The World Bank in Romania

Country Snapshot

An overview of the World Bank's work in Romania

October 2019

ROMANIA	2018
Population, million	19.5
GDP, current US$ billion	239.6
GDP per capita, current US$	12,307
Life Expectancy at birth, years (2016)	75.3

At a Glance

- Romania's GDP grew by 4.1 percent in 2018, largely in line with its potential, pushed by a strong fiscal stimulus implemented in the past two years.
- Growth is expected to remain strong at 4.2 percent in 2019, supported by private consumption and private investment.
- Investors still perceive Romania's risks as manageable, while public and external debt are low by European Union (EU) standards. Nevertheless, short-term fiscal pressures persist.
- The current program of Reimbursable Advisory Services—the largest in the World Bank Group at US$53.13 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.

Country Context

Since joining the European Union (EU), Romania has been on a fast catching-up trajectory with the rest of the EU in terms of GDP per capita and productivity. Nevertheless, despite significant progress, persistent social and regional disparities constitute a long-term development challenge.

The country's incomplete structural transformation is associated with an uneven spatial distribution of opportunities. Although 45 percent of the population reside in rural areas, the urban-rural gap in mean equivalized net income is the second-highest in the EU, and mean urban income is almost 50 percent higher than mean rural income.

The Romania Systematic Country Diagnostic (2018) notes that the incomplete institutional transition and high political and legislative volatility over the past 25 years have limited the Government's ability to implement important public policies to build key economic infrastructure and create equal opportunities for all citizens.

Shortcomings in public service delivery, especially for the poor, are often caused by underperforming state-owned enterprises (SOEs) but also by inefficient policies and low administrative capacity.

The current political scene is dominated by upcoming presidential elections that will take place on November 10 (first round) and November 24 (second round).

The World Bank and Romania

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

The Bank engages in Romania through the fullrange of its instruments: development policylending, investment lending, Advisory Servicesand Analytics (ASA), and Reimbursable AdvisoryServices (RAS).

Engagement over FY19–23 has an overarching goal of strengthening Romania's institutions and aims to advance poverty reduction and promote sharedprosperity through three pillars:

- Equal opportunities for all, including through a) improving the transition to tertiary education; b) enhancing access to modern health care; c) connecting people to jobs
- Private sector growth and competitiveness, including through a) capacity building for transport infrastructure; b) private investment for local development; c) accelerated capital market development and access to finance
- Resilience to shocks

Key Engagement

IBRD

The Romania program consists of nine lending projects, 12 trust funds, and 63 ASA tasks, out of which nine EU-funded trust funds and 31 tasks correspond to 19 RAS agreements that are signed and under implementation.

The active International Bank for Reconstruction and Development (IBRD) lending portfolio amounts to US$1.98 billion. In the past few months, the performance of the portfolio has improved.

The current program of RAS—the largest in the World Bank Group (WBG) at US$53.13 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.

WORLD BANK PORTFOLIO

No. of Projects: 9

IBRD Lending: $1.98 Billion

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 end-September FY20, IFC had invested approximately US$3 billion, including US$607 million mobilized from partners, in over 100 projects in various sectors.

As of September 1, 2019, IFC's committed portfolio in Romania was US$672 million, of which 66 percent was represented by investments in financial institutions (banks, non-bank financial institutions) and the remaining 34 percent by investments in the real sector.

The outstanding portfolio is US$630.7 million, accounting for 1.3 percent of IFC's global outstanding portfolio.

Recent Economic Developments

Romania's economic growth has been one of the highest in the EU since 2010, with an average rate of 3.0 percent during 2010–18, ensuring a steady convergence with the EU in GDP per capita. Currently, Romania's GDP per capita is around 65 percent of the EU28 average, up from roughly 25 percent two decades ago.

Economic growth has reduced poverty, although poverty rates remain high in rural areas. In line with robust economic growth, increased private consumption, and labor market improvements, the country's poverty rate (using the poverty line of US$5.50/day, 2011 purchasing power parity), which peaked at nearly 32 percent in 2012, is estimated to have declined to 21.0 percent in 2018 from 25.6 percent in 2015.

Boosting potential growth requires a focus on labor productivity. Labor productivity growth has slowed from 8.5 percent on average during 2000–08 (before the financial crisis) to an annual average of about 2.9 percent during 2009–18, the largest drop in Central Europe. Romania's labor force participation rate in 2018 was about 67.8 percent, the third lowest in the EU.

There are persistent labor and skills shortages in key occupations, including information and communications technology, health, and education, as well as in science and engineering.

Economic Outlook

Romania's GDP grew at 4.1 percent in 2018, largely in line with its potential, pushed by a strong fiscal stimulus implemented in the past two years. Growth is expected to remain strong at 4.2 percent in 2019 supported by private consumption and private investment.

Fiscal policy will likely continue to be pro-cyclical, fueled by the recently adopted pension law and the wage increases planned or expected in the context of a series of elections. The challenge for the Government will therefore be to maintain the fiscal deficit to below the ceiling of 3 percent of GDP in 2019 and beyond.

Economic growth is expected to moderate over the medium term as the available fiscal space shrinks, the labor market increasingly tightens, and global economic conditions worsen.

For the rest of 2019 and into 2020, the external deficit is expected to continue to widen and inflation to stay elevated. Nevertheless, investors still perceive Romania's risks as manageable, and public and external debt are low by EU standards.

Eradicating poverty remains a key developmental challenge for Romania. The quality of institutions and governance is the most important long-term constraint to sustainable growth and shared prosperity.

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Project Spotlight

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT DDO)

City flooded during a heavy rain in Tulcea, Romania.

Among EU countries, Romania is one of the most vulnerable to earthquakes. It is also one of the most flood-prone countries in Europe, with nearly 1 million Romanians living in high flood-risk areas.

Catastrophic events represent a significant financial shock and can reverse years of growth; indeed, such events have led to more than US$3.5 billion in direct damage since 1990.

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT DDO) supports Romania's ambitious and robust reform program to increase its resilience to the adverse impact of natural hazards, while also providing contingent credit to manage the financial shocks associated with disasters to ensure quick recovery without disrupting other development priorities.

The US$493 million loan was approved by the World Bank in June 2018 and became effective in December. If a natural disaster occurs in Romania while the CAT DDO is active (currently projected until December 2021), financial resources will become available to the Government within hours of a declaration of emergency, allowing the authorities to respond quickly to urgent needs.

As part of its implementation support to this program, the World Bank team maintains regular dialogue with the Government on possible additional measures for strengthening resilience and monitors the results of these policy reforms.

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