Romanian BUSINESS DIGEST

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SLOW-BALIZATION
Sharp Insights from Business Leaders

2019

Globalization is slowing down...it becomes possible to manufacture cheaply locally

The next 50 years we are going to experience much more change than in the past 5000 years

How to redesign the organization of the future

Romanian
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INSIGHTS FROM BUSINESS LEADERS

BUSINESS TRENDS

The New Renaissance Envisioning the Future

We are no longer living in times of change but in a change of time. The period which is starting now will be known to history as The Second Machine Age.

By Adjiedj Bakas

The new industrial revolution, caused by digitalization, energy transition, global political awareness of the masses, the rise of China as the new global policeman, changes in infrastructure, shipping and manufacturing, will lead to a new Renaissance globally. Yet this transition will not happen peacefully. According to Hinduism we are now living in the Age of Kali, an era of war and violence, which is similar to the dark middle ages, preceding the Renaissance of the 15th century. In his telling, insightful and humorous new book "The New Renaissance", visionary and futurist Adjiedj Bakas takes you on a journey into the 21st century, relating his insights with historical facts, short stories and anecdotes. This book is the successor of his bestselling "Capitalism & Slowbalization".

The Emotional Revolution

We are no longer living in times of change but in a change of time. The period which is starting now will be known to history as The Second Machine Age, but because machines will take over many rational tasks and activities, emotions will become more important to human beings than ever before.

The Emotional Revolution, which will be part of the new era, will alter people and society to the same degree as the Industrial Revolution did in the nineteenth century. The Digital Workplace which is currently under development will put an end to inefficiency and time-consuming bureaucracy. Artificial Intelligence (AI) and facial recognition software will eliminate a lot of bureaucracy for insurance companies, banks, tax departments and others. The digitalization of money is also due. Currently, central banks around the world are undermining the value of money by constantly creating new currency which is based on nothing.

Nout Wellink, former president of the Dutch Central Bank, expects that as a result of this devaluation, the current financial and monetary system will implode. This will allow new cryptocurrencies to emerge and take their place, for example, Carat, a cryptocurrency based on the value of diamonds, and the Kinesis Monetary System, which is based on the value of gold and silver.

The digitalization of healthcare will speed forward during the next 30 years. We can look forward to having tiny minicomputers swimming through our veins and our cells, which will immediately repair any sick or injured part of our body. We are close to seeing the end of illness, and that is a very good thing.

Nanotech and Biotech will enable a Reproduction Revolution. And as Elie Dolgan reported in the New Scientist in an article called "Making Babies: How to create human embryos with no egg or sperm", artificial wombs and embryos made from skin cells – remarkable new techniques discovered in only the last couple of years – could revolutionize reproductive biology and help bring an end to infertility. Bioethicist Henry Greely, says that with such technology, "the stage is set for very, very widespread use of embryo selection." Greely foresees a day when IVF clients are presented with lists of characteristics for their embryos. Given that option of choice, Greely suspects that IVF might eventually become the default method of human reproduction. In his 2016 book The End of Sex he concludes "I expect that, some time in the next 20 to 40 years...sex [for reproduction] will largely disappear." Such technology could even totally change the concept of family. We could grow new babies in artificial wombs and pay the elderly to care for them, enabling an ageing country such as Italy to quickly rejuvenate itself.

Mass migration is no solution to ageing. The immigrants are too old, and you cannot build a future upon other peoples' kids. This quick sketch assumes that our future will be quite similar to our human

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past. However, Robin Hanson, in his book "The Age of Em: Work, Love, and Life when Robots Rule the Earth", posits a future in which robots may one day rule the world. He and others believe that the first truly smart robots will be brain emulations or ems. Scan a human brain, then run a model with the same connections on a fast computer, and you have a recognizably human robot brain. If you train an em to do a job and copy it a million times you have an army of workers at your disposal. The Second Machine Age will in fact become the New Renaissance, since technology will help us to reset and renew humanity.

The Gas Revolution

Due to the shale gas revolution there is plenty of gas available for a long time to come. The US and Australia in particular are bringing huge volumes of natural gas to the market. Russia, a traditional gas giant, still has enormous gas reserves and is also embracing shale gas. Some 80 per cent of the gas that Russia's state-controlled Gazprom produces goes to Europe and in order to keep its market position Gazprom is building two new pipelines to Northern Europe, North Stream 1 and North Stream 2. In the south, it is preparing South Stream and Turk Stream which, once finished, will deliver gas to households and industry in Southern Europe.

In order to become less dependent on Russian gas, European countries are working on the Trans-Adriatic Pipeline, which is intended to deliver gas from Azerbaijan by way of Greece to Italy. There are numerous other pipeline projects under development and in order for them to be economically viable they need to be used for a very long time to come.

Gas pipelines also play a part in the Syrian civil war: by supporting the Assad regime, Russia can block plans by Qatar – which sits on top of the largest natural gas field in the world – to build a pipeline from the Arab Peninsula, through Syria, to Europe: a plan that would undermine Russia's energy position and that the Assad government, coincidentally, strongly opposes. Currently, Qatar relies on tankers for exporting its gas, making it more expensive than gas delivered by pipeline.

But things may change in Qatar's favour as technologies for liquefying gas are rapidly improving, making it much easier to transport and reducing the need to invest huge amounts of money in the construction of new pipelines and support infrastructure – although terminals for liquefied natural gas (LNG) do not come cheap either. The LNG industry is just over 50 years old but has matured rapidly and is now disrupting the energy market.

According to consultancy firm Deloitte, LNG trade has quadrupled in the last 20 years and is set to double again over the next two decades. The US is betting heavily on the LNG revolution, in order to get its shale gas to Europe. The Americans are also pressuring European countries to buy American, in return for NATO military support. Much to the annoyance of the Trump administration, the US pays most of Europe's defence bills. Now it wants gas deals in return.

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MACROECONOMIC OUTLOOK

Patterns and evolution of the Romanian economy in the context of global changes

Global Outlook Darkening Skies

Moderating activity and heightened risks are clouding global economic prospects. International trade and investment have softened, trade tensions remain elevated, and some large emerging market and developing economies (EMDEs) have experienced substantial financial market pressures. Against this challenging backdrop, EMDE growth has stalled, with a sharply weaker-than-expected recovery in commodity exporters accompanied by a deceleration in commodity importers.

By World Bank Office in Romania

Downside risks have become more acute. Disorderly financial market developments could disrupt activity in the affected economies and lead to contagion effects. Trade disputes could escalate or become more widespread, denting activity in the economies involved and leading to negative global spillovers. To confront this increasingly difficult environment, the most urgent priority is for EMDE policymakers to prepare for possible bouts of financial market stress and rebuild macroeconomic policy buffers as appropriate. Equally critically, policymakers need to foster stronger potential growth by boosting human capital, removing barriers to investments, and promoting trade integration within a rules-based multilateral system. Such efforts would also help address the challenges associated with informality.

Summary

Global growth is moderating as the recovery in trade and manufacturing activity loses steam (Figure 1.1). Despite ongoing negotiations, trade tensions among major economies remain elevated. These tensions, combined with concerns about softening global growth prospects, have weighed on investor sentiment and contributed to declines in global equity prices. Borrowing costs for emerging market and developing economies (EMDEs) have increased, in part as major advanced-economy central banks continue to withdraw policy accommodation in varying degrees. A strengthening U.S. dollar, heightened financial market volatility, and rising risk premiums have intensified capital outflow and currency pressures in some large EMDEs, with some vulnerable countries experiencing substantial financial stress. Energy prices have fluctuated markedly, mainly due to supply factors, with sharp falls toward the end of 2018. Other commodity prices - particularly metals - have also weakened, posing renewed headwinds for commodity exporters.

Economic activity in advanced economies has been diverging of late. Growth in the United States has remained solid, bolstered by fiscal stimulus. In contrast, activity in the Euro Area has been somewhat weaker than previously expected, owing to slowing net exports. While growth in advanced economies is estimated to have slightly decelerated to 2.2 percent last year, it is still above potential and in line with previous forecasts.

EMDE growth edged down to an estimated 4.2 percent in 2018 - 0.3 percentage point slower than previously projected - as a number of countries with elevated current account deficits experienced substantial financial market pressures and appreciable slowdowns in activity. More generally, as suggested by recent high-frequency indicators, the recovery among commodity exporters has lost momentum significantly, largely owing to country-specific challenges

Note: This chapter was prepared by Carlos Arteta and Marc Stocker, with contributions from Patrick Kirby, Ekaterine Vashakmadze, and Collette M. Wheeler. Additional inputs were provided by John Baffes, Alain Kabundi, Eung Ju Kim, Csilla Lakatos, Peter Nagle, Rudi Steinbach, and Shu Yu. Research assistance was provided by Liu Cui, Ishita Dugar, Brent Harrison, Mengyi Li, Claudia Marchini, Julia Roseman, and Jinxin Wu.

Tensions, combined with concerns about softening global growth prospects, have weighed on investor sentiment and contributed to declines in global equity prices.

MACROECONOMIC OUTLOOK

Real GDP[1] (Percent change from previous year)

			Estimates	Projections			Percentage point differences from June 2018 projections		
	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]	2018[e]	2019[f]	2020[f]
World	**2,4**	**3,1**	**3,0**	**2,9**	**2,8**	**2,8**	**-0,1**	**-0,1**	**-0,1**
Advanced Economies	**1,7**	**2,3**	**2,2**	**2,0**	**1,6**	**1,5**	**0,0**	**0,0**	**-0,1**
United States	1,6	2,2	2,9	2,5	1,7	1,6	0,2	0,0	-0,3
Euro Area	1,9	2,4	1,9	1,6	1,5	1,3	-0,2	-0,1	0,0
Japan	0,6	1,9	0,8	0,9	0,7	0,6	-0,2	0,1	0,2
Emerging Market and Developing Economies (EMDE)	**3,7**	**4,3**	**4,2**	**4,2**	**4,5**	**4,6**	**-0,3**	**-0,5**	**-0,2**
Commodity-exporting EMDE	0,8	1,7	1,7	2,3	2,9	2,9	-0,8	-0,7	-0,1
Other EMDE	5,9	6,1	5,8	5,5	5,6	5,6	0,0	-0,3	-0,1
Other EMDE excluding China	4,9	5,2	5,0	4,7	4,9	5,1	-0,1	-0,4	-0,2
EAST ASIA AND PACIFIC	6,3	6,6	6,3	6,0	6,0	5,8	0,0	-0,1	0,0
China	6,7	6,9	6,5	6,2	6,2	6,0	0,0	-0,1	0,0
Indonesia	5,0	5,1	5,2	5,2	5,3	5,3	0,0	-0,1	-0,1
Thailand	3,3	3,9	4,1	3,8	3,9	3,9	0,0	0,0	0,1
EUROPE AND CENTRAL ASIA	1,7	4,0	3,1	2,3	2,7	2,9	-0,1	-0,8	-0,3
Russia	-0,2	1,5	1,6	1,5	1,8	1,8	0,1	-0,3	0,0
Turkey	3,2	7,4	3,5	1,6	3,0	4,2	-1,0	-2,4	-1,0
Poland	3,1	4,8	5,0	4,0	3,6	3,3	0,8	0,3	0,1
LATIN AMERICA AND THE CARIBBEAN	-1,5	0,8	0,6	1,7	2,4	2,5	-1,1	-0,6	-0,1
Brazil	-3,3	1,1	1,2	2,2	2,4	2,4	-1,2	-0,3	0,0
Mexico	2,9	2,1	2,1	2,0	2,4	2,4	-0,2	-0,5	-0,3
Argentina	-1,8	2,9	-2,8	-1,7	2,7	3,1	-4,5	-3,5	-0,1
MIDDLE EAST AND NORTH AFRICa	5,1	1,2	1,7	1,9	2,7	2,7	-1,3	-1,4	-0,5
Saudi Arabia	1,7	-0,9	2,0	2,1	2,2	2,2	0,2	0,0	-0,1
Iran	13,4	3,8	-1,5	-3,6	1,1	1,1	-5,6	-7,7	-3,1
Egypt[2]	4,3	4,2	5,3	5,6	5,8	6,0	0,3	0,1	0,0
SOUTH ASIA	7,5	6,2	6,9	7,1	7,1	7,1	0,0	0,0	-0,1
India[3]	7,1	6,7	7,3	7,5	7,5	7,5	0,0	0,0	0,0
Pakistan[2]	4,6	5,4	5,8	3,7	4,2	4,8	0,0	-1,3	-1,2
Bangladesh[2]	7,1	7,3	7,9	7,0	6,8	6,8	1,4	0,3	-0,2
SUB-SAHARAN AFRICA	1,3	2,6	2,7	3,4	3,6	3,7	-0,4	-0,1	-0,1
Nigeria	-1,6	0,8	1,9	2,2	2,4	2,4	-0,2	0,0	0,0
South Africa	0,6	1,3	0,9	1,3	1,7	1,8	-0,5	-0,5	-0,2
Angola	-2,6	-0,1	-1,8	2,9	2,6	2,8	-3,5	0,7	0,2
Memorandum items:									
Real GDP[1]									
High-income countries	1,7	2,3	2,2	2,0	1,7	1,6	0,0	0,0	-0,1
Developing countries	4,0	4,6	4,4	4,4	4,7	4,7	-0,3	-0,4	-0,1
Low-income countries	4,8	5,5	5,6	5,9	6,2	6,3	-0,1	0,0	0,0
BRICS	4,4	5,2	5,3	5,2	5,3	5,3	-0,1	-0,2	-0,1
World (2010 PPP weights)	3,2	3,7	3,6	3,5	3,6	3,6	-0,2	-0,3	-0,1
World trade volume[4]	2,6	5,4	3,8	3,6	3,5	3,4	-0,5	-0,6	-0,5
Commodity prices									
Oil price[5]	-15,6	23,3	30,7	-2,9	0,0	0,0	-1,9	-1,5	-0,1
Non-energy commodity price index	-2,8	5,3	1,7	1,0	1,2	1,2	-3,4	0,8	0,7

Source: World Bank.Note: PPP = purchasing power parity; e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. BRICS include: Brazil, Russia, India, China, and South Africa. 1. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. 2. GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2017 refers to FY2016/17. 3. The column labeled 2016 refers to FY2016/17. 4. World trade volume of goods and non-factor services. 5. Oil is the simple average of Brent, Dubai, and West Texas Intermediate. The non-energy index is comprised of the weighted average of 39 commodities (7 metals, 5 fertilizers, 27 agricultural commodities). For additional details, please see http://www.worldbank.org/en/research/commodity-markets.

Growth in the United States has remained solid, bolstered by fiscal stimulus. In contrast, activity in the Euro Area has been somewhat weaker than previously expected, owing to slowing net exports.

within this group. Activity in commodity importers, while still robust, has slowed somewhat, reflecting capacity constraints and decelerating export growth. In low-income countries (LICs), growth is firming as infrastructure investment continues and easing drought conditions support a rebound in agricultural output. However, LIC metals exporters are struggling partly reflecting softer metals prices. Central banks in many EMDEs have tightened policy to varying degrees to confront currency and inflation pressures.

In all, global growth is projected to moderate from a downwardly revised 3 percent in 2018 to 2.9 percent in 2019 and 2.8 percent in 2020-21, as economic slack dissipates, monetary policy accommodation in advanced economies is removed, and global trade gradually slows. Growth in the United States will continue to be supported by fiscal stimulus in the near term, which will likely lead to larger and more persistent fiscal deficits. Advanced-economy growth will gradually decelerate toward potential, falling to 1.5 percent by the end of the forecast horizon, as monetary policy is normalized and capacity constraints become increasingly binding.

Softening global trade and tighter financing conditions will result in a more challenging external environment for EMDE economic activity. EMDE growth is expected to stall at 4.2 percent in 2019 - 0.5 percentage point below previous forecasts, partly reflecting the lingering effects of recent financial stress in some large economies (e.g., Argentina, Turkey), with a sharply weaker-than-expected

FIGURE 1.1 Summary – Global prospects

Global growth is moderating, as industrial activity and trade decelerate, negatively impacting investor sentiment and equity prices. The recovery in EMDEs has stalled, owing to softening external demand, tighter external financing conditions, and heightened policy uncertainties. Many EMDE central banks have raised interest rates to fend off currency pressures. Per capita growth will remain anemic in several EMDE regions - most notably in those with a large number of commodity exporters.

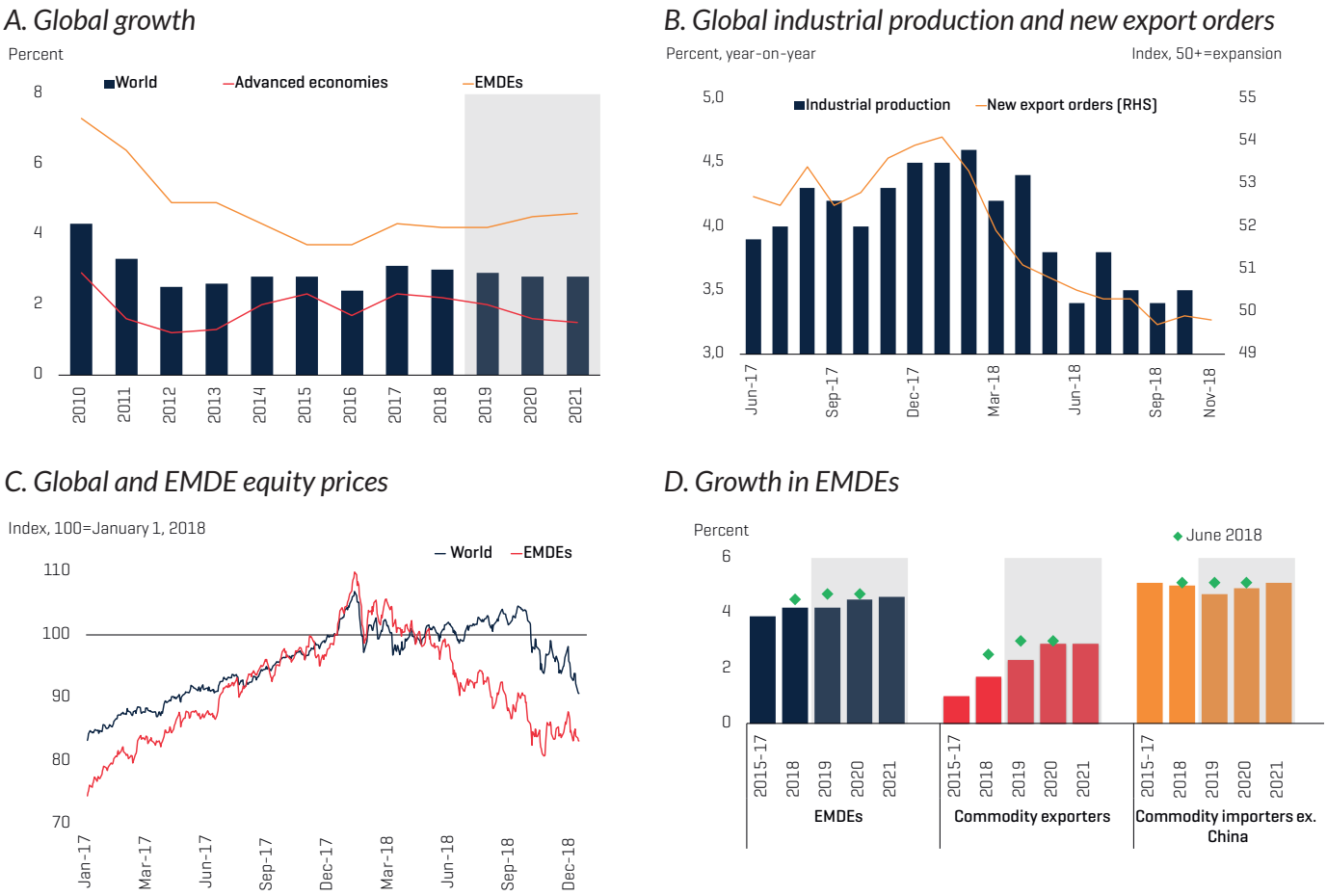
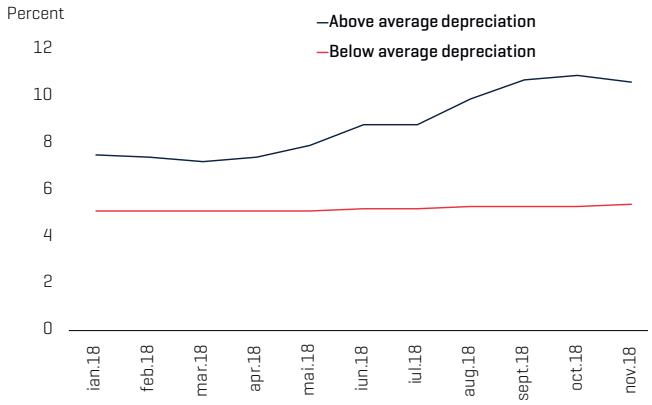


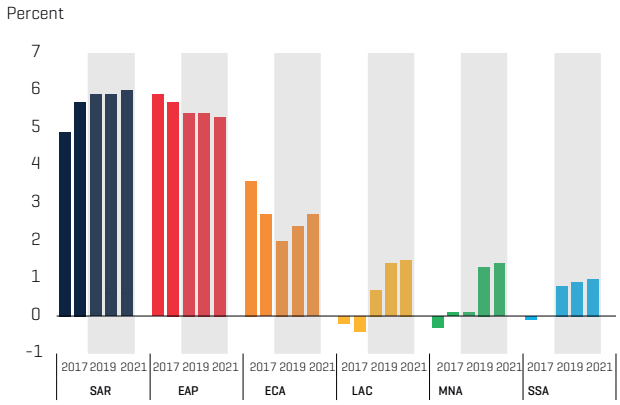
FIGURE 1.1 Summary – Global prospects (continued)

Global growth is moderating, as industrial activity and trade decelerate, negatively impacting investor sentiment and equity prices. The recovery in EMDEs has stalled, owing to softening external demand, tighter external financing conditions, and heightened policy uncertainties. Many EMDE central banks have raised interest rates to fend off currency pressures. Per capita growth will remain anemic in several EMDE regions - most notably in those with a large number of commodity exporters.

A. Global growth



B. Global industrial production and new export orders



Source: Bloomberg, Haver Analytics, World Bank.
Note: EMDEs = emerging market and developing economies.
A.D.F. Shaded areas indicate forecasts. Data for 2018 are estimates. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.
B. New export orders measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is November 2018 for new export orders and October 2018 for industrial production.
C. Figure shows MSCI Global and Emerging Markets Indexes. Last observation is December 19, 2018.
D. Data for 2015-17 are simple averages. Green diamonds denote forecasts in the June 2018 edition of the Global Economic Prospects report.
E. The aggregate policy interest rates are calculated using constant 2010 U.S. dollar GDP weights. The above average and below average currency depreciation groups are defined by countries above or below the sample average of the year-to-date percent change in the bilateral exchange rate against the U.S. dollar. The sample average is -9.3 percent and includes 27 EMDEs, of which 12 are above and 15 are below average. Last observation is November 2018.
F. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, and SSA = Sub-Saharan Africa.

pickup in commodity exporters accompanied by a deceleration in commodity importers. EMDE growth is projected to plateau at an average of 4.6 percent in 2020-21, as the recovery in commodity exporters levels off. Per capita growth will remain anemic in several EMDE regions - most notably, in those with a large number of commodity exporters - likely impeding further poverty alleviation.

The projected gradual deceleration of global economic activity over the forecast horizon could be more severe than currently expected given the predominance of substantial downside risks(Figure 1.2). A sharper-than-expected tightening of global financing conditions, or a renewed rapid appreciation of the U.S. dollar, could exert further downward pressure on activity in EMDEs, including in those with large current account deficits financed by portfolio and bank flows. Government and/or private sector debt has also risen in a majority of EMDEs over the last few years, including in many LICs, reducing the fiscal room to respond to shocks and heightening the exposure to shifts in market sentiment and rising borrowing costs.

Escalating trade tensions are another major downside risk to the global outlook. If all tariffs currently under consideration were implemented, they would affect about 5 percent of global trade flows and could dampen growth in the economies involved, leading to negative global spillovers. While some countries could benefit from trade diversion in the short run, rising trade protectionism would stifle investment and severely disrupt global value chains, contributing to higher prices and lower productivity. Other downside risks - such as heightened political uncertainty, escalating geopolitical tensions, and conflict - further cloud the outlook.

Even though the probability of a recession in the United States is still low, and the slowdown in China is projected to be gradual, markedly weaker-than-expected activity in the world's two largest economies could have a severe impact on global economic prospects. Stimulus measures have bolstered the near-term outlook in these two countries but could contribute to a more abrupt slowdown later on. A simultaneous occurrence of a severe U.S. downturn and a sharper-than expected deceleration in China would significantly increase the probability of an abrupt global slowdown and thus negatively impact the outlook of other

Softening global trade and tighter financing conditions will result in a more challenging external environment for EMDE economic activity.

EMDEs through trade, financial, and commodity market channels. A global downturn would be particularly detrimental for those EMDEs with reduced policy space to respond to shocks.

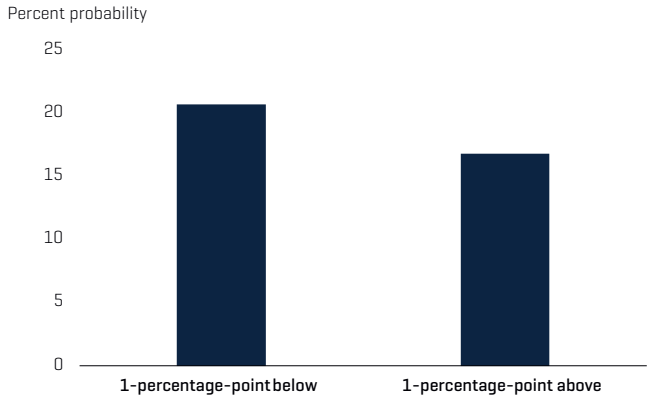
The softening outlook and heightened downside risks exacerbate various challenges faced by policymakers around the world. Advanced economies should use this period of above potential growth to rebuild macroeconomic policy buffers and lay the foundation for stronger growth with reforms that bolster potential output. Care should be taken to avoid shifts in trade and immigration policies that could negatively affect longer-term growth prospects, both domestically and abroad. A renewed commitment to a rules based international trading system would also help bolster confidence, investment, and trade.

In a context of limited policy buffers, EMDE policymakers need to bolster the capacity to cope with possible bouts of financial market volatility, including sharp exchange rate movements - while undertaking measures to sustain the ongoing period of historically stable inflation (Box 1.1). This immediate priority will require a credible commitment to price stability from central banks, underpinned by strong institutional in dependence, as well as efforts by regulators and prudential authorities to reduce persistent financial fragilities. EMDEs also face substantial fiscal challenges and the risk of worsening debt dynamics as global financing conditions tighten. For many EMDEs, it will be imperative to restore fiscal space given cyclical conditions, as well as address

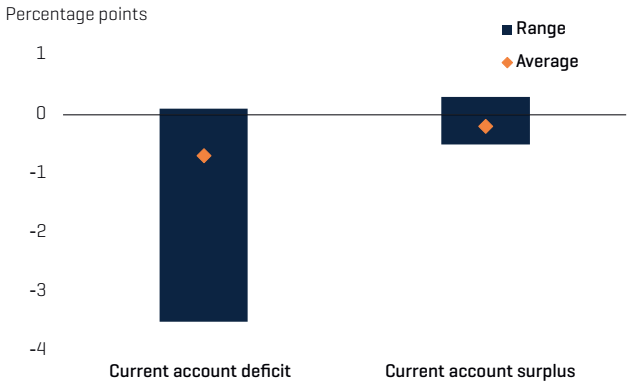
FIGURE 1.2 Global risks and policy challenges

Downside risks predominate, with the possibility of financial stress leading to further deterioration in activity in EMDEs. Escalating trade tensions involving major economies could spread globally. A simultaneous sharp slowdown in both the United States and China could have severe effects on the global outlook. Fiscal space is particularly limited in countries with high foreign-currency-denominated debt. Informality remains widespread in EMDEs and is associated with large productivity gaps between formal and informal firms.

A. Probability of 2020 global growth being 1-percentage-point below/above baseline



B. Growth forecast revisions and current account position, 2019



C. Imports affected by new tariffs

D. Impact on global growth of 1- percentage-point growth slowdowns slowdowns in the United States and China

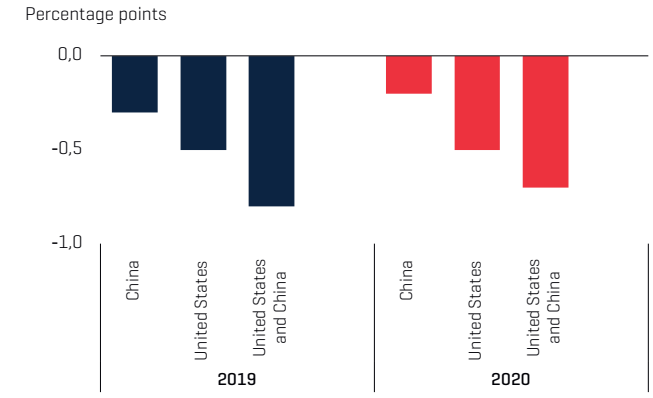
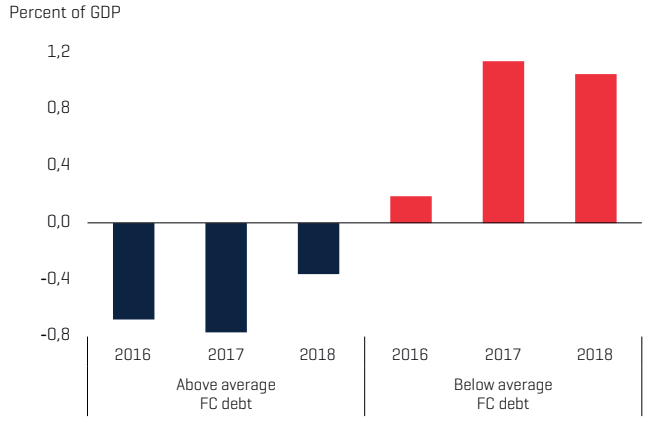


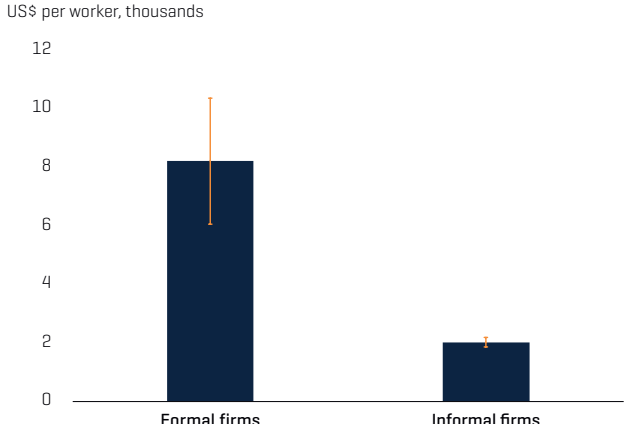
FIGURE 1.2 Global risks and policy challenges (continued)

Downside risks predominate, with the possibility of financial stress leading to further deterioration in activity in EMDEs. Escalating trade tensions involving major economies could spread globally. A simultaneous sharp slowdown in both the United States and China could have severe effects on the global outlook. Fiscal space is particularly limited in countries with high foreign-currency-denominated debt. Informality remains widespread in EMDEs and is associated with large productivity gaps between formal and informal firms.

