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Assessing Romania's Competitiveness

A 2027–2035 Strategic Outlook

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The analysis and recommendations in this report reflect the views of the JDI and HorizonX. Any remaining errors are our sole responsibility.

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List of acronyms

ACER	European Union Agency for the Cooperation of Energy Regulators
ANAF	National Agency for Fiscal Administration (Agenția Națională de Administrare Fiscală)
ANIS	Employers' Association of the Software and Services Industry (Asociaţia Patronala a Industriei de Software si Servicii)
ANRE	Energy Regulatory Authority (Autoritatea Națională de Reglementare în Domeniul Energiei)
BID	Romanian Investment and Development Bank (Banca de Investiții și Dezvoltare)
BNR	National Bank of Romania (Banca Națională a României)
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CIT	Corporate Income Tax
DESI	Digital Economy and Society Indicator
DSO	Distribution System Operator
ECB	European Central Bank
ECI	Economic Complexity Index
EIB	European Investment Bank
EPPO	European Public Prosecutor's Office
ETS	European Emissions Trading System
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFI	International Financial Institution
IMD	International Institute for Management Development
IMF	International Monetary Fund
IT	Information Technology
KPI	Key Performance Indicator
LNG	Liquefied natural gas
Mbps	Megabits per second
MFF	Multiannual Financial Framework
MNC	Multinational Corporation
NEET	Not in Education, Employment or Training
NPL	Non-performing loans

OEC	Observatory of Economic Complexity
OECD	Organisation for Economic Co-operation and Development
PCT	Patent cooperation treaty
PMR	Product Market Regulation
PPS	Purchasing Power Standards
PV	Photovoltaics
RDA	Regional Development Agencies
R&D&I	Research Development and Innovation
RRF	Recovery and Resilience Facility
SIU	Savings and Investments Union
SME	Small- and Medium-Sized Enterprise
SOE	State-Owned Enterprises
STEEP	Social, technological, economic, environmental, political [dimensions]
STEM	Science, Technology, Engineering, Mathematics
TSO	Transmission System Operator
VAT	Value-added tax
WGIs	World Governance Indicators
WIPO	World Intellectual Property Organisation

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Preface

ENTANGLED FUTURES – ROMANIA'S AND EU COMPETITIVENESS BY 2035

Europe is at a turning point. Either we act together, overcoming the fragmentation of the Single Market, achieve the scale needed to compete globally, and make innovation the driving forces of our economies, or we risk becoming increasingly dependent on decisions taken elsewhere. Competitiveness is no longer simply an economic objective. It is a condition for our sovereignty, our security and the preservation of our European social model.

This is the conviction that guided my report, *Much More Than a Market*, in 2024. It is also the political ambition behind the *One Europe, One Market Roadmap*, agreed by the European institutions in April 2026, with the objective of delivering decisive progress by the end of 2027. The challenge is now to move from diagnosis to implementation, from fragmentation to integration, and from European ambition to tangible results for our citizens and businesses.

Romania is also at a turning point. Its economic trajectory over the past two decades is one of the most remarkable illustrations of the transformative power of European integration. Few countries have achieved such rapid convergence in such a short period. Yet, as this report demonstrates, the model that enabled this success is reaching its limits. Low labour costs, foreign investment and integration into European value chains have delivered prosperity, but they cannot alone guarantee the next generation of growth.

Romania must now move from convergence to competitiveness, from being primarily a beneficiary of European integration to becoming one of its driving forces. This requires a new growth model built on innovation, productivity, stronger institutions and the mobilisation of the country's considerable human and economic potential.

The recommendations presented in this report offer a concrete pathway. Strengthening state capacity, restoring fiscal sustainability while protecting productive investment, mobilising private capital, developing energy infrastructure, investing in education and research, and creating opportunities for the Romanian diaspora to return are not separate objectives. They are mutually reinforcing components of a national transformation. This report, with its proposed integrated competitiveness strategy for 2027–2035 based on broad political ownership, clear priorities and measurable milestones, provides the framework for turning these ambitions into reality.

But Romania's transformation cannot be separated from Europe's. The Single Market remains incomplete precisely in the areas that will determine our future: finance, energy and connectivity. The Savings and Investments Union can help channel European savings towards Romanian enterprises and innovation. A genuinely integrated Energy Union can turn Romania's strategic resources into an asset for the entire continent. And what I have called the Fifth Freedom – the freedom of knowledge, research, innovation and education – can allow Romanian talent and businesses to thrive within a European ecosystem of continental scale. Romania has a central role to play in this transformation, moving from a rule taker to an agenda setter at the European stage, pushing for integration, scale and innovation to become guiding principles for the continent.

The scenarios explored in this report remind us that the future is not predetermined. Stagnation, or worse, is a risk when inaction or political infighting take centre stage. But they also show that transformation is a political choice. What is needed now is a durable coalition for reform and innovation, capable of looking beyond electoral cycles and placing Romania's long-term prosperity at the centre of national priorities.

The coming years will be decisive, both for Romania and for Europe. The proposed 2027-2035 competitiveness strategy for *Romania and the One Europe, One Market Roadmap* should be understood as two parts of the same endeavour: building a Europe that is more competitive because it is more integrated and innovative, more resilient because it is more united, and more sovereign because every Member State can contribute its full potential.

Enrico Letta
President of the Jacques Delors Institute
Former Prime Minister of Italy
Member of the Governing Board of the Jacques Delors Friends of Europe Foundation



Executive summary

1 . Romania at a strategic crossroads

Romania stands at a decisive moment in its economic development. Over the past quarter-century, the country has achieved one of the European Union's most striking success stories in economic convergence. Between 2000 and 2025, GDP per capita in purchasing power standards rose from approximately 26% to 78% of the EU average, tripling in less than a generation. Integration into the European Single Market and European production networks, foreign direct investment, EU financial transfers, remittances and the growth of export-oriented manufacturing and IT sectors all contributed to this progress.

However, Romania's predominant growth model, based on cost competitiveness, is becoming increasingly exhausted. Rising labour costs, macroeconomic imbalance, demographic pressures, weak innovation capacity, and persistent institutional shortcomings are constraining the country's future growth potential. At the same time, geopolitical instability, technological transformation, and changing European economic priorities are reshaping the conditions under which Romania must compete.

In the coming decade, Romania's future prosperity cannot be secured by continuing the policies of the past. While its economy has significant assets, including a strategic location, substantial energy resources, digital connectivity, industrial capabilities and pockets of highly skilled talent, these assets are not consistently converted into broad-based productive capacity. This creates a significant risk for the Romanian economy to get stuck in a period of stagnation which could gradually undermine the country's growth potential further through negative feedback loops.

Romania therefore needs to make a fundamental strategic choice to pursue a more ambitious transformation towards an innovation-driven growth model capable of generating greater domestic value added, higher productivity and more resilient prosperity. This report provides an evidence-based foundation for that choice. Drawing on comparative economic data, more than 200 studies and reports, and 47 interviews with Romanian and European stakeholders and experts, it combines a comprehensive baseline assessment of Romania's competitiveness, a strategic foresight analysis exploring alternative futures to 2035, and actionable policy recommendations. Together, these elements inform a proposed integrated competitiveness strategy for 2027-2035.

2 . Baseline assessment: Strong convergence, weak foundations

To understand Romania's current competitive position, the report starts out with a comprehensive baseline assessment, systematically comparing the country with its regional peers and the EU to identify key problems and shortcomings, but also strengths. The analysis covers the country's (1) macroeconomic and budgetary position, (2) financial system, (3) state capacity and governance, (4) research, development and innovation, (5) digitalisation and AI adoption developments, (6) education and human capital, (7) demography and labour market, (8) energy, infrastructure and sustainability, and (9) economic key sectors and value chains.

The baseline assessment reveals a central paradox. Romania has achieved impressive economic convergence without having developed equally strong foundations for long-term competitiveness. Although the country possesses meaningful productive capabilities and economic assets, institutional shortcomings, insufficient investment in key growth factors and pronounced structural disparities all limit its ability to translate these potential strengths into broad-based competitiveness.

Identified key problems include weak state capacity and governance, macroeconomic instability and fiscal vulnerabilities, underdeveloped financial markets and insufficient domestic investment, shortcomings in innovation, digital adoption and human capital development, labour market constraints and untapped potential in the areas of energy, infrastructure and specific economic sectors.

Together, these weak foundations are reflected in international competitiveness indicators. In the 2026 IMD World Competitiveness Ranking, Romania placed only 61st among 70 studied countries, falling 12 positions from 2025 and ranking second last among all EU Member States. The country's economic potential is, however, equally visible when looking at the Observatory of Economic Complexity's ranking of Romania industrial export capabilities, placing it 29th among 130 economies.

3 . Strategic foresight analysis: The future of Romania's competitiveness

Romania's future competitiveness will not only depend on current and past conditions, but also on how domestic policy choices interact with technological change, demographic pressures, geopolitical developments and European integration in the future. To explore these interactions, the report undertakes a strategic foresight analysis based on social, technological, economic, environmental and political developments.

This exercise identifies 17 strategic key drivers of change that are and will likely continue to play an important role in the development of Romania's competitiveness. It also teases out nine critical uncertainties, dimensions of change that combine potentially high impact with substantial uncertainty about how they may evolve. Based on these inputs, the report develops four scenarios for how Romania's economy could look like by 2035, providing plausible development pathways, the interactions that could reinforce them and the strategic consequences of different policy choices. These four scenarios depart more or less strongly from the country's development path:

- **Continued growth – Steady progress, shrinking base**
  Romania maintains economic growth and continues to converge with richer EU economies through European integration, foreign investment and incremental improvements in existing industries. However, demographic decline, uneven territorial development and continued dependence on externally controlled production constrain the transition towards greater domestic innovation and value creation. Living standards improve, but structural vulnerabilities persist.

- **Constrained development – The guarded plateau**
  Persistent regional insecurity, demographic pressures and limited resources lead Romania to prioritise security, preparedness and economic resilience. Although institutional discipline and stability improve in selected areas, insufficient investment in education, innovation and broader economic transformation limits productivity growth. Romania avoids a major breakdown but struggles to sustain convergence with more advanced European economies.

- **Collapse – Ruin after the exit**
  Political polarisation, fiscal instability, weakening institutions and a progressive breakdown of Romania's relationship with the EU culminate in the country's departure from the Union. The erosion of market access, investment, funding and regulatory integration undermines the foundations of its economic development model. Without a viable alternative, competitiveness, institutional capacity and strategic autonomy deteriorate sharply.

- **Transformation – Rewired network nation**
  Romania begins a structural transition towards an innovation-driven, internationally connected economy. Stronger domestic capabilities, technological entrepreneurship, specialised research, improved institutions and the mobilisation of talent and investment networks allow Romanian firms to capture more value from advanced economic activities. Existing strengths in IT, manufacturing and energy become platforms for broader innovation, although demographic pressures and territorial inequalities continue to pose challenges.

Taken together, the developed scenarios demonstrate that Romania's future is not predetermined. Existing vulnerabilities can reinforce one another and lead to stagnation or decline, but they can also create incentives for reform and transformation. They highlight that political choices are decisive in increasing the likelihood of bringing about desirable futures and reducing the likelihood of unwanted futures, informing the report's policy recommendations.

4 . Policy recommendations: Linking problems to concrete solutions

Building on the findings of the baseline assessment and the strategic foresight analysis this report provides a comprehensive set of actionable policy recommendations to achieve a competitive Romania by 2035. They include reforms, investments and broader policy changes, covering the nine broad areas presented in the baseline assessment and lay the ground work for the proposed integrated competitiveness strategy.

The report's policy recommendations highlight the need to (1) strengthen Romania's state capacity and governance, (2) implement effective macroeconomic and budgetary frameworks and policies, (3) make the financial system a source of economic growth, (4) realise the country's energy sector potential, (5) implement a digitalisation, data and AI programme, (6) bolster human capital by reforms in the education and training system, (7) expand research to unleash Romania's innovation potential, (8) execute a two-pronged labour supply plan, and (9) make strategic choices for developing economic key sectors. The policy recommendations are accompanied by an indicative list of milestones, targets and KPIs that allow to analyse Romania's progress towards more competitiveness by 2030 and 2035.

5 . An integrated competitiveness strategy for Romania

ENACT CHANGE: AN INTEGRATED COMPETITIVENESS STRATEGY 2027-2035

Bringing these elements together, the report proposes the development and implementation of an integrated competitiveness strategy 2027-2035. This strategy should serve to proactively direct the country's trajectory towards a desirable future and avoid the realisation of economic stagnation (or worse). Romania's competitiveness strategy must set clear objectives and operationalisable milestones and targets to achieve them. It should prioritise the implementation of reform packages that exert the strongest positive effects across different policy areas and economic sectors. The successful implementation of a long-term competitiveness strategy requires central steering and coordination and a well-defined distribution of responsibilities. It needs to be accompanied by strong monitoring and regular evaluations to allow for policy learning and adapt the strategy to changing opportunities and constraints.

ENSURE BROAD DOMESTIC OWNERSHIP: A PRO-REFORM AND PRO-INNOVATION COALITION FOR ROMANIA

To maximise the impact of the proposed competitiveness strategy, broad domestic political ownership over its objectives and execution needs to be developed through the formation of a pro-reform and pro-innovation coalition inside Romania. Successful implementation requires cooperation across party lines, public authorities and different government levels, and support from social partners and civil society organisations, bringing together the public and private sectors. The final competitiveness strategy must be the result of extensive consultations between political decision makers and stakeholders, including international organisations. Ownership of the strategy can be strengthened by identifying and prioritising policy actions that can resolve several stumbling blocks simultaneously and create win-win situations.

FOLLOW A COMMON GUIDING STAR: A NEW GROWTH MODEL BASED ON INNOVATION

The overarching objective of Romania's competitiveness strategy should be to move towards a new growth model based on innovation, leaving behind a growth model mainly based on cost competitiveness. This requires a major overhaul of the country's economic governance and state capacity and a significant improvement in the country's factor endowments.

ADDRESS KEY PRIORITIES: OVERARCHING REFORM AND INVESTMENT PACKAGES FOR A COMPETITIVE ROMANIA

Based on the overall findings, the report proposes to prioritise a set of four reform and investment packages that, together, can help to ensure that Romania will take a leap towards a competitive economy.

- **A governance package for a more capable, digitalised and proactive state**
  - Improve policy stability and certainty
  - Strengthen expertise to administer increasingly complex policies
  - Empower and incentivise civil servants to be proactive and innovative
  - Reinforce efficiency and transparency through digitalisation
  - Improve the rule of law and tackle corruption

→ Key objectives: Attainment of the EU average in terms of government effectiveness, regulatory quality, rule of law and control of corruption by 2035

- **A fiscal and financial package that fosters investment**
  - Bring public finances in order while protecting public investment
  - Reorient public expenditure towards the most effective policies and instruments
  - Close tax compliance gaps to strengthen revenues
  - Leverage the lending capacities of development banks and InvestEU
  - Implement measures to increase available private equity and venture capital
  - Bring the country on the path to euro accession

→ Key objectives: Stable public finances in line with EU rules, attainment of the EU average for tax compliance, euro accession, and increased capital availability by 2035

- **An energy package to structurally lower prices and increase energy security**
  - Invest in the domestic electricity grid and interconnections
  - Accelerate the buildout of energy production
  - Flexibilise the energy system through storage and digitalisation
  - Strengthen expertise within the public administration and SOEs
  - Ensure a fair burden sharing for energy system modernisation and expansion costs
  - Reinforce the defence and security of energy infrastructure

→ Key objectives: Energy prices are at/or below the CEE peers and EU average, and the country makes full use of its renewables and gas potential by 2035

- **A package to activate and reinf**orce human capital
  - Strengthen overall educational quality and reduce urban-rural disparities
  - Address skills mismatches through VET programmes and lifelong learning
  - Reinforce education-enterprise collaboration to support spillover effects
  - Grow domestic labour force through targeted measures (education, childcare, health)
  - Facilitate and incentivise the return of Romanians living abroad
  - Support the flexible adaptation to technological change (AI)

→ Key objectives: Education outcomes approach the EU average, skills mismatches are addressed, and labour force activation and return migration provide a sufficient labour supply by 2035

MAKE CHOICES: SECTORAL INDUSTRIAL POLICY PRIORITIES FOR COMPETITIVENESS

Beyond more horizontal competitiveness policies, Romania has to make choices regarding the economic sectors that should receive specific support. The country's integrated competitiveness strategy should select a limited number of sectors that have the most potential. This report proposes selection criteria focused on existing comparative advantages, potential spillover effects, economic resilience and diversification, factor endowments such as natural resources, and regional development. Based on this approach, policy efforts should focus on the following sectors: IT, manufacturing, defence, transport and logistics, agriculture and food, and tourism.

BE INFLUENTIAL BEYOND ROMANIA: LEVERAGE THE EU FOR MORE COMPETITIVENESS IN EUROPE

An integrated competitiveness strategy requires action not only at the domestic level. Rather Romania must become a more proactive player at the European and international stage, supporting policy initiatives that can leverage competitiveness in Romania and the EU. Romania can gain from engaging in the negotiations of key economic policy files in the framework of the One Europe, One Market Roadmap and in the design and implementation of the next EU budget. An alignment of national and EU priorities could help to maximise benefits from strategic autonomy and resilience-based nearshoring, while promoting Romania as a testbed for competitiveness-oriented policy experimentation and innovation.

A CALL TO ACTION: DECISIVE MEASURES ARE NEEDED NOW TO CONTINUE ROMANIA'S ECONOMIC SUCCESS STORY

If Romania wants to continue its success story in economic convergence, it needs to take decisive measures towards a new innovation-based growth model before the end of 2027. Political inertia and policy inaction carry a real risk of economic stagnation and the reinforcement of negative feedback loops towards the realisation of undesirable futures. The implementation of the proposed integrated competitiveness strategy can help Romania to set a new direction and become a regional powerhouse in Southeastern Europe by 2035.

Overview of the report contents and methodology

1 . Organisation of the report

This report on Romania's competitiveness consists of three main sections: a baseline assessment, a foresight analysis, and policy recommendations. The different report elements allow to get a better understanding of the country's current competitive position across various economic, institutional and social dimensions, identify the main drivers and uncertainties shaping Romania's competitiveness in the coming decade, and provide policy solutions to move towards a competitive economy by 2035.

2 . Baseline assessment of Romania's competitiveness

The first section of the report provides a baseline assessment of Romania's competitive position in 2026. It draws on a comprehensive set of empirical materials, including quantitative data, qualitative analyses, and interviews with stakeholders and experts. The assessment shows the evolution of key variables over time and systematically compares Romania with Central and Eastern European peer countries, as well as the EU level. The evaluation of Romania's competitiveness in 2026 covers both horizontal and sectoral elements, analysing Romania's (1) macroeconomic and budgetary position, (2) financial markets, (3) state capacity and governance, (4) research, development and innovation, (5) digitalisation and AI adoption developments, (6) education and human capital, (7) demography and labour market, (8) energy, infrastructure and sustainability, and (9) economic key sectors and value chains. While tracing Romania's strong economic convergence over the last two decades, the baseline assessment concludes by highlighting the country's current lack of competitiveness.

3 . Foresight analysis of Romania's economy by 2035

The second section of the report consists of a foresight analysis, providing a strategic outlook of Romania's competitiveness by 2035. First, drawing on extensive desk research and interviews, it identifies strategic drivers of change, offering a systemic understanding of the forces and capabilities likely to shape Romania's competitiveness towards 2035. Organised into interconnected clusters, these drivers capture the structural pressures, institutional capacities, economic transformations and external developments influencing Romania's long-term trajectory. The recognised competitiveness drivers informed the selection of policy areas and variables highlighted in the baseline assessment. Second, the foresight analysis identifies critical uncertainties, which are dimensions of change that combine potentially high impact on Romania's future competitiveness with substantial uncertainty about how they may evolve. Third, based on the strategic drivers and critical uncertainties, the foresight analysis develops plausible scenarios for Romania's future by 2035. They serve to highlight how policy inaction or poor decisions can lead to undesirable futures that can be avoided by taking the right measures, providing a strategic outlook.

4 . Policy recommendations for a competitive Romania

The final section of this report lays out a comprehensive and ambitious set of actionable policy recommendations. It proposes concrete policy interventions, reforms and strategies for public decision makers and private stakeholders. The implementation of these recommendations can help to ensure that Romania will be on the path towards a desirable future, becoming a significantly more competitive economy by 2035. The presented policy recommendations are organised in line with the various competitiveness dimensions laid out in the report's baseline assessment. They focus on key drivers of change that the Romanian government and other political and economic actors can actively influence. The section puts forward measures that, if implemented, can exert significant positive horizontal effects across a wide range of policies and economic sectors. In addition, it also provides more sectoral recommendations that can help nourish a national industrial strategy, prioritising measures for developing key economic sectors. The section concludes with the presentation of a national integrated competitiveness strategy, discussing key strategies and narratives that can help to move from solutions on paper to actual policy implementation.

5 . Methodological approach

This report draws on a rich base of empirical evidence to identify and analyse the key dimensions of Romania's competitiveness in the 2026 baseline assessment, develop the scenarios presented in the strategic foresight part based on key uncertainties and competitiveness drivers, and draw up effective policy recommendations to address current and expected competitiveness challenges.

It brings together the respective expertise and research, policy analysis and advice capacities of two organisations, the Jacques Delors Institute, a Paris-based French think tank working on European affairs, and HorizonX, a consulting company specialised in strategic foresight and innovation. Complementary in terms of approach and know-how, each organisation's work nourished the analysis of the other and allowed for a cross-checking of findings.

The empirical materials mobilised in this report include more than 200 recent international, regional and national reports, strategic studies, white papers, and foresight publications from leading public and private institutions, such as the OECD, the European Commission, the World Bank, the International Monetary Fund (IMF), the World Economic Forum, and UN agencies. They also cover publications by governments, universities, think tanks, NGOs, employers' organisations, trade unions, associations and other civil society actors.

Furthermore, interviews with a broad range of Romanian, European and international stakeholders and experts reinforced the empirical analysis and results of this report. The selection process of interviewees was aimed at maximising the diversity of views. The resulting 47 interviews include representatives from various European and international organisations, Romanian public institutions, political parties, employers' organisations, individual companies, trade unions, think tanks, NGOs, associations, as well as academics. Some of the interviewees also represent regional rather than national actors. The vast majority of interviews were conducted by the JDI and made available to the project partner HorizonX.

Finally, also statistical data, projections and indices provided by European and international statistical offices, and other data compilers informed the baseline assessment and potential evolutions of Romania's competitiveness. This data helps to discern Romania's competitive position relative to other similar economies and the rest of EU Member States, and allows to show evolutions over time. The data-gathering process thus aimed at finding the longest available time series for a given variable of interest. Averages that were calculated, e.g. to allow for a comparison between Romania and its regional peer countries, are based on unweighted means.

All empirical materials were selected based on the principles of relevance, credibility, and recency, and brought together in an iterative, evidence-based synthesis approach, bringing together multiple sources of information that were continuously refined. A particular focus was put on identifying areas of strong convergence or contestation across different types of evidence. The empirical analysis also concentrated on the

identification of the causal mechanisms underlying competitiveness problems and the solutions that could potentially address them, as well as on emerging risks and opportunities.

The baseline assessment in this report is based on a holistic approach to provide a comprehensive overview of Romania's competitiveness across various dimensions. They cover the public and the private sectors, and a broad range of economic activities and policy areas. To determine the country's competitive position, also in a comparative manner, the baseline assessment draws extensively on statistical data and includes projections whenever possible. Identified shortcomings and strengths are highlighted and further developed based on more qualitative evidence that was gathered through interviews.

The scenarios presented in this report are based on a strategic foresight exercise. Conducted by HorizonX, this analysis started out with global, regional and Romania-focused horizon scanning, to identify emerging developments, trends, and strategic issues relevant to Romania's long-term competitiveness inside a global system. Drawing on the diverse empirical materials, the systematic exploration of the social, technological, economic, environmental, and political (STEEP) dimensions[1] led to the consolidation and prioritisation of 17 strategic drivers of change. It also allowed the identification and selection of nine critical uncertainties. This work subsequently led to the development of four alternative future scenarios for Romania's competitiveness to 2035. The four scenarios presented are based on the archetypes model[2], which includes the archetypes collapse, constraint, growth, and transformation. The scenarios lay out plausible pathways that can lead to the four different outcomes by 2035 and provide guidelines for action to arrive at a desirable future.

The policy recommendations proposed in this report address the competitiveness problems identified in the baseline assessment and focus on policy areas and competitiveness drivers that were identified as critical in the strategic foresight analysis. The suggested policies draw heavily on lessons learned and best practice examples from other countries, while taking into account the need to translate such policies into the specificities of the Romanian context. The policy recommendations are also informed by key stakeholders and experts active in the various areas covered by the report.

1 Szigeti, Hadrien; Messaadia, Mourad; Majumdar, Anirban & Eynard, Benoît (2024) *STEEP Systems Modelling: A Dynamic Framework for Developing Sustainability*. International Journal of Innovative Business Strategies 10 (1) 2024.

2 UNDP (2026): *The Creative approach: Archetype Technique*.

Baseline assessment of Romania's competitiveness

To understand Romania's competitive position in the world, identify the country-specific drivers, uncertainties, risks and opportunities affecting the country's competitiveness in the coming decade, and provide effective and actionable policy recommendations, it is important to start out with a comprehensive and broad assessment of today's competitiveness baseline.

In the EU, competitiveness has reemerged as a key issue for economic policymakers over the past decade. Driven by both internal and external factors, such as demographic ageing and increasing geoeconomic competition, competitiveness concerns have taken centre stage. High-level reports by Enrico Letta[3] and Mario Draghi[4], as well as the political guidelines of Ursula von der Leyen[5] (2024) for the 2024-2029 European Commission put competitiveness at the heart of the political agenda. But while the identification of the main problems and adequate solutions to address them was significantly advanced, agreeing on concrete policy measures at the European stage has remained difficult due to different national preferences.

In addition to the competitiveness challenges shared by all of the EU, country-specific factors exacerbate problems among certain Member States, among them Romania. The objective of this baseline assessment of Romania's competitiveness focuses thus on internal issues, while also considering the broader regional, European and global context. By systemically comparing Romania's competitiveness with a set of similar countries, its Central and Eastern European (CEE) peers Poland, Czechia, Hungary and Bulgaria, and with all EU Member States, the baseline assessment can provide a useful classification of the country's relative competitive position across various dimensions.

The term competitiveness is frequently used in political discourse but is often, sometimes deliberately, kept vague. Depending on the definition, it can cover a broad set of economic, political, social, cultural, and environmental dimensions. For the Institute for Management Development (IMD)[6], the provider of one of the most widely used competitiveness indices, competitiveness consists in the capacity of countries to achieve long-term value creation by supporting the necessary infrastructure, institutions and policies for enterprises to prosper. Other definitions of competitiveness focus more on the ability of countries, economic sectors or individual businesses to produce and sell goods and services in domestic and international markets compared to other actors in these same markets[7], thus focusing on competitiveness as a relative concept.

3 Letta, Enrico (2024): Much more than a market. Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens. April 2024.

4 Draghi, Mario (2024): The future of European competitiveness. Part A | A competitiveness strategy for Europe. September 2024.

5 Von der Leyen, Ursula (2024): Europe's Choice. Political guidelines for the next European Commission 2024-2029. July 2024.

6 IMD (2026): IMD World Competitiveness Center. Methodology and Principles of Analysis.

7 EBSCO (2017): Research Starter. Competitiveness.

Differences aside, most definitions of competitiveness closely relate it to productivity[8], which describes how efficiently resources are used to produce goods and services. These production factors include aspects such as labour, capital, the technical means of production, intermediate consumption such as energy, transport and raw materials, and know-how[9]. The availability of these production factors and the efficiency with which they are combined depends importantly on the broader institutions and policies in place. This means that an analysis of Romania's competitiveness requires to look at a broad set of factors that influence the country's long-term productivity potential.

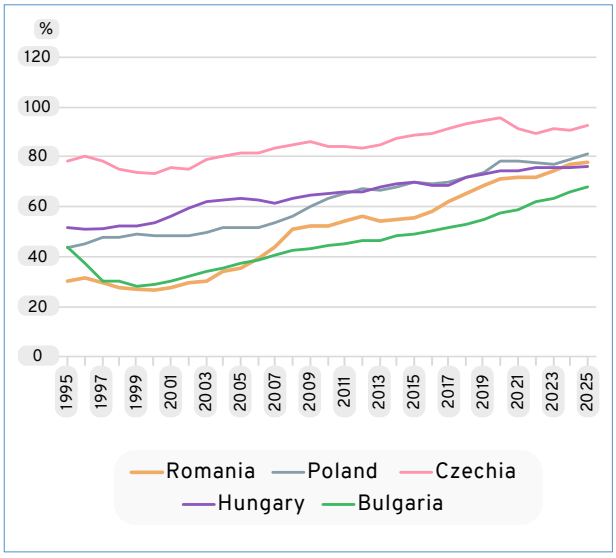
In the following subsections, the report analyses various dimensions that jointly determine Romania's current competitive position, also providing us clues about the key challenges that need to be addressed in the coming years. The baseline assessment of Romania's competitiveness starts out with an overview of Romania's economic development since the 1990s, highlighting an impressive convergence with the rest of Europe that took place under a rapid succession of different and often hybridised economic growth models. While exhibiting significant boom-and-bust cycles, Romania's economy managed to narrow its gap with the EU average until recently, as the sources of the country's economic growth have become increasingly exhausted. Subsequently, the baseline assessment zooms into various key dimensions of Romania's competitiveness. This includes the country's (1) macroeconomic and budgetary position, (2) financial markets, (3) state capacity and governance, (4) research, development and innovation, (5) digitalisation and AI adoption developments, (6) education and human capital, (7) demography and labour market, (8) energy, infrastructure and sustainability, and (9) economic key sectors and value chains. The section subsequently concludes with a brief overall assessment of Romania's competitiveness.

1 • Romania's economic development in the last decades

I AN IMPRESSIVE ECONOMIC CONVERGENCE WITH THE REST OF EUROPE

Romania's economic development since the beginning of the country's accession talks to the European Union (EU) in 2000 is an unprecedented success in economic convergence. While the first decade following the 1989 Romanian Revolution constituted a lost opportunity, the subsequent decades since the early 2000s were characterised by strong economic growth and rapid economic convergence. From 2000 to 2025, the average Romanian living standards, as measured by a country's Gross Domestic Product (GDP) per capita expressed in Purchasing Power Standards (PPS), roughly tripled from 26% to 78% of the EU average (see Figure 1).

FIGURE 1. GDP per capita in PPS in % of the EU average



▲ Source: Eurostat (2026)

In less than a generation, Romania thus managed to move from a lower-middle income country up to a high-income country[10], which constitutes impressive catch-up growth. Among all Member States that joined the EU since 2004, Romania had

8 World Economic Forum (2016): Economic growth. What is competitiveness? September 2016

9 Insee (2026): Productivity: Definition. August 2026.

10 Metreau, Eric; Young, Kathryn Elizabeth & Eapen, Shwetha Grace (2024): World Bank country classifications by income level for 2024-2025. World Bank Blogs. July 2024.

the most rapid economic convergence, catching up to Central and Eastern European (CEE) countries such as Poland and Hungary, while outperforming Bulgaria, which was at a similar starting point in the early 2000s.

A RAPID SUCCESSION OF DIFFERENT AND HYBRIDISED ECONOMIC GROWTH MODELS

Since the end of Ceaușescu's Communist regime, the Romanian economy has been characterised by a variety of growth model configurations, often taking the form of hybrid models. Repeated switches between economic growth models have interacted with boom-and-bust dynamics. This volatility has, however, not hindered the overall strong trend of catch-up growth experienced by the Romanian economy.

The transition from Communism to a market economy in the 1990s was marked by so-called 'cocktail capitalism'[11]. In this model, governments tried to reconcile partial market liberalisation with strong continued state intervention and very limited privatisation of the extensive state ownership in companies across key industrial sectors. This approach, however, failed to produce a coherent growth model. This changed with the EU accession process, which fostered the construction of a dependent market economy (DPE) similar to the direction pursued by other post-Communist CEE countries already from the early or mid-1990s onwards[12].

Under this configuration, the Romanian economy moved to a hybrid model combining a foreign direct investment (FDI)-led export growth model supported by a credit and consumption growth model. This growth hybrid lasted from the early 2000s up until the financial and economic crisis of the late 2000s and early 2010s. In this period, reinforced privatisation in the industrial, banking and utilities sectors facilitated the entry of foreign multinational corporations (MNCs) into the Romanian market, providing ample opportunities for investment. Driven by high FDI inflows, the manufacturing sector could grow in an environment shaped by 'cheap' but relatively skilled labour and supported by the injection of foreign capital, technology transfer, the introduction of better managerial practices, as well as the distribution networks and access to global markets provided by MNCs. The government supported FDI inflows by keeping labour and tax costs low. The arrival of foreign banks on the national scene allowed the transmission of European credit, seeking higher margins, towards Romanian households, supporting credit-driven growth in consumption and construction. Similar to other EU countries at the Eastern and Southern periphery, this led to high current account deficits in Romania.

Romania was hit very hard by the financial and economic crisis, highlighting the country's exposure to foreign investment and credit, requiring a stabilisation programme. This programme was guided by the European Union, the International Monetary Fund (IMF), the World Bank and other international financial institutions (IFIs) as conditional lenders. Strict austerity measures, such as public sector wage cuts and increases in value-added tax (VAT), together with labour-market reforms, reinforced a focus on an FDI-led export growth model. In contrast, the credit-driven consumption growth came largely to a halt due to a credit crunch. In the following years, this more one-sided economic growth model proved successful in a context of German export successes and the continued incorporation of the Romanian manufacturing sector in German and Western European value chains, especially in the automotive sector. Together with a growing information technology (IT) sector that also focused on exports, the country experienced rapid convergence in terms of productivity with the rest of Europe.

From the mid-2010s onwards, the FDI-dominated growth model was increasingly supplemented by a wage-led consumption growth model. Consumption growth was driven by a succession of increases in the statutory minimum wage, public sector salaries, pensions and other social transfers. Influenced by growing constraints on the labour market, these changes also led to strongly increasing private sector wages. Low overall taxation levels and

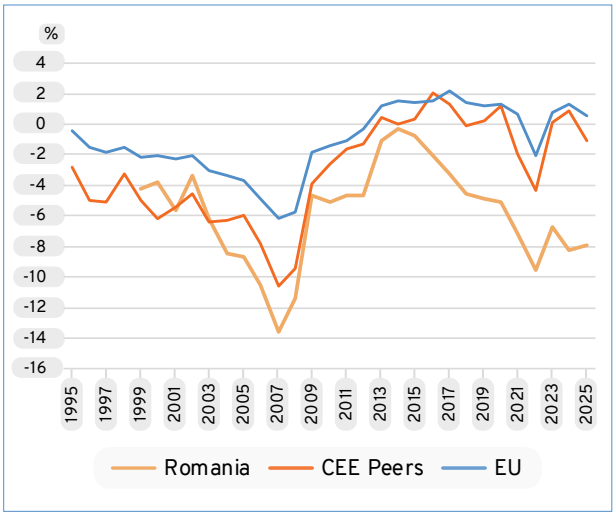
11 Cernat, Lucian (2006): Europeanization, Varieties of Capitalism and Economic Performance in Central and Eastern Europe. Palgrave MacMillan. Basingstoke.

12 Nölke, Andreas & Vliegenthart, Arjan (2009): Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe. *World Politics* 61 (4), 670-702.

regulatory and tax-based forbearance[13] further contributed to a more consumption-driven growth model.

When the pandemic and energy price crisis hit the country, the Romanian government, in line with other EU countries, reacted with fiscal activism rather than austerity measures to provide support to the economy and protect citizens from rising inflation. While the wage-led growth model gradually undermined the basis of Romania's FDI-led export growth model, the availability of additional EU funds created a new hybrid growth model, bringing together private consumption, supported by fiscal spending, and strong public investment growth. This has, however, led to the development of a strongly negative current account balance (see Figure 2).

FIGURE 2. Current account balance in % of GDP



▲ Source: Eurostat (2026)

While the economic convergence with the rest of Europe supported by the described sequence of economic growth models has brought a major improvement in Romania's average living standards, the need for fiscal consolidation, a more negative geoeconomic context, and the loss of cost competitiveness undermine the various underlying growth engines that the country possessed over the course of the last decades.

Romania thus risks getting stuck in a middle-income trap, should the country not manage to develop a new growth model that is based more on innovation than on cheap labour. The following sections identify the key stumbling blocks and insufficiencies in more detail.

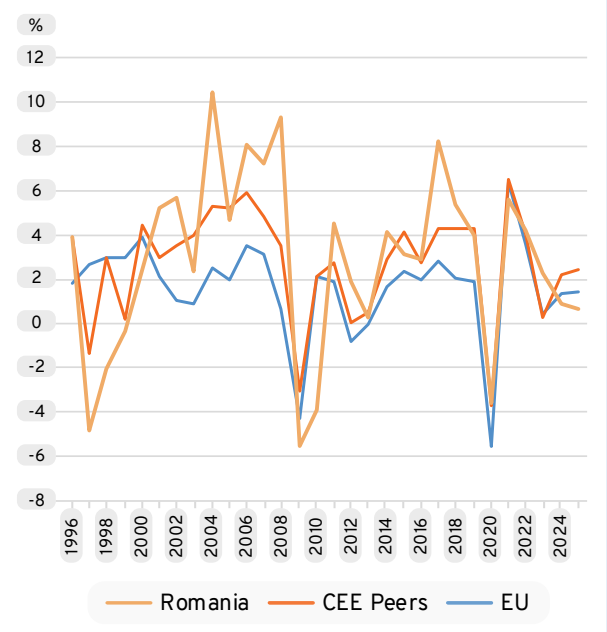
2 . Key dimensions of Romania's competitiveness

I MACROECONOMIC AND BUDGETARY POLICIES

– Romania's macroeconomic development is driven by procyclical fiscal policies

Romania's economic development over the past few decades has been marked by repeated boom-and-bust cycles, strongly influenced by procyclical budgetary policies. Periods of very high economic growth, accompanied by fiscal expansion, have repeatedly alternated with severe recessions, often accompanied by strong austerity measures. The variation in Romania's economic growth patterns has thus significantly surpassed the variation found among EU Member States and Romania's CEE peer countries (see Figure 3).

FIGURE 3. GDP growth in %

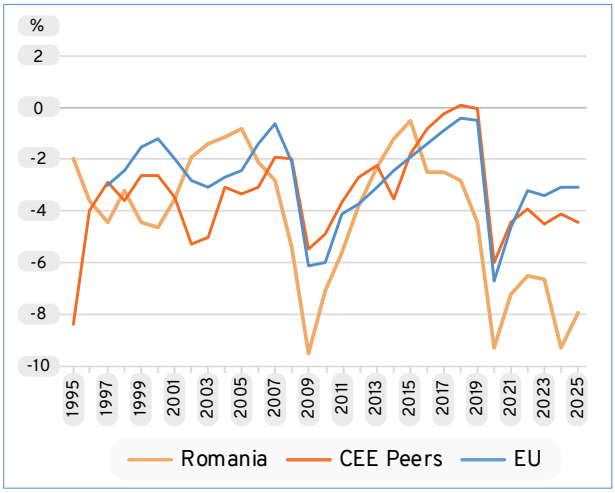


▲ Source: Eurostat (2026)

13 Dewey, Matías & Di Carlo, Donato (2022): Governing through non-enforcement: Regulatory forbearance as industrial policy in advanced economies. *Regulation & Governance 16*, 930-950.

Procyclical policies in Romania, especially during periods of strong economic growth, are linked to the country's electoral cycle. During election years, government coalitions have repeatedly used the public budget to seek reelection based on increased spending and tax cuts. While the average difference in budget deficits between Romania and its CEE peer countries over the course of the last three decades is less than one percentage point of GDP, during the election years of 2008, 2020 and 2024, Romania's budget deficit was more than three percentage points higher than in Poland, Czechia, Hungary and Bulgaria, and in 2024 even more than five percentage points higher (see Figure 4).

FIGURE 4. Budget deficit in % of GDP

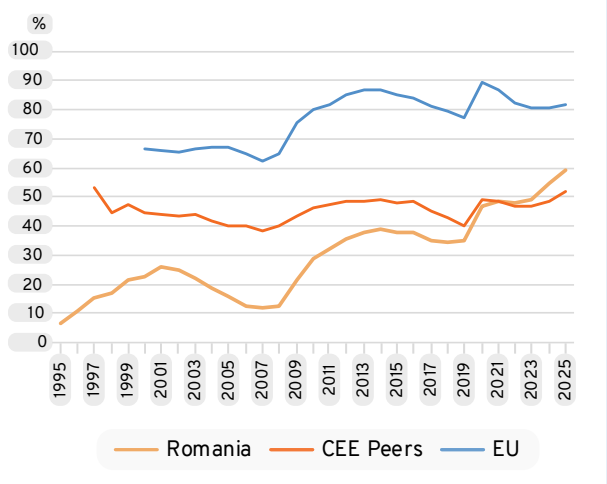


▲ Source: Eurostat (2026)

Strikingly, Romania increased its budget deficit during the European-wide economic expansion phases of the mid-2000s and the late 2010s. In contrast, other EU Member States used these periods to run more countercyclical policies to consolidate public finances while supporting a more sustainable level of economic growth. An important decoupling took place in the election year of 2016, when Romania increased its public deficit by two percentage points from 2015, while its CEE peer countries improved the budgetary balance by 1%, creating a 3% flip in comparison. This gap has not been closed since and was further exacerbated by budgetary policy decisions in the election year 2024. Together with the country's high current account deficit, this has led to the development of a concerning 'twin deficit'[14].

The deterioration in public deficits in Romania has translated into public debt levels rising more rapidly than among EU and CEE peer countries (see Figure 5). While starting from a favourable position with very low public indebtedness in the mid-2000s, the financial crisis and Eurozone debt crisis affected Romania more strongly than other CEE economies. While stabilising its public debt to GDP ratio in the economic expansion phase ahead of the Covid-19 pandemic, public debt levels have since been on a strongly upward dynamic, going to cross the 60% public debt limit of the Maastricht criteria in 2026.

FIGURE 5. Public debt levels in % of GDP



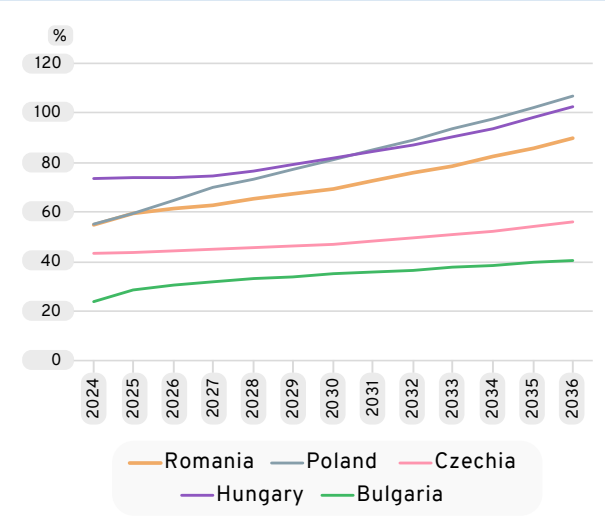
▲ Source: Eurostat (2026)
▲ Note: Data based on Eurostat's gross general government debt to GDP ratio.

Recent fiscal consolidation measures are currently projected to be insufficient to stabilise Romania's public debt level in the medium-term (see Figure 6). While the last Romanian government managed to sharply reduce the country's budget deficit through strong fiscal consolidation measures since 2024, the country's indebtedness is still

14 Dăianu, Daniel; Dumitru, Ionuț & Uzum, Leonard (2025): The Twin deficits syndrome – the case of Romania. January 2025.

projected to increase from 61.1% to 86% of GDP by 2035[15,16]. This expected evolution is not unlike those of its CEE peers, which are forecasted to increase their average level of public indebtedness from 48.9% in 2026 to 76.4% in 2035, with Poland reaching 102% and Hungary 97.9% by the middle of the next decade.

FIGURE 6. Public debt projections in % of GDP



▲ Source: Eurostat (2026a)
▲ Note: Data shows projected debt-to-GDP ratios based on the deterministic baseline scenario of the latest Debt Sustainability Monitor.

The European Commission currently considers medium- and long-term public debt sustainability risks for Romania to be medium. It sees a level of fiscal sustainability risk similar to Poland and Czechia, while being lower for Bulgaria and higher for Hungary. Changes in Romania's fiscal policy trajectory can, however, strongly modify the overall risk level. This depends on whether consolidation policies are continued, slowing down or even reversed towards fiscal expansion.

Medium-term fiscal sustainability risks are also evaluated by rating agencies, whose rating decisions can have a strong impact on investment decisions by financial market actors. While public bond ratings for most CEE countries have improved over the last three decades, public policies in most of these countries have not been sufficient to lift ratings to the level of most Western and Northern EU Member States.

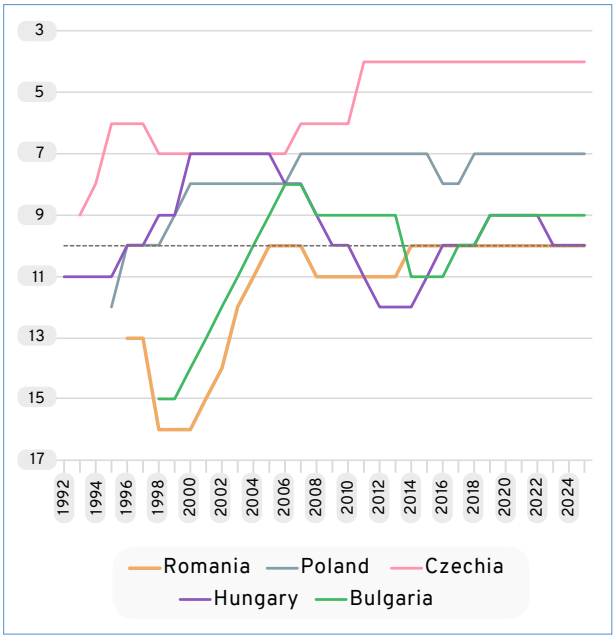
In recent years, Romania's public bond ratings have remained on the lowest possible investment grade notch across the three biggest rating agencies (Standard & Poor's [S&P], Moody's, Fitch). In Figure 7, this notch corresponds to the value 10, highlighted with a dotted line. The outlook provided by the main rating agencies for upcoming rating actions on Romania is negative. This means that all of them are considering a downgrade of Romania's public bonds into non-investment grade if the country's debt sustainability risks will not be stabilised or lowered in the coming months and years. The continuation of fiscal consolidation measures that were started in 2025[17] will be crucial to avoid a public bond downgrade.

15 European Commission (2026a): Debt Sustainability Monitor 2025. *European Economy Institutional Paper* No. 332. February 2026.

16 It should be noted that changes in the assumptions for the coming 10 years significantly influence forecasted public debt levels. They can be strongly influenced by fiscal consolidation or fiscal expansion measures, as expressed by the predicted structural deficits. For illustration, the Debt Sustainability Monitor 2024 (European Commission 2025) forecasted, in its baseline scenario, that Romania's public debt to GDP ratio would increase to 106.4% by 2035. This is more than 15 percentage points higher than the baseline scenario of the subsequent Debt Sustainability Monitor.

17 Tăbleț. Diana (2026): Cum arată finanțele publice la jumătatea anului 2026. August 2026.

FIGURE 7. Public bond ratings (S&P)



▲ S&P (2026)
▲ Note: Data shows S&P bond ratings transformed into numerical values (AAA = 1, AA = 3, A = 6, BBB = 9, etc.)

The maintenance of an investment grade rating matters significantly for Romania. Certain investors such as pension funds, banks, insurance companies and other institutional investors might be less willing, or even being forbidden by their own rules, to hold bonds below investment grade. A downgrade to non-investment grade would further increase bond interest rates, with negative consequences for the debt service costs of the Romanian state and for knock-on effects on the cost of credit in financial markets.

Political uncertainty around the continuation of the country's fiscal consolidation course weighed on private investment and delayed business decisions in recent times. The 2026 Romanian political crisis, with its government disintegration in May 2026 and subsequent difficulties for the President to find a majority for a new government, heightened concerns that fiscal policies could potentially return to a less sustainable trajectory. A new minority government formed in October 2026 has brought this crisis to an end for now, promising to carry on with the ambitious fiscal consolidation measures started in 2025 and to provide more policy stability for enterprises. Both are important elements to avoid a lack of private investment and rising fiscal costs of the country's public debt which could considerably worsen Romania's competitiveness outlook in the next years.

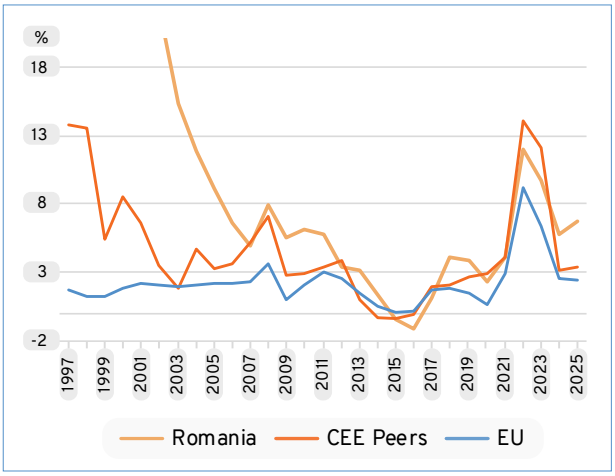
While Romania's fiscal situations strongly depends on the willingness of political actors to put into place sustainable policies, the underdevelopment of the country's budgetary framework also participates in short-term thinking and a lack of fiscal policy expertise in the political sphere.

