



# Poverty in Romania

**A look into the past**  
**An assessment of the present**  
**A hope for the future**

May 19, 2022



# Overview

## 1. A look into the past

- What has been the progress in poverty reduction in Romania?
- Can Romania continue this path?

## 2. An assessment of the present

- What is the poverty landscape in Romania now, compared to other EU countries?
- How have the recent shocks affected Romanian poor?
  - Prolonged COVID-19 pandemic
  - Rising prices
  - Ukraine crisis

## 3. A hope for the future

- What are the pathways to support the poor and vulnerable?

## 4. Discussion

# KEY FINDINGS – Poverty in Romania

## A look into the past



### Romania made remarkable progress in reducing poverty.

- Between 2014 and 2019, share of Romanians living on less than \$5.5 a day at 2011 PPP declined rapidly from 25.9 percent to 9.5 percent.
- Moreover, Romania was by far the top performer in the EU in terms of shared prosperity: income growth for the bottom 40 percent surpassed that of the general population.

### Much of the poverty reduction progress can be attributed to pension and wage reforms



- Reforms in taxes, minimum wage setting, and pension contributed to high income growth for the bottom 40.
- These drivers also contributed to a rising deficit.

# KEY FINDINGS – Poverty in Romania

## An assessment of the present

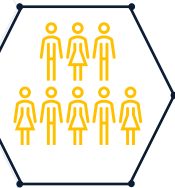


### Poverty rate in Romania is still the highest in the EU, and inequality is also elevated.

- Romania's poverty is nearly twice as high when comparing to peer countries with similar levels of income (Croatia, Poland, Latvia)
- A tale of two Romania exists: high inequality in income and public services delivery across regions, and between rural and urban areas.

### Prolonged COVID-19 pandemic and rising prices disproportionately affect the poor and vulnerable.

- The poor have fewer financial savings to cushion the prolonged pandemic.
- Rising prices can add 250,000 Romanian poor.



### Concerns about the Ukraine crisis are nearly universal, Specific concerns are related to security and rising prices.

- Nearly 90 percent of Romanians are worried about the Ukraine crisis.
- Over 60 percent are concerned about security and rising prices.



# KEY FINDINGS – Poverty in Romania

## A hope for the future



**Poverty is multi-dimensional, so the pathways requires multi-sectoral investments and coordination.**

- Effective and efficient budget spending, human capital investments, job creation through private sector development and digitalization, resilience against climate changes

**Digitalization can provide a leapfrog in growth and productivity**

- Romania made impressive progress in expanding access to broadband.
- There is room for improvement in productive use of internet.
- To achieve digital opportunities, it is important to invest in a wider sets of complementary factors in addition to digital access: logistics, governance and trust in the digital system, and digital skills



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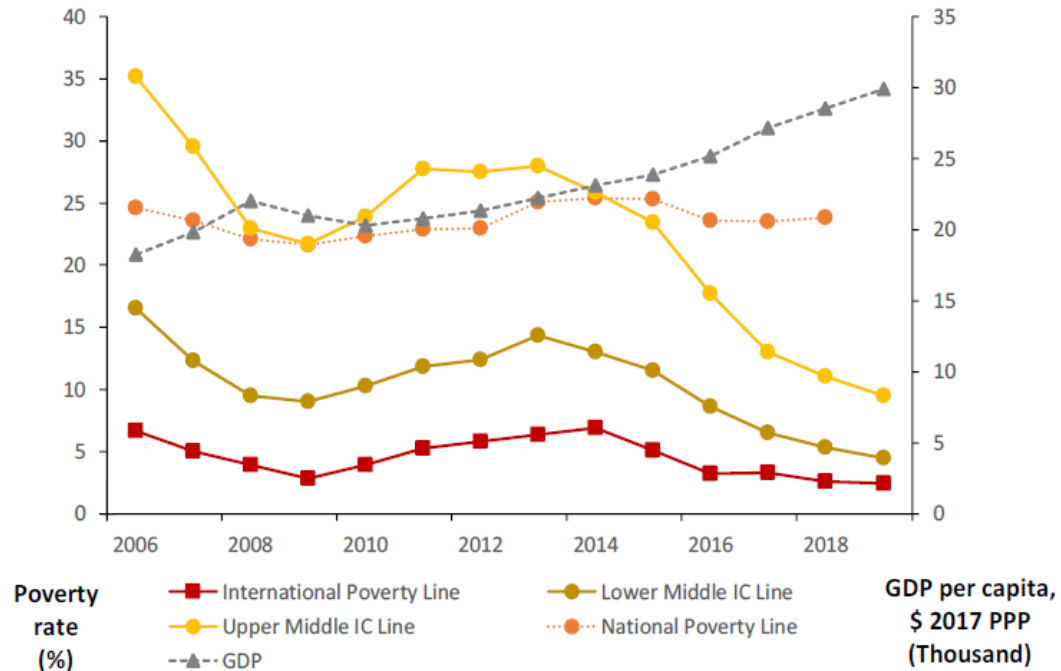
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# Romania has made remarkable progress in reducing poverty over the past decade.

With economic growth among the highest in the EU, much of this high growth has translated into substantial poverty reduction. Between 2014 and 2019, share of population lived on less than \$5.5 a day at 2011 PPP declined from 25.9 percent to 9.5 percent.

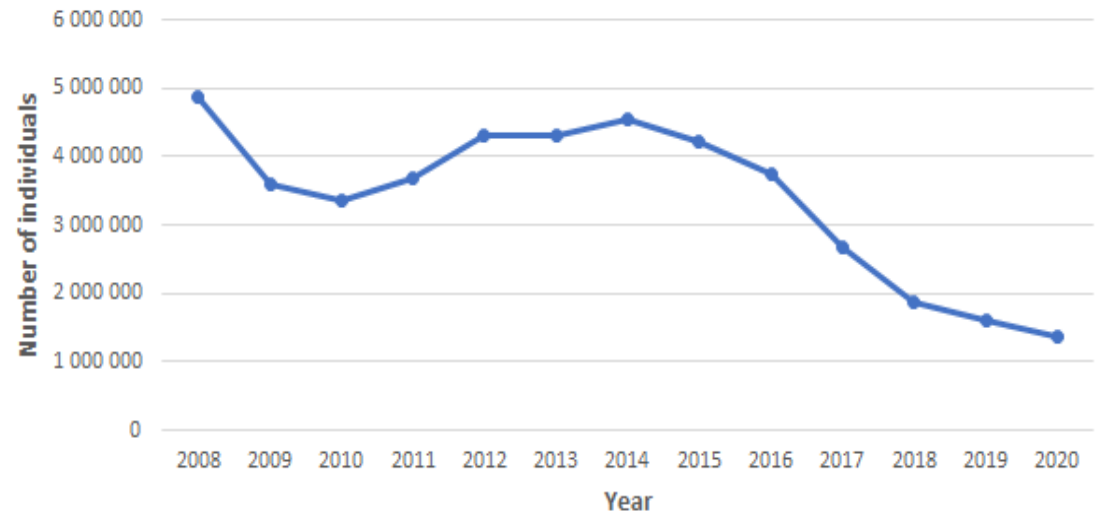
## Growth and poverty



Source: World Bank using EU-SILC/ECAPOV/GMD

## Number of people at-risk-of-poverty anchored at 2008

(cut-off point: 60% of median equivalised income after social transfers)

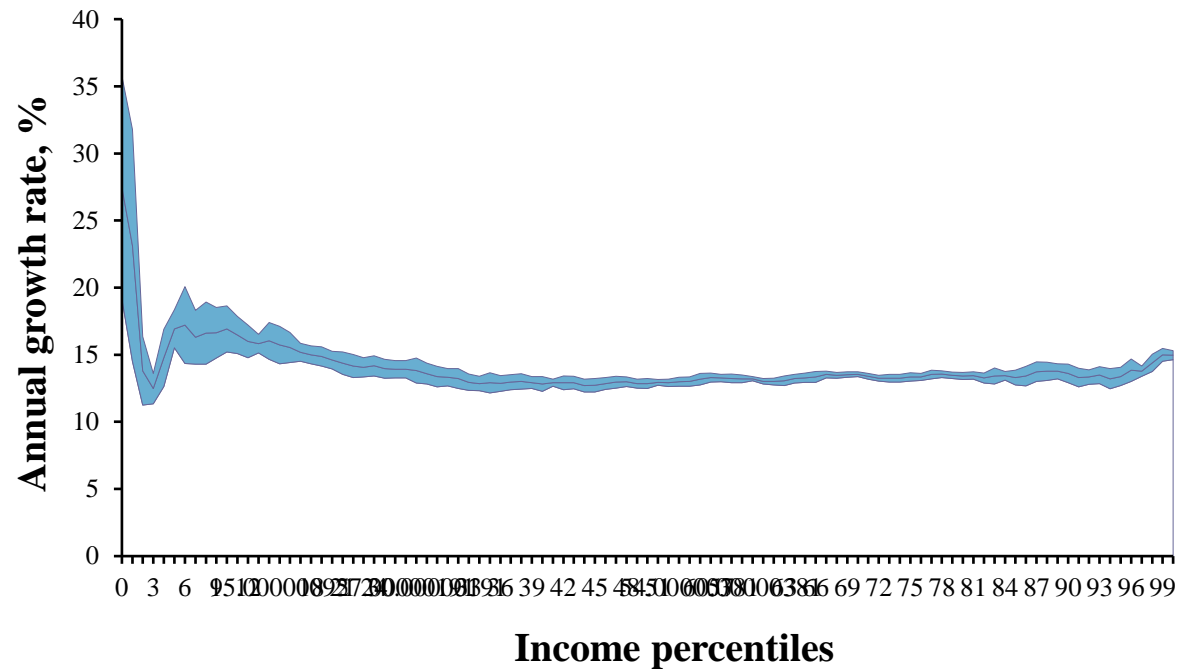


Source: Eurostat

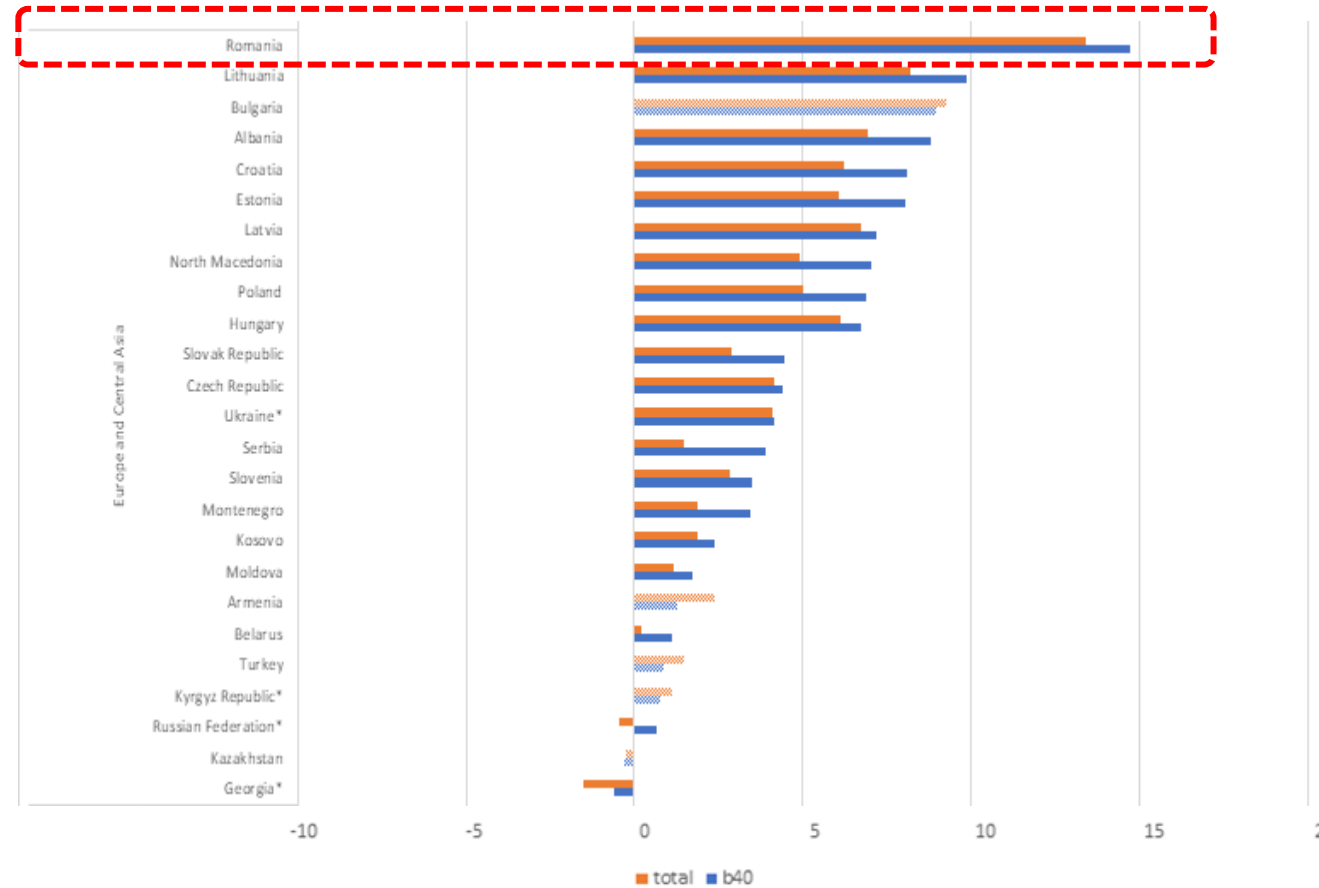
# Moreover, Romania is by far the top performer in shared prosperity in the EU.

Between 2014 and 2019, annual income growth of people in the bottom 40 percent surpasses that of the general Romanian population.

## Annual income growth between 2014 and 2019



## Shared prosperity



Source: World Bank staff calculation based on EU SILC 2020 and 2015 data (referring to 2019- and 2014-income years).

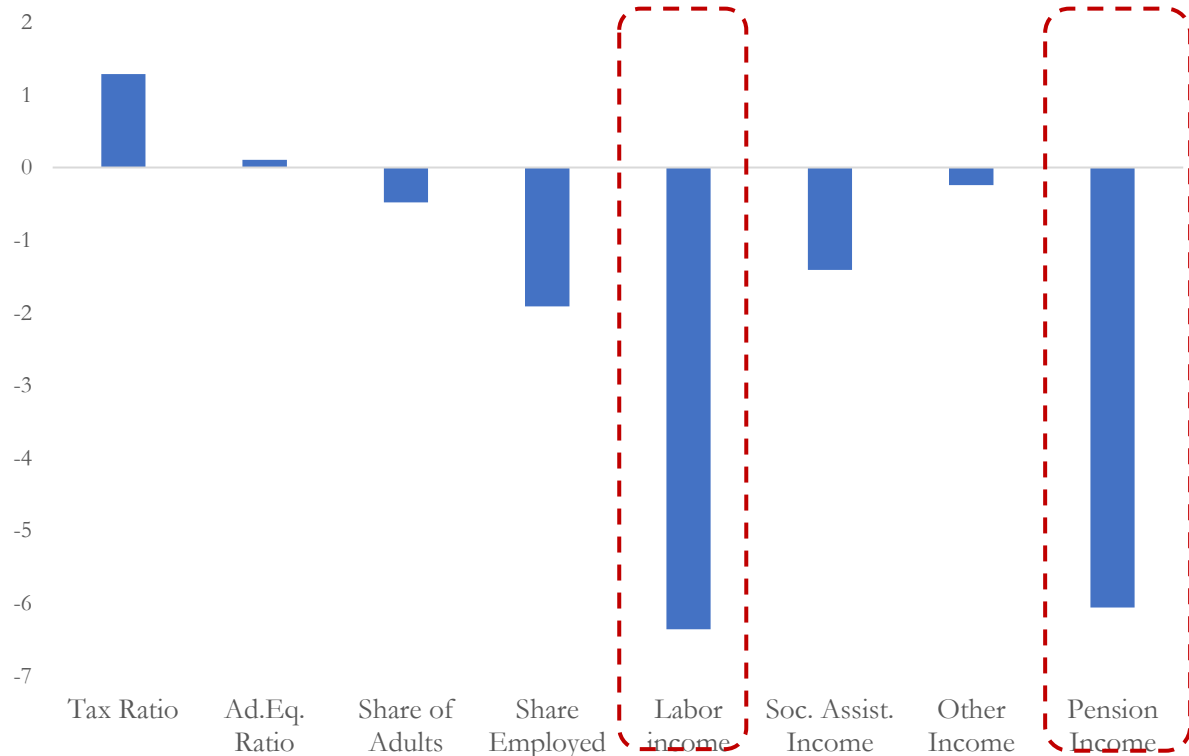
Note: Poverty rates are based on at-risk-of-poverty line anchored in 2011 to be comparable across time. Marginal contribution to change in poverty rate is in percentage points.



