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Research on demand

ROMANIA'S IT SECTOR GROWS DRIVEN BY OUTSOURCING

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ROMANIA'S IT SECTOR GROWS DRIVEN BY OUTSOURCING

The IT sector in Romania grew much faster than the country's GDP in 1998-2008 (some 25% annually). Despite the slight decrease in 2009, growth resumed in 2010 and 2011 and the sector still performs better than the economy as a whole. The Romanian Institute for Computers (ITC) reported the growth rate of the hardware and electronics segment at 43% and that of software and IT services at 9.3% in 2010. Outsourcing is the fastest growing subsector of the IT industry.

The Romanian Association of Software and Electronics Industry (ARIES) claimed that in 2009 the IT industry ranked third in terms of exports among all sectors of Romanian economy, surpassing even the oil industry.

Romania is considered as the IT and outsourcing leader in CEE and one of the top 5 outsourcing destinations in the world. Its comparative advantage is based on the highly skilled labour force, geographical and cultural proximity to Western Europe and the welcoming business environment (there is no salary tax for software developers). Romania is first in Europe and sixth in the world in terms of number of IT certified specialists per capita, according to U.S. IT certifications provider Brainbench.

French PAC consultancy group sees Romania as a country with great potential in IT industry with emphasis on infrastructure outsourcing, business process outsourcing, hardware maintenance and network-related project services.

Software and Hardware

Within the software and IT services segment the leading role in 2010 was of software development with 43% of the total revenue of the segment, followed by IT consulting with 14%, software editing services with 13%, other IT services and web portals with 11% each and maintenance and support with 8.0%.

Microsoft Romania stated that in the first six months of 2011 Romanian software market fell by 5.0% compared to the same period of 2010.
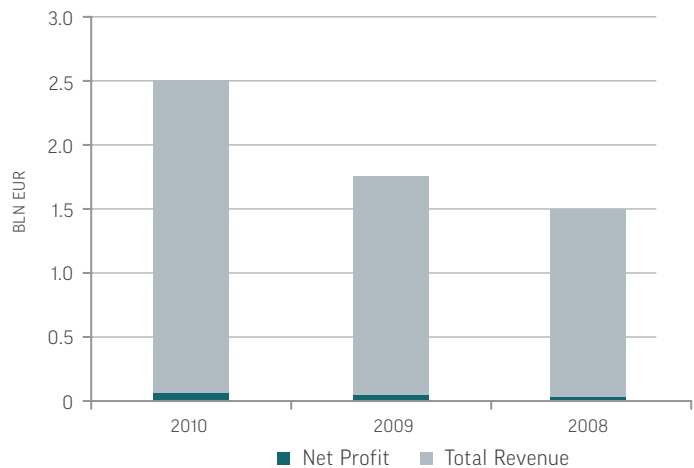
SOFTWARE AND SERVICES
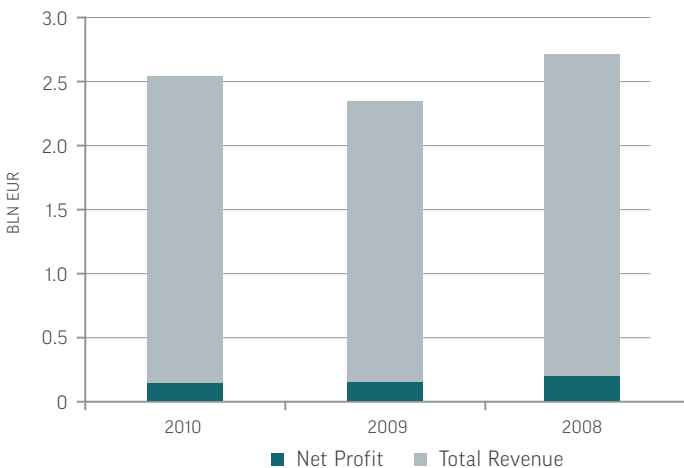
Source: ITC

SOFTWARE AND SERVICES

	2010	2009	2008
Employees	56,560	55,471	54,282
Average annual gross salary (EUR)	8,564	7,786	8,182
Number of companies	14,600	15,373	15,985

Source: ITC

HARDWARE AND ELECTRONICS

Source: ITC

HARDWARE AND ELECTRONICS

	2010	2009	2008
Employees	16,100	16,410	19,950
Average annual gross salary (EUR)	6,012	5,368	5,673
Number of companies	700	769	888