– Romania's monetary policy serves as a counterweight to fiscal policymaking

Monetary policy plays a very important role in Romania's macroeconomic policymaking, as the country has not adopted the euro so far, still possessing its own currency. While Romania's currency, the Romanian leu, suffered from hyperinflation during the 1990s, the National Bank of Romania (BNR) subsequently managed to rein in inflation in the 2000s, also in view of Romania's EU accession in 2007. These efforts were underlined by a major change in the BNR's monetary policy framework, switching from a targeting of the monetary base to inflation targeting[18], and at least partly supported by a different fiscal policy approach.

Inflation targeting has helped to reduce Romania's inflation rate to a level similar to its CEE peers, while remaining above EU and eurozone levels (see Figure 8). Highlighting the consequences of expansionary fiscal policies on inflation during economic boom phases, Romania's inflation rates detached from other countries when the national government ran procyclical policies in the late 2010s and in the follow-up of the energy crisis in 2024.

FIGURE 8. Inflation rate in %

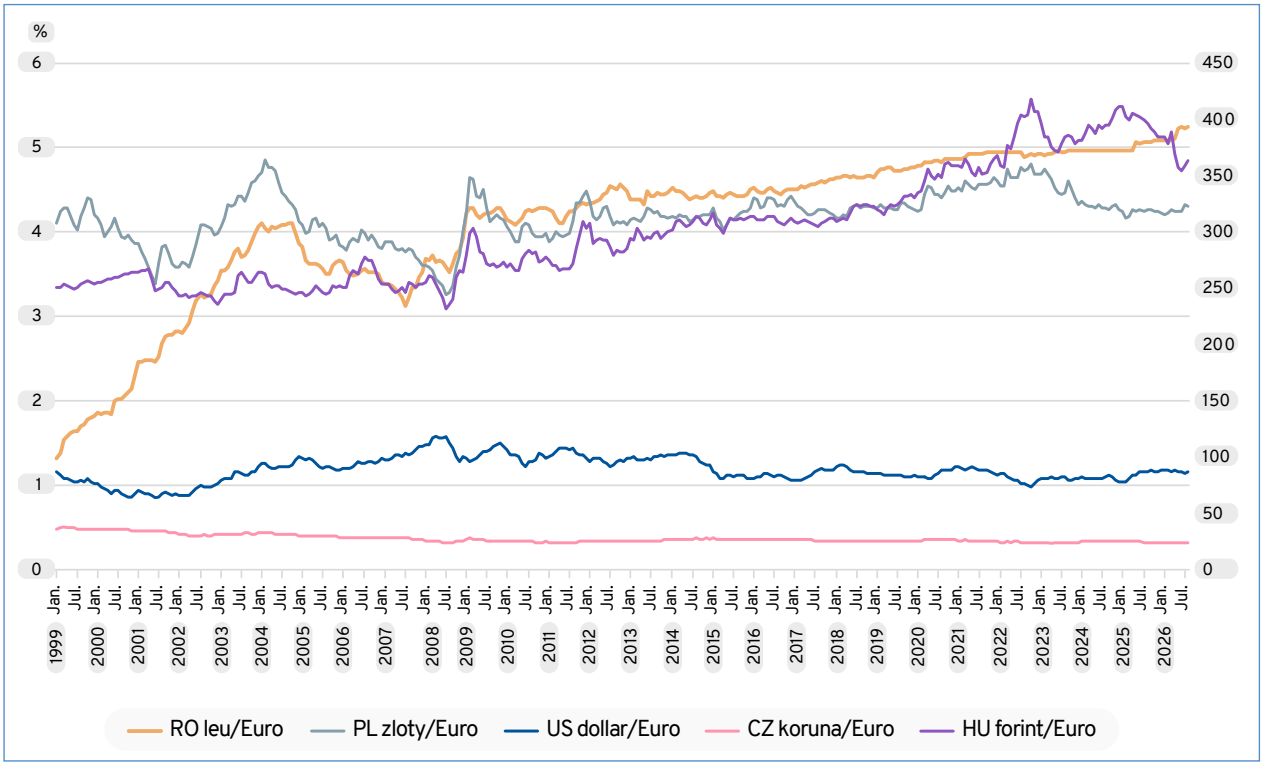


▲ Source: Eurostat (2026)

18 Gabor, Daniela (2008): From Rhetorics to Practice in Monetary Policy: A Romanian Perspective. *Comparative Economic Studies 50.*

The Leu's exchange rate regime is not based on a free float but organised around a managed float with the Euro as the key reference currency. This means that the BNR intervenes in foreign exchange markets to prevent excessive volatility of the national currency. The low volatility and gradual devaluation of the Romanian Leu towards the Euro, also in comparison to its CEE peer countries that still have their national currencies[19], is visible in Figure 9. The IMF thus considers the exchange rate arrangement as de facto stabilised[20].

FIGURE 9. Exchange rates between national currencies and the Euro



▲ Source: ECB (2026)
▲ Note: Values for the Polish zloty and the Hungarian forint correspond to the right axis.

The stabilisation of the Romanian Leu vis-à-vis the Euro has led to an overvaluation of the national currency over the course of the last years. While the exchange rate stabilisation has positive effects on domestic inflation pressures, it negatively affects the country's cost competitiveness in the export sector. Different institutional and market actors consider the current level of overvaluation to be between 5 and 10%[21]. The overvaluation of the Romanian Leu was partly addressed by three small exchange rate devaluations in May 2025, April 2026 and October 2026, with the latter two taking place, respectively, shortly after the collapse of the Romanian government coalition and after the rejection of a newly proposed government.

Since 2013, the BNR's inflation target is set at 2.5% per year, with a tolerance band of +/- 1 percentage points. However, despite this target, inflation remains very high in Romania, in comparison with its CEE peers. This reflects externally induced inflation shocks linked to the Ukraine war's energy and food crises, renewed inflationary pressures stemming from the 2026 conflict in the Middle East, but also a set of fiscal policies run by recent Romanian governments.

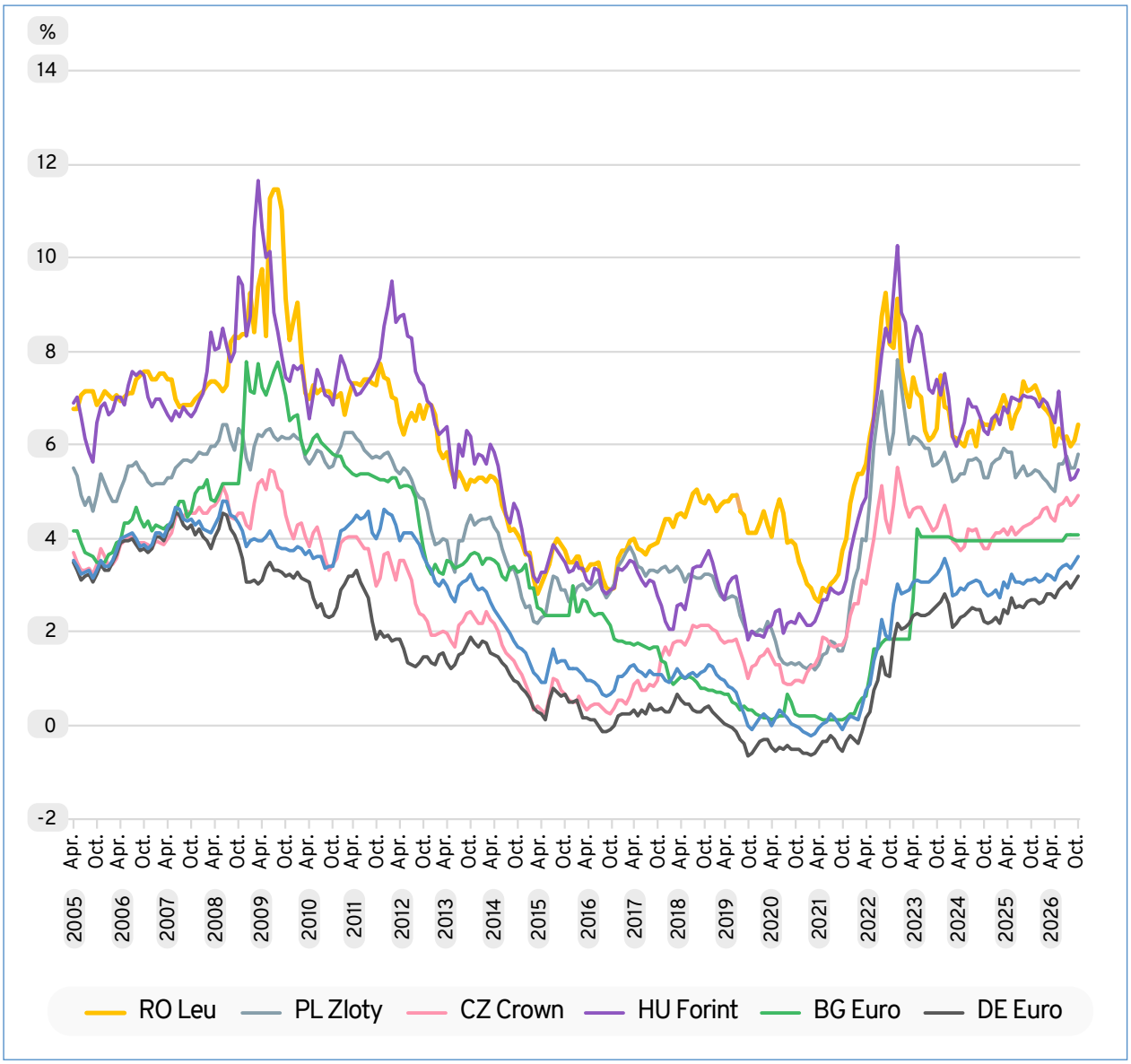
19 IMF (2025): Romania. 2025 Article IV Consultation – Press release; Staff report, and statement by the executive director for Romania. I*MF Country Report* No. 25/294. November 2025.

20 IMF (2025): Romania. Staff report for the 2025 Article IV Consultation – Informational Annex. October 2025.

21 These estimates are based on statements made by various Romanian experts.

High inflation levels are addressed by the BNR through comparatively higher policy rates. The current deposit facility rate of the BNR stands at 5.5%, compared to 2.5% for the ECB. This subsequently also influences the interest rate yields for Romania's public bonds (see Figure 10), which are currently the highest among its CEE peers. With more than 6.4%, 10-year bond yields of Romania are at double the level of German bond yields, which stand at 3.2% in August 2026. This leads to high debt service costs and makes credit in the private sector more expensive.

FIGURE 10. Interest rate yields in %



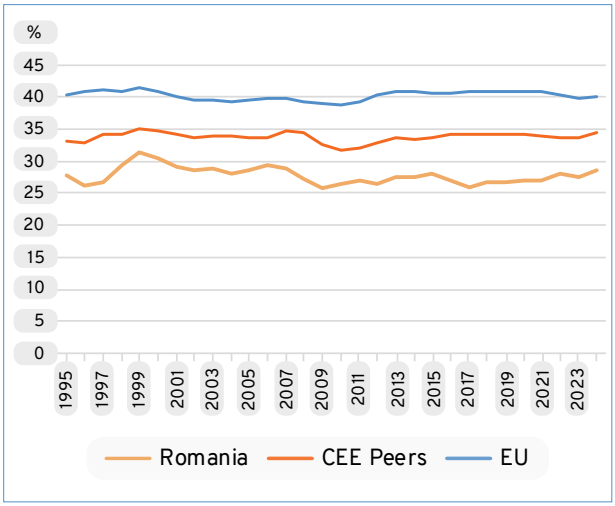
▲ Source: ECB (2026)

All of this highlights the negative consequences that an inconsistent policy mix between fiscal policy and monetary policy has on the overall macroeconomic situation and the country's competitiveness. Without a more coherent countercyclical approach in fiscal policy, monetary policy will have difficulties managing inflation rates and the country's exchange rate without creating negative side effects for the broader economy. Politically, the question of Euro accession also needs to be addressed, as this influences how to best conduct fiscal and monetary policy in the coming years.

– The Romanian state plays a comparatively little role in the economy

The size of the Romanian state, as measured by government revenues and expenditure as a share of GDP, is comparatively small. As shown in Figure 11, Romania has one of the lowest general government revenues of all EU Member States, below 30%. The only country with lower revenues as a share of GDP is Ireland, resulting from US MNCs inflating the size of their economy. The EU average for government revenues is close to 40%, with the most advanced economies reaching up to 45.5% of GDP (Denmark). Also, Romania's CEE peers have average government revenues that are more than five percentage points of GDP higher.

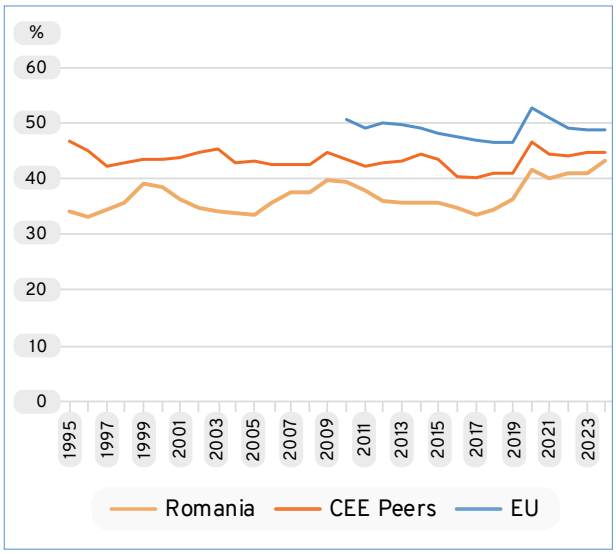
FIGURE 11. Government revenues in % of GDP



▲ Source: Eurostat (2026)

While low taxation can help to achieve cost competitiveness, advanced economies typically resort to higher revenue levels to ensure the financing of public goods and services that are crucial for innovation-driven competitiveness. As shown further below, the low government revenues also result in low spending on research and development, education, health and other crucial areas.

FIGURE 12. Government expenditure in % of GDP



▲ Source: Eurostat (2026)

While the expenditure level of the Romanian state has been among the lowest in the EU in the last decades, it shows clearly cyclical tendencies and a recent decoupling from the rest of the EU Member States, which has taken place in the follow up of the Covid-19 crisis and the 2022 energy price crisis. This also explains why a large budget deficit occurred in the mid-2020s.

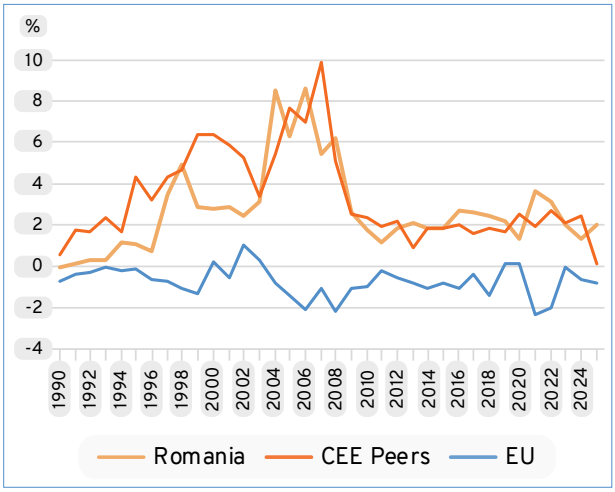
– Investment and transfer inflows have strongly helped to achieve economic convergence

Over the last three decades, the Romanian economy has strongly benefitted from financial flows into the country. This includes foreign direct investment (FDI) by companies, funds provided by the EU, and personal remittances transferred by Romanians living abroad.

Net FDI inflows have been a crucial factor in the development of the Romanian economy since the end of Communism (see Figure 13). In comparison to its CEE peers, net FDI inflows into the country took off relatively late in the 1990s and remained significantly below the CEE peer average in the early 2000s. Since then, however, net FDI inflows into Romania have matched those coming into

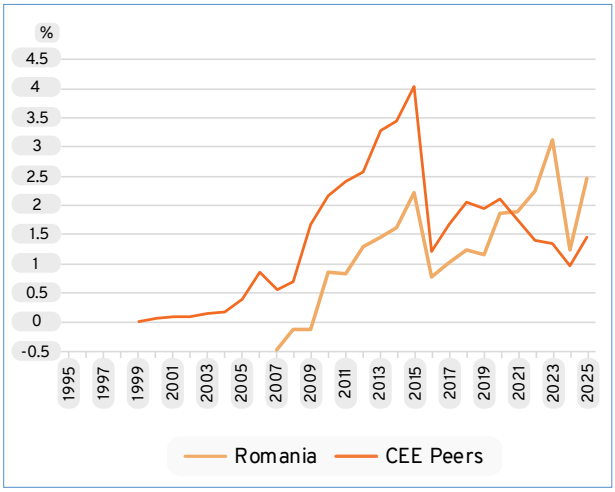
Poland, Czechia, Hungary and Bulgaria. Following extremely high FDI inflows in the wake of the great financial crisis and the eurozone debt crisis, they have stabilised at around 2% of GDP annually. These significant FDI inflows, driven by MNCs, have facilitated technology transfer and the introduction of modern management practices in Romania. This has improved productivity levels especially among larger foreign-owned enterprises but also had some – albeit limited – positive spillover effects into the rest of the economy[22].

FIGURE 13. Net FDI flows as % of GDP



▲ Source: World Bank (2026), Author's own calculations

FIGURE 14. Balance of Member States vis-à-vis the EU budget

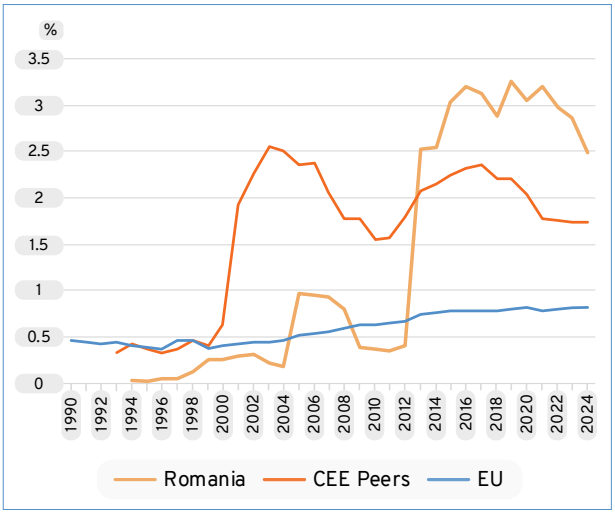


▲ Source: ECB (2026)

Since EU accession, funds from the European level have become an increasingly important financial source of Romania, supporting high public investment levels in the national budget. Figure 14 shows how Romania as, over time, become better at absorbing EU funds. While the country lagged behind its CEE peers during the 2007-2013 EU budgetary cycle, it has improved over the last decade. Furthermore, Romania particularly profited from additional money made available through the EU-level debt programme NextGenerationEU which was created in response to the Covid-19 pandemic and provided reinforced support to less developed Member States. In 2025, EU funds amounting to 2.5% of Romania's GDP flowed into the country, supporting the development of infrastructure and other national projects.

Finally, also the Romanian diaspora strongly contributes to financial flows into the country through the transferring of personal remittances. While the large number of Romanians living abroad has negative effects on labour force availability inside the country, this group makes considerable amounts of money available for Romania. In recent years, personal remittances have amounted to 2.5%-3% of GDP, supporting consumption and investment in Romania (see Figure 15). While falling recently, personal remittances flowing into the country are still above the average of Romania's CEE peers and significantly higher than across the European Union.

FIGURE 15. Personal remittances as % of GDP



▲ Source: World Bank (2026)

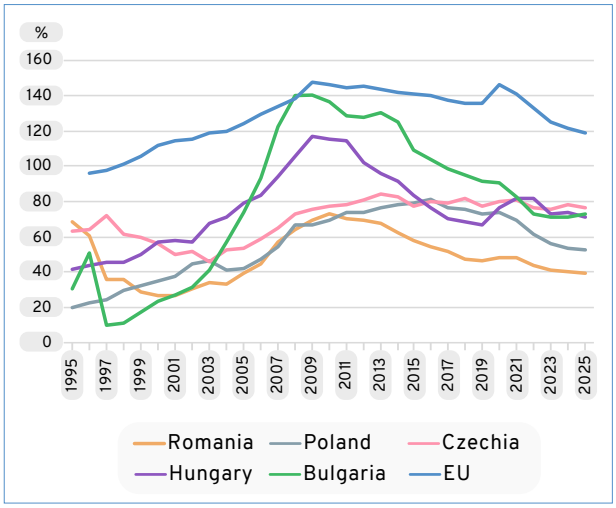
22 OECD (2026a): OECD Economic Surveys: Romania 2026. Volume 2026/8. March 2026.

In the coming years, it will be crucial to ensure that these various revenue sources will not decline sharply and simultaneously. Policy uncertainty and unpredictable policy reversals can have a strongly negative effect on FDI, as the Romanian subsidiaries of MNCs are in competition for funds with subsidiaries in other countries[23]. The development of the domestic enterprise ecosystem could help to reduce the dependence of FDI-providing MNCs but will be insufficient given the continued dependence of Romania on FDI. Regarding EU funds, the upcoming EU budget for the period 2028-2034 will likely be more limited in terms of cohesion spending and put a stronger focus on excellence. This will provide a challenge for Romania to maintain the current level of EU support and require efforts to focus investment on projects with the highest investment multipliers. Currently, the efficiency of public investment remains an issue of concern. On personal remittances, finally, growing economic convergence will likely lead to a reduction of inflows in the coming years, which will also reduce the positive impact on the economy.

FINANCIAL MARKETS AND BANKING SECTOR

The availability of abundant and cheap private capital is a crucial resource for economic development and a country's competitiveness. Private capital can be very useful in ensuring that scarce resources are allocated towards the most efficient projects and thus boost productivity in an economy. A sufficient size of the financial sector is thus an important prerequisite for growth. The Romanian financial sector is, however, underdeveloped.

FIGURE 16. Private debt in % of GDP



▲ Source: World Bank (2026)

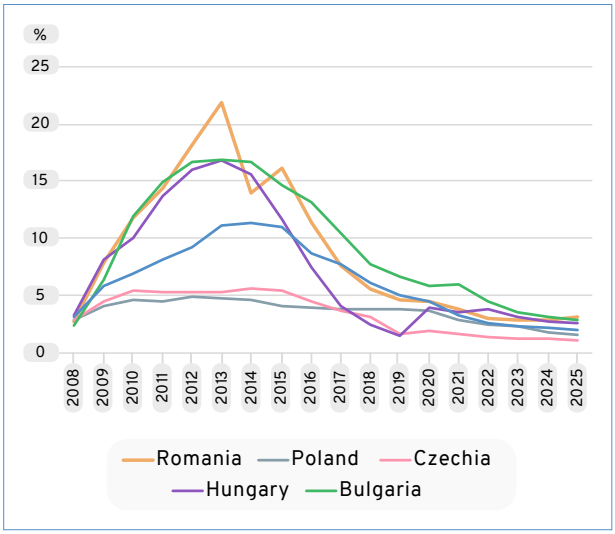
Financial intermediation in Romania is the lowest among all EU Member States. Shown in Figure 16 as private debt as a share of national GDP, it stands below 40%. In comparison, private debt among CEE Peers stands close to 70% and at 120% for the EU as a whole. The fall in Romanian private debt since the great financial crisis mirrors the developments in many other EU countries, also highlighting that credit-based consumption is not a growth factor in the Romanian economy any longer. Disaggregating private debt into household debt and the debt of non-financial corporation, Romania's debt levels stand at 12% and 28% respectively. Private debt to households is eight times lower than among advanced EU economies such as Sweden, Denmark and the Netherlands. However, Romania's high level of home ownership can partly explain the low level of private household debt, as the need for mortgage lending is subdued. Private debt to non-financial corporations is also the lowest among all EU Member States. However, this likely underestimates the credit available to companies considerably, as subsidiaries of MNCs active in Romania can draw on internal financing. An expert considered that this would roughly double the number from 28% to between 50% and 60%.

Romania's banking sector is stable and well capitalised, also due to the prudent approach to lending, that was developed in response to the Great Financial Crisis and the Eurozone debt

23 Many interviewees have pointed out that it is difficult to get projects approved when the business environment is defined by political uncertainty, which complicates the capacity of companies to present credible plans.

crisis in the late 2000s and early 2010s. Excessive lending in the lead-up to these crises and negative knock-on effects of the economic recession and austerity measures on debtors' loan repayment capacities led to one of the highest rates of non-performing loans (NPLs) across Europe. At its peak, NPLs stood roughly at double the average in its CEE peers and the EU (see Figure 17). Since then, the rate of NPLs has reduced drastically across the European Union, also in Romania. The post-crisis approach has led to more prudent lending practices and stricter financing conditions, especially for small and medium enterprises (SMEs). While contributing to a stable banking sector, this also leads to more constrained access to credit, which limits private investment, with negative consequences for innovation and competitiveness.

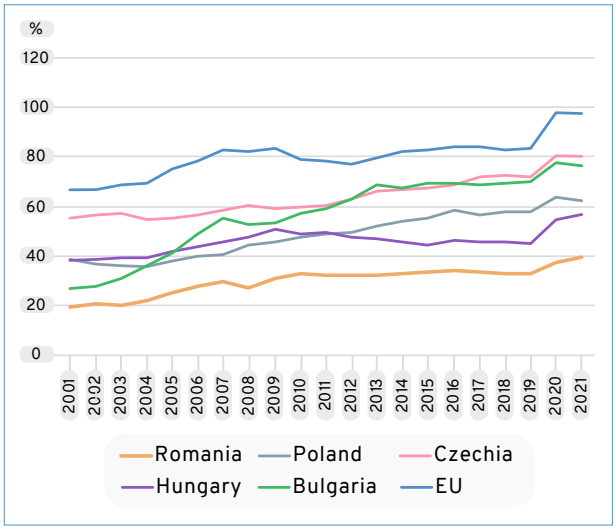
FIGURE 17. Non-performing loans in % of all loans



▲ Source: World Bank (2026)

The size of the Romanian banking sector is relatively small, as banking does not yet reach all the country's population. Account ownership in Romania is the lowest in the EU, raising questions of financial inclusion and overall banking sector development. While, on average, almost the entire EU population aged 15 and over owns an account at a bank or another type of financial institution (97%), only 80% of Romanians do so. This share is also significantly below those observed among Romania's regional peers, with an account ownership of 92%. Not only account ownership, but also the size of bank deposits is low (see Figure 18), which can partially explain why credit to the private sector is comparatively underdeveloped. On the supply side, available credit is, however, also partly absorbed by the public sector, driven by the budget deficits described further above. This limits the availability of credit to other actors.

FIGURE 18. Bank deposits in % of GDP



▲ Source: World Bank (2026)

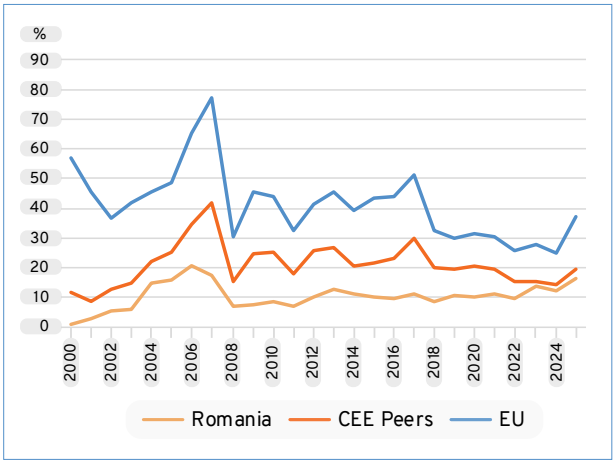
The low level of private debt is also due to several demand-side factors. First, business financing often relies on informal networks rather than formal financial channels, partly as a tax-optimisation strategy, as pointed out by several interviewees. Second, SMEs often lack the documentation and the accounting standards required to obtain credit. Finally, many Romanian companies have equity levels that are lower than the regulatory threshold, which constitutes a significant vulnerability for the Romanian economy, by limiting its capacity for investment. Companies with equity below the legal threshold of equity account for almost a third (32.6%) of companies in Romania[24]. Almost half of these firms even have negative equity, accounting for 14% of all companies.

Romanian capital markets also remain underdeveloped. Market capitalisation of listed domestic companies in Romania has increased in recent years but still remains significantly below the EU average (see Figure 19), while not differing very

24 BNR (2025): Financial Stability Report. December 2025.

strongly from its CEE peers. The overall evolution since the 2000s highlights broader differences in equity-based financing across the globe as market capitalisation in the US has recently crossed 200% of GDP. This mirrors the observation made in the Letta Report that about €300 billion European savings are moving abroad annually, often in the US stock market. This is due to the fragmentation of financial markets in Europe, leading to small and less liquid national stock markets.

FIGURE 19. Market capitalisation of listed domestic companies in % of GDP

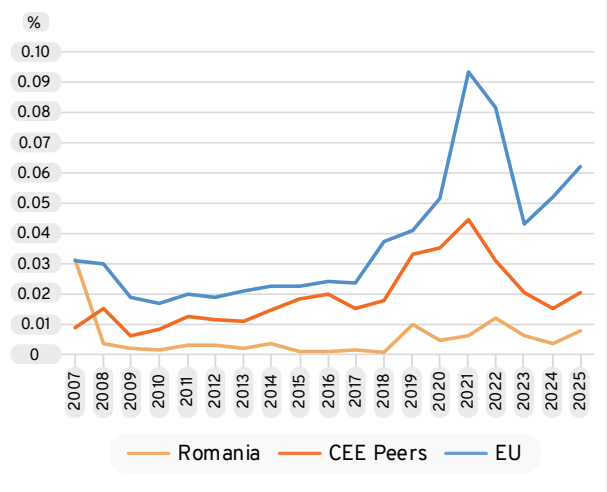


▲ Source: World Bank (2026)

The low availability of equity, especially for riskier assets, is also visible in the area of venture capital. As shown in Figure 20, Romania records a venture capital investment level equivalent to only 0.008% of GDP in 2025, compared with 0.02% among Romania's CEE peers and with 0.06% at EU level. While there has been some development of venture capital markets in the EU, and at least during the early 2020s among the CEE peers, Romania's venture capital market remains practically inexistant. All of these numbers are dwarfed however when compared with economies beyond the EU. In the US, venture capital investments are above 0.5% of GDP (higher than all of Romania's R&D spending combined), and in Israel, venture capital investment is above 1.5% of GDP[25].

All of the available data thus highlight the need for further developing the country's financial markets to provide capital to the economy and reduce overt reliance on public funding.

FIGURE 20. Venture capital investment in % of GDP



▲ Source: OECD (2026

I GOVERNANCE AND STATE CAPACITY

The functioning and quality of a country's governance and state capacity are of crucial importance for a country's competitiveness, strongly influencing the business environment. At best, the political and economic institutions create a business environment defined by predictability, stability, equality, transparency, clarity, credibility, and legal protections. Good governance and high state capacity are enshrined in regulatory quality, government effectiveness, and the rule of law, including the control of corruption. These factors have a significant impact on whether enterprises are formed, take investment decisions to grow, and can compete fairly in common markets.

Unfortunately, Romania currently suffers from comparatively low levels of governance quality and state capacity. Shortcomings in this area are evident from statistical data and are universally shared by the stakeholders and experts interviewed for this report. They constitute a significant competitiveness disadvantage, negatively affecting many different policy areas.

– Regulatory quality in Romania is comparatively low

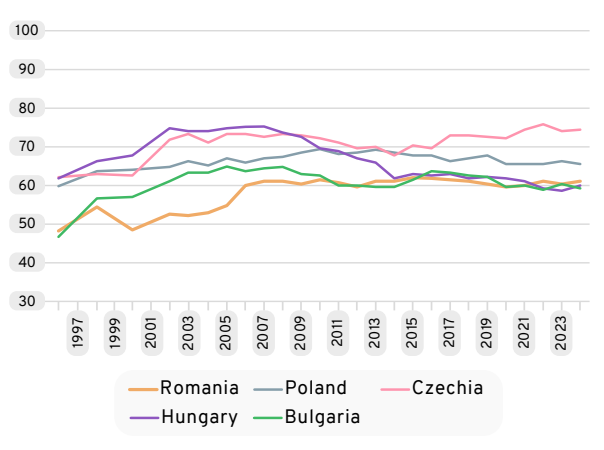
Regulatory quality – the design and implementation quality of policies and regulations – matters strongly for business development. It influences

25 OECD (2026): Venture capital investments (market statistics).

the conditions under which companies can enter, operate and compete in markets. Regulatory frameworks might promote or hinder competition depending on the presence or absence of undue regulatory or administrative rules or barriers. Regular impact evaluations can help to ensure that regulatory quality is and remains high over time.

Regulatory quality in Romania is comparatively poor. As shown in Figure 21, perceptions of the country's regulatory quality improved until the mid-2000s, but have since stagnated at a relatively low level, remaining considerably below Czechia and Poland. The product market regulation (PMR) indicators of the OECD[26] complement these findings with a more granular analysis[27]. The overall PMR indicator shows that regulatory quality in support of competition has been strengthened across countries covered by the OECD, also in Romania and among its CEE peers (see Figure 22). However, Romania continues to have the lowest overall level of competition-inducing regulations and rules, faring considerably worse than Poland, Czechia and Bulgaria.

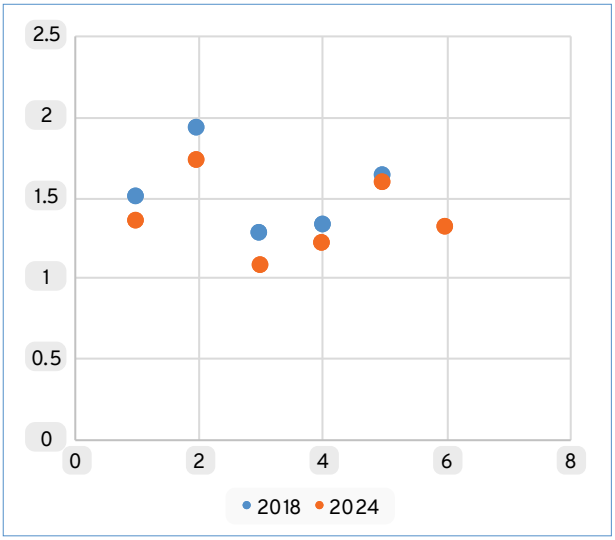
FIGURE 21. Regulatory quality (WGIs)



▲ Source: World Bank (2026)
▲ Notes: The data shows the indicator 'regulatory quality' provided by the World Governance Indicators (WGIs), which are based on expert surveys on various governance dimensions.

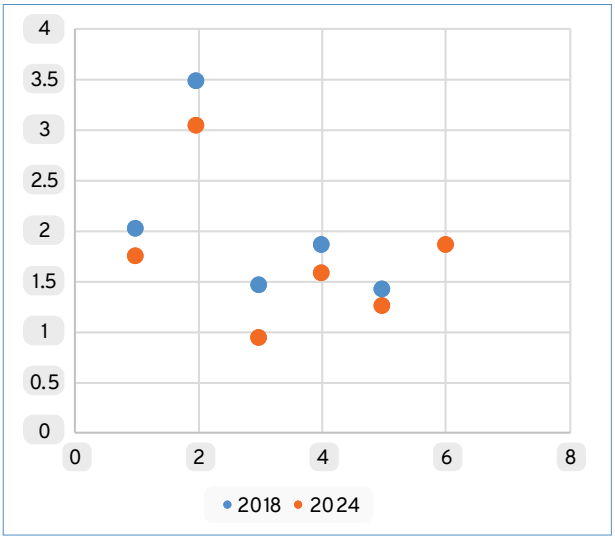
In the PMR index, Romania scores particularly poorly regarding its national regulatory and administrative burden. This includes the extent of administrative requirements for companies, as well as the complexity and simplicity of rules, and communication on them. As shown in Figure 23, Romania's regulatory and administrative burden is significantly higher than across all assessed economies, with its CEE peers doing considerably better. This finding was echoed by many of the stakeholders and experts interviewed for this report. Furthermore, the PMR indicators highlight a lack of well-functioning and inclusive impact evaluations of regulations, with Poland and Czechia providing more comprehensive approaches to analyse the effects of regulations on competition.

FIGURE 22. Product market regulation (PMR) index



▲ Source: OECD (2026)

FIGURE 23. PMR Indicator RAB



▲ Source: OECD (2026)

26 OECD (2026): Product market regulation. September 2026.

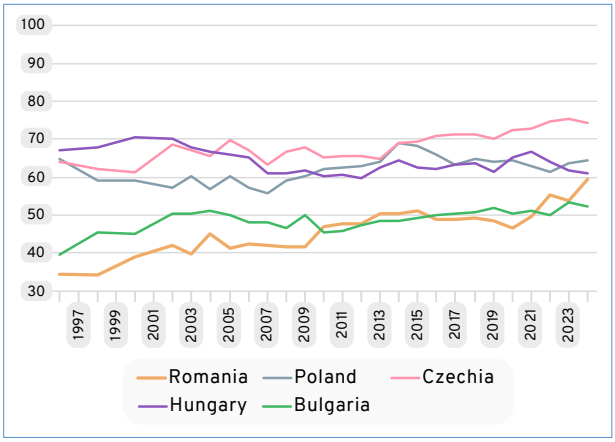
27 The OECD product market regulation indicators cover a broad range of variables such as distortions induced by public ownership, political involvement in business operations, administrative and regulatory burdens, barriers ins service and network sectors, barriers to trade and investment and regulations guiding impact evaluations.

– Government effectiveness in Romania lags behind despite recent progress

The competitiveness of countries also depends on the effectiveness of government. The World Bank defines government effectiveness as the quality of public services and their independence from political pressures, the quality of policy formulation and implementation by the public administration, as well as the credibility of a government's commitment to adopted policies.

Romania's government effectiveness in the last decades has been poor, even if there has been recent improvement (see Figure 24). While showing a positive trend, Romania's government effectiveness is still considered to be lower than in Czechia, Poland and Hungary.

FIGURE 24. Government effectiveness (WGIs)



▲ Source: World Bank (2026)

There is strong consensus that the lack of government effectiveness is a key problem for Romania's competitiveness. There are multiple reasons for a lack of government effectiveness, including the circumvention of ordinary legislative process, political instability and a lack of administrative capacity.

A major problem is the unpredictability of public policies, with fiscal and regulatory rule changes often taking place under short notice and without stakeholder consultations. The frequent recourse to emergency ordinances by governments is a central issue of concern. Originally intended to temporarily deal with crisis situations, this instrument has allowed political actors to pass legislation without the usual parliamentary processes that can, in practice, become permanent. This possibility to change laws basically 'overnight' creates uncertainty for enterprises and complicates investment decisions and long-term planning.

Government effectiveness is also undermined by political instability that is endemic in the Romanian political system. Just looking at the last decade, the country has had eleven different prime ministers, ten different finance ministers, and fourteen different economy ministers. This extremely high turnover creates significant difficulties for policy continuity and effectiveness. First, every new minister tends to start office with a new agenda and is looking for short-term wins, given the expectation that they will remain in power only for a very limited time. The high level of political instability thus creates a short-term mindset and leads to frequent changes in policy priorities. This makes it difficult to develop and implement longer-term strategies, which would, however, be crucial to address some of the more structural problems for Romania's competitiveness. Second, political instability also affects the administration, as higher-level public servants are often replaced when the political personnel changes, creating similar issues as on the political level. Third, during the frequent periods in which political crisis leads to the formation of caretaker governments, the public administration is also becoming less proactive, waiting for new political leadership to come in and providing a new course for the ministry.

A lack of administrative capacity hampers the ability of the Romanian public administration to formulate high-quality policies and effective strategies for the country's further development. Several factors lead to low administrative capacity. First, various stakeholders and experts pointed out that meritocratic practices in the public services have been weakened in the last decade. Recruitment based on political closeness and allegiance often leads to the employment of less qualified personnel, with negative consequences for policy quality. Second, public sector wages tend to be low, making it difficult to attract and retain highly qualified and competent people. There are also significant differences in wages for the same or similar functions across different ministries and public institutions, creating a feeling of inequality amongst public servants, which can negatively affect the motivation of competent people. Third, certain wage measures in the public administration, e.g. regarding bonuses for dealing with EU funds, can create perverse incentives by diverting

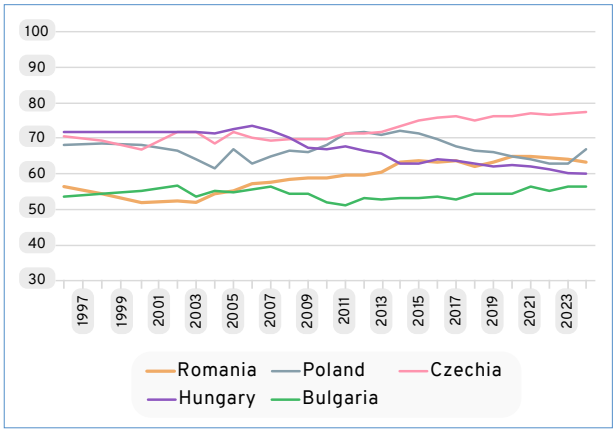
resources away from other important projects, and by creating additional workload to justify bonuses. Fourth, Romania's weak administrative capacity is also the consequence of a frequent recourse to external technical assistance, e.g. by the World Bank and the Commission. While these institutions are supposed to help gradually build up expertise at the national level, their support has created a strong dependence and reliance on outside competence. Driven by higher wages and more stable career paths, these institutions actually recruit many highly qualified Romanians. Finally, while the reliance on external institutions can help formulate well-developed public policies, it can also lead to a stronger gap between policy design and implementation, as there is less ownership among the country's public administration.

– Improvements in the rule of law are threatened by backsliding tendencies

The rule of law is a crucial precondition for economic competitiveness, influencing it through various channels. As laid out by the IMD[28], the rule of law creates predictability for the application of rules and public decisions, constrains political favoritism, arbitrariness, rent extraction and corruption, protects the enforcement of private contracts and property rights, and coordinates the expectations of private and public actors, and gives credibility to the implementation of laws and regulations. A high level of rule of law, including the control of corruption, is thus crucial to ensure a level playing field for businesses. In its absence, individual public spending decisions can be politicised, e.g. in the areas of public procurement and state aid, and where taxes are not collected in exchange for monetary or other favors, wasteful public spending and an uncompetitive business environment are the consequences.

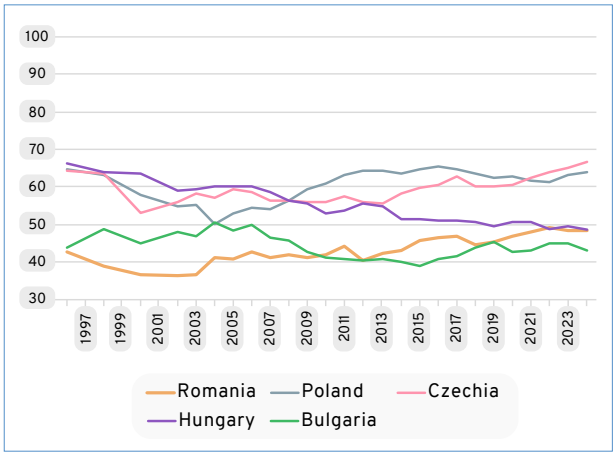
While Romania has made substantial efforts to address such problems through reforms of its legal framework, the overall level of rule of law is still considerably below other EU Member States (see Figure 25). Furthermore, successive legal changes over the course of the last decade have undone some of the previous efforts, leading to a gradual deterioration of the justice system. Legal experts have pointed out an increasing political capture of Romania's judiciary, driven by changes in the functioning of the judicial system, including the selection, placement and evaluation processes for judges and prosecutors. In addition, unfit legal rules, e.g. the statute-of-limitations for certain crimes, facilitate the non-enforcement of the law. As a result, especially perceptions of corruption remain high in Romania (see Figure 26).

FIGURE 25. Rule of law (WGIs)



▲ Source: World Bank (2026)

FIGURE 26. Control of corruption (WGIs)



▲ Source: World Bank (2026)

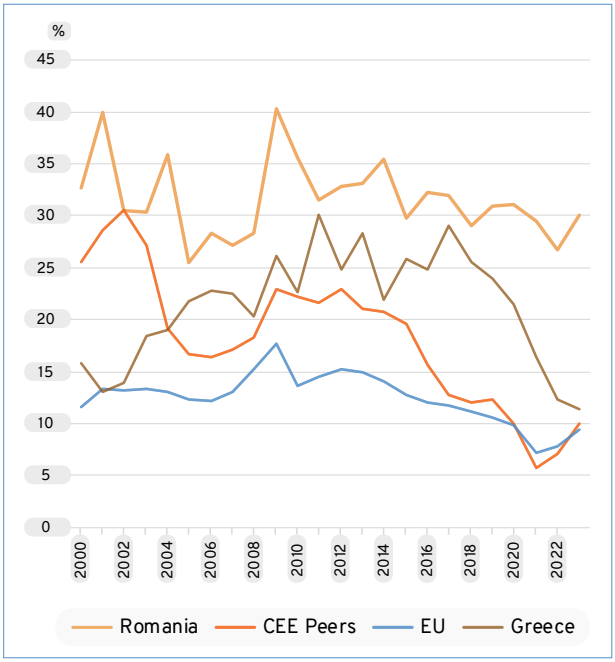
28 IMD (2026): IMD World Competitiveness Booklet 2026. June 2026.

– High tax compliance gaps as an expression of weak state capacity and rule of law problems

Romania's tax compliance gaps, currently the highest among all EU Member States, illustrate well the consequences of weak state capacity and rule of law problems. For value-added tax (VAT) the compliance gaps stand at 30%[29] and at 44% for corporate income tax (CIT)[30]. The VAT tax compliance gap in Romania is three times higher than among its CEE peers (10%), with the latter showing more efforts to increase compliance (see Figure 27). Similarly, also Romania's CIT compliance gap is more than three times higher than the average in Poland, Czechia, Hungary and Bulgaria (13%).

These significant tax compliance gaps lead to major revenues losses for the Romanian state. Compared with a scenario in which the country's compliance rates would be aligned with the EU average, the estimated revenue loss stands between three and four percent of GDP.

FIGURE 27. VAT compliance gap



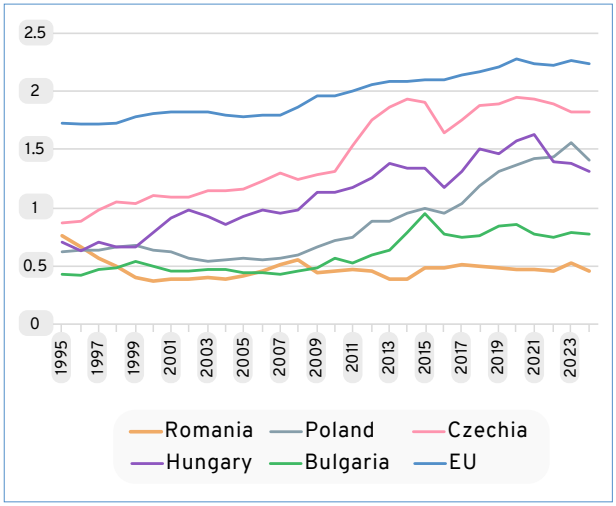
▲ Source: DG TAXUD (2025b)

The poor level of tax enforcement in Romania reflects governance weaknesses and loopholes in the tax code, which are exploited for tax avoidance and tax evasion. Entrenched vested interests make it politically difficult to address these problems at the root. Stakeholders and experts point out that tax legislation is too lenient, containing too many loopholes and lacking strong sanctions due to small penalties in case of non-compliance. They also highlight that political connections and informal networks allow some non-compliant enterprises to avoid inspections or sanctions. These issues are compounded by insufficient availability, compilation and analysis of data in Romania's public administration.

I RESEARCH, DEVELOPMENT AND INNOVATION

Research, development and innovation (R&D&I) are crucial for the creation of high-value added goods and services. Public and private spending in this area can increase productivity by fostering process innovation and can help enterprises to compete on complex and high-quality products. Pushing the technology frontier allows new markets to develop, while avoiding remaining stuck in sectors where costs are the main factor deciding competitiveness.

FIGURE 28. R&D spending in % of GDP



▲ Source: Eurostat (2026)
▲ Notes: The data shows gross domestic expenditure on research and experimental development in % of GDP.

29 DG TAXUD [Directorate General for Taxation and Customs Union] (2025): VAT gap in Europe. Report 2025. December 2025.

30 DG TAXUD (2025): The Corporate Income Tax Gap. A European approach to measuring losses in corporate tax revenues. June 2025.

