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2025 Country Report - Romania

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Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Romania

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European Commission

Romania

2025 Country Report



ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

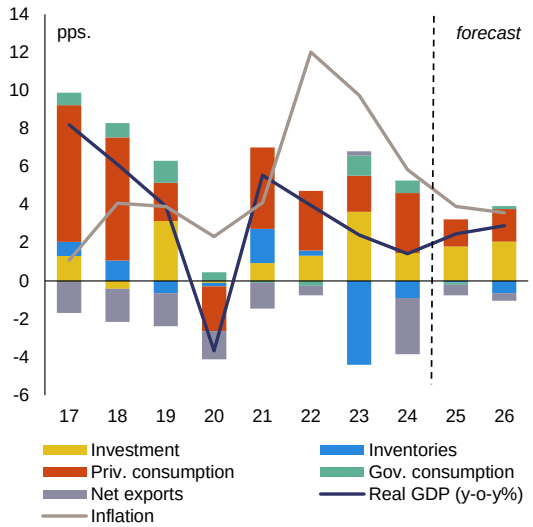
Subdued economic growth and large macroeconomic vulnerabilities

Romania is converging to EU income and productivity levels, but to achieve further progress it needs to address structural weaknesses and macroeconomic vulnerabilities. Since its EU accession, Romania has increased its GDP per capita from 44% of the EU average to close to 80% in 2024. However, recent wage increases, particularly in the public sector, while boosting household incomes and domestic demand, have contributed to high fiscal and current account deficits. These weigh on investor sentiment, cost competitiveness and productivity growth. In addition, outdated and inadequate infrastructure relatively low R&D capacity and persistent skills shortages prevent Romania's transition to higher-value-added production.

Supporting the private sector and the business environment is essential to help Romania transition to a new growth model. So far, the country has largely relied on advantages offered by lower labour costs, but it would benefit from gradually shifting its focus towards investments in new technologies and innovation, as this would strengthen its position in the EU value chain. Romania could boost private investment and its competitiveness by using EU funds to support infrastructure, improve research, innovation and digital capacity, develop workforce skills and increase labour market participation, while simultaneously strengthening administrative efficiency and making its policy framework more predictable.

Romania's economic growth decelerated to 0.8% in 2024, down from 2.4% in 2023 ([1]). Buoyant private consumption and domestic demand supported by loose fiscal policy had only a limited positive impact on real GDP growth (adjusted for inflation), which was dampened by the high negative contribution of net exports (see Graph 1.1). In addition, robust public investment in infrastructure could not compensate for a slowdown in private investment. Inflation fell from close to 10% on average in 2023 to 5.8% in 2024, but high inflationary pressures subsist. Labour demand decreased slightly, but the growth in wages remained high. The current account deficit widened to 8.4% of GDP in 2024, from 6.6% of GDP in 2023, mainly due to higher government spending and incomes.

Graph 1.1: **Inflation – Real GDP growth and contributions**



Source: European Commission

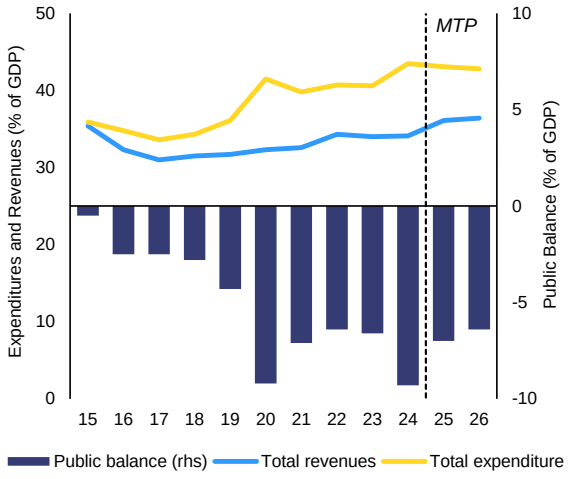
([1]) The cut-off date for the data used to prepare the 27 country reports was 15 May 2024.

Growth is likely to pick up only modestly. Real GDP growth is projected to accelerate to around 1.4% in 2025 and 2.2% in 2026, supported by resilient private consumption and a gradual recovery in private investment and exports. However, political instability and uncertainty over fiscal policy continue to affect investor confidence, the pace of reforms and the absorption of EU funds. Although Romania is among the EU countries less exposed to the US economy, growth is forecast to be hit by the recent US tariffs through the trade and investment channels. Inflation is projected to hover at around 5% in 2025 and 4% in 2026. The current account deficit is set to decline gradually, supported by a moderation in domestic demand, while remaining high at about 7% of GDP in 2026.

Romania's vulnerabilities have increased as the twin government and current account deficits widened, and cost competitiveness deteriorated further in 2024. That finding was highlighted in the in-depth review that was part of the macroeconomic imbalance procedure Romania underwent earlier this year. The review also stressed that policy progress was minimal, including a marked deterioration in the fiscal stance ([2]).

Romania's high government deficit is a key driver of high external borrowing needs and has raised concerns among investors and rating agencies. In 2024, the public deficit rose to 9.3% of GDP, mainly on account of generous income policies and higher-than-planned public investment spending (see Graph 1.2). As a result, government debt increased rapidly, reaching nearly 55% of GDP by the end of 2024, although it remains significantly below the EU average of 81.6%. The fiscally induced surge in domestic demand also increased imports. In combination with weaker external demand, this caused the trade deficit to widen, pushing the current account deficit to 8.4% of GDP. Without resolute fiscal consolidation and structural reforms, the government and current account deficits are likely to remain very high, inflating debt stocks and leaving Romania vulnerable to change in investor sentiment and external shocks.

Graph 1.2: **General government deficit - expenditure and revenues**



(1) 2024 figures based on actual outturns; 2025 and 2026 figures are based on MTP projections.
Source: European Commission

The central pillar of Romania's strategy to reduce the government deficit is the medium-term fiscal-structural plan (MTP). The plan caps annual net expenditure growth at 5.1% in 2025 and gradually lowers it to 4.3% by 2028. In line with the plan, the Romanian government targets a budget deficit of 7% of GDP in 2025. Romania aims to meet net expenditure targets primarily by restraining spending growth across most expenditure categories. As a first step, at the end of 2024 the government adopted emergency measures to save 2.0% of GDP in 2025 by freezing wages and pensions, removing several tax exemptions, and reforming the microenterprise. In the MTP, Romania committed to implement a set of reforms and investments in order to extend the fiscal adjustment period to seven years (2025-2031). A key commitment in the plan is the implementation of a tax reform in 2025. This should raise at least 1.7% of GDP in recurrent revenues, alongside other reforms such as spending reviews and improvements in tax administration.

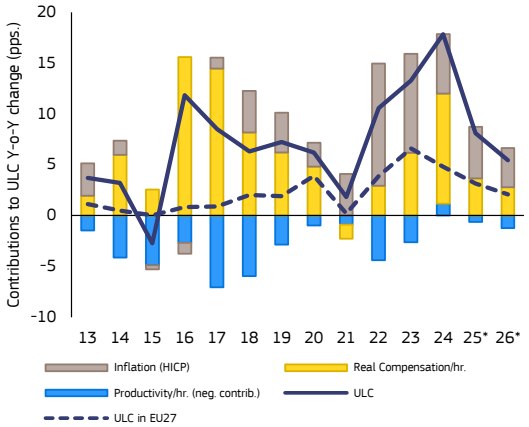
([2]) European Commission (2025), SWD (2025) 126 final.

Net expenditure growth is projected to exceed the recommended maxima. In 2024, net expenditure([3]) in Romania grew by 19.9% (see Annex 1). This increase is due to high growth in current expenditure (+18.7% relative to 2023), in particular on the public sector wage bill (+21.5% relative to 2023) and social transfers including pensions (+19.5% relative to 2023). In 2025, net expenditure is forecast by the Commission to grow by 5.4%, which is above the maximum growth rate recommended by the Council([4]). The cumulative growth rate of net expenditure in 2024 and 2025 taken together is projected at 26.4%, which also is above the maximum recommended by the Council. Among the reforms and investments underpinning an extension that were due by the 30 April, some were not implemented such as the key reform of the review of the tax system.

Employment improved, but labour force participation remains low

Labour market activity has improved further in 2024, although significant challenges remain. In 2024, the employment rate for people aged 20-64 rose to 69.5% but remains among the lowest in the EU (see Social Scoreboard in Annex 13). There are two reasons for this: one is the low labour force participation of women, young people, the low-skilled, people with disabilities and Roma people in the workforce; the second is a high number of people engaged in subsistence agriculture or working across borders. In addition, the employment rate among people with a low level of skills (ISCED 0-2) was only 45.1% in 2024, far below the EU average and just half the rate for tertiary-educated individuals in Romania (see Annex 10). At the end of 2024, the unemployment rate edged up by 0.2 pps to 5.7%. Youth unemployment also rose in 2024 and remains among the highest in the EU, together with the large proportion of young people not in education, employment or training.

Graph 1.3: **Breakdown of rate of change of unit labour costs**



Source: European Commission

Wages continued to grow faster than inflation and labour productivity. In 2024, nominal wages increased by about 15%, on top of a similar increase in 2023, according to the National Statistical Institute. With inflation at about 6%, real wages rose by about 9% year-on-year, well above productivity growth. Public-sector wages increased by 18.5% in 2024, while the statutory minimum wage was raised by more than a third cumulated in 2023 and 2024. The minimum wage is now approaching the indicative reference value of 60% of the median wage suggested by the EU Adequate Minimum Wage Directive. In contrast, in-work poverty was 10.9% in 2024, one of the highest levels in the EU. These wage increases also drove up unit labour costs, eroding external cost competitiveness (see Graph 1.3). To make changes in the minimum wage more predictable and less distortive, Romania adopted a reform that aligns increases with productivity gains and

([3]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([4]) Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Romania (C/2025/5038) and Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Romania (OJ C, C/2025/647, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/647/oj).

inflation, as outlined in the Romanian recovery and resilience plan.

Convergence towards EU average productivity is still held back by obstacles to investment

Romania's fast convergence towards average EU productivity masks significant regional disparities. Productivity measured as gross value added per worker rose to more than 80% of the EU average in 2023. Nevertheless, regional disparities remained large and widened in some instances, ranging from 154% of the EU average in the Bucharest-Ilfov capital region to 47% in the North-East region (see Annex 17). These productivity differences are driven by stark variations in both skills and educational attainment, and in investment in physical capital. Net public investment supported by EU funds surged in recent years, acting as a catalyst for private investment and productivity growth across all regions.

Removing bottlenecks limiting productivity growth and competitiveness can underpin sustained EU convergence. According to the Worldwide Governance Indicators ([5]), Romania performs worse than its EU peers on government effectiveness and regulatory quality. Romania continues to rank poorly in Transparency International's indicator of perceived corruption ([6]). The OECD's 2024 Economic Survey on Romania ([7]) notes that simplified business registration and licensing has reduced firms' costs. However, weak management and oversight of state-owned enterprises hinder competition in some sectors and the creation of a level playing field for businesses. The business environment is hampered by suboptimal administrative capacity and public services, while overregulation imposes a heavy burden on companies. In addition, competition in public procurement remains insufficient and policy predictability is still an issue, not least due to the volatile tax burden (see Annex 4). Investment and competitiveness are held back by other significant shortcomings, presented in more detail below.

Box 1:

UN Sustainable Development Goals (SDGs)

Romania has made improvements across several SDGs, particularly on some related to environmental sustainability (SDGs 2, 6, 11, 12, 13, 14), although it still lags behind the EU averages for most of them. On productivity-related goals, Romania is advancing on decent work and economic growth (SDG 8) and industry, innovation and infrastructure (SDG 9), though it remains significantly below the EU averages, particularly on R&D spending and innovation indicators. Quality education (SDG 4) is a major concern, with adult digital skills stagnating at a low level compared to the EU average. Progress on gender equality (SDG 5) has been limited, with the gender employment gap remaining considerably above the EU average (18.1 pp compared to 10 pp in the EU in 2024). On the other hand, Romania has shown positive trends in macroeconomic stability-related goals (SDGs 8, 16, 17), notably increasing GDP per capita. Despite this, challenges remain regarding institutional trust and perceptions of corruption. Measures within Romania's recovery and resilience plan and through cohesion policy target these shortcomings with investments in education, digitalisation, innovation and clean energy.

([5]) See Daniel Kaufmann and Aart Kraay (2024). Worldwide Governance Indicators, 2024 Home | Worldwide Governance Indicators (worldbank.org).

([6]) See Transparency International. 2025. Corruption Perceptions Index 2024. 2024 Corruption Perceptions Index - Explore... - Transparency.org

([7]) See OECD. 2024. 'Romania', in OECD Economic Surveys, March 2024. OECD Publishing, Paris. OECD Economic Surveys: Romania 2024 | OECD

Shortages of skilled and non-skilled workers persist

Addressing skilled labour shortages would boost investment, productivity and innovation capacity. Shortages stem from substantial numbers of people leaving the country to work abroad, low tertiary education attainment (22.5%, half the EU average; see Annex 10), and the mismatch between education and the needs of the labour market. Although 30% of higher education students pursue science, technology, engineering and mathematics degrees, slightly above the EU average, the absolute number remains insufficient, particularly in information and communication technology. Romanian firms, especially small and medium-sized enterprises, continue to identify inadequate skills as a key barrier to growth. Shortcomings in the education and training system are reflected in persistently low levels of basic skills. Vocational education and training and higher education programmes are still not sufficiently relevant to the needs of the labour market, despite EU cohesion policy funds supporting skills development (see Annexes 3 and 12).

Challenges in accessing finance

Romania's relatively small banking sector, underdeveloped capital markets and weak capitalisation make access to finance difficult for companies. More than half of entrepreneurs perceive bank credit as expensive and consider the constrained access to finance as a major barrier to doing business (see Annex 4). As a result, the largest source of investment finance for companies is internal funding (72% of total) (see Annex 5). Total bank assets in Romania are slightly above 50% of GDP, much lower than peer economies in the region and the EU average. Although small, the banking sector is well capitalised and highly profitable. However, it has the highest share of claims on the government among EU countries (about a quarter of total assets), which may crowd out private credit and limit access to finance. The capital markets remain relatively underdeveloped, with listed shares and private bonds accounting for only 11% of GDP and 0.3% of GDP respectively. To address these issues, Romania has developed a comprehensive 2023-2026 strategy to boost its capital markets, which is being gradually implemented.

Accelerated investment in poor transport infrastructure

Despite recent improvements, investment in maintaining and improving transport infrastructure remains insufficient. Romania's transport network is among the shortest and least dense in the EU, due to previously inefficient and insufficient public investment([8]). Romania is among the EU countries that have made the least progress on building the Trans-European Transport Network (TEN-T). Key motorway corridors are still underdeveloped, with only 997 km at end-2023, accounting for just 5.6% of the total national road network([9]). However, progress in building motorways is expected, with over 400 km to be delivered by 2026 from recovery and resilience plan and cohesion funding. Romania's railway infrastructure ([10]) is extensive but slow, only partially electrified (~40%), and relies on ageing track and trains. This causes significant delays, making trains less attractive ([11]) than buses and coaches. Substantial funds are available under cohesion funding and the recovery and resilience plan for railway projects, but progress implementing them has been modest so far. Against this background, it remains important to continue the implementation of planned priorities, with particular attention to

([8]) See World Bank 2023. Romania - Systematic Country Diagnostic Update

([9]) Eurostat 2023 data

([10]) OECD ECONOMIC SURVEYS: ROMANIA 2024 © OECD 2024

([11]) Eurostat 2022 data

investment in the railway network, including deployment of the European Rail Traffic Management, and sustainable urban transport, and the completion of TEN-T networks, both rail and road. Addressing these shortcomings could help reduce commuting times: Romania ranks fourth-to-last([12]) among EU countries, with around 43% of the working-age population spending more than 30 minutes commuting each day.

Improving the low levels of digitalisation and IT skills

Additional digitalisation would speed up Romania's advance in innovation and productivity growth. At only 27.7%, the share of population aged 16-74 with basic digital skills is almost half the EU average. Business digitalisation has improved, with the proportion of businesses using at least a basic level of digital technology rising from 52.5% in 2022 to 69.1% in 2024, just below the EU average. The adoption of advanced digital technologies is also growing. The AI adoption rate more than doubled in 2024 but remains the lowest in the EU at just over 3% of businesses (EU average: 13.5%), while cloud services usage reached 15.5% in 2023 (vs 38.9% in the EU). Further progress will depend above all on the availability of a digitally skilled workforce, particularly in the high-tech and information and communication technology fields.

Protracted decarbonisation amid energy affordability issues

Romania has made progress in its green transition, but decarbonisation continues to require sustained efforts and investment. In 2024, Romania installed 1.7 GW of solar energy and increased its renewable energy installed capacity by 14%, raising the share of renewables in electricity generation to 48%, slightly above the EU average of 47%. Energy efficiency improved, with primary and final energy consumption decreasing by around 3% in 2023. Fossil fuels remain significant in the energy mix, with oil and natural gas accounting for over 60% in 2023, and less than one third from non-fossil sources (20% renewables, including biofuels and 9% nuclear). Despite efforts to expand renewables, further integration is held back by regulatory barriers, permitting issues, grid limitations, and delayed infrastructure projects. Concerns over security of energy supply in Moldova and Ukraine brought additional challenges. High energy prices remain a pressing issue; despite a significant decrease in the first part of the year, prices averaged 103 EUR/MWh in 2024 (vs 81 EUR/MWh in the EU). These high prices are driven by factors affecting both consumption and generation, including reduced hydropower reserves and lower wind output, which created a significant shortfall in supply.

([12]) Eurostat 2022 data

Box 2:

Barriers to private and public investment

Romania's overall investment activity stagnated in 2024, reflecting a challenging economic environment. According to the National Institute of Statistics, net investment fell by about 5% year-on-year in 2024. This was due to low investment in construction and equipment and came despite robust public investment, particularly in infrastructure projects.

Private investors' confidence was dampened by weak external demand for Romania's industrial exports, combined with high energy prices and uncertainty over fiscal policy in the current political climate. Firms postponed or scaled down projects amid concerns about cost pressures and volatile market conditions. These factors compounded longer-standing challenges, including shortages of skilled and unskilled labour, difficulties accessing finance, inadequate transport infrastructure and lagging digitalisation. Romania's financial system also limits investment potential: domestic savings remain comparatively low, capital markets are underdeveloped, and companies are heavily reliant on internal financing and bank loans. Although the banking sector is generally stable and plays an important role in financing the economy, it remains relatively small compared to other EU countries. Taken together, these factors have curbed Romania's competitiveness, discouraging businesses from committing to large-scale capital expenditure.

Efficient use of EU funds could further support Romania's development, although current delays indicate a need to strengthen investment management. Romania has access to more than EUR 90 billion in EU funding across multiple instruments, including approximately EUR 44 billion from structural and cohesion funds and around EUR 20 billion from the common agricultural policy under the 2021-2027 multiannual financial framework. This complements EUR 12.1 billion in grants (plus an extra EUR 1.4 billion from REPowerEU), and EUR 14.9 billion in loans under the recovery and resilience facility. However, the implementation of EU-funded action is delayed, particularly for infrastructure projects.

T**he implementation of Romania's RRP is significantly delayed.** At present, Romania has fulfilled 14 % of the milestones and targets in its RRP. In addition to the challenges above, the main bottlenecks to EU funds implementation are delays in procurement, political instability, ineffective governance and insufficient administrative capacity.

These inefficiencies heighten the risk of funding shortfalls. These could force the government to rely more heavily on the national budget, complicating fiscal consolidation and increasing broader macro-financial risks. Resource allocation fiscal management and could benefit from better external scrutiny of assumptions and cost estimates, particularly for large-scale transport infrastructure projects, alongside a more efficient capital budgeting process.

While Romania has leveraged the Strategic Technologies for Europe Platform to reallocate some Cohesion Policy resources towards this priority, it still has the opportunity to further support the development or manufacturing of critical technologies in the areas of digital and deep tech, clean and resource efficient technologies, and biotechnologies through other instruments, including the Recovery and Resilience Facility.

The mid-term review of cohesion policy programmes in 2025 presents an important opportunity to better address the strategic priorities of the EU relating to competitiveness, defence, housing, water resilience and energy transition. Romania is facing challenges in these areas, particularly in relation to education, employment and social inclusion, as well as boosting regional competitiveness through research and innovation, including by developing or manufacturing critical technologies, increasing water resilience, especially in the east and south of the country and the affordability of housing. Therefore, Romania could benefit from reallocation of cohesion policy funding towards these strategic priority areas, within the mid-term review.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Romania has made steady progress in its economic development over the past decades, but there are still opportunities for further growth and improvement. Key improvements that could unlock higher productivity, competitiveness and economic expansion include: (i) strengthening the research and development environment; (ii) fostering a more dynamic startup culture and expanding alternative financing sources; (iii) streamlining regulatory processes for businesses; and (iv) accelerating digital transformation.

Boosting R&D performance

Romania has made little progress towards the EU average in research and innovation. The country is classified as an 'emerging innovator' and has the weakest innovation performance, at 34% of the EU average, as reported in the 2024 European Innovation Scoreboard ([13]). This gap is influenced by several structural factors, including investment levels, talent retention and governance frameworks.

So far, Romania's economic model has been driven by relatively low labour costs, which have attracted investment and supported economic growth. However, as income levels rise, this model is becoming less sustainable, necessitating a shift towards a more innovation-driven economy. To remain competitive, it is important to consider adopting existing technologies, investing in workforce skills, and strengthening R&D capabilities to move up the value chain.

One key challenge is underinvestment in research and development. In 2023, Romania recorded the lowest R&D intensity in the EU as a share of GDP, with both public and private contributions falling short of the EU average (see Annex 3). Increasing support for small and medium-sized enterprises (which currently contribute minimally to national R&D efforts) while strengthening public-private partnerships and establishing a dedicated national innovation agency could play a pivotal role in increasing R&D investment and fostering a more dynamic innovation ecosystem. Romania's recovery and resilience plan and measures under the cohesion policy, including significant investments under the Strategic Technologies for Europe Platform, have already initiated steps in this direction, and further policy measures could build on these efforts.

Talent availability is another crucial factor influencing innovation capacity. The number of researchers employed in the public sector (1.6 per 1 000 inhabitants) has been stagnating since 2022 and is less than half the EU average (See Annex 3). Challenges such as limited career development opportunities and working conditions have contributed to a talent drain. However, measures under the recovery and resilience plan, particularly those aimed at attracting international researchers, are already yielding positive results. Expanding such initiatives and improving the governance of the research and innovation system could increase Romania's ability to retain and develop high-skilled professionals. Additionally, increasing the percentage of 25-34-year-olds with tertiary education – currently the lowest in the EU – would broaden the talent pool and further strengthen innovation capacity.

([13]) European Innovation Scoreboard, 2024.

Romania has many companies with the potential for business innovation ([14]), but their involvement in innovation activities remains low. Between 2020 and 2022, only 8.8% of Romanian firms introduced product and process innovations (EU average: 51.4%) ([15]). Addressing barriers such as access to funding, regulatory complexity and digital transformation could unlock greater participation in innovation-led growth. By creating an environment that supports business-driven innovation, Romania can make more of its existing industrial strengths and accelerate its economic competitiveness within the EU.

Expanding firms' access to finance

In Romania, companies predominantly rely on internal financing to support their investments and operations. Internal sources accounted for the largest share of investment finance (73%), with external financing representing 26%, and the remaining 1% coming from intra-group funding, namely, funding from sister or parent companies based in other countries([16]).

The heavy reliance on internal funds constrains business growth, particularly for small and medium-sized enterprises. Where external financing is available, it is primarily in the form of trade credit, which make up nearly all external debt financing for Romanian companies (see Annex 5). Despite the importance of external financing for business expansion and innovation, Romania's capital markets remain underdeveloped. Market-based finance, including equity and bond markets, has significant room for growth, as the amount of listed shares and corporate bonds remains well below the EU average. Companies that seek alternative financing often face challenges in accessing capital due to limited investor participation and a lack of financial instruments tailored to their needs. Additionally, firms are often hesitant to explore non-traditional financing options, which further limits their growth potential.

Romania has introduced several measures to foster a more dynamic investment environment. The 2023-2026 national strategy for the development of capital markets outlines steps to improve the institutional, legal and regulatory framework to encourage capital markets development. Certain key measures in this strategy have been adopted but not all have fully matured yet. The recovery and resilience plan also includes measures to support company listings on the stock market, although demand has been relatively low so far.

Additionally, numerous financial instruments under cohesion policy and initiatives under the recovery and resilience plan and InvestEU are focused on improving small and medium-sized enterprises' access to finance. The debt guarantee scheme for the competitiveness of small and medium-sized enterprises has been widely adopted, allowing firms that would otherwise struggle to secure bank financing to access much-needed capital. However, progress in equity-based financial instruments has been slower, primarily due to the underdeveloped venture capital market and startup ecosystem. A newly established National Development Bank aims to fill this gap by providing financing to high-risk, high-potential businesses that lack private-sector funding opportunities.

Encouraging greater participation from institutional investors, including pension funds, in private equity and venture capital would also help bridge the financing gap for innovative companies. One way to achieve this could be by raising the regulatory investment limits for pension funds in certain assets.

([14]) According to the European Innovation Scoreboard, 2024, in Romania 27% of firms are non-innovators with a potential to innovate, compared to the EU average of 17.8%. This means that these enterprises did not introduce any innovation, and had no ongoing or abandoned innovation activities but did consider to innovate.

([15]) Community Innovation Survey 2022.

([16]) EIB Investment Survey 2024

Low retail investment and weak financial literacy hinder the expansion of Romania's capital markets. Retail investment remains modest compared to other EU countries, as many Romanians prefer traditional savings methods such as bank deposits. In 2023, 18.9% of total household financial assets in Romania were allocated to equity and investment fund shares (EU average: 42.2%). Meanwhile, the proportion of assets held in currency and bank deposits was significantly higher than the EU average, at 30.4% versus 13.4% ([17]). Improving financial literacy and introducing policies that attract new savers and investors will be essential to broadening access to finance and fostering a more robust capital market. By addressing these structural barriers, Romania could create a more supportive financing environment for businesses, including start-ups and scale-ups, enabling them to invest in innovation, expand operations and become more competitive.

Boosting the adoption of digital technologies

Digital technology adoption is improving, although achieving the targets for digitalisation of business by 2030 and implementing the national strategic digital decade roadmap remain a challenge. The share of businesses with at least a basic level of digital intensity([18]) has grown significantly in Romania in recent years, though it still slightly lags behind the EU average. While progress has also been made in adopting advanced digital technologies, such as AI and cloud services, uptake remains well below the EU average (see Annex 3 for comprehensive statistics on business digitalisation). Maintaining and improving this positive momentum is important because digitalisation boosts productivity by facilitating communication, automating repetitive tasks and enabling businesses to reach and serve customers worldwide.

Several measures are in place to support business digitalisation. Examples include: (i) an investment under the recovery and resilience plan to support the take-up of digital technologies by small and medium-sized enterprises (implementation is ongoing); (ii) financial instruments and grants schemes under cohesion policy funds; and (iii) the 'start-up nation' and 'entrepreneur woman' programmes, aimed at stimulating entrepreneurship, innovation and digitalisation. Further strengthening such support measures for firms to adopt digital technologies would be useful.

Romania's digital services have gradually improved ([19]), although use by the public and businesses is still limited (see Annex 6 for comprehensive statistics on digital public services). Digital public services make it easier for the public to access government resources and information, speed up service delivery and enable governments to store data more securely using cloud technology.

Romania is continuing its efforts, including via cohesion policy and recovery and resilience plan measures, to increase digital skills (both in public and private environment), further digitalise key national and regional services, and set up a governmental cloud and an interoperability portal and framework. Out of three regional data clouds programmed under Cohesion Policy, two are being developed, while sectorial clouds are planned for key institutions such as the Ministry of Health and the Ministry of Finance. Additionally, a growing number of local public services are being digitalised across municipalities and counties, aiming to improve accessibility and administrative efficiency at the local level.

([17]) European Commission calculations, based on Eurostat.

([18]) The digital intensity index (DII) is a composite indicator, which measures the use of different technologies by enterprise, with the aim to assess to which extent EU enterprises are digitalised.

([19]) eGovernment Benchmark 2024 Factsheets. See Annex 4 for comprehensive statistics on digital public services.

Reducing the regulatory burden and improving predictability would help boost innovation and productivity

Romanian companies experience constraints due to regulatory burden. Nearly a quarter of them allocate more than 10% of their staff to regulatory requirements – a much higher share than in higher income EU countries like Finland and even regional peers such as Bulgaria and Hungary ([20]) (see also Annex 4).

Companies cite fiscal and legislative uncertainty as a barrier to investment. Romania competes globally for foreign direct investment, yet 90% of Romanian firms cite uncertainty as the biggest barrier to long-term investment ([21]). Business associations regularly point out that public consultation in the legislative process is merely a perfunctory formality. For example, consultation periods run for less than 24 hours, preparation lead times (which should last six months) are lacking, government finances lack a medium-to-long-term dimension, and dialogue and consultation structures between industries and government are absent. Under these conditions, companies report putting investments on hold ([22]). Ensuring the stability and predictability of the investment framework by avoiding rapid policy changes, and consistently applying existing rules, are key to fostering firms' productivity and competitiveness.

A fair, efficient, simple and transparent tax system is important to ensure predictability. Small and medium-sized enterprises' annual tax contribution to the budget remains low, as qualifying small businesses are taxed at a preferential rate of either 1% or 3% of their turnover, depending on specific criteria**.** However, this system has recently undergone reform. New legislation has been introduced to reduce the scope of the special tax regime for micro-enterprises, bringing clarity to the system and reducing distortions, while also facilitating compliance ([23]).

Access to the single market is an opportunity that many small and medium-sized enterprises in Romania could exploit. Over the last 20 years, trade in goods has significantly increased, although Romania's trade integration in the single market is below the EU average (28% of GDP vs 42% of GDP in 2024([24]) – see Annex 4). The country's accession to the Schengen Area, as of 1 January 2025, is expected to facilitate foreign investment and improve trade flows with other EU countries.

Addressing restrictively regulated professions could boost productivity. Regulatory restrictions in a number of professions remain stricter in Romania than the EU average. This creates additional costs, especially for small and medium-sized enterprises, while also lowering productivity and restricting labour mobility within the EU by making it more difficult for qualified professionals from other EU countries to work in Romania. This applies in particular to civil engineers, architects, accountants, tourist guides and notaries.

The effects of measures to improve public procurement performance have yet to be observed. The Romanian public procurement system continues to face challenges over transparency, efficiency and compliance with EU standards. Romania is continuing with reforms (supported by the Recovery and Resilience Facility) to streamline procedures and strengthen institutional

([20]) EIB Investment Survey 2024.

([21]) EIB Investment Survey 2024.

([22]) Foreign Investors Council Romania website (fic.ro); Concordia Employers' Confederation (concordia.ro.

([23]) Government Emergency Ordinance No 156/2024 reduced the eligibility threshold for the special tax regime for micro-enterprises from EUR 500 000 to EUR 250 000 as of 1 January 2025, and further to EUR 100 000 as of 1 January 2026.

([24]) 'Trade integration' is defined as the average of intra-EU imports and intra-EU exports..

capacity by providing specialised training programmes to civil servants involved in public procurement. Further improvements would be beneficial, as those stated in the Public Procurement National Strategy 2023-2027, particularly on: (i) professionalisation and staffing for contracting authorities; (ii) predictability of calls, giving clear and stable guidance to companies, sufficient time to submit quality offers, and proportionality between the level of requirements and the size of funding; and (iii) better alignment of calls with the financing priorities of small and medium-sized enterprises.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Affordable energy for industry and households

High energy prices pose a significant challenge to Romania's competitiveness. In 2024, Romania's wholesale electricity prices averaged approximately EUR 103.5 per megawatt-hour (MWh). This puts the country among those with the highest electricity prices in the EU, surpassed only by Ireland and Italy. Romania generates electricity from a mix of natural gas, coal, hydropower, nuclear power and renewable sources. It has committed to phasing out coal, although the Ministry of Energy is currently seeking an extension of some planned decommissioning steps. These challenges are further intensified by congestion in cross-zonal electricity trading capacities in the Central Eastern Europe and by increased electricity flows to Ukraine and Moldova, which are partly supplied from South-East Europe.

Price caps to lower the cost of energy bills need to be better targeted. Since November 2021, Romania has capped electricity and gas bills for households, small businesses, hospitals, schools and public institutions, covering consumption up to specified monthly limits. The government compensates energy suppliers for the difference. This scheme was set to end at the end of March 2025, but has recently been extended (until end of June 2025 for electricity and until March 2026 for gas). Such measures should be better targeted to protect the vulnerable consumers, while providing incentives for energy savings through buildings renovation. Suppliers have repeatedly raised concerns about delays in government payments, and analysts have warned that market distortions created by this scheme will be challenging to address.

Flexible systems are key for preventing and limiting spikes in electricity price. Both Romania and the broader south-east Europe region have faced prolonged periods of high electricity prices, especially during peak summer hours in 2024. Heatwaves and drought have reduced output from domestic hydroelectric and nuclear plants, further driving up prices. These problems have been compounded by limited import capacities, constraints on flexible energy sources, and electricity exports to Ukraine and Moldova. While there often was an oversupply of solar energy during the day, evening demand often exceeded the available supply, leading to expensive generation. Addressing these issues requires solutions that increase flexibility and enable better use of country's renewable energy potential. Short-term management involves improving demand-side response measures, deploying storage systems (such as batteries) and improving cross-border electricity trade through existing interconnections. Achieving long-term flexibility requires investments in infrastructure and a larger role for clean energy in the energy mix to ensure affordability, reliability and sustainability.

Taxation could be used to reduce Romania's relative high electricity prices, by shifting the burden from electricity to fossil fuels. Taxes and levies on electricity account for nearly 26% of the total electricity price for households and around 10% for energy-intensive industries. For gas, taxes and levies account for 16% for households and around zero for energy-intensive industries. These heavier taxes on electricity hinder the shift to electricity-based heating and industrial processes, making it more costly. Shifting the burden from electricity to fossil fuels could lead to lower energy prices for consumers and increased competitiveness for industries.

Energy mix, decarbonisation and diversification of generation sources

Romania has a significant level of macroeconomically relevant fossil fuel subsidies without a planned phase-out before 2030. These represent 0.47% of Romania's GDP, similar to the EU weighted average of 0.49%. Scaling down and phasing out these subsidies is in line with EU commitments and can give the government more flexibility over its spending choices. Fossil fuel subsidies that do not address energy poverty in a targeted way, that do not respond to genuine energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered for priority phase-out. These include decisions to cover the losses incurred by fossil fuel companies, and support for heating for households.

Romania has advanced in the green transition, also given its commitments in the recovery and resilience plan and cohesion policy programmes. Romania's overall energy mix is still heavily reliant on fossil fuels, despite the large potential from renewable energy sources. Romania's energy mix includes 36% oil and 25% natural gas, while renewables (including biofuels) accounted for 20%. Decarbonisation efforts are continuing, and Romania is making efforts to accelerate the deployment of renewable energy sources. Their installed capacity increased by 14% in 2024), but progress is slower than anticipated, with significant delays on deployment and connection to the grid, on the development of storage solutions, and on increased demand-side flexibility. Combined with security of supply concerns, these delays risk slowing down the phasing-out of coal and lignite generation plants. At the same time, the potential for deployment of renewable energy sources is still being slowed down by the permitting framework. However, simplifying the licensing and permitting procedures for renewables investments is planned in 2025 through a reform in the Romanian recovery and resilience plan.

Electricity generation from renewable sources represented slightly below half of all generation in 2024, slightly above the EU's overall share. There has been progress in increased installed capacity for solar, wind, hydropower, and decreased for non-renewable energy. Based on its updated national energy and climate plan, Romania aims to ensure that 38.3% of renewable energy forms part of the gross final consumption of energy by 2030 (up from the current 20%).

Further decarbonising the energy sector would provide households and industry with low-cost energy and boost Romania's competitiveness. The Romanian recovery and resilience plan contains measures to decommission coal and lignite-fired power plants by the end of 2025, along with other measures to accelerate the deployment of renewable energy. These measures are to be implemented through reforms to decarbonise the energy system and facilitate the use of state land for investments in renewable energy. They are combined with investments supporting the installation of new renewable power production capacity, and investments in electricity storage. The measures are complemented by significant investments included in the Just Transition Fund programme under EU cohesion policy.

Advancing on decarbonisation can complement security of supply. Romania plays a key role in ensuring the security of energy supply in the region. It recently supported neighbouring countries Moldova and Ukraine, exporting increased quantities of energy to them. It is therefore pivotal that Romania maximises the use of existing infrastructure and further develop it. It is also important that Romania strengthens its energy systems and increases its flexibility, to ensure better security of supply and make better use of its significant renewable energy potential. The recovery and resilience plan contains large-scale investments in electricity storage facilities, which will enable greater flexibility in the Romanian electricity system and further integration of renewable energy. However, the challenges to energy system integration are significant, with long waiting times for connecting renewable energy sources to the

grid. Romania's regulatory framework still presents barriers to the development of flexible resources, hindering the participation of demand-side response and other distributed energy resources.

Progress has been made on the legal framework for granting permits for projects on renewables. Measures were introduced to make it easier for individuals and communities to participate in such projects. This involved a simplified grid connection procedure for renewable energy sources for self-consumers, as well as digital and transparent grid connection processes. However, the permitting process for renewable energy projects is not centralised, resulting in parallel procedures and duplication of documentation requirements.

Transition towards a clean industry and water resilience

Romania has scope to support the decarbonisation of its manufacturing production. While production has become more energy efficient, it is not yet based on cleaner energy sources. The decarbonisation of industrial sectors – in particular manufacturing and energy-intensive firms – is hampered by high energy costs. This is because electricity prices are still largely influenced by fossil fuel generation capacities, while replacement fuels (e.g. renewable hydrogen) are not yet fully developed. The current plans for decarbonising the industry are based on increasing the use of renewables, gas and nuclear capacities. The recovery and resilience plan contains reforms that will introduce power purchase agreements and 'contract for difference' mechanisms on the energy market. This will enable further development of renewable energy sources and their uptake by industrial users, ultimately lowering their electricity costs. Green public procurement, which could also support industry decarbonisation on the demand side, is not yet commonly used (Annex 8).

Romania could speed up its transition to a circular economy. Romania's industrial transition towards circularity is only at an early stage and current investment is inadequate for eco-design and packaging waste management initiatives and for digital tools. Under its recovery and resilience plan, Romania adopted its first circular economy strategy, but efforts are needed to implement the actions included in the plan. Romania's circular use of materials has been slowly declining since 2012 and stood at 1.3% in 2023, considerably below the EU average of 11.8%. With EUR 0.34 per kg of generated material consumed in 2023, Romania's resource productivity remains well below the EU average of EUR 2.23 per kg. Further measures to boost the transition to a circular economy and to increase recycling rates, including for critical raw materials, would improve resource efficiency while reducing waste. This has clear potential to increase competitiveness. More efforts are also needed to move away from landfilling of waste, which remains significant (Annex 7). Romania is at risk of missing both the municipal waste and the packaging waste targets for 2025, as well as the 2035 target for landfilled municipal waste.

The industrial base is transitioning towards net zero, but significant challenges remain. Romania maintains a strong industrial profile, with industry and construction contributing around 30% to its gross value added, positioning it among the most industry-rich EU counties. Notwithstanding the industrial policy objectives in Romania's 2023-2027 industrial strategy, the country's manufacturing capacity in net-zero technologies remains modest and fragmented, due to lack of a supporting innovation ecosystem and skills. There has, however, been some growth in the battery and storage sectors. The regulatory environment poses substantial challenges, with lengthy licensing processes and insufficient regulatory stability hampering clean-tech investments. While Romania has allocated EUR 199 million in grants through its recovery and resilience plan for battery and photovoltaic cell projects, the country continues to face structural impediments including limited scale, underdeveloped local supply chains and persistent skills shortages that hinder the expansion of its net-zero manufacturing capabilities (Annex 8). Romania has already

allocated around EUR 1.4 billion more under the cohesion policy to Strategic Technologies for Europe Platform-type investments (micro-electronics, green hydrogen, critical technologies in biotech, robotics in healthcare).

Romania faces increasing climate-related vulnerabilities, particularly due to extreme weather events such as floods, droughts and heatwaves. Despite having abundant freshwater resources, Romania faces serious challenges related to water resilience, water pollution, water stress and inefficient water management. These are exacerbated by climate change, ageing infrastructure, delayed implementation of flood risk prevention measures and deforestation. The economic losses due to weather and climate-related extreme events are estimated at EUR 19.6 billion for the period 1980-2023, of which EUR 7.3 billion can be attributed to extreme flood events. At the same time, droughts are placing immense pressure on availability of water resources, threatening different economic sectors and affecting energy production and security. Sustainable water management is further hampered by persistent underinvestment in critical infrastructure, increased pollution, low wastewater treatment compliance and limited water reuse policies. Moreover, disparities in access to drinking water and sanitation, particularly between urban and rural areas, reinforce regional inequalities and hinder growth that benefits all of society.

Strengthening water resilience is essential to supporting sustainable growth in Romania. This will require changes in the legal framework, improving governance frameworks, scaling up existing solutions, and investing in key areas such as drinking water supply, wastewater collection and treatment, water reuse and the modernisation of water infrastructure. To address substantial investment needs and low compliance with EU water legislation, Romania will need to make full use of available EU funding, speed up implementation of existing projects and ensure a more resilient and sustainable water sector aligned with EU long-term environmental and economic goals.