# Can Romania continue this path?

Much of the poverty reduction progress can be attributed to an improvement in labor and pension income thanks to reforms in taxes, minimum wage setting, and pension. But, pension restructuring, and tax cuts contributed to a rising deficit. Increase in public sector and minimum wages outstripped labor productivity growth.

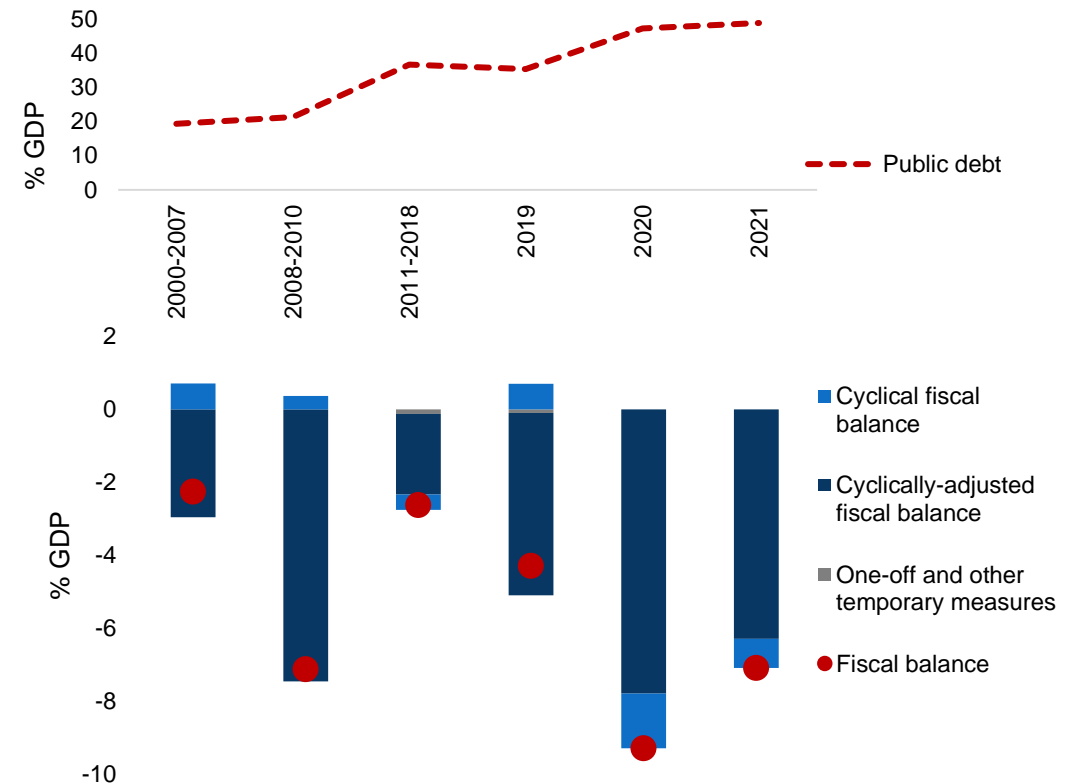
## Drivers of poverty reduction



Source: World Bank staff calculation based on EU SILC 2020 and 2015 data (referring to 2019- and 2014-income years).

Note: Poverty rates are based on at-risk-of-poverty line anchored in 2011 to be comparable across time. Marginal contribution to change in poverty rate is in percentage points.

## Fiscal deficits



Source: World Bank

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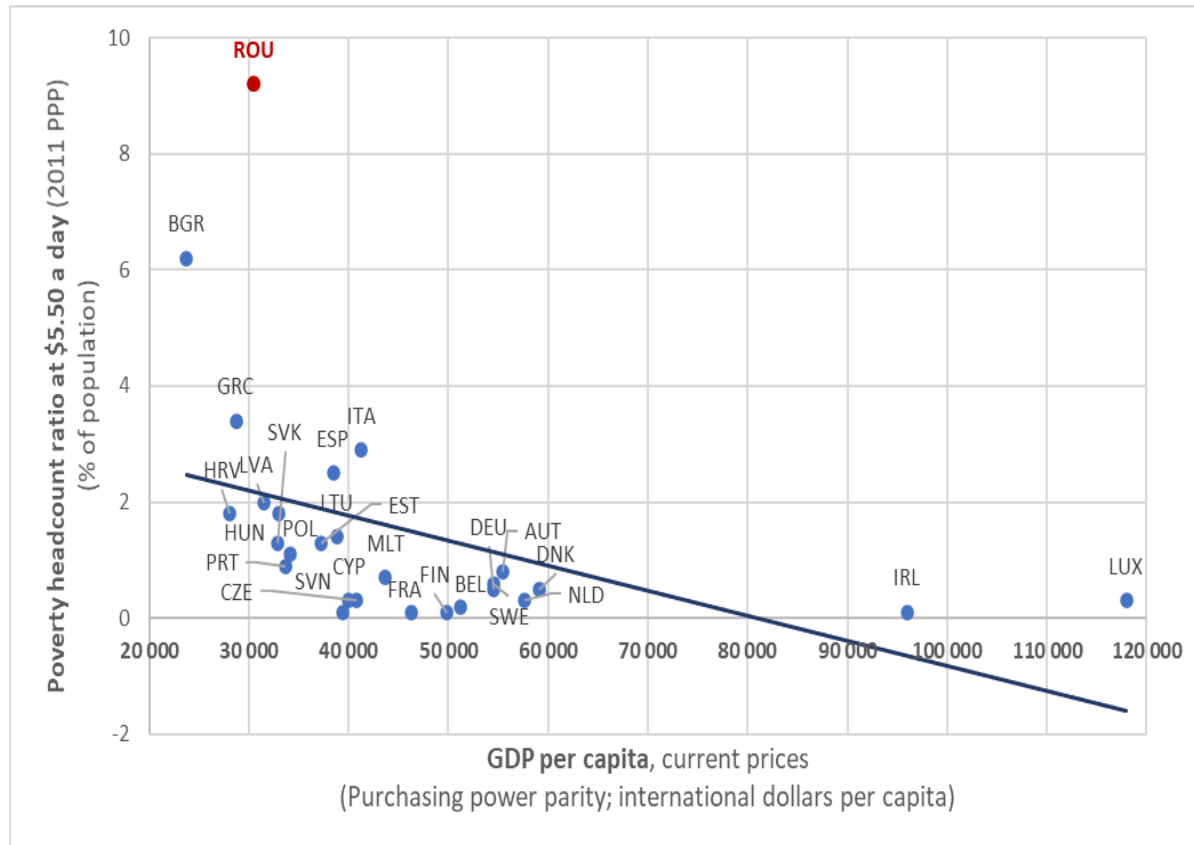
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Discussion

# Today, Romania still has the highest poverty rate in the EU.

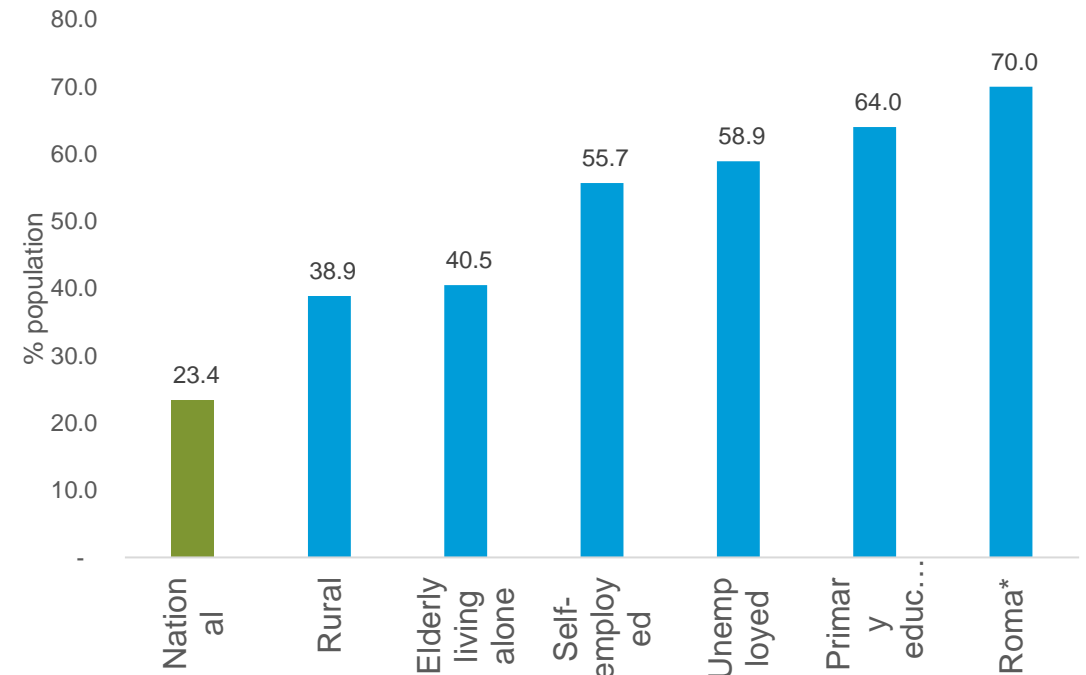
Poverty in Romania is almost double that of peer countries with similar level of income, e.g. Greece, Latvia, Croatia. Moreover, poverty is widespread among vulnerable groups: Roma, unemployed, self-employed, elderly, lower-education people, and rural residents.

## Poverty comparison with EU peers



Source: World Bank staff calculation based on WDI and IMF data. Latest poverty rates for EU countries are from EU-SILC 2020

## At-risk-of-poverty by demographic groups

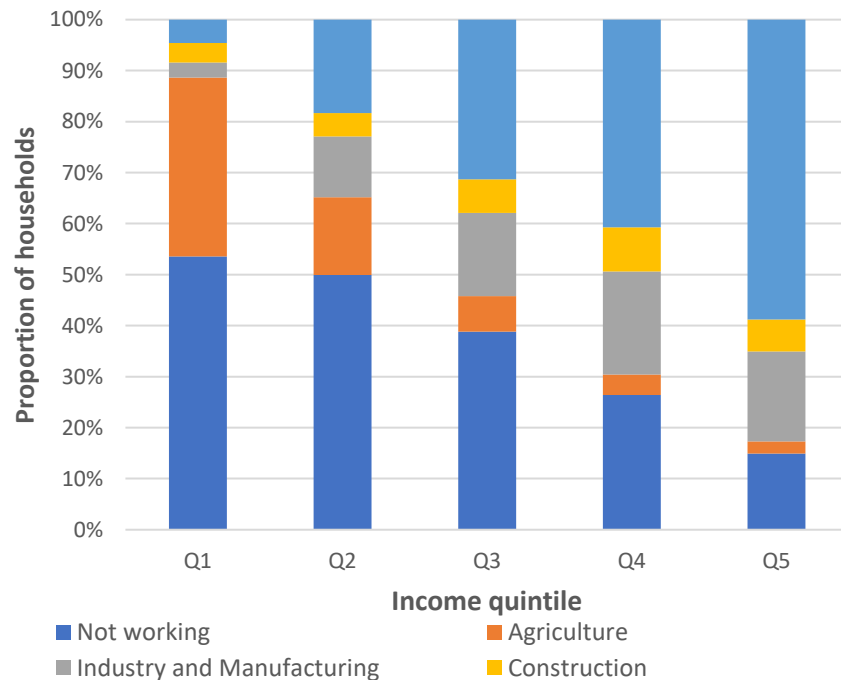


Source: World Bank staff calculation based on EU-SILC 2020. \* Roma poverty is based on FRA 2016.

## Many Romanians in the bottom 40 percent have not benefitted from the booming economy driven by strong labor markets and thriving sectors in manufacturing, trade, and ICT.

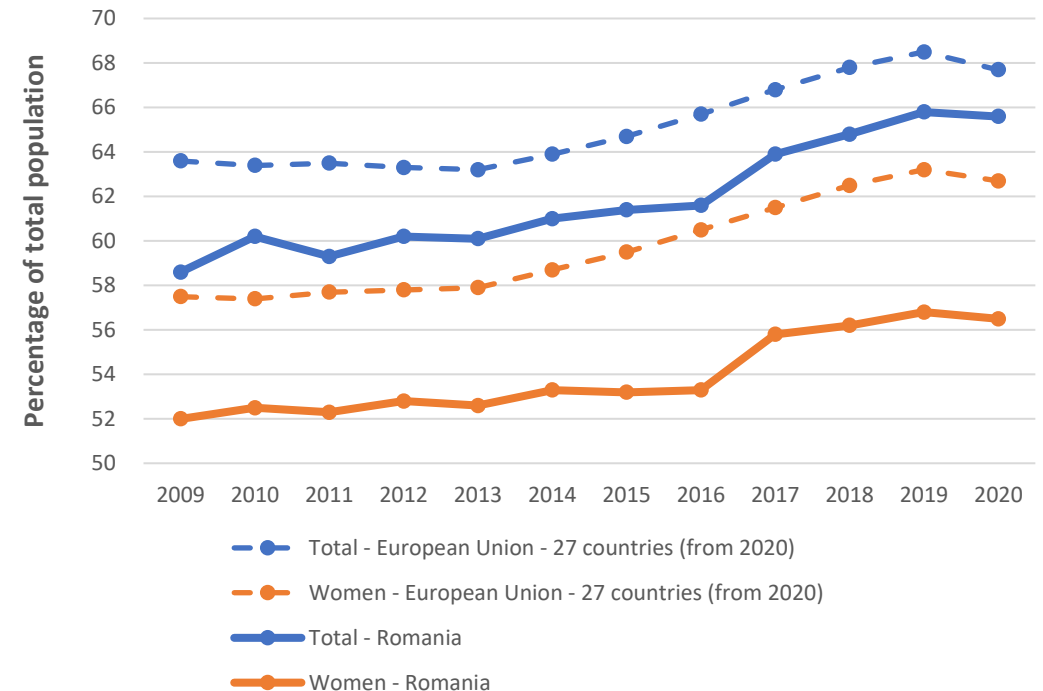
Romania’s labor force participation was the 5th lowest among EU countries. The active rates were particularly low among women, low-income people, and people with lower level of education, which limits their opportunities to increase income. The poorest continue to be either not working or concentrating in low-productivity subsistent agriculture.