E. Fiscal sustainability gaps in EMDEs, by extent of reliance on foreign-currency-denominated debt



F. Average productivity in formal and informal firms



Source: Bloomberg; International Monetary Fund; Kose, Kurlat et al. (2017); Peterson Institute for International Economics; U.S. Census Bureau; World Bank.
A. Probabilities are computed from the distribution of 24-month-ahead oil price futures, S&P 500 equity price futures, and term spread forecasts. Each of the risk factor weights are derived from the model described in Ohnsorge, Stocker, and Some (2016). Last observation is December 18, 2018.
B. Forecast revisions for GDP growth in 2019 relative to June 2018. Sample includes 23 EMDEs. Current account position net of foreign direct investment in 2018.
C. Import tariffs implemented in the United States and the rest of the world in 2018, as well as those under consideration, as a percent of global goods imports.
D. Blue and red bars show scenarios assuming a 1-percentage-point growth shock in China, the United States, and the combination of the two. Shocks are applied in the second half of 2019. Based on the vector autoregression model presented in World Bank (2016). Deviations from baseline are all significantly different from zero.
E. FC debt = foreign-currency-denominated debt. A negative sustainability gap indicates government debt is rising along an accelerated trajectory. The sample includes 27 EMDEs. The above (below) average foreign-currency-denominated debt groups are defined by countries above (below) the sample average of external debt in foreign currency as a share of total external debt in 2017.
F. Blue bars represent estimates and orange vertical lines indicate two standard deviation error bands. World Bank's Enterprise Survey data for 135 countries (2008-18).

the vulnerabilities associated with elevated foreign-currency-denominated debt.

Equally critically, amid a projected deceleration in potential growth, EMDEs face the pressing challenge of ensuring sustained improvements in living standards. This will require investments in human capital and skills development to raise productivity and take full advantage of technological changes. In the current environment of limited fiscal resources, the urgency of these investments highlights the critical need to prioritize effective public spending and increase public sector efficiency.

Moreover, facilitating the expansion of small - and medium-sized enterprises, including by improving their access to international markets and finance, would also spur productivity and stimulate growth - enhancing investments. For many EMDEs, there is scope to further liberalize trade and improve the extent to which they are integrated into global value chains, which would foster a more efficient allocation of resources, job creation, and export diversification. Policies that help improve outcomes in these areas would also contribute to address the challenges associated with informality, thus reinforcing the basis for future productivity growth.

EUROPER AND CENTRAL ASIA

Regional growth is estimated to have decelerated to an estimated 3.1 percent in 2018 and is projected to further slow to 2.3 percent this year, mainly because of weakness in Turkey. Regional growth is expected to pick up modestly in 2020-21, as a gradual recovery in Turkey offsets moderating activity in Central Europe. The main risks to the region are weaker-than-expected investment due to heightened policy uncertainty, and a renewal of financial pressure in Turkey combined with possible contagion to the rest of the region.

Recent developments

Activity in Europe and Central Asia (ECA) is estimated to have slowed to 3.1 percent in 2018 from 4 percent in 2017, reflecting the marked weakness in activity in Turkey in the second half of the year. Excluding Turkey, regional growth remained unchanged at an estimated 2.9 percent in 2018, as slowing activity in countries in the western part of the region, such as Bulgaria and Romania, offset an acceleration in the eastern part of the

Note: This section was prepared by Yoki Okawa. Research assistance was provided by Zhuo Chen and Mengyi Li.

The softening outlook and heightened downside risks exacerbate various challenges faced by policymakers around the world.

region that benefitted from higher oil prices (Figure 2.2.1). Regional trade growth declined during 2018.

In Turkey, the lira declined around 30 percent over the course of 2018, reflecting capital outflows in response to accelerating inflation, a perceived delay in monetary tightening, and rising private sector debt. The country accumulated a sizable current account deficit and a large foreign currency-denominated debt load, leaving it vulnerable to shifting investor sentiment and currency depreciation. Output shrank by 1.1 percent from the second quarter to the third quarter amid plummeting consumer confidence and credit scarcity. Despite this contraction, strong growth in the first half of the year will bring Turkish growth to an estimated 3.5 percent for 2018.

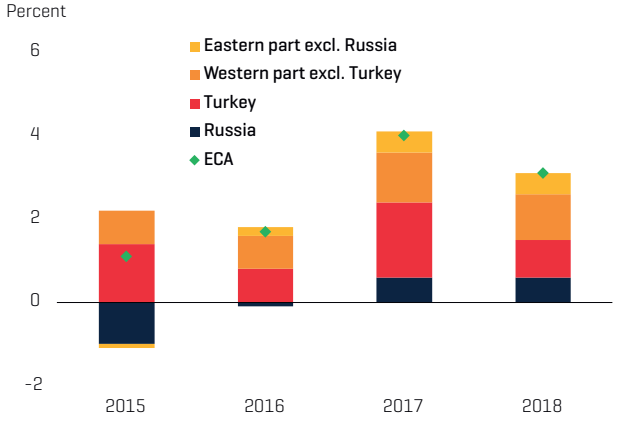
Growth among the Central European economies slowed in 2018. Softening exports and labor shortages restrained growth in Bulgaria, Croatia, and Romania. In contrast, despite labor shortages, growth in Poland accelerated slightly because of strong consumption and investment. Robust domestic demand supported activity in the Western Balkans, except for Montenegro. In the Former Yugoslav Republic of Macedonia, growthrebounded in 2018 as the formation of a new government ended a prolonged political crisis and improved investor sentiment (World Bank 2018i).

The Russian Federation and other oil exporters in Central Asia maintained steady growth in 2018, supported by a rise in oil prices. Although economic

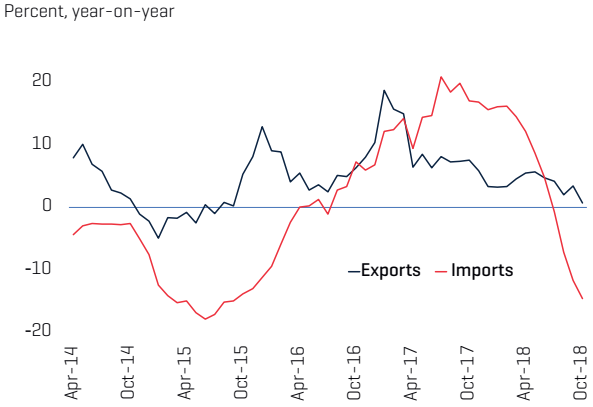
FIGURE 2.2.1 ECA: Recent developments

Regional growth is estimated to have slowed in 2018 reflecting financial stress in Turkey and weak regional trade. Financial stress in Turkey, which experienced a sharp depreciation and an increase in bond spreads, does not appear to have spilled over to other countries in the region. Slowing inflation in the eastern ECA region led to loosening in monetary policy, while a pickup in inflation from 2016 level in the western ECA has not yet led to monetary tightening. The fiscal stance in the region is mixed.

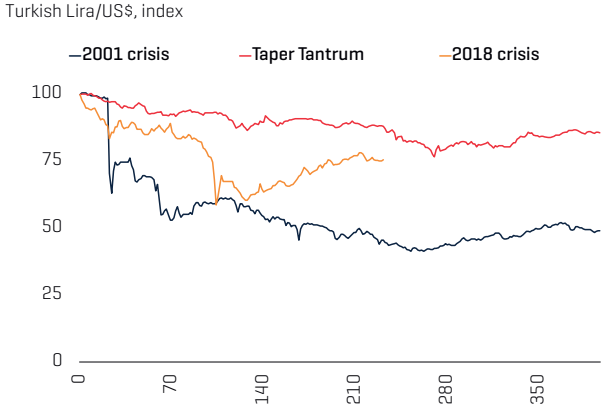
A. Contribution to regional growth



B. Trade



C. Currency movements in Turkey



D. EMBI spreads

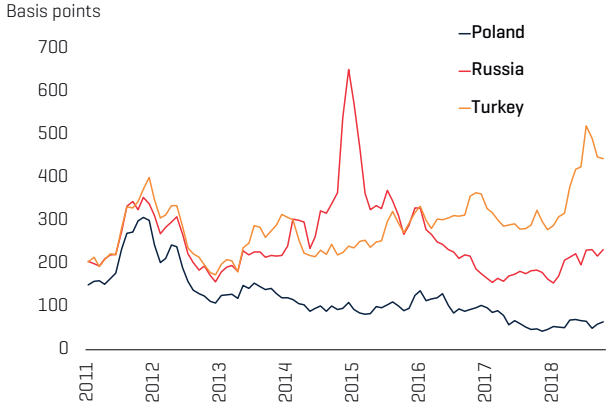
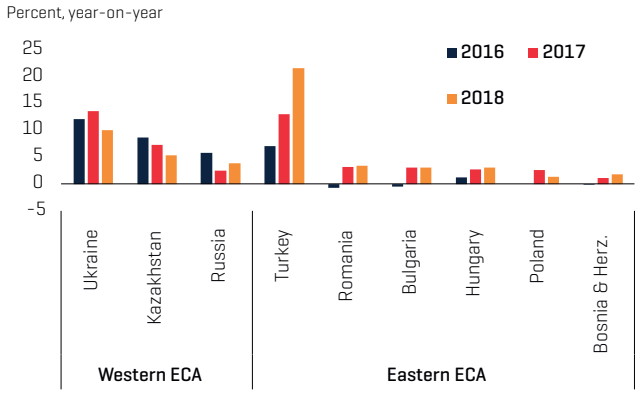


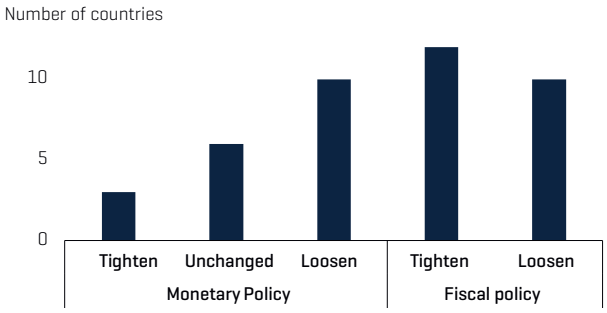
FIGURE 2.2.1 ECA: Recent developments (continued)

Regional growth is estimated to have slowed in 2018 reflecting financial stress in Turkey and weak regional trade. Financial stress in Turkey, which experienced a sharp depreciation and an increase in bond spreads, does not appear to have spilled over to other countries in the region. Slowing inflation in the eastern ECA region led to loosening in monetary policy, while a pickup in inflation from 2016 level in the western ECA has not yet led to monetary tightening. The fiscal stance in the region is mixed.

E. Inflation



F. Monetary and fiscal policy



Source: Haver Analytics, World Bank.
A. Aggregates growth rates calculated using constant 2010 U.S. dollar GDP weights.
B. Three-month moving averages of GDP-weighted trade volume indexes for Russia, Turkey, Poland, Ukraine, Kazakhstan, Hungary, and Armenia.
C. Cumulative change of exchange rate for 400 days from the starting date. Starting dates are February 1, 2001, May 2, 2013 and May 2, 2018 for 2001 crisis, Taper Tantrum, and 2018 crisis, respectively. Last observation for the 2018 crisis is December 19, 2018.
E. Last observation is November for each year.
F. Monetary policy tightening/loosening is defined as increase/decrease of the central bank's policy rate between January and November 2018. Fiscal policy tightening/loosening is defined as increase/ decrease of primary balance in estimated 2018 values compared to 2017.

sanctions tightened, Russia experienced relatively low and stable inflation and increased oil production. As a result of robust domesticactivity, the Russian economy expanded at a 1.6 percent pace in the year just ended (World Bank 2018j). Higher-than-expected production in the Kashagan oil field and strong domestic demand supported growth in Kazakhstan. A stabilization in the financial sector and higher oil prices contributed to a slow recovery of growth in Azerbaijan in 2018.

The stance of fiscal policy in the region varies. Turkey has committed to tight fiscal policy to help curb high inflation and currency depreciation. Romania's fiscal stance is mixed, with income tax reductions and increased public sector benefits offset by an increase in social contribution revenue. Fiscal policy has become more procyclical in some Central European countries. In the eastern part of the region, the Russian governmenthas implemented a new fiscal rule and is estimated to have recorded its first surplus since 2012 in 2018. As fiscal stimulus measures are phased out, Kazakhstan has started to tighten its fiscal stance, resulting in improvements in its non-oil fiscal balance. Azerbaijan continues to rely on fiscal measures to support its economy.

For the majority of ECA countries, monetary policy is either stable or loosening. At the end of 2018, nine countries have policy rates lower than a year ago, while three countries have higher policy rates (Romania, Ukraine, Turkey). Inflation peaked at 25 percent in Turkey in October, significantly above the 5 percent target amid an overheating economy in the first half of 2018 and currency depreciation in the second. To ward off inflationary and currency pressures, Turkey's central bank increased the average cost of funding by more than 10 percentage points over the course of 2018. In Central Europe, tightening labor markets and increasing energy prices have pushed inflation up toward target, with monetary policy remaining stable in most countries. One exception is Romania, where robust domestic demand pushed inflation above the upper bound of the target band, prompting monetary policy tightening. Gradually accelerating inflation has also led to policy tightening in Ukraine. In the Western Balkans, Albania, FYR Macedonia, and Serbia have lowered policy rates amid stable and below-target inflation. For oil exporters, such as Azerbaijan and Kazakhstan, the stabilization of currency following the 2014-16 oil price plunge has resulted in lower inflation and looser monetary policy. In Russia, monetary policy was tightened in late 2018 amid pressures on the currency.

Outlook

The lingering effects of financial stress in Turkey are expected to further slow of

For the majority of ECA countries, monetary policy is either stable or loosening. At the end of 2018, nine countries have policy rates lower than a year ago, while three countries have higher policy rates.

regional growth in 2019. Growth is expected to slide to 2.3 percent, before recovering to 2.7 percent in 2020 (Figure 2.2.2). Excluding Turkey, regional growth is expected to average 2.6 percent during the forecast horizon, compared to 2.9 percent in 2018, with a gradual deceleration in Central Europe. This outlook is predicated on an orderly tightening of global financial conditions, oil prices averaging $67 in 2019-2021, a gradual slowdown in the E uro Area, and the absence of heightened geopolitical tensions.

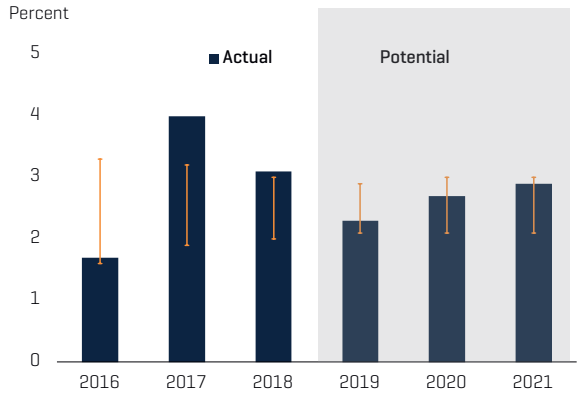
While the outlook for Turkey is subject to considerable uncertainty, the country is expected to be weighted down by high inflation, high interest rates, and low confidence, which will dampen consumption and investment. Turkish growth is expected to slow to 1.6 percent in 2019 and begin to recover by 2020 through a gradual improvement in domestic demand and continued strength in net exports. However, this outlook assumes that fiscal and monetary policy successfully avert further sharp falls in the lira and, that corporate debt restructurings help avert serious damage to the financial system. A comprehensive stabilization package with consistent policy framework, clear milestones, and effective communication would help reduce risks and support recovery.

Spillovers from Turkey to the rest of the region are expected to remain modest, as trade and financial linkages are relatively limited. On the trade side, Azerbaijan has the largest exposure, as 9 percent of its exports are directed to Turkey. Financial linkages are also small - only Georgia

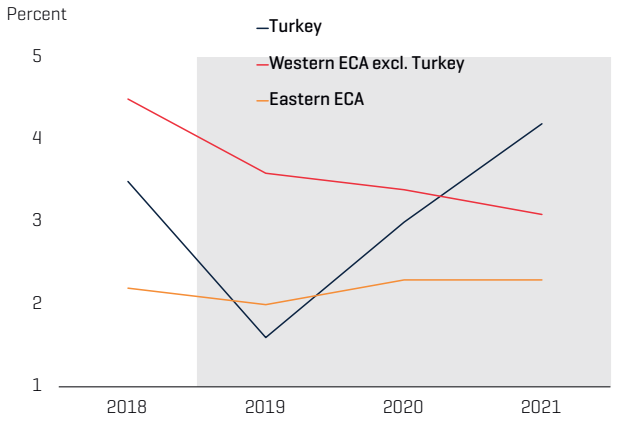
FIGURE 2.2.2 ECA: Outlook and risks

Regional growth is expected to slow notably in 2019 and gradually accelerate in 2020-21, partly reflecting a sharp decline and subsequent recovery in Turkish growth. A number of countries in the region appear vulnerable to shifts in investor sentiment, as reflected by their high current account deficits and corporate debt.

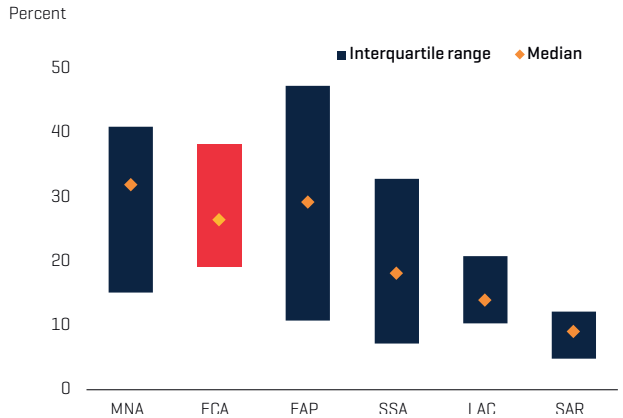
A. Actual and potential growth



B. Growth forecast



C. Trade openness



D. Current account

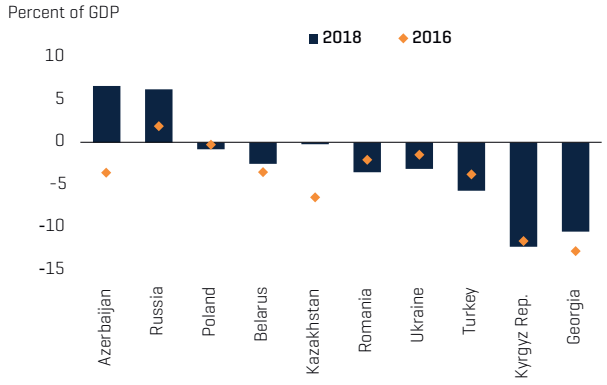
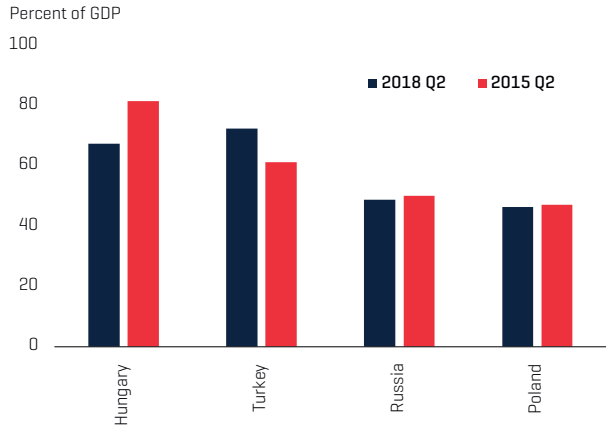


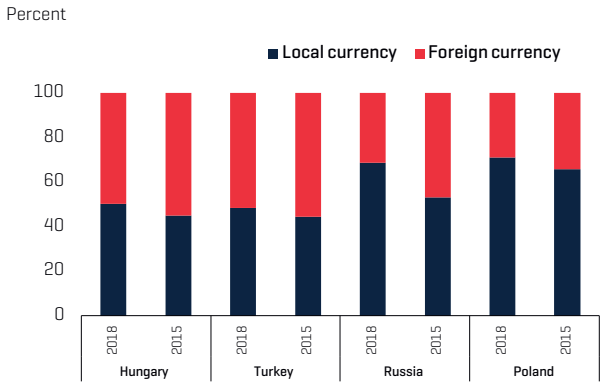
FIGURE 2.2.2 ECA: Outlook and risks (continued)

Regional growth is expected to slow notably in 2019 and gradually accelerate in 2020-21, partly reflecting a sharp decline and subsequent recovery in Turkish growth. A number of countries in the region appear vulnerable to shifts in investor sentiment, as reflected by their high current account deficits and corporate debt.

E. Corporate debt



F. Exchange rate risk in debt



Source: Haver Analytics, Institute of International Finance, International Monetary Fund, World Bank.
A. Blue bars refer to GDP-weighted average actual growth and vertical orange line show minimum-maximum range of potential growth estimates based of five different methodologies (production function approach, multivariate filter, IMF World Economic Outlook five-year-ahead forecast, Consensus Forecasts, and potential growth estimates in OECD Economic Outlook and OECD Long-Term Baseline Projections).
A. B. Data in shaded area are forecasts.
C. Share of exports as a percentage of GDP in 2016. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, and SSA = Sub-Saharan Africa.
D. Current account balance as a percentage of GDP.
E-F. The data used are IIF end-of-period estimates of non-financial corporate debt as a percentage of GDP.

receives meaningful amounts of FDI from Turkey, and foreign bank ownership of Turkish assets is limited in scale.

Growth in western ECA, excluding Turkey, is projected to gradually slow toward potential, driven by a slowdown in Central European economies. Domestic demand in this sub-region will be constrained by tight labor markets, while a continued slowdown in the Euro Area will limit export growth. Poland is expected to slow from 5.0 percent in 2018 to 4.0 percent in 2019, as Euro Area growth slows.

Growth in eastern ECA is forecast to slow in 2019, as the large economies including Russia. Kazakhstan and Ukraine decelerate. The VAT in Russia is expected to rise from 18 to 20 percent in 2019, weighing on near term growth. Kazakhstan's economy is also expected to decelerate as oil production growth levels off and fiscal consolidation efforts continue (World Bank 2018k).

Risks

While there are some upside risks to the forecasts - for example, that stronger-than-expected energy prices may support activity in Russia and other e nergy exporters - the balance of risks is increasingly tilted down. The most important downside risk is the possibility that the recent financial stress in Turkey worsens and triggers widespread bank failures. Turkish corporations carry significant debt, much of which is denominated in or linked to foreign currencies. Although many corporations are hedged against exchange rate risks, and corporate debt restructuring is on its way, falling domestic demand and forex exposure of the non-tradable sector pose risks. Currency depreciation and high interest rates could push corporate borrowers into bankruptcy and depleting banks' capital buffers. Renewed pressure in currency markets and increased uncertainty about the policy framework would increase the probability of a deepening crisis, implying a longer and more severe slowdown than currently forecast for Turkey (World Bank forthcoming). While direct linkages between Turkey and the rest of the region are small, an intensification of financial stress in Turkey or other EMDEs could also lead investors to re-evaluate their exposure in the region, which in turn could lead to capital outflows, currency depreciations, and rising borrowing costs.

The potential for financial stress is more elevated in countries with domestic

Currency depreciation and high interest rates could push corporate borrowers into bankruptcy and depleting banks' capital buffers.

vulnerabilities like Romania and Belarus, which have large current account deficits or large foreign-currency denominated debt. Public debt, which remains high despite recent declines, and privateborrowing in foreign currencies makes Central European countries vulnerable to financial pressure. Public debt has also been trending up in Central Asia and the Western Balkans.

Increases in policy uncertainty could undermine confidence in the region and impact growth. A slowdown or reversal of ongoing structural reforms remains a risk in many countries in the region, especially in Armenia, Azerbaijan, Belarus, Ukraine, and Turkey. Tension concerning Syria or Ukraine could trigger new sanctions. Policy disagreements between the European Union and some Central European countries could deter international investors and reduce fiscal transfers. An escalation of trade restrictions between the United States and the Euro Area could have a negative impact on western ECA countries, as the Euro Area is the largest trading partner for all countries in the sub-region.

TABLE 2.2.1 Europe and Central Asia forecast summary
(Real GDP growth at market prices in percent, unless indicated otherwise)

							Percentage point differences from June 2018 projections		
	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]	2018[e]	2019[f]	2020[f]
Europe and Central Asia, GDP[1]	1,7	4,0	3,1	2,3	2,7	2,9	-0,1	-0,8	-0,3
Europe and Central Asia, GDP excl. Russia	1,2	2,9	2,9	2,6	2,6	2,5	0,1	-0,2	-0,1
(Average including countries with full national accounts and balance of payments data only)[2]									
Europe and Central Asia, GDP[2]	1,6	4,0	3,0	2,3	2,7	2,9	-0,2	-0,8	-0,3
GDP per capita (U.S. dollars)	1,2	3,6	2,7	2,0	2,4	2,7	-0,1	-0,8	-0,3
PPP GDP	1,6	3,9	3,0	2,3	2,7	2,9	-0,2	-0,8	-0,3
Private consumption	1,2	4,8	3,0	2,4	3,2	2,9	-0,1	-0,8	0,1
PUBLIC CONSUMPTION	2,9	2,1	1,9	2,5	2,2	2,1	0,4	1,1	0,9
Fixed investment	0,0	6,3	0,3	2,3	4,6	4,8	-4,9	-2,5	-0,1
Exports, GNFS[3]	3,4	6,9	5,5	5,3	4,3	4,5	0,7	0,6	-0,4
Imports, GNFS[3]	3,2	10,4	2,8	5,1	5,8	5,8	-2,7	-0,4	0,6
NET EXPORTS, CONTRIBUTION TO GROWTH	0,2	-0,7	1,1	0,3	-0,2	-0,2	1,1	0,3	-0,2
Memo items: GDP									
Commodity exporters[4]	0,3	2,0	2,1	2,0	2,2	2,3	0,1	-0,3	-0,1
Commodity importers[5]	3,1	6,0	4,0	2,6	3,2	3,6	-0,3	-1,2	-0,5
CENTRAL EUROPE[6]	3,4	4,9	4,5	3,6	3,3	3,0	0,3	-0,1	-0,2
Western Balkans[7]	3,0	2,5	3,5	3,5	3,8	3,8	0,3	0,1	0,0
Eastern Europe[8]	0,8	2,6	3,5	2,9	3,1	3,4	0,2	-0,7	-0,4
South Caucasus[9]	-1,6	2,0	2,5	4,0	3,8	3,4	-0,1	0,0	0,1
Central Asia[10]	3,3	4,8	4,4	4,2	4,0	4,1	0,0	0,0	0,0
Russia	-0,2	1,5	1,6	1,5	1,8	1,8	0,1	-0,3	0,0
Turkey	3,2	7,4	3,5	1,6	3,0	4,2	-1,0	-2,4	-1,0
Poland	3,1	4,8	5,0	4,0	3,6	3,3	0,8	0,3	0,1

Source: World Bank. Notes: e = estimate; f = forecast. EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. 1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. 2. Sub-region aggregate excludes Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Tajikistan, and Turkmenistan, for which data limitations prevent the forecasting of GDP components. 3. Exports and imports of goods and non-factor services (GNFS). 4. Includes Albania, Armenia, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Kosovo, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. 5. Includes Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, FYR Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, and Turkey. 6. Includes Bulgaria, Croatia, Hungary, Poland, and Romania. 7. Includes Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia. 8. Includes Belarus, Moldova, and Ukraine. 9. Includes Armenia, Azerbaijan, and Georgia. 10. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

TABLE 2.2.2 Europe and Central Asia country forecast
(Real GDP growth at market prices in percent, unless indicated otherwise)

GDP GROWTHA							Percentage point differences from June 2018 projections		
	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]	2018[e]	2019[f]	2020[f]
Albania	3,4	3,8	4,0	3,6	3,5	3,5	0,4	0,1	0,0
Armenia	0,2	7,5	5,3	4,3	4,6	4,6	1,2	0,3	0,6
Azerbaijan	-3,1	0,1	1,1	3,6	3,3	2,7	-0,7	-0,2	0,1
Belarus	-2,5	2,4	3,4	2,7	2,5	2,5	0,5	0,0	0,0
Bosnia and Herzegovina[2]	3,1	3,0	3,2	3,4	3,9	4,0	0,0	0,0	-0,1
Bulgaria	3,9	3,8	3,3	3,1	3,0	2,8	-0,5	-0,5	-0,6
Croatia	3,5	2,9	2,7	2,8	2,8	2,6	0,1	0,1	0,0
Georgia	2,8	4,8	5,3	5,0	5,0	5,0	0,8	0,2	0,0
Hungary	2,3	4,1	4,6	3,2	2,8	2,4	0,5	0,0	-0,2
Kazakhstan	1,1	4,1	3,8	3,5	3,2	3,2	0,1	0,2	0,4
Kosovo	4,1	4,2	4,2	4,5	4,5	4,5	-0,6	-0,3	-0,3
Kyrgyz Republic	4,3	4,6	3,1	3,4	3,9	4,0	-1,1	-1,4	-1,1
Macedonia, FYR	2,8	0,2	2,5	2,9	3,2	3,3	0,2	0,2	0,2
Moldova	4,5	4,5	4,8	3,8	3,5	3,2	1,0	0,1	0,0
Montenegro	2,9	4,7	3,8	2,8	2,5	2,5	1,0	0,3	0,4
Poland	3,1	4,8	5,0	4,0	3,6	3,3	0,8	0,3	0,1
Romania	4,8	6,9	4,1	3,5	3,1	2,8	-1,0	-1,0	-1,0
Russia	-0,2	1,5	1,6	1,5	1,8	1,8	0,1	-0,3	0,0
Serbia	2,8	1,9	3,5	3,5	4,0	4,0	0,5	0,0	0,0
Tajikistan	6,9	7,1	6,0	6,0	6,0	6,0	-0,1	0,0	0,0
Turkey	3,2	7,4	3,5	1,6	3,0	4,2	-1,0	-2,4	-1,0
Turkmenistan	6,2	6,5	6,2	5,6	5,1	4,9	-0,1	-0,7	-1,2
Ukraine	2,3	2,5	3,5	2,9	3,4	3,8	0,0	-1,1	-0,6
Uzbekistan	7,8	5,3	5,0	5,1	5,5	6,0	0,0	0,0	0,0

Source: World Bank. Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. 1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars, unless indicated otherwise. 2. GDP growth rate at constant prices is based on production approach.

