



BLACK SEA TRADE AND DEVELOPMENT BANK

BD2015-069

ROMANIA

Country Strategy

2015-2018

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ROMANIA COUNTRY STRATEGY

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Table 1: Basic Macroeconomic Indicators at a Glance for ROMANIA

Key Long Term Foreign Currency Sovereign Risk Rating at 1 June, 2015:

Moody's: Baa3 | S&P: BBB- | Fitch: BBB-

	Indicator	2011	2012	2013	Est. 2014	Proj. 2015	Proj. 2016
1	Population (Million)	21.81	21.76	21.70	21.64	21.58	21.52
2	Avg Exch. Rate (RON/ USD)	3.05	3.47	3.33	3.35	3.95	3.97
3	Inflation (CPI Avg.)	5.8%	3.3%	4.0%	1.1%	1.0%	1.9%
4	Average monthly wages (US\$)	483.85	446.17	487.52	509.45	n.a.	n.a.
5	GDP (RON billion) current prices	565.10	596.68	637.58	669.51	702.90	752.30
6	GDP US\$ billion	185.36	172.04	191.59	199.90	177.95	189.50
7	GDP per capita (US\$)	8,499.35	7,908.23	8,829.48	9,237.58	8,246.03	8,805.59
8	Real GDP growth, %	1.1%	0.6%	3.4%	2.9%	3.0%	2.9%
9	Official Unemployment (ILO, end of period) %	7.4%	7.0%	7.3%	6.8%	6.1%	5.5%
10	Industrial Production Growth, %	5.6%	0.0%	7.8%	6.1%	5.0%	4.5%
11	Agricultural Production Growth %	8.9%	-21.9%	24.5%	1.5%	1.0%	-0.5%
12	Domestic Credit Growth %	8.7%	0.5%	-4.4%	-4.5%	4.3%	6.2%
13	Domestic Credit/ GDP	48.9%	46.5%	41.6%	37.9%	37.6%	37.4%
14	Foreign Direct Investment - \$US million	2,557.00	2,629.00	4,108.00	3,000.00	5,000.00	5,000.00
15	FDI/ GDP	1.38%	1.53%	2.14%	1.52%	2.87%	2.9%
16	Consolidated Budget Balance/ GDP, %	-4.2%	-2.5%	-2.5%	-1.9%	-2.6%	-2.1%
17	Total External Debt- US\$ million	n.a.	n.a.	n.a.	126,364.90	115,585.90	118,497.60
18	Total External Debt/ GDP	74.0%	74.4%	67.0%	64.0%	66.4%	68.8%
19	Public External Debt/GDP	24.4%	25.6%	23.9%	n.a.	n.a.	n.a.
20	Private External Debt/ GDP	49.6%	48.9%	43.0%	n.a.	n.a.	n.a.
21	Exports- \$US million (Goods)	55,845.00	51,298.00	58,292.00	60,901.90	64,974.90	72,842.00
22	Imports- \$US million (Goods)	68,370.00	62,769.00	65,578.00	68,615.00	73,773.00	83,412.00
23	Trade Balance \$US mn (Goods)	-12,525.00	-11,471.00	-7,286.00	-7,713.10	-8,798.10	-10,570.00
24	Trade Balance/ GDP	-6.8%	-6.7%	-3.8%	-3.9%	-4.9%	-5.6%
25	Current Account Balance \$US mn	-8,324.00	-7,494.00	-1,780.00	-1,011.20	-3,300.20	-4,611.70
26	Current Acct. Bal./ GDP	-4.5%	-4.4%	-0.9%	-0.5%	-1.9%	-2.4%
27	Forex Reserves (end period- exc gold) US\$ m	42,939.10	41,162.40	44,811.12	39,164.81	42,577.10	46,094.40

Sources:

Data for items 1, 27 from IFS, IMF, Feb 2015

Data for items 2, 11, 15-20, from National Bank of Romania

Data for items 3-8, 10, from National Institute of Statistics

Data for item 9 from the National Institute of Statistics & International Labour Organisation