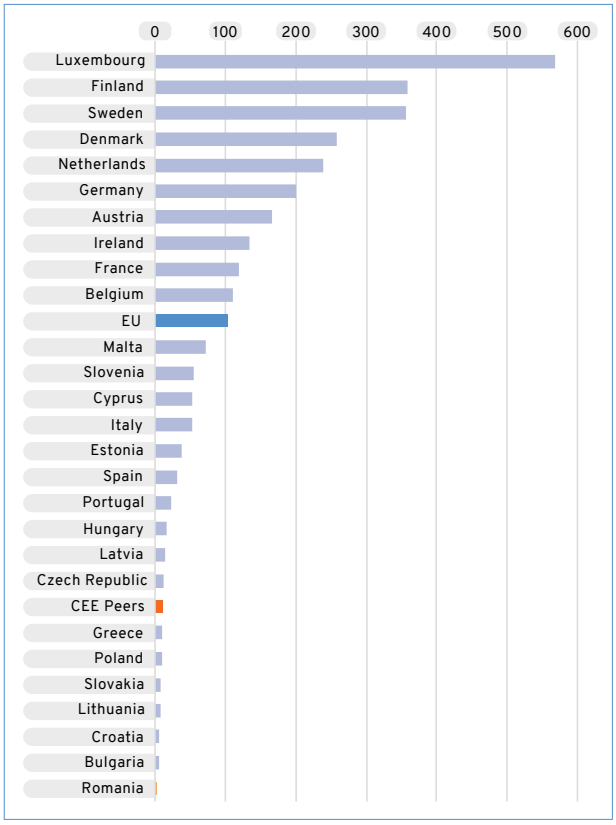
Unfortunately, the overall spending on R&D&I in Romania is extremely low. While having started at a similar level to CEE peers in the 1990s, Romania's combined public and private R&D expenditure has even lowered until the early 2000s and remained close to 0.5% of GDP ever since (see Figure 28). In contrast, the average spending on research and experimental development among Poland, Czechia, Hungary and Bulgaria is almost three times higher (1.33% of GDP in 2024), while the average EU spending is close to five times higher (2.24% of GDP in 2024). While most Member States fail to reach the EU's long-standing R&D spending objective of 3% of GDP, the level in Romania is six times lower. This detachment from the rest of Europe is concerning and clearly limits the potential for Romania to increase its competitiveness on higher value-added segments of value chains.

Consequently, also business R&D expenditure among Romanian companies is at very low levels. In 2024, such spending stood at only 0.29% of GDP, which is only a third of the level of its CEE PEERs and almost five times lower than among EU Member States[31]. Among innovation leaders, businesses spend, on average, up to 10 times more on R&D than in Romania. This significantly constrains the country's economic growth potential.

Low R&D spending among the public and private sectors translate into extremely low levels of filed patents, signaling a low overall innovation capacity of the economy. Using data from the World Intellectual Property Organisation (WIPO) on patents under the Patent Cooperation Treaty (PCT), Figure 29 shows the number of patents per million inhabitants for the year 2024[32,33]. With 2.57 patents, Romania ranks last among all EU Member States, with CEE peers filing four-times more patents and the EU filing forty-times more patents on average. More general patent data, including national patenting, gives a similar picture of the situation.

High-quality scientific publications produced by Romanian universities are equally at the lower end of the country spectrum. As shown in Figure 30, there is a major difference between Romania and the EU average regarding impactful scientific output, with the latter being three times higher. The gap with its CEE peers is, however, comparatively small, highlighting a more general gap in terms of cutting-edge scientific output between these countries and Northern and Western European countries.

FIGURE 29. Patents per capita (PCT)



▲ Source: WIPO (2026)
▲ Notes: Data shows the number of patents filed under the Patent Cooperation Treaty (PCT)

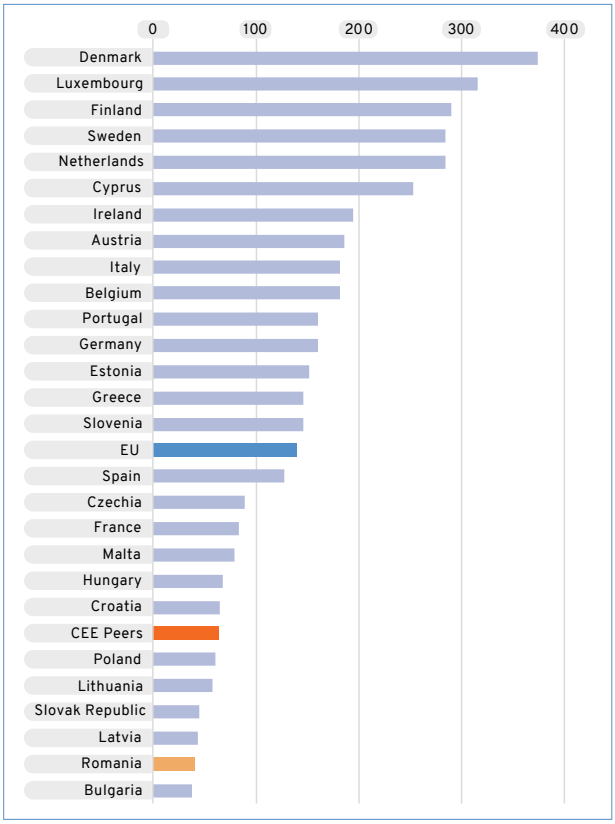
Overall, the available data thus highlights substantial underinvestment in R&D&I in Romania. This is a major stumbling block for transforming the country's economy from one based on cost competitiveness with low value-added goods and services to one based on competitiveness driven by innovation and high-value added products..

31 OECD (2026): OECD Business Innovation Indicators Database (Innostat Database).

32 WIPO [World Intellectual Property Organization] (2026): Intellectual Property Statistics

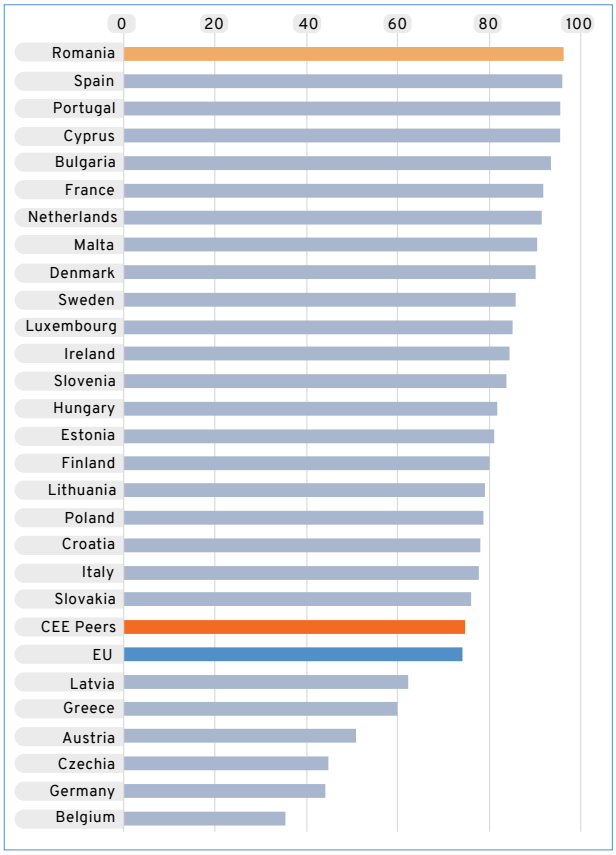
33 PCT patents are a good indicator for the 'quality' of a patent and allow better for country comparisons. As the requirements for PCT patent applications are significant, they tend to be used for more valuable innovations in technological or commercial terms.

FIGURE 30. High-quality scientific publications (2024)



▲ Source: OECD (2026), Eurostat (2026), Author's own calculations
▲ Notes: The figure shows the number of the 10% top-cited scientific publications by million inhabitants of a country.

FIGURE 31. Fibre to premises coverage in % of all households (2025)



▲ Source: Eurostat (2026)

I DIGITALISATION AND AI ADOPTION DEVELOPMENTS

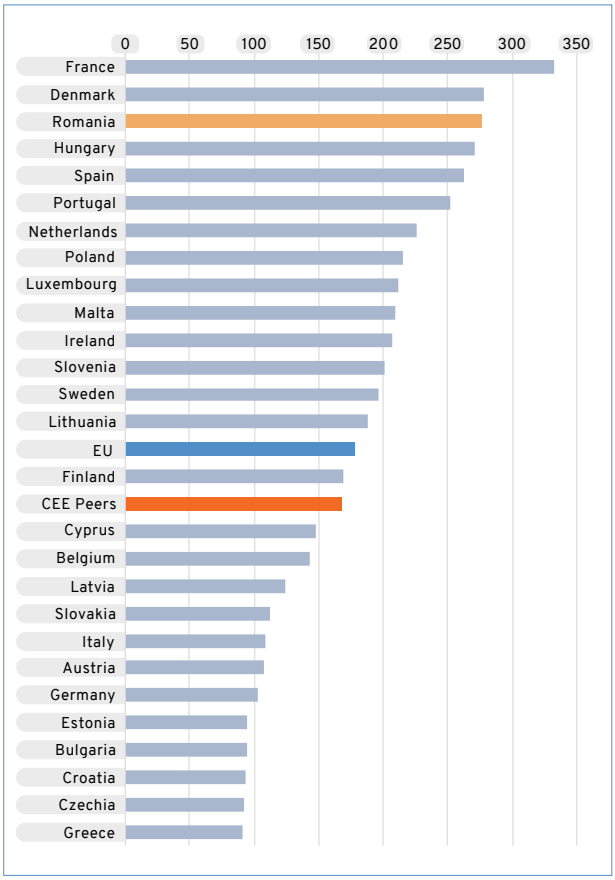
Digitalisation and the adoption of AI are crucial to improving a country's competitiveness. They can help to increase productivity by allowing for more evidence-based policy making and business decisions and by automating certain steps in the production of goods and services. Amongst others, digitalisation and the use of AI can help to reduce bureaucracy, increase transparency, create new markets, and facilitate the internationalisation of businesses.

Romania's competitive position in the area of digitalisation is influenced by contradictory factors. It is strengthened by the availability of a high-performing connectivity infrastructure and a well-educated IT labour force, while being hampered by a lack of digitalisation and AI adoption in both the public and private sectors, and a dearth of digital skills among the broader population.

On the bright side, Romania is an EU leader in fixed connectivity networks. The country ranks first in the fibre-to-premises coverage among EU Member States. More than 96% of all households are covered by internet access via fibre (see Figure 31), surpassing even typical forerunners such as the Nordic countries and Estonia.

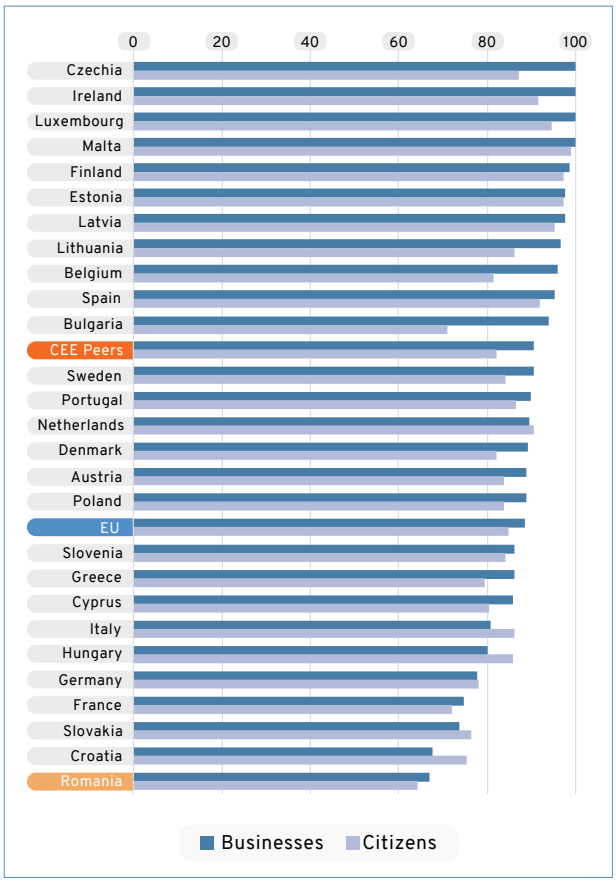
The leadership in fixed connectivity networks translates into very high average internet speeds across all Romanian regions. In its most recent tests from August 2026, Speedtest (2026) finds that Romania's average internet speed based on fixed connectivity infrastructure was the third highest among all EU Member States, only behind France and Denmark (see Figure 32).

FIGURE 32. Average internet speed (fixed)



▲ Source: Speedtest (2026)
▲ Notes: The data shows the average download speed of fixed internet connections across EU Member States in Mbps for August 2026.

FIGURE 33. Digital public services for businesses and citizens (2025)



▲ Source: Eurostat (2026)

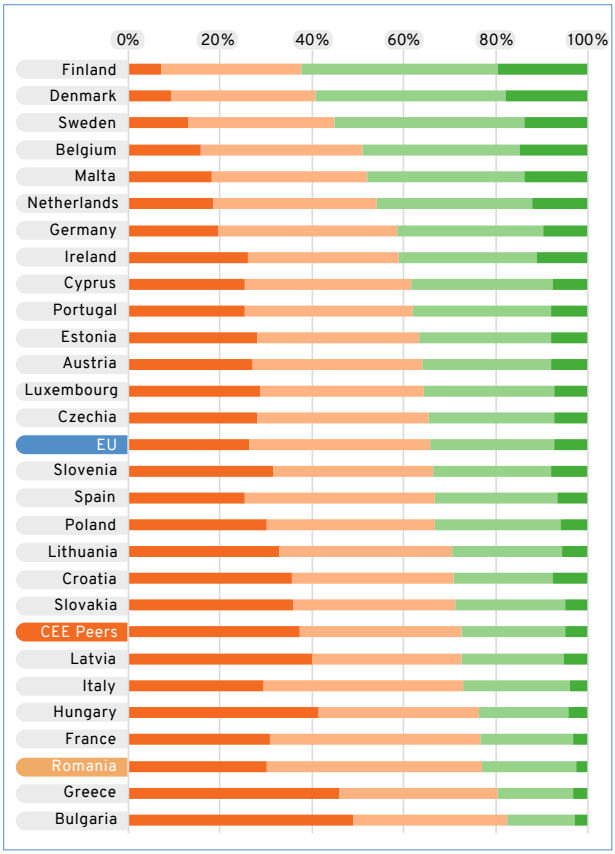
In contrast, Romania's mobile connectivity networks significantly trail the rest of Europe. While 5G networks reached more than 90% of all households across other 26 EU Member States in 2025, in Romania it was only slightly less than 60%.

The clear overall potential of Romania's available digital infrastructure is significantly limited by the country's low digitalisation levels in the public sector. The country currently ranks last in the provision of digital public services to both businesses and citizens (see Figure 33), with its CEE peers being considerably more advanced. The lack of digitalised processes adds to the administrative burden that Romanian companies are facing when dealing with public authorities and negatively influences the country's competitiveness.

The adoption of digital and AI practices in the Romanian private sector is equally lagging, but available data differs strongly on the extent of the gap towards leading EU countries. Survey results provided by Eurostat and the European Investment Bank (EIB), based on the measurement of slightly different concepts, variably see Romania close to the bottom of the rankings or closer – but slightly below – the EU average. According to Eurostat, the average digital intensity level of firms is third-last when looking at the share of companies that score very low or low on Eurostat's digital intensity index (see Figure 34). As shown by this data, only about 20% of Romanian companies have a very high or high digital intensity level, compared to leading Northern countries, where this is the case for 60% of all firms. However, the EIB investment survey[34] provides a considerably less negative picture.

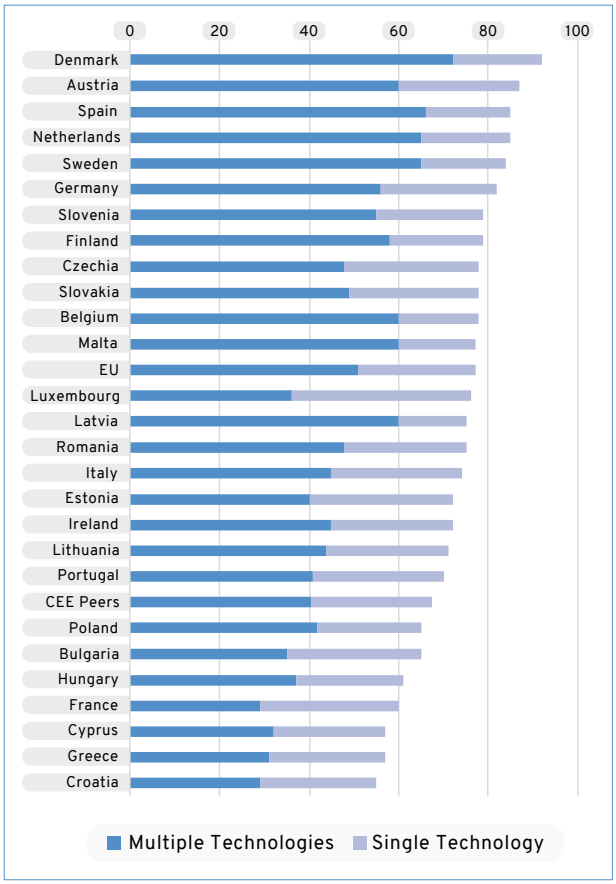
34 EIB (2025): EIB Investment Survey 2025. European Union Overview.

FIGURE 34. Digital intensity level of firms (2024)



▲ Source: Eurostat (2026)

FIGURE 35. Use of advanced digital technologies (2025)



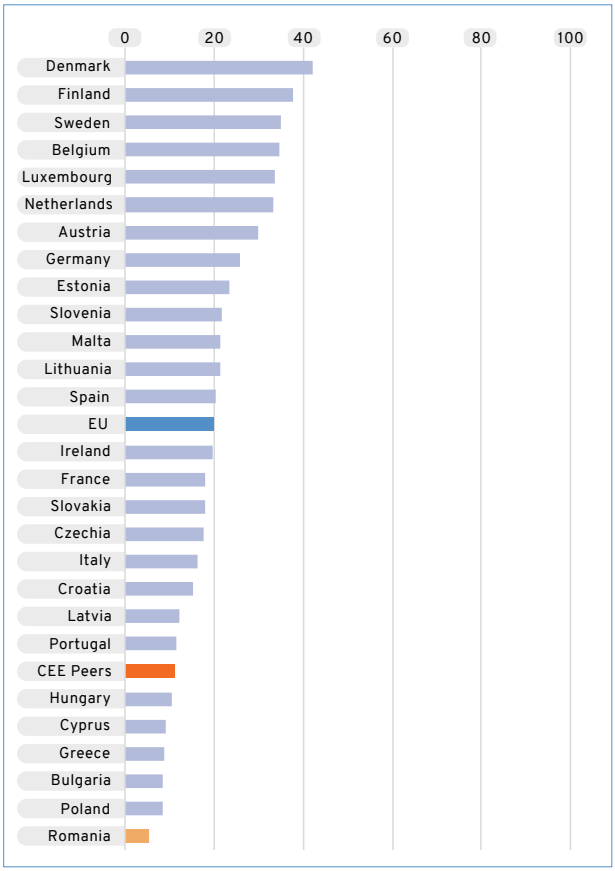
▲ Source: EIB (2025a)

As shown in Figure 35, the EIB (2025) finds that Romania is actually not far from the EU average in the use of advanced digital technologies, even surpassing its CEE peers.

AI adoption by firms in Romania is low, but the gap with leading countries is again dependent on measurement. Eurostat data shows that the uptake by Romanian businesses by 2025 is the lowest among all EU Member States. Concretely, only 5% of all Romanian firms have integrated AI into their work processes, while the figures stand at 11% among CEE peers and at more than 30% for firms in leading Northern and Benelux countries (see Figure 36). The EIB investment survey (see Figure 37), however, finds a significantly higher average AI use among firms across all countries, including Romania. Its data shows that 30% of Romanian firms make use of generative AI, and are thus on par with CEE peers, while leading countries are still considerably ahead with more than 50% of firms. Looking at the areas of firm activity in which AI tools are used, the EIB even finds that AI adoption among Romanian companies for customer service, marketing and sales, product development and human resources is significantly above the EU average.[35]

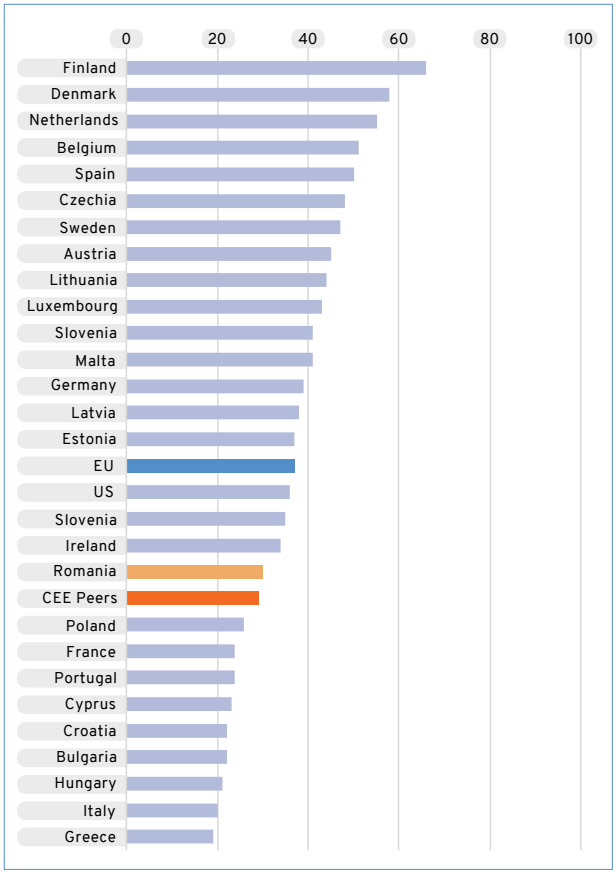
35 EIB (2025): EIB Investment Survey 2025. European Union Overview.

FIGURE 36. AI technology use by firms (Eurostat)



▲ Source: Eurostat (2026)
▲ Note: Data shown counts the use of any type of AI technologies[36] by enterprises covering at least 10 employees.

FIGURE 37. Generative AI use by firms (EIB)



▲ Source: EIB (2025)
▲ Note: Data shown counts the use of any type of generative AI use by enterprises covering at least 5 employees.[37]

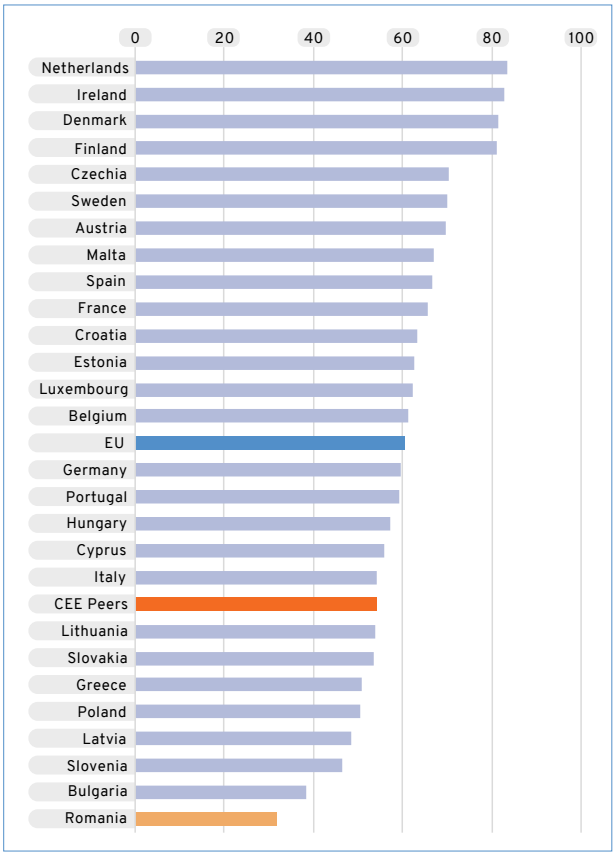
Digital skills and the adoption of digital practices among Romanian citizens are very low in comparison to the EU average, which hampers the digitalisation of the economy. As shown in Figure 38, Romania has the lowest share of individuals with basic or above basic overall digital skills at 32% of the overall population. This is considerably below the share among its CEE peers (54%), while reaching more than 80% in the most advanced EU Member States.

This lack of digital skills among Romanian citizens also translates into a very low share of the population using e-Government services. Only 25% of the population use e-government services, while this share is above 60% among all other EU Member States, excluding Bulgaria (see Figure 39). In some of the most digitalised societies in the EU, almost all citizens are e-government users.

36 The AI technologies included cover technologies analysing written language, converting language into a machine-readable format, generating written, spoken language or programming codes, generating pictures, videos or sound/audio, identifying objects or people based on images, automating different workflows or assisting in decision-making, enabling machines to physically move by observing their surroundings and taking autonomous decision, and machine learning (Eurostat 2026).

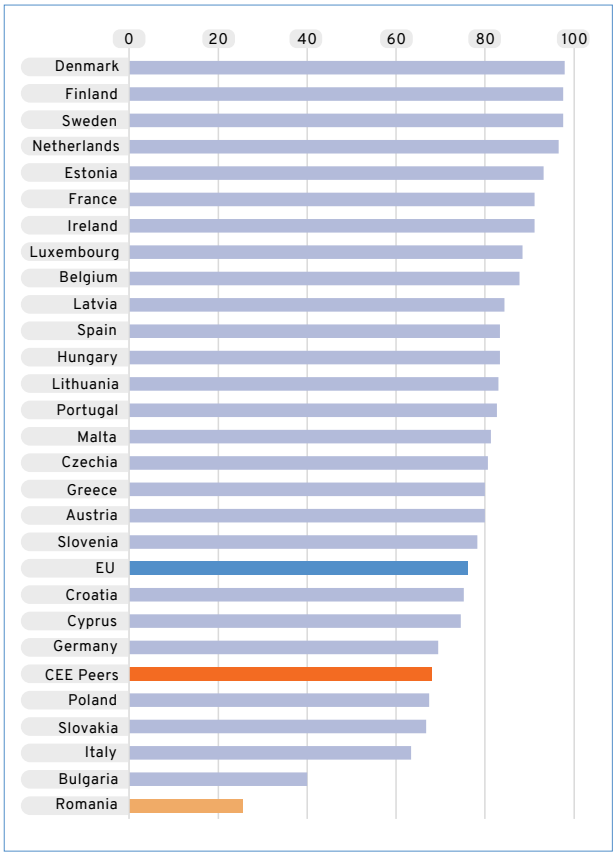
37 The EIB survey explicitly gives concrete example of AI tool such as ChatGPT.

FIGURE 38. Individuals with basic or above basic overall digital skills (2025)



▲ Source: Eurost 026

FIGURE 39. E-Government Users (2025)



▲ Source: DESI (2026)

Taken together, the current gaps in the provision of digitalised public services, the use of digital and AI tools among companies, and the lack of digital skills in the broader population pose a clear limit for Romania's competitiveness.

I EDUCATION AND HUMAN CAPITAL

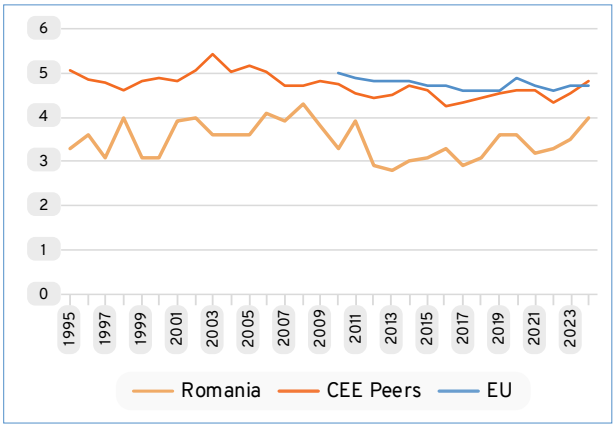
Education is a crucial determinant of competitiveness by improving human capital, increasing the availability of a qualified workforce and strengthening a country's innovation potential. A strong education system and adequate investments in both primary and higher education can have significant positive effects on the economy and its attractiveness.

Overall, Romania's education system is characterised by a comparatively low performance. The average performance, however, hides a very strong polarisation in terms of education outcomes across different groups. The country's schools and universities manage to produce a narrow layer of highly qualified people, especially in the STEM (Science, Technology, Engineering and Mathematics) sector. At the same time, Romanian education system suffers from low public spending, strong inequalities between urban and rural areas, and a significant mismatch between the educational system and the demands of the labour market. These factors translate into low educational outcomes for broad swaths of the population and high inactivity rates among young people.

Public investment in Romania's education system has increased, but it remains below the EU average. In 2024, Romania allocated 4% of its GDP to education spending, compared with an average of 4.7% across EU Member States and 4.8% among Romania's CEE peers (see Figure 40). Following a decrease in education spending in the years after the great financial crisis and eurozone debt crisis, it

has gradually increased again over the course of the last decade. While making up for previous spending cuts, Romania still remains one of the countries with the lowest levels of education spending, just ahead of Ireland and Greece. Among its CEE peers, the analysis shows that the country that performed best on the PISA tests (see Figure 43), Poland, is also the one with a level of public spending on education that is significantly above the EU average (5.6% of GDP, more than one percentage point above the EU rate). In addition to this lack of public investment in education, Romania has a low share of private spending on education, which stands at 0.2% of GDP, below the EU average[38].

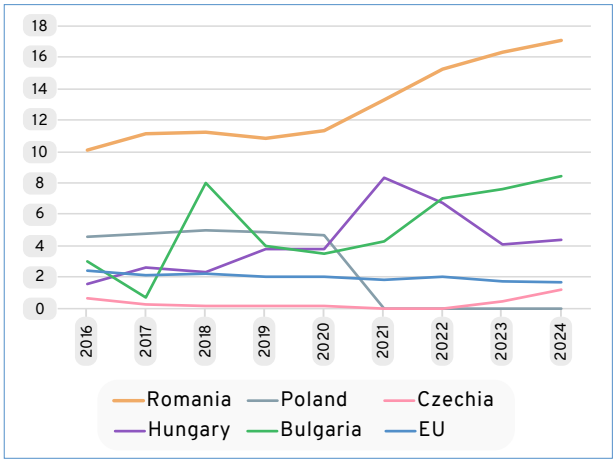
FIGURE 40. Public expenditure on education as % of GDP



▲ Source: Eurostat (2026)

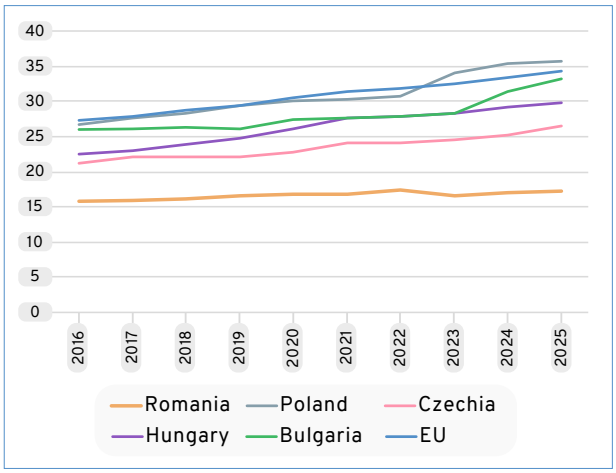
The gap between Romania and other EU Member States is particularly evident in educational attainment data at both the secondary and the tertiary education levels. Romania faces challenges in terms of early-school leaving: the out-of-school rate among 15-year-olds is by far the highest of the EU. In 2024, it stood at 17% of the population of 15-year-olds, versus an EU average of 1.7%, and this share has significantly increased, by almost 7 percentage points since 2016 (Figure 41). Concerning the tertiary level, the share of Romania's population aged from 25 to 74 that has completed tertiary education is the weakest of the European Union, at only 17%, compared with an EU average of 34%. While this rate among Romania's regional peers has increased in recent years, from 24% in 2017 to 31% in 2025, Romanian rate has remained almost unchanged over the last decade (see Figure 42).

FIGURE 41. Out-of-school rates in %



▲ Source: Eurostat (2026)

FIGURE 42. Tertiary education attainment in %

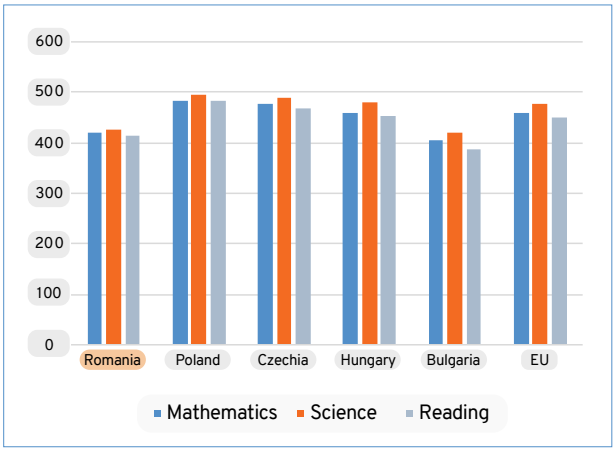


▲ Source: Eurostat (2026)

Educational system weaknesses are also evident in students' performance in key competencies such as mathematics, science and reading. The latest OECD PISA report shows that Romanian students' scores are below the EU average and below the average of their peers, except for Bulgaria (see Figure 43).

38 OECD (2026): Education at a glance. OECD Indicators. September 2026.

FIGURE 43. PISA scores

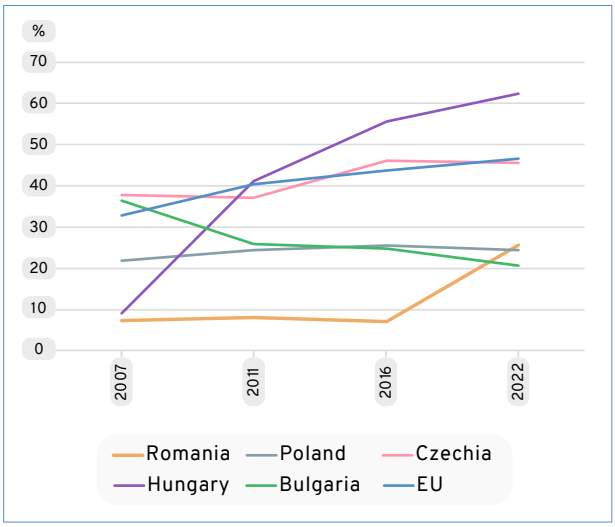


▲ Source: Eurostat (2026)

These difficulties of the Romanian educational system have negative repercussions on the quality of higher education and research. According to the *QS World University Ranking 2026*, the highest-ranked Romanian university, the University of Bucharest, is ranked outside the top 800, while all of Romania's CEE peers have at least one university ranked higher (273rd in the Czech Republic, 289th in Poland, 595th in Hungary and 751st in Bulgaria).

The transition from education to employment, as well as access to lifelong learning, remains a structural challenge in Romania. First, while vocational education programmes are important in upper secondary education, only very few pupils are enrolled in combined school and work programmes (10.7%)[39]. While most CEE Peers are not faring better (except Hungary), almost 30% of pupils are in combined vocational education programmes in the EU on average, with countries such as Germany reaching almost 90%. Experts have criticised this insufficient link between education and business, while pointing out that recent efforts to increase combined programmes failed to attract enterprises to provide training spots for pupils. Second, the availability of continuing vocational training inside enterprises and the share of adults in education and training is lower in Romania than in other EU countries. For example, in 2022, 46.5% of the EU population aged 25-64 participated in education or training, compared with only 25.5% in Romania (see Figure 44).

FIGURE 44. Percentage of adults in education and training



▲ Source: Eurostat (2026)

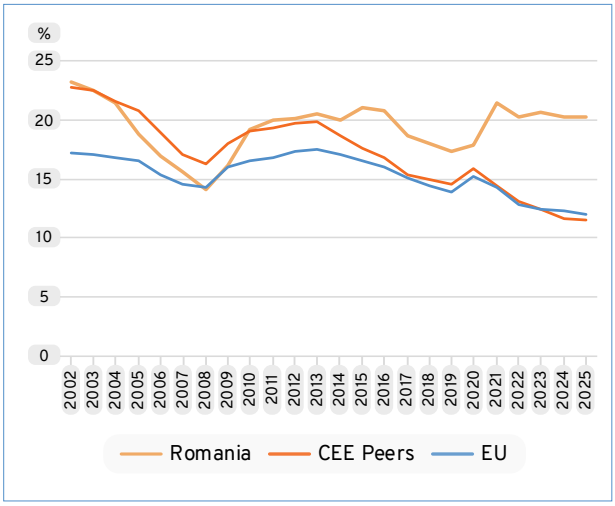
These challenges in bridging the gap between education and the workforce are reflected in a high rate of NEETs (Not in Education, Employment or Training). As shown in Figure 45, 20% of the Romanian population aged between 15 and 34 is classified as NEETs, which is the highest rate in the EU. Despite some temporary progress, this rate has hardly reduced over the course of the last two decades. In contrast, Romania's CEE peers managed to half their NEETs rate in the same time period, detaching from the country's trend and approaching the EU average since the mid-2010s.

Another manifestation of this lack of alignment between education programmes and the labour market is the presence of skills shortages. According to data collected by the European Labour Authority[40], Romania faces labour shortages in 170 occupations, one of the highest levels of the EU. It is significantly higher than among the CEE peers Poland and Hungary. The occupations affected by these shortages range from highly skilled jobs, like engineers and financial analysts, to lower skilled ones, like construction workers, manufacturing operators and transport drivers.

39 Eurostat (2026): Vocational education statistics. May 2026.

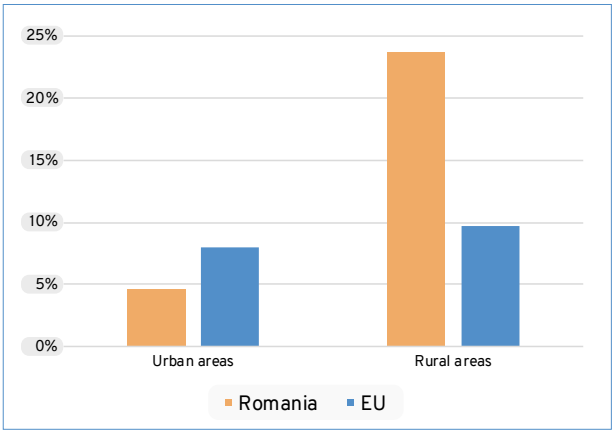
40 ELA [European Labour Authority] (2026): Report on labour shortages and surpluses 2025. June 2026.

FIGURE 45. NEETs rate as a % of the population aged 15-29



▲ Source: Eurostat (2026)

FIGURE 46. Urban-rural divide. Early school leaving rate



▲ Source: Eurostat (2026)

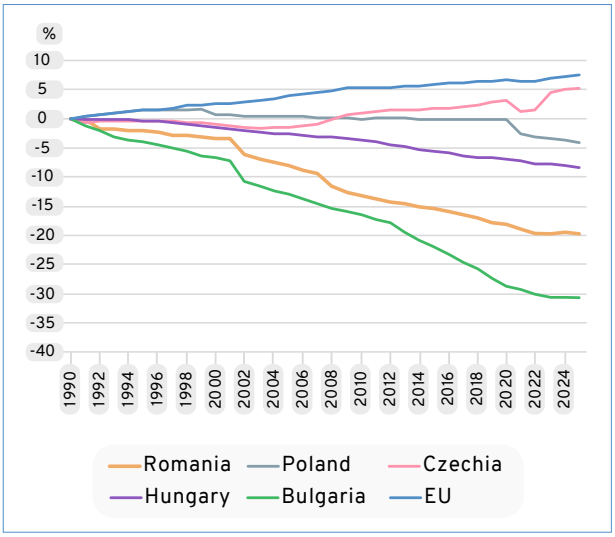
Finally, the Romanian educational system is characterised by significant inequalities between urban and rural areas. One of the most important aspects of this rural-urban gap is the high rate of early school leaving observed in Romania's rural areas, compared with urban ones. In 2025, Romania had the highest rate of early leavers from education and training in the EU, 15.5% of the population aged from 18 to 24, versus an EU average of 9.1%, and 7% among its CEE peers. Nevertheless, this national figure masks a significant rural-urban divide. In cities, Romania's early school-leaving rate was only 4.6%, far below the EU average for urban areas, 8% (see Figure 46). By contrast, this rate reaches 23.7% in Romania's rural areas, by far the highest of the EU, compared with an EU average of 9.7%. These data illustrate the extent of rural-urban gap in Romania: the difference between early-school leaving rates in rural and urban areas reaches almost 20 percentage points in Romania, while this gap is almost absent at the EU level.

All of these education outcomes hinder Romania's capacity to move towards a competitive economic model based on human capital-driven innovation rather than mere cost competitiveness.

DEMOGRAPHY & LABOUR MARKET

The availability of a large and skilled labour force is important for competitiveness. Without a sufficiently large working age population in comparison to the rest of the population, it is difficult to grow and finance public investment and social security systems. Low birth rates and emigration can thus have important negative effects for a country's growth potential.

FIGURE 47. Population change since 1990

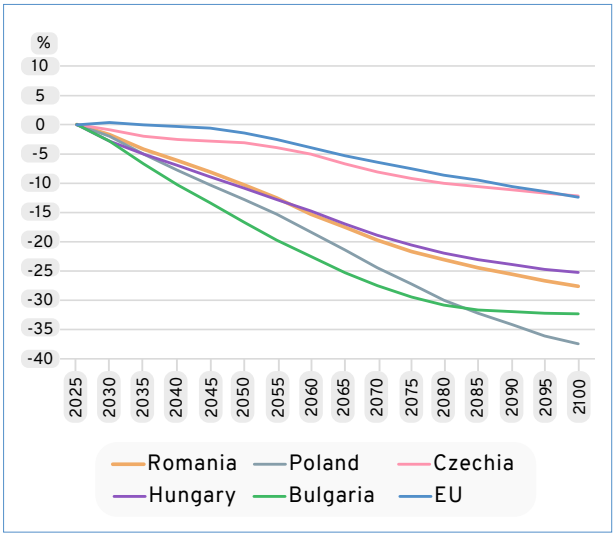


▲ Source: Eurostat (2026), Author's own calculations

Since 1990, Romania has lost almost 20% of its population (see Figure 47). Among the EU Member States, only Latvia, Lithuania and Bulgaria experienced a higher reduction of its population in the same period. Roughly half of the population loss in Romania was due to natural change (birth rates below death rates), with the other half stemming from migration (emigration higher than immigration).

Demographic change will hit Romania very strongly in the coming decades. In comparison to 2025, the country's population is projected to decline by 4% by 2035, and 10% by 2050 (see Figure 48). This is very similar to the expected demographic changes in most CEE peers other than Czechia, with the latter evolving more in line with the overall EU projections. These population changes are mainly driven by low birth rates, as emigration will play a more minor role in comparison to the first decades of the 21st century.

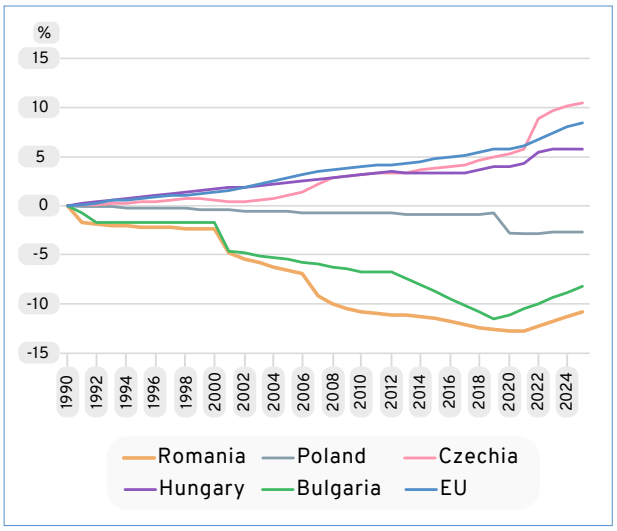
FIGURE 48. Baseline projections for population evolution until 2100



▲ Source: Eurostat (2026)

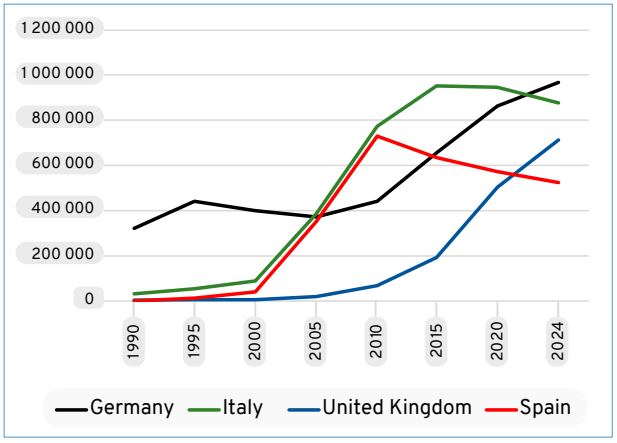
Massive emigration over the course of the last three decades has led to a shrinking population in Romania and to the creation of one of the largest diasporas in Europe. During the 2000s and 2010s, millions of Romanians moved abroad (see Figure 49). Currently about 4.5 million Romanians live outside of the country's borders with the vast majority of them living in the EU (3.4 million) or in other European countries (another 0.8 million). The biggest diasporas are based in Germany, Italy, the United Kingdom and Spain (see Figure 50). Interestingly, the Romanian diaspora in Spain fell significantly since its high point around 2010, while it is still growing or stabilising in other European countries.

FIGURE 49. Cumulative net migration



▲ Source: Eurostat (2026)

FIGURE 50. Migrant stock of Romanian diaspora



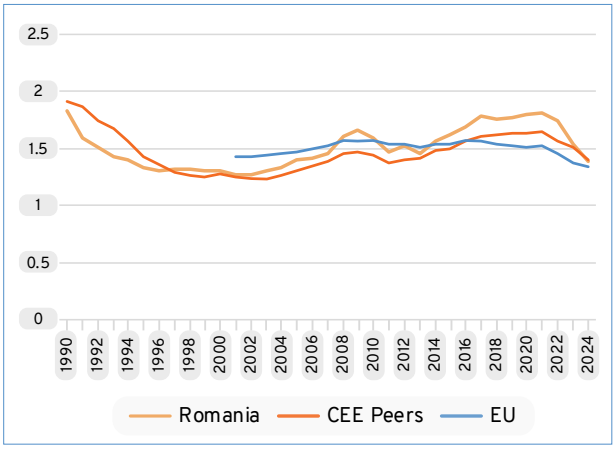
▲ Source: UN (2026)

In recent years, migration flows of Romania have stabilised or even reversed. This is due to several factors. First, while emigration flows continue to be strong, they are increasingly countered by re-immigration by Romanians that have previously lived abroad, a process that has reinforced since the Covid-19 pandemic[41]. Second, given labour

41 Saghin, Despina; Lucheș, Daniel; Lupchian, Maria-Magdalan & Jeder, Daniela (2025): Romanian return migration between successful reintegration and the challenge of a new migratory experience. *Cogent Social Sciences* 11 (1).

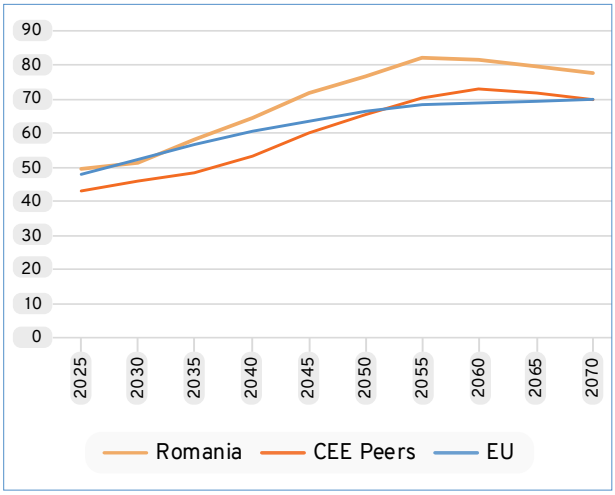
force shortages in particular economic sectors, the Romanian government has facilitated the arrival of foreign workers by providing up to 100.000 work permits annually since 2022[42].

FIGURE 51. Total fertility rate



▲ Source: UN (2026)

FIGURE 52. Economic old-age dependency ratio

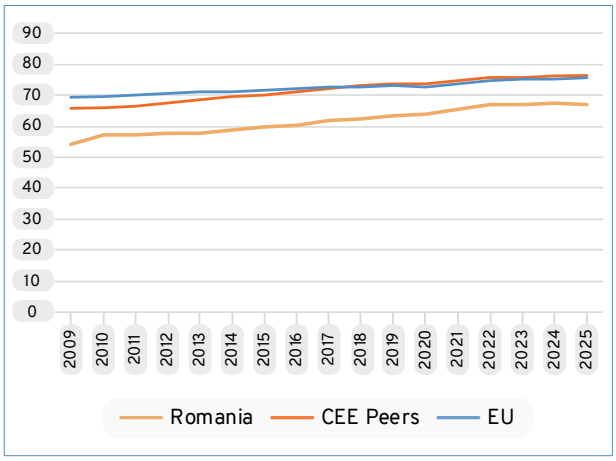


▲ Source: European Commission (2024)

Low and falling fertility rates will lead to a significant ageing of the Romanian society. While birth rates increased from the 1990s through the early 2020s, there is a steep decline similar to the rest of the EU and the country's CEE peers (see Figure 51). Having fallen below the replacement rate since the end of Communism, low birth rates will – together with past emigration – lead to a strong increase of the old-age dependency ratio (the ratio of people aged 65+ to the people aged 20-64) in the coming decades (see Figure 52). The ageing of Romania's population will continue at a similar pace to its CEE peers, but starting from an already high old-age dependency ratio towards a high peak in the 2050s.

These demographic developments have a strong influence on Romania's labour market. While the size of the available labour force has risen by 5% in the EU and by 2.9% among CEE peers, it has stagnated in Romania since 2009[43]. (Eurostat 2026). The only reason that the size of Romania's labour force has not fallen in the last two decades is due to a significant increase in the labour force vis-à-vis the general working age population (see Figure 53).

FIGURE 53. Labour force participation rate



▲ Source: Eurostat (2026)
▲ Note: Persons in the labour force from 15 to 64 years as a percentage of total population

Romania's labour force participation rate grew strongly but remains the second lowest in Europe. An increase from 54.1% in 2009 to 67.1% in 2025 was insufficient to decisively lower the gap with the EU average and the CEE peers, which have labour participation rates above 75%, meaning that a significantly higher share of the working age population is available on the labour market than in Romania.

