

## Romania- a selective default looming

Romania, Czech Republic, Slovakia, Malta,

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Romania is on the verge of carrying out an outright expropriation, by cancelling out a large part of the payable it owes to secondary market investors in its long running Restitution scheme. Over the past 12 years, the state has been allocating restitutions to the victims of the communist regime via an instrument called “restitution Points”, a state-backed receivable redeemable for cash over a fixed period. European investors (institutional and retail) have been allocating capital in this annuity-like instrument as the government encouraged a functioning secondary market and has been adhering to the payments calendar.

Emergency Ordinance No. 38/2025 (publicly debated for just under 48 hours) fundamentally alters the rules of the Romanian restitution process, more than a decade after its inception. Although **the main purpose of the Ordinance may have been capping the value of future claims** (*which are not part of our endeavor*), it also **changes the terms of already settled private transactions**. Albeit niche, this deeply reverberating matter, is potentially outdoing much of the efforts through which the Romanian government has been trying to build a rules based investing environment.

As such, there are multiple breaches made under the European Convention on Human Rights case-law which undermines the State’s claim of providing just compensation to entitled beneficiaries:

- Firstly, the extension of the repayment period from 5 to 7 years;
- Secondly, by depriving the future buyers of 85% of the traded points it has de facto obliterated the secondary market, which, over a decade provided transfer fees, taxes and alternatives; moreover, **the capping mechanism may be applied retroactively, for already settled transactions, unless clear Norms are set in place;**
- Finally, with the free market eliminated, the State steps in as the only buyer, offering just 0.4 RON per point – around 50% below the market average in recent years.

Given our fund’s position as the most relevant (40% market share) and most transparent (issuer of listed instruments, audited and regulated) investor in the Restitution points market, **we are presenting a brief analysis** highlighting the negative risk-reward balance of altering the existing secondary market and **urging for a thorough debate of the reputational and international legal implications it will bring.**

In a nutshell, we will be showing that:

1. **The secondary market has brought in monetary** benefits to the state, whilst allowing for **a free transfer of property for the already long awaiting restituted;**
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As the leader of that market, Alpha Quest has created transparent transactions, with listed instruments that provided a proxy for the fair prices. In turn, the transparency led to higher prices for restitutions (RON 0,62 per point is our average purchase price), thus generating Treasury bond-like returns. Retroactively capping such returns is both undemocratic and damaging to the integrity of capital markets;

We note that similar instruments have been issued also by entities such as Wood&Company financial services- one of the leading Central Eastern European Investment banks<sup>1</sup>, allowing numerous investors to deploy capital in Romania.

2. Even by expropriating already issued and freely exchanged state issued receivables (and or changing the terms of an existing civil contract) **the impact is on average a mere EUR 8-9mln per annum.**

Besides the mountain of Court cases which will ensue, this measure of unilaterally changing payment terms and drastically reducing amounts owed far outweighs the risks of the **Romanian state risks being assessed by credit rating agencies as engaging in selective default** and it unnecessarily **endangers it's OECD accession efforts.**

3. **"The cure is worse then the disease"** effect. For 2025 alone, Romania's funding deficit exceeds 230bn. **A mere 0,1% increase in the financing cost**, due to such and expropriation precedent, **would wipe out the whole "benefit" of the entire 7 years of retroactive cancelation of due payments.**

The current text of the Ordinance is ambiguous, creating uncertainty as to whether assets already legally acquired, and which have already been delayed in payment in three subsequent Ordinances in the recent years, could now be transferred, in whole or in part, from private to public property. **In effect, the State could end up cancelling its own debts.**

The Ordinance also fails to define clearly and beyond reasonable doubt, in accompanying norms and ANRP instructions, how the payment titles will be issued going forward. This leaves unnecessary doubt that the provisions could be applied retroactively, breaching the principles of legal certainty and legitimate expectations protected under both Article 44 of the Romanian Constitution and Article 1 of Protocol No. 1 to the European Convention on Human Rights.