Data for items 12-13, 21-22, 25 from the National Institute of Statistics and the National Bank of Romania; Data in USD for 2003 on from IFS, IMF, Feb 2015

Data for item 26 from the National Bank of Romania and the European Commission winter forecast, 5 February 2015

Data for item 14 (1995-1996) from IMF Country Report No. 04/220 and from 1997 on from the National Bank of Romania

Projections from EIU Country Data (Latest update - 13 April 2015)

ROMANIA COUNTRY STRATEGY 2015-2018

I. Summary of Recent Developments and Outlook

Background

Developments 1989 - 2009

Romania is an upper middle income country with a diversified economy. It is the 7th largest in the EU by population, 11th largest by total nominal GDP and the 8th largest based on purchasing power parity. Between 1989 and 2009 Romania attracted cumulative FDI totaling more than \$100 billion. Until 2009, the Romanian economic growth was among the fastest in Europe, recording a growth rate of 8.4% in 2008, more than three times the EU average. In 2011, the level of investment in Romania was among the highest in the EU (investment ratio accounted for 24.6% of GDP compared with an average of 20.9% of GDP at the level of EU-10).

Effects of the Crisis and Economic Rebound

The Romanian economy contracted by a cumulative 8% during 2009 and 2010, as a result of the financial crisis, however with negative effects on growth amplified by a policy mix that emphasized reduction of domestic demand. Following implementation of bold measures aimed at fiscal consolidation while also reversing some of the measures with high contractionary effects, Romania reverted to economic growth, in particular due to increase in industrial and agricultural output and pick up in export activity. In 2011 GDP recorded a growth rate of 2.2%.

In 2012 GDP growth was just above zero (0.2%), as a result of three factors: (i) an extremely harsh winter at the beginning of the year, (ii) protracted economic difficulties and entry into recession of the Eurozone, which resulted in flat exports in 2012, and (iii) a severe drought in the summer, which hit the agricultural sector. However, GDP per capita increased at a rate of about 1.7%.

Economic Developments 2013

In 2013 Romania's economy grew at the fastest pace in two years, 3.5% for the entire year, probably spurred by a bumper harvest (agriculture accounted for almost a third of the annual output increase), good industry performance and export growth, in spite of a 0.6% contraction in domestic demand. The economic performance is commendable, considering that it was accompanied by strong and sustained consolidation of both external and internal accounts and significant disinflation. As assessed by the IMF "The exchange rate, bond spreads, and equity prices have remained rather firm despite recent volatility in emerging market asset prices." In 2012, employment increased by 1.9% in comparison to 2011. Consequently, unemployment fell to 6.5% at end-December 2012, from 7.5% at end 2011 (following standardized EU methodology). However, in 2013 unemployment increased relative to 2012.

Developments 2014

In 2014 Romania registered the highest share of industrial production contribution to GDP, over 30%, among all CEE countries that are members of the EU, and continued its strong growth, in spite of rather negative global developments, by an estimated 2.9% in real terms.

In spite of some continuing vulnerability to external shocks, macroeconomic policy was adequate and results were positive:

- The exchange rate rebounded slightly and eventually stabilized;
- Inflation declined from 3.3% in 2012 to the lowest annual inflation rate since 1990: 1.1%;
- The current account deficit contracted to about 0.8% of GDP from 11.6% in 2009;
- The fiscal balance improved, with a consolidated budget deficit of 1.8% of GDP, down from about 9% in 2009;
- The absorption of EU funds doubled compared to previous years, although it still remains relatively low;
- Public debt reached 41% as of February 2015, slightly up from 34.6% of GDP at end 2012, a still comfortable and sustainable level by international standards;
- Public sector capital inflows from international bond placements were strong and non-resident holding of RON-denominated government bonds increased substantially over the last two years.
- Private sector capital flows were more mixed with FDI picking up from recent lows, while banking sector deleveraging continued at a heightened pace, with foreign parent banks withdrawal significant, but compensated to a large extent by increased capital contributions;
- NPLs are still high, but the provisioning rate is the highest in the region and banks are well capitalized. Under the coordination of NBR a well developed program of “divesting” problem loans was successfully implemented; NPL rate was 13, 93% as of dec 2014, while the CAR was 17,28%. The target of NBR is to reach single digit levels of NPL.
- NBR sustained high level of international reserves as of end-January 2015, while making substantial repayments to the IMF;
- Romania successfully tapped international capital markets several times, with issuances for USD 1.5 billion February 2013, €1.5 billion in September 2013, €0.5 billion in October 2013, US\$2 billion from an issuance of 10- and 30-year Eurobonds in January 2014; €1.25 billion April 2014; €1.5 billion October 2014;
- Unemployment fell to 5,37 %, and forecast point to it declining further in the future.