Substantial investment is required to support the green transition. Romania faces significant investment needs to successfully navigate its green transition and meet EU environmental targets. The country requires additional investment for the transition to a circular economy and for pollution prevention and control, primarily for clean air and noise mitigation measures. Given Romania's high fiscal deficit, these investment needs require efficient use of EU funds alongside domestic resources to support the country's sustainable development objectives.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Labour market challenges persist

Despite an increasing employment rate, Romania's labour market faces significant disparities across population groups and regions. The employment rate has been improving, at 69.5% in 2024 vs 75.5% in the EU, but remains among the lowest in the EU and below the 2030 employment target of 74.7%. Higher employment is constrained by the limited participation on the labour market by women, young people, the low-skilled, people with disabilities and people from the Roma community (see Annex 10). Romania has among the highest rates of young people not in education, employment or training (NEETs). People with a lower level of education are considerably less present on the labour market than those with tertiary education. The employment of people with disabilities has been improving but remains a challenge. The rate of Roma people in paid employment continues to be very low. Participation in the jobs market also varies markedly from region to region: the Bucharest-Ilfov region has the highest employment rate, 18.1 pps higher than the South-East, the region with the lowest rate (see Annex 17).

Getting women into the labour market remains key to achieving higher overall employment. Despite a slight improvement in 2024, the Romanian gender employment gap is one of the highest in the EU. Women's participation in the labour market faces challenges over inadequate activation measures, (particularly for the low-skilled) and insufficient access to early childhood education and care, especially in rural areas. In 2024, only 11.4% of children aged 0-3 were enrolled in formal childcare, well below the EU average of 39.2%. Women continue to bear the bulk of caring responsibilities in addition to motherhood. Improving coverage and quality of early childhood education and care, particularly in rural areas, could help in this regard.

Higher demand for skilled labour, combined with a shrinking population, risks increasing labour shortages and mismatches. While job vacancy rates remain low, Romania is among the Member States with the highest number of occupations with staff shortages. At the same time, for other occupational areas there are too many workers, highlighting labour market imbalances (European Labour Authority, 2024). Employers identify the lack of appropriate skills within the workforce as one of their main business constraints and SMEs are particularly affected. As Romania continues its transition to a services-based, digital and green economy, high-skilled labour demand is predicted to increase up to 30% in the next 10 years (CEDEFOP, 2024). Moreover, given the projected decline in Romania's working-age population, driven by an ageing society and outward migration, these shortages may get worse without reinforced active labour market, upskilling and talent retention policies.

Underfunded, poorly targeted and ineffective labour market policies coupled with low capacity of the public employment services are limiting potential employment opportunities. Romania has one of the lowest levels of expenditure in the EU dedicated for activation measures (0.09% of GDP in 2023, see Annex 10). Moreover, spending is predominantly focused on employment subsidies and only a fraction goes to reskilling and upskilling, although this has proven more efficient. Participation in training programmes by population groups least present on the labour market is low, indicating a need for more tailored measures. While employment support

can contribute to employment outcomes of low-skilled jobseekers, it has a minimal effect on qualified workers and falls short of addressing the country's skills shortages. Effectiveness of activation measures is further hindered by the low capacity of the public employment services to provide individualised support pathways and effectively work with employers. In the 2021-2027 period, the European Social Fund Plus is investing EUR 153 million in boosting the capacity of Romania's public employment services through training and additional staff, and by improving the relevance, quality and visibility of its services.

Performing education and training systems are key for improving competitiveness

Although reforms are underway, the education and training system is still not delivering the skills that the country needs to improve its competitiveness. The 2022 PISA test shows that Romania has one of the highest rates of 15-year-olds in the EU that lack a basic level of proficiency in mathematics (48.6% vs EU: 29.5%), reading (41.7% vs EU: 26.2%) and science (44% vs EU: 24.2%). These figures reflect structural challenges, linked to issues such as teaching quality and the teaching profession, school curriculum and its implementation, and the considerable impact of socio-economic factors on educational outcomes (see Annex 12). The lack of basic skills is especially problematic in Romania's shrinking demographic context, hampering the potential of the population and the effectiveness of later upskilling and reskilling. Moreover, 74% of Romanian 14-year-olds lack the computer and information literacy skills needed to navigate today's digital world (EU in 2023: average: 43%). The education laws adopted in 2023 and the recovery and resilience plan seek to address some of the challenges, but impact is yet to be seen, with significant delays at times in implementing its investments and reforms. Effective implementation of the education laws could improve teachers' education, and lead to improving competence-based teaching and higher skills levels.

Inequalities in education are large, particularly between rural and urban areas. Low and declining participation in early childhood education and care limits early learning and worsens inequalities, with participation rates especially low in rural areas. There is a significant gap in performance between schools in urban areas and those in rural areas (see Annex 12), but also between the capital region and less developed regions, while half of Roma children attend segregated schools, widening educational inequalities. Implementing the national methodology to identify and combat school segregation may help address the challenge. Fragmentation of the school network, primarily in rural areas, affects access to and quality of education, including the efficiency of spending. Small schools in rural areas often run multi-grade classes due to the low number of students enrolled, while teachers in these schools often cover subjects for which they are not qualified. Early school leaving is also particularly high in rural areas (26.5% vs 16.8% at national level in 2024, the highest rate in the EU) and for the Roma. Developing a national strategy to reorganise school and early childhood education and care networks in line with demographic trends and to improve participation in the early years could help increase access to quality education and improve spending efficiency.

Romania is modernising its vocational education and training system, but challenges persist in meeting the needs of the labour market and fostering sustainable competitiveness. Dual vocational education and training (i.e. vocational courses combined with work-based experience) has recently been introduced in higher education and the government plans to transition all secondary vocational programmes to the dual system by 2029-2030. With support from the Recovery and Resilience Facility, vocational schools are being equipped with practice workshops, including digital equipment and IT labs, which should help improve the attractiveness and quality of training. However, as of 2024, only a fraction

of recent graduates had benefited from work-based learning (7.2% vs 65.3% in the EU), and their employment rate is lower than the EU average (66.7% vs 80% in the EU). To make vocational training more relevant to the labour market, it is important to: (i) get local firms more involved in the training provided, including by offering financial incentives or support to SMEs and (ii) better translate skills intelligence – now available through the ReCONECT platform – into evidence-based policymaking and adapted curricula.

Labour market trends call for increasing the number of STEM professionals, improving the quality of higher education and making it more relevant to the needs of employers. While Romania has one of the highest shares of university students in STEM (science, technology, engineering and mathematics) (30.1%, vs EU 27.1% in 2023), the low participation rate in higher education (23.2% among people aged 25-34, EU: 44.2% in 2024) means that the absolute number of professionals trained in STEM is insufficient (including in information and communication technology). Increasing the number of STEM professionals (crucial for competitiveness) requires improving the level of basic skills (including the percentages of top-performing students), while improving curricula and training methods to focus more on practical knowledge, skills and application. This in turn will improve tertiary attainment, which continues to be held back by low participation in university programmes. Reasons for low participation include access challenges for students from disadvantaged backgrounds, high early school leaving and a still considerable number of final year students not sitting the baccalaureate exam. Furthermore, drop-out from university programmes is widespread. Two large-scale programmes funded by the European Social Fund Plus are under way to improve access for disadvantaged students and increase retention rates.

Improving lifelong learning is vital not only to create better job opportunities and boost competitiveness, but also to prevent inequalities from getting worse. Participation in lifelong learning has improved considerably (up from 5.8% in 2016 to 19.1% in 2022), surpassing the 2030 national target of 17.4%, However, despite recent improvements it remains insufficient to address fast-changing skills needs, and over 72% of adults lack basic digital skills, which holds back the economy's digital transformation. Moreover, people with low levels of education or living in rural areas (already disproportionately affected by poverty and fewer employment opportunities) show much lower engagement in upskilling activities, reinforcing their disadvantage. Addressing barriers with flexible training options and financial support can help bridge the skills gap and promote more inclusive access to lifelong learning opportunities. As Romania progresses on implementing new national strategies in adult learning (largely supported by the European Social Fund Plus), it could place more focus on strengthening cross-governmental coordination and boosting the private sector's role in upskilling. This could involve stricter and better enforced training requirements, as well as targeted financial support for companies

Strong social protection and access to essential services are crucial for social fairness

Tackling widespread poverty, social exclusion and inequality remains a critical challenge. Despite recent progress, Romania continues to have one of the highest rates for adults and children at risk of poverty or social exclusion in the EU (27.9%, vs an EU average of 21.0%, see Annex 11). Significant disparities exist between the capital and the regions, with a high prevalence of the phenomenon in rural areas (see Annex 17). There are increased risks for vulnerable groups, including people with disabilities, Roma, the low-educated, part-time workers, and partially the self-employed. In-work poverty is nearly double the EU average. With high depth of poverty and inequality levels, as well as low adequacy and coverage of the social protection system, Romania needs focused efforts to progress in reducing the

number of people at risk of poverty or social exclusion by 2030. Improving the efficiency of the social protection system and ensuring stable funding, effective monitoring and impact evaluation would limit poverty and social exclusion, especially in smaller rural communities. EU-funded programmes provide considerable support, including through the establishment of 2 000 integrated community services in rural areas and the strengthening of health, educational and social services.

Ensuring effective access to quality health remains a challenge, particularly in rural areas and for vulnerable groups. Romania has high levels of unmet medical needs, primarily due to high out-of-pocket costs([25]) for households, with significant disparities between income groups and urban-rural populations. Staffing shortages, mainly due to the emigration of health professionals, further restrict care availability, which is focused on hospitals. The limited involvement of primary care in disease prevention, early diagnosis, and treatment leads to a high number of avoidable hospitalisations. As a result, premature mortality is among the highest in the EU. Addressing these challenges requires sufficient financing and optimised allocation, shifting the focus towards primary care and community-based services. Digital tools would further improve the efficiency of the system.

Romania's long-term care services are underfunded, with public expenditure far below the EU average. Only a small percentage of people over 65 receive home care. Rural and remote areas face scarce, low-quality services. A shortage of qualified staff exacerbates the problem, with most high-intensity care provided by informal carers. Affordable, quality community-based care is crucial to support deinstitutionalisation and independent living for people with disabilities. Romania's 2024 reform of social assistance services aims to improve financing and service quality. Its success is contingent on appropriate governance and implementation structures. These involve strengthening the capacity of local authorities, adopting secondary legislation and conducting a comprehensive assessment of staffing needs to address the increasing demand for qualified care workers and the development of home and community-based care services.

Housing costs and poor housing conditions continue to be problematic. A significant percentage of Romanians, especially those at risk of poverty, spend a large portion of their income on housing (see Annex 11). Housing costs are a heavy burden for almost two out five households. Romania has one of the highest severe housing deprivation and overcrowding rates in the EU, especially in rural areas. Confronting these challenges requires strategic investments in housing infrastructure and policies to boost affordability and availability, especially for the most vulnerable. The national housing strategy aims to reduce housing deprivation, overcrowding and the proportion of people, especially marginalised communities, living in informal settlements. Accelerating its implementation is essential, along with the 2022-2027 strategy for the social inclusion of the homeless. Cohesion policy funds support the construction and renovation of energy-efficient and social housing and help local authorities regulate informal settlements. Stronger territorial planning and housing regulations, particularly adopting inclusive zoning (requiring a minimum percentage of affordable and/or social housing units in new developments), can help alleviate housing challenges. Additional investments in affordable and decent housing could be considered, on top of those in the recovery and resilience plan (investments in housing for young people, teachers/health workers) and funded from cohesion policy funds.

Addressing these challenges will help Romania boost upward social convergence. The second-stage analysis in line with the Social Convergence Framework points to challenges for Romania that may affect social convergence in relation to its

([25]) On-the-spot payments to healthcare providers.

social situation and labour market and to education and skills([26]).

([26]) European Commission, SWD(2025)95. The analysis relies on all the available quantitative and qualitative evidence and the policy response undertaken and planned.

KEY FINDINGS

To boost competitiveness, sustainability and social fairness, Romania would benefit from:

- **urgently accelerating the implementation of the recovery and resilience plan**, including the REPowerEU chapter; swiftly implementing **cohesion policy**, taking advantage of the opportunities under the mid-term review and making optimal use of EU instruments, including **InvestEU** and **STEP**, to improve competitiveness

- **pursuing a resolute fiscal consolidation path** by implementing the national medium-term fiscal-structural plan and further supporting it with additional corrective measures to rein in the high fiscal and current account deficits;

- **strengthening the research and development environment,** by increasing public and private investment, focusing on talent retention and supporting business-driven innovation;

- **expanding firms' access to external financing sources,** by improving access to capital markets, encouraging greater participation by institutional investors, and increasing financial literacy;

- **accelerating the digital transformation,** by speeding up digital infrastructure, supporting firms' digitalisation, improving digital public services for citizens and businesses, and working towards meeting the digital decade targets;

- **streamlining regulatory processes for businesses**, by ensuring legislative predictability and transparency, deregulating certain professions and improving the capacity of contracting authorities dealing with public procurement;

- **making further progress on decarbonising the energy and manufacturing sectors,** with a focus on removing regulatory barriers to renewable energy deployment and integration;

- **shifting the currently high fiscal burden away from electricity and onto fossil fuels** to incentivise electrification and encourage the deployment of cleaner electricity-based solutions for heating and industrial processes;

- **ensuring energy affordability for industry and households** without distorting energy prices formation, by reducing energy demand through energy renovation of (residential and non-residential) buildings, by supporting clean diversified supply (through renewables and grids) and by providing targeted support to increase competitiveness and shield vulnerable consumers;

- **taking concrete steps to phase out fossil fuel subsidies**;

- **supporting the transition towards a circular economy and net-zero manufacturing by facilitating investments in these sectors** to increase resource efficiency and competitiveness;

- **to support upward social convergence, increasing the**

effectiveness and targeting of active labour market policies to tackle persistent gaps in the labour-market participation of women, young people, people with disabilities, the low-skilled and Roma.

- **ensuring equal access to quality education and improving the level of basic skills, including digital** skills, across different segments of the population and geographical areas;

- **making vocational education and training more attractive and more relevant to the needs of the labour market and promoting engagement in adult learning** to tackle skills shortages**,** by strengthening private-sector involvement and cross-governmental coordination;

- **strengthening efforts to reduce high levels of poverty and material deprivation** by improving the efficiency of the social protection system and access to social services and affordable housing, especially for vulnerable population groups such as the Roma;

- **ensuring effective access to quality health and long-term care services**, particularly in rural areas and for vulnerable groups, by further strengthening primary and preventive healthcare.

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ANNEX 1: FISCAL SURVEILLANCE AND DEBT SUSTAINABILITY

This Annex contains a series of tables relevant for the assessment of the fiscal situation in Romania, including how Romania is responding to Council recommendations issued under the reformed Economic Governance Framework.

The reformed framework, which entered into force on 30 April 2024([27]), aims to strengthen debt sustainability and promote sustainable and inclusive growth through growth-enhancing reforms and priority investments. The medium-term fiscal-structural plans (hereinafter, MTPs or plans) constitute the cornerstone of the framework, setting the budgetary commitment of Member States over the medium term. The latter is defined in terms of net expenditure growth, which is the single operational indicator for fiscal surveillance.

Romania submitted its plan on 25 October 2024. The plan covers the period until 2031, and presents an extended fiscal adjustment over seven years, which is underpinned by a set of reforms and investments to which Romania committed with the aim of improving potential growth and fiscal sustainability. On 21 January 2025, the Council adopted the Recommendation endorsing Romania's plan([28]). On 21 January 2025, the Council also adopted the Recommendation to correct the excessive deficit in Romania ([29]). The corrective net expenditure path recommended by the Council under the excessive deficit procedure is consistent with the path set out in the plan.

Romania did not yet submit an Annual Progress Report. The assessment of the implementation of the Council Recommendations to correct the excessive deficit and endorsing Romania's plan is carried out on the basis of outturn data from Eurostat, the Commission Spring 2025 Forecast and other information available to the Commission.

The Annex is organised as follows. First, developments in **government deficit and debt** are presented based on the figures reported in table A1.1. Then, the assessment of the **implementation of the Council Recommendation to correct the excessive deficit and of the Council Recommendation endorsing the plan** follows, based on the relevant figures presented in Tables A1.2 to A1.7, including data on defence expenditure. Further on, the progress made in the **implementation of the set of reforms and investments** underpinning the extension of the fiscal adjustment period([30]) is assessed taking into account the information presented in Table A1.8.

The Annex also provides information on the **cost of ageing** and the **national fiscal framework**. Fiscal sustainability risks are discussed in the Debt Sustainability Monitor 2024.([31])

([27]) Regulation (EU) 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States are the core elements of the reformed EU economic governance framework.

([28]) OJ C, C/2025/647,. 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/647/oj

([29]) Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Romania, C/2025/5038.

([30]) According to the Regulation., the required fiscal adjustment (in particular to put or keep the government debt ratio on a plausible downward path by the end of the adjustment period or keep it at prudent levels below 60% of GDP; and to bring or maintain the deficit below 3% of GDP over the medium term) should be completed in four years but may be extended over a period to up seven years if the Member State commits to a relevant set of reforms and investments. The adjustment period of Romaniahas been extended to seven years based on the set of reforms and investments laid out in detail in Annex II of the Council recommendation endorsing the plan of Romania

([31]) European Commission (2025) 'Debt Sustainability Monitor 2024,' *European Economy-Institutional Papers* 306.

Developments in government deficit and debt

Table A1.1: **General government balance and debt**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1	General government balance	% GDP	-9.3	n.a.	-8.6	n.a.	-8.4
2	General government gross debt	% GDP	54.8	n.a.	59.4	n.a.	63.3

Source: Commission Spring 2025 Forecast (COM)

Romania's government deficit amounted to 9.3% of GDP in 2024. Based on the Commission's Spring 2025 Forecast, it is projected to decrease to 8.6% of GDP in 2025. The government debt-to-GDP ratio amounted to 54.8% of GDP at the end of 2024 and, according to the Commission, it is projected to increase to 59.4% of GDP end-2025. Although Romania's public debt remains relatively moderate compared to the EU average, it has seen in recent years a very steep increase, due to persistent large deficits driven by discretionary spending, including high wage and pension hikes in 2023 and 2024, elevated domestically financed public investment, and higher financing costs. The debt ratio is projected to increase further in 2025.

Developments in net expenditure

The net expenditure([32]) growth of Romania in 2025 is forecast by the Commission([33]) to be above the recommended maximum, corresponding to a deviation of 0.1% of GDP. Considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected to be above the recommended maximum cumulative growth rate, corresponding to a deviation of 1.7% of GDP. This high net expenditure growth is due to high growth in government current expenditure in 2024 (+18.7% relative to 2023), in particular on the public sector wage bill (+21.5% relative to 2023) and social transfers including pensions (+19.5% relative to 2023). The cumulative deviation in 2024 and 2025 is above the 0.6% of GDP threshold.

Table A1.2: **Net expenditure growth**

	Annual			Cumulative*		
	REC	APR	COM	REC	APR	COM
	Growth rates					
2024	n.a.	n.a.	19.9%	n.a.	n.a.	n.a.
2025	5.1%	n.a.	5.4%	20.2%	n.a.	26.4%
2026	4.9%	n.a.	8.1%	26.0%	n.a.	36.6%

Source: Council Recommendation to correct the excessive deficit in Romania, Commission's calculation based on Commission Spring 2025 Forecast (COM)

([32]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([33]) European Commission Spring 2025 Forecast, *European Economy-Institutional paper 318*, May 2025.

General government defence expenditure amounted to 1.9% of GDP in 2021, 1.8% of GDP in 2022 and 1.7% of GDP in 2023. According to the Commission 2025 Spring Forecast, expenditure on defence is projected to amount to 1.7% of GDP in 2024 and remain at the same level in 2025.

Table A1.3: **Net expenditure (outturn and forecasts), annual and cumulated deviations vis-à-vis the recommendation**

	Variables		2023	2024	2025	2026
			Outturn	Outturn	COM	COM
1	Total expenditure	bn NAC	652.0	764.8	819.9	881.4
2	Interest expenditure	bn NAC	30.6	41.1	48.5	57.2
3	Cyclical unemployment expenditure	bn NAC	0.0	0.0	0.0	0.0
4	Expenditure funded by transfers from the EU	bn NAC	54.4	28.9	31.0	33.2
5	National co-financing of EU programmes	bn NAC	8.1	8.8	6.2	6.2
6	One-off expenditure (levels, excl. EU funded)	bn NAC	0.0	0.0	0.0	0.0
7=1-2-3-4-5-6	**Net nationally financed primary expenditure (before discretionary revenue measures, DRM)**	**bn NAC**	**558.8**	**686.0**	**734.3**	**784.9**
8	Change in net nationally financed primary expenditure (before DRM)	bn NAC		127.2	48.3	50.6
9	DRM (excl. one-off revenue, incremental impact)	bn NAC		16.1	11.3	-9.0
10=8-9	**Change in net nationally financed primary expenditure (after DRM)**	**bn NAC**		**111.1**	**37.0**	**59.6**
11	Outturn / forecast net expenditure growth	% change		19.88%	5.4%	8.1%
12	Recommended net expenditure growth*	% change		14.3%	5.1%	4.9%
13=(11-12) x 7	Annual deviation	bn NAC		31.2	2.0	23.6
14 (cumulated from 13)	Cumulated deviation	bn NAC		31.2	33.2	56.8
15=13/17	**Annual balance**	**% GDP**		**1.8**	**0.1**	**1.1**
16=14/17	**Cumulated balance**	**% GDP**		**1.8**	**1.7**	**2.8**
17	p.m. Nominal GDP	bn NAC	1604.6	1760.1	1900.0	2054.7

* The growth rate for 2024 is not a recommendation but serves to anchor the base, as the latest year with outturn data when setting the net expenditure path is year 2023.
Source: Commission Spring 2025 Forecast and Commission's calculation

Table A1.4: **Defence expenditure**

			2021	2022	2023	2024	2025	2026
1	Total defence expenditure	% GDP	1.9	1.8	1.7	1.7	1.7	1.7
2	*of which: gross fixed capital formation*	% GDP	0.4	0.4	0.3	0.3	0.3	0.3

Source: Eurostat (COFOG), Commission Spring 2025 Forecast and Commission's calculation

Table A1.5: **Macroeconomic developments and forecasts**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1=7+8+9	**Real GDP**	**% change**	**0.8**	**n.a.**	**1.4**	**n.a.**	**2.2**
2	Private consumption	% change	6.0	n.a.	2.0	n.a.	2.3
3	Government consumption expenditure	% change	0.7	n.a.	0.6	n.a.	1.0
4	Gross fixed capital formation	% change	-3.3	n.a.	2.3	n.a.	3.6
5	Exports of goods and services	% change	-3.1	n.a.	1.8	n.a.	2.8
6	Imports of goods and services	% change	3.8	n.a.	2.9	n.a.	3.2
	Contributions to real GDP growth						
7	- Final domestic demand	pps	2.9	n.a.	2.0	n.a.	2.6
8	- Change in inventories	pps	0.8	n.a.	0.0	n.a.	0.0
9	- Net exports	pps	-2.9	n.a.	-0.6	n.a.	-0.3
10	Output gap	% pot GDP	-1.7	n.a.	-2.0	n.a.	-1.5
11	Employment	% change	1.8	n.a.	0.6	n.a.	0.7
12	Unemployment rate	%	5.4	n.a.	5.3	n.a.	5.2
13	Labour productivity	% change	-1.0	n.a.	0.8	n.a.	1.5
14	HICP	% change	5.8	n.a.	5.1	n.a.	3.9
15	GDP deflator	% change	8.8	n.a.	6.5	n.a.	5.8
16	Compensation of employees per head	% change	16.6	n.a.	8.9	n.a.	6.9
17	Net lending/borrowing vis-à-vis the rest of the world	% GDP	-7.2	n.a.	-6.5	n.a.	-5.5

Source: Commission Spring 2025 Forecast (COM)

Table A1.6: **General government budgetary position**

	Variables (% GDP)	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1=2+3+4+5	**Revenue**	**34.1**	**n.a.**	**34.6**	**n.a.**	**34.5**
	of which:					
2	- Taxes on production and imports	11.0	n.a.	11.1	n.a.	11.0
3	- Current taxes on income, wealth, etc.	6.0	n.a.	6.1	n.a.	6.2
4	- Social contributions	11.8	n.a.	12.0	n.a.	12.0
5	- Other (residual)	5.4	n.a.	5.4	n.a.	5.2
8=9+16	**Expenditure**	**43.5**	**n.a.**	**43.2**	**n.a.**	**42.9**
	of which:					
9	- Primary expenditure	41.1	n.a.	40.6	n.a.	40.1
	of which:					
10	- Compensation of employees	11.2	n.a.	10.8	n.a.	10.5
11	- Intermediate consumption	6.2	n.a.	6.1	n.a.	6.0
12	- Social payments	13.6	n.a.	13.5	n.a.	13.1
13	- Subsidies	0.8	n.a.	0.8	n.a.	0.8
14	- Gross fixed capital formation	5.7	n.a.	6.1	n.a.	6.5
15	- Other	3.5	n.a.	3.4	n.a.	3.3
16	- Interest expenditure	2.3	n.a.	2.6	n.a.	2.8
18=1-8	**General government balance**	**-9.3**	**n.a.**	**-8.6**	**n.a.**	**-8.4**
19=1-9	**Primary balance**	**-7.0**	**n.a.**	**-6.0**	**n.a.**	**-5.6**
20	Cyclically adjusted balance	-8.8	n.a.	-7.9	n.a.	-7.9
21	One-offs	0.0	n.a.	0.0	n.a.	0.0
22=20-21	**Structural balance**	**-8.8**	**n.a.**	**-7.9**	**n.a.**	**-7.9**
23=22+16	Structural primary balance	-6.4	n.a.	-5.4	n.a.	-5.1

Source: Commission Spring 2025 Forecast (COM)

Table A1.7: **Debt developments**

	Variables	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1	**Gross debt ratio* (% of GDP)**	**54.8**	**n.a.**	**59.4**	**n.a.**	**63.3**
2=3+4+8	Change in the ratio (pps. of GDP)	5.9	n.a.	4.6	n.a.	3.9
	Contributions**					
3	**Primary balance**	**7.0**	**n.a.**	**6.0**	**n.a.**	**5.6**
4=5+6+7	**'Snow-ball' effect**	**-2.0**	**n.a.**	**-1.5**	**n.a.**	**-1.7**
	of which:					
5	- Interest expenditure	2.3	n.a.	2.6	n.a.	2.8
6	- Real growth effect	-0.4	n.a.	-0.7	n.a.	-1.2
7	- Inflation effect	-4.0	n.a.	-3.3	n.a.	-3.2
8	**'Stock-flow' adjustment**	**0.9**	**n.a.**	**0.1**	**n.a.**	**0.0**

* End of period.

** The 'snow-ball' effect captures the impact of interest expenditure on accumulated general government debt, as well as the impact of real GDP growth and inflation on the general government debt-to-GDP ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting (including leads and lags in Recovery and Resilience Facility grant disbursements), accumulation of financial assets, and valuation and other residual effects.

Source: Commission Spring 2025 Forecast and Commission's calculation (COM)

Implementation of the set of reforms and investments underpinning the extension of the adjustment period

Table A1.8 includes information on progress towards implementation of the set of reforms and investments underpinning the extension of the adjustment period that Romania committed to deliver in its medium-term fiscal-structural plan as endorsed by the Council.

Among the reforms and investments underpinning an extension that were due by the 30 April 2025, some were not implemented such as the key reform of the review of the tax system. (for details, see Table A1.8).

The set of reforms and investments underpinning the extension of the adjustment period is composed primarily of commitments from the RRP, supplemented by a few new measures. The special pension reform, anchored in RRP milestone 215, aims to realign special pensions with the contributory principle by tightening eligibility, recalculating benefits based on contributions and seniority and taxing the non-contributory portion of large pensions. The tax framework review builds on RRP commitments to overhaul corporate income tax, personal income tax, social contributions, value added tax, excise duties and property taxation with the objective of delivering at least 1.3% of GDP in additional revenue in 2025 and a permanent impact of 1.7% of GDP once fully in force by the end Q1 2025. The microenterprise tax reform, aligned with NRRP milestone 206, gradually reduces the turnover threshold for microenterprises from EUR 500 000 at end-2024 to EUR 250 000 and then to EUR 100 000 from 1 January 2026. The tax administration reform is designed to raise 0.5% of GDP by 2026 through rollout of an early warning tool to detect VAT fraud in intra-community, transit and domestic transactions and strengthened oversight of tax planning mechanisms for large taxpayers.

While the RRP milestone on the special pension reform was initially deemed as satisfactorily fulfilled after an October 2023 reform (which entered into force on 1 January 2024), the Romanian Constitutional Court struck down a key provision on progressive taxation of high special pensions on 19 December 2024. As a result, Milestone 215 remains unfulfilled. The authorities did not submit the preparatory report on the tax reform and this reform is delayed relative to the timeline included in the MTFSP. Likewise, Romania has not reported on two measures linked to the tax administration reform that were due in Q1 2025, namely an early-warning tool to detect VAT fraud in intra-community, transit and domestic transactions, and strengthen oversight of the tax planning mechanism for large taxpayers. The amendment to the

microenterprise tax regime did enter into force at end-December 2024, lowering the annual turnover threshold from EUR 500 000 to EUR 250 000 and paving the way for a further cut to EUR 100 000 from 1 January 2026.

Table A1.8: **Implementation of reforms and investment underpinning the extension**

Measure	Key steps	Recommended implementation date	Status
Pension reform (Existing RRP measure: C8.R,0.M214)	The normative act reforming the general pension system entered into force on 1 st September 2024.	Q3 2024	Completed*
Special pension reform (Existing RRP measure: C8.R6,0.M215)	Entry into force of a normative act revising specialpensions to align them with the contributory principle	Q3 2024	Not completed[1]
Minimum wage reform (Adding to RRP milestone C13.R5,0.M392)	Entry into force of the act regulating the new minimum wage setting system.	Q1 2025	Completed**
Public sector wage reform (Adding to RRP milestone C14.R4,0.M420)	Step 1: Adoption and entry into force of the new legal framework for the remuneration of public officials, ensuring the public wage bill remains, as a share of GDP, in line or below that included in the projections of the medium-term fiscal plan.	When the government deficit is below 5 % of GDP:	
	Step 2: Rigorous adherence to the projections of the MTFSP regarding the public wage bill as a share of GDP, for all the years covered by the plan.		
Microenterprise tax reform (Adding to RRP milestone and target C8.R4,0.M206)	Preparation and entry into force by the end of Q1-2025 of a law amending the taxation regime of microenterprises, to bring it in line with milestone 206 of the RRP.	Q1 2025	Completed*
Review of the tax framework (Adding to RRP milestones and targets C8.R4,0.M207, C8.R4,0.M208, C8.I7,0.M237)	Step 1: Preparation of a Report, building on the World Bank report on taxation (prepared under RRP milestone 205) establishing two scenarios for the tax reform, with fully specified measures. Measures should cover all areas of taxation and social contributions.	Q1 2025	Not completed
	Step 2: Government adoption of memorandum including specific tax measures based on the above-mentioned report. Measures should be in line with milestones 207, 208, and 237 of the RRP, and objective 1 of the tax reform.	Q1 2025	Not completed
	Step 3: Government organises a public debate on the amendments to the Fiscal Code.	Q1 2025	Not completed
	Step 4: Implementation and entry into force of the measures on 1 April 2025 at the latest.	Q1 2025	Not completed
	Step 5: As referenced in milestone 237 of the RRP, developing an IT system to implement the automated property assessment model for real estate taxation, supporting the new market value-based approach, and operationalising a specialized department with respon sibilities in the field of property taxation.	Q4 2025	
Tax administration reform [Adding to RRP milestones and targets C8.I2,0.M225 C8.I2,0.M226, C8.I2,0.M226a C8.I3,0.M227]	Step 1: Implementation of an early detection mechanism for VAT fraud associated with intra-community purchases, transits, and domestic transactions.*	Q1 2025	
	Step 2: Implementation of anti-fraud modules for analysing and identifying transactions suspected of carousel fraud (CARUSEL, INDFISC, TRANSPRISC, COMRISC, and RORISC).	Q2 2025	
	Step 3: Completion of 7 digitalisation projects, including e-Invoice, SAF-T, e-AMEF, e-DU, e-VAT, DAC-7, and CESOP.	Q2 2025	
	Step 4: Strengthen oversight of the tax planning mechanism for large taxpayers and the extension of this mechanism to medium-sized taxpayers after the implementation of APIC.	Q1 2025	

(Continued on the next page)

Table (continued)

	Step 5: Integrating and consolidating internal data bases; developing a new system based on the 360-degree profiling concept of taxpayers; ensuring interoperability with the information systems of state institutions.	Q4 2025	
	Step 6: Implementation of a modern collection mechanism that provides taxpayers with the option to choose recurring payment of declared tax liabilities.	Q4 2026	
	Step 7: Establishment and operationalisation of a specialised structure comprised of experts in IT, econometrics, and financial analysis to quantification risks and tax gaps.	Q4 2025	
Restructuring the Public Spending System/ Spending Reviews (Adding to RRP milestones C8.R3.M202, C8.I5,0.M234, C13. R5,0.M392, and C14.R1,0.T403	Step 1: Create a database and establish a control mechanism for increases exceeding 20 % compared to the average costs of public institutions.	Q4 2025	
	Step 2: Conduct yearly thematic expenditure reviews and apply conclusions and recommendations in the budget planning process, in line with the established annual schedule	Yearly	
	Step 3: Expand the categories of goods and services that will be procured centrally, focusing on priority sectors with high expenditure levels. Increase the share of procurement procedures awarded by ONAC, relative to all procurement procedures awarded by all con tracting authorities in Romania, by an average of 0,25 % per year over the next seven years.	Gradually from Q4 2024 to Q2 2030	
	Step 4: Operationalise the specialised structure within the Ministry of Finance to monitor public expenditure systems using performance indicators and participate in specialised training courses organised with the support of the World Bank	Q4 2025	
	Step 5: Establish a legal framework for implementing performance indicators at the level of central and local public authorities.	Q4 2025	
Business Financing Reform	Reform of the Institutional Framework for Allocating Funds to Support the Business Environment-Private Equity Investment Fund for SME Support.	Q2 2026	
Reform of the Expenditure System for State-Owned Enterprises	Step 1: Conducting a diagnostic analysis of the operational expenditure system, the revenue system, and the mechanisms for updating fees, as well as the subsidy system for economic operators.	Q3 2025	
	Step 2: Establishing the regulatory framework to enhance the operational expenditure system, improve the management of public assets, introduce expendi ture rules, and reduce dependence on the general government budget by Q4 2025.	Q4 2025	

The progress of each backward-looking key step (i.e., those scheduled for completion by 30 April 2025) is classified as either 'completed' or 'not completed'. The status of forward-looking key steps not yet completed remains blank, as these will be assessed by the Commission in future APRs.
* These measures are included in Romania's RRP and have been assessed as fulfilled as part of a payment request under the RRF.
** This measure corresponds to milestone 392 of Romania's RRP, whose assessment is still pending in the context of the fourth payment request under the RRF and the table does not prejudge its assessment.
(1) This measure corresponds to milestone 215 of Romania's RRP, which was initially deemed as satisfactorily fulfilled, but subsequently reversed.
Source: Council Recommendation endorsing the plan of Romania and Commission's assessment.

Cost of ageing

Total age-related spending in Romania is projected to rise from about 17% of GDP in 2024 to around 18% in 2040 and to decline to 16% in 2070 (see Table A1.9**).** Age-related expenditure would be the second lowest in the EU in 2070, at nearly 10 pps below the average spending level. The small overall decline by 2070 is due to changes in pension expenditure, with spending on healthcare and long-term care expected to rise.

Public pension spending is projected to be broadly stable after an initial increase and to eventually decline as of the 2060s. Because of an expected increase in future years, pension expenditure would be 1 pp of GDP higher in 2040 compared to 2024. In the longer term, spending would start declining, though, decreasing by 1.6 pps of GDP by 2070 as compared with the 2024 level.

Public healthcare expenditure is projected at 4.5% of GDP in 2024 (below the EU average of 6.6%) and is expected to increase by 0.5 pps by 2040 and by a further 0.2 pps by 2070 ([34]). Public expenditure on long-term care is projected at 0.4% of GDP in 2024 (well below the EU average of 1.7%) and is expected to increase by 0.2 pps of GDP by 2040 and by a further 0.2 pps of GDP by 2070. The projected increase is due to an ageing population but is relatively low due to underdeveloped long-term care services ([35]).

Table A1.9: **Projected change in age-related expenditure in 2024-2040 and 2024-2070**

	age-related expenditure 2024 (% GDP)	change in 2024-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2040 (%GDP)	
RO	16.6	*1.0*	*0.5*	*0.2*	*0.0*	***1.7***	18.3	**RO**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	age-related expenditure 2024 (% GDP)	change in 2024-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2070 (%GDP)	
RO	16.6	*-1.6*	*0.7*	*0.4*	*0.0*	***-0.5***	16.0	**RO**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.4*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

The Romanian Fiscal Council (RFC) is a medium-sized independent fiscal institution with a fairly broad mandate but reports difficulties in recruiting staff. Its members have long mandates of 9 years with no staggering, increasing the demands on a non-partisan nomination procedure. At the Secretariat, less than half of the 20 available positions have been filled, indicating severe recruitment problems, possibly linked to relatively low pay level. Its autonomy is further restricted by the requirement that staff must be Romanian citizens and that payments have to be approved by another institution. It reports high visibility in media, despite having given no press conferences or having participated in no parliamentary hearings in 2022. The policy dialogue with the government could also be further developed.

Despite ongoing efforts, including through the recovery and resilience plan, the management of public investment in Romania remains weak across the entire investment cycle. Long-term investment planning is carried out mainly by line ministries with limited coordination across sectors and

([34]) Key performance characteristics, recent reforms and investments of the Romanian healthcare system are discussed in Annex 14 'Health and health systems'.

([35]) The adequacy and quality of the Romanian long-term care system are covered in Annex 11 'Social policies'.

limited involvement by the Ministry of Finance. A long-term development strategy ('Romania 2030') was produced in 2018. Although it identifies key objectives at the national level, it is insufficiently aligned with sectoral strategies and EU-financed priorities which represent a significant portion of public investment. Yet, in 2022, a new management tool for developing, monitoring and reporting budget programs across line ministries was introduced, as well as improvements to the prioritisation of large investment projects ([36]). At the same time, mechanisms to support funding availability beyond the annual budget year, such as a mechanism for appropriations beyond the budget year and restrictions in diverting funds to other purposes, are missing. Ex-post reviews on the effectiveness and efficiency of investment projects are rare and not systematically integrated into future planning.

The Romanian Ministry of Finance has integrated an analysis of the potential macro-fiscal impacts of a set of future natural catastrophes in its 2022-2024 Fiscal Budgetary Strategy. This analysis presents findings from model-based simulations of the potential economic and fiscal impact of these future events, including possible effects on the budget deficit and public debt. This assessment constitutes a positive step towards incorporating climate risks into fiscal planning.

Table A1.10:**Fiscal Governance Database Indicators**

2023	Romania	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	19.01	14.52
Medium-Term Budgetary Framework Index (MTBFI)	0.80	0.73

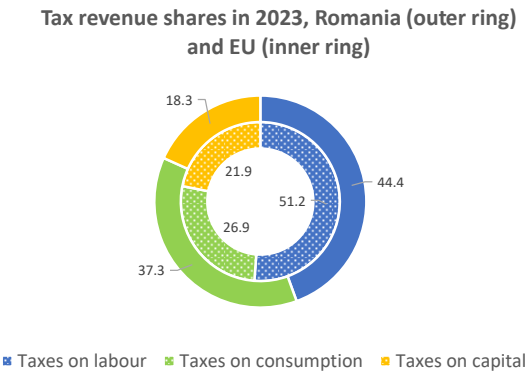
The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
Source: Fiscal Governance Database

([36]) In the Recovery and Resilience Plan, measures R.3 [200]: Government Decision no. 467 as published in the Official Journal no. 368 of April 14 2022 and, respectively, measure R.3 [199]: the Emergency Government Decision no. 187/2022 as published in the Official Journal no. 1271/29.12.2022.

This annex provides an indicator-based overview of Romania's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance.

Romania collects relatively low tax revenues as a percentage of GDP across the board. Romania's total tax revenue as a percentage of GDP (26.2%) was significantly below the EU average (39%), continuing a trend from previous years. This is particularly true for labour and capital taxes, while the figure for consumption taxes is closer to the EU average. Romania has a high fiscal deficit (6.6% of GDP in 2023), which highlights the need for a combination of expenditure cuts and revenue increases that support growth. Recurrent property tax revenue as a percentage of GDP (0.4%) is more than 50% below the EU average (0.9%). Therefore, there is scope to increase revenue from recurrent property taxation, which is one of the least detrimental to economic growth. Revenue from personal income taxes as a percentage of GDP is only 27% of the EU average and presents an opportunity for greater use, given the fiscal and budgetary situation. Environmental tax revenues were slightly above the EU average, at 2.2% of GDP in 2023, compared with 2.0%. This figure relies heavily on energy taxation., while resource and pollution taxes are underused, and transport taxes are well below the EU average. Romania applies emission charges (mainly on air and water quality), user charges (on hunting and fishing and mineral extraction) and a volumetric charge on water abstraction and disposal.