Alpha Quest Funds urges the Romanian government, in particular the National Authority for Property Restitution (ANRP) and the Ministry of Finance, to define a clear methodology of applying the Emergency Ordinance No. 38/2025 on the restitution of properties confiscated under communism. The Fund calls for an **unequivocal confirmation that the ordinance will have no retroactive effect on already completed transactions of its State backed instruments and will not lead to measures tantamount to expropriation.**

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<sup>1</sup> A shortlist of identified instruments: ISIN: SK4000018206; ISIN: CZ0000001375; ISIN: CZ0000305263; ISIN: CZ0000000856; ISIN: CZ0000302765

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## 1. A market for investors allowed for free trade and FDIs

The restitution points system in Romania was established by the state to compensate former owners whose properties were confiscated during the communist regime, with the points serving as a state-backed receivable redeemable for cash over a fixed period.

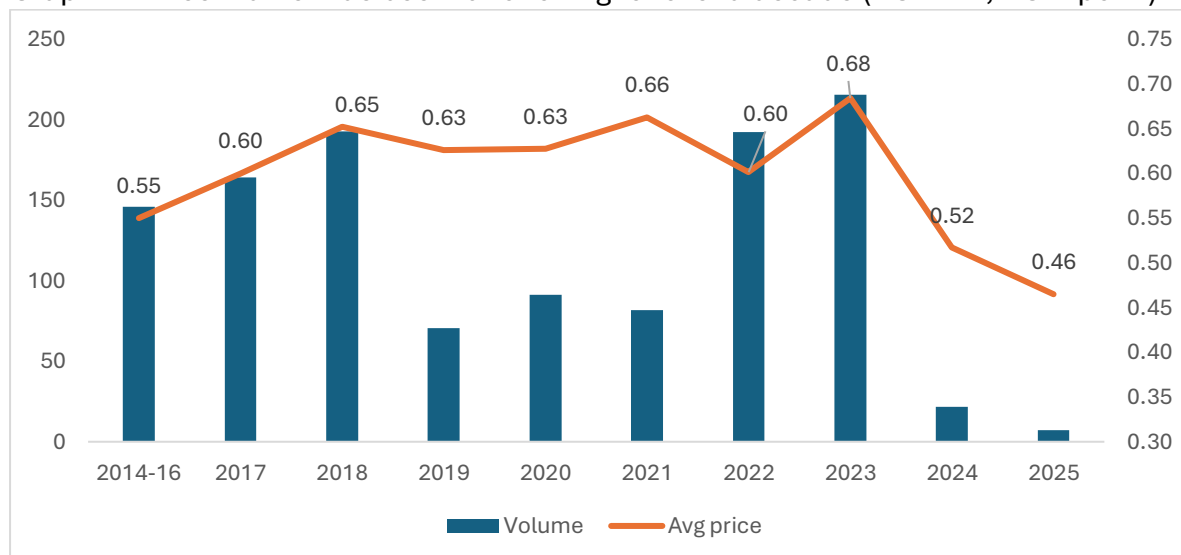
The Compensation Decisions are YOUs (payable in five equal annuities) allocated by ANRP and their value is determined using Art. 21 paragraph (6) of the law, stipulating that one point equals 1 RON. The Points have been clearly defined as a receivable against the Romanian state, protected by Art. 44 of the Constitution.

Over more than a decade, the Romanian government issued Restitution points and encouraged<sup>2</sup> a secondary market for them, allowing rightful owners to sell their claims to investors in need of liquidity, while investors assumed the risk of delayed state payment. This market brought both financial relief to claimants and capital infusion into the Romanian economy.

Alpha Quest's has established itself as a leading investor in the Restitution Points market and it's portfolio of restitution points was built through transparent<sup>3</sup>, long-term acquisitions.

As seen in Graph 1 below, over the past 12 years, the owners of some 1,2bn points have chosen the alternative route of cashing in earlier via sales to AQ, at a discount, as opposed to wait for state fragmented payments. This represents about 40% of the total "free float" as indicated in recent market analysis provided by ANRP<sup>4</sup>.

