEIVED FROM THE EU BUDGET (A+B)..	48.51	945.11	2,820.74	2,314.61	6,128.97
i) Prepayments...	48.51	914.84	761.42	141.45	1,866.22
ii) Reimbursements (including EAGF).......	0.00	30.27	2059.32	2,173.16	4,262.75
A1. Structural and Cohesion Funds, of which:	48.51	666.25	660.15	139.31	1,514.22
a) Prepayments from Structural and Cohesion Funds	48.51	666.25	660.15	139.06	1,511.00
b) Reimbursements from Structural and Cohesion Funds	0.00	0.00	0.00	3.23	3.23
A2. Agricultural, Rural Development and Fishering Funds, of which:.........................	0.00	248.59	610.05	572.08	1,430.72
a) Prepayments/prefinancing from Agricultural, Rural Development and Fishering Funds	0.00	248.59	86.03	0.99	335.61
b) Reimbursements from Agricultural, Rural Development and Fishering Funds....	0.00	0.00	524.02	571.09	1,095.11
A3. The European Agricultural Guarantee Fund (EAGF)	0.00	0.00	1240.59	1,519.42	2,760.024
A4. Others, from which:.............................	0.00	30.27	309.96	83.79	424.02
a) Prepayments	0.00	0.00	15.25	4.37	19.62
b) Reimbursements....................................	0.00	30.27	294.71	79.42	404.40

Amounts paid to the EU During 2007-2016

Name	Realised 2007	Realised 2008	Realised 2009	Realised 2010	Realised 2011	Realised 2012	Realised 2013	Realised 2014	Realised 2015	Realised 2016	Realised 2017 (execution as of 31 July 2017	Realised 2007-2017 (execution as of 31 July 2017)
						(mil euro)						
II.AMOUNTS PAID TO THE EU............................	1,150.89	1,268.93	1,364.43	1,158.91	1,296.24	1,427.77	1,534.77	1,619.89	1,456.25	1504.70	926.72	14,709.51
C. Romanian Contribution to the EU Budget...............	1,129.13	1,246.78	1,315.49	1,109.25	1,234.26	1,405.57	1,469.80	1,604.92	1,441.69	1479.98	906.17	14,343.04
D. Other contributions.......	21.77	22.15	48.94	49.66	61.98	22.20	64.96	14.97	14.57	24.72	20.55	366.47

Balance of MFF 2007-2013 and MFF 2014-2020

Name	Realised 2007	Realised 2008	Realised 2009	Realised 2010	Realised 2011	Realised 2012	Realised 2013	Realised 2014	Realised 2015	Realised 2016	Realised 2017 (execution as of 31 July 2017	Realised 2007-2017 (execution as of 31 July 2017)
						(mil euro)						
I. AMOUNTS RECEIVED FROM THE EU BUDGET (A+B).........	1,599.71	2,642.34	2,930.24	2,293.63	2,621.59	3,442.13	5,556.83	5,981.02	6,438.42	7,360.88	2,324.23	43,191.41
A. AMOUNTS RECEIVED FROM THE EU BUDGET from MFF 2007-2013......................	1,599.71	2,642.34	2,930.24	2,293.63	2,621.59	3,442.13	5,556.83	5,932.51	5,493.30	4540.14	9.63	37,062.44
B. AMOUNTS RECEIVED FROM THE EU BUDGET from MFF 2014-2020......................	—	—	—	—	—	—	—	48.51	945.11	2,820.74	2,314.61	6,128.97
14,709.51	1,150.89	1,268.93	1,364.43	1,158.91	1,296.24	1,427.77	1,534.77	1,619.89	1,456.25	1,504.70		
III. Balance of financial flows = I – II	448.82	1,373.41	1,565.81	1,134.72	1,325.35	2,014.36	4,022.07	4,361.13	4,982.17	5,856.18	1,397.51	28,481.90

THE ROMANIAN ECONOMY

Overview

In recent years, Romania has registered considerable progress in reducing macroeconomic imbalances through monetary policies and structural reforms which have contributed to maintaining macroeconomic and financial stability.

Romania recovered after global financial crisis, recording real GDP annual growth of approximately 3.8 per cent. in 2013-2016. Annual increases were among the largest in the EU28, which led to the improvement the real convergence of the Romanian economy with the European average.

The GDP/capita increased from EUR 7,217 in 2013 to EUR 8,604 in 2015. The GDP/capita in purchasing power standards improved to 59.3 per cent. of the EU average in 2016.

The following table shows the main macroeconomic indicators for the years 2014, 2015, 2016 and the first six months of 2017 (where available, and except where specified otherwise):

Main Macroeconomic Indicators

	2014	2015	2016	Jan – June 2017
Gross domestic product – current prices (EUR billion)(1)...	150.3	160.0	169.6	79.6
Real growth (percentage change)(1)............	3.1	3.9	4.8	5.8
GDP/per capita (RON)...............................	33,547	35,879	38,647	-
Average exchange rate (EUR/RON)..........	4.4446	4.4450	4.4908	4.5408(2)
Industrial production (percentage change) .	6.1	2.7	1.7	8.0
Agricultural production (percentage change)..	2.9	(6.8)	2.5(6)	-
Retail(3) (percentage change).....................	6.4	8.9	13.5	8.1(2)
Current account balance (million EUR)...	(1,012)	(1,978)	(3,966)	(2,745)
Real wage (percentage change)…………..	6.4	10.1	11.8	14.4
Average inflation (percentage change) ……………………………………….	1.07	(0.59)	(1.55)	0.56(2)
Employment (percentage change) (according to LFS – Labour Force Survey)(4)	0.8	(0.9)	(1.0)	(0.3)(5)

Notes:

(1) Final data for 2014, semi-final data for 2015 and provisional data for 2016

(2) Data for the seven months ended July 2017

(3) Excluding sale, maintenance and repair of motors, vehicles and motorcycles

(4) Data according to the 2011 Population Census

(5) Three months ended March 2017

(6) Semi-final data

Source: National Commission for Prognosis

In 2014, Romania's GDP increased by 3.1 per cent. compared to 2013, principally due to increased domestic demand (3.1 per cent.) resulting from an increase in private consumption by 4.7 per cent., and lower inflation. Gross fixed capital formation increased by 3.2 per cent. Net exports had a negative contribution to real GDP growth (0.3 percentage points) due to an increase in imports of goods and services in real terms by 8.7 per cent. while exports of goods and services increased by 8.0 per cent.

In 2015, Romania's GDP increased by 3.9 per cent. compared to 2014. The major drivers of growth were gross fixed capital formation, which grew by 8.3 per cent. and private consumption, which grew by 6.0 per cent., each compared to the previous year, due to the improvement of the purchasing power following the cut in VAT rate applicable to food, non-alcoholic beverages and restaurants and catering services, as well as wage increases and the negative inflation rate. Net exports had a negative contribution to real GDP growth rate (1.6 percentage points).

In 2016, growth in GDP was 4.8 per cent. compared to 2015 which was the highest year-on-year growth recorded since 2010. This growth was largely based on the contribution of domestic demand for consumption as a result of the fiscal relaxation measures (reduced VAT) and wage increases that have improved the purchasing power of the population. Private consumption grew by 7.4 per cent. compared to 2015. Gross fixed capital formation recorded a decrease in real terms by 3.3 per cent., based on poor accessing of European funds, as well as the significant decrease of public investment expenses. Net external demand made a negative contribution (0.7 per cent.), mainly because the domestic demand increase could not be entirely covered from domestic production.

In the six months ended 30 June 2017, growth of GDP was 5.8 per cent. compared to six months ended 30 June 2016. This growth was based on domestic demand, especially on private consumption, as result of wage increases and reduced VAT. Gross fixed capital formation registered an increase by 1.1 per cent. The high domestic demand required more imports, so the net exports had a negative contribution to real GDP growth of 0.7 percentage points.

Since September 2014, the National Institute for Statistics ("**NIS**") has published quarterly and annual data regarding GDP, according to the European System of Accounts ("**ESA**") 2010 methodology, which is aligned with the amendments brought to the System of National Accounts 2008 (SNA). The main methodological differences introduced by ESA 2010, as compared to ESA 1995, are in the areas of: capitalisation of research and development expenditures; capitalisation of military expenditures; goods sent abroad for processing are registered only as an imported processing service and new norms related to the registration of rights over the pensions funds.

The following table shows percentage changes to GDP use components for 2014, 2015 and 2016 and the first six months of 2017:

Gross Domestic Product Use Components

	2014	2015	2016	Jan-June 2017
	(percentage change against the same period of the previous year)			
Domestic demand	3.4	5.5	5.5	6.5
Final consumption	4.0	4.9	6.9	6.8
Private consumption expenditures	4.7	6.0	7.4	7.7
Government consumption expenditures	0.8	0.1	4.5	3.1
Gross fixed capital formation	3.2	8.3	(3.3)	1.1
Changes in inventories				
(Contribution to real GDP growth, percentage points)	(0.3)	(0.2)	1.1	0.8
Net exports (Contribution to real GDP growth, percentage points)	(0.3)	(1.6)	(0.7)	(0.7)
Gross domestic product	3.1	3.9	4.8	5.8

Source: National Institute of Statistics

Structure of the Economy

Since 1990, the structure of Romania's economy has changed significantly, with a shift from industry and agriculture to the service sector. The service sector increased its contribution to GDP growth from 26.5 per cent. in 1990 to 61 per cent. in the six months ended 30 June 2017.

The following table shows the structure of GDP by sector for the period for 2014, 2015, 2016 and the first six months of 2017:

Structure of Gross Domestic Product by Sectors

	2014	2015	2016	Jan-June 2017
	(structure, per cent.)			
Industry	25.3	23.8	23.1	23.3
Agriculture, forestry and fisheries	4.7	4.2	3.9	2.0
Construction	6.2	5.8	6.0	3.5
Services – Total	52.3	54.1	56.8	61.0
Trade, hotel and restaurants, transport and communications	19.8	21.9	23.7	25.5
Financial, real-estate, renting and business services	18.1	19.2	19.3	19.3
Other service activities	14.4	13.0	13.8	16.2
Net taxes	11.5	12.1	10.2	10.2
Gross domestic product	100.0	100.0	100.0	100.0

Source: National Institute of Statistics

The following table shows percentage changes in sectoral components of GDP for 2014, 2015 and 2016 and the first six months of 2017:

Changes in Gross Domestic Product by Sectors

	2014	2015	2016	Jan-June 2017
	(percentage change against the previous year)			
Industry	3.6	5.4	1.8	7.3
Agriculture, forestry and fisheries	4.3	(11.8)	0.0	2.3
Construction	1.9	6.8	1.8	(4.7)
Services	3.1	3.7	7.0	6.3
Trade, hotel and restaurants, transport and communications	3.0	11.5	11.9	9.2
Financial, real-estate, renting and business services	0.9	4.5	3.6	4.8
Other service activities	6.6	(8.1)	3.8	3.3
Gross value added	3.2	3.6	4.9	6.0
Net taxes on goods	1.8	6.8	4.1	4.2
Gross domestic product	3.1	3.9	4.8	5.8

Source: National Institute of Statistics

Gross Value Added

In 2014, gross value added ("**GVA**") in industry increased by 3.6 per cent. compared to 2013, by 5.4 per cent. in 2015 compared to 2014 and by 1.8 per cent. in 2016 compared to 2015. In the first six months of 2017, GVA in industry increased by 7.3 per cent. as compared to the same period in the previous year.

The agricultural sector in Romania is strongly influenced by climatic conditions, which is reflected in the annual GVA developments in agriculture. Thus GVA in agriculture saw a 4.3 per cent. increase in 2014, as compared to 2013. In 2015, GVA in agriculture decreased by 11.8 per cent., as compared to 2014, mainly due to the unfavourable climate conditions, while 2016 was broadly flat. In the first six months of 2017, GVA in the agricultural sector increased by 2.3 per cent. as compared to the same period in the previous year.

GVA in construction increased by 1.9 per cent. in 2014, compared to 2013, 6.8 per cent. in 2015 compared to 2014, and 1.8 per cent. in 2016 compared to 2015. In the first six months of 2017, GVA in construction decreased by 4.7 per cent. as compared to the same period in the previous year.

GVA in the services sector increased by 3.1 per cent. in 2014, compared to 2013. In 2015, GVA in the services sector increased by 3.7 per cent., compared to 2014, and in 2016 increased by 7 per cent. compared to 2015. In the first six months of 2017, GVA in the services sector increased by 6.3 per cent. as compared to the same period in the previous year.

Industrial Production

In 2014, industrial production increased by 6.1 per cent. as compared to 2013, while manufacturing increased by 7.5 per cent.

In 2014, the turnover value of total industry increased by 7.8 per cent. as compared to 2013, and the manufacturing sector grew by the same rate.

In 2015, industrial production increased by 2.7 per cent. compared to 2014, while manufacturing increased by 3.5 per cent.

In 2015, the turnover value of total industry increased by 2.4 per cent. as compared to 2014, and the turnover of the manufacturing sector increased by 2.7 per cent.

In 2016, industrial production increased by 1.7 per cent. compared to 2015 and manufacturing increased by 2.6 per cent.

In 2016, the turnover value of total industry increased by 4.7 per cent. compared to 2015 and the turnover value of the manufacturing sector increased by 5.8 per cent.

The decrease in industrial production in the mining sector in 2016 was caused by the decrease in mining-related services of 42.7 per cent. in 2016 compared to 2015.

In the first six months of 2017, industrial production increased by 8.0 per cent. and manufacturing increased by 8.7 per cent., as compared to the same period in 2016. In the first six months of 2017, both the turnover value of total industry and the turnover value of the manufacturing sector increased by 10.4 per cent., as compared to the first six months of 2016.

The following table shows percentage changes in industrial production by sector for the years 2014, 2015, 2016 and the first six months of 2017:

Industrial Production by Sectors

	2014	**2015**	**2016**	**Jan-June 2017**
	(percentage change against the same period of the previous year)			
Mining and quarrying	1.0	(12.5)	(15.8)	2.9
Manufacturing	7.5	3.5	2.6	8.7
Energy	(4.7)	1.3	(1.1)	2.6
Total industry..	6.1	2.7	1.7	8.0

Source: National Institute of Statistics

In 2014, labour productivity increased by 4.5 per cent. compared to 2013. The industrial branches with the highest manufacturing labour productivity were manufacture of computers, electronic and optical products with 35.7 per cent., manufacture of coke and refined petroleum products with 24.5 per cent. and manufacture of paper product and paper products with 19.1 per cent.

In 2015, labour productivity in industry increased by 0.2 per cent., compared to 2014, mainly due to the 6.1 per cent. increase of the “electricity, gas, steam and air conditioning production and supply sector”. Labour productivity increased in the following branches: manufacture of other non-metallic mineral products (22.3 per cent.), manufacture of tobacco products (19.4 per cent.), mining of coal and lignite (18.3 per cent.) and mining of metal ores (15.3 per cent.).

In 2016, labour productivity decreased by 0.4 per cent., as compared to 2015, due to wage increases. However, during this period, the following sectors have registered increases in labour productivity: manufacture of coke and refined petroleum products (14.0 per cent.), mining of metal ores (8.4 per cent.), manufacture of other non-metallic mineral products (5.3 per cent.) and manufacture of electrical equipment (5.2 per cent.).

In the first six months of 2017, labour productivity increased by 6.4 per cent., as compared to the same period of 2016. Labour productivity increased in the following branches: mining of coal and lignite with 30.5 per cent., manufacture of electrical industrial equipment with 16.6 per cent., mining of metal ores with 15.2 per cent. and manufacture of machinery and equipment with 14.9 per cent.

Natural Gas

In 2014, the total amount of natural gas available in Romania was 13.66 billion cubic metres, of which 11.06 billion cubic metres were generated by domestic production (80.9 per cent.) while 0.58 billion cubic metres (4.3 per cent.) were imported, mainly from Russia, and the remainder represented existing stock.

In 2015, the total amount of natural gas available in Romania was 13.17 billion cubic metres, of which 11.09 billion cubic metres were generated by domestic production (84.2 per cent.) while 0.20 billion cubic metres (1.5 per cent.) were imported, mainly from Russia, and the remainder represented existing stock. Between April and September 2015 domestic production was sufficient to meet the internal demand for natural gas.

While the share of imported natural gas (mainly imported from Russia) of total natural gas resources used in Romania declined sharply between 2011 and 2015. Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Romania's neighbouring country, Ukraine, in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers, including Romania.

In 2016, the total amount of natural gas available in Romania was 10.73 billion cubic metres, of which 9.26 billion cubic metres were generated by domestic production (86.3 per cent.) while 1.47 billion cubic metres (13.7 per cent.) were imported, mainly from Russia.

In the first six months of 2017, the total amount of natural gas available in Romania was 5.72 billion cubic metres, of which 5.04 billion cubic metres were generated by domestic production (88.1 per cent.) while 0.68 billion cubic metres (11.9 per cent.) were imported, mainly from Russia, however the increase in the share of imports is considered to be seasonal.

In order to reduce dependency on any single source of natural gas, Romania is actively promoting projects to diversify both the delivery routes and sources of its natural gas, as evidenced by its interest in promoting the Azerbaijan-Georgia-Romania Interconnector project. Moreover, in order to further reduce import dependency, several projects relating to the development of unconventional resources are underway. These projects involve studies that will provide a clearer picture of Romania's potential in non-conventional resources. In conventional resources, there have been some encouraging developments in the exploratory work conducted offshore in the Black Sea. In July 2014, OMV Petrom and ExxonMobil Exploration and Production Romania Limited, an affiliate of Exxon Mobil Corporation, announced the start of drilling in the deepwater sector of the Neptun Block, offshore of Romania in the Black Sea. Data collected during the drilling programme will be used to assess the size and commercial viability of the gas field discovered in 2012.

Romania has made changes to its energy and natural gas legislation to harmonise it with EU requirements. The new legislation sets forth a plan for the liberalisation of the prices of natural gas. The liberalisation of the prices of natural gas was finalised for non-household consumers in January 2015, with the exception of thermal energy producers where natural gas is used to produce heat in cogeneration plants and heating plants for household consumption. The latest plan approved by Government Decision No 488/2015 which was passed on 1 July 2015, expects the gas market to be fully liberalised for household consumers by July 2021. According to the provisions of Energy and Natural Gas Law No. 123/2012 ("**Energy and Natural Gas Law**"), as subsequently amended, household consumers and thermal energy producers that use gas to produce heat for household consumption will be treated equally by the end of the regulated period, as regards the quantity and price of the natural gas they consume, regardless of whether they choose to be eligible or regulated.

As a result of amendments to the Energy and Natural Gas Law performed through GEO 64/2016, starting from 1 April 2017, the acquisition price of natural gas has been liberalised i.e. is freely set on the market. However, supply tariffs for the general population shall remain regulated until 2021.

From 1 January 2015 until 31 December 2021, Romanian natural gas producers (and, to a certain extent their affiliates) must trade on the centralised markets, in a transparent and non-discriminating manner, a minimum quantity of gas destined for consumption within the Romanian market. The same general obligation also applies to suppliers. The trading quotas for 2017 have been established as follows: for producers - at least 30 per cent. of the gas sales (in terms of volume) must be carried out through centralised markets; and for suppliers at least 20 per cent. of gas acquisitions (in terms of volume) and at least 30 per cent. of gas sales (in terms of volume) to wholesale clients, must be carried out through centralised markets. The sale and, respectively, purchase quotas for the period starting from 1 January 2018 to 31 December 2021 shall be further established by Government Decision.

There are currently two centralised markets available, one operated by OPCOM and the other operated by the Romanian Commodities Exchange (BRM).

Agriculture, Forestry and Fisheries

Agriculture is an essential part of the national economy with significant economic and social importance. According to the 2016 Romanian Statistical Yearbook, Romania's aggregate agricultural area in 2014 represented approximately 14.6 million hectares or 61.4 per cent. of its total territory, of which arable land represented 64.2 per cent. of the total agricultural area. At the end of 2014, the total area covered by forests and other forest-like vegetation was 28.2 per cent. of the total land in Romania.

The oscillating performance of Romanian agriculture over the previous years is a direct result of the influence of weather conditions, in the context of the general absence of adequate technical facilities such as irrigation systems. Another factor contributing to poor results in agriculture is the fragmentation of agricultural lands, which makes irrigation, the use of large-scale mechanised equipment or the application of remedies more difficult.

According to the data released by National Institute of Statistics, as part of the Structural Survey in Agriculture 2013, the number of very small agricultural holdings (less than 1 hectare of utilised agriculture land) diminished in 2013, as compared with 2010, with approximately 76 thousand agricultural holdings, representing 54.5 per cent. of the total number of agricultural holdings. These small holdings represent only 5.0 per cent. of total utilised agricultural land. In 2013, compared to 2010, large agricultural holdings (*i.e.* those over 50 hectares of agricultural land) represented 0.6 per cent. of the total number of agricultural holdings, but represented 52.1 per cent. of the total utilised agricultural land.

The following table shows percentage changes in the agricultural production by type (excluding forestry) for 2014 to 2016 period:

	Agricultural Production(1)		
	2014	**2015**	**2016(2)**
	(percentage change against the previous year)		
Crop production	2.9	(10.7)	5.3
Livestock	2.5	1.5	(2.4)
Agricultural services	24.3	(13.5)	3.5
Total	2.9	(6.8)	2.5

Notes:

(1) According to the Eurostat methodology on "Economic Accounts for Agriculture"

(2) Semi final data

Source: National Institute of Statistics

According to data from the National Institute of Statistics, in 2014, the production of wheat increased by 4.0 per cent. compared to 2013, while harvested production of barley and two-row barley increased by 11.0 per cent. The production of rape for oil increased by 59.0 per cent., as compared to 2013. The production of maize grains increased by 6.0 per cent., soya bean production increased by 35.4 per cent., sugar beet production increased by 35.9 per cent. and sunflower production increased by 2.2 per cent., as compared to 2013.

According to the data released by the National Institute of Statistics in the 2016 Romanian Statistical Yearbook, crop production decreased for most crops in 2015 mainly due to unfavourable weather conditions. In 2015, as compared with 2014, sugar beet production decreased by 25.6 per cent., maize production decreased by 25.1 per cent., potatoes production decreased by 25.4 per cent., sunflower production decreased by 18.4 per cent., rape production decreased by 13.2 per cent., barley and two-row barley production decreased by 5.2 per cent., oats production decreased by 9.8 per cent. and vegetable production decreased by 4.5 per cent. Some crops have recorded increases in production, as follows: wheat production increased by 5.0 per cent., dried pulses production increased by 6.2 per cent. and soya bean production increased by 29.1 per cent., as against 2014.

In 2016, the production of wheat increased by 5.9 per cent., the rye production increased by 6.6 per cent., oats production increased by 9.6 per cent., harvested production of barley and two-row barley increased by 11.7 per cent., sunflower production increased by 13.8 per cent., maize grains production increased by 19.1 per cent., dried pulses production increased by 31.0 per cent. and rape production increased by 40.6 per cent., as compared to 2015. Production decreases of 8.6 per cent. were recorded for vegetables, 7.7 per cent. for grapes and 2.7 per cent. for sugar beet according to the National Institute of Statistics.

According to data released by the National Institute of Statistics in the six months ended 30 June 2017, wheat, rye and triticale were harvested from an area of approximately 86.1 per cent. of the cultivated area and exceeded the harvest obtained during the same period of 2016 by 9.7 per cent. The production of autumn barley, harvested from 99.2 per cent. of the cultivated area increased by 3.2 per cent., as against the same period of the previous year. The production of autumn two-row barley harvested from 97.0 per cent. of the cultivated area increased by 9.5 per cent., while the production of spring two-row barley harvested from 57.2 per cent. of the cultivated area decreased by 3.0 per cent., as against the same period of 2016. The oats production harvested from approximately 37.4 per cent. of the cultivated area decreased by 22.9 per cent. and the rape for oil production harvested from 99.3 per cent. of the cultivated area increased by 34.0 per cent., as compared to the same period of 2016.

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

In 2014, the Romanian Government supported the agricultural sector through various measures, such as providing complementary direct payments in the livestock sector (amounting to RON 927 million) and certain direct payment schemes (amounting to RON 6.47 billion), supporting the payment of insurance premiums and compensating for damage caused by plant disease or by unfavourable weather conditions.

In 2015, the subsidies granted from the state budget amounted to approximately RON 2.51 billion. The Romanian Government supported the agricultural sector through various measures, such as: aid granted to farmers for diesel excise duty (amounting to RON 539.4 million); aid granted to compensate the damages incurred as a result of the unfavourable weather conditions of April to September 2015 (amounting to RON 295.6 million); *de minimis* state aid for hydro-meteorological phenomena (floods or droughts) and ecological agriculture (amounting to RON 36.1 million); transitory state aid for the livestock and vegetable sector (amounting to RON 1.56 billion) and other subsidies supporting the payment of insurance premiums and animal breeding.

In 2016, the Romanian Government supported the agricultural sector through various measures, such as reducing the excise duty for fuel in agricultural uses (amounting to 646.13 million RON) and in the livestock sector (administrative costs of the establishment and maintenance of herd books and to determine the genetic quality or yield of livestock – amounting to 19.69 million RON).

Construction

In 2014, the volume of construction works in Romania declined by 6.7 per cent. as compared to 2013. This reduction was caused by the reduction in capital repair works by 17.9 per cent., in maintenance and current repairs works by 9.0 per cent. and in new construction works by 3.2 per cent. The two primary types of construction had divergent developments in 2014. While the volume of buildings under construction grew by 21.3 per cent., civil engineering reduced its volume by 21.8 per cent.

In 2015, the volume of construction works increased by 10.4 per cent. as compared to 2014. Capital repair works increased by 31.8 per cent., maintenance and current repairs works increased by 13.3 per cent. and new construction works increased by 5.2 per cent. By type of construction, the volume of construction work increased for civil engineering works by 20 per cent. and for non-residential buildings by 1.1 per cent., while residential buildings registered a decrease in volume of 5.8 per cent.

In 2016, the volume of construction works decreased by 4.8 per cent. Maintenance and current repairs works increased by 1.5 per cent., new construction works decreased by 2.7 per cent. and capital repair works decreased by 23.5 per cent. By type of construction, the volume of residential and non-residential buildings grew by 12.1 per cent. and 1.1 per cent., respectively, while the volume of civil engineering decreased by 11.2 per cent.

In the first six months of 2017, as compared to the same period of the previous year, the volume of construction works declined by 7.2 per cent.; only new construction works increased by 2.2 per cent. Capital repair works declined by 21.9 per cent., maintenance and current repairs works declined by 24.6 per cent. By type of construction, residential buildings increased by 72.4 per cent. Non-residential buildings and civil engineering declined by 11.6 per cent. and 26.6 per cent., respectively.

The following table shows the percentage change in the construction sector for 2014, 2015, 2016 and for the first six months of 2017:

Construction Sector

	2014	**2015**	**2016**	**Jan-June 2017**
	(percentage change against the same period of the previous year)			
Construction works....................................	(6.7)	10.4	(4.8)	(7.2)
of total by structural elements:				

	Construction Sector			
	2014	2015	2016	Jan-June 2017
	(percentage change against the same period of the previous year)			
New construction works	(3.2)	5.2	(2.7)	2.2
Capital repair works	(17.9)	31.8	(23.5)	(21.9)
Maintenance and current repairs works	(9.0)	13.3	1.5	(24.6)
of total by type of construction:				
a) Buildings	21.3	(1.1)	4.4	16.9
Residential buildings	32.6	(5.8)	12.1	72.4
Non-residential buildings	16.6	1.1	1.1	(11.6)
b) Civil engineering	(21.8)	20.0	(11.2)	(26.6)

Source: *National Institute of Statistics*

In 2014, 44,984 dwellings were finalised, an increase of 1,397 units, as compared to the previous year.

In 2015, 46,984 dwellings were finalised, an increase of 2,000 units as compared to 2014. In 2016, 52,206 dwellings were finalised, an increase of 5,222 units as compared to 2015. In the first six months of 2017, 10,084 dwellings were finalised, 1,506 dwellings less compared to the same period in the previous year.

In 2014, as compared to the previous year, the number of building permits issued for buildings decreased by 0.3 per cent., amounting to 37,672 units; 62 per cent. of the building permits were issued for buildings in rural areas.

In 2015, the number of buildings increased by 3.8 per cent., as compared to 2014 amounting to 39,112 units. In 2016, 38,653 buildings permits for residential buildings were released, decreasing by 1.2 per cent. compared to 2015. In the first six months of 2017, 18,908 buildings permits for residential buildings were issued, an increase of 2.5 per cent. over the previous year.

Services

In 2014, GVA in the services sector increased by 3.1 per cent. compared to 2013. Increases were recorded in all sub-sectors, including 3.0 per cent. in “Trade, hotels and restaurants, transport and communications”, 0.9 per cent. in “Financial, real-estate, renting and business services” and 6.6 per cent. in “Other service activities”.

In 2015, GVA in the service sector increased by 3.7 per cent. compared to 2014. By sub-sectors, the developments were: increases in “Trade, hotels and restaurants, transport and communications” and “Financial, real-estate, renting and business services” of 11.5 per cent. and 4.5 per cent., respectively, and a decrease in “Other service activities” of 8.1 per cent.

In 2016, GVA in the services sector increased by 7.0 per cent. compared to 2015. Increases were recorded in all sub-sectors, including 11.9 per cent. in “Trade, hotels and restaurants, transport and communications”, 3.6 per cent. in “Financial, real-estate, renting and business services” and 3.8 per cent. in “Other service activities”.

In the first six months of 2017, GVA in the services sector increased by 6.3 per cent. compared to the same period of the previous year. Increases were recorded in all sub-sectors, including 9.2 per cent. in “Trade, hotels and restaurants, transport and communications”, 4.8 per cent. in “Financial, real-estate, renting and business services” and 3.3 per cent. in “Other service activities”.

Energy

For the three years ended 31 December 2016 and six months ended 30 June 2017, the primary energy resources that together comprise Romania's domestic production were:

	2014	2015	2016	Jan-June 2017
		(share of total, per cent.)		
Net coal	16.9	17.9	20.6	21.4
Crude oil	15.0	14.8	17.5	16.4
Usable natural gas	33.6	33.6	36.5	38.7
Hydroelectric, wind and photovoltaic energy and nuclear electric energy	19.7	19.3	25.4	23.5
Others	14.8	14.4	—	—
Total	100.0	100.0	100.0	100.0

Notes:

(1) Data for 2015 – Energy balance and the energy equipment structure

(2) Data for 2016 and the first six months of 2017 is based on the share of main primary energy resources issued by the Monthly Statistical Bulletin no. 12/2016 and no. 6/2017

Source: National Institute of Statistics

In 2014, the primary energy resources amounted to the equivalent of 40.2 million tons of oil equivalent, representing a 2.5 per cent. increase compared with 2013. Over this period, 65.4 per cent. of the total amount was generated by domestic production, 26.7 per cent. was generated from imports and the remainder represented stock.

In 2014, the domestic production of the main primary energy resources increased by 1.8 per cent. compared to the previous year. Domestic production of hydroelectric and nuclear energy and domestic production of natural gas increased in this period by 13.2 per cent. and 1.9 per cent., respectively. Net coal production and crude oil production decreased by 4.5 per cent. and 1.9 per cent., respectively.

The imports of the main primary energy resources increased by 7.6 per cent. over the previous year. Imports of electricity and crude oil increased by 138.5 per cent. and 27.0 per cent., respectively. The import of natural gas and net coal decreased by 60.0 per cent. and 16.2 per cent., respectively, while the import of petroleum products increased by 2.5 per cent.

In 2015, the main primary energy resources amounted to 40.8 million tons of oil equivalent, representing a 1.3 per cent. increase, compared to 2014. During this period, 64.7 per cent. of the total amount was generated by domestic production, while 27.8 per cent. was generated from imports and the remainder represented stock.

The domestic production of primary energy resources increased in 2015 by 0.3 per cent. compared to the previous year. During this period, the domestic production of net coal and natural gas had increased by 5.9 per cent. and 0.2 per cent., respectively, while hydroelectric, wind, photovoltaic and nuclear energy and crude oil production decreased by 1.9 and 1.2 per cent., respectively.

In 2015, the total imports of primary energy resources increased by 5.4 per cent. compared to 2014. The increases were recorded in imports of electricity (249.5 per cent.), petroleum products (31.4 per cent.) and coal (9.6 per cent.), while natural gas and crude oil imports decreased by 65.3 and 1.9 per cent., respectively.

In 2016, the main primary energy resources amounted to 33.2 million tons of oil equivalent, representing a 0.8 per cent. increase compared with 2015. Over this period, 61.8 per cent. of the total amount was generated by domestic production, while 38.2 per cent. was generated from imports.

In 2016, the domestic production of the main primary energy resources decreased by 7.2 per cent. compared to the previous year. Domestic production of natural gas, net coal and crude oil decreased in this period by 12.5, 10.1 and 4.3 per cent., respectively, while hydroelectric, wind, photovoltaic and nuclear energy production increased by 2.5 per cent.

The imports of the main primary energy resources increased in 2016 by 16.9 per cent. Imports of natural gas and crude oil increased by 629 per cent. and 13.2 per cent., respectively. The import of coal and electricity decreased by 6 per cent. and 5.5 per cent., respectively.

In the first six months of 2017, the main primary energy resources amounted to 16.3 million tons of oil equivalent, representing a 2 per cent. increase, compared to the same period in 2016. Over this period, 64.5 per cent. of the total amount was generated by domestic production, while 35.5 per cent. was generated from imports.

In the first six months of 2017, the domestic production of the main primary energy resources increased by 3.6 per cent. compared to the same period of 2016. Domestic production of net coal and natural gas increased in this period by 14.7 and 6.8 per cent., respectively, while crude oil and hydroelectric, wind, photovoltaic and nuclear energy production decreased by 4.6 and 4.1 per cent., respectively.

The imports of the main primary energy resources decreased in the first six months of 2017 by 0.6 per cent. Imports of natural gas and petroleum products increased by 149.6 and 12.6 per cent., respectively. The import of electricity, coal and crude oil decreased by 23.8, 23 and 11.1 per cent., respectively.

Electricity

The structure of the sources of electricity production for 2014, 2015, 2016 and the first six months of 2017 is as follows:

	2014	2015	2016	Jan-June 2017
	(share of total, per cent.)			
Electricity produced in thermo-power stations	40.9	43.1	40.2	43.0
Electricity produced in hydro-power station	29.4	25.7	29.8	25.2
Electricity produced in wind-power station	9.4	10.6	10.1	11.8
Electricity produced in nuclear-electric stations	17.8	17.6	17.1	17.0
Electricity produced in photovoltaic sun stations	2.5	3.0	2.8	3.0
Total	100.0	100.0	100.0	100.0

Source: National Institute of Statistics

Data for 2015 – Energy balance and the energy equipment structure.

Data for 2016 and the first six months of 2017 is based on the share of main primary energy resources, issued by the Monthly Statistical Bulletin no 12/2016, no 6/2017.

In 2014, electricity production was 65.7 TWh, representing an increase of 11.5 per cent. compared to 2013. The electricity produced in hydro-power stations and wind-power stations increased by 25.9 per cent. and 37.2 per cent., respectively. The production achieved by nuclear power plants increased by 0.5 per cent. The production of electricity from thermo-power stations decreased in this period by 0.4 per cent. Hydro-power, wind-power and photovoltaic sun stations had the largest share of total electricity production (41.3 per cent.), followed by classic thermo-power stations (40.9 per cent.) and nuclear-electric stations (17.8 per cent.). In 2014, final electricity consumption increased by 3.2 per cent. Electricity exports increased by 232.1 per cent., from 2,465.9 million KWh in 2013 to 8,189.6 million KWh in 2014.

In 2015, electricity production was 66.3 TWh, representing an increase of 0.9 per cent. compared to 2014. The electricity produced in wind-power stations, photovoltaic sun stations and thermo-power stations increased by 13.9 per cent., 22.6 per cent. and 6.3 per cent., respectively. The production achieved by nuclear power plants decreased by 0.3 per cent. The production of electricity from hydro-power stations decreased in this period by 11.8 per cent. Classic thermo-power stations had the largest share of total electricity production (43.1 per cent.), followed by hydro-power, wind-power and photovoltaic sun stations (39.3 per cent.) and nuclear-electric stations (17.6 per cent.). In 2015, final electricity consumption increased by 2.7 per cent. Electricity exports increased by 28.3 per cent., from 8189.6 million KWh in 2014 to 10503.7 million KWh in 2015.

In 2016, electricity production was 66.1 TWh, representing an increase of 0.7 per cent., as compared to 2015. The electricity generated in hydro-power stations increased by 18.0 per cent. The electricity generated in photovoltaic sun stations, thermo-power stations, wind-power stations and nuclear-electric stations decreased by 7.2 per cent., 5.9 per cent., 4.5 per cent. and 3.0 per cent., respectively. Hydro-power, wind-power and photovoltaic sun stations had the largest share of total electricity production (42.7 per cent.), followed by classic thermo-power stations (40.2 per cent.) and nuclear-electric stations (17.1 per cent.). Final electricity consumption increased by 4.2 per cent. The export of electricity decrease by 18.2 per cent., from 10503.7 million KWh in 2015 to 8587.3 million KWh in 2016.

In the first six months of 2017, electricity production was 32.5 TWh, representing an increase of 0.4 per cent., as compared to the same period of 2016. The electricity generated in thermo-power stations, wind-power stations and photovoltaic sun stations increased by 15.7 per cent., 14.9 per cent. and 2.2 per cent., respectively. The production achieved by nuclear power plants increased by 5.5 per cent. The electricity generated in hydro-power stations decreased by 23.9 per cent. Final electricity consumption decreased by 1.5 per cent. The export of electricity decreased by 1.2 per cent., from 3791.0 million KWh in the first six months of 2016 to 3746.4 million KWh in the same period of 2017.

Electricity Market

Romania has a balanced portfolio of electricity generation capacities comprising hydro, nuclear, coal and natural gas-fired power plants, with renewable growing rapidly, being a net exporter of electricity.

The Romanian electricity market was fully liberalised on 1 July 2007. However, in practice, a large regulated electricity supply market continued to exist thereafter. Currently, electricity is supplied under two systems: the regulated market, which covers households and part of the industrial sector; and the competitive market, mainly represented by large industrial consumers. In 2015, the process of liberalisation of the electricity market for non-household consumers and the implementation of the timetable for eliminating regulated prices for non-household consumers of electricity was completed. Pursuant to the Energy and Natural Gas Law, the liberalisation process for household consumers will be completed by 31 December 2017. The calendar established for 2017 envisages that, by July 2017, 90 per cent. of the total price for energy used by household consumers would be established on the free-market, while 10 per cent. would be price regulated by the National Authority for Regulation in the Energy Field (ANRE).

Starting with the date of entry into force of the Energy and Natural Gas Law, the structure of the wholesale market has substantially changed due to the introduction of the obligation to sell electricity through public, centralised, non-discriminatory and transparent transactions. Thus, transactions between participants in the wholesale electricity market are concluded exclusively as a result of participation on one of OPCOM's platforms, including the centralised bilateral contracts market (comprising two trading platforms – the centralised bilateral contracts market with continuous negotiation (PCCB-NC), and the centralised bilateral contracts market with extended auctions mechanism (PCCB-LE)), the Day-Ahead Market (PZU), the Intraday Market (PI) and the centralised market with double continuous negotiation for electricity bilateral contracts ("**PC-OTC**").

The participants to the PC-OTC trade based on bilateral power contracts agreed before participating to the trading and based on the European Federation of Energy Traders' standard contract. Each participant has to prepare its eligibility list, including currently at least eight participants on the market eligible as potential counterparties for entering into transactions and concluding agreements. The eligibility lists are published with OPCOM and may be updated by the participants.

The Romanian electricity market is currently integrated in the European Market, thus increasing the expectations of improved liquidity in the wholesale electricity market in the near future. The "4M Market Coupling" (respectively the price coupling of the day–ahead markets from Romania, Hungary, Slovakia and Czech Republic) was launched in November 2014 as an intermediate step towards the Single European Market.

As one of the goal-achieving steps, OPCOM is currently operating the IT systems jointly developed within a European initiative called Price Coupling of Regions ("**PCR**")[5] (launched, developed and operated by several European Power Exchanges and aimed at the implementation of the Single Day-Ahead Coupling at European level as provided by the capacity allocation and congestion management (CACM[6]), with particular reference to the use of the Euphemia algorithm of matching and the PCR Matcher and Broker (PMB) communication system, as well as the use of the joint procedures for managing the day-ahead markets shared with other exchanges in the PCR field. The coupling novelty, significant from the point of view of OPCOM under the management and operational profile, was carried out in safety conditions for participants in the Romanian market, keeping continuity[7] in their trading activity on the day-ahead market.

In August 2017, OPCOM signed a Memorandum of Understanding on establishing a Local Implementation Project[8] of the Cross-Border Intraday solution (XBID) to couple intraday electricity markets from Romania, Hungary, Croatia, Austria, Germany and the Czech Republic.

Directive 2009/28/EC establishes as a mandatory target for Romania, a 24 per cent. share of energy from renewable sources in gross final consumption of energy by 2020. In order to achieve the national target of 24 per cent. renewable energy, Law no. 220/2008 was adopted to establish the system for promoting the production of energy from renewable energy sources. Beneficiaries are producers of electricity from renewable sources: hydraulic power used in plants with installed capacity of up to 10 megawatt ("**MW**"), wind, solar, geothermal, biomass, biogas, waste gas fermentation and sewage fermentation gas from sewage plants. The support mechanism established by Law no. 220/2008 has led, in a few years, to a significant increase in investments in new renewable energy sources ("**RES**") generation capacities, Romania fulfilling the European commitment for 2020, namely to increase the share of energy from renewable sources to over 24 per cent. of gross energy consumption.

6 http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32015R1222

7 http://www.opcom.ro/opcom/anunturi_stiri/comunicate.php?id_comunicat=879&lang=en

8 http://www.opcom.ro/opcom/anunturi_stiri/comunicate.php?id_comunicat=962&lang=en

The promotion scheme established by Law no. 220/2008 closed on 31 December 2016. Producers who have accessed the promotion scheme by this date will benefit from state aid until 2031.

According to Transelectrica data, electricity generation capacities from renewable sources with a total installed capacity of 4,772 megawatts), of which 2964 MW are produced in wind turbines, 1358 MW in photovoltaic panels, 343 MW in hydroelectric plants below 10 MW and 106 MW in biomass, biogas and waste gas fermentation are currently supported by Law no. 220/2008.

Restructuring and Investment

The Government intends to restructure the energy sector with the aim of increasing production efficiency, in line with the common energy policy at EU level.

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

Romania has made progress with its reform agenda for state-owned energy companies, in line with the restructuring plans discussed with the IMF, the European Commission and the World Bank.

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

- the construction of two additional nuclear units (3 and 4) at the Cernavoda power plant, in a consortium with private investors (Romania already has two nuclear facilities with an aggregate capacity of 1,400 MW);
- the development of *greenfield* and *brownfield* projects by Romanian producers using fossil fuels (including a new core unit of minimum 500 MWh at Electrocentrale Rovinari – Complexul Energetic Oltenia);
- the Tarnita-Lapustesti pump storage hydroelectric power plant, with a capacity of 1,000 MW; and
- the Azerbaijan-Georgia-Romania natural gas transport system known as the "**AGRI**" project.

The AGRI project continues to be a priority for the Ministry of Energy. The feasibility study performed in relation to the AGRI project highlighted its profitability. The Ministry of Energy believes that the AGRI project is in line with the intentions of the European Commission, as highlighted in the strategy for liquified natural gas and gas storage.

The Romanian natural gas transportation network was connected to Hungary's transportation network and indirectly with the EU natural gas transportation network in 2010. The physical reverse flow capacity at Csanadpalota interconnection point, from 1 November 2014, is 50,000 c.m./h (10,000 c.m./h firm capacity and 40,000 c.m./h interruptible capacity).

For Romania, an important target is the interconnection of its natural gas transportation transmission network with the transmission systems of Bulgaria, Serbia and the Republic of Moldova.