Sectoral employment distribution by income quintile



Source: World Bank staff calculation based on WDI and IMF data. Latest poverty rates for EU countries are from EU-SILC 2020

Labor force participation (% of 15-64 year old)



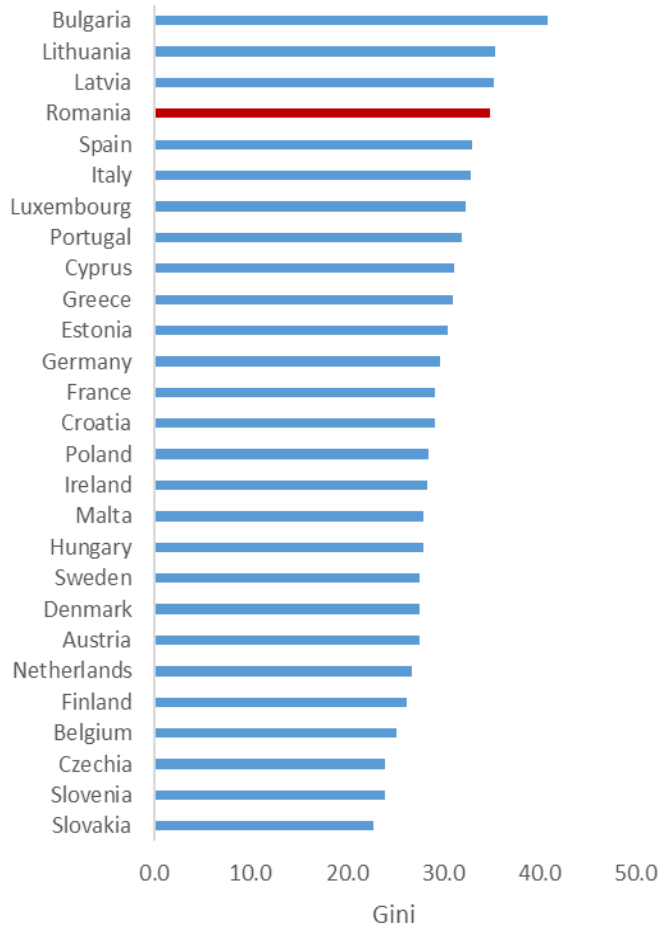
Source: Eurostat

# Inequality is high – a tale of two Romania.

Romania is one of the most unequal countries in the EU, only after Bulgaria, Lithuania, and Latvia.

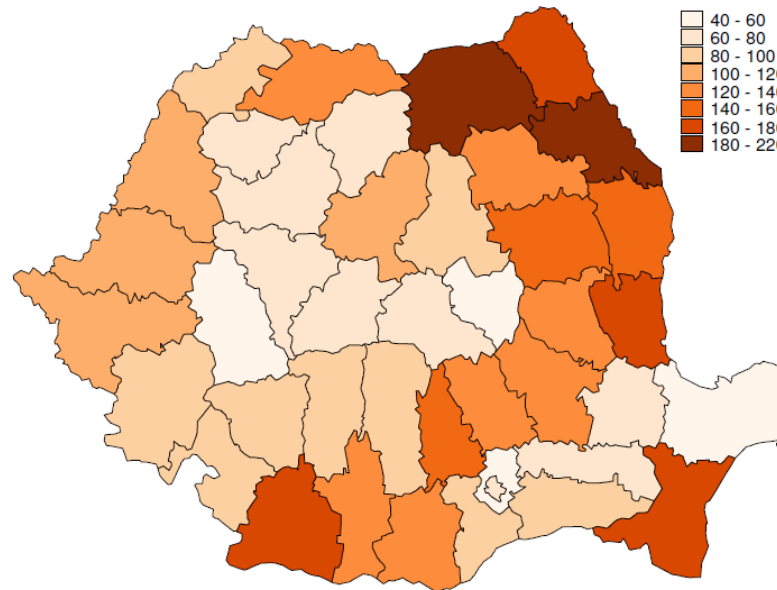
Romania’s inclusion challenge remains predominantly a rural population with 70 percent of total poor living in rural areas.

Gini, 2019



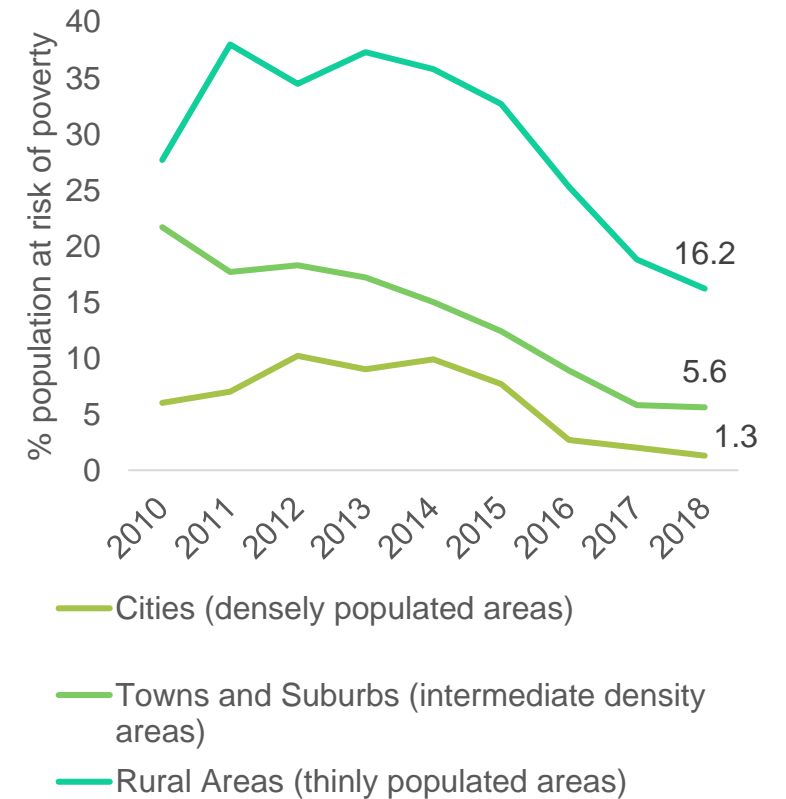
Source: Eurostat

Poverty density by counties



Source: World Bank staff calculation based on EU-SILC.

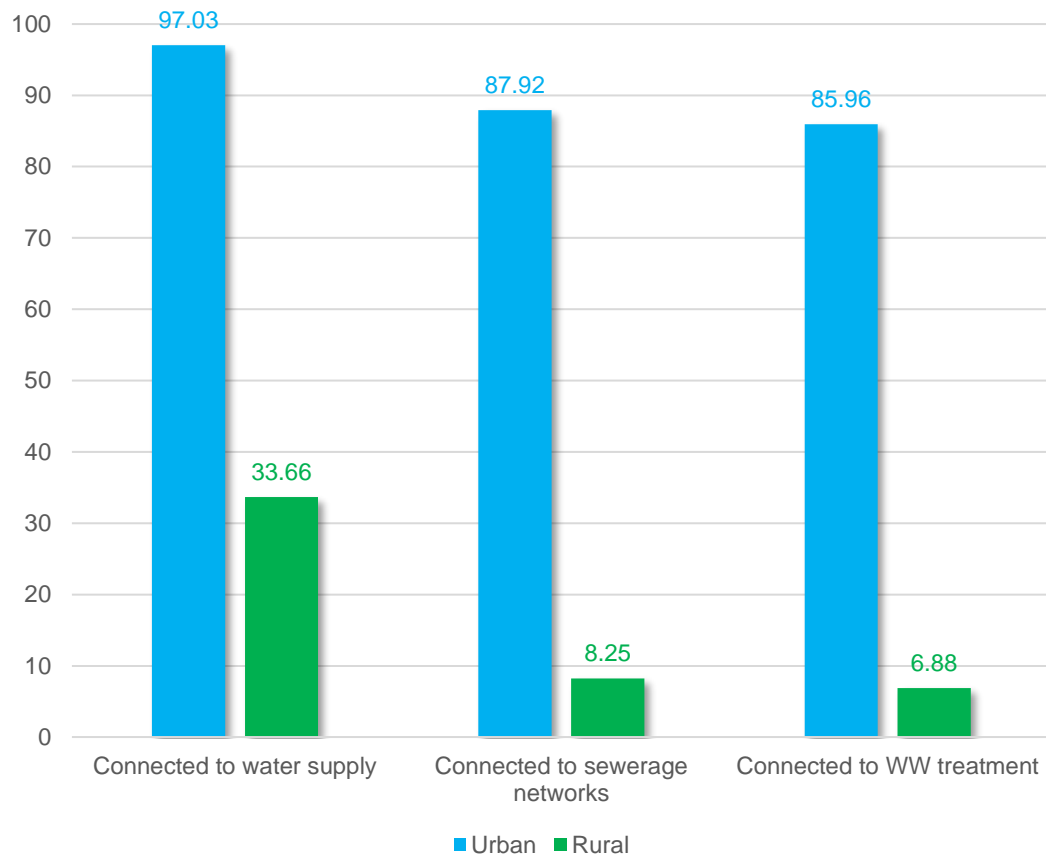
At risk of poverty by rural/urban



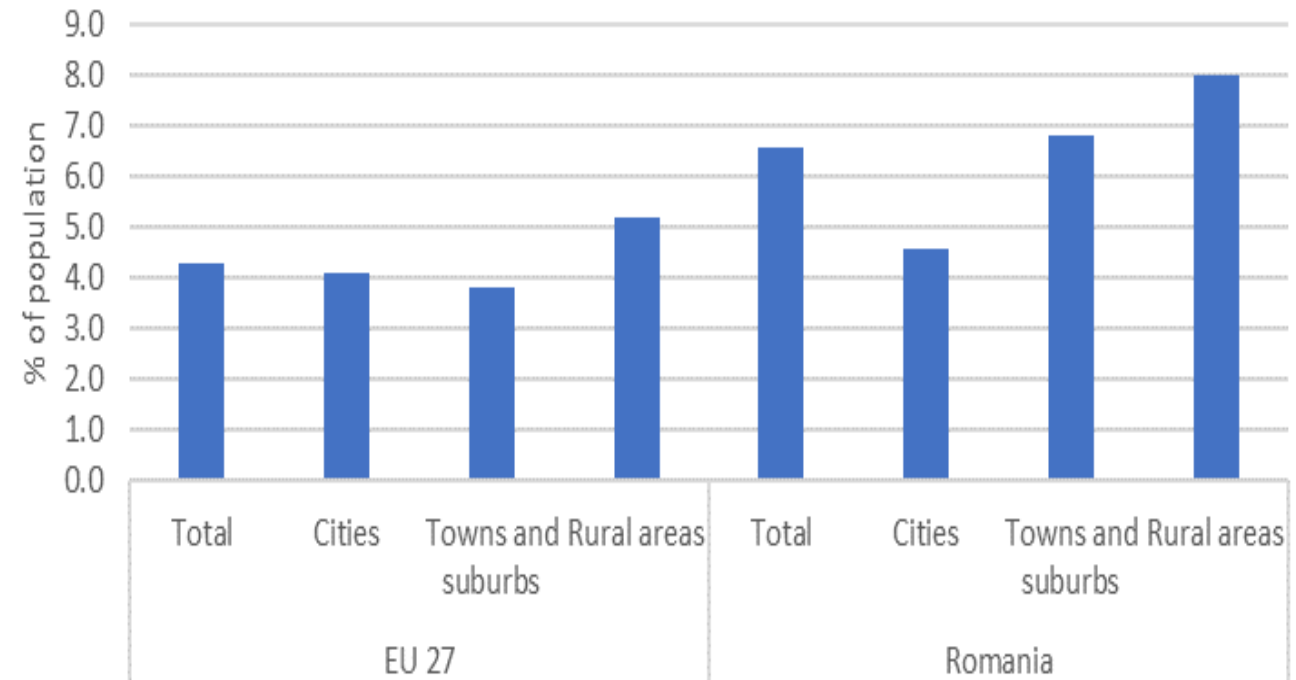
# Spatial disparities in services delivery are large.

Provision of high-quality public services – portable water, health, education – remains low, especially for the poor and rural residents.

## Water connection



## Self-reported unmet needs for medical examination



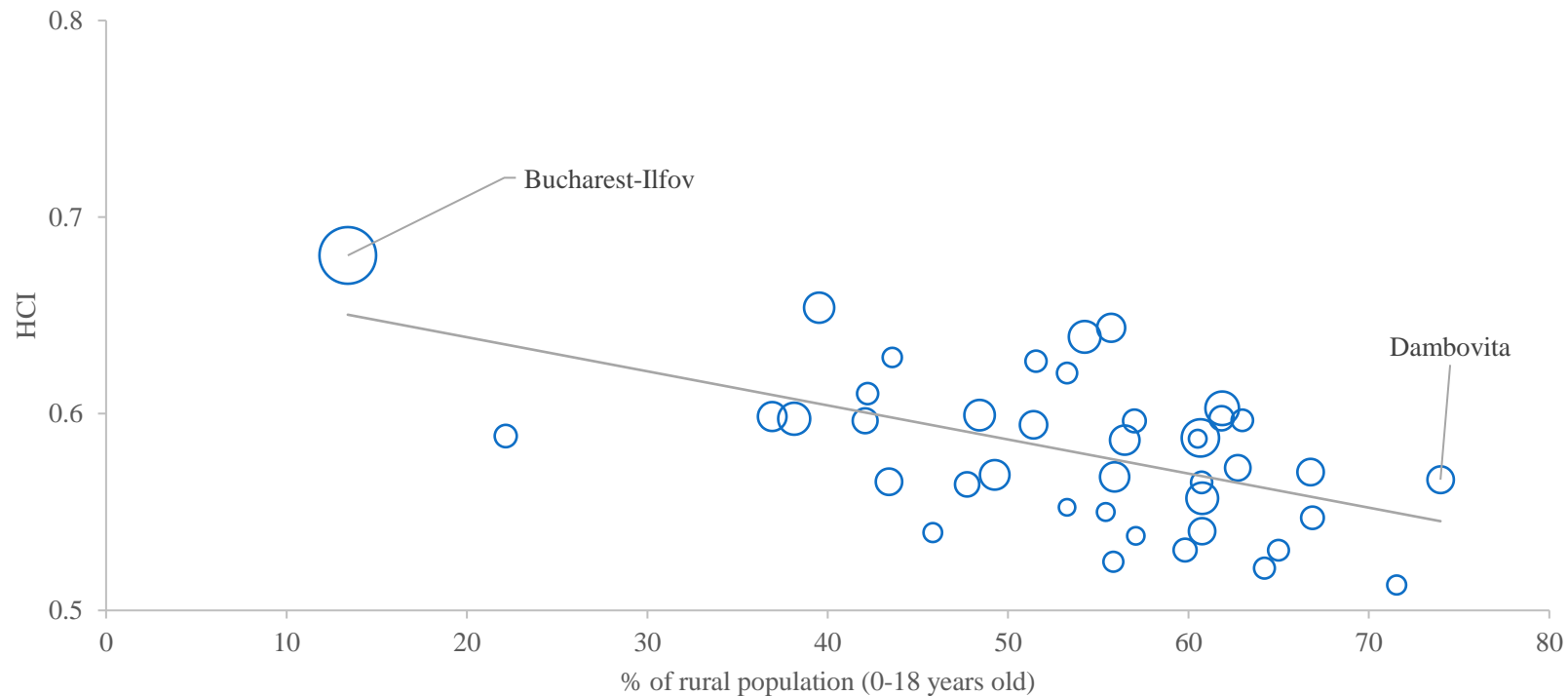
Source: INS Databases, 2017

Source: Eurostat, 2020

## Gaps in human development outcomes remain significant.

Disparities in provision of services lead to poor human development outcomes with disproportionate effects on the poor and rural residents. On average, more than two years of additional schooling are required for closing the learning gap (measured by harmonized-test scores or HTS) between students in Bucharest- Ilfov, and in the rest of the country

