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October 27th 2010

Romania's Government pledged in its additional Memorandum of Understanding agreed with the European Union to extend the income taxation pool by taxing food vouchers and bank deposit interest, as well as by gradually eliminating income tax exemptions for computer programmers.

A draft emergency ordinance amending the Romanian Tax Code, which was drawn up in May, 2010 stipulated that income gained by computer programmers would be taxed. The proposition was strongly criticized by companies in the IT field, which said that the income tax exemption computer programmers had enjoyed since 2001 was one of the measures that contributed to the country's economic growth. The Finance Ministry said back then that the income tax exemption would be maintained and that its elimination was included neither in the letter of intent to the International Monetary Fund nor in the memorandum to the EU.

The additional Memorandum of Understanding agreed with the EU was approved by the Government and lists the measures Romania must implement in order to receive the third installment of a loan from the EU. The document reads Romania must continue to reorganize positions in the public sector in the upcoming months and observe the 2010 target regarding costs with goods and services.

The Government said it will reduce the total number of employees in the public sector to 1.29 million at the beginning of 2011, so that the public sector salary fund should not exceed 39 billion lei next year. The memorandum reads Romania will eliminate the 13th monthly salary granted to employees in the public sector. The Parliament is also expected to approve the unitary pension bill. The Government pledged to reduce by 2.5%, staring with the third quarter of 2010, the arrears of ten of the state-owned companies that register big losses, as well as to start privatization or closedown procedures for thermal power producer Termoelectrica and freight railway company CFR Marfa.

The Romanian authorities pledged to introduce the co-payment system for healthcare services and said exemptions from co-payment will not exceed 40% of patients.

Romania and the IMF in 2009 signed a EUR 13 billion loan agreement, part of a larger EUR 20 billion aid package that includes funds from the EU and other international lenders. So far, Romania has received EUR10.7 billion from the Fund, EUR 2.5 billion from the European Commission and EUR 300 million from the World Bank.

Romanian land owners land will be considered expropriated the moment the Government approves the technical-economic parameters of a project in the field of roads, air, navigation, extraction, energy and water management, according to a bill drafted by the Executive.

The bill was sent to the Parliament to be debated urgently. The bill extends the provisions of Law 198/2004 on expropriations for road infrastructure projects to railway, air and naval infrastructure, energy transport and distribution lines, as well as water management and coal exploitation.

The Council of the European Union's conclusions confirm that Romania has made important progress in the last year.

The conclusions demonstrated the existence of a political drive to continue the justice system's reform and fight against corruption, as well as make these results irreversible.

The Justice Ministry said it would continue to work towards the system's reform and "have a consistent impact on the operation of justice as a public service." The Ministry will keep European partners up to date on Romania's progress and will act to develop the mechanism's cooperation element.

On Monday, September 13, the Council of the EU adopted the Conclusions on the Cooperation and Verification Mechanism for Bulgaria and Romania. It reflects the results of debates between member states which took places in July and September 2010, after the European Commission released its seventh report on the two countries' progress under the CVM. In the document, the Council salutes both Romania's progress in the period referenced by the latest EC report, July 2009-July 2010 (the adoption of the procedure Codes, the National Anticorruption Department's stable track record of investigations and the activity of the National Integrity Agency, as well as the efforts by the General Prosecutor to fight local corruption), and the significant development in August (the adoption and implementation of the revised law on the National Integrity Agency, the Parliament's adoption of the amendments to the law on the organization and operation of the Constitutional Court).

The document also refers to a series of shortcomings, also pointed to in the EC Report of July 20, 2010. The Council provides recommendations on the areas which should be targeted by Romanian authorities in the future.

Romania's Chamber of Deputies adopted the law regulating public-private partnerships, which was re-examined at the request of the head of state.

The lower house admitted President Traian Basescu's objections to the initial law. The bill was adopted with 169 votes in favor and one abstention. The Senate adopted the bill on August 24.

Romanian providers of life insurance will be required, starting with September 2011, to evaluate the position and financial needs of future clients, (Order 11/2010) by insurance regulator CSA.

The evaluation will be made through a "client need analysis form," presented at the first meetings with the potential client, drawn up in two copies and signed by both parties. The form will comprise the client's personal information, financial status and long-term financial goals. If the client does not wish to provide certain information, he/she is required to state this under signature, which amends the norms concerning the information insurers and insurance intermediaries must provide to their clients.

If the insurance policy is unit-linked (containing an investment component) or index-linked (guaranteeing the return of invested capital plus a minimum guaranteed yield), the evaluation form will include an extra section on the client's risk profile. Based on this section, the insurer will recommend a certain kind of insurance contract and an investment fund (including data on the fund, such as assets, reference index/benchmark, performance) matching the risk profile. The firm will also inform the client about the minimum recommended investment period, the quantum and structure of taxes, as well as the insurer's guarantees. CSA's order also says the insurer will be required to draw up a projection of the contract's evolution, in duplicate, to be authorized by both parties, before a life insurance contract is signed.

