



**European Bank**  
for Reconstruction and Development

# Romania diagnostic

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This report was prepared by Radu Cracan, Associate Economist. Editor: Poilin Breathnach. The authors are grateful for the contributions and comments provided by colleagues across the EBRD's departments. The views expressed in this report are those of the authors only and not necessarily those of the EBRD. The report is based on data available as at September 2025.

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Country diagnostics are a European Bank for Reconstruction and Development (EBRD) tool for identifying the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection when it formulates new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

**Country diagnostics assess national progress and challenges in developing a sustainable market economy.** Private-sector development and entrepreneurship are at the heart of the Bank's mandate, but the private sector faces a range of problems and obstacles in all of the EBRD's investee economies. The diagnostics highlight the main challenges facing private companies and show where each country stands in relation to its peers in terms of the six key qualities of a sustainable market economy – looking at whether economies are competitive, well governed, resilient, integrated, green and inclusive – and point out the main deficiencies and gaps in each.

The diagnostics draw on a range of methodologies and best practices in assessing how big obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports by institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies looking at selected issues that are critical to private-sector development in the relevant country.

**The diagnostics are led by the EBRD's Regional Policy and Strategy team,** drawing substantially on the expertise of sectoral, governance and political experts in the Policy, Strategy and Delivery (PSD) Department and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD's Board of Directors during the country strategy process and published during the public consultation period.

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## Executive summary

In just 10 years, the Romanian economy closed the historical income gap to its peers in Central Europe and the Baltic states (CEB),<sup>1</sup> with real output per capita and labour productivity in adjusted terms reaching almost 80 per cent of the EU average in 2024. The growth model in the decade to 2025 was based on two pillars: (1) booming domestic demand, driven by loose fiscal policy and strong wage growth, which also enabled higher corporate operating margins; and (2) capital inflows (EU funds, remittances and foreign direct investment (FDI)) and favourable changes in the structure of the economy that enabled productivity growth, mitigating some of the risks associated with protracted and deep twin deficits.

Because of Romania's accumulated imbalances as at the end of 2024 and in light of current global economic shifts, an adjustment in the current growth model is urgently needed. The country's fiscal stimulus has clearly reached its limits. Because of the absence of sustained structural reforms, the convergence achieved since 2015 has failed to bring about sufficient improvement in Romania's transition gap. Nevertheless, Romania can still reap significant growth dividends by addressing its structural issues and mitigating the risks of a potential middle-income trap. Development, therefore, needs to rely more and more on intensive growth rather than an expansive model. The main challenges of the economy from a transition perspective are:

**Competitive:** The innovation potential of the economy remains modest, with only a few bright spots in the information technology (IT) and advanced manufacturing sectors. Digitalisation, especially of the public sector and small and medium-sized enterprises (SMEs), needs to be stepped up. Capital investment in productive sectors has been lower than in most peers in recent years, while lower value-added manufacturing is being priced out due to wage growth. Firms should improve their financial management and prioritise innovation and productivity amid a tighter fiscal regime.

**Well governed:** Better public-sector governance and policymaking will be crucial in enabling a more sustainable growth model. A citizen- and private sector-facing state administration is greatly needed, which would translate into improved administrative capacity, government accountability and, hence, business environment. Improvements in the corporate governance of state-owned enterprises (SOEs) have so far been modest, despite reform commitments made as part of the country's Recovery and Resilience Plan (RRP) and Organisation for Economic Co-operation and Development (OECD) accession process.

**Green:** Romania is among the least carbon- and energy-intensive economies in the EU, but significant challenges remain in meeting green transition targets, such as increasing and greening domestic energy capacity, addressing just transition issues, strengthening the grid and energy storage, and accelerating energy efficiency investments, including industrial decarbonisation. Energy affordability is a challenge for both firms and households.

**Inclusive:** Considering the significant disparities in human capital across social groups, Romania has ample space to improve and benefit from a better-educated and skilled population that is more active in the labour market, especially among women, youth, the less educated and older citizens. As significant regional development gaps persist, effective measures to reduce inequality of opportunity and poverty are still needed, but those measures need to be more efficient and transparent.

**Resilient:** As the main financing source for private-sector growth, the banking sector needs to expand significantly. In light of the country's loose fiscal policy to date and low levels of indebtedness, as well as companies' undercapitalisation and significant reliance on commercial credit, there is considerable room for credit growth in the medium term. In parallel, efforts to deepen the public and private capital markets should accelerate in order to channel domestic private and

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<sup>1</sup> Romania is officially part of the EBRD's south-eastern Europe (SEE) region. As it is an EU member state, however, unlike most SEE economies, comparison with the Bank's central Europe and the Baltic states (CEB) region and the EU-11 is often more appropriate.

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institutional capital into supporting investment and growth.

**Integrated:** Progress has been noted in recent years, especially in the transport sector, where Romania has had long-standing gaps. However, significant investment is needed to modernise rail transport, as well as overall regional infrastructure. Greater private-sector participation should be prioritised for projects with more commercial potential, given the considerable investment needed and persistent financing constraints.

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# 1. Political and economic overview

## 1.1. Political economy

Following the collapse of the communist regime, Romania transitioned from a centralised, state-controlled economy to a market oriented one. This transition to democracy and market economy unfolded at a slower pace than in some other countries in the region. The early years were marked by significant challenges, including hyperinflation, economic instability and the need to restructure SOEs.

Over the years, Romania transitioned to a multi-party system with regular elections and peaceful transfers of power. Since the second decade of the transition, Romania's political system has been characterised by the polarisation of the centre-left and centre-right camps. This has led to periods of political instability, frequent changes in administration and coalition reshuffles. However, the prospects of joining the European Union (EU) in the early 2000s accelerated the pace of reform. The country joined the North Atlantic Treaty Organization (NATO) in 2004 and the EU in 2007. Support for both NATO and the EU membership has been relatively high. In 2025, Romania joined the Schengen area.

Romania is a semi-presidential republic, which has led to difficult periods of "cohabitation" between presidents and governments from opposing political camps. Since the May 2025 presidential election, the country has entered into a new political era, after months of escalating turmoil and uncertainty, paving the way for much-needed stability and governance reforms.

Nicușor Dan, the independent, pro-European candidate and former mayor of Bucharest, won the presidency, defeating far-right candidate George Simion. The election followed the annulment of the November 2024 presidential vote, due to violations of electoral legislation, including illegal campaign practices by one candidate. A pro-EU coalition government, led by Prime Minister Ilie Bolojan, was formed in June 2025, bringing together a broad political alliance: the centre-left PSD, centre-right PNL, the centrist USR and the Hungarian minority UDMR party. It is a rotation government that enjoys the support of parliamentary representatives from national minority groups. Backed by President

Dan, the coalition commands around a two-thirds majority in the bicameral parliament, giving it significant legislative power to advance its reform agenda, including its ambitious fiscal consolidation programme.

Civil society has grown significantly since the early 1990s, playing a crucial role in promoting and preserving democratic values and human rights. Despite their strong presence, however, civil society organisations (CSOs) continue to face challenges, such as limited funding and bureaucratic hurdles. Trade unions also play an important role in collective bargaining and protecting workers' rights, although the movement has suffered from fragmentation and declining membership rates in recent years. The media landscape is dynamic and diverse, with a mix of state-owned and private outlets. Over the years, there have been concerns about the transparency of media ownership, although there have been ongoing efforts to improve media regulation and ensure a more reliable information environment.

In 2023, the European Commission formally closed its Cooperation and Verification Mechanism (CVM) for Romania. The CVM had been initially introduced on Romania's accession to the EU as a transitional measure to access and facilitate progress in the fields of judicial reform and anti-corruption. In Transparency International's Corruption Perceptions Index 2024, Romania ranked 65th out of 180 countries and territories, remaining in the lowest tier in the EU region.<sup>2</sup>

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<sup>2</sup> See Transparency International (2024).

## 1.2. Macroeconomic context

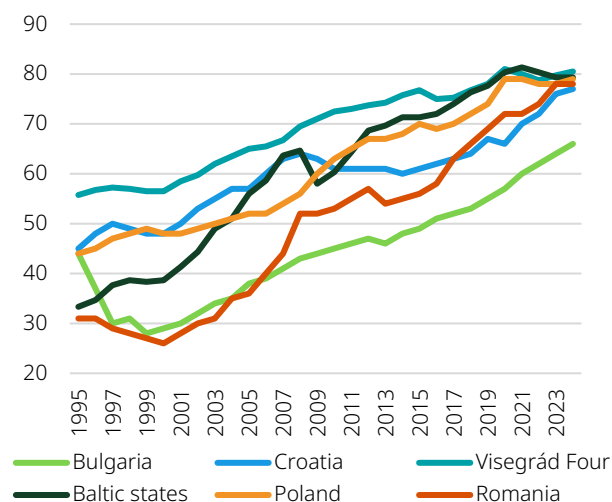
Once one of the poorest countries in Europe, Romania is now the EU member state boasting the greatest convergence over the past decade, fully closing the historical income gap to its EU-11 peers.<sup>3</sup> This accelerated pace was mainly a consequence of expansionary fiscal and wage policy, steady capital inflows (including EU funds) and the strong performance of several sectors. The relative stability of the Romanian leu (RON) against the euro was also a key driver in increasing average incomes in hard currency. This in turn created a strong impetus in the domestic market, which gained in importance over export-led growth and accelerated demand for imports. However, this model is now reaching its limits. In addition to a deep current account deficit, the post-Covid period has seen an increase in the public debt-to-gross domestic product (GDP) ratio of almost 20 percentage points due to the country's imbalanced budget and tax system. Nevertheless, productivity growth has been fairly sustained and alleviated the potential accumulation of even deeper imbalances and eroding competitiveness. Capital inflows, particularly of EU funds, have financed a significant part of the widening twin deficits, mitigating the risks involved.

### Growth performance and recent macroeconomic developments

**Romania has made great progress on converging to EU income levels as private consumption has boomed.** The Romanian economy has grown at an average annual rate of 3.3 per cent since 2015, but only at a 1.8 per cent rate in the past five years.<sup>4</sup> Still, this has enabled rapid convergence in GDP growth per capita, from 56 per cent of the EU average in 2015 to 79 per cent in 2024 (see Chart 1). From 2019 to 2024, annual growth in household consumption averaged 3.3 per cent, the third-highest rate in the EU, reflecting the country's demand-driven growth model. Actual individual consumption, as measured by Eurostat's price-adjusted

household consumption, reached 88 per cent of the European average in 2024, lower only than Lithuania in the EU-11; in 2015, it had been the second lowest in the region, at 59 per cent.

**Chart 1. GDP per capita in purchasing power terms (EU-27=100)**



Source: Eurostat (2025b) and authors' calculations.

Note: The Visegrád Four are Czechia, Hungary, Poland and the Slovak Republic.

### Economic growth has slowed in the past two years.

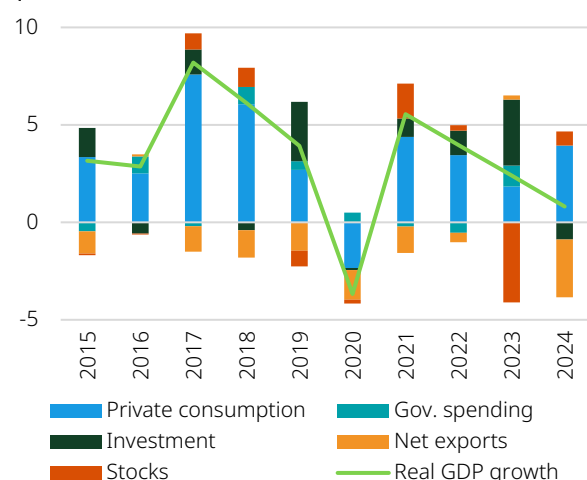
After a rebound following the Covid-19 crisis, the Romanian economy has gradually slowed in the past two years (see Chart 2). In 2023, private consumption moderated due to surge in inflation, but investment contributed significantly to growth. In 2024, investment fell in annual terms, also due to lower public capital spending, while the rebound in consumption significantly increased imports. In the first three quarters of 2025, growth remained subdued, at 0.8 per cent year on year, suggesting a modest performance by year end in the face of announced fiscal consolidation measures and moderating consumption.

<sup>3</sup> The EU-11 countries are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and the Slovak Republic.

<sup>4</sup> See Eurostat (2025a).



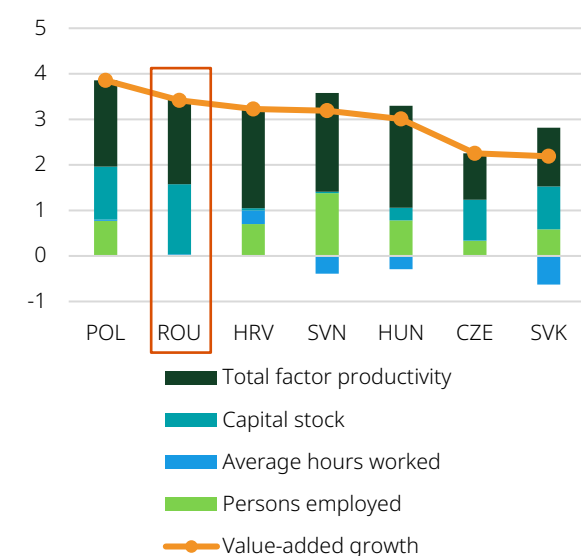
**Chart 2. Breakdown of real GDP growth contributions (per cent)**



Source: Eurostat (2025c) and authors' calculations.

**Growth has also been supported by investment and productivity improvements in recent years.** Based on growth accounting estimates, Romania's growth from 2015 to 2022 was supported almost equally by capital spending and productivity growth. The contribution of capital deepening has been the highest among key peer countries. Labour participation, in contrast, has made a negligible contribution to growth (see Chart 3).

**Chart 3. Average annual contribution to value-added growth, 2015 to 2023 (per cent)**



Source: Vienna Institute for International Economic Studies (WIIW) (2024) and authors' calculations. Data for Poland are to 2021; Romania, the Slovak Republic and Slovenia to 2022.

**Public investment has increased substantially since 2020, but business investment remains subdued.** Gross fixed capital formation recovered gradually after

reaching a trough in 2018, with investment accounting for nearly 27 per cent of GDP in 2023 – the second-highest ratio in the EU. Public investment has consistently exceeded 5 per cent of GDP since 2020, primarily as a result of major infrastructure initiatives and municipal spending programmes. Household investment activity has also improved, partially counterbalancing weaker trends among firms. National statistics indicate that company investment, measured as a share of assets, has remained stable around 6 per cent since 2010, despite fiscal incentives aimed at encouraging reinvestment. While capital stock per employee increased 28 per cent from 2015 to 2022, the highest in the EU, it remains about 3.5 times lower than the EU-27 average and higher only than Bulgaria's, indicating considerable potential for further growth.<sup>5</sup>

**Labour's contribution to economic growth has been limited, despite labour market improvements.** Following the Covid-19 crisis, the unemployment rate stabilised around 5.5 per cent. In 2024, Romania recorded the third-lowest employment rate in the EU, at 69.5 per cent, about 10 percentage points below the EU-11 average.<sup>6</sup> The employment rate has seen an increase of 10 percentage points over the last decade, however. Concurrently, Romanian employees registered the fourth-highest number of hours worked within the EU in 2024, partly offsetting the lower employment rate. Despite this, Romanians have the shortest overall working lives among EU member states, partly driven by the lower pension age in the public sector.<sup>7</sup>

**Labour productivity growth has been strong, but below unit labour cost growth.** Labour productivity as a proportion of the EU-27 average has increased considerably in recent years, reaching 74 per cent in 2023, below only Czechia, the Slovak Republic and Slovenia in the EU-11 (see Chart 4). Compared with 2015, real productivity per hour worked had increased 29 per cent by 2024, the highest rate in the EU-11.<sup>8</sup> In 2024, labour productivity declined in annual terms, contributing to a significant increase in unit labour costs (17.8 per cent). Indeed, Romania has also recorded the highest increase in nominal unit labour costs since 2015, of 120 per cent, eroding cost competitiveness. The minimum wage almost doubled between 2019 and 2025, while the average net wage as at mid-2025 was 66 per cent higher than in December 2019.

**Consequently, Romania's cost competitiveness has started to deteriorate again since 2022.** After increasing

<sup>5</sup> See European Commission (2025a).

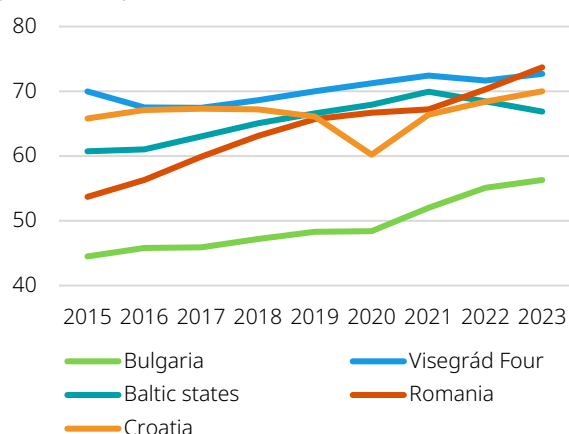
<sup>6</sup> See Eurostat (2025d).

<sup>7</sup> See Eurostat (2025e).

<sup>8</sup> See Eurostat (2025f).

20 percentage points between 2015 and 2019, the cost competitiveness of the economy, as measured by the real effective exchange rate deflated by unit labour costs (REER-ULC), remained relatively flat until 2022, offset by productivity improvements. Since then, the widening wage-growth differential has translated into further appreciation of the REER-ULC, up 40 percentage points in 2024 from 2015.<sup>9</sup> Apart from Bulgaria, key peers such as Hungary and Poland have seen an appreciation of around 10 per cent over the same period.

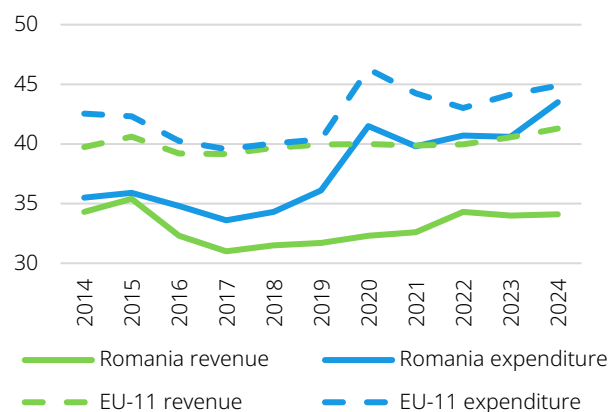
**Chart 4. Nominal labour productivity per hour worked (EU-27=100)**



Source: Eurostat (2025f) and authors' calculations.

**Romania's fiscal standing worsened significantly in 2024.** Since 2015, Romania's fiscal path has been complicated. Significant tax cuts in 2016 and 2017 reduced fiscal revenues to GDP, with only a partial recovery by 2024. The Covid-19 crisis brought about an increase in spending, which has still not returned to pre-Covid levels, and which increased even more in 2024 due to the elections. Compared with its EU-11 peers, Romania has had an average revenue gap of 7 percentage points of GDP over the past decade, though expenditure inched closer to the EU-11 in 2024 (see Chart 5). As mentioned, the increase in spending was partially driven by a rise in public investment, which despite its productive effect still requires offsetting fiscal adjustments.<sup>10</sup>

**Chart 5. Key fiscal indicators, Romania and the EU-11 average (percentage of GDP)**



Source: Eurostat (2025g) and authors' calculations.

**Despite the adoption of a corrective fiscal package, public debt is likely to snowball in the medium term and exceed the Maastricht limit.** Despite posting sizeable fiscal deficits, Romania's public debt levels remained below 50 per cent of GDP until 2023, thanks to its high nominal GDP growth rate. It only deteriorated towards 55 per cent of GDP in 2024 due to lower nominal growth and a deep budget deficit. The government formed in June 2025 has adopted corrective budgetary measures with an estimated fiscal impact of around 0.6 per cent of GDP in 2025 and 2 per cent of GDP in 2026.<sup>11</sup> While positive, these measures will only help the deficit to decline towards 6.5 per cent of GDP, which is why additional measures may be needed to meet the fiscal framework target of 3 per cent of GDP by 2031. By then, because of the lofty fiscal deficits, public debt will inevitably have increased. According to the European Commission's debt sustainability analysis of May 2025, Romania's debt-to-GDP ratio will approach 73 per cent of GDP by 2029.<sup>12</sup> This marks a significant accumulation of public debt compared with the pre-Covid period, when debt was stable at around 35 per cent of GDP.

**To counter the government's loose fiscal policy in recent years, monetary policy has tightened considerably, constraining financing conditions.** The policy mix since the Covid-19 crisis has been one of loose fiscal policy and anticyclical monetary policy aimed at offsetting it. With the surge in inflation in 2022, the National Bank of Romania (NBR) hiked its policy rate from a record low of 1.25 per cent in 2021 to 7 per cent by early 2023, cutting it to 6.5 per cent in summer 2024; this translated into a real positive rate for the first time in seven years. Moreover, with Romania posting a deep current account deficit, the

<sup>9</sup> See ECB (2025a).

<sup>10</sup> See Motyovszki et al. (2024).

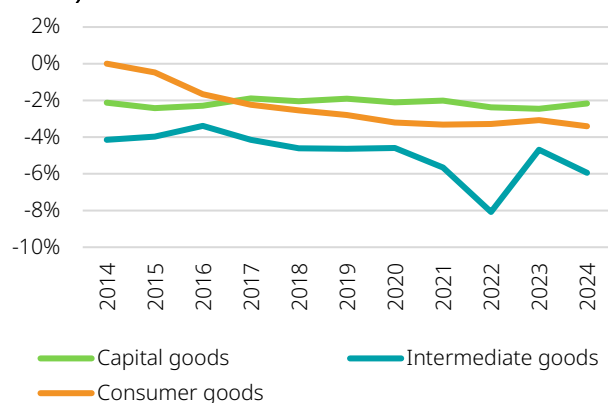
<sup>11</sup> See Fiscal Council (2025).

<sup>12</sup> See European Commission (2025a).

