# Country Snapshot

*An overview of the World Bank's work in Romania*

**April 2019**

| ROMANIA | 2018 |
|---|---|
| Population, million | 19.5 |
| GDP, current US$ billion | 228.7 |
| GDP per capita, current US$ | 11,745 |
| Life Expectancy at birth, years (2015) | 75 |

## At a Glance

- Economic growth remained strong at 4.1 percent in 2018, in line with the country's long-term potential. Improved labor market outcomes have contributed to a further reduction in poverty.
- Romania holds the Presidency of the Council of the European Union during the first half of 2019.
- The World Bank continues to engage in a strong partnership with Romania, maintaining a large portfolio of lending, advisory services, and technical assistance in public administration reforms, resilience against natural disasters and climate change, strategy formulation and budgetary reforms, education, health care, and the financial sector.

## Country Context

Romania has made impressive progress on its convergence with the other European Union (EU) member states. Nevertheless, it still faces some structural challenges and regional and social inequality, as well as demographic pressures due to the aging population and emigration.

Romania holds the Presidency of the Council of the EU for six months starting January 1, 2019. Under its presidency, Romania has established four areas as priorities:

a) the convergence and cohesion of Europe;

b) a safer Europe;

c) Europe as a stronger global actor; and

d) a Europe of common values.

The Government's priorities for 2019–20 include the improved absorption of EU funds and a focus on investments in infrastructure, education, and health care.

The political scene in Romania is dominated by two major issues: the upcoming four rounds of elections and the governing coalition's continuous pressure on the justice system.

EU elections will take place in May 2019, followed by Romania's presidential election in December; in 2020, local elections will be held in June and parliamentary elections in December.

## The World Bank and Romania

Since joining the International Bank for Reconstruction and Development (IBRD) in 1972, Romania has received US$14.4 billion in commitments for over 115 IBRD loans, guarantees, and grants covering a broad range of sectors.

Under the Country Partnership Framework (CPF) for FY19–23, the World Bank supports Romania's efforts to accelerate structural reforms and its 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).

Engagement over FY19–23 aims at advancing poverty reduction and promoting shared prosperity through three pillars:

- equal opportunities for all;
- private sector growth and competitiveness;
- resilience to shocks.

## Key Engagement

The Romania program consists of: six lending projects; nine trust funds; and 50 ASA tasks, 24 of which correspond to 15 RAS agreements that are signed and under implementation. The active IBRD lending portfolio amounts to US$1.3 billion.

The current program of RAS—the second largest in the World Bank Group at US$42.8 million—strengthens key priority areas for Romania's EU convergence aspirations, for example, evidence-based policy making, improved strategic planning and budgeting, the deinstitutionalization of children, and quality assurance in higher education.

### WORLD BANK PORTFOLIO

No. of Projects: 6

IBRD Lending: $1.3 Billion

It also features a growing engagement to support municipalities, including Constanta, Bucharest, Brasov, and Sector 5 of Bucharest, to, among other activities, unleash their potential for attracting private sector investment.

Since 2010, almost 60 RAS agreements for almost US$105 million have been signed.

The Bank's RAS program has diagnosed structural bottlenecks to growth and made recommendations for capacity building, many of which were carried out during 2012–15 under the aegis of the Memorandum of Understanding (MoU) supporting the implementation of EU Structural and Cohesion Funds in Romania and the modernization of public administration.

In January 2016, the World Bank and the Government of Romania signed an MoU until 2023 that provides a framework for continued World Bank support to Romania's efforts to advance structural reforms, improve public administration, and achieve faster EU convergence.

Growth was driven by private consumption supported by increases in the minimum and public sector wages and pensions.

## Recent Economic Developments

The economy grew by 4.1 percent in 2018, in line with its potential but down from a post-crisis high of 7 percent in 2017.

Growth was driven by private consumption (up 4.7 percent year-on-year [y-o-y]), supported by increases in the minimum and public sector wages and pensions. Investment underperformed, contracting by 3.2 percent y-o-y in 2018.

Exports grew by 4.7 percent y-o-y, reflecting weaker demand from the major export markets, while imports remained strong and were up 8.6 percent.

The fiscal deficit was 2.9 percent of GDP in 2018, but fiscal policy continued to be pro-cyclical. Increases in public wages and pensions led to a 23.7 percent hike in the public sector wage bill and a 16.5 percent increase in current budget spending.

Social contribution revenues were strong (up 36.8 percent y-o-y), reflecting the legal transfer of social contributions from employers to employees and improved collection practices.

The boost in consumption led to a widening of the current account deficit to 4.7 percent of GDP. Foreign direct investment inflows amounted to 2.4 percent of GDP in 2018.

The labor market benefited from economic growth, with unemployment falling to 4.2 percent in December 2018, a 27-year low, and real wages increasing by 8.9 percent y-o-y.

## Economic Outlook

The economy is projected to grow at a slower pace over the medium term, reflecting the closing output gap, labor market tightening, and fiscal policy uncertainties. Fiscal measures promoted at end-December 2018 risk slowing the economy further in 2019 and beyond.

These measures include the introduction of a tax on bank assets, a turnover tax for companies in energy and telecoms, and measures to increase the capitalization of the second pension pillar funds. On March 29, the Government reviewed these taxes and their base and made them more palatable for the affected companies.

The Government has committed to maintaining the budget deficit within 3 percent of GDP in 2019. However, the fiscal measures passed in 2017 and 2018 have put pressure on the consolidated budget deficit and reduced the available fiscal space for investment.

Further planned increases in pensions and public sector wages will exacerbate these pressures.

The widening of the fiscal deficit to 3 percent of GDP, coupled with an increase in borrowing costs and a slowdown in growth, would push public debt up from 43 percent of GDP in 2017 to 43.3 percent at end-2021, which is still among the lowest ratios in the EU.

After peaking in the spring of 2018, inflation is expected to stabilize at the current level of around 3.5 percent, reflecting the slowing growth in domestic demand.

## Project Spotlight

### Human Capital Index

Technological High School in Pucioasa, Dambovita County

Romania's ranking in the **Human Capital Index**, launched by the World Bank Group in October 2018, reflects the need for urgent improvements in health and education outcomes. The World Bank is committed to assisting the Romanian authorities in their efforts to invest more—and more efficiently—in human capital, quality health care systems, and educational programs.

The **Romania Secondary Education Project (ROSE)** is a flagship project in the country and has three components: school-based and systemic interventions, university-level interventions and project management, and monitoring and evaluation.

High school and university grants are key to attaining project development objectives. Over the past two years, more than 700 low-performing high schools have been implementing non-competitive grants (of an average of €100,000) for remedial classes, tutoring, counseling, coaching, extracurricular activities, and minor civil works.

At the same time, 127 summer bridge programs have been awarded to universities for the period 2017–19, along with 60 non-competitive grants and 13 learning centers.

Despite some implementation challenges, the ROSE project has demonstrated the efficiency of its mechanism; objectives can be reached with relatively small additional amounts of money provided to schools and with dedicated principals and teachers who are given the freedom to choose from a menu of relevant activities and held accountable for results.

This is evidenced by the fact that drop-out rates have declined while graduation rates and passing rates for the Baccalaureate have increased in high schools supported by the project.

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