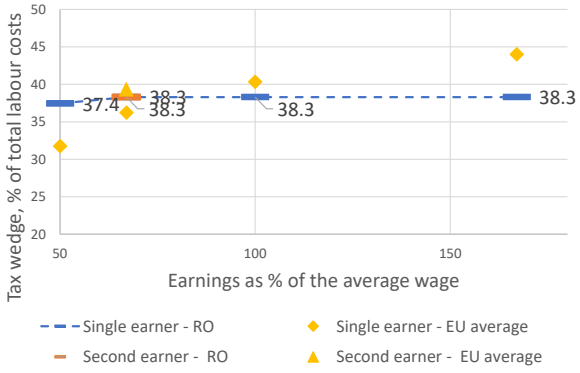
Graph A2.1: **Tax revenue shares in 2023**



Source: Taxation Trends Data, DG TAXUD

Romania has low taxation of corporate income and offers special tax arrangements and incentives for businesses. Corporate income tax is taxed at a flat rate of 16%, which is lower than the EU average, with the effective tax rate consistently remaining at 16.3% from 2021 to 2023. In addition, Romania offers a special tax scheme for microenterprises, which has recently been reformed to reduce its scope in 2025 and 2026 in line with the recovery and resilience plan (RRP)). Tax exemptions for corporations are available in six trade zones to help attract investment. Romania also offers tax incentives for R&D activities such as deductions of additional qualifying expenses from taxable income, accelerated depreciation, tax credits (up to 20%) and exemptions (for up to 10 years) from corporate income tax on profits from R&D activities like patents. There are also green tax incentives for investment in renewable energy sources. Despite these incentives, Romania had the lowest R&D intensity in the EU in 2023 (0.52% of GDP).

Graph A2.2: **Tax wedge for single and second earners, % of total labour costs, 2024**



The tax wedge for second earners assumes a first earner at 100% of the average wage and no children. For the full methodology, see OECD, 2016, Taxing Wages 2014-2015.
Source: European Commission

In 2024, the labour tax wedge in Romania is higher than the EU average for low-income workers, and lower than the EU average for high-income workers. This high tax wedge for low-income earners provides fewer incentives for lower-skilled workers to participate in the labour force ([37]). The Gini-coefficient reduction after taxes

([37]) The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a

and social transfers in Romania in 2023 was 6.3 points, below the EU average (7.7 points), indicating that the flat rate system is relatively ineffective in terms of its redistributive capacity and reducing income inequality. ([38]) The relatively lower tax wedge on higher incomes favoured a rapid convergence of GDP growth rates, resulting from higher labour force participation and better incentives to improve levels of education in the middle class. ([39]) There are no gift, inheritance (except in very specific circumstances) or wealth taxes levied in Romania. However, in a positive step towards reducing Romania's fiscal deficit, sectoral personal income tax exemptions in the IT, construction, agriculture and food sectors have also been removed with effect from January 2025. EUROMOD simulations ([40]) estimate that this will raise EUR 5 billion in revenue. It is estimated that these reforms will have negligible effects on progressivity.

The VAT gap in Romania has consistently been the highest in the EU, standing at 33.7% in 2023. This highlights the administration's ineffectiveness in addressing compliance issues and the informal economy. However, through digitalisation measures outlined in the RRP, Romania aims to reduce the VAT gap by 5% by 2026. There is still an opportunity to use EU funding to invest in real-time VAT reporting tools to further reduce the VAT gap. It is clear that the measures implemented as part of the reform of the tax administration through digitalisation have already contributed to a reduction in outstanding tax arrears from 2021 to 2022 (6.1%)

Another indicator of the effectiveness of the tax administration is how it handles dispute resolution and its compliance with standards for the exchange of information between tax administrations. One way in which tax administrations resolve disputes is by participating in mutual agreement procedures (MAPs). The number of MAPs conducted in a Member State is linked to the size and structure of its economy, but it may also serve as indicator of the efficiency of its tax system. Romania had no open MAP cases at the end of 2023 but reported rejecting 25 cases during the year, which is an unusually high number. What is more, in the context of information exchanges between tax authorities, Romania has received significant recommendations from the OECD peer review process on the effectiveness of its Directive on Administrative Cooperation 2/Common Reporting Standard exchanges of financial account information, including ensuring compliance by reporting financial institutions. The review also called on Romania to ensure better/sufficient compliance with data security standards in taxation.

The reform of the National Agency for Fiscal Administration through digitalisation is essential for improving the fiscal situation. Several key RRP milestones remain to be achieved in 2025. The launch of a fully operational electronic risk register and e-invoicing system and the improvement of the information exchange platform should contribute to better performance of the tax administration.

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percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer).

([38]) EUROMOD simulations suggests that increasing the progressivity of the PIT system by introducing three tax rates (6% up for incomes up to 33% of the average taxable income, 12% for incomes up to the average taxable income and 18% for incomes above) would generate almost EUR 12 billion of additional tax revenue. From a distributional point of view such a reform is progressive, with richer households mostly paying for this reform.

([39]) Sistemul fiscal din România: prosperitate, convergență și sustenabilitate fiscal-bugetară" at Studiul „Sistemul fiscal din România: prosperitate, convergență și sustenabilitate fiscal-bugetară" - Confederația Patronală Concordia

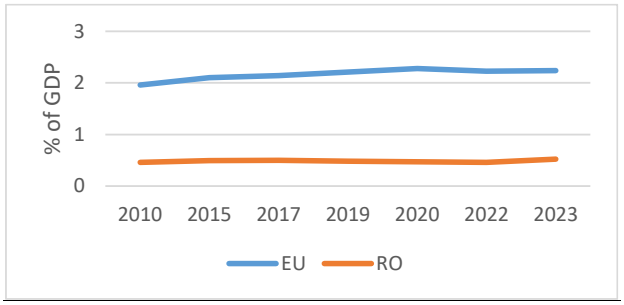
([40]) Estimations were performed by the European Commission, Joint Research Centre, with the EUROMOD tax-benefit microsimulation model.

Romania's research and innovation performance remains weak, and the gap with the EU is widening due to significant underinvestment, skills shortages and governance deficiencies. Romania is classified as an 'emerging innovator' and has the weakest innovation performance in the European Union, at 34% of the EU average according to the 2024 European Innovation Scoreboard ([41]). Its innovation rate is also below the average for emerging innovators. In 2023, Romania's R&D intensity stood at just 0.52% of GDP compared to the EU average of 2.24%, the lowest in the EU and far behind Romania's own target of reaching 2% of GDP by 2027 ([42]). Poor overall R&I performance exacerbates existing regional disparities (*see also Annex 17: Competitive regions*), and the system suffers from governance deficiencies with no single agency responsible for the overall management or coordination of innovation policy. Romania's digitalisation of businesses has improved considerably over the past year but remains, on most indicators, below the EU average. Its contribution to the Digital Decade targets can be further improved.

Science and innovative ecosystems

Despite some improvement, Romania's public research base remains underdeveloped due to underinvestment and a fragmented funding system. Public R&D expenditure has been declining, with 2023 figures showing it at only 0.2% of GDP, merely a quarter of the EU average of 0.72%. This situation, exacerbated by a fragmented public research system, has resulted in a weak foundation for public science ([43]). Notwithstanding these challenges, Romania has made some progress towards enhancing the quality of its research system, as evidenced by a strong 33.8 percentage point increase in the number of scientific publications among the top 10% most cited since 2017, yet the country remains at the bottom of the EU classification ([44]). Substantial underfunding, coupled with a lack of multiannual budgeting and an inadequately developed system for performance-based funding, has created challenging conditions for research and innovation.

Graph A3.1: **R&D intensity (GERD as a percentage of GDP)**



Source: Eurostat, 2024

The government's renewed commitment to increase public R&D expenditure to 1% of GDP by 2027([45]) is a positive development towards remedying the situation, as are plans to introduce a biannual funding mechanism that includes regular evaluation. The implementation of these measures will require close monitoring.

Business innovation

Innovation performance is weak due to low private investment, inefficient public support policies and limited collaboration between science and business. It is crucial to address these weaknesses to sustain current strong economic growth, driven mainly by foreign direct investments ([46]). Business enterprise

([41]) 2024 European Innovation Scoreboard, country profile: Romania https://ec.europa.eu/assets/rtd/eis/2024/ec_rtd_eis-country-profile-ro.pdf. eThe scoreboard provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

([42]) Government of Romania (2022), Strategia Națională de Cercetare, Inovare și Specializare Inteligentă 2022-2027.

([43]) European Commission (2022): PSF Country review of the Romanian Research and Innovation System.

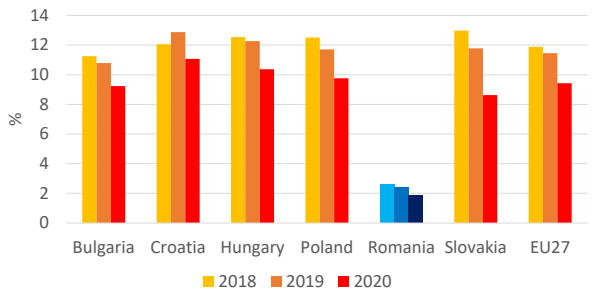
([44]) Science, Research and Innovation Performance of the EU, 2024.

([45]) National strategy for research, innovation and intelligent specialisation 2022-2027 and National RDI plan 2022-2027- PNCDI IV.

([46]) ROINNOVATE: Building Blocks for an Innovation Agency in Romania, World Bank, 2024.

expenditure on R&D (BERD) has stagnated in recent years; in 2023 it stood at only 0.32% of GDP, approximately one fifth of the EU average of 1.49%. The situation is particularly critical for SMEs, which invest very little on R&D (0.05% in 2021 vs the EU average of 0.38%). At the same time, foreign-controlled enterprises contribute significantly to value added (20.5% vs 13.3% for the EU), and net foreign direct investment flows into Romania largely exceed the EU average (3.1% compared to 1.9%). As a result of low private investment and inefficient public support policies, Romanian enterprises innovate less and grow more slowly than their competitors in other EU countries, and the number of high-growth enterprises is low and decreasing ([47]).

Graph A3.2: **Proportion of high-growth enterprises**



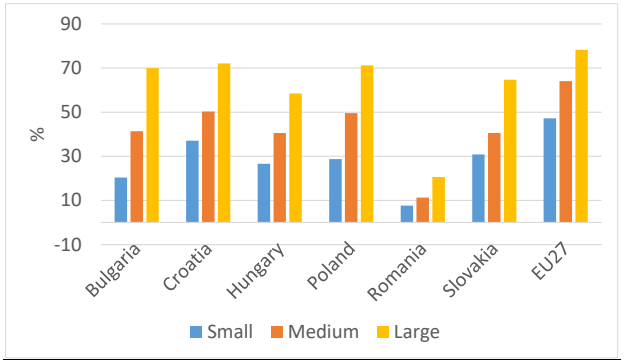
Source: Community Innovation Survey, 2022

Romania has by far the lowest share of innovative enterprises in the EU. From 2020 to 2022, only 8.8% of Romanian firms submitted product and process innovations compared to the EU average of 51.4% ([48]). Romania has a large pool of companies capable of innovation but not currently engaging in it, as evidenced by a high percentage of non-innovators with a potential to innovate, at 27% compared to the EU average of 17.8% ([49]).

A low level of private investment is exacerbated by the lack of robust government support. Business expenditure on R&D (BERD) financed by the public sector as a percentage of GDP has stagnated and is one of the lowest in the EU. In its 2014-2020 policy mix, Romania had only four instruments specifically targeting firm innovation, amounting to EUR 74 million in total ([50]). To address this, Romania plans to spend around EUR 476.3 million annually on private-sector innovation and public-private collaboration from 2023 to 2028 ([51]). In addition, Romania recently amended its R&D tax allowance scheme to make it more effective, although the use of tax incentives remains negligible (0.008% of GDP compared to 0.102 in the EU in 2020) ([52]).

Low business R&D translates into a low innovation output level, exacerbated by weak collaboration between science and industry and ineffective technology transfer and commercialisation programmes. Patenting activity remains very low and has stagnated over the years ([53]). In 2021, Romania submitted 2.79 patent applications to the European Patent Office (EPO) per million inhabitants – the lowest in the EU. The EU average was 147.

Graph A3.3: **Share of enterprises with innovation activities**



Source: Community Innovation Survey, 2022

While public-private co-publications as a percentage of total publications have risen over the past decade, they remain at the lower end in the EU and below the EU average, at 6.2%

([47]) Eurostat, 2024, High-growth enterprises and related employment by NACE Rev. 2 activity, Statistics | Eurostat.

([48]) Community Innovation Survey 2022, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Community_Innovation_Survey_2022_-_key_indicators.

([49]) European Innovation Scoreboard, 2024.

([50]) Increasing Competitive Funding at the System Level and Predictability of Funding Streams at the Institutional Level, Functional Analysis with Research Support Instruments, and Methodology for Assessing the Policy Mix and Functional Analysis, World Bank, 2023.

([51]) ROINNOVATE: Building Blocks for an Innovation Agency in Romania, World Bank, 2024.

([52]) R&D tax incentives in Romania, OECD 2024, https://stip.oecd.org/innotax/countries/Romania.

([53]) Patent applications filed under the PCT per billion GDP (in PPS €) stood at 0.17 in 2020 (EU average 2.8), compared to 0.2 in 2012.

compared to 7.7% in 2023. This underperformance can be attributed to deficiencies in the public science system, a lack of incentives for public research institutions to engage with industry, and limited capacity within the business sector to exploit the knowledge generated by scientific research. Few or no national statistics are collected on licensing activities and the creation of spin-offs from Romanian universities and research institutes. Data from the Community Innovation Survey indicate that very few Romanian enterprises are licensing in or purchasing intellectual property rights, and Romania ranks last amongst the surveyed countries. The main reasons for this are underdeveloped support for technology transfer offices and bureaucratic and regulatory obstacles complicating the transfer of intellectual property rights for researchers and entrepreneurs ([54]). Although the recovery and resilience plan includes measures to improve the regulatory framework for incentivising collaboration, Romania must further encourage universities and research institutes to engage in entrepreneurial initiatives and foster technology and knowledge transfer activities. By joining the unitary patent system in September 2024, Romania took a significant step towards increased patenting activity, allowing innovative companies to more easily protect their inventions and innovations across Europe.

Romania stands out as one of the few EU countries that have yet to establish an innovation agency to facilitate innovation, support business creation and growth and stimulate private R&D. Efforts to bridge the gap between research and business have been hindered by a lack of innovation instruments, underscoring the need for targeted measures to foster innovative firm growth ([55]). In addition, there are still significant regional and sub-regional innovation performance disparities in Romania (*see also Annex 17: Competitive regions*). Regional development agencies responsible for regional innovation policies and investment lack the necessary skills and report a disconnect between national-level innovation priorities and specific innovation opportunities and challenges prioritised at the regional level ([56]). This disconnect is a further barrier to achieving effective strategic coordination of innovation support. To address these challenges and promote a more coordinated and effective approach to innovation support, Romania is preparing to establish a national innovation agency. The agency's effectiveness in driving innovation and integrating new stakeholders into the Romanian research and innovation system will be a key area of focus for evaluation and assessment in the future.

Basic digital technology uptake is progressing but remains below the EU average, meaning further efforts will be needed. The percentage of enterprises with at least a basic level of digital intensity has increased considerably in Romania, jumping from 52.5% in 2022 to 69.1% in 2024, not far below the EU average of 72.9%. The uptake of advanced digital technologies also increased significantly. The AI adoption rate more than doubled from 2023 to 2024 to just over 3%, which is still the lowest in the EU and far below the EU average of 13.5%. The adoption of cloud services has also increased recently, reaching 15.5% in 2023, but remains well below the EU average of 38.9%. Other indicators confirm the need to sustain and intensify efforts in this area, despite the positive trend.

Romania has put in place several measures to support the digitalisation of enterprises. Examples of ongoing measures include a EUR 347.5 million investment under the recovery and resilience plan to support the take-up of digital technologies by SMEs by developing two operational public platforms on legislative transparency, de-bureaucratisation and procedural simplification for business; financial instruments and grants schemes under cohesion policy funds; and the 'start-up nation' and 'entrepreneur woman' programmes to stimulate entrepreneurship, innovation and digitalisation. Moreover, seven European Digital Innovation Hubs are now operational and are actively supporting SMEs in different regions, with the aim of strengthening, coordinating and optimising digital transformation efforts.

([54]) Strategic evaluation of the technology transfer and IPR protection systems of Bulgaria, Croatia and Romania and recommendations for their enhancement, Kaymaktchiyski, S., Battiston, A. and Jiménez, V.M. editor(s), Publications Office of the European Union, 2024.

([55]) Idem.

([56]) Enhancing Strategic Planning and Innovation Services: Supporting Romanian Regional Development Agencies, OECD, 2023.

Financing innovation

Romania's local venture and growth capital market remains underdeveloped, and funds are not sufficient to meet the overall financing needs of innovative companies. Currently, private equity stands at just 0.04% of GDP and venture capital at 0.01% of GDP, well below the EU average. This gap implies limited availability of investment for start-ups and high-growth companies. Overall, Romania has an insufficiently developed venture capital ecosystem. This is partly due to the relatively small size of institutional investors and their investment allocation (see also annex 5 on access to finance).

Further development and optimisation of business support infrastructures, including incubators, accelerators, clusters, and technological and industrial parks, remains a necessity. The availability and efficient use of these resources are important for supporting the growth and resilience of startups, and creating a competitive business environment that is sustainable in the long term.

Innovative talent

The shortage of skilled workers negatively affects Romania's innovation and research capacity. The number of researchers employed in the public sector in Romania (measured in full-time equivalents) has remained stagnant at 1.6 per 1 000 population since 2022, considerably below the EU average of 4.2 and the poorest result of all EU Member States. Additionally, Romania has seen a 23.2 percentage point decline in new doctorate graduates since 2017, and the number of new graduates in science and engineering has stagnated, negatively impacting the nation's innovation potential. This is compounded by the lowest percentage in the EU of population aged 25-34 who have completed tertiary education. Furthermore, researchers in Romania are hindered by subpar working conditions and limited career advancement opportunities that contribute to a brain drain ([57]).

Romania's recovery and resilience plan outlines various reform and investment measures aimed at improving the governance of the R&I system, enhancing the appeal of research careers, attracting international talent to the sector and creating centres of excellence. A new law on the status of staff working in the areas of research, development and innovation was adopted in 2024, aiming to create a better environment for human resources in the public research system and to increase the attractiveness of research careers ([58]). While entrepreneurship education is an emerging field in Romania, the strategic planning is missing, and there is room for improved access in higher education and better opportunities for practical learning.

([57]) See also Annex 12: Education and skills.

([58]) https://legislatie.just.ro/Public/DetaliiDocument/283972.

Table A3.1: **Key innovation indicators**

Romania	2012	2017	2020	2021	2022	2023	2024	EU average (1)	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.46	0.51	0.47	0.47	0.46	0.52	:	2.24	3.45
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.28	0.22	0.19	0.18	0.17	0.2	:	0.72	0.64
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	3.4	4.3	5.9	6.2	:	:	:	9.6	12.3
Researchers (FTE) employed by public sector (Gov+HEI) per thousand active population	1.6	1.6	1.6	1.5	1.6	:	:	4.1	:
International co-publications as % of total number of publications	29.5	33.5	38.1	37.5	40.6	41.3	:	55.9	39.3
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.18	0.29	0.27	0.29	0.29	0.32	:	1.49	2.7
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.11	0.06	0.03	0.05	0.04	:	:	0.4	0.3
Researchers employed by business per thousand active population	0.6	0.6	0.6	0.8	0.7	0.9	:	5.7	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.22	0.2	0.17	0.14	0.13	:	:	2.8	:
Employment share of high-growth enterprises measured in employment (%)	6.09	7.65	5.21	:	:	:	:	12.51	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	52.49	:	69.1	72.91	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	:	21.87	:	33.17	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	11.33	:	15.52	:	38.86	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	1.38	:	1.51	3.07	13.48	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	4.0	5.6	6.1	6.1	6.4	6.2	:	7.7	8.9
Public expenditure on R&D financed by business enterprise (national) as % of GDP	0.04	0.025	0.024	0.026	0.020	:	:	0.05	0.02
Public support for business innovation									
Total public sector support for BERD as % of GDP	0.049	0.031	0.029	:	:	:	:	0.204	0.251
R&D tax incentives: foregone revenues as % of GDP	:	:	0.008	:	:	:	:	0.102	0.141
BERD financed by the public sector (national and abroad) as % of GDP	0.049	0.031	0.021	0.025	0.030	:	:	0.100	0.110
Financing innovation									
Venture capital (market statistics) as % of GDP, total (calculated as a 3-year moving average)	0.003	0.001	0.005	0.007	0.008	0.008	:	0.078	:
Seed stage funding share (% of total venture capital)	:	7.4	9.3	20.1	36.8	37.2	:	7.29	:
Start-up stage funding share (% of total venture capital)	32.9	54.3	78.1	68.2	51.6	50.2	:	44.02	:
Later stage funding share (% of total venture capital)	67.1	38.3	12.6	11.7	11.6	12.7	:	48.69	:
Innovative talent									
New graduates in science and engineering per thousand population aged 25-34	17.6	11.2	12.0	12.6	12.3	:	:	17.6	:
Graduates in the field of computing per thousand population aged 25-34	0.6	2.6	3.6	3.6	3.9	:	:	3.6	:

(1) EU average for the last available year or the year with the largest number of country data.

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

The improvement in Romania's business environment stagnated for a few years and has recently deteriorated. Key rules changed frequently, without proper planning and consultation. Over-regulation imposes significant burdens on companies, including for the accession of EU funds. Top political decision makers change frequently, together with strategic planning and priorities. Price controls are increasingly publicly proposed as a panacea to quell inflation.

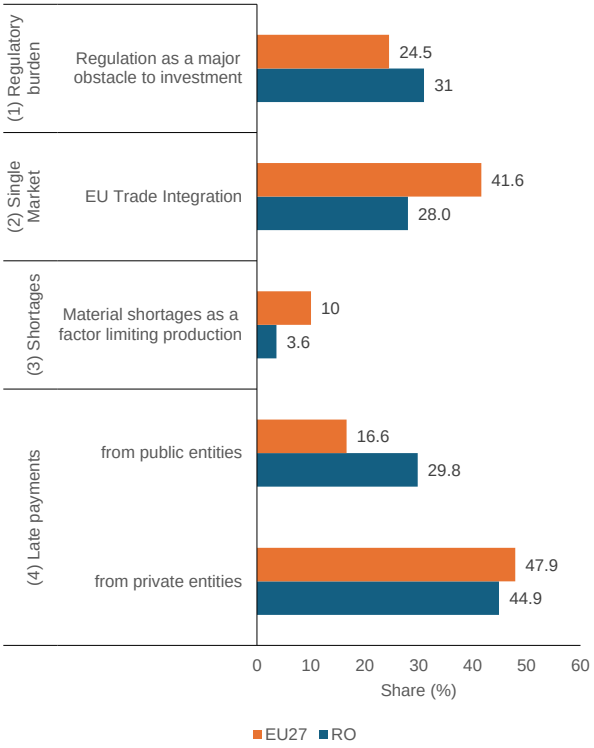
Economic framework conditions

The solid performance of the economy in the last 20 years wiped out part of the performance gap with the EU. Real GDP per capita in PPP is now almost 80% of the EU average, up from 30% in 2004. The size of the middle class has seen one of the fastest increases of any of the 27 Member States ([59]). Net average wages have doubled in the last 10 years to reach EUR 1000.

The improvement in business environment has stagnated. Romania ranks 50th out of 67 economies in the 2024 edition of the World Competitiveness Index, the same place it occupied in 2020. The low cost of living (21st place), attractive tax policy (36th overall, but 9th for corporate tax and seventh for social security taxes for employers) and skilled workforce have been the strong points of the business environment. At the same time, the country ranks very low in terms of employment (60th), labour market (61st), access to finance (61st). Taxation remains one of the key pillars of the business environment's appeal and fast capital formation. Other studies highlight low taxation, large market size, and skilled labour force as key strengths ([60]).

Foreign direct investment (FDI) is falling. The net flow of FDI in 2023 and 2024 indicate a hesitant foreign investment appetite. FDI reached EUR 6.75 billion in 2023, more than one third lower than in 2022. Foreign investment continued its downward trend in 2024, with a 15% decrease compared to 2023 ([61]).

Graph A4.1: **Making Business Easier: selected indicators.**



Share of (1) enterprises, (2) average intra-EU exports and imports in GDP, (3) firms, (4) SMEs.
Sources: (1) EIB IS, (2) Eurostat, (3) ECFIN BCS, (4) SAFE survey.

Regulatory and administrative barriers

Firms signal the lack of predictability as a key weakness of the business environment, affecting investment. Investment is a long-term business and needs, as a key ingredient, fiscal and legislative predictability. The country is competing on a global level for FDI but 90% of Romanian companies rank uncertainty as the top barrier to long-term investment (11 percentage points more than the EU average) ([62]). The new fiscal code has been changed 554 times in 83 months since its

([59]) Alpha Bank, Inegalitatea de venituri (Income Inequality), 2024.

([60]) Economist Intelligence Unit, Business Environment – Romania, 2024.

([61]) National Bank of Romania (NBR).

([62]) EIB Investment Survey 2024.

adoption in 2015 ([63]). Business associations regularly point out that public consultation in the legislative process is merely a perfunctory formality (e.g. consultation periods of less than 24 hours); preparation lead times (six months) are removed; fiscal policies lack a medium-long term dimension; dialogue and consultation structures between industries and government are only formally used while their opinions and outcomes do not properly feed into the decision-making process ([64]). Companies report putting investments on hold. The attractiveness of projects in Romania compared to similar locations has decreased (44% in October, compared to 53% in March 2024). This is also true about FDI (as mentioned above). The leading causes for this deterioration in investors' perceptions remain the legislative ambiguities and uncertainties (80%) and taxation (70%) ([65]).

The business environment seems over-regulated. The share of firms with a relatively large proportion of their employees working on regulatory assessment and compliance is high in Romania with 23% of firms dedicating more than 10% of staff to regulatory requirements, compared to just 4% in Finland. Peers such as Bulgaria (8%) and Hungary (10%) also score better than Romania ([66]). Accessing EU funding, which is a very valuable resource for two thirds of Romania's entrepreneurs, is burdensome. Excessive bureaucracy, instability of regulations and documentation are the major obstacles reported ([67]). Key interest areas for SMEs are missing from the EU financing priorities (e.g. energy efficiency of production technologies), while other, outdated priorities (e.g. job creation in a country of labour shortages) are still in place.

Fiscal imbalances are the origin of many, unexpected changes. The fiscal consolidation measures adopted at the end of 2023 and end of 2024 had a significant impact on businesses large and small but lacked proper planning and consultation. The legal obligation to leave six months of preparation before a tax measure enters into force was disregarded. In December 2024, there were only three days between the proposal's launch and its entry into force. The complexity and frequency of tax law amendments make it difficult for taxpayers to keep up and comply effectively. A detailed business environment study shows uncertainty and poor administration of taxation as the key problematic area for Romania ([68]); indeed, taxation is the area with the lowest overall score for the country. Tax clarity and transparency come out as particularly problematic (11 points out of 40), with red areas in public consultation and preparing and publishing future tax plans (both with 0 out of 10 points).

Beginning with COVID-19, government spending rose from around 36% of GDP, as it had been during the previous decade, to a post-communist record of 43% in 2024 (election year). From a business environment perspective, if the higher tax route to fiscal consolidation is preferred, an important ingredient of economic success and business dynamism will be affected. Performance will then depend on improvements in areas where Romania has not excelled until now. The self-financing of small companies, for example, will not be available at the same high level. More government spending has not yet been enough to provide better quality across large areas of under-performing public services (education, health, etc.).

Many rules are not applied. The administration tends to ignore many existing rules. This is the case with the SME test, on the books since 2017 and recently reinforced as part of the national RRP. The once-only principle, the fiscal compact, the appointment of managers in state-owned enterprises, the six-month preparation time for fiscal measures, are other examples. For permits, including for green investments, the application of rules at local level is unequal ([69]).

([63]) The Tax Institute, Modificările noului cod fiscal, 2023.

([64]) Foreign Investors Council (FIC) Romania website (fic.ro); Concordia Employers' Confederation (concordia.ro).

([65]) FIC, Business Sentiment Index, Fall 2024. Only 36% of respondents (6% less than in the March 2024 edition), have planned investment increases for the next 12 months (lowest level recorded since 2020). The December 2024 fiscal package has clearly not improved the situation on that count.

([66]) EIB Investment Survey 2024.

([67]) IMM România (SME United – Romania), Carta albă a IMM-urilor (White Book of SMEs), 2024. Over 70% of companies reported excessive bureaucracy as a barrier. The restrictive eligibility criteria come second, with 60%.

([68]) World Bank, Business Ready – Romania, 2024.

([69]) Relevant studies by the Competition Council can be consulted on their website, http://www.consiliulconcurentei.ro. World Bank, Subnational Business Ready 2024-Romania.

Frequent change is the norm at the political level. This comes with changes in strategic planning and priorities. Ministers and prime ministers change frequently in Romania. The situation improved somewhat with the 'grand coalition' of the last three years, but risks persist with the significant challenges ahead, a more diverse governing coalition and presidential elections.

Price controls are regularly floated in the public sphere. Price controls (in energy, retail) are a recent temptation that should be avoided, as Romania, more than any EU country, remembers the bitter experience it had with such populist measures before 1990. In October 2024, the government announced it will introduce price controls at the retail level on products of Romanian origin. Intense public pressure led to the plan being discarded. A similar measure adopted by another EU Member State is under an infringement procedure. The recent fiscal package was accompanied by a statement made by the prime minister advising companies to freeze prices as a 'solidarity measure'. In addition, Romanian authorities imposed a ban on nutri-score-labelled products – which affects the functioning of the EU supply chains – as well as other restrictive rules on the displays and product ranges in shops.

High inflation, minimum wage increases, high social contributions and difficult access to finance are other factors making the business environment challenging. Romania had the highest inflation rate in the EU in 2024. The minimum wage grew rapidly in recent years, far above productivity growth. Those facts were reported as the top concerns of entrepreneurs ([70]). The significant increase in the minimum wage has made several industries unprofitable: textiles, shoes, cables, food ([71]). Self-financing and trade credit are very popular. Trade credit is 16 times larger than short-term loans from banks. Romania is top of the charts in the EU for this metric ([72]). More than half of entrepreneurs perceive bank loans as expensive and the main barrier to access ([73]). The labour tax wedge for Romania was the second highest in the EU for low-income earners.

Romania's transport and 5G infrastructure are lagging far behind. Despite more than 15 years of EU membership and rising income levels, transport infrastructure gaps remain wide, constraining private investment and productivity in key sectors. The biggest gap behind the EU average is very clearly perceived as being in transport infrastructure (+20 percentage points) ([74]). Romania continues to rank among EU leaders in terms of fixed connectivity. 5G coverage is improving, but still severely lagging behind (33% of populated areas vs 89.3% in the EU).

Public procurement

The effects of measures to improve public procurement performance have yet to be observed. The 2023 data set shows high levels of single bids (45%, EU average 38%); negotiated procedures without prior publication of an award notice (23%, the second highest level in the EU, EU average 6%); unsuccessful bids (48%, the highest rate in EU); and price-only award criteria (83%, EU average 56%)([75]). The key areas for improvement are: professionalisation; staffing; uneven implementation of legislation; legislative instability.

Romania has made progress in using public procurement as a strategic tool. In 2024, Romania's National Agency for Public Procurement (ANAP) undertook several initiatives to advance strategic public procurement, focusing on sustainability, innovation, and inclusivity. Actions focused on enhancing transparency and stakeholder engagement by promoting openness, creating an environment of trust, and conducting stakeholder analysis and management. The initiatives laid the groundwork for improving strategic public procurement in Romania. However,

([70]) SME Romania. Inflation is the top concern for businesses (53% of business owners) while the wage increases come third (40%). The second is unfair competition.

([71]) See the analysis by the business association Concordia (https://concordia.ro/resurse/documente-de-pozitie/studiul-politica-salariului-minim-in-romania/). World Bank's Business Ready - Romania shows that no process for updating the minimum wage and no social consultation exist.

([72]) NBR, Raport asupra stabilității financiare, December 2024, p. 41-42.

([73]) SME Romania, Carta Albă.

([74]) EIB IS 2024.

([75]) Provisional data for 2024 put single bids for Romania at 46%.

progress in inclusive and innovative procurement remains stagnant, with no significant advances observed in 2023 and no clear trends visible for 2024.

Single Market

Acting on restrictively regulated professions may boost productivity. Regulatory restrictions in a number of professions remain stricter in Romania than the EU average, creating additional costs, especially for SMEs, while lowering productivity. This applies in particular to civil engineers, architects, accountants, tourist guides, and notaries. Lawyers are also subject to legal form, incompatibility rules and multidisciplinary restrictions, all of which affect the potential of the legal sector for innovation. The fragmented system regulating civil engineers and their activities seems to be a barrier to their free movement and hampers the efficiency of service provision.

Romania performs well in transposing Single Market legislation. Romania has a transposition deficit of 0.8% (same as the EU average) though its performance is less impressive than last year. The percentage of Single Market directives incorrectly transposed (conformity deficit) is at 0.2% (second best performance among the Member States). The number of pending Single Market infringement cases in Romania is above the EU average but their average duration is better than the EU average. Concerning SOLVIT, Romania resolved 92.3% of all SOLVIT cases it handled as lead centre (EU average of 84.9% in 2024).

Access to the Single Market is an opportunity that many SMEs in Romania could better exploit. Romania's trade integration into the Single Market is below the EU average (28% of GDP vs 42% of GDP). Over the last 20 years, trade in goods has increased by 10% per year. The bulk of intra-EU exports in value terms (60%) came from large companies, which indicates that SMEs may improve their presence on the single market. Accession to the Schengen area should make trade and attracting foreign investment easier.

Table A4.1: **Making Business Easier: indicators.**

Romania							
POLICY AREA	**INDICATOR NAME**	**2020**	**2021**	**2022**	**2023**	**2024**	**EU-27 average**
Investment climate							
Shortages	Material shortage, firms facing constraints, %[1]	3.5	6.5	6.8	3.4	3.6	10.0
	Labour shortage, firms facing constraints, %[1]	8.4	9.8	11.6	10.1	9.0	20.2
	Vacancy rate, vacant posts as a % of all available ones (vacant + occupied)[2]	0.6	0.8	0.9	0.8	0.7	2.3
Infrastructure	Transport infrastructure as an obstacle to investment, % of firms reporting it as a major obstacle[3]	29.2	21.6	29.7	25.6	21.7	13.4
	VHCN coverage, %[4]	-	87.1	95.6	95.0	-	78.8
	FTTP coverage, %[4]	-	87.1	95.6	95.0	-	64.0
	5G coverage, %[4]	-	24.9	26.8	32.8	-	89.3
Reduction of regulatory and administrative barriers							
Regulatory environment	Impact of regulation on long-term investment, % firms reporting business regulation as a major obstacle[3]	29.1	16.8	22.7	30.1	31.0	24.5
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[5]	13.3	11.7	12.2	14.5	-	15.6
	Payment gap - public sector, difference in days between offered and actual payment[5]	13.5	9.2	15.4	16.4	-	15.1
	Share of SMEs experiencing late payments, %*[6] — from public or private entities in the last 6 months	52.0	52.6	45.2	49.4	-	-
	Share of SMEs experiencing late payments, %*[6] — from private entities in the previous or current quarter	-	-	-	-	44.9	47.9
	Share of SMEs experiencing late payments, %*[6] — from public entities in the previous or current quarter	-	-	-	-	29.8	16.6
Single Market							
Integration	EU trade integration, % (Average intra-EU imports + average intra EU exports)/GDP[2]	28.6	31.5	33.5	30.1	28.0	41.6
	EEA Services Trade Restrictiveness Index[7]	-	-	-	-	-	0.050
Compliance	Transposition deficit, % of all directives not transposed[8]	1.1	2.9	0.3	0.2	0.8	0.8
	Conformity deficit, % of all directives transposed incorrectly[8]	1.3	0.9	1.0	1.2	0.2	0.9
	SOLVIT, % resolution rate per country[8]	88.4	86.9	93.2	91.0	92.3	84.9
	Number of pending infringement proceedings[8]	37.0	30.0	32.0	32.0	28.0	24.4
Public procurement							
Competition and transparency in public procurement	Single bids, % of total contractors**[8]	41	33	42	45	46	-
	Direct awards, %**[8]	22	17	23	23	-	7.0

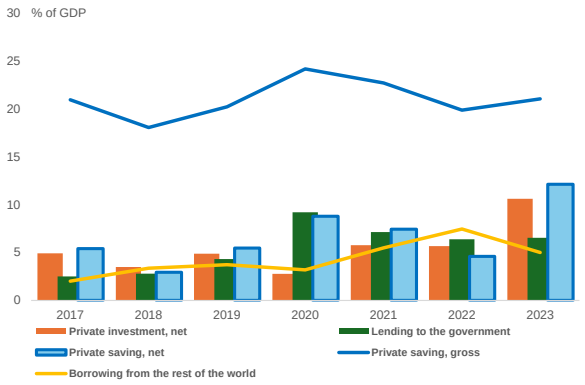
*Change in methodology in 2024: reporting late payments from public and private entities separately.
**The 2024 data on single bids is provisional and subject to revision. Please note that approximately 24% of the total data is currently missing, which may impact the accuracy and completeness of the information. Due to missing data, the EU average of direct awards data is calculated without Romania.
Sources: (1) ECFIN BCS, (2) Eurostat, (3) EIB IS, (4) Digital Decade Country reports, (5) Intrum Payment Report, (6) SAFE survey, (7) OECD, (8) up to 2023: Single Market and Competitiveness Scoreboard, 2024: Public procurement data space (PPDS).

The Romanian economy is characterised by comparatively low domestic savings, significant foreign inflows, still developing capital markets and small banking and non-banking financial sectors. Romania's capital markets are underdeveloped, with companies heavily reliant on internal financing and bank loans. The banking sector, while important and generally stable, remains relatively small compared to other EU countries. 17.6% of firms face financial constraints, the highest level in the EU While the green bond market shows potential, financial literacy remains a major barrier, restricting investor participation and companies' access to alternative funding. Institutional investors have the lowest asset-to-GDP ratio among their EU peers. To address these challenges, Romania introduced the national strategy for the development of the capital markets 2023-2026.

Availability and use of domestic savings

The Romanian economy invests its net savings domestically and also sources funding from abroad. From 2014 until 2023, the private savings ratio, net of fixed capital consumption, stood on average at 6.1% of GDP (below the EU average of 8.5% of GDP), peaking at 8.8% in 2020 (see Graph A5.1). The net private investment ratio, which denotes the net contribution of the private sector to capital accumulation in the economy, recorded an average of 4.4% of GDP during the reference ten-year period and reached 10.6% in 2023. At the same time, during the same period the government has been running sizable budgetary deficits, which during 2014-2023 on average amounted to a budgetary deficit of 4.3%. These recurrent general government budgetary deficits, combined with only a small positive difference between net domestic savings and net investment, resulted in structural net borrowing by Romania from foreign economies that averaged 2.6% of GDP, with a peak of 7.5% in 2022. Thus, the net savings in Romania have been invested domestically (to finance private investment or borrowing by the government), while also complemented by a substantial share of financing from abroad.

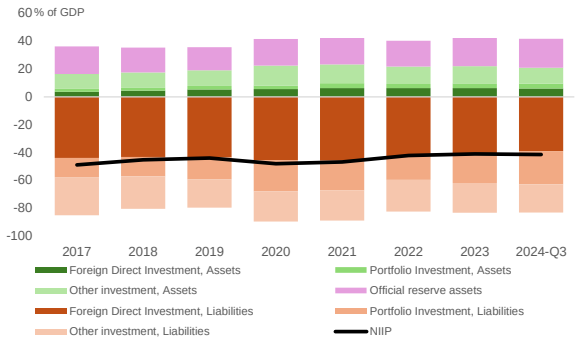
Graph A5.1: **Net savings-investment balance**



Source: AMECO.

As a net borrower from the rest of the world, the Romanian economy has been recording a negative net international investment position. As of Q3 2024, total assets on foreigners stood at around 39% of GDP, while liabilities to foreigners amounted to just above 83% of GDP, resulting in a net international investment position (NIIP) equivalent to 41.5% of GDP (see Graph A5.2). The only factor with a positive contribution to the NIIP was the significant stock of official foreign reserve assets (at 20.8% of GDP), which reflects the central bank's focus on a relatively steady exchange rate of the leu, particularly against the euro. The incoming net foreign direct investment (-33.1% of GDP as of Q3 2024) accounted for most of the NIIP, so that the net external debt position is fairly low. The net portfolio investments, which are directly affected by the price volatility of equity valuations, have also been negative (at -20.4% of GDP as of Q3 2024), similarly to the net stock of other investments (al almost 9% of GDP). Thus, the Romanian economy seems well integrated in international capital flows as a recipient of foreign capital, remaining a net capital importer, notably in terms of direct investments.

Graph A5.2: **International investment position**

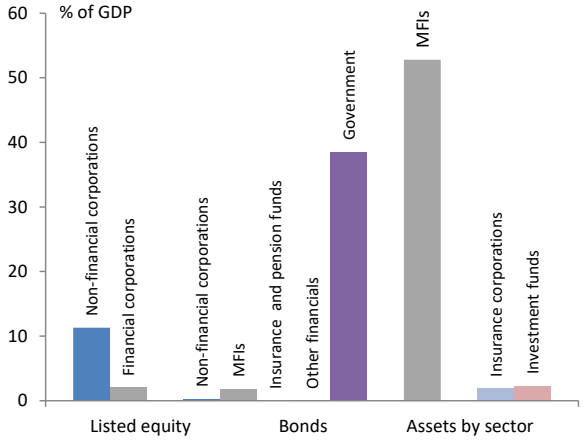


Source: ECB.

