Romania
Systematic Country Diagnostic (SCD)
2023 Update
September 2022
A. Context for a Systematic Country Diagnostic (SCD)

B. Romania’s SCD Update 2022:

1. Where does Romania stand today, and what emerging trends will shape its outcomes?
2. What is holding back Romania: constraints to growth and prosperity?
3. What are Romania’s priorities for inclusive, strong, and sustainable growth?
Why the SCD Update for Romania?
Systematic Country Diagnostic:

1. **Is a major analytical diagnostic of the World Bank Group (WBG)**
   - Independent view of technical staff
   - Based on analysis of data and existing studies by WBG, external partners, and independent research.

2. **Identifies a set of constraints and priorities for sustainable reduction in poverty and increase in shared prosperity.**

3. **Informs strategic engagement of the WBG with Romania.**
   - Country Partnership Framework 2024-2029 focuses on:
     - Diagnostics of the SCD
     - WBG comparative advantage
     - Government priorities.
Romania’s SCD Update
Where does Romania stand today, and what emerging trends will shape its outcomes?
Where does Romania stand today?

High but volatile growth

Romania’s economic growth has been among the highest in the EU in the last two decades...

...supporting an impressive convergence with the EU (though still some way to go)...

...but growth has been volatile and potential growth has also declined

Source: Eurostat, AMECO, World Bank calculations
Where does Romania stand today?

Large fiscal deficits and public debt

Fiscal deficits – already high before the pandemic – widened as government moved to limit the impact of the pandemic on output, employment.

During COVID-19, Public debt stock rose by 12% of GDP as financing needs increased, and will remain elevated in the medium term.

Source: AMECO
Where does Romania stand today?

Highest poverty rate in the EU

Significant progress has been made in reducing poverty and inequality over the past decade.

But in 2020, Romania still has the highest poverty rate in the EU based on the international poverty line of $5.5 a day at 2011 revised Purchasing Power Parity.

Source: World Bank staff calculation using EU SILC 2008-2020

Source: World Bank Development Indicators and latest household survey (EU SILC 2020).
Where does Romania stand today?

A “tale of two Romanias”: urban vs. rural

Bucharest-Ilfov has by far the highest income per person

Out of every 10 poor Romanians, 7 live in rural areas.

Source: Eurostat

Where does Romania stand today?

Low and unequal access to public services

Romania is the only EU country without universal access to water. The urban-rural divide is also sharp.

Participation rates in early child education remain below EU average, especially in the North-East.

Self-reported unmet needs in medical examination are more severe in Romania than the EU average, especially in rural areas.

Source: INS, 2017

Where does Romania stand today?

Private sector dominated by small firms in established sectors

Private sector continues to be dominated by Micro, Small, and Medium Enterprises (MSMEs)

With most of the Foreign Direct Investment (FDI) stock concentrated in 'low innovation' activities..

FDI stock by main economic activity (% total), 2019

- Manufacturing: 29.0
- Trade: 16.9
- Financial intermediation and insurance: 16.6
- Electricity, gas and water supply: 11.5
- Professional, scientific, technical and admin.: 6.9
- Mining: 4.4
- Information and communications technology: 3.9
- Agriculture, forestry and fishing: 3.0
- Transportation: 1.4
- Accommodation and food service activities: 0.7
- Other: 0.6

Source: Eurostat

Source: National Bank of Romania
What emerging trends will shape its outcomes?

Emerging risks and new opportunities for Romania’s sustainable and inclusive growth in the medium- and long-term.

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<tr>
<th>1</th>
<th>COVID-19 pandemic</th>
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<tr>
<td>• Widening deficits and rising debt</td>
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<tr>
<td>• Disproportionated - and lasting - adverse effects on poor and vulnerable households (income decline, access to education and health, etc.)</td>
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<th>War in Ukraine</th>
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<td>• Energy security considerations</td>
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<td>• Negative economic impact (e.g. rising food and energy prices), especially on the poorest and most vulnerable</td>
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<td>• Inflows of Forcibly Displaced Persons</td>
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<th>Digitalization</th>
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<td>• Opportunity to boost productivity, and transform jobs and skills</td>
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<td>• Risks of shifting demand and skills, and deepening existing inequality between regions, and across population groups</td>
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<th>Green transition</th>
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<td>• Widening deficits and rising debt</td>
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<td>• EU-wide commitment to reduce emissions and put growth on more environmentally sustainable path</td>
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<th>EU funds</th>
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<td>• Unprecedented amount of funding available for Romania to support post-pandemic recovery, green and digital transitions, and support convergence with the EU</td>
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<td>• Requirement of strong institutional capacity to absorb and use the funds efficiently</td>
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These complex challenges are also interrelated
What is holding back Romania: constraints to growth and prosperity?
What is holding back Romania?