BOX 2.2.1 INFORMALITY IN EUROPE AND CENTRAL ASIA

The share of informal output in Europe and Central Asia (ECA) is larger than the EMDE average, even after a decline from elevated 1995 levels, but informality in the labor market is below average and there is wide heterogeneity within the region. Informality in ECA has been associated with weak institutions, sizeable agricultural sectors, and large-scale migration as well as low productivity, fiscal revenue losses, and poor job prospects for youth. In some ECA countries, declines in informality have accompanied the simplification of tax systems and labor market reforms, as well as reforms to reduce corruption.

Introduction

Informal output accounts for a larger share of official GDP (36 percent) in Europe and Central Asia (ECA) than in the average EMDE (Figure 2.2.1.1).[1] However, despite a widely shared history of transition from centrally planned to market economies, there is significant variation in informality within the region, ranging from 22 percent to 56 percent.

Against this backdrop, this box examines the following questions.
- How has informality evolved in Europe and Central Asia?
- What have been the macroeconomic and social correlates of informality?
- What policy options are available to address challenges associated with informality?

Evolution and drivers of informality

Evolution of informality. With the collapse of centrally planned economies in the late 1980s, many firms chose to operate in the informal sector to avoid burdensome regulations, taxation, or corruption. Estimates based on electricity consumption suggest that the average size of the informal economy more than doubled during 1989-95 (Johnson, Kaufmann, and Shleifer 1997). While informality declined in most countries once they began to recover, there was considerable heterogeneity across countries. In the western part of the region, where institutions are stronger, informality has declined steeply.[2] Notwithstanding this decline, one in ten formal employees in Central Europe still received "envelope wages" as recently as 2006, and the informal economy accounted for 10 percentage points of GDP more

With the collapse of centrally planned economies in the late 1980s, many firms chose to operate in the informal sector to avoid burdensome regulations, taxation, or corruption.

BOX 2.2.1 INFORMALITY IN EUROPE AND CENTRAL ASIA (CONTINUED)

than in the more advanced EU19 economies in 1999-2007 (Fialová and Schneider 2011).[3] In the eastern part of the region, the decline in informality has been considerably less pronounced, in part reflecting slower implementation of market liberalizing and other reforms, as well as persistently higher levels of corruption (Kaufmann and Kaliberda 1996).

Drivers of informality. Informality in ECA economies has typically been attributed to three factors:

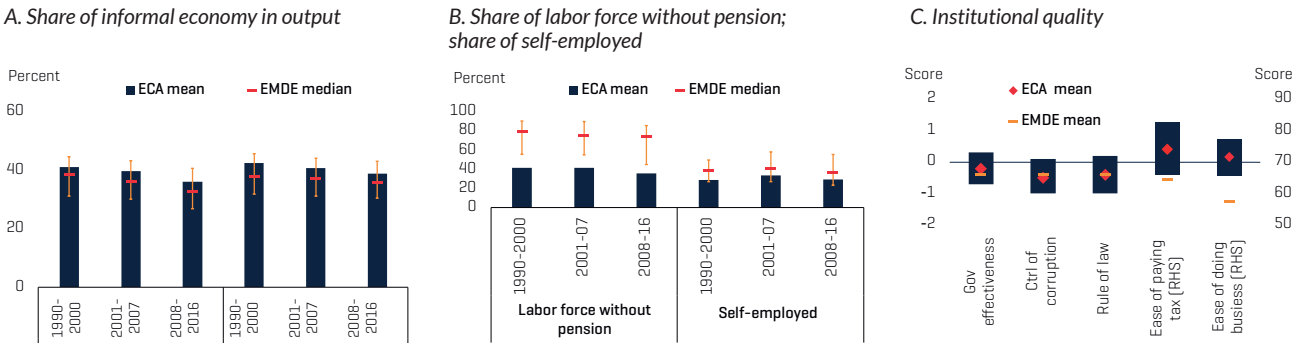
AGRICULTURE. Higher labor market informality has been associated with a larger share of workers in the agricultural sector as they tend to be self-employed (Figure 2.2.1.2; Rutkowski 2006; World Bank 2011). A larger agricultural sector has also been correlated with greater informality in non-agricultural sectors (Atesagaoglu, Bayram, and Elgin 2017).

REMITTANCES. In countries with large diasporas, informal activity has been higher among workers in households that receive sizeable remittances (Chatterjee and Turnovsky 2018; Shapiro and Mandelman 2016). In Kazakhstan, FYR Macedonia, Moldova, Serbia, Tajikistan, and Ukraine, remittances provided the capital to establish small businesses, which tend to be informal, and the income support needed to accept less secure but often more lucrative informal work (Ivlevs 2016).

INSTITUTIONS. Institutional quality varies widely within the region. The east has considerably weaker institutional quality indicators than the west, which implemented substantial reforms in the context of the EU accession process (Figure 2.2.1.2; Kaufmann and Kaliberda 1996).[4] In general, a favorable business environment encourages firms to do business in the formal sector (Chapter 3). However, the transition from economies dominated by large state-owned enterprises to more private-business friendly economies sometimes created more informal employment and larger informal sectors (Earle and Sakova 2000).

FIGURE 2.2.1.1 Informality in Europe and Central Asia

The share of informal output in the ECA region is higher than the EMDE median throughout the sample period, and it declined at the roughly same pace as in the other EMDE regions. However, employment informality is low, in part reflecting a low share of agriculture in some countries in the region. Institutional quality is on par with other regions, albeit with considerable heterogeneity within the region.



Source: Elgin et al. (forthcoming), World Bank.
Note: Blue bars show simple averages of the informal economy of the region. Red markers show the median average of all EMDEs and the vertical lines denote interquartile range of all EMDEs.
A. Both DGE and MIMIC estimates measure the informal output in percent of official GDP.
B. Labor force without pension is the fraction of the labor force that doesn't contribute to a retirement pension scheme, which is derived from the original data on pension coverage obtained from WDI. Self-employed is the share of self-employment in total employment.
C. All measures are taken from the latest year available. The first three institutional measures are taken from World Bank's World Governance Indicators (2017), with a higher value indicating better institutional quality in year 2016. The "Ease of doing business" (DB 2018) and "Ease of paying taxes" (DB 2017) are taken from World Bank's Doing Business database and measured as "Distance to Frontier", with a higher value indicating an easier environment for businesses.

Correlates of informality

Firm productivity. Some country-specific studies suggest that informal firms tend to be less productive than formal firms. In Turkey, for example, after controlling for firm characteristics, informal firms in the manufacturing and services sectors had 16 percent and 38 percent lower total factor productivity than formal firms, respectively, with the productivity gap attributed to restricted access to public services and formal markets (Taymaz 2009). By these estimates, shifting all informal firms in the Turkish manufacturing and services sectors into the formal sector could raise total output by 5 percent and 25 percent, respectively (Taymaz 2009). In Kyrgyz Republic, productivity in the informal sector has declined significantly since 2009, despite robust productivity growth in the formal sector (Sattar, Keller, and Baibagsy Uulu 2015).

Fiscal revenues. Large informal sectors erode tax revenues and hamper governments' ability to provide public goods. However, the magnitude of foregone revenues due to informality remains a matter of debate. One estimate suggests that tax revenue losses from informality could have been as high as 7 percent of GDP in Central Asia and the Caucasus in 2004 (Grigorian and Davoodi 2007). However, estimates based on micro survey data suggest only modest potential revenues gains (0.03-0.07 percentage points of GDP) from turning informal workers into formal workers in a

BOX 2.2.1 INFORMALITY IN EUROPE AND CENTRAL ASIA (CONTINUED)

country such as Ukraine in 2009, as newly formalized are mainly low-skilled and subject to low tax rates (World Bank 2011).

Labor market prospects. Informal employment is more common among young, low-skilled, and female workers. Some studies suggest that informal employment can damage long-term carrier prospects and entrench incomedifferentials (Taymaz 2009; World Bank 2007, 2011). However, informal employment can also be an income source when formal employment opportunities are scarce, as well as help develop human capital that can lead to formal employment or self-employment, as has been found for Turkey and Russia (Guariglia and Kim 2006; Taymaz 2009).[5] Better-paid informal activity may also encourage skilled professionals to forgo migration opportunities in highly regulated economies with large emigration, such as Tajikistan (Abdulloev, Gang, and Landon-Lane 2011).

INEQUALITY. In some countries, the low wages paid to informal workers (the "wage penalty") compared with formal workers have contributed to inequality. In Serbia, the wage penalty contributed to rising inequality between 2002 and 2007 (Krstic and Sanfey 2010). A similar wage penalty in Turkey was found for less educated workers (Taymaz 2009). However, in some cases informal workers have been found to earn a wage premium, e.g., in Russia, Romania, Tajikistan, and Ukraine (Lehmann and Norberto 2018; Shehu and Nilsson 2014; Staneva and Arabsheibani 2014; Zahariev 2003). In those countries, the informal wage premium may compensate for the lack of social security and lower job security (Lehmann and Norberto 2018; Marcouiller, de Castrilla and Woodruff 1997).[6]

Policy challenges

The impact of policies on informality can depend on country characteristics such as labor market flexibility, efficiency of tax collection or control of corruption. This underscores the importance of ensuring that reform efforts are carefully tailored to country circumstances to avoid unintended increases in informality.

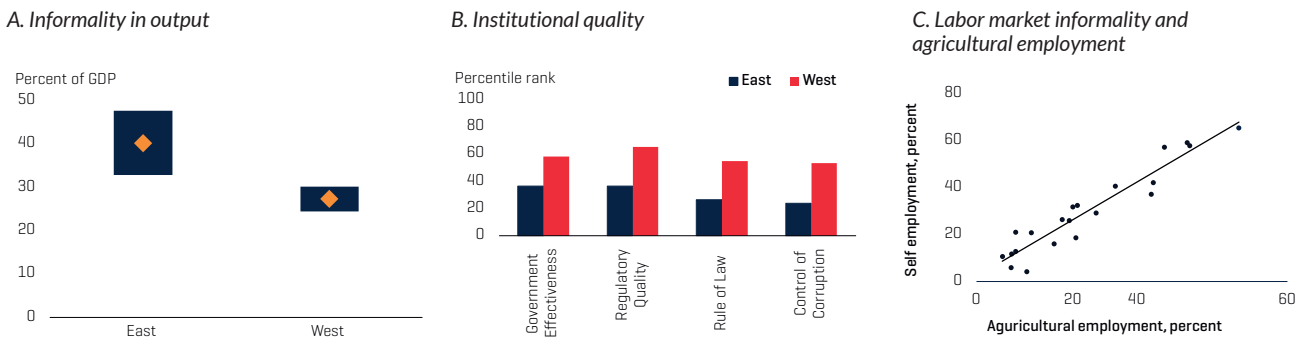
LABOR MARKET POLICIES. The impact of labor market reforms on informality has been mixed in ECA, and appears to have depended on the types of the reform. In a cross-sectional study of ECA countries, more restrictive employment protection legislation has been associated with a higher share of the informal economy (both in terms of GDP and labor force; Fialová 2011; Lehmann and Muravyev 2009). In contrast, there was no robust association of informality with more generous unemployment benefits or higher minimum wages (Fialová and Schneider 2011; Lehmann and Muravyev 2009).

FISCAL POLICY. Several countries have changed tax rates or tax enforcement, but the impact on informality has varied. That said, reducing the tax compliance burden and subsidizing the transition to formal sectors have typically been accompanied by declines in informality.[7]

Flat tax. A flat labor income tax rate has been introduced in several ECA countries (e.g., Bulgaria, Poland, Russia, and Romania). The flat tax reform in

FIGURE 2.2.1.2 Correlates of informality in Europe and Central Asia

Informality as a percentage of GDP in the eastern part of the region is higher than the western part of the region, in part reflecting differences in institutional quality. Employment informality tends to be higher in countries with larger agricultural sectors.



Source: Elgin et al. (forthcoming), European Bank of Reconstruction and Development, World Bank.
A-B. Data are from the latest year available, usually 2016. The western part of the region includes Central Europe (Bulgaria, Croatia, Hungary, Poland and Romania) and the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia), and Turkey. The eastern part of the region comprises Eastern Europe (Belarus, Moldova, and Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia), Central Asia (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan) and Russia.
A. Orange diamonds indicate subsample average and blue bars indicate one standard deviation range.
C. Agricultural employment and self-employment are shares of employment in agriculture or share of self-employed in total employment.

Reducing the tax compliance burden and subsidizing the transition to formal sectors have typically been accompanied by declines in informality.

BOX 2.2.1 INFORMALITY IN EUROPE AND CENTRAL ASIA (CONTINUED)

Russia was followed by a decline in informal employment and informal activity, especially in the top income bracket (Slonimczyk 2012). A simulation suggests that the Polish flat tax reform in 2004 could have led to a 48 percent increase in reported business income and 25 percent higher tax revenue, despite a lower average marginal tax rate (Kopczuk 2012). However, flat tax structures can be regressive and need to be balanced with poverty fighting initiatives.

Preferential tax schemes. Certain preferential tax schemes for the self-employed and small firms can encourage movement away from the informal sector. One such scheme, indirect assessments of tax liabilities, has been shown to encourage entrepreneurship, help revenue collection from hard-to-tax sectors, and ease the transition from informal to formal work. However, such preferential schemes can also encourage formal workers to pursue the preferential status and may encourage firms to remain small (Packard et al. 2014).

Shift from labor to other taxation. Shifting from labor income taxes, which constitute a wedge between informal and formal employment, to less distorting and more easily enforced taxes, such as value-added taxes and progressive real estate taxes, can shrink the informal economy (Packard , Koettl, and Montenegro 2012).

Subsidies. A formal employment subsidy, such as the one introduced in Turkey, can increase the number of registered jobs by encouraging informal workers to transition to formal employment as well as provide better social protection (Betcherman, Daysal, Pagés 2010).

CONTROL OF CORRUPTION. Better governance and more effective tax authorities can reduce the size of the informal economy and increase tax revenue. Bureaucratic corruption has been associated with greater informal activity in Poland, Romania, and Slovakia (Johnson et al. 2000). Conversely, better control of corruption has reduced the extent of informal activities in the countries that joined the European Union in the mid-2000s (Fialová and Schneider 2011).

Note: This section was prepared by Yoki Okawa. Research assistance was provided by Zhuo Chen and Mengyi Li.
1) The methodology of informality estimates is discussed in Chapter 3.
2) The western part of the region includes Central Europe (Bulgaria, Croatia, Hungary, Poland and Romania) and the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia), and Turkey. The eastern part of the region comprises Eastern Europe (Belarus, Moldova, and Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia), Central Asia (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan) and Russia.
3) "Envelope wages" refers to the practice of paying a portion of wages in undeclared cash to avoid tax and social contributions (see, for example, Horodnic 2016, and Williams and Padmore 2013).
4) Institutional indicators include the World Bank's Doing Business Indicators and World Governance Indicators of government effectiveness, control of corruption, or rule of law.
5) This is consistent with the finding that informally employed youth have lower job satisfaction relative to their peers with formal jobs (Shehu and Nilsson 2014).
6) Controlling for worker characteristics and selection bias, the absence of male-female wage differentials in the informal economy—in the presence of large differentials in the formal economy—has been interpreted as sign of lesser gender discrimination in the informal economy than in the formal economy in Turkey (Tansel 2000).
7) On the one hand, higher labor tax rates encourage a move of labor into untaxed informal employment, especially for low-wage earners (Koettl and Weber 2012). On the other hand, higher labor tax rates have in some cases been associated with a lower share of informal employment, because higher revenue allow governments to provide better public goods that can only be accessed in formal

Global Economic Prospects is a World Bank Group Flagship Report that examines global economic developments and prospects, with a special focus on emerging market and developing countries, on a semiannual basis (in January and June). The January edition includes in-depth analyses of topical policy challenges faced by these economies, while the June edition contains shorter analytical pieces. The full report can be downloaded from the link below.

https://openknowledge.worldbank.org/handle/10986/31066
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Romania in the Regional Context

Softening growth and elevated uncertainty are clouding global economic prospects. Global activity and trade decelerated at the end of 2018, and data point to continued weakness into 2019.

By World Bank Office in Romania

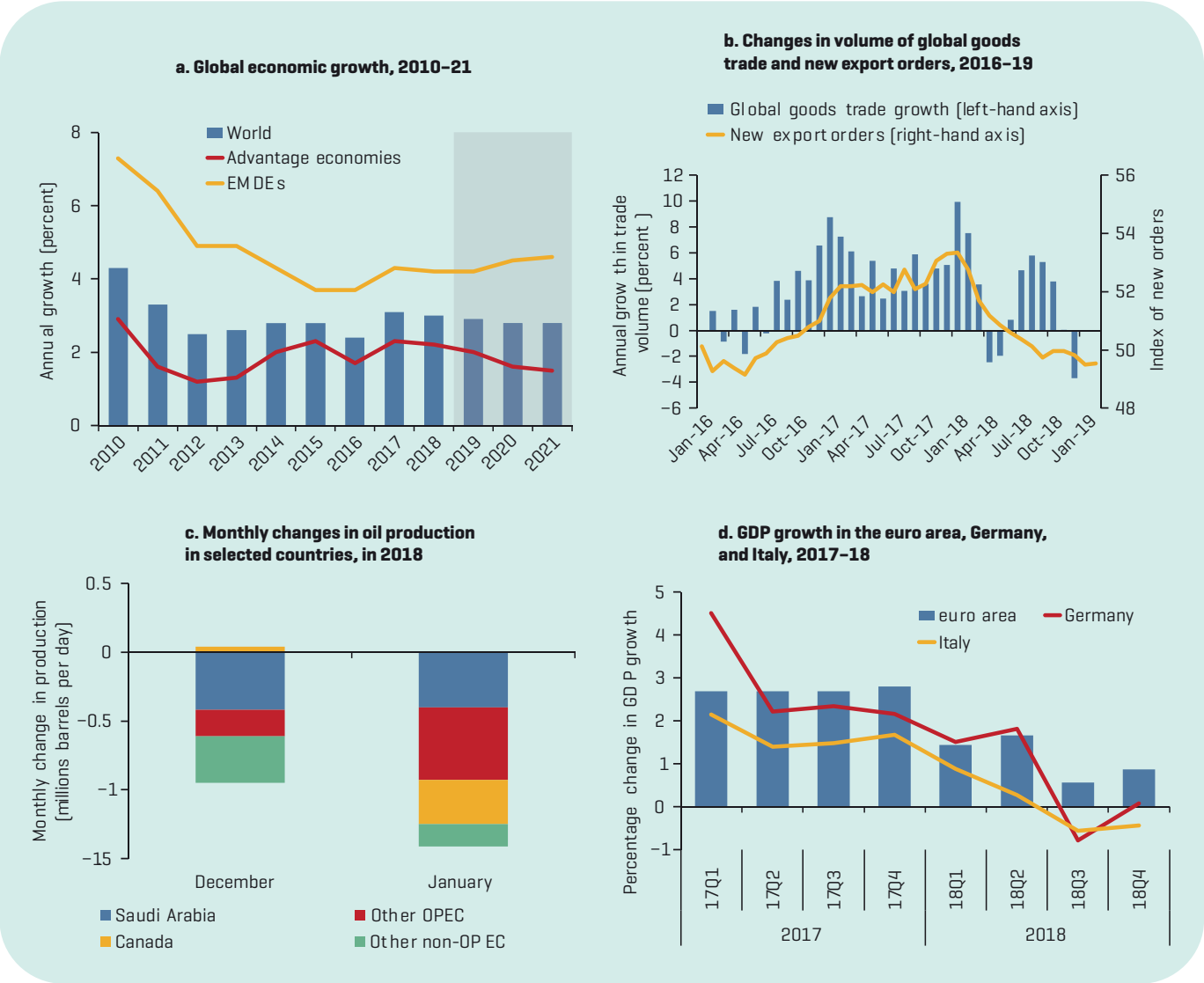
Slowing activity in the euro area and a sharper than expected deceleration in China could trigger a deeper slowdown in global activity.

Growth in emerging markets and developing economies is projected to stall in 2019, with a weak recovery by commodity exporters accompanied by a deceleration in commodity importers. A recurrence of financial stress could disrupt activity and lead to contagion effects. Trade disputes could escalate or become more widespread, denting activity in the economies involved and leading to negative global spillovers. Slowing activity in the euro area and a sharper than expected deceleration in China could trigger a deeper slowdown in global activity. Policy uncertainty and geopolitical risks remain high and could negatively affect confidence and investment around the world.

OVERALL TRENDS

Global growth continues to moderate, amid soft trade and manufacturing activity, reflecting slowdowns in most major economies, as well as in emerging markets and developing economies (EMDEs) that experienced substantial financial market pressure, such as Argentina and Turkey. The ongoing

FIGURE 1.1 *Global economic outlook*



Source: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; International Energy Agency; World Bank.
Note: In panel a, the shaded area indicates forecasts. Data for 2018 are estimates. Aggregate growth rates are calculated using constant 2010 U.S. dollar GDP weights. In panel b, new export orders are measured by the Purchasing Managers' Index (PMI). Readings above 50 indicate expansion; readings below 50 indicate contraction. The last observation is February 2019 for PMI and December 2018 for trade volumes. In panel d, figure shows quarter-on-quarter seasonally-adjusted annualized rates. Data in 2010 chained euro. The last observation is for fourth quarter 2018. EMDEs = emerging markets and developing economies; GDP = gross domestic product; OPEC = Organization of the Petroleum Exporting Countries.

weakness is consistent with the January 2019 Global Economic Prospects report, which estimated global growth at 3 percent for 2018 (figure 1.1, panel a). Global inflation trended up during most of 2018, peaking at 2.5 percent (year-over-year) in October before moderating.

Incoming data indicate that global growth may be softening further going into 2019. Global goods trade has been stagnating, with the euro area experiencing its largest contraction in export volumes since the 2009 global financial crisis (figure 1.1, panel b). Over the course of 2018, the pace of industrial production growth declined by more than two-thirds. Several measures of global sentiment have fallen to their lowest level in years. Uncertainty remains elevated, notwithstanding recent optimism that ongoing trade disputes between major economies will be partially resolved.

After tightening throughout most of 2018, global financing conditions have eased somewhat as major central banks responded to deteriorating growth prospects with a more dovish stance, including the Federal Reserve, the European Central Bank, the Bank of England, the Reserve Bank of India, and the People's Bank of China. Reassessment of the future path of U.S. policy interest rates and inflation have contributed to U.S. long-term yields declining to 2.4 percent after a seven-year peak of 3.2 percent in November. Global equity markets have recovered after bottoming out in late December, despite continuing concerns about softening global growth.

Many EMDEs faced substantial financial market stress or deteriorating market sentiment in 2018. So far in 2019, however, external financing conditions have improved and capital inflows to EMDEs have recovered. After yields on EMDE debt issued on international bond markets rose about 150 basis points in 2018— the third-largest annual increase in the past two decades—sovereign bond spreads reversed and narrowed somewhat, although they remain elevated compared to 2017 levels.

Oil prices have been rising since the beginning of the year, with Brent crude climbing above $65 a barrel in mid-February, driven by a fall in the global oil supply of more than 2 million barrels a day, mainly as a result of planned production cuts by Saudi Arabia and other members of the Organization of the Petroleum Exporting Countries (OPEC) (figure 1.1, panel c). Oil prices are forecast to average $67 a barrel in 2019, slightly below the 2018 average.

The prices of metals and most agricultural commodities fell in the second half of 2018, following the imposition of new U.S. tariffs on imports from China; they have been slowly drifting back up in 2019. Negotiations between China and the United States may avert further increases or roll back existing tariffs between the two countries, but trade tensions are likely to persist.

Major Economies

Growth in the U.S. economy increased to 2.9 percent in 2018, mostly reflecting strong domestic demand bolstered by procyclical fiscal stimulus and accommodative monetary policy. Wages and labor productivity are showing signs of picking up. In the coming years, growth is expected to decelerate toward long-term trends, as fiscal stimulus fades and the impact of higher tariffs is felt.

Euro area growth slowed in 2018, falling to 1.8 percent, down from 2.4 percent the year before. Exports softened, reflecting the earlier appreciation of the euro and slowing external demand. German activity decelerated especially rapidly at the end of 2018, and Italy entered a recession (figure

***TABLE 1.1** Real GDP*
(Percent change from previous year)

Category	Real GDP (percent)					
	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]
World	**2.5**	**3.1**	**2.9**	**2.9**	**2.8**	**2.8**
Advanced economies	1.7	2.3	2.1	2.0	1.6	1.5
United States	1.6	2.2	2.9	2.5	1.7	1.6
Euro Area	1.9	2.5	1.8	1.6	1.5	1.3
Japan	0.6	1.9	0.7	0.9	0.7	0.6
China	6.7	6.8	6.6	6.2	6.2	6.0
World trade volume[a]	2.6	5.4	3.8	3.6	3.5	3.4
Commodity prices[b]						
Oil price	–15.6	23.3	30.7	–2.9	0.0	0.0
Non-energy commodity price index	–2.8	5.3	1.7	1.0	1.2	1.2

Source: World Bank.
Note: Aggregate growth rates are calculated using constant 2010 U.S. dollar GDP weights. World Bank forecasts are frequently updated based on new information. Consequently, the projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment. Country classifications and lists of emerging markets and developing economies are presented in table 1.2.
e = estimate; f = forecast.
a. World trade volume of goods and nonfactor services.
b. Oil is the simple average of Brent, Dubai, and West Texas Intermediate. The nonenergy index is made up of the weighted average of 39 commodities (7 metals, 5 fertilizers, and 27 agricultural commodities). For details, see http://www.worldbank.org/en/research/commodity-markets. For additional information, see www.worldbank.org/gep.

Uncertainty remains elevated, notwithstanding recent optimism that ongoing trade disputes between major economies will be partially resolved.

1.1, panel d). Incoming data do not point to recovery. Industrial production contracted to its lowest level since 2012, and the Manufacturing Purchasing Managers' Index (PMI) dipped to a six-year low.

The United Kingdom is scheduled to exit the European Union at the end of March, but no plans for an orderly withdrawal have yet been agreed upon as the British Parliament has rejected the draft withdrawal treaty negotiated with the European authorities. The exit deadline may be extended. A no-deal Brexit could disrupt activity in the short term and exacerbate financial stability risks in the United Kingdom and abroad. Uncertainty remains high, likely hampering activity.

Growth in China slowed to 6.1 percent (quarter-over-quarter, seasonally adjusted annual rate) in the fourth quarter of 2018, bringing the rate for 2018 to 6.6 percent. Export growth decelerated, contributing to a shrinking current account surplus. Recent data point to further deceleration in 2019, amid ongoing rebalancing away from manufacturing and exports toward consumption and services. Growth is projected to decelerate to 6.2 percent in 2019 and 6.0 percent by 2021, broadly in line with its long-term pace. Supportive fiscal and monetary policies are expected to offset the negative impact of higher tariffs but may have the undesirable effect of slowing the deleveraging and derisking process.

Global Risks

The balance of risks to the global economy is tilted to the downside. The possibility of renewed disorderly financial market developments could further deteriorate growth prospects and spread through EMDEs. Elevated debt in many economies amplifies this risk. If all new tariffs currently under consideration were implemented, they would affect more than 5 percent of global goods trade. The dampening impact of trade tensions involving major economies could be multiplied through global value chains, such as those linking Central Europe to Germany. A sharper than expected deceleration in activity in the euro area and in China could trigger a deeper slowdown in global activity. Policy uncertainty and geopolitical risks remain high and could erode confidence and investment around the world. In the absence of an approved withdrawal agreement, the exit of the United Kingdom from the European Union

TABLE 1.2 *Europe and Central Asia forecast summary*

	Annual GDP growth (percent)						Percentage point differences from January 2019 projections		
Region/subregion	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]	2019[f]	2020[f]	2021[f]
EMDE ECA, GDP[a]	**1.9**	**4.1**	**3.1**	**2.1**	**2.7**	**2.9**	**−0.2**	**0.0**	**0.0**
EMDE ECA, GDP excl. Turkey	1.5	3.0	3.3	2.5	2.6	2.6	−0.1	0.0	0.1
Commodity exporters[b]	0.7	2.1	2.7	1.9	2.2	2.3	−0.1	0.0	0.0
Commodity importers[c]	3.1	6.0	3.6	2.3	3.2	3.5	−0.3	0.0	−0.1
Central Europe and Baltic States[d]	3.3	4.9	4.6	3.6	3.3	3.0	0.0	0.0	0.0
Western Balkans[e]	3.3	2.6	3.8	3.5	3.8	3.8	0.0	0.0	0.0
Eastern Europe[f]	0.8	2.6	3.2	2.6	3.1	3.3	−0.3	0.0	−0.1
South Caucasus[g]	−1.6	2.0	2.6	3.7	4.0	4.2	−0.3	0.2	0.8
Central Asia[h]	2.9	4.5	4.7	4.2	4.0	4.1	0.0	0.0	0.0
Russian Federation	0.3	1.6	2.3	1.4	1.8	1.8	−0.1	0.0	0.0
Turkey	3.2	7.4	2.6	1.0	3.0	4.0	−0.6	0.0	−0.2
Poland	3.1	4.8	5.1	4.0	3.6	3.3	0.0	0.0	0.0

Source: World Bank.
Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, the projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment. For additional information, see www.worldbank.org/gep. e = estimate; ECA = Europe and Central Asia; EMDE = emerging market and developing economy; f = forecast; GDP = gross domestic product.
a. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
b. Includes Albania, Armenia, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Kosovo, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.
c. Includes Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, the Republic of North Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, and Turkey.
d. Includes Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, and Romania.
e. Includes Albania, Bosnia and Herzegovina, Kosovo, the Republic of North Macedonia, Montenegro, and Serbia.
f. Includes Belarus, Moldova, and Ukraine.
g. Includes Armenia, Azerbaijan, and Georgia.

could be accompanied by significant disruptions to domestic activity and become a source of financial stability risk in other economies.

EUROPE AND CENTRAL ASIA: RECENT DEVELOPMENTS AND OUTLOOK

Aggregate growth in EMDEs in Europe and Central Asia (ECA) slowed to an estimated 3.1 percent in 2018, with substantial subregional variations. It is projected to decelerate to 2.1 percent in 2019, mainly as a result of weakness in Turkey, as it experiences the consequences of earlier financial market stress. Regional growth is expected to pick up modestly in 2020–21, as a gradual recovery in Turkey offsets moderating activity in Central Europe. Uneven growth trends underline the regional numbers, reflecting divergence across subregions over the forecast horizon. Key external risks to the region include spillovers from weaker than expected activity in the euro area and an additional escalation of global policy uncertainty, particularly in trade. Renewed financial pressures in Turkey, combined with possible contagion to the rest of the region, could also disrupt growth in the region's EMDEs. The possibility of sharp declines in energy prices presents a downside risk to the region's energy exporters, such as Azerbaijan, Kazakhstan, and the Russian Federation.