### Human capital Index at subnational level



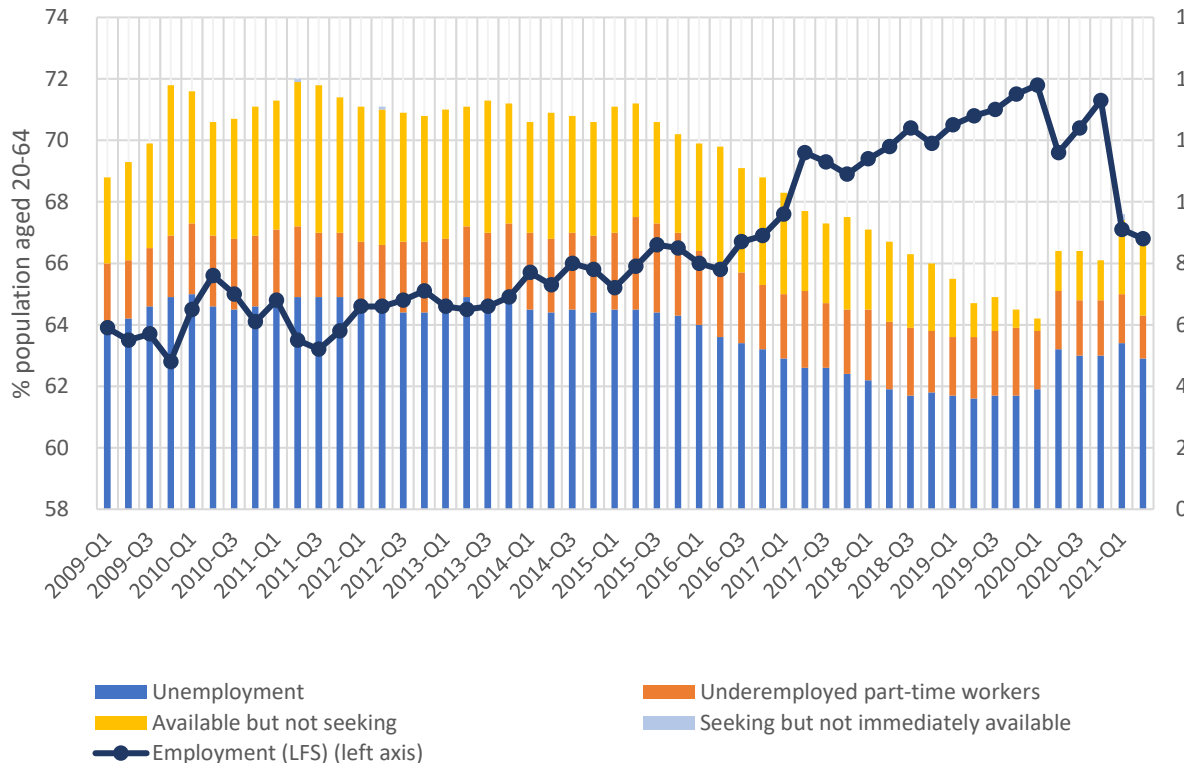
Source: World Bank 2020

# The ongoing COVID-19 pandemic disproportionately affected the poor and vulnerable. Employment contraction was more severe among low-wage workers.

As a result of the economic contraction, Q2 2020 shows a marked decline in employment rate and a significant increase in labor market slack. Throughout the pandemic, low-wage workers and those on non-standard contracts were disproportionately affected.

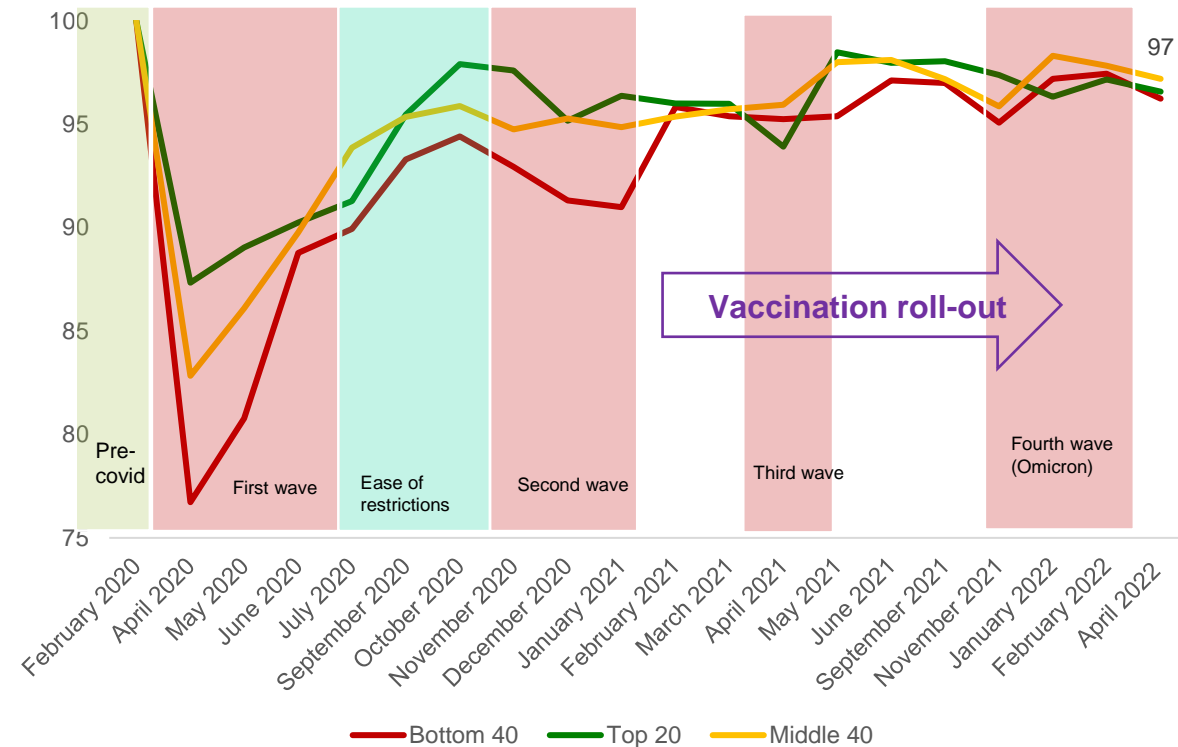
The good news is: by now, the labor market has bounced back to its pre-pandemic level.

Employment rate and labor market slack in Romania  
(seasonally adjusted data)



Source: Eurostat.

Work stoppage by income group



Source: Romania Rapid Assessment Survey (2022)

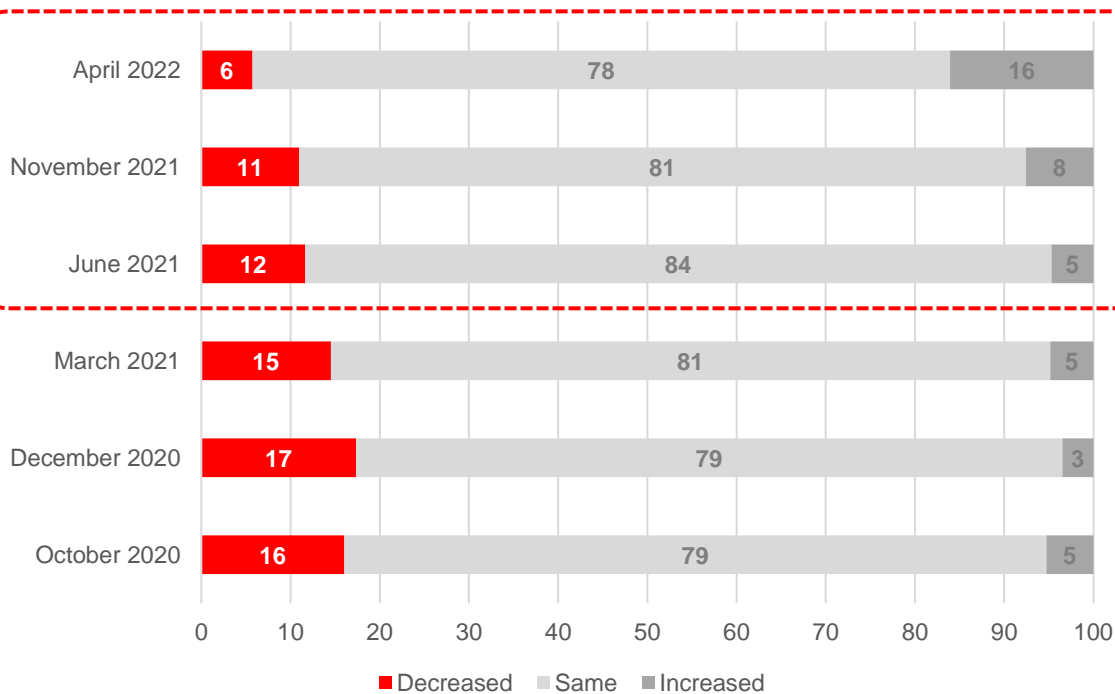


# As of April 2022, labor income was improving but workers (especially young and urban) continued to worry about jobs.

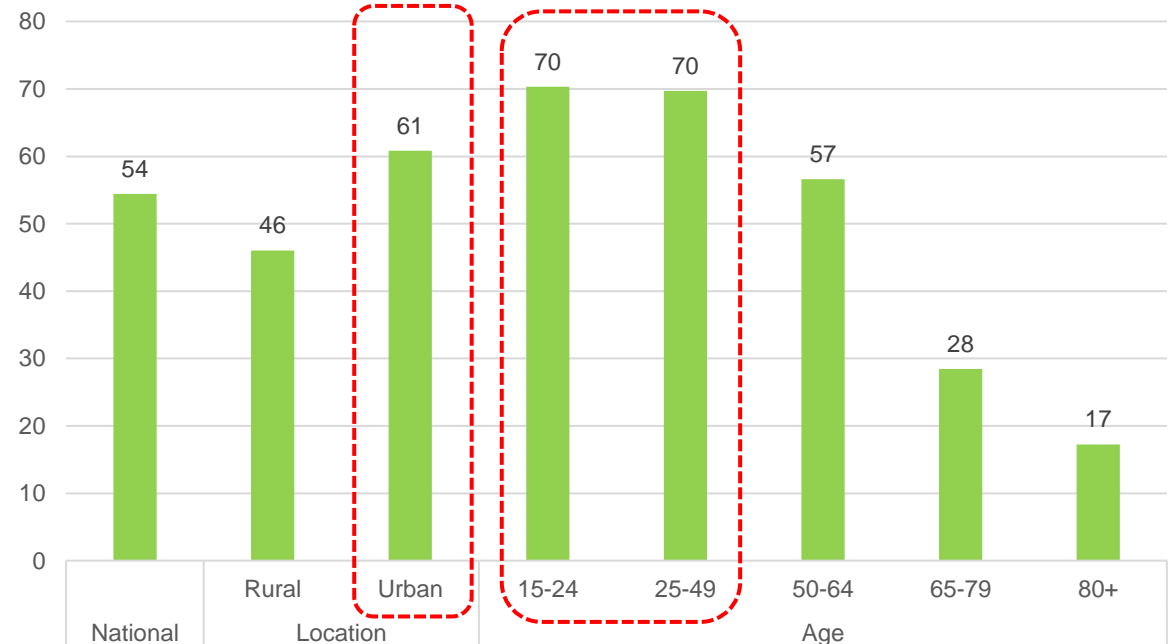
As of April 2022, only 6 percent of Romanian workers reported labor income decrease compared to their pre-crisis level – a significant drop since October 2020.

But more than half of Romanians are still concerned about losing their current jobs, or not finding a new jobs. The rates are highest among urban and younger people.

Comparison of current monthly labor income with pre-crisis level



Worries about losing current jobs or not finding a new jobs

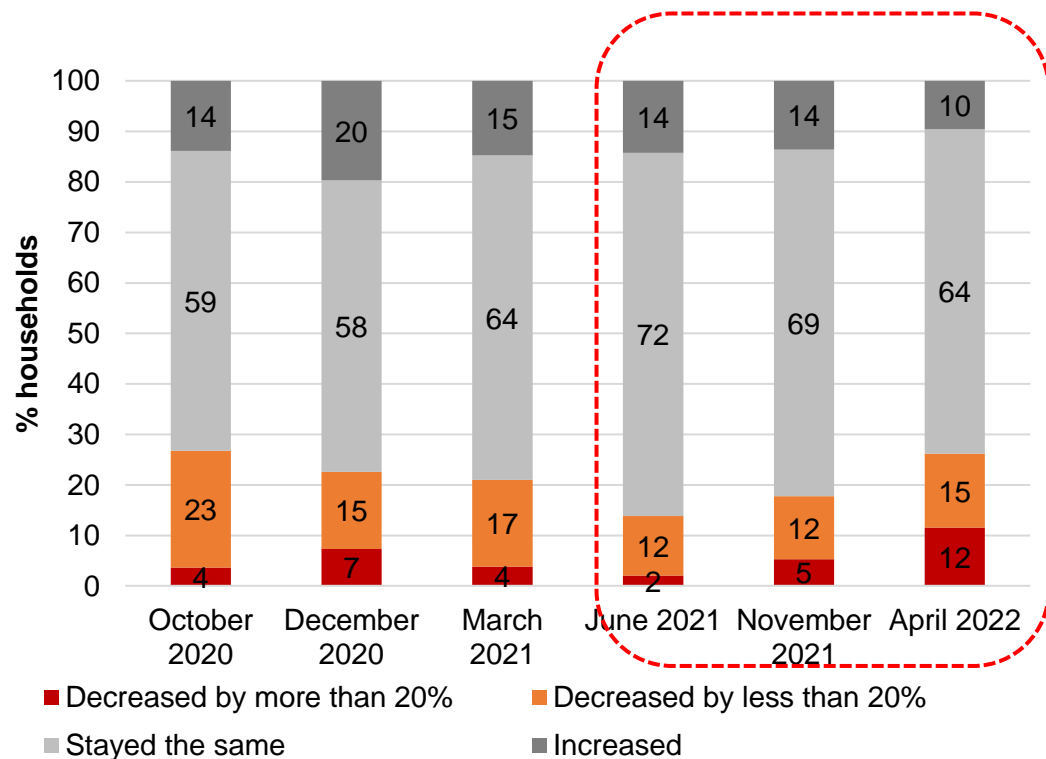


# But paradoxically, total household income has deteriorated in recent months.

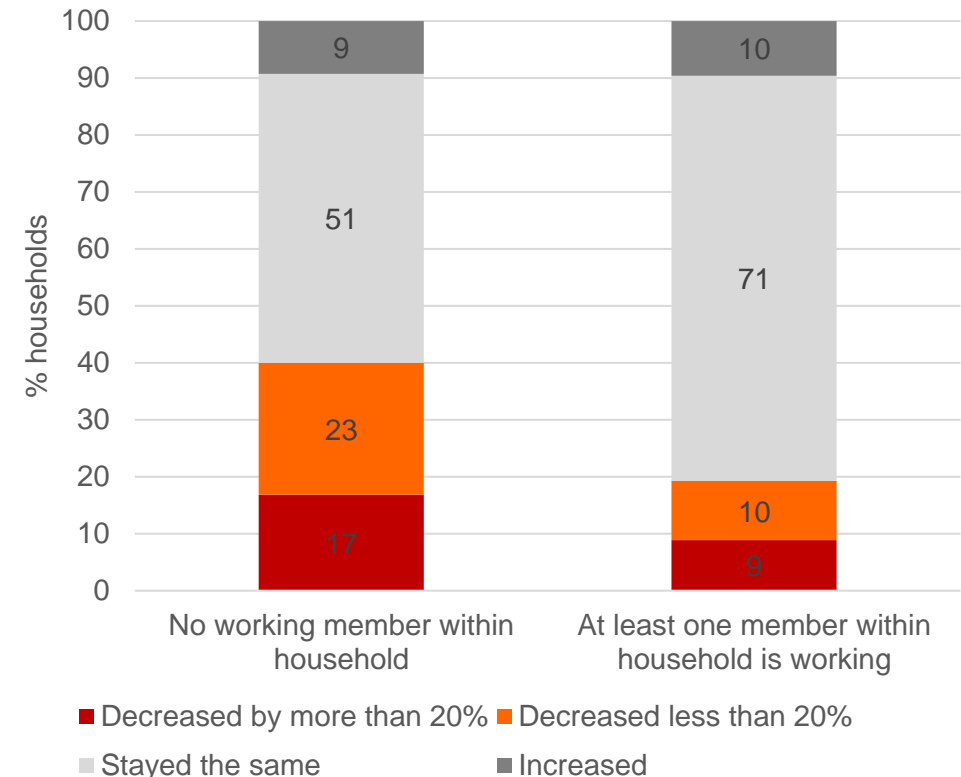
With the recovery in labor market, fewer households reported total income decline until mid-2021. But since then, more households have seen their income deteriorated.

