



Weekly Briefing

**Romania Economy briefing:
Economic Development in Romania**
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The Romanian National Institute of Statistics confirms, through its official data, the economic growth of 7% in 2017, but international institutions continue to warn on the potential damages of a growth based on consumption, if measures for improving economic sustainability are not taken. Romania benefits of Chinese investments in infrastructure and see strong development in the IT area, extending the concept of Smart City in several towns. A Romanian IT company managed to draw the attention of major investors, among which Google, by proving strong expertise in Robotic Process Automation.

The National Institute of Statistics finally published the official result of the economic growth, confirming the growth of 7% in 2017, the best evolution since 2008. The growth was driven by the contribution of domestic demand, which saw an increase by 7.8 percentage points, given the mix of economic policies characterized by the low interest rates, the increase in public transfers and salaries, and the reduction of the overall VAT rate from 20% to 19%. In fact, the consumption of the population increased by 10.3% on a year-on-year basis, which is the best rate since 2007, due to the increases in the real disposable income (given that the real net average wage raised by about 13% on a year-on-year), the lending dynamics (sustained by low levels of the real interest rates) and the wealth effect. Nominal GDP has risen by € 17.7 billion to € 187.5 billion in 2017.

The most important contributions to the GDP growth in 2017 compared to 2016, based on their weight in GDP formation and evolution of the volume of activity, come from the following branches: industry (with a contribution of 1.9%); wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, hotels and restaurants (with a contribution of 1.6%); agriculture, forestry and fishing (a contribution of 0.7%); net taxes on product (also a contribution of 0.7%). A significant evolution is attributed to the IT&C

sector, which consolidated its status as the “star” for the Romanian economy, having an increase of 10.9% on a year-on-year basis.

Another important trend is the recovery of productive investments, sustained by favorable Eurozone momentum (with an impact on exports) and the acceleration of domestic consumption. The net investment in the national economy increased last year by 6.4% compared to 2016, reaching the highest level in the last years, of 78 billion lei. Even though the state's contribution was lower, the private environment managed to allocate important funds for development by investing in the Romanian economy. The most significant area of investment was that of new construction works (45.6% of the total), followed by machinery, including means of transport, which accounted for 41.4% of total net investment last year. The record of net investments in the Romanian economy was registered in 2008, when their level exceeded the threshold of 90 billion lei. In 2009, with the onset of the global financial crisis, net investment collapsed by nearly a third, and in the following year it fell again to just 55 billion lei.

Warnings continue to come related to the model of economic growth followed by Romania in the last period. The latest country report launched by the European Commission (EC) in the framework of the European Semester states that in the absence of the structural reforms and of fiscal consolidation, Romania's strong economic growth risks creating the conditions of a tough landing at a change in the economic cycle trend. The current economic boom was mainly driven by consumption, while the volume of investments remained low. Strong economic growth is an opportunity to rebuild fiscal reserves and prepare the economy for weaker moments.

The report states that Romania has made limited progress in addressing country specific recommendations in 2017, although the topics where performance is low were tackled in the last period, such as the fiscal changes. The controversy raised by such measures has drawn the attention on their questionable effectiveness. The EC report states that there has been no progress

in ensuring the implementation of the national fiscal framework and limited progress has been made in strengthening tax compliance and collection. Instead, some progress has been made in combating undeclared work. There has been no progress in setting a methodology for deciding the minimum wage and equalizing the retirement age for men and women.

High public spending are not reflected by the country's infrastructure. Despite the relatively high rates of public investment, the supply of infrastructure is limited, while the perceived infrastructure quality is one of the lowest in the EU. The general condition and resistance of road and rail infrastructure remain weak and transport sector reform is progressing very slowly. Deficiencies are also mentioned for the water supply, waste management and energy infrastructure. Therefore, public investment is characterized by a low efficiency, especially in terms of project preparation, prioritization and public procurement. Companies believe that infrastructure investments should be the major priority for public spending.