Recent Developments

Growth in the EMDEs of ECA moderated to an average of 3.1 percent in 2018, with wide variation across countries. Upward revisions to gross domestic product (GDP) data for Russia, the largest economy in the region, contributed strongly to regional growth, alongside accelerating growth in Albania, Hungary, Poland, and Serbia. This was offset by weakness in Turkey due to financial market stress. The modest recovery in commodity exporters continued despite the volatility observed in commodity prices toward the end of the year; aggregate growth in commodity importers, excluding Turkey, eased slightly.

In line with general trends among EMDEs, inflation trended up for most of 2018, peaking at 3 percent (year-over-year) in August. It corresponded to the sharp decline in oil prices toward the end of the year. Growth is expected to slide to 2.1 percent in 2019, before recovering to 2.9 percent in 2021. Much of the growth profile reflects developments in Turkey, without which growth is expected to average just 2.6 percent during 2019–21.

Turkey entered a technical recession by the end of 2018, triggered by financial market and currency pressures. The contraction in activity represented a substantial reversal from the peak growth of 11.5 percent in the third quarter of 2017. Market sentiment deteriorated over concerns about rising private sector debt, much of it denominated in foreign currencies, accumulated through current account deficits financed through volatile portfolio capital flows. Accelerating inflation and a perceived delay in monetary tightening led to significant capital outflows from Turkey, with the lira undergoing a nearly 30 percent nominal depreciation against the U.S. dollar. To interrupt the cycle of a depreciating currency contributing to rising inflation and vice versa, the central bank hiked policy interest rates by 16 percentage points over the year to 24 percent by September. Turkish growth is expected to slow to 1.0 percent in 2019, weighed down by shrinking purchasing power, scarce and expensive credit, and low confidence. It is expected to begin to recover by 2020, through gradual improvement in domestic demand and continued strength in net exports, assuming that fiscal and monetary policy avert further sharp falls in the lira and corporate debt restructurings help prevent serious damage to the financial system.

In Russia growth accelerated to a six-year high of 2.3 percent in 2018, despite tightening economic sanctions and financial market pressure. It was supported by the rise in oil prices over most of the year, a solid contribution from net exports, as well as one-off factors, such as energy-related construction projects and the hosting of the World Cup. Throughout most of 2018, consumer price inflation accelerated as a result of the depreciation of the ruble, prompting the central bank to hike the policy interest rate twice toward the end of the year. Tighter monetary policy and a value-added tax hike at the beginning of the year are contributing to decelerating momentum in 2019.

Growth in Central Europe and the Baltics was 4.6 percent in 2018, supported by upwardly revised numbers for Hungary and Poland. Activity in Hungary accelerated to 4.9 percent in 2018, on the back of strong domestic demand from procyclical fiscal stimulus. In Poland, growth reached 5.1 percent in 2018, partly as a result of EU fund transfers and the strongest labor market since the 1990s. In contrast, investment in Romania was subdued, reflecting weak absorption of EU funds, which dampened growth. Central Europe, which is composed mainly of net oil importers, experienced rising inflation throughout 2018 that corresponded to increasing oil prices. The pace of inflation has since slowed, given the sharp decline in oil prices toward the end of the year. The deceleration over the forecast horizon is more pronounced in Central Europe and the Baltics than in other ECA subregions, as growth is expected to slow as a result of a shrinking working-age population, domestic capacity constraints (in Hungary, Poland, Romania, and the Baltics, for example) and tight connections with the slowing euro area economy. Private investment growth has been tepid and could diminish further in the absence of sustained progress on structural reforms.

Central Europe, which is composed mainly of net oil importers, experienced rising inflation throughout 2018 that corresponded to increasing oil prices.

TABLE 1.3 *Europe and Central Asia country forecasts (Real GDP growth at market prices in percent, unless indicated otherwise)*

Country	Annual GDP growth (percent)						Percentage point differences from January 2019 projections		
	2016	2017	2018[e]	2019[f]	2020[f]	2021[f]	2019[f]	2020[f]	2021[f]
Albania	3.4	3.8	4.2	3.8	3.6	3.6	0.2	0.1	0.1
Armenia	0.2	7.5	5.2	4.2	4.9	5.2	−0.1	0.3	0.6
Azerbaijan	−3.1	0.1	1.4	3.3	3.5	3.7	−0.3	0.2	1.0
Belarus	−2.5	2.5	3.0	2.2	2.4	2.1	−0.5	−0.1	−0.4
Bosnia and Herzegovina[a]	3.1	3.2	3.0	3.4	3.9	4.0	0.0	0.0	0.0
Bulgaria	3.9	3.8	3.1	3.0	2.8	2.8	−0.1	−0.2	0.0
Croatia	3.5	2.9	2.6	2.5	2.5	2.4	−0.3	−0.3	−0.2
Georgia	2.8	4.8	4.7	4.6	4.8	5.0	−0.4	−0.2	0.0
Hungary	2.3	4.1	4.9	3.5	2.8	2.6	0.3	0.0	0.2
Kazakhstan	1.1	4.0	4.1	3.5	3.2	3.2	0.0	0.0	0.0
Kosovo	4.1	4.2	4.2	4.4	4.5	4.5	−0.1	0.0	0.0
Kyrgyz Republic	4.3	4.7	3.5	4.3	4.0	4.1	0.9	0.1	0.1
Republic of North Macedonia	2.8	0.2	2.7	2.9	3.2	3.6	0.0	0.0	0.3
Moldova	4.4	4.7	3.8	3.6	3.5	3.8	−0.2	0.0	0.6
Montenegro	2.9	4.7	4.4	2.9	2.4	2.3	0.1	−0.1	−0.2
Poland	3.1	4.8	5.1	4.0	3.6	3.3	0.0	0.0	0.0
Romania	4.8	7.0	4.1	3.6	3.3	3.1	0.1	0.2	0.3
Russian Federation	0.3	1.6	2.3	1.4	1.8	1.8	−0.1	0.0	0.0
Serbia	3.3	2.0	4.2	3.5	4.0	4.0	0.0	0.0	0.0
Tajikistan	6.9	7.1	7.3	6.0	6.0	6.0	0.0	0.0	0.0
Turkey	3.2	7.4	2.6	1.0	3.0	4.0	−0.6	0.0	−0.2
Turkmenistan	6.2	6.5	6.2	5.6	5.1	4.9	0.0	0.0	0.0
Ukraine	2.3	2.5	3.3	2.7	3.4	3.8	−0.2	0.0	0.0
Uzbekistan	6.1	4.5	5.1	5.3	5.5	6.0	0.2	0.0	0.0

Source: World Bank.
Note: GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars, unless indicated otherwise. World Bank forecasts are frequently updated based new information and changing (global) circumstances. Consequently, the projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. For additional information, see www.worldbank.org/gep.
e = estimate; f = forecast.
a. GDP growth rate at constant prices is based on the factor costs approach.

Growth in the Western Balkans picked up to 3.8 percent in 2018, up from 2.6 percent the previous year. In Serbia, the economy rebounded from weather-related disruptions in 2018 and benefited from strong job creation. Activity in Albania and Montenegro was solid, thanks to robust industrial production growth, as well as a strong tourism season. Growth in the Western Balkans is envisaged to moderate to 3.5 percent in 2019 and grow to 3.8 percent by 2020-21, but the outlook is predicated on political stability and policy uncertainty remaining in check. Infrastructure projects and investment in the subregion will help deliver robust growth in some economies (for example, Kosovo and Serbia), while a deceleration in public and private investment will taper activity in others (for example, Albania and Montenegro).

In the South Caucasus subregion, growth in 2018 was 2.6 percent, backed by robust mining and manufacturing activity. In Armenia, growth expanded to 5.2 percent, slowing in the second half of the year after copper prices dropped. In Azerbaijan, the recovery in domestic demand was slower than previously anticipated, as systemic issues in the financial sector continue to weigh on credit, but a new natural gas pipeline

coming on stream is expected to support growth in the coming years. Georgia continued to be characterized by robust domestic demand, although momentum in the third quarter slowed on the back of contracting industrial production growth. Growth in the South Caucasus subregion is projected to strengthen to 4.2 percent by 2021, conditional on continued implementation of domestic reforms.

Growth in Central Asia expanded at a robust 4.7 percent in 2018, the strongest subregional growth among the region's EMDEs. The recovery from the 2014–16 collapse in oil prices in Kazakhstan has been supported by higher than expected production in the Kashagan oil field and strong domestic demand. In the Kyrgyz Republic, growth eased from 4.7 percent in 2017 to 3.5 percent in 2018, partially as a result of slower gold production. Over the forecast period, growth is projected to moderate to a still robust 4.1 percent by 2020-21 in Central Asia, as the gradual slowdown in the euro area is expected to weigh on export growth in Kazakhstan.

Risks to the Regional Outlook

Although the global economy showed worsening signs of weakness throughout 2018, growth in the region (excluding Turkey) was largely insulated. There are risks that this divergence fades in the face of a sharper than expected deceleration in ECA's most important trading partner, the euro area. Europe remains the region's largest trading partner, purchasing the majority of all EMDE ECA exports in 2017. Recent developments point to the predominance of downside risks, with activity weakening sharply in the euro area, especially Germany and Italy, and multiple indicators pointing to continued deceleration going into 2019.

The experience of Turkey in 2018 is a stark reminder of the risk of sudden and widespread shifts in investor sentiment, in particular for countries with large current account deficits or reliance on volatile capital inflows, high external debt loads, or sizable foreign currency-denominated debt as a share of GDP.

Increases in policy uncertainty could undermine confidence in the region and slow growth. Policy disagreements between the European Union and some Central European countries could deter international investors and reduce fiscal transfers. An escalation of international trade restrictions could have a negative impact on the region, given its trade openness and capital linkages. A slowdown or reversal of ongoing structural reforms remains a risk in many countries, especially for Armenia, Azerbaijan, Belarus, Ukraine, and Turkey. Tensions over the Syrian Arab Republic or Ukraine could trigger new sanctions.

Long-Term Challenges

Over the next decade, promoting growth for the region's EMDEs is expected to become more challenging. Demographic trends are worsening rapidly, and productivity and investment growth remain subdued. Growth is expected to slow further in most ECA countries over the next decade (World Bank 2018a). Tighter financing conditions and diminishing economic prospects are expected to deter investment. Unless new technologies can help unleash a productivity revival, productivity growth is expected to remain lackluster. Meanwhile, climate change may impose significant economic costs, especially for countries that rely heavily on agriculture, such as those in Central Asia. Policymakers can adopt a wide range of policy options to mitigate slowing productivity growth and declining working-age populations. This update focuses on one policy - promoting inclusive financial sector development—as a way to promote growth and poverty alleviation.

Aging Populations

Working-age population growth among the region's EMDEs has long been well below the global average for EMDEs. In the late 2000s, it turned negative (figure 1.2, panel a). The shift is attributed to declining fertility rates in the 1990s in the aftermath of the collapse of the Soviet Union, exacerbated by migration to the European Union and Russia. A recent slowing of emigration and rising female labor force participation have only partially mitigated downward trends.

The region can be divided into two parts, based on countries' stage of demographic transition. Turkey and Central Asia have only recently entered the late stage, characterized by falling fertility and mortality at all ages. The higher-income parts of the ECA region have already reached an advanced stage of aging, with populations declining (Bussolo, Koettl, and Sinnott 2015).

Declining Productivity

Annual trend total factor productivity (TFP) growth in ECA slowed to 0.8 percent in 2013–17, about 0.4 percentage point below the long-term average (figure 1.2, panel b) (World Bank 2018a). The deceleration largely reflected slowdowns in foreign direct investment (FDI) inflows, sectoral reallocation, and reform momentum, combined with aging population and declining business dynamism (World Bank 2018b). In the absence of a sudden productivity boost arising from new technologies, many of the drivers of the productivity slowdown in ECA appear likely to persist over the next decade.

FDI flows have fostered technology transfers and productivity gains among the region's EMDEs, particularly in Central Europe. However, growth in FDI flows to the region plummeted to 1 percent a year in 2013–16, down from 37 percent in 2005–07, likely adversely affecting TFP growth (EBRD 2015). The reallocation of labor from the agriculture sector to services and industry has been

Tighter financing conditions and diminishing economic prospects are expected to deter investment. Unless new technologies can help unleash a productivity revival, productivity growth is expected to remain lackluster.

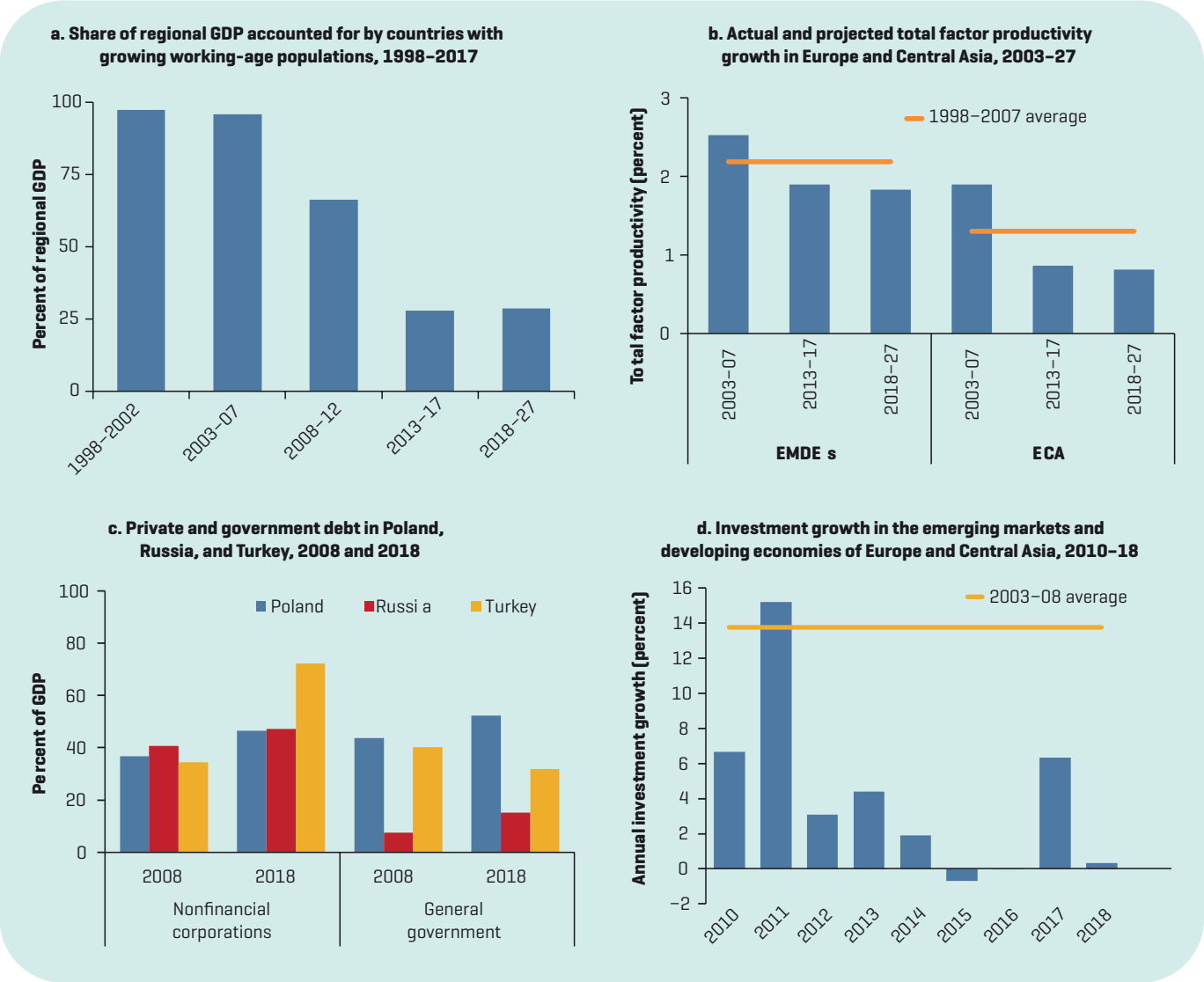
an important source of economy wide productivity gains over the past two decades. In the western part of the region, however, the shift from agricultural to nonagricultural employment slowed after the global financial crisis.

Improvements in the business climate are associated with increasing productivity (World Bank 2018a). Over the past decade, EMDEs in ECA made strides in improving their business environments. As a result, in Central and Eastern Europe, the Western Balkans, and the South Caucasus, indexes of the business environment are approaching the levels in advanced EU countries. Reform momentum appears to have slowed in the mid-2000s, after Central European countries acceded to the European Union. Business climates in Central Asia continue to lag well behind those elsewhere in the region, notwithstanding improvements in Kazakhstan and Uzbekistan (World Bank 2019).

Weakening Investment

Investment growth has slowed sharply, from an average of more than 15 percent in the five years before the global financial

FIGURE 1.2 *Long-term economic challenges facing Europe and Central Asia*



Source: Institute of International Finance; Penn World Tables; World Bank.
Note: In panel a, the working-age population is defined as people 15–64. The sample includes 24 countries. In panel b, values are the GDPweighted average of total factor productivity growth. In panel c, debt is defined as loans, debt securities, and currency and deposits. Data for 2018 are through the second quarter.

crisis to an average of 1.6 percent in 2014–18, despite significant increases in debt (figure 1.2, panels c and d). The causes of investment weakness include declining commodity prices, lower FDI inflows, and lower long-term growth expectations. A sudden tightening of financial conditions could further weigh on investment, particularly for countries with high levels of debt that is denominated in foreign currency, short term, or at variable rates. In countries where the banking system is weak or has deteriorating asset quality (such as Belarus, Croatia, Kazakhstan, Russia, and Ukraine), a "sovereign-bank nexus" could amplify the impact of financial disruptions if bank holdings of government debt combine with government guarantees to the financial system to intertwine the health of banks and sovereigns (World Bank 2018c).

Climate Change

Climate change is contributing to droughts, floods, more intense and frequent natural disasters, and rising sea levels, with the poorest and most vulnerable people often hit hardest. Changes in rainfall patterns, rising temperatures, droughts, and floods have serious implications for countries with large agriculture sectors. Central Asia is especially vulnerable because of its aridity, previous underinvestment in infrastructure, high frequency of natural disasters, reliance on glaciers for water supply, and legacy of Soviet-era environmental mismanagement (UNDP 2018). Changes in sea level will affect many countries. Poland's heavily populated Baltic coast is vulnerable to rising sea levels. The Black Sea has seen a significant rise in sea level, which is threatening the many ports and towns along the coasts of Georgia, Russia, and Ukraine. As a result of increased surface evaporation, water levels in the Caspian Sea are projected to drop by approximately 6 meters by the end of the 21st century, imperiling fish stocks and coastal infrastructure (Fay, Block, and Ebinger 2010).

Policy Options for Responding to Long-Term Challenges

A wide range of policy options is available to help address the region's long-term challenges. Filling the region's investment gaps—estimated to be equivalent to 1.3 percent of GDP—could boost productivity (EBRD 2015). Public firms tend to be less efficient than private firms in ECA; privatization therefore presents an opportunity to raise economy wide productivity, especially if it is accompanied by improved management and corporate governance.

Promoting FDI and other forms of connectivity could accelerate technology absorption and speed convergence with advanced economies (Gould 2018). Greater participation in global value chains is associated with faster productivity growth. Some countries have already integrated into the German supply chain. Countries in the South Caucasus and Central Asia could make similar progress through greater East-West connectivity. ECA countries could mitigate the impact of declining populations by increasing labor force participation—by providing better access to childcare services or attracting and retaining skilled labor, for example. Investments in human capital—both health and education—are also key in promoting productivity.

Financial Sector Development

Finance is central to development. Well-functioning financial systems contribute to growth and poverty alleviation by mobilizing and pooling resources, allocating capital to its most efficient uses, monitoring these investments after they have been made, and diversifying and managing risk. To be able to perform these functions, financial systems need to be deep, efficient and stable. For all segments of the society to benefit from these services, they also need to be inclusive.

Inclusive financial sector development can contribute to economic development by promoting individuals' investments in their health, education, and businesses. Greater financial inclusion can also help allocate the savings of an aging population and increase access to finance. But not all financial services are appropriate for everyone, and -especially for credit- there is a risk of overextension. Promoting financial inclusion is a responsible and sustainable way requires strong regulation and supervision to prevent potential crises that can accompany a rapidly-growing financial system (Gould and Melecky 2017; World Bank forthcoming). The feature chapter of this update examines recent trends and identifies many remaining challenges in promoting financial inclusion in ECA countries.

ROMANIA

Population, million	19.5
GDP, current US$ billion	228.7
GDP per capita, current US$	11745
International poverty rate ($1.9)[a]	5.7
Lower middle-income poverty rate ($3.2)[a]	13.3
Upper middle-income poverty rate ($5.5)[a]	25.6
Gini indexa	35.9
School enrollment, primary (% gross)[b]	89.4
Life expectancy at birth, years[b]	75.0

Source: WDI, M acro Poverty Outlook, and official data.
Notes: (a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2016)

Economic growth remained strong at 4.1 percent in 2018, largely in line with the country's long-term potential. Growth was driven by private consumption, supported by expansionary fiscal policy, while investment was subdued. Improved labor market outcomes, including historically low unemployment, have contributed to the further reduction of poverty. Risks to the growth outlook have increased, stemming mainly from weaker demand from the major export markets, a tightening labor market and fiscal policy uncertainties.

Recent developments

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

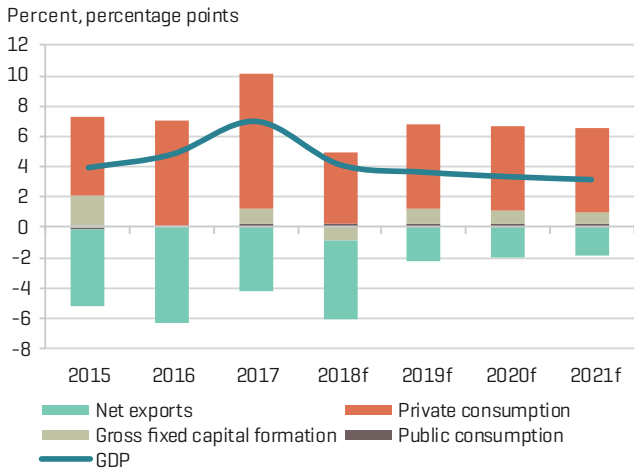
Wellfunctioning financial systems contribute to growth and poverty alleviation by mobilizing and pooling resources, allocating capital to its most efficient uses, monitoring these investments after they have been made.

2017. Growth was driven by private consumption (up 4.7 percent yoy) supported by increases in the minimum and public sector wages and pensions. Investment underperformed, contracting by 3.2 percent yoy, owing to weak performance in construction and a slowdown in industry. Exports grew by 4.7 percent yoy reflecting weaker demand from the major export markets, while imports remained strong (up 8.6 percent). On the production side, ICT (up 7 percent yoy) and industry (up 4.1 percent yoy) were the main drivers. 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 yoy) reflecting the legal transfer of the social contributions from employers to employees and improved collection. The impact was partially offset by the 24.8 percent contraction in personal income tax revenues from the reduction of the income tax rate from 16 to 10 percent in January 2018. The boost in consumption led to a widening of the current account deficit to 4.7 percent of GDP mainly on the back of an increase in the goods trade deficit. FDI inflows amounted to 2.4 percent of GDP in 2018. The domestic demand pressures contributed to a temporary hike in inflation to 5.4 percent in May 2018, prompting the NBR to increase its policy rate by 75 ppts cumulatively (to 2.5 percent) in three rounds in 2018. Slowing consumption growth in H2 2018 eventually brought inflation down to 3.3 in December. 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 yoy. Nonetheless, the low employment rate (66.2 percent, below the EU average of 69.1 percent) and high youth unemployment (16.4 percent in Q3 2018) reflect persistent rigidities in the labor market. A key driver of low employment is low female participation - 55.8 percent in 2017, the fifth lowest rate in the EU - and one of the highest participation gender gaps. In line with robust economic growth, boost in private consumption and labor market improvements, the poverty rate corresponding to upper middle-income countries (using the $5.50/day 2011 PPP poverty line) is forecast to have declined to 22.3 percent in 2018, from 25.6 percent in 2015, after peaking at nearly 32 percent in 2012. The incomes of the bottom 40 were boosted by employment gains in sectors with a large share of low-skilled workers. The impact has been stronger for those in the bottom 8 0 percent of the income distribution, who have seen an increasing share of total incomes over this period. Tightening labor markets and minimum wage increases have contributed to a reduction in inequality, reversing a rise in the Gini index seen between 2010 and2014, although Romania's inequality indicators remain high in the EU context. Since 2014 poverty has declined in both rural and urban areas, but in 2016 estimated poverty rates in rural areas remained 6 times higher than in cities and just over twice as high as in towns and suburbs.

Outlook

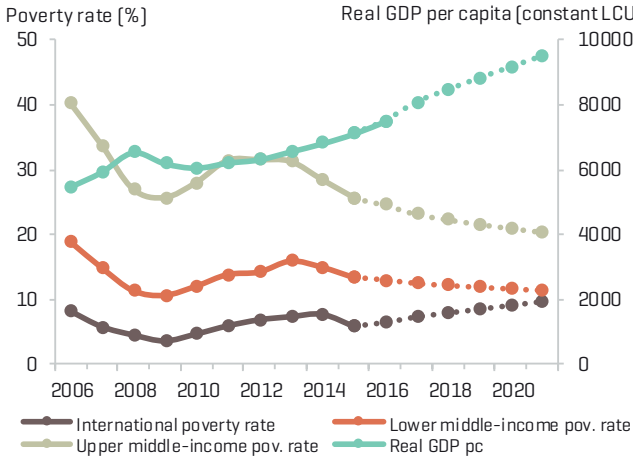
The economy is projected to grow at a slower pace over the medium term, reflecting the closing output gap, labor market tightening and fiscal policy

FIGURE 1 *Romania / Real GDP growth and contributions to real GDP growth*



Sources: World Bank, Romanian National Statistical Institute.

FIGURE 1 *Romania / Actual and projected poverty rates and real GDP per capita*



Source: World Bank. Notes: see table 2.

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. 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 wages will exacerbate these pressures. 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 from 4 3 percent of GDP in 2017 to 43.3 percent at end-2021, still among the lowest ratios in the EU. After peaking in the spring of 2018, inflation is expected to stabilize at current levels of around 3.5 percent, reflecting slowing growth in domestic demand. The expected slowdown in Romania's traditional export markets, coupled with persistently high international commodity prices, would contribute to a further widening of the current account deficit to5.2 percent in 2019 from 4.7 percent in 2018. Strong private consumption aided by the expansionary fiscal policy and continued growth in real wages, partly supported by minimum wage increases, should boost real incomes and lead to further declines in poverty incidence. However, these gains will be eroded by Romania's fiscal system, which deepens rather than alleviates poverty due to the large regressive impact of indirect taxation. The $5.50/day 2011 PPP poverty rate is projected to decline to 21.6 percent in 2019, 21.0 per-cent in 2020, and 20.4 percent in 2021.

Risks and challenges

The slowdown in Romania's export markets in the EU, mainly Germany and Italy, could adversely affect growth and investment. Negative effects could be exacerbated by fiscal policy uncertainties, coupled with a tightening labor market. The partial decoupling of real wage growth and productivity could also affect Romania's competitiveness, putting supplementary upward pressures on the current account deficit. Renewed efforts are needed to improve labor participation, in particular to address labor market barriers for women, and to tackle higher unemployment among the youth and those with secondary education or less, helping to ease labor supply constraints and improve the sustainability of growth. Over the medium term, fiscal policy

Fiscal policy should be re-balanced from boosting consumption to mobilizing investment, primarily from EU funds, with the aim of supporting a sustainable EU convergence path and social inclusion.

TABLE 2 *Romania / Macro poverty outlook indicators*

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	4.8	7.0	4.1	3.6	3.3	3.1
Private Consumption	7.4	9.2	4.7	5.6	5.5	5.4
Government Consumption	1.8	5.2	6.4	5.2	5.0	4.6
Gross Fixed Capital Investment	-0.2	3.5	-3.2	4.1	3.5	2.9
Exports, Goods and Services	16.0	10.0	4.7	6.7	6.6	6.5
Imports, Goods and Services	16.5	11.3	8.6	7.1	7.0	6.9
Real GDP growth, at constant factor prices	4.9	7.1	4.1	3.6	3.3	3.1
Agriculture	4.2	14.6	9.9	2.1	2.1	2.1
Industry	5.1	8.3	4.1	4.0	3.9	3.8
Services	4.9	5.5	3.4	3.5	3.1	2.8
Inflation (Consumer Price Index)	-1.5	1.3	4.6	3.5	3.4	2.9
Current Account Balance (% of GDP)	-2.1	-3.2	-4.7	-5.2	-5.3	-5.2
Net Foreign Direct Investment (% of GDP)	2.7	2.6	2.4	2.0	2.2	2.4
Fiscal Balance (% of GDP)	-2.4	-2.8	-2.9	-3.0	-3.0	-3.0
Debt (% of GDP)	44.3	43.0	42.5	43.0	43.2	43.3
Primary Balance (% of GDP)	-0.9	-1.7	-1.6	-1.7	-1.7	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	6.3	7.2	7.8	8.5	9.1	9.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.9	12.4	12.1	11.9	11.6	11.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.6	23.2	22.3	21.6	21.0	20.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Note: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2012-EU-SILC, and 2015-EU-SILC. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.
(b) Projection using annualized elasticity (2007-2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

should be re-balanced from boosting consumption to mobilizing investment, primarily from EU funds, with the aim of supporting a sustainable EU convergence path and social inclusion. Reforms in public administration and SOEs, increased regulatory predictability, reduction in of social and spatial discrepancies should be key government priorities.

The macroeconomic forecasts presented in this report are the result of an iterative process involving World Bank staff from the Macroeconomics, Trade, and Investment Global Practice; regional and country offices; and the Europe and Central Asia Chief Economist's office. This process incorporates data, macro econometric models, and judgment. The full report can be downloaded from the link bellow.

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Posting of Workers Within the European Union, European Economic Area and Switzerland

With the increase in the numbers of posted workers comes a higher demand for fairer conditions for the workers and companies concerned.

By KPMG Romania

As businesses recognize the advantages of globalization and digitalization, cross-border enterprises become a significant component of the EU market. Together with cross-border services comes international movement of staff, which is most often seen in the form of international posting of employees.

International postings bring a lot of baggage and recently they have been in the spotlight of the European Commission as the currently applicable regulations do not seem to fit today's reality anymore. Various forms of abusive practice, circumvention and malpractice in the implementation of the Posting Directive have resulted in labor market distortions and "social dumping" in labor intensive sectors of higher wage countries.