Structure of the capital markets and size of the financial sector

The Romanian economy stands out with one of the most underdeveloped domestic capital markets in Europe. The market capitalisation of listed equity reached 13.4% of GDP at the end of 2023 (see Graph A5.3), which is well below the EU average of 67% of GDP. At the same time, non-financial corporations (NFCs) accounted for 84% of that capitalisation, which implies that the stock market in Romania is predominantly to a large extent geared towards funding the non-financial segment of the real economy. The outstanding volume of debt securities reached almost 41% of GDP at end-2023, which is significantly below the EU average. Bonds issued by the government accounted for 95% of the total.

Graph A5.3: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO.

While the financial sector in Romania remains dominated by banks, non-bank financial intermediaries also play an important role. Starting from 56% of GDP in 2020, the size of the banking sector declined slightly to 53% of GDP in 2023 (with the EU average at 257%) and 52% in 2024, which constituted the lowest ratio in the EU and is considerably below the peer economies in the region. The overall low degree of financial intermediation in Romania could be explained by: (i) the large share of non-bankable NFCs that continue to have significant capitalisation weaknesses, and therefore have less access to finance; (ii) weak payment discipline in the economy; (iii) companies' reliance mainly on loans from suppliers and shareholders, rather than loans from financial institutions; and (iv) the modest degree of financial literacy. Foreign presence is predominant and accounts for almost 66% in terms of bank assets. The consolidation in the banking sector has been ongoing in recent years through the acquisition of smaller, less profitable banks with weaker capital positions by larger credit institutions. Currently, banking concentration appears to be slightly higher than on average in the EU, with the top five MFIs representing around 63% of total bank assets. The insurance and pension funds sectors, as well as investment funds (with total assets of almost 1.9% of GDP and 2.3% of GDP at end-2023), play a very limited role in the financial intermediation (see section on institutional investors).

Resilience of the banking sector

The banking sector in Romania is well-capitalised and exhibits good resilience to risks. The system-wide capital ratio stood at 23.1% in Q3 2024, well above the EU average. In Q3 2024, the Romanian banking sector reported a consolidated common equity tier 1 (CET1) ratio of 20% (well above the EU average of 16.6%), as Romanian banks hold a significant capital buffer and thus ensure a good capacity to absorb potential unexpected losses in the event of macroeconomic shocks. Banks have been strongly advised by the National Bank of Romania to retain earnings rather than distribute dividends, so the banking sector's profitability in recent years has supported solvency, underpinned by high profit retention rates. The most recent stress test results

(for 2024-2026) showed that even under adverse conditions, the banking sector would be well positioned to cope with micro-financial shocks. Banking groups in Romania have issued securities eligible for the Minimum Requirement for own funds and Eligible Liabilities (MREL). As of the end of the transition period (end-2023) all credit institutions in Romania have complied with the final MREL requirement plus the combined buffer requirement ([76]). In the medium term, the transposition of the latest provisions of the Basel III regulatory framework at EU level could result in an increase in capital requirements for the group of small and medium-sized European banks, including banks in Romania, by the date of full implementation in 2028.

Despite a slight deterioration, banks' balance sheets show robust asset quality. With an aggregate non-performing loan (NPL) ratio of 2.7% in Q3 2024, which is above the EU average of 1.9%, credit quality remains adequate. The corporate NPL ratio increased to 3.9% in Q4 2024 (from 3.7% in 2023) but stood only slightly above the EU average (at 3.5%). At the same time, banks' aggregate coverage ratio of NPLs by existing provisions has slightly declined to 62.5% but remains adequate and is well above the EU average (at 42.1%).

Romanian banks maintain very strong liquidity positions. Banks are exposed to a very low liquidity funding risk. Overall, the Romanian banking sector has proven an adequate capacity to manage liquidity, although excess liquidity could also be highlighting the lack of opportunities for banks to provide loans or make investments, as well as a low risk appetite. The sovereign-bank nexus has strengthened in recent years due to both the sizeable share of government bonds in the balance sheet and the state guarantees for loans. Even if government bonds are a profitable option for banks to use their large liquidity, they generate exposure to the potential occurrence of sovereign risk. The large share of government securities in total assets generates a concentration risk and amplifies the interest rate risk. Moreover, investment in government bonds may crowd out lending to the private sector.

([76]) For additional information, see the European Banking Authority's MREL Dashboard - Q4 2023.

Resilience of the non-bank financial intermediaries

The Romanian insurance sector is relatively small and is characterised by a high degree of concentration. Romanian insurance sector ranks last in the EU in terms of assets in percentage of GDP (1.9% in 2023, compared to 55.3% on average at the EU). The market is characterised by a high degree of concentration, both in terms of the types of insurance offered (mainly car insurance) and in terms of the significant market shares held by a relatively small number of insurance companies. The market is dominated by non-life insurance, which made up 84% of total gross premiums written in 2023, mainly on account of the mandatory nature of motor third-party liability and, to a lesser extent, natural disaster insurance policies. In 2023, eligible funds were sufficient to cover solvency capital requirements (167.8%), but the level was far below the EU average (258.6%). Romanian insurance companies invest predominantly in fixed income financial instruments and have high exposure to government bonds, most of them domestic. By contrast, exposures to complex financial instruments or alternative assets are very low. Romania is one of the most exposed countries in EU to nature-related risks, such as earthquakes and floods and having low insurance coverage in these areas (below 50%) ([77]).

Sources of business funding and the role of banks.

The Romanian corporate sector is heavily reliant on internal financing. For firms in Romania, internal sources accounted for the largest share of investment finance (73%), followed by external finance (26%), with the remainder (1%) coming from intra-group financing ([78]). On average, in the EU, internal financing accounted for 66% of investment finance, followed by external finance (25%) and intra-group financing (9%). Trade credit and

([77]) See EIOPA's Dashboard on the insurance-protection gap for natural catastrophes.

([78]) See EIB Investment Survey 2024.

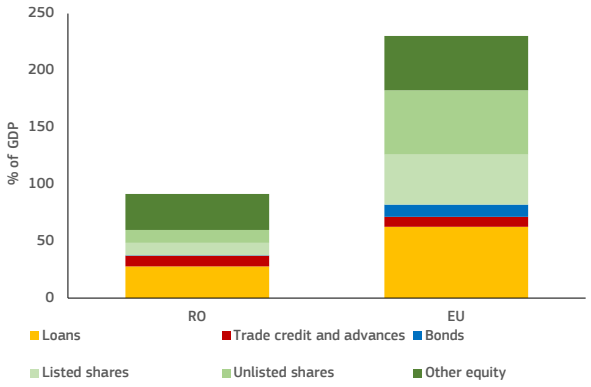
advances represent an important part of non-financial sector liabilities, which creates systemic risk in the economy by creating interlinkages between companies, and exposure to the risk of non-payment by customers. One of the reasons behind this type of financing is the large share of non-financial corporations (NFCs) that have significant capitalisation weaknesses, and therefore have less access to external finance. Payment discipline in the economy remains weak.

Romanian firms also rely on bank loans, which represent 99% of Romanian companies' external debt financing. However, Romania has a relatively small banking sector, with an overall low degree of financial intermediation, which, in addition, is on a downtrend. The ratio of banks' total assets to GDP reached 52.8% in 2023 (see Table A5.1), which was the lowest ratio in the EU (with the EU average at 256.9%) and is considerably below the country's peer economies in the region.

The banking sector in Romania, which, to a large extent, is foreign-owned, continues to exhibit robust capitalisation, and profitability metrics remain exceptionally strong. Asset quality indicators remain solid, despite a marginal increase in the non-performing loan (NPL) ratio to 2.7% in Q3 2024. The interconnection between Romania's banking sector and the government sector has strengthened, reaching the highest level among EU countries: The share of banking sector claims on the government, including loans and securities, accounted for 25% of total assets as of September 2024. While this enhances solvency and liquidity, it also increases concentration and interest rate risks.

Market-based finance is low as Romania's capital markets are still relatively underdeveloped and have significant room for growth. More specifically, at the end of 2023, listed shares were equivalent to only 11% of GDP and bond stood at 0.3%, compared to 44% and 10.8% in the EU (see Graph A5.4).

Graph A5.4: **Composition of NFC funding as a % of GDP**



The sum of NFC liabilities only reflects the total for the NFC liabilities considered. Reference period 2023.
Source: Eurostat.

Romania stands out as the EU country with the highest proportion of companies using subsidies or grants for investment activities. Despite this, the share of firms experiencing financial constraints stands at 17.6%, the highest level recorded in the EU. This suggests that there is a substantial financing gap relative to investment demand. This gap may be even larger for firms with limited capacity for internal funding, such as innovative start-ups.

In recent years, bank lending has grown at a strong pace, driven by, among other factors, government programmes such as state guarantees. After reaching a peak in early 2023, interest rates on loans to households and NFCs – most of which are tied to floating rates – began to decline. In 2024, bank lending to the non-financial sector maintained a high growth rate of 9.8%, though this was slower than the 12.8% rate in 2023. During the third quarter of 2024, Romanian credit institutions reported a tightening of credit standards for loans and credit lines to NFCs, following four quarters of unchanged standards. Bank lending to households also saw positive growth, reaching 11.4% in 2024. Credit standards for loans related to house and land purchases remained steady, while banks eased credit standards for consumer loans once again in Q3 2024.

Retail investors in capital markets

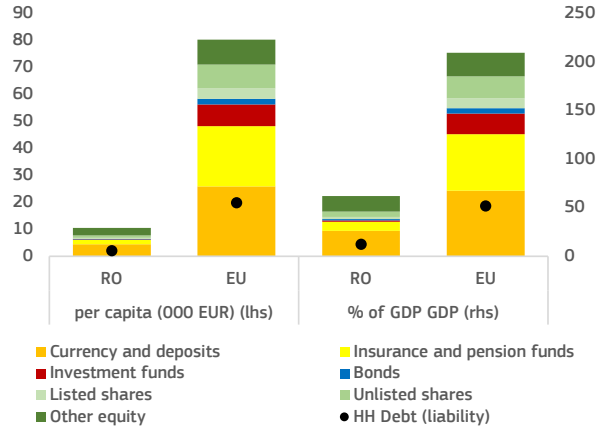
Romania's capital markets have significant room for growth. The Romanian stock market – the Bucharest Stock Exchange (BVB) – is characterised by a lack of dynamism, low capitalisation and low levels of liquidity, driven by a large number of inactive shares and low levels of companies' free-float ([79]). Moreover, Romania does not yet have its own fully operational domestic central clearing counterparty (CCP). The underdeveloped stock market is partly a reflection of the Romanian corporate sector, with many companies showing low financial strength and negative equity. Despite these structural characteristics, the trend in recent years has been very positive. Bucharest's BET stock index was among the world's best performers in 2024. This was mainly driven by the successful initial public offering (IPO) of Hidroelectrica in 2023, which revived the interest of domestic and foreign investors in the stock exchange. This IPO could be followed by the listing of other state-owned companies.

The corporate bond market remains underdeveloped. Although the domestic equities market is somewhat more advanced and active, the corporate bond market is among the least liquid in the region, with a relatively small number of outstanding bond issues. This underperformance has not only significantly limited access to financing for large segments of the Romanian corporate sector, it has also increased institutional investors' reliance on Romanian government securities.

Romania has developed a comprehensive strategy to boost its capital markets: the national strategy for the development of the capital markets 2023-2026. This strategy sets out a series of recommendations that focus on improving the institutional, legal and regulatory framework, to enhance opportunities to develop the domestic market. Certain key measures in this strategy have been adopted but not all have fully matured yet.

([79]) See Capital Market Review of Romania: Towards a National Strategy, 2022, OECD.

Graph A5.5: **Composition of HH financial assets per capita and as a % of GDP**



The sum of HH assets only reflects the total for the HH assets considered. Reference period 2023.
Source: Eurostat.

One of the main obstacles to the expansion of Romania's capital markets is the limited levels of household savings and their low allocation to capital products. Retail investment remains relatively modest compared to other EU countries, partly due to limited disposable income and a cultural preference for traditional savings methods, such as bank deposits (see Graph A5.5). One of the objectives of the national strategy is precisely to increase the participation of individual investors. Financial inclusion in Romania is still lagging behind that of its EU peers.

The role of domestic institutional investors

The assets of Romanian institutional investors, when expressed as a percentage of GDP, are the lowest in the EU. Within institutional investors, the largest category of assets is pension funds, including mandatory and voluntary funds, followed by. investment funds, with insurance corporations ranking last.

Since its creation in 2007, the private pension sector has complemented the public system and become a major investor in government bonds and shares listed on the BVB. The accumulated assets of Romanian private pension funds amounted to RON 131.5 billion in 2023 (about EUR 26.5 billion), equivalent to 8.48% of GDP. Investments are highly concentrated in local issuers (93.1% of investments are in

Romanian assets). Moreover, the private pension sector is one of the state's major creditors, holding more than 10% of the public debt issued. Apart from sovereign bonds, pension funds are also major investors in BVB-listed shares. The sluggishness of the capital markets prevents pension funds from diversifying their portfolios towards a more efficient balance between risk and return. Another challenge stems from the fact that pension funds in Romania face regulations limiting investments in certain assets. Lastly, although pension funds are important institutional investors, their buy-and-hold policies mean that they are not major providers of liquidity.

The collective investment undertakings market in Romania is less developed than in other EU countries, due to factors such as lower financial literacy, a less mature financial market and lower overall wealth. Nearly half of equity investments come from Fondul Proprietatea, created to compensate those whose assets were expropriated during the communist regime. The investment fund industry is centred around large banking groups, with 15 fund managers operating in the country, most of which belong to banking groups. These groups also dominate depositary services.

The Romanian insurance sector is relatively small and ranks last in the EU in terms of assets as a percentage of GDP (1.9% compared to the EU average of 55.3%). The market is characterised by a high degree of concentration, both in terms of the types of insurance offered (mainly car insurance) and in terms of the significant market shares held by a relatively small number of insurance companies. In 2023, 71% of total gross written premiums were made by five insurance companies. The sector has experienced a tumultuous period, with several insurance companies failing in recent years. The total value of insurance companies' investments (including assets held for unit-linked products) amounted to EUR 5.8 billion in Q1 2024. Romanian insurance companies invest mainly in fixed-income financial instruments and have high exposure to government bonds (63%), most of them Romanian. Collective investment undertakings are the second largest category, representing 16% of assets in 2023, most of them being cross-border funds. Insurance companies in Romania only allocate 5% of their assets to corporate bonds.

The depth of available venture and growth capital

Romania's domestic venture and growth capital market remains underdeveloped and insufficient to meet the financing needs of innovative companies. At present, private equity equates to only 0.04% of GDP and venture capital to just 0.01% of GDP, well below the EU average. This gap highlights the limited availability of investment for start-ups and high-growth companies. Romania has an insufficiently developed venture capital ecosystem. This is partly due to the relatively small scale of institutional investors and their investment allocation. Complicated and typically very low investment limits for pension funds invested in venture capital and private equity can also contribute to this gap ([80]). Romania also has the lowest level of research and development (R&D) expenditure as a percentage of GDP in the EU, which probably contributes to the low level of venture capital activity. The lack of strong R&D investment limits the creation of innovative and technological companies, which further stifles capital market development. In recognition of these challenges, one of the key objectives of the national strategy is to stimulate the growth and maturation of the private equity and venture capital markets, fostering an ecosystem that can better support the country's innovative and high-potential companies and connect them with investors.

Financing the green transition

The green bond market in Romania has developed slowly, but recent private sector issuances indicate a positive trend and growing interest. Notable efforts have been made, particularly within the banking sector, as it has been gradually exploring and issuing green bonds. There is considerable potential for further development in the near future as demand for sustainable investments rises.

([80]) See 2024 Survey of Investment Regulation of Pension Providers.

In 2023, the Ministry of Finance revised its funding strategy to incorporate green, social and sustainability bonds, and developed a green bond framework. In February 2024, Romania issued a EUR 2 billion sovereign green bond, marking the largest green euro-denominated bond ever issued by an emerging market. Building on the success of its previous transaction, in October 2024 Romania issued a JPY 33 billion (approximately EUR 200 million) Samurai green bond on the Japanese market.

Romania has been implementing policy actions to facilitate the financing of the green transition. The national strategy for the development of the capital markets aims to raise awareness among potential investors of the opportunities offered by investments in products that promote environmental and/or social or sustainable projects, while also raising awareness among issuers of the importance of facilitating sustainable investment. The recovery and resilience plan (RRP) also includes several measures in this area, such as the recovery venture capital fund to facilitate the green transition.

Financial literacy

Romania ranks the lowest in the EU on financial literacy. This lack of financial knowledge is a barrier to increasing retail-investor participation in capital markets and to helping companies explore alternatives to traditional bank financing. According to the 2023 Eurobarometer survey, only 13% of Romanians have a high level of financial literacy, 57% have a medium level, and the remaining 30% possess a low level. In contrast, the EU average is 26% for high literacy, 50% for medium, and 24% for low.

Several recent initiatives aim to promote the financial literacy of entrepreneurs. The National Committee for Macroprudential Oversight has recommended initiatives to improve entrepreneurs' financial education. These include collaboration with academia and the financial system to raise awareness about the potentially higher costs of funding through trade credits and shareholder loans (compared to borrowing from financial institutions or using capital market-based funding). An action plan has been developed, the first step of which is to assess the current level of financial literacy among entrepreneurs. The first round of this financial literacy assessment was included in the June 2023 survey on the access to finance of NFCs in Romania. In addition, the National Bank of Romania launched the TOP Entrepreneurship project in October 2023, aimed at enhancing entrepreneurs' financial knowledge, improving financial behaviour and increasing financial inclusion. This project also focuses on digitalising financial and business activities, with plans to organise events in collaboration with academia, the banking sector and the private sector, and to develop applications and platforms to improve the digital literacy of Romanian businesses.

Table A5.1: **Financial indicators**

		2017	2018	2019	2020	2021	2022	2023	2024-Q3	EU
Banking sector	Total assets of MFIs (% of GDP)	53.0	50.6	49.7	56.4	57.9	54.7	52.8	49.3	248.4
	Common Equity Tier 1 ratio	17.4	17.7	19.0	21.8	19.9	19.2	19.5	20.0	16.6
	Total capital adequacy ratio	19.4	19.7	21.0	23.5	22.2	22.4	22.7	23.1	20.1
	Overall NPL ratio (% of all loans)	6.6	5.0	4.3	3.9	3.4	2.8	2.5	2.7	1.9
	NPL (% loans to NFC-Non financial corporations)	12.0	8.8	7.3	6.6	5.5	4.1	3.7	3.9	3.5
	NPL (% loans to HH-Households)	5.9	5.1	4.4	4.5	4.0	3.7	3.8	3.7	2.2
	NPL-Non performing loans coverage ratio	58.5	60.3	62.1	62.3	64.9	63.9	63.5	62.5	42.1
	Return on Equity1	11.7	13.6	12.3	9.0	13.1	15.7	16.8	19.8	10.0
	Loans to NFCs (% of GDP)	12.0	11.5	11.0	11.5	12.4	12.7	12.1	11.6	30.0
	Loans to HHs (% of GDP)	14.0	13.8	13.3	13.9	13.7	12.4	10.8	10.6	44.5
	NFC credit annual % growth	5.1	9.3	6.0	6.7	20.0	19.1	12.8	10.2	0.8
	HH credit annual % growth	8.5	10.9	7.0	4.7	9.7	6.0	3.9	10.5	0.7
Non-banks sector	Stock market capitalisation (% of GDP)	-	-	-	8.4	11.4	9.0	13.4	13.1	69.3
	Initial public offerings (% of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	0.05
	Market funding ratio	29.7	27.5	27.3	27.9	25.4	23.6	24.7	-	49.6
	Private equity (% of GDP)	0.27	0.17	0.18	0.03	0.05	0.03	0.04	-	0.41
	Venture capital (% of GDP)	0.00	0.00	0.01	0.00	0.01	0.01	0.01	-	0.05
	Financial literacy (composite)	-	-	-	-	-	-	47.5	-	45.5
	Bonds (as % of HH financial assets)	1.4	1.8	1.9	2.2	1.8	2.0	2.4	-	2.7
	Listed shares (as % of HH financial assets)	2.9	2.4	2.2	2.0	3.7	3.0	3.4	-	4.8
	Investment funds (as % of HH financial assets)	5.6	4.3	4.4	3.3	3.4	2.3	2.1	-	10.0
	Insurance/pension funds (as % of HH financial assets)	12.0	12.6	13.7	13.7	14.0	13.3	15.1	-	27.8
	Total assets of all insurers (% of GDP)	2.3	2.1	2.1	2.2	2.0	1.9	1.9	2.0	54.8
	Pension funds assets (% of GDP)	-	-	-	-	-	-	-	-	23.4

1-3	4-10	11-17	18-24	25-27	Colours indicate performance ranking among 27 EU Member States.

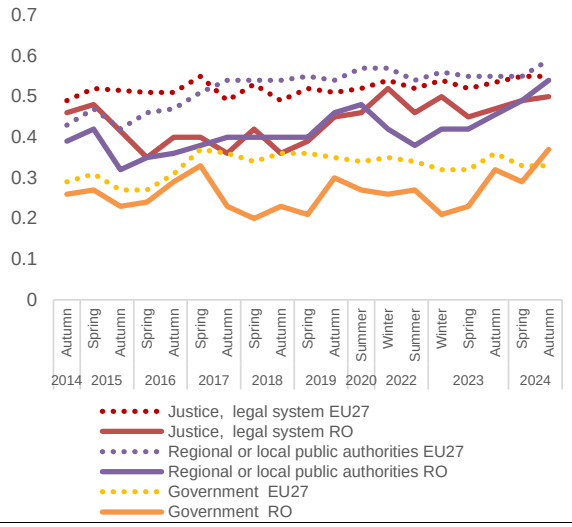
(1) Annualised data.

Credit growth and pension funds EU data refers to the EA average.

Source: ECB, ESTAT, EIOPA, DG FISMA CMU Dashboard, AMECO.

Romania's institutional framework influences its competitiveness. Overall, the perceived quality of government ranks below average among the EU Member States. There is scope for improvement in quality of legislation, regulatory simplification, and ensuring a skilled and motivated workforce in the public administration, and businesses' perception of corruption. Romania is making progress in digitalisation of public services. However further efforts are needed to achieve the Digital Decade targets.

Graph A6.1: **Trust in justice, regional / local authorities and in government**



(1) EU-27 from 2019; EU-28 before
Source: Standard Eurobarometer surveys

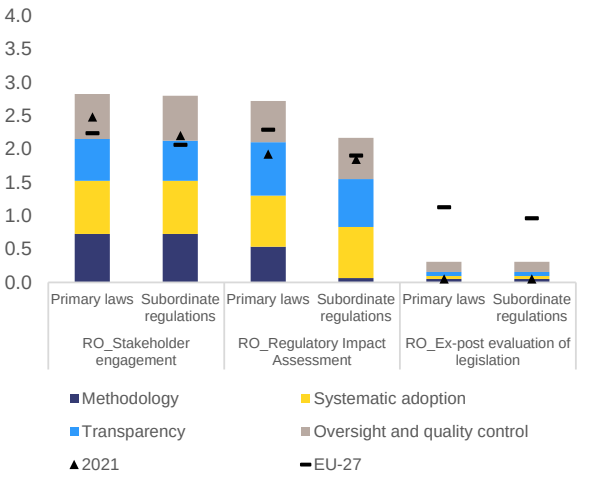
Public perceptions

Trust in public institutions is in general below the EU average but has improved in recent years. Within the national institutions the biggest gap is between trust in the justice institutions and central government (Graph A6.1). Key aspects that can increase trust in Romania's public administration are less bureaucracy, more communication with citizens and more transparency in decision-making and use of public money ([81]). The perceived quality of government has improved slightly but remains below the EU average ([82]). Against this backdrop, public administration reform priorities under Romania's recovery and resilience plan include: (i) improving the capacity for strategic coordination at the centre of government within the General Secretariat of Government; (ii) reducing administrative burden for citizens and businesses; (iii) digital transformation of public administration; and (iv) civil service reform and strengthening administrative capacity.

Quality of legislation and regulatory simplification

Performance in developing legislation is above the EU average. It is stronger for stakeholder engagement and ex-ante impact assessments than for ex post evaluation of legislation. The latter shows a visible gap with respect to the EU average on account of weaker requirements governing the methodology, systematic adoption, transparency, oversight and quality control of ex post evaluation of both primary and subordinate legislation (Graph A6.2).

Graph A6.2: **Indicators of Regulatory Policy and Governance (iREG)**



Source: OECD (2025), Regulatory Policy Outlook 2025 and Better Regulation across the European Union 2025 (forthcoming).

([81]) Understanding Europeans' views on reform needs - April 2023 - - Eurobarometer survey, Country Fact Sheet.

([82]) Inforegio – European Quality of Government Index

Table A6.1: **Romania. Selected indicators on administrative burden reduction and simplification**

	Ex ante impact assessment of legislation		Ex post evaluation of legislation	
When developing new legislation, regulators are required to …	Identify and assess the impacts of the baseline or 'do nothing' option.	○	Is required to consider the consistency of regulations and address areas of duplication.	◑
	Identify and assess the impacts of alternative non-regulatory options.	◕	Is required to contain an assessment of administrative burdens.	○
	Quantify administrative burdens of new regulations.	◑	Is required to contain an assessment of substantive compliance costs.	○
	Quantify substantial costs of compliance of new regulations.	◑	Compares the impact of the existing regulation to alternative options.	○
	Assess macroeconomic costs of new regulations.	○	Periodic ex post evaluation of existing regulations is mandatory.	●
	Assess the level of compliance.	○	Government uses stock-flow linkage rules when introducing new regulations (e.g., one-in one-out).	○
	Identify and assess potential enforcement mechanisms.	○	A standing body has published an in-depth review of specific regulatory areas in the last 3 years.	○
			In the last 5 years, public stocktakes have invited businesses and citizens to assess the effectiveness, efficiency, and burdens of legislation.	○

● Yes / For all primary laws ◕ For major primary laws ◑ For some primary laws ○ No / Never

This table presents a subset of iREG indicators focusing on regulatory costs. The indicators refer to primary legislation.
Source: OECD (2025), Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025 (forthcoming).t

Romania's recovery and resilience plan includes a measure, aiming to improve the process of public consultation and involvement of stakeholders. The target is a 20% increase in the number of draft legislative acts subject to public consultation and the involvement of stakeholders at central level.

The use of government emergency ordinances has been rising, particularly in recent years (156 in 2024, 131 in 2023, 192 in 2022, compared to 89 in 2019) ([83]).

There is scope to further strengthen the mechanisms for simplifying regulation and identifying administrative burdens. For example, regulators are not required to identify substantial costs of compliance with new regulations. Ex post evaluations of legislation do not have to contain an assessment of those and an evaluation of administrative burdens either. Moreover, periodic ex post evaluation of primary legislation is mandatory for some (not all) primary laws, nor has the government conducted recently in-depth reviews of specific regulatory areas and public stocktakes of legislation (see table A6.1).

([83]) Legislative Council database.

Efficiency of selected administrative procedures

Selected indicators point to Romania's public administration taking longer than other Member States to complete procedures. For example, the B-READY indicators ([84]) show that there is much potential for cutting the time needed to register new domestic and foreign firms, obtain a building permit, draft and file tax returns, obtain a VAT refund and receive payment from a government contract.

Moreover, according to a report monitoring the implementation of the Commission Recommendation and Guidance on speeding up permit-granting procedures for renewable energy and related infrastructure projects ([85]), there is

([84]) World Bank. 2024. Business Ready 2024. Washington, DC: World Bank. doi:10.1596/978-1-4648-2021-2

([85]) European Commission: Directorate-General for Energy, *Monitoring the implementation of the Commission recommendation and guidance on speeding up permit-granting procedures for renewable energy and related*

Table A6.2: **Digital Decade targets monitored through the Digital Economy and Society Index**

		Romania			EU-27	Digital Decade target by 2030
		2022	2023	2024	2024	EU-27
Digitalisation of public services						
1	**Digital public services for citizens**	**44**	**48**	**52**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
2	**Digital public services for businesses**	**42**	**45**	**50**	**85**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
3	**Access to e-health records**	**na**	**57**	**59**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030

Source: State of the Digital Decade report 2024

scope for further aligning national practices in Romania with the guidance, to support faster and shorter procedures for the licensing of renewable energy projects. Unlike 19 other EU Member States, Romania lacks a dedicated institution to promote pro-productivity policies.

Social dialogue

Social dialogue in Romania continues to face challenges. Social partners have limited opportunities for timely and meaningful involvement in policymaking and reform implementation. Despite improvements, the collective bargaining coverage remains low, particularly at sectoral level. Romania adopted a new Social Dialogue Law in December 2022, a reform supported by its RRP, which aims to address deficiencies with the social dialogue process and to increase collective bargaining coverage. The ESF+ is allocating EUR 85 million in the 2021-2027 programming period to boost capacity of social partners and civil society organisations to engage in social dialogue and develop partnerships ([86]).

Digital public services

Romania made steady progress in digitalisation of public services (Table A6.2)**.** Yet, with scores of 52.2 and 50 respectively Romania significantly lags behind with the EU averages of 79.4 and 85.4 respectively is still quite significant. However, growth rates of 10-12% indicate strong progress, suggesting potential convergence with the EU average and the possibility of reaching targets before 2030. Efforts to digitalize key national and regional services, establish a governmental cloud, and create an interoperability portal and framework are crucial. Additionally, Romania has scope to improve access to e-health records to meet the digital decade target.

In September 2024, Romania notified the Commission of one eID scheme with a substantial level of assurance, ROeID. While the use of ROeID is growing fast, just 1.6% of individuals in Romania have used their eID to access services provided by public authorities or public services in their country in the previous 12 months, compared to an EU average of 35.8%. Romania has also not yet set up and notified eID schemes for legal persons under the eIDAS Regulation ([87]). This means that Romanian businesses cannot authenticate themselves to access public services provided by other Member States, including those enabled by the Once-Only

infrastructure projects – Final report, Publications Office of the European Union, 2025, available at link.

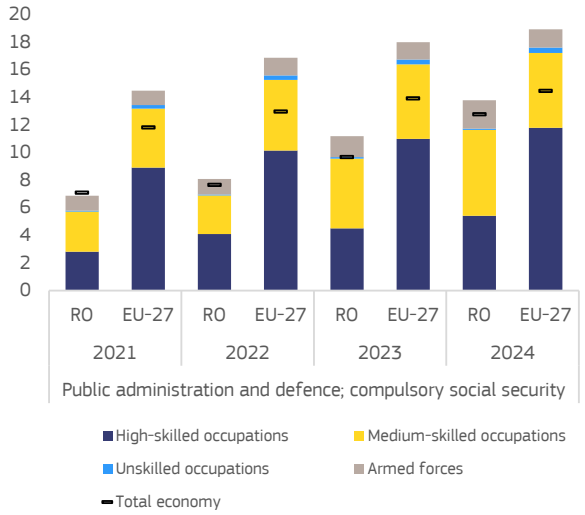
([86]) For an analysis of the involvement of Romania's social partners at national level in the European Semester and the Recovery and Resilience Facility, see Eurofound (2025), National-level social governance of the European Semester and the Recovery and Resilience Facility.

([87]) European Commission, eIDAS Dashboard.

Technical System, part of the EU Single Digital Gateway ([88]).

Romania is developing the necessary infrastructure for seamless, automated exchange of authentic documents and data across the EU. There are still additional steps to be taken by Romania to become technically ready to connect to the Once-Only Technical System ([89]).

Graph A6.3: **Participation rate of 25-64 year olds in adult learning (%) by occupation**



Source: ew European Commission, based on the Labour Force Survey

Civil service

Romania has a relatively young civil service, with a higher ratio of staff aged 49 or below compared to those aged 50 or above than the EU average ([90]). The main challenge facing Romania is improving the attractiveness of public sector employment for skilled managers and professionals who perceive the public sector to be unattractive. Moreover, the share of civil servants in Romania who participate in adult learning is below that of the EU-27, albeit increasing (Graph A6.3). The share of women in senior administrative positions was significant at 51.0 %, above the EU average of 45.4 % ([91]).

The management of the public administration workforce is undermined by a lack of integration and coherence, despite national efforts to improve. The regulatory framework for a national electronic system with data on public sector employees on organizational structure, functional classification, salary and other employment aspects was adopted ([92]). Measures targeting the development of IT platforms for managing human resources processes are included in the RRP.

Integrity

Businesses consider corruption to be widespread. In Romania, 94% of companies consider that corruption is widespread (EU average 64%) and 71% consider that corruption is a problem when doing business (EU average 36%) ([93]). Moreover, 34% of companies believe that people and businesses caught for bribing a senior official are appropriately punished (EU average 31%) ([94]). The authorities maintain a positive track record in combating corruption, including as regards high level corruption cases. However, following rulings by the High Court of Cassation and Justice on the statute of limitations, Courts have closed many corruption cases and annulled convictions ([95]). Romania adopted the Law no. 319/2014 to widen the scope of bribery of foreign public officials and to increase the currently low sanctions for legal persons ([96]). Furthermore, public procurement remains a sector with a high risk of corruption in Romania. 24% of companies (EU average 27%) think that corruption has prevented them from winning a public tender or a public procurement contract in practice in the last three

([88]) European Commission, The Once Only Principle System: A breakthrough for the EU's Digital Single Market

([89]) European Commission, Once-Only Technical System Acceleratormeter

([90]) Eurostat. Labour Force Survey. Employment by sex, age and economic activity.

([91]) European Institute for Gender Equality (EIGE) - Gender Statistics Database

([92]) Government decision No. 833 of 11 July 2024.

([93]) Flash Eurobarometer 543 on Businesses' attitudes towards corruption in the EU (2024).

([94]) Ibid.

([95]) See the 2024 country-specific chapter for Romania of the Rule of Law Report, pp. 13-14.

([96]) Ibid, p. 12.

years ([97]). With the support of the EU's Technical Support Instrument, Romania aims to identify which areas and procedures of public procurement are most prone to corruption ([98]).

Romania remains without a lobby register for contacts with Members of Parliament. The engagement of Members of Parliament with lobbyists and other third parties seeking to influence the legislative process therefore remains unregulated and there are also no clear rules on gifts, hospitality, favours and other benefits ([99]). Increased transparency may help preserve a level playing field for businesses.

Justice

The justice system performs efficiently overall. The average length at first instance in civil and commercial cases is decreasing (204 days in 2023 compared to 209 in 2022). The average length at first instance in administrative cases increased (387 days in 2023, compared to 321 in 2022). The high rate of vacancies for magistrates remains a concern ([100]). The quality of the justice system is good overall. Continuous efforts are being made to improve digitalisation within the justice system. However, with regard to procedural rules enabling digital technologies in courts, the use of digital technologies in the prosecution service, access to electronic files of ongoing cases, and digital solutions to conduct and follow criminal case proceedings, Romania is still below EU average. Progress was made to safeguard the independence of the judiciary with the adoption of the Justice Laws in 2022 and the Ministry of Justice is considering evaluating their implementation, which stakeholders, including from the magistracy and civil society, would welcome. ([101])

([97]) Flash Eurobarometer 543 on Businesses' attitudes towards corruption in the EU (2024).

([98]) See the 2024 country-specific chapter for Romania of the Rule of Law Report, p. 19.

([99]) Ibid., pp. 17-18.

([100])Ibid., pp. 7-8.

([101])For more detailed analysis see the upcoming 2025 EU Justice Scoreboard and the 2024 Rule of Law Report.

Romania faces significant challenges regarding its clean industry transition and climate mitigation: While efforts to increase manufacturing capacity in net zero technologies are underway, progress is hindered by fragmented ecosystems, skills shortages, and a lack of targeted regulatory measures. Although the country is less dependent on imports for critical raw materials, its low circular material use rate highlights an urgent need for enhanced recycling and circularity strategies. Romania's high greenhouse gas emissions intensity and slow transition toward renewable energy sources necessitate a broader portfolio of decarbonization instruments, as well as improved waste management and increased investments in sustainable practices. This annex reviews the areas in need of urgent attention in Romania's clean industry transition and climate mitigation, looking at different dimensions.

Strategic autonomy and technology for the green transition

Net zero industry

Although Romania's manufacturing capacity in net zero technologies is modest and fragmented, it appears to be ramping up its capacity in the battery and storage industry([102]). It lacks scale as well as established ecosystems supporting local supply chains and innovation. Combined with a prevailing skills shortage, this is a serious hurdle that Romania needs to overcome to scale up its net-zero manufacturing capabilities.

Romania's regulatory framework related to net zero manufacturing is focusing on high--level industrial policy, without targeted measures. Romania's 2023-2027 Industrial Strategy focuses on the digital and green transitions and expanding domestic production in strategic and high-tech sectors. Progress was made with the introduction of the Industrial License Office in charge of the rationalisation, simplification and digitisation of the specific procedures to grant a single industrial license.

Incentives schemes supporting investment and skills in net zero technologies have been put in place. In terms of investment, the National Plan for Recovery and Resilience (Planul Național de Redresare și Reziliență) allocates EUR 199 million in grants for projects involving batteries and solar cells/panels. The plan aims to promote investment in production, assembly, and recycling capacities for batteries (at least 2 GW) and photovoltaic cells/panels (at least 200 MW), with a maximum annual budget of EUR 150 million. Various skills programmes are also available, including Romania's recovery and resilience plan (RRP) and REPowerEU.

Transforming the car industry

The automotive industry is a crucial sector for Romania. Automotive is the top industrial sector with 13-14% of GDP and 1/3 of exports. It accounts for as much as half of manufacturing. With more than half a million cars a year, Romania ranks 6th to 8th among the biggest producers in the EU, on a par with Hungary and Italy. The sector has moved up the value-added chain. 70% of everything for Dacia is made locally (everything except design).

The external economic environment creates significant challenges for the future. 40% of manufactured exports go to Germany. The weakening of the German economy is affecting the automotive sector as well as Romanian industry in general.

The transition to e-vehicles is lagging behind EU averages. In 2022, Romania's motorisation rate (the number of passenger cars per thousand inhabitants) was 482, one of the lowest in the EU (EU average: 659). The average age of cars was 14.9 years, above the EU average (12.3 years). At 40%, the share of new electric cars registered was the fifth highest in the EU in 2023([103]).

([102])European Commission: Directorate-General for Energy, The net-zero manufacturing industry landscape across the Member States 2025.

([103])European Automobile Manufacturers' Association (ACEA). The Automobile Industry Pocket Guide 2024/2025 (2024); European Environment Agency, New Registrations of Electric Vehicles in Europe, 2024.

Critical raw materials

Romanian manufacturing's dependence on imports of critical raw materials is low. With 8.1% of material inputs stemming from imports in 2023 (EU average: 22% ([104])), Romania is the least vulnerable to supply chain disruptions of all EU Member States. Its index of strategic dependencies on raw materials in 2023 was one of the lowest in the EU, suggesting that its sources of supply are well diversified.

Romania addresses critical raw materials (CRMs) and CRM-rich products in several national laws and initiatives. The "National Strategy for Non-Energy Mineral Resources, Horizon 2035" was adopted at the end of 2024. It will tackle the circularity of CRMs and other CRM-relevant aspects. Romania's efforts to moderate the expected rise in demand for CRMs also include increased investment in R&D and education via its national Circular Economy Action Plan. Planned measures include training activities on the circular economy.

Romania can help reduce the EU's strategic dependencies. The country may be a source of critical raw materials for the green transition, but certification and exploitation for these materials remain difficult. Permitting for CRM works well in Romania (60 days, well below the EU target of 27 months).

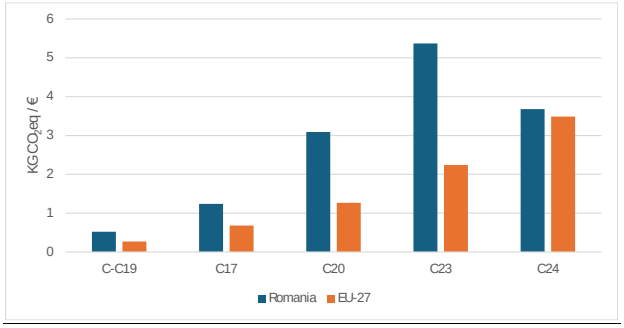
Romania has a very low circular use of materials. This has been slowly declining since 2012 and stood at 1.3% in 2023. This is the lowest rate in the EU, considerably below the EU average of 11.8% ([105]).

Climate mitigation

Industry decarbonisation

Romania's manufacturing industry has a high intensity of greenhouse gas emissions, and recent years saw only modest reductions. At 18%, the share of manufacturing in Romania's total greenhouse gas emissions is below the EU average of 21% ([106]). Romania's manufacturing sector emits 520 g of CO2eq of greenhouse gases per euro of GVA, almost twice the EU average of 270 g/€. The GHG emissions intensity of manufacturing declined by 6% between 2017 and 2022, much less than in the EU overall (20%). Among Romania's greenhouse emissions from manufacturing activity, 57% are related to energy and the remainder comes from industrial processes and product use – the same shares as in the EU overall.

Graph A7.1: **GHG emission intensity of manufacturing and energy-intensive sectors, 2022**



Source: Eurostat.