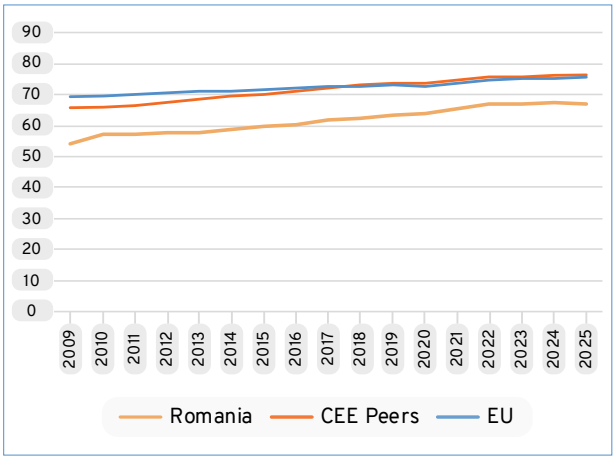
Labour force participation among women, young and old people in Romania is considerably lower than for the rest of the population. The country's labour force participation gap between men

42 OECD (2026): OECD Economic Surveys: Romania 2026. Volume 2026/8. March 2026. p.71.
43 Eurostat (2026). Labour Market. Overview.

and women is one of the largest in the EU (18.7%), double the size of the gap for both CEE peers and the EU as a whole. Regarding age, there are particularly large gaps in labour force participation for individuals aged 15-29 and 55-64. Only 34.5% of young Romanians are part of the labour force, significantly lower than for CEE peers (42.3%) and the EU (49.1%). Looking at the age group 55-64, 57% of Romanians are still part of the labour force, while this number stands at 66.4% for the EU average and 70.4% the country's CEE peers.

A partial explanation for the low overall labour force participation in Romania lies in the high extent of labour market informality. The size of the country's shadow economy is one of the largest in the EU, with 29% of all economic activity estimated to take place outside of the formal economy (see Figure 54). While there has been a general trend across the EU in reducing informality, the pandemic and its aftermath have led again to an increase in the size of the shadow economy.

FIGURE 54. Size of the shadow economy



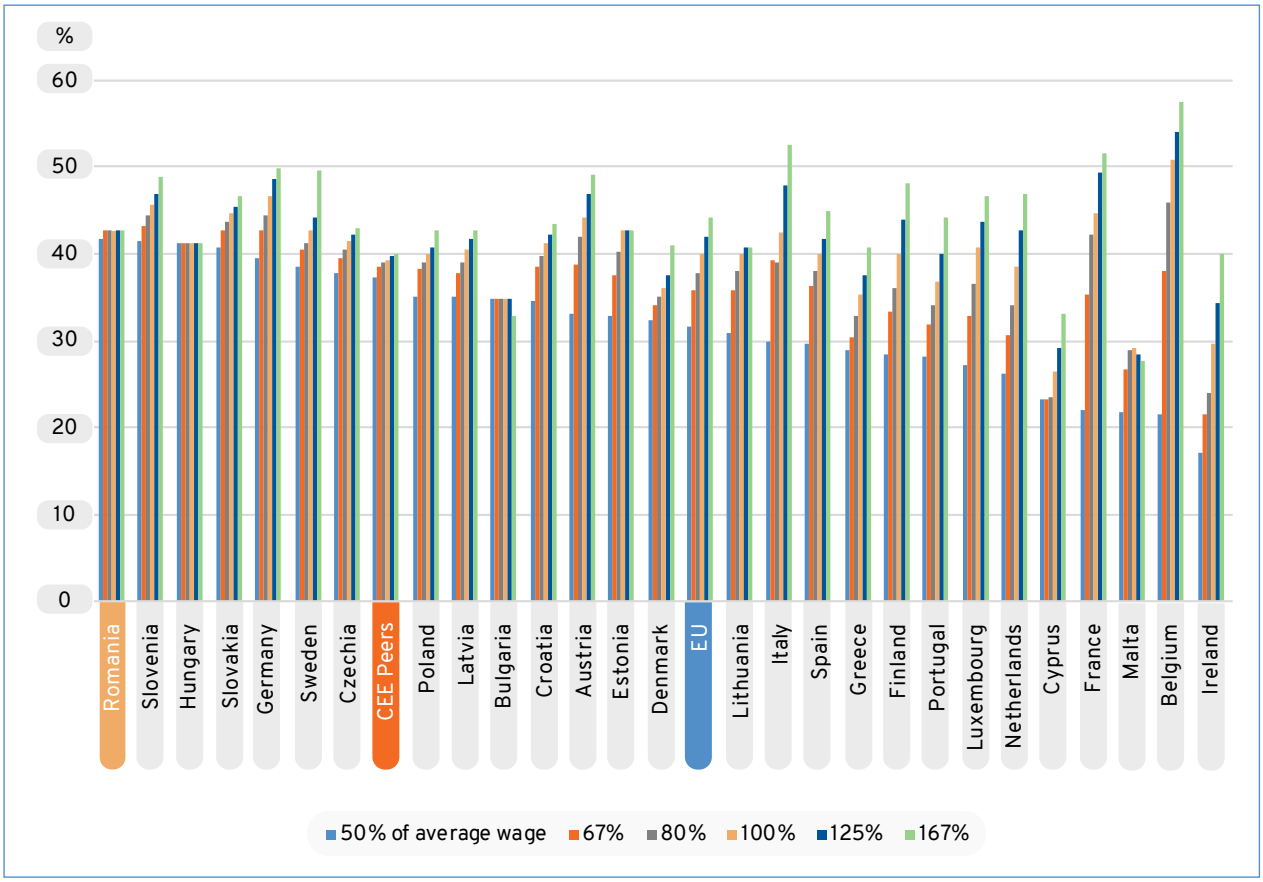
▲ Source: Schneider & Asllani (2022)[44]

The high tax wedge for workers, especially for lower wages, is one of the reasons for informal employment, also participating in the under-reporting of wages[45]. The low progressivity of the Romanian tax and social contributions systems, coupled with a significant level of mandatory social contributions, leads to some of the highest tax wedges across the EU when looking at income levels from 50% all the way through 100% of the average wage.

44 Schneider, Friedrich & Asllani, Albani (2022): Taxation of the Informal Economy in the EU. Study requested by the FISC committee. PE 734.007. November 2022.

45 Horodnic, Ioana A.; William, Colin C. Ianole-Calin, Rodica & Horodnic, Adrian V. (2023): Exploring the illegal practice of under-reporting wages in the construction industry: some lessons from Romania. Applied Economics 55 (26), 2978-2992.

FIGURE 55. Tax-wedge



▲ Source: Eurostat (2026)
▲ Notes: Data shows the tax wedge for single persons that earn 50% of the average wage for the year 2025.

I ENERGY, INFRASTRUCTURE & SUSTAINABILITY

– Romania's competitiveness suffers from high energy prices

Low and stable energy prices are crucial for a country's competitiveness. They allow cheaper production and transport of goods, and are a major input in many industries, especially those with high energy intensity. The Ukraine and Iran wars have shown the high degree of European energy dependence, making the continent vulnerable to supply shocks and economic blackmail. The negative consequences of high energy prices have been highlighted by the Draghi and Letta reports[46,47], pointing out the need to introduce measures to improve energy security by diversifying energy sources, developing European energy production capacities and transport networks based on locally available energy resources, moving towards a 'true' EU energy union.

In principle, Romania should be in favourable position due to its very diverse energy mix. This includes relatively balanced shares for hydropower, fossil fuels (natural gas and coal), renewables (wind and solar), and nuclear power[48]. Well-endowed with energy resources, the country has the potential to produce electricity at a comparatively affordable level. The expansion of photovoltaics (PV) in the last years has been very strong and with Neptun Deep,

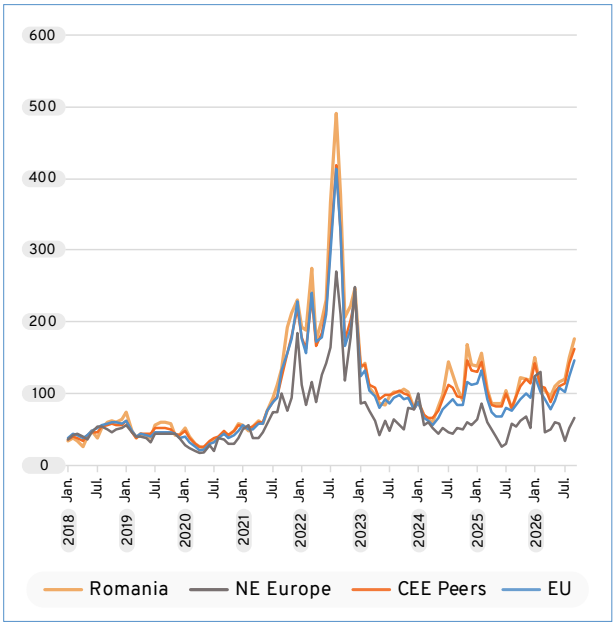
46 Draghi, Mario (2024b): The future of European competitiveness. Part B | In-depth analysis and recommendations. September 2024.

47 Letta, Enrico (2024): Much more than a market. Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens. April 2024.

48 ITA [International Trade Administration] (2026): Romania Country Commercial Guide. October 2026.

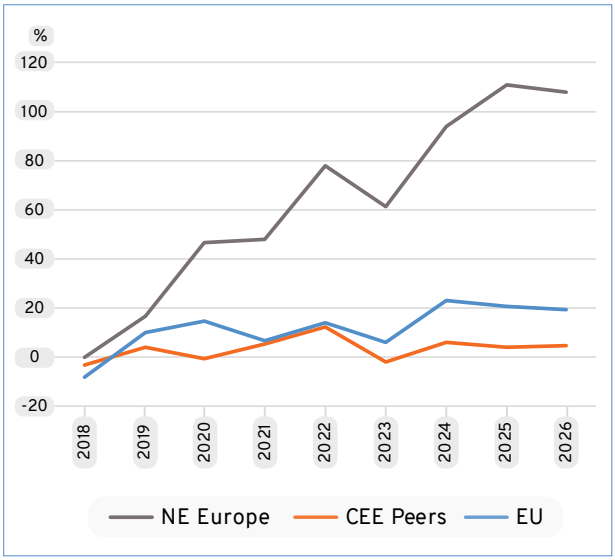
a comparatively large offshore gas project is scheduled to come online in 2027.

FIGURE 56. Electricity Prices



▲ Source: Ember (2026)
▲ Note: Data shows the monthly European wholesale electricity prices in €/MW

FIGURE 57. Difference in electricity prices



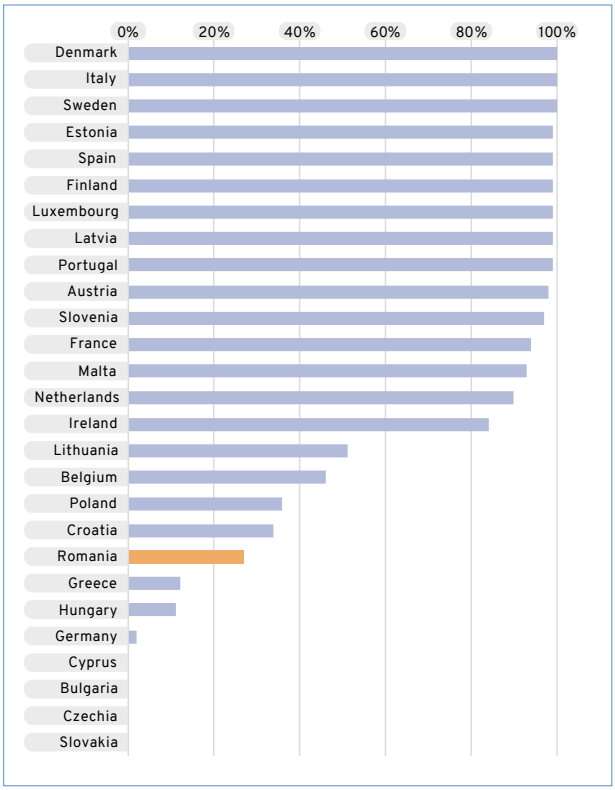
▲ Source: Ember (2026), Author's' own calculations

However, electricity prices in Romania are significantly higher than in Europe as a whole, and slightly higher than among its CEE peers (see Figure 56). While the difference between Romanian electricity prices and the rest of Europe was limited until 2020, large gaps have opened up since then (see Figure 57). For the last few years, Romania's average electricity prices have been about 20% higher than in the EU on average, and doubled in comparison to the average of Sweden, Finland and Estonia, three countries situated in Northeastern (NE) Europe. This creates a clear competitiveness disadvantage with the rest of the EU.

External factors play an important role in Romania's high energy prices. The country's proximity to Ukraine had a stronger effect on Romania than on other more Western EU Member States. When the geopolitical and economic tensions before the 2022 Russian invasion of Ukraine already intensified in 2021, a significant gap between Romanian and EU electricity prices opened up. In addition, the summer of 2026 also showed that the Romanian energy sector is not only vulnerable to geopolitical shocks but also lacks resilience to climate-related shocks. A major drought across Europe significantly lowered the output of hydroelectric power plants and necessitated a temporary shutdown of the country's nuclear reactors. To avoid major blackouts, the Romanian government had to ask big industrial players to reduce their energy consumption.

Internal factors also have a major negative structural impact on energy prices in Romania. These include, amongst others, the role and decisions of the country's energy regulator, energy market design, the management of and rules for state-owned energy enterprises, problems with state capacity (e.g. in the area of public procurement), and outdated electricity grids.

FIGURE 58. Smart Meter Rollout among households (2024)



▲ Source: ACER (2025)

The average age of Romania's electricity grid is among the highest in the EU. For both distribution and transmission grids, most of the infrastructure is older than 40 years, considerably higher than for the 12 other EU countries, for which the ECA[49] provides comparative data. As a consequence, the country's electricity grid faces higher investment needs, also to improve digital grid management and grid flexibility.

However, according to stakeholders and experts, the Romanian Energy Regulatory Authority (ANRE) is slow in accepting energy grid projects. In their view, ANRE's main focus is to avoid tariff increases, which would be the result if the grid would be built out heavily. While this might keep the overall energy bill lower in the short-term, this hinders the reduction of electricity prices in the medium- to long-term, as cheap renewables cannot sufficiently be integrated into the energy system.

The modernisation and expansion of Romania's energy system is also hindered by low state capacity. Tendering and public procurement processes by state-owned entities for several new gas power plants have been riddled with problems and delays. To give concrete examples, a gas power plant planned in Ișalnița fails to advance due to two unsuccessful construction tenders. Another power plant in Iernut is close to completion but has been delayed by contractor and integration problems. While Romania is phasing out its coal power plants, these problems lead to insufficient energy production inside the country.

The low level of digitalisation of the Romanian energy system makes a flexibilisation of the energy grid difficult. This concerns both transmission and distribution grids and is also visible at the consumer end. For illustration, the rollout of smart meters in Romania is significantly trailing the majority of EU Member States (see Figure 58). More than half of all EU countries have a smart meter share of more than 80% of all households, while Romania is at only 27%. A comparison with Romania's CEE peers is difficult due partial lack of available data.

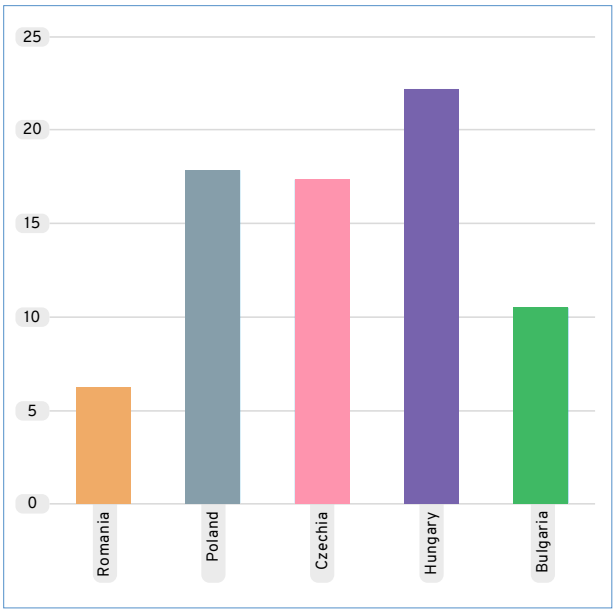
– Incomplete or outdated infrastructure hampers competitiveness and lacks resilience

A well-built out and maintained infrastructure constitutes a crucial prerequisite for a country's competitiveness. In the area of transport, for example, it facilitates labour mobility, lowers logistics costs, provides access to foreign markets, and can help tourism to develop by improving connectivity and reducing travelling time. In other sectors, such as agriculture, infrastructure for irrigation helps to ensure higher and more stable crop yields, and can contribute to making the economy more resilient to climate shocks.

49 ECA [European Court of Auditors] (2025): Making the EU electricity grid fit for net-zero emissions. ECA Review 01/2025. April 2025. p.56.

In general, Romania's physical infrastructure is poorly developed. Infrastructure built under the Communist regime has partly not yet been modernised, while other infrastructures were never sufficiently constructed over the last decades, such as the road transport system. High investment needs are the consequence of this lack of existing or well-functioning infrastructure.

FIGURE 59. Highway length in km per 1000km²

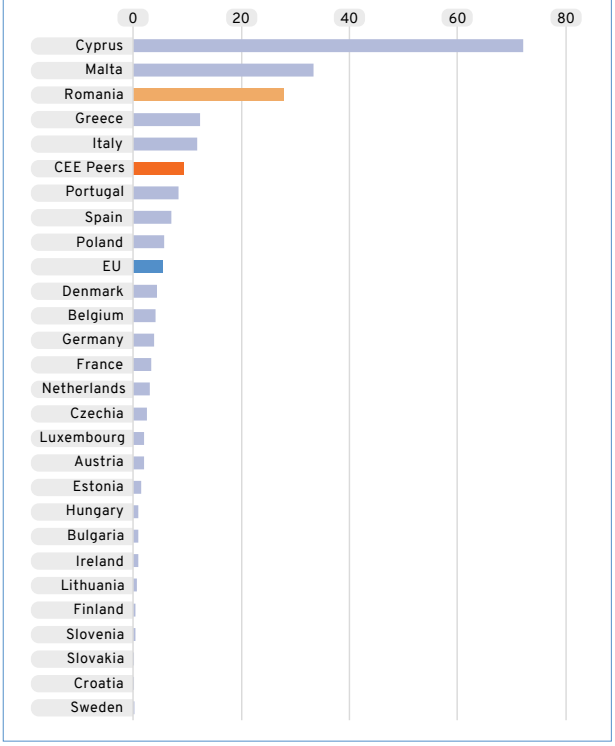


▲ Source: Author's own calculations

Romania's transport infrastructure is not well built out, lacks interconnections to other countries, and is partly very old. The country's highway network is significantly smaller than among its CEE peers. The average highway network length per km² is roughly three times higher in Poland, Czechia, Hungary and Bulgaria than in Romania. The CEE peers also have better intra-country connectivity between major cities and possess more international highway connections. While the Romanian highway system will double in size in the coming years, it will still need to catch-up further with the rest of Europe to ensure that the reliability and speed of transport for goods are improved. Beyond road transport, Romania also faces ageing or insufficiently developed infrastructure in the country's railway network, as well as in its port and airport infrastructure.

Beyond transport, infrastructure problems are particularly concerning in the area of agriculture. The Romanian irrigation infrastructure is inefficient and partly even non-functional[50]**.** This is particularly problematic as Romania is highly exposed to global warming, including extreme weather events such as droughts[51]. Already today, Romania has one of the highest water consumptions as a percentage of available domestic freshwater resources in the EU (see Figure 60). The heavy use of water resources creates significant vulnerabilities for the Romanian agriculture sector, which actually has the potential to be a growth driver in the Romanian economy due to the high quality of soil and generally favourable weather conditions.

FIGURE 60. Water Exploitation Index



▲ Source: Eurostat (2026), EEA (2024)

50 OECD (2026): OECD Economic Surveys: Romania 2026. Volume 2026/8. March 2026.

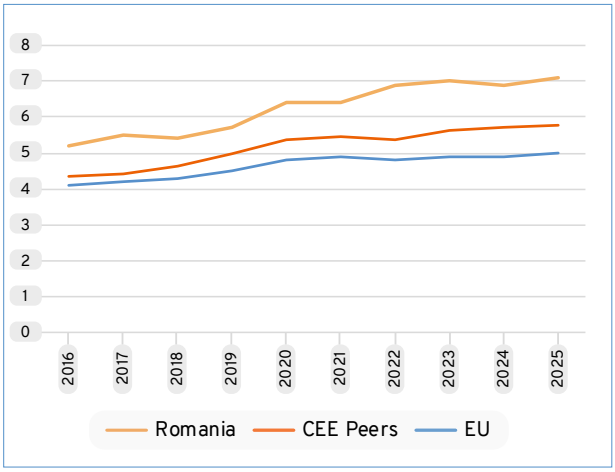
51 EEA [European Environment Agency] (2024): European Climate Risk Assessment. EEA Report 01/2024.

ECONOMIC KEY SECTORS AND VALUE CHAINS

Over the course of the last three decades, Romania's economic structure and key sectors have changed significantly. Most importantly, the Country has seen the rise of a promising information and communications technology (ICT) sector and significant transformation of the manufacturing industry, both strongly integrated in European and international value chains.

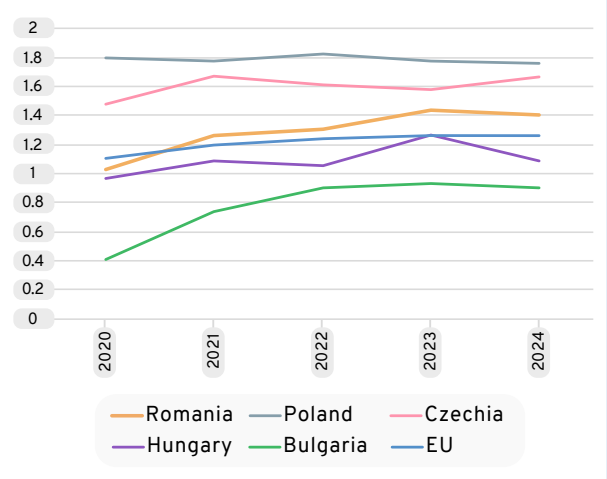
Romania has a strong and growing ICT sector, with high potential for the future. Over the last decade, the country's ICT sector has developed dynamically, from 5.2% to 7.1% of GDP (see Figure 61). This is significantly higher than among both Romania's CEE peers and the EU as a whole. In recent years, the ICT sector has also become increasingly sophisticated, as shown in data on software economic complexity[52], surpassing the EU average in recent years (see Figure 62). Globally, the OEC puts Romania and its software economic complexity at the 25th place, a useful indicator to assess a country's productivity and competitiveness potential[53]. The country's ICT sector is nevertheless limited by the high dependence on international ICT enterprises and their outsourcing activities[54].

FIGURE 61. Share of the ICT sector in value-added



▲ Source: Eurostat (2026)

FIGURE 62. Economic Complexity Index (Software)



▲ Source: OEC (2026)

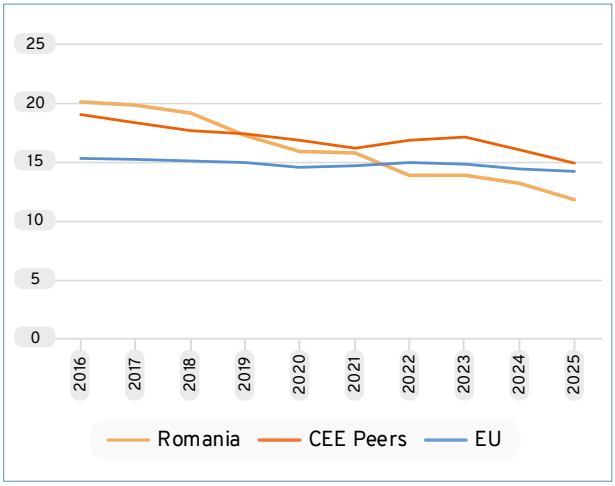
Romania's manufacturing sector has undergone important transformations in the last decades. While manufacturing accounted for more than 20% of GDP in 2016, it has contributed only 11.8% of GDP in 2025 (see Figure 63). This major fall in manufacturing has been higher compared to Romania's CEE peers and the EU, which have seen a less accentuated reduction in manufacturing. This downward trend can be partly explained by the relative growth of other economic activities, as well as by the increasing non-competitiveness in low cost-based manufacturing, e.g. in the areas of clothing and furniture. This overall tendency has, however, also been countered by an increasing sophistication of produced goods, as highlighted, for example, by the growing share of high-technology exports of all manufactured exports (see Figure 64). Over the last two decades, Romania had a strong catch-up in this regard, more than tripling the share of high-technology exports.

52 Juhász, Sándor; Wachs, Johannes; Kaminski, Jermain & Hidalgo, César A. (2026): The software complexity of nations *Research Policy* 55. 105422.

53 OEC [Observatory of Economic Complexity] (2026): Complexity Rankings. Countries (ECI) Rankings.

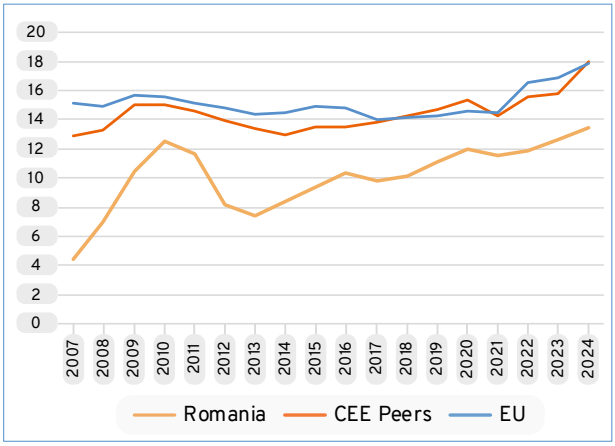
54 ANIS (2026): Stimulating the transition to a more innovative ICT industry in Romania. Leveraging an existing Romanian stronghold to catalyse productivity growth and prosperity through a more innovative ICT industry. May 2026.

FIGURE 63. Manufacturing sector



▲ Source: Eurostat (2026)

FIGURE 64. High-technology exports as a share of all manufactured exports



▲ Source: World Bank (2026)

Among Romania's goods exports, manufactured goods are by far the most important category. Within this category, cars and vehicle parts are the largest exports. Together, they made up more than 17.5% of all exports in 2024[55]. Next to transport-related manufacturing, the biggest export category of Romania is machinery and machine parts, with a particular focus on electrical components, bearings, and various measuring technologies. These are also the exported goods with the highest product complexity index, meaning that, globally, relatively few other economies are capable of producing these goods, which is also an indicator of a country's competitiveness in these sectors.

However, some of Romania's main manufacturing exports are vulnerable to geoeconomic competition. Romania's economy is strongly integrated in EU value chains and the intra-European goods trade, with a particular dependence on Germany, a country traditionally strong in car and machinery manufacturing. Many companies active in Romania's manufacturing sector are subsidiaries of German companies. The increasing competition from China in sectors, in which Germany but also large parts of Central and Eastern Europe are active, creates considerable pressures. The Romanian car industry remains strongly embedded in internal combustion engine value chains, which are under particular competition due to the inflow of increasingly affordable electric vehicles.

Romania's position in global value chains is at an intermediate level[56]. Interestingly, the Romanian economy is capable of providing significant domestic value added to in foreign gross exports (forward participation), standing at 24% in 2022, among the top group including the Netherlands, Sweden, Latvia and Denmark. This highlights the country's capacities, often embedded in MNCs, to produce high-value added intermediate goods and service in specific sectors, such as in manufacturing and the IT sector. The foreign value added in Romania's own gross exports (backward participation) is relatively low in comparison with other EU Member States.

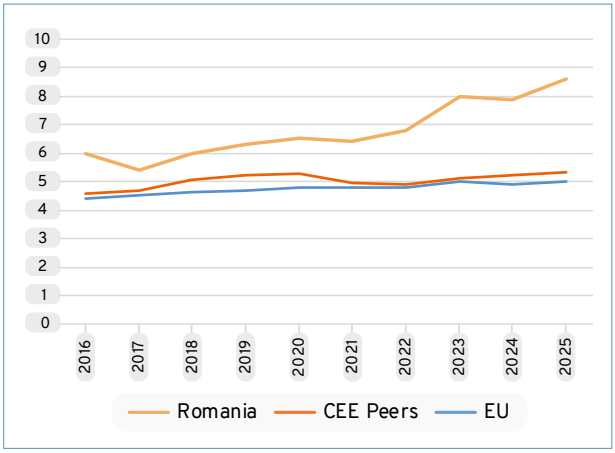
Romania's construction sector has significantly expanded in the last decade. In recent years, its size has become more than 60% bigger than among CEE peers and is the largest across the EU. The strong inflows of EU funds, also linked with the temporary Recovery and Resilience Facility (RRF), has played an important role in driving construction in Romania through public sector investment. Since the RRF has become operational in 2020/2021 a sharp uptick in the construction sector's size is visible, also required by the need to spend the Facility's money by 2026. Following a slump in the mid-2010s, partially driven by the end of the 2008-2014 multiannual financial framework (MFF), public

55 OEC [Observatory of Economic Complexity] (2026): Complexity Rankings. Countries (ECI) Rankings.

56 OECD (2026): OECD Economic Surveys: Romania 2026. Volume 2026/8. March 2026.

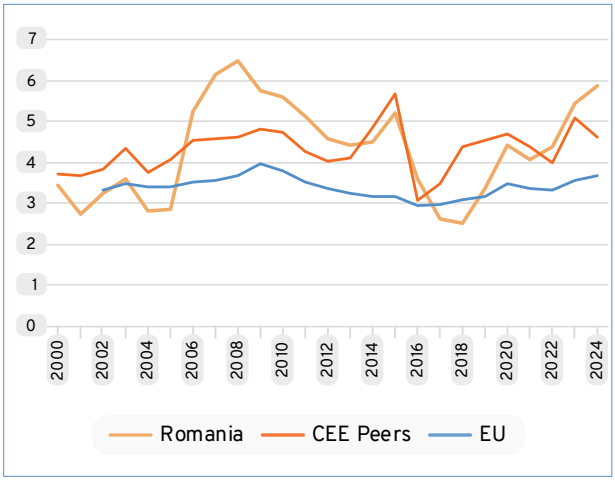
investment has picked up dynamically again in Romania, reaching close to 6% in 2024. This is the third highest level across all of the EU, only topped by Latvia and Estonia.

FIGURE 65. Construction sector as a share of GDP



▲ Source: Eurostat (2026)

FIGURE 66. High-technology exports as a share of all manufactured exports

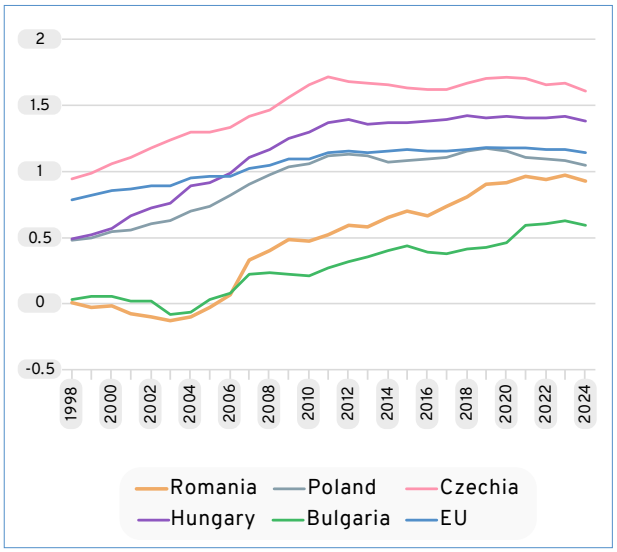


▲ Source: Eurostat (2026)

3 • Overall competitiveness level of Romania

Bringing all of these different dimensions together to assess Romania's overall level of competitiveness together is a demanding task. The analysis of the various elements influencing Romania's competitive position have shown that, while there are specific pockets of excellence, innovation and economic leadership, much remains to be done. To move from cost competitiveness to innovation-based competitiveness, significant reforms and investments will need to take place to extend the existing pockets of excellence to the whole of the economy. The government and economic actors will need to reduce the significant gaps that exist between MNCs and domestic firms, between urban and the rural areas, across infrastructures and in governance arrangements, while further developing economic sector strengths.

FIGURE 67. Economic Complexity Index (Trade)



▲ Source: ECB (2026)

The starting point is a challenging one, as highlighted by the 2026 IMD competitiveness index. Based on a very broad set of indicators covering economic performance, government effectiveness, business efficiency and infrastructure, the most recent iteration of the index ranks Romania at place 61 out of 70 analysed economies[57]. Given recent economic and political developments, this constitutes one of the sharpest decreases of com-

57 IMD (2026): IMD World Competitiveness Booklet 2026. June 2026.

petitiveness among the assessed countries, falling 12 spots from place 49 in the 2025 edition of the IMD competitiveness index. Romania thus ranks last among its CEE peers, with Czechia (33rd) and Poland (41st) being considerably ahead.

However, not all proxies for Romania's competitiveness look this bleak. Taking, for example, the Observatory of Economic complexity (OEC) economic complexity index on trade[58], which focuses on the diversity and sophistication of exports, ranks Romania at place 29 out of 130 global economies. This means that the country is relatively capable of producing various specialised products, which requires a certain level of knowledge.

The complexity embedded in the Romanian economy's products has significantly improved since the 1990s but has started to plateau since the late 2010s at a level below the EU average and some of its CEE peers (Figure 67). Additional efforts are thus needed to push the technology boundary further and catch up with countries such as Czechia and Poland.

58 OEC [Observatory of Economic Complexity] (2026): OEC Complexity Rankings. Countries (ECI) Rankings. October 2026.

Strategic foresight: Romania's competitiveness by 2035

The preceding baseline assessment provides an understanding of Romania's current competitiveness, how it has evolved since the 1990s, and the structural factors that have shaped its development. Building on this foundation, **the strategic foresight analysis introduces a complementary, forward-looking perspective to explore how Romania's competitiveness could evolve in a changing and uncertain environment**. Past performance and existing competitive advantages do not necessarily determine future success: established drivers may lose relevance, new sources of competitiveness may emerge, and developments across different domains may interact in unexpected ways. By anticipating these shifts and exploring alternative development pathways, foresight helps identify emerging opportunities and vulnerabilities, challenge assumptions about the future, and inform more adaptive and future-oriented strategic choices.

Conducted by HorizonX, the foresight exercise followed a structured, multi-stage approach. It began with horizon scanning across five STEEP dimensions (social, technological, economic, environmental and political), identifying 44 system variables relevant to Romania's future competitiveness. These were subsequently synthesised into 17 strategic drivers of change, analysed through their interdependencies, cross-impacts and feedback loops to understand how different forces may reinforce or constrain one another. Building on this systemic analysis, nine critical uncertainties were identified, highlighting areas where future developments could have significant consequences for competitiveness, but where their direction and outcomes remain open. The analysis also identified the main opportunities and constraints that could enable or hinder Romania's future development.

Together, these elements provide the analytical foundation for four alternative scenarios of Romania's competitiveness to 2035. Rather than predicting what will happen, the scenarios explore how different combinations of drivers, uncertainties and systemic interactions could produce distinct development trajectories. By examining how Romania's competitiveness might evolve under different conditions, they provide a framework for testing strategic priorities, identifying potential trade-offs and considering which policy choices could remain effective across multiple plausible futures.

The final section of the report builds on these insights to develop more specific policy recommendations and investment priorities aimed at strengthening Romania's long-term competitiveness.

1 . Key drivers of change for Romania's competitiveness

The foresight exercise began with horizon scanning across the five STEEP[59] dimensions (i.e., social, technological, economic, environmental and political), drawing on desk research and expert interviews covering developments at global, European, regional and national levels. This identified **44 system variables** capturing emerging trends, structural pressures and potential shifts relevant to Romania's future competitiveness. Together, these variables provided an evidence-based foundation for identifying emerging changes and examining their potential implications for Romania's competitiveness over the coming decade.

Through an iterative process of synthesis and systems analysis, the 44 variables were consolidated into 17 strategic drivers of change, reflecting their relevance for Romania's future competitiveness and their influence on other parts of the system. Rather than treating trends as isolated developments, this process examined their interdependencies, cross-impacts and potential reinforcing effects. The resulting drivers capture the main structural pressures, institutional capacities, economic transformations and external forces likely to shape Romania's competitiveness towards 2035.

For analytical clarity, the 17 strategic drivers were organised into six interconnected clusters: governance and transformation capacity; people, skills and social foundations; technology and digital transformation; productive economy and firm capabilities; energy and environmental resilience; and geoeconomic positioning and connectivity. Table 1 presents the drivers within each cluster, illustrating the breadth of factors shaping Romania's long-term competitiveness.

TABLE 1. Strategic key drivers of change for Romania's competitiveness (organised by cluster)

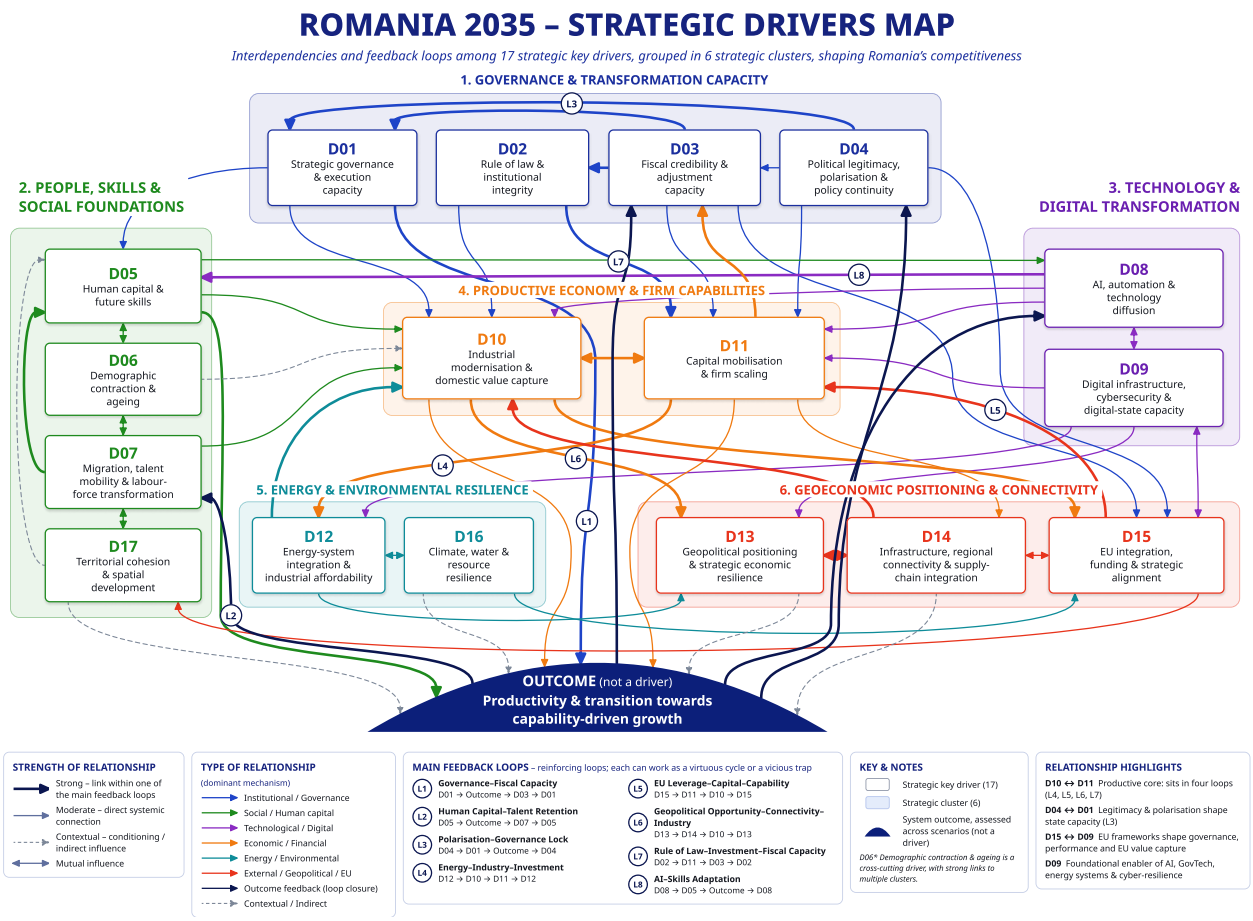
No.	Strategic key drivers	Strategic driver clusters
D01	Strategic governance and execution capacity	1) Governance and transformation capacity
D02	Rule of law and institutional integrity	
D03	Fiscal credibility and adjustment capacity	
D04	Political legitimacy, polarisation and policy continuity	
D05	Human capital and future skills	2) People, skills and social foundations
D06	Demographic contraction and ageing	
D07	Migration, talent mobility and labour-force transformation	
D17	Territorial cohesion & spatial development	
D08	AI, automation and technology diffusion	3) Technology and digital transformation
D09	Digital infrastructure, cybersecurity and digital-state capacity	
D10	Industrial modernisation and domestic value capture	4) Productive economy and firm capabilities
D11	Capital mobilisation and firm scaling	
D12	Energy-system integration and industrial affordability	5) Energy and environmental resilience
D16	Climate, water and resource resilience	
D13	Geopolitical positioning and strategic economic resilience	6) Geoeconomic positioning and connectivity
D14	Infrastructure, regional connectivity and supply-chain integration	
D15	EU integration, funding and strategic alignment	

▲ Source: HorizonX (2026)

59 Szigeti, Hadrien; Messaadia, Mourad; Majumdar, Anirban & Eynard, Benoît (2024): STEEP analysis as a tool for building technology roadmaps. International Journal of Innovative Business Strategies 10 (1) 2024.

However, these drivers do not operate independently. Their influence depends on how they interact, reinforce or constrain one another across the competitiveness system. Figure KD maps the 17 drivers and their interdependencies, showing how developments across different clusters can combine to influence productivity and Romania's transition towards capability-driven growth. It also identifies the main reinforcing feedback loops within the system.

FIGURE 68. Strategic key competitiveness drivers: interdependencies and feedback loops



▲ Source: HorizonX (2026

The main reinforcing feedback loops were identified, illustrating how developments in one area can amplify progress or deepen vulnerabilities elsewhere. For example, **the governance–fiscal capacity loop** highlights a potential reinforcing relationship between institutional execution, economic performance and fiscal capacity. Stronger implementation can support productive investment and economic activity, improving the resources available for further institutional strengthening. Conversely, weak execution and fiscal constraints can reinforce one another, perpetuating institutional underperformance.

Similarly, the **human capital–talent retention loop** illustrates how stronger skills and higher-value employment opportunities can encourage talent retention, expand domestic productive capabilities and create further opportunities for skills development. Conversely, limited opportunities and continued emigration can erode the skills base, weaken firms' upgrading potential and further reduce the attractiveness of the domestic labour market.

The remaining loops capture interactions involving political polarisation and governance, energy and industrial investment, EU leverage and domestic capabilities, geopolitical opportunities and connectivity, rule of law and investment confidence, and AI adoption and skills adaptation.

These systemic interactions matter because the impact of individual drivers depends partly on how other parts of the competitiveness system evolve. Understanding these relationships helps identify potential leverage points where strategic interventions could reinforce positive dynamics or disrupt self-reinforcing vulnerabilities. It also provides the basis for the next analytical step: identifying the critical uncertainties where different future developments could significantly alter Romania's competitiveness trajectory.

2 • Critical uncertainties with a major impact on Romania's future competitiveness

Building on the analysis of strategic drivers and their interdependencies, the foresight exercise identified nine critical uncertainties that could significantly influence Romania's competitiveness towards 2035. While all 17 drivers are relevant, they differ in how predictable their evolution is and how strongly alternative developments could affect the wider system. Some pressures, such as demographic ageing, are relatively predictable, but Romania's capacity to respond to them through education, workforce adaptation and migration remains highly uncertain.

The nine critical uncertainties were selected by considering three interconnected criteria: their potential impact on competitiveness, the degree of uncertainty surrounding their future evolution, and their systemic influence. The latter reflects the extent to which developments in one area could affect several strategic drivers, reinforce or disrupt feedback loops, and generate wider consequences across the competitiveness system.

Importantly, critical uncertainties are not simply the nine most important drivers. They represent areas where different plausible trajectories could lead to substantially different competitiveness outcomes. Each uncertainty may emerge from the interaction of several drivers, while individual drivers may influence more than one uncertainty. For example, the future of Romania's energy system depends not only on energy infrastructure and affordability, but also on investment capacity, industrial development, institutional execution and broader European and geopolitical conditions.

Table 2 presents the nine critical uncertainties and two contrasting trajectories for each. These trajectories illustrate alternative directions of change rather than predictions or fixed positive and negative outcomes. They are analytical reference points, not exhaustive or necessarily mutually exclusive possibilities. Their purpose is to make the range of plausible developments more explicit and highlight where different combinations of conditions could produce divergent futures for Romania's competitiveness.

TABLE 2. Critical uncertainties and contrasting trajectories for Romania's competitiveness by 2035

Critical uncertainties	Contrasting trajectories	
Governance coherence and state execution capacity	**+ Strategic continuity and execution:** Coherent priorities, institutional stability and sustained capacity to implement policies and investments	**– Institutional erosion and political discontinuity:** Fragmented decision-making, weakened execution and recurrent disruption of strategic priorities
Fiscal credibility and investment space	**+ Credible adjustment with investment capacity:** Sustainable fiscal adjustment restores confidence while preserving space for productive investment	**– Persistent fiscal fragility:** Financing pressures, rising debt burdens and limited fiscal space constrain investment and economic transformation
Education and skills system reform	**+ Skills system responsive to economic change:** Education, vocational training and lifelong learning adapt to evolving labour-market and technological needs	**– Persistent skills mismatch: Education quality gaps, weak lifelong learning and slow adaptation constrain workforce capabilities and upgrading**

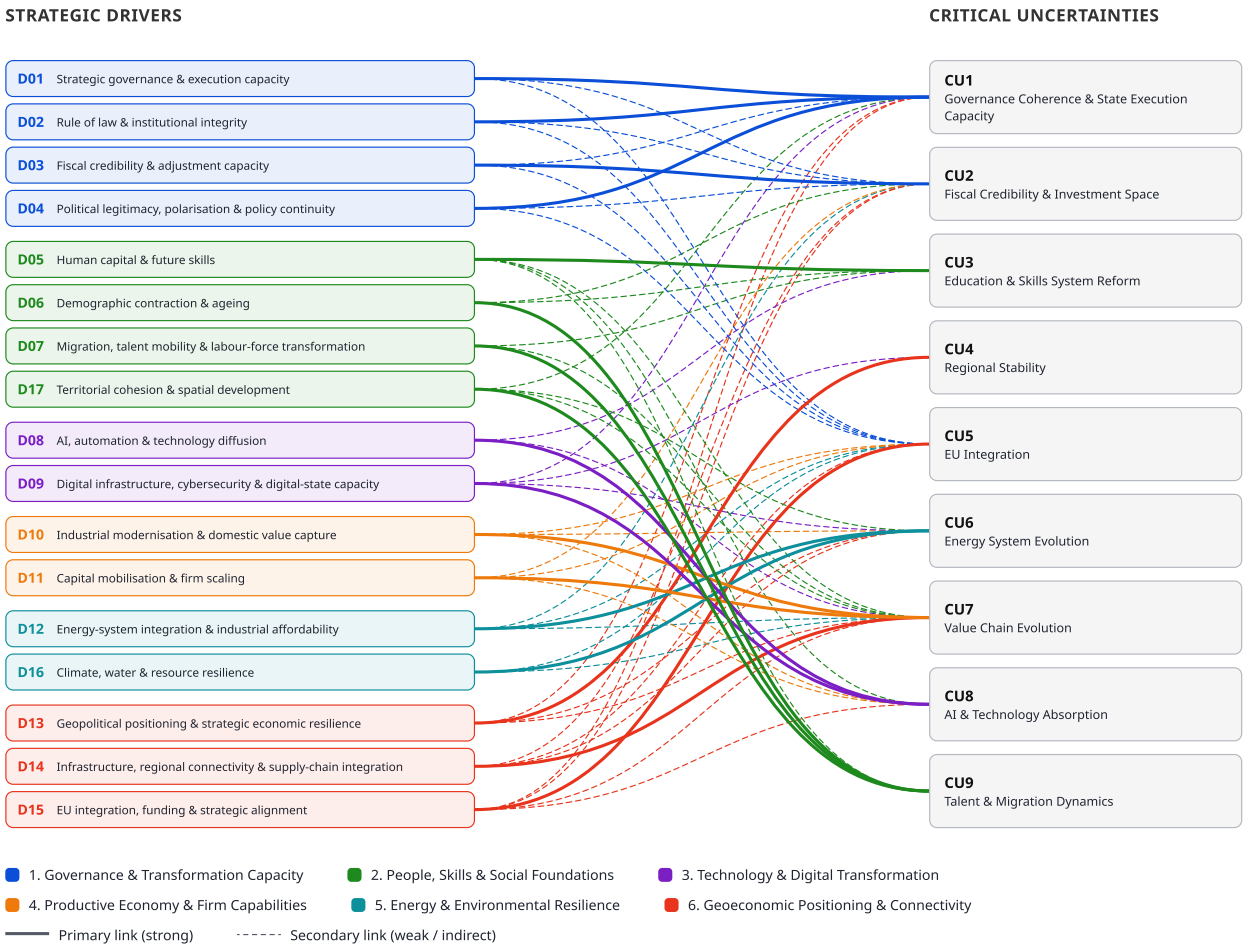
Regional stability	**+ Greater stability and regional economic opportunities:** Improved security conditions enable connectivity, investment and reconstruction-related opportunities	**– Prolonged insecurity and security exposure:** Regional instability raises economic risks, diverts resources towards security and disrupts investment
EU integration	**+ Deeper integration and strategic influence:** Stronger participation in EU markets, funding instruments and decision-making supports domestic upgrading	**– Eroding integration and diminished influence:** Political divergence and weaker EU alignment reduce access to opportunities and strategic leverage
Energy system evolution	**+ Integrated and competitive energy system:** Grid modernisation, flexibility and market integration improve affordability, reliability and regional positioning	**– Fragmented and costly energy system:** Infrastructure bottlenecks, limited flexibility and high energy costs undermine industrial competitiveness
Value chain evolution	**+ Higher-value production and domestic value capture:** Innovation, industrial upgrading and stronger domestic firms increase productivity and retained economic value	**– Persistent low-value specialisation:** Dependence on lower-value activities and limited innovation weaken margins and future competitiveness
AI and technology absorption	**+ Broad-based technology and productivity gains:** Effective adoption, complementary skills and innovation strengthen firms and domestic capabilities	**– Uneven adoption and capability displacement:** Skills gaps, fragmented diffusion and technological disruption widen productivity divides
Talent and migration dynamics	**+ Talent circulation and workforce renewal:** Retention, return migration, international recruitment and integration strengthen the skills base	**– Continued talent loss and workforce fragmentation:** Emigration, weak integration and persistent shortages undermine productive capacity

▲ Source: HorizonX (2026), Author's own adaptation
▲ Note: The contrasting trajectories illustrate plausible alternatives, not exhaustive or mutually exclusive outcomes.