With the increase in the numbers of posted workers comes a higher demand for fairer conditions for the workers and companies concerned. Consequently, the European Commission has adopted a revision of the Posting Directive based on the concept of "equal pay for equal work".

The Revised Posting Directive must be implemented into the national legislation of each Member State no later than July 2020. This will bring a significant shift of approach as posted employees will be entitled not only to the minimum wage applicable in the host country but also to the same remuneration (including benefits, bonuses, etc.) as a local employee performing the same job in the host country.

However, until the Revised Posting Directive comes into effect, in the context of finding the right balance between the freedom to provide cross-border services and the social rights of workers, increased focus will be placed on genuine compliance with current requirements, mainly the minimum wage requirements.

The Posting Directive aims to protect the social rights of posted workers by providing for core employment conditions that must be applied to posted workers in their host country.

The purpose of the **Enforcement Directive** is to help fight abuse and circumvention of the applicable rules

This **Revised Directive** is a targeted revision of the Posting of Workers Directive to address unfair practices

Posted employees will be entitled not only to the minimum wage applicable in the host country but also to the same remuneration (including benefits, bonuses, etc.) as a local employee performing the same job in the host country.

What is the legal framework regulating the posting of employees?

EU law sets out mandatory rules on the terms and conditions of employment to be applied to posted workers. These rules establish that, even though workers posted to another Member State are still employed by the home company and are subject to the law of the home Member State, they are entitled to a set of core rights in force in the host Member State:

- minimum rates of pay
- maximum work periods and minimum rest periods
- minimum paid annual leave
- the conditions for hiring out workers through temporary work agencies
- health, safety and hygiene at work
- equal treatment between men and women

What is a posted worker?

A posted worker is an employee who is sent by his/her employer to carry out a service in another EU Member State, on a temporary basis, in the context of a contract of services, an intra-group posting or a hiring out through a temporary agency.

Is the business traveler a posted worker?

Not all countries define a posted worker in the same way. In some countries business travelers are subject to the same requirements as posted workers, while in others, they are not. Especially when it comes to registration procedures, business travelers may be treated differently.

However, business travelers are a very complicated subject and we recommend checking the applicable regulations in each host location.

Does the nature of the activity matter?

In some countries, exemptions may apply in the case of non-income generating activities such as training or internal meetings. However, since these cases are not clearly dealt with in the Posting Directive, the domestic requirements should be carefully observed.

What is the minimum wage within the EU/EEA/ Switzerland?

Out of the 31 Member States[1] only 21 have a minimum wage set at national level. Luxembourg is the Member State with the highest minimum wage and Bulgaria has the lowest[2] (see the table below).

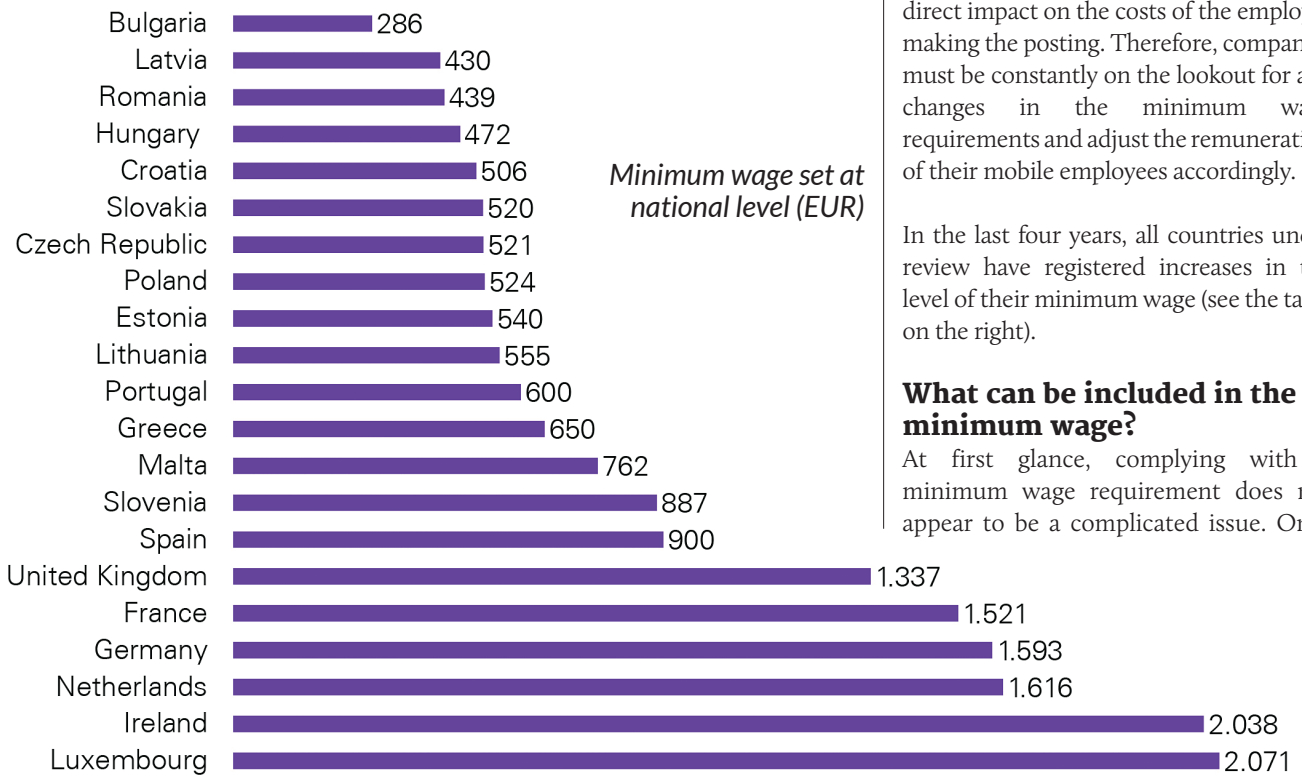
How has the minimum wage changed over time?

Generally, the minimum wage set at national level changes on an annual basis. Changes in the minimum wage have a direct impact on the costs of the employer making the posting. Therefore, companies must be constantly on the lookout for any changes in the minimum wage requirements and adjust the remuneration of their mobile employees accordingly.

In the last four years, all countries under review have registered increases in the level of their minimum wage (see the table on the right).

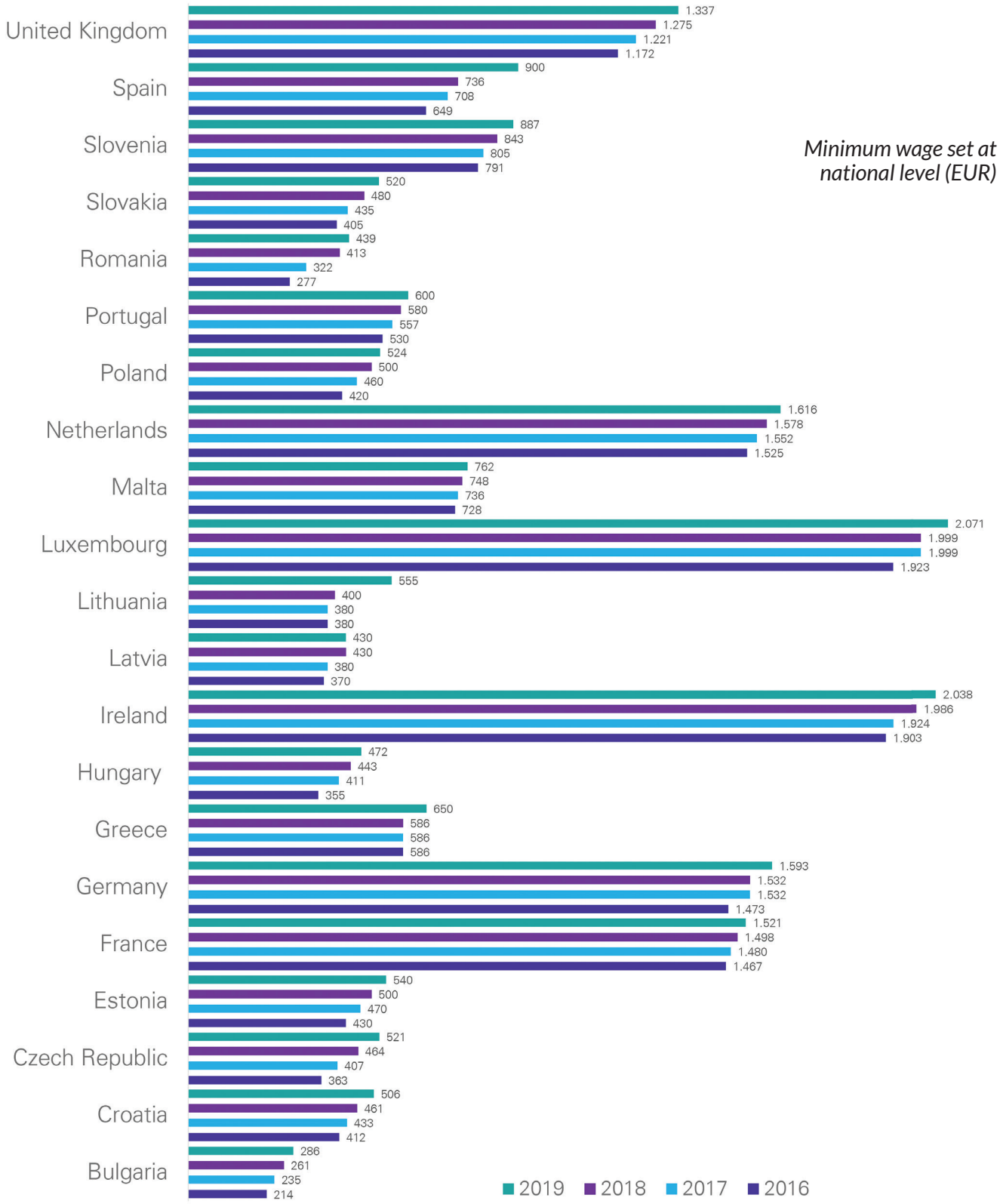
What can be included in the minimum wage?

At first glance, complying with a minimum wage requirement does not appear to be a complicated issue. Once



1) The European Union, the European Economic Area and Switzerland 2) Germany: EUR 9.19/hour, 40 hours/week, 4.3333 weeks/month; Ireland: EUR 9.8/ hour, 48 hours/week, 4.3333 weeks/month; Malta: EUR 175.84/week, 4.3333 weeks/month; UK: £8.21/hour, 7 hours/day, 4 weeks/ month. Local currencies have been exchanged into EUR using the exchange rate valid on 4 March 2019

Companies must be constantly on the lookout for any changes in the minimum wage requirements and adjust the remuneration of their mobile employees accordingly.



the level of the minimum wage in the country where the posting takes place is known, all the employer has to do is make sure that level is reached. That might sound simple. However the practical difficulties and the challenges lie in understanding how the minimum wage is determined. The following questions may come up in such cases:

- Would a salary rise be enough if the employee does not earn enough income in the home country to meet the level of the minimum wage in the posting country?
- Can the posted employee be granted an assignment allowance on top of the home-country base salary to reach the minimum wage requirement in the country of posting?
- Would a bonus be sufficient?
- What about per-diems?
- Can transport and accommodation allowances be considered part of the minimum wage?

Of course, the above list can go on, with many more similar questions. The posting employer will also have to deal with issues relating to its country's domestic legislation, as well as internal policy (where appropriate), such as:

- An increase in salary to meet the minimum wage in the posting country could lead to employment law implications in the home country (e.g. what happens upon termination of the assignment, and can the base salary be decreased back to the home-country level after repatriation?).
- How can a different increase in salary for two assignees with the same position be justified, when staff are posted to two different countries with different levels of minimum wage (e.g. assignment to Romania and assignment to Germany).

The Directive clearly states that allowances specific to the posting are to be considered part of the minimum wage, unless they are paid to reimburse expenditure on travel, board and lodging. The concept of minimum rates of pay is defined by the national law and/or practice of the Member State to which the worker is posted, the so called Host Country. Therefore, differences may appear, depending on each Member State's domestic legislation.

For example, certain bonuses or allowances are constituent parts of pay in some Member States but not in others. The absence of a clear definition of the constituent elements of pay results in legal uncertainty and practical difficulties for the employer, when determining the wage due to a posted worker.

Minimum wage requirements within Europe in the context of posting of workers 2019 - a KPMG Guide on Posting of Workers, 4th edition

To help companies meet their legal obligations in relation to posting of workers, KPMG has initiated a series of annual surveys covering minimum wage and registration requirements within the European Union, the European Economic Area and Switzerland.

The main purpose of this survey is to give companies an overview of the potential costs and obligations related to mobile workers. In this respect, the guide includes:

➤ A General overview section - this part of the KPMG Guide on Posting of Workers aims to give companies a clearer view on what a posting is, how it is regulated and what the main changes are which may have an impact from a cost or compliance perspective.

➤ A Main findings section – which provides an overview of our main findings on the minimum wage levels across the EU, EEA Member States and Switzerland, trends observed and conclusions.

➤ A Country by country section - which includes information specific to each Member State on:

- Minimum wage requirements and what can be included in the minimum wage
- Working time
- Registration requirements and
- Penalties for non-compliance and public sources of information.

The latest edition of the KPMG survey can be found here:
https://home.kpmg/ro/en/home/insights/2019/05/minimum-wage-requirements-within-europe-posting-workers-2019.html

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INSIGHTS FROM BUSINESS LEADERS

Success stories, best practices and strategic thinking from top decision makers

The New Renaissance

Futurologist Adjiedj Bakas about Business in the Era of Slowbalization.

Most people don't want a future, they just want their life today to carry on slowly and unchanged for the next 30 years without anything new happening. But I have bad news for everybody who thinks like that: the next 50 years we are going to experience much more change than in the past 5.000 years.' Futurologist Adjiedj Bakas talks with passion and enthusiasm as he describes the brave new world of tomorrow. He is the author of the brand new book The New Renaissance. Dutch prime minister Mark Rutte hails him as one of the great thinkers of our time and age. Bakas (55) with roots in India, South America and Europe, lives and works in the metropolitan area of Amsterdam and already sold 1 million books worldwide. He might come to Bucharest soon to speak to business people about the opportunities for the future. We had an interview with him in his fairy-tale like villa.

Q: How would you define the era of slowbalization? What are the tools for business to navigate the era of Slowbalization?

Adjiedj Bakas: Globalisation is slowing down. New nationalism, regionalism and patriotism is on the rise. People become aware of the fact that ruthless globalization is not beneficial to them. Only a small group profits. So the concept of unbridled globalization is cooling down now. Besides, due to the digital transformation, artificial intelligence and robotization it becomes possible to manufacture cheaply locally.

Q: As the term you coined ,"slowbalisation", decribes "the reaction against globalization" how severe will it become? What might exacerbate it? What will global commerce look like in the aftermath?

Adjiedj Bakas: One of the defaults of globalization is the open border policy within the EU. Due to this the main export product of countries in the East and South is their youngsters. Italy, Portugal, Romania are exporting their promising youngsters to Germany and Scandinavia. Ageing, already a severe problem here, therefore becomes even more severe. It is therefore of utmost importance that Romania tries to lure the migrated youths back. And that Romania starts a baby boom, as is already happening in Hungary, Russia and Scandinavia. Immigration is no real solution, you can not build a future upon other people's babies. Yet, in northwestern Europe where islamization has happened and where Islamic terrorism is on the rise, many indigenous Europeans are moving to safer, Muslim-free areas. For example many people from Sweden, France and the Netherlands are buying property now in Portugal and Hungary, and they move their assets and pension funds to these countries. Romania can benefit from this trend and could welcome them. The winner of the current cold war between the Christian and Islamic worlds is China. The new silk roads, also known as the Belt & Road Initiative, is connecting Eurasia into a huge economic powerhouse, led by China. Romania should connect itself to the new silk roads, without making the mistakes of for example Montenegro, which made too many debts in order to connect itself to the new silk roads.

Q: Who will be the winners of slowbalization? How will the looser look and end up?

Adjiedj Bakas: China is the winner. The Muslimfree regions in Europe and Africa might benefit as well. Countries as Sweden, France and the UK might lose.

Globalisation is slowing down. New nationalism, regionalism and patriotism are on the rise.

Q: Might the reaction against globalization end in an unipolarity super power?
Adjiedj Bakas: China, Russia and the USA will be the main powers in the multipolar world, led by the Chinese.

Q: What are the chances of smaller economies, like Romania, in the era of slowbalization? Is the European Union ready to deal with slowbalization?
Adjiedj Bakas: Europe is fast becoming one big open air Disneyland for tourists from all over the world. Romania's tourist industry could benefit tremendously from this trend. Meanwhile the world's population is growing with a net amount of 220.000 people daily. So the food and agriculture industries here could produce and export a lot. Meanwhile de global IT-industry is growing fast. Romanians are good in IT and the Romanian IT-industry can expect a booming future.

Q: What's the fate of the Euro and the Dollar in the era of Slowbalization? What about the banks, insurance companies and, in general, of the financial industry?
Adjiedj Bakas: Central banks all over the world are ruining the current financial and monetary system by printing more and more new money daily. In Israel a new crypto currency, the Carat, is created, based on the value of the diamonds in the Israeli Diamond Exchange. In Finland entrepeneurs are experimenting with a new crypto currency, based upon the gold that they bought in South America which is stored in Finnish vaults now.

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A Human Touch

Interview with Dominic Bruynseels, CEO - FIRST BANK

Q: FIRST BANK recently announced the takeover of Bank Leumi and other future possible acquisitions, in a context where the banking sector expects significant profit reductions. What's next?

Dominic Bruynseels: This acquisition is part of the bank's strategy to increase and consolidate its presence in Romania, aiming to become a strong banking player on the local market. This is the second acquisition that the American investment fund JC Flowers & Co. has made on the Romanian market in less than a year proving its interest and commitment to this valuable market. As a value-based acquirer we remain open to similar growth opportunities. Meanwhile we will continue to do business "The American Way", focusing on growth through quality service to customers, digitalization and efficiency

Q: Banks' investments are leaning heavily toward technology upgrades – especially those that make self-service digital banking easier for customers. FIRST BANK will invest 7.5 million euro in technology. Which is the coverage of this transformation?

Dominic Bruynseels: We intend to alter for the better all the internal processes and systems that rely on technology in order to offer better services to our customers. We aim for faster time response through automated data analysis of the customers, new online banking solutions that seriously reduce the time and effort of the clients in getting quality banking services and products. Despite this natural, more increased pace in updating our technologies we do not intend to go fully digital as we understand our clients' need for human interaction especially when making life changing financial decision such as getting a mortgage, for example. Actually, FIRST BANK already offers unique banking solutions to its clients and remote payment of taxes, projects that have brought the bank a series of distinctions and recognitions. It is the case of LiveShop platform and the Ghiseul.ro integration in the bank's online application - the latter being accomplished in collaboration with the Ministry of Communications and Information Society (MCSI).

Our aim is to become a "tech bank with a human touch".

Q: The pace of economic integration around the world decreased. "Slowbalisation", a term used since 2015, describes the reaction against globalization. How severe do you think it will become? When did the slowdown begin?

Dominic Bruynseels: While slowbalisation seems to have appeared almost a decade ago, it wasn't until recently that its new imposed rules have become evident. From geopolitical reasons to protectionism, nationalism and rewritten trade rules, it looks like a new world emerges both in terms of business and social climate. Cross-border investment, trade, bank loans and supply chains have all been shrinking or stagnating relative to world GDP. Chinese investment into Europe and America fell by 73% in 2018. The global value of cross-border investment by multinational companies sank by about 20% in 2018. Referring to FIRST BANK and Romania for example, we are the product of globalization of capital which means we are both global and local thus bringing the best of both to benefit the customers and our investors. I am skeptical in believing that slowbalisation will manage to repair the problems globalization created, but rather worsen some of them, disparities between the rich and the poorer societies included. At the same time, I expect its effects to be limited and not severe given the fact that continental-sized markets are large enough to prosper.

Q: Companies can adapt to globalization, shifting from physical goods to intangible ones. Now the big opportunity is services. What opportunities will bankers see in slowbalisation?

We do not intend to go fully digital as we understand our clients' need for human interaction. Our aim is to become a "tech bank with a human touch".

Dominic Bruynseels: This new trend compels companies to shift from physical goods to services. To what end, it remains to be seen.
The only opportunity I envision is that companies will tend to go more local/regional in solving their supply needs, banking ones included, given the trade restrictions that continue to emerge. This has the medium term potential to create local welfare and keep the money within local borders. I do not think that the outcomes of this recent paradigm are 100% predictable.

Q: You returned in Romania after few years abroad. What you wanted to find changed, both in the business but also personal?

Dominic Bruynseels: It's good to go away and come back, that way you can see changes more clearly. Having this overview I believe there has been progress but there have also been negative changes. From this perspective, we should emphasize the positive and work hard on the negative. I would like to see more trust, more cohesion in all layers. In a European context the country does well economically and needs more balance in its development
I am very fond of Romania. My better half is born in Cluj and she is in love with this country and its wonderful people. Our children speak Romanian, and I think that this country, which has hosted me in the past with much warmth and grace, has much to offer and much to say.

Allianz-Tiriac Protect the Customers to Stay in Charge

Interview with Virgil Soncutean, CEO - Allianz-Tiriac Insurance

Q: Connectivity has a powerful impact in all business areas, from SMEs to multinational corporations. As businesses try to find the fastest and most optimal connections, they are exposed to big threats, from cybersecurity to data leaks. How can the insurance companies help them reduce risks?

Virgil Soncutean: The development of the technology came with enormous opportunities but also with new risks which in the past we didn't even think about. We are now faster, more connected with our customers, but we are also more vulnerable. According to the Allianz Risk Barometer 2019 study conducted by Allianz for more than 8 years, in 86 countries, Cyber incidents are tied with Business interruption as one of the top business risks globally. Cybercrime now costs an estimated $600 billion a year worldwide. This losses represent almost three times Romanian GDP in 2018.

The good news is that for all these new risks, the insurance industry is getting ready with appropriate solutions. Allianz-Tiriac provides cyber-insurance solutions which allow companies to protect themselves in case of violation of privacy of personal data; violation of corporate data confidentiality; liability for incidents caused by IT network insecurity; media liability (for media companies); business interruption during the period when the insured's IT systems are inactive as a result of a cybernetic attack; theft by hackers (theft of funds from third parties for whom the insured is responsible) and even costs related to reputational consultancy and damage mediation costs.

Who is exposed? All medium and large companies are. Companies holding large volumes of personal data, companies using digital processes related to their business as manufacturers, telecoms companies, carriers etc. We are all exposed.

Q: What is the relation between creating economic value and creating social value? What will be more important and why?

Virgil Soncutean: Worldwide, the insurance industry has a unique and powerful connection between its growth and social value because insurance is about protecting the wellbeing of a society and its people.

The insurance industry has, above all, a social role, by providing people with financial solutions to continue their businesses, to protect their health and their families by closing a financial gap that is beyond individual possibilities in a difficult moment of their life time.

Based on the pooling concept, where we all contribute to help people in times of need, we keep the circle of life in the most difficult moments.

When the insurance industry grows - it becomes more powerful and more capable to protect the people, and as a consequence, the economy grows despite unpredictable events.

One insurance company cannot achieve financial success without contributing to the social wellbeing. The insurance industry is also a provider of trust and confidence for people to dare for more.

Can we imagine a world were you cannot insure your million RON business in case of fire or natural disaster? Why would you start a business in the first

Insurance is an enabler for courage, for those who dare to take the future in their hands, while the absence of insurance is an inhibitor for growth.

place if you are sure that you may lose everything in a second?
Insurance is an enabler for courage, for those who dare to take the future in their hands, while the absence of insurance is an inhibitor for growth.

Q: In terms of Net Earned Premium (NEP) what will be the optimum contribution for the motor segment and non-motor segments and how does digitalization help you reach such an optimum contribution?

Virgil Soncutean: In order to keep our promises towards our customer, we need to stay financially strong in difficult times, to keep a balanced portfolio, to reduce exposure on one particular segment or type of risks, and to be resilient.

We have learned all those lessons the hard way from the ten years ago, when our exposure on motor was above 95%. Today, we reduce our exposure on motor to around 50%, while the overall company was growing and this makes our company better prepared to protect our customers in volatile and turbulent economic times.
We continue to work on our company's fitness to adapt to our new customer and employee needs, to the new political and economic environment, to the new reality which becomes business as usual.
For 25 years, Allianz-Tiriac has been protecting the customer to remain in charge.
Check the Allianz Risk Barometer 2019 on YouTube!

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Allianz Țiriac

Bringing Life into the Banking Sector

Interview with Ufuk Tandoğan, CEO - Garanti Bank Romania

Q: Which are the main trends in banking in 2019? Does the economic growth registered in the last few years represent a stimulus for the banking sector?

Ufuk Tandoğan: In the last few years, we have witnessed a record economic growth in Romania. The GDP strong rise translates in higher wages, less unemployment and more business opportunities for all the companies, SMEs and large corporations. It comes as no surprise that the banking activity is also on the rise. People are buying houses, cars and have the long-awaited dream holidays. Therefore, companies are designing and launching more products and services for their clients.

Being a customer oriented bank, at Garanti we position the customers as a building block of our strategy, which means that we put great focus on the ability to empathize with them.

More exactly, for us, empathy means understanding the customers' constantly evolving needs and expectations, offering them timesaving solutions to improve their lives, delivering a swift and smooth experience. It means helping them make the right financial decisions, supporting them to grow their businesses sustainably, and providing the best experience at all digital and physical touch points.

We have noticed a new, emerging trend in Romania, where people are not just consuming more, but they are also showing an enhanced savings behavior. Our aim to attract savings, both from individuals and companies, led in 2018 to an important rise of the deposits volume. Deposits grew primarily due to the Retail and SME segments, with a significant 60% increase in the individual deposits and 40% in the ones attracted from SMEs. In 2019, we want to further strengthen our position in the market and attract savings from individuals and businesses alike. Also, during the first three months of this year, this increasing trend continued both in Retail and SME deposits and Garanti Bank's deposits portfolio reached to a total volume of RON 7.85 billion.

Q: The banking sector is in the middle of a technological revolution. How is Garanti Bank adapting to the digital transformation?

Ufuk Tandoğan: In the digital era that we are living in, consumer-banking habits evolve at a speed we have never seen before. Digital transactions, specifically those made through credit and debit cards, and internet and mobile banking, have skyrocketed over the last years. We have seen that our customers want the convenience of banking on the go and that they prefer to do banking operations from their smartphones. Due to the rise of digital services, clients have become more independent when they do banking transactions, especially the basic ones.

Garanti Bank is one of the most important players in the Romanian banking system when it comes to digital banking penetration.

In 2018, the value of the transactions performed through our internet-banking platform - Garanti Online, increased by 60%, compared to 2014. In 2018, we registered a volume of mobile banking transactions, operated through our mobile banking application - Mobile ME, higher with 60% compared to the previous year. We believe this trend will maintain its momentum, as banks will rely more and more on digital products, especially for the Retail and SME segments.

In the first quarter of 2019, we have reached over 115,000 customers that are using our internet banking solution - Garanti Online. In addition, we have almost 35,000 customers that are using our mobile banking application, Mobile ME. Our digital

Being a customer oriented bank, at Garanti we position the customers as a building block of our strategy. We put great focus on the ability to empathize with them.

products are on the right track and we are offering our clients the services they want, the way they want and when they want them.

Q: Please tell us about the financial results registered by Garanti Bank. Is the business in Romania profitable?

Ufuk Tandoğan: Yes! We have a healthy business. We are one of the top 10 banks, of systemic importance for the Romanian banking sector. Our long-term strategy is to focus on organic, prudent growth. And it is paying off. In 2017 and 2018, Garanti Group Romania reached record profitability levels in the Group's history on the local market, since opening our Romanian business, more than two decades ago. As for the first quarter of 2019, Garanti Bank posted a net profit of RON 31 million and net revenues of RON 99.4 million. The bank's overall loan volume reached RON 7.25 billion, while the deposits portfolio registered a total volume of RON 7.85 billion.

As I mentioned before, we are building a long-term, financially strong, business here in Romania.

We are constantly increasing the operational efficiency of the bank, significantly over the sector average. We are focusing on improving the asset quality of the bank, succeeding in the last 4 years to decrease the NPL level indicator from around 13% to around 4%, which is considerably better than the sector average.

Q: You are a promoter of a healthy work-life balance, and your employees already feel the benefits of this. How is this working for your company and what are your recommendations for other managers of top companies in Romania?

Ufuk Tandoğan: I encourage my colleagues to have the kind of life they want to and to constantly aim higher, both professionally and personally. I am very proud of the fact that we have built a strong and united team, Garanti family, whose members enjoy sharing their passions and hobbies with their colleagues. This is why, via our internal blog - Garanti4All, they are speaking about themselves and what they enjoy doing in their free time, so that the likeminded colleagues can organize themselves to join together different competitions, or just to get ideas of how to relax or even how to get involved in volunteering activities. As much as possible, we are also trying to support their personal projects.

I cannot emphasis enough that you do not have an organization without its people believing in its values. People are bringing life into any kind of company. Therefore, we spare no effort to understand their needs and their aspirations and we have dedicated programs and trainings to address these needs.

In conclusion, you need to build, with trust and empathy, a family out of your organization. This is my advice, to build a healthy business with happy, confident colleagues.

Q: What do you like here in Romania?

Ufuk Tandoğan: I am a strong supporter and admirer of Romania and its country landscapes and culture. Thus, I have written in Hayat Turkish newspaper several articles about different places from Romania, in order to introduce the country's beautiful regions to the Turkish community. Moreover, I have been part of the project "Proud to be Romanian", continuing to promote Romania also in the released catalogues, through articles dedicated to different local areas.

Consequently, I have also embarked upon a personal project in 2018, to promote less known beautiful areas of the country, by writing a book, which is entitled "Discover Romania". In this book, written in three different languages (Romanian, English, and Turkish), my aim was to focus on destinations that I believe are yet to be fully discovered by tourists, both locals and foreigners. In the book's pages are being praised the country's beauties and resources, as well as people's warmth and hospitable spirit.

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Garanti Bank has been declared "Best Consumer Digital Bank" also in 2018

We are honored and pleased to announce that Garanti Bank has been awarded, for the eleventh time in the last ten years, by the reputable world-wide magazine, Global Finance, as "Best Consumer Digital Bank" in Romania.

We would like to thank all our digital clients!

GarantiBank

SMART Transformation of Energy Companies is the Future of the Energy Sector

Interview with Ondrej Safar, Country Manager - CEZ Group in Romania

Q: What is your view for the Electric Power industry and what expectations do you have for 2019? As a Country Manager and CEO, which are the main challenges you perceive now in your industry?