A first step towards interconnecting with Moldova was made in August 2014, through the inauguration of the Iasi-Ungheni 42-km-long pipeline. Phase II of the interconnection of the gas transmission systems between Romania and Moldova is correlated with another important investment of Transgaz, the implementation on the territory of Romania of the project 'NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to/from the Republic of Moldova'. Based on the feasibility study, the tender book for the design brief was prepared and the design contract for the preparation of the project was signed between the Ministry of Economy of Moldova and Vestmoldtransgaz, on the one hand, and SNTGN Transgaz SA, on the other hand. The interconnection Romania-Bulgaria (Giurgiu-Ruse) was completed at the end of November 2016. The technical conditions for ensuring gas export from Romania to Bulgaria have been created. The metering-regulating stations, both in Romania and in Bulgaria, were built and accepted, enabling import and export activities with the signature of the Interconnection Agreement and the approval of the capacity-booking methodology. There are ongoing interconnection projects which will allow bi-directional flows at the interconnections with Hungary and Bulgaria: (i) the Interconnection between Romania and Hungary (Arad-Szeged), where additional technical developments of both the Romanian and Hungarian gas transport systems are necessary to reach the maximum bi-directional capacity of 4.4 b.c.m./year; and (ii) the Interconnection between Romania and Bulgaria (Giurgiu-Ruse) is designed to have reverse flow. The implementation of the Bulgaria-Romania-Hungary-Austria corridor will contribute to ensure the maximum technological parameters for these interconnection: (i) the interconnection Romania-Hungary (Arad-Szeged), where additional technical progress of the Romanian and Hungarian gas transmission systems is necessary for reaching a maximum bidirectional capacity of 4.4 bcm/y (after the implementation of BRUA Phase 2); (ii) the interconnection Romania-Bulgaria (Giurgiu-Ruse) is designed for a reverse flow of 1.5 bcm/y. Due to economic feasibility grounds, the deadline for implementing the maximum bidirectional flow for both interconnections has been set for 2020 for the interconnection Romania-Hungary (Arad-Szeged) and the end of 2019 for the interconnection Romania-Bulgaria (Giurgiu-Ruse).

Projects for the construction of natural gas storage facilities are, at the date of this document, under development, aiming at storing natural gas in areas with large consumers or with large variations of natural gas consumption.

Transportation

The following table shows the percentage change in the transport of passengers as compared to the previous year for 2014, 2015, 2016 and the first quarter of 2017:

Change in Passengers Transported According to Modes of Transport

	2014	**2015**	**2016**	**Jan – March 2017**
	(percentage change against the same period of the previous year)			
1. Interurban and international transport[(1)].	4.6	(0.9)	8.0	10.5
Railway	12.8	2.7	(3.0)	1.5
Road	2.8	(2.3)	9.9	11.8
Inland waterways	—	—	—	(36.4)
Air	8.3	14.5	23.5	29.9
Maritime	27.8	(48.4)	(78.3)	—
2. Urban transport total	12.2	—	—	3.9

Note:

(1) Cruise passengers excursions – inwards included.

Source: National Institute of Statistics – publication "Passengers and goods transport, by mode of transport" – period 2016 – 3rd month of 2017

In 2014, the inter-city and international transport of passengers increased by 4.6 per cent. as compared to the previous year, due to increases in maritime transport (27.8 per cent.), railway transport (12.8 per cent.) and air transport (8.3 per cent.). Urban transport registered an increase of 12.2 per cent. as compared to 2013.

In 2015, inter-city and international transport of passengers decreased by 0.9 per cent. as compared to the previous year, mainly due to the decreases of maritime transport (48.4 per cent.) and road transport (2.3 per cent.). Air transport increased by 14.5 per cent. and railway transport increased by 2.7 per cent.

In 2016, inter-city and international transport of passengers increased by 8.0 per cent. as compared to the previous year, mainly due to the increases of aerial transport (23.5 per cent.) and road transport (9.9 per cent.). Railway transport decreased by 3.0 per cent. and maritime transport by 78.3 per cent.

In the first quarter 2017, inter-city and international transport of passengers increased by 10.5 per cent. as compared to the previous period, mainly due to the increases of aerial transport (29.9 per cent.) and road transport (11.8 per cent.). Urban transport registered an increase of 3.9 per cent. as compared to the same period of the previous year.

The following table shows the percentage change in goods transported as compared to the previous year for 2014, 2015, 2016, and the first quarter of 2017:

Change in Goods Transported According to Modes of Transport

	2014	**2015**	**2016**	**Jan – March 2017**
	(percentage change against the same period of the previous year)			
Goods transported – total	0.6	4.9	5.1	(1.1)
1.Railway	0.8	9.0	(4.9)	9.0
2.Road	(0.3)	4.0	8.8	1.0
3.Maritime	0.4	1.8	4.1	(6.9)
4.Inland waterways	3.6	7.9	1.5	(23.4)
5.Air	1.9	6.5	16.9	10.9
6.Transport via petroleum pipelines	13.2	4.7	2.4	(15.0)

Source: National Institute of Statistics

In 2014, goods transport increased by 0.6 per cent. as compared to the previous year, due to increases of transport via petroleum pipelines (13.2 per cent.), inland waterways transport (3.6 per cent.) and air transport (1.9 per cent.). The only means of goods transport to register a decrease as compared to the previous year was road transport (0.3 per cent.).

In 2015, goods transport increased by 4.9 per cent. All means of goods transport registered growth as compared to the previous year: railway transport (9.0 per cent.): inland waterways transport (7.9 per cent.); air transport (6.5 per cent.); transport via petroleum lines (4.7 per cent.); road transport (4.0 per cent.); and maritime transport (1.8 per cent.).

In 2016, goods transport increased by 5.1 per cent. as compared to the previous year, mainly due to increases of air transport (16.9 per cent.), road transport (8.8 per cent.), maritime transport (4.1 per cent.), transport via petroleum pipelines (2.4 per cent.) and inland waterways transport (1.5 per cent.). The only means of goods transport to register a decrease as compared to the previous year was railway transport (4.9 per cent.).

In the first quarter of 2017, goods transport decreased by 1.1 per cent. as compared to the same period of the previous year, due to decreases of inland waterways transport (23.4 per cent.), transport via petroleum pipelines (15.0 per cent.), and maritime transport (6.9 per cent.). Air transport increased by 10.9 per cent. and railway transport increased by 9.0 per cent.

Infrastructure Development

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

Romania's main objectives in the transport infrastructure sector are to implement the Trans-European Transport Network ("**TEN-T**") policies with the support of EU financial instruments, further to investments made within the SOP Transport 2007-2013 (under the Convergence objective) by ESIF allocated within the Large Infrastructure Operational Programme 2014-2020, the TEN-T programme (continued through the Connecting Europe Facility, granting of Community financial aid in the field of the trans-European transport, energy networks and digital services), EIB's loans and credit guarantees. Romania's main objective is to develop a sustainable transport system by means of modernising and developing the road, rail, naval, air infrastructures as well as the customs infrastructure and facilitating intermodal connections, while emphasising environmental protection, public health and passenger safety.

As established within the Partnership Agreement, the main development needs for the 2014-2020 period in the transport sector are aimed at improving the accessibility in Romania and in its regions and their connectivity, as well as improving the governance of the sector and the sustainability of Romania's transport mix, together with increasing the attractiveness of alternatives to road-based transport.

The General Transport Master Plan was approved by Government Decision no. 666 on 14 September 2016. The General Transport Master Plan refers to the major objectives of the national transport system. Therefore it is a high-level planning instrument relevant for major interventions (projects and other actions) with significance for the objectives of the national transport system – which are suitable for modelling. The available budget taken into account in defining the implementation strategy in the Romanian General Transport Master Plan (GTMP) for all the transport sectors is EUR 30.7 billion of which EUR 19.1 billion is from European Funds (Cohesion Funds, European Regional Development Fund and Connecting Europe Facility) and EUR 11.6 billion is from the State Budget.

Railways

With the transition to the new programming period 2014-2020, Caile Ferate Romane ("**CFR**") has established an objective to upgrading works for the rehabilitation of 146 km of railway lines, 46 structure, (23 bridges, 21 culverts, 2 tunnels) and 41 stations modernised with safety systems for railway. Of the 46 proposed structures, there have been completed rehabilitation works for five objectives (two bridges, one culvert, two tunnels). CFR is in various stages of acquisition of works contracts for the rehabilitation of 154.62 km of railway lines, 18 bridges and four culverts and the start-up of the execution of works for 119.27 km of railway lines, seven bridges and seven culverts. As regards modernisation projects at the stage of feasibility studies, CFR is in the process of completing the acquisition of two such feasibility studies, implementating another two case studies and in process of preparing the acquisition documents for the acquisition of a further seven such feasibility studies. During 2015 and 2016, two projects have been implemented under Connecting Europe Facility, an EU funding instrument: "*The Rehabilitation of the Brasov–Simeria Railway component of the Rhine-Danube Corridor*" and "*Rehabilitation of the Brașov–Sighişoara railway section, Apața–Cața sub-section*".

Air

Investments are also dedicated to continuing the expansion of the Otopeni International Airport near Bucharest. In 2015 and 2016, the modernisation processes of Suceava, Constanta, Iasi, Oradea, Craiova, Satu-Mare, Baia-Mare and Tulcea airports were finalised.

Waterways

At the end of 2015, four infrastructure projects related to maritime and inland waterway transport were completed at the Port of Constanta. These projects included the extension of the North breakwater, the construction of a new bridge over the Danube – Black Sea Canal and the development of railway capacity. For the ports on the Danube, infrastructure projects are being developed with the goal of enhancing access to such ports and improving related infrastructure. During 2015 and 2016, in order to improve the navigation on the Danube River, three projects were submitted and approved under the CEF programme: "*FAST Danube – Improvement of the navigation conditions on the Romanian – Bulgarian common sector*"; "*FAIRWAY – Implementation of the Master Plan for Rehabilitation and Maintenance on the Danube River and its tributaries*"; and "*SWIM – SMART Waterway Integrated Management*", an initiative developed under the European Union Strategy for the Danube Region.

Roads

In September 2016, Romania's National Company for Motorways and National Roads was reorganised and it changed its name to National Company for Administration of Road Infrastructure SA ("**NCARI**"). The NCARI functions under the authority of Ministry of Transport.

As of August 2017, several sections of motorways totalling 186.2 kilometres were in different stages of construction. Another 744.2 kilometres of motorways were in different stages of preparation, of which 293.4 kilometres were in preparation for construction and 450.8 kilometres were in tender procedure for design phase.

Also, in order to achieve Romania's main objectives in the transport infrastructure sector, namely to create a competitive road infrastructure, at present there are at different stages of preparation a number of 457.6 kilometres of express road of which 121.1 km were in preparation for construction and 336.5 kilometres were in tender procedure for design phase.

A programme of rehabilitation, construction and modernisation of national roads is also being carried out in 2017. As of August 2017, 568.7 kilometres of national roads were under construction, with financing from the EIB and ERDF. Also, 139.5 kilometres of by-passes were under construction with financing from the ERDF and the state budget.

Inflation

The annual consumer price index ("**CPI**") inflation rate stayed on a general downward trend in 2014, falling to 0.83 per cent. in December and remained below the variation band of the inflation target in the first quarter of 2015, reaching 0.79 per cent. in March 2015. Apart from the persistence of the negative output gap and steadily improving inflation expectations, the continued disinflation was prompted by the sharp decline in the oil prices starting in the second half of 2014, the good harvest and the oversupply on the domestic market due to Russia's ban on fruit and vegetables from European countries. The negative annual rates of the adjusted CORE2 inflation up to August 2014 reversed in September to reach 1 per cent. (as a result of the VAT rate cut effect no longer having an impact) and hovered around this level until January 2015. As a result of a stronger RON, negative inflation in the eurozone and the effects of the oil price decline working through the economy, annual core inflation decreased further to 0.8 per cent. in February and March 2015.

The annual CPI inflation rate stayed below the inflation target until June 2015, when it fell sharply into negative territory due in significant part to the impact of extending the reduced VAT rate (9 per cent.) to all food items, non-alcoholic beverages and public food services. The CPI inflation rate reached a low of -1.87 per cent. in August 2015. However, by December 2015, the negative CPI inflation annual rate recovered somewhat to -0.9 per cent. Beyond the statistical effect induced by the contractions in global oil prices, the upward trend in inflation was driven by higher agricultural prices (as a result of below average harvests), the weaker RON and also by the increase in aggregate demand in the second part of the year.

In 2016, the annual inflation rate dropped into negative territory, reaching a low of -3.46 per cent. in May, due to a further reduction in indirect taxes, with the standard VAT rate being cut from 24 per cent. to 20 per cent. at the beginning of the year. However, the effect of the fiscal measures in 2015 (i.e. the broadening of the scope of the 9 per cent. reduced VAT to all food items, non-alcoholic beverages and public food services in June 2015) dissipated in June 2016, so that the annual inflation rate came closer to zero in the second half of the year (-0.54 per cent. in December). Even in the absence of the aforementioned VAT rate cuts, inflation would have run below the lower bound of the ±1 percentage point variation band of the 2.5 per cent. target in 2016, as the VAT rate-cut-adjusted measure stood at an estimated 0.86 per cent. at year-end versus 1.9 per cent. in December 2015. The lower value is due to the cut in administered energy prices in July (partly reflecting global market conditions) and to softer import price inflation, which offset the inflationary pressures that had built up on the domestic market, given the change in the cyclical position of the economy in early 2016 and the rapidly increasing unit labour costs. In spite of the widening positive output gap, CORE inflation (excluding VAT rate effects) saw a modest increase during 2016 (up to 1.4 per cent. in October) as the disinflationary pressures from external prices were still at play. However, by the end of the year, CORE inflation fell slightly to 1.2 per cent., mostly due to one-off supply-side factors (mainly, the temporary introduction of a regulatory cap on the price of compulsory motor third-party liability insurance policies).

Low inflation was also a feature of the domestic economic landscape in the first quarter of 2017, given that its path continued to be substantially influenced by VAT rate changes, namely the reduction from January 2016 and an additional cut of 1 percentage point in January 2017, respectively. Once the effect of the January 2016 VAT rate cut had faded away, annual CPI inflation returned to positive territory, standing at 1.4 per cent. in July 2017, even though some non-tax fees and charges were either reduced (including a cut in fuel excise duties in January 2017) or removed (including, starting February 2017, primarily the subscription for national radio-TV services).

Calculated at constant tax rates, CPI inflation reached in July 2017 approximately 2.4 per cent. The upward trend was initially driven by external developments that were rapidly reflected by the volatile price component (adverse weather conditions at the beginning of 2017 in the EU, upward path in oil prices in the first two months of the year). However, starting with the second quarter of 2017, a more pronounced increase in consumer prices was witnessed by most items in the consumption basket, especially energy and food products. Higher energy prices were the result of several factors, namely the latest liberalisation stage of the domestic producer price for natural gas, the rise in electricity prices on the free market accounting for around 90 per cent. of the consumer price, and the augmentation of the support scheme for producers of electricity from renewable sources. As regards processed food products, it appears that the steady increase in production costs is gradually passed through into prices, supported by robust demand on the domestic market.

The following table shows percentage changes in consumer prices for 2014, 2015, 2016 and the first seven months of 2017:

	Increases in Consumer prices			
	2014	2015	2016	Jan-Jul 2017
	(percentage change against the previous year)			
Food goods	(1.63)	(3.80)	(2.58)	2.0
Non-food goods	2.45	0.94	(1.04)	0.28
Services	3.16	2.05	(0.80)	(1.24)
Total	1.08	(0.60)	(1.55)	0.57
End of Period Increase				
Food goods	(0.41)	(6.20)	0.68	2.39
Non-food goods	1.25	1.95	(0.87)	1.67
Services	2.25	2.41	(1.83)	(0.78)
Total	0.83	(0.93)	(0.54)	1.42

Source: National Institute of Statistics and National Bank of Romania

Looking ahead, the latest NBR projection published on 8 August 2017 envisages the annual CPI inflation rate on the rise throughout the forecast interval, reaching 1.9 per cent. at end-2017, 3.2 per cent. at end-2018 and 3.5 per cent. (i.e. the upper bound of the variation band of the 2.5 per cent. point target) at the end of the projection horizon (mid-2019). The upward path in the annual inflation rate is determined by the gradual build-up of underlying inflationary pressures coming from domestic factors (the positive output gap and the progressive rise in economic agents' inflation expectations on the back of fiscal easing and income policy measures) impacting core inflation. The trajectory will also be affected by the fading out, at the beginning of 2018, of the first-round statistical effects – evaluated at approximatively 1 percentage point – related to the indirect tax cuts in January 2017 and the scrapping of a number of non-tax fees and charges in February 2017. Calculated at constant tax rates, the CPI inflation rate is projected to reach 2.9 per cent. at end-2017 (i.e. above the 2.5 per cent. central target), 3.2 per cent. at end-2018 and 3.4 per cent. at the projection horizon (being mid-2019).

The annual adjusted CORE2 inflation rate (excludes administered prices, volatile food prices, fuels, tobacco product and alcohol prices) is projected to reach 2.4 per cent. at the end of 2017, 4.0 per cent. at the end of next year and 4.4 per cent. at the projection horizon. Starting with the second part of 2018, the projected level exceeds the upper bound of the variation band of the 2.5 per cent. point target. The path of this component is largely shaped by the developments in the output gap, supplemented by the progressive rise in economic agents' inflation expectations and some, still soft and decreasing, inflationary pressures coming from import prices for consumer goods. The anticipated evolution of the annual adjusted CORE2 inflation rate will further be affected by the transitory impact of the standard VAT rate cuts only until the end of this year, when the annual inflation rate excluding this influence is projected at 2.6 per cent.

The balance of risks to the annual inflation rate projection is assessed as being tilted to the upside against the path in the baseline scenario. At the current juncture, the relevance of uncertainties is largely attached to the domestic environment, mainly the fiscal and income policies. Although the Framework Law No. 153/2017 on wages for staff paid from public funds was promulgated with implementation over a five year period (until 2022), uncertainties persist as to the manner of implementation of its provisions, as well as over the potential compensation measures aimed, subsequent to its enactment, at keeping the budget deficit within the authorities' targets. Moreover, uncertainties linger regarding the broader package of taxation measures to be implemented following the cabinet reshuffle. Another upside risk to the inflation outlook is associated with the administered prices, both in the context of recent developments in the electricity market and the persistence of uncertainties about the size and timing of future adjustments in natural gas and electricity prices.

Regarding the external environment, heightened uncertainties persist with regard to the implications that Brexit and the effect of monetary policy stances of the U.S. Federal Reserve and the ECB will have on the global macro-economic co-ordinates. Additional sources of risk stem from the future evolution of global economic activity, fuelled by the uncertainty about the traction coming from major emerging economies, especially China. Unknowns still linger over the impact that large oil inventories worldwide will have on future crude oil prices, which are likely to counter the effects of the agreement to extend the oil supply cuts, in which both OPEC and some non-OPEC countries take part.

Another source of risk stems from the relatively low price increases worldwide, in general, and in the EU, in particular. The latter developments carry the potential to generate downward deviations from the forecasted path, given the increasingly significant presence of global value chains and that of large retailers, and the higher contribution from imported goods to covering domestic consumption, which is seen to rise amid, *inter alia*, fiscal and wage stimuli.

Wages

The following table shows gross earnings for 2014, 2015, 2016 and the first six months of 2017:

	2014	**2015**	**2016**	**Jan – June 2017(1)**
Average gross nominal monthly earnings (value in RON)	**2,328**	**2,555**	**2,809**	**3,237**
(percentage change against the previous year)..	7.6	9.8	9.9	15.5
Average net nominal monthly earnings (value in RON)	1,697	1,859	2,046	2,331
(percentage change against the previous year)..	7.5	9.5	10.1	14.9
Real earnings (percentage change against the previous year)	6.4	10.1	11.8	14.4

Note:

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

Source: National Institute of Statistics

Note: The figures for 2014 and 2015, 2016 are final data, and for the first six months of 2017 are provisional data, based on statistical data.

In 2014, the average gross monthly earnings were at the level of RON 2,328, 7.6 per cent. higher than in 2013; the net average earnings have grown by 7.5 per cent., while real earnings went up by 6.4 per cent. as compared to 2013.

The average gross monthly earnings in the public sector were RON 2,574, 9.9 per cent. higher than in 2013, while the average gross monthly earnings in the private sector were RON 2,269, 7.0 per cent. higher than in 2013.

In 2015, the average gross monthly earnings increased to RON 2,555, 9.8 per cent. higher than during 2014. Net average earnings grew by 9.5 per cent. and real wages increased by 10.1 per cent., compared to 2014. In the public and private sectors, average gross earnings reached RON 2,797 and RON 2,498, respectively.

In 2016, the average gross monthly earnings increased to RON 2,809, 9.9 per cent. higher than during 2015. Net average earnings grew by 10.1 per cent. and real wages increased by 11.8 per cent., compared to 2015. In the public and private sectors, average gross earnings reached RON 3,156 and RON 2,729, respectively.

The gross minimum wage was increased from 1 January 2015 to RON 975, from 1 July 2015 to RON 1,050, and from 1 May 2016 to RON 1,250. The gross minimum wage was increased to RON 1,450, starting with 1 February 2017.

Between September and November 2015, the following salary increases for personnel paid from public funds were approved: (i) salaries paid to personnel in the public health system and personnel in the public social assistance system were increased by 25 per cent. starting in October 2015 and December 2015, respectively; (ii) salaries paid to personnel in the education system (teaching staff, auxiliary teaching staff and non-teaching staff) were increased by 15 per cent. starting in December 2015; and (iii) salaries paid to most other categories of personnel paid from public funds, including personnel in the local and central administration, were increased by 10 per cent. starting in December 2015, to the extent that such personnel did not receive other increases during 2015.

In the first six months of 2017, the average gross earnings increased to RON 3,237, 15.5 per cent. higher than during the same period of 2016. The net average earnings grew by 14.9 per cent. and the real wage increased by 14.4 per cent., compared to the same period of 2016. In the public and private sectors, average gross earnings reached RON 3,826 and RON 3,097, respectively.

Employment

Romania's economy faced labour market adjustments as a result of the global financial crisis. Romania's accession to the EU led to an increase in labour mobility with free movement of Romanian workers to other EU Member States. Estimates indicate that approximately 2.5 million Romanian citizens work abroad, mostly in EU Member States; this labour-force displacement has had a visible impact on the national labour market, as it has reduced the supply of skilled labour. The trends of unemployment in Romania are determined by particularities of Romania's economic structure. The large proportion of the population living in rural areas, the relatively large share of the public sector, the size of the hidden economy and of the informal labour market and the significant number of daily workers are among the economic factors influencing the unemployment evolution.

The following table shows changes in the labour force for 2014, 2015, 2016 and the first quarter of 2017:

Labour Force(1)

	2014	2015	2016	Q1 2017
	(percentage change against the previous year)			
Active population(2)(3)	0.6	(0.3)	(1.8)	(0.1)
Employment(2)	0.9	(0.2)	(0.8)	1.2
Employees	1.9	3.6	2.3	3.0
	(per cent.)			
Activity rate(2)(3)..	65.7	66.1	65.6	64.9
Employment rate(2)	61.0	61.4	61.6	61.2

	Labour Force(1)			
	2014	2015	2016	Q1 2017
	(percentage change against the previous year)			
International Labour Organisation (ILO) unemployment rate	6.8	6.8	5.9	5.5

Notes:

(1) Data according to the 2011 Population Census and The Households Labour Force Survey (AMIGO)

(2) Working age population (15 to 64 years old)

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

Source: National Institute of Statistics

The employment rate for the working-age population had a positive evolution over the past four years registering an increase from 61.0 per cent. in 2014 to 61.4 per cent. in 2015 and 61.6 per cent. in 2016. In the first quarter of 2017, the employment rate for the working-age population was 61.2 per cent.

The positive economic evolution over the last four years was also translated in the labour market and the unemployment rate registered a decreasing trend reaching 6.8 per cent. by the end of 2015, and a similar value of 6.8 per cent. was reached by the end of 2015. In 2016, the unemployment rate was 5.9 per cent. and decreased to 5.5 per cent. in first quarter of 2017.The latest available provisional data indicates a seasonally adjusted unemployment rate of 5.2 per cent. in July 2017. (Data provided by National Commission for Prognosis and calculated using ILO Methodology).

The registered unemployment rate had also a decreasing trend over the past four years. It was 5.7 per cent. and slightly decreased during 2014 to 5.4 per cent. at 31 December 2014, 5.0 per cent. at 31 December 2015 and 4.8 per cent. at 31 December 2016. The latest available data indicates a rate of 4.15 per cent. in June 2015. (Data calculated using ANOFM national methodology).

The unemployment rate registered during 2016 was at a low level, with a downward trend in almost all months of the year, reaching 4.77 per cent. in December 2016, from 4.90 per cent. in January 2016. At the end of June 2017, the rate of unemployment registered at national level was 4.2 per cent.

	As at 31 December			
	2014	2015	2016	June 2017
	(%)			
Registered Unemployment Rate	5.30	4.90	4.8	4.2

Source: ANOFM

The number of active individual employment contracts concluded for an unlimited duration registered with the relevant authorities was 5,342,159 at 31 December 2014. The number of active individual employment contracts concluded for an unlimited duration registered at 31 December 2015 was 5,591,864. At 31 March 2016, the number of registered active individual employment contracts concluded for an unlimited duration was 5,656,379. As at 31 August 2016, the number of registered active individual employment contracts for an unlimited duration was 5,732,364. At 31 December 2016, the number of registered active individual employment contracts for an unlimited duration was 5,761,188. At 31 July 2017, the number of registered active individual employment contracts for an unlimited duration was 5,865,228.

The relaxation of the rules applicable to active individual employment contracts for a limited duration led to the increase of the number of active individual employment contracts for a limited duration from 482,423 at 31 December 2014 to 501,782 at 31 December 2015. At 31 March 2016, the number of registered active individual employment contracts concluded for a limited duration was 507,613. As at 31 August 2016, the number of active individual employment contracts for a limited duration was 513,244. At 31 December 2016, the number of registered active individual employment contracts for a limited duration was 477,979. At 31 July 2017, the number of registered active individual employment contracts for a limited duration was 500.994.

A significant increase was also registered in the number of daily labourers (from 664,857 daily labourers at 31 December 2014 to 778,722 daily labourers at 31 December 2015). At 31 March 2016, the number of daily labourers was 803,626. At 31 July 2017, the number of daily labourers was 865.622.

The authorities took measures to fight against undeclared work and between January and December 2014, the authorities carried out 130,720 labour inspections, further to which 13,589 fines were applied and 333 criminal prosecution procedures were initiated. Between January 2015 and March 2016, the number of labour inspections carried out by the authorities was 91,756, further to which 11,833 fines were applied and 323 criminal prosecution procedures were initiated. Between January and December 2016, the authorities carried out 76,690 labour inspections, which resulted in 9,024 fines being applied and 263 criminal prosecution procedures being initiated. Between January and July 2017, the authorities carried out 44,827 inspections, which resulted in 3,844 fines being applied and 139 criminal prosecution procedures being initiated.

In order to enhance the positive outcomes of economic growth into the labour market, amendments to the legislation on the unemployment insurance system were adopted in 2016 and 2017. The changes aim at increasing activation of long-term unemployed persons and at facilitating internal mobility in order to solve regional deficits, but also at supporting the growth of the employment rate until 2020. The amendments included measures, such as the revision of internal mobility bonuses provided to unemployed persons that manage to find a job with more than a 15 km commute to work, but also to assist those that find a job with more than a 50 km commute to change their domicile or residence closer to their new job. Also, the new legislative provisions increased the financial support provided to employers that hire various vulnerable groups, such as: young graduates, young NEETs (people between 15 and 24 years not in employment, education or training), long-term unemployed persons, unemployed persons over 45 years, unemployed single parents and people with disabilities or unemployed persons who, within five years of their date of employment, would meet the conditions for early retirement pension or for age limit retirement.

The amendments to the legal framework also aimed at tackling the problem of youth unemployment and at enhancing integration into the labour market of young people (i.e. between 15 and 24 years). The unemployment rate of youth was 24.0 per cent. in 2014 and decreased in 2015 to 21.7 per cent. and in 2016 to 20.6 per cent.

Social Security System

Unemployment Benefits

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

Unemployment benefits are paid out to insured persons out of an unemployment fund that is operated separately from the principal social security budget.

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

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

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

The following table shows the evolution of realised unemployment insurance budget as at 31 December 2014, 2015, 2016 and as at 30 June 2017:

Unemployment Insurance Budget

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
		(RON)		
Revenues	1,789,980,041	1,790,077,695	1,984,131,562	1,070,808,112
Expenditure	1,557,505,680	1,318,146,184	1,008,049,127	482,784,865
Surplus/Deficit	232,474,361	471,931,511	976,082,435	588,023,247

Source: National Employment Agency

The expenditures in 2014, 2015, 2016 and the first six months of 2017 are presented in the following table:

Unemployment Benefits Expenditure

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
		(RON)		
Guarantee fund expenses	19,642,436	26,607,505	30,407,329	13,792,869
Education	34,521,945	35,335,777	29,014,965	12,644,502
Insurance and social assistance	1,274,902,502	918,375,170	791,775,929	382,868,457
General economic, commercial and employment activities	228,438,797	337,827,732	156,850,904	73,479,037
Total expenditure	1,557,505,680	1,318,146,184	1,008,049,127	482,784,865
Per cent. of GDP	0.23	0.18	0,14	0.06

Source: National Employment Agency

The annual evolution on registered unemployed persons as at 31 December 2014, 2015, 2016 and the first six months of 2017 is presented in the following table:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
Receiving Benefits....................................	140,955	108,533	90,111	62,414
Not Receiving Benefits.............................	337,383	327,709	328,126	302,231
Total...	478,338	436,242	418,237	364,645

Source: National Employment Agency

The expenditures during 2014, 2015, 2016 and the first six months of 2017 on active employment measures designed to reduce the level of unemployment and to foster employment are presented in the following table:

	Expenditure on Active Employment Measures			
	As at 31 December			**As at 30 June**
	2014	**2015**	**2016**	**2017**
Active employment measure				
Vocational training	33,759,301	29,449,679	27,178,705	12,039,247
Stimulating employment of graduates	37,109,978	39,699,637	36,111,833	14,154,048
Stimulating employment of unemployed persons before the expiration of unemployment period	14,386,712	14,499,715	13,029,852	6,169,838
Stimulation of labour mobility..................	4,168,723	3,359,971	2,911,112	983,175
Stimulating the employment of unemployed from disadvantaged groups ...	84,210,560	89,118,312	90,127,129	46,466,363
Payments to foster graduates employment.	2,921,894	2,589,265	2,032,973	1,182,318
Payments under Law 72/2007....................	630,564	803,481	956,174	0
Payments for vocational training of graduates (Article 84 of Law 76/2002)......	698,138	503,699	889,267	602,706
Payments under Law L76/2002 modified L250/2013 (solidarity contracts)...............	14,852,514	7,892,478	5,945,210	2,596,692
Programmes for temporary employment ...	0	0	0	0
Active measures to combat unemployment (Counselling and career assistance)...........	2,192,104	1,528,250	508,465	0
Pre-dismissal services...............................	952,926	888,019	914,165	388,408
Low interest loans for SMEs	0	0	0	0
Law No. 335/2013 on internships.............	17,649	254,779	192,558	144,519
Prima de activare (art.73^2)OG 60/2017			0	3,992,810
Prima de relocare (art.76(2)OUG6/2017			0	6,250
Total...	195,901,063	190,587,285	180,797,443	88,726,374

Expenditure on Active Employment Measures

	As at 31 December			As at 30 June
	2014	2015	2016	2017
Expenditure on active measures as a share of GDP (per cent.)	0.03	0.03	0.02	0.01

Source: National Employment Agency

Health System in Romania

Romania relies on a social health insurance system to finance a large part of its health care. Introduced in 1998, this system has been beneficial as it has increased the amount of public spending available to the sector. The National Health Insurance House ("**NHIH**") is the institution that manages the Single National Health Insurance Fund ("**SNHIF**"). One of the principles on which the health insurance system in Romania is based is the mandatory participation in the payment of the social health insurance contribution for financing the SNHIF. Contributions are due by natural and legal persons, respectively, employees, employers, as well as by other natural persons who earn income on which the contribution is due. For certain categories of people contributions are provided by the state budget. The full contribution rate due to the employee and the employer is 10.7 per cent., and for the other categories of persons who generate income on which the contribution is due, the share is 5.5 per cent.

About one-half of NHIH spending was on hospital care, with drugs and medical supplies representing the second highest expenditure comprising approximately one-third of the total, whereas primary health care only made up about 6.9 per cent. of NHIH spending. By 2010, the entire population of around 18 million (approximately after the 2011 census) was entitled to benefits, and the taxpayers as employees were about five million. The number of contributors increased by approximately 3.5 million individuals as an effect of the implementation of a law in 2011 extending the pool of payers by including all pensioners with incomes of over 740 RON a month. In March 2016, the legislation was amended and the pool of payers currently includes all pensioners whose monthly income exceeds the value of one "pension point" (RON 871.7 in 2016).

By Law no. 2/2017 for amending and completing the Law no. 227/2015 regarding the Fiscal Code and amending Law no. 95/2006 on healthcare reform, measures have been introduced which have resulted in a number of changes with social and budgetary impact on payment obligations representing health insurance contributions due to the Single National Health Insurance Fund by individuals with monthly income from pensions.

Thus, starting with February 2017, individuals who make pension income are no longer required to pay the social security contribution on these incomes, the obligation being transferred to the state budget.

Compared to the previous provisions in 2016, which stipulated that the individuals owe the social health insurance contribution only for the part of the income that exceeded the pension point level (871.7 lei set for 2016), the contribution is currently calculated on the whole income from pensions, and the respective amounts are monthly paid by the Ministry of Health to the budget of the National Health Insurance Fund.

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

The following table shows public health expenses for 2014-2016 and the 2017 budget:

Public health expenses for 2014 – 2016 and the 2017 programme

	2014	2015	2016	2017 Budget
Per cent. of GDP	4.0	4.1	4.0	4.1
State budget *(RON million)*........................	3,143.7	3,758.5	4,086.6	4,116.8
Local administrations' budgets *(RON million)*	8,456.5	9,273.9	10,149.5	11,839.7
Sole National Health Insurance Fund budget *(RON million)*	21,487.3	22,013.3	24,458.5	27,177.5
Foreign credit inputs *(RON million)*	0.0	0.0	0.0	
Fully/partially own income financed institutions[1] *(RON million)*......................	6,457.2	6,998.1	7,116.6	7,996.6
EU funding *(RON million)*.........................	1.6	22.4	22.2	6.2
Transfers between budgets[2] *(RON million)*	(12,869.3)	(13,119.0)	(15,539.5)	(17,290.6)
Financial operations *(RON million)*	(16.1)	(29.5)	(28.7)	(29.3)

Notes:

(1) Hospitals of the Ministry of Health.

(2) Subject to deduction from the total amount.

Source: Ministry of Public Finance

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

In recent years, there has been significant growth in the resources available to the health sector which exceeded the rate of growth in the general public sector. The most significant beneficiaries, in terms of share of total spending, have been the national health programmes which attempted to partially cover the financing deficits of the health insurance budget for certain types of services. National health programmes reached 13.88 per cent. of total healthcare spending in 2014 and 16.13 per cent. in 2015 and 15.75 per cent. in 2016. These are shared between relatively cost-effective public health programmes and relatively expensive hospital-based activities.

The SNHIF budget for 2017 provides for an increase of 8.3 per cent. of funds allocated to primary health services (including permanent centres) from RON 1,550.9 million in 2016, to RON 1,680 million lei in 2017 and an increase of 13.2 per cent. of the funds allocated for specialised outpatient medical care for clinical specialties from RON 778 million in 2016 to RON 880.6 million in 2017.

In 2017, the budget for primary care (including permanent centres) is 1,680 million lei, representing 7.6 per cent. of SNHIF health budget expenditures, excluding the costs resulting from the volume cost contracts and volume cost result and the costs generated by the salary increases granted to staff paid from public funds.

The distribution of funds allocated to national curative health programmes in 2017 on medicines, sanitary materials and services/investigations is:

medicines	2,947,595,840.00 lei	65.53 per cent.
sanitary materials	389,677,000.00 lei	8.66 per cent.
services/investigations	1,160,626,440.00 lei	25.80 per cent.

The increase in the share of budgets allocated to the curative national programmes from the total SNHIF medical services (18.28 per cent. in 2017 compared to 13.88 per cent. in 2013) is due to the diversification and complexity of the medical pathology covered by the national curative health programmes, as well as the increase of the accessibility of the patients, influencing majorly the survival and quality of life (oncological diseases, neurological diseases, diabetes and rare diseases).

The separation of responsibilities between the Ministry of Health and the NHIH allowed better control over the expenditure of healthcare programmes.

The goals of the basic package are reducing hospital admissions, increasing the number of cases resolved in day care and establishing conditions for the development of primary and outpatient health care services. Within the framework of the basic medical package, the hospital medical services that do not require continuous admission, granted under the day hospital treatment under the conditions provided in the relevant legislation

At the level of primary care, preventive consultations for people over the age of 18 have been introduced to check for major diseases and conditions. For 2016 and 2017, the minimum healthcare package is defined by Government Decision no. 161/2016, which entered into force on 1 July 2016.

Methodological Norms for the Application of the Government Decision no. 161/2016 were approved by the Order of the Minister of Health and of the President of the National Health Insurance House no. 763/377/2016 (applicable between 01.07.2016-31.03.2017) and Order of the Minister of Health and of the President of the National Health Insurance House no. 196/139/2017 (normative act in force since 01.04.2017).

Romania has continued the reform of the national healthcare system, by initiating the implementation of the national health strategy, that improves access to medical services, efficiency and financial sustainability of the healthcare system and supports modernisation of healthcare provisions at the regional level.

Regarding the field of prescription medicines, we mention that, as of 2014, 63 new medicines (DCIs) were included unconditionally in the list, 17 medicines (INNs) without therapeutic alternative or for diseases with a major impact on health were included conditionally on the basis of cost-volume, cost-volume-result contracts and 16 drugs were delisted while 21 other medicines were moved to a new list with a 20 per cent. offset of the reference price.

In line with strategic directions of health strategy, an analysis of the resources needed to modernise the healthcare infrastructure was developed and will be implemented as a World Bank project. A loan in an amount of EUR 250 million was approved by the World Bank Board in March 2014 to implement this project. The project started in 2015 and is currently under implementation. The main objectives of the project on health sector reform – improving the quality and efficiency of the health system are:

- rationalising the hospital network by providing goods, works, services other than consulting, advisory services and training in selected emergency regional hospitals, district hospitals and regional hospitals;
- strengthening secondary outpatient specialist care by providing goods, works, services other than consulting, consultancy and training;
- improving the capacity of the Ministry of Health and other relevant government institutions for governance and management of the health sector, in order to reduce the gap between policy and practice and to reinforce the capacity and improve quality of care by providing goods, works, services other than advisory, consultancy and training; and
- supporting the Ministry of Health and the Project Management Unit (PMU) in the management and implementation of the project, including fiduciary duties, monitoring, evaluation and reporting by

providing goods, works, services other than consulting, consulting services, training, audit and operational costs.

Pension System Reform

The following table shows the average number of employed persons versus the number of pensioners and the dependency ratio throughout 2015, 2016 and the first seven months of 2017:

	2015	**2016**	**Jan – Jul 2017**
Average no. of employees *(thousands)*	4,611.4	4,759.4	4,826.6
Average no. of pensioners based on state social security *(thousands)*	4,682.6	4,677.7	4,673.7
Dependency ratio*	1.015	0.983	0.968

Note:

* According with National Institute of Statistics methodology, represents the ratio between average number of pensioners based on state social security and average number of employees performing an activity based on working contract.

Public Pension System

The Romanian public pensions system, which has been traditionally financed by the Romanian Government by means of subsidies, has seen its deficit increase since 2008 as a result of a number of factors in Romania that combined to put pressure on the pension system, including demographic factors (the ageing of population); increases in state expenditures per person on pensions and other pressures on the state social insurance budget; the emergence of special public pensions (which introduced a number of privileges and favourable treatment of certain professional categories, leading to a large gap between the highest and lowest paid state pension); and the existence of laws governing the organisation and functioning of different pension schemes for certain professions which was hampering the functioning of the pension system.

In 2014, the deficit of the public pension system was RON 13.47 billion (approximately EUR 3.0 billion at the 2014 December average exchange rate). In 2015, the deficit increased further to RON 18.4 billion (approximately EUR 4.0 billion at the 2015 December-average exchange rate). In 2016, the deficit of the public pension system was RON 15.1 billion. The deficits of the public pensions system budget were covered by amounts transferred from the state budget in the form of subsidies.

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

The reforming measures under Law No. 263/2010 on the unitary system of public pensions ("**UPPL**") include: annual indexation of the state pension to the forecast consumer price index instead of gross average wage, prohibiting discretionary pension increases, gradually increasing the retirement age, by January 2015, to 60 years for women and 65 years for men, introducing measures to reduce fraudulent claims for disability pensions, gradually increasing the retirement age for women from 60 years to 63 years by 2030, increasing by 2030 the contribution periods for old age pension, gradually equalising the contributions for women and men by 2030, introducing disincentives for early retirement and integrating the special pension systems (such as those for military and certain professions) into a unified public pension system.

The public pension system under the UPPL is contribution-based. Social insurance funds are derived from the contributions paid by natural and legal persons that are part of the public pension system and social insurance rights are granted on the basis of the contributions paid. As of October 2014, the contribution quotas for employees are 26.3, 31.3 and 36.3 per cent. of the gross salary, of which 10.5 per cent. (including the contribution to the second pillar pension system) is owed by the employees.

The adoption of UPPL improved the viability of the pension system and contributed to the sustainability of public finances. Partly as a result of the implementation of the UPPL, the real average retirement age increased in the whole system, from 57.8 years in 2010 to 59.4 years in 2016 for men and from 56.1 years in 2010 to 57.4 years in 2016 for women. Also, given the tighter requirements for anticipated pensions, the number of persons who registered for pension decreased from 307,282 in 2010 to 292,541 in 2016, and the number of people who registered for partial early retirement decreased from 42,340 in 2010 to 25,236 in 2016. The implementation of stringent eligibility requirements for disability pension retirement, designed to discourage abuse, led to a decrease of the number of persons who have signed up for disability pension, from 61,905 pensioners in 2010 to 50,992 pensioners in 2016.

Subsidies

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

In 2014, 2015 and 2016 subsidies from the general consolidated budget accounted to 0.9 per cent. of GDP, and are budgeted at the same level for 2017.

Privatisation

Until 2006, the Authority for State Assets Recovery ("**AVAS**") was the main institution in charge of the privatisation process in Romania. AVAS was subject to reorganisation at the end of December 2012, becoming the Authority for State Assets Administration ("**AAAS**"), placed under the co-ordination of the Minister of Economy and subordinated to the Government. The reorganisation allowed AAAS to correlate its administration and privatisation policies with the national industrial strategy and with the policies for the recovery of State claims over privatised companies. (ICSID litigation no. ARB/12/25, Marco Gavazzi and Stefano Gavazzi v. Romania and AVAS was finalised and the arbitral award was announced on 18 April 2017. The Romanian State – AAAS was ordered to pay U.S.$3,777,264 and EUR1,939,747.08 to the Gavazzi brothers.)

Following several departmental restructurings, the Ministry of Energy, Small and Medium Enterprises and the Business Environment is developing the privatisation, administration and restructuring of the companies in the energy sector.

Authority for State Assets Administration

As at 1 June 2017, AAAS's portfolio comprised stakes in 504 companies, amounting to a total nominal value of AAAS's participation of RON 880.96 million. Out of the total 504 companies, only 273 are currently operational and the nominal value of AAAS's participation in these companies amounts to RON 227.92 million. AAAS holds majority stakes in eight operational companies and the total share capital held by the state does not exceed RON 130.54 million.

During the period from December 1992 until June 2017, AAAS concluded a total of 11,668 share transactions for a total divested share capital exceeding RON 9,000 million. These figures refer to share sale-purchase contracts concluded, addenda to contracts for the sale of additional shares, contracts concluded during the merger with the Office for State Ownership and Privatisation in Industry ("**OPSPI**"), share sale-purchase contracts which were subsequently written off and share sale on stock exchange market.

Department for Privatisation and State Ownership Administration

Department for Privatisation and State Ownership Administration ("**DPAPS**") is responsible for the privatisation of and raising capital for the projects of such companies and exercises, on behalf of the Ministry of Economy, its authority on privatisation and, within the limits approved by the Minister, exercises all the rights and obligations of the State as a shareholder.

Currently, the portfolio managed by the Ministry of Economy includes companies in the mineral resources sector (such as Societatea Naţională a Sarii S.A., Societatea Naţională a Apelor Minerale S.A., Cupru Min S.A., Compania Naţională Minvest S.A.), the defence sector (Compania Naţională ROMARM S.A., Romaero S.A., IAR S.A., Avioane Craiova S.A., Santierul Naval Mangalia S.A., etc.), electricity and natural gas transportation companies (Compania Naţională de Transport a Energiei Electrice "Transelectrica" S.A. and Societatea Naţională de Transport Gaze Naturale "Transgaz" S.A.) and other sectors of activity as well.

Starting January 2017, tourism companies were transferred to the Ministry of Tourism.

On 16 April 2013, the Ministry of Economy (at the time, MECRMA), through DPAPS (at the time, OPSPI), successfully completed the secondary public offer of 15 per cent. in Transgaz S.A., with proceeds amounting to RON 315 million. On 16 June 2015, the General Shareholders Assembly of Transgaz S.A. voted to start the procedure of a corporate bond issue, unsecured, up to a maximum of RON 500 million, minimum five-year maturity, fixed interest rate of maximum 4.5 per cent., to finance "The development plan of national transport system of natural gas for 2014-2023".