The uncertainties span domestic institutional and economic capabilities, externally shaped conditions, and areas where national choices interact with European and global developments. Some, such as governance, education and technology absorption, are more directly influenced by domestic policy and institutional capacity. Others, particularly regional stability and EU integration, are strongly shaped by external developments, although Romania's responses and strategic positioning remain consequential.

Figure 69 maps the relationships between the 17 strategic drivers and the nine critical uncertainties, distinguishing primary alignments from secondary connections. Primary alignments identify the drivers most directly associated with each uncertainty, while secondary links reveal broader interdependencies. The figure illustrates how uncertainties emerge from interconnected forces rather than isolated developments, and why changes in one area may have consequences across several dimensions of competitiveness.

FIGURE 69. Links between strategic drivers and critical uncertainties



▲ Source: HorizonX (2026)

Together, the nine critical uncertainties highlight where different future developments could significantly alter Romania's competitiveness trajectory. Their connections with the strategic drivers also reveal how emerging opportunities and structural vulnerabilities may be amplified or constrained by developments elsewhere in the system. Building on this analysis, the following section synthesises the main opportunities Romania could capitalise on and the constraints that may limit their realisation towards 2035.

3 . Main opportunities and constraints for Romania's competitiveness

The analysis of strategic drivers and critical uncertainties reveals a range of **opportunities** for strengthening Romania's competitiveness towards 2035, alongside structural **constraints** that could limit their realisation. These opportunities arise from Romania's existing assets, evolving regional and European conditions, and emerging sources of economic value. However, **their potential depends on the country's ability to mobilise investment, develop domestic capabilities and translate favourable conditions into lasting competitive advantages.**

Table 3 **presents a selective, non-exhaustive synthesis of the main opportunities and constraints** identified through desk research, expert interviews and systems analysis, focusing on those considered particularly relevant to Romania's future competitiveness. Rather than representing separate positive and negative developments, opportunities and constraints are often interconnected: the same structural conditions that create opportunities can also expose vulnerabilities, while cross-cutting constraints such as governance, fiscal capacity and skills can influence outcomes across several areas.

TABLE 3. Main opportunities and constraints shaping Romania's competitiveness towards 2035

Strategic area	Main opportunities	Key constraints and vulnerabilities
Energy and industrial positioning	Leverage Neptun Deep, a diversified energy mix and regional interconnections to strengthen energy security, attract energy-intensive investment and develop Romania's role as a regional energy and industrial hub	Grid and storage bottlenecks, high industrial energy costs, regulatory uncertainty and limited coordination between energy and industrial investment, alongside growing climate and water-related pressures on infrastructure and resource availability.
Industrial upgrading and domestic value creation	Move from assembly, outsourcing and raw-material exports towards higher-value production, processing, innovation and domestic intellectual property. Opportunities span automotive, agri-food, defence (including SAFE-supported upgrading), critical raw materials and pharmaceuticals, supported by stronger domestic firms, R&D capabilities and scale-up finance.	Low domestic value capture, weak firm scaling, limited R&D and innovation commercialisation, insufficient growth capital and exposure to technological shifts, particularly the transition away from internal combustion engine (ICE) automotive value chains.
Technology and digital transformation	Build on Romania's IT capabilities to develop higher-value digital services, applied AI, cybersecurity and technology entrepreneurship. AI infrastructure and data-centre development, potentially linked to competitive energy supply, could support new investment and innovation, while digitalisation improves productivity and public-sector performance.	AI-driven disruption of outsourcing and routine activities, uneven technology adoption, skills mismatches, fragmented data infrastructure and limited innovation diffusion.
Regional connectivity and geoeconomic opportunities	Capitalise on EU supply-chain reconfiguration, nearshoring and potential reconstruction opportunities in Ukraine and Moldova. Integrated transport, logistics, energy and digital networks could strengthen Romania's position as an EU–Black Sea regional gateway, while improved connectivity could support tourism and cultural industries.	Fragmented multimodal infrastructure, uneven territorial connectivity, weak strategic coordination and high exposure to external geopolitical and economic developments.
Human capital and talent networks	Mobilise diaspora expertise, return migration, international recruitment and talent networks to strengthen entrepreneurship, workforce capabilities and international connections.	Demographic contraction, continued talent loss, education and skills gaps, weak migration integration and widening territorial disparities.

EU integration and strategic leverage	Move beyond EU funding absorption towards more effective use of the Single Market, European investment and research networks, industrial initiatives and strategic partnerships to support domestic upgrading.	Limited administrative and project execution capacity, weak co-financing space, fragmented strategic priorities and insufficient ability to convert European opportunities into domestic value.
Governance, fiscal and institutional capacity	Strengthen policy continuity, institutional foresight, evidence-based decision-making and investment execution to improve Romania's capacity to anticipate change, coordinate priorities and deliver long-term transformation.	Fiscal fragility, political polarisation, weak institutional coordination, rule of law vulnerabilities, regulatory unpredictability and limited meritocratic capacity undermine trust, investment effectiveness and the conversion of public resources into lasting capabilities.

▲ Source: HorizonX (2026), Author's own adaptation

The central challenge is therefore not simply the availability of opportunities, but Romania's capacity to capture and sustain their benefits. Energy resources, EU integration, geographic positioning, industrial capabilities and talent networks offer significant potential, yet their contribution to competitiveness depends on complementary investments, institutional effectiveness and the ability to generate greater domestic value. Conversely, constraints such as fiscal pressures, demographic decline and governance weaknesses may reinforce one another, limiting progress even where favourable external conditions exist.

These opportunities and constraints provide a bridge from the analysis of present conditions to the exploration of alternative futures. Their evolution is neither predetermined nor independent: different combinations of critical uncertainties, strategic choices and reinforcing feedback effects could enable Romania to capitalise on emerging opportunities, remain constrained by structural weaknesses, or experience more fundamental changes in its competitiveness model. The following four scenarios explore how these different configurations could unfold towards 2035.

4 . Scenarios of Romania's competitiveness to 2035

Based on the strategic drivers of change, critical uncertainties, and main opportunities and constraints identified in the preceding analysis, four alternative scenarios were developed to explore how Romania's competitiveness could evolve towards 2035.

The scenarios draw on the four generic alternative futures framework developed by Jim Dator and the Mānoa School of Futures Studies. The framework distinguishes four archetypal patterns of systemic change: **Continued Growth, Discipline/Constraint, Collapse, and Transformation**, providing a structured approach to exploring alternative futures rather than predicting or ranking them according to desirability. Each archetype represents a distinct underlying logic of development, as summarised in Table 4.

TABLE 4. Four generic alternative futures archetypes: underlying development logics

Scenario	Guiding narrative	The way the world works
Continued growth	Acceleration of the present, extension of the prevailing development model	Existing economic, institutional and societal dynamics largely persist, with growth and incremental adaptation occurring within the established system. Change builds on current structures and trajectories rather than fundamentally redefining them, although existing vulnerabilities and imbalances may persist or intensify.
Discipline/ Constraint	Adaptation to limits and competing priorities	Mounting constraints, such as resource scarcity, demographic pressures, security threats or fiscal limitations, reshape development priorities. The system adapts through greater discipline, regulation, prioritisation and trade-offs, placing stronger emphasis on stability, resilience or sustainability than on continued expansion.
Collapse	Breakdown of the existing system	Accumulating pressures, disruptive events and reinforcing vulnerabilities undermine the system's capacity to function and adapt. Institutional, economic or social structures progressively deteriorate or break down, potentially triggering cascading failures and a fundamental loss of previously established capabilities.
Transformation	Imagining a different world: new guiding visions	Major disruptions, innovations or shifts in values and collective action enable the reconfiguration of existing structures. New institutional arrangements, economic models, technologies or societal practices emerge, fundamentally changing how the system operates and creates value.

▲ Source: Dator (2009), adapted by HorizonX, with descriptions contextualised for this report

These archetypes are not predictions, nor do they imply a predetermined sequence or hierarchy of outcomes. Rather, they provide complementary perspectives for exploring how different combinations of drivers, uncertainties, decisions and external developments could shape Romania's future. Each scenario therefore explores a plausible pathway towards a distinct configuration of conditions shaping Romania's competitiveness by 2035, highlighting the mechanisms, opportunities, vulnerabilities and trade-offs that define that future.

The scenarios are developed as plausible, internally coherent narratives that explore how Romania's competitiveness could evolve through different configurations of economic, political, fiscal, geopolitical, technological, social and environmental conditions. Their emphasis is on the underlying drivers of change, the interactions and feedback effects between them, and the systemic consequences that could emerge over time. Selected illustrative developments make alternative pathways tangible and credible, without implying precise forecasts of events, dates or quantitative outcomes. The focus is therefore on the nature, direction and mechanisms of change rather than numerical precision, which could create a misleading sense of certainty and obscure the broader structural transformations each scenario seeks to illuminate.

In the Romanian context, the **Continued Growth** and **Constraint** scenarios are more closely anchored in existing trends, structural pressures and institutional dynamics, requiring fewer fundamental departures from the current development model. By contrast, the **Collapse** and **Transformation** scenarios explore more fundamental changes in the functioning of the system, involving major turning points and reinforcing shifts across multiple dimensions. This distinction concerns the nature and scale of change involved, rather than an assessment of the relative probability of the four futures.

Within this framework, the four scenarios developed for Romania are **"Steady progress, shrinking base" (Continued Growth), "The guarded plateau" (Discipline/Constraint), "Ruin after the exit" (Collapse), and "Rewired network nation" (Trans-**

formation). Each scenario follows a consistent structure, outlining its defining characteristics, a plausible development pathway towards 2035, the relevant STEEP dimensions, and the key tensions and open questions that emerge.

Together, the four scenarios broaden the range of futures considered and provide a basis for testing strategic choices against different development conditions. By revealing potential opportunities, systemic vulnerabilities and critical trade-offs, they help identify priorities that could strengthen Romania's competitiveness and resilience across alternative futures, supporting more informed and adaptive decision-making under uncertainty.

ROMANIA 2035: FOUR FUTURE SCENARIOS, FOUR COMPETITIVENESS LOGICS

The four scenarios describe distinct pathways through which Romania's competitiveness could evolve. Each is shaped by a different combination of structural pressures, strategic choices and reinforcing dynamics, creating its own opportunities, vulnerabilities and trade-offs (see Table 5).

TABLE 5. Overview of the four scenarios

CONTINUED GROWTH	DISCIPLINE / CONSTRAINED DEVELOPMENT
Steady Progress, Shrinking Base **Growth through integration and gradual upgrading**	**The Guarded Plateau** **Resilience at the expense of renewal**
WHAT DRIVES THIS FUTURE Continued EU integration, investment inflows and incremental industrial modernisation sustain economic convergence, reinforced by energy development and emerging regional opportunities.	**WHAT DRIVES THIS FUTURE** Prolonged Black Sea insecurity and fiscal pressures lead to a national security and stability pact, concentrating limited investment resources on defence, cybersecurity, energy resilience and strategic infrastructure.
ROMANIA IN 2035 A more prosperous, productive and better-connected economy, with modernised industries and infrastructure, but uneven domestic value capture and persistent regional disparities.	**ROMANIA IN 2035** A more secure and resilient country, with modernised strategic sectors but limited civilian innovation, underfunded public services and stalled economic convergence. Social frustration grows as security priorities increasingly compete with everyday needs.
SIGNATURE DEVELOPMENTS EU-funded infrastructure and FDI; Industrial upgrading; Neptun Deep and energy investment; Ukraine reconstruction opportunities; Continued economic convergence	**SIGNATURE DEVELOPMENTS** 2027–28 security and stability pact; Defence and cybersecurity modernisation; Energy-system resilience; Fiscal consolidation; Civilian investment and public services squeezed
DEFINING TENSION Economic convergence and modernisation continue, but a shrinking workforce and limited domestic control over higher-value activities constrain how far and how broadly the gains can extend.	**DEFINING TENSION** Romania builds stronger defences and more resilient strategic infrastructure, but the diversion of scarce resources from education, healthcare and civilian economic development weakens long-term competitiveness and strains the social contract.

COLLAPSE	TRANSFORMATION
Ruin After the Exit **Sovereignty without capacity**	**Rewired Network Nation** **Competitiveness through connected capabilities**
WHAT DRIVES THIS FUTURE Fiscal crisis, sovereigntist politics and institutional erosion reinforce one another, culminating in EU withdrawal and accelerating systemic breakdown.	**WHAT DRIVES THIS FUTURE** Fiscal pressures, AI disruption and demographic challenges trigger coordinated governance reform, entrepreneurial innovation and stronger connections between domestic talent, industry and the diaspora.
ROMANIA IN 2035 An economically weakened and socially divided country, marked by declining investment, deteriorating public services, widening territorial inequalities and continued emigration. Outside the EU but still in NATO, Romania has lost much of its economic and political influence in the region.	**ROMANIA IN 2035** A more innovative and internationally connected economy, emerging as a regional R&D and energy-innovation hub. Stronger domestic technology ownership, modernised public institutions and global talent networks support higher-value economic activity.
SIGNATURE DEVELOPMENTS Sovereigntist coalition; EU withdrawal; Capital flight and industrial closures; Public-service deterioration and accelerated emigration; Geopolitical marginalisation	**SIGNATURE DEVELOPMENTS** Regional R&D and energy-innovation hub; Pact for the State; Municipal living laboratories; Network Citizenship; Future Fund; Positive net migration
DEFINING TENSION The attempt to reclaim sovereignty destroys Romania's institutional and economic capacity, leaving it increasingly divided and marginalised.	**DEFINING TENSION** Romania develops stronger domestic capabilities and attracts talent and investment, but the benefits remain unevenly distributed, favouring innovative firms, skilled workers and better-connected cities and municipalities.

▲ Source: HorizonX (2026)

CONTINUED GROWTH: STEADY PROGRESS, SHRINKING BASE

By 2035, Romania could emerge as a growing yet still dependent economy, with continued economic progress alongside persistent structural vulnerabilities: a shrinking workforce, uneven development and a territory advancing at two speeds.

Continued EU integration, foreign investment and participation in European value chains sustain growth, but productivity gains and higher-value activities remain concentrated in externally controlled firms and a limited number of regions. The economy advances largely through the extension and incremental upgrading of its existing development model, rather than through a fundamental shift towards domestic innovation and value creation. Living standards continue to rise and the gap with Western Europe narrows, but convergence remains uneven, with persistent differences in productivity, domestic value capture and regional development.

The pathway begins with a sustained stabilisation following the 2026 fiscal crisis. The deficit falls below 3% of GDP by 2030, allowing Romania to exit the EU's excessive deficit procedure. Consolidation remains fragile, because debt servicing absorbs part of the budget and partly limits room for new public investment. National co-financing for EU projects is prioritised, and other national investment is reduced to allow it, with the reductions falling mostly outside the corridors, where services are already weaker. Fiscal stabilisation restores a degree of predictability but does not resolve underlying weaknesses in revenue mobilisation, administrative coordination and public investment delivery. The state becomes more financially disciplined without becoming substantially more

capable of directing economic transformation. Digital public services expand, but interoperability and uptake remain uneven, reflecting persistent differences in administrative capacity across institutions and territories.

Three reinforcing opportunities support Romania's existing growth model. First, Neptun Deep strengthens domestic gas supply and reduces exposure to imported gas, while continued investment in electricity generation, grids, storage and cross-border interconnections helps contain industrial energy costs. Together, these developments improve energy security and Romania's attractiveness for selected industrial activities, without yet creating a fundamentally new energy-based innovation model.

Second, a sustained ceasefire in Ukraine from 2028 opens reconstruction-related demand, positioning Romanian ports, the Danube and upgraded rail connections as important logistics and supply routes. Third, European defence financing, including SAFE loans, supports selected defence-industrial capabilities and infrastructure, while higher defence commitments and associated borrowing add pressure to public finances and future debt servicing. Regional volatility remains manageable, allowing Romania to strengthen its position in Black Sea security and European discussions on energy, enlargement and defence, although it remains a stable rather than decisive regional actor.

Together, these opportunities reinforce existing investment and industrial dynamics: improved energy conditions and regional connectivity attract foreign capital and manufacturing activity, which in turn generate demand for further energy and logistics infrastructure. However, these developments primarily strengthen Romania's position within existing European economic and industrial networks rather than fundamentally transforming its productive structure or capacity for domestic value creation. Growth continues, but remains significantly dependent on European priorities, external financing and foreign investment decisions.

Romania's industrial structure becomes increasingly differentiated. Selected cost-sensitive activities remain competitive in well-connected locations, particularly where automation, efficient logistics and access to labour compensate for rising wages. At the same time, parts of traditional assembly manufacturing face growing pressure as labour costs rise faster than productivity, while limited upgrading among domestic suppliers constrains opportunities to move into higher-value activities. Higher-value engineering, specialised manufacturing and IT services expand, but predominantly within foreign-controlled production and innovation networks.

Productivity gains are driven mainly by foreign investment, capital deepening and the adoption of automation and AI among multinationals, banks and larger technology firms. However, higher-value functions, including product design, intellectual property ownership and strategic decision-making, remain largely concentrated outside Romania. Romanian-owned firms develop selectively, but many continue to operate within established supplier relationships, capturing a limited share of higher-value activities. Technology adoption remains uneven across smaller businesses, agriculture and the public sector, while automation only partially compensates for labour shortages.

In the early 2030s, the relocation of a major multinational production facility illustrates the vulnerability of locations whose competitiveness still depends primarily on cost advantages and external investment decisions rather than distinctive domestic capabilities. Industrial upgrading continues, but it does not fundamentally change Romania's position within European value chains.

The sharpest tension sits in people. Wages continue to converge towards Western European levels, although differences in purchasing power, career opportunities and working conditions remain significant. Labour shortages are partly mitigated by higher participation among older workers and women, selective immigration and incremental automation, but these adjustments remain fragmented and insufficient to compensate for demographic contraction. Larger employers and stronger regions are better positioned to attract and retain workers, further widening the capacity gap between leading and lagging parts of the economy. Education reform moves in the right direction. PISA scores improve modestly and vocational and technical tracks align better with employers, but universities still produce graduates in fields with weak local demand. Talent retention improves modestly, but demographic contraction and persistent skills mismatches remain among the most significant constraints on productivity and future growth.

Territory adds a second tension. Investment, skilled workers, infrastructure and technology-intensive activity concentrate in a few metropolitan and industrial centres and well-connected corridors, among them Bucharest, Cluj, Timișoara, Brașov and Constanța. Smaller cities, rural communities and less connected regions face demographic decline, thin economic diversification and weaker access to services. Mid-sized cities on the corridors are an exception, because they hold a more stable labour pool than other places and enough infrastructure to host low-complexity activity. A self-reinforcing concentration dynamic emerges: regions with stronger infrastructure, administrative capacity and skilled labour attract more investment, which further strengthens their economic base and ability to deliver new projects. Less developed regions struggle to generate the same momentum, even when funding opportunities are formally available. Territorial cohesion and regional connectivity become the issues on which institutional and investment priorities are tested, since uneven development shifts from a persistent weakness to a defining feature of a dual economy.

Climate adaptation progresses unevenly. Better-resourced municipalities and major infrastructure operators invest in resilience, while agricultural areas and less developed regions remain more exposed to drought, water stress and extreme weather. Environmental pressures do not fundamentally redirect the national development model, but they increase costs and reinforce existing territorial vulnerabilities. Romania continues to pursue EU decarbonisation objectives, although renewable energy expansion and wider electrification remain constrained by uneven grid development and implementation capacity.

The absorption and effective use of EU funds remain below their potential due to administrative execution gaps and tight national co-financing capacity. Projects are more successfully delivered in established economic corridors and leading regions, where stronger institutions and existing infrastructure facilitate implementation. Weaker local administrations struggle to prepare and deliver comparable investments, leaving part of the available funding underutilised. As a result, European financing supports continued convergence at the national level without substantially reducing territorial disparities.

By 2035, Romania sits closer to the EU average than a decade earlier, and the headline economic indicators suggest continued progress. Yet even under relatively favourable external conditions and with gradual domestic improvements, the existing growth model proves capable of sustaining convergence without fundamentally overcoming its structural limitations. Romania's progress remains vulnerable to developments it can influence only partially, including European investment priorities, multinational location decisions and regional security conditions. Its most persistent limitations, however, remain domestic: uneven execution capacity, insufficient domestic value capture, demographic contraction and territorial concentration.

Three questions remain beneath the positive figures: How much of the value created in Romania is retained domestically? Can productivity and labour-force adaptation compensate for demographic decline? And can the state translate European integration and available funding into broader, more balanced development?

CONSTRAINED SCENARIO: THE GUARDED PLATEAU

By 2035, Romania could find itself on a **guarded plateau**: a country that has strengthened its security and institutional discipline but struggles to sustain economic convergence with its richer EU peers. Persistent regional insecurity, contained but never fully resolved, reshapes national priorities, while demographic ageing and labour scarcity narrow the room for manoeuvre. Rather than organising its development around growth and convergence, Romania increasingly **prioritises security, preparedness** and **resilience**. The defining tension is that stability and protection are achieved through difficult trade-offs, with fewer resources and less political attention devoted to long-term economic transformation, education and broader societal development.

The pathway begins with negotiations over Ukraine that produce intermittent pauses in hostilities but no durable settlement. From the late 2020s, Romania faces recurring security incidents and hybrid threats, including drone incursions, attempted disruption of energy and port infrastructure, cyber-attacks on essential services and disinformation campaigns around elections. Although these incidents stop short of escalating into sustained direct

military confrontation, their cumulative effect is to normalise a heightened state of alert and place security and resilience at the centre of national decision-making.

Facing sustained security pressure and a difficult fiscal adjustment, the main political parties reach a national security and stability pact in 2027–2028. The agreement prioritises NATO and European defence commitments, fiscal consolidation and the protection of critical infrastructure. Despite recurring political tensions, successive governments maintain broad continuity around these priorities. Gradual deficit reduction allows Romania to exit the EU's excessive deficit procedure around 2030, while improved tax collection and selective revenue measures help stabilise public finances. European defence financing, including long-maturity loans on favourable terms, reduces immediate financing pressures and reliance on market borrowing, although it does not eliminate the associated debt obligations.

Fiscal credibility and policy continuity become tangible achievements, but they are secured within a narrowly defined security-led agenda. As prolonged spending restraint, weak wage growth and limited improvements in public services erode public support, political fragmentation intensifies in the early 2030s. The original pact weakens, even as its core security and fiscal priorities remain difficult to reverse.

The cost of discipline falls unevenly across the economy. Defence, critical infrastructure protection and emergency preparedness receive sustained political and financial priority, while other public investments face tighter constraints. Transport projects increasingly favour military mobility and strategic logistics corridors; energy investment prioritises reliability, redundancy and protection against disruption; and education and research funding becomes more selective, with cybersecurity, engineering and security-related technologies receiving preferential support. Fiscal credibility is therefore preserved through improved revenue collection and sustained expenditure prioritisation, rather than a broader expansion of the economic base, leaving limited room for investments whose benefits are longer-term or less directly linked to national security.

EU funds continue to support infrastructure and institutional development, but national co-financing constraints and political priorities favour projects that can also demonstrate strategic or security relevance. Romania becomes deeply integrated into European defence and security cooperation, while its capacity to shape the EU's broader economic and competitiveness agenda remains limited. European integration provides an anchor for stability and discipline, but less momentum for a renewed national growth model.

The economic landscape reflects these priorities. Defence manufacturing, naval repair, munitions, cybersecurity and military logistics attract investment, with Constanța and selected industrial and logistics centres gaining strategic importance. These activities become relatively dynamic pockets within an otherwise slow-growing economy, but their contribution is insufficient to restore broad-based convergence with richer EU economies.

Outside security-related sectors, investment remains cautious and industrial upgrading progresses unevenly. Parts of automotive and assembly manufacturing retain their position within foreign-owned value chains, but rising labour costs, limited domestic innovation and weak supplier development constrain further advancement. Romanian firms struggle to increase their share of higher-value activities, while investors continue to factor regional security risks into their decisions. Economic activity persists, but the capacity to generate new sources of productivity and competitiveness remains limited. Weak links between defence-related investment, domestic suppliers, civilian research and broader industrial policy limit the spillover of these capabilities into the rest of the economy, reinforcing the divide between strategically protected sectors and the wider productive base.

Energy becomes one of the few sectors where security-led investment generates significant and lasting economic capabilities. Neptun Deep strengthens domestic gas supply, while public and private investment expands grid redundancy, strategic storage, interconnections and the protection of critical infrastructure against physical and cyber threats. These investments improve system reliability, flexibility and resilience, creating a stronger energy infrastructure base than Romania had in the mid-2020s.

However, the system is optimised primarily for security of supply rather than industrial affordability or energy innovation. The costs of redundancy, reserve capacity, infrastructure protection and network modernisation place upward pressure on regulated charges and system costs. Combined with uneven generation investment and limited productivity gains elsewhere, these pressures prevent Romania from fully converting its stronger energy position into a broad-based industrial competitiveness advantage. The ambition to become an integrated, innovative regional energy hub remains largely unrealised.

Climate adaptation follows a similarly defensive logic. Investment focuses primarily on protecting critical infrastructure, strengthening emergency preparedness and reducing exposure to extreme weather events. Municipalities and infrastructure operators develop contingency and response capabilities, but broader adaptation measures in agriculture, water management and vulnerable territories receive more limited attention. Environmental resilience improves selectively, without becoming a major driver of economic transformation.

Technology develops in the same security-led logic. AI, advanced analytics and digital systems develop most rapidly in defence, cybersecurity, border management, tax administration and critical infrastructure operations. Targeted investment creates pockets of technological excellence and strengthens the state's capacity to anticipate and respond to threats. Yet these capabilities remain concentrated in a limited number of public institutions and specialised firms, with relatively weak diffusion into the wider economy.

At the same time, automation reduces demand for some routine IT outsourcing and business-process services, while constrained investment in education, research and entrepreneurship limits the emergence of new opportunities. Romania develops advanced capabilities in selected strategic domains without achieving the broader productivity gains associated with widespread technological adoption.

The security-led state becomes more capable of coordinating selected strategic priorities, but also more centralised and less open to public scrutiny. Measures introduced to counter foreign interference and disinformation raise recurring concerns about proportionality, transparency and freedom of expression. Courts, civil society and European institutions challenge some of these practices, preventing a complete erosion of democratic safeguards but creating persistent tensions between security and accountability.

As fiscal restraint continues and improvements in everyday public services remain limited, public trust weakens. Political polarisation intensifies, and successive governments find it increasingly difficult to sustain the broad consensus that originally underpinned the security and stability pact. Institutional continuity survives, but its legitimacy becomes more fragile.

The deepest strain is social. Population decline and ageing continue, while limited economic opportunities and constrained public services weaken Romania's ability to retain and attract talent. Education reforms advance unevenly as resources are concentrated on security-related skills, including cybersecurity, engineering and critical infrastructure management. These specialised programmes support strategic sectors, but broader education and workforce development struggle to keep pace with changing labour-market needs.

Labour shortages are partially addressed through selective immigration, longer working lives and targeted workforce participation measures, although these responses remain insufficient to offset the effects of demographic decline and persistent skills mismatches. An implicit social contract emerges around the promise of security, stability and the protection of basic entitlements, in exchange for higher contributions, prolonged working lives and more limited expectations of public investment and service improvement.

The territorial consequences are uneven. Metropolitan centres and strategic defence and logistics corridors retain more investment and employment, while smaller towns and rural areas face accelerating ageing, weaker services and fewer opportunities. The country remains territorially connected, but the benefits of resilience and security-led development are distributed unequally.

By 2035, Romania has strengthened its capacity to withstand external threats, but at the cost of prolonged economic and social constraints. Fiscal discipline, critical infrastructure resilience and

selected security-related industries represent tangible achievements, while broader productivity growth, educational progress and industrial upgrading remain limited. Political institutions continue to function, although declining trust and contested security measures place them under increasing strain.

The defining paradox is that Romania becomes better equipped to protect its existing economic and institutional foundations without developing sufficient capacity to renew them. Security and resilience provide stability, but they do not automatically generate competitiveness or renewed convergence.

Two questions remain open: Can the stronger, more resilient energy system eventually deliver wider industrial advantages? And can the technological and human capabilities developed for security and defence spread into the civilian economy, creating new sources of productivity and growth?

COLLAPSE SCENARIO: RUIN AFTER THE EXIT

By 2035, Romania could find itself **outside the European Union**, facing a profound erosion of its economic competitiveness, institutional capacity and strategic autonomy. What begins as a political attempt to reclaim national sovereignty develops into a cumulative crisis, as domestic polarisation, weakening European ties, fiscal instability and persistent regional insecurity reinforce one another. The country's development model, built around European market access, investment, funding and regulatory integration, progressively unravels without a viable alternative taking its place. The defining shift is not simply economic decline, but the breakdown of the institutional and economic connections that once sustained national development, leaving an increasingly fragmented country in which only some cities, firms and communities retain the capacity to properly function and adapt.

The pathway begins with a fiscal and political crisis that progressively undermines confidence in Romania's European trajectory. Consolidation measures introduced in 2026–2027 place pressure on household incomes, public services and local budgets, while disputes over European funding and reform commitments become symbols of a wider conflict over national autonomy. Political actors increasingly frame difficult domestic choices as externally imposed constraints, turning economic frustration into opposition to European institutions.

A sovereigntist coalition comes to power following the 2028 elections, promising to restore national control over economic policy and public institutions. Its reversal of fiscal measures and growing interference with judicial independence intensify tensions with European partners. Rule-of-law disputes, restrictions on some EU funding and deteriorating fiscal credibility raise borrowing costs and accelerate investment withdrawal. Economic difficulties strengthen anti-EU narratives, while political confrontation further undermines the investment and institutional stability needed for recovery. By the early 2030s, this confrontation culminates in a national referendum that narrowly decides that Romania withdraws from the European Union. Political fragmentation and weak administrative preparation leave critical trade, regulatory and institutional arrangements unresolved. Romania leaves the EU before the middle of the decade 2030-2040, under a limited framework for future relations and without adequate transition arrangements for an economy deeply embedded in European markets and institutions.

The economic consequences are severe because Romania's productive economy remains deeply integrated into European markets and value chains. Even where limited trade arrangements preserve some market access, new customs procedures, regulatory barriers, rules-of-origin requirements and uncertainty over investment conditions disrupt automotive, machinery, components and other export-oriented industries. Multinational companies relocate selected activities, postpone investment or reorganise supply chains around more predictable locations within the EU.

Capital flight and collapsing investor confidence trigger a sharp depreciation of the leu, accelerating inflation and increasing the burden of foreign-currency liabilities. Sovereign downgrades push Romania out of affordable international financing, while the contraction of economic activity rapidly erodes tax revenues. The state enters a cycle of emergency spending cuts, arrears and repeated fiscal crises. With fiscal reserves exhausted and access to affordable financing severely restricted, successive governments increasingly rely on short-term emergency measures rather than coherent

stabilisation policies. Public investment projects are abandoned unfinished, contractors and suppliers go unpaid, and hospitals, schools and local administrations face recurring interruptions in funding and essential services.

Banking and credit conditions deteriorate as corporate failures multiply and households struggle with declining purchasing power and rising debt burdens. Export-oriented industries lose contracts, production facilities close or relocate, and domestic suppliers collapse alongside the multinational networks on which they depended. Unemployment rises sharply, particularly in former industrial centres and routine service activities. The shrinking tax base, deteriorating infrastructure and loss of skilled workers reinforce one another, making each attempted stabilisation increasingly difficult.

A few internationally connected firms and economic centres preserve limited access to capital, markets and essential services through private arrangements. Elsewhere, informal employment, cash transactions and dependence on remittances expand as formal economic institutions become less reliable. Romania's competitiveness collapses not simply because European market access becomes more difficult, but because the financial, institutional and productive systems required to sustain economic activity progressively cease to function together.

The economic breakdown accelerates an already difficult transition in technology and skills. Automation and AI reduce demand for routine outsourcing and business-process activities, while declining investment and weak institutional capacity prevent the emergence of sufficient new opportunities. Universities and research organisations lose funding, international partnerships and skilled personnel, and exclusion from EU research and innovation programmes further weakens their ability to develop competitive capabilities.

Emigration intensifies as professionals, entrepreneurs and younger workers seek more predictable economic and institutional environments. New barriers to mobility complicate access to European labour markets, but established diaspora networks and individual opportunities continue to facilitate departures. The loss of doctors, engineers, teachers, researchers and public administrators creates shortages that the weakened education system and public sector can no longer address effectively. In some regions, access to specialist healthcare, quality education and basic administrative services becomes increasingly dependent on personal resources, informal networks or the ability to travel elsewhere.

A limited number of firms, universities and urban centres preserve international connections and specialised expertise, but the wider system loses the capacity to reproduce and diffuse these capabilities. Remittances become increasingly important for households, while the gap between internationally connected communities and those dependent on deteriorating local institutions widens.

Energy illustrates the depth of the institutional breakdown. Domestic gas production, including Neptun Deep, provides a potentially valuable source of supply and export revenue, but deteriorating infrastructure, financial constraints and weak governance prevent Romania from translating these resources into reliable and affordable energy for the wider economy. Repeated disruptions, underinvestment in transmission and distribution networks, and exposure to hybrid threats undermine system reliability.

Energy prices spike, recurring outages disrupt industrial production and essential services, and energy poverty becomes widespread. As public finances deteriorate, short-term revenue needs take precedence over coordinated energy investment, while strategic assets become vulnerable to politically connected interests and opaque ownership arrangements. Better-connected operators and urban centres secure more reliable supply through private arrangements, but households, smaller businesses and less developed regions face increasingly frequent disruptions, rising costs and, in some areas, periodic rationing.

Climate-related shocks place additional pressure on an ageing and poorly maintained system. Energy insecurity accelerates industrial closures and investment withdrawal, further reducing the financial resources needed for infrastructure recovery. Romania retains valuable energy resources but loses much of the institutional and economic capacity required to use them as a foundation for competitiveness.

Institutional deterioration accelerates as political fragmentation, fiscal distress and the loss of European oversight weaken already fragile systems of accountability. Governments change frequently, while entrenched political and business networks retain influence over public appointments, procurement and strategic assets. Domestic courts, independent institutions and civil society continue to challenge abuses, but their effectiveness is increasingly constrained by political interference, financial pressures and the departure of skilled professionals.

The civil service loses experienced personnel through emigration, retirement and prolonged financial instability. Public administration becomes increasingly unable to coordinate national priorities or maintain consistent services across the territory. In some counties, hospitals close specialised departments, schools operate with chronic teacher shortages, and essential infrastructure deteriorates as maintenance budgets disappear. Local authorities increasingly rely on informal arrangements, politically connected intermediaries, private providers and diaspora support to sustain basic services.

Territorial fragmentation becomes a defining feature of the crisis. Bucharest and a handful of internationally connected cities preserve parts of their productive economy, institutional capacity and external relationships. Elsewhere, declining employment, population loss and the deterioration of public services create increasingly disconnected local economies. Some communities depend on remittances and informal trade, while local patronage networks gain influence over access to jobs, contracts and essential resources. The state remains formally intact, but its ability to enforce consistent rules, provide basic public goods and implement national development policies is severely compromised.

Romania remains a NATO member, but its deteriorating fiscal position, institutional instability and weakened control over strategic assets reduce its credibility as a reliable regional partner. Allies continue to regard the Black Sea flank as strategically important, yet uncertainty over Romania's governance, infrastructure and defence capabilities complicates cooperation and investment.

Withdrawal from the EU disrupts access to European funding, procurement frameworks and institutional cooperation that previously supported infrastructure, defence-related investment and economic resilience. Combined with fiscal constraints, this weakens the country's ability to maintain and modernise critical transport, energy and security infrastructure.

Persistent instability in the Black Sea region compounds these vulnerabilities. Romania retains formal security commitments but has diminishing capacity to contribute effectively to regional initiatives or translate its geographic position into strategic influence. Moldova increasingly develops its European relationships independently of Bucharest, further illustrating Romania's loss of regional leverage.

By 2035, Romania's pursuit of greater national sovereignty has produced the opposite outcome: deeper economic dependence, diminished strategic autonomy and growing territorial fragmentation. The loss of its European anchor, combined with domestic governance failure, fiscal instability and persistent security pressures, has undermined the institutions and capabilities required to sustain competitiveness. The state remains formally intact, but its capacity to coordinate development, maintain essential services and protect productive assets is considerably weakened.

The defining paradox is that the attempt to escape external constraints has eroded much of the institutional and economic capacity needed to exercise meaningful national autonomy. Pockets of resilience survive in internationally connected cities, firms and diaspora networks, but they cannot reverse the broader breakdown.

Three questions remain open: Can domestic institutions rebuild sufficient credibility to stabilise the economy? Can Romania restore meaningful economic and institutional connections with Europe? And can the remaining islands of capability become foundations for recovery rather than further fragmentation?

TRANSFORMATION SCENARIO: REWIRED NETWORK NATION

By 2035, Romania could be emerging as a networked, innovation-driven economy, having begun to redefine its competitiveness around domestic capabilities, technological innovation and the connections between its people, territories and international partners. Rather than relying primarily on low labour costs, foreign-controlled production and gradual convergence with richer European economies, Romania increasingly competes through specialised knowledge, entrepreneurial activity, advanced technologies and its ability to mobilise talent and investment across borders.

The transformation emerges from overlapping pressures: fiscal adjustment, demographic contraction and the disruption of established economic activities by AI and automation. These challenges expose the limits of the existing development model and create momentum for institutional experimentation, entrepreneurship and a more distributed approach to economic development. Building on existing capabilities in manufacturing, IT and energy, Romania develops a stronger position as a regional R&D and innovation hub, attracting research-intensive investment while enabling domestic firms to develop and commercialise their own technologies. Its competitive advantage increasingly lies not in providing lower-cost labour, but in developing specialised solutions that can be tested domestically and exported through European and regional networks.

Yet the transition is neither universal nor painless. Established industries and jobs decline, the benefits of innovation remain unevenly distributed, and new dependencies emerge around technology, capital and access to networks. The defining tension is whether Romania can turn a more innovative and connected economy into broadly shared prosperity, rather than replacing one form of economic dependence and territorial inequality with another.

The pathway begins with a difficult fiscal adjustment that exposes the limits of Romania's existing administrative model. Under pressure to deliver services with fewer resources, a group of municipalities begins experimenting with shared digital infrastructure, transparent procurement, simplified administrative procedures and more direct citizen involvement in local investment decisions. Early improvements in service delivery, initially concentrated in better-managed cities, demonstrate that institutional capacity can be rebuilt through new organisational models and new leadership approach rather than simply through larger budgets.

These local successes generate political pressure for wider reform. A cross-party Pact for the State, agreed in 2028, establishes a framework for digital-first public administration, interoperable public services, more transparent spending and greater local autonomy within national accountability standards. A growing coalition of reform-oriented municipalities, civic organisations and domestic businesses helps sustain political pressure for implementation, making a complete reversal increasingly costly for successive governments. Fiscal consolidation continues, limiting the pace of implementation, while resistance from entrenched administrative and political networks slows reforms in some institutions. During the initial consolidation period, reforms rely mainly on reallocating existing resources, shared digital tools and targeted European support; larger public investments follow only as fiscal credibility improves in the early 2030s. The transformation advances unevenly through successive governments rather than through a single comprehensive redesign.

By the early 2030s, Romania has developed a more open and interoperable digital public infrastructure, with AI supporting selected administrative processes under human oversight and public audit. Local and regional participatory mechanisms give citizens greater influence over parts of public investment, although their effectiveness varies considerably. Stronger municipalities become testing grounds for new services and governance tools, while less capable administrations require sustained support to avoid falling further behind.

Municipal living laboratories become an important bridge between institutional reform and domestic entrepreneurship. Cities open selected public-service challenges to emerging Romanian technology firms through transparent procurement, allowing them to test solutions in administrative services, energy management, mobility and local infrastructure. Successful solutions are adopted by other municipalities through shared digital infrastructure, creating an initial domestic market for technologies that can later be commercialised internationally. Public audit and open technical standards reduce

dependence on individual suppliers, although smaller municipalities struggle to participate and some procurement programmes face resistance from established contractors.

Institutional trust improves where citizens experience more reliable services and greater transparency, but confidence in national institutions remains contested. Romania becomes an increasingly active participant in European digital governance and public-sector innovation, demonstrating how institutional reform can support competitiveness without eliminating the political tensions surrounding the distribution of power, resources and accountability.

The social and economic transformation begins partly with disruption. As AI and automation reduce demand for routine IT outsourcing and staff-augmentation services, Romania loses some of the activities that previously supported its urban middle class. The adjustment is painful: firms restructure, jobs disappear and many workers struggle to reposition themselves. Yet the disruption also releases technical expertise, entrepreneurial talent and organisational capabilities that become resources for a different economic model.

Some experienced engineers and managers establish companies developing specialised software, industrial technologies and AI-enabled services. Others move into public-sector modernisation, applied research or emerging domestic firms. However, the transition is selective. Professionals with savings, networks and advanced skills are better positioned to benefit, while routine workers, older specialists and those without access to retraining face prolonged insecurity or leave the country.

The result is a gradual shift from exporting labour-intensive digital services towards developing and owning higher-value products, technologies and intellectual property. This does not replace the entire outsourcing industry, nor does it absorb everyone displaced by automation, but it creates new sources of domestic value creation that were previously limited in scale.

With demographic contraction continuing, Romania begins to treat its diaspora as an integral part of its economic and knowledge ecosystem rather than solely as a source of remittances or potential returnees. Network Citizenship, introduced in 2030, creates an integrated framework through which Romanian citizens abroad can access digital public services, participate in consultations and selected civic processes, and co-invest in national and regional development initiatives. Diaspora investment platforms, professional networks and circular migration arrangements connect Romanian firms and institutions with capital, expertise and markets abroad. The programme also develops voluntary forms of engagement for descendants of Romanian emigrants who retain cultural or professional connections to the country.

The model does not depend on mass return migration. Some professionals and entrepreneurs return permanently, others circulate between Romania and their countries of residence, while many contribute remotely through investment, mentoring, research partnerships and commercial networks. Participation remains uneven, however, and the benefits are concentrated among internationally connected professionals and communities with the capacity to attract investment. Network Citizenship expands Romania's effective pool of capabilities without eliminating demographic contraction or the inequalities associated with access to transnational networks.

Education and workforce development begin adapting to this more dynamic economy. Universities expand modular qualifications, applied research partnerships and lifelong learning opportunities, while vocational institutions strengthen their links with regional employers and emerging industries. Progress remains uneven: leading institutions attract funding and talent, while weaker schools and universities struggle with staff shortages, limited resources and slower reform.

The territorial effects are significant but selective. Some secondary cities and smaller communities attract entrepreneurs, remote workers and returning professionals, supported by digital connectivity, local institutional capacity and specialised economic opportunities. By the early 2030s, net migration turns positive as arrivals, including returning Romanians and selected international talent, begin to outnumber departures, supported by expanding economic opportunities and stronger international networks. However, natural population decline continues, and the gains are concentrated in places with stronger institutions, infrastructure and economic networks. Some com-

munities in Transylvania, the Carpathian region and well-connected secondary cities develop new post-urban economic models, while other rural and peripheral areas continue to lose population and services. Romania becomes more connected across borders and territories, but not uniformly revitalised.

Romania's productive economy becomes increasingly differentiated from the low-cost, externally dependent model of the previous decades. Domestic firms expand beyond subcontracting and routine service provision into specialised engineering, industrial software, energy technologies, advanced manufacturing and other knowledge-intensive activities. Some grow through partnerships with European companies, research institutions and diaspora investors, while others develop exportable products and intellectual property of their own.

Public-sector innovation programmes, applied research partnerships, and targeted investment instruments help emerging firms test and commercialise technologies. Romania's involvement in regional reconstruction and infrastructure modernisation creates opportunities to develop solutions jointly with partners in Ukraine and Moldova, particularly in energy resilience, logistics, digital public services and dual-use technologies.

Foreign investment remains important, but its composition gradually changes. Some labour-intensive operations relocate as wages rise and Romania loses its traditional cost advantage, while higher-value engineering, research and specialised manufacturing activities expand where domestic capabilities justify their presence. This transition creates new productivity opportunities, but it also produces losses among workers, firms and regions dependent on activities that are no longer competitive. Targeted incentives, stronger university–industry partnerships and a more predictable institutional environment encourage multinational companies to locate selected research, engineering and product-development functions in Romania. These investments reinforce domestic innovation ecosystems, although the most valuable intellectual property and strategic decisions do not always remain under Romanian ownership. Competition for researchers and engineers intensifies, raising wages and creating new shortages for smaller domestic firms.

The new model remains vulnerable to limited access to growth capital, dependence on foreign technology platforms and the concentration of innovation in a relatively small number of successful firms and ecosystems. Domestic value capture increases, but the capacity to scale innovative companies internationally remains uneven.

Defence-related investment increasingly supports dual-use capabilities in sensing, drones, cybersecurity, logistics and infrastructure resilience, with selected Romanian firms adapting these technologies for civilian and export markets.

As its domestic capabilities develop, Romania begins to play a more active role in shaping selected European and regional initiatives, particularly in digital public infrastructure, energy-system integration and Black Sea resilience. Cooperation with Moldova and Ukraine increasingly involves joint development of technologies, infrastructure and institutional solutions rather than conventional export relationships alone. Romania remains exposed to regional security volatility, but its growing capacity to contribute specialised capabilities strengthens its position within European partnerships. Its influence is selective rather than comprehensive, and continued access to European funding, markets and institutional cooperation remains essential to sustaining the transformation.

Energy becomes one of the main engines of Romania's new competitiveness model. Neptun Deep strengthens the domestic gas supply and regional energy security, providing a transitional advantage while investment accelerates in renewable generation, storage, grid modernisation, digital energy management and cross-border interconnections. Rather than relying primarily on low energy prices, Romania increasingly competes through the capabilities it develops in managing, integrating and innovating within a more complex regional energy system.

Public investment, European financing and private capital support smart grids, flexible generation, distributed energy systems and more sophisticated energy infrastructure. Romanian engineering, software and technology firms develop solutions for grid optimisation, storage integration, demand management and infrastructure resilience, testing them domestically before expanding into regional markets. Energy communities, industrial partner-

ships and municipal innovation programmes create additional opportunities for local participation and entrepreneurship.

Romania gradually becomes an innovative regional energy hub, connecting generation, storage, digital infrastructure and cross-border energy flows with a growing ecosystem of domestic technology providers. Cooperation with Moldova, Ukraine and other regional partners strengthens its position in European energy integration, while energy innovation creates links with advanced manufacturing, cybersecurity, AI and applied research.

The transformation nevertheless involves difficult trade-offs. Grid modernisation and storage require substantial investment, and the costs of system flexibility and reliability place pressure on tariffs and public finances. Energy-intensive investors compete with households and smaller businesses for affordable capacity, while local communities contest some renewable projects, transmission corridors and land-use decisions. Gas revenues create opportunities for transition investment but also political pressure to prolong dependence on fossil-fuel assets. Romania gains new energy capabilities and strategic influence, but affordability, environmental pressures and equitable access remain unresolved challenges.

Established in 2028 as part of the broader institutional reform agenda, the Future Fund becomes one of the instruments through which Romania seeks to convert temporary resource advantages into long-term productive capabilities. Initially funded through a modest, rule-based allocation of energy-related public revenues, its resources expand after fiscal consolidation creates greater room for investment in the early 2030s. The fund supports grid innovation, energy storage, climate adaptation, water-efficient agriculture, regional research infrastructure and economic diversification in areas vulnerable to industrial transition. Its investment mandate prioritises capabilities that can generate long-term economic value rather than recurring expenditure.

The fund remains politically contested. Governments face pressure to redirect revenues towards pensions, public services and immediate fiscal needs, while concerns arise over project selection, regional allocation and the risk of favouring politically connected firms. Independent governance and transparent investment criteria reduce some of these risks but do not eliminate them. The fund strengthens Romania's ability to invest beyond short political cycles, although its scale remains insufficient to finance the transformation on its own.