Weak institutions, low administrative capacity, and lack of long-term commitments

High political volatility leads to constant changes in priorities and discontinuity in reforms

Romania falls well below the EU average for efficiency and effectiveness of policy implementation

Lack of capacity to utilize effectively resources, including European funding, remains a key challenge for Romania

Source: National School of Political and Administrative Studies, July 2017, "Chronic Government Instability"

Source: The Sustainable Governance Indicator 2020, Bertelsmann Stiftung relies on a combination of expert qualitative assessments and quantitative data drawn from official sources.
What is holding back Romania?

Insufficient and inefficient spending on human capital development, and low provision of public services

Expenditure on human capital and social services is one of the lowest in the EU

Insufficient spending and low generosity of social assistance programs led to Romania having the lowest impact of social transfers on poverty reduction in the EU

Source: Eurostat, 2019

What is holding back Romania?

Labor shortages and skills mismatches

Romania’s working-age population (especially youth) is declining. In addition, Romania has one of the highest share of emigrants in the population among EU countries.

Skills is the top constraint to private sector growth, and has been intensifying

Source: Eurostat

Source: World Bank Enterprise Survey 2019

Source: World Bank 2021
What is holding back Romania?

Low connectivity and shallow financial sector impeding private sector development

Romania’s infrastructure (particularly transport) conditions overall are the lowest in the EU

The financial sector (particularly financial intermediation) remains shallow. Financial inclusion in Romania is a tale of “two Romanias” – with significant urban/rural disparities.

What is holding back Romania?

Unpredictable business environment and limited innovation

Impediments to competition in Romania are associated with state control of the economy and barriers to entry and rivalry, especially in services

Romania’s economy is limited in its innovative capacity, ranking at the bottom of the EU innovation scoreboard


Source: DESI 2020
What is holding back Romania?

Vulnerability to natural disasters and untapped opportunity to be more environmentally friendly

Romania is vulnerable to natural hazards (some of which are intensifying with climate change), with vulnerable populations disproportionately affected, but its readiness to adapt relatively low.

The declining natural capital and European Green Deal commitments necessitate climate mitigation action.

Source: World Bank

What are Romania’s priorities for inclusive, strong, and sustainable growth?
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To address the constraints holding Romania back, 6 pathways are identified:

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<tr>
<td><strong>What can Romania achieve in the next 5-10 years?</strong></td>
<td>Predictable institutional and economic environment for the citizens and business</td>
<td>Equal access to high quality public services in infrastructure and social services</td>
<td>Increased health and education outcomes for all</td>
<td>Improved access to better private-sector jobs</td>
<td>Environmental sustainability (mitigation of climate change) of economic activity</td>
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Strong and sustainable growth that benefits the poor and vulnerable.
What are Romania’s priorities for inclusive, strong, and sustainable growth?

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2. Equal access to high quality public services in infrastructure and social services
3. Increased health and education outcomes for all
4. Improved access to better private-sector jobs
5. Environmental sustainability (mitigation of climate change) of economic activity
6. Improved resilience to natural disasters especially for vulnerable households

What can Romania achieve in the next 5-10 years?

- Mitigate the impact of the political instability through the establishment of medium-long term strategic and spending priorities
- Improve citizen’s trust of the state
- Ensure fiscal sustainability

Strong and sustainable growth that benefits the poor and vulnerable
What are Romania’s priorities for inclusive, strong, and sustainable growth?

**What can Romania achieve in the next 5-10 years?**

1. Predictable institutional and economic environment for the citizens and business.
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**How to get there?**

- Enhance public sector human resource management to improve public service delivery.
- Increase effectiveness and efficiency of public service delivery at central and local level.
- Improve access to quality public services for the poor and vulnerable.
What are Romania’s priorities for inclusive, strong, and sustainable growth?

### How to get there?
- Improve health outcomes and provide equitable access to health services
- Provide access to quality education for all
- Strengthen life-long skills formation

### What can Romania achieve in the next 5-10 years?
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**Strong and sustainable growth that benefits the poor and vulnerable**

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**How to get there?**

- Close the gaps in transport and other connectivity infrastructure for international and transnational connectivity
- Increase financial intermediation and inclusion.
- Improve the competitive environment and foster innovation

What can Romania achieve in the next 5-10 years?
What are Romania’s priorities for inclusive, strong, and sustainable growth?

How to get there?
- Accelerate decarbonization and ensure energy security
- Reduce environmental degradation (water, land, atmospheric)

Strong and sustainable growth that benefits the poor and vulnerable

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**What can Romania achieve in the next 5-10 years?**

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**How to get there?**

- Scale up risk prevention/reduction, and improve preparedness, response, and recovery from natural disasters.
- Continue effort to improve public and private financial resilience to natural disasters.
Next steps

- Online consultation SCD: September 8 – October 9, 2022
- Face-to-face consultation SCD: September 19 – October 6, 2022
- Publication SCD: 2023
- Online consultation SCD: mid-2023 – 2024