NBR had to safeguard the EUR/RON exchange rate to avoid importing additional inflation. The political uncertainty in spring 2025 led to significant capital outflows and forced around a 1.4 per cent depreciation of the RON against the euro.

**Romania's trade deficit has been exacerbated by its loose fiscal policy.** Over the past decade, Romania has recorded a worsening of the current account balance, averaging 7.4 per cent of GDP since 2020, largely in line with the fiscal deficit path. The fiscal loosening led to a significant (around 3 per cent of GDP) deterioration in the consumer goods balance, reflecting the increase in domestic consumption. The European Commission estimates that Romania's import dependence is around 40 per cent for household consumption and 60 per cent for investment.<sup>13</sup>

**Chart 6. Trade balance by goods category (percentage of GDP)**



Source: NIS (2025a) and authors' calculations.

**Despite a recent weakening, the current account deficit has been financed from mostly non-debt-creating sources.** As a net recipient of EU funding and FDI, Romania managed to cover around 70 per cent of the current account deficit with non-debt-creating capital from 2020 to 2023. However, this ratio decreased to 34 per cent in 2024, with a slight improvement in the first half of 2025. External debt remains slightly below 60 per cent of GDP.

**EU funds have played essential roles in productivity enhancement and macroeconomic stabilisation.** Since 2013, Romania has consistently received EU funds (excluding agricultural policy) of between 2.0 per cent and 2.5 per cent of GDP in most years, peaking at 3.5 per cent of GDP in 2022. Beyond the effects associated with economic transition, these funds have been vital in financing the current account. Romania has been allocated a substantial amount of EU funding through

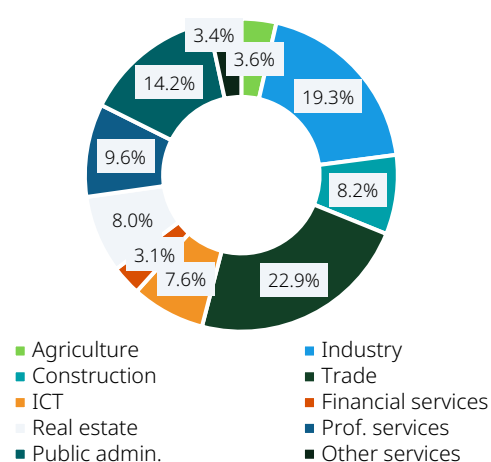
to 2030, equating to nearly 25 per cent of its 2021 GDP. As of mid-2025, RRP implementation faced significant delays.

**Remittances still contribute to capital inflows.** With one of the largest diasporas in Europe, Romania has benefited from people sending money home, as well as from seasonal workers. In 2024, remittances reached 2.5 per cent of GDP, supporting domestic consumption and serving as an important source of foreign currency. It could also be argued that remittances play a social assistance role, as most of the remittances go to more vulnerable households. While in most EU-11 countries remittances have declined as a share of GDP since 2014, in Romania they have remained stable at around 3 per cent of GDP, driven by continued emigration (from 2.6 million emigrants to the largest EU countries in 2014 to 3.7 million in 2023) and the movement of the Romanian diaspora from southern Europe to northwestern Europe, where incomes are higher.

## Economic structure and the private sector

**Romania's economic structure is comparable to that of other countries in the region.** Industry accounts for about 19 per cent of the economy, a decrease from 23.5 per cent of gross value added (GVA) in 2019. The current share is higher only than that of the Baltic states and Croatia. The proportion of financial services is lower than in some comparable economies, reflecting the level of credit penetration by the banking sector. In recent years, information and communications technology (ICT) and professional services have experienced growth and now account for some of the highest shares in the EU-11.

**Chart 7. Gross value added, percentage share by sector (2024)**

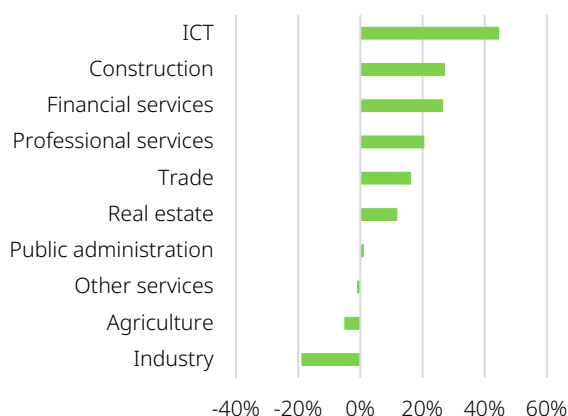


Source: NIS (2025b).

<sup>13</sup> See European Commission (2024).

The pace of structural change in the economy has been high in the past five years. Since 2019, Romania has experienced several significant shifts in its economic structure. The ICT sector saw the largest increase in GVA, up 45 per cent in mid-2025 compared with end 2019 (see Chart 8). Other sectors, including construction, trade, real estate and professional services, expanded by more than 20 per cent. Agricultural output fluctuated considerably due to weather conditions. Industry posted the lowest performance, partly because of reductions in lower value-added activities such as mining and textiles (for further details, see the “competitive” chapter). Overall, Romania’s economy is transitioning towards services and consumption, with production-based sectors playing a reduced role.

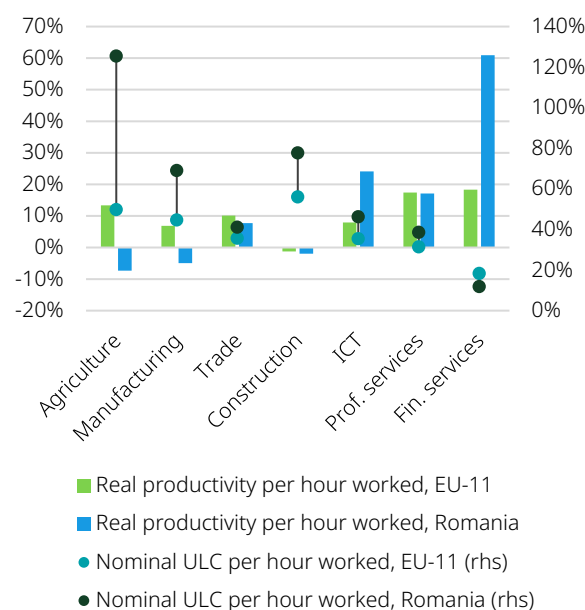
**Chart 8. Change in GVA, mid-2025 versus end 2019, seasonally adjusted**



Source: NIS (2025b) and authors’ calculations.

Reflecting trends in value added, the ICT, services and trade sectors have recorded the highest productivity improvements in recent years. Compared with 2019, productivity in the ICT sector has increased at three times the EU-11 average rate (see Chart 9). In agriculture, manufacturing, construction and trade, Romanian firms have seen more modest improvements than their regional peers, partly because of their faster wage growth and higher employment rates. Consequently, significant labour cost–productivity differentials have been recorded in agriculture, manufacturing and construction during the period.

**Chart 9. Real labour productivity per hour worked and nominal unit labour costs (ULC) per hour worked, 2024 change from 2019**



Source: Eurostat (2025f) and authors’ calculations.  
Note: Nominal ULC is calculated by dividing labour compensation by real productivity per hour worked.

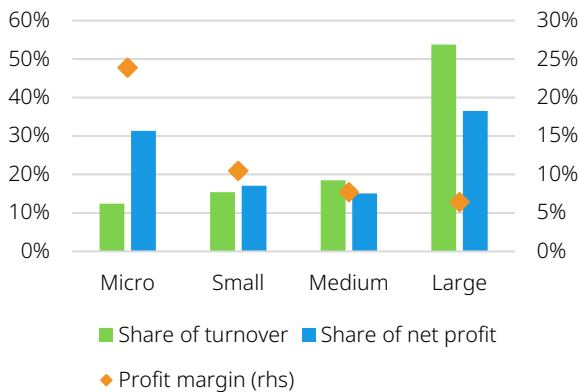
After the post-Covid-19 surge, company profitability declined towards the long-term average in 2023 and 2024. Over the previous 10 years, Romanian firms had recorded an accelerated pace of growth in turnover and net profit, peaking in 2022. Since then, turnover has plateaued, while net profits have declined slightly, returning to the pre-Covid-19 trend in growth. By mid-2024, profit margins were lower than the previous two years in agriculture, trade and manufacturing, while mining, utilities and construction saw improvements.<sup>14</sup> Considering the gross value-added trends of the first half of 2025, similar outcomes should be expected for the full year.

Recent data suggest that smaller Romanian firms exhibit higher net profit margins than large firms. Romania’s corporate demography broadly mirrors the regional pattern, although the Romanian economy relies heavily on microenterprises. Large enterprises, about 0.2 per cent of all registered firms, accounted for roughly 37 per cent of aggregate turnover in 2023 and about 36 per cent of employment. Yet, microenterprises, despite their smaller share of total turnover, account for a similar share of net profit, implying a far higher profit margin than the national average of 7.6 per cent (see Chart 10). This could reflect sectoral composition, legal forms, cost structures,

<sup>14</sup> See National Bank of Romania (2025).

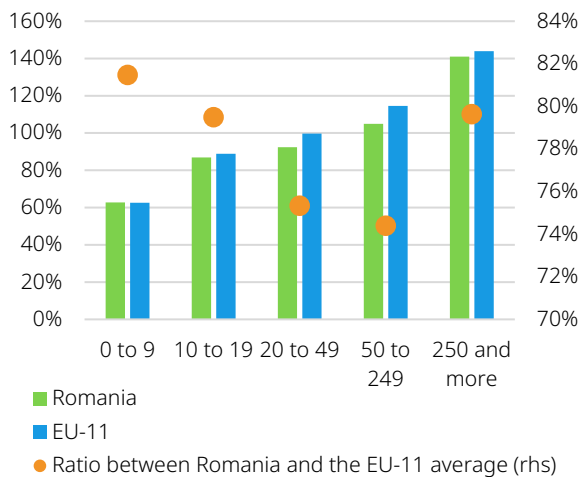
financing or accounting/tax practices rather than inherently greater small-firm efficiency. There are large step-ups in taxation as firm size increases, while informality could also affect these outcomes. Comparisons of labour productivity with EU-11 peers likewise suggest that Romanian medium-sized firms underperform, which is consistent with weaker profitability in that segment (see Chart 11). This underlines the need to create incentives for and remove obstacles to healthy firm growth, especially in the small and medium-sized segment.

**Chart 10. Aggregate financial results by firm size, 2023**



Source: Ziarul Financiar (2024) and authors' calculations.

**Chart 11. Ratio of apparent labour productivity between size class average and overall real economy, 2021-23 average**

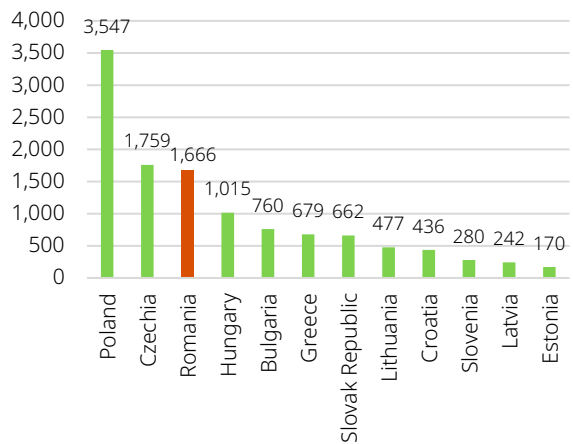


Source: Eurostat (2025h) and authors' calculations.

**Considering the size of the economy, the number of larger firms is higher than in most regional peers.**

According to Eurostat's classification of enterprises with more than 250 employees, Romania had the eighth-highest number of large enterprises in the EU, with only Poland and Czechia exceeding it in the region (see Chart 12). In late 2023, companies with turnover of more than €50 million became subject to a 1 per cent turnover tax from 2024 to 2026. Foreign-owned entities accounted for around half of aggregate turnover and more than 40 per cent of value added in 2023, behind only the Slovak Republic and Czechia in the region.

**Chart 12. Number of enterprises with 250+ employees in the business economy, 2023**



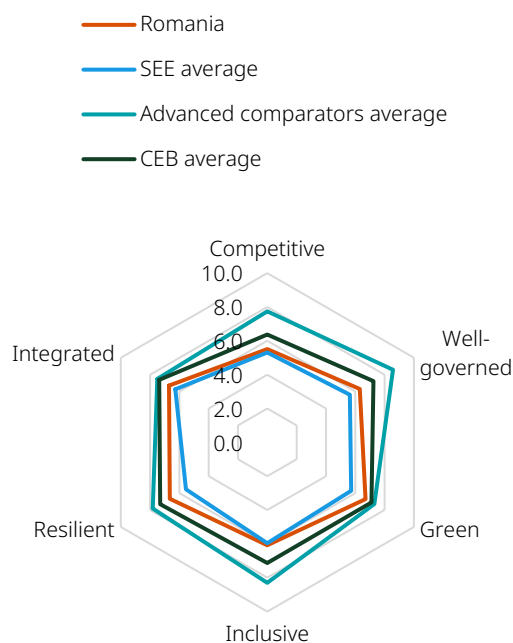
Source: Eurostat (2025h).

## 2. Assessment of the market economy

In the EBRD's 2024 Assessment of Transition Qualities (ATQs), Romania achieved higher scores than the south-eastern Europe (SEE) regional average,<sup>15</sup> but continued to post a gap to the CEB average.<sup>16</sup> The ATQs are composite indices of six desirable qualities of a sustainable market economy – competitive, well governed, green, inclusive, resilient and integrated. They are obtained by combining information on an extensive number of indicators and assessments.

**Romania is greener, better governed and more integrated and resilient than its SEE peers, but has similar scores when it comes to inclusivity and competitiveness.** The country performs relatively better than the rest of the region on all transition qualities, but the difference is marginal on the competitive and inclusive qualities (see Chart 13). Compared with the CEB region, the smallest gaps are on the green (0.4), resilient (0.6) and integrated (0.7) transition qualities.

Chart 13. EBRD 2024 ATQ scores



Source: EBRD (2024c).

Note: Advanced comparators are Canada, France, Germany, Japan, Sweden, the United Kingdom and the United States of America.

<sup>15</sup> For the purposes of this comparison, the SEE region has been expanded on an exceptional basis to include Greece.

<sup>16</sup> Romania is officially part of the EBRD's SEE region. As it is and EU member state, however, unlike most SEE economies, comparison with the Bank's CEB region is often more appropriate.



## 2.1. Competitive

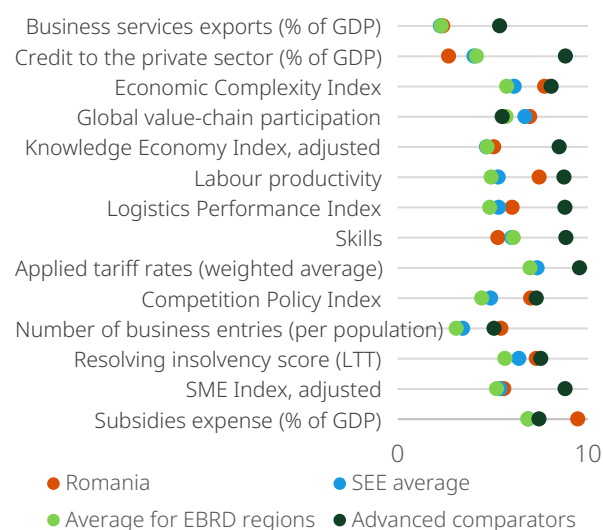
Romania's private sector has benefited from expansionary fiscal policy in recent years, which has enabled firms to increase their profit margins but may have limited productivity growth through innovation investment. The tax framework has encouraged the establishment of microenterprises, resulting in a gap in support for mid-cap firm development. Structurally, Romania has a relatively higher proportion of business and IT service exports, while its participation in global value chains has supported the development of more complex manufacturing despite the aggregate decline of industry. While Romania's labour costs remain comparatively advantageous, wage growth in recent years highlights the importance of innovation-led growth. Private-sector development is affected by the country's limited innovation potential, which is concentrated in certain sectors and firms. Digital transformation among businesses, meanwhile, has not yet become widespread across the economy. Although market institutions have made progress, there is room for further improvement, particularly when it comes to tax incentives for sustainable business growth.

### Market structures and the business environment

**Romania offers a relatively favourable business environment and tax system.** In recent years, it has demonstrated progress on enhancing its business climate, particularly with regard to insolvency procedures, business formation and the enforcement of fair competition. The proportion of firms identifying the tax burden as a major obstacle decreased from more than 40 percent in 2013 to around 20 percent in 2019. This decline is attributable to the sizeable tax cuts implemented since 2015, which have subsequently created imbalances within the fiscal system (for more, see

Box 1). Nonetheless, according to the European Investment Bank's Investment Survey 2024, the main barriers to doing business include labour regulations (cited by 73 per cent of firms, compared with an EU average of 61 per cent) and business regulations (cited by 66 per cent, on a par with the EU average).<sup>17</sup> In addition, 56 per cent of respondents cited availability of finance.

**Chart 14. Competitive ATQ indicators**



Source: EBRD (2024c).

**However, the private sector also frequently notes the challenges of interacting with public institutions.**

Assessments in recent years have pointed to gaps at the state institutional level, including capacity issues and a lack of coordination and communication between state bodies, which continue to pose challenges to conducting business.<sup>18</sup> Moreover, frequent and unpredictable regulatory changes sap resources from firms (see Chart 15).<sup>19</sup> In general, companies prefer to minimise interactions with the state, amid cases of abusive control, poor attitude and a high perception of corruption, although measures suggest the actual incidence of bribery to be relatively low.<sup>20</sup>

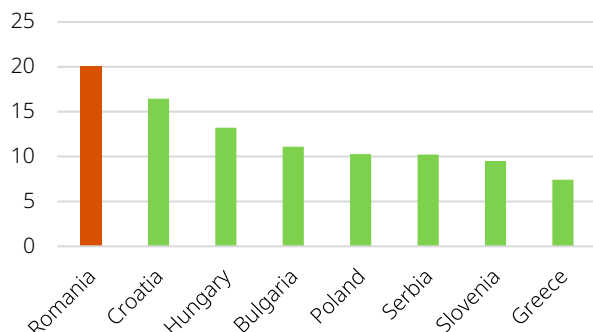
<sup>17</sup> See European Investment Bank (2025).

<sup>18</sup> See OECD (2023).

<sup>19</sup> See National Bank of Romania (2025b).

<sup>20</sup> See EBRD, EIB and World Bank (2020).

Chart 15. Firms cite dealing with regulations as a barrier to doing business (percentage of respondents)



Source: EBRD, EIB and World Bank (2020).

#### Box 1. Key particularities of the Romanian fiscal system

**Romania faces a structural tax revenue gap.** With tax revenues accounting for around 28 per cent of GDP, Romania's figure is 15 percentage points below the EU average, substantially limiting the government's fiscal space. An appropriate objective would be to reach parity with other EU-11 countries such as Poland and Hungary, whose tax revenues are around 35 per cent of GDP.

**The Romanian tax system's weak points are well documented.** The system exhibits increasing levels of anomie, characterised by regressive labour taxation, extensive preferential tax regimes, relatively low capital and property taxes, a low, flat income tax rate and inefficiencies in VAT collection. The labour tax wedge, at approximately 42 per cent, is in one of the highest in the EU for those with below-average earnings, while simultaneously the second-lowest rate for high-income earners. Although both income tax and employer social security contributions (SSCs) are comparatively low, employee SSCs – imposed from the first leu earned – make up most of the tax burden for average employees. Actual household SSCs amounted to 9.3 per cent of GDP in 2023, among the highest in the EU and playing a substantial role in supporting the state budget, notwithstanding loopholes that permit SSC optimisation.

**The 2017 reform modified the fiscal system by reallocating resources from employees to firms and shareholders.** Following fiscal easing measures introduced in 2015 and 2016, including a 5 percentage-point reduction in the general value-added tax (VAT) rate and a 5 percentage-point cut in employer SSCs, a

comprehensive fiscal overhaul was implemented in 2017. The reforms included transferring all SSCs from employers to employees, reducing personal income taxes from 16 per cent to 10 per cent, and raising the microenterprise turnover threshold from €500,000 to €1 million – among the highest globally (this was later adjusted to €500,000 in 2023 and €250,000 in 2025, with further planned decreases to €100,000 in 2026). These changes led to a substantial decline in the corporate profit tax base, but recent measures have reversed this trend – from 128,000 firms paying corporate income tax in 2022 (and 913,000 paying the microenterprise turnover tax) to 726,000 in 2024 (and 369,000 paying the turnover tax).

**Business type arbitrage has resulted in reduced tax liabilities.** The Romanian tax system does not treat all forms of business equally. Employees can decrease their tax burden by working as independent contractors rather than under traditional employment contracts. Prior to 2024, unincorporated independent contractors benefited from a lower SSC rate due to a threshold that applied to the self-employed, resulting in some cases in an average SSC rate of 12 per cent compared with the standard average of 42 per cent. Additional factors affecting tax optimisation included incorporation status and profit margins; for instance, a single owner-employee firm could minimise SSC liability by paying the minimum wage and subsequently applying an 8 per cent dividend tax (this increased to 10 per cent in 2025). The tax structure, therefore, provided incentives for microenterprises with higher profit margins, which may have discouraged both growth and incorporation. Furthermore, microenterprises could avail of specified expenses against turnover to maximise tax efficiency and reduce their VAT base.

**VAT collection remains one of the weakest in the EU.** Romania has one of the lowest VAT-to-GDP ratios in the EU (6.8 per cent in 2024). According to various estimates, Romania has the largest VAT gap, with around 30 per cent being uncollected in recent years.<sup>21</sup> Independent investigations uncovered the extensive use of cross-border VAT evasion, while domestically, expenses unrelated to business operations, but

<sup>21</sup> See European Commission (2025e).



declared as such, were among the main ways of optimising VAT liabilities.<sup>22</sup>

**Because of its low tax revenue, the state underfunds essential sectors such as education and healthcare.**

While Romania's recent expenditures have hovered around 40 per cent of GDP – higher than countries with comparable tax revenue profiles – this has resulted in persistent fiscal deficits. Despite its elevated expenditure, allocations to healthcare, social security and education remain below the EU average (for example, health spending was 4.9 per cent of GDP in 2022 compared with the EU average of 7.7 per cent), whereas outlays for general public services and economic affairs are comparatively higher. The country also maintains a highly inflexible spending structure, with at least 60 per cent of the budget committed to salaries. Moreover, debt servicing costs have tripled relative to pre-pandemic levels, increasing opportunity costs. Given rising demands for military spending, which will further strain the budget, there is a clear need to review and optimise the allocation of public funds.