The transformation produces a more innovative and capable economy, but also a new pattern of winners and losers. Romanian technology founders, R&D specialists, internationally connected entrepreneurs and municipalities with strong institutions gain opportunities and influence. By contrast, routine outsourcing workers, traditional subcontractors and businesses unable to invest in upgrading face displacement or decline. Some secondary cities and rural communities benefit from diaspora investment, energy innovation and remote work, while others remain disconnected from the networks through which capital, knowledge and opportunity increasingly circulate. The shift towards a higher-value economy creates new jobs and capabilities, but it does not guarantee that those who lose their place in the old model can participate in the new one.

The new development model also creates different forms of dependence. Romanian firms capture more value domestically, yet many rely on foreign technology platforms, international financing and access to European markets. Successful innovation ecosystems risk concentrating economic and political influence, while public-sector digitalisation raises continuing questions about accountability, data governance and equal access. Energy innovation strengthens regional positioning, but infrastructure costs, environmental conflicts and affordability pressures remain significant.

By 2035, Romania has begun to move beyond a competitiveness model based primarily on low labour costs and externally controlled investment towards one built on domestic innovation, specialised R&D capabilities and international networks. Its institutions are more capable in selected areas, Romanian firms capture a greater share of higher-value activities, and diaspora and regional partnerships become active contributors to development. Yet demographic decline continues, territorial disparities persist in new forms, and the sustainability of this emerging model remains contested.

The defining paradox is that Romania becomes more competitive by opening itself to wider networks of people, capital and technology, while risking new exclusions and dependencies within those same networks.

Three questions remain open: Can the new innovation-driven economy generate opportunities beyond its leading firms and regions? Can Romania retain greater domestic control over the value it creates while remaining deeply integrated into international networks? And can institutional reform and energy innovation remain politically and financially sustainable as their benefits and costs are distributed unevenly?

Policy recommendations for a competitive Romania

1 . Overview

Based on the findings of the baseline assessment and the strategic foresight analysis, this section provides a comprehensive set of policy recommendations. These recommendations are aimed at significantly improving Romania's competitiveness by 2035, ensuring that the country's economy will move towards the more desirable futures laid out in the continued growth and transformation scenarios. The design of recommended policies aims to equally pre-empt the potential negative side effects in these futures, while also helping to avoid the realisation of the more negative constraint and collapse scenarios.

The policy recommendations laid out in the coming subsections cover the strategic key drivers and critical uncertainties identified in the strategic foresight analysis with a focus on those policy areas in which Romania can take action without depending on external factors. The recommendations are centred on policy actions that have strong horizontal effects across the whole of the economy, facilitating the development of economic sectors across the board. This includes institutional reforms to (1) improve Romania's state capacity and governance, (2) implement effective macroeconomic and budgetary frameworks and policies, (3) further development of the country's financial system, (4) realise Romania's energy sector potential, (5) carry out a digitalisation, data and AI programme, (6) bolster human capital by reforms in the education system, (7) expand research to unleash the country's innovation potential, (8) and execute a two-pronged labour supply strategy to tackle demographic challenges. However, to support the development of the comparative advantages of specific economic sectors, the policy recommendations also include (9) suggestions for specific economic sectors. Each of the subsections concludes with a list summarising its key policy recommendations.

The section culminates in a proposal for an integrated competitiveness strategy for Romania, which should guide policy action for the next decade. This strategy needs to be based on broad domestic political ownership, promoting the development of a new growth model based on innovation. It proposes four priority reform and investment packages to improve the country's competitiveness: (1) a governance package for a more capable, digitalised and proactive state, (2) a fiscal and financial package that fosters investment, (3) an energy package to structurally lower prices and increase energy security, and (4) a package to activate and reinforce human capital. The integrated competitiveness strategy also suggests a list of economic priority sectors that should be supported in a targeted manner, including the IT, manufacturing, defence, transport and logistics, agriculture and food, and tourism sectors. The overall proposal also highlights that a successful strategy implementation requires Romania to become more active at the European and international level leveraging the EU for its own competitiveness.

2 • Strengthen state capacity and governance

The quality of governance and state capacity are key conditions for a competitive economy. Modern and efficient public services, skilled civil servants, and transparent and clear public procurement procedures are essential to creating a stable institutional environment that promotes competitiveness and ensures the effective implementation of structural reforms.

In Romania, limited state capacity, especially in terms of transparency, institutional stability and expertise, is a major obstacle to the country's economic development and undermines its international attractiveness. A new growth model based on innovation requires more sophisticated policies, stronger implementation capacity and better monitoring of public action.

I TOWARDS A MORE CAPABLE AND PROACTIVE PUBLIC ADMINISTRATION

– Improve the capacity of the Romanian public administration to act strategically

The design, implementation and evaluation of public policies in Romania suffer from significant political instability, with negative effects on the country's public administration. With each electoral cycle, much of the institutional leadership in ministries and other public authorities is replaced, preventing continuity in policymaking and weakening the state's capacity to act based on a more long-term vision. Political discontinuity, with constant changes in governments, brings long periods of inaction, as civil servants take a passive stance, reluctant to take decisions before the new political leadership is found. Policy continuity is also hampered by a lack of handover files for incoming ministers, who often have no information on past agreements, necessitating basically to restart from scratch. Finally, as incoming ministers expect that their tenure will be only short, they tend to prioritise 'quick wins' over more structural reforms that would be more important to Romania's long-term competitiveness.

To compensate for political instability, the number of political appointees in ministries and other public authorities should be reduced. This would help to increase policy continuity inside the public administration. Building on the German civil service, politically appointed secretaries of state could be accompanied by technocratic secretaries of state which could continue to advance on agreed policies and help to ensure the transmission of information and expertise from minister to minister.

Making the public administration more independent from political upheaval can help to improve the capacity to implement and monitor policies over time. Romania does not lack national strategies or analyses and recommendations made available by international organisations, but it is actual ownership and execution that are hampered by political instability. For this, also the coordination between ministries needs to be strongly improved to ensure that policy objectives are shared across different parts of the public administration. Mechanisms to foster responsibility and accountability have to be reinforced to make inaction rather than action an issue for concern.

To act more strategically, the foresight capacities inside the public administration have to be strengthened. Political instability leads to an excessive focus on the present and short-term future, which makes it difficult to plan ahead and set long-term policy priorities. A more stable civil service should thus be accompanied by dedicated ministerial units that focus on identifying current and future key challenges and on developing long-term strategies to address them.

– Strengthen the expertise, independence, credibility and effectiveness of the public administration

There is a broad consensus on the overall lack of quality and expertise inside Romania's public administration. While there are highly competent and motivated public officials present, their share is insufficient and makes it difficult for the state to function efficiently. To address the various underlying causes of this situation, a comprehensive set of policy measures is required.

First, strengthening merit in the hiring and promotion of civil servants is important to reduce the politicisation of the public administration. Disentangling the public service from political networks can reduce the 'fear of speaking up', allowing public officials to communicate problems and weaknesses more openly. This would help public

authorities to learn from mistakes and implement better policies.

Second, public sector careers and wages need to become more competitive for key public administration functions. To be able to compete with the private sector and with European and international institutions for the best minds, it is necessary to provide predictable and attractive career paths in the public administration. Salaries should be in a fair relation to other organisations and should reflect civil servants' contributions to proactive and innovative policy development, implementation and evaluation. In addition, pay scales across different ministries and other public authorities should be harmonised more to improve equality across the civil service. Better career progressions and wages will help to reduce fluctuations in the public workforce, allowing for more policy stability and compensating for instability at the political level.

Third, incentives with potential perverse effects should be replaced. While well intentioned to improve the absorption of EU funds, related bonuses for civil servants should be reviewed and replaced by broader bonuses that incentivise public sector workers to make administrative processes more efficient and transparent.

Fourth, a new balance needs to be found regarding the recourse to external technical assistance and consulting. While the World Bank, the European Commission and other international organisations provide crucial support to Romania's public administration, the strong reliance on their expertise has created a situation of excessive dependency. While technical assistance is supposed to come in only temporarily to support the build-up of domestic capacities, it has, in the Romanian case, discouraged national and local decisionmakers from investing in such capacities, requiring permanent outside support. The strong role of outside institutions leads to institutional brain drain, where talented Romanian civil servants leave ministries to work for organisations providing technical assistance and external advice. To address this and create more ownership over policies, the Romanian government has to develop a strategy on how to replace external with in-house expertise, gradually creating a stable corps of policy experts in the various ministries. Efforts of international organisations should focus on fostering this development of expertise and gradually reduce their role in core policy issues, while continuing to provide support in a more complementary fashion. More ownership over analytical reports and policy ideas will help to close the existing gap between planning and actual implementation.

Fifth, particular efforts need to be made to improve the administrative capacity at the local level. While the Romanian civil service generally lacks expertise, it is a particularly serious issue in local public administrations. To strengthen processes such as public procurement, it is crucial to build the required capacity across the whole of the country.

Sixth, the Regional Development Agencies (RDAs) could serve as a best practice example for structuring the public administration more broadly. The eight RDAs are currently responsible for the management of the EU funds for the eight regional programmes under the 2021-2027 MFF, the regional development plans and territorial economic development. Many stakeholders and experts highlighted the expertise, credibility, fairness and transparency of RDAs, supported by stable leadership. An institutionalised dialogue between civil servants and experts working for the RDAs could help facilitate the exchange of best practices and transform the public administration.

– Public procurement

Given its importance for the economy and for public service delivery, public procurement should be subject to targeted structural reforms aimed at enhancing both transparency and efficiency. First, digitalising public procurement procedures could help clarify procedural requirements, facilitate monitoring, and strengthen the effectiveness of controls and audits, reducing the risk of corruption. In parallel, providing public procurement professionals with training on transparency and integrity could raise their awareness of corruption risks. Second, the quality of public procurement is crucial to its effectiveness: many public procurement procedures fail because of insufficient expertise in their preparations (e.g., unrealistic eligibility criteria), which highlights the importance of improving the expertise required to design and prepare public procurement procedures. Targeted training could be provided to civil servants responsible for preparing public procurement procedures, with the support of European experts in that field. Selecting

civil servants on the basis of their expertise and merit is the key to ensuring the quality of public procurement and reducing the costs associated with unsuccessful public procurement procedures. Finally, public procurement rules should be modified to allow for more experimentation with a focus on audited innovation-oriented procurement for SMEs.

– Make the Romanian court of accounts more performance-oriented

As independent institutions, courts of accounts play a crucial role in democratic systems. Their main task is to audit government finances and ensure that public spending takes place in a legal, transparent and efficient manner, holding governments accountable. However, various stakeholders and experts criticised the Romanian court of accounts and its predominant auditing approach. The main points of contention centre on the court's focus on strict and narrow legal compliance over the performance of public action, considered to be rooted in outdated practices, making effective public investment and policy implementation unnecessarily difficult.

Concerns over audits and potential legal consequences create a very risk averse and passive Romanian public administration. First, to avoid potential legal consequences, public officials are often reluctant to take decisions. Second, when taking action, they often build a complex rule set to demonstrate legal compliance, which can complicate processes such as public procurement. Third, in response to the audit practices of the court of accounts, the monitoring of project implementation typically focuses on technical inputs rather than overall project performance. As an example, authorities tend to verify the exact number of solar panels installed instead of assessing whether the promised electricity output has been achieved.

To address this, the mandate of the Romanian court of accounts should be modernised. A stronger focus should be put on performance, analysing whether public spending was effective in achieving policy objectives. The court's audit approach should support rather than punish proactive public officials. Minor errors, often resulting from legal ambiguity, should not have stronger negative reverberations. Experimentation and innovative practices introduced by public officials should be highlighted positively if they lead to better policy outcomes. When failing, such practices should serve as learning exercises, allowing the public administration to improve iteratively over time. To avoid financial mismanagement and fraud, the Romanian court of accounts should adopt a more risk-based approach to auditing. It should focus on areas with the highest risks for the country's public finances, e.g. in the field of public procurement.

I REINFORCE THE RULE OF LAW

The rule of law, made possible by well-designed laws and enforced by an independent, qualified and well-staffed judicial system, is an important precondition for economic competitiveness. Romania, however, faces significant rule of law problems that have been exacerbated over the course of the last years. These problems make it difficult to effectively control corruption and other practices that undermine the functioning of markets and the protection of a level playing field between economic actors. There is a need for a comprehensive set of reforms to address issues regarding political appointments, lack of accountability, staff shortages and legal rules that facilitate judicial impunity.

First, appointments and career progression in the judiciary need to be depoliticised and become more merit-based, similar to the general public administration. Currently, appointments are often based on political considerations, informal networks and personal connections. The political appointments of magistrates, judges and prosecutors have led to an increasing influence over and control of the judicial system by various networks. Experts have highlighted that political loyalty is often valued more than legal expertise and competence, which undermines judicial independence, efficiency and accountability. To address this issue, a broader reorganisation of the judicial system would be required, including the roles of the Superior Council of Magistracy and court presidents, with the latter having the capacity to control entire courts. This also implies a reconsideration of the balance of powers between the ministry of justice and judicial councils.

Second, to strengthen accountability in the judiciary, it is necessary to strengthen the internal control of the system. The removal of judicial corruption cases from the anti-corruption prosecutor's

office and their transfer to ordinary prosecutors have offered a certain extent of impunity, which needs to be urgently reversed to reinstate the independence of the judicial system from political influence and networks spanning the political, economic and judicial spheres.

Third, staffing shortages need to be addressed to allow for a more efficient judiciary. While salaries in the justice sector have been increased in the last decade, early retirement rules put significant pressure on the system. The constant turnover of personnel deprives judicial institutions of experienced staff and institutional memory, with younger officials often being more vulnerable to political pressure. In addition, the reliance on temporary judicial appointments creates incentives for judges to 'play nice' to keep their positions. More permanent positions and longer career paths are thus required to strengthen the independence and efficiency of the Romanian judicial system.

Fourth, the statute of limitations needs to be revised in some policy areas together with more speedy judicial procedures. Currently, procedural delays can lead to the inability to conclude high-level corruption cases before the statute of limitations expires, resulting in technical impunity. To more effectively control corruption the Romanian government needs to ensure that such situations cannot arise in the future.

Finally, a comprehensive package of integrity reforms should accompany these measures in the judiciary. It includes the restoring of a strong anti-corruption prosecutor's office and its cooperation with the European Public Prosecutor's Office (EPPO), adopting a new framework for conflict-of-interest issues across the public sector, supported by the EU and the OECD's Technical support instrument, and introducing regular evaluation of rules concerning lobbying and revolving doors. Such measures would demonstrate a strong political commitment to transparency and institutional integrity, which may reassure citizens, businesses and the markets, and lead to tangible improvements in the state's capacity to prevent and combat corruption.

TABLE 6. Policy recommendations on state capacity and governance

Improve the capacity of the Romanian public administration to act strategically • Reducing the number of political appointees in ministries and other public authorities • Accompanying politically appointed secretaries of state by technocratic ones • Improving coordination between ministries to ensure that policy objectives are shared • Reinforcing mechanisms to foster responsibility and accountability
Strengthen expertise, independence and credibility of the Romanian public administration • Strengthening merit in hiring and promotion of civil servants • Making public sector careers and wages more predictable • Adapting civil servants' wages to real contributions to policy making • Developing a strategy to replace external with in-house expertise • Replacing existing incentives by broader bonuses for public sector workers focused on improving efficiency and transparency of administrative processes • Improving the administrative capacity at the local level • Institutionalising dialogue between civil servants and experts working for RDAs
Reform public procurement • Digitalising public procurement procedures to facilitate monitoring and reducing the risk of corruption • Providing public procurement professionals with training on transparency and integrity • Improving the expertise of civil servants responsible for public procurement through trainings on how to design and prepare public procurement procedures • Experimenting with audited innovation-based public procurement approaches

Make the Romanian court of accounts more performance-oriented

- Modernising the mandate of the Romanian court of accounts and focusing it on performance and efficiency of public expenditure
- Adopting a more risk-based approach to auditing and focusing it on areas with the highest risks for the country's public finances (e.g. public procurement)

Reinforce the rule of law

- Depoliticising appointments and career progression in the judiciary, making it more merit-based
- Strengthening the internal control of the judicial system
- Creating more permanent positions and longer career paths to reduce constant turnover of judicial institutions
- Restoring a strong anti-corruption prosecutor's office and reinforcing its cooperation with the EPPO
- Adopting a new framework for conflict-of-interest issues across the public sector
- Introducing regular evaluation of rules concerning lobbying and 'revolving doors'

3 . Effective macroeconomic and budgetary frameworks and policies

Romania's fiscal policymaking in the past decades has been marked by procyclical policies, running unnecessarily high deficits during boom phases, while requiring strong austerity measures during recessions, often under conditions of external economic and institutional constraints. To make Romania more competitive in the coming decade, it is necessary to break with this pattern and implement policies and institutions that can ensure a more countercyclical approach.

The need for external pressures to adjust the country's fiscal trajectory towards a more sustainable path is a sign of a lack of ownership in fiscal policymaking. In the coming years, reforms to Romania's budgetary framework should focus on developing expertise and mechanisms that can help to better internalise fiscal policy constraints and provide the tools to manage the budget and the policy mix between fiscal and monetary policy more effectively.

In the short-term it is crucial to implement fiscal consolidation measures to reduce the public deficit and stabilise the country's debt trajectory, while not cutting expenditure in policy areas that will be crucial for Romania's future competitiveness. Fiscal consolidation should primarily aim to ensure that the country can retain its investment grade rating and can stabilise its debt service costs to avoid negative knock-on effects on the budget due to rising public bond interest rates or a debt-snowball effect on the debt service.

A reduction in the public deficit, which should also positively affect Romania's high current account deficit, would help to reduce inflationary pressures driven by internal factors. This is particularly important given that external supply shocks will continue to be a potential source of inflation. Lower inflation would also help Romania's central bank to lower interest rates, with positive effects for the national budget.

MORE EFFECTIVE FISCAL FRAMEWORK AND BUDGETARY INSTITUTIONS

To improve domestic ownership and quality of fiscal policy decisions, it is crucial to reinforce Romania's fiscal framework and budgetary institutions. First, the resources of Romania's Fiscal Council, the country's independent fiscal institution, need to be increased to allow it to fully play its role in monitoring and assessing Romania's fiscal policymaking. The Fiscal Council performs a wide variety of tasks such as the assessment of macroeconomic projections underlying annual budgets, the estimation of the budgetary impact of fiscal and other measures, the monitoring of budget implementation, as well as the compliance with fiscal targets and rules. While having significant in-house expertise and a relatively broad mandate to control fiscal policymaking, the domestic Fiscal Council is significantly hindered by insufficient staffing. It is a priority to fill vacant positions with qualified economists, while also ensuring that the Fiscal Council receives data and government plans sufficiently in advance to be able to analyse them in adequate depth.

Second, Romania's budgetary institutional set-up should be further strengthened through the introduction of a parliamentary budget office. Taking on a complementary role to the national Fiscal Council, this institution could provide independent analysis capacity and advice to individual Members and party groups of the Romanian parliament who would like budgetary costings of reform proposals. This would help to improve ownership over and the internalisation of fiscal policy implications of laws. Alternatively, the mandate and resources of the Fiscal Council could be further expanded to fulfil such a function, as it is already charged with providing information following requests of parliamentary committees and can be requested to analyse the impact of electoral commitments ahead of elections.

Third, while a well-developed national fiscal framework is in place, more needs to be done to ensure that fiscal consolidation commitments are actually followed through with measurable milestones, regular evaluations and greater transparency. Fiscal consolidation measures should be evaluated regarding their expected negative side effects and selected to minimise adverse repercussions on Romania's long-term growth potential, while taking into account social cohesion.

Fourth, the systematic implementation of spending reviews in the budgetary process can strengthen a performance-based budgeting approach. This would allow to cut wasteful spending while maintaining efficient expenditure and spreading good practices across the whole public administration.

Fifth, the use of emergency ordinances should be further restricted to reduce haphazard and discretionary policy changes with stark budgetary consequences. While Romania has a statutory fiscal stability rule, requiring that changes to the fiscal code have to be published at least six months before they enter into force, this rule is often not followed. Many stakeholders have criticised the policy uncertainty and instability introduced by the capacity of governments to use emergency ordinances to circumvent this legal requirement. Furthermore, while emergencies ordinances should be restricted to 'real' crisis situations and be limited in time, they have been repeatedly used to make lasting policy changes. A modification of the legal rules should be considered to circumscribe this tool more strongly.

Sixth, the role of the Romanian finance ministry in budgetary steering and oversight needs to be strengthened. While having significant formal powers, the ministry's effective control over commitments and politically driven spending is significantly lower. According to experts, the ministry does not engage early on with line ministries regarding the fiscal implications of sectoral laws. Rather, it only weighs in once the law is already submitted to the government, limiting the impact that the finance ministry can have on the final law. The capacity of the Romanian finance ministry to coordinate and control expenditure committed by other ministries and hold them accountable for complying with agreed budget trajectories should be reinforced. It should become a 'first-among-equals' to be able to enforce binding budgetary constraints on line ministries to be able to fulfil its function as a genuine central coordinator on budget and fiscal matters.

REORIENT PUBLIC EXPENDITURE TOWARDS PRIORITIES AND IMPROVE ITS EFFECTIVENESS

Romania has significant public spending needs in the coming decade, which makes large-scale expenditure cuts to balance the national budget difficult. To improve the country's competitiveness and economic security, targeted additional expenditure in the areas of education, R&D, digitalisation, infrastructure, defence and climate mitigation and adaptation are necessary. The ageing of the population and rising debt service costs put additional structural pressures on the Romanian budget. A reorientation of the existing expenditure logic and governance is thus warranted.

First, to mitigate spending pressures, it is crucial to prioritise between different state expenditures, and to strongly improve the overall effectiveness of spending. Systematic spending reviews, as mentioned above, can help to identify spending that achieves economically and socially desirable outcomes and help to reinforce it, while cutting spending which fails to produce discernible benefits.

Second, it will be crucial to better manage the public wage bill and pension payments in the coming years. After a period undulating between strong wage increases and wage freezes, a more predictable framework for wage increases in the

public sector needs to be introduced and should be accompanied by a better alignment of wages across different public administrations. The same predictability is also needed for the pension system, where changes to payments can have stark effects on the state's budget.

Third, the recent tendency of the Romanian state of 'overcommitment' to public investment projects needs to be stopped, requiring a better steering of the country's investment policy. Over the course of the last years, excessive investment commitments were made, approving and/or contracting many projects without always ensuring that the public actually provides sufficient financing them. Partly driven by concerns over not making full use of available RRF funds until the 2026 implementation deadline, some line ministries over-contracted by as much as 100%. This overcommitment creates significant fiscal and legal risks. Better coordination and oversight into investment commitments is thus crucial and could be managed by a strengthened finance ministry. Concretely, a unique commitments register could provide more visibility of contracted obligations. Mechanisms for the prioritisation of the most beneficial projects should be introduced, accompanied by ex-ante affordability checks to ensure that investment projects actually fit with the country's budget trajectory.

Fourth, reforms to the Romanian state-owned enterprises (SOEs) sector should be implemented to reduce fiscal and budget sustainability risks. While some SOEs, especially in the energy sector, are performing well, a significant share of SOEs is accumulating losses and arrears, which raises questions on the need for government support. While there have been recent legal changes to improve the performance of SOEs, including the establishment of a Monitoring and Evaluation Agency (AMEPIP), there has been only a partial implementation of measures. The Romanian government should thus strengthen the implementation of the SOE corporate governance framework and work on further improving the efficiency of the SOE sector, also through rationalisation measures.

STRENGTHEN PUBLIC REVENUES AND MAKE ROMANIA'S TAXATION SYSTEM FAIRER

The Romanian government should urgently take measures to increase public revenues through the reduction of tax compliance gaps. Without requiring any increases to statutory tax rates, a reduction of compliance gaps for VAT and CIT to the EU average could mobilise an additional 3-4% of GDP in the medium-term, lifting Romania's overall public revenues gradually to a level similar of its CEE peers. Reductions of tax compliance gaps to EU levels will require sustained political and administrative efforts but could be achieved over a 5–6-year horizon as shown by Greece's efforts to reduce its major VAT compliance gap between 2017 and 2023. The additional revenues would reduce consolidation pressures on the budget's expenditure side and provide, by the early 2030s, space to further revisit the overall tax structure in the Romanian economy.

Aligning tax compliance gaps with the EU average would not only have positive fiscal effects but also increase fairness and equity in the Romanian tax system. Currently, the effective CIT rate among Romania's too-100 companies stands at 14% for MNCs (only slightly below the statutory rate of 16%), while domestic enterprises in this group paid an average effective CIT rate of below 4%. This inacceptable distortion of the level playing field between enterprises needs to be addressed, and would also nudge domestic firms to become more efficient, providing a lever to reduce the big gap in productivity between international and national companies.

To achieve a reduction in tax compliance gaps a package of measures is needed. This includes changes in tax legislation to close loopholes for tax optimisation, measures to digitalise the taxation system and strengthen the national tax administration agency, stronger and enforceable penalties in case of tax evasion or fraud, and reforms in the judicial system to improve the rule of law. The digitalisation of Romania's tax administration would require better interoperability between different government databases and levels of government to more easily detect discrepancies between tax declarations and the actual situation. For illustration, ANAF currently does not have any real visibility into the number of properties that individuals across the

country actually own. The reduction in tax compliance gaps through digital reporting systems and a strengthened tax administration agency could be bolstered further by the introduction of reverse-charge VAT systems, at least in high-risk sectors.

RECALIBRATE ROMANIA'S TAX SYSTEM

Romania's tax structure requires an overhaul to increase fairness and facilitate the inclusion of parts of the informal economy in the formal one. As highlighted in this report's baseline assessment, Romania has one of the highest tax wedges for income in the EU, especially for lower-income earners. This tax wedge is primarily based on high social security contributions (25% for pension contributions and 10% for health insurance) and a 10% individual income flat tax rate. Employers contribute 2.25% as work insurance.

The high tax wedge for lower-income earners should be reduced in the coming years through a more progressive system of taxation and social contributions. A lower tax wedge for employees at the lower end of the pay spectrum would help to reduce incentives to underreport wages and remain in the informal economy. Similar to the reduction of tax compliance gaps, this would improve tax 'fairness' by broadening the base of people subject to taxation while improving insurance coverage for pensions and health. By moving away from the country's flat tax approach towards more progressive taxation, the loss in tax revenues through the reduction in the tax wedge for lower-income earners could be offset by increasing taxation on high income earners. The underlying idea would not be to generate additional tax revenues, but rather to distribute the burden share differently. By bringing more workers into formal employment and by reducing an under-reporting of wages, the resulting additional tax revenues could be sufficient in the medium-term to actually reduce overall labour taxation rates.

The government should reflect on how to recalibrate the overall tax burden between different types of taxation (labour, capital, property) and how to finance Romania's social security system. While labour taxation is very high, taxation on capital and property is comparatively low. While a gradual increase in public revenues to finance important public spending needs seems warranted, this should not happen by burdening the labour factor further, as this would have negative effects on consumption.

BRING ROMANIA ON THE PATH OF EURO ACCESSION

As a medium-term political anchor, Romania should commit to join the Euro area until 2035. The Maastricht convergence criteria can serve as useful guidelines for running prudent fiscal policies in the coming decade beyond the constraints imposed by national and EU fiscal rules. A 10-year time horizon provides a reasonable time frame to achieve further economic convergence before joining and allow for a gradual adjustment of fiscal policymaking. On the path towards the euro, the exchange rate with the leu should be managed in a manner that avoids the accumulation of overvaluations to not negatively affect Romania's competitiveness.

TABLE 7. Policy recommendations on macroeconomic and budgetary policies

Create a more effective fiscal framework and budgetary institutions

- Increasing the resources of Romania's Fiscal Council and filling vacant positions with qualified economists
- Introducing a parliamentary budget office taking on a complementary role to the national Fiscal Council
- Ensuring that fiscal consolidation commitments are actually followed through by regular evaluations
- Making spending reviews more systematic and integrated in the budgetary process
- Limiting the use of emergency ordinances to real crisis situations to reduce discretionary policy changes
- Strengthening the capacity of the Romanian finance ministry to coordinate and control expenditure committed by other ministries

Reorient public expenditure towards priorities and improve its effectiveness
- Prioritising expenditures in the areas of education, R&D, infrastructure, digitalisation and climate mitigation and adaptation
- Creating a more predictable framework for management of the public wage bill and pension payments
- Improving coordination and oversight into investment commitments
- Reforming the Romanian SOE corporate governance framework and improving the efficiency of the SOE sector

Strengthen public revenues and make Romania's taxation system fairer
- Reducing tax compliance gaps, especially for VAT and CIT to increase public revenues and create a more efficient and fairer tax system
- Digitalising the taxation system and improving interoperability between different government databases
- Strengthening the role of the national tax administration agency and making penalties in case of tax evasion or fraud more enforceable

Recalibrate Romania's tax system
- Reducing the high tax wedge for lower-income earners
- Moving away from the country's flat tax approach towards more progressive taxation
- Recalibrating the overall tax burden across labour, capital and property while reassessing the financing of the social security system

Bring Romania on the path of Euro accession
- Setting a 10-year time horizon to achieve further economic convergence before joining the Euro area in 2035
- Using the Maastricht convergence criteria as guidelines for running prudent fiscal policies

4 . Make the financial system a source of economic growth

The development of Romania's financial system could significantly strengthen the country's competitiveness if it allows for more provision and efficient allocation of capital across the economy. For this, Romania needs to increase financial intermediation, develop its financial markets and make strategic use of public financial institutions in a coherent manner, supporting the development of an innovative economy.

I STRENGTHEN FINANCIAL INTERMEDIATION

Romania should set steps to further develop the domestic banking sector and increase financial intermediation. Financial literacy and inclusion initiatives need to be reinforced to ensure that all of the population can make use of banking. To increase financial intermediation, it is important to address both demand and supply side issues.

A crucial element on the demand side is to make more enterprises bankable. To achieve this, first, financial literacy initiatives and practical tools should be provided for enterprises, especially SMEs, to allow them to improve their financial management by implementing the documentation, accounting standards and financial transparency necessary to meet lender requirements and have access to financial intermediation. Second, the Romanian state needs to enforce minimum capital requirements for enterprises more forcefully. Currently, almost a third of all companies fail to comply with the existing legal rules and are thus not bankable. Bringing companies in legal compliance will help to create the conditions that allows banks to provide credit to more enterprises.

On the supply side, several measures can help to give credit more easily to citizens and enterprises. First, a reduction of public deficits can help to reduce inflationary pressures and key interest rates of the Romanian National Bank, which would also positively affect the cost of credit for households and companies. Cheaper rates would make credit more attractive and lower demand by the public sector through fiscal consolidation would also free up supply for the private sector. Second, the conservative lending rules for banks in Romania could be revised to make it easier to fulfil lending requirements, e.g. in mortgage lending. These measures

could help to increase the supply of credit, given that Romanian banks are very well capitalised in comparative terms.

EXPAND CAPITAL MARKETS TO FUEL ECONOMIC DYNAMISM

The Romanian state should take a bundle of measures to grow its capital markets, developing financing options beyond the banking sector. They should focus on mobilising savings, increasing overall liquidity and help to steer capital towards priority sectors for Romania's competitiveness, security and resilience, with a special focus on the provision of more risk/venture capital for startups and scaleups.

First, recent reforms to mobilise savings for investments should be continued. Allowing private pension funds to invest in private equity and venture capital funds helps to provide more risk capital to the private sector. The government should ensure that the rules and eligibility criteria are sufficiently conducive for investment, as actual investment is lower than the legally allowed thresholds for the moment. The Romanian state should also consider the introduction of tax-advantaged retail investment accounts, similar to upcoming programmes in Germany and Austria for children or more general existing schemes like in Italy, could funnel additional private savings into capital markets.

Second, the Romanian state should consider taking measures that support overall stock market capitalisation and liquidity. This includes listing stakes of SOEs that are not yet present on Romania's stock exchange and providing more shares for SOEs that are already listed.

Third, corporate bond markets should be developed further as an alternative for enterprises to go public. Measures in this regard should include a simplification of corporate bond issuance and better access to credit ratings while expanding institutional investment in corporate bonds.

Fourth, Romania should continue to advocate for a swift and comprehensive implementation of the Savings and Investments Union (SIU), a key project to better integrate capital markets in the EU. The SIU is a major opportunity to remove cross-border barriers that currently lead to market fragmentation in the financial sector. The SIU can help to provide Romanian companies, from SMEs to larger firms, with better access to capital from European investors. In the medium-term, Euro accession would be another step to increase Romania's international investment attractiveness, amongst other factors eliminating currency risks and reducing transaction costs.

BUILD A DEVELOPMENTAL STATE THROUGH PUBLIC FINANCIAL INSTITUTIONS AND FINANCING

With the BID, the country's investment and development bank, operational only since 2025, Romania has an opportunity to provide capital in a strategic manner, supporting competitiveness across economic key areas. To this end, the capitalisation of the BID should be further increased in a long-term perspective. While building up expertise and developing its activities, the Romanian government should also continue to broaden the mandate and functions of the BID to allow it to become a crucial player in Romania and in Southeastern Europe, both as an investor and as a financial intermediary.

To support Romania's economic development, the BID should address existing financing gaps and provide support for priority sectors. Together with the EIB, the BID identified large financing gaps affecting SMEs, various infrastructure segments (such as energy efficiency and water), transport, and social infrastructure. In cooperation with European and international financial institutions, the BID should tackle these financing gaps. To help foster competitiveness, the BID should also provide targeted support for priority sectors such as high technology and innovation, energy, defence and cybersecurity, logistics, net-zero technologies, and critical raw materials.

The BID should set up a national fund of funds to provide capital to local private equity and venture capital funds. The bank should also build up its internal capacities for running its own public venture capital fund, making direct investments. To achieve this, the BID should rapidly establish the planned national fund of funds called RoBOOST that is developed in cooperation with the European Investment Fund (EIF). It also requires the BID to have additional human resources, specialist skills and a dedicated IT infrastructure. Sufficient government support is necessary to advance on these points. RoBOOST and an eventual public venture

capital fund could help to complement and continue support that has been provided by the Recovery Equity fund of funds, financed through the RRF, since 2021. More broadly, the BID could help to make better use of existing EU-level instruments to leverage them for domestic purposes. So far, Romania significantly underuses instruments such as the EIF, the European Investment Council and the European Tech Champions Initiative.

The BID should consider gradually taking over the management of EU-linked funding in the coming years. This can include the implementation of financial instruments funded by the Modernisation Fund and the transfer of the management of the InvestEU Member State compartment from the EIB/EIF to the BID. The latter would secure more local ownership, better use of local information and a further strengthening of the BID.

Additional activities and instruments of the BID could focus on the international and local levels. The BID could get involved in frameworks for the reconstruction of Ukraine and the pre-accession support for Moldova. Inside Romania, the BID could consider developing financial instruments specifically catering to the needs of local authorities. As public funding for local authorities is often deemed to be allocated based on political considerations, such financial instruments could help to reduce the dependence of local authorities on the central government. Finally, the BID could also draw on lessons from innovation ecosystems built by public investment banks in cities like Munich, to support ideas coming directly out of universities, e.g. by funding grants for proofs-of-concept.

Adaptations of the current rules and available data are necessary to allow the BID to fully play its role as a financial intermediary and investor. First, the application of the Do-no-significant-harm (DNSH) principle, a requirement for the BID as it has been established under the RRF, needs to be modified to facilitate the provision of loans for SMEs. Full ex-ante assessments before the provision of each loan are difficult for both SMEs and banks. A potential solution would be to build an ex-ante presumption that SMEs, given their size, are unlikely to cause significant environmental harm and be verified only with ex-post spot checks. Second, required crowding-out tests pose a challenge for the BID as there is no established practice in Romania for commercial banks to issue formal written rejections of loan applications. A more lenient approach for the determination of finance gaps should be promoted. Finally, the BID, like private financial institutions, suffers from a lack of high-quality interoperable data, requiring a broader digitalisation, data and AI strategy by the Romanian government.

Beyond the BID, also the Romanian government should provide better startup financing options. Current schemes provided by the national budget have been criticised as being either insufficient or poorly structured. To resolve this, the Romanian government needs to create better managed and strategy-driven public funding for startups, based on transparent eligibility and selection procedures.

TABLE 8. Policy recommendations on the financial system

Strengthen financial intermediation • Reinforcing financial literacy initiatives for SMEs and citizens • Enforcing minimum capital requirements for enterprises more forcefully • Implementing a revision of the conservative lending rules for banks in Romania to make it easier to fulfil lending requirements and increase the supply of credit
Expand capital markets to fuel economic dynamism • Continuing recent reforms to mobilise savings for investments • Reworking rules and eligibility criteria for pension fund investments in private equity and venture capital • Introducing tax-advantaged retail investment accounts • Developing corporate bond markets • Promoting the project of the Savings and Investments Union (SIU) to better integrate capital markets in the EU

Build a developmental state through public financial institutions and financing

- Increasing the capitalisation of the BID
- Broadening the mandate of the BID taking over the management of EU-linked funding
- Targeting support of the BID on priority sectors such as high technology and innovation, energy, defence and cybersecurity, logistics
- Setting up a national fund of funds (ReBOOST) and building up capacities for the establishment of a public venture capital fund
- Creating a better managed and strategy-driven public funding for startups, based on transparent eligibility and selection procedures
- Modifying the current rules to facilitate the provision of loans for SMEs

5 • Realise Romania's energy sector potential

Romania's energy sector has a lot of potential to contribute to the country's competitiveness. To untap this potential, Romania needs to reduce energy prices, contribute to domestic and European energy security, and develop economic sectors that depend on cheap, readily available energy as a locational factor. Policies, reforms and investments should focus on strengthening the country's institutional capacity and governance in the energy sector, modernising Romania's electricity grid, and investing in the production and storage of energy. In addition, the path for a coherent two-pronged strategy for renewable build-out and the development of Romania's gas sector should be laid out, using the EU dimension as a leverage for further developing the domestic energy system. Together, these measures can help to strengthen Romania's competitiveness by reducing energy prices, increasing energy security and providing a boost for existing and nascent industrial sectors, such as energy-intensive manufacturing and AI infrastructures.

I STRENGTHEN INSTITUTIONAL CAPACITY AND GOVERNANCE IN THE ENERGY SECTOR

The development of a coherent, forward looking and strategic Romanian energy policy depends strongly on the sector's institutional capacity and governance quality. However, as more broadly in the country, there is a significant lack of state capacity which hampers the ability of the government to formulate and execute the required policies to realise Romania's energy potential. This concerns both the relevant ministries and the state-owned energy companies.

First, Romania's public administration and SOEs need to develop in-house expertise and competences to improve its public procurement processes, especially in the area of public tenders. The failure of past tenders for energy production facilities such as combined cycle gas turbine power plants highlights the need to render these processes more effective. The resulting delays have kept energy prices and external dependence in the last years higher than necessary.

Second, data availability in the Romanian energy sector needs to be strongly improved to allow for more targeted policies. The digitalisation of the energy system (see further below) is an important element, but so is a reinforcement of data availability and sharing between different public and private actors, as well as the utilisation of data to allow for more targeted energy policy measures. The lack of useable data on vulnerable energy consumers makes it difficult to provide targeted measures to address energy poverty and support specific households in energy price crises. The capacity to target vulnerable customers would help to keep costs for support measures lower than when being required to introduce blanket measures. Such blanket measures since 2022 have been very costly, with significant negative effects for Romania's public finances. For example, the price gas and electricity price caps following the 2022 energy price crisis cost the state €19-20bn, which could have significantly been reduced by focusing on the most vulnerable citizens. Granular data on households is also necessary to develop Romania's national social-climate plan to receive EU funds from the Social Climate Fund linked to the upcoming ETS2 (the European Emissions Trading System for the transport and building sector).

Third, policy stability in the energy sector needs to be reinforced. Unilateral changes in subsidy

schemes during their implementation, e.g. in a green certificate scheme launched in 2015, negatively affect investor trust in public schemes. This policy instability, in turn, renders it difficult for public policies and support schemes to achieve their objectives. Going forward, additional safeguards should be implemented in public subsidy schemes to ensure that abrupt policy changes by governments do not lead to stark losses for investors.

Fourth, the Romanian government needs to facilitate the clearance and permitting for energy projects. Currently, some counties refuse project clearance in areas earmarked for undefined future uses. A prioritisation of energy sector investments would help to develop energy production, transmission and distribution more rapidly.

Fifth, there is a need for a more decisive and coherent public administration, making long-term choices while assuming some negative short-term side effects. In the last years, political indecisiveness led Romania to lose sizeable EU funds made available through the Just Transition Fund and the RRF. Coherent energy policy making is crucial for the development of other economic sectors, such as manufacturing and AI, and for increasing energy system resilience and security. Furthermore, the lack of clearly announced exit timelines and the prolongation of gas and electricity price caps and compensation schemes badly distorted gas and electricity markets. Their sudden elimination, also due to the significant budgetary costs, subsequently led to a massive increase in energy bills for companies and citizens. A more gradual approach with clear rules for the reduction or termination of the support schemes would have helped to better manage expectations and keep costs in the long term lower rather than focusing on the short-term benefits ahead of the 2024 elections.

Sixth, an in-depth analysis of the functioning of the domestic electricity market design should be undertaken to ensure an efficient price formation process. Several experts contended that the current market design is contributing to high electricity prices rather than pushing them down. The role of intermediaries in the process of price formation should be studied.

Seventh, the governance of state-owned energy companies and grid operators needs to be improved. According to experts, the Romanian transmission system operator (TSO) suffers from political interference. Measures should therefore be taken to ensure that the country's only TSO can work free from outside pressures in line with national and EU energy objectives. To prevent political intervention and the use of state-owned energy companies for specific policy objectives, a stronger separation should be established between energy policymaking, which is the responsibility of Romania's energy ministry, and energy production, which is provided by SOEs. One option for such a separation would be to transfer the energy SOEs from the energy ministry to the finance ministry. Additional reforms could revisit the approach taken in the past, that separated energy SOEs by the type of production.

STRONGLY INVEST IN ELECTRICITY GRID, ENERGY PRODUCTION AND STORAGE CAPACITIES

To lower energy prices in the medium-term, facilitate the integration of renewables in the energy mix and profit from European interconnection, Romania needs to heavily invest in its electricity grid. The implementation of a broad set of policy measures and investments is necessary to achieve this.

First, the mandate of the Romanian Energy Regulatory Authority (ANRE) should be amended to make the regulator more supportive of grid modernisation and expansion, better aligning it with national and EU energy objectives. Currently, ANRE focuses on avoiding tariff increases for consumers, which might keep overall energy prices lower in the short-term but fails to create the conditions to lower electricity costs in the medium-term. While transmission and distribution system operators (DSOs) are ready to invest in their grids, the regulator remains hesitant to bring projects into the regulated asset base. This is even the case when European-level funding is accessible. Amending ANRE's mandate to prioritise grid modernisation and expansion, based on a more long-term energy policy vision in line with EU objectives on renewable energy and electrification, could help to reduce the significant investment deficit faced by DSOs.

Second, to limit the negative effects of grid modernisation and expansion on network tariffs, measures to protect vulnerable households

and better spread costs in time should be taken. Targeted measures could help to shield certain consumers but depend on the energy sector's capacity to identify them, requiring better data availability and exploitation. And by backloading some of the payback burden of today's grid investments that will last for 50 years, the costs that will ultimately lower electricity prices in the long-term could be more equally shared by different generations.

Third, the Romanian government needs to stop using state-owned electricity producers for dividend payouts to bolster the country's budget. This policy change would free up resources inside these companies to invest in new energy production capacities and a reinforcement of the country's electricity grid.

Fourth, Romania needs to invest in the digitalisation of grids to allow for a more flexible electricity management and reduce the need for grid expansion. While Romania's and Spain's energy mix are relatively similar, energy prices are significantly lower in Spain. One of the reasons for this difference is that Spain invested heavily in grid modernisation and digitalisation to better integrate renewables in the country's electricity system, providing better market information. The underinvestment in digitalisation in Romania renders it difficult to exploit flexibility services and better manage the growing number of solar prosumers. The digitalisation of grids requires the mass introduction of smart meters and an adequate regulatory framework to better integrate prosumers in the energy system, an area in which Italy could provide lessons for Romania. To this end, also the Romanian energy regulator needs to introduce more incentives, e.g. for smart meter deployment, than in the past. The development of energy communities would also help to manage the supply of electricity through prosumers at the local level.

Fifth, energy storage needs to be built out quickly to address the big spread in electricity prices between noon and evenings/mornings. Additional energy storage, especially battery storage, can help to further flexibilise Romania's electricity system, better manage production and demand peaks. Storage capacities close to production sites can help to reduce the need for electricity grid expansion.

Sixth, Romania needs to develop its transmission network in anticipation of the concentration of additional energy production in the Southeast of the country. This area has the best solar and onshore wind conditions, will be the location of a planned nuclear power plant expansion and is also bordering the Black Sea, where Romania also has offshore wind potential. Grid expansion also needs to accelerate to connect already existing wind capacities to the national grid.

Seventh, grid interconnections with the rest of Europe, especially with Central Europe, need to be developed further to benefit from the European electricity market. The lack of connectivity with Central Europe is both a physical infrastructure and a capacity allocation issue, negatively affecting electricity prices in Southeast Europe. Romania has to push for the rapid implementation of the European Grids Package and the Energy Highways initiative at home and abroad to help lower energy prices, provide more security of supply, facilitate the integration of renewables, and support electrification. The South-East Europe Energy Highway is an opportunity to improve grid interconnections both towards Hungary, Slovakia, Czechia, Austria, Slovenia and Croatia, and towards Bulgaria and Greece. It will also focus on strengthening energy system flexibility and storage. Supported by EU funding, these measures will help to narrow the gap between the electricity prices in Southeastern and Central Europe that has opened over the course of the last decade. More interconnections can also reduce the effects that the war in Ukraine had on Romania's energy prices, as the country has become a regional electricity exporter to Moldova and Ukraine.

DEVELOP A COHERENT MIX OF RENEWABLES ROLLOUT WITH THE DOMESTIC GAS SECTOR

In the coming decade, Romania needs to navigate two different energy policy visions, the European electrostate model turned towards renewables and electrification and the US petrostate approach, with a focus on the continued use of (liquefied) natural gas. Given the domestic potential and the overall EU energy strategy, Romania should implement a long-term strategy to foster the development of renewables production, while making strategic use of its gas reserves in the medium-term, without creating undue lock-in effects.

In the area of renewable energy production there is significant potential, with a strong pipeline of projects, particularly regarding PV, with battery storage becoming increasingly important due to its ease of deployment. EU funds, such as the RRF and the Modernisation have helped to accelerate utility-scale development through CAPEX support and a CFD framework that is considered to work well. Beyond PV and onshore wind, there is also offshore-wind potential in the Black Sea, for which the port of Constanta could become a regional installation hub for offshore wind not only in Romania, but also in Bulgaria and Ukraine. The proximity of such installations to Russia is, however, a risk that needs to be managed in the coming years, similar to the Neptun Deep project (discussed further below).

Romania should make use of the comparatively low level of NIMBYism to rapidly low out renewables in the country. Several stakeholders and experts pointed out that the lack of strong local protests against new wind and solar installations facilitates the implementation of projects. This is a clear locational comparative advantage in comparison to countries in Western Europe, where the construction of renewables is often delayed or even stopped due to citizens or politicians mobilising against such projects. If the Romanian state manages to overcome bottlenecks in permitting and ensure that the renewables build-out is accompanied by sufficient grid and storage development, then this can support the reduction of energy costs and more energy security in the medium-term.

Renewables expansion needs to be accompanied by a sensible and strategic development of the country's gas sector. The underlying strategy requires to balance the more short- and medium-term oriented utility of national gas production projects and the geopolitical and defence necessities to accommodate US demands for LNG (liquefied natural gas) infrastructure with the longer-term needs to decarbonise the economy and become more energy-independent based on renewables and nuclear energy in the coming decades, in line with the common EU approach.

The Neptun Deep project has the potential to make Romania a regional player in the gas sector and provide the country and Europe with – at least temporary – greater security of supply, also through regional diversification. Given the current volatile and conflict-ridden global context, Neptun Deep can thus provide crucial support for greater European energy independence. However, even if fully exploited, domestic gas production in Romania in the coming decade will not be sufficient to meaningfully influence prices in Europe. Estimated reserves of 100bcm and an expected maximum annual production of 8bcm are small compared to an EU consumption of 350bcm in 2025.

While Romania should make use of its available gas reserves to develop the gas sector, the limitations of domestic supply should also be recognised to avoid long-term lock-in effects in gas infrastructures that could lead to higher energy dependency in a context of geopolitical competition and volatility. The country's gas reserves should be used strategically to provide domestic and regional supply while also serving more high-value industrial activities. These activities, when integrated vertically, can help gas producers to diversify into downstream activities such as power generation, fertilisers or ammonia production. The expansion of gas distribution grids for residential use should be limited to avoid potential long-term dependencies from more expensive LNG when national reserves are running out.

Policy and regulatory measures in Romania's gas sector should include a tackling of high gas transmission tariffs and a stronger liberalisation of the retail gas market. More pressure on the national gas TSO is needed from the domestic energy regulator to improve efficiency and reduce costs. And an effective liberalisation of the retail gas market would help to correct the skewed electricity to gas price ratio.