Based on a memorandum approved by the Government of Romania, on 25 January 2013 Oltchim S.A. filed for voluntary insolvency with the aim to restructure its business. The initiation of the insolvency proceedings was approved on 30 January 2013 and judicial administrators were appointed. On 14 March 2013, a special administrator was appointed and a reorganisation plan was issued, aiming to increase the production capacity of the company, as well as attracting investors. The reorganisation plan of Oltchim S.A. had been voted and approved on 9 March 2015, following judicial approval on 22 April 2015.

The first reorganisation plan approved by the Creditors' Assembly on 22 April 2015 stipulated the sale of Oltchim SA after the establishment of a new company, Oltchim SPV, which would include all viable assets of the company. This plan also stipulated the write-off of over EUR 350 million, receivables to AAAS and Electrica SA. Claims had to be transformed into shares and then sold together with the initial shares of the company. Nevertheless, this increase in share capital could not be approved by the General Meeting of the Shareholders of OLTCHIM SA due to the opposition of the PCC shareholder.

During reorganisation, Oltchim had recovered economic and financial activity, with a net profit of 11.37 million lei (2.5 million euros) last year, after 2015 when the company reported losses of 48.46 million lei. However, turnover last year had increased by 1.7 per cent. to 754.8 million lei.

On 6 March 2017, Oltchim creditors' meeting approved the amendment of the reorganisation plan. Changing the method of sale of Oltchim came in the context of the investigation launched by the European Commission in April 2016, regarding possible state aid for the company and the allegations that the process of sale, as contained in the reorganisation plan approved initially, will lead to economic continuity between Oltchim and possible buyers of the company, which would involve the risk of recovery of the alleged state aid from the buyer.

In order to ensure economic discontinuity, the process of selling the debtor company was adapted to the new factual situation in order to eliminate the risk of recovering potential state aid from potential investors by modifying the method of selling Oltchim S.A.'s assets on packages of functional assets, proposed by the consortium of the debtor's legal administrators. The European Commission has agreed the method. Many bidders submitted indicative bids for more than one asset bundle.

The Government of Romania approved by a memorandum the measures proposed by the Romanian authorities for resolving sensitive state aid cases under the European Commission's analysis, which were the subject of the structured dialogue between Romania and the European Commission and approved in the Government meeting of 5 May 2017, the timetable for implementing the sales process to be finalised in the fourth quarter of 2017, i.e. the selection and approval of the engagement offer / offer.

This term depends on several factors, namely the position of the European Commission, the approval of the Creditors' Assembly and the possibility of its subsequent amendment.

The main objectives of the actions carried out in connection with Oltchim SA are the reorganisation plan that creates the premise of the economic discontinuity in the context of the European Commission's investigation, the continuation of the viable economic activities under market conditions and the maximisation of the company's revenues as a result of the sale of the assets.

This reorganisation plan is ongoing.

During 2016, none of the companies from the Ministry of Economy portfolio was privatised.

Ministry of Energy

Currently, the portfolio managed by the Ministry of Energy includes companies in the energy sector and energetic mineral resources companies, such as Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias, Societatea Nationala "Nuclearelectrica" S.A., Societatea de Producere a Energiei Electrice in Hidrocentrale "Hidroelectrica" S.A. (in insolvency procedure), Electrocentrale Bucuresti S.A. (in insolvency procedure), Electrocentrale Grup S.A., Electrocentrale Constanta S.A., Complexul Energetic Oltenia S.A., Complexul Energetic Hunedoara S.A., Compania Nationala a Uraniului; Regia Autonoma Tehnologii pentru Energia Nucleara, Oil Terminal S.A., Conpet S.A., Societatea de Administrare a Participatiilor in Energie S.A. (SAPE S.A.), Societatea Nationala Inchideri de Mine Valea Jiului (SNIM S.A.).

In the first quarter of 2017, Hidroelectrica S.A. registered an estimated gross profit of RON 478 million and a turnover of RON 748 million.

The Ministry of Energy continues the projects involving independent power producer joint ventures between the Romanian government and private investors for setting up new power generation units. These projects, which are currently in various stages of implementation, involve companies such as UT Midia S.A., Complexul Energetic Oltenia S.A. (Electrocentrala Rovinari), Hidro-Tarnita Lapustesti, Nuclearelectrica S.A. (completing the nuclear units 3 and 4 of 720 MW each, from the Cernavodă Nuclear Power Plant).

Ministry of Transport

As at the end of June 2017, the portfolio managed by Ministry of Transport included the main companies in the transport and transport infrastructure sector, such as Societatea Naţională de Transport Feroviar de Marfă "C.F.R. – Marfă" S.A., Societatea Naţională de Transport Feroviar de Călători "C.F.R. – Călători" S.A., Compania Naţională "Administraţia Porturilor Maritime" S.A. Constanţa, Compania Naţională "Aeroporturi – Bucureşti" S.A., Societatea "Compania Naţională de Transporturi Aeriene Române – TAROM" S.A.

The Ministry of Transport is periodically evaluating privatisation opportunities in its field, in terms of investors' interest.

Shadow Economy

Romania has a significant shadow economy, around half of which is believed to be based on unregistered labour. Its size, although difficult to verify, is estimated by the authorities based on national statistics on tax evasion and the number of employees reported in the business and household surveys prepared by the National Institute of Statistics.

FOREIGN TRADE[9] AND BALANCE OF PAYMENTS

The current account deficit was 0.7 per cent. of GDP in 2014 (final data), slightly increasing to 1.2 per cent. of GDP in 2015 (final data) and further increasing in 2016 (semi-final data) to 2.1 per cent. In 2014, after the decrease in the absolute level of the current account deficit, non-residents' direct investment entirely covered the current account deficit. In 2015 and 2016, in spite of the increase in the current account deficit (to EUR 1,972 million and EUR 3,4986 million, respectively) the non-residents' direct investment kept pace at EUR 3,461 million and EUR 4,517 million, respectively. In 2014, capital transfers were 3.9 times higher than the current account deficit while in 2015 and 2016 this ratio was 2.0 and 1.2, respectively. From 2012 to 2015, net external borrowings with long-term maturities turned into net outflows during the redemption of the loans under the 2009 stand-by agreement with the IMF (the "**2009 Stand-by Agreement**").

Trade in goods

Due to a decrease in exports and increase in imports, the share of the goods' balance deficit in GDP in 2014 increased to 4.3 per cent. of GDP, followed by a further increase to 4.9 per cent. of GDP in 2015 and 5.5 per cent. in 2016.

The following table shows changes in foreign trade for 2014 to 2016 and the first seven months of 2017:

	2014	**2015**	**2016(s)**	**Jan-July 2017(P)**
Current account balance *(EUR million).*	(1,012)	(1,972)	(3,498)	(3,631)
per cent. of GDP	(0.7)	(1.2)	(2.1)	—
Trade balance FOB(1) *(EUR million)*	(6,536)	(7,788)	(9,253)	(6,190)
per cent. of GDP	(4.3)	(4.9)	(5.5)	—
Exports of goods *(EUR million)*	46,814	49,113	52,170	32,847
annual percentage change	6.7	4.9	6.2	10,1
Imports of goods FOB(2) *(EUR million)*	53,351	56,901	61,423	39,036
annual percentage change	7.4	6.7	8.0	12.7

Notes:

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

(S) Semi-final data. Data for 2016 correspond to the 22 September 2017 revision and are subject to further revisions in September 2018.

(P) Provisional data.

[9] For the purposes of this document, trade in goods is compiled according to the International Monetary Fund's BPM6 Methodology. Thus the figures refer to the "Goods" balance in the current account and are different from the foreign trade data produced by the National Institute for Statistics in that the former exclude from the international trade in goods data, the value of goods processed in Romania and abroad and include the net exports of goods under merchanting in order to comply with the BPM6 principle of change in ownership).

Source: NBR

Main trends in 2014 – 2016 and the first seven months of 2017

In 2014 (final data), the goods deficit was EUR 6,536 million, 12.4 per cent. above the level recorded in 2013, with exports growing by 6.7 per cent. and imports by 7.4 per cent. The trade deficit was fuelled by intra-EU trade, while extra-EU trade recorded a surplus of EUR 1,358 million. The coverage of imports through exports went down by 0.2 percentage points to 87.7 per cent. The split between deficits and surpluses at the merchandise group level remained unchanged compared to the previous year.

In 2015 (final data), the goods deficit increased by 19.2 per cent. to EUR 7,788 million, with import growth (6.7 per cent.) outpacing export growth (4.9 per cent.). The intra-EU trade deficit outpaced the total deficit, while extra-EU trade ended up in surplus of EUR 559 million. The coverage of imports through exports went down by 1.4 percentage points to 86.3 per cent.

In 2016 (semi-final data as of September 2017), the goods deficit totalled EUR 9,253 million, 18.8 per cent. up from 2015, with exports increasing by 6.2 per cent. and imports by 8 per cent. The intra-EU trade deficit accounted for 97.6 per cent. of the total goods deficit, and extra-EU deficit the remaining 2.4 per cent. The coverage of imports through exports declined by 1.4 percentage points to 84.9 per cent.

In the first seven months of 2017 (provisional data), the goods deficit increased by 29 per cent. to EUR 6,190 million, with imports growth (12.7 per cent.) continuing to outpace the exports growth (10.1 per cent.). 83.2 per cent. of the goods deficit was brought by the intra-EU trade in goods, while extra-EU trade in goods made up the remaining 16.8 per cent. The imports through exports coverage was 84.1 per cent., down 2 percentage points year on year.

Exports and imports of goods included in the balance of payments

In 2014 (final data), exports of goods totalled EUR 46,814 million, 6.7 per cent. above the prior year's level, due to positive performances of most commodity groups (Combined Nomenclature) except for a minor decrease in the share of wood and paper products. Exports to other EU countries increased by 9.7 per cent., with a corresponding increase in the share of total exports (by 1.6 percentage points to 69.1 per cent.), while exports to countries outside the EU rose by only 1.4 per cent. Over the same period, imports of goods amounted to EUR 53,351 million, 7.4 per cent. up from 2013. Imports of goods purchased from EU countries increased by 7.2 per cent. (but decreased from 75.6 to 75.5 per cent. as a share in total imports), while imports from countries outside the EU increased by 7.9 per cent.

In 2015 (final data), exports of goods totalled EUR 49,113 million, 4.9 per cent. above the prior year's level, due to positive performances of most commodity groups (Combined Nomenclature) except for mineral products, wood and paper products. Exports to other EU countries increased by 9.8 per cent., with a corresponding increase in the share of total exports (by 3.2 percentage points to 72.3 per cent.), while exports to countries outside the EU decreased by 5.9 per cent. Over the same period, imports of goods amounted to EUR 56,901 million, 6.7 per cent. up from 2014. Imports of goods purchased from EU countries increased by 9 per cent. (from 75.5 to 77.1 per cent. as a share in total imports), while imports from countries outside the EU decreased by 0.5 per cent.

In 2016 (semi-final data), exports of goods totalled EUR 52,170 million, 6.2 per cent. above the prior year's level, mainly due to positive performances of commodity group (Combined Nomenclature) Machinery and transport equipment. Exports to other EU countries increased by 8.2 per cent., with a corresponding increase in the share of total exports (by 1.4 percentage points to 73.7 per cent.), while exports to countries outside the EU rose by only 1.1 per cent. Over the same period, imports of goods amounted to EUR 61,423 million, 8 per cent. up from 2015. Imports of goods purchased from EU countries increased by 8.2 per cent. (and from 77.1 to 77.3 per cent. as a share in total imports), while imports from countries outside the EU increased by 7.2 per cent.

In the first seven months of 2017 (provisional data), exports of goods totalled EUR 32,847 million, a 10.1 per cent. increase year-on-year, mainly due to positive performances of some commodity groups (Combined Nomenclature) such as Machinery and transport equipment, Base metals and Mineral products. Exports to other EU countries increased by 10.8 per cent. with a corresponding increase in the share of total exports (by 0.4 percentage points to 74.4 per cent.), while exports to countries outside the EU rose by 8.3 per cent. Over the same period, imports of goods amounted to EUR 39,036 million, 12.7 per cent. up from the first seven months of 2016. Imports of goods purchased from EU countries increased by 9.9 per cent. (but decreased from 77.8 to 75.8 per cent. as a share in total imports), while imports from countries outside the EU increased by 22.7 per cent.

The shares of groups of goods (according to the Combined Nomenclature) in total exports and in total imports in 2014-2016 and the first seven months of 2017 are shown in the table below:

Trade Balance – Groups of Goods and Sections

	Export FOB				Import FOB			
	2014	2015	2016s	Jan-Jul, 2017p	2014	2015	2016s	Jan-Jul, 2017p
	(per cent.)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1 Agri-food items................	11.9	12.0	11.7	9.8	10.0	10.5	11.1	11.1
I Live animals and animal products	1.6	1.6	1.5	1.6	2.2	2.1	2.2	2.2
II Vegetable origin products..	6.6	6.3	6.6	4.9	2.9	3.5	3.7	3.9
III Animal or vegetable oils and fats	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3
IV Foodstuff, beverages, tobacco.................................	3.2	3.7	3.2	3.0	4.6	4.6	4.9	4.7
2 Mineral products (V)	7.0	5.2	4.2	4.0	10.2	7.3	6.4	6.9
3 Chemical and plastic products..............................	10.7	10.3	9.6	9.9	18.0	18.2	17.9	18.0
VI Chemical products	4.5	4.1	3.5	3.7	10.7	10.7	10.5	10.5
VII Plastics, rubber	6.2	6.2	6.1	6.2	7.3	7.5	7.4	7.5
4 Wood products, paper......	4.7	4.4	3.9	3.8	2.5	2.6	2.7	2.5
IX Wooden products	4.0	3.7	3.1	3.0	0.8	0.9	1.0	0.9
X Wood pulp, paper	0.7	0.7	0.8	0.8	1.7	1.7	1.7	1.6
5 Textiles, clothing, footwear	5.6	5.3	5.5	5.4	5.6	5.9	6.3	6.2
XI Textiles and articles thereof..................................	4.0	4.0	4.1	4.0	4.7	5.0	5.4	5.2
XII Footwear........................	1.6	1.4	1.4	1.4	0.9	0.8	0.9	1.0
6 Common metals (XV).......	9.7	9.2	8.3	9.2	10.8	10.9	10.2	10.7
7 Machinery, apparatus, electric equipment, transport means	42.7	45.3	48.1	48.3	36.6	37.8	38.3	37.3
XVI Machinery, appliances and electric equipment	25.9	27.7	29.4	28.5	26.7	28.2	27.8	27.2
XVII Transport means	16.8	17.5	18.7	19.8	9.9	9.6	10.5	10.1
8. Others	7.9	8.2	8.8	9.7	6.2	6.9	7.1	7.3

Trade Balance – Groups of Goods and Sections

	Export FOB				Import FOB			
	2014	2015	2016s	Jan-Jul, 2017p	2014	2015	2016s	Jan-Jul, 2017p
	(per cent.)							
VIII Undressed leather and dressed leather, furs and fur products	0.3	0.3	0.3	0.3	0.9	1.0	1.0	1.0
XIII Stone products, cement, ceramics, glass	0.6	0.6	0.6	0.7	1.3	1.3	1.4	1.4
Miscellaneous goods and products	7.0	7.3	7.8	8.7	4.0	4.5	4.8	4.9

Note:

p = provisional data, s = semi-final data

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

Source: National Institute of Statistics, National Bank of Romania calculations

The main markets for imports and exports for Romania in 2014 – 2016 and the first seven months of 2017 are presented in the table below:

Trade Balance – Geographical Distribution

	Export FOB				Import FOB			
	2014	2015	2016s	Jan-Jul, 2017p	2014	2015	2016s	Jan-Jul, 2017p
	(per cent.)							
Country Group								
Total......................................	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
- Intra EU Trade (EU-28), of which....................................	69.1	72.3	73.7	74.4	75.5	77.1	77.3	75.9
Germany	18.1	19.2	21.2	22.6	18.3	19.7	20.3	19.7
Italy.......................................	9.3	9.9	9.2	9.2	8.9	9.3	8.8	9.0
France	7.0	6.9	7.3	7.1	5.6	5.5	5.5	5.5
Hungary	5.3	5.7	5.4	4.9	8.4	8.4	8.0	3.0
Bulgaria	3.8	3.6	3.5	3.7	3.1	3.2	3.3	3.0
United Kingdom of Great Britain and Northern Ireland .	3.7	4.0	4.1	4.0	2.0	2.3	2.1	2.2
Spain.....................................	2.8	3.1	3.2	2.9	2.7	2.7	2.8	3.0
Netherlands...........................	2.6	2.6	2.5	2.3	3.9	4.1	4.3	4.0
Poland...................................	2.8	3.0	3.2	3.4	6.3	5.2	5.4	5.5
Austria	2.4	2.5	2.4	2.4	3.8	4.0	3.6	3.4
- Extra EU Trade (extra-EU-28), of which..................	30.9	27.7	26.3	25.6	24.5	22.9	22.7	24.1
Turkey...................................	5.0	4.4	3.5	3.8	3.4	3.7	3.9	4.0
Russian Federation	3.1	2.0	1.9	1.9	4.0	3.2	3.0	3.4

Trade Balance – Geographical Distribution

	Export FOB				Import FOB			
	2014	2015	2016^{s}	Jan-Jul, 2017^{p}	2014	2015	2016^{s}	Jan-Jul, 2017^{p}
	(per cent.)							
USA	2.0	2.0	1.7	1.8	1.2	1.1	0.9	1.7
Ukraine	1.2	0.5	0.8	0.6	0.6	0.8	0.9	0.9
Republic of Moldova	1.5	1.3	1.2	1.4	0.4	0.5	0.5	0.5
People's Republic of China	1.2	1.1	1.2	1.3	4.1	4.7	5.3	5.2
Japan	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Kazakhstan	0.1	0.1	0.1	0.1	4.0	1.7	1.3	1.5

Note:

p = provisional data, s = semi-final data

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

Source: National Institute of Statistics, National Bank of Romania calculations

Balance of Payments

Current Account

According to the International Monetary Fund's BPM6 Methodology, the "Current Account" consists of goods (calculated based on the international trade in goods data, from which the value of goods processed in Romania and abroad is eliminated and to which the net exports of goods by merchants is added; in order to comply with the BPM6 principle of change in ownership), services (which also include the value of the processing of goods owned by others and is not simply translated from goods, but compiled based on alternate data sources, i.e. quarterly surveys of international trade in services), primary income (including compensation of employees, investment income and other primary income) and secondary income (purely current transfers). The methodological change has been coherently applied across EU countries starting with the reference month of July 2014, and, in order to ensure comparability, the 2013 data have also been compiled according to the new methodology.

In 2014 (based on final data), the current account balance displayed a deficit of EUR 1,012 million, as compared with EUR 1,539 million in the previous year, amid the narrowing of the primary income balance deficit (by EUR 1,083 million) and the widening of the services surplus (by EUR 1,166 million). The primary income deficit narrowed by 34.8 per cent. to EUR 2,029 million, mainly from investment income and EU subsidies. The services surplus rose further (to EUR 5,868 million in 2014), boosted by larger receipts from processing of goods owned by others, freight transport and IT services. The secondary income surplus narrowed to EUR 1,685 million, down 37.3 per cent. from 2013, with lower inflows of EU funds of current transfers nature. The goods deficit increased by 12.4 per cent. to EUR 6,536 million. Exports of goods further expanded (by 6.7 per cent. amid the 9.2 per cent. growth in exports to EU Member States), at a slower pace than imports (up 7.4 per cent., with purchases from countries outside the EU increasing by 7.9 per cent.).

In 2015 (final data), the current account deficit increased to EUR 1,972 million (from EUR 1,012 million in 2014). The main drivers for this increase were the widening of the primary income and goods deficits (by EUR 1,743 million and EUR 1,252 million, respectively). The primary income deficit from direct and portfolio investment doubled to EUR 3,772 million. The goods deficit widened by 19.1 per cent. to EUR 7,788 million, while chemical and plastics products, base metals, textiles and clothing deficits continued to increase. At the same time, the secondary income and services had a favourable impact on the current account. The secondary income surplus increased to EUR 2,794, mainly due to higher inflows of EU funds of current transfers nature (especially from European Social Fund and European Agricultural Fund for Rural Development). The services surplus increased by 15.8 per cent. in 2015 to EUR 6,794 million, mainly due to higher receipts from road transportation and computer and information services.

In 2016, the current account balance displayed a deficit of EUR 3,498 million (2.1 per cent. of GDP), as compared with EUR 1,972 million (1.2 per cent. of GDP) in the previous year, amid the widening of trade in goods deficit (by EUR 1,465 million) and of the primary income deficit (by EUR 695 million), which were partly offset by the increase of trade in services surplus (by EUR 929 million).

The goods balance deficit increased in 2016 by 18.8 per cent. to EUR 9,253 million, as compared with the corresponding value for 2015 of EUR 7,788 million, the trend being driven by all the main product groups, except Machinery and transport equipment (for which the surplus more than doubled in 2016 to EUR 1.6 billion). Services surplus rose further in 2016 to EUR 7,722 million in 2016 (up by 13.7 per cent. as compared with 2015), boosted by larger receipts from processing, freight transport, IT services, construction and consulting services. The primary income deficit widened in 2016 by 18.4 per cent. to EUR 4,467 million, primarily due to the increase in profits of foreign-owned Romanian companies (income on direct investment). The secondary income surplus narrowed to EUR 2,500 million, down 10.5 per cent. as compared with 2015, mainly due to lower private transfers (other than workers' remittances).

In the first seven months of 2017, the current account deficit increased to EUR 3,631 million, from EUR 2,194 million in the corresponding period of 2016. The goods deficit increased to EUR 6,190 million (from EUR 4,798 million in the same period of 2016), most of the merchandise groups witnessing either higher deficits or smaller surpluses. The primary income deficit decreased by 20.6 per cent. to EUR 3,019 million compared to the corresponding period in 2016, mainly from larger EU subsidies (European Agricultural Fund for Rural Development). The secondary income surplus decreased from EUR 1,529 million to EUR 1,103 million year on year (from lower inflows of funds from the EU of current transfers nature). The services surplus remained nearly flat to EUR 4,475 million compared to the same period of 2016.

Starting in 2013, the current account deficit was more than compensated by the capital account surplus (boosted by EU funds of capital transfers nature, i.e. European Regional Development Fund, Cohesion Fund). Thus, in 2015, the combined current and capital account surplus was EUR 1,928 million. However, the level of non-residents' direct investment in Romania reached a substantially higher level (EUR 3.5 billion) than that of the current account deficit (EUR 2.0 billion). In 2016, the combined current and capital account surplus was EUR 763 million while the non-residents' direct investment in Romania stayed at a comfortable level of EUR 4,517 million.

Besides the EU funds of capital transfers nature, other types of EU funds (such as subsidies for agriculture and current transfers) helped reduce the current account deficit. The results are summarised in the table below:

	2014	**2015**	**2016**	**7 M 2017**
		(mil. EUR)		
Current account balance	(1,012)	(1,972)	(3,498)	(3,631)
Foreign Direct investments flows	2,421	3,461	4,517	2,369
EU funds inflows	5,981	6,438	7,360	2,324
subsidies...	1,326	1,420	1,510	1,519
current transfers	686	1,720	1,626	404

	2014	2015	2016	7 M 2017
		(mil. EUR)		
capital transfers	3,969	3,298	4,224	371

Capital Account

In 2014, net capital inflows increased to EUR 3,954 million, driven by the increase in the capital transfers surplus which, in turn, was primarily caused by a rise in funds from the European Union (mainly from the Regional Development Fund, the Cohesion Fund and the European Agricultural Fund for Rural Development).

In 2015, the capital account recorded a surplus of EUR 3,901 million, broadly comparable to 2014 levels and fully covering, for the third consecutive year, the current account deficit. It continued to grow in 2016 up to EUR 4,260 million, boosted by the EU investment funds. Some delays in EU funds absorption reduced the capital account surplus in the first seven months of 2017, to only EUR 536 million, from EUR 2,841 million in the first seven months of 2016.

Financial Account

In 2014 (based on final data), the financial account recorded net outflows of EUR 3,068 million, compared with EUR 1,673 million in 2013, particularly due to portfolio investment, which saw higher redemptions of government bonds, and other investment, which primarily reflected the scheduled repayments under the 2009 Stand-by Agreement, as well as to some increase in residents' deposits with non-resident deposit-taking corporations. Direct investment recorded net inflows of EUR 2,702 million, down 7.6 per cent. from 2013 (EUR 2,924 million), amid the net losses recorded by the direct investors.

Net inflows of portfolio investment amounted to EUR 2,859 million in 2014, compared to EUR 5,431 million a year earlier. This was primarily attributable to higher redemptions of government bonds as compared with the previous year level – according to the schedule. Other investment recorded net outflows worth EUR 9,890 million, 24.9 per cent. above the level of 2013, mainly reflecting a smaller volume of new loans and the contraction in new non-residents' deposits with resident deposit-taking corporations. Reserve assets decreased by EUR 1,235 million as compared with 31 December 2013.

In 2015 (final data), the financial account continued to record net outflows, totalling EUR 2,280 million, which was below the previous year's level (EUR 3,068 million). The downward trend was driven, on the one hand, by the decline in net outflows reported under "other investment" item. Direct investment recorded net inflows of EUR 2,955 million, 9.3 per cent. above the previous year's level. Non-residents' investment in Romania (final data) totalled 3,461 million, out of which equity capital and net reinvested earnings accounted for EUR 3,595 million and intra-group loans recorded the net negative value of EUR 134 million. Portfolio investment recorded net inflows of EUR 5 million, versus net inflows amounting to EUR 2,859 million in 2014, due to the lower volume of government bonds issued in 2015. Other investment ended the year 2015 with net outflows lower than in the previous period (EUR 5,864 million in the period under review, as compared with EUR 9,890 million in 2014), mainly due to a higher volume of non-residents' deposits with resident banks, a lower volume of residents' deposits abroad and a lower level of repayments related to external borrowings.

In 2016, the financial account net outflows totalled EUR 1,550 million, as compared with EUR 2,280 million in 2015. In 2016, direct investment in Romania accounted for EUR 4,517 million, with reinvested earnings increasing to EUR 1,138 million (from EUR 510 million in 2015) and equity flows rising to EUR 3,203 million (from EUR 3,085 million in 2015). Net portfolio investment inflows rose to EUR 975 million in 2016, as compared with EUR 5 million in 2015, the main factor being the higher level of government bond issuance on external markets. Other investment ended the year 2016 with a net outflow worth EUR 4,743 million, 19.1 per cent. less than in 2015, mainly due to fewer reimbursements made by the public administration and central bank on long-term loans.

In the first seven months of 2017, the financial account ended with net inflows totalling EUR 859 million, as compared with net outflows of EUR 1,278 million in the corresponding period of 2016. This was primarily due to the issuance of government bonds and to a lower level of non-residents' withdrawals from deposits with resident banks. Direct investment recorded net inflows of EUR 2,362 million, as compared with EUR 2,790 million in the first seven months of 2016. Non-residents' investment in Romania (estimates) totalled EUR 2,369 million, out of which equity capital and net reinvested earnings accounted for EUR 2,436 million and intra-group loans recorded the net negative value of EUR 67 million. Portfolio investment recorded net inflows of EUR 1,561 million, versus net outflows amounting to EUR 313 million in the same period in 2016, boosted by the issuance of government bonds. Other investment ended the first seven months of 2017 with net outflows lower than in the corresponding period in 2016 (EUR 1,865 million, a decrease of 37.7 per cent.), mainly due to a lower level of non-residents' withdrawals from deposits with resident banks.

Balance of Payments for the Years 2014, 2015, 2016 and the First Seven Months ended 31 July 2017

	2014			**2015**			**2016***			**Jan-July 2017****		
	Credit	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**
						(EUR million)						
Item												
1. Current Account..........	68,769	69,781	(1,012)	73,774	75,747	(1,972)	78,035	81,533	(3,498)	49,044	52,675	(3,631)
A. Goods and services.......	61,917	62,585	(668)	65,755	66,749	(995)	70,177	71,708	(1,531)	44,489	46,203	(1,714
a. Goods(2)........................	46,814	53,351	(6,536)	49,113	56,901	(7,788)	52,170	61,423	(9,253)	32,847	39,036	(6,190)
- General merchandise on a balance of payments basis .	46,703	53,351	(6,647)	49,103	56,901	(7,799)	52,192	61,423	(9,232)	32,884	39,036	(6,152)
- Merchanting – export net	111	0	111	10	0	10	(22)	0	(22)	(37)	0	(37)
Merchanting – goods acquired	(178)	0	(178)	(232)	0	(232)	(287)	0	(287)	(206)	0	(206)
Merchanting – goods sold .	289	0	289	242	0	242	265	0	265	169	0	169
- Nonmonetary gold 1	0	0	0	0	0	0	0	0	0	0	0	0
b. Services.......................	15,102	9,234	5,868	16,642	9,848	6,794	18,007	10,284	7,722	11,642	7,167	4,475
- Manufacturing services on physical inputs owned by others	2,525	163	2,362	2,567	172	2,394	2,631	202	2,429	1,688	108	1,580
- Transportation................	4,391	1,577	2,814	5,204	1,796	3,408	5,537	1,915	3,622	3,472	1,520	1,953
- Travel	1,378	1,824	(445)	1,542	1,855	(312)	1,568	1,930	(363)	1,319	1,714	(396)
- Other services	6,808	5,670	1,138	7,329	6,025	1,305	8,270	6,237	2,034	5,163	3,825	1,338
B. Primary income	2,300	4,329	(2,029)	2,319	6,091	(3,772)	2,820	7,286	(4,467)	2,354	5,373	(3,019)
- Compensation of employees	545	60	486	606	45	561	702	66	636	510	42	468
-Investment income	429	4,163	(3,735)	277	5,902	(5,625)	598	7,003	(6,406)	306	5,198	(4,892)
Direct investment.............	(84)	1,763	(1,848)	(69)	3,781	(3,849)	119	5,160	(5,041)	20	4,174	(4,154)
Portfolio investment income	127	941	(814)	107	1,017	(910)	150	1,112	(962)	96	668	(572)
Other investment income...	97	1,459	(1,362)	50	1,105	(1,055)	46	732	(686)	43	356	(313)
Reserve assets income.......	289	0	289	188	0	188	283	0	283	147	0	147
- Other primary income.....	1,326	106	1,220	1,436	144	1,292	1,520	216	1,303	1,538	133	1,405
C. Secondary income........	4,552	2,867	1,685	5,701	2,907	2,794	5,038	2,539	2,500	2,201	1,098	1,103
General government..........	801	1,791	(989)	1,866	1,717	149	1,670	1,524	146	406	923	(517)
- Other sectors..................	3,751	1,076	2,675	3,835	1,190	2,645	3,368	1,014	2,354	1,794	175	1,619
A. Capital account...........	4,047	93	3,954	4,012	112	3,901	4,412	152	4,260	547	10	536

	2014			2015			2016*			Jan-July 2017**		
	Credit	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**	**Credit**	**Debit**	**Balance**
	(EUR million)											
a. Capital transfers	3,927	81	3,845	3,781	62	3,718	4,230	108	4,122	401	0	401
- General government........	3,922	0	3,921	3,298	1	3,297	4,225	0	4,225	401	0	401
- Other sectors..................	5	81	(76)	483	62	421	5	108	(102)	1	0	1
b. Gross acquisitions/disposals of non-produced non-financial assets	120	12	(76)	232	49	182	182	44	138	145	10	135

	2014			2015			2016*			Jan-July 2017**		
	Net acquisition of assets(3)	**Net incurrence of liabilities(3)**	**Net**	**Net acquisition of assets(3)**	**Net incurrence of liabilities(3)**	**Net**	**Net acquisition of assets(3)**	**Net incurrence of liabilities(3)**	**Net**	**Net acquisition of assets(3)**	**Net incurrence of liabilities(3)**	**Net**
	(EUR million)											
Item												
B. Financial account	202	(2,866)	3,068	1,539	(741)	2,280	5,044	3,494	1,550	3,794	4,654	(859)
a. Direct Investment.............	228	2,930	(2,702)	930	3,884	(2,955)	1,143	5,656	(4,513)	(30)	2,332	(2,362)
- Equity	(203)	2,851	(3,054)	(140)	3,591	(3,731)	8	4,341	(4,333)	0	2,435	(2,435)
362Equity other than reinvestment of earnings	12	4,226	(4,214)	9	3,080	(3,072)	46	3,203	(3,157)	0	1,012	(1,012)
Reinvestment of earnings......	(215)	(1,375)	1,160	(149)	510	(659)	(37)	1,138	(1,176)	0	1,422	(1,422)
- Debt instruments	431	79	352	1,070	293	776	1,135	1,316	(181)	(30)	(103)	73
b. Portfolio investment..........	105	2,964	(2,859)	300	305	(5)	352	1,327	(975)	431	1,992	(1,561)
- Equity and investment fund shares/units..........................	3	435	(432)	184	329	(145)	128	(412)	540	166	(259)	426
- Debt securities...................	102	2,528	(2,427)	117	(23)	140	223	1,738	(1,515)	265	2,251	(1,987)
c. Financial derivatives.........	(26)	0	(26)	(24)	0	(24)	38	0	38	(14)	0	(14)
d. Other investment..............	1,130	8,760	9,890	934	(4,930)	5,864	1,253	(3,490)	4,743	2,195	(330)	1,865
1. Other equity other direct investment and portfolio investment	5	0	5	11	0	11	1	0	1	1	0	1
2. Currency and deposits.......	1,003	(2,856)	3,859	602	(1,743)	2,345	567	(3,095)	3,662	1,510	(524)	2,033
3. Loans...............................	342	(5,495)	5,837	264	(3,180)	3,444	86	(1,161)	1,247	68	(674)	742
4.1nsurance, pension and standardised guarantee schemes	2	0	2	1	0	1	0	0	0	0	0	0
5. Trade credits and advances	(238)	(385)	147	(271)	17	(288)	576	763	(187)	564	1,556	(991)
6. Other accounts receivable/payable	16	(23)	40	327	(24)	351	23	3	20	52	(28)	80
7. SDRs...............................	0	0	0	0	0	0	0	0	0	0	0	0
e. Reserve Assets..................	(1,235)	0	(1,235)	(600)	0	(600)	2,258	0	2,258	1,212	0	1,212
3. Net errors and omission..	0	0	126	0	0	352	0	0	787	0	0	2,236

Notes:

(*) Semi-final data

(**) Provisional data

(1) BPM6 methodology

(2) FOB imports are BNR's figures calculated using INS's 1.0430 CIF/FOB coefficient

(3) "+" = Increases; "( )" = Decreases

Differences between total and the sum of components are due to rounding.

Foreign Direct Investment

According to the results of the latest statistical survey regarding foreign direct investment ("**FDI**"), in 2014 FDI flows decreased by 10.8 per cent. to EUR 2.4 billion compared to EUR 2.7 billion in 2013. FDI was channelled primarily to manufacturing (32 per cent. of the total), out of which the main recipients were: oil processing and chemicals (5.7 per cent. of the total), transport means (5.4 per cent.), metallurgy (4.5 per cent.) and food, beverages and tobacco (4 per cent.). Apart from manufacturing, other activities that also attracted significant FDI were financial intermediation and insurance (13 per cent. of total FDI), wholesale/retail trade (11.7 per cent.), electricity, natural gas and water (11.1 per cent.), construction and real estate transactions (9.8 per cent.) and IT&C (6 per cent.). Out of the total FDI stock of EUR 60.2 billion, about two thirds consisted of equity, including reinvested earnings (EUR 43.2 billion), while net credit from foreign investors amounted to EUR 17 billion. The four largest countries from which FDI originated as at 31 December 2014 were The Netherlands (23.6 per cent. of FDI at end-2014), Austria (16.1 per cent.), Germany (12.4 per cent.) and France (6.8 per cent.), which has been the same ranking since 2009.

In 2014 (final data) non residents' direct investment in Romania amounted to EUR 2.4 billion (3.5 times larger than the current account deficit) as compared to EUR 2.7 billion in 2013, attributable mainly to a decrease in net credit. Residents' investments abroad decreased by EUR 282 million in 2014 after decreasing by EUR 211 million in 2013.

According to the results of the latest statistical survey regarding foreign direct investment (“**FDI**”), in 2015, FDI flows increased by 43.0 per cent. to EUR 3.5 billion, compared to EUR 2.4 billion in 2014. FDI was channelled primarily to manufacturing (32 per cent. of the total), out of which the main recipients were: oil processing and chemicals (6.0 per cent. of the total FDI), transport means (5.9 per cent.), metallurgy (4.1 per cent.) and food, beverages and tobacco (3.4 per cent.). Apart from manufacturing, other activities that also attracted significant FDI were financial intermediation and insurance (13.1 per cent. of total FDI), wholesale/retail trade (12.2 per cent.), electricity, construction and real estate transactions (12.2 per cent.), natural gas and water (9.8 per cent.) and IT&C (5.7 per cent.). Out of the total FDI stock of EUR 64.4 billion, more than two thirds consisted of equity, including reinvested earnings (EUR 45.1 billion), while the net credit from foreign investors amounted to EUR 19.3 billion. The four largest countries from which FDI originated as at 31 December 2015 were The Netherlands (25.0 per cent. of FDI at end-2015), Austria (14.2 per cent.), Germany (12.4 per cent.) and Cyprus (6.9 per cent.).

In 2015 (final data), non residents’ direct investment in Romania amounted to EUR 3.5 billion (about 1.8 times larger than the current account deficit) as compared to EUR 2.4 billion in 2014, attributable to an increase in equity by EUR 0.8 billion and to an increase in the net credit by EUR 0.3 billion. Residents’ investment abroad increased by EUR 507 million in 2015 after decreasing by EUR 282 million in 2014.

According to the results of the latest statistical survey regarding foreign direct investment (“**FDI**”), in 2016, FDI flows increased by 30.5 per cent. to EUR 4.5 billion, compared to EUR 3.5 billion in 2015.

FDI was channelled primarily to manufacturing (32.0 per cent. of the total), out of which the main recipients were: oil processing and chemicals (6.4 per cent. of the total FDI), transport means (6.7 per cent.), metallurgy (4.1 per cent.) and food, beverages and tobacco (3.4 per cent.). Apart from manufacturing, other activities that also attracted significant FDI were financial intermediation and insurance (12.6 per cent. of total FDI), wholesale/retail trade (12.8 per cent.), electricity, gas and water supply (9.6 per cent.), construction and real estate transactions (14.0 per cent.) and IT&C (5.2 per cent.). Out of the total FDI stock of EUR 70.1 billion, more than two thirds consisted of equity, including reinvested earnings (EUR 48.9 billion), while the net credit from foreign investors amounted to EUR 21.2 billion. The four largest countries from which FDI originated as at 31 December 2016 were The Netherlands (24.3 per cent. of FDI at end-2016), Germany (13.2 per cent.), Austria (11.9 per cent.), and Cyprus (6.5 per cent.).

In 2016, non residents' direct investment in Romania amounted to EUR 4.5 billion (about 1.3 times larger than the current account deficit) as compared to EUR 3.5 billion in 2015, attributable to an increase in equity by EUR 0.7 billion and to an increase in the net credit by EUR 0.3 billion. Residents' investment abroad increased by EUR 4 million in 2016 after decreasing by EUR 507 million in 2015.

The initial estimates for the first seven months of 2017 indicates that non-residents' direct investment in Romania amounted to EUR 2.4 billion, decreasing by 16.8 per cent. as compared to the similar period of 2016 (EUR 2.9 billion). Residents' investment abroad increased by EUR 7 million in the same period.

The following table shows non-residents' net foreign direct investment in Romania from 2014 to the first seven months of 2017.

	Net Foreign Direct Investment(1)			
	2014	**2015**	**2016(2)**	**Jan-Jul 2017(2)**
		(EUR Million)		
Net FDI..	2,421	3,461	4,517	2,369
Equity, including reinvested earnings(1)..	2,846	3,595	4,341	2,436
Other capital (intra-group loans.......	(425)	(134)	(176)	(67)

Notes:

(1) Non residents' investment in Romania

(2) Preliminary data

Source: National Bank of Romania

Various incentives are offered to investors (irrespective of local or foreign status), including governmental non-reimbursable grants for the acquisition of assets, governmental contributions when new workplaces are created, incentives in the form of interest reductions to investors when contracting loans for investments or state guarantees to investors. Investors are also entitled to apply for European Union funds for the reimbursement of eligible expenses incurred in connection with certain types of investments.

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

In 2014, the Romanian Government implemented a new package of EUR 1.2 billion state aid to support regional development with the aim of creating new jobs and encouraging large investment projects with major economic impact.

From November 2007 to September 2017, the Ministry of Public Finance, through the state aid schemes that it administered, granted aid amounting to EUR 927.37 million to support 117 large investment projects with a total value of EUR 3,632.83 million and creating at least 32,343 new jobs. Additionally, various state aid schemes are available for SME's and large enterprises at the level of other several public authorities, both from budgetary and EU funds.

The Department of Foreign Investments and Public-Private Partnership, operating under the name InvestRomania since February 2016, is the governmental body dedicated to providing professional support and advice to foreign investors in Romania. Its purpose is to attract and facilitate foreign direct investment in Romania and support new or existing Romanian companies leverage their capabilities to expand to new markets. Its mission is to increase inward FDI by internationally promoting Romania's business offer and assisting worldwide entrepreneurs in project implementation. Its activities include: providing general information on legal framework, the investment climate, key business sectors and locations, acting as main interface with public authorities (central/local) in relevant project areas, supporting companies that consider engaging with the Romanian market or developing their current units, match-making company's needs with the local resources and opportunities, including identifying local suppliers. Continuously contributing to inward FDI attraction to domestic economy since 2002, under various forms, InvestRomania enhanced the country's image and visibility as a profitable investment location with the international business community. Its activities resulted in a EUR 11 billion project portfolio generating over 150,000 new jobs, featuring worldwide players, including Renault Technologie (EUR 450 million), Renault Mechanique (EUR 226 million), Ina Schaeffler (EUR 700 million), Saint-Gobain (EUR 120 million), Calsonic Kansei (EUR 120 million), Procter & Gamble (EUR 70 million), Martifer (EUR 170 million), Bosch (EUR 180 million), Daimler (EUR 300 million), Continental (EUR 1 billion) and Emerson (EUR 400 million).

MONETARY AND FINANCIAL SYSTEM

National Bank of Romania

The NBR is the central bank of Romania, organised as an independent public institution and has its headquarters in Bucharest. The primary objective of the NBR, set forth in its statutory provisions, is to ensure and maintain price stability.

The NBR is empowered and authorised:

- to develop and apply monetary policies and foreign exchange policies;
- to authorise, regulate and supervise, from a prudential perspective, credit institutions;
- to promote and monitor the proper functioning of payment systems in order to ensure financial stability;
- to issue Romanian legal tender (banknotes and coins);
- to establish a foreign currency regime and to supervise its observance; and
- to manage the international reserves of the Romanian state.

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

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

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

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

Monetary Policy

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

Recent Monetary Policy

2014

The policy rate-cutting cycle continued in January 2014 with another reduction of 25 basis points, to 3.75 per cent. as new assessments reconfirmed the outlook for the annual inflation rate to decline further to historical lows during the first part of 2014. This outlook was due to the favourable base effect and the impact of the 2013 bumper crop, the development being in line with the previous forecasts of the annual inflation rate returning and subsequently remaining inside the variation band of the 2.5 per cent. target.

In February 2014, the NBR cut the policy rate by an additional 25 basis points, to 3.50 per cent. The decision was made because of a perceived likelihood of a decline in the annual inflation rate in the first months of 2014 at levels below the lower bound of ± 1 percentage point the variation band around the 2.5 per cent. target, prompted by the favourable base effects associated with developments in administered prices and with food prices, and by the persistence of the impact of a reduction in the VAT rate on some bakery products overlapping the effects exerted by fundamentals. Equally, the decision was warranted by the confirmed outlook for the annual inflation rate to remain in the upper half of the variation band of the target in the medium term (after the fading of transitory disinflationary effects of the supply-side shocks which occurred in 2013), amid the consolidation of inflation expectations in line with the target and the persistence of a negative output gap.

The subsequent reconfirmation of the inflation projections, implying the return and the maintenance of the annual inflation rate in the upper half of the variation band of the target, prompted the NBR board to keep the policy rate unchanged at 3.5 per cent. (± 1 percentage point) in its March and May 2014 meetings. That level was maintained also in July 2014, as incoming data and the updated projections of short-term developments revealed a significant downward deviation of the annual inflation rate from prior forecasts (under the impact of one-off factors), while the consolidation over a longer horizon of the 12-month inflation rate at levels below those forecasted previously was still uncertain.

Additionally, the NBR lowered the minimum reserve requirement ratios on RON denominated liabilities of credit institutions (by three percentage points in January and two percentage points in September 2014, to 10 per cent.), and on their foreign currency-denominated liabilities (in three steps of two percentage points each, in January, July and November 2014, to 14 per cent.), with a view to further harmonising reserve requirements mechanism with the standards and practices of the European Central Bank and the major central banks across the European Union.