**Recent reforms have addressed some inequities, but a comprehensive fiscal reform is pending.** Over the past three years, the government has introduced various tax measures, primarily aimed at eliminating certain tax facilities for specific business types and privileged sectors, as well as taxing undeclared income. These measures have also included turnover taxes, which may impact local production, investment and industries with persistently low profit margins. Further suggested reforms include introducing a progressive personal income tax rate, raising capital gains and property taxes, and modifying the microenterprise regime to expand the corporate tax base. Strengthening the tax authority, including through digitalisation, has been considered an important reform, though recent efforts have not resulted in significant changes. The authorities are expected to implement a fiscal consolidation plan aligned with the EU's Excessive Deficit Procedure and Recovery and Resilience Facility (RRF) milestones. A draft plan, mainly focused on restricting expenditure along with some increases in profit taxes and VAT, was adopted in late 2024 and expanded in mid-2025 with

the aim of reducing the deficit to less than 3 per cent of GDP by 2031.

**Competition policy has strengthened recently, but with costlier implications for investors.** At the end of 2023, the government adopted ordinance GEO 108/2023, transposing the EU's ECN+ Directive on competition enforcement, among other things. In addition to strengthening the Romanian Competition Council's investigative powers and addressing other aspects of the ECN+ Directive, GEO 108/2023 expanded the country's foreign investment screening, which has been criticised by some investors for its excessive oversight. It also introduced monitoring obligations under the Digital Market Act. Still, the Romanian Competition Council has been one of the most active and efficient competition authorities in the region, with a court success rate of over 90 per cent.<sup>23</sup>

**Insolvency procedures need to be adjusted to address the issue of "zombie" firms.** Romania's insolvency procedures are quite efficient compared with those of its peers and other EBRD economies.<sup>24</sup> Still, according to the NBR, a third of companies considered to be zombie firms in 2022 had been in that position for more than 10 years, with only a fraction being subject to restructuring or becoming insolvent. The average rate of insolvencies for this kind of enterprise is just 1 per cent in the first year of financial difficulty and up to 4 per cent within three years.<sup>25</sup> In general, Romania's insolvency procedures are less efficient and successful, as firms do not request insolvency until long after financial difficulties surface. There is also a low incidence of pre-insolvency measures and restructuring.

<sup>22</sup> See ANAF (2025).

<sup>23</sup> See Maxim (2024).

<sup>24</sup> See EBRD (2022).

<sup>25</sup> See National Bank of Romania (2023).

## Capacity to generate value added and innovate

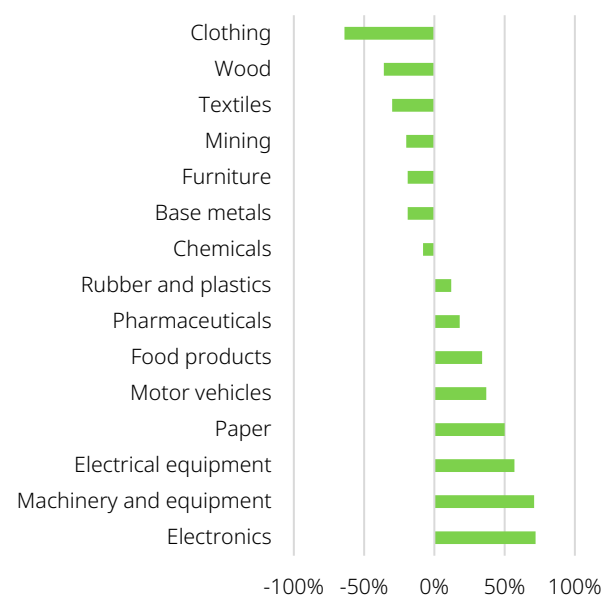
**In recent years, the Romanian economy has expanded largely on the back of booming services.** From 2015 to 2024, the highest average contributions to growth were recorded by the trade sector (1.1 per cent), ICT (0.6 per cent), and professional and real-estate services (0.5 per cent), with close to zero contributions from agriculture, industry, construction and financial services. Consequently, productivity growth has been disproportionate in recent years, with most of it recorded in the ICT and professional services sectors, as well as trade (see Chart 9). A more balanced growth structure would require the government to address challenges in underperforming sectors, such as agriculture and industry, while enabling growth in future-proof sectors.

**Because of its current structure, Romania's agricultural sector currently operates below its full potential and is increasingly vulnerable to climate change.** Over the past decade, Romanian agricultural exports have expanded their global market share, driven by growth in cereal yields. Nevertheless, the sector faces ongoing challenges from structural limitations, more frequent extreme climate events, including droughts, which have impacted output in three of the last five years, and significant fertiliser price increases, which have affected profit margins. While there has been notable progress since 2010, the average farm size remains considerably smaller than in other EU countries; Romania accounts for one-third of all EU farms, constraining the realisation of economies of scale. In addition, processing sector productivity is lagging; for example, milk production per cow in the dairy industry is around three times lower than in Denmark.

**Industrial production has struggled to grow in recent years amid structural changes and weak foreign demand.** Between 2015 and 2024, industrial production in Romania expanded by a cumulative 5.4 per cent, close to the EU average, although this was the second-lowest rate in the EU-11 behind the Slovak Republic. The main product categories that experienced structural declines included mining (particularly coal, but also petroleum and natural gas), textiles, chemical products, and wood and furniture products (see Chart 16). Still, more advanced

and complex products saw strong growth rates, driving an upward shift in Romania's economic complexity. However, the industrial sector is facing strong headwinds, spanning high energy and commodity prices, as well as uncertain demand in the eurozone and Germany, in particular, increasing the need to future-proof the sector and boost productivity.

**Chart 16. Industrial production index, cumulative change 2015-24 (seasonally and working-day adjusted)**



Source: Eurostat (2025i) and authors' calculations.

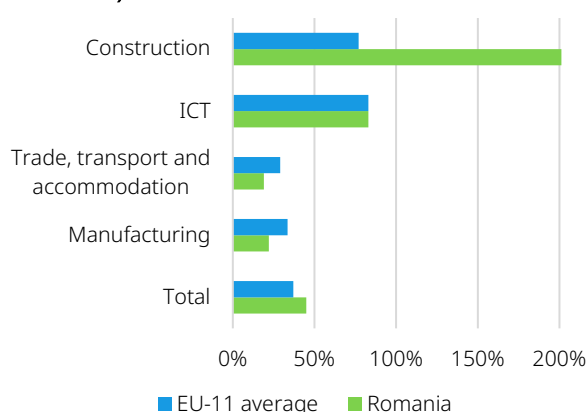
**Romania's economic complexity has improved, reflecting changes in the industrial base.** The country has improved its ranking in the Economic Complexity Index by nine positions over the past decade, sitting in 26th place out of 145 in 2023, behind Slovenia, Czechia, Hungary and the Slovak Republic in the EU-11.<sup>26</sup> This reflects the increasing share of more technologically complex and diverse exports, with a shift from textiles towards machines and services, particularly business, IT and transport. In 2021, high-tech manufacturing GVA as a share of total manufacturing GVA was higher in Romania than in Czechia, the Slovak Republic and Poland, at 5.8 per cent, reflecting this progress.

**Private-sector investment, especially in manufacturing, has not impressed over the past decade.** Since 2015, fixed capital investment in Romania has only slightly exceeded the EU-11 average, especially in key sectors

<sup>26</sup> See Harvard Growth Lab (2025).

such as manufacturing (see Chart 17). Nevertheless, total investment in all sectors was 25 per cent higher in 2023 than in 2019, lower only than Lithuania in the EU-11, suggesting some revival of activity in recent years. Yet, investment in machinery assets for manufacturing did not grow in 2023 compared with 2015, in contrast to more positive developments in most other EU-11 countries.

**Chart 17. Gross fixed capital formation of total fixed assets, by sector (2023 vs 2015, based on chain-linked volumes in €)**



Source: Eurostat (2025j) and authors' calculations.

**The IT sector has reached an inflection point.** As mentioned, the IT sector has made a significant contribution to GDP and productivity growth, growing strongly in recent years. It achieved total turnover of around €17.7 billion in 2024 and the number of IT firms has almost doubled since 2018.<sup>27</sup> Major global IT companies have set up service and software services in Romania, driving up demand for labour in recent years. Around 50 per cent of ICT firms were specialised in software development and around 190,000 people were employed in the industry in 2023 – the first year to record a drop in sectoral employment – with another 200,000 employed in the global business services industry. Since autumn 2023, growth in the sector's value added has weakened, reflecting the rationalisation of IT service demand, while the removal of tax breaks coupled with strong wage growth has affected firms' cost structures. More cautious expansion is expected in the sector in the coming years, with an increased focus on quality-driven growth.

**The IT sector may benefit from more consolidation, research support and product development.** Given the global trends of artificial intelligence (AI) and automation, as well as the slowdown in post-pandemic demand, the Romanian ICT and, more generally, business services sectors will have to reorient current resources towards more value-adding services. While 79 per cent of respondents reported innovation initiatives in the three years to 2023, only 5.7 per cent of them had launched their own products to market. Conversion from idea to market product, therefore, remains limited and needs to improve.<sup>28</sup> The IT sector should also be incentivised to meet more domestic demand, considering the modest penetration of advanced digitalisation in the economy, including public procurement. In the global business services sector, the risk of automation and emerging technologies, on top of rising wages, requires that even more attention be paid to upskilling and preserving competitiveness.<sup>29</sup>

**Romania is the weakest innovator in the EU.** Despite its remarkable growth of recent years, Romania has stagnated in terms of deepening innovation. On the European Innovation Scoreboard (EIS), Romania was the fourth weakest in the EU in terms of progress between 2019 and 2024, suggesting that the innovation gap to its EU peers is widening. The gap to the EU-11 average is significant on most dimensions of the EIS, most notably linkages, innovators, employment outcomes, use of IT, human resources and investment (see Chart 18). Its scores on most of these dimensions are only a fraction of the EU-27 averages, suggesting a significant gap to be closed.<sup>30</sup> Other evaluations, such as the Global Innovation Index, show that Romania's innovation rate remains below its potential. From a long-term perspective of how innovation will influence future development, Romania's low level of preparedness for generating innovation puts the country at a major disadvantage.

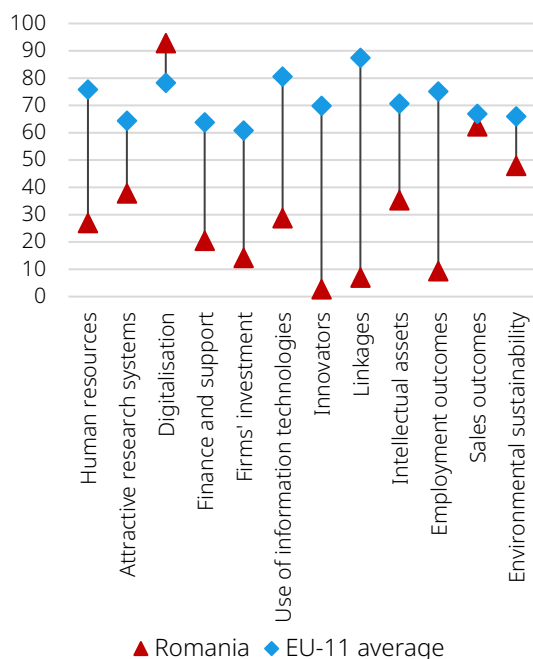
<sup>27</sup> See ANIS (2024).

<sup>28</sup> Ibid.

<sup>29</sup> See ABSL (2024).

<sup>30</sup> See European Commission (2024b).

Chart 18. European Innovation Scoreboard, 2024  
(EU-27=100)



Source: European Commission (2024b) and authors' calculations.

**The country's share of innovating firms is modest.** Only 9 per cent of Romanian firms in industry or innovation services report innovation activities. Its gap to lower-ranked peers, such as Bulgaria, Latvia and Hungary, is around 20 pp, while the gap to the EU average is 51 per cent.<sup>31</sup> Consequently, only 20 per cent of Romanian employees work for an innovative enterprise.

**Romania's innovation system struggles with structural issues.** Recent World Bank research suggests underfunding and unpredictable, stop-start budgeting; fragmented governance and weak inter-ministerial coordination; brain drain and skills mismatches; a diffuse, underpowered policy mix with scarce private-sector research and development (R&D) support; and a lack of evaluation and infrastructure maintenance.<sup>32</sup> The World Bank's recommendations include multi-year, programme-based financing with regular calls and realistic budgets; the consolidation of small schemes and a rebalancing towards firm-led R&D, collaboration and tech-transfer capacity (technology transfer offices, digital innovation hubs, clusters and accelerators); stronger cross-government coordination and evidence-based management (clear

theories of change, key performance indicators, and routine monitoring and evaluation); improved institutional funding and incentives for universities; targeted support for infrastructure upkeep and open access; talent retention and expanded vocational education and training (VET)/lifelong learning; and more predictable, stable regulation and taxation to reduce compliance burdens and crowd in private investment.<sup>33</sup> Romania has benefited from significant EU funding to support innovation and entrepreneurship, but most programmes would benefit from better design, implementation and coordination with other initiatives.<sup>34</sup>

**R&D spending is the lowest in the EU.** Romania's input into innovation and research, as proxied by spending, remains modest. In 2022, the EU average for business expenditure was €525 per inhabitant, while in Romania it was just €42. Romania's R&D spending is ten times lower than the best performer in the EU-11, Slovenia. Moreover, as a share of GDP, R&D spending is lower now than in 2007. This underscores the pressing need to step up R&D activities in the country.

**There are still some examples of frontier innovation, spearheaded by industry leaders.** As host to major tech and engineering multinationals, Romania is still home to some examples of frontier innovation activity. This activity is largely conducted by foreign firms, however; in industry and construction, virtually all R&D expenditure is undertaken by foreign entities. For instance, companies such as Bosch and Continental have large R&D centres in Romania serving the automotive industry, while in the IT sector, several unicorns and competitive firms have emerged in the field of AI and cybersecurity. Creating stronger links with domestic firms along value chains could support the growth of this ecosystem.

**The start-up sector has grown in recent years, although it would gain from an increase in both the quantity and quality of projects.** Romania is home to vibrant technology ecosystems, primarily located in Bucharest, Cluj-Napoca, Timisoara and Iasi – regions that have developed alongside the broader expansion of the IT services industry. However, comparative assessments indicate that Romania lags its regional counterparts when it comes to entrepreneurial performance. Romania has produced only three unicorns.

<sup>31</sup> See Eurostat (2024).

<sup>32</sup> See World Bank (2024).

<sup>33</sup> Ibid.

<sup>34</sup> See World Bank (2022).

While notable within the region, this figure falls short of expectations given the country's size and potential.

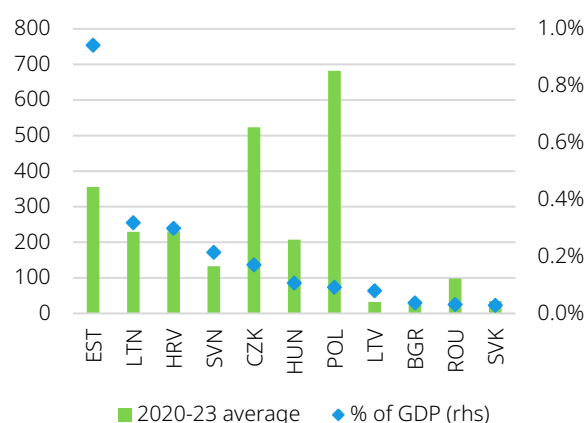
**Entrepreneurship is hindered by a lack of collaboration, knowledge and resources.** Entrepreneurship benefits greatly from an efficient resource network – be it finance, human capital, knowledge or infrastructure. Romania's ecosystem is relatively weak, partly due to modest government support and regulation, a lack of business sophistication and the suboptimal use of human talent.<sup>35</sup> Entrepreneurs also tend to be necessity driven and are focused on exploiting domestic market opportunities without innovating.<sup>36</sup> In the Global Entrepreneurship Monitor 2023/2024, Romania had one of the highest shares of respondents – close to 60 per cent – saying they were afraid to start a business due to potential failure.<sup>37</sup> On the public-sector side, apart from start-up grants that can be extended to businesses even outside the tech sector, policies and support schemes remain suboptimal.

**The education and research system are largely absent from fostering entrepreneurship.** A key element in forging a startup ecosystem is the higher education system and its potential linkages with young firms and spin-offs. However, Romania's public universities are not sufficiently engaged in fostering entrepreneurship.<sup>38</sup> It does have a relatively high share of science, technology, engineering and mathematics (STEM) graduates, but this has not translated into more employed R&D professionals and/or higher-quality research or startups.

**The venture-capital ecosystem is at a nascent stage.** Romania's private equity market has been growing in recent years, but it remains modest, even by regional standards (see Chart 19). In 2023, total private equity investment reached €130 million, less than a third of what it was in Czechia, an economy of a similar size. Consequently, venture capital investment has also been quite modest given the size of the economy, with 2023 investment at just €18.6 million (down from €32.9 million in 2022), while the EU-11 average was around €76 million. The state is channelling RRF funding worth €400 million through the European Investment Fund to private fund managers, which could boost the market in the coming years. Still, one of the key barriers remains the lack of

investment options at acceptable valuations, as well as the availability of more institutional investors, such as pensions funds, in domestic funds.

**Chart 19. Private equity investment (2020-23 annual average, € million)**



Source: InvestEurope (2024) and authors' calculations.

**The digitalisation of Romanian firms has advanced, but remains modest.** Compared with EU peers, the Romanian private sector lags in terms of utilising digital tools. Per the Digital Economy and Society Index (DESI), the country's gap to the EU-27 average is significant, apart from firms reporting the use of e-invoices and, related to this, e-commerce intensity, as well as the use of data analytics (see Chart 20).<sup>39</sup> On most indicators of business digitalisation, Romania ranks among the lowest in the EU, with scores similar to those of Bulgaria.

<sup>35</sup> Ibid.

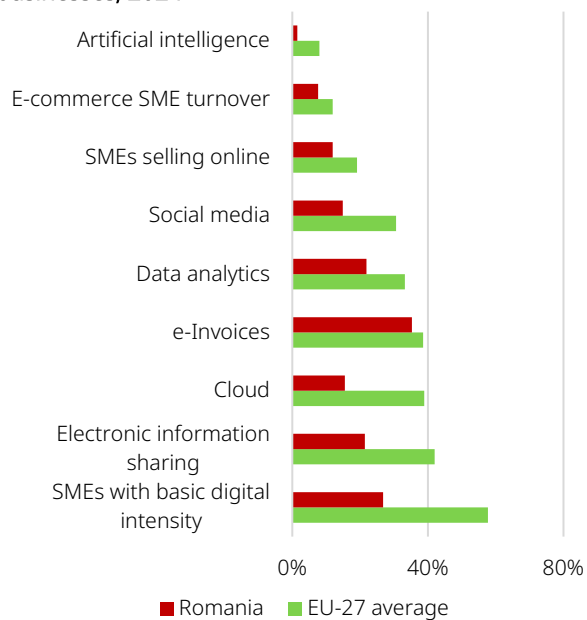
<sup>36</sup> Ibid.

<sup>37</sup> See Global Entrepreneurship Monitor (2024).

<sup>38</sup> Ibid.

<sup>39</sup> See European Commission (2024c).

Chart 20. DESI indicators of the digital transformation of businesses, 2024



Source: European Commission (2024c).



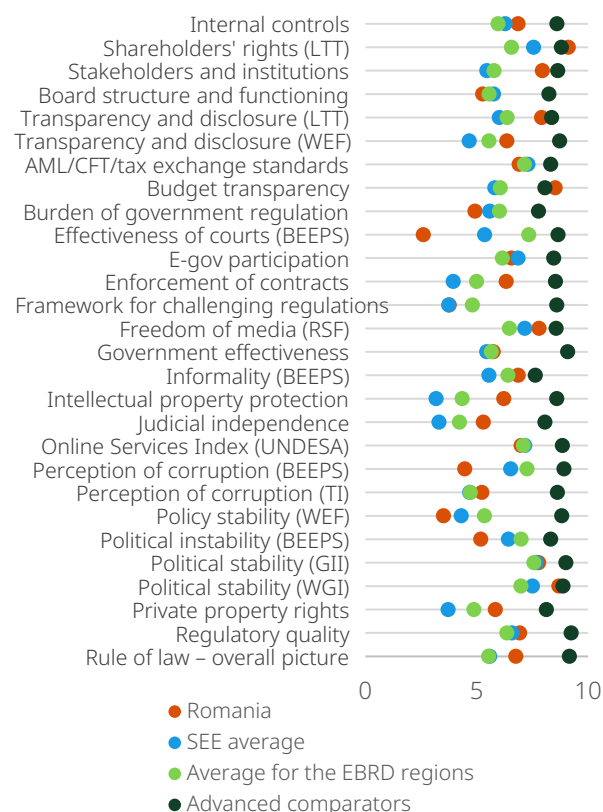
## 2.2. Well governed

Romania's governance indicators are broadly in line with those of its SEE peers, although they remain below the average in CEB. While Romania shares comparable wealth levels with the latter group, progress on enhancing governance quality and the rule of law has been modest in recent years.

According to international assessments and surveys, significant gaps persist between Romania and its CEB peers in areas such as policymaking, government effectiveness and perceptions of corruption, all of which have implications for business and investor confidence. Consequently, limited public trust in institutions continues to impact tax collection, public investment, service delivery and overall political stability, thereby challenging the strength of the social contract.