Romania's manufacturing has become more energy efficient, but its GHG emissions intensity from industry processes and product use is still high. Between 2017 and 2022, the energy-related greenhouse gas emissions intensity of Romania's manufacturing output decreased by 20%, to 124 g CO2eq/€ (93% of the EU average), while in the EU overall it decreased by 16% ([107]). At the same time,

([104]) Statistics | Eurostat

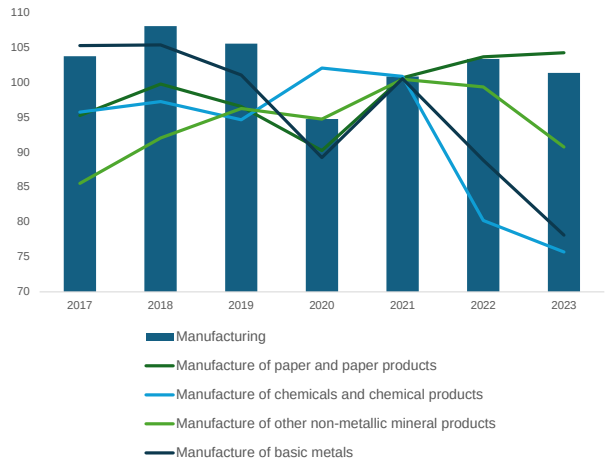
([105]) *Source:*, Eurostat, 'Circular material use rate', last updated 13.11.24.

([106]) In 2023. Manufacturing includes all divisions of the "C" section of the NACE Rev. 2 statistical classification of economic activities. In the remainder of this section, unless indicated otherwise, data on manufacturing refer to the divisions of the NACE section C excluding division C19 (manufacture of coke and refined petroleum products), and the year 2022. The source of all data in this section is Eurostat; data following the UNFCCC Common Reporting Framework (CRF) are from the European Environment Agency (EEA), republished by Eurostat.

([107]) For the GHG emissions intensity of GVA related to energy use and industrial processes and product use respectively, GHG emissions are from inventory data in line with the UNFCCC Common Reporting Format (CRF), notably referring to the source sectors CRF1.A.2 – fuel combustion in manufacturing industries and construction and CRF2 – industrial processes and product use. The CRF1.A.2 data broadly correspond to

concerning industrial processes and product use, the GHG emissions intensity from these sources of manufacturing in Romania decreased by 15%, to 208 g/€ (still over twice the EU average of 99 g/€). The EU-wide reduction was 23% in the same period. In the meantime, the share of renewables and electricity in manufacturing's final energy consumption decreased by 3 percentage points to 32%, the third lowest in the EU. The energy-intensity characteristics of manufacturing have improved though, with the final energy consumption by the sector decreasing by 8 per cent – by 1.9 GWh in 2017 per euro of GVA – to a figure of 1.8 GWh/€.

Graph A7.2: **Manufacturing industry production: total and selected sectors, index (2021 = 100), 2017-2023**



Source: Eurostat.

Romania's energy-intensive industries have high levels of greenhouse gas emissions intensity by EU standards. Energy-intensive industries ([108]) account for 11% of Romania's total manufacturing gross value added (2022). With 1.2 kg, 3.1 kg, and 5.4 kg CO2eq respectively per euro of GVA, the manufacture of paper and paper products, chemicals, and non-metallic minerals in Romania had emissions intensity among the third to fifth highest EU-wide in 2022.

The GDP share of energy intensive industries dropped significantly following the increase in energy prices. In recent years, Romania has seen an increase in energy prices, with electricity prices for large consumers ranking fifth highest in the EU in 2023 ([109]). Except for the paper products industry, production in Romania's energy-intensive sectors has declined since 2021, by up to around 30% in metal processing and more than 20% in the chemicals sector. If the share of energy intensive industry hovered around 4-5% in 2018-2021, it declined steeply to 2.8% by 2023.

Romania has scope to broaden its toolkit to support decarbonisation of manufacturing production The current plans for decarbonising industry are based on increasing the use of renewables, gas and nuclear capacities. Romania has a national circular economy strategy and action plan. Adding further instruments such as contracts for difference and the increased use of power purchase agreements, is under way, with RRP support. This could step up support to industry to help it modernise and decarbonise. Green public procurement could also support industry decarbonisation on the demand side but has only been used little so far.

Reduction of emissions in the effort sharing sectors

Romania is projected to reach its 2030 effort sharing target if it adopts and implements the planned additional climate mitigation measures ([110]). In 2023, greenhouse gas emissions from Romania's effort sharing sectors are expected to have been 3.8% below those of 2005. By 2030, current policies are projected to reduce these emissions by 8.9% relative to 2005 levels. Additional policies considered in Romania's

the NACE C and E sectors, excluding C-19. GVA data (in the denominator for both intensities) are aligned with this sectoral coverage. Therefore, they are not fully consistent with the data referred to in other part of this section

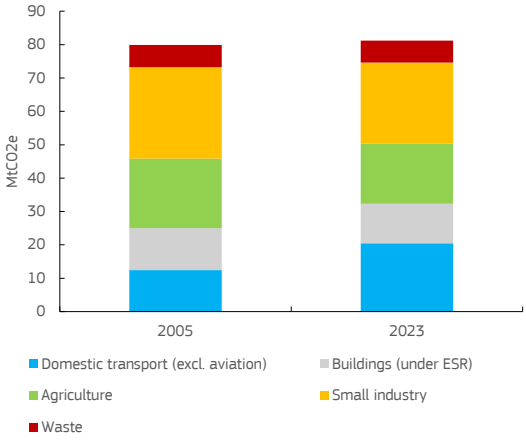
([108])Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming much energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

([109])For a detailed analysis of energy prices, see Annex 8 on the affordable energy transition.

([110])The national greenhouse gas emission reduction target is set out in Regulation (EU) 2023/857 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling); road transport, agriculture; waste; and small industry (known as the effort sharing sectors).

final updated energy and climate plan (NECP) are projected to involve reductions of a further 6.4 percentage points. Hence Romania is projected to overachieve its effort sharing target, a 12.7% reduction, by 2.6 percentage points ([111]), once it has adopted and implemented those measures.

Graph A7.3: **Greenhouse gas emissions in the effort sharing sectors, 2005 and 2023**



Source: European Environment Agency

Swift action on decarbonising transport and buildings appears particularly necessary in Romania. Between 2005 and 2023, greenhouse gas emissions from road transport increased by 65% in Romania, while they decreased by 5% in the EU overall. From buildings, they decreased by 6%, much less than the 33% seen in the EU overall. Speeding up climate mitigation in these sectors would help protect households, businesses and transport users in Romania from the impact of the forthcoming carbon price.

Sustainable industry

Circular economy transition

Romania is still lagging behind on its circularity transition. Its circular use of materials has been slowly declining since 2012. With 1.3% in 2023, the rate is below the EU average and the lowest in the EU. Romania's resource productivity, too, was below the EU average in 2023, with EUR 0.34 per kg of material consumed. It has been constantly stagnating and below the EU average over the past decade; this has negative environmental impacts and increases dependence on volatile raw material markets. In 2023 Romania adopted its national Action Plan promoting the Circular Economy, as part of its 2022 National Strategy for the Circular Economy. The Action Plan sets a general direction for accelerating the transition from a linear to a circular economy model in Romania.

Despite generating less waste than the EU average, Romania continues to face challenges with waste management. It saw a decrease in the total amount of waste generation between 2010 and 2022. However, Romania's municipal waste generation has slightly increased in recent years. In 2022, the country generated 303 kg/cap of municipal waste. With a recycling rate of 12%, which has stagnated since 2010, it is one of the worst performers. The landfill rate was 74% in 2022, with no progress made since 2010. In 2021, at 32%, its recycling rate for plastic packaging was below the EU average ([112]). In 2022, 52.1% of construction and demolition waste was recycled, excluding backfilling, far below the EU average of 79.8%. At the same time, the material footprint of 33.2 tonnes per capita is more than double the EU average (14 tonnes per person) and the second highest value in the EU. Because Romania missed the 2020 municipal waste targets, the packaging and waste targets and the waste electrical and electronic equipment target, the Commission initiated legal proceedings. Romania is at risk of missing both the 2025 municipal waste and the packaging waste targets and may also not meet the 2035 target of maximum 10% of municipal waste landfilled. Although Romania has made some progress on closing substandard and illegal landfills, progress has been too slow and it is paying the resultant financial penalties ([113]).

([111])The effort sharing emissions for 2023 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections on the impact of current policies ("with existing measures", WEM) and additional policies ("with additional measures", WAM), as per Romania's final updated NECP.

([112])The latest available data for packaging waste is for year 2021.

([113])In case (INFR(2008)2012), to date, 29 landfills remain open, with Romania paying the resultant penalties. In a different case, more than half of the landfills subject to the case (INFR(2017)2024) have already closed.

Current investment in the circularity transition has been insufficient. Romania is estimated to need additional investment worth at least EUR 426 million per year, with an additional EUR 108 million for waste management. Combined, this amounts to EUR 534 million a year, representing 0.19% of Romania's GDP. Of the circular economy gap, EUR 112 million relates to recent initiatives, such as eco-design for sustainable products, packaging and packaging waste, labelling and digital tools, critical raw materials recycling and measures proposed under the amended Waste Framework Directive. EUR 314 million constitutes further investment needed to unlock Romania's circular economy potential ([114]).

Zero pollution industry

Romania has been making progress in reducing air pollution, which is now decoupled from GDP growth, but several shortcomings are still to be addressed. The 2020-2029 emissions reduction commitments under the National Emissions Reduction Commitments Directive have been met, except for NO_x and $PM_{2.5}$. Romania projects to meet the stricter emissions reduction commitments for 2030 and onwards. In 2023, air quality limit values for nitrogen dioxide (NO_2) set by the Ambient Air Quality (AAQ) Directive were breached in one air quality zone, and for PM_{10} in four air quality zones. Shortcomings have been identified in air quality monitoring for some time now. Romania has made some progress, as some monitoring stations have been added to the network, but gaps remain concerning the appropriate number and type of air quality sampling points and data quality objectives.

Romania's industry still releases large amounts of air and water pollutants. Although it has the 10th highest damage in the EU, it comes 6th for emissions intensity, above the EU average of 27.5 EUR/thousand EUR GVA. The main contributors to emissions to air are the energy sector as well as the mineral industry for NO_X emissions; the waste management and chemical industry for dust emissions; and the energy sector, metals sector and mineral sector for SO_2 and heavy metals. Romania has the 14th highest amount of emissions of heavy metals to water and is in 13th position for emissions intensity (below the EU average intensity of 0.864 kg/billion EUR GVA). The main contributors of emissions to water in Romania are the mineral extracting industry for heavy metals, refineries for phosphorus and chemicals for total organic carbon.

The costs of pollution remain far higher than the investment in pollution prevention and control. For 2022, about 17 900 deaths were attributed to fine particulate matter ($PM_{2.5}$), 3 600 deaths to nitrogen dioxide (NO_2) and 2 800 deaths each to ozone. To meet its environmental objectives concerning pollution prevention and control (towards zero pollution), Romania needs to provide an additional EUR 805 million per year (0.28% of GDP), mostly related to clean air and noise. The current investment levels supporting pollution prevention and control reach an estimated EUR 1.3 billion per year in Romania in 2021–2027. Most of the financing concerns clean air (EUR 1.2 billion per year). Protection from environmental noise receives around EUR 0.6 billion per year, with a further EUR 47 million for site remediation. EUR 2.1 billion per year is needed for pollution prevention and control ([115]).

([114])European Commission, DG Environment, *Environmental investment needs & gaps assessment programme*, 2025 update. Expressed in 2022 prices.

([115])European Commission, DG Environment, *Environmental investment needs & gaps assessment programme*, 2025 update. Expressed in 2022 prices.

Table A7.1: **Key clean industry and climate mitigation indicators: Romania**

Strategic autonomy and technology for the green transition				Romania						EU-27	
Net zero industry											
Operational manufacturing capacity 2023											
- Solar PV (c: cell, w: wafer, m: module), MW	100-250 (m)				- Electrolyzer, MW		-				
- Wind (b: blade, t: turbine, n: nacelle), MW	-				- battery, MWh		0-200				
Automotive industry transformation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Motorisation rate (passenger cars per 1000 inhabitants), %	307	332	357	379	400	413	425	↗		539	561
New zero-emission vehicles, electricity motor, %	0.22	0.46	0.93	2.25	5.23	9.00	10.63	↗		1.03	8.96
Critical raw materials	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Material import dependency, %		10.7	9.5	9.3	10.1	9.9	8.1	↘		24.2	22.6

Climate mitigation				Romania				Trend		EU-27	
Industry decarbonisation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2017**	**2022**
GHG emissions intensity of manufacturing production, kg/€	0.56	0.55	0.55	0.64	0.61	0.52	0.48	↘		0.34	0.27
Share of energy-related emissions in industrial GHG emissions	48.7	48.6	47.9	48.5	46.8	46.4	43.3	↘		44.8	42.5
Energy-related GHG emissions intensity of manufacturing and construction, kg/€	258.4	264.6	256.2	294.8	286.6	273.0	-	↗		158.4	132.9
Share of electricity and renewables in final energy consumption in manufacturing, %	34.7	33.6	32.9	31.1	30.4	32.1	34.0	↘		43.3	44.2
Energy intensity of manufacturing, GWh/€	1.94	1.89	1.91	2.02	2.02	1.79	1.52	↘		1.29	1.09
Share of energy-intensive industries in manufacturing production						10.1					7.3
GHG emissions intensity of production in sector [...], kg/€											
- paper and paper products (NACE C-17)	1.04	0.88	0.94	0.79	0.99	1.24	1.24	-		0.73	0.68
- chemicals and chemical products (NACE C20)	4.09	4.58	4.62	5.33	4.37	3.09	3.19	-		1.25	1.26
- other non-metallic mineral products (NACE C23)	4.01	4.27	4.70	5.54	4.74	5.37	5.52	-		2.53	2.24
- basic metals (NACE C24)	3.92	4.29	4.57	6.36	4.49	3.68	2.63	-		2.79	3.49
Reduction of effort sharing emissions		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2023**
GHG emission reductions relative to base year, %					5.9	4.0	3.8				
- domestic road transport		47.3	51.0	47.2	56.6	69.0	64.8	↗		1.4	5.2
- buildings		-0.8	-0.7	0.9	14.9	6.6	-6.0	↘		21.4	32.9
	2005				**2021**	**2022**	**2023**	**Target**		**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	78.2				82.8	81.4	81.2	-12.7		-3.8	2.6

Sustainable industry				Romania				Trend		EU-27	
Circular economy transition		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Material footprint, tonnes per person		23.4	28.0	29.4	30.5	30.4	33.2	↗		14.7	15.0
Circular material use rate, %		1.6	1.4	1.5	1.5	1.5	1.3	↘		11.6	11.1
Resource productivity, €/kg		0.5	0.4	0.4	0.4	0.5	0.5	↗		2.1	2.3
Zero pollution industry											
Years of life lost due to PM2.5, per 100,000 inhabitants		1,329	1,091	1,175	1,122	1,423	-	↗		702	571
Air pollution damage cost intensity, per thousand € of GVA					47.3						27.5
Water pollution intensity, kg weighted by human factors per bn € GVA						0.7					0.9

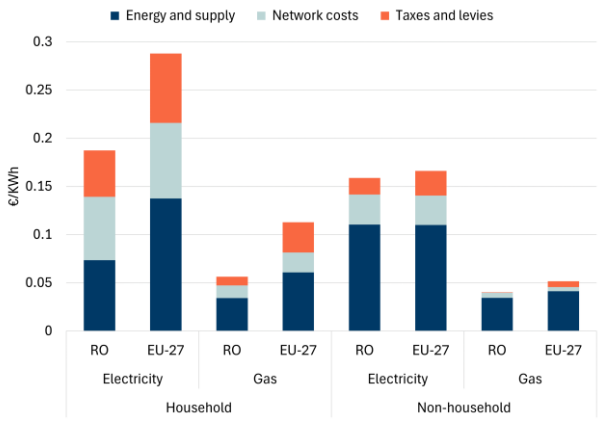
Source: **Net zero industry:** European Commission: The net-zero manufacturing industry landscape across Member States: final report, 2025. **Automotive industry transformation:** Eurostat. **Critical raw materials:** Eurostat. **Climate mitigation:** See footnotes in the "climate mitigation" section; reduction of effort sharing emissions: EEA greenhouse gases data viewer; European Commission, Climate Action Progress Report, 2024. **Sustainable industry:** Years of life lost due to PM2.5: Eurostat and EEA, Harm to human health from air pollution in Europe: burden of disease status, 2024. Air pollution damage: EEA, EU large industry air pollution damage costs intensity, 2024. Emissions covered: As, benzene, Cd, Cr, Hg, NH3, Ni, NMVOC, NOX, Pb, dioxins, PM10, PAH, SOX. Water pollution intensity: EEA, EU large industry water pollution intensity, 2024. Releases into water covered from cadmium, lead, mercury, nickel. Other indicators: Eurostat.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy competitiveness and affordability, while advancing the transition to net zero. It examines the measures and targets proposed in the final (draft) updates to the national energy and climate plans (NECPs) for 2030.

Romania has a good situation in terms of security of energy supply, and contributes to the stability of the region. **Energy efficiency has continued to progress well**, and compared to previous years in 2024 there was a more significant deployment of renewable energy. **However, Romania is facing a number of challenges related to the affordable energy transition,** in particular structural bottlenecks in storage solutions, weak consumer empowerment, limited cross-border trade, long permit-granting procedures for renewable energy that are slowing down their deployment, limited development of power purchase agreement (PPAs), and a high fiscal burden on electricity, distorting energy price signals for electrification.

Energy prices and costs

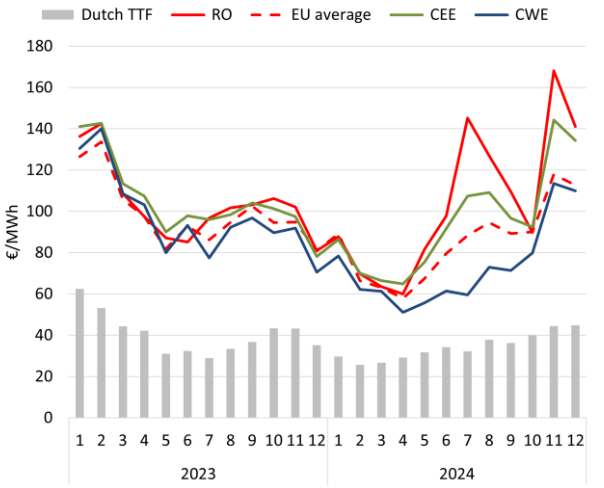
Graph A8.1: **Retail energy price components for household and non-household consumers, 2024**



(i) For household consumers, consumption band is DC for electricity and D2 for gas. Taxes and levies are shown including VAT.
(ii) For non-household consumers, consumption band is ID for electricity and I4 for gas. Taxes and levies are shown excluding VAT and recoverable charges, as these are typically recovered by businesses.
Source: Eurostat

Romania's retails energy prices dropped in 2024 with the exception of gas prices for household consumers and remained considerably below EU average. Retail electricity prices for households were around 35% lower than the EU average with slightly higher share of network costs (35.1% of the final electricity prices for an EU average of 27.2%), while for non-household consumers, prices were just below EU average with the shares of all components (energy and supply, network costs, taxes and levies) broadly following EU trends. Retail gas prices for households and non-household consumers were the third least expensive in the EU, but with slightly higher share of network costs and considerably lower taxes and levies than EU average. The various measures adopted by the Romanian authorities and in force throughout 2024, meant to cap the electricity and gas prices, also played a role in this evolution.

Graph A8.2: **Monthly average day-ahead wholesale electricity prices and European benchmark natural gas prices (Dutch TTF)**



(i) the Title Transfer Facility (TTF) is a virtual trading point for natural gas in the Netherlands. It serves as the primary benchmark for European natural gas prices.
(ii) CEE and CWE respectively provide average prices in the central-western European (Belgium, France, Germany, Luxembourg, the Netherlands and Austria) and central-eastern European (Poland, Czechia, Slovakia, Hungary, Slovenia and Romania) markets.
Source: S&P Platts and ENTSO-E

With an average of 103 EUR/MWh in 2024([116]), Romania had the EU's fourth highest wholesale electricity prices – and while prices in Romania declined early in the

([116])Fraunhofer (ENTSO-E data).

year amid falling natural gas costs, they surged during the spring/summer and again in the winter, diverging from central eastern European (CEE) markets. This decorrelation was driven by factors affecting both consumption and generation. Prolonged and warmer summer heatwaves and a colder winter in the region led to higher consumption. The supply-demand gap was exacerbated by reduced hydropower reserves and reduced wind output due to meteorological conditions (-11%([117]) and -15% in 2024), diminished nuclear generation due to malfunctions (-4%), lower coal output (-15%) due to rising CO_2 costs and limited non-fossil flexibility. This gap was mainly covered by higher imports, particularly from Hungary and Serbia([118]), as well as increased costly natural-gas-fired generation (+8% in 2024) in the summer, especially during peak demand hours. These conditions drove concentrated price spikes in the evening hours (18h-21h), when solar output declined and demand increased, especially during the summer. On the other hand, average daytime hourly prices were lower compared to 2023, likely owing to the increased solar output in Romania (+88% in 2024)([119]).

Flexibility and electricity grids

Romania is part of the Core([120]) **and south-east Europe**([121]) **capacity calculation regions (CCRs)**([122])**.** Member States should ensure that a minimum of 70% of technical cross-border capacity is available for trading. In the Core region, Romania is not fulfilling this target, and has a derogation in place that limits the cross-zonal capacity available for trading. In the south-east Europe CCR, electricity flows are heavily influenced by exchanges in nearby bidding zone borders, including the western Balkan countries.

Romania has several projects of common interest in electricity transmission that also have a priority status under the CESEC High-Level Group. These are: (i) internal lines Cernavoda-Stalpu, and Gutinas-Smardan as part of the Black Sea corridor with Bulgaria, (ii) internal lines Portile de Fier-Resita, Resita-Timisoara/ Sacalaz and Arad-Timisoara/ Sacalaz and lastly (iii) cross-border interconnections such as the Resita-Pancevo line as part of the mid-continental east corridor with Serbia. The completion of the infrastructure is also supporting the integration of Moldova's power system into the European electricity market and its security of supply by realising two electricity transmission lines: Isaccea- Vulcanesti- Chisinau and Suceava– Balti.

The national framework for the permitting of energy infrastructure projects is well structured. However, there is room for improvement in terms of coordination among various public authorities across different levels. The administrative procedures involved in energy infrastructure development are very complex. Moreover, the permitting framework does not yet take the hydrogen and CO_2 infrastructure into account. There is scope for improvements in terms of streamlining environmental assessments and the duration of procedures.

The challenges to energy system integration are significant, with the waiting times for connecting renewable energy sources (RES) to the grid remaining long. Grid connection tends to be cumbersome due to limited availability in specific areas. The burden of high costs associated with grid reinforcement and expansion continues to fall on investors, while some construction deadlines have been delayed by the transport system operator (TSO) and district system operator (DSO) by up to two years.

The Romanian recovery and resilience plan includes measures to accelerate the deployment of renewable energy. These are reforms that aim to decarbonise the energy system, facilitate the use of state land as acceleration areas for RES investments, and investments supporting the installation of new renewable power production capacity (wind and solar), as well as electricity storage.

([117])ENTSO-E.
([118])Both increasing natural gas-fired generation in 2024.
([119])Yearly electricity data, Ember (generation and consumption data throughout the paragraph).
([120])Core is the CCR which covers central European countries namely Austria, Belgium, Czechia, Germany, France, Croatia, Hungary, the Netherlands, Poland, Romania, Slovenia, Slovakia and, once connected, Ireland.
([121])South-east Europe is the CCR to which Romania, Bulgaria and Greece belong.
([122])A CCR is a group of countries which calculate the cross-border electricity trade flows together.

In 2023 there were **32 occurrences of negative electricity prices** in Romania([123]). RES curtailment and the associated costs do not seem to be monitored in Romania (this is flagged by ACER as a weakness in Romania's country sheet 2023)([124]).

Romania's electricity storage capacity reported in the draft updated NECP is around 16.2 MW. Romania has already taken steps to promote the installation of electricity storage, in particular power battery storage, with a target of at least 1 200 MW by 2030 (800 MW of which from pumped storage hydroelectric power plants), around 2 000 MW by 2035 and 4 500 MW by 2040.

Romania's regulatory framework still presents barriers to the development of flexible resources, hindering the participation of demand-side response (DSR) and other distributed energy resources. Romania allows DSR and storage to sell and buy electricity in the day-ahead and intraday markets, although participation is limited. DSR and storage are also allowed to participate in ancillary services and are also eligible to provide congestion management services to TSOs. Aggregators, including independent aggregators, are allowed to participate in the above-mentioned markets and services, but their involvement is restricted by regulatory and market barriers, such as the limited deployment of smart meters or the lack of a proper legal framework.

Despite progress regarding self energy consumption, consumer empowerment remains limited. The number of prosumers is steadily increasing. In 2024, 194 903 prosumers were registered. However, no noticeable progress has been made regarding the participation of individuals in energy communities([125]). While initiatives exist for energy communities, the legal framework in not always sufficiently clear and the current procedures for setting up energy communities are often viewed by the interested parties as very complex. Romania has introduced measures to protect vulnerable consumers of energy by maintaining regulated prices and providing state support schemes for energy efficiency and access to renewable energy (see Annex 11).

Romania lacks explicit legislation for energy sharing despite efforts to redefine prosumers and promote direct energy sales. In addition, the country is **experiencing some delays in its plan to develop smart meters**: Romania has legal plans to reach an 80% target, but is still far from this target (in 2023 the smart meter roll-out stood at only 23%)([126]).

In 2023, electricity accounted for 15.3% of Romania's final energy consumption, below the EU average of 22.9%, and this share has remained largely stagnant in the last decade([127])**, partly due to an unfavourable electricity-to-gas price ratio that disincentivizes electrification and cost-effective decarbonization.** When it comes to households, electricity accounts for 15.0% of final energy consumption, while in industry it represents 29.0% (see also Annex 7). For the transport sector, this share remains negligible at 1.0%. Further progress in electrification across sectors is required for cost effectively decarbonising the economy and bringing the benefits of affordable renewable generation to consumers. In 2024's second semester, Romania had one of the highest electricity-to-gas price ratios in the EU, due to a fiscal burden skewed towards electricity. Excluding taxes and levies, this ratio was 3.1. for households and 3.5 for energy-intensive industries, rising to 3.4 and 3;9, respectively, after taxes and levies. For households, taxes and levies accounted for ~25,7% of the final electricity price, compared to ~16% for gas. For energy-intensive industries, non-recoverable taxes and levies made up ~11% of the electricity price, while gas was nearly tax-exempt (~1%), making it more costly to shift to electricity-based heating and industrial processes.([128])

([123])ACER.

([124])ACER Country_Sheets_MMR_Retail_2024.pdf.

([125])The latest report from ACER mentioned only two energy communities for Romania.

([126]) ACER report.

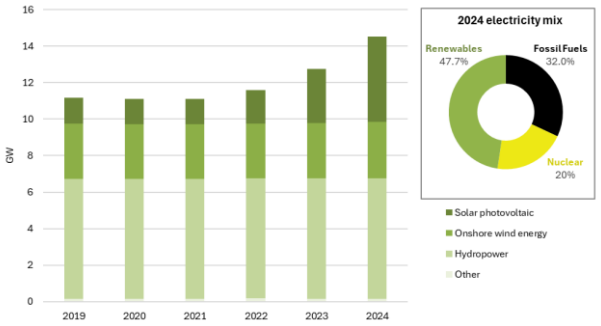
([127])CAGR (compound annual growth rate) of -0.5% between 2013 and 2023 and minimum/maximum share of 15.3% and 17.1%, respectively. Source: Final energy balances, Eurostat.

([128])Analysis based on Eurostat data for the second semester of 2024. For household consumers, consumption band is DC for electricity and D2 for gas, which refer to medium-sized consumers and provide an insight into affordability. For non-household consumers, consumption band is ID for electricity and I4 for gas, referring to large-sized consumers, providing

Renewables and long-term contracts

Renewable energy sources represented 48% of electricity generation in Romania in 2024, compared to the EU's overall RES share of 47%([129]). In 2024 the renewable energy installed capacity increased by 14%, marking a clear progress after several years of almost stagnation. This was due mostly to the significant increase (by 57%) of solar. In 2024, Romania installed 1.7 GW of solar energy. No significant increases were observed for the other renewable energy sources.([130])

Graph A8.3: **Romania's installed renewable capacity (left) and electricity generation mix (right)**



"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Ember

The Romanian permitting framework is moderately aligned with the Commission's Recommendation. Between 2023 and 2024, the Romanian authorities took several important steps to improve the legal framework for granting permits for projects on renewables. This included introducing measures to facilitate participation by individuals and communities by enabling a simplified grid connection procedure for renewable self-consumers, as well as digital and transparent grid connection processes. However, the permitting process for renewable energy projects is not centralised. This results in parallel procedures and duplication of documentation requirements. There is room for improvement also regarding the establishment of regulatory sandboxes, as well as introducing legal clarity on energy communities.

Based on its updated NECP, Romania aims to ensure that 38.3% of renewable energy forms part of the gross final consumption of energy by 2030. This applies to all forms of renewables, from which 15% come from wind power capacity and 11% from solar power capacity. While increased compared to the draft updated NECP, this target remains below the contribution calculated based on the EU Legislation (which is 41%).

So far, Romania does not have a market for power purchase agreements (PPAs). Beyond possible regulatory barriers, the pipeline of renewable energy projects is too constrained to allow for sufficient supply to feed a PPA market.

In 2024, Romania launched a contract for difference (CfD) mechanism for the construction of renewable energy installations and opened the first auction for 1.5 GW of renewable energy generation capacities – 500 MW of solar photovoltaics (PV) and 1 GW of onshore wind.

Energy efficiency

Energy efficiency gains have maintained their pace in Romania, although a large untapped potential still exists. In 2023, primary energy consumption (PEC) decreased by 3.4% to 29.95 Mtoe. Final energy consumption (FEC) decreased by 3.1% to 23.28 Mtoe. Compared to 2022, FEC decreased in industry by 13.6% and in residential by 4.3%, whereas it increased in transport by 7.8% and in services by 7.4%. According to the recast Energy Efficiency Directive, Romania should try to reach a PEC of 30.16 Mtoe and an FEC of 22.47 Mtoe by 2030.

Under its long-term renovation strategy, Romania aims to achieve 9% savings on energy use and increase the annual renovation rates to 3.39% by 2030. Although final energy consumption in households decreased by 4.3% between 2022 and 2023, it increased slightly by about 5% when applying climate

an insight into international competitiveness (price used for the calculation excludes VAT and other recoverable taxes/levies/fees as non-household consumers are usually able to recover VAT and some other taxes).

([129])Yearly electricity data, Ember.

([130])IRENA Renewable Capacity Statistics 2025.

corrections([131]). Unless Romania steps up its efforts to improve the energy efficiency of buildings, it would be difficult to reach the expected objectives for 2030 in terms of reducing energy consumption in the buildings sector.

Heating and cooling represent 76% of the country's residential final energy consumption, of which 29% comes from renewables. Approximately 2.5 million households are using a gas boiler for heating purposes, while the heat pump market remains limited. While renovation programmes exist, there are currently no financial programmes in place that specifically target heat pumps([132]). In Romania, electricity was 3.4 times more expensive than gas in 2023, decreasing to 3.2 times more expensive in the first half of 2024. This means that end users save energy but do not make any significant financial savings if they choose a heat pump for heating. The residential electricity-to-gas price ratio has decreased by 14% over the past five years, making heat pumps slightly more financially attractive. However, Romania is taxing electricity heavier than gas, increasing the obstacles for the deployment of heat pumps

Romania's national financing framework mobilising investments in energy efficiency is mostly composed of grants and subsidies. In 2024, Romania continued to implement the support scheme to improve the energy efficiency of the industry sector, where investments support also the deployment of digital energy consumption measurement systems and promote on-site renewable installation. Little private funding is leveraged, in the absence of dedicated financial instruments for energy efficiency and with an underdeveloped energy services sector, as a key market-enabler for energy efficiency improvements.

([131])Climate correction applied to whole final energy consumption in households that is multiplied by the average heating degree days (HDD) over the 2006-2023 period and divided by the HDD in the corresponding year.

([132])https://www.sustainability-today.ro/index.php/2024/07/02/epg-scenarios-for-adoption-of-heat-pumps-in-romania-until-2030/

Security of supply and diversification

Despite progress in renewables, Romania's overall energy mix in 2023 remained heavily reliant on fossil fuels, with, oil accounting for 36% and natural gas for 25% of the energy mix([133])([134]), while renewables (together with biofuels) accounted for 20%. There is little change compared to the previous year, and overall, still less than one third of the country's energy mix (20% renewables and 9% nuclear) comes from non-fossil sources of energy. The recent efforts made by Romania to decarbonise its energy sector are not yet reflected in the energy mix.

Romania covers most of its natural gas demand from domestic production and has diversified the sources of import for the remaining part. Romania does not need to develop new cross-border gas infrastructure for security-of-supply reasons. The country is finalising the Tuzla-Podisor pipeline as part of the BRUA corridor. Maximising the use of existing infrastructure is essential for the security of supply of the entire south-east European region. In this context, the CESEC High-Level Group is looking into the gas quality harmonisation process, with a view to removing regulatory obstacles that impede the use of the Trans-Balkan pipeline. Romania's engagement in this process is essential in view of the important role it plays for the security of supply in the region.

Fossil fuel subsidies

In 2023, environmentally harmful ([1]) fossil fuel subsidies without a planned phase-out before 2030 represented 0.47%([2]) of Romania's GDP([3])

([133])Electricity and heat have been excluded to avoid double-counting, focusing on primary energy sources.

([134])Gross inland consumption, Eurostat.

([1]) Direct fossil fuel subsidies that incentivise maintaining or increasing in the availability of fossil fuels and/or use of fossil fuels.

([2]) Numerator is based on volumes disclosed by the Romanian authorities via the 2025 NECPR reporting. For all Member States, it includes public R&D expenditures for fossil fuels as reported by the IEA (Energy Technology RD&D Budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU27 air traffic.

(EU weighted average of 0.49%). Income/price support accounted for 72% of this volume, while tax measures and direct grants represented 17% and 11%, respectively. Fossil fuel subsidies without a planned phase-out before 2030 and which do not specifically address, in a targeted way, energy poverty nor genuine energy security concerns included ongoing price caps for heating supplied to households, an excise tax reduction on gasoil used in agriculture, and excise tax exemptions on natural gas consumed by households. Additionally, Romania's 2023 Effective Carbon Rate([5]) averaged EUR 54.6 per tonne of CO_2, below the EU weighted mean of EUR 84.80([135]).

([3]) 2023 Gross Domestic Product at market prices, Eurostat.

([5]) The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([135])OECD (2024), Pricing Greenhouse Gas Emissions 2024

Table A8.1: **Key Energy Indicators**

	Romania				EU			
	2021	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Household consumer - Electricity retail price (EUR/KWh)	**0.1562**	**0.2889**	**0.1897**	**0.1873**	**0.2314**	**0.2649**	**0.2877**	**0.2879**
Energy & supply [%]	45.5%	59.4%	43.3%	39.2%	36.6%	54.3%	55.6%	47.8%
Network costs	27.3%	17.9%	32.3%	35.1%	26.7%	25.3%	24.8%	27.2%
Taxes and levies including VAT	27.3%	22.7%	24.4%	25.7%	36.7%	20.3%	19.6%	25.0%
VAT	15.9%	16.0%	16.0%	16.0%	14.5%	13.4%	13.8%	14.6%
Household consumer - Gas retail price	**0.0373**	**0.0833**	**0.0552**	**0.0564**	**0.0684**	**0.0948**	**0.1121**	**0.1128**
Energy & supply	63.0%	73.5%	64.1%	60.6%	43.7%	61.0%	64.5%	53.9%
Network costs	20.9%	10.6%	19.9%	23.4%	22.5%	17.3%	17.1%	18.3%
Taxes and levies including VAT	16.1%	16.0%	15.9%	16.0%	33.8%	21.7%	18.4%	27.8%
VAT	16.1%	16.0%	15.9%	16.0%	15.5%	11.6%	10.2%	13.6%
Non-household consumer - Electricity retail price	**0.1102**	**0.2813**	**0.1700**	**0.1588**	**0.1242**	**0.1895**	**0.1971**	**0.1661**
Energy & supply	54.8%	70.7%	61.5%	58.5%	43.0%	66.5%	63.0%	55.8%
Network costs	16.9%	7.8%	15.4%	16.5%	15.8%	10.7%	11.9%	15.5%
Taxes and levies excluding VAT	14.6%	6.6%	8.5%	10.8%	30.4%	9.9%	11.2%	15.4%
Non-household consumer - Gas retail price	**0.0332**	**0.1017**	**0.0478**	**0.0403**	**0.0328**	**0.0722**	**0.0672**	**0.0517**
Energy & supply	72.1%	78.6%	76.3%	71.7%	66.2%	77.3%	77.3%	68.7%
Network costs	10.7%	5.1%	7.0%	11.3%	7.7%	3.8%	5.3%	7.1%
Taxes and levies excluding VAT	1.8%	0.6%	0.8%	1.2%	12.5%	6.1%	7.3%	11.6%
Wholesale electricity price (EUR/MWh)	214.6	264.5	104.0	103.3	111.0	233.2	99.1	84.7
Dutch TTF (EUR/MWh)	*n/a*	*n/a*	*n/a*	*n/a*	46.9	123.1	40.5	34.4

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Gross Electricity Production (GWh)	**64 296**	**64 876**	**59 623**	**55 935**	**59 470**	**56 003**	**57 983**	-
Combustible Fuels	28 672	27 308	23 787	20 088	22 162	21 569	18 367	-
Nuclear	11 509	11 377	11 280	11 466	11 284	11 089	11 191	-
Hydro	14 853	18 097	16 006	15 701	17 745	14 360	18 649	-
Wind	7 407	6 322	6 773	6 945	6 576	6 997	7 548	-
Solar	1 856	1 771	1 778	1 733	1 703	1 988	2 227	-
Geothermal	-	-	-	-	-	-	-	-
Other Sources	-	-	-	-	-	-	-	
Gross Electricity Production [%]								
Combustible Fuels	44.6%	42.1%	39.9%	35.9%	37.3%	38.5%	31.7%	-
Nuclear	17.9%	17.5%	18.9%	20.5%	19.0%	19.8%	19.3%	-
Hydro	23.1%	27.9%	26.8%	28.1%	29.8%	25.6%	32.2%	-
Wind	11.5%	9.7%	11.4%	12.4%	11.1%	12.5%	13.0%	-
Solar	2.9%	2.7%	3.0%	3.1%	2.9%	3.6%	3.8%	-
Geothermal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Other Sources	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Net Imports of Electricity (GWh)	**- 2 894**	**- 2 544**	**1 518**	**2 792**	**2 199**	**1 224**	**- 3 018**	-
As a % of electricity available for final consumption	-5.9%	-5.1%	3.1%	5.8%	4.4%	2.6%	-6.9%	-
Electricity Interconnection [%]	**6.9%**	**10.0%**	**9.1%**	**9.3%**	**7.6%**	**14.6%**	**18.3%**	**16.3%**
Share of renewable energy consumption - by sector [%]								
Electricity	42.0%	41.8%	42.6%	43.4%	42.7%	43.7%	47.4%	-
Heating and cooling	26.6%	25.4%	25.7%	25.3%	24.6%	26.3%	29.1%	-
Transport	6.6%	6.3%	7.8%	8.5%	8.9%	8.9%	8.0%	-
Overall	24.5%	23.9%	24.3%	24.5%	23.9%	24.2%	25.8%	-

	2020	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Import Dependency [%]	**28.2%**	**31.6%**	**32.4%**	**27.9%**	**57.5%**	**55.5%**	**62.5%**	**58.3%**
of Solid fossil fuels	22.0%	23.2%	20.0%	13.0%	35.8%	37.2%	45.9%	40.8%
of Oil and petroleum products	64.6%	68.2%	72.7%	70.6%	96.8%	91.7%	97.8%	94.5%
of Natural Gas	16.6%	22.8%	18.1%	4.2%	83.6%	83.6%	97.6%	90.0%
Dependency from Russian Fossil Fuels [%]								
of Natural Gas	44.8%	77.6%	12.8%	0.0%	41.0%	40.9%	20.7%	9.3%
of Crude Oil	32.3%	26.5%	26.4%	0.0%	25.7%	25.2%	18.4%	3.0%
of Hard Coal	99.2%	99.0%	59.4%	20.8%	49.1%	47.4%	21.5%	1.0%

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Gas Consumption (in bcm)	**11.9**	**11.8**	**11.0**	**11.4**	**12.0**	**10.0**	**9.6**
Gas Consumption year-on-year change [%]	5.4%	-0.9%	-6.6%	3.3%	6.0%	-16.9%	-4.2%
Gas Imports - by type (in bcm)	**1.2**	**1.5**	**2.7**	**2.1**	**3.6**	**2.9**	**2.7**
Gas imports - pipeline	1.2	1.5	2.7	2.1	3.6	2.9	2.7
Gas imports - LNG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gas Imports - by main source supplier [%]							
Bulgaria	1.1%	1.6%	4.5%	2.5%	18.5%	71.0%	95.2%
Algeria	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%
Hungary	0.0%	11.7%	58.6%	52.8%	3.8%	14.7%	1.0%
Russia	98.9%	86.7%	36.9%	44.8%	77.6%	12.8%	0.0%

Source: Eurostat, ENTSO-E, S&P Platts

Romania is one of the EU Member States most exposed to climate risks and should take urgent action to build up resilience. Additional action is required to clarify responsibilities, increase its preparedness and water resilience and reduce its economy's impact on nature. Climate change has increasing repercussions in Romania, in particular due to extreme weather events such as flooding, droughts and heatwaves. Despite abundant freshwater resources, the country faces water pollution, flooding and water management challenges. Sustainable water management remains a major environmental issue, particularly in terms of water governance, wastewater treatment and water efficiency. A driver of economic growth, Romania's manufacturing and agricultural sectors are among the main causes of Romania's water issues. The state of nature, ecosystems and soils risks degrading, posing significant risks in terms of the economy and competitiveness. A significant number of key sectors for the Romanian economy (agriculture, forestry, fisheries and aquaculture, mining and metals, construction, water utilities, healthcare delivery, supply chain and transport, food and beverage) are highly dependent on ecosystem services. Romania is one of the Member States with the highest dependence. Addressing climate risks and protecting the environment are therefore essential to ensure business and production continuity, economic stability and competitiveness, and social fairness.

