

Fitch Downgrades Cities of Bucharest and Oradea Following Sovereign Downgrade

Fitch Ratings-London/Milan-10 November 2008: Fitch Ratings has today downgraded the Long-term foreign currency ratings of the Romanian cities of Bucharest and Oradea to 'BB+' from 'BBB-' (BBB minus) and revised both cities' Outlooks to Negative from Stable. The agency has also downgraded both cities' Short-term foreign currency ratings to 'B' from 'F3'. Fitch has simultaneously affirmed the two cities' Long-term local currency ratings at 'BBB-' (BBB minus) and revised their Outlooks to Negative from Stable.

The rating actions follow the downgrade of Romania's Long-term foreign currency Issuer Default Rating (IDR) to 'BB+' from 'BBB-', Long-term local currency IDR to 'BBB-' (BBB minus) from 'BBB+', and Short-term foreign currency IDR to 'B' from 'F3'. (see separate announcement on www.fitchratings.com issued 10 November 2008). The Outlooks on the sovereign ratings remain Negative.

The rating actions on Bucharest and Oradea reflect the tight financial and governance relationships between the Romanian cities' local governments and the sovereign, whose ratings act as a cap for the former. The highly-centralised budgetary system for Romanian local governments ensures State support and control of the cities' financial position, including debt approval, but it also acts as a constraint on the cities' budgetary flexibility. The State controls the cities' tax base, tax rates and main revenue collection, as well as important expenditures such as staff salaries. The bulk of the cities' revenue is derived from the pool of national tax revenue (personal income tax (PIT) and valued added tax (VAT)).

The rating actions affecting the two cities are as follows:

City of Bucharest

Long-term foreign currency rating: downgraded to 'BB+' from 'BBB-' (BBB minus); Outlook revised to Negative from Stable

Long-term local currency rating: affirmed at 'BBB-' (BBB minus); Outlook revised to Negative from Stable

Short-term foreign currency rating: downgraded to 'B' from 'F3'

City of Oradea

Long-term foreign currency rating: downgraded to 'BB+' from 'BBB-' (BBB minus); Outlook revised to Negative from Stable

Long-term local currency rating: affirmed at 'BBB-' (BBB minus); Outlook revised to Negative from Stable

Short-term foreign currency rating: downgraded to 'B' from 'F3'

Contact: Romolo Isaia, Milan, Tel: +39 02 879087 216; Fernando Mayorga, Barcelona, Tel: +34 93 323 8400; Guido Bach, Tel. +49 69 768 076 111.

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