The management of SOEs continues to present significant challenges to both effective state governance and economic policy in sectors experiencing transition gaps. Enduring clientelist practices have negatively impacted key SOEs, particularly in the energy and transport sectors, thereby restricting private-sector development and progress on the green transition. Commitments in the RRP and OECD accession process have provided impetus for corporate governance improvements, though subject to effective enforcement. While the overall performance of the extensive SOE portfolio has been modest, this has been offset by the success of a few large entities, particularly in the energy sector. Improvements in private-sector corporate governance are also necessary, with particular emphasis on strengthening the responsibilities and effectiveness of boards.

Chart 21. Well governed ATQ indicators



Source: EBRD (2024c).

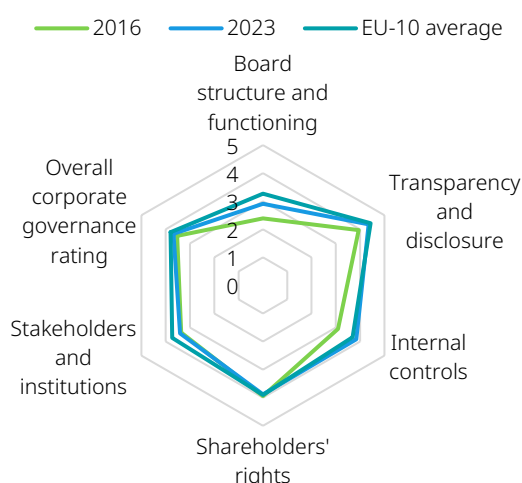
## Corporate and SOE governance

**Corporate governance standards have improved in recent years, but continue to lag key EU peers.** In the EBRD's assessment of corporate governance standards for most EU investee economies from 2021 to 2023, Romania's average score on five dimensions was lower than that of Croatia, Estonia, Hungary, Lithuania, Poland and Slovenia, as well as Moldova and Türkiye. Romania generally scored below the EU peer-group average, other than on the "internal controls" dimension, where it saw most progress since the 2016 assessment, "board structure and functioning" and "transparency and disclosure" (see Chart 22). It saw a deterioration in its average score relative to 2016 for "shareholders' rights", while its score for "stakeholders and institutions" stagnated.

**Key challenges in the corporate governance of publicly listed companies include board effectiveness and, to some extent, aspects of the institutional environment.** Within the five evaluated dimensions, Romania's most concerning indicators are "board effectiveness and responsibilities", which have seen little improvement since

2016. Boards typically do not approve budgets – this responsibility falls to general shareholder meetings – and there is only a limited board evaluation function. Furthermore, despite a revision in 2015, the Corporate Governance Code remains largely formalistic; there is little evidence of effective monitoring or judicial reference, and it lacks specific guidance on social responsibility and whistleblowing. In 2023, the EBRD collaborated with the Bucharest Stock Exchange (BVB) to update the 2015 Code. The stagnation in the institutional environment score can be attributed to a worsening perception of corruption and an uneven competitive landscape for private and state-owned companies.

**Chart 22. Corporate governance legislation and practice in Romania compared with peers and 2016 scores**



Source: EBRD (2024a).

**SOE policy is not enforced effectively.** Despite introducing a comprehensive law on SOE governance (111/2016), the state is still not fully implementing the relatively robust regulatory framework. The poor implementation is linked to political interference in SOE management. The main means of exerting influence are temporary appointments, which do not require a fully transparent hiring process, as well as politically connected boards of directors. In some cases, especially in the transport sector, the state also distorts competition through policy and irregular public subsidies. This is down to Romania's weak institutional environment, which facilitates weaker SOE management.<sup>40</sup>

**RRF-linked reforms of SOE governance have been patchy, although some progress was made in 2025.** Romania has committed to improving corporate governance through several milestones included in the country's RRP. As of September 2025, however, the new Agency for the Monitoring and Evaluation of the Performance of Public Enterprises was only partially operational, as the previous management team resigned after a negative European Commission assessment. The Commission took issue with a number of SOE appointments, specifically, at 8 of the 17 state-owned companies reporting to the Ministry of Energy and 5 companies reporting to the Ministry of Transport. Even in the best-performing SOEs, executives are not being appointed in line with current law and this is likely to result in suboptimal performance. In June 2025, the government adopted several legislative amendments aimed at meeting the RRF milestones. Implementation improvements are expected once these targets, along with standards tied to OECD membership, have been put into effect.

**Romania has a considerable portfolio of SOEs that could be optimised, despite their small and declining economic footprint.** According to a World Bank analysis, Romania has the largest number of SOEs in Europe, with more than 1,400 enterprises owned by central and local government (or 1,571 based on Ministry of Finance data, of which 781 function distinctly as SOEs).<sup>41</sup> Even so, among the EU-11 countries, Romania has the third-lowest share of SOE operating income to GDP, at slightly below 10 per cent. According to a more recent Fiscal Council estimate, the share of SOE turnover to GDP was 3.5 per cent in 2022, a relatively low level.<sup>42</sup> The high number of SOEs and their low overall footprint suggest that many smaller enterprises could be restructured. This should be done in line with the OECD guidelines on ownership policy.

**SOE performance has been bolstered in recent years by a few key listed firms, especially in 2022, thanks to the surge in energy prices.** As a shareholder in major energy producers, such as Hidroelectrica, Nuclearelectrica, Electrica and Romgaz, the Romanian state benefited significantly from the surge in energy prices in 2021-22. While the SOE sector reported record profits of more than €2.5 billion in 2022 – a doubling from 2021 – and an

<sup>40</sup> See Szarzec et al. (2021).

<sup>41</sup> See World Bank (2023a).

<sup>42</sup> See Fiscal Council (2023).



increase in turnover of 48 per cent year on year, the five best-performing SOEs accounted for 85 per cent of total net profit.<sup>43</sup> Without the top five SOEs, the SOE sector has posted net losses since 2015, except in 2017 and 2022 (see Chart 23).

Chart 23. Return on assets



Source: Fiscal Council (2023).

**Though declining, SOE arrears continue to account for a relatively large share of the economy.** In 2022, SOE arrears accounted for 22 per cent of total outstanding payments, or around 1.4 per cent of GDP.<sup>44</sup> On a positive note, that was the lowest level in recent years, driven by 2022's energy-fuelled strong performance. A significant share – around 30 per cent, or €4 billion – were arrears to the public budget. Accumulated arrears are highly concentrated. The 10 SOEs with the highest arrears account for at least 70 per cent of the total, most notably, CFR Marfa (railway operator), RADET (Bucharest district heating) and STB (Bucharest public transport company).

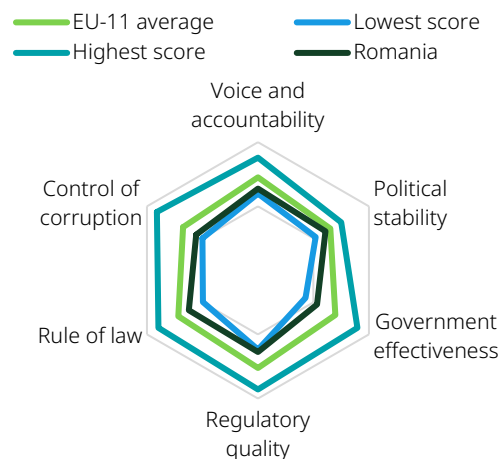
**SOE indebtedness is relatively low.** In 2022, Romanian SOEs had lower levels of debt to total assets than the private sector, at 30 per cent versus 48.5 per cent, respectively.<sup>45</sup> This is corroborated by Eurostat data, which show that the liabilities of public corporations outside general government totalled 8.4 per cent of GDP in 2023, the third-lowest level in the EU, and just 1.9 per cent of GDP for entities not involved in financial activities.<sup>46</sup> Still, outside the five most profitable SOEs, which are also less indebted, the SOE sector's interest

coverage ratio only turned positive in 2022, after three years of limited solvency.

## Governance at national level

**Romania's public governance system does not align with expectations based on its income level.** As mentioned, economic convergence has advanced while governance quality, particularly in public institutions, has remained relatively unchanged. Comparative analyses – including both survey-based measures and official EU reports – suggest a shortfall to key peers in areas such as government effectiveness, policymaking and rule of law, though some improvements have been noted over the past decade (see Chart 24). A European Commission study suggests that Romania could experience significant growth by undertaking structural reforms of the business environment, skills development and the labour market.<sup>47</sup> Achieving these outcomes would require enhancements to policymaking and the effectiveness of government to drive the implementation of such reforms.

Chart 24. Worldwide Governance Indicators, 2023 (percentile rank, 0 to 100)



Note: Lowest and highest scores among the EU-11 countries. Source: World Bank (2023b).

**The Romanian public sector exhibits weak institutional and administrative capacity.** Romania's public sector has long been described as having rather limited capacity to deliver and implement policies and reforms, particularly those requiring a lengthier time horizon.<sup>48</sup> Frequent

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> See Eurostat (2025k).

<sup>47</sup> See European Commission (2023a).

<sup>48</sup> See European Commission (2025c).

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political changes have meant reshuffles of even civil service positions, hampering ongoing reforms and adversely affecting institutional memory. Diversity of policy advice remains low, with the civil service the primary contributor to policymaking decisions, while civil society and other social groups have a more limited role in the policymaking process. Some progress has been observed, particularly with regard to the coordination of strategy and reform priorities at Secretariat General of the Government and line ministry level, along with improvements in project management, especially for transport infrastructure projects. Nevertheless, the country's public administration remains inwardly focused on administrative practice and procedural legality rather than outwardly focused on delivering results in the public interest.<sup>49</sup>

**The politicisation of public institutions remains an issue that needs to be addressed by more robust human resource (HR) management processes.** One reason for Romania's weak administrative capacity is its suboptimal HR management, as politicisation usually reaches even the lower echelons of the civil service and key independent regulatory agencies, such as the financial market supervisor (ASF), the Court of Accounts and the energy regulator (ANRE), and even sectors such as education and health.<sup>50, 51</sup> Though reforms have been commenced, aimed at improving HR practices, driven by the National Agency for Public Servants, effective implementation will take time.

**The performance of local administration is broadly lacking.** A 2022 Eurobarometer survey found that 60 per cent of Romanians expressed a poor or very poor level of satisfaction with the public services available.<sup>52</sup> As a result of regional development gaps, the quality of local administration varies widely. In major cities, citizens view public service delivery and administration relatively positively, however, rural areas and some underperforming municipalities struggle to offer decent services, exacerbating the geographical disparities.

**The judiciary's independence has strengthened, but the system is facing significant resource constraints.** The rule

of law in Romania is generally seen as being slightly better than in Croatia, Greece and Bulgaria.<sup>53</sup> Following proposed changes to the judiciary, penal code and anti-corruption legislation in 2017-19, the Justice Laws were adopted in 2022, aimed at enhancing the independence of the judiciary. This contributed to the closure of the CVM in 2023, although the authorities have yet to fully implement the recommendations of the Venice Commission and civil society, while professional associations have criticised some of the provisions.<sup>54, 55</sup> Legal-system tensions remain, however, as evidenced by the Romanian Judges' Forum Association's disagreement with the European Commission's conclusions in the 2024 Rule of Law Report, while the Commission's decision to terminate the CVM led to a lawsuit being brought by the "Initiative for Justice" of Romanian prosecutors.<sup>56</sup> Among the justice system's main challenges are a significant understaffing (28 per cent of prosecutorial positions are vacant), limited inter-institutional coordination, resource management and budgeting, and a lack of data collection and digitalisation. Due to early retirement and stringent recruitment standards, occupancy rates have experienced a marked decline since 2017. This trend may have ongoing implications for the efficiency of the system.

**Anti-corruption efforts have abated somewhat.** The country's anti-corruption directorate is reportedly facing similar staffing challenges to other areas of the legal system. Moreover, the statute of limitations continues to result in the closure of many corruption cases and the annulment of high-profile convictions. Romania ranked 65th out of 180 countries in Transparency International's 2024 Corruption Perceptions Index. While the score has improved slightly in recent years, particularly since 2019, it remains below 2016-17 levels.<sup>57</sup> The National Integrity Agency, meanwhile, has also been criticised by civil society for operating on political grounds.<sup>58</sup>

**Procurement and public investment management need to improve.** Public procurement has a high risk of collusion and conflicts of interest, and civil society has shown that procurement through national investment programmes (such as the National Programme for Local

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<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> See World Bank (2023c).

<sup>52</sup> See World Bank (2023d).

<sup>53</sup> See World Justice Project (2024).

<sup>54</sup> See European Commission (2024d).

<sup>55</sup> See Expert Forum (2022).

<sup>56</sup> See Marini (2024).

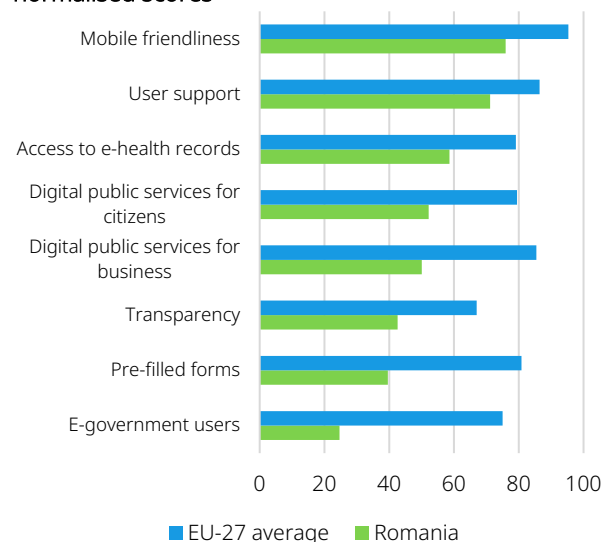
<sup>57</sup> See Transparency International (2024).

<sup>58</sup> See Martin-Russu (2022).

Development (PNDL) and the Anghel Saligny programme) has resulted in subpar investment quality and conflicts of interest in awarding contracts.<sup>59</sup> Implementing digitalised tools and platforms, improving monitoring and control processes, and enhancing the skills of procurement professionals are some of the solutions recommended by the EU and international partners.<sup>60</sup>

**The digital transformation of public services has yet to be implemented on a large scale.** The Romanian government has only recently, as part of its RRP commitments, accelerated the digital transformation process, focusing on public services and tax administration. Historically, most business and citizen interactions have been paper based, creating inefficiencies. Romania still lags its EU peers and, on most dimensions measured by the European Commission, ranks last in the EU when it comes to digital public services. For instance, Bulgaria, historically a close comparator in terms of digital transformation, has managed to significantly improve its digital public services in recent years (see Chart 25). As part of the RRP and other recent initiatives, the state is implementing a governmental cloud-based initiative that will host all services and tools, and in the process of approving the requisite legal framework for interoperability, digitalising the trade register and expanding digital services for citizens. Digital transformation of the public sector and, most importantly, the judiciary, could significantly improve trust, minimise corruption and boost the overall user experience.

**Chart 25. DESI indicators for digital public services, 2023, normalised scores**



Source: European Commission (2024c).

<sup>59</sup> See Expert Forum (2021).

<sup>60</sup> See OECD (2025).

## 2.3. Green

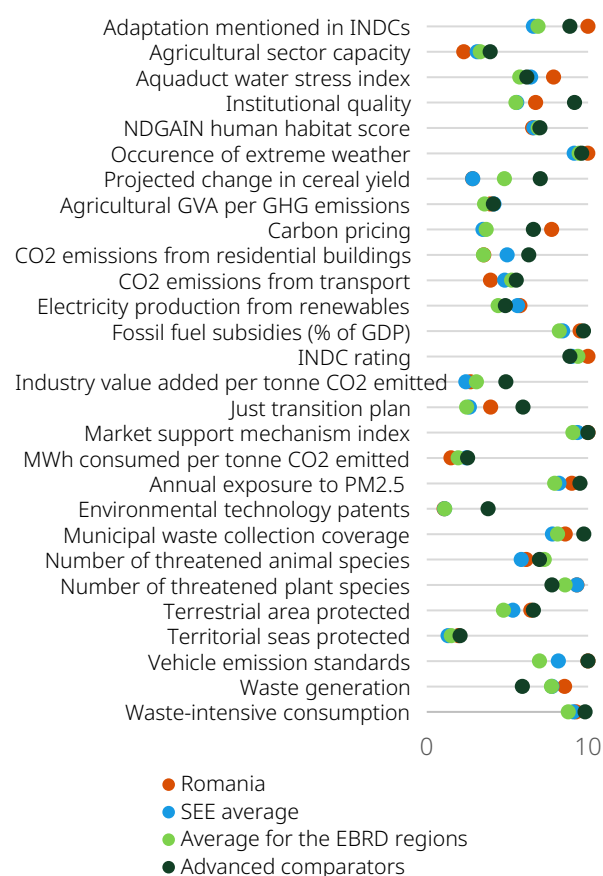
Romania's economy and energy sector have made significant progress on cutting their carbon footprint and energy intensity, but this has mainly been due to structural changes as part of the economy's transition. Achieving net zero by 2050 and even the country's 2030 targets, however, will require significant efforts to bring about emissions-free solutions in energy production, transport, industry and buildings. Following the energy crisis of 2022 and the country's announced strategic goal of becoming energy independent while accelerating electrification, Romania is set to become a key regional market for renewable energy projects. In this context, there are significant constraints, however, in terms of balancing capacity, storage and grid investments, while improving energy efficiency in the industrial and buildings sectors will require significant investment, as will district heating. Energy poverty and a just transition are additional challenges in terms of inclusion. Climate change is increasingly affecting the economy, with the southern region at high risk of desertification, on top of more frequent and violent weather events, requiring adaptation measures.

### Decarbonisation strategy

**Romania has aligned its climate and energy policies with EU-level targets, but as things currently stand, it is unlikely to meet 2030 and 2050 objectives.** Romania has adopted these goals, in accordance with the EU's Green Deal and carbon neutrality commitments for 2050, buoyed by progress since 1990 on emission levels. Romania currently meets the "Fit for 55" target, achieving at least a 55 per cent reduction in emissions by 2030 compared with 1990; its total greenhouse gas (GHG) emissions had decreased by 59.5 per cent by 2023. This decline includes a 75 per cent reduction in energy sector emissions, a 75 per cent decrease in industry emissions and a 6 per cent decrease in buildings emissions, but a 66 per cent increase in emissions in the transport sector.<sup>61</sup>

While total emissions have decreased by around 172 million tonnes of carbon dioxide equivalent (MtCO<sub>2</sub>e) since 1990, an additional 22.7 MtCO<sub>2</sub>e decrease by 2030 from around 57 MtCO<sub>2</sub>e in 2022 will be particularly challenging. Recent estimates suggest that meeting the 2030 target for non-Emissions Trading System (Effort Sharing Regulation) sectors are likely to be missed, as emissions have increased since 2005, against a targeted decrease of 12.7 per cent.<sup>62</sup> The National Long-Term Strategy adopted in 2023 provides a detailed plan on achieving net zero by 2050, although the target has not been made law.<sup>63</sup>

Chart 26. Green ATQ indicators



Source: EBRD (2024c).

**Romania submitted its updated National Energy and Climate Plan (NECP) in October 2024.**<sup>64</sup> After the European Commission judged the initial draft to be under-ambitious, the revision submitted in October 2024 lifted targets only slightly. The country's 2030 renewables

<sup>61</sup> See European Commission (2024e).

<sup>62</sup> See OECD (2024).

<sup>63</sup> See Government of Romania (2023).

<sup>64</sup> See European Commission (2024f).

share of 38.3 per cent of gross final consumption still falls short of the formula-based 41 per cent recommendation (see Table 2). The shortfall is down to a large, essentially static hydropower base and rising electricity demand, which shifts more of the load to new solar and wind, alongside planned nuclear additions and some gas-fired generation. In its May 2025 assessment, the European Commission also flagged delivery risks on coal phase-out milestones, energy efficiency implementation and land use, land-use change and forestry,<sup>65</sup> suggesting policy detail is needed to close shortcomings in ambition and trajectory.

**Table 2. Key NECP targets, October 2024 update**

Sector	Latest	2030 target
Net GHG emission reduction in energy sector (relative to 1990)	-75%	-87%
GHG emission reduction in transport	50%	No more than 40%
GHG emission reduction in buildings	1%	-19%
GHG emission reduction in industry	-72%	-77%
Renewable energy sources as a share of gross final energy consumption	28.1%	38.3%
Renewable energy sources as a share of electricity generation	48.4%	57.8%
Primary energy consumption	31.7 Mtoe	28.7 Mtoe

Source: European Commission (2024f).

**Just transition and energy poverty pose inclusion challenges.** In 2024, about 11 percent of Romanian households had trouble maintaining adequate warmth and 14.5 percent of households struggled to pay utility bills, slightly higher than the EU average.<sup>66</sup> The European Commission approved Romania's Territorial Just Transition Plan in December 2022, allocating €2.14 billion from the Just Transition Fund to facilitate a fair climate transition. This funding will support six counties – Dolj, Galați, Gorj, Hunedoara, Mureș and Prahova – with the goal of phasing out coal by 2032 and mitigating the

socioeconomic effects on impacted communities. Nevertheless, challenges remain, as some former coal miners are hesitant to pursue green energy employment due to prevailing uncertainties and insufficient incentives.

**Romania has received significant EU funding allocations to support its green transition, but its investment requirements remain substantially higher.** In recent years, the EU has allocated around €23 billion to Romania through both regular and special programmes, including €4.7 billion from the Modernisation Fund. Nevertheless, the World Bank estimates that its total investment needs by 2030 will be around US\$109 billion, including necessary investments in the transport sector (see Table 3). Achieving net zero emissions by 2050 is projected to require overall expenditure of US\$346.8 billion, equivalent to 2.8 per cent of cumulative GDP.<sup>67</sup>

**Table 3. Estimated investment needs (US\$ billion)**

Sector	2023-30	2031-50	Public	Private
Power generation and storage capacity	16.1	11.2	11.9	15.4
Power transmission and distribution	2.2	2.1	2.2	2.1
Renovation of buildings	14.2	71.1	38.1	47.2

Source: World Bank (2023e).