Graph 1: A free market has been functioning for over a decade (RON mil; RON/point)



<sup>2</sup> <https://www.bursa.ro/2-2-miliarde-de-puncte-acordate-pana-acum-celor-pagubiti-de-regimul-comunist-fostii-proprietari-pot-solicita-anrp-valorificarea-punctelor-primite-ca-despagubire-69546138>

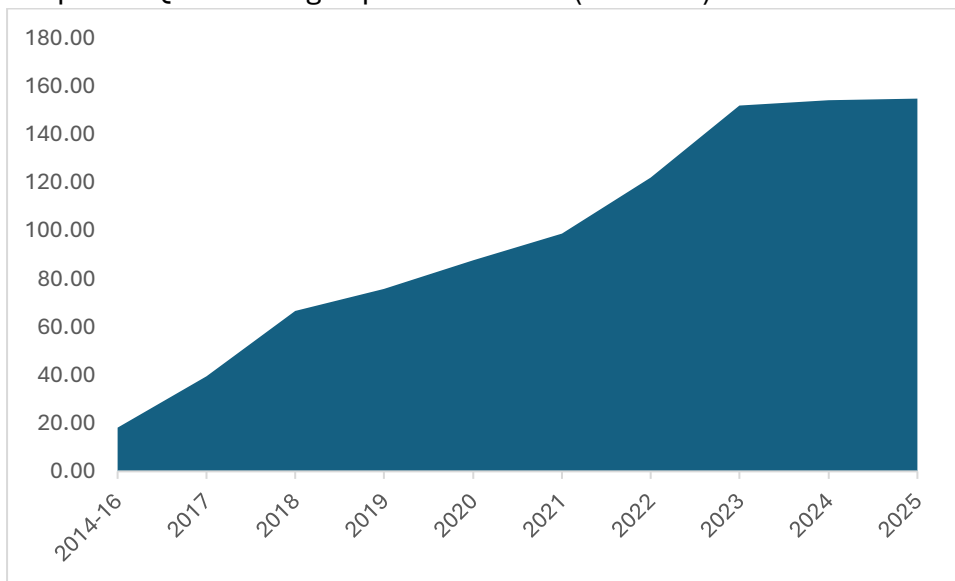
<sup>3</sup> Aqbond.com

<sup>4</sup> <https://www.senat.ro/Legis/PDF/2025/25L201EM.pdf?nocache=true>

The average purchase price of approximately 0.62 RON per point, as audited by KPMG, is over 50% higher than the state’s current early redemption offer. The expected returns, spread over a seven-year payment horizon, are comparable to the yields on government-issued Fidelis bonds. This is not speculative trading but the deployment of long-term institutional capital into an asset class created by the Romanian state itself.

As seen in Graph 2 below, Alpha Quest alone has deployed over RON 740mln or EUR 155mln in order to transparently and ethically acquire restitution points.

Graph 2: AQ increasing capital allocation (EUR mln)



Source: Alpha Quest research

These funds have been sourced from both an institutional investor base from Central Europe as well through bond issuances, listed and supervised by the Czech National Bank<sup>5</sup> and the Slovak National Bank<sup>6</sup> respectively. The existence of a listed instrument, allowed for a price- proxy, thus ensuring that an unregulated market benefits from an alternative price and volume indicator.

In doing so, almost 1,000 (one thousand) restituteds were able to monetise their assets at a fair price and pursue either local spending or investments, bringing multiplication effects in the economy.

Additionally, some RON 10mln were paid as transaction fees, adding to the overall benefits in the economy.

<sup>5</sup> <https://www.pse.cz/en/detail/CZ0000001375>

<sup>6</sup> <https://www.bsse.sk/bcpb/detail-cp/?isin=%23KEY%3DD%7C%5E%7C1127%23>

## 2. A State budget benefit claim rebuffed

Aside from the legal issues surrounding the highly controversial OUG 38/2025, the measure of unilaterally changing payment terms and drastically reducing amounts owed far outweighs the risks of the **Romanian state risks being assessed by credit rating agencies as engaging in selective default** and it unnecessarily **endangers it's OECD accession efforts**.

Since 2023, affected by budgetary constrains, the Romanian government has repeatedly delayed it's payment calendar of the Restitution points. This led to a significant decrease in the appeal of the investment in the Points as an instrument (and negatively impacted the market price the restitueents were offered).

As a result, the secondary market owners of points are fading away and **the total outstanding amounts represent only a fraction of the total historical holdings**.