The report signals other vulnerabilities, such as the high level of poverty and inequalities. In 2016, the risks of poverty and social exclusion increased, affecting 38.8% of the population. The situation got worse, because the trend, which was decreasing until now, has been reversed. The high economic growth is accompanied by high inequalities. The income of the top 20% segment of the population exceeds seven times the revenues of the poorest 20% of population, compared to a ratio of only five for the EU-28. At the same time, 10% of the population have revenues that are 14 times higher than the bottom half, one of the highest shares in the EU.

The positive signal is that Romania still has the opportunity to rebuild the buffer zones and to prepare the economy for weaker moments. Continuing structural structural reforms would support Romania's transformation into a higher-value economy and could improve the economy's resilience to possible recessions.

Through the Country Report, the EC makes an assessment of the situation in each EU member state and provides a basis for the reform measures that has to be taken. The situation is under monitoring, as the Commission will also hold bilateral meetings with member states on country reports, EC representatives will visit governments, national parliaments, social partners and other interested parties and discuss the findings of the reports. The next step for the member states is to present, by mid-April, their economic and social policy priorities in national reform programs and convergence programs. In these document, budgetary priorities will be set, taking into account the priorities of the 2018 annual growth review.

Chinese investments in infrastructure

Shinohydro is the first Chinese company to win a road infrastructure contract in Romania, according to the National Company for Road Infrastructure Administration. In association with the company North West Infrastructure and Services, Sinohydro has won the contract for modernization of a segment of 11.5 kilometers in the road belt of Bucharest, in a project that is estimated at 50 million euro, without VAT. The duration of the contract is 123 months, out of which 15 months is the execution period and 108 months is the period in which fault notification are signaled, representing the warranty. The works will mainly consist in the increase of the transport capacity from 2 to 4 lanes of circulation and in the elimination of some intersections by making some road junctions, new passages, as well as through the rehabilitation of the passages and bridges existing in these sectors.

Although Sinohydro is one of the world's largest hydropower plants builders, it is also present in other EU countries, developing infrastructure projects. The company is working on the development and expansion of several canals in Poland, the construction of a hydroelectric plant in Serbia and a bypass road in Georgia.

Romania's and Romanian's development in the IT area

In the public area, Romania is taking advantage of the technology development, the promotion of the Smart Cities being on the projects plan of more and more public administration. Over 7 billion euro are available for the development of communities under the umbrella of Smart City. The concept of Smart City has evolved a lot in Romania in recent years, and the local public administrations started recently to launch dedicated budgets in several major cities, such as Constanta, Satu Mare, Iasi, Resita, Cluj, Braşov, Oradea and even Bucharest, following the success of the city of Alba Iulia.

Alba Iulia has the most developed, correct and complete Smart City project in Romania. There are almost 74 Smart City solutions already implemented, under test, and over 40 companies, NGOs, clusters, various conglomerates working on Smart City in Alba Iulia. If it follows this trend, Alba Iulia would become the first smart city in Romania at the end of 2018, in which, over two years, private companies invest over one million euro. Through the implementation of the pilot project Alba Iulia Smart City 2018, the municipality benefits, among other things, from Internet in public spaces, medical services in which 14 doctors answer non-stop phone calls and give advice, applications through which citizens can submit referrals in real time, while 18 educational institutions have received tablets on the education side, and students and parents will have free access to school information.

In the private area, the Romanian startup of UiPath technology has earned an investment of USD 153 million, having Google as one of the main investors. Following this achievement, the company was valued at USD 1 billion and became the first Romanian "unicorn", according to the official announcement made by the company. In two years there would also be a listing on the stock exchange.

UiPath is a Romanian company based in the United States, having offices in six countries, which is specialized in the development and sale of Robotic Process Automation software automation technology. UiPath software robots

are scheduled to take over employees' copy-paste work, freeing them from repetitive transactional tasks. Initially, the developed product had a successful component that was brought and integrated by large companies such as IBM and Microsoft into their own products. 2013 was the year in which UiPath emerged on the market with a mature product, a "enterprise" automation platform that is used today in corporations around the world.