Security- and defence-related aspects are a central to reflections on Romania's gas sector and infrastructure. The country's location in the Black Sea region close to Russia, Ukraine and Moldova makes it vulnerable to hybrid attacks, which could also hit the country's energy infrastructure. The Neptun Deep project off Romania's coast, promising in terms of domestic gas production capacity and energy independence, is a particularly exposed production infrastructure. Situated inside Romania's exclusive economic zone but outside of its territorial waters, it is not formally covered by NATO's article 5 clause. This does, however, not preclude the fact that common actions would be taken in case of an attack. Recent attacks on ships in the Black Sea and a misguided drone explosion in

the harbour of Constanta highlight the precarious situation, which needs to be managed through economic, diplomatic and defence-related measures. This requires, in particular, to accommodate US pressures for building LNG transmission infrastructure in the region, the so-called vertical corridor, without letting this project dictate the country's overall energy policy approach.

USE THE EU DIMENSION AS A LEVERAGE FOR DEVELOPING ROMANIA'S ENERGY SECTOR

The EU provides significant financial support to modernise the Romanian energy system, expand renewables and low-carbon production, promote electrification, integrate Romanian and European electricity and gas networks, and support the transition of regions that have been shaped by fossil fuel production and use. Romania should fully use the available EU funds to facilitate and accelerate its energy transition.

To fully absorb EU support in a timely manner, it is necessary to strengthen the institutional capacity and governance in the domestic energy sector as highlighted further above. Political instability, indecisiveness over the direction of Romania's overall energy policy, and insufficient expertise in the public administration have made it difficult to adequately make use of the funds provided by the RRF and the Just Transition Fund.

The Modernisation Fund is a key instrument to modernise the energy sector until 2030, providing support for a broad set of investments. With the termination of the RRF and the conclusion of the 2021-2027 EU budget, it will constitute a key European instrument in the coming years. It will also be crucial to draw on the funds expected to be available via the Connecting Europe Facility (CEF) for energy in the next multiannual financial framework (2028-2034) to better connect Romania's energy grids with the rest of Europe.

In the ongoing negotiations for the next EU Budget, Romania should actively advocate for securing and increasing the available support for the modernisation of energy systems and the expansion of renewables to reduce prices and improve energy security.

TABLE 9. Policy recommendations on the energy sector

Strengthen institutional capacity and governance in the energy sector

- Improving in-house expertise within Romania's public administration and SOEs, especially in the preparation of public procurement
- Reinforcing data availability in the energy sector to better target policies in this area
- Implementing additional safeguards in public subsidy schemes to ensure policy stability in the energy sector
- Facilitating the clearance and of and permitting for energy projects
- Developing a decisive and coherent energy policy approach inside the public administration
- Undertaking an in-depth analysis of the domestic electricity market design
- Improving the governance of energy policies, by ensuring a stronger separation between energy policymaking (energy ministry) and energy production (SOEs)

Strongly invest in electricity grid, energy production and storage capacities

- Reforming the mandate of the ANRE to prioritise grid modernisation and expansion
- Adopting targeted measures to protect vulnerable households, limiting the negative effects of grid modernisation and expansion on network tariffs
- Stopping to use state-owned electricity producers for dividend payouts
- Investing in the digitalisation of grids
- Building out energy production and energy storage infrastructures
- Developing grid interconnections with the rest of Europe, especially with central Europe

Develop a coherent mix of renewables rollout with the domestic gas sector

- Developing Romania's potential in the renewable energy production
- Accompanying renewables expansion by a strategic development of the country's gas sector
- Using the country's gas reserves strategically to provide domestic and regional supply while also serving more high-value industrial activities
- Achieving an effective liberalisation of the retail gas market to correct the skewed electricity to gas price ratio
- Taking into account security and defence-related aspects in the resilience of Romania's gas sector

Use the EU dimension as a leverage for developing Romania's energy sector

- Improving the institutional capacity and governance in the domestic energy sector to fully absorb EU support
- Using the Modernisation Fund as a key instrument to modernise the energy sector until 2030

6 . Implement a digitalisation, data and AI programme for Romania

The digitalisation of Romania's government, economy and society is a major opportunity for improving the country's competitiveness. Digitalisation can help to build on and further develop the comparative advantages Romania has based on a high-quality fixed connectivity infrastructure, a qualified IT workforce, and a well-developed IT sector. By fostering transparency and simplicity, digitalisation can support the reduction in tax evasion and fraud, reduce risks of corruption, and strengthen the effectiveness of domestic public procurement. Digitalisation can also facilitate the access to public services from citizens in less-developed regions and for Romania's large diaspora.

The digitalisation of Romania has, however, been hampered by political instability, the lack of coordination among ministries and other public actors, and the influence of clientelist and patronage-based networks. Political instability has led to a loss of focus on digitalisation, as policy priorities are frequently reset following government changes. And as digitalisation would reduce the opportunities for interference, special interests are keen on blocking stronger advances. Beyond the public sector, the insufficient extent and pace of the digitalisation of Romania's society has also hindered the development of a genuine domestic market in this area, with Romanian IT companies focusing almost exclusively on the exports of services and products.

Digitalisation has to go hand in hand with a country-wide data strategy, providing interoperable high-quality open-access data to the public administration, enterprises and citizens. Data compilation and availability can provide support for more evidence-based and targeted political decision-making, facilitate the work of public authorities and private companies, and can help to develop data-based business models in the Romanian IT sector.

More data availability would simplify the tasks and work of public and private financial institutions. Currently, there are significant problems with the access to readily usable data as well as a lack of interoperability and data harmonisation. For illustration, the analysis of DNSH compliance of projects by the BID is rendered difficult as the country's Trade Registry does not have a single, centralised data source, while the platform for environmental authorisations is not standardised and differs from county to county. Similarly, insufficient data availability on private firms for banks makes financial intermediation more costly and potentially leads to the exclusion of certain company categories.

Finally, new AI technologies have the potential to significantly improve productivity across the economy and provide a new growth impetus for Romania's domestic IT sector. Romania could become a global leader in specific AI niches linked to the country's current sectoral strengths, such as IT, cybersecurity, and advanced manufacturing. Making use of the country's energy potential to provide reliable and cheap energy could also give the country a locational advantage for the establishment of AI factories and data centres.

However, Romania is a laggard regarding the use of AI technologies, which is partly perceived as a potential risk rather than an opportunity for the

further development of the country's IT sector. A lack of digital competences among a significant part of the population, enterprises and the public administration hinders a more rapid adoption of AI.

To overcome these issues, the Romanian government needs to put into place a comprehensive and implementation-oriented digitalisation, data and AI programme. It requires a sustained shared political concertation effort and the overcoming of resistance from powerful clientelist networks, which can be supported by a capable and proactive public administration. This strategy should be based on broad political ownership and contain a coherent vision, concrete policy measures, as well as milestones and targets to be able to measure the advancement of implementation

First, Romania needs a more powerful and centralised digitalisation, data and AI governance to keep these issues at the centre of government policy and ensure a more coordinated approach across institutions. To this end, the role of the national digitalisation authority (ADR) could be reinforced while situating it more centrally in Romania's institutional structure, e.g. by bringing it inside the government's General Secretariat of the Government. This would help to give stronger political backing and authority to the ADR, facilitating the coordination of digitalisation across ministries.

Second, Romania has to strengthen digital capabilities in the public and private sectors. To achieve this, the government needs to develop a strategy to attract qualified professionals for public administration and strongly invest in training and upskilling. It also requires to have a dedicated digital investment framework to ensure that available national and EU funds are funding the most effective projects for digitalisation, data availability and AI rollout.

Third, the country has to make data compilation, availability and interoperability central to its policies. Open data should be considered a public good that can support government decisions and foster business development while creating more transparency for citizens. Interoperability is a main challenge to be addressed as digitalisation has historically been pursued by each ministry running its own separate digitalisation plans, having led to the existence of various different legacy systems.

Fourth, the government needs to make use of digitalisation to provide more e-government services and simplify administrative procedures for citizens and companies. On the supply side this requires expanding digital services and procedures. On the demand side, it requires the development of digital literacy among citizens and among, especially smaller, firms. Importantly, the 'once-only' principle should be rolled out across the whole public administration, reducing administrative burdens and costs while improving public service efficiency and data accuracy.

Finally, the Romanian state should exchange with the domestic IT sector ecosystem to identify the specific niches in which Romania could take AI leadership. Cybersecurity, drone technologies for agriculture, and AI-powered manufacturing could be promising options in this regard.

TABLE 10. Policy recommendations on digitalisation, data and AI

Implementing a digitalisation, data and AI programme for Romania
• Implementing a more powerful and centralised digitalisation, data and AI governance, by reinforcing the role of the national digitalisation authority and its place in Romania's institutional structure
• Developing a strategy to attract qualified professionals for public administration and to invest in training and upskilling
• Ensuring coordination and coherence between strategies for digitalisation, data and AI
• Improving data availability, interoperability and harmonisation
• Expanding e-government services and procedures
• Roll-out of the 'once-only' principle across the public administration
• Developing digital literacy and use of advanced digital technologies among firms and citizens
• Enhancing cooperation between the state and the domestic IT sector to identify specific niches in which Romania could take AI leadership (e.g. cybersecurity)

7 • Bolster human capital by reforms in the education system

In the field of education, enhancing Romania's competitiveness requires three main types of actions. reducing social and geographical inequalities, improving the quality of the educational system and developing skills. Indeed, the main problems facing the Romanian education system are a sharp polarisation between urban areas and rural ones, low school performance, and a weak link between education and employment.

– Improve educational quality

A major structural challenge for Romania is the low level of public investment in education, alongside weak educational outcomes, among the lowest of the EU. Educational attainment at both the secondary and the tertiary level also remains well below the EU average. This is why improving the efficiency of public spending on education, while strengthening meritocracy as a guiding principle of the education system, could contribute to improving the quality of education in Romania.

Enhancing the allocation of public spending for education is necessary to ensure the quality and the efficiency of public investment in this sector. Introducing an **annual education spending review,** embedded in the annual budgetary process, could strengthen the assessment of the efficiency of public expenditure, by identifying inefficient spending and high-priority policy areas. This spending review will also contribute to redesigning a multi-year funding programme for schools, based on the areas identified through the structural reorganisation of the school network (see the recommendation below).

To transform meritocracy into an effective guiding principle of the Romanian educational system, selection mechanisms for teachers should be reinforced, accompanied by improvement in their working conditions and salaries to attract more qualified personnel. Nationwide tests to assess teachers' competences should be organised regularly to provide targeted training.

– Address geographical and social inequalities

Reducing geographical and social inequalities in access to education and in school performance is crucial to transforming Romanian education from a polarised system into a more homogenous one**.** This transformation would contribute to greater social cohesion, better educational results and, consequently, enhance the country's competitiveness. To address existing inequalities in the education sector, the following policy recommendations should be considered.

A structural reorganisation of Romania's school network, as part of a broader territorial and administrative reform, can help to improve educational outcomes in rural areas. The existing school network still reflects the country's demographic structure of 30-40 years ago, leading to many under-resourced schools in more depopulated areas. To strengthen education in rural areas it is crucial to restructure schools through a consolidation process and make investments in infrastructure, transport and teachers.

To provide better education in rural areas, schemes and incentives to bring qualified teachers to the countryside should be implemented. One option would be to support talented students from rural areas with state funding for university studies in exchange for a commitment to return and work in local communities for a defined period (e.g. 3-5 years) following graduation. Another option would be to provide higher salaries or other incentives for teachers to work in rural areas.

Investments in modern school infrastructures and school services are essential to motivate students in rural areas to attend school. They should become visible symbols of opportunity and development by offering good facilities, internet access, and a supportive environment. School meal programmes can be an effective tool to reduce dropout among disadvantaged children but depend on the existence of adequate infrastructure. Targeting funds from the European Regional Development Fund (ERDF) on school renovation projects in rural areas could accelerate investments in these regions.

– Foster skills development

Skills development is an essential aspect of Romania's competitiveness. Facilitating the transition from education to employment as well as access to lifelong learning can help reduce skill shortages and the NEETs rate, which is the highest in the European Union.

Deeper interaction between public authorities (the Ministry of Labour and the Ministry of National Education) and the private sector in the design and development of vocational education programmes could facilitate the alignment of these programmes with the labour market skill needs.

The transition from education to employment could be strengthened through closer collaboration between industries and vocational education and training (VET) programs. To achieve this, the creation of vocational education programmes tailored to local industrial sector (e.g. the automotive sector around Pitești, which is home to Dacia's historic factory, or the fashion sector around Sibiu) could help align the skills of young people in training with the demands of the labour market. Moreover, prioritising vocational education programmes in disadvantaged areas could help these regions reduce their NEETs rate, by creating a closer link between industry and education. Tax incentives for businesses that offer work placements to VET students should be promoted and simplified, by introducing a single tax benefit, based on transparent conditions: for instance, companies that take on a minimum rate of VET students could benefit from a reduced rate of corporation tax.

Another key aspect of skill development is lifelong learning, which can help reduce skill shortages and overqualification. To this end, the introduction of **training vouchers** for specific groups of workers could encourage participation in training and support skill development.

TABLE 11. Policy recommendations on education and skills

Improve educational quality • Introducing an annual education spending review, embedded in the annual budgetary process, to ensuring a better allocation of public spending • Introducing selection mechanisms throughout teachers' careers, while improving their working conditions and their salaries • Organising nationwide tests to assess teachers' knowledge and pedagogical skills and, on that basis, providing further trainings
Adress geographical and social inequalities • Achieving a structural reorganisation of the school network to better address the needs of rural areas • Redesigning a multi-year funding programme for schools, based on areas identified through a reorganisation of the school network, providing modern school infrastructures and school meal programmes • Introducing schemes and incentives to attract qualified teachers to rural areas
Foster skills development • Deepening interaction between public authorities and the private sector in the design and development of vocational education and training (VET) programmes • Creating VET programmes tailored to local industrial sectors • Prioritising VET programmes in disadvantaged areas • Introducing a single tax benefit for businesses that offer work placements to VET students • Introducing training vouchers for specific groups of workers to encourage lifelong learning

8 • Expand research to unleash the country's innovation potential

Despite its potential, reflected in the significant share of STEM graduates and opportunities in certain niche sector (e.g.: cybertechnology), Romania suffers from underinvestment in innovation and research, both in the public and private sectors. The lack of a forward-looking vision for economic development in innovative sectors makes it difficult to build robust innovation ecosystems. For that reason, strategic policies in innovation and R&D should focus on three priorities: building innovation clusters, supporting startups and scale-up companies, and enhancing the innovation capacity of SMEs, which account for a large share of Romania's industrial base but integrate innovation only to a limited extent. Implementing innovative solutions and stimulating research and development would strengthen Romania's competitiveness by boosting productivity and enabling Romanian companies to move up the value chain.

To strengthen competitiveness, **the development of pro-innovation economic ecosystems in specific technological sectors** (e.g. cybertechnologies, drone production) and geographical regions could foster the creation of clusters that facilitate knowledge sharing, reduce R&D costs, and enhance the attractiveness of universities and companies to skilled professionals.

First, partnerships between universities, companies and public institutions need to be structured around a forward-looking strategy. These links could be enhanced through the shared use of infrastructure, such as research laboratories, as well through redesigned curricula that incorporate exchange periods between universities and companies. The development of European Universities alliances including Romanian universities and research hubs would contribute to the creation of these pro-innovation ecosystems. Public investments in these partnerships should be focused on research areas with high innovation potential.

Second, intellectual property is a crucial aspect of innovation ecosystems, with potentially ambiguous effects: it can incentivise R&D investment by granting temporary exclusive rights through patents and copyrights, but it can also act as a barrier to innovation by creating monopolies and hindering investments. The introduction of patent box regimes, which apply reduced tax rates to income generated from patents, could incentivise investment in innovation and research.

Third, developing regional innovation clusters through infrastructures and tax incentives should be a priority for Romania's innovation and research strategy. To this end, targeted investments in infrastructures (roads, rail transport and urban transport) are essential to improve connectivity between territories and workforce mobility, which helps to create conditions conducive to innovation. Regions such as north-east Romania, where a partnership between universities and IBM led to the establishment of the FreeYa Mind Campus in Iași, a research hub focused on AI and quantum technologies, could serve as starting points for the development of regional innovation clusters.

Fourth, investment in startups and scale-ups should be encouraged at every stage of their development, from idea generation and experimentation to scaling and commercialisation, to strengthen Romania's potential in the innovation field. Financial instruments, such as grants to support the testing of startup solutions, tax policies, such as tax deductions for research and development (R&D) investments, and public procurement, through tenders aimed at promoting innovative solutions, play a central role in creating pro-innovation environments where startups can test new technologies and develop their projects. Moreover, the innovation potential of Romanian startups could be boosted by the achievement of the Single Market, especially by the implementation of the 5th freedom (freedom of research, innovation, knowledge and education) and the development of the 28th regime, which aims to establish a common European framework for companies.

Fifth, investments in innovation must include not only frontier technologies but also practical projects led by SMEs, such as the modernisation of public infrastructure, the development of digital solutions for public administration, and the support of local industries. Improving SMEs financial literacy, through training or mentorship programmes, is essential to strengthening their capacity to innovate and enabling them to finance their projects and investments. Given SMEs' limited access to information on funding opportunities and public

incentives for research, the creation of a tool, such as an online platform, that centralises this information could help them navigate the financing process.

TABLE 12. Policy recommendations on research and innovation

Expand research to unleash the country's innovation potential
• Reinforcing partnerships between universities, companies and public institutions through the shared use of research infrastructures (e.g. research laboratories)
• Redesigning curricula to incorporate exchange periods between universities and companies
• Developing European Universities alliances including Romanian universities to create innovative research hubs
• Introducing patent box regimes, with reduced tax rates to income generated from patents
• Developing regional innovation clusters through targeted investments in infrastructures and connectivity
• Implementing an integrated strategy for investment in startups and scaleups, including tax deductions for R&D investments and grants to support the testing of startup solutions
• Improving SMEs access to information on funding opportunities in R&D through a centralised online platform

9 . Execute a two-pronged labour supply plan

I MOBILISE THE ROMANIAN DIASPORA THROUGH A 'FREEDOM TO RETURN'

Romania is facing a significant demographic shift that will have a major impact on its economy in the coming years. Since 1990, the country has lost almost 20% of its population, and, according to projections, Romania's population will decline by 10% by 2050 compared with 2024. In addition to low and declining fertility rates, a major driver of this demographic decline is the large-scale emigration of Romanian citizens, with a diaspora of 4.5 million Romanians living abroad. **Reinforcing connections between members of the Romanian diaspora and facilitating their reintegration into Romanian society and the labour market are a priority for the country's competitiveness.** Returning migrants are, indeed, an important source of growth for Romania, with the knowledge, experience, networks and capital accumulated abroad.

First, connecting members of the Romanian diaspora and harnessing their expertise, networks and capital are essential to transforming emigration from a weakness into a strength for the country's competitiveness. To this end, diplomatic missions have an important role to play in fostering the cohesion of the Romanian diaspora. Establishing networks among emigrated Romanian entrepreneurs, as well as connections among Romanian researchers, academics, cultural actors and professionals living abroad, could facilitate the exchange of expertise within the diaspora and investments in the Romanian economy. At the same time, with the support of diplomatic missions, Romanian living abroad could help promote the Romanian economy, tourism and the country's soft power, which strengthens Romania's international visibility and attractiveness.

Second, the relationship between the State and the Romanian diaspora could be strengthened by digitalising public services, thereby reducing the sense of distance experienced by diaspora communities and easing the administrative difficulties they face. Two-thirds of Romanian living abroad who needed to complete an administrative procedure in 2025 had to travel physically to Romania to resolve it, with an estimated annual cost of 1.54 billion euros (Edge Institute, Diaspora 2026). This highlights the importance of digitalising public services to improve access to Romanian institutions for the diaspora community.

Third, the reintegration of the diaspora into Romanian society and the labour market must be based on the principle of a 'freedom to return' and facilitated by creating the social and economic conditions necessary for their return. The concrete implementation of this principle can take various forms. Accelerating the recognition of qualifications obtained abroad would help return migrants integrate into the labour market by ensuring that their skills are recognised and used. The creation of a digital platform that guides returning migrants

in their search for work, accommodation or schools for their children would facilitate their reintegration and remove certain psychosocial barriers that hinder the return of the diaspora. Finally, measures such as simplified procedures for setting up a company when coming back, especially if capital is brought back from abroad, could facilitate the return of the Romanian diaspora's capitals to their country of origin.

ACTIVATE ALL THE ROMANIAN POPULATION FOR THE LABOUR FORCE

The Romanian labour market is characterised by one of the lowest labour force participation rates in the European Union and significant inequalities in access to employment. Women, young people, and residents of rural areas face difficulties in integrating into the labour market. Employment policies must therefore focus on targeted structural measures to increase labour force participation by supporting the integration of those furthest from the labour market.

Reducing inequalities between rural areas and urban ones in the access to labour market is crucial to increase the labour force participation. Improvements in transport infrastructures between major cities and villages (roads and rail transport) would have positive effects on the labour market, by reducing the barriers to rural communities' participation in the labour market. At the same time, improving digital infrastructure to support remote work could reduce commuting times that currently discourage labour market participation.

To reduce labour market inequalities and make a larger workforce available, it is essential to take measures to better integrate group with lower participation rates, such as young people, women, and older people. For young people, targeted measures such as strengthening vocational education programmes and fostering partnerships between schools and businesses are a priority to facilitate their transition to employment and to reduce the NEETs rate. For women, concrete measures to improve work-life balance, such as facilitating access to childcare (including nurseries and workplace childcare facilities) and promoting flexible working arrangements, could help reduce the economic and social barriers to employment. For older people, measures to strengthen lifelong learning and the prevention and treatment of health problems can help to keep workers in jobs until reaching their retirement age.

TABLE 13. Policy recommendations on labour market and demography

Mobilise the Romanian diaspora through a freedom to return

- Establishing networks among emigrated Romanian entrepreneurs, researchers, cultural actors, and professionals living abroad
- Digitalising public services to improve access to Romanian institutions and administrative procedures for the diaspora community
- Accelerating the recognition of qualifications obtained abroad
- Creating a digital centralised platform that guides return migrants in their search for work, accommodation or schools
- Simplifying measures for setting up a company when coming back, especially if capital is brought back from abroad

Activate all the Romanian population for the labour force

- Improving transport infrastructures between major cities and villages (roads and rail transport) to reduce physical barriers to rural communities' participation in the labour market
- Strengthening digital infrastructures to support remote work for citizens from rural areas
- Fostering partnerships between schools and business to facilitate young people employment
- Improving work-life balance, through childcare services and flexible working arrangements, to promote the integration of women into the labour market
- Putting measures into place that support older people to stay in the workforce longer, with a particular focus on lifelong learning and health-related actions

10 • Make strategic choices for developing economic key sectors

Romania needs to develop a comprehensive and coherent national industrial strategy that ensures a medium-term prioritisation of economic sectors crucial for the country's competitiveness. As this report provides a very comprehensive analysis of Romania's competitiveness, focusing on elements that can have significant horizontal impacts, it cannot provide a conclusive list of sectors that should be fostered and supported in the coming years. Nevertheless, this section identifies a limited number of promising economic sectors and value chains, and provides policy recommendations on how to foster or transform them to make Romania more competitive by 2035. The proposed measures focus on the IT, manufacturing, defence and security, transport infrastructure and logistics, agriculture, and tourism sectors, complementing the more horizontal recommendations developed above.

I IT SECTOR

Romania's IT sector is considered one of the most promising economic sectors in Romania. In the last decades it has significantly grown and reached a certain level of maturity, supported by high-quality digital connectivity infrastructure and a qualified and multi-lingual workforce. Currently, the IT sector is one of Romania's competitiveness strengths, having a comparatively high level of productivity with strong growth rates. The productivity gap between MNCs and local enterprises in the Romanian IT sector is lower than in other sectors, and it is more successful in producing spillovers.

However, significant weaknesses and risks that could derail the IT sector's success in the coming years remain, requiring proactive public and private policies, reforms and investments to address them. Currently, the Romanian IT sector is dominated by an outsourcing business model and very dependent on MNCs. These activities include low value-added outsourcing, simply supplying workforce for larger projects, and more sophisticated outsourcing, such as design solutions and consulting services. The focus on outsourcing makes the IT sector sensitive to rising labour costs as the overall business model depends on cost competitiveness rather than innovation-based competitiveness. And as the sector is dominated by foreign MNCs, risks of business relocation to countries with lower costs is higher than if domestic firms would play a more central role.

To address this issue and make the Romanian IT sector more competitive, firms need to move from outsourcing activities towards becoming product or service providers. Especially owning the intellectual property (IP) rights of products can help to create more value-added as it provides more scale potential. A few domestic firms have managed to break into higher value-added areas, such as UiPath, Bitdefender and FintechOS, but financial constraints in Romania have forced to move their headquarters or significant company parts abroad. For the further development of a domestic IT ecosystem, it is thus necessary to strengthen the capacity of the Romanian financial system to provide more growth capital. Opportunities for attracting more value-added work also exist for domestic subsidiaries of MNCs but depend on internal competition with subsidiaries in other countries. The Romanian public administration, at both the national and local level, should analyse how to best help these companies to succeed bringing in renewed investment from MNCs in the IT sector, requiring a genuine investment attraction strategy.

The availability of a large skilled workforce is crucial for Romania's future competitiveness in the IT sector. Over the last decades, the country's IT sector ecosystems have developed close to some of the best (technical) universities of the country, such as Bucharest, Cluj, Timisoara and Iasi. The development of excellence among key universities should be further developed. To ensure a broad pool of young talent it is, however, also necessary to strengthen IT and STEM-related education already in the country's school system.

The Romanian government needs to ensure that past comparative advantages in the available digital infrastructure are followed up by new infrastructure investments. While the success of the domestic IT sector depended strongly on the country's high-quality and speed fixed connectivity infrastructure, there is less focus today on mobile connectivity (5G), cloud infrastructure, or AI infrastructure and data. The country's public administration has an important role to play in providing such infrastructures and making sure that they are genuinely useable and useful for private actors to build upon, especially regarding AI.

Depending on the strategies and policies adopted by the Romanian state and private IT firms, AI technologies can strengthen or weaken the domestic IT sector. AI will increase the value of skilled workers who engage in complex tasks, while reducing the value and necessity of workers that engage in comparatively simple tasks. Already today, AI thus influences Romania's IT sector, as the number of available junior positions has dropped dramatically and with some activities such as simple website development already becoming obsolete. Measures to reskill and upskill a part of the IT workforce are thus crucial, while also ensuring that business models are robust regarding AI implementation.

In the coming years, the effects of AI technologies on the various business models existing in Romania will intensify. Companies based on an outsourcing model will be most exposed to displacement or replacement. Also companies whose business model is based on the provision of services solving routine tasks is at risk, while product companies will likely be the least affected ones. As laid out further above, a proactive strategy to move companies towards the delivery of products and more sophisticated services is thus not only crucial for creating more value-added but also to make the most of the arrival of AI technologies.

To strengthen the Romanian IT sector in the coming years, a national export and country branding strategy should be developed. First, the government should do more to provide institutional support for companies aiming to expand abroad, similar to how US embassies are helping national companies to enter foreign markets. While Romanian IT companies are already well connected with the European and North American markets, particular efforts could be put on promoting Romania's IT companies in other regions such as South America, Africa, and Central and East Asia. Second, exports can be supported by developing a country branding strategy, which has to be based on a coherent national brand and common messaging across public institutions. In this regard, Estonia is clearly a best practice example.

In the next years, growth opportunities for the domestic IT sector can be driven by the digitalisation of the country's public and private sectors, and by providing tools to increase productivity and competitiveness in other economic sectors. Niches of comparative advantage for the use of AI technologies should be identified, bringing together Romanian IT firms and firms from sectors with potential such defence and cybersecurity, and agriculture.

MANUFACTURING SECTOR

Romania's manufacturing sector is currently going through a challenging transformation process. Some low value-added activities, such as textiles and clothing, have become increasingly uncompetitive over the last years, as growing wages and general economic convergence are largely incompatible with their low labour cost requirements. However, even higher value-added sectors, e.g. in the automotive sector, are coming under increasing pressure. While producing relatively sophisticated products, the strong integration of the domestic manufacturing sector in European value chains poses a significant risk for the future. The European automotive sector, with Germany at its helm, is currently exposed to major challenges.

The strong dependence on the internal combustion engine (ICE), and the relative lack of competitivity in the production of electric vehicles (EVs) and their accompanying supply chains has made also Romania vulnerable. Cheap Chinese imports and high fossil fuel prices due to the 2026 Iran war are lowering demand for ICE vehicles. In Romania, high energy prices pose an additional significant problem for the competitiveness of the domestic automotive sector. Due to a major drought in the summer of 2026, energy shortages even led to the temporary production stop in Romanian Dacia and Ford car factories. With the closing of supplier firms for the automobile industry and new car production orders of the Dacia group going to countries such as Türkiye and Slovenia, job losses and risks of deindustrialisation in Romania's manufacturing clusters are significant.

In the coming years, Romania's manufacturing sector and its value chains need to be diversified and repositioned to increase the sectors' resilience and future competitiveness. This will require repositioning the country within new supply chains linked to the EU's dual industrial transition, e.g. regarding EV-related manufacturing. Europe's near-shoring plans for more strategic autonomy are a considerable opportunity for Romania, as labour costs remain low in comparison to other EU Member States.

Given a broader shift towards the defence sector across Europe, there are increasing opportunities for the production of dual-use technologies. Parts of Germany's automotive production capacities are currently repurposed towards the production of military and dual-use goods. As the Romanian manufacturing sector is deeply embedded in the German one, this could provide a privileged access point to become involved in these value chains.

More broadly, Romania's low cost-based manufacturing portions need to rapidly transition towards higher value-added production. A comprehensive strategy should include the following elements. First, dual vocational training programmes tailored to local manufacturing clusters need to be reinforced to strengthen available skills. To address skills mismatches, the reskilling of the manufacturing workforce should be accelerated through lifelong learning programmes. The government should support such training through tax incentives. Second, partnerships between high-potential industries and universities need to be fostered more to create innovation hubs that can translate research into patents and state-of-the art technologies. Thirds, the Romanian government should put a particular focus on innovation among manufacturing SMEs, as overall productivity among them remains comparatively low. This includes the facilitation of access to financial intermediation, financial literacy initiatives, mentorship programmes for SME management, and stronger links between SMEs and MNCs to foster knowledge transfer and SME integration into European and global value chains. EU Inc., the planned new European-wide company law regime, constitutes a real opportunity for Romanian SMEs to have a more effective access to the Single Market and should be supported by the national government.

DEFENCE SECTOR

Before the 2022 Russian invasion of Ukraine, Romania's defence and security sector was given little attention and resources. The shock of a full-blown war at the country's doorstep and subsequent pressures by the US on the European NATO-partners to invest more has led to major changes in this policy area. Over the course of the last years, the Romanian government has significantly increased its military spending and gradually built-up capabilities, mostly through acquisitions of American military equipment. This approach helps to maintain interoperability with the US military while also giving the country a financial incentive to stay engaged in Romania.

The development of a competitive Romanian defence and security industry is hampered by the legacy of a hollowed-out domestic industry and a substantial lack of administrative capacity and know-how to run complex large-scale public procurement. The problems in the defence sector mirror broader state capacity problems in Romania. Appointments are often driven by clientelism rather than merit and low public salaries are dissuasive for qualified personnel. Recent joint ventures of Romanian defence companies together with French, German, British and US partners frequently suffer from the inability of Romania's domestic industry to deliver on these joint ventures in a timely manner.

The EU-supported Security Action for Europe (SAFE) programme is a major opportunity for Romania to develop its domestic defence and security industry. In the coming years, it will provide more than €16bn in loans to the country. To ensure that the available funds for more defence and security spending are well utilised and do not fall victim to rent extraction or waste, a broad set of measures needs to be implemented in the coming years.

To strengthen Romania's defence and security sector, it is important to improve its administrative capacity. First, public procurement in the sector needs to become significantly more efficient to avoid previous failures, e.g. in the area of naval procurement. It needs to become more transparent and better adapted to the defence ecosystem, also by ensuring a better alignment with EU standards. Participation in joint European defence procurement could provide an opportunity for Romania's public administration to improve its expertise, learning from EU partners. Second, the development of production sites for military goods needs to receive priority treatment to avoid situations like the year-long delay of a gunpowder-for-ammunition factory near Brasov. Third, to capture higher value-added in the defence sector, Romania should negotiate more comprehensive local supply-chain content requirements in future contracts. In contrast to Poland and Hungary, interviewed experts considered that Romania largely accepted assembly line functions in its SAFE contracts, limiting the potential to build up a more competitive domestic industry. Finally,

the public administration's capacity, know-how and vision on how to support a domestic defence industry ecosystem need to be developed.

Romania's defence industry should focus on areas in which it can achieve durable competitive advantages, such as in cybersecurity and the naval industry. First, the country is relatively advanced in the field of cybersecurity, hosting several centres of excellence, including the European Cybersecurity Competence Centre (ECCC), and can build on the presence of major cybersecurity companies, supported by qualified human capital. Through the provision of cybersecurity support to Ukraine and Moldova, Romania has become a European cybersecurity hub. Targeted investments in human capital, digital infrastructures and the domestic IT ecosystem could help the country to develop higher value-added cybersecurity services and products. Second, given the existence of several domestic shipyards, Romania should strive to increase its capacity to build and maintain naval vessels. This is particularly important as a strong naval industry can facilitate the protection of strategic energy infrastructures in the Black Sea such as Neptun Deep. Finally, beyond cybersecurity and the naval industry, Romania should also explore on how to further develop the country's munitions and drone industry.

To become more competitive in the medium-term, Romania should promote the establishment of an innovative defence industrial ecosystem, supporting startups in the defence sector. This requires the creation of clear and stable legislation to allow private companies to test and prove their technologies on military training grounds. More state capacity would also be required to be able to set up a targeted strategy for developing private Romanian defence companies. Homegrown technological innovation in the defence sectors could then also serve positive spillovers for the wider economy.

TRANSPORT AND LOGISTICS

Romania's strategic location in Southeastern Europe, bordering Central Europe and the Black Sea regions, carries significant economic potential. However, the state of Romania's transport infrastructure is a major bottleneck for any ambitions of the country to become a regional economic and logistics hub. Road and railway transport remains poorly developed and weakly interconnected and integrated with the rest of Europe and countries in the Black Sea region.

Intra-Romanian and external road connectivity is scheduled to increase strongly in the coming years, as a lot of highway projects are currently under construction or tendered. This will include two important crossings of the Carpathian mountain regions, linking Transylvania with Muntenia and the Romanian Region of Moldova. The construction plans also include interconnections with Hungary, Serbia, Ukraine and the country of Moldova. Highway links to Central Europe via Hungary are crucial for Romania to transport goods in a rapid and reliable manner. Once construction is completed, travel times from Bucharest to Vienna will be cut by a third.

Highway construction depends to a large extent on available EU funds, which raises questions about the availability of similar support in the next MFF. Romania's capacity to tender and build road transport infrastructure has improved over the last years, but it is important to ensure that construction will continue at a fast pace to address remaining connectivity gaps. Funds from the SAFE (Security Action for Europe) programme could compensate for lower national and other EU support in the coming years, as highways and other transport infrastructure are also of military value.

While highway construction advances, more needs to be done in the area of railways, ports and airports. Rail interconnections remain poorly developed and existing rail lines as well as the rolling stock are old. More focus should be put in modernising the Romanian rail system and take measures to improve reliability and speed on an actually extensive existing network. The country's main port in Constanta has a lot of potential but is also in need of modernisation. And while Romania has a significant number of airports, connectivity with rest of Europe remains comparatively poor. Bringing all these different transport networks together, there are also significant needs to improve multimodality.

AGRICULTURE

Romania has a significant but underused competitive potential in the field of agriculture. The country has large arable land in absolute terms, with a significant share of the territory covered by chernozems, which is the most fertile soil type.

However, despite significant agricultural resources, Romania has a large agricultural trade deficit. While producing and exporting significant amounts of raw agricultural commodities, the majority of higher value-added processed food products is imported. In addition, Romania's agricultural sector is currently characterised by low overall productivity, large disparities between large and small farms, and an ageing farmers' population. As about 90% of farms are smaller than 5 hectares, the majority of them has a low level of technology use and limited access to credit. The Romanian agriculture is also highly exposed to climate change, with droughts posing a significant problem in the coming decades. To address all of these issues, a bundle of measures can help to make the sector more competitive and improve its resilience.

First, the Romanian agricultural sector needs to move towards higher value-added processes and products, requiring a coherent long-term strategy. This includes a significant strengthening of the country's food processing capacities, which would allow Romania to address its agricultural trade deficit and move towards becoming a net exporter in the agriculture and food sector. Especially smaller farms should be helped to specialise in the cultivation of more high-value niche products, such as walnuts, lavender and honey.

Second, innovation in the agricultural sector is key to improve competitiveness and move up value chains. The adoption of innovative techniques begins with education, given a crucial role to agricultural high schools in transferring state-of-the-art knowledge and techniques. Lifelong training for farmers should be reinforced to improve the overall skill level of farmers, supported by additional technical advice provided by consultancy and advisory services. To be able to profit from the newest technologies it is key to improve farmers' access to credit, including through the provision of credit guarantee funds. Better links between farmers and universities are needed to strengthen agricultural innovation, allowing to identify research priorities, implement experimentation and exploit findings for more productive agricultural practices.

Third, national and EU support measures should focus more on small and medium-sized farms. In the last decades, mainly large commercial farms benefits from domestic funding and the EU's Common Agricultural Policy (CAP). With the next MFF, CAP direct payments to very large farms should be capped, leaving more financial space to provide support to smaller firms. Efforts should centre on developing local and regional food hubs with short supply chains, refrigerated warehouses and agricultural cooperatives. Additional measures should be taken to facilitate the access to land for young farmers through tailored loans and tax incentives.

Finally, the resilience of Romania's agriculture against climate risks needs to be reinforced. A key element in this regard is a comprehensive modernisation of the country's irrigation infrastructure. This requires a simplification of the regulatory framework for the construction of irrigation system as well as better water management. Given the limited availability of water, efforts should focus on an efficient use of water resources and better wastewater treatment. The government should promote innovative solutions water monitoring and management. In addition to irrigation, efforts should also be focused on moving towards more drought-resistant crops. Finally, the public administration should also foster the adoption of risk management tools among farmers to better insure losses.

TOURISM

Tourism constitutes a major unused potential, which should be activated to further diversify the Romanian economy and bring in foreign money. While tourism is consumed inside the country, it constitutes, in practice, an export of services. Currently, Romania has the lowest tourism intensity in the EU, measuring the number of nights spent in tourist accommodations per inhabitant, which is, for instance, 15 times lower than in Croatia. Given Romania's significant cultural and natural sights, reaching from multiple UNESCO-world heritage sites to pristine mountain and forest areas and to the Black Sea, there are big opportunities to develop tourism. As some European countries already face over-tourism, Romania could attract tourists that would like a less crowded type of holidays.

A comprehensive set of policies can help to develop the domestic tourism sector. First, as for other policy areas, Romania's tourism sector would profit from a more forceful country branding strategy. The existing cultural richness and natural beauty of the country needs to be more visible to the rest of the world, moving beyond Dracula as a

tourist attraction. Beyond mainstream offers, also more niche tourism products could be promoted such as rural authentic culture tourism, e.g. in Transylvania and Maramureș. Such initiatives would also help to develop the rural space and provide local jobs. The large Romanian diaspora should be activated as a multiplicator to promote Romania as a tourism destination.

Second, Romania needs to develop is transport infrastructure to be able to bring tourists in. The country is large and many attractions and natural areas are not very accessible. Airport, ship, railway and road transport infrastructures have to be expanded, providing benefits to various economic sectors. European transport interconnections need to be supported, also through EU programmes such as the Connecting Europe Facility (CEF). Inside Romania, the upgrading of commuting routes from the rural areas to cities can also help to bring tourists to points of interest more quickly.

Third, the country needs to strengthen its tourism governance. This requires the creation and reinforcement of destination management organisations at the local and regional level which can provide destination-level management and set up more location-specific branding strategies and support instruments to develop the necessary tourism infrastructures.

TABLE 14. Policy recommendations on specific economic sectors

IT sector • Establishing a proactive strategy to move companies towards the delivery of products and more sophisticated services • Strengthening the capacity of the Romanian financial system to provide more growth capital • Ensuring the availability of a large skilled workforce, by developing excellence among key universities and STEM-related education programmes • Ensuring that infrastructures like mobile connectivity (5G), cloud infrastructures, or AI and data infrastructures are useable and useful for private actors • Promoting a national export and country branding strategy and providing institutional support for companies aiming to expand abroad
Manufacturing sector • Promoting the transition from a low cost-based manufacturing industry towards higher value-added production • Developing dual vocational training programmes tailored to local manufacturing clusters • Accelerating the reskilling of the manufacturing workforce through lifelong learning programmes • Strengthening partnerships between high-potential industries and universities to create innovation hubs that can translate research into patents • Supporting manufacturing SMEs in the adoption of innovative solutions, by facilitating access to financial intermediation, mentorship programmes and links between SMEs and MNCs to foster knowledge transfers
Defence • Promoting participation in joint European defence procurement, as an opportunity for Romania's public administration to improve its expertise • Reinforcing transparency in defence procurement and alignment with EU standards • Negotiating more comprehensive local supply-chain content requirements in future contracts, to capture higher value-added in the defence sector • Focusing on areas in which Romania can achieve durable competitive advantages, such as in cybersecurity and the naval industry, through targeted investments in human capital, innovation and infrastructures • Supporting startups in the defence sector, by creating a clear and stable legislation to allow private companies to test their technologies on military training grounds

Transport infrastructure and logistics

- Increasing intra-Romanian connectivity (crossings of the Carpathian mountain regions, linking Transylvania with Muntenia and the Romanian Region of Moldova) and external one (interconnections with Hungary, Serbia, Ukraine and Moldova)
- Ensuring that the highway construction will continue at a fast pace to address remaining connectivity gaps
- Modernising the Romanian rail system and improving reliability and speed
- Improving connectivity between Romanian airports and the rest of Europe

Agriculture

- Implementing a long-term strategy to help the Romanian agricultural sector to move towards higher value-added processes and products
- Helping smaller farms to specialise in the cultivation of more high-value niche products, such as walnuts, lavender and honey
- Promoting the adoption of innovative techniques in the agricultural sector, through lifelong training for farmers and a facilitated access to credit for investment in new technologies
- Improving links between farmers and university to identify research priorities and implement experimentation
- Modernising irrigation systems and support the use of drought-resistant crops

Tourism

- Developing a more forceful country branding strategy, to make the existing cultural richness and natural beauty of the country more visible
- Promoting more niche tourism products, such as rural authentic culture tourism
- Expanding infrastructures like airport, ship, railway and road transport, supported by EU programmes such as the Connecting Europe Facility
- Improving tourism governance through destination management organisations and location-specific branding strategies

Romania 2035: An integrated competitiveness strategy

IMPLEMENTATION OF A COMPETITIVENESS STRATEGY FOR 2027-2035

To implement the policy recommendations of this report and achieve a more competitive Romania by 2035, this report proposes the adoption of an integrated competitiveness strategy. This strategy should provide an ambitious and coherent plan covering a broad range of policy areas and economic sectors. It has to set clear objectives and operationalisable milestones and targets that lay out the path towards the achievement of these objectives. Defined as a long-term strategy until 2035, it should provide a clear timetable of the various reforms and investments necessary to strengthen Romania's competitiveness, prioritising those elements that have the most positive transversal effects.

The measures included in Romania's competitiveness strategy have to be based on a forward-looking approach, allowing to anticipate likely future opportunities and constraints. They should account for a variety of scenarios, defining actions that will allow to reap the benefits of opportunities while reducing or mitigating risks, e.g. by improving a sector's resilience to outside shocks. This strategic approach requires the rapid build-up of analytical and foresight capacities inside Romania.

The successful implementation of a long-term competitiveness strategy requires central steering and coordination and a well-defined distribution of responsibilities to execute the covered measures, facilitating the use of accountability mechanisms towards policymakers and stakeholders. The implementation of Romania's competitiveness strategy needs to be accompanied by strong monitoring and regular evaluations to allow for policy learning, reinforcing successful practices while allowing for the timely correction of failures. While the strategy should provide a clear compass for public and private action, it should include mechanisms and contingency plans that allow for revisions and adaptations of the strategy in response to changing circumstances, which may result from rapid advances in technologies (e.g. in AI) or from evolutions in the geopolitical and -economic context.

The General Secretariat of the Government should be tasked with the execution of the competitiveness strategy. Its central position inside the government makes it the appropriate location to coordinate and enforce a comprehensive strategy. It would, however, be crucial to design its governance in a manner that ensures a sufficient degree of independency from the prime minister, to be able to serve as an honest broker and credible implementation body of the competitiveness strategy across time. To be able to quickly but also successfully address Romania's key competitiveness problems, the integrated competitiveness strategy and its

governance mechanisms should be agreed upon by mid-2027 and become operational by autumn 2027.

The integration of key elements of Romania's competitiveness strategy into its first National and Regional Partnership Plan (NRPP) can help to ensure their implementation. NRPPs are a new mechanism proposed for the MFF 2028-2034, bringing together various EU funding programmes under a single coordinated plan for each Member State. Based on the logic of the national recovery and resilience plans, the disbursement of EU funds will become more performance based. Member States need to fulfil milestones and targets for the investment priorities and reforms included in the plans to receive money from the EU budget. Romania will have to formally submit its NRPP by January 2028, meaning that the remainder of 2026 and 2027 are a crucial moment for national consultations to prepare an ambitious and convincing plan to the Commission. Linking the country's competitiveness strategy with EU-level support can provide incentives for its actual execution even across changing political majorities and governments.

To make the policy recommendations proposed in this report more operational, Annex I provides an indicative list of milestones, targets and key performance indicators (KPIs). This list includes more than 100 milestones and targets that focus more qualitatively on the implementation of specific policies, reforms or investments. It also contains more than 60 KPIs that provide measurable objectives for 2030 and 2035 (the quantified KPIS are shown in a more condensed table in Annex II. The proposed indicators are, whenever useful, tied to the empirical data presented in the report's baseline assessment. As this is typically comparative data, the KPIs covered in the Annexes I and II can also be used to compare Romania with its CEE peer and the EU in the coming years. The baseline value of the proposed KPIs is based on the most recently available data, which is typically 2025. However, a few baseline values are also from 2024 or even 2026, with a very small number of cases where data is only available periodically.

The proposed milestones of the KPIs for 2030 and 2035 are objectives, whose achievement would help Romania to move towards the continued growth and transformation scenarios laid out in the strategic foresight analysis. A majority of the KPIs is centred on outcomes rather than outputs, which means that they are interested in achieved results rather than completed activities. They thus measure the impact of the proposed competitiveness strategy rather than the quantity of work that was accomplished. While a focus on outcomes implies less direct control over results than on outputs, objectives based on outcomes provide more scope for policy innovation and iterative policymaking to ensure the achievement of the objectives.

The indicative milestones for 2030 and 2035 set ambitious objectives in comparison to the 2025 baseline. Significant stakeholder efforts will be required to achieve them. When suitable, the proposed values are in line with existing national or European strategies and plans, such as Romania's Digital Decade targets. In other cases, they orient themselves on the extent of comparatively quick improvements in other EU Member States. While being very ambitious, the proposed objectives should nevertheless be politically and economically feasible to not create frustration among policymakers and stakeholders.

To illustrate how the integrated competitiveness strategy could be implemented, Annex III provides an indicative roadmap covering the period 2026-2035. It shows a timeline for the implementation of key reform/investment priorities through 2035. It includes the discussed steering, monitoring and evaluation mechanism and also contains a calendar of key domestic and external events and milestones, such as national and EU elections, the EU budget cycles, key legislative files and funding programmes, thus linking the roadmap to the broader political agenda. The presented roadmap does not pretend to constitute a conclusive programme but serves to provide an indicative blueprint on how to enact a comprehensive reform and investment agenda towards a more competitive Romania in 2035.

1 . Develop a pro-reform and pro-innovation coalition

The impact of the integrated competitiveness strategy proposed here can be maximised if it is grounded in broad domestic political ownership, based on the formation of a pro-reform and pro-innovation coalition inside Romania. A full and timely implementation of the strategy requires a

coalition that reaches across political party lines, ministries and public authorities and different levels of administration. It needs to be based on cooperation between the public and private sectors and shared by a large set of social partners and civil society organisations. A resulting pact for a competitive Romania has been identified in the strategic foresight analysis as a move that can increase the likelihood for the realisation of the continued growth and transformation scenarios by 2035, while making the other futures less probable.

The presidential administration can help to broker a competitiveness pact between the different political, economic and social actors in Romania. This pact requires active participation by the prime minister's office, parliamentary party leaders, associations of municipalities and counties, employers' organisations, trade unions, and NGOs. The adoption of an ambitious strategy that will also be implemented requires a shared understanding of Romania's main competitiveness problems and shortcomings. The diagnosis of Romania's current competitive position provided in this report, but also the recent studies, surveys and analyses by the OECD, the European Commission, the IMF and other international institutions can help to ground the debate from the start in an evidence-based approach. All stakeholders need to internalise the identified challenges and show a political willingness to engage in a constructive manner to address them in a proactive and coordinated manner.

Based on the construction of a common understanding of the main competitiveness issues, the final competitiveness strategy must be the result of extensive consultations between political decision makers and stakeholders. While the policy recommendations presented in the report can serve as a very solid base for defining the objectives and related reforms and investments to strengthen Romania's competitiveness by 2035, they cannot replace an open and frank dialogue on the country's current situation and potential futures. In the coming months, such consultations should take place domestically but also with the European Commission and other relevant institutions, such as the OECD, which Romania aims to join shortly. Consultations on the country's competitiveness strategy should be linked to consultations regarding the NRPPs and other important EU funding programmes, such as the proposed European Competitiveness Fund. Developing these elements jointly can help to set-up and implement a strategy that is capable of addressing problems in an ambitious and coherent manner.