2015-2016

The prudent monetary policy interest rate-cutting cycle was resumed in August 2014 and extended through to March 2015, as the annual inflation rate continued to stay mostly below the lower bound of the variation band of the target, implicitly below the previously projected levels, falling to 0.83 per cent. in December 2014 and to 0.40 per cent. in February 2015. Its projected trajectory saw repeated/significant downward revisions and remained, in the February 2015 update of the quarterly macroeconomic forecast, at levels significantly below the mid-point of the target, even at the longer horizon of the projection. In the recent period and in the short-run, the change in inflation behaviour was exclusively due to the temporary action of supply-side factors (the abrupt decline in the international oil price and the increased supply of agricultural products boosted also by imports), while in the medium term it was mainly driven by the relatively more subdued expected developments of adjusted CORE2 inflation as a result of the decline in inflation expectations in the medium term, the downward revision of expected inflation in the euro area and other EU countries and the persistence of the negative output gap, albeit on a narrowing trend.

In this context, the NBR cut the policy rate in six consecutive steps of 25 basis points each, to 2.00 per cent. in March 2015. In its meeting of 6 May 2015, the NBR board decided to lower the monetary policy rate by a further 25 basis points to 1.75 per cent. per annum. The decision was taken as a result of the perceived increased likelihood of the annual inflation rate slipping temporarily into negative territory (largely due the measure on lowering the VAT rate to 9 per cent., from 24 per cent., for all food items, non-alcoholic beverages and public food services as of 1 June 2015) and staying, once the influence of this fiscal measure had ended, below the midpoint of the inflation target, amid the gradual narrowing of the negative output gap, and further low inflation expectations and subdued euro area inflation. The reductions in the monetary policy rate were complemented by the progressive narrowing of the symmetrical corridor formed by the interest rates on NBR's standing facilities around the policy rate (in six consecutive steps implemented since September 2014) to plus or minus 1.50 percentage points in May 2015; the measure was aimed at reducing the volatility of the interbank money market rates and consolidating the transmission of the monetary policy rate signal.

Following the seven successive rate cuts of 0.25 percentage points implemented between August 2014 and May 2015, the NBR board reconsidered the monetary policy cycle. The decision was influenced by the rise in volatility in the global financial markets and by the uncertainty surrounding Romania's agreements with international institutions, posing risks to the leu exchange rate, in conjunction with the relatively faster narrowing of the negative output gap and higher unit wage costs in the first half of 2015, as evidenced by statistical data for the first few months of the year. This was later substantiated by the nature and size of the fiscal easing measures set to be implemented starting 2016 (according to the new tax code) and by the pay rises for certain public-sector employees in the second half of 2015, amid already robust growth in domestic demand, driven especially by the pick-up in consumption, likely to widen considerably widen the divergence between the short-term and the longer-term inflation outlook. Against this background, the monetary policy interest rate was left unchanged at 1.75 per cent. in the NBR's 2015 Board meetings.

The NBR kept the monetary policy interest rate unchanged throughout 2016. The decisions taken by the NBR board were justified by the significant divergence between short-term developments in inflation and its longer-term outlook together with the current uncertainties and risks to inflation prospects. Specifically, in line with NBR forecasts, the annual inflation rate moved deeper into negative territory in the first half of 2016. This was partly as a result of a cut in the standard VAT rate from 24 to 20 per cent. and in other indirect taxes effective as of 1 January 2016, coupled with the still manifest effects arising from broadening the scope of the reduced VAT rate to all food items, and also from the decline in international oil prices. At the same time, however, the revised medium-term forecast reconfirmed the outlook for the annual inflation rate to post a large upward correction at the beginning of 2017, reflecting the base effects associated with the first standard VAT rate cut, before picking up in 2018 to values in the upper half of the variation band of the flat target. Rising inflationary pressures anticipated to emerge from the reversal of the cyclical position of the economy in the second half of 2016 and from the subsequent increase of the excess aggregate demand, as well as from sustained increase in unit wage costs, were underlying these prospects.

The subsequent statistical data and assessments pointed to a deeper fall of the annual inflation rate, and into negative territory in the second quarter of 2016, on the back of stronger effects of the drop in international commodity prices. Data also showed a stronger-than-expected acceleration of economic growth in the first two quarters of 2016, implying an earlier reversal of the cyclical position of the economy. Against this backdrop, according to the medium-term projection of macroeconomic developments updated in August and November 2016, the trajectory of the forecasted inflation was lower than previously anticipated over the short term, while retaining its upward profile. In particular, the annual inflation rate was expected to remain in negative territory until end-2016 and below the lower bound of the variation band of the flat target in the first half of 2017, before climbing to the upper half of the band during 2018.

The assessments conducted during the latter part of 2016 also revealed a considerable heightening of uncertainties and mixed risks associated with the medium-term inflation forecast. The most significant uncertainties stemmed from the fiscal and income policy prospects amid the still pending 2017 budget construction. The uncertainties surrounding global economic growth and euro area recovery also remained relevant.

During 2015-2016, the NBR also lowered the minimum reserve requirement ratios on RON denominated liabilities of credit institutions by another two percentage points in May 2015 to 8 per cent. and on their foreign currency-denominated liabilities (in two steps of 2 percentage points each, in January and September 2016, to 10 per cent.). Both measures were meant to continue the harmonisation of the reserve requirements mechanism with the standards and practices of the ECB and the major central banks across the European Union. The first reduction was aimed primarily at supporting the sustainable recovery of lending activity, while the second one was taken against the background of decreasing foreign currency denominated loans.

2017

During its meetings held January through May 2017, the NBR board kept both the monetary policy interest rate (at 1.75 per cent.) and the characteristics of the corridor of interest rates on the standing facilities unchanged. Moreover, the central bank further pursued adequate liquidity management in the banking system and maintained the existing level (8 per cent.) of the minimum reserve requirement ratio on RON-denominated liabilities of credit institutions. At the same time, the minimum reserve requirement ratio on foreign currency denominated liabilities of credit institutions was lowered by another 2 percentage points, to 8 per cent. starting with the reserve maintenance period 24 May – 23 June 2017; with the continued aim of harmonising the reserve requirement mechanism with the relevant standards and practices of the ECB and the major central banks across the European Union. This was warranted by the ongoing contraction in foreign currency-denominated credit, the consolidation of forex reserves above the adequate level and their improved composition.

The decisions were taken considering that the return of the annual inflation rate to positive territory in 2017 – amid the base effect associated with the standard VAT rate cut to 20 per cent. – was at a slightly lower rate than previously anticipated levels, while the upward path of the forecasted annual inflation rate saw two successive downward revisions during the February and May rounds. The first of these adjustments – owing to the unexpected new disinflationary supply-side shocks seen in January and February – spanned only the short term, implying the postponement of the return of the projected annual inflation rate inside the variation band of the flat target for Q4 2017. Conversely, the second adjustment was almost entirely attributable to the weaker relationship between core inflation and the output gap. The opening of the positive output gap was, however, expected to be relatively wider than previously anticipated throughout the forecast horizon, given the faster than expected pick-up in economic growth in Q4 2016, as well as the upward revision of the projected GDP dynamics for 2017 and 2018; rising inflationary pressures (or at least comparable to those in the previous forecast) were anticipated to stem also from unit wage costs, prices of imports, as well as from the uptrend in short-term inflation expectations. Under the circumstances, the forecasted trajectory of the annual inflation rate retained its strongly upward profile, with inflation seen climbing into the upper half of the target variation band at mid-2018 and then standing at 3.1 per cent. in December 2018. At the end of the projection horizon (March 2019), the annual inflation rate was expected to come in at 3.4 per cent., a similar level to that indicated in the previous medium-term forecast. The inflation outlook was marked by uncertainties and two-way risks. These stemmed primarily from the future fiscal and income policy stance and the likely composition of public spending, particularly in the context of the uncertainty regarding the new unified wage law and the possible corrective fiscal measures meant to ensure compliance of the fiscal deficit with the 3 per cent. of GDP reference value in 2017. The external environment also continued to pose two-way risks to the inflation forecast, given, on the one hand, the balancing trend of the risks to the outlook for economic growth and inflation in the euro area, EU and globally, and, on the other hand, the persistence of significant downside risks arising from the elections scheduled in the euro area, as well as from the Brexit talks.

The NBR board kept the monetary policy interest rate unchanged in July, as well as in its most recent meeting on 4 August 2017. The decision was taken as the updated medium-term forecast reconfirmed the outlook for the annual inflation rate to gain momentum throughout the projection interval, even more pronounced than previously foreseen, given that the projected path of the annual inflation rate had been revised upwards over the entire forecast period, particularly in the short term even though it remained within the variation band of the target. Specifically, the annual inflation rate was expected to re-enter the variation band of the flat target as early as Q3 2017 and stand at 1.9 per cent. at year-end (instead of the previously forecasted 1.6 per cent.), before rising above the central target in early 2018, amid sizeable base effects at the beginning of that year, associated with the previous cuts in indirect taxes and fees. It was then seen on a more slowly rising path, to reach 3.2 per cent. in December 2018 and 3.5 per cent. (the upper bound of the variation band of target) at the end of the projection horizon, compared to 3.1 per cent. and 3.4 per cent., respectively, in the prior forecast. The upward profile of the forecasted annual inflation rate and its upward shift were due to a solid contribution of supply-side factors (owing chiefly to the aforementioned base effects), but mainly to the relatively stronger inflationary pressures anticipated to be generated by the cyclical position of the economy, unit wage costs and by the uptrend in inflation expectations. Less intense pressure was expected to be exerted by prices of imports (also against the backdrop of the likely higher import volume), amid the downward revision of their projected path. The widening of the forecasted positive output gap was markedly larger throughout the projection period, underpinned by faster-than-expected-economic growth in Q1 2017, as well as by the significant upward revision of the prospective GDP dynamics for 2017 and 2018. The main assumption underlying this outlook was the relative strengthening of the pro-cyclical stance of the fiscal and income policies. Furthermore, it implied the preservation of a considerably accommodative nature of real monetary conditions, as well as relatively sturdier economic growth in the euro area, EU and globally.

However, the uncertainties surrounding the outlook for the fiscal and income policy stance remained high, given the increased uncertainty regarding the concrete manner of implementing the unified wage law, as well as the set of measures that would probably accompany it, designed to alleviate its expansionary effects. In addition, there was uncertainty about the possible adoption of corrective fiscal measures in the context of the envisaged budget revision which were important in terms of their potential effects on the investment and consumption behaviour. Moreover, the downside risks to the domestic inflation outlook induced by the external environment were deemed to linger, stemming from the uncertainties about Brexit, as well as from the globalisation of production chains worldwide and the behaviour of large chain stores. The major central banks' monetary policy stances, as well as the conduct of other central banks in the region were also relevant.

Expected future developments in monetary policy

The NBR will further gear its monetary policy towards bringing and maintaining the annual inflation rate into line with the flat target in the medium-term, in a manner supportive of sustainable economic growth. The inflation outlook and the assessment of the balance of risks to the inflation forecast are the key factors behind future monetary policy decisions.

Recent Developments in the Lending Process

2014

In 2014, the annual dynamics of lending to the private sector (in real terms) remained negative, but the decline was slower compared to the previous year, reflecting the positive development of RON-denominated loans, as well as the overall statistical effects of RON depreciation and a lower annual inflation rate, respectively. Opposite effects were exerted by the steeper contraction of the foreign currency-denominated component (expressed in euros) and, starting in the second quarter of 2014, by an acceleration in loan sales and write-offs from banks' balance sheets. Against this backdrop, the share of the foreign currency- denominated loans in total lending to the private sector continued to decrease. A breakdown by client type shows that lending to households (expressed in real terms) was higher than in the previous year, while lending to corporations remained close to the levels of the last year. For households, this evolution reflected the continuing increase in the RON-denominated component, triggered in its turn by the strong acceleration in lending for house purchases (mainly due to the "First House" government programme), and by the improvement, although still modest, in the dynamics of consumer loans; instead, the growth rate of the foreign currency-denominated loans (expressed in euro) contracted until reaching the historical minimum. For corporations, the dynamics of the RON-denominated credit stood solely in positive territory, while that of the foreign currency-denominated credit (expressed in euro) widened its negative value.

2015

The annual growth rate of lending to the private sector became positive in 2015 (3.0 per cent. in December, expressed in nominal terms, compared to -3.3 per cent. at end of 2014) for the first time in almost three years, driven by the strong rebound in RON-denominated loans (the annual growth rate of which increased over the same period to 19.7 per cent., from 7.9 per cent.) Thus, after having remained stable at negative levels during the first months of the year, the growth rate of lending to the private sector started to rise since May 2015, with increasingly robust growth of RON-denominated loans reflecting the general increase in the volume of new loans, caused by the decline of interest rates in response to the gradual easing of the monetary policy stance over the past year via a range of tools (policy rate cuts, narrowing of the symmetrical corridor of interest rates on the NBR's standing facilities around the policy rate, reduction in minimum reserve requirements ratios and adequate liquidity management). Foreign currency-denominated loans continued to decrease, and amounted to 51.3 per cent. of total credit to private sector in July 2015. Aside from the increase in domestic currency lending, the movements in credit to the private sector reflected the effect of the removal of non-performing loans ("**NPL**") from banks' balance sheets, by the purchase of loans previously sold by some banks, as well as by the conversion into RON of certain Swiss Franc-denominated loans. The breakdown by client revealed that the growth rate of loans to households continued to outperform that of companies, recording positive values starting March 2015. The growth rate of loans to companies remained negative, but recovered to some extent in June 2015.

The annual growth rate of lending to the private sector continued to increase between August and December 2015, reaching its maximum over the course of the past three years at the end of 2015. This reflected the effect of the increase in the volume of new loans in RON. Against this background, the growth rate of RON denominated loans to both households and companies grew, while that of the foreign currency-denominated loans decreased, reaching the lowest level in more than 15 years in October 2015. The growth rate of lending to households picked up in November, after having been relatively stable since June at a high level as compared to the last three and a half years. The growth rate of lending to companies continued to recover, and as such in December 2015 it entered positive territory for the first time in more than two and a half years.

2016

The annual growth rate of credit to the private sector stood at a relatively high level as compared to the preceding three years, supported by both loans to households and to companies, although it has weakened since May 2016, mainly on account of the increase in the volume of non-performing loans removed from credit institutions' balance sheets. In the case of both households and companies, the driver of credit growth was the RON-denominated component, whose growth rate remained high from the perspective of the post-2008 period, despite the slowdown recorded at the end of H1 2016 due to the above-mentioned factor, in addition to the temporary adverse effects exerted by the adoption of the Debt Discharge Law. The dynamics of foreign currency-denominated loans remained in negative territory around the lowest levels in 16 years. The annual dynamics of loans for house purchases moderated during the second half of the year, while consumer and other purposes loans recovered, but still remaining in negative territory.

2017

In the first seven months of 2017, the annual growth rate of credit to the private sector followed an ascending trend, amid the recovery in the volume of new RON-denominated loans and the slowdown in the removal of non-performing loans from credit institutions' balance sheets. The dynamic of the RON-denominated loans were relatively stable for most of the first five months of 2017 at a high post-2008 level, but increased in June and July, consolidating its decisive role in the growth of lending to households and to companies, while the annual dynamics of the foreign currency-denominated loans remained negative. Against this background, the share of RON-denominated credit in total credit to private sector continued to increase at the highest levels seen since end-1996, reaching 60.7 per cent. in July 2017. The growth rate of loans to non-financial companies returned, after four years, to positive territory, while credit to households stood relatively stable, amid a rather slowing, but still robust increase in lending for house purchases and an ascending tendency of consumer and other purposes lending.

Inflation Rates, Target Inflation Rates and Monetary Policy Rates

The following table sets out actual quarterly inflation rates, annual target inflation rates and monetary policy rates as at the end of each quarter of the years from 2014 to June 2017:

End of Period	**Inflation Rate**	**Target Inflation Rate**	**Monetary Policy Rate**
		(per cent.)	
March 2014	1.04	2.5	3.50
June 2014	0.66	2.5	3.50
September 2014	1.54	2.5	3.25
December 2014	0.83	2.5	2.75
March 2015	0.79	2.5	2.25
June 2015	(1.55)	2.5	1.75
September 2015	(1.73)	2.5	1.75
December 2015	(0.93)	2.5	1.75
March 2016	(2.98)	2.5	1.75
June 2016	(0.70)	2.5	1.75
September 2016	(0.57)	2.5	1.75
December 2016	(0.54)	2.5	1.75

End of Period	Inflation Rate	Target Inflation Rate	Monetary Policy Rate
		(per cent.)	
March 2017	0.18	2.5	1.75
June 2017	0.85	2.5	1.75

Sources: National Institute of Statistics, National Bank of Romania

Monetary Aggregates

The following table shows selected monetary aggregates as at 31 December 2014, 2015, 2016 and 31 July 2017:

	As at 31 December			As at 31 March 2017
	2014	2015	2016	
		(RON million)		
M1 (narrow money) – Total.......................	118,581.6	149,601.6	180,013.5	195,430.0
Currency in circulation	39,890.4	46,481.7	54,749.7	59,841.0
Overnight deposits.....................................	78,691.3	103,119.9	125,263.9	135,589.0
M2 (intermediate money) – Total.............	261,572.7	286,171.6	314,053.2	324,761.4
M1	118,581.6	149,601.6	180,013.5	195,430.0
Deposits with agreed maturity of up to two years...	142,991.1	136,569.9	134,039.7	129,331.4
M3 broad money.......................................	261,831.2	286,301.1	314,161.8	324,884.9
M2	261,572.76	286,171.6	314,053.2	324,761.4
Other financial instruments (repurchase agreements, MMFs shares/units, debt securities with maturity of up to two years)	258.5	129.5	108.6	123.4

Note:

This table illustrates the monetary aggregates as (re)calculated according to the new methodology on statistical reporting by monetary financial institutions implemented by the NBR as from 1 January 2007, in order to harmonise its regulations with those of the ECB. Some totals may differ from the sum of components due to rounding.

Source: National Bank of Romania

Interest Rates

2014

The widening trend the excess liquidity embarked upon at the end of 2013 was brought to a halt at the end of January 2014, because of the contractionary impact of the autonomous factors. The net liquidity position remained in positive territory through the next months, except for April and September-October periods, when temporary liquidity shortfalls emerged and the NBR accommodated the credit institutions' demand for reserves through 1W repo operations conducted via fixed-rate tenders with full allotment. Overnight rates neared the monetary policy rate at the end of January and stayed in its proximity throughout February. They returned to levels close to the lower half of the corridor around the monetary policy rate in March through October, approaching temporary the NBR's key-interest rate in April and in September-October. In November and December, amid the considerable widening of the liquidity surplus, overnight rates stabilised at values close to the deposit facility rate. The three-month to 12-month ROBOR rates followed a downward trend during 2014, reflecting the successive policy rate cuts, the revision of credit institutions' expectations of the future path of the monetary policy rate, as well as the loose liquidity conditions prevailing over most of the period under review. As a result, the ROBOR rates hit successively historical lows at the end of 2014.

The interest rates on new time deposits and new loans of non-bank customers continued to decline in 2014, reaching successive historical lows against the background of the downward trend in monetary policy interest rate and ROBOR rates on the interbank money market; during this period, they posted nevertheless some minor fluctuations in both directions mainly due to changes in the composition of flows. Thus, the average interest rate on new time deposits of households declined by 1.15 percentage points to 2.77 per cent. while that corresponding to non-financial corporations decreased by 1.10 percentage points to 1.09 per cent. in December 2014. The decline of the average interest rates on new loans was even more pronounced on both categories of customers over the whole period under review (-1.89 percentage points to 7.16 per cent. in the case of households and -1.36 percentage points to 5.48 per cent. in the case of non-financial corporations).

2015

The liquidity surplus continued to expand in January 2015, driven by the resumption of, and subsequent increase in, the Treasury's liquidity injections and the fall in banks' demand for reserves as a result of the reduction of the minimum reserve requirement ratio on their RON-denominated liabilities. The excess liquidity declined through February-May 2015, as the net impact of the Treasury's operations turned contractionary, before posting a temporary hike in April-May 2015. Liquidity conditions tightened again starting in August 2015, but eased significantly at the end of 2015, due to the substantial rise in Treasury injections. The NBR continued to absorb the excessive liquidity through its deposit facility. In line with these developments, overnight rates remained in the proximity of the deposit facility rate for most of 2015, nearing temporarily the monetary policy rate in April-May and September-October. The three-month to 12-month ROBOR rates remained on a downward trend during 2015 (even though they witnessed temporary fluctuations), reflecting the NBR's successive interest rate cuts in January, February, March and May 2015, as well as the loose liquidity conditions prevailing over most of the period under review. Against this background, the ROBOR rates reached historical lows in December 2015.

In 2015, interest rates on new time deposits and new loans of non-bank customers prolonged their decreasing trend. The average interest rate on new time deposits declined by 0.78 percentage points, reaching in December a new record-low (0.93 per cent.) on behalf of non-financial corporations (-0.49 percentage points, to 0.62 per cent.), as well as households (-1.31 percentage points, to 1.48 per cent.). The average interest rate on new loans fell by 1.11 percentage points, to a new historical low of 5.35 per cent. (in December) reflecting the decrease in the average interest rates applied to household loans (-0.66 percentage points, to 6.61 per cent.) and to non-financial corporations (-1.51 percentage points, to 4.36 per cent.).

2016

The liquidity surplus expanded substantially in January 2016 due to large reserve injections arising from Treasury's operations and narrowed gradually in subsequent months, while registering high values throughout the year. During 2016, the NBR carried on sterilising the liquidity surplus exclusively via its deposit facility. Against this background, overnight interbank rates declined and stood in the proximity of the deposit facility rate, rising only briefly to levels around 0.50 per cent. at the end of July, October and December, under the influence of Treasury's operations. In turn, the three-month to 12-month ROBOR rates remained on a downward trend in the first two months of the year, and stabilised towards the end of Q3, when they decreased slightly, hitting new historical lows. The ROBOR rates tended to increase somewhat towards the end of 2016, most likely due to the revision of credit institutions' expectations on the future developments in very short-term interest rates on the interbank money market.

In 2016, the average interest rates applied by credit institutions to new time deposits and new loans of non-bank customers stood below the levels of the previous year, although their downward trend moderated. The average interest rate on new time deposits reached 0.61 per cent. reflecting the overall decrease in the case of households (-0.58 percentage points, to 0.90 per cent.) and in that of non-financial corporations (-0.18 percentage points, to 0.44 per cent.). The average interest rate on new loans dropped to new historical lows (-0.43 percentage points, to 4.92 per cent. in December 2016), mainly due to the decline in the average interest rate charged for non-financial corporations (-0.64 percentage points, to 3.72 per cent.), as that applied to households decreased only marginally (-0.04 percentage points, to 6.57 per cent.).

2017

Liquidity surplus widened significantly in January 2017 amid the Treasury's sizeable reserve injections and continued to record high values throughout the period under review, albeit on a decreasing trajectory, as the cumulated influence of the autonomous liquidity factors turned contractionary. Consequently, overnight interbank rates stayed in the immediate proximity of the deposit facility rate in January and February 2017, but started to increase slightly through the next period. The three to 12-month ROBOR rates remained stable during Q1 2017, but tended to increase beginning April 2017 and recorded higher levels during the next few months, mainly owing to a relative consolidation of credit institutions' expectations regarding the higher future path of short-term interest rates.

During January-July 2017, the average interest rates on new time deposits and new loans applied by credit institutions to non-bank customers registered heterogeneous developments. The average interest rate on new time deposits remained on a downward path and reached a new minimum (-0.11 percentage points, to 0.50 per cent.), the decline being manifested across both households and non-financial corporations (-0.11 percentage points, to 0.79 per cent. and -0.06 percentage points, to 0.38 per cent., respectively). Instead, the average interest rate on new loans increased over the whole period January-July 2017 (+0.48 percentage points, to 5.40 per cent.), due to the rise of the average interest rates on new loans to non-financial corporations (+0.10 percentage points, to 3.82 per cent.) and to households (+0.07 percentage points, to 6.64 per cent. in July), along with the increase in the share of new loans to households in total new loans to private sector.

The following table shows key financing interest rates as at 31 December 2014, 2015 and 2016 and 31 August 2017:

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

	As at 31 December			As of 31 August 2017
	2014	**2015**	**2016**	
Policy rate	2.75	1.75	1.75	1.75
Lending facility	5.25	3.25	3.25	3.25
Deposit facility	0.25	0.25	0.25	0.25

Source: National Bank of Romania

The following table shows annual average interest rates for loans and term deposits as at 31 December 2014, 2015, 2016 and 30 June 2017:

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

	As at 31 December			As at
	2014	**2015**	**2016**	**30 June 2017**
		(per cent.)		
Individuals				
Loans	9.47	7.56	6.57	6.51
Term deposits	2.92	1.62	1.11	0.99
Non-financial corporation				
Loans	5.93	4.70	4.04	4.02
Term deposits	1.61	0.85	0.52	0.47
Total				
Loans	7.65	6.21	5.47	5.44
Term deposits	2.54	1.41	0.95	0.85

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 Regulations EU/1072/2013 and ECB/2013/34 starting with 1 December 2014.

Source: National Bank of Romania

Foreign Exchange and Convertibility of the RON

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

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

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

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

Exchange Rate Policy

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

2014

Financial investors' sentiment towards emerging markets deteriorated markedly in early 2014, the mounting tensions in some of these markets (e.g. Turkey) having secondary effects to some extent in the regional and local financial markets. Thus, the EUR/RON exchange rate began an upward trend and peaked at a seven-month high on 10 January (EUR 1 = RON 4.5447). The upward movement came to a halt towards the end of January 2014, with the EUR/RON exchange rate displaying afterwards two-way fluctuations, which reflected the contagion effects, albeit limited, from the geopolitical crisis in Ukraine on Central and Eastern European markets, but also the favourable impact of better than expected domestic economic developments (the fourth quarter of 2013 GDP flash data, trade/current account balance and industrial output). The pressure on the exchange rates of the currencies in the region eased to some extent following the referendum in Crimea, and the EUR/RON exchange rate entered a downward path in the second half of March 2014, which continued until June 2014 as a result of higher global risk appetite and improved investor perception towards the domestic economy and financial markets. The latter was fostered mainly by the further positive performance of domestic fundamentals and by S&P's decision to upgrade the country's sovereign rating to investment grade. Consequently, the average EUR/RON exchange rate hit a 13-month low in June 2014 and its volatility decreased.

The EUR/RON exchange rate interrupted its downward path in July 2014 and subsequently recorded sideways movements, reflecting the shifting influences generated by fluctuations in global risk aversion, stemming, on the one hand, from (i) the successive unfavourable news concerning some banks in the euro area, (ii) the escalation of geopolitical tensions and, against this background, the increasing concerns about the impact of new sanctions being possibly imposed on Russia and (iii) anticipation of an earlier monetary policy rate hike by the Federal Reserve, and, on the other hand, from increased expectations that the ECB would start purchasing asset-backed securities in the coming period. The volatility of the EUR/RON exchange rate declined following the September ECB decisions, and for the following two months the EUR/RON followed a smooth upward path, with only short-lived fluctuations, mainly triggered by swings in international financial market sentiment. The exchange rate trend steepened in December, given the impact of increased global risk aversion, owing in part to heightened uncertainty surrounding the knock-on effects of the abrupt decline in oil prices on the world economy, markedly higher risks to the Russian economy and the ensuing sharper depreciation of the rouble, and mounting concerns over the situation in Greece. A temporary influence that enhanced this sentiment was the higher uncertainty over the Federal Reserve's decision in December on the prospective adjustment of its monetary policy stance.

Thus, compared to December 2013, in December 2014 the RON appreciated against the euro by 0.1 per cent. in nominal terms (0.9 in real terms), while compared to the US dollar it depreciated by 10 per cent. in nominal terms (9.2 per cent. in real terms) as the latter appreciated significantly against the euro.

2015

The EUR/RON exchange rate experienced fluctuations in the first six months ended 30 June 2015, with the RON initially depreciating against the EUR in January, but appreciating from February to April. In May, the trajectory of the EUR/RON exchange rate reversed and the trend of Euro strengthening steepened towards the end of June, amid higher volatility on external financial markets, triggered initially by the reconsideration by some investors of the euro area inflation outlook, which raised questions about the sustainability of the very low readings hit by long-term bond yields and, possibly, by the EUR/USD rate, as well as heightened uncertainty surrounding the timing of the increase in interest rates by the US Federal Reserve and concerns related to the Greek financial crisis. On 29 June 2015, the RON/EUR reached the highest level since early 2015 (4.4931). Following the EU agreement on Greece on 13 July 2015, the RON/EUR returned to the levels seen in February (4.4041). In mid-August, similar to the exchange rates of other currencies in the region, the RON/EUR displayed a relatively moderate upward movement as volatility on the financial markets increased amid fears of a global economy slowdown following developments in China.

The RON/EUR exchange rate stabilised between mid-September and the second part of October, due to the improvement in global financial market sentiment following the adoption of monetary policy easing measures by the Chinese Central Bank and prevailing expectations that the U.S. Federal Reserve would postpone an increase in interest rates. The RON then re-entered a depreciation trend against the EUR, and, even more pronounced, against the US dollar, in the context of rising expectations for a U.S. Federal Reserve rate increase in the last month of 2015. That trend steepened in December, as the RON (similar to the Hungarian Forint and the Polish Zloty) experienced the impact of increased volatility of the global financial markets following the European Central Bank decision to keep bond purchases at a lower level than expected by some market participants.

As such, on 29 December 2015, the EUR/RON exchange rate posted its highest value in three years, which was 4.5381. In comparison to December 2014, in December 2015, the RON depreciated against the EUR by 1.0 per cent. in nominal terms (1.9 per cent. in real terms), while compared to the US dollar it depreciated by 12.6 per cent. in nominal terms (13.4 per cent. in real terms), as the US dollar appreciated significantly against the euro.

2016

After having been stable for the most part of the first quarter of 2016, the EUR/RON exchange followed an uptrend during the second quarter of 2016 (reaching, on 16 June 2016, the highest value of the year, 4.5396). The move – relatively similar to developments of the exchange rates of other currencies in the region – was mainly driven by external factors, chief among which were investors' concerns related to the UK referendum. The EUR/RON exchange rate saw a substantial downwards correction in July – with investors' worries about the near term impact of the Brexit on the global economy rapidly alleviating, also amid expectations for increased/extended monetary policy accommodation by major central banks, and stood broadly unchanged for the remaining of the third quarter of 2016, as global financial markets volatility fell to historically low levels.

In the fourth quarter of 2016, the EUR/RON exchange rate moved at higher levels, witnessing increased volatility. The abrupt increase in October was caused by concerns regarding the legislative initiatives related to the banking sector, as well as the fiscal and wage measures put forward in the pre-election context, perceived by investors as generating risks to domestic fundamentals. Subsequently, the significant fluctuations of the EUR/RON were due to mixed influences from the external environment, characterised by: (i) the increase in global risk aversion following the US presidential elections – related to the change in market expectations regarding the pace of Federal Reserve monetary policy tightening; (ii) the subsequent relative improvement in global financial market sentiment, also bolstered by expectations of further monetary policy easing by the ECB and by their confirmation in the meeting on 8 December; and (iii) the ensuing steeper appreciation trend of the US dollar versus the euro. Towards end-December, the temporary heightening of domestic political uncertainties in the post-election environment brought about a new, short-lived increase in the EUR/RON exchange rate.

Over the course of 2016, the RON depreciated by 0.3 per cent. compared to EUR in nominal terms (0.8 per cent. in real terms) and by 3.3 per cent. compared to USD (3.9 per cent. in real terms).

2017

The EUR/RON exchange rate saw a downward correction in the first 10 days of January 2017 amid the dissipation of the uncertainties regarding the formation of the new Government, but embarked again on an upward trend amid investors, concern over domestic political tensions, especially the more evident risk of a larger fiscal policy relaxation than the one encompassed in the recently adopted 2017 budget programme. The depreciation was also spurred by the decline in global risk appetite against the gradual increase in expectations of Federal Reserve tightening the monetary policy in its March meeting.

The EUR/RON exchange rate decreased following the March Fed meeting, but in April re-entered an upward path which lasted until the end of June. The movement mainly reflected investors' fears regarding the fiscal and income policy outlook which resurfaced during this period also due to warnings from rating agencies in April, and from the EC and IMF in May, domestic political tensions in mid June and further widening of the trade/current account deficit. Besides, emerging financial markets (regional ones included) became less attractive following the Fed meeting of 13-14 June, which invalidated investors' expectations on the probable pace of monetary policy normalisation by the central bank of the United States, given that it kept the projected interest rate trajectory unchanged. On 21 June, the EUR/RON exchange rate reached a five-year high of 4,5987. However, the relatively fast easing of political tensions stopped the rise of the exchange rate, also bringing about its downward adjustment towards the end of the quarter.

Thereafter, the EUR/RON exchange rate fluctuated in a rather narrow range, in the proximity of the highest values of this year, with a slight increase bias. Its evolution, partially decorrelated to the regional main currencies, reflected (i) the uncertainties surrounding the future stance of fiscal and income policies, (ii) the mixed domestic economic/fiscal developments (GDP, industrial output, current account/trade/budget deficit) and (iii) the temporary increase of the volatility on the global financial market prior to the ECB and Fed decisions and amid geopolitical tensions.

Thus, compared to December 2016, the RON depreciated in July 2017 by 1.1 per cent. compared to EUR in nominal terms (0.4 per cent. in real terms) and appreciated by 7.8 per cent. compared to USD (8.6 per cent. in real terms).

EUR/RON and USD/RON Exchange Rates

The following table sets out the EUR/RON and USD/RON exchange rates as at 31 December 2014, 2015 and 2016 and the average EUR/RON and USD/RON exchange rates for the years ended 31 December 2014 through 2016:

EUR/RON and USD/RON Exchange Rate

	2014		2015		2016	
	31 December	Average	31 December	Average	31 December	Average
EUR.................................	4.4821	4.4446	4.5245	4.4450	4.5411	4.4908
USD.................................	3.6868	3.3492	4.1477	4.0057	4.3033	4.0592

Source: National Bank of Romania

Real Effective Exchange Rate

The annual change in the CPI based real effective exchange rate ("**REER**") calculated by the Bank of International Settlements turned slightly negative in the first two months of 2014, due to a nominal depreciation against the euro, and, to a lesser extent, a contribution made by the inflation differential (in fact, throughout 2014 and the first two months of 2015, REER dynamics were mainly shaped by the performance of the Nominal Effective Exchange Rate as the inflation differential made only a modest contribution). Starting in March 2014, the weaker RON with respect to the euro in year-on-year terms was offset by a nominal appreciation against the US dollar, resulting in moderately positive REER dynamics. Mid-year readings reflected a stronger RON against both the euro and the US dollar, so that in June the annual change of the REER stood at 2.9 per cent. (the highest value for 2014). Towards the end of the third quarter of 2014 and in the fourth quarter of 2014, the influence of the stronger US dollar gradually gained momentum, which translated into a downward trend of the REER annual change, while the RON/euro pair remained on a steady path. In December 2014, REER annual dynamics turned negative (-0.2 per cent.).

Over the course of 2015, the REER posted negative year-to-year dynamics, amid a weaker domestic currency (although the exchange rate against the euro did not change significantly), and lower prices. However, the latter development should be interpreted with caution from the perspective of price competitiveness, as it results from lower consumer taxation. In fact, the sequence of measures aimed at reducing indirect taxes, implemented in mid-2015 and at the beginning of 2016 and 2017, respectively, hindered the ability of the CPI-based REER to signal price competitiveness developments. REER indicators based on other deflators (calculated by the European Central Bank) also demonstrated price competitiveness gains throughout 2015, against the background of the leu nominal effective depreciation.

In 2016, however, with the nominal effective exchange rate broadly stable (variations against the similar year-ago quarter ranging from -0.3 to 0.5 per cent.), pressures on the price competitiveness position became more manifest, the most visible developments being those of the manufacturing Unit Labour Cost ("**ULC**") and total economy ULC-based indicators (in the latter case, REER annual dynamics surpassed 4 per cent. in the second half of the year). In this regard, an important role is ascribable to labour market tightening and repeated economy-wide minimum wage hikes, as well as repeated public-sector wage hikes (which also have an effect on private sector wages). Labour-intensive sectors such as food processing, the light industry or furniture production were the most affected (ULC dynamics in double-digit territory), while in other industries, like automotive or electrical equipment production, ULC rises were more subdued.

In the first quarter of 2017, even with a slightly weaker leu in nominal terms (-0.5 per cent.), REER dynamics against the same period in 2016 remained in positive territory for the manufacturing ULC-based and total economy ULC-based indicators (+1.9 and +3.5 per cent., respectively), continuing to signal price/cost competitiveness erosion, even though ULC pressure, albeit still significant, receded in the manufacturing sector. The Producer Price Index-based ("**PPI**") REER (the only REER indicator available for the entire first half of 2017) points to real depreciations in both the first and second quarter of 2017 (-1.4 per cent. and -0.5 per cent., respectively), in the latter case entirely owing to the leu witnessing further nominal depreciation (-1 per cent. against the second quarter of 2016).

Mention should be made that, as Romania continued to be targeted in recent years by foreign direct investment in a number of tradables producing sectors (including automotive production and related industries, but also the Information and Communication Technology sector), contributing to the robust production and export performance, the overall competitiveness position of the economy is broadly favourable, which seems to hold in spite of the recent price/cost competitiveness erosion. This owes mainly to the relatively cheap and adequately qualified labour force, which is, however, becoming increasingly scarce, as often signalled by companies, while major infrastructure improvements, which constitute an important development bottleneck, have yet to take place.

International Reserves

As of 31 December 2014, Romania's foreign exchange reserves amounted to EUR 32,216 million, a decrease of EUR 309 million compared to 31 December 2013. The main inflows, totalling EUR 21,780 million, were due to inflows into the Ministry of Public Finance's accounts (including flows from the Ministry of Public Finance's local and external bond issuances amounting to EUR 5,128 million, as well as from the second drawdown under the EUR 1 billion Development Policy Loan provided by the World Bank of EUR 300 million), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totalling EUR 22,089 million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt and decreases in credit institutions' required reserves.

As of 31 December 2015, Romania's foreign exchange reserves amounted to EUR 32,238 million, an increase of EUR 22 million compared to 31 December 2014. The main inflows, totalling EUR 13,129 million, were due to inflows into the Ministry of Public Finance's accounts (including flows from the Ministry of Public Finance's local and external bond issuances amounting to EUR 2,000 million, as well as from the 750 million drawdown under the first fiscal effectiveness and growth development policy loan provided by the World Bank), increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totalling EUR 13,107 million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt (including the interest as well as the principal instalments of the loan from the European Commission of approximately EUR 1,547 million and the repayment of the principal and interest of the euro denominated bonds totalling EUR 1,975.7 million) and decreases in credit institutions' required reserves.

As of 31 December 2016, Romania's foreign exchange reserves amounted to EUR 34,242 million, an increase of EUR 2,004 million compared to 31 December 2015. The main inflows, totalling EUR 14,225 million, were due to inflows into the Ministry of Public Finances' accounts, increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totalling EUR 12,221 million, were due to repayment of principal and interest payments on public and publicly guaranteed foreign currency debt and decreases in credit institutions' required reserves.

As of 31 July 2017, Romania's foreign exchange reserves amounted to EUR 34,636 million, an increase of EUR 394 million compared to 31 December 2016. The main inflows, totalling EUR 6,451 million, were due to inflows into the Ministry of Public Finance's accounts, increases in credit institutions' foreign currency required reserves with the NBR and inflows into the EC account. Main outflows for the period, totalling EUR 6,057 million, were due to interest and principal payments on foreign currency public debt, the entering into force of the decision to cut the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 8 per cent. from 10 per cent. starting with 24 May – 23 June 2017 maintenance period and decreases in credit institutions' required reserves.

Romania's gold reserve assets has remained at approximately 103.7 tonnes since the second half of 2007 and was valued at EUR 3,602 million on 31 July 2017, EUR 61 million lower than on 31 December 2016. The value of the gold reserves totalled EUR 4,207 million as of 31 December 2012. During 2013, the sharp drop in market prices put the value of the gold reserves onto a downward trend, reaching a value of EUR 2,909 million as of 31 December 2013. The trend was reversed during 2014 and 2015 and the value of gold reserves reached EUR 3,290 million as of 31 December 2014, EUR 3,247 million as of 31 December 2015 and EUR 3,663 million as of 31 December 2016.

The NBR's level of foreign exchange reserves has decreased between January 2012 and March 2016, mainly due to the repayments of principal amounts to the IMF and the EC, under the 2009 multilateral financial assistance agreement, and as a result of changes in credit institutions' required reserves. Under the 2009 Stand-by Agreement, Romania has made repayments of principal between August 2012 and January 2016. The decrease in the credit institutions' required reserves followed the NBR board's decisions to lower the minimum reserve ratio on foreign currency denominated liabilities of credit institutions with a residual maturity of up to two years from 14 per cent. at the end of 2015 to 12 per cent. in January 2016, to 10 per cent. in May 2016 and to 8 per cent. starting on 24 May 2017. The main inflows during the same period were inflows in the EC account and inflows in the Ministry of Public Finance's accounts (from local and external bond issues and development policy loans concluded with international institutions).

The amount of total reserves was EUR 35,506 million as at the end of 2014, EUR 35,485 million as at the end of 2015 and EUR 37,905 million as at the end of 2016.

As regards the extent to which the reserves are encumbered by liens, the central bank has opened custody accounts with international financial institutions in order to manage the foreign reserves. The technical procedures of the custodians, which are commonly used for custody and settlement systems, may entitle the custodians to exercise certain remedies and to benefit from certain guarantees in relation to the participants, in case of non-compliance with the custodians' general terms and conditions, which are intended to ensure the fulfilment of such participants' obligations. The NBR is not engaged in any type of currency derivative transactions.

The following table shows Romania's international reserves as at 31 December 2014, 2015, 2016 and as at 31 July 2017:

Romania's international reserves

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
		(EUR million)		
Foreign exchange reserves	32,216	32,238	34,242	34,636
Gold reserves	3,290	3,247	3,663	3,602
Total reserves	35,506	35,485	37,905	38,238

Source: National Bank of Romania

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

Future changes to NBR's reserve assets could be triggered by monetary policy decisions impacting the international reserves size and currency composition as well as inflows/outflows triggered by foreign currency public debt management.

Banking System

General

A variety of structural changes by way of privatisation or the granting of banking licences, including to domestic branches of foreign based banks, occurred over the years. However, the share of domestic majority owned private banks, foreign majority owned private banks and state majority owned banks has remained largely consistent over the past three years.

As at 30 June 2017, the share of assets held by banks with total or majority private capital in total assets of the Romanian banking system was 91.5 per cent., while the share of assets held by banks with total or majority foreign capital, including foreign bank branches, was 91.0 per cent. Banks with total or majority state-owned capital held 8.5 per cent., while the private domestic capital held only 0.5 per cent. As at 30 June 2017, the total net balance sheet assets of the Romanian banking system amounted to EUR 87.5 billion and the share capital was approximately EUR 5.6 billion.

Market share of credit institutions in terms of assets

	As at 31 December			As at June
	2014	**2015**	**2016**	**2017**
		(per cent. market share)		
Banks with majority state capital...............	8.8	8.3	8.2	8.5
Banks with majority domestic private capital	1.3	1.4	0.5	0.5
Banks with majority foreign capital...........	89.9	90.3	91.3	91.0
Total banking system..............................	100.0	100.0	100.0	

Source: National Bank of Romania

In terms of net assets, the market share of banks with majority foreign capital was 89.9 per cent. in December 2014, 90.3 per cent. in December 2015 and 91.3 in December 2016 and 91.0 per cent. in June 2017. The largest share of this majority foreign ownership was Austrian (25.1 per cent. in June 2017). The market share of banks with a majority of Greek capital has been relatively steady over 2013-2014 (12.2 per cent. in December 2014), decreasing in 2015 and decreasing further as of June 2017 to 9.8 per cent..

Banking System Ownership (per cent. of total net assets)

	2014	2015	2016	June 2017
Romania	10.11	9.64	8.73	9.0
Austria	36.37	33.30	25.90	25.1
Cyprus	1.54	1.65	1.80	1.9
France	12.91	13.54	13.60	13.5
Greece	12.16	10.64	10.00	9.8
Hungary	1.30	2.28	2.10	2.2
Italy	2.48	2.41	10.40	10.2
Netherlands	8.93	10.26	11.40	11.8
Portugal	0.66	—	—	—
Other	13.55	16.28	16.07	16.5

Source: National Bank of Romania

The share in total equity capital held by banks with majority foreign capital was 86.8 per cent. in December 2016 and in June 2017, down by 0.5 percentage points from December 2014. Banks with majority Austrian capital hold the largest share (17.38 per cent. in June 2017), although this decreased by around 4.8 percentage points after one bank became a subsidiary with majority Italian share capital. The share of banks with majority Greek capital was 16.82 per cent. in December 2016 (16.77 per cent. in June 2017), down by 0.4 percentage points from December 2015.

