

The World Bank in Romania Country Snapshot



An overview of the World Bank's work in Romania

April 2020

ROMANIA	2019
Population, million	19.3
GDP, current US\$ billion	249.2
GDP per capita, current US\$	12,881
Life Expectancy at birth, years	75.3

At a Glance

- The negative impact of the COVID-19 pandemic on the economy is anticipated to be substantial, at least in the first half of 2020. The economy is expected to contract this year from an estimated 3.8 percent expansion before the crisis.
- In the short run, the key challenge is to contain the COVID-19 crisis and limit its health and economic consequences. A crisis that is longer and deeper than anticipated would affect growth prospects and cause significant damage to companies and jobs, while raising unemployment and poverty.
- Romania was able to benefit from a prearranged loan of €400 million that has a Catastrophe Deferred Drawdown Option facility. Moreover, the World Bank's Romania Country Office is working to restructure the existing portfolio, especially in the health sector, to use part of its undisbursed balance to finance crisis-related equipment purchases and to support crisis-affected areas beyond the health sector.

Country Context

Romania's GDP growth was strong in 2019 at 4.1 percent, driven by private consumption and an investment rebound. The labor market tightened, and unemployment reached historic lows. The situation abruptly shifted in early 2020 due to the impact of the COVID-19 pandemic on the health sector, businesses, the labor market, and households.

The risk of a recession in 2020 is substantial and growing as COVID-19 brings to a halt large segments of the European economy and causes disruptions to global supply chains and trade patterns.

According to the Romania Country Economic Memorandum (2020), Romania's income per capita increased from 26 percent of the European Union (EU)-28 average in 2000 to 63 percent in 2017, but this economic success rests on the wobbly foundations of unfavorable demographics, weak human capital, and ineffective institutions.

The political scene has also been impacted by the COVID-19 pandemic. Before the crisis started, the president and the prime minister were pushing for early parliamentary elections; however, due to the new situation, they will be organized at term (December 2020), and local elections, which were supposed to take place in June, have been postponed to the fall.

The World Bank and Romania

Under the **Country Partnership Framework (CPF)** for FY19–23, the World Bank supports Romania's efforts to accelerate structural reforms and convergence with the EU through robust, sustainable, and equitable growth and enhanced competitiveness.

The Bank engages in Romania through the full range of its instruments: development policy lending, investment lending, Advisory Services and Analytics (ASA), and Reimbursable Advisory Services (RAS).

In response to COVID-19, the Government of Romania activated €400 million of pre-arranged financial support from the World Bank through the Catastrophe Deferred Drawdown Option (CAT-DDO) facility that the Government negotiated with the World Bank in June 2018. The financing covers a range of interventions to strengthen health services, minimize the losses to both the public and private sectors, and safeguard lives and livelihoods overall.

Also, through the Health Sector Reform Program, the Bank is working to help the Romanian authorities to procure emergency supplies and equipment.

Key Engagement

IBRD

Engagement over FY19–23 has the overarching goal of strengthening Romania's institutions, advancing poverty reduction, and promoting shared prosperity through three pillars:

- Equal opportunities for all
- Private sector growth and competitiveness
- Resilience to shocks

The Romania program consists of nine lending projects, 11 trust funds, and 63 ASA tasks, out of which:

- 39 tasks correspond to 30 RAS agreements signed and under implementation
- seven RAS agreements under preparation

WORLD BANK PORTFOLIO

No. of Projects: 9

IBRD Lending: \$1.98 Billion

- 10 non-RAS ASA (Bank Budget funded)
- 7 non-RAS ASA (EU-funded trust funds)

The active lending portfolio of the International Bank for Reconstruction and Development (IBRD) amounts to US\$1.98 billion. In the past few months, the performance of the portfolio has improved, though a number of projects need to be restructured this year to help the Romanian Government respond to the COVID-19 crisis.

The current program of RAS—one of the largest in the World Bank Group at US\$102.65 million—is focused on priority areas for Romania's EU convergence, such as improved strategic planning and budgeting, evidence-based policy making, protection of the vulnerable, and quality assurance in higher education. It also features a growing engagement to support a number of municipalities, including Bucharest, Constanta, Brasov, Cluj, and several others.

IFC

The International Finance Corporation's (IFC) committed own account portfolio in Romania ranks second in IFC's Europe and Central Asia region after Turkey. Since the start of operations in Romania in 1991 through April of FY20, IFC has invested approximately US\$3.5 billion, including US\$0.7 billion mobilized from partners, in over 100 projects in various sectors.

As of April 15, 2020, IFC's committed portfolio in Romania was US\$802 million, of which 62.5 percent was represented by investments in financial institutions (banks, non-bank financial institutions) and the remaining 37.5 percent by investments in the real sector. The outstanding portfolio is US\$640 million, accounting for 1.4 percent of IFC's global outstanding portfolio.

Recent Economic Developments

Romania's growth was strong in 2019 at 4.1 percent in a context of subdued activity in the EU. Private consumption, up 5.9 percent, was the main driver of growth, supported by wage and pension increases.

Investment rose strongly, growing at 17.8 percent year-on-year (y-o-y), owing to strong performance in construction.

Exports grew by 3.5 percent, reflecting weaker demand in major export markets, while imports remained buoyant (up 7.2 percent). Construction (up 16.8 percent) and information and communications technology (ICT) (up 8.1 percent) were the main drivers of production.

The labor market benefited from the economic growth, with unemployment falling to a 27-year low in December 2019 and real average wages increasing by 8.6 percent y-o-y.

The budget deficit widened to 4.6 percent of GDP at end-2019 due to scheduled expenditure increases on public wages (up 18.8 percent) and social spending (up 13.2 percent), led by a 15 percent increase in pensions.

Budget revenues grew by 8.8 percent, reflecting better corporate income tax collection and social security contributions. Expansionary fiscal policy and depreciation pressures on the currency pushed inflation to 3.8 percent in 2019.

The National Bank of Romania lowered the monetary policy rate by 0.5 percentage points to 2 percent in an emergency meeting on March 20 to bolster financial sector liquidity.

Economic Outlook

The negative impact of the COVID-19 pandemic is anticipated to be substantial. The economy is expected to contract in 2020, but the severity of the recession will depend on the length of the lockdown, the impact of the national economic stimulus, and the spillovers from the stimulus at the EU level.

The fiscal stimulus is expected to focus on targeted fiscal spending to contain the disease; deferred tax payments; liquidity support for companies, small and medium enterprises, and firms in severely affected sectors, such as transport and tourism; and support for self-employed workers and others affected by the crisis.

To address the consequences of COVID-19, the fiscal deficit is expected to widen to at least 5.5 percent of GDP in 2020, up from a planned deficit of 3.6 percent.

Once the impacts of COVID-19 dissipate, the deficit is expected to follow a downward adjustment of at least 0.5 percent of GDP per year.



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Project Spotlight

The Health Sector Reform Program



Advanced Monitoring and Treatment Unit for Critical Cardiac Patients at the County Emergency Clinical Hospital Târgu Mureș.

The **Health Sector Reform Program**, implemented by the Romanian authorities with the support of the World Bank, aims at improving medical visits, ambulatory care, and health sector governance and stewardship.

The program has supported the modernization of hospital departments, including intensive care units (ICUs) and hospital emergency services, which are crucial to the Government's response to the COVID-19 crisis, particularly for the severe cases requiring ventilators.

In the five years since implementation, 424 fans, 495 beds, and 793 monitors for vital signs and infusion pumps have been purchased for use in ICUs.

Moreover, 204 fans have been purchased for hospital emergency departments, along with 671 monitors and infusion pumps.



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