Prospects for 2015

Economic growth

The potential GDP growth rate is now estimated at about 3% in 2015. Real GDP growth is set to remain robust. Romania is still one of the most competitive in the region and due to its initial relatively low base level of development it is likely to remain so for quite some time even though faster growth could lead to a strong recovery in incomes.

According to the European Commission, Romania's economy will continue its growth in 2015 while continuing to consolidate its public finances. If export-led growth will translate into substantive improvements in consumer spending growth may even come in at an above market-consensus of 3%,

also favored by: (i) lower energy and commodity prices, (ii) rising confidence and pick up in investment activity, and (iii) sustained fiscal discipline and financial sector stability.

Consumption

Domestic demand is expected to gradually overtake net exports as the main driver of growth, as growing wages, low inflation, falling interest rates and improving labor market conditions are all supportive for the purchasing power of households. Private consumption is expected to pick up moderately as consumer confidence improves and disposable income increases.

Investment

Investment contraction eased significantly in 2014 and confidence indicators returned to pre-crisis levels. Both private and public investments are projected to regain momentum this year, supported by better absorption of EU funds as major infrastructure projects move ahead. Romania has a relatively high savings rate, of about 22%. Increased investment efficiency and positive spillover effects may constitute important drivers of growth. Increased efficiency of resource utilization may constitute a significant contributor to growth. Labor is also a resource which may be used both more efficiently and more intensely, through policies aimed at increasing the labor participation rates.

Financial sector

At end 2014, the loan to deposit ratio was about 1 (91,37% December 2014 vs 104,59% December 2013). In 2015 it is possible that the banking sector will continue to shrink, due to tight credit standards and new lending depending on deposit growth. Nonetheless, healthy capital buffers imply that the banking sector remains well-positioned to deal with sudden moderate external shocks. As already observed in 2014, local currency lending is projected to continue growing given easing credit conditions and an expected slowdown in the deleveraging process. As bank lending continues to be contained, the corporate bond market could continue the encouraging volumes of new deals.

Unemployment

Unemployment is projected to decline further to about 6% (currently 5.37% as of March 2015 ANOFM). This projection is based on active measures promoting job creation while also increasing the participation rate in the labor force. The current minimum wage is the second lowest in the region, above the level in Bulgaria (€158.5 euro), but around 50% lower than in other emerging EU member states, such as Croatia, Poland and Slovakia (while GDP per capita in Romania is around 40% below these countries). However, average wage increased steadily to around USD 500 (EUR 400) at end 2014. Minimum wage is RON 975 and will increase to RON 1,050 from July 1st, 2015. Average net of taxes was Ron 1,866 as of December 2014.

Inflation

After a sharp decline in 2014, inflation is expected to drop to 1.2% in 2015 and remain moderate over the forecast horizon. The National Bank currently estimates that inflation will not likely surpass 2%.

Fiscal policy

Fiscal consolidation is due to continue in 2015. Recent changes in tax policies favorable to business (a tax credit for reinvested profits, lower social security contributions and a lower special construction tax) are likely to boost private investment. Notwithstanding the revenue reduction impact of such measures, improved tax collection together with cuts in subsidies and contained public expenditures

on goods and services would have the effect of further reducing the deficit relative to GDP. Romanian authorities aim to reach a medium-term budgetary objective of a structural deficit of 1% of GDP.