Climate adaptation and preparedness

Romania faces several challenges resulting from climate change, including river and coastal flooding, droughts and heatwaves. The 2024 floods across Central Europe caused by storm Boris had a severe impact on the country. Climate change is causing increasingly variable precipitation, resulting in more severe floods, droughts, and water security challenges ([136]).

Romania should consider modernising and reinforcing its water infrastructure where necessary. Flood risks might be further exacerbated by the high concentration of dams and poor maintenance of reservoirs and flood defences and the delay in the implementation of the prevention measures set out in Romania's Flood Risk Management Plan (FRMP). Of the 2 627 measures in the second FRMP, 67% have not been started, mostly protection measures, while only 56% of the measures under the first FRMP have been completed or are ongoing. Nature-based solutions should be systematically considered rather than grey solutions, in particular at the spatial planning stage. Illegal logging also threatens disaster resilience, especially in Romania's primary and old-growth forest and Natura 2000 sites. Climate change is expected to increase the number of heatwaves.

Climate risks directly affect Romania's economy and society. Romania has identified 16 key sectors affected by climate change, with agriculture being particularly vulnerable. In 2019, droughts impacted 25% of arable land, potentially reducing crop yields ([137]). Agricultural losses are estimated to be 16% higher in Romania in a world that is 2.0 °C hotter ([138]). Climate change also threatens Romania's water security, by increasing competition for water between electricity generators, industry, agriculture, tourism and households. Furthermore, droughts can affect energy production and energy security, which relies heavily on hydro and nuclear power ([139]). The country's high climate protection gap may pose challenges to public finances, which might have to step in for uninsured economic losses following climate-related disasters. Romania has a pronounced gap in insurance against flooding; all climate-related perils have an insurance penetration of below 50% ([140]). Between 1980 and 2020, only 5% of economic losses were insured ([141]). Rising temperatures and extreme events can also increase the spread of infectious

([136])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe*, Link.

([137])Climate ADAPT, 2024, Country Profile Romania – Assessment, Link.

([138])The European Commission's Joint Research Centre (JRC)'s PESETA project (Projection of Economic impacts of climate change in Sectors of the European Union based on bottom-up Analysis, Link.

([139])Climate ADAPT, 2024, Country Profile Romania – Assessment, Link.

([140])EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes, Link.

([141])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe*, Link.

diseases, including mosquito- and tick-borne illnesses. For example, Romania reported cases of human West Nile fever in 2023, which resulted in 67 reported deaths in Europe.

National policy measures related to adaptation and preparedness remain limited, and additional efforts are needed. Although Romania has developed a national adaptation strategy for the period 2024-2030, with its respective action plan, both are yet to be adopted. Romania has also established the national platform for adaptation to climate change (RO-ADAPT) to support the development of national and sectoral climate change adaptation policies. However, its 2023 reporting lacks information on nature-based solutions. The national recovery and resilience plan includes measures to reduce flood risks, improve water disposal and storage, and adapt forest ecosystems. In addition, there are cohesion policy support projects which target flood management and improvement of the risk response system. However, Romania reports limited funding for disaster risk reduction, and beneficiaries have weak administrative capacity for developing and implementing projects.

Romania took first steps to improve interinstitutional coordination and to address climate adaptation at sub-national level. Weak cooperation between different actors and institutions has been identified as one of the main barriers to progress. The Interministerial Committee on Climate Change established in 2022 could improve cooperation by bringing together 15 ministries and the offices of the President and Prime Minister. The number of cities participating in the Covenant of Mayors has slightly increased, as has the number of Romanian cities and municipalities that have developed tailored local adaptation strategies. Furthermore, some municipalities and regions are participating in the EU Mission on Adaptation to Climate Change.

Water resilience

Large areas of Romania are water-stressed, and there is pressure on water resources due to demands from manufacturing and agriculture. These sectors are heavily dependent on water supply, and irrigation is crucial in many rural areas. Romania's water productivity is considerably lower than that of other Member States, standing at EUR 26 per m^3 of abstracted water in 2022 and showing a slightly fluctuating trend over a 5-year period. The water exploitation index plus (WEI+) reached 21 in 2022, showing an increasing trend over the last few years, with exceptions in 2019 and 2021. Seasonal data show that the country's total water consumption is generally greater than its renewable freshwater resources in the summer months. The highest WEI+ value (32.5) was reached in the third quarter of 2022, and the second highest value (31.5) in the third quarter of 2017. The main consumer of water is manufacturing, followed by agriculture. Between 2016 and 2021 water abstraction in the manufacturing sector increased by 4.5%, and that sector accounts for the highest water consumption, at 2 029.5 million m^3, i.e. 50.5% of total consumption in 2021, putting a significant strain on the country's water resources.

Water quality in Romania has marginally improved. Romania's third river basin management plan (2022-2027) under the Water Framework Directive shows that the ecological status and potential of surface water bodies has only slightly improved since the second plan. Approximately 67% of surface water bodies are classified as having good ecological status/potential. Their chemical status has slightly improved, as 97.6% of surface water bodies have a good chemical status. As regards groundwater bodies, their quantitative status has not deteriorated since the second plan, with 100% reported as having good quantitative status. Their chemical status has slightly improved, with at least 91.7% now reported as having good chemical status. However, 8.4% are at risk of failing to achieve good chemical status by 2027.

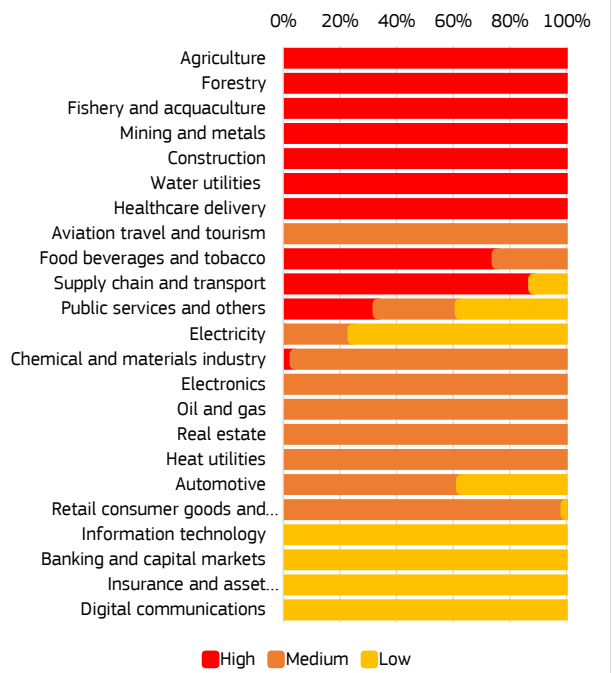
Romania's wastewater treatment is a particular cause for concern. Despite improvements in compliance over the years, in particular thanks to EU funding, Romania has experienced serious difficulties in implementing the Urban Wastewater Treatment Directive. Overall, Romania's compliance rate was 12% in 2020. This partial implementation has forced the European Commission to take legal action. In this respect, 150 large agglomerations are still failing to meet the urban wastewater collection obligations, while 154 large agglomerations do not comply with secondary treatment obligations, and 154 large agglomerations with the tertiary treatment obligations. In addition, according to the

third RBMP, water quality is affected by discharges, particularly in coastal and transitional waters. It is therefore necessary to take additional measures and implement the projects needed to fully comply with the requirements of the Directive, taking advantage of the available EU funding, i.e. the European Regional Development Fund and the Recovery and Resilience Facility. As shown in Graph A9.2, the investment needs for water protection and water management are substantial, standing at around EUR 1.9 billion per year by 2027. Of this, EUR 0.8 billion is linked to wastewater measures. Drinking water measures require an additional EUR 189 million per year and the other aspects of the Water Framework Directive around EUR 915 million per year above the existing levels of financing. The 2021-2027 multiannual financial framework and the Recovery and Resilience Facility already help to meet Romania's investment needs for water protection and management. Further infrastructure development would help improve water management, e.g. wastewater collection and treatment, water reuse, reducing leaks in networks and the general water supply. Romania has one of the lowest compliance rates with EU water legislation. Additional investments are needed to improve monitoring (quality and quantity) and support nature-based solutions, flood prevention and river restoration.

Biodiversity and ecosystems

The state of nature and ecosystems risks degrading in Romania, reducing the country's climate resilience. Romania is one of the most biologically diverse countries in the EU, it hosts 87 habitat types and 245 species covered by the Habitats Directive. The country also hosts populations of 148 threatened bird species as listed in Annex I to the Birds Directive. According to the latest available data, 68% of the country's habitats have a good status, above the EU average of 14.7%. The conservation status of species, with 46% reported as having a good status, is higher than the EU average of 27%. In the case of birds, some 19% of the breeding species showed short-term increasing or stable population trends, while that figure for wintering species was 15%. Data show an improving trend compared to the previous reporting period. However, this positive trend needs to be nuanced due to the problems with the reported data, in particular uncertainties regarding the true extent and condition of ecosystems in Romania.

Graph A9.1: **Direct dependency(1) on ecosystem services(2) of the gross value added generated by economic sector in 2022**

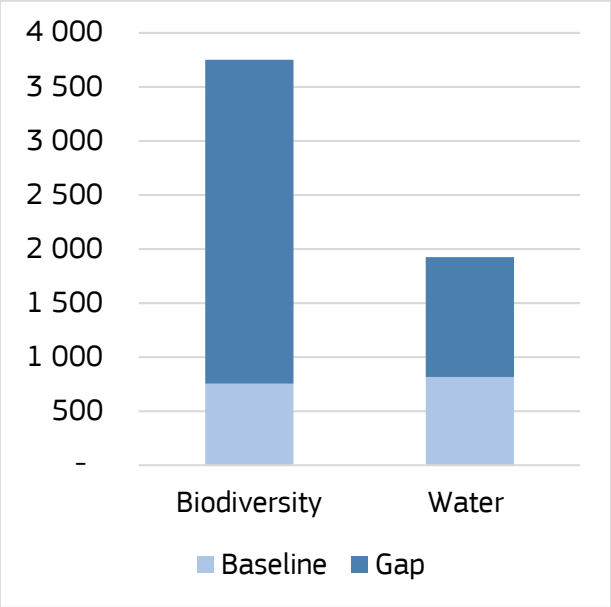


(1) Dependency based on the sector's own operations, excluding value chain operations within countries and across international value chains. A high dependency indicates a high potential exposure to nature-related shocks or deteriorating trends, which means that the disruption of an ecosystem service could cause production failure and severe financial loss.
(2) Ecosystem services are the contributions of ecosystems to the benefits that are used in economic and other human activity, including provisioning services (e.g. biomass provisioning or water supply), regulating and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).
Source: Hirschbuehl et al., 2025, *The EU economy's dependency on nature*, Link.

Nature degradation can create significant risks to Romania's economy and competitiveness, as it is one of the Member States with the highest supply chain dependency on ecosystem services. Direct dependency on ecosystem services (37% highly dependent) is in line with the EU average (slightly below the EU average (44%). 30% of Romania's gross value added is characterised by a high level of dependency in the supply chain compared to the EU-27 average of 22%. Several sectors such as agriculture, forestry, fisheries and aquaculture, mining and metals, construction, water utilities, and healthcare delivery (see Graph A9.1) are particularly dependent on ecosystem services, with

100% of the gross value added of these sectors directly dependent on ecosystem services. Other sectors are also heavily dependent, though not at 100%. Romania shows a particularly high downstream dependency of 52%, which seems to be largely due to high dependency in the IT and the insurance sectors. This means that failure to maintain the capacity of ecosystems to deliver services could entail significant costs or even stop production in these sectors. Protecting and restoring key ecosystems would ensure that the long-term competitiveness of these economic sectors is preserved.

Graph A9.2: **Investment needs and gaps in EUR million, at 2022 constant prices**



Source: European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update.

Targeted action on nature protection and restoration is needed to meet Romania's nature restoration targets. Taking into account both Natura 2000 and other nationally-designated protected areas, Romania legally protects 23.5% of its land areas (EU-27 average 26%) and 21.4% of its marine areas (EU-27 average 12%). Romania has not yet presented a National Biodiversity Strategy and Action Plan. Romania requires EUR 3.8 billion of investment per year to effectively conserve and restore its natural capital, mitigate the impacts of climate change, and preserve the country's rich biodiversity (see Graph A9.2). The current level of financing for biodiversity and ecosystem conservation in Romania is around EUR 755 million per year. This shortfall puts at risk the country's commitment to global biodiversity agreements and undermines its long-term economic and social development. This is mainly due to weak administrative capacity and lack of political interest.

Sustainable agriculture and land use

Romania's carbon removals fall short of the level of ambition needed to meet its 2030 target for land use, land use change and forestry (LULUCF). Recent trends show that LULUCF removals have been slowly decreasing since 2020 in Romania. To meet its 2030 LULUCF target, additional carbon removals of -2.4 million tonnes of CO_2 equivalent (CO_2eq) are needed ([142]). The latest available projections show a gap to target of 2.0 million tonnes of CO_2eq for 2030 ([143]). Additional measures therefore need to be applied to reach the 2030 target.

Romanian agriculture is a source of greenhouse gas emissions and has a moderate impact on air, water and soils. In 2022, agriculture was responsible for a total of 17 988 million tonnes of CO_2eq. This includes 9 917 million tonnes of CO_2eq from livestock. The utilised agricultural area (UAA) in Romania decreased by 7% from 13.7 million hectares in 2012 to 12.7 million hectares in 2022. Furthermore, according to data from the Nitrates Directive, 12.6% of groundwater monitoring stations in Romania recorded average nitrate concentrations above 50 mg/l between 2016 and 2019, exceeding the healthy threshold for human consumption. The livestock density index was 0.35 in 2020, which is below the EU average of 0.75. Ammonia emissions have shown a decreasing trend with a reduction of 10% between 2015 and 2022. In 2022, no pesticides were detected in surface water bodies.

Romania is transitioning to a sustainable food system by implementing policies to reduce the environmental impact of agriculture. In 2022, 3.35% of its agricultural land has landscape features such as woods and non-productive grasslands, which is below the EU average of

([142])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([143])Climate Action Progress Report 2024 COM/2024/498.

5.6%. Organic farming, which reduced the use of synthetic fertilisers and pesticides, made up 5.1% of Romania's agricultural land, a more than 50% increase since 2018. Romania aims to reach 6% of UAA under organic farming by 2030, which it will be able to achieve if the current growth trend in organic farming area is maintained over the coming years. To mitigate the environmental impact of agriculture, under the CAP strategic plan the Romanian government has taken measures to ensure soil protection during sensitive climatic periods and has incentivised farmers to adopt environmentally-friendly agronomic practices. The plan also supports the increase in the share of organic farming and the use of soil covers, promotes crop rotation and diversification, and helps to reduce nutrient losses, as well as other sustainable agriculture practices. These measures are crucial to the long-term competitiveness of Romania's agri-food system and its bioeconomy, which play a significant economic role. The bioeconomy, encompassing the production and processing of biological products, contributed EUR 17.9 billion of added value to the country's gross domestic product in 2021. Agriculture accounted for EUR 9.6 billion, while the food industry contributed EUR 2.1 billion.

Table A9.1: **Key indicators tracking progress on climate adaptation, resilience and environment**

Climate adaptation and preparedness:	Romania						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Drought impact on ecosystems *[area impacted by drought as % of total]*	0.04	0.22	12.08	0.77	14.93	1.27	6.77	2.76
Forest-fire burnt area (1) *[ha, annual average 2006-2023]*	22 158	22 158	22 158	22 158	22 158	22 158		
Economic losses from extreme events *[EUR million at constant 2022 prices]*	150	-	485	32	1 147	16	24 142	62 981
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	-	1.00	1.00		
Heat-related mortality (3) *[number of deaths per 100 000 inhabitants in 2013-2022]*	94	94	94	94	94			
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	40	32	33	34	31	31	41	44

Water resilience:	Romania						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Water Exploitation Index Plus, WEI+ (4) *[total water consumption as % of renewable freshwater resources]*	17.8	18.3	23.3	18.5	21.0	-	4.5	4.5
Water consumption *[million m^3]*	3 228	3 372	3 800	4 003	3 743	-		
Ecological/quantitative status of water bodies (5) *[% of water bodies failing to achieve good status]*								
Surface water bodies	-	-	-	33%	-	-	-	59%
Groundwater bodies	-	-	-	0%	-	-	-	93%

Biodiversity and ecosystems:	Romania						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Conservation status of habitats (6) *[% of habitats having a good conservation status]*	68.2	-	-	-	-	-	14.7	-
Common farmland bird index *2000=100*	-	-	-	-	-	-	72.2	74.4
Protected areas *[% of protected land areas]*	-	-	-	23	24	-	-	26

Sustainable agriculture and land use:	Romania						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Bioeconomy's added value (7) *[EUR million]*	14 264	15 352	14 496	17 886			634 378	716 124
Landscape features *[% of agricultural land covered with landscape features]*	-	-	-	-	3.4	-		
Food waste *[kg per capita]*	-	-	-	-	-	-		
Area under organic farming *[% of total UAA]*	2.4	2.9	3.6	4.4	5.1		7.99	-
Nitrogen balance *[kg of nitrogen per ha of UAA]*	-27.4	-27.6	1.1	-16.2	-	-		
Nitrates in groundwater (8) *[mgNO_3/l]*	-	-	-	-	-	-		
Net greenhouse gas removals from LULUCF (9) *[Kt CO_2-eq]*	- 46 770	- 46 734	- 49 110	- 48 149	- 46 466	-	- 256 077	- 240 984

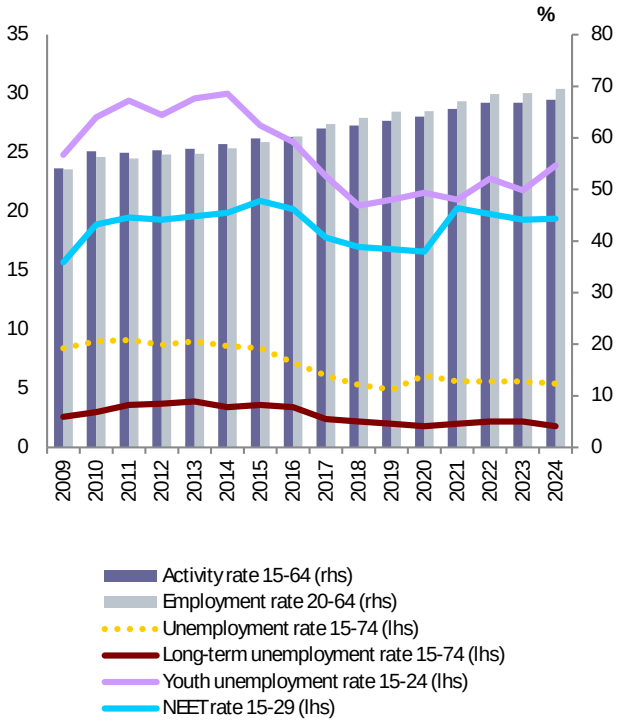
(1) The data show the average for the timespan 2006-2023 based on EFFIS - European Forest Fire Information System.
(2) Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes.
(3) van Daalen, K. R. et al., 2024, The 2024 Europe report of the Lancet Countdown on health and climate change: unprecedented warming demands unprecedented action. The Lancet Public Health.
(4) This indicator measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal or greater than 40% indicate situations of severe water scarcity.
(5) European Commission, 2024, seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).
(6) For this indicator, the EU average includes figures for the UK under the previous configuration, EU-28.
(7) European Commission, 2023, EU Bioeconomy Monitoring System dashboards.
(8) Nitrates can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard sets a limit of 50 mg NO_3/L to avoid threats to human health.
(9) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2024 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.
Source: Eurostat, EEA.

Despite improvements in employment rates, Romania still has one of the lowest labour-market participation rates in the EU. This is characterised by significant disparities across regions and persistent underrepresentation of certain population groups, and the low effectiveness of Active Labour Market Policies (ALMPs). Obstacles to the country's ability to innovate and compete in an increasingly digital and green economy include high rates of inactivity, low levels of training and lifelong learning and a lack of essential skills among the labour force. Furthermore, demographic challenges such as an ageing population, declining birth rates and outward migration patterns, culminating in a shrinking working-age population, pose a long-term threat to its labour market and to sustainable growth. To address these challenges, useful measures include i) improving the integration of vulnerable groups in the labour market, ii) enhancing the scope and effectiveness of active labour market policies and iii) modernising the public employment service (PES); such measures will hopefully contribute to competitiveness and inclusive growth.

Despite recent improvements, the employment situation in Romania remains challenging. The employment rate remains one of the lowest in the EU (69.5% in 2024 vs 75.8% in the EU), with significant geographical disparities. While more developed regions have higher employment rates (Bucharest-Ilfov, 81.1%) and have benefited in recent years from foreign investment, less developed regions face challenges in terms of employment, with some rates even declining considerably (north-east, 69.6% in 2024 down from 79.5% in 2019). The south-east region recorded the lowest employment rate in Romania at 62.6%, resulting in a gap of 18.5 percentage points (pps) between the highest and lowest regional employment rates, thereby exacerbating regional disparities (see Annex 16).

Meanwhile, the unemployment rate in 2024 remained unchanged compared to the previous two years and was below the EU average (5.4% compared to 5.9%). Long-term unemployment in Romania decreased in recent years and is in 2024 below the EU average (1.8% vs EU: 1.9%). Romania's long-term unemployment accounts for 33.4% of total unemployment (vs 32.2% in the EU in 2024). Some key factors contributing to long-term unemployment in Romania include the lack of adequate skills and a significant proportion of undeclared work, accounting for an estimated 21.7% of the total labour output in 2019, according to the latest available estimates ([144]). Improving labour market outcomes will be a key factor in achieving the national employment rate target of 74.7% by 2030.

Graph A10.1: **Key labour market indicators**



Source: Eurostat

While wage growth has been strong, in-work poverty rates remain high. Nominal wage growth is expected to moderate at 9.9% in 2025, after 18.2% in 2023 and 12.8% in 2024.([145]) Similarly, real wages have been increasing rapidly, outpacing the EU average, with growth reaching 6.8% in 2024. Real wages growth is projected to remain strong at 5.8% in 2025. The growth in real wages is due to both robust nominal wage growth and rapid disinflation (inflation decreased from 9.7% in 2023 to 5.5% in 2024). The statutory minimum wage also increased by more than 58%

([144])ELA (2023), Factsheet on undeclared work – ROMANIA

([145])Data for 2024 and 2025 are based on the European Commission Autumn 2024 economic forecast.

between Q1-2022 and Q1-2025, corresponding to an increase of close to 24% in real terms. Despite relatively high labour productivity growth, strong wage growth is associated with risks of competitiveness losses due to the significant increases in unit labour cost (ULC) since 2014 and the decrease in export market shares in recent years (2021-23), as well as the fact that wage growth has been higher than what could be expected based on economic fundamentals since 2014. At the same time, wage levels remain low compared to most other Member States and in-work poverty is amongst the highest in the EU (see Annex 11). Despite being employed, 18.2% of single-person households in Romania face are at risk of in-work-poverty, with their equivalised annual disposable income falling below 60% of the national median (vs EU: 11.6%).

The gender employment gap remains high, which is indicative of deep-rooted inequalities regarding women's participation in the labour market. Romania still has one the lowest employment rates for women in the EU, at 60.3% in 2023 (9.2 pps lower than the general population level and 10.5 pps below the EU average), despite some improvements in recent years. Consistent with the general EU trend, the gender employment gap decreased compared to 2023 (18.1 pps in 2024 vs 10.0 pps in the EU). Women with low qualifications face greater difficulties in finding a job, as reflected in the gender employment gap among low-skilled individuals (32.4 pps vs 21.5 pps EU average).

Women's participation in the labour market is hampered by ineffective activation measures as well as by the limited access to early childhood education and care services, especially in rural areas. Romania has one of the lowest rates of children under 3 enrolled in formal childcare (11.4% vs 39.2% in EU in 2024) and the system of parental leave predominantly reserved for mothers rather than fathers. Romania faces challenges related to the gender employment gap that are deeply rooted in socio-cultural traditions ([146]).

Access to the labour market is especially challenging for Romania's young people, with a significant proportion unemployed or inactive. Youth unemployment rates remain among the highest in the EU (23.9% in 2024 vs 14.9% in the EU), and approximately 1 in 5 young people (aged 15-29) were not in employment, education or training (NEETs) in 2024 (19.4% vs 11.0% in the EU), despite decreasing trends for both indicators. The difficulty of finding work stems from high rates of early school leaving, and a misalignment between the skills provided through the education and training system and the needs of the labour market (see Annex 12). As for young NEETs, Romania also faces a gender gap, with the rate for women aged 15-29 being 11.2 pps higher than for men. According to the latest available data, the rate of young persons with disabilities not in employment, education or training in Romania was 46.3% in 2022, which was one of the highest rates in the EU([147]). Furthermore, over half of young people from Roma communities are NEETs (59%)([148]).

Vulnerable groups, including low-skilled adults, persons with disabilities and Roma people, also face barriers to labour market integration. The employment rate of low-skilled people remains well below the EU average (45.1% vs EU: 58.7% in 2024) and remains significantly lower compared to that of people with tertiary education (90.0%). With a disability employment gap at 44.8 pps (EU: 24.0 pps), and one of the lowest activity rates in the EU (47.8% in 2022, compared to the EU average of 64%), Romania faces challenges in helping persons with disabilities into work([149]). Romania has set a target of 55% employment of persons with disabilities by 2027. Another positive development is the adoption of the national strategy on preventing the institutionalisation of adults with disabilities 2022-30 (see Annex 11). Roma labour market participation has remained low in recent years, falling from 45% in 2016 to 41% in 2021, along with significant gender disparities (the employment rate of Roma women was 23% vs 59% of Roma men). Uneven access to Public Employment Services (PES) and training

([146]) Robayo-Abril, Monica; Chilera, Chifundo Patience; Rude, Britta; Costache, Irina. 2023. Gender Equality in Romania: Where Do We Stand? - Romania Gender Assessment.

([147]) European comparative data on persons with disabilities - Publications Office of the EU

([148]) All data on Roma communities come from the European Agency for Fundamental Rights (2022) Roma Survey 2021, except where explicitly mentioned otherwise.

([149]) European comparative data on persons with disabilities - Publications Office of the EU

opportunities in the rural areas has further widened the employment gap between the vulnerable groups and the rest of the population.

Population decline and working-age people emigrating pose significant challenges to the labour market. Between 1991 and 2022, Romania's population fell by approximately 4.1 million (around 18%), with the trend increasing over the past decade. In 2016, it was estimated that around 17% of Romanians were living abroad, with emigration levels increasing by 9% in 2022([150]). In 2022, of the total number of 36 000 new immigrants, excluding EU nationals, 76% received a labour visa and were integrated in the labour market in Romania. The inflows of labour force from non-EU countries such as Ukraine, Nepal and Sri Lanka, and the positive net-migration rate of 5.2 per thousand inhabitants in 2023 seem to act as a brake on the shrinking labour force([151]). In 2024, to tackle emigration, the Romanian government announced the launch of an initiative under Romania's recovery and resilience plan to develop a programme to attract highly-skilled talent from abroad, especially Romanian expatriates, in the fields of research, development and innovation. While it is too early to gauge the effectiveness of these measures, it is a positive initiative to tackle the challenges in the labour market. If implemented properly this could boost Romania's competitiveness.

Labour shortages and unfavourable demographic trends could affect competitiveness. Although the overall job-vacancy rate is among the lowest in EU (0.7% in the fourth quarter of 2024 vs 2.3% in the EU), the number of shortage occupations in Romania was among the highest in the EU in 2023. At the same time the country had one of the highest surpluses, highlighting labour market imbalances ([152]). According to a recent study by 2026, the labour force deficit is estimated to reach over 220 000 posts, amounting to an estimated productivity loss of EUR 9.5 billion([153]). The manufacturing and ICT sectors are particularly badly affected, recording the most severe labour shortages in absolute terms in 2022. Although 6.9% of all post-secondary education graduates were ICT specialists, among the highest rates in the EU, they account for just 2.6% of total employment. The discrepancy is explained largely by the difficulty of retaining talent in Romania. Romania's performance as regards women in the digital sector is worth highlighting and continues to improve - female ICT specialists account for 26% of all ICT specialists, against an EU average of 19.4%. Disparities in labour shortages are also observed at regional level, with around 70% of the estimated shortage in the more developed Bucharest-Ilfov, north-west and centre regions. Employers have reported that students and young graduates lack basic skills, and inter-personal and communication abilities ([154]), hindering their employability. A very small proportion of the population holds a tertiary education qualification, amid rising demand for high-skilled labour ([155]); over 70% of the population lacks basic digital skills, impacting the workforce's preparedness for the digital transition (see Annex 12). With a shrinking working population, projected to decline by 23.7% by 2050, there are strong indications that skills gaps will lead to growing labour shortages, potentially threatening competitiveness.

The transition to a green economy will further increase the demand for skilled labour, highlighting the importance of upskilling and reskilling. Sectors crucial to the green transition such as energy, water supply, sewage and waste management, reported some of the highest annual job vacancy rates in Romania in 2023 (1.4% in vs 0.8% for the general economy). Skills shortages are also reportedly holding back the activity of 84% of small and medium-sized enterprises in the construction sector([156]). Conversely, the phasing out of coal mining threatens the jobs of approximately 32 000 workers, predominantly men over the age of 50. It would therefore be beneficial to boost reskilling policies to ensure the green transition does not actually hinder the prospects of certain population groups. The Just Transition Fund supports the worst hit regions to provide the workers affected with relevant training. Long-term upskilling efforts, including through targeted active labour market policies, will be beneficial if we are to meet the

([150])OECD (2022), OECD Economic Surveys: Romania 2022

([151])OECD (2024), International Migration Outlook 2024.

([152])EURES (2023), Report on labour shortages and surpluses

([153])PwC (2023), Analysis of the Romanian labour market

([154]) ([155]) According to CEDEFOP (2023), 2023 skills forecast EN Romania

([155])According to CEDEFOP (2023), 2023 skills forecast EN Romania

([156])Flash Eurobarometer 529

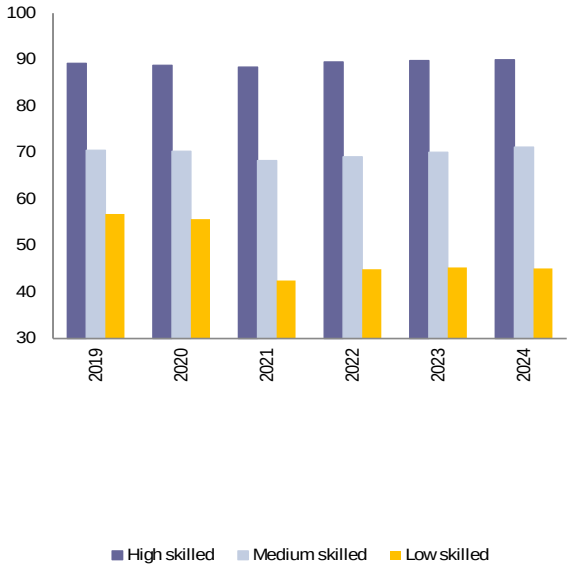
labour and social demands of a transforming economy.

Improving the effectiveness of active labour market policies is crucial to addressing gaps in the labour market. Spending on active labour market policies (ALMPs) accounted for 64.1% of the total budget for tackling unemployment managed by the Romanian PES, one of the highest proportions in the past four years([157]). At the same time, government expenditure on labour market policies is among the lowest in the EU (0.09% of GDP in 2023, equal to approximately EUR 292 million). Helping people with the greatest difficulties in getting jobs, such as women, young NEETs, people with disabilities and Roma people, would help tackle labour shortages and improve social conditions. In 2023, 61% of the PESs' expenditure on ALMPs was devoted to subsidies for both employers and jobseekers, job creation, start-ups and graduate traineeships, while training activities constituted only about a third of the allocation([158]).

Targeting and outreach campaigns also seem to be ineffective. Of the 17 775 unemployed people enrolled on training courses offered by PES in 2024, only 44 were people with disabilities (0.24% of the total participants), 686 were Roma people (3.8%), and 18.7% were young people aged 15-30([159]). These low numbers of participants among vulnerable groups are evidence of the need for tailor-made measures. Steps have been taken with the launch of the national strategy on adult continuing education 2024-2030([160]), targeting especially low-skilled adults, people with disabilities, Roma people, NEETs and other vulnerable groups. The idea is to provide access to fair, flexible and appropriate upskilling and reskilling training, and to prepare the working population for the green and digital transition.

The ongoing modernisation of PESs with EU support has the potential to contribute to improved labour market outcomes. Underlying issues hindering the work of PESs include i) underfunding, ii) inefficient targeting of ALMPs, iii) low human resources and capacity, and iv) a lack of dialogue with the social partners. Women, NEETs and persons with disabilities who participate in ALMP measures appear to have less success in getting work compared to other jobseekers. To address these issues, it would be beneficial to enhance the effectiveness of PESs, focusing on effective outreach and personalised support for jobseekers.

Graph A10.2: **Employment rate by educational attainment, ALMP expenditure and skills mismatch**



Source: Eurostat

Romania has made a commitment to a comprehensive reform of its PESs supported by the ESF+ and the Recovery and Resilience Facility. The 2021-27 ESF+ 'Education and Employment' programme will invest EUR 153.2 million until 2029 to boost the capacity of PESs by investing in human resources and improving service quality. The ReCONECT project, supported by the 2014-2020 ESF, provided tools for i) monitoring the integration of graduates in vocational education and training and higher education, ii) anticipating skills needs, and iii) evaluating public policies for decision making on active measures and training policies. Furthermore, it would be beneficial if social partners were more actively involved in shaping and implementing employment policies. By taking steps to tackle these challenges and to modernise the PES, with a focus on efficient, data-based ALMPs, Romania could improve activation, ultimately contributing to the achievement of the 2030 employment target.

([157])ANOFM (2024), Activity report for the year 2023

([158])Ibid.

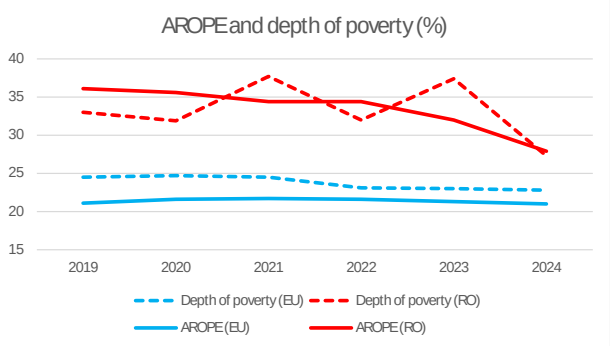
([159])ANOFM (2024), Progress report on the implementation of the training plan on 30.11.2024

([160])Ministry of Education (2024), National Strategy on Adult Continuing Education 2024-2030

Social conditions are improving in Romania, but the country continues to face significant challenges related to poverty and social exclusion, particularly among vulnerable groups and in rural areas. This is particularly due to limited economic opportunities, especially in rural areas, coupled with restricted access to healthcare, long-term care, education, employment and social services. Moreover, income inequalities persist, at least partially due to the low redistributive impact of the tax and benefit system. Demographic shifts raise concerns about the adequacy and sustainability of pension and long-term care systems. The limited capacity of the social protection system and uneven access to quality services also pose risks to Romania's sustainable and inclusive growth, competitiveness and prosperity.

Romania has made progress, but poverty and social exclusion risks are still high. The at-risk-of-poverty or social exclusion (AROPE) rate has been falling gradually since 2016, with a decrease of 4.1 percentage points (pps) in 2024 compared to 2023. This is mainly due to a reduction in the severe material and social deprivation rate, which is 18.7 pps lower than in 2016. Conversely, the at-risk-of-poverty (AROP) rate has decreased by 4.6 pps since 2016. These developments can be attributed to above EU average economic growth as well as a longer-term convergence process. However, in 2024, poverty rates remain among the highest in the EU, with the AROPE rate standing at 27.9% (EU: 21.0%), severe material and social deprivation at 17.2% (EU: 6.4%), and the AROP rate at 19.0% (EU: 16.2%).

Graph A11.1: **Percentage of people at risk of poverty or social exclusion (AROPE) and its components**



People at risk of poverty or social exclusion [ilc_peps01n], Severe material and social deprivation rate [tespm030], At-risk-of-poverty rate [tespm010].
Source: Eurostat

Sustained efforts are needed to reach the national poverty reduction target for 2030. The number of people at risk of poverty or social exclusion has decreased by 1.7 million since 2019 (reaching around 5.3 million in 2024). At the current pace, achieving the 2030 target of a reduction of at least 2.5 million, including 500 000 children, compared to 2019 appears feasible. Measures will still need to be stepped up, especially as only modest progress has been made in reducing the number of children at risk of poverty or social exclusion (-171 000 only in 2024), and Romania has one of the highest depths of poverty in the EU: in 2024, the median income of those at risk of poverty was significantly below the national poverty threshold (27.3% vs 22.8% for the EU). This gap decreased by 11.1 pps compared to the previous year.

Rural areas and vulnerable groups are particularly affected by poverty and social exclusion. In 2024, the AROPE rate in rural areas was 26.1 pps higher than in urban areas, which represents one of the largest rural-urban divides in the EU. The AROPE rate for persons with disabilities improved in 2024 but remained one of the highest in the EU (38.4% vs the EU average of 28.8%). Almost 50% of persons with severe disabilities were at risk of poverty and social exclusion in Romania in 2024. This is also linked to the low employment rate of persons with disabilities and a large disability employment gap in Romania (see Annex 10). The AROPE rate for older people (aged 65+) has improved thanks to the lower risk of income poverty but remains very high (29.3% vs 19.5% for the EU average) as Romania has one of the largest populations of older people in severe material and social deprivation in the EU (19.6% vs 5.1% for the EU average). In 2021, 78% of Roma were at risk of poverty, up 8 pps from 2016 ([161]). In response, around EUR 2.5 billion from the European Social Fund Plus (ESF+) has been allocated to improving the accessibility and quality of social services. As part of the social inclusion and dignity programme (2021-2027), integrated social, healthcare and educational services will be scaled up nationally to reach 2 000 disadvantaged rural communities and to train the staff required (with a EUR 677 million contribution from the EU). Approximately EUR 887 million from the ESF+ are allocated for material

([161])FRA report 2021 Roma in 10 European Countries - Main results | European Union Agency for Fundamental Rights.

aid, combined with accompanying measures, for the most vulnerable. These measures should be properly implemented and complemented by additional initiatives to effectively address the challenges faced by rural communities and vulnerable groups.

Employment status plays an important role in determining poverty risks, and in-work poverty is high. In 2024, a very high percentage of quasi-jobless households were at risk of poverty, at 83.3% (vs 64.8% for the EU), up from 75% in 2022. Part-timers and the self-employed, especially in rural areas where job opportunities are scarce and subsistence farming is predominant, face higher poverty risks compared to the general population, with limited improvements in recent years. In-work poverty was also higher than the EU average (10.9% vs 8.2% for the EU in 2024) (see Annex 10). In 2024, women also faced a higher risk of poverty or social exclusion (27.6% vs 25.1% for men). This gender gap is related to the lower participation of women in the job market (58.3% vs 76.3% for men). In 2024, the AROPE rate among those with a low level of education fell by 2.7 pps, compared to 2023, but remained high at 54.7% (EU: 33.9%). This rate is notably linked to the low participation rate of the low skilled in employment (36.9% vs 46.3% for the EU).

The risk of poverty or social exclusion among children remains among the highest in the EU. Compared to 2023, the AROPE rate for children fell by 5.2 pps, reaching 33.8% in 2024, which is the lowest level ever recorded in Romania. Yet, it remains much higher than the EU average (24.2%) resulting in significant educational disadvantages and inequalities (see Annex 12). Risks are more pronounced for children whose parents have low educational attainment or who live in households with many children. By 2030, Romania aims to reduce the number of children at risk of poverty or social exclusion by at least 500 000 compared to the 2021 level of 1.5 million. To mitigate the impact of poverty on children, Romania is implementing its European Child Guarantee (ECG) action plan adopted in November 2023. The 2024 ECG progress report shows that Romania has made progress in some areas, such as the provision of free healthy school meals. At the same time, further improving services for children in rural areas is needed. The ECG's implementation is supported by EU cohesion policy funds and the Recovery and Resilience Facility, including through the creation of day-care centres and creches, educational and material assistance for the most deprived children and their families, community-based services to avoid separating children from their families, and integrated community services in rural areas.

Despite rapid income growth, income inequalities remain relatively high. The gross disposable household income per capita in 2024 is at 178% of its 2008 level, compared to 113% in the EU, demonstrating a robust convergence trend. In 2024, the income of the richest 20% of the population was 4.62 times higher than that of the poorest 20% (EU: 4.66), which is the lowest level in the last 10 years. Some of the key factors driving inequalities are a high proportion of low-wage earners coupled with low coverage of collective bargaining, and a still weak income redistribution system. There is scope to improve the effects of taxes and social benefits on reducing inequalities ([162]). Other major drivers include the insufficient access to quality education, especially among families at risk of poverty or social exclusion, low educational attainment and low job market participation.