Source: ITC

In 2010 the value of Romanian IT market amounted to EUR 831 mln, shrinking for the second consecutive year, according to a survey of consultancy company PMR. Expectations for 2011 were the total value of the IT market to increase to EUR 877 mln. The structure of the revenue by segments in 2011 was expected to be as follows: 50% generated by the hardware and electronics subsector, 27% by the IT services subsector and 23% by the software subsector. As reported in the survey, the IT market should recover from the slump in 2009 and 2010. However, annual growth rates would be slower than before the crisis – 5.5% in 2011 and 7.0% in 2012. The driver of the growth would be the software and IT services segment, and above all outsourcing. According to the Employers' Association of the Software and Services Industry (ANIS), outsourcing services generate about 60% of the total revenue of Romanian IT sector. Bitdefender sees the very large share of outsourcing and low share of own products in software development as one of the major problems in the sector, turning Romania into "the new India" with strong emphasis on outsourcing and no creation of intellectual property.

There are significant differences in the geographical structure of the subsectors – while Bucharest gives 67% of the total revenue of Romanian IT industry, Cluj County is the country's centre of hardware and electronic production with more

than half of the revenue in this segment. The main reason for this disparity is the new factory of Nokia in Jucu, Cluj County, which has doubled the hardware and electronics production revenue in Romania since its launch in 2008. However, in 2011 Nokia announced that it would close down its factory in Romania and move operations to Asia by the end of the year.

Outsourcing

In the A.T. Kearney Global Services Location Index 2011 Romania is ranked as the 25th most suitable destination for outsourcing in the world in terms of financial attractiveness, people skills and business environment. In the SEE region only Bulgaria is placed higher – 17th.

OUTSOURCING IN ROMANIA 2009

IT Outsourcing Market Volume (mln EUR)	408.86
Number of IT Outsourcing Companies	670
Number of Specialists in IT Outsourcing	14,200

Source: Central and Eastern European Outsourcing Association (CEEOA)

AVERAGE RATES IN OUTSOURCING IN 2009 (EUR/HOUR)

|	
Project Manager	26.54
Senior Developer	22.00
Middle Developer	17.58
Junior Developer	13.65
Average Rates	18.58

Source: CEEOA

Romania's main competencies in outsourcing services include above all enterprise and customer management, security applications and services, product design and development tools, software development services, consulting, implementation, maintenance and support.

Employment and Salaries

According to local software company Bitdefender, in 2011 there were around 100,000 people working in software and IT services, including outsourcing. The survey of ITC shows that in 2010 the total number of employees in the software and services and hardware and electronics subsectors was 72,660. The number of employees in the software and services subsector continued to increase in 2009 and 2010 (by 1,190 and 1,090 employees respectively), although at a slower rate compared to the previous years, when the average annual increase was about 7,000 people. By contrast, the hardware and electronics subsector saw sharp decrease in the number of employees in 2009, when they were 3,540 less than in 2008. In 2010 the number decreased by 310 employees.

AVERAGE ANNUAL GROSS SALARIES IN EUR IN 2009

Average annual gross salaries in EUR in 2009
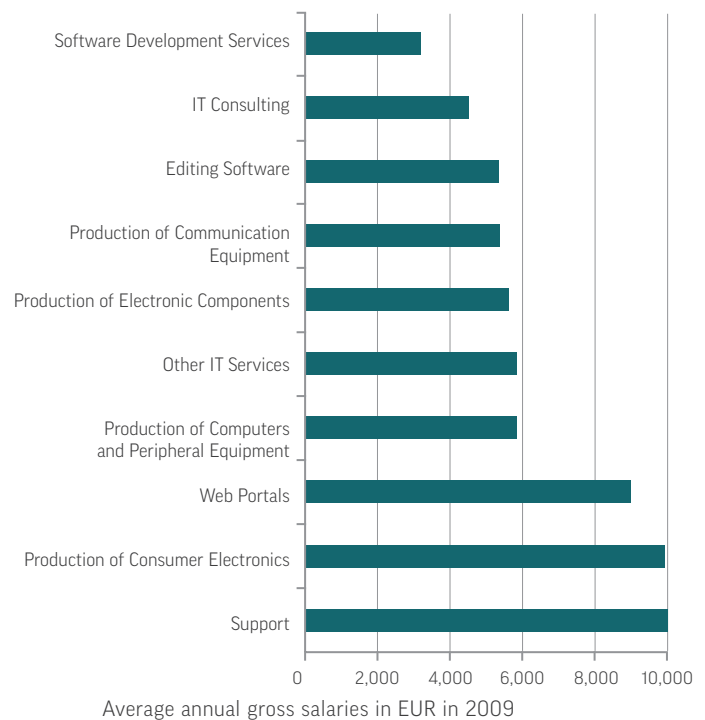
Source: ITC

Exports

Exports of the IT industry increased by 10% in 2009, in contrast to the 17% fall in overall Romanian exports, and by 30% in 2010. The huge share in IT exports growth belongs to the hardware and electronics subsector, which almost doubled its exports in 2010 (EUR 2.990 bln) compared to 2008 (1.578 bln). Analysts estimated the share of IT industry in the total exports of the country at 8.4% in 2010, which is two times higher than its share in 2005. In 2011 the value of the IT services and software export was estimated at 1.0% of the country's GDP.