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

	2014	2015	2016	2017
Romania	13.70	14.08	13.25	13.22
Austria	30.66	22.25	17.44	17.38
Cyprus	2.14	2.38	2.50	2.74
France	10.39	11.16	11.00	10.76
Greece	15.36	17.23	16.82	16.77
Hungary	2.84	4.99	4.87	4.85
Italy	3.37	3.69	7.88	7.85
Netherlands	8.12	8.89	8.80	8.60
Portugal	1.12	—	—	—
Other	12.31	15.33	17.43	17.83

Source: National Bank of Romania

Structure of the Banking Sector

At the end of June 2017, the Romanian banking system had 36 credit institutions, which consisted of one majority state owned institution (Eximbank), one fully state owned institution (CEC Bank), eight branches of foreign banks and 26 credit institutions with private capital (including Banca Centrală Cooperatistă CREDITCOOP – the network of credit cooperatives), of which 23 had majority foreign ownership. The total number of credit institutions declined from 37 in December 2016 to 36 after the merger through acquisition of two banks (Banca Comerciala Carpatica SA and Patria Bank).

EU accession has also opened up the Romanian banking market to other EU banking institutions. As at 25 August 2017, 302 banks from EU Member States had filed a notice of their intention to provide services within Romania on a cross border-basis without establishing Romanian branches.

The following table shows the composition of the Romanian banking sector as at 30 June 2017:

Type of Capital	**Number of banks**	**Total loans**	**Total deposits**	**Total balance sheet**
(% market share)		*(per cent. market share)*		
State-owned	1	6.3	7.7	7.2
Majority state-owned	1	1.0	0.7	1.3
Majority privately owned banks, of which	26	82.0	79.8	80.2
- majority domestic capital	3	0.5	1.3	0.5
- majority foreign capital	23	79.5	79.4	79.7
Branches of foreign banks	8	12.7	11.8	11.3

Source: National Bank of Romania

Current Condition of the Banking Sector

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

A beneficial contribution to safeguarding financial stability was the European Bank Coordination Initiative, under which the nine participating banks fulfilled their aggregate commitments to maintain their exposure and ensure a capital adequacy ratio above 10 per cent. for every subsidiary in Romania. In 2012, the new European Bank Coordination "Vienna Initiative 2.0" was launched with the purpose of preventing disorderly or overly fast financial deleveraging, as well as strengthening cooperation between home and host supervisory authorities. The successful completion in 2013 of the precautionary Stand-by Agreement signed in 2011 with the EU, the IMF and the World Bank and the signing of a similar agreement, together with the commitments undertaken by the Romanian authorities under the national programmes, are seen as anchors for maintaining financial stability and furthering structural reforms in order to boost the economic growth potential.

As of 30 June 2017, exposure to Romania by the foreign banks participating in the "Vienna Initiative 1.0" has decreased by 50.37 per cent. since the end of March 2009, with the exit of Volksbank from this group of banks further to its takeover by Banca Transilvania accounting for 6 per cent. of such decrease. Around 67 per cent. of credit lines from parent banks have maturities of over one year and do not have any early repayment clauses; part of the credit lines were converted into subordinated lending (Tier 2 capital items).

Aggregate gross assets amounted to RON 432.9 billion at the end of 30 June 2017, up by 4.0 per cent. (3.1 per cent. in real terms) compared with the same period of the previous year, witnessing a relatively modest increase, amid the ongoing financial deleveraging promoted by parent banks and the non-performing loan resolution. Claims on the government sector continued to increase, rising 5.8 per cent. in December 2015, 4.6 per cent. in December 2016 and 5.8 per cent. in June 2017 with the sovereign debt exposure strengthening its share.

Private sector deposits continued to grow in real terms (9.6 per cent. in 2015, 8.8 per cent. in 2016 and 6.6 per cent. in the first six months of 2017), despite the fall in interest rates to all-time lows. Credit to the private sector also increased (3.9 per cent. in 2015, 1.8 per cent. in 2016 and 3.3. per cent. in the first six months of 2017, in annual real terms). The loan-to-deposit ratio was 81.3 per cent. at 30 June 2017 (85.8 per cent. at 31 December 2016).

In nominal terms, financial intermediation calculated as the share-to-GDP of gross loans to private sector declined from 30.6 per cent. in December 2015 to 29 per cent. in December 2016 and 27.8 per cent. in the first six months of 2017. The share of banking sector gross assets to GDP was 58.0 per cent. in December 2015, 56.3 per cent. in December 2016 and 53.0 per cent. in June 2017.

Since the start of the financial crisis, the NBR has continued to pursue a prudent monetary policy stance (see "*Monetary and Financial System—Monetary Policy—Recent Monetary Policy*"), in an attempt to ensure inflation converges with medium-term targets, and to bring money market rates, bank lending and deposit rates to normal levels, with a view to consolidating favourable conditions for the sustainable resumption of lending to the private sector and the subsequent economic rebound. Credit risk has remained the major vulnerability of the banking sector. However, the sales of loans and write-off activity determined a strong reduction in NPL and the NPL ratio. As at 30 June 2017, the NPL ratio was 8.3 per cent. (13.5 per cent. as at December 2015 and 9.65 per cent. as at December 2016, all based on the new EBA definition[10]). Credit risk continued to be adequately covered as a result of a prudent approach of credit institutions, encouraged by the proactive prudential actions of the central bank. Firstly, the degree of NPL coverage with International Financial Reporting Standards ("**IFRS**") provisions remained at a comfortable level of 59.1 per cent. at 30 June 2017 (56.3 per cent. at end of December 2016, both according to the EBA definition). Secondly, both the level and the quality of own funds have remained satisfactory: (i) the total capital ratio (former solvency ratio) stood at 19.8 per cent. at 30 June 2017, considerably above the minimum regulated level of 8 per cent.[11], (ii) own funds consist overwhelmingly of high loss-absorbency capacity components (with a Tier 1 capital ratio of 17.8 per cent. at 30 June 2017). This was mainly due to significant capital increases made by shareholders in terms of cash contribution (i.e. EUR 394 million in 2014, EUR 446 million in 2015, EUR 94 million in 2016 and an additional EUR 54 million at 30 June 2017), as well as new provisioning rules under IFRS from January 2012. The capital base of Romanian banks proved its resilience, as Tier 1 capital accounts for 90 per cent. of total own funds at 30 June 2017.

The growth rate of the foreign currency-denominated loans remained in negative territory (-8.5 per cent. in June 2017) and the share of this component in private sector loans decreased to 39.8 per cent. After the Constitutional Court declared unconstitutional some provisions of the law relating to the discharge of mortgages debt ("**Debt Discharge Law**") in October 2016 and the law on converting CHF-denominated loans into lei denominated loans at the exchange rate applicable as at the execution date of the loan agreement (7 February 2017), their scope and effects on the banking sector declined sizeably and the associated systemic risks abated.

- The Debt Discharge Law gives natural persons that have taken a mortgage loan the right to obtain a complete discharge of all indebtedness secured by the mortgages by transferring to the bank the ownership over the mortgaged property, regardless of the value of such property. The law applied to loan agreements concluded both before and after its entry into force and created significant uncertainty in the Romanian banking sector.

  After having been challenged by several credit institutions in the Constitutional Court, certain provisions of the Debt Discharge Law were declared unconstitutional by the court in October 2016.

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[10] The NPL ratio is based on the European Banking Authority definition. It is calculated as a ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.

[11] This figure does not include the additional capital requirements imposed following the application of macro prudential policy, nor the additional bank by bank requirements following micro prudential supervision.

The decision of the Constitutional Court diminished the risks related to legislative uncertainty. It states that the law should respect the Civil Code, in the sense that the debtor must prove that it entered into default because of unpredictable circumstances, its request being assessed by reference to hardship conditions. In this respect, a court of law must evaluate the facts of each application.

- The Constitutional Court declared the CHF Conversion Law unconstitutional in February 2017, before its entry into force, thereby, *inter alia*, upholding that the conversion of CHF-denominated loans into RON loans should observe the exchange rate applicable as at the conversion date.

The main challenges lying ahead are: (i) managing the risk that could occur in the event of adverse developments in international markets as a result of change in investor sentiment towards emerging economies generated by the uncertainties surrounding global economic growth, the state of the international financial system or heightening geopolitical tensions; (ii) improving bank asset quality; (iii) achieving a more balanced sectorial breakdown of flows of new loans. These challenges call for further efforts to maintain adequate solvency, provisions and liquidity, as well as for additional prudential measures.

For non-financial corporations (as borrowers), the volume of non-performing loans decreased by 25.1 per cent. from December 2013 to December 2014, after rising by 14.7 per cent. between December 2012 and December 2013. The non-performing bank loan ratio decreased to 18.7 per cent. in December 2014 from 23.6 per cent. in December 2013. The descendent trend in non-performing loans came after banks intensified their efforts to improve the quality of their balance sheets. Based on the new EBA definition, the non-performing bank loan ratio for non-financial companies was 26.2 per cent. in December 2015. Under the previous methodology, the non-performing loan ratio was 16.1 per cent. in December 2015. The difference between the two values is due to the fact that the latter does not include the loans classified as non-performing due to the unlikelihood that the borrower will pay (approximately 40 per cent. of the total non-financial companies' non-performing loans as of December 2015). However, most of the loans classified as non-performing due to the unlikelihood to pay have a good payment behaviour (89 per cent. have a delay lower than 15 days). The volume of non-performing loans for non-financial corporations at 31 December 2016 decreased by 28.8 per cent. compared with 2015 influenced by improved debt servicing capacity of firms, as well as by intensified activity in loan sales and write-offs conducted by credit institutions. This resulted in an NPL ratio of 19.3 per cent. at 31 December 2016, a decrease of 6.9 percentage points relative to 2015. In the first six months of 2017, the NPL ratio for non-financial corporations further decreased by 2.9 percentage points compared with 2016, reaching 16.4 per cent. at 30 June 2017, due to both an increase in exposures (2 per cent.) and a reduction in the volume of non-performing loans (13.3 per cent.). The average default rate reported for Romanian companies with outstanding bank loans remains on a downward trend, reaching 4.3 per cent. in December 2015, compared with 5.4 per cent. in December 2014 and 6.9 per cent. in December 2013. In 2016, the average default rate continued to contract, falling to 3.6 per cent. by year end. This is was mainly due to the positive dynamic of the macroeconomic environment, as well as to the aggregate improvement in companies' financial soundness.

In the household sector, the non-performing loan ratio decreased to 7.8 per cent. in December 2014, down 2.4 percentage points as compared to December 2013, while the volume of non-performing loans diminished by 24.6 per cent. during the same period. Previously, in 2013, the non-performing loan ratio increased by approx. one percentage point, while the volume of non-performing loans expanded by 6 per cent. The dynamics observed in 2014 were mainly driven by the removal of non-performing loans from banks' balance sheets either through loan sales or write-offs. Households' debt servicing capacity has improved in the context of a rise in households' disposable income and a relatively steady employment rate in 2014. The recovery rate for overdue loans (between one to 90 days past due) decreased only slightly, by 1 percentage point between 2013 and 2014 and the number of debtors who recorded for the first time 90 days overdue payments dropped by 23.2 per cent. during the same period. Nevertheless, the elements that characterise the persistence of nonperforming conditions, such as the low efficiency of debt rescheduling measures and the long process of foreclosure procedures (24 months for non-mortgage consumer loans and approximately 18 months for mortgage-backed consumer loans) remained unchanged in the period under analysis.

The non-performing loan ratio was 9.1 per cent. in December 2015 (according to the new definition for the non-performing loan ratio, in line with the methodology developed by the European Banking Authority; the value computed using the previous definition was 5.9 per cent. in December 2015). The volume of non-performing loans decreased by 21.7 per cent. (April through December 2015), mainly due to loan sales and the removal of non-performing loans from banks' balance sheets. Households' debt servicing capacity has remained moderately risky, the most vulnerable debtors being those with very low wages (below minimum income). The recovery rate for overdue loans (between one to 90 days past due) exhibited a very slow decrease of 0.3 percentage points in 2015, and at year-end it stood at 5 per cent. The number of debtors who recorded 90 days overdue payments for the first time decreased by 36.6 per cent. during the same reference period.

During 2016, the NPL ratio for households fell to 7.1 per cent., down from 9.1 per cent. in the previous year. One main contributor to the dynamic was the banks' efforts to remove non-performing exposures from their balance sheets, as off-balance sheet exposures increased by 5 per cent. and the net volume of sold loans was nearly 2 billion lei in 2016.

The NPL ratio improved further during the first six months of 2017, reaching to 6.1 per cent. at 30 June 2017. The recovery rate for overdue loans (between 1 to 90 days past due) increased by 1.7 per cent. in the first half of 2017, to a level of 7.9 per cent. The number of individuals who registered 90 days overdue payments for the first time decreased between June 2017 and June 2016 by 12 per cent.

Throughout 2013, banks continued to tighten credit standards applicable to household loans, especially for mortgage loans, and to corporate loans, with the exception of the last quarter, when standards remained largely unchanged.

In 2014, banks maintained credit standards unchanged for household loans. In the case of loans to non- financial companies, credit standards remained unchanged in 2014, with the exception of one quarter of easing.

During 2015, banks eased credit standards for loans granted to the household sector, while for non-financial companies, credit standards were mostly kept unchanged.

In 2016, lending conditions were kept unchanged for non-financial corporations. In the case of real-estate loans, credit institutions tightened the credit standards in the first half of 2016, eased them in the third quarter and kept them unchanged during the last quarter of 2016. Regarding the consumer loans to households, banks tightened the credit standards in the second and fourth quarters of 2016 and kept them unchanged during first and third quarters of 2016. In the first half of 2017, credit institutions further tightened their credit standards for both consumer credit to households and loans for house and land purchase (housing loans), while credit standards for non-financial corporations remained relatively stable at an aggregate level. In Q3 2017, credit institutions expect lending conditions for consumer loans to tighten moderately and for loans for house purchases to tighten marginally, whereas for non-financial corporations credit standards are expected to remain at their current level.

A recent legislative proposal – pending approval by the Government – anticipates new amendments to the Fiscal Code starting with 1 January 2018 regarding the limit in which receivables sold or assigned by banks (including NPLs) can be deducted, which is set at 30 per cent. of the value of the receivables, to which the income received from selling or assigning the receivables is added.

From a credit risk perspective, the Romanian banking sector is not directly exposed to developments in Ireland, Italy or Greece, given that for the banking system as a whole the share of external assets is low (6.3 per cent. of gross assets at 30 June 2017). Ireland plays a marginal role mainly because banks incorporated in Ireland have chosen to establish branches rather than subsidiaries in Romania. The market share of banks whose capital is majority Italian was 10.2 per cent. at 30 June 2017 (it increased from 2.4 per cent. at 31 December 2015, due to changes in the shareholding structure of the UniCredit banking group (involving a switch from Austrian to Italian shareholders).

Greek banking capital is present in Romania through four banks incorporated as Romanian legal entities (Alpha Bank, BANCA ROMANEASCA SA, a member of the NBG Group, Bancpost, Piraeus Bank). These banks continue to hold together a moderate position both in terms of net assets (9.8 per cent.) and share capital (16.8 per cent. of total capital of the banking system) at June 2017. In terms of deposits of non-government resident clients, their market share was 8.2 per cent. at 30 June 2017 (8.6 per cent. at 31 December 2016). According to the latest data reported to the NBR, each of these banks meets the prudential requirements in terms of capitalisation and liquidity. Moreover, the overall solvency ratio for these banks remained at a comfortable level (24.0 per cent. at 30 June 2017), above the 8 per cent. regulatory level and the banking system average (19.8 per cent.). Also, subsidiaries of Greek banks have an adequate level of IFRS provisioning.

The direct transmission of risks from European public sectors to the local banking sector appears to be remote given that sovereign risk exposure related to bonds issued by euro area governments is immaterial.

The contagion risk from the European banking sector is important, but manageable. Stress test exercises carried out by the NBR revealed an adequate resilience of the domestic banking sector in the event of a massive foreign financing withdrawal, with challenges relating to currency mismatch of on and off-balance sheet exposures, certain asset sales and safeguarding lending to the real sector. Credit institutions with Greek or Cypriot capital could weather a liquidity shock relatively well, due to prudential indicators suited to the existing risks. However, the specific challenges faced by parent banks in their home country call for more effort in assessing risks. The NBR closely monitors domestic and international developments, while also adequately managing and maintaining system-wide liquidity and pursuing comfortable levels of provisioning and solvency ratios.

The liquidity ratio (effective liquidity/required liquidity) was 2.05 as at 30 June 2017, 1.99 at 31 December 2016, 1.94 at 3 December 2015.

	December 2015	**December 2016**	**June 2017**
		(per cent.)	
Total capital ratio (former Solvency ratio)	19.16	19.68	19.83
Tier 1 capital ratio	16.72	19.68	17.84
NPL ratio	13.51	9.62	8.32
NPL coverage with IFRS provisions[(1)]	57.72	56.34	59.13
Liquidity ratio	1.94	1.99	2.05

Notes:

(1) Since December 2015, the NPL ratio and the provisioning of NPL are based on the European Banking Authority definitions.

Source: National Bank of Romania

The banking sector recorded a net profit for the six months ended at 30 June 2017 (RON 2.7 billion) continuing the trend of the last two years (RON 4.2 billion at end 2016, RON 4.5 billion at end 2015[12]).

[12] The net financial results of 2015 and 2016 were both favourably influenced by non-recurring items of different sizes. Thus, the 2015 net profit includes goodwill changes (+1.7 billion lei), due to the mergers and acquisitions, while the 2016 net profit includes a smaller- nonrecurring gain, due to the selling of Visa Europe shares by some banks.

The National Bank of Romania performs regularly stress tests of credit institutions' capital adequacy based on macroeconomic scenarios envisaging the potential developments of the main risk factors: economic growth, exchange rate, interbank interest rates, risk premium, real estate market prices. The stress tests imply both estimating credit institutions' operating results according to the analysed scenarios (including the effects of unrealised losses on capital) and capturing the impact of scenarios on adjustments for impairment of financial assets (provisions). Stress tests are conducted for microprudential purposes, as well as for identifying the main systemic risk factors. The latest solvency stress test of credit institutions covered a 12-quarter horizon (2016 – 2018).

The NBR also periodically conducts macro-prudential liquidity stress tests in order to assess the ability of the banking sector to withstand major withdrawals of foreign funding and/or deposits. The latest results of the liquidity stress test indicate an adequate resilience of the domestic banking sector. However, issues still exist from currency mismatches, certain asset sales and the need to safeguard lending to the real sector. The NBR will continue to monitor domestic and international developments while managing and maintaining system-wide liquidity and pursuing comfortable levels of prudential indicators.

NBR considers that the current prudential requirements cover risks to an adequate extent. Implementation of Basel III has not led to requirements of additional, large capital increases by credit institutions in Romania. The high share of Tier 1 capital in total capital and the lack of hybrid capital instruments cushioned the impact of Basel III on capital requirements for local entities.

To date, the Romanian Government has not used public funds to support the stability of the financial system. The recapitalisation of the banking sector was entirely supported by bank shareholders. The backstop measures available in Romania mainly consist of private sector solutions and only a few public sector solutions. The authorities adopted further amendments to the legal framework in order to improve the bank recovery and resolution mechanisms so as to preserve stability and to avoid systemic contamination. The private sector solutions of the backstop toolkit consist of supervisory and resolution measures, available to the NBR in accordance with its statutory powers.

In its capacity as resolution authority for the subsidiaries of transnational banking groups, where most of the banking groups present in Romania encompass the features listed below:

- structure and operations highly integrated. As an example, shared services are provided by a common and unique company located below the top-tier holding company for the whole group, centralised liquidity, trading, hedging and risk management;
- significant financial interconnections between the local subsidiary and the group as the deposit arrangements and loan commitments, financial guarantees and other commitments received from the parent entity represent a significant part of the total liabilities;
- a narrow market for issuing eligible liabilities for Minimum Requirements for Eligible Liabilities ("**MREL**") at the subsidiary level; there is sufficient MREL eligible instruments available at the top parent entity capable to absorb potential losses;
- mostly the same legal structure applicable for the host entity and the EU parent entity; and
- the business model of the banking groups has mostly followed an integrative approach for services and financing arrangements in order to develop synergies,

the analysis performed by the National Bank of Romania in this respect considers that for the groups that meet the above conditions the most effective resolution strategy is Single Point of Entry.

The existing legal framework provides the NBR with the tools to manage financial stability threats posed by the deterioration of the financial situation of the banking system. There was no situation that required using these tools to date. The set of stabilisation measures for the credit institutions in distress is additional to the special administration procedure, and consist of: (i) the total or partial transfer of assets and liabilities of a credit institution to one or more eligible institutions; (ii) the appointment of the Bank Deposit Guarantee Fund as a delegated administrator and as a shareholder of the credit institution; and (iii) the transfer of assets and liabilities of a credit institution to a bridge bank, established for this purpose. The stabilisation measures are based on the financial resources accumulated in the Bank Deposit Guarantee Fund, without considering the principle of minimum cost. Where the resources of the Bank Deposit Guarantee Fund are insufficient, they may be supplemented by loans granted to it by the Ministry of Public Finance, in which case the general lending conditions are to be set by Government decision.

Romania is fully aligned with the EU regulations in terms of bank supervision and resolution.

Implementation of CRD IV in Romania

Directive 2013/36/EU was transposed into domestic legislation through Government Emergency Ordinance No. 113/2013 amending and supplementing Government Emergency Ordinance No 99/2006 on credit institutions and capital adequacy, as well as through secondary regulations.

The NBR assessed the impact of implementation of CRD IV/CRR package on the Romanian banking system. The outcome of the assessment points to the compliance of credit institutions in Romania both with the new capital requirements and with the liquidity requirements.

The NBR assessed the impact of introducing the new capital requirements set forth in the Capital Requirements Directive IV ("**CRD IV**") on the banking system via a questionnaire developed in line with the European Banking Authority's ("**EBA**") recommendations. The 31 respondents, credit institutions Romanian legal entities, were classified into 8 large credit institutions and 23 smaller-size banks based on the distribution of total assets held. The figures reported by the respondent banks are presented in the table below.

Equity ratios of credit institutions in Romania, according to the new capital requirements set forth in CRD IV (data as of 31 December 2014, arithmetic mean)

	Number of credit institutions	Common Equity Tier (CET 1)	Tier 1 capital	Total equity (Tier 1 + Tier2)
		(per cent.)		
Large credit institutions	6	14.3	14.3	16.8
Small credit institutions	25	14.5	14.5	18.2
Total credit institutions	31	14.3	14.3	17.3

Source: National Bank of Romania (Provisional data)

Based on reported data, all credit institutions in Romania with the exception of two small banks will fulfil the CRD IV capital requirements. Both countercyclical capital buffer and systemic risk buffer are considered zero because, on the one hand, lending is not on the excessive growth side, and on the other hand, the NBR considers necessary to assess opportunity for the implementation of systemic risk buffer only after phasing out the national prudential filters.

In order to assess the impact of the new liquidity requirements on the Romanian banking sector, the NBR launched, in 2013, a data collection exercise in line with European legislation.

According to the analyses conducted and based on data as of March 2014, the introduction of minimum requirements on the Liquidity Coverage Ratio ("**LCR**") indicator will not have a material impact on the Romanian banking sector, as most domestic credit institutions comply with the 100 per cent. threshold laid down in the relevant NBR Regulation (*NBR Regulation No 25/2011 on credit liquidity*). Smaller, non-systemically important credit institutions have reported LCR values below the threshold.

A caveat is warranted in relation to the outcome of the liquidity test since changes will be made to the existing LCR reporting templates and instructions by the EBA's Implementing Technical Standards (ITS) that amend Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the LCR following the European Commission's Delegated Act specifying the LCR. The new ITS are under development at the date of this document.

Over the period ahead, the NBR will continue to conduct assessments in order to quantify the impact, the limits and the manner of using national options in line with the new European legislative framework vis -à-vis the domestic banking sector.

Romanian Banking Regulation and Business Standards

Banking Regulation and Supervision

Credit institutions are mainly regulated by the Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy ("**Banking Law**"), as subsequently amended and supplemented and by Regulation No. 575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 ("**CRR**") and, among others, by the Law No. 85/2014 regarding the procedures for the prevention of insolvency and the insolvency procedures. Notable amendments to the main national legal framework include:

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

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

- amendments to the Banking Law and to a series of other main pieces of legislation introduced by Government Ordinance No. 13/2011 concerning legal remunerative and penalty interest for monetary obligations, as well as for regulating certain financial-fiscal measures in the banking field, as amended and supplemented aimed at, *inter alia*, (i) providing the legal framework for the application in Romania of EP/EC Regulation No. 1093/2010 and of EP/EC Regulation No. 1092/2010, (ii) amending the legislation applicable to the Deposit Guarantee Fund ("**DGF**") in order to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorised by the NBR regarding the transfer of deposits, including purchase and assumption operations, if such use of DGF resources would be less costly than the direct payment of compensations and (iii) ensuring the appropriate correlation of the legislation applicable to special administration of credit institutions;

- amendments to the Banking Law and to the DGF brought by Government Ordinance No. 1/2012 aimed at providing the legal framework for a set of stabilisation measures, including bridge-bank powers, as tools at the NBR's disposal for dealing with credit institutions in distress, when they pose a threat to financial stability;

- amendments to the Banking Law were introduced by Government Emergency Ordinance No. 43/2012, as amended and approved by Law No. 271/2013 in the context of regulating adequate procedures in case of the stabilisation measure regarding the involvement of the DGF as a shareholder in such credit institutions;
- amendments to the Banking Law were introduced by Law No. 272/2013, in order to make clear that implementing the stabilisation measures in case of a threat to financial stability also includes protecting the depositors and maintaining public confidence in the banking system, with a view to applying the stabilisation measures even in the case of small-sized credit institutions; also, the amendments are intended to more clearly specify the general objectives pursued by the National Bank of Romania when applying any of the stabilisation measures (to ensure business continuity for critical activities in case of disruptions that could materially impair the functioning of the economy or of the financial market; to preserve financial stability and market discipline; and to protect covered deposits); and
- as regards the transposition of CRD IV (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC), provisions into the national legal framework, Romania observed the implementation timetable set at EU level by adopting Government Emergency Ordinance No. 113/2013 on some budgetary measures and on amending and supplementing Government Emergency Ordinance No. 99/2006, as amended and supplemented, which contains provisions envisaging the strengthening of the legal framework on credit institutions and investment firms in areas such as corporate governance, prudential supervision and sanctions. The Government Emergency Ordinance No. 113/2013 was approved by Law No. 29/2015.

In 2015, the Romanian Parliament adopted the Law No. 304/2015 on the issuances of covered bonds, followed by secondary legislation issued by the NBR in the beginning of 2016. The new legislation was developed according to the best practices set out in the EBA Report on EU Covered Bonds Frameworks and Capital Treatment (2013). The capacity of credit institutions to use covered bonds as a stable financing tool could be seriously affected by the Debt Discharge Law, since this piece of legislation could create difficulties in respect of the cover pool's dynamic optimisation process.

At the beginning of 2016, the NBR issued secondary legislation on the issuances of covered bonds, in order to implement the new law on covered bonds. The main areas addressed by the secondary legislation are:

(i) the procedure for the NBR approval of the issuance of covered bonds and the authorisation of the cover pool monitor;

(ii) conditions for structuring of the portfolio;

(iii) requirements for the management of asset and liability risks in covered bonds (including the calculation of overcollateralisation requirements, the liquidity risk management, conditions for using derivative financial instruments for hedging the interest rate and foreign exchange risk, stress tests factors);

(iv) supervisory reporting obligations for the issuer to be transmitted to the NBR; and

(v) transparency and disclosure obligations for the issuer.

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council ("**BRRD**") was transposed into Romanian legislation by Law No. 312 as of 4

December 2015, which establishes the domestic grounds for the recovery and resolution of credit institutions, and which repealed certain provisions of GEO No. 99/2006 on credit institutions and capital adequacy regarding the stabilisation measures.

The current prudential regulatory framework ensures:

(i) harmonisation with CRD IV and adequate measures to facilitate the implementation of CRR (Regulation No. 575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012),

in the above-mentioned context, the following were issued:

- NBR Regulation No. 5/2013 on prudential requirements for credit institutions, as amended and supplemented, which ensures the transposition of the provisions of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and specifies the manner in which the national options included in the CRD IV package have been exercised.

  This regulation was amended by NBR Regulation no.9/2016 in order to clarify the application of the capital buffer requirements in relation to any requirements imposed by the competent authority in the context of Pillar II measures with the aim of ensuring legal certainty as regards the calculation of the Maximum Distributable Amount (as defined in Article 141 of CRD IV);

- NBR-FSA Regulation No. 7/8/2013 repealing certain regulatory acts. The said Regulation concerns acts that were jointly issued by the National Bank of Romania and the National Securities Commission to implement Directives 2006/48/EC and 2006/49/EC, whose application ceases with the entry into force of the CRD IV package;

(ii) harmonisation with guidelines issued by European Banking Authority, areas in which the EBA guidelines were transposed into Romanian regulations refer to governance arrangements, remuneration policies, internal capital adequacy assessment process and management of significant risks, liquidity cost benefit allocation, conditions for outsourcing of activities, assessment and validation of using advanced approaches for calculating capital requirements for credit and operational risks, retention requirements in securitisation transactions, clarifications regarding the revised large exposures regime and clarifications regarding the exemption of some short-term exposures from the application of the large exposures regime, the eligibility criteria for capital instruments to be recognised as original own funds and resolution of credit institutions.

Moreover, starting with the CRD IV/CRR and BRRD implementation, credit institutions are required to observe the EC's implementing regulations laying down technical standards, directly applicable in all Member States, including also those related to the reporting field.

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

In November 2011, the NBR issued Regulation No. 25/2011 on credit institutions' liquidity, which was subsequently amended and supplemented by Order No. 26/2011, aimed at improving the methodology of computing the liquidity ratio and being in line with the developments in the accounting field related to IFRS introduction. Accordingly, credit institutions are required to permanently maintain the liquidity ratio for all the operations in RON equivalent at least at the level of one for the maturity bands of up to one year. At the same time, credit institutions shall distinctly calculate the liquidity ratios for operations in euro and for operations in RON for all the maturity bands, as well as for all the operations in RON equivalent for the maturity band of over one year. As concerns liquidity, NBR Regulation No. 5/2013 ensures the transposition of relevant provisions of Directive 2013/36/EU and of some provisions from Principles for sound liquidity risk management and supervision issued by the Basel Committee in 2008 into national legislation, as well as the compliance with European Systematic Risk Board ("**ESRB**") recommendations. In this respect, NBR Regulation No. 5/2013 maintains the provisions which are in line with those of ESRB Recommendation of 22 December 2011 on US dollar denominated funding of credit institutions (ESRB/2011/2). In December 2014, the NBR issued Regulation No. 5/2014 on supplementing the NBR Regulation No. 5/2013, aimed to supplement the regulatory framework on liquidity risk in order to be fully compliant with the Recommendation B – Risk management of asset encumbrance by institutions of ESRB Recommendation on funding of credit institutions (ESRB/2012/2). The regulation also transposes the liquidity risk provisions of CEBS guidelines on the management of concentration risk under the supervisory review process.

On 23 November 2016, in the context of risk reduction measures in the banking sector, the European Commission published a package of reforms ("**RRM package**"), including changes to *Directive 2013/36/EU (CRD IV)* as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures, changes of *Regulation (EU) No. 575/2013 (CRR)* as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012 and changes to the BRRD on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC. The National Bank of Romania has actively participated in the negotiation process of the RRM package, in which context it has developed several positions.

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

NBR Order No. 27/2010 includes the accounting rules for banks' operations (chart of accounts and its content) in accordance with the treatments set out by IFRS and provisions regarding the drawing up of individual financial statements (approval, auditing and publication) along with the shift to the effective enforcement of IFRS. At the end of 2011, NBR Order No. 27/2010 was amended by NBR Order No. 29/2011 to introduce certain new accounts in the chart of accounts so as to ensure they contained the accounting records necessary for tax authorities to determine tax obligations.

The financial reporting framework for prudential supervision purposes ("**FINREP**"), as well as the reporting framework applicable to Romanian branches of credit institutions having their head offices in other Member States, were updated considering both the effective implementation of IFRS starting with financial year 2012.

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

At the date of this document, the FINREP, approved by the European Banking Authority, is governed by the (EU) Regulation No. 680/2014, being directly applicable to the EU credit institutions. In order to ensure the optimal conditions for the unitary application of the FINREP individual reporting framework by the Romanian credit institutions, as well as the correlation thereof with the new FINREP consolidated reporting framework, this framework was adapted for solo reporting purposes and NBR Order No. 6/2014 was issued. For ensuring the continuity of the financial and accounting statistical information, reported by the Romanian branches of credit institutions having their head offices in other Member States, needed for performing analyses and studies at the NBR level, NBR also issued the Order No. 5/2014.

Following the changes in the International Financial Reporting Standards, both the accounting framework and the FINREP individual reporting framework applicable to Romanian credit institutions, as well as the reporting framework applicable to Romanian branches of credit institutions having their head offices in other Member States, were updated accordingly. Starting in 2018, the new standard, IFRS 9 – Financial Instruments, shall fundamentally change the way financial instruments are accounted for, introducing the new concept of expected credit losses in the accounting and reporting framework.

As of 28 February 2017, the Parliament adopted Law no. 12/2017 for the macro-prudential supervision of the national financial system. The law establishes the National Committee for Macro-prudential Supervision ("**NCMS**"), as an inter-institutional structure of co-operation between the National Bank of Romania, the Financial Supervisory Authority and the Government. The fundamental objective of the NCMS is to contribute to financial stability safeguarding by strengthening the capacity of the financial system to resist shocks and by reducing the accumulation of systemic risk. The law implements at national level the relevant recommendations of the European Systemic Risk Board by establishing NCMS as a macro-prudential authority, and also entitles the NCMS to issue recommendations addressed to NBR and FSA in order to impose the capital buffers regulated by CRD IV. Finally, the NCMS shall act as the designated authority for the activation of macro-prudential measures which can be taken under CRR.

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

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

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

Regulatory framework developments have changed the supervisory methodology substantially, from a compliance-based approach to a risk-based assessment. The NBR focuses on enhancing the quality of supervision through a greater involvement of credit institutions' management in risk management, credit institutions' assessment focusing on their risk profile and consolidated supervision based on close cross- border co-operation, 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 as to whether there is a clear definition and assignment of responsibilities to competent departments and staff members. On this basis, relevant conclusions are drawn regarding the overall performance of credit institutions and their risk profiles.

Minimum Capital Requirements

The minimum capital requirements of credit institutions are regulated by the CRR and the NBR Regulation No. 5/2013 on the prudential requirements for credit institutions, in accordance with which:

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

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

Minimum Reserve Requirements

The main function of RON-denominated reserve requirements is the monetary control and stabilisation of interbank money market rates while the function of foreign currency denominated reserve requirements is to moderate the expansion of foreign exchange loans. During the period of 2014 through 2017 to date, the NBR reduced the minimum reserve requirement ratios on RON-denominated liabilities of credit institutions to 8 per cent. from 15 per cent., and on their foreign currency-denominated liabilities to 8 per cent. from 20 per cent. Both measures were aimed at ensuring further harmonisation of the minimum reserve requirements mechanism with the relevant standards and practices of the European Central Bank and the major central banks across the EU, while the former was primarily geared towards supporting the sustainable recovery of lending activity.

	Category of minimum mandatory reserves ("MMR")	
	RON	Foreign Currency
	(per cent.)	
MMR for liabilities with a residual maturity of less than two years	8	8
MMR for liabilities with a residual maturity of more than two years with prepayment clause	8	8
without prepayment clause	0	0

Source: National Bank of Romania

Provisioning and Loans/Investments Classification

Credit Institutions

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

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

As a consequence, since 2012 the classification of loans and investments based on the NBR methodology has continued to be undertaken monthly, but only for the purpose of establishing if there is a need for additional prudential value adjustments beyond those required by IFRS adjustments. Such prudential value adjustments are used in conjunction with IFRS adjustments in calculating prudential indicators such as own funds, solvency, large exposures and foreign exchange positions. In the context of applying the CRD IV package, as of 1 January 2014, some new provisions and amendments needed to be implemented, mainly with a view to reconciling the national legal framework with the CRD IV requirements, e.g. (i) the total of the additional prudential value adjustments is now subject to a four-year phasing out process complying with the CRD IV provisions and (ii) a new allocation method is in place establishing in a manner compatible with CRD IV the value to be assigned to the exposures representing loans/investments when computing the prudential ratios in the calculation of which the net value of these assets is needed.

Loan Classification for Creditors other than Credit Institutions

Pursuant to the NBR Regulation 5/2012, loans granted by creditors other than credit institutions to their non-bank debtors are classified from an exposure perspective into five categories: standard, watch, sub-standard, doubtful and loss. For each of these categories the provisioning coefficients are stipulated as follows: zero for "standard", 0.05 for "watch", 0.2 for "sub-standard", 0.5 for "doubtful" and 1 for "loss", in the case of loans other than those booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk; and 0.07 for "standard", 0.08 for "watch", 0.23 for "sub-standard", 0.53 for "doubtful" and 1 for "loss" in case of loans booked in foreign currency or indexed to a foreign currency, granted to individual borrowers exposed to foreign exchange risk.

Credit exposures are classified by the reporting institutions according to debt service history (the number of past-due days from the maturity date) and the commencement of legal proceedings against the debtor.

Credit exposures against which specific provisions are to be set up are those remaining after deducting any security interests securing the loan that are eligible for risk mitigation. The institution can decide whether to deduct such security interests or not. Security interests eligible for deduction range from any type of collateral (provided that the collateral is specified in the internal norms of the institution and provided that the institution has in place a methodology for determining the fair value of the collateral, which should be in line with applicable IFRS) to a set of personal guarantees stipulated in the legal framework along with their coefficients used to adjust the value of the guarantee to be deducted. Security interests securing the principal of credits classified as "loss" and in respect of which legal proceedings have been started and/or in respect of which at least 90 days elapsed since the credit became overdue are eligible to be taken into account (up to 25 per cent. as a general rule, and in case of certain types of collateral of a better quality, up to 50 per cent.) as credit risk mitigation factors, while the security interests securing the payment of interest on these credits are not eligible to be taken into account.

Institutions must send a report on the classification of credits and investments to the NBR, along with the specific provisions for credit risk, no later than 25 days after the end of the quarter for which the report is made.

Capital Adequacy

The own funds requirements for credit institutions are regulated by the CRR. Hence, credit institutions shall maintain own funds which are at all times at least equal to the sum of the following capital requirements:

- for credit risk and dilution risk in respect of all of their business activities (other than trading – book business), 8 per cent. of the total of their risk weighted exposure amounts calculated, in accordance with the relevant provisions of the CRR;
- for credit valuation adjustment risk, in accordance with the relevant provisions of the CRR;
- in respect of their trading-book business, for position risk, settlement and counterparty risk, the capital requirements determined in accordance with the relevant provisions of the CRR;
- in respect of all of their business activities, for foreign exchange risk, settlement and commodities risk, the capital requirements determined in accordance with the relevant provisions of the CRR; and
- in respect of all of their business activities, for operational risk, the capital requirements determined in accordance with the relevant provisions of the CRR.

Capital Buffers

The CRD IV/CRR regulatory package makes available a set of macro-prudential instruments that national competent authorities can resort to with a view to preventing the emergence of cyclical systemic risks or mitigating structural systemic risks, as follows: (i) the capital conservation buffer; (ii) the countercyclical capital buffer; (iii) the buffer relating to other systemically important institutions (O-SII buffer); and (iv) the systemic risk buffer. By regulating capital buffers through a European Directive and a directly applicable Regulation, it was envisaged to (a) ensure a level playing field across EU Member States, as an essential pre-requisite for the functioning of the internal market, (b) prevent regulatory arbitrage, (c) ensure a high level of harmonisation, and (d) enhance transparency and predictability in the macro-prudential field.

The capital conservation buffer is aimed at increasing credit institutions' resilience, namely their capacity to absorb potential losses arising from the banking activity. The buffer is comprised of Common Equity Tier 1 capital equal to 2.5 per cent. of the total risk exposure amount, and its implementation can be tailored to country-specific situations, as follows: (i) accelerated build-up, in line with a schedule set by the national competent authorities; (ii) phased in between 1 January 2016 and 1 January 2019 in equal increments of 0.625 per cent. per annum. According to the NBR Order No. 12/2015 regarding the capital conservation buffer and the countercyclical capital buffer, issued on the basis of Recommendation of the National Committee for Financial Stability No. 1/2015 regarding the implementation of capital buffers in Romania, starting from January 2016, the credit institutions have to maintain a capital conservation buffer of Common Equity Tier 1 capital equal to

0.625 per cent. of their total risk exposure amount, which will rise gradually over the next three years as follows: (a) as of 1 January 2017, 1.25 per cent.; (b) as of 1 January 2018, 1.875 per cent.; and (c) as of 1 January 2019, 2.5 per cent.

From January 2017, the capital conservation buffer is equal to 1.25 per cent. of the total risk exposure amount. The countercyclical capital buffer is 0 per cent.

The countercyclical capital buffer (the "**CCB**") is designed to reduce and prevent excessive credit growth and leverage. The aim of the CCB is to improve the banking sector's resilience to possible shocks. The decision to activate the countercyclical capital buffer is based on the deviation of the credit-to-GDP ratio from its long-term trend (the main indicator, as recommended by the ESRB), as well as the analysis of additional indicators capturing potential domestic vulnerabilities in the development of credit and leverage. The release of the CCB should take place either as a result of the materialisation of the risk or as a result of the successful mitigation of said risk. In Romania, the countercyclical capital buffer has been activated at 0 per cent. starting 1 January 2016, as the total indebtedness continues to remain below the alert threshold. In order to identify systemic risks, the National Bank of Romania will continue to monitor signals pointing to the build-up of vulnerabilities as regards loans granted to certain sectors.

The NBR has implemented at national level the methodology for identifying systemically important credit institutions in line with the EBA *Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs)*, which strike a balance between convergence, comparability and flexibility in identifying systemic institutions. Starting from March 2017, according to the NBR Order No.1/2017 regarding the buffer which is applicable to credit institutions authorised in Romania and identified as other systemically important institutions by the National Bank of Romania, issued on the basis of Recommendation of the National Committee for Financial Stability No. 3/2016 regarding the capital buffers applicable to credit institutions in Romania, credit institutions authorised in Romania and identified as other systemically important institutions by the National Bank of Romania, on the basis of the data collected as of June 2016, have to maintain an O-SII buffer rate of 1 per cent. of the total risk exposure amount for all credit institutions identified as having systemic importance. The identity of the systemically important credit institutions is published on the NBR website. For 2017, 11 banks were identified as systemic: Banca Comercială Română S.A., BRD – Groupe Societe Generale S.A., UniCredit Bank S.A., Raiffeisen Bank S.A., Alpha Bank România S.A., Bancpost S.A., Piraeus Bank S.A., Banca Transilvania S.A., CEC Bank S.A., Garanti Bank S.A. and OTP Bank S.A.

The systemic risk buffer aims to prevent and mitigate long-term structural systemic risk or macro-prudential risk with potential negative consequences for the financial system and real economy. The buffer must be comprised of at least 1 per cent. Common Equity Tier 1 capital based on the relevant exposures and may apply to exposures located in Romania, in third countries, as well as to exposures located in other Member States. The systemic risk buffer requirement is reviewed at least every second year. According to the NBR Order No. 1/2016 regarding the systemic risk buffer, issued on the basis of Recommendation of the National Committee for Financial Stability No. 3/2015 regarding the implementation of the systemic risk buffer in Romania, starting from 31 March 2016 the systemic risk buffer was set at 1 per cent. for all exposures of credit institutions with parent credit institutions registered in a country for which the rating of bonds issued by the central government is not "investment-grade", according to the large rating agencies recognised as external credit assessment institutions. The decision to implement a Systemic Risk Buffer ("**SRB**") was set based on considerations both of a quantitative (i.e. the excessive reliance on external financing from parent banks reflected by the loans/deposits ratio and the share of foreign liabilities in total liabilities; the lower quality of loans portfolios indicated by levels above average of the non-performing loans ratio; the concentration of large portfolios of CHF loans vulnerable to FX risk; the weaker ability to perform financial intermediation reflected by the negative credit growth) and qualitative nature (i.e. the impact of a potential deterioration of the sovereign rating which could affect the market perception and confidence of depositors, therefore resulting in higher cost of funding from retail deposits, directly impacting capital). In May 2016, the application of the SRB was suspended in the context of public discussions related to certain domestic legislative changes regarding loan contracts and their impact on the capital adequacy indicators of the Romanian banking system. In December 2016, the implementation of the SRB was re-assessed. Following a significant reduction in regulatory risk, coupled with a decrease of external contagion risk, the National Committee for Financial Stability issued a recommendation to the National Bank of Romania in order to deactivate the systemic risk buffer starting from 1 March 2017.

Starting from March 2017, according to the NBR Order No. 2/2017, issued on the basis of Recommendation of the National Committee for Financial Stability No. 3/2016 regarding the capital buffers applicable to credit institutions in Romania, the systemic risk buffer has been deactivated.