Ondrej Safar: We are finding ourselves as a company in the period when changes in the energy sector take place – technology-wise and from the demand - offer perspective. The most important aspect is our clients, who, in the future, alongside good offers for electricity and gas, are going to expect from us additional services, info on how to save consumption or even generate its own energy. For the business clients, we

offer solutions to improve energy efficiency in the private sector through our recently found company - CEZ ESCO Romania. The company offers comprehensive services - from advisory to solutions design, from project management to complex energy sources (heat, cold and/or electricity) projects implementation. In order to consolidate our expertise on the energy efficiency market in Romania, at the end of last year we purchased 100% shares of High Tech Clima. The company is one of the leaders in HVAC on the Romanian market, has a number of international clients and contracts across Europe, including the Czech Republic. It provides also engineering and electrical installation work and it supplies equipment to factories, logistics parks, shopping center offices.

Thus, my position requires an overview and a general direction, oriented towards performance and supporting people to consolidate the knowledge they acquired until now and also to grow and adapt to the new requirements and technologies.

Q: What has been your company's dynamic for the beginning of 2019? Which is the main news for your clients?

Ondrej Safar: The energy market has undergone a series of regulatory changes. Besides GEO no. 114 which aimed to set consumers fair treatment, the regulatory authority has set the energy price for the household segment, thus householders who had previously chosen to enter the competitive market, now can choose to return to their last resort energy supplier. Also, ANRE is currently proposing an alternative for the household segment, giving them the possibility to choose an optional last resort energy supplier.

At the end of 2018, 30% of the household portfolio choose CEZ on the competitive market. We will see how the changes imposed by ANRE will reflect upon us in the future.

As far as gas supply is concerned, CEZ ended the year with approximately 13 000 household customers. For 2019, we are targeting an increase of 10% -20%, but our targets may be influenced by the specific implementation of GEO 114 in the gas sector.

Regarding the future, I believe that it will be all about end consumers as the most of them will become prosumers due to the technology development.

Soon, it will be cheaper for end consumers to produce energy by themselves and even to store energy. Thus, the energy sector will change significantly.

This is the trend in Europe and CEZ Vanzare has already started implementing a service for future prosumers from its traditional operational area - Arges, Dolj, Gorj, Mehedinti, Olt, Teleorman and Valcea counties, by helping them obtain all the certificates required to submit the file needed for

We are finding ourselves as a company in the period when changes in the energy sector are taking place – technology-wise and from the demand - offer perspective.

receiving Government funds. CEZ Vanzare has also established partnerships with experienced companies that offer adequate photo voltaic equipment and know-how on the subject.
In just a month after launching it, the Solar Power Systems campaign launched by CEZ Vanzare reached the maximum number of registrations. CEZ Vanzare's offer includes full consulting services: from the project documentation (completing the financing request for Programs dedicated to the installation of photovoltaic systems for energy generation, obtaining the necessary documents, approvals and certificates) to the whole technology (photovoltaic panels, inverter, connection materials, communication mode, electric panel, etc.) through accredited partners.
CEZ Vanzare's customers benefit from a team of specialists who provide a 25-year warranty for a panel yield of 80% and 2 years for the assembly works.

Q: What is the impact of the technological transformation on your company, on your industry and in addressing your clients' needs?
Ondrej Safar: CEZ Group in Romania is a strong promoter of new technology in all aspects of its activity. We continue our plans of operational digitization and process optimization started in the previous years when we set the grounds for digitization in all key processes.
Now, we are having significantly more digitalized data than ever before. Our next big challenge is to redefine our way of working using all the data we collected in a smart way in order to engage better customer experience.
SMART Transformation, the project started in 2016 by the distribution operator within the Group is the best example of new technology sustaining the local industry development. The project aims to efficiently manage the extra demands of energy consumers, on one side, and to continue reducing the time of intervention in dealing with an energy outage, from the moment the distribution operator receives the information to the actual solving of the problem, thus enhancing the degree of comfort of its consumers.
The first results of the project came in the first year of its implementation, when the distribution operator within the Group managed to reduce the duration of outages to less than half of the duration of outages in 2012. Also, throughout the implementation of the MWM solution (work mobile management), the operator improved both operational and environmental aspects of its activity, as the initiative replaces the paperwork electricians have to complete when on field.
Essentially, tablets replace the paperwork load of electricians and help the operational teams to perform their daily activity offering them information on the procedures they have to accomplish, a GIS map that pin points the location of the grid and provides its technical details, and a SCADA platform. Also, the dispatchers are always able to see the exact position of electricians in the field, thus making it possible to allocate the nearest operational team to the location where an energy outage occurs.
The Group's investments will continue to be focused not only on improving the operational parameters like SAIDI, SAIFI and so on, but also on diminishing the grid losses, benefitting directly householders and the activity of economic agents.

Q: As a manager, you must also lead the transformation process. How do you do it in your company?
Ondrej Safar: In CEZ Group I had the opportunity to work with several cultures contributing to the development of many strategic projects that involved also transformations. Each of these cultures was fundamentally different from the others and brought in its own strong points. Generally, the strength came precisely from people's commitment to deliver their best results. During the process, I focused a lot on the synergies between the transformations that would follow and also on the improvement of work conditions and the development of the company. Each time people identified those synergies, the power to deal with a transformation process, somehow sparked within them. Also, I can truly say that in Romania I found the strongest and most passionate team I have ever worked with and whatever the goal, the team has the drive to reach it.

Q: How does the workforce crisis and new fiscal regulations affect your business and the industry sector in which you operate?
Ondrej Safar: We are aware that the prepared workforce is a hot issue in this period and we are constantly looking into what is the situation on the labor market especially in the area of technical specialists that is not attractive anymore for young pupils and students.
So with the desire to create the generation of

Be careful at your clients' requirements and evolution. It is not about what you think and feel they want but about what they want and the way they express it.

electricians of the future and to have the best specialists in the team, Distributie Oltenia launched in 2016 the Electrician Apprentice program. The program started from the energy distribution operator' desire to offer the proper conditions for children to perform in the energy field. After graduating the three years of professional electrical school, all the Electrician Apprentices trained within the program will have solid knowledge in the electrical field, both theoretical and practical, and they will be ready to be integrated on the labor market. The best of them will also have the opportunity to be employed in Distributie Oltenia.

In the energy sector, an obvious important part is being played by the Regulator's interpretation and implementation of the changes in the legal and fiscal framework.

Within an active consultation and debate process around it, together with ANRE and the players in the sector, the key topics revolved around the clients' and consumers' fair treatment, the investments in the grid and the long-term predictability of the business that would provide us all a favorable business environment.

At this time of the process, I would say we reached a balanced approach that protects the interests of the clients and provides the companies with information to adjust their business plans in Romania.

Q: What's your "Be careful at..." advice for the managers of large local companies and entrepreneurs in 2019?

Ondrej Safar: Be careful at your clients' requirements and evolution. It is not about what you think and feel they want but about what they want and the way they express it. We take it as mandatory to always confirm that our solutions genuinely improve the life of our clients and don't end up in a pile of technician-to-technician systems, testing and consuming our skills, but not adding value to our customers' experience.

Q: Going personal now, how do you prepare for permanent self-improvement as a leader? How do you get out of your comfort zone? How do you find the right work-life balance?

Ondrej Safar: Being an expat requires sacrifices and it is a status that can repeatedly take you out of the comfort zone. When I first came to Romania in 2005, as enthusiastically as I felt about my professional challenge, I was close to making a habit out of spending late afternoons and weekends in the office. I had to discipline myself to keep the right balance that would help me perform at my best. And that may turn out to be quite difficult, especially as an expat, as one is tempted to limit its environment to the expat community. But, throughout the years that followed, I made significant progress in my challenge to live as a local and I became quite dedicated to outdoor activities also. My physical training schedule is a good opportunity for me to clear my thoughts, keep a good shape and still blend in the local landscape.

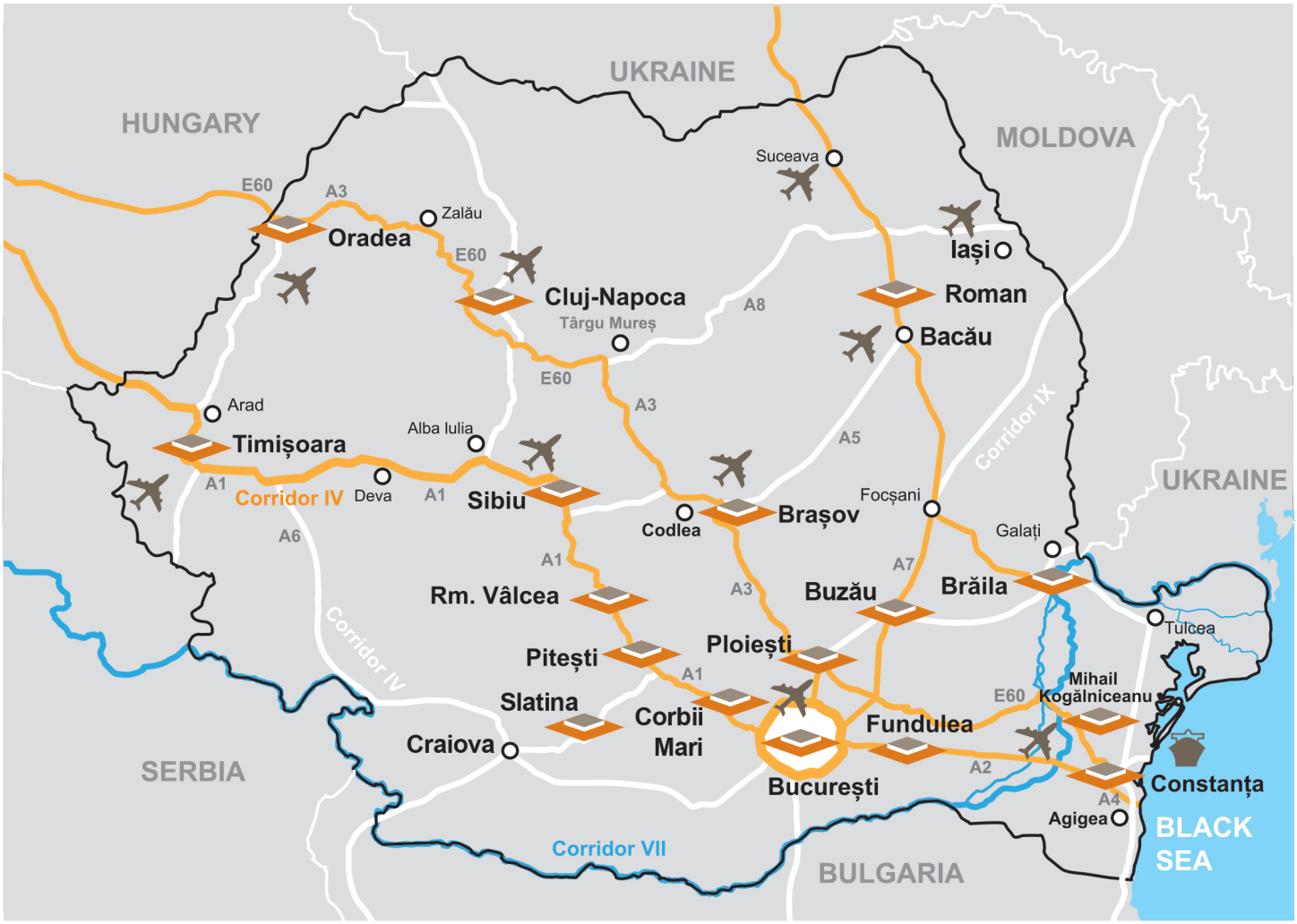
Q: Which are, in your view, the main qualities of a good strategist, leader of a top company in Romania?

Ondrej Safar: For me, a top manager is a person who is authentic, that tries to understand first and does not just follow the mainstream, while enjoying whatever one does. And most important it should be a trustworthy person that is able to gather, inspire and guide people in one's team, while giving them the opportunity to shine for their skills and abilities.

WDP stands for STATE-OF-THE-ART WAREHOUSE & INDUSTRIAL SPACES

We create the space in which companies can shape their future. We are logistics real estate specialists. We combine a strong in-depth knowledge of the market with years of experience.
We think before we act. Expect nothing less than flexible and tailor-made answers to your problems, every time. Our activities, our values and the family character of our company are the hallmarks of our commitment, which is the most essential part of the WDP DNA.

INDUSTRIAL PARKS IN ROMANIA
SPACE FOR LARGE, MEDIUM AND SMALL-SIZED ENTERPRISES



WDP focuses its activities on:

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Warehouses De Pauw (WDP) is the market leader in Benelux and a major global player through its efficient customized services of development, letting and management of logistical and industrial property.

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WDP
WAREHOUSES WITH BRAINS

Romania is Betting high on Renewable Energy

Interview with Zoltan Nagy-Bege, Vice-President - ANRE

Q: Why did European countries need to regulate energy prices? And who are the main beneficiaries?

Zoltan Nagy-Bege: Over the last 20 years, energy markets have evolved considerably. Firstly, production has seen an increasing diversification of the energy sources due to the development of renewable energy. Secondly, the digital technology has got more and more embedded in the transport and distribution. Thirdly, in terms of trading and supply of energy, we expect this development to continue, due to the potential offered by digitization and the blockchain technology.

Over the years, the production, distribution, and supply of electricity and natural gas have developed based on a natural monopoly. In the course of several decades, consumers did not know the difference between distribution and supply, offered by the same companies, until the European Commission forced companies to separate these activities.

This decision of the European Commission to open the energy markets (electricity and natural gas) for competition has had spectacular effects both on services and prices offered by the energy suppliers and on the consumers' reactions as well. In many European countries, competitors of the big energy companies quickly emerged and the markets evolved rapidly.

Some European member states, especially those with a high standard of living, have liberalized energy markets relatively quickly, allowing consumers to change their electricity and natural gas supplier.

This process in the poorer countries, or with a lower living standard, where the population is more sensitive to energy price fluctuations, was slower, the authorities preferring to protect consumers with regulated prices as long as they could. However, being pressed by the European Commission, they had to start gradually the liberalization process. In the case of Romania, the first step was to give up the regulated prices for the industrial consumers and then to gradually increase the opening of the markets until the total liberalization of the market for household consumers.

Currently, in order to counteract some effects of the energy market, some European countries have returned to regulated prices, especially for the vulnerable household consumers. These measures are usually temporary or are aimed at helping just those categories of consumers who are exposed to energy poverty.

If the global trend is to liberalize the energy supply, things are clear about distribution and transport. These services are still a natural monopoly, as it will never be profitable to have two or more distributors or transporters in a certain geographic area.

These services will remain regulated activities, and the components of the final energy price through the distribution and transport tariffs will remain under the supervision of the regulatory authorities.

Q: Do regulated prices always mean lower energy bills for consumers?

Zoltan Nagy-Bege: Not necessarily, but if the intention is to protect some consumer categories - especially the vulnerable ones - then regulated prices are usually lower than those on the free market.

We have, however, contrary examples. The effects of the liberalization of electricity and natural gas markets in Romania began to feel at the level of household consumers only after 2015, although the possibility of changing the supplier exists from 2007. After 2015 many companies, electricity or natural gas supplies, have begun to come up with more advantageous offers compared to the regulated prices

Romania has very good performances in terms of renewable energy and energy efficiency, and the target of 24% renewable energy for 2020 has already been exceeded.

set by the Romanian Energy Regulatory Authority (ANRE) for the implicit or last resort suppliers. The regulated prices were maintained until 1st of April 2017 in the case of natural gas, and 1st of January 2018 respectively for electricity. During this period of time, about 20% of households of electricity and 10% of household gas consumers switched to the free market, primarily because of the more favorable prices offered.

Of course, in cases where regulated prices are intended for vulnerable consumers, a vulnerability that is generated by their income level, it is obvious that these regulated prices are intended to support them in order to reduce the impact of energy costs.

Q: The Energy Union Framework Strategy puts energy efficiency as one of its five dimensions and states it is to be treated as an energy source in its own right. Investments in energy efficiency have proven to be one of the most cost-effective ways to support the transition to a low-carbon economy. Where is Romania standing in terms of energy efficiency?

Zoltan Nagy-Bege: Romania has very good performances in terms of renewable energy and energy efficiency, and the target of 24% renewable energy for 2020 has already been exceeded, as in 2017, according to Eurostat, the percentage was 24.5%.

Within the Europe 2020 national targets on Energy and Climate Change, increasing energy efficiency is one of three national priorities alongside reducing greenhouse gas emissions and increasing the share of renewable energy in gross final energy consumption.

Thus, according to the 2019 Country Report on Romania, the European Commission estimates that Romania is on schedule and will achieve the 2020 energy efficiency target of 43 Mtoe, expressed in primary energy consumption.

However, both primary and final energy consumption has increased in 2017 and continuous efforts are needed to limit energy consumption in the context of economic growth.

Each year, on 5th of March, is celebrated the World Energy Efficiency Day. Marking this day is an opportunity to bring into discussion energy efficiency that has multiple benefits for economic operators and energy consumers and is a key pillar of the economy and it is necessary to empower decision-makers on active policies and measures to increase energy efficiency in order to achieve the national targets.

The cheapest energy is the one you do not consume and in the context of energy transition, energy consumers have a crucial role to play in supporting innovative solutions for renewable energy and energy saving by actively participating in the energy transition, being informed on opportunities to improve both quality of life and the environment, as well as sustainable economic growth.

Q: How big is the EU Energy market today? Is this a niche like a closed network or has good potential for future growth?

Zoltan Nagy-Bege: The potential of the European energy market is huge. It's not a niche at all.

The European Union has assumed leadership on climate change and wants to become a model for decarbonization, which is why it has an ambitious program that wants to phase out all polluting production units and switch to clean electricity production. This process is called the energy transition.

The European Commission's target is a European Union with net zero emissions by 2050, the most ambitious climate policy of any big economy. A study by Eurelectric shows that decarbonization by electrification (electric vehicles, heat pumps, electrified processes, etc.) will double the electricity demand in the EU by 2050 (from an annual level of 3000 TWhtoday to 6000 TWh in 2050).

This road of energy transition opens opportunities for any technology that presents a less polluting alternative than the existing ones. Here we are not talking just about the renewable energy, which obviously represents the ultimate goal, and we will certainly have more and more investments in this area. We are also talking about the production of electricity using natural gas, one of the cleanest energy sources, biogas, which has a huge potential for solving environmental pollution problems, or nuclear power plants.

This approach opens up a huge potential for investments in natural gas, for natural gas producers, for new trans-border pipelines or for liquefied natural gas (LNG) terminals.

Q: The liberalization of European gas markets is widely recognized as a success by industry analysts. But liberalization has failed to deliver on another key objective – supply diversification. Ironically, Europe is now importing more Russian gas than ever. What really defines success in gas market liberalization?

Even though we are currently seeing only the expansion of Russian gas, I think the Russians know very well that competition has appeared and they are reacting accordingly.

Zoltan Nagy-Bege: I do not agree. If something is happening right now in Europe, it is precisely that: diversification of sources. Even though we are currently seeing only the expansion of Russian gas, I think the Russians know very well that competition has appeared and they are reacting accordingly.

Europe has the alternative of the Middle Eastern gas or the gas from the Caspian Sea, from the North Sea, or the Black Sea, more recently the natural gas from Cyprus or Egypt, or the LNG from the United States of America.

The very emergence of these competitors urges Russians to get involved in more and more cross-border transport projects such as North Stream II, South Stream, TAP, TANAP, etc. Of course, there are also geopolitical considerations, but competition is not negligible. And the existence of competition and the emergence of alternatives is welcomed and offers us more options, which will eventually lead to a stronger negotiation position with the Russian partners.

The fact that Europe currently prefers predominantly Russian gas, I think it is a conjectural situation, but it does not mean total dependence on Russia. I think we are smart enough and cautious to always have alternatives.

I think that is the key to success in terms of liberalization, to have more supply sources, as many partners and transport routes with non-discriminatory access to third parties, alternatives to Russian gas as well as to the Norwegian, Dutch (which just show signs of decline), or US LNG.

Q: The Romanian Energy Regulatory Authority–ANRE approved recently the methodology (secondary legislation) on regulating the gas price. ANRE said the new methodology will not lead to higher prices for the population and will secure transparent and non-discriminatory access for all domestic customers to the natural gas derived from domestic production at the rate of RON 68 (EUR 14.3) per MWh. The natural gas prices will be regulated starting April 2019 until February 2022. What to expect?

Zoltan Nagy-Bege: At the end of 2018, the Romanian Government, in order to protect energy consumers, decided to reintroduce regulated electricity prices for household consumers and blocked the price of the natural gas from the domestic production for a period of three years at 68 lei/MWh. In order to understand the context and reasons for this decision, we must look at an overview of the situation and the history of liberalization.

In 2016, the Romanian Government decided to fully liberalize the natural gas wholesale market starting with April 1st, 2017. The decision considered the fact that the price of imported natural gas was decreasing continuously and there was a risk that, keeping the liberalization calendar, the minimum selling price of gas from the domestic production to be higher than the price of imported gas.

Thus, reaching the convergence of the two prices somewhere between 60-65 lei/MWh, the liberalization decision seemed justified, but as early as the summer of 2017, natural gas prices on domestic and international markets began to rise, from 64 lei in April 2017, to almost 130 lei in December 2018.

Seeing this price evolution, in a relatively short period of time when natural gas demand did not increase significantly, nor the production costs, the government's decision to cap the price of gas from domestic production can be justified by the desire to protect household consumers on the one hand and the gas-consuming industry, or SMEs that all felt the surge of gas prices, on the other hand.

Certainly, from the point of view of the European directives and regulations, the measure may be considered inappropriate, a fact already found by the European Commission, which on 7th of March 2019 already initiated an infringement procedure against Romania for incorrect application of the Gas Directive and the Regulation for the security of supply. Discussions will take place with EC specialized forums on this procedure, which will decide to maintain, amend or repeal the measures provided in Government Emergency Ordinance (GEO) 114/2018. But until then, ANRE has the obligation to implement the measures stipulated in GEO 114/2018, meanwhile amended by GEO 19/2019, and we have developed a series of regulations for the application of regulated prices for household electricity consumers, as well as the capped price of natural gas from domestic production, for household gas consumers and for the heat producers which are using natural gas for the thermal energy delivered to household consumers.

As a result of GEO 114/2018, we can say that in the year 2019, the prices for household consumers will not increase either to electricity or to natural gas, but given that through the regulations issued in the year 2018, ANRE stimulated long-term electricity and gas procurement contracts, and most suppliers have covered their electricity and natural gas needs for their clients in a fairly large proportion by medium

and long-term contracts, we cannot expect a fall in prices paid by household consumers in 2019, only possibly starting in 2020.

Q: How much transformation is required in the gas sector to meet the EU's 2050 climate goals?

Zoltan Nagy-Bege: The natural gas market plays a very important role in the energy transition and the achievement of the EU's climate change targets for 2050.

In March 2019 was launched the study "Gas for Climate, How gas can help to achieve the Paris Agreement target in an affordable way". This research evaluates the optimal cost of complete decarbonization of the EU's energy system by 2050 and the role and value of renewable and low-carbon gas used in existing gas infrastructure, by comparing two scenarios: "minimum gas" and "optimized gas".

The problems are extremely complex, but very shortly the main conclusions of the study are:

1. Full decarbonization of the energy system requires substantial amounts of electricity produced from renewable sources. Electricity production will double and renewable electricity production - wind and solar will increase ten times.
2. The growth of wind and solar energy requires dispatchable electricity production based on solid biomass or natural gas. Seasonal battery storage is unrealistic even at low cost.
3. Full decarbonization of high-temperature industrial heat production requires natural gas consumption.
4. Existing gas networks ensure the reliability and flexibility of the energy system. They can be used to transport and distribute methane and hydrogen from renewable sources.

However, no one has the illusion that fossil resources will keep endlessly. At European level, the subject of substitution of natural gas is already on the agenda. The most convenient solution seems to be hydrogen, hydrogen storage, and transport through the current natural gas infrastructure.

Hydrogen production involves high electricity consumption. When the majority of production units in the EU will be the renewable energies, they will cause imbalances in energy systems, because they produce electricity when the wind blows, when it's the sun, etc., not when it's needed.

At those times when renewable power plants produce imbalances, electricity could be used to produce hydrogen, to balance the electricity system, then hydrogen can be stored and transported into the existing natural gas depots and networks, and used later to produce electricity or even can be used in road transport.

Changes in natural gas sector will occur primarily because this resource will end, but until it ends, it contributes to the change itself (energy transition), and we are already looking for and even finding solutions for the period after exhaustion.

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Mission Impossible: the Perfect Business Plan for Long Term Success

Interview with Iulian Trandafir, CEO - Farmexpert

Q: What is your view for the pharmaceutical industry and what expectations do you have for 2019? Which are the main challenges you perceive now in your industry?

Iulian Trandafir: The Romanian pharmaceutical industry is confronted with a few main challenges: the biggest one is methodology for calculating the prices of medicines that generates medicines shortages. Generic products' prices are affected drastically and disappear from pharmacies. Another challenge is calculating "clawback" tax. Creating a long term or even a medium term business plan becomes almost an impossible mission. Farmexpert has partnerships with all pharmaceutical manufacturers who activate on Romanian market, but unfortunately, more than 2,200 products disappeared from the market in the past years, because of these methodologies.

However, there is a constant growth in sales due to the launch of two hepatitis C drugs under a cost-volume agreement, but also due to launch of new innovative molecules with high prices. Another source of market growth is represented by OTC with more than 14% in 2018 vs. previous year. Farmexpert developed well in last years, especially due to innovative projects as Alphega. Alphega Pharmacy is a leading European network of independent pharmacists, whose aim is to improve the health and wellbeing of communities by delivering a future vision for independent community pharmacy. The membership of Farmexpert at Walgreens Boots Alliance - the first global pharmacy-led, health and wellbeing enterprise, is offering access to many international tools.

Q: What has been your company's dynamic for the beginning of 2019? Which is the main news for your clients?

Iulian Trandafir: For Farmexpert, the first months of 2019 have consolidated our position on the market, bringing very good results in all divisions of the company, and being a trustful partner for our clients – retail pharmacies and hospital pharmacies, but also for pharmaceutical manufacturers. All new projects have been successfully implemented.

Of course we have similar problems as all other companies in Romania in finding the personnel. It's more difficult to find people to work in distribution, even if you offer a list of many benefits.

Related to main news for our partners, we have in plan a rebranding process from Farmexpert into Alliance Healthcare. Pharmaceutical Wholesale Division, which mainly operates under the Alliance Healthcare brand, supplies medicines, other healthcare products and related services to more than 110,000** pharmacies, doctors, health centers and hospitals each year from 291* distribution centers in 11* countries.

Our wholesale businesses seek to provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. We also offer innovative added-value services which help pharmacists develop their own businesses. This includes membership of Alphega Pharmacy, our pan-European network for independent pharmacies.

Q: You are part of a large international organization, doing business around the world. How does "Slowbalization", the new economic reality, translate for your industry?

Digital technologies fundamentally transform organizations, while the pace of technological change exacerbates the challenge.

Iulian Trandafir: It's normal that a big company to move slower and a small company to be more agile. "Slowbalization" is a natural process and even if it had not this name, it existed in different forms in nature. Being a part of a huge group offers access to information, to data and sometimes to know how.
Of course, each business depends on the regulations of the country where it activates, but the development is common and the values are shared. The most important benefit is we can learn from each other.

Q: How does the workforce crisis and fiscal regulations affect your business and the industry sector in which you operate?
Iulian Trandafir: Unfortunately, in Romania I think the emigration was encouraged in last years, more than 200,000 people leaving Romania every year. The active population emigrates and of course, all Romanian companies are affected. It is more difficult for us to recruit employees, but we try – through the benefits we offer – to be a good employer. Also, the fluctuation of personnel as workers, drivers is higher than a few years ago.

Q: What is the impact of the technological transformation on your company, on your industry and in addressing your clients' needs?
Iulian Trandafir: We have a plan of digitalization in our company with a clear objective to increase the efficiency of the teams. Implementing new digital solutions support employees' activity and contributes to company's growth. We live in a new digital era and of course we need to adapt ourselves to the technological transformation. Digital technologies fundamentally transform organizations, while the pace of technological change exacerbates the challenge. Organizations must have a coherent strategy that includes a plan to reskill workers. Whereas previous technological revolutions (most notably the industrial revolution) played out over a relatively long period, the speed of digital transformation is such that businesses need to move quickly.

Q: As a manager, you must also lead the transformation process. How do you do it in your company?
Iulian Trandafir: A company is in a continuing process of transformation, it cannot be frozen in time, otherwise it disappears. In Farmexpert young employees work together with very experienced employees. All of them have to achieve the common objectives of the company and have to collaborate. A company with many procedures is not moving very fast, but it creates ways of collaborative working and

FARMEXPERT

Whereas previous technological revolutions played out over a relatively long period, the speed of digital transformation is such that businesses need to move quickly.

offers solutions to almost all situations. The digitalization process is not so easy to be introduced in a company with almost 1,200 employees, and for us it is clear that not everything can be digitalized. Human interaction is crucial in people management, in connection with our clients and with our partners, in understanding the needs of our employees and in communicating the common goals.

Q: What's your "Be careful at..." advice for the managers of large local companies and entrepreneurs in 2019?

Iulian Trandafir: "Be careful at employees" would be an advice for the managers of large local companies. Without good teams, no one can achieve good results. Employees should be engaged and objectives of the company should become the objectives of employees.

Q: Going personal now, how do you prepare for permanent self-improvement as a leader? How do you get out of your comfort zone? How do you find the right work-life balance?

Iulian Trandafir: A leader has to read all the time, it does not matter if it is literature or specialized books. A leader has to attend courses all the time, to learn something new, even when he/she thinks he/she knows everything about a subject. For example, these weeks I attend Communication School for my self-improvement. Last but not least, a leader has to communicate with employees from all levels, and to understand their problems. This is an important source of self-improvement for a leader. Moreover, a leader should be curious – about business and about people.

Q: Which are, in your view, the main qualities of a good strategist, leader of a top company in Romania?

Iulian Trandafir: When you are a leader of a small company, you need technical skills, you need to be good with numbers, but as a leader of a big company, you need to have empathy, interrelation skills, in addition to technical skills. This is the only way to assure growth of a company and to develop the teams. A leader of a top company should know how to motivate people and should accept that sometimes people can do mistakes. In addition, a leader of a top company should leave the people to do their job and to trust his team.

A Period of Extraordinary Change

Interview with Gabriel Ivan, Country General Manager - CHEP Romania

Q: What is your view for the logistics industry and what expectations do you have for 2019? Which are the main challenges you perceive now in your industry?

Gabriel Ivan: The national supply chain is slowly but steadily evolving from tactical to strategic, from equipment owning to pooling, enabling hundreds of production companies in the FMCG to design go-to-market strategies and gain competitive positions. Important players migrated to the CHEP circular logistics with the purpose to cut unnecessary costs while improving their financial and non-financial indicators.