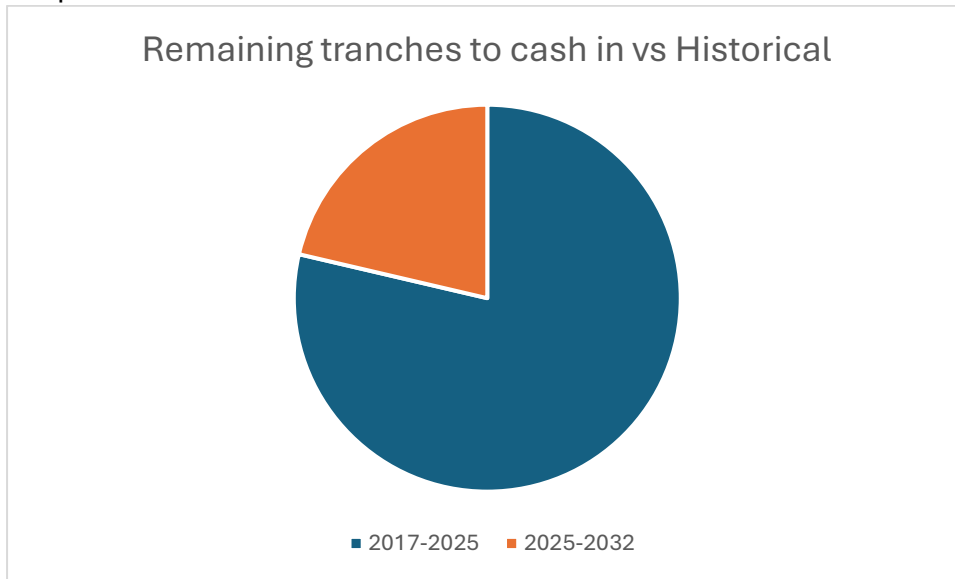
As such, the total number of points owned by Alpha Quest has been constantly decreasing, **amounting now just around 20% of the total overall historic holding** (an outstanding RON 250mil from the total RON 1,2bn purchased in the past 12 years).

Graph 3: Sinking cash in calendar



Source: Alpha Quest research

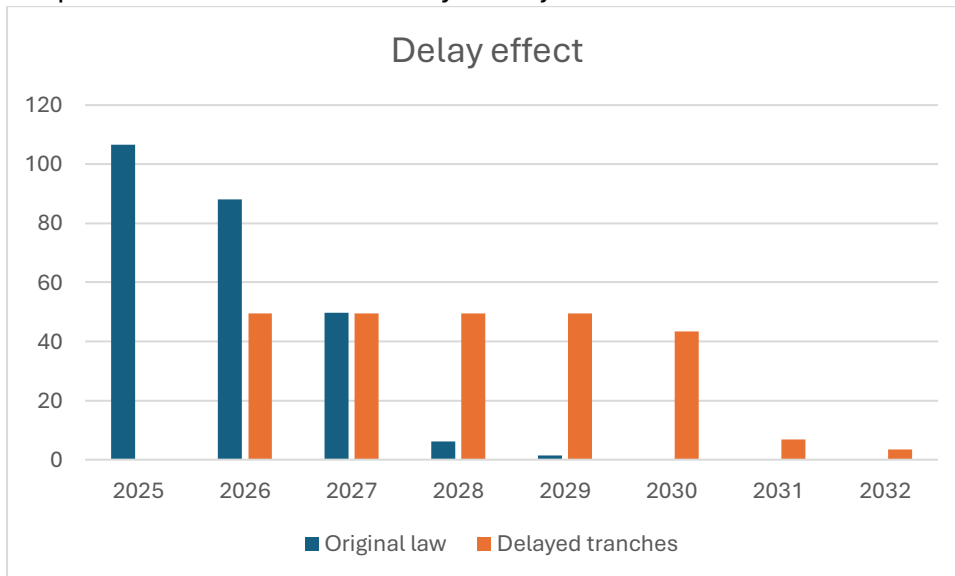
Graph 4: Just over 20% of Total cash ins still to be received



Source: Alpha Quest research

The OUG 38/2025 measure of expanding the payment period from 5 to 7 years already has a meaningful impact. It decreases the amounts AQ is due by RON 57 mln in 2026 and 38 mln in 2027 respectively, whilst having a significant impact on the Fund's IRR.

