



Romania

The leu was introduced in 1867. Romania left the gold standard in 1914 and the leu's value fell. A revaluation took place on August 15, 1947, replacing the old leu at a rate of 20,000 old lei = 1 new leu. At the time of its introduction, 150 new lei equalled 1 USD. On January 28, 1952, another new leu was introduced. Unlike the previous revaluation, different rates were employed for different kinds of exchange (cash, bank deposits, debts etc.) and different amounts. These rates ranged from 20 to 400 "old lei" for 1 "new" leu. From 1994 to 1997 the leu was freely-floating before becoming a managed float against USD and baskets of EUR and USD. At the end of October 2004, the National Bank of Romania (NBR) abandoned the basket and moved to a more flexible exchange rate. On 1st July 2005 the leu was redenominated, with the old ROL being converted to RON at a rate of 1 RON = 10,000 ROL. On 1st September 2006, the NBR eliminated the remaining capital controls and completed the liberalisation of the capital account.

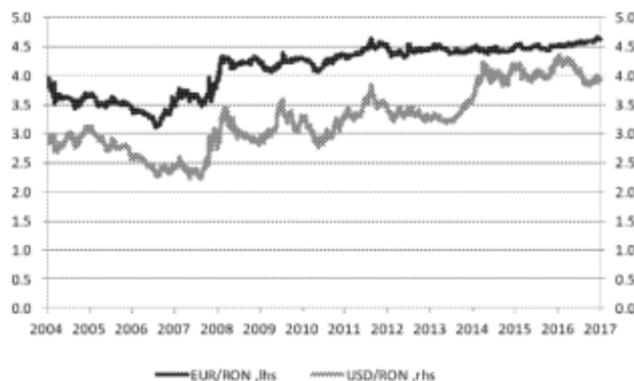
Romania joined the EU in 2007 and therefore has a commitment to join the Euro at an unspecified future date. In order to enter the Eurozone, all five Maastricht criteria must be met including the commitment to enter ERM-II and maintain EUR/RON +/-15% around a selected "parity" rate for at least 2 years.

The NBR is run by the Board of Directors, which consists of nine members and is led by a Governor. The NBR moved to direct inflation targeting in 2005. The inflation target has been 2.5% with a +/- 1% variation band since 2013.

The exchange rate regime of the leu currently in place is that of a managed float, in line with using inflation targets as a nominal anchor for monetary policy.

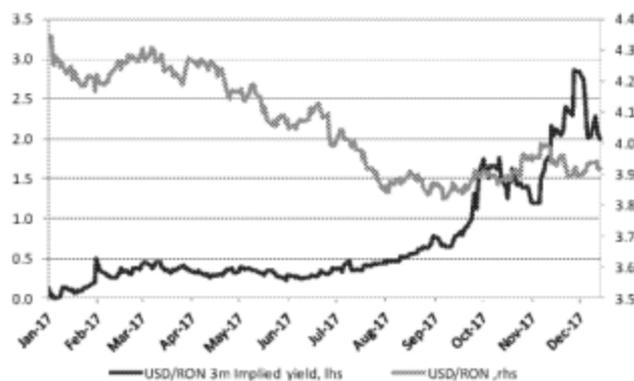
The leu is both fully deliverable and convertible. Spot is liquid in both USD/RON and EUR/RON but EUR/RON is viewed as the economically correct way to take a view on the leu.

EUR/RON and USD/RON exchange rates



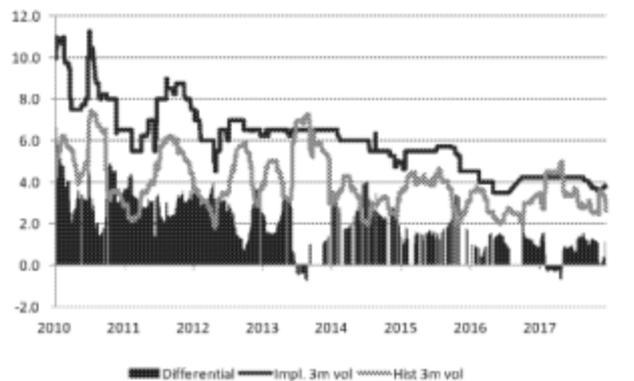
Source: Deutsche Bank, Bloomberg Finance LP. We use ROL/10000 up to Jul-05

USD/RON and RON 3M implied yield



Source: Deutsche Bank

USD/RON implied and historical volatility



Source: Deutsche Bank, Bloomberg Finance LP