Energy and transport poverty, as well as environmental inequalities, pose challenges to the fair green transition. In 2024, the percentage of the population unable to keep their homes adequately warm was higher than the EU average (10.8% vs 9.2% overall and 20.8% vs 19.7% for the AROP population), though the gap has recently narrowed. Similarly, 14.5% of individuals faced arrears on utility bills in 2024, an increase of 7.2 pps since 2021 and nearly double the EU average. To address this, Romania is preparing a national action plan on energy poverty. The Romanian recovery and resilience plan (RRP) includes a voucher scheme for energy efficiency and renewables in single-family homes prioritising vulnerable households and a one-stop shop for guidance. Yet, Romania is currently addressing energy poverty mainly through recurring subsidies, with few structural measures tackling its root causes. Additionally, in 2024, a significant proportion of the population lacked access to a car, far exceeding the EU average (15.6% vs 5.6%). This makes transport options scarce,

([162])Economic inequalities in the EU - Key trends and policies, p. 33 Publications catalogue - Employment, Social Affairs & Inclusion - European Commission.

considering the concurrent decline in the use of public transport for passenger travel on land, which dropped from 27% in 2011 to 20% in 2022. People in rural areas, who often lack effective public transportation infrastructure, rely even more on private cars. Overall, Romania's transportation infrastructure and public transportation system may not be adequately addressing the needs of its population, particularly those in lower-income (and rural) communities. On environmental inequalities, the consumption footprint of the wealthiest 20% of the population was 2.4 times higher than the footprint of the poorest 20% in 2022 (EU: 1.9).

The social protection system presents adequacy and coverage gaps. Social protection benefits expenditure is among the lowest in the EU (16.0% vs 26.8% of GDP in 2023), especially regarding social assistance and unemployment benefits. In 2022, households on minimum income benefits had a net income of only 9.9% of the AROP threshold, and only 7.8% of the net income of a low-wage worker (EU: 55.6% and 46.1% respectively). Moreover, only 7.9% of the unemployed (for less than 12 months) received benefits in 2023 (EU: 36.3%). The system's limited capacity to alleviate poverty risks means there is further scope to increase both the efficiency and the effectiveness of social transfers. In 2024, the impact of social transfers (excluding pensions) on poverty reduction was among the lowest in the EU, at less than half of the EU average (18.8 % vs 34.4%), and 3.2 pp. higher than in 2023. Workers in non-standard forms of employment (including casual and seasonal workers) and the self-employed have limited social protection coverage and face very high poverty and material and social deprivation rates. There is scope for further action to strengthen access to social protection, in line with the 2019 Council Recommendation on access to social protection for workers and the self-employed ([163]). The Romanian RRP includes the formalisation of work for domestic workers, aiming to help them acquire the status of insured person in the social security and health insurance system. The adequacy of minimum income is expected to improve following the implementation of the minimum inclusion income reform, enacted in January 2024 as part of the RRP, which roughly doubled the amount of support provided. Further steps to increase the adequacy of minimum income schemes would help secure adequate minimum income, as the level will remain well below the EU average in relation to the national poverty threshold, and ensure active inclusion as set out in the Council Recommendation on this matter ([164]).

Demographic trends pose a challenge for the future adequacy of the pension system. The aggregate pension replacement ratio (excluding other social benefits) defined as the gross median individual pension income (for the 65-74 age group) relative to gross median individual earnings from work (for the 50-59 age group) was equal to 0.46 (below the EU average of 0.61). The severe material and social deprivation rate for the age group 65+ is one of the highest in the EU (19.6% vs 5.1%), and significantly higher than for the Romanian working-age population (15.2%). The ongoing reform of the public pension system as part of the RRP is expected to have a positive effect on the adequacy of low and medium pensions and the social benefits for pensioners. Yet, demographic trends are likely to put financial pressure on the pension system, which is increasingly relying on longer working lives to maintain its adequacy and fiscal sustainability. The population aged 65+ is projected to increase from 3.7 million to 4.3 million, while the working-age population (20-64) is expected to decrease by 30% to 7.8 million in 2070 ([165]). Consequently, the old-age dependency ratio is projected to increase from 0.3 in 2022 to about 0.6 by 2070.

Access to long-term care services for older people and persons with disabilities remains limited. Romania's long-term care (LTC) services are severely underfunded, with one of the lowest public expenditure levels in the EU in 2022 (0.3% of GDP vs 1.7% for the EU). It is also one of the countries with the highest self-reported LTC needs. Only 4.7% of people aged 65+ with high care needs used formal home care services in 2019 (EU: 28.6%), and 61.6% reported a lack of assistance in personal care or household activities (EU: 46.6%) ([166]). Rural and remote communities must often rely on scarce, undersized insufficient

([163]) Council recommendation on access to social protection for workers and the self-employed (EUR-Lex - 32019.1115(01) - EN - EUR-Lex).

([164]) Council adopts recommendation on adequate minimum income - Employment, Social Affairs & Inclusion - European Commission

([165]) 2024 Ageing Report – Country Fiche for Romania

([166]) Ibid.

and low-quality services ([167]). The lack of qualified staff restricts adequate access to LTC, with 0.6 workers per 100 people aged 65+ (EU: 3.2). Insufficient availability of services leads to a relatively high share of informal carers providing high-intensity informal care ([168]). The low availability and affordability of quality non-residential, community-based care delays the deinstitutionalisation and transition to independent living of persons with disabilities. As of November 2024, out of the 124 centres providing services to persons with disabilities, only 4 were located in rural areas, while 6 out of the 41 counties lacked a registered centre in their territory ([169]). In 2022, Romania adopted a national strategy on long-term care and active ageing for 2023-2030. In 2024, Romania also adopted a wider reform aiming to improve the financing and quality of social assistance ([170]). The reform is underpinned by RRP measures, such as the national strategy on preventing the institutionalisation of adults with disabilities for 2022-2030 and the law on supporting the process of deinstitutionalisation of adults with disabilities. More than EUR 800 million from 2021-2027 cohesion policy funds are earmarked for services for older persons and those with disabilities.

House prices increased modestly in recent years, but housing market activity is subdued. Up 43% since 2015 in nominal terms, house prices grew by 3.3% in 2023 and 3.9% year-on-year in Q3-2024, after an increase of 4.4% in 2021 and 7.2% in 2022. However, housing market activity is sluggish, with high borrowing costs reducing home loan demand and depressing sales. The modest growth in house prices has weighed on the real value of household net worth, and negative wealth effects, slow hiring and elevated uncertainty about future job market conditions are acting as a drag on consumer spending. Despite this, EU-funded infrastructure investments in energy efficiency and transport are benefiting the construction sector. However, the country has experienced a significant decline in housing construction over the past decade, reinforcing the perception of insufficient supply in both social housing and private housing markets.

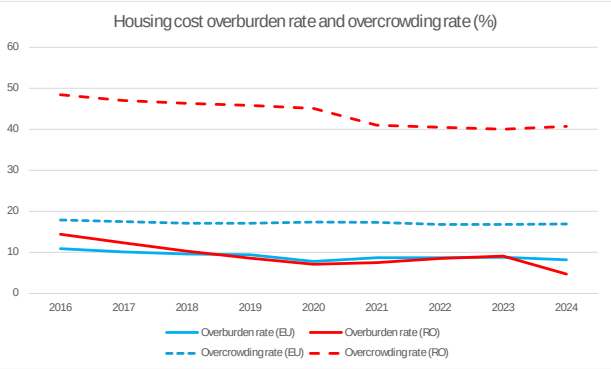
Overall housing affordability has improved over the past decade. House prices have grown less rapidly than household incomes and the standardised house price-to-income ratio has decreased by 37% since 2015 and stands around 40% below its long-term average. House price levels compared to income levels are relatively lower than in most EU countries. Taking into account the cost of mortgage funding, the borrowing capacity of households has improved significantly over the past decade as well. While the rental market is rather small, the ratio of new rents to incomes has decreased over the last ten years.

Romania's housing stock faces challenges due to the lack of diversification. A vast majority of Romanians (95.6%) own their homes, with a small portion (4.4%) living in formal rentals, while the informal rental market may be larger. In 2022, Romania had a limited social housing stock, with applications for rentals far outnumbering the available units. In 2022, homelessness affected over 8 000 individuals and was more concentrated in urban areas (70%), especially in Bucharest (35.5%), with lack of employment being the main cause (44.1%). The lack of land title increases housing insecurity in informal settlements, making it harder to connect homes to utilities and limiting access to State support in remote areas. The government's efforts to formalise property rights and connect permanent homes to roads, water and electricity are crucial to improving the living conditions of vulnerable populations.

High housing costs negatively impact living standards. In 2024, 4.7% of the population faced housing costs above 40% of their total disposable household income (net of housing allowances) (EU: 8.2%). For people experiencing poverty risks, this housing cost overburden rate has risen in recent years driven by limited access to affordable housing, reaching 16.3% in 2024 (EU: 31.1%). Housing cost overburden rates are also higher in rural areas than in cities (5.8% vs 4.3%).

([167])Romania Ministry of Social Affairs, Report on the implementation of the Council Recommendation on access to high quality and affordable long-term care.
([168])More than 20 hours per week.
([169])Romanian Government page – ADD description.
([170])Law 100/2024.

Graph A11.2: **Housing cost overburden and overcrowding rate (%)**



Housing cost overburden rate [tespm140], Overcrowding rate [tessi170]. People at risk of poverty or social exclusion [ilc_peps01n].
Source: Eurostat

Poor housing conditions are widespread, especially in rural areas and among marginalised communities ([171]). In 2024, 40.7% of people lived in an overcrowded household (EU: 16.9%). For people at risk of poverty this percentage rose to 53.7% (EU 28.8%). In 2023, Romania also had a very high rate of people facing severe housing deprivation in rural areas (14.5% vs EU 3.5%). The rate is also particularly high for households under the poverty threshold, single parents and families with children. Furthermore, in 2023, a relatively high proportion of the population and of those below the poverty threshold lacked access to basic sanitary facilities such as indoor flushing toilets (15.4% and 43.3%, respectively).

Romania is implementing measures to improve housing affordability and availability. In 2022, as part of its RRP, Romania adopted its first ever national housing strategy for 2022-2050, aiming to increase access to adequate housing for vulnerable groups, especially young people, persons with disabilities, people in informal settlements and homeless people ([172]). The RRP includes investments in new housing for young people and for healthcare and education professionals working in marginalised communities. The cohesion policy funds support energy-efficient construction and renovation as well as construction and renovation of social housing. These funds also support local authorities in regulating informal settlements. There remains scope in Romania to improve housing market regulation and introduce inclusive zoning policies, requiring a minimum percentage of affordable and/or social housing units in new developments, and to strengthen the implementation of the 2022-2027 national strategy for the social inclusion of the homeless.

Romania has an ambitious strategic framework to address its social challenges. It is currently implementing the 2022-2027 national strategy on social inclusion and poverty reduction ([173]) and multiple sectoral strategies. If implemented well, these could help increase the effectiveness and efficiency of social protection measures and the coverage of the most vulnerable. To this end, coordination between social security and healthcare systems, as well as the prompt adoption of secondary legislation and procedures to deliver the new social assistance and care reform, will be instrumental. In working with marginalised groups such as homeless people, public services would benefit from improved identification and outreach methods, in cooperation with civil society. The success of the 2022-2027 national Roma strategy depends on better coordination between key ministries, involving Roma NGOs and local Roma communities in designing, implementing and monitoring policies, and will require action to combat antigypsyism and segregation ([174]).

([171]) ESPAN, Urban-rural divide and regional disparities in access to public services and regarding social inclusion indicators, 2023.

([172]) 2022-2027 national strategy for the social inclusion of the homeless [Link].

([173]) Strategia națională privind incluziunea socială și reducerea sărăciei pentru perioada 2022–2027 (mmuncii.ro).

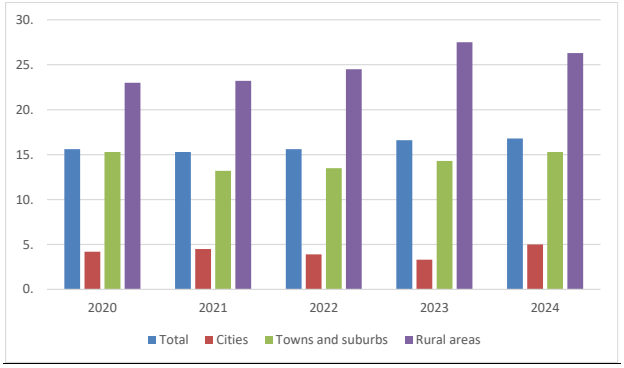
([174]) DG JUST, Report on the implementation of national Roma strategic frameworks, 2024 (45a7ad5c-4fc3-4881-a681-407e47d70d7b_en).

Skills shortages due to an underperforming education and training system weigh on the competitiveness of Romania's evolving economy. Due to rapid growth and the transition to an increasingly services-dominated, digital and green economy, the demand for high-skilled labour is rising, exacerbating existing shortages (see Annex 10). Tertiary educational attainment remains stagnant at low levels, while the number of trained STEM professionals is insufficient to meet the growing demand. Shortcomings of the education and training system are reflected in persistently low levels of basic skills (particularly among disadvantaged students) and high rates of early school leaving. Socio-economic disadvantage begins from an early age and is a key determinant of educational outcomes. To sustain fair growth, increase innovation capacity, improve productivity and effectively improve opportunities for all Romanians, it is urgent to bolster educational outcomes and improve the development of basic and STEM skills, at every stage from early childhood education and care up to adult learning.

Low and declining participation in early childhood education and care (ECEC) limits early learning and worsens inequalities. In 2022, enrolment for children aged 3 to compulsory primary education was 75.7% (EU: 94.6%), 9.8 percentage points (pps) less than in 2015. The rate is particularly low for the Roma - 27% enrolled in 2021 ([175]) and in rural areas. The rural-urban gap ([176]) is widening due to access and socio-economic factors. For children aged 0-3, participation in childcare remains low (7.3% in 2024, EU average 39.2%), also hampering women's participation in the labour market (see Annex 10). The recovery and resilience plan (RRP) finances nurseries, complementary ECEC services and teacher training for quality improvements. Nevertheless, the need remains to better align professional development in ECEC to staff needs ([177]) and ensure adequate access to the ECEC network.

A lack of basic skills among young people undermines human capital potential and hampers the country's competitiveness. The 2022 OECD Programme for International Student Assessment (PISA) showed that 48.6% of Romanian 15-year-olds lack a minimum level of proficiency in mathematics (EU: 29.5%), 41.7% in reading (EU: 26.2%) and 44% in science (EU: 24.2%) ([178]). These are among the highest underachievement rates in the EU. In response, Romania will start implementing a national programme to improve basic skills, which includes measures co-financed by the European Social Fund Plus (ESF+). Nevertheless, effective upscaling of the programme, delivery of the necessary remedial education, and more generally addressing the wider drivers of low basic skills performance are yet to be seen.

Graph A12.1: **Early leavers from education and training by degree of urbanisation**



Source: Eurostat

The poor level of basic skills reflects challenges linked to teaching and school curriculum. Most Romanian schoolteachers received limited pedagogical preparation in initial teacher education ([179]), directly impacting teaching quality. Continuous professional development is not sufficiently adapted to teachers' classroom needs ([180]), including competence-based teaching. To achieve the required number of 18 teaching hours for a full-time equivalent, teachers in rural areas often teach multiple subjects, without the necessary qualification. Aspects related to certification and career progression could be

([175])Fundamental Rights Agency (FRA), (2022), Headline indicators for the EU Roma strategic framework for equality, inclusion and participation for 2020-2030.

([176])In 2023/2024, the gross enrolment rate for children aged 3-5 was 72.7% in rural areas, compared to 95.5% in urban areas.

([177])OECD (2025), Education and Skills in Romania, Reviews of National Policies for Education, OECD Publishing, Paris (forthcoming on 27 May 2025)

([178])OECD (2023), PISA 2022 Results (Volume I): The State of Learning and Equity in Education.

([179])OECD (2017), Reviews of Evaluation and Assessment in Education, Kitchen, H., et al., Romania 2017.

([180])OECD (2020), Improving the teaching profession in Romania.

further considered ([181]). Effective implementation of the 2012/2013 competence-based curriculum for primary and lower secondary education has been hampered by delays with providing support for teachers and alignment of assessment practices, and challenges with monitoring. Further changes, for example, focusing on basic skills across all subjects and preventing overcrowding, could also be considered. The curriculum revision for upper secondary is ongoing. The new education laws aim to improve teacher policies, including initial and continuous teacher education programmes, review quality assurance to better support schools, and enhance equity measures. However, several key aspects have still to be worked out or have been postponed ([182]).

Students' socio-economic background is a strong predictor of basic skills performance. The PISA test showed that 57.8% of students from the poorest quartile lack a minimum level in mathematics, reading and science simultaneously, compared to 9% from the richest quartile. Furthermore, the concentration of disadvantaged children in rural schools has a strong influence on learning outcomes. The urban-rural gap in performance was 119 points in maths. Half of Roma children attend segregated schools ([183]), exacerbating marginalisation and learning disadvantages. With 45% of schools operating with less than 50 students ([184]), fragmentation of the school network affects learning outcomes and efficiency of spending in education, with schools in rural areas often running multi-grade classes.

Low shares of top-performing students in basic skills and with creative thinking impact on talent development, high-end skills and innovation. In the PISA test, only 4.0% of Romanian 15-year demonstrated advanced competencies in mathematics (EU: 7.9%); 2.0% excelled in reading (EU: 6.5%); and 1.4% were top-performers in sciences (EU: 6.9%). Only 14.3% demonstrated advanced creative thinking in the PISA test (EU average: 25.1%).

High early school-leaving rates limit opportunities to enter the labour market with minimal qualifications or progress to further education. In 2024, 16.8% of those aged 18-24 were early leavers from education and training (EU: 9.3%). The rate is especially high in rural areas (26.5%), in towns and suburbs (15.3%), and for the Roma. More than 2 300 schools have benefited from the Recovery and Resilience Facility grants to prevent dropout in grades 5-8. However, 24% of children from rural areas and 14% in urban areas are outside the school system ([185]), requiring specific outreach and reintegration measures. Second chance programmes are insufficient, especially in rural areas, and do not address the needs of adults.

Difficulties persist in ensuring the employability of vocational education and training (VET) graduates, despite their potential to fill labour market gaps. In 2023, 61.3% of pupils in medium-level education were enrolled in VET, above the EU average of 52.4%. The authorities have put forward measures to increase VET attractiveness, such as providing 'technological scholarships', which, in the 2024/2025 academic year, are supporting over 60 000 VET students with a monthly grant of RON 300 (around EUR 60). However, the 2022 PISA results show a large performance gap between students enrolled in general vs vocational education. School dropout is also considerably higher for the latter ([186]). Especially concerning is the low employment rate of recent VET graduates (age 20-34), which stood at only 65.7% in 2024 (versus 80% in the EU). Difficulties in ensuring quality and labour-market relevant VET could be linked to insufficient VET financing, deficiencies in the teaching workforce, and very weak links with employers, as only 7.2% of recent VET graduates had been exposed to work-based learning in 2024 (versus 65.3% in the EU).

A substantial modernisation of the VET system is underway, with support from EU funds. To tighten links with the labour market, the 2023 law on pre-university education sets a target

([181]) See the recommendations of OECD 2024: Reforming School Education in Romania: Strengthening Governance, Evaluation and Support Systems.

([182]) E.g. the set-up of ARACIIP (i.e. the quality assurance and inspection agency for pre-university education) and the reorganisation of county school inspectorates to provide support to schools, the National Centre for Training and Development in the Didactic Career, the national Centre for inclusive education are delayed.

([183]) FRA (2022).

([184]) Ministry of Finance and Ministry of Education (2023), Raportul de analiză și eficientizare a cheltuielilor publice în domeniul educație.)

([185]) ibid.

([186]) Ministry of Education, State of Education, Report for Pre-university Education 2023/2024.

to transition all secondary VET programmes into the dual system by 2029-2030. The main vehicle for achieving this is the establishment of regional dual education consortia, as part of the RRP. The RRP is also funding the equipment of practice workshops and IT laboratories in all VET schools. Around 40 000 VET students will participate in ESF+-funded apprenticeships/traineeships to increase their preparedness for the labour market. Measures such as better school guidance and counselling or remedial learning programmes would nevertheless be welcome to further support to successful transitions to the labour market.

Low tertiary educational attainment limits the availability of professionals with high-end skills. Only 23.2% of people aged 25-34 had a tertiary degree in 2024 (26.3% of women, 20.3% of men), significantly below the EU average of 44.2%. The rate is structurally constrained by low participation in university programmes, partly due to access challenges for students from disadvantaged backgrounds and high early school leaving. In addition, there is still a considerable number of twelfth graders not sitting the baccalaureate exam – a prerequisite for enrolling in higher education, although the passing rate has been improving ([187]), but is still low for students from the technological track. Dropout from university programmes is widespread and many graduates have emigrated. To improve access for disadvantaged students and retention rates, implementation of two national programmes has started with ESF+ support. The recent introduction of dual VET in higher education is meant to increase labour market relevance, including through greater involvement of employers in programme development. It also aims to improve participation in higher education, including by revising the baccalaureate exam.

Trends in future labour market needs highlight the importance of increasing the number of STEM graduates. From 2022 to 2035, employment in high-tech manufacturing and services in Romania is predicted to register one of the highest growths among all EU Member States ([188]). 30% of higher education students (International Standard Classification of Education level 5-8) are pursuing a degree in science, technology, engineering and mathematics (EU:27.1%). However, the low participation rate means the absolute number of professionals trained is insufficient (including in ICT). In 2022, 7.2% of university students were enrolled in ICT programmes (EU: 5.2%), with women making up 32% of these students (compared to the EU average of 20.2%). In 2022, 6.8% of all university students graduated in ICT (EU: 4.5%). However, only 3.3% of PhD students studied ICT (EU average: 3.7%). In 2022, 36.1% of pupils enrolled in medium-level VET in Romania were studying STEM fields, close to the EU average of 36.2%. The higher education law envisages a national programme to support learning in STEM, but effective implementation is yet to be seen, partly due to financial constraints.

Improving levels of digital literacy is particularly critical for Romania's digital transition. Despite performing strongly in several areas related to digital infrastructure and connectivity, Romania's population is struggling to improve its levels of digital literacy, posing barriers to the wider digitalisation of the economy ([189]). In 2023, less than a third of those aged 16-74 had basic digital skills (27.7% versus 55.6% in the EU). Moreover, 74% of Romanian 14-year-olds lack the essential computer and information literacy skills needed to navigate today's digital world (EU-23 average: 43%) ([190]). The RRP is providing support for digital infrastructure in schools and digital skills training for teachers. The ESF+ co-funded project 'Digital skills for the labour market' is expected to upskill 45 000 employees starting from 2025**.**

The transition to a green economy could generate better opportunities for Romanians, if paired with the appropriate upskilling and reskilling measures. Romania has recently stepped-up measures to facilitate learning for sustainability in school education, including through a dedicated strategy ([191]), and the specific Green Week activities. Nevertheless, there is scope to improve students' knowledge on sustainable development ([192]) and develop dedicated

([187]) In 2024, 78.2% of those who sat this exam in the July session were awarded a passing grade.

([188]) CEDEFOP (n.d.), Employment growth in high-tech economy.

([189]) Report on the state of the Digital Decade 2024, Romania

([190]) Results from ICILS 2023, International Association for the Evaluation of Educational Achievement (IEA).

([191]) National Strategy on Education for the Environment and Climate Change 2023-2030.

([192]) In the 2022 International Civic and Citizenship Education Study Romanian students scored below the EU-17 average on knowledge of sustainable development.

frameworks in higher education. Only 44% of Romanians believe that they have the necessary skills to contribute to the green transition, which is significantly below the EU average of 54% ([193]). Decarbonisation efforts are affecting the jobs of many workers in coal-intensive sectors (see Annex 7). The large investments in green energy to be made in the next few years, namely through REPowerEU, mean that skilled workers will be in high demand in these emerging sectors. Effective training programmes to bridge the skills gap are vital. If Romania matches its projected contribution to the EU's 2030 renewable energy target, between 2 000 and 6 000 additional skilled workers will be needed for the deployment of wind and solar energy([194]).

Improving skills development is crucial for competitiveness and tackling existing labour shortages. A significant percentage of Romanian firms identify the lack of adequate skills within the workforce as the primary constraint for business ([195]), and 87% of SMEs note difficulties in finding employees with the appropriate skillset. Moreover, these shortages risk becoming exacerbated. The European Centre for the Development of Vocational Training (CEDEFOP) projects that by 2035 there will be a 30% increase in demand for high-skilled labour, while the share of low-skilled employees in the labour force is projected to decline to 8% by 2035. Skills intelligence in Romania has witnessed an important development with the operationalisation of the ReCONECT platform in December 2023, which integrates mechanisms for skills forecasting, tracking VET and higher education graduates, and monitoring and evaluating public training policies. Romania should now ensure that skills intelligence data informs policymaking to effectively address labour market needs. About EUR 2.67 billion from cohesion policy funding (2021-2027 programming period) are channelled to measures supporting skills development in Romania ([196]), including a pilot project on individual learning accounts.

Adults' engagement in learning is improving, but more efforts will be required to increase resilience and fairness in Romania's society. The rate of adult participation in learning reached 19.1% in 2022 (from 5.8% in 2021) ([197]) and surpassed the 2030 national skills target of 17.4%. However, it remains only about half of the EU average (39.5% in 2022). The reasons behind low engagement include high costs and lack of flexibility of available training options ([198]), as well as a general lack of recognition of the professional and personal benefits it offers ([199]). Participation rates also vary significantly across different population groups. Individuals outside the labour market and those from rural areas exhibit much lower engagement rates (6.4% and 11.2%, respectively). The largest disparities are between those who did not complete upper secondary education and those with tertiary education (3.9% versus 41.2%). Meanwhile, individuals with lower qualifications face growing challenges, such as rising unemployment and higher poverty rates. This underscores the need for skills policies that simultaneously address labour shortages and inequalities, thereby fostering sustainable competitiveness.

The implementation of the new strategic framework for skills development is ongoing. After several years without a national vision for adult learning, two complementary national strategies were adopted in 2023 and 2024, by the Ministry of Labour and the Ministry of Education, respectively. Their drafting was closely coordinated, but this also highlights the current fragmentation in skills policymaking. As Romania moves forward with implementation, it will be important to further strengthen cross-governmental cooperation and the involvement of business and social partners. Other important policies to foster productivity growth and competitiveness include enhancing the role of the private sector in upskilling efforts - namely through stronger and better enforced requirements for employee training ([200]) or tax incentives – and continuing to raise awareness of the benefits of lifelong learning.

([193]) Special Eurobarometer 527.
([194]) EMPL-JRC AMEDI+ project.
([195]) 2024 World Bank Enterprise Survey for Romania.
([196]) DG EMPL, "An in-depth overview of the EU cohesion funds' investments in skills in the context of the European Year of Skills"
([197]) Adult Education Survey - participation in education and training excluding guided on-the-job training.
([198]) National Statistical Institute, 2022
([199]) Centre for the Study of Democracy, Concordia Employers' Confederation (2023), Research Report. The participation in lifelong learning in Romania.
([200]) According to the Labour Code (Law 53/2003), companies are only required to provide training and paid training leave once every two or three years (depending on their number of employees). Measures to enforce these provisions are not set out.

Table A13.1:**Social Scoreboard for Romania**

Social Scoreboard for Romania		
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	19,1
	Early leavers from education and training (% of the population aged 18-24, 2024)	16,8
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2023)	27,7
	Young people not in employment, education or training (% of the population aged 15-29, 2024)	19,4
	Gender employment gap (percentage points, population aged 20-64, 2024)	18,1
	Income quintile ratio (S80/S20, 2024)	4,62
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2024)	69,5
	Unemployment rate (% of the active population aged 15-74, 2024)	5,4
	Long term unemployment (% of the active population aged 15-74, 2024)	1,8
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2023)	161,0
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2024)	27,9
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2024)	33,8
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2024)	18,8
	Disability employment gap (percentage points, population aged 20-64, 2024)	44,8
	Housing cost overburden (% of the total population, 2024)	4,7
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2024)	11,4
	Self-reported unmet need for medical care (% of the population aged 16+, 2024)	2,2

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

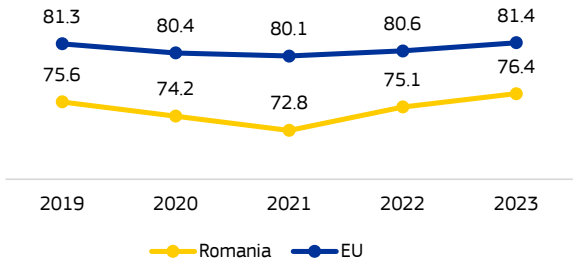
(1) Update of 5 May 2025. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2025 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2025-0).

Source: Eurostat

Romania's health system faces significant challenges. These needs be addressed if the country is to improve the health of its population and social fairness, while boosting the competitiveness of its economy. Challenges include: (i) low life expectancy, high treatable mortality and impact on workforce productivity; (ii) inadequate allocation of resources reflected in poor geographical distribution, ineffective organisation and management of health infrastructure, as well as insufficient focus on disease prevention and outpatient care; (iii) shortages of healthcare workers and limited access to care.

Life expectancy at birth in Romania rebounded above its pre-COVID-19 level but was still among the lowest in the EU in 2023. There is a striking gender gap, with women expected to live 7.8 years longer than men. That said, they can only expect to live around seven months longer than men in good health. Treatable mortality is the highest in the EU, suggesting serious shortcomings in the effectiveness of the health system. Cardiovascular mortality is high and increasing, due in part to behavioural risk factors. The 2024–2030 national strategy to combat cardiovascular and cerebrovascular diseases, published in October 2024, sets out integrated measures for the prevention of these diseases, early diagnosis, treatment and patient rehabilitation. Romania participates in several EU4Health-funded joint actions that aim to reduce the burden of cardiovascular diseases, cancer, diabetes and respiratory diseases.

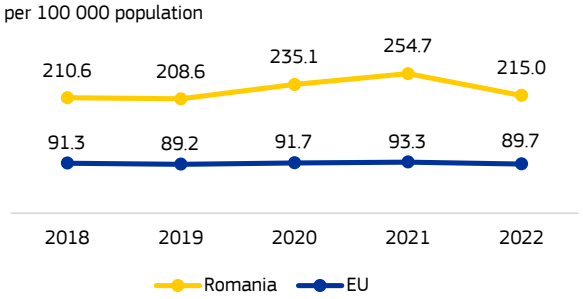
Graph A14.1: **Life expectancy at birth, years**



Source: Eurostat (demo_mlexpec)

Shortcomings in the effectiveness of the health system negatively affect Romania's workforce, productivity and competitiveness. In Romania, mortality at working age as a proportion of total mortality is significantly higher than the EU average. As a result, the number of potential productive life years lost due to non-communicable diseases such as cancer and cardiovascular diseases is considerably higher than the EU average ([201]). Cancer in particular has a major impact on workforce participation and productivity ([202]). These challenges are exacerbating the effects of population ageing on a shrinking labour force. Between 2022 and 2040, the working age population in Romania is forecast to shrink by 0.9% every year as a result of lower birth rates (EU average: 0.3%).

Graph A14.2: **Treatable mortality**



Age-standardised death rate **(mortality that could be avoided through optimal quality healthcare)**
Source: Eurostat (hlth_cd_apr)

Romania's health system is strongly hospital centred. In 2022, health spending per inhabitant was among the lowest in the EU, with the largest share going towards inpatient care and day care (around 43% of total health expenditure). This, together with a high number of hospital beds (640 per 100 000 population in 2022, much higher than the EU average), illustrates Romania's strongly hospital-centred care model. Out-of-pocket payments account for a greater proportion of spending on health in Romania than the EU average. Nearly two thirds of all out-of-pocket payments are for outpatient pharmaceuticals ([203]). Under the Romanian recovery and resilience plan (RRP), around EUR 2.11 billion is planned for health reforms and supporting investments. Significant funding for healthcare (EUR 3.8 billion) is also planned under the 2021-2027 cohesion policy

([201])Update to 2021 data of analysis presented by Health at a Glance: Europe 2016 - © OECD 2016

([202])OECD/European Commission (2025), EU Country Cancer Profiles Synthesis Report 2025, OECD Publishing, Paris, https://doi.org/10.1787/20ef03e1-en

([203])OECD/European Commission (2024), Health at a Glance: Europe 2024: State of Health in the EU Cycle, pp. 186-187.

Table A14.1:**Key health indicators**

	2019	2020	2021	2022	2023	EU average* (latest year)
Cancer mortality per 100 000 population	264.2	260.3	243.2	240.8	n.a.	234.7 (2022)
Mortality due to circulatory diseases per 100 000 population	830.6	918.2	1 005.4	924.5	n.a.	336.4 (2022)
Current expenditure on health, purchasing power standards, per capita	1 311	1 441	1 662	1 627	n.a.	3 684.6 (2022)
Public share of health expenditure, % of current health expenditure	80.5	80.3	78.3	77.8	n.a.	81.3 (2022)
Spending on prevention, % of current health expenditure	1.5	2.0	3.7	2.8	n.a.	5.5 (2022)
Available hospital beds per 100 000 population**	620	627	634	640	n.a.	444 (2022)
Doctors per 1 000 population*	3.2	3.3	3.5	3.6	n.a.	4.2 (2022)*
Nurses per 1 000 population*	0.8	0.8	0.9	0.9	n.a.	7.6 (2022)*
Mortality at working age (20-64 years), % of total mortality	22.7	21.6	21.3	20.8	21.0	14.3 (2023)
Number of patents (pharma / biotech / medical technology)	3	3	1	3	1	29 (2023)***
Total consumption of antibacterials for systemic use, daily defined dose per 1 000 inhabitants****	25.8	25.2	25.7	27.6	27.4	20.0 (2023)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2022 (or latest 2021) data except for Luxembourg (2017). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except France and Slovakia (professionally active) and Greece (hospital only). **'Available hospital beds' covers somatic care, not psychiatric care. ***The EU median is used for patents.
Source: Eurostat database; European Patent Office; ****European Centre for Disease Prevention and Control (ECDC) for 2023.

funds. These funds aim, in particular, to improve the performance of healthcare providers, with measures resulting in a higher quality of care, and a more effective organisation and management of infrastructures (both hospital and outpatient settings), including a newly created National Agency for Development of Health Infrastructure.

As regards public health, the focus on disease prevention is still insufficient. In 2022, spending on prevention in Romania accounted for 2.8% of total spending on health, far below the EU average of 5.5%. According to 2023 data, vaccination coverage among children, for example for measles and hepatitis B, is among the lowest in the EU, reflecting gaps in access to primary care ([204]). In 2023, the consumption of antibiotics was well above the EU average, despite the recommended national target ([205]) to reduce total consumption by 27% between 2019 and 2030. A strategy to prevent and limit healthcare-associated infections was approved at the end of 2023. On behavioural risk factors, a large portion of the population is overweight, and Romania is among the countries with the highest increase in alcohol consumption between 2010 and 2022, alongside having one of the lowest rates of fresh fruit consumption ([206]).

Challenges in accessing outpatient care is a main driver for the high levels of treatable mortality in Romania. Access to care is limited by the low share of public funding for outpatient care, and the uneven distribution of healthcare resources between regions and between income levels. The limited scope of primary care services and the limited availability of general practitioners result in people making avoidable visits to emergency departments, as this is the easiest way to access specialist care. Furthermore, the limited role of primary care in disease prevention, early diagnosis and treatment in Romania, results in a high level of avoidable hospitalisations, such as for diabetes patients. The national health strategy for 2023-2030 aims to strengthen the role and improve the performance of outpatient care. In addition, specific measures under both the RRP and the cohesion policy aim to improve health services in primary, outpatient and community care. In 2024, the level of unmet needs for medical care has decreased compared to 2023 (5.2% in 2023 to 2.2% in 2024) although financial barriers continue to contribute to unmet needs, with notable income-related and rural-urban disparities remaining (see Annex 11). To improve access to innovative treatments for patients with various chronic conditions, the Romanian government has approved the introduction of 28 innovative medicines in the benefit package of the social health insurance, starting from 1 May 2024.

Shortages of health staff limit the availability of care. The density of doctors in Romania is below the EU average (3.5 doctors per 1 000 population in 2021 vs 4.2), with an uneven distribution across the country. There were only

([204]) Health at a Glance: Europe 2024, pp. 160-161.
([205]) National target set by the Council Recommendation on stepping up EU actions to combat antimicrobial resistance in a 'one health' approach, 2023/C 220/01.
([206]) Health at a Glance: Europe 2024, Chapter 4.

0.9 practicing nurses ([207]) per 1 000 population in Romania in 2022, the lowest rate in the EU (EU average: 7.6), posing a significant challenge to the health system (see Annex 11). The number of nursing graduates per 100 000 population is also among the lowest in the EU. Despite a higher density of medical graduates than the EU average, emigration of health workers contributes to staff shortages. To tackle health workforce issues, the government has approved a multiannual strategy (2022-2030) and sectoral action plans, as part of Romania's RRP.

The Romanian health system's potential to drive innovation and foster industrial development in the EU medical sector remains largely untapped. Romania is among the EU countries that report the lowest public spending on health research and development. This is reflected in the low number of European patents granted: only seven in 2023 in the combined areas of pharmaceuticals, biotechnologies and medical devices (vs an EU-level median of 29 ([208]). Clinical trial activity in Romania is also limited ([209]). At the beginning of October 2024, the health programme under the cohesion policy funds was amended to incorporate two new priorities contributing to the Strategic Technologies for Europe Platform resulting in new measures to support skills, and research and development promoting innovation in health.

Romania is lagging behind in the uptake of e-health and overall health system digitalisation and **needs to overcome gaps in data storage and sharing.** For instance, in 2024, the share of people accessing their personal health records online in Romania (9.9%) was less than a fifth of the EU average. There is also a wide gap in patient use depending on an individual's socio-economic background. Significant planned investments under the RRP and cohesion policy aim to boost the digital transformation of the healthcare sector in Romania. Measures focus on: (i) increasing the digital capacity of health institutions at all levels; (ii) improving data management; and (iii) accelerating telemedicine adoption, also among vulnerable populations and in rural areas. These initiatives aim to integrate health institutions through digital infrastructure, improving access to health data, reducing fragmentation, and improving the quality of healthcare services.

([207])Under the newly adopted Eurostat definition of nurses (following the EU Directive 2005/36/EC on the recognition of professional qualifications) nurse density numbers shown below are significantly lower than numbers using a broader definition, as for instance used for the OECD health statistics.

([208])European Patent Office, Data to download | epo.org.

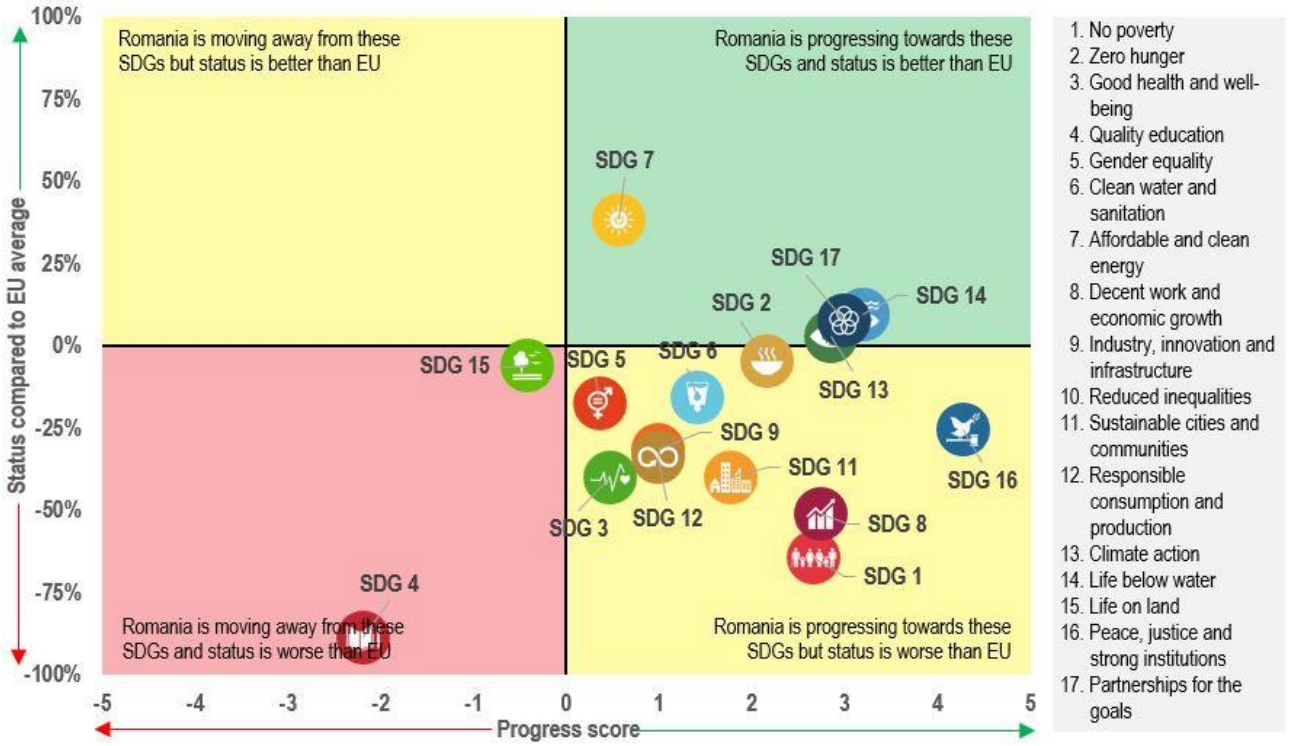
([209])EMA (2024), Monitoring the European clinical trials environment, p. 9.