Public debt

Public debt is of reasonable size and well balanced between internal and external funding, with a significant portion from official sources. External debt is projected to be rolled over with higher maturity, and with the weight shifting from official lenders towards private investors. Domestically contracted debt is also anticipated to increase maturity and share in total public debt.

External accounts

Romania was formally agreed in October 2013 to a precautionary financial assistance programme, with an overall amount of EUR 4 billion, equally split between the EU and the IMF, until end-September 2015. This is the third joint EU, IMF, WB financial assistance program since 2009, of which only the first assistance for EUR 20 billion was disbursed.

Currently NBR holds international reserves valued at Euro 30,599 million, covering over 7 months of imports. NBR also hold about 104 tons of gold reserves.

Forecast 2015-2018

Romania's economic growth is forecast to remain robust in 2015 and 2016, mainly driven by domestic demand and accompanied by a stable labor market. Domestic employment in the private sector is expected to improve slightly, accompanied by a drop in the unemployment rate to below 6.5% in 2017.

According to the EC winter forecast, "compensation per head is projected to grow by more than 3% in 2015 and by some 4% in 2016, entailing further real wage increases in an environment of moderate inflation."

Exports are forecast to continue increasing in 2016 and beyond, thanks to the expected recovery of Romania's main trading partners, but the pace of growth will decelerate. Imports may increase slightly faster, due to stronger domestic demand. The current account deficit is forecast to remain between 1 and 1.5% of GDP, contributing to Romania's strong external position. Nevertheless, from 2016 onwards the contribution of the external sector to GDP growth may turn slightly negative.

Public debt is expected to increase marginally and stabilize at about 40% of GDP by the end of the planning period.

Balance of Risks

Risks appear broadly balanced, but slightly tilted towards positive.

Upside risks are related to stronger-than-expected effects from the EU Investment Plan and actual implementation of more structural reforms. Strong industry performance could continue to support growth on the supply side, and better EU funds absorption could support a more robust recovery in investment.

Downside risks include faster-than-expected deleveraging, weaker economic outlook in major trading partners, and the impact of a further deterioration in geo-political tensions. Continuing foreign-parent

bank deleveraging, along with the still high non-performing loans, could constrain credit growth and hinder the recovery in domestic demand.

Nonetheless, a buffer of more than four months of projected fiscal financing needs, a flexible exchange rate, and a broadly adequate level of international reserves provide insurance in the event of an external shock.

II. Overview of Current BSTDB Portfolio

Table 2: Active BSTDB Portfolio in Romania as at end December 2014

Euro				
Operation	BoD Approval Date	Approved Amount	Signed Amount	Amount Outstanding
Balkan Accession Fund	10-Aug-06	7,057,496	7,057,496	5,217,210
Emerging Europe Accession Fund	25-Sep-09	1,173,667	1,166,667	407,193
Equity to ADM CEECAT Recovery	21-Jul-11	1,249,086	1,249,086	923,069
Fabrica de Lapte Brasov S.A. (former Olympus S.A.)	28-Dec-11	30,000,000	30,000,000	24,545,455
BT Leasing Transylvania	1-Dec-12	5,000,000	5,000,000	3,888,889
Agricover Group	1-Dec-12	15,000,000	15,000,000	15,000,000
Garanti Leasing	20-Sep-13	7,500,000	7,500,000	7,500,000
Patria Credit SME	20-Sep-13	7,000,000	7,000,000	6,222,222
EDPR Romania PV	14-Feb-14	10,000,000	10,000,000	9,670,000
Teamnet International S.A. Loan	6-May-14	7,500,000	7,500,000	7,500,000
Teamnet International S.A. Equity	6-May-14	5,000,000	5,000,000	5,000,000
Kastamonu	10-Jul-14	23,940,000	23,940,000	23,940,000
Fabrica de Lapte Brasov S.A.II	21-Jul-14	10,000,000	10,000,000	10,000,000
Total		130,420,24	130,413,24	119,814,038

III. Review of Country Strategy 2011-2014: Post-Evaluation

Independent Evaluation of 2011-2014 Country Strategy for Romania

Evaluation Office, April 2015

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2011-2014 Country Strategies. Its goal is to provide accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making by the Bank's Management and Boards on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated 2014 targets with actual results as of end of 2014, and provides a country-oriented overview and evaluation rating. The 2011-2014 Country Strategy was approved by the Board of Directors in early 2011, reflecting an in-depth independent evaluation of the implementation of the BSTDB's earlier strategies, conducted by the Evaluation Office. It was aligned with the objectives of the Bank's Business Plan 2011-2014 and was therefore evaluated in that context.