We expect to see more players open to our solutions in 2019, more transport collaboration projects, an increase of deposit automation, more interest towards last mile solutions and a move from dispersed, isolated logistics to central deposits. The supply chain development nevertheless remains conditional on a large scale mentality change. With two thirds of the logistics still done traditionally in Romania, we estimate that the supply chain sector will close the gap to mature European markets in up to five years.

Speaking of challenges, the supply chain is in a period of extraordinary change. This has been encouraged by a number of global factors, including a volatile political and economic environment, urbanization on the rise across Europe as well as in Romania, a change in consumer behavior towards convenience, online shopping, home delivery and smaller more frequent shopping – the growth in automation and a considerable shift toward digitalization. As an industry, we are generally unprepared for the fast pace of these changes. But understanding and embracing these trends will be critical for the future development of the logistics industry. One of the most significant challenges is the shift from a traditional competitive growth strategy to a collaborative approach.

Q: Since your company provides the "fuel" that propels many industries, I guess you are one of the best barometers for the state of economy. How do you see the Romanian economic perspectives in this regard?

Gabriel Ivan: Romania saw a constant growth of the FMCG sector within the last years. We believe there is room for growth in the area of consumption increase in terms of volumes, not necessarily in terms of value. Businesswise, we are firstly interested in a volume increase. Our retail partners are optimistic about the upward trend of the national basic food products consumption, as these are less sensitive in a potential recession scenario.

Q: What are the advantages of your company's business models for retail and consumer goods industries?

Gabriel Ivan: In short, we help our partners move from a linear economic model that produces financial and natural resources losses to an economic circular pattern, profitable and sustainable.

In Romania, companies have this alternative to renting reusable pallets since 2012. CHEP's end-to-end supply chain solutions deliver operational, financial and environmental efficiencies not otherwise available through one-way, single use pallets and containers.

Importantly, equipment pooling improves our partners' commercial relations. We take the responsibility of dealing with retailers on behalf of

With two thirds of the logistics still done traditionally in Romania, we estimate that the supply chain sector will close the gap to mature European markets in up to five years.

our clients, offer a flawless delivery and a full on-shelve availability which benefits both the retailer and the production company.
We have customers with international distribution, for which the scale and density of our network coupled with the large transactional volumes offer cross-border operational efficiencies and multiply the environmental benefits associated with equipment re-use.
Furthermore, we capitalize on our circular foundation to enable circular ecosystems that can exponentially increase positive impacts. Our unique position in the supply chain fosters customer collaboration and address sustainable development challenges, such as optimizing transport networks and promoting sustainable use of the world's forests. In this way, we create a circular economy, on a global scale. Thanks to our 'share and reuse' model, annually, 1.6 million trees are saved and 1.4 million tonnes of waste are removed from the economy.

Q: What would be the factors that will contribute to further development of your business in Romania?
Gabriel Ivan: The market is increasingly open to the circular economy, and CHEP is a facilitator in this respect. We expect to see more interest in pallet pooling after the Government Emergency Ordinance no. 74/2018 (that amends and completes Law no. 249/2015 regarding packaging and packaging waste management) becomes effective. Companies using pooled pallets have important benefits in this area, such as tax exemption, due to the fact that they eliminate a great proportion of their environmental impact.
The automation of production lines and that of retail deposits will encourage more companies to move from owning white wood one-way pallets to renting high standard transportation equipment.

Q: You are part of a large international organization, doing business around the world. How does "Slowbalization", the new economic reality, translate for your industry?
Gabriel Ivan: At CHEP, we see it as a slow move from the linear to the circular economy. The world is starting to rethink its use of the natural resources. Looking beyond the current take-make-waste extractive industrial model, a circular economy redefines growth, focusing on positive society-wide benefits. It involves gradually decoupling economic activity from the consumption of finite resources by keeping products and materials in use, and aiming to take waste and pollution out of the system.

Q: What is the impact of the technological transformation on your company, on your industry and in addressing your clients' needs?
Gabriel Ivan: Ever since CHEP invented the first circular logistics system, back in 1950, in Australia, the company has been a forerunner in its sector.
Our customers and partners are aware of the challenges that open up in the fourth industrial revolution.
Companies sharing their competencies, data and technology with their strategic partners will rapidly take advantage of the opportunities in the fourth industrial revolution.
We see Romania is in a favorable position to adopt the change, but the leap towards digitization depends on the flexibility and capacity for rapid understanding that the public and private sectors manifest in relation to these profound transformations. The future of companies that will remain in the same paradigm of the traditional economic model is uncertain.
Talking about how we integrate digitalization and how clients benefit—last year we pioneered the use of the most advanced technology in Spain and Germany, proving that it is worth pursuing in the area of in-store design and retail sales.
For instance, our innovative range of in-store-solutions is being tested by using the Virtual Reality. Production companies and retailers increase sales using promotional displays with embedded Internet of Things (IoT) technology. These are just recent examples – our innovation strategy is tailored to each business division challenges and to the changes of the economic environment in all markets we operate in.

Q: What's your "Be careful at..." advice for the managers of large local companies and entrepreneurs in 2019?
Gabriel Ivan: Be aware of your environmental footprint. Take waste out of your life. Ask for an audit of your supply chain, if you're in the FMCG or Retail. Ask for at least an environmental audit from a consultant. Find those strategic partners with a sustainable vision and collaborate to take waste out of your operations.
Why is being sustainable so dramatically important today? A circular business model or at least a

We help our partners move from a linear economic model that produces financial and natural resources losses to an economic circular pattern, profitable and sustainable.

sustainability awareness open new opportunities for economic growth. But this is more than a business survival strategy. To put it simply, consuming natural resources, such as woods and trees, faster than they can be replenished will eventually give the human race no chance to survive. We must collaboratively act to keep the carbon footprint of the supply chain sector at the lowest level possible.

Q: Going personal now, how do you prepare for permanent self-improvement as a leader? How do you get out of your comfort zone? How do you find the right work-life balance?

Gabriel Ivan: I am trying to align my priorities with my goals and values and to make good use of my time. My typical day at the office starts at 7.30 a.m. I dedicate about one and half hours on a daily basis to expand my soft skills or close a particular information gap.

During my early career I've learned that "impossible" is just a phase towards success and this is a lesson that still helps me get out of my comfort zone in all areas of life.

Going personally, I am very lucky that my wife and my son share my passion for yachting. Benjamin Franklin said that professional success comes only after personal achievement—in my case, it holds true.

Q: What would be the 5 things you would like to tell people who want to start a business in Romania?

Gabriel Ivan: Start thinking sustainably and integrate sustainability in your business — there are 5 business models that are driving the circular economy.

Look for strategic partners that share your values and vision and be open to collaborate.

Train yourself and hire professionals with the proper skills for the 4th industrial revolution, such as complex problem thinking, critical thinking, creativity and emotional intelligence to name a few.

Empower your team by using a jazz orchestra approach, in which they perform without a formal Director.

Go for innovative solutions over the traditional way of doing things.

I am Just Following up my Dream

Interview with Liviu Drăgan, Chairman - Druid Romania

Q: Druid is a young startup specialized in artificial intelligence and automated enterprise chatbots. Are local businesses ready for such a bold move?
Liviu Dragan: Yes, they are. There is an extraordinary desire for local companies to understand how chatbots could support their business .

Q: What has been you company's dynamic for the beginning of 2019? What are the prospects for the future?
Liviu Dragan: From the beginning of 2019 we have developed and implemented standard chatbots for different verticals: healthcare, retail and distribution, financial services, customer services, utilities.
Due to our technological partnership with UiPath, we are going to offer, together with their partners, a complete AI solutions for local businesses.
This strategy is a cornerstone for digitalization process of the modern business world.

Q: What do you think are the main trends that will transform the way of doing business in the next years?
Liviu Dragan: Together, Robots, RPA (Robotic Process Automation – Ed.) and Chatbots will transform the work paradigm in companies.
Mobility, self-service and creativity tasks will guide our business life.
So, that translates in more autonomy when doing business and eliminating repetitive and boring tasks. Companies like Banca Transilvania, BCR , Regina Maria, Farmexpert, Dona, Asirom, BT mic, and many others are using our chatbots.

Q: Can you give us a hint on the new intelligent business solutions that we can expect from your company? What are the sectors you think would benefit the most out of artificial intelligence?
Liviu Dragan: Our chatbots will change the way business will be done. I strongly believe that all the companies are open to use chatbots, whatever business vertical might be.

Q: How does "Slowbalization", the new economic reality, translate for the Software industry? How is this affecting your plans of going global?
Liviu Dragan: Glo(slow)balization helped the software industry. The blow up of digitalization was a positive support by this effect.

Q: Coming after TotalSoft success, was it hard to basically reinvent yourself with Druid? Would you do it again with another startup?
Liviu Dragan: After Totalsoft, I worked with myself to erase my previous experience in order to be different in an AI startup . And I succeeded!
I am not thinking about another startup. I love what I am doing and all my passion is focused now towards growing Druid.

Q: How do you prepare for permanent self-improvement as a leader? How do you get out of your comfort zone? How do you find the right work-life balance?
Liviu Dragan: I am in my comfort zone. My strategy is not to improve myself as a leader, but to create another story, even more beautiful, even greater. I am just following up on my dream.

Q: What's your „Be careful at..." advice for the managers of large local companies and entrepreneurs in 2019?

I strongly believe that all the companies are open to use chatbots, whatever business vertical might be.

Liviu Dragan: Be careful to your employees! Be careful to your story! Be careful to your personal life! Don't care about mistakes or fails. Build a story that inspires people.

Q: What would be the 3 things you would like to tell people who want to start a successful business in Romania?

Liviu Dragan: Find financial support. Have an achievable idea. Have a nice story.

Technology Can Revolutionize Productivity and Reduce Risk

Interview with Mariana Garstea, General Manager - SIXENSE Romania

Q: What is your view for 2019 in your industry and what are your expectations for this year? As a CEO, what are the main challenges you perceive in your industry momentarily?

Mariana Garstea: Before I answer, I must make a brief introduction to the field of activity I am involved with and to the organization I belong to.

In structural engineering, safety is a huge factor, and this is where SIXENSE can help. The ultimate goal of SIXENSE is to provide information about the performance of structures in order to facilitate rational decision making with respect to their integrity management.

In doing so, our solutions offer comprises a very wide range of activities which, through different technologies, collect knowledge about the performance of structures over their life-cycle. On this basis, efficient remedial actions to counter deterioration, damage, extreme loads and unintended use may be timely identified and implemented so that an appropriate level of safety for personnel and qualities of the environment may be secured and life-cycle costs minimized.

In my opinion, this area is growing, but with great care and a lot of market education. It is a growth influenced by several factors that we must consider: the development of office, residential markets, road and rail infrastructure, the construction and refurbishment of dams, the awareness of structural and geotechnical risks by all those involved in design, construction and asset management processes; a very critical element - the budgeting of these works, the outdated legislation, etc.

Talking more in detail about the risks in construction, we should mention that nowadays construction projects are initiated in complex and dynamic environments resulting in circumstances of high uncertainty and risk.

I believe that risk management in construction should be a topic of discussion in the events, that every construction project to go through a process of risk identification, assessment and undoubtedly that all risks should be monitored through specific methods. How a construction project team takes and manages risk can be the difference between a successful project and an unsuccessful one. I will refer only to some technical risks and I must say that no risk is inconceivable and therefore cannot be ignored: errors in completion of structural / geotechnical / foundation, late surveys that are incomplete or wrong, hazardous waste, miscalculated preliminary site investigation, change in seismic criteria, inadequate and incomplete design and the list is open. The risk assessment across a project's life cycle is vital and can be a powerful way of making it more resilient and ultimately more profitable for all the participants across the value chain.

Q:What has been your company's dynamic in 2019? What are the main engines of this growth? Is the growth coming more from the internal market or from the international market?

Mariana Garstea: The trend is positive, with solid projects opening new market segments. It is absolutely gratifying to see this.

There are several growth factors with a positive impact, namely: the intensification of verifications by

How a construction project team takes and manages risk can be the difference between a successful project and an unsuccessful one.

the control authority - namely the ISC, the high level of understanding of the monitoring of the structural and geotechnical risks during the execution and exploitation phases of the constructions, the employment by the developers and by the public authorities of specialized teams who know the field and the right approach, the need for relevant information on the behavior of civil engineering and infrastructure, etc.

For SIXENSE Romania, at present, the growth is coming strictly from internal market, as SIXENSE is an international group, present in over 23 countries and each business unit is in charge of its own geographical market.

Q: What is your biggest achievement for 2019? How do you measure your achievements?

Mariana Garstea: I think that it's easy to measure financial success. You see a number in your bank account and compare it to others' bank accounts, but I will not point on this here.

For me, for SIXENSE, the greatest achievements in 2019, which are largely due to the sustained work of the entire team in 2018, are the opening of a new geographic market, namely Bulgaria with a huge potential for growth; the opening of new business lines in Romania, like dams and bridges; the development of my team - overall the whole organic growth of SIXENSE SEE.

Q:What is the impact of the digital revolution on your company, on your industry and in addressing your clients' needs?

Mariana Garstea: For my part, digital technology is the answer to improve both value and safety as the construction industry rises to meet the challenge of the market need for greater construction.

This is an extremely exciting time for SIXENSE GROUP, who is involved in using and developing construction technology. The construction data standards are now maturing and are proving that technology can revolutionize productivity and reduce risk by the right solutions in Engineering, Monitoring, Software and Digitization. SIXENSE has specialized solutions that cover the whole lifecycle of infrastructure from construction and maintenance to dismantling/demolition. Our development of digital asset management solutions and our experience in data management have made us world leaders in these technologies.

We offer a comprehensive and complete range of services, combining our specialties, in order to address our clients in their need to control their sites, assets and the surrounding environment. We undertake surveying, diagnosis and modelling to understand asset and infrastructure performance and optimize their management.

Q: As a CEO, you must also lead the transformation process. How do you do it in your company?

Mariana Garstea: By making the transformation meaningful for my team and for our clients. Everyone has a role to play in this transformation process, with priority being emphasized on fruitful completion of this endeavor . Employees need faster feedback on a continuous basis, an agile approach, ongoing reassessment; also our clients, through all the innovative construction technologies provided by SIXENSE within the projects.

In my opinion, digital transformation is not just about disruption or technology; human element is vital on all levels: in the stages of transformation as such (collaboration, ecosystems, skills, culture, empowerment etc.) and obviously in the goals of digital transformation.

The main objectives of the digital transformation are change and digital innovation. And here, SIXENSE is a pioneer. The group has developed and is developing a lot of innovative solutions for the construction market, from digitizing the structures to providing tools for project management, risk management and asset management.

Q: Going personal now, how do you prepare yourself to become better as a leader? How do you get out of your comfort zone? How do you find the right work-life balance?

Mariana Garstea: I would start by mentioning that I am a leader with an atypical style of management, a transformational leader, who empowers and develops followers.

I really want to emphasize that I have a genuine passion and enthusiasm for my work. Due to the optimism and the massive invested energy, I managed to change mentalities, behaviors, well-grounded practices in my field of activity.

How do I get better? I am an autodidact and self-critical person with a daily analysis of what could be done better and with a continuous identification and development of the qualities and competencies of my team members.

If you follow my career evolution, you can easily see

The worlds of construction and industry are in a continuous state of transformation since the arrival of digital management tools.

that the comfort zone does not exist. I have continuously been challenged to grow up. I set goals that seemed untouchable, but they just gave me the rhythm of growth, the way of organizing my daily activity.

I'm not the best example for a person with a right work-life balance. I'm aware and I take it as much as I can. I try to make the most of my moments with my family, even if there are not as many as I would like.

Q: What's your "Be careful at..." advice for 2019?

Mariana Garstea: My advice for 2019 is "Be Careful What You Say Yes To And To Whom".

With this advice, I want to draw the attention to the construction market, the big players, the great infrastructure managers, to the quality of services provided by some pseudo-specialists who minimize the importance of safety of construction and mislead the market.

I pay a huge respect to the real professionals, but I will always be against opportunism and superficiality when it comes to the safety of human life.

There are a few basic elements that should be considered during the selection process of the service provider: similar projects, financial standing, the team of specialists involved in the project, the communication process with the supplier, a visit to its premises is welcome, a clarification meeting the same, the technical analysis of the offer is mandatory, the way of analyzing the offers (compare apples with apples).

By clarifying each of these elements, we can avoid those cases when developers or main contractors, being at the start of the execution phase, will face the critical situation when the service provider cannot deliver the necessary equipment, does not have the specialized team, does not understand the phenomena which they have to monitor or even worse.

My call is not to just look at what is below the line (and here I refer to the "summary price") without a minimum analysis of the constitutive elements of the offer.

I would not have thought that we must constantly remember why a quality service is so important:

- Builds trust with our Clients;
- Fuels Word of Mouth & Social Media Recommendations;
- Produces Less Customer Complaints & Returns;
- Produce a Higher ROI.

In addition to those mentioned above, which is specific to SIXENSE activity domain, quality service equates to peace of mind, convenience and significant cost savings proving to be a valuable tool during the construction process. Through a quality structural monitoring we can help you predict certain problems, prevent situations from becoming critical and reduce time, costs and risk in the process.

Q: These are all our questions. Please share with us if you have something else to add for our readers.

Mariana Garstea: Returning to the key message of SIXENSE to the market: innovation is in our DNA. The worlds of construction and industry are in a continuous state of transformation since the arrival of digital management tools.

SIXENSE is specialized in digital solutions for the construction and infrastructure management sectors; we are a strategic partner for all organizations and companies seeking to initiate their digital transition.

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Why and How to Stand out as a Business Leader in the New Era

Interview with Carmen Stefan, Business Strategist

Q: Digital revolution is in full swing. What are the main challenges businesses face in the new era and what is the best way to deal with them?

Carmen Stefan: Digital revolution is in full swing and with no signs of slowing down. The historical struggles, focused on defining how to gain competitive advantage and success, become more complex in the new economic era bringing a new context of contrasts in the business environment. Globalization vs. slowbalization is the macro-contrast, cascaded down at company level.

So, leadership matters more than ever, whereas taking the right approach to the new business context makes the difference.

Ambiguity and uncertainty are the biggest threats and should be dealt with to untangle complexity and keep clarity, focus and consistency across the digital transformation process.

Another dilemma is how to strike the right balance between short-term priorities and long-term success. In this new economic environment, short-term financial metrics are just one part of the equation. And the micromanagement is so detrimental to the strategic focus and to the excellency of execution itself. Instead, leaders should focus on building and maintaining a strong company culture. The human capital should be the top priority to ensure company attractiveness and fitness for navigating through these uncertain waters, with two key areas to emphasize. One is related to developing the right leadership skills and professional competences for the next generation. Executives need to invest in succession planning for future achievement and on continuous learning for the employees balanced with the new skills infusion. The other is related to a key people metric - people engagement. This doesn't happen overnight nor at the satisfaction surveys but requires a persistent effort. Employees are also having their own transition process, and company values and culture weight more when they select to what organization they want to belong and contribute to.

Creating new business models and on how to innovate at a time when growth starts to slow, while technologies evolve at a disruptive pace – that's a challenge. This requires recognizing the shifting customer landscape with demand for solution selling and the careful selection of big bets for transformation to invest and act firmly upon.

To that extent, business leaders should truly ask themselves also how to incorporate the needs and demands of society into the strategic decision-making process. And this goes beyond CSR. An effective sustainability strategy brings wider visibility to business impact on Brand Value, Revenues and Company Valuation. Through an integrated business approach, digitalization could enable the creation of business growth and long-term value, evolving the companies from knowing to doing and from compliance to competitive advantages. Leaders are expected to walk the talk and show commitment for the legacy their company creates. Not only in terms of technological conquers or economic growth, but also in terms of positive impact of their activity in the environment, people and communities' safety and welfare.

And this is a subject that I hope we will talk and act upon more in Romania as well.

Leadership matters more than ever, whereas taking the right approach to the new business context makes the difference.

Q: What has been your career's dynamics for the beginning of 2019 and what are your expectations for the rest of the year?

Carmen Stefan: Before talking about present and future, I need to talk about what shaped me in over 20 years of dedication in ensuring sustainable growth and leadership at key times of transformation, at some great high-tech global companies. No matter the role I hold in commercial, business development and general management areas, I had always been looking at creating a momentum as well as lasting value for the organizations, customers or people I served. So, beginning of 2019, I took a choice to redefine the impact I want to drive further, leveraging my unique mix of experiences, competences, values, and drivers to help other bold leaders to stand out in their mission. This is why I set up Brightify, with the logo "Let's stand out!", more an expression of my personal branding and mission. And I would like to describe rather the dynamics of the broader business ecosystems I have stepped in. I found myself in a universe of senior business experts gravitating in an interconnected network around the corporates. It's like an uberized expertise parallel ocean, with in and out waves into the conventional corporate business. This means more freedom of opinion of the experts that are not linked to a specific brand, and more varied choice of top-quality business expertise in key or exotic new domains for the corporate executives to engage at critical moments.

I expect 2019 to be a year of acceleration of this new motion in the business environment, considering both company leaders' maturity in understanding the importance of having the right business advice at the right time, and the high quality and variety of choice next-available to them.

In this context, I appreciate Doingbusiness.ro taking a significant role as a trusted and unique marketplace of senior business consultants covering all areas of business expertise, from strategy to sales management, marketing, HR or sustainability. Ultimately, through the synergies they catalyze, Doingbusiness.ro should evolve into a platform of new mixes of business consultancy converted into innovative value propositions for all segments companies.

Q: What is your biggest achievement for 2019? How do you measure your achievements?

Carmen Stefan: I am driving my new professional endeavor with Brightify on two dimensions, a more macro-one, aiming at scale impact and a micro-one, when referring to the engagement at individual company level.

Thus, I affiliated myself to a global leading engineering, design and consultancy company, with a solid successful track records in Romania built in over 20 years of local activity and with an ambitious mission to become a recognized thoughtful leader also in the sustainability domain. Thus, I joined forces with Ramboll South-East Europe, ensuring Strategic Advisory to drive key initiatives for the private and public sector in Romania focused on the sustainable development: smart city strategies; sustainability strategies for industrial companies; circular economy framework.

These are complex topics, requiring strategic vision, business innovation, integrated strategic planning, digital transformation strategy and addressing regulatory challenges.

From this perspective, I will celebrate success when seeing municipalities starting to design strategic concepts for the sustainable development of their cities. I consider 2019 a critical milestone for cities to define a long-term vision and build an integrated phased city development roadmap. Placing focus on the liveability objectives and incorporating smart technologies into the urban infrastructure development will be fundamental to ensure their attractiveness for citizens, business communities, tourists and investors. This will help them efficiently

The digital transformation does not apply to our human essence, that is the biggest differentiator we have in front of machines and AI.

> *The technology disruption impact goes beyond, reshaping other key dimensions of the business environment.*

plan their further investments and attract the new EU funds available as of 2021.

At the same time, I look for creating success stories with some companies that have understood the benefits of placing sustainability next to digital transformation as key business strategy pillars. In Romania, as of 1st of January 2019, the non-financial reporting became mandatory for the large companies. Standing out means to go beyond ensuring compliance and drive concrete plans for achieving operational efficiency, differentiation and reducing the environmental impact of the activity.

Last, but not least, I bet on this new beginning and on 2019 to enrich my professional experiences, expand my network with new trusted relationships and get deeper learning myself, to strengthen my thoughtful leadership in business strategy, innovation and transformation, as to better contribute to the Romanian business ecosystem sustainable development.

Q: What are the main trends that will transform the way of doing business in the next years?

Carmen Stefan: The accelerated evolution of game-changing technologies and adoption in various industries will reimagine what's possible. Connected clouds, 5G mobile networks and blockchain technology are revolutionizing business models, breaking industry boundaries, addressing interoperability and cybersecurity challenges.

With artificial intelligence (AI), machine learning (ML), advanced bots and robotic process automation (RPA) we create a new way of doing business, replacing traditional business processes.

The technology disruption impact goes beyond, reshaping other key dimensions of the business environment, fueling new trends in the workspace. Expertise without boundaries, raising demand for increased transparency are new requirements. The multi-generational teamwork is also a reality to be addressed, balancing the different expectations, making more room for new approaches like the sense of purpose and harnessing ingenuity. In this context, how companies will reshape their human capital strategy will be essential.

And finally, the way business gets done has an environmental, social & economic footprint. Having as a strategic objective to doing well by doing good, creates wider visibility to business impacts on company brand, valuation and future security. Thus, Sustainability gets more largely placed along with Digital Transformation as integral part of the companies' strategy.

So, with the digitalization we are witnessing the Fourth Industrial Revolution, that is reshaping not only the entire dimensions of the business ecosystem but actually it has an impact at the full scale. It pushes to the re-imagination and redesign of the society to fit the needs and rhythm of the new era. We've been through previous such massive transitions, as the history is repeating itself at different context, scale and pace. How we approach this transition is yet a new challenge for us and leaders and champions are needed to drive it right.

Q: What are the main blockers in digital transformation and how are you helping businesses move past them?

Carmen Stefan: First, we need to demystify Digital transformation. Digital transformation should be an integral part of the business strategy. It is a vehicle for an organization to shift and evolve the business model, processes, and organizational culture with digital technologies to increase efficiency, adapt to changing customers' behaviors as well as create value to them and ultimately obtain competitive advantages.

So, the main blocker is failing to place the right understanding, commitment and investment into it. Leaders are the greatest catalysts when they create clarity regarding the key priorities, at the entire levels of the organization, with reinforcement at key times of uncertainty to harness employee engagement along the entire journey.

So, I help business leaders acknowledge that. Once the right mindset in place, consequently, I support them define what digital transformation means to them, what are the most relevant initiatives they should take in order to have maximum impact in achieving their business objectives. Because there are no such one-size solution fits all. And this is of critical importance when tight margins and high level of competition are challenging organizations to find more innovative ways to generate revenues.

Another pitfall to be avoided is the disconnection between IT and the business.

The value proposition of IT has transcended productivity and operational efficiency to leadership in business innovation and customer experience and engagement. So, I place a great focus on having a true alignment at leadership level, between business owners and CIO acting as value driver.

Q: What's your „Be careful at..." advice for the managers of large local companies and entrepreneurs in 2019?

Carmen Stefan: My advice for any business leader is to pay attention and avoid three pitfalls that could make the difference:

- Believe you know everything and minimize coaching, mentorship or critical expertise external advisory
- Define success solely in terms of business and work
- Forget or hesitate to show gratitude or acknowledge contribution of others

The digital transformation does not apply to our human essence, that is the biggest differentiator we have in front of machines and AI, and we should cherish and nurture it. At the same time, a leader should remember that his/her number one mission and measure of success is to create the right framework for people and organization to achieve their full potential. And this starts with the human approach.

Q: Which are, in your view, the main qualities of a good strategist, leader of a top company in Romania?

Carmen Stefan: There are two strong roles put together in the question: a good strategist and a leader. To cope with the today business challenges, both are needed. In real life, hence not always a good strategist is also a good leader and the other way around.

Leadership has always been about principles and values, but the right approach is making the difference at a specific time. Value is more contextual rather than intrinsic. It is the relevance and intentionality that we attach to our decisions or behaviors what ultimately shape their value.

Being visionary is to identify the needed key areas for business innovation and transformation that are relevant to the context and its complexity; the more complexity and ambiguity, the higher valued the capability to spot the issue and the solution. Vision also means taking no present decision without the long-run perspective.

Being courageous and composed enables taking decisions quickly but with the right judgement, consultation and information.

Acting with integrity and responsibility is valid also when accelerating transformation. Selecting the big bets for clear focus and efficiency enables also maximizing existing resources, by using them most effectively. You cannot have twenty priorities to run after with the same amount of effort and expectations for success.

To act as a catalyst for the organizational evolution and adaptation means to harness people engagement, by creating a coaching culture for performance and collaboration, embracing mistakes, and celebrating wins.

All the above is creating trust. When doubled by the right amount of energy, it leads to inspiration. This is what ultimately is refining the true leader profile.

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BUSINESS TRENDS

In-depth insights into strategic economic sectors, latest policies and influential trends

Innovation on the Horizon The Know How behind Digital Transformation

The European Bank for Reconstruction and Development defines a knowledge economy as an economy that grows through innovation. New trends, such as the Internet of Things or digitalisation, are examples of the transition towards the knowledge economy, which is central to achieving and sustaining long-term competitiveness.

European Bank for Reconstruction and Development (EBRD)

To measure knowledge economy development, the Bank has constructed the EBRD Knowledge Economy Index, spanning 46 economies – 38 where the EBRD invests and 8 comparators (members of the Organisation for Economic Co-operation and Development, OECD). The Index contains 38 indicators divided into four pillars: institutions for innovation, skills for innovation, the innovation system and the ICT infrastructure. In the 2019 report, Romania is assessed as an intermediate knowledge economy, characterized by relatively adequate institutions for innovation and ICT infrastructure, but still relatively weak skills for innovation and innovation system, constraining knowledge economy development. Overall, the state of Romania's knowledge economy remains much behind those of

	Economy	Total score (out of 10)	RANKING AMONG EBRD ECONOMIES	PILLAR SCORE (1 MIN-10 MAX)			
				Institutions for Innovation	Skills for Innovation	Innovation system	ICT infrastructure
	OECD comparators (average)	7.36		8.08	7.14	6.48	7.73
	EBRD regions (average)	4.67		5.52	4.96	3.22	5.00
	Difference	2.69		2.56	2.18	3.26	2.73
South-eastern Europe	Cyprus	5.82	5	7.52	5.70	3.80	6.27
	Greece	5.25	10	6.06	5.45	3.78	5.74
	Bulgaria	5.18	12	5.91	5.28	3.27	6.28
	Serbia	5.13	13	5.76	5.46	3.26	6.02
	Montenegro	5.04	14	6.20	5.16	2.88	5.92
	Romania	5.01	15	6.02	4.94	3.41	5.68
	North Macedonia	4.50	22	5.74	3.83	3.27	5.18
	Albania	4.36	25	5.64	4.79	2.36	4.67
	Bosnia and Herzegovina	4.10	29	5.04	4.13	2.88	4.35
	Kosovo	3.22	35	4.81	2.75	3.12	2.20

Source: EBRD 2018 Knowledge Economy Index, published March 2019, https://www.ebrd.com/news/publications/brochures/ebrd-knowledge-economy-index.html

„Digital transformation can be an economic game changer, especially for small businesses that have the benefit of being agile and easily adaptable to change."

the OECD comparator countries (Czech Republic, France, Germany, Sweden, UK, Japan, Canada, USA), ranking 15 among EBRD economies with a total score of 5.01 out of 10 (the score represents distance to frontier, namely the distance of an economy to the best performance observed).