This Annex assesses Romania's progress on the Sustainable Development Goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

As regards SDGs linked to *competitiveness*, Romania is improving on SDG 8 (Decent work and economic growth) and SDG 9 (Industry, Innovation and Infrastructure), but is moving away from the goal for SDG 4 (Quality education). On SDG 8, although the percentage of young people not in employment, education or training fell from 20.9% to 19.4% between 2019 and 2024, the figure remains well above the EU average of 11% in 2024, down from 12.8% in 2019. On quality education (SDG 4), the percentage of adults with at least basic digital skills remained stable from 2021 to 2023, standing at around 27.7%. This is significantly lower than the EU average of 55.6% in 2023, up from 53.9% in 2021. Romania also needs to catch up with the EU average for SDG 9 (0.52% of GDP expenditure on R&D; EU average: 2.24% in 2023). To address the challenges linked to productivity, Romania's recovery and resilience plan (RRP) aims to create a full professional route for higher technical education, digitalise the education process to improve digital skills for students and teachers and support research and innovation.

Romania is improving on all SDGs related to *sustainability* (SDGs 2, 6, 9, 11, 12, 13, 14) except for SDG 15 (Life on land). Yet, Romania

Graph A15.1: **Progress towards the SDGs in Romania**



For detailed datasets on the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for details on extensive country-specific data on the short-term progress of Member States: Key findings – Sustainable development indicators - Eurostat (europa.eu). A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 28 April 2025. Data refer mainly to the period 2018-2023 or 2019-2024. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

needs to catch up with the EU average for most of these (SDGs 2, 6, 9, 11, 12, 15). On SDG 12 (Responsible consumption and production), the material footprint was 33.2 tonnes per inhabitant in 2023, compared to an EU average of 14.2 tonnes. On SDG 11 (Sustainable cities and communities), the number of road traffic deaths per 100 000 persons was 8.1 in 2023, compared to an EU average of 4.5 and the recycling rate of municipal waste in 2022 was 12.3% for an EU average of 48.2% in 2023. On SDG 9, the patent applications to the European Patent Office (EPO) per million inhabitants was 9 in 2024, while the EU average was 156.

While Romania has made progress on some SDGs related to *gender equality (*SDG 5), *affordable and clean energy* (SDG 7) and *good health and well-being* (SDG 3), and in some cases significant progress (SDGs 1 and 8), it is moving away from the target for SDG 4 (*quality education).* While the percentage of the population at risk of poverty and social exclusion decreased between 2018 and 2023 from 38.7% to 32%, though the self-reported unmet needs for medical care increased slightly from 4.9% to 5.2% over that period. Romania's track record on gender equality is concerning compared to the risk of the EU. In 2024, only 19.5% of seats were held by women in national parliaments and governments compared to 33.4% in the EU. As regards SDG 7, the RRP aims to support clean energy production and energy-efficiency renovation.

Romania is improving on all SDGs related to *macroeconomic stability* (SDGs 8, 16, 17). Romania's real GDP per capita (SDG 8) rose from EUR 11,830 in 2019 to EUR 13,130 in 2024 - chain linked volumes (2012) (EU average: EUR 33,530 in 2024). However, the country faces challenges related to trust in institutions, with the Corruption Perceptions Index standing at 46 in 2024 (EU average: 62). The index's scale runs from 0 (highly corrupt) to 100 (very clean)). Romania performs well on SDG 17 (Partnership for the goals). The RRP is expected to further improve the fight against corruption and help increase trust in public administration.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

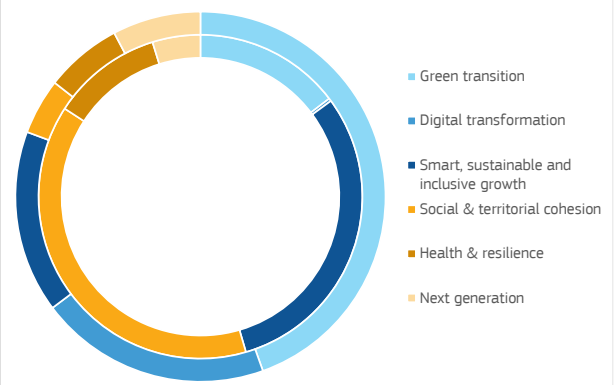
Romania faces structural challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs) addressed to the country as part of the European Semester. They refer, among other things, to renewable energy and energy infrastructure, the functioning of the labour market, education, training and skills, fiscal governance, public administration and social protection.

The Commission has assessed the 2019-2024 CSRs considering the policy action taken by Romania to date and the commitments in its recovery and resilience plan (RRP). At this stage, Romania has made at least 'some progress' on 74% of the CSRs ([210]), and 'limited progress' on 22% (Table A16.2).

EU funding instruments provide considerable resources to Romania by supporting investments and structural reforms to increase competitiveness, environmental sustainability and social fairness, while helping to address challenges identified in the CSRs. In addition to the EUR 28.5 billion funding from the Recovery and Resilience Facility (RRF) in 2021-2026, EU cohesion policy funds ([211]) are providing EUR 31 billion to Romania (amounting to EUR 44.4 billion with national cofinancing) for 2021-2027 ([212]) to boost regional competitiveness and growth. Support from these instruments combined represents around 18.3% of 2024 GDP ([213]). The contribution of these instruments to different policy objectives is outlined in Graphs A16.1 and A16.2. This substantial support comes on top of financing provided to Romania under the 2014-2020 multiannual financial framework, which financed cohesion policy projects until 2023 and has had significant benefits for the economy and Romanian society. Project selection under the 2021-2027 cohesion policy programmes is advanced, while significant volumes of investment are yet to be mobilised.

The Romanian RRP contains 111 investments and 66 reforms to stimulate sustainable growth, foster digital transition and achieve climate objectives. A year before the end of the RRF timespan, implementation is on its way, with 33.13% of the funds disbursed ([214]). However, implementation of reforms and investments needs to urgently accelerate, to ensure completion of all RRP measures by 31 August 2026. At present, Romania has fulfilled 14 % of the milestones and targets in its RRP. The main bottlenecks to EU funds implementation in Romania are delays in procurement, political instability, ineffective governance and insufficient administrative capacity.

Graph A16.1: **Distribution of RRF funding in Romania by policy field**



(1) Each RRP measure helps achieve the aims of two of the six policy pillars of the RRF. The primary contribution is shown in the outer circle, while the secondary contribution is shown in the inner circle. Each circle represents 100% of the RRF funds. Therefore, the total contribution to all pillars displayed on this chart amounts to 200% of the RRF funds allocated.
Source: European Commission

Romania also receives funding from several other EU instruments, including those listed in Table A16.1. Most notably, the common agricultural policy (CAP) provides Romania with an EU contribution of EUR 15 billion under the CAP strategic plan 2023-2027 ([215]). Operations

([210])9% of the 2019-2024 CSRs have been fully implemented, 15% substantially implemented, and some progress has been made on 50%.

([211])In 2021-2027, cohesion policy funds include the European Regional Development Fund, the Cohesion Fund, the European Social Fund Plus and the Just Transition Fund. The information on cohesion policy included in this annex is based on adopted programmes with the cut-off date of 5 May 2025.

([212])European territorial cooperation (ETC) programmes are excluded from the figure.

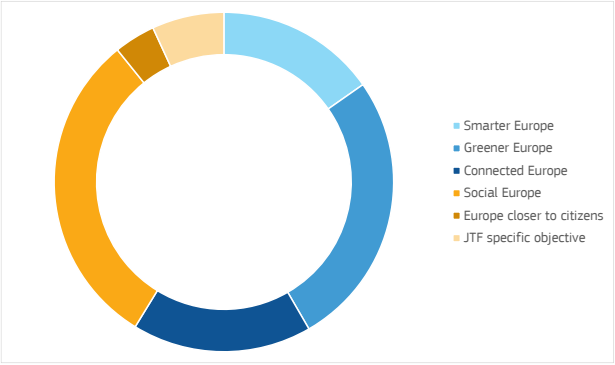
([213])RRF funding includes both grants and loans, where applicable. GDP figures are based on Eurostat data for 2024.

([214])As of mid-May 2025, Romania has submitted 3 payment requests.

([215])An overview of Romania's formally approved strategy to implement the EU's common agricultural policy nationally

amounting to EUR 2.8 billion ([216]) have been signed under the InvestEU instrument backed by the EU guarantee, improving access to financing for riskier operations in Romania.

Graph A16.2: **Distribution of cohesion policy funding across policy objectives in Romania**



Source: European Commission

Cohesion policy funds aim to increase the productivity and competitiveness of Romanian firms and improve the business environment. The European Regional Development Fund (ERDF) and the Just Transition Fund (JTF) provide support to 22 300 businesses, targeting investments in innovation and digitalisation. Close to 4 000 small and medium-sized enterprises (SMEs) are investing in new skills and 400 public institutions will be supported in a swift digital transition. More than half of JTF EUR 2.14 billion allocation targets economic diversification in territories which rely on high emission sectors, industrial installations undergoing technological transformations towards a low carbon economy, as well as SMEs involved in strategic technologies (STEP). Romania is mobilising over EUR 1.5 billion of cohesion policy funding in support of the objectives of the Strategic Technologies for Europe Platform (STEP) aiming at developing critical technologies such as digital technologies (microelectronics, including semiconductor technologies, and artificial intelligence), and clean and resource efficient technologies (green hydrogen production). The European Social Fund Plus (ESF+) is investing EUR 1.7 billion to boost competitiveness and productivity by modernising labour market institutions, strengthening social dialogue, supporting youth employment and promoting entrepreneurship. Another EUR 1.9 billion aims to improve education quality, address skills shortages and foster lifelong learning. EUR 145 million is dedicated to green skills and jobs, while over EUR 570 million supports vocational education and training, higher education, and adult learning in critical technologies (STEP). More than 1.5 million people will benefit, including more than 500 000 children and young people, with 240 000 finding jobs and 354 000 gaining new qualifications.

Other funds are contributing to competitiveness in Romania, for instance through open calls. The Connecting Europe Facility has financed strategic investment in rail transport, projects for the integration of the energy market and security of energy supply and uptake of 5G in smart communities. Horizon Europe has supported research and innovation projects in priority areas such as climate, energy and mobility and food, bioeconomy, natural resources, agriculture and environment. In Romania, the Technical Support Instrument (TSI) is focused on enhancing the capabilities of the public administration and supporting the development of a comprehensive regional green hydrogen market.

Romania's RRP also contains ambitious measures to improve the business environment and competitiveness. Measures covered by submitted payment requests include: (i) the entry into force of the 'Single Industrial Licence' law aimed at reducing the administrative burden for the business environment and of legislative amendments to streamline, simplify and fully digitise business-related procedures; and (ii) the entry into force of a law that encourages, facilitates and regulates the voluntary and functional integration and merger of research institutions in Romania.

EU funds are playing a significant role in promoting environmental sustainability and green transition in Romania during the current seven-year EU budget (multiannual financial framework). Cohesion policy funding will be used to increase capacity for renewable energy generation by around 300 MW. Around 660 000 people will benefit from new or upgraded wastewater treatment capacity. Investments will also support the development of additional waste recycling capacity, planned to reach 360 000 tonnes/year. In addition, EUR 306 million are earmarked to address climate disaster

can be found at: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/romania_en

([216])Data reflect the situation on 31.12.2024.

management. ERDF investments will also contribute to more sustainable urban environment by extending the length of tram and metro lines by more than 200 km and improving transport connectivity across the country through reconstruction. Through its CAP strategic plan, Romania allocates around 25% of direct payments to eco-schemes. These involve incentives to farmers that go beyond the legal requirements or usual practice in terms of climate and environment. Around EUR 1.64 billion in support will go to farmers who are willing to implement environmentally friendly farming practices, including ensuring soil protection during sensitive climatic periods, diversifying crops and protecting soil through minimum tillage. The different eco-schemes are expected to be applied on up to 5.6 million hectares of land, depending on their targeted area. Significant support (41% of the rural development budget) will also be used to encourage environmentally friendly practices for areas with high natural value, for example areas that are important for the life of birds and butterflies. Annually, farmers are expected to apply these practices on 611 000 hectares of land. EUR 245 million will be available for small farms (up to 10 hectares) to motivate them to adopt practices aimed at sustainable agriculture, preventing soil degradation and improving biodiversity.

Romania's RRP, including the REPowerEU chapter, has a comprehensive set of reforms and investments for the green transition. Measures covered by submitted payment requests include: (i) the development of flexible and high-efficient gas-fired combined heat and power generation (CHP) in district heating to achieve deep decarbonisation; (ii) a reform of the electricity market; (iii) the establishment of a national support scheme for energy efficiency renovation and integrated renovation (seismic consolidation and energy efficiency) for public buildings; and (iv) investments in sustainable urban mobility.

Promoting fairness, social cohesion and improving access to basic services are among the key priorities of EU funding in Romania. The ERDF is supporting the development of classroom infrastructure for childcare facilities, covering more than 130 000 children. The capacity of new or modernised social housing will benefit more than 4 300 people, while integrated action targeting the inclusion of marginalised groups will support 6 100 people. Nearly 260 000 people per year will benefit from increased capacity in healthcare facilities. The ESF+ dedicates EUR 1.9 billion, or 25.9% of its total budget, to fostering social inclusion by improving social services, particularly in rural and marginalised communities, and to supporting the European Child Guarantee. ESF+ will fund integrated community services for at least 450 000 vulnerable people, provide material support to 1.2 million deprived Romanians and 350 000 children, and will improve community and home-based care for over 12 500 older people.

Romania's RRP contains several reforms and investments related to fairness and social policies. Measures covered by the three payment requests submitted include a reform of the public pension system; a reform of the governance of the pre-university education system and professionalisation of management; investments to support educational establishments with a high risk of dropouts; the adoption of a national long-term care strategy; and implementation of a minimum inclusion income to help the most vulnerable people out of poverty. To help Romania implement its RRP, in 2024 the TSI assisted with measures for improving the regulatory frameworks in social housing and for combating bid rigging in public procurement.

Table A16.1:**Selected EU funds with adopted allocations - summary data (million EUR)**

Instrument/policy	Allocation 2021-2026		Disbursed since 2021 (1)
RRF grants (including the RepowerEU allocation)	13 566.1		5 779.9
RRF loans	14 942.2		3 662.6
Instrument/policy	**Allocation 2014-2020 (2)**	**Allocation 2021-2027**	**Disbursed since 2021 (3)** (covering total payments to the Member State on commitments originating from both 2014-2020 and 2021-2027 programming periods)
Cohesion policy (total)	24 070.8	30 986.5	17 212.6
European Regional Development Fund (ERDF)	12 376.1	17 976.0	9 357.8
Cohesion Fund (CF)	6 535.0	3 537.7	4 038.3
European Social Fund (ESF, ESF+) and the Youth Employment Initiative (YEI)	5 159.6	7 333.0	3 153.3
Just Transition Fund (JTF)		2 139.7	663.3
Fisheries			
European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Maritime and Fisheries Fund (EMFF)	168.4	162.5	78.5
Migration and home affairs			
Migration, border management and internal security - AMIF, BMVI and ISF (4)	214.2	333.6	108.0
The common agricultural policy under the CAP strategic plan (5)	**Allocation 2023-2027**		**Disbursements under the CAP Strategic Plan (6)**
Total under the CAP strategic plan	14 969.6		4 200.1
European Agricultural Guarantee Fund (EAGF)	9 934.8		3 600.6
European Fund for Agricultural Development (EAFRD)	5 034.7		599.5

(1) The cut-off date for data on disbursements under the RRF is 31 May 2025.
(2) Cohesion policy 2014-2020 allocations include REACT-EU appropriations committed in 2021-2022.
(3) These amounts relate only to disbursements made from 2021 onwards and do not include payments made to the Member State before 2021. Hence the figures do not comprise the totality of payments corresponding to the 2014-2020 allocation. The cut-off date for data on disbursements under EMFAF and EMFF is 29 April 2025. The cut-off date for data on disbursements under cohesion policy funds, AMIF, BMVI and ISF is 5 May 2025.
(4) AMIF - Asylum, Migration and Integration Fund; BMVI - Border Management and Visa Instrument; ISF - Internal Security Fund.
(5) Expenditure outside the CAP strategic plan is not included.
(6) The cut-off date for data on EARDF disbursements is 5 May 2025. The information on EAGF disbursements is based on the Member State declarations until March 2025. Disbursements for the Direct Payments (EAGF) started in 2024.
Source: European Commission

Table A16.2:**Summary table on 2019-2024 CSRs**

Romania	Assessment in May 2025	Relevant SDGs
2019 CSR 1	Not relevant anymore	
Ensure compliance with the Council recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective.	Not relevant anymore	SDG 8, 16
Ensure the full application of the fiscal framework.	Not relevant anymore	SDG 8, 16
Strengthen tax compliance and collection.	Limited progress	SDG 8, 16
2019 CSR 2	**Substantial progress**	
Safeguard financial stability and the robustness of the banking sector.	Substantial progress	SDG 8
Ensure the sustainability of the public pension system and	Substantial progress	SDG 8
the long-term viability of the second pillar pension funds.	Substantial progress	SDG 8
2019 CSR 3	**Some progress**	
Improve the quality and inclusiveness of education, in particular for Roma and other disadvantaged groups.	Some progress	SDG 4, 8, 10
Improve skills, including digital, notably by increasing the labour market relevance of vocational education and training and higher education.	Some progress	SDG 4
Increase the coverage and quality of social services and	Some progress	SDG 1, 2,10
complete the minimum inclusion income reform.	Substantial progress	SDG 1, 2, 10
Improve the functioning of social dialogue.	Substantial progress	SDG 8
Ensure minimum wage setting based on objective criteria, consistent with job creation and competitiveness.	Substantial progress	SDG 8
Improve access to and cost-efficiency of healthcare, including through the shift to outpatient care.	Some progress	SDG 3
2019 CSR 4	**Some progress**	
Focus investment-related economic policy on transport, notably on its sustainability, low carbon energy and energy efficiency, environmental infrastructure as well as innovation, taking into account regional disparities.	Some progress	SDG 6, 7, 9, 10, 11, 12, 13
Improve preparation and prioritisation of large projects and accelerate their implementation.	Some progress	SDG 16
Improve the efficiency of public procurement and ensure full and sustainable implementation of the national public procurement strategy.	Some progress	SDG 9
2019 CSR 5	**Some progress**	
Ensure that legislative initiatives do not undermine legal certainty by improving the quality and predictability of decision-making, including by appropriate stakeholder consultations, effective impact assessments and streamlined administrative procedures.	Limited progress	SDG 16
Strengthen the corporate governance of state-owned enterprises.	Some progress	SDG 9
2020 CSR 1	**Not relevant anymore**	
Pursue fiscal policies in line with the Council's recommendation of 3 April 2020, while taking all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.	Not relevant anymore	SDG 8, 16
Avoid the implementation of permanent measures that would endanger fiscal sustainability.	Limited progress	SDG 8, 16
Strengthen the resilience of the health system, including in the areas of health workers and medical products, and improve access to health services.	Some progress	SDG 3
2020 CSR 2	**Some progress**	
Provide adequate income replacement and	Full implementation	SDG 1, 2, 10
extend social protection measures and	Some progress	SDG 1, 2, 10
extend access to essential services for all.	Limited progress	SDG 1, 2, 10
Mitigate the employment impact of the crisis by developing flexible working arrangements and activation measures.	Substantial progress	SDG 8
Strengthen skills and digital learning and	Some progress	SDG 4
ensure equal access to education.	Some progress	SDG 4, 8, 10

(Continued on the next page)

Table (continued)

2020 CSR 3	**Some progress**	
Ensure liquidity support to the economy benefiting businesses and households, particularly small and medium-sized enterprises and the self-employed.	Full implementation	SDG 8, 9
Front-load mature public investment projects and	Some progress	SDG 8, 16
promote private investment to foster the economic recovery.	Some progress	SDG 8, 9
Focus investment on the green and digital transition, in particular on sustainable transport,	Some progress	SDG 11
digital service infrastructure,	Some progress	SDG 9
clean and efficient production and use of energy and environmental infrastructure, including in the coal regions.	Some progress	SDG 6, 7, 9, 10, 11, 12, 13
2020 CSR 4	**Limited progress**	
Improve the quality and effectiveness of public administration and	Some progress	SDG 16
improve the predictability of decision-making, including through an adequate involvement of social partners.	Some progress	SDG 16
2021 CSR 1	**Not relevant anymore**	
Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania.	Not relevant anymore	SDG 8, 16
2022 CSR 1	**Not relevant anymore**	
Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania.	Not relevant anymore	SDG 8, 16
2022 CSR 2		
Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 3 November 2021.	RRP implementation is monitored by assessing RRP payment requests and analysing reports published twice a year on the achievement of the milestones and targets. These are to be reflected in the country reports.	
Swiftly finalise the negotiations with the Commission on the 2021-2027 cohesion policy programming documents with a view to starting their implementation.	Progress on the cohesion policy programming documents is monitored under the EU cohesion policy.	
2022 CSR 3	**Some progress**	
Reduce overall reliance on fossil fuels.	Some progress	SDG 7, 9, 13
Facilitate the further expansion of sustainable energy production by accelerating the development of renewables,	Limited progress	SDG 7, 9, 13
upgrading energy transmission grids and increasing interconnection with neighbouring Member States.	Limited progress	SDG 7, 9, 13
Increase the pace and ambition of renovations to advance the energy efficiency of the building stock.	Some progress	SDG 7
2023 CSR 1	**Limited progress**	
Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania by 2024, and to strengthen Romania's external position.	Limited progress	SDG 8, 16
Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.	Limited progress	SDG 8, 16
Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.	Full implementation	SDG 8, 16
For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.	No progress	SDG 8, 16
2023 CSR 2		
Ensure an effective governance and strengthen the administrative capacity to allow for a continued swift and steady implementation of the recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy programming is monitored in the context of the Cohesion Policy of the European Union.	

(Continued on the next page)

Table (continued)

2023 CSR 3	**Some progress**	
Reduce reliance on fossil fuels and	Some progress	SDG 7, 9, 13
accelerate the energy transition, in particular by deploying renewable energy faster and improving grid capacity to allow new capacity to operate in the market.	Limited progress	SDG 7, 9, 13
Increase energy efficiency and the ambition of building renovation efforts, including by providing better access to information and sustainable finance options.	Some progress	SDG 7
Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Limited progress	SDG 4
2024 CSR 1	**Some progress**	
Submit the medium-term fiscal-structural plan in a timely manner.	Full implementation	SDG 8, 16
Tighten fiscal policy in order to achieve a fiscal adjustment for 2024 as a whole. In 2025, in line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure to a rate consistent with, inter alia, reducing the general government deficit towards the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.	No progress	SDG 8, 16
2024 CSR 2		
Significantly accelerate the implementation of cohesion policy programmes and the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026, by guaranteeing effective governance and strengthening administrative capacity. In the context of the mid-term review, continue focusing on the agreed priorities, taking action to better address the needs regarding social housing, the related social services and the development of smaller urban areas, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy programming is monitored in the context of the Cohesion Policy of the European Union.	

Source: European Commission

Favourable economic conditions provide an opportunity for regional convergence in Romania. Harnessing the competitive advantages of regions in key sectors of the economy, promoting equal access to high quality public services at regional and local levels, and addressing challenges of demography, quality of institutions and governance are all key in ensuring social and economic convergence.

Romania's GDP growth has been driven by access to EU funds, foreign investment and economic integration. Romania has seen a sustained growth in GDP per head, which increased from just 30% of the EU-27 average in 2002 to a record high of 78% in 2023. This positive trend is expected to continue in 2024-2026, driven by capital deepening and growth in total factor productivity.

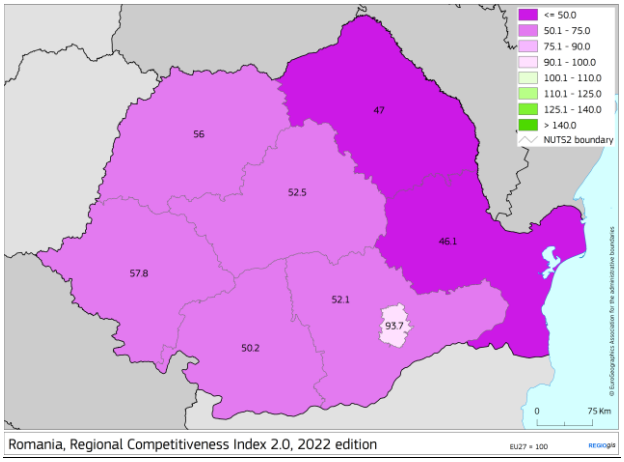
Despite the significant internal economic disparities between the capital and other regions, convergence has been particularly strong in Romania since 2013. While all Romanian regions have continued to move towards the EU-27 average in terms of GDP per head, the capital region has improved more rapidly, widening regional disparities. In 2023, GDP per head in the București-Ilfov region was 190% of the EU-27 average, in stark contrast to the other regions, which ranged from 78% in Vest to a low of 47% in Nord-Est.

Creating opportunities across Romanian regions would help to tackle negative demographic trends and support regions' productive base and growth potential. The capital region, Vest, Nord-Vest and Centru have shown better GDP per head performance compared to the rest of the country, despite recent population increases. While in the last 10 years population in Romania declined by 4.5 per 1 000 residents, between 2022 and 2023, these four regions registered annual demographic increases ranging from 8.2 (București-Ilfov) to 1.1 (Vest) per 1 000 residents. Of the other regions only Nord-Est recorded a population increase (0.8), with Sud-Est (-3.5), Sud-Vest Oltenia (-3.7) and Sud-Muntenia (-3.7) all recording a population decline.

Competitiveness

All Romanian regions are below the EU-27 average in terms of competitiveness. The Regional Competitiveness Index 2.0 (Map A17.1) shows that the regional gaps in GDP per head between the capital and the rest of Romania are largely driven by disparities in labour productivity, as well as gaps in higher education, labour market efficiency and innovation.

Map A17.1: **Regional Competitiveness Index 2.0, 2022 edition**



Source: DG REGIO, JRC based on Eurostat

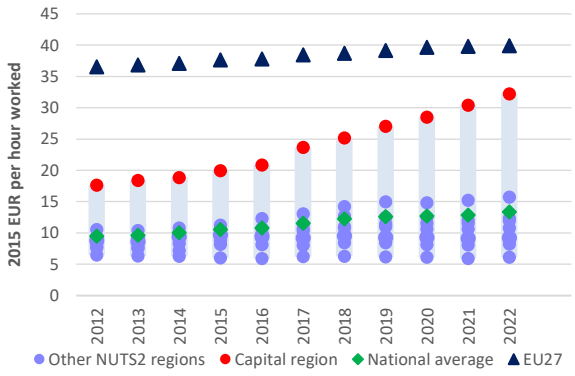
Labour productivity growth has accelerated significantly over the past decade. Annual growth in labour productivity between 2013 and 2022 (measured as GDP per hour worked) outpaced the EU-27 average (3.5% vs 0.9%). However, this growth was unevenly distributed across the country. The capital region showed the fastest growth (6.2%), followed closely by Vest (5.2%) and Nord-Vest (4.5%). Two regions - Centru (1.6%) and Sud-Est (2.6%) - saw lower but still above EU average productivity growth. In contrast, Sud-Vest Oltenia (0.6%) and Sud-Muntenia (0.5%) experienced below-average growth, while Nord-Est (-0.5%) saw a decline in productivity.

Table A17.1:**Selection of indicators at regional level in Romania**

	GDP per head (PPS)	Real GDP per head growth	Productivity - GDP per person employed (PPS)	Real productivity growth (per person employed)	Productivity - GDP per hour worked (PPS)	Real productivity growth (per hour worked)	R&D expenditure	Human resources in science and technology (core)	Employment in knowledge-intensive services	Population aged 30-34 with high educational attainment	Population growth	At-risk-of-poverty or social exclusion	Access to alternative fuel infrastructure	Urban waste water not collected
	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	% of GDP	% of total employment	% of total employment	% of population aged 30-34	Average annual change per 1000 residents	% of total population	Number of electric vehicles charging points within 10 km	% of generated load
	2023	2014-2023	2023	2014-2023	2022	2013-2022	2022	2024	2024	2024	2014-2023	2024	2022	2020
European Union (27 MS)	100	1.6	100	0.6	100	0.9	2.28	49.2	41.5	44.8	1.7	21.0	287	2.4
Romania	78	4.1	85	3.7	71	3.5	0.46	29.3	25.2	23.6	-4.5	27.9	31	36.9
Nord-Vest	71	5.5	75	5.3	61	4.5	0.24	27.5	23.3	21.4	-1.9	25.6	19	32.0
Centru	70	3.1	81	1.9	70	1.6	0.43	29.7	21.9	17.3	-2.9	24.7	9	36.0
Nord-Est	47	0.0	47	-0.6	43	-0.5	0.24	22.0	18.6	19.0	-1.4	33.8	8	38.6
Sud-Est	61	1.9	74	1.3	62	2.6	0.09	24.8	24.9	17.6	-6.8	39.7	11	30.3
Sud-Muntenia	60	0.6	78	1.6	63	0.5	0.24	22.2	22.8	15.3	-8.5	28.8	5	55.6
București-Ilfov	190	7.8	167	6.4	130	6.2	0.85	51.3	43.2	51.2	1.0	12.0	186	18.7
Sud-Vest Oltenia	62	0.2	70	0.3	57	0.6	0.13	26.3	21.7	16.6	-9.1	35.1	9	55.2
Vest	78	6.1	90	6.1	74	5.2	0.76	30.4	22.2	19.5	-8.3	21.3	12	24.8

Source: Eurostat and ARDECO (JRC)

Graph A17.1: **Labour productivity per hour**



Unit: Real GDP per hour worked (EUR, 2015 prices).
Source: ARDECO (JRC).

Human capital and educational attainment are the key factors behind the productivity gaps in Romania and in particular the differences between the capital region and other regions. In 2024, in almost all less developed regions, the proportion of the population aged 30-34 with a tertiary degree was below the national average (23.6%), ranging from 15.3% (Sud-Muntenia) to 21.4% (Nord-Vest). In stark contrast, the București-Ilfov region displayed a significantly higher proportion of the population with a high level of education (51.2%), exceeding even the EU-27 average (44.8%).

The divide in educational outcomes is not only regional but also exists between urban and rural areas. There is significant scope for targeted initiatives to improve educational outcomes and human capital development in rural areas (see Annex 12). The rate of early leavers from school and training was alarmingly high and deteriorating in rural areas (26.3%), whereas cities had a much lower rate (5.0%) Furthermore, in the 2022 Programme for International Student Assessment test, the performance gap between schools in urban and rural areas was among the highest in the EU (119 score points for mathematics, compared to the EU average of 49).

Increasing the proportion of women and young people in regional labour markets and reducing unemployment would help to improve competitiveness, in particular in the less developed regions. Regional variations in labour market conditions are significant, with the unemployment rate ranging from 2.2% in the capital region to 9.9% in Sud-Est. Rural areas have a substantially higher unemployment rate (8.2%) than cities (2.1%). Moreover, the rate of youth unemployment was alarmingly high across all regions, with participation in the labour market hampered by significant gaps in skills, especially in the less developed regions. There are also wide regional disparities in the employment rate of women: only half of the female population aged 20-64 was employed in the Sud-Est region in 2023, compared to 76.6% in the capital region.

There is significant scope to enhance innovation by supporting the scale-up of innovative enterprises, **especially where major universities are located.** Chronically low investment in R&D and weak innovation performance exacerbate regional disparities. Regarding business expenditures on research and development (BERD), all regions fell short of the EU average (1.53%), with a national average of 0.29%. The proportion of employment in high-tech

sectors in 2024 was above the EU average (5.2%) only in București-Ilfov (9.2%) and Vest (6.0%), while other regions had proportions ranging from 0.8% to 3.4%. These indicators consistently suggest that Romania, and particularly its less developed regions, struggles to capitalise on growth trends in advanced and dynamic sectors.

Digital disparities persist between Romania's regions, **and ICT uptake is low**. Overall, Romania continues to have major shortcomings in digital transformation of businesses and digitalization of public services, whilst digital skills and digital infrastructure show better results. This indicates that further efforts would be useful to encourage technology transfer and boost regional competitiveness.

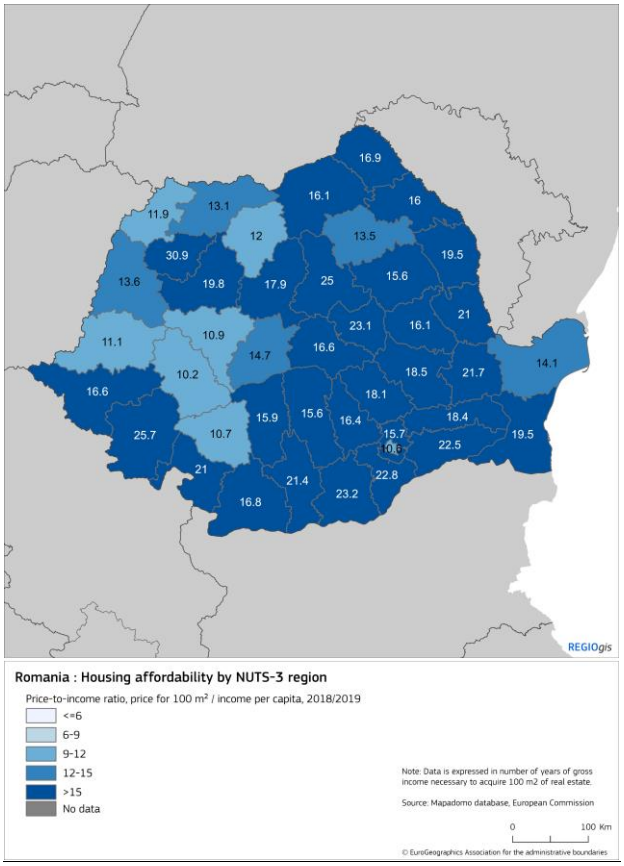
Social fairness

In 2024, the country had one of the highest percentages of population at risk of poverty or social exclusion (AROPE) in the EU, with significant regional disparities. Additionally, stark rural-urban disparities remain in the risk of poverty or social exclusion, with cities recording 14.3%, while rural areas face a rate three times higher, at 41.7%. The AROPE rate ranges from 21.3% in Vest to 39.7% in Sud-Est, compared to 12.0% in the capital region.

Addressing Romania's combination of high net outmigration and ageing population would help to improve social cohesion and the Romanian economy's competitiveness, both at national and regional level. Six of the seven less developed regions are trapped in a vicious cycle of low population growth, outward migration of skilled labour, and persistent workforce shortages. This, in turn, erodes social cohesion and imperils people's "right to stay" in the place they call home, putting at risk their communities and undermining the stability and wellbeing of the regions as a whole.

Affordable housing remains a major challenge in Romania, **but bucking the current trend within the EU, the issue is more pronounced in rural areas than in urban areas.** Housing was more affordable in the capital region, with 100 square metres of living space costing 11 times the average annual income. By contrast, the price-to-income ratio was between 15-19 times the average annual salary in all less developed regions at NUTS 2 level. On a more granular (NUTS 3) level, there are significant regional disparities: the price-to-income ratio of Sălaj (30.9) is nearly three times as high as in Bucharest (10.6) (Map A17.2). On average, 9% of the population faced housing cost overburden in 2023, with the highest percentage in the Sud-Est region (13%).

Map A17.2: **House prices relative to income, 2019**



Source: European Commission, Mapadomo

Structural deficiencies in accessibility and quality of public transport infrastructure significantly affect social cohesion in Romania's less developed regions. In 2021, in the capital region, 74.9% of the population living in a radius of 120 km can be reached in less than 90 minutes, but this ratio drops to less than 40% in most of the less developed regions, bottoming out at 26.1% in Centru. The situation is even more critical in rail transport performance: on average, 3.8% of the population living in a radius of 120 km can be reached by rail transport in less than 90 minutes, well below the EU average of 15.7%. These differences undermine the essential

preconditions for economic development, labour market participation and inclusive growth.

Effective and equitable access to essential services is of crucial importance for regional development. Insufficient administrative capacity, poor coordination and inefficiencies limit regional and local authorities' capacity to attract investments and provide basic services. The lack of key infrastructure in waste, water, sanitation and digital connectivity is particularly noticeable when comparing the capital region with the less developed regions, and between urban and rural areas. In response to decarbonising transport, access to alternative fuel infrastructure, measured by the number of electric vehicle charging points within 10 km, is severely limited in all Romanian regions, with none reaching even 6% of the EU average (287) except for the capital region, which still only reaches two thirds of the EU average ([217]).

Capacity deficits are also chronic at the level of small or shrinking cities, hampering the cohesion policy priorities of inclusive and sustainable urban development. Local urban authorities often lack the experience or financial stability to implement participatory and integrated projects. Moreover, the legal basis for functional urban area partnerships is weak, disincentivising cooperation between local territorial units.

There are significant regional differences in access to basic services such as healthcare and long-term care in rural areas. Social workers and long-term care are unevenly distributed across the regions. They are concentrated in the București-Ilfov region and other major Romanian cities, while rural remote communities often have to rely on scarce, undersized and low-quality long-term care services ([218]). Disparities in accessibility are often intertwined with broader socio-economic challenges, which can further compromise health outcomes and worsen disparities across the whole territory. Access to education and health facilities is unequal across regions, and even more across the urban-rural divide. The percentage of population with a primary school within 15-minutes' walking distance is 70.5% in the capital region, but drops below 50% in all other regions, bottoming out at 30.7% in Nord-Est. In cities in Sud-Muntenia 87% of children under 15 have a primary school within 15 min walking, but this percentage drops to 14.7% in rural areas in Nord-Est. At the same time, challenges remain in balancing the physical access to primary education in rural areas and ensuring quality of education in these areas, especially in areas facing depopulation (see Annex 12).

However, potential competitive advantages exist in some other regions besides the capital. With 13 universities, Nord-Vest stands out in terms of number and quality of higher education institutions, both nationally and compared to other central and eastern Member States. Creating the conditions to improve people's skills in all regions would help to increase growth opportunities and competitiveness.

Sustainability

All Romanian regions have pollutant concentrations above the EU average. Despite making progress to achieve better air quality standards, results vary according to the extent of urbanisation. The București-Ilfov region ranks highest in air quality concerns, with a concentration of PM2.5 pollutants and years of life lost due to PM2.5 pollution exceeding the EU average. All this shows a pressing need for nationwide efforts to improve air quality, particularly in the capital region. Strategic integrated projects supporting, for example, implementation of air quality plans, would help to facilitate those efforts.

The quality and provision of water utility services vary significantly between Romanian regions and cities. Only 82% of the country's population has access to water supply and only 88% to sanitation services (respectively 67% and 77% in rural areas). Romania has one of the lowest compliance rates with EU water legislation and faces the highest investment needs to reach and maintain compliance. Although there has been some progress in recent years, water leaks in the public network and the lack of urban

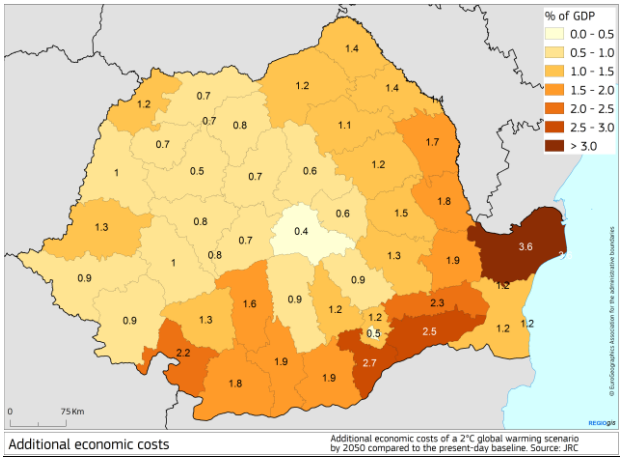
([217]) Indicators of access to alternative fuel infrastructure are based on calculations by DG REGIO and the JRC, using data from the European Alternative Fuels Observatory (EAFO), Eurostat, TomTom and Eco-Movement.

([218]) Romania Ministry of Social Affairs Report on the implementation of the Council Recommendation on access to high quality and affordable long-term care.

wastewater treatment are ongoing problems. It would be beneficial to step up measures to extend and modernise drinking water and wastewater infrastructure, and to ensure a sustainable service at a reasonable price.

All Romanian regions experience high climate-related vulnerability. If properly addressed, this could create opportunities for sustainability. Exposure to harmful climate impacts, especially flooding and drought, is particularly high in the southern and eastern regions, bearing significant human and economic costs (see Map A17.3).

Map A17.3: **Climate change impact on GDP**



Unit: Additional economic costs of a 2°C global warming scenario by 2050 compared to the present day baseline.
Source: DG REGIO, JRC

Limited economic resources and low administrative capacities available to the regional and local administrations hinder adequate investment in climate risk management and adaptation. Improved water infrastructure, combined with nature-based solutions and the use of renewable energy sources, also through energy communities, have the potential to drive innovative and sustainable growth and yield additional economic and social benefits. For example, nature-based solutions could help reduce climate-related disaster risks such as floods, but also attract tourism, increase property values and improve air quality and public health conditions.