The problem is more severe among non-working households, signaling labor income is less of an issue.

Comparison of current total monthly income with pre-crisis level



Comparison of current total monthly income with pre-crisis level, by employment status

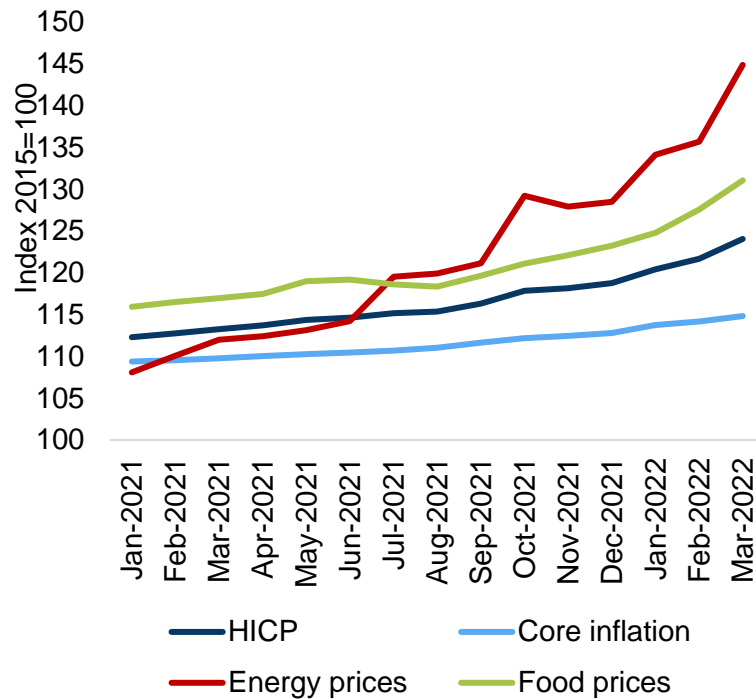


Source: Romania Rapid Assessment Survey (April 2022)

# This is because rising prices have hit a record-high level and affected households' real income.

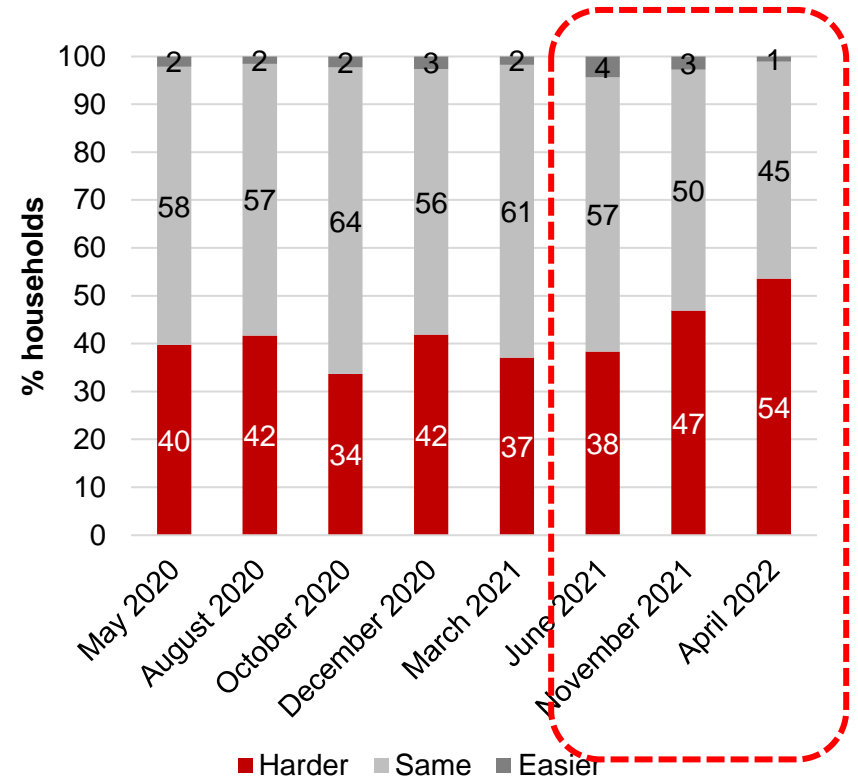
It reflects in an uptick in the number of households reporting harder to make ends meet in recent months. Worries about rising prices are universal.

## Rising prices



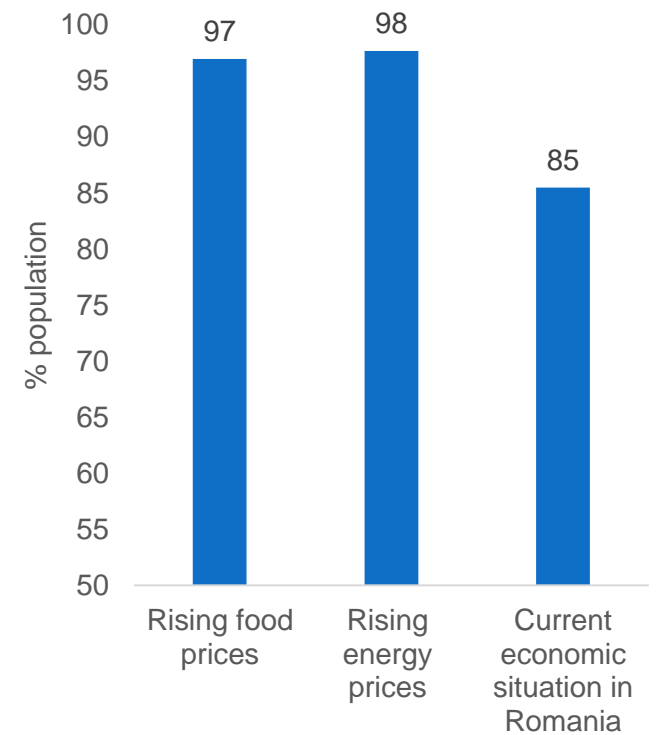
Source: Eurostat.

## Harder to make ends meet compared to pre-crisis level



Source: Romania Rapid Assessment Survey (April 2022)

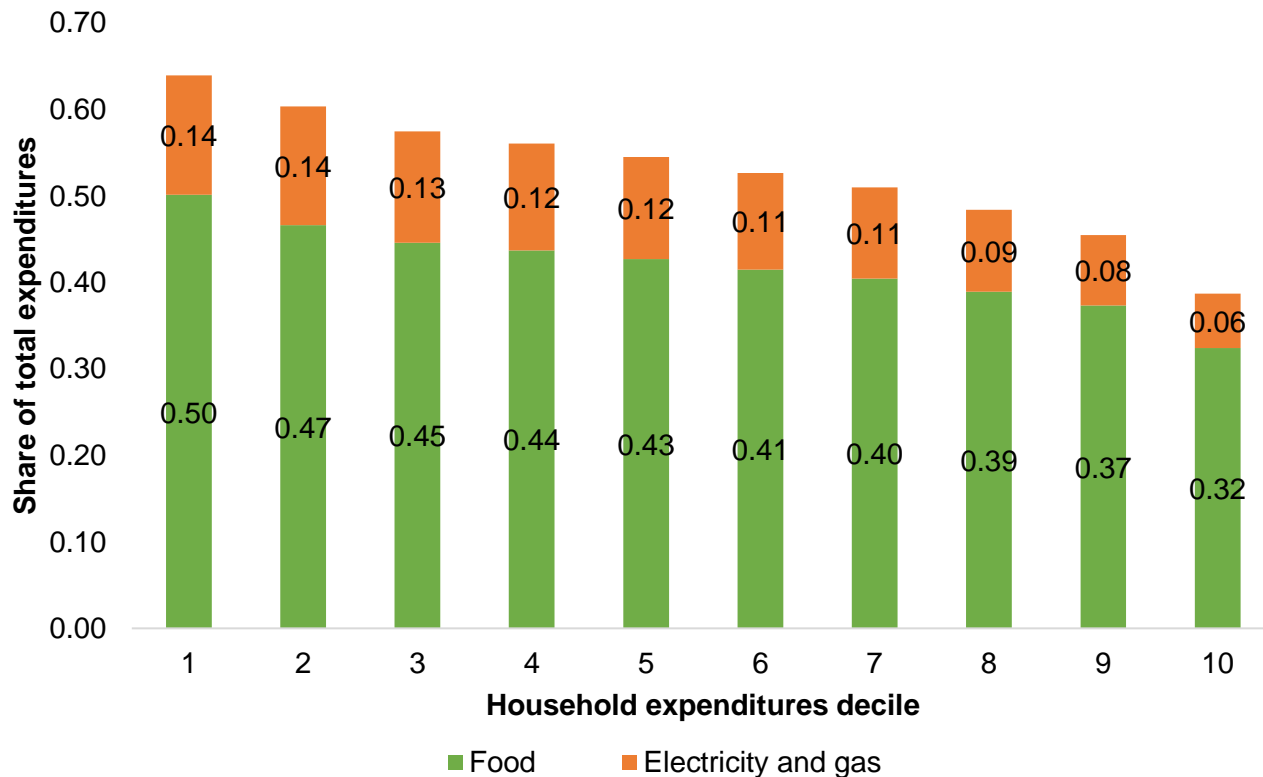
## Worries about recent shocks



# This is worrisome news, especially for the poorest.

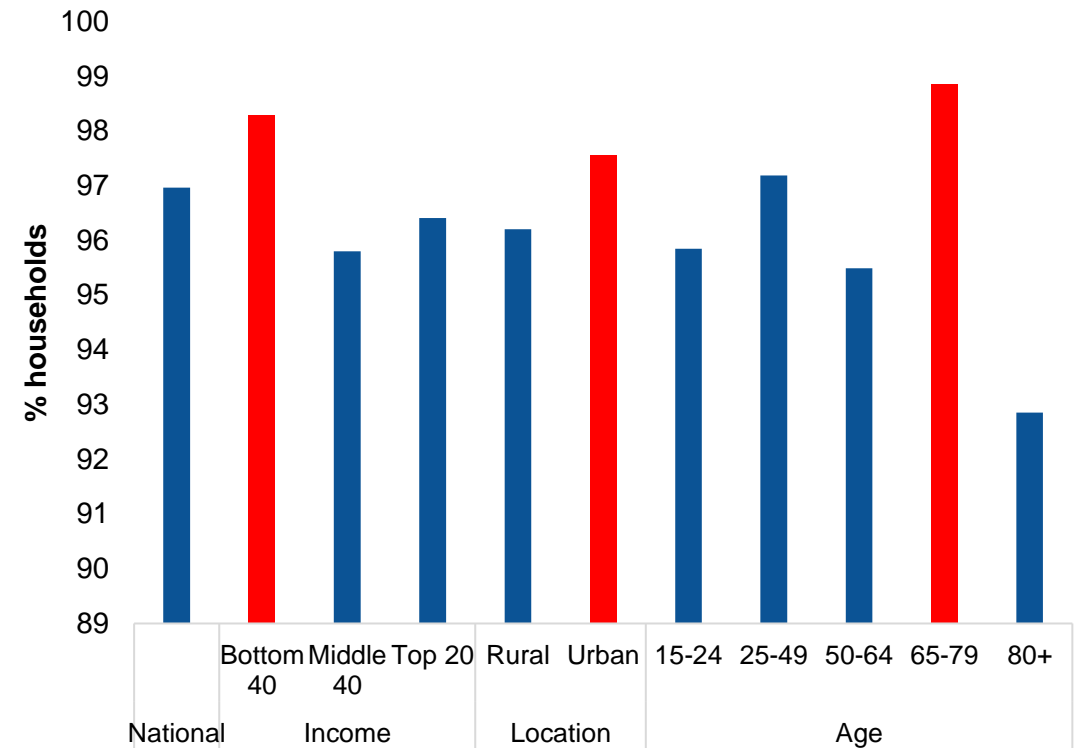
For the poorest, food and energy take more than half of their expenditure budget. Rapid rising prices on necessities will leave them little room for other expenses (clothes, school, medicines, etc.)

Food and energy as share of total budget



Source: Household Budget Survey (2019).