Participation in Other Enterprises

According to the NBR Regulation No. 5/2013 and the CRR, for qualifying holdings (direct or indirect holdings in an undertaking which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking) in an undertaking (other than a credit institution, financial institution, insurance/reinsurance undertaking or an undertaking carrying on activities which are a direct extension of banking services or concern services ancillary to banking, such as leasing, factoring, management of investment funds, data processing services or any other similar activity) for the purpose of calculating the capital requirement, Romanian credit institutions shall apply a risk weight of 1.250 per cent. to the greater of the following:

- the amount of qualifying holdings in excess of 15 per cent. of the eligible capital; and
- the total amount of qualifying holdings that exceed 60 per cent. of the eligible capital of the institution.

According to the Banking Law, Romanian credit institutions may not acquire qualifying holdings in an undertaking if in this manner they may exercise control over the undertaking in question.

In order to establish a prudential treatment for temporary holdings of capital during a financial reconstruction or rescue operation of an undertaking operating outside the financial sector (debt-to-equity-swap operations), in accordance with the agreement concluded by Romania with the IMF and EU, the NBR published Regulation No. 26/2011, as further amended, which aims to ensure that a credit institution's involvement in such operations will be based on a prudent decision-making process.

Lending Limits

With respect to lending limits, credit institutions shall observe the rules established by EU Regulation No. 575/2013 regarding the large exposures of a credit institution to a connected client or a group of connected clients.

In order to prevent abuses arising from exposures to related parties, as provided by the Basel Core Principle No. 11, the NBR set out provisions to limit such exposures and to prevent banks from performing non-arm's length transactions with related parties. The limits on exposures to related parties are harmonised with those imposed for large exposures:

- an institution shall not incur an exposure to a related party or group of related parties, with a value in excess of 25 per cent. of its own funds;

where that client is an institution or where a group of related parties includes one or more institutions, the exposure shall not exceed 25 per cent. of the institution's own funds or EUR;

- 150 million (in the case of credit institutions), whichever the higher.

In line with the previous regulatory framework on responsible and sustainable lending and borrowing, in December 2012, the NBR implemented the recommendations of the European Systemic Risk Board on lending in foreign currency, aiming at strengthening the currency and interest rate risk awareness mechanism for unhedged borrowers and introducing the creditors' obligation to evaluate, apart from households, the companies' creditworthiness, in order to create prerequisites for forex loans to be granted only to debtors that are able to cope with the increase in loan instalments resulting from a severe depreciation of the RON and an increase in the loan's currency interest rate. The NBR has also adopted regulations requiring credit institutions to incorporate in their internal risk management systems the risks incurred by foreign currency lending and to account for these risks in their internal pricing and internal capital allocation.

In 2016, the provisions in the area of creditworthiness assessment and remuneration policies from the Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No. 1093/2010 and from the Guidelines EBA/GL/2015/11 on creditworthiness assessment were transposed into the national legislation by amending the NBR regulatory framework on responsible lending.

Deposit Guarantee Scheme

In 2010, the legal framework was amended in order to set the level of coverage at EUR 100,000. Pursuant to the stand-by agreement concluded between the IMF and Romania at the end of 2010, the legal framework was amended in order to:

- consolidate the Deposit Guarantee Fund ("**DGF**") funding regime, with a view to enhancing confidence in the banking system, by eliminating contingent credit lines by banks as a financial resource to be used, if necessary, by the DGF;
- improve the governance arrangements of the DGF in order to ensure that neither members of the board nor employees of credit institutions are allowed to participate in the DGF board; and
- establish the mechanism that ensures the applicability of the provisions on granting compensation for the persons negatively affected by the measures provided for and implemented during special administration of credit institutions, in accordance with the provisions of the Banking Law (according to the Banking Law, compensations shall be supported from a special fund administered by the DGF).

The DGF can borrow from the Government in the event of insufficient resources for deposit compensation payments. Also, the DGF legislation was modified with a view to aligning it with Romanian bridge bank powers.

In 2015, following the approval of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast), the national legal framework was updated in order to ensure the transposition of this directive into national legislation by the Law No. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund. The Bank Deposit Guarantee Fund is regulated as a scheme administered by a public body and, according to the law, is also entrusted with the authority to administer the resolution fund. Subsequently, considering the obligation of the central bank to establish, periodically reconsider and publish on its official website the coverage level for the aggregate deposits of each depositor above EUR 100,000, deriving from the provisions of the Directive 2014/49/EU, the NBR issued the Regulation no.24/2016 on the coverage level provided in article 62 para.1 of the Law no.311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund, establishing, for specific deposits and situations the additional coverage level to the RON equivalent of EUR 100,000.

Non-Bank Financial Institutions Sector

Non-bank financial institutions are entities performing lending activities as their core business; the main difference from credit institutions is that the former are not entitled to accept cash deposits or other repayable funds from the public. Non-bank financial institutions are supervised/monitored and regulated by the NBR in order to ensure financial stability based on a healthy and sustainable development of the market, as well as the removal of regulatory discrimination between these entities and credit institutions.

The legal framework for non-bank financial institutions applies to financial institutions which are not organised as credit institutions and which engage in lending activities in the broad sense, that is: (i) lending, including consumer credits, mortgage credits, real-estate credits, micro-credits, financing of commercial transactions, factoring, discounting and forfeiting operations; (ii) financial leasing; (iii) guarantees and commitments; (iv) granting of credits in exchange of goods for safekeeping (such as pledging via pawnshops); (v) granting of credits to members of mutual benefit organisations; and (vi) other credit-like financing methods. The non-bank financial institutions must maintain a share capital of at least EUR 200,000 or EUR 3 million in the case of non-bank financial institutions that include the granting of mortgage credits in the scope of their activity.

At 31 December 2015, there were 172 non-bank financial institutions registered in the General Register, under the NBR oversight, out of which 44 are listed in the Special Register and are under NBR prudential supervision. In 2015, there were 9 deletions from the General Register, following either of the non-bank institutions own requests (6 cases) or as a result of other causes provided by law.

At 31 December 2016, there were 177 non-bank financial institutions registered in the General Register, under the NBR oversight, out of which 39 are listed in the Special Register and are under NBR prudential supervision. In 2016, there were 10 deletions from the General Register, following requests from the non-bank institutions (8 cases), a sanction (one case) or as a result of other causes provided by law (one case).

As of 31 July 2017, there were 179 non-bank financial institutions registered in the General Register, under the NBR oversight, out of which 40 are listed in the Special Register and are under NBR prudential supervision. Between January 2017 and July 2017, there were 5 deletions from the General Register, following requests from non-bank institutions .

As of 31 December 2016, the financial aggregate indicators of non-bank financial institutions were as follows: a total share capital of RON 2.81 billion; total assets of RON 28.08 billion; loans and commitments granted of RON 42.66 billion and non-performing loans (including commitments) of RON 3.27 billion.

In the non-bank financial institutions sector, the prudential supervision system of the NBR consists of both off-site and on-site supervision.

Off-site supervision consists mainly of regularly monitoring the activities of individual non-bank financial institutions, reviewing compliance with the prudential rules (relating to matters such as large exposures, related party lending, credit classification and provisioning and own funds) and limits, and taking remedial measures whenever problems are identified. It is based on the continuous appraisal of all available information on non-bank financial institutions' activities taken from various sources, in particular the statements and reports regularly submitted by non-bank financial institutions, non-bank financial institutions' financial statements and annual reports, auditors' reports, the results of on-site inspections and other sources. Conclusions and findings arising from off-site supervision assist in the selection of non-bank financial institutions to be supervised through on-site inspections and the related activities.

On-site inspections are carried out according to the annual programme of inspections approved by the NBR's Supervisory Committee, focusing mainly on areas such as the management of granting loans to individuals and companies, credit, market, operational and reputational risk management, money laundering prevention and overall assessment of internal control and audit systems.

Payment Services Sector

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

As of 31 July 2017, there were nine payment institutions registered in Register of Payment Institutions and 94 agents through which they provide payment services in Romania and abroad. Among authorised payment institutions, five also hold the quality of non-banking financial institution, been registered in the General Register.

Following the approval of Directive (EU) 2015/2366 on payment services in the internal market, the national legal framework will be updated in order to ensure the transposition of this directive into the national legislation. The transposition into the national legislation of Directive (EU) 2015/2366 on payment services in the internal market is under development, with the Ministry of Economy and the Ministry of Public Finance coordinating implementation. The NBR has already sent the main part of its contribution to the relevant institutions involved. The transposition deadline is 13 January 2018.

Electronic Money Institutions Sector

Law No. 127/2011 on the issuance of electronic money came into force on 25 June 2011 and applies to credit institutions and electronic money institutions, entitled under national law to issue electronic money. Law No. 127/2011 implements Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

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

As of 31 July 2017, there were three authorised electronic money institutions.

Considering that some of the provisions of the Directive (EU) 2015/2366 on payment services in the internal market shall apply to electronic money institutions, *mutatis mutandis*, the national legal framework in the field of electronic money institutions is to be updated in order to ensure the transposition of the applicable provisions of this directive into the national legislation.

Financial System Supervision

In December 2012, the Romanian Government approved, by way of emergency ordinance, the establishment of the Financial Supervisory Authority ("**FSA**"). From 30 April 2013, the FSA took over the responsibilities of the National Securities Commission ("**CNVM**"), the Insurance Supervisory Commission and the Private Pension System Supervisory Commission, thus overseeing the capital markets and the insurance and private pension markets.

The FSA is a specialised, autonomous administrative institution, independent and self-financed, led by a council of nine members, including a president, a first vice-president and three vice-presidents with executive functions, each with specific tasks corresponding to one of the three sectors of financial supervision.

Private Pension System

Pension reform in Romania has included the introduction and implementation, within the pension system, of two private pension pillars, one mandatory (second pillar) and the other voluntary (third pillar), both managed by private companies.

Second Pillar

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

The contribution to a private pension fund represents a part of an individual's social insurance contribution payable to the public pension system. The contribution to a pension fund is deducted from the monthly gross salary of the participant, the level of which is determined by the amount of salary an employee receives. The contribution to a pension fund does not impose supplementary financial obligations on the state. In 2008, the privately administered pension funds received the first contributions, namely 2 per cent. of each participant's gross salary. In 2014, the contributions represented 4.5 per cent. of a participant's gross salary, which increased to 5 per cent. starting on 1 January 2015. According to the legislation in force as of the date of the Information Memorandum, the contribution will be increased gradually until it reaches 6 per cent. However, recent public statements of government officials (including prime minister Mihai Tudose) seem to indicate that the Government is discussing the possibility that the contribution to the second pillar becomes optional.

Contributions were first paid to privately managed pension funds in 2008. The table below shows the number of pension funds (second pillar) and the total value of their net assets as at 31 December 2014, 2015, 2016 and as at 30 June 2016 and 2017:

	Net assets	**No. of pension funds**
	(RON million)	
As at		
31 December 2014	19,117.60	7 pension funds
31 December 2015	24,673.59	7 pension funds
30 June 2016	27,578.54	7 pension funds
31 December 2016	31,465.94	7 pension funds
30 June 2017	36,061.81	7 pension funds

Note:

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

Source: Financial Supervision Authority

The decrease in the number of pension funds from 14 in 2008 to seven in 2014 was due to certain mergers of funds.

The table below shows the evolution of the number of participants to the second pillar pension system as at 31 December 2014, 2015 and as at 30 June 2016 and 2017:

	No. of participants 2nd pillar
As at	
31 December 2014	6.29 million
31 December 2015	6.56 million
30 June 2016	6.68 million
31 December 2016	6.80 million
30 June 2017	6.92 million

Source: Financial Supervision Authority

Third Pillar

The voluntary pension scheme (third pillar) became operational in June 2007 and is based on individual accounts and voluntary participation. The activity of the funds pursuing business within this system is regulated by Law 204/2006 on voluntary pensions.

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

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

The table below shows the number of pension funds (third pillar) and the total value of their net assets at 31 December 2014, 2015 and as at 30 June 2016 and 2017:

	Net assets	No. of pension funds
	(RON million)	
As at		
31 December 2014	1,039.79	10
31 December 2015	1,252.22	10
30 June 2016	1,353.62	10
31 December 2016	1,501.66	10
30 June 2017	1,668.96	10

Source: Financial Supervision Authority

The decrease in the number of pension funds from 13 in 2010 to 10 in 2013 was due to certain mergers between, and dissolutions of, certain funds.

The table below shows an increase in the number of participants to the third pillar pension system as at 31 December 2014, 2015, 2016 and June 2017:

As at	No. of participants 3rd pillar
31 December 2014	346,452
31 December 2015	382,318
30 June 2016	399,273
31 December 2016	410,241
30 June 2017	430,048

Source: Financial Supervision Authority

Insurance Market

The FSA is a full member of the European Insurance and Occupational Pensions Authority (EIOPA), an institution which has replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) since 1 January 2011. FSA is also a member of the European Insurance and Occupational Pensions Committee (EIOPC), as well as of the International Association of Insurance Supervisors (IAIS).

Insurance activity in Romania may be pursued only subject to an authorisation granted by the FSA or due to an authorisation in another European Union Member State.

Recent significant changes were introduced to the legislation on the insurance sector with the following laws having been published and entered into force:

- Law No. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance, which transposes into the national legislation the provisions of the EU Directive 2009/138, Directive 2011/89 and Directive 2014/51, was published in the Official Gazette of Romania No. 800 of 28 October 2015 and entered into force on 1 January 2016;
- Law No. 246/2015 on the insurers' recovery and resolution was published in Official Gazette of Romania No. 813 of 2 November 2015;
- Emergency Ordinance no. 54/2016 on compulsory motor liability insurance for damages caused to third parties by motor vehicle accidents and trams – repealed by the Law no.132/2017; and
- Law no. 132/2017 on the compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents.

During 2016 and mid - 2017, FSA issued 29 rules regarding the insurance sector, as follows: four on Motor third party liability, 10 on Resolution, one regarding Street Victim Protection Fund, four on accounting regulation, one on Insurance intermediaries register, one on licensing and monitoring of the insurance undertakings, one on the reporting requests for insurance undertakings, one on the supervisory of insurance undertakings' branches from third countries, one on the transposing of EIOPA Guidelines, one on the paid share capital of insurance undertakings regarding the private pension funds, one on the compulsory house insurance, one on the special administration of the insurance undertakings, one on reducing the tax for brokers activity, one on complaints handling.

Data regarding the insurance undertakings and intermediaries

Number of insurance undertakings

	2013	2014	2015	30 June 2016	31 Dec 2016
Insurers (total), of which	37	37	35	34	31
Non-life	20	20	20	20	17
Life	9	9	8	7	7
Composite...	8	8	7	7	7
Insurance intermediaries	610	597	603	340	327

Foreign ownership in the Romanian insurance sector accounted for 83.21 per cent. of the sector, or RON 2.88 billion in 2013, 83.65 per cent., or RON 2.95 billion in 2014, 89.53 per cent., or RON 3.15 billion in 2015 and 90.88 per cent., or RON 3.27 billion in 2016. As of 31 December 2016, Austrian investors held 44.30 per cent. of the foreign capital of Romanian insurers, while French investors held 14.05 per cent. and Bulgarian investors held 12.92 per cent.

In April 2016, the FSA Board decided to initiate a financial recovery procedure based on a recovery plan for the company City Insurance S.A. Through this plan, the shareholders assumed obligations regarding the recapitalisation of the company and restoration of solvency indicators. The FSA Board decided the completion of financial recovery procedure for City Insurance on 19 July 2017.

Capital Markets

Law No. 297/2004, as amended and supplemented ("**Capital Market Law**"), Government Ordinance No. 32/2012, as amended and supplemented, ("**GO 32/2012**") and Law No. 24/2017 on issuers of financial instruments and market operations and Law no. 74/2015 on managers of alternative investments funds and the secondary legislation issued in their application, represent the main legal framework for capital markets in Romania. Initially, the Capital Market Law regulated the operation of regulated markets and alternative trading systems, the activity of investment firms, the market abuse regime, as well as the activity of issuers. Due to the enactment of Law No. 24/2017 on issuers of financial instruments and market operations, the provisions related to issuers and market abuse regime existing in Law no. 297/2004 have been repealed and replaced by a series of provisions designed to contribute to increasing the transparency, integrity and competitiveness of the capital market. Among these, the most relevant intends to:

- reduce the burden on small- and medium-sized issuers to facilitate their access to capital;
- increase the efficiency of transparency, particularly as regards the publication of information on corporate ownership;
- enhance the integrity of financial markets by establishing criminal sanctions for the most serious abuses intentionally committed;
- provide a regulatory framework for the identification of abuse on the capital market, including regarding the misuse of privileged information, unauthorised disclosure of privileged information and market manipulation, as well as measures to prevent and avoid market abuse to ensure the integrity of the capital market and protection and strengthening investor confidence in this market;

- expand the notification of reaching certain thresholds also in case of financial instruments which grant rights to acquire shares with a comparable economic effect in the sense that in order to assess if the threshold is exceeded, the holder has to aggregate shares with other financial instruments; and
- introduce the obligation of companies active in the extractive industries (oil, gas and minerals) and forestry sector to report in a separate annual report the payments to governments of the countries in which they operate.

The GO 32/2012 regulates the activity of asset management companies and collective investment undertakings. Law No. 74/2015 lays down the rules for the authorisation, ongoing operation and transparency of the managers of alternative investment funds (AIFMs) which manage and/or market units of alternative investment funds (AIFs).

In October 2014, Law No. 151/2014 ("**Law 151/2014**"), regarding the legal status of shares traded on the RASDAQ market or the unlisted securities market, was adopted, providing a term and a procedure which had to be observed in order to clarify the legal status of the shares traded on the RASDAQ market or the unlisted securities market. To this end, within a period of 120 days of the entry into force of Law 151/2014, each extraordinary general meeting of the shareholders of the companies listed on the RASDAQ market or the unlisted securities market had to decide whether the company would transfer on a regulated market or an alternative trading system or it would withdraw from the market. Law 151/2014 also established that the activity of the RASDAQ market and of the unlisted securities market would terminate by operation of law at the expiry of a period of 12 months after the date of entry into force of the law, which occurred at the end of October 2015.

Law No. 10/2015 approving Government Emergency Ordinance No. 32/2012 on undertakings for collective investment in transferable securities and investment management companies, and amending and supplementing Capital Market Law No. 297/2004, was published on 12 January 2015 and:

- introduced provisions imposing that the evaluation of the creditworthiness of the assets of UCITS shall not solely or mechanistically rely on credit ratings issued by credit rating agencies;
- strengthened the FSA's surveillance prerogatives related to capital market operations in accordance with the European Union law;
- designated the FSA as the competent authority responsible for the fulfilment of duties under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on over-the-counter derivatives, central counterparties and trade repositories;
- allowed market operators to choose between the unitary administration or a two-tier system;
- set the irrevocability of transfer orders entered into the clearing and settlement system;
- amended the provisions regarding central counterparties and central clearing houses, as well as clarifying the FSA/NBR roles and powers in what concerns the central counterparty; and
- introduced amendments regarding the sanctions regime.

Law No. 312/2015 on the recovery and resolution of credit institutions and investment firms was published in the Official Journal of Romania, on 11 December 2015. This law modifies certain provisions of the Capital Market Law regarding companies admitted to trading in order to align the current disposals to the legislation on recovery and resolution of investment firms, including:

- Art. 203 (on obligations of persons holding more than 33 per cent. of the voting rights in a company to launch a public offer to all holders of securities as soon as possible but no later than two months after reaching this holding) does not apply in the case of use of tools, powers and mechanisms for resolution under the law on recovery and resolution of credit institutions and investment firms; and

- general meetings are allowed to decide that a meeting of the general assembly to decide on a capital increase can be done in a shorter period than the period provided for in article 243 (1) in order to avoid the conditions for the resolution procedure under Law No. 312/2015 on recovery and resolution of credit institutions and investment firms.

With a view to aligning the Romanian capital markets legislation and practice to European and international standards, while ensuring their adjustment to local particularities, the Romanian competent authority constantly follows and captures the recent developments in the international and European capital markets. The FSA is a full member of the European Securities and Markets Authority and of the International Organisation of Securities Commission.

In terms of supervisory activity, the FSA focuses on strengthening its monitoring capacity over regulated entities. One of the FSA's priorities is to ensure the implementation of the reporting requirements both for issuers and other entities and to ensure a fair treatment for investors. The FSA monitors the completeness of the periodic reports as well as the observance by issuers of the deadline for the submission of these reports. Significant achievements in this respect were made by the implementation by the Romanian competent authority of an application for the electronic supervision of issuers and other regulated entities through reports, easing the FSA's monitoring mission. Issuers failing to comply with the legal requirements are notified accordingly by the FSA.

The FSA also undertakes real-time monitoring of transactions performed on the Romanian regulated markets and analyses any abnormal movements of the prices and the quantity of the transactions carried out during trading sessions for the purposes of detecting possible cases of market abuse. During 2011 and 2014, the Romanian competent authority conducted several market abuse investigations, which were further continued by the relevant prosecutors' offices, on grounds of insider trading or market manipulation.

The FSA exercises its monitoring prerogatives by performing regular and transparent controls of the activity of regulated and supervised entities. The control activity performed by the Romanian competent authority in recent years was finalised with sanctions, notifications of the companies under investigation with regard to the obligation to remedy the deficiencies ascertained by the control teams and notification of other state institutions (e.g. the National Office for Prevention and Control of Money Laundering, the Ministry of Internal Affairs, the General Inspectorate of Romanian Police, the Prosecutor's Office attached to the High Court of Cassation and Justice and the National Agency for Fiscal Administration).

Capital Market Intermediaries

Investment services and activities are performed by intermediaries such as investment firms authorised by the FSA, credit institutions authorised by the NBR, as well as by foreign regulated entities authorised in an EU Member State or in a non-EU State by the relevant home State authorities.

Intermediaries on the local capital market

The following table shows the number of intermediaries on the local market.

	31 December 2014	31 December 2015	30 June 2016	31 Dec 2016	30 June 2017
Investment firms authorised by the FSA	**31**	**30**	**29**	**27**	**27**
Credit institutions authorised by the NBR..	10	8	8	8	8
Investments firms authorised by the home competent authority in a Member State..	1,467	1,490	1,520	1,572	1,614
Credit institutions authorised by the relevant authority in a Member State...	148	147	149	151	155
Branches of investment firms from other EU Member States......................	6	8	8	7	8
Branches of credit institutions from other EU Member States......................	4	4	4	3	3
Total	1,666	1,685	1,718	1,768	1,815

Source: Financial Supervision Authority

Investment firms and credit institutions from other EU Member States are registered with the FSA in order to perform financial services in Romania further to notifications addressed to the FSA by the relevant competent authorities of the relevant Member States. Most of the notified EU intermediaries, including credit institutions, are from the United Kingdom. Intermediaries, both Romanian and foreign, must be registered as participants on the Romanian stock exchanges in order to perform transactions on those markets. Among the intermediaries registered with the Bucharest Stock Exchange ("**BSE**"), seven intermediaries are foreign entities originating from Austria, Belgium, Bulgaria, Poland, Hungary and the Czech Republic.

Collective Investment Undertakings (*Organism de Plasament Colectiv*)

Over recent years, collective investment undertakings ("**CIUs**") have strengthened their role as alternative savings vehicles, collecting significant financial resources from individuals and legal persons.

The table below shows statistical data on active CIUs (undertakings for collective investment in transferable securities ("**UCITS**") and collective investment undertakings, other than UCITS ("**non-UCITS**")), as well as on other entities active in Romania:

Collective Investment Undertakings

	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Undertakings for collective investment in transferable securities ("UCITS"):				
Open-end investment funds (performing activities in practice).....................................	70	74	75	74
Collective investment undertakings, other than UCITS (non-UCITS):				
Closed-end investment funds (active)............	32	29	25	25

	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Undertakings for collective investment in transferable securities (“UCITS”):				
Investment companies	6	6	6	6
Total no. of CIUs	108	109	106	105
Management companies	21	21	21	20
Depositories	8	6	6	6
Entities from Member States				
UCITS authorised in a Member State and whose units have been distributed in Romania	29	50	52	52

Source: Financial Supervision Authority

On a year-on-year basis since 2009, in the context of an increased aversion to risk caused by the global financial crisis, Romanian investment funds registered a growth in the ratio of bank deposits and bonds in the investment funds' overall level of assets.

	As at 31 December				
	2013	2014	2015	2016	30 June 2017
Development of mutual funds					
Number of management companies	**22**	**21**	**21**	**21**	**20**
Total assets under management (million EUR)	**7,992**	**8,788**	**9,119**	**9,126**	**9,342**
Equity funds and investment companies (excluding ETFs)	5,054	4,628	4,488	4,312	4,397
Bond funds	2,793	3,871	4,239	4,434	3,788
Hybrid funds	128	261	365	356	1,129
Money market funds	17	28	27	24	27
ETFs	0.18	0.54	0.48	1	1
Number of CIUs	**101**	**108**	**109**	**106**	**105**
Equity funds and investment companies (excluding ETFs)	33	34	32	30	30
Bond funds	24	27	30	31	27
Hybrid funds	42	45	45	43	46
Money market funds	1	1	1	1	1
ETFs	1	1	1	1	1

Source: Management companies reports submitted by FSA. Reports total assets can be found on the official websites of investment funds managed.

Regulated Markets and Alternative Trading Systems

Two market operators are registered on the Romanian capital market, the BSE and the Sibex. Both market operators are also registered as system operators.

The Bucharest Stock Exchange

The BSE was set up on 21 April 1995 as an institution of public interest effectively managed by its members through the Stock Exchange Association. The BSE Association decided on 10 January 2005 to change the BSE's legal status from an institution of public interest into a joint stock company in accordance with the Romanian Companies Law No. 31/1990 and the Capital Markets Law. A key result of this transformation process, finalised on 13 July 2005, was the merger between BSE and the RASDAQ Electronic Exchange, a process further continued when on 30 November 2005 the BSE Extraordinary General Assembly approved the merger plan by which BSE absorbed Rasdaq. Five years later, in 2010, the BSE S.A. became a listed company and its shares are admitted to trading on the regulated market.

The BSE is authorised by the FSA as a market operator and, as such, it manages a spot regulated market ("**Spot Regulated Market**"). Companies listed on the BSE Spot Regulated Market are classified in two tiers ("**Premium**" and "**Standard**"), according to their compliance with several qualitative and quantitative criteria. The Spot Regulated Market also has an International Tier and Other International Financial Investments Sector. The BSE is also authorised by the FSA as a system operator. In this quality, BSE operates an Alternative Trading System (Multilateral Trading Facility) with two main sections: one dedicated to the listing of small- and medium-size enterprises (AeRO) and one dedicated to trading of foreign shares already listed on a regulated market in EU or on another exchange in a non-EU country, using market-maker services.

As at 31 August 2017, there were 86 companies listed on BSE's Spot Regulated Market, of which 84 are domestic companies and two are foreign companies. At the same date, there were 51 issues of bonds listed on BSE, of which 38 issues were municipal bonds, three foreign corporate bonds and 10 domestic corporate bonds. The first exchange-traded fund was admitted to trading on the BSE market in August 2012; as at August, 31 2017, two mutual funds and one exchange traded fund were listed on the BSE's spot market.

The BSE system operator manages the Alternative Trading System. As at 31 August 2017, there were 294 companies were traded on the two markets sections of the Alternative Trading System operated by the BSE, out of which 279 companies were listed in the section dedicated to small- and medium-sized enterprises (AeRO) and 15 companies were traded in the section dedicated to trading of foreign shares already listed on a regulated market in the EU or on another exchange in a non-EU country. As at the same date, four issues of bonds and one issue of mutual funds were listed on the Alternative Trading System.

Capitalisation of the BSE Regulated Markets

	Market Capitalisation	**Year Change**
	(EUR billion)	*(per cent.)*
As at		
31 December 2014	28.99	(3.3)
31 December 2015	32.24	11.21
31 December 2016	32.27	0.09

Source: BSE

Trading Values on the BSE Regulated Markets

	As at 31 December			As at 31 August
	2014	**2015**	**2016**	**2017**
Trading Volumes				
Total trading volumes (EUR)......	2,277,882,633	2,030,242,344	1,750,564,591	436,667,743
Stock (EUR)	2,189,085,151	1,836,996,472	1,585,504,951	378,640,940
Bonds (EUR)	34,986,357	100,840,387	68,865,818	27,574,283
Rights (EUR).............................	0	0	0	0
Fund Units (EUR).......................	2,523,996	1,737,589	906,976	214,327
Structured Products (EUR)	51,287,129	90,667,896	95,286,846	30,238,193
Futures (EUR)	0	0	0	0
Number of trading days	250	251	254	64

Source: BSE

Note:

The table does not include the values of the public offers conducted by BSE and of the transactions on the Unlisted Market.

Daily Average Turnover of the BSE Regulated Markets

	Daily Average Turnover	Year Change
	(EUR million)	*(per cent.)*
Year		
2014	9.11	12.75
2015	8.09	(11.20)
2016 ……………………………………………………………...	6.89	(14.83)

Source: BSE

BSE Indices

	Value as at 31 December 2016C	Change in 2016 (compared to 31 December 2015)
	(points)	*(per cent.)*
BSE Indices		
BET	7,085.05	(1.15)
BET-XT..	643.44	0.47
BET Plus	1,052.64	0.88
BET-TR..	8,751.95	9.70
BET-FI	29,710.63	(1.87)

	Value as at 31 December 2016C	Change in 2016 (compared to 31 December 2015)
	(points)	*(per cent.)*
BET-NG	588.1	(2.96)
BET-BK	1,344.18	0.18

Source: BSE

The BET index, reflecting the performance of the securities of the 10 most liquid companies admitted to trading on the BSE regulated market, has decreased in 2015, as at 31 December 2015, by 1.11 per cent. compared to end-year 2014. BET-FI, which represents the index of the investment companies admitted to trading on the BSE regulated market, has decreased in 2015, as at 31 December 2015, by 0.02 per cent. compared to end-year 2014. The BET-XT index, which reflects the performance of the securities of the 25 most liquid companies admitted to trading on the BSE regulated market, increased in 2015 by 0.33 per cent. compared to end-year 2014 and the BET-NG, which represents the index of the energy and utilities companies admitted to trading on the BSE regulated market decreased in 2015, as it was 14.02 per cent. lower at 31 December 2015 than it was at 31 December 2014.

The Sibiu Stock Exchange

In 2003, Sibex was authorised as an exchange by the CNVM and in 2004 the CNVM authorised Sibex's derivatives market. In late 2009, CNVM authorised the regulated spot market operated by Sibex for equity, bonds and other financial instruments. Sibex's spot market has been operational since 22 January 2010. Also in 2009, the alternative trading system ("**ATS**") operated by Sibex was approved by the CNVM.

At the end of March 2015, Sibex also completed the migration of the regulated spot market and alternative market to the new trading system OASIS provided by ATHEX GROUP. Thus, from 30 March 2015, all the markets administered by Sibex, including the regulated derivatives market, the regulated spot market and the alternative market, have been operating on the same new trading system.

In 2015, following the closure of the RASDAQ market, 35 companies were listed on the alternative market administered by Sibex.

Sibiu Stock Exchange S.A. is in the process of merger by absorption with the Bucharest Stock Exchange, the Sibiu Exchange will cease trading during the fourth quarter of 2017 and function as part of the Bucharest Stock Exchange thereafter. The trading activity in the regulated and regulated derivatives markets ceased as of 19 June 2017.

The entire activity on the alternative trading system administered by SIBEX is to be transferred lawfully within the Alternative Exchange managed by the Bucharest Stock Exchange, based on the provisions of Regulation No. 2/2017 of the Financial Supervisary Authority regarding the transfer or withdrawal from trading of securities of issuers in case of closing of an alternative trading system.

Trading Volumes at SIBEX

	Values at 31 December			Values at 31 August 2016
	2014	2015	2016	2017
		(Trades)		
Trading Volumes				
Total trading volumes	2,066,515	19,369,020	11,196,190	3,935.874
Futures	354,153	14,041	10,819	4,355
Options	1	0	0	0
Spot Market	561,148	100	16,522	0
ATS	1,151,213	19,354,879	11,022,849	3,931,519

Source: Sibex

Money Laundering

First legislation on anti-money laundering was enacted in Romania in 1999 (Law No. 21/1999), which was subsequently repealed by Law No. 656/2002 on the prevention and sanctioning of money laundering, as well as on establishing measures for preventing and combating terrorism financing. In 2008, significant progress was made in the field of money laundering by the adoption of important anti-money laundering and counter terrorism finance legal acts needed to fully transpose the provisions of Directive 2005/60/EC of the European Parliament and Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and of EC Directive 2006/70/EC as regards politically exposed persons, and to implement the recommendations in the Assessment Report on Romania adopted by the Moneyval Committee of the Council of Europe.

New money laundering monitoring authorities were created, such as the Division for "Monitoring of International Sanctions Enforcement, Prevention of Money Laundering and Terrorist Financing", which supervises compliance with NBR requirements in matters of money laundering and financing of terrorist activities. Since its establishment, the new division has conducted 189 examinations of credit institutions, which have resulted in 104 letters of recommendation or mandated courses of action that imposed immediate remediation of deficiencies within certain deadlines and 34 contravention fines for non-compliance with legal provisions amounting RON 540,000, in order to minimise the risk of money laundering and terrorist financing. The supervision from an anti-money laundering and counter terrorism finance perspective of payment institutions, electronic money institutions and significant non-bank financial institutions (specialised creditors) is entrusted to the NBR.

In 2013, Romania was subject to the evaluation process conducted by Moneyval and the mutual evaluation report on the fourth assessment visit of Romania was adopted at its 44th Plenary (Strasbourg, 31 March to 4 April 2014).

In 2014, the National Office for Prevention and Control of Money Laundering ("**NOPCML**") submitted to the General Prosecutor's Office attached to the High Court of Cassation and Justice ("**GPO**") 334 cases of money laundering; five notifications were sent to the GPO and Romanian Intelligence Service for suspicions of terrorism financing; and 377 notifications were sent to competent bodies for other offences. During 2014, the board of the NOPCML decided to suspend financial operations with a total value of EUR 9.3 million.

In 2015, NOPCML submitted to the GPO 476 cases of money laundering; six notifications were sent to the GPO and Romanian Intelligence Service for suspicions of terrorism financing; and 369 notifications were sent to competent bodies for other offences. During 2015, the Board of the NOPCML decided to suspend financial operations with a total value of EUR 7.5 million.

In the performance of its activity, NOPCML co-operates closely with the Ministry of Justice, the GPO and the Court of Accounts. NOPCML is also part of the newly founded Inter-ministerial Committee against corruption, transnational organised criminality and of serious forms of financial and economic criminality.

Following the approval of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC, the national legal framework is in the process of being updated in order to ensure the transposition of this directive into the national legislation.

However, the implementation of the fourth anti-money laundering directive (Directive 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing), whose transposition deadline expired in June 2017, is still pending in Romania. The delay in the implementation has triggered the commencement of the infringement procedures by the European Commission, a first notice in this respect having been sent to Romania in July 2017. See "*Relationship with EU*".

Public Finance

The Budgetary System

The Budgetary Process

The Romanian Ministry of Public Finance prepares two main budget laws each year (the central state budget law and the state social security budget law). The central state budget is prepared by the Romanian Government, acting through the Ministry of Public Finance, and is based on draft budgets (proposals) from the direct recipients of budgetary allocations (line ministries).

The budget proposals submitted to the Ministry of Public Finance include programmes for investment by public institutions and other capital expenditures. These investment and capital expenditure programmes are based on a listing of certain projects approved in accordance with the legal provisions in force, as well as global amounts for other expenditures for investments.

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

The consolidated general budget is prepared by the Ministry of Public Finance and includes, amongst others: the central state budget plus the state social security budget; the special funds; the autonomous and self-financed institutions' budgets; and the local government budgets.

The state social security system and local governments are each responsible for the management of their own revenues and expenditure.

- State Social Security Budget

The state social security budget is independent of the central state budget, although it is subject to approval by Parliament each year. The public pension system is based on a "pay as you go" principle, with the contributions paid by employers representing the main source of income for the system. The majority of expenditure from the state social security budget is in the form of pension benefits, including old age pensions, early retirement pensions, partial early retirement pensions, disability pensions, survivor pensions and death benefits.

- Special Funds

Special Funds are the national health insurance funds, the budget of which is approved as an annex to the central state budget law, and the budget for unemployment insurances, which is approved along with the state social security budget law.

- Local Budgets

Local budgets are prepared, approved and executed according to the law on local public finances and the law on local public administration. These laws authorise local authorities to develop and approve their own budgets and assign to them certain sources of revenue, including a share of personal income tax and certain other taxes collected at the level of the central state budget. Additional local budget revenues come from property taxes. Local authorities are required to balance their current spending and they are able to contract loans for investment purposes and for refinancing local public debt.

Since 2011, when the Government Emergency Ordinance No. 63/2010 amending the Law on local public finances No. 273/2006 came into force, the budgets of administrative territorial units are prepared and approved in two sections, operational and development.

Each of the two sections has its own revenue and expenditure. Thus, operational expenditure includes current expenses and repayment of loans, while development expenditure includes capital expenditures and post-accession EU co-financed projects.

Amounts can be transferred from the operational section to the development section only after payments for operational costs have been completely secured.

Local budgets of communes, towns, cities, Bucharest districts, counties and the Bucharest municipality, as well as the budgets of public institutions financed from their own revenues and subsidies from local budgets and external grant budgets are approved, under the "balanced budget" condition, while the development section deficit can be covered by the previous year operational section's surplus.

The annual budget will include distinct appropriations for payment of the previous year's arrears. Since 2011, revenues and expenditures presented off budget have been included in the local budget.

Since 1 January 2011, the permitted level of indebtedness of each administrative territorial unit/subdivision (such as a city or a county) has been limited to 30 per cent. of their own revenues (consisting of taxes, fees, contributions, other income and allocated shares from income tax) as averaged across the last three years preceding the year in which approval is requested, less the income resulting from the sale of certain assets over the same period, belonging to the private domain of the respective administrative territorial subdivision. Loans contracted and/or guaranteed by the administrative territorial subdivision relating to financing of projects which benefit from pre and post-accession non-reimbursable external funds from the European Union are not included in the calculation.

The loans contracted and/or guaranteed by administrative territorial subdivisions in respect of the financing of projects which benefit from pre- and post-accession non-reimbursable external funds from the European Union are exempted from the 30 per cent. limit of the level of indebtedness.

Medium-Term Budgetary Planning Process

Although medium-term budgetary planning has been utilised in Romania since 2003, the Medium-Term Budgetary Framework became mandatory only when Law No. 69/2010 on fiscal responsibility ("**Fiscal**

Responsibility Law") entered into force in 2010 resulting in medium-term budget ceilings requiring approval by Parliament.

The most important reforms regarding the fiscal framework (as provided under the Fiscal Responsibility Law) include the following:

- *Mandatory Medium-term Planning*: A new stage has been introduced in the budgetary calendar. By 15 July of each year the Ministry of Public Finances shall submit to the Government the Fiscal Budgetary Strategy ("**FBS**") (covering the following three years), which shall be further presented to the Parliament by 15 August each year.

- *Parliament Approval on Key Medium Term Budgetary Targets*: Together with the FBS, the cabinet submits a draft law to be debated and voted on by the Parliament, which includes a maximum threshold for the structural deficit (as a percentage of GDP), the cash budget balance (as a percentage of GDP), personnel expenditures (as a percentage of GDP), guarantees issued by the government and local authorities, loans contracted by local authorities, total expenditure, excluding financial assistance from EU, public debt (as a percentage of GDP), etc.

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

- *Escape Clauses*: The FBS may be revised if: (i) there is a change in the scope of the general consolidated budget; (ii) there is a significant worsening of the macroeconomic indicators used in preparing the FBS; or (iii) there is a change in government. In the latter case, the new government will make public whether its programme is consistent with the FBS and, if not, the Ministry of Public Finance will prepare a new draft FBS. This revision must be approved by Parliament and is subject to the review and opinion of the Fiscal Council.

- *New Fiscal Rules*: (i) The structural deficit cannot be higher than 0.5 per cent. of GDP (or 1.0 per cent. of GDP if the public debt is comfortably below 60 per cent. of GDP); (ii) public debt should not be higher than 60 per cent. of GDP; (iii) the intermediate prudential public debt thresholds have been set at 45 per cent., 50 per cent. and 55 per cent. of GDP; (iv) an automatic correction mechanism has been put in place if a deviation of the above rules occurs; (v) the annual increase of public sector expenditure has to be in line with the rules set by the EC Regulation No. 1466/1997; (vi) the macroeconomic forecast utilised for budget planning has to be compared with the EC official forecast and any difference clearly presented; (vii) during the budget year, funds approved for public investment cannot be transferred to current expenditure; (viii) there cannot be more than two budget rectifications during one year; and (ix) a budget rectification may take place only in the second half of the year.

- *The New Fiscal Institution*: The Fiscal Responsibility Law introduces the Fiscal Council, an independent body made up of five members, one from each of the Romanian Academy, Romanian National Bank, the Academy of Economic Studies, the Romanian Banking Institute and the Romanian Banking Association, who are appointed by the Parliament for a period of nine years. The Fiscal Council issues opinions and recommendations on official macroeconomic and budgetary forecasts, and on the FBS, Annual Budget Law, Budget execution and major legislative initiatives which can have an impact on budget expenditures. The Fiscal Council also monitors the observance of the fiscal rules.

Taxation system

The following table presents the share of the main sources of revenue in the general consolidated budget as at 31 December 2014 and 2015:

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	(per cent.)			
Social security contributions	26.9	24.7	27.4	28.6
VAT	23.7	24.5	23.1	20.6
Non-fiscal revenues	8.1	8.3	8.1	9.7
Income tax	11.1	11.4	12.7	12.5
Excises	11.2	11.1	12	10.1
Corporate tax	5.7	5.9	7.3	7.7
Other	13.3	14.1	9.5	10.8
Total	100	100	100	100

Source: Ministry of Public Finance

Value Added Tax

According to the New Fiscal Code, with subsequent amendments and completions, the standard VAT rate was reduced from 24 per cent. to: (i) 20 per cent. from 1 January 2016; and (ii) 19 per cent. from 1 January 2017.

Romania applies a reduced VAT rate of 9 per cent. for the supply of: food products, restaurant and catering services (excluding alcoholic beverages); drinking water and irrigation water in agriculture; orthopaedic products and prostheses (except for dental prostheses); human and veterinary medicines; accommodation in hotels; fertilisers and pesticides used in agriculture, seeds and other agriculture products for sowing or planting and services of a kind of those specified used in agriculture.

Romania also applies a reduced VAT rate of 5 per cent. for the supply of: social housing and the land on which they are built; school-books, books, newspapers and magazines, except for those used solely or principally for advertising; services consisting in admission to castles, museums, memorial houses, historical, archaeological and architectural monuments, zoos and botanical gardens, fairs, exhibitions and cultural events, sporting events and cinemas, other than those exempted.

The VAT registration threshold applied for small undertakings is RON 220,000 (approximately EUR 65,000 calculated using the exchange rate on the day of Romania's accession to EU). Entities that carry out activities which generate revenues below this threshold are not obliged to register for VAT purposes, but can opt to do so. Romania currently applies an optional VAT cash accounting system which is available to companies with a turnover of less than RON 2,250,000 lei (approximately EUR 500,000), adopted in order to assist SMEs.

A split payment mechanism for VAT has been introduced optionally starting from 1 October 2017 and mandatorily from 1 January 2018 (as approved by Government Ordinance 23/2017). Under the split VAT payment mechanism, taxable companies and public institutions, whether or not registered for VAT purposes, are required to pay the VAT equivalent of the purchases of goods and services into a VAT account of the supplier/provider. The Government Ordinance 23/2017 is currently subject to parliamentary debates and approval, which may result in further amendments being made to the legislative act.

In summary, the VAT split payment mechanism involves:

- opening of a VAT account by taxable persons, including public institutions, registered for VAT purposes;
- payment by the beneficiaries - public institutions, taxable persons, except for natural persons not registered and not required to be registered for VAT purposes, of the VAT related to the taxable transactions in the separate VAT account of the supplier/provider;

- the use of the amounts in this separate VAT account for the payment by the supplier of the tax related to the purchases to his suppliers, as well as of the tax owed to the state budget;
- the possibility of transferring amounts from VAT accounts to another account by the holder only with the approval of NAFA. The transfer is approved by NAFA within maximum 3 working days from the submission of the application;
- prohibiting the withdrawal of cash from the VAT account;
- the establishment of facilities for the persons who opt for the application of the VAT split payment between 1 October and 31 December 2017; and
- the introduction of specific contraventions and sanctions.

Companies choosing the optional split VAT payment from 1 October 2017 receive the following tax benefits:

- Cancellation of late payment penalties in respect of the VAT obligations outstanding on 30 September, 2017, under certain conditions; and;
- 5 per cent. reduction of corporate tax or tax on micro-enterprises' income for the fourth quarter of the 2017 fiscal year.