The innovation system pillar shows the largest gap between the EBRD regions and their OECD comparators (a 3.26 index points difference). Many of the EBRD countries of operations (CoOs) invest very little in their innovation system; often, certain types of innovation financing (e.g. venture capital) which are present in the more advanced countries, are just not available in many of our countries. In addition, innovation systems in many of the EBRD CoOs are not efficient and therefore produce relatively low outputs. The study results also indicate that there are no one-size-fits-all policies to promote the development of the knowledge economy. Rather, countries should adopt policies that take into account their stage of knowledge economy development and set priorities accordingly. In the intermediate knowledge economy stage, countries should make efforts to catch up with those countries at the technological frontier.

One way to do this is by making digitalization a priority. Digital transformation can be an economic game changer, especially for small businesses that have the benefit of being agile and easily adaptable to change. They can boost their competitiveness by introducing key technologies in their operations, ranging from e-commerce to data warehousing, which help them optimize their business models, improve market intelligence, access new markets and deliver higher value to customers.

The EBRD has a strong focus and track record in increasing SME competitiveness. Through its Small Business Initiative, the Bank invests over €1.1 billion every year in direct and indirect finance for SMEs and supports about 2,300 business advisory projects. In Romania alone, since 1993, the EBRD has helped over 900 SMEs access advice and transform their business. Within a year of implementing a business advisory project, 74 per cent of companies boosted their turnover, and 56 per cent improved their productivity, as they expanded their business. The EBRD provides the knowledge, the network and the skills that SMEs need to succeed, by connecting them to local consultants and international advisers.

Around 40 per cent of the EBRD advisory project portfolio in Romania last year was focused on information communication technology. As a result, the Bank has helped 19 clients introduce the digital solutions they needed to improve their market performance and management effectiveness, whether by implementing a new business software solution, developing a revolutionary training platform, automating production or building a state-of-the-art data warehouse. Taking into account that another 10 per cent of projects focused on e-commerce solutions, it means that around half of the Bank's advisory support for Romanian SMEs in 2018 was dedicated to digital transformation. In 2019, we are already at 30 per cent.

Small and medium-sized enterprises are often innovation pioneers. Dasha Online, for example, an online fashion retailer from Romania, developed its business information system and built a data warehouse that would feed into a complex business intelligence solution. As the business grew, the company's key performance indicators (KPIs) also grew significantly, and the data mining process became more laborious, making sound, data-driven business decisions far more difficult. Dasha's management realised that, in order to sustain the company's growth rate, a reporting infrastructure was necessary. In 2018, the company approached the EBRD for support with developing a data warehouse and reporting software that would allow internal stakeholders to instantly obtain and process any information about business KPIs, leading to better and faster decision-making. The EBRD connected the company with Relevance

„The EBRD provides the knowledge, the network and the skills that SMEs need to succeed, by connecting them to local consultants and international advisers."

Management, a consultant specializing in business intelligence software and data warehouse solutions (incidentally, the consultant had also previously received advisory support from the EBRD, as well as skill-enhancing training through the Bank's Grow Your Consulting Business training series). After finalizing the project in 2019, Dasha management and staff now have, in the same application, all the relevant data from essential business information sources (ERP system, Google Analytics, Facebook Ads, etc.), so they can see correlations between marketing activities and sales. They can also better understand sales processes, as well as their customers, they can analyse product performance and manage stock properly. Dasha's management considers some of the reports to be game changers for the company, and they expect significant business development in the following year based on the information provided by the data warehouse and the business intelligence solution.

All this was possible thanks to donor funding from the European Union (EU). Since 2017, the EBRD's work with SMEs in Romania has been supported by the European Investment Advisory Hub with funding from the EU and co-financing from the EBRD. Thanks to the donors, the EBRD can share part of the costs of advisory projects with their clients – Dasha, for example, benefited from a grant representing 67 per cent of the net cost of advisory services.

Starting in 2019, the EBRD's partnership with the EU has expanded under Horizon 2020, by focussing specifically on innovative SMEs. With Horizon 2020 support, the EBRD is expected to contribute significantly to fostering innovation among Romanian SMEs, making them more competitive and, thus, releasing the full potential of further economic development.

But what makes a business innovative? The EBRD uses EU InnovFin criteria to identify companies which have the potential to revolutionise their industry and become local and regional leaders. It should be a company focused on research and innovation, which has invested in or intends to develop new or substantially improved products, processes or services. Or a fast-growing company, having grown on average 20 per cent a year over three years in terms of turnover or staff number.

The EBRD is also looking at companies that have been acknowledged by European or national research and innovation support schemes, either through an innovation prize or through grants, loans or guarantees. The full set of criteria is available at https://knowhowromania.ro/. For the first time, the EBRD is also considering working with both smaller companies, including start-ups, and larger businesses, with up to 3,000 full time employees, provided that they are still SMEs in terms of their turnover (maximum €50 million) or assets (maximum €43 million).

The Bank has a track record in identifying the best innovators, whether through advisory projects or financing. The Romanian technology company UiPath has been extraordinarily successful and the EBRD has also contributed to this success. One of our funds – Earlybird Digital East Fund – invested in UiPath at a seed stage. In 2015, it had less than $1 million in revenue. In April 2019 the company announced that it has exceeded $200 million in revenue, and was valued at $7 billion. With a clear mandate to do #EBRDmore, perhaps the next Romanian unicorn is already on the Horizon.

European Bank
for Reconstruction and Development

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The New Performance Management is Here – Have you Tried it Yet?

As organizations and their workforces become more agile, strategies more dynamic and deliverables more diverse, traditional cycles of annual reviews are no longer relevant and just a quick review of headlines shows a strong move against them.

By KPMG Romania

The debate around traditional performance management

In an article in Harvard Business Review, Cappelli and Tavis (2016) argue that current changes to performance management are a result of changing strategic priorities. Organizations must now respond to uncertainty, complexity and diversity with a new mindset, new business models, and new processes. Most of the organizational processes which we have used in the past are no longer suitable for the future or even the present. There is now more need for teamwork, collaboration, greater agility and lifelong learning and less need for individual accountability or individual performance.

"Why Adobe Abolished the Annual Performance Review and You Should, Too" ***(Baer 2014).***

"Microsoft axes its controversial employee-ranking system" ***(Warren 2013).***

"In big move, Accenture will get rid of annual performance reviews and rankings' " ***(Cunningham 2015).***

"Why GE had to kill its annual performance reviews after more than three decades' " ***(Nisen 2015).***

A couple of years down the road, new performance management systems promise improved employee engagement and retention, improved talent development and increased efficiency.

The change couldn't have come at a better time. Leaders and employees were getting frustrated with the process in its traditional form. Everyone seemed to hate it - employees, managers and HR

39% OF EMPLOYEES THINK THE PERFORMANCE MANAGEMENT PROCESS IS FAIR

12% OF TOP MANAGEMENT BELIEVES THAT PERFORMANCE MANAGEMENT INFLUENCES BUSINESS RESULTS

95% OF MANAGERS ARE DISSATISFIED WITH THEIR PERFORMANCE SYSTEMS

98% OF HR MANAGERS BELIEVE THAT YEARLY EVALUATIONS ARE NOT USEFUL

Source: CIPD, Corporate Executive Board WSJ si Radford

and, despite serious training efforts, people were still having trouble doing it well, which resulted in the process failing to do what it was primarily meant to be: an effective driver of performance.

Complex & time intensive

➤ HR invests a lot of time to manage the process which is often complex and requires numerous follow-ups for managers and employees to complete all steps.

➤ Companies spend time in training managers and employees in goal setting and effective performance management techniques. Still employees complain their goals often lack clarity, they rarely receive useful, specific feedback and the reviews are biased.

➤ Ratings systems are often too complicated and not clear enough for managers and employees

➤ Time is focused on proposing, moderating and communicating ratings rather than on individuals' development

➤ Tools and processes used are often too complicated – over engineered and time consuming to use

Demotivating for employees

➤ New research on the neurology and psychology of work shows that numeric ratings, rankings, and formal evaluations without positive feedback actually reduce performance as our brain shifts into "fear for flight".

➤ When used as a relative comparison between groups of employees (moderated), it tends to be a reflection of talent categorization rather than true indication of year-on-year individual performance.

➤ Ranking people often creates status differentials, which can cause tension with middle-of-the-rank employees.

Focus on development is lost

➤ The performance conversation becomes focused on 'waiting for the ratings label'

➤ Forced ranking can mean making arbitrary decisions because of the need to meet quotas or an ideal distribution. This can lead to significant challenges to the perceived fairness of the system.

➤ The most valuable part of Performance Management is the development planning conversation and this may be marginalised or missed out

➤ The focus is on looking backwards with little emphasis on the future.

Most of the organizational processes which we have used in the past are no longer suitable for the future or even the present. There is now more need for teamwork, collaboration, greater agility and lifelong learning and less need for individual accountability or individual performance.

So where did we go wrong with performance management? Performance ratings and forced distribution decisions are at the centre of the debate, together with a move towards performance review meetings becoming more frequent and less formalized than the traditional annual review. an effective driver of performance.

As always, one size does not fit all. A successful performance management process does not always mean a move away from performance ratings. In fact, giving up ratings is now highly controversial and while the initial reactions to eliminating performance rating received positive feedback, in some cases the key performance outcomes actually decreased. In a 2016 Pay for Performance Employee Survey of more than 10,000 employees in 18 countries, CEB concluded that although some managers are more effective without ratings, most organizations will find it too difficult to get their managers to the level needed to make the change worth the significant investment, and encourage organizations to focus on other changes besides removal of ratings.

Indeed, organizations choosing to optimize their processes now tend to place a bigger emphasis on culture change versus process change and eliminating ratings is a route that has less adopters now. Instead organizations put more focus on the quality and value brought by the process rather than its previous focus on compliance, greater weight on staff development, more frequent and honest conversations with employees.

The route to the new performance management has not been easy and there are lessons that all of us can learn from the organizations that have moved away from the traditional systems. New processes came out as a result to feedback collected from hundreds of employees and in some cases, after tweaking and re-tweaking traditional solutions with little or no positive impact:

■ ***If you take away too much structure, there will be panic and confusion. Don't***

under estimate how much training and 'landing' will be required.

- *Organizations should be clear on the purpose of appraisal – developmental or administrative (pay or promotion related) and work to ensure that performance discussions during the year focus on one or the other, but not both.*
- *Feedback should not be linked to compensation decisions.*
- *Management Information is harder to gain and requires different metrics, for example attrition measured against promotion prospects.*
- *When ratings are not in place it can be challenging to have a clear "cut-off" for saying the employee will not receive an increase or bonus.*
- *Given well and on time, feedback can be invaluable, but given poorly it will do more harm than good. Significant training is required as well as effort to build the right culture.*
- *When the data driven decision making is gone, managerial discretion plays an important role in determining salary increases. Compensation teams need to provide a solid framework, guidance and tools to support managers to make effective pay recommendations.*
- *A clear talent strategy needs to be in place so that high performers are identified and rewarded and recognised in ways other than receiving a rating.*
- *Without ratings, identifying poor performers needs to be driven from the top down. They must be identified and managed effectively.*
- *Performance management needs to be seen as a fair process, in order to be effective.*

A new model has emerged: continuous performance management

While some are still experimenting, the new performance management is steadily moving towards a continuous process, with some key elements present across the board: regular feedback with a forward looking perspective, more flexibility in goal setting and reviews and more support and coaching from managers.

Real time feedback and coaching

Continuous performance management puts feedback at the heart of the process, moving away from an exercise whose key purpose is to assess past performance and produce a rating that will influence the individual's remuneration or career progression to a continuous, forward looking process focused on development and coaching employees for increased performance.
Such a process allows individuals to ask for and receive "just-in-time" feedback, so the quality of the feedback is greatly increased by being more timely, specific and actionable. This continuous approach offers actionable insights to employees and their managers to improve and reach their goals faster than ever before.

Flexibility

Instead of setting objectives and then revisiting them once or twice a year, organizations encourage setting dynamic objectives that take account of the reality in business, as well as setting objectives around key projects, and then setting new objectives when the next project starts.
At the end of the year, all of the progress and feedback is collated in one place.

Social approach

Social tools now let people share goals, recognition, and work-related information in a transparent way. This creates a new peer-to-peer dynamic for performance evaluation. Individuals on the same team can see each other's goals and can provide feedback. There is also an emphasis on increasing the importance of individual's online reputation.
Although a trend that seems to acquire many supporters considering the social era in which we live, feedback from the adopters varies largely. According to IBM Smarter Workforce Institute's research in 2015, preferences for public versus private positive feedback vary, and there is a clear preference among employees for giving and receiving coaching feedback privately.

Benefits of continuous performance management

While this approach is still in its early stage, feedback from employees and results reported by companies provide strong arguments for companies that are still considering the next steps in performance management: increased motivation and engagement, reduced employee turnover, increased productivity.

54% OF EMPLOYEES THINK FLEXIBLE GOAL SETTING HAS IMPROVED PERFORMANCE

92% OF EMPLOYEES BELIEVE RECEIVING FEEDBACK FROM MORE PEOPLE IS VALUABLE

77% OF EMPLOYEES REPORT COACHING FEEDBACK HAS CONTRIBUTED TO THEIR PROFESSIONAL GROWTH AND WORK PERFORMANCE

30% DECREASE IN EMPLOYEE TURNOVER REPORTED BY ADOBE, AFTER CHANGING ITS PERFORMANCE MANAGEMENT APPROACH

Source: IBM Smarter Workforce Institute, Implementing Agile Performance Management – Employees views of the early days, Forbes, How Adobe scrapped its Performance Review System and why it worked

Timely and actionable feedback motivates employees, which leads to reduced employees turnover and absenteeism

Giving feedback once a year almost guarantees that it will be vague and largely irrelevant by the time employees

The new performance management is steadily moving towards a continuous process, with some key elements present across the board: regular feedback with a forward looking perspective, moreflexibility in goal setting and reviews and more support and coaching from managers.

hear it. Apart from that, waiting for a year to communicate constructive feedback, mostly focused on the past, is also detrimental to morale and often hurts engagement and productivity.

A continuous approach to feedback leads to increased employees' motivation as they are in constant contact with their managers, in an open two-way communication, they always know where they stand and receive the opportunity to work on their areas of improvement. As a result, employees are more engaged with their job, which means they are more productive, motivated and dedicated to their company. Increased engagement is demonstrated to lead to reduced employees turnover and absenteeism.

Continuous performance management offers more clarity regarding goals and expectations

Through ongoing, real-time feedback, managers can communicate their expectations and vision to the team in a transparent and continuous manner. Such feedback helps employees get more clarity and less uncertainty regarding goals they need to pursue and expected behaviors, as well as progress against expectations.

Frequent feedback leads to constant development of employees, which results in professional growth and work performance

Giving feedback to employees only once or twice a year prevents them from being able to improve all year long. Constant feedback, in turn, enables employees to identify areas that require improvement on time and thus develop and enhance their performance constantly.

Enjoy a richer picture of employee performance

Companies that use continuous performance management tend to move towards a multi-source feedback approach, where the collected feedback comes from the different sources an employee interacts with in his everyday work - a manager, a peer colleague or subordinate. Consequently, companies enjoy a much more comprehensive picture of an employee's actual performance which leads to a more objective process and less surprises at performance review time.

More efficient and more meaningful performance review

When feedback is exchanged and collected throughout the year, a substantial amount of review is basically already over with by the time managers and employees sit down. Furthermore, all this feedback is readily accessible and therefore provides managers with a real-time cockpit of their employees' strengths and areas for improvement. Managers can now help employees grow and work towards their goals.

Improved Ability to Close Skill Gaps

Nowadays organizations struggle to find people with the skills they need and would often use recruitment strategies that will focus on bringing people that have the potential to become the talent they need but are not quite there yet. Therefore, one of the current challenges many organizations face is the need to constantly upskill their employees. In a continuous performance management process, feedback flows freely throughout the year, and the corresponding data is always available. This allows the manager to get the most out of the talent of employees because they now have a real-time view to spot and tackle skill-gaps immediately. Therefore, managers have the perfect tool at their disposal to evolve from task managers to active coaches that help their employees succeed.

Use of technology

Advances of technology allow companies

KPMG QuercusApp Performance – a cloud-based technology solution that supports continuous performance management

Such a technology solution, recently launched in Romania, KPMG QuercusApp Performance is designed based on the principles of continuous performance management, for the specific purpose of making the exchange of feedback as easy as possible, providing instant people analytics that support manager coaching and career development as well as making the whole performance process more agile.

The application enables real-time feedback exchange on a continuous basis in a platform that is user-friendly, engaging and easy to adopt. Employees and managers can ask for and give feedback in real-time; they can have a constant pulse on their performance and are thus able to act upon it by improving or coaching others every day, not just once a year.

The dynamic objectives and the performance reviews are fully aligned with the continuous performance management principles, allowing companies to create or adjust goals when necessary, to easily monitor them and run reviews as frequent as desired, deciding themselves what to assess in any given performance cycle.

The application can be an attractive solution to companies interested in managing and automating their entire performance management process, from the objective setting stage, to monitoring and developing performance through continuous feedback, up to performance review. All in one place, allowing managers and employees to focus on developing performance rather than on process compliance.

The result is a tool that is geared to make the lives of managers and employees more comfortable and more efficient in driving their team's performance, and the employees' engagement more advanced.

to benefit from simpler, easy to implement and use tools.

Performance dashboards can give automated 'live' information on performance, including historical trend analysis or automatic analysis of feedback which makes identification of areas of development easier for all users.
According to CIPD's research report in December 2016, when monitoring progress towards goals, feedback can be given in person or through technology equally effectively.

67% of surveyed CEOs in KPMG's 2019 Global CEO Outlook survey believe that acting with agility is "the new currency of business". To respond companies need to fundamentally change how they work towards a more customer-centric, innovation and collaboration driven environment. Traditional performance management has already failed to keep pace with the changes that have happened in the work environment, so now more than ever new approaches are needed.

If you're interested in learning more about how your company can apply the continuous performance management approach in practice, contact us at ***team@quercusapp.com.*** KPMG QuercusApp Performance is a cloud-based application enabling continuous performance management for the future.

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Continuous Learning for Skills Development, the Most Important and Urgent Human Capital Trend in Romania

Enhancing employee expertise through lifelong learning is the main concern of the Romanian employers, shows the Deloitte 2019 Global Human Capital Trends report for Romania.

By Deloitte Romania

Developing the right leaders for the 21st century and going from employee experience to human experience are next in the ranking of the most important and urgent human capital trends for Romanian companies.

LEARNING IN THE FLOW OF LIFE represents the need for companies to change the way, how fast and how often people need to learn in order to keep updated to the job requirements. Evolving work demands and skills requirements are creating an enormous request for new skills capabilities. Learning becomes more integrated with work, more personal and an important part of employees' interest – it is shifting slowly toward lifelong models. The culture that supports continuous learning, incentives that motivate people to strive for learning and support for guiding people to the appropriate content – all these turn into prerequisites for an effective learning approach. 90% of the local Human Capital Trends study respondents consider this as the main human capital trend in 2019 and 86% of them consider that learning has a great importance when it comes to employee engagement.

LEADERS OF THE 21ST CENTURY need to develop some critical competencies such as leading through change, embracing ambiguity and uncertainty, and understanding digital, cognitive, AI-driven technologies. There are various challenges for these leaders – dealing with new generations of employees, a very competitive labor market, a very fast-changing business environment. Therefore, the challenging to-dos for companies are to build leaders from within and to design effective development programs for them.

FROM EMPLOYEE EXPERIENCE TO HUMAN EXPERIENCE trend highlights the need of the employees to connect work to the impact it has not only over the organization, but also over the society as a whole. The main elements considered as part of the employee experience by the local respondents of the study are meaningful work (91%), growth opportunity (82%), collaboration and communication (82%), positive work environment (64%), supportive management (55%). All these have an essential role in generating employee engagement. A key aspect shown by the study is that the correlation between employee engagement and productivity is not measured by companies (73% of the respondents indicated that).

The top continues with another essential topic when it comes to developing both people and businesses: talent mobility. 64% of the local respondents indicated already an increased level of internal mobility opportunities in the last three years, and 82% of them expect it to rise during the next three years. The main objectives of internal mobility are leveling up the employee engagement and filling critical job needs. One of the main barriers to internal talent mobility is the lack of processes to identify and move employees.

BUSINESS TRENDS

Human Capital Trends survey reveals a significant gap between readiness and importance for the majority of the 2019 local human capital trends, mainly for top three - learning, leadership, employee experience.

HR TECHNOLOGY continues to be a major challenge. Referring to the current suite of HR technologies, only 33% of the respondents consider it meets the business needs, while 47% consider it fair and 20%, inadequate. As for the investment in HR technology in the next three years, almost 67% of the respondents anticipate an increase.

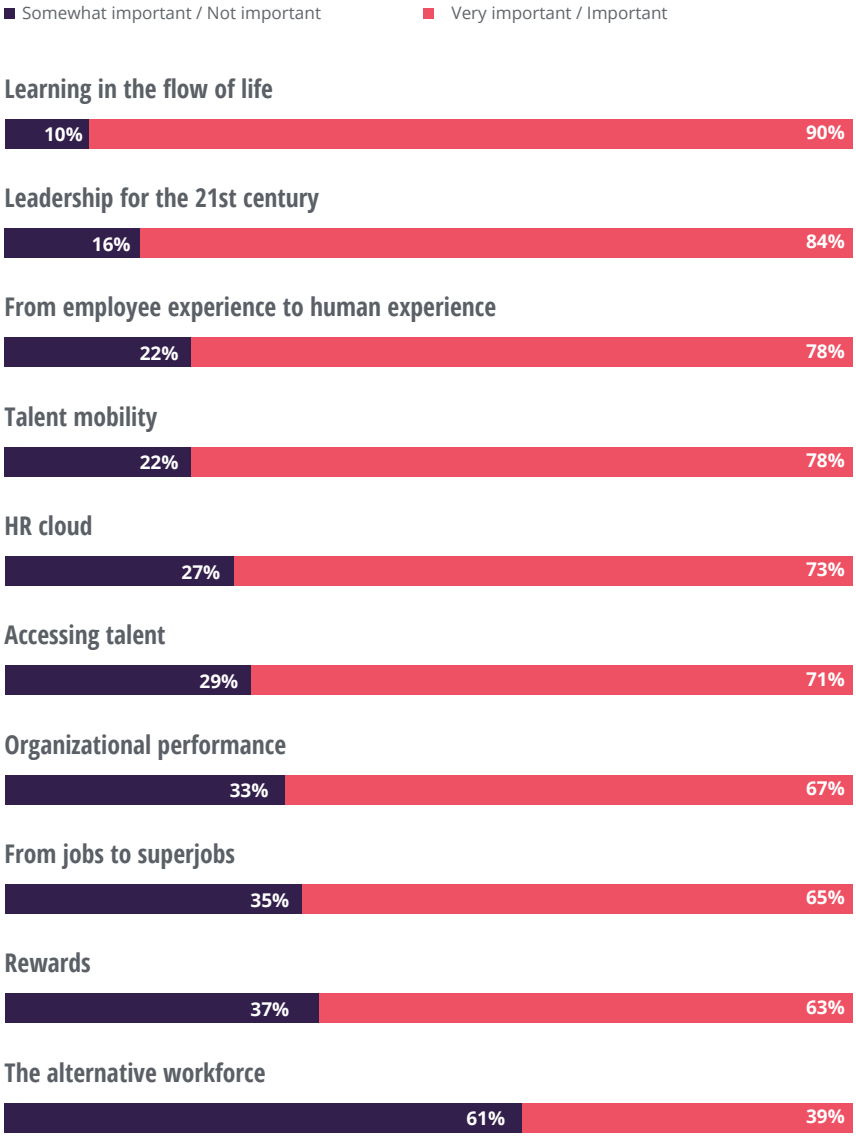
TALENT ACQUISITION is definitely one of the main difficulties that HR teams face. The top three challenges in this process pointed by the local respondents of the study are: finding qualified experienced people, identifying talent with the right skills and finding qualified entry-level hires. This indicates a tight competition on skilled candidates (both experienced and entry-level), and the need to implement effective long-term measures for rapidly developing highly needed skills.

ORGANIZATIONAL PERFORMANCE IS A TEAM PLAY. Accelerating the shift from functional hierarchy to team-centric and network-based organizational models seems to be difficult to achieve. Only 8% of the respondents said almost all teams in their organizations are cross-functional, while 84% indicated a hierarchical approach. Being asked to highlight top two challenges in moving to team-based model, the local respondents specified that leaders don't know how to operate (77%) and compensation/incentives don't support this direction (46%).

SUPERJOBS combine parts of different traditional jobs into integrated roles, which leads to significant productivity and efficiency gains. This occurs in the context of the significant increase of AI usage, cognitive technologies, robotic process automation and robotics. The jobs of the future are more digital, multidisciplinary and data and information-driven. The survey participants consider that the top three issues to impact HR in the next three years are cost pressures (71% of the respondents), reskilling (43% of the respondents) and alternative workforce (43% of the respondents). The most expected changes in HR in the next three years are more automation and more technical/analytic skills. The HR areas with potential to have the biggest impact on business are considered to be upskilling existing workforce, developing employee experience, accessing new capabilities/talent, automating HR and the enterprise and expanding workforce to alternative workers.

REWARDS are the mark for the organizational culture, the attitude toward employees, organizational mission and vision. Total rewards and their distinguished elements are one of the strongest indicator

Top Romanian trends by importance



of company differentiators, leadership, offered employee experience and even client approach and company goals. Only 14% of the study respondents pointed that rewards strategy is highly aligned with company goals. As basis for performance-based rewards, 71% of the respondents indicated the individual performance review, followed by measurable company metrics.

ALTERNATIVE WORKFORCE – by contract, freelance and gig employment – represents nowadays more than additional options to full-time jobs, it tends to become mainstream, leading companies to look strategically to all types of work arrangements in their plan to grow. A set of policies, documents, even flows need to be adapted accordingly in adopting this approach. Some other key aspects in adopting this type of arrangements are the culture, mindset, people expectations – companies have to deal with those too, and sometimes it may be difficult, as any change management process is.

IMPORTANCE VS READINESS

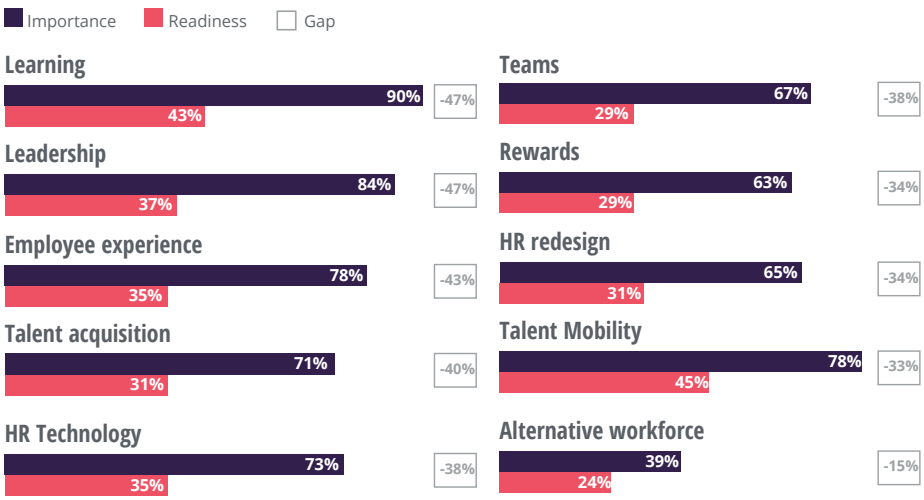
The survey also reveals a significant gap between readiness and importance for the majority of the 2019 local human capital trends, mainly for top three - learning, leadership, employee experience -, but also for talent acquisition, HR technology and organizational performance.

GLOBAL RESULTS

This year, the top three local trends are the same as those encountered on a global and regional level. This shows that, in a global competition on the labor market, Romania faces similar challenges to other geographies, even if there are differentiators too.

Lifelong learning, improving the employee experience and the redefinition of leadership are the most important and urgent among the ten trends identified by Deloitte 2019 Global Human Capital Trends report, based on the input of approximately 10,000 respondents in 119 countries, including Romania. The demand for lifelong learning is increasing globally in the context of the need to sustain 50-60 year careers as part of a 100-year life and as a result of the fact that every job is changing. Thus, learning has evolved from a matter of career advancement to workplace survival irrespective of the geography.

The gap between importance and readiness for top Romanian trends



Improving the employee experience remains a massive priority for organizations around the world, by adopting a human focus, personalizing the workforce experience, removing the hierarchical structure and developing leaders from within.

LEADERSHIP IN THE 21ST CENTURY has unique and new requirements, so it's critical for organizations to find and build leaders from within the organization. 75% of the global respondents believe leaders need to understand new technologies in order to be effective. Also, global respondents consider that leadership development programs currently in place are essentially ineffective.

TALENT MOBILITY is also among the most important trends identified by 2019 Global Human Capital Trends. The report underlines that, in the context of the tightest labor market in the past two decades, improving internal talent mobility and finding the right talent is an ongoing issue. Also, the incoming generation has a limited amount of patience and if they don't receive the expected growth internally, they'll look outside the company for new opportunities, warns the report.

The global study indicated also that organizations must rethink their HR technology strategy in order to better support innovation, raise employee productivity and lower cost.

ACCESSING TALENT now means mobilizing internal resources, finding people in the alternative workforce and strategically leveraging technology to

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augment sourcing and boost recruiting productivity, indicated the report. Using data to find, source, and select candidates more efficiently is one of the recruiting function's biggest opportunities.

As far as the rewards are concerned, the report underlines that they refer to more than money and organizations need to put in place personalized rewards systems in order to retain employees longer and keep them productive.

In the context of the Industry 4.0, as automation takes over repeatable tasks, jobs will become less routine and will lay the groundwork for what the report calls "superjobs". They will combine the work and skill sets across multiple domains, opening up opportunities for mobility, advancement and the rapid adoption of new skills needed today. To this end, 84% of the global organizations are increasing funding for reskilling and retraining.

When it comes to the future of organizations, one of the key trends identified by the report is the shift from the traditional hierarchical model towards a cross-functional teams and network-based model. Part of this change also implies changing the way organizations allocate budgets, train and reward people. Also, organizations are evolving towards alternative means of workforce necessities, looking to fill the skill gap by reaching out to various types of arrangements, shows 2019 Global Human Capital Trends. The segment of the workforce based on contract, freelance and gig employment, which used to represent options supplementary to full-time jobs, has now grown and gone mainstream, leading organizations to look strategically at all types of work arrangements in their plans for growth.

The global report also insists on the fact that we are living in the era of the social enterprise, when financial results are not the only or primary measure on which a business's success is judged. Organizations are now assessed for the impact they have on the social and physical environment, as well as on their customers and the people who work for and with them.

Deloitte's annual Global Human Capital Trends report, which now reached its ninth edition, is the largest survey of its kind and is based on a complex analysis of the input provided by respondents from around the globe, working in various sectors and in various areas of organizations, most of them in HR. The full report is available here: ***bit.ly/deloitte-hc-2019***

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