## Energy mix

**Romania is one the least carbon-intensive economies in the region.** In 2023, its GHG emissions intensity per unit of GDP was 495 grams of carbon dioxide equivalent per euro) (gCO<sub>2</sub>e/€), above the EU average of 225 gCO<sub>2</sub>e/€, although in price-adjusted terms, its carbon emissions intensity is one of the lowest of the EU-11.<sup>68</sup> Similarly, net GHG emissions per capita in 2023 were 5.5 tonnes of carbon dioxide (tCO<sub>2</sub>), below the EU-27 average of 6.9 tCO<sub>2</sub>, although the path of decline has slowed compared with the EU average since around 2010. The main sectors contributing to GHG emissions in 2023 were transport (22 per cent), industry (22 per cent) and agriculture (19 per cent).<sup>69</sup>

<sup>65</sup> Land use, land-use change, and forestry.

<sup>66</sup> See European Commission (2025d).

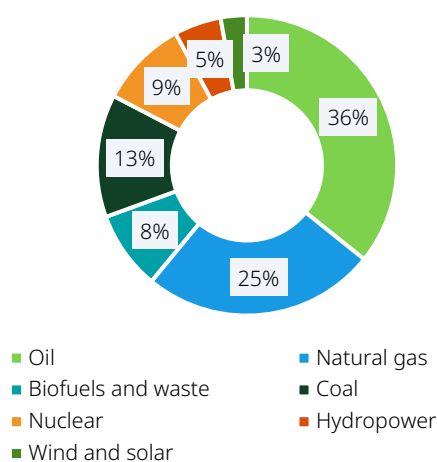
<sup>67</sup> See World Bank (2023e).

<sup>68</sup> See European Commission (2024f).

<sup>69</sup> Ibid.

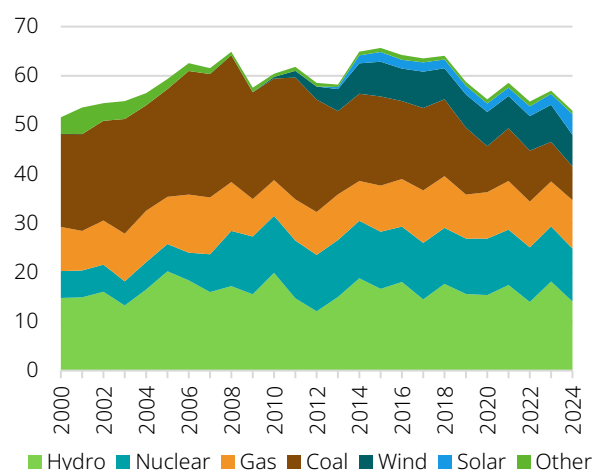
Romania's energy mix still relies on fossil fuels, despite a decline in coal-based production. The country's energy intensity was the lowest of its EU-11 peers, at 1,717 megajoules (MJ)/thousand US\$ (in purchasing power parity terms) in 2023.<sup>70</sup> Despite this, around 70 per cent of its total energy supply, including imports, is still based on fossil fuels (see Chart 27). Biofuels and waste account for a relatively high share, mostly due to wood burning. When it comes to electricity production, the share of clean sources totalled almost 70 per cent in 2023. Despite an accelerated decline since 2017, 13 per cent of electricity production is still coal-based (see Chart 28). And though there has been an overall decline in electricity output, in 2023, Romania exported a greater amount of electricity year on year for the first time since 2018.<sup>71</sup> Electricity production is also set to fall between 2027 and 2029, in line with the life-extension project for unit 1 of the Cernavoda nuclear power plant.

Chart 27. Total energy supply, by source (2023)



Source: IEA (2025b) and authors' calculations.

Chart 28. Electricity generation, TWh

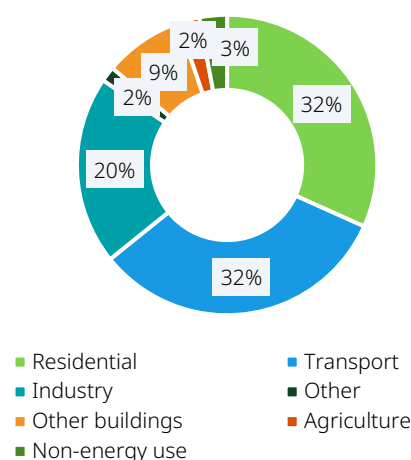


Source: Ember (2025).

### Final energy consumption continues to rely on fossil fuels.

The structure of Romania's final energy consumption requires a high share of fossil fuels, with 40 per cent being met by oil products, up more than 40 per cent in absolute terms since 2013 due to increased demand from the transport sector (see Chart 29). Gas accounted for a 21 per cent share in 2023, although final consumption had declined by 28 per cent from 2021, driven by a decline in consumption by industry and residential buildings. At just 15 per cent, there is a need for greater electrification in key sectors such as industry, heating and transport to replace the use of fossil fuels and decrease import dependency.

Chart 29. Final energy consumption, by sector (2023)



Source: IEA (2025b) and authors' calculations.

<sup>70</sup> See IEA (2025a).

<sup>71</sup> See IEA (2025b).



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**The government is committed to phasing out coal by 2032.** Although coal accounts for a smaller share of electricity output than in Bulgaria, Czechia and Poland, and while it has shrunk less than its counterparts in Greece and Poland over the past 10 years, Romania's coal industry has already undergone considerable downsizing, from a 29 per cent share of power generation in 2013 to 13 per cent in 2024. The government has committed to phasing out coal production by 2032, although the authorities were negotiating a possible extension with the European Commission as of September 2025. Complexul Energetic Oltenia, a key energy sector SOE, owns most of the country's coal production capacity and is currently undergoing restructuring, in line with a decarbonisation plan that focuses on adding solar capacity and a natural gas combined-cycle power plant.

**Still, natural gas-based production is set to increase as a result of planned domestic exploitation.** The combined effects of increasing renewables and declining coal-power generation will increase the need for combined-cycle power plants. Consequently, the NECP envisages the construction of at least three new gas-fired power plants with a combined capacity of around 2.5 gigawatts (GW), significantly more than the current 0.9 GW. However, international assessments have argued that the economic viability of these projects is limited longer term, while the government has faced implementation issues on at least two projects.<sup>72</sup> The plants are expected to use the additional gas production of the Neptun Deep project, scheduled to start in 2027, with a lifetime of around 10 years. The project will double Romania's gas production capacity, making it the largest EU gas producer and the third largest in Europe after Norway and the United Kingdom. In this sense, carbon capture, utilisation and storage (CCUS) technologies will have to be deployed and scaled up in the medium term, alongside a shift to hydrogen, to decarbonise the country's natural gas-based power generation, targeted to reach 23 percent of all power generation by 2050.

**Heat pumps are supposed to replace wood burning because of the need to preserve the country's carbon sinks.** Romania's biomass use, in the form of wood burning, is extensive, particularly in rural areas, accounting for around 30 per cent of the country's

heating and cooling. The NECP proposes an increase in renewables to 41 per cent of power generation by 2030, mainly on the back of heat-pump installation, as wood burning will need to decrease in line with land use, land-use change, forestry absorption targets and air-quality considerations. Romania also has significant potential to increase the use of biogas and biomethane. A significant challenge will lie in greening district heating, as reflected in the rather small projected increase in sectoral renewable use from 7.6 per cent in 2021 to 8.5 per cent by 2030. The decarbonisation of transport will also be challenging, with the NECP projecting the share of renewable use in the sector to rise to 29.4 per cent by 2030 from 8.2 per cent in 2022, predominantly through biofuels.

**Hydropower and nuclear production will remain critical components of the Romanian energy system.** Romania benefits from an extensive network of hydropower plants, with around 6.6 GW of capacity, the highest in the region. The latest NECP does not envisage an increase in capacity, despite government plans for a slight expansion. Another important balancing element is the Cernavoda nuclear power plant, which is scheduled to double from two reactors to four (from 1.4 GW to 2.4 GW), at a cost of around €8 billion, and be operational around 2032. Romania is also considering implementing six small modular reactors with a total capacity of 462 MW. Both of these sectors, together with additional gas capacity, will give the country the necessary bandwidth to integrate renewables and phase out coal, although the implementation risks remain considerable.

**Renewable capacity will grow in line with the overall planned rise in electrical capacity.** Because of Romania's electrification needs, the NECP envisages a 68 per cent increase in total power generation capacity to 31.3 GW by 2030, corresponding to an absolute increase of 13 GW.<sup>73</sup> This implies an expansion from 1.8 GW of solar capacity in 2022 to 8.3 GW by 2030, while the 3 GW of current wind capacity will have to expand to 7.3 GW. Romania projects a total of 33 GW of solar power plants and 21.3 GW of wind power plants by 2050, a 3.6-fold increase in overall renewable capacity.<sup>74</sup> Independent analysis suggests that the decarbonisation of the power sector is possible by

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<sup>72</sup> See ENTSO-E (2024).

<sup>73</sup> See European Commission (2024f).

<sup>74</sup> See Government of Romania (2023).

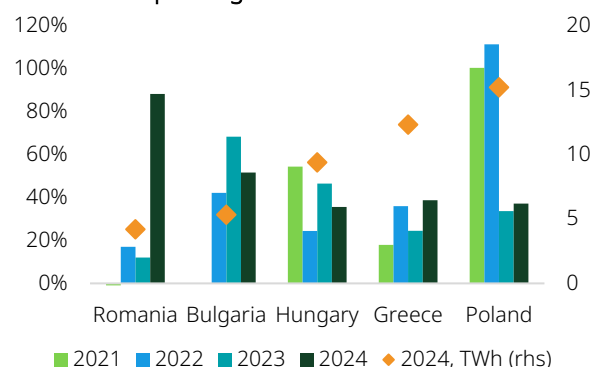
2040 with 17.5 GW of solar capacity, 17.7 GW of onshore wind and 7.3 GW of offshore wind capacity.<sup>75</sup>

**Renewable energy generation has experienced significant growth following a prolonged period of stagnation, but Romania lags its regional counterparts.** Following the onset of the 2022 energy crisis, and in some cases earlier, particularly in Hungary, the region witnessed rapid expansion of solar capacity. Romania saw an increase in submitted solar projects, predominantly in 2023, resulting in a delayed surge versus its peers. In 2024, total generation rose markedly, yet Romania continues to trail its peers in terms of absolute solar generation and share of overall electricity production. Solar power accounted for 8 per cent of Romanian electricity output in 2024, notably lower than that of Bulgaria (14 per cent), Greece (21 per cent) and Hungary (25 per cent) (see Chart 30).

**Still, the pipeline of renewable projects is massive.**

According to the ANRE, as of August 2025, the pipeline of renewable projects was significant, with projects that had obtained all requisite permits having doubled from September 2024 (see Table 4). Forty-eight of those projects also include integrated storage capacity worth 2.4 GW, up from 18 projects a year ago. Amid considerable grid capacity bottlenecks, the ANRE tightened the rules in June 2025 and will prioritise mature projects, while a connection-cap auctions regime for plants of 5 MW or more will start in January 2026. Taking into account implementation risks, Romania will still see a surge in renewable capacity over the next few years, supported by state aid mechanisms, such as a contracts-for-difference scheme covering 5 GW of projects. Further development of the power purchase agreements market is also needed to support private sector-driven growth and market efficiency.

**Chart 30. Annual growth rate in solar capacity and absolute solar power generation**



Source: Ember (2025) and authors' calculations.

**Table 4. Number of projects with capacity of more than 1 MW and total capacity in the permitting phase (GW)**

Indicator	Sep 2024	Aug 2025	Change
Projects with valid grid-connection approvals (ATR)	1,111	1,283	+15.5%
Capacity (MW)	51,255	62,313	+21.6%
<i>of which:</i>			
Projects with signed connection contracts	510	834	+63.5%
Capacity (MW)	20,587	39,936	+94%
Projects with signed contracts and construction permits (AC)	247	468	+89.5%
Capacity (MW)	9,808	18,737	+91%
Projects with signed contracts, AC, and ANRE establishment authorisations	87	163	+87.4%
Capacity (MW)	3,514	6,772	+92.7%

Source: ANRE (2025).

**Wind will have a more important role in Romania than in other countries, and offshore wind is being considered.**

While in most regional peers, apart from Poland and the Baltic states, solar is the main technology driving the next wave of renewables, Romania is expected to take a more balanced approach. While several onshore wind projects are already being built, the government has finally adopted a law and a roadmap for offshore wind. A World

<sup>75</sup> See Energy Policy Group (2024a).



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Bank study estimates 76 GW of offshore wind potential in Romania, and the government currently estimates new capacity additions of 3 GW to 7 GW by 2035, depending on market conditions, with the first connections planned for 2032.<sup>76</sup>

**The number of prosumers has also surged since 2022.**

The energy crisis encouraged Romanian households and firms to invest in small-scale solar photovoltaic (PV) cells. At the end of 2022, there were around 40,000 registered prosumers, with 417 MW in total capacity. By mid-2025, there were almost 250,000 prosumers, with a total installed capacity of almost 2.9 GW – almost on a par with the capacity of the country's large solar parks at the end of 2023. The accelerated growth has created connection and grid issues, forcing the regulator to accept only connection requests that have integrated storage, increasing the required investment. The government has also started working on a law for energy communities, which will better regulate small-scale and municipal producers and consumers.

**Increasing grid capacity and battery storage is critical to expanding renewable energy production.** Because of changes in consumption and supply, Romania's transmission infrastructure faces challenges, particularly in congested regions such as Dobrogea (in the south-east). Existing grid bottlenecks limit the integration of renewables, and distributors have committed to strengthening low-voltage networks, with investment requirements estimated at around €20 billion by 2030.<sup>77</sup> The main constraint is in the central transmission infrastructure managed by Transelectrica, a state-owned enterprise; investment needs here may reach €7 billion by 2030, compared with a 2024-33 development plan targeting investments of around €2 billion.<sup>78</sup> In addition, the government plans to increase storage capacity to 4 GW capacity by 2030 and more than 11 GW by 2050, while the NECP sets a target of 1.2 GW by 2030. The government is also examining options for supporting pumped-storage hydropower projects. In 2023, battery storage capacity stood at just 16 MW, and further development is necessary. This has prompted the authorities to consider broader support measures.

## Energy efficiency

**Progress on energy efficiency has been notable, though electricity consumption is set to grow.** Romania's annual energy consumption per capita is the lowest in the EU (70 GJ compared with 120 GJ in the EU-11), while its electricity consumption per capita is one of the lowest in Europe.<sup>79</sup> Romania has made significant progress on bolstering energy efficiency. Overall energy efficiency improved 42 per cent between 2002 and 2022, outstripping peers such as Bulgaria, Croatia and Poland.<sup>80</sup> Progress in industry was highest, at around 52 per cent, followed by transport (42 per cent), residential (37 per cent) and services (36 per cent). According to the NECP, by 2030, final energy consumption will have declined by 6 per cent from 2022. Yet, electricity consumption will increase steadily, by around 38 per cent to 2030, due to the country's decarbonisation strategy. Energy consumption for heating and cooling is also projected to remain constant from 2024 levels. The national Long-term Renovation Strategy (LTRS) for buildings, meanwhile, is targeting a fully decarbonised building stock by 2050, estimating that around 80 per cent of the building stock will need renovation.

**In addition to the need for faster renovation, residential buildings require more efficient heating supply.**

Romania's dwellings have a relatively low level of energy consumption.<sup>81</sup> This is being driven up by the heating methods used, however, despite decent progress in recent years (see Chart 31). Because of the urban-rural divide, decarbonisation and energy-efficiency improvements in the residential sector will require a two-pronged approach. While buildings in cities largely use natural gas and district systems for heating, in rural areas, dwellings still rely heavily on biomass. In both cases, more energy-efficient and low-carbon solutions will be needed. Romania also lacks a national building-stock database to inform policymaking and support schemes. The target set in the NECP is an increase in the annual renovation rate for public buildings to 3 per cent, while the rate for residential buildings is projected to increase from 0.7 per cent in 2021 to 3.4 per cent by 2030. The LTRS estimates total investment needs of around €12.8 billion by 2030,

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<sup>76</sup> See World Bank (2024b).

<sup>77</sup> See Energy Policy Group (2024b).

<sup>78</sup> See Transelectrica (2024).

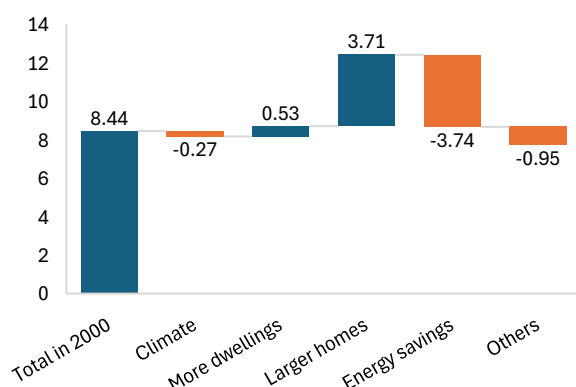
<sup>79</sup> See IEA (2025a).

<sup>80</sup> See Odyssee-Mure (2025a).

<sup>81</sup> See Odyssee-Mure (2025b).

which may grow to €16 billion to €18 billion due to rising costs, with a large share of investment coming from the private sector. Consequently, private households and smaller firms need better access to finance and support schemes.

**Chart 31. Drivers of energy consumption variations in buildings, 2022 (Mtoe)**

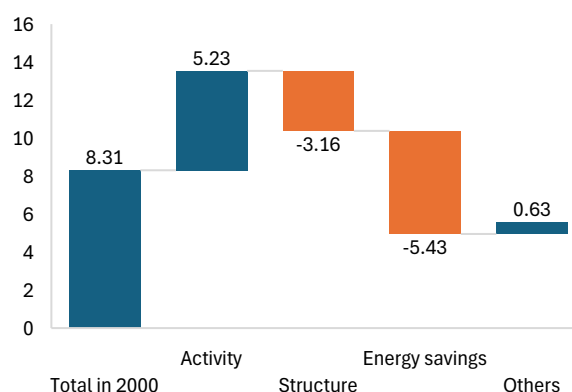


Source: Odyssee-Mure (2025a).

**Industry needs to accelerate the use of renewables and clean technologies.** Structural changes and efficiency measures have translated into relatively low energy intensity in Romania's industrial sector, lower than the EU average (see Chart 32).<sup>82</sup> Still, the emissions intensity (measured in CO<sub>2</sub>e emissions per €1 of value added) of Romanian manufacturers remains three times greater than the EU average. Gas consumption has decreased in recent years, and more abruptly since 2021 on higher prices, reaching a similar share to electricity consumption. In the short term, reductions are achievable in light industry by adopting energy efficiency measures, using renewable sources for low- to medium-temperature heat production, electrifying manufacturing processes and substituting existing processes with low-carbon alternatives. Energy-intensive production, facing strict regulations, will require more technologically advanced solutions and pilots this decade, such as CCUS and hydrogen, alongside more on-site electricity generation. Carbon exposure and generally high energy prices continue to be a significant barrier to industrial competitiveness.

<sup>82</sup> Ibid.

**Chart 32. Drivers of energy consumption variations in industry, 2022 (Mtoe)**



Source: Odyssee-Mure (2025a).

## Climate adaptation and circular economy

**Romania remains highly vulnerable to climate variability and change.** Heavy rains, flooding and heatwaves put both urban and rural infrastructure at risk, particularly for vulnerable groups. Furthermore, increased occurrences of aridity and drought conditions are impacting agriculture, energy generation and human health. Droughts are now frequent, affecting agricultural production in 2020, 2022 and 2024, while extreme heatwaves are becoming the norm in summer months. Around 48 percent of agricultural land in the country is vulnerable to drought, especially in the southern and southeastern regions.

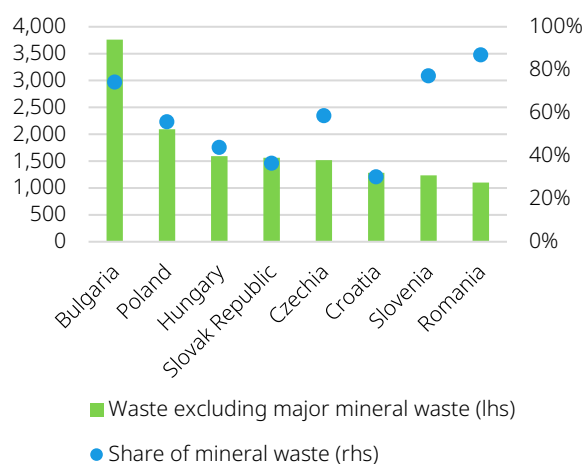
**Water scarcity is affecting economic activity and quality of life.** Romania is increasingly facing the two extremes of water availability. On the one hand, the country is close to the water scarcity threshold, at around half the EU average in terms of availability per capita. On the other, it is at risk of flooding, with projected potential annual losses of as much as €2 billion per year, according to the World Bank.<sup>83</sup> On top of this, Romania has the highest share of population in the EU (around 21 per cent) without access to basic sanitary facilities. Romania's need to step up the implementation of integrated water resource management is critical.

**Romania's waste generation is considerable because of the mining industry.** In 2022, Romania had one of the highest levels of waste generated per capita in the EU, largely due to the mining sector, which accounted for

<sup>83</sup> See World Bank (2023e).

more than 85 per cent (see Chart 33). Excluding mineral waste, however, Romania had the lowest level of per capita waste generation in the bloc. Unfortunately, 94 per cent of the waste generated was sent to landfill.

**Chart 33. Total waste generation per capita, 2022**



Source: Eurostat (2024b).