Worry about rising food prices, by income and age

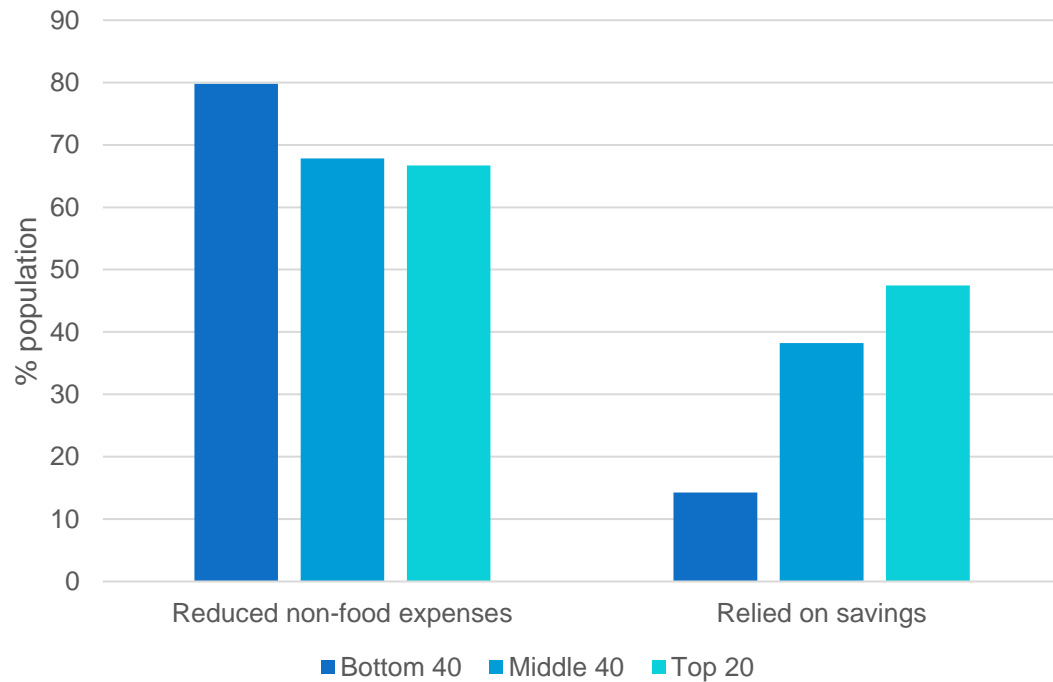


Source: Romania Rapid Assessment Survey (April 2022)

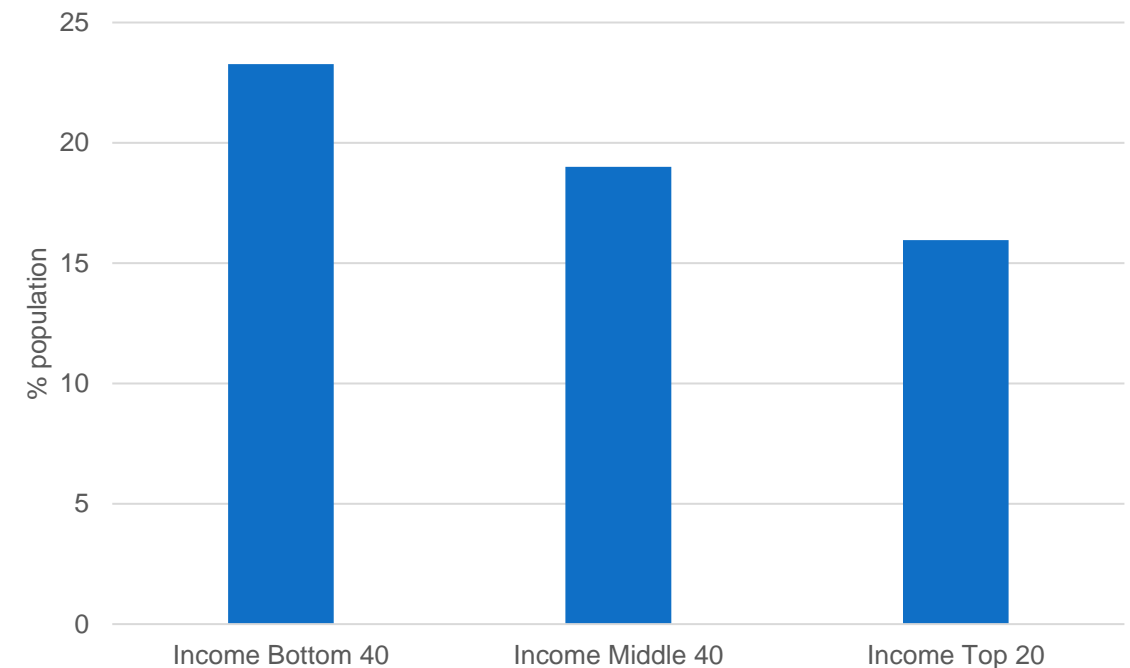
# With little savings to cushion the prolonged shocks, Romanian poor resort to unsustainable coping mechanism.

Nearly 80 percent of people in the bottom 40 percent of the income distribution cut back non-food expenditures (clothing, school fees, healthcare, etc.). Nearly 25 percent faced arrears in utilities.

Coping mechanism to a decline in income

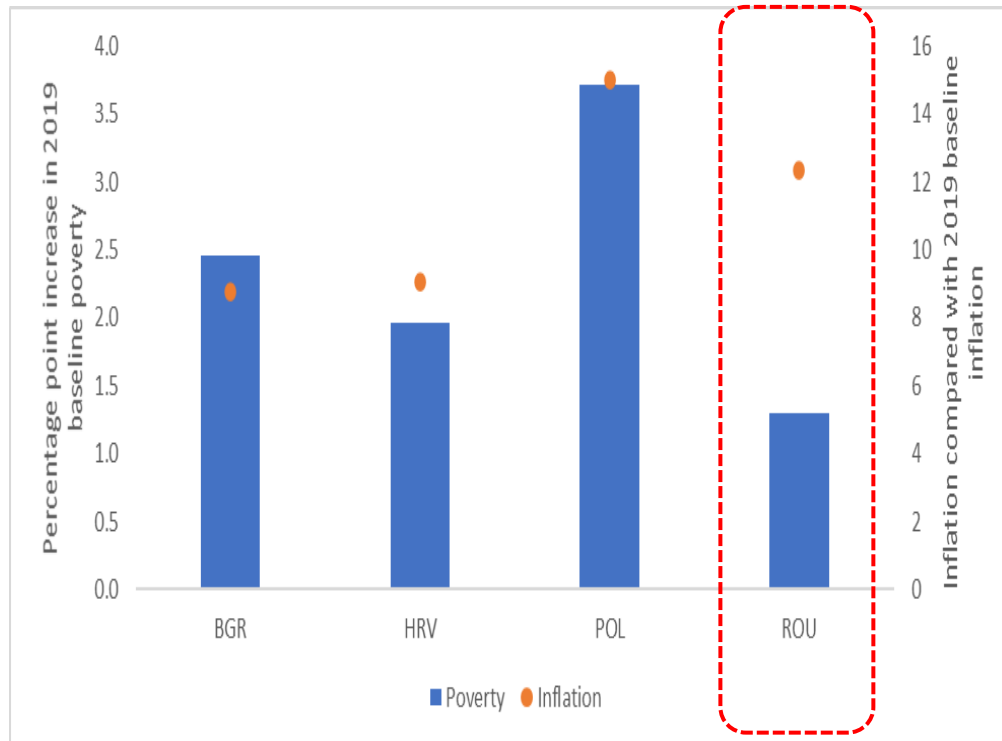


Arrears in utilities



## High inflation is likely to result in increased incidence and depth of poverty. Programs rolled out to shield consumers from price rises may dampen these impacts.

### Impacts of inflation on poverty



Simulations show potential higher food and energy prices could increase at-risk-of-poverty increase by 1.3 p.p. in Romania, or an addition of 252,000 poor.

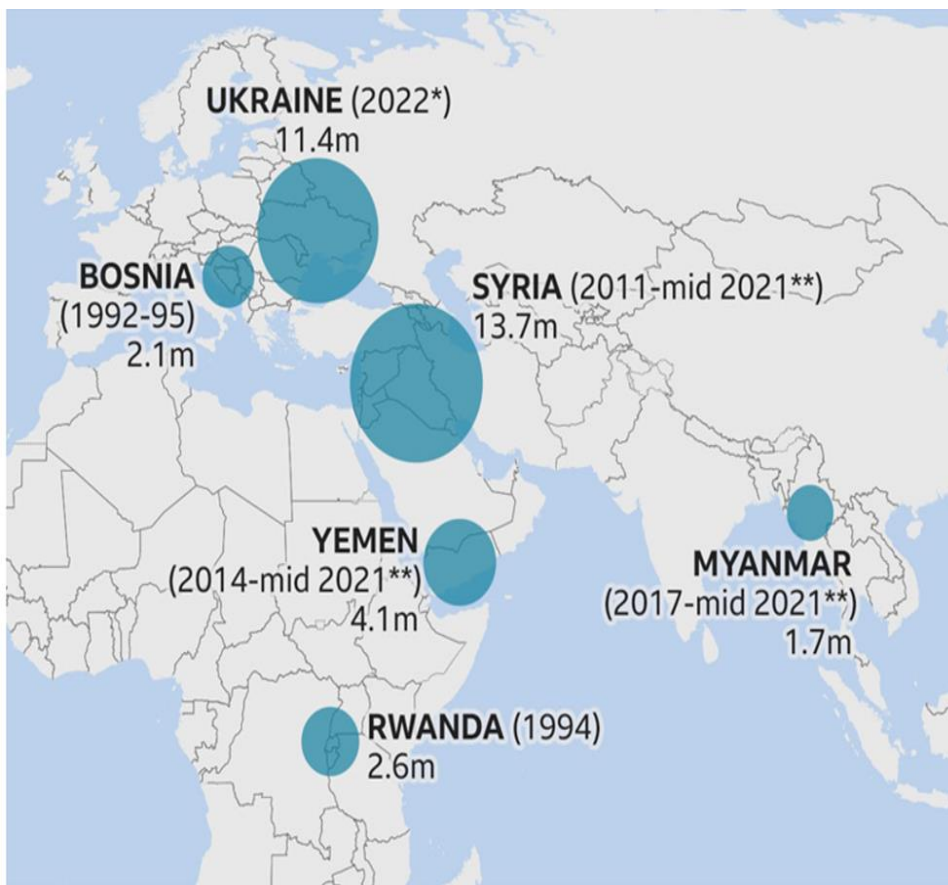
**Extensive policy measures expected to dampen impacts.** Some of these measures are integrated into the analysis, but they're not fully considered:

- Extensive use of price regulation of fossil fuels and reduction in VAT (food, fossil fuels) to dampen inflationary rise should be captured in measured price increases.
- However targeted transfers or price regulation – such as targeted price regulations in Romania - are not incorporated in this assessment.

**Extra info:** Simulations based on weighted aggregate of expected inflation comprised of food, energy and other, where the weights are shares of food, energy, other in total consumption among bottom 20% of households. Baseline: Poverty rate in 2019 poverty rate using 2011 anchored AROP poverty line; inflation shock: inflation rate in 2022 (Oxford econ model) effectively compared to 2019 (last poverty data available); Assumes full price increase pass-through and does not take into account behavioral shifts in consumption patterns.

# The humanitarian crisis: fastest growing refugee crisis since WW2

Unprecedented flow and pace of Forcibly Displaced Persons (FDPs)



Figures include refugees who have fled to another country and internally-displaced people. \*As of 6 April 2022 \*\*Latest figures to mid-2021

5,890,875 FDPs fled Ukraine since the start of the war; 1,537,500 Ukrainians re-entered Ukraine (as of May 8)



Sources: <https://data2.unhcr.org/en/situations/ukraine>  
<https://data2.unhcr.org/en/documents/details/91114>

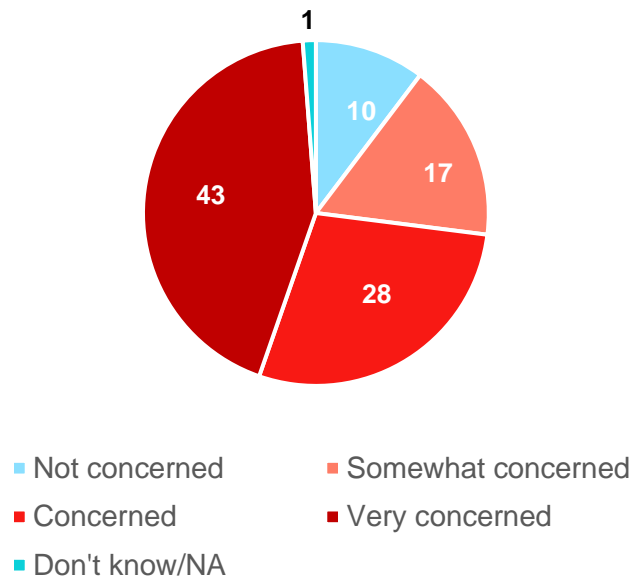
\*\*\* For Romania, Bulgaria and Moldova, the share that that remain in country are given in brackets. These figures are not yet available in Schengen area countries. The country disaggregated data sums to more than total arrivals, since exits are not calibrated.

# The majority of Romanians are concerned about the Ukrainian crisis.

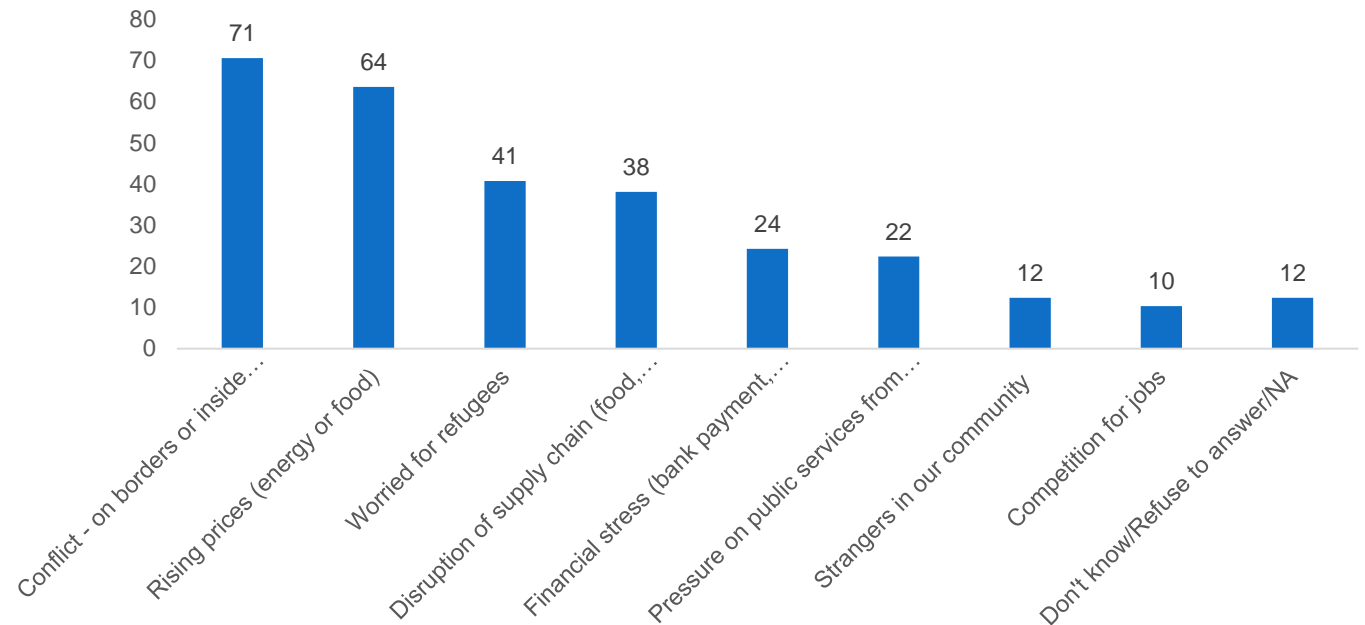
**Concern about the Ukrainian crisis is nearly universal in Romania**, among which, 43 percent of the population reported “very concerned”.

**Security and rising prices are among the top concerns.** But other concerns such as pressure on public service delivery and job competition may be on the rise if the crisis prolongs.