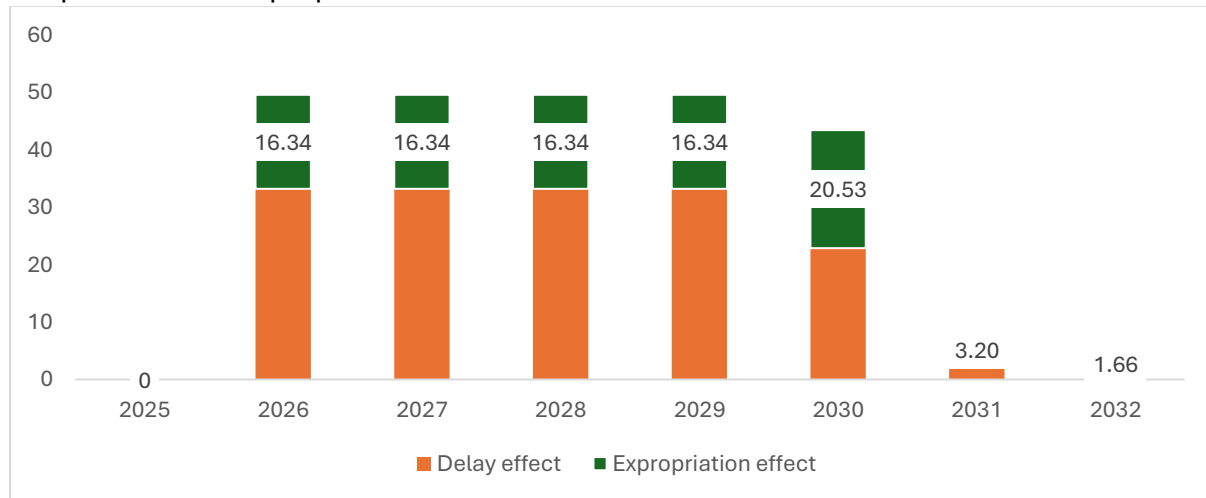
Graph 5: The effect of the 5 to 7 year adjustment



Source: Alpha Quest research

Taken the Ordinance current wording to its worse interpretation, the Romanian State would cancel out 85% of the total due profit on the outstanding points, leading to a total EUR 20m expropriation for Alpha Quest or a mere EUR 3m annual "gain" for the state's budget.

Graph 6: Annual expropriation effect



Source: Alpha Quest research

### **Extrapolating to the “industry”**

Although no similar official and transparent data is presented publicly by other market participants, corroborating the audited cumulative 1,2 bn of AQ holdings with the 3bn presented in the law reasoning<sup>7</sup> as total size of the secondary market (although we reasonably suspect some of these are not actual purchases but other types of donations/ inheritance/splits etc), we can confidently estimate that the total State debt cancelled would be a mere EUR 50-60mln.

Spread over 7 years (until 2032 because 2025 is de facto skipped by OUG xx/2024) would **“save” the State budget no more than EUR 8-9mln per year.**

### **3. The poison pill in the Ordinance**

Although the main goal of the OUG 38/2025 might have been capping the unsolved claims, the articles affecting the already issued Decisions (and government- committed obligations) may bring in far worse consequences than simply destroying a free secondary market.

From an investor perspective, the consequences are unclear, and the potentially retroactive measure are far-reaching. By unilaterally changing payment terms and drastically reducing amounts owed, the Romanian state risks being assessed by credit **rating agencies as engaging in selective default.** Such actions can trigger sovereign credit rating downgrades, increase the cost of borrowing, reduce investor appetite for government debt, and cause long-term reputational damage. International institutions including the European Commission and the International Monetary Fund closely monitor the stability of the legal environment and arbitrary changes to property rights can jeopardize EU funding and increase oversight under conditionality mechanisms.

<sup>7</sup> <https://www.senat.ro/Legis/PDF/2025/25L201EM.pdf?nocache=true>

**Chart 1: Romania's financing gap**

- In 2025, the gross financing requirements are RON 232 billion (from RON 252 billion in 2024), driven by a lower budget deficit target.