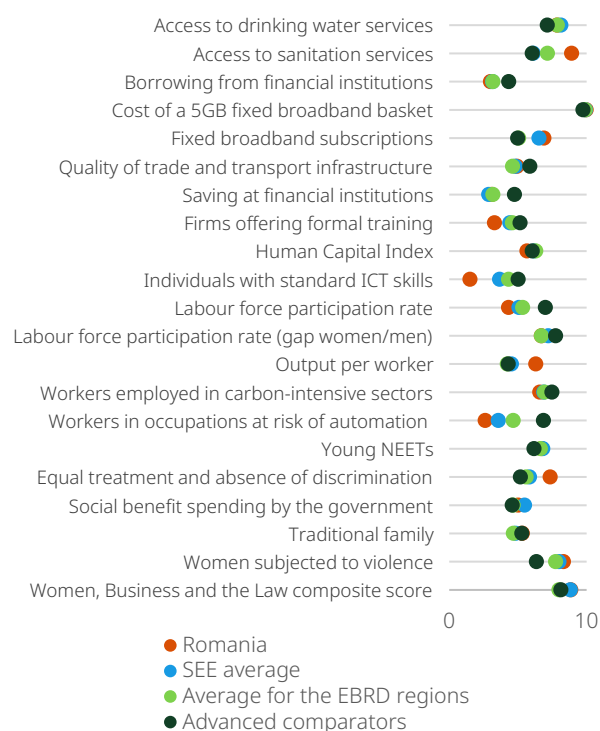
**Despite lower generation, municipal waste treatment remains deficient.** In 2022, Romania generated 301 kg of municipal waste per capita, the lowest in the EU and significantly below the EU-27 average of 513 kg per capita.<sup>84</sup> Despite this, Romania's recycling rate remains low, at 14 per cent compared with the EU-27 average of 48 per cent. This indicates that a substantial portion of Romania's municipal waste is still sent to landfill. While the EU-27 has reduced landfill use to 23 per cent through effective waste management policies, Romania needs greater investment in waste treatment infrastructure.

<sup>84</sup> See Eurostat (2024b).

## 2.4. Inclusive

Romania's composite score for the inclusive quality is underlined by stark differences between indicators, suggesting a "tale of two Romanias". The inequality between rural and urban areas is still the root cause of, or at very least exacerbates, most of the country's inclusion issues – income inequality and equality of opportunity, gender gaps and human capital challenges. For instance, while Romania is constantly among the top global performers in international Olympiads, the share of youth outside employment and education is the highest in the EU, as is its high-school dropout rate. Relatedly, there are considerable gaps in integrating women into the labour market, which would bring the country's labour-market participation rate towards the EU average. Policy needs to prioritise the strengthening of human capital and skills, starting with the education system, and improving the effectiveness of regional development investment.

Chart 34. Inclusive ATQ component scores



Source: EBRD (2024c).

## Demographics and labour supply

**Romania's negative demographic trends have abated in recent years.** In the first two decades of the millennium, Romania's population declined pretty dramatically, from 22.8 million in 2000 to 19.1 million in 2022. Most of this population loss is down to high emigration: around 20 percent of Romania's population has emigrated – among the highest ratios in the EU-11 region. Around 70 per cent of the 2 million Romanians who have emigrated in the past 15 years are of working age, severely affecting the labour supply. However, while Romania was losing around 100,000 inhabitants a year up to 2020, driven by both net migration and natural demographic shifts, a slowdown in the net migration rate has taken place since around 2018 (see Chart 35). Since 2022, the population has started to increase, according to Eurostat data, driven by a rise in immigration, particularly from Asia and Ukraine, and to some extent Romanians returning from abroad. In 2024, the country's quota of permits for non-EU workers was set at 100,000.

Chart 35. Net migration rate, number of people



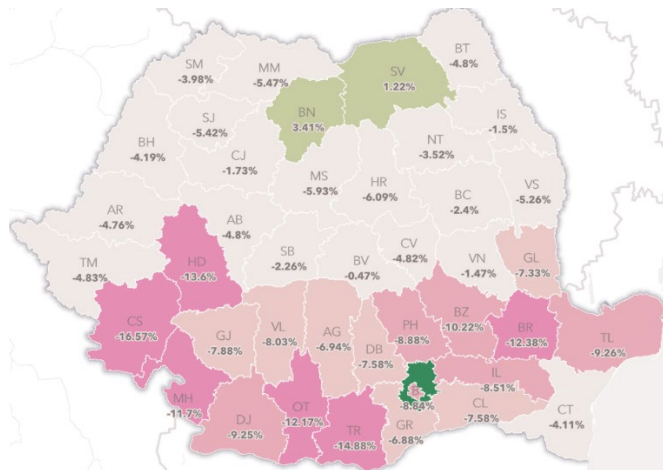
Source: Eurostat (2025I) and NIS (2025c).

**Despite a relatively high birth rate, population ageing will worsen the country's demography.** Romania had the second-highest fertility rate in Europe in 2022, at 1.71, though this was still below the replacement rate. Coupled with the possibility that the birth rate could fall quite rapidly, as seen in other countries in the region, the country's demographic situation is set to worsen towards 2030, as the generation born between 1968 and 1980 will start retiring. Under current conditions, projections show that Romania's population will decline towards 16 million

by 2050.<sup>85</sup> Around 20 per cent of the population was more than 65 years old in 2024, higher than the 16.5 per cent recorded in 2014. In 2023, Romania had an old-age dependency ratio<sup>86</sup> of 30.7 per cent, below the EU average of 33.4 per cent. The ratio is set to grow strongly towards 50 per cent by 2050, close to the EU-27 average.

**Internal migration has also been strong.** On top of Romanians leaving the country, internal migration, though weaker than during the forced displacement under socialism, has progressed slowly. Most migration has been from rural areas, where the quality of life and opportunities remain modest, to larger cities or county seats. This has led to a significant drop in population in counties that either do not have a larger city or are closer to the largest cities, such as Bucharest, especially the localities around Bucharest, which have been attracting people from neighbouring counties (see Chart 36). Around 40 per cent of Romania's population still lives in rural areas, similar to most CEB peers.

**Chart 36. Change in population by county, 2021 census versus 2011**



Source: Arcgis (2023).

Note: Green indicates a growing population; red indicates a declining population. The darker the colour, the greater the increase/decrease.

## Regional disparities

**Despite some progress, regional inequality remains significant.** Romania's development over the past two decades has been similar to that of other transition economies, with the distribution of growth unequal and concentrated in major cities. While more counties have experienced higher growth than Bucharest in recent years, slightly reducing the gap, the differences remain substantial. For example, the difference in severe material and social deprivation between the worst region and the best-performing one was more than 15 percentage points in 2024, the third-highest in the EU.<sup>87</sup> Still, compared with smaller countries in the region, where the capital dominates, Romania benefits from another six to seven counties that include other major cities, which contribute to value added and employment while displaying low levels of poverty and exclusion. Cluster analysis of Romania's counties according to economic, social and demographic indicators results in the definition of four categories, although they fall largely under the urban-rural divide: Bucharest as the main economic, social and political centre; the rest of the major cities and the urbanised areas around them; the rural middle; and the more isolated rural and former industrial areas (see Chart 37).

**Poverty is still high in Romania, but income inequality has declined.** Strong economic growth has resulted in a significant decline in severe material and social deprivation in recent years, from 36 per cent in 2016 to 17.2 per cent in 2024, although it remains the highest ratio in the EU.<sup>88</sup> Moreover, 27.9 per cent of people were at risk of poverty in 2024, marking a notable decline from 46 per cent in 2016. The rate also decreases dramatically to just 4.7 per cent (the second-lowest in the EU) for people with tertiary education, based on data from 2020.<sup>89</sup> At the same time, over the past 10 years, Romania has recorded the largest increase in the middle class in the EU, improving overall income inequality and poverty levels.<sup>90</sup> Hence, the Gini coefficient before social transfers was the fifth lowest in the EU in 2024, recording notable progress in recent years. Regionally, income inequality, as

<sup>85</sup> See UNDESA (2024).

<sup>86</sup> Population over 65 years of age divided by the population aged 15 to 64 years.

<sup>87</sup> See Eurostat (2025m).

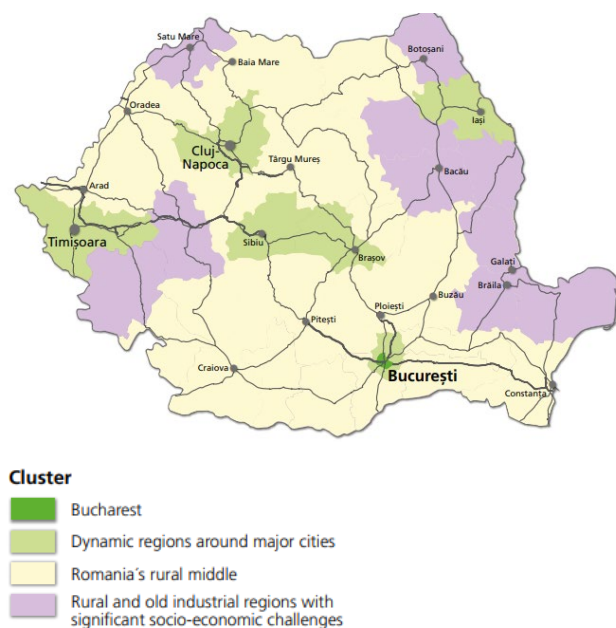
<sup>88</sup> Ibid.

<sup>89</sup> See Eurostat (2025n).

<sup>90</sup> See Vacas-Soriano (2024).

measured by the income quintile share ratio, is lowest in Bucharest (3.5 compared with 4.6 nationally), while the southwestern region (one of the poorest) recorded a ratio of 5.5 in 2024, despite considerable progress across the country since 2021.<sup>91</sup> However, redistribution through the transfer system is quite limited, because of the flat income tax rate, so a large share of the reduction in inequality is driven by pensions. In this sense, the minimum wage has been a key policy instrument in addressing income inequality, with Romania's annual growth over the past decade close to 14 per cent, the highest in the EU. In 2025, the minimum wage in purchasing power parity terms was the third highest in the EU-11.<sup>92</sup>

**Chart 37. Romania's regional disparity map based on cluster analysis**



Source: Fina et al. (2021).

## Labour-market outcomes

**Romania has significant untapped labour supply amid growing labour shortages.** Labour-force participation, which includes people looking for employment, was 67.4 per cent in 2024, the second lowest in the EU.<sup>93</sup> Regionally, activity rates vary widely, with the main cities

recording activity rates similar to the EU average (77.2 per cent in Bucharest-Ilfov), but several counties, particularly in the south, lag significantly (around 64.6 per cent).<sup>94</sup> Skills seem to matter significantly when it comes to labour participation rates, regardless of the location. For instance, low-skilled women in cities and towns are less likely to be engaged in the labour market than in rural areas. Romania's labour shortage could increase by around 50 per cent to more than 220,000 by 2026 from around 145,000 in 2022, despite a rather low vacancy rate, according to Eurostat.<sup>95</sup> The most affected sectors are manufacturing, transportation and ICT.

**Labour participation rates vary widely across groups, notably between the sexes and as a function of educational attainment.** In 2024, Romania recorded a significant gap in employment rates for men and women of 18 percentage points, similar only to Italy.<sup>96</sup> However, even starker differences are evident if educational level is taken into account, with fewer educated women, at just 29 per cent, against 60 per cent of men (see Chart 38). Still, Romania is not a regional outlier. The differences to EU-11 peers are more significant in secondary education. For people with tertiary education, the difference is negligible, underscoring the importance of raising the absolute level of education and skills in Romania.

**Romania's employment remains heavily skewed towards subsistence agriculture.** Romania's share of employment in agriculture remains the highest in the EU, at 20 per cent in 2024.<sup>97</sup> In the absence of urban migration or effective reskilling or training, this labour resource, largely employed in subsistence farming, remains underutilised. Romania also has one of the lowest service employment shares in the EU, with jobs in professional services almost half the EU-11 average. Its 2.4 per cent ICT employment rate is also lower than peers. Only 13.9 per cent of all Romanian employment was in public administration in 2024, the lowest level in the EU. Meanwhile, Romania had the highest share of total employment in construction in the bloc in 2024.

<sup>91</sup> See Eurostat (2025o).

<sup>92</sup> See Eurostat (2025p).

<sup>93</sup> See Eurostat (2025r).

<sup>94</sup> Ibid.

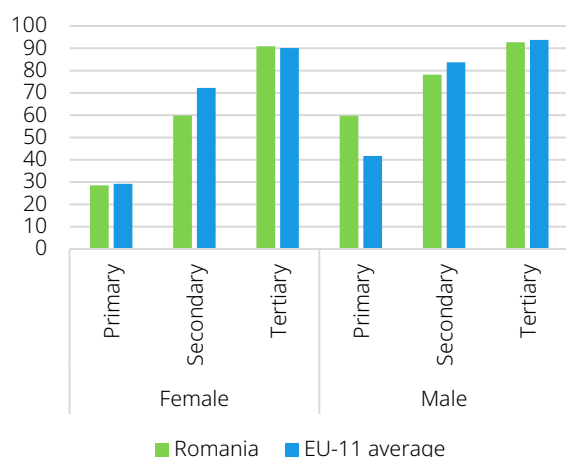
<sup>95</sup> See AmCham Romania (2023).

<sup>96</sup> See Eurostat (2025r).

<sup>97</sup> See Eurostat (2025s).



Chart 38. Labour participation rates by sex and education level, 15-64 years, 2024 (%)



Source: Eurostat (2025q).

**Employment rates across age categories also diverge between sexes.** Although aggregate youth (15 to 24 years) employment rates were 15.7 percentage points lower than the EU average in 2024, female youth employment was only 14.7 per cent (EU average of 32.7 per cent), compared with male employment of 23.5 per cent (EU average of 37.1 per cent).<sup>98</sup> A higher gap is observed among older workers – 64 per cent for males and 43 per cent for females (55 to 64 years old). For 65 years and older, the employment rate was just 2.2 per cent, below the EU average of 6.8 per cent.<sup>99</sup> This strengthens the case for encouraging work experience from early on, as well as longer working lives.

**Young people should be encouraged to be more active.** Reflecting the low employment rates, Romania's rate of youth not in employment, education or training (NEETs) is the highest in the EU, at around 20 per cent. While the male NEET rate is high, similar to the worst-performing EU member states, the high overall rate is largely driven by the female NEET rate of 25 per cent.<sup>100</sup> Compared with 2013, a number of peers, such as Bulgaria, Croatia and Greece, which had higher rates than Romania, have made significant progress on reducing the NEET rate, while Romania has only made marginal improvements. This

underscores the need for more effective policies to address the issue.

## Human capital and inclusion issues

**Women's integration and the promotion of equality are urgently needed.** In 2024, Romania ranked last among EU member states when it came to gender equality, according to the Gender Equality Index, with lagging indicators reflecting less employment, fewer positions of power and greater exposure to violence.<sup>101</sup> Romania's gender pay gap, in contrast, is the third lowest among EU member states, reflecting the fact that most of the gender discrimination occurs before women enter the labour market, predominantly against those with lower levels of education. This, again, largely reflects the rural element of Romanian society, where behavioural norms and economic realities constrain women's activity and empowerment. Discriminatory social norms and practices, such as the belief that women should not work outside the home, prevail in rural Romania. Adolescent birth rates in Romania are lower only than in Bulgaria and more than four times higher than the EU average.

**The Roma ethnic minority faces high rates of poverty and social exclusion.** According to data from the European Agency for Fundamental Rights, 78 per cent of Romania's Roma population lives in poverty.<sup>102</sup> Furthermore, in 2021, 40 per cent lived in households with no access to piped water, though this was a decrease from 68 per cent in 2016. Thirty-three per cent, meanwhile, live in households with no flushing toilet. Roma people also face discrimination when it comes to access to services such as healthcare and education, and segregation in schools. Women report higher rates of discrimination than men across all age groups.

**Improving the childcare system could support women's participation.** In the absence of a well-functioning social care system, women are often responsible for a greater share of unpaid care work, such as caring for children, elderly parents and family members with disabilities. The maternal leave entitlement in Romania is quite generous, at up to two years, among the highest in the EU. Participation in early childhood education, therefore, is among the lowest in the EU. While for children aged 0 to

<sup>98</sup> See Eurostat (2025q).

<sup>99</sup> Ibid.

<sup>100</sup> See Eurostat (2025t).

<sup>101</sup> See European Institute for Gender Equality (2024).

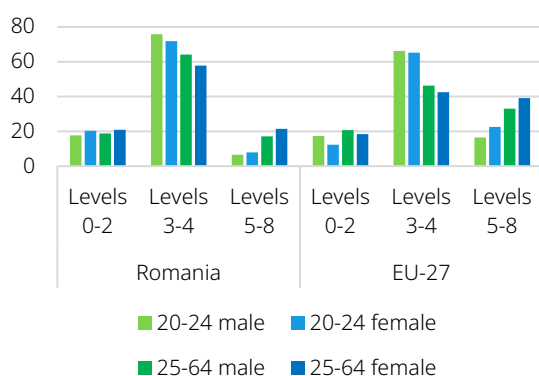
<sup>102</sup> See European Agency for Fundamental Rights (2022).

3, only 12.3 per cent attended formal childcare facilities in 2023 (EU average of 37.4 per cent), enrolment after three years of age until compulsory education was 74.8 per cent, the second-lowest level in the EU.<sup>103</sup> After entering primary school, girls surpass boys on participation throughout their schooling, especially in lower-income households, where the gap between girls and boys is around 15 percentage points.<sup>104</sup> Still, there is a gap of around 10 percentage points to the EU average in terms of overall primary school enrolment.

#### Medium and high educational attainment is lacking.

Romania has one of the lowest rates of tertiary education attainment in the EU. The level is much lower for the 20-24 age cohort than for those aged 25-64, implying lower participation rates for younger generations – although this trend has been noted at EU level (see Chart 39). The regional differences are quite stark: while in Bucharest, the rate in 2021 was close to 36 per cent, in Vaslui county, it barely exceeded 6 per cent, while the median county in Romania was around 12 per cent.<sup>105</sup> The high share of VET in medium-level education, at more than 60 per cent of population, much higher than the EU average, offsets somewhat the lower level of tertiary education. Still, only 66.2 per cent of recent graduates were employed, so ensuring that more VET graduates benefit from work-based learning during education is critical (8.1 per cent versus the EU average of 64.5 per cent).<sup>106</sup>

**Chart 39. Educational attainment level by sex and age category (share of population, %)**



Source: Eurostat (2025u). Note: Levels 0-2 include less than primary, primary and lower secondary education; levels 3-4 include upper secondary and post-secondary non-tertiary

<sup>103</sup> See European Commission (2024g).

<sup>104</sup> See World Bank (2023f).

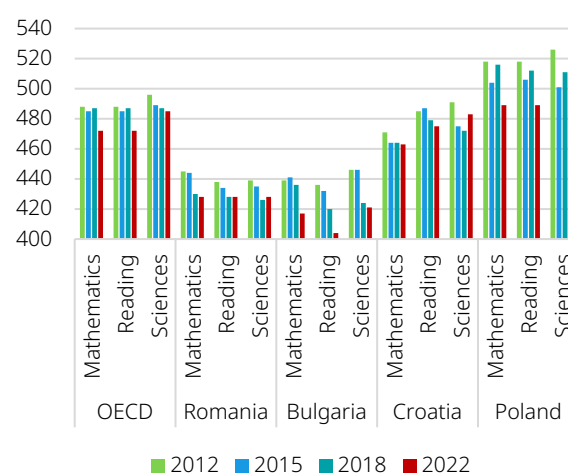
<sup>105</sup> See NIS (2023).

education, including vocational education and training; levels 5-8 are tertiary education.

#### The education system is facing considerable challenges.

Educational outcomes in Romania generally remain significantly below the OECD average (see Chart 40). While overall educational performance has not deteriorated as much as in Poland and Bulgaria over the past 10 years, Romania's performance in mathematics, reading and sciences remains below most peers, and the gap to the OECD average has not diminished. Another challenge of the Romanian educational system is the high early education dropout rates, at 16.6 per cent in 2023, significantly above the EU average and 2030 target, despite some progress in the past 10 years.<sup>107</sup> More than 25 per cent of youth in rural areas leave school early, though in urban areas, the rate is lower than in most EU member states, at less than 5 per cent. Almost 50 per cent of early leavers do not want to work, posing risks to Romania's labour-market outlook and overall human capital. Despite recent efforts to improve educational outcomes, the OECD recommends changes spanning the reorganisation of the school evaluation framework, improving the efficiency of public investment in education, strengthening the qualification and reward system for teachers, and implementing a monitoring system based on measurable data.<sup>108</sup>

**Chart 40. Programme for International Student Assessment (PISA) scores**



Source: OECD (2022).

<sup>106</sup> See European Commission (2024g).

<sup>107</sup> Ibid.

<sup>108</sup> See OECD (2024b).



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**Upskilling is lacking, while the private sector is not sufficiently involved in training.** In addition to reforming and improving educational outcomes, Romania needs to make use of all possible means to boost human capital and skills. Supporting adult learning – where participation is rather low, at 19.1 per cent in 2022, despite progress – is also important.<sup>109</sup> Unemployed and lower-education adults report very few recent learning experiences, exacerbating skills gaps. In contrast, in 2020, only 17.5 per cent of firms provided continuous vocational training, the lowest rate in the EU; even in larger enterprises, the share is only 62 per cent.<sup>110</sup> At the same time, only 8.8 per cent of firms offered ICT training to their personnel, again the lowest share in the EU, underscoring the need for more private-sector participation in training.

**Gender differences in science, technology, engineering, and mathematics (STEM) and ICT education and employment are lower in Romania.** Employment in the ICT sector has increased significantly in the past five years, by around 25 per cent, although as a share of total employment, it is among the lowest in the EU. Only 23.2 per cent of the employed working-age population in Romania was active in the science and technology field in 2024, the lowest in the bloc.<sup>111</sup> Nevertheless, in 2021, 42.5 per cent of STEM graduates were women, the highest level in the EU, with some regions of Romania recording comparatively high employment rates for women in the field.<sup>112</sup> Women with an ICT education also have one of the highest shares of employment, at close to 30 per cent.

**Digital skills need to be significantly enhanced.** Internet use has accelerated strongly, from 62 per cent in 2015 to 92 per cent in 2023, close to the EU average.<sup>113</sup> Still, digital skills remain quite modest – only 9 per cent report having more than basic digital skills (compared with an average of 27 per cent in the EU-27) and 18.8 per cent having basic skills (compared with a 28.2 per cent average in the EU-27). Ten per cent of individuals were found to have no digital skills at all, the highest in Europe. Computer usage also shows a very modest penetration rate, with just 1.7 per cent saying they could write a programming code, compared with an EU-27 average of 6.5 per cent.