Overall, the implementation of the Country Strategy was consistent with the Business Plan implementation. The performance of the strategy is rated as Partly Unsatisfactory as the targets were reached at about 2/3 of the intended volumes. The Bank covered its priorities/sectors relatively well, with some exceptions, e.g. tourism.

A more comprehensive overview is presented in the table below.

Table 3: Post Evaluation of 2011-2014 Country Strategy for Romania

2011- 2014 TARGETS			RESULTS	
Country Strategy	Sectors/Priorities	Target operations: EUR approved/ EUR signed (million)	Actual operations: EUR approved/ EUR signed (million)	Evaluation Summary
Romania	<p>1. Financial sector: SME balancing debt and equity. Trade finance, leasing.</p> <p>2. Energy /Infrastructure: energy (oil-gas, refining, distribution, Telecom, power. transport, municipal, water;</p> <p>3. Manufacturing: competitiveness, machinery, IT, steel agribusiness / food processing.</p> <p>4. Real Estate and Tourism: large projects, wholesale, retail/ distribution, office, tourism, etc</p>	147/137	122/122	<p>Approved volume: 83%</p> <p>Signed volume: 89%</p> <p>2. Sector coverage:</p> <p>2.1.Equity CEECAT Fund (SME)</p> <p>2.2. Fabrica de Lapte Brashov I and II (consumer staples)</p> <p>2.3.BT – Leasing</p> <p>2.4. Agricovert Group (consumer staples)</p> <p>2.5. Garanti Leasing (Financial Sector)</p> <p>2.6. Patria credit SME</p> <p>2.7. EDPR Romania PV (utilities)</p> <p>2.8. Teamnet International (loan/equity IT)</p> <p>2.9. Kastamonu (minerals)</p> <p>The Bank covered its priorities/sectors relatively well, with some exceptions, e.g. tourism.</p>

				<p>2. Performance Rating: Partly Unsatisfactory</p> <p>Targets covered at about 2/3, with a rather diverse and complete sector coverage and growth.</p>
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IV. BSTDB Operational Priorities for 2015 - 2018

The Bank's role and priorities are defined (i) in accordance with the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2015-2018* and (ii) country needs and objectives, as well as (iii) available resources, strategies and policies of BSTDB. In this respect, BSTDB will seek viable opportunities and will continue closely monitoring the developments in the Romanian economy in order to stand prepared to support bankable projects.

BSTDB will focus in the next four years on providing support for implementation of priorities, while responding to market demand. Under the given circumstances, BSTDB will focus on supporting existing enterprises especially for their modernization and expansion investments that increase their global competitiveness.

The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities promoting export of goods and services, and development of infrastructure, including energy efficiency. The Bank will focus on large and medium size companies engaged in particular in export generating activities, and to infrastructure projects with high developmental impact. The financial support will be in the form of loan, quasi equity, and/ or equity, depending on the needs of the companies. The Bank will give priority to cross-border projects and projects with high regional cooperation impact. In addition, through selected intermediaries, the Bank would attempt to expand its financing programs in favor of SMEs.

In addition the Bank shall seek co-financing opportunities with IFIs, public sector institutions and private partners. The Bank keeps in regular contact with complementary international financial institutions (IFIs) such as EBRD and IFC to seek ways to coordinate activities and share experiences, given the opportunities which exist for joint involvement. The Bank will be flexible in approaching different types of financing and will strive to develop long lasting collaboration with national institutions such as Eximbank/ ECAs.

Having in view the fact that the absorption of european funds represents a high priority for Romania, the Bank will be open for entering into projects cofinanced/prefinanced with European funds.