Income Tax

The New Fiscal Code establishes a personal tax on salary income, income from independent activities, lease operations and interest each of which are currently levied at a rate of 16 per cent.

As of 1 January 2016, the income tax rate for the income received by individuals as dividends, including the income derived in relation to holding participation titles (shares, fund units, etc.), as defined by the legislation related to collective investment funds, has decreased from 16 per cent. to 5 per cent.

Social contributions

Starting with August 2017, the income taken into consideration for the payment of social contributions for full-time or part-time employees with earnings that are lower than the minimum wage shall be the minimum wage for the month for which they are owed, corresponding to the working days in which the employee was active (Government Ordinance 4/2017).

Excises

Romania applies excise duties to goods which are mandatory subject to excise tax at the EU level (ethyl alcohol, alcoholic beverages, manufactured tobacco, energy products and electricity), and also for the tobacco contained in the heated tobacco products and liquids containing nicotine, set up as non-harmonised excise duties.

The excise duty levels for the products specified above are provided in Law no.227/2015 regarding the Fiscal Code, with subsequent amendments.

In July 2017, for cigarettes and others manufactured tobacco products a timetable for the gradual increase of excise duties until 2022 was established, which is also set out in Annex no. 1 to the Fiscal Code.

Also, both excise duties levels, harmonised and non-harmonised are mandatory updated on an annual basis, by reference to the growth in consumer prices, calculated over a period of 12 months ending in September of the year that precedes the period for which the new level of excise duties shall apply, by comparison to the level of the consumer prices for the period October 2014 to September 2015 which was officially announced by the National Institute for Statistics.

By exception, only for cigarettes, the above-mentioned provisions regarding the annual update of excise duties by reference to the growth in consumer prices shall not be applied, given that for these products a timetable for gradual increase of excise duties for the period 2017-2022. has been established

Corporate Income Tax

According to the Fiscal Code, with subsequent amendments, the Romanian corporate tax system is represented by:

- a general system of taxation, corporate income tax, established by applying a tax rate of 16 per cent. on taxable profit, required to be calculated and paid quarterly or annually;
- a simplified system of taxation, tax on micro-enterprises income, established by applying a differentiated tax rate by number of employees (1 per cent. of turnover for micro-enterprises having one or more employees, 3 per cent. of turnover for micro-enterprises without employees) for micro-enterprises having revenues up to EUR 500,000; the newly created micro-enterprises that have registered a social capital of more than RON 45,000 (approximately 10,000 euros) at the time of their registration may opt to apply the corporate tax system;
- starting with 1 January 2016, the tax rate on dividends paid by a Romanian legal person to another Romanian legal person is 5 per cent.

There are certain fiscal measures implemented in order to: (i) stimulate the incorporation of holding companies; (ii) attract foreign capital; and (iii) create incentives for the repatriation/investment of domestic capital.

These fiscal measures consist mainly of:

(a) the exemption of income from dividends received from Romanian legal persons (without holding conditions);

(b) the exemption of income from dividends received from legal persons from EU Member States;

(c) the exemption of income from dividends received from foreign legal persons located in a third country which has concluded a double tax treaty with Romania;

(d) the exemption of capital gains realised by taxpayers from the assessment/reassessment/sales/assignments of the equity securities held in a Romanian legal person or a foreign legal person located in a country which has concluded a double tax treaty with Romania; and

(e) the exemption of income obtained by a Romanian legal entity from the liquidation of another Romanian legal person or a foreign legal person located in a third country which has concluded a double tax treaty with Romania.

The incentives provided under (b) to (e) above are granted only if the taxpayer has, for an uninterrupted period of one year, a minimum of 10 per cent. of the share capital of the legal entity.

Other tax incentives are:

A. Fiscal incentives for research and development (R&D) activities

A.1. Romanian taxpayers that perform R&D activities can benefit from various incentives for corporate income tax relief, including:

- an additional 50 per cent. deduction for the eligible research and development related expenses; and

- accelerated depreciation for equipment and devices used in R&D activities of up to 50 per cent. of the fiscal value of the asset which may be deducted during the first year in usage. The remaining fiscal value of the asset would be depreciated over the remaining useful life.

Among the eligible expenses for the R&D incentives are the following:

- depreciation and rental expenses assets that are used by taxpayers in R&D activities;
- salaries of personnel directly involved in R&D activities and related expenses;
- maintenance and repair costs for the assets used for the R&D activities;
- operating expenses, including expenses costs of consumables, materials, etc.; and
- overhead expenses.

A.2. Starting with January 2017, a new fiscal incentive was introduced, a corporate income tax exemption for taxpayers engaged exclusively in innovation, research and development activity, and its related activities, in the first 10 years of activity.

B. Corporate income tax exemption for reinvested profit

Starting with 1 July 2014 the tax exemption scheme for reinvested profit in the production and/or acquisitions of technological equipment and machinery was introduced. As of January 2016, this tax incentive was extended for profit reinvested in production and/or acquisitions of computers and peripheral equipment, tax cash registers and software.

Starting with January 2017, the period of application of the incentive on the exemption of reinvested profit was extended, without time limit, and included in the scope of the incentive the reinvested profit in acquisitions of rights to use software.

Construction Tax

Starting from 1 January 2017, the construction tax of 1 per cent. from the value of the construction pertaining to a taxpayer is no longer applicable.

Tax on specific activities

Starting from 1 January 2017, Law no.170/2016 regarding tax on specific activities has introduced a tax on specific activities by applying a formula to determine the annual specific tax for taxpayers which carry on certain activities such as tourism, restaurants and bars. The tax on specific activities replaced the profit tax for companies with the following expressly mentioned activities: hotels, restaurants, catering, bars and other activities related with these activities.

Taxation of non-residents

The following types of income, when derived from Romanian sources by non-residents are not considered as subject to withholding tax:

- interest paid on public debt instruments;
- income obtained from transactions involving the use of derivative financial instruments for risk management purposes in relation to holding governmental public debt instruments;
- income from the trading of governmental bonds and bonds issued by administrative-territorial units domestically or on foreign markets;

- interest related to instruments issued by the NBR for the achievement of monetary policy targets and income from the trading of transferable securities issued by the NBR; and
- interest from debt instruments/debt securities issued by Romanian companies, set up according to Law No. 31/1990, republished, as subsequently amended and supplemented, if the debt instruments/debt securities are issued under a prospectus approved by the competent regulatory authority and the interest is paid to a person who is not affiliated to the issuer of the debt instruments/securities.

Local Taxes and Fees

The Fiscal Code regulates the local taxes and fees which generate revenues for local budgets. The local taxes and fees include property taxes (the tax on buildings, tax on land, tax on vehicles, taxes on advertising, fees for issuing of certificates and permits) as well as other taxes and fees which can be set by local municipalities.

The main criterion for determining the tax on buildings is the actual use of the property – residential, non-residential or mixed and not primarily the legal status of the owner (individual or legal entity).

The tax rates are similar for individuals and legal entities who own similar types of buildings. The tax base is the assessed value of the building, based on standards approved by the National Association of Authorized Valuators. An exception applies with respect to the value of residential buildings owned by individuals which is calculated taking into consideration an area-based value, adjusted by coefficients designed by the law, which take into consideration the quality of the building, location and rank of municipality.

A set of mandatory tax exemptions are also set, but the Fiscal Code also gives powers to municipalities to permit partial or full tax exemptions in specific cases.

Municipalities benefit from more local autonomy as they are allowed to increase any local tax or fee by up to 50 per cent., according to specific local conditions. Also, for poorly maintained buildings or land in the built-up area of the locality, municipalities may increase the taxes by up to 500 per cent.

From 1 January 2017, the values provided in the Fiscal Code in connection with local taxes and fees will be updated on an annual basis, rather than every three years, based on to the inflation index for the previous year.

Budgetary Income Collection

In order to enhance budgetary income collection, as to increase the efficiency of the fiscal administration authorities, as well combating tax evasion, certain measures have been implemented, such as:

- ANAF enrolment in the National Electronic Payment System (ghiseul.ro) for individuals;
- installation of point–of–sale (POS) devices in tax units, to facilitate the payment obligations of individual taxpayers;
- implementing a new registration procedure for VAT purposes to reduce cases of registration of taxpayers with high risk;
- developing programmes for notification to declare the tax liability;
- sending SMS notifications and announcements to taxpayers;
- development of the electronic application "Guidance form" in order to improve assistance to taxpayers by using information and communication technologies, which have unified all channels of communication with taxpayers, in terms of guidance and assistance in tax matters;

- further simplification of tax returns by reducing the number of forms for certain categories of taxpayers, by making statements; by analysing forms content, to streamline the required information; redesigning tax return forms to facilitate their completion by taxpayers;
- creating applications for mobile devices connected to the internet (smart phone) to expand access to taxpayer information;
- communicating tax administration documents using the e-mail service; developing "Virtual Private Area" and "Newsletter Tax" services;
- ensuring the possibility of filling by electronic transmission means of the high frequency and high content return forms; and
- by adopting law No. 70/2015 the extension of the limitation of cash payments and receipts between all economic operators, as well as limiting cash operations made between economic operators and individuals, as well as those between individuals, has been regulated. The purpose of such measures is to reduce the shadow economy by providing a future traceability of financial flows through banking transactions in the context of improving the compliance with legal provisions, as a need to reduce tax evasion by increasing the usability of the cards instead of cash.

The General Consolidated Budget

The following table shows income and revenues relating to the general consolidated budget for the years ended 31 December 2014, 2015 and 2016:

	2014	**2015**	**2016**
		(RON million)	
A. Revenue	214,314.9	233,795.2	223,900.2
Current incomes	199,962.2	215,456.3	215,717.8
Taxes	124,964.7	138,301.6	136,406.0
Income fee, profit and capital gain from legal entities	13,163.2	14,814.5	16,408.0
Income fee, profit and capital gain from individuals	24,213.0	27,276.4	28,373.6
Property fees and taxes	6,185.1	5,738.0	5,898.1
Fees and taxes on goods and services	80,343.1	89,207.5	84,127.0
Fee on the external trade and international transactions	643.0	816.0	882.7
Other fiscal fees and taxes	417.5	449.2	716,6
Contributions to social securities	57,585.4	57,616.5	61,270.2
Non-fiscal incomes	17,412.0	19,538.2	18,041.7
Incomes from capital	1,072.4	918.3	768.3
Donations	80.3	2.3	1.7
Amounts in distribution	272.7	(28.8)	472.7
Amounts received from EU	12,927.3	17,447.1	6,939.7

	2014	2015	2016
		(RON million)	
Financial operations	—	—	—
B. Total Expenses	225,808.1	243,426.0	242,204.4
Current expenses	209,512.2	226,423.6	223,106.6
Personnel related expenses	50,400.1	52,070.0	57,068.4
Goods and services	39,538.0	40,457.9	40,910.5
Interest	10,201.7	9,573.2	10,013.8
State aid	6,108.2	6,275.1	6,605.1
Transfers between the units of the public administration	502.7	1,584.8	1,042.5
Other transfers	11,834.0	11,288.1	10,935.7
Projects financed from non-reimbursable EU Funds post-accession (including national co-financing)	14,820.2	24,263.3	3,997.1
Social assistance	71,192.6	75,962.0	81,818.2
Projects financed from non-reimbursable EU Funds post-accession financing programme 2014-2020	31.9	495.7	6,338.8
Other expenses	4,291.0	3,997.6	3,980.0
Programmes financed from reimbursable funds (including local funds)	591,7	455.9	396.5
Capital expenses	17,246.2	18,039.1	19,097.8
Loans granted	—	—	—
Payments for previous years	(950.3)	(1,036.8)	—
Eximbank[1]			
C. Surplus/Deficit	(11,493.2)	(9,630.7)	(18,304)
Deficit as % of GDP	(1.7)	(1.4)	(2.4)
Deficit as % of GDP (according to ESA 2010)	(1.4)	(0.8)	(3.0)
Gross domestic product	668,143.6	711,102.7	761,473.6

Note:

(1) Data regarding general consolidated budget were compiled by including budgets of local public institutions financed partially or totally from own revenues, internal and external local loans, revenue and expenditure outside the local budget, budget of public institutions subordinated to ministries, budget of property fund and issuance of compensation titles. Data has been prepared on a cash basis.

Source: Ministry of Public Finance

The following table shows revenues, expenditure and deficit as a percentage of GDP figures relating to the general consolidated budget for the years 2013 to 2015 according to EU methodology (European System of Accounts 2010):

	2014	2015	2016
		(EUR billion)[(1)]	
Revenues (EUR billion)	50.4	56.0	54.3
Public expenditure (EUR billion)	52.4	57.3	59.5
Deficit as % of GDP	(2.0)	(1.2)	(5.2)

Note:

(1) EUR/RON exchange rates used are based on the NBR average exchange rate for the year.

Source: Ministry of Public Finance

2014 Budget execution

According to final data, the consolidated general budget for the year 2014 ended with a deficit of 1.72 per cent. of GDP as compared to 2.48 per cent. of GDP in 2013, a reduction in nominal terms by RON 4.3 billion.

Consolidated general government revenue, amounting to RON 214.3 billion and representing 32.1 per cent. of GDP was 7 per cent. higher in nominal terms as compared to the previous year. There were increases in revenues from social insurance contributions (RON 3,202.2 million), excises (RON 2,988.8 million), property taxes (RON 1,781.9 million), income taxes (RON 955.9 million) and profit tax (RON 1,312 million). VAT revenues declined over the same period of the previous year by 1.8 per cent., while the VAT receipts increased by 3.6 per cent., tax refunds were 19.7 per cent. higher. Revenue from tax on use of goods decreased by 35.6 per cent. due to the fact that in the previous year license fees for rights of use of radio frequencies in the amount of RON 2.0 billion were charged. At the local government level, there were also increases over the previous year in property taxes by 3.4 per cent., in tax on use of goods by 2.8 per cent. and 2.4 per cent. in non-tax revenues. Amounts received from the European Union payments were 13 billion, 38.7 per cent. higher than the same period last year.

Consolidated general government expenditures, amounting to RON 225.8 billion, increased in nominal terms by 4.5 per cent. over the same period in the previous year, being at the same level in percentage points to GDP. Staff costs increased by 9.0 per cent. over the same period in the previous year, due to the increase in gross minimum wage to RON 850 from 1 January 2014 and to RON 900 from 1 July 2014 and due to an earlier payment of amounts due in 2015 to certain categories of public sector employees pursuant to court judgments. Compared to the previous year, there was a reduction of interest expense by 5.1 per cent. due to lower yields at bond auctions benchmark programmes. Expenditures for projects financed from external funds were at the same level in percentage terms as compared to the previous year, or RON 609 million. The costs of investment, including capital expenditures and the related development programmes financed from internal and external sources were RON 32.7 billion, or 4.9 per cent. of GDP, as compared to the prior year.

2015 –Budget

The budget law for 2015 was adopted by the Parliament and published in the Official Journal on 30 December 2014. The cash budget deficit target has been set at 1.8 per cent. of GDP, which corresponds to an ESA deficit of 1.2 per cent. of GDP (to which 0.25 percentage points are added – representing an adjustor for EU funds co-financing) and a structural deficit of 1.0 per cent. of GDP.

The main objectives of the 2015 budget were: (i) retaining the five percentage points reduction to social security contributions paid by the employers (which was effective as of October 2014); (ii) reducing the tax on special construction from 1.5 per cent. to 1.0 per cent.; (iii) increasing national co-financing to support EU-funded projects; (iv) increasing the minimum wage to RON 975 as of 1 January 2015 and to RON 1,050 as of 1 July; (v) setting a 5 per cent. indexation of public pensions; (vi) increasing social allowances for most poor families, pensioners and disabled people; (vii) increasing the salaries of teachers and teaching support staff by 5 per cent. as of 1 March 2015 and by a further 5 per cent. as of 1 September 2015; and (viii) increasing the salaries of health and social care staff, by an additional RON 100 as of 1 January 2015.

The following table shows the macroeconomic indicators used for the 2015 budget:

	2015 Budget
GDP (RON million)	709,681
Real growth rate (%)	2.5
Average exchange rate RON/EUR	4.42
Inflation	
– annual average (%)	2.2
Average number of employees (thousand persons)	4,582
No. of unemployed persons registered as at the end of year (thousands)	465
– Rate of registered unemployment (%)	5.1
Gross average salary (RON/month)	1,758
Goods & Services exports – growth (%)	5.9
Goods & Services imports – growth rate (%)	6.9
Current account balance (% of GDP)	(1.5)

2015 – Budget Execution

The general consolidated budget for the year 2015 ended with a deficit of 1.45 per cent. of GDP, within the target of 1.85 per cent. of GDP set forth in the fiscal-budgetary strategy for 2015.

Compared to the previous year, the deficit decreased from 1.72 per cent. of GDP to 1.45 per cent. of GDP, while in nominal terms it decreased by RON 1.1 billion.

In 2015, the revenues to the general consolidated budget, in the amount of RON 233.6 billion and representing 32.8 per cent. of GDP, increased by 9 per cent. in nominal terms year-on-year. Their proportion of GDP increased by 0.7 percentage points within the same period. On a year-on-year basis, collection of VAT increased by 12.3 per cent., collection of income tax increased by 12.4 per cent., collection of profit tax increased by 13 per cent., collection of non-fiscal revenues increased by 12 per cent. and collection of excise duties increased by 8 per cent. Collection of social contributions slightly increased as compared to 2014, despite the 5 percentage points reduction applied to employers' contributions and the growth by 0.5 percentage points of the contribution to the second pensions pillar. At the level of the local administration, collection of property taxes and income increased by 1.5 per cent., collection of taxes on the use of goods increased by 4.8 per cent. and collection of non-fiscal revenues increased by 4.1 per cent., year-on-year.

Amounts received from the EU payments were RON 17 billion, which was 49.3 per cent. higher compared to the previous year.

The expenditures of the general consolidated budget, in the amount of RON 243.9 billion, increased in nominal terms by 8 per cent. compared to 2014 and by 0.4 percentage points year-on-year as a percentage of GDP. Personnel expenditures increased by 3.2 per cent. compared to the previous year, due to salary increases for personnel in the local public administration, in the public healthcare system and in the education system. Compared to 2014, interest expenditures decreased by 6.2 per cent. in 2015, due to the drop in yields for benchmark bonds.

In parallel, expenditures related to projects financed by non-refundable external funds increased by 62.4 per cent. year-on-year.

Investment expenditures, including capital expenditures, as well as expenditures related to development projects financed through internal and external sources, reached RON 41.3 billion in 2015, representing 5.8 per cent. of GDP, as opposed to RON 32.7 billion in 2014.

The increase in expenditures during the final months of 2015, and particularly during December, was mainly due to investments, both financed from EU funds and from own sources, with refundable financing. Investment expenditures during December 2015 were in an amount of RON 15.1 billion, of which RON 7 billion were incurred for sustaining projects with EU funding and RON 8 billion were incurred for capital expenditures.

Given that the eligibility period for payments related to projects under the 2007-2013 financial framework expired at the end of 2015, efforts were made with a view to ensuring the necessary funds which Romania had to allocate in order to co-finance EU-funded projects. In December only, payments of approximately RON 9.1 billion were made, compared to the monthly average was of approximately RON 1.5 billion out of which RON 7 billion were investment expenditures with the remainder being subsidies for farmers and other payments on the account of the European Union.

In December 2015, the amount allocated for aid granted to farmers for the purchase of diesel fuel was increased by approximately 40 per cent., to RON 106 million allocated through the Ministry of Agriculture.

The increase of personnel expenditures during November and December 2015 was mainly triggered by the following factors: (i) the fourth tranche of sums under court judgments regarding salary rights for personnel to be paid from public funds was paid in advance; and (ii) the salary increase granted to personnel in the public healthcare system as of 1 October 2015.

NAFA has taken measures to improve tax collection and make fiscal administration more taxpayer-friendly. Also, the main objective of Anti-Fraud Department of NAFA is to identify and investigate various forms of tax evasion with significant negative implications on the state budget, based on their own risk analysis and information provided by specialised institutions.

NAFA's efforts have resulted in an increase in voluntary tax compliance by 0.5 percentage points, from 94.8 per cent. in 2015 to 95.3 per cent. in 2016, mainly due to the intensification of public information campaigns as well as due to the audits carried out in relation to the purchase and use, by economic operators, of electronic cash registers and the observance of financial discipline.

2016 Budget

The budget for 2016 assumes a cash deficit of 2.8 per cent. of GDP (revenues of 31 per cent. of GDP and expenditures of 33.8 per cent. of GDP), which translates into an ESA computed deficit of 2.95 per cent. of GDP.

For the expenditures forecast, certain measures taken by both the Parliament and the Government during 2015 were taken into account, which resulted in the increase of budget expenses for 2016 of approximately RON 13 billion.

Some of the measures which influenced the budget expenditures in the general consolidated budget for 2016 were: the doubling of child benefit (RON 1.8 billion); the rise of compensations for war veterans and persons persecuted for ethnic reasons (RON 0.6 billion); the 25 per cent. salary increase for personnel in the public health system (RON 1.8 billion); the 15 per cent. salary increase for personnel in the education system (RON 1.7 billion); the 12 per cent. salary increase for personnel in public institutions of local subordination (RON 1.3 billion); the 25 per cent. salary increase for personnel in the public social assistance system (RON 556 million); compensation for persons with disabilities (RON 240,6 million); the 10 per cent. salary increase for other categories of personnel paid from public funds (RON 3 billion); the update of the food and equipment quota for policemen and military personnel (RON 1 billion); the creation of service pensions for court clerks, flight crew, diplomatic and consular personnel and Parliamentary public servants (RON 0.3 billion).

The implementation of the New Fiscal Code is expected to lead to a decrease in budget revenue for 2016 of approximately RON 10.2 billion. The following measures have the largest impact on revenues: the cut of the tax rate on dividends from 16 per cent. to 5 per cent. (RON 1.5 billion); the lowering of the VAT rate from 24 per cent. to 20 per cent. (RON 7 billion); and the introduction of a new system of taxation on micro-enterprises income (RON 0.3 billion).

The following table shows the macroeconomic indicators used for the 2016 budget:

	2016 Budget
GDP (RON million)	746.6
Real growth rate (%)	4.1
Average exchange rate RON/EUR	4.44
Inflation	
– annual average (%)	0.5
Average number of employees (thousand persons)	4,780
No. of unemployed persons registered as at the end of year (thousands)	450
– Rate of registered unemployment (%)	4.8
Gross average salary (RON/month)	2,681
Goods & Services exports – growth (%)	5.8
Goods & Services imports – growth rate (%)	7.2
Current account balance (% of GDP)	(1.2)

The estimated impact on public spending due to the changed legislation regarding the calculation of the indemnity granted to persons in parental leave is approximately RON 200 million in 2016 (five months of implementation) and approximately RON 600 million in 2017.

2016 – Budget Execution

The execution of the general consolidated budget for 2016 ended with a deficit of RON 18.3 billion, representing 2.41 per cent. of GDP, compared to the estimated deficit of RON 20.9 billion.

The revenues of the general consolidated budget in 2016, amounting to RON 223.7 billion, represented 29.5 per cent. of GDP and an achievement degree of 95.1 per cent. of annual estimates.

Fiscal revenues decreased, compared to 2015, by 1.4 per cent. in nominal terms and by 1.5 percentage points as share of GDP:

- The revenues from profit tax increased by 11.7 per cent., mainly due to the revenues from companies which increased by 13.9 per cent., while the revenues from commercial banks decreased with RON 217.1 million, compared with the previous year
- The revenues from income and wage taxes increased by 4.2 per cent., due to the increase in the number of employees by 3.4 per cent. and the gross average wage by 13 per cent. Other positive factors were the increase of the minimum gross wage and of the pension point from RON 830.2 in 2015 to RON 871.76 in 2016.
- The revenues from property tax, compared with 2015, increased by 2.8 per cent. in nominal terms and maintained at 0.8 per cent. as share of GDP, programme completion percentage being of 100.2 per cent.
- VAT revenues decreased by 9.6 per cent., due to the decrease of collection from internal operations by 11.3 per cent. and from goods import by 13.5 per cent., but also due to the decrease of penalties for delay in VAT payments by 7.9 per cent.
- The revenues from excise amounted RON 27 billion, increased by 3.6 per cent. compared to the previous year, achieving 97.8 per cent. from annual programme.
- The revenues from other tax and tax for goods and services decreased by 16.7 per cent., compared to 2015, collection was accomplished only in per cent. of 60.4 per cent., because of a failure to realise the revenues estimated in the budget of the single national health fund, the quarterly contribution to the financing of certain health expenditures (compared to an estimated RON 2.8 billion, only RON 1.3 billion were collected, resulting from the contribution due for cost-volume/cost-volume-result contracts).
- Proceeds from taxes on the use of goods, the authorisation to use goods and activities were reduced by 3.3 per cent., compared to the previous year, mainly as a result of the decrease in the state budget revenues from gambling taxes.
- The revenues from external trade and international trade increased by 8.2 per cent. compared to the same period of the previous year, due to the increase in imports from the extra-Community area by 8.1 per cent.
- Revenues from social insurance contributions increased by 6.3 per cent. on the background of the positive evolution of the number of employees, gross average earning, minimum wage and salary increases for certain categories of employees in the budgetary field.
- Non-tax revenues collected in 2016 totalled RON 18.0 billion (2.4 per cent. of GDP) by 7.7 per cent. lower than the revenues of 2015.

The expenditures of the consolidated general budget in the year 2016 amounted to RON 242.2 billion, which represents 31.8 per cent. of GDP and a degree of achievement compared to the planned level of 94.5 per cent.

Compared to the previous year, general consolidated budget expenditures decreased by 0.5 per cent. and as a percentage of GDP by 2.4 percentage points from 34.2 per cent. in 2015 to 31.8 per cent. in the year 2016.

The personnel expenses increased by 9.6 per cent. compared to the same period of the previous year and as a percentage of the GDP by 0.2 percentage points, being influenced by the increase of the minimum gross national salary and the increase of the rights salaries for some categories of budget staff.

Social assistance expenditures increased in nominal terms by 7.7 per cent. compared to the previous year, but as a share of GDP were at the same level as 10.7 per cent. in 2015.

Expenditures on social assistance to the state budget registered an increase of 49.5 per cent. compared to the previous year, this increase being determined by the fact that, starting with 2016, according to the Law no. 223/2015, regarding the state military pensions, with the subsequent modifications and completions, the payment of military pensions and police officers shall be provided from the state budget, through the budgets of the Ministry of National Defence, the Ministry of Internal Affairs and the Romanian Intelligence Service. Accumulated payments in 2016 were made in the amount of RON 5.84 billion, compared to RON 156.7 million in 2015.

Expenditure on investment, including capital expenditures, as well as those related to development programs financed from domestic and external sources in 2016, decreased by 31.1 per cent. compared to 2015 and was made in the amount of RON 28,7 billion, or 3.8 per cent. of GDP.

2017 budget

The macroeconomic framework set up for the period 2017-2020 took into account the fiscal budgetary measures adopted in the period 2015-2016, represented by the provisions of the Fiscal Code, stimulating both the population and the investment and business environment, the wage increases adopted with impact on consumption and investment, the normative acts adopted by the new Government at the beginning of 2017, that represented the fundamentals for 2017 budgetary indicators, thus ensuring their predictability and sustainability.

The budget for 2017 is set on a macroeconomic framework with a GDP of RON 815,195 billion and an economic growth of 5.2 per cent., an average annual inflation of 1.4 per cent., an average wage of RON 2.274 and an average euro exchange rate of 4.46 lei. By the end of 2017, the Government expected an increase of the number of employees by 4.3 per cent., and a decreased of the unemployment rate to 4.3 per cent.

Main Macroeconomic Indicators

Indicators	**2017**
GDP – million RON	815,195
Growth (%)	5.2
Average annual inflation (%)	1.4
Average exchange rate (EUR/RON)	4.46
Unemployment (number of persons)	387,000
Monthly average net wage (RON)	2,274
Employment (thousand persons)	4,954
Exports of goods – percentage change (%)	7.3
Exports of goods – percentage change (%)	8.1
Current account balance (% of GDP)	-2.3

The main fiscal measures taken into account when building the budget for 2017

- extending the facility of exemption of reinvested profit
- reducing the standard VAT rate from 20 per cent. to 19 per cent.
- reducing the level of excise duties for energy products
- eliminating the income tax on pensions which are lower than or equal to lei 2,000
- eliminating the social insurance contribution for retirees

- eliminating the maximum ceiling of five average gross salaries for the payment of the CAS (social insurance contribution)
- eliminating the tax on constructions
- amending one of the requirements which must be fulfilled by Romanian legal entities in order to be classified as micro-enterprises, within the meaning of increasing the limit of the income obtained at December 31 of the previous fiscal year from EUR 100,000 to EUR 500,000
- setting a tax rate of 1 per cent. for micro-enterprises with one or several employees and eliminating the tax rate of 2 per cent. for micro-enterprises with one employee
- the special VAT regime for farmers
- the lower charges were materialised through the elimination of the 102 charges and thus continues the process of simplification of taxation and of elimination of bureaucracy started in recent years, as well as other fiscal measures which support the business environment, the SME sector – a contributor of strategic importance to economic growth and the creation of jobs.

The budget revenues projected for 2017 are estimated at RON 254.717 billion, i.e. 31.2 per cent. of the GDP. The biggest shares in the total budget revenues of 2017 are registered by social security contributions, with 27.4 per cent., followed by VAT with 21.3 per cent., excise duties with 10.2 per cent., salary and income taxes with 11.8 per cent.

The expenditure policy mainly refers to the following measures:

- ensuring a sustainable level for the salary and pension expenditure in the public sector;
- redirecting public investment expenses for the purpose of obtaining a gradual passing from investments financed entirely from national sources to investments co-financed from European funds;
- accelerating the rhythm of spending European funds in order to improve the absorption rate; and
- continued financing of State aid schemes in 2017-2019, in order to contribute to the creation of new jobs, the performance of investments using new technologies, to obtaining products, services, innovative technologies, with effects on economic growth and on ensuring macro-economic stability.

The measures related to salary and social security benefits increases that were taken into account when building the budget of 2017:

- a minimum gross salary guaranteed at country level of RON 1,450 per month as of 1 February 2017;
- the increase by 15 per cent. of the salaries in the health and education fields as of 1 January 2017;
- the staff paid from public funds from the public institutions and authorities of the local public administration benefits of a 20 per cent. increase as of 1 February 2017;
- the 50 per cent. increase of the gross salary and bonuses of the staff from public institutions of performances or concerts as of 1 February 2017;
- the increase of the social allowance for retirees to RON 520 as of 1 March 2017;
- the increase of the pension point to RON 1,000 as of 1 July 2017;
- the amount allocated for the scholarships of the students shall be set at RON 201/month; and

- the students registered for day-time courses with accredited higher education institutions benefit of free domestic transportation by railway for all categories of second-class trains.

The budget expenditures for 2017 are estimated at RON 278.817 billion, i.e. 34.2 per cent. of GDP:

- the staff expenditures per general consolidated budget represent RON 63.9 billion, i.e. 7.8 per cent. of GDP;
- the expenditures for goods and services are estimated at RON 40.6 billion, i.e. a decrease of 0.4 percentage points of GDP compared to 2016;
- interests remain at the same level as in 2016, of approximately RON 10 billion;
- subsidies represent RON 7.2 billion, remaining at the same level as in previous years as percentage of GDP of 0.9 per cent.;
- social assistance per general consolidated budget represents RON 88.5 billion, i.e. 10.9 per cent. of GDP; and
- investment expenditures are estimated at 4.8 per cent. of GDP, which is an increase of 0.9 percentage points of GDP compared to that of 2016, which was of 3.9 per cent. of GDP.

The (cash) budget deficit is estimated at 2.96 per cent. of GDP, while the ESA deficit is of 2.98 per cent. of GDP, which means that the target budget deficit of less than 3 per cent. of GDP provided by the Maastricht Treaty will be observed.

2017 – budget execution during 1 January to 31 July 2017

The execution of the general consolidated budget for the first seven months of 2017 ended with a deficit of RON 5.1 billion, representing 0.63 per cent. of GDP, against the deficit of RON 1.74 billion (0.23 per cent. of GDP) registered in the same period of 2016.

Revenues of the consolidated general budget, amounting to RON 141.2 billion, representing 17.3 per cent. of GDP, were 9 per cent. higher, in nominal terms, compared to the same period of the previous year. There have been increases in proceeds over last year's social contributions (+ 16.4 per cent.), wages and income tax (+ 10.8 per cent.) and capital income (+ 15.2 per cent.).

- Proceeds from taxes and property fees decreased by 6.5 per cent. compared to the similar period in 2016, mainly due to the abolition of special construction tax from 1 January 2017.
- Proceeds from other taxes and duties on goods and services increased by 62.0 per cent. over the same period last year, the increase being mainly driven by the evolution of the receipts of the contribution due for medicines, as well as for the cost-volume/cost-volume-result contracts financed from the budget of the Single National Health Insurance Fund.
- Regarding VAT revenues, they decreased by 4.6 per cent. compared to the first seven months of 2016, amid a reduction from 24 per cent. to 20 per cent. from 1 January 2016 of the standard VAT rate, the measure being reflected in proceeds starting in February 2016. At the same time, as of February 2017, revenues from the reduction of the standard VAT rate from 20 per cent. to 19 per cent. are reflected in the proceeds.
- Revenues from excise duties were 5.8 per cent. lower compared to the same period of the previous year, being influenced by their lower level for some energy products starting 1 January 2017.
- Amounts from the European Union for payments made amount to RON 6.5 billion.

Consolidated general government expenditures in the amount of RON 146.4 billion rose in nominal terms by 11.4 per cent. compared to the first seven months of last year.

- Staff costs increased by 20.3 per cent. compared to the same period of the previous year, being determined by the wage increases granted in the second part of 2016, and the enforcement, starting August 2016, of Government Emergency Ordinance. no. 20/2016 for the amendment and completion of Government Emergency Ordinance no. 57/2015 on the remuneration of the staff paid out of public funds in 2016, the extension of some deadlines, as well as some fiscal-budgetary measures and the modification and completion of some normative acts, as well as the salary increases granted in 2017, respectively the 15 per cent. increase of salaries in health and education sectors from 1 January 2017, the 20 per cent. increase of salaries for staff paid from public funds in local public administration institutions and authorities from 1 February 2017, the increase in the minimum gross national salary guaranteed in payment from RON 1250 to RON 1450 as of 1 February 2017 and 50 per cent. increase in gross salary and salaries for staff in public institutions of performances or concerts as of 1 February 2017.

- Goods and services expenditures increased by 3.5 per cent. compared to the same period of the previous year, with a larger increase in the National Health Insurance Fund of 6.6 per cent.

- Interest costs are lower by 4.1 per cent. compared to the same period of the previous year.

- Subsidies are up 22.3 per cent. over the same period last year, the major increase from subsidies to support agricultural producers.

- Social assistance expenditures increased by 10.7 per cent. compared to the previous year, mainly influenced by the 5.25 per cent. increase of the pension point from 1 January 2017, reaching RON 917.5, and by 9 per cent. from 1 July 2017, reaching RON 1,000, and other measures that were approved during 2016, which contributed to the increase in social expenditures, such as: increasing the number of beneficiaries of social assistance by excluding the state allowance for children from family income to social welfare; increasing the allowance granted to the adult with severe visual disabilities by increasing the net salary of the starting social worker with secondary education by 25 per cent. in non-bedside social care units in the budget sector, and increasing the number of people in various types of disability; increasing and modifying how to set a monthly child allowance and insertion incentive; service pensions for clerks, aeronautical personnel, parliamentary civil servants, auditors of the Court of Accounts.

- Expenditure on investments, including capital expenditures, as well as those related to development programs financed from domestic and external sources, amounted to RON 8.4 billion, representing 1.0 per cent. of GDP.

2017 – First budgetary rectification for 2017

In September 2017, the first budget rectification was made for 2017. This was determined by:

- Analysing the economic results so far that argue for the possibility of an economic growth of 5.6 per cent. compared to 5.2 per cent., as estimated at the drafting of the state budget law and a gross domestic product with a nominal value of RON 837.1 billion, compared to RON 815.2 billion, as initially estimated.

- The budget execution for the first seven months of 2017 ended with a deficit of 5.1 billion lei, or 0.63 per cent. of GDP, against the deficit of 1.74 billion lei, i.e. 0.23 per cent. of GDP, in the same period of 2016, falling within the 3 per cent. of GDP deficit.

- The need to correlate budgetary planning with the projected evolution of macro-economic indicators and budget execution for the first seven months of the year.
- Need to provide funds for the payment of approved salary increases.

The measures taken into account in the budget rectification concern mainly:

- increasing the excise level on energy products;
- increase of the dividend income with the amounts allocated in previous years to other reserves and used as own financing source;
- ensure funds for payment of salary increases for different categories of staff in the budgetary system, approved in 2017;
- extend the student scholarship during the academic year (12 months);
- provide funds for the payment of social assistance rights (pensions and benefits, child-raising rights, indemnities for people persecuted for ethnic reasons); and
- allocation of additional amounts to finance small and medium enterprises support programs.

The reduction in the main funds was carried out by the Ministry of Regional Development, Public Administration and European Funds, the Ministry of Transports, the Ministry of Communications and Information Society and the Ministry of Education, from the amounts allocated to projects financed by European funds, due to the late approval of the budget for the year 2017 and delays in acquisition procedures, which led to a low implementation of the budget for the first eight months of this year.

On the total consolidated general budget, the revenues were increased by RON 1.1 billion and the expenses by RON 1.7 billion, thus causing an increase of the deficit by RON 0.6 billion. However, given the improvement in the economic growth forecast, the cash budget deficit remains at the same level of GDP as in the original planning, i.e. 2.96 per cent.

Arrears of the General Consolidated Budget

The following table shows the breakdown of government arrears (outstanding for more than 90 days in accordance with the definition in the stand-by agreement 2009-2011 concluded with the IMF) by sectors for 2014, 2015 and 2016:

	2014	**2015**	**2016**
		(RON million)	
State Budget[1]	5.6	13.0	23.7
Local Budget	120.7	72.9	178.1
Social Security Budget	0.0	0.1	0.0
Total	126.3	86.0	201.8

Note:

(1) Includes State budget and self-financed.

Source: Ministry of Public Finance

Certain measures have been taken to reduce arrears such as:

- in order to address the issue of receivables outstanding against local public administration authorities as a result of certain economic activities, the Government adopted Government Emergency Ordinance No. 51/2010 enacting certain measures to reduce arrears in the economy, as well as other financial measures. As a result, the Ministry of Public Finance can grant to administrative-territorial units loans from the proceeds obtained through privatisation of up to RON 1.5 billion at an interest rate of 6.25 per cent. for the purpose of paying outstanding debts (recorded as at 31 December 2009) to suppliers of goods, services and works, including towards entities providing the public services of generation, transmission and distribution of thermal energy in a centralised system. The amounts obtained from such loans are to be used exclusively for settling: (i) outstanding fiscal obligations to suppliers of goods, services and works; and (ii) outstanding fiscal obligations to entities which have outstanding claims to recover from economic operators providing the public services of generation, transmission and distribution of thermal energy in a centralised system; and

- certain financial measures have been implemented through amendments to the Local Public Finance Law No. 273/2006: the annual budget includes, separately, budgetary credits for the payment of arrears from the previous year; no new budgetary commitments can be made unless the arrears are paid.

In addition, the Government took measures for the purpose of reducing the arrears of companies that are majority state-owned, such as an approval by Government Ordinance No. 30/2011 of an aid scheme for all companies which pay the basic debts to the consolidated state budget by exempting the payment of the related accessories.

Six different mechanisms will also be used in relation to reducing the arrears of state-owned enterprises: (i) non-viable companies will be placed in bankruptcy allowing legal procedures for settling claims of creditors to commence; (ii) companies that have sufficient liquidity will be required to pay their arrears according to an agreed timetable; (iii) the government has developed agreements with a neutral budgetary impact that will cancel or clear the arrears to the State; (iv) where applicable, Romania will seek to obtain the acceptance of the EU competition authorities to develop plans to increase capital and/or financial support to pay arrears; (v) mechanisms will be developed to facilitate restructuring and securitising state-owned enterprises' arrears; and (vi) where possible, Romania will consider the use of debt-to-equity swaps or privatisations to cancel arrears. Companies participating in these schemes will be strictly held to the success of the action plans they agreed in order to provide insurance that they will not accumulate further arrears.

The clawback tax generated RON 1,811.4 million in 2012 to pay outstanding invoices. All revenues derived from the clawback tax will be used to reduce payment periods and ensure that no arrears will accrue in the pharmaceutical sector. The clawback tax generated RON 1,064.0 million in 2013, RON 1,521.7 million in 2014, and RON 1,623.4 million in 2015.

The arrears in respect of the state-owned companies that are monitored in accordance with the IMF agreement have been kept at a level of 2.0 per cent. of GDP since the end of 2012. Outstanding payments by active state companies (which are not in various insolvency stages as stipulated by the legislation) recorded a level of RON 6.8 billion (1.1 per cent. of GDP) at the end of 2013 and a level of RON 3.5 billion (0.519 per cent. of GDP) at the end of 2014 which fell close to the target set by the International Financial Institutions ("**IFIs**") for this year of RON 3.4 billion. At the end of 2015, the same indicator recorded a level of 3.6 billion, representing 0.515 per cent. of GDP and a level of RON 3.5 billion (0.46 per cent. of GDP) at the end of 2016.

Public Debt

Overview

The public debt of Romania is subject to Government Emergency Ordinance No. 64/2007 ("**Debt Ordinance**"), which came into force in June 2007. For the purposes of reporting governmental public indebtedness, Romania distinguishes between governmental public indebtedness incurred directly and governmental public indebtedness guaranteed by the Romanian Government through the Ministry of Public Finance, and includes amounts advanced temporarily from the credit of the treasury account and debt contracted directly by line ministries. For the purposes of reporting local public indebtedness, Romania includes indebtedness incurred directly or guaranteed by local public administration authorities in accordance with the Debt Ordinance and Law No. 273/2006 on local public finance.

The level of the total public indebtedness calculated on the basis of the national legislation (including guarantees) decreased to 43.2 per cent. of GDP at the end of June 2017 (preliminary data) compared to 44.4 per cent. at the end of December 2015.

With respect to the debt structure, a decrease of the government public indebtedness has been registered from 42.1 per cent. of GDP at the end of December 2015 to 41.3 per cent. of GDP as at the end of June 2017, while the level of local public indebtedness recorded at the end of 2015 decreased from 2.4 per cent. to 1.9 per cent. at the end of June 2017.

The following table shows public indebtedness indicators according to national legislation for 2015, 2016 and 30 June 2017:

	31 December 2015		**31 December 2016**		**30 June 2017 (preliminary data)**	
	(RON m)	*(EUR m)*	*(RON m)*	*(EUR m)*	*(RON m)*	*(EUR m)*
1. Public government debt of:	299,142.6	66,116.2	323,482.1	71,234.3	336,593.4	73,913.2
a) direct public debt............	283,579.5	62,676.4	306,440.5	67,481.6	318,716.6	69,987.6
b) guaranteed debt	15,563.1	3,439.7	17,041.6	3,752.7	17,876.8	3,925.6
weight in GDP (%).........	42.1%	42.1%	42.5%	42.5%	41.3%	41.3%
direct debt, weight in GDP (%).........................	39.9%	39.9%	40.25%	40.2%	39.1%	39.1%
guaranteed debt, weight in GDP (%).........................	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
2. Local debt of:	16,791.1	3,711.2	16,040.9	3,539.4	15,552.5	3,415.2
a) contracted directly..........	16,185.1	3,577.2	15,446.1	3,401.4	14,975.0	3,288.4
b) guaranteed by local public authorities..........................	606.0	133.9	594.8	138.0	577.5	126.8
weight in GDP (%).........	2.4%	2.4%	2.1%	2.1%	1.9%	1.9%
direct debt, weight in GDP (%).........................	2.3%	2.3%	2.0%	2.0%	1.8%	1.8%
guaranteed debt, weight in GDP (%).........................	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
3. Public debt	315,933.7	69,827.3	339,523.0	74,773.7	352,145.9	77,328.4
Total public debt, weight in GDP (%)............................	44.4%		44.6%		43.2%	
GDP (mln RON)................	711,100.0		761,474.0		815,200.0	

	31 December 2015		31 December 2016		30 June 2017 (preliminary data)	
	(RON m)	*(EUR m)*	*(RON m)*	*(EUR m)*	*(RON m)*	*(EUR m)*
Exchange rate at the end of reporting period (EUR/RON)........................	4.5245		4.5411		4.5539	

Source: Ministry of Public Finance

Governmental Public Indebtedness

The level of external governmental public indebtedness, which represented direct external liabilities of Romania or liabilities guaranteed by Romania, increased by RON 10.5 billion from December 2015 to June 2017. This was mainly due to the debt contracted for deficit financing and refinancing of the public debt.