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<sup>109</sup> See European Commission (2024g).

<sup>110</sup> See Eurostat (2022).

<sup>111</sup> See Eurostat (2025v).

<sup>112</sup> See Eurostat (2024c).

<sup>113</sup> See European Commission (2024c).

## 2.5. Resilient

In terms of resilience, Romania's energy system remains vulnerable due to insufficient integration with the EU energy market. The new energy environment requires a reduction in import dependency and greater energy security. Investment in the grid and storage is greatly needed to smooth out price volatility and create a predictable environment for private investment.

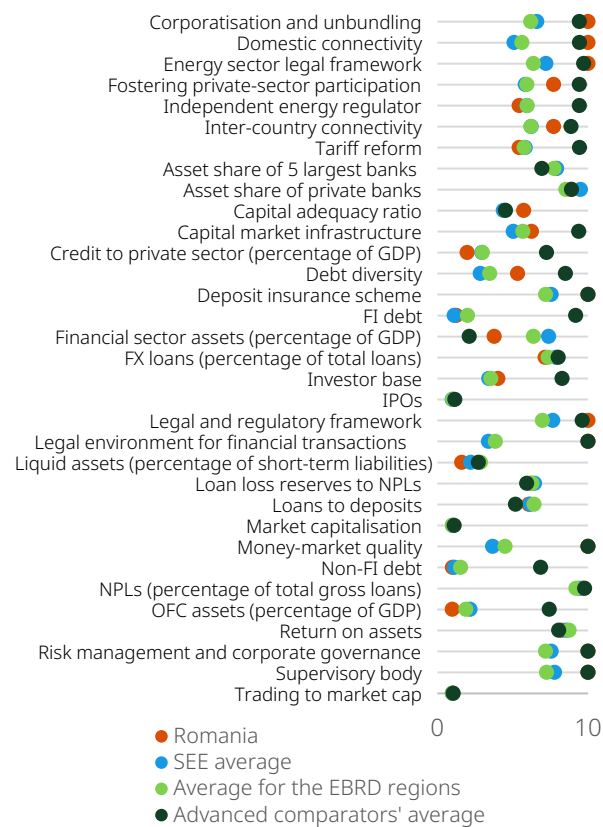
Romania's financial stability score, meanwhile, is driven down by the very modest depth of the financial sector, which is the lowest in the EU. Though the banking sector has improved its quality of service and management considerably, it has not kept pace with economic growth. At the same time, capital markets have experienced a resurgence since the Covid-19 crisis, boosted by both strong retail investor and foreign institutional investor growth, enabled by the country's upgrade to emerging-market status. Still, the financial market has significant potential to grow given its modest share of the economy, with liquidity remaining one of its key constraints.

### Energy resilience

#### The energy sector would benefit from more competition.

As mentioned in Chapter 2.3, Romania's energy output, with the exception of renewables and gas, is produced by one main SOE, spanning Hidroelectrica (hydropower), Nuclearelectrica (nuclear) and CE Oltenia (coal). Distribution is managed through a mix of private and state-owned companies divided into regional regulated monopolies, while transmission is managed by state-owned TSO Transelectrica, responsible for the national power grid and cross-border flows. Some Western energy groups have or are planning to exit the Romanian market. Because of this structure, strengthening the regulator, ANRE, and lowering barriers to new entrants could help deepen competition and improve consumer outcomes.

Chart 41. Resilient ATQs



Source: EBRD (2024c).

**Romania's energy independence is better than most EU peers.** Amid the decline in coal-based production and oil and gas exploitation, Romania has relied more on energy imports. From 2015 to 2021, net energy imports increased by 104 per cent, largely driven by higher volumes of crude oil and natural gas imports.<sup>114</sup> Since then, net energy imports as a share of total energy supply have declined slightly to 28 per cent, below most of regional peers. In 2021, 78 per cent of Romania's imported natural gas was from Russia, but this decreased sharply in 2022, while most cross-border inflows entered through Bulgaria.<sup>115</sup> Still, measured by total energy supply, the country imported 15.5 per cent of its natural gas consumption, 37 per cent of its crude oil and 11.8 per cent of its coal from Russia in 2020, all below the EU averages at the time.<sup>116</sup>

**Lower production and volatile spot prices have increased electricity imports in recent years.** From 2019 to 2022,

<sup>114</sup> See IEA (2025b).

<sup>115</sup> See European Commission (2023b).

<sup>116</sup> See Friedrich-Ebert-Stiftung (2023).

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Romania was a net electricity importer, but in 2023, the net balance of electricity turned positive. In 2024, the balance flipped back again as imports jumped by around 88 per cent year on year and exports fell 19 per cent, driven by lower production of hydropower and wind, and works at the country's nuclear power plant.<sup>117</sup> In the first seven months of 2025, electricity imports increased further, by 54 per cent year on year, while exports increased 23.8 per cent.<sup>118</sup> Romania's reliance on electricity imports is likely to persist in the coming years, especially with the planned modernisation of a unit at the nuclear power plant through 2029.

**Natural gas exploration will reduce import dependence.**

From 2030 to 2040, the Romanian authorities expect the country to be a net exporter of natural gas, thanks to the Neptun Deep project, which will contribute to a decline in the share of energy imports to just 3 per cent by 2035. The country plans to expand the natural gas transmission network, with the Tuzla-Podisor, European BRUA (phases I, II and III), and Central and Southeastern Europe Energy Connectivity (CESEC) initiatives the priorities. To ensure its usefulness long term, the network needs to be built with the capacity to eventually deliver green fuels. Transgaz, the natural gas transmission operator, plans to upgrade 10 corridors for hydrogen transport.

**Regional interconnectivity is being prioritised.** According to Transelectrica's development plan, Romania's net transfer capacity with Bulgaria is set to increase from 1,470 MW in 2023 to 2,190 MW in 2025, while with Hungary, it is projected to grow from 1,160 MW to 1,520 MW.<sup>119</sup> By the end of 2030, the country's net transfer capacity with Serbia and Moldova is expected to increase further, which would support a projected total interconnection level of 21 per cent, exceeding the current 15 per cent target. This will enable the further integration of the southeastern market with the central European one. Romania will also play a critical role in ensuring Moldova's energy security by building another 400 kV line between Suceava and Balti.

**The domestic grid needs urgent upgrades.** Romania's overhead power lines, the backbone of the transmission system, were largely built between 1960 and 1979 (83 per cent); 14 per cent were built prior to this, between 1980

and 1999, while only 3 per cent were commissioned after 2000. Transelectrica has committed to investing US\$1.6 billion by 2031 to modernise the existing electricity transmission networks, integrating at least 7 GW of production from renewable sources, although this is far lower than actual estimated investment needs. Complementing this, the NECP envisages battery storage of 1,200 MW by 2030, although the level of ambition could be stepped up. As mentioned, the government is planning a support scheme for battery investments, which could accelerate the deployment of battery storage in the medium term.

## Financial sector resilience

**Romania's financial sector is smaller than those of its regional peers.** In 2024, Romania was the only EU member state where the total assets of financial corporations – including banks, other intermediaries, the central bank, investment funds, and the insurance and pension sectors – were smaller than GDP, at 82 per cent of gross output (see Chart 42). The structure of the financial sector's balance sheet is dominated by monetary financial institutions (MFIs, that is, banks), similar to key regional peers. Still, the relative lack of depth of Romania's financial sector suggests significant room for growth in various sub-sectors, not just banking. MFI assets have hovered between 45 per cent and 55 per cent of GDP over the past 10 years, while the relative value of investment funds has declined from 6 per cent to 2 per cent of GDP, with just pension and insurance assets increasing from 6 per cent of GDP in 2015 to 11.3 per cent of GDP in 2024.

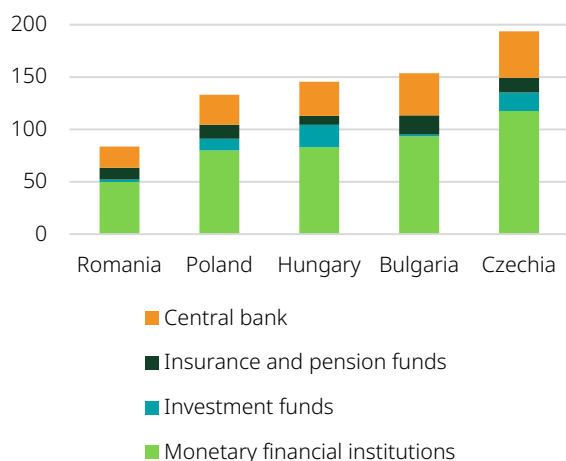
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<sup>117</sup> See Hotnews (2025).

<sup>118</sup> See Digi24 (2025).

<sup>119</sup> See Transelectrica (2024).

**Chart 42. Financial sector assets to GDP, by sub-sector, 2024 (%)**



Source: Eurostat (2025w) and authors' calculations. Note: Chart only shows selected sub-sectors of the financial sector.

**Romania's pension funds have undergone significant reform since 2007, transitioning from a single-pillar to a multi-pillar system.** This shift introduced mandatory private (Pillar II) and optional private (Pillar III) components alongside the national pension system (Pillar I). As of December 2024, Romania had 17 private pension funds, with 7 Pillar II funds managing €30.3 billion in assets and 10 Pillar III funds managing around €1 billion.<sup>120</sup> Since 2018, assets under management for Pillars II and III have more than doubled. The sector is highly concentrated, with the top three asset managers controlling 69 per cent of net assets in both Pillar II and III funds. The portfolio structure remains largely unchanged, with around 66 per cent invested in Romanian sovereign bonds.<sup>121</sup> A 1 percentage point increase in the mandatory contribution to Pillar II to 4.75 per cent of gross wages in 2024 should accelerate the growth of pension fund assets.

**The Romanian insurance market is highly concentrated and dominated by auto insurance.** As of December 2024, the top 10 of the country's 25 domestic insurers accounted for 92 per cent of total gross written premiums (GWP), with total GWP totalling around €4.7 billion.<sup>122</sup> Non-life insurance dominated, comprising 81 per cent of premiums, with auto insurance making up 73 per cent of that and property insurance 12 per cent. Most

investments are in sovereign bonds, with Romanian government bonds accounting for 66 per cent of total investments, marking a decline from mid-2023. The market has undergone some turmoil in recent years with the bankruptcies of City Insurance and Euroins Romania, while the demand side still lacks the awareness and maturity of other insurance markets.

**Despite their flexibility, mutual funds are risk averse due to liquidity risks, especially in times of market stress.** This has led to a conservative investment approach, with minimal investment in new bond issues. The market is highly concentrated, with the top five players holding 91 per cent of total assets under management. These funds are primarily managed by the largest banks in Romania and comply with the local equivalent of the EU's Undertakings for Collective Investment in Transferable Securities regulatory framework.

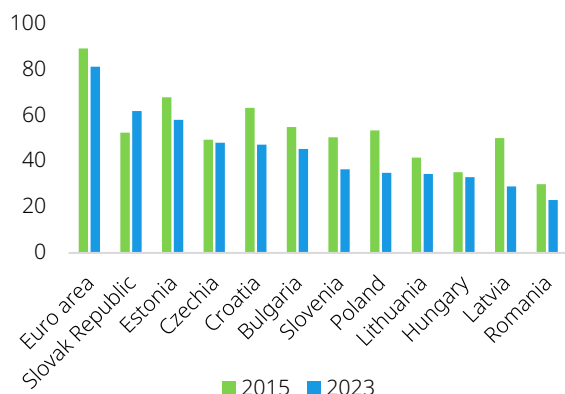
**Romania's banking sector has increased its resilience significantly in recent years, though its size has stagnated.** As mentioned, the ratio of banking assets to GDP in Romania is the lowest in the EU and has stagnated over the past decade. Credit to the private sector has declined in the same period, as banks have increasingly invested in government bonds (a trend also observed across the EU) (see Chart 43). Reflecting this lower credit penetration, Romanian banks' loan structure still comprises a relatively high share of corporate and government loans, and a lower share of mortgage lending compared with regional peers (see Chart 44). Nevertheless, the performance of the banking sector has improved in recent years, with key indicators at comfortable levels relative to regulatory requirements (see Table 5).

<sup>120</sup> See ASF (2025a).

<sup>121</sup> Ibid.

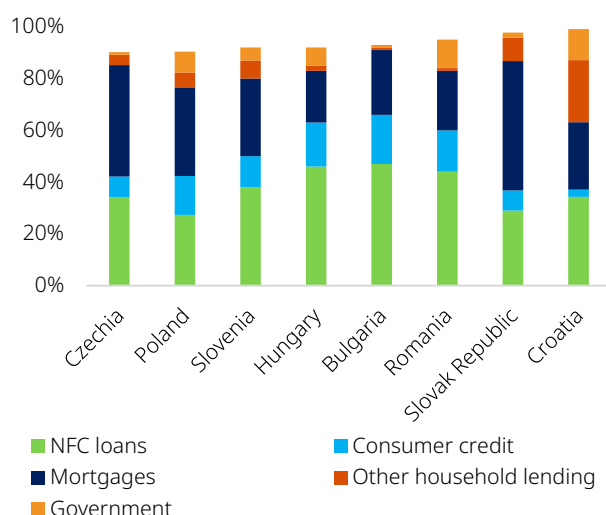
<sup>122</sup> See ASF (2025b).

Chart 43. Domestic credit to the private sector (percentage of GDP)



Source: World Bank (2024c) and authors' calculations.

Chart 44. Structure of loan book to European Economic Area residents, by sector, 2024



Source: ECB (2025b) and authors' calculations. Note: Chart does not include loans to other monetary financial intermediaries.

**The sector is in a consolidation phase, potentially constraining the need for more competitive pricing.** The Romanian banking sector comprised 32 banks as of end 2024, including 24 Romanian corporate credit institutions and 8 foreign bank branches. Romanian capital credit institutions dominate (about one-third of assets, deposits and loans). In terms of size and operational efficiency, the top seven banks, each holding a 10 per cent to 20 per cent market share in terms of total assets, stand out from the rest of the sector by having a higher net interest margin, higher returns on equity and assets, and lower cost-to-income ratios. Tier 2 banks tend to have market shares of 1 per cent to 3 per cent and are generally characterised by challenges of scale, with a negative

impact on efficiency and profitability. The post-pandemic period has seen continued consolidation of the banking sector, a trend that is expected to persist as operational efficiency improvements become increasingly necessary. Discussions with key market players suggest that further consolidation could exacerbate worries that pricing in the sector is not sufficiently competitive.

Table 5. Key banking sector indicators

Aggregate indicators	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23	Dec 24	Sep 25
<b>Structure of banking system</b>							
Number of credit institutions	34	34	34	32	32	32	30
Total assets (€ billion)	108.5	118.1	129.7	144.0	165.4	178.3	178.6
Total assets as a share of GDP	48.7%	53.9%	53.8%	51.3%	51.3%	50.3%	48.8%
Concentration (Top five)	57.1%	58.0%	58.8%	56.6%	60.1%	64.9%	n/a
<b>Solvency</b>							
Capital adequacy ratio	20.4%	24.6%	21.4%	21.7%	22.9%	24.2%	23.9%
<b>Asset quality</b>							
NPL Ratio (EBA definition)	3.9%	3.9%	3.3%	2.7%	2.4%	2.5%	2.9%
NPL coverage	60.6%	63.3%	66.1%	65.6%	64.6%	66.0%	65.1%
Ratio of restructured loans	2.5%	2.4%	2.6%	2.0%	1.6%	1.4%	1.4%
Foreign currency loans	32.0%	29.7%	26.5%	29.8%	29.9%	27.7%	28.7%
<b>Liquidity</b>							
Loan-to-deposit ratio	70.9%	66.4%	70.4%	69.8%	66.2%	67.5%	68.8%
Liquidity coverage ratio	243%	292%	239%	209%	281%	255%	252%
<b>Profitability</b>							
Cost-income ratio	59.5%	56.8%	58.0%	50.2%	49.9%	51.4%	49.3%
ROAA	1.27%	1.33%	1.22%	1.90%	1.83%	1.67%	1.73%
ROAE	11.7%	12.2%	12.9%	21.3%	19.8%	18.2%	18.4%

Source: EBRD calculations based on NBR data.

**The post-Covid period saw a resurgence of state-owned banks, strengthening the nexus between sovereign debt and bank assets.** The state is the majority shareholder in CEC Bank and Exim Banca Romaneasca, which have recorded significantly higher asset growth than the market average in recent years. CEC Bank was the third-largest bank by assets in 2024, up from sixth in 2022, as its assets grew strongly in the intervening years. However, most of this growth was driven by increased exposure to government bonds; CEC Bank had a securities-to-loans ratio of about 1.19 at end 2024, up from 0.52 in 2022. Eximbank acquired the foreign-owned Banca Romaneasca in 2022, consolidating its position in the sector. Romania is among the European economies with the highest banking-sector exposure to public debt (around 20 per cent of total assets in early 2025, close to 30 per cent if loans and guarantees are included) – a

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considerable risk, according to the main credit rating agencies.<sup>123</sup>

**Credit guarantee schemes for SMEs have driven demand for new loans since 2020.** State credit guarantee schemes, introduced as a support mechanism for firms during the Covid-19 pandemic, have expanded in recent years, including through other, more targeted programmes. From 2020 to 2024, the state offered cumulated guarantees for more than €12 billion, exceeding the guarantee levels offered in the previous 16 years. The amount of financing mobilised, at RON 74 billion (€14.5 billion), was only slightly higher than the value of the guarantees, at RON 64 billion (€12.6 billion). Of the total growth in loans to firms in this period, 83 per cent was approved with such guarantees, underscoring their significant impact on corporate lending. According to European Investment Fund estimates, Romania ranked third in the EU in terms of outstanding guarantees as a share of GDP in 2023.<sup>124</sup> In 2025, the NPL ratio on the guaranteed corporate portfolio increased. Three institutions had a guaranteed share of around 15 per cent of total loans, and reported NPL ratios on these loans of between 6 per cent and 11 per cent, significantly higher than the sectoral average.<sup>125</sup>

**Romania has a high share of finance-constrained firms.** Around 65 per cent of Romanian companies report access to finance as a significant barrier to long-term investment (well above the EU average of 44 per cent).<sup>126</sup> The 2024 European Investment Fund (EIF) SME Access to Finance Index, measuring loan conditions in 2023 (a year with increased interest rates) ranked Romania 21st in Europe, following a decline in conditions similar to that in regional peers.<sup>127</sup>

**A significant proportion of firms are undercapitalised, constraining credit flows.** At the end of 2023, a third of all reporting firms in Romania had capitalisation levels below the legal requirement, amounting to a capitalisation gap of slightly more than 9 per cent of GDP.<sup>128</sup> Among larger firms reporting turnover of more than €1 million per year, only 8 per cent were not sufficiently capitalised (a capital gap of slightly over 2 per cent of GDP). Meanwhile,

though on a downward trend, around 23 per cent of firms, accounting for less than 7 per cent of total assets, were so-called “zombie firms” in 2022, meaning they had no activity but were artificially sustained.<sup>129</sup> Still, significant progress has been made, with formal credit to such entities declining from 20 per cent in 2010 to less than 5 per cent in 2023. The presence of undercapitalised firms is a key constraint on credit growth.

**Yet, demand for bank lending remains modest in Romania compared with self-financing and trade credit.**

Some 93 per cent of Romanian firms rely on self-financing, compared with 26 per cent of firms in the EU. In addition, almost a third of firms’ balance sheets are made up of trade credit, the highest in the EU.<sup>130</sup> The short-term character of trade credit poses risks to financial stability, according to the NBR. The non-performing ratio of commercial credit was 9 per cent in mid-2024.<sup>131</sup> Increasing credit penetration would, therefore, require a change in the financial management practices of most Romanian firms, including addressing the issue of undercapitalisation.

**Non-bank credit has risen strongly from pre-pandemic levels.** At end September 2024, non-bank financial institutional credit reported to the NBR totalled RON 52.5 billion (€10 billion). Corporate lending accounted for around 80 per cent of exposures, with a marked foreign-currency tilt. This pattern reflects the dominance of financial leasing (around 67 per cent of corporate non-bank financial credit, predominantly euro denominated), which shifts more foreign-currency risk to borrowers. Household lending is smaller, but of weaker quality than corporate lending, with households’ NPL ratio at 7.5 per cent compared with a corporate NPL ratio of 2.6 per cent in September 2024.<sup>132</sup> Since January 2023, non-bank financial institutions are required to prepare and report International Financial Reporting Standards (IFRS)-based financials (incl. IFRS 9 impairment), enhancing provisioning discipline and risk monitoring.

**Financial inclusion remains low.** In 2024, financial inclusion in Romania remained below the European average. According to the Global Findex Database, 71.3

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<sup>123</sup> See NBR (2024).

<sup>124</sup> See EIF (2025).

<sup>125</sup> See CNSM (2025).

<sup>126</sup> See EIB (2025).

<sup>127</sup> See EIF (2025).

<sup>128</sup> See NBR (2024).

<sup>129</sup> See NBR (2023).

<sup>130</sup> See NBR (2024).

<sup>131</sup> See NBR (2025).

<sup>132</sup> See NBR (2024).



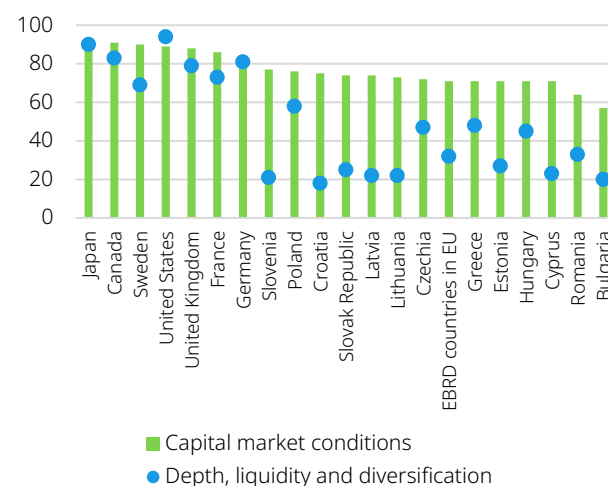
per cent of Romanian adults had an account at a financial institution, compared with 77.8 per cent in Europe and central Asia.<sup>133</sup> The country's income disparity is significant; the poorest 40 per cent of Romanians are 16 percentage points less likely to have an account than the wealthiest 60 per cent – a gap notably wider than the average in other high-income economies. In addition, in 2024, 20 per cent of Romanian adults had borrowed from a financial institution in the preceding year, while 26 per cent had saved at one, both below regional averages. Still, digitalisation continued to progress, with 63.6 per cent of retail clients using digital banking.