Based on the 2015- 2018 BSTDB Business Plan, the Bank would expect on average to sign on average three new operations each year, for about € 35 million. Over the four year period, this connotes about 12 new commitments (signed operations) for up to € 159 million.

These indicative targets are based on the Base Case Scenario of the MTSBP, and given appropriate circumstances and sufficient operational opportunities the Bank would make efforts to exceed this level. In case of higher regional economic growth rates, increased demand for Bank funding, and an improved situation in financial markets, a phased increase in the average number and size of operations would allow the Bank to move towards achieving the targets envisaged under the High Case

Scenario. Moreover, at the Mid-Term Review, depending upon performance and prospects, the above targets may be revised upwards¹.

Areas for BSTDB Financing

Financial Sector

BSTDB Trade Finance and Financial Sector Strategy for Romania

BSTDB's Trade Finance and Financial Sector Strategy have been created in order to develop a network of financial intermediaries, through whom to deliver its trade finance and SME finance products.

Since BSTDB began its operations, the following products have been introduced through selected financial intermediaries in Romania for the purpose of Trade Finance, Micro Finance, and SME development:

- Combined Trade Finance (export/import) product
- Medium –Term Micro and SME Finance product
- Leasing Facility for SMEs & Trade Finance

Besides, BSTDB participated in three funds where Romania was one of the recipient countries.

The Bank will seek to increase the number of financial intermediaries; while it will seek to change any if their performance is unsatisfactory. The Bank will focus on non-bank financial institutions, such as micro finance companies, besides leasing companies, in order to provide medium-term funding.

Financial sector – The substantial funding provided to companies through parent companies of foreign banks in Romania may limit the Bank's ability to expand its operations through financial intermediaries. Consequently, development of non-bank financial institutions, e.g. leasing, would constitute a priority, as further development of leasing, and other non-bank financial activities offer good prospects for business. The Bank will consider the possibility to cooperate with other IFIs and offer credit lines to eligible partner banks for on-lending purpose and provide financing to banks supporting their institutional consolidation.

SME sector – is in need of medium term finance, which would promote modernization of equipment and diversification of products and services. The SMEs have a significant share in the economy in terms of production and employment. However, the difficulty of having access to medium to long term credits as well as to equity capital are major problems that SMEs face in general. The Bank intends to provide support for the SMEs through a wide range of instruments. Financing to exporting companies may help improve competitiveness and content of value added in exports. Within the framework of its *trade finance program* the Bank aims to promote import and export activities in the region, support increased production, increase competitiveness of exporters, create employment, help service foreign debt and increase regional trade and co-operation. The Bank will continue to seek new opportunities to provide short and medium term trade financing for companies transactions involving regional trade under its Trade Finance Program, thus contributing to the increase in exports and expansion of regional trade.

1 Under no circumstances would targets be revised downwards unless the lower case scenario of the 2015-2018 BSTDB Business Plan were to be followed.

Leasing - The Bank intends to use the leasing product not only for financing capital expenditure of SMEs but also for other companies as an effective financing tool for the promotion of regional trade. Medium-term credit lines opened to leasing companies for trade related purpose will enable them to offer their customers finance for capital expenditures on imports from other countries in the region.

Equity - The Bank will also endeavor to take equity participations in selected financial institutions and funds, and will also seek to develop quasi-equity products, such as subordinated loans.

Co-financing- The Bank will also keep in regular contact with complementary international financial institutions (IFIs) such as EBRD and IFC, national institutions, guarantee funds etc and ECAs to share experiences and seek ways to coordinate activities,, given the opportunities which exist for joint involvement.

Manufacturing and Enterprise Sector

Romanian industry faces challenges due to the economic stagnation in European markets and the increasing competitiveness of Asian countries. The Bank's priority will be to support projects that aim at increasing the competitiveness of Romanian industries in EU (international) markets.