According to national legislation, the level of external governmental public indebtedness decreased from 18.6 per cent. of GDP at the end of 2015 to 17.5 per cent. of GDP as at the end of June 2017. *(Source: Ministry of Public Finance)*

Domestic public government debt according to national legislation increased during the period from December 2015 to June 2017 by RON 27.0 billion, while as a percentage of GDP increased by 0.4 per cent. of GDP. Since 2007, government securities have been issued regularly in accordance with the Ministry of Public Finance's objectives of developing the government securities markets, building the yield curve for these instruments, increasing the transparency and predictability of the issuance process and limiting the currency risk for the government debt portfolio. At the end of June 2017, outstanding government securities issued on the domestic market in RON and EUR amounted to RON 138.2 billion compared to RON 118.2 billion as at 31 December 2015, of which treasury bills represented RON 11.1 billion and bonds RON 127.1 billion. *(Source: Ministry of Public Finance)*

The governmental public indebtedness of the State according to national legislation for 2015, 2016 and 30 June 2017 developed as follows:

	31 December 2015	31 December 2015 - per cent.	31 December 2016	31 December 2016 - per cent.	30 June 2017, (preliminary data)	30 June 2017 - per cent.
			(RON m)			
Public Government Debt	299,142.6	100%	323.482.1	100%	336,593.4	100%
by type						
direct debt.........................	283,579.5	94.8%	306,440.5	94.7%	318,716.6	94.7%
guaranteed debt	15,563.1	5.2%	17,041.6	5.3%	17,876.8	5.3%
by creditor type						
multilateral	55,094.5	18.4%	52,539.1	16.2%	51,205.4	15.2%
bilateral	171.9	0.1%	166.7	0.1%	149.8	0.0%
private banks and others...	243,876.2	81.5%	270,776.3	83.7%	285,238.2	84.8%
by instrument						
T-bills...............................	9,176.1	3.1%	11,988.5	3.7%	11,147.7	3.3%
cash management instruments.......................	0.0	0.0%	0.0	0.0%	0.0	0.0%
Bonds (ROL & Forex)......	109,073.3	36.5%	116,630.0	36.1%	127,075.0	37.8%
Eurobonds	74,749.9	25.0%	83,778.3	25.9%	90,121.2	26.8%

	31 December 2015	31 December 2015 - per cent.	31 December 2016	31 December 2016 - per cent.	30 June 2017, (preliminary data)	30 June 2017 - per cent.
			(RON m)			
loans	70,624.1	23.6%	69,454.0	21.5%	68,879.0	20.5%
loans from surplus of State Treasury account	35,519.2	11.9%	41,631.3	12.9%	39,370.5	11.6%
by initial maturity						
short-term	44,695.3	14.9%	53,619.9	16.6%	50,518.2	15.0%
medium-term (1-5 years)	74,902.4	25.0%	63,433.2	19.6%	75,458.9	22.4%
long-term	179,544.9	60.1%	206,429.0	63.8%	210,616.3	62.6%
by interest type						
fixed	229,871.0	76.8%	240,873.5	74.5%	257,104.8	76.4%
variable	69,271.6	23.2%	82,608.6	25.5%	79,488.6	23.6%
by currency						
RON	148,073.5	49.5%	170,582.2	52.7%	177,778.8	52.8%
USD	26,858.9	9.0%	26,930.6	8.3%	24,556.0	7.3%
EURO	121,707.9	40.7%	123,498.2	38.3%	131,984.4	39.2%
SDR	14.3	0.0%	0.0	0.0%	0.0	0.0%
CHF	51.9	0.0%	31.0	0.0%	23.7	0.0%
CAD	424.1	0.1%	383.6	0.1%	335.6	0.1%
JPY	2,012.1	0.7%	2,046.9	0.6%	1,914.9	0.6%

Source: Ministry of Public Finance

At the end of June 2017, the debt contracted directly by the state represented 94.7 per cent. of total public government debt and 5.3 per cent. was guaranteed debt. At the same date, the share of government securities issued on domestic and external markets was 67.9 per cent. of total public government debt, as the difference was covered by loans, including loans from funds available in the State Treasury general current account. Out of the government debt, 15.0 per cent. was short-term debt, and 85.0 per cent. was medium and long-term debt while the breakdown by interest rate type indicates that 23.6 per cent. of total debt is floating interest rate debt, 52.8 per cent. of public government debt was denominated in RON and 83.1 per cent. of total non-RON hard currency debt was denominated in EUR (39.2 per cent. in total debt).

In accordance with the Debt Ordinance, the Romanian government, acting through the Ministry of Public Finance, can issue state guarantees or on-lend only for major investment programmes/projects of companies and local government debt, and only after parliamentary approval under a special law authorising the guarantee or on-lending. On-lending to other ministries (project financing) was also curtailed and has been replaced by deficit financing. All debt management operations are operated by the Ministry of Public Finance.

At the end of June 2017, the outstanding amount of state guarantees was RON 17.9 billion (2.2 per cent. of GDP), of which RON 1.9 billion was guarantees granted for companies and RON 16.0 billion was granted under the "First House" Programme and other governmental programmes.

According to the medium-term Fiscal Budgetary Strategy, the ceiling for government guarantees issuances for 2017 was set at RON 8 billion. Government guarantees issued in the first half of 2017 amounted to RON 1.9 billion, comprising guarantees issued by the Ministry of Public Finance under governmental programmes (such as the "First House" Programme). In 2017, subject to further Government approval of programme ceilings, the

Ministry of Public Finance intends to provide state guarantees for, *inter alia*, the "First House" acquisition of new vehicles programmes.

Total public government debt service according to national legislation in 2016 was RON 60.7 billion, of which RON 59.2 billion was for direct debt and RON 1.5 billion was for guaranteed debt. For the first half of 2017, the total public government debt service was RON 24.4 billion, of which RON 23.8 billion was for direct debt and RON 0.6 billion was for guaranteed debt.

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

	2015	**2016**	**January-June 2017 (preliminary data)**
Direct debt service:			
Principal[(1)]	47,192.4	49,206.8	17,896.0
Interest and commission	9,140.6	9,957.5	5,931.4
Total government direct public debt service	56,333.0	59,164.3	23,827.4
Guaranteed debt service:			
Principal	2,569.6	1,485.3	544.7
Interest and commission	53.3	27.3	10.1
Total government guaranteed public debt service	2,622.9	1,512.6	554.8
Public government debt service:			
Principal	49,762.0	50,692.1	18,440.7
Interest and commission	9,193.9	9,984.8	5,941.5
Total government public debt service	58,955.9	60,676.9	24,382.2

Source: Ministry of Public Finance.

Notes:

(1) Includes refinancing of government securities issued on the domestic market.

Debt service in foreign currency was converted in RON using the annual average exchange rates.

As at 30 June 2017, the debt service of public government debt outstanding is scheduled to decrease between 2018 and 2021. The following table sets out the debt service schedule for Romania's public government indebtedness according to national legislation based on outstanding debt as at the end of June 2017.

	July-December 2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
			(RON million)			
Direct debt service:						
Principal	21,054.5	41,220.6	42,444.1	32,458.8	28,010.3	153,528.3
Interest and Commission ...	4,427.6	10,075.1	8,578.6	7,231.1	5,929.6	25,712.6

	July-December 2017	2018	2019	2020	2021	Thereafter
			(RON million)			
Total government direct public debt service	25,482.1	51,295.7	51,022.7	39,689.9	33,939.9	179,240.9
Guaranteed debt service:						
Principal	471.9	924.2	865.5	810.0	782.9	14,022.3
Interest and Commission	13.0	21.7	16.5	13.0	9.9	34.2
Total government guaranteed public debt services	484.9	945.9	882.0	823.0	792.8	14,056.5
Public government debt service:						
Principal	21,526.4	42,144.8	43,309.6	33,268.8	28,793.2	167,550.6
Interest and Commission	4,440.6	10,096.8	8,595.1	7,244.1	5,939.5	25,746.8
Total government public debt service	25,967.0	52,241.6	51,904.7	40,512.9	34,732.7	193,297.4

Notes:

Includes refinancing of government securities issued on domestic market.

The payments in foreign currency are converted in RON using the exchange rate at the end of June 2017.

Source: Ministry of Public Finance.

Public Debt Instruments and External Financing Programmes

Government Bonds

Treasury bonds and bills denominated in RON are sold at regular auctions by the Ministry of Public Finance through the National Bank of Romania. The primary domestic market is based on a selected group of banks acting as primary dealers.

Trading in Treasury bonds is conducted on three secondary markets: the non-regulated over-the-counter market: the E-Bond, an electronic platform developed by Bloomberg and used by Ministry of Public Finance to monitor the primary dealers performance vs the minimum requirements for market-making; and on the regulated markets of the Bucharest Stock Exchange.

The average time to maturity ("**ATM**") of local currency debt increased from 3.4 years on 31 December 2015 to 3.8 years on 31 December 2016 and remained at the same level as of 30 June 2017. ATM of total debt remained, in recent years, at a safe level above five years.

In recent years, despite periods of market volatility, the general decrease of the yield on government securities enabled the Ministry of Public Finance to shift its domestic market financing strategy towards medium and long-term maturities, thus meeting the demand of investors for a broader range of maturities up to 15 years.

Romanian government securities issued on the domestic market consist of the following:

- short-term treasury bills or treasury certificates, which may be issued as interest-bearing or discounted instruments, and which mature no more than one year after the date of issue; and

- medium or long-term benchmark bonds with maturities of three, five, seven, 10 and 15 years (in RON) and of three, four and five years (in EUR) issued as interest-bearing.

In February 2016, Romania reopened the dual-tranche issued in October 2015 under Global Medium Term Note Programme and raised an additional amount of EUR 1.25 billion was issued on the external capital market (EUR 0.75 billion Notes due 2025 and EUR 0.5 billion Notes due 2035).

In May 2016, the Ministry of Public Finance consolidated the international euro yield curve by issuing a new 12-year benchmark bond in the amount of EUR 1 billion, with a coupon of 2.875 per cent., that was subsequently reopened in October 2016 for a further EUR 1 billion.

In April 2017, Romania raised EUR 1.75 billion from international markets through a dual-tranche issuance, out of which EUR 0.75 billion by reopening 2035 maturity and EUR 1 billion through a new 10 years issuance.

External Financing Programmes

On 25 March 2009, Romania agreed the terms of a multi-lateral external financing programme ("**2009-2011 Financing Programme**") of EUR 19.95 billion.

Under the 2009-2011 Financing Programme, the financing sources from each financier were:

	(EUR billion)
International Monetary Fund Letter of Intent of 24 April 2009(1)	12.95
EC Memorandum of Understanding of 26 June 2009(2)	5.00
World Bank Development Policy Loans(2)(3)	1.00
EBRD/EIB Loans to the private sector	1.00
	19.95

Notes:

(1) The last tranche amounting to EUR 1.01 billion equivalent (SDR 0.874 billion) was not drawn as the authorities decided to treat it as precautionary; the total amount withdrawn by the NBR was EUR 9.79 billion equivalent (SDR 8.623 billion) and by the Ministry of Public Finance of EUR 2.15 billion (SDR 1.947 billion).

(2) The entire amount was drawn by the Ministry of Public Finance.

(3) Although agreed under the first financing programme, the three development policy loans were not disbursed under the same programme. The third development policy loan entered under the incidence of the second financing programme.

Simultaneously with the completion of the 2009-2011 Financing Programme, the IMF executive board approved a 24-month precautionary stand-by agreement in the amount equivalent to SDR 3,090.6 million (approximately EUR 3.5 billion, 300 per cent. of quota) in conjunction with World Bank commitments of EUR 400 million, and precautionary support of EUR 1.4 billion under the EU's balance of payments financing facility ("**2011-2013 Financing Programme**").

After the completion of the 2011-2013 Financing Programme, another 24-month precautionary stand-by agreement in the amount of SDR 1,751.34 million (approximately EUR 2 billion, 170 per cent. of Romania, IMF quota) was extended to Romania, in conjunction with the precautionary support provided by the EU, of up to EUR 2 billion that agreement expired in September 2015. The World Bank has also provided financial support by approving another loan for Romania in an amount of EUR 1 billion (Development Policy Loan with a

Deferred Drawdown Option, or "DPL-DDO"), apart from the EUR 1 billion financial support extended under the 2009-2011 Financing Programme.

World Bank

During 2009-2015, the World Bank supported the improvement of the overall performance of the social assistance system by strengthening performance management, improving equity, improving administrative efficiency and reducing error and fraud as well as the tax modernisation process. In this respect two loans were extended to Romania in total amounts of EUR 500 million and EUR 70 million, respectively.

The drawn amounts are used for budgetary purposes in accordance with the provisions of the public debt legislation.

Moreover, under the current World Bank Country Partnership Strategy 2014-2018 (as extended), it was agreed that the Romanian authorities could contract from the International Bank for Reconstruction and Development over that period, EUR 4 billion (at a rate of approximately EUR 1 billion per year) of which 70 per cent. is expected to finance two new DPLs series and 30 per cent. is expected to be for loan operations in order to sustain sectorial reforms (i.e. in the health, education, energy, environment and social inclusion areas. In June 2014, Romania concluded with the World Bank two loan agreements amounting to EUR 1 billion (of which EUR 750 million represents the first development policy loan within the first DPL series, and EUR 250 million will assist in financing the Health Sector Reform – Improving Health System Quality and Efficiency Project. Both loans are effective. The first DPL was disbursed in 2015.

In April 2015, a loan in the amount of EUR 200 million for the secondary education sector was signed with the World Bank. In 2016, two other loans in an aggregate amount of EUR 548 million were concluded with the World Bank (out of which EUR 500 million representing the second DPL of the first DPL series, which was disbursed in August 2017, and EUR 48 million supports the reduction with nutrient pollution). A further new other loan in an amount of EUR 60 million was concluded with the World Bank in early 2017 for improving the judicial services. Romania and the World Bank will agree in the next period on the loans that can be concluded by the end of the current Country Partnership Strategy.

Other external financing programmes

Other external financing programmes include, *inter alia*, an EIB loan in an amount of EUR 1 billion that was concluded in November 2008 for co-financing the Facility National Strategic Reference Framework (NSRF) as supports for the absorption of European funds by covering the state budget contribution for the projects included in the Sectorial Operational Programs ("**SOP**") of Environment, Transport and Increasing Economic Competitiveness, and with the possibility to finance up to 50 per cent. of funding for similar projects included in SOP Transport (out of which EUR 326.4 million left to be disbursed). In addition, in December 2013 and May 2014, Romania concluded with the EIB a financing facility in a total amount of EUR 300 million for Rural Development EU co-financing, which was entirely disbursed in 2015.

In June 2016 and July 2016, the Romanian Government signed two sovereign loans with the EIB in an aggregate amount of approximately EUR 660 million, and, in July 2017, a new other loan in an amount of EUR 1 billion, in order to partially cover state budget contribution to several OP under the 2014-2020 programming period.

A loan in an amount of EUR 175 million aimed to continue the social housing programme was also concluded with the Council of Europe Development Bank in January 2016.

As at 31 July 2017, the EBRD had received no objection letters for four projects worth EUR 246,7 million.

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

Several EIB Group operations with financial institutions were signed in 2016 under EFSI (both under the Infrastructure and Innovation Window, implemented by the EIB, and under the SME Window, implemented by the European Investment Fund), aiming at enhancing access to finance for SMEs.

As at 31 July 2017, the aggregate outstanding value of the public portfolios of the World Bank, EIB, EBRD, CEB and JBIC in Romania was EUR 7,543 million, consisting of sovereign loans and guarantees mainly for the financing of public projects in the infrastructure and social sectors.

As at 31 July 2017, the Ministry of Public Finance has issued "no-objection" letters to the EIB, the IFC and EBRD for nine projects financing the private sector and local authorities totalling approximately EUR 386.4 million. Also, IFC has issued in June 2017 a RON 70 million bond as a private placement, the first issuance in Romanian lei under the IFC's Global Medium Term Note Programme for financing the private sector.

Expected Strategies and Trends for Public Debt

At the end of June 2017 (preliminary data), public debt according to national legislation represented 43.2 per cent. of GDP, due to financing of the budget deficit, refinancing of the public debt, maintaining the foreign exchange buffer and the guarantees issued under governmental programmes.

The budgetary deficit in 2017 (estimated at 2.96 per cent. of GDP) is expected to be financed mainly from domestic sources (approximately 65 per cent.) and in subsidiary from external sources using the following instruments:

- issuances of treasury bills and benchmark bonds on the domestic market;
- Eurobond issuances on the international capital markets;
- disbursements under loans contracted for project financing;
- new external loans;
- loans contracted by the local public administration authorities; and
- privatisation receipts.

For the period 2017 to 2020, as a result of anticipated economic growth, the public debt according to national legislation is estimated to be below 45.0 per cent. of GDP.

In terms of government public debt management, the Government approved in June 2017 its medium-term strategy for the period 2017 to 2019. The main objectives of the approved strategy are: (i) covering the government financing needs and payment obligations, while minimising medium and long-term costs; (ii) limiting the financial risks of the government public debt portfolio; and (iii) developing the domestic market for government securities.

Starting with 2010, in order to improve public debt management and to avoid the seasonal pressure to finance the budget deficit and refinance debt, the Ministry of Public Finance established a financial reserve (buffer) in foreign currency, which will be consolidated to an amount equivalent to the needs of financing the budget deficit and refinancing the public debt over a period of approximately four months. Furthermore, Romania benefited from the technical assistance of the World Bank treasury, which was financed through the Programme Administrative Capacity Development. Its components consist of cash and debt management, transactions on secondary markets and the simplification of the public debt payment process. In order to use financial derivatives (currency swaps and interest rate swaps), for the creation of the procedural and technical framework, Ministry of Public Finance, through the General Directorate of Treasury and Public Debt receives technical assistance from the World Bank Treasury, for 18 months, under the project "Development of the public debt management capacity, by the use of financial derivatives", code SIPOCA 10. The project is funded from the

European Social Fund in the Operational Programme Administrative Capacity 2014-2020 and is under implementation.

Public debt according to the EU methodology[13]

The general government debt according to EU methodology decreased to 37.1 per cent. of GDP as at 31 March 2017 from 37.6 per cent. of GDP as at 31 December 2016. With respect to the debt structure, the central government indebtedness has decreased from 35.2 per cent. of GDP at 31 March 2017 to 35.6 per cent. of GDP as at 31 December 2016, and the level of local government indebtedness has decreased to 1.9 per cent. of GDP recorded at 31 March 2017 from 2.0 per cent. of GDP as at 31 December 2016.

The following table shows general government indebtedness indicators as at 31 December 2016 and 31 March 2017 by sub-sectors of general government:

	31 December 2016 (preliminary data)		**31 March 2017 (preliminary data)**	
	(mil RON)	*(mil EUR)*	*(mil RON)*	*(mil EUR)*
1. Central government debt:	270,865.8	59,647.6	274,059.2	60,850.7
- weight in GDP (%).................................	35.6%	35.6%	35.2%	35.2%
2. Local government debt:	15,128.9	3,331.5	15,200.0	3,374.9
- weight in GDP (%).................................	2.0%	2.0%	1.9%	1.9%
3. Social security funds:	0.0	0.0	0.0	0.0
- weight in GDP (%).................................	0.0%	0.0%	0.0%	0.0%
4. General government debt	285,994.7	62,979.2	289,259.2	64,225.6
Total public debt, weight in GDP (%)	37.6%		37.1%	
GDP (million RON)*)	761,473.6		779,241.4	
Exchange rate at the end of reporting period (EUR/lei).........................	4.5411		4.5038	

Source: Ministry of Public Finance

Notes:

* According to EU methodology the debt to GDP is calculated taking into account the sum of GDP in the last four quarters

The general government debt presented a relatively high level of non-resident ownership of public debt (approximately 48 per cent. as at 31 March 2017 and 31 December 2016). Romania's public debt is also subject to foreign currency risk, as approximately 52 per cent. of the country's public debt was denominated in foreign currencies (mainly in EUR) as at 31 March 2017 and 31 December 2016.

[13] For the purpose of the Excessive Deficit Procedure ("**EDP**") in the Economic and Monetary Union ("**EMU**"), as well as for the Growth and Stability Pact, the current Protocol 12, annexed to the 2012 consolidated version of the Treaty on the Functioning of the European Union, provides a complete definition of government debt: "*debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government*".

This definition is supplemented by Council Regulation (EC) No 479/2009, as amended by the Commission Regulation (EU) No 220/2014 (which has only updated references to ESA 2010 instruments) specifying the components of government debt with reference to the definitions of financial liabilities in ESA 2010. In this context, the stock of government debt in the Excessive Deficit Procedure (EDP debt) is equal to the sum of liabilities, at the end of year N, of all units classified within the general government sector (S.13) in the following categories: AF.2 (currency and deposits) + AF.3 (debt securities) + AF.4 (loans).

The following table shows general government indebtedness indicators as at 31 December 2016 and 31 March 2017:

	31 December 2016, (preliminary data)	31 December 2016	31 March 2017, (preliminary data)	31 March 2017
	(mil. RON)	*(%)*	*(mil. RON)*	*(%)*
General government debt[(1)].....................	285,994.7	100.0%	289,259.2	100.0%
a. by creditor's residency				
domestic debt..	147,692.0	51.6%	149,749.7	51.8%
external debt	138,302.7	48.4%	139,509.5	48.2%
b. by maturity				
Short-term...	19,633.0	6.9%	16,437.7	5.7%
medium and long-term...........................	266,361.7	93.1%	272,821.5	94.3%
c. by debt instruments				
currency and deposits	8,408.5	2.9%	5,046.6	1.7%
securities...	211,404.3	74.0%	218,242.8	75.5%
short-term..	11,036.7	3.9%	10,977.2	3.8%
long-term...	200,367.6	70.1%	207,265.6	71.7%
loans	66,181.9	23.1%	65,969.8	22.8%
short-term..	187.7	0.1%	413.0	0.1%
long-term...	65,994.2	23.1%	65,556.8	22.7%
d. by currency				
Lei	136,055.4	47.6%	138,955.5	48.0%
Euro	120.591.0	42.2%	120,946.0	41.8%
USD	26,887.5	9.4%	26,464.2	9.1%
others	2,460.8	0.8%	2,893.5	1.1%

Note:

(1) Gross debt, consolidated intra and between sub-sectors of general government.

The general government debt according to EU methodology is expected to be 38.0 per cent. of GDP at the end of December 2017. For the period 2017 to 2020, as a result of anticipated economic growth, the public debt according to EU methodology is forecasted to be below 40 per cent. of GDP.

According to the Convergence Program estimation for 2017-2020, a fiscal slippage translated into a cash deficit to be financed of 3.6 per cent. of GDP would lead to a higher level of public indebtedness, which could increase by up to 3.6 per cent. of GDP at the end of 2020 compared with the level of general government debt estimated for 2020 of 37.6 per cent. of GDP.

Credit Ratings

In March 2017, JCRA affirmed Romania's long-term foreign and local currency ratings at BBB and BBB+ respectively, with *Stable* outlooks, based on Romania's solid growth prospect, improving external position and a low level of government debt.

In April 2017, Moody's affirmed Romania's Baa3 ratings and changed the outlook from *Positive* to *Stable*. The key drivers for changing the outlook were Romania's expansionary fiscal policy that has resulted in a material widening of its fiscal deficit and which is expected to lead to an upward trajectory in the government debt-to-GDP ratio.

In April 2017, S&P affirmed its 'BBB-/A-3 long and short-term foreign and local currency sovereign credit ratings on Romania with *Stable* outlook, based on Romania's moderate external and government debt amid reasonably firm growth prospects.

In July 2017, Fitch has affirmed Romania's long-term foreign and local currency sovereign credit ratings at BBB- with *Stable* outlook. Fitch's rating is based on Romania's still moderate level of public debt, stable banking sector, and GDP per capita and governance indicators that are in line with BBB range medians.

Strategic projects for the Romanian economy

Setting up of the National Development Bank of Romania

Following the request of the Romanian Ministry of Public Finance, the European Commission, through the Structural Reform Support Program, in June 2017, approved the financing of a project to create the Romanian National Development Bank ("**NDB**") by the end of 2018. The project will cover an independent ex-ante assessment on financial market failures to be addressed by the NDB, the proposed structure for the new entity and drafting the legal framework on the NDB. The scope of the project is to elaborate the legal framework in accordance with the best practices in the field, leading to the best implementation of ex-ante and ex-post assessments of financial market failures, reaching the objective of the establishment of the NDB in Romania in accordance with EC Communication, and to support the economic development in co-ordination with other financial instruments, such as the Juncker plan.

Development and Investment Sovereign Fund ("FSDI")

The Romanian Government, through the Ministry of Public Finance, finalised the draft Law on setting up of the FSDI and for changing certain normative documents, having in the annex the By-laws of the FSDI. The draft law is currently subject to endorsement by the line ministries and approval by the Government, and after that it will be submitted to the Parliament for adoption.

The objective of the FSDI is the development and financing from both own funds and borrowed funds of profitable and sustainable investment projects, in various economic sectors. This could be made through direct participation or together with other investment funds or investment companies, alone or together with other institutional or private investors, as well as the administration of own financial assets, in order to obtain profit.

The FSDI will be fully owned by the Romanian state, for its life. The rights and obligations resulting from the capacity of safe shareholder of the FSDI are exercised, on behalf of the Romanian state, by the Ministry of Public Finance. The by-laws, strategy and activity of the FSDI will be subject to the budget deficit and government debt EU rules to maintain the classification of the FSDI outside the general government sector during its life.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for budget deficit financing, redemption of public debt and liability management operations (buy-backs or exchanges).

TAXATION

Romanian Taxation

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

Under Law No. 227/2015 on the fiscal code as subsequently amended and supplemented ("**Romanian Fiscal Code**"), certain types of income received by non-residents from Romanian sources are subject to Romanian tax at the rates prescribed by the Romanian Fiscal Code, irrespective of whether the income is received in Romania or abroad. For the purposes of the Romanian Fiscal Code:

(i) a "**non-resident**" is defined as any foreign legal person, any non-resident natural person, and any other foreign entities, including undertakings for collective investment in transferable securities, without legal personality, which are not registered in Romania according to the law;

(ii) a "**foreign legal person**" is defined as any legal person which is not a Romanian legal person and any legal person established pursuant to European law which is not headquartered in Romania;

(iii) a "**Romanian legal person**" is defined as any legal person established in accordance with Romanian law;

(iv) a "**legal person established pursuant to European law**" is defined as any legal person established in accordance with and by the mechanics contemplated by European regulations;

(v) a "**non-resident natural person**" is defined as any natural person which is not a resident natural person, as well as any foreign citizen enjoying diplomatic or consular regime within Romania, any foreign citizen who is an employee or officer of an international or intergovernmental organisation registered in Romania, any foreign citizen who is an officer or an employee of a foreign state in Romania, or their family members; and

(vi) a "**resident natural person**" is defined as any natural person that meets at least one of the following conditions: (a) is domiciled in Romania, or (b) has the centre of his vital interests (Romanian language: "*centrul intereselor vitale*") located in Romania, or (c) is present in Romania for a period or several periods exceeding in aggregate 183 days during any twelve consecutive months, and that period(s) end(s) in the relevant calendar year, or (d) is a Romanian citizen that works abroad as an officer or an employee of the Romanian state.

Taxation of non-resident Noteholders

Under the Romanian Fiscal Code interest payable to non-resident Noteholders on the Notes is exempted from taxation. Also, for capital gains (determined as the difference between the sale price and the acquisition price and in some cases, the transaction costs) arising on the transfer on international financial markets of any Notes between non-residents, such non-resident Noteholders are not taxed. Therefore no tax on interest or capital gains will be levied on such income. Additionally, the income obtained by non-residents from financial derivative transactions utilised for the hedging of Romanian governmental public debt is exempted from Romanian withholding tax.

Other information

Romania is a party to over 80 double tax treaties with other jurisdictions, most of which are based on the OECD Model Convention.

Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to the Notes which are admitted to the Official List and to trading on the regulated market of the Luxembourg Stock Exchange. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere.

This summary is based upon the law as in effect on the date of this Information Memorandum. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective holders of Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes on the basis of this Information Memorandum, including the effect of any state or local taxes, under the tax laws of Luxembourg and each country of which they are residents.

All payments of interest and principal by the Paying Agent under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to the application as regards Luxembourg resident individual beneficial owners of the Luxembourg law of 23 December 2005, as amended, which has introduced a 20 per cent. withholding tax (which is final when Luxembourg resident individuals are acting in the context of the management of their private wealth) on savings income paid by a Luxembourg paying agent. Responsibility for the withholding of such 20 per cent. tax is assumed by the paying agent within the meaning of this law and not by the Issuer.

In addition, pursuant to the law of 23 December 2005, as amended, Luxembourg resident individuals who are the beneficial owners of savings income paid by a paying agent established outside Luxembourg, in a Member State of either the European Union or the European Economic Area, can opt to self-declare and pay a 20 per cent. tax on this savings income. This 20 per cent. tax is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

The Proposed Financial Transaction Tax ("FTT")

On 14 February 2013, the European Commission published a proposal ("**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia ("**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their "**issue price**" (as defined below);
- Notes held as capital assets;
- U.S. Holders (as defined below); and
- Notes treated as debt for U.S. federal income tax purposes.

This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, foreign, or other tax laws. This discussion also does not describe all of the tax consequences that may be relevant in light of a Holder's particular circumstances or to Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- investors liable for the alternative minimum tax or the Medicare tax on net investment income;
- individual retirement accounts and other tax deferred accounts;
- tax-exempt organisations;
- persons holding Notes as part of a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes and their partners; or
- former citizens or residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended ("**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, all as of the date of this Information Memorandum and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Notes should consult the relevant Final Terms of the Drawdown Information Memorandum for any additional discussion regarding U.S. federal income taxation.

This summary does not discuss Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes, such as Index-Linked Notes, Dual Currency Notes, other variable-linked Notes and Notes that are not principal protected, may be specified in the relevant Final Terms of the Drawdown Information Memorandum. Moreover, this summary does not discuss Bearer Notes, which are not being marketed to U.S. persons. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes. U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Notes.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- an individual that is a citizen or resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Entities classified as partnerships for U.S. federal income tax purposes holding Notes should consult with their tax advisers regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS, AND POSSIBLE CHANGES IN TAX LAW.

Payments of Stated Interest

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "**qualified stated interest**" (as defined below). Interest income earned by a U.S. Holder with respect to a Note and original issue discount ("**OID**"), if any, accrued with respect to the Notes generally will constitute foreign source income for U.S. federal income tax purposes. Special rules governing the treatment of interest paid with respect to OID Notes and Foreign Currency Notes (each as defined below) are described under "*— Original Issue Discount*" and "*— Foreign Currency Notes*."

Original Issue Discount

A Note, other than a Note with a term of one year or less (a "**short-term note**"), that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued at original discount for U.S. federal income tax purposes (and will be referred to as an "**OID Note**") unless the Note satisfies a *de minimis* threshold (as described below). The "issue price" of a Note generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Note generally will equal the sum of all payments required to be made under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable (other than in Notes of the Issuer) at least annually during the entire term of the Note at a single fixed rate of interest, at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option in a manner that minimises the yield on the Note, and the U.S. Holder will be deemed to exercise any put option in a manner that maximises the yield on the Note.

If the difference between a Note's issue price and its stated redemption price at maturity is less than a *de minimis* amount (generally 1⁄4 of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, or, if the Notes provide for principal payments before maturity, the product of the same percentage and their weighted average maturity) the Note will not be considered to have OID. U.S. Holders of Notes with a *de minimis* amount of OID will include this OID in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

A U.S. Holder of OID Notes that mature more than one year from their date of issuance will be required to include OID in income for U.S. federal income tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received. Under these rules, U.S. Holders generally will have to include in taxable income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any particular Note (including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and generally may revoke such election (a "**constant yield election**") only with the permission of the U.S. Internal Revenue Service ("**IRS**"). If a U.S. Holder makes a constant yield election with respect to a Note with market discount (discussed below), the U.S. Holder will be treated as having made an election to include market discount in income currently over the life of all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies. U.S. Holders should consult their tax advisers about making this election in light of their particular circumstances.

Variable Interest Rate Notes

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by an amount equal to or more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument," then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) equal to or in excess of a specified de minimis amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument, and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. See "*—Contingent Payment Debt Instruments*" for a discussion of the U.S. federal income tax treatment of such Notes.

Market Discount

If a U.S. Holder purchases after its original issuance a Note (other than a short-term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an OID Note, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an OID Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of, a Note, including disposition in certain non-recognition transactions, as ordinary income to the extent of the market discount accrued on the Note at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the Holder to include market discount in income as it accrues. An election to include market discount in income as it accrues applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies and may not be revoked without the consent of the IRS. In addition, a U.S. Holder that does not elect to include market discount in income currently may be required to defer, until the maturity of the Note or its earlier disposition (including in certain non-recognition transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Note.

Market discount will accrue on a straight line basis unless a U.S. Holder makes an election on a Note to accrue on the basis of a constant interest rate. This election applies only to the market discount Note with respect to which it is made and is irrevocable.

Acquisition Premium and Amortisable Bond Premium

A U.S. Holder who purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of OID that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Note for an amount that is greater than the stated redemption price at maturity, the Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Note. A Holder who elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "*—Original Issue Discount*") for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the Holder's debt Notes with amortisable bond premium.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a short-term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on short-term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the short-term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on short-term Notes will be required to defer deductions for interest on borrowings allocable to short-term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a short-term Note are included in the short-term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a short-term Note as if the short-term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the short-term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of OID and market discount included in the Holder's gross income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and decreased by any bond premium or acquisition premium previously amortised and by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid qualified stated interest on the Note. Amounts attributable to accrued but unpaid qualified stated interest are treated as payments of interest as described under "— *Payments of Stated Interest*."

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Note, to the extent of any accrued discount not previously included in the Holder's taxable income. See "— *Original Issue Discount*" and "—*Market Discount*." In addition, other exceptions to this general rule apply in the case of Foreign Currency Notes, and contingent payment debt instruments. See "—*Foreign Currency Notes*" and "— *Contingent Payment Debt Instruments*." The deductibility of capital losses is subject to limitations.

Contingent Payment Debt Instruments

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate that do not qualify as "variable rate debt instruments" for purposes of the OID rules) that are neither remote nor incidental, they generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield," and the differences between actual payments on the Note and the Note's "projected payment schedule," as described below. The comparable yield is determined by the Issuer at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments, unless the Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of its method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment debt instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
  - the amount of all previous interest inclusions under the contingent payment debt instrument over;
  - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent that the U.S. Holder's total interest inclusions on the contingent payment debt instrument exceed the total net negative adjustments on the contingent payment debt instrument the U.S. Holder took into account as ordinary losses, and the balance as capital loss. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a contingent payment debt instrument will generally be foreign source. The deductibility of capital losses is subject to limitations. In addition, if a Holder recognises loss above certain thresholds, the Holder may be required to file a disclosure statement with the IRS (as described under "—*Tax Reporting*").

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The Holder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Debt Instruments**"). Very generally, these Notes are accounted for like a contingent debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Debt Instruments. The relevant amount must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such Notes.

Foreign Currency Notes

The following discussion summarises the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of Notes that are denominated in a specified currency other than the U.S. dollar, or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**Foreign Currency Notes**").

The rules applicable to Foreign Currency Notes could require some or all gain or loss on the sale, exchange or other disposition of a Foreign Currency Note to be recharacterised as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and may depend on the Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a Holder should make any of these elections may depend on the Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. The U.S. dollar value of the accrued income generally will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year.

An accrual method U.S. Holder or cash method U.S. Holder accruing OID may elect to translate interest income (including OID) into U.S. dollars at the spot rate on the last day in the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the relevant taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes such an election must apply it consistently to all Notes from year to year and cannot change the election without the consent of the IRS.

The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the payment of interest is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required or who elects to currently accrue OID or market discount.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a Note is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the Foreign Currency Note. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a Foreign Currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the Holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such Foreign Currency Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment, or the settlement date for the purchase, in the case of Notes traded on an established securities market that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). A U.S. Holder who purchases a Foreign Currency Note with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a Foreign Currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued qualified stated interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the Holder on the sale, exchange or retirement of the Foreign Currency Note. The source of the foreign currency gain or loss will be determined by reference to the residence of the Holder or the "qualified business unit" of the Holder on whose books the Note is properly reflected. Any gain or loss realised by these Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the Holder's income, provided that the Note is not a Foreign Currency Contingent Payment Debt Instrument. Holders should consult their own tax adviser with respect to the U.S. federal income tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a Foreign Currency Note that is traded on an established securities market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. If either (i) the Note is not traded on an established securities market or (ii) it is, and the Holder is an accrual method taxpayer that does not make the election described above with respect to such Note, exchange gain or loss may result from currency fluctuations between the trade date and the settlement date of the purchase or sale. Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the Holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is timely furnished to the IRS. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Tax Reporting

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

U.S. Holders should consult their own tax advisers regarding any additional tax reporting or filing obligations they may have as a result of the acquisition, ownership or disposition of the Notes, including reporting requirements related to the holding of certain foreign financial assets. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Banca IMI S.p.A, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG, Goldman Sachs International, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Natixis, Nomura International plc, Raiffeisen Bank International AG, Société Générale, UniCredit Bank AG and any other dealer appointed from time to time (“**Dealers”**). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 5 October 2017 (“**Dealer Agreement**”) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Selling Restrictions

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder. The applicable Final Terms will identify whether TEFRA C or TEFRA D Rules apply or whether TEFRA is not applicable.

The Notes will be offered and sold (A) outside the United States in reliance on Regulation S and (B) within the United States only to persons who are QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Dealer Agreement provides that the Arranger, or any other Dealer with the prior written consent of the Arranger, may directly or through its respective agents or affiliates arrange for the resale of Restricted Registered Notes in the United States only to QIBs pursuant to Rule 144A.

Each issuance of index-linked Notes shall be subject to additional U.S. selling restrictions as the Relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed that, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

1. *No deposit-taking*: in relation to any Notes having a maturity of less than one year:

   (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

   (b) it has not offered or sold and will not offer or sell any Notes other than to persons:

      (i) whose ordinary activities involved them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

      (ii) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

   where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

2. *Financial Promotion*: It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

3. *General compliance*: It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Romania

The Notes may not be offered or sold in Romania, nor may this Information Memorandum or any other material relating to the Notes be distributed in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not directly or indirectly offered or sold and will not offer or sell any Notes in Romania and that it has not distributed and will not distribute any Drawdown Information Memorandum or any Final Terms or any related offering material relating to the Notes in Romania, except in full compliance with all Romanian applicable laws, rules and regulations as amended and supplemented from time to time.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Final Terms, no action has been or will be taken in any jurisdiction by the Issuer or any Dealer that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Information Memorandum, any Final Terms or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Information Memorandum or any Final Terms come are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Information Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Information Memorandum.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge) comply with all applicable securities laws and regulations in force in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum, any Final Terms or any other offering materials. Other persons into whose hands this Information Memorandum or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Information Memorandum or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealer described in the paragraph headed "*General*" above.

Certain of the Dealers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Each purchaser of Restricted Registered Notes in reliance on Rule 144A, by accepting delivery of this Information Memorandum, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

(i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of their respective affiliates, in each case in accordance with any applicable securities laws of any State of the United States; and (2) it will, and each subsequent holder of the Restricted Registered Notes is required to, notify any purchaser of the Restricted Registered Notes from it of the resale restrictions applicable to the Restricted Registered Notes;

(iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (4) TO THE ISSUER OR ITS AFFILIATES OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE INSTRUMENTS;

(iv) if it is acquiring any Notes for the account of one or more QIBs, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(v) the purchaser understands that Restricted Registered Notes offered in reliance on Rule 144A will be represented by a Restricted Global Note Certificate. Before any interest in a Restricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Unrestricted Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and

(vi) the purchaser understands that the Issuer, the Dealers, the Agents and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealer(s).

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar or the Transfer Agent such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

CLEARING AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing Systems. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuers nor any Dealer takes any responsibility for the accuracy thereof. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

DTC Book-Entry System

Registered Notes whether as part of the initial distribution of the Notes or in the secondary market, are eligible to be held in book-entry form in DTC.

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "**banking organisation**" within the meaning of the New York Banking Law, a "**clearing corporation**" within the meaning of the New York Uniform Commercial Code and a "**clearing agency**" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("**Direct Participants**") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations ("**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below, and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest with respect to the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Notes for Individual Note Certificates, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Note Certificate, will be legended as set forth under "*Transfer Restrictions*".

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have each Tranche of Notes represented by the Restricted Global Note Certificate, and if applicable, the Unrestricted Global Note Certificate, accepted in its book-entry settlement system. Upon the issue of any Global Registered Notes, DTC or its custodian will credit, on its internal book-entry system, the respective principal amounts of the individual beneficial interests represented by such Global Registered Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer.

Ownership of beneficial interests in a Global Registered Note will be limited to Direct Participants or Indirect Participants. Ownership of beneficial interests in a Global Registered Note will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Registered Note registered in the name of DTC's nominee will be made to the order of such nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the relevant Paying Agent on behalf of DTC's nominee and the relevant Paying Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Registered Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Agents or the Issuer. Payments of principal, premium, if any, and interest, if any, on Notes to DTC are the responsibility of the Issuer.

Transfers of Notes Represented by Global Registered Notes

Transfers of any interests in Notes represented by a Global Registered Note will be effected in accordance with the customary rules and operating procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be. The laws of some states within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Registered Note to such persons may depend upon the ability to exchange such Notes for Individual Note Certificates. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Registered Note held by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or to otherwise take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Registered Note held by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Transfers at any time by a holder of a book-entry interest in a Restricted Global Note Certificate to a transferee who takes delivery of such book-entry interest through an Unrestricted Global Note Certificate for the same Series of Notes will only be made upon delivery to the Registrar or the Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S. Transfers at any time by a holder of a book-entry interest in an Unrestricted Global Note Certificate to a transferee who takes delivery of such book-entry interest through a Restricted Global Note Certificate for the same Series of Notes will only be made upon receipt by the Registrar or the Transfer Agent of a written certificate from the transferor of such book-entry interest to the effect that such transfer is being made to a person whom such transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities laws of any state of the United States.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, and/or the Transfer Agents, as the case may be, and any custodian with whom the relevant Global Registered Notes have been deposited.

On or after the relevant issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in DTC and Euroclear or Clearstream, Luxembourg participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear or Clearstream, Luxembourg on the other, transfers of interests in the relevant Global Registered Notes will be effected through the Registrar and/or the relevant Transfer Agent, as the case may be, and the custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payments must be made separately.

Euroclear, Clearstream, Luxembourg and DTC have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Registered Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer(s) will be responsible for any performance by Euroclear, Clearstream, Luxembourg and DTC or its respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Registered Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

GENERAL INFORMATION

Responsibility

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

Authorisation

The establishment of the Programme was authorised by Government Decision No. 1264/2010 on the approval of the sovereign notes framework programme "Medium Term Sovereign Notes", as rectified through the rectification published in the Official Gazette of Romania, Part I, No. 730 of 29 October 2012 and as amended by Government Decision No. 361/2013, by Government Decision No. 923/2013, by Government Decision No. 192/2015 and by Government Decision No. 242/2016. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations (including without limitation such ministerial orders or approvals or governmental memoranda or approvals as may be required under applicable law from time to time) in connection with each issue and performance of Notes thereunder.

Issue of Notes

The maximum aggregate principal amount of Notes outstanding from time to time under the Programme will not exceed the maximum amount specified in the Government Decision No. 1264/2010 on the approval of the sovereign notes framework programme "Medium Term Sovereign Notes", as rectified through the rectification published in the Official Gazette of Romania, Part I, No. 730 of 29 October 2012 and as amended by Government Decision No. 361/2013, by Government Decision No. 923/2013, by Government Decision No. 192/2015 and by Government Decision No. 242/2016 and as may be rectified, amended or replaced from time to time, and in any other applicable Romanian law. The issue of Notes is made in accordance with the Government Emergency Ordinance No. 64/2007 on public debt, as subsequently amended, and Government Decision No. 1470/2007 on the approval of the methodological norms for the application of the Government Emergency Ordinance No. 64/2007 on public debt, as subsequently amended.

No Significant Change

Save as otherwise disclosed in this Information Memorandum, there has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2016.

Legal and Arbitration Proceedings

There are no legal or arbitration proceedings against or affecting the Issuer, or any of its assets, nor is the issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

Documents on Display

For so long as Notes may be issued pursuant to this Information Memorandum, copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of Citibank, N.A., London Branch, Citigroup Centre, 25 Canada Square, London E14 5LB for:

(a) the current Information Memorandum in relation to the Programme, together with any amendments or supplements thereto;

(b) the Agency Agreement;

(c) the Deed of Covenant;

(d) the Programme Manual (which contains the forms of the Notes in global and definitive form); and

(e) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Bearer Notes in New Global Note form and Registered Notes to be held under the New Safekeeping Structure).

Clearing of the Notes

The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The appropriate Common Code and the Committee on Uniform Security Identification Procedures (CUSIP) Number, International Securities Identification Number (ISIN) and/or Common Code in relation to the Notes of each Series will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

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