To ensure broad ownership of the competitiveness strategy, it is crucial to identify and prioritise policy actions that can resolve several stumbling blocks simultaneously and create win-win situations for different involved actors. Where generally desirable policy actions would generate concentrated negative side effects for particular groups or entities, mechanisms for adaptation or compensation need to be considered to ensure the buy-in of all relevant stakeholders, e.g. through a competitiveness dividend that can be made available due to positive growth effects. Clearly communicated deadlines and feasible transition phases for the entry into force of impactful reforms or different administrative practices, together with fiscal or legal incentives, could help to ensure better acceptance and compliance, e.g. regarding the reduction of tax compliance gaps.

2 . Guiding objective for the competitiveness strategy

The guiding objective for the competitiveness strategy should be to promote a new growth model based on innovation. While the design of some of the underlying policies, reforms and investments to achieve this can and should be a matter of political and technical discussions, having an overall north star is crucial to ensure that all relevant stakeholders will aim to move towards the same direction. Should a significant share of political and economic actors continue to promote a purely cost competitiveness-based growth model, this would undermine the ability to act jointly in view of a common objective. As with all political decisions, there will be 'losers', but they should be supported with strong and coherent measures to transform and adapt rather than just preserve the status quo.

A major overhaul of the country's economic governance and an improvement in the country's factor endowments are required to overcome the risk that Romania could fall into a period of economic stagnation, which could lead to the reinforcement of negative feedback loops. Only this will help to ensure that further convergence with Europe's advanced economies can be achieved in the coming decade.

3 • Reform priorities and packages for a competitive Romania

To implement an integrated competitiveness strategy effectively, it is crucial to identify the most important cross-cutting reform priorities and packages and sequence their implementation to maximise synergies and ensure that individual measures reinforce one another. Based on the findings of this report, several urgent reform priorities stand out. These include (1) a governance package for a more capable, digital and proactive state, (2) a fiscal and financial package that fosters investment, (3) an energy package to structurally lower prices and increase energy security, (4) and a package to activate and reinforce human capital. These four reform priorities/packages are based on the policy recommendations presented above, bringing together key measures from different policy areas. They are also in line with findings from the strategic foresight analysis, while adding temporal and topic-related prioritisation.

A GOVERNANCE PACKAGE FOR A MORE CAPABLE, DIGITAL AND PROACTIVE STATE

First, a profound strengthening of Romania's state capacity and governance is a prerequisite to move towards a more innovation-based growth model. Building up a more capable, digitalised and proactive public administration can help to overcome potential phases of political instability, which would otherwise derail long-term strategies. The aim must be for the state to function and execute agreed policies even if political controversies on specific issues could undermine the overall support for competitiveness-oriented policymaking.

The public administration needs to strengthen its expertise to implement increasingly complex policies, such as elaborate industrial policies, to run more efficient, transparent and innovation-oriented public procurement (e.g. for energy, defence, and digital), and to make full use of EU funds whose implementation deadlines will shorten with the next MFF. Civil servants need to be empowered to execute agreed policies also during period of political uncertainty and incentivised to experiment with innovative actions and processes. A more digitalised state can help civil servants to work more efficiently and transparently with companies and citizens. Strengthening Romania's state capacity and governance also means to reinforce the rule of law and better control corruption, constituting an important horizontal competitiveness driver. A proactive conduct of Romania's public administration should go beyond domestic affairs. The country should become an agenda setter at the EU level, actively shaping European policies that affect Romania and provide the potential to improve its competitiveness. The upcoming EU public procurement act provides a concrete opportunity to strengthen public procurement in Romania.

A more capable, digitalised and proactive state will facilitate the successful implementation, monitoring, evaluation and enforcement of the proposed competitiveness strategy. It will also allow to better plan and prepare for future events and structural changes rather than just react to them, increasing the country's overall economic resilience.

The proposed reforms to strengthen Romania's state capacity and governance are substantial and will require some time to take full effect. They also need the participation of many stakeholders, reaching across ministries and other public authorities to the local public administration. Efforts to develop a more capable, digitalised and proactive state should thus be launched together with the creation of a national competitiveness strategy and accompanying governance mechanisms.

By 2035, Romania's state capacity and governance should reach at least the EU average regarding government effectiveness, regulatory quality, rule of law and the control of corruption.

A FISCAL AND FINANCIAL PACKAGE THAT FOSTERS INVESTMENT

Second, bringing the country's public finances in order, allowing for the build-up of fiscal space, and promoting investment is another priority action for the country's long-term competitiveness. In the short term, implementing and sustaining a determined and credible fiscal consolidation is essential to rein in a snowballing of debt service costs and maintain an investment grade rating. In the medium- to long-term Romania's fiscal policy should be run in a countercyclical manner that builds fiscal buffers during period of strong economic growth. Stable public finances have broad positive economic effects and are important to create room for growth-enhancing expenditure into innovation.

A future-oriented budgetary policy should ensure that crucial expenditure needs, e.g. for public investment, remain untouched by cost saving measures. Through systematic spending reviews, it also prioritises spending on the policies and instruments that are most effective. The digitalisation of the state and a better control of corruption can contribute to reducing public deficits by increasing tax revenues through the closing of tax compliance gaps without having to increase overall taxation.

The stabilisation of public finances will help to foster private investment due to greater investment certainty, protecting the inflow of FDI and personal remittances. By leveraging the lending capacities of the national and European development banks and the InvestEU programme, Romania can provide financial support to grow its domestic economy beyond the public budget. Targeted measures to increase the availability of private equity and venture capital would positively affect the capacity of companies to innovate and expand. And support for the proposed Savings and Investments Union at the European level and its subsequent implementation in the EU and Romania will make additional private capital available and foster sustainable growth.

To achieve stable public finances, the fiscal consolidation trajectory started in 2025 should be continued as a priority, while gradually improving the country's fiscal governance and budgetary institutions lock in a more countercyclical and strategic approach to macroeconomic and budgetary policymaking. A credible commitment to euro accession by 2035 can provide further support for prudent fiscal policies and increase investor confidence in the medium- and long-term.

By 2035, Romania should have stable public finances in line with the Maastricht criteria, reached the EU average regarding tax compliance and ensure a high absorption of EU funds. It should also have significantly increased available capital for starting and growing businesses.

AN ENERGY PACKAGE TO STRUCTURALLY LOWER PRICES AND INCREASE ENERGY SECURITY

Third, a significant reduction of energy prices through a comprehensive package is another priority area of action, having a strong impact of Romania's competitiveness across various economic sectors. Investments in the country's electricity grid and its interconnections with other countries, domestic energy production and storage, and in the digitalisation of the energy system need to be accelerated to allow the country to unleash its energy potential. This requires reforming the mandate of Romania's energy regulator, stopping to use state-owned electricity producers for dividend payouts, facilitating the clearance and permitting of energy projects, and improving the in-house expertise within Romania's public administration and SOEs, especially for public procurement.

The digitalisation of Romania's energy system and public administration would facilitate the use of flexibility mechanisms and allow for the identification of vulnerable households, which is a prerequisite to implementing targeted measures towards their protection. This would allow for a more cost-effective and more fairly distributed burden-sharing of the short-term costs of the energy system's expansion that will have positive long-term effects on energy prices. An in-depth analysis of the domestic electricity market design could also help to identify further opportunities to lower energy prices.

A revision of Romania's energy governance should aim at a stronger separation between the energy ministry, responsible for energy policymaking, and energy SOEs, providing energy production. Together with a reorganisation of the domestic energy SOEs and more independence for grid operators, this would help the energy ministry to focus on developing a coherent and long-term oriented energy policy approach, providing clear objectives and guidelines for the expansion of renewables and nuclear power, while strategically using the country's gas reserves.

A strengthening of the state capacity in the energy sector is also necessary to make full use of the relevant EU funds made available to Romania, such as the Modernisation Fund and the Connecting Europe Facility, and to advance on better integrating Romania's energy system with the rest of Europe to reduce price and improve energy security.

The achievement of lower energy prices will require a sustained and shared effort by many different stakeholders. The sooner decisive action is taken, the sooner energy prices will decrease to support Romania's competitiveness. Importantly, energy-related competitiveness also depends on

resilience, which means, in the domestic context, to ensure the defence and security of the country's gas and electricity infrastructure.

By 2035, Romania's energy prices should be lower and be at least on par with its CEE peers and the EU average. Energy production, grid interconnections and storage should have grown significantly, making full use of the renewables potential and available gas resources.

A PACKAGE TO ACTIVATE AND REINFORCE HUMAN CAPITAL

Fourth, a final reform priority is to strengthen Romania's human capital, which is crucial for moving towards an innovation-based growth model. An overall strengthening of educational quality needs to be paired with targeted investment measures in rural areas to address low educational outcomes and high early school leaving rates. Skills mismatches need to be tackled by strengthening vocational education and training (VET) programmes through more work-based learning and by providing significantly more lifelong learning opportunities for workers. Collaboration and partnerships between universities and companies, as well as between Romanian and European universities should be reinforced to allow for learning and innovation spillovers.

To increase the availability of human capital, measures to bring all of the Romanian population into the labour force should be promoted. Tailored measures in the areas of education, childcare and healthcare can support the activation of women, young and older people. The development of transport infrastructure and remote work arrangements can also help to better integrate people living in more rural areas.

Furthermore, the country's large population living abroad should become an additional source of qualified people. This necessitates the implementation of a dedicated strategy to keep the diaspora close to the Romanian state through institutional innovation and facilitate their return by providing incentives and a support framework for reintegration. Digital public services and the acceleration of the recognition of qualifications obtained abroad can provide concrete solutions for the problem faced by the country's diaspora. EU action in this direction such as the upcoming fair labour mobility package should be supported by Romania.

This comprehensive reform package should be implemented to simultaneously broaden and deepen available human capital and lay the foundation for value chain upgrading across different economic sectors. To make the most of the AI transformation, dedicated training should be integrated across all educational and skills programmes, making them flexible enough to rapidly adapt to technological change.

By 2035, Romania's educational outcomes should approach the EU average, sharply reduce geographical and social disparities, and effectively address skills mismatches for all of the country's population. Return migration and domestic labour force activation effectively counter the effects of demographic ageing.

4 . Sectoral competitiveness priorities

While many policy recommendations in this report focus on horizontal competitiveness drivers, a long-term competitiveness strategy also requires making choices about specific economic sectors. As it is very difficult for a country to become or stay competitive across a broad range of economic activities, sectoral prioritisation is required, leading to the development of a **domestic industrial policy** focused on those sectors with the most potential. Based on several criteria, supported by data analysis, desk research and interviews with stakeholders and experts, this report proposes an indicative list of priority sectors whose existing current comparative advantages should be reinforced or where this is significant unused potential for development. These economic sectors include IT, manufacturing, defence, transport/logistics, agriculture and tourism.

The selection criteria include (1) the existence of sector-specific comparative advantages, (2) the potential for spillover effects to other relevant economic sectors, (3) the contribution of an economic sector to economic resilience and diversification, (4) the presence of existing or emerging factor endowments such as natural resources or skills, and (5) the contribution of specific economic sectors to regional development.

The **IT sector** can build on comparatively strong infrastructure, human capital and a relatively high level of economic complexity. Together with a national digitalisation strategy and leveling-up, the sector's potential can be further strengthened. Digital and AI products and services can increase the competitiveness of other sectors such as manufacturing (industrial AI applications), defence (cybersecurity, autonomous drones) and agriculture (precision irrigation, agricultural drones).

Romania's **manufacturing sector** creates a significant number of complex products that require significant technological know-how. This comparative advantage can be leveraged further by better integrating it with digital and AI tools and can support the development of the defence sector through dual use production.

The **defence sector** starts from a lower level of economic sophistication but has potential due to the significant financial support via the SAFE programme. Given Romania's geographic position, the development of a strong defence industry can help to strengthen the country's defence and security, and thus have positive effects. Cooperation between the IT and defence sectors can help to reinforce Romania's competitive advantage particularly in the area of cybersecurity.

The **transport and logistics sector** is not well developed but has significant potential linked to the country's strategic position in the Southeastern European and Black Sea region. The development of the sector positively affects other economic sector's export capacity, facilitate the tourist traveling, and can support regional economic growth when combined with policies to support Ukraine's reconstruction and EU integration.

Romania's **agricultural and food sector** suffers from a negative trade balance but has strong development potential, as the country possesses significant land resources with comparatively high soil quality. Innovation supported by collaboration with the country's IT sector can help to increase productivity. Strengthening Romania's agricultural sector also serves to better develop the country's rural areas.

The **tourism sector**, finally, stands at its infancy but can became a significant contributor to Romania's economy. The presence of natural and cultural attractions can be exploited to provide an additional source of revenue, lowering the country's current account deficit, while supporting the development of regions beyond Romania's urban centres.

While providing a plausible foundation for an industrial policy inside the proposed domestic competitiveness strategy, a final list of priority sectors in Romania's competitiveness strategy should be result of broader consultations. However, at the end of these consultations, political decision makers must have the courage to select sectors based on a transparent process and follow through on their choices by providing sustained support for their development. Sector-oriented policies should be accompanied by strong monitoring and evaluation mechanisms to ensure that support is effective and allow for a reorientation of priorities with important context conditions change.

5 • Leverage the EU and international level for competitiveness

By taking a more proactive approach at the external level, Romania could leverage supranational and international organisations and build coalitions with neighboring countries to strengthen competitiveness. Having an ambitious and coherent national strategy helps to define clear objectives and policy priorities at the EU and regional level. By embedding the country's long-term competitiveness strategy into the current EU competitiveness concerns and policies, Romania could move from being a rule taker to an agenda-setter in the EU.

Romania should become an active player in the negotiations on the various policy files that are comprised in the One Europe, One Market Roadmap and the broader Commission Work programme. This includes (1) the Industrial Accelerator Act and the EU Public Procurement Act, whose Made in/with Europe rules could provide crucial demand side support for European and Romanian enterprises, (2) the planned bank competitiveness and simplification package and other measures towards the Savings and Investments Union, which could make more capital available in Romania, (3) the European Research Act and European Universities alliances, which would strengthen research and innovation, (4) the fair labour mobility package, which would facilitate labour mobility, also towards

Romania, (5) the EU Inc. proposal, which would provide a common European company framework to more easily start, operate and scale businesses across Europe, and (6) the Digital Networks Act and the Cloud And AI Development Act, which could provide support for the development of Romania's IT sector.

Romania should also play a crucial part in the design and implementation of the next MFF, where key regulations and plans, such as the National and Regional Partnership Plans, will be finalised in 2027. The negotiations should not only focus on the absolute size and distribution keys but, importantly, also on the rules and requirements for accessing EU Funds. These rules and requirements should be kept simple and proportional to the funds received and be structured in a way that allows to maximise the chances for Romania and its enterprises to successfully take part in calls for proposals, e.g. through the upcoming European Competitiveness Fund. Making the best use of EU funds requires a timely preparation on the side of the Romanian authorities and the provision of information and trainings for companies to be able to profit from funds made available based on excellence rather than territorial criteria.

An alignment of national and EU priorities could help to maximise benefits from strategic autonomy and resilience-based nearshoring, while promoting Romania as a testbed for competitiveness-oriented policy experimentation and innovation. Romania could position itself as a crucial partner in the areas of defence/cybersecurity, energy and digital/AI, profiting from broader needs in this area. Through the reinforcement of cooperation with Moldova and Ukraine and the support of their EU accession bids, Romania could also profit from creating a shared reconstruction and economic development space in the Black Sea region. All of these initiatives could help to move from a situation of dependence to one of interdependence, strengthening Romania's economic position and standing.

6 • Concluding remarks

Romania is currently standing at a crossroads. Its predominant model has largely exhausted and needs to be replaced by a new one driven by innovation. The national and global political and economic contexts are challenging, and the baseline assessment of this report has highlighted a large number of deficiencies and shortcomings relevant for the country's competitiveness. The baseline assessment and the strategic foresight analysis have, however, also identified pockets of economic excellence and important opportunities that can be seized in the coming decade.

Notwithstanding the current headwinds, Romania is a country with incredible economic potential, supported by strong human capital in specific economic sectors, large energy resources and a strategic location in Southeastern Europe. By implementing an ambitious, coherent and integrated long-term competitiveness strategy, informed by the findings and recommendations of this report, Romania should be able to continue its success story in economic convergence and become a regional powerhouse in Southeastern Europe by 2035.

Annexes

ANNEX I – OVERVIEW OF ALL INDICATIVE MILESTONES, TARGETS AND KPIS

Strategic objectives	Proposed measures	Indicative targets/KPIs
Overall competitiveness objectives	• Full implementation of the proposed integrated competitiveness strategy	• Romania's GDP per capita in purchasing power standards at 90% of the EU average by 2030 and at 95% by 2035 • Romania competitiveness in the IMD competitiveness ranking is among the best two thirds of EU Member States by 2030 and among the top half by 2035.
Strengthen state capacity and governance		
Improve the capacity of the Romanian public administration to act strategically	• Reduce the number of political appointees in ministries and other public authorities • Accompanying politically appointed secretaries of state by technocratic ones • Improving coordination between ministries to ensure that policy objectives are shared • Reinforcing mechanisms to foster responsibility and accountability	• Implementation of a reform of public administration governance and appointment processes in the public administration • Implementation of governance reform, with a focus on inter-ministerial coordination
Strengthen expertise, independence, credibility and effectiveness of the public administration	• Strengthening merit in hiring and promotion of civil servants • Making public sector careers and wages more predictable • Adapting to civil servants' wages to real contributions to policy making • Developing a strategy to replace external with in-house expertise • Replacing existing incentives by broader bonuses for public sectors workers focused on improving efficiency and transparency of administrative processes • Improving the administrative capacity at the local level • Institutionalising dialogue between civil servants and experts working for RDAs	• Implementation of reform of the public wage structure, bonuses and career paths • Implementation of a comprehensive strategy to hire and retain talented civil servants at national and local levels • Number of emergency ordinances outside of crisis situations is reduced to zero • Level of product market regulation in Romania is better than the OECD average by 2030 and among the top 25% by 2035 • Regulatory quality and government effectiveness indices (WGIs) both reach 67.5 points by 2030 and 75 points by 2035

Reform public procurement	• Digitalising public procurement procedures to facilitate monitoring and reducing the risk of corruption • Providing public procurement professionals with training on transparency and integrity • Improving the expertise of civil servants responsible for public procurement through training on how to design and prepare public procurement procedures • Experimenting with audited innovation-based public procurement approaches	• Implementation of reform of the public procurement system in line with a government-wide digitalisation strategy • Organisation of training programmes for public officials to improve the quality of public procurement processes • Share of single-bidder procedures reduces to 37% by 2030 and 30 % by 2035 • Share of procedures awarded on the lowest-price criterion reduces to 65% by 2030 and 50% by 2035 • Share of innovation-based public procurement increases to 5% by 2030 and 10% by 2035
Make the Romanian court of accounts more performance-oriented	• Modernising the mandate of the Romanian court of accounts and focusing it on performance and efficiency of public expenditure • Adopting a more risk-based approach to auditing and concentrating on areas with the highest risks for the country's public finances (e.g. public procurement)	• Implementation of a comprehensive reform of the mandate and auditing model of the Court of Accounts • Number of performance audits multiples increases ten-fold by 2030 (50) and twenty-fold by 2035 (100).
Reinforce the Rule of Law	• Depoliticising appointments and career progression in the judiciary, making it more merit-based • Strengthening the internal control of the judicial system • Creating more permanent positions and longer career paths to reduce constant turnover in judicial institutions • Restoring a strong anti-corruption prosecutor's office and reinforcing its cooperation with the EPPO • Adopting a new framework for conflict-of-interest issues across the public sector • Introducing regular evaluation of rules concerning lobbying and 'revolving doors'	• Implementation of a comprehensive reform of Romania's judicial system to strengthen meritocracy and the control of corruption • Implementation of a hiring strategy to reduce staffing shortages and retain staff longer by removing early retirement rules • Rule of law and control of corruption indices (WGIs) reach 69/62.5 points by 2030 and 75/75 points by 2035
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Effective macroeconomic and budgetary frameworks and policies	• Reduction of budget deficit to stabilize public debt levels in the medium term, regain fiscal space and safeguard public bond ratings above the investment grade threshold	• Budget deficit reduces in line with the national medium-term fiscal structural plan: Gradual reduction of public debt to 3% in 2030, subsequently further reduction and maintenance at 2% through 2035 • Public debt level stabilizes at 64% by 2030 and gradually decreases to 60% by 2035 • Investment grade is sustained by 2030 and improves by 2035

Create a more effective fiscal framework and budgetary institutions	• Increasing the resources of Romania's Fiscal Council and filling vacant positions with qualified economists • Introducing a parliamentary budget office taking on a complementary role to the Fiscal Council • Ensuring that fiscal consolidation commitments are actually followed through by regular evaluations • Making spending reviews more systematic and integrated in the budgetary process • Limiting the use of emergency ordinances to real crisis situations to reduce discretionary policy changes • Strengthening the capacity of the Romanian finance ministry to coordinate and control expenditure committed by other ministries	• Fiscal Council resources are doubled and full staffing is achieved by 2030 • Establishment of a parliamentary budget office by 2030, evaluation of its functioning by 2035 • National legislation corrects budgetary slippages through supplementary budgets • Spending reviews across all policy areas become institutionalised across the whole budget • Number of emergency ordinances with significant fiscal implications outside of crisis situations is reduced to zero • Implementation of a budgetary framework reform to centralise budget coordination and control
Reorient public expenditure towards priorities and improve its effectiveness	• Prioritising expenditures in the areas of education, R&D, infrastructure, digitalisation and climate mitigation and adaptation • Creating a more predictable framework for management of the public wage bill and pension payments • Improving coordination and oversight into investment commitments • Reforming the Romanian SOE corporate governance framework and improving the efficiency of the SOE sector	• Implementation of reform on the management of the public wage bill and pension payments • EU budget absorption rates with the 2028-2034 MFF are above 95% through 2030 and 2035 • Implementation of a budgetary framework reform to centralise budget coordination and control • Share of non-profitable SOEs reduces to 20% by 2030 and 10% by 2035
Strengthen public revenues and make Romania's taxation system fairer	• Reducing tax compliance gaps, especially for VAT and CIT to increase public revenues and create a more efficient and fairer tax system • Digitalising the taxation system and improving interoperability between different government databases • Strengthening the role of the national tax administration agency and making penalties in case of tax evasion or fraud more enforceable	• VAT and CIT compliance gaps with regard to the EU average are reduced by more than half by 2030 (17%/25%) and approach the EU average by 2035 (10%/10%) • Implementation of a government-wide digitalisation strategy • Vacancy rate in the ANAF reduces to 12% by 2030 and 6% by 2035 • Implementation of tax code reform to reduce tax loopholes and increase the effectiveness of penalties
Recalibrate Romania's tax system	• Reducing the high tax wedge for lower-income earners • Moving away from the country's flat tax approach towards more progressive taxation • Recalibrating the overall tax burden across labour, capital and property while reassessing the financing of the social security system	• Tax wedge reduces by 5-10% for different categories of lower-income earners by 2030 • Implementation of income tax reform to compensate for revenue losses by more progressive tax brackets • Share of labour taxation to GDP gradually decreases while share of capital and property taxation increases through 2035 (in comparison to 2025) • Size of the shadow economy reduces to 22.5% by 2030 and to 17.5% by 2035

Bring Romania on the path of Euro accession	• Setting a 10-year time horizon to achieve further economic convergence before joining the Euro area in 2035 • Using the Maastricht convergence criteria as guidelines for running prudent fiscal policies	• Compliance with the European fiscal rules and the Maastricht convergence criteria • Inflation rate gradually reduces to 2.5% by 2030 and approaches 2% by 2035 • Romania enters the European Exchange Rate Mechanism (ERM) II in 2032 and joins the euro in 2035
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Make the financial system a source of economic growth		
Strengthen financial intermediation	• Reinforcing financial literacy initiatives for SMEs and citizens • Enforcing minimum capital requirements for enterprises more forcefully • Implementing a revision of the conservative lending rules for banks in Romania to make it easier to fulfil lending requirements and increase the supply of credit	• Organisation of a comprehensive financial literacy campaign for SMEs and citizens • Account ownership reaches 92% by 2030 and 95% by 2035 • Bank deposits as a share of GDP increase to 45% by 2030 and 50% by 2035 • Share of companies below legal equity requirements halves by 2030 (17%) and reduces by two thirds by 2035 (11%) • Inflation rate gradually reduces to 2.5% by 2030 and approaches 2% by 2035 • Implementation of a revision of macroprudential rules to ease lending requirements
Expand capital markets to fuel economic dynamism	• Continuing recent reforms to mobilise savings for investments • Reworking rules and eligibility criteria for pension fund investments in private equity and venture capital • Introducing a tax-advantaged retail investment account • Developing corporate bond markets • Promoting the project of the Savings and Investments Union (SIU) to better integrate capital markets in the EU	• Market capitalisation of listed domestic companies as a share of GDP reaches 22.5% by 2030 and 27.5% by 2035 • Implementation of a revision of rules and eligibility criteria for pension fund investments in private equity and venture capital • Venture capital as a share of GDP increases five-fold by 2030 (0.05%) and ten-fold by 2035 (0.1%) • Implementation of a reform to promote tax-advantaged retail investment and the development of corporate bond markets • National implementation of key legislation of the European Savings and Investments Union by 2030

Build a developmental state through public financial institutions and financing	• Increasing the capitalisation of the BID • Broadening the mandate of the BID taking over the management of EU-linked funding • Targeting support of the BID on priority sectors such as high technology and innovation, energy, defence and cybersecurity, logistics • Setting up a national fund of funds (ReBOOST) and building up capacities for the establishment of a public venture capital fund • Creating a better managed and strategy-driven public funding for startups, based on transparent eligibility and selection procedures • Modifying the current rules to facilitate the provision of loans for SMEs • Introducing better managed and strategy-driven public funding for start-ups	• Capitalisation of the BID increases to €2.25bn by 2030 and €3.5bn by 2035 • Implementation of a broadened BID mandate, targeted support to economic priority sectors, and additional instrument for the local and international level • National fund of funds (ReBOOST) and a national public venture capital bund become active (2027/2029) • DNSH rules and crowding-out tests are adapted in cooperation with the European Commission to facilitate the provision of BID support • Implementation of revised start-up funding through the Romanian state
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Realise Romania's energy sector potential	• Make Romania's energy prices more competitive at the European and global level	• Reduce electricity prices to the EU average
Strengthen institutional capacity and governance in the Energy sector	• Improving in-house expertise within Romania's public administration and SOEs, especially in the preparation of public procurement • Reinforcing data availability in the energy sector to better target policies in this area • Implementing additional safeguards in public subsidy schemes to ensure policy stability in the energy sector • Facilitating the clearance and of and permitting for energy projects • Developing a decisive and coherent energy policy approach inside the public administration • Undertaking an in-depth analysis of the domestic electricity market design • Improving the governance of energy policies by ensuring a stronger separation between energy policymaking (energy ministry) and state-owned energy companies	• Organisation of training programmes for public officials to improve the quality of public procurement processes, especially for public tenders • Implementation of a government-wide digitalisation strategy • Implementation of guidelines and safeguards for more predictability in public subsidy schemes • Implementation of a reform to give priority to energy production, transmission and distribution projects • Implementation of energy-sector specific measures in line with the milestones/targets/KPIs for the strategic objective on strengthening state capacity and governance • Realisation of an in-depth analysis of the electricity market design to identify shortcomings and make recommendations to adjust the design

Strongly invest in electricity grid, energy production and storage capacities	• Reforming the mandate of the ANRE to prioritise grid modernisation and expansion • Adopting targeted measures to protect vulnerable households, limiting the negative effects of grid modernisation and expansion on network tariffs • Stopping to use state-owned electricity producers for dividend payouts • Investing in the digitalisation of grids • Building out energy production and energy storage infrastructures • Developing grid interconnections with the rest of Europe, especially with central Europe	• Implementation of a reform of ANRE's mandate that prioritises modernisation and expansion • Targeted measures are being introduced to protect vulnerable households from high electricity prices and to fairly distribute grid expansion costs • Smart Meter Rollout reaches 80% by 2030 and close to 100% by 2035 • Installed electricity production capacities increase to 32.5GW by 2030 and 42.5GW by 2035 • Installed battery storage capacities increase to 5GW by 2030 and 8GW by 2035 • Interconnection reaches 20% of installed capacity by 2030 and 25% by 2035
Develop a coherent mix of renewables rollout with the domestic gas sector	• Developing Romania's potential in renewable energy production, especially in the area of PV • Accompanying renewables expansion by a strategic development of the country's gas sector • Using the country's gas reserves strategically to provide domestic and regional supply while also serving more high-value industrial activities • Achieving an effective liberalisation of the retail gas market to correct the skewed electricity to gas price ratio • Taking into account security and defence-related aspects in the resilience of Romania's gas sector	• Installed PV capacities reach 10GW by 2030 and 16GW by 2035 • Installed wind capacities reach 6.5GW by 2030 and 9.5GW by 2035 • Share of energy from renewable sources in gross final consumption of energy increases to 39% by 2030 and 46% by 2035 • Neptun Deep reaches full production by 2027 and continues this through 2035 • Electricity to gas price ratio reduces to 3.0 by 2030 and 2.5 by 2035 • Implementation of an integrated plan to protect Romania's gas infrastructure through economic, diplomatic and defence-related measures
Use the EU dimensions as a leverage for developing Romania's energy sector	• Improving the institutional capacity and governance in the domestic energy sector to fully absorb EU support • Using the Modernisation Fund as a key instrument to modernise the energy sector until 2030	• EU funds available for energy system modernisation and interconnection increase in relative terms with the next MFF

Strategic objectives	Proposed measures	Indicative milestones/targets/KPIs
Implement a digitalisation, data and AI offensive for Romania	• Implementing a more powerful and centralised digitalisation, data and AI governance, by reinforcing the role of the national digitalisation authority and its place in Romania's institutional structure • Ensuring coordination and coherence between strategies for digitalisation, data and AI • Developing a strategy to attract qualified professionals for public administration and to invest in training and upskilling • Improving data availability, interoperability and harmonisation • Expanding e-government services and procedures • Roll-out of the 'once-only' principle across the public administration • Developing digital literacy and use of advanced digital technologies among firms and citizens • Enhancing cooperation between the state and the domestic IT sector to identify specific niches in which Romania could take AI leadership (e.g. cybersecurity)	• Implementation of a reform of digitalisation, data and AI governance • Development and execution of an integrated digitalisation, data and AI strategy • Implementation of a hiring strategy for qualified professionals for public administration • Organisation of comprehensive training and upskilling programmes for digitalisation, data, and AI • Implementation of reforms to increase data availability, interoperability and harmonisation • Mobile connectivity (5G) reaches 100% of consumers by 2030 • Available digital public services for businesses and citizens reach 100% by 2030 • Digitalisation allows the roll-out of the 'once-only principle across the public administration by 2030 • Use of advanced digital technologies/digital intensity by firms reaches the top quintile of EU Member States by 2035 • Cloud, data analytics and AI uptake by firms reaches 75% by 2030 • Share of SMEs with at least a basic level of digital intensity reaches 90% by 2030 • Share of E-government users reaches 100% by 2035 • Share of citizens with at least basic digital skills reaches 80% by 2030 • Implementation of a cooperation programme between the state and the domestic IT sector to identify AI-leadership niches
Bolster human capital by reforms in the education system		• Public expenditure on education as a share of GDP reaches 4.5% by 2030 and 5% by 2035
Improve educational quality	• Introducing an annual education spending review, embedded in the annual budgetary process, to ensuring a better allocation of public spending • Reinforcing selection mechanisms for teachers while improving their working conditions and their salaries • Organising nationwide tests to assess teachers' knowledge and pedagogical skills and, on that basis, providing further trainings	• Spending reviews in the area of education policy become institutionalised • Execution of a comprehensive reform linking more demand selection mechanisms with improvements in teachers' working conditions and salaries • Introduction of more comprehensive teacher assessments in view of the provision of further training

Address geographical and social inequalities	• Achieving a structural reorganisation of the school network to better address the needs of rural areas • Redesigning a multi-year funding programme for schools, based on areas identified through a reorganisation of the school network, providing modern school infrastructures and school meal programmes • Introducing schemes and incentives to attract qualified teachers to rural areas •	• Implementation of a structural reorganisation of the school network as part of a broader territorial and administrative reform • Implementation of a multi-year funding programme for schools, with a focus on rural areas • Provision of scholarships for university students from rural backgrounds in exchange for commitments to teach in rural areas • Overall out-of-school rates are reduced to 10% by 2030 and 5% by 2035 • Early school leaving rates in rural areas reduce to 15% by 2030 and 10% by 2035 • Share of low-achieving 15-year-olds in mathematics, reading and science reduces to 35% by 2030 and 25% by 2035
Foster skills development	• Deepening interaction between public authorities and the private sector in the design and development of vocational education and training (VET) programmes • Creating VET programmes tailored to local industrial sectors • Prioritising VET programmes in disadvantaged areas • Introducing a single tax benefit for businesses that offer work placements to VET students • Introducing training vouchers for specific groups of workers to encourage lifelong learning	• Comprehensive reform of VET programmes to support work-based learning through incentives for enterprises, with a focus on disadvantaged areas • Introduction of training vouchers to encourage lifelong learning • Share of adults in education and training increases to 40% by 2030 and 55% by 2035 • VET (share of recent graduates from VET benefiting from exposure to work-based learning during their vocational education and training should be at least 60% (by 2025) • NEETs rate reduces to 15% by 2030 and 10% by 2035
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Expand research to unleash the country's innovation potential		

	• Reinforcing partnerships between universities, companies and public institutions, through the shared use of research infrastructures (e.g. research laboratories) • Redesigning curricula to incorporate exchange periods between universities and companies • Developing European Universities alliances including Romanian universities to create innovative research hubs • Introducing patent box regimes, with reduced tax rates to income generated from patents • Developing regional innovation clusters through targeted investments in infrastructures and connectivity • Implementing an integrated strategy for investment in startups and scaleups, including tax deductions for R&D investments and grants to support the testing of startup solutions • Improving SME access to information on funding opportunities in R&D through a centralised online platform	• Implementation of a comprehensive strategy to reinforce partnerships between universities, public institutions and companies • Reinforcement of research collaboration between Romanian and European universities • Implementation of a reform to introduce a patent box regime • Execution of a regional innovation cluster strategy • Implementation of an integrated strategy for investment in startups and scaleups • Implementation of a centralised online platform for R&D funding opportunities with a focus on SMEs • Funding received through the Horizon European Programme doubles for the MFF 2028-2034 in comparison to 2021-2027 • Public and private R&D spending as a share of GDP increases to 1% by 2030 and 1.5% by 2035 • Number of R&D personnel as a share of total employment increases to 1% by 2030 and 1.5% by 2035 • Number of patents per capita (under PCT) increases five-fold by 2030 (12.5) and twenty-fold by 2035 (50) • Number of high-quality scientific publications increases two-fold by 2030 (80) and four-fold by 2035 (160) • Share of innovative firms increases to 20% by 2030 and 30% by 2035 • Share of innovative enterprises collaborating with research organisations increases to 10% by 2030 and 15% by 2035
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Execute a two-pronged labour supply plan		
Mobilise the Romanian diaspora through a freedom to return	• Establishing networks among emigrated Romanian entrepreneurs, researchers, cultural actors and professionals living abroad • Digitalising public services to improve access to Romanian institutions and administrative procedures for the diaspora community • Accelerating the recognition of qualifications obtained abroad • Creating a digital centralised platform that guides return migrants in their search for work, accommodation or schools • Simplifying measures for setting up a company when coming back, especially if capital is brought back from abroad	• Implementation of comprehensive Diaspora networks • Development and execution of an integrated digitalisation, data and AI strategy, including access for the Romanian diaspora • Available digital public services for Romanian citizens living abroad reach 100% by 2030 • Implementation of a reform to facilitate the return of Romanians living abroad, including quicker recognition of qualifications obtained abroad, a digital support platform, and measures for firm creation • Migration balance of Romanian citizens turns significantly positive by 2030 with a trend sustained through 2035

Bring all the Romanian population into the labour force	• Improving transport infrastructures between major cities and villages (roads and rail transport) to reduce physical barriers to rural communities' participation in the labour market • Strengthening digital infrastructures to support remote work for citizens from rural areas • Fostering partnerships between schools and business to facilitate young people's employment • Improving work-life balance, through childcare services and flexible working arrangements, to promote the integration of women into the labour market • Putting measures into place that support older people to stay in the workforce longer, with a particular focus on lifelong learning and health-related actions	• Implementation of a road and railway infrastructure and service package to better link urban and rural areas • Implementation of a strategy to facilitate remote work for citizens from rural areas, including digital infrastructure and home office rules • (see education reform) • Implementation of measures to extend affordable childcare and early childhood education • Implementation of measures to support health outcomes for citizens • Labour force participation rate (people aged 15-64) increases to 72.5% by 2030 and 77.5% by 2035 • Labour force participation rate of young people (aged 15-24) increases to 35% by 2030 and 45% by 2035 • Labour force participation rate of older people (aged 55-64 increases to 65% by 2030 and 70% by 2035 • Labour force participation rate of women increases to 65% by 2030 and 72.5% by 2035 • Total fertility rate recovers to 1.7 by 2030 and reaches 1.8 by 2035
Strategic objectives	**Proposed measures**	**Indicative milestones/targets/KPIs**
Make strategic choices for developing economic key sectors		
IT sector	• Establishing a proactive strategy to move companies towards the delivery of products and more sophisticated services • Strengthening the capacity of the Romanian financial system to provide more growth capital • Ensuring the availability of a large skilled workforce, by developing excellence among key universities and STEM-related education programmes • Ensuring that infrastructures like mobile connectivity (5G), cloud infrastructures, or AI and data infrastructures are useable and useful for private actors • Promoting a national export and country branding strategy and providing institutional support for companies aiming to expand abroad	• Implementation of a strategy to support the leveling-up of IT companies • Implementation of the policy recommendations made for the Romanian financial system • Expansion of STEM-related education and university programmes • Share of ICT specialists as a share of total employment increases 50% (4.1%) by 2030 and doubles (5.4%) by 2035 • Consultations between public and private stakeholders to maximise the effectiveness of shared digital infrastructures • Implementation of a national export and country branding strategy for the IT sector

Manufacturing sector	• Promoting the transition from a low cost-based manufacturing industry towards higher value-added production • Developing dual vocational training programmes tailored to local manufacturing clusters • Accelerating the reskilling of the manufacturing workforce through lifelong learning programmes • Strengthening partnerships between high-potential industries and universities to create innovation hubs that can translate research into patents • Supporting manufacturing SMEs in the adoption of innovative solutions, by facilitating access to financial intermediation, mentorship programmes and links between SMEs and MNCs to foster knowledge transfers	• Implementation of a strategy to support the leveling-up of manufacturing companies • Implementation of the recommendations laid out in the education section for vocational training and lifelong learning • Development of collaborations between the manufacturing sector and universities • Facilitating growth by implementing the recommendations laid out in the financial system section • High-technology exports as a share of all manufactured exports increase to 17% by 2030 and 20% by 2035
Defence	• Promoting participation in joint European defence procurement, as an opportunity for Romania's public administration to improve its expertise • Reinforcing transparency in defence procurement and alignment with EU standards • Negotiating more comprehensive local supply-chain content requirements in future contracts, to capture higher value-added in the defence sector • Focusing on areas in which Romania can achieve durable competitive advantages, such as in cybersecurity and the naval industry, through targeted investments in human capital, innovation and infrastructures • Supporting startups in the defence sector, by creating a clear and stable legislation to allow private companies to test their technologies on military training grounds	• Implementation of a comprehensive strategy to strengthen public procurement in the defence sector • Future defence contracting ensures that higher value-added activities are capture by the Romanian defence industry • Implementation of an investment plan targeting specific areas such as cybersecurity and the naval industry • Implementation of legislation to facilitate the build-up of a domestic defence industry ecosystem

Transport and logistics	• Increasing intra-Romanian connectivity (crossings of the Carpathian mountain regions, linking Transylvania with Muntenia and the Romanian Region of Moldova) and external connectivity (interconnections with Hungary, Serbia, Ukraine and Moldova) • Ensuring that the highway construction will continue at a fast pace to address remaining connectivity gaps • Modernising the Romanian rail system and improving reliability and speed • Improving connectivity between Romanian airports and the rest of Europe	• Romania's macro-regions are all connected through highways by 2030, and highway connectivity with all neighbouring countries is reached by 2035 (in line with the Trans-European Transport Network corridors) • Highway length reaches 10km per 1000km^2 by 2030 and 15km by 2035 • Implementation of an ambitious railway modernisation investment programme with a focus on the Trans-European Transport Network corridors • Passenger traffic (in train kilometers) increases 25% (74m km) by 2030 and 50% (89m km) by 2035 • Freight traffic (in train kilometers) increases 25% (22m km) by 2030 and 50% (26m km) by 2035 • Total monthly commercial flights increase 25% by 2030 and 50% by 2035
Agriculture	• Implementing a long-term strategy to help the Romanian agricultural sector to move towards higher value-added processes and products • Helping smaller farms to specialise in the cultivation of more high-value niche products, such as walnuts, lavender and honey • Promoting the adoption of innovative techniques in the agricultural sector, through lifelong training for farmers and a facilitated access to credit for investment in new technologies • Improving links between farmers and university to identify research priorities and implement experimentation • Modernising irrigation systems and support the use of drought-resistant crops	• Implementation of a long-term strategy to move the agricultural sector towards higher value-added processes and products • Implementation of a strategy to support the specialisation of smaller farms • Lifelong training programmes for farmers towards the adoption on innovative farming techniques • Provision of facilitated credit access for investments in new farming technologies • Implementation of actions to link farmers and university to implement experimentation • Agricultural productivity (measured by the index of the real income of factors in agriculture per annual work unit) increases by 75% (in comparison to 2010) by 2030 and by 100% by 2035
Tourism	• Developing a more forceful country branding strategy, to make the existing cultural richness and natural beauty of the country more visible • Promoting more niche tourism products, such as rural authentic culture tourism • Expanding infrastructures like airport, ship, railway and road transport, supported by EU programmes such as the Connecting Europe Facility • Improving tourism governance through destination management organisations and location-specific branding strategies	• Implementation of a visible and coherent country branding strategy for tourism • Development of tourism products in rural areas together with local authorities • Creation and reinforcement of destination management organisations • Tourism intensity (nights spent in tourist accommodation establishments per inhabitant) increases to 3.5 by 2030 and 5 by 2035

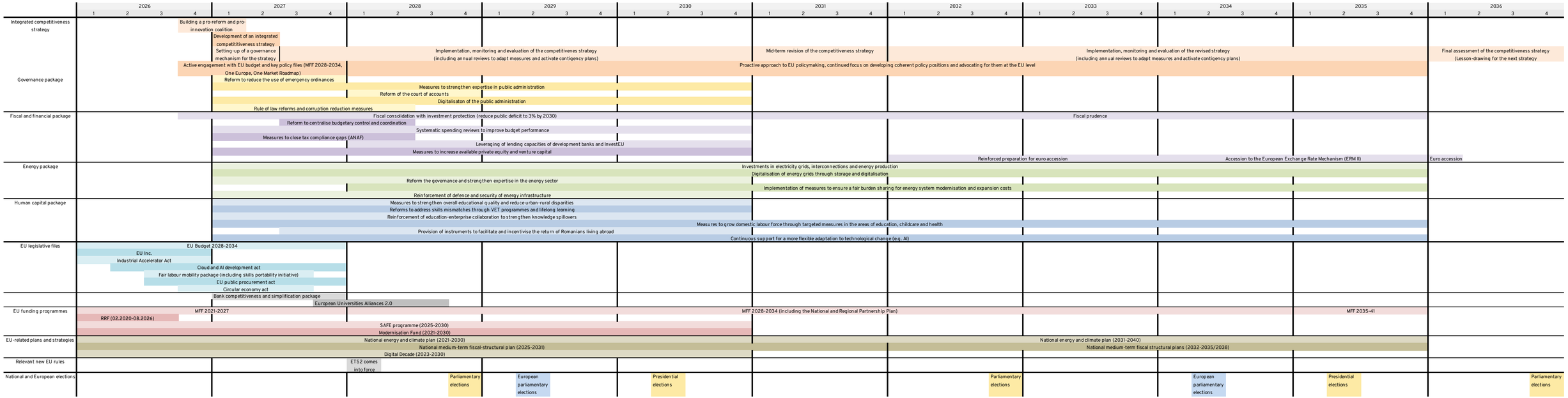
ANNEX II – OVERVIEW OF THE INDICATIVE QUANTIFIED KPIS FOR 2030 AND 2035

	KPI	Baseline	2030	2035
1	GDP per capita (PPS)	78%	86.5%	95%
2	IMD competitiveness index	2nd last among EU MS	Among top 67% of EU MS	Among top half of EU MS
3	OECD Product market Regulation	Lowest 25% among OECD	Among top 50% of OECD MS	Among top 25% of OECD MS
4	Regulatory quality (WGIs)	61	67.5	75
5	Government effectiveness (WGIs)	59	67.5	75
6	Single-bidder contracts	44%	37%	30%
7	Procedures awarded on the lowest price criterion	82%	65%	50%
8	Share of innovation-based public procurement	4.2%	7.5%	10%
9	Rule of law (WGIs)	63	69	75
10	Control of corruption (WGIs)	49	62.5	75
11	Public deficit as share of GDP	6.2%	3.0	2.0
12	Public debt as share of GDP	59.3%	64%	60%
13	EU budget absorption rate	92-98%	95%	95%
14	Share of non-profitable SOEs	28.7%	20%	10%
15	VAT compliance gap	30%	17%	10%
16	CIT compliance gap	44%	25%	10%
17	Vacancy rate ANAF	20%	12%	6%
18	Size of shadow economy	29%	22.5%	17.5%
19	Inflation rate	6.8%	2.5%	2%
20	Account ownership	80%	92%	95%
21	Bank deposits (share of GDP)	39.6%	45%	50%
22	Companies below legal equity requirements	33%	17%	11%
23	Market capitalisation	16.5%	22.5%	27.5%
24	Venture capital (share of GDP)	0.01%	0.05%	0.10%
25	Capitalisation of BID	<€1bn	€2.25bn	€3.5bn
26	Smart Meter Rollout	27%	80%	100%
27	Installed electricity production capacities	<22.8GW	32.5GW	42.5GW
28	Installed battery storage capacities	0.25GW	5GW	8GW
29	Interconnection (as share of installed capacity)	12.7%	20%	25%

30	Installed PV capacities	<4.2GW	10GW	16GW
31	Installed wind capacities	<3.7GW	6.5GW	9.5GW
32	Energy from renewable sources in gross final consumption	<31%	39%	46%
33	Electricity to gas price ratio	4.0-5.0	3.0	2.5
34	Mobile connectivity (5G)	59%	100%	
35	Digital public services for businesses	67%	100%	
36	Digital public services for citizens	64%	100%	
37	Advanced digital technologies/digital intensity in firms	Among lower 50% of EU MS	Among top 40% of EU MS	Among top 20% of EU MS
38	Cloud, data analytics and AI uptake by firms	30%/47%/7%	75%	90%
39	SMEs with at least a basic level of digital intensity	49%	90%	100%
40	E-government users	25.4%	60%	100%
41	Citizens with at least basic digital skills	40%	80%	100%
42	Public expenditure on education	4.0%	4.5%	5.0%
43	Overall out-of-school rate	17.1%	10%	5%
44	Early school leaving rate in rural areas	23.7%	15%	10%
45	Low achieving 15-year-olds in math, reading, and science	52%/48%/46%	35%	25%
46	Adults in education and training	25.6%	40%	55%
47	VET with work-based learning	7.2%	60%	80%
48	NEETs	20.3%	15%	10%
49	Public and private R&D spending (share of GDP)	0.46%	1%	1.5%
50	R&D personnel as a share of total employment	0.5%	1%	1.5%
51	Patents per capita (under PCT)	2.5	12.5	50
52	High-quality scientific publications	40	80	160
53	Innovative firms	8.5%	20%	30%
54	Innovative enterprises collaborating with research organis.	5%	10%	15%
55	Digital public services for Romanian citizens living abroad		100%	
56	Labour force participation rate (people aged 15-64)	67.1%	72.5%	77.5%
57	Labour force participation rate (people aged 15-24)	23.8%	35%	45%
58	Labour force participation rate (people aged 55-64)	59.2%	65%	70%
59	Labour force participation rate (women)	57.8%	65%	72.5%
60	Total fertility rate	1.4	1.7	1.8
61	ICT specialists as share of total employment	2.7%	4.1%	5.4%

62	High-technology exports as share of manufactured exports	13.4%	17%	20%
63	Highway length per 1000km^2	6.2km	10km	15km
64	Passenger traffic (rail, train kilometers)	59m km	74m km	89m km
65	Freight traffic (rail, train kilometers)	17m km	22m km	26m km
66	Total monthly commercial flights	Compared to 2025	+25%	+50%
67	Agricultural productivity	Compared to 2010	+75%	+100%
68	Tourism intensity	1.6	3.5	5

ANNEX III – INDICATIVE ROADMAP FOR THE IMPLEMENTATION OF THE INTEGRATED COMPETITIVENESS STRATEGY



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