Agribusiness industry continues to grow fast in Romania in recent years. The country has very rich cultivable land, which favors this sector, and some local companies operating in this sector grow fast. The Bank will also seek to provide long-term financing to strategic investors in the sectors mentioned above. In food industry, the sub-sectors such as food retail and grain-related infrastructure (storage facilities, grain terminals), considering the positive spill-over effects of these sectors on primary agriculture and on food processing chains, will be supported. The bank should also continue to finance the integrated companies in the sector, especially through programs that also benefit to the farmers (financing, acquisition of crops, provision of seeds and equipment).

Transportation

There has been an ongoing modernization of the country's road and rail networks. The investment needs for developing the transportation infrastructure in Romania is high. Given the very high investment needs for developing the transportation infrastructure in Romania, and the important development impact of such investments, BSTDB will also consider investment opportunities in this area.

There are various projects in transport infrastructure (e.g. some road and airports) that Romanian government attempts to structure under PPP scheme. BSTDB will seek opportunities in financing such projects together with other IFIs as they are priority projects for the government.

Romania has ports on the Black Sea coast and on Danube river, which have strategic importance for the country's transportation network. The Bank will follow closely the new port investments, and try to be involved in such projects, where it is feasible.

The Bank will seek to provide medium and long-term financing for bankable projects in the *shipping industry*.

Real Estate and Tourism

Due to the contraction in the construction and real estate sectors, the Bank will be very selective in financing projects in these sectors. Logistics centers, warehouse facilities, and tourism facilities that

would contribute to the development of this sector in the country, would be the possible areas for potential BSTDB financing within the next four year period.

Energy and Infrastructure (E&I)

Given the E&I needs, so long as projects are 'bankable', the Bank will be offering its support.

This applies to all key infrastructure sectors, including energy and electricity, oil and gas upstream, midstream and downstream, transport infrastructure, telecommunications, information technology and municipal and social infrastructure. The existence of an appropriate competitive environment and regulatory framework will be an important consideration in ascertaining 'bankability' alongside development impact.

The Bank will continue to ensure that all BSTDB operations in Romania meet sound banking principles and comply with the Bank's Environmental Rules and Procedures and incorporate, where appropriate, Environmental and Social Action Plans.

The Bank will work in cooperation with EBRD, IFC, EIB, KWF, DEG, Proparco, other IFIs, commercial banks and ECAs in joint energy and infrastructure sector projects as an important source of the project co-financing as well as the institutional knowledge transfer.

The Bank will stand prepared to react adequately to any energy sector opportunities, either with regional or local development impacts. The Bank's attention will be spread on all the aspects of Romanian oil and gas industry, from the exploration and production of crude oil and natural gas (upstream) to the refining, distribution, storage and transportation of refined petroleum products and natural gas, including liquefied petroleum gas (downstream).

The Bank will also seek to support the projects that envisage upgrade, modernization and expansion of the conventional energy infrastructure in order to facilitate electricity generation, distribution and sale in and outside Romania. The Bank considers putting more emphasis on renewable energy projects, and may consider also focus on economically viable projects in the renewable energy sector such as solar, wind and hydropower plants.

Romania has a strong need to improve its infrastructure, including telecommunications, municipal infrastructure and transport networks with strong environmental and other positive externalities. The Bank will also focus on the projects supporting upgrade and modernization of the water supply and sewage sector as well as transactions designed to improve waste management. In order to increase the development impact of its financing operations, the Bank will attempt to participate in co-financing projects in infrastructure and telecoms sectors with other IFIs.

The Bank will explore possibilities of supporting local municipalities.

The Bank also will explore possibilities to provide lending in local Romanian currency.

BSTDB Energy and Infrastructure strategy in terms of banking instruments:

- Project Finance limited recourse transactions;
- Corporate recourse financing transactions;
- Exploration of financing in the form of Equity;
- Co-financing of transactions with other IFIs, commercial banks and ECAs;
- Participation in syndicated facilities for E&I deals in Romania

Areas of particular focus in Energy and Infrastructure:

- Oil and gas upstream, midstream and downstream projects, including oil and gas transportation, distribution and storage
- Energy (conventional and renewable) generation, transmission, distribution and storage,
- Transportation of all kinds and transport infrastructure
- Telecommunication and Information Technologies.