**Further improvements to the anti-money laundering/countering the financing of terrorism (AML/CFT) framework and its implementation are important.** The MONEYVAL Mutual Evaluation Report of May 2025 noted Romania's limited progress on AML/CFT.<sup>134</sup> Out of 40 Financial Action Task Force recommendations, Romania continues to be rated as "compliant" on 7, "largely compliant" on 18 and "partially compliant" on 15. Hence, Romania currently comes under MONEYVAL's enhanced follow-up process.

#### Capital market development

**Despite progress in recent years, Romania's capital markets have significant room for growth.** The EBRD's financial market development index ranked Romania's enabling conditions – spanning the regulatory framework, infrastructure and the investor base – second lowest among regional peers (see Chart 45). In terms of market outcomes, Romania's capital markets perform better than the smaller economies in the region, but worse than the larger markets.

Chart 45. Financial market development index (2023)



Source: EBRD (2024b).

**The domestic equities market has made progress.** The local equity market benefited from being upgraded to Secondary Emerging Market status by FTSE Russell in 2020. Other recent successes include the record initial public offering (IPO) of SOE Hidroelectrica, the listing of six larger private companies and several initiatives carried out by the BVB. In 2023, the BET index rose by 32 per cent, boosted by the Hidroelectrica IPO and improving sentiment, reaching a market capitalisation of 19 per cent of GDP. In 2024, the performance of the local market abated somewhat, though it rebounded in 2025. The BVB remains very close to meeting the criteria for an upgrade to Advanced Emerging status by MSCI, but has failed to meet some of the liquidity targets. Consequently, it has been included in a new MSCI Advanced Frontier sub-category.

**The number of retail investors has increased significantly since the pandemic, but liquidity remains low.** The BVB had around 274,000 registered retail investors in September 2025, a marked improvement from 55,000 at the end of 2019. Still, value traded as a share of market capitalisation, reflecting market liquidity, remains low. After increasing towards 8 per cent in 2023, boosted by the Hidroelectrica IPO (about a €31 million daily average), liquidity fell back towards its historical trend (€13.5 million average per day) in 2024. In addition to introducing new instruments and attracting more investors, the BVB will need more listings to increase the attractiveness of the

<sup>133</sup> See World Bank (2025).

<sup>134</sup> See Council of Europe (2025).



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market. The BVB management team has taken a proactive stance in this regard.

**Still, the Romanian market is hindered by a large share of dormant accounts.** One reason for the inactivity in some stocks is passive retail accounts holding shares given to citizens during the mass privatisation programme of 1995-96. Most of these shares are in listed companies, and around 9 million of these accounts in the records of the Central Securities Depository (CSD) are inactive, so not trading on the exchange. In recent years, the BVB and the CSD have conducted awareness programmes to reach out to inactive shareholders, but according to the OECD, the situation has not improved significantly.

**The capital market could benefit from a more active derivatives market.** Compared with Greece, Poland, Hungary and Czechia, Romania does not have a functioning derivatives market as yet. The BVB intends to advance work to establish the requisite infrastructure and get a derivatives market up and running. In February 2024, the ASF approved BVB's request for authorisation of a new regulated market for derivatives. However, the market's functionality is contingent on the establishment of a central counterparty clearing house (CCP).

**The BVB would benefit from putting in place a CCP.** According to the Financial Market Development Index, Romania still must align its capital markets infrastructure with that of regional peers such as Poland or Croatia. This primarily involves the reinstatement of the CCP. The BVB's CCP authorisation process is ongoing, with significant progress made in 2023 and 2024, after its authorisation

was withdrawn by the ASF in 2016. Still, missteps in the process, including the development of a single-country CCP – an expensive and loss-making piece of capital market infrastructure (particularly when a market's equity derivatives sector is undeveloped or non-existent) – need to be considered.

**Despite some progress, Romania's corporate bond market remains nascent.** Between 2020 and 2024, the value of bonds listed on the BVB increased around fivefold, from roughly RON 7.9 billion (€1.55 billion) in mid-2020 to about RON 38.9 billion (€7.6 billion) at the end of 2024. This expansion was driven mainly by the Ministry of Finance's Fidelis retail government bond programme, which repeatedly tapped the market in 2023–25. As of December 2024, corporate bonds listed locally totalled only RON 9.7 billion (€1.9 billion). As noted by the OECD, the corporate bond segment in Romania remains small due to high credit rating costs, lengthy ASF review processes, limited issuer capabilities and a restricted local investor base.<sup>135</sup>

**Romanian firms' limited awareness of capital market instruments is a significant challenge.** One reason for firms' limited use of capital markets funding is their very low level of financial literacy. For instance, according to the NBR, fewer than 10 per cent of Romanian SMEs and fewer than 20 per cent of Romanian large companies have knowledge of corporate bonds. Similarly, Romanian firms also seem to have scant knowledge of equity, as fewer than half (45 per cent) of Romanian firms are aware that raising equity from an investor gives that investor a share of ownership in the entity.<sup>136</sup>

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<sup>135</sup> See OECD (2022).

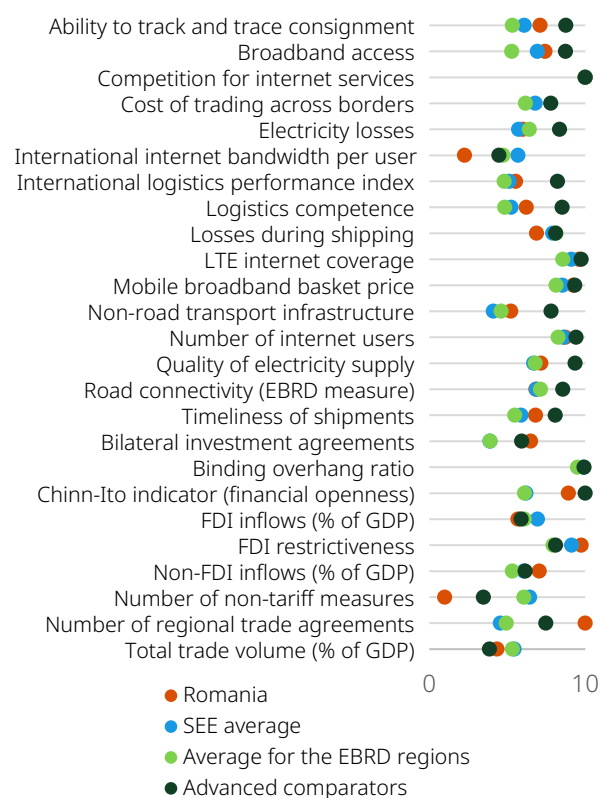
<sup>136</sup> See NBR (2023b).

## 2.6. Integrated

Despite its low level of restrictiveness, Romania's integrated score is depressed by its lower trade intensity compared with peers, as evidenced by the precedence of the domestic market and the country's lower stock of FDI. The country still has the potential to attract foreign investment, preferably in areas that will help to raise its innovative potential and domestic productive capacity.

In terms of infrastructural integration, Romania has long lagged its EU peers on maintenance and new project implementation. Still, in the 2021-27 EU programming period, the Romanian authorities have prioritised major infrastructural projects that will contribute significantly to connectivity and bridge existing gaps. Long term, Romania's rail infrastructure needs to be prioritised in the context of the green transition.

Chart 46. Integrated ATQ indicators

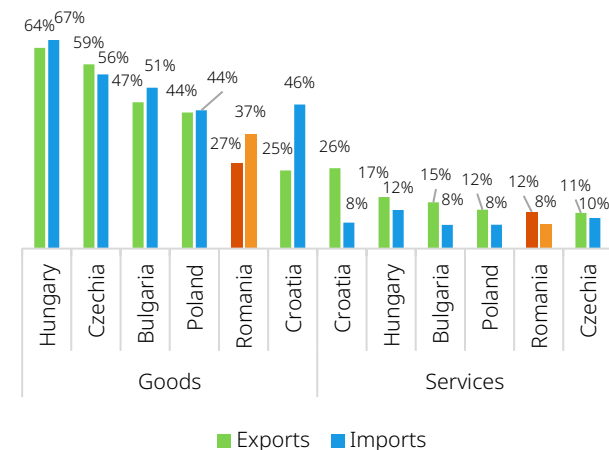


Source: EBRD (2024c).

## Trade and external integration

**Romania's trade intensity remains lower than most of its regional peers.** The structural changes of Romania's earlier transition, its multiple crises and the nature of the domestically oriented growth of recent years have led to more moderate trade openness relative to peers. Exports of goods reached a peak of 31 per cent of GDP in 2016 and have been declining ever since, reaching a recent low of 24 per cent of GDP in 2024, below that of key peer economies (see Chart 47). With imports averaging 37 per cent of GDP in recent years, the goods trade balance worsened from around 5 per cent of GDP in 2015 to more than 9 per cent in 2024. Services exports, meanwhile, have doubled as a share of GDP from 6 per cent in 2010 to around 12 per cent in recent years, reflecting some stagnation. Consequently, Romania's trade balance has worsened considerably over the past decade.

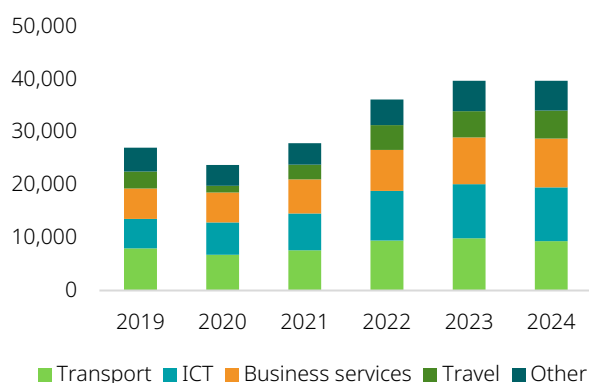
Chart 47. Trade of goods and services, 2019-24 average (percentage of GDP)



Source: UNCTAD (2025a) and authors' calculations.

**Romania's business and ICT service exports have grown in recent years.** A substantial portion of service exports is attributable to the ICT sector, which expanded by 84 per cent in nominal terms between 2019 and 2023, accounting around 25 per cent of Romania's service exports, alongside business services (see Chart 48). These data underscore Romania's growing role in the global services market, particularly the ICT domain. At the same time, other services and transport have grown at more modest rates.

Chart 48. Service exports, by type (€ million)

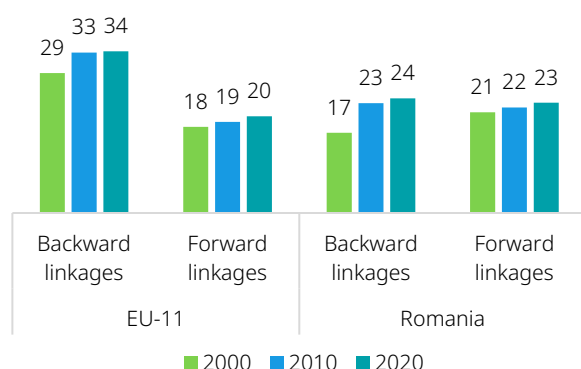


Source: NBR (2024b).

**Romania is well integrated into global value chains, although there are gaps in its backward linkages.**

Despite its lower trade intensity, Romania's gross exports have a decent level of integration into global value chains (see Chart 49). Still, the gap to EU peers is relatively large when it comes to backward linkages, meaning the economy is less engaged in supplying more advanced stages of supply chain-based production. The most integrated sectors are electronics, motor vehicles, rubber and plastics, and machinery. In terms of employment, 27 per cent of employed people in Romania were engaged in work to meet foreign final demand in 2020, similar to the OECD average.

Chart 49. Global value-chain integration, percentage of gross exports<sup>137</sup>



Source: OECD (2024c).

**FDI inflows into Romania have been strong in recent years.**

Following a drop after the global financial crisis, foreign investment inflows into Romania had recovered by 2016 to around 3-3.5 per cent of GDP. Romania's FDI restrictiveness is among the lowest of its peers, and several state aid schemes have attracted investments in recent years. In sectoral terms, FDI is heavily concentrated in manufacturing, particularly the automotive and electronics industries, which together account for over 30 per cent of total FDI inflows.<sup>138</sup> Still, the country's FDI stock per capita is the lowest in the EU-11, at around €5,700, compared with a regional average of around €9,000 in 2022, underscoring the need to attract more FDI.

**A significant share of FDI has benefited from state aid.**

The Romanian authorities have offered a generous state aid scheme over the past decade, and key foreign investments have been supported by the state, mainly by way of tax facilities. The government has expanded these programmes since Russia's war on Ukraine, aiming to attract further investment, especially to the manufacturing sector. In May 2024, the Romanian government introduced a €450 million state aid scheme aimed at encouraging private investments in key economic sectors. The scheme provides financial support ranging from 30 per cent to 60 per cent of eligible expenses for investments exceeding RON 50 million (€10 million). Romania also has the potential to become a hub for military production in the new security environment, albeit at the lower end of the supply chain (such as gunpowder and ammunition).

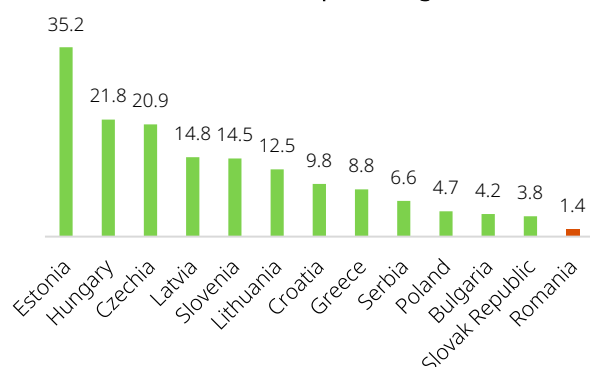
**The internationalisation of Romanian firms has been**

**extremely modest.** As reflected in outward FDI stocks, the Romanian economy has exported modest levels of capital (see Chart 50). More regional expansion and investments by Romanian companies in foreign markets would support economies of scale, although the large domestic market is proving sufficient for many medium-sized companies.

<sup>137</sup> Backward linkages are intermediate imports embodied in a country's gross exports. Forward linkages are domestic value added to trading-partner exports and final demand.

<sup>138</sup> See Financial Times (2024).

Chart 50. Outward FDI stock, percentage of GDP, 2023



Source: UNCTAD (2025b).

**Schengen entry should boost integration by reducing transaction costs.** In March 2024, Bulgaria and Romania were included in the air-based Schengen Area, while land border controls were removed in January 2025. Removing borders between Bulgaria and Romania could unlock logistical efficiency, on top of potential tax gains and investment allure. Still, Romania should benefit more from the removal of the border with Hungary.

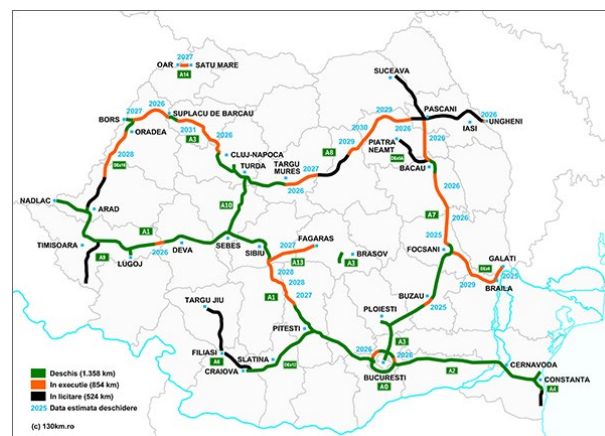
## Infrastructure and internal integration

**Romania's road transport infrastructure has improved, but more needs to be done.** Romania's road quality and connectivity still lag those of many of its peers, with assessments frequently ranking the country's infrastructure as the worst in the EU. Relatedly, Romania had the highest rate of road fatalities in the bloc in 2021.<sup>139</sup> The condition of the main corridors and national roads has improved in recent years, but gaps remain when it comes to more regional roads, which may also exacerbate regional inequalities.

**Nevertheless, public capacity improvements have accelerated the pace of highway development.** Since 2020, the Romanian government has become more efficient at preparing documentation and conducting tenders for key sections of the transport masterplan, while execution has accelerated significantly. Romania is implementing a massive programme of transport infrastructure improvements, including the construction of 1,700 km of motorway on top of the existing 900 km network. A budget of €17 billion has been set for the 2021-27 EU-backed programme. Mostly funded by the EU, the government has already

contracted or is in the process of contracting the construction of most of the highways included in the transport masterplan, representing a major improvement from previous decades and enabling Romania to catch up with peers (see Chart 51).

Chart 51. Status of highway development as of mid-2025



Source: 130km.ro. Note: Green – in operation; orange – in construction; black – in the procurement phase.

**Regional connectivity has become more important in light of the war on Ukraine.** As key countries on the borders of the NATO area, Bulgaria, Romania and Greece would benefit from enhanced infrastructure and connectivity. Plans to explore a motorway connecting Greece with Constanta in Romania along the Black Sea coast serve as an example of potentially large connectivity projects in the region. Moreover, Romania is quickly developing a highway connection with Western Ukraine, while connectivity with Moldova is also expected to improve. This has taken place in the context of significant logistical support from Romania in facilitating Ukraine's exports since 2022.

**Rail infrastructure needs massive upgrades.** While there is strong political commitment to improve Romania's highways, its rail infrastructure remains in dire need of upgrading. The average speed of a freight train is around 16 km per hour, while the average speed of a passenger train is around 45 km per hour. Electrification is around 38 per cent.<sup>140</sup> The main reason is the poor condition of the railway network, which has suffered over the years from significant underinvestment in maintenance and modernisation. In the current EU programming period, and as part of the

<sup>139</sup> See European Commission (2024h).

<sup>140</sup> See Economedica (2024).

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RRP, Romania is modernising some segments of its key railway corridors (such as Cluj-Oradea and Brasov-Sighisoara), but more investment is needed to counter the accumulated underinvestment. Modernising the rail network will be critical to restoring rail transport's market share and enhancing Romania's role as a regional logistics hub.

**While Romania's regional air transport infrastructure has been expanded significantly in recent years, Bucharest's airports are still in need of modernisation.**

Romania's cities have made use of EU funding in recent years to open new, modern terminals – including at Iasi, Timisoara, Oradea, Bacau and Brasov. In Bucharest, the Henri Coanda Otopeni airport serves more than 14 million passengers annually and is a central hub for both domestic and international flights. However, the airport has faced capacity constraints due to ageing infrastructure, with passenger volumes outpacing the facilities available. According to the European Commission's latest assessment, Otopeni Airport requires significant upgrades to meet increasing demand and modern aviation standards. Key areas identified for improvement include expanding passenger terminals and enhancing runway and taxiway conditions to accommodate larger aircraft. The airport's development plan aims to address these issues by 2030.

**Digital infrastructure coverage is above the EU average.**

Romania has made significant strides in digital infrastructure, especially in expanding high-speed broadband coverage across urban and rural areas. According to the European Commission's 2023 DESI, Romania ranks among the top countries in the EU for high-speed broadband coverage, with approximately 89 per cent of households having access to broadband speeds of at least 30 Mbps. In urban areas, nearly 95 per cent of households have access to high-speed internet, reflecting strong infrastructure in cities. However, rural broadband coverage still lags, with around 70 per cent of rural households having access to high-speed internet, though efforts are underway to reduce this gap. Romania's fibre-optic network is particularly robust, covering more than 50 per cent of the population, placing the country above the EU average.

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## Abbreviations

AI	artificial intelligence
AML/CFT	anti-money laundering/countering the financing of terrorism
ANRE	Romanian Energy Regulatory Authority
ATQs	Assessment of Transition Qualities
BEEPS	Business Environment and Enterprise Performance Survey
BVB	Bucharest Stock Exchange
CCP	central counterparty clearing house
CCUS	carbon capture, utilisation and storage
CEB	central Europe and the Baltic States
CESEC	Central and Southeastern Europe Energy Connectivity
CSD	Central Securities Depository
CSO	civil society organisation
CVM	Cooperation and Verification Mechanism
DESI	Digital Economy and Society Index
EBRD	European Bank for Reconstruction and Development
EIF	European Investment Fund
EU	European Union
FDI	foreign direct investment
gCO <sub>2</sub> e	grams of carbon dioxide equivalent
GDP	gross domestic product
GHG	greenhouse gas
GVA	gross value added
GW	gigawatt
GWP	gross written premiums
ICT	information and communications technology
IFRS	International Financial Reporting Standards
IPO	initial public offering
IT	information technology
LTRS	Long-term Renovation Strategy
NATO	North Atlantic Treaty Organization
NBR	National Bank of Romania
MJ	megajoule
MtCO <sub>2</sub> e	million tonnes of carbon dioxide equivalent
Mtoe	million tonnes of oil equivalent
MW	megawatt

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NBR	National Bank of Romania
NECP	National Energy and Climate Plan
NEET	not in employment, education or training
NGO	non-governmental organisation
NPL	non-performing loan
OECD	Organisation for Economic Co-operation and Development
PISA	Programme for International Student Assessment
PNDL	National Programme for Local Development
PSD	EBRD Policy, Strategy and Delivery Department
R&D	research and development
REER-ULC	real effective exchange rate deflated by unit labour costs
RON	Romanian leu
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
SEE	southern and eastern Europe
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
SSCs	social security contributions
STEM	science, technology, engineering, and mathematics
tCO <sub>2</sub>	tonnes of carbon dioxide
ULC	unit labour costs
VAT	value-added tax
VET	vocational education and training



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