Level of concern about the Ukrainian crisis



Specific concerns

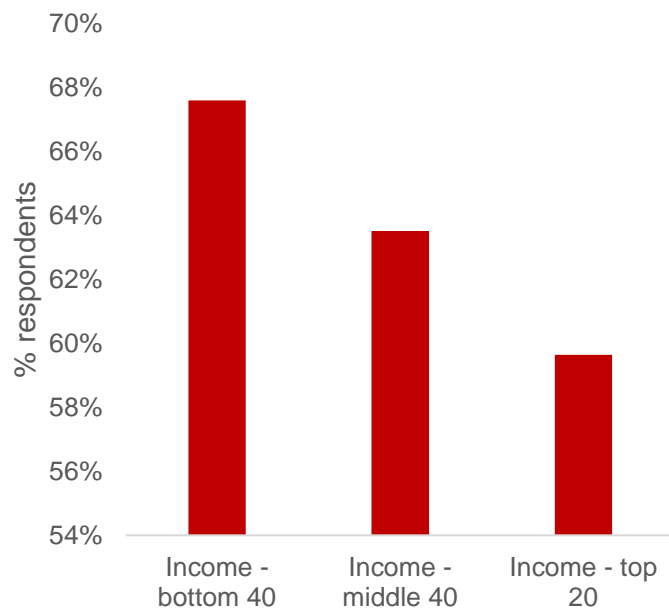




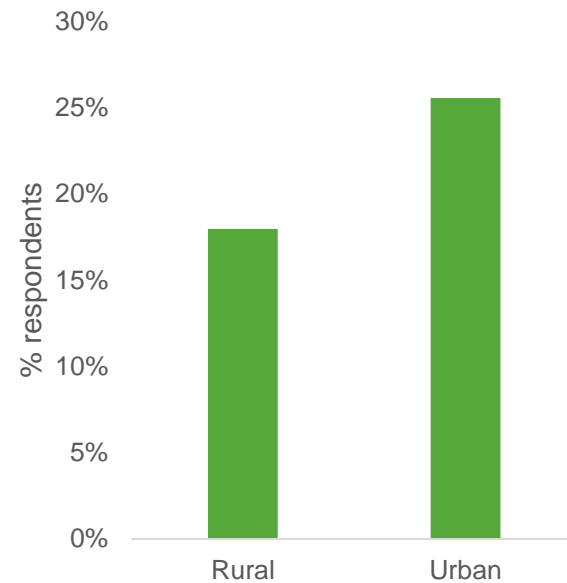
# Beyond FDP integration needs, the arrival of Ukrainian FDPs can put additional pressure on the host population, both socially and economically, if the crisis prolongs.

- Expectedly, people in **low-income** brackets are more worried about **rising prices** than their better-off peers.
- **Urban residents** are more concerned about the potential of **crowding out public** services than rural residents.
- **Prime working-age** (25–49-year-old) and **blue-collar workers** are more worried about **job competition** than peer cohorts.

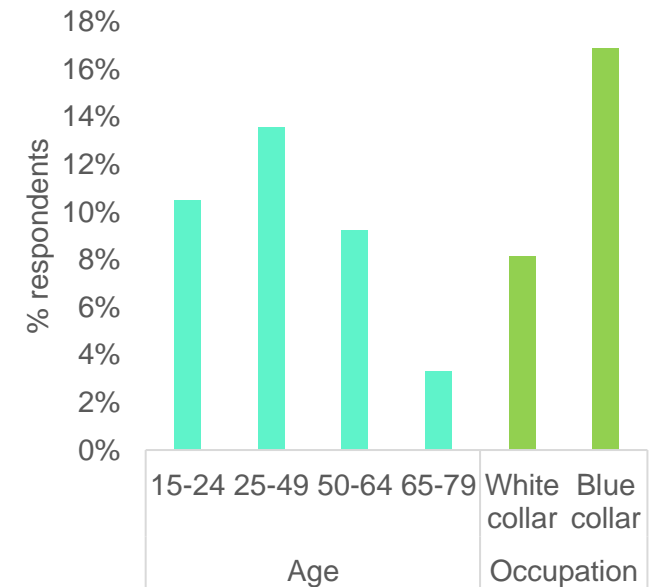
Rising prices



Pressure on public services



Job competition



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# Systematic Country Diagnostics 2022

This is an update from the SCD 2018.

Pathways for inclusive growth and job creations:

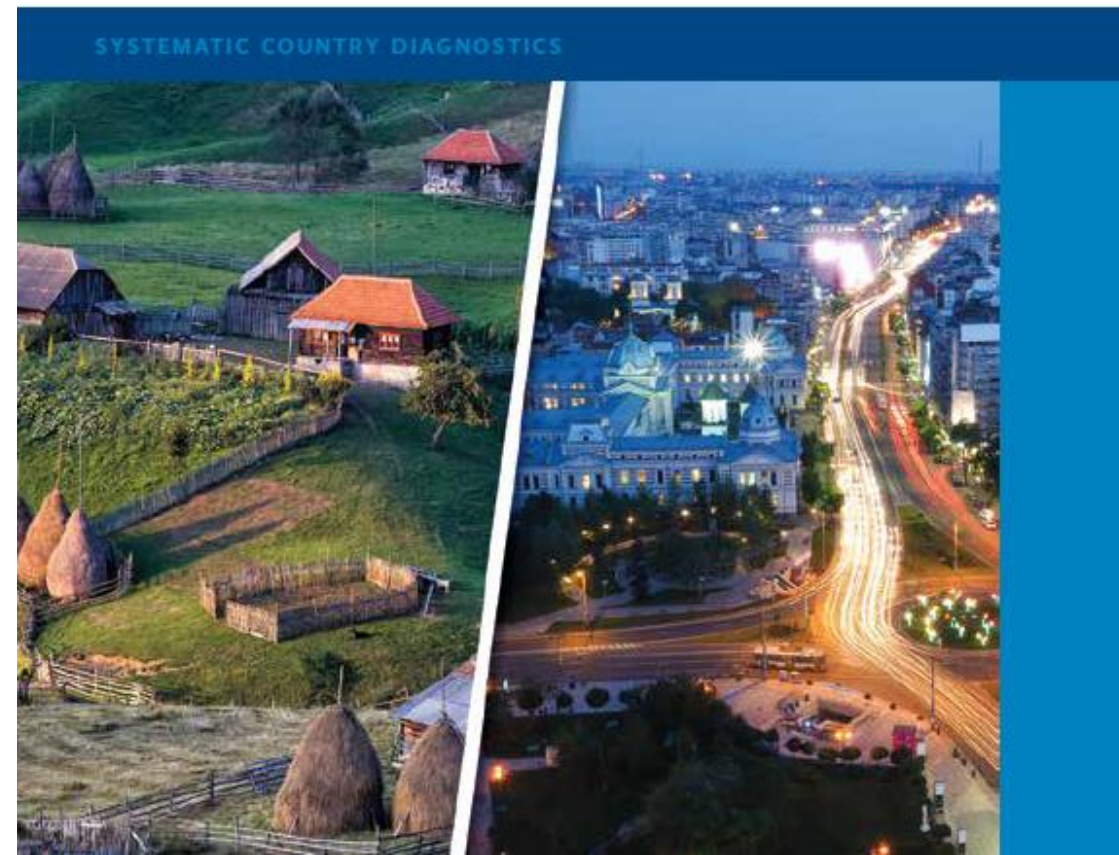
1. Increase effective and efficient public budget management to have fiscal spaces for social spending
2. Invest in human capital development (health, education, social services), especially for the poor and vulnerable
3. Create better jobs through private sector development (infrastructure, financial sector,...) and **digitalization**
4. Build resilience against climate change (adaptation and mitigation in agriculture, energy, forestry, environment,...)

Upcoming:

1. Country Private Sector Diagnostic (CPSD)
2. Country Climate and Development Report (CCDR)

## From Uneven Growth to Inclusive Development

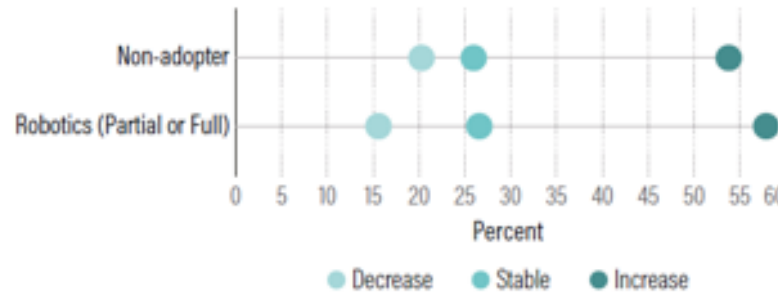
Romania's Path to Shared Prosperity



# Digitalization can help Romania to leapfrog in productivity and create more jobs.

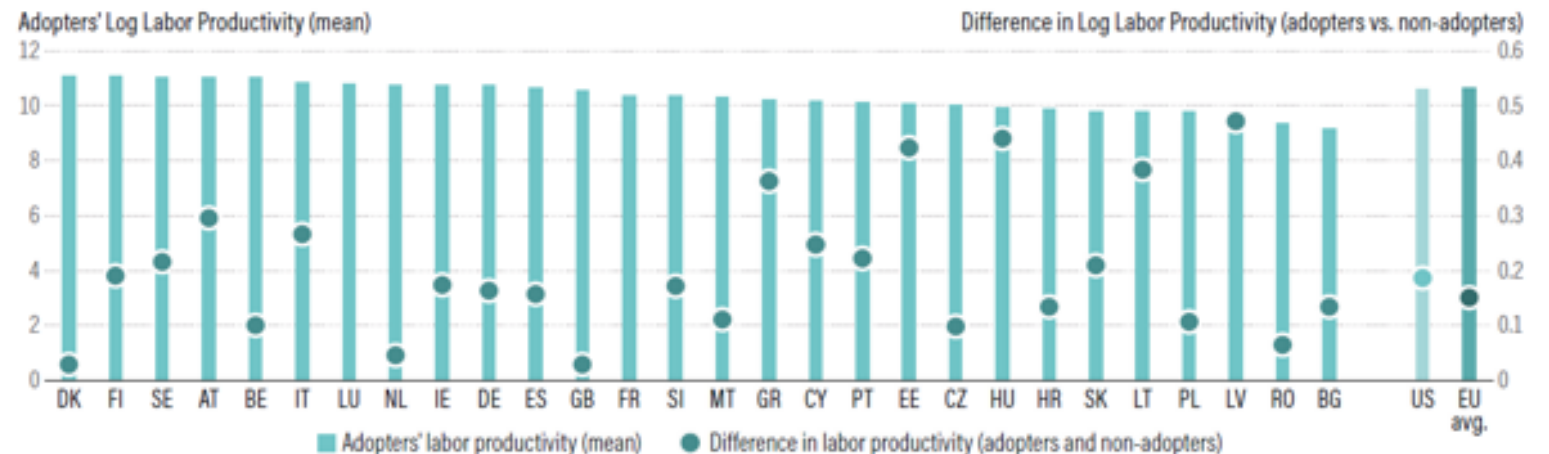
- Technology can displace labor, but it can also increase demand for new products and services, and in return create more jobs.
- The evidence shows that firms adopting robotics are performing relatively better in labor hiring and labor productivity than non-adopters.

Panel A: Trends in employment growth over the past three years, 2019



Source: Cathles, Nayyar and Ruckert (2020)

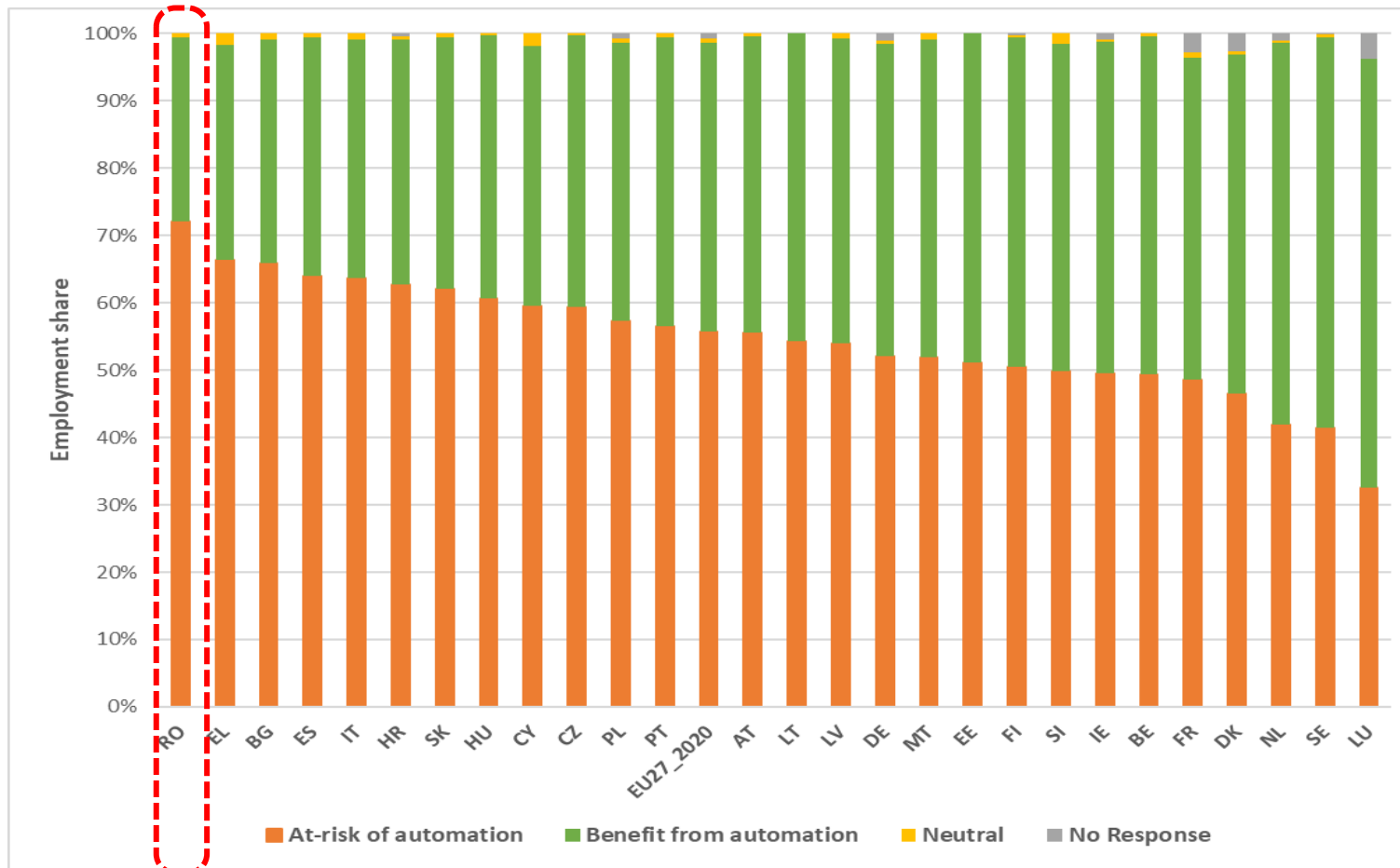
Panel B: Average labor productivity, 2019



Source: World Bank (2020)

But it requires the labor force to adopt certain digital skill sets, as the job market landscape is changing rapidly.