IT EXPORT IN MLN EUR

	2010	2009	2008
Hardware and Electronics	2,990	2,030	1,578
Software and IT Services	730	650	640
Total	3,720	2,680	2,218

Source: ITC

IT IMPORT IN MLN EUR

	2010	2009	2008
Hardware and Electronics	4,130	3,170	3,996
Software and IT Services	440	410	400
Total	4,570	3,580	4,396

Source: ITC

IT TRADE BALANCE IN MLN EUR

	2010	2009	2008
Hardware and Electronics	-1,140	-1,140	-2,418
Software and IT Services	290	240	240
Total	-850	-900	-2,178

Source: ITC

ANIS expected growth in software and IT services exports by approximately 10% in 2011.

Due to the closure of Nokia's factory in 2011, it is highly probable that the share of hardware and electronics in Romanian IT exports will drop sharply in 2012, increasing the share of software and IT services. In 2010 Nokia was by far the most important exporter in the hardware segment and the second largest Romanian exporting company after automobile producer Dacia. The other hardware and electronics companies in the Top 20 of Romanian exporters were Flextronics, Ce-

lestica and Samsung Electronics.

Some of the major Romanian software exporters are:
- Siveco, which exports to United Arab Emirates, Oman, Bahrain, Kuwait, etc.
- TotalSoft - plans to set up a subsidiary in Austria and operate in the German, Polish and Danish markets.

In 2011 - 2012 Asesoft, Siveco, Ness Technologies, Scop Computers, S&T planned to enter the markets of Bulgaria, Hungary, Serbia and Macedonia.

Foreign Direct Investments (FDI)

FDI STOCK

Hardware and Electronics ■ IT and Telecommunications
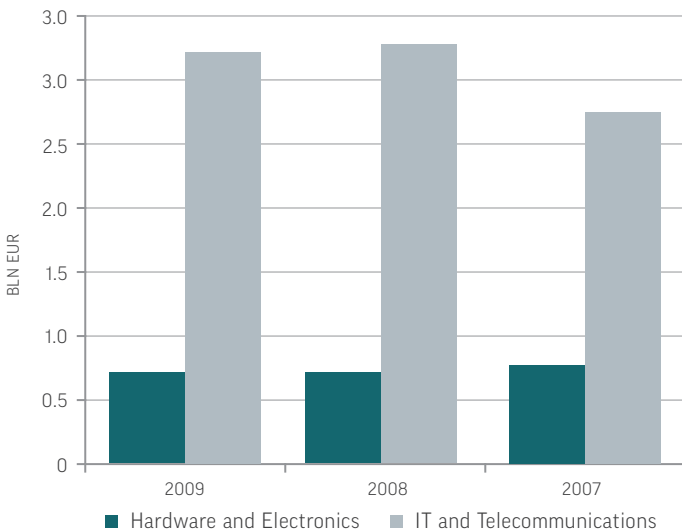
The slump in FDI net flow in the ICT industry in 2009 and 2010 was in line with the overall trend in Romanian economy. For the first time in 2009 there was a decrease in the accumulated FDI stock in the sector (negative net flow). No data are available for 2010, but it is expected that the negative trend continued. The share of the ICT sector in the total FDI stock in Romanian economy was 7.9% in 2009, decreasing substantially compared to 2005, when it was 14.2%. Major new investments in the software and IT services subsector were the research and development centres of SAP, HP and Intel and the service centre of IBM.

IT sector forecasts for 2012:

- The IT sector will continue to grow faster than the overall economy of Romania at a projected rate of 11%.
- The growth of the sector will be driven mainly by software development, while hardware production has uncertain prospects.
- Romania will be among the countries with the fastest growing IT spending in the region, but will still remain under the average level for central and southeastern Europe in terms of IT spending as percentage of GDP and IT spending per capita.
- The imbalance between stagnant local market and thriving exports of both software and hardware will continue to increase.
- A sharp shift in the structure of IT exports will occur following the withdrawal of the country's dominant hardware and electronics exporter Nokia, which will lead to substantial increase of the share of software in IT exports.
- Romania will strengthen its position as preferred European destination for outsourcing.

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