| Financing plan                   | Plan (bn.)    | Achieved (bn.)<br>8 Aug 2025 | (%)          |
|----------------------------------|---------------|------------------------------|--------------|
| <b>Financing needs (bn. RON)</b> | <b>231.18</b> |                              |              |
| - % of GDP                       | 12.09%        |                              |              |
| <b>Budget deficit (bn. RON)</b>  | <b>133.88</b> |                              |              |
| - % of GDP                       | 6.90%         |                              |              |
| <b>Refinancing (bn. RON)</b>     | <b>97.30</b>  |                              |              |
| - % of GDP                       | 5.20          |                              |              |
| <b>Financing</b>                 | <b>232.00</b> | <b>188.52</b>                | <b>81.3%</b> |
| Domestic market (bn RON)         | <b>147.00</b> | <b>105.47</b>                | <b>71.7%</b> |
| <b>External market (bn. RON)</b> | <b>85.00</b>  | <b>83.05</b>                 | <b>97.7%</b> |
| bn. EUR                          | 17.00         | 16.58                        |              |
| - Eurobonds (bn. EUR)            | 13.00         | 11.74                        |              |
| - Private placements (bn. EUR)   |               | 3.30                         |              |
| - RRF (bn. EUR)                  | 3.00          | 0.76                         |              |
| - IFIs (bn. EUR)                 | 1.00          | 0.78                         |              |

- Maintaining a constant presence in EUR and USD markets via Eurobond transactions and private placements.
- Planning an external liability management operation to reduce the 2026 rollover and the second Samurai bond transaction, to be launched in 2025, for investor base diversification.

Source: Ministry of Finance

International investors from European Union committed capital to the Romanian restitution market precisely because it appeared transparent and rule-based, in line with EU standards. Altering the framework retroactively would signal that Romania is not a reliable or predictable jurisdiction for capital and rating agencies will have to incorporate such deteriorating environment in their Outlook. The precedent could imply that state-backed obligations can be redefined at any time to meet short-term budgetary needs.

**Chart 2: Cost/benefit for the Romanian State**

|   |         |
|---|---------|
| Financing need 2025<br>(mln RON)                          | 232.000 |
| *Annual financing cost<br>(750 bps per year)<br>(mln RON) | 17.400  |
| Δ (1bps increase in financing cost)                       | 23,2    |
| Δ (51bps increase in financing cost)                      | 116,0   |
| Δ (10bps increase in financing cost)                      | 232,0   |
| Average annual Amount expropriated by<br>OUG 38**         | 45      |
| *7y maturity Tbills                                       |         |
| ** AQ Estimate  |         |

As seen in the table above, the potential “benefit” of an unjust expropriation is minimal (RON 45mln per year on average). By contract, having a financing gap of about 23bn for 2025 alone and a financing cost of 17,4bn, every basis point (0,01%) increase in the cost

of funding (a natural assumption should the predictability and private property rights be drastically breached) would translate in RON 23mln additional cost.

For further comparison, the impact of this measure is similar to limiting Fondul Proprietatea investors to recovering only 15% of their shares or secondary Fidelis buyers being told they will not be repaid in full. The Ordinance treats long-term institutional investors and short-term opportunistic speculators identically, particularly penalizing the former.

Romania's restitution framework was intended to provide justice and closure to victims of past abuses. Emergency Ordinance No. 38/2025 reverses this mission, erodes confidence in the state's contractual obligations, and undermines the country's financial credibility. Moreover, this radical shift comes exactly when European Court of Human Rights criticized the government algorithm of allocating the points upstream.

Alpha Quest calls for clear norms of applying the Ordinance to ensure it is not retroactive and does not amount to expropriation of private property as well as for a transparent legislative process that ensures compliance with constitutional guarantees, fulfils Romania's obligations under the European Convention on Human Rights, and safeguards Romania's position in international markets. Failure to act will cause lasting harm to investor confidence, sovereign creditworthiness, and the rule of law.

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### **About Alpha Quest**

*Alpha Quest is the first institutional buyer and the largest holder of restitution points issued by the National Authority for Property Restitution (ANRP). The Fund is a Pan-European Investment Fund, AIFMD and FATCA compliant, regulated by Malta Financial Services Authority, with assets of over EUR 100m, financed from both an institutional investor base from Central Europe as well through two bond issuances, listed and supervised by the Czech National Bank and the Slovak National Bank respectively. The Fund has invested in Romania for over a decade, deploying capital into Romanian assets, including restitution points and companies listed on the Bucharest Stock Exchange, based on the expectation of legal stability and adherence to the rule of law. Alpha Quest has been an active and constructive participant in the restitution process, assuming liquidity and duration risks that allowed claimants to obtain a quicker cash alternative from private capital rather than wait for payment from the Romanian State.*

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