Share of total employment facing risk of automation in 2021

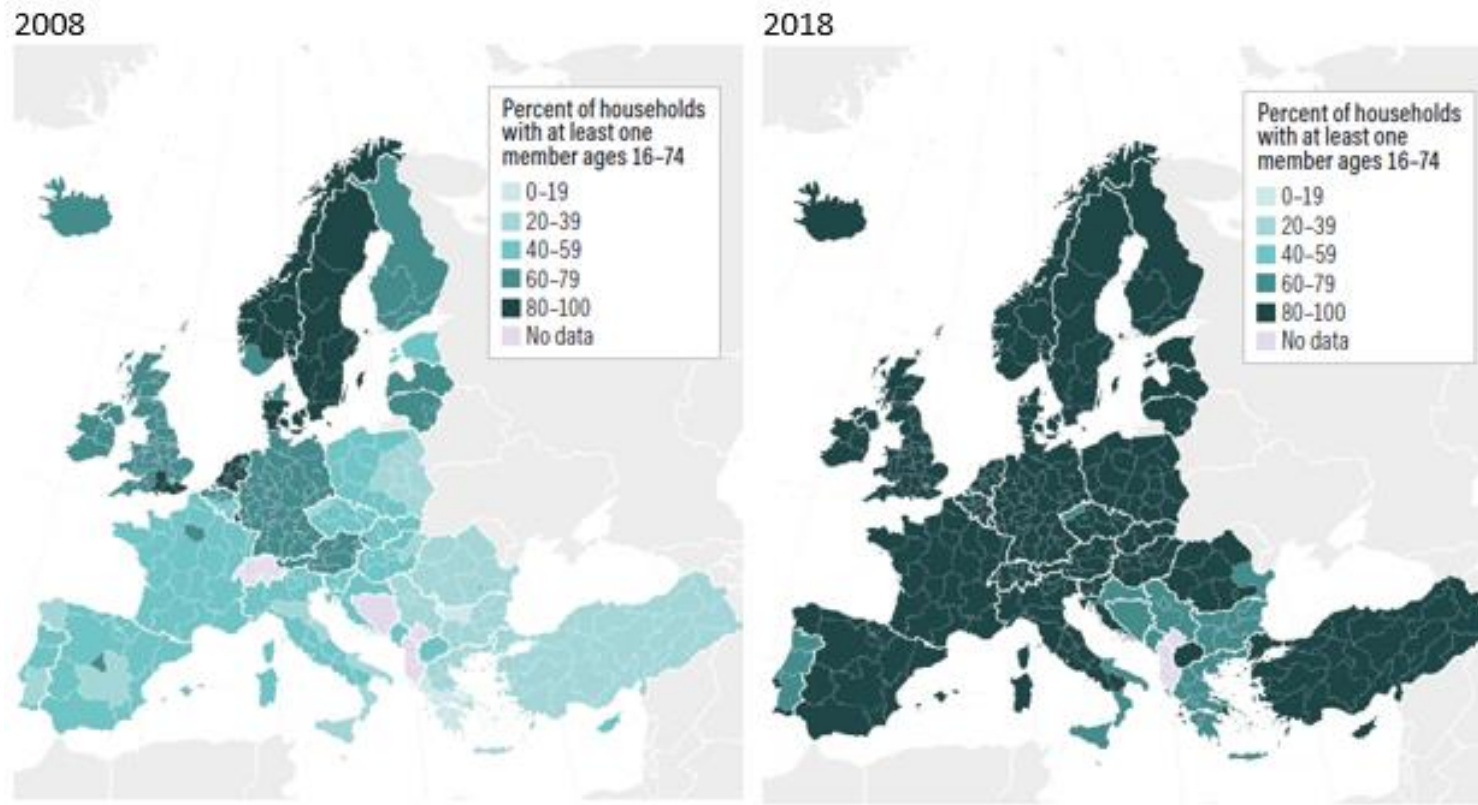


- Updated skills forecasts from CEDEFOP suggest jobs at highest risks of being replaced by advanced robotics are concentrated among low- and medium-skilled (skilled agriculture workers, machine operators) while higher-skilled occupations (professionals, managers, and technicians) can benefit from automation.

What does this mean for EU countries with an economy heavily relied on manufacture sector and lower-skilled workers?

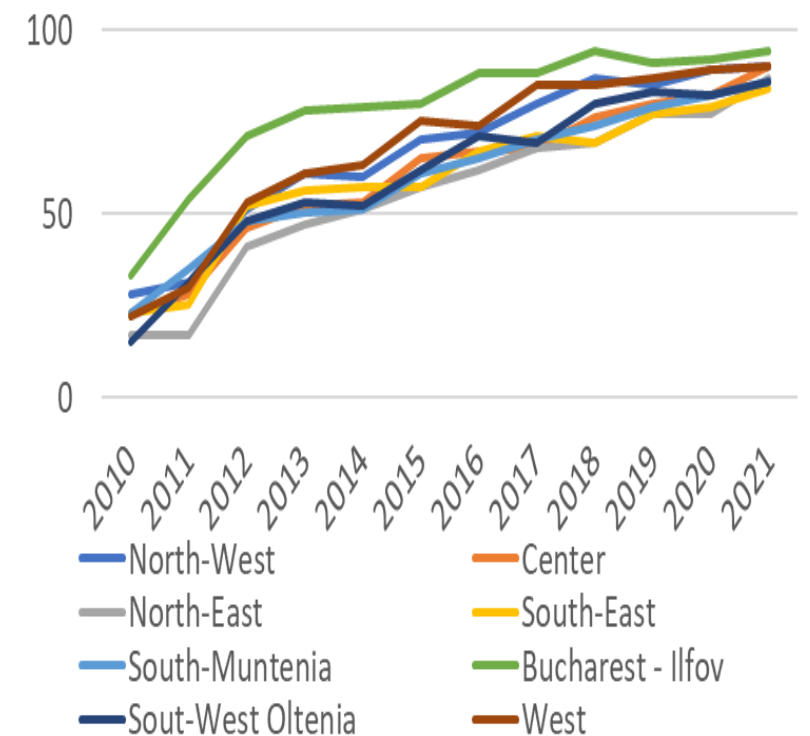
# Romania is on a good path to catch up with other EU countries in access to digital technologies, e.g. broadband.

Percent of households with broadband access in Europe



Source: World Bank (2020)

Percent of households with broadband access in Romania By region



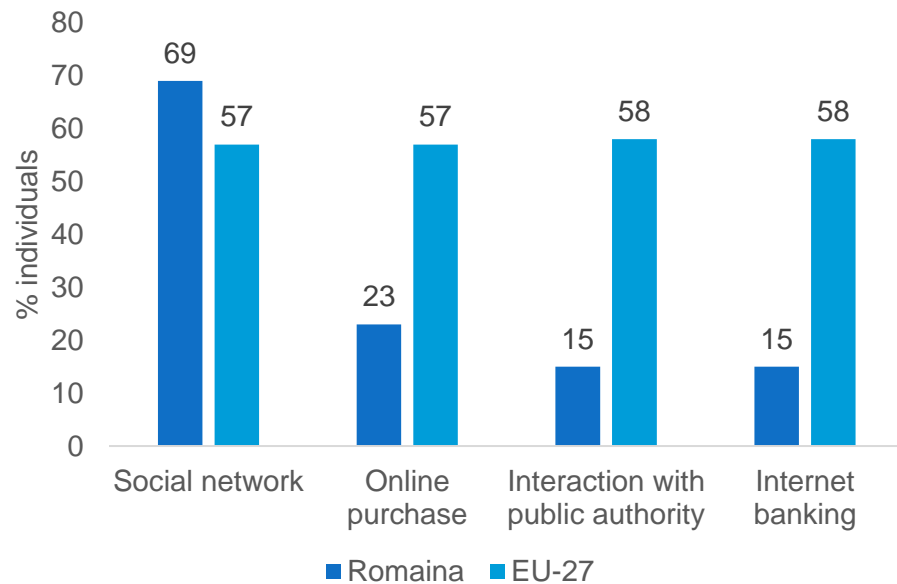
Source: Eurostat

# However, there is significant room for improvement in productive use of digital technologies in Romania.

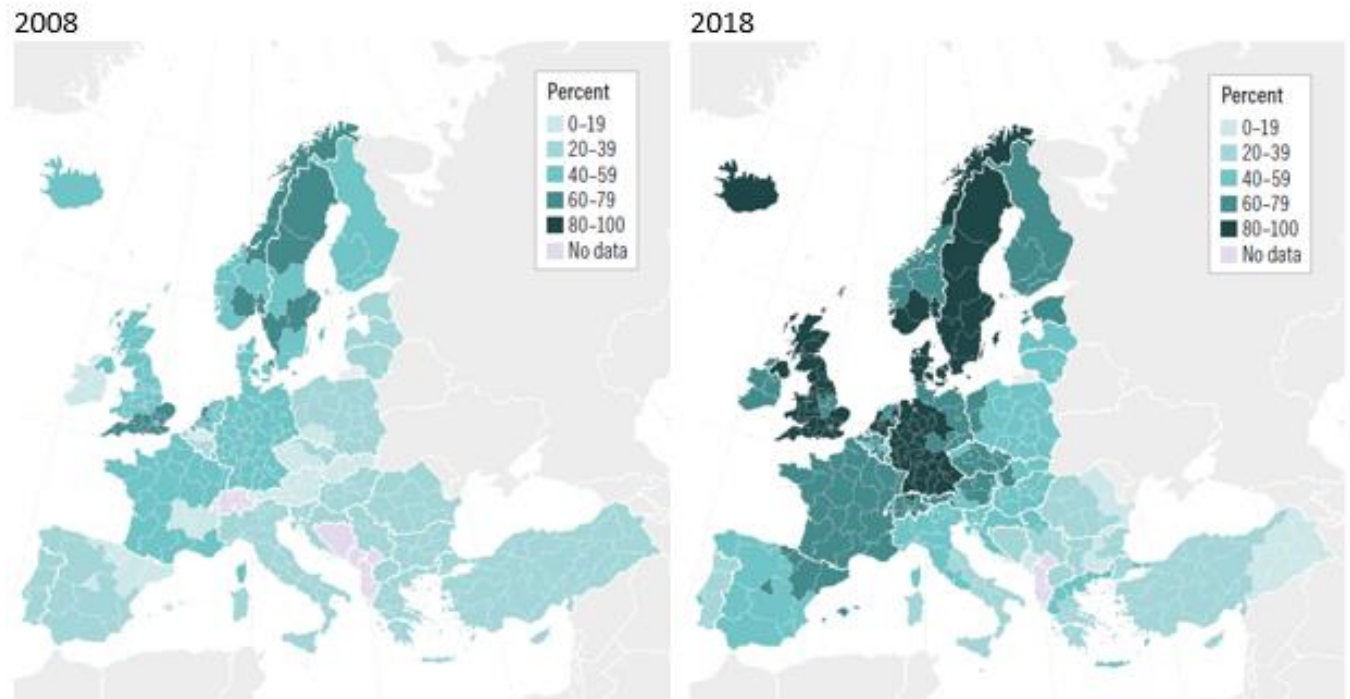
The stark spatial disparities in productive usage of internet and access to internet underscores that achieving digital opportunities requires more than access to broadband. A wider set of complementary factors are needed such as logistics, governance and trust in the digital system, as well as digital skills of the population.

Percent of individual aged 16-74 who ordered private goods or services online

Internet use, 2021



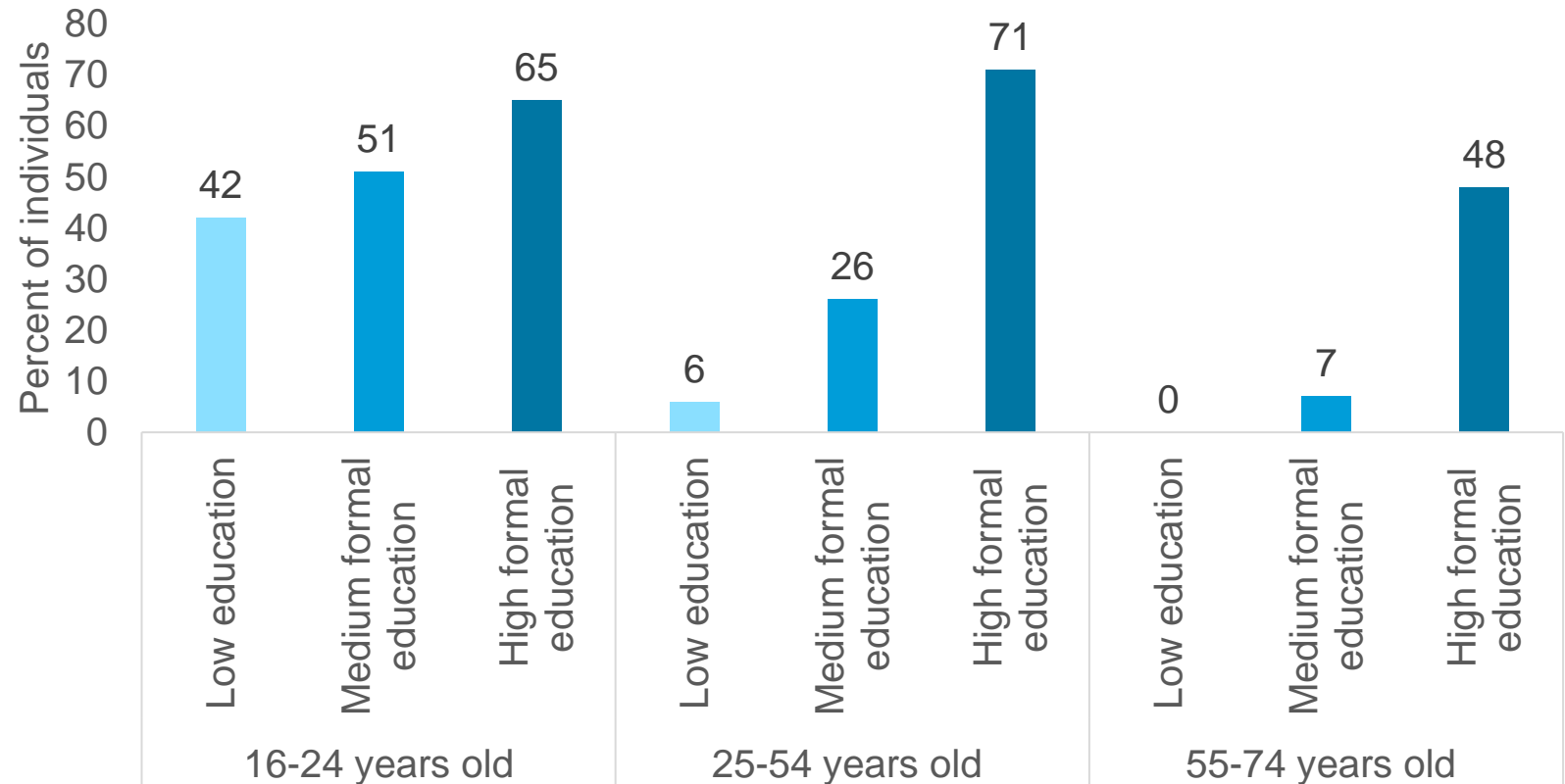
Source: Eurostat



Source: World Bank (2020)

The good news is that more young Romanians in the age bracket of 16 and 24 years-old – the young and incoming labor force – have basic if not more advanced digital skills, even among those with low formal education.

- They need an enabling environment to be fully integrated to the labor market.
- This includes a long-term national strategic plan for investments in digitalization of the economy, public services and workforce; an expansion of digital services and equipment to underserved areas; and an improvement in cooperation between private sectors, vocational schools and universities
- For older cohorts and disadvantaged workers, more investments are needed on reskilling and upskilling, improvement in efficiency of public employment services, scaling up of active labor market policies, and expansion of social benefits and unemployment benefits to support them during the transition.





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## Contact

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