According to the order, the insurance contract will comprise details on the subject, policy, the evolution of the insured amount, premiums, account value (for unit-linked policies) or profit participation (for traditional policies), compensation value and reduced insured amount. The contract will also contain information on management costs and the concurrent evolution of two performance scenarios (pessimistic and optimistic) of the investment fund yield, as well as an exemption of responsibility as regards the insurance contract's evolution as per the projection.

Romanian Finance Ministry, together with the central bank and several other banking institutions, drafted two guides for settling loan payment issues outside legal courts.

Under a EUR1 billion loan agreement with the World Bank, Romania has pledged to draw up two guides for extrajudicial restructuring of loans, for both household and corporate clients. The two guides stipulate a series of negotiation principles between financially troubled companies or individuals and their creditors that may lead to loan restructuring without having to resort to legal action.

Romanian internet service providers (ISPs) will be required to publish quality parameters and the methods used to measure them on their own web sites and in their contracts with clients.

ISPs will have to publish administrative quality parameters such as the time needed to install internet access, the timeframe for repairs, frequency of customer complaints, as well as delays in the resolution of complaints.

ISPs with more than 1,000 connections will be required to publish technical quality parameters, such as data transfer speed, transfer latency, latency variation and data loss rate. These providers will have to develop, manage and give their users access to an application measuring and evaluating the technical quality indicators in real-time.

The decision will apply to providers of internet services, supplied through fixed public networks or mobile electronic communications, irrespective of the technology used in accessing the internet – wired narrowband, dial-up/ISDN, broadband (DSL, cable modem) or wireless access such as WLAN, GSM, GPRS or UMTS.

The Romanian Government will change public procurement thresholds again, in accordance with the European Union norms.

In July, the Government decided to increase the cap on contracts to be auctioned by public institutions through request for proposals procedures from EUR100,000 to EUR125,000 for service providers, and from EUR750,000 to EUR1 million for public works contracts. The cap on the procurement notice auctions for goods suppliers was maintained at EUR100,000. The value of a public purchase contract can be increased by up to 50%, through additional papers, provided the evaluation committee includes the same people who decided on the assignment of the respective contract.

Romanians who own more than three cattle, five pigs, 20 sheep or goats, or more than 15 bee families will no longer receive heating subsidies.

People who own more than one home, cars with an engine capacity exceeding 1,600 cubic meters, or have bank deposits of more than 3,000 lei will also be denied heating subsidies.

According to the Government act, subsidies will also be cut in the case of families or individuals who own at least one of the following: woodworking devices (reciprocating saws, chainsaws), agricultural processing equipment, farming machinery, yachts, water scooters, motor boats, trucks, buses,

minivans, property larger than 1,000 square meters in cities or 2,000 square meters in rural areas (except their own home), arable land, pastures, forests, gardens, orchards (depending on the plot size and number of family members).

Taxpayers will be required to fill in statements on the size of their family and its income, which local mayors will check through "social investigations," which, according to the Government act, can be performed upon being notified by third parties.

Romania's Government decided to eliminate the minimum tax starting October 1.

Starting October, companies will pay a tax on profit based on general rules. The minimum tax, which was implemented in 2009, ranges between 2,200 lei for firms which register total revenue of up to RON 52,000, and RON 43,000 for firms with revenue exceeding RON 129 million.

Firms that report profit will pay a 16% tax, but no less than the minimum cap set according to their revenue level.

Romania's public road authority CNADNR will introduce the electronic road toll system on October 1 2010.

CNADNR will also introduce a road toll sticker valid for three months. Already purchased stickers will remain valid for their duration.

Fines for a missing or invalid sticker will amount to EUR 28 for cars, EUR 96 for cargo carriers weighing up to 3.5 tons, EUR 320 tons for trucks weighing between 3.5 and 7.5 tons, EUR 560 for trucks weighing between 7.5 and 12 tons, as well as for passenger carriers with more than 23 seats, EUR 720 tons for trucks heavier than 12 tons, which have 3 axles, and EUR 1,210 for 4-axled vehicles heavier than 12 tons.

Fines for the non purchase of the toll will be between 250 and 500 lei for cars, RON 750-1200 for vehicles weighing up to 3.5 tons, and can reach RON 4,500 for trucks heavier than 12 tons which have 4 axles. The sticker will be available from any CNADNR office, petrol stations MOL, Rompetrol, Petrom and OMV, Post offices, the National Union of Romanian Road Transporters, or from distributors Scalla, Speedy, Medina and Pasaj.

Romanian President Traian Basescu on Thursday promulgated the Law of public-private partnership.

The law regulates public-private partnership projects created to design, finance, build, rehabilitate, modernize, operate, maintain, develop and transfer a public good or service. The President requested the law be re-examined because of certain provisions which could have created confusion on the market. The revised law was adopted in the Chamber of Deputies on September 16, with 169 votes for and one abstention.

The European Commission sent Romanian authorities a letter asking for further details on the transposition of a European directive into local legislation through Government Emergency Ordinance 50/2010 on consumer lending contracts.

The document was sent to the local Department for European Affairs, and, according to government sources, it is the first step in a potential infringement procedure. The Central bank confirmed that the European Commission approached local authorities regarding the provisions of Ordinance 50.

Local lenders could request infringement procedures against Romania should Ordinance 50 apply to loans already granted, or if it does not stick to implementing the European Directive alone. Government Emergency Ordinance 50/2010, on consumer lending contracts, transposed EU Directive 48/CE/2008 into local legislation. Provisions included the removal of the early repayment fee on loans with variable interest, and the calculation of interest using a transparent reference index, added with a fixed margin, which is established in the initial contract.

Romanian farmers will receive EUR400 million representing a first tranche of direct payments per hectare of land, and the measure will be applied starting October 16, 2010.

The decision to allot money for direct payments to farmers was approved in a Government meeting. The Government estimates that 1.92 million farmers will receive direct payments. The total budget available for direct payments per hectare of land reaches about EUR 1 billion, of which EUR 700 million represent EU funds and EUR 300 million were allotted from the state budget.

Romania needs to speed up increase in contributions to mandatory private pensions (Pillar II) in the next years and exceed the law-set level, of 6% of the gross salary in 2016, to ensure decent pensions.

Under the law, the employees pay 10.5% of their gross monthly salaries to the social security budget, and part of this contribution, currently 2.5% goes to the employee's individual accounts with mandatory private pension funds.

"If we want retirees to live decently, we should speed up increasing contributions to Pillar II. This current low contribution is also reflected in the volume of pension fund-managed assets as percentage of the gross domestic product, which is at 0.5% in Romania, compared to 10% in Hungary, 14% in Poland and 4% in Bulgaria,"

CSSPP data shows net assets of mandatory pension funds reached 3.88 billion lei (EUR1=RON 4.2682) end September and the number of contributors reached 5.11 million people. Contrary pension funds (Pillar III) has assets of RON 297.6 million at the end of September and 211,800 contributors. Romania should increase or eliminate the cap on contributions to voluntary pension funds, which is currently at 15% of the contributor's gross salary, to allow people close to retirement to save more.

The Romanian Government plans to eliminate exemptions from the payment of phone and radio-TV subscriptions for war veterans and also to cut allowances for people with disabilities and replace them with fixed sums.

According to the working draft before the Government, former political prisoners will no longer benefit from free road-rail transportation or exemptions from the payment of phone and radio-TV subscriptions.

The Government is to cut allowances for the disabled and grant monthly fixed sums, namely, 340 lei (EUR 1 = RON 4.2737) for people with severe handicap, RON 250 for people with accentuated handicap and RON35 for people with medium handicap. As regards people with disabilities the state allowances will be set at RON 205 for severe handicap, RON 160 for accentuated handicap and RON 200 for medium handicap. Monthly allowances of RON 400 granted to those attending to people with disabilities will also be cut starting January 1, 2011. The families of children with disabilities will receive allowances of RON91 for severe handicap, RON68 for accentuated handicap and RON33.5 for medium handicap. Allowances granted to former political prisoners and revolutionaries will be kept at a level cut by 25%, while allowances granted to retirees in the public pension system, who are

members of creation unions, are to be cut by 50%. The new social spending cuts are to be applied starting January 1, 2011, according to the working draft.

Romania's Government decided to add EUR100 million to the National Guarantee Fund for Loans for SMEs, to serve as co-financing for projects funded by the European Union.

The Government had announced earlier it planned to use the state guarantee instrument to stimulate the absorption of European funds. Government guarantees will also assist private investors in providing co-financing. In addition, agents carrying out projects funded through the ISPA program and those concerning tourism infrastructure will now be eligible for assistance through the National Guarantee Fund for Loans for SMEs.

In May, the Government announced it would guarantee loans contracted by private companies for the co-financing of several projects backed from European Union funds. In February, the Government decided to grant loan guarantees to local authorities to co-finance EU projects, up to an overall cap of RON2.6 billion (EUR1=RON4.2779). Early this year, Romanian authorities obtained a EUR 1 billion increase of the Government guarantee cap for 2010, during negotiations with representatives of the International Monetary Fund.

The system of donations aimed at reducing the effects of the crisis, imposed by the Romanian Government on public bodies and state-owned companies, will carry on at least until 2014, earning the state up to an estimated 1.6 billion lei (EUR1=RON4.2779) per year.

The draft budget for 2011, states these mandatory donations will be required up until and including 2014. The Government expects to earn RON 1.14 billion in 2010. The document does not indicate the gains projected for 2011, but forecasts the income from such donations in the 2012-2014 interval: RON 1.25 billion in 2012, RON 1.59 billion in 2013 and RON 1.62 billion in 2014.

Earlier this year, the Government set a maximum wage ceiling of RON 8,000 for employees of state-run companies and public institutions, with 90% of the sum exceeding this cap going to a "solidarity fund." Also, officials representing the government on the boards of shareholders of companies partly owned by the state must donate their indemnity to the solidarity fund, or be replaced.

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